AIMS Commentary

Atlantic Institute for Market Studies

Canada's Place in the World

By Stephen Kymlicka,
AIMS Senior Policy Analyst

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While we pay lip-service to self-identification, ultimately our place as individuals and as a nation is based upon what we do. In this context, there is no question that Canada's place in the world has slipped dramatically over the past few years. Stopping the slide will require real corporate and public sector leadership. Returning to the coveted position of "best place in the world to live" means concentrating on proper development of the country's main wealth generating streams and responsible management of public sector services.

Canada's main economic drivers are natural resources, value-added production and trade. That combination allows for a highly diversified economy provided all areas are developed to their full potential. The Atlantic Institute for Market Studies (AIMS) researches innovative policy solutions to ensure government and the public are aware of the policy alternatives that could help the economy fire on all cylinders.

The first and most obvious source of wealth is natural resources. The big commodity is petroleum but recent mining sector growth has also been impressive. On the other hand, the forestry and pulp and paper industries have been in decline.

We could debate the merits of exploitation (Alberta) versus conservation (British Columbia), but the bottom line is that if a province is to develop a resource, it needs to do so in a stable way. Additional risk demands additional reward for invested capital. During the 70's shareholders of IT&T and oil companies demanded gouging price schemes because of the fear – warranted, in hindsight - of expropriation. While we may not expect Newfoundland and Labrador to nationalize the oil-fields, the ever-changing business landscape seen recently means that either the oil-fields will go untapped, or the oil companies will demand expensive safeguards to an ever changing regulatory and policy regime. If we want to use our natural resources for wealth creation, a stable business environment is critical.

Discovering oil in Atlantic Canada is more like finding a needle in a haystack than shooting fish in a barrel and public policy needs to reflect this reality. Companies are not guaranteed results, a fact further illustrated by the absence of a significant discovery in over 20 years.

Public policy that imposes barriers to production has a doubly negative impact on the industry, it hinders production from discovered fields but it also limits exploration as companies scale down efforts to find resources when they feel they will be unable to develop them. Newfoundland and Labrador's offshore micro-mismanagement provides an example of how to stymie an industry before it ever has a chance to be developed. Canada must eliminate unreasonable demands like these in the commodities sector in order to encourage development in technically challenging environments.

Not withstanding, Canada is doing reasonably well in generating wealth from the resource sector and has a long and storied place in the world economy as "hewers of wood and drawers of water." Of course, this phrase comes from the book of Joshua where it simply means a performer of menial tasks. Presumably we aspire to more; which leads to value-added production and the second source of wealth – productivity.

Make no mistake, Canada's productivity is bad and – in comparison to our competitors – getting worse. In the World Economic Forum's Global Competitive Index[1], Canada dropped from 13th in 2005 to 16th in 2006. We performed particularly poorly for the strength of our institutions (ranked 21st) and our macro-economy (ranked 35th).

The associated Business Competitiveness Index[2] (developed by Michael Porter) has Canada dropping from 11th in 2001 to 15th in 2006. And the responsibility is shared: corporate competitiveness dropped from 14th to 18th and the national business environment dropped from 11th to 16th.

What is at work here? Is it really bad thinking and bad behaviour?

We are not getting the quality of life we are paying for

There are those who say that productivity and competitiveness are not everything. In Canada, we enjoy a high quality of life and that is worth something in terms of a lack of productivity. Here is what is wrong with that argument:

If wealth were consciously sacrificed for quality of life, then Canada's quality of life ranking should be better than its per capita GDP. It is not. According to the Economist, we rank 5th in per capita GDP but 14th in quality of life[3]. On many social indicators (e.g. child poverty, citizenship, and self-sufficiency) we have slipped.

We are not getting the quality of life we are paying for. Canadian increases in productivity are more than eaten up by higher costs for health care as increases in government expenditures outstrip increases in government revenues. And this growing deficit has not manifested itself in improvements in the quality of care.

[1] World Economic Forum Global Competitiveness Report: http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm

[2] World Economic Forum Business Competitiveness Index: http://www.weforum.org/pdf/Global_Competitiveness_Reports/Reports/gcr_2006/BCI.pdf

[3] The Economist Intelligent Unit's quality of life index: http://www.economist.com/media/pdf/QUALITY_OF_LIFE.pdf

The poor performance, in terms of quality care, prompted AIMS to start the Canadian Health Care Consensus Group – a collaboration of leaders in the health field – to help frame debate, develop principles and aid in making decisions.

The group has published several discussion papers and is initiating change through policy suggestions that would provide better services to Canadians; for example:

"*Governments should focus their efforts on ensuring that no one suffers economic hardship to obtain needed medical care, that access to care is equitable and that maximum information is made available on the performance of the health care system and its various components.*"[4]

Improving quality of life will depend on how badly we want it

Equally in education we are underperforming, the same World Economic Forum ranked us 17th in efficiency in education. AIMS provides innovative policy guidelines in this area as well. Our annual High School Report Card is encouraging public education to give children the highest quality education. There are solutions available to policy makers that will improve the public education system. They must first stop just throwing money at the problems and start working to find productive, results-focused solutions.

Further advances in public policy can be made to encourage competition. Eliminating inter-provincial barriers to trade, barriers to labour mobility, tariffs that protect industries will help to foster economic growth. Of particular interest to AIMS are concepts pertaining to the development of Atlantic Canada and ways to ensure the region becomes self-sufficient. To this end, substantial work has been done on Atlantica, equalization, and industry-specific policies in energy and the fisheries.

Productivity and competitiveness gains can also be made by recognizing the value of good corporate strategy. A Statistics Canada (StatsCan) report last year attributed most of the recent productivity and labour gains to the destruction and creation of new firms. In other words, our old firms are not adapting. Whether that is the result of government interference in the marketplace, intransigent unions or just corporate blindness is unclear. But destruction and creation is an expensive way to grow the economy. We can do much better.

These are a few examples of where Canada must do better. Ultimately, improving quality of life will depend on how badly we want it.

If we are going to talk about Canada's place in the world, we need also to look at trade and wealth creation through trade. A separate StatsCan report last year pointed out that the areas of the country that experienced the largest gains for labour, were also the areas that increased trade the most. In other words, trade does not destroy jobs, it actually creates jobs.

Canada hasn't signed a free trade agreement in six years and only has a total of three regardless. NAFTA did not totally eliminate many non-tariff barriers and a number of other trade negotiations initiated have become stalled as our potential partners have focused on the US, EU and Asia.

Put bluntly, our lack of strong federal foreign policy has hurt. Examples abound and there is empirical support for a relationship between

[4] Canadian Healthcare Consensus Group Statement of Vision and Principles: www.consensusgroup.ca

foreign affairs and trade. A good study of this was released by DFAIT a few months ago. It extended the usual trade gravity model that predicts trade flows as a function of distance, GDP, complementary products and language by adding in effort in foreign affairs. The result was better correlation of the data. In other words, more effort by foreign affairs gets you more trade.

An example, Canada was one of the first countries to talk to China about promoting tourism abroad but early successes became stalled by increasingly bad federal relations. Currently the only tourists arriving in Canada from China are those here for business or school. Without getting "Approved Destination Status (ADS)," Canada can't sell packaged tours. All of our key competitors now have ADS resulting in millions, if not billions, in lost revenue. The point is not that we should or should not hand embezzlers back over to China. The point is that so long as these debates happen in the public eye, China will never move the process forward.

At the end of the day there will be great temptation to hide our failings in productivity and trade by exploiting resources like the oil sands. However, in the absence of real corporate and public sector leadership, we will continue to slide in international relevance and as "best place to live." The solutions are out there, we just need to get to work.

Stephen Kymlicka has a BSc from St. Francis Xavier University and an MBA from Dalhousie University. In addition to his work with AIMS, Stephen teaches International Business and Corporate Strategy at Dalhousie University. Prior to coming to AIMS, he ran a MIS and Management consulting firm in Regina for several years; growing the company to 27 employees. Over nearly 20 years, he has worked or consulted for agriculture, oil and gas, chemicals, mining, insurance, NGOs and several government departments.

Atlantic Institute for Market Studies

2000 Barrington St., Ste. 1302 Cogswell Tower,
Halifax NS B3J 3K1
phone: (902) 429-1143 fax: (902) 425-1393
E-Mail: aims@aims.ca http://www.aims.ca