



Global Economic Trends and Implications

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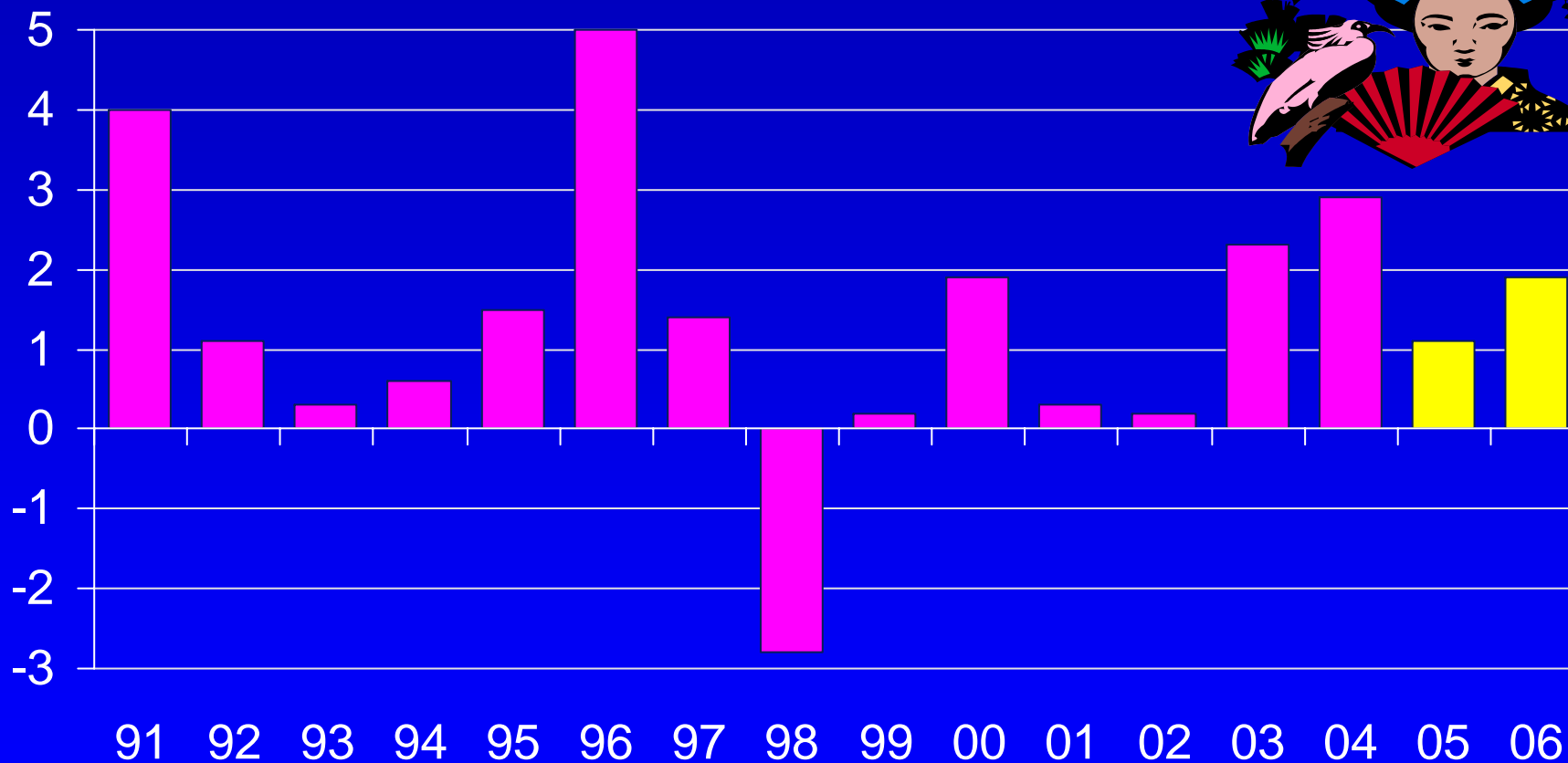
Three Big Global Drivers

- Demographics
- Economic transformation
- Sustainability
- ...and permanent friction -- Terrorism

Demographics --Aging North...

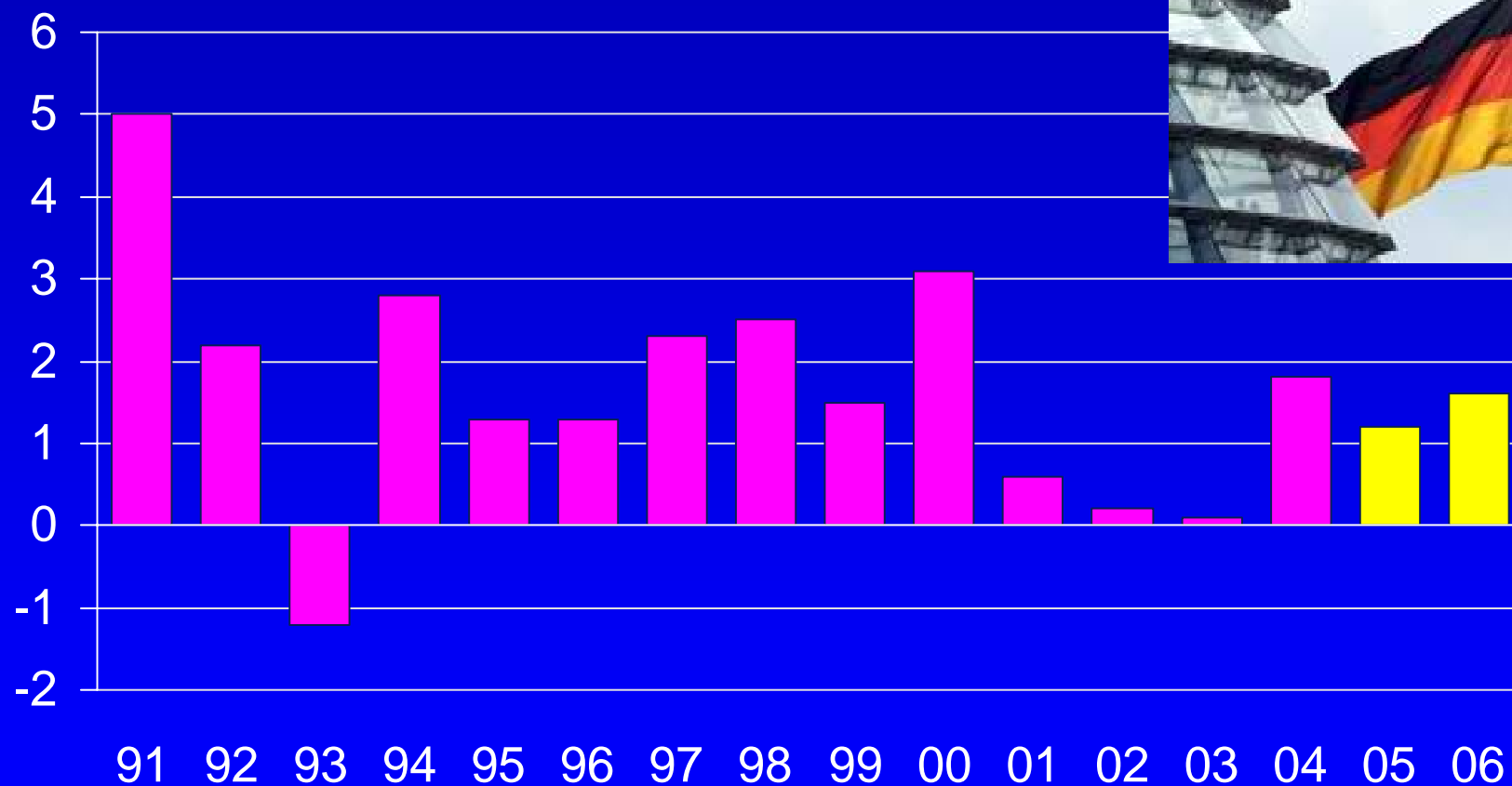
- Slowing sustainable growth in many industrial countries
- Growth potential now 2 per cent or less
- Why? Aging populations, combined with economic rigidities
- Italy and Japan are aging the fastest, but many others to follow

Japan: Real GDP Growth (annual per cent change)



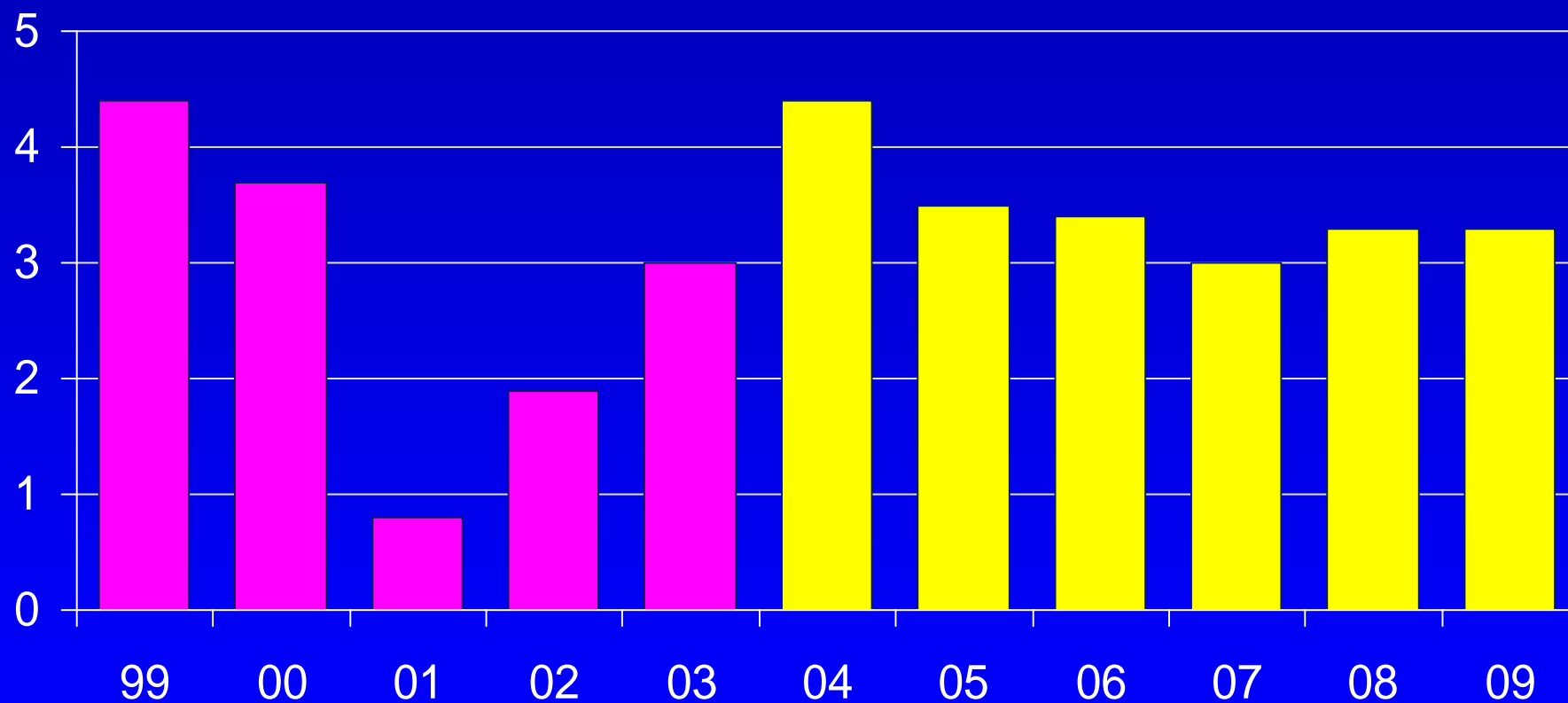
Source: Consensus Economics.

Germany: Real GDP Growth (annual per cent change)



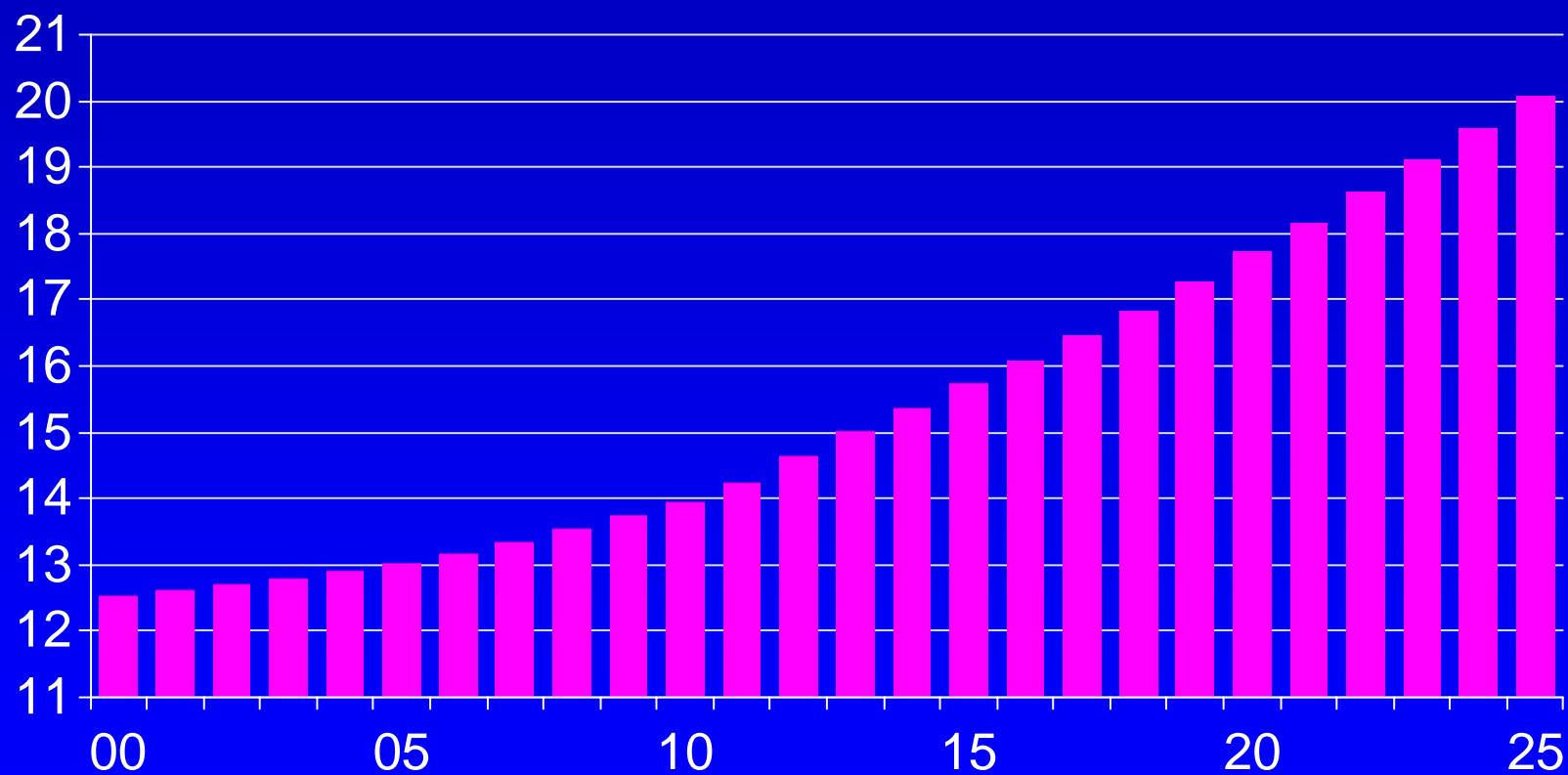
Source: Consensus Economics.

Real U.S. GDP Growth Rate 1999–09 (%)



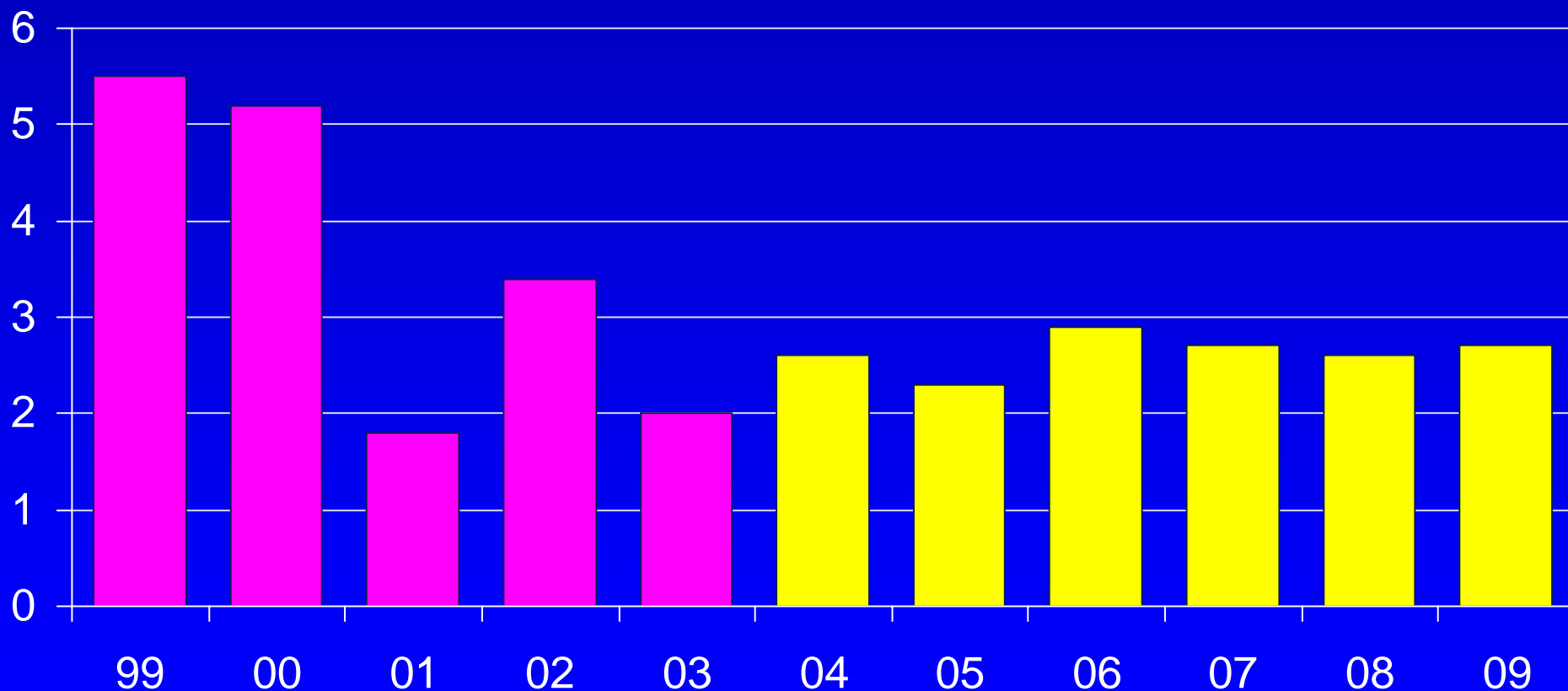
Sources: Regional Financial Associates, Inc.; CBoC; Statistics
Canada.

Share of Canadian Population Aged 65+



Sources: The Conference Board of Canada; Statistics Canada.

Canadian Real GDP Growth Rate 1999-09

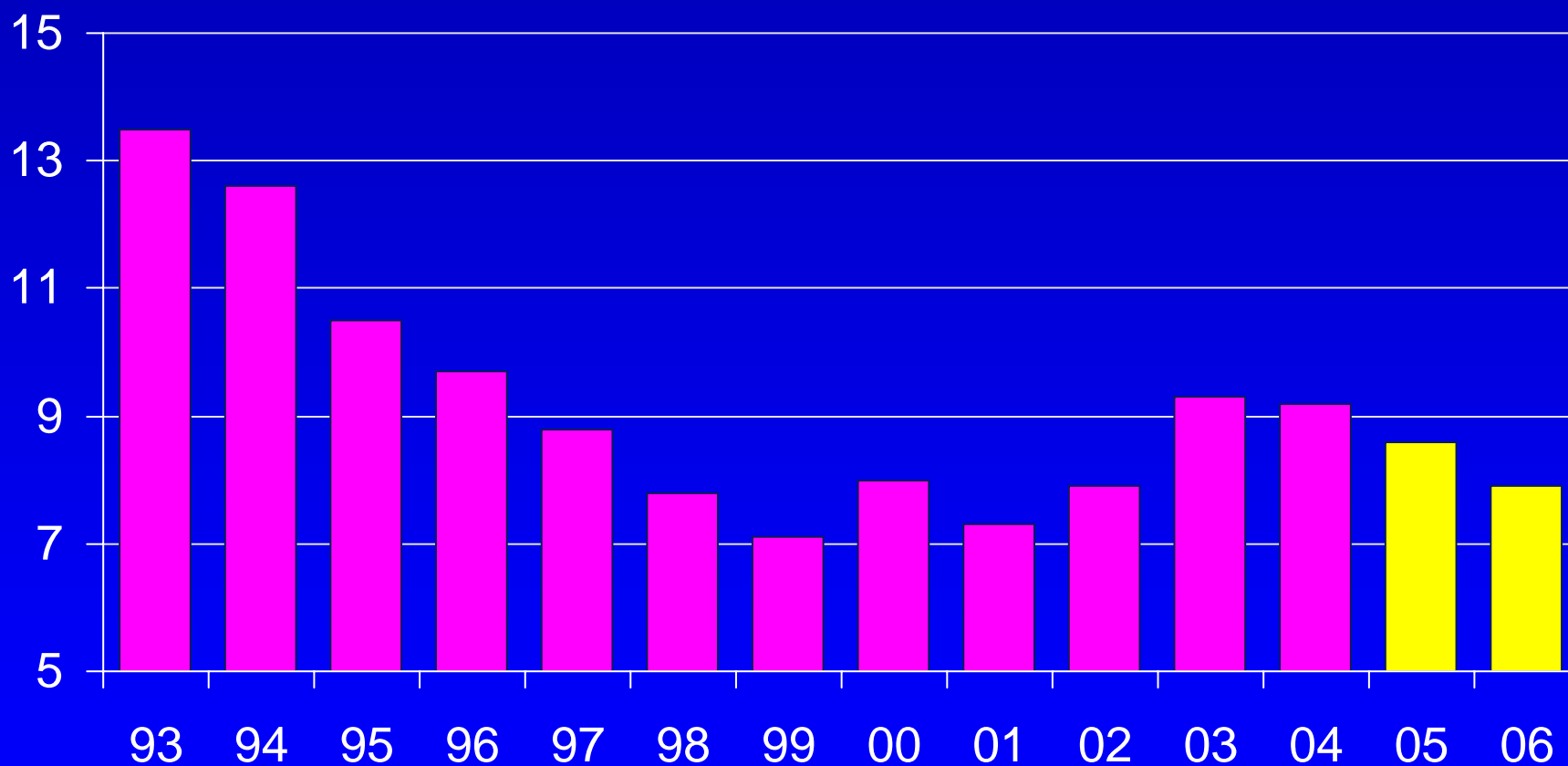


Sources: The Conference Board of Canada; Statistics Canada.

...Emerging South

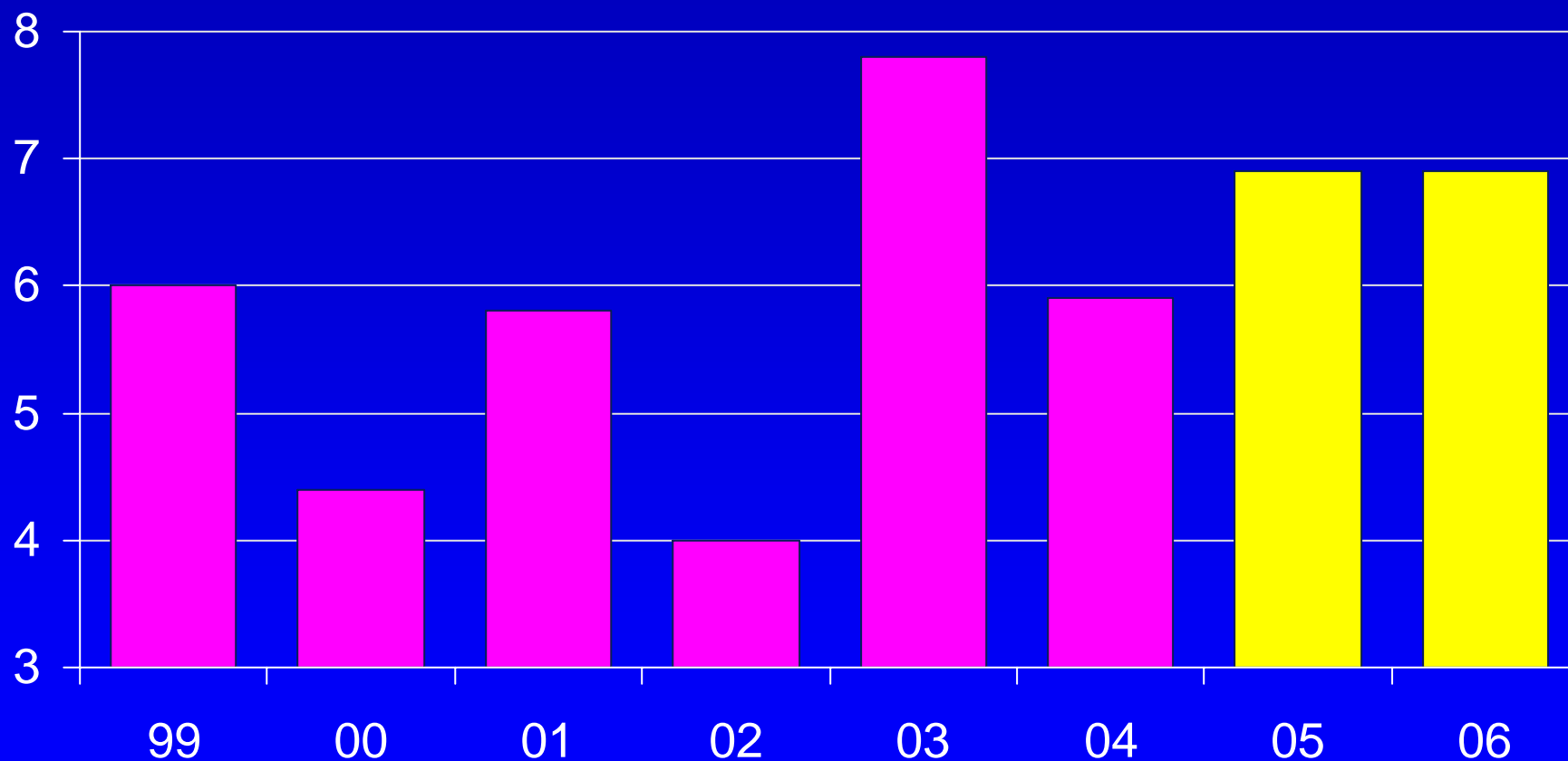
- Younger, growing populations mean greater growth potential in major emerging markets
- Much improved economic policies are combining with demographics to produce stronger economic growth
- The rise of the BRIC nations – Brazil, Russia, India, China

China: Real GDP Growth (annual per cent change)



Source: Consensus Economics.

India: Real GDP Growth (annual per cent change)



Source: Consensus Economics.

Economic transformation

Two major structural forces at play:

- Global imbalances
- The evolution toward “integrative trade”

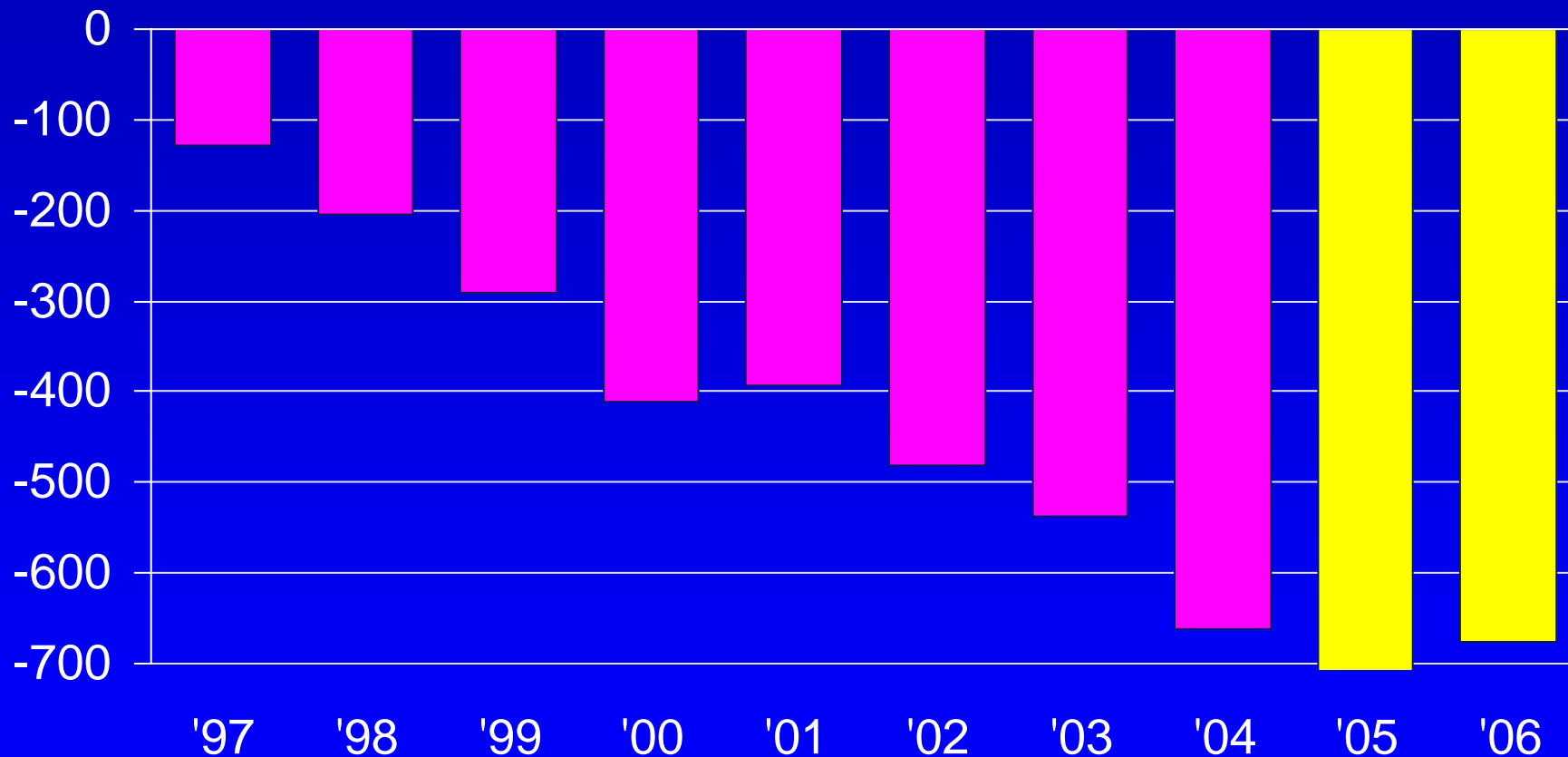
Global imbalances

Major imbalances are everywhere...

- United States twin deficits – current account and fiscal deficit
- Japanese trade surpluses, rapid growth of U.S. \$ assets
- Chinese trade surpluses, demand for resources, massive FX reserves
- Fiscal deficits in Germany, France, Italy
- Consumer indebtedness in U.S. and Canada
- Oil prices fluctuating widely
- Real property markets?

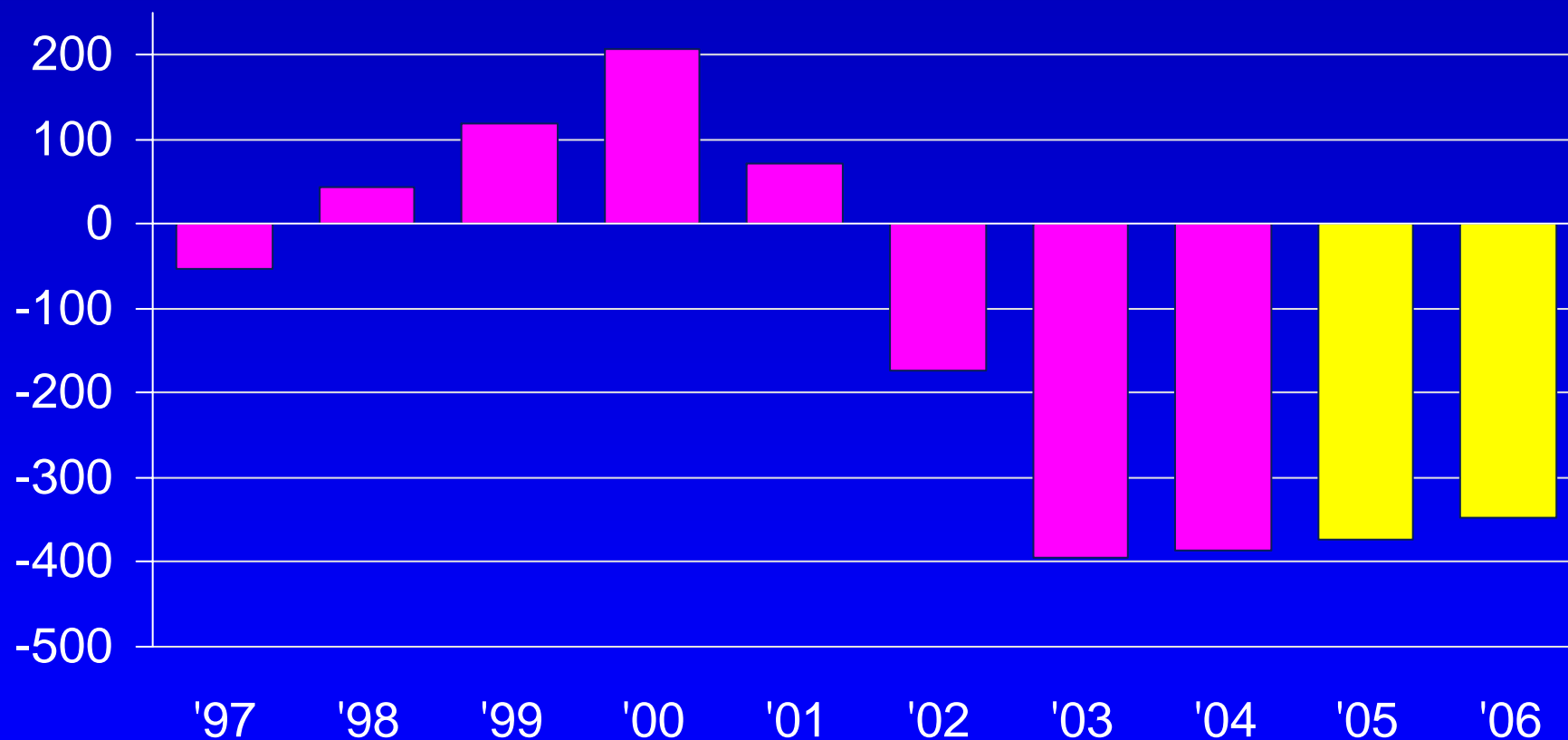
“That which is unsustainable will not continue”

U.S. Current Account Balance (Billions of US\$)



Source: BEA; The Conference Board of Canada.

U.S. Federal Government Balance (Billions of US\$)



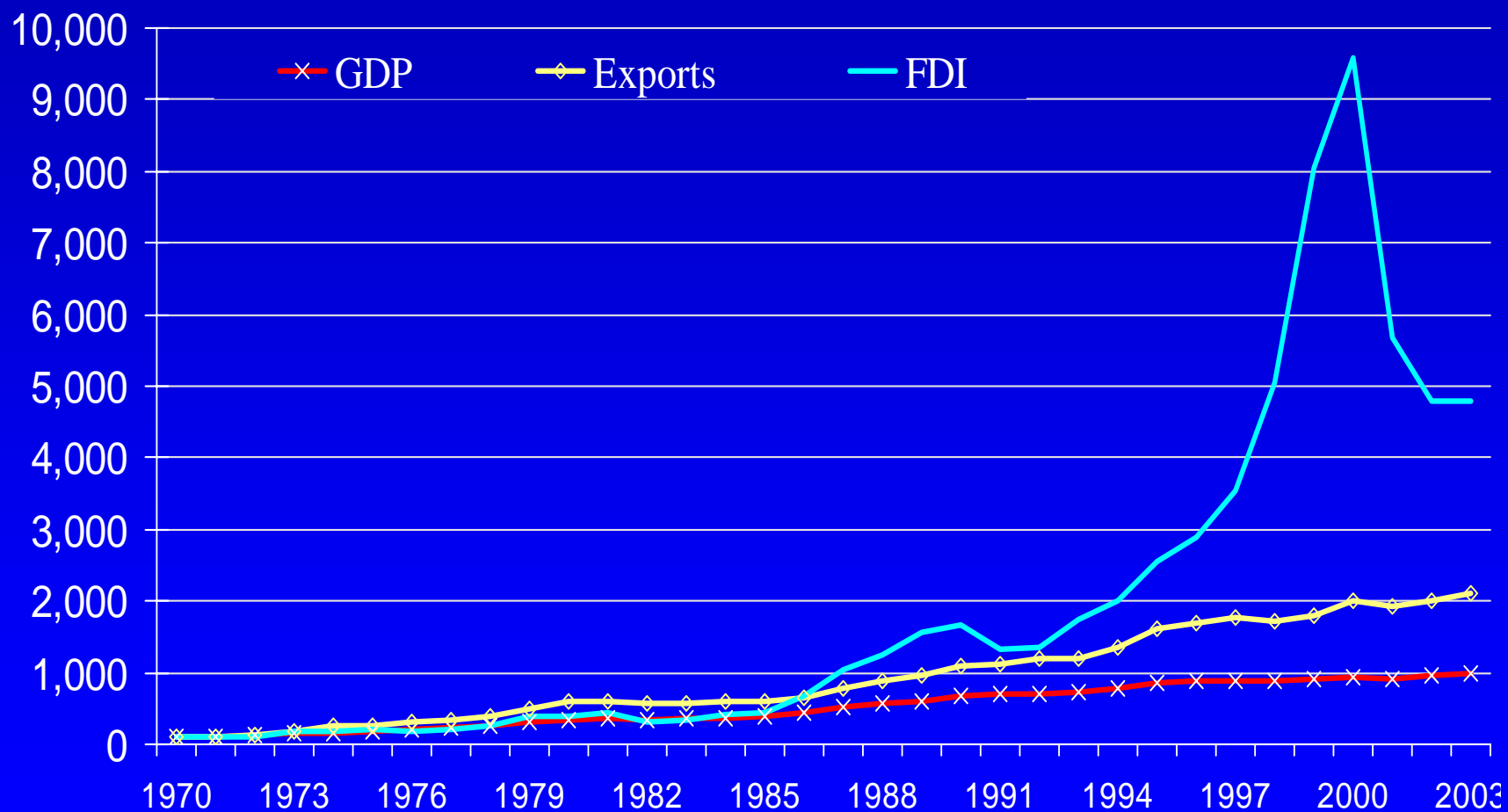
Source: BEA; The Conference Board of Canada.

Trade in evolution: from traditional...

- Trade in goods - raw materials, manufactures
- Sales to end-users
- FDI - overcome trade barriers or secure resources
- Policy focus on exports
 - Imports ignored, regulated or even discouraged
 - Inward FDI encouraged, although sometimes reluctantly

Globalization at a Glance

(world values, 1970=100)



Sources: UNCTAD, IMF, EDC.

...to “Integrative Trade “

- Fewer global trade and investment barriers today
- Rationalization of production – firms concentrate on what they do best, where they do it best
- Emergence of global supply chains, built by foreign direct investment **in both directions**

This has been called this “integrative trade”

What is integrative trade?

- Captures all elements of international business today
- **FDI** builds global supply chains and encourages more trade
- **Exports and imports increasingly inseparable**
 - Global supply chains mean imports matter more to exporting, especially in manufacturing
- **Services emerge as a core element**
 - Services a rising share of exports
 - Strong services sales from foreign affiliates, created via FDI

Canadian Trade Evolution

- Canadian trade has grown by 50% since Free Trade Agreement
 - Ex + Im now 80% of GDP, compared to 52% in 1990
 - US share – peaked at 85% of exports, declining slightly recently
- North American integration taking place
 - Canadian exports: national content has fallen from 71% in 1990 to 64% today
 - Cdn content on manufactured exports often below 50%
 - Service exports surprisingly low—12% of Canadian exports
- But recent signs that FTA has matured and reached a plateau

Cdn FDI & Foreign Sales

- Rapid Cdn FDI growth during 1990s
- Icing on the cake: Canada now a net outward investor
- Sales from Canadian foreign affiliates reached \$370 billion in 2003 -- equivalent to Canadian goods exports
- US share of outward FDI & foreign affiliate sales is 60 per cent, vs. 82 per cent of exports
- Foreign affiliate sales in the U.K. 8 times higher than exports

A word on sustainability

- Compelling evidence on climate change
- Growing evidence on the oil economy reaching its peak
- Recent popular writings on sustainability
 - Jared Diamond, Ronald Wright
- So what do we do with it?

The economic cost of terrorism

- Terrorism risk a global phenomenon
 - direct incremental costs of security after 9-11 – up to 1 per cent of U.S. GDP
 - short-term economic impact of terrorist events
 - long term costs for protecting existing wealth – airport security, logistics, insurance, workplace security, etc.
- Permanent impact of 0.25 per cent in lost economic growth potential

Conclusions

- Aging North, emerging South – U.S. aging less quickly than other mature economies
- Will we turn to emerging markets as a new source of global economic dynamism?
- Global imbalances a large and growing risk factor
- Economic transformation occurring via integrative trade
- Growing recognition of sustainability?
- Terrorism risk now a permanent factor



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