

# Small Business Considerations in Canada: The Resurgence of Regionalism

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*Regionalism has been evident throughout Canada's history. Economic policies and political conflicts have emphasised regional differences. Changes in the business environment have been dramatic with a shift to continental integration. This article explores the historical evidence of regionalism, Canada as a political community, Canada as an economic community and the changing scene for small business in Canada.*

Since Confederation in 1867, Canada's accomplishments have been considerable. Political stability and economic development have led to Canada's status as one of the richest countries of the world—recently topping the United Nation's list for quality of life. Historically, Canada has attracted a large inflow of foreign direct investment (FDI) and multinational enterprises of all sizes. Canada as a nation of unified provinces has been taken for granted. But strong social, cultural, economic and political forces have also pulled the nation towards regionalism. Small businesses operating in Canada or contemplating operations in Canada need to be cognizant of past, present and future social-cultural and political-economic currents.

As a political and economic community, Canada has undergone dramatic change in the past twenty-five years. Political clashes have centred on constitutional reform and Quebec's right to be a separate people within a unified Canada (Russell, 1991). Quarrels have had a decidedly regional focus—with the neglected East and West pointing out favoritism shown

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to others. The economic landscape in Canada has undergone a dramatic shift towards continental integration. Meanwhile, greater diversity and regional economic differences are also more prevalent.

At the outset it is important to understand that regionalism is the property of a total society, derived from differences in its constituent parts. Regions can differ from each other to varying degrees; but greater the variation, the greater the overall consequence—a regionally divided society. Regionalism will be strongest where inequalities are most apparent and political actions do little to reduce them (Schwartz, 1974). Ideologies and general outlooks also vary considerably according to location and manifest themselves in various ways.

A community in Western Canada may be quite conservative in terms of values and religious beliefs, refusing to frequent a store open on Sundays or that sells wares that are objectionable. While in Quebec, an English-speaking person trying to conduct a business transaction may be treated less favourably than a French-speaking person. However, if the English-speaking entrepreneur reveals that they are not from Ontario or elsewhere in Canada but from the US or Europe, they may be treated quite favourably.

Recent conflicts centred on constitutional issues also reflect ethnic differences. It might be assumed that ethnically homogeneous societies are more stable than multi-ethnic ones. But when an ethnic group is regionally concentrated, the result can be greater tension between regions. When regionalism operates, political decisions serve to exacerbate these differences. The political process can create an environment for regional group-consciousness and result in increased political action on the basis of regional as opposed to national interests. Political decisions that protect or even increase these differences are a manifestation of regionalism.<sup>1</sup>

### **Historical Evidence of Regionalism**

Canada is a country of immense size—10 per cent larger than the US—and with tremendous regional geographic differences. It comprises of ten provinces and three territories. It has about one-tenth the population of the US and most of the people live in a narrow corridor along Canada's southern border. Two-thirds live in the provinces of Ontario and Quebec, each with a different cultural heritage and history. Rona, a big-box home improvement store that competes with Home Depot (a US entrant),

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<sup>1</sup> An entrepreneurs' breakfast was recently held in Cleveland, Ohio, on regionalism; the goal was to foster commerce in the immediate area (several counties). Tallahassee and Ft. Lauderdale, Florida Chambers of Commerce have married entrepreneurship with 'new regionalism' to promote economic development in their areas. Authorities in Australia, Arkansas, Italy, Michigan and Pennsylvania are mustering resources for entrepreneurship and regional promotion, which may be a euphemism for exclusion. A region defines who's in and who's not.

portrays itself as a Canadian store, but many consumers see Rona as a Quebec-based business and may opt not to patronize it. Some shoppers instead identify with a local or regional store; the impending entry of the US-based Lowe's may represent a 'clean slate' and draw more customers than Rona in certain locales. The management of Rona has been mindful of this, acquiring regional stores in Alberta, Ontario and even parts of Quebec.

Canada's history has been marked by regional differences in economic growth and development. These are evident in the cyclical pattern of economic activity, structure of regional exports and pattern of internal migration. Regional disparities in per capita income and patterns of unemployment have existed since at least 1890. Factors that may account for regional economic differences are: government policies, inter-regional flow of capital and weak inter-regional linkages. While there has been a reduction in economic disparities, the pattern has not changed markedly, but it has shifted. National efforts to integrate the regional economies have not resulted in the economic development needed to change patterns of regionalism.

Over the years, members of the Canadian federation have had a dual identification, even dual citizenship. Although there are national ties, people generally show allegiance to their own province for business and other considerations. Political support has flowed upward from the local and provincial levels. Regional issues are equally, if not more, important than federal issues. Perceptions of the federal government—based on the benefits and costs for their province—are reflected in regional patterns of voting; in addition to how economic policies affect their region (Kornberg, 1990).

For a small business accustomed to operating in this environment, there exist other opportunities to apply lessons and skills developed. A Canadian venture that is able to navigate regional divisiveness might be able to capitalise on these unique competences in other regionally subdivided business environments (Scotland, England, Wales; Southern Europe; the Middle East). And a small business that understands differences between the Pacific Northwest, New England and the Midwest in the US or variations within India might be well prepared to operate in Canada. Konrad (1992, p. 189) notes the continuity across borders in defiance of national boundaries: North America runs more naturally north and south than east and west.

Divisiveness can be traced historically using five regions: Maritimes, Central, Quebec, West and British Columbia.

The economic base of the Maritimes has primarily been natural resources. These were generally insufficient to stimulate continued economic development. Between 1879 and 1887, the federal government introduced economic policies (collectively known as the National Policy) that were decidedly nationalistic. With emphasis on an industrial economy, these policies brought significant economic changes and a shift in political thinking. One hundred years later, the Maritimes region continues to feel left out and voices its vote accordingly. Pride, self-sufficiency, independence and defiance are descriptors for a spirited group that prefers to buy local and is more likely to turn to products whose origin is another country rather than another province of Canada.

The Central province of Ontario, founded as an English-speaking colony, has a large manufacturing and population base. Although the National Policy was designed to protect all important economic interests and integrate the diverse regional economies into a relatively self-sufficient national economy, it promoted the Central region as the primary industrial area. Prosperity resulted from diversity in sources of economic growth, proximity to a large US market and availability of transportation. Not unexpectedly, voters in Ontario have often had a more positive view of federal policies than those in other regions.

Quebec, although geographically part of the Central region, has a unique cultural, economic and political history. Founded as a French colony, it has largely remained ethnically and linguistically distinct. While Montreal's economic growth has been similar to that of Ontario, the rest of Quebec has had growth similar to that of the Maritimes. Economic and geographic factors were in Quebec's favour: ample natural resources, inexpensive hydroelectricity and external markets. During the past thirty years, it has become a powerful economic and political force in Canada. For many years Quebec voted with Ontario, but lately support has gone to elect those with a separate-but-equal view—Quebec as a distinct society.

The West (Alberta, Manitoba and Saskatchewan) is a vast prairie region with an economy centred on agriculture (primarily wheat) as well as oil and gas. The income of those in the West has often been higher than the national average. But the federal government's economic policies that deemed to be in the national interest continued to frustrate (alienate)

those in the West. National efforts to diversify provincial economies have had little impact. The West's ethnic mix, one-crop economy and vast terrain have shaped politics in the region. But even the single moniker 'The West' hides variation. The delegations from Saskatchewan visiting China—whether private enterprise owners or University administrators—are given preferential treatment by Communist Party officials. On closer inspection, the reason becomes clear. Saskatchewan has held a strong and far reaching association with socialist ideals.

Alberta, with great wealth from oil and natural gas, has enjoyed greater financial stability and independence. Alberta has defied the remainder of Canada with its receptivity to the privatisation of health care—something seen as un-Canadian by the rest of the country. The provincial leader, Premier Ralph Klein, has been in power since 1992 and may continue until the next election, which could be as late as 2009. Affectionately known as 'King Ralph', he has garnered populist support for his unwavering pro-Alberta stance. His bucking the federal system has been well received by many non-Albertans.<sup>2</sup>

British Columbia experienced a rapid pace of economic expansion and structural change. This province has a broad natural resource base, high per capita income, in-migration and different sources of trade. As a political community, it has been deeply splintered—divisions rooted in the economic structure, history and culture of the province. British Columbia, with its socially progressive mindset, is a welcoming crucible for small business—partly because of its anti-corporate stance, e.g., requiring concessions from large corporations, including an environmentally friendly Wal-Mart proposed for Vancouver with windmills, trees, skylights, rooftop water collection, etc.

### **Canada as a Political Community**

The Canadian Confederation was put together by a group of political elites. Despite some democratic elements in the constitutional process, public participation and debate were kept to a minimum. Popular sovereignty was noticeably absent. The lack of revolution, the lack of an overthrow, has led to marked differences between Canada and other countries that have witnessed turbulence and have a bellicose lineage. A non-confrontational approach to dispute resolution is often evident in transactions between businesses and with customers.

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<sup>2</sup> Premier Klein mustered leaders of the other provinces to agree at their last annual summit to make demands of the Prime Minister. The Premier of Newfoundland held the Prime Minister hostage by delivering an ultimatum with strings attached to oil and natural gas deposits. The Premier of Ontario threatened to squelch political support if demands regarding debt sharing were not met.

For many years, Canadian constitutional issues were primarily the concern of provincial and federal leaders. Most citizens were not directly involved. Once that changed, constitutional reform dominated all other issues. The result has been to further fragment Canada on a regional basis. For an entrepreneur contemplating crossing the Canada–US border north or south, the stereotypical vociferous American and silently dissident Canadian await. But this labelling too may miss the mark; the urban–rural divide within both these countries may be greater than between them. Consumers are more closely matched between Montreal and Boston, Toronto and Chicago, or Vancouver and Seattle.

During the 1950s and 1960s, some progress was made to solve the constitutional crisis. In 1964, many hoped that the Fulton–Favreau amending formula would put an end to problems. It required unanimous provincial approval on important constitutional changes. At the last hour, it was rejected by Quebec where the separatists felt consent should be withheld until Quebec had secured adequate constitutional recognition of its status as a founding people.

With Quebec’s rejection of Fulton–Favreau, the substance and style of politics changed. Discourse became exceptionally emotional and intense. Those familiar with the business environment in France may recognise the tone of these issues—business decisions may defy financial logic and be based on political motives.

Quebec’s rejection of Fulton–Favreau plunged Canada into five rounds of political mayhem. With the election of a provincial government committed to Quebec’s political independence (1976), the urgency of major constitutional change took on increased importance. Quebec’s demands have remained at the centre of political conflicts: Victoria Charter (1971); Quebec Referendum (1980); Constitution Act (1982); Meech Lake Accord (1990); and Quebec Referendum (1992).

Canada’s 1993 federal elections brought a new Prime Minister as well as sweeping changes in the House of Commons. Regionalism is evident when election results are broken down by respective parties. Seats in Parliament were won by the following parties: Liberals (164, 98 from Ontario); Bloc Quebecois (54, all from Quebec); Reform (51, 49 from the West); New Democratic Party (3); Progressive Conservative (2); and Independent (1). As of July 2005, the tabulation of parliamentary seats by party/province has changed little.

Regionalism in Canada has ramifications for small businesses operating in and considering a move to Canada, especially since most environmental and trade laws are under provincial rather than federal jurisdiction. During recent elections, regional voices have remained strong.

### **Canada as an Economic Community**

With its wealth of natural resources, Canada has largely been a resource- and trade-based economy. The strength and character of its economic development have been largely determined by staple exports. Although the National Policy was designed to orchestrate regional economic activity, the overall result has been greater disparity and inequality among the regions.

Canada's main focus has been on trade. The National Policy was conceived and implemented by commercial elite in the Central region, primarily to enhance the fortunes of those in urban areas. Even development of the West was seen as a way to enhance the viability of the Central region. Over the years, a coalition of voters in this region provided support for national leaders in favour of these economic policies.

Regional differences were reinforced. Although they were a defence against the political and economic expansionism of the US, tariffs drew a line across the continent resulting in a huge inflow of FDI. Few countries have experienced so much FDI for so long in their history. When fears over FDI surfaced at the political level, increased regulation was generally viewed as a way to improve sovereignty and preserve independence. A new and more viable economic programme for Canada was never developed (Rugman, 1987).

Economic integration with the US through cross-border trade and investment has been very high. The US supplies 80 per cent of all FDI; total FDI nearly doubled from 1976 to 1985 (\$32 billion to \$63 billion) (ibid.) and presently hovers near \$100 billion. Canada depends on the US market for about 75 per cent of its exports. It is not surprising that foreign and domestic small businesses see their long-term interests intimately linked to the economic, social and political climate in the US and Canada.

Though Canada may be viewed as one economy, it is also an amalgam of regional and disparate economies organised around different exports, with manufacturing concentrated at the centre. Canada might also be

viewed as a subset of the US economy because of its limited ability to influence economic policies, the behaviour of multinational enterprises and the outcome of negotiations (Phillips, 1977).

Economic policies in Canada have not pleased all regions. Some argue that Canada has been too active and interventionist. Others contend that it has not done enough. Business interests and the federal government have presented a singular view that Canada must privatise, deregulate, enter trade liberalisation agreements, institute government–industry advisory committees and spend millions on trade missions.

After the Second World War, Canada did begin to make some changes to move towards freer trade (managed trade). It negotiated arrangements with the US (e.g., autos and armaments) that gave Canadian producers a share of the North American market. But the primary beneficiaries were Ontario and Quebec; regional economic disparities increased further.

Canada's decisions on free trade will have a significant impact on the direction regionalism takes in the future. These agreements are the Canada–United States Free Trade Agreement that took effect in 1989 and the North American Free Trade Agreement (NAFTA) signed in 1992.

Some question how national ties will survive in a free trade setting. Based on the present agreements, economic forces may already be in place to further weaken federalism and enhance the autonomy of the provinces (Stanley, 1992).

### **Canada's Changing Scene**

The issues and problems that emerge on the Canadian scene in the years ahead will have a major influence on regionalism. At the political level, forces are in place to suggest a continuing conflict among regions. Many in Quebec still believe independence (separatism) is a good option. Some groups in the West (as well as other regions) desire self-rule. Native (aboriginal) people want their rights/needs honoured. With each new round of political deliberations, the demands of a region or group seem to grow. These will not be settled easily.

The economic integration of the North American continent is having a major effect on regionalism. The impact of the NAFTA alone could plunge Canada into decades of turmoil. The ability of the federal government to make changes in fiscal policy is already constrained. With the NAFTA, it will be increasingly difficult for Ottawa to protect regions

from economic inequalities. Regional development policies (federal and provincial) are effectively neutralised. Provisions in the NAFTA mean that any hindrance to free trade (even provincial policies) will be open to review. Without the ability to change economic policy, there is little hope of stabilising the national economy or reducing the uneven regional burden of cyclical economic fluctuation.

The lack of control over monetary policy (exchange rates) will have an impact on regionalism. Since 1989, for example, Canada has experienced severe economic woes—loss of jobs, closing of plants, etc. Blame has been placed on recession and the Canada–United States Free Trade Agreement. But the dramatic shift in the exchange rate placed Canada at a disadvantage.

Economic problems are almost certain to surface as regional issues. Continued economic declines could result in provincial competition for federal help. An alignment of the federal government with some provinces or regions would be perceived as an alignment against others. This would be a further impediment to federal–provincial and inter-provincial cooperation.

Studies have found that Canadians hold their leaders and government responsible for their economic well-being. They blame the government for poor economic conditions but do not so readily give them credit when conditions improve (Kornberg, 1990). If the economic situation in Canada worsens or does not significantly improve, problems could easily spill into the political arena. Social programmes important to Canadian citizens may even be threatened by the NAFTA.

If the issue of regionalism is to be confronted, Canada must regain control of its destiny. But is this possible? Considering the forces already in motion, Canada has few real choices. There seems to be little policy leverage (Stanley, 1992). The formal integration of its economy with that of the US, and now Mexico has limited its options. Capital is free to move; FDI can flow to the US or to Mexico. But the workforce is less mobile; they will remain, complain and vote. Of the three member nations of NAFTA, Canada may be at the greatest disadvantage (Ensign, 2003).

A realignment of national capabilities for governing is warranted. Canada is presented with the challenge that nations in the European Union have already faced. This could result in a strong federal authority but, if the past is any guide, it is more likely that a national coordinator will

emerge. Responsibility can be expected to move downstream to the provinces. A realigned federalism remains more certain than fragmentation. Provinces, although inclined towards self-preservation, may find that they need each other to survive economically. It is probable that Canada will continue as a united though greatly decentralised country, but this outcome cannot be taken for granted. Regional or provincial withdrawals are always looming, especially in the case of Quebec (Ensign, 1994).

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