

1.9: EXPORTS, IMPORTS AND LOCAL ECONOMIC RESILIENCE

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RURAL INSIGHTS SERIES: COVID-19

THE INFORMATION INCLUDED HERE IS A SUMMARY OF CURRENT KNOWLEDGE ABOUT THE CORONAVIRUS DISEASE (COVID-19) AND ITS IMPLICATIONS IN RURAL CONTEXTS. THE STATE OF KNOWLEDGE WILL EVOLVE AS ADDITIONAL INVESTIGATION AND RESEARCH IS CONDUCTED, SO CONTINUOUS REVIEW OF REPUTABLE SOURCES AND WEBSITES IS ADVISED.

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CRRF RURAL INSIGHTS SERIES: COVID-19

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DISCLAIMER:

The information included here is a summary of current knowledge about COVID-19 and its implications in rural contexts. The state of knowledge will evolve as additional investigation and research is conducted, so continuous review of reputable sources and websites is advised.

This report presents a high-level overview of areas of interest to key stakeholders and members of the Canadian Rural Revitalization Foundation and should be read as an exploration of challenges and opportunities that communities might consider as they consider their own unique circumstances.

Given the broad nature of the issues considered for this paper, individual communities and/or economic development professionals should take this paper as a preliminary starting point for their own investigations and planning processes. As such, this paper does not constitute specific recommendations for individual communities, and neither the authors nor the Canadian Rural Revitalization Foundation may not be held liable for any actions taken in response to this paper.

ABOUT THE CANADIAN RURAL REVITALIZATION FOUNDATION

The Canadian Rural Revitalization Foundation (www.crrf.ca) is a national charity that contributes to the revitalization and sustainability of rural Canada through collaborative research for rural leaders in the community, private sector, and in all levels of government. CRRF works to create credible insights and to improve our understanding of issues and opportunities that are of common interest to rural residents across Canada. Knowledge and better understanding are the fundamental pillars for the welfare of rural communities and environments.

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IMPORTS, EXPORTS AND LOCAL ECONOMIC RESILIENCE: WHAT THE PANDEMIC TEACHES US ABOUT EXPORT-LED RURAL GROWTH

KEY MESSAGES

- Many rural communities in Canada have dangerous trade imbalances, thanks to decades of emphasis on export-led growth and relatively little attention to the importance of meeting local demand with local production. COVID-19 has revealed the risk inherent in making local economic development dependent on global trade. As global markets fluctuate dramatically, communities watch their export income disappear and face acute shortages of goods and services they normally import.
- The conventional approach to fixing trade imbalances is to increase exports, but this is risky in such a volatile global trade context, and it leaves communities with a mismatch between what they produce and what they *need*.
- A complementary, but underutilized approach to fixing trade imbalances is to decrease imports through 'import replacement', with an eye to meeting local needs with local production, keeping money circulating locally and creating good, stable, long-term jobs in the local economy.
- The COVID-19 pandemic is an opportunity to try an import replacement approach through local procurement policies, buy-local incentives and initiatives, and local investment infrastructure.

A GLOBAL PANDEMIC WITH LOCAL IMPACTS

Rural economies, even in the most remote areas, are intertwined with global economies. Through complex trade networks, global tourism, and supply chains that span multiple continents, most rural communities around the world depend, to some degree, on importing goods and services to meet local needs and exporting local products to bring in income. Strong, reciprocal trade relationships can benefit rural communities in normal times, but COVID-19 has revealed, more starkly than any event in living memory, the risk inherent in making local economic development dependent on global trade. When the trade balance—between imports and exports—is disrupted or, in the case of this pandemic, nearly collapses, local economies can suffer. Global demand for a community's exports can diminish or disappear, leaving them with little or no export income, and the flow of imports the community depends on for necessary goods and services can stop. While almost no rural community is *entirely* dependent on exports for income and imports for goods and services, many have dangerous trade imbalances, thanks to decades of emphasis on export-led growth and relatively little attention to the importance of meeting local demand with local production.

IMPACT ON RURAL EXPORTS

There is no available community-level data to measure the trade balance in rural Canada, before the pandemic or now. Nevertheless, the pandemic's impact on rural exports in general is clearly illustrated by examples from key industries. Canadian seafood exports have increased exponentially over the past decade, bringing more income to fishing communities. At least half of the lobster caught in Nova Scotia, almost all of it by fishers living outside Halifax, is shipped overseas.¹ Ironically, even some of the fish consumed *in* Nova Scotia and the rest of Canada spends some time overseas being processed and packaged.² When COVID-19 spread from Wuhan to the rest of China, the demand for Nova Scotia lobster plummeted.³

The market for oil also fell off when geopolitical shifts coincided with the pandemic's arrival in the United States, where Canada sends nearly all of its crude oil exports (96% in 2018), throwing oil production in rural Alberta into a tailspin.⁴ Forestry, another primarily rural sector, exports *half* of all of its products internationally.⁵ Between a drop in demand from China and the pandemic-induced delay of a long-anticipated construction boom in the United States, the sector is bracing for a dramatic drop in revenue. Although tourism may not strike most people as an export industry, it is in a similar position: it depends on demand from other, non-local markets to bring in dollars from outside, uninterrupted transport and travel routes, and open borders. The only difference is that in tourism, you bring the people to the goods rather than the other way around. In all of these industries, significant declines in exports will almost certainly lead to job losses and loss of revenue for other rural businesses that support and are supported by these struggling sectors—

the restaurants where workers (and tourists) spend their money, the lawyers and accountants who make their livings off rural business transactions, the farms that get revenue from agri-tourism.

IMPACT ON RURAL IMPORTS

Like the dearth of community-level export data, there is no publicly available data to calculate how dependent rural communities are on imports of goods and services. However, knowledge is growing about shortages tied to COVID-19. Imports have fallen dramatically since the pandemic spread to Canada—25% between February and April 2020.⁶ Canada's Trade Commissioner has reassured Canadians that the pandemic is *not* affecting the country's food supply, and some of the more high-profile shortages (of meat in the Northwest Territories, for example) are tied to virus outbreaks in Canadian packing plants rather than a disruption of imports.⁷ However, Canadians in many communities are facing a shortage of prescription drugs, as key overseas suppliers halt exports to protect their own populations, or direct their products to countries where demand has ramped up significantly.⁸ The entire country is dealing with a shortage of Personal Protective Equipment (PPE) for frontline workers, which could have devastating consequences if there was an outbreak of COVID-19 in a rural community, where efforts to save money have led to emergency room closures, reduction of PPE stock, and reductions in hospital staff.⁹ Consumer goods are affected, too; Amazon has limited shipping of what *it* deems to be non-essential products, and Canada Post is warning customers about unprecedented delivery delays, which has consequences for some rural areas where certain specialty goods (such as mattresses, appliances or sports equipment) are not easily sourced locally.

THE RURAL TRADE BALANCE

Reliance on specific imports and exports for goods and income, respectively, can be risky, as the examples above illustrate. It is even more risky to have a negative trade balance—where a country (or a province, or a community) imports far more than it exports. This situation is something nations try to avoid, because it is not advantageous; it does not do much for our GDP. But the conventional approach is to try to increase exports. Doing that helps increase GDP, and might directly and indirectly create jobs, but it also furthers our dependence on external markets which, as the pandemic illustrates, can be abruptly cut off. When demand from other countries for our products is strong and trade routes unfettered, export-led economic development is a winning strategy. When imports are cheap and easy to come by, it makes sense to specialize in certain exports and rely on other countries to produce what we decide not to. But this strategy fails in a global pandemic, particularly in smaller communities that have specialized in a certain export and do not produce much of what their residents actually need on a daily basis, or, in some cases, the raw materials or components for their leading industries. The

consequences of trade deficits in rural communities occasionally reveal themselves, for example when a major employer shuts down and an entire community's survival is put in jeopardy, as has happened in mining, mill and manufacturing towns across rural Canada. But in the context of the COVID-19 pandemic, we are seeing the inherent riskiness of export-led development, particularly that which concentrates exports toward specific markets, across all communities at once.

RESPONSES FROM RURAL CANADA

The federal government has stepped in with generous aid packages to float businesses of all sizes, keep workers employed even if they are not at work, and distribute income support to those who have lost jobs due to the pandemic. Out of view of most Canadians, provincial, territorial and federal governments are working tirelessly to ensure that borders stay open for essential goods and supply chains are relatively unimpeded. But neither of these measures gets at the fundamental risks of export-led development; they focus on preserving the status quo as much as possible.

A different response is coalescing among many industry leaders, businesses and decisionmakers who propose that Canada should improve its trade balance during the pandemic not by exporting more, but by *substituting* goods produced domestically for the ones it normally imports. Thus, the forestry and garment sectors, including many rural-based businesses, have shifted some of their efforts to making PPE; plastics manufacturers, many of which are in small towns, have also started making PPE and ventilators. This shift in thinking, from export-led development to meeting domestic demand with domestic production, reflects an economic development strategy called Import Replacement, which builds on longstanding ideas about Import Substitution.

Import Replacement, an idea expounded on by the late Jane Jacobs, entails a community (a town, region, province, or even a nation) identifying key goods and services, including intermediary inputs in the production of other goods that are imported in significant quantities, and then producing those locally or domestically to keep money circulating in local economies instead of "leaking" out. It is meant to respond to the riskiness of export-led growth, as explained earlier, and is also based on the evidence-backed premise that "every dollar spent on a locally owned business creates 2-4 times more jobs and other economic benefits than a dollar spent in a similar non-locally owned business."¹⁰

During the pandemic, Import Replacement is coming into focus and practice not only at the industry level, but also on the ground, in small communities. Small producers of all kinds are scaling up or producing different products to meet expanded and changing local demand. Lobster fishermen are reporting increased direct sales, small retailers are going online with contactless delivery or curbside pickup, restaurants are delivering groceries, farms are selling direct to consumers, small distilleries are making hand

sanitizer in addition to alcoholic drinks, and small garment producers are making face masks. In many cases, particularly agriculture, labour shortages are compromising small producers' capacity to meet local demand, but nevertheless they are trying. In so doing, they are illustrating the critical importance of diversified local economies, short supply chains, and a tight connection between local needs and local products.

RECOMMENDATIONS

The grounded responses to the pandemic point to sensible rural economic development strategies that prioritize local needs, local jobs and income and could be beneficial not only during this unprecedented global economic downturn, but also post-pandemic. Federal, provincial and territorial, and municipal governments and their stakeholders can learn from this experience and the adaptations it has spurred. Going forward, the following strategies are worth pursuing.

- **Match export-led development with import replacement:** the importance of a good trade balance will not go away. But the conventional approach of increasing exports to improve the trade balance should be modified to place more, if not equal importance on import replacement. At all geographic levels, it is important to assess where imports could be replaced by domestic production.
- **Collect and publicize better community-level trade data:** being able to pinpoint imports with the potential for replacement depends on having good import-export data at the community level.
- **Create or expand local procurement policies:** procurement by public institutions is "low-hanging fruit" over which governments have control. A systematic review of procurement by the public service and publicly-funded institutions (hospitals, schools, military) should identify significant imports and focus on sourcing supplies as closely as possible to the institution (i.e., from the nearest community). A further step involves identifying local manufacturers or producers that *could*, but do not, produce goods and intermediary inputs that are currently imported for government procurement, and incentivizing them to develop production lines for those goods.
- **Encourage local consumption:** keeping money circulating locally—where locally-owned businesses pay local workers who spend their money at locally-owned businesses, and all of the tax revenue from these transactions goes to local governments—is essential for rural economic resilience. Buy Local campaigns should be revived and Buy Local incentives expanded. For example, one smart way to incentivize local consumers to select local products and sellers, and thus support import replacement as a larger strategy, is through local currencies that are redeemable only at local retailers. There are many examples, some more

successful than others, that communities looking to implement a local currency can learn from.

- **Enable and incentivize local investment:** diverting even a fraction of the trillions of dollars of wealth invested in mutual funds and international stocks toward local bonds and shares could open up much-needed sources of capital to fund the development of small, locally-owned businesses. Several provinces, most notably Nova Scotia, have developed programs (e.g. the CEDIF) to enable citizens to invest in bonds to support, for example, farmers (e.g. *Farmworks*), and to see a return on these investments. The program is still clunky and needs improvement, but the model is worth importing to other provinces.

RESOURCES:

To learn more about Import Replacement and local economic resilience, consult:

- Nova Scotia-based *Centre for Local Prosperity* (www.centreforlocalprosperity.ca), including its 2016 report, *Import Replacement: Local Prosperity for Rural Atlantic Canada* (www.centreforlocalprosperity.ca/studies).
- Economist Michael Shuman, whose blog and books (*Local Dollars, Local Sense* and *The Local Economy Solution*) offer comprehensive recommendations actionable by governments and small communities that prioritize import replacement and local investment. (https://michaelshuman.com/?page_id=135)
- The Shumacher Centre for New Economics (<https://centerforneweconomics.org/>), which has archived Jane Jacob's original lectures about import replacement and offers extensive literature on local currencies.

ENDNOTES

¹ <https://www.theguardian.pe.ca/business/regional-business/lobster-exports-nothing-else-in-our-province-comes-close-to-it-382523/>

² <https://foodsecurecanada.org/sites/foodsecurecanada.org/files/valuingourfisheriesfinal.pdf>

³ <https://www.bnnbloomberg.ca/nova-scotia-sends-test-lobster-shipment-to-china-after-month-with-no-market-1.1403386>

⁴ <https://www.nrcan.gc.ca/science-data/data-analysis/energy-data-analysis/energy-facts/crude-oil-facts/20064>

⁵ <https://www.edc.ca/en/article/canadas-forestry-sector.html>

⁶ <https://www150.statcan.gc.ca/n1/pub/71-607-x/71-607-x2020009-eng.htm>

⁷ <https://www.tradecommissioner.gc.ca/campaign-campagne/commerce-international-COVID-19-international-trade.aspx?lang=eng>; <https://cabinradio.ca/36846/news/economy/nwts-meat-supply-stressed-as-covid-19-hits-processing-plants/>

⁸ <https://theconversation.com/how-coronavirus-is-contributing-to-drug-shortages-in-canada-137436>

⁹ Whiteside, Heather (2018) 'Healthy Profit: Private Finance and Public Hospitals,' in Brownlee, J., Hurl, C. and Walby, K. (eds.) *Corporatizing Canada*. Between the Lines Press; Fleet, R., Archambault, P., Plant, J., & Poitras, J. (2013). Access to emergency care in rural Canada: Should we be concerned? *Canadian Journal of Emergency Medicine*, 15(4), 191-193. doi:10.2310/8000.121008

¹⁰ Centre for Local Prosperity (2016) *Import Replacement: Local Prosperity for Rural Atlantic Canada*. Accessed May 13, 2020 at <http://centreforlocalprosperity.ca/wp-content/uploads/2018/02/CLP-IR-Study-web-Feb2018-Pages.pdf>

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The information included above represents a summary of current knowledge about COVID-19 and its implications for economic resilience and recovery in rural contexts. The state of knowledge will evolve as additional investigation and research is conducted. Continuous review of reputable sources and websites is advised.

CRRF is producing a series of insight reports on key issues impacting rural communities as they face the challenges of managing the pandemic and look to future recovery. CRRF will be publishing reports through the *Rural Insights Series: COVID-19* on a rolling basis throughout 2020. Topics to be covered by these reports include (but are not limited to):

- Agriculture
- Rural Health
- Well-Being & Mental Health
- Employment & the Labour Force
- Local Economic Development
- Immigration
- Digital Divide
- Gender-Based Implications
- Localism & Supply Chains
- Islands
- Tourism
- Fisheries
- Mining
- Manufacturing
- Drinking Water
- Infrastructure Investment

Please visit www.crrf.ca regularly to access the *Rural Insights Series: COVID-19* as well as updates to emerging research and additional resources on the implications of COVID-19 for rural Canada.