VANCOUVER SERVICE EXPORTS TO THE ASIA PACIFIC AND THE ROLE OF LOCAL GOVERNMENT IN THEIR PROMOTION

by

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ABSTRACT

This thesis looks at the feasibility of promoting knowledge intensive service (KIS) exports to Asia as part of a local economic development strategy. To this end a two part study was conducted, consisting of a postal survey and a series of elite interviews. The study demonstrates that many Vancouver KIS firms have already established a presence in Pacific Rim markets; furthermore, future growth in these markets is likely. The study examines various characteristics of KIS exporters to Asia so as to enable policy makers to draft appropriate recommendations. The remainder of the thesis outlines current initiatives at senior and local levels of government. A case is made for increasing the scope of local government action in this sphere, and some potential initiatives are suggested.

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1.0 INTRODUCTION

During the 1980s, Canada began to truly recognize the existence of trading opportunities with Asia Pacific countries. For cities like Vancouver, Asian trade has always contributed to local development. Indeed,

> Much of the historic rationale for the creation of the province of British Columbia was a means for linking Canada inextricably to the Pacific (Edgington and Goldberg, 1989. p. 2).

Until recently, however, most of Vancouver's trade with the Asia Pacific has been limited to primary commodities and transportation services. While staples still comprise the bulk of the province's Asia-bound exports, services are becoming a significant export in their own right. The heightened prominence of the Pacific Rim as a trade destination; the strengthening of trade, communication, and human settlement links between Pacific Rim cities; global economic restructuring; and broad changes in the nature of service provision have led many Vancouver-based engineering, marketing and consulting firms to develop lucrative markets in Asia. This development has also been facilitated by specific policy measures, including:

* the designation of Vancouver as an international finance centre.
* the development of an investor category for immigrants

coming to Canada. This has been favoured by many Asians, particularly people from Hong Kong, seeking a more stable base to reside and conduct business.

* deregulation of several service industries.

* the development of strategies and institutions to facilitate trade links with the Asia Pacific Region.

It is my contention that the trend of increasing service exports to the Pacific Rim is beneficial to the region. Vancouver has a long history as a transportation node and distribution centre for staples extracted from the provincial hinterland. Yet Vancouver would be wise to look to other activities for regional income generation. The terms of trade for most primary commodities have rarely been favourable; in fact, primary commodity prices are extremely volatile. Over-dependence on this sector may perpetuate a state of economic underdevelopment. Similarly, continued dependence on non-renewable resources for income will lead to environmental degredation and a bleak economic future once resources are exhausted.

The development of an export-earning service sector is an effective means of maintaining economic vitality and balance.

> Vancouver's service sector represents both a potentially major source of exports to Pacific Rim markets, as well as an element of Vancouver's comparative advantage in pursuing a larger share of Pacific Rim investment, trade and commerce (Hutton and Davis, 1989. p. 15).

Knowledge-intensive services in particular have a complex set of backward and forward linkages, and substantial capacity for income generation within the region. Knowledge-intensive services, or KIS, fall into the producer service category. They include, but are by no means restricted to: engineering; architecture; environmental monitoring, remediation and planning; computer software development; management consulting; advertising; telecommunications systems design; and finance. They have a higher export propensity than personal services. Furthermore, a suitable economic and physical infrastructure for these activities already exists in Vancouver.

Similarly, the city's livability attracts highly skilled personnel who are able to undertake such activities. Finally, KIS activities are in most cases environmentally sound. As such they will help in maintaining the city's livability. Environment-related activities in particular will enhance the local quality of life while providing new business opportunities. According to Robyn Allan, B.C. Central Credit Union's chief economist:

> 'The future of companies that specialize in environmental technologies is bright. Industries that are clearly committed to environmentally sound practices are also likely to reap tangible rewards ....Since the world is going to have to adjust to the costs of a clean environment --including a massive cleanup-- we might as well make money doing it. As a bonus, we should also gain new jobs, innovative skills,

enhanced productivity and a better quality of life' (cited in Seelig and Artibise, January 1991, p. 80).

Hence, it is both feasible and desirable to focus upon the KIS sub-sector as a local economic development strategy.

It is the objective of this thesis to demonstrate that:

* economic restructuring, in conjunction with other trends, has promoted service exports to Asia;

* growth of such exports is not only possible but worth encouraging;

* a role exists for the local government in the promotion of Vancouver KIS exports to the Pacific Rim.

A Pacific Rim focus will enable the city to take advantage of recent increases in immigration from Asian countries. Moreover, this focus will encourage market diversification for firms in the local economy. Diversification may become increasingly important for example, to firms not expecting to benefit from the North American Free Trade Pact currently being negotiated.

Before specific policies can be formulated, however, a clear understanding is required of the behaviour, perceptions and experiences of Asia-exporting service firms as well as their prospects for future growth and development. Thus the immediate goal of this thesis is to explore firm needs as they relate to local conditions. General policy recommendations for local economic development officers will then be put forward.

The structure of the remainder of this thesis is as follows. Chapter Two discusses general restructuring trends in the global and local economy to justify a local economic development strategy which highlights KIS exports. Chapter Three analyses research results and their general policy implications. Chapter Four summarizes current institutional resources for Pacific Rim export promotion and makes further recommendations for action. Chapter Five concludes the study and provides suggestions for future research.

2.0 LITERATURE REVIEW OF THE SERVICE SECTOR

This literature review was conducted as a point of departure in the investigation of a knowledge intensive service export strategy for Vancouver. The literature highlights economic changes currently underway in North American and other OECD cities. It explains that such changes have impacts upon cities' income generation and employment structures. Thus the literature enables one to appreciate the necessity of devising an economic strategy that recognizes, and maximizes the benefits of, global structural change. As will be explained in Chapters Two and Three, knowledge intensive services are considered to be among the more beneficial of service activities.

The review is divided into two parts: the first section discusses general trends associated with the industrial restructuring experienced in OECD countries, and the second summarizes evidence of these trends manifested in Vancouver.

2.1 GENERAL THEORY AND TRENDS OF ECONOMIC RESTRUCTURING

A rich array of literature has been produced to explain the causes of post industrialism. While this term is mainly associated with a shift in the ratio of manufacturing employment to service employment, it is also associated with a shift in the proportion of disposable income spent on manufactured goods compared to that which is used to purchase personal services.

For example, Rostow (1960) considered such restructuring the natural culmination of a series of phases: Traditional Society, the Preconditions for Takeoff, the Takeoff, the Drive to Maturity, and the Age of High Mass Consumption. Bell (1973) coined the phrase post-industrial to refer to the last stage. He predicted five trends would accompany post-industrialism. First, employment would shift from manufacturing to service predominance. Second, a professional and technocratic class would enjoy greater prominence in society. Jobs would be increasingly identified by profession instead of employer. Third, theoretical knowledge --knowledge codified into abstract systems of symbols-- would be relied upon to a greater extent. Fourth, technological planning would be essential. Because economic growth would depend upon the input of new technology, control over its introduction would help reduce uncertainty about if, when and how economic growth would occur. (Presumably reduced uncertainty would maximize social and economic efficiency.) Finally, there would be new emphasis on intellectual technology or rational problem-solving. The methods of invention and the management of complex elements and forces would be considered technologies in their own right.

While shortcomings in both Rostow's and Bell's hypotheses have been identified by others (e.g. Daniels, 1985; Petit, 1986;

Fishlow, 1965; and Kuznets 1961), these hypotheses direct our attention to the fact that a combination of economic, social and political processes have been responsible for economic restructuring. Unfortunately, such theories are negligent in anticipating the implications of both these processes and restructuring itself. The remainder of this section will look at recently documented consequences of restructuring.

2.1.1 ECONOMIC AND BUSINESS DEVELOPMENTS

A number of general trends have accompanied and reinforced the shift from secondary activities towards the service sector. For example, much of increased service consumption results from the inclusion of more services in conjunction with goods. These services include product warranties and insurance; toll-free numbers that users may telephone for additional information on products; and research activities aiming at product improvements. This link between services and goods has been used to argue that services are dependent upon the manufacturing sector (Stanback et Al, 1981. p. 7). In this manner, declines in manufacturing output and employment are assumed to be accompanied by similar declines in service output and particularly service employment.

According to Marshall (1988) this assumption is weaker for producer services[1], particularly for those falling into the information processing category.[2] The latter have continued to experience employment expansion when jobs in manufacturing have been increasingly replaced by automation (capital substitution). In his analysis of service growth in Britain from 1976 to 1981, Marshall notes that producer services were responsible for 51% of total employment growth in services (p. 36).

Marshall also reminds us that other service industries are greater end-users of producer service output than are manufacturing industries. On average, 21.8% of private producer services are used by other services, whereas 18.5% of that output is consumed by the manufacturing sector. The linkage to other services is particularly strong for financial and business services: 11% of their output is consumed by the manufacturing sector, while 34.6% is consumed by other services. Indeed, 50% of postal and telecommunications service output is used by other services (Marshall, 1988. p. 47). Hence, while there is a link between producer services and the manufacturing sector, the

[1]Producer services are generally not consumed by individual households but are purchased for use in the production of other goods and services. They include such services as shipping and distribution; insurance; legal services; marketing and advertising services; clerical services, and others.

[2]Marshall subdivides producer services into information processing activities (routinized as well as knowledge-intensive); physical or goods-related services, which have the strongest ties to manufacturing industries; and personnel support activities, which are more likely to locate near other business activities (1988, p. 15).

former is not directly dependent upon the latter.

At the same time, society is placing greater emphasis on the development of human capital, demonstrated by the growth in health and education services. Additionally, modes of production are changing. The production focus has shifted from the plant to the head office. This results from greater competition requiring, in turn, enhanced planning and marketing efforts. In fact, this shift in emphasis is intrinsic, not only to the centralization of control within firms, but to dominant cities in the global hierarchy. To some extent, then, it implies decreased potential for policy makers to set and meet economic goals at national levels, and even less so at local levels (Stanback et al, pp. 7-10).

These trends have specific consequences for the economies of cities and regions. As mentioned above, these consequences will vary according to which type of services one analyses. For instance, the export propensity of an economic activity is generally held as an indicator of the activity's relative benefit to the regional economy. If the activity's output is exportable it is assumed to generate a more complex set of spinoffs within the economy along with increased revenues within the region.[3]

[3] Of course, there is a great variety among exports in terms of their linkages to the local economy. For some, the major local linkage is solely the household consumption sector; other activities will have a more profound effect on the local economy because they require the input of local producer services (which

If manufacturing and processing activity decreases are met with increases in service activities which are exported then, at least in theory, the economic health of the region will not suffer. Of course, this assumes that incoming revenues will be distributed in much the same manner as manufacturing export revenues, which is generally not the case.

Certain services are, in fact, increasingly exported --to other regions as well as to other nations. In 1980 services accounted for one-third of total world trade (Daniels, 1985. p. 35). This development has been facilitated by the growth of multinational corporations. Telecommunication improvements such as the introduction of the facsimile machine and computer mail networks have also contributed to increased service tradability. International service trade is largely concentrated among producer services. Van Dintern (1987) has estimated that up to 19% of producer service output in medium-sized cities is exported outside the region of origin. It was once thought that services which were traded were tied to the trade of goods, such as shipping, cargo insurance, and finance. However, many services are now traded independently, such as engineering, architecture, education, and environmental consulting.

2.1.2 EMPLOYMENT AND OCCUPATIONAL IMPLICATIONS

in turn have their own sets of linkages)..

Concerns about the desirability of increasing service employment have been identified by a number of researchers. It has been noted that employment increases in the service sector have not occurred as readily as have decreases in the manufacturing sector. This is because many jobs in both services and manufacturing have been eliminated through automation and other forms of capital substitution. The result in turn is surplus employment, and OECD unemployment levels have in fact risen with de-industrialization. From 1973 to 1985 OECD unemployment rose from 11.2 million to 31.5 million, peaking at 33 million in 1983 (Petit, 1986. p. 2).

A related concern emerging from the shift to services is the inherent loss of labour power in wage negotiations. Technological innovations have increased the ability to standardize tasks and decentralize them spatially while strengthening central control over these activities. Standardization and decentralization in turn increase the competition both numerically and inter-regionally for jobs in sectors where those trends have occurred. When these trends are accompanied by low economic growth rates, increased competition for jobs will lead to higher unemployment and underemployment--increased part-time work-- concurrent with reduced bargaining power (see Noyelle, 1987). Primarily standardization and decentralization are thought to occur within the industrial sector. However, those trends can also be seen in certain lower-order services such as fast-food restaurants and hairdressing chains (Unvala and Donaldson, 1988. p. 464). Recently they have also been seen in business services as well, including payroll, banking and clerical services.

Polarization of wage and skill levels is another negative trend associated with de-industrialization. Noyelle (1987) attributes wage polarization, specifically downgrading, to the weakening of labour markets within the firm. He explains that weakening has stemmed from three developments. First, as education levels improved, the labour force became increasingly differentiated. Second, the introduction of distributed data processing technology made certain jobs more generalizable. They could thus be filled from a larger labour pool. Third, increased generalizability meant more opportunities to externalize job training. Such externalization weakened labour market sheltering provided by unions organized on the basis of industry-specific skills. Other writers take this argument further; they point out that skill disparities among workers within a firm may be perpetuated by discriminatory access to training and upskilling programs provided by the firm (see for example, Ryan, pp. 3-20 in Wilkinson, 1980).

Noyelle does see grounds for optimism, however. He identifies a fourth stage of labour development which entails the professionalization and para-professionalization of the labour force. While he recognizes that this trend is initially accompanied by wage polarization, he reminds us that it is also accompanied by decreases in the proportion of low skill employment. The latter is a positive development because it should mean more labour independence from the owners of capital (1987, p. 98). Noyelle suggests that the most effective way of reducing income gaps is through government measures such as progressive income tax and the provision of basic social welfare; and improving access to, and the quality of, education.

There is another positive consequence of increased service sector growth, at least in the producer service sector. Not only are producer services increasingly able to export output, they tend to have very localized input procurement. In this respect the leakages to firms outside the region of jobs and revenue earned by such services are minimized. As we shall see later, this tendency of local input usage has been the case for Vancouver as well.

2.2 SERVICES AND THE VANCOUVER ECONOMY

2.2.1 PROMINENCE OF SERVICES IN THE VANCOUVER ECONOMY

To understand restructuring in the Vancouver metropolitan area, it is necessary to appreciate the relative importance of the service sector to the regional economy. Vancouver's economy has traditionally been linked to resource industries in the province's hinterland. While manufacturing has never been a dominant activity in Vancouver, resource processing activities have been important. Yet between 1960 and 1983 the number of producer service firms in Vancouver tripled (Grass, 1984 in Ley and Hutton, 1987); and services currently account for 81.6% of Greater Vancouver companies listed in the Greater Vancouver Business Directory (Hutton, June 1989). The three individual sectors with the greatest number of firms are: retail trade (21.6% of all listings); health, educational, legal, social and miscellaneous services (20.1%; and personal and business services (19.2%).

This is not surprising given the association of decreasing firm size with the shift from secondary economic activities to services (tertiary and quaternary). Of all firms listed in the Greater Vancouver Business Directory, 92.5% employed twenty-five or fewer people. Sixty-six percent of all firms employed 5 or fewer people. (Vancouver Economic Database, January 1989). Were data available for Vancouver's Central Business District alone it would likely demonstrate an equal or greater percentage of small firms. Nor are these services as closely linked to the B.C. resource industry as one might expect: markets outside the province have become more important for producer service firms than provincial markets outside metropolitan Vancouver (see Ley and Hutton, p. 23).

The contribution of services to Vancouver's regional income is also increasing. Consistent disaggregated data on the service sector's contribution to regional income is difficult to obtain. Nonetheless, it has been estimated that the service sector accounts for over fifty percent of regional Gross Domestic Product for Metropolitan Vancouver (Hutton, June 1989. p. 23). As with producer services in general, Vancouver producer services are only indirectly dependent on manufacturing and resource industry sectors for revenues. This has been demonstrated by Ley and Hutton (1987). They summarized responses to interviews and a questionnaire sent in 1984 to Vancouver producer services defined as finance, insurance, real estate and business services in the city core. On average, 67% of producer service firms' clients were within the service sector. By contrast, manufacturing and resource industry clients purchased only 16% of producer service output.

Furthermore, services in Vancouver are becoming increasingly important as regional exports. The Ley and Hutton study indicated that 29% of all service business by value occurs outside of the city; 17% of all business outside the province, and 7% outside the country. Their findings also showed that certain types of business services are more likely to export than others. Firms with a focus on regional markets included printing, advertising, accounting, banking, personal services and legal services. Firms more likely to export to the rest of

Canada include geological and engineering services, management consulting, securities and commodities, real estate and miscellaneous services. Of the latter group of firms, only management consulting and miscellaneous services lacked a greater propensity to export to international (as well as extra-regional) markets (see Ley and Hutton, p. 21).

A sector-specific study conducted by the Asia Pacific Foundation (1988) also confirms the export orientation for producer services, particularly those which we would consider knowledge intensive. The APF looked at exports of B.C.'s environmental industry, defined as: consulting engineers, consulting foresters, manufacturers and distributors, recycling companies, and other environmental consultants (see following chart). In 1987 59% of the sector's total sales or $ 67.6 million were exports. Thirty-seven percent of those exports went to the Pacific Rim and 46% to the United States. While environmental products were responsible for just under 26% of total sales, the majority of environmental sales were by firms more clearly definable as service industries.

RESPONDENT GROUPS:	% OF TOTAL INDUSTRY SALES	1987 SALES ('000)	CHANGE FROM 1986
Consulting Engineers	23%	26,480	35%
Consulting Foresters	8%	8,389	11%
Other Environmental Consultants	14%	16,455	8%
Manufacturers and Distributors	26%	29,621	14%
Recycling Companies	29%	33,483	22%
TOTAL:	100%	114,428	19%

Source: Asia Pacific Foundation, 1988.

2.2.2 VANCOUVER SERVICE EMPLOYMENT

The importance of services to Vancouver's economy in employment terms can be discerned through employment figures, both in terms of service occupations (tertiary and quaternary activities, which may or may not be conducted within service firms) and service industries (which employ people working in service and, sometimes, non-service occupations).

Occupational groups have been aggregated into three categories:

* Services (public, consumer, producer and distributive)
* Non Services (manufacturing, extractive, construction)
* Others

Of a total workforce of 757,525 persons in the Vancouver Census Metropolitan Area (CMA) in 1986, 587,200 or 77.4% had service occupations. Eighteen percent (137,485) had non-service occupations, and 32,820 had other or unstated occupations (Statistics Canada, 1986, adopted and revised January 1989, Vancouver Economic Database).

Using the same aggregation for industry groups, the picture remains basically the same. Of a total 687,600 actually employed in Vancouver CMA in 1988:

* 548,000 were employed in service industries
* 118,000 employed in non service industries
* 21,600 employed in unclassified/undistributed industries

(Household surveys Division, Statistics Canada, February 1989. in <u>Vancouver Economic Database</u>, City of Vancouver, September 1990).

Furthermore, employment in non-service industries has been decreasing since 1981. Between 1981 and 1986, the three industries experiencing employment decreases in the Vancouver CMA were: forestry (experiencing a 6.8% decrease); mining (decreasing by 12.2%); and manufacturing (a 5.5% decrease) (1981 and 1986 Census of Canada).

2.3 CHAPTER SUMMARY

The process of economic restructuring in Vancouver is not as advanced as other larger North American cities such as Toronto, Montreal, and New York. Indeed, the relative lack of heavy industry to begin with in the Greater Vancouver region means that some of the manifestations of post industrialism will differ from those in the above cities. On the whole, however, there is evidence of many post industrial characteristics in the Vancouver economy. This presents a clear case for the development of an economic policy which maximizes the beneficial aspects of service sector dominance in the regional economy.

Such a strategy would focus upon producer services for several reasons. Producer services have a more beneficial impact on the local economy than tourism and household consumption services, which tend to pay lower wages and have fewer spinoffs within the economy. The literature states that producer services, particularly business services, are less dependent upon the manufacturing and resource industries than are other services. The footloose nature of many producer services, and decreasing reliance upon face to face contact for all producer services, means that such services are increasingly less dependent on local primary and service industries. Concurrently the export propensity of producer services is increasing; this in turn has positive implications for local revenues and economic development. Moreover, producer services tend to rely upon local service inputs in their service production, thereby decreasing revenue and job leakages out of the region. Finally, producer services are expected to provide increasing opportunities for professional, para-professional and other skilled employment, which will ultimately entail better wages and increased job satisfaction for the local labour force.

It follows that a number of planning considerations arise with a producer service focussed economic development strategy. On a pragmatic note, trade in services involves certain logistical and classification issues. It is not within the scope of this thesis to find solutions to these questions; nonetheless, it is important to be aware that they exist. For example, measurement can be problematic. How can we be certain of the relative significance of service trade and how do we identify dominant sectors? There is great variety in the classification schemes under which nations include services, with the result that comparisons are difficult to make.

Similarly, it is difficult to define for classification and policy purposes which services are actually tradeable. For example, a number of services are assumed untradeable, including government services and personal services requiring physical interaction between client and vendor. Yet some of these services can in fact be traded at a level supplementary to that provided by the public sector. An example is the telecommunications sector (see Richardson, 1987. p. 63) or certain municipal services, where surpluses are sold to other regions (and even nations). Third, imperfect consumer knowledge presents difficulties. Similar services offered by two different companies are difficult to compare. Consumer choices will often be based upon intangible, unquantifiable and perceptual factors. Thus true competition in the service sector is impossible, even if perfect competition <u>per se</u> were feasible (Richardson, pp. 62-63). Fourth, how does trade in services affect recipients? Does it perpetuate global inequalities by preventing recipients from developing their own expertise in traded services? More importantly, are services developed in OECD countries appropriate for poorer countries?

Local planning concerns are also numerous. These will be addressed more specifically in the form of recommendations in Chapter Four. Nonetheless, they merit pointing out here as well. Renewed centralization of some economic activity has been accompanied by the decentralization of the more land-intensive functions. This development brings more people to the city core on the one hand, while increasing the complexity of commuting patterns on the other. As a result, traffic congestion and problems of transportation access intensify.

Additionally, the role of technology and knowledge in producer service provision entails a broadening of our definition of infrastructure planning. Planners need to take into account needs for high speed data transmission networks, as well as for "smart" office buildings:

> Underfloor ducting is now essential in the modern office building because it allows tenants maximum flexibility when planning the location and expansion of their equipment needs. But only the newest office building have these services built in, the remainder are faced with adaptation requirements which, especially in office buildings constructed between 1960 and 1980, is difficult because floor-to-ceiling heights do not permit the former to be raised to accommodate ducting. ...[T]his factor alone is causing office firms to look closely at alternatives both within and outside the metropolitan areas (Daniels, 1987. p. 286).

Moreover, the importance of information inputs to the local economy must be recognized. Information is as crucial to the production of services as physical inputs are to the goods manufacturing process. As with manufacturing, service access to information resources will play a large role in determining the comparative advantage of a firm or region (Daniels, 1985 and 1990). Local economic development professionals must be cognizant of the importance of strategic information in sustaining and enhancing regional income.

Similarly, telecommunications and transportation advantages have changed the way we define access to both markets and suppliers, particularly for service industries. For example, engineering and architecture firms are relying increasingly on facsimile machines to transmit portions of drawings to clients, agents, or employees located at a considerable distance. Marketing consultants are now able to tap into global information databases using their personal computers and a good telecommunications network. As a result, it becomes possible for cities to develop their own service specializations.

Finally, policy makers must be aware that economic restructuring affects the various sectors of the population differently. Unless such recognition is made, any economic policy promoting service sector growth will exacerbate, rather than mitigate, the undesirable trends pointed out earlier in this chapter. In contrast, the optimum planning framework recognizes the need for measures which directly address the needs of local residents. Robinson (1989) terms this framework an Alternative Economic Development Policy Approach. (She labels its antithesis the Corporate Centre Approach.)

> Although [the alternative approach] tends to stress real estate development, it balances that emphasis with additional emphases on human resources development and other labour supply and distributional considerations designed to ensure that local residents (especially economically disadvantaged residents) benefit from economic development activities.

It is important for city governments to recognize local needs when promoting certain economic activities, and to incorporate more elements from the alternative approach to economic development. This has been done by a Pittsburgh community group that involved itself in a high technology redevelopment project (Weiss and Metzger, 1987). The Oakland Planning and Development Corporation of Pittsburgh had become concerned about its exclusion from the project, and responded by commissioning its own technology impact assessment.

The resulting study pointed out that most of the jobs created by the project would not be accessible to the local blue-collar workforce. A strategy was therefore developed to mitigate potentially harmful effects of the redevelopment project. Thus advanced service growth need not be harmful to local residents provided that the latter have an input into the planning thereof. This is not to advocate constant yielding to NIMBY groups; rather, the latter example demonstrates how forward thinking economic strategies can be implemented to the benefit of all. It is up to cities to insure the presence of mechanisms which allow for both a global and neighbourhood-specific understanding of the economic and social impacts of high technology and other services.

3.0 STUDY OF KIS FIRMS' PACIFIC RIM EXPORT PROPENSITIES AND CHARACTERISTICS

A two part study of Vancouver's knowledge-intensive service firms was conducted to determine the following: Asian export propensity; firm experience; and the type of assistance perceived most useful. The study was conducted by the author in conjunction with the City of Vancouver Economic Development Office and the University of British Columbia School of Community and Regional Planning. The purpose of this chapter is twofold. First, it is intended to prove the feasibility of a local economic development strategy promoting the export of services to the Pacific Rim. Second, the chapter will document the presence, characteristics and potential of Vancouver KIS firms exporting to Asia as a means of informing policy makers of economic possibilities.

The term knowledge intensive service refers largely to producer services providing a service with a significant research input or requiring a developed knowledge base. In addition to high technology activities, such as engineering, this also includes services like accounting. Accounting output is somewhat standardized, but requires nonetheless a highly developed understanding of professional practice and current legislation in order to be executed.

The term knowledge intensive service as used in this thesis also includes some activities normally classified as manufacturing. Due to technological advances and other changes, it is becoming increasingly difficult to differentiate between manufacturing and service enterprises. Manufacturing firms included in the KIS designation share many common characteristics with the more strictly defined knowledge intensive service firms. The former include producers of telecommunications and broadcasting equipment, computer software, and process control equipment.

The shared characteristics are as follows. Both types of firm require knowledge inputs, and thus have backwards linkages to other knowledge-related services. Employment in these firms is dominated by service occupations (engineers, draftspersons, researchers, computer programmers, electricians). The production process itself is comprised of many knowledge intensive activities to the extent that the value of manufactured (and of course service) output is largely dependent upon its knowledge component. Computer software is an obvious example of this kind of manufactured output --the disks that are sold to consumers and producers alike are tangible goods but entirely useless without their service component (the program).

Another important similarity is the high degree of user customization involved in knowledge intensive production. Process control instrumentation, like computer software, is a tangible good. It is useful to the enduser when it has been incorporated into a complete system, or subsection thereof. The incorporation of the good into a system is clearly a service activity. Yet even more important, this incorporation requires prior understanding on the creator's part of the enduser's needs and prospective output applications. In essence, this understanding, and consequent incorporation, must be client-specific.

Finally, whether output is tangible or intangible, endusers for KIS output are themselves predomininantly producers. They in turn incorporate the output in the production of their own goods and services.

The underlying assumption is that relevant KIS firms will fall into four categories:

* Current exporters who are relatively established in one or more Asian markets,
* Recent exporters to the region, or firms who have had some exposure to the Pacific Rim but have not developed a sustained marketing program for the region.
* Non-exporters who could become Asian exporters with some assistance,
* Non-exporters clearly inappropriate for the Asian market.

It is my contention that policies could be eventually developed for the second and third groups based upon the experiences and expertise of firms in the first group.

3.1 STUDY RATIONALE AND ASSUMPTIONS

KIS firms were identified specifically as a subject of study for several reasons. First, they were assumed to be more likely to require exports to achieve economies of scale. Because knowlege-intensive services are highly specialized, it is often unlikely that such firms can be sustained by local market demand alone. Second, it was assumed that KIS firms would be more likely to take advantage of telecommunications technology in service production (and possibly service exports). Whereas traditional service provision involves face-to-face interaction between client and producer, knowledge-intensive services involve the processing and transmission of information. They are consequently able to substitute some forms of personal contact with technologies of electronic mail, telefacsimile transmission, and video conferencing. The diminished need for face-to-face contact increases service exportability.

Third, it was assumed that the activities of this group of service firms would have a more beneficial impact on the local economy than would less knowledge-intensive services. Employment within KIS firms is more differentiated and hence likely to include certain paraprofessional occupations alongside professional occupations (see Noyelle, p. 98). Backwards linkages with other firms in the region are also assumed to be extensive. The Ley and Hutton study demonstrated that Vancouver producer service firms were very likely to use local inputs. Eighty percent of firms surveyed obtained a significant portion of inputs from other firms within Vancouver. Thirty-six percent obtained inputs from other locations in the metropolitan area (1987, p. 18). Among the services contracted out locally by Vancouver producer service firms were:

* Legal services - 38% of firms interviewed
* Accounting - 16% of firms interviewed
* Marketing and sales promotion - 12% of firms interviewed
* Data processing - 12% of firms interviewed
* Miscellaneous services - 14% of firms interviewed

Fourth, Daniels (1990) and Ley and Hutton (1987) demonstrated a high export propensity for these firms.

3.2 METHODOLOGY

The first part of the study entailed a postal questionnaire modeled after that used in the Ley and Hutton study. It also included specific questions on: broad export destinations and relative weighting of markets; areas of potential export expansion; Asian marketing approach used; and perceptions of appropriate policies for encouraging exporting to Asia (see Appendix A).

The questionnaire sample was broken down by Standard Industrial Classification code (refer below to chart 2). It should be noted that the Standard Industrial Classification system (henceforth abbreviated as S.I.C.) is less than satisfactory. It does not allow for nuances or overlaps in the classification of economic activities. Consequently classification is at best arbitrary and, at worst, misleading. (For example, the category of telecommunications industry equipment can include manufacturers of telephones, but it can also include firms specializing in the development of broadcasting systems for private companies --an activity which entails both physical goods production and consultation with the enduser to determine appropriate system configuration.) The reader is reassured that during the mailing process care was taken to avoid sending questionnaires to firms who clearly lacked any knowledge-intensive function.

CHART 2:

CODE	DESCRIPTION	NUMBER OF RESPONSES
3351	Telecommunications equipment	16
3352	Semiconductors, process control, other electronic equipment	14
7721	Computer services	8
774	Advertising	50
7752	Engineering and related activities (includes environmental consultants, planning consultants, architects, and geological surveyors)	155
7759	Laboratory analysis and research (other than marketing)	5
7771	Management consulting firms	38
TOTAL:		286

The main source of sample firms was the Greater Vancouver Business Directory published by Contacts Target Marketing. Significant time and budget constraints rendered a 100% sample infeasible. Furthermore, the desirability of doing so varied from sector to sector. It was consequently decided that a 100% sample would be used for sectors where numbers permitted. For other sectors, notably management consultants (over 1,000 were listed in the business directory), the yellow pages were used as a secondary source to filter out firms that could only loosely be labelled marketing consultants. Most of the marketing firms that were omitted were suppliers of mailing lists for direct-marketing firms.

Twelve hundred questionnaires were sent to engineering, environmental consulting, management consulting and public relations, advertising, telecommunications and electronics firms. Two hundred and eighty-nine questionnaires were returned; however, three respondants were eliminated from the group as their firms were not appropriate to the study (one, for example, was a kitchen counter manufacturer). The questionnaires were largely intended to give an indication of the number of producer service firms currently exporting to Asia or hoping to do so in the near future. They were also intended to give us an idea of how Asian exporters perceived policy assistance effectiveness for Pacific Rim export promotion.

The second part of the survey consisted of a series of interviews with senior officers from companies that are known exporters to Asia. Interviews were forty-five minutes to one hour in length. A standard set of questions was used; however, subjects were given some flexibility and encouraged to bring up issues they considered relevant. Questions from the postal questionnaire were used as a starting point. Also included were questions on the following:

* Sources of Asian marketing information
* Company market niche
* Locational attributes
* Motivation for Asian marketing effort
* Intra-firm decision-making
* Relative importance of telecommunications and face-to-face contact
* Inter-firm service linkages and perception of Vancouver as a base for accessing Asian Pacific markets.

The interview sample was segmented and chosen on a non-random basis, as desired information could only be obtained from those with strong experience in Asian markets. In many instances the names of prospective subjects and firms were well-known in the business community. Others were chosen from questionnaire respondents to meet the study's need for a broad representation of producer services. One food processing firm with a strong Asian market was also chosen. The sectors and numbers of firms are listed in Appendix C.

3.3 EVIDENCE OF VANCOUVER KIS FIRMS' PACIFIC RIM PRESENCE
3.3.1 EXPORT PROPENSITIES - CURRENT AND POTENTIAL

Asian and general export propensities were determined from postal responses to questions regarding destinations of current sales. Results confirmed a high general export propensity among Greater Vancouver KIS firms. Ninety percent of the 274 firms who completed the export question exported at least five percent of total sales outside the Lower Mainland. Over fifty percent (n=138) exported five percent or more of their services to international destinations. The most important international market for KIS firms was the United States, followed by the Pacific Rim. One hundred and twenty-two firms or 45% of the 274 were currently exporting at least 1% of sales to the U.S., while seventy-four firms or 25.8% were current Pacific Rim exporters.

By contrast, only 8% exported to Europe and 14% to other destinations. This confirms the results of earlier studies of producer service export propensities. In 1984 29% of all Vancouver service firm sales were outside of Vancouver, and seven percent of total sales were to international markets. (Ley and Hutton, 1987. p. 19; see also Davis and Hutton, 1991 pp. 10-12). It also illustrates that the Pacific Rim is an important alternative market destination to the United States.

The Pacific Rim's importance as a marketing destination was reinforced by a comparison of (average) sales breakdowns for each sector. While proportions given were not percentages of the same sales figure for each firm, they provided at least some indication of the importance of markets as compared with one another. As expected, the Pacific Rim was a far more important sales destination than Europe:

CHART 3:

CODE:	# OF COs*	AVG % OF U.S. SALES	AVG % OF PAC RIM SALES	AVG % OF EUROPE SALES
3351	14	8.4%	10.8%	2.6%
3352	10	22.5%	0.2%	0.5%
774	48	4.0%	1.0%	0.3%
7721	8	10.5%	4.3%	0.8%
7752	148	19.0%	15.0%	5.0%
7771	35	5.6%	3.6%	0.8%
7759	5	6.2%	18.0%	0.0%

SOURCE: Postal Survey of Vancouver's Knowledge-Intensive Service Firms.
* Not all firms responded to this question.

While current sales conveyed something about the number of current exporters to Asia, it shed little light on potential Pacific Rim exporters. Consequently two specific questions were required to understand better which firms were considering, or could consider, entering Asian markets. We asked firms to indicate if and where they had exported to Asia in the past, and to specify were they expected future sales growth.

Responses to the Asian export history question showed a higher number of firms to have sold previously to the Pacific Rim than at present. Altogether 117 firms or 41% of all respondants had Pacific Rim experience (current or previous), as compared with the earlier cited figure of 74 current exporters. (Note that 6 current exporters failed to answer the Asia sales history question). A few of the firms no longer selling services to the Pacific Rim may have ceased activities in the region because it was an inappropriate destination for them. However, many engineering firms with previous experience may have strong intentions of resuming Pacific Rim exports. Engineering firms work on a project basis. Because the question specifically asked for a current sales breakdown, some firms with an established presence in Asia could have listed current sales percentages for the region as 0%. The majority of previous exporters are likely to make future forays into the region. In some instances they will require encouragement, better contacts, or more exposure to Asian markets before establishing a solid presence there.

Responses to the future growth question were equally enlightening. Due to proximity as well as the Canada -U.S. Free Trade Agreement, the U.S. was the most important international growth market for firms. Ninety firms or 31.4% of the sample expected the U.S. to be the greatest or one of the greatest sources of sales increase. In spite of the FTA, 58 or 20.3% of all respondants believed that the Pacific Rim would be the most (or one of the most) important growth market(s) for them in the near future. By contrast, only 14 or 4.9% of respondants considered Europe a major source of future sales increases. Twenty firms cited other international destinations, including Mexico, as a major source of future sales increases.

An indirect question provided further information on the issue of Pacific Rim potential. All firms were asked to specify whether they would like to receive a summary of questionnaire results. Interestingly the majority of firms (67% or 29/43) with previous Pacific Rim experience, but no current Asia sales, requested a summary of findings. This suggested that such respondants could be interested in further involvement in the region at a later date. A large number of inexperienced firms were also interested in study results, with 94 of these 169 firms requesting summaries. Altogether 58% of non-current Asia exporters wanted to know more about the activities of other Vancouver firms who were exporting to that region.

3.3.2 IMPORTANCE OF ASIAN MARKET DESTINATIONS TO CURRENT EXPORTERS

We have seen above that after the U.S. the Pacific Rim was the most commonly cited international market destination for Vancouver KIS firms. To better understand the importance of the Pacific Rim to current exporters, average Asia sales percentages were compiled for those firms alone. Of the 74 relevent firms, 14 (or 19%) did less than 5% of their business there. By contrast, 42 or 57% of those firms had 10% or more of total current sales in Asia, with the remaining 24% doing between five and nine percent of total business there. Thus for the majority of firms with current Asian involvement (84%) Pacific Rim sales accounted for 5% or more of total revenue. (Refer to chart 4 on the following page).

Findings from interview participants corroborate the importance of the Pacific Rim to KIS firm sales. While interviewees were chosen specifically because of their established presence in Asian markets, the importance of that participation to overall business was not known at the time of selection. All firms interviewed but one (which was phasing out its Asian activities) had at least four percent of current sales in Asia; in fact, only two did less than 5% of current business in the region. Exluding one firm unable to give a sales breakdown, and one firm providing data on a private practice basis only, the overall average of current sales to Asia for the interview group was 16.1%. Furthermore, over 60% of the firms had over 10% of their current sales in Asia, two of whom did 50% or more of their business in Asia.

3.3.3 MOTIVATION FOR PARTICIPATION IN ASIAN MARKETS

Responses to the question of motivation for Pacific Rim exports helps us to identify whether general trends act as

CHART 4

Pacific Rim Exports as a Portion of Total Sales for current Pacific Rim Exporters
1990

SIC CODE	TTL ASIA EXPORTERS	# WITH 4% OR LESS ASIA SALES	# WITH 5% to 9% ASIA SALES	# WITH 10% OR MORE ASIA SALES
3351	6	0	2	4
3352	3	2	1	0
7721	2	0	0	2
774	5	1	1	3
7752	48	7	14	27
7759	1	0	0	1
7771	9	2	2	5
TOTAL:	74	12	20	42

Source: Postal Survey of Vancouver Knowledge-Intensive Service Firms catalysts for the export of services to the Pacific Rim. Due to space constraints on the postal survey, only interview participants were asked to explain reasons for investigating Asia Pacific markets. Because of the small interview sample and the problems it posed to confidentiality it was impossible to give a sectoral breakdown of responses. (See Appendix C for complete list of interview questions).

Firms were asked to select from a list one or more motivating factors for exporting to the Pacific Rim. Possible choices included: concerns about local market stability; general appeal of one or more specific Asian growth markets; desire to increase market diversification; government encouragement; desire for greater scale economies; opportunity to use special in-house staff expertise and contacts; or other factors.

The most frequently cited reason for marketing to Asia was the general appeal of the Pacific Rim (chosen by 14/18 or 77.7% of interviewees). On the surface one might assume that a company selecting only the general appeal factor was not very committed to sustained market presence in Asia. Yet subject comments proved the contrary in many cases. One firm with a presence in Hong Kong since the 1960s selected the appeal of the Hong Kong market as its sole motive for soliciting business there. The respondant elaborated that doing business with Hong Kong clients has become essential for economic survival in Vancouver. Another firm selecting only the general appeal of Asia was able to cite clearly identified market opportunities for its services. One-half of its current sales are to the Pacific Rim. The frequency with which firms chose this motive could thus be due partially to the "caginess" of interviewees. That is, interviewees were likely reluctant to divulge too much information regarding their firms' economic health.

The next most important reason was the opportunity to take advantage of special in-house expertise (11/18 or 61.1%). Increasing market diversification and the appeal of a specific Asian market were also important factors (8/18 or 44.4% for each). The importance of the former was elaborated upon by two firms. Both explained that cyclical fluctuations render market expansion crucial for the maintenance of existing economies of scale. Six or one-third of the companies identified government encouragement as an impetus or aid to exporting to Asia. Five of the eighteen (27.7%) expressed a desire for greater economies of scale; similarly, five had concerns about local market stability.

We may conclude that Vancouver companies successful in the Pacific Rim have been motivated by more than just the desire to follow others. Rather, such firms chose initially to investigate Asian market opportunities for a combination of three reasons:

CHART 5

Motivation for Pacific Rim Market Participation

Factor:	Rank:	Number:	Percentage:
General appeal of Asian market	1	13	72.8%
Possession of appropriate staff expertise	2	9	50.0%
Specific Appeal of 1 or more Asian markets	2	9	50.0%
Desire to achieve greater market divirsification	3	8	44.4%
Encouragement from government	4	6	33.3%
Concerns about domestic market stability	5	5	27.8%
Desire for greater economies of scale	5	5	27.8%

Source: Interviews of Vancouver Service firms known to be Pacific Rim Exporters, conducted September 1990 by the author.

*Market Appeal
*Existing staff expertise in one or more Asian markets
*Desire for market diversification.

While government assistance played a role, it was never the sole reason for any to become involved in the Pacific Rim. One participant claimed to have received absolutely no government encouragement. On the other hand, most participants did take advantage of such assistance, even if it was not a motivating factor in market entry. To quote another: "[Canadian government encouragement] doesn't make us go out and get work there, but programs can affect costs and risks in special circumstances". (These programs will be discussed in Chapter Four).

3.4 CHARACTERISTICS OF ASIA PACIFIC EXPORTERS
3.4.1 SPECIFIC ASIAN DESTINATIONS

Surveyed firms with current and previous experience in the acific Rim sold to a broad range of destinations. On average each firm had sales to just under three Pacific Rim countries. The most common market destination was Australia, with 50 or 42.7% of Pacific Rim experienced (henceforth abbreviated as PRE) firms having sold there. Other popular sales destinations included:

*Other ASEAN -------> 31 firms =26.5% of PRE firms
*P.R. of China -----> 31 firms =26.5% of PRE firms
*Thailand ----------> 30 firms =25.6%
*India,Pakistan,
Sri Lanka ---------> 26 firms =22.2%

Somewhat important were:

*Japan -------------> 24 firms =20.5%
*Hong Kong ---------> 23 firms =19.7%
*Taiwan ------------> 23 firms =19.7%
*Malaysia ----------> 20 firms =17.1%

When only current exporters were analysed, a more balanced distribution of market destinations was found. Less of a discrepancy existed among popular destinations than with the total group of PRE firms. Australia was again the most popular destination, with 28 or 37.8% of the 74 current exporters marketing here. Closely behind were Thailand and other ASEAN countries with 32.4% respectively; and China (31.1%). This suggests that companies currently exporting to the Pacific Rim are less inclined to focus on a single, trendy market. They have made a commitment to the region as a whole while targetting efforts in markets where clearly identified opportunities exist. On a policy level, these findings imply the need for government to provide assistance and marketing support for a broad range of sub-regions within the Pacific Rim, rather than focussing largely on Northeast Asia. At the same time, would-be Asian exporters could benefit from assistance in sourcing market opportunities.

A sectoral breakdown of Pacific Rim exporters showed greater differences among industry groups. For management consultant and advertising firms with experience, the most common destinations were relatively wealthy Pacific countries. By contrast, the most common destinations for engineering firms were largely poorer and newly industrializing countries.

Interviewees had a different set of priority destinations, although they continued the trend of a broad range of Asian markets. China and Japan were the two most common export destinations, followed by Australia / New Zealand, Taiwan, and other ASEAN countries (see chart 6). Perhaps these changed priorities are best explained by differences in composition between interview and questionnaire samples. The interview sample included representatives from legal and accounting firms. These groups were not included in the questionnaire sample as they were too numerous and no appropriate means of reducing their size could be determined. Such groups tended to have a similar client base to advertising and market consultants in the questionnaire sample.

CHART 6:

Country	# of Co s
Japan	10
China	10
Australia & N.Z.	9
Other ASEAN S.E. Asia	9
Taiwan	9
Hong Kong	8
India & Pakistan	8
Singapore	7
Thailand	6
South Korea	6
Malaysia	5
Non-ASEAN S.E. Asia	0

One company did not respond to the question

Source: Series of interviews conducted September, 1990 by the author.

For both former and current engineering exporters, the above distribution of markets is largely influenced by the availability of multilateral funding for infrastructural projects. Without such funding the feasibility of engineering exports to most of these countries would be severely limited. This hypothesis is corroborated by interview findings. Nine of the eighteen firms interviewed (both engineering and non-engineering) had participated at least occasionally on a proposal call, or actual work on, a multilaterally-funded project.

Firms were not given the opportunity to indicate in which specific Pacific Rim market(s) they expected to see future growth. Nonetheless, international business literature suggests a reinforcement of the current distribution of marketing destinations for KIS firms in general. Australia will likely continue to be an important market for KIS firms, particularly given federal government changes which increase its accessibility. In 1992 general tariff rates are to be cut by 10-15%; concurrently, GSP (preferences) for Singapore, Taiwan and South Korea will be phased out by July 1992. Furthermore, environmental expenditures made by firms located in Australia are to be fully tax deductible over a ten year period (CanadExport, May 1, 1991). The latter development could enhance opportunities for Canadian environmental firms.

Thailand is another area of future opportunity for Canadian KIS firms. While some investment promotion privileges were curtailed there in 1989, capital expenditures for infrastructural and educational projects were increased by 51.5% by the Thai overnment (Business Asia, July 10, 1989. p. 230). These are sectors in which Vancouver and B.C. KIS firms are particularly strong. Moreover, a Canadian Embassy study confirmed the country's need for environmental improvements and equipment. It noted that Thailand requires air quality improvements, forestry consulting, urban sewage treatment facilities, waste disposal facilities, and fire fighting equipment. The study also pointed out that upcoming legislation will require that small scale waste water treatment facilities be built into all high rise buildings and major complexes (CanadExport, February 1991).

Taiwan as well holds potential for Vancouver KIS exporters. As noted earlier, fifty-three percent of the interview sample is currently exporting there, along with just under twenty-percent of current exporters in the questionnaire sample. Because the country has a large capital surplus, it will continue to be an attractive market within the Pacific Rim. Opportunities for Canadian (and other foreign) KIS firms were recently identified in Taiwan's Six Year National Construction Plan. Projects upon which foreign firms are invited to bid include the following:

* Railway Construction (U.S.$16 billion allocated)
* Mass Rapid Transit System (U.S.$10 billion)
* Freeways (U.S.$26.6 billion)
* Airport Expansion (U.S.$963 million)
* Telecommunications (U.S.$4 billion)
* Energy Development (U.S.$38 billion
* Steel Industry Expansion (U.S.$1.9 billion)
* Petrochemicals Expansion (U.S.$62 million)
* Water Resources Development (U.S.$8 billion)

(Source: CanadExport, March 1991)

On the other hand, the strength of Japan in Southeast Asian markets creates difficulties for Canadian firms hoping to compete in those markets. Japan has established an economically interdependent relationship with the region since the end of World War II. Japanese war reparations were used to establish a tightly linked trading relationship between Japan and the Southeast Asian countries, with Japan permitted to offer labour and other services to these countries as part of reparations packages. In fact the Peace Treaty with the U.S. inferred that Japan was to maintain its "workshop of Asia" role by adding labour value to Southeast Asian raw materials and returning them as finished goods. (Borden, 1984. p. 203).

Japans's trade links with the region are increasing, this time tied in with Japanese foreign aid. The Japanese government is explicit about this as a desired outcome.

> [A] 1987-88 White Paper expounds the concept of comprehensive cooperation with a combination of economic aid, direct investment, and imports, aimed at creating a 'horizontal division of labour'

with developing countries. To that end, Japan plans to create a Pacific Economic Cooperation Zone in the Asia Pacific region, with Japan as the leading member. As a first step towards this goal, 'a creative international division of labour' between ASEAN and Japan is now actively being pursued under the New Industrial Development Plan launched by Japan's Ministry of International Trade and Industry (MITI)" (Xiaoming, April 1991. p. 347).

It may be that if Canadian firms hope to enter Asian markets in the future they will require cooperation with a Japanese firm.

3.4.2 MARKETING APPROACH

Experienced firms were asked to select from a list one or more marketing approaches used in selling to the Pacific Rim. The approaches they could choose from included:

*overseas sales trips
*use of trading house
*use of consultant
*Advertising in Asian media
*use of designated agent abroad
*government missions
*permanent overseas office
*other

The most widely used approaches among current exporters were:

OVERSEAS SALES TRIPS ---------------------> 62%
USE OF DESIGNATED AGENT ------------------> 45%
GOVERNMENT MISSION PARTICIPATION ---------> 41%

Among engineering firms the order varied slightly, with government missions a more common tactic than the use of a designated agent. Interview participants had the same order of

CHART 7

Marketing Techniques used by current Pacific Rim exporters

SIC CODE	TOTAL ASIAN EXPORTERS	OVERSEAS SALES TRIP	TRADING HOUSE	USE OF CONSULTANT	ASIAN MEDIA	USE OF DESIGNATED AGENT	GOVERN-MENT MISSIONS	OWN OFFICE ABROAD	OTHER
3351	6	5	3	2	1	5	1	2	1
3352	3	2	1	0	0	2	2	0	0
7721	2	1	0	0	0	1	1	1	1
774	5	1	0	1	1	1	1	0	2
7752	48	28	5	10	3	19	23	9	6
7759	1	1	1	0	0	0	1	1	0
7771	9	7	1	2	1	5	1	1	1
TOTAL:	74	45	11	15	6	33	30	14	11

Source: Postal Survey of Vancouver's Knowledge-Intensive Service Firms preference as engineering firms. The only variation was the extent to which interviewees preferred the overseas sales trips as a marketing technique. All interview participants used sales trips as compared to only nine of 17 participating in government missions (see Chart 8). Most interviewees rationalized their reliance on visits to Asia by citing the importance of establishing a strong personal relationsip with a current or potential client. Some samples of their comments:

* ... It takes a long time to get to know one's clients
* The market is very competitive [in Asia]. You have to prepare to go over for a long term. It takes several visits before you land a contract.
* Face to face communication even at that distance is important. [Our Asian clients] call often asking us to come over, which is very expensive.

Among firms with Pacific Rim experience but no current exports the preference for overseas sales trips decreased substantially. Only 35% of this group used trips as part of their marketing effort. Their preferences are listed in chart 9. Interestingly, "other" was the most popular marketing technique. For several non-exporting firms with Pacific Rim exposure, this has entailed marketing a product or service through another firm, generally in North America.

For some of these firms, as well as for one in the interview group, this approach has taken the form of a strategic alliance. Such an approach is often justified by the economies

CHART 8

Marketing Techniques Used by Interviewees

Factor:	Rank:	Number:	Percentage:
Overseas sales trips	1	11	61.1%
Participation in government missions	2	9	50.0%
Own office in Asia	2	9	50.0%
Designated agent in Asia	3	7	38.9%
Advertising in Asian media	4	4	22.2%
Other	4	4	22.2%
Use of trading house	5	3	16.7%
Use of consultant	6	1	5.6%

Source: Interviews of Vancouver Service firms known to be Pacific Rim Exporters, conducted September 1990

CHART 9

Marketing Techniques used by previous Pacific Rim exporters

SIC CODE	TOTAL PREVIOUS EXPORTERS	OVERSEAS SALES TRIP	TRADING HOUSE	USE OF CONSULTANT	ASIAN MEDIA	USE OF DESIGNATED AGENT	GOVERN-MENT MISSIONS	OWN OFFICE ABROAD	OTHER
3351	3	1	0	0	0	1	0	0	1
3352	6	0	0	0	0	0	1	0	5
7721	3	1	0	0	1	1	0	0	1
774	2	1	0	1	0	1	0	0	0
7752	20	10	0	4	0	2	7	0	6
7759	4	1	0	0	0	0	1	1	2
7771	5	1	0	0	0	0	1	1	4
TOTAL:	43	15	0	5	1	5	10	2	19

Source: Postal Survey of Vancouver's Knowledge-Intensive Service Firms of scale to be gained. Moreover, it is an easier and less costly way to be introduced to a new market. Unfortunately, however, it has the disadvantage of diminishing the company's likelihood of ever establishing an independent presence in that market. As Root (1987) notes: "Indirect marketing [requires] little, if any, foreign country/market knowledge on the part of the [supplier] but, for the same reason, it insulates the [supplier] from foreign markets" (p. 57).

3.4.3 SOURCES OF MARKET INFORMATION

Interview participants were asked to comment upon the relative importance of market information sources specified by the interviewer. They had to indicate whether they used each source frequently, occasionally, or never to learn about Asian markets and sales opportunities. The list of information sources consisted of: local newspapers and periodicals; international newspapers and periodicals; client interviews; domestic government representatives; informal Vancouver contacts; local trade bilateral contacts; informal Pacific Rim contacts; Pacific Rim agent(s); Vancouver colleges and universities; and other sources. The purpose of this question was to identify important sources as well as currently underutilized sources which might be imporved or used more effectively. It also served for future policy reference to illustrate how successful Pacific Rim exporters gain market expertise. (The results are shown in chart 10).

Overall the most important information sources were personal contacts with clients and other informal resource persons. These findings do not diminish the importance of more formal personally-conveyed information. Once a firm has an established presence, it is inevitable that it relies more heavily upon established contacts with individuals and firms than agents or government representatives. Indeed, government contacts were likely less important as an information source than as a source of financial and logistical assistance.

It would seem that trade bilaterals are an important way of making personal contacts of the initial marketing stages. While these organizations were not considered a crucial source of information, most interviewees' firms belonged to at least one in Vancouver. One representative stated explicitly that bilaterals were an important source of information for his company in the past, but were less important now. This would suggest that trade bilaterals can be useful in bringing together individuals who may later come to exchange information on an informal basis later on (both in domestic and international settings).

CHART 10

Sources of Market Expertise - Interviewed Firms

SOURCE:	USED FREQUENTLY	USED OCCASIONALLY	USED NEVER	NO RESPONSE
client interviews	11	5	0	2
informal Pacific Rim contacts	7	8	0	3
Pacific Rim agent(s)	7	5	2	4
int'l newspapers and periodicals	6	8	2	2
informal Vancouver contacts	5	11	0	2
Cdn gov't representatives	4	10	1	3
local newspapers and periodicals	4	7	5	2
Other	4	1	2	11
contacts through trade bilaterals	3	10	2	3
Int'l gov't representatives	1	13	0	4
Vancouver colleges, Universities, etc.	0	2	13	3

Source: Interviews of Vancouver Service firms known to be Pacific Rim Exporters, conducted by the author September 1990.

3.5 POLICY RECOMMENDATIONS - A FIRM PERSPECTIVE
3.5.1 QUESTIONNAIRE AND INTERVIEW PARTICIPANTS

Both survey respondants and interviewees were asked to indicate from a list of eight recommendations which actions they felt would have the greatest impact on increasing Vancouver's profile in Asian markets. The choices consisted of:

1. More sustained private sector marketing effort.
2. More accessible information on marketing opportunities.
3. Development of Vancouver-Asia networking organizations
4. Greater cooperation between universities and the business community.
5. Commitment to Asian programs in B.C. schools and universities.
6. Building on market expertise of recent Asian immigrants.
7. Expanded government representation overseas.
8. More comprehensive media coverage of Asian social, political, and economic issues.

To current exporters the onus was clearly on the private sector to step up its own marketing efforts in the Pacific Rim. Nonetheless, they also strongly supported increasing accessibility to information on market opportunities and the development of Vancouver-Asia networking organizations. Interview participants agreed that private sector effort was paramount, and that market information access needed improving. Unlike their cohorts, however, many also felt that Asian educational programs had a very important role to play in this regard. They also had a number of their own recommendations:

* More comprehensive government support for marketing trips.

* Expansion of Vancouver's port facilities.

* Increased immigration - we need a much larger population to compete.

* Expansion of the labour force, especially skilled workers in the light industrial sector.

* Greater cohesion between public and private sectors.

* Increased understanding of the Asian market in the private sector.

* More effective government representation overseas.

* Education of the business community.

Policy recommendations cited most frequently as somewhat important by questionnaire participants were utilization of immigrant expertise, and improved media coverage. Interviewees agreed that the former option was somewhat important but felt that the development of networking organizations was of greater priority than media improvements.

Low priority actions (those declared unimportant):

*Greater university-business cooperation --> 39/74 questionnaire respondants and 7/17 interviewees.

*Asian educational programs ----------------> 26/74 questionnaire respondants. Only 2/17 interviewees, however, considered this unimportant.

CHART 11

Policy Recommendations of Current Exporters
July 15, 1991

	A	B	C	G	F	H	E	D
VERY IMPORTANT	46	30	26	18	10	9	7	3
SOMEWHAT IMPORTANT	13	20	28	24	34	30	28	19
NOT IMPORTANT	2	11	7	19	16	22	26	39
NO RESPONSE	13	13	13	13	13	13	13	13

A = Greater private sector effort

B = More accessible information on marketing opportunities

C = Development of Vancouver - Asia networking organizations

D = Greater cooperation between universities and the business community.

E = Commitment to Asian programs in BC schools and universities

F = Building on market expertise of recent Asian immigrants

G = Expanded government representation overseas

H = More comprehensive media coverage of Asian social, political and economic issues

CHART 12

Policy Recommendations of Current Exporters (Interviewees)
August 6, 1991

	A	E	B	F	H	C	G	D
VERY IMPORTANT	12	5	5	4	4	3	3	0
SOMEWHAT IMPORTANT	1	7	6	10	7	9	8	6
NOT IMPORTANT	0	2	2	0	3	2	2	7
NO RESPONSE	5	4	5	4	4	4	5	5

A = Greater private sector effort

B = More accessible information on marketing opportunities

C = Development of Vancouver - Asia networking organizations

D = Greater cooperation between universities and the business community.

E = Commitment to Asian programs in BC schools and universities

F = Building on market expertise of recent Asian immigrants

G = Expanded government representation overseas

H = More comprehensive media coverage of Asian social, political and economic issues

Source: Interviews of Known Pacific Rim Service Exporters conducted September 1990 by the author.

3.5.2 INTERVIEWEES' ASSESSMENT OF VANCOUVER

Evaluations of Vancouver's suitability as a base for Pacific Rim marketing efforts provided an indication of the city's strengths and weaknesses for an export-led strategy. This information is useful because it conveys certain local level needs of Pacific Rim exporters. Interview participants were asked to rank thirteen characteristics on a scale from one to five, one meaning very unsatisfactory and five very satisfactory (refer to Chart 13). From their responses, the following assets and liabilities emerged clearly:

DEFINITE ASSETS	DEFINITELY NEEDING IMPROVEMENT
-Quality of life / recreational amenities.	-Access to federal/provincial trade representatives.
-Quality of supporting producer services.	-Presence of key Asian companies.
-Telecommunications infrastructure.	-Banks and financial institutions.

3.6 IMMEDIATE STUDY CONCLUSIONS

From a policy-maker's perspective these findings lead to several broad conclusions. First, while the Pacific Rim is less vital to KIS firms than the U.S. market, it is still an important export destination. It offers a realistic means of diversifying and avoiding over reliance on a single market. Firms are becoming increasingly aware of this option. The Pacific Rim provides a number of growth opportunities, and many firms already

Interviewee Rating of Vancouver as a Pacific Rim Marketing

Average score and rank:

RANK:	FACTOR:	Average Score	# with no response
1.	M. Quality of Rec. Amenities/ Livability	4.53	1
2.	D. Quality of Local Producer Services	4.12	1
3.	E. Telecommunications Infrastructure	4.06	1
4.	G. Internat'l Transport Facilities	4.00	6
5.	K. Quality of Commercial Infrastructure	3.88	1
6.	F. Air Connections	3.82	1
7.	H. Vancouver's Image	3.65	1
8.	B. Quality of Labour	3.63	2
9.	C. Quantity/ Availability of Labour	3.56	2
10.	A. Banks	3.50	2
11.	L. Quality of Public Infrastructure	3.41	1
12.	J. Presence of Key Asian Companies	3.31	5
13.	I. Access to Senior Gov't Represnt.	3.13	3

possess personnel with the appropriate skills to do business there. Second, firms are not targetting their efforts on one or two high profile destinations but are looking to a broad range of countries for their clients. The choice of destinations is determined somewhat by the sector of the exporting firms, as the demand for certain services varies according to the client country's existing service capacities and income or access to multi-lateral funding for projects requiring Canadian services. Government policies will need to appreciate this diversity and to recognize which types of firms will be tending to look to specific regions for clients. An awareness of such correlations will enable policy makers, trade commissioners, etc to better focus assistance to B.C. firms and to better target market opportunities.

Third, face to face contact between firm and client is a crucial part of doing business in Asia, apparently more so than in other markets. When well-planned, an overseas sales trip can go a long way towards ensuring business for B.C. and Canadian firms. Yet trips are extremely costly. For this reason firms seeking to establish themselves should first take advantage of as many opportunities at home as possible. This would include participating in one or more business networking associations. The study also demonstrates a need for enhancing and encouraging access to government representatives who may be able to help firms in identifying potential clients and opportunities.

Several interview participants with a well established presence in a number of Asian markets indicated that they continue to rely upon communication with Canadian Trade Commissions abroad as one of their sources of information on proposal calls and other market opportunities. Another interviewee's firm maintains consistent contact with the Asia Development Bank and World Bank who finance many of the larger scale projects in Asia with which B.C. firms hope to become involved.

Fourth, firms acknowledge that the onus is on them to improve their presence in Asian markets. However, many feel that their efforts could be enhanced by some assistance from government and trade associations. A strong need for better information was apparent, particularly on: specific markets; introduction to new contacts; and Asian societies' culture and political and business climates. At a Vancouver-specific level firms advocated better access to, and more effective dealings with, federal and provincial government representatives. They also believed that their own efforts could be complemented by increased presence of key Asian companies here in Vancouver and, most importantly, by improvements in banking and financial services here in Canada. Many interviewees complained that Vancouver banks' lack of decision-making autonomy and flexibility inhibits their ability to finance market ventures quickly.

4.0 RECOMMENDATIONS

Having looked at the Pacific Rim export propensity, we now turn to current and prospective initiatives designed to facilitate KIS and other exports to Asia. Section 4.1 outlines federal programs, including those established by External Affairs and International Trade Canada; the Export Development Corporation; and the Canadian International Development Agency. It discusses provincial activity, namely that undertaken by the Ministry of Development, Trade and Tourism and the B.C. Trade Corporation, as well as municipal activities. It also looks at non-governmental organizations with a role in this field, including the Vancouver Board of Trade, the Asia Pacific Foundation, and the International Finance Centre. Section 4.2 advocates increased local government action in KIS export promotion, particularly to the Pacific Rim. Theoretical and practical arguments are used to make the case. Finally, specific areas of potential local activity are outlined, and appropriate actions suggested.

4.1 CURRENT ASSISTANCE

4.1.1 FEDERAL PROGRAMS

The most commonly used sources of federal assistance by KIS firms are offered by:

*External Affairs and International Trade Canada;
*EDC - the Export Development Corporation; and
*CIDA - the Canadian International Development Agency.

External Affairs and International Trade provide assistance of an informative nature, with the Trading Commissioner network playing a key role. Trade commissioners in Asian countries assess export opportunities for Canadian firms and the constantly changing market characteristics in host countries. They then pass on their knowledge to Canadian companies directly, through International Trade Centres, or via the CanadExport newsletter. Canadian embassies also supply useful material by commissioning sector-specific studies within host countries. In addition, a recent workshop was given in major Canadian cities by Embassy investment and technology officers to inform firms of overseas investment and technical cooperation opportunities (CanadExport, June 3, 1991. p. 2). Finally, External Affairs apprises companies of export procedures through counselling and publication of an export guide.

The Export Development corporation aids service exporters in two ways. First, it provides them with export credit insurance, insuring the receivables (up to 90%) of service firms against non-repayment of the contract for either financial or political reasons. "EDC guarantees the largest credit insurance pool in Canada [and] ... can insure almost any type of export" (EDC brochure, Export Insurance). It also insures firms against the recall of performance bonds. If a performance bond has been required by a developing country (as a guarantee to the buyer that services will be provided) and that buyer unfairly calls in that bond, the EDC guarantees compensation to the firm. Recently the EDC has begun to offer insurance on Canadian foreign investment and joint ventures.

Second, the EDC provides commercial loans to foreign countries wishing to buy Canadian services. The EDC has established a particularly strong China connection.

> Since the development of lines of credit with the Bank of China in 1979, EDC has concluded over $1 billion in financing in China, including approximately $335 million in 1989 and $225 million in 1990" (EDC Today, 1991. p. 14).

Canadian firms bidding on projects that are advertised as bidder-financed inquire with the EDC as to the feasibility of obtaining funding for the country in which the project is offered. In deciding whether to finance the project he EDC will evaluate the project particulars, as well as the country, buyer, and Canadian content (minimum of 60%, but for industries in which we are strong the minimum increases). There are also country limits on EDC borrowing which are determined by the country's borrowing record, economic health, and access to foreign exchange.

The Canadian International Development Agency (CIDA) promotes economic development in the Third World. Yet CIDA is increasingly becoming a crucial source of revenue and financial assistance to many Canadian firms, particularly those in the service sector. CIDA performs the latter function in two ways. First, it gives procurement priority to Canadian firms on infrastructural and other development projects funded by CIDA. in developing countries. Second, it provides incentives to Canadian private sector firms to initiate their own development projects abroad. This second method is becoming increasingly important to CIDA. For example, in 1987 it was announced that funding for private sector initiatives was increased from two to four percent of the Canadian Official Development Assistance (ODA) budget (CIDA, 1987. p. 79).

For firms with the desire and expertise appropriate and/or adaptable to conditions in a developing country, non-repayable CIDA grants help subsidize some of the costs of investigating or initiating projects that eventually become a good source of revenue and experience for the firm. For companies experienced in development or a specific developing country these grants are a bonus. For those with little or no experience, however, they are often the critical factor in deciding whether a project proceeds.

Two programs encouraging private sector development initiatives exist: the Canada-China Technology Cooperation Program and the Industrial Cooperation Program. The Canada-China

Technology Cooperation Program enables Canadian firms to land contracts for projects priorized by the Chinese government. CIDA contributes up to $500,000 towards a feasibility study for the Canadian firm selected by the Chinese client on a given project. The firm must be approved by CIDA and China's Ministry of Foreign Economic Relations and Trade (MOFERT).

The Industrial Cooperation Program provides grants for five different levels of involvement in firm-initiated development projects. These are:

<u>The Canadian Technology Transfer Facility</u>

Funds are allocated to minimize some of the costs incurred by firms in adapting and testing their technology for long term projects in a developing country. Firms may receive a grant of up to $250,000 for pre-authorized expenses such as transportation, living costs, personnel costs, and the net cost of project-related equipment. To be eligible the firm must have signed, or be about to sign, a project agreement with a developing country firm, agent, or government.

<u>Canadian Project Preparation Facility</u>

The facility provides funding up to $350,000 to assist with project preparation studies in developing countries. There must be a likelihood of: project implementation; available financing; a good developmental impact and a potential market for Canadian goods and services. The study must be project--specific. The grant is not available to firms responding to an international competitive bid, such as a World Bank project; nor is it available to firms competing with another Canadian firm for the study. Eligible are those firms having identified a project opportunity for themselves with an alternative means of financing. An example would entail a Canadian firm seeking to establish a manufacturing facility under a joint venture wherein the project would be initially financed by the Canadian company and ultimately paid for through the sales of facility output.

Canadian Project Support Facility

Up to $250,000 is available to qualifying firms to offset the start-up costs of a long-term operation in a developing country. Allowable expenses include: technical assistance provision and the training of host country personnel.

Viability Study

Up to $100,000 for pre-approved expenses is available to qualified firms to conduct an in-depth analysis of long-term business cooperation. The applicant must have gone through, or be at a level beyond, the starter study stage.

Starter Study

A grant of up to $15,000 is available for pre-authorized expenses to encourage the preliminary assessment of feasibility of business cooperation with a developing country firm. The Canadian firm must be able to identify specific opportunities (potential partners) and have a reasonable chance of turning the study into a viable project.

Recently CIDA announced a new Private Sector Initiatives Fund (PSDFUND), aimed at promoting private sector development projects (CanadExport, June 3, 1991. p. 2). The program represents further movement towards a contracting out of CIDA development functions. CIDA limits eligibility for the fund in favour of the business sector. It is intended for profit-making organizations alone (CIDA, March 1991, p. 4). Instead of coming out of the Industrial Cooperation budget, financing for PSDFUND will be obtained from CIDA's bilateral country programs:

> Once in full operation, PSDFUND will represent at least 10% of the bilateral budget for each participating country. It is anticipated that the core program will be launched during 1994, with a staggered frequency for invitation calls in a given year (CIDA, March 1991, p.2).

At present the program is restricted to pilot programs in four countries: Colombia, Morocco, Pakistan, and Zimbabwe; however, it will ultimately be implemented in as many as twenty countries. Firms successful in their bids for pilot projects may be awarded as much as $4.75 million each. CIDA has, however, declared its preference for bids in the $1-2 million range (CIDA, p. 3).

Whether a business-oriented approach to development is the most appropriate one for developing countries is a debatable point. It entails further tying of aid to procurement of Canadian services, rather than the untying of ODA, as suggested in the CIDA document Sharing Our Future. The latter states that from 1988 on only 50% - 66 2/3% of bilateral aid is to be tied (pp. 52-53). Nonetheless, CIDA is clearly increasing its provisions of assistance and opportunities for members of the Canadian business community involved in developing country markets. This development will prove beneficial for Canadian firms.

In short, there is a consderable amount of assistance available at the federal level to firms at the export-ready stage. We must keep in mind, however, that other countries have more extensive systems in place to support their companies exporting to the Pacific Rim. Japan is perhaps the strongest in this regard. Since 1971 Japan has spent the equivalent of US $6.17 billion (at current exchange rates) on loan packages offered by its Overseas Economic Cooperation Fund (Far Eastern Economic Review, May 2, 1991. p. 47). Most of these loans have been tied to procurement of Japanese goods and services. Japan has also surpassed the U.S. as the largest donor to the Asian Development Bank, with US$1.3 billion offered to the Bank in

February of this year. Furthermore, official development assistance from Japan to developing countries totalled US $8.9 billion (Far Eastern Economic Review, May 23, 1991).

4.1.2 B.C. PROVINCIAL ASSISTANCE

Exporting and export promotion in B.C. is facilitated by: the Ministry of Development, Trade and Tourism (formerly International Business and Immigration) in conjunction with the B.C. Trade Corporation. The Ministry of Development, Trade and Tourism is responsible for investment promotion, export promotion, trade policy, provincial representation and other activities not covered by the B.C. Trade Corporation. Overseas the Ministry's offices are somewhat independent but, in general, are responsible for promoting B.C. as a place to do business. They fulfill this task by means of seminars and presentations. They are also responsible for promoting individual B.C. companies when approached by firms or recommended by the Ministry.

Within B.C. the Ministry acts ideally as a first point of contact for small and medium-sized firms interested in exporting (interview with John Pyper, MIBI). Interested firms would talk with an officer who would assess the company's experience, provide the latter with protocol and business practice information, make appropriate referrals, and contact the provincial office in the appropriate country to inform them that a B.C.

company is looking for business opportunities. More experienced firms requiring assistance would generally contact the B.C. Trade Corporation.

The B.C. Trade Corporation is a crown corporation designed to enhance B.C. exports. Its activities are overseen by a Board of Directors largely comprised of business people, but it also comes under the portfolio of the Minister of International Trade. The Corporation's mandate is threefold:

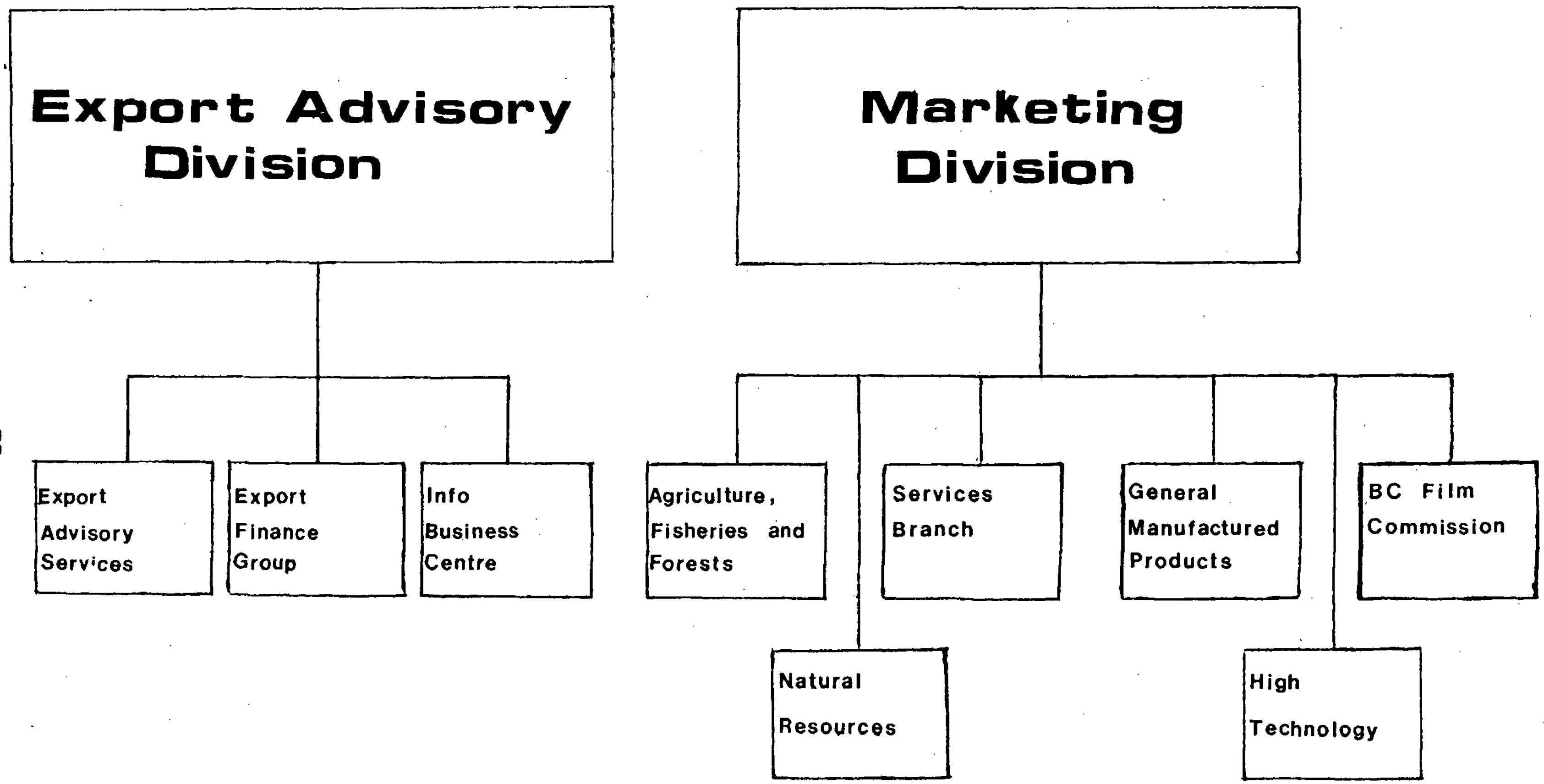
1) Providing assistance to companies wishing to increase exports;

2) Assisting companies wishing to commence exporting; and

3) Heightening companies' awareness of the importance of exporting in individual business plans.

B.C. Trade is composed of an export advisory division and a marketing division.

BC TRADE CORP.



To fulfill its mandate the Corporation undertakes a number of activities. Through its Export Advisory Division it provides information to exporters and would-be exporters through the B.C. Business Network, the B.C. Business Centre, and export advisory services. It publishes a monthly newsletter, the B.C. Exporter, which calls attention to the endeavours of current exporters and potential exporting opportunities as well as the various services offered by the Trade Corporation. Export seminars are given on a sectoral basis, and a series of international business breakfasts are offered to companies interested and willing to pay. The topics for this Spring's breakfast series were:

1) Introduction to Export and Export Readiness
2) Researching your market - How should I choose?
3) Finding the right representative and distribution channels
4) Pricing for export
5) Getting Paid - letters of credit
6) Trade shows and promotions
7) Export documentation
8) Moving your goods
9) Direct mail marketing in the U.S.A.
10) Effectively testing your export market.

B.C. Trade has also developed, in conjunction with various B.C. Chambers of Commerce, the CORE program (Companies' Readiness for Export). CORE consists of a computerized counselling session designed to assess companies' readiness for export. Participants are asked a series of 64 questions which are analysed by computer. The session results in a 35 page report with an evaluation of company status, a list of recommendations and a list of appropriate sources of information on potential exporting. Session results provide companies with background material to bring to individual counselling sessions with Trade Corp. officers.

The Trade Corporation's Marketing Division assists B.C. companies in marketing their exports. Counselling is provided in each of its six branches (agriculture, fisheries and forests; natural resources; general manufactured products; high technology; services and the B.C. Film Commission). Advisory services offered include: export counselling and financing; and counselling on special projects including bidding for international development agency projects, countertrade, and government procurement (B.C. Trade brochure). It has also recently established the B.C. Trade showcase - a permanent display setting with rentable space for up to 350 companies; a catalogue distributed on a national and international basis; and listing on the Japan External Trade Organization database (B.C. Trade News).

According to Gail McBride, the director of the Services Branch, the Services Branch generally assists those companies at the export-ready stage. The branch has a core client group composed of the more active exporters in each sector. There are approximately 25 key clients per sector group, and the client base as a whole is approximately 600 firms large. Activities conducted include: organization of overseas trade missions; hosting in-coming missions; facilitating B.C. company trade show participation; research on identifying projects overseas; and forming marketing groups.

Of particular interest to this study is the Services Branch promotion of group export marketing. To date BC Trade has established four such marketing groups, including a group of environmental companies seeking to break into the Taiwan market, and an advisory group in health care. The longest established of these groups (2 years) is the Engineering Group, consisting of 22 firms. Those companies were sourced through the Consulting Engineers Association of B.C. (to which all belong) and all pay a fee to belong to the marketing group. BC Trade provides some funding to the latter, but this has diminished over time and will soon be terminated. One of the group's major activities has been to hire a Manilla representative to get more information that could enable firms to land Asian Development Bank (ADB) projects. The group is hoping to expand and incorporate firms from other sectors as well.

Evaluation of program successes in the Services Branch poses some difficulties, and is conducted informally. Numbers of companies participating in various initiatives are compiled, as are sales resulting immediately from trade shows (or within six months afterward). Profile building is pointed out as an important spinoff from such activities. (Companies do not make immediate sales following a given activity. However, being seen once again in the market place may enhance sales in the future). This is considered important by the Trade Corp, as they argue that services are often purchased on the basis of reputation. The Services Branch also receives regular feedback from clients, in fact, weekly contact is maintained with core client companies. No evaluations have been made, however, of how companies assisted impact on local and provincial economies. Nor are formal evaluations (eg. detailed surveys) made of client groups to determine program effectiveness.

4.1.3 LOCAL AND PRIVATE SECTOR PROGRAMS

Asia Pacific Foundation

The Asia Pacific Foundation was created in 1984 by the federal government as a non profit organization. Its mandate is to heighten Canadian awareness of the Pacific Rim. The Foundation is currently headquartered in Vancouver with a staff of over twenty people. The Vancouver office has a budget of $3 million contributed by federal and provincial governments as well as the private sector (interview with Sue Hooper, August 28, 1990). The Foundation also has a liaison office in Montreal and is establishing others in Ontario, Saskatchewan and Alberta. Representation is also proposed for Tokyo and Singapore (Asia Pacific Foundation, in Hutton and Davis, October 1990, p. 2).

To fulfill its mandate the Foundation has established programs in five areas: business, culture, education, information and media affairs. Specific activities of relevance to the Vancouver business community include:

* fellowships to local journalists for a sojourn of several months in Asia (with the aim that such exposure will ultimately result in increased media coverage of Asian events);
* a database on all Canadian organizations with a role in the Asia Pacific;
* a database on Canadian firms active in Asia;
* a database on Asian specialists;
* bi-monthly publication of a newsletter; and
* liaison with the Board of Trade for APF representation to the local business community and assistance with the Board of Trade's annual trade mission to Asia.

Vancouver Board of Trade

The Vancouver Board of Trade is comprised of members of Vancouver's business community who choose to join and pay a fee for doing so. The Board of Trade performs networking and lobbying functions. Its international division, the World Trade Centre, provides counselling, education and networking opportunities to members interested in exporting. Specific services include:

- *Market information
- *International country nights, briefing and seminars
- *Trade missions
- *Reciprocal privileges at other World Trade Centres
- *Access to NETWORK - an electronic bulletin board listing trade oppor tunities from all other World Trade Centres.
- *On-site representative from the Asia-Pacific Foundation.

International Finance Centre

The IFC was established for the purpose of developing Vancouver as a recognised centre for international finance. IFC makes use of special federal and provincial tax-exempting legislation for non-residents to further its aims. Specifically the IFC works with registrants and other to increase activity with non-residents, the aim being to create a "Geneva of the Pacific". As of September 1990 the IFC had 44 registrants (interview with Michael Goldberg, Director ICF, September 10, 1990). The IFC also serves as a mediator between registrants and senior levels of governments, attempting to keep the latter's tax legislation as flexible as possible. Finally, the IFC publishes research pieces identifying new areas in finance where Vancouver possesses certain advantages (eg.: asset management, trade finance, captive insurance management, etc.).

City of Vancouver

The City of Vancouver also plays a role in enhancing ties with the Asia Pacific, largely through its Economic Development Office. Trade missions are undertaken and educational exchanges established with "Strategic" cities including Hong Kong, Singapore and Bangkok. The City is represented on the Sister City Commission (Vancouver's sister cities are Guangzhou, Los Angeles, Yokohama, Edinburgh, and Odessa) and on various local bilateral trade associations. The City has also proposed establishing an organization to deal with the social issues which arise with increasing ethnic diversity. The proposed Hastings Institute would provide training to sensitize people to the needs of new Canadians and ethnic minorities (City of Vancouver, 1989 in Hutton and Davis, October 1990. p. 6). Finally, within the Economic Development Office research is continuously conducted on Vancouver's business and economic trends. (The postal questionnaire administered for this thesis was undertaken jointly with the Economic Development Office and the University of British School of Community and Regional Planning).

4.2 LOCAL OPTIONS - SOME RECOMMENDATIONS

Given the plethora of programs and expert advice available from the above sources, one could readily assume that no need exists for additional export assistance from the local government. After all, there are several arguments against the duplication of existing programs. It is assumed that such redundancy is inefficient and a waste of scarce resources; similarly, that it detracts resources from other activities which are not replicated. Redundancy is also believed to render blame more difficult to pinpoint when errors occur. (Bendor, 1985. p. 29).

On the other hand, redundancy in certain circumstances is more effient than using a single agency to solve a problem or perform a task. There is no real evidence that bureaucratic competition is actually wasteful. Studies confirming that redundancy need not be wasteful include those conducted by: the U.S. Joint Economic Committee (1972); Meier (1980); and Hirsch (1970). Redundancy is actually desirable in the following instances:

1. When failure is more likely to occur in a single channel of action/communication/decision;

2. When a failure is most likely to be costly;

3. When it is likely that a second agency could find a better way of achieving the goal set by the monopolistic agency; and

4. When redundancy can be implemented in such a way that its initial pecuniary costs would not be prohibitive (Bendor, p. 53).

Thus while local governments should not attempt to duplicate <u>all</u> the provincial government's efforts in promoting Pacific Rim trade, some duplication would be healthy. Moreover certain activities (generally the less costly ones) could and should be decentralized, in essence, reallocated to municipal or regional levels of government. As will be demonstrated in section 4.2, other local programs could be designed to complement those programs remaining at provincial and federal levels. Cities must make an increasing effort to regain control over local economic development policy, including export promotion.

It is generally left to the local level to ensure that firms and strategies promoted by federal and provincial governments do not contradict local goals. It may be that priorities and projects identified by senior governments are not the same as those recommended by the City. They could potentially have negative impacts on certain sectors of the City's population - impacts unforseen by senior governments.[1]

[1] To some extent this was the case for Austin, Texas. In 1983 the state government was successful in its efforts to make Austin the new location of MCC, the Microelectronics and Computer Technology Corporation. It was hoped that the corporation's presence would incur a number of positive economic developments. As it turned out, however, the assumption of benefits was questionable. The company's technical spinoff potential was exaggerated (see Farley and Glickman, 1986. p. 414). Similarly, an economic impact assessment showed the corporation to have relatively weak employment linkages with the rest of the Texas economy (Farley and Glickman, p. 409). Finally, many landuse consequences of MCC's arrival were negative. The company located close to the watershed for the city's water supply, and when other research facilities were set up nearby this created difficulties for local planners (p. 413).

It is thus necessary for local governments to play a major role in determining economic strategies. Local governments will ultimately be responsible for accommodating the needs and reactions of local people. Where necessary they will have to develop policies to mitigate any potential costs of a service sector economic development strategy.

The need for publicly accountable decision-making further justifies local governments' role in economic development and export promotion. Local governments enjoy a greater degree of public accountability than provincial or federal governments. Accountability in a municipal economic development agency is to the City Council as a whole, rather than a single individual with a political career at stake. City councillors can act more immediately as checks on each other's ambitions. A provincial minister, however, is the sole responsible for actions taken by her or his ministry. Consequently, s/he is more likely to promote actions with high public visibility, but which are not necessarily in the best interests of the public over the long term.

Public accountability may be jeopardized when a crown corporation, such as B.C. Trade, is used as a vehicle for implementing economic policy. Public sector crown corporations have traditionally been justified for the following reasons:

1. To alleviate or prevent bureaucratic inertia from settling in;

2. To encourage staff with scarce or desirable technical and business expertise to work for the agency; and

3. To prevent the short-term political interests of the minister in charge from impinging on the corporation's true mandate (Laux and Molot, 1988, p. 67).

Yet such corporations have not and do not always act in the public's best interests. Musolf (1959) examined and found wanting traditional links of crown corporation accountability to the federal government. These links included: questions; parliamentary debates; and reviews undertaken by various committees. Of particular concern was the fact that, highly prominent or controversial entities excepted, little attention or public exposure was given to crown corporations:

> ... a familiar complaint of Members of Parliament has been that those corporations that do not incur deficits escape the scrutiny of Parliament. [Yet] the taxpayer's risk extends throughout the gamut of corporations and is not concentrated in those with a deficit Musolf, p. 139).

Accountability issues have not diminished in recent years. The Board of Toronto Harbour Commissioners presents us with a contemporary example of a Crown corporation which failed to act in the public interest. The corporation was to be financially self-sufficient, and possessed the broad mandate of "...acquir[ing], expropriat[ing], hold[ing], sell[ing], leas[ing], and otherwise dispos[ing] of such real estate ... as it may deem necessary or desirable for the development, improvement, maintenance and protection of the harbour" (Board of Toronto Harbour Commissioners Act, 1911, Statutes of Ontario). This was problematic.

Direct public control of the agency through financial mechanisms was extremely limited. To make matters worse, the Board resorted to enormous sales of scarce public waterfront land to compensate for its unprofitable activities (see O'Mara, 1984). Some highly questionable sales for less than market value were made as recently as 1986 and 1987 (see the <u>Toronto Star</u> Oct 25, 1986 and June 16, 1987). A Royal Commission inquiry was eventually held, but not until Toronto had lost much of its valuable waterfront resources. This is not meant as a case for dismantling all crown corporations, but it underscores the importance of local governments having the ability to act in the same spheres as policy-implementing crown corporations.

A further advantage to local economic development agencies is their greater flexibility relative to provincial agencies. Feedback from local program implementation has a better chance of being heard and incorporated into programs because there are fewer bureaucratic channels through which they must proceed. The less elaborate the bureaucracy, the greater the likelihood of flexible behaviour. The bureaucratic model is premised on its ability to insure reliability and dependability. Yet these macro-goals lead to preoccupation with rules and procedure:

> In order to assure efficient, accountable, and equitable performance, government organizations often proliferate large and complex systems of rules. Such organizations may then become rule-bound - more concerned with being self-protective and safe than with creating effective solutions to problems that arise (Eddy, 1981. p. 4).

Inflexibility in turn will cause other inefficiencies or dysfunctions to develop within an administration, specifically: decreased incentive for personal achievement; goal displacement; poor internal and external communications; and lack of adaptive capacity (Haynes, 1980. p. 17).

Cities in general are increasingly recognizing the need to become more involved in international relations and trade. This is partly due to the flexibility consideration discussed above. But in addition,

> ...the shift towards a global economy has heightened local awareness of international economic competition, and [inter-city relationships] are perceived as a means of strengthening business ties and improving market accessibility in other countries. ...Cities are becoming more important in economic development as they link up with counterparts in other areas of the world" (Report to Council, City of Toronto International Office, March 1990. p. 3).

There are also locally-specific reasons for advocating decentralization of export promotion programs. Vancouver is well-known to Asian business people and should be able to take advantage of its good reputation. Vancouver is perceived as a desirable place to visit, a clean and safe place to live. It is a very attractive place in which to do business and to consider investing. Local policies can be designed to capitalize on Vancouver's reputation and to enhance the city's attractiveness to business visitors and potential investors. Transportation facilities, a good telecommunications infrastructure, and "smart" buildings which accommodate firms' increasing reliance on electronic networking are but a few of the considerations that can attract a firm to Vancouver. This can help local KIS firms, particularly those who wish to increase ties with the Pacific Rim.

Given that there is a definite need for local service export promotion activity, I propose that programs be devised for four categories of activity: research, education, networking, and improving the local business environment. I will discuss below the scope for local activity in each of these areas. Ideally the Greater Vancouver Regional District could eventually be in a position to initiate most of these activities, as the metropolitan government would be the most appropriate for this kind of promotion. Until the GVRD possesses an effective power base, however, these policies would have to be implemented at the city level, perhaps in conjunction with other interested municipalities. In the examples that follow, I will be referring specifically to the City of Vancouver. Nonetheless, the type of activity recommended would be applicable to many medium and large-sized metropoles.

4.2.1 RESEARCH

In terms of service promotion, there are two types of research that need to be pursued by the City's Economic Development Office: local and international. Local research would include general research on the city's economy, on up-and-coming economic areas, and on companies in sectors targetted by the city as in need of promoting. To some extent this is being done already; however, I shall be recommending in section 4.2.2 that this research be put to a very specific use. A further modification on the research strategy could see the City acting as a consultant to the province. The provincial government could contract the city to conduct research on Vancouver firms in provincial sectors of priority. In this manner the city would receive additional monies for its programs as well as benefit from research economies of scale.

At a general level, awareness and understanding should be heightened of different types of assistance (financial and counselling) available to Pacific Rim exporters at the provincial and federal levels. This will provide a point of departure for effective discussion and coordination with senior governments in the export promotion arena.

Detailed analysis should be made of the way KIS development affects the city as a whole, particularly with regard to its spatial, employment and economic development implications. It is particularly essential to be specific about the type of KIS firms promoted. "[H]igh tech firms are not all alike and, as a result, have different locational requirements and implications for their host communities" (Farley and Glickman, 1986. p. 414). Mature technology-intensive activities such as the production of silicon chips tend to create polarized employment structures, to be susceptible to moving to lower income countries, and even to use some toxic materials (see Applebaum, 1983). Smaller, more innovation-based firms (particularly those which are locally-controlled) tend to purchase local inputs. In this manner they often create demand for more specialized services.

Research at the international level would require a substantial budgetary increase for the economic development office (as would several of the recommendations that follow).[2]

[2] Budget increases could be achieved in several ways. First, City Council could approve measures to allocate a certain portion of development levies to the EDO. Vancouver is currently attempting to make developers provide or pay for public art - why not have them contribute towards actions that would improve the local business climate as well? Second, if many of the functions currently undertaken by the B.C. Trade Corporation were eliminated (at least in the Vancouver area) the monies used to support these activities should be reallocated to the EDO. Finally, and

However, if the city is to play a role in assisting KIS firms to export to the Pacific Rim, staff must be better informed about the region as well. Staff must understand more about Asian countries, particularly those where export opportunities are believed to exist. Basic research could begin with locally available resources. The next step would be to take advantage of relationships established through city twinning. Using contacts established in this manner staff could find out more about Asian companies in relevant enduser sectors.

Staff could also maintain close contact with Canadian Trade Commissioners and Embassies in the appropriate countries. Ideally city staff could have access to any market research commissioned by the Trade commissioners and Embassies. In fact, by communicating Vancouver priorities local staff may provide an important input into Trade Commission research. Moreover, close relationships should be established with consulates and trade commissions from Pacific Rim parties. If these are taken seriously, such relationships can become an important source of market information and a useful networking tool. After these sources have been utilized to the fullest extent, visits could be used to provide additional information as required.

more controversially, a small surtax could be added to all property purchases made in Vancouver by non-residents regardless of country of origin. Revenues raised by this tax could fund a number of programs, including local economic development.

In addition, Economic Development staff should become better informed about international lending agencies. Such awareness could be cultivated in conjunction with provincial government efforts so as to avoid unnecessary cost and effort. Ongoing contact with multilateral organizations such as the World Bank and the Asian Development Bank is recommended for the purpose of keeping informed about loans being negotiated and projects available for bidding. Often such projects constitute opportunities for local firms, and if the city is to play a role in encouraging service exports, it should be cognizant of as many opportunities as possible.

Finally, staff should seek to be aware of current and potential Asian investors in Vancouver-based firms. This investment can help promote Vancouver exports to the Pacific Rim, both directly and indirectly. As Hutton and Davis (1989) note:

> [Asian] immigrants bring with them an accumulated knowledge of the language and culture of their countries of origin. Many of these immigrants bring as well extensive knowlege of the business conditions and practices of their former homelands and begin to add to this base an expanding familiarity with market conditions of the new homelands ....Many ... choose to capitalize on their experience to expand markets both locally and abroad. Their activities promote increased international trade and thus benefit local consumers through new and cheaper products, local business people through expanded business opportunities, and local labour through increased employment opportunities (Hutton and Davis, p. 27).

At least two of the firms interviewed for the study expressed the view that greater knowledge of local economic sectors favoured or investigated by Asian investors would be good for their business. Moreover, smaller locally controlled firms require additional investment to enable them to expand their operations. Other cities have recognized this need and attempted to address it. For example, Metro Toronto hosted a Japanese mission to Toronto with the explicit goal of promoting Japanese investment in local pharmaceutical research firms.

Edgington and Goldberg's (1989) observations of ethnic Chinese investment imply that this could be feasible in Vancouver as well. They argue that Vancouver and B.C.'s strong economic growth in 1989 and 1990, in conjunction with significant in-migration to the city, has greatly facilitated local investment by this group:

> ... B.C. is attracting serious ethnic Chinese business investors, whereas most of these people focussed on Toronto and Southwestern Ontario previously. ...[T]hese [are] active investors instead of the retired entrepreneurs... Moreover, there is evidence of similar interest emerging up from ethnic Chinese investors in Malaysia, Singapore, and even Thailand. Thus, the investment picture appears to be very strong overall, is proceeding broadly on a number of fronts, and is overwhelmingly made up of numerous (initially at least) small scale investments (p. 11).

4.2.2 NETWORKING

Much of the networking currently underway in Vancouver occurs within the private sector and private sector institutions. The City's Economic Development Office participates in this to some extent. It sends a representative to bilateral organizations' activities, evidently as a means of learning more about local firms and their activities at home and abroad. It is my contention, however, that the city has a role to play in some more focussed networking activities.

The number and proportion of small and medium sized firms in the local economy are increasing, particularly in the service sector. Smaller firms are not incapable of exporting. Nonetheless, many with otherwise competitive services find the task of exploring new markets difficult or infeasible because of the time and resources required. For such firms the most efficient way of getting acquainted with a new export market may be in conjunction with one or more experienced firms by marketing the service in a consortium approach. In fact, it was discovered after interviews (described in Chapter Three) had taken place that two interviewees had already teamed up to work on a project in Southeast Asia. Local governments could assist smaller service firms whose services are export-ready by linking them up with other firms whose products and or services could be complementary. Linkage could focus upon an opportunity identified by one of Vancouver's sister cities in the Pacific Rim; by the Canadian Trade Commission Network overseas, or by a provincial office abroad.

As noted in section 4.1.2, BC Trade Corporation's Services Branch has initiated a similar networking strategy. However, this strategy has been influenced by provincial priorities, not necessarily city ones. There is no attempt to assess these companies assisted by the corporation in terms of their economic linkages and impacts. In fact, the approach used in company sourcing is unsystematic. It is designed for those who are already export ready. It makes no attempt to link stronger firms with smaller, newer firms.

By contrast, the City Economic Development Office could target several specific KIS sectors demonstrated worthy of encouraging. The city would have to source interested firms with appropriate characteristics and similar geographic interests. Surveys such as the one used in this study could be one way of doing so. The city could select firms based upon some pre-established criteria considered important from its point of view. The city would then contact selected firms and invite them to a seminar, or series thereof, concerning exporting services with an emphasis on the consortium approach. Not only would firms have an opportunity to learn more about exporting opportunities, they would also be put in contact with one another.

The City could cooperate with the Province once it had sourced companies of local importance on a systematic basis. It could also collaborate with the Board of Trade, once appropriate firms in desirable sectors had been targetted. In this manner some of the costs of the endeavour would be reduced as well.

A variation of the networking approach, involving strategic alliances, has been used with success by the Metropolitan Toronto Economic Division. Recently the agency organized a mission to France composed of twelve companies in the telecommunications sector. Companies had been selected from respondants to a city survey on export activity and export readiness. Economic Development staff matched these companies with appropriate French companies with a view to promoting strategic alliances between them. According to one of Metro's Senior Development officers, research and targetting were the keys to successful city involvement:

> Our results are achieved by doing very deep homework on our companies before we start the activity. We don't do a general program but screen companies after having targetted a specific opportunity. Then we do export readiness training." (telephone interview with Brian French, July 5, 1991).

Another successful type of networking occurs through city twinning. Many of the Vancouver firms interviewed appeared skeptical about spinoffs from sister city relationships. Nonetheless, the results are often greater than perceived. A relationship with an Asian business partner is often indirectly enhanced by formal bureaucratic contacts, and extra credence lent to missions and other activities involving companies from twinned cities. If participating cities take the twinning relationship seriously enough genuine cooperation between Asian and Canadian firms can ensue directly. Such has been the case with Calgary and Daqing, China:

> This twinning relationship has resulted in millions of dollars of business being conducted between the [Calgary] private sector and Daqqing's oil industry. A new Daqing initiative is being spearheaded by the [Calgary Economic Development] Authority in the area of waste water and potable water treatment, a pilot project that could result in greater activity throughout the P.R.C. by private sector engineering firms along with the Authority (Calgary Economic Development Authority Organizational Profile. April 1990, p. 11).

Toronto has also used city contacts as a means of creating export business for local private sector firms:

> Toronto City Hall ... provided training for a fireman in China, town planners from Mexico and Kenya, and public health officials from Latin America. In addition to what they learned at City Hall, these international visitors made contact with a wide range of Canadian institutions and businesses" (City Planning, Summer 1987). The International Office has established and/or supported existing programs in the areas of Sister City programs, hosting visiting delegations, international staff exchanges, and

liason with external groups pursuing their own international projects (Report to Council, p. 4).

In China alone, the International Office assistance claims to have facilitated the following business successes:

*Northern Teleacom's bid for a contract to supply the DMS switch (a multi-million dollar project with potential for additional contracts in other Sichuan cities).

*Armand Associates' proposal regarding a fertilizer conversion project. A feasibility study was completed in 1989; work is now in progress on the engineering design for a manufacturing plant.

*X-Rad International signed a technical agreement with a Chongqing factory for a technology transfer in March 1989.

*The Urban Transit Development Corporation conducted a preliminary study of the urban transit needs of Chongqing in 1986.

*A number of potential joint venture projects were under discussion in early 1989, but further progress was halted following the events in June. (Report to Council, p. 8).

4.2.3 EDUCATION

Education is an essential component of any export strategy. In the first section of this chapter we described some of the educational activities, notably seminars and business breakfasts, undertaken by the B.C. Trade Corporation and the Vancouver Board of Trade. Many seminars given by these agencies consist of generalized information on export procedure; legal aspects to business in Pacific Rim countries; tips on etiquette and indigenous social and business culture. While such seminars are frequented, it is doubtful that they are of great value in actually promoting exports. Such information is already currently available from a wide variety of sources including popular business literature. Moreover, it often fails to meet the needs of participants and there are no effective channels for communicating those needs. One interviewee criticized provincially-administered seminars because they failed to recognize that many potential exporters were new Canadians or Asian investors. If such recognition had been made, seminars would have been offered in Cantonese or Mandarin; at minimum translators could have been on-site during the seminars.

A more appropriate use of some of these educational resources would be to focus upon assisting companies to become export ready. Through the B.C. Trade Corporation's CORE program the province has begun to investigate this strategy. As noted earlier, however, CORE is mainly an assessment program and still very generalized.

If the City were to administer its own program of CORE assessment and training as a local alternative to that of BC Trade, it could better meet the needs of specific sectors. Indeed, as the Economic Development Office is often the first point of contact for many small businesses setting up or expanding operations, it would be in a position to better understand the needs and constraints of smaller companies.

Educational programs should also be developed to meet the needs of the local workforce. If KISs and their exports are to be promoted, we must be sure that local labour can benefit. Such programs could aim at creating professionals and para-professionals, and should facilitate skills upgrading of workers who are or will be displaced by declines in resource and resource-processing industries. In fact, education of labour is crucial if KIS export promotion is to be a viable economic development strategy. Yet Vancouver and B.C. as a whole are in danger of failing to address the education issue:

> B.C. now has the lowest university enrolment rate in Canada -40% below the national average. We also have the lowest level of provinical operating grants and the lowest level of student aid per capita. Our level of operating grants to universities per full-time student ranks only ahead of Ontario and P.E.I. (Seelig and Artibise, January 1991, p. 78).

Educational programming can also be conducted in a much broader sense. It can be used to promote more profound contacts. For example, the city may wish to fund several scholarships for students in Pacific Rim countries (particularly for students from sister cities in those countries) to study in Vancouver. Not only would this promote good relations between Vancouver and the recipients' cities it would also enable recipients to become familiar with Vancouver and to develop a sense of comfort in the city. This would be of particular benefit should these individuals eventually become involved in their countries' business or government sectors. While a similar program exists at the senior level (see Hutton and Davis 1990), it would be desirable for the City to tailor its own program, perhaps using provincial funding.

Education at the professional level is also important. Professionals coming to Vancouver on an exchange or training mission gain exposure to local conditions, but they are inevitably exposed to local producer services as well. In many instances they will have a market for some of those services in their home country. It seems ironic, however, that the UBC Centre for Human Settlements has launched a program for training planners in developing countries without meaningful cooperation with the City of Vancouver. Both the City and CHS could have benefitted from closer ties: developing country planners and Vancouver planners could have made some useful contacts and gained some practical knowledge about the way planning is done here on a day-to-day basis.

Finally, education has a public dimension; specifically, information conveyed to the public at large and to Vancouver firms through the local news media. As noted in Chapter Three, many interviewees felt that media coverage of Asian events and trends could only enhance Vancouver firms' understanding of, and ability to compete in, Pacific Rim markets. The Asia Pacific Foundation currently offers a prize for local media to visit Asia, with the aim of promoting greater Asian coverage. The City could launch a similar initiative.

4.2.4 IMPROVING THE LOCAL BUSINESS ENVIRONMENT

To some extent, local business environment is a function of a complex set of factors, many beyond the control of governments. Nonetheless, there are actions which could be taken by the local government that could help in this regard.

Planners should do their utmost to maintain Vancouver's status as a highly livable city. As noted in Chapter Two, increased predominance of service industries within the city has spatial ramifications. These issues will need to be addressed through government action. While it is outside the scope of the thesis to explore specific policies in detail, some appropriate physical planning actions could include:

* promoting increased use of public transit to discourage gridlock on the metropolitan region's streets and highways;

* lobbying the provincial government to improve transit provision in outlying suburban areas;

* encouraging innovative medium density residential development in relatively underdeveloped (existing) neighbourhoods to help alleviate housing shortages;

* protecting urban wilderness areas; developing new park space; and

* promoting a variety of cultural activities and amenities.

To encourage tertiary industries within a metropolitan area like Vancouver, the following initiatives (recommended by Daniels, 1990) would be useful:

* where agglomeration economies are necessary for desired tertiary activities, discouraging the decentralisation of producer services from the Central Business District;

* making infrastructural investments relevant to tertiary industry needs, accommodating in particular those of services which export services outside the region;

* educating the local business community about the importance of producer services as local business inputs and to the economy as a whole;

* marketing the city to appropriate footloose tertiary industry (Daniels, pp. 42-43).

Finally, the local government could continue and enhance its role in lobbying other levels of government for actions of benefit to local firms in general, and exporting KIS firms specifically. Such lobbying could encourage:

* increased accessibility for local firms to services provided by senior levels of government. In Chapter Three it was noted that many interviewees complained of difficult access to federal government representatives. While some important services have regional offices in Vancouver (such as the Canadian International Development Agency and the Export Development Corporation), these offices are sparsely staffed. Moreover, little decision making powers are vested in staff at these offices.

* major transportation improvements that would improve accessibility to Pacific Rim markets for exporting firms.

* policies and programs to maximise the advantages of Vancouver's designation as a Canadian International Finance Centre.

* provincial government support for education and training programs that would enhance local labour force employability in the eyes of the KIS firms the city wants to attract and maintain.

* enhanced cooperation and dialogue with Vancouver's Economic Development Office on the part of federal and provincial governments.

* according preference to those Asian (and other) immigrant investors intending to make <u>active</u> investments in priority (namely KIS) sectors of the Vancouver economy.

4.3 CHAPTER SUMMARY

We have seen that a number of senior level programs, with impressive budgets, exist to facilitate KIS exports to the Pacific Rim. At present, the local government implicitly recognizes the importance of KIS export promotion, but has little power and few effective programs for doing so. Such relative inaction should change, to improve efficiency and accountability in export promotion, and to ensure realization of local goals. Local government action would be especially useful in helping smaller and medium sized firms become active in Pacific Rim markets, as senior initiatives tend to favour the larger firms.

Local policies could be developed in four spheres: research, education, networking and improving the local business environment. Policies could encourage cooperation with other actors, notably local NGOs such as the Vancouver Board of Trade, the Asia Pacific Foundation, and various trade bilateral organizations. Such cooperation would be efficient and cost-effective; however, the important thing is for the City to be in control of the process of cooperating with these NGOs.

To this end, the City must have clearly articulated goals. One example is to aim at increasing the Pacific Rim export abilities of locally owned, and/or smaller KIS firms. Similarly, the City could look at forms of cooperation which facilitate the provision of educational opportunities to enable local residents to benefit from enhanced employment opportunities (provided by KIS firms' export activities). Equally important, city planners must understand that the growth of service activities in the local economy has spatial consequences that could have a deleterious results for many segments of the population, and the city as a whole, if not addressed.

5.0 CONCLUSION

This thesis has demonstrated the feasibility of a local economic strategy promoting knowledge intensive service exports to the Pacific Rim. The literature review in Chapter Two provided important background material on economic restructuring: general economic, employment and spatial implications as well as specific examples of their manifestation in Vancouver. It provided a case for focussing upon knowledge intensive services as opposed to services with relatively few information inputs. It also discussed an important study of Vancouver producer services (many of them KIS firms) completed in 1984.

In Chapter Three, results of the study of Vancouver KIS firms were summarized. The study proved that the Pacific Rim is second only to the U.S. in importance as an international market for Vancouver KIS firms. In fact, over one-half of questionnaire respondants with Asian exports, and 60% of the interviewee group, sold at least 10% of total firm services to Asian markets. In addition, many firms not currently exporting to Asia have had previous sales there and have the potential to export there again in the future.

The study also outlined characteristics of KIS firms with an Asian presence. These characteristics included: individual Asian market destinations, marketing techniques, information sources and policy measures favoured by Vancouver KIS firms. Firm perceptions of appropriate measures to increase Vancouver KIS sales in the Pacific Rim were analyzed. Other than increasing private sector initiative, questionnaire respondants (active in Asia) favoured increasing accessibility to information on market opportunities and the development of Vancouver-Asia networking associations. Interviewees agreed that private sector effort and enhanced information access were important, but also felt that more Asian educational programs were needed.

Furthermore, interviewees outlined the advantages and disadvantages of launching a Pacific Rim marketing campaign from Vancouver. Disadvantages were: insufficient access to Canadian government trade representatives; few major Asian companies in the city; and insufficient decision making power at local banks and financial institutions. Vancouver assets included: quality of life; quality of supporting producer services; and a good telecommunications infrastructure.

Chapter Four outlined various initiatives and institutions with a role in promoting Asia-bound exports. It highlighted the need for local action in this sphere, for several reasons. From an organizational behaviour perspective, local actions may be more efficient. Even if local governments end up replicating <u>some</u> senior level programming, this redundancy need not be wasteful. In fact, it could increase efficiency by heightening the likelihood of goal fulfillment. Local economic development agencies are also assumed to have greater flexibility than larger organizations, and to be more accountable to the public. Local actions could also help mitigate actions of senior governments which are based upon conflicting aims, or which fail to adequately consider local impacts. Chapter Four concluded by suggesting several dimensions in which local action could be worthwhile: research, education, networking, and improving the local business environment.

Unfortunately, however, the likelihood of these recommendations being implemented is slim. At present little support is given by City Council or the Mayor to initiatives actively promoting links with the Pacific Rim. In fact, economic development programs on the whole are accorded with little importance, as shown by recent staff cutbacks. While Vancouver has enormous potential as a Pacific Rim city, this continued lack of vision will cause much of its potential to remain untapped. Future research must find a way to convince the city government that export promotion and other trade programs need to be implemented.

The thesis has other limitations. A number of interesting and important issues were not covered, as they were outside the scope of the thesis and would have detracted from the research question. For example, the appropriateness of knowledge intensive services developed in Vancouver (and other OECD countries) for Asian recipients --particular those in poorer countries-- is a subject of constant debate. The Appropriate Technology school has criticized the application to the Third World of First World technologies for having failed to demonstrate significant modifications and appreciation of the different needs, environmental, economic and social conditions that prevail. I acknowledge these criticisms, but stand by my initial goal. Service firms with experience in developing countries have successfully modified their technologies so as to meet local conditions. Many consulting firms will cooperate with indigenous Asian firms during projects. They thus provide the latter with exposure to new technologies while enabling themselves to learn about local practices and constraints.

There are other issues pertinant to the thesis which are worthy of further investigation. While some important research has been done on service sector linkages in the Vancouver economy (see Ley and Hutton, 1987) it would be interesting to see how the local inputs of KIS firms with Pacific Rim markets differ from those not exporting to Asia. My inclination is that Pacific Rim exporting firms have a potentially greater need for local inputs not required by other KIS firms with more familiar markets (eg. the U.S. and the rest of Canada). These would include:

* translation and special printing services (eg. firms capable of typesetting with Chinese characters).
* seminars, courses and other training on Asian business

practices, law and culture.

* language training.

* government services (External Affairs, the EDC, CIDA, Ministry of Trade, Tourism, and Economic Development, BC Trade Corp).

* consulting firms with expertise in Asian markets.

* advanced telecommunications services.

Other research could focus on the staffing and educational requirements of these firms. If KIS export promotion is adopted as part of an economic development strategy, policy makers will need to be informed of opportunities for the local labour force. In this mannner, appropriate training programs can be designed-programs which will genuinely benefit employers and persons seeking employment.

Additionally, it would be interesting to make a comprehensive study of other North American cities whose service sector is active in Pacific Rim markets (eg: Seattle, Los Angeles, and San Francisco). It would be useful to understant the extent to which Asia constitutes an important market for the KIS firms of these cities. It would also be interesting to find out what government and private sector initiatives have been taken, and to what degree these have been successful.

Finally, it would be enlightening to focus upon the issue of Asian investment in knowledge intensive sectors. Some general studies of Asian investment in Vancouver[3] and elsewhere have been conducted. It would be useful, however, to do a sector-specific study of this investment for two reasons. It would help us see if a relationship exists between Asian investment and Pacific Rim export propensity. More importantly, however, this information could provide us with a basis for policy initiatives encouraging investment in a sector with growing importance to the local economy. Such investment could ultimately enhance Pacific Rim exports and local economic development.

[3] See for example Edgington and Goldberg, 1989.

Appendices

APPENDIX A

City of Vancouver

Economic Development Office: Ste. 721, 601 West Broadway, Vancouver, British Columbia, Canada V5Z 4C2.

Sid Fancy, Ec.D., C.I.D.
Manager of Economic Development

1. Name of firm ______________________________

2. Address ______________________________

3. Principal business of firm ______________________________

____

4. Market Orientation. Please designate approximate percentage of sales to each of the following major groups:

Business sector _____ %

Private household sector _____ %

Gov. & non-profit sector _____ %
(100%)

5. Geographic Distribution of Sales. Please estimate the approximate percentage of your current sales to clients located in:

_____ % Vancouver-Lower Mainland

_____ % Victoria

_____ % Elsewhere in B.C.

_____ % Elsewhere in Canada

_____ % Mexico

_____ % United States

_____ % U.K. / Western Europe

_____ % Asia-Pacific

_____ % Other ______________

____

6. In which of the above regions do you expect the greatest increase in sales over the next five to ten years?

____

7. Asia-Pacific Market Activity. Have you had sales in any of the following markets over the past few years?
[Please circle number(s)]

1 Japan
2 South Korea
3 China (P.R.C.)
4 Hong Kong
5 Taiwan
6 Singapore
7 Malaysia/Brunei
8 Thailand
9 Other ASEAN (Indonesia, Philippines)
10 Non-ASEAN South-east Asia (Vietnam, etc.)
11 India / Pakistan / Sri Lanka
12 Australia / New Zealand

8. *If* active in one or more Asian-Pacific markets, which of the following marketing and sales approaches does your firm employ? [Please circle number(s)]

1 Overseas sales trips

2 Use of trading house

3 Use of consultants

4 Advertising in Asian magazine, TV or other media

5 Designated agent in one or more Asian business centres

6 Participation in government missions

7 Maintenance of permanent office in one or more Asian centres; if so, please indicate__________

____

9. In your view, what actions are required to expand Vancouver's and British Columbia's presence in Asia-Pacific markets? [Please assign to each option below a rating of '1' for *very important*, '2' for *important*, or '3' for *not important*.]

____ More sustained private sector marketing effort

____ More accessible information on market opportunities

____ Development of Vancouver-Asia networking organizations

____ Greater cooperation between universities and the business community

____ Commitment to Asian programs in B.C. schools and universities

____ Building on market expertise of recent Asian immigrants

____ Expanded government representation overseas (e.g., provincial, federal offices)

____ More comprehensive media coverage of Asian social, political and economic issues

____ Other (please state) __________________________

____

____

Thank you for the time taken to complete this questionnaire. If you would like a summary of the responses, please enter your FAX number below (or enclose your business card):

____

APPENDIX B

Interviewees by Sector

Legal Firms	2
(7752)	
Engineering Firms..................................	4
Environmental Consultants	2
Architecture Firms	2
(7759)	
Research and Development (pharmaceutical)	1*
(3352)	
Electronic Equipment and Systems	2
(335)	
Telecommunications Industry	1
(7771)	
Management Consulting Firms	2
Accounting Firms	1
Food Processing	1
Real Estate	1
TOTAL:	19*

* The pharmaceutical firm failed to answer most of the interview questions due to time constraints. Consequently, response ratios were generally calculated out of 18 (or 17 when another firm failed to answer a question).

1. Name of firm ____

2. Address ____

3. Is your firm a head office? Yes____ No ____

4. If not, where is your head office located? ____________________

5. When was your firm established in Vancouver? ___________________

6. Please state the principal business of your firm _______________

____

7. Locational Attributes: please rank the principal advantages <u>and</u> disadvantages of your present location in Vancouver (with "1" representing the greatest advantage/disadvantage; "2" being the second greatest, and so on).

(ranking)	Advantages	Disadvantages	(ranking)
_____	(a) proximity to clients	(a) cost of premises	_____
_____	(b) proximity to suppliers	(b) commuting pressures	_____
_____	(c) labour force accessibility	(c) distance from markets	_____
_____	(d) downtown amenities	(d) congested local area	_____
_____	(e) accessibility to market intelligence	(e) lack of amenities	_____
_____	(f) downtown prestige	(f) other (please state)	
_____	(g) other (please state)	____________________	_____
_____	____________________	____________________	_____

8. Market orientation. Please designate approximate percentage of sales to each of the following major groups:

Business sector _____ %

Private household sector _____ %

Gov. & non-profit sector _____ %

9. Geographic distribution of sales. Please estimate the approximate percentage of your current sales to clients located in:

_____ % Vancouver-Lower Mainland	_____ % United States
_____ % Victoria	_____ % U.K. / Western Europe
_____ % Elsewhere in B.C.	_____ % Asia-Pacific
_____ % Mexico	_____ % Other __________________

10. In which of the above regions do you expect the greatest increase in sales over the next five to ten years?

---

11. Asia-Pacific market activity. Have you had sales in any of the following markets over the past few years? [Please circle number(s)]

1 Japan	7 Malaysia / Brunei
2 South Korea	8 Thailand
3 China (P.R.C.)	9 Other ASEAN (INdonesia, Philippines)
4 Hong Kong	10 Non-ASEAN Southeast Asia (Vietnam, etc)
5 Taiwan	11 India / Pakistan / Sri Lanka
6 Singapore	12 Australia / New Zealand

12. Motivation for Asian-Pacific marketing effort: which of the following factors were significant in your decision to initiate marketing in the Asian-Pacific? (If possible, please rank in order of importance)

(a) concerns about stability of / prospects for local and or domestic market

(b) general appeal of the Asian-Pacific as a growth market

(c) specific appeal of one (or more) Asian-Pacific markets

(Please identify)____

(d) desire to achieve greater level of market diversification

(e) encouragement from (federal/provincial/municipal)

government (please identify) ____________________________

(f) desire to achieve greater scale economies for more efficient production of goods and / or services

(g) opportunity to take advantage of special in-house staff expertise and / or contacts and networks

(h) other (please state) _________________________________
____

13. Which of the following marketing and sales approaches does your firm employ in the Asian-Pacific region [Please circle number(s)]

1 Overseas sales trips	5 Designated agent in one or more Asian centres
2 Use of trading house	6 Participation in government missions
3 Use of consultants	
4 Advertising in Asian	7 Maintenance of permanent office in one or more

14. Over the past 2-3 years, has your firm participated in the Asian-Pacific market, in terms of:

	frequently	occasionally	never
(a) response to proposal call for multilateral funded projects	( )	( )	( )
(b) feasibility study for multi-lateral funded projects	( )	( )	( )
(c) independent proposal call	( )	( )	( )
(d) independent feasibility study	( )	( )	( )

15. If most or some of your Asian market research is conducted in-house, what are your information sources? (Check as many as apply). Also, if discernible, please indicate on average how often you consult these sources:

	frequently	occasionally	never
(a) local newspapers and periodicals	( )	( )	( )
(b) international newspapers and periodicals	( )	( )	( )
(c) client interviews	( )	( )	( )
(d) government representatives (Canada, B.C., Vancouver)	( )	( )	( )
(e) government representatives (International)	( )	( )	( )
(f) informal Vancouver contacts	( )	( )	( )
(g) contacts through local business associations and trade bilaterals	( )	( )	( )
(h) informal Pacific Rim contacts	( )	( )	( )
(i) Pacific Rim agent(s)	( )	( )	( )
(j) Vancouver colleges, universities, etc.	( )	( )	( )
(k) Other (specify) ______________________	( )	( )	( )

16. (a) Please indicate the number of employees in your firm with Asian language capabilities. ______________________________

(b) Please indicate the number of memberships your firm holds in various Pacific Rim trade and benevolent associations.

____

17. Has your firm ever organized, sponsored or otherwise participated in cultural or promotional activities with an Asian theme here in Vancouver? (Such activities could include Chinese New Year celebrations, Dragon Boat racing, the Powell Street Festival and other forms of entertainment). If yes, please describe the activity(ies) and level of participation:

____

____

18. How does your firm differ from its competitors in terms of the services it provides to clients?

____

____

____

19. How often do you meet with competitors and other colleagues to exchange information? Where would such exchanges generally take place and how formal would they be?

____

____

____

20. What is the ratio of decision makers to (non-clerical) staff in your firm? ________________________

21. How would you describe the communication process in your firm? Is it:

Very Formal	Somewhat Formal	Less Formal	Informal	Family
bureaucratic/ limited to 1-way information flows	scheduled mtgs but some opportunity for informal conversation and 2-way info flows	some mtgs very flexible communication channels, more 2-way info flows	consensus dec'n mkg multi-directional info flows	Oriented

22. How often does face-to-face contact occur between staff, managers, and decision makers? ____

23. What types of services do you obtain from outside the firm? Where are your suppliers located?

____

24. Over the last 5 years has the proportion of service inputs used from other firms changed relative to those provided in-house in creating final services for your clients? If so, to what extent?

25. What specialists do you bring together in service creation for your clients (inside and outside the firm)?

26. Could telecommunications improvements alleviate some of the need for face to face contact with clients and / or other specialists?

27. How important are face-to-face meetings with clients to the production of that service?

28. How often do you entertain clients from Asia? Where in Vancouver do they usually stay?

29. Describe an average day with a client from abroad (length of time spent consulting, touring the city, eating, etc.)

29. Vancouver as a base for accessing Asian-Pacific Markets: Please indicate below your perception of Vancouver's adequacy as a base for marketing in the Asian-Pacific in the following areas (Please circle the appropriate number, with "1" being 'very unsatisfactory' and "5" 'very satisfactory'):

(a) Banks and other financial institutions

1 2 3 4 5

(b) Quality of labour and 'human capital' (appropriate skills, expertise)

1 2 3 4 5

(c) Quantity/availability of appropriately skilled labour

1 2 3 4 5

(d) Quality of supporting producer services (legal, accounting, etc)

1 2 3 4 5

(e) Telecommunications infrastructure and systems

1 2 3 4 5

(f) Air connections with key Asian-Pacific business centres

1 2 3 4 5

(g) International transportation and shipping facilities

1 2 3 4 5

(h) Vancouver's profile or image as a Pacific Rim business centre

1 2 3 4 5

(i) Access to key Federal/Provincial representatives

1 2 3 4 5

(j) Presence of key Asian-Pacific companies (trading houses,etc)

1 2 3 4 5

(k) Quality of the commercial infrastructure (offices and hotels)

1 2 3 4 5

(l) Quality of public infrastructure (roads, airports, etc)

1 2 3 4 5

(m) Quality of urban and recreational amenities / livability

1 2 3 4 5

29. (a) Optional question:
Vancouver as a base for marketing in the Asian-Pacific relative to other North American centres. Taking into consideration the aforementioned attributes, would you say

that Vancouver is (a) clearly superior, (b) about equal, or (c) clearly inferior to any of the following for which you have some experience:

	(a) Clearly Superior	(b) Equal	(c) Clearly Inferior
1 Calgary	( )	( )	( )
2 Toronto	( )	( )	( )
3 Montreal	( )	( )	( )
4 Seattle	( )	( )	( )
5 San Francisco	( )	( )	( )
6 Los Angeles	( )	( )	( )

30. In your view, what actions are required to expand Vancouver's and British Columbia's presence in Asia-Pacific markets? [Please assign to each option below a rating of "1" for 'very important', "2" for 'important' or "3" for not important].

_____ More sustained private sector marketing effort

_____ More accessible information on market opportunities

_____ Development of Vancouver-Asia networking organizations

_____ Greater cooperation between Universities and the business community

_____ Commitment to Asian programs in B.C. schools and universities

_____ Building on market expertise of recent Asian immigrants

_____ Expanded government representation overseas (eg provincial, federal offices)

_____ More comprehensive media coverage of Asian social, political and economic issues

_____ Other (please state) ____

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