

A SYNTHESIS REPORT OF THE FALL 2011 HONOURABLE JAMES A. RICHARDSON DISCOVERY ROUNDTABLES

Who cares about baskets? We've got eggs!

Diversification & Western Canada's Economic Future

FEBRUARY 2011
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The Honourable
James A. Richardson
DISCOVERY ROUNDTABLES

CanadaWest
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About the James A. Richardson Discovery Roundtables

Among the many civic contributions made by the Honourable James A. Richardson during his lifetime was his role as one of the four founders of the Canada West Foundation. In fact, it was a suggestion by Minister Richardson at the One Prairie Province Conference in 1970 that led to the creation of the Canada West Foundation as a registered charity on December 31, 1970.

Launched in 2006 with the intention of being held on an annual basis, the purpose of the Honourable James A. Richardson Discovery Roundtables is to seek out new thinking to strengthen the voice of western Canadians. Informal but intense, the discussions are designed to engage a small group of individuals with a background in, and a passion for, the topic under discussion. The intent of the Roundtables is to look over the horizon and gain a sense of the policy challenges to come, and how the Canada West Foundation's research agenda might be better positioned to address those challenges.

The Honourable James A. Richardson Discovery Roundtables are made possible by the Richardson family's contribution to the Canada West Foundation Founder's Endowment Fund. The Canada West Foundation expresses its sincere appreciation for this generous support.

This report is part of the Canada West Foundation's ongoing Honourable James A. Richardson Discovery Roundtables. The report was prepared by Canada West Foundation Senior Economist Michael Holden. The views expressed in this document are not necessarily held, in full or in part, by the roundtable participants. Any errors or omissions remain the responsibility of the author. The opinions expressed in this document are those of the author only and are not necessarily those of Canada West Foundation's Board of Directors, advisors or funders. Permission to use or reproduce this report is granted for personal or classroom use without fee and without formal request provided that it is properly cited. Copies may not be made or distributed for profit or commercial advantage. The report can be downloaded from the Canada West Foundation's website (www.cwf.ca).

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Executive Summary

Economic diversification has long preoccupied policymakers in western Canada. Since the economic downturn in the early-to-mid 1980s, a considerable amount of ink has been spilled on the subject of how western Canada has all its eggs in a single basket and needs to diversify beyond its resource base. In 1987, the federal government created a new department—Western Economic Diversification Canada—specifically mandated with that task.

At the time, there was a general consensus about what diversification meant and what it was supposed to accomplish in the West; namely, the creation of provincial economies resembling that of Ontario. It was thought that increasing the manufacturing base and expanding value-added production in the region were the keys to mitigating the boom-bust cycles associated with overreliance on natural resources.

However, the economic context in which many of our past assumptions about diversification were made has changed dramatically. Western Canada's reliance on resource-based production has gone from a perceived weakness to an acknowledged strength. Moreover, many of the policy tools historically used by governments to diversify the economy are no longer available.

For these reasons, the Canada West Foundation, under the auspices of the Honourable James A. Richardson Discovery Roundtables, invited stakeholders from across the region to consider the meaning and relevance of economic diversification to western Canada today and what role, if any, the federal and provincial governments should play in the pursuit of that objective. Roundtables were held in Edmonton, Vancouver, Winnipeg and Regina in the fall of 2011.

The main conclusion to come out of the discussions is that diversification is still a relevant objective in western Canada, but it is of secondary importance to the pursuit of economic growth and prosperity more generally. It was recognized that diversification could be a means by which growth could be accomplished, but it was the result and not the process that mattered. In short, diversification is a welcome objective, provided that it supports economic growth. Growth without diversification is acceptable, but diversification without growth is not.

A corollary to the main conclusion is that future growth and diversification efforts in western Canada need to be rooted in the region's resource base. There was widespread agreement at all four roundtables that natural resources are western Canada's core strength and the foundation of its enviable living standards. As such, the focus in the West must be on expanding and developing industries that are grounded in natural resources or on cultivating new streams of products and services that have their origins in resource-based economic activity.

From the perspective of government policy actions to support this focus, most participants agreed that governments should concentrate their efforts on setting the table for growth by implementing policies that make western Canada an attractive place in which to do business. Furthermore, rather than focus policies on giving preferential treatment to certain industries or sectors in the name of economic diversification, they stressed that governments should maintain a level playing field for all businesses.

Four common themes emerged about how governments can accomplish that task. Within each of these four themes, participants identified specific areas for policy action, but often did not distinguish between the two levels of government in their deliberations. This speaks to another important finding: to be effective, policies aimed at supporting economic growth and diversification in western Canada must involve a joint, coordinated effort between the federal and provincial governments.

The four policy themes, and the specific roles for government within those themes, are:

1) Creating the conditions for growth

- Maintaining a competitive tax environment
- Streamlining the regulatory system
- Making strategic investments in infrastructure

2) Opening new markets

- Negotiating international trade and investment agreements
- Increasing and coordinating trade promotion and overseas missions

3) Ensuring the availability of high quality labour

- Seeking additional immigration
- Improving engagement of Aboriginal people
- Investing in education and training
- Enhancing the quality of life in the region

4) Fostering innovation and entrepreneurship

- Building growth clusters
 - Supporting entrepreneurship
 - Increasing public-private collaboration
-

A fifth theme was also widely discussed in all four roundtables: the need to move up the value chain and conduct more value-added economic activity in western Canada. Unlike the first four themes, however, there was very little consensus as to whether or not developing policies aimed specifically at value-added industries was an appropriate objective. Some participants thought that increasing value-added activity and moving up the value chain was the very essence of diversification. Others suggested that the reason more value-added activity does not take place in the region is because the economics simply do not support it.

Participants at all four roundtables were optimistic about western Canada's economic future. It is largely for this reason that discussions of diversification issues and policies often took a back seat to conversations about economic growth and how to keep the momentum going in the West. The issues and policy priorities that were raised over the course of the discussions reflected the wide range of economic opportunities and challenges facing western Canada today. Diversification was seen as a desirable objective, but in a supporting role.

It was also clear that all levels of government have a stake in developing a prosperous and stable western Canada. To this end, the provinces and the federal government need to work together with businesses and other stakeholders to develop a common vision for the region and then implement coordinated policies to realize that vision.

Preface

The fall 2011 series of *Honourable James A. Richardson Discovery Roundtables* focused on the theme of economic diversification in western Canada.

While this theme is hardly a new one in the annals of western Canadian public policy, the economic context in which many of the past assumptions regarding diversification were made has changed dramatically. For this reason, the Canada West Foundation thought that the time was right to re-examine this old issue with a fresh, forward-looking perspective. In short, we sought answers to the question: What does economic diversification mean for western Canada in 2011?

Roundtables were held in Edmonton, Vancouver, Winnipeg and Regina in October and early November 2011 (see Appendix A for the list of attendees). Participants were asked to consider the general question of what diversification means for western Canada in the present global and regional economic context. More specifically, they were asked to reflect on the following questions:

- What is economic diversification? Is it happening in western Canada?
- What is economic diversification intended to accomplish?
- What is the relationship between diversification and economic growth and stability?
- How important is market diversification compared to expanding a province's industrial base?

The discussion was then turned to the role of government in pursuing and promoting diversification. Participants were asked to consider the following questions:

- What role, if any, should governments play in facilitating economic diversification?
- What policy tools are available to governments in the pursuit of diversification?
- What policy initiatives are needed at the federal and provincial levels, respectively?
- What lessons have we learned from previous diversification policies? What past mistakes should be avoided in future?

This framework for the discussions led to a vibrant and thoughtful exchange of ideas and views on the value, and relevance, of economic diversification in each of the western provinces. Although there were important differences in the discussions that reflected province-specific issues and concerns, several common themes emerged. These themes, and the associated suggestions for policy action made by participants, form the basis of this summary report.

The Canada West Foundation thanks the Richardson family for providing the core funding for this project and Western Economic Diversification Canada for additional financial support.

Introduction

At first glance, the subject of economic diversification does not appear to fit the intent of the *James A. Richardson Discovery Roundtables* series. The *Richardson Roundtables* are designed to bring together a small group of experts and interested individuals to cast their gaze over the horizon and discuss potential or emerging policy challenges for western Canada. Economic diversification, by contrast, is neither new nor an emerging issue. Efforts to diversify the economy, whether at the provincial, regional or national levels, are almost as old as the country itself.

The modern era of economic diversification efforts in western Canada began in the mid-1980s. A prolonged bout of economic stagnation at the time was attributed to the West's overreliance on natural resources—especially oil, gas, agriculture and forestry. Believing that having all its eggs in a single basket was not a desirable state of affairs, governments began to develop policies aimed at expanding the range of economic activity taking place in the region. It was in this context that Western Economic Diversification Canada (WD) was created in 1987.

At the time, there was a general consensus about what diversification meant and what it was supposed to accomplish: the creation of provincial economies that more closely resembled that of Ontario. It was thought that increasing the manufacturing base and expanding value-added production in western Canada was the key to mitigating the boom-bust cycles associated with overreliance on natural resources.

However, the world has changed considerably since then. Free trade with the US; the rise of emerging markets in Asia and South America; the development of the oil sands in Alberta; and the introduction of new information and communications technologies—to name just a few—have dramatically altered the global economic context in which western Canada operates.

One of the results of this changing global context has been that western Canada's reliance on resource-based production has gone from a perceived weakness to an acknowledged strength. Emerging markets are creating robust demand for energy and raw materials, driving up prices for the commodities that the region has in abundance. As a result, the West has become Canada's economic engine in recent years, attracting investment and driving national economic growth. Meanwhile, the Ontario economy, heretofore the model for development and diversification in Canada, has sputtered.

Moreover, the world continues to evolve. Diversification efforts today, and tomorrow, will face new challenges, limitations and considerations compared to even just a few years ago.

First and foremost among these is the West's changing relationship with the United States. While the western Canadian economies have benefited enormously from their ties with the US over the past twenty years, the future is much less certain. Not only have new regulations and security measures thickened the Canada-US border and made it harder for western Canada to access its most important

export market, but the outlook for future economic growth in the US has deteriorated as well, and some recent policy actions in the US point to a more insular America and to reduced commercial opportunities for western Canadians.

Meanwhile, the emergence of China, India and other Asian markets has redrawn traditional trade routes and tilted the axis of the global economy eastward. But for western Canada to capitalize on these opportunities is not simply a matter of choosing to ship to India instead of the US. As it exists now, western Canada's trade-related transportation infrastructure, especially for energy, is largely set up to serve the US market. This presents a significant challenge to any trade diversification efforts in western Canada.

Finally, many of the policy tools historically used by governments to diversify the economy are no longer available. In particular, the rise of bilateral and multilateral trade agreements has greatly reduced the capacity of governments to use tariffs and other market access barriers, including subsidies, as a means to protect or develop nascent industries. In fact, the purpose of trade liberalization efforts has been to extract economic benefit from doing the exact opposite: increasing specialization of production and capitalizing on comparative advantage.

It is in the context of these global developments that the Canada West Foundation chose to examine economic diversification in western Canada in its fall 2011 series of *Richardson Roundtables*. Our objective was twofold: to have participants discuss the meaning and relevance of regional economic diversification in the present economic context; and to ask them to consider what role, if any, the federal and provincial governments should play in the pursuit of diversification.

This report begins with an overview of economic diversification in the West, including a brief summary of past diversification efforts in the region. Using the deliberations from the roundtables as a foundation, it then examines the questions of whether economic diversification continues to be a relevant policy objective in the region; and, if so, how it relates to the region's resource base. Finally, the report turns to a summary of what participants saw as the role of government in promoting growth and diversification in western Canada.

Economic Diversification in Western Canada:

Definitions, Objectives & Past Policy Efforts

What is Economic Diversification?

On the surface, the notion of economic diversification is relatively intuitive. It refers to the idea of spreading economic activity across a relatively wide range of industries/sectors in order to mitigate the effects of a sudden downturn in any one. This notion of diversification is frequently also applied to export markets—a larger number of trading partners is considered to be desirable because it minimizes the potential disruption that could come from a sudden change in market conditions in any one export destination.

However, a precise definition of economic diversification or, more specifically, a diversified economy, is elusive. The primary challenge is that there is no broad consensus on what a diversified economy looks like. A host of innate factors influence the type of economic activity that takes place in any given region. Resource endowments, climate, population, coastal access and proximity to other markets all affect a region's economic potential. On top of this, the importance of effective governance, political and social stability, the rule of law and sound economic policies in building a robust (and diversified) economy cannot be overstated. As such, the capacity to diversify, as well as the upper limits of diversification, depends heavily on prevailing conditions and the range of policy options available.

Moreover, there is no “finish line” or passing grade when it comes to economic diversification. To the extent that it can be measured, diversification exists in degrees along a continuum and not as a binary choice. This creates a challenge for policymakers because regardless of how it is measured, a greater or lesser degree of diversification is almost always possible. As such, the question of whether or not an economy is sufficiently diversified is a highly subjective one.

Economic Diversification in the Western Canadian Context

The two complementary notions of economic diversification described above—increasing the range of goods and services produced, and expanding the range of customers to whom those products are sold—take on specific forms in the western Canadian context. The idea of expanding economic output to include a wider range of industries speaks of the desire in the West to reduce its reliance on resource-based industries and its consequent susceptibility to the vagaries of notoriously volatile commodity markets. The notion of export market diversification speaks to the region's reliance on the

United States as an export destination. It is thought that by taking advantage of market opportunities elsewhere, western Canada will not only gain from increased trade, but will also better insulate itself from any negative economic or policy shock coming from the US.

In either case, it is important to distinguish between economic diversification for its own sake and diversification that leads to the creation of *additional* economic activity. For example, shifting exports from the US to Asian markets would accomplish diversification in the sense that exports would be more evenly distributed around the world. However, in such a scenario, it would be a zero-sum game; there would be no increase in the value of overall trade. In other words, effective diversification policy must aim to generate *increased* activity in new sectors/markets rather than *decreased* activity in established ones.

In western Canada, the desire for greater economic diversification is also linked to concerns about the eventual depletion of non-renewable natural resources. While the region is home to vast fossil fuel and mineral deposits and untapped potential in new and unconventional energy sources, there is a general recognition that these resources will not last forever. Depletion, the advent of new technologies, or even a shift in global consumer preferences could all affect world demand for western Canadian resources. As such, in western Canada, the issue of economic diversification is also closely linked to the question “what do we do when our resources run out (or become uneconomical to extract)?”

Finally, because there are important differences in economic structure and development across the region, there are also differences in how economic diversification is interpreted from one province to the next. Roundtable participants in Alberta and Saskatchewan noted that the focus has been on expanding outside of, and beyond, extractive industries, which have generated considerable wealth, but also gut-wrenching volatility. In BC, there are differences between diversification issues in the lower mainland and in northern BC. In addition, because it is Canada's gateway to Asia, export market diversification is a much more important issue in BC than elsewhere in Canada. In Manitoba, which is already one of Canada's most diversified economies, there was more emphasis on how to generate growth in key sectors and on identifying and developing strategic growth clusters.

Purpose of Economic Diversification

One of the main challenges with economic diversification policy in western Canada is that there are differing opinions on what problem diversification is trying to fix. For some, the objective is to smooth out bouts of cyclical instability. For others, it is to plan ahead for a time when the region's resource base has been depleted. The difficulty from a policy standpoint is that, if there is no common set of expectations on what economic diversification is supposed to deliver, it becomes very difficult to assess the value or effectiveness of diversification policies.

Moreover, as several roundtable participants noted, the objective most commonly associated with diversification—strong, stable economic growth—can be realized in the *absence* of diversification. Indeed, there are several examples within Canada where a clear lack of diversification has not only not harmed economic growth but has, in fact, enabled it. For instance, Canada's reliance on the US as an export

destination increased considerably in the 1990s as free trade helped the two economies become more integrated. Canada's export market diversification clearly deteriorated as a result, but it would be hard to argue that the overall economic effect was not beneficial.

Similarly, Alberta has become the wealthiest province in the country on the foundation of oil and gas extraction and the export of those products to a single buyer (the United States). While changing economic conditions raise questions about the future sustainability of this development strategy, few would suggest that it has not, on the whole, been a huge benefit to the province up to the present day.

Past Diversification Initiatives in Western Canada

Provincial Government Initiatives

Over the years, both the federal government and the region's provincial governments have been active in trying to promote economic diversification in western Canada. At the provincial level, all four western provinces have pursued diversification policies over the past several decades, although their commitment to the objective has varied. In Manitoba, which is already considerably more diversified than the rest of western Canada, diversification is a less pressing issue. By contrast, studies indicate that Alberta has been the most aggressive at establishing economic diversification as a policy priority.¹

The list of provincial government diversification initiatives in western Canada is too long to enumerate in this report. In general, however, governments have followed one of three different approaches. The first is targeted subsidies and/or tax incentives aimed at specific "desirable" industries. An example is the British Columbia Production Services Tax Credit which encourages film, television and animation production in that province.² The second approach is support for value-added or knowledge-based activities. The Saskatchewan Research and Development Tax Credit, designed to encourage private sector R&D investment in the province, is one such program.³ The third approach is the broadest: rather than giving preference to certain types of economic activity, governments have tried to attract business and investment by creating a "level playing field" (i.e., a well-trained workforce and a competitive economic environment). This has been the approach of the Alberta government in recent years.

Federal Government Initiatives

Federal government efforts to promote economic diversification at the sub-national level, whether in western Canada or elsewhere, have been executed primarily through the various regional economic

¹ Chambers, Edward and Chris Ryan. 2009. Breaking the Boom and Bust: Exploring Thirty Years of Diversification in Western Canada. *Information Bulletin*. Number 121. Western Centre for Economic Research. University of Alberta. <http://www.business.ualberta.ca/Centres/WCER/WCERNews/~media/University%20of%20Alberta/Faculties/Business/Faculty%20Site/Centres/WCER/Documents/InTheNews/BreakingBoomBust.ashx>

² Information about the British Columbia Production Services Tax Credit is available at http://www.bcfilmcommission.com/production/tax_incentives.php

³ Information about the Saskatchewan Research and Development Tax Credit is available at <http://www.finance.gov.sk.ca/Default.aspx?DN=7210d60f-4263-4bf8-9f59-dbbbd8d6477a>

development initiatives introduced since the 1960s. The first plan in which western Canada was explicitly represented was the 1966 Fund for Rural Economic Development (FRED) which identified five economically weak regions across the country and designed unique plans to develop infrastructure and industry in each. The Interlake region of Manitoba was one of the five identified regions.

For the most part, however, the focus of federal development policy was outside the West. The Department of Regional Economic Expansion (DREE)—created in 1969—concentrated its efforts on Atlantic Canada and eastern Quebec. Its successor, the Department of Regional Industrial Expansion (DRIE) was a national program, but focused on supporting Canada's industrial base, which was located in Ontario and Quebec.

In 1987, DRIE was discontinued and replaced in part by three new economic development agencies: the Atlantic Canada Opportunities Agency (ACOA), Western Economic Diversification Canada and Federal Economic Development Northern Ontario (FEDNOR). According to the *Western Economic Diversification Act*, WD's mandate was—and continues to be—to “promote the development and diversification of the economy of western Canada and to advance the interests of western Canada in national economic policy, program and project development and implementation.”⁴

WD was created with a \$1.2 billion Western Diversification Fund to be used over a five-year period in the four western provinces.⁵ The intent of this fund was to provide financial support to projects that would develop new products, markets or technologies, enhance productivity or result in import substitution for the region.⁶

Since its inception, WD's mandate has not changed, although its priorities and program delivery mechanisms within that mandate have. At present, WD's operations focus on meeting three strategic outcomes: entrepreneurship and innovation; community economic development; and policy, advocacy and coordination.

⁴ Department of Justice. *Western Economic Diversification Act*. 1985. The full text of the Act is available at <http://laws-lois.justice.gc.ca/eng/acts/W-6.8/>

⁵ Mansell, Robert L. and Michael B. Percy. 1990. *Strength in Adversity: A Study of the Alberta Economy*. Western Studies in Economic Policy. University of Alberta.

⁶ *Ibid.*

What Does Economic Diversification Mean for Western Canada Today?

A generation has passed since the creation of Western Economic Diversification Canada. Since that time, western Canadians have seen a wide range of policies and approaches used by the federal and provincial governments in an effort to diversify the region's economies. They have also seen the evolution of western Canada over that period—an evolution perhaps influenced by diversification efforts, but almost certainly more profoundly shaped by dramatic political, social and technological changes both within the region and around the world.

Roundtable participants were invited to take stock of the progress that has been made in diversifying the western Canadian economies. They were also asked to consider whether, looking ahead, diversification continues to be a relevant policy objective for the region and, if so, what the best overarching strategy is for future diversification efforts.

While this discussion inevitably led to some criticisms of failed diversification policies and lessons learned over the past two or three decades, the intent was not to critique WD's policies, nor was it to evaluate provincial government initiatives. Participants recognized that one of the challenges facing diversification initiatives is that their outcomes are not always visible. Moreover, it is often difficult to distinguish the effects of diversification policies from the myriad other influences that affect economic activity at any given point in time.

Have the Western Provinces Become More Diversified?

There was a strong sense among participants in all four provinces that the western Canadian economies have become more diversified since the 1980s. Some pointed to statistical evidence, observing that provincial economic activity today is spread out across a wider range of industries and sectors than in the past. It was also noted that, in spite of the robust global demand and high prices for the region's commodities, economic output in western Canada has grown less dependent on resource extraction and production. In all four provinces, agriculture, mining, forestry and energy production account for a declining overall share of provincial gross domestic product (GDP).

Rapid expansion in services sector activity was cited as a major contributor to this diversification trend. While in some senses, a rise in services output in the West merely echoes a trend seen in advanced economies around the world, participants observed that many of the service industries expanding in

western Canada are those which had their origins in supporting domestic resource-based production, but have since evolved and expanded beyond that role. An example of this trend is the growth in financial, legal and engineering services activity in Alberta. Participants at the Edmonton roundtable observed that these industries may have been spawned by serving the province's oil and gas producers, but they have since become more international in scope and less dependent on the ebbs and flows of oil and gas production in Alberta.

In addition, western Canada has become more diversified *within* its resource base. It was noted that the region is home to a wide, and broadening, range of resource-based production. The energy sector has expanded to include oil sands development, new shale gas plays in BC and Alberta, a mini-boom in oil exploration in Saskatchewan and Manitoba, as well as rapid expansion of wind power capacity and other renewable energy sources. Agricultural producers have expanded production of non-traditional crops such as chickpeas, lentils and soybeans. New mines under development point to increased capacity in the region for potash, uranium, copper, molybdenum, nickel and gold production.

These resource products are finding new markets as well. Historically most of western Canada's natural resource production was intended for export, primarily to the United States. In some cases, this has not changed; the western provinces are as dependent as ever on US markets for their oil, gas and electricity—primarily because the transportation infrastructure does not exist to economically ship large quantities of these products elsewhere. In other cases, however, there has been a remarkable shift in export orientation as resource producers increasingly look eastward to sell their goods. For example, Japan is now the dominant export destination for western Canadian pork and a rapidly-growing market for beef. It is also the primary destination for the region's coal. Most pulse crop exports from the West go to India, Turkey and China. China also now holds the largest share of the market for western Canadian lumber and pulp.

Evidence for export market diversification is strongest in BC and Manitoba. Both provinces have seen a marked reduction in their dependence on US markets over the past ten years, due in part to relatively weak growth in trade with the US, as well as surging exports elsewhere, especially to Asia. Participants noted that BC now exports more to Asia than to the US.

In Alberta and Saskatchewan, the story is a little more complicated. On the surface, those two provinces have made relatively little progress in diversifying away from the US. Alberta, in particular, sends 86% of its total exports south of the border, a figure largely unchanged over the past decade. However, this lack of market diversification does not reflect a failure in reaching out to new markets as much as it does limitations in existing trade networks. Oil and gas make up a large share of exports from Alberta and Saskatchewan yet, because of the transportation infrastructure challenges noted earlier, they cannot sell those products outside the US market in any meaningful quantities. When products other than oil and gas are considered, the evidence of market diversification in Alberta and Saskatchewan is much stronger.

Export product diversification is the one measure where the evidence of progress is mixed in western Canada. Manitoba and BC are among Canada's most diversified exporting provinces and, over time, have made modest progress in expanding the range of goods they sell in international markets.⁷ By contrast, Alberta's and Saskatchewan's exports are highly concentrated in a few key products. Crude oil and natural gas made up 65.8% of Alberta's total exports in 2010, while crude oil and potash accounted for 54.6% of exports from Saskatchewan. Moreover, these two provinces remain just as reliant on a small number of products today as they were two decades ago.

In evaluating whether or not western Canada has become more diversified, some participants chose to focus less on specific concepts or measures of diversification, and more on the intended goal—strong and relatively stable economic growth. In other words, if economic activity in western Canada was becoming less volatile over time, that would suggest that the desired outcome of diversification, if not diversification itself, was taking place.

On this matter, participants were in widespread agreement. In all provinces except Manitoba, participants believed that their respective provincial economies were more stable today compared to 20 or 30 years ago and that the degree of disruption associated with boom-bust swings in the economic cycle had grown less severe over that period. It was noted that western Canada is by no means immune to the effect of economic cycles or shocks—the 2009 recession offered fresh evidence of that fact. However, the region is better able to cope with such events today than it might have been in the past.

In Manitoba, the perception was slightly different. Because that province is already the most diversified in western Canada by virtually any measure, its economy has long been more stable than those of the other western provinces and it seldom experiences boom-bust cycles of the same magnitude as elsewhere in the region. Indeed, it was noted at the Winnipeg roundtable that Manitoba was the only province in Canada not to go into recession in 2009. Participants in that session stated that, thanks in large part to the province's stability, it has had by far the strongest economic performance in western Canada over the last five years.

Whether they focused on specific diversification measures or on the outcomes typically associated with diversification, there was widespread agreement across the four roundtable sessions that Western Canada is more diversified today than it was two or three decades ago. At the same time, however, a recurrent theme within the discussions was that there is considerable uncertainty within the broader community about what diversification means, exactly, and what it is supposed to accomplish. Participants had a sense that the region has become more diversified, but in the absence of a widely-accepted definition of the term, they could only point to anecdotal evidence to support that claim.

⁷ Holden, Michael. 2010. *Through the Gateway: Unlocking Western Canada's Potential for Economic Diversification by Expanding Trade with Asia-Pacific*. Canada West Foundation. <http://cwf.ca/CustomContentRetrieve.aspx?ID=1348701>

Is Diversification a Goal Western Canada Should Still Be Pursuing?

While there was a broad consensus that western Canada has grown more diversified since the 1980s, there was less agreement on whether or not diversification should continue to be a policy objective in the years ahead. Some participants considered the value of diversification to be self-evident, but others raised important questions about the necessity and even the potential downside of pursuing it. However, nearly all agreed that, looking ahead, it was far more important to focus on securing long-term sustainable growth than it was to make diversification a public policy priority.

To be sure, no participants were explicitly opposed to the idea of economic diversification. There was a general recognition of the value that a diversified economy offers western Canada through increased stability and reduced dependence on a limited number of resource-based growth engines. For some, diversification continues to be an essential policy objective, not only because the resource base in western Canada is finite, but also because no one knows what the future will hold. Technological innovations in information and communications technologies over the past generation have revolutionized how the world operates and accelerated the pace of change in global markets. Adaptability and a broad economic base were seen as critical to withstand, and thrive in, such an environment. For some, therefore, diversification was a step toward sustainability which, in turn, leads to greater well-being and a higher quality of life in western Canada.

Another reason some participants felt that diversification continues to be relevant is because the boom-bust cycle associated with resource-dependent economies causes profound and often underestimated economic destruction. Severe downturns result in a significant loss of talent and intellectual wealth while booms undermine sustainable growth by perpetuating the sense that businesses should “get it while the going is good.” Moreover, it is difficult for governments and for businesses to develop and implement long-term strategic plans and priorities in the face of dramatically-changing economic conditions.

At the same time, however, participants were less concerned with economic diversification as an explicit policy objective and more concerned with ensuring that the right policy framework was in place to generate strong and sustainable long-term growth in western Canada. While the distinction between growth and diversification was often blurred in these discussions, it was generally recognized that diversification could be a means to that end, but it was the result and not the process that mattered.

In fact, to the extent that participants supported continued diversification efforts, it was almost always because they thought it would generate additional growth in the provincial or regional economy and not because they thought the principle of diversification made it the right thing to do. For example, the discussions in BC focused to a much greater degree on the pursuit of export market diversification than did the conversations in the other three provinces. But the motivating factor was not spreading exports across a wider range of countries; it was capitalizing on the economic opportunities offered by Asian markets. Diversification was, in effect, an incidental outcome of pursuing growth policies. While the subject matter differed somewhat, the same theme was evident in the other three provinces as well: diversification is a welcome objective, provided that it supports economic growth. Growth without diversification is acceptable, but diversification without growth is not.

Indeed, some participants were concerned that there could be a downside to maintaining economic diversification as a policy objective. In their view, there appeared to be an inverse relationship between the degree of economic diversification and the average rate of economic growth across the provinces. The most dynamic and robust economies in Canada were the ones that were *least* diversified, while those with a relatively wide economic base seemed to be among the slowest-growing and least dynamic. They suggested that if the move toward a more diversified economy meant accepting a more stable but lower average rate of growth, they were not interested in pursuing diversification.

Concerns were also expressed that, if governments focused too much on policies designed to foster the development of newer or relatively small industries, they might not pay sufficient attention to ensuring the long-term competitiveness of the region's existing growth engines. Similarly, some participants wondered about the role that perception of an economy plays in attracting investment and growth. Are businesses attracted to the stability and predictability that a diversified economy offers? Or is investment attracted to dynamic, sector-specific growth prospects?

Where Should Future Diversification Efforts Be Focused?

Regardless of their views on the value of diversification as a policy priority, there was widespread agreement at all four roundtables that western Canada should embrace its reliance on natural resources and not view it as a weakness. Natural resources are western Canada's core strength. To a great extent, they define the region and the type of economic activity that takes place here. That resource strength—the foundation of western Canada's enviable living standards—should not be ignored or dismissed when implementing growth or diversification policies in the region.

Several participants noted that past economic diversification policies were rooted in the idea that western Canada needed to wean itself off of its dependence on natural resources and that being mere “hewers of wood and drawers of water” was both undesirable and unsustainable. However, participants were by and large comfortable with the fact that the West is still reliant on resource-based industries. They suggested that being good at hewing wood and drawing water is actually an advantage in today's economy. Canada's resource-based provinces are leading the country in economic growth and their products are in demand around the world. It is manufacturing—the longstanding Holy Grail of diversification policy—that is now globally associated with cheap labour and low-value-added activity.

Participants also rejected the notion that extractive industries are low-tech or less knowledge-intensive than manufacturing. They considered mining, energy and forestry to be high-end activities, requiring considerable investment in advanced equipment, processes and technologies. Others noted that the agriculture sector has also evolved into a high-tech undertaking, with advances in genetics, industrial applications for crops and other activities.

As such, while many participants viewed growth to be a more important objective than diversification, there was widespread consensus that the focus in either case must be on expanding and developing industries that are grounded in the region's resource base, or on cultivating new streams of products and services that have their origins in resource-based economic activity.

WHAT DOES "HEWERS OF WOOD AND DRAWERS OF WATER" MEAN?

The term "hewers of wood and drawers of water" is a reference to Chapter 9 of the "Book of Joshua" (9:22-27) in the *Old Testament*. In the chapter, the Gibeonites lied about the proximity of their cities to the Israelite settlement in order to secure a covenant (a sacred non-aggression pact) with the Jews. When the lie was discovered, the Israelites, respecting the covenant, did not kill the Gibeonites, but instead subjected them to perform the most menial tasks of drudgery in the services of the sanctuary: to "become hewers of wood and drawers of water for the congregation and for the altar of the Lord" (Joshua 9:27).

As such, when the term "hewers of wood and drawers of water" was first used to describe western Canada's economic structure, it was meant as more than just a criticism of its reliance on natural resources. It also indicated where such people stood in the prevailing class structure. Hewers of wood and drawers of water ranked lower in the social order than all other servants or slaves.

On the other side of the same coin, participants were equally adamant that diversification efforts not focus on developing industries that have no logical connection to the region. It was noted that several past attempts to diversify by attracting "new" businesses to western Canada failed because those enterprises had no reason to be in the region outside of the incentives they were offered to set up shop in the West. The past popularity of call centres as an instrument of economic development was cited as a cautionary tale in this regard. This does not mean that public policy should seek to stifle entrepreneurial activity but rather that it should leave picking potential new winners to the private sector.

The one measure of economic diversification which was considered to be an unqualified priority was export market diversification. In all four provinces, participants spoke of the tremendous opportunities for trade growth around the world, especially in China and other Asian markets. In their view, improving economic ties with these countries was critical to ensuring long-term growth and prosperity in western Canada.

The Role of Government in Promoting Economic Growth & Diversification

Whether the focus was on diversification policies specifically, or supportive growth policies generally, four common themes emerged from the discussions about how governments can help to promote economic growth and diversification in the region and to ensure that western Canada continues to be a vibrant and attractive place in which to live and to do business. Within each of these four themes, there are important roles to play for both the federal and provincial governments. In some cases, jurisdictional responsibility calls for more federal involvement. In others, it is the provincial level where leadership is needed. Participants also identified an important role for municipal governments, particularly in building dynamic, liveable cities that will attract migration and investment.

Regardless of where primary responsibility lies, however, it was clear that the design and execution of policies supporting these four themes should take into account the unique situation in each province. Participants emphasized that each province brings to the table a distinct set of strengths, weaknesses and challenges. It was frequently stated that a one-size-fits-all approach to diversification or growth policy is not a recipe for success in western Canada. The same model or set of policies cannot be applied uniformly across the region and be expected to work everywhere.

As such, the need for closer intergovernmental cooperation is of paramount importance for the design, delivery and execution of effective growth and diversification policies. In many cases, local and regional actors are in the best position to identify the most beneficial policies to generate growth and diversification, but the financial wherewithal to support policy development sits at a higher level of government. Policy coordination and communication are needed across the range of government, business and community stakeholders to ensure that growth and diversification efforts are appropriate to the needs of individual provinces and local communities.

Creating the Conditions for Growth

For many participants, the most important role that governments can play in promoting growth and diversification is to create a hospitable environment for investment and economic activity. Rather than focus policies on giving preferential treatment to certain industries or sectors in the name of economic diversification, they stressed that governments should maintain an attractive and level playing field for all businesses. Doing so will attract capital and growth from firms that can make an economic case for

operating in western Canada rather than from those simply responding to special incentives. This will foster economic competition and allow markets to determine the best use of economic resources.

Three specific policy actions were identified that would support the creation of a more competitive and attractive economic environment in western Canada: 1) a competitive tax environment; 2) an efficient, stable and predictable regulatory system; and 3) strategic infrastructure investment.

Maintaining a Competitive Tax Environment

The benefits of a competitive tax system are self-evident. Lower taxes reduce the cost of doing business in the region, thus attracting outside businesses to western Canada, as well as encouraging the start-up of new businesses and the expansion of those already present.

However, a competitive tax environment is about more than simply maintaining low taxes. The structure and nature of taxation is equally important. Taxes must be set up in such a way so as not to create an unnecessary administrative burden for compliance. Nor should they create a disincentive for growth. For example, it was suggested that preferential tax rates for small businesses could, in fact, discourage those businesses from expanding beyond a certain size because once they did so, their marginal tax burden would increase significantly. Similarly, it was suggested that royalty regimes in western Canada need to strike a balance between generating revenues for the public good, but not discouraging additional business investment and expansion in the region's extractive industries.

Streamlining the Regulatory System

The second component to building an attractive environment for growth is a streamlined regulatory system. This does not mean lower regulatory standards or laxer oversight. The idea is to streamline regulations across governments (and within government departments and agencies) to minimize the burden of compliance, speed up the regulatory review process and make it as transparent, stable and predictable as possible.

Participants repeatedly stated that what businesses value from governments, perhaps above all else, is transparency. In their view, the role of the government is to set the rules by which businesses must abide. As such, regulations should be clear, developed in consultation with the businesses they affect and not subject to sudden or frequent change.

Participants highlighted one example of where improvement in the existing regulatory framework would be of particular benefit to western Canada: the environmental review process. Because federal and provincial governments both have jurisdiction over environmental issues, each level of government may conduct its own environmental assessment process of a given project based on what aspect of environmental protection and stewardship falls under their respective jurisdictions.

Businesses have argued for a “one project, one process” approach to environmental assessments, in the hope that, by so doing, a more streamlined and harmonized process would result. This call has been taken up by the BC government which is looking to “create unified federal-provincial review process that does away with redundancy and unnecessary costs.”⁸

Making Strategic Investments in Infrastructure

The third way in which governments can set the table for economic growth and diversification is through strategic infrastructure investments. While participants suggested several types of investment that would benefit the region, perhaps the most important was to ensure that the transportation systems are in place to allow businesses to reach foreign markets. This includes ensuring sufficient capacity at the region's ports, as well as the need for improved rail, road and intermodal transportation linkages. It was widely noted that western Canada is an export-dependent region. As such, an efficient and well-developed transportation network is essential to reaching new markets and being competitive in those markets.

Specific infrastructure issues were identified across the region. In BC, the focus was primarily on ports and port capacity, as well as the development of natural gas liquefaction plants and terminals. In Alberta, emphasis was placed on the need for pipelines to the west coast to access Asian markets. In Saskatchewan and Manitoba, the development of inland ports and intermodal transportation hubs was top of mind.

While participants considered infrastructure investment to be a high priority for generating economic growth and export market diversification, there was a general recognition that governments have come around to this view as well. The challenge that remains is to ensure that infrastructure investments remain a government priority and not end up creating a bottleneck to growth down the road.

Opening New Markets

The second broad category of government involvement in facilitating economic growth and diversification in western Canada is opening doors to new markets for the region's businesses. As a trade-dependent region, access to international markets is critical to the long-term success of the western Canadian economy. However, it is important from the standpoint of drawing investment into the region as well. Participants were realistic in their assessment of one of the region's main weaknesses: western Canada is not a large enough market to attract businesses and investment for the purpose of serving local customers. Businesses come to the region to produce goods and services to sell elsewhere. Therefore, the region's attractiveness as a place from which to do business depends heavily on the ease with which foreign markets can be accessed.

⁸ Legislative Assembly of British Columbia. February 9, 2010. *Speech from the Throne*. Second Session. Thirty-ninth Parliament. <http://www.leg.bc.ca/39th2nd/4-8-39-2.htm>

In part, this speaks to the importance of strategic infrastructure investment that was described above. However, it also requires more direct involvement such as breaking down market access barriers and helping open doors for western Canadian businesses around the world. In particular, there is a large role for the federal government to play here as it has the exclusive power to sign international treaties.

Negotiating International Trade and Investment Agreements

Perhaps the most important way governments can open the doors to new markets is through negotiating agreements that liberalize trade and investment. While pursuing multilateral negotiations at the World Trade Organization (WTO) is the preferred approach, the practical reality is that, with the WTO at an impasse, Canada must seek out trade agreements at the bilateral and regional levels if it is to make any progress on this front.

Canada has already been active in this regard. It has a number of trade agreements in force and is negotiating several others, most notably with partners like India and the European Union.

The importance of trade agreements is twofold. First, Canada must ensure that it has access to foreign markets at terms comparable to those enjoyed by its competitors. As such, it is important that Canada negotiate deals with countries with which the United States and other major global competitors already have agreements in place. Second, it must try to get ahead of those same competitors by negotiating agreements with other markets in order to secure preferential terms of access. Even if the preferential terms are only temporary, they could provide Canadian businesses with an important first-mover advantage.

One challenge facing Canada in this regard is that it is limited in its ability to participate in regional trade initiatives such as the Trans-Pacific Partnership (TPP) because of its adherence to certain protectionist policies such as the system of supply management for dairy, poultry and egg producers. Canada has expressed interest in joining TPP talks, but it is unclear if it can do so without putting supply management on the table.

Increasing and Coordinating Trade Promotion and Overseas Missions

Governments also have an important role to play in promoting western Canadian goods and services abroad and in building the government-to-government ties that are a critical component of establishing economic relations with many countries, notably in Asia. This is an area where both the federal and provincial governments have been involved. The former has identified Asia as a policy priority and has expanded the number of Trade Commissioner Service offices it has in the region. The provinces have also been active, especially BC, Alberta and Saskatchewan. Under the rubric of the New West Partnership, the three westernmost provinces have cooperated on joint trade and investment promotion missions to international markets.

While participants recognized the importance of government involvement in trade promotion in securing international business, some also expressed concerns about the need for greater coordination of these efforts. It was noted that the federal government, provinces and even cities will undertake

trade promotion missions without the knowledge, much less the support, of the other levels of government. Jurisdictional cooperation is critical to ensure that Canada sends a consistent message abroad. Participants felt that more dialogue, collaboration and planning are needed on foreign missions by all levels of government—not only for direct trade promotion, but also for effective reputation management and branding efforts. Some suggested that Western Economic Diversification Canada is well-positioned to play such a coordinating role.

Ensuring the Availability of High-Quality Labour

For a number of participants, labour supply and the quality of the labour force were the most important issues facing the region in terms of enabling or limiting future growth and diversification prospects. They noted that businesses are attracted and retained on the basis of the quality and availability of labour. These may not generate growth and diversification directly, but they are necessary preconditions for both.

There were several distinct labour supply issues raised over the course of the four roundtables. A common theme among them was the need to implement policies that address some of the labour shortages that have plagued the region in the past. It was noted that worker shortages not only slow production but also raise labour costs and make it less attractive for companies to do business in western Canada. For this reason, participants explored in their deliberations a number of different worker attraction and retention strategies.

Participants also identified workforce adaptability and access to talent as major issues. They noted that a lack of sufficient talent is a bottleneck to growth and diversification while an adaptable workforce gives businesses in the region the confidence to grow and evolve in response to market demand and market opportunities. These issues speak to the need to have policies in place to attract the best and the brightest students, immigrants, trades people and professionals from around the world to study and work in western Canada.

In general, the discussion spanned a wide range of labour supply and training issues. Some of the more prominent among them are highlighted below.

Seeking Additional Immigration

Of all the labour force-related issues raised, none was brought up more frequently or consistently than immigration. Access to labour is a significant limitation that could prevent western Canada from growing at its potential in the years ahead. Not only is the natural rate of increase (births minus deaths) too slow for most segments of the population, but our society is aging as well. An aging population means more retirements, which will cause labour shortages in some occupations. On top of this, older workers tend to be less mobile. This means that western Canada's capacity to attract interprovincial migrants from other parts of the country will likely decline over time—a trend which has implications for the region's capacity to respond to labour shortages as they arise.

Increasing immigration into western Canada, especially of highly-skilled individuals and immigrant entrepreneurs, was seen as critical to addressing these issues and meeting future labour demand in the region. In addition, some participants suggested that immigrants may recognize opportunities here that we do not see ourselves. For these reasons, the western provinces have been more active in recent years in directly recruiting immigrants, primarily through their respective Provincial Nominee Programs.

However, the challenge for much of western Canada is that these nominee programs account for just a small fraction of the total number of immigrants into the country in any given year. Most immigrants still enter Canada through the federal program and most still settle where other immigrants are—Canada's three largest cities. While some of these immigrants eventually find their way to other parts of the country, that initial tendency puts most of western Canada at a disadvantage.

Participants identified a number of policy areas where provincial governments can improve their record in attracting and retaining immigrants. These included more aggressive recruitment efforts; improving the process governing the recognition of foreign credentials in western Canada; taking steps to improve the liveability and dynamism of the region's major urban centres (immigrants tend to move to larger cities); and attracting more international students to study in the region and paving the way for them to remain in their province of study.

Improving Engagement of Aboriginal People

Roundtable participants in all four provinces stated that there is tremendous untapped potential in western Canada's Aboriginal communities. The Aboriginal population is, on average, much younger and faster-growing than the region as a whole. Moreover, these communities are often characterized by high unemployment and poor educational outcomes.

While the specific issues surrounding more effective Aboriginal participation varied between BC on the one hand and the prairie provinces on the other, there was general consensus that both the federal and provincial governments, as well as businesses themselves, need to do more to integrate Aboriginal people into the workforce through improved education, communication and cooperation.

Investing in Education and Training

High-quality education and training is an obvious requirement for building a dynamic and adaptable workforce in western Canada. Since no one can foresee what the future will hold, education policies need to focus on flexible training to help people adapt their skills to changing economic conditions. While education and training fall under provincial jurisdiction, there is an important role for the federal government to play as well, considering that a significant share of post-secondary education financing comes directly from federal transfers.

However, the aging population presents a challenge to governments in terms of their capacity to fund education and training. Health and education are by far the two largest provincial government expenditures across Canada and, as the population ages, the cost pressures on health care are only going to grow. This could leave less money available for education—a result that would have negative consequences on the future quality of the workforce in western Canada.

Another issue facing the region is the fact that there are well-documented labour shortages for some occupations, but persistent unemployment generally. This seeming contradiction speaks to an enduring mismatch between the skills required for in-demand professions and the type of education western Canadians (and Canadians generally) are seeking.

It was suggested that governments need to do a better job communicating to those in high schools and worker retraining programs the fields where job opportunities are the greatest. Such a communications strategy would include more active recruitment of skilled and unskilled labourers and an emphasis on attracting university students into fields where demand is highest.

Enhancing the Quality of Life in the Region

Some participants felt that, in order for western Canada to attract the dynamic workforce it needs to grow and prosper, the region must become a “destination of intent” rather than a “destination of circumstance.” They argued that reputation plays an important role in attracting people. As such, a central question is: how do you create a city where talented people choose to come and then choose to stay?

There were no easy answers to this question. Some participants argued that municipalities need greater control over their tax revenues in order to build the dynamic cities that would attract people. Some questioned whether it was quality of life or economic opportunity that was the primary draw for new entrants into the region. In general, however, there was agreement that dynamic and cosmopolitan urban centres do play a role in attracting and retaining talented workers. As such, provincial and municipal governments need to work closely and more diligently to build places that current and potential western Canadians want to live in (i.e., attractive, desirable and sustainable communities).

Fostering Innovation and Entrepreneurship

The final, but by no means least, of the four major themes identified by participants is that governments should play an enabling role in fostering innovation and entrepreneurship in western Canada. There was widespread agreement that an innovation agenda is critical to long-term economic prosperity and that entrepreneurialism is the seed from which grows a healthy, diversified economy. Governments themselves are not innovators, but they are in a position to implement policies and programs that create the proper conditions for innovation to flourish.

While participants usually eschewed the idea of governments intervening directly in the economy, there was less agreement on the matter when it came to policies aimed at encouraging innovation and entrepreneurship. Although there was still a general consensus that governments should avoid picking winners and losers at the firm level, some participants thought that governments had a responsibility to target strategic sectors with innovation policies, provided that the targeted sectors were complementary to, or a logical extension of, the region's existing economic strengths. Investments in alternative energies and greenhouse gas emission abatement technologies were two such examples.

Participants identified three ways in which governments could provide a creative spark to new economic activity in western Canada: 1) implementing policies to build strategic growth clusters in the region; 2) providing direct funding or tax incentives to support venture capital funds or angel investors; and 3) increasing collaboration between industry and universities, especially in terms of commercialization of research.

Building Growth Clusters

As noted earlier, there was widespread agreement that diversification and growth strategies in western Canada need to build on the region's existing strengths. Related to that idea, participants identified the development of industrial growth clusters as an important requirement for ensuring long-term economic prosperity in the region.

Growth clusters are essentially a geographic concentration of interconnected industries, suppliers and buyers that gain some economic or innovation advantage through their proximity to one another. Silicon Valley in southern California is perhaps the most famous example of such a cluster. These clusters not only foster innovation and competition, but they can become self-perpetuating by attracting companies from outside the region looking to take advantage of the synergies associated with proximity to the cluster.

Participants saw a role for the federal and provincial governments in creating the necessary environment to support the development of clusters in western Canada. They offered a range of policy suggestions to this effect. For example, some felt that governments should focus on specific industries or sectors through targeted tax breaks and other incentives while others thought that clusters should be allowed to form organically, aided by general government policies aimed at creating a hospitable environment for all businesses.

Supporting Entrepreneurship

Participants identified a shortage of venture capital funds as an important limitation to developing a more entrepreneurial culture in western Canada. Increasing access to seed capital would allow fledgling companies in the region the wherewithal to translate their ideas into marketable products and services.

The challenge, from a policy perspective, is that governments are ill-suited to being directly involved in supporting business start-ups. Sensitive to criticisms about picking winners and losers, and about wasting taxpayers' money, governments do not have the stomach for the high failure rates that characterize new business ventures. Moreover, governments are risk-averse and non-entrepreneurial institutions. This makes them a poor fit for determining which new enterprises have the soundest business case.

Nevertheless, a number of ideas came out of the discussions about how governments could enable entrepreneurship and innovation without direct involvement in the process. One of these ideas was for governments to earmark proceeds from specific taxes (such as a carbon tax) or a portion of resource royalty revenue to create a capitalization fund for business start-ups. This fund would be administered

at arms' length from the government and could be used to support business start-ups generally or to target those in strategic sectors. Money from the fund would not be distributed across applicants, but awarded to the winners of a competitive process.

A second proposal was for governments to offer tax credits to private angel investors who use their own money to support business start-ups. In this way, governments could support innovation and new businesses without directly interfering in market outcomes. Such programs already exist at the provincial level (the Manitoba Small Business Venture Capital Tax Credit is one example) but it was suggested that a matching federal program would be beneficial.

Increasing Public-Private Collaboration

To build an innovative and dynamic economy requires governments and businesses to work together. Indeed, industry-government collaboration has a proven track record in western Canada. Such collaborative efforts led to innovations like steam-assisted gravity drainage (SAGD), which resulted in a tremendous increase in the economic viability of the oil sands, sparking additional investment and growth in Alberta.

Roundtable participants felt that this type of industry-government collaboration was critical to fostering a climate of innovation in western Canada. They also identified the region's universities as an important source of new ideas and intellectual property and noted that there is a need to increase collaboration between universities and entrepreneurs as well.

On that subject, some participants observed that, while governments in Canada offer considerable support for research and development, there is a gap in terms of commercialization. They noted that universities generate excellent ideas, but that they sometimes lack the ability to see how those ideas could be translated into a marketable product. As such, participants saw a role for governments in creating policies to promote closer ties between the academic and business communities and to support the commercialization of research in western Canada.

Moving Up the Value Chain

A fifth theme was also widely discussed at all four roundtables: the need to move up the value chain and conduct more value-added economic activity in western Canada. Unlike the first four themes, however, there was very little consensus in the discussions as to whether or not developing policies aimed specifically at value-added industries was an appropriate objective. There were mixed views on this issue at all four roundtables.

Some participants thought that increasing value-added activity and moving up the value chain was the very essence of diversification. Adding value to resources prior to sale not only creates additional jobs and keeps a greater share of total economic activity within the region, it also accomplishes one of the fundamental objectives of diversification in western Canada: reducing dependence on the production of basic materials.

One participant noted that western Canadians have built their collective livelihood around selling their goods at their lowest point on the value chain (crude oil, grains, raw metals and minerals, etc.) and then buying them back at the highest point. The BC government's longstanding position against the export of raw logs is an example of a policy aimed precisely at avoiding that outcome. Some participants saw untapped potential in a number of industries connected to the region's resource base including food processing, industrial agricultural product manufacturing, oil refining, plastics production and metals and mineral processing. In their view, an explicit focus by governments on helping these sectors become internationally competitive was a self-evident policy stance.

Some also thought that changes in economic fundamentals down the road could make secondary processing in western Canada more viable. They suggested that, as container shipping costs rise, it may become uneconomical to ship low-value-added goods, paving the way for more value-added work to be done in the region prior to export. Others thought that, rather than trying to compete with established players in value-added sectors, western Canadian governments and the private sector need to look for opportunities to leapfrog existing value-added products and processes and build a competitive advantage in the next generation of value-added goods and services.

To be sure, no one was opposed to the idea of moving up the value chain. Increasing value-added activity was acknowledged to be an effective way to build on western Canada's existing strengths, increase economic activity and add stability to the region. However, some participants noted that just because western Canada was competitive at resource extraction and resource production did not necessarily mean it was competitive all the way up the value chain. They suggested that the reason more value-added activity does not take place in the region is because the economics simply do not support it. These participants reiterated that the role of governments was to create a level playing field—a hospitable climate for all sectors—and not to favour one business or industry over another.

By way of illustration, one participant pointed to a 2009 report published by the Uranium Development Partnership which looked at the uranium industry in Saskatchewan. The report examined the value chain from mining through to waste disposal to see where Saskatchewan might have an opportunity to conduct more value-added activity.⁹ Its conclusion was that, outside of a small number of possible niche markets, the province's sole competitive advantage was in mining. And even there, its position was slipping.

⁹ Uranium Development Partnership. 2009. *Capturing the Full Potential of the Uranium Value Chain in Saskatchewan*. <http://www.gov.sk.ca/adx/asp/adxGetMedia.aspx?mediaId=767&PN=Shared>

Conclusion

As the global economic environment has evolved, the view of economic diversification in western Canada has changed with it. In the past, diversification was motivated by a desire to reduce the region's dependence on natural resources—to avoid putting all its eggs in one basket, as it were. Today western Canada's resource wealth is considered to be its most important asset. There was a common view among roundtable participants that western Canada needs to embrace this reality and build on its resource base in order to continue to grow and prosper.

While the discussions made it clear that economic diversification continues to be a desirable objective, it was equally clear that diversification was of secondary importance to the goal of building a prosperous, dynamic and sustainable western Canada. This view was evident in the policy priorities identified by participants. These priorities, which include increasing trade with Asian markets, fostering greater entrepreneurship and innovation, and addressing concerns about labour force availability, are more a reflection of the specific economic opportunities and challenges facing western Canada today than they are about diversification itself.

Whether participants spoke of diversification specifically or economic growth generally, it was also evident that there continues to be an active role for both the federal and provincial governments to play in the pursuit of both objectives. In a few cases, responsibility falls more obviously to one level of government over another. For example, the federal government has a clear lead role to play in opening new markets since it alone signs international treaties. At the same time, most resource royalties are collected by the provinces. As such, they determine if, and how, those funds are redirected to promoting long-term economic growth and diversification.

For the most part, however, the areas where participants felt policy action was required could reasonably fall under either federal or provincial responsibility. In fact, participants frequently did not distinguish between the two levels of government in their deliberations. This speaks to an important result of this exercise: to be effective, policies aimed at supporting economic growth and diversification in western Canada must involve a joint, coordinated effort between the federal and provincial governments.

All levels of government have a stake in developing a prosperous and stable western Canada. The provinces and the federal government need to work together to develop and articulate a common vision for the region and then implement coordinated policies to realize that vision. Too often in the past, the federal and provincial governments have pulled in different directions—each implementing policies in pursuit of their own vision for the region. This not only greatly reduces the effectiveness of those policies, but also creates confusion within the public as to the expectations and outcomes associated with economic diversification efforts.

The task of developing and realizing a common federal-provincial vision for the western Canadian economy is a challenging one. An important first step in this regard is to improve coordination and communication of existing policies and long-term objectives between the federal and provincial governments. This is a role that could be played effectively by Western Economic Diversification Canada. As a federal government department primarily located in western Canada, it is in a unique position to act as a bridge between the provincial governments and Ottawa. More effective communication and policy coordination across government actors could go a long way toward the development and implementation of effective growth and diversification policies in western Canada.

As a final note, the Canada West Foundation would like to thank those who participated in the roundtables for their time and thoughtful contributions to the discussion. We hope that the content of this report accurately represents the spirit of the sessions and that, through this report, the ideas they offered can contribute to the development of effective public policy for the betterment of western Canada.

Appendix A: Attendees

LAST NAME	FIRST NAME	POSITION	ORGANIZATION
Ascah	Bob	<i>Director of IPE</i>	University of Alberta
Boldt	David	<i>Manager, Policy, Planning & External Relations</i>	Western Economic Diversification
Brisbois	Jason	<i>Director of Western Centre for Economic Research</i>	University of Alberta, School of Business
Carson	Tom	<i>Director of Manitoba Office</i>	Canada West Foundation
Chase	Thomas	<i>Provost & VP</i>	University of Regina
Das	Satya	<i>Founder & Principle</i>	Cambridge Strategies Inc.
Dekker	Chris	<i>CEO</i>	Enterprise Saskatchewan
de La Bruyère	Marc	<i>Managing Director</i>	Maclab Enterprises
Downey	Jim	<i>President</i>	James E. Downey International Ltd.
Eldridge	Jim	<i>Special Advisor, Intergovernmental Relations</i>	Government of Manitoba
Emes	Joel	<i>Acting Executive Director</i>	BC Progress Board
Farbrother	Simon	<i>City Manager</i>	City of Edmonton
Gray	Diane	<i>President & CEO</i>	CentrePort Canada
Hayson	Tim	<i>Manager</i>	Western Economic Diversification
Hiles	Larry	<i>President & CEO</i>	Regina Regional Opportunities Commission
Hirsch	Todd	<i>Senior Economist</i>	ATB Financial
Knight	Kathy	<i>CEO</i>	ICTAM
Kunin	Roslyn	<i>Director of BC Office</i>	Canada West Foundation

LAST NAME	FIRST NAME	POSITION	ORGANIZATION
Laing	Rhonda	<i>Executive Director</i>	Western Economic Diversification
LeClair	Tim	<i>CEO</i>	Saskatoon Regional Economic Development Authority
Lederman	Jan	<i>Corporate & Commercial Law</i>	Thompson Dorfman Sweatman LLP
Logan	Kim	<i>Director, Government Relations</i>	Telus
McEwan	Tim	<i>President & Chief Executive Officer</i>	Initiatives Prince George Economic Development Corporation
McGreer	Ted	<i>Senior Economist</i>	Western Economic Diversification
Pastrick	Helmut	<i>Chief Economist</i>	Central Credit Union 1
Peacock	Ken	<i>Director Economic Research</i>	Business Council of British Columbia
Peddie	Shaun	<i>Director</i>	Western Economic Diversification
Pyear	Duane	<i>Alberta Finance & Enterprise</i>	Alberta Government
Richardson	Shirley	<i>Spouse of the late Honourable James A. Richardson</i>	
Rose	John	<i>Chief Economist</i>	City of Edmonton
Thomas	Victor	<i>CEO</i>	Regina District Chamber
Wentzell	Corey	<i>Executive Director, Faculty of Education</i>	University of Alberta
Youzwa	Pat	<i>Board Member</i>	Canada West Foundation

A Western Voice *on* National Policy Issues

In 1971, the Canada West Foundation was established to give the people of the West—British Columbia, Alberta, Saskatchewan and Manitoba—a voice for their dreams, interests and concerns. In doing so, the goal was to put the West on the national agenda and be at the forefront of the most important issues and debates.

Since then, the Canada West Foundation has successfully met that goal, proving itself to be one of Canada's premier research institutes. The Canada West Foundation is the only think tank dedicated to being the objective, nonpartisan voice for issues of vital concern to western Canadians.

For over 40 years, we have represented western viewpoints. We are proud of our accomplishments and know that our research and commentary have improved government policy and decision-making.

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