

BUILDING the New West

A Framework for Regional Economic Prosperity

OCTOBER 2001

C A N A D A W E S T F O U N D A T I O N

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INTRODUCTION

Western Canadians stand at the intersection of dramatic change in both their region and the global environment. Internally, the West is being reshaped by urbanization, demographic shifts, increased social complexity, and technological change. Externally, the global economy offers expanding trade but also increased competition. This intersection of internal and external transformations poses a complex mix of challenges and opportunities. It is also a *call for thoughtful action* by governments, by the for-profit and non-profit sectors, and by individuals across the West.

The choices we make today will have a decisive impact on the prosperity of the West for generations to come. With this in mind, the Canada West Foundation launched *Building the New West* in September 2000. *Building the New West* is a multi-year research and public consultation project designed to explore the strategic positioning of western Canada within the global economy. The project will serve as a catalyst for informed public debate about the future of western Canada.

The reason for undertaking the project is straightforward: strong regions make for a strong Canada. Hence, a prosperous West is good not only for western Canadians, but for all Canadians. The project's goal, then, is to identify the determinants of long-term regional economic prosperity *within* the opportunities presented by the national community and global economy.

This report is based on a year-long research and consultation process, and represents the intensification of the Canada West Foundation's efforts to help ensure long-term western Canadian prosperity. Five key priorities for the West are identified and form a framework for focused research, meaningful debate, and decisive action.

The Canada West Foundation will devote considerable effort over the next three years examining, and encouraging informed debate about, these priority areas. We invite governments, businesses, the research community, and individuals to join us in this endeavour.

***The Building the New West
Project is focused on the
long-term economic
prosperity of the four
western provinces:
British Columbia, Alberta,
Saskatchewan, and
Manitoba.***

BUILDING THE NEW WEST WORK TO DATE

State of the West, published in April 2001, provides a detailed analysis of demographic and economic trends in western Canada, comparisons with national trends, and interprovincial variations within the West.

The Council of the Canada West Foundation hosted over 60 community leaders at an April 28th Western Builders Roundtable on regional aspirations and policy goals. The Calgary event was chaired by the Hon. Peter Lougheed (former Premier of Alberta) and featured the Hon. Allan Blakeney (former Premier of Saskatchewan), the Hon. Gary Filmon (former Premier of Manitoba), the Hon. Michael Harcourt (former Premier of British Columbia), and Preston Manning (former Leader of the Official Opposition).

In May 2001, provincial consultations were held in Edmonton, Saskatoon, Vancouver, and Winnipeg. The consultations brought together over 250 community leaders from across the four provinces who were asked to look ahead to 2020, and to think through the requirements for regional prosperity in a turbulent global environment.

Looking West, published in June 2001, presents the results of a public opinion survey of 3,256 western Canadian respondents conducted in 2001. It includes comprehensive regional and provincial snapshots of political identities, policy preferences, and perceptions of the federal system.

Project advice is provided by a working group of 15 leading policy analysts, academics, business leaders and public officials from across the West.

“The timing of the Canada West Foundation’s Building the New West Project is right. It is important to be aware of the West as a whole – not just of our own provinces.”

*– The Hon. Peter Lougheed
at the Western Builders
Roundtable*

THE CASE FOR A WESTERN PERSPECTIVE

The focus of *Building the New West* on regional policy is essential to stress. One of the objectives of the project is to examine policy issues that transcend the individual mandates of provincial governments and, by so doing, to fill the regional gap in policy debate and research. Many issues call for a policy approach that reaches beyond the capacity of the federal or provincial governments acting alone. *Building the New West* is therefore designed to create a regional policy framework within which sector-specific strategic planning can take place.

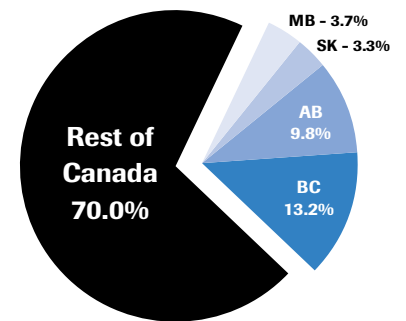
Why should western Canadians work together? The answer is simple: because they are better off when they do. Adopting a regional perspective and acting in concert rather than as four separate provinces increases efficiency and stimulates economic growth. Some might ask, if this is the case, why not adopt a national perspective and encourage Canada-wide cooperation? The answer lies in the fact that Canada is simply too large and diverse to come together and coordinate effectively on all issues. Regions are often, although not always, more manageable units for both analysis and action. With that said, it should be stressed that regional cooperation does not make sense in all cases. Provincial variation should not only be expected but encouraged, for one of the advantages of federalism is that it allows for policy experimentation and healthy competition among jurisdictions.

The Benefits of Regional Cooperation

The primary reason for working together as a region is that the four western provinces face common challenges that demand a degree of regional cooperation if they are to be successfully addressed. For example, the transportation system that delivers western Canadian goods to world markets crosses provincial boundaries. The four provinces must, therefore, *work together* to create an efficient transportation network.

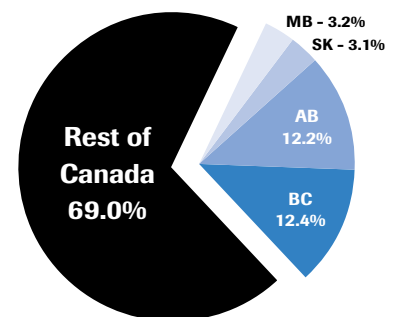
A second reason cooperation makes sense for the West is that there is “strength in numbers.” The West’s combined population is over nine million or about 30% of the Canadian population. Individually, the western provinces have a diminished capacity in the national system. British Columbia, Canada’s third largest province, accounts for only 13% of the national population; this is significantly lower than Ontario’s 38% and Quebec’s 24%. Alberta’s share of the national population is only 10%, and Saskatchewan and Manitoba each account for less than 4%. The West’s voice and influence are greater when the four western provinces work together to promote shared interests.

Share of Canada's Population (2000)



Source: Statistics Canada

Share of Canada's GDP (1999)

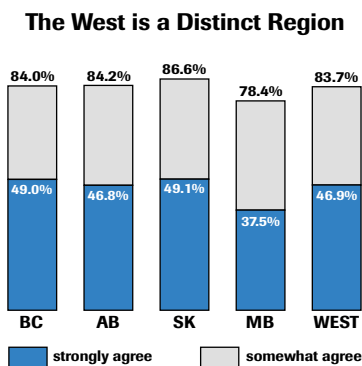


Source: Statistics Canada

The “strength in numbers” approach becomes even more meaningful when one considers western Canada in a global context. Individually, the western Canadian provinces are very small players on the world stage. It is relatively difficult for a province of one million people, such as Saskatchewan or Manitoba, or even a province of four million people, such as British Columbia, to find the resources, talents, and capital necessary to compete in the global environment. Although the West’s combined population is still relatively modest (western Canada is about the same size as New York City), a regional approach to a number of issues will enhance the competitiveness of both the region and the provinces that comprise it.

The Benefits of Regional Analysis

When discussing priorities and debating solutions, individual western provinces, and even the West as a whole, often do not receive the attention they deserve. A national perspective is simply too broad to do justice to the unique needs and qualities of the West. This holds true for all regions of Canada and makes a strong case for a regional level of analysis and discussion. There is no assumption, of course, that all the challenges facing the West are unique. Nonetheless, examining the challenges from a national perspective often causes key differences to be overlooked and reduces the range of alternatives put forward. As alternatives are explored within a regional context, *all* parts of the country can learn from the outcomes.



Source: Canada West Foundation
Looking West Survey 2001

The West is a Distinct Region

While no one would argue that the West is a homogeneous region – indeed, arguments could be made that there is a lack of homogeneity even within the individual provinces – it is notable that residents of western Canada see the West as a “distinct region, different in many ways from the rest of Canada.” Although western Canadians have strong attachments to their local and provincial communities, and to Canada, these do not preclude identification with the regional community. As one would expect in such a vast area, there are differences that warrant attention, but there are also important cultural, economic, and political commonalities.

In many respects, what draws the West together also sets the region apart from the rest of Canada. The West’s history is less British and French than that of the rest of Canada, and this created different political cultures that remain to this day. Aboriginal peoples constitute a larger proportion of the regional population than they do elsewhere in Canada. When residents of the four provinces move, more than 60% move to somewhere else in the region rather than to the rest of Canada. As a consequence, ties

of kinship help bind the region into a coherent and distinctive part of Canada. Finally, the region often marches to a different political drummer than does the rest of the country. The West is home to both the prairie socialists and the radical populists who shaped so much of Canadian political life in the 20th century.

It is important, of course, not to exaggerate the distinctive character of the West, or to ignore the multitude of ties western Canadians have with the rest of the country. At the same time, there are regional connections that bind the West together and set its policy environment apart from the rest of Canada. The West is more than a particular physical space, and thinking regionally is an authentic and vital part of the West's historical and contemporary experience.

In summary, it makes sense to look at western Canada as a coherent, self-conscious and loosely integrated regional community. It also makes sense to adopt a regional approach to public policy, economic growth, and social change. An approach that is only provincial or national is inadequate for a thoughtful discussion of the West's competitive position in the global economy, its place in Canada, and its quality of life.

FIVE KEY PRIORITIES FOR ENSURING LONG-TERM ECONOMIC PROSPERITY

Five key priorities emerged from the consultation process and supporting research:

- the West must create the tools to attract, retain and build human capital;
- the West must continue economic diversification;
- the West must strengthen its transportation infrastructure;
- the West must promote the global competitiveness of its major cities; and
- the West must develop new ways of facilitating regional coordination.

“Additional opportunities will come forward by creating linkages in the West. Much of what we have to do in the years ahead involves cooperation among the provinces.”

*– The Hon. Gary Filmon
at the Western Builders
Roundtable*

These priorities do not encompass the totality of policy concerns confronting western Canadians and their governments. For example, there were repeated references at the provincial consultations to poverty, environmental stewardship, and the need to resolve Aboriginal land claims. The five priorities identified by Canada West, therefore, are only a start. However, they are an important start for westerners seeking to ensure economic prosperity within an increasingly competitive and challenging global economy. If western Canadians do not get these fundamentals right, then it will be difficult to pursue other policy objectives. There must be a strong foundation on which prosperous and caring provincial communities can be built.

The following sections of this report explore each of the five policy priorities in turn. Before beginning this discussion, however, it is important to stress that the determinants of regional prosperity do not rest solely in the hands of Canadian governments. All five priority areas will require the active engagement of the for-profit and non-profit sectors. One of the challenges to be addressed in future *Building the New West* research is the appropriate balance between government, for-profit and non-profit sector action.

“We should not build walls in western Canada. We should see all four western provinces as one labour pool. Stated another way, we should not erect barriers to anyone seeking a job anywhere in the West.”

*– The Hon. Allan Blakeney
at the Western Builders
Roundtable*

THE WEST MUST CREATE THE TOOLS TO ATTRACT, RETAIN & BUILD **HUMAN CAPITAL**

The West will not have sufficient human capital without policies designed to increase immigration, engage Aboriginal peoples in the regional economy, attract and retain an increasingly mobile labour force, and provide a post-secondary education system with sufficient regional coordination and integration. A strategic approach to the development of human capital is essential for regional economic prosperity.

All regions of Canada face significant demographic challenges. Natural population increase, with the important exception of Aboriginal communities, is slowing, and future regional population growth will come primarily through in-migration from other regions and/or immigration from abroad. The population is also aging across the country. As a consequence of these trends, the dependency ratio – the proportion of people younger than 15 and older than 64 compared to those aged 15-64 – is increasing, with significant impact to come on the labour force, health services, pensions, and the tax base for social programs.

These demographic trends are playing out in the West as they are nationally. At the same time, population dynamics in the region are unique in some important ways:

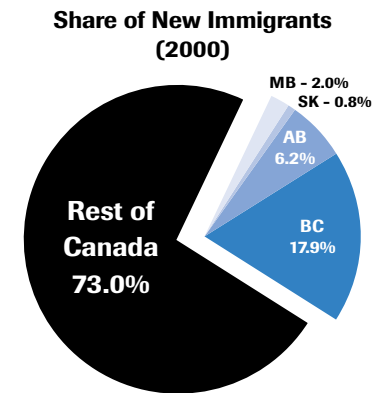
- There are sharp interprovincial differences with respect to population growth. British Columbia and Alberta have experienced strong growth over the past 30 years while growth in Manitoba and Saskatchewan has been very modest.

- Interprovincial migration works to the benefit of the West; between 1972 and 1999, 488,252 more people moved into the region from other parts of Canada than left the region for other parts. However, patterns of migration differ dramatically across the four western provinces. Over the 1972-99 period, British Columbia had a net gain of 512,211 new residents and Alberta gained 277,394 while Saskatchewan and Manitoba had net interprovincial migration losses of 155,181 and 146,172 respectively.

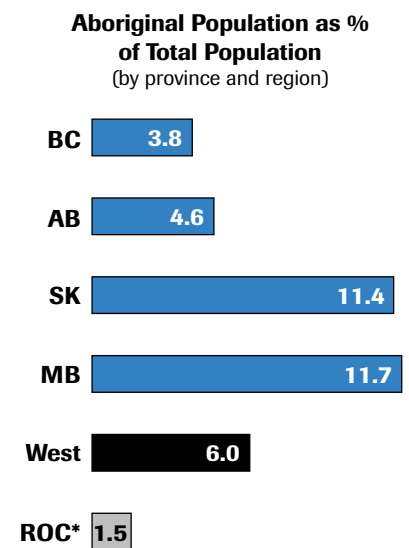
- Although immigration has always been critically important to the West, the region today attracts less than its proportionate share of immigration. For example, of the immigrants who came to Canada in 2000, only 26.9% settled initially in the West. Immigration is also unevenly dispersed across the region, with British Columbia alone attracting almost two-thirds of all immigrants settling in western Canada. The immigration intake in Saskatchewan and Manitoba is particularly low, and fails to offset population losses from interprovincial out-migration. Given that immigration fosters a multitude of connections to the global economy, the uneven distribution of immigration has significant economic consequences.

- The majority (63%) of Canada's Aboriginal population lives in western Canada, where 6.0% of the population has an Aboriginal identity. This compares to only 1.5% in the rest of Canada.

The combination of national trends, regional distinctiveness and interprovincial variation within the West raises a host of concerns relating to the size and skills of the regional labour pool and the mobility of individuals within the regional economy. Ultimately, regional prosperity will depend on ensuring that the labour pool is sustained, western



Source: Statistics Canada



Source: Statistics Canada (1996 Census)
*ROC=Rest of Canada

Canadians have the appropriate skills for success in the new, knowledge-based economy, and people can move to where new employment is created.

The Size of the Labour Pool

The size of the western Canadian labour pool is determined by natural population increase (births minus deaths), labour force participation rates, immigration, interprovincial migration, and retirement age. Of these factors, the rate of natural population increase is the least open to public policy influence while the other factors are open to policy influence in varying degrees. The participation rate of Aboriginal peoples in the regional economy, for example, is clearly an area where creative public policies could have considerable leverage.

Labour force capacity is a function not only of skills and training but also well-being. Health policy, therefore, is a key component of any strategy to enrich human capital. However, given that comprehensive reviews of the Canadian health care system are currently under way, health policy is not addressed in this report.

These factors take on different weights and consequences across the four western provinces. In Manitoba and Saskatchewan, low levels of immigration, chronic out-migration and relatively large, young Aboriginal populations all combine to mean that Aboriginal peoples will play a very important role in sustaining the provincial labour pools. The engagement of Aboriginal peoples takes on great significance for their communities and for the provincial economies in Manitoba and Saskatchewan, and will continue to do so even if immigration increases and out-migration declines. In British Columbia and Alberta, more robust rates of immigration, sizable population gains from interprovincial migration and relatively small Aboriginal populations mean that Aboriginal peoples will continue to make up a reasonably modest proportion of the labour force. Nonetheless, employment opportunities for Aboriginal peoples and the skills required to take advantage of those opportunities remain critically important in all parts of the West.

Participants in the provincial consultations fully recognized the necessity of engaging Aboriginal peoples in the labour force. They also recognized the importance of immigration, and the significant challenge that attracting immigrants poses for the West. In the past, western Canada “hung out its shingle” and immigrants came by the millions. Today, the competition for the world’s best and brightest has intensified, and participants did not assume that western Canada, and particularly some provinces in the West, would necessarily be successful in the competition to recruit immigrants. Immigration that is not actively pursued will be immigration that goes elsewhere.

Concerns about the size and sustainability of the provincial labour pool, and the tax base generated by that pool, are understandably most acute in Saskatchewan and Manitoba. Interprovincial out-migration and low immigration intakes are already creating skilled

labour shortages that will only get worse as competition within the rest of Canada and the global economy intensifies. Consultation participants in Saskatchewan and Manitoba recognized that little could be done about the pull of external economies, but were nonetheless determined that a policy framework could be found to stem out-migration and make the provincial economies more attractive to interprovincial migrants and international immigration.

Enriching Human Capital

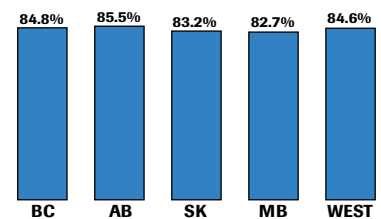
Across the provincial consultations and the survey research, there was a consistent emphasis on the importance of education as a precondition for success in the new economy. In the survey research, “investing in our system of public education” was rated a high priority by more respondents than “attracting high-tech businesses to the region,” “lowering taxes,” “increasing the global profile of western Canadian cities,” and “promoting closer economic ties with the United States.” At the provincial consultations, participants expressed concern that western Canadians in the future might not have the skills to compete. The new economy was repeatedly defined as the knowledge economy, and there was an underlying anxiety that the West and Canada might be outflanked by our international competitors. Post-secondary education in particular was seen as the source of skills needed to compete in the knowledge-based economy. However, ensuring that individuals have the appropriate skills will require regional coordination in the post-secondary education system. Given the relatively small population base of individual provinces, it will be increasingly difficult to meet the full range of educational requirements at the desired level of excellence within provincial systems alone.

There is a related concern about access. The West’s relatively small population base means that full inclusion of marginalized groups in the regional labour force is essential. If, for example, access to post-secondary education is not extended to rural communities, to communities in the northern reaches of the provinces, and to Aboriginal peoples, then the full potential of the labour force will not be realized. If any region should focus on and master distance learning, it is western Canada.

Ensuring Mobility

A defining characteristic of the new economy is the growing mobility of highly skilled human capital. It is not surprising, therefore, that mobility issues and concerns ripple across regional policy debates. At the provincial consultations, particularly in British Columbia, there was concern about brain drain to the United States of highly trained and mobile youth. There was also acute concern in Saskatchewan and Manitoba about the

Investing in Our System of Public Education Should be a High Priority (% of respondents who agree)



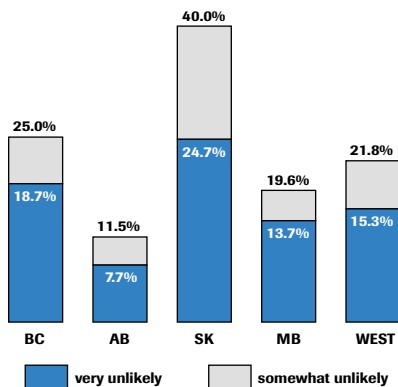
Source: Canada West Foundation
Looking West Survey 2001

out-migration of the most mobile part of the labour force (i.e., youth and graduates of post-secondary programs). In general, there is fear that mobility might be a necessity rather than a choice.

At the same time, there is a determination to remove barriers to mobility within the West. It is recognized that a reasonable amount of churn in the regional labour force improves rather than dampens economic efficiency. The challenge is to address systemic flows in labour force mobility that may, over time, deplete some provincial labour forces to the point where the tax base and social programs cannot be sustained.

In summary, regional prosperity will depend on a sustainable, highly skilled and mobile labour force. These characteristics hinge to a significant degree on creative and effective public policies. Policy targets must include increased immigration and a broader regional dispersion of immigration, the full engagement of Aboriginal peoples in the regional economy, the attraction and retention of an increasingly mobile labour force, greater labour force mobility across the region, and a post-secondary education system with significant regional coordination and integration.

**% of 18-24 Year Olds
Unlikely to be Living in Their
Current Province in Five Years**



Source: Canada West Foundation
Looking West Survey 2001

It is clear that western Canadians and their governments need to ensure that the young and growing Aboriginal population is more fully engaged in the regional economy, that the West improves its ability to attract and retain immigrants, and that post-secondary training be sufficient to meet evolving labour market demands. However, the creation of effective policies for building human capital raises a number of important questions that need to be addressed through research and public debate:

- What steps do governments, educational institutions, the business sector, and Aboriginal communities need to take to ensure the full participation of Aboriginal youth in the economy?
- What steps are needed to improve the West's performance in the area of immigration? Does there need to be greater provincial government input into national immigration policy and its administration? Should local governments and non-profits play a larger role? How can governments and the private sector do a better job of ensuring that immigrants are employed to their full potential?

■ Will federal strategies designed to build academic centres of excellence disadvantage all but the largest western Canadian universities? Can unique centres of excellence be woven into a coherent and complimentary regional pattern? Should provincial governments be more active in supporting research and development within the university sector? Do we need provincial or regional equivalents of the Medical Research Council (MRC), the Natural Sciences and Engineering Research Council (NSERC) and the Social Sciences and Humanities Research Council (SSHRC)?

■ Will it be necessary to increase the retirement age and adjust policies regarding mandatory retirement?

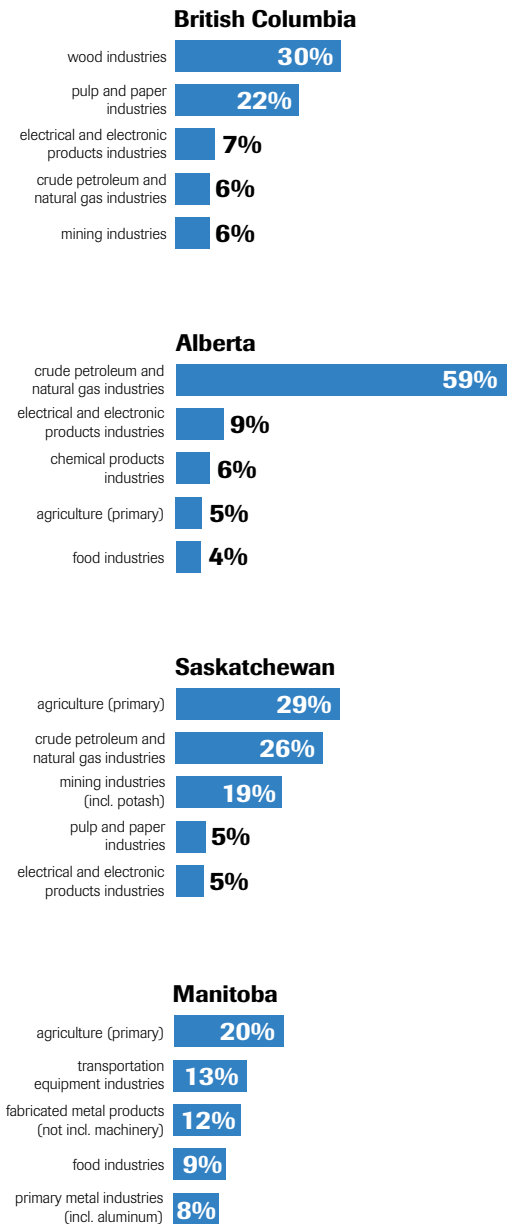
THE WEST MUST CONTINUE ECONOMIC DIVERSIFICATION

Success in the global economy will require not only a competitive strategy to attract and retain the highly mobile resources associated with the new economy but also the nurturing and transformation of the old, resource-based economy.

The West is endowed with a resource base that would be the envy of most nations. There are substantial high-grade deposits of minerals including lead, copper, zinc, potash, uranium, molybdenum, gold and silver. The region is Canada’s primary source of petroleum, natural gas and coal, and has huge hydro-electric potential. The rich prairie soil is the nation’s major producer of grains – wheat, barley, oats – in addition to forage crops, oil seeds, potatoes, and sugar beets. The more arid parts of the landmass support substantial herds of cattle, and feed lot operations for both cattle and hogs. The northern temperate rain forests of coastal BC together with the inland forests provide the bulk of Canada’s production of softwood lumber and pulp and paper.

These sectors of the traditional or “old” economy generate substantial employment and wealth. Natural resource-based products figure prominently in the export composition of each of the four western provinces. This resource dependency highlights two chronic risks. First, the continued exploitation of non-renewable resources hastens the day when they will be gone, and therefore no longer generating profits, employment, and tax

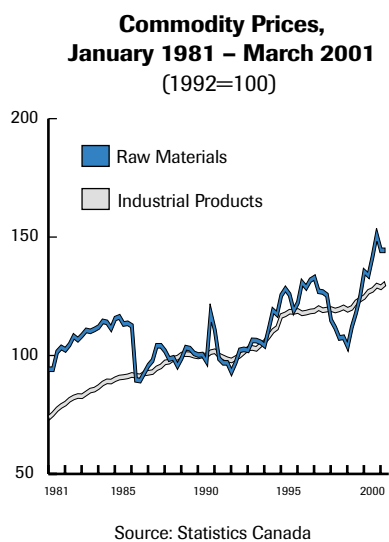
Top 5 Exports by Industry, 2000



Source: Industry Canada

revenue. The transitory nature of benefits from the non-renewable resource base demands both government and private sector planning for the day when they will be gone. In the case of renewable resources, it is essential that development be sustainable. Both cases require care to avoid implementing programs or undertaking investments the financing of which assumes permanent revenue flows.

Second, while it is obvious that western Canada would be a much poorer region without the rich endowment of both renewable and non-renewable resources, commodity prices in the resource sector are notoriously unstable. The figure to the left shows the Statistics Canada price indices for raw materials and industrial products. While the coverage of the raw materials index does not coincide perfectly with the resource mix in western Canada, it is sufficiently close to illustrate the greater volatility of resource commodity prices. This volatility reflects the cyclical nature of the resource sector and its sensitivity to macro economic events in markets where most Canadian producers are price takers rather than price makers. In many resource industries, moreover, the capital investments required to efficiently exploit the resource base are so large as to cause temporary excess production that further exacerbates short-term price volatility.



Price instability in the resource sector translates into substantial swings in corporate profits, investment, and employment. Uncertainty becomes endemic to the regional economy and is the enemy of long-term planning, be it for industrial investment or private investment in housing and consumer durables. Wide swings in corporate profits also have an impact on provincial government revenues, complicating the task of maintaining a stable fiscal environment. As a consequence, there has been a recurring desire on the part of both the public and private sectors to mitigate the risks associated with a high dependency on resources. Mitigation is often pursued through programs to diversify the economic base of the region, province or community. Unfortunately, all too often such programs have attempted to pick “winners” and have failed.

The fact that previous attempts have had only limited success should not, however, deter governments from pursuing policies aimed at encouraging economic diversification. What is required is careful analysis of the expected value of projected benefits compared to realistically estimated expected costs. Understanding the policies most likely to encourage diversification is of crucial importance to long-term economic growth and stability in the region. In this context, interprovincial cooperation and the reduction of internal trade barriers may open up new possibilities.

Western Canadians are fully aware of the challenges that the new economic environment poses to a resource-based regional economy. Nonetheless, consultation participants expressed confidence in the region's ability to compete globally. The West is seen as having strong comparative advantages: a highly educated labour force, generations of successful experience with global trade, an entrepreneurial spirit, an attractive natural environment, and a resource base that will continue to command reasonable prices on the international market. It is no wonder, then, that almost 60% of the respondents to the Looking West survey feel that free trade has been good for Canada, and good for their province. Western Canadians have a good deal of self-confidence in a free trade environment.

Attention also turned repeatedly to the region's quality of life as a comparative advantage. (Where this quality of life is seen to be most important, but also the most fragile, is in the large cities that increasingly dominate the regional landscape.) Finally, there is a belief that western Canada has an advantageous geographic position, a belief vigorously expressed by participants in British Columbia.

At the same time, there is little complacency about building a "new West" on an older, resource-based economy. Participants in the provincial consultations spoke about the need to diversify, to attract new forms of economic activity, and to build on the strengths of the old, resource-based economy with value-added industries, particularly in the agricultural sector. In this last respect, there was repeated emphasis on the high-tech end of the natural resource industries and the opportunities for leadership in biotechnology. Manitoba and Saskatchewan participants stressed the need to specialize and to find niche markets in the global trading environment.

It is striking that limited attention was paid at the consultations to the east/west dimension of the national economy. A few years ago, greater attention would have been paid to interprovincial trade barriers, and to strengthening the internal economy. In 2001, however, the attention of participants was fixed resolutely on U.S. and global markets, on competition from outside Canada rather than within, and on improving north/south trade corridors. The national economy, internal trade linkages, and competition among provinces received scant attention at best. (There was also, and perhaps unfortunately, virtually no mention of the national debate on economic productivity.) The exception came from the perceptions of Alberta held by consultation participants in the other three western provinces. Alberta is clearly seen as a very significant competitor for investment and human capital.

"We are a small region of less than ten million people. We cannot afford to split the West into more than one economy."

*– The Hon. Allan Blakeney
at the Western Builders
Roundtable*

In summary, western Canadians are fully aware that the global economy is becoming evermore competitive. Attracting and retaining high tech firms, venture capital, and highly mobile human resources are necessary but not sufficient conditions for success within this new economic environment; the “old” resource-base economy must be nurtured and transformed. There is also a need for regional investment in the infrastructure requirements of a new knowledge-based economy, investment that includes research universities, a highly educated work force, and an attractive quality of life.

Top 5 Export Destinations, 2000

British Columbia

<i>Destination</i>	<i>%</i>
United States	66.8
Japan	13.8
South Korea	2.7
China	2.2
Italy	1.8

Alberta

<i>Destination</i>	<i>%</i>
United States	88.5
Japan	2.4
China	1.3
South Korea	1.0
Mexico	0.6

Saskatchewan

<i>Destination</i>	<i>%</i>
United States	61.8
China	5.9
Japan	5.1
Algeria	2.4
Iran	2.3

Manitoba

<i>Destination</i>	<i>%</i>
United States	81.1
Japan	4.0
Mexico	1.5
China	1.4
Belgium	1.3

Source: Industry Canada

Although the new global economy offers great opportunities for the West, the economic transition is fraught with uncertainty and risk. A number of questions and issues must be addressed:

- What are the costs and consequences associated with vulnerability to unstable commodity prices? What amount of diversification would be required to reduce the region’s vulnerability?

- What policies might be implemented to bring about greater diversity in the economy, and what policies should be avoided? What are the time frames within which to expect tangible results, and how will we know if policies have been effective?

- What are the best strategies for attracting “foot-loose” firms and individuals with a natural fit to the region, and retaining those who might move? How critical is the tax regime? The environment? Quality of life? How can we avoid market distortions that may be neither desirable nor sustainable?

- Could existing public investment models, such as the Alberta Heritage Foundation for Medical Research, be replicated in other sectors of the economy?

- Should the western provinces pursue a regional strategy for the reduction of internal barriers to trade?

THE WEST MUST STRENGTHEN ITS **TRANSPORTATION INFRASTRUCTURE**

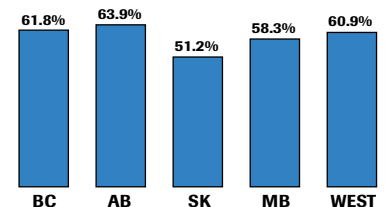
The spread of e-commerce and the revolution in information and communication technologies will not alter the fact that goods still have to be moved into and out of the region on a massive scale. The conventional transportation infrastructure – roads, railways, airports, pipelines, and ports – will be as vitally important to the region's economy in the future as it was in the past. Public policies relating to regional transportation infrastructure are therefore inextricably tied to the prospects for regional prosperity.

The history of the West was that of a sparsely populated region located at the geographic margins of the national, continental, and global economies. This physical location meant that regional prosperity was dependent on the transportation infrastructure. The early railways provided the means for agricultural settlement and the backbone of the national economy. The transportation system, moreover, played a central role in the West's social, cultural and political life. Not surprisingly, transportation issues dominated the regional policy agenda.

Today, western Canadians are contending with a new set of infrastructure linkages, with contemporary policy debate focussing more on the information highway than on planes, trains, and automobiles. In these new respects, the region is doing well. Western Canadians are well-connected to and engaged with the new information and communication technologies. Provincial governments have been at the forefront in terms of establishing broadband linkages among communities, and the federal government has moved vigorously in this field.

At the same time, it is emphatically clear that conventional transportation linkages remain critically important. The Internet and the “networked economy” have not rendered space and location irrelevant. The West is still a sparsely populated region although it now enjoys a much more advantageous position as the Canadian gateway to Asian and western U.S. markets. Infrastructure linkages to the continental and global economies – roads, railways, ports, airports, pipelines, power grids, telecommunications networks – retain their importance if not always their public profile.

% of Westerners Who Use the Internet Daily or a Few Times a Week



Source: Canada West Foundation
Looking West Survey 2001

The provincial consultations highlighted a number of concerns related to transportation infrastructure:

- The deterioration of the east-west highway system, coupled with massive American public investment in transportation infrastructure, means that Canadian east-west trade is shifting south to the U.S. interstate highway system and to American railways. Western Canadian cities are in danger of becoming isolated spokes on American transportation systems.

- High-tech industries are disproportionately dependent on air travel and air freight. However, the future of air service to many communities in the West, including key population hubs, is uncertain.

- The West lacks effective mechanisms for addressing the regional character of transportation infrastructure. For example, the rail, air, and road links to the Port of Vancouver are of strategic importance to the West as a whole. However, there is no effective interprovincial means to address regional issues, or to reconcile provincial interests with federal responsibilities.

- There is a need to consider regional approaches to the transportation of goods such as electricity, oil and gas, and water. For example, there is a high level of interest in the creation of a more extensive western Canadian power grid. Although power grids and pipelines are not traditionally thought of as transportation infrastructure, they are vital components to the movement of goods within the West. (By the same extension, the Internet can be seen as infrastructure for the transportation of information and services.)

**Roads in Canada
Length per 1,000 Persons**

Province	kms*
SK	199.1
YK	164.1
NWT	82.4
MB	77.8
AB	66.2
PEI	42.2
NB	29.1
NS	28.0
NF	23.0
BC	17.4
PQ	16.6
ON	15.3

Source: Transport Canada (1995 data)
* Two-lane equivalent kilometres

Inadequate transportation infrastructure acts as a drag on the regional and national economy. Markets are less efficient and less responsive, exports and imports cost more to transport, and the exchange of ideas, people, goods, and services is less than optimal.

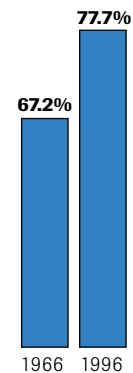
In summary, the transportation infrastructure should have sufficient capacity to handle the evolving needs of the region. It should be efficient, responsive to market forces, innovative,

amenable to technological change, well-integrated among the various component parts, and accountable to a variety of stakeholders. Given the importance of transportation infrastructure to regional prosperity, there is a pressing need for effective regional policy.

Ensuring an effective and efficient regional system raises a host of policy considerations for federal, provincial and municipal governments, for the transportation industry, and for those industries dependent on the transportation system:

- How well does the existing transportation infrastructure serve the region? Are there deficiencies and, if so, how might these be addressed? Is there potential for public-private partnerships in addressing regional infrastructure needs?
- How can Canadian governments meet the regional challenge posed by American public investment in transportation infrastructure?
- What institutional changes might provide more effective infrastructure support and development? For example, is there a need for a regional approach to truck licensing, weights, and safety codes?
- How can governments address the looming infrastructure needs posed by development opportunities in both the northern territories and the “provincial norths?”

% of Western Canadians Living in Urban Areas



Source: Statistics Canada

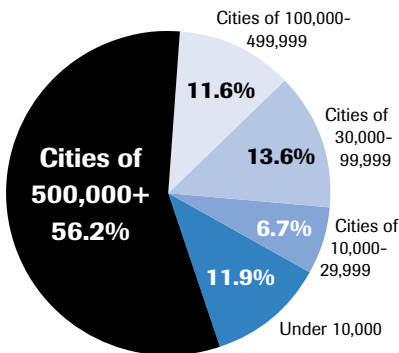
THE WEST MUST PROMOTE THE GLOBAL COMPETITIVENESS OF ITS **MAJOR CITIES**

Western Canadians are well aware that their provinces face considerable competition in the global economy. What is less often acknowledged is the importance of large urban centres to global competitiveness. The major metropolitan regions are the West’s gateways to the new global economy and primary motors

of economic growth. The prospects for regional prosperity depend on an explicit and effective urban strategy by all governments active in the region.

There is a general recognition that large urban centres are key drivers of the new economy. Large “metros” are the gateways to the global economy, the primary recipients of international immigration, the site for research universities, the hubs of the non-profit sector, and the principal location of the arts and culture communities that play an increasingly important role in the recruitment and retention of highly mobile individuals and firms. In many respects, the story of the new, knowledge-based economy is the story of metropolitan centres and increasing competition among them.

Urban Western Canada
(% of Urban Westerners Living in Various-Sized Urban Centres)



Source: Statistics Canada (1996 Census)

The importance of western Canada’s large urban centres as connectors to the global economy was a theme woven throughout the provincial consultations. It was coupled with a widespread concern that western Canadian cities may lack the resources and organizational capacity to meet the competitive challenge coming from cities in the United States and around the world. Although western Canadian metros are seen to have a temporary advantage in terms of infrastructure and the relative lack of congestion, this is a precarious advantage as Americans are now making substantial urban infrastructure investments. Across the West there was a mix of pride and anxiety as consultation participants placed their urban centres on the continental and global playing fields.

The focus on the growing role of major metropolitan centres need not preclude policy attention to the smaller cities found across western Canada. Such cities are often important centres of growth and provide critically important infrastructure linkages to the resource-based economy. At the same time, it is essential to recognize the singularly important role that major metropolitan centres play in the emerging global economy.

It is also important to stress that *all* governments have a significant role to play in ensuring that western Canadian cities address the challenges they face. Municipal governments are by no means alone; the jurisdictional responsibilities of the provincial and federal governments are equally important. Thus, to argue for a vigorous policy focus on the health, vitality, and competitive position of major cities is not to argue for an exclusive focus on the powers and responsibilities of municipal governments. To the contrary, it is to argue for effective urban strategies on the part of all governments with a stake in regional prosperity.

Throughout the provincial consultations there was repeated stress on the growing importance of universities to both economic prosperity and the global profile of cities. Universities are the magnets for the new economy that can attract and retain highly mobile firms and individuals. Their importance goes beyond their educational role; universities are seen as indispensable assets in economic development and retention strategies.

In summary, the major metropolitan regions are the West's gateways to the global economy, and over time their importance will grow. In the new economic environment, they have become primary motors of economic growth and prosperity. Therefore the quality of life in the metropolitan regions, the state of their infrastructure, their transportation connections to the larger world, and their capacity to address social and environmental issues are all critical determinants of regional prosperity.

The strategic importance of the urban West to regional prosperity raises a number of policy questions:

- Can municipal governments meet their growing infrastructure needs without the infusion of additional funding from the provincial and federal governments? Is there a need to match American funding in this respect?
- How can western Canadians address the needs of the large urban communities without deepening the divide between the urban and rural Wests? How can governments handle both urban infrastructure needs and the needs of an increasingly stressed rural infrastructure?
- Do western Canada's major cities have the appropriate taxation instruments and private sector partnership models consistent with their new role in the global economy?
- What are the most appropriate models for municipal-provincial-federal collaboration on urban issues?

The “gateway” concept has often been applied to western Canadian cities: Winnipeg as the “Gateway to the West” at the turn of the last century, Edmonton as the “Gateway to the North,” and Vancouver as the “Gateway to the Pacific.” Gateway cities have a regional and national importance that goes well beyond their provincial role.

THE WEST MUST DEVELOP NEW WAYS OF FACILITATING REGIONAL COORDINATION

Western Canadians lack the institutional capacity to plan regionally, and representational shortfalls limit the capacity of the federal government to address regional issues. As a consequence, the cooperation and coordination so essential for regional prosperity cannot be fostered without significant institutional development.

“Canada is so diverse that it is impossible to have an economic policy that fits the needs of all the regions; it is better by far to break it down into a regional approach.”

– The Hon. Gary Filmon
at the Western Builders
Roundtable

Participants at the provincial consultations recognized the need for creative political leadership. There was clear support for a significant role for public policy in promoting regional prosperity, and few participants expressed the view that market forces alone will adequately serve regional needs. This recognition, however, raises concerns about the institutional capacity of Canadian governments to address regional issues and mobilize regional synergies.

Arguments for institutional development (or modernization) have traditionally been advanced on many fronts ranging from the need for better regional representation to the democratic deficit inherent in non-elected legislative bodies. Western Canadians have always had a lively interest in improving the quality of governance in Canada. The debate, however, has been primarily directed outward toward national parliamentary institutions. While this interest will and should remain, there is also a growing and complementary need to explore institutional development *within* the West.

Looking Outward: Federal Policies and Institutions

The relatively scant attention paid to federal programs and policies by provincial consultation participants may reflect a healthy self-reliance. There was virtually no mention of what Ottawa should do to provide a “hand out” or even a “hand up” for the region. This perspective may also reflect a decline in the policy capacity of the federal government stemming from the combined effects of free trade, privatization, and budgetary constraints. Many areas where federal policies were critically important to regional prosperity in the past are now in the hands of markets and international agreements.

Nevertheless, neglect of the federal role does not adequately reflect the reality that federal programs and policies will continue to affect regional prosperity; to say that the

federal government matters less is not to say that it matters little. The potential impact of the federal government stems not only from how it handles regional issues, but also from broad national policies that may have regional effects. Taxation is an obvious example of how federal policy affects the capacity of regional communities to attract and retain mobile capital and human resources. Federal investment in research and post-secondary education is another area of considerable potential impact on regional prosperity. In short, western Canadians ignore the federal government and its policies at their peril.

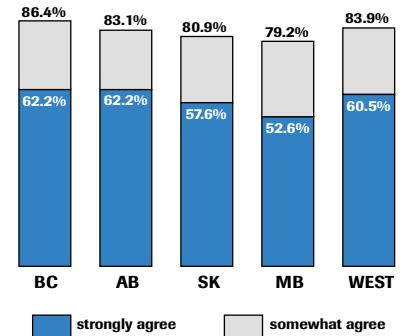
However, if the federal government is to play a role in addressing regional issues that transcend provincial boundaries, we confront the dilemma that western Canadians have little confidence in the impartiality and regional sensitivity of national institutions or national decision-making. As a result, there is an understandable reluctance to use federal programs to address regional policy needs; federal action only makes sense if regional residents believe in their capacity to shape such programs to reflect regional interests and priorities. To the extent that regional residents lack confidence in the impartiality of decisions taken by the federal government or in their own capacity to influence national policy, the federal government will be an ineffective instrument through which to address regional policy concerns.

It is not surprising that western Canadians manifest strong support for the reform of national political institutions, and is important that reform aspirations not be abandoned. At the same time, the reform of national institutions is – by definition – a national issue that cannot and should not be addressed by western Canadians alone. As a consequence, it is important that regional interest in institutional development not be focused solely on the national scene. Many of the regional policy issues that western Canadians face fall outside the jurisdictional domain of the federal government. Others can only be addressed within a regional context that brings together provincial governments. It is imperative, therefore, that western Canadians explore the creation of regional institutions designed to meet regional policy needs.

Looking Inward: Regional Policies and Institutions

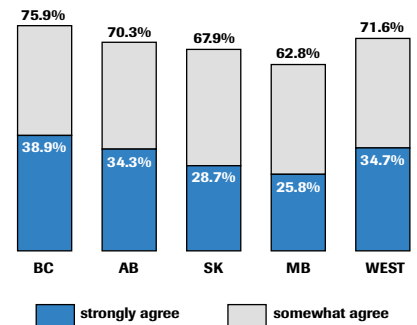
Participants at the provincial consultations acknowledged that many policy issues transcend provincial boundaries. At present, however, there is at best an embryonic institutional infrastructure through which regional policy issues can be addressed. (Examples include the Prairie Provinces Water Board and the Council of Western Canadian University Presidents.) The region has no institutional coherence, and

The Senate Should be Equal & Elected



Source: Canada West Foundation
Looking West Survey 2001

The Electoral System Should be Based on Proportional Representation



Source: Canada West Foundation
Looking West Survey 2001

therefore no functional alternative to federal programs and agencies as the means to address trans-provincial issues. There is no public or visible intergovernmental forum, apart from the annual Western Premiers' Conference, within which to address spillover effects from provincial changes to such things as tax policy and social assistance payments. In short, there is an institutional deficiency when it comes to regional cooperation or addressing regional policy challenges.

This deficiency can have a variety of negative effects. In Saskatchewan, consultation participants highlighted the need for specialization within the post-secondary system, arguing that it is unrealistic for universities to achieve a level of national excellence, much less global excellence, across many fields. Specialization is much easier within a regional context and a population base of over nine million than within a provincial context and a much smaller population base. However, specialization is difficult to achieve without funding mechanisms that transcend provincial boundaries, and without interprovincial agreements to facilitate the geographic mobility of students.

***“One way to deal with the
problem of regional
economic disparity is to
come up with regional
economic strategies.”***

*– Preston Manning
at the Western Builders
Roundtable*

None of this is to suggest that institutional development will be easy. The creation of regional policy vehicles for western Canada must be approached with caution, and it is likely that they will be initially characterized by informality and ad hocery. Care must be taken not to negate the healthy effects of interprovincial competition. However, lack of movement on this front coupled with the resistance of parliamentary institutions to reform will mean that the regional policy needs cannot be effectively addressed. The West will continue to lack appropriate regional forums for creative political leadership.

In summary, discussions about the substance of policy cannot ignore how policy is made; they cannot ignore the institutional context that brings people together and establishes shared values, interests, and expectations. In this respect, western Canadians lack the institutional capacity to think regionally and talk across provincial borders. At the same time, representational shortfalls limit the capacity of the federal government to address regional issues. Greater regional cooperation and coordination are essential for regional prosperity, but they cannot be fostered without significant institutional development.

The need for institutional development raises numerous complex issues:

- What new institutional relationships or partnerships are needed among the four western provincial governments? Should the Western Premiers' Conference be given greater institutional weight? Should it have a permanent secretariat? Is there a need for new regional boards and agencies, such as a western transportation agency or a regional law society?

- Do we need new institutional relationships or partnerships among governments in the West (municipal, provincial, and federal)? With Aboriginal governments and communities?

- Is there a need to strengthen the federal government's regional policy capacity?

“We need a return to cooperative federalism and partnership if we are to deal effectively with issues such as skill shortages in the regional economy and the health care challenges associated with an aging population.”

*– The Hon. Michael Harcourt
at the Western Builders
Roundtable*

BUILDING THE NEW WEST: MOVING FORWARD

Building a New West means building strong provinces within a strong Canada. However, a policy focus that is only provincial and national will not ensure regional prosperity. There are important determinants of prosperity that must also be addressed within a regional context. This report has identified five priorities that demand regional consideration:

Participants at the Saskatchewan consultation were particularly emphatic about the need for more regional cooperation, stating that “the timing is right to identify partnerships in the region” and “there is a need to build a framework for regional cooperation.”

- the West must create the tools to attract, retain and build human capital;
- the West must continue economic diversification;
- the West must strengthen its transportation infrastructure;
- the West must promote the global competitiveness of its major cities; and
- the West must develop new ways of facilitating regional coordination.

Together, these five priorities provide a framework for regional prosperity, and for a strong West within a strong Canada.

The next step is to address the questions raised in this report. As noted in the introduction, the Canada West Foundation will examine these questions over the next three years, with initial research findings to be released in 2002. It is our intention to make research available for public debate in short order; the global economy waits for no region or country, and the time to lay the foundations for regional prosperity is now. Canada West invites you to join us in the endeavour of Building the New West. ■

Linking *policy to people*

Since 1971, Canada West Foundation has provided citizens and policy makers with non-partisan, non-ideological research on a wide range of issues of critical importance to western Canadians. The continuation of our programs depends on the support of individuals, corporations, and granting foundations. We encourage all who believe in our mission to become **Friends of Canada West** and thereby ensure that our initiatives continue to have maximum impact.

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Building the New West Publications 2001

State of the West: Western Canadian Demographic and Economic Trends

Prepared by CWF Senior Policy Analyst Robert Roach and CWF Director of Research Dr. Loleen Berdahl, *State of the West* provides a detailed analysis of demographic and economic trends in western Canada, comparisons with national trends, and interprovincial variation within the West. *Copies are available from the Canada West Foundation for \$30 each.*

Looking West: A Survey of Western Canadians

Prepared by CWF Director of Research Dr. Loleen Berdahl, *Looking West* presents the results of a survey of 3,256 western Canadian respondents conducted in 2001. It includes comprehensive regional and provincial snapshots of political identities, policy preferences, and perceptions of the federal system. *Copies are available from the Canada West Foundation for \$5 each or may be downloaded free-of-charge from our web site (www.cwf.ca).*

Additional copies of Building the New West: A Framework for Regional Economic Prosperity are available from the Canada West Foundation for \$5 each or may be downloaded free-of-charge from our web site (www.cwf.ca).



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