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# Strategic Regional Development Overview

Canada



Government  
of Canada

Gouvernement  
du Canada

Regional  
Economic  
Expansion

Expansion  
Économique  
Régionale

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STRATEGIC REGIONAL DEVELOPMENT OVERVIEW

CANADA

*Canada.*

DEPARTMENT OF REGIONAL ECONOMIC EXPANSION

## INTRODUCTION

1. The impacts of international price movements, technological innovations and new-found resource wealth have intensified the need to re-examine Canada's regional development policy. This review is timely in light of the discussions which are under way concerning Canada's constitutional framework and the need for mutual understanding among our diverse regions. The process of renewing Canada's constitution and the ongoing need to address serious regional disparities, require a mutual understanding of the forces which are affecting and will continue to affect, Canada's regional economies. From this understanding, more clearly defined objectives, and the instruments to provide assistance in achieving regional development objectives, may be derived.

## BACKGROUND

2. Since DREE was created in 1969, and particularly since the policy review of 1973 which resulted in the decentralization of the department and the establishment of General Development Agreements, a great deal of experience has been gained concerning regional disparities. Regional disparity can be measured in several different ways with different results. Some communities with long-established industries are now facing declining prospects and difficult adjustment. Other areas of low income today have good potential for the future. Several indicators suggest that Canada has managed to arrest and even reverse a trend toward regional disparity in some parts of the country over the last 10 years. Nevertheless, these same indicators also show that there are areas in this country where poverty has been a continuous way of life, where social and economic development are sporadic, and where there are few employment opportunities for the local labour force, especially for the young. Regional policies which have been deployed during the last decade have had a measurable effect. Nevertheless, serious problems of regional disparity are expected to continue into the 1980s.

In some areas, the prospects without direct government intervention are very limited. On the other hand, the potential for growth and development in some regions is greater now than at any time in the past.

3. The multiple opportunities and the constraints to development facing the regions of Canada indicate that development strategies must be regionally sensitive; that the specific objectives of one region may not be equally shared by another; that instruments of policy which are applicable in one region may not be useful in another; and that the initiatives which bear fruit in, say the Atlantic and Gaspé, may be inappropriate in the west and vice versa. These considerations suggest that a development strategy which is insensitive to regional issues is unacceptable. Further, government objectives need to be clearly stated on a regional basis, and a wide range of flexible development instruments brought into use.

#### THE CHALLENGE OF THE 1980s

4. Many of the major economic trends which will shape regional patterns of growth in the 1980s are already evident. These trends are described in detail on a region-by-region basis in the accompanying regional documents. Briefly, they are as follows:
  - (a) Canada has been one of the great energy-consuming nations. In the 1980s, adjustment to increased costs and decreased international availability will be a major factor affecting industrial development in Ontario, Quebec and the Atlantic provinces. In the west particularly, and perhaps also on the north and the east coasts, major energy projects will result in significant new growth and development but at the same time will strain regional economic capacities. The spillover, or "linkage" effects of these projects and the economic growth that may be associated with them can provide substantial opportunities for the industrial and manufacturing sectors centred in Ontario and Quebec as well as in the resource regions.

- (b) As a result of revisions to the General Agreement on Tariffs and Trade (GATT) and the emergence of strongly competitive industries in the developing countries, patterns of international supply and demand are shifting irreversibly. Canada has a declining comparative advantage in labour-intensive industries though, at the same time, Canada has the prospect of gains in certain higher technology industries, and new markets for renewable and non-renewable resource products. Ontario and Quebec in particular face distinct problems of adjustment in their industrial structures. The resource sector industries, usually located outside the major metropolitan areas, will provide specific opportunities for economic expansion. DREE has already developed "tailored" adjustment policies and programs to address some of these problems. Specific examples are the designation of Montreal as a Special Area to reinforce its role as a regional and national growth centre; and initiatives to assist the pulp and paper industry in upgrading its technological base.
- (c) Domestic barriers to growth are already evident in some regions. The new patterns of activities in the 1980s will strain the capacity of some support systems. In the west, inadequate bulk transportation systems have been identified as a key growth constraint. Water shortages and labour shortages may also constrain the growth of the western economy. In Ontario, the demographic trends suggest that the shortage of skilled labour may be an emerging barrier to growth. In Quebec, there is a requirement for increased investment and industrial adjustment. In the Atlantic provinces, uncertainties about resource endowments must be resolved before a firm, steady, regional growth prospect can emerge. In the Canadian context, barriers to the free flow of resources are of major concern in light of the substantial differences in both the resource-based and goods-processing capabilities of the country's major economic regions. Of immediate concern is the degree

to which spinoffs from development opportunities in one region of the country can be realized in other regions.

- (d) During the past decade increased revenues from resource development have created large imbalances in the fiscal capacity, or taxing ability, of the provinces. In some provinces a limited fiscal capacity may restrict their ability to initiate and participate in development programs. Interprovincial discrepancies in fiscal capacity are normally offset, for provinces with capacities below national average levels, by equalization grants from the federal government. Despite several measures to reduce the increasing burden of equalization payments on the federal budget they continue to be an important fiscal source for provinces with below-average fiscal capacities.
  - (e) Some past federal programs have had equity, or income maintenance as objectives. These programs have contributed to an easing of regional disparities. But they have also created in some places a "dependence effect", inhibiting regional growth, corporate entrepreneurship, and individual mobility. The current and estimated future federal fiscal position may not permit large new cash flows to the regions. The focus of policy, therefore, may have to shift more towards the realization of economic opportunity. This shift in policy stance will mean that new objectives are required. Specific targetting toward regional development goals is particularly important in a time of extreme federal fiscal restraint.
6. The impacts of these economic factors and trends have varied, and will continue to vary among the regions. The problems and opportunities for regional development across Canada in the 1980s will be more diverse than in the last decade. Different situations will require different and selective combinations of development instruments. The means for encouraging social and economic growth in a particular region must be commensurate with the specific objectives of that region and its people.

TOWARDS A NEW POLICY

7. Traditionally, the goals of regional economic development have been couched in terms of increasing incomes and employment, particularly in lagging regions of the country. Although inequitable regional circumstances waste manpower resources and are clearly unacceptable, these goals of increasing incomes and employment opportunities do not fully capture all of the regional concerns which should be addressed in a regional development strategy. Such a regional strategy must not only be tailor-made; it must also include an adequate array of government policies and programs to meet diverse regional objectives.
8. The emerging requirements for the 1980s are to:
  - a) Create employment opportunities for men and women in all regions. This has particular relevance in regions of protracted unemployment (with rates normally half again higher than the national average), and great poverty (earned incomes less than two thirds of the national average). Moving the labour force from these areas to jobs is not socially feasible. The jobs, where possible, must be moved to the people.
  - b) Overcome barriers to growth. Regional barriers have been discussed briefly above. The type of action required is often region-wide in the sense of cutting across provincial boundaries. For example, water shortages on the southern prairies are a problem which will require action by the federal government and all provinces in the watershed.
  - c) Ease adjustment. The problems and opportunities facing Canadian industries as a result of shifting patterns of international trade have been described briefly above. Although adjustment policies are often sectoral, in a large country with a thinly spread industrial base, industrial adjustment problems have a strong regional dimension. An example is the textile sector centred in Montreal and, to a lesser extent, other areas. In a more general sense, adjustment policy can include regional stabilization policy, and manpower training and mobility policies.

- d) Enhance interregional linkages. This is a critical requirement in support of regional diversity. To this end policy should encourage freer and more efficient flows of goods, services and productive factors. This implies a federal commitment to efficient national transportation, communication, and regulatory policies and programs. It also implies opposition to balkanization of the Canadian market through excessive or insufficient industrial diversification within provinces and regions.
9. These emerging needs for the 1980s -- providing employment opportunities for men and women; overcoming physical and institutional barriers to growth; ensuring the efficient and effective operation of regional linkages; and assisting residents of a region in adjusting to new occupations, innovations and more efficient systems -- are not mutually exclusive. Without being overly protective of Canadian industry, strategies can be developed to pursue increased linkages within and among regions so as to increase Canadian value-added and related employment from both local resource developments and major projects. Further, processing of raw resources, close to the location of the resources, may focus development on areas where disparities are greatest. At the same time, the enhancement of industrial linkages has the potential to facilitate industrial development or alternatively, to ease industrial adjustment problems throughout the economy by the establishment of industrial opportunities.
10. To be fully effective, federal regional development policy must remain sensitive to diverse regional patterns of growth, barriers to growth, opportunities for linkages and directions of adjustments. Government instruments may facilitate beneficial adjustments in the economy through intergovernmental undertakings, direct federal action, encouragement of community-based activity and, at times, the employment of a concentrated range of coordinated government expenditures.



11. New strategies, policies and program instruments must be based upon the realization that national development policies must be regionally sensitive. Regional economic and social differences, as well as those of physical geography, have led to diverse views about the objectives and the principles of regional economic development. While often not mutually exclusive, this range of views has to be recognized at the outset and the required policy and program framework must be broad enough and sufficiently flexible to meet the demands of all Canadians. Accordingly, it is important that discussions concerning the design and implementation of regional economic development policies and programs reflect the views and concerns of local residents and the elected representatives of each region and community. Members of Parliament have a unique understanding of the issues and priorities of the people they represent. Further, Members of Parliament, regardless of political affiliation, must be full partners with the Minister of Regional Economic Expansion in the fight against regional disparities, and must be consulted about government policies and programs which affect the well-being of the people they represent.