

International Commerce In Services Produces B.C.'s Only Trade Surplus

Statistical Note: Trade statistics used in this report are compiled on a 'balance of payments basis', as opposed to 'customs basis'. Customs basis trade statistics are more widely used for keeping track of developments in international trade, and are published monthly in tables attached to this statistical release. However they do not include estimates of service trade, whereas balance of payments statistics do.

Balance of payments basis data used in this article have been drawn from two separate sources, provincial economic accounts and input output accounts. Both are maintained by Statistics Canada with annual data for years up to and including 1998. There are differences between statistics obtained from these two series, but none that are significant to the economic analysis presented here. All estimates of value or percentage growth are drawn from the provincial economic accounts and are based on constant 1992 dollars.

One of Four Components of Trade

The external trade of British Columbia or any other province can be grouped in four main components, each producing a separate balance of trade:

- goods trade with other countries
- service trade with other countries
- goods trade with other provinces
- service trade with other provinces.

In all but one of these British Columbia has been running deficits in recent years. Only in the exchange of services with international trading partners does British Columbia still maintain a positive trade balance, with the value of exports greater than the value of imports. Through most of the 1990s up to 1998, these surpluses have been rising.

Service exports include activities ultimately paid for by individuals or organisations resident outside the province. These may

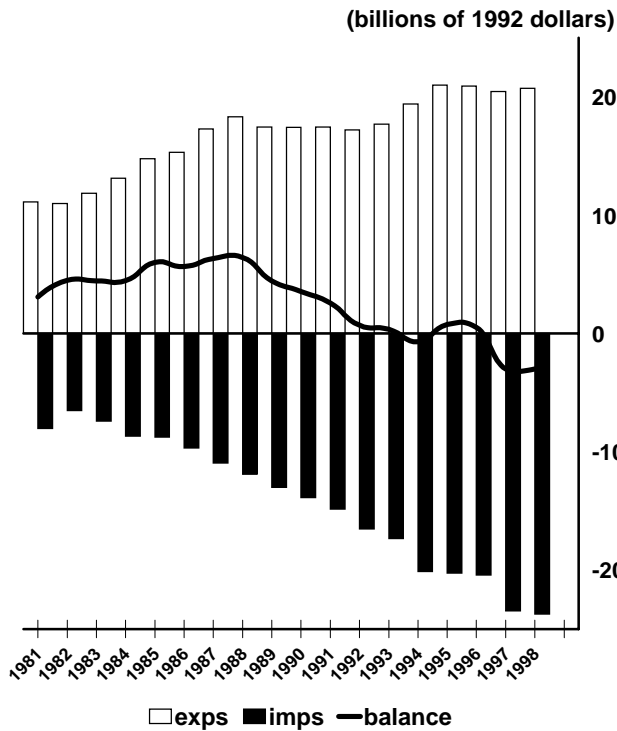
take place abroad, elsewhere in Canada or within British Columbia itself. It is not where the service is provided that matters, but that the service is purchased by someone who is not a resident of British Columbia.

Services performed outside the province could include a British Columbia mining engineer working in South America to develop a foreign owned mine, or a British Columbia university operating a language school in Asia.

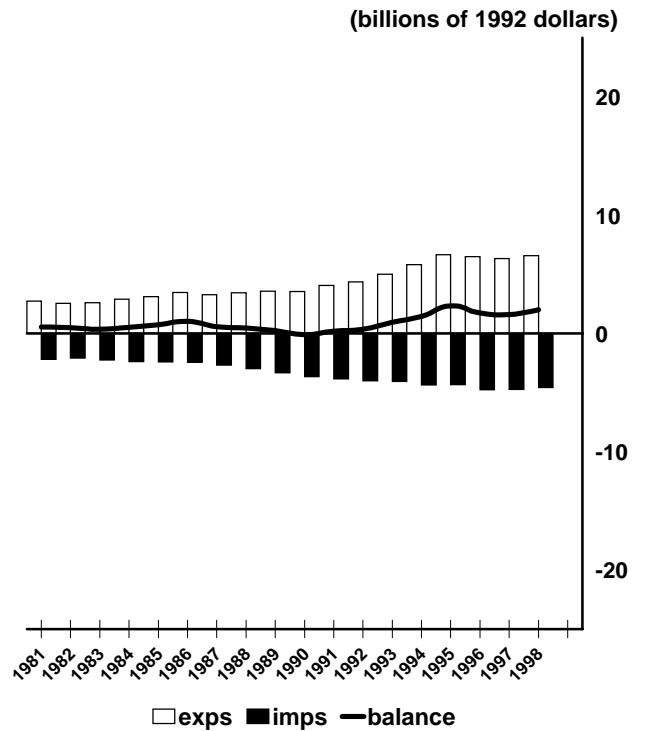
Services performed within the province include, for example, transportation and storage of goods belonging to people who are not British Columbia residents. Service exports take place when prairie wheat or Ontario machinery is shipped via British Columbia to China or Japanese cars are moved through on their way east. Other services performed in British Columbia for non-resident customers include providing accommodation, travel, and entertainment, for tourists, language education for Asian students, or technical support for American film producers.

Technological development has created new opportunities for service trade across borders. For example, services offered through the internet now include wholesaling, retailing, accounting, translation, and consulting, among others. Innovative uses of the internet have accounted for at least some of the recent increase in service trade. Another factor has been rising demand for transportation and related services to support the rapid expansion of world merchandise trade that is passing through British Columbia ports.

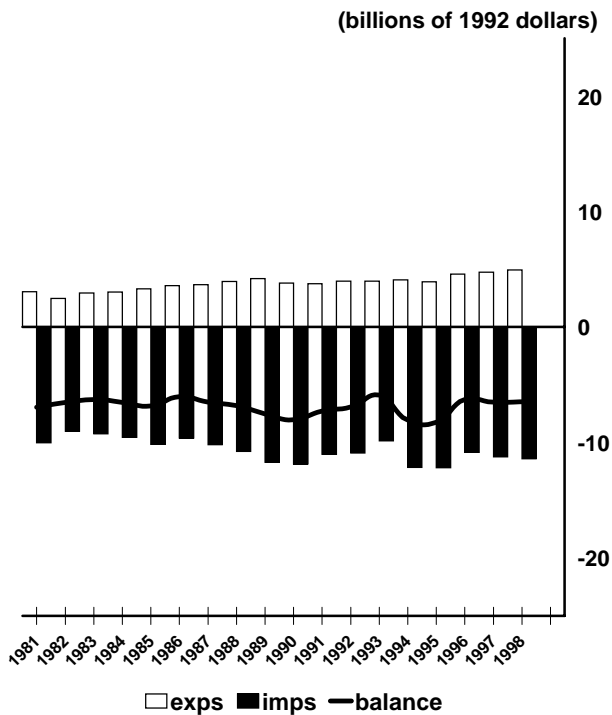
B.C. International Merchandise Trade



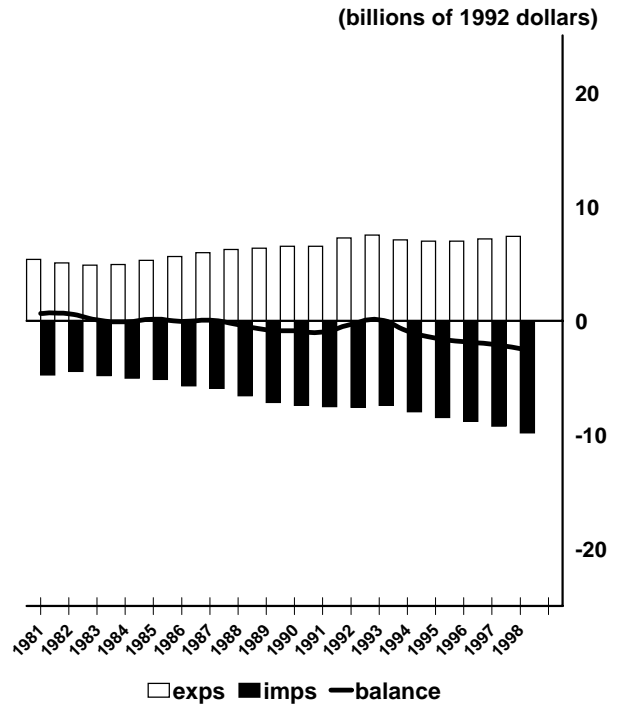
B.C. International Service Trade



B.C. Interprovincial Merchandise Trade



B.C. Interprovincial Service Trade



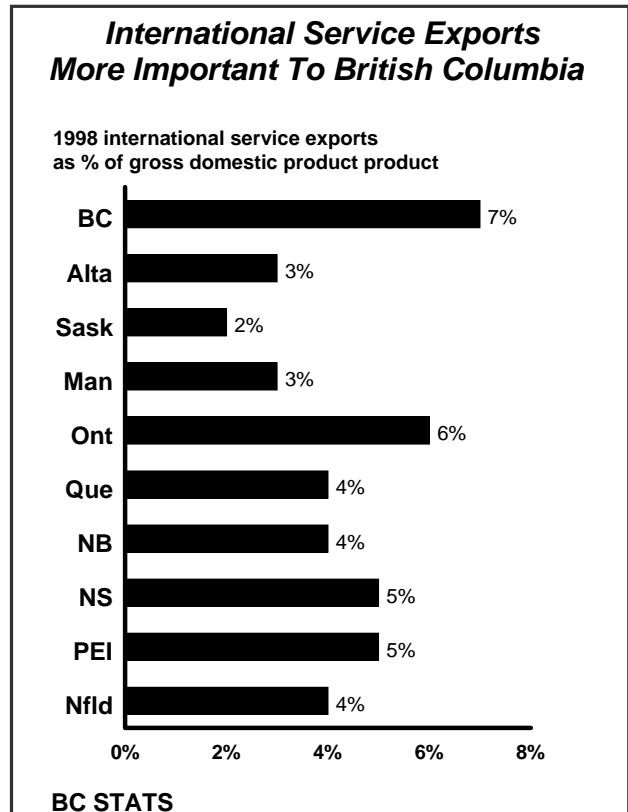
International Service Exports Growing Fast

Service industries have been growing faster than manufacturing industries in British Columbia, so perhaps it should not be surprising that international exports of services have been growing faster than exports of merchandise products. Services now account for almost one out of every four export dollars the province earns in international markets.

In terms of the economy as a whole, international service exports grew from 4 per cent of provincial gross domestic product in 1990, to 7 per cent in 1998. The 1998 ratio was the highest for any province, indicating that British Columbia has come to rely more on international service exports than the rest of Canada.

Although service exports have been rising fast, they still have a long way to go before they can match international merchandise exports. These amounted to three times the value of service exports in 1998.

British Columbia's geographic location is the basis for much of its service exports – both international and interprovincial. Occupying the entire Pacific coast of Canada, British Columbia is guaranteed a substantial market for transportation and tourism services because much of the merchandise traffic moving between Canada and its Pacific trading partners must pass through the province's rail, sea and air facilities.



Expanding Pacific Rim trade has naturally benefited British Columbia's service exporting industries as well as its exporters of resource and manufactured goods. As Canadian trade with Asia grew rapidly through the first half of the 1990s, it stimulated rapid growth in British Columbia's transportation sector. Rail facilities were improved and expanded. New facilities and improvements at the Port of Vancouver established it as the leading port for west-bound cargo from North America. Both passenger and cargo facilities were expanded at Vancouver International Airport, establishing it as a major hub for passenger and freight traffic between North America and Asia.

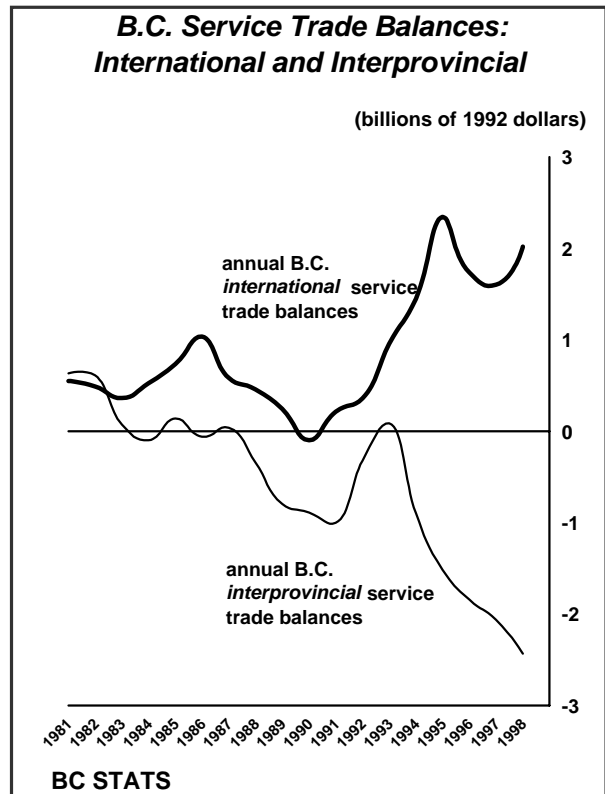
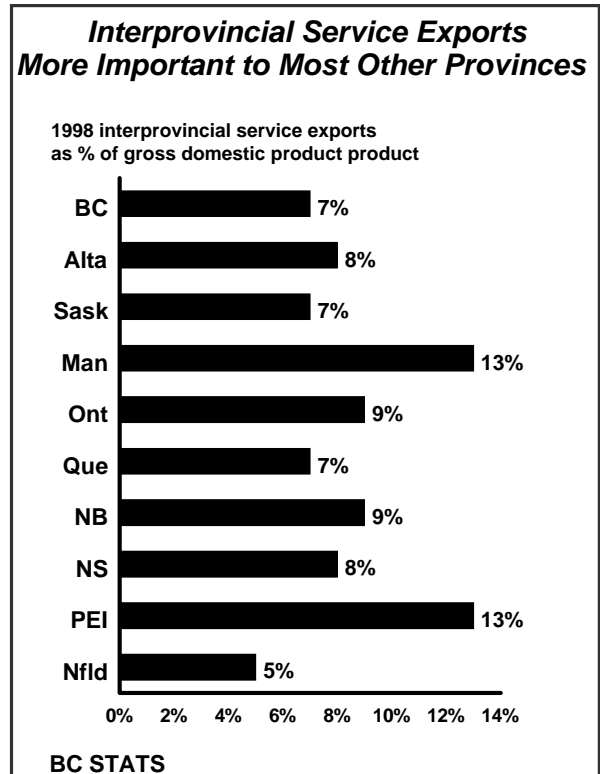
These developments confirmed freight transportation and storage services as the largest component of the province's international service exports in 1998, amounting to 39 per cent of the total. Accommodation and food services accounted for another 15 per cent.

International Service Trade Surpluses Cancelled Out By Deficits For Interprovincial Trade

During most of the 1990s, as British Columbia's balances for international service trade were climbing, its balances for interprovincial service trade were falling. Service trade with other provinces was more or less balanced through the 1980s and into the early 1990s. But after 1993 British Columbia began to experience persistent and growing deficits. These grew at a pace slightly exceeding growth in surpluses for service trade with international partners. The result has been a shift in British Columbia's overall service trade balances (interprovincial plus international) into the negative for the period from 1996 through 1998.

As with its international service trade, British Columbia's west coast location has ensured that the province is a net exporter of transportation and storage services to the rest of Canada. Indeed, transportation, storage and communication activities accounted for 23 per cent of all British Columbia 1998 exports to other provinces – including both goods and services.

But British Columbia has done less well in exporting other types of services to the rest of Canada. It has become a net importer of administration and domestic distribution services.



Service imports from the rest of Canada have been largely in business finance and wholesale distribution categories. Twenty per cent are classified as finance, insurance and real estate services. Another 20 per cent are wholesaling margins - the fees wholesale distributors charge for handling goods destined to be consumed in British Columbia.

Corporate concentration on a national and regional basis has been one reason that overall imports of services from other provinces have grown faster than exports to them.

When companies operating in British Columbia are headquartered elsewhere in Canada, the province effectively becomes an importer of corporate head office services. Similarly, the province becomes an

importer of services when a national call centre is located in New Brunswick, or a regional warehouse and repair facility for western Canada is located in Edmonton.

As corporate service functions are being consolidated, competition has increased between provinces and U.S. states to attract centralised service facilities. British Columbia's far western geographic location may have been something of a handicap in this competition. Location is certainly far from being the only factor. But, to the extent that companies prefer to locate head offices and corporate service centres near to the geographic centre of western Canada, British Columbia's Pacific gateway location has likely been a mixed blessing for its service trade with the rest of Canada.