



EBTC INFORMATION BULLETIN

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Is free trade between Canada and the United States in free fall? Not quite, but trade between the two countries is certainly in decline. Take a look the chart on [Michael Hart's blog posting](#). Canada's exports to the United States, at \$397-billion in 2006, are no higher than they were in the year 2000. Imports are also flat. Take inflation away from these numbers and what's left is real decline. The world's largest undefended border has become a trade war zone through which fewer goods and services are moving.

Bureaucratic and diplomatic talk around the growing Canada-U.S. border problem has been voluminous. It is now almost a cliché to hear business and government leaders lament the "thickening" of the border, as if the border issue were comparable to being overweight and something that could be cured with a gimmicky diet or two. The result has been a proliferation of announced schemes -- Smart Border Accords, Security and Prosperity Partnerships, Customs-Trade arrangements, Container Security Initiatives, the Western Hemisphere Travel Initiative, NEXUS travel measures -- but little or no real improvement in a border that is becoming a barrier to trade. The border's getting thicker.

Other indicators of decline include shipping and cross-border travel movements. Mr. Hart, professor of trade policy at Carleton University, [notes in Tuesday's Financial Post](#) that the number of U.S. residents travelling to Canada peaked in 1999 at 44.6 million and has declined every year since to reach 31.6 million in 2005. With the Canadian dollar at par, that figure is unlikely to climb in future.

In a paper prepared for the Woodrow Wilson International Center's Canadian Institute, Mr. Hart lays much of the blame for this on Ottawa's handling of U.S. relations under former prime minister Jean Chretien. "Canada blew it," Mr. Hart says. The trouble is that not much progress has been made by Prime Minister Stephen Harper. A new burst of leadership is needed, from a business sector prepared to speak out and politicians willing to take on the inertia and incrementalism that now has border progress paralyzed.

Another Woodrow Wilson paper, by Gary Hufbauer of the Peterson Institute in Washington, sees the border as a major obstacle to Canadian and U.S. growth. The barriers include the Canadian dollar, differing regulatory regimes, wasteful security programs and extreme U.S. precautions against terrorism. His solution is more radical regulatory integration and establishment of a single currency. Neither is likely to happen.

Still, the Hart and Hufbauer papers paint bleak Canada-U.S. trade outlooks. Even with all the attempts to work around the expanding U.S. anti-terrorism effort, Mr. Hufbauer says "the security tax is rising." New passport requirements pile on top of new container-scanning regulations and intensified truck inspection regimes --all adding new delays and costs to the trade system.

Also bogging down progress is the general inertia surrounding the frequent calls for improving infrastructure at the border --bridges, roads, border crossings. What is to be done? Mr. Hart talks of "the fire I would like to light under Canadian and U.S. policymakers." He says this is more than just a trade issue or a border issue, but neither government seems ready to lift the border out of the bureaucratic and diplomatic process-driven swamp it has become.

Even business groups seem to take the process for granted. They claim good cooperation from officials at the Canada Border Services Agency and Public Safety Minister Stockwell Day. But Mr. Day's success in beating back the U.S. Homeland Security machine has been regrettably dismal. In any case, the border crisis requires a much broader view than the narrow, petty and useless perspective of security.

Last June, the Conference Board of Canada reported that Canadian businesses are reacting to the border problems by reverting to old pre-free trade methods. Just-in-time

shipping is being replaced by inventory stockpiling. Companies are shipping longer distances to reach border points that are easier to cross. The existence of the border problems, moreover, reaches through to businesses looking to locate plants. If the Canada-U.S. border is thick, then why locate in Canada?

Despite the numbers showing a clear fall-off in real Canada-U.S. trade, despite mounting anecdotal evidence that Canadian business is suffering through higher costs and risks of lower investment, despite years now of complaints from Canadians as individual and corporate travellers and shippers -- nothing much is happening.

Most complacent of all seem to be the Harper Tories in Ottawa, from whom little or nothing is heard on the subject. The political view seems to be that we should not rock the U.S. policy boat too much. Even Canadian business groups seem remarkably complacent, willing to muddle through the bureaucratic games. Meanwhile, Canada's greatest trade asset -- the border with the United States -- is killing trade.