

A Canadian Services Strategy

The services sector is a vital component of the Canadian economy, accounting for 70% of GDP and 75% of employment. As much as ninety percent of the new jobs created in recent years were in the services sector. In 2008 alone, 231,000 new jobs were created in services industries. The service sector also represents the fastest growing section of international trade and investment with annual growth rates close to 8%.

Moving forward, the Canadian economy is expected to become more services-based, as the sector is projected to be the dominant driver of job creation and economic growth. A dynamic and competitive services sector enhances the competitiveness of the entire economy.

The services sector is comprised of a wide range of industries and activities, including government, finance, insurance, education, information and communication technology, transportation/logistics, research and development, marketing, media, professional and engineering services. These industries require a highly-skilled, multi-disciplinary workforce and, in turn, offer high-wage, high-value employment for Canadians.

Beyond the quality of employment, services are an essential input in the production of virtually all industrial and agricultural goods, as well as other services. According to the OECD, services account for 25% of value-added manufacturing. A firm's competitiveness and productivity is not merely a function of its employees and capital stock, but also of the quality and cost of the services it procures. Increasingly, these services can be sold and procured on a global basis.

Information and communication technologies are globalizing markets for information-based and knowledge-based services. In 2008, Canada exported nearly \$70 billion in services internationally. While services represent the majority and a growing share of Canada's economy, there are important challenges facing the Canadian services sector that must be addressed, such as labour skills shortages and continued barriers to trade, both domestically and internationally. There is also room for growth internationally. Currently, 20 percent of global trade is services-based and this number is growing. In Canada, services represent only 13% of our international trade and it is important that ambitious services market access continues to be a part of Canada's international trade deals.

Given the integral role that services play in the Canadian economy and the possibility of expanding our presence in international markets, it is imperative that Canada increase its strategic focus on services.

Canada needs a comprehensive services strategy.

Recommendations

That the federal government develop a services strategy that focuses on five pillars:

1. Awareness:

- Create a formalized working group comprised of senior government representatives of federal and provincial departments with a mandate in services. The group will focus on increasing information sharing, in-depth policy reviews and the promotion of services sector growth. Collaboration with industry and academia will ensure adequate communication of services related initiatives.

2. Metrics:

- Statistics Canada needs to develop a comprehensive survey of services both domestically and internationally to circulate among services industries and throughout government departments with a mandate in services. Canada does not compile sufficient statistics or data related to the services sector. This is a systemic problem that must be fixed as the ability to craft good public policies or allocate resources requires proper metrics.

3. Research:

- We recommend that the Canadian government develop incentives to encourage more services sector R&D, and the removal of regulatory barriers to foreign direct investment. The SR&ED program needs to be improved to make it more accessible to small and mid-sized Canadian businesses and the refundability of the SR&ED Tax Credit should be expanded to include all R&D performers.

4. Education:

- We recommend that the government identify current and future labour market gaps and develop a nationwide strategy for identifying how to meet these needs within the current educational system. A dedicated task force should be created to examine Canada's education system in relation to services. The examination of the actual educational system should also look for "best practice" multidisciplinary courses and support ways to leverage these across the country.

5. To ensure the domestic free-flow of services, the removal of inter-provincial trade barriers needs to be a priority. We also recommend that federal and provincial governments ensure that temporary entry barriers to labour mobility be as least trade restrictive as possible and that Canada seek to harmonize regulations with countries with similar regulations to our own.