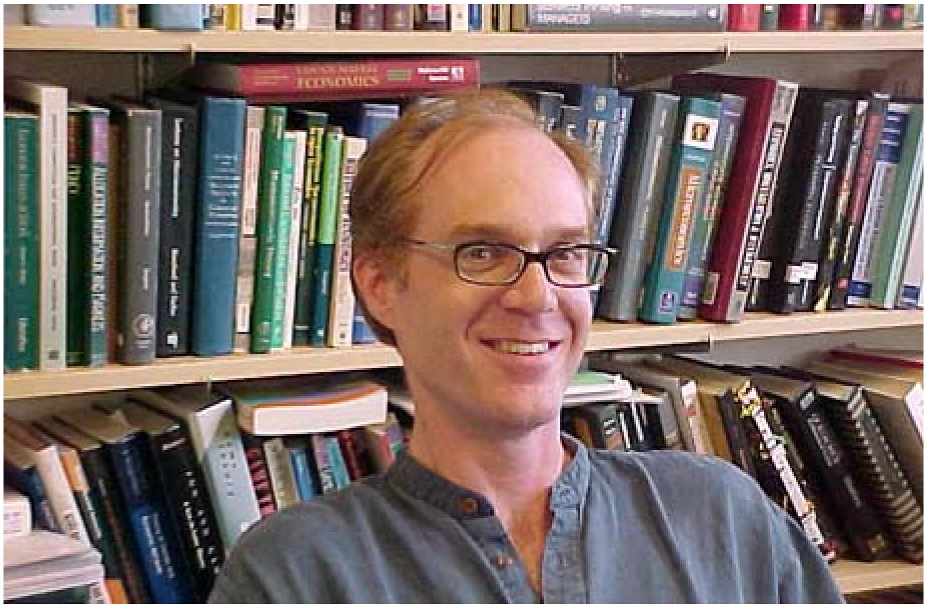
Comment: Situating B.C. in the global economy

BY JEN BAGGS, DAVID SCOONES AND GRAHAM VOSS, SPECIAL TO THE SUN JUNE 16, 2009



David Scoones, associate professor and chair of the department of economics at the University of Victoria.
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British Columbia is a small, open economy that is increasingly integrated with North American and global markets. This paper examines B.C.'s setting in a global context and explores some of the related challenges and opportunities.

Although the province is a sub-national jurisdiction, B.C. is the 57th largest economy in the world, which places it in the top 30 per cent of all countries. Given this ranking, it makes sense to talk about B.C. as a significant-sized economy in a global context, but it is also instructive to remember that it accounts for just one per cent of all economic activity in North America.

A brief review of the province's economic record finds that B.C. outperformed Canada over the past five years, but that over the past decade its average growth was slightly below that of Canada. In terms of industrial structure, resources are still critical to B.C.'s exports and overall prosperity, but the province is not a resource-dependent jurisdiction; it is fairly diversified and comparable to most other developed economies. A notable feature of the recent boom, however, is the large role played by the highly cyclical construction and real estate sectors.

The paper highlights three important linkages: trade, investment and the workforce.

Amid the rapid growth of global trade, B.C.'s imports and exports have grown quickly over the past quarter century. Despite this, a weak spot for the province is that it is less trade-intensive than other parts of Canada and has developed a sizable structural trade deficit.

With the still dominant role of resources in its export base, the province is probably not as engaged in global supply chains as other parts of Canada. Most B.C. exports are intermediate inputs in other markets, while imported goods appear to be mainly finished products acquired by local consumers and businesses. This trade structure reduces the potential for productivity improvements and cost reductions associated with purchasing intermediate foreign inputs.

On the other hand, this trade structure means that B.C.'s exports are less import dependent than exports from most other provinces. The advantage is that more inputs are sourced locally, which creates more value-added within the province. The disadvantage of having limited imports inputs in the local production process is that it leaves B.C.'s key export sectors somewhat more exposed to currency fluctuations.

Not surprisingly, the United States remains B.C.'s largest export market, followed by Japan and China. The share of exports destined for the U.S., however, has dwindled over the years in step with the rise of China and other Asian economies. Recently, the fall-off in exports to the U.S. reflects a dramatic decline in lumber exports stemming from the collapse in U.S. home construction. Still, the growing trade relationship with Asia, coupled with Asia's increasing presence in the global economy, suggests that B.C. has much to gain from Asia Pacific trade initiatives.

As B.C. is a relatively small, trade dependent economy, a critical role for public policy is to minimize any impediments to local firms participating in global markets and to ensure that the commercial environment across all industries is conducive to an outward focus.

Capital investment provides the foundation for both economic growth and productivity gains. British Columbia exhibits a comparatively low level of investment spending on machinery and equipment, which is worrisome in the light of strong evidence that this form of investment produces a high rate of social return. A pattern of weak performance on business R&D expenditures also emerges from a review of the evidence. The high concentration of head offices in Ontario and Quebec and the weakness of B.C.'s large corporate sector is no doubt part of the explanation.

Expanding the perspective on investment, the paper explores B.C.'s dependency on external sources of capital. That the domestic savings rate has been negative for several years shows that B.C. residents in aggregate are not providing resources for investment in the province.

The result is that B.C. is very dependent on external sources of investment, which underlines the importance of having appropriate tax, regulatory, and land use policies that balance social and economic prosperity. Data on investment by foreign-controlled firms suggest that B.C. attracts a smaller than proportionate share of the foreign investment destined for Canada. Over 90 per cent of capital expenditures in B.C. come from Canadian-controlled firms. The implication is that there may be an opportunity to attract greater amounts of foreign investment.

The demographic outlook for B.C. is challenging. The population and workforce will continue to age. Fortunately, B.C. has some advantages, including a diverse economic base, a high living standard and a skilled workforce, all of which should help to attract long-term employers and their employees to the region. The paper argues, however, that there is a need to improve the apprenticeship system, citing concerns that shortages of skilled trades lower productivity, increase costs and slow capital investment.

Given B.C.'s location and the rapid development of Asia, B.C. will almost certainly see a continued expansion of its trading and investment relationship with the Asia-Pacific region. This has the potential to significantly enhance the well-being of British Columbians, but will require a strong presence by B.C. leaders engaged at the national level to ensure that these trade and investment linkages receive the attention they deserve. While international linkages are important, connections with the rest of Canada should not be overlooked. These relationships, for the most part, are unhindered by tariffs, regulations, cultural and language barriers, but more can be done to strengthen the Canadian economic union.

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This article is a summary of a paper that was presented at this week's B.C. Business Council Summit in Vancouver.

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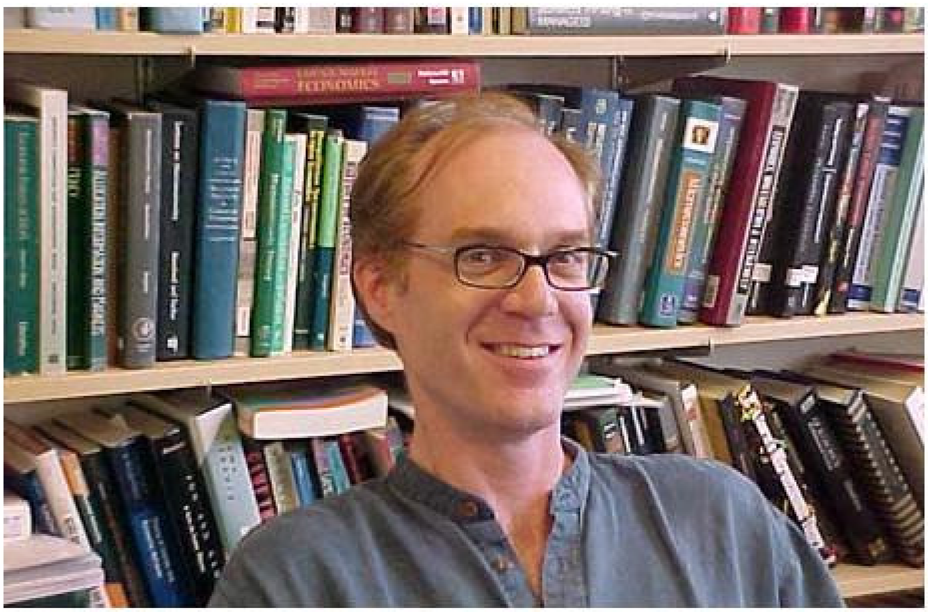

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