

THE SERVICE SECTOR ROUNDTABLE

organized by

THE INSTITUTE FOR RESEARCH ON PUBLIC POLICY

Victoria, October 9, 1986

Notes and Observations

by

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1. Introduction

Dr. Dobell welcomed the participants to the third in a series of informal meetings initiated to promote exchange of information on work in progress in many places around the province. This work includes studies or other initiatives, by governments and other groups, to promote regional development strategies or to pursue individual research interests.

Dr. Dobell was pleased to see that the size of the group was increasing, but regretted the absence, due to the fog, of the representatives of MITS and the Vancouver FEDC office.

2. Jill Bodkin—Chairman of the British Columbia Securities Commission

Mrs. Bodkin regretted the absence of Professor Michael Goldberg who was unable to attend due to the weather, and who was supposed to present the preliminary results of his study on the spatial elements and the evolution and role of agglomeration economies in the development and fostering of international financial centres (IFC). This study will provide a description of 60 financial centres around the world according to 30 variables. It will also look at the impact of IFC on urban areas.

This is the first of a series of six studies commissioned by Mrs. Bodkin on the question of IFC. The preliminary drafts of these studies will be ready in November and final results are expected for early 1987.

The second study, undertaken by Maurice D. Levi, will look at the relationship between foreign trade and the demand for financial activity.

The third study, by Robert Heinkel and Alan Klaus, examines the difference in trading patterns by insiders and outsiders. It will expand work previously done on the 1972-82 period to 1984.

The fourth study on Regulating and Insuring Deposit Taking Institutions in BC, done by Ronald M. Giammarino and Eduardo S. Schwartz seeks to devise means of estimating risk in deposit taking institutions and, based on this assessment, to develop suitable risk premiums for a risk-based deposit insurance scheme.

Study number five, by James A. Brander, looks at the intended and unintended consequences and policy implications of the regulation of financial institutions. These regulations, especially those limiting the mix of assets that an enterprise can hold, could have significant impacts on the growth of new and existing firms.

The last study, by B. Espen Eckbo, looks at the impact of foreign ownership restrictions on the financial sector. This study examines in particular the question of merger and acquisition activities before and after FIRA, and of merchant banking activities in US attracting foreign investment.

A non-profit society made up of businessmen in Vancouver has been formed to promote the idea of an International Financial Centre.

The two provinces involved, BC and Québec, and the federal Government are in the process of discussing tax provisions. Québec has already legislation in place and BC is ready to present its own proposal. The federal government is looking at various proposals to be included in the 1987 budget. Mrs. Bodkin

points out that unlike Québec, BC requires the federal government to administer any tax change. Mrs. Bodkin remarks also that the BC and Québec concepts include a broader array of financial services than embraced within the federal government's present focus essentially on banking.

**3. Mr. Tom Hutton, Senior Policy Advisor, City of Vancouver, and
Mr. David Ley, Professor of Geography, University of British Columbia**

Mr. Hutton commented on Mrs. Bodkin's presentation by suggesting that the strategy adopted by the City of Vancouver in regard to the International Financial Centre accepts the narrow federal concept as a starting point, with subsequent work to get the broader concept adopted at a later date.

Mr. Hutton noted the existence of the City of Vancouver standing committee on invisible exports, of which Dr. Kunin is a member.

Mr. Hutton then introduced Mr. David Ley, who presented some of the results of a study done jointly with Mr. Hutton on Vancouver's corporate complex and producer services sector:

"The paper considers the place of advanced services in contributing uneven development between a metropolitan core and a regional hinterland in a provincial staple economy, British Columbia, Canada. While there is a close correlation between changes in provincial gross domestic product, service employment, and office development in downtown Vancouver, the relation is asymmetric. Considerable leakage from resource development in the hinterland accrues to Vancouver's corporate service complex, but this complex is largely self-contained for its own inputs. Moreover, the provincial hinterland is a smaller customer for Vancouver's producer services than markets outside the province. Indeed there appears to be growing divergence between metropolitan and hinterland economies, challenging the tight bonding between core and periphery in a regional staple economy."

4. Martine Desbois, Institute for Research on Public Policy

Miss Desbois introduced the research project undertaken by IRPP on the Service Sector in Vancouver. The intent of this study is to produce statistical information regarding the extent of service sector exports from the Lower Mainland region, and the method of export penetration, size and input/output configuration of service producing enterprises. A secondary purpose is to document the administrative and procedural difficulties encountered in gathering such information.

The results of the study should be available early next year.

Miss Desbois shared some of the observations made during the process of gathering information and presented some preliminary results obtained by analyzing the response received.

5. Peter Templeman, Director, Administrative and Communications Program, Ministry of International Trade and Investment

Mr. Templeman introduced a five-month study launched by the federal Department of Communications in collaboration with the provinces on the economic role and the strategic importance of the telecommunications industry and telecommunications service in Canada, and their impact on regional development.

The contract has been awarded to Coopers, Lybrand and the results of the study should be available next spring.

**6. Herbert Grubel, Director, Service Industries Project, Fraser Institute
John Chant, Professor, Department of Economics, Simon Fraser University**

Mr. Grubel described the work undertaken by the Fraser Institute for DRIE on the domestic aspect of the service sector in Canada.

The Fraser Institute has commissioned two types of papers (see attached list). The first is a series of sectoral studies which will provide a description of particular industries, and will provide information on different factors affecting those sectors such as: the output levels; destination of output and interdependency of industries; employment and productivity; source of changing demand; welfare and income distribution effects and other major problems facing the industry.

The second type of studies will look at a range of cross-cutting issues such as: labour market; aspects of vertical disintegration and productivity of the service sector.

Dr. Chant introduced preliminary work on his sectoral study on Banking, Trust Companies, Credit Unions and Finance Companies.

The results of most of these studies should be available next summer.

**7. Jim McRae, Director, Traded Services Project, The Institute for
Research on Public Policy**

While the Fraser Institute is focussing on domestic issues, the Institute for Research on Public Policy is responsible for looking at the trade issues related to services.

Dr. McRae presented the work being performed by the Institute at the present time.

The work has been divided in four research modules.

A. Theoretical Background

This research module uses three branches of economic theory to investigate the positive and normative issues involved with service transactions. The three conceptual frameworks being used are:

- Traditional international comparative advantage theory which has served as the theoretical foundation for the opening up of trade after World War II.
- Industrial organization based trade theory with its emphasis on different market structures, and the possibility of strategic behaviour with respect to trade policy.
- Transactions cost economics which emphasizes the costs of negotiating, executing, modifying and renewing the contractual agreements which make up a firm's production structure.

B. Empirical

The second section consists of six sectoral case studies, and an overview of measurement issues involved with recording service transactions in the balance of payments. The six case studies are:

- Engineering Services
- Real Estate & Property Development Services
- Transportation Services
- Banking Services
- Computer/Communication Services
- Financial Services

C. Policy and Performance

This research module develops four themes:

- An identification of the service sectors with the potential to contribute to regional development and economic growth.
- A determination of the scope—if any—for specific public assistance to the sector.
- An investigation of alternative horizontal policies and programs, e.g. taxation, which may be used to stimulate service exports.
- The institutional structures required to deliver program support to the service industries.

D. Institutional Setting and Negotiating Issues

This research is divided into 9 major areas:

- Interests in negotiating
- Existing international arrangements governing services trade
- Concept, principles and negotiating issues for services trade
- Barriers to services trade
- Approaches to negotiations
- Negotiating hurdles
- Impact of domestic regulations on services trade and negotiations
- Canada/US negotiations
- Canadian domestic considerations, interests and implementation

**8. Robin Ruggles, Director International Education,
Ministry of Post-Secondary Education**

Mr. Ruggles presented the work done by his department to promote service sector exports in the training field. This program based on full cost recovery in provision of public services, will have long term spillover benefits for the private sector. BC has unique features that makes it attractive in the area of education as an exported service.

**9. Henryk Kierzkowski, Professor, Graduate Institute of International Studies
Switzerland**

Mr. Kierzkowski, who was visiting the Institute from Switzerland on his way to Tokyo shared with us his view of what happened in the last round of GATT negotiations at Punta del Este.

Mr. Kierzkowski made the point that at Punta del Este what really happened was a decision to launch a new round of trade talks and to launch political discussions on services to take place outside existing GATT institutions to establish a framework for negotiations. It is important to realize that at the end of the process, countries are free to reject the idea that GATT is the right body to deal with trade in services.

It was noted that trade in services is thought by many to be an investment question. The goal of this discussion is not necessarily to liberalize trade in services, it is to develop a legal framework to govern trade and investment.

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Dr. Dobell thanked all the participants for their contribution and suggested the next meeting should be scheduled for the end of April.