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TRADE CORRIDORS AND NORTH AMERICAN COMPETITIVENESS

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The North American economy can best be visualized in the early 21st century as a deeply integrated continental system of supply chains structured by networks linking production centers and distribution hubs across the continent. These supply chains depend on an efficient and secure physical infrastructure of rails, roads and bridges, pipelines and wires, ports and border crossings and on a coherent and consistent system of regulations that affect individuals, machines, firms and goods.

This North American economic system emerged mainly through a bottom-up process driven by corporate strategies and investment decisions that focus less and less on national economies. The process began in the 1980s[1], when many major US companies responded to tougher international competition and falling profit margins by rationalizing their operations and reducing excess capacity tied up in Canadian (and Mexican) branch plant "miniature replica" operations.[2] They sought to build instead integrated North American production, marketing and sourcing networks.

Changes in North American markets drove this process as well. By the mid-1980s, because of the reduction of trade barriers in the GATT and deregulation distinct national markets in many sectors had begun to blur. Subsidiaries were becoming operations in Canada or Mexico rather than operations producing for Canada and Mexico, and branches that once owned national markets found themselves competing in new continental markets with other divisions in their own firms.

This degree of collaboration and complementarity between countries is unprecedented. But for the

result-a new system with levels of integration that often surpass that of the European Union-there is no adequate social science vocabulary. Efforts to force this North American system into standard economic integration paradigms confuse more than they illuminate.

A fundamental problem with the traditional trade paradigm is that it builds a model based on the exchange of finished goods across national borders. But this is not a productive way of imaging the substance of the North American economic system. What flows across our borders are not mainly finished goods. We collaborate in complex, cross-border production systems. For example, a quarter of the more than a billion and a quarter dollars of goods cross the US-Canada-Mexico borders daily is automotive. But we don't sell cars to each other. That's the key: We build them together.

We also share increasingly integrated energy markets; service the same customers with an array of financial services; use the same roads and railroads to transport jointly made products to market; fly on the same integrated airline networks, and increasingly meet the same or similar standards of professional practice. This is what economists call "deep" or structural integration.

The existence of this continental network of supply chains that cross national borders is a key differentiating factor of the North American economy. In Europe even today, major economic sectors continue to be characterized by national champions. One could argue that while Europehas a much more developed superstructure of integration, the economic substructure may well be less deeply integrated than is the case in North America.

This image of continental network of supply chains that cross national borders also helps us understand the extreme vulnerability of this system.

As a recent report jointly produced by the US CSIS and Canada's Fraser Institute observes, "The supply chains that span the U.S.-Canada border are unique in the global context. They are heavily reliant on land transportation that travels primarily through just a handful of key border crossings. Major shipments are routinely timed for delivery within hours, and sometimes to the minute."[3]

The point here is quite simple - we do not trade finished goods with each other. Our economies are deeply, profoundly, perhaps inalterably integrated. We are three sovereign nations who share what is in many cases a single economy. Interruptions at the border do not simply delay the delivery of a car, a TV or a suit. Border delay is much more dangerous than this. Delays disrupt complex supply chains on which tens of thousands of jobs and the welfare of many communities depend in all three countries.

Unfortunately, we don't know a lot about how companies organize their supply chains in North America. We believe that that, at least in several key industries such as autos, parts and components actually cross North America's internal borders several times as they move up the supply chain. But we really do not have clear and detailed maps of individual corporate supply chains.

What are trade corridors? One thoughtful commentator defines trade corridors as "streams of products, services, and information moving within and through communities in geographic patterns."[4] What is important here is that he does not define trade corridors simply as physical highways, superhighways or even super-corridor highways. We can best understand North American trade corridors as strategies developed by groups of business and municipal (and sometimes state and even federal) government leaders to attract to particular regions some of the increased flow of materials generated by deepening North American economic integration.

The key players in these organizations are entrepreneurs and officials from municipal governments. They remind anyone who has studied US history of the entrepreneurs and municipal government leaders who,

along with state and federal politicians, competed with each other to build and control the corridors - turnpikes, canals, steamboats and railroads - that opened the west in the early 19th century.[5] Then, as Thomas Cochran and William Miller wrote in their 1942 classic study of The Age of Enterprise, "transportation built markets."[6] Today, no one is pushing turnpikes, canals or railroads into the wilderness. The idea now is to connect existing dots on the map among alternative transportation modes and routes. But the motive is the same: to make connections that business will see as an efficient vehicle for trade and transportation. Those who connect production and distribution centers most compellingly expect to reap a rich harvest of market growth.

While the aims or these organizations are the same - to capture some of the flow of new north-south business and to use that as a foundation for economic development - approaches differ. Some corridor organizations want to build new transportation systems that would link urban regions and "clusters" in the US, Mexico and Canada. Some are more concerned with the development of cross border "natural economic regions." The key differentiating factor between these groups is emphasis. For corridor organizations, a linear corridor serves as the primary driver of development in clusters along its length. Regional development organizations seek to spur development within a specific contiguous area, and to improve transportation systems that link elements of clusters within that area and provide the clusters with access to outside markets.

Some groups believe they have a competitive advantage because of the existing resources they can mobilize along a corridor that links major transportation and production centers. Others see a competitive advantage arising from the very poverty of their region, because building a trade corridor would garner political support for government funds to support economic development in that area.

Some organizations consist entirely of private firms. Some were formed initially among government agencies or emerged following an agreement among governments. Most of these organizations enlist members from government and business.

Some organizations build on existing relationships among communities; others seek to construct ties among cities and towns that are barely aware of each other. Political alliances have been created to attract funds from state governments and federal agencies, particularly from the US highway legislation of the 1990s.[7] People join these alliances because they believe this is where the new business is, or will be - or could be.

We have to realize that there is a lot of old-fashioned Yankee boosterism in all of this. Associations are largely driven by entrepreneurs seeking commercial gain. They are often transient, with goals that change and strategies that start and stop, and with life cycles that depend on a few leaders willing to invest time and money in the enterprise. These are not the kind of deeply institutionalized government-business organizations we see in much of Europe, not the tightly knit informal networks we find in Japan.

However transient or informal, the trade corridors help us see a critical reality. We have said that North America's economic system cannot be meaningfully visualized in terms of trade among three nations. A more accurate map would focus much more on border associations, organizations of governors, and trade corridors linking urban centers, organizations and regions. More important still - and less visible on the map - are the entrepreneurial strategies that are embedded in these organizations.

Perhaps we can best think of trade corridors as maps of decisions firms have made about how to organize their production, distribution and supply systems, to capture regional specializations along extended supply chains that cross North America's internal borders and to create logistics mechanisms that will move components efficiently from plant to plant.

Trade corridors illustrate an exchange between firms seeking to build greater efficiencies into their production systems and supply chains and groups of local business and metropolitan government leaders offering solutions to help capture these efficiencies. As supply chains became more expansive, looking from Mexico to the US and Canada, more local leaders seek to construct alliances that will support these new business arrangements and, in doing so, leverage local economic development.

Around the Great Lakes region, for example, trade corridors consist largely of the supply chains of the automotive industry, mediated by bridges and tunnels. In Kansas City, Missouri, the decision of Mazda to use the Richards-Gebaur facility as a major transit hub stimulates more interest there by railroads and trucking firms and by a wide array of specialized logistics and other transportation support businesses, and helps generate the virtuous, reinforcing cycle sought by all corridor groups. The Mexican government has said it would locate its first foreign based customs clearing facility in Kansas City not because it is betting that this city will become a major hub for north-south trade, but because companies have already made it a major hub.

In the highly developed corridors such as PNWER (the Pacific Northwest Economic Region) and NASCO (North American Super Corridor Organization), the corridor organization creates a critical umbrella for the development of collaborative strategies among urban and state provincial leaders to encourage entrepreneurial development.

The course of trade corridors, clearly, is not simply a function of geography. Geography is obviously important, and trade routes have always tracked fine harbors, deep rivers and flat valleys. But entrepreneurs historically have seen different ways of getting from one point to another, to move between "gateways" and "hubs" - and technology, as when railroads replaced the canal barge as the freight carrier of choice, creates still more possibilities. My brief examination suggests that two other factors play a more powerful role.

First, geography is generally less important in determining which trade corridor will attract more business than the ability of those who visualize the corridors to build coalitions among communities along the route and political alliances to attract funds and other support from local businesses and from metropolitan, state and federal governments.

Second, and more important, the key element of success in developing trade corridors is probably the exercise of entrepreneurial imagination. Entrepreneurial imagination drives the utilization of new technology and draws new lines on old maps. In the end, what the trade corridor movement helps us understand most of all is the entrepreneurialism that drives North American integration.

In the last few years, there has been a lot of smoke from the trade corridor world. Behind the smoke, what has actually happened?

Certainly, there has been no movement toward anything like a coherent, rational, high-tech North American highway system. The vision of a system of North American Superhighways embodied in the US highway legislation in the early 1990s has not been realized. Congress rapidly increased the number of designated high priority corridors in subsequent legislation, and everyone joined in to earmark funds for his own corridors. The result is that the latest map of high priority corridors looks like a plate of spaghetti. To be sure, there has been significant improvement in pieces of highways, at some border crossings and in other related areas, but cooperation in resolving transportation issues has been slow[8], and no movement is visible toward developing a true North American highway system. Certainly nothing like the bruited about plans for super multimodal corridors, wired with fiber-optics and the latest digital frills, has come about. If anything, the general state of major highways in the US has declined over the past decade.[9]

What this reveals, no surprise, is how difficult it is to build a continental highway system from

the bottom up. Organizing this process as a competition among Congressional districts for highway funds is not going to produce any kind of rational blueprint for a continental system.

Inter-modal linkages seem to have improved and there has been a remarkable increase of goods carried on North America's railways. But again, there is little sense of what happens next, now that there is little remaining capacity for increasing loads on existing rail systems.

The SPP (Security and Prosperity Partnership), one might imagine, would have encouraged the development of trade corridors by pushing forward harmonization of regulations that inhibit easy movement. But there has been little coherent follow-up and the entire SPP process remains opaque. Indeed, the SPP has been widely viewed as a dangerous threat to US sovereignty - along with trade corridors such as NASCO.

Post-9-11 security concerns, concerns about drug trafficking and illegal immigration have all heightened border delay and intensified border risk for companies who supply chains cross our internal borders. As Mary Brooks observes, "rising security concerns post 9/11 have resulted in increased border delay, which has damaged the credibility of the just-in-time system. The result has been to boost buffer stocks, and force just-in-time supply chain managers to re-examine their sourcing options; it is of concern to Canada that many U.S. companies will source domestically rather than within NAFTA due to border uncertainty."[10]

This is not to suggest that nothing interesting is being done. I am well aware that many people are looking at particular regional and corridor issues with imagination and energy. But all of this does not add up to a coherent understanding of what North America's transportation and logistics needs will be over the next decades if economic integration is to continue, if the North American system is to remain open and more inclusive. Nor does any of this suggest how decisions can be made - and who will make them - regarding the creation of a strategy for developing and executing a North American transportation system.

What steps might be taken to improve this situation? First, no vision exists of what a North American continental, multimodal transportation system might look like. What is needed desperately is a continent wide discourse on possible scenarios for the next, say, 25 or 30 years. What are the options for a mid-21st century North American freight transportation system and how will corridors and metro regions fit into these models? Second, research remains fragmented in national and modal silos. No agency in any of the three NAFTA governments has been given responsibility for even thinking in these terms and there is little evidence of any serious interest in the research community - or funding - to venture down such a speculative path. Can we focus attention and develop networks among major transportation research centers to undertake new work that breaks out of these silos? There is little collaboration among the three federal departments of transportation and even the most recent infrastructure plans remain national in focus. How can we link the federal agencies and the corridor movements that are in fact creating a true cross border entrepreneurial infrastructure? There is no vehicle for exchanging information and experience among corridor groups and almost no research on how other regions - the EU, South Asia - are dealing with similar issues of national and modal coordination. The bottom line here is that while there is much to do and not much time to do it in, there are many resources that could be focused on these issues.

Endnotes

1 The model for integrated production systems was the Auto Pact signed in 1965, although this was a response to the particular needs of the auto industry.

2 See Stephen Blank and Jerry Haar, *Making NAFTA Work: U.S. Firms and the New North American Business Environment* (Miami: Published by Lynne Rienner North-South Center, University of Miami), 1998.

3 Joel Webber, NETWORK-CENTRIC SECURITY FOR CANADA-U.S. SUPPLY CHAINS (Fraser Institute, CSIS) 2005, p. vii

4 Michael Van Pelt, "Moving Trade: An Introduction to Trade Corridors" (Work Research Foundation, May 2003)

5 The early effort led by Calhoun to create a national transportation strategy ("Let us then bind the Republic together with a perfect system of roads and canals...Let us conquer space.") failed, brought down by President Madison's Jeffersonian views on such matters. Monroe's efforts fared no better. (See Charles Sellers, *The Market Revolution: Jacksonian America 1815-1846* (Oxford UP, 1991)

6 Thomas C. Cochran and William Miller, *The Age of Enterprise; A Social History of Industrial America* (Macmillan Company, 1942)

7 We must underline the importance of the Transportation Equity Act for the 21st Century. "TEA 21" authorized a wide array of highway, highway safety, transit and other surface transportation programs. Included was $700 million to support trade and improve security at borders and to design and construct corridors of national significance. Groups that formed corridors hoped to tap into TEA21 funds. This occasioned much controversy over share of TEA21 funds that were directed to domestic corridors and how much to "NAFTA corridors".

8 See, eg, the "Initial Five-Year Plan for Increased Cooperation in the Field of North American Transportation Technologies" signed by Canada, Mexico and the US on June 12, 1998.
http://www.tc.gc.ca/pol/naftaalena/en/plenaries/plenary_1998/TCG4.htm

9 The "2003 Report Card" by the American Society of Civil Engineers, for example, awards a D- for maintaining existing roads and bridges.
(http://www.asce.org/reportcard/index.cfm?reaction=full&page=6#roads)

10 Mary Brooks, "Mapping the New North American Reality: The Road Sector," Study Group on Mapping the New North American Reality, IRPP.

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