



Introduction

Purpose of this Paper

Yukon's economy needs a new direction. In recent years, our economy has performed poorly. The population has shrunk significantly and reliance on government has increased rather than decreased. We need to reverse these trends. One of the Yukon government's top priorities is revitalizing the territory's economy and the newly formed Department of Economic Development has this mandate.

The goal is to build a sustainable Yukon economy – dynamic, diversified, and capable of sound performance over the long term. To achieve this goal, we need to develop the territory's *sustainable competitive advantages*, the inherent qualities that give us a competitive edge. We need a clear direction to pursue the key economic themes that will enable Yukon to find and maintain this competitive advantage.

This report describes that new economic direction. It has been developed through a focused process that included meetings between the department and the leading economic stakeholders in the territory. The themes reflect the reasonable consensus of stakeholders and the government about what is important. Likewise, suggested initiatives describe what both stakeholders and the government believe we need to do to pursue economic growth.

This paper defines the scope of economic development within a framework of key themes that includes:

- *Targets* upon which to focus development initiatives;
- *Enabling factors* that are required for a healthy, growing economy;
- *Organizational factors* that are important to implement the direction.

The framework is a dynamic model that provides a direction to economic development and how we can take new approaches to building our economy. It does not represent a comprehensive strategy nor a detailed, sector-specific or region-specific plan. It is a basic roadmap that will guide the government's economic development actions and initiatives.

The model will undergo continuous improvement and refinement, always looking for ways to enable economic growth and add value to all of our economic partnerships. We recognize, of course, that government cannot “manage” economic development in the sense of directing what industry should do or how it should grow. Government's role is to enable and promote economic development through an ongoing *process* that aims to identify, facilitate and promote Yukon's *sustainable competitive advantages* over the long term.

The purpose of this document is to describe the Economic Direction, and outline some of the general initiatives that the department can pursue to develop a sustainable Yukon economy.

Yukon's Economic Situation

The Yukon has a small, open economy that competes globally. The Yukon is subject to a variety of factors that determine its economic fortunes; some of which can be influenced here in the Yukon and others that are entirely outside of our control.

Global Situation

Change cycles in the global economy are faster and more erratic than in previous generations. The three major drivers of faster change are technology, globalization and the changing role of government in business. The worldwide governance trend has been towards deregulation, privatization and increasing free trade. Within this context, both government and business are players in a more competitive environment.

Businesses around the world are competing to provide the same goods (raw and finished production) and services “anytime, anywhere at increasingly competitive prices”.

With these fundamental forces impacting on nations and regions, governments need to continually define and redefine their role in maintaining full employment economies.

The key factor globally is the state of U.S. economy, which has experienced relatively flat economic growth since mid-2001. There are signs in late 2003 that the U.S. economic recovery is well underway and growth in GDP of 3.8% is expected in 2004. A healthy U.S. economy is important to Canada and important to the Yukon. Trade with U.S. is a key component of Yukon's tourism and retail trade sectors. A growing U.S. economy will increase demand for Canadian exports such as minerals and lumber, which in turn could benefit these sectors in the Yukon.

Outside of the U.S., Latin America and Europe are generally forecast to resume modest economic growth after flat performance for the last two years. Asian economies are expected to be lead by China, which is forecast to post 7% plus growth again in 2004. As well, Japan could continue with its modest recovery. Should both the Chinese and Japanese economies grow

as expected, Asia as a region could outperform both Europe and North America.

In 2003, the world's economies demonstrated their susceptibility to events such as the SARS outbreak and the invasion of Iraq by U.S. forces.

National Situation

The Canadian economy was battered in 2003 by a series of events including the SARS outbreak, the mad cow case in Alberta, the August power blackout in the eastern U.S. and Canada and the Canada/U.S. softwood lumber dispute. As a result, early year estimates of 3.2% economic growth in 2003 were later downgraded to 2.0%.

The Canadian economy has been boosted by consumption of goods and services, fuelled in large part by low interest rates. Housing in particular has benefited from this trend and has been a major contributor to economic growth. Recent rises in the value of the Canadian dollar present some risks to Canada's exporters of goods and services. Canadian dollar value is expected to decline against the American greenback as the U.S. recovery gathers strength.

Canadians' global competitive position declined in 2003, according to the World Economic Forum. Canada placed 16th on the global growth competitive index in 2003, down from 9th place in 2002. Contributing to this decline were decreased confidence in Canada's public institutions on the heels of SARS, BSE and security issues related to the September 11 response.

Situations in Adjacent Jurisdictions

The Yukon is surrounded by jurisdictions that appear to have significantly different economic circumstances.

- **Alaska's** economy is poised for resource-driven growth after some flat economic performance in recent years. Higher gold and oil prices as well as in-state defence spending are expected to drive growth. Alaska has several promising gold projects and continued, but diminishing, production of Prudhoe Bay oil reserves.
- The **Northwest Territories** has enjoyed stellar economic growth in the last few years,

with the development of two major diamond mining projects generating over \$2 billion in direct investment since 1997. The growth of the diamond industry also includes sorting, processing and cutting facilities. Long-term prospects include a third diamond mine by 2007 and the Mackenzie Valley pipeline by 2010.

- **Alberta** is enjoying high commodity prices for oil and gas and is forecast to lead all provinces with 3.5% GDP growth in 2004.
- **Saskatchewan** had one of the top-performing economies in Canada in 2003 and this trend is expected to continue in 2004, due to gains in mining and agriculture.
- **British Columbia's** economy has struggled with weak exports of wood products and the impacts of a series of fires and floods. The province will benefit from an improved U.S. economy and could see growth of 2.8% in 2004.



Yukon Situation

The Yukon remains outside of the prosperity that surrounds it. The territory has not fared as well as any of its immediate neighbours and has generally lagged behind economic performance in Canada for the last several years. Appendix one contains a detailed set of economic indicators, summarized below:

- Yukon's population has decreased by around 10% since 1997. Population losses have been concentrated in the 20-44 age categories, and by men.
- The Yukon economy has shed around 1,900 jobs since June of 1996.
- Yukon's GDP growth rate has lagged the national growth rate in five of the last six years.
- Resource industries, including mining, oil and gas and forestry, have generally seen production declines since 1997. Government, tourism, construction and retail and wholesale trade have all increased as a percentage of GDP.

Many events, positive and negative, have unfolded in recent years that directly affect the Yukon economy and how it operates:

- Most native land claims have been settled, and the remainder could be signed within the next year; many First Nations are now actively

seeking and pursuing economic development opportunities.

- Through devolution, the Yukon Government now manages most natural resources and their attendant regulatory regimes.
- International events such as wars, terrorist activity, trade disputes, SARS, mad cow disease, and natural disasters have had adverse effects on the Yukon economy.
- Yukon's infrastructure has improved markedly with new transportation, telecommunication, health, and recreation and housing facilities.
- Information technology, the Internet and e-commerce have revolutionized many traditional ways of doing business and offer many opportunities to small jurisdictions.
- The proposed Alaska Highway Pipeline could receive a major incentive through the Energy Bill currently before Congress and the Canada-Alaska Railway will likely be studied.
- New development assessment procedures will soon be implemented under the Yukon Environmental and Socio-Economic Assessment (YESEAA) Act.

While the Yukon economy remains comparatively small on a national or global scale, there are assets and strategic advantages that can form a basis of moving the territory's economy beyond its continued dependence on the public sector.

Yukon's Strategic Assets

Despite lagging national economic performance, the Yukon has a good set of economic assets that help define the territory's competitive advantages. These include:

- Physical Infrastructure:
 - › The Whitehorse International Airport plus 10 community airports.
 - › 4,700 kilometres of all weather roads, more than the NWT and Nunavut combined
 - › A comprehensive broadband telecommunications network connecting 16 of 18 communities.
 - › A stable and clean energy system with surplus capacity. Hydro generates over 80% of capacity.
 - › Year-round access to ice-free ports in Skagway and Haines Alaska.
- Community Infrastructure:
 - › Yukon College provides a wide range of technical and academic programs and has proven adaptable to meet training requirements in response to economic opportunities.
 - › The Yukon Arts Centre is an important piece of infrastructure for our cultural industries.
 - › The Whitehorse Multiplex will provide the capability to host the 2007 Canada Games and other sporting events as well as enhancing the community amenities that make the Yukon an attractive place to live and work.
 - › The Yukon has a modern and comprehensive network of health facilities, in Whitehorse and in the communities.
 - › Yukon's public schools offer K-12 education in public, Catholic and French immersion streams.
 - › The RCMP, with its national network of support services, provides the Yukon's police services.
- Human Capital:
 - › The Yukon hosts one the highest ratios of university degree holders in Canada as well as a high rate of school completion.
 - › The Yukon has one of the highest rates of labour force participation in Canada.
 - › Yukoners are entrepreneurial with a high rate of self-employment and small business formation.
- › The Yukon has a very high rate of volunteerism. Yukoners are very active in their communities and work hard at enhancing the quality of life in the Yukon.
- Government
 - › No government debt, deficits illegal through the *Yukon Taxpayers Protection Act*.
 - › A highly competitive tax regime, no territorial sales taxes.
 - › A number of tax incentives, including the Small Business Investment Tax Credit, the Mineral Exploration Tax Credit, the Research and Development Tax Credit and the Manufacturing and Processing Tax Credit.
 - › A Rate Stabilization Program is in place for energy costs.
- Resources
 - › Defined deposits of copper, lead, zinc, tungsten and silver and iron ore.
 - › Gold deposits, both hard-rock and placer.
 - › Emerald and diamond potential
 - › Occurrences of asbestos, barite and coal.
 - › Eight defined oil and gas basins.
 - › 4,500 square kilometres of fresh water.
 - › 281,000 square kilometres of forests.

Appendix one includes a brief description of major economic sectors and key economic projects. This list does not include several other projects that could be announced in the short-term, providing further development potential.

