

## INTRODUCTION

The technological revolution that has circled the globe can be summed up in a word: speed. During the last decades of the twentieth century, a high-tech revolution in communications and transportation changed the world in a way that would have been inconceivable during the Industrial Revolution. Canada was part of this great transformation. While the US remained Canada's most important trading partner, Canada forged new links with other nations and regions of the world and moved away from some of its oldest trading partners.

In earlier chapters, you learned how technological advances have cut down the number of workers needed in the primary industries and in manufacturing. Today, multinational businesses operate all over the world, swiftly relocating to areas that allow them to increase profit

and expand their markets. You also learned how the Canadian government changed its approach to foreign investment in the 1980s—from tight review and regulation, to openness. In the last years of the twentieth century, Canada's government actively courted international investment and trade because it was seen as an economic necessity. If Canada was to prosper, it needed foreign investment and it needed access to markets to sell its goods.

In this chapter, you will study the evolution of ever-larger international trade blocs, organizations, and agreements. These are changing the way we view—and live in—the world. Examining these developments will help you to understand the powerful economic forces that continue to reshape the world into a global economy.

## INTERNATIONAL TRADE AGREEMENTS AND CANADA

When Marshall McLuhan, a famous Canadian thinker on communications, coined the phrase “the global village” in the early 1960s, it was a catchy new concept. The phrase spread around the world in a flash. This was long before the Internet existed as an everyday convenience. McLuhan had looked into the future, and the

new world he described was not the world of the past. It was a world in which transportation and communications could shrink distances and eliminate barriers between nations and regions of the world. Almost four decades later, McLuhan's phrase is a part of our language, and the “global village” he predicted is real and present.

**transnational:** a company that reaches beyond national boundaries

### DID YOU KNOW?

*In the late 1990s, transnational corporations controlled about two-thirds of all world trade.*

## Globalization

You have grown up in an age of instantaneous communication and supersonic transportation. At home, at school, or in the public library, the Internet has opened up the world to you. Satellites transmit live images and information immediately—from anywhere in the world to anywhere in the world—with little regard for national boundaries and borders. These are routine facts of life. Technological developments have allowed people to view the world in a completely new way. Indeed, the world has changed. The world's economies operate and interrelate in a new way, with nations negotiating agreements and forming alliances based on changing economic realities.

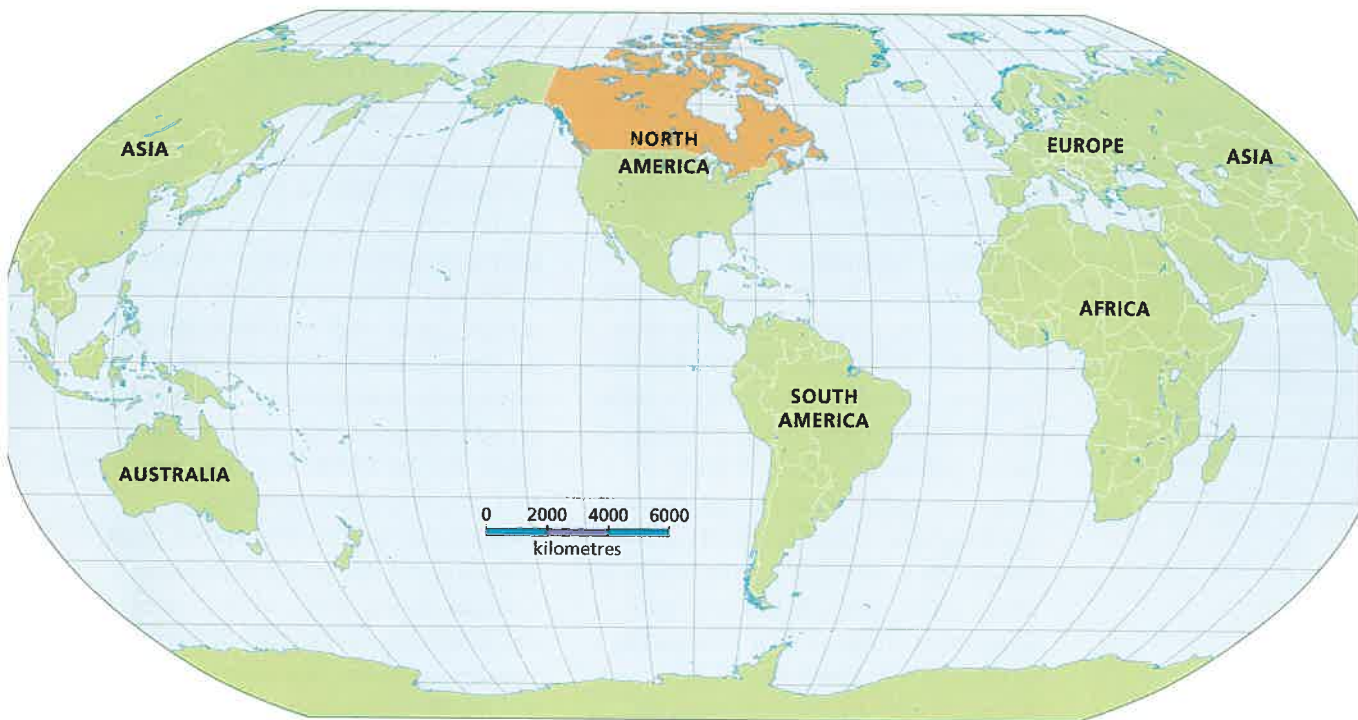
The global economy that was taking shape in the 1960s has advanced with great speed. Today, cyberspace—the forum in which the global electronics communication system operates—has networked the

Earth. Transactions in foreign investment, the stock market, currencies, trade, and commerce are completed with the push of keyboard command. Some **transnational** corporations and multinational businesses have grown to the point where they have more economic power than many developing nations. These businesses can and do move people and ideas around the globe, sometimes very abruptly. The results can be both welcome by a country where a new branch is opened, or devastating for a country in which an old branch is abandoned. In today's global economy, business and trade is competitive. Components for products are often researched and developed in one country, produced in one time zone, assembled in another, distributed in yet another, and sold in still another.

Doing business on a global level has meant that local and national economies have become “international” as well as interdependent.

**Figure 10-1** The action at the Toronto Stock Exchange, Canada's largest, in the mid-1990s. Today, Internet trading is revolutionizing stock exchanges around the world. How do you imagine the TSE looks now?





**Figure 10-2** Canada is at the centre of this map of the world. How else might Canada's position be represented?

This raises a number of issues. Canada has always needed foreign investment to develop, but being dominated by foreign economies can also threaten its independence. In the twenty-first century, as global businesses continue to merge and expand, this conflict will intensify. Other questions will become more urgent. How can governments enforce regulations and laws—on the environment, labour, and human rights—if multinational businesses can pack up and move at the flick of a switch? If the trend towards **free-market** economics continues, what role will national governments play? Will multinational businesses have more power than democratically elected governments?

The global economy is a new economic order that is still taking shape. It worries many Canadians and excites many others. It offers

seemingly unlimited opportunities and potential for growth, but it challenges all regions of Canada to keep up with a dizzying pace of change. It demands that Canada and Canadians do more than simply adapt. To prosper, we must innovate, create, and become world leaders.

## Canada's Ideal Location

Canada is ideally located to participate in the global economy. With Pacific and Atlantic coastlines, Canada's transportation connections with Europe, Asia, and Latin America are well-established. Vancouver International Airport in Richmond, BC, for example, is the closest major North American airport to Asia. With connections, passengers can travel through Vancouver to almost anywhere in the Western Hemisphere and the **Asia-Pacific**.

**free-market:** a market in which prices are controlled by competition

**Asia-Pacific:** a region of countries, from Asia to Australia, that border on the Pacific Ocean

## DID YOU KNOW?

*From Confederation to the 1960s, Canada's immigration policies favoured European immigrants and restricted the admission of non-Whites. Between 1962 and 1967, race and national origin were eliminated as criteria for admission to Canada. In 1971, Canada officially adopted a multicultural policy to recognize the contributions of diverse cultures to Canada's past, present, and future.*

**quotas:** set numbers of immigrants allowed to enter a country

Canada's vast geographical expanse also covers many time zones, and this allows business transactions to be completed around the clock.

Business people can access European markets from midnight until noon and link with Asian economies from noon until midnight.

Canada's history of immigration has made us a multicultural nation. In the last decades of the twentieth century, Canada's immigration policies were changed—long-standing racist **quotas** and barriers were lifted. Refugees were recognized as a special group. Family reunification was made a basis for immigration. In major cities, such as Toronto and Vancouver, hundreds of thousands of immigrants from Asia, Latin America, and Africa came to call Canada home. This meeting of cultures has prepared us to be citizens not only of a single nation, but citizens of the world—sensitive to, and ready to meet, the challenges of the global economy.

## International Trade Agreements and Organizations

The beginnings of today's global economy go back to the early twentieth century. An economic recession gripped the world in the late 1920s as countries isolated themselves and put up trade barriers to protect their own markets and industries. International trade collapsed and international tensions grew. By the 1930s, the recession had deepened into the Great Depression, which devastated countries around the world, including Canada. Along with other factors, these terrible economic and political conditions led to the outbreak of World War II in 1939.

Today's global economy began to take shape before World War II ended, in the summer of 1945. In 1944, in Bretton Woods, New Hampshire, forty-four nations, including Canada, came together.



Figure 10-3 East meets West at Vancouver's International Airport.

They laid plans for a global economic and monetary system that would help the world recover after the catastrophe of World War II. Canada stepped onto the world stage and emerged as an important advocate for freer international trade. This, in fact, has been the cornerstone of Canada's trade policy. The Bretton Woods Conferences led to the creation of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development, better known as "the World Bank." The Bretton Woods Conferences also helped set the stage for the General

Agreement on Tariffs and Trade (GATT) in 1947.

Trade agreements and organizations are often known by their abbreviations, which confuses most people. To add to the confusion, an agreement can become an organization, and sometimes an organization isn't really an organization so much as it is an opportunity for the world's most powerful leaders to come together and discuss international cooperation and trade. Table 10-1 lists some of the most important international trade organizations and agreements. Keep in mind that these are constantly evolving.

**exchange rates:** the value of one currency compared to another

**Table 10-1 International Trade Agreements and Organizations**

Name	Background	Function	Issues
<b>IMF</b> International Monetary Fund	Formed in 1947 to rebuild the global economy after World War II 182 member nations (1999)	Stabilizes <b>exchange rates</b> of world currencies Promotes international trade Lends money to nations facing economic problems	Critics say the IMF has too much power and that nations receiving loans often must cut their spending. Supporters say the IMF has stabilized the global economy.
<b>World Bank</b>	Formed in 1947 to help Europe rebuild after World War II	Offers technical assistance and loans to projects in developing nations Provides loans to nations facing economic collapse	Like the IMF, the World Bank sets strict conditions and can tie its loans to economic, social, and environmental reforms. This draws criticism, as well as support.
<b>GATT</b> General Agreement on Tariffs and Trade	Formed in 1947 to reduce trade barriers around the world Canada a charter member	Set policies on international trade practices Member nations expected to make domestic trade legislation comply with GATT	Critics said GATT policies damaged domestic industries and that the US ignored rulings. Supporters said GATT policies increased world trade.
<b>WTO</b> World Trade Organization	Formed in 1995 as the successor to GATT Canada a founding nation 135 member nations (as of 1999)	Referees and promotes the global economy Dispute-settlement body can set rulings that are binding to member nations	Critics say that the WTO is too heavily influenced by the US, and that China must be admitted as a member (see Figures 10-19 and 10-20). Supporters say the WTO is the best organization to create an open global economy.

**Table 10–1 (continued) International Trade Agreements and Organizations**

Name	Background	Function	Issues
<b>OECD</b> Organization for Economic Cooperation and Development	Formed in 1961 to conduct broad-based economic research 29 member nations Canadian Donald Johnston named Secretary General in 1996	Conducts research for the world's most powerful industrialized democracies Develops policies to improve trade and investment between member nations Coordinates foreign aid policies	Critics say the OECD conducts its affairs with no accountability. (See Cross Currents, page 401, on the Multilateral Agreement on Investment.) Supporters say the OECD improves the flow of international investment and aid.
<b>G7 (8)</b> Group of 7 (8)	Formed as the G6 in 1975 by the world's six major industrialized nations Canada became a member in 1976—now the G7 Russia admitted in 1998—now the G8	Holds an annual summit to discuss inflation and interest rates, job creation, currency, trade and investment, and relations with developing nations	Tagged “the most exclusive club in the world.” Summits rarely lead to formal agreements, but they do promote cooperation among member nations.
<b>APEC</b> Asia-Pacific Economic Cooperation	Formed in 1989 to create pan-Pacific trade alliance Canada one of 12 founding members 21 member nations, including Russia (1998)	Meets annually to work towards improved relations and freer trade Objective is to create a Pan-Pacific free-trade agreement by 2020	The Pan-Pacific region is divided politically, which can result in friction. The poor human rights records of some member nations often spark public protests.

**sovereignty:** the right of a nation to complete self-government

**ratified:** formally accepted

**corporate agenda:** the drive by business to make profit regardless of social and environmental consequences

**transparent:** open to input and understanding; easily seen through

One of the most important developments in global trade was The Multilateral Agreement on Investment (MAI), developed by the Organization for Economic Cooperation and Development in the late 1990s. The MAI sparked protests around the world, for many reasons. First, the OECD had conducted early negotiations about the MAI in secret. Many nations that were pressured to support the MAI were not OECD members and had had little say in original negotiations. Second, many critics saw the proposed agreement as a threat to national **sovereignty**. They feared

that the MAI would allow multinational businesses to evade local laws and customs. Third, the MAI could allow multinational businesses and financial institutions to play one country off against another: labour and environmental standards could plummet as countries competed for investment.

In October, 1998, after stiff opposition from worldwide environmental and labour groups, the OECD concluded that the negotiations on the proposed Multilateral Agreement on Investment had ceased.