Atlantic Canada and the Future: Trends, Challenges and Opportunities

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North
American
Policy
Group

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PREFACE:

The North American Policy Group (NAPG) at Dalhousie University is well placed to provide the kind of overview presented in this report. Begun in 1989, the US Policy Studies Group (USPSG), has been concerned with the relationship between Canada, especially Atlantic Canada, and the United States and more latterly, the Western Hemisphere. Its focus has been on the areas of trade and economic development.

This report has required us to stretch beyond economics and the Western Hemisphere to look at some factors that relate to subjects like technology, ethnicity and demographics. In this, we were aided by the work NAPG had done in 1995-1996 on comparing world competitiveness factors and Atlantic Canada. As well, a companion report that looked at human development indicators prepared by Informetrica Ltd. Was of great utility.

I have personally spent much time and effort over my career in identifying and outlining trends affecting Atlantic Canada. In 1979, I coauthored The Atlantic Vision 1990 for the Atlantic Provinces Economic Council, which I had the honour to then direct. Much of my time as Deputy Minister of the Nova Scotia Department of Development was spent in understanding the effect of various trends on our economic prospects. Some of this work eventually led to research projects related to the FTA that created USPSG when I was Dean of Management at Dalhousie. Now, as a professor and CEO of a small, regional technology company, BDI, I find myself continuing a career-long practice of trend-watching.

Janice Plumstead and Brian Russell have brought their own individual skills to this report. They have focussed on the economic development and trade prospects for the region and have forced me on a number of occasions to defend the trends chosen for this report. Many other things besides the 18 trends listed here are going on in the world. The ones listed here are those we feel are most important in terms of understanding the regional development challenges of the next century. We are grateful to ACOA for providing us with the challenge and the opportunity to look at Atlantic Canada in the world and offer some ideas about this relationship.

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FOREWORD:

Atlantic Canada in the Global Economy

The world is a rapidly changing place. Advances in technology have contributed not only to the exponential growth of the world economy, but also to an incredible overlap of cultures and tastes. New communications technologies expose millions worldwide to the values of American consumers as portrayed through CNN and MTV. Global transportation has advanced to the point where almost anywhere on earth is physically accessible within 24 hours from any other point. Huge increases in tourist and business travel acquaint millions annually with new places, people and ideas. Even the planet itself is not big enough to contain the expanse of human curiosity and entrepreneurialism. One enterprising company is currently taking reservations for trips into space.

All of this and much more was unimaginable to the average citizen even 80 years ago. We have had the airplane and automobile for less than 90 years. Fifty years ago a computer did not exist, and 20 years ago most people had never seen one. Telephones, assembly lines, electric lights, central heating, indoor plumbing, scientific medicine, have all become common in the past 100 years and, as each new innovation expands our capacity, the pace of technological development increases even faster.

Not only are our tools different, we ourselves have changed. In the last century developed countries have added almost 30 years to average human life expectancy at birth. We have nearly eradicated major diseases such as polio, small pox, yellow fever and tuberculosis while expanding public education systems which have made 12 years of education the norm.

The world **is** a rapidly changing place.

The nature of this world and the impacts and implications of "globalization" [1] for Atlantic Canada and regional public policy are the subjects of this paper. Seen statistically, Atlantic Canada accounts for less than five ten-thousandths of world population and slightly more than one one-thousandth of global economic output. Not big numbers. Yet, the global reality impacts on all the citizens in the region every day of their lives. We are no more immune to the forces of global change than is any other corner of the planet. Indeed, we are less so, given the relatively open nature of our national economy. This is a fact which is lamented by some and celebrated by others. In reality, openness provides us with new opportunities for innovation, development and ultimately prosperity. The key word in this last sentence is opportunity, for opportunity must be seized in order to be realized. In and of itself it is passive and can be allowed to pass. It is a potentiality which left alone, will be exploited by others. This is the fundamental reality of the modern world. It is a world of competition and change. Opportunities do not last long and refusing to acknowledge or take advantage of them does not result in the status quo, it results in sliding back.

Once, in a different time, Canada may have been able to afford to simply exploit its physical advantages and take its place in the world for granted. Now we must constantly innovate and re-invent ourselves and our activities. The economist Joseph Schumpeter described capitalism as a process of creative destruction; a constant building up and tearing down to build better. It is innovation that is at the heart of this process. New ideas, new methods, new and better products and services; these are the lifeblood of the global economy and the keys to future Atlantic Canadian growth.

Atlantic Canadians have been dynamic participants in the international economy in the past. Sadly, the period from the American Revolution to Confederation, about 1775 to 1867, is still generally regarded as the Golden Age of development in the Region. During this period the Colonies expanded from a few thousand souls to over 600,000 people. The regional economy thrived for much of the period based on forestry and fishing, with shipping, shipbuilding and some coal development in the latter part of the period, also playing an important role. Regional fortunes were closely tied to British economic policy and various

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[1] The authors have strained mightily to concoct a word which avoids the use of this oft repeated term. Unfortunately we have discovered that it does perhaps best encapsule the phenomenon we are describing. Failing to replace the term, we have noticed a troubling tendency to use it to mean several different things. Accordingly we offer our own definition:

Globalization is the process of increasing international interaction of local, regional and national factors of production, characterized by freer international movement of services, investment (portfolio), capital (direct investment), knowledge, people and goods. It is also characterized by the development and expansion of multinational institutions and rules designed to both facilitate and regulate these flows.

preferences and tariffs on foreign goods were critical to the success or failure of regional enterprises. Atlantic Canadian products were shipped around the world and the local economy prospered.

To once again benefit from the global economy, Atlantic Canadians must begin by thinking of themselves as a part of it. In order to succeed in the next century we must first move from concentration on internal markets and problems, and face outward to the world. It is not that we have not done well. In global terms, we have. Our per capita incomes are among the highest on earth. We enjoy good public health and have maintained a remarkable quality of life for residents. But this is not the end of the story. Others are catching up and passing, both because they are growing faster than before (a development we should welcome), but more importantly, relative to them, we are standing almost still.

We have done well until now through pursuing a strategy that is no longer sufficient and cannot respond to current conditions. Atlantic Canada's relative prosperity has been largely built on its natural resources and a national system of policies designed to support the region. Both of these traditional pillars have been soundly shaken. Employment in natural resources such as the fishery and mining have been devastated by changes to both the physical and economic environments. Government transfers have declined as a consequence of national programs of fiscal restraint. The point is not that these things cannot be reversed; the fish may come back, offshore oil and gas may provide additional resource-based growth, but the point remains that the surrounding environment is different than ever before. In an international economy in which production is global and economies of scale and scope matter more than ever before, our small population base and extensively utilized resources make a global orientation the key to our future prosperity.

Clearly, the world in which Atlantic Canadians live their lives is changing. This report outlines many of those changes and the responses of some others to them. Many of our challenges are symptomatic of the Region's current difficulties in adjusting to these new circumstances. Just as the Industrial Revolution of the late 19th century caused much dislocation and distress, so too has, the technological revolution of the late 1990's[2]. Change and growth are not neat processes. In the end the Industrial Revolution formed the basis for the mammoth 20th century increases in Western prosperity. So too will the current

[2] Dr. Steven Blank of Pace University, a recent visitor to NAPG, commented on the parallels between he disruptions caused by telegraphy, railroads and mass production at the end of the 19th Century, and those caused by electronics, global communications and automation at the end of the 20th Century.

technological revolution form the basis for tremendous advances in the 21st century, not only in the West, but globally. In a limited sense it is correct to say that globalization has caused our present problems. That is the role of historical progress. It forces us to adapt and respond, overcoming our natural conservatism and creating new and better ways of living. Creative destruction. It is often necessary to tear down an old house before building a new and better one. What is needed are attitudes, policies and actions which minimize the disruption and maximize the benefits.

In many senses, of course, the process is not within our control even should we so desire; it is a global historical phenomenon. Just as the Luddites could not turn back the Industrial Revolution, even less so can we stop the march of technological progress. What we can control however, and what is important to control, are our responses and the likely outcomes. We cannot roll back history but we can certainly make intelligent choices about how best to adapt. The region must direct its vision not only outward but also forward, building on what is good in its heritage, but also embracing a regional vision of success which includes adapting to the new realities around us and moving ahead with shaping the region for the next century.

Facing outward, and forward does not mean turning one's back on history or internal issues. Rather, it means taking the total of these experiences and moving ahead recognizing that in the world of the 21st century, successes must reach beyond regional boundaries and encompass a broader view of the Region's place in the world.

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The intention of this report is to outline some of the trends that are affecting the world, the country and Atlantic Canada, then to look at the present positions of these three and finally to discuss some challenges and opportunities that arise from this combination of trends and position. When viewed from a global context, or even a North American one, Atlantic Canada has a lot of promise. Disparity is an overworked term, especially when used to describe this Region. In global terms Atlantic Canada is well-off, uncrowded, well-connected and harbours a great deal of potential.

The trend material in Section I must be seen as being synthetic and idiosyncratic. It is synthetic in that it arises out of putting a lot of material together, rather than through an analytic process. It is idiosyncratic in that it is the result of a few individuals' ideas rather than being conventional wisdom.

The six global trends have been presented as being the most central to economic development in the future. There are other trends that could be described, but the number presented is conceptually manageable. The trends cascade in that each level - national and regional - is conditioned by the trends "above" it. Thus, global urbanization conditions national urbanization and regional urbanization. In the cases of national and regional trends, the global is taken as a "given" and a trend resulting from the "given" is developed at the lower levels.

Again, at the national and local levels, only six trends have been identified, primarily for ease of management. Handling eighteen total trends is probably too complex in and of itself, but a lesser number would have run the risk of being too selective. Looking at a 3-dimensional policy matrix made up of 6x6x6 trends produces 216 challenge/opportunity possibilities, far too many for discussion in this paper.

The cascade effect inherent in these trends points out first how vulnerable Atlantic Canada is to shocks from outside and, in reverse, how little local problems affect world trends. The cascade tends to work only in one direction. Even so the relationship between global trends and specific regional events is never clear beforehand and often hard to detect well after the events.

As well, trends like the ones described below have to be seen as rough ideas. They are labels for a mass of decisions made by a wide variety of people over a relatively long period of time. Their effects can have differing impact on countries and regions, perhaps even to the point of one trend being offset by another. A diversified economy that can respond flexibly to change has the best prospect for reacting to the impact of these trends.

Section II looks at Atlantic Canada's position in the world based on four reports commissioned by ACOA in 1995 and 1996. Some of the more obvious common and unique features of these reports are presented and challenges and opportunities discussed. In a sense, these four reports are complemented by this paper in that, taken together , they form what is probably the most extensive benchmarking exercise ever performed on a Canadian region. Section II then goes on to consider some comparative aspects of regional development policy.

Section III is a short piece that focuses on the main messages that emerge from the previous two sections. That they centre around trade and education is not surprising, but the particular way that this report leads to them is, we think, most interesting and engaging.

Section I: Global, National and Regional Trends

Introduction

The aim of this Section is to describe and elaborate upon 18 interconnected trends that are affecting Atlantic Canada today and will continue to affect it in the decades to come.

The general concept underlying the interconnected nature of these trends is best seen as a "cascade", where global trends interact with national ones and both interact with regional trends. In the end, the region's people are affected by both local and global circumstances, with the non-local, or ones that are not in the region's control, playing the dominant role. The challenge to the region is to meld the local and the global into a prosperous future. This is not a new or original idea, as writers such as Rosabeth Moss Kanter in her World Class[3], often point at the same challenge in other parts of North America and the world.

The 18 trends listed in TABLE I are a result of synthetic effort, that is, an effort to bring together a lot of disparate ideas, facts and changes into a relatively cohesive set of observations about where the world is going. They do not focus on artistic, cultural, religious or philosophical trends, which are outside the scope of this report. Instead, they focus on economic, demographic and some political trends that, taken together, will affect the areas of economic life most relevant to Atlantic Canada.

They are meant to be starting points for thought, in that implications can be drawn from them for other areas of human endeavour. In a short report such as this, it is impossible to do justice to these 18 trends, to explain them completely or to show all the interconnections and cascade effects. In the following text, the trends will be described by their numbers in their respective categories: G for global; N for national; and R for regional. These divisions are by their very nature less than perfect as all the trends inter-act across these simple boundaries. Nonetheless, the division is useful in providing a conceptual context in which to think about the forces acting on Atlantic Canada.

Consequently, the reader should not expect that all the trends are relentlessly pursued through the cascade or that each trend at each lower level obviously and automatically hooks onto ones at the higher level. Such an exercise would require significantly more time and resources than were available.

[3]Rosabeth Moss Kanter, World Class: Thriving Locally in the Global Economy, (New York, Simon & Schuster, 1995).

TABLE I - TRENDS

GLOBAL, NATIONAL AND REGIONAL TRENDS	
	GLOBAL TRENDS
G-1	Global Expansion
G-2	Continued Urbanization
G-3	Borderless World
G-4	Capitalist Variety
G-5	Economic Convergence
G-6	Reviving Ethnicities
	NATIONAL TRENDS
N-1	Who is Us?
N-2	Quebec
N-3	Environmental Sensitivity
N-4	Linkage to the US Economy
N-5	Labour Force Changes
N-6	Communitarian Ideals
	REGIONAL TRENDS
R-1	Population Dynamics
R-2	Urbanization
R-3	Human Resources
R-4	Resource Processing
R-5	Pressures to Markets
R-6	Increasing Self-Reliance

Global Trends

G-1 Global Expansion

This is probably the most obvious and also the most controversial of the trends. The idea that global economic activity will grow to a large multiple of today's economy frightens environmentalists and some foreign policy analysts. Yet, if we are to accept the idea that some complex of democratic values, consumer values and capitalist production will dominate all the countries in the world over the next decade and beyond, G-1 is the natural result.

Global expansion is also evidenced most strongly through an examination of changes in international trade. Multilateral efforts in the GATT/ WTO combined with a proliferation of regional and bilateral trade liberalizing agreements such as NAFTA, have contributed to huge rises in the volumes of trade flows between nations. Between the founding of GATT in 1947 and the end of the Uruguay Round in 1994 world average tariff levels declined from about 38 percent to a mere 3.5 percent. Correspondingly, while world output has increased at an average pace of 4 percent between 1950 and 1994, global trade has grown at an average annual rate of 6 percent. Clearly trade plays an increasingly important role in driving the global economy. Continuation of this trend would imply an even greater degree of importance for trade. This is even more likely to be so as China and Russia are likely to join the WTO system in the next five years. Even without WTO membership Chinese exports grew at an average annual rate of 18 percent between 1990 and 1994, 32 percent in 1994 alone[4].

The Asian "tigers" have shown what can be done and the question of whether other developing nations will follow their lead, probably comes down to one of how well they will do so, not whether they will try or not. Between 1990 and 1994 exports of the six East Asian "tigers" (Taiwan, Hong Kong, South Korea, Malaysia, Singapore, Thailand) grew by 12 percent as an annual average. This compares with a world average growth rate of 5 percent[5]. While allowance must be made for cultural, societal and developmental differences, the general trend toward expanding global markets cannot be realistically disputed.

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[4]World Trade Organization, 1995 International Trade: Trends and Statistics, (Geneva, Publications Services World Trade Organization, 1995).

[5]Ibid.

The so-called economic miracle of East Asia has been based on expanding trade patterns. The initial boost seems to have come from local production that supplied American military activity in the region. Then American companies looking for cheap labour moved into East Asia. Following them, Japanese companies needing additional labour moved offshore. All of this activity was fuelled by demand from outside the region, though as wealth grew in these countries, domestic demand began to play a role. Today the coastal littoral of East Asia probably has 200 million consumers with incomes similar to those in Canada.

Political pressure exerted by local consumers is causing political change everywhere from Eastern Europe through Africa and Asia. Coupled with global television, advertising and production, consumer expectations are now the driving force on the planet. If a government cannot meet these expectations, it is likely to be replaced, not just in personnel, but in more fundamental ways.

As countries elsewhere try to emulate the fast growth patterns of states like Singapore, the relative economic size of Canada has diminished and the relatively high incomes (on a global scale) in Atlantic Canada will be shared by others. Already Singapore's per capita GDP is approaching that of Atlantic Canada.

These trends will force changes in the mind-sets of Canadians, who are still tied to the notion of Canada as the second or third richest country in the world. As relevant will be rankings in indexes like the UN's Human Development Index which include a variety of social and environmental indicators. The HDI is discussed in Section II.

There is no reason to expect that global economic growth will fall short of the 500 percent that happened over the past 50 years. A world economy 5 times that of today’s will have opportunities and challenges on a scale and scope that is as different from today as ours are from those of 1947.

G-2 Continued Urbanization

For the first time in history, half the world's population now lives in cities. This proportion is about the same in Atlantic Canada. There is little question that cities will be the global economic engines of the next decade and beyond. Rural out-migration is likely to continue all over the world. Dayton Duncan, in his book, Miles From Nowhere, notes that more counties in the US now fit the 1891 Census Bureau's definition of "frontier" (2 people or less per square mile) than at any time since 1891.[6]

In Atlantic Canada, rural communities have developed around resource based extraction industries whose employment levels are no longer adequate to sustain current populations. While new discoveries may maintain or even develop some of these types of communities in future, the overall long-term outlook is weak. Similarly, the prospects for the development of large scale industrial manufacturing projects in rural areas are slim, given the global competition for these facilities and the preferences of managers for more diverse urban environments.

Retirees and telecommuters may move out of urban areas, but the cities will continue to be a magnet for most people. Ironically, any flow of people back to rural and small town areas probably will be seen as a function of a country's willingness to subsidize the movement, rather than as a secular trend.

Urbanization has implications for a wide variety of economic activities. Tourism by urban people seems to be primarily focused on other urban areas. Japanese city dwellers go to Honolulu, San Francisco and Vancouver. They may also go to Banff, Prince Edward Island and the Grand Canyon, but the majority of their money is still spent in cities.

Two observations may be useful in understanding the implications of this trend. First, Jane Jacobs noted in her Death and Life of Great American Cities, that the modern city, unlike its medieval counterpart, is the engine of national wealth.[7] Second, Karl Deutsch in Nationalism and Social Communication traced the correlation between increasingly dense communications and nationalistic feelings.[8] As the world's cities begin to dominate democratic politics and their communication and travel patterns became increasingly dense, we can expect major political and economical ramifications.

Clearly, what we are talking about here are centres of economic activity which do not necessarily coincide neatly with municipal boundaries. The urban and economic influence of Halifax, for example, probably extends to many smaller towns within a ninety kilometre radius, which would not typically be described as urban.

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[6] Dayton Duncan, Miles From Nowhere, (Toronto, Penguin Canada, 1993).
[7] Jane Jacobs, Death and Life of Great American Cities, (New York, Random House, 1961)
[8] Karl Deutsch, Nationalism and Social Communication, (Boston, MIT Press, 1966)

The division we are trying to identify here more properly might be called Metropolitan - Rural. The geographic area which can truly be called rural is declining, while at the same time the economic isolation of those areas is increasing. In time, some of this economic isolation may be resolved by the development of retiree communities, smaller resource based industries, food processing, art and craft and tourism initiatives. While telecommuting holds some promise, it is unlikely that large numbers of technically skilled people will choose to leave the metropolitan milieu for a life outside it. Accordingly, this type of activity is likely to have a small impact on rural population. The use of communications technology by rural residents does however seem to be one possible answer to the economic isolation of the periphery.

G-3 A Borderless World

Because of the reduction in global trade barriers and the spread of common television and advertising, consumption patterns all over the globe are becoming more homogenous. At first, this was seen as a kind of “Americanization”, but this continuing harmonization has developed from many cultural tributaries and will continue to do so.

Consumer taste has been matched by the technical ability to move goods rapidly from one part of the globe to another. This has expanded the ability to serve customers at a greater distance than before and allows for the simultaneous introduction of a product in different regional markets. Overnight package delivery across a continent was pioneered by Federal Express a decade and more ago; now rush shipments of goods can be made across a quarter of the globe’s surface in 2-3 days. More commonplace movement across the globe in a similar period should occur in the next decade. Coupled with the internet, this means that every producer of a good or service is potentially in instantaneous contact with the global market.

At present, foreign exchange markets move over $l.3 trillion US between countries each day. Much of this is "overnight capital", but in the aggregate it means that a capital pool the size of the entire US economy shifts around the world every 2 weeks or so. No country can afford to put up significant barriers to this capital without seeing it simply move to competitors’ hands where it receives better treatment.

The increasing "hollowing out" of companies means that contract producers can be located anywhere and that the "nationality" of a producer is far less important. An electronic product whose components are made in five countries and assembled in a sixth, for sale in a seventh by a "local" company is not truly local in any traditional sense. Conversely, increasing automation of resource extraction and production means that such industries create less employment in local labour markets. With consumption remaining high in the developed countries, the "nationality" of products and companies will be increasingly confused.

G-4 Capitalist Variety

Ever since the 1920's, the world has been subject to contests between capitalism and other forms of economic organization. Today, that series of contests seems over, and, for the time being, the new global contest is between types of capitalist economies. The US, Japan, Canada, Singapore, Sweden and even Russia all have differing mixtures of private and public activity, somewhat different ways of regulating capitalism (see G-3) and different relations between banks, producers and sales organizations.

In spite of the present-day rhetoric about the antagonism between governments and capitalism, historically the two have been very close. Capitalist structures cannot maintain themselves without external rule-making and governing forces. Contemporary Russian capitalism, with its heavy Mafia-like undertones, is one result of weak or unsophisticated public rule-setting.

The need for a continuous interaction between public policy and capitalist structures does not necessarily lead to this interaction being the same in each country. Ownership rules, competition policy, national interest and history all play a role in creating different capitalisms. Where American capitalism works under rules that give primacy to competition, German capitalism may focus on cartelization and close finance-corporate linkages. Japanese capitalism may be more subject to personal friendships and blood relations and focus on long-term returns.

It appears that most of these varieties flourish best in the quick growth stage of economies. As countries get to higher levels of per capita GDP, other concerns intervene to force a slowing of unregulated growth. Environment, leisure, consumption, public amenities and social welfare become important issues whether it is Japan, Europe or, more recently, South Korea, Singapore and Taiwan. In any event, dealing in the global economy requires some understanding of the business practices in different countries even as consumer tastes become harmonized.

G-5 Economic Convergence

There is considerable evidence that as countries reach high levels of per capita GDP, rising social values tend to slow down economic growth, and these countries gradually converge economically. For example, spending on social welfare items has increased over 50 percent in OECD countries since 1950 while rates of GDP growth have fallen. In part this is not surprising, since these economies are so interdependent, and their demographics, affected by high incomes, are so similar as well.

In the 1950's, Abraham Maslow suggested that people are dominated by a hierarchy of needs, that is, when a basic need, such as survival, has been met, people tended to take it for granted and focus on a different need, perhaps status or individuality.[9] Some work done in the 1980's in Europe suggested that this idea might be relevant for issues facing whole populations as well. The notion of economic convergence is consistent with this idea.[10]

Demographers have recognized for a long time that one of the main determinants of family size is the prosperity of the family. More money equals fewer children. Fertility rates in developed countries have tended to converge. A country like Singapore, where prosperity has come quickly over 30-35 years, is now facing fertility rates not that different from Japan or Canada, much to its consternation.

Other values, such as environmental sensitivity, also seem to emerge with rising incomes. Public opinion is willing to sacrifice production and growth in favour of cleaner air and water and more public amenities. Consumers are more likely to boycott products seen as having been produced in an environmentally damaging way. Working conditions are regulated in a more stringent fashion.

Concerns over immigration and social issues will become distributed more widely. Asian states that are not used to immigration, such as Japan and Korea, are now trying to adjust to the idea much as France and Germany have had to over the past 15 years. France and Germany show that this is not a problem that is easily solved, yet, without some injection of younger workers into the labour force, production growth will slow.

Finally, G-5 is related to G-1 in that as more countries become developed, their internal economic differences in income and production will come to resemble those in Canada, the US and Europe. This gradual convergence of economics therefore will not necessarily lead to economic equality within countries. There will still be the challenge for regions like Atlantic Canada to improve their relative position within their respective countries. Economic convergence between countries may indeed heighten the awareness of regional disparities inside countries.

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[9] Abraham Maslow, "A Theory of Human Motivation," Psychological Review, July 1943, pp. 370-396.
[10] Ronald Inglehart, The Silent Revolution, (Princeton, NJ, Princeton University Press, 1977)

G-6 Reviving Ethnicities

As the world becomes more homogenous in its consumption patterns and in its entertainment and values, there rises a counter-influence in terms of identity. Homogeneity gives rise to desires for separation or individuality. In the case of large groups of people, this means a resurrection of ethnicity, or even a "manufacturing" of it.

For example, one can encounter a youthful home-page from Spain on the internet that lists as favourite links, both the Catalonian nationalist home-pages along with that of Pamela Anderson Lee. The creation of the EU has also given a definite impetus to simmering regionalisms, such as the Bretons, Scots, Basques, Bavarians and the Northern Italians. One finds the fighters on all sides of the Bosnian conflicts are indistinguishable in their dress and armaments (Levi's, Nikes and Kalashnikovs); only their centuries-old grievances fuel the conflicts. We are used to seeing age-segregation in our societies; we are now seeing increasing group- segregation. The factors used to establish this differentiation are numerous: geography, language, ethnicity, heritage, religion, class, culture, but the objective is always the same: control over, and differentiation from, at least a small aspect of the global forces leading to harmonization and convergence of societies.

These six global trends emerge from a considerable amount of reading and synthesis. All act on Canada to influence national trends that arise out of the country's unique circumstances and geography.

National Trends

N-1 Who is us?

In two important articles, former US Secretary of Labour Robert Reich asked this question about the relationship between Americans and American-based companies.[11] His question is overwhelmed in Canada by the larger one of national identity itself.

Reich observes that American companies are in fact global in nature; that their "Americaness" often hides the fact that much or most of their production takes place offshore and that much of their sales volume is done in foreign lands. His conclusion is that national policy has to be focused on the least mobile factor of production - the workforce. The nationalist pleas of international corporations should be ignored except insofar as the response to them translates into American jobs.

For a century and more, Canadian policy identified companies with the country. The signing of the FTA in 1988 broke with this tradition and helped to create a continent-wide market. In part this change was a response to consumer pressure and in part it was a recognition that Canadian companies themselves were internationalizing.

While Canadian policy has taken the steps towards internationalizing, it has not yet devised a coherent overall policy based on the needs of the domestic labour force. A new Canadian economic identity has to be rooted in a determination to ensure that Canada's labour force is internationally competitive, that tax policy is competitive, that the skills of workers are enhanced and that their prosperity is reasonably assured.

A second Canadian consideration relates to G-6. Canada has not been able to generate a positive "ethnicity". Instead that success which has been achieved in this regard has occurred at the provincial or sub-provincial level. One way of seeing this is through the display of flags. In Atlantic Canada, for instance, aside from the Maple Leaf, there are ten identifying symbols in the four provinces, of which 2 or 3 may be discounted, though only with considerable trepidation. In order, they are the unofficial or official flags of Labrador, Newfoundland and Labrador (3), Nova Scotia, the Acadians, Prince Edward Island, New Brunswick, the Madawaskans and the Cape Breton tartan, which is not to be confused with the Nova Scotia flag.

[11] Robert B. Reich, "Who is Us?" Harvard Business Review, January-February 1990, 58-59; "Who is Them?," Harvard Business Review, March-April, 1991, 77-88.

Some of this may, at first, seem unimportant, but flags are strong symbols of identity. G-6 would suggest that these identities will continue to exist and their symbolic value increase. If Atlantic Canada is considered a microcosm of the country, then who knows how many other "identities" lie below the country's surface. This may also be a rural phenomenon, especially where identity is used to attract tourism activity. Cities tend to be more open to diversity since they are magnets for immigration. Of course, the pressures of globalization and urbanization collide with ethnic revival in today's world, so the desire to be distinct from neighbouring cities does exist. One of the themes of Paul Theroux's, <u>The Pillars of Hercules</u>, is his lament for the lost cosmopolitanism of Alexandria, Trieste, Athens and Tangiers each of which was "ethnically cleansed" over the past 50 years, albeit more peacefully than in Bosnia.[12]

While many Canadians work to maintain a strong political relationship between Quebec and especially Ontario, the dynamics of immigration and the global outlooks of Toronto and Vancouver appear to be leading to a new relationship between the two cities, not unlike that of New York and Los Angeles. This new axis is not between the regions of the country, but between two metropolitan areas that have aspirations to play on the global stage. They look less like competitors and more like partners, in spite of the traditional regional epithets that get hurled east and west every so often. Obviously this has implications for Atlantic Canada. Atlantic Canada, is faced with a unique set of problems, not unlike those of Alaska, for instance, or Hawaii. Its cities have economic and personal ties to those in Central Canada as well as the US Northeast. Both Boston and Montreal are equally distant from Halifax for instance, and New York is closer than Toronto. Resolving these pressures is not insurmountable but they are not really the same as anybody else's in Canada. In such an environment the dangers of regional isolation and confusion increase substantially.

N-2 Increasing North American Trade

The reality that is emerging, regardless of whether trade barriers in the world as a whole move up or down, is one of the development of three major trading groups, Asia, North America and Western Europe. In these three areas, much of trade is intra-bloc. In fact, of the three groups, only in North America is intra-group trade less than 50 percent (but rising) of total trade. This intra-group trade and the trade between the major regions probably constitutes 2/3 to 3/4 of all world trade. Latin America is becoming increasingly important in North American trade and is also increasing its own intra-group trade with the development of free trade areas like Mercosur. The potential for a Free Trade Agreement of the Americas, mandated to be completed by 2010, holds out the likelihood of substantially increasing trade

[12]Paul Theroux, <u>The Pillars of Hercules</u>, (Toronto, Random House of Canada, 1995)

throughout the Western Hemisphere. The countries of the former Soviet Bloc, although not yet major players in world trade also hold potential for new markets and suppliers. The movement in this region towards market economies, even with all their hesitations and confusion, may even lead to a fourth bloc in the decades to come. More likely, efforts to incorporate these countries into NATO and the EU will result in enlargement of that economic region. A recent speech by President Clinton advocating a "Marshall Plan" for the CIS countries simply underlines this possibility. Africa does not currently figure large in the trading patterns of these groups to any great extent, however the G7 summit in Denver discussed a new emphasis by developed countries on expanding trade and investment in that continent.

Within North America, the effects of the FTA and NAFTA are not just related to the preservation of Canada's special status with respect to the US economy. They also served to increase the strength of the relationship. Today about 80 percent of Canada's exports and imports are destined for or come from the United States. This is similar to Mexico's trading relationship with the US Conversely, Canada represents less than 25 percent of the US export and import totals. Clearly, the US is much less dependent on Canada than Canada is on the US.

This unbalanced relationship will remain a reality well into the next century, at minimum. It means that there are practical limits to Canadian ability to act in conflict with US interests. The Canadian identity requires that there be differences, but the closeness of the economic ties requires that these differences be carefully managed. As part of this management, Canadians must have a clear understanding of how the American domestic system works, since it is very common that US domestic concerns sideswipe Canada and affect our interests.

Canada's future lies as a part of the North American (probably eventually Western Hemisphere) group. Within the global community, our identity is seen by other nations as an American country that is trying to run its affairs in a manner that is somehow "better" than the methods used in the US. Part of this conception is the idea that Canada can become the "gateway" to the North American market, in terms of both investment and trade. This is the promise of the FTA and NAFTA. The threat is that Canada could simply become a kind of American backwater, a storehouse of resources, but not much else.

The expansion of Canadian trade and investment and the existence of two world-cities in Toronto and Vancouver makes this unlikely, but Atlantic Canadian reluctance to recognize that the major competitors for investment are US states and foreign nations, not other provinces, gives cause for concern in this region.

N-3 Labour Force Changes

The Canadian employment scene is characterized by a continued flux in the location of jobs, the skills in demand, and the styles of household employment. In summary, this flux can be seen as a movement of jobs to urban areas and out of rural areas, toward more intellectually demanding service jobs and away from physical jobs related to goods production; toward less "traditional" households with dual incomes or single parent households, and away from families with one bread-winner. All of these trends are expected to continue into the next decade and beyond.

These trends have a multifold impact. Urban service employment is resistant to union organizing, and the penetration of unions into the Canadian workforce has lessened with each passing decade since the 1960's, with the considerable exception of the civil service. Without government unions, then union, penetration in Canada would be on a par with that of the US. The growth of an intellectually skilled urban labour force has encouraged the creation of a "hollowed out" economy. Process contractual relationships have begun to replace traditional labour-management relationships. In effect, more of the labour force is finding itself in positions where skills are sporadically contracted by companies. This has been common for lawyers, doctors and accountants for a long time, but is now spreading to a wide variety of other fields as well. Not only does the process contractual system lend itself to the efficient use of skilled labour, it also has ramifications for the tax system.

The major method of collecting taxes through most of this century has been the personal income tax. It replaced customs and excise duties during World War I as the major income source and is the tax best adapted to a large, permanent employee base, since the tax can be deducted at source. This growth of temporary employment, often through independent contractors, threatens the future of the personal income tax. Put simply, the self-employed tend to overstate deductions and understate income. This trend toward a disappearing taxpayer is exacerbated by two other factors. The rise of electronic commerce, which is difficult to trace and tax, and the increased mobility of capital, which seeks out low tax jurisdictions. The rise of value-added sales taxes in Canada can be traced in part to efforts to partially replace the income tax with one more suited to the "new economy". These consumption based taxes also tend to increase savings.

The "hollowing out" of global corporations has also led to a shift in job patterns. Parts of corporate activity besides goods production have become geographically dispersed. Credit and processing centres have moved to unlikely spots such as Iowa and South Dakota in the United States. New Brunswick in Canada has developed a reputation for successful call centre operations. Bank clearing operations have been set up in Iceland and the Philippines. Global corporations such as Northern Telecom, Gillette and ASEA Brown

Boveri now maintain separate headquarters, research, manufacturing and data processing facilities. They are everywhere and nowhere at the same time. Though much of the literature on corporate location still suggests that command and control remains in the home country, the trend is toward more internationalization.

N-4 Communitarian Ideals

The definition of Canadian identity has often been made with reference to the US, and especially so in terms of its emphasis on community rather than the individual. To many outside North America, this distinction is like two shades of grey; difficult to distinguish at a distance. The two countries have more similarities than differences.

The emphasis on community in Canada can be seen at two levels. At the level of reviving ethnicity (G-6), Canada has a welter of communities and these are becoming stronger and more well-defined. There is no national community that can act as a substitute for these localisms. In contrast, in the United States, since the Civil War, national identity and a national way of behaving has been a hallmark of the country since its Civil War.

At another level, the American sense of community, has arisen out of its more fundamental interest in the individual. Community spirit arises out of individuals who give of themselves to make it function, or it does not arise at all. To some extent, this notion has been supplemented by government policy since the days of the New Deal, though it must be recognized that the legitimacy of this government "intrusion" is not without a substantial number of questioners.

In Canada, the development of community has been a national undertaking, sponsored and assisted by government. It has been the prime method through which ethnic groups and families have been bound to the country. The idea of the community arising from the impulse of local citizens has not been as strong as in the US, though to be fair, it does exist. Instead, the agencies of government, representing the society, have been regarded as the proper vehicle for Canadians to provide community care and services. Redistribution substitutes for ideology as the glue that binds Canadians together.

Today, the excesses of the 1980's have forced a fiscal retrenchment in government. This has required a lower financial commitment to traditional ways that communitarian ideals have been pursued in the country. While there have been some attempts to graft aspects of

American individualism and community spirit onto what has been largely a government enterprise for two generations, this has caused more confusion than action.

The weakening of the Canadian version of communitarianism has also been abetted by enhanced communication channels from the US, influencing political discourse and notions of social propriety. The Charter of Rights has helped to move the focus of decision-making away from a political/community focus to an individual/judicial one. Finally, the FTA and NAFTA have blurred the boundaries between the two countries in more than just trade.

Clearly, the notion of Canadian communitarianism is under siege at the present. As long as governments are being forced to retrench, they have to accept that rethinking of this basic Canadian trait will go on. Not only are social programs being recast or discarded, so are regionally specific programs. It is not clear whether the basic tenets of the Canadian way are at risk, but it is clear that the longer governments are in fiscal difficulties, the more profound the changes will be. Federal downloading of responsibilities onto provincial and municipal governments has also been a feature of these changes. These developments have important implications for regional development and argue strongly for the necessity of expanded economic capacity within the region to replace likely reductions in transfers.

N-5 Environmental Sensitivity

One way of summing up the historical path of development lies in the saying, "Get dirty; get rich; get clean". Concern over the environmental effects of production and consumption tend to grow as per capita GDP grows. Canada has received pressure on environmental issues, including European pressure on the seal hunt and on clear-cutting of trees. We have also both used and been a victim of phylo- and phyto-sanitary regulations relating to trade. Perhaps the best known examples are the European ban on Atlantic Canadian green lumber due to the presence of the pine nematode, and Australian prohibitions on Pacific salmon from Canada because of the alleged potential for parasite infestation.

Increasingly, the focus of environmental concern has shifted to domestic policy and citizen health. This has affected, in a tortuous way, the tobacco industry and tobacco consumption in the country. It has also affected the construction industry through "sick building syndrome" and asbestos production and use. Health concerns, prompted in part by aging concerns, have led to changed consumer behaviour relative to food and drink as well.

Domestic environmental policy relative to resource use has had impacts on trade. For instance, the growth in recycling wood fibre products has affected the location of some paper making facilities as well as the number of forest-related jobs. Landfill restrictions are beginning to affect product packaging. Scrap regulations, especially in Europe, are affecting the way in which automobiles are designed and produced.

This is not a trend that will disappear any time soon. The probability is that consumers in developed countries will be more concerned, not less, with the nature of production and the makeup of goods produced, especially where these latter appear to have an effect on human health.

This trend is having an impact on public policy that has gone largely unnoticed. The whole revitalization of the standards industry is connected to it. The inability of European countries to agree on common standards for production and for services led to the EU approach of declaring over 290 national standards to be equivalent. One of these essentially "equated" British beer making processes to those in Germany, for instance, by declaring them to be equal under EU rules. The same approach has been used for certification of the professions and trades. Recently, the US and the EU have agreed on mutual recognition of pharmaceutical standards.

This EU approach has led to a worldwide boom in business quality standards. Standards such as those made under ISO designations have been adopted internationally as a means of equating the basic quality of one company's activities to another. International standards related to environmental quality are in their infancy, but there should be no question that these will impact on all facets of Canadian business activity in the future.

Environmental sensitivity has put Canadian policy makers in a quandary. The pressure for change is coming from the consumers, here and abroad (see G-4), and is affecting producers. Heretofore, Canadian policy has tended on balance to favour producers over consumers. Environmental concerns may shift this balance.

N-6 The Transformation of Development Policy

Canada has traditionally considered it necessary to use public policy to support not only the overall growth of local industry (N-1) , but also to try and distribute its effects across the country. The rise of the “new economy”, with its focus on information technology, services, and small businesses has left this traditional policy approach in considerable confusion. The inability of governments to maintain their expenditures in the area of economic development has only added to this confusion, especially as these cutbacks have been accompanied by a growing feeling that, philosophically, such assistance is ineffective and possibly even harmful to development.

One of the truisms in management theory is that "if you can count it, you can manage it". The inability to gather good statistics on the "new economy" is at the root of governments' inability to sensibly regulate, tax or assist it. For example, governments regularly report goods production and trade figures. They are less comfortable with service production and trade figures. Goods tend to come from larger companies while service companies tend to be small. Much of the commerce that is carried on in software and related services can increasingly escape taxation. Downloading a program from an American website cannot be controlled or taxed in Canada.

While this "new economy"has characteristics that could be applied in a rural setting, most of its activity arises out of urban areas. This has meant that traditional regional development policy has lost part of its bearings. Urban areas in all parts of the country have tended to do relatively well economically while rural areas, which continue to be dependent on resource jobs for their incomes, have tended to suffer in even more extreme fashion than before. This trend is likely to continue until policy makers can adapt traditional policy to the complexities of how the "new economy" works.

The traditional tools of Canadian development policy have tended to be grant-based programs focused on capital expenditures by firms. These still work for goods-producing firms to some extent, but are ineffective with services and firms that do not own facilities or equipment. The result is that development policy increasingly is being forced into a more American mode, where tax concessions, not financial grants, are the norm. This is happening in the face of great resistance by Canadian finance department bureaucracies, but the pressures for the change are growing and will continue to grow. This is not to say that finance departments want their governments to give out grants, but that, by and large, if resources are to be spent they do ***not*** want it to occur at the tax collection stage.

The 1990's have been characterized by government actions to restore fiscal balance. This has meant that less resources have gone into development policy. Normally, at the end of such a period, it might be expected that the status quo ante would be restored. In this case, such a restoration is doubtful. The types of businesses that provide growth in employment are generally not touched by the programs favoured by Canadian governments.

Canadian development programming and its attendant organizations have continuously changed. Since 1960, there has been a policy and/or organization change about every 40 months. At present, the programming change appears to be one of placing all development functions under one "portfolio", not substantially unlike the situation when DRIE was first created in the early 1980s. Programming has been focussed on information provision and repayable contributions (loans), in part because of budgetary constraint and downsizing. Without serious, long-term adaptation, the likelihood is that development policy will evolve into two main program sets; one for urban, "new economy" business which focuses on tax-based incentives, and a second for job maintenance and economic adaption in rural areas. Meanwhile development policy will be uneven and experimental, and subject to all manner of criticisms and prescriptions

Regional Trends

R-1 Population Dynamics

With the exception of the native population, no group in Canada today is replacing its numbers. Without immigration, the Canadian population would decline in the 21st century. This is not out of the ordinary for developed countries, all of whom are experiencing the same situation. There is a correlation between wealth and lower birth rates in human populations.

This phenomenon has a disquieting economic element in that a stable to declining population which is also aging suggests a stable to declining economy, something that may be appealing intellectually to some demographers and environmentalists, but whose ramifications are a problem for people in poorer or less-developed regions.

There are three possibilities open to reverse this demographic situation. Quebec has tried the first, fiscal inducement to improve the birth rate, with apparently little effect. Canada as a whole is trying the second, increased immigration, with better effect. There are no lack of people eager to migrate to Canada. At present, Canada admits the equivalent of 0.7 percent of the existing population as immigrants, annually. The tendency of these people to congregate in areas like Toronto and Vancouver has regional ramifications, but their admission means the Canadian population continues to grow. The third method is to produce more goods and services for export, in effect, levering off economic growth elsewhere to finance better incomes here, and to provide resources to care for an increased population of aging dependents. This is also Canadian policy, as exemplified in the FTA and NAFTA. The regional implications of and response to trade enhancement are discussed below.

Regionally, however, the situation is not so manageable. Out-migration from rural areas exacerbates the natural population problem. Rural declines have been noted in places like Nova Scotia's Victoria County for the past 50 years. Many parts of the Prairies have also seen secular declines as farms consolidated and technology eliminated jobs. The low birthrates that are a countrywide phenomenon, simply add to the problem. The demographer David Foot, speaking at a session at UNB in January 1996, calculated that Newfoundland and New Brunswick would begin to experience steady population declines in the first decade of the 21st.[13] century, followed shortly thereafter by declines in the other two Atlantic Provinces. In terms of regional cities, he suggested that any growth of younger age cohorts would be due to the in-migration of younger people from the surrounding rural areas and would not help the overall regional trend.

Immigration into Atlantic Canada is not significant. In 1996, Nova Scotia, for example, received the equivalent of 0.35 percent of its population in immigrants, compared to a national average of 0.7 percent of population. Most of these immigrants appear to have gone to Halifax. The small size of urban centres elsewhere suggests that immigration has had even less effect in other Provinces.

R-2 Urbanization

The fundamental "regional" problem in Canada is the growing disparity between urban and rural earned incomes, coupled with a decline in transfers to rural people. This is a situation that is similar to that in the US (G-2) and other countries, but it is exacerbated by the Canadian insecurity about protecting its large land mass and Canadians' self-perception of being rural people in the recent past.

Atlantic Canada is greatly affected by this rural-urban dichotomy. The fiscal problems of governments have impacted most painfully on the support given to the Region's rural areas. The urban areas have in many cases been able to create private sector jobs in numbers sufficient to offset government declines. The result has been an increasing gap between rural areas with 30-40 percent unemployment and, for instance, Halifax, with slightly over 8 percent, one of the country's lowest rates. This dichotomy has encouraged further out-migration as well as urban growth.

At the same time, the Region's urbanization may not be strong enough given the increased inter-urban dialogue building between global centres. Urban areas of 100,000 to 500,000 people are global "small towns". Where these small towns fit into the “new economy” has not been considered or understood. Informally, some provincial officials have expressed concern that their urban centres may be too small to develop or attract labour pools of qualified knowledge workers to allow for the growth of companies or the attraction of branch offices. Halifax has had some success in this regard because of the absorption of

[13] David K. Foot, Danielle Stouffman, Boom, Bust & Echo, (Macfarlane, Walter & Ross, Toronto, 1996)

similar labour pools in larger centres, but its growth in this area is limited by the small numbers of these suitably qualified workers.

R-3 Human Resources

The quandary noted in R-2 leads into the question of human resource development. Since the spectacular development of coal and steel in Cape Breton a century ago, the Atlantic Region has been captivated by the possibilities of wealth through resources. Events have proven disappointing, from the decline of coal and steel after 1925, through the loss of rents on Churchill Falls hydro in the 1960's, to the off-again, on-again oil and gas booms of the 1980's and 1990's. Today, disillusionment with the potential of resource production as a significant job creator in rural areas is wide-ranging. The vast majority of regional jobs, even in rural areas, is now in services, not in physical production.

In the resource production activities of the past, emphasis was put on specific skill sets, not on general literacy and numeracy. This cultural feature still exists to some extent in the rural parts of the region, but increasingly both governments and parents have come to realize that there is no future for young people within this approach. Automation has eliminated many jobs in resource production and where they have remained, increased literacy and numeracy are required.

The combination of disillusionment, automation and urbanization has meant a new emphasis on human resource quality. Traditionally, the region's labour force has suffered from its low quality, as defined in terms of general education. In the next decade, the general education of the rural labour force will be seen as the only hope for the future prosperity of rural areas. Whether it is distance education, rural internet provision or simple literacy classes, the potential and the interest exists for the development of a new kind of rural community. The aging of the population and the creation of retirement centres is tied closely to this ability to provide good quality services in rural areas.

Public and private sector roles in providing education and training are becoming more clearly defined. In some areas, knowledge and skills for the "new economy," are being provided by the private sector. The public sector is left with the development of basic education, including at the post-secondary level, while specific adaptation of this basic education set is left to more flexible private groups. Certification has begun to take a dual path, with various private agents (ISO, CA, CMA, CGA, computer skills) providing certification alongside the traditional schools. Lifelong education is coming into being as a widespread practise, though not in the ways traditional educators expected it to happen.

R-4 Resource Processing

The fundamental aspect of Atlantic Region resources is the ocean. Not in the sense that these resources are derived from the water, but because the intrusion of the sea means that the Region has significantly lower transportation costs to some markets than its inland competitors. This means that resources can be extracted and processed in Atlantic Canada at a lower cost than elsewhere, because this transportation advantage offsets the inefficiencies of the scale of the resource industry. Wood products and refined oil products and potash are all examples of industries that would not exist here in any size but for the transportation advantage.

The down side is that these industries pay relatively less in royalties and taxes because of their high extraction and production costs. Coal, once included in the above list, now has a production cost that more than offsets the transportation advantage such that it has to be subsidized for many mines to be viable.

Technology has acted to apply another kind of pressure on these industries. While scale economies may be low, more efficient production and processing techniques can be adapted to these industries. The result is the maintenance or increase of productivity, but at a lower level of employment. Maintenance of employment requires new uses for previously discarded resources or the discovery of new resources.

The impact of new technology is significant. Electronic fish finders have increased the success rate of fishing vessels. Given the relatively fixed supply of fish, these devices mean that the same amount of fish can be caught with less effort and employment than in the past. The conversion to thermo-mechanical pulping methods from chemical ones has meant both environmental improvement and job loss in primary forest-related industries. The same amount of pulp can now be produced using about 20 percent less pulpwood than before. The use of recycled cardboard and paper also puts less pressure on the raw wood resource, but means less employment in the resource extraction area.

This employment effect of technology on relatively small, high cost resources, has, for a long time, inhibited regional governments' enthusiasm for technology development in general. However, the growth of computer-related employment in urban areas has in recent years overshadowed this rural concern. As well, the increased literacy and numeracy requirements in resource industries required by new technology has produced the need for a more flexible and better educated work force. Again, this is not without its down side, unemployment among those of the older resource culture, people who lack basic reading and arithmetic skills, has soared. Future employment prospects for these people are limited. In any case, a technology and R&D focus in government development policy can be expected to grow and intensify as the benefits of the "new economy" become clean and the futility of trying to reregulate change in resource industries also becomes apparent.

R-5 Pressures to Trade

The need to use trade to increase incomes in the face of a stable to declining regional population was noted in R-1. Research by NAPG on goods trade patterns since the beginning of the FTA suggest that the region has not responded to this challenge very well. Both increases in volumes and diversity of goods exports have been below Canadian averages.

The WTO, FTA and NAFTA have led to significant increases in Canadian service sector exports, Although regional performance cannot yet be stated with certainty, due to of the problem of data scarcity in measuring these exports at this level, there is no question that this is true for the country as a whole. In 1994 Canada was the world's fifteenth largest exporter, and ninth largest importer, of commercial services. Commercial service exports totalled over 17 billion dollars, a figure which grew by 6 percent from 1993.[14]

Experience to date argues strongly that any development policy for the Region either has to stress high immigration levels or a rapid growth in exports, especially those, such as services, that are not related to processed resources. The reason for this last is that most economically viable resources in the region are at or above their optimum levels of production.

Clearly the policy choice from R-1 is towards export promotion as opposed to increased immigration into the Region. Combining this with the demographic outlook means that trade diversification and intensification will continue to increase in importance over the next decades.

The question of market location is another part of the trade equation. It is still a truism in Atlantic Canada that we should look to the closest American region, New England, as our natural market. It is a truism that is false. The proper observation is that markets are determined by the nature of the good or service produced, not by reference to a map. A principal advantage of resources in Atlantic Canada (N-4) is one of sea transportation. It makes sense to maximize this advantage by taking these products as far as possible, given market limitations, by sea. It should be no surprise then, that one of the main customers for newsprint from Liverpool, NS is the Washington (DC) Post, not the Boston Globe.

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[14]World Trade Organization, 1995 International Trade: Trends and Statistics, (Geneva, Publications Services World Trade Organization, 1995).

As well, urban products tend to be sold in other urban markets. They also tend to be sold into growing markets, especially in the US Within the US, these markets are moving south and west, away from Atlantic Canada. This argues that the markets for Atlantic Canada are increasingly to be found from Washington, DC through Nashville, TN, and Dallas, TX, to Los Angeles. While New England will continue to be an important and perhaps growing market, relying predominantly on the 1800's model of trade with the "Boston States" is largely outmoded. Even Nova Scotian natural gas, supposedly going to the New England markets, will simply be included in the continental market of swaps and offsets that balance demand and supply as far west as California.

A third aspect of the trade equation returns to the global scene. Increasingly, all kinds of regionally-based businesses are forced to face in two directions at once. Locally, they are part of the domestic business infrastructure and must interact with others to enhance and protect the physical, social and regulatory infrastructure of the area. At the same time, big and small companies are engaged in commercial interactions on a global scale. This is nowhere more obvious than in the case of companies providing services over the internet.

This dual orientation has always existed for some firms, but it has never been as widespread as today. Call centres mean that "local" services can be provided from 4,000 miles away; one can order a pizza or a plane ticket from someone on the other end of the continent. This trend will push on to a globalized net in the future, so that the pizza order taken in Winnipeg for a Halifax delivery may be taken tomorrow in Belfast or Baja California. Employment growth and IT investment appear to be correlated. Only by thinking of the globe as a single economic entity and by considering much of the globe's economic activity as city-to-city dialogue, can a proper perspective of the next decade be gained. Businesses will have to locate their people somewhere, but their customers and part of their internal processes will often be everywhere and nowhere.

The dichotomy of living in a given locality and being concerned with its welfare and doing business with different parts of the world every day will create new frictions and trends. It is possible to hollow out small companies so that the income-producing parts are "located" in low tax areas, while the expenditures are made elsewhere. Canadian equalization formulas that require extremely high relative tax rates in areas that get assistance may serve to create such company structures. It may be more beneficial from a developmental perspective to use tax changes to provide certain limited incentives in the region.

R-6 Increasing Self-Reliance

Over the past few decades, a kind of domestic "triangular trade" has been at work. Rural Atlantic Canadians produced and processed resources that were largely exported. The taxes from the resource companies circulated through public and private channels in Central Canada and these dollars tended to come back to the Region in transfers that provided urban merchants, professionals and governments with the means to make their livings and provide services to the rural areas. This is beginning to break down for a number of reasons.

First, the connection between Ontario manufacturers and regional consumers is eroding as the rationalization that has followed the FTA changes the product mix of Ontario companies. Second, the distribution system is being rationalized on a continental basis rather than through a central hub like Toronto. This is moving slowly, but centres such as Boston, Seattle and Minneapolis are poised to compete for regional trade. Third, the increasing integration of Ontario into the US market and the immigrant stream into Toronto and environs are eroding the psychological links to the East in the same fashion that they are contributing to the erosion of interest in Quebec's problems. Atlantic Canada more and more resembles what Alaska and Hawaii or Iceland and Norway are in American and European policy maps.

This trend is likely to continue as the "historic" Canada changes its ethnic and demographic mix. New immigrants, especially from the Pacific Rim, do not share at all the conflicts and arrangements reached by earlier immigrants from the Atlantic Rim.

The results will be continuing pressure for the Region to find its own solutions to its own problems. The commitment of Canadians to a degree of communitarian ideals and the creation and maintenance of national social programs means that the interest in the Region will not wane entirely, but there will be even less interest in arguments that the structure and policies of the Canadian confederation are the root cause of Atlantic Region problems.

So far, as the fiscal situation of governments has been rectified, there has been a tendency on the part of Atlantic Canadians, first to denial, then to anger. This is not unlike individual human responses to unpleasant situations. One can predict that after anger will come adjustment and innovation, but before this happens there is likely to be a period when the Region will hope, and perhaps expect, that a Canadian government with a newly balanced fiscal situation will restore the status quo ante. The trends argue against this happening.

Section II: Comparative Regional Factors

Introduction

Over the next decades, the Atlantic Region will follow a path influenced by the trends described in the previous Section. To a great degree that path can only be understood in the context of where the Region is today in terms of economic and social factors.

In 1995 and 1996, ACOA commissioned a number of research reports aimed at establishing benchmarks for the Region in a global and international context. The value of these reports lies in their ability to pull readers from Atlantic Canada out of their perpetual awareness that the Region lags behind other regions of the country and puts its strengths and weaknesses in a North American and a global context. Even though one lives as part of Canada, it is instructive to see the Region in a broader context once in a while.

The first part of this Section discusses this series of regional competitiveness reports. This discussion highlights those factors considered to the most significant, whether as competitive strengths or challenges for the region. The second part of this Section poses a series of questions about the Region which impact on the creation of regional development policy. This section will also provide a brief overview of OECD countries who currently implement some type of regional development policy.

Regional Reports

In 1995 and 1996, ACOA commissioned four studies which investigated and compared economic indicators and business cost factors between Atlantic Canada, the United States and the world. Three of these studies replicated existing economic indicator models, inserting comparable Atlantic Canadian data in order to obtain a ranking. The fourth study built business cost models for seven sectors and then compared Atlantic Canadian centres to selected US sites.

The results of these four studies both affirmed and disproved previously held perceptions about the region. The Atlantic region is a cost effective location for doing business and has attractive quality of life features. These studies also suggest that when compared against other, non-Canadian, regions and countries, Atlantic Canada can compete. These findings have placed the Atlantic Canadian economy into a new perspective both nationally and globally.

The four studies are as follows:

A Comparison of 1996 Business costs in Atlantic Canada and the United States - KPMG / BDI[15]

This study compared business cost factors in 16 Atlantic Canadian cities and ranked them against 12 US cities using seven industry sectors. The industry sectors included: food processing (frozen entrees), medical devices manufacturing, software development, telecommunications (marine navigation) equipment manufacturing, plastics manufacturing, metal fabrication and electronics and instrumentation (avionics) manufacturing. In all cases, business costs in Atlantic Canada were lower.

Atlantic Canada: Human Development Index Study - Informetrica Limited[16]

The 1992 United Nations Human Development Index was replicated and re-calculated with separate Atlantic Canadian data inserted. In the 1992 UN Index, Canada was ranked first with the United States ranking second. The re-calculated index using Atlantic Canadian data reconfigures these results. Canada remains first with Atlantic Canada coming second while the United States is third. The complexity of the data collection and analysis required to develop this index has provided more information on the Region than a single ranking. Strengths and challenges for the region were identified.

Atlantic Canada and the World: A Development Comparison - NAPG[17]

This report is based on the 1995 World Competitiveness Report, published by the Institute for Management Development and the World Economic Forum in Switzerland. It compares 48 countries and territories on the basis of 378 criteria, 294 of which are used for ranking purposes. NAPG replicated this model and inserted Atlantic Canadian data to reproduce new results of competitiveness for 1995. In effect, Atlantic Canada became the 49th "country." Overall, Atlantic Canada obtained a rank of 27th of 49 in terms of world competitiveness.

[15]KPMG Management Consulting and Business Development Information Incorporated (BDI, Inc.), A Comparison of 1996 Business Costs in Atlantic Canada and the United States, (Halifax, 1996)

[16]Informetrica Limited, Atlantic Canada: Human Development Index Study, (Ottawa, 1996).

[17]North American Policy Group, Atlantic Canada and the World: A Development Comparison, (Halifax, 1996)

Atlantic Canada and the 50 States: A Development Comparison - NAPG[18]

The 1995 Development Report Card for the States is an annual publication of the Corporation for Enterprise Development (CfED) in Washington, DC. This report compared the 50 American states on 58 criteria of which 44 were used to develop three indexes. There were two indexes of ungraded criteria upon which general commentary were developed. While the CfED does not rank the states on a numerical basis, preferring to use an alphabetic system, NAPG did determine a numerical ranking for purposes of this study. NAPG estimates that Atlantic Canada would have ranked 33rd out of 51 on the 1995 Development Report Card.

These four studies compare Atlantic Canada on a broader basis than would a Canadian inter-regional comparison. In essence, the reports suggest where Atlantic Canada ranks today on an international scale and what the challenges for the future will be, given its involvement in the global economy. Each of the studies summarized various strengths and challenges of the region. Of these, several key results have been identified and are presented in the sections below. The following discussion will try to integrate these results from the four reports and determine where the challenges lay for future policy initiatives.

Methodology

If all the data factors used in these reports were added together, there would be over 500 of them. Many of the factors used in these reports were taken from the same data source, while other factors may have been either gradations of a similar measure or totally separate measures. In order to synthesize these reports into meaningful information, every one of those indicators had to be identified and categorized in a way that would not distort the original conclusion.

On their own, each of these reports makes a strong statement. Each report said quite similar things about Atlantic Canada’s challenges and strengths, though none drew conclusions as to future policy direction, nor were they expected to do so.

Informetrica's revised Human Development Index told us that Atlantic Canada has an excellent quality of life. In fact, compared to other countries, it is one of the best places in the world to live. KPMG/BDI's study on the cost of doing business concluded that Atlantic Canada is a lower cost place to do business than Eastern US locations. The two NAPG studies indicated that when both strengths and weaknesses are taken into account, Atlantic

[18] North American Policy Group, Atlantic Canada and the 50 States: A Development Comparison, (Halifax, 1996)

Canada's performance in many areas is respectable, and is in the middle third of its international competitors overall.

If Atlantic Canada is such a good place to live, is a cost-competitive place to do business and has competitive advantages, then why isn't the region more economically dynamic? The challenge is to answer this question in light of these four studies and to sort the most important factors from those of less significance.

To achieve that task, every factor used in all four reports was inserted into a spreadsheet as "strengths" or "challenges". (The exception was for the Development Report Card which is made up of indexes of factors. The index factor was used instead of the raw data points.)

The next step was to look for factors that were common to all reports. This step was tailored by the fewer number of factors used in the KPMG/BDI study. Fewer factors were needed to build the cost models than the number of factors that were used to replicate the other study's models. Factors that were unique to a particular study were eliminated at this stage.

After identifying common factors, all of the report summaries and conclusions were re-examined to determine what factors the authors highlighted as being critical to future Regional success. The basis for this synthesis tended towards an economic rather than a social analysis of the Region. For example, although some factors such as teenage pregnancy were common to more than one report, for the purposes of this discussion they were excluded from consideration.

The factors which were common were then grouped into different categories and given a category heading. These groups were: Education; Labour Force Readiness; Productivity; Rural versus Urban; Electrical Energy; Government Policy; and Trade.

At this point, the factors themselves were investigated, both to discover their similar messages, but also to determine if the data or interpretations of the different models showed contradictions.

Education

The KPMG / BDI study determined that the percentage of population having completed high school is lower in Atlantic Canada than in the selected US cities. This result contrasts with the Human Development Index Report (HDI) which suggests that the combined first, second and third-level gross school enrolment ratio was in excess of 100 percent for both Atlantic Canada and Canada in 1992. In support of these enrolment figures, the NAPG world report (NAPG I) ranks Atlantic Canada fourth and second on secondary school enrolment and higher education enrolment.

This contrast between high school enrolment and low high school completion suggests that although education enrolment may rank Atlantic Canada and Canada high compared to other industrialized nations, the drop-out rate also appears to be high in the Region. Nationally, Atlantic Canada's enrolment ratio for students aged between 6 and 23 years old, is lower than the Canadian average. These apparently conflicting indicators may also suggest that much of the better educated population simply does not remain in the Region's workforce after graduation.

Additionally, the KPMG / BDI report indicates that the percentage of the population with university education in the region's cities is also lower than in comparative US cities. This is interesting in light of the HDI report which suggests that a large percentage of education dollars are devoted to post-secondary schooling within Atlantic Canada. According to HDI, a strength of Atlantic Canada within the area of education is the amount of public expenditure directed towards education. Approximately 9 percent of Atlantic Canada's GDP in 1991 was spent on public education. The national average in 1991 was 7 percent. Again, out migration of the better educated workforce may be the explanation for these divergences.

Challenges: Keeping the school population in school until completion. Providing employment opportunities which keep post-secondary educated people from leaving the region. There may also be impressive results derived from more emphasis on technical schools and on the education of mature students.

Labour Force Readiness

Both NAPG I and the KPMG / BDI study suggest that the existing labour force may not be able to fulfil all sector requirements. The results indicate that there is a need for better labour force and management training within the region. NAPG I finds indications that the labour force is willing to be trained but that management is not investing in employee training. The HDI report highlights an important fact. Atlantic Canada has a larger share of GDP devoted to expenditures on labour market programs than in any G7 nation but, in contrast to the G7 countries, almost all of this is paid for by the public sector.

The KPMG / BDI study also indicates that compared to the selected US cities, lower levels of university education are found within the regional labour force. This suggests that at the management level, an element of training and knowledge may be lacking as well.

A basic assumption of the KPMG / BDI study is the availability of an adequate labour force to meet the demands of selected sectors. The report suggests that Atlantic Canada has the labour force to fulfil each of these sector specific business cost scenarios. The report also suggests that the requisite number of people and their skill levels is available for the sectors studied. One of the survey questions in NAPG I compared the Atlantic Region to 48 countries on the question of whether skilled labour was easy to obtain. Atlantic Canada ranked 39th out of 49 suggesting that the Region does not have an adequate skilled labour force available. This survey response was, however, based more on opinion or perception than empirical analysis and should therefore be regarded with care. Another survey factor rated whether competent senior managers were perceived as being readily available, Atlantic Canada placed 43rd out of 49 on this factor. It appears that there is a quality problem with Atlantic Canadian management.

Another challenge for the quality of the labour force is the low number of scientists and technicians available. Scientists and technicians are especially crucial when their skills are needed in targeted sectors such as software, pharmaceuticals, or biotech. This deficiency was reinforced by the findings of the NAPG study of the US States, NAPG II, which indicated a low level of science skill and technology utilization exists within the regional economy. This shortage is not likely to decrease any time soon as a low university natural and applied science enrolment was indicated within the HDI findings.

Challenges: Increase the skill level of both the workforce and management. Encourage science and technology education. Re-examine labour market programs and increase private sector participation.

Productivity

An Atlantic Canadian advantage reported by the KPMG / BDI study was the low cost of labour and benefits for the workforce. Where labour and benefits are a significant component of a manufacturing process, this provides a competitive cost advantage for the region. The critical question to be asked is if there is a relationship between labour costs and productivity. In NAPG I, Atlantic Canada ranked 41st out of 49 countries for the measure, "Change in Overall Productivity," while "Productivity in Manufacturing," ranks Atlantic Canada 46th out of 49. In the past, there has been a premise that low wages are an indicator of low productivity, therefore, having low wages may not be a strength for the regional economy.

In a recently released report, APEC indicates that productivity has increased within the Region while average weekly wages have remained unchanged since the beginning of the decade. This productivity improvement has resulted from a large investment in technology. Gains in productivity since 1991 are the result of better technology and lower wages, which have resulted in lower per unit labour cost in Atlantic Canada than in Canada nationally. It may be that these improvements in productivity have not been reflected in wage gains due to lag times for productivity increases to be felt in the economy. There is also considerable debate in the literature about the method of measuring both productivity and the change in real incomes.

Going back to the results of the NAPG I, the measure, "Change in Overall Productivity, 1988-1994", ranks Canada in 40th position, while, Atlantic Canada ranks 41st. While APEC may be correct in suggesting that Atlantic Canada has improved its productivity compared to Canada, Canada itself seems to be lagging in productivity growth compared to other G-7 countries. These results could also have been skewed by the 1991-1992 recession, so they should be treated with care.

The tendency for manufacturing facilities to move offshore where low-wage workers are plentiful has continued throughout the G-7 countries. In light of these changes in production location, Atlantic Canada must offer more than a low-wage and low benefit cost competitive advantage. Learning new technology does not necessarily require incremental steps but rather leaps. Having a low-paid, un-skilled labour force in a developed country may not be competitive when compared with a lower-paid, un-skilled labour force in a developing nation.

Technology is crucial to the competitive success of industries in the future. NAPG I and II and the HRI all indicate that the per capita number of scientists and engineers in Atlantic Canada is extremely low compared to other jurisdictions.

Challenges: Labour force measures again reflect the need for a trained and educated labour force and management in the uses and ability to work within an environment of technological change. The numbers of scientists and engineers either available within the workforce or enrolled in science programs is low. The low level of technical know-how will reduce the ability of the labour force to adopt and adapt to rapid technological change.

Rural versus Urban

The HDI reports that net population migration between 1981 and 1991 for Atlantic Canada, is negative for both rural and urban areas but positive for intermediate or suburban areas.

This suggests that a certain amount of population sprawl is taking place. In a 1995 study on the Gulf of Maine, population growth was seen to be occurring outside of primary urban areas especially along major transportation routes. For example, in Saint John County, New Brunswick, population movement occurred within the county on either side of the metropolitan area while the city itself lost population. In Nova Scotia, population movement occurred on two 100 series highways which form a "V", the point of the V being Metropolitan Halifax and the ends being towards Kings County and Colchester County.[19]

Unplanned growth along highways can create problems for municipal and provincial governments through the added cost of providing services to taxpayers. Indeed, the HRI report indicates that while currently, municipal water services are available to most within Atlantic Canada, the percentage of population not being served by waste water treatment plants is significant. Future uncontrolled population movement will place pressure upon municipalities and provincial governments to keep services from deteriorating.

Being able to provide a diverse range of skills to business is difficult in areas where there are many lightly populated rural communities and inadequately skilled labour force makes it difficult to attract industry to locate in these small rural areas. This suggests further out-migration may occur as the skilled and educated population leave to live in urbanized areas where job opportunities are greater.

The HDI rates as a strength the low rate of urbanization found in Atlantic Canada. In light of the net-out migration of people, decelerating population growth and the low fertility rate, low rates of urbanization are of concern when considering the inventory of labour force skills needed to attract investment or expand existing industry. A population mass is important from the perspective of providing a labour force for industry and to support growing industry clusters.

[19]Charles S. Colgan and Janice Plumstead, Economic Prospects for the Gulf of Maine, prepared for the Gulf of Maine Council on the Marine Environment, 1995.

Levels of urbanization are relative. In Atlantic Canada, it would be a benefit to increase urbanization if it attracted the type of population that added needed skills to the urban labour force. A larger labour force with flexible skills could be used to attract or grow industry.

Challenges: Population movement suggests that people are leaving rural areas to live closer to urban centres even though the urban centres are also losing density. Unplanned growth will create challenges for municipal and provincial governments to provide a continuous and expected level of service within a sprawl environment.

Electrical Energy

Electrical energy is representative of the capacity to support industrialization on a massive scale. This capacity is of course, not justfor industrial consumption but also domestic use. It also reflects the amount of resources, water, oil or nuclear, and the type of technology available. The cost of available electrical power will also, in many cases, determine the competitiveness of certain industries.

According to KPMG / BDI, Atlantic Canada is cost competitive on electrical energy when compared to the selected US locations. The business cost model indicates that electricity costs, on average, are 40.8 percent lower in Atlantic Canadian cities than in the comparative Eastern US locations and 30.9 percent lower compared to the other US cities analyzed. Similarly, NAPG I ranks Atlantic Canada 2nd in electricity generation and 13th in local electricity prices.

The HDI ranks as a strength the slow increases in energy consumption experienced within Atlantic Canada. However, this is likely due to the challenge of having a low rate of industrialization. Another challenge which Atlantic Canada faces is the Region's rank in energy efficiency. The HDI rated Atlantic Canada as having a high rate of energy use per capita which rates poorly when compared to world standards. This may exist partly because of the abundance and low cost of electricity. It may also be because of our northern climate. The high rate of energy use may also be attributable to past industrial policy which encouraged the location of energy intensive industry through low-priced supplies of energy.

Challenges: Because the Region generates relatively inexpensive electricity, energy use is not constrained, which shows up as higher per capita use. Increases in energy consumption are also low which is a result of the low level of industrialization. If the Region were to experience an increase in industrialization, there would be an increase in the energy consumption and if technology efficiencies were not introduced, the per capita use could climb higher.

Government Policy - Development, Finance

Challenges for Atlantic Canada within the area of government policy are many. Both the HDI and the NAPG I and II reflect the many challenges there are for government within the region. Challenges for the region determined under the HDI include, high net-debt interest payments, large government deficits and low investment effort. While reflecting similar areas of concern, such as a low level of investment, inflexibility of policy adaptability and lack of government transparency, NAPG I also shows that in the area of government consumption expenditures, Atlantic Canada ranks 14th and is 10th in the collection of total tax revenues.

Challenges: Over the past several years, Atlantic Canada's provincial governments have made an effort to control government spending and balance provincial budgets. The effects of these policy initiatives have yet to be counted as part of the data available. When newer data is available, indexes comparing measures of government sector activity should show favourable results.

Trade

Two reports indicate problems in the area of trade. The HDI suggests that while the region has a high trade dependency, the region is below average in international export growth. NAPG I reveals similar information about the shortcomings of the region's trade activities. On, "Coverage of Imports by Exports," Atlantic Canada ranked 47th, the trade to GDP ratio rank is 49th, growth in the volume of merchandise exports is 41st while the export market diversification rank is 47. These ranks are based on a field of 49 contenders.

Challenges: Weaknesses in the area of exports presents a policy opportunity. The promotion of global export opportunities can include many types of program options. The critical need to address trade policy permeates the commentary in Section I.

Questions About Regional Development

The first part has discussed Atlantic Canada's economic profile compared to other countries and US States. When a connection is made between the trend material and the findings from the four studies, the door is open to talk about possible policy implications.

1. Can Atlantic Canada be considered to be an underdeveloped region?

The significance of undertaking the studies synthesized in the previous part is to place Atlantic Canada in a wider geographic context, one that is outside the national sphere. Canada, for many years, has always ranked among the top countries on many indicators of economic and social well being. As a part of Canada, Atlantic Canada benefits from that relationship and Atlantic Canada might only be considered as an underdeveloped region in a very relative, Canadian context.

If underdevelopment is defined as a lack of infrastructure, then no, Atlantic Canada is not underdeveloped by this measure either. Throughout most of the developed world, there is a level of infrastructure that is common to every country. This ubiquitous infrastructure includes telecommunication ability, all modes of transportation, electricity generation, water and sewer. If anything, Atlantic Canada is overdeveloped, in terms of the carrying capacity of the infrastructure. The Region has excess capacity by almost every measure.

If everyone has infrastructure, then why are some countries more successful than others? It comes down to the question of value-added production. Knowing how to use infrastructure in the most efficient way becomes a competitive advantage. The best examples are communities who incorporate infrastructure in an integrated strategy to promote economic activity. Transportation infrastructure is the best example of this. Many communities have integrated, multi-modal transportation hubs that handle people, goods and information in a simultaneous and seamless manner.

The critical point is that the various stakeholders in Atlantic communities must take the initiative to marshall all their resources and advantages to good effect. Development is more than physical facilities or even wealth. Wealthy states like those in the Persian Gulf are rarely called "developed", for instance. Developed means having the capacity for diverse initiative and action, whether in social concerns., business development or community facilities.

2. Is Atlantic Canada suffering from structural adjustment?

Atlantic Canada has experienced the effects of global structural adjustment in several of its sectors such as fishery, coal, steel and forestry. Adjustment can occur as a result of improved technology, more competitors or worldwide overcapacity. For example, the fishery has experienced a very specific structural adjustment problem with the loss of the resource base largely because technology allowed overfishing. In other sectors, Atlantic Canada has been coping with this structural adjustment process through the investment in technologies, specifically in the forestry sector. Often, though, successful structural adjustment has been at the expense of jobs, especially in rural areas. The creation of new private sector jobs in urban areas has gone a long way towards meeting the problems resulting from the downsizing of the Region's public sector. Structural adjustment programs are a continuous policy need in rural areas.

3. Does Atlantic Canada have a development problem or is it an urban/rural problem?

As was demonstrated in the three international indicator models, (Atlantic Canada: Human Development Index, Atlantic Canada and the World and the Atlantic Canada and the 50 States), Atlantic Canada does not rank as a poor or undeveloped region. Atlantic Canada, because it is part of Canada, ranks well compared against other countries and the individual US State economies.

This Region does suffer from low population mass, a lower-skilled labour force and a lack of technological prowess. At the same time, it does have considerable infrastructure and it does have one significant urban centre and several smaller urban centres. Population is moving from the rural areas of the Region into these urban areas when it does not leave the Region entirely. This can be attributed to the perception of a greater selection of choices for education, employment and lifestyles in cities. In spite of the information technology revolution, employment in the "new economy" will likely continue to be found in urban areas. This is where the telecommunications infrastructure and lifestyle amenities will be found.

Perhaps the confusion between regional disparity and the rural versus urban issue has more to do with misinterpreting the regional situation than anything else. Regional development can include both rural and urban development. The challenge for the rural areas lies in stabilizing their population bases and creating employment opportunities that can thrive in a remote setting. Urban development will be just as important. Jane Jacobs has referred to cities as the real wealth-producing unit in a modern economy. Maintaining the economic health of the urban centres will benefit the entire region. In its review of the state of US urban cities in the twenty-first century, the National Council of Urban Economic Development states that, "metropolitan areas represent a concentration of physical, industrial, financial, technical, intellectual and human resources that support competitive companies and drive healthy economies." The need is for two policy initiatives, with separate goals and programs.[20]

[20]National Council of Urban Economic Development, America's Central Cities in the 21st Century: Challenges and Responses. (Washington, CUED' 1996)

4. Where is Regional Development Policy evolving?

Regional development suggests definable boundaries in which specific policy measures are applied. When applied, these policies are expected to change the economic dynamics within the defined geographic area. Atlantic Canada's boundaries have been designated geographically as those provinces east of Quebec. It has been assumed that when regional development policy is implemented within these defined boundaries,
internal variables will be somewhat positively affected by these policy prescriptions and that economic growth will happen. It is also assumed that externalities will not override those policy measures. Yet the Trends in Section I largely constitute externalities for the Region. Policy must now react to regional needs as well as to the immediacy of communications and the competitiveness of global entities. Regional boundaries, as we know them, can no longer remain an inclusive economic system.

If our world then is truly borderless, is regional development still relevant? Perhaps not in the form as we know it today. Donald Savoie in Regional Development Theories & Their Application, suggests that in today's economy there is no one regional development theory which can offer one method to develop all regions given the current global economic situation.[21] Each region has its own specific needs that need to be treated in a very unique way. Successful development practices do not
necessarily fit well when transferred from one region to another.

A review of OECD's, Best Practice Policies, does indicate, however, that at least in terms of small business, policies designed to support SMEs are similar in concept although they may be different in application.[22] Such policies include, financing, business environment reviews, management training and access to markets.

[21]Donald Savoie and Benjamin Higgins, Regional Development Theories & Their Application, (New Brunswick, NJ, Transaction, 1995).

[22]Organisation for Economic Co-operation and Development, Best Practice Policies for Small and Medium-Sized Enterprises, (Paris, OECD, 1995)

5. What does regional development policy look like elsewhere?

A review of current regional development policies within the industrialized nations shows that they focus on either assisting sectoral structural adjustment or overcoming relative regional disparities. A general review undertaken by the OECD in 1994 indicates that there are four situations where regions may find themselves in need of development assistance. The region can be experiencing, (1) an employment crisis, (2) a sectoral adjustment, as in the case of sunset industries, (3) problems where an industrial mono-structure exists within a region and, (4) a high dependence on defense related activities.[23]

The implementation of regional policy which provides assistance aimed at alleviating these issues can be seen within the European Community. For example, in the EC, peripheral regions such as Ireland are given large amounts of aid to promote infrastructure development. Similarly, southern European countries including Greece and Portugal, receive aid to improve infrastructure. In other areas of central Europe, assistance is given to regions where industrial re-structuring in traditional sectors like steel, textiles and shipbuilding, is occurring.

Generally, OECD governments have prioritized development assistance for:

- infrastructure development;
- support to medium and large cities, especially to redevelop older industrial areas and where industrial clustering is increasingly recognized;
- the need to transfer funds & competencies to subnational levels; and
- the elimination of interregional trade barriers.

Europe

Within the European Community, regional aid is overseen within the framework of EC directives. Regional policy is prioritized towards infrastructure development and sectoral adjustment.

Regional assistance is provided according to the GDP per capita of the country and its unemployment rates. The GDP measure attempts to measure overall prosperity of the population, while the unemployment rate indicates structural problems within the economy. The difficulty of administering regional aid within the community has come from the growing disparity of experiences between peripheral regions and more central locations. Peripheral regions experiencing high unemployment will often qualify for major aid because of their GDP situations, while more central regions experiencing problems due to sectoral adjustments,

[23]Ibid.

receive less or no aid because of their location. The whole notion of central versus peripheral location is one of concern for European Community development policy makers.

Japan

Regional development policy in each country appears to be driven by its own particular economic and demographic profile. Japan is no exception. Tokyo is one of the largest cities in the world. It also dominates Japan to the exclusion of the rural prefectures. Regional development policy, introduced to Japan in 1962, implemented measures that encouraged cities to become growth poles. With fluctuating degrees of success, the thrust to eliminate the disparity between Tokyo's per capita income and that of outlying regions has continued to the present day.

Currently, Japan provides regional development assistance under four programmes that reinforce this on-going development policy of re-locating businesses out of Greater Tokyo. These programmes are: Group-Siting Promotion Areas; Strategic Development Areas; Business Core Cities; and Outlying Hub City Regions.

Under, the Group-Siting Promotion Area, designated types of businesses are encouraged to locate in a city where they can form a cluster. These businesses are typically involved in high-tech activities in production and research which are expected to experience significant future growth. The intent is to divert the activity away from Tokyo and place business in other locations where business and congestion costs are reduced. Up to twenty-six cities have been involved in this program.

Four cities have been designated as Strategic Development Areas. Under this programme, strategic development areas are encouraged to establish local districts of industrial, cultural, academic, communications and other facilities. The intent again to disperse activity away from the Greater Tokyo area.

The Business Core Cities programme encourages commercial functions that are concentrated in central Tokyo to move to designated surrounding regions. There are five regions designated as Business Core Cities.

44 cities have been selected to be "Outlying Hub City Regions", under legislation designed to relocate office-work functions that are now heavily concentrated in central Tokyo to outlying areas.

Australia

An Office of Regional Development exists within the Department of Industry, Technology and Regional Development to address regional issues. The experience of regional development in Australia is not so much one of regional disparity but that of structural change and adjustment in subregions.

The need for structural adjustment assistance arose when during the 1980's, Australia internationalized its economy. Previously protected by tariffs and other trade barriers, Australia's industries were inefficient by world standards and were unable to compete in an open market environment. Opening the borders required Australian private industry to become globally competitive overnight.

Canada

Canada's regional development policy focuses on two areas. One is the support of strategic industries, such as aerospace, pharmaceuticals and other high-tech applications. These industries are knowledge intensive and technology-dependent activities. Development emphasis is placed on these value-added sectors because they can supply higher returns without requiring an extensive manufacturing environment. Investment is made in educating knowledge workers and providing skill training for the workforce. R&D tax credit programs are used as incentives to encourage private sector activity.

The second area of regional development focus is on rural/urban development. Regional development agencies administer programs which assist rural areas to adapt to the structural adjustments occurring within the resource sector. Urban development is related to those urban areas which are tied to a surrounding countryside which has high unemployment. Examples include both Montreal and Halifax, where the cities draw their workforce from the surrounding rural areas.

A noticeable difference between the objectives of Canadian regional development policy and that observed within the European Community is the European Commission's policy to revitalize older industrial areas and encourage new industry to grow there. In contrast to the Northern European situation where there has been several hundred years of industrialization, Canada has been primarily resource based and (public) service sector driven. Industrializing Canada has required the utilization of many new greenfield sites whereas in Europe, the industrial districts have existed for a long period of time and so have to be redeveloped.

Section III - Successful Regional Development Policy

Public discussions of regional development often create the impression that if government only did the right things, all would be well. In fact, the regional ability of economic development policies to influence change is circumscribed by a number of factors. Development budgets are small in comparison to overall government expenditures. Pressures from globalization, free trade agreements technological change and resource fluctuations can have important effects, both positive and negative. A regional development agency's ability to influence events is limited and accordingly, it is critical to do a few things well, rather than try and satisfy, with limited resources, a broad range of demands.

There are many things governments cannot and should not do, but it is wrong however, to say that government should always simply stand aside and do nothing. Public policy can play an important role in pointing in the right direction and promoting the creation of an environment which fosters dynamism and success. For example, the eight high-performing East Asian economies[24] grew at an average annual rate of 5.5 percent between 1960 and 1990. This exceeded by two times the growth rate of other East Asian countries, by three times that of Latin America and was substantially higher than the growth rates of the industrial countries and the oil-producing Middle East. The chances of such a regional concentration of success occurring at random over a thirty year period, have been calculated by the World Bank as approximately one in ten thousand. Public policy matters.

Exports Are The Key

We are not doing well enough in the global economy. Our trade with other regions, while growing, lags substantially behind our counterparts elsewhere in Canada and the world. The trends outlined in this report point clearly to a number of policy initiatives which can improve our lot. In the short run, none is more important than this: Atlantic Canadian public policy must adopt as its credo the motto "exports first". Every aspect of government policy should be designed to reinforce this determination. Such policies have yielded remarkable results in Asia and similar outcomes are possible here. An extensive World Bank study of the most successful Asian economies[25] notes that export-push strategies of development are "the most broad based and successful application... and "hold the most promise" for other

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[24] Japan, Hong Kong, Taiwan, South Korea, Singapore, Malaysia, Indonesia and Thailand

[25] The World Bank, The East Asian Miracle: Economic Growth and Public Policy, (New York, Oxford University Press, 1993)

economies. The strategy must go well beyond traditional export promotion, which is simply better marketing. What is needed here is a regional strategy which incorporates exporting success into every component of government economic planning, taxation, transportation, cultural policy, health care, investment attraction and so on.

In setting policy goals, regional development success should be measured on an export yardstick. Why ? Because exports equal higher levels of productivity, higher wages, improved global competitiveness and better living conditions. A comprehensive 1996 study by J. David Richardson and Karin Rindal at the Institute for International Economics found that in the United States, exporting plants paid wages that were 10-15 percent higher than non-exporting plants, and that productivity was over 12 percent higher.[26] This was true regardless of plant size. Not only that, but between 1987 and 1992 (partially a recessionary period) while employment at all plants fell by 2.5 percent, exporting plants actually hired more workers. All the net loss in manufacturing jobs was due to job losses at non-exporting plants. Even more encouraging for an economy like that of Atlantic Canada, small exporting plants did even better than large ones.

The diversity of export markets makes companies more able to weather recessionary periods. Communities which host them are more likely to enjoy growing tax bases, stable employment and rising real estate values. Exporting firms were 10 percent less likely to close in the 1987-1992 period, than non-exporting firms. In short, export jobs are better jobs, which are more stable than others and make a larger contribution to community well-being. Expanding exports means improving standards of living.

While expanding exports is the centrepiece for regional development, there are other policy steps which are also important. Several directions for policy development emerge. Bearing in mind the earlier warning about doing a few things well, it may not be possible, or even desirable, to use regional development policy as the tool for addressing all these issues, if doing so diverts from adequate effort or focus on the central task of export expansion. However, creative public policy thinking may well be able to leverage many of these strategies in partnership with other actors at a cost of minimal diversion of resources. In fact, in many cases money is not the central requirement. Leadership and vision in encouraging economic change are critical to achieving desired outcomes.

[26] J.David Richardson and Karin Rindal, "Why Exports Matter More," International Institute for Economics and the Manufacturing Institute, Washington, DC, 1996.

All Roads Lead to the Schoolhouse

All four of the competitive studies discussed in Section II suggest that the biggest challenge for the Region is the characteristics of both the labour force and management. Although labour is cost-competitive, there are not enough skilled workers, especially those with the requisite skills to work within high technology sectors. This also reflects the low level of technological capability found within the region.

A related challenge for the Region is the demographic one. The current demographic trend of aging population coupled with a resident population of 2.4 million people within the region, suggests that the total numbers of people available to work will be a significant constraint to regional economic growth. With minimal immigrant intake and a negative population growth rate, the population in the Region will decline over time. A population base that also contains a proportionally large workforce is essential for economic development. Several theories have been presented about the relationship between population and the economic viability of regions in the future. Kenichi Ohmae suggests that a population mass of at least 5 million people is needed to make a "region-state" economy grow.[27] He lists such region-states as, Tijuana/San Diego, Hong Kong and South China, Dalian in north east China, Bangalore in India and the Greater Tokyo region as sites of future economic prosperity. The population mass in these locations is enormous compared to Atlantic Canada. Atlantic Canada either needs to attract more immigrants and/or future development policies must reflect the reality of an aging and declining population base and focus on trade policy as a means of maintaining and improving incomes.

While Ohmae believes that "region-states", with borderless economies and polyglot populations will be the powerhouses of the future, Paul Kennedy, in his book, Preparing For The Twenty-First Century, has his own checklist for successful nations.[28] Analysed from the perspective of demographic, technological and environmental change, Kennedy believes that Japan, Korea, other east-Asian trading nations, Germany, Switzerland and Scandinavian countries within the EC will lead in competitive advantages in the 21st century. The countries which he believes have the means to success display the following attributes:

- a high savings rate
- impressive levels of investment in new plant and equipment
- excellent educational systems (especially for those not going to college)
- a skilled work force and good retraining systems
- a manufacturing culture with more engineers than lawyers

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[27]Kenichi Ohmae, ed., The Evolving Global Economy, (Boston, Harvard Business School Press, 1995)
[28]Paul Kennedy, Preparing For The Twenty-First Century, (Toronto, Harper Collins, 1993)

- a commitment to producing well-designed, high-added-value manufacturers for the global market
- fairly consistent trade surpluses in "visible" goods.
- cultural homogeneity and ethnic coherence.

Interestingly, all roads appear to lead to the schoolhouse. There is no question about the desirability of having educated and well-trained workers especially if they are comfortable with science and technology. The challenge for the Region will be to encourage the type of education and training that will give the aging Regional labour force a competitive edge. John Kettle has forecast that by the year 2020, approximately 44 percent of Canadian jobs will be either management or professional. Only 20 percent of the jobs available will be available in traditional blue collar fields, farming, mining and construction. The proliferation of private-sector training institutions is a positive portent. With a heritage in providing education, the Atlantic Region can become a leader in new modes of education delivery.

It has been suggested that there are opportunities for small cities in the future given the flexibility of telecommunications technology. “New economy” companies not wishing to locate in heavily urbanized areas can use telecommunications to remain in touch with their markets. Professional people can be attracted to smaller cities where the benefits of both rural and urban living are combined. Provided there are desirable living amenities as well as business opportunities, smaller cities can be economically successful. This is an opportunity for Atlantic Canada's smaller cities provided they can retain their knowledge labour force.

Finally . . .

These policies must not be mere declarations of pieties. There must be binding agreements with specific, announced targets and measures for evaluation. Doubling the number of Atlantic exporting firms, by the year 2005 for example, is a concrete and measurable target which focuses the efforts of policy-makers and businesspeople alike. This kind of target provides an excellent impetus for raising the profile of trade throughout the region. As exporting becomes a marker of business superiority success will breed success. Properly structured, such a goal is achievable, but it must first be elevated to an institutional commitment toward which all activities are focused.

The opportunity which arises from this change is the potential for tremendous growth through the vehicle of world markets, for enrichment of cultural and societal diversity resulting from the inflow of new goods, services, peoples and ideas coupled with a harnessing of these new resources to expand the “knowledge pool” of the region and create new opportunities to export regional creativity and enhance our own well-being. In doing this we do not have to lose those aspects of Atlantic Canada which make it unique, indeed we should be able to make these features more apparent to the rest of the world.

To respond positively to the global changes which are occurring, Atlantic Canada needs to change too. This will not necessarily make adjustment easy for all those adversely affected, nor will it make leadership a simple task. It will however, put the Region on the road toward crafting an Atlantic Canadian response which reflects local circumstances and wishes and is not simply a passive shrug. More importantly, it will ensure that future generations can stay here and support themselves and their families well.