



December 18, 2008

Exports of services products hold the key to British Columbia's prosperity in the coming decades, but it requires business and government to set out the long-term vision and put in place the programs, especially education, to support the vision.

ASIA PACIFIC BULLETIN #303

BC in the Global Services Economy: New Policies for a New Era

By Dr. Tom Hutton

British Columbia marks its 150th year amidst the most severe global economic downturn in decades. While there is much to celebrate, the extreme uncertainty that has paralyzed global markets is a reminder of the need to rethink the province's economic future. So far the resource economy has played a crucial role in all facets of development – in terms of generating employment, sales, revenues and a vast export economy. At the same time, the resource industries supported significant secondary production and processing activities scattered around the province, while a service sector concentrated largely in Vancouver and (and to a lesser extent Victoria) provided key lubricating roles in finance, management and distribution. However, the future pattern will be different.

Resources will remain important for BC for the next 100 years. There are also favourable prospects for value-added manufacturing industries linked with resources, such as wine and specialty foods, and biotechnology products. But conditions for traditional resource industries will be problematic (reflecting depletion and environmental degradation, tighter regulation and competition among other factors). There will always be limitations on the scope of manufacturing, so increasingly services must assume a leading role in the province's development. The quality of services will be critical to enhancing productivity in resources and manufacturing -- in R & D, engineering and the education required to support the human capital of any advanced economy.

Gateway functions and industries, notably ports, airports and major arterials, logistics and other distribution industries, underpin BC's connectivity within the Pacific Northwest and Asia, and are another source of value-added activities. This includes the potential for exporting expertise in gateway functions. Aside from these intermediate sector demand industries, there are also bright prospects for final demand services, such as education, tourism and retail trade. It is worth noting that services have led employment growth in Vancouver since the 1950s; are clearly dominant in the Victoria-Capital Region District; and are increasingly central to the major interior 'core centres' of Kelowna, Kamloops and Prince George.

On the demand side is the voracious appetite of the fast-growing economies of Asia for specialized services, as well as for natural resources. Most Asian countries have long posted significant balance of trade deficits in services. On the supply side, BC offers

major strengths in key service sectors, industries and institutions which have significant export trade potential. These include intermediary finance, engineering, management consulting and other business or 'producer' services, higher education and training, logistics, information technology, architecture and other applied design sectors, creative/cultural activities, biotechnology, and a host of 'green industries.' BC is home both to influential environmental agencies and NGOs and 'green agenda' firms and enterprises, so as Asian economies and societies mature, more governments and businesses will be likely to look to BC as a source for these services. Finally, facilitating the growth prospects of these key specialized services are factors such as BC's leading universities and colleges, the entrepreneurship and connectivity shaped by international migration, key supporting agencies including foundations and bilateral business associations, systems of knowledge transfer and dissemination, and – at least to a limited extent – government and public sector policies and programs.

The congruence between local supply and foreign demand is the key to BC's service trade prospects. Apart from this basic market configuration, there are additional attractions to services as a leading trade sector. As major surveys in Vancouver, Seattle and other metropolitan regions have confirmed, specialized export-capable service industries and institutions generate significant numbers of rewarding, highly-remunerative jobs. A forthcoming study by the Asia Pacific Foundation of Canada provides examples of service export industries that build on the concept of a gateway economy in BC, namely logistics/freight forwarding, education and green buildings. Service exports tend to feature favourable terms-of-trade ratios, reflecting the high value-added character of information-intensive, knowledge economy industries. The agglomerations of specialized services in advanced metropolitan regions tend to increase overall productivity, as well as producing valuable knowledge spillover effects throughout the regional economy. Finally, service industries are relatively sustainable, as their key resource inputs – human and social capital, information and cultural knowledge – are mostly renewable, adding to their appeal as a development leader.

Nurturing a service economy capable of performing as a development leader for BC will not be easy. There is no shortage of competition for the lucrative service markets of the Asia Pacific, both from other foreign service producers, as well as companies within the fast-growing service sectors in Asian cities themselves. The relatively small size of most service firms, and the frequent role of service firms as subcontractors, pose significant sales and marketing challenges, and often require the formation of consortia for bidding on foreign projects. Marketing 'services,' as opposed to 'products' and 'commodities,' requires a more sophisticated trade policy model. Other jurisdictions have made commitments to successful service industry development and marketing, and in some cases are well ahead of us. That said, if we want to promote a successful shift to the New Economy of the 21st century, there really is no viable alternative to developing an export-capable service economy, to complement BC's established industries, which in some cases are in a state of at least relative decline.

What will it take to establish services as a long-term, sustainable development leader in British Columbia? At the macro-policy level, government and business leaders need to collectively enunciate a clear and compelling vision of what a successful service economy can do for the province's development, as well as an outline of key program areas and policy priorities. Secondly, stronger supportive programs, in areas of education, entrepreneurship, export market knowledge and technology (especially IT) are required, as opposed to the largely piecemeal offerings which prevailed in the past.

Thirdly, we need to promote a more integrative approach to service industry and skills development. The ongoing fusion of knowledge, business practices and culture shaped by immigration should work to our advantage. British Columbia has lived off resource rents for a century and a half, and can continue to draw on staples for future employment, incomes, sales and revenues. But our overall prosperity and welfare in the 21st century will increasingly depend on a productive, export-oriented service sector based on a new economic development model.

This Bulletin was contributed by Dr Thomas Hutton. Dr. Hutton is Professor in the Centre for Human Settlements and School of Community & Regional Planning, University of British Columbia.

ISSN: 1712-0195

While every effort has been taken to verify the accuracy of this information, the Asia Pacific Foundation of Canada (www.asiapacificbusiness.ca) cannot accept any responsibility or liability for reliance by any person or organization on the use of this information. This Bulletin may be copied whole or in part and/or re-distributed with acknowledgement to the Asia Pacific Foundation, Canada's leading independent resource on Asia and Canada-Asia issues. The Asia Pacific Foundation of Canada is funded by the Government of Canada and the Government of British Columbia.

Asia Pacific Bulletin #287 © 2008 Asia Pacific Foundation of Canada.