

POLICY PERSPECTIVES



VOLUME 24, ISSUE 2, MAY 2017

A CLOSER LOOK AT BC'S EXPORTS

HIGHLIGHTS

- Exports are the foundation of small open economies like BC and play an outsized role in increasing prosperity over the medium-term.
- BC's export base has become more diversified and resilient during the last two decades.
- Resources and related products still dominate BC's international merchandise exports, but impressive growth in the value and range of non-resource export has led to a more balanced and stable export picture.
- Shipping more goods to China has been a key factor in the ongoing diversification of BC's export markets.
- The province's biggest export gains, in percentage terms, have been in services, especially services sold to customers in other provinces.
- Contrary to widely held perceptions, Ontario and Quebec have developed diversified industrial export bases, not dissimilar to BC.
- Relative to the size of the economy, the export sector in BC is smaller than in most other provinces. The need to strengthen and grow the export base is a basic lens that should guide and inform BC government policy.

As a small market jurisdiction, exports of both goods and services are the foundation of the BC economy. Selling goods and services to other markets provides income from external sources, which in turn enables BC households and businesses to purchase and pay for a vast array of imports. Growing BC export-capable industries is critical to raising real incomes and boosting prosperity in the long term. For this reason, government policy should ensure that the province continues to be an attractive jurisdiction in which to invest capital as well as a place where exporters can effectively compete in North American and global markets.

BC has been fortunate with respect to the development of the "export economy." Because of the province's strong resource-orientation, merchandise exports tend to be cyclical, but over-time they have trended higher. At the same time, the province has become much more active in selling services to outside markets. This issue of Policy Perspectives takes a closer look at BC's exports. What follows is largely descriptive, outlining the goods and services that BC exports, our principal export markets, and how we compare with other provinces.

WHY EXPORTS MATTER

As a starting point, it is worth briefly noting why growing export-oriented industries is central to building a more prosperous economy and advancing living standards. Most fundamentally, exports generate a vital source of external income that helps finance the purchase of consumer goods as well as "inputs" that are used by companies operating in British Columbia. Accessing external markets allows local companies to grow larger than would be possible if they were confined to the domestic market. Many other economic benefits also flow from being able to export.

Consider the forest products sector, BC's number one source of exports. If it only sold its products within the province (or even just within Canada), the industry would be a small fraction of its current size, with only a handful of lumber mills scattered across the province, no pulp mills, and far fewer direct employees. By selling into external markets, BC forest products companies have been able to grow in size and take advantage of economies of scale. This has made large capital investments in mills and machinery and equipment worthwhile for the industry. Thanks to trade linkages and export sales, the BC forest products sector has become a multi-billion-dollar industry providing tens of thousands of jobs and hundreds of millions of direct and indirect revenues for governments. The forest sector also supports many other BC industries through purchases of locally-produced services, such as accounting, legal, transportation, environmental computer systems and technical services. The logging, lumber and pulp and paper industries also purchase machinery and equipment, energy products, construction and maintenance services from BC suppliers.

Just as a large plant supports many other businesses in a small resource

Although the consumption associated with the tourism experience happens within BC, conceptually tourism is an export sector since it involves an inflow of income from outside sources.

dependant community, conceptually exports provide something similar at the provincial level. In short, being able to export sustains jobs directly in the exporting industry as well as indirectly in a broad array of other industries. Exporting is also a powerful driver of productivity. To compete in the international marketplace, companies must provide quality products and services at competitive prices. As a result, export-oriented companies and industries tend to be at the higher end of the productivity scale – meaning they typically pay higher wages. In BC, the mining, forestry and pulp sectors have long offered some of the highest wages in the province.

EXPORT SECTORS

British Columbia's exports can be grouped into several broad categories. The largest and most significant economic contribution comes from exports of merchandise or goods. This segment captures numerous industries, with the preponderance of goods shipped to other jurisdictions still linked to BC's natural resource base. Exports can be further divided into international and interprovincial merchandise shipments. Because of their nature (tangible products physically shipped across borders), there is an abundance of data on merchandise exports to other countries, allowing for detailed review as well as comparisons with other provinces.

A second general category is exports of services. In contrast to merchandise exports, exports of services garner less attention, in part because they are not well documented and monitored but

also because they tend to be less visible. Statistics Canada provides estimates of international service exports and interprovincial service exports, but this is an aggregate measure with little detailed information. So for the most part individual provinces' service exports – including professional services such as engineering, legal, accounting, and financial, as well as scientific/technical services – are only reported in aggregate. Transportation services are also captured as an export, as are royalties from software, digital media and other forms of intellectual property that's produced locally and sold in outside markets.

Another category within the realm of tradable services is tourism. Although the consumption associated with the tourism experience happens within BC, conceptually tourism is an export sector since it involves an inflow of income from outside sources. Because of its size and economic importance, a fair amount of information is available on revenues and jobs linked to tourism. There are also official government estimates of "tourism GDP". Some of the activity related to tourism, such as travel services, is captured in the statistics on service exports. But other tourism expenditures, such as spending on food services or retail goods/services, will not show up as a direct BC "service export".

BC's film and television production industry is another mainly service-oriented export industry. As is the case with tourism, even though filming and other aspects of film production occur within BC, it is treated as an export industry because productions are often

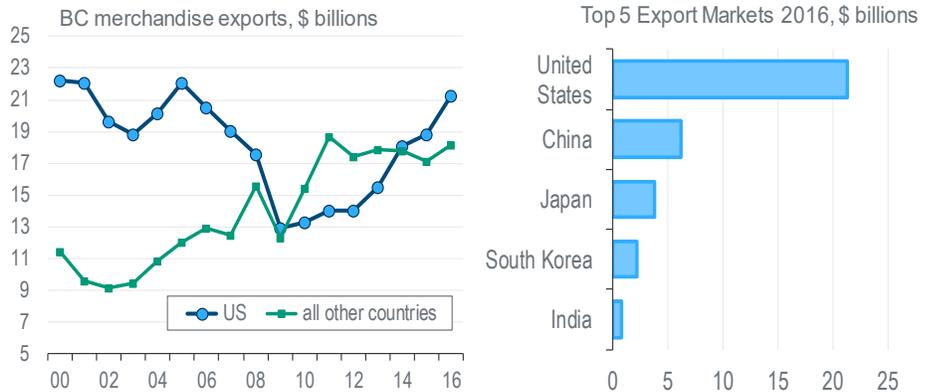
financed from external sources. The inflow of income from BC film and television production in effect is the same as income generated by selling products into foreign markets.

Finally, education services are another part of BC's export base. Students from other countries or provinces who come to study here bring with them an inflow of income to BC. This is an area where BC has been successful and there is more potential to expand.

**BC'S INTERNATIONAL
MERCHANDISE EXPORTS:
A DIVERSE INDUSTRIAL
PROFILE**

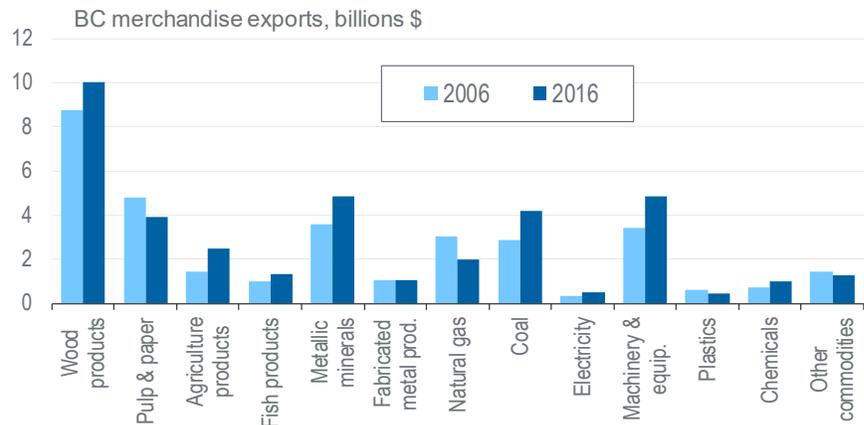
For nearly 15 years the value of BC's international merchandise exports hovered around the \$30 billion mark and never exceeded \$35 billion. In 2014 and 2015, BC's merchandise exports surpassed \$35 billion. With most segments growing and commodity prices strengthening, the total value of BC's merchandise exports then climbed to a record \$39.5 billion in 2016. The weaker loonie vis-à-vis the US dollar has made BC's exports more competitive, lifting the Canadian-dollar value of export sales to the United States. In fact, the devalued currency has been a major factor propelling BC's exports to new highs. Note, however, that owing to the earlier collapse of US home building and other fallout from the financial crisis and 2008-09 global recession, the value of BC's exports to the US fell sharply between 2006 and 2010 - and they are still below their earlier high water mark. In contrast, our exports to China have surged by 300% in the past decade, although the past few years have seen a slight dip. Meanwhile, BC's exports to India have risen by more than 130% in the past

FIGURE 1: EXPORTS TO THE US RISING



Source: BC Stats.

FIGURE 2: BC MERCHANDISE EXPORTS



Source: BC Stats.

ten years and are on track to surpass \$1 billion soon. Finally, BC's exports to Japan have been on a declining trend for many years.

Resources and related resource-related products still dominate BC's export profile and account for approximately 70 to 75% of all merchandise exports. Although forest products and mining are still big parts of BC's international merchandise export base, expansion in other sectors has resulted in a more diverse and resilient export base. Exports of

agriculture products have registered the strongest gain, rising by 75% over the past ten years, with much of the increase coming in the past five years and coinciding with the decline in the value of the loonie. Chemicals and chemical products and machinery and equipment have also recorded solid export growth.

GROWING DIVERSITY

Some insight into the diversity of BC's merchandise exports can be gleaned by examining the largest export

commodities judged against the makeup of total merchandise exports and drawing comparisons with other provinces.

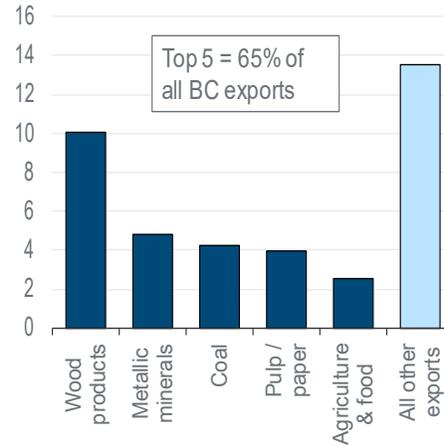
In BC, the top five export commodity categories accounted for two-thirds of all international merchandise exports in 2016. While this a significant proportion, the concentration of exports across a small number of product categories is actually more pronounced in most other provinces. In Alberta, for example, the top five commodity exports made up 89% of all international merchandise exports, with oil and gas being by far the dominant industry. In Saskatchewan, fully 97% of all merchandise exports come from just five product categories. With 71% of exports coming from its top five exports, Manitoba is closer to BC, but in Manitoba's case a single industry - agriculture - has a disproportionately large role in the export base.

British Columbia is often portrayed as the province with the most diverse export sector. But the export base of Quebec and Ontario is also fairly diversified. Notably in Quebec, the top five merchandise export categories account for just 54% of total exports and no single category stands out as a dominant export sector. This diversity is further underscored by the fact that the remaining value of "all other exports" shown in the accompanying figure for Quebec is far larger than any of its top five export industries (the same is true for Nova Scotia; the "other" category is also substantial in Ontario).

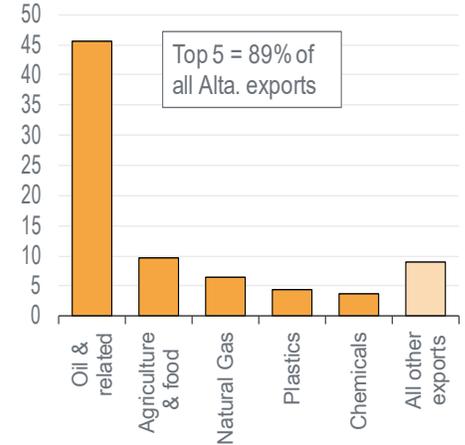
Another dimension of diversity is the degree to which the United States serves as the leading export market for a province. Last year, 54% of BC's merchandise exports

FIGURE 3: TOP 5 MERCHANDISE EXPORT CATEGORIES BY PROVINCES 2016, BILLIONS \$

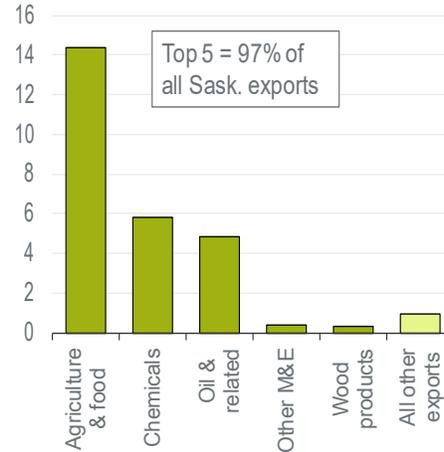
BRITISH COLUMBIA



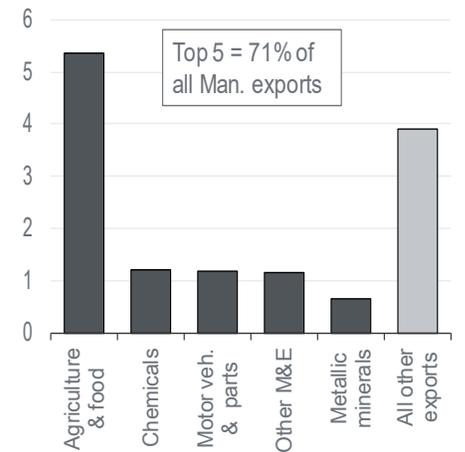
ALBERTA



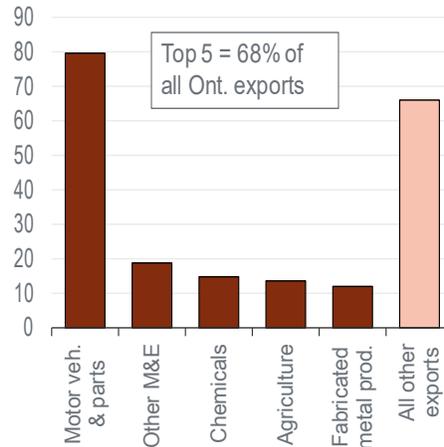
SASKATCHEWAN



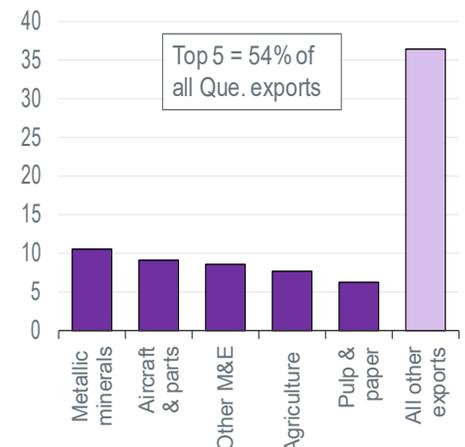
MANITOBA



ONTARIO

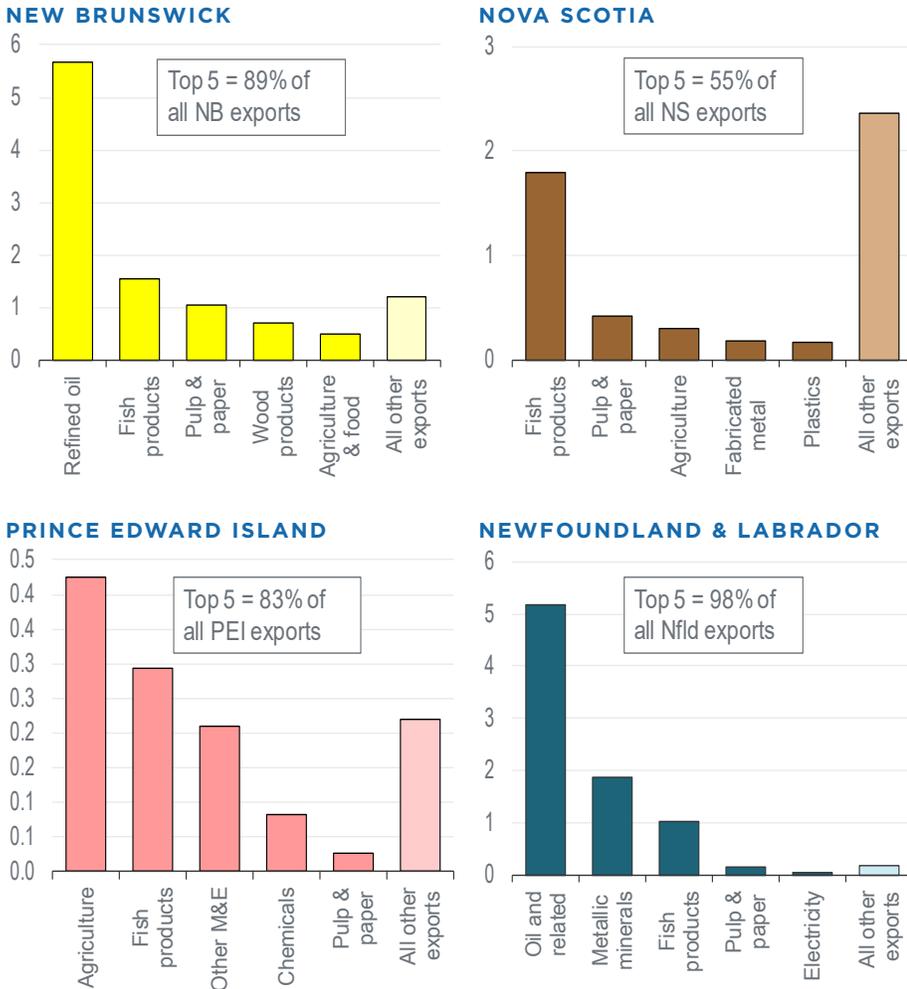


QUEBEC



Source: BC Stats.

FIGURE 3: TOP 5 MERCHANDISE EXPORT CATEGORIES BY PROVINCES 2016, BILLIONS \$ (CONT'D)



Source: BC Stats.

were shipped to the US. Because of geography and our linkages to Asia, BC is often viewed as less reliant on the US market. However, in 2016 Saskatchewan sent just 48% of its merchandise to the United States. At the other end of the spectrum, Alberta, Ontario and New Brunswick each sell more than four-fifths of their international merchandise exports to the US. Like BC, other Canadian provinces have benefitted by expanding their export markets

into China and other parts of Asia. But with 15% of its merchandise exports going to China (2016), BC stands out as the most China-oriented Canadian province. Saskatchewan is not too far behind us on this count, while Manitoba now sells 7% of its merchandise exports to China. With a diversified export portfolio measured by products as well as being less reliant on the US market than most other provinces, BC arguably has the most diversified and

resilient merchandise export base of any Canadian province. That said, several other provinces have also seen their markets and industrial export structure shift over time.

FOCUS ON EXPORTS OF SERVICES

Trade in services continues to grow and in most advanced economies has outpaced the growth of merchandise trade. Over the past decade (2005-2015), BC's exports of services to other countries rose by 45%, greatly exceeding the modest 5% growth in the value of merchandise exports over the same period. This rapid expansion lifted BC's total international service exports to \$15.5 billion in 2015. BC's service exports to other provinces have grown even more quickly, almost doubling over the past decade to reach roughly \$30 billion in 2015. This is something policy makers should take note of: BC's service exports to other provinces are more than double the value of interprovincial goods exports. And if recent patterns continue, BC's interprovincial service exports may soon come to rival the value of international merchandise exports.

Among the main services exported by British Columbia (other than those based on tourism, which is discussed briefly below) are business services, engineering and other professional services, financial services, computer and information services, royalties and license fees, and services related to research and development. Another important export category is transportation services. As a major global transportation and commercial gateway, Greater Vancouver's extensive marine and air links to the rest of the world facilitate British

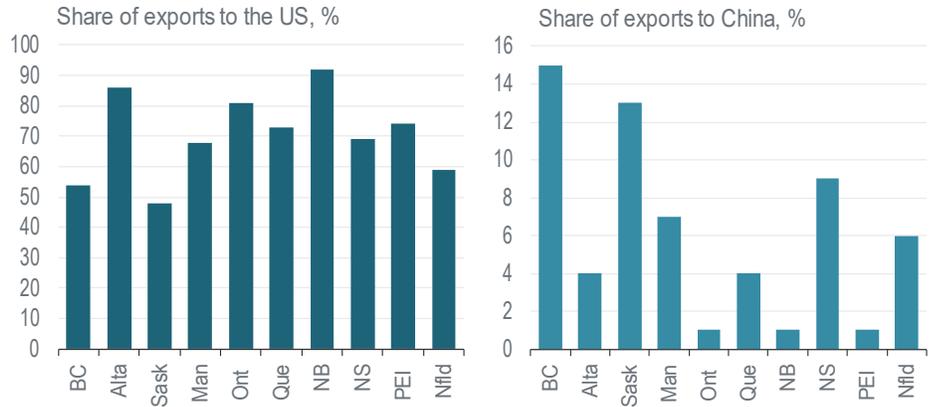
Columbia's trade with outside markets. The Port of Prince Rupert and the northern gateway provides additional economic benefits. The ongoing expansion of trade and commerce trade between North America and the Asia Pacific is supporting the growth of BC industries like commercial transportation, logistics, wholesale trade, and specialized financial and professional services. Transportation services have emerged as one of our biggest export industries and have made a notable contribution to the rapid growth in BC's interprovincial service exports.

**WITHIN CANADA,
BC PUNCHES BELOW
ITS WEIGHT IN OVERALL
EXPORT SALES**

Although BC has a growing export base, we actually lag behind the other provinces when export sales are measured relative to GDP and population size. In per capita terms (to adjust for the different sizes of provincial economies), BC's international exports of goods and services combined amounted to \$11,615 in 2015 (in inflation adjusted dollars). This placed us 7th among the ten provinces on this key performance metric. Because of the high value and volume of oil exports, Alberta ranks first in per capita international exports by a wide margin. Saskatchewan and Newfoundland also report relatively high values of exports on a per capita basis.

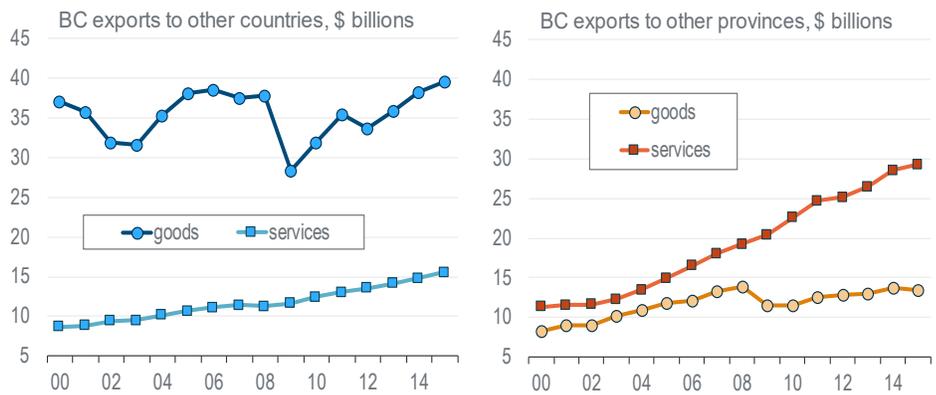
Turning to interprovincial trade, in per capita terms BC ranks 8th among the ten provinces in the value of exports per person. This ranking is somewhat surprising given BC's gateway role, and reflects the comparatively small place of interprovincial merchandise exports in the BC provincial economy.

FIGURE 4: SHARE OF TOTAL MERCHANDISE EXPORTS TO US AND CHINA BY PROVINCE



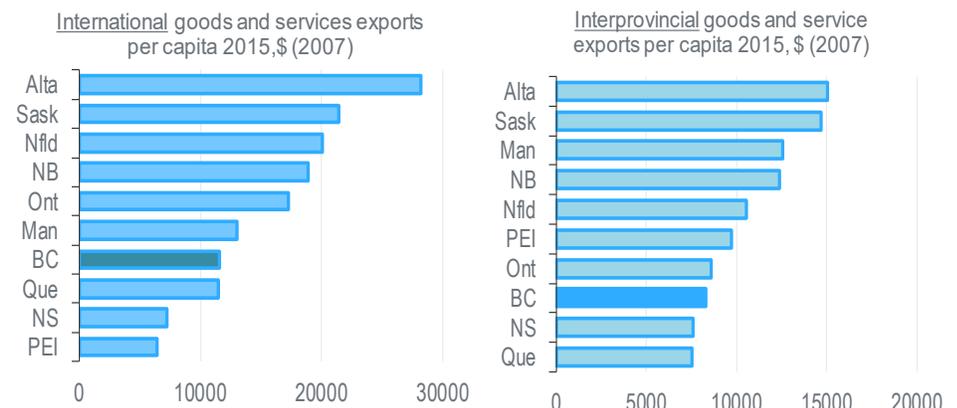
Source: BC Stats.

FIGURE 5: EXPORTS OF SERVICES CONTINUE TO GROW



Source: Statistics Canada.

FIGURE 6: EXPORTS PER CAPITA



Source: Statistics Canada.

A FEW COMMENTS ON OTHER SERVICE EXPORTS

Other elements of BC's service exports are not well captured in the data but are clearly part of the province's economic success in recent years.

Tourism in particular deserves added mention. It is one of BC's largest industries. Comprehensive information on "tourism exports" is complex to track because tourism services are comprised of travel services, accommodation services, food services, transportation and sightseeing, recreational activities, retail spending, rentals and so on. Some parts of tourism activity, such as travel services, are captured in estimates of service exports, but as a stand-alone industry tourism was estimated to generate approximately \$4.1 billion in export earnings in 2015¹, putting it on par with some of BC's other leading export sectors. In 2014, tourism accounted for more than 3% of BC's GDP and employed 225,000 people. Of interest, the entire health sector employed 270,000 British Columbians in the same year.

Tourism has been an important part of the BC's economic growth story in the last few years. Boosted by the weak dollar and the sustained recovery in the US, our tourism sector has enjoyed strong increases in the number of international visitors (up 10% last year).

BC's film and television production sector has also grown rapidly. It is also benefiting from the weaker loonie, but the industry is well established and anchored by a highly skilled local workforce, excellent

The fact that BC punches below its weight in the combined value of exports of goods and services in both the international space as well as interprovincially is something that policy makers should pay attention to.

facilities and the attractive scenery and location settings that film-makers are looking for. Vancouver is now the third largest production centre in North America, with spending on film and television production reaching nearly \$2 billion in 2015.²

British Columbia has had commercial success in the international education arena. In 2015, international students spent an estimated \$3.5 billion in BC on tuition, accommodation and living expenses, enough to support almost 30,000 local jobs.³ With BC's good schools, Canada's reputation as a tolerant and safe country, and BC's generally high quality of life, the province offers an appealing package for would-be foreign students and has scope to further grow the international education export sector.

FINAL THOUGHTS

British Columbia has led all Canadian provinces in economic and employment growth for three consecutive years. Last year, we posted the fastest GDP growth of any jurisdiction in North America. One reason for BC's strong performance is that the export

base is growing, as we are now selling both more and a wider array of goods and services to outside markets. The province's merchandise exports remain a foundational part of the economy. But service exports are also growing briskly, helping to underpin BC's success.

The fact that BC punches below its weight in the combined value of exports of goods and services in both the international space as well as interprovincially is something that policy makers should pay attention to. Because of the pivotal role of exports in a small open economy, policy decisions must account for the competitive landscape facing locally-based export industries. BC policy makers should work to make sure our various export sectors can compete in the international marketplace. They should also recognize the growing role of service exports within the wider BC economy. Because of their intangible nature, it is sometimes easy to overlook services when thinking about international trade and market diversification. The reality is that services are becoming steadily more important within the evolving BC export economy.

AUTHORED BY

Ken Peacock
Chief Economist
and Vice President

Kristine St-Laurent
Policy Analyst

¹ Destination British Columbia, "Value of Tourism in 2015", February 2017.

² Creative BC, "2015/16 Impact Report".

³ BC Ministry of Advanced Education, "Factsheet: International Students in BC", January 2017.