

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

**Annual Report**  
January 1 - December 31, 1999



**University of Alberta**

## **Western Centre for Economic Research**

The year 1999 was a very busy one for the Western Centre, with several large and complex research projects; a new, broad research arrangement signed with Alberta International and Intergovernmental Relations; more faculty and graduate students involvement in research activities; the hosting of a major workshop on Competitive Government; and numerous presentations at seminars and conferences.

### **Background on the Western Centre for Economic Research**

The Western Centre for Economic Research (WCER) 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 this endowment permits the Western Centre to consider some independent initiatives, and to involve more academic staff and graduate students in its research activities.

## **Trade Policy Research on NAFTA and the WTO — International Trade Policy Fellowships**

Under a new contract with Alberta International and Intergovernmental Relations (formerly Alberta International and Aboriginal Affairs), International Trade Policy Fellowships will be awarded to a select number of qualified graduate students applying to work on identified research projects relating to the World Trade Organization, NAFTA and other regional trade arrangements. Examples of the trade policy work to be done under this contract, and which will be assigned to the students receiving Fellowships, include analysis of:

- Alberta's tariff reduction priorities;
- various aspects of Alberta's experience under the free trade agreements; and
- the export potential of specified Alberta service sectors, and the opportunities and barriers faced by these sectors.

The Fellowships will have a maximum value of \$12,500, and will be open to Ph.D. and Master's candidates in Business, Economics, Rural Economy and Political Science.

The first three recipients of International Trade Policy Fellowships were<sup>1</sup>:

- Nataliya Rylska, who spent the months of May through August 1999 working on the ten-year evaluation of the Canada-U.S. Free Trade

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<sup>1</sup> As the extent of the research work performed by each of the students was limited, none was awarded the maximum value of the fellowship.

Agreement. Natalyia Rylska holds degrees in Economics from the Ukraine and is currently pursuing an MBA in the Faculty of Business.

- Lifeng Geng, who worked from September through December 1999 on a study of tariffs affecting Alberta and an analysis of its tariff reduction priorities. While holding the Fellowship, Lifeng Geng was in the final year of his Ph.D. program in the Faculty of Business; and
- Dawn Marie Latam, who is working from January to April 2000 on tariffs affecting Alberta's manufacturing sector. Dawn Marie Latam is in her second year of the MBA program, and is also pursuing a Master's degree in Agriculture.

## **1999 Publications — Information Bulletins**

The Information Bulletin series remains the Western Centre's primary vehicle for the dissemination of its research findings. Following are summaries of the Bulletins published during 1999.

No. 53 *Employment Variability in Three Western Province: Is there more stability?* (March) by Edward J. (Ted) Chambers.

While there is evidence of increased job stability in Canada — generally attributed to an ongoing shift of jobs to the service sector — provincial conditions do not always correspond with the national trend. This study therefore explores employment volatility in British Columbia, Alberta and Saskatchewan. These three provinces have economies which are still highly dependent on forest, energy and agricultural products, all of which remain subject to considerable price fluctuations and market uncertainties.

As there is no universally accepted method of measuring employment volatility, this study applies a portfolio variance model to Statistics Canada's monthly labour force survey data. The methodology was first tested on national data, and the results found to be consistent with those

reported under alternative approaches. Provincial data were then entered into the model and two periods examined: the first from the first quarter of 1976 to the final quarter of 1987; the second from the first quarter of 1988 to the second quarter of 1998.

Not unexpectedly, the results confirmed that levels of variance in all three provinces were considerably higher than national levels. In the earlier time period, these ranged from 6.5 times higher for Alberta to 5.2 times higher for British Columbia. More importantly, the results indicated that, in the case of British Columbia and Saskatchewan, there was little change in employment variability between the first period and the second. In British Columbia, variance was almost exactly the same, while in Saskatchewan there was a reduction of approximately 5% in the second period. For Alberta, on the other hand, portfolio variance declined both absolutely and relatively, and substantial reductions were recorded in both the goods-producing and the services sectors, with the former showing the largest decline. In fact, Alberta moved from the least to the most stable of the three provinces over the course of the two time periods, and the ratio of Alberta to national portfolio variance fell from 6.5 to 4.8.

Factors identified as contributing to this reduced volatility include a more diversified agricultural sector; increased relative importance of natural gas in the non-agricultural primary sector; the emergence of new and/or expanding internationally competitive segments of the manufacturing sector; and growing opportunities for self-employment. The study points to the Free Trade Agreement as one important element facilitating Alberta's economic diversification and consequent increase in employment stability, particularly within the energy sector. It also notes that the energy industry, which can now certainly be labeled a "high-tech" industry, has the potential to create a number of "spin-off" activities which could well be contributing substantially to the manifest reduction in volatility.

No. 54 *Alberta: Evaluating a Decade's Experience with the Canada-U.S. Free Trade Agreement (FTA)* (October) by Edward J. (Ted) Chambers, Rolf Mirus and Barry Scholnick, Faculty of Business, with S. Stephen Janzen and Nataliya A. Rylska, Research Associates, Western Centre for Economic Research.

This study considers a number of key variables directly related to economic performance in order to assess Alberta's experience under the ten years of the Canada-U.S. Free Trade Agreement (FTA) and the five years of the North America Free Trade Agreement (NAFTA). Funded by Alberta International and Intergovernmental Relations, it is a comprehensive, detailed study and impossible to summarize justly. Hence, the following are only selected highlights of its findings.

1. *The overall level of merchandise exports from 1988 to 1998.* This shows a marked increase, with the value of Alberta's merchandise exports to all foreign countries rising by 136.3%. This export performance was considerably above that of the other western provinces, and Alberta's exports accounted for 41.4% of total Western Canadian exports in 1998, compared to 33.3% in 1988. The share of Alberta's top twenty merchandise exports destined for the U.S. continued to rise, reaching 84.1% in 1998. (It was 70.1% in 1988.)
2. *The performance of shipments, employment and earnings in the primary production, manufacturing, and business services sectors.* For Alberta, the study finds that the share in GDP of goods producing industries is rising, in contrast to the national experience, and that export led growth is fuelling this expansion. Growth in shipments to the U.S. — both in absolute and relative terms — has been a primary factor in the expansion of the merchandise export sector. For the business services sector, the study finds that this industry more than doubled its international share in total billings, rising from 3% in 1988 to 6.4% in 1996.

3. *Employment stability.* The study finds that employment variability declined in the period 1988 to 1998, both in the goods and services sectors. While the employment variability in Alberta remained higher than that of the national economy, the difference lessened in the FTA era.
4. *Foreign direct investment.* Here, the study concludes that concerns expressed at the time of the FTA signing — that reduced tariffs would remove the incentive for direct investment in the manufacturing sector; and that the FTA would lead to increased foreign direct investment into the energy sector, thereby reducing our manufacturing base — have proved to be unfounded.
5. *Household incomes.* The study estimates that benefits of tariff reductions under the FTA range between \$2100 and \$3200 per household over the 1989 to 1998 decade.

No. 55 *NAFTA and the Economic Impact on Western Canada* (December)  
by Edward J. (Ted) Chambers.

A paper prepared for the Canada-Korea Conference held at Yonsei University in Seoul, Korea, on November 4-5, 1999, this Information Bulletin summarizes some of the important findings of previous research to illustrate the economic transitions that have occurred in the four Western Canadian provinces since the Free Trade Agreement (FTA) came into effect. Following brief introductory comments on Western Canada's international links, and an overview of the changes that have occurred in these economies since 1988, the paper focuses on developments that have taken place in the goods producing sectors of Canada's four western provinces. It also includes the findings of Information Bulletin #53 outlined above. The paper concludes with the author's observations on the extent to which the changes in Western Canada's provincial economies can be attributed to a free trade agreement such as the FTA; and on the

important impact of government policy on the performance of a provincial economy.

## **1999 Publications — Other**

*University of Alberta Faculty of Engineering Founders and Leaders — A Report on their Economic Impact*, Western Centre for Economic Research, June 1999.

This report was prepared for the Office of the Vice-President (Research and External Affairs), University of Alberta, and sponsored by that Office and by the Faculty of Engineering. Based on 628 usable responses to a questionnaire mailed out to all addressable alumni graduated from the Faculty of Engineering since its establishment, the study examined the entrepreneurial activity of University of Alberta engineers.

The study results reveal that Faculty of Engineering graduates have created a substantial number of businesses and had a significant economic impact. Two hundred and seventeen alumni indicated that they had started 342 companies employing approximately 20,500 people. Gross 1997 revenues for the 257 companies that provided this information totaled \$7.2 billion.

Detailed analysis of these 342 companies provided further information of interest. For example, a time lag of up to 25 years occurs between graduation and business formation, suggesting that experience is gained and market knowledge acquired before the creation of new companies. Almost half the companies created were consulting firms, followed by firms in construction, manufacturing and the oil and gas industry, and, lastly, by companies in the computer industry. A quarter of the companies reported direct involvement in the energy industry, but inference from other questions suggests that indirect involvement might raise this figure considerably. Almost half the companies analyzed were small entities with fewer than six employees and with revenues of



\$500,000 or less. A quarter of the companies were larger, however, with twenty-five employees or more, and with revenues well above \$5 million.

Major obstacles identified by the respondents were government regulations and difficulty in obtaining financing. The founder's personal savings were the source of most start-up funds, with subsequent growth financed from net cash flow. Companies active internationally also named cultural differences and non-tariff barriers as hurdles. Success was attributed primarily to superior performance, customer service and product quality and reliability. Other aspects frequently mentioned as contributing to the companies' competitive edge included management expertise, a dominant position in a niche market, and innovation and new technology. Neither a location near markets nor pricing was thought to be of major significance.

The study also revealed that a large number of Engineering alumni maintain close ties with the University of Alberta and participate in the Faculty's activities through donations, joint research, seminars, co-op programs, and professional societies.

## **The Research Grants Program**

This program, now in its third year, is made possible through the revenues available to the Western Centre from the George M. Cormie Endowment. A joint program with the Centre for International Business Studies and support from the Imperial Oil Endowment, its purpose is to encourage academic staff and graduate students in the Faculty of Business, and in the Departments of Economics and of Rural Economy, 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.

A maximum of four grants are approved each year, and none may exceed \$5,000 in value. The grant applications are assessed by an *ad hoc* committee of peer reviewers and, following approval, the first half of the grant monies are disbursed, with the second half provided following submission of a draft of the study. The work is normally expected to be complete within nine months of accepting the first installment. Grant recipients are required to present their findings in a style that is readily accessible to the public and private sector. Normally, publication will be through the Centre for International Business Studies and/or the Western Centre for Economic Research. However, it is also anticipated that the papers will be reviewed through standard academic procedures and, whenever possible, lead to publication in refereed journals.

Following are summaries of the grant applications approved by the review committee in 1999:

1. Dick Beason, Associate Professor, Department of Marketing, Business Economics & Law, Faculty of Business will examine the topic *Asian Flu and Contagion Effects on Canadian Trade with Special Reference to Alberta-Japan Bilateral Trade*.

The Asian crisis has been blamed for its negative impact on Canadian exports, oil prices, financial markets and the dollar. The "Asian Flu" notwithstanding, the Canadian economy has remained remarkably resilient. The research will consider the specific bilateral relationship in Alberta-Asia and Alberta-Japan trade, and consider the extent to which results are driven by key sectors such as trade in agri-food, housing and energy related products. It will also explore how the Western provinces have been differently affected by the slowdown in Asia. Once the econometric relationship between Asian demand and Canadian exports is established, it can be used to forecast the future impact of the crisis under various assumptions regarding the timing and magnitude of recovery in Asia.

2. Royston Greenwood, AGT Chair and Associate Dean, Faculty of Business and C.R. Hinings, Professor and Director, PhD Program, Faculty of Business will look at *Managing International Professional Service Firms: Price-WaterhouseCoopers*.

Many of the management problems of large, international, professional business advisory firms derive from their governance structures (partnerships) and their knowledge base. These firms face, for example, a need to obtain approval from autonomous national firms; a need to integrate substantive and tacit knowledge not only across disciplines (tax, accounting, management consulting) but across national entities; and a need to specify income splitting arrangements worldwide. Further, these issues must be addressed together with three key “threats” that confront knowledge-intensive organizations: the risk of mobile personnel leaving the firm; the risk that “tacit” knowledge will be lost; and the risk that client relationships will be damaged. The study will examine these issues and further our understanding of how international, knowledge-based firms manage themselves. Initial findings will become a case study for classroom use, and the research will be submitted for publication in the *Case Research Journal*.

3. Gerald Häubl, Assistant Professor, Department of Marketing, Business Economics and Law, Faculty of Business will address *The Foreign Production “Double Whammy”: The Effects of Congruity and Incongruity Between Brand Name and Country of Production on Consumers’ Product Evaluations*.

This research will survey respondents from six countries (Canada, U.S., U.K., Japan, France and Italy) to determine product preferences in four product categories. It will contribute to the understanding of (a) how consumers integrate brand and country-of-production information when evaluating international products; and (b) how moving a brand’s production from its home country to a foreign location affects consumer evaluations of that brand.

4. Sundeep Sahay, Assistant Professor, Department of Accounting and Management Information Systems, Faculty of Business, will study *Global Software Outsourcing Arrangements to India: Global Comparisons and Lessons for Canadian Firms*.

The purpose of this research is to develop a more global understanding of Global Software Outsourcing relationships through

- a) field work with some Edmonton and Calgary based companies engaged in Global Software Outsourcing;
- b) field work with Korean and Japanese firms doing Global Software Outsourcing work in India; and
- c) secondary research on the experiences of other Canadian firms doing Global Software Outsourcing work in other countries, such as Ireland and China.

It is anticipated that this study, together with earlier research, will lead to a comprehensive work on "Managerial Implications for Developing and Sustaining Global Software Outsourcing Relationships."

## **Publications Resulting from Earlier Research Grants**

*Competitiveness of Canadian Agri-Food Exports Against its Competitors in Asia: 1980-97*, (November) by Kevin Cheng and Yufeng Duan, Joint Series on Competitiveness #18.

With a share of 25.6% of the world's total agri-food exports during the period under study, 1980-97, Asia is a significant market for most of the world's agri-food industry. For Canada, the Asian market represented 28% of Canada's total agri-food exports (42% went to the U.S.; 10.5% to the E.U.; 7.5% to Central and South America; and 12% to other regions of the world). The authors emphasize that Asia is also a growing market, and that, "in nominal terms, the total export value of Canadian agri-food

products to Asia increased from US\$ 2.1 billion in 1980 to US\$ 4.6 billion in 1997.”<sup>2</sup> The study asks whether this increase reflects a rising export competitiveness by Canada in Asia relative to (a) other developed nations, such as the United States, Australia, New Zealand, and the European countries, and (b) other Asian countries such as China, Thailand, Malaysia, Taiwan and Indonesia.

Canada’s agri-food exports to Asia can be divided into (a) bulk commodities, totaling 64 percent of total Canadian agri-food exports to Asia; (b) consumer-ready goods, accounting for 22.1%; (c) processed intermediate goods at 12.3%; and (d) horticultural products at 1.6%. Japan was the largest market receiving more than 50% of the exports, followed by South Asia at 33.3%, then Hong Kong and Taiwan at 5.5% together, then the rest of Asia and Korea.

The study uses the Constant Market Share (CMS) model to infer an exporting region’s competitiveness from changes in export shares. Specifically, a two-level CMS decomposition was used, the formulae for which can be found in the publication.

The authors find that “Canada appeared to be very competitive in the Asian market, ranking second after China in terms of its overall competitiveness. The traditional competitors to Canada, such as the United States, Europe, Australia, and New Zealand, were found to be non-competitive in the Asian agri-food importing market. . . . Strong competition to Canada in the Asian agri-food import market came from countries like China, Indonesia and Thailand. If Asia is considered to be a target region for the Canadian agri-food exports and Canada wants to maintain or improve its competitive position, one needs not only to know the exporting strategies that were adopted by the countries such as the

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<sup>2</sup> Cheng, Kevin and Yufeng Duan, *Competitiveness of Canadian Agri-Food Exports Against its Competitors in Asia: 1980-97*, Joint Series on Competitiveness #18, Centre for International Business Studies, November 1999, p.1.

United States, Europe, Australia, and New Zealand, but also those adopted by the countries such as China, Indonesia and Thailand.”<sup>3</sup>

## **Other Major 1999 Activities**

### *Workshop on Competitive Government*

On June 1, 1999, the Western Centre for Economic Research, together with the Centre for Performance Management at the Faculty of Business and the Canadian Employment Research Forum, sponsored a workshop on competitive government. Approximately 120 people participated in the event, which focused on performance measures for, and evaluation of, government programs, and on the measurement of national economic performance.

Speakers at the workshop included Erwin Diewert, Department of Economics, University of British Columbia and Advisor to the Government of New Zealand; Kevin Lang, Department of Economics, Boston University and Advisor to the Government of New Zealand; Denis Lawrence, Director of Tasman Asia Pacific, Australia; Ging Wong, Research Director, Human Resources Development Canada; Jeff Smith, University of Western Ontario; Bill Warburton, Acting Director, Economic Analysis Branch, British Columbia Ministry of Human Resources; Bill Cook, Office of the Auditor General, City of Edmonton; Dave Bentley, Government of Alberta; Alice Nakamura, Winspear Professor of Business, University of Alberta; Mark Anielski, Executive Director of the Centre for Performance Measurement, University of Alberta; and Randall Morck, Stephen A. Jarislowsky Distinguished Professor of Finance, University of Alberta.

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<sup>3</sup> *Ibid.*, p.12.

*Submission to the Standing Committee on Foreign Affairs and International Trade, House of Commons*

The Director of the Western Centre for Economic Research, together with the Director of the Centre for International Business Studies, Dr. Rolf Mirus, made a joint submission to the International Trade Priorities Public Hearings held in Edmonton on April 28, 1999.

This submission aptly reflects the views of both research Centres on the vital importance of continued trade liberalization, and summarizes the Centres' recommendations in regard to specific tariff and non-tariff barriers presenting major obstacles to Alberta exporters. The brief, three-page document is included in full as an Appendix to this Report.

## **Current and Ongoing Projects**

In the course of 1999, work continued on a number of existing projects, and several new projects were started. Among them are:

1. A study on small business in Western Canada.

Funded by Western Economic Diversification, this project targets the need to increase understanding of the changing state and role of small business in Western Canada. Several databases and currently available surveys will be used, and the data extrapolated to form a single, comprehensive report. Primary objectives are to:

- (a) Improve the knowledge of small business growth in Western Canada;
- (b) Compare small business growth across the four western provinces in a methodologically consistent manner;
- (c) Examine the sensitivity of small business entries and exits to provincial economic growth rates;
- (d) Examine the degree to which regions of each province have shared in the growth of small business; and

- (e) Identify the issues relevant to the future health and well-being of small business in Western Canada.
- 2. A study of non-tariff barriers facing Alberta exporters.

This study includes a telephone survey of 200 Alberta businesses engaged in international trade. The results will help government and industry to define priorities for trade negotiations, to identify current and potential markets, and to make Alberta exporters more competitive. The study is funded by Alberta International and Intergovernmental Relations.

- 3. Several additional new and continuing studies on trade-related issues, including NAFTA, the World Trade Organization, and various additional trade policy topics and options.

These studies are also being funded by Alberta International and Intergovernmental Relations.

- 4. Indicators of business activity.

The monthly indicators of business activity for Alberta, British Columbia and Canada calculated by the Western Centre for Economic Research continue to be posted regularly on the Western Centre website. The manner in which these indexes are constructed is outlined in the Western Centre publication, *New Indexes for Tracking the Alberta and British Columbia Economies*, Information Bulletin #52, December 1998. Please note that, as of March 1999, the weights attached to the three series have been changed. Since that month the weights have reflected variance in the monthly percentage change in each series for the period from January 1992 through December 1998. Weights attached to each series in constructing the composite index were previously based on the monthly percentage variability of each series over the entire period from January 1976 to June 1998.



## 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 1999 included:

1. The Edmonton Real Estate Board Economic Forecast Seminar, held in January;
2. The meeting of the Greater Edmonton Home Builders' Association Economic Forecast Committee, also held in January;
3. The Northern Alberta Economics Society meeting in February;
4. The Canadian Centre for Foreign Policy workshop held in Calgary in March, with participation on "The Round Table on Security and Civil Society: Helping Shape a Canadian Discussion/Policy Development on the Americas";
5. Forintek Canada Corp. March deliberations on "Exploring New Paths: Matching Markets to Alberta Wood Resources" with a presentation on "The Changing Structure of the Alberta Economy – Implications for Competitiveness";
6. A March Round Table on the Agreement on Internal Trade arranged in Calgary by Alberta International and Intergovernmental Affairs;
7. The Global International Internship Congress held in April in Mazatlan, Mexico, where Edward J. (Ted) Chambers was a keynote speaker with a paper on "Preparing Global Citizens for the 21<sup>st</sup> Century;"
8. A seminar on North American Integration, held in Edmonton in May, where Ted Chambers was a discussant on a paper by J. D. McNiven, Dalhousie University, entitled "Economic Integration in the NAFTA Zone: Public Policy, Corporate Strategy and 'Plumbing'";
9. The Pacific Northwest Economic Region meeting held in Edmonton in June, with comments on the Regional Forecast; and

10. The Canada-Korea conference held in November at Yonsei University in Seoul, Korea, with a paper on “NAFTA and the Economic Impact on Western Canada”.

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.

### **Internal Management**

Thanks are due to Jean Frost and Stephen Janzen for their valued contributions and assistance throughout the year.

Respectfully submitted,

Edward J. (Ted) Chambers  
Director

## **Western Centre for Economic Research Advisory Board**

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# **APPENDIX**

**Submission to**

**The Standing Committee on  
Foreign Affairs and International Trade**

**House of Commons**

**INTERNATIONAL TRADE PRIORITIES**

**PUBLIC HEARINGS**

**Edmonton, April 28 1999**

**by**

**Edward J. (Ted) Chambers**

**Professor and Director, Western Centre for Economic Research**

**and**

**Rolf Mirus**

**Professor and Director, Centre for International Business Studies**

**University of Alberta**

Research done by the Western Centre for Economic Research (WCER) and the Centre for International Business Studies (CIBS) leads us to make the following statements and recommendations:

1. Trade liberalisation (FTA, NAFTA, WTO) has increased the efficiency and specialization of Canada's economy. All Canadians have benefited in the form of lower prices of domestically produced and imported products. The benefits are substantial, and the growth in imports of more than 225% since 1988 understates the benefits.
2. Access to international markets has been vital for the standard of living of Albertans. In fact, Alberta is the export leader in Western Canada, as the following table illustrates.

Province	Value of Exports			U.S. Market Share	
	(\$ Billion)		%	1998	1988
	1998	1988	Change		
Manitoba	7.9	2.9	267.6	58.2%	78.6%
Saskatchewan	9.1	5.8	458.0	58.0%	33.9%
British Columbia	26.6	17.4	152.9	63.0%	43.0%
Alberta	30.7	13.0	236.3	70.0%	83.0%

3. During the decade 1988-1998 the FTA and NAFTA provided substantially more trade liberalisation and access than the Uruguay Round. The result was increased dependence of Alberta exporters on the U.S. market. Alberta is the Western province most dependent on the U.S. market and, therefore, would benefit the most, in terms of diversification of markets, from further trade liberalisation at the multilateral (WTO) level.
4. The FTA and NAFTA have created a market oriented and competitive atmosphere for Alberta manufacturers. As a result, the value-added content of provincial exports has risen substantially. For seven sectors traced by WCER/CIBS, the 20 year growth in exports was 858.7%, from \$540 million in 1988 to \$4.64 billion in 1998. These value-added sectors are meat processing, paper and paperboard, machinery, electrical equipment, precision instruments, aircraft and parts, and furniture. This growth in the exports of value-added sectors has allowed Alberta to shed its boom and bust image.

But it is crucial that non-tariff barriers be reduced. Border measures and differing standards are serious obstacles to market access for the typically smaller Alberta manufacturers. Further multilateral trade liberalisation, especially reduction of non-tariff barriers, would provide more market opportunities for these Alberta exporters. Not only would well paying jobs be created, the provincial economy would also become less cyclical.

5. While there are irritants with NAFTA partners, they pale in comparison to access obstacles Alberta exporters face in other areas of the world. A few examples follow:
- Tariffs on beef to Taiwan, South Korea and Japan will still be in the 35-50% range by 2001;
  - Tariffs on pork in Korea and the Philippines are 25% and 40% respectively;
  - Non-tariff barriers like grading equivalencies, country of origin labeling, and testing are onerous;
  - Tariffs on dried peas and beans in Korea, India and Bangladesh are 30%, 100% and 200% respectively;
  - Tariffs on durum wheat in Europe, Venezuela and Japan are significant'
  - Oilseeds and vegetable oils face high tariffs. For example, in Korea the tariff is 36% on vegetable and animal oils;
  - Agrifood processes generally encounter high tariffs;
  - Fertilizer faces a 10% tariff in Australia, sulphur faced a 40% tariff in Morocco, India and Indonesia;
  - Canadian spruce, fir and pine face tariffs in Japan when U.S. products do not;
  - Non-tariff barriers are significant for exporters of lumber and pulp;
  - Man-made fibres face high tariffs in much of Asia.

Alberta's merchandise exporters, therefore need:

- Meaningful increase in market access under the WTO;
- Elimination of all agricultural export subsidies (as these tend to distort true efficiency);
- Gradual but progressive reduction of trade distorting domestic subsidies'
- Reduction in non-tariff barriers to trade, for example, we need sanitary and phytosanitary rules that are based on science.

This will enable Alberta exporters to avail themselves of the opportunities which FTA- and NAFTA-induced specialization created.

6. Trade in services has grown faster than merchandise trade according to the WTO's statistics, although provincial statistics on services are readily available. During 1996, WCER/CIBS undertook a survey of six service sectors regarding their exports and future potential. The six sectors were:
- Oil and gas services (16 firms)
  - Environmental services (11 firms)
  - Software and computer services (16 firms)
  - Architecture, engineering and construction services (12 firms)
  - Transportation services (10 firms)
  - Health care services (6 firms) – the only sector without exports (and presumably on that would oppose imports of such services).

On average 20-40% of the revenue of the first five sectors derived from exports, and the FTA and NAFTA spurred many of these into planning export strategies. Architecture, engineering, and construction services, as well as transportation

services benefited from the enhanced export opportunities that the NAFTA and FTA provided.

Most of these sectors saw good potential for growth from liberalized trade in services. This is particularly evident in their planning for the newly accessible markets in Chile and Mexico: over 30% of the respondents were planning activities in these two countries. We infer that WTO-wide liberalisation of trade in services would benefit Alberta service providers in these five sectors, and quite probably in a number of other.

7. WCER/CIBS have also done some research on the fast growing phenomenon of foreign direct investment. This leads us to the following observations:
  - In a liberalised trading environment foreign firms locate facilities in Canada because their special skills (technology, trademarks or other) when combined with Canadian inputs enable them to compete here effectively.
  - A snapshot for 1996 shows \$351.4 billion majority-owned foreign assets in Canada, generating operating revenues of \$342.3 billion and operating profits of \$20.8 billion. On average, their profitability was nearly 50% higher than that of Canadian-owned firms. Therefore, these foreign investors are models for Canadian managers. As it brings best practices and new technologies, Alberta welcomes foreign direct investment.
8. By the same token, Canadian firms with unique skill sets have opportunities to start and operate facilities abroad, both in the industrialized countries (OECD) and the developing countries. In some cases, a Canadian company's survival may depend on a service or component production facility abroad. It makes sense to have a rule-based approach also for inward and outward direct investment. We believe, therefore, that a multi-lateral agreement on investment should be pursued at the WTO level.

Thank you for the opportunity to present our views. You will hear from many groups including the please of special interest groups. Please keep in mind that trade liberalisation brings gains for all segment of Canada's society and that the poor tend to benefit most from access to cheap imports. Trade liberalisation has an adverse impact on some, but granting protection represents a tax on all Canadians and encourages lobbying over improving one's competitiveness.