

Managing the Atlantica Border

*Text of remarks by Brian Lee Crowley, President,
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Ladies and Gentlemen,

Thank you for the kind invitation to be here with you today.

I am here to tell you the story of a single region, divided only by history and a common border and united by one of two possible futures. That single region is what we, at my Institute, call Atlantica, a region that embraces northern New England, northern NY State, Atlantic Canada and parts of Quebec. And while I am going to take a moment and talk with you about the past and the border that have divided us, I will take the lion's share of my time to talk about the two alternative futures that lie before us, and the choices we must make together if we are to take the road of prosperity, growth and progress, especially post 11 September.

How we became divided

Two and a quarter centuries after the American Revolution, it is sometimes difficult for us all to recall that the continent was not always divided into two halves as it is today. Indeed, after the end of the French colonial regime and Quebec's integration in the British Empire — until 1776, 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, but that political border remained quite open, 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 C. New Englander named Sam Slick.

The Maritimes and Quebec maintained strong trading ties with New England. 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, 8 of 23 cotton mills, 3 of 5 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.

That era was ending, and ending rapidly, before 11 September, altho' there were still important obstacles. 11 September will either accelerate those trends, or will prove to be a decisive brake on progress. Which it is may depend a great deal on what we do.

What is bringing us together

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. That is why I say that 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.

Economics

The economic forces driving our region's potential renaissance are obvious. All of the world that has hitched on to the powerful trend toward trade liberalisation has enjoyed unparalleled growth, while those who have remain aloof have withered. Compare the Taiwans, the Hong Kongs, the South Koreas, the Singapores, with the Cubas, the Burmas and the North Koreas. Compare the Argentina or Brazil or India or Ireland of today with the same country a mere 10 or 15 years ago. Wherever trade has been allowed to work its magic, it has grown faster than national economies.

Trade between Canada and the US is the largest in the world, a billion dollars worth of trade every single day of the year. Over 300,000 trucks enter Maine alone from Canada every year, about a 50% increase in only 5 years. About 3.5 million people pass into Maine each year through the St. Stephen border crossing along. It was realities like this that drove our two countries to conclude a new reciprocity agreement for a new century, the FTA, giving us both the tools to manage that huge trading relationship more intelligently and thoughtfully. But of course the benefits were so clear, that we immediately saw the advantage of extending that deal South, and bringing Mexico into our continental trade pact.

Around the world, such regional trade pacts are blossoming, whether it's Mercosur in South America, or the EU, or more embryonic groupings in Asia, Southern Africa and elsewhere.

And why is freer trade such a powerful force for growth? Of course it does help to keep inflation low and keep our industries under pressure to be competitive, but that's not its primary strength. That primary strength is that it forces everybody to specialise in what they do best.

Specialisation is the key.

That's why the United States is such a powerhouse in the entertainment industry, or in software, or in defence technology. That's why Montreal is doing so well in aerospace and biotechnology, New Brunswick is a world leader in the nexus between telephony and information technology, and Nova Scotia is a world centre for ocean industries.

That's also why the textile and shoe and furniture and steel and shipbuilding industries that used to be such a feature of this region have long since fled to other places where people do them better than we do.

Free trade relentlessly presses us to discover what we're good at and to put all our productive efforts there because that's what most benefits us and our customers around the world. And what we're good at is a constantly moving target, as producers all over the world jockey to gain a competitive advantage in every field.

So the key to economic success lies in identifying your main strengths, and not holding on to the past. In such a world, the region that embraces New England, Quebec and Atlantic Canada, the region that my Institute calls "Atlantica", has some very distinct advantages. Let me mention just a few.

Trade and transport

This region is the meeting place of Europe and North America. Already some 40% of the world's trade takes place between these two trading blocs, and that trade is already slated to grow tremendously. Europeans want a foothold in NAFTA, just as all of us want to be poised to take advantage of the tremendous opportunities created by market-opening policies in the current EU, as well as the expansion of the Union to the East in the coming years.

Our region is the natural confluence of the New and Old Worlds. Quebec speaks one of Europe's great languages, the rest of us speak another. Montreal and Halifax are two of the great seaports on the Eastern Seaboard, and as shipping technology moves progressively to post-Panamax shipping, Halifax can grow enormously in importance as one of the very few ports able to accommodate these behemoths without dredging. Halifax is also a day's sailing time closer to Europe than New York, a port already choking under great traffic volumes and a congested rail network for distribution.

And piggybacking on that shipping advantage, it is not hard to see a flowering of this region's transport infrastructure, as Halifax struggles to improve its own rail links to Montreal, and South and West, through Maine and the rest of New England, as truck and air traffic increase, and as more and more of the region and the continent see Halifax not merely as a port of entry, but also as a port of exit toward Europe. Fast ship transshipment technology will allow ports such as Boston and Montreal to benefit from Halifax's natural strengths too.

Continental free trade and globalization may be putting an end to the isolation of Atlantica. The east west axis for development of the two half-continental national projects in North America is being supplemented by a drive to stitch back together the old north-south trade routes that had flourished across the continent before 1867. The US will spend US\$400-billion over the next few years on priority

highway construction, for example, almost all of it on north-south routes, such as the North American Superhighway running from Winnipeg to Mexico City.

For the moment, none of that money is earmarked to fill in the obvious gaps in Atlantica's transport infrastructure. The connections from St. Stephen New Brunswick to Bangor, and thence to Montreal or to northern New York and then Toronto, Detroit and points south, are still laughable. Yet St. Stephen-Calais is the eleventh most important road crossing linking the world's two largest trading partners. Over 300,000 trucks from Canada enter Maine every year, a number that has doubled in only five years.

For years, Canada and the US turned their backs to each other at the Maine-New Brunswick border. Maine's transport infrastructure was starved because, surrounded on three sides by Canada, it looked to American transport planners as if you couldn't get anywhere from Maine. Under the half-continent model, the transport problem of the Atlantica states was to join the party to the south. Our problem here was to get around Maine. In the free trade era, Maine and the northern New England states are looking east-west, not south, and we are shipping containers to Chicago and natural gas to Boston.

If Atlantica is to escape the role of geographic backwater to which the last century relegated us, the coalition we must build is a cross-border one. Many American politicians, including both New York senators, have endorsed a call for Washington to examine the transport infrastructure in the corridor from Halifax through northern New England and New York.

I would ask you to consider that some of the world's greatest growth points are precisely in those locations that serve as the point of interchange 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.

Energy

Then there is the region's future as an energy giant. The St. Lawrence basin is one of the continent's last great hydrocarbon basins, and both natural gas and petroleum are flowing in prodigious quantities today from the very few holes that have now been brought into production. Based on the boom in natural gas alone in the Nova Scotia offshore, we can safely assume that the population of metro Halifax will rise by between 100,000 and 300,000 in the next ten years. We've already got the fastest growing city and the 2nd hottest housing market in Canada, and full employment in the city core.

Trends are similar in St. John's, Newfoundland, where business activity is higher than it's been in living memory, and welfare rolls are at their lowest level in 5 years.

The pipeline that already links Nova Scotia to Boston through the heart of this region is the spine of a whole new economic entity. And you will note that it is no accident that it was built, not to take that gas into the industrial heartland of Canada, but to help us re-establish our vital links with our historic partners in New England, creating opportunities throughout the region.

Soon that pipeline will be joined by other energy conduits, over and above the electricity links that

already exist. Not only is there potential for more pipelines, but soon we will be supplying the energy in natural gas to New England in the form of electricity. If it is true that environmental opposition makes new future high tension transmission lines doubtful in New England, then we can be sending environmentally friendly natural-gas-generated electricity to your energy-hungry consumers by undersea cable, invisible to land huggers like ourselves. The market opening policies of your Federal Energy Regulatory Commission are also making it likely that more and cheaper electricity will be flowing across the border from hydro producers in Newfoundland and Quebec, while bringing the forces of competition and change to previously closed electricity markets in all the provinces.

Politics

We come now to the last of the three great themes I promised you that I would treat today: politics. And I suggested that politics was the force that threatened the great regional progress that both economics and technology could deliver to us.

Free trade is about specialisation, but it's also about other things. In particular, trade is about greater competition, which weakens the power of vested interests. It is about greater opportunity for millions rather than privileges for the few. That is why the vested interests will always try to use politics to frustrate competition and free trade, because these two forces move power into the hands of those who are most adept at satisfying consumers. These are not at all the same people as those who wield significant political power.

It is often said that people who believe in markets are conservatives, but this is quite wrong. There is no more potent force for social change and progress than markets, that reward what you do and the value you create rather than who you are. Politics, on the other hand, is a profoundly conservative force, because it gives tremendous blocking power to established interests, and little or no weight to opportunities that have yet to be actualised.

The greatest obstacles to realising the dream of a highly integrated regional economy at the confluence of Europe and North America, are political. NAFTA made the line through the heart of our region again chiefly a political one, but it is a political one with still significant economic effects, effects that we must now work together to remove.

For we can only realise the benefits I've outlined if, for example, some of New England's excellent banks can extend their activities into Atlantic Canada and Quebec, breaking the stranglehold of Canada's too-centralised banking system on our region.

It can only come if authorities on both sides of the border are willing to look at transport infrastructure as an integrated regional whole, rather than as the two tail ends of our respective national transport systems.

It can only come if we 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.

It can only come if we demand that our political leaders complete the market opening actions they've started but not finished. NAFTA remains incomplete. We are trading 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 establishment than they have been for decades.

To these already powerful trends has been added the devastating effects of 11 Sept. America already has a powerful isolationist streak – to that has now 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 11 September 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 to which I have already alluded.

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 us feel, it is really to miss the point.

That point is that 11 September 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 terrorists 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, including in Atlantic Canada. We've already talked about the impact on the immediate movement of goods, a matter with which this group is far more intimately familiar than I am. But of course every delay and border hassle doesn't just raise costs for existing businesses. It makes potential new investors question investing in Canada when access to our chief market may be subject to unpredictable political risk in the form of strict border controls.

Nationalists always present free trade with the US as a loss of Canadian sovereignty. What they forget is that the Americans have sovereignty too and can use it in ways that are deeply damaging to us. Free trade is often a delicate balancing of a loss of our own freedom of action in exchange for the Americans accepting the same.

The stakes at the border now are as high as they have ever been for Canadians. This country needs to make 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.

But what does this mean in concrete terms? What models have we got to look at here in Atlantica in terms of deeper cross-border integration and co-operation, the continental perimeter and all the other issues we are hearing discussed all around us every day?

As cross-border contacts increase, local officials, in partnership with business interests, community-based and other relevant groups, play increasingly significant roles in the ongoing discussions about and the making and implementation of policies that affect their lives. While in most instances such participation is locally-generated and privately funded, in at least one instance, the EU, supranational institutions provide much of the funding. In another, very notable instance, the Pacific Northwest (Cascadia), a remarkably well-organized public-private effort has been able to count on funding from state, local, and U.S. federal funds to pursue its objective of adapting national policies to the region's unique requirements and opportunities. In all instances, however, two weaknesses have become obvious.

1. The lack of an effective means for border communities to build their capacity to strike local cross-border coalitions and articulate their interests; and
2. The lack of a formal mechanism for communities to convey their interests to the appropriate central government policy-making bodies in a manner that guarantees a fair hearing.

Central governments need to create regular and systematic opportunities for local interests to be brought into the decision-making process about issues that affect them. The U.S.-Canada and most other borders we have studied are undergoing enormous—and extremely fast-paced—social and economic transformations. In light of such transformations, the public sector at the capital city may be the least well-equipped entity to shape and manage such changes effectively. Our capital cities in both Canada and the US are far away from the borders and think about issues, and set priorities, in ways that often militate against giving localities the space and flexibility they need to set and pursue their own priorities—even when this is done within the legal framework of national government policies.

Central governments typically view borders as "zones of conflict and exclusion" and use symbols and language that reinforce that imagery. Such views, however, often contrast sharply with the views of localities, which view the border as places of commercial, social and cultural interchange with a part of an often single community that just happens to be in a foreign political jurisdiction.

Central governments typically think of their responsibilities toward borders within the framework of "reasons of state." Such thinking, especially when "security" concerns enter the mix, reinforce the tendency of bureaucracies to make decisions unilaterally and thus ignore local dynamics and preferences.

Border controls should be seen as a means to an end, rather than as the ultimate policy goal portrayed in political rhetoric. Put differently, the end goal of inspection and enforcement efforts at the border should be the management of the border to a level of effectiveness that can prepare the ground for the serious conversation about how best to accomplish each neighbor's principal public policy priorities.

Here are some preliminary steps we should consider as part of pursuing and deepening the project of

keeping the border while reducing its impact on our lives, and especially its impact on our ever more intimate degree of economic integration. This is what a continental perimeter border might look like, according to Demetrios Papademetriou of the Carnegie Endowment for International Peace:

Each border inspection agency (the interests of between one and two dozen federal, state, and local agencies are represented in most major border crossings) should be required to analyze each one of the functions it performs at the border and asked to do three things. First, answer the question whether each of the functions can be done only at the border. Second, study and evaluate the costs and benefits to doing that function at the border versus doing it elsewhere. Third, answer the question whether any of its functions could be performed by the inspector of a sister agency. (An advisory citizens' panel could review each agency's report for responsiveness to the mandate.)

For instance, what if the Customs Service re-deployed its resources to doing many of its inspections and collecting all applicable duties at the point where the cargo is loaded in North America and employed available technology to seal the container(s) and transfer all the relevant information about the cargo electronically to any other inspection point?

What if Customs were then to employ a "risk management" methodology for performing its inspection functions and in return re-deployed some of its newly "released" personnel to joint investigative task-forces with agencies from either side of the border designed to uncover violations of various types?

What if all inspections and the collection of tariffs for all of the NAFTA partners were done either by one partner on behalf of the others or jointly—but always once—at the first point in which a cargo from a non-NAFTA country enters NAFTA space?

What if the remaining border customs inspections were done also once—by either national customs service—so as to accommodate staffing, physical infrastructure, and topographical idiosyncrasies? (Isolated instances of "sharing" are already in place but they have proven to be politically very difficult.)

What if the existing systems of customs brokers and private bondsmen were utilized to an even greater extent and were given even greater power and responsibility—and, by extension, penalized more severely for failures of either omission or commission? And what if it was thus the private sector that grew to accommodate the growth in demand, rather than the public sector agencies whose growth depends so completely on the finances and priorities of the national governments?

What if the private sector were to be relied upon more consequentially in areas ranging from technology to the building of better infrastructure wherever it is needed (through liberalized public-private partnerships and pay-as-you-go projects).

What if the Immigration Service were to move in the same direction as Customs, that is, did all third country (non-NAFTA) immigration controls at an individual's first point of entry into NAFTA space? (Pre-clearance technology and intelligence cooperation in many instances is already significant enough to expect that this method can be accelerated without any significant loss of control.)

What if Canada and the United States, initially, were to agree to a common visa regime for

the widest band of countries each country could accommodate and exercised much greater care in the issuance of visas for the citizens of countries about which visa free entry could not be agreed to by the other country?

What if Canada and the United States agreed to gradually liberalize the movement of each other's nationals? Considering the special treatment that each has offered to the other's professionals, businesspersons, investors, etc. under the NAFTA, and in view of the extraordinary—and increasing—degree to which the two economies and their associated labor markets are integrated, formalizing any remaining movement may be a relatively small step to take. It might be instructive to note in this regard, however, that despite having reached absolute freedom of movement, intra-EU migration by EU citizens is miniscule. It stands at about 7 million persons or about 20 percent of Europe's foreign-born population, most of whom emigrated prior to the EU freedom of movement provisions coming into effect. (Concerns about the potential exploitation by the nationals of one country of another country's more generous social support systems can be addressed in a variety of ways, including the EU's method of a foreigner continuing to be protected by the social protection mechanisms of the country of origin for the first three months after "relocation." One might also be required to leave the country to which he or she has moved to unless (s)he has found a job within a specified period of time or has his or her own means of support.)

So where is Atlantica in all this?

I don't want to minimize what has already been accomplished politically in this region. We have been by far the most aggressive border region in terms of cross-border regional organizations; the Pacific Northwest/Cascadia and other areas have modelled their arrangements after ours. The Council of New England Governors and Eastern Canadian Premiers goes back nearly 30 year and the Gulf of Maine Council on the Marine Environment goes back more than 10.

In general, regional co-operation in New England and Eastern Canada has been pretty high on issues like energy development, acid rain, the environment, and transport. These areas have been those where common interests were strongest. On other issues, like trade and fisheries, where there have been significant conflicts, there has been relatively little co-operation. I think that's in part because we have not been discriminating enough in choosing our partners. The interests of Maine and Vermont and New Hampshire and even northern NY state, are quite different from those of Rhode Island or Boston or Connecticut. We have to be choosier about who we see as the people we are working with to build the cross-border coalitions that alone will allow us to gain the attention of policy makers in both national capitals.

What I want to underline in closing, ladies and gentlemen, is that political co-operation and action largely follows the growth of economic activity. In other words, it is the people in this room, and the forces that you represent, that will lead the drive for tearing down the barriers that still divide us. If you wait until politicians want to take the initiative before trying to build cross-border relations, you'll be waiting a very long time indeed. I'm convinced that it is as cross-border links increase, as the ties that bind us get denser, then the need for dealing with common problems increases. But the politicians will only follow where you lead. When they sense that there is an understanding in the public's mind that the benefits of tearing down these familiar old barriers outweighs the costs, then they will do so.

An example of some of the attitudes we must work to change is to be found in the Maine East-West Highway Study, published three years ago. Now please don't misunderstand me. I thought this study was a careful thoughtful piece of work, but I also thought that its strategic orientation was weak. Clearly the report saw the economy of this whole region, what my Institute's new Senior Fellow, Michael

MacDonald, former President of the Greater Halifax Partnership, calls the North East Atlantic Region, or NEAR, as essentially static. Growth will be small and incremental. The report looks west, to Ontario, as the central driver for the Canadian economy, and indirectly for Northern Maine. Finally, it sees trade across the border essentially in outmoded mercantilist terms. Canada has a trade surplus with Maine, and it's clear that this is seen as a Bad Thing, as opposed to a normal and natural part of the interactions between different parts of our economy.

This notion that trade deficits are a bad thing is really quite outmoded. Take an example from everyday life. You run a trade deficit every week with your local grocer, because you go in and buy your groceries and leave him a pile of money, whereas he probably doesn't buy very much from you. But what people forget is that you don't leave that transaction empty handed – you get the groceries you wanted for the week. By definition both parties are made better off by that transaction. If you didn't prefer having the groceries to having the money, you wouldn't have bought them, and the grocer wouldn't have sold them to you if he didn't prefer the money to the food.

But to return to the main theme, Northern New England's economic future does not lie chiefly in getting a share of Ontario's action, because this is not where the comparative advantage of this region lies. We don't want to be in the queue behind Michigan and Ohio and Indiana. And we know, after 125 years experience, that waiting for Godot is infinitely more satisfying than waiting for Ontario to rescue you from the economic doldrums.

We must not be satisfied with seeking a tiny share of what is already going on. We must not just see what is. We must see what can be, what we can create that adds value to our society and those we deal with around the world.

Our future and our comparative advantage lies in exploiting the geographic gifts that God has bestowed upon us unbidden, and the marriage of the new and traditional knowledge that we have accumulated through history and our own hard work. We have an 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 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. And that doesn't even begin to touch on the opportunity created by oil and gas and electricity.

But we have to work to make it happen. It will not occur simply because it can. And the people in this room are vital to this effort, because it is, as I've already remarked, when the ties exist on the ground that we can get the attention of politicians to liberalise trade relations, open the border, remove non-tariff and other barriers to trade and generally get out of the way so that we can do what we do so well.

Thank you ladies and gentlemen