

## Keeping Up With the (Global) Joneses The Future of Western Canada's Competitive Position

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The desire to peer into the future is innate in all of us. From the dawn of time, people have tried to divine the future through prophets and crystal balls. Today, we do it through commodity futures exchanges, pre-election polls, and The Farmers' Almanac. In all cases - crystal balls or polling results - we are left with an incomplete (and often incorrect) view of what is to come.

The Canada West Foundation has been busy doing its own crystal ball gazing lately with a new report entitled *Coming Up Next: The Transformation of Western Canada's Economy*. In this soon-to-be-released volume, several predictions are made as to what we can expect to happen to the West's economy over the next few decades. Seven major themes emerge will most certainly weave their way into western Canada's economic future. Chief among them is growing competitive pressure from all corners of the globe.

A term that is used a lot lately in the business pages is "outsourcing." This is nothing new - companies have been "outsourcing" since the beginnings of commerce. Newspaper companies don't grow trees, and car manufacturers don't mine iron. It is the efficiencies of large economies of scale and specialization that lead one company to harvest trees, one company to turn them into paper, and one company to print words on it and sell it as a newspaper.

Outsourcing is on the rise in Canada. A recent study by Statistics Canada shows that, between 1986 and 2002, 15 of 22 industry groupings increased their use of inputs from other industries (*Multipliers and Outsourcing*, Canadian Economic Observer, Jan 2006). The largest increases in the use of such outsourcing were observed in wholesalers, business services, information, retailing, and utilities. It isn't just manufacturers that are finding it less expensive to hire someone else to do a portion of their work.

Increasingly, the term "outsourcing" is used to refer to what many see as an alarming trend. It now often refers to domestic companies shifting production overseas where labour costs or standards are lower (usually China or India). The result is a loss of jobs at home. The issue is a major concern in the US, and the calls for politicians to take action are getting louder.

Making matters worse, however, is that advances in our communications technologies mean the potential jobs lost to overseas workers are virtually unlimited. Even jobs that were previously thought to be safe from foreign competition could be lost. Two very interesting examples of outsourcing using modern communications underscore the fact that it is no longer only the labour-intensive "sweat shop" jobs that are under threat.

Some fast food chains in the US are implementing systems with their drive-thru sales. When the driver of the car rolls down the window and places an order, the person on the other end is thousands of miles away at a centralized call centre. These people are trained specifically to deal with drive-through customers and are experts at "up selling" the bigger meal, the extra fries, or the super large soft drinks. They earn higher wages than the kitchen staff, too. The food order is then electronically sent back to that particular restaurant's kitchen.

Another example is the use of the Internet to diagnose medical patients. X-ray images are emailed to doctors in India and other offshore locations. The diagnosis is then phoned or emailed back to the technical support staff at the domestic clinic.

In both of these examples, we see how communications technology and outsourcing are used to lower costs and improve service to the customer - but at the cost of the good-paying, high skill jobs at home.

Western Canada's economy is subject to these same competitive forces that are made more acute by cyberspace. All manner of service sector occupations - legal, advertising, engineering, education, etc. - lend themselves quite nicely to the powers of cyberspace and the erosion of high-skill jobs to global competitors.

What can be done to prevent this slippage?

The worst solution is legislation that penalizes companies for outsourcing parts of their operations. Such a heavy-handed approach may appease labour unions and short-sighted "nationalists," but it is likely to result in the entire company packing up and leaving Canada altogether.

Some anti-globalization voices will pretend that this problem is only about cutting costs, corporate greed, and the exploitation of the developing world. In the process, they demonize capitalism and seek to stymie the entrepreneurial spirit on which the wealth of this country was built.

The issue at hand is not only the lowest wage, but also which country has the brightest minds, the cleanest environment, the most cutting edge research, and the best risk-taking entrepreneurs.

Companies need more than low wages - they need the creativity, the knowledge, and the entrepreneurial energy that leads to good ideas. They need the scientific researcher who says, when faced with an unexpected result, "*That's funny.*" It is this spirit of inquiry that will propel our economy ahead in the years to come, not short-sighted protectionism. This is where the West excels.

Western Canada *can* compete in the global marketplace, but to ensure a strong competitive position in the future, we have to take action now. The challenges will only be met through improved education and skills development, stronger incentives for environmental stewardship, better relations with our trading partners, and much improved access to the tools and capital required by small entrepreneurs.