Glocalization: The Regional/International Interface

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When the organizers of the North American Regional Science Association meetings invited me to deliver the luncheon address, their only guidelines were that I should focus on Canada and on policy. Presumably, however, the expectation was that I would elaborate upon, or update, my earlier work on regional disparities, transfer dependency and the resulting "policy-induced" equilibria -- equilibria which embody large unemployment-rate differentials across the provinces and which are the result of decades of policy interventions that served to interfere with the processes of natural economic adjustment (Courchene 1994). These issues are still alive and well. One example will suffice. Suppose New Brunswick, Canada's newest "turnaround" province, were to generate 15,000 new jobs with a payroll of $30 million and, say, an increase in provincial own-source tax revenue of $12 million. Assuming, further, that these jobs were filled by New Brunswickers, how much would this province's total revenues (own revenues plus equalization) increase? The answer is "zero". This follows since New Brunswick is not part of the "five-province standard" for equalization purposes. Hence, an increase in revenues arising from an increase in any tax base in New Brunswick will be offset

Editor's Note: This paper was presented as the luncheon address at the 41st annual meetings of the North American Regional Science Association meetings, November 17-20, 1994. Glocalization refers to economic power being transferred to both more local and more global entities.
Globalization and the Information Revolution

Globalization

Globalization is transforming the nation state. One need not go as far as Reich (1991) and proclaim the death knell of the economic nation state, but I would align myself with Bell (1987) who asserts that nation states have become too large to tackle the small things in life and too small to address the large things. Paquet (1994) refers to this as the “Gulliver Effect” -- nation states are unable to deal effectively either with the dwarfs of Lilliput or the giants of Brobdignag. However one chooses to express this, the point is that economic power is being transferred upward, downward and outward from nation states. This tendency for economic power to shift both the global and local levels is captured by the term “glocalization”.

In terms of the upward transfer, the issue is rather straightforward: economic space is transcending political space. It is the private sector that is globalizing, not the public sector. By way of countervail, nation states are transferring important regulatory functions “upward” (for example, to the Bank for International Settlements for capital-adequacy rules for global banks) and by creating supra-national institutions whether of the NAFTA, European Union, or World Trade Organization variety. In political terms, what is occurring is a process of “jurisdictional re-alignment” or “jurisdictional mapping” or even “global confederalizing”; namely, an attempt on the part of nation states to ensure that the jurisdictional reach of this supra-national authority is roughly coincident with the expanded economic space.

Economic power is also being transferred downward from nation states. One aspect of this is that telecomputational advances have empowered citizens in a manner that was inconceivable a decade ago. Citizens can access, send, manipulate and transform information in ways and quantities that governments are powerless to prevent. A decade ago, “transmitters” determined the information flow. Increasingly, “receptors” are in the driver’s seat. Indeed, it is this “democratization” of information and, therefore, power that

1. To be sure, New Brunswick’s net revenue position may improve since its expenditures on welfare, for example, would presumably decline. Two other points merit highlight: First, New Brunswick’s overall revenues would increase if its own-source revenue rose because it increased its tax rate. Second, the above comments effectively apply to small provinces that are part of the five-province standard as well. With roughly a five percent weight in the five-province standard, Saskatchewan would pocket a nickel for every dollar increase in own revenues arising from an increase in economic activity. For more detail on these and related problems as well as some proposals for their resolution, see Courchene (1994).

2. Lipsey (1994) drawing from Freeman and Perez (1988) refers to the dramatic changes in the domestic and global economies in terms of the emergence of a “new technoeconomic paradigm”, defined as follows:

“A technoeconomic paradigm is a systematic relationship among the products that are produced, the methods of producing them, the organization of productive units, and the institutions that support this activity. A typical paradigm is based on: 1. a few key products with wide application, 2. a few key materials whose costs are falling over time, 3. a way of organizing economic activity, 4. a supporting infrastructure, 5. a typical pattern of industrial concentration, 6. a typical pattern of efficient location”.

While the concept of a new technoeconomic paradigm differs in several ways from the phrase “globalization and the knowledge/information revolution” these terms will be used interchangeably in what follows.

3. This section draws from Courchene (1995).
### Table 1: Globalisation and the Knowledge/Information Revolution: Variations on the New Technoeconomic Paradigm

<table>
<thead>
<tr>
<th>Variations on the NTP</th>
<th>Definition</th>
<th>Features/Characteristics</th>
<th>Policy Implications/Challenges</th>
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<tr>
<td>A. &quot;Nothing is 'Overseas' any Longer&quot; (Ohmae, 1990: vii)</td>
<td>This is the increasing internationalisation of production; initially in manufacturing, but progressively in services as well.</td>
<td>Decouples firms from the factor endowments of any single nation.</td>
<td>Wreaks havoc with national welfare states which have geared incentives to national production systems. What is the nature of a welfare state when production is international?</td>
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<td>B. Shift from Multinational Corporations (MNCs) to Transportation Corporations (TNCs)</td>
<td>TNCs no longer subject to host-country controls, unlike MNCs.</td>
<td>Two polar models: &quot;national treatment&quot; under NAFTA and the single-passport (non-host-country rule) model in the European Union (EU). In theory at least, the former is sovereignty enhancing while the latter implies policy homogenization.</td>
<td>Canadians will eventually recognize that the genius of the FTA lies in the sovereignty-enhancing &quot;national treatment&quot; principle; It is the international private sector that is globalising, not the public sector. Pressures mount for governments to transfer powers upward so that political space is more contiguous with economic space.</td>
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<td>C. Globalisation, as the Internationalisation of Cities</td>
<td>Economies of scale and scope associated with the information explosion imply that international cities have become the connectors outwards to cities like London, New York and Tokyo and inwards to their regional hinterlands.</td>
<td>• Represents one way in which the &quot;institutional structure&quot; is globalising; • May be a temporary phenomenon as the spread of the information revolution allows for a greater dispersion of economic power and activity.</td>
<td>An integral part of process by which power is being transferred downward from nation states. This is especially so since, in Canada at least, international cities are &quot;constitutional&quot;. An integral part of the &quot;regional-international&quot; interface highlighted later in this paper.</td>
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<td>D.1 Globalisation, as the Knowledge/Information Revolution: Knowledge</td>
<td>Knowledge is increasingly at the cutting edge of competitiveness.</td>
<td>• Skilled labour is more like capital than traditional labour; • Disappearing middle class • Shift in the &quot;wealth-generation process&quot; (Harris 1993);</td>
<td>• Dramatic implications in all nations with respect to the distribution of incomes; Even resource-rich economies must make the transition to a human-capital based economy and society; Social policy, as it relates to human capital/skills formation, is indistinguishable from economic policy.</td>
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<td>D.2 Globalisation, as the Knowledge/Information Revolution: Information</td>
<td>Compresses both time and distance in terms of economic activity and, therefore, enhances global integration.</td>
<td>Privileges individuals in the sense that they now have the ability to access, transmit, and transform information in ways that governments of all stripes are powerless to prevent.</td>
<td>• Arguably, this is inherently decentralising. • The information revolution will also serve to redraw the boundary between what is feasible in the public and private sectors.</td>
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<td>E. Globalisation as Consumer Sovereignty (Ohmae 1990)</td>
<td>Ohmae argues that &quot;performance standards are now set in the global market place by those that buy the products, not those that make or regulate them&quot; (1990, dustjacket).</td>
<td>This is a variant of the information revolution in D.2 in that it implies that &quot;receptors&quot; rather than &quot;transmitters&quot; are in the driver’s seat.</td>
<td>• Obviously, this transfers power from governments to consumers. • Courchene (1995) focuses on the fact that while the information revolution privileges citizens as &quot;consumers&quot;, it tends to disenfranchise them as &quot;citizens&quot;, since an important set of decisions relating to them are beyond the purview of the nation state.</td>
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<td>F. Globalisation as Regime Theory</td>
<td>In a sense, this is the oldest forms of globalisation. Regimes are the formal or informal international institutional devices through which economic and political actors arrange and manage their interdependencies.</td>
<td>Regimes have long been with us - in energy, airlines, minerals, etc. Their activities run the gamut from setting standards, performing allocation functions, monitoring compliance, reducing conflict and resolving disputes.</td>
<td>Regimes restrict the autonomy of nation states. What is occurring now, however, is the spread of regimes into hitherto &quot;soft areas&quot;, such as non-tariff barriers, the environment, social charters, rights for indigenous peoples, etc.</td>
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<td>G. Globalisation as Ultra Mobility</td>
<td>Enhanced mobility is generic in that it underpins all conceptions of globalisation as well as virtually all conceptions of a technoeconomic paradigm shift.</td>
<td>Since taxation or regulation of mobile factors becomes more difficult and since globalisation or ultra mobility implies an increase in the number and range of factors and commodities that are mobile, this constrains the instrument set available to policy authorities. In tandem with the spread of free trade arrangements, this constrains policy authorities from using allocative instruments to deliver distributional goals.</td>
<td>Arguably, the optimal jurisdictional space for taxation has increased relative to the optimal jurisdictional space in terms of spending. Thus, one now speaks of EU-wide corporate taxes or carbon taxes, for example. Yet the optimal spending jurisdiction has not (yet) become EU-wide. This disjuncture will require the application of fiscal federalism principles at the supra-nation level.</td>
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Source: Adapted from Courchene (1995).
has led Ohmae (1990: dustjacket) to define globalization as "consumer sovereignty":

"performance standards are now set in the global marketplace by those who buy the products, not those that make them or regulate them".

While globalization is enfranchising individuals as consumers, it is disenfranchising them as citizens since key political/policy decisions are now being taken at levels above the nation state and, therefore, beyond their direct input. In Europe, this is referred to as the "democracy deficit", but the phenomenon is rather widespread and worthy of increased attention -- and not just by political scientists since it is the process of economic integration that is triggering these democracy deficits (see, Courchene (1995), for a more detailed discussion of this issue).

There is another way, more germane to the theme of this paper, in which power is being transferred downward from nation states. To the extent that institutions are globalizing, this is taking place via the network of international cities -- Montreal, Toronto and Vancouver for Canada. The economies of scale and scope associated with the explosion in information and services means that these international cities have become not only critical growth nodes but the essential connectors outwards to cities such as New York, Tokyo and London and inward to their regional hinterlands. One oft-referred-to example of this is the 1988 agreement among the "four motors" of Europe (Lombardy, Catalonia, Rhône-Alpes and Baden Wurttemberg) designed to coordinate their various industrial and cross-border interests. More recently, Barcelona, Toulouse and Montpelier are forging economic links that will take them out from under Madrid and Paris and into the larger EU framework. These examples are an integral part of the emerging regional/international interface. Within the Canadian context, the increasing importance of international cities gives rise to some special cross-border problems. Apart from the fact that our cities are "constitutionless", as it were, Saskatchewan's international city (arguably, Vancouver) is not in the province and the Maritimes international city (Boston/New York) is not even in the country! This, too, is a variant of the "democracy deficit" alluded to earlier, since the burghers of Saskatoon would presumably be willing to trade off some influence in Regina for a greater say in Vancouver, in much the same way that Torontonians would presumably relinquish some influence in Ottawa for a role in the corridors of Washington.

At this point in the analysis, it should be evident that the passing of powers both upward and downward from nation states is setting the stage for what Drucker (1986) refers to as the intriguing coincidence of an integrating global economy and a splintering global polity. Specifically, with the emergence of a supra-national infrastructure (whether in terms of trade agreements, single markets à la Europe 1992, or a common currency under Maastricht), sub-national units can leapfrog their national governments and tie themselves to these overarching structures. Thus, Scotland, which already has more trade with the EU than with England, can now, if so wishes, seriously consider substituting the Brussels framework for Westminster and pursue a "distinct society" future. In terms of federal nations, Belgium particularly stands out in the sense that the decentralized Belgian provinces appear to be latching on to the EU infrastructure, effectively eclipsing the traditional role for the federal government. And more recently, the Belgian provinces have been talking in terms of separate nation states. This, too, is what Quebec sovereignty is all about on the economic front and why the EU model is so attractive to Quebec. This is not quite what I have in mind in terms of the emergence of a regional/international interface, but it is clearly a part of the overall scenario.

The Knowledge/Information Revolution

The other major component of the new technoeconomic paradigm is the knowledge/information revolution. It seems to be that this has the potential to do for human capital what the industrial revolution did for physical capital. Aspects of the inherently decentralizing features of this informatics explosion have already been alluded to. Beyond this, there are several further critical features that are transforming nation states, particularly resource-based countries like Canada. The first is that with knowledge increasingly at the cutting edge of competitiveness, aspects of social policy are becoming indistinguishable from economic policy. Second, despite our generous resource endowments, Canada cannot avoid making the transition from a resource-based economy and society to a knowledge-based economy and society. While resources will continue to be important, their success will progressively require the application of knowledge and high-value-added techniques. A third implication of the knowledge-information is that it is "hollowing out" the middle class, the returns to knowledge and skills, or to what Reich (1991) refers to as "symbolic analysts", are rising while the returns to routine workers are falling. This is a world-wide phenomenon, although its impacts in English-speaking countries appear to be in terms of declining real wages of the lower skilled, while, in continental Europe, the impacts are more in terms of rising unemployment among the lower skilled. It seems to me that an important part of the middle class in the new technoeconomic paradigm will be some combination of technologists and information analysts. But Canada remains basically a professional society -- we don't have para-legals, para-medics, para-engineers. Basically, we relied on resources and f ordism to generate our middle class. These days are gone and the challenge is to switch from brawn to brains or from boards and mortar to mortarboards, which will have obvious major regional impacts.

On the surface, this might not appear to have much to do with the regional/international interface. However, what is at stake here is a fundamen-
tal shift in the citizen-state relationship. Without a wholesale restructuring in our social policy infrastructure, the transition to the new paradigm will be difficult and costly. In his C.D. Howe Benefactors Lecture, Harris (1993) casts this paradigm shift in terms of a fundamental shift in Canada’s “wealth-generation” process – away from a reliance on resource capital and toward an increased reliance on physical and especially human capital. He then adds a critical insight: whereas we ran up our debts and deficits within a framework where our “national collateral” was resources, the national collateral that will be called upon to service this indebtedness is progressively our human capital base. While we rank very high in the global pecking order when it comes to resource capital, our human capital ranking is nowhere near as high (although we do well at the upper end of the human capital ladder). What this means is that Canada must, of necessity, undertake a wholesale transformation of much of social and regional policy.

North-South Trade

While several important implications for the regional/international interface flow from the interaction of globalization and the knowledge/information revolution, it is convenient to delay discussion of them until focus is directed toward the most significant geo-economic aspect of the new paradigm, namely that it is no longer appropriate to view Canada as a single national (east-west) economy. Rather, we are becoming a series of north-south, cross-border, economies. These cross-border economies are not just separated, east-west, by geography but also by industrial structure – British Columbia is Pacific Rim and American-northwest oriented; Alberta with its energy base competes with the Texas Gulf; Manitoba and Saskatchewan comprise the bulk of the Canadian bread-basket and keep their eyes on the U.S. mid-west (and on American and EU subsidies!); Ontario and Quebec are Great Lakes economies and are integrated with each other and with their Great Lakes counterparts south of the border, while the Atlantic provinces’ fortunes will likely be bound to the fortunes of the Boston/New York axis.

Two further aspects of this altered geo-economics space merit highlight. The first is that the various regions tend to trade more with the rest of the world than with the rest of Canada. In terms of regional flows for 1989, 37.5 per cent of manufacturing and primary sector output of the four Atlantic provinces was destined to markets outside Canada, compared with only 15.9 per cent to other Canadian regions (Statistics Canada Daily 1993). For the four western provinces, viewed as a single unit, the differential in favour of foreign destinations is higher still, 33.7 per cent versus 11.8 per cent, while the comparable figures for Ontario are 33.6 per cent and 18.7 per cent. Intriguingly, in light of its sovereignty aspirations, Quebec is unique among Canadian regions in that the Canadian market (27.1 per cent) is more important than foreign markets (26.5 per cent) in terms of the destination of exports of its manufacturing and primary sectors. If these comparisons were conducted in terms of provinces rather than regions, then PEI and Manitoba would join Quebec in having exports to the rest of Canada dominating international exports. Overall, exports by provinces to other provinces are only 2/3 of their international exports (Statistics Canada Daily 1993).

Figure 1 provides evidence relating to the second aspect of the altered nature of our east-west economy, namely the non-synchronization of our regional business cycles. The upper panel asks the following question: in terms of the recession of the 1980s how much has employment recovered four years after the pre-recession employment peak. The bottom panel poses the same question for the recession of the 1990s. The recession of the 1980s was largely commodities based, with devastating impacts for British Columbia and Alberta, whereas these two provinces (especially B.C.), skated through the 1990s’ “industrial” recession largely unscathed, unlike the golden horseshoe. Admittedly, these two recessions may well be atypical, but it seems to be rather inevitable that the future of our regional economies will progressively march in step with the fortunes of their respective international (cross-border) counterparts.

Implications

Now for some implications of this new technoeconomic paradigm on Canada’s regions. The first is that the political economy of east-west transfers is being altered permanently. Under the old paradigm, the second-round impact of transfers east and west from Ontario would eventually find their way back to Ontario, since trade flowed east-west and Ontario was the principal north-south conduit. In the tradition of public choice theory, Ontario could “afford” to be generous since the transfers would wend their way back to this province. No longer, since under increasing north-south trade the second-round spending impacts may well end up in California or North Carolina. In other words, the challenge facing us is how to mount an east-west transfer system over north-south trading systems.

Second, and in partial answer to the implicit question just posed, the focus of these interregional transfers will have to be tilted in a direction that privileges "people" rather than "place". Individual provinces and/or regions should be free to pursue "place prosperity" initiatives, but Ottawa should disengage itself as an active player in this game, except for equalization, which I view as part of "people prosperity".

The third implication is that what binds Canadians east-west is progressively a "social policy railway" than an economic policy railway. Canadians do not seem to realize this. Consider the emphasis we have put on securing an internal common market in goods and services. The fact that the U.S. border is now open will serve to erode (and already has eroded) many of the former
interprovincial barriers. Among other things, the Courts will now interpret the internal free-trade provisions of the Constitution more expansively. While I, presumably along with the vast majority of Canadians, am in favour of promoting the internal economic union, one must be careful not to get too carried away, since trade will be progressively moving north-south, not east-west. For example, it would not make economic sense to attempt to enforce a narrow definition across the provinces in terms of some aspects of corporate income taxation. Alberta should have the flexibility to match the taxation provisions of its competitors in the Texas Gulf and not be forced to toe some narrow (Ottawa-determined) line on these issues. Without going into detail here, let me assert that, in this emerging human capital era, we have made a cause célèbre of the fact that Moosehead beer was not available in Ontario, whereas we should be more concerned that the brewers and other skilled workers who make Moosehead may not be able to ply their trades in the rest of Canada.

The fourth implication is that globalization and the knowledge/information revolution are turning the original British North American Act on its head. Some of the "goods" areas like forestry, mining, fishing and energy should probably be devolved to the provinces or regions since they are critical to these regions' futures. There is not much of the "stuff" of national glue that still rests with these areas and, in any event, they are progressively being driven by global imperatives. On the other hand, much of what constituted the traditional role of the provinces (education, training, etc.) is taking on national, if not federal, dimensions, especially since they are becoming critical to our competitive future.

Finally, but hardly exhaustively, the fact that 80 per cent of our exports now go to the U.S., that our regional business cycles are non-synchronous, and that the integration under the FTA and NAFTA goes well beyond freeing up the borders to include aspects of institutional integration, imply, in turn, that the degree of exchange rate volatility between our currencies over the last decade is patently absurd. We may need to get our fiscal house in order as a prerequisite, but greater exchange-rate fixity or even fixed exchange rates will surely be part of our future.

To this point, I have sketched some of the broad dimensions in terms of how globalization and the knowledge/information revolution are transforming Canada's political, economic and geographic space, especially as it relates to Canada's regions. The remainder of the paper focuses briefly on some further aspects of the emerging regional/international interface. In the process, I shall also spell out the several varieties of this interface.

**More on the Regional/International Interface**

Historically, Canada defied economic geography by relying upon Macdonald's 1879 National Policy, the national railways and generous transportation subsidies. This was obviously a brilliant political move since it played a critical role in creating and securing the Canadian nation state. And in the time frame, it was also acceptable, if not brilliant, economics since the wheat economy, immigration and, more generally, the opening of the west did embody significant east-west opportunities and trade. About the time when these initiatives
exhibited entropy, we launched into our second national policy -- creating an east-west economy secured by a generous set of transfers to persons, provinces and business financed largely, but not entirely, by our cushion of resource rents and justified largely, but not entirely, by Keynesian pump-priming. Indeed, many of the key programs (equalization on the provinces' side, extending UI to include regional benefits and to incorporate fishers on the personal side, regional economic initiatives as well as regionally differentiated income tax credits on Ottawa's side (and, of course, a continuing flow of subsidies to business on the trade side) ran counter to the natural forces of east-west adjustment let alone the north-south imperatives. Incredibly, in the late 1970s, even Ontario, already a major beneficiary of north-south auto trade, became persuaded by the Major Projects Task Force that much of its economic future lay in producing for the energy-related mega projects in the Canadian West. Accordingly, the province issued its "purple paper" (Grossman 1981) which argued for freer internal trade at the expense of maintaining and/or enhancing our U.S. tariffs.

From the perspective of 1995, none of this makes sense, especially since all of the facilitating factors have disappeared -- the tariffs, the resource cushion and even the east-west ribbons of steel are now history. Actually, the writing was on the wall as early as the dawn of the 1980s. However, by resorting to "taxation without representation" (that is, by borrowing massively from future generations) we were able to bribe ourselves into sustaining this outdated paradigm for yet another decade. There is an intriguing irony in all of this. Inappropriate adherence to the old regional and social paradigm was a major cause of Canada's debt explosion. But now the burden of the debt/deficit overhang is serving to unwind this paradigm with a vengeance.

I now want to devote a word or two to the manner in which each of the regions is being driven to the new regional/international interface.

Quebec

Quebec was one of the first provinces to realize that its future lay north-south, not east-west. As Toronto began eclipsing Montreal as the nation's production and distribution hub (and as Montreal was retreating from a national centre to a regional one), Quebec industry began more and more to look to Quebec City rather than to Ottawa for industrial leadership. Moreover, it became evident to Quebec that, rather than attempt to regain its former position in Canada, it made much more economic sense to focus on the even larger markets to the south. Thus, when Canada followed the Americans in reforming the tax system in the mid-1980s, Quebec not only followed suit but, in what was probably a first for a Canadian province, presented tables in budget documents comparing Quebec taxes not only to those in Ontario, but also those in New York, Michigan and Ohio. And where it counts most, namely corporate tax rates, Quebec rates are now the lowest in the country. Much to the surprise of Canadians, this province that had spent so much of the post-war years engaged in Ottawa-directed rent seeking, voted overwhelmingly in favour of Canada-US free trade in the 1988 election and, arguably, delivered free trade to the nation.4

To be sure, some of the economic lustre associated with Quebec's entrepreneurial surge in the 1980s has rubbed off, in part due to the uncertainties associated with its aspirations for independence. Nonetheless, given the fact that it has more jurisdictional powers than any sub-national government anywhere in the world and in light of its corporatist bent, the key to understanding the future of this province lies much more in treatises like Katzenstein's (1985) Small States in World Markets than in anything written in English-speaking North America. Phrased differently, Quebec is fully within the regional-international framework developed above. Intriguingly, it is not obvious in this era of the declining role for the economic nation state what additional benefits Quebec would obtain from full sovereignty. In my view, sovereignty in the millennium will have to do with how a society decides to live and work, since most other decisions will be taken at a supra-national level. Quebec effectively has most of these powers and could get the rest of them (for example, training) via a few appropriate strokes of a pen in Ottawa.

Western Canada

That British Columbia should fall into the regional/international framework was only a matter of time. It has only peripheral economic linkages with the rest of Canada, with international exports of primary and manufactured goods nearly five times its exports to other provinces (and over ten times if one excludes exports to Alberta, its Cascadia partner). Clearly, its future is tied up with both sides of the Pacific Rim. On this side of the Pacific, the concept of Cascadia is taking hold. The most expansive definition of Cascadia is the Pacific Northwest Economic Region (including Alaska, B.C., Alberta, Washington, Oregon, Idaho and Montana) which provides governmental vehicles for cross-border regional economic cooperation. While there is little likelihood that Cascadia would or could develop much beyond a close environmental and economic partnership, there is also little likelihood that British Columbia would tolerate any Ottawa interference in the pursuit of its Pacific Rim destiny. Note, however, that the Cascadia component of British Columbia's regional/international interface is essentially about jurisdictional re-align-

4. Sixty-three of Quebec's 75 seats fell into the free-trade (Progressive Conservative) camp in the 1988 election. Had Quebec delivered only 42 instead of 63 seats (still a comfortable majority for the Tories in the province), Prime Minister Mulroney would have not had his majority and free trade would likely have been stymied.
ment to internalize/coordinate potential spillovers in the environmental and economic arenas. These states or provinces have much more in common with each other in key areas than they have with Washington, D.C. or Ottawa respectively. While this is a quite different rationale than that which drives Quebec, it is only a matter of time before B.C. will also find that it, too, wants the full range of powers that Quebec aspires to.

However, it is Alberta and its deficit-cutting exercise that has attracted the bulk of the media coverage as it relates to western Canada. Two observations are relevant. The first is that we easterners make a mistake by singling out Alberta in this regard. The reality is that all three prairie provinces (and all four western provinces for that matter) are intent on balancing their budgets and Alberta is not likely to be the first to succeed. This western Canadian approach to deficits is way off-side with the philosophy of the other regions, especially central Canada, including Ottawa. The second observation is related: given that Albertans are undergoing the most thorough expenditure reductions anywhere in the country, this will surely reverberate powerfully on the overall federal-provincial transfer system. Albertans, if not Alberta, will begin to insist that Ottawa no longer be the lender of first resort (and, perhaps, not even last resort) to profligate provinces, at least not until those provinces also undergo the sort of fiscal rationalization that Alberta Premier Klein is implementing. This brings a brand new dimension to interregional sharing and one that promises to have important and divisive consequences. On the surface this may appear to have little directly to do with a regional/international interface. But it clearly does in the broad sense that I am using the term, namely a move toward self-reliance and looking outward, as it were. The best way to articulate this is that Alberta is moving away from the old adage "why drill for oil in Alberta when, with the same amount of efforts, you can drill for cash in Ottawa!" And, as already noted, the West is, in terms of the provincial attitudes toward deficits as well as in terms of its new political arm, the Reform Party, attempting to put a lid on the generalized rent-seeking mentality that has been so dominant in our country. Not only will this effort likely succeed (with the debt/deficit overhang as a catalyst), but it will buttress the earlier point that, to the extent that there continues to be support for east-west transfers, these will have to be people-prosperity, not place-prosperity, oriented.

New Brunswick

In terms of embracing the dictates of regional/international interface, my favourite example is New Brunswick. This province has emerged as the clear leader in terms of social and industrial restructuring. Much as I admire what is occurring there, I shall limit myself to a few observations. Recognizing that the status quo was unsustainable, largely because federal money was about to run out, New Brunswick decided that it had to become world class in order to make its own way. With the help of NBTel, among other firms, its investment in telecommunications infrastructure -- digitization and fibre optics -- has enabled it to become the leading such jurisdiction in North America, one recent result of this being a decision by Xerox to establish a base in New Brunswick.5 To be sure, this may be a fleeting advantage since many jurisdictions are now following suit. What this means is that New Brunswick is going to have to run to stay ahead, as it were. But as long as its focus is on the North American and not just the Canadian market, it has a fighting chance to succeed. Few Canadians, let alone economists, would have predicted that a transfer-dependent economy like New Brunswick would shift its focus from Ottawa to middle-America. This, too, is what the regional/international interface is all about.

At this juncture, a word about the relationship between geography, on the one hand, and the regional/international interface, on the other, is in order. Under the old paradigm, New Brunswick was a "powerless place" in the true geographical sense. The new telematic infrastructure does not really make New Brunswick a "powerful place". Rather, the province acquires "placeless power" (Graham 1994: 419). One has the image, therefore, of footloose industries being attracted to footloose jurisdictions. Next year, the leader in terms of placeless telematics power could well shift to Utah, the state that closely rivals New Brunswick in terms of digitization and fibre optics. Thus, geography in this sense is more akin to a "space of flows" rather than a "space of places" (Castells 1989). Indeed, as Delottinville (1994: 42) points out, the New Brunswick authorities recognize this:

"The New Brunswick government, NBTel and Northern Telecom recognize that advances in communications technologies have made the physical location of electronic commerce irrelevant. As a result, the marketing campaign has focused on New Brunswick as a business solution rather than a location" (emphasis added).

This key distinction between New Brunswick as a "location" and New Brunswick as a "business solution" has relevance to the recent UPS decision to transfer personnel from Ontario and British Columbia, among other provinces, to New Brunswick.6 As backdrop, it is instructive to introduce the notion of

5. A recent study (commissioned by New Brunswick) by Boyd Company Location Consultants (1995) compares New Brunswick to 25 US cities in terms of a range of factors relating to call centre operations. New Brunswick comes out on top near the top in terms of most categories (telecommunications cost, fringe benefits, office space costs, weekly wages, energy costs, etc.).

6. The UPS decision took place after this paper was delivered to the Regional Science Association meetings. It was incorporated in the paper because it represents a natural extension of the issues under discussion. I wish also to acknowledge conversations with Tom Kierans with
a "global maximum wage" (Courchene 1994: 241-242), namely that if wage costs for a given activity rise above a certain threshold that activity will likely go "offshore". The set of activities falling under the rubric of "call centers" obviously qualifies since many U.S. companies have transferred their call-marketing-related activities offshore. Presumably, the problems that UPS faced in Ontario and B.C. were related to high-cost and inflexible labour markets. New Brunswick provides "low property taxes, no payroll tax and low workers' compensation rates" (Delottinville 1994: 43) as well as a labour force that does not require premia for bilingual labour. In this sense, there is obviously a "locational" aspect to New Brunswick's drawing power. But when combined with its digital fibre optic network and its telecommunications services costs and discounts, New Brunswick effectively offers a "business solution" to problems faced by UPS and others. While it may well be the case that there are some subsidies involved (and all provinces are guilty here), the aspect of this issue that has been largely overlooked is that if New Brunswick had not filled the bill, as it were, the likelihood is that this activity would have gone to the Caribbean or some other offshore location. Thus, a strong case can be made that New Brunswick kept these jobs in Canada. In typical Canadian fashion, however, we prefer to view New Brunswick as a problem rather than as a solution to a problem that arises in B.C. and Ontario.

Ontario

Finally, I come to Ontario. Arguably, a decade ago the golden horseshoe was the richest and most productive industrial complex in the world. However, believing that it was somehow beyond economics and in the name of transferring power from Bay Street to Main Street, this province has fallen into the clutches of Dunn and Bradstreet! But even the bond-rating agencies cannot seem to make much of a dent on the Ontario psyche. I simply cannot comprehend this -- the one region in Canada that was ideally placed to take advantage of the new techneconomic paradigm has worked very hard at ensuring that this opportunity would slip away. Ironically, before Ontario can rekindle its north-south focus and strength, it now needs to look west and "import" Alberta's fiscal mentality. However, Ontario will come on side, because the alternative is to have its industrial base migrate south. What complicates this for Ontario relates to my earlier focus on international cities. Arguably, for a broad range of economic activities, Buffalo's international city is Toronto. This exerts a "discipline" on Ontario that will eventually serve to move this province away from its traditional east-west pre-occupation and, indeed, dominance and toward a north-south focus. This, too, is part of the regional-international

respect to the UPS decision. However, responsibility for the interpretation rests with me.
"The globalization of the economy and communications will increase the degree of geographical discontinuity in the interactions of federal units and will favour the constitution of more worldwide functional networks of sub-national actors. Federated units are already very active in the world arena and their paradiplomacy goes increasingly beyond their micro-regional environment (transborder or trans-regional), reaching out to macro-regional and global spheres of action."

In terms of this regional/international interface, the on-going European situation is most intriguing. Will the increasing cross-border economic integration lead to a Europe of regions aligned to the EU infrastructure rather than to a Europe of nation states? What is the nature of the evolutionary dynamic involved in the EU decision to integrate economically via a unified economic space and even a common currency, but to defer the process of political deepening? Were political deepening to occur now, this would, of necessity, revolve around the role of the member nation states. However, if the existing framework holds sway for a decade or so, the nature of the resulting economic integration (not only its cross-border aspect alluded to earlier, but as well the evolution of the associated special interests that will be brought to bear at the Brussels level) could well imply a radically different type of political deepening. Presumably, one important factor in terms of how this will eventually play out will relate to the manner in which enterprise is organized across the unified European economic space. National governments will be able to exert a greater role under a system of "national champions" in each area of commerce than will be the case if integration proceeds largely in terms of a "Europeanization of enterprise" where community-wide transnationals dominate the economic space, replete with intrafirm transfers of goods and people. In any event, that the regional/international interface in Europe will intensify is not in doubt. What may be in doubt is whether the ultimate political evolution of Europe can proceed independently of what is happening on this economic integration front.

My final point is that causation also runs the other way -- from the international to the regional. Policy making is increasingly becoming international and, in many cases, is reverberating back as much on regional economies as national economies. Much in the way of evidence could be brought to bear on this, but I will limit myself to one, admittedly glib, comment, namely that the good burghers of the U.S. north-east now have considerable control over Quebec Hydro, that British Columbia lumber policy must now answer to the citizens of Germany and Britain and that Brigitte Bardot has long controlled the Atlantic sealing industry. This, too, is part of globalization and the regional/international interface.

**Conclusion**

The conclusion is rather straightforward: globalization and the knowledge/information revolution are transforming the political, economic and geographical space of Canada, one result of which is a shift away from the traditional national/national relationship and toward a regional/international relationship. Another is a shift away from the inward-looking, Ottawa-centred transfer dependency toward a fiscal and globalization triggered, outward-looking regional self reliance. While this is a most welcome development, the more relevant point is that it is probably inevitable.

Surprisingly, however, many Canadians are apparently of the view that, were this to occur, there would be little to hold our nation together. But this misreads what globalization and the knowledge/information revolution are really all about; namely, that in the millennium countries will be about people, not about goods. Were I commissioned to create a mission statement for Canada for the 21st century, it would be along the following lines: the essence of Canada in the next century must, among other things, mean that all citizens have access to a social infrastructure that allows them full opportunity to develop and enhance their skills and human capital in order that they may be full participants in the Canadian and global societies. Not only is this the quintessential role for nation states in the millennium but, in Canada's case, this option will be all the more clear and evident once we embrace the notion that the regional/international interface will drive much of the rest of the policy realm.

**References**


Edward Elgar.