

**Western Centre for Economic Research
University of Alberta**

Annual Report

January 1 – December 31, 2004



University of Alberta

Western Centre for Economic Research

The primary objective of the Western Centre for Economic Research (WCER) is the dissemination of research findings relevant to the Western Canadian economy to a wide audience of concerned citizens and, in particular, to policy makers, business executives, managers and decision makers within the public and private sectors throughout Western Canada and beyond.

Sponsored by the School of Business and the Departments of Economics and of Rural Economy, the WCER is able to draw on a broad range of expertise and to offer academic research, conferences, workshops and seminars on a diversity of issues pertaining to the Western Canadian economy. The Centre's activities are often co-sponsored with other University of Alberta institutes, including the Centre for International Business Studies, as well as with federal and provincial government departments. Funding for the WCER is derived from two primary sources: fee-for service contract work and financial support from the George M. Cormie Endowment.

The WCER disseminates conference deliberations and the results of research through a series of Information Bulletins and similar monographs, where emphasis is placed on ensuring the information is presented in a non-technical, accessible format. Information Bulletins are available from the WCER office or online at www.bus.ualberta.ca/wcer.

2004 Publications – Information Bulletins

The Information Bulletin series remains the WCER's main vehicle for the dissemination of its research findings. Following are summaries of the Bulletins published in 2004.

No. 76 **A Primer on Western Canadian Entrepreneurship** by Edward J. Chambers and Stuart E. Shaw (April)

This is the second in a series supported by Western Economic Diversification Canada on the small business sector. The first, **A Portrait of Small Business Growth and Employment in Western Canada** (Information Bulletin 63), provided a summary of the importance of small business to the region. Now the **Primer** looks at various models describing the process of creating a new venture. High growth companies, networking and the importance of high speed Internet to rural communities are topics covered in the report. Also considered are the lessons provided by successful firms: the high risks, the ideas and processes that are the heart of entrepreneurship, the networking, the

capital requirements, and the complexity involved in bundling resources effectively. A final section of the study considers some of the support structures available to start-ups in Western Canada. Besides basic information and targeted support for areas like business plans and market research, the **Primer** considers risk sharing, network availability for those considering a new venture, and the regional support for rapid growth companies. The conclusions of the report assess public policy initiatives directed at small business.

No. 77 Canadian FDI in the U.S.: Geographic Dispersion, Industry Characteristics and Economic Impact by Joe Haizhou Huang and Rolf Mirus (April)

A database on the Foreign Direct Investment in the U.S. from the U.S. Department of Commerce is used to analyze the geographic dispersion, industry characteristics and economic impact of Canadian FDI in the U.S. On average, Canadian establishments are found to be smaller than those from other industrialized countries, such as Germany, the U.K. or Japan. The five states that host the most number of Canadian establishments are: California, Illinois, Ohio, Texas and New York. In addition, Canadian clusters are identified in the Mining and Construction Sectors, and in Printing and Related Services within the Manufacturing Sector. The simplified model used here to determine the locations of Canadian manufacturing FDI in the U.S. reveals that Canadian manufacturing FDI is sensitive to wage costs and the tax burden. In 1997, total FDI in the U.S. had a significant impact, with an employment of over \$5.2 million and payroll of over \$202 billion dollars.

No. 78 Shared Service Arrangements: Determinants of Success by Neil Hepburn, Edward LeSage, and Melville McMillan (June)

In cooperation with the Alberta Capital Region Alliance, the University of Alberta conducted a study of shared service provision in the Capital Region in 2002 and 2003. The report highlights the utilitarian nature of shared service arrangements as well as the inherent risks that such arrangements entail. Edmonton, accounting for 71 percent of the capital region, engages predominantly in economic joint ventures, whereas smaller authorities are more predisposed to recreational and cultural shared service arrangements. It is also noted that, for the most part, the only organizations willing to collaborate in such partnerships are those who could not feasibly produce and deliver products and services using their own resources.

No. 79 **Western Canada's Small Business Markets: A Survey of Selling**

Les marchés des petites-entreprises de l'Ouest canadien : sondage sur la vente

by Edward J. Chambers, Jean Frost and Stephen Janzen (December)

This is the third publication in a series sponsored by Western Economic Diversification on small business in Western Canada, following **A Portrait of Small Business Growth and Employment in Western Canada** and **A Primer on Western Canadian Entrepreneurship**. Using data from extensive telephone and email surveys, this report examines markets served by small businesses, the barriers to entering national and international markets, the effectiveness of advertising methods and the role of informal avenues for maintaining and expanding the customer base. Highlights include

- Smaller firms remain overwhelmingly dependent on local markets.
- Entry to new markets is challenging with firms more likely to have an optimistic view of prospects in the markets where they are already competitive.
- Intense involvement in any market, be it domestic or international, is often related to the firm's intentions as laid out in their original plan.
- When entering new markets, external constraints, *i.e.* those beyond the control of the firm, were perceived as more important than internal constraints.
- Experience selling nationally and internationally lowers the constraints to broader market involvement.

No 80 **Alberta's and Western Canada's Exports: 15 years of Free Trade Agreements** by Xiaozhan Liu and Rolf K. Mirus (September)

This report offers a review of the merchandise exports from Western Canada for the years since 1988. As with previous reports, 1988 has been employed as a benchmark against which to measure growth in aggregate exports and in specific product categories. The value of Alberta's merchandise exports was \$57.4 billion in 2003, an increase of approximately \$8 billion over the previous year. The value of exports to both the U.S. and Mexico has grown dramatically since the FTA and the NAFTA went into effect. Exports to the U.S. were worth \$9.2 billion in 1988 and \$51.5 billion in 2003. Exports to Mexico have grown in value from \$85 million in 1993 to \$412 million in 2003.

No. 81 **Streamlining Tariffs Among NAFTA Partners: Potential Savings for Alberta** by Mary Ballantyne, Katrin Hoffmann and Rolf Mirus (October)

Rules of Origin (ROO) are a little known requirement of the North American Free Trade Agreement (NAFTA). The administrative and enforcement costs surrounding the certification of North American origin turn out to be a significant obstacle to trade,

especially for small and medium sized companies. This WCER paper proposes simplifications in the administration of ROO for the NAFTA partners and estimates the resulting cost savings. If tariff rates applied by Canadian and US customs agencies could be streamlined, Alberta exporters would save costs of at least \$80 million per year (based on 2002 exports of the Province). Extrapolating to total Canadian US based exports and to Canada bound US exports, the streamlining could save billions of dollars in administrative expenses. Canada and US authorities, therefore, have substantial motivation to cooperate in such an effort.

No 82 Fifteen Years of Free Trade – Looking Back, Looking Forward. Conference Proceedings (December)

On September 22, 2004, the WCER hosted a conference in cooperation with the Edmonton Chamber of Commerce and with the support of the Alberta International and Intergovernmental Relations. The conference evaluated Alberta's experience under the Free Trade Agreements since their inception in 1988.

Included in the proceedings is a review of Alberta and Western Canada's exports to NAFTA partners over the last 15 years (Information Bulletin 80). Ted Chambers, also of the WCER, addresses the question of whether NAFTA-driven export growth has affected employment volatility in Western Canada. Preliminary results from his portfolio-model approach show Alberta to have greater employment stability than its neighbours which may, in part, be a result of Alberta's support and preparation for freer trade.

Border issues and the costs of regulatory divergence between Canada and the US are discussed by Michael Hart and Bill Dymond. The two trade policy specialists, and former federal government trade officials, suggest that the creation of bilateral institutions are more apt to lead to mutually beneficial outcomes than either policy drift or regulatory independence.

The final paper, by Yvan Guillemette and Jack Mintz of the C.D. Howe Institute, considers the increasing integration of Western Canada and the US in terms of its influence on provincial tax policy. Their analysis of effective tax rates leads them to propose a number of tax policy shifts to address the keen tax competition from US jurisdictions.

Reports

Alberta Benefits: Economic Impacts of Northern Gas Pipeline Construction

Completed in 2003, the report was disseminated in 2004. This report takes stock of the potential benefits to Alberta from the proposed development of the Mackenzie Valley Pipeline (MVP) and the Alaska Highway Pipeline (AHP). Alberta Economic Development (AED) contracted the Western Centre for Economic Research at the University of Alberta to prepare a report that summarizes the potential economic impact on Alberta of these pipeline projects. The report supports Alberta Economic Development's mandate of gathering information and analysis that provides a planning framework for business and industry. The WCER was asked to evaluate each proposed pipeline separately, focusing on the economic impact of their development on the province. Direct and aggregate effects are supplied, as are related developmental impacts. An Addendum to the report provides a detailed listing of Alberta firms that potentially stand to benefit from construction of either or both pipelines.

Managing Alberta's Renewable Resources

The WCER was retained by the Government of Alberta to look at several questions related to the management of province's renewable resources. As is the case with many of the Centre's research programs, the net benefit to the public of Alberta was considered the focus of the work.

International Trade Policy Fellowships

Since 1999, Alberta International and Intergovernmental Relations has funded International Trade Policy Fellowships for graduate students to work on various trade policy research projects. In 2004, two fellowships with a maximum value of \$6,000 were open to Ph.D. and Master's candidates in Business, Economics, Rural Economy and Political Science. Fellowships were awarded to the following students:

Blake Phillips (Business) – January to March of 2004

Dana Landro (Business) – September to December of 2004

Conference

Fifteen Years of Free Trade – Looking Back, Looking Forward

On September 22, 2004, the WCER hosted a conference at the new World Trade Centre in Edmonton in cooperation with the Edmonton Chamber of Commerce and with the support of the Alberta International and Intergovernmental Relations. Much has changed in the world since 1989 and 1994 when, respectively, the Free Trade Agreement (FTA) with the US and the North American Free Trade Agreement (NAFTA) with the US and Mexico, were implemented. September 11, 2001 and the resulting security concerns, the slide and recent recovery of the Canadian dollar, and the election of new leaders in all three NAFTA countries have been part of our 15 years of experience with free trade in North America. The conference addressed the questions “What has free trade meant for Alberta and Western Canada?” and “Given the changes in the economic and political environment, what challenges lie ahead?”

Programme

Welcome: Mike Percy, Stanley A. Milner Professor and Dean, School of Business, University of Alberta;
Ministry of Alberta International and Intergovernmental Relations;
Edmonton Chamber of Commerce

Opening Comments: John Weekes, Senior Policy Adviser, Sidley Austin Brown and Wood LLP, Former Canadian WTO Ambassador

Speakers:

Edward J. Chambers, Western Centre for Economic Research, University of Alberta, Edmonton. *Impact on Employment Stability and Diversification of Alberta's and Western Canada's Product Mix*

William Dymond, Michael Hart and John Noble, Centre for Trade Policy and Law, Carleton University, Ottawa. *Regulatory Hurdles and Border Issues Facing Western Firm*

Yvan Guillemette and Jack Mintz, C.D. Howe Institute, Toronto. *Minimizing the Risks, Maximizing the Opportunities: Implications of North-South Economic Integration for Policy Makers*

Proceedings of the conference were published Information Bulletin Number 82.

Current and Ongoing Projects

An Examination of Small Business in Western Canada

The WCER is undertaking a multi-year study of the role and practices of small business in Western Canada. **A Portrait of Small Business Growth and Employment in Western Canada** (Information Bulletin 63, 2001) identified the importance of small business and revealed that those enterprises with less than 50 employees accounted for one half of total employment in Western Canada, a figure substantially above that in the rest of the country. It also found that entrepreneurial activity per capita in the West was almost 40% higher than in the rest of the country. The study provided benchmarks on the numbers of small businesses and their growth, and the position of small business as a job creator in Western Canada, in each of the provinces, and in sub-provincial regions.

Phase I of the project was completed with the publication of **Western Canada's Small Business Markets: A Survey of Selling/Les marchés des petites-entreprises de l'Ouest canadien : sondage sur la vente** (Information Bulletin 79) and **A Primer on Western Canadian Entrepreneurship** (Information Bulletin 76). A workshop is planned to examine results and to shape future phases of the project. Initial plans included a micro-based longitudinal study of Western Canadian small business entities growth and evolution and a longitudinal study of the self-employed in the West.

Provincialization of Foreign Direct Investment

The WCER is reviewing existing research and difficulties related to the provincialization of foreign direct investment and presents other methods by which non-resident ownership can be documented for Alberta. The resulting list of foreign companies with active operations in the province is intended to function as a preliminary Foreign Enterprise Directory and is hoped to stimulate additional work in the area of attributing foreign direct investment to provinces.

Website

In December, the WCER launched a new website www.bus.ualberta.ca/wcer. WCER's website is now separate from that of the Centre for International Business Studies and conforms with the template for the School of Business.

The Research Grants Program

In collaboration with the Centre for International Business Studies, the WCER instituted the Research Grants program in 1977 to encourage academic staff and graduate students to investigate topics relating to 1) international trade and foreign direct investment – including such aspects as management issues, regulatory and commercial policies, international standard setting, and other like issues presenting a challenge to Western Canadian firms active in international markets; and 2) general international conditions having an impact on Western Canada. The programme is funded by the George Cormie Endowment, Imperial Oil Fund, and the Royal Bank. No grants were awarded in 2004 but the programme will continue in 2005.

Canadian National Railways Funded Initiatives

The WCER gratefully acknowledges the generous donation of \$500,000 by Canadian National Railways Co. as part of the \$1 million given to the University of Alberta. The funds will support new initiatives for research in Canada—US trade issues including student fellowships, conferences, lecture series, and symposia. These projects will begin in 2005.

Activities of Dr. Rolf Mirus, Director

During the University of Alberta's Reading Week in February, Dr. Mirus joined an excursion of MBA students to Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM), Guadalajara Campus. This course addressed NAFTA issues and included joint case studies with Mexican Executive MBA students, company visits and lectures.

Dr. Mirus addressed the Financial Executives Institute, March 8, 2004. The topic was '**Beyond NAFTA.**'

Dr. Mirus presented **Streamlining Tariffs Among NAFTA Partners: Potential Savings for Alberta** at a meeting of the Policy Research Institute in Ottawa in the spring.

In June, Dr. Mirus addressed the Women's Investment Club, Edmonton.

In Ljubljana Slovenia and in Stendal, Germany, Dr. Mirus presented **When Can the Resource Based View Be Used to Explain Small Firm Exporting?** a paper co-written with Dr. Barry Scholnick, School of Business, University of Alberta.

Dr. Mirus served as a member of the Academic Advisory Committee for Deputy Minister for Foreign Affairs International Trade, Government of Canada.

Dr. Mirus continues to respond to media inquiries on assessments of economic conditions in Alberta and other western provinces.

Activities of Dr. Chambers, Research Professor

Dr. Chambers was the chief investigator for the WCER's small business projects which resulted in the publications of Information Bulletin No. 76 **A Primer on Western Canadian Entrepreneurship**, Information Bulletin No. 79 **Western Canada's Small Business Markets: A Survey of Selling/Les marchés des petites-entreprises de l'Ouest canadien : sondage sur la vente** and the paper, **Assessing the Export Market Participation of Manufacturing and Business Service Sector Small Businesses in Western Canada**, presented by Steve Janzen at the 21st Annual Conference of the Canadian Council for Small Business and Entrepreneurship in Regina, Saskatchewan. **NAFTA**, an article co-authored with Dr. Mel McMillan, Department of Economics, University of Alberta, was published in the *Encyclopaedia of World Trade*, in July.

Dr. Chambers presented **Employment Volatility in the Three Western Provinces: A Portfolio Approach** at the September WCER conference "Fifteen Years of Free Trade: Looking Back – Looking Forward." The paper is published in the conference proceedings, Information Bulletin No. 82.

In October, Dr. Chambers presented **Liberalized Free Trade and Effects: Regional, Distributional and Environmental with Special Reference to NAFTA** at the Newkirk Center, University of California, Irvine conference on "Globalization and Free Trade: Who Wins? Who Loses?"

Dr. Chambers is an Assessor with the British Columbia Department of Higher Education Degree Quality Assessment Board for B.Com and MBA Programme applications. He is a member of the Advisory Council of the North American Economic and Finance Association and he is also President Elect of the Oak Bay Probus Club.

Many thanks are extended to Dr. E.J. (Ted) Chambers, Jean Frost, Stephen Janzen and our summer student, Williams Shaw, for their valued contributions and assistance throughout the year.

Respectfully submitted,

Rolf Mirus
Director
Western Centre for Economic Research