

STATISTICS CANADA'S GLOBALIZATION INITIATIVE
"BUSINESS CHARACTERISTICS AND PERFORMANCE IN
THE GLOBAL MARKET"

BUSINESS BEHAVIOUR

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BUSINESS CHARACTERISTICS AND PERFORMANCE IN THE GLOBAL MARKET

In the past two decades, a phenomenon known as globalization has become prominent in the world economy. The distinctive feature of globalization is the increasing cross-national spread of products, markets, firms and factors of production, resulting in the emergence of globally integrated production networks controlled by multinational corporations (MNCs). Firms make decisions on where to locate the various functions which are part of their production process based upon where these functions can be performed most efficiently. Thus, extraction activities, manufacturing, R&D and corporate head office may be located in different countries. Reductions in trade and investment barriers, changing transportation and communication technologies and the rapid industrialization of some developing countries have made it possible, and indeed preferable, for firms to operate in this manner.

The globalization of industry has implications for firms involved in this process and for the governments of the countries where these firms are located. For example, globalization has meant that Canadian firms face increasing competition in the domestic as well as foreign markets from firms located in other countries. From a government point of view, globalization of industry has meant that industrial and trade policies have become increasingly interrelated and their effects more difficult to measure and anticipate.

More specifically, firms would like to understand their performance compared to other firms operating in this globalized environment. They ask:

- What is the performance (growth, profitability, capitalization, etc.) and characteristics (size, industry/commodity, province) of firms
- which are importers? exporters?
 - which have a foreign dimension of ownership and control?
 - which have a foreign dimension of ownership and control and which trade internationally?
 - which have no external links?

Firms and governments both wish to analyze the relationships and important factors inherent in a globalized economy. They ask:

- Are there linkages between trade and foreign investment?
What is the nature of these links (complements? substitutes?)
Do these links benefit the Canadian economy?
- Is there a relationship between goods and services trade? Does merchandise trade generate services trade and/or vice-versa? Does this relationship reflect vertical integration of firms? horizontal diversification? Is there any indication that this intra-firm activity results in better economic performance of Canadian subsidiary firms?

- Is there a concentration of any of these foreign activities in a relatively small number of firms and do these firms perform better than other firms and/or do they provide more benefits to the Canadian economy?

- What are the geographical dimensions (international and provincial) of the impact of globalization on Canada. Do these geographic dimensions play a role in the difference in economic prosperity across the regions of Canada?

Ultimately, policy makers wish to ask questions which focus on the impacts of globalization which are closely related to current policy goals. They ask:

- Are the parts of globalized production processes in my country providing high quality, stable jobs for my labour force?

- Is the part of the production process typically allocated to my country low or high value-added?

- Is it resulting in positive spill-over benefits such as the spread of high technology?

In order to begin to understand the Globalization phenomenon, Statistics Canada undertook the "globalization initiative".

The first step was to recognize that the key feature of this phenomenon is the economic decision making which is occurring at the firm level and the associated implications it has for firm behaviour. Thus the information required is micro-level data on the activities of firms. The information should include all cross-border activity of firms (including trade (goods and services) and investment (out & in-bound) and an indication of the relationship of the firms involved in such activity (affiliated firm operating as part of a global production network, arms length transactors). This information should be supplemented with characteristics information (industry, country of control) and a range of geographical information (national and international). Indications of other activities (eg. R&D) as well as performance indicators should also be included.

Information on these activities and their relationship to each other within one multi-national enterprise could be obtained through extensive surveys. Indeed detailed information on activity of related firms abroad, or attitudinal questions about how a firm is impacted by, or adjusting to, a globalized environment can only be obtained through additional surveys. However, much of the required information is currently available in Statistics Canada, collected and organized on a subject matter or activity basis. The approach taken was to make better use of this existing information through the linkage of each firm to a large range of its micro data arising from different surveys. This creates a fairly comprehensive globalization picture for each firm linked. The information linked for each firm includes:

Goods Trade. exports by country and commodity, province

	imports by country and commodity, province stage of production (2 stages)
Services Trade:	These data are available on an ad hoc basis: exports by country and category of services imports by country and category of services
Parent-Subsidiary Relationship:	Canadian direct investment abroad (value, geographic destination) Country of control
Parent-Subsidiary Activity:	Affiliation of trading businesses for goods exports and imports Affiliation of trading businesses for services exports and imports
Industry:	Industry code of business (SIC-C)
Geographical Location:	Geographical area of trade for goods and services exports and imports Provincial designation of the business within Canada (head office and/or operations within each province)
Activity and Performance Data:	Income Statement and Balance Sheet, financial ratios Research and Development

This rich set of micro data can be used to begin to answer some of the globalization-related questions indicated above. More can be addressed as the database is extended over a period of several years and firms can be followed longitudinally.

It should be noted that while globalization-related issues provided the impetus for this project, the result is essentially a comprehensive, detailed set of micro information which can be useful in any type of performance or competitiveness analysis.

This database currently exists for 1991 and is being updated to 1992 and 1993 and extended backwards to 1990 during FY 1995-96. It contains the universe of incorporated firms in the Canadian economy. The largest firms (about 35,000) have extensive income statement and balance sheet information. This group incorporates almost all of the importing and exporting firms, foreign controlled firms, firms with foreign direct investment and firms performing R and D. The coverage of international trade in services activity is not as complete because these data are collected partly as micro data from the firms and partly as activity data from other sources. Thus, only a subset of trading firms can be linked to their data.

The remainder of the file is largely firms which do not participate in these cross-border activities or for which Statistics Canada does not have micro data; the publication of the activity data may rely on statistical estimation procedures to include activity of smaller firms. For this large group of smaller firms the information available is industry code, provincial location and summary financial information.