ATLANTIC INSTITUTE FOR MARKET STUDIES
BREAKFAST WITH MICHAEL GALLIS

MAY 13, 2004
Part 1

From the Silk Road to the Age of High Tech: The imperative of position in global trading patterns

MR. GALLIS: This morning I'm going to share with you information that we got from different projects. We use graphic information, visual because we have found that there's actually three languages: There's a written language, there's a narrative language, and there is a visual language, diagrams we can read quickly and understand concepts. Because when we're talking about regions and spacial units, How do they fit into the patterns?

We've talked about these nations and states and economic regions within the global network. Now nations states are political units; economic regions are market areas. Two different things.

The first thing we talk about is where are we in time and where are we in space and by that I mean, where are we in our evolution? Is it just another day; or is it, in fact, an entirely different period? How are we thinking about the situation we're in? The second is the global network, where do we fit in the new world trade patterns? Do we understand where and what those flows are about - time, space.

The fundamental issue of the global age, the political geography does not fit the urban economic geography. There used to be a Communist world, and a free world - two networks, now we have one. We thought only they would change; we didn't think we were going to change. But certainly, when you're sitting with Sealand Maersk and they're talking about Halifax… New York wasn't aware that the pattern had changed. They just assumed they were always here. But it had changed. Where do we fit?

A new economic geography, new market areas, now we talk about trading blocks and we talk about economic regions. So how are we positioned in that market place and the new economy? When we thought of that we tend to associate with dotcoms. But it really was globalization of the marketplace, and the effects of technology on economic activity. First it was just about technology companies, then it was the realization of how that produced a new distribution and new organization of businesses.

So we saw this new organization of business create a new world order, back in 1990, for first time since the Russian Revolution in 1917 we talked about the world as an economy. We saw business mergers and alliances forming new global corporations. Who would have thought Exxon isn't big enough to compete in our global economy, or

Texaco is not big enough to compete. But we have the formation in every area from pharmaceuticals to banking, to autos.

After 9/11, we began to see things like this, time to reassess, redrawing the map. To understand the period we're in, we've stepped back in history, this was the Silk Road, the first international trade route when continents were first linked. Alexander gets to India; Europeans see silk for the first time, they love the stuff. Spices, suddenly a trade route by land and by sea, connects the Mediterranean basin.

Amazingly, as many as two or three hundred Roman ships go down the Red Sea, get all the way to India, all the way to Indonesia in fact, and a huge trade emerges. Key points in that network become the richest and most powerful centres on earth - key points in that world trade network.

When Columbus discovers America, they reorganize the world trading network. Suddenly London, that was a backwater in the age of silk, suddenly becomes the forefront of world trade on the oceans as does the Dutch ports. The rise of North America and we have a huge ocean networks, and the Silk Road essentially dies out. Suddenly these towns so rich and powerful become ghost towns. And when you are in a period of transition, such as the one we're in, we can clearly see the effects of capturing that moment or being left behind in that moment. Certainly, the entire Silk Road got left behind.

It's very interesting when we think of strategy because in this age, it was the British with seven key points in this network that could control world trade along, I call them with the seven jewels in the British Crown, it could control world trade for 250 years and become the richest country on earth. London, Gibraltar, the Mediterranean, Cape Town, tip of Africa, Bombay, control of the Suez and the Persian Gulf, Calcutta in the Indian Ocean, Singapore, and Hong Kong. With those seven points, you could control the movement of goods throughout that whole network.

Then comes the age of mechanization. Really the first true-blue economy, steel, steam, electricity. We forget it was also the first communication revolution with the telegraph. And the mechanization and movement of goods around the world mechanically rather than depending on natural forces. And a key lesson in American urban history, St. Louis and Chicago and I use it as this network spread across the world, across the entire world. Here's St. Louis, here comes the railroads. Do we want the railroads? They are noisy, they're expensive, they pollute, smoky. Chicago, desperate for transportation, invests in the railroad. St. Louis, which had been the great city in the mid-west, was passed by Chicago. And by the time they figured it out, they've played catch-up ever since. So unless at a moment of change one captures that moment of change, one doesn't really catch up after it has passed.

Then came the age of oil. Another new economy of automobiles, airplanes, radio. Both communications and industrial economy. But we also have Russia becoming a Communist country, we've got separation into two ideological camps, the free world and the Communist world. We've got new kinds of cities starting to emerge, I call them the inter-state international airport cities, which were Los Angeles, Atlanta, Miami, which suddenly within this grid they become key points in a network.

Then we have the age of high tech. - Information processing through computers and information transmissions through satellites and surface cables - wiring the world for global information transfers. During the same age we had China, parts of Southeast Asia, Eastern Europe all become part of the Communist world and there was an Iron Curtain between the two places.

But that collapsed in 1990. And now we have this global configuration representing the air route, sea route, roads, rails, telecommunication. We say, the world is getting smaller but it's not getting any smaller, it is being wrapped more tightly with more colours of string just like that ball. In ways that we can move around in these yellow dots are the key global hubs.

Now when we look at this for a moment, it's interesting to think what the 21st century is going to look like. Because in this part of the network here, we have China. We talk a lot about China, 1.3 billion people, not a lot of resources. But look what's north of China, Siberia. How much resources are there in Siberia? Vast - oil, minerals, timber. And what's south of China? Southeast Asia. How many resources there? Vast. So you have two of the largest resource bins in the world on either side of 1.3 billion of the hardest working people on earth, what do you think the 21st century is going to look like? That's the competition.

Now when we talk about transportation strategy - when the railroads were coming to St. Louis, and they said, How much do we spend on infrastructure, how much will we spend on a railroad? Was it a transportation decision? Or if you said, How much is it worth for us to be positioned in the global network? What is that worth? What discussion should make this happen? How are we going to be positioned in the network or how much should we spend on transportation?

In the same way that in today's strategy the question is, What is in discussion? How have we created a framework for understanding what that investment is going to be?

So the world we left behind was this, North America in the centre of the map, New York financial capital, Washington's political capital, Europe, Latin America, free parts of Asia. Communist worlds flanked on both sides only with political capitals. And we are in the centre of the map and we have established trade routes.

We call this the new economic geography, we now see North America, we see European Union, we see Russian Federation, China, by itself, India, by itself, Southeast Asia. We see new configurations emerging and new transportation strategies. The biggest transportation strategies in the world are being launched in China - integration of the railroads, the Continental Bridge - vast projects that will bring China into a world economy.

We talked in New England, it was funny, in Boston the city voted against expanding Logan and the people down in Providence, Rhode Island, said, we're having problems buying 150 houses to extend the runway. The people in New Haven, Connecticut said, that's nothing, they won't let us cut the trees at the of the runway to get the planes up.

So while we struggle with that infrastructure, you know, vast projects are going on in other parts of the world and we must look at ourselves in those trade patterns. The fastest growing trade route in the world was in 1990. Throughout the 90s came out of Southeast Asia, Southeast China across the Indian Ocean, pulling India into the world economy, up the Suez and we've got the Suez Express, across the Mediterranean changing European trade patterns, and finally bring goods across the Atlantic and directly into the east coast markets of North America.

A second route, has emerged coming out of Sealand Maersk called Pan-Pacific. Through the Panama Canal and up to the east coast. Huge changes in trade and the Atlantic trade coming out of Europe to North America, we put a red arrow here to signify Halifax - the emergence of Halifax as a key North American point of connection.

Now let's look at the world marketplace. How many people in North America? There were 280-million Americans in the year 2000 census, 280-million Americans, about 31-32 million Canadians. The Mexican census kind of varies considerably, but let's say about 110-million Mexicans. So you've got about 420- million people in North America.

How many people on earth? Six billion. What percentage of the world marketplace is that - are we in North America? Eight percent, seven point-something percent. So if think of that, think of that. Now if you throw in South America and the Caribbean, and Latin America altogether, you get 840-million people. 1.3-billion in China, that's only two thirds the size of China with all the Americas put together. North America, alone, is a third the size of China by itself. Ten percent of the world marketplace.

Now who is the island nation in the global economy. England now is connected by tunnel to Europe, of course, they're having a few problems with that now, but it is connected by tunnel. Scandinavia is connected by a bridge. I'll tell you who the island nation is, we're the island nation. We are the affluent continent, in the global economy, Europe you can go by land, by surface all the way into Europe from Asia, across Siberia, across Russia or over the Continental Bridge south of Russia.

So the entire pattern of world trade is going to change. Now we say we have the highest per capita income, et cetera, but look at the vast marketplace we've got to get to across here and that's why key infrastructure and key points in that trade pattern become so vital to North America.

We heard about world competition. There are two theories in the way nations compete. One is a micro theory and one is a macro theory. The micro theory says, take all your clusters - technology clusters, air, whatever, add them all up and that's what the wealth of the nation is. And then you compare them to clusters of others and you have your data so you know what the total is. The macro theory says, forget all the clusters, just take the workforce times the productivity.

Well, look at the North America, China competition. Three times the size. So if the Chinese productivity reaches one third of the North American productivity, their economy will equal all of North America. In fact, if they pass the one third productivity level, they pass North America.

In the United States we were having some debate about that. The United States says, Hey we want to cut ourselves off from North America. It goes down to 280 million versus one point three billion, you're now at about fourth. So all China has to do is reach about 22-23 percent productivity relationship and they pass the U.S. economy.

There's a vital and key interest in having a North American economy. We haven't figured out how a North American economy should look, haven't built a vision of it; but it is very clear that the issue of a North American economy is going to become increasingly vital if North America is going to effectively compete in the coming century.