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Perspective 86

British Columbia



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BRITISH COLUMBIA
ECONOMIC DEVELOPMENT PERSPECTIVE

1986

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(All statistics and conclusions are contingent upon data available as of
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1. SUMMARY

Economic recovery is gradually taking hold in B.C., but this recovery is much weaker than the upturns experienced in previous economic cycles. It is now apparent that the great growth that occurred from 1979 to 1981 was stimulated by such factors as high energy prices and high commodity prices, and was accompanied by high inflation rates -- circumstances which are unlikely to occur again in confluence. Thus, in retrospect, that period of high growth can be seen as an anomaly in the province's economic trends.

One critical difference in the economy now, compared to the 1970s, is the persistently high unemployment rate, holding at twice the previous level. Because of such structural changes as public service employment reductions and private sector productivity gains through automation, it could take a long time to significantly improve the employment picture.

For the last four years B.C. has averaged zero net migration, in contrast to the pattern of large in-migration evident until 1981. The other critical difference is a lower investment rate, both overall and especially in capital investment and in manufacturing.

It appears that the financial health of many companies in the resource sectors (minerals, forestry, agriculture and fisheries) has stabilized after the shock of the recession. The profit margins, however, are much reduced from previous times.

The market environment also appears generally stable. Some growth is occurring in overall production and output of the sectors, but job-shedding is still taking place. Despite their vulnerability to international markets and currency fluctuations, the resource sectors remain the backbone of the B.C. economy. Careful nurturing of these is of utmost importance to B.C.

Tourism is one of the few areas that shows potential for sustained growth in output, in foreign exchange earnings and in employment. EXPO 86 will be by far the major attraction in this year and will provide a significant boost to the economy. While there are worries about a post-Expo slump in 1987, the province continues to have solid strength for growth in the convention trade and in vacation travel, not only in the Lower Mainland but also in many other areas of B.C.

The Greater Vancouver region appears to have the ingredients for new sustained growth based on its service functions, its strong technological and educational base, its potential as a financial and commercial centre, its attraction for tourists and its location on the Pacific Ocean. Its role as a transportation gateway has been important since the founding of Vancouver. There continues to be growth potential in both ports and airports traffic and in related services. Manufacturing, particularly with a high technology orientation, continues to be an important element of the Lower Mainland economy and shows growth potential.

The central and most visible problem in B.C.'s recovery is the continuing high unemployment level. Improvements are expected to be incremental. Given current markets and commodity prices, relatively few new investment opportunities exist in the resource sectors. Additionally, the capacity of governments for major stimulative public works projects or other assistance may be limited by fiscal circumstances.

The province does have strengths in many areas including the resource bases, energy, transportation infrastructure, scenic beauty, technology and skilled people.

There exist certain factors, common across the economy, which can help the climate for growth and job creation. Many of these can be influenced by supportive policies of the federal and provincial governments. These include:

- * stable labour-management relations;
- * predictable and surprise-free regulatory and taxation climate;
- * trade policy attuned to the special export dependency of B.C.;
- * continued development of efficient transportation systems;
- * occupational education and training; and
- * improved resource management.

2. HISTORIC OVERVIEW

The history of modern economic development in B.C. is a short one. The first exploration of the Pacific coast was by the Spanish explorer Juan Perez in 1774. Captain Cook's historic expedition took place in 1778, but it was not until 1843 that a permanent settlement took root with the establishment of Fort Victoria by the Hudson's Bay Company. The colonies of Vancouver Island and British Columbia were established in 1849 and 1866. It was one hundred years ago that the Canadian Pacific Railway was opened to the coast and the city of Vancouver was founded.

The factors that initially drew the settlers and set the early patterns of economic activities have remained dominant through the history of the province and continue to be important today. People were drawn to B.C. by the abundant resources in furs, salmon and wood. They settled initially in the Lower Mainland and on Vancouver Island because of the temperate climate and because of the access to sea transport and to the interior via the Fraser River. The early settlers entered into friendly trade relations with the native peoples. With only a few exceptions, treaties were never signed with the Indian nations; thus, today there are unresolved land claims that cover most of the province's land area.

The pursuit of other resources in minerals (especially gold), in ranchland and in forestry led to the "opening" of the interior and the less hospitable areas of the province. The construction of the Canadian Pacific Railway through B.C. in the years 1880 to 1886 was significant in helping to open the interior. The railway forced coastal residents, most of whom had come from offshore and had no affiliations with central Canada, to look east within Canada rather than looking outward. The project also brought large numbers of Chinese and other Asian workers who have since formed an important element of the ethnic mosaic of the province. Today's residents of Asian origin make up seven percent of the overall B.C. population and represent 12 percent of the Vancouver population.

B.C.'s resources are scattered over an area of nearly one million square kilometres, and the settlement pattern that evolved is one of small, remote and relatively isolated communities, frequently dependent upon single industries. The rush to exploit promises of wealth, combined with cyclical markets, set the stage for a pattern of boom and bust which, at both the community level and the regional level, continues to exist in the province.

Strong markets for resource products, high prices and relatively low production costs yielded comfortable profits to investors and gave employers the ability to pay high wages to attract labour to remote communities. The working conditions often were difficult, and industrial relations often confrontational. Wages set in these circumstances have established the pattern generally for the province.

The limited domestic market and the distance from Canadian manufacturing centres meant that the majority of the products from the region were -- as they continue to be -- sold in international markets; first in Europe, then in the United States and more recently in Asia. With few exceptions these exports are undifferentiated commodities (those which are treated equally in the market, without regard to source or quality), which implies that B.C. producers are price takers, not price setters.

Changes in such external factors as world demand and prices are beyond B.C.'s influence, yet deeply affect the economy of the province. The province also is vulnerable to trade policies and protectionist measures in Canada and those set by our trading partners.

The southwest corner of B.C. (including Vancouver, the Lower Mainland, and southern Vancouver Island) has developed along a course related to, but different from, the rest of the province. From the first trading posts and the original seats of government for the colonies of B.C. and Vancouver Island, this region has been developing as the principal trade, service and transportation centre of the province. While this is a normal pattern of urban development in association with a resource-based economy, the situation is magnified in B.C. by the favourable climate and spectacular setting.

This has served to attract a substantial number of professionals. There has developed in that region a cadre of consultants to the resource sector who have gradually expanded their practices to a global market. Some manufacturing activities also have developed, mostly built around services to the resource sector, to transportation and to communications. However, factors such as high wage rates and distances from markets have constrained the growth of manufacturing in B.C.

When the province joined Confederation in 1871, it was upon the promise of a rail link to the east. The distances and the mountain ranges, however, still contribute to a sense of remoteness from the rest of Canada. Concentration on international markets serves to heighten the importance of external, as distinct from domestic, affairs and the province is, perhaps more than ever, looking to a future more closely linked with the Pacific Rim. As the map on page 23 shows, B.C.'s location continues to play an important role in the development and orientation of the province.

At the same time, British Columbia also continues to have some of the characteristics of a frontier economy, such as "gamblers' instinct" and a sense of dramatic action. It is still highly dependent upon world commodity markets and remains vulnerable to fluctuations in those markets. It has only a limited manufacturing base, much of which is strongly tied to the resource sector.

Its 2.75 million people occupy only a tiny percentage of a land mass larger in area than the states of Washington, Oregon and California combined. It is urban and sophisticated, yet remote and wild. It is a place where resources, terrain, climate and the sea have combined to create a unique cultural and economic structure.

3. ECONOMIC OVERVIEW

The economic recovery which has occurred throughout most of North America has failed to provide the impetus for similar growth in B.C. Structural changes to the economic environment have upset the province's resource sectors, its traditional source of economic activity. Suppressed prices for the commodities upon which the B.C. economy is dependent have constrained growth in the economy.

While Canada has entered a period of economic expansion, B.C. has yet to reach its pre-recession level of output in terms of real gross domestic product (GDP). Forecasts indicate that B.C. will regain its 1981 position sometime in 1986, two years behind Canada as a whole.

Despite the poor economic recovery to date, B.C. is showing some signs of improvement in economic conditions. The estimates for 1985 indicated real economic growth in GDP of 3.6 percent in B.C., while the expansion of the overall Canadian economy was estimated at 4.4 percent. In contrast, in the ten years prior to 1981 economic growth in B.C. averaged 5.1 percent annually, well above Canada at 3.9 percent.

For the second consecutive year, the rate of unemployment in B.C. continued to persist at more than 14 percent during 1985. The province's annual rate of unemployment was 14.2 percent, compared to the national average of 10.5 percent. High rates of unemployment have suppressed participation rates and encouraged the outmigration of workers.

Participation rates have increased significantly for women and declined for men, and the overall average shifted from its historical parity with the Canadian average. In 1985 the annual participation rate was 64.3 percent -- slightly, but significantly, lower than Canada on the whole at 65.2 percent.

A marginal reduction in the rate of unemployment in B.C. during 1985 can be attributed largely to activities surrounding the coming of Expo. B.C. posted an increase in employment of 2.2 percent, its first substantial increase since 1981. This equates to 26 000 jobs. However, new jobs have been almost entirely within the service sector in part-time work.

The labour force grew by 21 000 jobs or 1.5 percent. Canada on the whole achieved a significant reduction in its rate of unemployment through strong employment growth of 2.8 percent, well in excess of the 1.9 percent increase in the size of the labour force.

The economic conditions have dampened increases in earnings in B.C. Weekly earnings in B.C., still approximately 10 percent higher than those of the average Canadian, are expected to rise only 2.7 percent in 1985, compared to 3.5 percent for Canada as a whole. Demand for goods and services also is suppressed.

Personal income in B.C. increased in 1985 by 7.8 percent, a rate slightly below that for Canada of 8.2 percent. On a per capita basis, personal income in B.C. is still 2.1 percent higher than that of the average Canadian, a marked narrowing of the gap of more than 10 percent that existed in the pre-recession period.

While retail sales in B.C. were up substantially in 1985 (by 8.6 percent), they were still significantly below the national growth rate of 10.6 percent. This increase in retail sales is largely responsible for the increase in jobs, even though the jobs tend to involve low skills and low pay and many are part-time.

While retail sales are strong, capital investment in B.C., by contrast, continues to slide. In 1986, a decline of 6.7 percent from 1985 levels is forecast. This will be the fifth consecutive year of decline in capital investment in real terms. Nationally, an increase of 4.6 percent is forecast for 1986.

The strong growth of private sector investment experienced in Canada over the last three years was not evident in B.C. Had it not been for increased public expenditures during 1985 in B.C., the investment picture would have been far worse.

Other indicators reflect the same situation. The value of building permits issued in B.C. increased by 9.3 percent in 1985, compared to an increase of 30 percent for Canada. Housing starts in B.C. posted an increase of 11.1 percent, while increasing in Canada by 22.9 percent. The rate of bankruptcies in B.C. is still nearly three times greater than rates posted in 1981, while for the nation bankruptcies have returned to their pre-recession levels.

A bright spot in the B.C. economy is the growth in the value of manufactured shipments which is estimated at 8.0 percent, compared to Canada at 7.5 percent. However, the B.C. forest industry suffered a 68-day pulp and paper work stoppage in 1984, creating a lapse in production which partially accounts for the year-to-year increase. Gains in total output were significant nonetheless. Higher volumes of production were achieved through productivity improvements, with little or no increase in employment.

The picture that emerges is one of an economy which has been unable to rebound from the recession with the vigour posted by the rest of the nation. B.C.'s dependence on the export of resource commodities, together with changing external market forces, has forced drastic adjustments on companies in B.C. The resource industry is slowly recovering as volumes are increasing, although prices remain soft.

Cost cutting and employment reduction continue in concert with other efforts to improve productivity. Adjustments have been particularly difficult for the work force in the province. Furthermore, it seems inevitable that further adjustments will be necessary if B.C. is to maintain even the modest rate of growth now evident. Few forecasters foresee an early return to the halcyon days of the late 1970s.

4. ELEMENTS OF THE ECONOMY

The economy of B.C., like any regional economy, is a complex web of evolving and inter-related components. For discussion purposes, it is useful to consider three aspects of the economy. The first involves the resource sectors, upon which the province's economy was founded and which remain a pillar of B.C.'s economy. The second element is tourism and the travel industry, a relatively new but expanding and wealth-generating component of the economy. The third is a geographical aspect, Vancouver and the Lower Mainland of B.C., and concerns the special place that this region occupies in the province's history and economy.

i) Resource Sectors

The four resource sectors of forestry, minerals, fisheries and agriculture account for 17.5 percent of the B.C. GDP and 76.9 percent of the value of manufacturing shipments. Together they employ 184 000 people, or 15 percent of the total employed. These numbers include the manufacturing or processing directly associated with the primary resources, e.g. pulp and paper in the forest industry, or food and beverages in agriculture.

a) Forest Sector

The forest industry has three major components: primary logging and forest management, wood industries (e.g., lumber and plywood) and paper and allied industries. In total, these components account for approximately 9.3 percent of the total GDP for British Columbia. This compares to 3.4 percent for Canada as a whole. In 1984 British Columbia produced approximately 62 percent of all lumber manufactured in Canada, 87 percent of the plywood, 26 percent of the pulp and 15 percent of the paper.

Approximately 46 percent of the value of manufactured shipments in British Columbia is attributable to the forest industry. More than three-quarters of all forest products from B.C. are exported. In 1984, B.C. companies exported approximately \$6.1 billion worth of forest products: lumber (\$2.7 billion), pulp (\$1.8 billion), newsprint/paper (\$764 million) and other forest products. The major market was the United States, consuming 56 percent by value, the European Economic Community was next at 16.5 percent and Japan third with 15 percent.

In the first three quarters of 1985, the industry showed substantial growth in manufactured shipments over 1984, with wood products up by 12 percent and pulp and paper increasing 11 percent by value. This growth is almost entirely due to production increases as prices for most forest products held steady between 1984 and 1985.

The current U.S.-Canadian exchange rate has helped the industry hold its market in the U.S. But the high value of the U.S. and Canadian dollars relative to other currencies has constrained growth in European and Asian markets, although the rebalancing of currencies of the last several months (the "Group of Five" agreement) has resulted in improved prospects in these markets in the latter part of 1985 and into 1986.

Growth is reflected in the improved overall financial results of the western forest products companies. Only two companies operated in a loss position in 1985, compared to six in a loss position in 1984. However, the returns are modest; operating profits of these companies for the period totalled \$57.5 million on \$7 billion in sales. Their financial performance continues to be significantly below that of corresponding companies in Eastern Canada. This is attributable to the different product mix and better markets for pulp and paper, which dominates the Eastern scene.

The state of the balance sheets is constraining capital investment plans. In 1986, capital expenditures in the forest industry are estimated at \$602 million, compared to \$1.13 billion in 1981. It has been estimated that approximately \$700 million should be invested annually for the industry to maintain its competitive position. For most companies this means plant renewal through automation and consolidation of operations, but no major new projects.

The forest industry in British Columbia currently employs approximately 86 000 people, or seven percent of all persons employed in the province. British Columbia accounts for 29 percent of the total employment in Canada's forest industry.

The gradual decline in employment continued in 1985 with 86 000 employed by the end of the year, down from 112 000 in 1979. Employment levels may stabilize at approximately this level, with job losses due to modernization offset by increases in production volumes or in further manufacturing.

Labour relations were quiet in 1985. The three large unions -- the International Woodworkers of America, the Canadian Paperworkers Union and the Pulp and Paper Workers of Canada -- are nearing the end of three-year agreements signed in 1983.

It is important to note that in the longer run there exists a problem of timber supply, fundamental to the health of the industry. While some short-term increase in cut may be possible, the next 20 to 25 years will probably see an overall decline in available cut as the results of past reforestation practices begin to show up in decreased availability of accessible mature stands.

The B.C.-Canada agreement on forestry, signed in 1985, provides a substantial boost to reforestation. However, given the length of time needed to reach maturity, trees planted now will not be available for harvesting until around the year 2050.

b) Mines and Minerals

The mineral industry is defined to include the following four components: mineral exploration, mining and on-site milling, mineral smelting and refining, and petroleum and coal production and refining. This sector accounts for approximately 4.5 percent of the total GDP for British Columbia and 19 percent of the value of manufactured shipments for the province, totalling \$3.6 billion in 1985. Nearly 90 percent of B.C. production is exported. The major markets are Japan with 44.4 percent, U.S. with 27.8 percent (mostly natural gas), Korea, 6.4 percent, and Europe, 6.4 percent.

Coal is the major commodity, with production growing from 11.7 million tonnes in 1981 to 22.9 million tonnes in 1985. Of this growth, 8.2 million tonnes in 1985 was due to the Northeast B.C. Coal Project. Although a number of new coal mine projects are ready, growth from the present plateau will be incremental and gradual, if it occurs at all given the present world surplus and depressed prices for metallurgical and thermal coal. A new mine producing anthracite coal is possible. The value of coal exported in 1985 was \$1.6 billion.

Metallic and non-metallic minerals, in order of value of production, include copper (\$581 million), zinc (\$113 million), silver (\$101 million), gold (\$95 million), asbestos (\$91 million) and sand and gravel (\$77 million). These are followed by molybdenum, cement, lead and sulphur.

Volumes produced fluctuate slightly year by year but, on average, have remained fairly constant since 1978. Only silver has seen significant growth (60 percent) between 1978 and 1984. The pattern for prices over the same period shows extraordinary increases in 1980 and 1981, with gains from a base in 1978 ranging from 45 percent for zinc and 57 percent for copper up to more than 200 percent for gold and silver. Since 1981, the trend has been steadily down and, on average, prices are now roughly at the 1978 levels in current dollars (gold and silver excepted). For example for copper this means that prices, in real terms, are currently at 70 percent of their 1978 levels.

The situation in the metallic minerals is similar to that in forestry. World demand, supply, competition and resulting low commodity prices are such that many B.C. mines are barely meeting their operating costs. Of 28 major mining companies (including coal mines) operating in B.C., only nine reported profits in 1984, totalling \$65 million, and 19 reported losses totalling \$102 million, for a net loss of \$37 million. This is an improvement over the two previous years, largely due to productivity gains.

Of 33 major mines in B.C., 12 are closed. Many of the remaining mines are "high-grading", thus significantly shortening mine life. Two copper mines have recently re-opened with help from the Commissioner of Critical Industries and with negotiated concessions by the stakeholders.

Smelter activity in B.C. consists of Alcan's aluminum smelter at Kitimat and Cominco's lead-zinc smelter at Trail. (A small copper smelter near Kamloops closed in 1983.) Alcan's plans for a second aluminum smelter have been put on hold pending improvements in world aluminum markets and prices. Cominco completed upgrading its zinc smelter in 1983 and is now considering reconstruction, with government assistance, of its lead smelter at Trail.

The number of employees in mining peaked at 42 000 in 1981 and now stands at 36 000. There is no expectation that this figure will grow. While there are known good mineral deposits in northwest B.C., the cost of transportation infrastructure, townsites and electrical power prohibit their development. Mineral exploration continues in B.C. at a fairly constant level of expenditure, but the search is focused almost entirely on precious metals.

The oil and gas industry in B.C. is small (four percent of the value of production in Alberta), but relatively healthy. The regulatory climate for growth is good since the signing of the Western Accord and with B.C.'s new incentives for exploration (a royalty holiday similar to Saskatchewan's).

The U.S. markets and prices for natural gas remain soft, and although the volume of B.C. gas exported increased by 6.1 percent (to 2277 million cubic meters in 1984), the value of exports decreased by 3.5 percent. The decline in oil prices is adding uncertainty to growth prospects for natural gas exports to the U.S. in the short-to-medium term. The proposed Canada Liquid Natural Gas Project has been cancelled.

c) Fisheries

The fisheries enjoyed an uncommonly good year in 1985. The tonnage of salmon, (over 100 000 tonnes) was twice the catch of 1984, and the landed value of salmon at \$203 million, was 40 percent greater than in 1984. The profits in 1985 provided a welcome opportunity for fisheries operators to reduce their debt. The year 1985 was an unusual fishing year as a result of a particular set of biological and oceanographic factors. There are expectations that the favorable conditions also will exist in 1986 and the year promises to be as good as 1985.

The value of manufactured shipments of fishing products rose by 19 percent (to \$477 million) in 1985. The industry accounts for 2.5 percent of manufactured products in B.C. More than 90 percent of the production is exported with a value of \$371 million. The fishing industry employs an estimated 11 000 people and constitutes slightly under one percent of B.C.'s GDP. Salmon is the largest contributor at 72 percent, with herring next at 14 percent followed by groundfish.

Salmon aquaculture is growing rapidly. From 10 producing farms with 90 tonnes of output in 1984, the industry is expected to reach 140 farms in 1986. These could be producing over 900 tonnes by 1988. While neither employment nor output in the farms will be dominant in the industry in the next few years, the advent of salmon farming in B.C. could be a very important evolutionary step in the west coast fisheries.

In addition to the commercial fishery, B.C. boasts a significant recreational fishery. In 1984, 304 500 tidal anglers participated in recreational fishing in B.C., contributing an estimated \$72.5 million to the provincial economy.

d) Agriculture

The agri-food industry in B.C. continues to be an important source of employment with approximately 51 000 jobs, four percent of total B.C. employment. It is also one of the few sectors where employment has remained stable in recent years. Agriculture accounts for 3.2 percent of provincial GDP, and 10 percent of the value of manufactured shipments.

Total farm cash receipts rose 1.1 percent in 1985 to \$972 million. The livestock component accounted for 60 percent of total cash receipts, with the crop sector accounting for 35 percent. While 12 percent of B.C.'s land area is in agricultural use, most of this is low-intensity rangeland, and only about one percent is in high-volume agricultural production.

Agriculture in B.C., like agriculture globally, is undergoing major changes as it responds to changing markets and world surpluses. Regulated commodities (dairy, poultry and eggs) continue to be stabilized and sheltered, while for other commodities (tree fruits, beef, hogs and grapes) important cost and technology changes are taking place in the light of strong competition.

ii) Tourism and the Travel Industry

B.C. is renowned for its scenic beauty and largely on the basis of this asset tourism has become a key element of the economy. The "hospitality industry" is deemed to be the third largest sector in B.C. with estimated total revenues of some \$2.3 billion per year. Of that total, 57 percent, or \$1.33 billion is estimated to accrue from visitors from outside the province (29 percent from other provinces and 28 percent from foreign visitors). The U.S. continues to be by far the largest originator of foreign visitors (three million trips in 1984), but the largest growth in recent years has been in overseas visitors. Employment estimates vary depending on definitions. The B.C. government estimates that at least 70 000 people are employed in the sector, with up to 150 000 employed in tourism-related activities.

Promotion continues to highlight the natural environment, but with increasing emphasis on events and special activities and destinations. EXPO 86, for example, promises to be a significant drawing card in 1986. Similarly, ski resorts such as Whistler Village are continuing to grow and gain North American and world recognition. While tourism tends to focus on certain destinations (Vancouver, Victoria, Okanagan/Shushwap), it does extend to and benefit virtually all parts of the province.

Business travel to B.C. also is growing, especially with the further development of trade linkages in the Pacific Rim countries. A related component, the convention business, also is expected to increase.

In Vancouver, for example, this business has been growing at an average annual rate of 13 percent for the last 10 years, and in 1985 the city hosted 390 major events. A new trade and convention centre opening in Vancouver at Canada Place in early 1987 adds additional capacity for the province to attract major conventions. Outside of Vancouver, a conference centre recently opened at Whistler adds a new element. Plans also are under way for establishment of a convention centre in Victoria under a joint Canada-B.C. agreement. Other centres in the Okanagan also have plans for expansion.

The cruise ship business also is growing with 224 sailings planned out of Vancouver in 1986. These cruises include frequent calls at Victoria, Port Hardy, Prince Rupert and Alaskan ports. Part of the growth of this traffic through B.C. ports can be attributed to restrictive practices in the U.S. under current shipping laws (the Jones Act). There is strong lobbying in the U.S. to change the rules and to keep the trade in U.S. ports. Unrest in the Middle East and the consequent search for safe cruising waters also are bringing additional cruise ships to the west coast.

For all its apparent potential and the expectations for growth, the tourism industry remains a relatively soft and unfocused sector. The B.C. government has been placing a high priority on policies to support and enhance its growth. However, the industry itself is not well organized to deal with the constraints and problems facing it. These constraints include the lack of adequate hospitality training, the absence of a system of standards, questions regarding value for money, poorly defined matching of product and market, and regulatory and financial constraints. Transportation services and facilities also are frequently noted as important in support of tourism. Vancouver International Airport, the province's key gateway for air travel, is especially important in this regard.

iii) Vancouver and the Lower Mainland

The third element of the B.C. economy is a geographical one, the southwest corner of the province. This area merits special consideration for several reasons: its special historical and continuing place as the principal service centre of the province; its position as Canada's gateway on the Pacific; its economic diversity; and its unique problems, growth prospects and opportunities.

The Vancouver region also is distinguished from the rest of the province by some feelings of tension, based on real or perceived disparity that exists between Vancouver and other towns and cities in the province.

Approximately half of B.C.'s population resides in the metropolitan Vancouver area. Fifty-one percent of the province's jobs are in Vancouver and this urban region has 47 percent of the province's unemployed. The unemployment rate in Vancouver in 1985 was 13.3 percent compared to 14.2 percent for B.C. as a whole. Four out of five jobs in Vancouver are in the service sector, compared to 69 percent for the remainder of the province. In the service sector categories of transportation, communications, and utilities (TCU) and finance, insurance and real estate (FIRE), employment is significantly higher in Vancouver than in the rest of the province (50 percent higher for TCU, and 74 percent higher for FIRE).

The B.C. government over the last few years has followed a deliberate course in building the strengths of Vancouver as the transportation, commerce and tourism hub of the province. Thus, B.C. has undertaken specific projects: a covered stadium at BC Place; the urban renovation of the False Creek area, first to house EXPO 86 then for residential and commercial development; EXPO 86 as an entertainment fair and a showcase for transportation and communications technology; a rapid transit system (Skytrain) to New Westminster and Surrey; a new main highway bridge crossing the Fraser River; and a new highway link into the interior (Coquihalla Highway).

The federal government has provided substantial support for Skytrain and, especially, EXPO 86, and has carried the initiatives further in the development of Canada Place with its hotel, its cruise ship facilities and its trade and convention centre providing a locale for Canada's pavilion for EXPO 86.

In the private sector, several new hotels have opened recently and construction continues on new office buildings in Vancouver.

The infrastructure being created now no doubt will serve Vancouver well in coming years. And, for the present, the activities contribute to a sense of action, growth, and confidence.

There is, however, concern about some fundamentals: stubborn unemployment rates remaining in double digits, worries about the post-Expo period, high office vacancy rates (currently 20 percent, up from zero vacancy in 1981) and hotel occupancy rates holding at year-round averages of 70 percent.

There also is concern about the continuing low level of capital expenditures in manufacturing in the region, now at approximately two-thirds the level of expenditures, in real terms, of a decade ago. Manufacturing,

while an important element of the Vancouver economy, has been growing very slowly, but much of the growth that has occurred has been in important leading-edge technology in communications, remote sensing and ocean engineering.

The provincial government has emphasized the growth potential of British Columbia's electronics industry, particularly in the area of microelectronics. While the electronics industry in B.C. has successfully established specific market niches, it operates from a relatively small base, employing roughly 4000 persons and accounting for about \$300 million dollars in manufactured shipments.

Several observations can be made. After Expo is over, Vancouver again faces the reality of reliance on its natural underpinnings without special stimulus. The visibility generated during Expo will no doubt help awareness and stimulate interest in B.C. as a tourist destination, and perhaps spur new interest in the province as a place to invest. But the fundamentals still prevail. These include the market opportunities, the cost of material and labour, sources and costs of capital borrowing and, generally, the "investment climate" as judged by investors and entrepreneurs seeking to making a profit.

The post-Expo period also will draw attention to the health of the resource sectors, upon which Vancouver is still very much dependent. This may lead to renewed attention to the financial, engineering, research, educational and other services that have grown from, and largely remain rooted in, the resource sectors. It also may focus attention on a search for other activities and opportunities to diversify the economy of the lower mainland region.

Reference in the last federal budget to Vancouver as an international banking centre has been greeted locally with enthusiasm. The B.C. budget in March also made reference to this initiative.

This search could include a re-appraisal of the traditional strengths of Vancouver as a transportation hub. The ports in the Lower Mainland, the connecting rail and road system and the Vancouver International Airport are extremely valuable, but probably under-utilized resources, both in transportation services and as economic and employment generators in themselves. It is estimated that over 50 000 jobs are directly and indirectly related to the Port of Vancouver and an estimated 15 000 people are employed on Sea Island (Vancouver International Airport).

The outlook for this geographic region of the province could be a bright one. The degree to which its potential can be realized is very much dependent on the policies and vision adopted by the respective governments and on how they support and nurture, rather than restrict and constrain, the natural economic strengths of the Vancouver region.

5. ISSUES

The central issue in the B.C. economy is the continuing high unemployment level. A scan of the economy for signs of significant job creation provides little optimism.

It is difficult to foresee growth in employment in any of the four resource sectors. It is, however, recognized that these sectors continue to provide the solid backbone of the economy. Thus, wealth-creating ability, even with shrinking employment, should not be discounted.

Neither the forest nor mineral sectors are expected to generate new employment and the reductions seen so far may only be the first wave. As automation and other adjustments take hold there may be further job loss. Growth in demand, to the extent of offsetting the productivity-related reduction, is not expected.

Agriculture in B.C., which tends to serve the domestic market rather than produce for export, faces stiff competition from imported products. Changes in management methods, technology and scale of operations are expected if the industry is to maintain its competitive position.

In fisheries, the major current problem remains overcapitalization: too much fish-catching power relative to the fish available. Despite objectives to increase fish stocks, there is no expectation that fishing capacity and the fish resource can be brought into balance without downsizing the fishing fleet. This means fewer fisheries workers.

There are few major projects on the horizon. Because of commodity prices, energy prices and other investment opportunities elsewhere, nearly all the large-scale, private-sector, resource-related projects have been postponed. While the province is generously endowed with natural gas, coal and hydro-electric energy sources, the opportunities to build the industrial base on this have not yet been realized.

The export of energy in the form of raw natural gas or electricity may be thwarted by market circumstances (oil prices) or held in check by vested interests (e.g., Bonneville Power Authority). The B.C. government is considering construction of a third dam (Site "C") on the Peace River for export of power if market access can be achieved.

There is some growth evident in the non-resource-based manufacturing sector. However, the historical factors of distance from markets, labour costs and perceptions of difficult industrial relations still pertain.

Despite the potential for negotiating attractive arrangements with municipalities and other levels of government, very few companies have established or expanded in recent years. Growth that has occurred has been mainly among small, new, start-up firms that have applied unique technology and fill a specific market niche. The history of growth of small high technology firms in other places show a close relationship with excellent universities having a strong research orientation. The past few years have been notably disruptive for B.C. universities.

Growth is possible in some parts of the service sector. Employment levels (in provincial and local government services, utilities, education, etc.) now seem to have stabilized. Significant growth has taken place in the retail sector and there exists some potential for further development in tourism.

To the degree that growth in the private sector can occur, it depends on four critical issues: productivity, investment climate, labour-management relations and trade.

i) Productivity

The cost side of production (i.e., energy, overhead, wages) has been central to industry's adjustments over the last years. Some impressive gains have been made. For example, the manufacturing sector in B.C. showed a 15 percent increase in productivity (output per person-hour worked) over the last three years. Similar improvements are evident throughout the goods-producing industries. This thrust will continue and it means continued replacement of labour with capital through plant automation. The pace of capital investment depends on the firms' abilities to obtain financing (i.e., the state of their balance sheets) and their confidence in the economy (i.e., the investment climate, discussed below).

Other factors related to productivity include transportation efficiency and reliability, the ability to develop and apply new technology and the ability to adapt products to changing markets. Another element relates to people: motivation, skills, training, working relationships and conflict resolution.

While companies both individually and collectively are dealing with these questions, there are areas where governments can and do play a positive role. It also should be noted that average wage rates in manufacturing in B.C. remain 25-30 percent higher than the Canadian average, 40-50 percent higher than Japanese rates, and 16 percent higher than U.S. rates, in comparable currencies.

ii) Labour-Management Issues

The year 1985 was a very light negotiating year. Despite continued wage restraint and concerns about job security, the year ended with the lowest number of person-days lost due to work stoppages, relative to total time worked, in more than 20 years (164 000 person-days lost due to strikes or lockouts in 1985, compared to 820 000 in 1984).

Many people, however, recall the disruptive period in 1981 when more than three million person-days were lost. There were a few highly publicized incidents in 1985, such as disputes surrounding EXPO 86 construction, but these conflicts were resolved.

Major wage settlements in 1985 averaged 1.0 percent, considerably lower than the 2.5 percent average in 1984 and the 1983 average of 3.1 percent. However, higher settlements during the year in eastern-dominated industries (running near 4.0 percent) have created some tension in B.C., and these rates could be setting the trend for 1986 negotiations.

The negotiating schedule for 1986 is a crowded one, with major contracts expiring in construction, forestry, pulp and paper and the public service. These involve some 250 000 workers. Additionally, some contracts which expired in the last year have not yet been settled, including those for health care workers and provincial and municipal government employees. Therefore, 1986 could be a difficult year, both in terms of higher settlements and in terms of the potential for militancy, including work stoppages.

There already exists a perception, particularly outside B.C., of high labour costs and of unstable industrial relations in the province. Government, industry and the labour unions are continuing their efforts to improve processes for the settlement of disputes.

iii) Investment Climate

While the perceptions of high labour costs and labour instability remain, the record over the last several years shows major improvements in both areas. Both reality and perception on this matter have a major influence on corporate investment decisions in B.C.

The investment climate also is affected by other critical factors. There exists a strong concern for environmental protection in the province and rigorous environmental review processes have been established to ensure minimal environmental effects from projects. There are some who feel the balance has swung too far towards protection and preservation, creating unnecessary impediments and roadblocks to economic development projects.

Taxation is another deterrent. Comparative analyses of taxation of mining companies in various Canadian provinces show B.C. companies to be taxed at the highest rates. What is particularly troublesome to companies in the mining industry, as well as in other sectors, is the non-profit-related taxes, e.g., on hydro-electric power, fuels, water and other production input factors.

There also is concern among some companies about the degree to which negotiated concessions are possible in specific cases. Some worry that the processes now available may undermine the ground rules for doing business in B.C. There also exists a plethora of government assistance programs, which can be both confusing and distracting to industry.

Finally, unresolved native land claims are coming to the forefront as perhaps the largest issue, and one which will affect every major project in the areas subject to claims. These cover virtually the entire land area of the province, as well as the continental shelf. Energy and resource development projects, pipeline developments and transportation projects are vulnerable and can be caught between the native groups claiming aboriginal title and the federal and provincial governments. Projects that are, or may be, viable could well be discouraged on these grounds.

Current issues are the injunction against Canadian National's double tracking and the widely reported stories concerning logging on Lyell Island in the Queen Charlotte Islands and on Meares Island. However, other environmental concerns also are involved.

Comprehensive claims negotiations have been going on with the Nishga people for nearly a decade, with little progress. Other native groups (e.g., the Gitksan Wet'suwet'en) are taking direct court action. Wherever these paths might lead, there is a sense in the province that events are building to early landmark decisions. The timing, handling and outcome of these are important, not only in clarifying the relationships between native and non-native people in the province, but also in terms of the investment climate.

iv) Trade

International trade relations are critical for B.C. The provincial government supports initiatives toward freer trade with the U.S. as well as the GATT negotiations. The value of B.C.'s exports was \$11.7 billion in 1984, or 26.3 percent of its GDP. The U.S. remains the most important customer, consuming 47 percent of B.C.'s exports. Exports to Asian countries continue to increase rapidly, accounting for 34 percent of provincial exports. European countries account for 13.2 percent of B.C. exports.

The threat of countervail action that has lingered over the forest industry for the last three years has served to highlight the importance of unencumbered trade in the U.S. Forest products constitute 52 percent of exports from B.C. There is concern that in the course of broad trade negotiations with the U.S. the forest industry may, because of the size of its exports to the U.S., become a "trade-off" item. Thus, it is important that the significance of the forest industry in this region be fully recognized by the trade discussion team.

B.C.'s expectations of new growth tend to centre on the Pacific Rim where economic growth in several countries has been extraordinary and continues to run to eight percent or more. There has been a quiet evolutionary shift in Canada's trade away from the EEC to the Pacific. B.C. is seen to have certain natural advantages as that trade develops. These include the provinces' location on the Pacific and B.C.'s ethnic population with its cultural ties to Asia.

Some see B.C.'s educational, financial and medical services as having potential for export. Additionally, B.C., as a supplier of raw materials, is seen as complementary to the manufacturing-based economies of these trading partners.

These are promising ingredients, and there has been considerable effort by individual companies, business and civic groups, academics and the federal and provincial governments to nurture trade linkages. Additionally, organizations such as the Canada-Asia Pacific Foundation are important as catalysts to strengthen economic and cultural ties.

It may well be that there are untapped opportunities for improving and building upon these linkages with Pacific Rim trading partners through integrated and more deliberate strategies.

As trade with the Pacific Rim increases, the effects can be significant. Business travel, tourism, transportation services, freight forwarding and legal and financial services could be affected, as could medical and educational services. From a policy standpoint, the questions are how to best cultivate relationships, how to promote Canadian products and opportunities, and how to overcome regulatory or other impediments to free trade.

6. CONCLUSIONS

B.C.'s paradox is this: for all its apparent strengths -- in natural resources, energy resources, transportation, its capacity to attract skilled people and its strategic location on the Pacific -- the B.C. economy would be expected to be at the leading edge of growth in Canada. Yet this is not the case.

Some of this can be explained by weak commodity markets, but additional reasons have to do with much more intangible characteristics of the province. These include the perceptions of polarity and instability within the province. They also include the cost of doing business and the difficulty of mounting new projects in the face of many competing interests and with lengthy and uncertain processes of resolving conflicts.

Rising above the usual resource development and land use conflicts are native claims which, until resolved, will affect nearly every development in B.C. outside the major urban areas.

Federal policies for B.C. should focus on ways to overcome constraints that impede private sector growth. This approach also should reinforce the existing strengths in the economy and should be made in concert with the provincial government.

Current Economic Indicators

| | <u>British Columbia</u> | | <u>Canada</u> |
|--|-------------------------|-------------|---------------|
| | <u>1984</u> | <u>1985</u> | <u>1985</u> |
| Population ('000) | 2 865.1 | 2 892.5 | 25 358.5 |
| Gross Domestic Product (Current \$ million) | 44 348 | 46 539 | 420 088 |
| Real Growth in GDP | 1.3% | 3.6% | 4.4% |
| Labour Force ('000) | 1 410 | 1 431 | 12 639 |
| Employment ('000) | 1 202 | 1 228 | 11 311 |
| Unemployment Rate | 14.7% | 14.2% | 10.5% |
| Number Unemployed ('000) | 208 | 203 | 1 328 |
| Participation Rate | 64.0% | 64.3% | 65.2% |
| Personal Income Per Capita (est.) | \$14 778 | \$15 779 | \$15 454 |
| Price Inflation | 4.0% | 3.2% | 4.0% |
| Average Weekly Earnings | \$491.75 | \$504.91 | \$457.52 |
| Capital Expenditures (% change) | 0.9% | -6.7% | 4.6% |
| Retail Sales (% change) | 6.1% | 8.6% | 10.6% |
| Housing Starts (% change) | -28.5% | 11.1% | 22.9% |
| Value of Building Permits (% change) | -10.5% | 9.3% | 30.0% |
| Manufactured Shipments by Value (% change) | 4.5% | 8.0% | 7.5% |



