

By their nature, services cover the spectrum of activities that range from the knowledge-intensive to labour-intensive. You will notice that Canadian businesses have been exporting, as well as importing, commercial services in the same category. For instance, Canadian exports of telecommunications, computer and information services have gone up, and so have their imports. A similar pattern emerges in other categories as well. What explains this pattern? It is intra-industry trade in commercial services.

You will also notice in the description of the categories above that almost all of them cover trade in knowledge-intensive services. The growth in Canadian imports of services indicates that we are increasing our purchases of knowledge-intensive inputs. A good proportion of these knowledge services are used as intermediate inputs by skilled workers in Canada to make high-technology products.

By combing their advanced knowledge-base with domestically produced and imports of knowledge-intensive goods and services, Canadian workers and corporations are able to improve, consolidate and diversify their expertise. In time they achieve comparative advantage in a number of knowledge-intensive activities and begin exporting advanced services and goods from Canada. Consequently, the overall deficit on the service account in knowledge-intensive activities should not be viewed negatively.

During the 1989-94 period, half of the trade in Canadian imports and exports of commercial services was accounted for by two groups: insurance, financial services and commissions; and, management services and miscellaneous services to business. During the same period, the categories of: computer and information services; R&D, royalties and fees; insurance and financial and non-financial trading commissions; and architectural, engineering and other technical services categories, expanded their exports at an average growth rate of 10% or more. This trend attests to the success of Canadian business in achieving comparative advantage in the export of knowledge-intensive commercial services.

## **7.2 Canada's Major Partners in Service Trade**

During the 1985-95 period, about 83% of Canada's exports of commercial services went to the U.S., Europe and Japan. These countries are characterized by advanced knowledge-base and industries. Canadian exports of knowledge-intensive services have been successful in sustaining their