

## **Regional Economic Development**

*“Today, we lead the country in GDP growth, job creation and new investment activity. That is why it is so important now to refocus our efforts and ensure the momentum we have gained is not lost.*

*A renewed economic agenda will focus on broad directions and overall policies to build on the new economy, forge partnerships, strengthen our traditional resource industries, and gain full and fair benefits from major resource developments.”*

Brian Tobin

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Federal, provincial, and municipal governments have employed regional economic development strategies for years to solve the problems of depressed economies. In broad terms, economic development, whether at the community or national level, refers to those measures taken to improve income, employment, and productivity levels, the end goal being the elimination of disparities. These measures usually entail activities that lead to job creation and wealth distribution within the affected area. In this unit, we will discuss Newfoundland’s economy and elaborate upon economic development strategies.

### **The Economy: A Brief Sketch**

Economists use three major indicators to measure economic performance: (1) gross domestic product (GDP) (the value of all goods and services), (2) employment, and (3) per capita income. Performance in these three areas measures regional economic prosperity relative to the national average. GDP may not, however, give a clear picture of how well people are benefitting from the economy. This is better measured by employment levels and per capita income.

The sectors used to measure total GDP are as follows: Community Businesses and Personal Services; Finance, Insurance, and Real Estate; Wholesale and Retail Trade; Transportation and Communications; Electrical Power and other Utilities; Construction; Manufacturing; Mining; other Primary Industries; and Public Administration. These are the indicators that governments use to track economic performance.

In 1997, the Newfoundland and Labrador economy began to grow faster than the national average. In 1999, the province had one of the fastest growing economies in the country. Growth, which was at a rate of 5 percent, exceeded that of other provinces and the national average for the first time in many years. The major contributors to this growth were oil production, a strong mining industry, strong growth in the fishing industry, increased manufacturing, and a growing tourism industry. Economists are predicting that this growth will continue into the next century.

### **Consequences for the Province**

While we are optimistic about this growth, we have to consider how it contributes to quality of life and impacts on employment levels. If we are experiencing substantial growth through an increase in GDP, royalties and taxes should be adding significantly to our provincial coffers. Revenues should be helping bring down the provincial debt, creating balanced budgets, and providing the services that people require for a better quality of life. As well, our employment rate should be up substantially.

For now, despite the increase in GDP, the amount of money in the provincial budget will not increase substantially. A significant part of this budget comes from the federal government in the form of transfer or equalization payments. As the province receives royalties from resource development and as the provincial economy grows, the amount of money received in equalization payments from the federal government decreases. This decrease will continue until Newfoundland and Labrador no longer qualifies for transfer payments and eventually becomes a “have” province. The federal government recognized the province’s desire to become self-sufficient when it agreed that transfer payments should not be decreased at the same rate that the province generates revenue. Therefore, Newfoundland and Labrador has been given special consideration in trying to achieve this goal.

Another impediment for our economy is underdevelopment. Most of our resources are shipped out of the province in a raw or unprocessed state. With this export of raw resources, processing jobs are being exported as well. We will not see secondary benefits from the following until well into the future: western Labrador’s iron ore, Labrador’s cheap electrical power, and oil (which is regulated by an agreement that refining capacity here will not increase until all the capacity in eastern Canada is exhausted).

On the other hand, there are some positive aspects of the provinces’s situation which should be highlighted. The negotiations for the development of Voisey’s Bay and the actions relative to the proposal to export bulk water from Gisborne Lake have demonstrated that the Government of Newfoundland and Labrador is insisting that further benefits go to the people of the province.

Furthermore, developments will make a major contribution to the provincial economy. The Voisey's Bay project, offshore and onshore oil development, and the Churchill River Power Project will add to GDP. They will be contributors to employment creation, mostly in the areas of the support services and construction, and will generate spin-off activity. These projects will also result in new business start-ups, help develop skills that are transferable to anywhere in the world, and provide state-of-the-art facilities for industrial development.

Royalties from these projects will contribute to the national and provincial economies, but, with few exceptions, the economic activity associated with these developments will only benefit specific communities or smaller areas. These major developments will come and go depending on need, return on investment, and the sustainability of the resource being exploited, and smaller communities will have little to say about this. Many rural communities will remain vulnerable unless the people continue to identify other opportunities that will serve them best. This creates the need for a regional economic development approach where most of the solutions are found by and in the community.

### **Regional Economic Development: The Community's Approach**

Communities must adopt a balanced approach to development. They must exploit traditional industries such as the fishery, tourism, and small-scale manufacturing and take advantage of opportunities in information, technology, and the environment. Smaller community-based enterprises must complement large-scale industries. This kind of diversification will, in the long term, provide greater stability and help build a stronger economy.

An analysis of what is happening in the fishing industry while the moratorium is still in effect clearly demonstrates how we can achieve positive economic development results in our resource-based sector. When the moratorium was declared in 1992, most communities were devastated and in shock. After several years, fishers and processors started to recover and look at what they could do to reestablish a way of life. Their efforts paid off. They have found and taken advantage of development opportunities in secondary processing, diversification into other species, aquaculture, and the support services needed to sustain the industry. The total market value of the fishery at present surpasses the pre-moratorium market value. These opportunities were always there, but it may have taken a crisis to force us to recognize them. This demonstrates that when pushed, we can better utilize our resources. When the resource appeared to be unlimited, we exploited it to the maximum, and as problems became apparent, we soon learned how to get greater value from less product.

We must determine how we can provide both direct and indirect linkages to further development opportunities within the specific sectors. In the first case, we must take advantage of value-added activities and spin-offs (often referred to as downstream development). As well, we must

pursue the development of support infrastructure, capital goods, and producer services (upstream development). In the second case, local consumption, traditional services, and the reinvestment of profits in human resource and infrastructure development create diversification and employment.

We must link development strategies identified in the regions through strategic planning with external opportunities. This leads to developments that rely not only on the exploitation of our natural resources but as well on the skills and knowledge of our human resource. It can lead to the identification of opportunities in the information and technology fields, ocean research and development, and environmental protection. If we want to employ our youth, we must show that there are opportunities in our communities that require their knowledge and education. As well, we must provide mentoring programs and identify points of access to investment capital.

To carry out the above-mentioned types of development, we may use the following strategies:

1. *Attracting outside investment.* This requires a public relations and promotional approach. There is a need to identify what opportunities exist for investors and show how they can best pursue them in the area. Their needs will include information on municipal and industrial services, tax concessions, loans or grants, and zoning and environmental regulations. Those responsible will also see to living and community standards, available services, and issues that support family living.
2. *Public sector programs and infrastructure.* Government facilities, services, and programs create employment and stabilize the local economy. Unfortunately, in recent years, governments have been downsizing and centralizing services.
3. *New firm creation.* This not only depends on attracting investment but requires the identification of opportunities, business counselling, entrepreneurial attitudes, and infrastructure.
4. *Existing firm expansion.* Opportunities that result from upstream and downstream developments can allow businesses to expand. In many cases, they provide the best opportunities for local development. Firms that may already exist in our communities have roots that make further development possible. Existing firms and fishing enterprises have contributed the most to the increased market value of the fishery since 1992.
5. *Community control and ownership.* If we believe that a community development approach can help us out of our present circumstance, our commitment should

include creating businesses that are owned by the community. Cooperatives and credit unions can help people provide services for themselves. Whether services are required on an individual or business basis, cooperatives have proven that a collective approach can work. As well, community capital corporations can help generate the investment funds needed to pursue those opportunities that best serve the community. This approach requires commitment, an entrepreneurial attitude, and a recognition of a self-help approach.

6. *Local sector strategies.* These strategies require us to target specific sectors that have growth potential and pursue development within these sectors. Those who prepared the zonal strategic plans have attempted to identify these sectors. Over the last number of years, government development initiatives have been consistent with this approach. The development of a small-scale manufacturing strategy and the identification of “growth sectors” demonstrate this.
7. *Import substitution.* In developing strategic plans, we should be identifying goods and services that come from outside our region and seeing if there is potential for providing these locally. This could lead to opportunities in many areas. Can certain food products be produced locally? Can a craft or manufacturing enterprise produce some of the goods that we use?
8. *Niche marketing.* Many communities can produce goods and services that are in demand in other areas because of the unavailability of a specific resource or skill. The resource could come from the environment. The result could be specialty products in the areas of food, clothing, pharmaceuticals, and wood products.

### **Economic Development: Building the Capacity**

If communities decide to undertake economic development as a method of providing community stability, there are other issues that must be considered. Firstly, economic development requires that the community or region undertake a systematic process. Depending on large-scale developments to come to the community is a hit and miss approach, as the community does not control or influence their coming or going. Secondly, the status quo leads to a “brain drain” with those who are best educated being forced to move to another area. This results in a loss of human resource and strategic planning capability.

## **An Integrated Approach**

Good infrastructure in support of business, an educated population which can undertake community planning and implementation, and a diversified economy that is not dependent on only one resource lead to a sustainable community. Business, social, and economic development must be seen as part of the same process. They are so interconnected that the pursuit of one in isolation is not possible. In the end, people's quality of life will determine how well these elements are being developed and integrated.

## **Strategic Planning**

Since the region will be in competition with other regions for economic development, a well thought out strategy is important. A strategic plan based on community vision and strengths becomes the first step in preparing for development and sustainability in the region. The most important question that the community must ask when undertaking strategic planning is "Are we planning for economic development or are we planning for the status quo?" This is important, since the approach to development may well be one which ensures present circumstances are maintained with little emphasis placed on long-term employment and wealth generation potential.

While social and economic objectives are interconnected, the region must decide which are primary. Dependence on social programs to get us out of economic difficulties will have limited success. We must put forward strategies that depend on private investment with government funds being used to create partnerships, identify markets, and create a development climate that encourages rather than competes with private investment. While incentives are important, they should not create an unfair advantage by subsidizing competition.

## **Organizational Development**

Organizational development is important, since people will need venues to express their aspirations, oversee the development effort, undertake the implementation, and facilitate a holistic approach to development. These organizations will need to work together and with governments so that they can maximize the potential for economic development. The partners must delineate roles and responsibilities, maximize skills and resources, and identify professional assistance so that the region benefits as a whole. Organizations and interests should not be trying to operate at each other's expense.

## **Education and Training**

Educators must recognize the need for an approach that is community-centred. Firstly, at the secondary level, teachers must introduce students to economic development principles and practices. They must make them aware of and encourage them to become involved in community development organizations. Secondly, the post-secondary system has a responsibility to provide the volunteers and staff of development organizations with the training necessary for economic and business development as well as for planning, organizational, and leadership development. It also has a responsibility to provide skills training that complements regional strengths, opportunities, and strategies. Finally, we must start teaching and encouraging people to pursue self-employment as a career option. This creates the need for the development and implementation of entrepreneurship training programs at both the secondary and post-secondary levels.

## **Champions**

The idea of championing specific causes is closely related to that of leadership in development. Most successful development strategies have a champion (a person or group dedicated to the idea, committed to seeing it through, and not easily discouraged by obstacles that interfere from time to time). Whether it pertains to one of the initiatives identified in the strategic plan or a strategy that leads to the development of a community, the role of the champion cannot be underestimated. He/she brings focus to the project, motivates and challenges people, and engages them to commit themselves to the project. A true champion believes even when others become discouraged.

## **Employment**

Community development practitioners pursue development opportunities that provide the best employment potential for their communities. In many cases, these opportunities result in short-term or government-funded ventures. However, many government programs that target employment as a major objective are really designed to provide a bridge or fill a gap created by lack of opportunity or downturns in the private sector. This may cause project leaders to overlook development opportunities that are less labour-intensive and more technology-driven. In its efforts to maximize profits, the private sector uses technology to a greater extent, creating less dependence on labour. Technology is essential if we are to be competitive and, therefore, must be seen as playing a major role in all development initiatives. In pursuing development opportunities, however, both the business community and community development practitioners must search for the best balance between technology and employment without jeopardizing the feasibility of projects.

## **Co-operative Enterprise And Community Economic Development**

A co-operative is a legally incorporated business that is owned and controlled by the people who use its services. Co-ops can be established in any sector of the economy depending on the need. They can provide a business structure through which primary producers, such as farmers and fishers, can work together to reduce costs and maintain a fair price for their products. They can provide community services such as health care, childcare, housing and cable TV. Worker co-ops have as their objective the provision of employment for their members, while maintaining business viability and success.

Co-ops combine economic and social objectives in their business pursuits. They provide a model for community economic development because they enable people to accomplish things together that could not have been achieved individually. They facilitate community investment and local control of resource development.

Because they are businesses, co-ops can do many things that non-profit associations cannot. Community development agencies are often the catalysts for the formation of co-ops to address local needs. Co-ops combine the basic principles of community development with a business approach, enabling people to turn local strengths into viable community owned enterprises.

Zone boards can use the co-op model to implement business initiatives identified in their strategic economic plans. Opportunities for job creation and economic development that can benefit from co-op development include the following:

- Co-ops have demonstrated their effectiveness as mechanisms to facilitate local ownership and investment in the fishery. Community participation ensures that the resource is managed for the long-term benefit of the fishers. Co-ops can also be the basis for a more organized and strategic approach to product and market development in the aquaculture sector.
- Community owned co-ops could be used to develop local water resources, suitable for bottling plants. Local ownership would be maintained, new jobs would be created and profits could be used to fund infrastructure such as water, sewer and recreational facilities.

- Co-ops can provide mechanisms for farmers to work together to revitalize vegetable production in the province by rationalizing production and achieving the volume required to access new markets. Co-ops can also be used to support development of family farms to produce blueberries and cranberries that could be collectively marketed to local processors or processed by the co-op itself.
- Co-ops are an appropriate mechanism for the delivery of public services because they can protect the rights of the employees, who would also be the owners of the businesses, while insuring public access to high quality service delivery.
- Regional co-ops can provide a structure for business operators in the tourism and crafts sectors to collectively market their products and services and generate increased income and employment.
- Co-op development is also an appropriate mechanism for the delivery of social programs because they can provide for stakeholder participation, while ensuring that the economic viability is maintained. Such co-ops have been established in other provinces and are the preferred service delivery model in countries such as Italy and Spain.

With respect to employment creation, co-ops have demonstrated a higher level of growth than the Canadian economy in general. National studies indicate that between 1984 and 1997, the number of jobs in the co-op sector increased by 50 percent compared to a national average of 20 percent over the same time period.

Co-operatives have also demonstrated a longer survival rate than other forms of business enterprise. Studies in Quebec have shown that 64 percent of co-operatives still exist after the first five years compared to 36 percent of other companies. A similar pattern is evident in this province where many co-ops have been in business since the 1950s. Although co-ops sometimes take a while to get started, they tend to remain in business for the long term.

The benefits of co-operative development can be substantial and are demonstrated by the existing sector, not only in this province but also across the country. There are 10,000 co-ops in Canada serving over 15 million members. They employ 150,000 people. Their assets total \$167 billion. Approximately 60 percent of all milk products, grains and oil seeds in the country are marketed by co-ops. One of every two dollars received by farmers for their agricultural commodities come from a farmer owned co-op.

There are over 57,000 co-op members in Newfoundland and Labrador. They are fish plant workers on the Labrador coast; fishermen and women on Fogo Island; vegetable farmers in central Newfoundland; egg producers on the Avalon Peninsula; retail co-op members, filmmakers, taxi drivers, photographers, goat farmers, carpenters and IT workers. There are currently 73 co-operatives operating in the province. They employ over 1400 people and had sales in excess of \$132 million in 1998.

The Newfoundland-Labrador Federation of Co-operatives (NLFC) is the provincial agency that represents the co-op business sector. Through its network of service delivery partners, the NLFC, in partnership with the Department of Development and Rural Renewal, provides support services for micro-business and co-operative development in the province. As members of co-ops and business credit groups, NLFC clients access micro-loans, participate in business networks and work together to help each other succeed.

For further information about co-operatives and the NLFC's programs and services, please contact:

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