Trade Corridors Roundtable

Next Steps

A discussion document

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EXECUTIVE SUMMARY

Three metaphors inform policy models of Canada's international trade and the integration of its economy with the world: "gateways," "supply chains," and "trade corridors." The metaphors emanate from at least three separate departments of the federal Government of Canada. The Department of Foreign Affairs and International Trade – specifically, the Ministry of International Trade – are pursuing a "gateways" model, particularly focused on Canada's trade with the Asia-Pacific rim. For the past approximately two years, the federal Department of Industry has sought to drill down on how especially Canada-U.S. trade occurs within corporate entities with the concept of "global supply chains." Particularly in the mid- to late-1990s, the federal Department of Transport focused its policy development efforts on using "trade corridors" as a means of understanding Canada's infrastructure needs in respect of trade.[1]

In the first section of what follows, we offer an overview of each, including strengths and weaknesses of each as a metaphor surfacing key insights into Canada-U.S. trade. We will point to the strengths of "trade corridors" to account for the strengths of the other metaphors. In the next section, we will describe Canada's six largest export sectors or trade corridors, especially in relation to the United States. We will summarize challenges arising from the three most valuable sectors, then take a look at how recent policies of the federal government and recent agreements between the U.S. Government and the Government of Canada have responded to and affected these. Finally, we will describe in more general terms "the Canadian advantage" – factors that position Canada favourably in respect of international trade with the United States, in particular.

TRADE AS "GATEWAYS"

Throughout the Chrétien and Martin governments, the "gateways" metaphor featured prominently, especially as Prime Minister Chrétien organized a series of "Team Canada" delegations. The most prominent of these was a trade delegation to the People's Republic of China (PRC) that served to highlight agreements already formalized and business already underway among Canadian companies operating in China.[2] "Gateways" is focused on the Asia-Pacific rim, and especially on the PRC. This is not without good reason. The PRC market represents one of the great, consumer growth markets in the world with well over a billion potential consumers. The Republic of India similarly represents a huge, consumer growth market, also in the Asia-Pacific rim. Roll in the mature markets of Japan, Australia, New Zealand, the United States and Canada, the Asian tigers of Korea, Taiwan, Singapore, Malaysia, and Indonesia as well as Latin America's Pacific coast, and we are looking at a potential consumer market of more than 3 billion people, or approximately half the globe's population. More than 80% of this market constitutes a consumer growth market, versus the mature markets of Canada, the U.S., Japan, Australia, and New Zealand.

It's worth pointing out: *the Asia-Pacific market is worth understanding*. But does the "gateways" metaphor add to our understanding of trade in this market, and is it adequate to encompass it? Beyond this, what is the "value added" to the Canadian economy from Canada's trading in the Asia-Pacific rim, especially with the PRC?

In "Six trade corridors to the US: the lifeblood of Canada's economy" (*Policy Options* – Summer 2006), we argued that the advantage on trade and the growth in that advantage on trade with China goes to China. This is true of both U.S. and Canadian trade with China. Year over year China's trade surplus with Canada and the U.S. is not in the "single" but "double digits." Most of China's surplus is represented in consumer, manufactured goods targeting the U.S. and Canadian markets. Canada's trade deficit tends to be offset by commodities: food (grains and oilseeds), petroleum, coal, and iron. Canadian and U.S. retailers have effectively shifted large segments of their consumer goods supply chain offshore to China. *Wal-Mart* may be the most notable example.

Japan has long enjoyed a trade surplus with the U.S. and Canada. Again, with Canada, the deficit is offset by Canada's supplying commodities. Japan's domination of the U.S. and Canada automobile products market is represented in Toyota Motor Company's surpassing General Motors as the highest-selling automobile manufacturing company in the world. Whereas companies like Honda had to work very hard to find U.S. and Canada dealers in the early stages of its North American market entry, now the shoe is on the other foot with dealers taking less and giving more. Toyota and Nissan's penetration of the U.S. and Canadian markets is so wide and deep, that the companies' attentions are shifting to the PRC and India markets with deals to manufacture and supply cars to these "cheap car" markets.[3] Even so, there's enough room in the North American market for such interlopers as Hyundai to move from the entry stage to a brand with growing equity among U.S. and Canadian consumers.

Waiting in the wings for North American entry is a relative newcomer (within the last five years) to car manufacturing, Tata Motors, that has long manufactured trucks for the Indian market. Tata has effectively recreated the "cheap car" market focusing, first, on its domestic, consumer market in India, but it is well along entry into the Australian, New Zealand, Russian, eastern and central as well as western European, and the potentially huge Latin American markets.[4] India's engineering acumen and capacity rivals that of Japan, western Europe, and North America. India's cars are coming soon to a dealer near you!

The Gateways metaphor is one that emphasizes opening up Canada in return for opening up opportunities off-shore in the Asia-Pacific rim, especially the PRC. But, again, this "openness" has translated into growing trade deficits as Canadian and U.S. consumer demand for cheap manufactured goods from (for example) China and higher quality manufactured goods from Japan outpaces reciprocal demand for goods of Canadian or U.S. manufacture. The recent expansion of capacity at the Ports of Prince Rupert and Vancouver, and on the expansion of highway and rail transportation capacity, have focused on container traffic of *manufactured goods* mainly coming *into* and *commodities* traffic heading *out* from Canada's Pacific shores. Further, most public policy in relation to the Gateways metaphor, including the series of policy forums on Gateways spearheaded by Simon Fraser University, focuses on making Canada's transportation infrastructure accessible to the Asia-Pacific trade.[5]

We pose the following questions in respect of the Government of Canada's current Gateways, transportation infrastructure focus:

1. As long as Gateways is the metaphor informing Canada's Asia-Pacific trade policy, *will Canada focus on leveraging access to its market for Asian-manufactured goods in return for access to especially Asian and Latin American markets for Canada's higher-value-added goods and services?*
2. *Are Asian and Latin American markets the best target markets for Canada's high-value added, high-technology goods and services?*
3. And, while the Canadian market for Asian-

manufactured goods is driven by Canadian consumer demand, *is the expenditure of Canadian public monies the best investment in Canada's consumer, business, macro-economic, and national interests?*

While we have raised questions as to the Gateways model, the Gateway emphasis on port and transportation infrastructure does suggest a significant business opportunity for the Canadian economy. In a word, "trans-shipping." As noted above, Canadian and U.S. trade with China (PRC) favours China since most of the trade is in manufactured consumer goods coming from the PRC. Although there have been recent slow-downs reported, the consumer goods trade, whether from China, India, or elsewhere, seems unlikely to shrink since these are more cheaply produced in Asia's labour markets. The Ports of Prince Rupert and Vancouver are days closer to China than the United States, and are well-positioned to serve as depots for coastal trans-shipping to the populous, U.S. west coast. The Port of Halifax enjoys the advantage of the largest natural harbour in the world, and is well-positioned as a trans-shipping port for both the U.S. eastern seaboard and for the St. Lawrence Seaway that reaches through Montréal to Chicago in the U.S. Midwest.

Canada could do well to study the Port of Rotterdam, The Netherlands – the world's busiest port, serving as a trans-shipping port to western Europe – as a "benchmark" and model to follow in developing a trans-shipping business into the world's largest economy, from countries emerging as the main producers of cheap, manufactured, consumer goods – even, cars.

TRADE AS "GLOBAL SUPPLY CHAINS"

Based on our discussions with the research team on "global supply chains" at Industry Canada, we know that the research parameters arose from how Statistics Canada (reporting to the Ministry of Industry) and the U.S. Census Bureau organizes and reports on Canada-U.S. trade with the North American Industry Classification System (NAICS). The NAICS is organized, sector by sector, from broadest to narrower and narrower categories under those broad categories.

"Global supply chains" research attempts to "get at" how trade occurs "inside" or within bi-national or multi-national companies, especially those operating in the U.S. and Canada. A particular focus of attention has been Canada-U.S. automobile manufacturing, centred in Ontario and Michigan. Because these transactions are internal to companies operating on both sides of the Canada-U.S. border, the research requires a high level of cooperation from companies that are Industry Canada's research targets. A global supply chains conference was held in February, 2006, in Ottawa for public servants in the Department of Industry, and another is slated for "senior economic policy authorities from the Organization for Economic Co-operation and Development (OECD) member countries, policy analysts from the Federal Government, as well as representatives from businesses, think tanks, and academia," in September, 2007.

Industry Canada and others are attempting to understand how this variety of trade – trade internal to companies – occurs: the contractual and management relationships and best practices, as well as transportation infrastructure and arrangements.

The clearest advantage to this approach is that it widens its view beyond transportation infrastructure, and starts to "get at" how trade occurs, in terms of agreements, management, and best practices. It recognizes that trade is more than transportation infrastructure. Further, global supply chains research begins to paint a picture of how the Canada and U.S. economies are integrated by trade – at least, how a business enterprise operating on both sides of the U.S.-Canada border integrates its operations by way of trade internal to the enterprise. This offers a microcosm of how the Canadian and U.S. economies are integrated, sector by sector – especially, in respect of the Ontario-Michigan automobile manufacturing industry.

The information collected could be extraordinarily useful in adding to our understanding of Canada-U.S. trade. But it is necessarily limited – at least as we have been given to understand – by its limiting its research scope to bi-national and multi-national enterprises. Further, while it is not as limited in scope as the "Gateways" project, focused as it is on transportation infrastructure, global supply chain research does not (yet, anyway) address the influence of contractual, regulatory, statutory, and treaty arrangements. As we wrote in *Policy Options*:

> Global supply chain research points to how Canada's trade is organized mainly in terms of businesses, offering a description of Canada's trade flows. It is helpful. But this presents an inadequate explanation by itself of Canada's trade capable of informing and providing direction to Canada's international trade policy.[6]

"TRADE CORRIDORS"

The concept of "trade corridors" was first developed in Canada as a public policy project of the federal Department of Transport in the late 1990s. For some time earlier, trade corridors had been adopted by a number of regional, Canada-U.S. trade marketing initiatives describing themselves as trade corridors. But trade corridors were consistently described and defined in terms of transportation infrastructure and transportation routes. The Work Research Foundation departed from this limited understanding of trade corridors.

Included in materials for this Trade Corridors Roundtable is *Greenlighting Trade: A Trade Corridors Atlas* as well as "Six trade corridors to the U.S.: the lifeblood of Canada's economy" (*Policy Options*, July-August 2006). The latter provides a useful summary of the arguments while *Greenlighting Trade* presents the detailed summary of the sector by sector research, and organizes it into a number of useful graphs and charts giving a "snapshot-at-a-glance" of Canada-U.S. trade. *Greenlighting Trade* examines Canada's six largest export markets organized by sector under the broadest categories of the North American Industry Classification System (NAICS). We described these as six trade corridors, beginning with the highest value export sectors: automobile manufacturing, oil and gas products, machinery and equipment manufacturing, forest products, business services, and food (agriculture and fishing products). We developed a definition of trade corridors that, we believe, includes and encompasses not only the matters addressed under "gateways" or "global supply chains," but also matters not encompassed by these:

> *Trade corridors are more than transportation infrastructure. Therefore, trade corridors are defined as streams of products, services, and information moving within and through communities in geographic patterns according to a matrix or "culture" of trade agreements and treaties, statutes, delegated legislation, and customs that govern and guide trading relationships institutions, and structures.*

With this definition, *Greenlighting Trade* attempts to understand Canada-U.S. trade – and global trade, for that matter – in all its facets and fullness. We attempt to move the discussion from merely one of infrastructure and products – important as they are – to the role of contracts and the rule of law as well as the human element of relationships that frame and provide the contexts for trade. This understanding of trade can help to prioritize trade on a basis other than *solely* the value of exports and trade surpluses and deficits. It helps to understand why a trading relationshtip as Canada-U.S. trade exists, and why it is so large. Trade corridors offers clues to other potentially fruitful trade relationships, bringing these into the prioritization of trading relationships.

Taking a cue from the example of the most valuable trading relationship in the world and, perhaps, in recorded history – Canada-U.S. trade, we can draw some conclusions based on what makes this relationship, first, possible, and, then, so fruitful. We argue that the most fruitful trading relationships will tend to entail:

- geographic proximity,
- the similarity of legal systems and statutory/regulatory structure,
- the quality of international relations and treaties between states,
- the similarity of business and trading cultures and contractual relationships, and
- the web and network of personal relationships on a human level.

Therefore, Canada may want to prefer trade with India with its quarter billion English-speakers and common law legal system over trade with the PRC.

Trade corridors provides an explanation for how Canada's trading emphasis shifted away from Britain to the U.S. It takes into account the impacts of Canada's geographic proximity to the U.S. over the United Kingdom as well as the U.S. and Canada's shared history of adherence to common law and the sanctity of contracts, and the millions of human relationships among U.S. and Canadian, and U.S.-Canadian dual citizens. We will say more about the advantages that Canada enjoys in respect of its trade with the United States.

In *Greenlighting Trade* and since its publication, we identified a number of opportunities and challenges for Canada's six most valuable export, trade corridor markets. Following, we look at the three most valuable of these, organized by trade corridor:

1. **Automobile manufacturing**
    a. The Canada and U.S. auto industries are, in fact, the "North American Auto industry" centred in Ontario and Michigan. This industry represents approximately one fifth of the total value of Canada's exports;
    b. More than one quarter of Canada-U.S. trade crosses at the Ambassador Bridge, Windsor-Detroit;
    c. The industry was formerly governed mainly by the *Auto Pact, 1965*, but is now governed by the Canada-U.S. Free Trade Agreement and the North American Free Trade Agreement and the attached regulations and tribunals;

d. The highway transportation infrastructure serving the industry is further stressed because the Niagara peninsula (Canada) has become the transportation route of choice between New England and the U.S. Midwest for U.S. truckers and for U.S. tourists and students;

e. As ocean-going vessels have increased in size, significant expansion of the St. Lawrence Seaway, subject to a Canada-U.S. treaty and a binational commission, from the Atlantic to Chicago through Montreal has not been forthcoming; and

f. The federal Budget 2007 privileged "hybrid" auto manufactures over non-hybrids and higher gasoline consumption vehicles. Tax credits were made available to the former, and tax levies were announced on the latter. This effectively privileged Toyota vehicles with its emphasis on hybrids over Daimler-Chrysler with its recent revival of "the hemi" engine. A North American auto industry already under pressure is feeling that pressure all the more.

2. Oil and gas products

a. U.S. demand for oil and gas continues to ramp up, matched in production by Canada's oil and gas industry, centred in Alberta. The oil sands reserves of northeastern Alberta of bitumen that can be processed into crude, and the Elmworth gas fields of northwestern Alberta that straddle the Alberta-B.C. border may represent the largest proven reserves of oil and gas in the world. Near Peace River, Alberta, is another site with huge potential for bitumen extraction.

b. As U.S. demand for, and Alberta supply of, oil and gas grow, increased capacity must be built to move the commodities to markets across the U.S. for consumption;

c. Recent concerns about green house gasses and oil and gas consumption will tend – at least in the short to medium term – put pressure on the industry. Extraction of bitumen generally requires the consumption of natural gas, with the attendant production of green house gasses;

d. Policy analysts have suggested the construction of a CANDU reactor near Fort McMurray and the oil sands extraction sites in northeastern Alberta and near the project oil sands sites in northwestern Alberta. From beginning the approvals process through construction to a CANDU's being "up and running" would take approximately ten years;

e. Alberta is effectively becoming a "super-province" on the order of Ontario because of its economic prowess from oil and gas, "spin-offs," and from other infrastructure expenditures in health care. But Alberta doesn't enjoy the same kind of clout as Ontario in the federal Parliament and the Government of Canada. This requires addressing, and the aspirational culture of Alberta that tends to legitimize Alberta's political expectations.

3. Machinery and equipment

a. This sector – at the broadest level – has plateaued and has shown a slight downward trend in the value of exports. This plateauing and downward trending merits detailed study; and

b. In certain quarters of this broad sector, there seems to be some lack of appreciation for the enormity of the "value-added" and the multiplier effect of Canada's high-technology engineering sector in space, satellite, aerospace, communications, and robotics technology. Other countries capable of such technology – and it's a relatively short list – actively support and privilege this sector;

c. Increased U.S. concerns with security add an extra hurdle in respect of technology sharing and the involvement of Canadian engineers and scientists born off-shore from Canada in countries considered suspect by the U.S. Government. This could also serve as an advantage to Canada in making it a more attractive destination for high-tech engineers and scientists who would be barred from certain kinds of pure and applied research in the U.S.

"THE CANADIAN ADVANTAGE"

For several years, now, the Government of Alberta has promoted "the Alberta Advantage" in business, its access to energy, for professionals, and in terms of overall quality of life. Employing a trade corridors analysis, we identify a number of advantages that attach to Canada as a whole on trade, particularly in respect of Canada's trade with the United States. We offer this description of "the Canadian advantage" – Canada's trade "assets" – for the purpose of discussion at the Trade Corridors Roundtable.

1. **Canada shares a continent with the U.S.** This gives Canada immediate, geographic access to the largest economy in the world;
2. **Canada shares time zones with the U.S.** The business day, banking, and securities markets operate on the same time zones in both countries. Canadians and Americans work, go to school, and carry on their daily lives concurrently;
3. **We share the Great Lakes and the St. Lawrence Seaway**. Canada and the U.S. share access and management of the St. Lawrence Seaway and the great inland, transportation waterways of the Great Lakes;
4. **We share a common language, English, and we are both bilingual**. Over the years, several prominent news anchors in the U.S. have been Canadians, most notably Peter Jennings. That is because spoken English in one is generally understood in the other. Canada possesses a linguistic bridge to "la francophonie" – French-speaking countries throughout the world. The U.S. possesses a linguistic bridge to "iberophones" – Spanish-speakers, by way of its large Hispanic and Mexican population;
5. **Shared legal framework – the common law – and we have jurisdictions that employ the "civil law" or Napoleonic Code (Quebec and Louisiana)**. Although differences between the legal regimes are present, the general adherence to the sanctity of contract informed by a dominant common-law regime tend to facilitate trade and business transactions between the two countries;
6. **Shared popular and mass culture**. Canadians are knowledgeable of American pop culture. Several Canadians are American cultural icons. We share similar spectator and participatory sports interests in baseball, football, and golf. When our entrepreneurs meet, they have common ground and subjects to discuss in "breaking the ice";
7. **Shared electrical power grid**. Quebec Hydro sells power through the U.S. grid. We use electricity in the same way;

8. **Shared and highly integrated transportation network of air, sea, rail, and roads**. Major Canadian airports have pre-clearance facilities, and there is discussion of creating pre-clearance facilities for highway and rail border crossings;
9. **Shared communications grid of telephone, cellular service, Blackberry, and Internet**. The Internet was invented by the U.S. military. Telephones were invented in Canada by Alexander Graham Bell. Cellular service first got off the ground in the U.S. and Canada. RIM of Waterloo, Ontario, invented the "BlackBerry" wireless, always-on e-mail service;
10. **Highly mobile work forces**. Canadians and Americans are among the most highly educated peoples in the world, and their credentials, skills, and ways of doing business are highly transferable, country to country. This is further enhanced by the NAFTA worker visa;
11. **Security, police, and armed forces integration and exchanges**; and
12. **Similar systems of advanced education**. Canada and the U.S. take similar approaches to public education, and their universities are similarly structured. There is a "North American" versus a "European" Ph.D.

CONCLUSION

Above we highlighted "gateways," "supply chains," and "trade corridors" -- the three metaphors that inform policy models of Canada's international trade and the integration of its economy with the world:

We pointed out that the Gateways model is oriented primarily toward improving port and other transportation access to the Asia-Pacific rim, the trade with China (PRC), in particular. We asked whether focusing resources represents the best stewarding of public monies, given that the advantage in the China trade goes mainly to China. However, we pointed out how Canada might leverage itself for the China trade with the United States by becoming trans-shipper to North America, much as Rotterdam serves this role to western Europe.

We also looked at the value-added of the Global Supply Chain Model as going beyond transportation infrastructure to look at the structure of trade internal to bi-national and multi-national companies operating in both the U.S. and Canada. We also pointed to the weaknesses in the model in that it does not consider Canada-U.S. trade in all its fullness.

We proposed Trade Corridors as the best model for understanding how Canada-U.S. occurs presently, and for identifying Canada's best markets for trade expansion. Taking Trade Corridors as a model might lead us to suggest that trade with India is to be preferred over trade with China, given Canada and India's shared adherence to common law institutions of law and contract and our wide use of a common language, English. We also looked at some of the challenges arising in the three most valuable trade corridors between Canada and the United States: the automotive trade corridor, the oil and gas trade corridor, and the machinery and equipment trade corridor.

Finally, employing a trade corridors analysis, we identified some component parts of "the Canadian advantage" – factors that position Canada in respect of trade with the United States. We believe the trade corridors model is the most fertile for understanding and leveraging Canada's advantages in a globally competitive market and trading environment. We are bold to suggest that adopting trade corridors as this country's operative, guiding trade model could position Canada to become a trading superpower keeping pace with the United States and the European Union, and serving as a source of expertise to the emerging markets of Asia and Latin America.

ENDNOTES

1 Another model pursued for a time by the Government of Canada's Policy Research Initiative was "cross-border regions" (*Canada-US Relations and the Emergence of Cross-Border Regions*, North American Linkages, Briefing Note. Policy Research Initiatives. Ottawa: Government of Canada, 2006. Found at:). "Cross-border regions," however, bears a suspicious resemblance to the trade corridor metaphor pursued by various efforts – marketing initiatives, really – to promote the development of highway infrastructure between regions of Canada and regions of the United States. Instead of a study of how trade between Canada and the United States actually unfolds,
the research initiative appears to have been oriented to market research surveys of opinion leaders in these regions, and to comparisons of the economic statistics of neighbouring and proximate Canadian provinces and U.S. states. *But the research does not track the movement of exports or imports*.

2 Prime Minister Jean Chrétien organized the first of these in 1994 with Canadian premiers and territorial leaders in tow. Prime Chrétien's "Team Canada" delegations to Asia became an almost annual occurrence in which visits to the PRC featured most prominently. Less prominent were visits to Japan, India, Indonesia, and Singapore, among others.

3 The Nissan Motor Company Chief Executive Carlos Ghosn announced on June 27, 2007, that Nissan would likely produce a "cheap car" in partnership with India's Mahindra & Mahindra Ltd. priced to compete with Tata Motors Ltd.'s forthcoming $3000-car, priced for India's huge "cheap car" market (Phisanu Phromchanya, "Nissan chief says Mahindra will likely be India cheap-car partner," MarketWatch. Found at: http://www.marketwatch.com/news/story/nissan-chief-says-mahindra-likely/story.aspx?guid=%7B85DF1AE0-5EFD-4405-B70C-B8AFF106D630%7D, June 2007).

4 "Tata Motors Ltd (TTM)," Standard & Poor's Stock Report, July 14, 2007, McGraw-Hill, 2007. See also the "Tata Motors" web site (Found at: http://www.tatamotors.com, June 2007) for a summary of the markets that Tata has entered, in addition to selling in the India "cheap car" market.

5 The abstract from one of a series of conferences on the "Gateway Corridor Initiative" organized by Simon Fraser University is revealing on this count. Out of some twenty-three presentations, virtually all concerned themselves with transportation infrastructure (Found at: http://www.gateway-corridor.com/vancouverconference/abstracts.htm, June 2007). The name of "the initiative" is a story in itself. On September 9, 2006, I was interviewed by Sean Holman, the host of "Public Eye Radio," CFAX 1070 Victoria, to talk about trade corridors. Holman went to great pains to point out that the Minister of International Trade David Emerson was focusing his efforts on the "gateways" metaphor with a view to trade with the Asia-Pacific rim, especially China. In his interview, Holman asked me to contrast this with the trade corridor metaphor which emphasizes Canada's stake in Canada-U.S. trade. Following this interview, the series of conferences from February to May, 2007, in Regina, Winnipeg, Calgary, and Vancouver was named the "Gateway-Corridor Initiative."

6 Russ Kuykendall, "Six trade corridors to the U.S.: the lifeblood of Canada's economy." *Policy Options* (July-August, 2006):47-52. Found at: http://www.irpp.org/po/archive/jul06/kuykendall.pdf, June 2007.