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The Bigger Connection	**Canadian Studies Center**

My name is Stephen Blank and I've spent much of the past 35 years working on the US-Canada business beat. I am delighted to be working with AnnMarie Schneider at the MSU Canadian Studies Center. We will be sending out a periodic policy brief on US-Canada business issues that are important to Midwest and Ontario policymakers.

Governor Snyder nailed a key issue in Michigan's future during his first State of the State address. He said Michigan should plan now for a new bridge connecting Detroit to Windsor, Ontario. The bridge is a timely matter, but that's not all of it. The Governor was pointing to the wider issue of the crisis of our physical infrastructure – the whole system of highways, bridges, ports, waterways, railroads, border crossings and pipelines and electric lines – that connect our state, national and continental economies.

Canada and the US are sovereign nations that benefit from close economic ties. The US exports and imports more goods to and from Canada than with any other country. In fact, Canada is a larger market for US goods than all 27 countries of the European Union combined, whose population is more than 15 times that of Canada. The bilateral partnership supports something like 8 million jobs in the US.

From 1993 to 2007, up to the onset of the Great Recession, the movement of goods across our borders each year more than tripled. Business with Canada fell sharply in the recession, but in the past year, recovery has been clear. US exports to Canada increased by more than 10% over the previous year and Canadian exports to the US rose by 9.5%.

But this is not your standard trading relationship. In many areas, we don't sell things to each other. We make them together. Experts think that more than half – perhaps as many as two-thirds – of the goods that cross the US-Canada borders are parts and components, not finished goods.

The Michigan-Ontario region is the perfect symbol of the bi-national relationship. Trade between Michigan and Ontario was valued last year at $43.3 billion and more than a quarter of a million Michigan jobs depend directly on the relationship. Total US-Canada trade totals upward of $400 billion, most moved by trucks. About 30% of the truck-borne traffic funnels through Michigan. The two-way flow of goods that crosses the 80-year old Ambassador Bridge equals to the amount of all U.S. exports to Japan.

Michigan's and Ontario's economies depend on each other. Think of it this way. If a Korean auto container ship can't get into a California port for a week, for example, several hundred people won't get their auto on time. But if the Ambassador Bridge closes down for a day, thousands of workers will leave their jobs because necessary parts don't arrive on their factory's loading docks. If the bridge is closed for a week, tens of thousands of workers will stay home as factories close because of the lack of JIT deliveries.

The largest share of goods in Canada-US trade is automobiles and auto parts, and half of all of these cross the border on the Ambassador and Blue Water Bridges, much of this on tight JIT schedules. Last March, Chrysler Group CEO Sergio Marchionne said at a Canada–U.S. Automotive Dinner, *“Every day, the combined U.S. and Canadian auto industry sends thousands of cross-border truck shipments and well over $100 million of goods across the Detroit–Windsor border. These trucks carry vehicles and production parts that are destined for automotive assembly plants in Michigan, Ontario as well as other U.S. states. The integration of our industry makes the movement of trade between the U.S. and Canada important and dependent on each other. The North American automotive industry and the hundreds of thousands of employees in vehicle assembly and parts production depend on the smooth flow of just-in-time deliveries across this critical border gateway.”*

This vital system depends on efficient, up-to-date, well maintained and uncongested transportation infrastructure. But many transportation specialists believe that a "perfect storm" has been building for the past decade. It puts North America’s freight transportation system at risk and endangers North America’s competitiveness.

In the 1980s and ‘90s, the efficiency of our freight transport systems improved dramatically, and growing volumes of goods crossed the borders with little difficulty. There were many reasons for this: excess capacity in the freight transport industry, technological improvements such as double stacking containers and government policies of privatization and deregulation. But by the turn of the century, it was becoming clear that the increase in volumes of goods flowing across North America’s internal borders was outrunning the capacity of highways, bridges, railroads, marine and air transport infrastructure and border crossings. The end of excess capacity, the emergence of global manufacturing value chains with vastly increasing demand for freight transportation capacity because of rising imports from Asia, the impact of post-9/11 measures on borders and ports, the continued failure to harmonize regulations and the accumulated weight of delayed maintenance all strained the capacity of the North American freight transport system to service the economic system as it had emerged over the previous decades.

A recent report by the US Government Accountability Office states: *“Strong productivity gains in the U.S. economy hinge, in part, on transportation networks working efficiently… However, the increasing congestion within the freight transportation system poses a threat to the efficient flow of the nation’s goods and has strained the system in some locations. Moreover, recent growth in international trade has placed even greater pressures on ports, border crossings and distribution hubs – key links in the freight transportation system. Congestion delays that significantly constrain freight mobility in these areas could result in serious economic implications for the future.”*[1]

Cross border infrastructure also includes pipelines and electric wires. Michigan won’t soon forget the oil spill from the break in the 40-year old Enbridge pipeline, but many may not be aware that electric power flows between Ontario and Michigan. Additionally, in terms of water

[1] United States Government Accountability Office, GAO Report to the Ranking Member, Committee on Environment and Public Works, U.S. Senate, Freight Transportation: National Policy and Strategies Can Help Improve Freight Mobility (January 2008)

and environmental “infrastructure”, Michigan and Ontario are the key guardians of the Great Lakes.

In his State of the State address, the Governor focused on another vital kind of infrastructure – education. The University Research Corridor, involving Wayne State University, the University of Michigan and Michigan State University, will enter a research partnership with Procter & Gamble to speed innovative ideas to marketplace by simplifying the legal process companies and universities use to negotiate research projects. It will also be expanded to all 15 public universities in the state.

Across the country, government and business leaders have begun to realize the need to build efficient, secure and sustainable infrastructure for the 21st century if the US is to maintain its leadership role in the global economy. The Governor’s step forward on the Detroit-Windsor bridge and address of infrastructure needs is a firm step in the right direction.

Stephen Blank
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