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IMPLICATIONS FOR STRATEGY- MAKERS**

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**The Need for a Strategic Partnership – Who Does What?  
Some Thoughts from the Canadian Experience**

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## **THE NEED FOR A STRATEGIC PARTNERSHIP – WHO DOES WHAT? SOME THOUGHTS FROM THE CANADIAN EXPERIENCE**

### **Introduction**

In the 2004 ITC Executive Forum, it was suggested that a “best practices” services export strategy should address four sets of constraints with four strategic solutions – all within the framework of a public/private partnership:

- “Lack of awareness of the breadth of commercial opportunity” to be addressed through “a concerted and targeted information management programme targeting the business sector and trade support organizations”.
- “The absence of leadership within the services sector” through “the creation of enduring coalitions/sector associations that represent and advocate the interests of the major sub-sectors”.
- “Sector fragmentation” through “public sector programmes to foster business affiliations within and among services sub-sectors”.
- “Lack of image and market positioning” through “promotional programmes that match confirmed core competencies/capacities with target market requirements”.

Let’s look at these through the prism of the Canadian experience in public/private partnering.

The prime Canadian public/private cooperation structure (Trade Team Canada Service Industries – TTCSI) has as its mandate:

“...to pursue international business development opportunities specific to services industries and capital projects. A strong focus of TTCSI will be on promoting international business development in respect of international capital projects opportunities (International Financial Institutions [IFI] and Public Private Infrastructure [PPI] projects) in the emerging and new market economies of the world and opportunities arising from the social development and economic and regulatory reforms underway in these same markets.”<sup>1</sup>

While this mandate infers some strategic focus, a first reaction from the perspective of more traditional services export strategies might suggest that more detail is required in terms of both sub-sector and market priorities. But need this necessarily always be the case? And from the Canadian experience and requirements, should it be the case? Let’s set this against Canada’s evolution in services development.

### **Background (Where We Were)**

Canada can be described as a country where political will has been imposed on centrifugal geography. The “political will” has for the most part been manifest in services: in the first instance in transportation services, followed by communications services – and with economic development initially based on resource and energy focused infrastructure services.

This is of course not unique to Canada. What is unique is that this has taken place in an area of three million square miles with a population of still only thirty million people. Sparseness of population has added another dimension to Canadian services development: a necessity to ensure equitable access to social services by all Canadians, however remote their location in the country. This has supported extensive development of e-connectivity - in health services, social services, “e”-government generally, etc.

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<sup>1</sup> See <http://www.ttcservices.ic.gc.ca/epic/internet/inttcserv.nsf/en/sy01798e.html>

There are a number of implications in this experience:

- First is that Canadian governments (at all levels: federal, provincial and municipal) have exercised and have had to exercise a role in economic and political development disproportionate to, for example, the case in our nearest neighbour, the US. Canadian governments have not had the luxury of being doctrinaire in economic development issues: Canadian economic development has required a countervail to the private sector power of larger economies and Canadian governments (and population) have perceived that this is a necessary role for government. And without the larger private capabilities of some of our major trading competition, it is all the more important that Canada effectively mobilizes all its public sector resource capability.
- Second is that Canadian governments have also played a major role in export promotion. Sitting on a huge natural resource base with a small domestic population has meant that Canadian economic development has to a disproportionately large extent has been dependent upon international markets<sup>2</sup> and government(s) have recognized that the Canadian private sector needed and to some extent still needs promotional support to access international markets.<sup>3</sup>
- Third is that there has been unique expertise involved in the Canadian economic development services model that has formed an international niche valuable to other development models, primarily in developing and transitional economies, evolving from a resource base with a mixed economy tradition.<sup>4</sup>

All this is to say that for Canadians there are significant precedents in real and effective public/private cooperation – and there are equally effective examples of this cooperation being focused on the services sector.

To put this in the context of the current discussion, Canadian services development is definitely not “hype” nor is there a question that it has “high potential”. For Canadians, both questions are rhetorical. Experience has proven that services development is both the past and the future of Canadian economic development.

### **Background (Where We Are)**

Reflecting the traditional, and increasing, importance of services in the Canadian economy, the Canadian government some twenty years ago extensively funded a comprehensive review of Canadian services (the Canadian Services Industries Studies Programme), and both the role services would be playing in future Canadian development and possible future roles for government.

The findings corroborate the central position of Canadian services in Canadian economic development – and reflect similar such positions amongst other economies:

- Services represent 76% of Canadian GDP and 75% of employment – a proportion that is consistent with all advanced economies and major developing and transitional economies.
- Services are the most dynamic growth sector of the Canadian economy, again consistent with other economies.

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<sup>2</sup> Canada is one of the most open economies in the world with an export component of 43% of GDP

<sup>3</sup> It is not accidental that the Canadian Trade Commissioner Service was established thirty years before the Canadian diplomatic service.

<sup>4</sup> Thus the relative success of Canadian consultants in IFI-financed projects compared to the relative lack of equal success in goods-based assistance

- Services are currently 20% of global trade – but this figure is under-represented and would be significantly larger with adequate data collection (see below on the Canadian services data issues).<sup>5</sup>
- Services exports among the developed economies even with current data collection systems range from 22% for OECD generally to 29% for the US.<sup>6</sup>
- Knowledge-based services (business and professional services) represent 40% of the entire Canadian services sector and this is the most dynamic services growth area (at most current rates approaching 4.9%).
- Knowledge-based services are the fastest growing employment creators, primarily in self-employment and obviously skills intensive – the obvious focal target for SME development policies.
- Canada is the 12th largest exporter of services in the world, and the 4th largest exporter of engineering services worldwide.
- Service exports are more geographically diversified than Canada's merchandise exports (60% of services exports to the US vs. 86% of exports of manufactures).
- Commercial services are Canada's 2nd most valuable export (after motor vehicles).
- The outlook for services exports signals greater growth in 2005/06 (6% growth in 2005 and 5% in 2006).

A particular finding has significant implications for government in all areas of general economic and trade development policy, again probably in common with other economies – but again not apparently generally acknowledged:

- Services are central to trade competitiveness whether in exports of manufactures or services: an estimated 39 cents of every dollar of Canadian exports is a services cost.<sup>7</sup>

Inter alia, these findings confirmed Canadian government presumptions of the importance of attaching priority to knowledge-based services in economic development initiatives.

Some of the more important relevant activities and programs in the Canadian government response include:

- A funding program for export support, the Program for Export Market Development, founded in the mid-1960s and extensively used especially for engineering services – but modified to reflect better access for additional services providers (see <http://www.dfait-maeci.gc.ca/pemd/menu-en.asp>).

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<sup>5</sup> Current official figures indicate that Canadian services exports in 2003 were \$56B or 13% of total exports but the Canadian Export Development Corporation indicates that this figure does not take into account services delivery by Canadian subsidiaries abroad – a favorite mode in emerging markets – which is of the order of \$160B. Thus Canadian services trade figures could easily be of the order of one-third of total real Canadian exports. Canada therefore still to some extent shares with other data collection regimes one that was designed for cross-border trade in manufactures. There are implications here for global trade description – thus the suggestion that 20% is not an accurate figure for global services exports. There are also implications for an adequate and accurate database to support export strategy development.

<sup>6</sup> The Asia-Pacific Foundation has concluded that “Canadian firms sold 2½ times more in services to their Indian clients and had investments that were at least 2 times greater than official figures reported by Statistics Canada: Canadian firms sold \$336 million in commercial services in India in 2002. About three-quarters of these transactions were concentrated in three sectors – financial services (31%), power (28%), and information and communications technologies (13%). These sector sales estimates are dramatically different from figures provided by official sources. For example, the estimate of Banking & Financial services sales is 3½ times larger than the official figure”.

<sup>7</sup> This figure derives from an instruction to the consultants to identify and cost services procured on a discrete arms-length basis; including services provided non-arms-length would bring the estimated figure closer to 60% of total export costs.

- Application of export support funding to service sector associations, as well as service companies (<http://www.dfait-maeci.gc.ca/pemd/tradeassociations/assistNews-en.asp>).
- SourceCan – (an electronic marketplace of business opportunities, both domestic and international) (<http://www.exportsource/gol/exportsource/site/nsf> and [www.sourcecan.ca](http://www.sourcecan.ca))
- Training initiatives for potential service exporters (<http://www.exportsource/gol/exportsource/site/nsf/en/es02487/html> for the “Take a World View” export diagnostic);
- Training initiatives for employees of Industry Canada on domestic support for the identification and development of potential services exporters.
- Training initiatives for Department of Foreign Affairs and International Trade export promotion staff at Consulates and Embassies on in-market assistance for services exporters;
- Training initiatives for Department of Foreign Affairs and International Trade export promotion staff in domestic positions on preparation for in-market assistance for services exporters; and
- Priority emphasis on assistance for IFI procurement (<http://www.infoexport.gc.ca/ifinet/menu-e.asp>).
- Cabinet instructions to two national Ministries (Industry Canada and the Department of Foreign Affairs and International Trade) to treat knowledge-based services as a priority - respectively in domestic support and development, and in export promotion (<http://www.ttcservices.ic.gc.ca/epic/internet/inttcserv.nsf/vwGeneratedInterE/home> and <http://www.infoexport.gc.ca/menu-e.asp>).
- Inclusion of service export objectives in departmental strategies and development of public/private consultative machinery in preparing policy objectives for services in international negotiations – both for the GATS, and for bilateral and regional trade liberalization initiatives.
- “e”-assistance for services exporters accessing the 151 Canadian Trade Commissioner Services offices abroad and providing markets intelligence on the basis of self-defined interests and objectives (<http://www.infoexport.gc.ca/registration/CCRegistrationBenefits.jsp?lang=en>).
- Application of product-focused export initiatives to services export promotion (e.g., the New Exporters to Border States programme (<http://www.dfait-maeci.gc.ca/can-am/export/menu-en.asp?act=2>)).
- Services Months where Cabinet Ministers were scheduled across the country to speak on the importance of services exports and mobilize Canadian potential exporters .
- Development of structures for public/private cooperation in services development and services export strategy development on the basis of public/private consultation and cooperation (see Trade Team Canada Service Industries at <http://www.strategis.ic.gc.ca/epic/internet/inttcserv.nsf/vwGeneratedInterE/sy01798e.html>).
- Canadian Company Capabilities (a centrally maintained current searchable database of 50,000 Canadian businesses: [http://strategis.ic.gc.ca/sc\\_coinf/ccc/engdoc/homepage.html](http://strategis.ic.gc.ca/sc_coinf/ccc/engdoc/homepage.html)).

### **Issues (Where We Might Be Going)**

The Services Industries Studies Programme has prompted an excellent set of promotional tools, as described. It has also been accompanied with the development an excellent structure for public/private cooperation in trade policy issues, particularly related to the GATS but also in bilateral services trade negotiation. To an outsider and on first glance, it has not apparently led to a comprehensive services export strategy.

What it has led to, more importantly in the Canadian context, is a structural dynamic that supports ongoing adaptation to both sub-sectoral and market developments on a continuing basis and in public/private sector consultation. Thus an Industry Canada-led twelve sector consultative structure which includes as specific areas five services-intensive sub-sectors (services industries, environment, health, bio-industries, information and communications technologies) and has varying degrees of services-intensity in the remaining seven.<sup>8</sup>

This recognizes that Canada is after all an advanced economy with some major, sophisticated, and presumably self-sufficient services sub-sectors, and one way of developing support for such a diffuse and disparate area as services is in making available the appropriate tools for use on an as required basis, and reinforcing public/private contacts on the basis of which tools and objectives can be modified as circumstances require.

The public/private cooperation has had some signal successes:

- As previously indicated, Canada is the fourth largest exporter of consulting engineering services in the world.
- Financial services, which represent some 5% of Canadian GDP, have become export-focused to the extent that foreign operations of banks and insurance companies now account for 50% and 55% of total revenue respectively.<sup>9</sup>
- Canada ranks fifth in the world in the provision of business process services.<sup>10</sup>
- In 2002, transportation services made up four per cent of Canada's value-added GDP and accounted for roughly 18 per cent of total services exports.

It is also facing some challenges:

- In 2000, Canada's exports of post-secondary educational services stood at US\$796 million—2.1 per cent of Canada's total services exports—representing a 50 per cent increase from 1989. However, this growth pales in comparison to the growth experienced by many of Canada's main competitors in education exports.<sup>11</sup>

### **Next Steps – Implications for Executive Forum Discussions**

To return to the “Best Practices” export strategy constraints and solutions cited at the beginning of this paper:

- Issues of “awareness of commercial opportunity” have been addressed both through major cross-sector promotional initiatives at the outset and an information flow structure on a continuing basis.
- Issues of “absence of leadership within the services sector” have been addressed through the active involvement of already established services sector associations in an

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<sup>8</sup> Aerospace and defense; automotive; building products; electrical power equipment and services; oil and gas equipment and services; plastics; agriculture, food and beverages.

<sup>9</sup> See <http://www.dfait-maeci.gc.ca/tna-nac/IYT/fs-background-en.asp>

<sup>10</sup> A 2004 study by A.T. Kearney ranked Canada as the second-best place to offshore in terms of people skills, availability and business environment because of its superior communications infrastructure, skilled workers, political stability and other non-wage factors.

<sup>11</sup> “...during the same 1989–2000 period, UK education exports grew by 70 per cent, U.S. exports by 124 per cent and Australian exports by a remarkable 270 per cent. Therefore, despite the growth of Canada's education exports, it is clear that Canada has missed out in the potential growth of the market for the provision of international educational services. Given that the worldwide market for educational services is expected to triple over the next 20 years, it is imperative that Canadian institutions of higher learning have the necessary framework to enable them to compete effectively on the international market.” See Conference Board of Canada, Canadian Commercial Services Export Forum, September 12/13, 2005.

ongoing dynamic public/private consultative structure. A Canadian Services Coalition has been an active private sector interlocutor in trade policy consultations. Activity by the Coalition in trade promotion consultation is evolving.

- The Canadian services sector is just as broad and disparate as in other jurisdictions but for the most part sector associations are in place and issues of “sector fragmentation” are being addressed through the public/private consultative structure. Again, as with other jurisdictions, this requires ongoing attention – if only to ensure that associations that were formed with other objectives (e.g., professional development, professional certification, quality control, etc.) maintain a focus on service exports.
- Issues of “lack of image and market positioning” obviously continue to exist but the tools are in place and available to correct these – and again the public/private consultative structure provides the means to effect requisite promotional resource re-assignments.

And to the question of “who does what” in a services export strategic partnership, the Canadian public sector has provided the promotional framework, the promotional tools, and an open-ness to making both more effective – but this is done in response to perceived promotional requirements. It is the Canadian private sectors responsibility to ensure that such perceptions are valid.

It would be useful during the debate on “The Need for a Strategic Partnership – Who Does What?” to obtain participants views on the legitimacy of the Canadian approach, and the relevance of the Canadian experience and the Canadian approach to their own requirements.