

Tales of the Silk Road

Trade follows distinct routes, and being on or off the network can make a world of difference By Michael Gallis

Michael Gallis is president of Michael Gallis & Associates, a planning and design firm specializing in positioning cities, regions and states in a global framework. Michael is a leading expert in large-scale metropolitan regional development strategies; he has pioneered a specialty in building frameworks through which public, private and institutional leaders can work effectively to create globally competitive regions. Through these frameworks, Michael has mobilized leaders across the United States to understand and develop new ways of responding to the challenges and opportunities of states and regions in the 21st century. The organizers of the AINER (Atlantica: the International Northeast Economic Region) initiative are in discussions with Michael to involve him in making AINER a reality. He has visited Atlantica three times; the following is based on his third-visit presentation.

Even though we are in an information age, goods, services, and people still flow over the surface of the earth in ever-increasing volumes. How a community fits into the network of communications and transport that constitutes the economy is one of the most important factors shaping that community's prosperity. And the network to which one must be connected to succeed is constantly shifting and evolving. The Atlantica initiative is all about inviting local leaders to work together to define where the region fits in the emerging global network and then build a framework for regional decision making that will allow the International Northeast to be and remain a vital part of the global economy.

Cautionary tales

The Silk Road, the first trade route in the world, started in the second century BC and reached its peak in 600 AD. China was at the eastern end of the route that brought silk, gold, ivory, and other precious commodities to the West. Key points in the trade-flow network became the richest in the world. Chang'an, for instance, where the route began, became one of the largest and most cosmopolitan cities of its time, boasting a population of close to two million.

When Columbus reached America, he caused a reorganization of the world trade network; it became a maritime rather than a land-based system. England had been a backwater up to then but came to dominate the new patterns of world trade thanks to its control of seven strategic points along the new network, including Bombay, Cape Town, Calcutta, Singapore, and Hong Kong. By controlling world trade, England became the richest country in the world. The Silk Road



Left to right: Brian Lee Crowley, president of AIMS; Michael Gallis; Leonard Hill, Consul General of the US in Halifax; and David Mann, chairman of AIMS.

died out; rich towns became ghost towns.

The Age of Mechanisation—steel and steam production, electricity, communications—spread trade around the world. To take advantage of this, the US government wanted to build a railroad from the east coast to the west. Several plans proposed St. Louis as the starting point of the route westward. But the people of St. Louis thought railroads were noisy and expensive, and in any case believed that their strategic position on the key network of the day, the Mississippi River system, made their position as the Midwest hub unassailable. The city took a pass on joining the new network. Chicago, which had long been a minor centre compared to St. Louis, bet on the new network. By 1860, the city was served by 11 railroads with 100 trains daily. St. Louis has been playing catch-up ever since.

Oil started to replace coal as the primary energy source in the late 1800s. During the Age of Oil, two main ideologies emerged: capitalism and communism. The Iron Curtain kept the Soviet Union and its allies in and trade out. It shrank the worldwide trade network, which then linked Japan and southeast Asia, Latin America, Europe, and North America. International airport cities along the network—Miami and Los Angeles—became key points in that network as air transport began to reshape where various locations “fit in.”

The birth of the modern

In our current Age of High Technology, the collapse of the USSR in 1990, NAFTA, the formation of the European Union, and the events of September 11 have brought with them a new economic geography. North America, traditionally three countries, is now one trading bloc in the global marketplace. It's one of three large trading blocs: the Americas; Europe and Russia; and Asia.

With a new world configuration comes new transportation strategies. The UK has a tunnel to connect it with the rest of Europe, and Scandinavia has a 16-kilometre bridge and tunnel joining it to western Europe. The Eurasian Continental Bridge, which some are calling the new Silk Road, now links Asia with Europe via railroad. It's 10,800 kilometres long, begins in Lianyungang, China, and ends at the Port of Rotterdam in the Netherlands, Europe's largest Atlantic port. The Suez Express takes Asian goods through the Mediterranean and directly to North America.

The 21st century will belong to China. It has 1.3 billion people and not a lot of resources. Siberia has vast resources, as do south and southeast Asia. That's the competition now. With all these changes, the question has arisen of how we maximize opportunities and meet the challenges of the new economic geography.

North America is now the island nation in a global economy. We have to build bridges, and key points on the island will become critical. Where Atlantica fits into that structure is something this region needs to consider and, having reached its conclusions, it needs to act on them. Decisively.



Michael Gallis, commenting on a slide of the east coast of North America.

Other communities have done it

Twenty years ago, Charlotte, a small city in North Carolina, lost its textile plants. Every fourth person didn't have a job. The city had just spent \$10 million on an action plan that proved disastrously inappropriate to the city's true circumstances and economic vocation. People were depressed and were asking themselves what went wrong.

Charlotte prepared a new community economic assessment and inventory of resources as a tool for promoting the community to potential investors. Its biggest employer, education—universities, community colleges—was left out. Charlotte had only looked at narrow silos and failed to see the real resources of the community. To help them understand what went wrong, we built a process that looks at four things:

- * Leadership, which includes leaders from the private sector, public sector, and institutions;
- * Information, such as market, environment, transportation, and where the city fits into that;
- * Community, which asks whether people understand the process;
- * Management infrastructure, to support people's efforts and carry them forward.

Affluence has led us to complacency in North America. Our bureaucratic structures don't allow anything new to happen. The overriding issue of our age is to harmonize political and economic units — exactly the issues that community leaders in Atlantica are increasingly attempting to come to grips with. Projects like Atlantica bring leaders together, from the private and public sectors, as well as institutions. Although the private sector drives projects, projects don't involve just that sector. Everyone talks through the issues. At a local level, leaders come together to see the opportunities. Politicians come to understand economic realities. And leaders build the will in the community to go forward.

That's where change comes from, and that's how bridges are built. •

Managing the Atlantica Border

The stakes at the border are now as high as they've ever been



The greatest obstacles to realizing the dream of a highly integrated regional economy in Atlantica are political. NAFTA made the line through the heart of our region chiefly a political one, but it is a political one with still significant economic effects—effects that we must now work together to remove.

We need authorities on both sides of the border to be willing to look at transport infrastructure as an integrated regional whole, rather than as the two tail ends of our respective national transport systems.

We need to move beyond the tariff-free movement of goods to a truly open market, in which non-tariff barriers to trade are removed, including the barriers to free movement of workers and services as well as goods.

We need to demand that our political leaders complete the market-opening actions they've started but not finished. NAFTA remains incomplete. We are treading water on negotiations for a free trade zone linking the EU and NAFTA—a zone that would tear down the transatlantic barriers that stand between us and opportunity. And it is clear that political forces hostile to freer trade are more powerful in the Washington political estab-

lishment than they have been for decades.

To these already powerful trends has been added the devastating effects of September 11. America already has a powerful isolationist streak; to that now has been added the concrete proof, to their eyes, that the world is a dangerous and dark place, and one where friends are few and far between. Americans have developed an admirable sense of solidarity in the wake of the attacks, but that solidarity comes at the price of considering everyone else a potential threat. This changes fundamentally the atmosphere that prevailed before September 11 for Canada-US relations and particularly the deepening of our economic relations. Where before all thoughts were turned to how to make the barriers at the border disappear, suddenly Americans are thinking of reinforcing the wall that separates them from the dark world.

This has, of course, given rise to some silly paranoia, as officials in Washington have tried to put it about that Canada was somehow responsible for the entry into the US of some of the authors of the World Trade Center attacks. No one let them into the US except Americans. But as smug as that may make Canadians feel, it is really to miss the point.

That point is that September 11 has driven home to Washington how the institutions of a free society can be turned into weapons to be used against them. Relatively open borders is one of those institutions. Whether terror-

ists came in from Canada last time or not, our border is an area of vulnerability that Americans will manage in order to maximize their own security.

But if that means hours of delay for goods, services and people moving across the border, it will hurt us badly everywhere in Atlantica. There is, of course, the impact on the immediate movement of goods. Of course, every delay and border hassle doesn't just raise costs for existing businesses. It makes potential new investors question investing in Our Shared Region when that region's economic coherence may be subject to unpredictable political risk in the form of strict border controls.

The stakes at the border now are as high as they have ever been for those of us who live near the border, on whichever side of the line we find ourselves. For Canada, I believe that this means making absolutely clear to the Americans that we are a trustworthy partner who is ready to work with them to create a well-policed continental perimeter within which we can all feel as safe as possible. Then we can get on with the business of dismantling the barriers to the movement of goods and services between our two nations on which our mutual prosperity depends. This wall doesn't have to be loveable, just liveable.

Excerpted from a presentation by Brian Lee Crowley to the first Maine-Maritimes Business Summit, held in Halifax, NS, on Sept. 11, 2003.

Toward the Common Good

Some of the forces that drove Canada and the US apart are now flowing strongly in favour of increased co-operation

Two and a quarter centuries after the American Revolution, it is sometimes difficult for us to recall that the continent was not always divided into two halves as it is today. After the end of the French colonial regime and Quebec's integration in the British Empire, our part of North America was united under British law and administration, although enjoying various degrees of local self-government and having populations of varying composition.

In 1776, the two halves of the continent chose different experiments in self-government, requiring a political dividing line. That political border remained quite open, though, except for occasional periods of belligerency, such as the War of 1812. Commerce, intermarriage and other forms of exchange between our two societies continued to grow, and we even had a 19th century Free Trade Agreement, known then as Reciprocity.

New England was one of the economic powerhouses of the United States, and the vigour of its trading energy was such that not only were New Englanders to be found throughout the expanding United States but also in Canada and abroad. One of the most famous characters in Maritime fiction is a 19th century New Englander named Sam Slick.

The Maritimes and Quebec maintained strong trading ties with New England and New York. In fact, the Maritimes were, until the creation of Canada in 1867, the economic powerhouse of British North America. We had a quarter of Canada's manufacturing enterprises, including both its steel mills, six of 12 rolling mills, eight of 23 cotton mills, and three of five sugar refineries. Halifax was home to more than a dozen banks, two of which went on to become members of Canada's Big Five banks. Much of that industrial might went to the United States in the form of exports. We were a trading region, and Central Canada was far away.

And yet, over a period of a century or more, these pieces of a natural trading region progressively turned their backs on each other. Instead of the border being the political dividing line it needs to be, it became much more. Canada made a conscious decision to change the orientation of its economy from a series of regions trading north-south to a single national economy trading east-west and built around a new transcontinental railway. Tariff walls went up, and economic activity was sucked out of Atlantic Canada, which had been dependent on international trade with New England, the Caribbean and Europe.

In Quebec, Montreal became the terminus for intra-imperial trade, the second greatest commercial city in the Empire after London, the funnel through which the wealth of Canada's productivity passed on its way to Great Britain. But to the east of Montreal there was nothing but a sleepy hinterland. A border that had been almost exclusively a political dividing line became an economic one as well. Deprived of its natural partnerships, much of eastern Canada withered, and so did the regions on its borders.

So technology (in the form of capital-intensive railways), politics (in the form of nation-building enterprises on both sides of the border) and economics (in the form of the growing cost of pursuing international opportunities) all conspired to drive us apart. Our region has slumbered as a result.

But no more. Two of the three forces that drove us apart—technology and economics—are now flowing strongly in our favour. People of vision and imagination will see this moment for what it can be: a decisive turning point in this region's history, one that is generating huge opportunity for us, if only we can seize it.

But there are no guarantees. If we do not make the right decisions, we will surely relapse into our dogmatic slumbers, not to be heard from again for perhaps another hundred years. We are bound together in a common future, but that future will only be what we make it. For the third force that originally drove us apart, politics, is not flowing so strongly in favour of reclaiming our regional heritage as an industrial powerhouse and the place where the Old and the New Worlds meet and mingle. If we can get our politics aligned with technology and economics, there will be no stopping us.

Our future and our comparative advantage lies in exploiting the geographic gifts that God has bestowed upon us unbidden and in the marriage of the new and traditional knowledge that we have accumulated through history and our own hard work. We have a historic opportunity as a region to make a quantum leap into a distinctive economic vocation that draws on all our natural strengths and talents, a vocation that puts us near the centre of not merely the greatest bilateral trading relationship in the world but also at the intersection of that and the 40% of all world trade that takes place between NAFTA and the EU. If we can derive from that only a fraction of what New York and its hinterland have done, we will have done something truly remarkable for ourselves and our children.

Excerpted from a presentation from October of 2003 to the Bangor Savings Bank dinner in Lewiston, Me. To read the full text, go to www.aims.callibrary/lewiston.pdf.



The Maritimes was once a strong trading region.

Plugging in the International Northeast

A Canada-US dialogue on solving regional electricity challenges

Under the old dispensation, Northern New England was the end of the line in the US, while Atlantic Canada was the end of the line for the Canadian transport system. But in an era of continental integration, such as we have now entered, both are on the road to the main partner in a continental relationship that we are in the early stages of building.

Although this is probably pretty unexceptionable in, say, transportation terms, not nearly enough attention is being paid to the implications of this for power markets in this corner of North America. There is still far too much talk about each jurisdiction moving to solve its little piece of the puzzle in isolation from the decisions of consumers and producers in neighbouring jurisdictions, still too many people believing that they can dictate local prices, for example, in defiance of surrounding economic realities.

Yet it seems clear that electricity is increasingly being transformed into a commodity, and the costs of trying to pursue a local isolated policy in defiance of the economic forces shaping the emerging regional and con-

tinental energy market are going to keep rising and will, sooner rather than later, become prohibitive. Even today, utilities on this side of the border are only too aware of how policy made in Washington by the Federal Energy Regulatory Commission (FERC), for example, is setting the rules

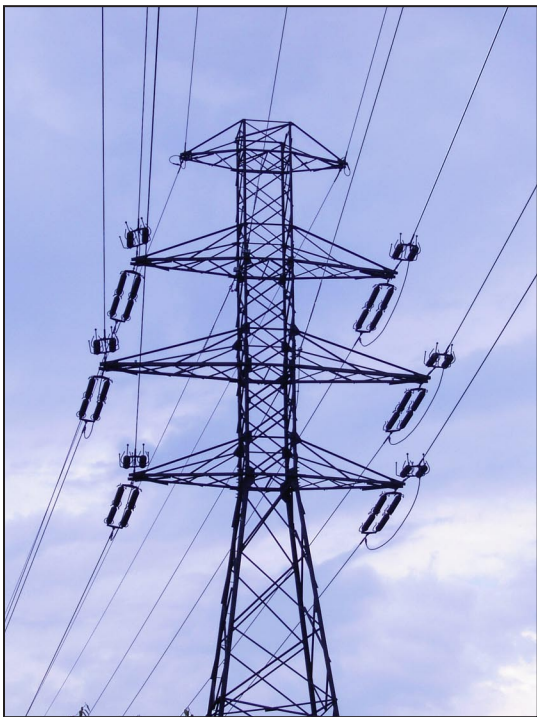
for interconnections and access to our own markets because of reciprocity considerations. This is another sign of the increasing integration of markets and institutions on a continental scale.

I have just returned from a conference in Bangor, Me., about regional coherence in the International Northeast (Atlantica). The focus of that event was largely transport infrastructure, but a host of topics was raised, including electricity. There was discussion of the proposed new 345 KV AC high-voltage transmission line, which as I understand it will only be the second such connection between the Maritimes and the US. This project is expected (subject to FERC approval) to be treated as a “regional reliability project:” one with benefits to consumers and utilities throughout New England. It will increase the capability for electricity flows in both directions across the border—a powerful thing in the wake of the blackout where the Bangor Hydro representative said that had they not been able to send power across the border during the fluctuations leading up to the blackout that it would have hit them as well.

Other potential benefits of just this one cross-border project include line-loss reduction that can lower the cost of import and export delivery, general access to more generation spread across a wider range of fuels, more competitors in the electricity market, new market options to generators on both sides of the border that may now or soon will be underutilized, provides northern Maine with access to new supply options, it allows better balancing of peak demand between winter and summer, and so on.

Whether these claims on behalf of this individual project are correct or not is not the issue here. Rather, this particular project’s arguments illustrate perfectly the logic of where we are headed in field after field: the benefits of regional coherence in an era of continental integration and global competition can scarcely be overstated. And those regions that do not achieve the needed degree of coherence will simply forgo economic opportunities and investment, which will flow to regions that present a profile of efficient infrastructure and institutions.

Plugging in the International Northeast was the second major electricity conference co-organized and hosted by AIMS and ECANS, the Electricity Consumers Alliance of Nova Scotia. This is an excerpt of Brian Lee Crowley’s opening talk.



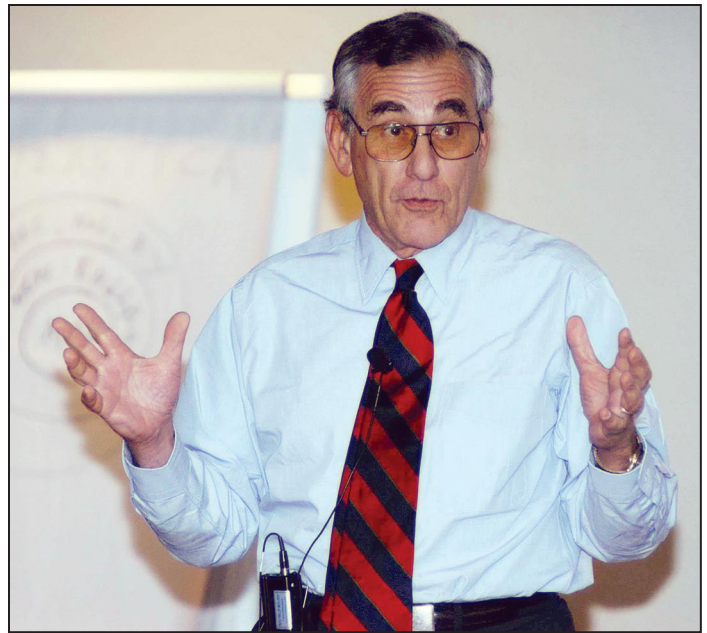
Sparking Action on a Regional Power Grid

A recent AIMS paper says there is a natural benefit to establishing a regional electricity market in the Atlantica region straddling the Canada-US border and proposes an innovative mechanism for drawing provinces and states together to create this market.

“The Atlantica Power Market: A Plan for Joint Action” by Gordon L. Weil (October, 2003) argues that the region is primed for the development of a more competitive regional market for electricity. The problem he considers is how to get the provinces and states to operate their power grids to promote the development of this market.

Dr. Weil, who has been involved in national and international energy policy since 1980, proposes that each participating state or province adopt identical laws that would set the basic rules for open access to the power grid for market participants.

Power exchanges among players in New England, New York, the Atlantic provinces, and Quebec are in decline, Dr. Weil says. These areas constitute Atlantica. “There has to be commitment at the most senior political level to make this happen,” he says. “Regional leaders have to sit down and decide how to promote more co-ordination and uniformity among regulatory authorities.” Political leaders in both Canada and the US often speak of the benefits of closer links in the Atlantic region, but little progress has been made so far.



Gordon Weil, Weil Consulting Group in Augusta, Me.

“The prosperity of Atlantic Canada increasingly depends on how we deal with energy issues,” says AIMS president Brian Lee Crowley. “There is clearly a growing awareness of the importance of regional co-operation. It is vitally important that the people crafting energy policy continue to examine strategies of building markets with our neighbours to the south, building on common interests and exploring our economic potential.”

The paper is at www.aims.callibrary/weilfinal.pdf.

NB’s Electricity Market Opportunities

“New Brunswick, on its own, is too small to function efficiently as a stand-alone electricity market in the North American context. Our small size limits the ability of a market to function competitively and efficiently. New Brunswick needs a bigger, level field on which to play. And with the movement underway in New York and New England to combine their markets, an expanded northeast market is forming quickly.

“New Brunswick has an opportunity to strike out in pursuit of the next phase of market restructur-

ing. We have the opportunity for a broad, integrated electricity market that stretches across borders to include all three Maritime provinces and become a functioning part of the developing regional market. Players in this expanded market territory could enjoy important advantages like harmonized transmission tariff rate structures and a common set of environment goals.”

Stewart MacPherson

Former acting president and CEO, NB Power



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