Economic Development In The Northwest Territories Compared With Other Developing Regions Of The World And With Southern Canada

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ECONOMIC Development IN THE NORTHWEST TERRITORIES COMPARED WITH OTHER DEVELOPING REGIONS OF THE WORLD AND WITH SOUTHERN CANADA

Prepared for
Economic Development and Tourism
Government of Northwest Territories

P.G. Whiting and Associates
The Outspan
Ottawa, Ontario

December, 19S9

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Executive Summary

Canada's Northwest Territories exhibit economic development characteristics which in some ways resemble those of other developed countries, but which in many ways, also parallel less developed areas of the world. This paper identifies and examines the similarities and the differences which emerge from a comparison between the Northwest Territories and the developed economy of southern Canada and between the NWT and four less developed countries (LDC's): Tanzania, Kenya, Nepal and the Philippines.

The concept of economic development has different connotations for different people: recent international studies suggest that there is no unanimity of thought on the subject. There is no agreement on the constitution of economic development: it ranges from structural change in an economy to include a wide array of qualities deemed desirable or suggestive of progress. The NWT report of the Special Committee on the Northern Economy (SCONE) has - definitions of economic development for the Territories which distinguish between <u>development</u> and <u>growth</u>, and suggests that economic development must involve long term activities with structural changes to the economy, as well as the retention of social benefits within the NWT.

Theory on economic development, including a description of the stages, determinants and measures of growth, is explored to provide a context for the comparisons which follow. Five stages of growth are described, with examples of countries in each stage. The determinants of economic development (human and physical resources, technology and investment) reflect the capacity of any area's growth potential. Varying mixes of these basic ingredients reveal different capacities for growth, while the circular nature of poverty illustrates how some Situations are self-perpetuating. Concern for the measurements of growth or economic development arises from the inability of some measures to reflect adequately "net" development which recognizes environmental and/or social costs incurred.

Because of the relevance to this comparison of Canada's overall approach to economic development, the main goals and policy objectives guiding Canada's economic development since the 1960's is examined. The approach put forth in the Economic Council of Canada's First Annual Review is still regarded as the fundamental goal by the Canadian Department of Finance. These guidelines and their relevance to the Territories are reviewed from the perspective of the Government of the Northwest Territories. Canada's approach to international development assistance is also looked at to introduce information on how Canada assists other nations through their developing phases, with specifics provided on the development assistance programs for Tanzania, Kenya, Nepal and the Philippines.

Two levels recomparison are made for the three areas included in this study: the NWT; the four less developed countries; and southern Canada. A macro comparison describes general similarities and differences between the areas; a micro comparison looks at these on the basis of a case study. The macro comparison includes overall country statistics which reveal the following similarities between the NWT and the less developed countries (features whii differ from the developed economies):

* high population growth rate
* large traditional (domestic/subsistence) component to the economy
* ralatMy bwfevelsof educat&n formost oftJ'lepopuMon
* abwncedmefbcUve"infrastructure to support development
* few relatively prosperous urban centres, many dispersed small, underdeveloped communities
* highcolstofliving
* "high percentage of young people in overall population
* limited tr@tionor experience in business inmost of the population
* lackoffinancM servkes in rural areas.

The micro comparison identified a number of real problems facing entrepreneurs m communities representing each of the three areas being studied, with the results indicating that the businessperson in the NWT faces problems similar to those facing his or her counterpart in a less developed country, whii circumstances forthesouthem Canada entrepreneur are quite different.

This study finishes with a discussion of the findings. various aspects of economic development are addressed (business experience, access to capital, business support services, etc.), as well as more general issues such as economic development goals, policy Meets, currency and dual economies. From this, the paper concludes that there are no easy solutions to the controversy surrounding economic development. There may exist a rationale for considering the designing of economic development strategies for the NWT based on successful tactics employed in less developed countries rather than on approaches developed by southern Canada The new Economic Development Strategy being prepared by the GNWT should draw from the international experience in promoting development in less developed regions around the world.

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INTRODUCTION

Canada's Northwest Territories occupy an anomalous position in terms of economic development. They exhibit characteristics common to developed countries throughout the world, and yet they also manifest features commonly associated with less developed areas. This dichotomy has been the subject of much discussion over the past few years, and the idea of comparing development in the Canadian North with development in less developed regions of the world is not anew one, While several comparisons have already been made, these have been primarily of academic interest.

This paper represents a systematic examination of an array of factors of the economic development in the Northwest Territories, in four less developed countries, and in southern Canada, with a view to identifying similarities and differences. Through the presentation of this factual background 'information and the resulting comparison, it is possible to derive some new insights or thoughts which will contribute to the process of economic development in the Northwest Territories.

With this in mind, thii paper is written not for an academic audience, but rather for those in a position to influence northern development. Research has been carried out primarily on the basis of published material, but also incorporates the author's observations, based on several years' experience in less developed countries and from working and living in northern Canada This paper builds upon some earlier thinking and explores the thesis that while differences do exist, there are indeed qualifiable similarities between the NWT and some less developed Countries

In examining economic development anywhere, there are many variables that can be used as definitions, many theories about what constitutes economic development, and many opinions on how to achieve economic development. There can be no one single approach: the process is dynamic and complex. Development must be viewed as a relative concept - relative to the perception of a definition of "development" and in relation to the perception of development potential. There is no evidence of unanimity of thought on the subject of what constitutes the correct form or level of economic development. Each area of the world presumably has different strengths and weaknesses which influence the type and character of local development, and for each region, the ideal level of development may well not qualify as development in conventional terms. Prevailing thought indicates, for example, that Canada's northern territories are underdeveloped; some see the territories as a barren wilderness with little potential for development within some prescribed criteria. For others, northern Canada is rich and vibrant; not necessarily underdeveloped, but perhaps being inappropriately developed or, in some cases, even overdeveloped.

To begin, then, the most appropriate step is to look at some theory and background on "economic development" and "economic growth". Canada's overall approach to economic development is described and briefly analyzed from NWT's perspective. This report will then examine and discuss the practical realities of economic development in both a macro (general) and micro (specify) sense for the NWT, and compare these with circumstances in southern Canada and in four less developed countries (UC's).

ECONOMIC DEVELOPMENT AND GROWTH

Economic development can be defined in a number of different ways: definitions can be based on quantitative leading indicators or on more qualitative indicators derived from some measure of standard of living or well being. There is no unanimity of thought on the constitution of development. A research publication of the World Bank[1] on growth begins with the statement that "Development is now conceived as the successful transformation of the structure of an economy". The central transformation revolves around the change from a primarily agricultural economy to an industrialized one. Meanwhile, other economic researchers maintain that the confusion surrounding the definition of development or underdevelopment is "now in a state of virtual hiatus"[2]. In fact, these researchers suggest that the meaning of development (whether prefixed by "economic" or not) has gone through radical changes; from being narrowly defined by structural change, to include a wide range of desirable qualities, such as:

> reductions in poverty, inequality, unemployment, underemployment, disease, rate of population growth, malnutrition, technological 'vulnerability', cultural dependence, illiteracy and slums; and
>
> enhancements to diet, educational opportunity, life-chances, health, social services, self-esteem, freedom, leisure, and others.

Consequently, for the purposes of this report, development is defined in the way that best suits and best embodies the values and criteria most important to the jurisdiction under study.

The Northwest Territories, however, differentiates between economic growth and economic developments. The NWT Special Committee on the Northern Economy (SCONE) defines economic growth as 'an increase in economic activity and wealth...it does not necessarily bring benefits to local communities and regions'3, and economic development as 'the kind of economic activity that provides real benefits to local residents - jobs, training, increased opportunities for local business."[4] In addition, economic development was defined as being a longer term phenomenon and net hat "normally leads to a change in the structure of the

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[1] Industrialization and Growth, Chenery, Robinson, Syrquin, Oxford University Press, 19S6, page i.

[2] Development Studies and Colonial Policy, Ingram and Simmons, editors, 19S7, page 23.

[3] The SCONE Report: Building Our Economic Future, Special Committee on the Northern Economy, Legislative Assembly of me Northwest Territories, page 2

[4] ibid, page 2

economy itself."[5] In other words, in the NWT, economic development is defined as long term activities which lead to structural change in the economy with the equitable retention and distribution of wealth and social benefits within the Territories. These factors are the criteria by which development can be measured and defined.

Stages of Growth

The processor economic development revolves around the dynamic theory of production. Traditionally, this theory is based on Keynesian[6] income analysis that introduces dynamic variables Such as population, technology and entrepreneurship. These and other variables were used to explain economic growth by another renowned economist - W.W. Rostow.

in 1960, Rostow, published a book[7] which examined the stages of economic growth, and which was one of the first (reasonably) widely accepted holistic views of the process of economic growth over time, through which nations progress. Although some aspects are somewhat dated and other economists find his conclusions overly simplistic, Rostow postulated five stages of growth whii describe a country's level of development:

1. Traditional Society - the key criterion was "a ceiling existed on the level of attainable output per head", because the economy revolves around meeting basic human needs for survival.

   Many of today's least developed nations (e.g. Nepal and Tanzania) fall into this category.

2. Pre-conditions for Take-off - technological insights and development provide new production functions for agriculture and industry. These insights usually come from outside intrusions into the traditional society. A necessary condition was the building/existence of "an effective centralized national state" or organized political structure.

   Many second world countries and third world countries are included in this stage of development. The centralized national state usually exists, although its effectiveness may be questionable. Technology is available but may not be applied or used in

[5] ibid page 3

[6] see J.M. Keynes, The General Theory of Employment, Interest and Money, London, 1964.

[7] The Stages of Economic Growth, W. W/. Rostow, Cambridge University Press.

necessarily appropriate fashions. In addition, natural conditions (drought, insect infestations, flooding, etc.) frequently subvert the ability of these countries to reach the next stage of growth. Countries in this stage appear to include Kenya, Pakistan and Peru

3. The Take-off - barriers and resistances to steady growth are finally overcome. Agricultural productivity Soars and new industries expand rapidly, because of technological development and innovation.

The key characteristics of steady growth and soaring agricultural productivity make it difficult to identify countries that have consistently shown these features. Argentina and India are two that appear to fit this classification.

4. Maturity (Drive to Maturity) -characterized by modern technology extending overall Sectors of economic activity. Ten to twenty percent of national income is steadily invested, permitting output to increase faster than population. Technological and entrepreneurial skills are prominent The economy "finds its place" in the international economy, but the make-up of the economy changes increasingly. As maturity is reached, two effects become noticeable: (1) real income per person rises to the point where a large number of persons gain a command over consumption Whii transcends basic food, shelter and clothing (making it possible to save and invest earnings); and (2) the structure of the working force changed in ways which increased not only the proportion of urban to total population, but also the proportion of the total population Working in offices or skilled jobs. The population is aware of and anxious for the consumption goods of a mature economy.

This is the penultimate stage before becoming a fully developed country; among many examples of such countries are South Korea, Taiwan, and Brazil.

5. Age of High Mass Consumption - as disposable income increases, leading sectors shii to consumer durable goods (automobiles, refrigerators, washers, etc.). Increasingly resources are allocated to social welfare and security. Society appears to stop regarding the further extension of modem technology as an overriding objective. The population begins a shift from an urban population to a suburban one.

Countries in this stage of growth are considered the most developed, and include United States, Canada, Great Britain and others.

Canada, as a nation, is described as having reached the take-off stage around 1890, the high mass consumption stage (before reaching maturity) about 1925, and having actually reached maturity in the 1950's.

However, while Canada, as a whole, is acknowledged as a developed country, this designation does not necessarily imply that all regions/areas of the country are equally developed. The fact is that national statistics or indicators supporting this kind of conclusion, mask the real and significant differences that exist throughout the country. Parts of Canada are well developed (e.g. southern Ontario) while other areas, such as the northern regions of most provinces are demonstrably underdeveloped. Clearly, this kind of variation between regions occurs in other countries as well Further, there can be variation within a region.[8]

Since these stages of growth were articulated in 1959/60, Rostow was not in a position to predict or characterize our current 1980's situation (or future circumstances). Even though this theory has shortcomings, and is presented here at a high level of abstraction, this series of steps/stages is still relevant, and adequately describes the process of development from an historical perspective. The theory does not explain why some economies seem stuck in underdeveloped stages and do not grow in the described way. Other theories of economic development abound, but Rostow's work provides a generally accepted context and framework to view economic development.

<u>Determinants of Growth</u>

Economic development occurs in an area because of potential, including the capability and capacity to produce something of value. The notion of potential for any area is based upon servicing of an identified market or need with the combination of:

- human resources
- physical resources
- technology
- investment.

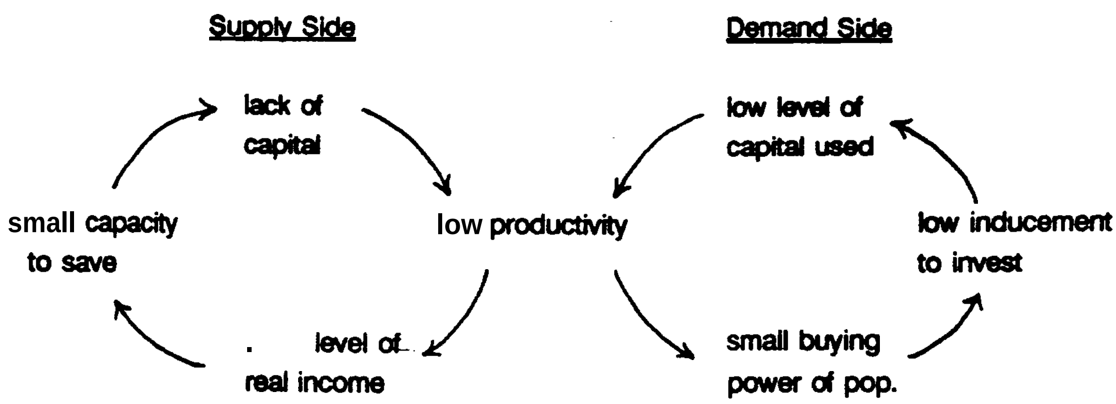
[8] In the NWT, some communities and areas are considerably more developed than others. The GNWT, in a recent draft report, grouped communities on the basis of population, per capita income, businesses per capita, rate of unemployment, native and non-native distribution, and employment breakdown. Three groups emerged: 1) 4 Developed Market Communities; 2) 16 Emerging Market Communities; 3) 34 Resource Communities. Appendix 1 summarizes by graphs and text the differences between these three types of communities.

The way in which these elements are combined within a given environment determines development: there must be an appropriate mix of the elements to initiate and sustain economic development. Obviously, different countries and different areas within countries will possess different mixes of these key determinants. Consequently, economic development will be experienced at different levels from country to country, and area to area.

John Maynard Keynes, the originator of much of current economic thought, believed in the importance of the role of government within the economy specifically in managing the environment for economic development. His theories of economic development, however, relate primarily to the modern economy.

Within the reality of less developed countries, economies are frequently caught in what has been termed: "the vicious circle of poverty". The explanationthat a poor country is poor because it is poor is illustrated in the summary form of the chart below[9].

Vicious Circle of Poverty



[9] Sae Problems of Capital Formation in Underdeveloped Countries and Patterns of Trade and Development, Ragnar Nurkse, Oxford University Press.

The circle of poverty exists on both the supply-side and the demand-side of the economy, as shown in the diagram. On the supply-side, a lack of capital for investment results in low productivity of the resources employed. This, in turn, results in a low level of real income resulting in a small capacity to save. The lack of savings then creates a lack of capital available for investment, and so the circle goes. On the demand-side, the low level of capital used in production leads to low productivity in the resources used; this low productivity leads to a small purchasing power in the population, which, in turn, leads to a low inducement to invest. The low inducement to invest produces a low level of capital invested in production, and so this circle Continues.

A good example of this vicious circle is agricultural production in Nepal. Productivity in agriculture is very low: there is very little variation in crop production, and the majority of land is planted to foodcrops. Agriculture is primarily a subsistence activity and non-monetary, carried out on small landholdings without the benefit of irrigation or fertilizer. The low level of productivity in agricultural production leaves the producer with a low real income and low cash income. Because of this, and the many needs for survival, there is virtually no capacity to save. Without this capacity to save, little or no money is available for capital inputs to the production process - further reinforcing the low productivity of agricultural production. There are, however, other economic, cultural and institutional factors that contribute to and help explain the reasons for low productivity in Nepal.

In summary, several sub-circles contribute to the overall circle of poverty. The circle is difficult to break, since it is more complex than the diagram suggests. However, the diagram does present a simplified version of the dynamic economic forces operating within an economy, and defines the fundamental problem. The question facing policy makers and senior decision makers is how best can government intervene to break the circle of poverty: what inputs should be used, how much, and when they should be used.

Measures of Growth

As briefly described earlier, economic development and growth can be defined and measured in many different ways. Usual measures include gross national product (GNP) in constant or current dollars, GNP per capita, percentage growth rate in GNP per capita, real personal income, and others. In general, since growth is related to aggregate output (or production), those indicators that measure changes in output are usually those adopted (eg. GNP). Increasingly, however, a wide array of other measures are being used to indicate the relative development of different countries or regions. They include measures of output, but also come Other indicators that reflect technology, population, and capital. Since these are the factors Of production, their status is an important measure of progress. Some of the other indicators being used include net domestic product (net of capital stock reductions), pollution (water and air quality) indexes, resource depletion rates, and energy consumption per capita.

National and regional accounting systems used to measure growth or prosperity are based upon measures of production and its resultant income. While these statistics are conventional and traditional measures of economic growth, there is increasing demand for other measurements which encompass more factors.

As an example, national accounts use the concept of depreciation to take into account consumption of man-made assets in the production process. As their value declines, this cost is written off against the value of production. No such accounting concept exists for a nation's or region's natural capital. As natural (capital) assets are used up, national accounts show no charge against current income. As a result, the fall in future potential production is not recognized.

For underdeveloped areas, especially Third World countries and areas such as the NWT, which are dependent upon natural resources for income, employment and exports, the lack of accounting for the use of these resources essentially overstates the region's productivity in terms of future development potential. In the long term, countries dependent on resource development are therefore even poorer than the conventional statistics suggest.

The point to be made in looking at the measurement of growth through conventional national amounting systems is that the numbers generated for comparing growth in different nations or regions do not present a realistic picture.

A second reason for raising this measurement issue is to illustrate that development is a relative concept. In an area like the NWT where negative environmental effects can have serious long term consequences for local prosperity, then perhaps the conventional measures of growth (which treat natural resources as having no value) may not be the most appropriate. Another point concerning the measurement of growth or economic development is the need to recognize that at a national level, the imports and leakages of capital (profits) from the country can be either a reasonably small concern, or a concern that can be managed through foreign exchange controls (if need be). However, inter-regional transfers of capital and profits, which are not regulated within an open economy such ss Canada's, can be very significant and can have a large impact upon the economic development of the regions affected - positively and negatively. Both the 'have' and 'have not' regions tend to maintain their relative status: no retention of capital occurs within the profit-generating area.

Many measures that indicate economic development for a region do not provide adequate measures of how real that economic development is. For example, increased employment in an area does not automatically represent an increased benefit for that area, If the individuals being employed are not from the area but have transferred into the area, ~~the increased~~

~~being employed are not from the area but have transferred into the area,~~ the increased employment may not result in a significant local benefit. This kind of distributional concern is not normally included in national or regional measurement of development. The NWT differentiated definitions for economic growth and economic development, however, do allow this distinction in the measuring of development.

A final point concerns the increasing recognition of the need to incorporate within development systems some resource and environmental capital measures. While "sustainable development" has been variously defined, in its broadest sense it incorporates the dual concepts of economic development and environmental conservation; economic development that recognizes resource use must be sensitive to the environment and sustainable in the long term. The GNWT is Currently embracing this concept inks approach to economic development, as shown through the formulation of a discussion paper on Sustainable Development.

Summary

All countries and regions appear to go through discernable stages in their economic growth that can be characterized by events or changes introduction and consumption. The main determinants of economic growth have traditionally been the combination of technology, investment, and resources (human/physical), the results of which are measured by changes in real income per capita over time. The mix of these determinants in any area is affected by its population, resources and environment dedicated to production, and its organization.

Further, measures of growth are required which allow for the measurement of differences at various levels of aggregation (national, regional, local). However, in addition to this, care must be taken in using measures of development which do not evaluate adequately such factors as resource depletion and environmental degradation. Other equity and distributional effects that reflect measures of social development must also be taken into account. –

Public policy is required to direct development and to assist in the ensuring the productive use of resources. The foundation of Canada's public policy directing economic development is described in the following section.

CANADA'S APPROACH TO ECONOMIC DEVELOPMENT

Canada's overall approach to economic development has been based on the full use of the market economy, with the application of monetary and fiscal control depending upon the political philosophy of the day. In addition, the jurisdictional and administrative systems within our federal-provincial-territorial responsibilities create numerous anomalies and challenges for public policy. Conventional and conservative policies have guided the country's growth[10].

The Economic Council of Canada, a federal government supported economic research and advisory organization, articulated the fundamental approach to economic development in Canada, In its First Annual Review in 1964, the Council set forth specific basic economic and Social goals for the country believed to be attainable by 1970. Although these goals do not seem numerically relevant today, they nevertheless provide a clear articulation of Canada's approach to economic development. The basic goals were identified as:

1. full employment: not more than 3% unemployment for the total labour force.
2. high rate of economic growth: an average annual rate of growth in output of 5.5%.
3. reasonable stability of prices: average annual increases of 1.4% in consumer prices and 2.0% for the prices of ail goods and services produced in Canada.
4. viable balance of payments: strengthening of Canada's international economic position, through an improvement in the total amount of international receipts to exceed total international payments.
5. shared increase in living standards: all Canadians share in rising living standards associated with the attainment of a high and consistent rate of economic growth.

Most of our national monetary and fiscal actions have been developed as a result of the policies of governments in their pursuit of these fundamental economic growth goals.

In its Second Annual Review, the Economic Council indicated that "the achievement of high growth in the Canadian economy involves making full and increasingly efficient use of our growing productive resources, both human and material, on a sustained basis"[11].

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[10] See Appends 2 for a short description of the factors contributing to economic development in Canada.

[11] Second Annual Review. Towards Sustained and Balanced Economic Growth, The Economic Council of Canada, December 1965, p. 45.

Economic development is aimed at increasing productivity of resource use and broadening the base of productive resources - actions that intervene to break the "vicious circle of poverty" described earlier.

In terms of economic policies formulated for developing regionally balanced economic growth, the Economic Council recommended that such growth be directed at achieving a rapid increase in the incomes of the lagging areas without retarding the continued developed in the faster-growing regions. The Council further recommended that two objectives direct regional development: the increase in opportunities for high-productivity employment; and the acceleration of program which will contribute moat to improvements in productivity generally in the region. To achieve these two objectives, the Council outlined "fundamental criteria and guidelines for action:

> (1) the avoidance . . . of subsidies. . . to create temporary activity or to sustain indefinitely low.productivity industries and declining occupations;
>
> (2) the encouragement of efficient agglomerations of activity - growth centres - within the different regions in order to achieve increasing economies of scale, larger markets and more useful pools of skills, and to avoid uneconomic scatter and dispersion;
>
> (3) the taking of decisions in respect of investments in social capital in accordance with an adequate consideration of the economic and social benefits to be obtained in relation to costs;
>
> (4) the recognition of the urgent need to make available additional financial resources to the governments of lower.income regions and through the appropriate federal agencies in order to help break the vicious circle of low productivity, low incomes, low government revenues and low investments in growth-promoting services . . . ;
>
> (5) the necessity for close co-ordination in the formulation and implementation of . . . regional development policies and programmed among all levels of government . . . ;
>
> (6) the avoidance of self-defeating restrictive and divisive measures which interfere with the free flow of goods, capital, labour and enterprise between all the provinces."[12]

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[12] op Cit, p. 177

While narrowing interregional income disparities and balancing economic growth are indeed large and challenging tasks, achieving a consensus about the underlying problems can sometimes be the biggest stumbling block for development. These statements describe the underlying goals and direction for Canada's long term development. While these goals and objectives are still generally applicable, when they were recorded neither of Canada's northern territories was included in the analysis or specifically mentioned. Just as regional disparities were a major concern in the sixties and seventies, the basic tenets of sustained and regionally balanced economic growth (as described above) remain in force in Canada's development policies.

Economic Council Guidelines and the NWT

When the Economic Council's six guidelines previewed from the perspective of the NWT, the following observations can be made[13].

(l) As with many regions across Canada, both the federal and territorial governments use grant, contribution and loan programs to encourage and promote economic development. while strictly speaking thi assistance could be considered subsidy, the support does create further activity: it permits the maintaining or expanding of businesses, and offsets social transfers by paying for losses which are less than the full cost of social assistance.

(2) A small number of growth centres[14] have developed in the NWT primarily due to government and large industry actions and development Within the native population, scattered across in the north in over 50 communities, underdevelopment is still prevalent.

(3) investments in social capital have been heavy in the NWT, as a trained and skilled workforce is viewed as a prerequisite to long term development. Although the costs are substantial, this guideline continues to be followed, through various federal and territorial initiatives including the recently released NWT Employment Strategy.

[13] See Appendix 2 for a brief description of economic development in the NWT.

[14] These centres include Yellowknife (the territorial capital), Fort Smith and Hay River (business centres in the southwest, connected to the MacKenzie Highway) and Inuvik (regional centre, connected to the Dempster Highway and business centre for petroleum development). These centres are classified as the 'Mature Market Communities'.

(4) For some time, the GNWT has been _ attention to the need for additional financial resources to lower-income areas. This guideline directly supports the GNWT's approach: the phrase "through the appropriate federal agencies" has relevance in terms of a possible federal development agency for the north, similar to the Western Economic Diversification Office _ the Atlantic Canada Opportunities Agency.

(5) The recommendation for coordination of consistent development policies has been addressed through such economic development mechanisms as the General Development Agreement (GDA) and two subsequent Economic Development Agreements (EDA's) for the NWT. The requirement for greater coordination reflecting the needs of the various types of communities in the NWT is recognized and is being addressed in the NWT Economic Development Strategy which will be released in early 1990.

(6) The sixth guideline assumes that capital and other goods and services would naturally flow to such areas as the northern regions of the country; it does not address the possible need to assist in the inducement of such flows into the NWT. The guideline does not recognize the higher coats of basic inputs (transportation, energy, housing, etc.) inherent in the northern and more remote areas of Canada. These factors impede the "full flow" of capital, goods and services.

The following section compares economic development at a more quantitative level in both a macro and micro sense of development in the NWT, four less developed countries and Southern Canada.

Appendix 2 contains information on economic development in southern Canada. Appendix 3 provides information on economic development in the NWT. Material on the four less developed countries is presented in Appendix 4.

ECONOMIC DEVELOPMENT COMPARISONS

The theory of economic development and the approach that has guided Canada's development have been outlined so far, This section examines, in more practical terms, the similarities and differences between economic development in the NWT, in less developed countries(LDC's) and in southern Canada. A comparison is made first on a general (macro) level, followed by a specific (micro) example case study to illustrate the similarities and differences in each of these three areas.

The detailed information on Canada's approach to international development assistance is contained in Appendix 5.

Macro Comparison

As mentioned earlier, many variables can be used to compare the relative development of different countries or areas in general terms. The factors of production (land, labour and capital) as well as output itself are the key sources of comparison used in this study. Standard indicators are used by international development agencies to facilitate a comparison a country's relative situation. Tables 1 and 2 present a summary of several of these indicators. Table 1 contains information on the NWT and the four selected representative I-DC's (Tanzania, Kenya, Nepal, Philippines), and Table 2 compares statistics from NWT with Canada as a whole.

From Table 1 it is apparent that there are differences and similarities between the NWT and LDC's. As major differences, in comparison with the LDC's, the NWT are characterized by:

- a low population and population density;
- higher percentage of urban population;
- aslightty older popu-
- a higher GNP per capita and higher growth rate in GNP;
- GNP about half that of Nepal, the smallest of me countries compared.

Important similarities shown in the statistics and other sources include:

- fairly high population growth rate;
- primary (resource-based) production is the economic base for indigenous people;

Ta

Statistics Comparison - No

	NWT	Tanzan
Area (sq.km.)	3>76,698	928,0
Population	51,700	23,980,0(
Population density (per sq. km,)	0.015	2
Urban population (%)	52	
Population growth rate per annum (%)	2.6	3
Life expectancy (years)	not available	5
Infant mortality (per 1000 iive births)	14.7	1(
% of population under 15	33	4
I Adult literacy rate (%)	44	[illegible]

Table 1 (eon’I)

Statistics Comparison - Northwest Territories and LDC's

	NWT	Tanzania	Kenya	Nepal	Philippines
% of work force in:					
agriculture	>50*	86	81	93	52
industry	20	5	7	1	16
services	53	10	12	7	33
GNP per capita (US$)	21,000	250	310	160	660
Growth rate of GNP (%)	12	-0.3	2.1	.5	26
Inflation rate (%)	5.9	21.5	10.8	8.8	129
External public debt as % of GNP	not applicable	81.6	43.1	27.7	34.7
Debt service as % of GNP	4.2	1.5	5.5	1.2	3.5
Current account balance (US$)	not applicable	-514 million	not available	-112 million	-1,241 million

* includes traditional activities (wage and non-wage)

Table 2

Statistical Comparison: NWT and Canada as a Whale

	NWT	Canada
Area (sq. km.)	3,376,698	9,976,000
Population	51,700	25,1 00,000
Population Density (per sq. km.)	0.015	25
urban Population (%)	52	77
Annual Population Growth Rate (%)	2 6	1.1
Life Expectancy	not available	76 years
Infant Mortality (per 100 live births)	14.7	8
% depopulation under 15 yearn	33	23.2
Adult Literacy Rate (%)	44	99
% of Workforce in:		
agriculture	>50	5
industry	20	29
services	53	66
GNP per capita (US$)	21,000	14,120
Growth Rate of GNP (%) –	12	2 6
Inflation Rate (%)	5.9	5.5
Debt Service as % of GNP	4.2	0.6

- boalmarkets aresman(smau purchasingpower) and long distances to major markets;

* large traditional (domestic/subsistence) component to the economy;

*education levels of indigenous peoples (in particular) are relatively low;

‘effective infrastructure to support development is not widely available (communication, transportation, water, electricity, etc.);

- asmaUnumber ofreWv#y large prosperous urban centres (usually the capital or regional centres) contrasted with many dispersed small communities (usually populated mainly by indigenous people) without the infrastructure, level of service, and business activity of the larger centres.

The comparison of less developed areas (NWT and LDC's) with a developed economy, such as southern Canada's reveals more differences than similarities. The major differences result from the situation that less developed areas all share the following:

- population is more dispersed, with few large urban centres;
- higher population growth rates;
- greater signs of poor health (infant mortality, lii expectancy);
- a high proportion of their population under 15 years of age;
- lower literacy rates;
- higher rates of inflations
- significantly larger proportions of their workforce are employed in primary production (agriculture, fisheries, trapping, hunting, etc.);
- relatively high external debt as a % of GNP (although this factor does not apply

There are also other differences which are revealed by the statistics. unlike developed parts of the world, less developed areas normally have the following characteristics in common:

* indigenous people form a large proportion of the population;
* a traditional or domestic economy is an important component of the overall economy as well as the socio-cultural well-being of the society;
* small, dispersed markets;
* the labour force is not well educated, skilled or highly trained;
* effective infrastructure for development is frequently not available;
* inability to develop independent of the influence of other countries or governments;
* limited (or no) tradition or experience in business areas;
* lackc#financial sewices m most rural communities.

Overall, the substantial similarities between the Northwest Territories and the LDC's, when taken in comparison with the number of differences between these areas and southern Canada, seem to indicate that the approaches to economic development adopted for southern Canada are not appropriate to fruitful, independent and sustainable development in the NWT.

While there are certain "developed market" communities in the NWT (e.g. Yellowknife) which exhibit some of the characteristics of developed areas of southern Canada, the vast majority of the communities and outlying areas reflect those characteristics which are shared by less developed countries The system of categorizing NWT communities into three classes (with most falling into 'emerging market" or "resource communities') points to the fact that most of the area has more in common with LDC's than with developed economies. The stare of economic development in these communities (in terms of private sector opportunities and the necessary supporting infrastructure) is low, reflecting these parallels with the LDC's. See Appendix 1 for a description of these NWT community Categories and the differences between them. The NWT Economic Development Strategy addresses the concerns outlined in this section.

Micro Comparison

In order to illustrate more graphically and more realistically some of these similarities and differences, a specific example can be examined. This example case study involves the hypothetical development of a small hotel in an outlying community, and looks at all aspects, from project inception to operations. The activities and associated problems inherent in the development of this facility will be compared from the perspectives of entrepreneurs in the three areas (Southern Canada, the NWT, and an LDC).

The proposed development is a 25 room complete service hotel (rooms, food and beverage service), plus an other necessary ancillary requirements. It will be assumed that the project is being undertaken by an indigenous person in each of the following locations: Owen sound, Ontario; Boughton Island, NWT; and Naivasha, Kenya These communities share many common features each is an outlying community with tourism potential, and ail are on water.

Fundamental to this case study is an understanding the particular circumstances dictating the general climate for business development in each of the three locations. Presented below are Short descriptions of the circumstances facing each entrepreneur, followed by a chart showing the differences and similarities for a variety of activities in each situation.

southern Canada · Owen Sound - This small city has a long history of business with a wide array of enterprises from primary to tertiary industries present in the area In normal circumstances (expanding economy), numerous employment opportunities arise from expansion in both the private and public sectors The community has an official plan to help guide rational development, with zones designated for commercial, industrial, residential, recreational and other compatible uses within its boundaries. The city has an established administration which actively Seeks and helps prospective businesses to locate in the area, through an Economic Development Officer.

Owen Sound has an established infrastructure which supports development initiatives. There are excellent transportation links to larger centres, municipal water and sewage system, communications links and a full complement of financial, business and personal services. In terms of social infrastructure, educational institutions, social assistance programs, training facilities, business organizations, and other facilities/services are available to serve the public.

Many business opportunities exist in the area and are open to all area residents. In other words there are opportunities for an individual to develop an industry or operation and buildup equity. The business and legal climate encourages enterprise.

Within 150 miles of Owen Sound reside approximately two million people[16]. This population is obviously an immediate and significant market for the hotel development being planned. There is, however considerable competition for this market, and any hotelier in the area must price his or her product in a competitive fashion (which may not reflect costs in the short term). On the other hand, suppliers are also competitively pricing their products, thereby keeping the hotelier's input costs close to industry averages.

In summary, the prospective hotelier in Owen Sound faces a competitive situation, but has a market and all the necessary support services at his or her disposal. The community is receptive to private enterprise.

NWT - Boughton Island - The hotel developer in this NWT community faces a situation which is quite different from that in Owen Sound. Boughton Island is composed primarily of native people (Inuit), who have virtually no tradition or experience in modem business practices. There are few opportunities for gainful employment in the community; in fact, many residents are active in two economies (cash and subsistence) where income from one permits participation in the other.

Territorial government services in the community include health, - social and educational services. An Economic Development Office is located 200 km. away in Pangnirtung. Residents of Boughton Island have traditionally been self reliant and used the land and water resources for survival. The monetary system of cash has not always been important: barter and communal approaches have been more common.

There are no business services in Boughton Wand: accounting, legal, financial, planning, architectural and other such services are not available. The neareat location for these services is Iqaluit - 45(I km. away by air, with no road connection. Although grant, loan and contribution program support is available, these avenues for financial assistance are not always relevant or — well understood.

The infrastructure in the area is not attractive to business. There are no Continuous transportation links with the south or other northern communities, except by air. Because Of the community's isolation, the rocky location and the permafrost, heating, electricity and other inputs and support systems are very costly. There is no manufacturing in the community, other than arts and crafts, all supplies must be imported. Delivery does not always follow a schedule.

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[16] Owen Sound benefits from its relative proximity to Toronto if a more isolated community such as Wawa, Ontario had been selected. the differences would be less Pronounced. Owen Sound serves to highlight the differences between the NWT and southern Canada.

The market for a hotelier in Boughton - is small and specialized. The distances that tourists and business people must travel, and the limited number of travellers to the area, lead to a minimal and seasonal demand for hotel services. With relatively few facilities and attractions to hold the visitor in the area, amass market does not exist. Further, since climate is a determinant of demand even in a specialized market, the effective season for attracting tourists to Boughton Island is very short: the season is restricted primarily to the two summer months, although late spring use is growing. To expand the market and to create market awareness, the hotelier will have to advertise (in publications he has possibly never seen) and/or create a business link with a southern travel agency concentrating in the provision of specialized services.

The prospective hotelier's position is further complicated by the need for community acceptance of his proposal. There must be a consensus within the community that the type of facility planned is in keeping with the local philosophy for development. Frequently, considerable discussion is required before community approval is given.

To summarize, the situation facing an entrepreneur in Boughton Island is a difficult one. community acceptance is fundamental, and development of a hotel will involve tackling many logistical and financial problems. These problems are further compounded by the lack of experience and expertise within the community.

t <u>LDC - Naivasha, Kenya</u> - The Kenyan lhotel developer faces a situation similar to e Boughton Island hotelier: prerequisite to success is the obtaining of community support. A major difference, however, is that the means of gaining community approval and all required permits is not through discussion but through financial contributions.

The entrepreneur in Naivasha must contend with a cumbersome bureaucracy which is difficult to navigate successfully and impossible to navigate quickly. Two mechanisms are generally effective: one involves substantial payments; the other involves obtaining the sponsorship and influence of a local senior politician.

Many businesses operate in the community, but the business people are not always open or helpful to other new businesses. To achieve any assistance or cooperation, tribal and family Connections are almost always necessary. Further, because labour is so plentiful, wages are low and opportunities are few. The ability to amass capital or personal equity is small, making business investment difficult.

Similar to the Canadian north, there are few reliable support services to local businesses in Naivasha. Many such businesses are present in the area, but their level of efficiency and capability is inadequate. The physical infrastructure is poorly maintained: water, roads, electricity, and communications services are often less than dependable. Power shortages and lack of potable water can cause significant complications, along with the increasing problem of security.

Equally similar to the northern community, labour is readily available in the area, but generally lacking in experience or training. Those employed in the town usually subsidize family members in the home rural areas where subsistence activities are mainlined.

The market for the Naivasha hotel is difficult to characterize. The surrounding area is home to a large population, and there is considerable foreign tourist population in Nairobi about 1S0 miles away. Nevertheless, the market for a new hotel cannot be considered large: substantial competition for the foreign tourist is already present in the hotel industry in all parts of Kenya. Like the NWT hotelier, to be a success, any new hotel developer in Naivasha would have to find a particular niche in the market.

Figure A presents a summary of the similarities and the differences in the situations confronting entrepreneurs in the variety of activities involved in developing a new hotel. As the figure shows, the NWT community of Boughton Island appears to be the most difficult of the three locations examined for the development of a new business. The characteristics shown for this community apply to all 34 "Resource Communities[a] and most of the 16 'Emerging Market Communities' in the NWT.

Figure A

Climate for Entrepreneurs

Phase/Activity	s. Canada	NWT	LDC
1. Planning			
-land acquisition	straightforward	not straightforward	coma difficulty
-approvals, permits	straightforward	complex	difficult
-local professional assistance for site, building plans	available	not available	some available
-local financing	available	not available	little available
2 Implementation			
-local contractors	many	few, if any	few
-inspections (focally)	organized	not available	organized
-materials/supplies available	focally	not locally	some
-organize operations assistance available locally	yes	some	no
3. Operations			
-management assistance	available	some	not available
-trained staff	available	few, none	few
-marketing services	available	not available	very difficult
-steady supplies	available	difficult	difficult
-credit	available	difficult	difficult
4. other Difficulties			
-competitive market	yes	limited	yes
-cost of inputs(excl.labour)	competitive	high	high
-period of operation	yearround	short (summer)	yearround
-other tourist facilities in area	many	few	some

DISCUSSION OF FINDINGS

The foregoing sections reveal similarities of economic development in southern Canada, the NWT and four less developed countries. Major differences are also i- - - than anything else, this information indicates that comparisons are difficult because economic development is a complicated process. The people, resources and historical context of each area examined are unique, and each area creates singular circumstances for economic development. In this final section, various aspects of development will be discussed as they relate to the information already presented.

Specific results of this analysis indicate the following.

Lac of Busi ess Experience

Aboriginal people or people of native ancestry, especially those is less developed areas, have little or not experience in business: it has not traditionally been a part of their indigenous culture. As a consequence, developing an enterprise is not an activity which comes naturally. If the development of private business by native people is identified as a priority of governments, then different approaches to this objective will be required. Typically, public assistance programs are devised and administered by non-natives. Until more native people gain further familiarity and experience with business practice, however, there will continue to be a need to develop different and more responsive approaches for the encouragement andsupportofnative businesses.

Absence of Business Skills and Education

Related to not having a business tradition is the lack of business skills and training, as well as low levels of fundamental education. These problems prevail in both the NWT and the LDC's, and present real barriers to development

Restricted Access to Capital

The availability of funding and financial services through commercial/private institutions for business development in less developed areas is one of the largest obstacles facing entrepreneur'S. In outlying communities in the NWT, not only is there a physical lack of access (few institutions), but there is also a cultural barrier. The institutions with funds available are non-native an entrepreneur is confronted with the requirement for application forms and business plans involving a procedure and terminology which are often unfamiliar to a native person. Requirements for feasibility and marketing studies as well as economic viability within a short time frame also pose significant barriers to greater involvement by native people. This situation can effectively restrict access to loaned capital.

In terms of capital build-up for equity purposes, there are significantly fewer opportunities to accumulate capital in less developed areas than in developed areas. This applies between nations and between regions of a country. ignoring funds sent home, it is easier to earn an income in Yellowknife than in Boughton Island. The equity requirement for small business development by native people in particular should be flexible in recognition of these real barriers to capital accumulation.

Limited Business Support Services and Public Infrastructure

Unlike the situation in developed areas, entrepreneurs in less developed areas are faced with a dearth of support services for business. Few legal, accounting, financial, management or other necessary services are available locally. (In the NWT, only four of the more than 50 communities offer such services.) In addition to the challenge of smaller markets and significant logistical problems of operations and development, the entrepreneur in less developed areas also has no support systems for specialized assistance. The businessperson must either be sufficiently talented or engaged in a business opportunity so great that flaws in management can be absorbed.

The lack of a fully developed and reasonably priced system of infrastructure support for municipal services is a major constraint for developing regions. Basic water, electricity, sewer and garbage services, roads and transportation networks that developed regions take for granted are a major hurdle to development. When development does occur, it is at a much higher cost because of high fixed overhead expenses.

Small or Poor Markets

For northern entrepreneurs, the distance to markets and the availability of markets pose significant constraints to development. Local markets are small, both in physical terms (number of people) and financial terms (buying power). Markets of any size and consequence are long distances away. Furthermore, because of their inability to compete effectively with mass production in the developed areas, products of the NWT and I-DC's generally must be Specialized. For example, the Boughton Island hotelier is confronted with a highly specialized tourism market: the hotel must provide a unique experience or mix of products. This market is very small, difficult to access, and a long distance away.

Accessibility to Government Programs

Government programs are designed to assist those in need throughout the Territories. Access to these programs depends upon at least two factors: physical proximity to a government office which can respond to requests; and the degree to which the programs are known and understood by those for whom they were developed. In less developed areas, both these factors present real problems of access.

There is also a further problem of access related to the formulation of the programs themselves. Certain requirements made of applicants or restrictions placed on the application can effectively preclude the majority of individuals for whom the programs were initiated. Such administrative constraints reduce access to these programs in LDC's and the NWT.

High Cost of Living

The NWT hsconsiderably higher cost of living than exists in Southern Canada, and is also experiencing a slightly higher rate of inflation than southern Canada. The cost of doing business in the north is substantially higher than in the more developed regions of Canada. Thii situation produces two results: 1) northern residents (especially persons of native ancestry) reduce their consumption no those items requiring cash outlays and effectively maintain a subsistence or traditional lifestyle; and 2) the wages and salaries paid to northerners must be sufficient to cover the costs incurred, viz they must be higher. Among other social and economic factors, the cost of living has detrimental effects upon the economy: it slows the integration of native people into the modern economy, and increases the cost of production. These same circumstances are prevalent in other fess developed areas of the world.

Similarities in the Pursuit of Economic Development Goals

All of the areas described had essentially the same goal of development increased wealth (employment and income) for an increasing proportion of the population. The means available to each area for achieving this general goal were different, and yet the same general approaches/principles to economic development were used. In most cases, this meant attempting to shift from primarily a resource-based (agricultural) economy to a more industrialized one (efforts to increase the productivity of agriculture and other primary industries, etc.) or service oriented economy; improving education, health and social services for larger numbers of the population; attempting to erect the necessary infrastructure to support development; creating a political climate where greater numbers participate in the organization and benefits from development; and, generally, building on their natural strengths. This general approach to economic development is used by the GNWT in its NWT Economic Development strategy.

National Policy and its Impact on Regional Economies

The distributional, equity and efficiency effects of the economic policies of the Government of Canada are diluted throughout the country. Policymakers know that there will be an improvement for some people or groups while others will be worse off because of a certain policy, the distributional effects are weighed politically and, at time ignored or treated as unimportant. While such a policy stance can be rationalized at the national level, where the effects are distributed over 24 million people, these same effects become very personal and demonstrable in a smaller economy and population such as in the NWT. For instance, while a high interest rate policy for Canada as a whole may be the most logical policy to adopt, this policy may nevertheless have the following effects (among others) on the economy of the NWT: (1) reduced investment (too expensive to expand or start up an operation); (2) reduced employment opportunities; and (3) increased participation in the traditional (domestic) economy. Similarly, a national goods and services tax may have repercussions greater than expected for northern residents (accounting services, low volumes of sales, high transportation inputs, etc.).

While the NWT is subject to national policy effects, the GNWT has little voice in the formulation of those policies. Territorially, the GNWT sets its development policy agenda, but is subject to or affected by national policies and ultimately the extent of federal budget transfers. The LDC's are also subject to the effects of their own policies, but they do have direct Control over these policies. On the other hand, the LDC's are subject to suasion or coercion from international financial institutions (such as the International Monetary Fund and World Bank) to adopt prescriptions for their economies. Thii situation often involves the adoption of dictated policies deemed necessary for economic recovery or sustained and more equitable development. These conditions are prerequisite to the rescheduling of debts, improved terms of credit, or further direct financial assistance from these institutions. in a sense, therefore, LDC's are also subject to the economic policies and priorities of other bodies over which they exercise little or no influence - similar to the circumstances of the NWT.

The Effect of Currency Exchange Rates and the Balance of Payments

Less developed countries expend much of their energies in me pursuit of hard currency (a stable western currency), necessary for financing imports required for development. Exchange rates are very important to these countries. Even when the prices of their export goods and services decline in world markets, LDC's will continue to export in order to generate even the lower amount of foreign exchange. A decline in world prices for primary goods and exchange rate fluctuations can have a significant impact upon LDC's.

In contrast, Canada has a stable currency that is one of those sought by LDC's. The NWT, while not unaffected by world prices for its export goods, is not driven by the need for foreign exchange earnings. This permits a greater flexibility in production and/or exports of its goods. The existence of a stable currency (and the economic climate it creates for development) is one major advantage that the NWT enjoys over other less developed regions of the world.

Dual Economies (Traditional and Modem) Supporting Each Other

An important feature of the economies of the NWT and LDC's, is the existence of two distinct economies - traditional (domestic) and modem. Whereas all economies (developed and underdeveloped) have these dual economies present to some extent, it is the size and continuing importance of the traditional economies in the less developed areas that is noteworthy. In the NWT, the traditional economy is almost exclusively a phenomenon of the native population, while the modern economy historically has been introduced by non-native people. A combination of non-native and native persons participate in the economy today, with non-native business persons usually taking the lead in much of the development. By virtue of its existence, the modern economy facilitates and supports the cost of participation in the traditional economy of the NWT. On the other hand, the value of the resources harvested forms a major import substitute whii has the effect of retaining capital and thus making the funds available for local use.

In LDC's, where it is by no means clear which economy supports the other, in all probability the modem economy is supported by the tractional economy. The traditional economy provides the resiliency and support necessary for the pursuit of development of the modem economy.

The extent to which the traditional economic activities can continue to grow within the development of modern economies is a matter for debate and philosophical discussion. The dilemma here involves individual choice, cultural stability and fulfilment and overall economic development. Thiiisaue wasaddressed thus atan economic development seminar:

> "To the extent possible, individual native people should be able to make their own choices about how they wish to live. This implies not only that they should be given access to southern ways by means of education, but also that every reasonable effort should be made to assure that resource development does not destroy the renewable resources on which this traditional way of life is critically dependent."[17]

in further developing its modern economy, the NWT principles for sustainable development recognize the importance of the subsidence harvest economy.

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[17] 'A Southern Perspective on Northern Economic Development", William G. Watson, in The North, University of Toronto Press, 1985

The issue of determining the appropriate mix of traditional activities and modern economic activities is an area of similarity between the NWT and LDC's not shared with southern Canada.

The Need to Negotiate Development Assistance

The four LDC's looked at in this comparison receive development assistance from other countries, including Canada, and international organizations. The level of assistance fluctuates from year to year and is predicated on continuous negotiation with the donors. Through the Economic Development Agreement and its successor agreements as well as through special native development programs such as the Canadian Aboriginal Economic Development Strategy, the NWT receives development assistance from the Government of Canada. The GNWT must negotiate with the federal government for transfer payments through a formula financing process. The territorial government, therefore, is subject to a degree of uncertainty, and can face fiscal problems beyond its control.

Canada's approach to development assistance has changed over time, and is now directed towards satisfying very basic needs: food, health and education issues are fundamental. The amount of funding for assistance programs in any one country, while not substantial in any given year, is nonetheless sufficient to produce results overtime. The Government of Canada's approach to northern development assistance has also changed over time and is not aimed so much at basic needs, as at ways and means of stimulating growth: business assistance programs, -- training, encouragement of entrepreneurialism, etc. me range and amount of international development assistance from the Government of Canada is (of necessity) much greater than that provided the NWT. The federal government's annual financial commitment to the NWT is less, but it is mom directed.

Canada's international assistance programs increasingly recognize the unique circumstances of different countries, and are being directed towards those activities that have the greatest potential for success within the realities[18] of that country or area. In two cases Canada applies some moral suasion on assistance - environmentally sound development, and an expanded role for women in development. These same principles seem to apply to northern development assistance as well.

[18] Nepal Land Resource Assessment Project: An Evaluation, P.G. Whiting and D.M. Lang, CIDA, 1988.

Conclusion

From the foregoing theory, analysis and discussion, it is apparent that the process of economic development is a complex and multi-dimensional topic with global effects. Questions of real distributive effects, retained benefits, and sustainable development all point to the distinction between balanced economic development and commercial expansion. Economist and policy makers are increasingly recognizing that Whii commercial expansion is a fundamental component of overall economic development, the two are not synonymous.

This report has presented some thoughts on how economic development is similar and how it differs in the Northwest Territories, in less developed countries and in the developed economy of southern Canada! Significant similarities were identified in the comparison of the NWT with the selected LDC's; these similarities appear to outweigh the differences which emerged from the comparison, and on the whole, suggest that these areas shared greater similarities in economic development than existed between the NWT and southern Canada. There appears to be somrationale for developing new or more responsive approaches to economic development in the NWT: some of these approaches could more appropriately be based on success achieved in less developed areas of the world rather than on policies adopted for southern Canada's more developed economy.

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APPENDIX 1

CLASSIFICATION OF NWT COMMUNITIES

The Problem

Not all communities in the regions have benefitted from recent economic growth

Major Characteristics

After analyzing a number of socioeconomic indices, it became clear that while the N'WI' economy continues to perform **better than the national average, two major problems persist:**

1. Wealth in the NWT tends to concentrate in the major centers or in too few hands in the smaller communities

2 A significant portion of the wealth generated in the NWT in the form of income and profits is not retained.

Contributing Factors

The reasons for these problems are many, a few facts stand out:

- Education levels in the rural, remote and primarily native communities are far below the Canadian average. In fact there are less than three hundred people with more than grade 10 that are unemployed in all communities other than Yellowknife, Hay River, Fort Smith and Inuvik. **Despite high unemployment in these** communities it is necessary to import much of the skilled labour. In fact, only 33% of the current labour force was born in the NWT.
- Markets **are small.** Only 16 % of the population live in communities with less than 500 people, yet 60% of the communities in the NWT have population of less than S00. A population of 500 is considered to be the threshold for many types of businesses.
- *A* **lack** of entrepreneurs and people with managerial expertise restrict the development of opportunities in the smaller communities
- A lack of private capital and access to capital from commercial institutions is lacking.
- Productivity in the production of proccsscd goods and renewable resource industries is relatively low because of short seasons, a lack of skilled labour, a lack of economies of scale and the lack of capitalization.

GROUP 1

GRO

Developed Market Communities

Communities with the greatest potential for displacing major southern supply centers:

Yellowknife
Hay River
Fort Smith
Inuvik

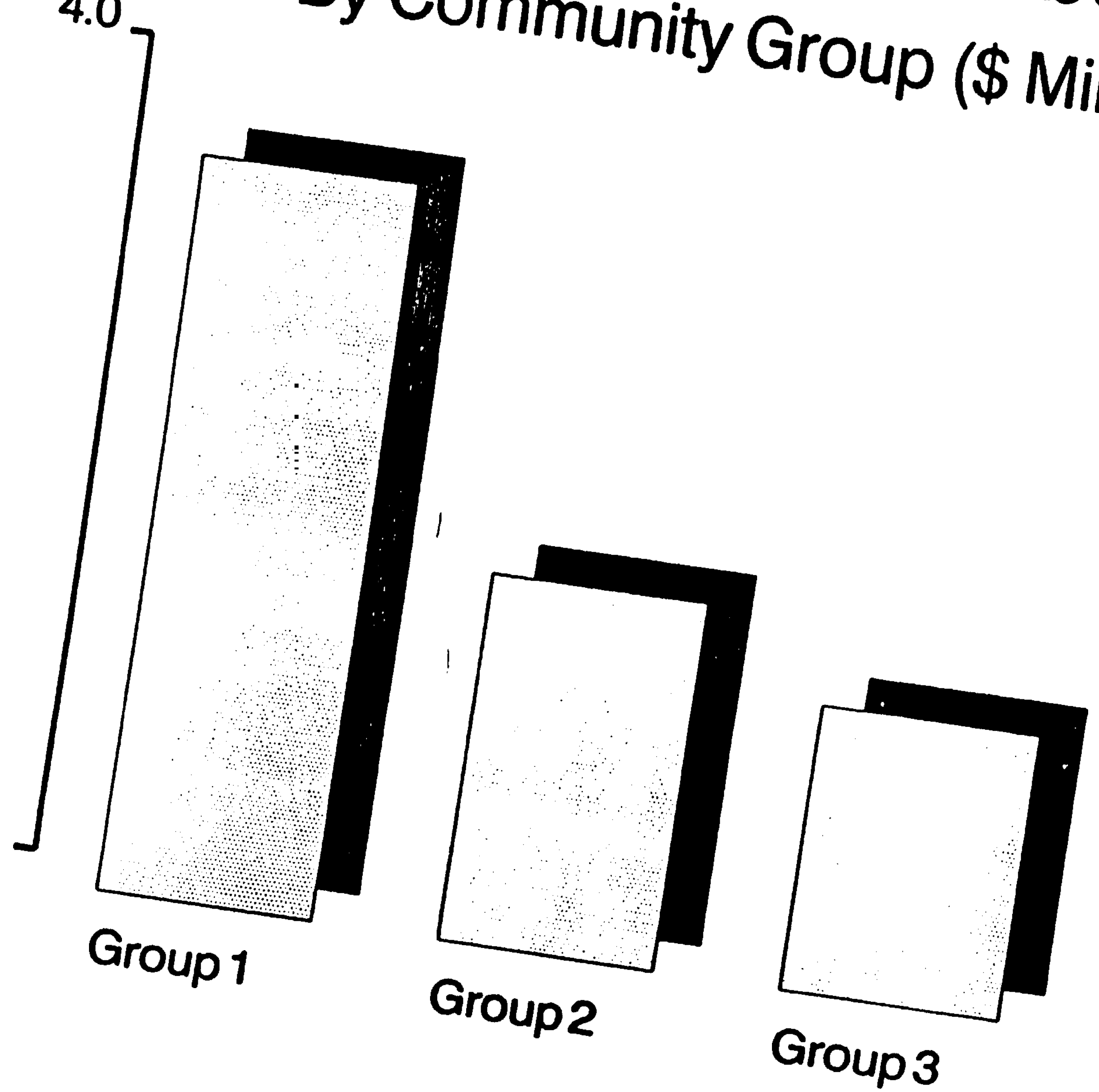
Emerging M

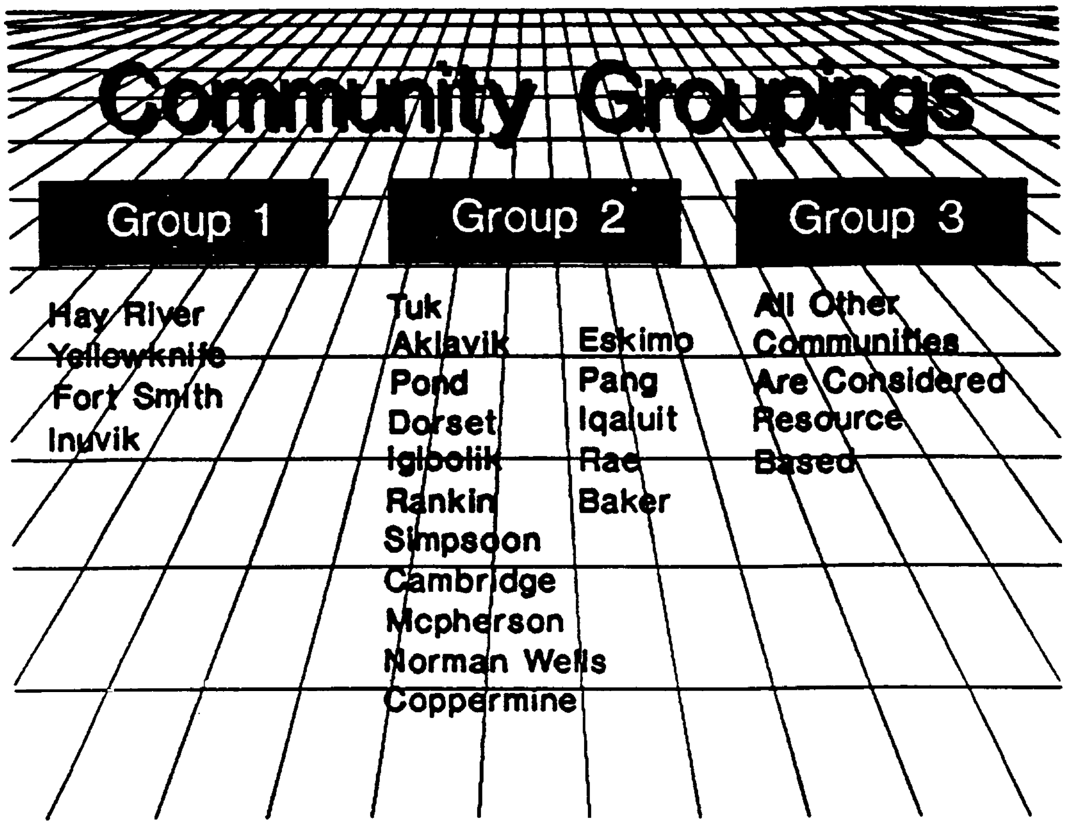
Communiti potential to regional sup expand their and

Coppermi

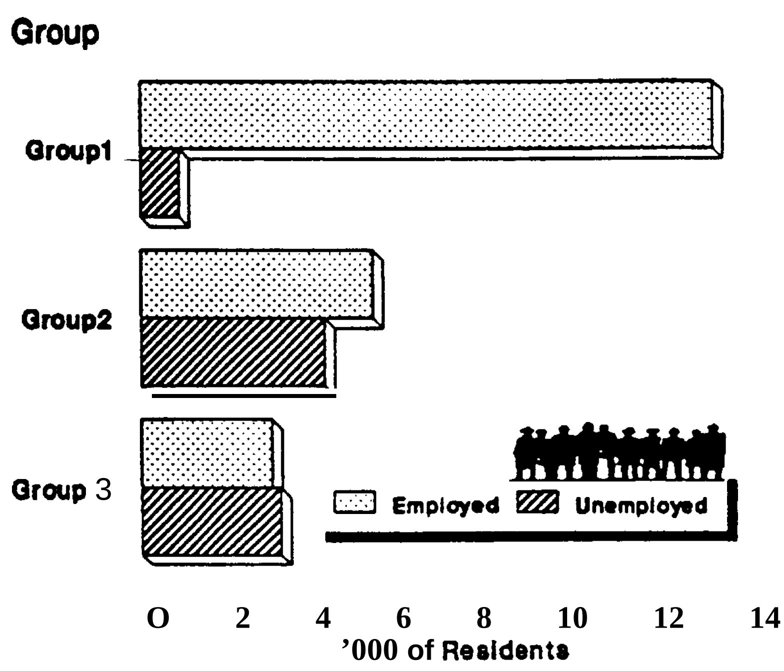
Aklavik Aklavik
Pond **Inlet** nd In
Rae Edzo
Fort McPher
Rankin Inlet
.ctip@&y
Cambridge

...ibution of Contributions
By Community Group ($ Millions)

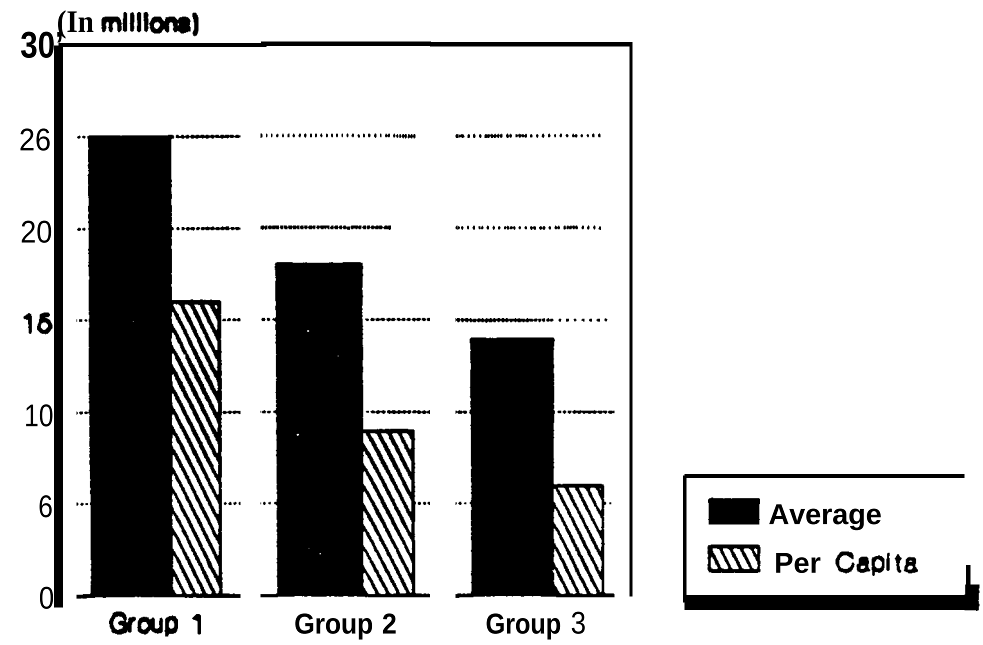




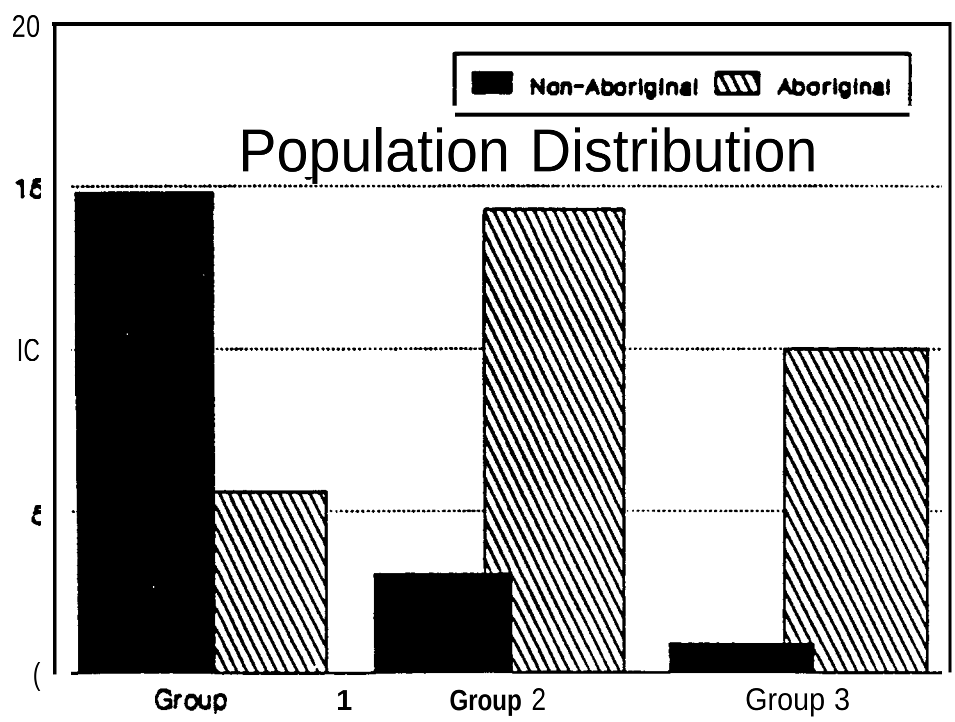
Employment and Unemployment



Community Incomes

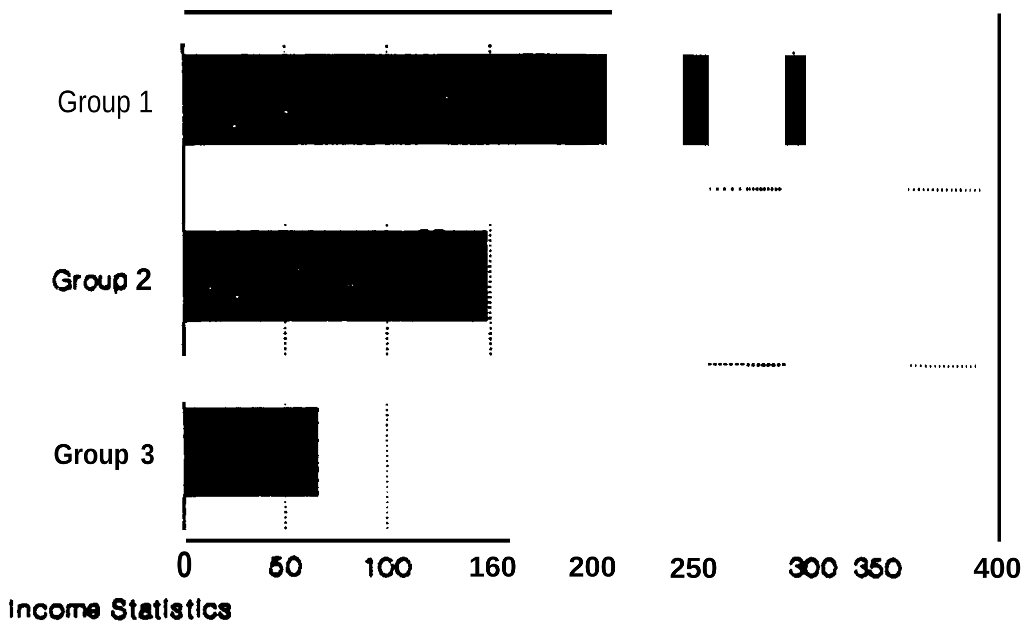


Income Statistics; Revenue Canada

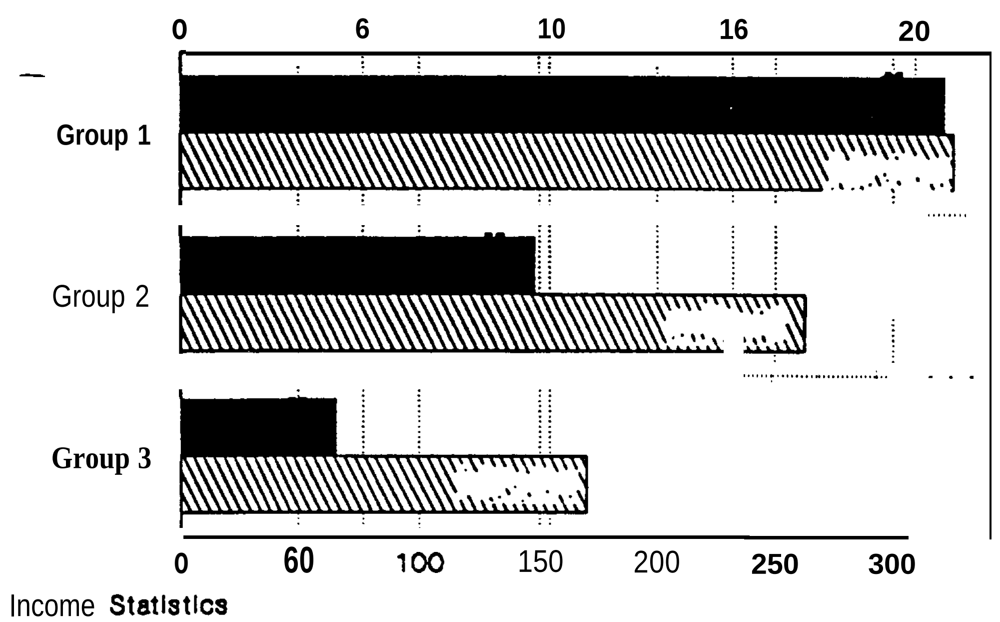


Economic Development

Community Incomes
Total Community Incomes By Group

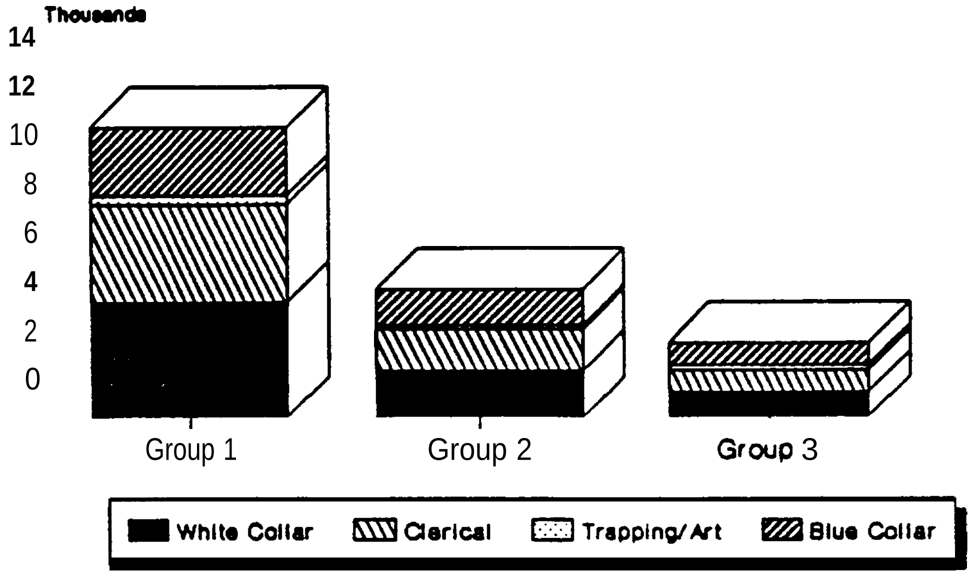


Income Versus Population
Actual Incomes and Population By Group

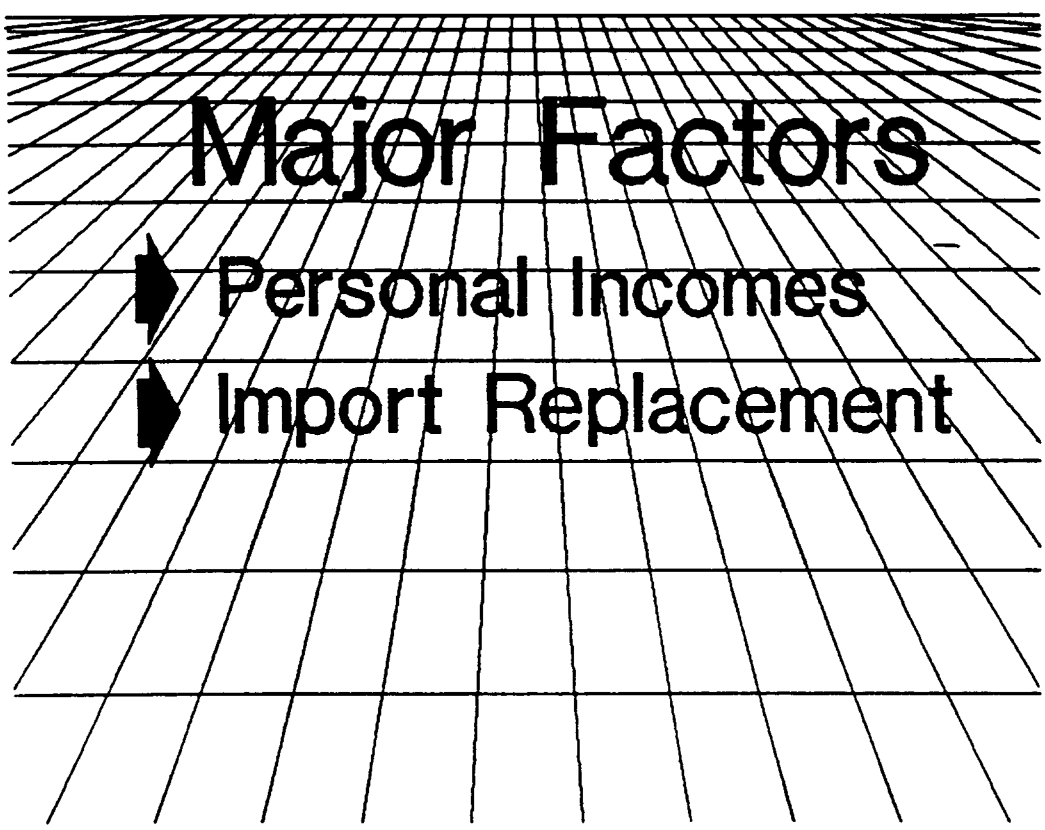


Occupations

Employment and Occupations By Group

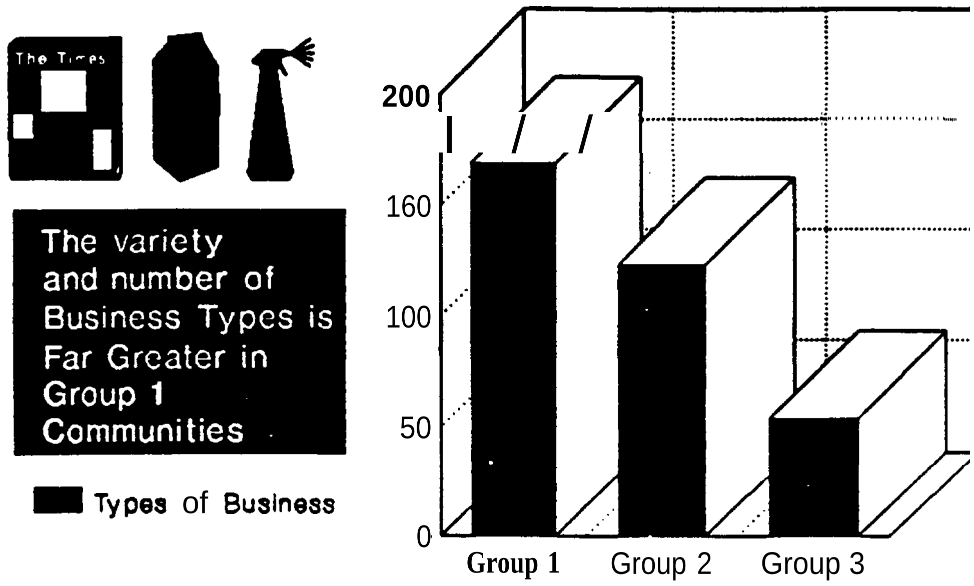


Source: 1$88 Labour Force Survey



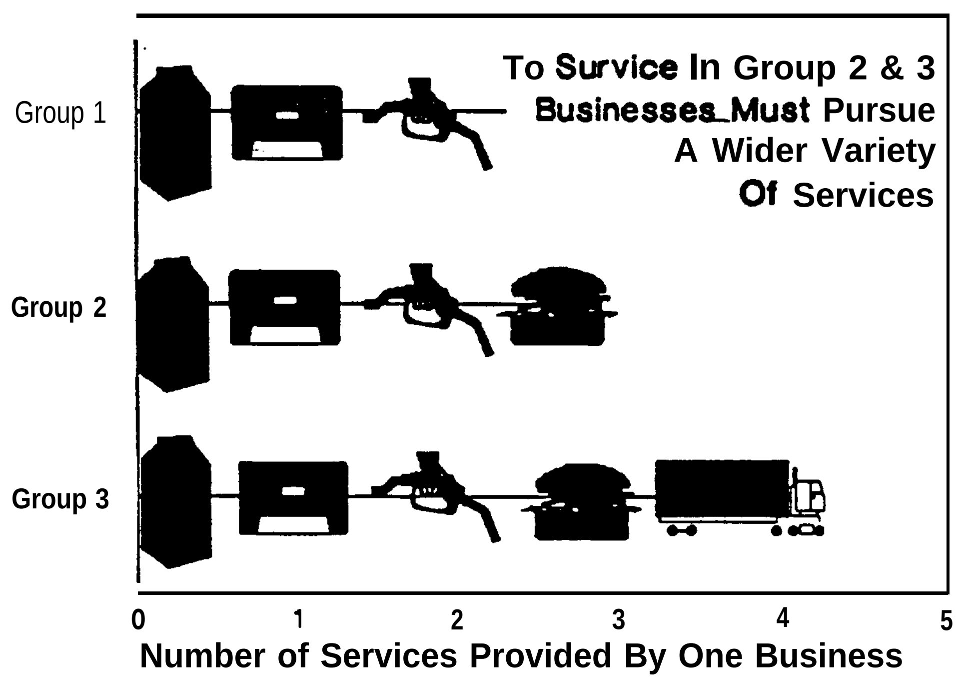
Business Categories

Number of Business Categories

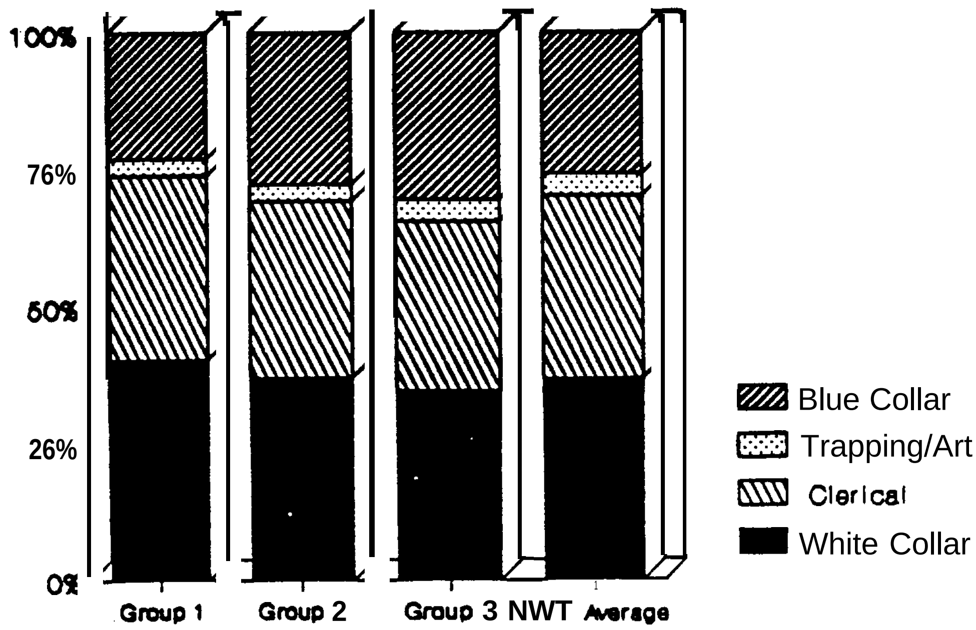


Source: Economic Development and Tourism

Business Specialization

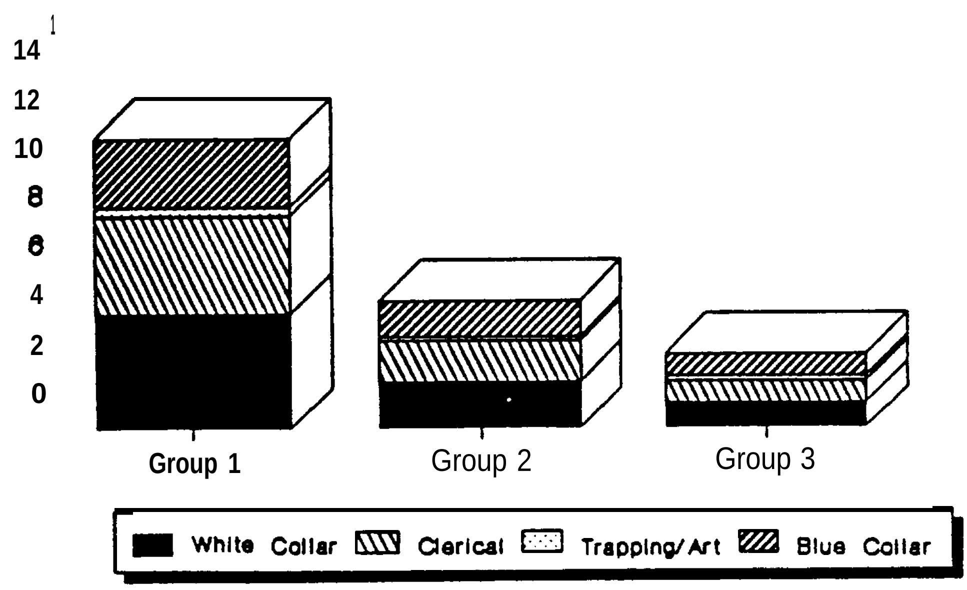


Occupational Distribution



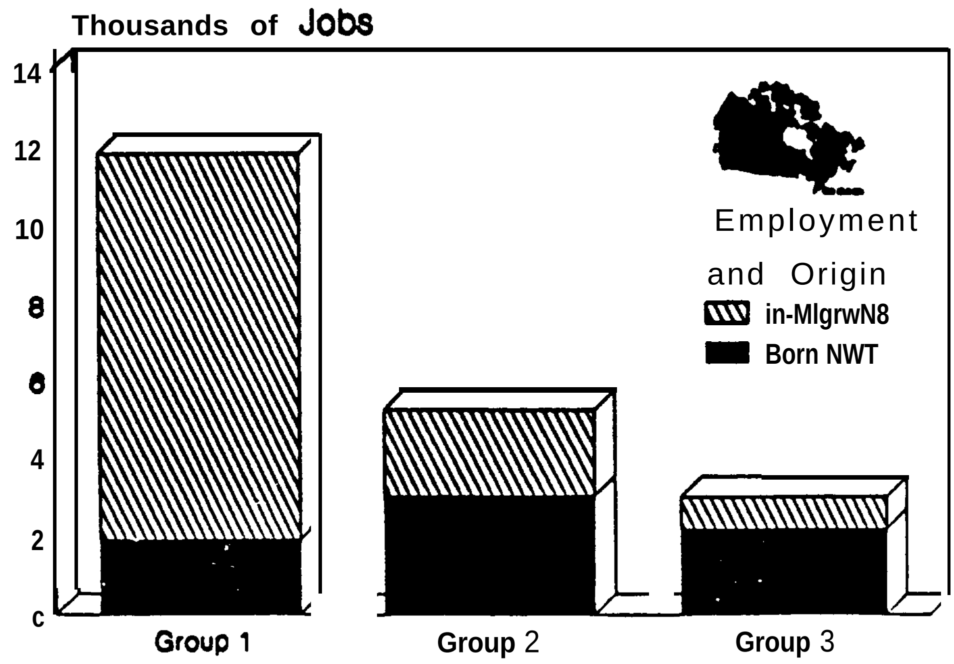
Occupations

Employment and Occupations By Group



Source: 1988 Labour Force Survey

Employment By Community Group



Source: NWT Bureau Of Statistics

ECONOMIC DEVELOPMENT IN SOUTHERN CANADA

Earlier sections of this report contained a description of the fundamental objectives of economic development towards which Canada as a whole is striving. Southern Canada has undergone the structural change from an agricultural/resources based economy to one described as an industrialized country; southern Canada is therefore considered a 'developed area'.

History

Although the original inhabitants of Norm America migrated from Asia across the Bering Strait over twenty five thousand years ago, the first European settlers arrived about 1,000 years ago. English settlements developed along the Atlantic seaboard and provided bases for the fisheries and fur trade. Quebec began as a French colonial outpost and formed the foundation of a thriving fur trade. Economic rivalry between the two European empires, and the colonies were further torn by the wars and conflicts waged between the two nations.

The economy of the British colonies in North America in the early 1800's was based on several staple trades: communities developed around the fishing industry, the forestry industry, and the ship building trade on the coast. Under the protection of a preferential system, exports of wheat were made to Britain and a large milling industry was established. The fur trade, however, remained the main activity, and the transportation system was developed to facilitate routes into the interior. The Hudson Bay Company officials were empowered with semi-governmental positions over the activities of fur traders and the Indian population. In 1869, the company relinquished its charter and the vast northwestern area joined with Ontario, Quebec, New and the Maritime provinces in the Dominion of Canada.

since its confederation in 1867, Canada has had a record of steady and substantial growth. Population "increased rapidly during a period of active immigration and western settlement prior to World War 1. A similar period of growth (associated with industrial advance) followed World War II and by 1961, Canada's population numbered 21 million.

The enormous size of the country required rapid development of transportation systems. The Canadian Pacific Railway completed its first transcontinental track in 18SS; within 30 years, two other transcontinental lines were in operation. Canal systems were developed, and the St. Lawrence Seaway provides ocean-going vessels access to the Great Lakes and the heart of the continent. Air routes, and gas and oil pipelines also cross the country. Development provided access to new resources: pulp and paper, base metals, oil, uranium and iron were added to earlier traditional exports. Secondary industries advanced rapidly, particularly in the areas surrounding the large cities.

People

The population of Canada has doubled since 1945; the rate of growth peaked in the 1950's. In 1988, the population was 26.0 million: 55% of Canadians live in metropolitan areas (over 100,000) and 67% live in urban areas (over 1,000). The Province of Ontario accounts for over one third the national population; 62% of Canadians live in either Ontario or Quebec. The Northwest Territories are home to 0.2% of Canadians.

The ethnic background of Canadians is British/Irish (4096); French (2796); German (5%); Italian (396). A large proportion (17%) represents a wide variety of backgrounds, and 8% come from more than one group. Native people (Indian and Eskimo) account for only 1.4% of the population.

The natural rate of increase in population is 8 per 1,000. The life expectancy is 73 years for males and 80 years for females.

Economy

The Canadian industrial base is concentrated in areas along the US border: in British Columbia and Alberta, and in central Canada (Ontario and Quebec). The Province of Ontario functions as the hub of economic activity in Canada: it contains the largest manufacturing base and agricultural sector and well as the largest city, Toronto, which is the primary financial and services centre for the country. Ontario accounts for over 40% of total Canadian GNP. The four Atlantic provinces and Saskatchewan and Manitoba are agriculturally oriented.

Trade links with the United States are important to Canada. The USA accounts for approximately 75% of Canada's total external trade and is the major source of demand for manufactured goods as well as agricultural and raw material products and energy.

Agriculture is an important source of export earnings, in spite of the fact that it accounts for onty 5% of total employment and approximately 3% of GDP, Mechanization and consolidation have resulted in large, capital-intensive operations. Output per worker has risen more rapidly in agriculture than in other sectors. The Province of Ontario has the largest total farm income. Some agricultural exports are controlled through federal agencies, such as the Canadian Wheat Board and the Canadian Dairy Commission.

Canada is the worlds largest exporter of forestry products. The pulp and paper industry was at one time the leading manufacturing industry, and still accounts for 40% of the global production of newsprint. Timber production is often cyclical, dependent on the residential construction activity throughout North America

Canada is also the world's largest exporter of fish. Over 75% of fish products are exported (mainly to the United States). The fishing industry accounts for only a very small percentage of the total GDP.

The mining industry is vital to the Canadian economy, although it is highly vulnerable to price fluctuations and competition from less developed countries. Canada produces a variety of metals and minerals, and is the world's leading producer of nickel, zinc and asbestos, as well as a major source of potash, copper, lead and iron ore.

Canada has abundant and varied sources of energy - oil, natural gas, coal and uranium. Crude oil production exceeds domestic consumption requirements, and exports of energy products have risen steadily in the last decade.

Manufacturing accounts for approximately 20% of total output, The leading manufacturing industries (apart from transport equipment and household electrical goods sectors) focus on the extensive natural resources: food and beverages; wood products; primary metal and chemical industries; and petroleum refining. On a smaller scale, manufacturing includes clothing and textiles, plastics, tobacco products, leather goods, printing and publishing, and non-metallic mineral products. Foreign investment in Canadian manufacturing is high: 23% of the non-financial industries are controlled by foreign interests (mainly American).

The composition of GDP is increasingly showing concentration in the services for both public and private sectors. This is a reflection of the steady growth in government expenditure and growing personal incomes resulting in increased demand for financial, leisure and other services. Despite their importance as sources of export revenues, both agriculture and mining account for a relatively small shared total output. Spending on capital investment has seen a declining share of GDP in recent years Much of the recent growth in economic activity has been concentrated in Ontario, and the nature of the activity has intensified regional disparities in living standards. The western and prairie provinces have suffered from weak energy prices and a worldwide glut in agricultural products.

Growth of the labour force has been rapid: between 1978 and 1988, the labour force expanded at an average annual rate of 2.1% to 13.4 million. The trend in the number of individuals working or seeking work has undergone a gradual deceleration since the early 1970's, for three reasons: (1) immigration is no longer as important ss it once was; (2) the peak impact of the post-war baby bOOm on the job market has passed; and (3) the increase in the participation rate is beginning to slow due to saturation. The relative decline in agriculture has been an important factor in post-war employment: from 25% of employment to only 5% now.

After the peak in price increases during the early 1980's, inflationary trends have declined in the economy, although the central Bank of Canada continues to pursue a high interest rate policy to subdue inflationary pressures. The annual rise of the consumer price index has remained fairly steady since 1984 at a level of about 4%. As a result of productivity growth, labour costs since 1983 have risen less than producer prices, widening profit margins.

The federal government has the right to impose any mode of taxation while the provinces, and through them the municipalities, are restricted to direct means of taxation for provincial spending purposes. To facilitate the orderly collection of direct taxes there are federal/provincial tax agreements of five years duration. Under the tax agreement concluded in 1977, the federal government bought its way out of expensive shared cost programmes it had previously initiated in provincial realms of responsibility. The agreement also limited equalization payments paid to the seven 'have not' provinces. Recently, agreements have been signed between the federal government and a number of provinces enabling these provinces to retain a large share of the revenues from energy taxes. Privatisation of public enterprises as a means of reducing the budget deficit, realised about two billion dollars between 1984-1966 for the federal government. Further tax reform is currently being considered, beyond the fairly radical reforms made earlier in the income tax structure.

Net public debt increased from 27.6 percent of GDP in 1960/81 to 51.8 percent of GDP in 1966/87 and amounts to $264.1 billion. Debt interest payments have increased sharply and reached an estimated 5.4 percent of GDP in 1966/69. Canada has traditionally been an importer of long term capital

For the past 100 years most of Canada's exports have been directed to the United States, in return for a greater value of manufactured and capital goods. The current account, which has been in a deficit position, has been offset by inflows of U.S. capital in the form of short and long term financial investment, as well as direct foreign investment. Since the early 1960's, however, Canada has moved into a surplus in its trade with the U.S. The bait constraints of geography and population have helped promote the integration of the two countries economies the U.S. supplies about two thirds of Canada's imports and provides markets for about three quarters of Canada's exports. The bilateral trade flow between the two countries was valued at $184 billion in 1988, and was the largest trade flow between two countries in the world.

Canadian exports to the U.S. have changed in composition over the past two decades. In 1960 over 5096 of all Canadian exports to the U.S. were fabricated materials (i.e. semi-processed goods such as timber, newsprint, chemical products and refined metals); between 20% and 25% were crude materials (eg. potash, mineral ores, etc.); about 10% were food and related products; and manufactured goods comprised less than 10% of the total. By the 1980's manufactured goods comprised the single most important category of exports, making up half the totaL While fabricated materials, and food and related products have declined substantially, crude materials still account for around 25% of the total.

Whereas Canada previously imposed relatively high tariffs to protect industry, Canadian tariffs now are not significantly higher than those being applied by other industrial nations. The new free trade agreement with the U.S. will alter the international trading environment dramatically, with Canada soon having free access to a much larger 'domestic market. Canada's second major trading partner is Japan, which supplied 6.3% of Canada's imports and took 5.4% of Canada's exports in 1987. The European Economic Community as a whole is a larger partner, supplying 11.396 of imports and taking 7.396 of exports in 1987. The United Kingdom's importance as a trading partner has declined steadily in recent years.

APPENDIX 3

ECONOMIC DEVELOPMENT
IN THE NORTHWEST TERRITORIES

ECONOMIC DEVELOPMENT IN THE NORTHWEST TERRITORIES

There are many factors affecting and contributing to economic development. This process is described for the NWT in terms of its resources, people, government and economy. Information is also presented on the problems and strategies for economic development, as well as the influence of national policies.

Land and Resources

The total area of the NWT is 3.4 million sq. km., with the land area 3.2miiliisq.km. The largest physiographic region is the Precambrian or Canadian Shield, which occupies over half the total area Plains make up the second largest physiographic region, whii in the north, there is the "Innuitian" region - sedimentary rocks forming mountains and basins. In the far west, a small portion of the Cordilleran region (mountains) lies within the NWT.

Forest land accounts for 17% of the total land area, although only 5% of this is estimated to be primary forest land. Approximately 2 million hectares of land are suitable for some form of agriculture: 10% of this amount is capable of supporting sustained arable agriculture. Permafrost is a reality throughout the territory. Discontinuous permafrost exists, scattered about in combination with areas of unfrozen material. Such patches of permanent frozen ground are found in all areas of the NWT south of the line of continuous permafrost.

The Northwest Territories hold about 9% of the freshwater resources on the world. The MacKenzie River is the second largest in North America; it has traditionally been a means of transportation and has thereby affected settlement patterns. Other major features of the NWT physical geography include the Arctic Ocean in the north and Ice ("fast" ice and "broken" ice).

There are two major climatic zones in the territories: Arctic; and Sub-Arctic. Although there are major climatic differences and many micro-climates throughout the NWT, temperatures are generally cold and precipitation in all forms is fairly low.

Known for its wildlife resources, the NWT is home to few reptiles and amphibians, an extensive variety of marine mammals (seals, walrus, whales and porpoise), and many land mammals. Important groups of land mammals include the forbearers (including the major species - coyote, wolf, arctic fox, red fox, muskrat, marten, fisher, weasel, wolverine, beaver, otter, lynx) and big game (bear, caribou, mule deer, moose, wood bison, muskox, mountain goat and Dan sheep).

People

The population of the NWT represents four ethnic origins: Dene (Indian); Inuit (Eskimo); Metis; and Euro-Canadian, in the following approximate proportions:

Dane	16%
Inuit	35%
Metis	796
Euro-Canadian	4296

The population growth rate among native (Dene and Inuit) people is 3% per annum, roughly 3 times the Canadian national average. The overall population of the NWT has grown steadily: from 16,004 in 1951 to 45,741 in 1981. Estimates for 1988 indicate a population of approximately 52,000.

The total population is almost evenly split between urban (52%) and rural (48%). The age distribution is pm-school (13%); school age (2196); working age (63%); and elderly (3%).

Government

Prior to Canadian confederation in 1867, vast areas of the north were administered by the Hudson Bay Company. The North-West Territories Act of 1875 established the legal framework for government, whii the present shape of the territories was assumed in 1912 when the boundaries of Manitoba, Ontario and Quebec were extended northward to their present positions.

Government is by an Executive Council, fully elected by residents of the NWT, but administrative responsibilities are shared between the federal government and the territorial government. The process of devolution is underway, with the territory taking on increasing responsibility for its own affairs. Nevertheless, significant splits in jurisdiction continue to exist between the two levels of government.

Economy

The Gross Domestic Product (GDP) in 1986, at market prices, was $1.7 billion. Private and public investment in 1986 was approximately $1.1 billion, but has fallen in value in recent years to $880 million in 1988. Primary industries (mining, oil& gas, etc.) account for the single largest source of investment; institutions and government investment have been steadily rising since 1985.

Total personal income in 1985 was $548.3 million, with the average personal income at $20,277. The average weekly earnings in all industries is now over $810. The monthly average total employed in 1987 was 18,561: 40% of this is government - -

Mining is the NWT's largest single private sector employer, the largest exporter, and the largest contributor to corporate profits. Miners earned over $100 million in wages and salaries in 1987, and the industry (including exploration companies) spent an estimated $72 million on purchases of NWT goods and services. Retail trade, transport and communications, finance and insurance, and other services industries combined account for approximately 50% of employment and 47% of wages and salaries.

In 1985, 63% of the population (32,000) was of working age (between 15 and 64 years). of these, 68% were in the labour force (either employed or unemployed and looking for work). The average NWT unemployment rate in 1985 was 17% - about 7 points higher than the Canadian national average, When the 'hidden unemployment' factor is included, the effective unemployment rate is 26%. The native unemployment rate was much higher than the non-native rate: 31% as opposed to 7%. Participation in the labour force is higher for males than females: 76% compared with 60%.

Apart from minerals and hydrocarbons, very little is exported from the NWT. Mineral concentrates and ore are shipped out for further processing, and manufacturing within the territories is primarily a cottage industry producing artisan goods for small local markets and limited export.

On the other hand, there is an abundance of non-renewable resources in the NWT. Mineral potential is significant for a number of metals: zinc, lead, copper, gold, silver, bauxite, tungsten, uranium, iron and others. Oil and gas reserves are also substantial. In spite of much higher development and operating costs, the size and richness of the mineral ore bodies in the NWT make them competitive with other intonational interests.

Tourism is an important industry in the NWT, and has expanded rapidly since the 1 960's. Accommodation establishments have developed in immunities throughout the territories air and ground transportation links to southern areas have been developed; and an increasing number of attractions and vacation packages are being marketed to potential visitors.

The principle renewable resource activities in the NWT are wildlife and marine mammal harvesting, fisheries, forestry and agriculture. These activities all are undertaken on a commercial basis (i.e., for sale) as well as traditional pursuits (for domestic consumption). While the larger industrial sectors of the economy outweigh the renewable resource sector, the statistics Significantly understate the importance of the renewable resource sector in the smaller communities. Over half the workforce is engaged in renewable resource harvesting. In fact, many residents of these smaller communities view wages earned from employment as a supplement to help finance equipment and supplies for traditional pursuits.

The following observation about the prospects and outlook for the NWT economy reinforces this important fact about the economy:

> 'In fact, the NWT economy is still best viewed as two quite distinct economies. Most of the non-native population lives in major centres, whose economies are dominated by government and/or resource extraction activities. Average incomes are typically very high, unemployment very low and future prospects relatively bright. Conversely, most of the 29,500 people of Inuit, Dene and Metis ancestry (almost 60% of the total population) live in small, widely scattered villages, where government transfer payments and traditional harvesting activities dominate a fragile economic base and where there are few prospects for growth. Average incomes are generally low, unemployment high and social assistance a fact of everyday life. Unemployment rates reach 50% or more in some of these immunities, and can no longer be readily dismissed as a native preference for traditional non-wage pursuits. Hunting, fishing and trapping as a full-time occupation, even when possible, is no longer preferred by most native young people - who are fast comprising the majority of the population - if only because they can't earn sufficient income to purchase the material goods the modern economy provides."[1]

Problems of Economic Development

The economy of the NWT faces considerable constraints in its development

- remoteness from major markets and small local markets
- long winters
- high utility and other costs
- overall scattered population
- low educational levels of workforce
- poor linkages among industries
- a 'traditional' economy and a 'modem' economy side by side.

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[1] NWT Economic Review and Outlook 1988, Economic Development and Tourism, GNWT, undated.

These realities present significant barriers to economic development in the NWT, even though some industries (notably mining) appear to have been able to overcome some of these obstacles. In addition to these constraints, there is an ongoing discussion[2] about the form economic development should take which itself tends to retard the process. Other factors which are inclined to impede development include the split responsibilities between the federal and territorial governments, the devolution process, and the land claims situation. All these combine to create an atmosphere of uncertainty for business investment.

Two comments of one recent reviewer of economic development in the NWT supports this statement:

> "A standard argument in economics is that when property rights are attenuated in this manner (land claims), private economic activity is likely to be discouraged"[3]; and,
>
> "Although the question of property rights may be settled soon, potential investors are likely to remain wary of discretionary government regulation of the North. Thus, government-created risk may be as great an impediment to northern development as the natural risk of operating in a hostile geography."[4]

The need to assimilate people of native ancestry into the modern economy and role of the 'domestic economy'[5] in terms of furthering economic development pose large questions. The extent to which lifestyles (modern or traditional) are considered to have value and how the mix of the two are interrelated will have a significant bearing on the type and speed of economic development in the NWT. The unique mix of these two economies creates an opportunity for the NWT to define the variables to be considered important in the measuring of the success of development.

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[2] for example, the NWT Legislative Assembly Special Committee on the Northern Economy.

[3] "A southern Perspective on Northern Economic Development" in The North, University of Toronto Press, W.G. Watson, p.167

[4] ibid, p.168

[5] "Domestic economy" is defined as consisting of harvesting (hunting trapping, fishing, gathering) and processing activities by which people provide food, fuel and other national household needs. Although these activities generate some cash, most production is consumed directly by households without entering the market. See Towards a Strategy for Supporting the Domestic Economy of the Northwest Territories, PJ. Usher Consulting Services, 1989.

APPENDIX 2

ECONOMIC DEVELOPMENT IN SOUTHERN CANADA

Economic Development Strategy

The government of the Northwest Territories (GNWT) has stated the territories' political and social development depends upon economic growth[6]. The strategy of stimulating economic growth is based upon the role of government "to provide a foundation for the growth of individuals and businesses and to foster a climate which will encourage that growth"[7]. Key areas of GNWT concern in the early 1990's were identified as:

* northern control of energy
* improving the northern transportation network
* reshaping financial support to business
* directing government spending to help build local economies
* import substitution programs
* small-scale renewable resource development
* expanding tourism and cultural industries
* gaining greater control over non-renewable sectors.

The GNWT is explicit in its reference to its unique resources "traditional Lifestyles remain a vital part of our culture and society, and will be reinforced by developing our renewable resource sector and making innovative uses of government resources to support hunter's, trappers, fishermen, artists, and entertainers"[8]. This official paper concludes, however, with an indication that government financial resources prelimited! and that this restricts the capacity or capability of the economy to grow. The implication is clear that development will be retarded because of limited financial resources, i.e. development is linked to government.

Influence of National Policies

Not being a sovereign state, the Northwest Territories are immediately subject to the fiscal and monetary policies adopted by the federal Government of Canada The NWT cannot escape the effects of national policies (such as interest rates, money supply, and taxation). While

[6] Direction for the 1990's, Government of the Northwest Territories, February 1988.

[7] ibid.

[8] ibid.

comprising one-third of Canada's area, it exerts a disproportionately low influence on the establishing and directing of national policies. Although the process of devolution is underway, and increased territorial autonomy is imminent, there will still be pronounced effects felt from national policies.

Federal government policies which directly affect development in the NWT include:

* policies, programs and budgets of the Department of Indian Affairs and Northern Development
* monetary policies
  - interest rates
  - transfer payments
  - regional development initiatives
  - international trade policies and restrictions
* environmental review requirements for large projects
* defence initiatives, sovereignty claims
* immigration
* tax@ion
* international relations.

A good example of the somewhat inequitable effect of national policies concerns taxation. The system for taxing personal income, taxes all earned dollars at the same rate. By taxing people on their nominal incomes, when their real incomes are considerably lower is clearly inadequate. Such a taxation system inflicts greater cost upon NWT residents than on residents in southern areas of Canada.

APPENDIX 4

ECONOMIC DEVELOPMENT IN SELECTED LESS DEVELOPED COUNTRIES

(Tanzania, Kenya, Nepal, Philippines)

ECONOMIC DEVELOPMENT IN OTHER DEVELOPING REGIONS

As noted in the introduction to this paper, there is no single or 'right' type of economic development. 'Underdevelopment' is relative only to available physical and human resources, capital, and technology; and each combination is unique. In an attempt to examine the characteristics of economic development in other developing regions of the world and relate these to NWT's development, there did not appear to be any rationale for selecting one area over another. Consequently, four less developed countries (LDC's) from two developing regions were selected, primarily on the basis of availability of information, and the prejudice of the author. The four countries are Tanzania and Kenya from Africa, and Nepal and Philippines from Asia.

In order to appreciate economic development and its status in each of - countries, brief descriptions of the following are provided: history and geography, people, and its economy. In keeping these descriptions brief it must be recognized that many aspects of these countries development have been ignored. It is believed, however, that the most pertinent points to this paper are covered.

TANZANIA

History and Geography

During the seventeenth and eighteenth centuries, the area now known as The United Republic of Tanzania was characterized by tribal diversity. In the central area, African chiefdoms existed in the form d small communities (usually around 1,000 residents); the western area was populated by nomadic herders and the south by tribes of hunter gatherers. The coastal region was much more cosmopolitan and had seen domination at the hands of the Portuguese, Turks and Arabs. Just off the coast, the island of Zanzibar became wealthy through the development of spice plantations and a thriving trade in slaves and ivory. By the mid nineteenth century, European and American interests were drawn to the area and colonial development began in earnest. Trading centres were developed and trade routes established throughout the mainland interior. The arrival of missionaries also contributed to further exploration, trade and development. Eventually, the area fell under the colonial administration d Germany (with the exception of the islands of Pemba and Zanzibar, which remained British protectorates).

The Germans brought some forms of development to the country: transportation (roads, a railway) and agricultural plantations growing coffee, cotton and sisal. Following World War 1, Tanganyika came under British control. After World War II, the country became a United

Nations trust and further developments occurred in agriculture and transportation, as well as the growth of local government. White farmers arrived to supplant Africans in many areas. The resentment which arose from the colonial treatment united the Africans and a trans-tribal movement dedicated to self-rule ultimately led in 1961 to the independence of the country. A few years later, the British presence was withdrawn from Zanzibar, and following a revolt against Arab interests, the island joined with the mainland as the United Republic of Tanzania. The independence of this new country was considered premature by many: there was an enormous requirement for proper development, a weak economic base, and a critical lack of trained personnel and funds.

Tanzania covers 945,000 sq.km., an area slightly more than one quarter the size of the Northwest Territories. It contains several quite distinct geographic and climate regions: a tropical coastal plain, including the islands of Pemba and Zanzibar; a hot and dry central plateau which comprises most of the country; me cool and dry highlands (including Mount Kilimanjaro); and the dry plains of the Great Rift Valley.

People

Tanzania has a population of almost 24 million, with an annual growth rate of 3.4%. The overall population density is 24 persons per sq.km. Almost half the population is under 15 years of age; only 2.3% of the population is over 65.

As in the past, Tanzania continues to be a primarily rural nation: only 14.8% of the people live in urban centres. Of these, 30% live in the city of Dar es Salaam on the Indian Ocean coast. There has been a concerted effort to decentralize some of the administratiönaway from the coast and to develop the central town of Dodoma into a thriving capital city: some ministries have been transferred there but no real infrastructure or communications exist and the relocation process has fallen behind schedule.

While 98% of Tanzanians are of African origin, they nevertheless represent over 120 distinct tribes. The variations in geography, coupled with this diversity in ethnic origin, has resulted in a variety of cultural differences throughout the country. The official language is Swahili, although English is widely used in commerce and education. In addition, many tribes have their own languages.

Tanzania can be viewed almost as having two populations. The small non-African population (of Arabic, European and Asian origin) are generally urban residents and are usually involved in commerce, trade, the professions and government administration, The vast majority (African), however, continue to reside in rural areas, characterized by scattered collections of homes and small farms Here the traditional tribal customs and values are dominant.

Tanzania allocates 20% of its budget to the Ministry of Education; most schools are operated by the Ministry, with the exception of a few private, mainly secondary level institutions. Primary schools (for children aged 7 - 13) are available throughout the country and records indicate that 72% of the children are enroled. Secondary schools are limited in size and entrance requires excellent academic achievements. Only 3% of the young people in the secondary school age group attend these institutions. While the primary schools place emphasis on practical education (agricultural and vocational skills are taught), the low numbers enroled in higher levels of schooling result in a severe shortage of Tanzanians trained for technical and managerial roles necessary for the country's development.

The literacy rate in 73.5% overall (77.7% form 69.1% for females).

Tanzania suffers from several endemic diseases, common to developing countries in a tropical climate malaria (which infects half the children), bilharzia, tuberculosis, sleeping sickness, leprosy, polio, measles, whooping cough, typhoid and cholera, as well as intestinal parasites. This situation is worsened by poverty. Unsanitary living conditions in crowded houses, contaminated drinking water, and malnutrition are major factors affected the health of Tanzanians. The government provides free health care to all its citizens, but the number of trained and qualified personnel is inadequate and there is a chronic shortage of medical supplies and equipment. Access to health care is also limited by the fact that the small rural communities are widely scattered over vast areas. Often, traditional healers (medicine men) continue to practise their crafts, sometimes in combination with more modem clinics.

The life expectancy is 51 years for males and 53 years for females The infant mortality rate is 108 per thousand.

Economy

In the years following World War II, neighbouring Kenya had been viewed as more attractive for investment and settlement. As only a U.N. trust territory, Tanganyika had been left relatively undeveloped, particularly in terms of infrastructure. When Tanzania gained independence in 1961, the new government was forced to try and develop the country with the help of foreign aid (funds and personnel). To avoid thii dependence on foreign assistance, former President Nyere's socialist philosophy led to an emphasis on rural development and accessible practical education. This program 'ujamaa' (familyhood) saw large estates, industries and banks nationalized, and collective farming villages established to provides basic services more conveniently. Millions of people were relocated. With the exception of some improvement in the availability of health care and education, however, the program failed. Today, agriculture is still centred around private subsistence farming.

Tanzania is numbered among the world's 25 least developed countries. The collective farm program (ujamaa) was very expensive to maintain, and the 1974/75 drought resulted in a national food crisis. With the price increase for petroleum and other imported goods during the mid 1970's, Tanzania's economy was in a critical stage.

The Tanzanian economy relies upon the agricultural sector, which accounts for over 50% of the GDP and approximately 80% of export earnings and provides a livelihood for 90% of the population's economically active members (in spite of the fact that only about 5% of Tanzania's land area is cultivated and only about 2% is irrigated). Problems of soil erosion and deforestation are severe, but any programs to combat them are limited by a lack of funds.

The main cash crops grown for export are coffee, cotton, tobacco and cashew nuts, produced on small farms. Sisal and tea are also grown, primarily on larger plantations. As a single crop, coffee accounts for between 30% and 40% of Tanzania's export earnings (US$168 million in 1996). The two principal exports, coffee and cotton, together account for over half the country's export earnings.

As subsistence *crops* for domestic consumption, Tanzania produces maize, cassava, sorghum, rice, millet and plantains. These crops are normally grown by small landholders with little technology: yields are low. Agricultural production is frequently hampered by poor weather and infestations of a variety of pests. An estimated 30% to 40% of all crops are lost to pest infestation and lack d adequate storage. In addition, Tanzania lacks the foreign exchange required to purchase tools, fertilizer and other agricultural equipment

Rural cooperatives have been established to handle crop purchasing in the regions, although a parastatal corporation is responsible for the importing and exporting of all food crops.

In addition to agricultural crops, Tanzania records approximately 14 million cattle, 10 million sheep and goats, 160,000 pigs and 31 million poultry. Fifteen ranches with 100,000 cattle are operated by a parastatal company. The fishing industry remains undeveloped.

As stated earlier, most of the Tanzanian population lives in rural areas. They have no electricity and depend upon fuelwood and charcoal for energy, often spending 20% of their time collecting supplies. In fact, fuelwood and charcoal provide approximately 90% of the energy in Tanzania; a situation which has resulted in widespread environmental degradation and serious levels of deforestation. Also, this lack of available power prevents rural development of small industry, clinics and irrigation projects.

Tanzania has a very small mining industry (0.6% of the GDP). Diamonds are the country's single most important non-agricultural export.

Frequent shortages of imported material, spare parts and technology brought a decline in the country's industrial output in the early 1980's. In spite of an economic recovery program and the infusion of foreign exchange through donor countries, Tanzania's industrial sector remains one of the smallest in Africa. The largest industries are in the agricultural sector: meat canning, cigarette manufacturing, brewing and processing.

The tourism industry attracted over 100,000 visitors in 1987, and is responsible for roughly 12% of the GDP. The country offers as tourist attractions its spectacular natural resources: the beautiful coastline of the Indian Ocean and the numerous game parks and reserves which comprise almost a third of the country. The industry is run by the Tanzania Tourist Corporation, which owns about 80% of the 153 hotel's capacity and hopes to attract 400,000 visitors. The corporation is working to establish the country as a unique tourist destination (instead of its apparent role as an off-shoot of a Kenyan holiday) and to augment and improve the industry infrastructure. Tourism generates foreign exchange earnings, but the development of the tourism sector is nevertheless restricted by the overall shortage of foreign exchange required for necessary imports.

Typical of most developing countries, Tanzania exports mainly raw materials and imports machinery, equipment, manufactured goods and petroleum. Petroleum and petroleum products alone consume almost half the country's foreign exchange. The narrow export base leaves it particularly vulnerable to changes in commodity prices as well as to natural disasters affecting agricultural production. Tanzania exports to many developed countries - West Germany (19%), Great Britain (12%), the Netherlands (10%), and Japan (5%). Supplies are purchased from Great Britain (14%), Japan (9%), Italy (7%) and West Germany (6%).

<u>Problems of Economic Development</u>

Tanzania's independent statehood began on a weak economic base: the country lacked a trained work free, and was confronted by the difficulties of a narrow economic base of activity and limited funds for development. These factors, coupled with political mismanagement (exemplified in the *nationalization* of key industries), a high population growth rate, continued tribal diversities and loyalties, and serious health care problems have combined to contribute to slow economic growth. The lack of an energy supply and a concentratioro of activity in the agriculture sector hwe fostered the need for Tanzanians to struggle even for the basic necessities of life.

Overall, Tanzania's economy is often hampered by its geography and climate (causing drought and infestation to its crucial agricultural sector), but is also restricted by its dependence on the capacity of a narrow export base to generate sufficient foreign exchange. The difficulty is heightened by the fact that the export base itself required foreign inputs (equipment, fertilizers, etc.), creating a vicious circle. Outside funding is always needed to supply the financial resources required for development.

KENYA

History and Geography

The area of east Africa which is known today as the Republic of Kenya contains fossil evidence to suggest that this was the "cradle" of the human species. Much more recent history, however, revolves around a variety of African tribal migrations and settlements, and the influence of a series of colonial interests. Different areas of the country were occupied by different tribes, often resulting in inter-tribal violence and take-over of land. The coastal region housed thriving Arab trading centres at Mombasa and Malindi, and the effects of this commercial development remain visible: the Muslim culture and religion are still much in evidence; and the Swahili language evolved from the combination of Arabic and the language of the Bantu tribe. Arab control was followed by two centuries of Portuguese influence and eventual sovereignty under the Sultan of Oman. The area lost its importance, however, when the slave trade was curtailed and the lucrative trading in spices brought the island of Zanzibar into relative prominence. The port city of Mombasa played only a minor role until colonial interest in the area became active in the early 1900's.

Rivalry between Great Britain and Germany saw East Africa divided into two protectorates: Germany's sphere of influence covered what is now Tanzania, and British interests were extended to cover Kenya and Uganda. A railroad built from the coast at Mombasa through Kenya to Lake Victoria in Uganda opened up both countries to a wave of white settlers. These settlers, comprising only 1% of the population, established a rigidly structured social and economic community: they were at the top of this stratification; the Asian population were allowed to run the commercial and some administrative operations; and the Africans, who comprised 96% of the population, were excluded or hired as labourers. The settlers built railways, roads, schools, hospitals, and large scale commercial farming operations. In 1963, Kenya was granted official independence, following a violent rebellion against colonial oppression and many (equally violent) inter-tribal conflicts. Regional and ethnic divisions continue to cause disturbances and the unrest often erupts into violence.

Kenya comprises 582,645 sq. km., leas than one-fifth the size of the Northwest Territories. The country straddles the equator and yet witnesses extreme geographical variations. The Great Rift Valley bisects the country, meeting the highlands in the south central area These form the prime agricultural region and enjoy a moderate climate. Around Lake Victoria in the southwest are fertile plateau grasslands. East of the highlands is a dry plateau with scrub vegetation. The coastal area is hot and humid. The northern regions of Kenya support little growth and range from semi-arid to full desert conditions.

People

The population of Kenya, was estimated in 1986 as 21.1 million, with a high growth rate of 4.1 %

per annum. The population density is 36 persons per sq. km., but does not take into account that 75% of the population lives on 13% of the land area Fifty per cent of the population is under 14 years of age.

Kenya is primarily rural, although migration to the cities escalates every year. Over 80% of the population lives outside the urban centres. The largest city is Nairobi, with almost 1 million inhabitants, followed by the Indian Ocean port of Mombasa (375,000) and Kisumu on Lake Victoria (170,000). Even in the urban areas, however, the extended family unit is of great importance, socially and economically.

The population of Kenya is comprised of 99% African origin and 1% non-African (European, Asian and Arab). There is little homogeneity however: tribal affiliation remains intense. There are approximately 40 separate tribes, with distinct cultural traditions and geographical roots. The largest of the tribes is the Kikuyu, who have normally held the power in government and administration. There are numerous regional languages and dialects spoken throughout the country. Theoretically both English and Swahiti are recorded as the official languages, but English is generally used in schools and in government.

The motto on the official crest of Kenya is "harambee" (pulling together). This suggests that there is full recognition of the country's multi-tribal composition and the need for inter-tribal disputes to be laid aside in the interest of cooperative efforts aimed at national development.

Government programs since independence have placed a major focus on education. In an attempt to meet the demand for skilled technicians and trained management personnel, the government expanded secondary and post-secondary facilities. However, the fees were often too high and the entrance examinations too demanding, resulting in few students going beyond the primary level. Today, primary schools are free of charge, but not compulsory. Nearly 100% of primary age children are enroled in school, and approximately 20% of the relevant age group enroled in secondary schools. The government allocates over 30% of me budget for recurrent expenses to the Ministry of Education.

The literacy rate is estimated at 60% overall: 70% for males and 49% for females.

Kenya spends approximately 6% of its recurrent expense budget on health care, but medical services tend to be concentrated in the larger urban centres. In smaller communities and rural areas, health centres and dispensaries provide basic care and referral services to me hospitals in the towns and cities. For out-patients and for the poor, health care services are provided without charge. Medical smites are being severely strained, however, by lack of resources and by Kenya's continuing high population growth rate. The country can offer little preventive health care and many diseases are endemic: malaria, respirator infections, intestinal parasites, bilharzia, polio, hepatitis and venereal diseases. In many areas, traditional healers are still consulted.

The life expectancy for males is 55 years, and for females, 59 years. The infant mortality rate is 81 per thousand live births.

Economy

Kenya has the most industrialized economy in east Africa. This began when the early white settlers established a regional market and supplied Uganda and Tanzania with manufactured goods. The economy, however, was and still is based on agriculture. This dependence leaves the country susceptible to shifts in the global commodities markets and to natural disasters such as drought or pest infestations. The economy is also under stress from pressures resulting from the rapidly expanding population: landlessness, unemployment, poverty and the increasing demand for public services. In an effort to handle these difficulties, Kenya is focusing current development efforts on the building of an export-oriented manufacturing sector, on a stronger agricultural sector to ensure food self-sufficiency and increased export earnings, and on curbing the high rate of population growth,

During the past 20 years, foreign aid to support capital-intensive projects amounted to US$3 billion. The country's budget is now under pressure, as the enormous loans fall due. Public debt servicing now claims roughly 27% of goods and services exported.

Agriculture forms the base for the Kenyan economy, in spite of the fact that less than 20% of the country is suitable for agriculture. For the most part, the country is self-sufficient in terms of food production. Approximately 75% of the population earns a living on the land. Agriculture accounts for 31% of the GDP and employs 20% of the wage earners. In terms of _ agriculture accounts for almost 50% of the country's foreign exchange earnings. Kenya exports coffee, tea, canned and fresh fruits and vegetables, sisal pyrethrum extract, meat and meat products, hides and skins.

More than 5096 of the agricultural production, however, is at a subsistence level. For domestic consumption, Kenya grws maize, beans, wheat, sorghum, cassava, fruits, vegetables, tobacco, sugar and cotton, Maize is the staple of the Kenyan diet and as a crop, covers 25% of the cultivated land. Normally, the country produces sufficient maize for domestic requirements, but there are no adequate storage facilities in the event of a surplus.

Livestock fanning in Kenya includes nomadic herders and large scale operations. Beef and dairy cattle are raised for domestic use and for export. The national herds are vulnerable to drought conditions, and are just now recovering from a severe reduction in numbers following the drought of 1984. The dairy herd is estimated at 1.2 million animals half of these are in herds of fewer than 10 animals.

Roughly 3% of the land area is forested. Re-afforestation is a major aim of current government policy: in an effort to meet the demand for fuelwood, the government has set a goal of having 3 million hectares planted, to yield 8 tonnes of wood per hectare per year.

The fishing industry accounts for less than 1% of Kenya's total income. There is potential for development, particularly in Lake Turkana, but this is coupled with the costly requirement for additional transportation and processing facilities.

Fuelwood and charcoal supply roughly 71% of the country's total energy. Electricity is the other indigenous energy resource and is used for 25% of commercial requirements. Petroleum supplies roughly 72% of the country's commercial energy requirements, but all supplies must be imported. Crude petroleum is the largest single import cost (although this is offset somewhat by the sale of products from the refinery in Mombasa to other African countries).

The mining industry in Kenya accounts for only 0.2% of the GDP. Most income is generated by non-metallic minerals: soda ash, fluorspar, and salt.

Kenya, ss already mentioned, is the moat industrialized country in east Africa. The industrial sector enjoyed a period of rapid growth, although by Western standards, it remains small, accounting for approximately 13% of GDP and employed less than 14% of wage earners. The beverage and tobacco industries contribute the most to the GDP, while petroleum products are the sector's main source of export earnings. Other major industries are textiles, food products, motor vehicle assembly, automotive products, electrical and electronic appliances and machinery, metal products, sugar and confectionery, chemical product, rubber, cement, clothing, leather and leather goods Roughly 50% of the industrial sector is foreign owned.

The tourism industry employs approximately 80,000 Kenyans and accounts for 17% of foreign exchange earnings (ranking it second only to coffee). The industry has exceptional natural attractions (beaches, mountains, game reserves), but development of the industry has - - than anticipated. High fuel costs and a fiercely competitive market contributed to the limiting of growth. Packaged beach holidays are popular with West German and Swiss visitors; North . Americana appear to prefer the safari vacation. Kenya has set a goal d attracting 800,000 visitors, although 514,200 is the highest number recorded to date.

During the 1970's the increase in oil prices and the drop in prices for Kenya's export commodities combined to create a severe trade deficit. The 1980's showed an improvement in export earnings, but in order to reduce the trade deficit it was necessary to impose import restrictions. Most of the imports come from the European Economic Community (34%) and the Middle East (30%). Exports primarily went to the EEC (43%), although regional trade (petroleum products, food and basic manufactured goods) is also important.

Problems of Economic Development

The key constraints to economic development in Kenya can be summarized:

* continuing inter-tribal conflicts
* harsh geographic and climatic conditions
* population growth of 4.1% per annum
* economic concentration in the agriculture sector
* low productivity in agriculture
* increasing foreign debt load.

NEPAL

History and Geography

The history of Nepal contains many violent struggles among dynasties and foreign influences. The tiny kingdom remained autonomous even when neighbouring India became a colony of Great Britain. This staunch independence also led to an essentially isolationist policy, which allowed few external influences and restricted overall development in the country. Conflicts continued, although for a hundred years, the country fell under the autocratic rule of the Ranas. More recently, Nepal has witnessed attempts at some form of democratic rule which have included many internal uprisings and wranglings that left Nepal in a severely weakened financial situation. The country today operates on the basis of a non-partisan "panchayat" or council system, with a prime minister and cabinet responsible to a national legislature; King Birenda, however, maintains the right to appoint 20% of the legislature members

The historical determination for independence of Nepal reflects its geography it is very small (only 665 km. in length at it longest point) and sandwiched between the Chinese—controlled Tibet and the giant India. Topographically, the kingdom is divided into 3 regions the Terai plan, which extends along the Indian border and contains two-thirds of Nepal's cultivated land; the Kathmandu Valley a fertile valley north of the Terai and home to most of Nepal's population; and the Mountain Region which contains the world's highest peaks in the Himalayas, including Everest. Monsoons affect all of Nepal except of the most mountainous regions floods and landslides are common during the monsoon period.

People

The 1966 population of Nepal was estimated at 17.6 million, with a growth rate of 26% per annum. The population density is recorded as 120 per sq. km., but within the cultivated areas, the average density rises to 356 per sq. km., and the extreme mountainous areas are uninhabited. The country's population is generally young: 43% of Nepali are under 15 years old and only 3% are over 65.

Nepal has the world's third lowest level of urbanization: only 7% of the total population lives in an urban area. The capital city of Kathmandu represents 27% of the country's urban dwellers. The Terai region in the south of the country accounts for almost half the total population. Subsistence agriculture and village life form the basis of community culture in Nepal.

The isolationist policies and closed nature of Nepal are reflected in the ethnic composition of Nepali today. Very few Westerners or persons of other groups live in Nepal. The country is composed of 12 ethnic groups within a broad categories - Indo-Aryan descendants in the southern valleys of the Terai, and Tibetan in the northern mountain regions and valleys. Although it has been officially outlawed, the Hindu division of society through 'caste' lingers in Nepal, where 89% of the population practises Hinduism.

Until recently, education was available only to children of the wealthy families. Since 1975, however, the government has made the first five years of primary school universally accessible, free, and compulsory. The language of instruction is Nepali, but this changes to English at the secondary school level. Education is not perceived by Nepali society as being of prime importance, and attendance is low, particularly where it conflicts with farm labour requirements. Almost 93% of the adult population has had no formal education. The literacy rate overall is less than 25% (34% for males and 12% for females).

Nepal's isolation has resulted in relatively undeveloped health services throughout the country, and a population generally in poor health. It is estimated that 40% of Nepali suffer from some form of nutritional deficiency. Major diseases are also common: cholera, malaria, black fever, tuberculosis, typhoid, dysentery and several sexually transmitted diseases. Even in urban centres, only 71% residents have access to safe drinking water; in rural areas, this drops to 11%. On a national average, only 2% of the population has access to sanitation services. Medical care is limited, and 20% of children die before the age of 4, mostly from respiratory or gastro-intestinal diseases, measles or malnutrition.

The life expectancy for males in Nepal is 48 years; for females 47 years. The infant mortality rate is 143 per 1,000 lii births.

Economy

The World Bank includes Nepal in the category of the world's 25 least developed nations. The country's geography presents hindrances (little arable land, lack of adequate internal transportation and communication networks). The economy is characterized by subsistence farming, and a dependence on foreign aid and tourism. Nepal's GDP is less than US$2.8 billion, with US$1 80 per capita (one of the 12 lowest rates in the world).

Agriculture is the largest industry in Nepal, and employs 91% of the population. It is primarily a subsistence, non-monetized form of agriculture, but contributed 57% of the GDP and 60% of total export earnings. Most land holdings are small (1 - 2 hectares) and productivity is low. Overpopulation, erosion caused by deforestation, lack of irrigation and fertilization, coupled with a reliance on traditional crops have placed severe stress on the agricultural capability of the land. Only 13% of the cultivated land is under irrigation. The main crops produced are rice (accounting for 62% of foodgrain cultivation), maize, barley, millet, wheat, sugar cane, tobacco and potatoes. In spite of rising levels of production in some food crops, Nepal continues to require food imports. Sugar cane is the prime cash crop, followed by jute, and tobacco.

The livestock sector is undeveloped, due primarily to the sanctity of the cow in Hinduism. Other livestock farming is not commercially viable, except of a very limited basis. Fishing, too, is limited: there are two commercial fish farms and only a few pond projects.

Forestry is a major source of national income in Nepal: wood supplies over three quarters of the country's energy. Erosion is an increasing problem, however, and reafforestation programs are required to halt the reduction in forested areas.

Fuelwood is the source of 76% of the country's energy, followed by agricultural wastes and animal dung. Petroleum imports consume approximately one third Nepal's export earnings. Although still small, hydroelectric power is increasing steadily, and major projects are being undertaken to tap the power available from the rivers in the Himalayas

Nepal's mining industry has seen little investment, although some projects are being developed. There are reserves of lead, zinc, iron ore, limestone, marble, mica and magnesite.

A lack of skills, capital and infrastructure has severely curtailed any development in Nepal's industrial sector. Manufacturing accounts for roughly 4% of the GDP and employs roughly 3% of the labour force. This is represented mainly by a food processing industry.

The tourism sector has grown considerably in Nepal and now represents approximately 15% of foreign exchange earnings and employs more than 6% of the labour force. The government has developed a plan for long-term planning in tourism, with a proposed expansion in facilities to encourage larger numbers of visitors. Major airlines have established links to Kathmandu and the number of hotel rooms has been substantially increased.

Nepal has a negative trade balance and the deficit increases annually. Exports contribute refer 35% of Nepal's foreign exchange earnings, followed by foreign aid (over 30%), tourism (15%) and remittances to Gurkha solders employed in the British armed forces (6%). The leading export from Nepal is production from the cotton garment industry, owned and operated primarily by Indians. The ability to develop trade is restricted by the country's landlocked geography and the tight control maintained by India over transportation routes. India accounts for over 50% of Nepal's exports, followed by West Germany, Great Britain, the United States, Japan and China. Imports are supplied by India (20%), Japan, the United States, Great Britain and West Germany.

Problems of Economic Development

There are many constraints facing Nepal in its efforts to achieve economic development:

* an isolationist policy in effect until recently
* periodic internal disorder
* geographic and climatic hardships
* low levels of education
* severe health and sanitation problems
* concentration of economic effort on subsistence agriculture
* low productivity in agriculture and little arable land
* environmental degradation
* negative trade balance
* inadequate internal transportation and communication network.

THE PHILIPPINES

History and Geography

The islands of the Philippines have seen a variety of immigrants. Malay tribes, from Malaysia and China, are the main ancestors of today's Filipino population: they introduced agriculture on the islands. Later, Arab, Chinese, Indian and Japanese traders settling on the islands brought trade and commerce. A prosperous society developed: trade flourished with Asian countries; the fertile soil provided domestic food requirements; and island industries produced cotton and silk, pottery, wine, and weapons.

The islands fell under Spanish colonial administration in the 16th century. The Spaniards developed extensive trade between Manila and Mexico, but ruled the islands in a despotic style. Large tracts of land were given to Spanish officials and a few select Filipino families: peasants became tenants on what had been their own land and agricultural production fell. Late in the 19th century, the Filipinos were successful in obtaining very short-lived independence from

Spain, but the Treaty of Paris saw the Philippines given by Spain to the United States for $20 million. Problems of land ownership continued under the new foreign control, with only a wealthy minority of the local population given the opportunity to participate in administration. Following a period of self-rule, and Japanese occupation during World War II, the Republic of the Philippines was officially independent.

The republic is actually composed of over 7,000 islands between the South China Sea and the Pacific Ocean. Over 6000 of the islands are uninhabited: the 2 largest account for 65% of the country's _ _ The total land area is 300,000 sq. km., with territorial waters stretching 1,725 km. long and 900 km wide. In general, the larger islands have mountainous interiors and Wide fertile coastal and central valleys and plains. Volcanoes are common throughout the archipelago 11 are still active, and minor earth tremors occur frequently. The climate is tropical - hot and wet, with little temperature variation, except where affected by altitude. The islands are subject to typhoons and flooding between June and November.

People

The population of the Republic of the Philippines is estimated at just under 57 million, with an annual growth rate of 2.5%. The average population density is 178 persons per sq.km., but because of the number of inhabited islands in the archipelago, this figure snot representative. Cultivated areas average 442 persons per sq.km.; the city of Manila has 34,570 residents per sq. km.; and outlying islands count as low as 16 per sq. km. Over half the Filipino people are between the ages of 15 and 64, and 39% are under the age of 15.

Most of the population lives in rural areas, although there is steady growth in the urban centres, whose residents now account for almost 40% of the total population. More than 15% of Philippine citizens live in the city of Manila. Land reform is a declared priority for the Philippine government, with a program designed to transfer ownership to landless peasants. The family unit is a strong force in society, where women often play the central role.

Filipinos are racial descendants of the original Malay migrants and intermarriage with later arrivals from Indonesia, China, Arabia, and Spain. Only 4.5% of the population is composed of ethnic minorities, with Chinese origin as the single largest group. There is considerable ethnic diversity in the outlying islands, however, and each has its own language.

Both English and Pilipino are official languages and used in schools, although only English is used in secondary schools and colleges. Education is free of charge at the elementary level and at some secondary schools Education accounts for 12.5% of the Philippine national budget and attendance is compulsory until the age of 13. Universities and other post-secondary institutions are also available, primarily for the study of the professions and for specialized technical training. The adult literacy rate overall is 90%.

The single largest health problem in the Philippines is malnutrition: local research indicates that malnutrition has contributed to 40% of all deaths in recent years. Unemployment is high, and a large portion of the population lives in poverty. Diseases prevalent also include pneumonia, tuberculosis and malaria. Only 43% of the population has access to safe water. There is a program designed to provide family planning information throughout the country, but access to general health care is actually declining.

The life expectancy overall is 63 years, and the infant mortality rate has declined to 49 per 1,000 live births

Economy
The political turmoil of the past decade left the Philippines with a sluggish economy. Inflation and interest rates soared and foreign borrowing left the country with a massive foreign debt (US$26 billion). The agricultural sector was neglected to focus on industrial development, but the economic and political instability led to a drop in foreign investment and industrial production declined. Unemployment grew to over 15%. With the new government in place, the 1936 budget placed emphasis on job creation, particularly in labour-intensive areas such as small scale industry and agriculture.

Agriculture employs over 40% of the total population and contributes 26.5% of the GDP. Most of the land considered arable is under cultivation: 12.25 million hectares, or roughly 37% of the land area. Most holdings are small family farms, averaging 2.7 hectares, although the large-scale operations, using mechanization, generally produce twice the yield of the small producers. Rice is the single largest crop (40% of farmland), followed by maize and coconut palm. Food grain self-sufficiency had been reached, but lack of irrigation and fertilizers to maintain the high-yield crops led to a drop in production. The major export crop is coconut: the Philippines is the world's top supplier of coconut products. Sugar cane, grown primarily on large plantations, has traditionally been a significant export crop, but growers are being encouraged to switch to crop cultivation in a response to a drop in global demand for sugar.

The livestock sector has achieved self-sufficiency in pork and poultry, but beef imports are still required, as well as the majority of the country's dairy requirements. The Philippines vast fishery resources supply only two-thirds of the country's requirements, mainly because of poor distribution and overfishing in heavily populated areas. international development projects have been initiated to improve training, marketing and supply problems

Forestry products form an important foreign exchange earner for the Philippines. The forests, however, have been seriously depleted. Government programs have been instituted to combat illegal cutting and inadequate reafforestation.

The Philippines are examining alternative sources of energy, to avoid expensive imports. Ironically, imports of energy have reflected the country's economy: during the years of depressed economy, the demand for energy dropped and the level of imports required fell to 55% of total energy use. Imported oil formed 57% of energy imports, but the administration is determined to see this figure drop further through the development of local alternative sources, including offshore drilling, geothermal exploitation, coal and lignite, hydroelectricity, and a nuclear power plant.

Theresa resources of copper, gold, iron and nickel, but mining contributes only 2% of the country's GDP. Production has fallen, due to a drop in world prices and rising production costs, as well as financial and pollution controls placed on the industry.

Next to agriculture, manufacturing is the most important sector of the Philippine economy: it employs over 10% of the workforce and contributes 25% of the GDP. During the 1970's the industrial sector grew at twice the speed of the agricultural sector, through an incentive program designed to encourage heavy industrialization and reduce imports. The industrial sector overall showed a decline in the 1980's, influenced by the weakened domestic market and reductions in trade, although manufacturing itself saw some expansion. Manufacturing products include food and beverages (roughly 40% of all manufactured goods), followed by textiles, and chemicals. The electronics assembly business is increasing. There is still a high level of dependence on imports, however, in most industries. The new administration is striving to develop industry based on small-scale projects emphasizing agribusiness.

Tourism is the main service sector of the Philippine economy. The earlier levels of visitation dropped during the time of political instability, but are returning to former numbers. The main origin of tourists is the United States (25%), followed by Japan (20%).

During the last few years, trade has generally declined. World prices for the traditional exports of coconut, copper and sugar dropped, and production costs rose (due heavily to the high cost of petroleum imports). The political uncertainty in the early-mid 1960's witnessed a decrease in foreign investment and trade: the recovery now is expected to narrow thetrade gap. The primary trading partners are the United States and Japan. Total foreign earnings from_ in 1965 amounted to US$4.6 billion.

Another significant source of foreign exchange is the high level of remittances sent home by Filipinos working abroad. These remittances total well over US$1 billion annually.

Problems of Economic Development

The Philippines face several main constraints to economic development:

* inequitable distribution of land ownership.
* low world prices for major exports
* continued unstable political situation
* questionable economic policies in the 1960's and 1970's generated a poorly structured economy
* poor distribution systems for some goods
* large foreign debt.

APPENDIX 5

CANADA'S APPROACH TO INTERNATIONAL DEVELOPMENT ASSISTANCE

CANADA's *APPROACH* TO INTERNATIONAL DEVELOPMENT ASSISTANCE

Since the government of Canada is involved in the economic developed of all the regions of Canada, as well as less developed countries, a description of the approach adopted towards development assistance is provided.

Canada' International Development Assistance

The international developmeassistance program is facilitated in a number of ways and through a number of organizations and agencies. Programs include bilateral, multi-lateral and special programs, as well as business cooperation. The main agencies involved are the Canadian International Development Agency (CIDA) and the International Development Research Centre (IDRC).

This assistance is guided by CIDA's development assistance charter[9], which identifies Canada's newly adopted development priorities:

- to reduce poverty, by improving access to health care, educational facilities and employment opportunities;
- to assist governments in better managing their economies and coping with the debt problem;
- to encourage the participation of women in development;
- to promote environmentally sound projects;
- to expand the supply of food through agricultural support such as research, transport and marketing
- to increase energy self-sufficiency.

[9] Sharing Our Future, Canadian International Development Assistance, Canadian International Development Agency, 1987.

The primary purpose of Canadian assistance to LDC's is to help the poorest countries and people of the world. Human resource development is one of the more important means of accomplishing this goal. Two main channels are used to put these priorities in action: a National Initiatives Program; and a Partnership Program.

me types of programs in place under each of the Program areas are multiple and varied - depending upon the particular requirements or requests of the country seeking assistance. A listing, by program area, of projects undertaken with Canadian assistance in each of the four LDC's being compared provides a good indication of the extent and the type of development assistance activity.

TANZANIA

In 1967/66, Canada allocated over $49.5 million in development assistance to the Republic of Tanzania. About $329 million of this amount was in support of bilateral (country-to-country) projects, and the remaining $16.6 million in support of projects indicated by Canada's partners.

Bilateral

1. Tanzania-Canada Wheat Project, Phase Ill
    - research in wheat varieties, technology transfer

2 Mbeya Agriculture Project
    - meet needs of small scale farmers

3. Topomapping
    - aerial photography and map production

4. Tanzania Railways Corporation
    - railway support and redevelopment

5. Energy Distribution
    - engineering and construction supervisor services for electrical grids

6. Assistance to Production and Balance of Payments
    - provision of goods

7. Canada Fund

- High Commission administered funds for local community projects

8. Training Fund for Tanzanian Women
   - technical and managerial training

9. Humanitarian Assistance
   - - situations for victims of natural and human-made disasters

Special Programs

This program works on the basis of Canadian organizations raising a certain amount of money or other support (equipment, facilities, labour, etc.) and the Canadian government matching the cash raised by providing funds at least double that amount. During 1988/87, approximately $2 million was disbursed in support of 40 projects.

Contributions have been made to Non-Government Organizations (NGO's) such as the Canadian Catholic Organization for Development and Peace; Adventist Development and Relief Agency; World Vision of Canada; YMCA/YWCA; Canadian Organization for Development through Education; OXFAM-Quebec; and institution such as university, colleges, unions, cooperatives, and professional associations. Other programs include 'Management for Change' and 'Africa 2000'.

Business Cooperation

In 1985/88, $22,091 was disbursed to support 'starter studies' and prefeasibility studies.

Multilateral

1. IDRC in 1985/86 allocated $94s,000 to Tanzania directed to 38 active projects.

2 Petro-Canada International Assistance Corporation in 1986 disbursed $3.4 million to aid in seismic exploration.

3. Through international financial institutions (World Bank and affiliates) Canada provided an estimated $3.4 million to Tanzania in 1987/88.

4. Technical cooperation was provided through a wide range of cooperating agencies (many U.N agencies).

5. Other international organizations included International Planned Parenthood Association; Environment Liaison Centre; Association of African Universities.

6. Food aid.

KENYA

In 1965/66, Canada allocated $31.9 million in support of all its projects in the Republic of Kenya

Bilateral
There were 23 projects operative, and at least 7 planned. These broke down into the following groups:

Balance of Payments supped	30-35%
Energy	30%
Human Resource Development	25- 30%
Agricultural/Rural Development	10-15 %

Major projects include:

1. General Training Fund
   - increase middle and upper level skills in Kenyan civil service

2 Long Range Planning Framework
   - designed to promote socio-economic development by including a long term planning perspective to government policy making

3. Support to Harambee Institutes
   - increase technical skills and off-farm employment

4. Kiambere Hydro-Electric Darn
   - constructing and equipping a dam and power station (multi-donor)

5. Agriculture and Rural Development
   -rural access roads and minor roads programs for market access

6. Mission-Administered Fund

- local small projects and requests administered in the field.

Special Programs

In 1988/87 disbursements totalled $1.8 million, spread over 92 projects.

- A long list of Canadian NGO's participated in development assistance centred on rural development, agricultural training, food production, education and health.
- Institutional cooperation jointly funded many projects.
- International NW's were given commitment and support.
- Management for Change program supported.

Business Cooperation

In 1986/87, only two projects received funding for a total of $29,700.

Multilateral

1. With international financial institutions (World Bank and affiliates), Canada contributed to the African Development Bankand to other funds.

2 Canada participated in technical cooperation through the United Nations and its affiliates (UNDP and UNICEF) and other international organizations.

3. International Humanitarian Assistance.

4. Food Aid.

5. IDRC allocation for Kenya in 1985/86 was $1.4 million, for 108 active and completed projects.

6. Petro-Canada International Assistance Corporation made expenditures of $9.7 million in 1986 for oil drilling activities.

NEPAL

Institution building and human resource development are Nepal's most critical needs and the focus of CIDA's support to the country. Three principle themes are emphasized in CIDA's program for Nepal: poverty alleviation; energy planning; and transportation and civil aviation.

B lateral

1. Kamali-Bheri Integrated Rural Development
   - training and government institution building in providing ices to the poor, particularly in primary resource development.

2 Land Resource Assessment Project
   - aerial photography and land resource mapping to assist in land use planning.

3. Health Care Delivery
   - rural community health care centres.

4. Structural Adjustment
   - provision of fertilizer and fungicides.

5. Energy Planning
   - institutional and professional support for the Water and Energy commission secretariat

6. Civil Aviation Maintenance Support
   - Twin Otter maintenance, technician training and spare parts
   - fully equipped maintenance hangar in western Nepal
   - new security at Tribhuvan International Airport.

7. Nepal Engineering Education Linkages
   - institutional capacity in engineering, architecture and planning education strengthening,

8. Women in Development Initiatives
   - project to sensitize government officials to gender analysis methodologies for integrating women into program planning and project implementation.

Special Programs

More than 20 Canadian NGO's are receiving CIDA support for activities in Nepal. Institution building programs are also supported, particularly between the University of Calgary and Tribhuvan University in Kathmandu. A Canadian Fund, administered by the local Canadian Cooperation Office, is used for special projects.

Multilateral

Canada provides multilateral assistance primarily through three United Nations programs: UNDP; UNICEF; and UNFPA

PHILIPPINES

Canada's developmeassistance to the Philippines was minor until 1986, when the republic was upgraded to a Category I country. Since then, greater amounts of assistance have been made available.

Bilateral

1. Balanced Payments support
   - provision of $10 million of potash fertilizer
   - rescheduling of a $3.9 million loan

2 Negros Rehabilitation and Development Fund
   - $11 million over 4 years
   - assistance to the sugar producing province of Negros, for malnutrition and starvation as well as agricultural diversification, agro-forestry projects cottage industry development and support for agri-prooessing industries.

3. Community Development Assistance
   - cooperation with NGOS and other international organizations for community development projects, including funding of projects.

4. Philippine Immunization Program
   - commitment of $5 million for vaccine.

5. Fisheries Assistance

- multi-faceted assistance to fishermen in new fishing techniques and infrastructure and training in fisheries and cooperative activities.

6. Mission Administered Funds

- for local projects and requests.

7. Regional Projects for ASEAN benefitting the Philippine

-Forest Tree Seed Centre
- Forest Management Institute
- Peat-Harveet Fisheries Technology
- Crepe Peat-Halveet Program
- Cooperative Program in Development and Management of Living Marine Resources
- E = 9 Y - -
- Human Settlement Program
- Energy, Agriculture and Human Settlement Development
- Human Resource Development
- Development Broadcasting
- Women In Development Seminar.

Special Programs

A wide variety of programs and projects has been undertaken by NGO's with the financial assistance of CIDA. There is an Institutional Cooperation and Development Services Program, providing financial assistance to support joint ventures of institutions, and an International NGO program to provide significant financial assistance to these organizations Other programs include 'Management for Change', food aid, and industrial cooperation.

Multilateral

Canadian multilateral assistance to the Philippines is accomplished through the pooling of resources with other donor nations into various international organizations. Canada participates in the Asian Development Bank (ADB); the International Bank for Reconstruction and Development (IBRD); the United Nations Development Program (UNDP), UNICEF; United Nations Fund for Population Activities (UNFPA); and the International Fund for Agricultural Development (IFAD).

Other Canadian assistance haa been provided to the Philippine through the International Development Research Institute (IDRC) and the Petro-Canada International Assistance Corporation.

Summary

Examples of Canada's International Development Assistance

Type of Program	Kenya	Tanzania	Nepal	Philippines
		selected countries		
1. Bilateral				
technology transfer	X	X	X	
financial assistance	X	X	X	X
technical assistance	X	X	X	X
Women in Development	x	x	x	
balance of payments support	x	x	x	X
2 Special Programs				
matching grants	X	X	X	
3. Business Cooperation				
studies	X	X		
4. Multilateral				
food aid				X
IFI contribution			X	X
UN agencies			X	X
IDRC/PCIAC*				X

*IDRC = International Development Research Centre
PCIAC = PetroCanada International Assistance Corporation