

# Trade in Services

Canada in a Global Context

# Trade in Services

1. Introduction
2. Focus on Commercial Services
3. Trade Team Canada SICP

# **1. Introduction**

## **Trade in services is conducted through two channels and four modes...**

- Channel One: Sales across the border
  - Mode 1: Service crosses the border (e.g. a consultant delivers a report to a foreign client by e-mail)
  - Mode 2: Supplier crosses the border (e.g. a training consultant travels to a foreign country to deliver training)
  - Mode 3: Foreign client crosses the border (e.g. an employee of a foreign firm comes to Canada for training)
- Channel Two: Sales by foreign affiliates
  - Mode 4: Canadian firm establishes a presence abroad in the form of a foreign affiliate that delivers sales to three markets (“host” country residents, residents of other foreign countries, and Canadian residents).

## **Statistics Canada captures only part of the success of Canadian service firms on international markets...**

- Statistics Canada captures cross-border transactions (Modes 1, 2 and 3) in the Balance of payments.
- Sales by foreign affiliates are not all captured in the balance of payments:
  - Sales to Canadian residents are captured as imports.
  - Sales to foreign residents in the “host” country and other countries are not captured.
- These sales to foreign residents are substantial: in the U.S. market for example, it is estimated that sales of affiliates of Canadian firms to U.S. residents is more than double those conducted through cross-border trade.

## **This deck focuses on cross-border trade...**

- While this deck presents an analysis of Balance of payments statistics for services, the reader should keep in mind that this does not represent the full range of Canadian service firms activities on international markets.
- Canadian service firms are increasingly setting up operations abroad as evidenced by statistics on Canadian Direct Investment Abroad.
- The average annual growth in the value of investment of service industries over the 1986-1996 period has been considerable:
  - Accommodation, restaurants, recreation and food retailing: 29%
  - Business services, education, health and social services: 16%
  - Communications: 14%
  - Finance and insurance: 13%
  - Transportation services: 9%

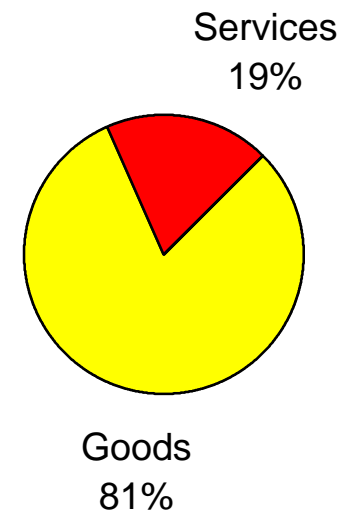
## **Information and communication technologies increase the international tradeability of services...**

- Information and communications technologies facilitate trade in services in much the same way as transportation infrastructure supports goods trade.
- The growth in trade in services can be linked to enabling technologies that facilitate cross-border marketing, co-production of services with distant partners and distance delivery of services.
- The use of enabling technologies will continue to revolutionize trade in services, supporting a shift from “commercial presence” to “virtual presence”.

## Services represent a significant portion of world trade...

- Total world trade amounted to US\$ 6.6 trillion in 1998; services accounted for US\$ 1.3 trillion (19% of total trade).
- Between 1990 and 1997, world services exports grew at an annual rate of 8% while goods exports grew at 7%.
- Trade in services includes travel, transportation, and other commercial services as defined by the World Trade Organization (WTO).

**World Trade, Percent Share  
(Total = US \$6.6 trillion)**

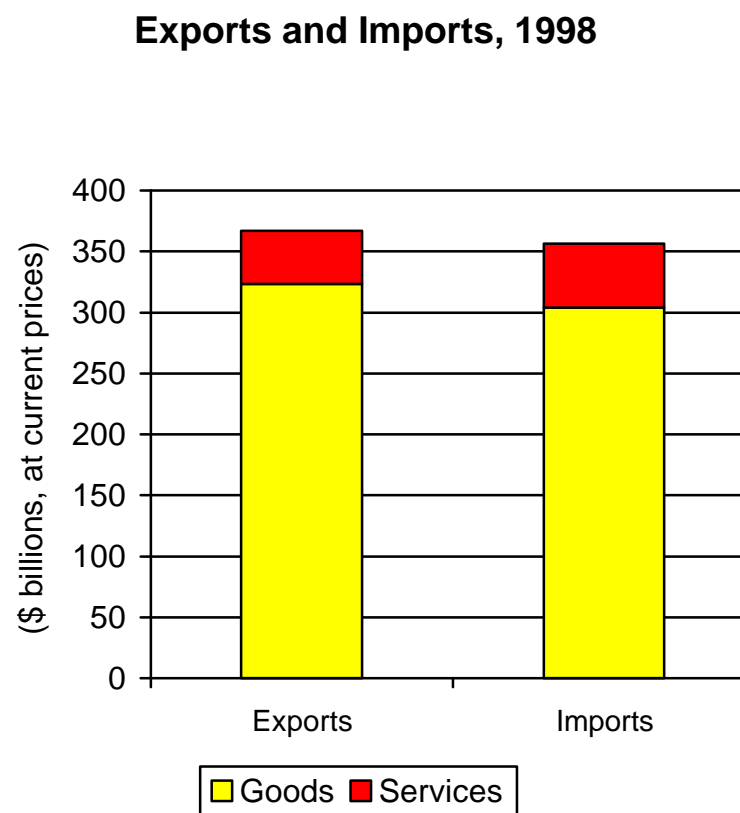


Source: World Trade Organization (WTO),  
Annual Report 1998



## International trade plays an important role in the Canadian economy...

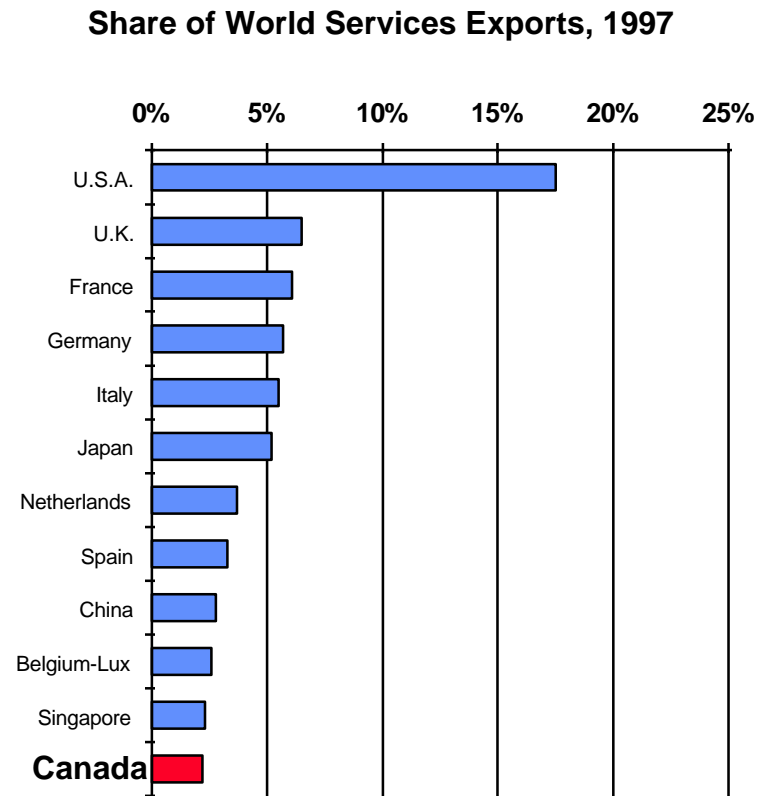
- Canada is one of the most trade-oriented countries in the world.
- In 1998, Canadian exports of goods and services totalled \$367 billion while imports amounted to \$356 billion.
- For comparison's sake, GDP was valued at \$888 billion.



Source: Statistics Canada, Matrix 2360

## Canada is the 12th largest exporter of services...

- Canada's share of world services exports is 2.2%.
- Canada has maintained this share throughout the 1990s.
- For comparison's sake, Canada's share of world goods exports is 3.9%.

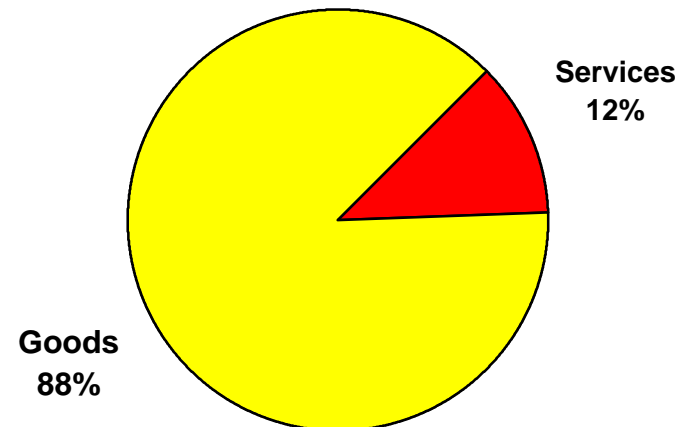


Source: WTO, Annual Report 1998.

## There is still potential for growth in Canadian services exports...

- Services account for 12% of total Canadian exports, less than the worldwide average of 19%.
- There is still considerable scope for further strong growth in services exports.
- New information and communications technologies are increasing the tradeability of services.

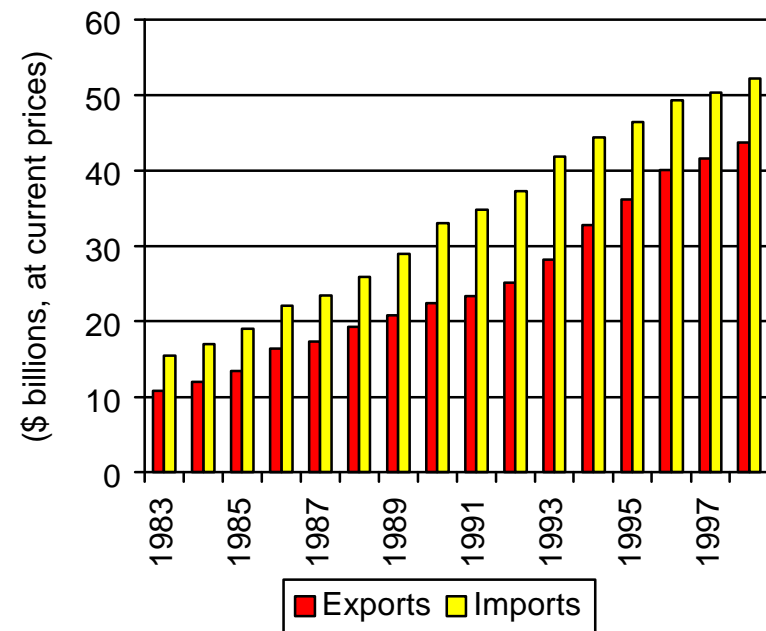
Canadian Exports, Percent Share  
(1998)



## Canadian services exports and imports reached record highs in 1998...

- In 1998, Canada exported \$43.7 billion worth of services while importing \$52.1 billion.
- Trade in services has enjoyed continuous growth since 1983.
- Services exports grew at an annual average rate of 9.8% during the 1983-1998 period while services imports grew at 8.4%.

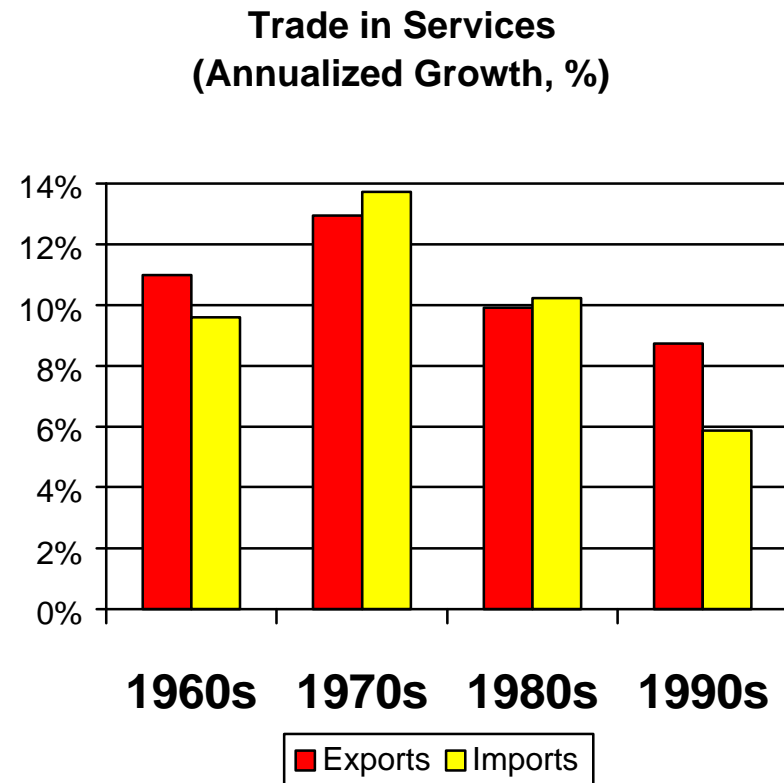
Trade in Services, 1983-1998



Source: Statistics Canada, Matrix 2360

## In recent years, services exports have been growing at a faster rate than services imports...

- In the 1990s, services exports have grown at an annual rate of 8.7% while imports grew at 5.9%.
- This contrasts with the situation that prevailed in the 1970s and 1980s when services imports grew at a faster pace than services exports.

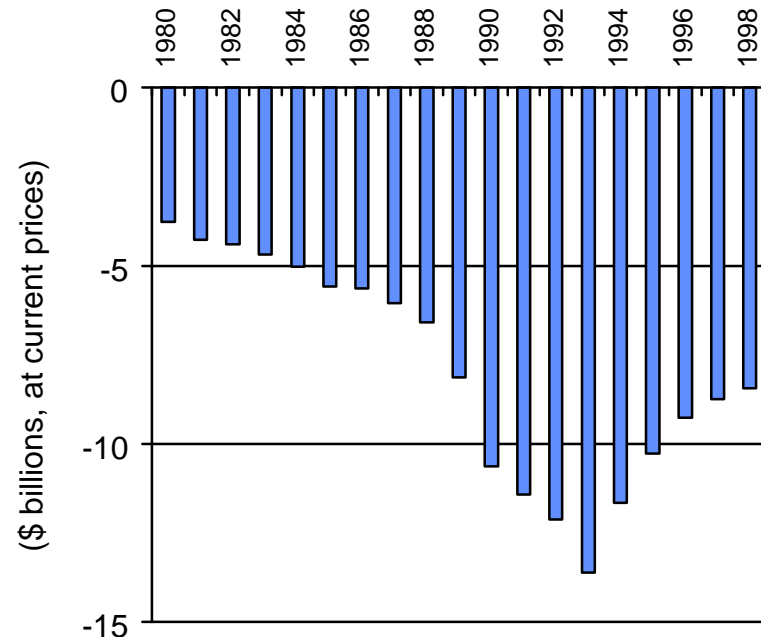


Source: Statistics Canada, Matrix 2360

## Canada's services trade balance is improving...

- During the 1980-1993 period, Canada experienced an increasing deficit in trade in services.
- This trend reversed in 1993 and, since then, the trade balance in services has steadily been improving.
- In 1998, Canada experienced its smallest trade deficit in services since 1989.

Services Trade Deficit, 1980-1998



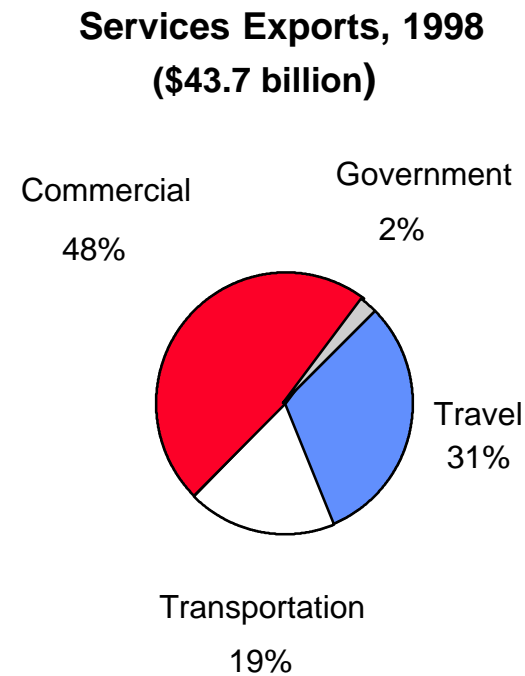
Source: Statistics Canada, Matrix 2360

# Statistics Canada recognizes four categories of services...

- Commercial services
  - Includes professional services such as financial services and legal services.
  - They are divided in 26 categories, under 15 groupings.
  - They account for about half of trade in services and they are the focus of the next section.
- Travel
  - Includes business and personal travel.
  - Personal travel accounts for 80% of all travel.
- Transportation
  - Includes transportation of persons and goods (freight) by air, water, and land.
  - Freight transportation accounts for 71% of all transportation.
- Government
  - Covers international transactions arising from government diplomatic, commercial and military activities.

## Commercial services account for about half of Canada's services exports...

- In 1998, commercial services represented \$21 billion, or 48% of total services exports.
- This proportion is higher than that of the worldwide average of 43%.
- \* Note: This figure is from the WTO and it refers to "other commercial services" as they roughly correspond to "commercial services" in Canada's trade numbers.

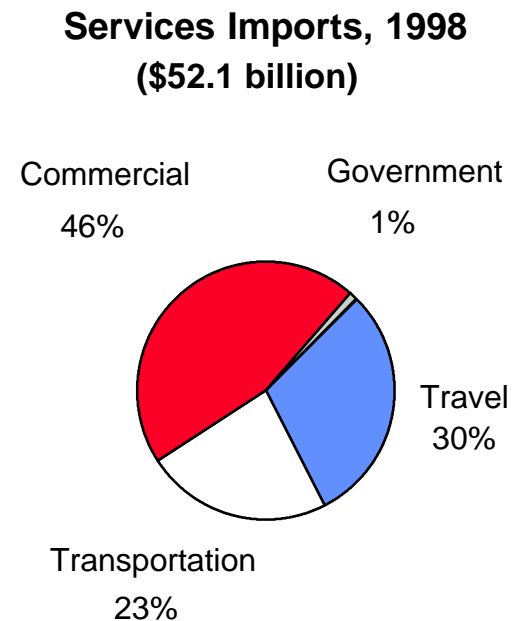


Source: Statistics Canada, Matrix 2360



## Commercial services also account for a large portion of services imports...

- Commercial services accounted for \$24 billion, or 46% of total services imports.
- This is also higher than the worldwide average of 43%.

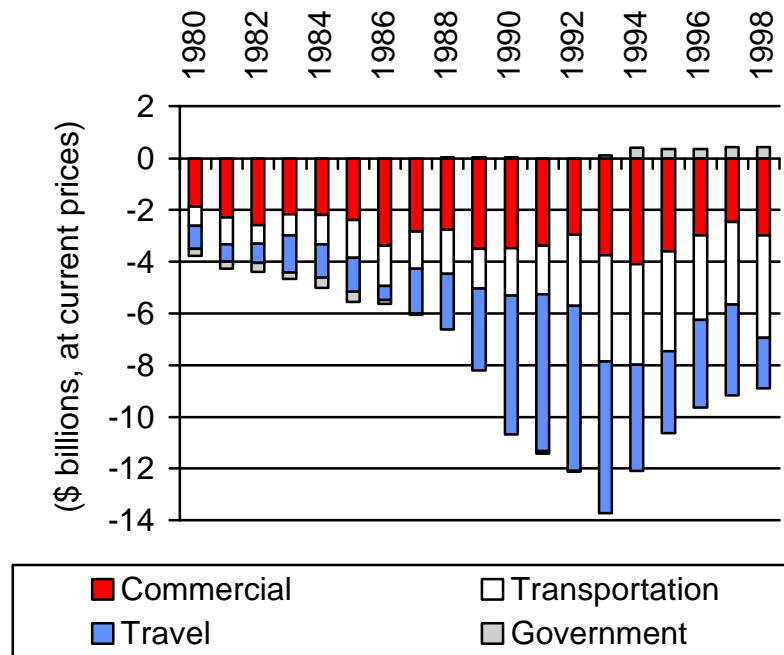


Source: Statistics Canada, Matrix 2360

# Commercial services and travel experienced reductions in their trade deficit...

- Travel experienced the greatest reduction in trade deficit between 1993 and 1998; this was due to a greater inflow of visitors to Canada.
- Commercial services also experienced a reduction in their trade deficit, accounting for 15% of the overall reduction in services trade deficit.

**Services Trade Balance, by category**



Source: Statistics Canada, Matrix 2360

## **2. Focus on Commercial Services**

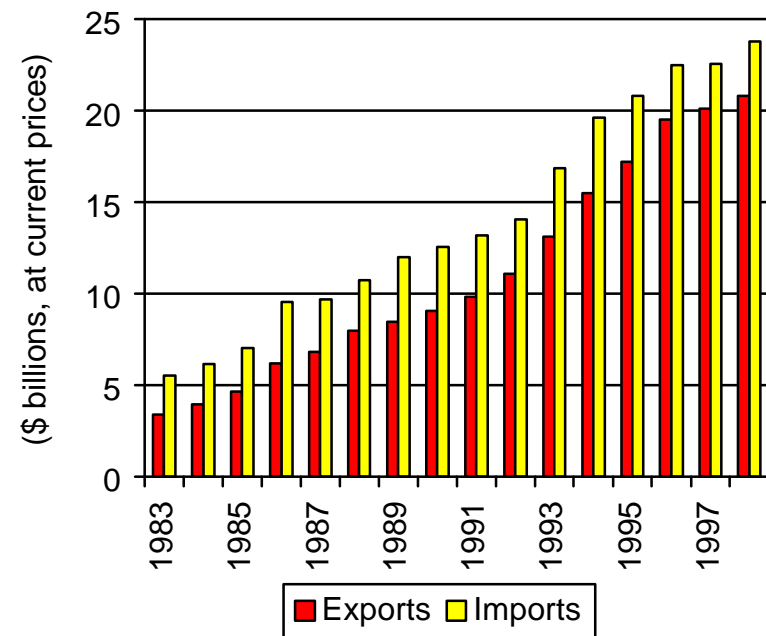
## **Commercial services have been leading Canada's exports growth during the 1990s...**

- Commercial services play a key role in Canada's success on international markets, as they account for nearly half of Canada's international trade in services.
- This importance will be reinforced by trends like globalization and advances in information and communications technologies that increase the tradeability of commercial services.
- These services include communications, construction, insurance and other financial services, computer and information services, royalties and licence fees, non-financial commissions, equipment rentals, advertising and related services, research and development services, architectural, engineering and other technical services, miscellaneous services to business, audio-visual services, and personal, cultural and recreational services (see Statistics Canada, catalogue 67-203).

## Trade in commercial services has surged in recent years...

- In 1998, Canadian service firms exported \$21 billion worth of commercial services.
- Commercial services imports totalled \$24 billion.
- Commercial services exports and imports exhibited strong growth in the 1983-1998 period with average annual rates of 12.9% and 10.2% respectively.

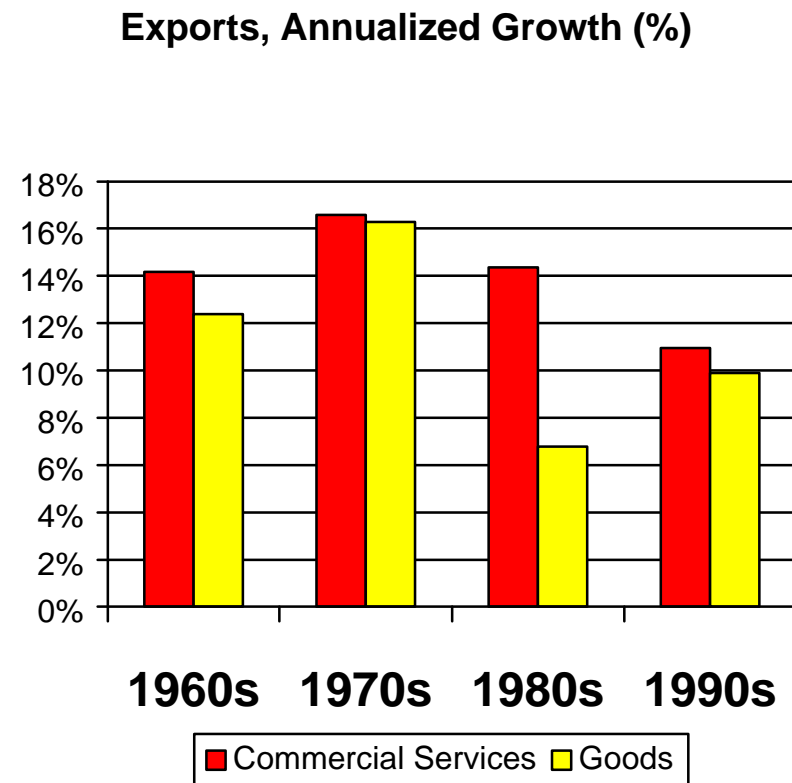
Trade in Commercial Services,  
1983-1998



Source: Statistics Canada, Matrix 2360

## Commercial services exports have been growing at a healthy rate for the past few decades...

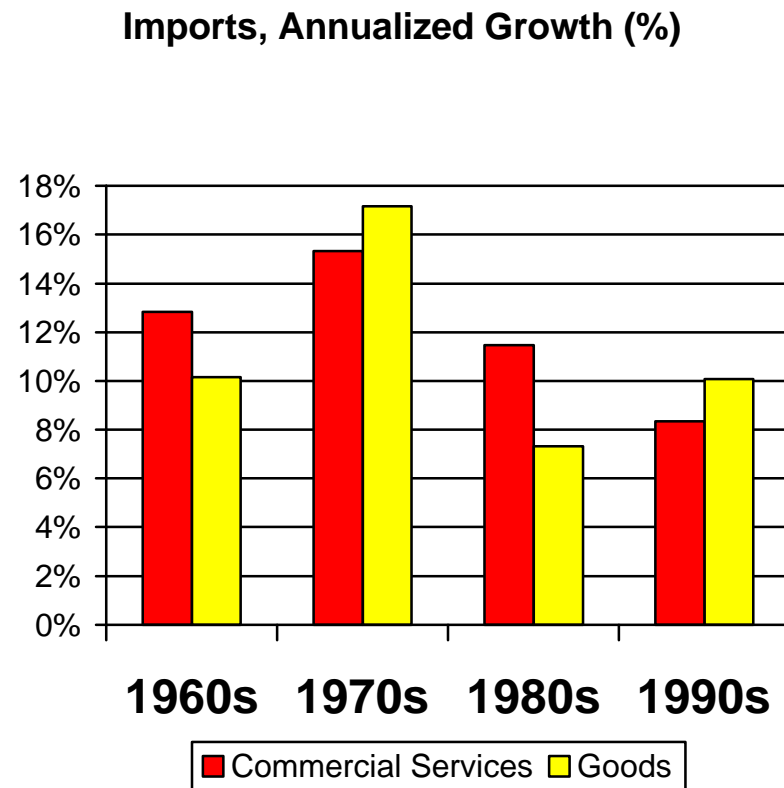
- Average commercial services exports growth has been higher than that of goods exports since the 1960s.
- During the 1980s, commercial services exports grew twice as quickly as goods exports.
- In the 1990-1998 period, commercial services exports also grew faster than goods exports.



Source: Statistics Canada, Matrix 2360

## Commercial services imports average growth has been decreasing for the past three decades...

- Commercial services imports grew at a stronger rate than goods imports during the 1970s and 1980s.
- This trend has been reversed in the 1990s.
- The Canadian financial sector lead this growth in recent years, in particular in regard to reinsurance services.
- Commercial services represent a valuable infusion of technological expertise in the Canadian economy.

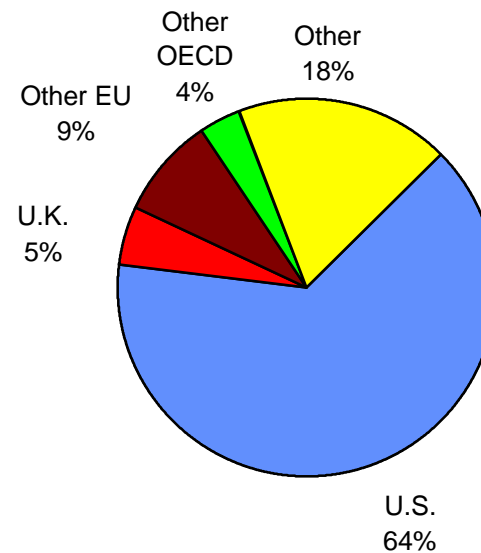


Source: Statistics Canada, Matrix 2360

## Canada's trade in commercial services is more diversified by country than its trade in goods...

- About two thirds (64%) of commercial services exports are to the United States market while this proportion is 84% for goods exports.
- Major exports to the U.S. include: insurance, miscellaneous business services (including tooling), communications, research & development services, and computer services.

**Commercial Services Exports  
Trading Partners, 1998**

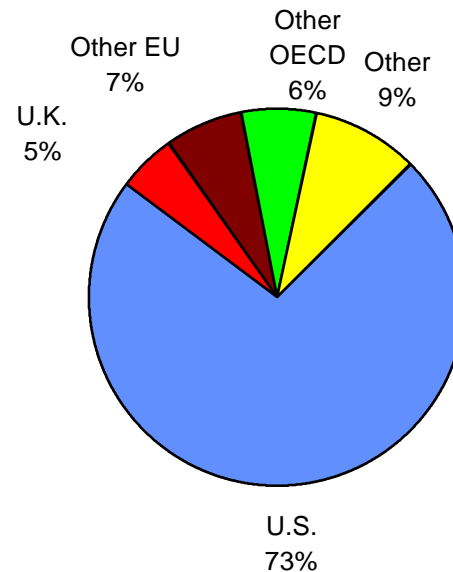




# Nearly three quarters of commercial services imports are from the United States...

- U.S. share in commercial services imports has been around 73% for the past 10 years.
- This is close to the 77% share for goods imports.
- This share is largely due to trade with head offices located in the U.S.
- Major imports from the U.S. include: royalties & licence fees, tooling services, insurance and management services.

**Commercial Services Imports  
Trading Partners, 1998**

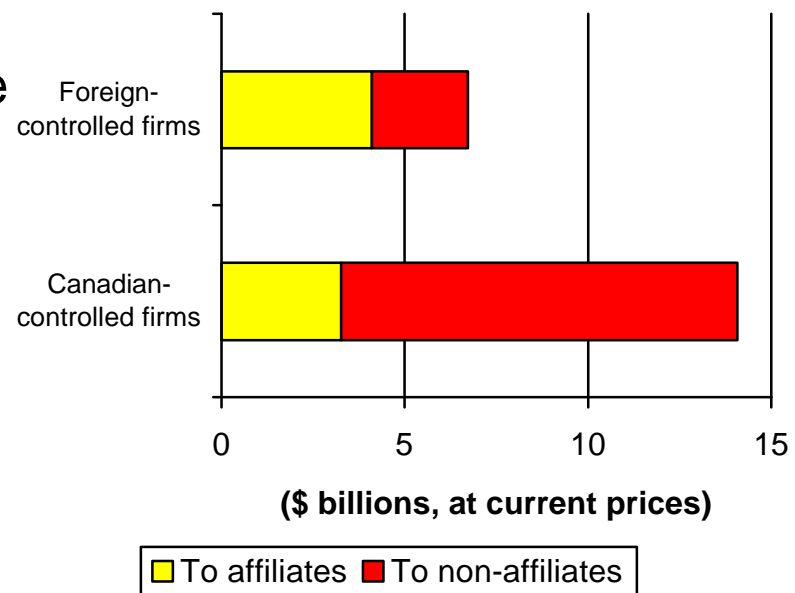


Source: Statistics Canada, Matrices 2360 to 2367

## Canadian-controlled service firms have successfully penetrated new markets...

- Canadian-controlled firms account for 68% of Canada's commercial services exports.
- They must aggressively pursue international markets due to the relatively small size of the Canadian domestic market.
- As a result, most of their international clients are non-affiliates (75%).
- An increasing number of export-ready Canadian service firms will contribute to further diversifying trading partners.

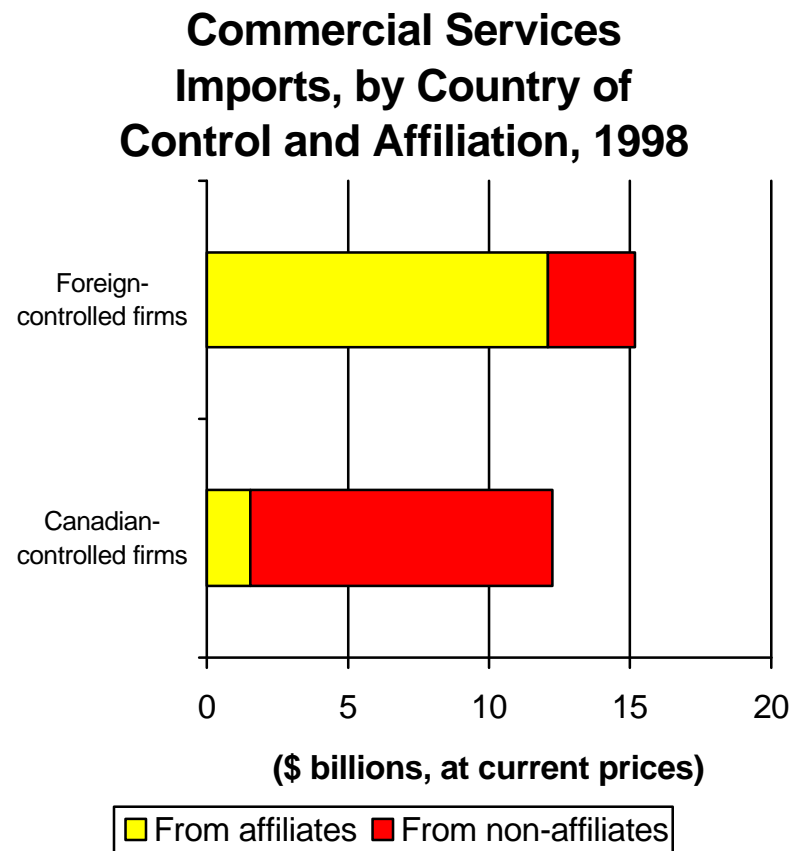
**Commercial Services Exports, by Country of Control and Affiliation, 1998**



Source: Statistics Canada, Catalogue 67-203

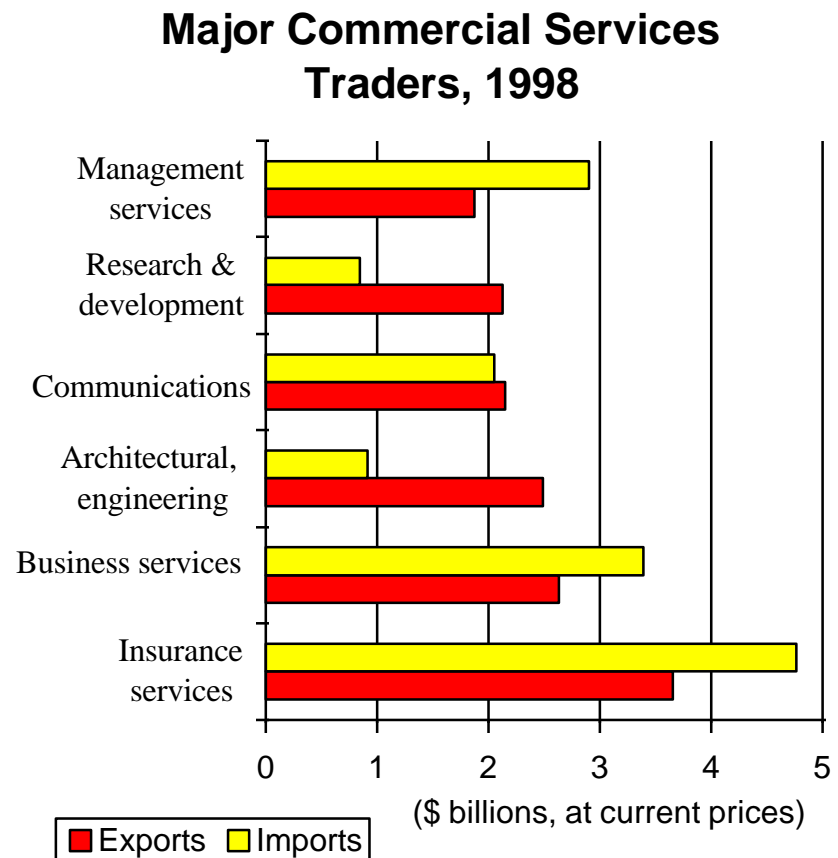
## Half of commercial services imports are from foreign-controlled firms importing from their affiliates...

- Foreign-controlled firms account for 55% of Canada's commercial services imports.
- Most of their imports (80%) are from affiliates or parent companies.
- They mainly consist of tooling charges, management services, and royalties and licence fees.



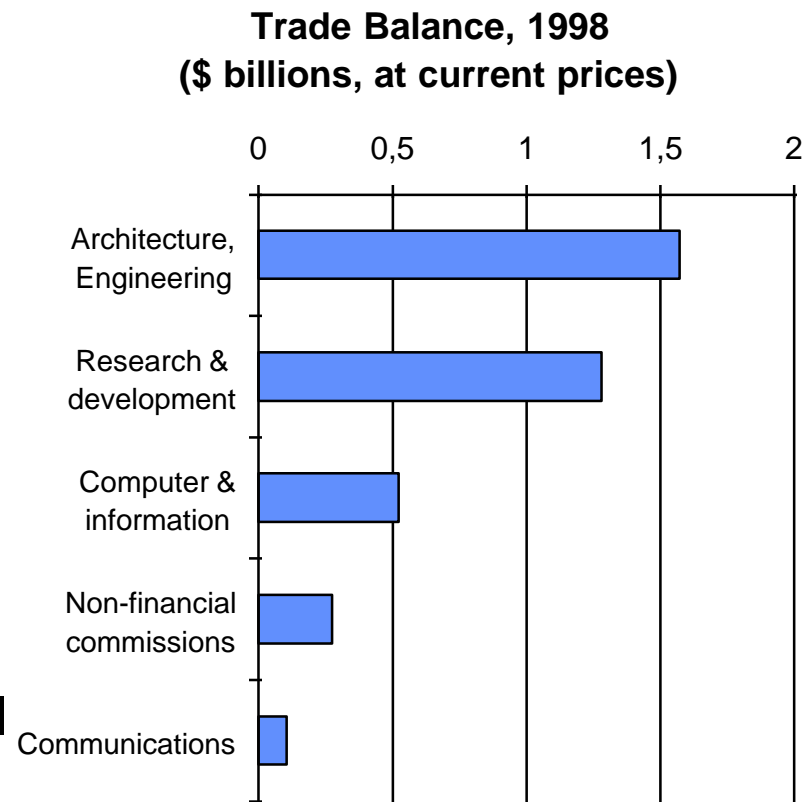
# Canada's openness to trade allows for large inflows and outflows of commercial services...

- The 6 leading commercial services in terms of exports account for 72% of total commercial service exports and 63% of imports.
- They also exhibit strong export growth: for example, the annual average growth in the 1990s is 21% for architectural and engineering services and 15% for R&D services.
- For a complete list of services, see appendix.



## Exporters of commercial services have a long history of success on international markets...

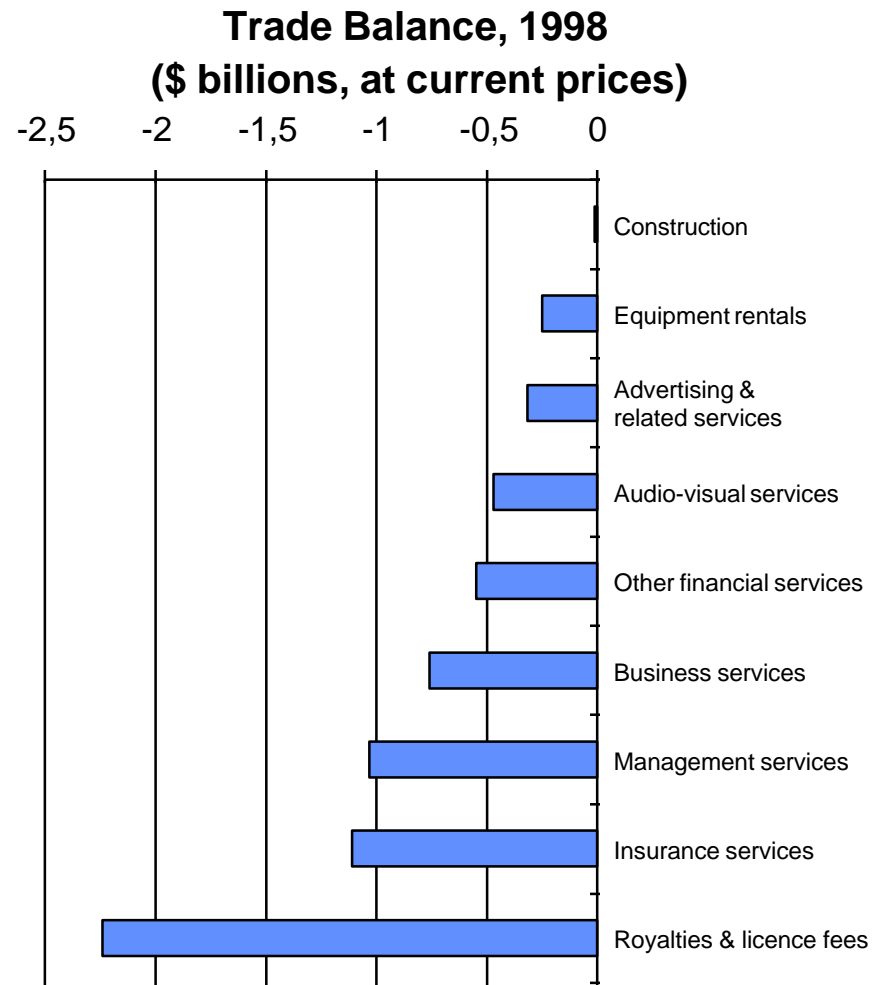
- Architectural, engineering & other technical services, R&D services, and computer & information services have been enjoying trade surpluses since the 1980s.
- More and more services are experiencing positive trade balances; for example legal services, business services (other than tooling), communications, non-financial communications and personal, cultural and recreational services.



Source: Statistics Canada, Matrices 3182-3183

# Commercial services imports help boost the competitiveness of Canadian firms...

- Royalties & licence fees experienced the largest deficit due to strong imports of patents and software.
- This access to the latest technologies and intellectual property increases the competitiveness of Canadian firms.
- The export success of all Canadian firms (goods and services) often drives the importation of services associated with these activities, such as advertising and insurance services.



Source: Statistics Canada, Matrices 3182-3183

# 3. Trade Team Canada

Service Industries and Capital Projects

## **Trade Team Canada Service Industries & Capital Projects (TTC-SICP)...**

- Is dedicated to capturing a larger share of the growing exports activity related to both hard and soft infrastructure projects on world markets.
- Brings government and industry together to plan joint international business development initiatives by:
  - developing information and intelligence products
  - promoting alliances to target international opportunities
  - pursuing projects financed by international financial institutions, such as the World Bank
  - championing action on the public-private infrastructure market



## **TTC-SICP will initially target the following 11 commercial service industries...**

- Architects
- Consulting Engineers
- Construction Contractors
- Developers
- Project Financiers
- Design
- Education and Training
- Trading Houses
- Geomatics
- Legal Services
- Management Consulting

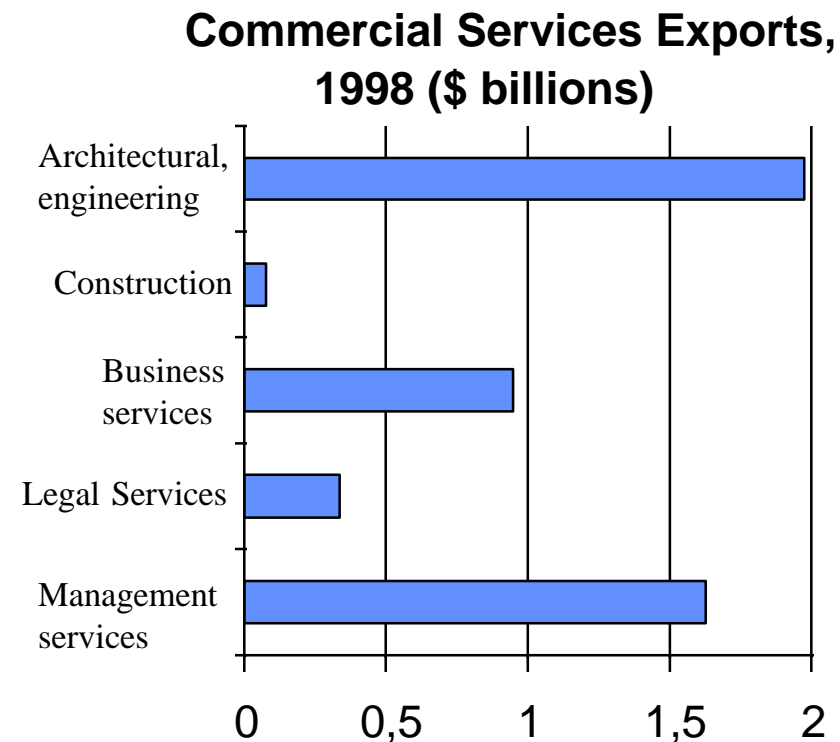
## **Statistics Canada reports international trade statistics for the following industries...**

- Architectural and Engineering Services and Other Technical Services (includes architects, consulting engineers and geomatics)
- Construction (includes construction contractors)
- Miscellaneous Business Services (includes education and training)
- Legal Services (includes legal services)
- Management Services (includes management consulting)

Note: At this detailed level, the latest available data is for 1997.

## These industries export large amounts of high value-added services to international markets...

- Together, these industries exported \$5 billion worth of services.
- Exports by these industries have been growing at an average annual rate of 13.6% in the 1990s.
- These are high value-added services, which creates jobs and growth in the Canadian economy.

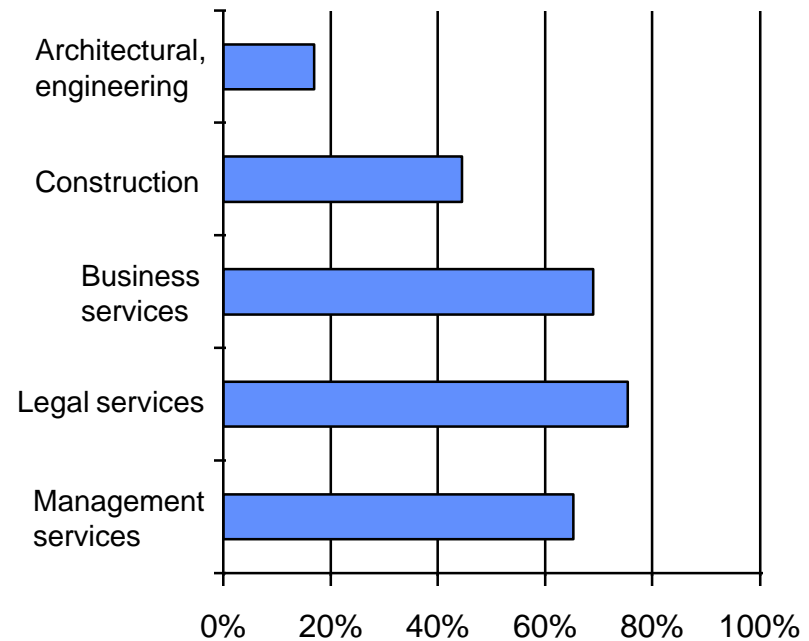


Source: Statistics Canada, Catalogue 67-203

## These industries actively pursue international markets outside of the U.S....

- Countries other than the U.S. account for 54% of exports of these services.
- Firms in these industries realize the potential of foreign markets outside the U.S., especially architectural and engineering services firms.
- They have successfully penetrated foreign markets and there is still potential for growth in the U.S.

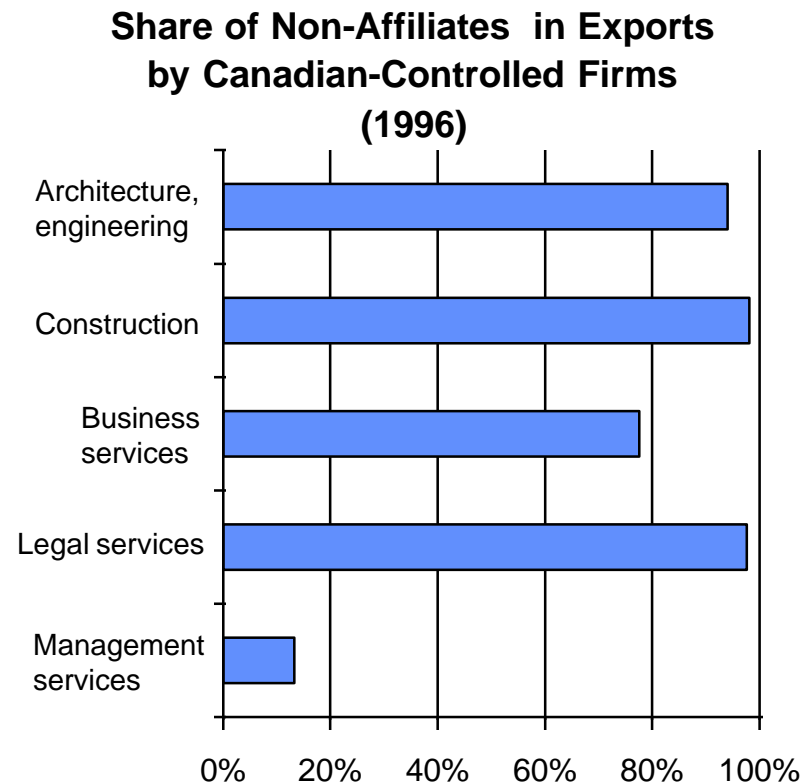
Share of U.S. in Exports Markets  
(1997)



Source: Statistics Canada, Catalogue 67-203

## Canadian-controlled firms deal mainly with unaffiliated clients...

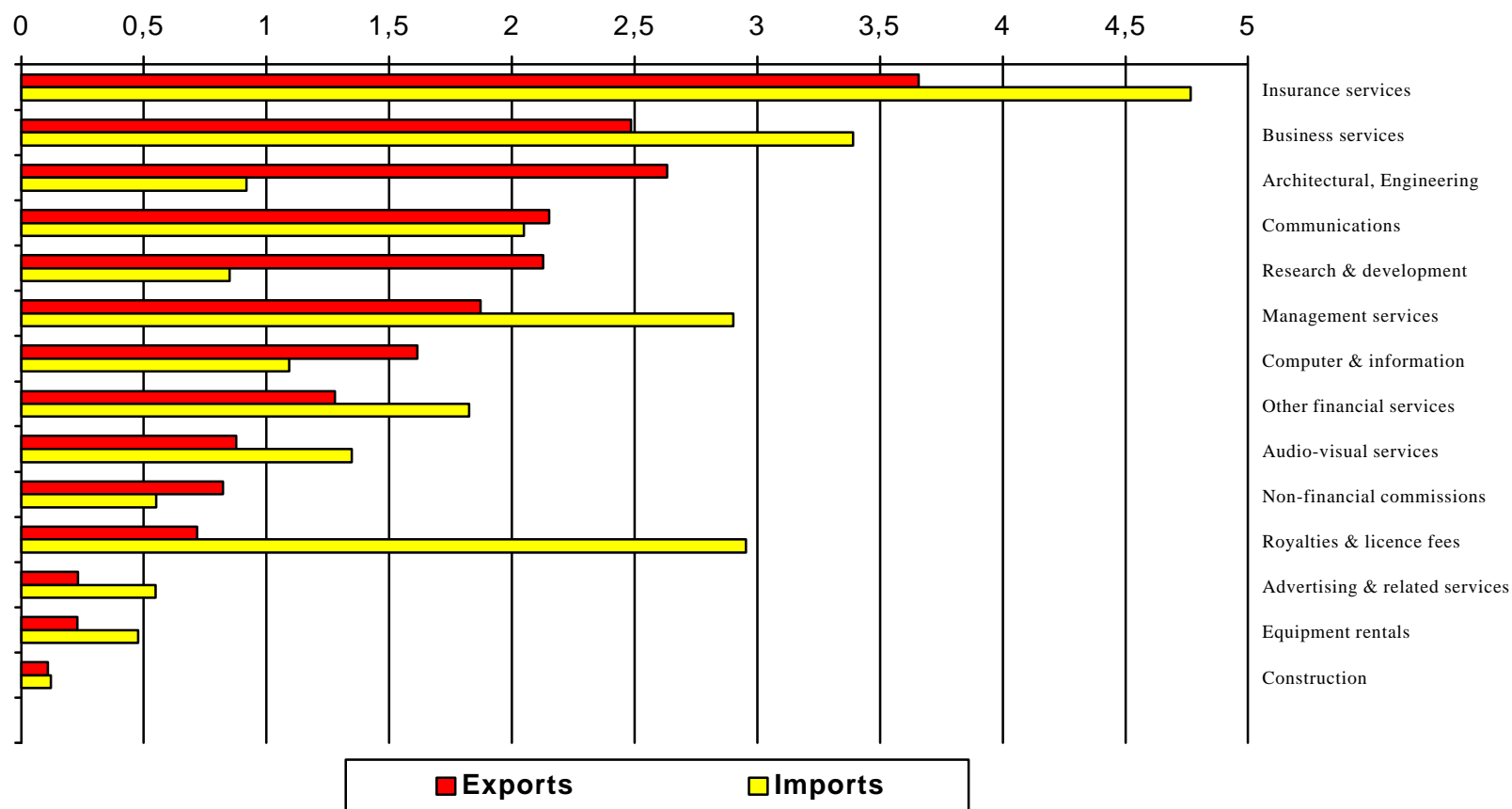
- Nearly 70% of exports by Canadian-controlled firms in these industries are destined to unrelated parties abroad.
- Management services are the exception with a proportion of non-affiliated clients of 13.2%.



Source: Statistics Canada, Catalogue 67-203

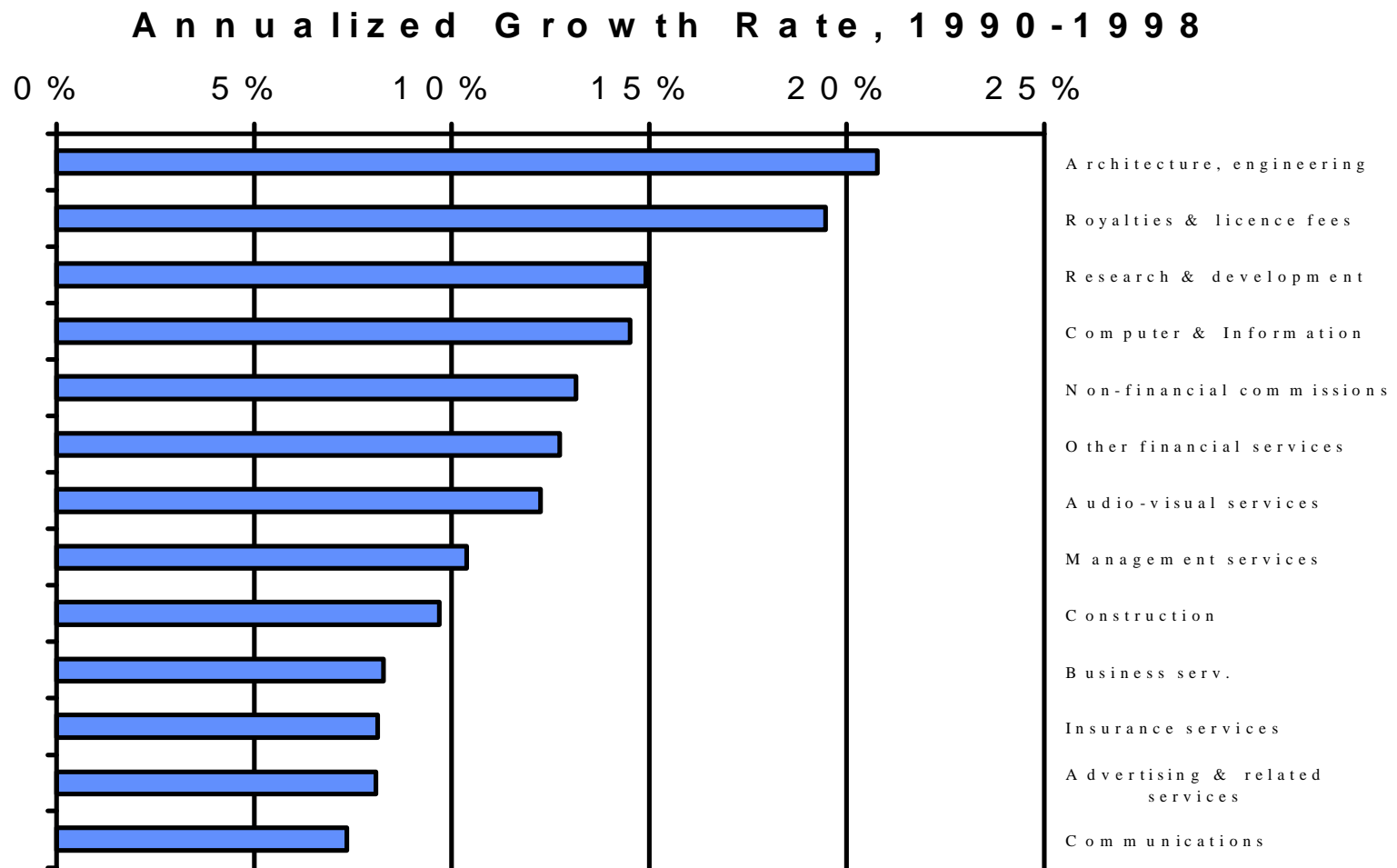
# Appendix

# Commercial services exports and imports in 1998, by category (\$ billions, at current prices)



Source: Statistics Canada, Matrices 3182-3183.

# Commercial services exports growth rates in the 1990s...



Source: Statistics Canada, Matrices 3182-3183