

Atlantica and the Future of Our Shared Region

Testimony by AIMS President Brian Lee Crowley to the
Maine Citizens' Trade Committee
The State Legislature
Augusta, Maine, June 20th, 2008

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Ladies and gentlemen of the Citizens' Trade Committee,

Thank you for the kind invitation to be here.

In the middle of the 19th Century, here in the United States, the new railway technology was going to provide for the first time a major east-west link across the continent, ultimately reorienting this country's transport network from a north-south axis (along the eastern seaboard and down the Mississippi) to an east-west one, opening up on a hitherto undreamt-of scale the development of the west. In fact the century that followed in both Canada and the US was of nation-building on an unprecedented scale as the population centres of the east and of Europe provided the capital, the industrial goods and the people to open up the vast frontier to our west.

Each of our countries spent that century preoccupied with our respective half-continental construction projects. But those projects are largely over. The next stage is stitching together the continent as a whole – we are no longer only building countries, but have moved on to the construction of something wholly new and unprecedented. The shift now is to the north-south axis, a theme that I will return to in a moment. But to illustrate what I want to say to you today, I want to return, just for a minute, to that historical moment when the US was poised to open the west through the construction of the railway, for that moment contains a powerful lesson – a lesson contained in a tale of two cities.

The original thought was that the main railway junction would be in St. Louis, the dominant city in the Midwest and the 4th largest in the US. But St. Louis made two mistakes which were to prove disastrous. To the eyes of that city, railways were a dirty, expensive unproven technology. They thought at first that they would remain aloof from this new evolution of the network, preferring to remain the king of the Mississippi, a free piece of infrastructure that to date had given the city a commanding economic position. So their first mistake was the Not In My Backyard syndrome. Then they said, well, alright, we'll allow the railways to come, BUT, we will not allow a bridge to be built across the Mississippi, because we want to force the people and goods coming by train to be ferried across the river by barges, because that's what we do here. So their second instinct was protectionism.

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Chicago, on the other hand, was a small but new and thrusting town that said they would be the railway hub, and trains could pass through and exchange passengers and cargo unimpeded, allowing the huge efficiencies that the new rail network offered a chance to be fully realised. Chicago invested, they acquired a dominant position in the new network, and by 1860, the city was served by 11 railways and 100 trains a day passed through the city. St. Louis never recovered. It went from a dominant to a very secondary position in the network and is still trying to undo the damage that it did to itself. This story was repeated in microcosm a thousand times throughout the country, as communities vied to have the economic dynamism and energy that being on the railway offered to them. Those that succeeded in attracting the iron horse prospered, those that were by-passed withered.

The story of the railway is, in a way, a parable about “globalisation”, which is merely shorthand for an incredible “densification” of a whole series of networks that girdle the globe and create huge and growing value for those who are connected to them.

Maine has at times benefited from such network opportunities. Bangor and other lumbering towns were able to use this state’s powerful rivers to move forest products quickly to market. The ice free harbour in Portland made possible the pipeline to Montreal that feeds that city’s refineries. The Maritimes and Northeast pipeline now brings natural gas from Canada to Boston, offering to Maine people the possibility of adding value to that gas, gas that would not have been available to them otherwise. Here in your state I have been given to understand that two-thirds of all jobs are located within 25 kilometres of your principal interstate highway, I-95, another vital piece of network infrastructure, and the same proportion of all Maine people live within the same corridor. Highways lead people to jobs and encourage employers to invest in facilities along their footprints. It's no coincidence that economic opportunities are poorest in areas of Maine and indeed in northern New England, where good roads do not exist and people cannot get their goods or themselves to market.

Let me just take a moment and show you why I think the border and how we manage it is a crucial part of thinking intelligently about this region’s future prosperity. I used to think, for example, that Atlantic Canada was a relatively poor region within a wealthy country, but it’s not. It is one half of a relatively poor region within a wealthy continent. Let me try and illustrate:

Unlike the Quebec City to Windsor Corridor or the New Atlantic Triangle, Atlantica is characterized by above average levels of unemployment, outmigration and low income. Combine all these “distress factors” on a single map, and the picture comes sharply into focus.

Thus we can see that Atlantic Canada and eastern Quebec are not simply a poor region within Canada, any more than upstate New York, Vermont, New Hampshire and Maine are just a

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relatively underdeveloped part of the United States. In fact, these areas represent two halves of a single poor region within North America, a fact surely explained, at least in part, by the disruptive effects of the border on regional economic coherence.

So where do this region's greatest opportunities lie?

I would ask you to consider that some of the world's greatest growth points are precisely in those locations that serve as a crossroads between a powerful economic region and the rest of the world. Singapore and Hong Kong both play that role in Asia. Switzerland lies at the crossroads of Europe. The mighty Port of Rotterdam disgorges the industrial might of Central Europe into the world. Liverpool, at its height, was the link between Britain and the New World. Long Beach in California, and Vancouver in Canada, have become wealthy by being the doors through which the wealth of Asia and North America pass.

Our region is ideally placed to become one of these crossroads of world commerce, with economy-stimulating effects that will reach throughout the region.

I can only touch on a few quick aspects of the story, but here is the essence:

Globalisation is revolutionising what you think you know about geography. Not only are world trading patterns shifting, moving us in this region from the periphery to the centre, but our position in North America is shifting as well, as each half of the region ceases being the back end of our two countries' respective national transportation systems to occupy a pivotal position in a new bi-national region that we call Atlantica, the International Northeast. To understand what is happening, we must grapple with a certain number of facts.

Fact number one is that the dominant economic phenomenon of the 21st century will be the emergence of Asia, pulling more people out of poverty than ever before in the history of the world. But Asia is not doing that alone. Their productive capacity is growing, but they need markets in which to sell those goods, even if they start to turn away from their massive drive for exports and start to try and achieve more equitable distributions of growth, infrastructure and wealth domestically. And we in North America are the richest market in the world, with an insatiable appetite for the fruits of the labours of Asia's companies and workers. Plus we are a major source of the natural resources that are being pulled into Asia to fuel their manufacturing boom.

The next important fact is the congestion of the west coast North American ports and transcontinental railways under this onslaught, the growth of the ships carrying this burgeoning cargo to the point that they can no longer pass through the Panama Canal to reach east coast

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ports from Asia but instead must use the Suez Express Route, and this region's strategic position as a deepwater wharf jutting into the North Atlantic — Halifax being not merely the closest North American port of call from Europe, Turkey, and Asia via the Suez, but also the closest major east coast port of call from Africa and the major ports of Brazil and Argentina.

It is a great story. But others have heard the story and want it to have a happy ending for them, not for us in this region.

The next fact: the competition. Let me tell you, for instance, about what the Port of New York/New Jersey is doing. That port, looking at the same trade trends I'm outlining here, calculates that if it is to retain its market share, it will need to *double its capacity between 2003 and 2010*. This is no easy task. In particular, the port has significant constraints on its ability to accommodate post-Panamax ships. Its harbour is too shallow and some of its bridges are too low. But the port is taking a number of steps to remain competitive.

The estimated cost for the harbour deepening and other measures: a cool \$3.4 billion.

The fact of the matter is, however, that not all of New York/New Jersey's plans will come to fruition, and the port will have difficulties accommodating the biggest ships for all the reasons I've mentioned. But the ships will not come to North America via the Suez Canal unless they can come fully loaded; their economics depend on it. But we are on the way from Europe and Suez to New York, and we have no difficulties accommodating those ships fully loaded. We are thus joined at the hip with New York/New Jersey in the world trading system.

The next key fact, then, is that we represent Atlantica's only opportunity to participate in the post-Panamax trade from Asia. Without us, that trade will by-pass this region and head for New York and other US ports to the south.

The size of the economic opportunity is captured in one fact: it is estimated that every container unloaded from Asia and sent on its way to customers in North America generates \$1000 worth of economic activity. A million more containers a year (a perfectly reasonable target) is therefore \$1-billion annually. And that doesn't begin to touch on the other benefits, like the increased commercial and other links with Asia and the opportunities that represents, or the increased opportunities for immigration.

It doesn't touch on the vital backhaul trading opportunities that this head haul from Asia creates for us. So the gateway that we are envisaging today is one that doesn't just generate cargo, or containers that we wave at as they pass through on their way to final customers. This represents tax revenues, infrastructure improvements, new sources of labour and capital, a burgeoning

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logistics industry that connects us with the world and creates high value-added blue and white collar jobs in the region, etc.

Think about the significance of all this for Maine. As I am sure you know, Maine is the only state in the lower 48 that shares more border with another country (Canada) than with its neighbouring states. Maine is in fact a peninsula surrounded on three sides by Canada, and on another side by the ocean. This really drives home the fact that in the old pre-NAFTA dispensation, both halves of this region looked like the end of the line for their respective national transport planners. Under the old model, of two half-continental east-east networks, you really can't get anywhere from Maine, and that is powerfully reflected in the North American rail network map. But that era is over. In a new era of continental integration, from Maine you can get to Canada and openings on the global trade network, and the economic energy of Asia can flow back through you on its way to Boston, New York and elsewhere, creating opportunities for all kinds of value added activities.

Back in Halifax, we have been focused on the Chicago market in the US *because that is where the CN main line takes us*. Thus part of our dependence on CN has focused us on markets where our natural competitive advantage is weak. On the other hand, and this is why Atlantica is so key, our shared region has huge American markets on its doorstep in the northern part of the megalopolis that stretches from Boston to Washington DC. This is probably the richest market in the world, and the part of it east of the Hudson River is isolated from the Port of New York/New Jersey by the saturated infrastructure across the river. We have a huge market geographically quite close, that we have major competitive advantage in servicing. But our access to these markets is poor and *this* is where we need to concentrate our attention,

The key to diversifying our final markets is, first, improved truck and short sea shipping service, and second, building rail and road links through southern New Brunswick and south through Maine and the other northern New England states. The Irvings have a major investment in rail in that area and are already as a first measure talking about a drayage service between Halifax and Saint John to get traffic on their rail service, but we need to develop this much further than that. There is already significant cross-border truck traffic, but much less than in other parts of North America.

Now I know that any proposal to deepen cross-border co-operation is now fighting words for some, and maybe even for some in this room. For them sovereignty means never having to say you're sorry, that you never have to worry about the interests of others, and that progress in the world means only ever consulting your own feelings and never compromising with others in order to achieve shared goals. But this is not the world we inhabit.

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For example, all of the debate over national sovereignty and national trade balances, deficits, fair trade and trade agreements takes as its premise that Canada and the US are separate national economies, that each of us makes a unique range of finished products within our national economy that we then trade with other national economies for what they make. On this sort of view, France makes wine and Japan makes cars and they exchange the one for the other.

But this is no longer what occurs between Canada and the US. Increasingly (but not exclusively) we make things together, and then sell them to each other and to people across the world. Forty percent of all trans-border trade between our two countries is intra-firm trade – in other words it takes place between parts of the same company. Our energy infrastructure, in terms of wires and pipelines is largely seamless – when the branches fell across the wires in Ohio several summers ago and caused the biggest blackout anyone can remember, southern Ontario was just as swept up in it as many parts of the US. Natural gas from offshore Nova Scotia flows through a pipeline passing through Maine and into Boston.

Our transportation infrastructure links ports and distribution centres with little regard to the border – the Port of Halifax sends 100,000 containers a year to Chicago and beyond in the US, and WalMart is looking at it as a possible distribution hub for Asian merchandise in the NE corner of the continent. Montreal and Vancouver are important North American ports of entry and distribution hubs, and southern Ontario is fully integrated into the production of North American cars. We also service the same customers with an array of financial services; fly on the same integrated airline networks, and increasingly meet the same or similar standards of professional practice. All of this is what economists call “deep” or structural integration.

To take the auto example, it is now well established that a car made in North America by one of the Big Three may cross the border 3 or 4 times at various stages of the production process, and parts maybe brought at each of those stages from suppliers throughout the continent. If the border is seized up, so that each one of those shipments is delayed, adding to costs for manufacturers, the irony is that that makes the continental industry as a whole less competitive with foreign suppliers who make their cars in Japan or Germany and then only have to ship them across the border once. More than three hundred thousand trucks enter Maine each year from Canada, bound for destinations throughout the US. If we add 30 minutes at the border to each one of those truck crossings through poor border management, if we have inconsistent regulations preventing loads being shipped across many jurisdictions without extra handling, if we don't harmonise various kinds of regulation, we don't advantage Canadian or American workers, we disadvantage our increasingly integrated continental economy in its efforts to lower costs and be highly competitive our efforts to capture global markets. You do the math about the self-inflicted damage we cause to ourselves.

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Now I know that I've used the equivalent of a four letter word for some people: harmonization. That raises all kinds of hackles from people who immediately stand up and cry, "What about sovereignty?". Aren't we our own masters here in (insert the name of your jurisdiction)? How dare you come here and tell us what to do. We run things the way we like them here and that is our right.

And of course it is your right, as it is our right to do the same. But that is not the point. The point is that in a world where everyone has their own jurisdiction, and where everyone is autonomous, you cannot sustain the childish fantasy that you should not suffer any untoward consequences from the decisions that you make. No one contests that Maine or Nova Scotia has the right to make rules about, say, labour standards or road safety, or land planning or any one of a thousand other things. But what can and must be contested is the idea that if you make decisions that others don't agree with, decisions that lower their standard of living, that make them less efficient in their efforts to sell their goods and services, then those people, both individuals and companies, will avoid your jurisdiction, as it is their perfect right to do.

In a world where everyone is sovereign, the question is: how should we use our sovereignty to create conditions that make us and our children better off? And in an interdependent world, that means knowing when to negotiate common standards when the balance of advantages and disadvantages seems favourable, refusing to do so when the balance seems unfavourable, and not complaining when your exercises of sovereignty drive away investment and jobs. Being free (or sovereign) means doing what you like, and then accepting the consequences... If your idea is that you should be able to set uncompetitive standards, and that people should simply accept those terms because you are sovereign, and come and invest money and employ people regardless of the consequences for them, then you are in for a bitter disappointment. In a world where people may go where they wish, you must take account of their interests in your exercise of sovereignty. This is not an attack on sovereignty, merely a plea to understand what it can and should mean in an interdependent world.

To conclude, in the networked world we are now entering, there are three possibilities. You can be a destination in your own right, a Chicago, a New York, a Shanghai, a Singapore, a Hong Kong. In Atlantica we do not have that option. You can be on the road to one of those destinations. Atlantica has that possibility, but it requires thoughtful and energetic cross-border co-operation in a region long storied for its parochialism. Or you can be off the network, which is where this region has been for the better part of a century. Being on or off the emerging global network means the choice between an opportunity to capture a share of the economic opportunity that globalization represents, or watching it flow by us on its way to other more dynamic plugged-in places.

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In another time, being off the world network mattered less than being on our national networks, which we were on both sides of the border...barely. But people around the globe are joining the global network in Mumbai and Ho Chi Minh City and Shanghai and Jakarta and Sao Paulo, and anyone who knows about networks will tell you that the value of belonging to a network is a function of the number of users squared. It is a geometric progression. If you have the only telephone in the world, it is useless, because you cannot call anyone. If there are only two phones in the world, its value is limited to whether or not you want to talk to the person who has the other one. But when billions of people are connected, its value is incalculable, just as the cost of being off the network is staggering. Not for nothing are the 1 billion people on the face of the earth who have never made a phone call, also the poorest and most wretched on the planet. And that is only one network. The internet is another, and the one I have concentrated my attention on this morning is the one that allows us to move people and goods efficiently and seamlessly around the world.

In another time and another era, St. Louis and Chicago made different decisions about being connected or not connected to the emerging global networks, with huge consequences for each of them. We in this region are faced with a similar choice with similar far-reaching consequences. We can put ourselves on the network, or not; what is perfectly clear is that no one will do it for us. We must choose to make this happen.

Thank you!