

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

Annual Report

January 1 – December 31, 2008



University of Alberta

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The Western Centre for Economic Research (WCER)

Since its creation in 1985, the primary objective of the WCER is to disseminate timely and balanced research findings relevant to the Western Canadian economy. The research is intended to inform concerned citizens and to aid policy decisions made within government and industry throughout Western Canada and beyond.

Mr. Helmut Mach continues to direct the WCER. Mr. Mach has 33 years of experience with the Government of Alberta, most recently with the Alberta Ministry of International and Intergovernmental Relations. Mr. Mach is also the CN Executive Professor of Canada – US Trade Relations.

In 2008, the WCER concluded its study of exporting by small businesses in Western Canada. The ATB Financial Business Sentiments Index™ measuring business confidence in Alberta was continued. Three CN Trade Forums were held focusing on forest product markets, maritime security and international trade, and the outlook for Canadian trade under the new Obama administration.

Helmut Mach participated in a forum sponsored by the United States Institute of Policy Studies on the outcome of the U.S. election and what it means for Canada.

The WCER supported the academic community through small grants to enable research on the impact of the Alberta oil boom on local labour markets and on the determinants of U.S. offshore outsourcing of services. Student fellowships were awarded for study of international trade and foreign direct investment, export supply chains, and foreign direct investment in Alberta. A Summer Temporary Employment grant was obtained to help defray costs of student summer employment. The WCER increased its visibility through frequent interaction with the public media.

Background on the Western Centre for Economic Research

Established in 1985, the WCER is a University of Alberta based research centre sponsored by the School of Business and the Faculties of Arts (Department of Economics) and Agriculture, Life and Environmental Sciences (Rural Economy). The Centre's objective is to undertake research projects that contribute to evidence based government policy development, can be used for practical business planning purposes at the firm or industry level, and are capable of furthering academic research. The WCER also tracks the performance of Western Canada's economy using indicators produced in-house under sponsorship from ATB Financial and indicators obtained from other sources. The WCER is housed within the Alberta School of Business.

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. Information Bulletins are available from the WCER office (780 492 2235) or online at www.business.ualberta.ca/wcer. Frequent interaction with public media and an extensive web site further disseminate research findings.

The Centre's activities are often co-sponsored with other University of Alberta entities as well as with federal and provincial government departments and other research organizations at universities across the Americas.

Funding for the WCER is derived from three primary sources: fee-for-service contract work, financial support from the George Cormie Foundation and a pledged endowment by Canadian National Railway Company (CN) for transportation and Canada – US trade research. The revenue stream from these endowments permits the WCER to consider some independent initiatives, and to involve academic staff and graduate students in its research activities.

Information Bulletins

The Information Bulletin series remains the WCER's primary vehicle for the dissemination of its research findings. Following are summaries of Bulletins published during 2008.

No. 109 *Reaching Out: Exploring SME Exporting Opportunities and Challenges* by Edward J. Chambers and Williams J. Shaw (April 2008)

(English and French pamphlets outlining major findings were also published.)

This study examined small business exports to U.S. and other international markets based on a 2007 survey of 387 firms with fewer than 100 employees. Most firms were in the manufacturing sector, supplemented by a few firms in professional and technical services. All participants were existing or past exporters and, apart from a sprinkling of start-ups, most firms in the survey were well established.

Four themes were explored then findings and policy recommendations were given: the role of exports in growth strategies; the marketing chain and how firms find export markets; perceived barriers to exporting (including the thickening Canada-US border since 9/11); and indirect exporting and the role of foreign suppliers.

Findings and recommendations include:

- Having a business plan that includes the intent to export is an important determinant of export success in both U.S. and other international markets.
- Exporting firms are less inclined to focus on a single market opportunity and more inclined to embrace a variety of opportunities.
- Firms in which the owner either had prior export experience or work experiences in a foreign country were more successful exporters.
- Respondents who included export intentions in their business plans were more likely to also include the requirement for additional capital – especially for entering non-US markets.
- Personal connections are the most important way of entering foreign markets. Agents or distributors were the second most prominent method,

and the internet was the third most popular method (especially for non-US markets).

- Finding qualified labour is the most prominent barrier for exporting.
- Finding market information, the right contacts, financial resources, the right expertise, as well as coping with risk and uncertainty were much stronger barriers to non-US markets than to U.S. markets.
- Problems with customs authorities and obtaining adequate customs information. This applied to the U.S. market to a much higher degree than to non-US markets.
- Increased Canada-US border security measures are penalizing Canadian firms heavily. Firms across the Western provinces experience varying degrees of Canada-US border difficulties.
- Western participation in international trade cannot be judged solely by considering exports and the share of revenues derived from exports. Firms play an important role in supplying other exporters, but they also rely extensively on foreign suppliers as part of Western Canada's exporting value added chain.

No. 110 *Alberta: Municipal System Overview*

by Edward C. LeSage Jr. and Melville L. McMillan (March 2008)

This Bulletin provides a much needed portrait of contemporary Alberta municipal government. The *Overview* provides analysis of municipal structure, responsibilities, finance, democratic institutions and processes, administration and provincial-municipal relations. Alberta's municipal system has been challenged and has changed, and the report notes that with the pressures of rapid growth, it remains in flux. While cautious and pragmatic, the authors emphasize that the province has introduced important structural reforms.

The Bulletin addresses the key issues in the current state of municipal administration in Alberta by focussing on the significance of 1994's *Municipal Government Act*. This new era saw municipalities operating at a greater distance from the provincial government and less dependent on support. While this vision has come to pass, it has also had some unanticipated consequences.

Besides analysis of the innovative *Municipal Government Act (MGA)*, the authors explain the recent evolution of municipal government by contrasting the cutbacks of the early 1990s with today's huge infrastructure investments. They

consider the impact and emergence of “specialized” municipalities like Strathcona County and Wood Buffalo, as a result of the MGA and conclude the study with a discussion of selected policy issues.

This Bulletin questions whether the Stelmach government with its commitment to bring greater rationality to land-use planning will continue on its progressive path by tackling other municipal issues such as developing a ‘big city’ policy framework, addressing the local democracy deficit and providing municipalities with a better own-source funding deal.

No. 111 *Reform of the Canadian Wheat Board: A “Made in Canada” Approach to Marketing Grain*

by Richard Pedde and Rolf Mirus (March 2008)

This Bulletin addresses one of the key issues in the current debate about the Canadian Wheat Board (CWB), namely its value to Western grain farmers and how this value can be shown and enhanced without changing the key feature of single desk selling.

The authors propose changes to the way in which the CWB carries out its trading functions, namely outsourcing the logistics, marketing and trading to available specialists by means of an auction process. In this Information Bulletin they describe, in two scenarios, how the modified operations would work and free the CWB to focus on long term strategic issues, yet no changes would occur in the interactions between producers and the CWB. The proposed modifications would reveal the value of the CWB to producers in an auction process for the logistics, marketing, and trading of grain harvests. Bid prices benchmarked to the major grain exchanges, like Minneapolis and Kansas City, would enable producers to follow the work of the CWB, make it more transparent, and actually allow the value of its contribution to emerge in the bidding process.

No. 112 *ATB Financial Business Sentiments Index*TM: *Where is the Alberta Economy Going? Q2 2008*
by Edward J. Chambers and Nigel Fish (April 2008)

The Business Sentiments Index is a quarterly report on Alberta's economic activity sponsored by ATB Financial. The report is regularly referred to in Alberta newspapers and radio commentaries, and is used by ATB Financial for business planning.

The Business Sentiments Index is based on a telephone survey of 400 firms, equally distributed between North and South Alberta, in key sectors of the economy. While the result of the survey is commonly referred to as "The Business Sentiments Index", three indexes are actually produced: a Business Sentiments Index, a Business Activity Index, and a Business Hiring Index, each of which is designed to measure confidence in the Alberta economy.

The Business Sentiments Index measures confidence in business performance for the coming quarter, the Business Activity Index is based on performance in the quarter just ending, and the Business Hiring Index measures intentions to hire in the coming quarter.

The respondents are equally distributed across six sectors: construction; professional and technical services; transportation and warehousing; manufacturing; wholesale; and oil and gas. The respondents are also geographically divided into four regions: Alberta North (excluding Edmonton/Red Deer); Edmonton/Red Deer; South Alberta (excluding Calgary); and Calgary.

Each of the three indexes is constructed by taking the difference between the percentage of positive and negative responses to questions, converting the results to an index by adding the percentage difference to 100, then combining the weighted index of each sector to make a composite index. If the result exceeds 100, confidence is increasing and if the result is below 100, confidence is declining.

Highlights from the Q2 2008 report are:

- The Alberta economy is returning to more sustainable levels of growth consistent with the longer run experience of the past fifteen years.

- The ATB Financial Business Sentiments Index™ (BSI) stands at 130.5 for Q2 2008. This compares with a level of 124.7 in Q1 2008, 152.0 in Q2 2006 and 140.3 in Q2 2007.
- For Q2 2008 the spread between the BSI of 133 for Northern Alberta compared with 128 for Southern Alberta continues a pattern that first became evident in Q3 2007.
- The oil and gas sector fell to an index of 74. This is the first time in ten quarters that any of the sector indices has fallen below 100, indicating sentiment is more negative than positive.

**No. 113 *Changing Trends in the Alberta Labour Force*
by Edward J. Chambers (May 2008)**

This Bulletin analyses the labour force participation rate (LFPR) in Alberta in aggregate terms, by gender, and by age group through a separation of the effects of longer trends from shorter term influences. Data for the LFPR comes from the Statistics Canada monthly Labour Force Survey of households. The object of this report is twofold: first, to identify longer term trends in the aggregate LFPR, in gender, and in age cohorts; and second, to separate out the cyclical components in the LFPR and to establish the relationship of these to movements in an aggregate measure of Alberta business activity.

Changes in the Alberta labour force over the past thirty years have been quite dramatic. The most significant of these is the rising share of women in the labour force which has been the strongest influence on the rising aggregate LFPR. A second is the influence of the baby boom generation as it has worked its way from youth through the core cohorts and into the older groups. Another powerful factor has been the evidence of some decline in the LFPRs of youth, despite high labour demand, presumably in recognition of the better job opportunities for those with higher educational and skill attainment. After detrending, it is clear that there are cyclical fluctuations present in all LFPRs which in most instances bear some positive relationship to the path of the provincial economy.

The future may be rather different from the experience of the period considered here. First, it is quite unlikely that the female LFPR will move up from its present levels, although that conclusion may be subject to the greater availability of benefit packaged part-time work. In the next decade the aging of the boomers

will have significant impacts. Consider that the current LFPR of those 45-54 is about 88% while that of the 55-64 cohort approximates 70%, and for those 65 and over it is—in a booming economy—14.5%. Longer life expectancy and a buoyant economy may serve to maintain the LFPRs of the oldest cohorts but the challenge for employers will be to provide the type of flexible work arrangements that will appeal to older—and more experienced—members of the labour force. Perhaps the most likely scenario is for a decline in the LFPR over the coming decade. In those circumstances it becomes ever more important for actions to enhance the productivity of those who do participate in the labour force and to find the type of innovative work arrangements that make it attractive for individuals to continue working.

No. 114 *Proceedings of the CN Trade Relations Forum on Forest Product Markets (May 2008)*

The recent challenges facing the Alberta forest industry have sparked renewed interest in the future of markets for our forest products. Low commodity prices, trade barriers, Mountain Pine Beetle outbreaks, spiralling costs and a tight labour market are just some of the factors acting as a drag on the sector. This workshop placed the Alberta situation within the context of the North American and global marketplaces. Market experts provided insight into the demand for our forest products now and going forward.

The forum featured Ted Helvoigt, a leading forestry economist with ECONorthwest and market expert Ray Luchkow from the regional office of PricewaterhouseCoopers. The forum also included presentations from key members of RISI (formerly Resource Information Systems Inc.). The Honourable Ted Morton, Minister of Alberta Sustainable Resource Development, opened the forum and a panel discussion and question and answer session concluded the forum.

No. 115 *Alberta's Experience Under Free Trade Agreements: 1988-2007*
by Rolf Mirus and Hande Tanerguclu

Alberta's Export Experience Under Free Trade Agreements: 1988-2007, measures Alberta's export performance since 1988, the year before the first free trade agreement came into force. The findings of the bulletin show that trade agreements have been crucial to Alberta's economic growth over the past 19 years. More than a third of Alberta's Gross Domestic Product is directly from international exports. Alberta's exports to partnering countries, including the U.S., Mexico, Chile, Israel and Costa Rica have increased by 683 per cent since 1989 when Canada's first free trade agreement became effective. The province's exports to non-partner countries grew by 166 per cent in the same period.

The North American Free Trade Agreement (NAFTA) has been of particular benefit to Alberta's economy with exports to the region totalling \$72 billion in 2007, compared with \$13 billion in 1993.

Other highlights of the Bulletin are:

- Alberta's total merchandise export value increased 525 per cent since 1988, the year before the Canada-U.S. Free Trade Agreement.
- Alberta's share of total Canadian exports has nearly doubled from 9.6 per cent in 1988, to 18.4 per cent in 2007.
- Energy continues to be Alberta's principal export, accounting for 68 per cent of Alberta's exports in 2007, compared to 64 per cent in 1993.
- Machinery is the second most important export for Alberta, increasing 636 per cent since 1993.
- Since the inception of the NAFTA, there has been tremendous growth in Alberta's value-added exports, such as organic chemicals, plastics, machinery and precision instruments.

This is the 15th year the Government of Alberta has contracted the University of Alberta to prepare *Alberta's Export Experience Under Free Trade Agreements* report.

No. 116 *ATB Financial Business Sentiments Index™: Where is the Alberta Economy Going? Q3 2008*

by Edward J. Chambers and Williams J. Shaw (April 2008)

Highlights of Q3 2008 are:

- The ATB Financial Business Sentiments Index™ (BSI) stands at 141.1 for Q3 2008. This compares with 130.5 in Q2 2008, 153.8 in Q3 2006 and 152.5 in Q3 2007.
- For Q3 2008 the spread between the BSI of 149 for Northern Alberta compared with 134 for Southern Alberta continues a pattern that first became evident in Q3 2007.
- The increase in the ATB Financial Business Sentiments Index™ this quarter was driven by a large upsurge in the oil and gas sector in Northern Alberta.
- Although the business activity index and the business hiring index are down from the previous quarters, the three indices combined suggest continued strong economic performance in both Northern and Southern Alberta.

No. 117 *ATB Financial Business Sentiments Index™: Where is the Alberta Economy Going? Q4 2008*

by Edward J. Chambers and Williams J. Shaw (September 2008)

Highlights of Q4 2008 are

- The seasonally adjusted ATB Financial Business Sentiments Index™ (BSI) stands at 128.5 for Q4 2008. This compares with 133.6 in Q3 2008, 153.6 in Q4 2006 and 140.5 in Q4 2007.
- For Q4 2008 the spread between the BSI of 134.7 for Northern Alberta compared with 122.2 for Southern Alberta continues a pattern that first became evident in Q3 2007.
- The decrease in the ATB Financial Business Sentiments Index™ this quarter shows a continuation of the trend of decelerating but steady growth.
- The Hiring Index is also down, owing to decreases in the construction, oil and gas and manufacturing sectors. The seasonally adjusted Activity Index is down, although the unadjusted activity level is up.

No. 118 *Western Canada's Exports: Causes and Implications of Changing Competitiveness in Key Markets*
by Rolf Mirus and Chris Ryan (December 2008)

The causes of volatility in export revenues can be traced to the natural resource character of the exports: energy, forestry, and agricultural products, and minerals are all subject to price and exchange rate fluctuations. The study found a particularly disappointing export performance for Western Canada's producers in Asian markets, a fact which gives rise to concerns about the future in light of a slowing world economy. Had it not been for Alberta's energy exports, Western Canada's market share in the U.S. would have decreased.

The composition of products exported from the West and the individual provinces is shown in detail. Each province is found to have unique export strengths. During the observation period, B.C.'s exports were the most volatile and Manitoba's the least, but overall the provincial economies of Alberta and Saskatchewan were the most volatile.

One of the key implications of the report is the need to address the vulnerability of Western Canada's exports to market erosion and continued volatility. To this end, the report develops a method to identify priorities for trade negotiations with countries that represent significant markets for Western exporters. A number of these are currently providing preferential access for some of our biggest competitors through their own bilateral or regional free trade agreements. Recommendations on the most important trade agreements which Canada should pursue are given.

This research was conducted under a contract from the Canada West Foundation as part of the Foundations' *Going For Gold* project.

No. 119 *ATB Financial Business Sentiments Index™: Where is the Alberta Economy Going? Q1 2009*

by Edward J. Chambers and Williams J. Shaw (December 2008)

Highlights of Q1 2009 are:

- The seasonally adjusted ATB Financial Business Sentiments Index™ (BSI) stands at 99.7 for Q1 2009. This compares with 128.5 in Q4 2008, 135.7 in Q1 2007 and 160.7 in Q1 2006.
- The spread between the Sentiment in Northern Alberta and in Southern Alberta is small, indicating that expectations are uniform across the province.
- For the first time, the Business Sentiments Index™ stands just below 100. This suggests that firms expect little change in the coming quarter, that is, neither expansion nor contraction.
- The Hiring Index is the only index of the three to suggest growth, but even here the outlook is of a neutral quarter. The Business Activity Index dropped about 25 points in response to global economic uncertainty, though the BSI™ suggests activity should level off in the next quarter.

CN Canada-US Trade Relations Forums

“Forest Product Markets”

April 16, 2008

Alberta School of Business

The recent challenges facing the Alberta forest industry have sparked renewed interest in the future of markets for our forest products. Low commodity prices, trade barriers, Mountain Pine Beetle outbreaks, spiralling costs and a tight labour market are just some of the factors acting as a drag on the sector. This workshop placed the Alberta situation within the context of the North American and global marketplaces. Market experts provided insight into the demand for our forest products now and going forward.

The forum, sponsored by CN and Alberta Sustainable Resource Development, brought together a number of industry experts including Ted Helvoigt, a leading forestry economist with ECONorthwest, market expert Ray Luchkow from the regional office of PricewaterhouseCoopers and key members of RISI (formerly Resource Information Systems Inc.). Honourable Ted Morton, Minister of Alberta Sustainable Resource Development opened the session. A panel discussion and question and answer session concluded the forum.

“Freedom of the Seas: Maritime Security and International Trade”

November 18, 2008

Alberta School of Business

Commodore Robert Davidson led the Combined Task Force 150 from June to September of this year. Created in 2001, CTF 150 is a multinational fleet engaged in maritime security operations in the Middle East. Through patrols and search and boarding missions, the fleet contributed to anti-terrorism and anti-piracy operations in the region. Commodore Robertson spoke on the effects of CTF 150's work and the global implications for maritime security and trade.

“WTO Developments and Prospects”

Mr. John Weekes, November 27

Mr. Helmut Mach hosted a meeting with Mr. John Weekes, a respected international trade policy adviser with Sidley Austin LLP, Geneva. Mr. Weekes has 35 years of experience in the field of trade policy and negotiations.

“What Should Canada Expect from President Obama?”

Gary Hufbauer, Reginald Jones Senior Fellow of the Institute for International Economics

December 16, 2008

Alberta School of Business

Dr. Hufbauer addressed the issues of NAFTA, energy security and the environment. Dr. Hufbauer emphasized the significant difficulties facing Mr. Obama in reversing the U.S. recession, and suggested the new president will likely have to devote the first two years in office to reviving the economy. This will probably include extended bailouts and government programs, resulting in a significant deficit. Dr. Hufbauer also suggested the possibility of the U.S. ultimately being forced to consider introducing a consumer tax, but suggested this would be a drastic measure and is unlikely in the near future.

In terms of energy, Dr. Hufbauer highlighted the role of Canada, and particularly Alberta, in the U.S. plans for long-term energy security. While the Obama effort may pursue exploring alternate energy sources or improving on the efficiency of existing methods, Canada will remain the largest energy partner for the U.S. However, Dr. Hufbauer also underlined a widespread lack of awareness in the U.S. - both in the general public and in government - of the importance of Canada's role as energy provider. He stressed that Canada should engage in significant public relations exercises in the U.S. to increase this awareness. Most importantly, Dr. Hufbauer stressed the need for improved dialogue with Congressional members and staff, and the importance of personal relationships in developing greater awareness of Alberta's role as the major energy player in Canada.

Dr. Hufbauer underlined the importance of the Copenhagen climate change negotiations to the American planned action on climate change. If the Copenhagen negotiations and legislation in congress can proceed at about the

same pace, then the U.S. could join any international agreement arising out of Copenhagen, but if one should proceed faster than the other there could be difficulties. Finally, Dr. Hufbauer suggested that President-elect Obama prefers the cap-and-trade approach to action on climate change.

Grants Awarded in 2008

Following are the 2008 WCER international-business related research grants awarded in 2008. Proposals focused on:

- international trade
- foreign direct investment
- related management concerns
- commercial and regulatory policy
- implementing international standards
- challenges to Canadian firms in international markets
- international conditions which have an impact on Western Canada
- Canada - U.S. trade prospects under the Security and Prosperity Partnership
- past and current impact of, and future trends in, the application of trade remedy laws between Canada and the US.

The Small Grants Programme was made possible by funding from Imperial Bank and the CN Endowment Fund.

Dr. Joseph Marchand, Department of Economics

“The Impact of Alberta Oil Boom and Bust on Local Labour Markets”

The research will address the cyclical effects of the oil and gas sector on labour and the demand for education. Dr. Marchand will attempt to set up the first in-depth empirical analysis of the local labour market effects in these understudied areas.

A booming oil and gas sector has a direct effect on labour within that sector, but it also has a spillover effect on other sectors, such as services. Once the impact of the boom and bust is estimated for the oil and gas sector itself, then the spillover effects to labour employed in other sectors can be estimated.

An oil boom can create many lucrative employment opportunities for those with little education or experience. This can turn schooling into a second priority, as the return to schooling lowers the opportunity cost of attending school increases. An oil bust can somewhat reverse this trend, as the opportunity cost of education falls and the returns to schooling rise once again.

Dr. Marchand will compare Alberta's boom and bust economy with the coal sector in Kentucky, which demonstrated the same cyclical nature in the mid-1970s and the 1980s, following the OPEC oil embargo. The results will be produced in the form of an Information Bulletin for the Western Centre for Economic Research, and will be presented at meetings of the Canadian Economic Association in Toronto in May 2009.

Dorothee Feils, School of Business

"The Determinants of U.S. Offshore Outsourcing of Services"

Dorothee Feils, Runjuan Liu and Barry Scholnick will research the service offshore outsourcing in the U.S. Since the mid-1990s, American firms have been increasingly outsourcing services to foreign countries, placing skilled American workers in direct competition with skilled but lower-paid foreign workers.

This research project will provide a systematic understanding of four key factors: what types of services are outsourced; from which countries are services outsourced; what country and industry characteristics determine service offshore outsourcing; and how the pattern of service offshore outsourcing has changed over time. The project will examine the role of various country characteristics in attracting outsourcing, such as physical distance, differences in time zones, languages, legal systems, culture, property right protection, wages and technological facilities.

The resulting paper will focus on the new phenomenon of service offshore; exploring the interaction of country and industry characteristics in determinants of U.S. service offshore outsourcing; utilizing long time-series to evaluate changes in the pattern of U.S. service offshore outsourcing; and providing systematic estimates to predict the future pattern of U.S. service off shore outsourcing.

International Trade Policy Fellowships

Trade policy fellowships were funded by two government agencies: Alberta International and Intergovernmental Affairs (AIIR) and Western Economic Diversification. Preference was given to applicants whose programs reflect some of these interests. The fellowships were open to Ph.D. and Master's candidates in Business (MBA International), Economics (International), and Rural Economy (International) and to Law students.

The purpose of the AIIR fellowship was to undertake trade policy research covering the WTO, NAFTA and other regional arrangements. The work included developing reports on Alberta's tariff priorities, Alberta's experience under free trade agreements, and research into the export potential of Alberta industries.

In 2008, one AIIR International Trade Policy Fellowships was awarded to Hande Tanerguclu awarded for the period from May through June. Her work was published as Information Bulletin 115, *Alberta's Experience Under Free Trade Agreements: 1988-2007*.

Two Western Economic Diversification International Trade Policy Fellowships were awarded for the period January through April. Hande Tanerguclu studied Foreign Direct Investment focused in Alberta. The project explored the latest developments in FDI research at the provincial level. It began with a literature review and the exploration of all databases pertaining to FDI in Canada. The project collaborated with Statistics Canada officials in order to gain further information on FDI at the provincial level. Ms Tanerguclu produced a final report and a presentation to project sponsors.

Liang Liang studied export supply chains. This project explored the increasing importance of imports in the value added process leading to exports from Alberta. The project began with an international literature review on export supply chains. Based on that review, a methodology was prepared for measuring the value of imports in Alberta's exports. Mr. Liang produced a final report and a presentation to project sponsors.

ATB Financial Student Award

One student award was given to an undergraduate student. The student helped developed the quarterly ATB Financial Business Sentiments Index™ the first two quarters of 2009. The award holder was Nigel Fish (Economics).

Projects

ATB Financial Business Sentiments Index™

The Western Centre for Economic Research continued the Alberta based, forward looking quarterly survey of business confidence. 400 businesses across Alberta and across industry sectors are surveyed quarterly to determine their outlook for future demand, employment needs, pricing and inventory levels. An index of business sentiments is developed based on survey results. To a considerable degree, the survey follows the EU format, an established and successful model.

Not only does the index provide a business barometer but it also serve as a reference point for appraisal of the business experience in the past quarter. Results are analyzed for any evidence of seasonal patterns. The index is presented on the WCER web page and in Information Bulletins.

Economic Profiles of the Western Provinces

The WCER now provides basic overviews of the economic circumstances in the four western provinces. The Centre has assembled a wide variety of economic indicators in order to show where things stand, as well as where governments and banks think the economy is headed. The indicators are posted on the Centre's web page and updated as information becomes available.

Some of the indicators provided include GDP and employment breakdowns by sector, import and export performance by product, employment statistics, retail trade and manufacturing sales. They have been conveniently organized by province to provide a one-stop picture of each of the four economies, as well as to facilitate comparison between provinces.

Exploring SME Exporting Opportunities and Challenges

The WCER completed this project. Based on a survey of nearly 400 western businesses with fewer than 100 employees, *Reaching Out: Exploring SME Exporting Opportunities and Challenges* examined small business exports to the U.S. and other international markets. The study detailed the issues that small and medium-sized enterprises (SMEs) face in capitalizing on global trade opportunities and provided specific recommendations for improving Western Canada's export performance.

Based on the findings of the study, the WCER published Information Bulletin 109, *Reaching Out: Exploring SME Exporting Opportunities and Challenges* as well as summary English and French pamphlets. The project was funded by Western Economic Diversification.

Forestry Industry Sustainability and Competitiveness Committee Secretariat, Alberta Sustainable Resource Development

The Western Centre has acted as the Secretariat of the Forestry Industry Sustainability and Competitiveness Committee Secretariat. This has entailed co-ordinating research, writing minutes of meetings and administering finances.

Western Canada Economic Diversification

The WCER has continued research on measuring economic diversification in Western Canada. The project is structured to answer the following questions:

- What is the most appropriate methodology for measuring diversification?
- Does trade liberalization contribute to diversification?
- Has diversification actually occurred over the past twenty years? Are there any trends in diversification? What degree of volatility was demonstrated?
- Is it possible to develop a single diversification indicator?

The answers to these questions will help policy makers evaluate whether economic diversification is still an appropriate public policy objective for Western Canada. Further, the findings can be drawn upon by policy makers at all levels to develop alternatives to current diversification policies and programs. Dissemination of the research will contribute to the broader public debate about

relevant economic policies for Western Canada. The WCER continues to search for project funding.

Activities

Director, Mr. Helmut Mach

Mr. Mach has participated in a number of forums and conferences including the Canada Commonwealth Trade Forum in Edmonton (May); the Agricultural Forum in Washington, D.C. (June); the Foreign Affairs and International Trade Calgary Roundtable on Canada-U.S. Issues (June); the WTO Public Forum in Geneva (September); a Canada West Foundation steering committee meeting (September); the U.S.-Partnership: Strengthening our Economies Conference in Washington, D.C. (November); the American Society of International Law Conference in Washington, D.C. (November); and the Centre for Trade Policy and Law Conference: Blueprint for Canada-US Engagement under a New Administration in Ottawa (December).

Mr. Mach is a fellow of the University of Alberta Institute for United States Policy Studies (IUSPS). Throughout the year Mr. Mach participated in a number of IUSPS functions including the panel discussion “The U.S. Election: What Happened and What It Means” (November). Mr. Mach has lectured on Trade Policy and International Business for the MBA Program/International Business Speaker Series.

Research Professor, Dr. Edward Chambers

Dr. Chambers has been actively involved in the ongoing ATB Business Sentiments project and in the Diversification Project. He attended the Business Research Workshop in Ottawa (March) and, in Vancouver, he spoke on Prospective Economic Change for the Open Economy Management Program for Chongqing Government Officials (November).

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 Past President of the Oak Bay Probus Club.

Research Professor, Dr. Rolf Mirus

Dr. Mirus, professor emeritus of the Alberta School of Business, has provided supervision of the Trade Fellows and academic support for various WCER projects including the studies on Western Canadian exports. Dr. Mirus accompanied Alberta School of Business MBA students to Paris and London (May) and he attended the Pacific NorthWest Economic Region Annual Summit in Vancouver (July). He also lectured to two delegations visiting as part of the Open Economy Management Program for Chongqing Government Officials.

Chief Economist, Mr. Jason Brisbois

Mr. Brisbois' activities focused on outreach and business development. He developed research relationships with Industry Canada, which for the first time featured a WCER study in its publication *Small Business Quarterly*, and with Business Development Canada which is exploring the potential for future projects with the WCER. Mr. Brisbois also provided numerous interviews to television, radio and print media on a variety of economic issues, and made presentations on WCER research studies to clients and to industry associations.

Senior Economist, Dr. Joe Rosario

Dr. Rosario recently retired as Director, Planning Secretariat, Alberta Agriculture, Food and Rural Development. He served as the most senior policy advisor, economist and trade policy advisor for Alberta Agriculture during a career which spanned 35 years.

Dr. Rosario is focusing on an agriculture initiative focussing initially on the importance of the Canada - U.S. agricultural relationship. He will prepare a series of profiles and reports on each of the western provinces' agriculture relationship with the U.S. His broad economic background will also be available to provide advice on general economic and competitiveness issues for the WCER.

Project Coordinator, S. Stephen Janzen

Mr. Janzen has been involved with the FISC secretariat and the Diversification Project. He attended the Institute of Public Administration of Canada conference “Canada’s Energy Security: Superpower or ...Player?” (February). Mr. Janzen’s position was reclassified and he is now the Project Coordinator of the WCER.

WCER Coordinator, R. Jean Frost

In March, Mrs. Frost attended the Small Business Research Workshop in Ottawa. Her position was reclassified and she is now the WCER co-ordinator.

Economist, Chris Ryan

Mr. Ryan (BA 2008) began as the summer student with the WCER and was then hired to continue working as an economist through the fall and winter. He helped develop the Western Canadian provincial economic profiles and has been active in the diversification project. Chris co-authored Information Bulletin No. 118: *Western Canadian Exports: Causes and Implications of Changing Competitiveness in Key Markets*. The WCER acknowledges financial support from the STEP programme for Mr. Ryan’s summer employment.

Researcher, Williams J. Shaw

Mr. Shaw returned to the WCER after graduating with a BA (Honours). He helped to complete the ‘Reaching Out’ project, is involved in the ATB Business Sentiments project, revamped the WCER web page and organized several forums. Mr. Shaw attended the Canada Commonwealth Trade Forum in Edmonton (May).

Public Relations

The WCER 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 prompt and credible response to these inquiries. In the past year, the WCER has made concerted efforts to provide comment on economic news and has contributed numerous opinion editorials to the Edmonton Journal throughout the year. This has yielded increased visibility of the Centre.

Internal Management

Many thanks are extended to Dr. E.J. (Ted) Chambers, Dr. Rolf Mirus, Dr. Joe Rosario, Mrs. Jean Frost, Mr. Stephen Janzen, Mr. Chris Ryan and Mr. Williams Shaw for their assistance and valued contributions throughout the year.

Respectfully submitted

A handwritten signature in black ink, appearing to read 'Helmut Mach', with a stylized, cursive script.

Helmut Mach, Director and CN Executive Professor of Canada-US Trade Relations