

**Western Centre for Economic Research
Faculty of Business**

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University of Alberta

Western Centre for Economic Research

The Western Centre for Economic Research has as its primary objective the dissemination of research findings relevant to the Western Canadian economy to a wide audience of concerned citizens and, in particular, to decision makers within government and industry throughout Western Canada and beyond.

Sponsored by the Faculty of Business and the Departments of Economics and of Rural Economy, the Western Centre is able to draw on a wide range of expertise and to offer academic research, conferences, workshops and seminars on a diversity of issues pertaining to the performance of Western Canada's economy. The Centre's activities are often co-sponsored with other University of Alberta institutes, such as the Centre for International Business Studies also housed in the Faculty of Business, as well as with federal and provincial government departments and research organizations at other universities across the Americas. The results of research findings and conference deliberations are distributed through a series of Information Bulletins and similar monographs, where emphasis is continually placed on ensuring that the information is presented in a non-technical, accessible format.

Funding for the Western Centre is derived from two primary sources: fee-for-service contract work and financial support from the George M. Cormie Endowment.

The revenue stream from the George M. Cormie Endowment has permitted the Western Centre to consider additional independent initiatives and, consequently, provided a means to involve more academic staff and graduate students in the Centre's research activities. Thus, as of 1997, the Western Centre finds itself in a better and stronger position to realize its full potential as a source of organized knowledge about Alberta's and Western Canada's economic and business environment. This position is aptly reflected in the accomplishments of 1997, which are outlined in the pages that follow.

The Research Grants Program

A major initiative made possible through the additional funding from the George M. Cormie Endowment and the Imperial Oil Endowment was the establishment, in collaboration with the Centre for International Business Studies, of a joint research grants program. The purpose of this program is to encourage academic staff and graduate students in the Faculty of Business and the Department of Economics to investigate topics relating to: (1) overall regional economic and business development; (2) aspects of international business, trade, marketing, and finance presenting a challenge to Western Canadian businesses; and (3) foreign direct investment and diverse international conditions which have an impact on Western Canada.

The program, initiated in the fall of 1997, will be reviewed after the first two years of operation. At the present time, it is anticipated that each grant will have a maximum value of \$7,000, to be awarded in two installments following approval by an *ad hoc* committee of peer reviewers. Recipients will be required to present their findings in a style that is readily accessible to managers and decision-makers in the public and private sectors. It is expected that the papers will also be reviewed through standard academic procedures and, whenever possible, published in refereed journals.

Following are summaries of the first two grant applications approved under the new program. The review committee consisted of Roy Louis, President, Musqua & Associates Ltd, and WCER Board member; Mel McMillan, Department of Economics; Rolf Mirus, Faculty of Business; Allan Warrack, Faculty of Business; and Edward J. (Ted) Chambers.

- (a) Kevin Chen, Assistant Professor, Food Marketing and Trade, Department of Rural Economy, University of Alberta, will assess the export competitiveness of Alberta and Canadian value-added food products in the Asia Pacific region. The objectives of his research are to: (1) describe the import expenditure patterns of agri-food products in Asia Pacific; (2) assess the export competitiveness of Alberta and Canadian bulk, processed, and consumer-ready food products in Asia Pacific; and (3) suggest marketing strategies to enhance the competitive positions of the Alberta and Canadian value-added food industry in Asia Pacific. Primary markets of interest will

be Japan, China (including Hong Kong), South Korea, Taiwan, and Singapore.

- (b) Randall Morck, Professor of Finance, Faculty of Business, will examine the idea of “globalization by proxy” by comparing the performance of small and medium-sized firms that supply industries where multinationals are important, with the performance of small and medium-sized companies in other industries. In this manner, the study will explore one aspect of the benefit to local intermediate goods producers of making a local economy open to multinationals, thereby permitting these producers global access.

The Information Bulletin Series – 1997 Publications

The Information Bulletin series has, since the founding of the Western Centre for Economic Research in 1989, been the primary vehicle for the dissemination of its research findings. Following are summaries of the Information Bulletins published during 1997.

No. 44 *The Alberta Economy: 1997 Outlook and Strategic Options* (February) by Edward J. (Ted) Chambers, Western Centre for Economic Research, and Allan Warrack, Department of Marketing, Business Economics and Law, Faculty of Business, University of Alberta.

This study assesses the economic outlook for Alberta and for its eight economic regions, and addresses some of the important policy issues that face the Province at the present time. The authors find that the prospects for the Alberta economy in 1997 are very bright. A healthy resource sector, high oil and gas prices, strength in the agriculture, forestry and resource-related technology sectors, and success in the international marketplace, have combined to give Alberta this positive economic outlook. The authors anticipate that the GDP for Alberta will grow by 4% in 1997, exceeding the growth for Canada, and that the unemployment rate will fall to 6% by the end of 1997. They expect the economic growth in Alberta to be accompanied by net population in-migration from elsewhere in Canada. They also note, however, that there will likely be large variations in job creation rates across Alberta’s different regions.

The study recommends that the provincial government take advantage of this period of cyclical expansion and strong growth to make policy choices that will enhance Alberta's potential for continued growth over the longer term. Specific recommendations are:

- (a) Continued leadership vis-à-vis the federal government in the effort to reduce interprovincial barriers to trade. The authors emphasize that "Canada's and Alberta's prosperity is hobbled because of self-inflicted economic injury through internal trade barriers."¹
- (b) The introduction of a provincial sales tax. The authors note that "there are two fundamental arguments for a provincial sales tax: (i) stronger incentive is built into the economy through a greater reward for productivity and investment than in an alternate tax regime of higher income and payroll taxes; and (ii) Alberta needs a tax system that will yield more stable revenue flows through good times and bad – the present tax structure is one of the most risky among the provinces and states of North America. The time to address a risky tax structure is during buoyant – not depressed – economic times. That time is now."²
- (c) Better systematic knowledge of the changes occurring in the labour market, with specific attention to (i) the self-employed, and (ii) the "underside" of the economy. With respect to the former, the authors point to the need to identify who are the self-employed who make up the recent growth in that sector and in home-based businesses; how they relate to large and medium-sized companies and to the export sector; what, if any, is the relation of the growth in self-employment to personal and business bankruptcies; and what the impact of the growth in self-employment is on average household incomes. With regard to the economy's "underside", the authors emphasize the need to understand why demands on food banks and social agencies are increasing at the same time that the number of individuals on social assistance rolls is decreasing; where those leaving social assistance rolls are going; what kind of employment they are getting; and how the transition to work is occurring.³

¹ Chambers, Edward J. (Ted) and Allan Warrack, *The Alberta Economy: 1997 Outlook and Strategic Options*, Information Bulletin #44, Western Centre for Economic Research, February 1997, p.10.

² *Ibid.*, p.11.

³ *Ibid.*,11-12.

No. 45 *Competitive Advantages and the Alberta Treasury Branches* (March) by Randy Otto, graduate student in the Faculty of Business' Master of Business Administration program, and Glen Mumeey, Department of Finance and Management Science, Faculty of Business, University of Alberta.

This study addresses the nature of any competitive advantage that Alberta Treasury Branches might hold as a result of government ownership. It explores whether these organizations are on a "level playing field" when compared to other financial institutions in the province, and considers the issue of risk compensation – i.e. whether the Alberta Treasury Branches yield adequate net compensation for its risk position. Should the ATB yield a lower return than warranted by its risk position, then it can be argued that the government is implicitly allowing ATB to operate with higher than typical costs, lower than typical revenues, or both.

No. 46 *The Alberta and Western Canadian Export Experience: 1988 - 1996* (June) by S. Stephen Janzen, Research Associate, and Edward J. (Ted) Chambers, Western Centre for Economic Research.

This study, funded by Alberta Intergovernmental and Aboriginal Affairs, is one of an annual series on western Canada and the recent free trade agreements. It reviews the merchandise export records of Alberta and the other western provinces in the years since the Free Trade Agreement came into effect in 1989. Thus the year 1988 is employed as a benchmark against which to assess not only the growth in aggregate exports, but also the changes in export totals and market shares for 98 categories of product groups shipped from the western provinces to the United States, Mexico and the rest of the world.

Based on the most recent data available, the study finds that Alberta merchandise exports to all foreign countries rose by \$17.75 billion, an increase of 140% over the period 1988 to 1996. This growth was, by a substantial margin, the strongest and most sustained of the western provinces. Of the total growth, \$15.80 billion resulted from sales to the United States. The study also includes descriptions and analyses of several value-added exports, and examines exports to Mexico and Chile in the wake of the North American Free Trade Agreement.

No. 47 *Communications Technology and the Business Service Sector: A Renaissance for Alberta's Communities?* (December) by Mae Deans, Senior Research Associate, and Edward J. (Ted) Chambers, Western Centre for Economic Research.

This is the first portion of a two-part study addressing the changing economic and demographic position of rural Alberta over the past decade, with an emphasis on communications technology and the location of business service enterprises in towns with populations between 1,000 and 15,000.

In this first part, background information and initial data for the study is assembled and reviewed. It summarizes the demographic changes that have occurred in Alberta between the censuses of 1991 and 1996 and notes, for example, that 105 Alberta communities with populations between 1,000 and 15,000 grew by 9% during this five-year period, compared to a 6% overall growth for Alberta (and for Canada), no growth for Edmonton, and 8% for Calgary. Three out of four of these 105 communities recorded positive growth, with the most pronounced area of population increase being in the Edmonton-Calgary corridor, as well as in the Grande Prairie/Peace River region and south from Calgary toward Lethbridge.

As additional background, this Information Bulletin addresses the make-up of business service enterprises – engineers, architects, management consultants, software writers, accountants, financial analysts, and a host of other specialists – and considers the nature of the advances in communications technology which today make it possible for small, knowledge-based firms to operate outside metropolitan areas and still effectively service their customers wherever they might be located. And, as a corollary, the first part of the study suggests that smaller communities seeking to attract business service firms consider investing in telecommunications infrastructure.

The second part of the study, already under way during the latter half of the year, will examine some of the empirical evidence in greater depth and assess the demographic changes and the income growth, by source of income, that have occurred over the past decade in Alberta's 19 Census Divisions and in the 105 communities included in the study. It will incorporate a survey of business service firms in the 105 communities in order to identify, first, their reasons for locating in a smaller community and, second, the location of their customers,

including the importance of markets beyond a radius of 30 kilometres from the town where the enterprise itself is situated.

Current Projects

Along with the second part of the rural renaissance study mentioned above, the Western Centre embarked on a number of new projects in the course of 1997 which will be concluded in forthcoming reporting periods. Among them may be mentioned:

- a) Several studies on trade issues, funded by Alberta Intergovernmental and Aboriginal Affairs.

One study, for example, is directed at tariff and non-tariff barriers to trade facing exporters in Alberta's major export industries. Initially, tariff schedules of all members of the World Trade Organization are being cross-referenced with Alberta's most valuable export products to determine priorities for future trade negotiations. Secondary tariff analysis will be carried out on critical markets that are not yet WTO members. The final stages of the research will involve input from relevant trade associations. In conjunction with this broader study, detailed analysis of barriers to trade facing Alberta exporters to MERCOSUR countries and Chinese Taipei will be conducted.

Research for the continuing annual series on the export record of the four western provinces is also under way, with the period 1988-97 currently being analyzed. Approximately 100 categories of merchandise exports, to both NAFTA and non-NAFTA countries, are being studied.

- b) Analysis of the types of inputs required by natural resource sector producers in Alberta and the geographical sources of these inputs.

The main purpose of this study is to assess the role of selected natural resource producers as instruments of economic development. The study will determine the operations purchases of manufactured goods and business services by a selected set of large oil sands, forestry and petrochemical companies to identify their operating purchase expenditures on manufactured goods and business services by standard commodity

classification. The study will also determine whether the purchases are sourced in Alberta, the rest of Canada or from foreign countries. Funding for this project will be from industry sources.

- c) Organization of a major workshop on global climate change, to be held at the University of Alberta in January 1998.

Attendance is anticipated from government, industry, non-governmental organizations, and academic institutions, and the workshop is being sponsored by many of Canada's larger corporations, with strong representation from the energy sector.

Conference Presentations and Public Relations

The Director of the Western Centre is regularly asked to participate in conferences and seminars focusing on Western Canada's economy, and to make presentations on the impact of local, national and international policies and programs on the region's economic performance. Every effort is made to respond positively to these requests. Events at which presentations were made during 1997 included:

- (a) The Edmonton Real Estate Board Economic Forecast Seminar, held in January;
- (b) "The Government Context," a February workshop arranged by the Faculty of Extension, University of Alberta;
- (c) The Trilateral Chamber of Commerce meeting held in Edmonton in June, where Edward J. (Ted) Chambers participated as a panelist on NAFTA; and
- (d) The November Round Table Montana-Alberta Boundary Advisory Commission.

In a similar vein, the Centre is frequently asked by the media and by others for assessments of economic conditions in Alberta and other western provinces. Priority is continually placed on the prompt and credible response to these inquiries.

Advisory Board

Thanks are due to the following individuals for their willingness to serve on the Advisory Board created earlier this year to help in the management and direction of the restructured Western Centre for Economic Research, and for the time, advice and input they have offered the Centre during the past year.

Dr. Michael B. Percy
Stanley E. Milner Professor and Dean
Faculty of Business, University of Alberta

Mr. Doug Radke
Deputy Minister of Agriculture
Government of Alberta

Mr. Roy Louis
President
Musqua & Associates Ltd.

Ms. Patricia Glenn
President and CEO
Proactive Technology Trading Ltd.

Dr. Glen Mumey
Chair, Department of Finance and Management Science
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Dr. Philip Raworth
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Internal Management

Many thanks are also due to Jean Frost, Stephen Janzen, Yelena Lungin and Birgitta Smith for their valued contributions and essential assistance throughout the year.

Respectfully submitted,

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