

WITH Livio di Matteo, *Professor of Economics at Lakehead University*



**Livio Di Matteo** holds a PhD from McMaster University and is Professor of Economics at Lakehead University where he has served since 1990. His research areas include public policy, regional economic history, health economics, and public finance. His recent policy research has explored economic performance and institutions in Northwestern Ontario and the central North American economic region. His research has been funded by grants from the Social Sciences and Humanities Research Council of Canada. Livio Di Matteo also comments on public policy and his articles have appeared in the Financial Post, the Winnipeg Free Press, the Hamilton Spectator, the Toronto Star, the Globe and Mail and the Thunder Bay Chronicle- Journal. He was interviewed after his Lunch on the Frontier speech in Winnipeg on May 20, 2009.

**Frontier Centre: You talk about “borders” and “regions” quite purposefully, can you please give us definitions for those terms?**

**Livio Di Matteo:** Well, these are defined in the paper. A region is a spatial clump of activity and a border is a sort of invisible line or institution that separates areas of territorial governance. So regions of course, and economic regions, can be self-contained within a nation state’s borders or they can span borders. If a region is an economic region entirely within a national jurisdiction or provincial jurisdiction then in some sense there are no real issues but if a region spills out across borders, whether it is across provinces or across countries, then you have an area that’s economically integrated subject to different spheres of territorial governance and so that is where some of the issues arise in terms of coordinating economic activity.

**FC: You also introduce the concept of territorial and functional governments. Moving from the idea of regions and borders, how would you define territorial or functional governments?**

**LDM:** A territorial government is a government that basically has sovereignty over an area. I mean there are international rules of law and those rules apply within a defined geographic area. Functional governance is what you need when you transcend border areas that are set by sovereign nations or sovereign jurisdiction; that is you basically have to coordinate activities and functions across areas of territorial governments - that is the distinction. With functional governance, how do you get people in sovereign jurisdictions to basically work together and coordinate their economic activity?

**FC: OK. From the point of view of an ordinary resident going about their everyday life, how would you describe the benefits of cross-border cooperation? Why do these cross-border regions matter to ordinary people?**

**LDM:** Cross-border regions matter for a number of reasons. A lot of economic production is increasingly integrated so if you’re a businessman, for example, who has a manufacturing enterprise that is integrated with plants across the border when you produce goods, those goods may go across the border several times as inputs into various production processes. So having a smooth commercial flow benefits a business. If you’re an individual who is looking for employment, having a smooth system of cross-border travel when you’re travelling for legitimate

trade or business reasons is also a benefit to you. If you’re a consumer, being able to easily cross the border or ship goods in that you’ve purchased is also of benefit to you. Having a cross-border region with a border that is defined and yet easy to traverse facilitates business activity and consumer activity and it improves economic welfare.

**FC: How would you describe the “business as usual” scenario in the Heartlandia region... If there’s not a push towards functional governance and collaboration across borders and harmonization –what will happen in the “business as usual” scenario?**

**LDM:** It’s not as if the world’s going to end but if you don’t make an issue of functional governance and addressing border issues, I think cross-border trade and travel is going to become increasingly hampered by barriers of one type or another. What will happen in the long run of course is that these borders will reduce economic growth and trade. If you look at what’s happened across the border in the wake of 9/11 travel has become more restrictive and there are essentially more impediments, more inspections of goods as they cross the border and what this does of course is raise costs. While border security is necessary, border security that isn’t conducted in a manner that facilitates trade and commerce is in a sense a tariff barrier. What tariffs tend to do is limit welfare in the long run. So economic growth, if these barriers continue to rise, will not be as pronounced in this region.

**FC: Counter to the “business as usual” scenario, can you give us examples of other cross-border economic regions, how they work and what they’ve achieved?**

**LDM:** The best example of a formal cross-border region in North America right now is the Pacific Northwest Economic Region. This is an economic region consisting of about nine states, provinces and the Yukon Territory. There are about 20 million people. What they’ve established over time, over 20 years actually, is essentially a series of annual meetings in which cross-border issues are brought up and then a plan is devised to resolve them. As part of that process they have a private sector and public sector council that meets about twice a year, plus there are teleconferences in between those official meetings where cross-border issues are raised. To implement and advocate on behalf of the economic region they have a secretariat with staff that looks at things like agricultural issues, cross-border pandemic planning issues and border-crossing, etc. What they tend to basically do is take issues before they become major issues that need to be resolved by

governments and work on solutions that then can be presented to respective governments. You end up with two sets of voices, one on each side of the border, raising the issue from the same point of view as opposed to only having one side complaining or bringing up an issue to their respective government. For example, if you have Canadian firms that are concerned about increased waiting times at the border you have them bringing it up to the Canadian federal government as well as their counterparts on the American side bringing it up on their side with the American government.

**FC: From the point of view of any elected officials or policy makers who might be reading or hearing this transcript are there any public policy changes that might assist this kind of initiative given that the idea of the PNWER is actually more of a civil society-driven organization.**

**LDM:** The basic public policy initiatives that governments on both sides of the border can engage in to help Heartlandia into existence is to support those groups that wish to bring it about. I think the main drivers will be business groups and Chambers of Commerce so if governments on both sides can help provide a frame work and a supportive environment for these groups to meet I think that's a start. I think at minimum what you would like to see is governments on both sides sponsoring summits and forums in which the various cross-border interest groups and stake holders are brought together. I think government's key policy role is as a facilitator of discussion. At minimum, if all you get is a summit every year in which people from Manitoba, North Dakota, Northwestern Ontario, Saskatchewan, and Minnesota get together to discuss border issues, I think that's a useful result. If it then goes to the next step where a more formal organization is put together, so much the better. But I think it's important for government to facilitate the discussion - that's a key role of politicians - listening to points of view and then trying to devise policy to address the issues that have been raised.

**FC: What would you say to people who are concerned that an international economic development agency might undermine the sovereignty of democratically elected territorial governments by allowing undue influence to some groups who are involved in trade? It seems to be a common concern and one that needs to be addressed?**

**LDM:** The concept that I am proposing isn't really an official body that would make policy and enforce it. It's essentially a consultative forum design to receive input and to give advice to legitimate governments. I really don't think that is a concern that you need to be worried about because in the end governments will still have sovereignty and there is still going to be a border but what you have is a formal framework that takes cross-border input into account and helps lobby decision makers on each side of the border.

**FC: You mentioned in your speech that it's important for regional development organizations to be membership driven. What is the basis for that?**

**LDM:** If you don't have members, if you don't have individuals who see a benefit in the policy or the cross border framework, then there's not really much point. I think

you want a grass roots approach. People have to see value in greater cross border interaction. That's going to come from individual businesses, from firms, from community groups, organizations, universities that see a benefit to greater cross-border collaboration. If you don't have that grass roots benefit then there's not really any point. I don't think a top-down kind of approach is necessarily useful. You have to have individuals who benefit from the institutions driving it.

**FC: You also mentioned specific benefits for Winnipeg given its geographic context in Heartlandia. Could you expand on the role that Winnipeg, as a city, might play being at the centre of Heartlandia?**

**LDM:** Winnipeg is at the conjunction of East-West and North-South trade corridors. A lot of that transportation infrastructure is already in place in terms of the railways that come through and the road network. With the investment that's being planned for the centre port as an intermodal transport facility, I think Winnipeg stands to benefit a great deal from increased trade in the Heartlandia area since it's already geographically in the centre of the region. Any measures that boost the economic activity in Heartlandia through increased trade and commerce would naturally benefit Winnipeg as an economic centre.

**FC: How does Heartlandia relate to the commodity driven provinces? For example, Saskatchewan given the rise in commodity prices and the perceived new importance that those commodities in those provinces will have.**

**LDM:** I think in the 21<sup>st</sup> century, in the long term ,you're going to see a continued increase in the demand for commodities. That's fuelled largely by economies in Asia - particularly India and China - and there's also substantial growth in Europe. So with the demand for these commodities their price is going to rise and there's going to be benefits from producing these goods. Historically, Manitoba, Saskatchewan and North Dakota have been subject to boom and bust cycles. One of the advantages of Heartlandia in the long term is that you can further pursue initiatives that diversify your economy around your commodity base in terms of value-added activities in a concerted and methodical manner. What this would do in the long run is translate that growth into more growth, into economic prosperity for all the residents of the area. I guess that's a complicated kind of question but Saskatchewan right now is riding a particularly good wave of high prices and growth. By participating in an economic region, with that enhanced East-West, North-South flow, I think Saskatchewan can benefit by dipping into that flow and fostering other value-added activities. Once you have a river or a stream of commerce, there has to be economic benefits for that flow to develop, but once that flow is there, there can be, for lack of a better term, synergies in which once you have various commodities flowing through your region to somewhere else you can sort of tap into that flow and use it as inputs into other products you might be producing. So Saskatchewan stands to benefit from that as does Manitoba and North Dakota as that economic flow increases.

