

***POLICY ISSUES  
AND PLANNING RESPONSES***

**Visions Of A 'Post-Staples'  
Economy: Structural Change And  
Adjustment Issues In British  
Columbia**

**Thomas A Hutton**

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Centre for Human Settlements  
University of British Columbia  
2206 East Mall  
Vancouver, B.C. V6T 1Z3  
Canada

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## **Introduction**

British Columbia has developed over the last century and a quarter as an exemplary resource-based economy, with staple exports driving economic growth, job formation, and settlement patterns. This staple development has occurred within the context of the familiar core-periphery framework of the Canadian federation and regional economic structure, initially elucidated by Innis (Innis 1930), within which hinterland regions supply resource commodities to a more advanced, industrialised and urbanised core.

The natural resource wealth of British Columbia has provided the foundation for long periods of economic growth and socio-economic prosperity over most of the postwar period, as staple extraction has transformed ecological capital to economic capital on a massive scale. These resource rents have generated very substantial corporate profits, personal incomes, and government revenues. At the same time, this (over) dependence on staple exports has produced a highly cyclical economy, marked by pronounced 'boom and bust' phases. The swings of these cycles have in turn encouraged efforts by government and (to some extent) corporations to diversify British Columbia's economy over the past quarter century.

While Innis' staple model is still held to represent a persuasive explanation of British Columbia's historical (and recent) development (Hayter and Barnes 1990), it should not be thought that this pattern is in all respects immutable. Indeed, it is clear that changes of a fundamental or 'structural' nature in British Columbia's economy are well established and very likely accelerating. These structural shifts incorporate significant changes to the nature and pattern of economic development in British Columbia (Davis and Hutton 1992).

So profound are these structural shifts that it has become almost commonplace to speak of British Columbia as approaching a developmental 'cross-roads' (Binkley 1992).

Features of this transformation include:

- (a) severe pressures on the province's critical resource sector, dating from the commodity price shocks of the early 1980s
- (b) the prospect of even more substantial contractions in resource industries over the 1990s and beyond, reflecting structural supply and demand conditions, as well as increasing public concerns about resource depletion and environmental degradation
- (c) rapid sectoral shifts in the British Columbia economy, characterised by (i) a shift to services in the provincial economy as a whole, (ii) the particularly rapid tertiarisation

of Vancouver and Victoria, and (iii) significant industrial expansion, especially in Vancouver's suburbs, but also in southern Vancouver Island and centres of the southern interior, as well as the Prince George Region

- (d) an *internal* 'reconfiguration' of growth and development, marked by a significant increase in metropolitan Vancouver's share of population and employment, and the emergence of major regional economic centres, in contrast to the declining fortunes of many smaller communities in the resource-dependent hinterland
- (e) an *external* reorientation of British Columbia's key international relationships, characterised not merely by increasing trade with Asian Pacific and global markets, but also a rapid integration within Pacific Rim markets, networks, and societies.

In particular, this reshaping of the province's international relationships may portend the creation of new, more spatially-extensive core-periphery relationships, a phenomenon encouraged by certain interests, notably (but by no means exclusively) business, but lamented by others who envisage an even more dependent status for B.C. within the Pacific Rim economic sphere (Resnick 1985).

While the business (and more specifically corporate) sector has largely driven resource extraction in British Columbia, government and public sector agencies have played significant roles in the development of the province's staple economy. These roles have taken the form of supporting infrastructure investments in the 1950s and 1960s especially, participation in resource 'mega-projects', and recurrent efforts to promote diversification. The sequence of diversification measures have met with some partial success, but the demands of structural adjustment implied in the preceding discussion suggest the urgent need of a new policy direction. Following a two-year study of change and transition in the B.C. economy, the Core Economy Group of the British Columbia Round Table on the Environment and the Economy declared that its scenarios of future development

... paint a very different world from what we enjoyed in the 1960s and 1970s. The modest growth estimates reflect a fundamental shift in economic fortunes; they are not simply cyclical swings -- a temporary down-turn in our "boom and bust" cycle. They reflect a structural shift in British Columbia's economic outlook that will not be transformed by a revival of international commodity markets .... The expansion and economic vibrancy of decades of resource prosperity are gone (B.C. Round Table 1993a:34).

The purpose of this paper is to explore the contemporary evolution of British Columbia's economy, and more specifically to address the hypothesis of a 'post-staples' or at least transitional era of growth, change and development. The following section will offer a description of a staple economy in transition, including a basic characterisation of British Columbia as a 'mature, advanced' staple economy, an outline of cyclical change and structural transformation, and aspects of 'development and diversification'.

Next, the paper provides an analysis of problems of structural adjustment, transition and sustainability in British Columbia, incorporating a discussion of the province's 'sustainability deficit', the prospects of a post-staples economy, and a depiction of changes within both the internal economic geography and external spatial relationships. This is followed by a discussion of some policy implications and options for British Columbia's transformation to a more sustainable, post staples economic future. Finally, some conclusions focusing on the potential wider implications of British Columbia's experience, both for the relevance of the Innis model, and for other advanced staple economies, are offered.

## **Profile of a Staple Economy in Transition**

### **Basic Characterisation of British Columbia's Economy**

British Columbia is typically characterised as an almost classic model of a resource-dependent or 'staple' economy. The province is situated within a peripheral region or zone of the national territory, and its dominant form of economic activity is resource extraction and export. There are powerful justifications for this characterisation:

- **Historical Role of Resources in British Columbia:** The resource sector provided a major stimulus to the early development of the British Columbia economy;
- **Importance in British Columbia's export trade:** Staple commodities constitute the largest portion of British Columbia's exports, and are especially important in terms of international exports;
- **Influence on development path and business circles:** Due to the above attributes, British Columbia's development path has been characterised largely by recurrent 'boom and bust' cycles typical of staple-dominated economies;

- **Inter-sectoral linkages:** Much of the province's industrial activity involves the processing, refining, and/or manufacturing of staple commodities. British Columbia's large and rapidly-expanding service sector is to a great extent dependent on the resource sector. This includes both the increasingly significant service activities located within resource communities, as well as the large complex of headquarters and producer services in Vancouver;
- **Influence upon infrastructure investment:** The resource sector has profoundly influenced the nature, pace and pattern of both public and private infrastructure development in British Columbia. Examples include the major road building program of the 1950s and 1960s designed to 'open up' the hinterland regions of the province; the various northern extensions of the B.C. Railway (formerly Pacific Great Eastern Rail Road); investments in the national rail system operated by the CPR and CNR; major port development in coastal British Columbia; and massive recurrent investments in the forestry and mining industries.
- **Influence upon provincial settlement patterns:** Historically, resource exploration and extraction shaped the pattern of human settlements in British Columbia and still to some extent influence urbanization in parts of the province.

This listing of impacts is by no means complete, but does indicate the general scope and depth of the resource sector's influence on the development of British Columbia.

While these characteristics may reveal a compelling image of the role of the resource sector in British Columbia's traditional economy, it is necessary to look at this model in a wider context to understand British Columbia's contemporary economic development. British Columbia today can be described as 'a mature, advanced, export-oriented staple economy in transition'. 'Mature, advanced' staple economies such as British Columbia may exhibit the following attributes, which distinguish them from resource regions in developing nations:

- **Substantial depletion of resource endowments following an extensive period of resource extraction.** In the case of mining, this may mean greater reliance on lower-grade ores. In forestry, this often implies exploitation of second- and third-growth timber and growing reliance on less accessible forest resources. Typically, mature resource economies are characterized by increasing stock management problems in the face of great pressures on the resource stock, often from multiple user groups.

- **Well established export markets for their principal staple commodities**, developed over a period of many decades and supported by sophisticated marketing and sales promotion efforts.
- **Increasingly capital- and technology-intensive resource extraction processes** involving heavy capital expenditures on infrastructure, and state-of-the-art extraction processes and technologies.
- **Increasing competition from lower-cost staple regions** (e.g., from the U.S. southeast, in the case of the British Columbia softwood industry; and from Australia, in the case of the B.C. coal industry), as resource depletion accelerates and as development and operating costs escalate.
- **Over time, an evolution of development paths from a 'pure' extraction mode to more refining and secondary processing of resource commodities.**
- **Increasing diversification of the industrial structure of settlements and zones** including higher levels of manufacturing, tourism, and local administration and services.
- **Evolution of settlement patterns over time**, with the principal city (e.g. Vancouver in the case of British Columbia) entering a 'post-industrial' mode and increasingly catering to external markets. Meanwhile, smaller, hinterland settlements grow and mature, and may include the development of secondary business centres (e.g. Kelowna, Kamloops, and Prince George) which to some extent reduce the dependence of the resource regions on the principal city.
- **Increasing pressure from environmental groups, the community at large, and (largely as a consequence) politicians**, as the true nature of costs and trade-offs become known, thereby inhibiting 'traditional' modes of resource extraction, and stimulating a more vigorous exploration of development alternatives.

Areas that meet most of these criteria of 'advanced, mature' resource regions along the Pacific Rim include the hinterland areas of British Columbia, Washington, Oregon, New South Wales, and Queensland, and perhaps Hokkaido.



## Cyclical Change and Structural Transformation

As observed above, an abundance of natural resource endowments (notably softwood forests, minerals, fisheries stocks and other wildlife) have provided the basis for high rates of economic growth and prosperity over most of the postwar period in British Columbia. Provincial Gross Domestic Product increased from \$17.5 billion in 1961 to \$66.2 billion in 1989 (in constant dollars), an average of 4.8 per cent per annum [Figure 1]<sup>1</sup>. For the purposes of comparison, annual growth rates in GDP measures both for Ontario (Canada's largest and most industrialised province) and Canada as a whole over the same period averaged 3.8 per cent (British Columbia Round Table 1993a).

These rapid rates of economic growth translated into high levels of corporate earnings, personal income, and government revenues. Facilitated by generous provincial Government resource allocation policies, which allowed for high (and indeed unsustainable) levels of resource extraction, British Columbia's resource corporations and companies posted high earnings and profits over the business cycle. Real disposable incomes in B.C. grew by 1.7 per cent annually during the 1960s, and by an astonishing 5.1 per cent annum over the 1970s (*ibid*). With respect to public sector ledgers, the Government of British Columbia produced a series of balanced budgets over the 1960s and 1970s, supported in large measure by taxation revenues (corporate and personal) accruing from an expanding resource economy.

Staple production generated substantial development, both in terms of *in situ* extraction installations, and also the establishment of over 100 resource-dependent communities in the British Columbia hinterland, imposed upon an economically vibrant and culturally rich aboriginal society. The growth of the province's resource industries also gave rise to a distinctive way of life, from the early pioneering years of the mid-nineteenth century, to the evolution of forest, mining and fishing communities. British Columbia's huge resource industries provided considerable stimulus to larger urban areas, notably interior centres such as Prince George and Kamloops, and to the more populous metropolitan areas of the south west -- Victoria (the provincial capital), and Vancouver. The latter, in particular, emerged as the control centre for the provincial resource sector, including

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<sup>1</sup> These GDP data reflect of course 'conventional' measures of economic growth. If these accounts fully incorporated environmental factors (notably resource depletion and negative externalities such as environmental degradation) and social costs (e.g. distributional inequities), growth rates would need to be adjusted downward significantly.

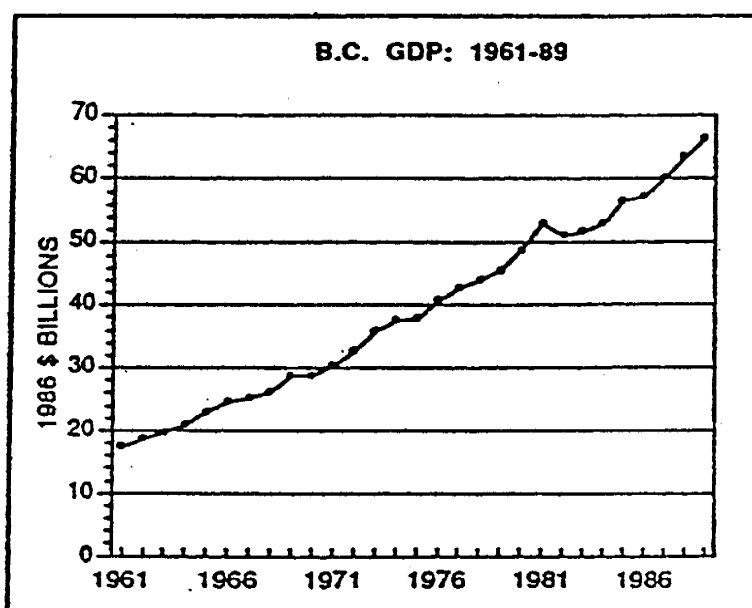


Figure 1. British Columbia Gross Domestic Product: 1961-1989

Source: Ministry of Finance and Corporate Relations, Government of British Columbia (in B.C. Round Table, 1993a)

concentrations of head office functions, finance, and producer services (Hutton and Ley 1987).

British Columbia's growth and development over the past several decades has, however, been far from 'steady-state'. Consistent with patterns observed in other resource-dependent regions, the province's economic fortunes in the postwar period have been characterised by pronounced cyclical swings, reflecting in turn the vagaries of the international commodity markets. Typically, these 'boom and bust' cycles tend to be reflected in unemployment fluctuations observed for the province as a whole. The metropolitan regions of Vancouver and Victoria, however, with their relatively larger populations and more diversified industrial structures and market orientation, tend to fare significantly better than the 'rest of the province' (ROP) during all phases of the business cycle [Table 1]. This in turn reflects the fundamental asymmetry of British Columbia's regional economic geography, a theme to be elucidated below.

While volatile business cycles represent an important and indeed defining characteristic of British Columbia's resource-dependent economy, several more structural aspects of change can be discerned over the past decade. First, it appears that the province's business cycles are increasingly out of synchronicity with those of other regions of Canada. In the early 1980s, a series of commodity price shocks led to the most severe recession in British Columbia for half a century, while the central Canadian economy remained relatively buoyant. This was followed by a gradual recovery in the B.C. economy over the mid-to late-1980s. By contrast the 1990s have seen the most severe recession in Ontario since the depression of the 1930s, while British Columbia has continued to experience modest, albeit uneven, growth. This suggests an accelerating pattern of inter-regional divergence and differentiation within the Canadian space-economy (Simmons and Bourne 1990).

Secondly, increasing disparities among British Columbia's regions underline the limitations of the standard macro-economic model of the provincial economy, which fails to reflect the very different regional realities now emerging. At the broadest level of analysis, it is more useful to consider a three-region model (consisting of metropolitan Vancouver, the Capital Region District, and the 'rest of the province' [see Davis and Hutton 1989]), although regional - and even community -level analysis is required for planning purposes.

Finally, the effects of business cycle fluctuations must now be assessed within a broader context of structural change in the British Columbia economy and its constituent elements. To some extent, of course, cyclical and structural change effects might be mixed, or even interdependent. The down cycle of the early 1980s, for example, was so severe that

	Vancouver	Victoria	ROP
1975	7.1*	8.2	10.6
1976	8.2	7.4*	9.6
1977	7.7*	8.6	9.5
1978	7.5*	8.4	9.2
1979	6.9*	8.3	8.4
1980	5.3*	8.2	8.3
1981	4.9*	6.9	8.7
1982	9.8*	11.1	15.1
1983	12.2*	14.0	15.6
1984	13.6*	14.5	16.1
1985	13.2	13.0*	15.5
1986	10.7*	12.1	14.9
1987	11.4	10.9*	13.0
1988	9.4*	10.2	11.6
1989	7.4*	8.8	11.4
1990	7.1*	7.4	10.0
1991	7.7*	8.7	11.3

\* denotes lowest rate among the three economies

Source: constructed from Statistics Canada, 1984;1989b; 1989-1991.

Figure 1. Average Annual Unemployment Rates for the Three major Regions of British Columbia, 1975-1990.

Source: Davis and Hutton, 1992

it led to the permanent restructuring of many resource companies, and indeed the effects of this recession ‘... represented a major crisis for British Columbia, the reverberations of which are still felt’ (Hayter and Barnes 1992:350). At the same time, these cyclical swings should not be allowed to mask the restructuring of the provincial economy, and it is to a consideration of these more transformational shifts that we now turn.

### **Development and Diversification**

Over the past decade or so, an ongoing process of restructuring has in (addition to distinctly more problematic outcomes) led to or enhanced significant processes of economic development<sup>2</sup> and diversification in British Columbia. These include, notably, (a) the rapid growth of service industries and employment, closely associated with the progression of advanced economies, (b) the expansion of production activity, including small but dynamic or ‘niche-level’ advanced-technology manufacturing enterprises, (c) some diversification of exports, to include a broader range of goods and services, (d) market diversification or ‘reorientation’, and (e) the emergence of new and/or expanding production and employment centres outside the established Vancouver area, representing a key spatial element of restructuring.

### Services and Structural Change in British Columbia

While the production of staples represents an explanation both of British Columbia’s historical development as well as a dominant position for resource extraction within the contemporary economy, the rapid growth of services suggests a structural readjustment of sectoral roles and status. As observed in the B.C. Round Table’s comprehensive report on the evolution of the provincial economy,

To paint a picture of a static, resources-dependent economy would be misleading. The forces of structural change are clearly at play in British Columbia. The most striking change is the growing role of the service sector relative to the natural resource industries (B.C. Round Table 1993a:28).

Services now comprise some 70 per cent of provincial GDP (cf less than 60 per cent in the 1960s [Government of British Columbia 1992a]). The service sector also increased its share of provincial employment between 1971 and 1989 by 13 per cent to 74 per cent, while the

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<sup>2</sup> ‘Development’ here is employed to describe a process of positive socio-economic change, rather than ‘growth’ *per se*.

share of resource industries (logging, wood products, paper and allied products, mining and primary metals) and agriculture and food has declined by more than a quarter, to 26 per cent of provincial employment.

A recent, major study of employment shifts in British Columbia by the Vancouver-based Regional Economic Services Branch of the federal Employment and Immigration Commission provides dramatic empirical verification of the growing importance of services. At the broadest level, the role of services in job creation (and in offsetting employment losses in the resource sector) represents a major dimension of the restructuring process. Over the decade 1981-91, which included the worst recession for over half a century, B.C. experienced a net job increase of 213,300 (or 17.3 per cent), despite a decline in resource extraction and manufacturing of some 40,000 jobs (from 153,000 to 113,400) ([Figure 2] Kunin and Knauf/CEIC 1992).

Within the broadly-defined service sector, differential growth trends among various industry groups provide a sharper focus on the role of tertiary activity in British Columbia's restructuring process. Here, the most impressive job gains were in the 'producer' or business services, which cater to intermediate rather than final demand, conforming to patterns observed in other advanced economies. The CEIC study by Kunin and Knauf revealed that business services in British Columbia expanded by 60 per cent in the decade 1981-1991, generating 37,600 new jobs, and increasing its share of employment by almost two full percentage points (*ibid*). The next leading growth industry among the services in B.C. was in health and related services, which expanded by over 40 per cent (46,100 jobs), and, like the business services, comprise in the main '...relatively well paid professional and higher skilled jobs' (*ibid*).

It should be noted that while expansion in both the business or producer services and health and related services generate regional growth effects, some important contrasts in outcome can be identified, notably in the realm of public finance. Health care already accounts for about one-third of provincial government expenditures, and further growth in this sector will generate additional strains on an already difficult provincial fiscal situation. By way of contrast, the producer services by definition cater largely to the market sector, therefore growth among the business services does not impact public finance in the manner of growth in the health and related services category. Producer services also generate additional growth for regional economies and the province as a whole via expanding export sales.

### Growth of Manufacturing: New and Emerging Production Sectors and Industries

An underdeveloped secondary production sector is acknowledged as an important defining characteristic of a staple-dependent regional economy within the classic core-periphery setting. This has clearly been the case in British Columbia, where historically resource extraction has driven economic growth and development, and where (as we have just seen) services are increasingly leading development.

This historical reality notwithstanding, there has been some significant expansion in production activity in British Columbia since the mid-1980s. While the aggregate increases in industrial employment and output are not huge in absolute terms, they run counter to national trends, where manufacturing employment has declined by 10.6 per cent during the period 1990-1992, a loss of 213,000 jobs. This represents in turn about two-thirds of total Canadian job losses incurred during the severe and protracted recession of the early 1990s, concentrated largely in the manufacturing heartland of Central Canada (CEIC/RESB 1993).

Growth in manufacturing in British Columbia since the mid-1980s comprises both 'traditional' industries such as food and beverages and chemicals, as well as new and emerging advanced-technology production activities. The latter includes 'growth industries' such as electronics and communications (which expanded by an average of 21 per cent per annum between 1988 and 1991; B.C. Round Table 1993a:28), and niche-level activities such as marine-subsea, aerospace and bio-tech industries.

To a considerable extent, growth in manufacturing is closely associated with other sectors of the provincial economy. For example, printing and publishing caters to demand in the (especially office-based) services, food and beverage production is stimulated by the tourism and convention sector, and so on. Other factors favouring manufacturing growth would logically include high levels of population growth in the province, creating demand for more goods and services; the overall growth of the Vancouver-Lower Mainland production economy, a major engine of the provincial economy; and the large numbers of entrepreneurial immigrants from Asia and elsewhere, many of whom are engaged in such industries as garment production, plastics and foodstuffs.

### Export Diversification in the B.C. Economy

As observed in a recent paper by the provincial Government's Treasury Board Econometric Analysis and Forecasting unit, '...constraints in British Columbia's resource sectors have led to an interest in other exports as a source of economic growth' (Government

**INDUSTRY**

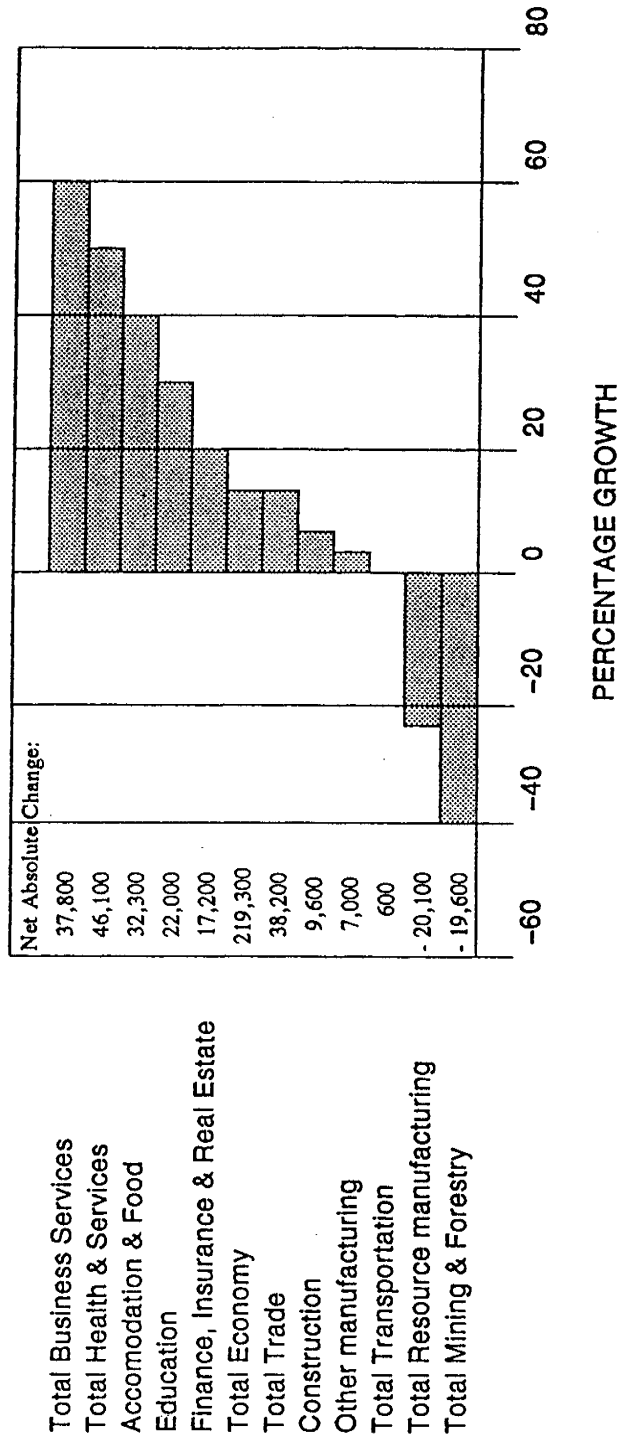


Figure 2. Percentage Employment Growth by Industry for British Columbia 1981-1991

Source: Kunin/Knauf - RESB - CEIC: 1992



of British Columbia 1993a). Although resource commodities still dominate British Columbia's export trade, there is evidence that manufactured products and services can contribute to a more diversified economic base for the provincial economy.

In recent years, manufacturing industries have increased their share of British Columbia's exports, achieving a 12.5 per cent share in 1991 (*ibid*). Paper and allied products represent the largest manufacturing export industry, with sales of about \$4.5 billion in 1991, while food and beverage exports exceeded \$1 billion (B.C. Economic Accounts, as reported in Government of British Columbia 1993a).

Manufacturing industries exhibiting export growth in the period 1988-1991 include electronics and communications (60.3 per cent), chemicals (31.3 per cent), and other non-durables (27.6 per cent) (*ibid*). Balanced against these otherwise encouraging figures is the realisation that these industries are relatively small, albeit dynamic; for example the high-growth electronics and communications subsector accounts for only 1 per cent of British Columbia's exports by value (*ibid*).

The export of services provides another facet of British Columbia's effort to achieve greater measures of trade diversification. Again, as for manufacturing, trade volumes for services may be low relative to those for commodities, but service export growth rates appear to be high, and will likely constitute increasingly significant components of British Columbia's export base over the 1990s and beyond<sup>3</sup>.

A number of empirical studies have substantiated the growth of British Columbia's service exports, especially with regard to international trade. Hayter and Barnes discovered that for a sample of over 100 producer service firms, export ratios doubled over 1981-1986, a period which included the most severe recession in the second half of this century (Hayter and Barnes 1990). Davis and Hutton (1991) examined the findings of three surveys of the metropolitan Vancouver economy: an input-output study conducted in 1971 by Davis and Goldberg, a survey of 626 producer service firms undertaken by Hutton and Ley in 1984/85, and a fresh survey of 240 producer service firms by Davis and Hutton in 1990. The analysis demonstrated a general expansion of extra-regional service trade over the three study periods, 1971-1990, reflecting the growth of Vancouver's corporate complex of head office, financial

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<sup>3</sup> Arguably, too, if the value of service attributes embodied in manufactured goods and resource commodities were included in export accounts, then the value of service exports would be very much larger than they currently appear. For a valuable discussion of this notion in the Canadian context, see Stabler and Howe (1991).

and producer services, and more widely-observed trends toward service externalisation and trade across spatially-extensive market territories (Daniels 1985). In the 1971 I-O study, Vancouver's service output was directed almost equally to the local (regional) and provincial markets. By the mid-1980s, service exports in the broader national and international markets had become relatively more important. The 1990 survey, finally, revealed expanding sales of services to international markets, notably to the Pacific Rim (including the Asian Pacific, Australasia, and the U.S. Pacific states)<sup>4</sup>, reflecting British Columbia's increasing orientation toward Pacific markets (Davis and Hutton 1991). This important aspect of the provincial economy's 'development and diversification' will now be addressed.

#### Market Reorientation: British Columbia and the Pacific Rim

Historically Canada's external trade has been associated with the United States and with Britain and Europe, the former facilitated by a north-south continental market, the latter by Commonwealth preference trade arrangements, and both by the hegemony of the U.S. and (to a lesser extent) Europe in the early post-war global economy. This has worked to the advantage of many Canadian sectors and industries, as witness the great volumes of trade between central Canada (the 'core' in the Canadian core-periphery structure) and the United States, and the well-established presence of British Columbia companies in the huge and important U.S. softwood lumber market. These linkages can of course also serve to transmit recessionary forces across international borders: for many years downturns in American housing starts led to corresponding downturns in the B.C. forest sector (and economy as a whole), while the major contraction of production activity in the southern Ontario manufacturing belt over the early 1990s is associated with the general malaise of the American industrial heartland, particularly the automobile industry.

Reflecting British Columbia's high degree of international 'openness' or exposure, it is not surprising that exports '... now have a stronger impact on GDP than in the past, and export-led growth is now a much more important factor in the provincial economy' (Government of British Columbia 1993a:1). Against this backdrop of historic international trading patterns and internal economic restructuring, British Columbia's external trade is increasingly linked to Pacific Rim markets. In 1989, for example, British Columbia's exports were estimated at \$17.8 billion. Of this total, \$7.2 billion were destined for Asia-

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<sup>4</sup> With respect to service export motivation, respondents to both the 1984/85 and 1990 surveys identified the attraction of dynamic foreign markets, the relative low cost of transporting services over space, and the desire to seek larger and more promising markets than the domestic provincial territory afforded.

Pacific markets, with Japan the leading market, at \$5.1 billion. Exports with a value approximately equivalent to that for the Asia-Pacific were destined for American markets (Davis and Hutton 1992). Given that the west coast states of Washington, Oregon and California comprise British Columbia's most important American market, it is clear that a large preponderance of British Columbia's export trade is associated with the Pacific Rim.

At present British Columbia's export trade with the Asia Pacific is dominated by seaborne resource commodity trade. Vast volumes of forest products, coal and other minerals are shipped from B.C. to Japan and (to a lesser extent) China, Russia and Korea, recalling the province's historic role as supplier of staples to the Canadian industrial core (*ibid*).

British Columbia's export of services to Pacific Rim markets has experienced high rates of growth over the past decade, reflecting both structural economic change and external market reorientation. The 1985/85 survey of 626 Vancouver producer service firms by Hutton and Ley revealed *inter alia* that service firms active in Pacific Rim markets included geological and engineering consultants, real estate firms, and securities and commodity brokers. The Davis-Hutton survey of 1990 demonstrated that other service firms, notably management consultants and computer software companies, were increasingly engaged in sales and marketing in the Pacific Rim (Davis and Hutton 1991). Of special interest is the finding that Asia-Pacific markets were more important for Vancouver service firms than were European markets, a reversal of the findings of previous surveys, and another confirmation of British Columbia's market re-orientation<sup>5</sup>.

Surveys of B.C. businesses and industries consistently report that the Asia-Pacific and the (especially West Coast) U.S. represent leading areas of market opportunity (Davis and Hutton 1992). This ever-closer and multi-faceted engagement of British Columbia with Pacific Rim markets, societies and urban networks is in many respects to the province's advantage, likely insulating the province from the worst ravages of the deep and protracted recession afflicting central Canada, which is more tightly linked with the troubled U.S. heartland. There are however limits to the benefits of this emerging market reorientation, and we shall return to a consideration of the more problematic aspects of this relationship in a subsequent section.

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<sup>5</sup> British Columbia's important tourism, travel and convention sector is similarly oriented increasingly toward the Pacific Rim, with leading markets including Japan, Hong Kong, the ASEAN nations and the 'American Pacific Rim' (See Davis and Hutton, 1990).

### New and Emerging Production Centres and Economic Zones

The growth and maturation of British Columbia's economy over the past fifteen years has created a reconfigured economic geography in the province which includes the emergence of new production centres and economic zones. These include, notably:

- (a) rapid growth of industry in Vancouver's inner and outer suburbs, and a more recent expansion of tertiary activities in certain inner suburban centres as Richmond, Burnaby, and North Vancouver
- (b) the expansion of economic activity in southern Vancouver Island, including computer software development, the knowledge sector, and tourism activity
- (c) the emergence of major regional industrial and service centres of more than 60,000 population -- Nanaimo, Prince George, Kelowna, and Kamloops -- which to some extent replicate the core-periphery relationship within their own respective regions
- (d) substantial residential and tourist development in high amenity areas within Vancouver's broadly-defined 'urban field', including eastern Vancouver Island, Sechelt, and the Southern Okanagan.

The development of these new and emerging employment centres and development zones cannot of course mask the increasing dominance of the Vancouver-Lower Mainland region, which has significantly increased its share of British Columbia's population and employment over the past decade. This dominance is largely defined by Vancouver's primacy in specialised service functions, especially producer services.

Employment in business services in metropolitan Vancouver expanded from 43,800 in 1981, to 72,500 in 1991: indeed Vancouver actually increased its share of British Columbia's business service jobs from 71.5 per cent to 73.3 per cent (Kunin and Knauf 1992). This is attributed in part to the growth of consultancies catering to corporations and business management, to demand from the dynamic local production sector, and to Vancouver's emergence as a Pacific Rim city.

More specifically, the real strength of Vancouver's dynamic service economy is reflected in the pattern of specialised service clusters located in the city and inner suburbs especially. These include, notably, the downtown complex of corporate activities (Hutton and Ley 1987), the clusters of applied design services on the downtown fringe, the mid-town

'medical precinct', the Port of Vancouver and Vancouver International Airport, UBC and Simon Fraser University.

While Vancouver occupies a dominant position within British Columbia's service sector, other significant service centres are emerging. As observed by Kunin and Knauf there are other cities in British Columbia '...which are expanding their roles as sub-regional service centres' (Kunin and Knauf *op.cit.*), including Kelowna and Kamloops, as well as the important regional/provincial centre of Victoria. In fact, employment in the finance, insurance and real estate category increased faster outside Vancouver than in Vancouver itself in recent years (*ibid*).

Finally, the new and expanding development zones in British Columbia cannot mask the very serious problems among many of the smaller, resource-dependent communities in British Columbia. The future development of these communities and the range of associated structural adjustment issues and options will be addressed below.

### **Structural Change in British Columbia: Problems of Adjustment, Transition and Sustainability**

As the previous section demonstrated, British Columbia has experienced a significant degree of development and diversification over the past decade and a half. It is however clear that development has been very uneven and highly asymmetrical; that restructuring has wrought substantial dislocation and displacement; that diversification (of industries, occupations, and regions) is at best partial in important respects; and, finally, that as a consequence the policy environment for British Columbia in the 1990s will be (and indeed is) exceedingly difficult.

In attempting to depict development prospects for various regional entities, planners and scholars typically prepare lists of comparative advantages and disadvantages, providing a kind of shorthand analysis of problems and opportunities. Such a table was prepared by the B.C. Round Table Economy Core Group [Figure 3], and it may well provide a rough sense of the balance between opportunities and constraints.

A deeper analysis of the province's prospects for sustainable development reveals a series of complex and inter-related problems of structural adjustment and transition in British Columbia. These include, in the broadest terms:

<b>Comparative Advantages and Strengths</b>	<b>Comparative Disadvantages and Weaknesses</b>
1. Stock of natural resources and 'environmental capital'	1. 'Sustainability deficit' in environmental terms
2. Internationally competitive sectors and industries	2. Government fiscal constraints (deficits and accumulated debt)
3. Strategic Pacific Rim location and networks (business, social, cultural)	3. High drop-out rates from school; barriers to post-secondary education and retraining
4. High quality of life	4. Evidence of increasing social disparities and poverty
5. Entrepreneurship (including recent immigrants)	5. Unresolved land use conflicts
6. New and emerging clusters of value-added and technology-intensive industries	6. Over-concentration of growth in Georgia Basin and increasing regional disparities
7. Dynamic service sector	7. Depreciating terms of trade for some principal export commodities
8. 'Centres of Excellence' in higher education and R&D	8. Capital constraints for private sector investment
9. Quality of public and private infrastructure	9. Lack of economies of scale in local/domestic market
10. Vitality of British Columbia's diverse regions and communities	10. 'Flat' income growth and declining savings rates

Figure 3. Examples of British Columbia's Economic Strengths and Weaknesses

Source: B.C. Round Table Economy Core Group

- (a) a massive 'sustainability deficit', i.e. a legacy of costs and resource depletion which must now be seriously addressed, and which includes badly eroded stocks of natural capital, and widespread environmental degradation, as well as major social, economic, and fiscal deficits
- (b) problems of structural transition, with respect to residual and emerging problems associated with the province's critical staple economy, and growing pressures on British Columbia's production (goods and services) sectors
- (c) problems of uneven development and an increasingly asymmetrical regional economic geography, which feature as prominent issues the agglomerative and cumulative growth tendencies of the Vancouver-Lower Mainland region and (to a lesser extent) the Capital Regional District centred on Victoria, and the current (or impending) crisis afflicting many of the province's resource-dependent communities.
- (d) problems associated with an apparently accelerating integration of British Columbia's economy with broader regional, Pacific Rim and world markets, in light of economic globalisation and market integration (both market-driven and also influenced by bilateral and multilateral trade agreements and treaties, notably NAFTA), which will generate significant benefits, but which will also lead to socio-economic dislocation, and will certainly reduce an already eroded sense of local or domestic economic control.

Space precludes a detailed discussion of these important problems of development in British Columbia. A short description of each will however be offered to provide an analytical context for the discussion of policy choices and responses to follow.<sup>6</sup>

### **British Columbia's Sustainability Deficit**

Public policy choices are not taken against the back-drop of a 'clean slate', but instead must consider aspects of comparative advantage, resource endowments, and other policy variables. It is becoming increasingly accepted that development policy must also take into account and effectively address the province's accumulated 'sustainability deficit', i.e. the erosion of capital stock at rates which will both jeopardise the integrity of this stock, and

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<sup>6</sup> For more extensive treatment of these development issues and problems see B.C. Round Table, 1993a; Government of British Columbia, 1991; Kunin and Knauf, 1992; Horne and Robson, 1993; and Davis and Hutton, 1992.

impair the welfare of future generations<sup>7</sup>. Moving the economy toward a path of sustainability will require the careful replenishment of this seriously eroded stock of capital, which includes the following components.

### Natural (Environmental) Capital

For much of British Columbia's development history, a sense of unbounded frontiers and infinite resources dominated the social ethos, and, in turn public policy and corporate behaviour. Accordingly, the vast resource wealth of the province was exploited at rates exceeding levels of replenishment, particularly during the 'take-off' growth period following the second world war.

In recent periods more vigorous efforts have been made to restore the stock of natural endowments to a level approaching 'sustainable yield'. At the same time, intensive forestry practices have generated an increase in consumption of forest fibre from 34 million cubic metres in 1960 to more than 90 million cubic metres in 1987 (B.C. Round Table 1993a). Fisheries stocks, especially salmon, have also been badly eroded after decades of overfishing by several (and competing) user groups. Finally, the (essentially non-renewable) mineral stock has been so substantially depleted that there is a real question whether a viable mining industry can survive into the twenty-first century.

While considerable debate exists concerning the appropriate level of resource extraction, a consensus is emerging that the requirements of sustainability will dictate significant, downward adjustments in allowable harvest levels. This will have in turn very significant impacts for jobs, communities, and government revenues<sup>8</sup>.

Secondly, replenishment of British Columbia's stock of natural or environmental capital will require considerable new investments over the 1990s and beyond. Loss of these stocks cannot simply be 'written off' -- such an approach would undermine the integrity and quality of the province's environmental assets, and will materially impair the socio-economic welfare of future generations.

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<sup>7</sup> For a valuable treatment of new approaches and techniques of sustainable development planning, see Daly and Cobb, 1989.

<sup>8</sup> It has been estimated (for example) that a 25 per cent reduction in the annual allowable cut (AAC) of British Columbia's forests would lead to a loss of 70,000 jobs (Ministry of Finance, cited in Binkley, 1992).



Finally, there is a growing acceptance of the urgent need to consider environmental degradation (air pollution, declining water quality) as part of British Columbia's 'sustainability deficit'. Restoring this degraded natural environment will require significant investments and regulatory interventions.

### Social or Human Capital

As British Columbia attempts to adjust to the demands of a restructuring economy which increasingly favours knowledge-based industries, it is apparent that the province's human capital must be significantly enhanced and maintained (B.C. Round Table 1993b). There are growing concerns that the province's human capital has been significantly eroded, in light of high school drop-out rates approaching 25 per cent, constraints on entry to post-secondary education, limited vocational and apprenticeship opportunities, and the particular problems of educational access for First Nations and for the poor generally.

Failure to address the replenishment of the province's human capital will hinder British Columbia's transition to more information-intensive industries, and will in addition exacerbate socio-economic disparities. Specifically, there is already evidence of a two-tiered occupational and income structure emerging, and only education and retraining initiatives can effectively ameliorate this trend (Kunin and Knauf 1992). On the policy side, this will require a more proactive and strategic structural adjustment approach, with view to preparing those already in the workforce for new skill requirements, and to imparting greater flexibility or 'suppleness' to the province's economy (McClure 1992).

### Fiscal Capital

The province's rapidly growing deficits (and accumulated debt) represents a major component of British Columbia's sustainability deficit. Increasing demand for infrastructure investments and (especially) public services, combined with fiscal stress associated with business cycles and economic restructuring, and the downloading of programme funding responsibilities by the federal Government, have produced a highly problematic public finance scenario for the 1990s.

Over the 1960s and 1970s, provincial Governments were able to post a succession of balanced budgets largely on the strength of a strong and expanding resource sector. The 1980s however saw a more difficult economic context, commencing with the severe commodity price shocks and deep recession of 1982-1984, and leading to significant budget imbalances by the end of the decade. These deficits were due largely to increased

government spending: in each of the three fiscal years up to 1991/92, expenditures grew by an average of 12 per cent per annum. The deficit for 1991/92 reached \$2.46 billion, including a structural component of an estimated \$1.5 billion (Peat Marwick KPMG 1992).

Gaining control over provincial budgets (particularly on the operating expenditure side) will be difficult, as evidenced by the example of fiscal stress experienced by most senior levels of government in Canada, the U.S., and internationally. A failure to achieve a substantial measure of control will however result in a range of serious negative consequences for long-term sustainability in British Columbia, in terms of:

- the deferral of costs of Government and public services to future generations, violating a central tenet of sustainability
- a serious diminution of British Columbia's ability to maintain and replenish the province's capital stock (including natural, human and physical capital), much of which has been eroded in recent years
- prospects of the 'downgrading' of British Columbia's credit rating, resulting in higher costs of capital borrowing
- the likelihood of squeezing investment spending as the Government competes in the capital market for scarce financial resources
- constraints on funding the short/medium term 'structural adjustment' programmes (e.g. in retraining and apprenticeships) required during the current transition period

If British Columbia's deficits continue to grow unchecked, moreover, the Government's policy options for an uncertain future will be correspondingly reduced, inhibiting among other things the application of counter-cyclical stimulus during inevitable recessionary phases.

A specific problem of British Columbia's fiscal position (largely shared with other senior governments in Canada and elsewhere) is the growing proportion of the deficit accounted for by 'consumption' or operating expenditures, as opposed to capital investments. While it is acceptable to accommodate (within limits) deficits for which long-term benefits will accrue to the province, operating expenditures should be brought into (approximate) balance over the business cycle, to avoid the impacts noted above (Wright 1992).

It is clear then that the Government must undertake measures to direct the province's finances toward sustainability, by means of a range of budget control mechanisms, a more stringent definition of priorities (discussed openly with the public at large), and improvements in the efficiency of public service delivery.

### **Prospect of a 'Post-Staples' Economy**

After more than a century of resource-led growth, British Columbia may now be entering a 'post-staples' era of economic development. The province has been successful in an (implicit) strategy of moving on to successive resource endowments as stocks become depleted through over-harvesting, or as demand patterns change, or as new, more competitive suppliers appear; but clearly '... this strategy cannot work forever, and there are real indications that such limits have now been reached' (Hayter and Barnes 1990:171).

This observation does not mean of course that staples will not be important; clearly the resource sector will be significant well into the next century, and indeed there are prospects for reshaping resource industries to provide a viable component of a restructured economy (Round Table 1993a). At the same time it appears that the resource sector's traditional dominance will be vitiated by an historic confluence of supply, demand, and public policy factors.

In his well-known and highly-publicised analysis of the Canadian economy, Michael Porter has suggested that contrary to some popular assertions, there '... is nothing inherently undesirable about resource-based industries, provided they support high levels of productivity and productivity growth' (Porter 1991, as cited in Binkley 1992). This argument is theoretically reasonable, although there are few examples of resource regions doing well among the advanced economies in the 1990s. More specifically, the range of 'real world' problems afflicting British Columbia's resource economy include the following factors.

#### **Supply Factors**

Pressures on the supply of resources represent a major constraint upon staple production, and would likely be sufficient to reduce output even if no other 'downside factors' (see below) were present. In fact, '... supply constraints on the major natural resources sectors will have widespread effects on the entire economy, because ...[they contain]... an intricate set of historical inter-industry dependencies' (Round Table 1993a:34).

The arrival of new and/or expanding competitors in the regional and global commodity markets will also impact British Columbia's staple sector. As an example, we can cite recent reports of shifts of investment in the mining industry to Chile and other developing nations (Globe and Mail 1992).

### Demand Factors

Significant demand factors comprise both cyclical and structural components. The latter include, notably, secular changes in demand resulting from (for instance) structural shifts in the economies of major markets. As an important example, the shift away from heavy industry in Japan will likely impact sales of B.C. coal in coming years.

While, as Porter suggests, resource regions can thrive if productivity is high, the central fact is that the British Columbia resource sector (and that of Canada as a whole) is '... a price-taker where price volatility is the norm' (Barnes forthcoming). This volatility is demonstrated in Table 2, which shows export price indices for five British Columbia forest product categories over the 1980s. And, aside from this inherent volatility factor, a number of the province's key export commodities have experienced significant real price deterioration over the last decade [Table 3]: as Barnes observes, terms of trade '... for primary commodities are increasingly less favourable to staples-producing areas' (*ibid.*).

### Public Policy and Social Attitudinal Factors

While British Columbia contains both a vast storehouse of natural resources and major staple industries, it is also home to articulate and well-organized environmental groups. Moreover, the integrity of the environment represents a deeply-held and cherished public value among the province's citizens (Round Table 1993b). To a greater or lesser extent the government of the day will reflect these values and express them in policy terms. The NDP Government, in fact, has consistently stated that environmental protection and enhancement is a guiding objective both of government policy generally and development planning specifically. While its actions on this front are unlikely to please the competing aims of all stakeholders or constituencies, the net effect of such policies will be to further constrain the resource sector.

In summary, there is a growing consensus that the position of the resource sector in the provincial economy will contract in relative, if not absolute, terms. This has already been felt with respect to employment: the forest sector contracted by tens of thousands of

Table 2

Export Price Indices for Five B.C. Forest Product Categories, Nominal Dollar Equivalent and Recalculated for Constant Measure, 1980-1990 (1986=100)

Year	Forest Products Commodity Price Indices				
	Newsprint	Pulp	Other Paper	Lumber	Plywood
1980	71	97	70	88	83
1981	81	102	79	79	83
1982	85	95	84	77	74
1983	80	82	85	95	84
1984	89	104	93	87	76
1985	97	89	99	89	81
1986	100	100	100	100	100
1987	105	125	104	99	97
1988	112	146	112	101	93
1989	105	162	113	102	104
1990	105	152	111	100	96
<b>% Change</b> <b>1980-1990</b>					
Current	47.9	56.7	58.6	13.6	15.7
Constant	(9.9)	(3.3)	(2.1)	(29.9)	(28.6)

Source: Planning and Statistics Division, Ministry of Finance and Corporate Relations, *B.C. Export Price Index - Background Paper*, December 1991.

Note: Annual figures for shakes and shingles are omitted in the table.

Table 3

Export Price Indices for Selected B.C. Commodities, 1980-1990

Year	GDP Deflator Defl. (1986=100.0)	Index Real Change 1980-1990 (1980=100.0)			
		Forest Products		Other Commodities	
1980	73.0	Shakes	1.000	Zinc	1.311
1981	80.9	Other Paper	.981	Coal	.859
1982	87.9	Pulp	.969	Aluminum	.758
1983	92.3	Newsprint	.915	Copper	.737
1984	95.2	Shingles	.765	Salmon	.638
1985	97.7	Plywood	.715	Lead	.555
1986	100.0	Lumber	.703	Natural Gas	.227
1987	104.7				
1988	109.7				
		Number of \$C required to purchase 100 \$US			
1989	114.9	1980	1986	1990	
1990	118.3	116.9	138.9	116.7	

Sources: (1) Planning and Analysis Division, Ministry of Finance and Commercial Relations, *B.C. Export Price Index Background Paper*, December 1991

(2) Statistics Canada for GDP deflator and \$C-\$US conversion

workers in the 1980s, and the mining sector has also experienced deterioration, having lost 17 percent of its employment since 1990 (EIC 1993). While the scale and interdependencies of the resource sector will ensure that these contractions are experienced in all areas and sectors of the province, there is a distinct regional geography of restructuring, as we shall see below.

### **The Emerging Landscape for Regional Planning and Development: Differentiation and Divergence**

Although the provincial economy is characterised by important linkages and interdependencies, there is growing evidence that British Columbia's regions will increasingly experience differentiated development patterns. Recent studies have confirmed that

... while the economy of British Columbia as a whole is undergoing restructuring and modest growth, some of our communities are experiencing an economic decline while others are experiencing rapid growth. The common feature is that we are all experiencing change (B.C. Round Table 1993b:54).

These emerging 'regional realities' within British Columbia will present major challenges for development policy over the next decade, and incorporate the following dimensions.

#### Basic Regional Structure of British Columbia

To a significant extent, the regional structure of the province replicates on a smaller spatial scale the classic core-periphery relationships depicted by Innis in his early model of the Canadian staple economy. In this interpretation, the rapidly-growing metropolitan south west of the province arranged within the Georgia Basin, which includes metropolitan Vancouver and the Lower Mainland, and the Victoria-Capital Regional District area, represents the 'core', while the more resource-dependent hinterland represents the 'periphery' (see Davis and Hutton 1989; Davis and Hutton 1992, Ch. II:8-14).

Barnes characterises this provincial core-periphery relationship as follows:

... we can easily recognise an internal metropole and hinterland relationship within B.C.'s staple producing economy. From the beginning, Vancouver quickly emerged as the provincial control centre for resource extraction. If anything this role has become even more entrenched with the development of

a distinct producer services complex within the downtown .... [i]n contrast, the remaining hinterland outside of the Georgia Straits Region continues to be a vast repository of staple production ... (Barnes forthcoming).

Increasingly, this spatial dualism is defining growth and development trends, as we shall see below.

### Core-Periphery Divergence

Recent studies have traced the lineaments of an incipient core-periphery divergence within British Columbia. Ley and Hutton, for example, while acknowledging significant inter-regional networks of service and information flows, suggested the prospect of increasing core-periphery divergence in British Columbia as influenced by contrasts in population density, industrial structure, and market orientation. Vancouver, in particular, is closely and increasingly linked to Asian Pacific markets, while secondary business centres within the hinterland are becoming more significant within their respective regions, these trends having the effect of '... loosening the bonds between core and periphery in a staple led provincial economy' (Ley and Hutton 1987:423).

This dualism is also reflected in somewhat divergent business cycles. Between 1975 and 1981, the non-metropolitan areas of the province expanded more quickly than did the metropolitan centres. During the severe recession of 1982-84, all areas of the province were impacted, but the resource-dominated hinterland was more seriously affected. Since 1983, trends have increasingly favoured the metropolitan areas, especially Vancouver (EIC 1993). These aspects of divergence and differentiation clearly suggest rather different planning needs and policy agendas, as we shall now see.

### The Resource Sector and Community Dependence

As a central task of its work programme over the last two years, the British Columbia Round Table has (in partnership with government agencies, business, labour, and community groups) conducted studies of prospects for sustainable development at the regional level. The findings of these studies depict a deeply problematic future for many of the over 100 communities that are significantly dependent on staple extraction and production.

A study of community dependency conducted for the B.C. Round Table by Horne and Robson identified the extent to which 55 local areas relied upon one or more resource industries. The results underline the deep dependence of many communities on forestry and

mining [Table 4]. In fact, many regions and communities are highly dependent on a single resource industry, as depicted in Figure 4.

For many of these resource-dependent communities, structural changes to the provincial staple sector will have profound impacts on prospects for long-term sustainability, or, in extreme cases, even survival. Because of their over-dependence on resource extraction, these communities

... may feel the full brunt of dislocation caused by structural change in the economy. Some communities' very existence may be threatened; others may face a gradual erosion of their economic base (Round Table 1993a:44-45).

Moreover, as hinted in the previous section, these trends '... not only threaten communities themselves, but would also tend to exacerbate the divergence of the urban centres in the southwest from the rest of the province' (*ibid*).

### **The Emerging Landscape for Development Planning: Exogenous Forces and International Networks**

As observed above, British Columbia is highly open to inter-regional and global markets, trading patterns and external development influences. Given the emerging landscape of market integration, enhanced factor mobility, and telecommunication innovation, this exposure to international or macro-level dynamics is likely to increase over the 1990s, with a decidedly mixed impact on the province's prospects for structural adjustment and sustainable development.

British Columbia's external relationships include membership in a range of regional and international networks and systems, defined by geography, trade flows, information and service networks, socio-cultural linkages, and a range of bilateral and multilateral treaties and agreements. These relationships and networks include the following:

- the Vancouver-Seattle Development Corridor, identified by Rimmer (1993) as a significant urban development axis within the context of the Pacific Rim
- the Georgia Basin-Puget Sound region, which includes Vancouver and the Lower Mainland, Victoria and southeastern Vancouver Island, and the Seattle-Tacoma metropolitan region



Level of Dependence on a Single Sector	Number of Areas	Sector Dependence
60% +	2	Forestry, Mining
50% +	7	Forestry, Mining
40% +	18	Forestry, Mining
30% +	31	Forestry, Mining, Pensions, Tourism, Investment

**Table 4:** Areas in British Columbia Showing Various Levels of Dependence on a Single Sector

**Source:** B.C. Round Table (1993a)

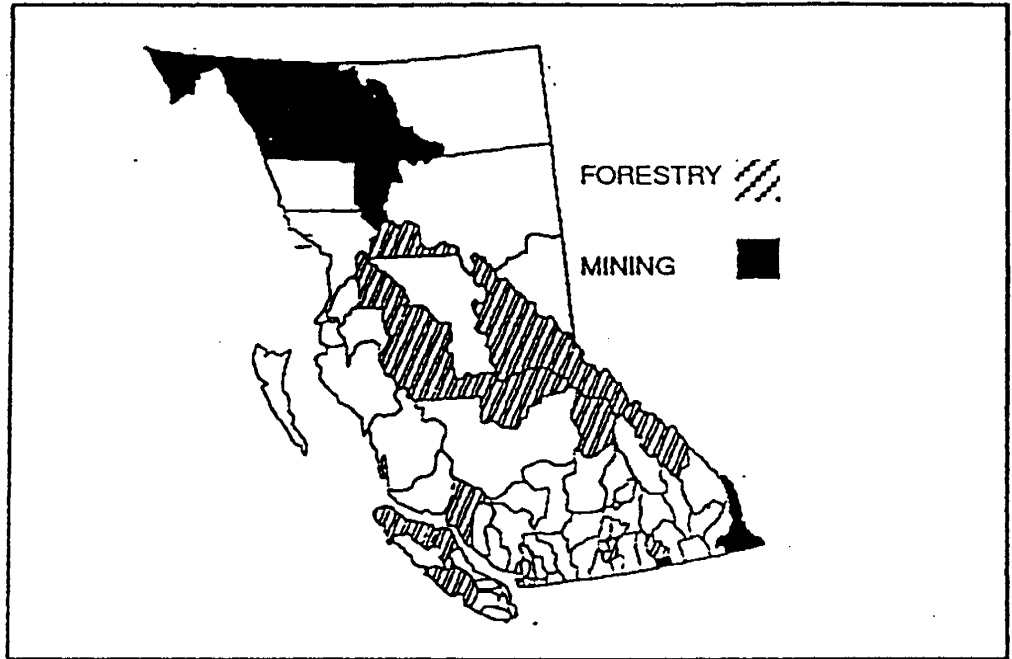


Figure 4. Areas of British Columbia which Derive 40 per cent or more of Income from Single Industries

Source: B.C. Round Table (1993a)

- the more broadly-defined 'Cascadia' region, which includes British Columbia as well as the states of Washington, Oregon and Alaska
- the emerging Pacific Rim urban network, within which Vancouver is seen as assuming an increasingly significant role (Douglass 1987)
- the broader Pacific Rim trading and economic sphere, increasingly the principal arena for British Columbia's trade and development

In addition, we can also at least provisionally consider an arrangement of advanced, urban-centred resource regions around the Pacific Rim, which might include Oregon, Washington, Queensland, New South Wales, and Hokkaido, as well as British Columbia, a structure which exhibits features both of competition and complementarity.

British Columbia's development policy will need to include appropriate strategies for maximising the privileges inherent in membership among the relationships and networks cited above. There are in fact some potentially significant initiatives in this sphere. The Government of British Columbia is now an active participant in the 'Georgia Basin Initiative,' an enterprise which seeks to explore cooperative growth management and environmental enhancement policies, as well as the potential for economic collaboration (British Columbia Round Table 1992). The Premier of B.C. has also signed an agreement for co-operative development with the Governor of the (Vladivostok-centred) Primoriye Region of the Russian Far East, to include programmes for resource development.

There will need to be fresh initiatives in this area if British Columbia is to develop as an active player in very competitive and dynamic Pacific Rim markets. As observed previously, there is a real prospect of British Columbia exchanging its traditional hinterland status within the Canadian federation for an equally peripheral status in the Pacific sphere.

## **Policies for Structural Adjustment and Sustainability: Toward a New Framework**

### **The Policy Context Restated**

While there are certainly positive signs of structural transition evident in British Columbia's economy, there are legitimate concerns about the province's long-term sustainability, especially in the context of

- a serious ‘sustainability deficit,’ in terms of British Columbia’s stock of natural, economic, fiscal and human capital
- the prospects of further major contractions in the province’s historically critical resource sector
- the potential for additional competitive and technological pressures on both the goods and services components of the province’s production sector<sup>9</sup>
- an ambivalent sense of the province’s future within the larger Pacific Rim economy and trading system.

There are of course other, potentially significant uncertainties, including the impact of aboriginal treaty claims, and the federal constitutional impasse.

These constraints are effectively conveyed in Table 5 which shows key indicators and projections for British Columbia, prepared by the Economy Core Group of the British Columbia Round Table. The statistics clearly underline the highly problematic nature of the 1980s following two decades of resource-led growth, and a distinctly difficult 1992-2001 period as suggested by the forecast range (B.C. Round Table 1993a). Implicit in these projections is the prospect of increasing structural and long-term unemployment, growing government deficits, and very low (or negligible) income growth.

### **The Path to Sustainability**

It is clear from the preceding analysis that British Columbia is in a critical transition period, with the rapid onset of a ‘post-staples’ era in which restructuring is driven by contractions in the resource sector, growth in the services and goods production sectors, a new regional economic geography within British Columbia, and membership within a range of external systems and networks [Figure 5]<sup>10</sup>. This transition period is highly problematic, as Figure 5 shows, and therefore British Columbia is at a policy crossroads as well as approaching a developmental threshold.

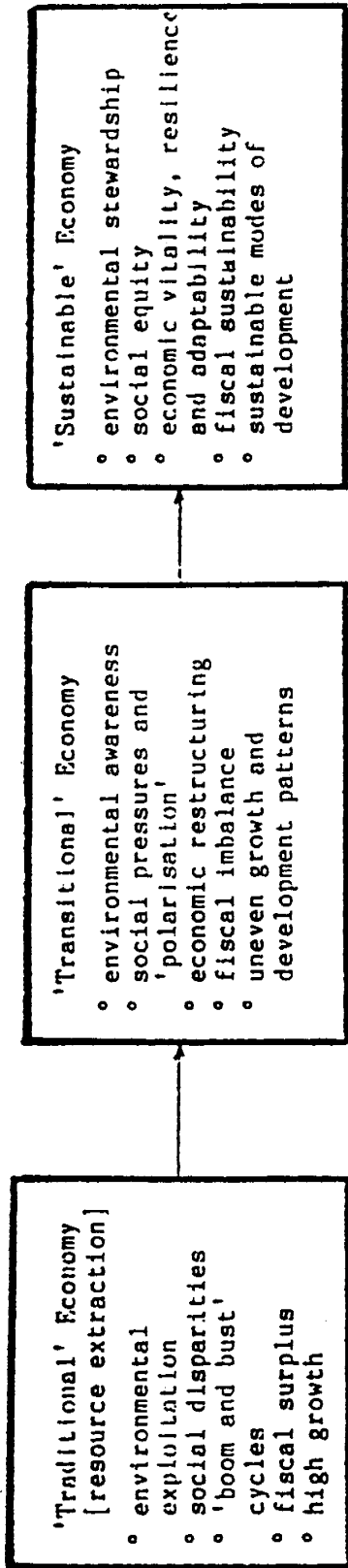
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<sup>9</sup> British Columbia’s manufacturing sector is in some respects dynamic, but is small, generally under capitalised, and suffers from a generally weak technology transfer process. At the same time, many observers believe that service employment growth curves may already have peaked.

<sup>10</sup> See also Appendix I for a more detailed profile of transitional or ‘transformational’ change in British Columbia.

British Columbia Key Indicators and Projections				
		Traditional Economic Indicator		
Decade	GDP (% Avg Annual Growth)	Income <sup>a</sup> (% Avg. Annual Growth)	Unemployment Rate (Avg. %)	Government Deficit Pressures (Simple Avg.: \$Millions)
1961/70	5.8	1.7	5.7 <sup>b</sup>	41
1971/80	5.4	5.1	7.6	74
1981/91	2.0	0.3	11.2	(717)
1992/2001 (forecast range)	1.8 - 3.3	0.1 - 0.5	8.8 - 9.7	(1379) - (2922)
<sup>a</sup> <i>Real personal disposable income per capita</i>				
<sup>b</sup> <i>Consistent data series for the 1961 - 1971 period are not available for the unemployment rate. The figure given is an estimate for the period 1966 to 1970.</i>				

Table 5. Economic Indicators and Projections for British Columbia, 1961-2001  
Source: Round Table (1993a)



1875 - 1975

1975 - 2000

Figure 5. British Columbia's Path to Sustainable Development

Given the magnitude and complexity of the economic problems described here, it is very clear that British Columbia will not be able to achieve sustainability in the immediate or short term. It is however important to develop an appropriate decision framework and strategic policy structure in place, with a view to placing British Columbia on a sustainable development path. Some of the key short-medium term adjustment objectives and longer-term sustainability goals which could facilitate this process are set out in Figure 6.

The Government has begun the difficult work of moving the province toward sustainability. A forum was convened recently to begin to articulate a sustainable vision for the province's future development (Government of British Columbia 1992b), although this event also highlighted competing visions, notably between those who wish to accelerate British Columbia's involvement in international trading arenas, and those more sceptical of such prospects, preferring a more local focus emphasising community economic development (CED). The Commission on Resources and the Environment (CORE) was established to provide a consultative and advisory forum for exploring land use options among British Columbia's staple regions (although, significantly, CORE was not involved in the recent controversial Government decisions on the Clayoquot Sound area and the Tatshenshini Valley). The B.C. Round Table itself is an important vehicle for articulating a cohesive, consensus-based vision of sustainability, and for exploring development options within a consultative framework.

## Conclusions

This paper has addressed the recent evolution of British Columbia's economy, within a context of the province's traditional role as supplier of staples within a confederal core-periphery relationship, and against a backdrop of ongoing structural change. The analysis is supportive of the thesis that while resource extraction will be important to (especially the hinterland regions of) the province over the 1990s and into the next century, British Columbia can be said to be approaching a 'post-staples' era in terms of the capacity of resource industries to lead economic development.

There are certainly positive features of structural change in British Columbia, as observed above, but overall the development policy context for the 1990s is highly problematic. The spatial expression of restructuring includes a new, and more sharply bifurcated regional economic geography, with the metropolitan areas (and certain high-amenity centres within close proximity to the south-west and the Georgia Basin) being increasingly favoured.

Short/medium-Term 'Adjustment' Objectives	Long-term 'Sustainability' Goals [10-15 years]
1. Introduce new data management and accounting techniques and decision-making approaches to embody environmental, economic, social and fiscal principles	Establish new, holistic, consensus-based, decision-making paradigm
2. Improve K-12 completion rates; enhance retraining programmes	Full opportunity for education and training for all British Columbians
3. Adjust resource depletion rates	Achieve ecological balance and biodiversity through stewardship
4. Develop and implement community economic development (CED) processes and regional planning mechanisms	Integrate CED and regional planning within framework of provincial sustainability strategy
5. Improve business networks and communications systems within B.C. and between B.C. and our trading partners	Establish complementary linkages among province's regions, and expand British Columbia's role in regional, Pacific Rim and global arenas
6. Promote British Columbia's new and emerging industrial clusters	Enhance sectoral and regional diversification, and long-term economic sustainability
7. Provide infrastructure for new and emerging industries, consistent with environmental, social and fiscal accounting	Support long-term sustainability via infrastructure maintenance and selective investments
8. Undertake Government budget management and expenditure controls	Achieve fiscal balance over business cycle
9. Promote regional diversification and growth distribution	Achieve more sustainable balance of growth and development among British Columbia's regions
10. Meet basic social needs	Achieve social equity

Figure 6. Policy Framework for Sustainability in British Columbia: Short-Term Adjustment and Long-Term Transition



At the same time, policy options will be constrained by a complex series of factors, including growing budget deficits, the increasing strength of exogenous influences, and the impacts of the province's sustainability deficit. Over the past two years, the new provincial Government has been exploring options in development policy, and some potentially significant innovations have already been reported, notably in the establishment of CORE. The task of reconciling the imperatives of economic restructuring and external market reorientation with the highly-differentiated needs of British Columbia's regions and communities will, however, pose perhaps the most significant public policy challenge.

### **Theoretical Implications: Innis' Staple Model and the British Columbia Case Study**

British Columbia's development path has powerfully and comprehensively manifested the tenets of Innis' classic model of staple production. This historical reality notwithstanding, the analysis presented here raises at least implicitly the question of the future relevance of the Innis model for British Columbia, in light of (a) ongoing restructuring processes favouring goods and (especially) services production over resource extraction, (b) incipient divergence among the regions of the province and indeed between B.C. and the rest of Canada, and (c) the apparently accelerating integration of British Columbia with more spatially-extensive markets, notably within the Pacific Rim as well as more fully-globalised spheres.

In important respects the discussion confirmed the continuing validity of the staple model as a description and explanation of British Columbia's development course, particularly in terms of the preponderant share of provincial exports still accounted for by resource commodities, and the high resource industry dependency ratios for many hinterland communities. It is however equally clear that British Columbia's current and prospective development orientation represents some significant points of departure from the 'pure' expression of the Innis model, and it may therefore be appropriate to identify some of these features and to propose some provisional amendments. First, the model should embody the capacity to reflect the evolution, maturation and even transformation of historically resource-dependent regions and provinces, perhaps incorporating the attributes of 'mature' advanced staple economies described in the introduction to this paper. There might also be allowance for the structural (i.e. not merely cyclical) decline of resource sectors, whether impelled by 'positive' progression to more advanced modes of production, or, less happily, as a consequence of severe resource depletion and/or changes in the pattern of external demand.

Secondly, there is a need to consider events and trends which may vitiate the powerful inter-regional linkages characteristic of the staple model. In the case of British

Columbia, linkages between the metropolitan south-west (and more specifically the control centre or 'core' of Vancouver) and the resource hinterland are of course important, but have been weakened at least in relative terms by the emergence of secondary business centres in the interior (with service import replacement capacity), by a series of resource corporation acquisitions and mergers which have to some extent eroded Vancouver's historical control function, and by Vancouver's own external market reorientation.

This latter reference generates a third and final modification, viz. the need to enlarge the scope of the staple model's operation to encompass the broader arenas over which trade between staple regions and industrial metropolises is conducted, in a context of economic globalisation and market integration. The Innis model has offered a persuasive explanation of the particular structure of the Canadian economy as a whole, as well as for core-periphery relationships at the provincial level. Over the past decade, however, British Columbia's staple exports have been increasingly destined for Asian-Pacific markets, reflecting in some measure the emergence of a new core-periphery structure, with industrial core regions (e.g. Tokyo, Nagoya-Chukyo, Los Angeles) supplied by both developing and by mature, advanced staple regions. Vancouver also has a special role as supplier of producer services and manufactured goods (as well as performing more traditional gateway or entrepôt roles) within this new Pacific-centered framework. These events may be reinforced by new continental and multilateral trading arrangements, suggesting a need to recalibrate the spatial scope of the staple model accordingly.

### **The Future Development of Advanced Staple Regions: Toward a Research Agenda**

The analysis also raises questions about implications of British Columbia's experience for other advanced, staple regions in Canada and the broadly-defined Pacific Rim that are also in the midst of (often painful) restructuring processes. In the Canadian context, aspects of intra-provincial core-periphery divergence within a context of economic restructuring have been addressed in cases such as Quebec (Coffey and Polèse 1989), Alberta (Michalak and Fairburn 1988), and Saskatchewan (Stabler and Howe *op. cit.*). These valuable contributions notwithstanding, there is scope for further, policy-oriented research in this sphere. This includes the area of development policy innovation at the regional level in Canada, in light of (for example) the prospects of continuing decline in many of the key staple industries which have underpinned the Canadian economy for several centuries, and in view also of the manifest failure of 'traditional', centralist regional policy prescriptions, as documented notably by Donald Savoie, among others.

In the case of British Columbia, the Government intends to offer a more diversified 'menu' of programme options to regional and community-level planning agencies, recognising the very different regional economic realities emerging within the province. Precisely how this might be achieved, while at the same time maintaining an acceptable level of accountability, efficiency of service delivery, and some measure of regional policy coherence, will surely be of interest to other provincial governments in Canada.

At the same time, the principal issue of inter-regional divergence clearly has relevance for many of the Pacific Rim's advanced staple regions, where (for example) cities like Sydney and Seattle are evolving as Pacific Rim cities, with an identity and set of roles somewhat distinct from their traditional hinterland relationships. In most of these regions, too, problems of transition and structural adjustment for smaller, resource dependent communities could well exhibit aspects of commonality, suggesting the possibility of comparative study. It might also be useful to speculate on the possible lessons of the British Columbia experience for staple regions at a developmental threshold, for example, the Primoriye region of the Russian Far East, and possibly Johore in Malaysia. Here, the impact of exogenous influences on development orientation would be of considerable interest.

To a significant extent, of course, the fortunes of these advanced staple-producing regions within the Pacific Rim depend on their specific mix of resource endowments, changes in terms of trade, and the pattern of external demand, among other factors. Some possible themes for comparative analysis among these advanced resource regions might include, for example, the functional evolution of regional primate cities (e.g. Sydney and Vancouver as financial and producer service centres, Brisbane and Sapporo as tourism and recreational centres), and core-periphery divergency tendencies, as evidenced by the increasing integration of regional primate cities in Pacific Rim and global urban networks and systems.

## APPENDIX 1: Structural Change in British Columbia

## STRUCTURAL CHANGE IN BRITISH COLUMBIA: PAST, PRESENT AND PROSPECTIVE

Attributes	I STAPLE OR RESOURCE EXTRACTION MODE	II 'TRANSITIONAL MODE'	III SUSTAINABLE DEVELOPMENT MODE
1 Ethos	Resource extraction; sense of 'unbounded' natural environment	Growing awareness of costs, limits, choices	Ecological balance, biodiversity, environmental stewardship
2 Dominant Mode	Resource/staple extraction, 'rent-taking'	Secondary processing, value-added manufacturing, and transportation and business services	Technology- and knowledge-intensive production (goods and services)
3 Key or 'Propulsive' Industries	Forestry, mining, fishing and agriculture	Forest products, tourism, public and producer services, 'embryonic,' niche-level, advanced-technology manufacturing, design	The 'knowledge' sector, advanced-technology sectors and industries (biotech, telecomm., aerospace, etc.), traded services, international tourism, cultural industries; industrial and applied design services
4 Key Growth/Development Determinants	Natural resources, financial capital	Management and productivity enhancement; financial capital	Human capital, innovation, 'applied and appropriate' technology, entrepreneurship, quality of public policy and leadership, global scope and vision
5 Critical Infrastructure	Highways, ports (bulk facilities), resource extraction infra.	Tertiary education, airports, ports (container), office buildings, factories	Telecommunications, international airports, business and knowledge networks, 'knowledge' institutions, cultural capital
6 Key Networks and Market Orientation	Intraprovincial, national networks; export commodity markets	Regional networks, Pacific Rim orientation	Global networks, community relationships
7 Regional Economic Geography	'Asymmetry' model: Vancouver (corp. management/finance) Victoria (government) Interior (resources)	Evolution of '3 region model,' processes of inter-regional linkage and divergence	Regional complementarity, based on (natural and induced) comparative advantage, functional specialisation, sustainable relationships
8 Policy Response/Focus	Provision of resource sector infrastructure; top down and 'centralist' planning policy	International trade; interest in resource management; structural adjustment issues	Sustainable development (environmental, social, economic, fiscal); more sensitive, coordinated, and responsive policy approach
9 Consciousness of Resource/Ecological Limits	Discounted or ignored	Increasing awareness, analysis and debate about tradeoffs	Resource limits associated with fundamental social/community and business values, seen as a 'strength' and 'opportunity' (stimulates higher value-added production, environmental industries, etc.)
10 Distribution	Competition/capitalist model; some community support	'Welfare state under pressure'	Commitment to equity based on community values and commitment
11 Quality of Life	Based on material consumption	'Experiential' consumption	Based on cultural expression, sense of community and shared destiny, ecological balance
12 Temporal Dimension	c. 1875 - 1975	c. 1975 - 2000	?

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