

Beyond Trade: Taking Canada and America to the Next Level

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Based on remarks made to the Work Research Foundation's
Trade Corridors Roundtable



I want to talk to you today about Canada in its North American context. We have all seen recently how everything that touches on increased continental integration and co-operation remains highly controversial. The anxiety generated revolves around questions of sovereignty, and we hear, more and more loudly and persistently, calls for protectionist measures, to turn inward, denouncing NAFTA and urging that we shift more of our trade away from the US toward other countries, so as to reduce our vulnerability and openness to our southern neighbour.

But I am coming more and more to see that this approach is based on a fundamental misunderstanding of what is happening in North America, and particularly between Canada and the US.

And talking about misunderstandings, I also want to talk about a common misunderstanding about trade, one that transcends the Canada-US relationship, but is particularly important to understand if we are to grasp the real value of trade and why we should care about it.

Let me start with the misunderstanding I hear all the time about trade, and is even present to some modest

extent in the Work Research Foundation (WRF) paper that has brought us all together here today.

Think, for example, about the paper's observation that the value of building gateways for trade between North America and Asia is somewhat overrated because on analysis we can see that the benefit accrues largely to China. In other words, China sells more to us than we sell to them, so there isn't much benefit in facilitating this trade.

This is a common view, one oft-repeated wherever trade issues are discussed. It is, at its most basic, the mercantilist view that to sell something to someone is a great victory, but to buy something from them is a minor catastrophe. As George Orwell might have written in *Animal Farm*, "Exports Good, Imports Bad".

This is just terribly wrong, and it is worth taking a moment to see why. Let's use a simple analogy. I run a trade deficit every week with my grocer, because I buy lots of things from him and he buys absolutely nothing from me. On the mercantilist logic, I should seek to diversify my trade away from my grocer,

perhaps to the editor of the National Post, who recently bought an op-ed from me.

The flaw in this logic becomes immediately apparent – the editor of the National Post is a poor farmer and he would be both expensive and inefficient as a food source. Moreover, the notion that I run a trade “deficit” with my grocer implies that he got something from our exchange, whereas I did not.

This is nonsense. *I got the goods in my trolley*. In fact, the very reason why trade can create value for people is that by definition in such a free transaction, each party must feel they make themselves better off by engaging in it. Otherwise the trade does not occur. I would rather have the groceries than the money – I am made better off by the trade. The grocer prefers the money to the goods. He is also made better off by the trade. The notion that because I bought, I have been impoverished and because he sold, he is the “winner” in our relationship misunderstands exactly the central point of trade.

That is why, by the way, Paul Volcker, the former head of the Federal Reserve, when asked how he would suggest dealing with the trade imbalance between his country and Japan, or whatever was the country that was running the biggest trade surplus with the US at the time, replied – I would fix the “problem” by *ceasing to collect the statistic*.

Trade deficit statistics tell us nothing meaningful and in fact are used to justify all sorts of mistaken and wrong-headed conclusions. Dynamic economies are very frequently also economies with big trade deficits. America would be a great example. Japan, still an economic basket case after all these years, is also still the world’s biggest creditor nation. Which would you rather be?

Now that I have that off my chest, I can come to the other misunderstanding that bedevils our attempts to talk constructively about trade, in this case between Canada and the US, is that what takes place between us is increasingly not international trade in the classic sense at all.

All of this debate over national sovereignty and national trade balances 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 – I am talking about how things are developing, not their end point) 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. 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 Wal-Mart 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.

Thus, increasingly we do not make finished products and sell them to Americans but rather we make things together and then sell them all around the world. Or as my friend, Stephen Blank, one of the few academics studying the emergence of the North American economy says, in the prosaic and painful language of social science, “The political economy of North America is no longer composed of three separate national economies. Instead, we must think of a continent-wide system of linkages among production clusters and among distribution hubs, linkages resting on cross-border alignments among businesses, communities and local/state-provincial governments -- and we must think of networks of social groups, environmentalists, religious groups, ethnic communities and others – that transcend borders. This is the North American reality.”

This, by the way, is why the Work Research Foundation's paper is absolutely right to say that the gateways and supply chain models for thinking about US-Canada trade are too narrow and constraining; although I even think that, *the whole metaphor of international trade is now too narrow to encompass what is being built around us*. This new reality is, as Adam Ferguson, the 18th century Scottish political economist would have said, the "product of human actions, but not of human design." We have built it without planning it, and indeed, it could not have been planned in all its tremendous complexity and flexibility. This new North American reality is under construction all around us by dint of the actions we all take every day. But because it was not planned, and could not have been planned, and because laws and regulations cannot, by their nature, evolve as fast as business, economic and social relationships, what has not caught up yet is the legal, institutional and regulatory frameworks that are still based on the old self-contained national economy model.

Yet at the same time that it is more incontestable than ever that our continental and Canadian prosperity depends on smooth and uninterrupted exchanges across the border, people in both Canada and the US are raising more and more concerns about the legitimacy of free trade. The most recent example was the insanity that reigned in the blogosphere and in the streets of Ottawa this summer in the run-up to the Security and Prosperity Partnership meeting here in Montebello, as warnings were "repeatedly sounded of plans afoot to create a North American Union or build a vast new Mexico-to-Canada superhighway that would displace millions of people, undermine our sovereignty and destroy our way of life. None of this is true. Neither a NAU nor a monster NAFTA superhighway is in the cards or even on the table. No finely tuned plan for submerging national sovereignties, no master plan for North America".

In fact, I have some personal experience of just how crazy things have got. I'd like to read to you from an article that appeared in the Halifax Daily News in June, but before I do, I'll just tell you by way of background that Atlantica is the name my think tank gives to what we think of as a natural cross-border economic region that straddles the US-Canada border from the Maritimes right through to Buffalo.



There was a major conference last June in Halifax about Atlantica (not sponsored by my Institute). So here is the article (and no, I am not making this up!)

Under the headline –

Protesters take a ride on hood of car
Group surrounds AIMS founder outside local watering hole

The journalist writes:

Atlantica protesters went on a wild ride with the founder of a conservative think tank yesterday.

After the midday mayhem, a few protesters noticed Brian Lee Crowley, Atlantica proponent and founder of the Atlantic Institute of Market Studies, at the Economy Shoe Shop.

They ran and gathered more protesters who cornered Crowley as he came out of the restaurant.

"We were hoping to form a ring around the car so that we could get our message through to him," said Tracy Glynn, one of the people who first recognized him.

But being surrounded didn't stop Crowley. He drove off with two protesters on the hood of his car, and many more chasing after.



[This photo is sort of how it felt at the time, although it was not exactly as illustrated here... In fact, I suspect that from the protestors' point of view, I am sure this is what they saw themselves as doing:



– engaging in the heroic struggle against the evils of capitalism, which will be crushed by the workers united who can never be defeated, etc., etc. However from the point of view inside the car, this is more how the protestors looked to me:



Police eventually stopped the car and removed the protesters. Crowley did not press charges.

But that's not the best part. If you really want to understand the incredible superficiality of the understanding these people have of the issues they are protesting, you have to listen to the gem of the story, which is the last sentence:

While on the car, one protester apparently turned to the other and asked, "Who is Brian Lee Crowley?"

Silly as such outpourings are, they are eloquent about the mindset that is taking hold in various places, including in the US Congress, now more protectionist than it has been in decades. I long for the days when a Democratic Vice-President, Al Gore, would volunteer to go head-to-head with a right-wing populist like Ross Perot on the topic of free trade, and leave him broken and bloody on the floor.

What is at stake in the political establishment on either side of the border abandoning free trade as a central tenet of economic management? As Thomas Friedman, author of *The Earth is Flat*, wrote in a column several months ago, "I'm not a free trader anymore. I'm now a radical free trader. Why? Because in this new era of globalization, so many people now have the communication and innovation tools to compete, connect and collaborate from anywhere. As a result, business rule No. 1 today is: Whatever can be done will be done by someone, somewhere. The only question is whether it will be done by you or to you. In such a world, the way our society flourishes is by being as educated, open and flexible as possible, so more of our people can do whatever can be done first.

'That society which has the least resistance to the uninterrupted flow of ideas, diversity, concepts and competitive signals wins,' according to the C.E.O. of the Indian tech giant Infosys. 'And the society that has the efficiencies to translate whatever can be done quickly — from idea to market — also wins.'

So free trade is how we learn about and participate in the innovations that are washing across the globe and are the cornerstone of our future prosperity, but public sympathy is starting to flow ever stronger in

the other direction and we seem incapable of offering a compelling case for the construction of North American institutions that deserve the trust and confidence of the public, and that would channel the economic energy of our peoples in increasingly co-operative and mutually beneficial directions.

The situation in which national leaders keep quiet about North American developments while businesses, bureaucrats and community groups slink away to repair problems in the North American system is no longer working.

It is failing us because, despite efforts to overcome the "narcissism of small differences," the step by step approach lacks the coherence and broad vision needed now. Decisions are required on key issues of security, borders, transportation, energy and immigration. At this point, the incremental approach is simply not enough.

Integration-by-stealth is also unacceptable. After NAFTA, the SPP has become, in Stephen Blank's phrase, the new face of evil. If we hope to get beyond this demonization, concerns must be confronted. The fact is, if we act like conspirators, we cannot be surprised if people think there is a conspiracy. If the charge is that globalisation is causing the emergence of international organisations responsible for managing cross-border economic relations that have become too large, too important and too complex to be left unmanaged, we should ask how it is in Canada's interest, as a small open trading nation, to act otherwise. But if the charge is that there isn't enough openness and discussion about those

institutions and that people are suspicious of things cooked up behind closed doors, our answer should be, then let's open up the discussions and take the charge of secrecy from them.

The North American reality is a complex system, many sectors of which are characterized by deep structural integration that is deeply misunderstood. We all depend profoundly on this system. After a decade of rapid growth, however, and in the wake of the events of 9/11, integration has slowed and the North American economic system is becoming more fragile. To reinvigorate the process of integration requires a vision for the 21st century and the mobilization of informed and active constituencies that will press for new steps forward by the three NAFTA governments.

If today's event makes a contribution to that vital end, it will have more than justified the time and effort we will all lavish on it today.



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