

## A New Year's Make-Over for Federal Policy in Atlantic Canada

### Atlantica: the International Northeast Economic Region

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**A**tlantica: the International Northeast Economic Region (AINER) is defined chiefly by geography, economic trends and trade patterns; common problems and experiences; and politics. Much of this wedge of territory has been outside the charmed circle of North American prosperity for years.

This poor performance is all the more frustrating because geography has placed Atlantica near the centre of the two largest trading relationships in the world. The Canada-US trade relationship is the largest in the world at \$2-billion per day. Trade between North America and the European Union is 40% of total world trade. The Port of Halifax is a day's sailing time closer to Europe than the other major east coast ports, shaving transportation time to North American heartland destinations such as Detroit, Chicago and Memphis.

In addition to the existing European trade routes, as shipping technology evolves and ships become too large to pass through the Panama Canal, the so-called Suez Express shipping route is bringing ocean shipping from the dynamic Southeast Asian region directly to North America's east coast by the same shipping lanes that reach

Atlantica before any other region of North America.

But Atlantica has not been able to leverage that strategic advantage into the kind of strong growth and sustained prosperity that characterize other regions on Atlantica's borders, such as the Quebec City to Windsor corridor, or the Boston to New York City conurbation.

NAFTA has accelerated continental economic integration — business production and marketing decisions now take less account of the existence of the Canada-US border, but the explosion of international trade that the agreement has fuelled has brought many border issues into sharper focus. The border still matters — perhaps much more than we realize.

AIMS is increasingly convinced that Atlantic Canada is not simply a relatively poor region within Canada but part of a relatively poor region that straddles the Canada-US border. We are further convinced that the border and its peculiar interrelationships with geography and politics in this corner of the continent explain much of that state of affairs. AIMS authors have been examining the historical impact of the border on the economy of the region we call "Atlantica", which broadly encompasses the Atlantic

Provinces, eastern Quebec, the northern tier of New England states, and northern New York state. These territories share a number of common characteristics: similar demographics, diversity, and migration, a shared history, and interrelated transportation issues.

It is almost certain that the international border running through the heart of Atlantica plays a major role in explaining this. From a geographical point of view, the border in this region is unlike that in any other part of North America. Maine, for example, is the only state in the "lower 48" to share more border with another country than with neighbouring states; Maine is virtually a peninsula surrounded on three sides, not by water, but by Canada. The whole US part of Atlantica is also a peninsula surrounded by Canada and the Atlantic Ocean. From the Canadian point of view, Atlantic Canada is separated from its main Canadian population centres and markets by US territory, forcing goods and people moving by land to make a long and inefficient trek around Maine and down the St. Lawrence Valley.

In the 21st century, infrastructure may well more than ever be destiny. While infrastructure has always mattered, the transition to a service-based economy is creating an economy that is more transportation sensitive than any that preceded it. Areas that are remote and inaccessible or add costs which need not be endured in other regions will see economic opportunities leak away to better endowed, more economically coherent, regions.

Thus, one almost certain explanation for Atlantica's relative degree of underdevelopment is the inability to think of the region as a shared, cross-border area where local success depends on working more effectively across boundaries to achieve the economics of scale, transportation efficiencies, and other regional coherences that more successful regions — such as the US Mid West and Ontario, and Texas/Mexico take for granted. In short, Atlantica's political and natural disadvantages have been compounded by the US and Canadian governments' relative disregard for the region's economic requirements.

On the Canadian side, the cumulative effects of more than a century of policies favouring the

population centres of Quebec and Ontario are crumbling infrastructure and provincial governments and electorates that have been corrupted by hush money in the form of large transfer payments. On the US side, the northern New England states have been the losers in political battles with richer, more powerful states such as California, Texas, New York, and Massachusetts.

With free trade and globalization, however, the region now has an opportunity to establish its rightful place in the continental economy. If the border cannot be made to disappear, its impact must at least be blurred. The introduction of vehicle-handling efficiencies and the building of new crossings will help, but the concept is much bigger than that. Ideally, it should become equally attractive to establish commercial relationships across provincial-state lines as it is across state lines or provincial lines within the two countries. Canada's Atlantic Provinces and the US northeast must become as economically integrated and coherent as is, for example, southwestern Ontario and the US Midwest. Only then will Atlantica realize its economic potential.

For that to happen, however, it is necessary to rethink the policy, planning, and regulatory settings in all the provinces and states in the region, as well as the two national governments. Such an undertaking will require an unprecedented degree of common purpose — including, but not limited to, an understanding of how taxation regimes interact, the establishment of complementary regulatory and licensing regimes, new policies respecting corporate linkages, and freer movement of labour. Much can be accomplished at state and provincial levels, but participation at the federal level is essential.

### **Regional Transportation Coherence**

Thinking about bi-national regional transportation coherence in this corner of North America is much further advanced in the US than in Canada. US authorities already recognize that the economic fates of the Canadian provinces and US states in the Atlantica region are deeply intertwined — for example, they regard the Port of Halifax as a crucial piece of strategic NAFTA infrastructure that must be fully integrated into

the transportation network. Moreover, US authorities are willing to spend US taxpayers' money on assessing the adequacy of the transportation infrastructure throughout the entire region to ensure that their citizens benefit from the region's potential. Largely due to the efforts of Maine's Senator Susan Collins, with support from many other senators, congressmen, and state legislatures in the region, the US Department of Transportation has agreed to fund a study that will examine major modes of transportation in the region reaching from Halifax through northern New England and over to the border between New York state and the provinces of Quebec and Ontario. That study, being overseen by the Maine Department of Transportation, has already been the subject of a Request for Proposals and it is expected that a contractor will be chosen and in place by March, 2006.

For its part, Ottawa to date has shown relatively little interest in such studies, at least when it comes to Atlantica. In contrast, Ottawa has contributed funding for the Canada-US-Ontario-Michigan Partnership Transportation Planning/Need Feasibility Study, which has released recommendations on ensuring the safe and efficient movement of people, goods, and services within the region of southeast Michigan and southwest Ontario. Atlantica deserves the same commitment.

In 2002, AIMS wrote to then Prime Minister Chrétien and responsible ministers, pointing out the gathering interest in studying a bi-national Atlantica transportation corridor and asking that the federal government give policy and financial support to such an initiative. No commitment on the part of Transport Canada or any other federal agency, such as ACOA, has been forthcoming although in recent months AIMS has been receiving more requests for information from Ottawa on the Atlantica concept. Yet, across the continent, public and private authorities are taking measures to ensure that their economic regions — which almost never correspond to state and provincial boundaries — are efficient and coherent, allowing goods, services, and people to work together seamlessly across borders wherever the highest value can be added.

It is not simply a question of trucks and highways — every mode of transportation matters. For example, air transport between Atlantica's major centres is minimal to nonexistent, especially across the international boundary. The issue of a cross-Atlantica corridor is about developing a fast, efficient means of moving goods and resources within the binational region and beyond. It is about providing industries with the incentive to locate and expand throughout the region, unconstrained by the border. It is about putting Atlantica on the transportation and trade map.

Transport Canada should offer to cooperate with the US Department of Transportation in reviewing the international implications of the transportation corridor, and the Prime Minister should declare his support for the first evaluation of the shared region, as a single entity, in its modern history. Such a report would also be the first to weigh the implications of modern trade treaties, economic transformation, and changed global trading patterns for the bi-national region.

### **Atlantic Gateway**

One policy that the federal government *has* been actively pursuing in Atlantic Canada has been the idea of an "Atlantic Gateway" modelled on the recently announced Pacific Gateway on the west coast. This is a matter of some concern to the extent that Ottawa seems to be wedded to an abstract concept of a gateway covering the entire coast without regard to the very different conditions within Atlantic Canada.

For example, there is only one province and two major seaports on the Pacific Coast, but five provinces on the Atlantic and Gulf of St. Lawrence and numerous ports, not all of them accessible or suited to the major international trade corridor concept underpinning Atlantica. With US interest in Atlantica an immediate fact, Atlantic Canada cannot wait for the conclusion of what might be long and complex negotiations among highly diverse and divergent interests in the region, especially when there is no guarantee that such negotiations will be crowned with success. It is vital that the development of Atlantica, which is an issue of NAFTA relations and international trade, not be held hostage to

complex and extraneous local political rivalries. Time is of the essence.

### **Keeping Commerce Flowing at the Border**

To keep commerce flowing at the border, the federal government should take immediate steps to accelerate and simplify border-crossing policies. It also needs to explore with its US partner integrated perimeter security, the harmonization of external tariffs, and mutually agreeable standards for entry of persons from third countries. Moreover, Atlantic Canada deserves a place at the forefront in defining this new openness in the Canada-US relationship. Indeed, the border is probably more costly and more disruptive to Atlantic Canada than to any other region of Canada. Consider, by way of illustration, a container bound for Chicago via Halifax. In order to travel the geographically shortest distance (assuming that the infrastructure to allow that to happen exists, which it does not), that container would have to go through border formalities four times: once at Halifax, once at the Maine-New Brunswick border, once at the Canada-US border in either Quebec or Ontario, and once more at the border between Ontario and Michigan. By contrast, the same Chicago-bound container, if entering via the Port of New York, would go through border formalities just once. Although progress has been made in reducing obvious border obstacles – for example, New Brunswick and Maine have agreed on the location of a new border crossing between St. Stephen, NB, and Calais, ME – a great deal more needs to be done to enhance the efficient movement of goods and people throughout the region.

### **Recommendations:**

- **Support the US federal government’s study of the adequacy of transportation infrastructure in the “International Northeast”, stretching from Halifax to northern New York state.**
- **Work with the US to create needed NAFTA-building infrastructure that ties Atlantic Canada more effectively into markets in the NAFTA heartland.**
- **Avoid confusing Atlantica (a NAFTA concept that requires immediate and vigorous action) and the Atlantic Gateway (a top-down concept originating in Ottawa that is irrelevant to the opportunities Atlantica represents). Ottawa’s support for Atlantica must in no way be conditional on progress in negotiating an Atlantic Gateway agreement on the east coast.**
- **Ottawa should build on its Smart Commerce initiative with the United States to accelerate and simplify even further border-crossing policies, while also working with our American partners on integrated perimeter security, the harmonization of external tariffs, and mutually agreeable standards for entry of persons from third countries.**