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COMMENTARY:

Great Lakes Ready

A Binational Economic and Commercial Policy Agenda for the Great Lakes and St. Lawrence Region

BY PAUL THANOS

And MARK FISHER

COUNCIL OF THE GREAT LAKES REGION

Wilson Center CANADA INSTITUTE

Commentary[1]

A Binational Economic and Commercial Policy Agenda for the Great Lakes and St. Lawrence Region

By Paul Thanos and Mark Fisher

President Trump has stated that renegotiating the North American Free Trade Agreement (NAFTA) is a top priority of his Administration. While the focus has been on the U.S.-trade relationship with Mexico, less has been said about the robust trade and economic relationship between the United States and Canada, and how renegotiation of NAFTA would affect that relationship.

Goods and services combined, Canada is the United States' largest trading partner. In 2015, bilateral trade reached US$671 billion, representing almost US$2 billion worth of goods and services crossing the border every day. Canada buys more from the United States than China, Japan and the United Kingdom (UK) combined (US$280 billion versus US$235 billion).

The United States is the single greatest investor in Canada. In 2015, U.S. stock of investment in Canada was US$387 billion, representing half of all investment in Canada. Canada, on the other hand, remains one of the largest investors in the United States. In 2015, the stock of Canadian investment in United States was near CA$448 billion, an increase of 30% over the previous year.

Canada is also the biggest supplier of energy to the United States and is the second largest exporter of agriculture and agri-food products to the United States. Nearly 9 million U.S. jobs depend on trade and investment with Canada across a diverse range of critical sectors.

At the heart of this bilateral economic relationship is the Great Lakes and St. Lawrence Region. Spanning eight U.S. states (New York, Pennsylvania, Ohio, Michigan, Indiana, Illinois, Minnesota, and Wisconsin) and two Canadian provinces (Quebec and Ontario), the region is home to 107 million people, boasts a massive geographic footprint, and is a major driver of the North American economy.

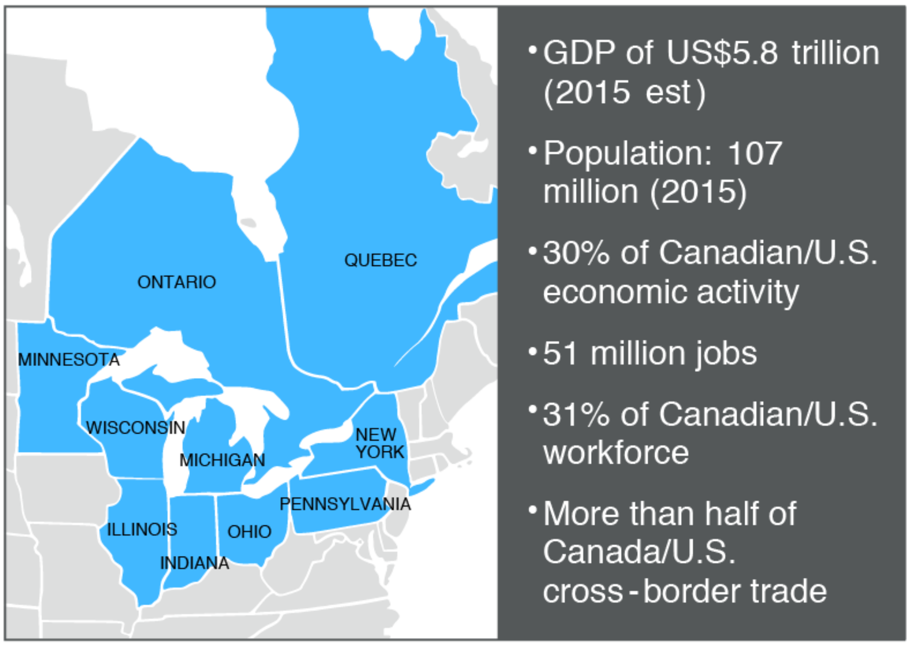
With economic output estimated at US$5.8 trillion in 2015, the region accounts for 30% of combined Canadian and U.S. economic activity and 31% of employment. The region's output ranks ahead of Germany, France, Brazil and the U.K., and it would rank as the third largest economy in the world if it were a country, behind only the United States and China. The economic importance of the region can't be overstated.[2]

[1] All opinions are solely those of the authors.

[2] Robert Kavic. *Connecting Across Borders: A Special Report on the Great Lakes and St. Lawrence Regional Economy* (June 2016).

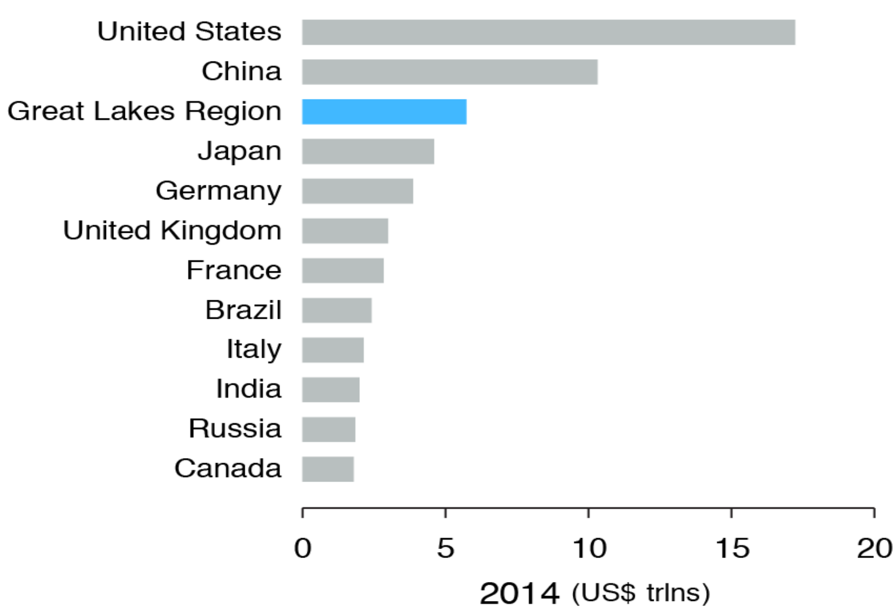
Trade across just one entry and exit point between both countries – the Ambassador Bridge between Detroit, Michigan and Windsor, Ontario – is worth more than the entire bilateral trade relationship between the United States and Japan. For all of these reasons, the stakes for any U.S.-Canada economic partnership reset, either bilaterally or in the context of the NAFTA, are large.

Chart 1: The Great Lakes-St. Lawrence Region by the Numbers



Source: Kavcic (2016)

Chart 2: Gross Domestic Product



Source: Kavcic (2016)

Under the hood of the regional trade relationship

Exports play a critical role in creating good paying jobs on both sides of the border in the Great Lakes-St. Lawrence Region. Approximately 2.2 million U.S. jobs in the region rely on trade with Canada.

The region's states were the source of roughly a quarter of total U.S. merchandise exports in 2015, while Ontario and Québec accounted for more than 60% of Canadian shipments. Transportation equipment and machinery are the major drivers, but agricultural and food products, metals and chemicals are also a sizeable source of exports.

The region's cross-border trade linkages are immensely important. For example, the eight states are Ontario and Québec's largest trading partner and vice-versa, accounting for US$235 billion in total two-way trade in 2015.

The states and provinces within this region trade more with each other than with any other country in the world. The most significant regional trans-border trading pair is between Ontario and Michigan. This trade alone accounts for over 1.4 million jobs, US$513 billion in gross output, US$139 billion in GDP, and US$103 billion in personal income.

Chart 3: Ontario and Michigan Selected Economic Data

Ontario Firms in Michigan	Michigan Firms in Ontario
504 Locations	311 Locations
22,756 Employees Average 45/Location	27,628 Employees Average 89/Location
Average Sales: $81.4m	Average Sales: $63.7m
Average Age of Establishment: 19 Years Oldest: 1949 Youngest: 2016	Average Age of Establishment: 27 Years Oldest: 1861 Youngest: 2016
Top 5 Metros: Detroit Troy Southfield Grand Rapids Lansing	Top 5 Metros: Windsor Mississauga London Brampton Oakville

Source: Dun and Bradstreet (2017)

And the economic and commercial partnership between Michigan and Ontario is nearly matched by Ohio and Ontario's interconnectedness.

Chart 4: Ontario and Ohio Selected Economic Data

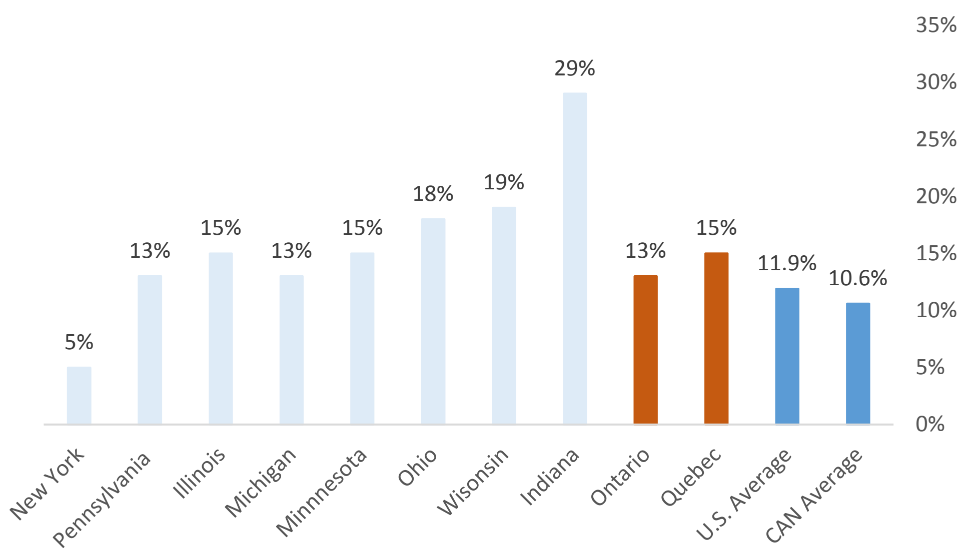
Ontario Firms in Ohio	Ohio Firms in Ontario
347 Locations	630 Locations*
15,628 Employees Average 45/Location	37,389 Employees* Average 59/Location
Average Sales: $45.7m	Average Sales: $27.9m*
Average Age of Establishment: 16 Years Oldest: 1965 Youngest: 2016	Average Age of Establishment: 28 Years Oldest: 1842 Youngest: 2016
Top 5 Metros: Columbus Cleveland Cincinnati Dayton Canton	Top 5 Metros: Mississauga Toronto London North York Brampton

* Two Large Retail Chains

Source: Dun and Bradstreet (2017)

The manufacturing sector is by far the largest goods producing sector in the regional economy, and contributes a disproportionally large share to the regional GDP compared to the U.S. and Canadian average. Automotive manufacturing is the largest segment of the region's manufacturing sector. The Great Lakes states produce 53% of U.S. motor vehicles and 48% of U.S. primary metal manufacturing. Ontario and Quebec account for 81% of primary metal manufacturing and 98% of motor vehicle manufacturing in Canada. In addition, the advanced manufacturing sector which relies on innovation and technology to improve the production process has been a significant source of new growth.

Chart 5: Manufacturing as Percentage of Total GDP, 2015



Source: US Bureau of Economic Administration, Statistics Canada

Bilateral services trade within the region also plays an essential role in creating growth and good paying jobs. While manufacturing employment is down 17% from a decade ago, increases in education and healthcare (+21%) and professional services (+17%) have helped make up the shortfall. Interestingly, education and healthcare alone have added 1.6 million jobs over the last 10 years, more than offsetting the 1.1 million manufacturing job losses. Elsewhere, retail and wholesale trade, government and professional services now carry double-digit employment shares within the region.[3]

In addition, the region is home to twenty of the world's top 100 universities. These institutions support a dynamic innovation ecosystem of public and private sector sectors, which in 2011 attracted nearly 24.1% and 72.1% of R&D funding in the U.S. and Canada respectively. According to figures from 2012, the region also generated 26.2% and 68% of patents in the United States and Canada.

A Robust Constantly Evolving Relationship

No matter how you look at it, the level of integration, cooperation and coordination that goes on within the region, is staggering.

Environment agencies and bi-national bodies like the International Joint Commission and Great Lakes Fishery Commission work seamlessly to protect cross-border watersheds and natural spaces, as well as respond to spills and other disasters. In fact, Canada and the United States have over 150 federal, state and provincial bilateral arrangements concerning environmental protection.

Federal, state/provincial and local law enforcement and intelligence agencies often join forces to share critical knowledge and data, combat gangs and criminal activity, interdict drugs and illegal firearms, and secure the border through Integrated Border Enforcement Teams.

The men and women that serve in the armed forces, train together, patrol the skies and oceans together and bring peace and stability to zones of conflict or unrest around the world.

Students in both countries learn about global affairs, business, science, engineering and many other subjects in each other's academic institutions.

Energy resources and systems are interconnected, providing affordable electricity and other fuels to light homes and power progress in both countries.

Moreover, small and medium-sized enterprises as well as multinational businesses employ millions of Canadians and Americans. They make goods together and drive Canadian and American competitiveness and prosperity.

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[3] Kavic, p. 5.

Seasoned decision-makers and policy professionals in Washington, D.C. and Ottawa, Ontario, however, often consider what more could possibly be done to strengthen the U.S. – Canada relationship. The short answer is a lot, especially in the face of today's climate of trade, investment and mobility.

The Great Lakes Agenda

The Great Lakes agenda for U.S.-Canada economic and commercial relations should focus on several core issues important for the region that would result in not only enhanced and modernized economic partnership between the United States and Canada, but an increase in job creation across both countries.

The centrality of regional states and provinces to manufacturing, services, and total economic output for both countries is indisputable - and both countries should support an environment where private industry can grow and prosper.

These initiatives should respect the reality of supply chains on both sides of the border, and complement rather than disrupt the commercial efficiencies that result from a fully integrated marketplace. This is particularly the case with automotive and aerospace industries, which have major investments on both sides of the border.

The agenda should also work to remove the shackles of excessive regulations which stifle business creativity. Therefore, some of the issues below could be included as part of a modernized NAFTA, but others could be acted upon bilaterally.

- **Regulatory Reset and Reform**

  One of President Trump's first executive orders put a halt to new and pending federal regulations. The United States and Canada have a long history of regulatory cooperation but more can be done to modernize and align regulations across sectors at that the federal-state/provincial level. The U.S.-Canada Regulatory Cooperation Council (RCC) was launched in 2011 and is a mechanism to provide greater regulatory cooperation between both countries. Though not a legally binding treaty, it brings together federal regulators and some businesses from both countries to make inspection and certification practices more efficient.

  Areas of focus include transportation, agriculture, health and personal care products and the environment. The RCC should be expanded to include state and provincial regulators who often determine whether products and services can competitively enter each market. It should be expanded to give stakeholders a greater say in identifying priority regulatory issues to be addressed by the RCC. It could also help to align voluntary standards between both countries and to include specific metrics for success.

- **Buy American procurement provisions**

  Under the *Buy American Act of 1933*, all goods procured for public use must be produced in the United States, and must be manufactured from U.S. materials. These provisions have been extended to and incorporated in other laws, such as the *American Recovery and Reinvestment Act (ARRA) of 2009* and measures that authorize and appropriate funding for a range of transportation-related projects under the U.S. Department of Transportation (DOT), including grants to sub-federal governments and entities controlled by Federal Transit Administration, Federal Highway Administration and the Federal Aviation Administration.

  Governments have historically used “buy local” provisions to favor local producers. While understandable, the economic inefficiencies of disrupting established supply chains and the additional costs of finding new local suppliers at potentially higher prices provide a strong counterargument to exclusively buying local. Therefore, in light of the investment that will be required to maintain and build new infrastructure in the Great Lakes-St. Lawrence Region in the coming decades and the importance of providing good for taxpayer investments, we strongly encourage both countries to respect and protect well-functioning cross-border supply chains in construction, transportation, water management and other services.

- **Movement of professionals and skilled workers across our shared border**

  Migration, typically for employment, has become a critical element of global trade and investment. In 2015, more than half of the world’s migrants (55 per cent or 128 million people) lived in the G20 countries.[4] Ageing populations in these economies are pushing the demand for migrant professionals and skilled workers even higher, as national and sub-national governments look to fill critical labour market shortages. Over 110,000 Canadians commute to work in U.S. cities every day, including an estimated 5,000 nurses and health care workers in the Greater Detroit/Windsor area alone.[5] Facilitating cross-border mobility of professional and skilled laborers in the Great Lakes-St. Lawrence Region by modernizing NAFTA’s temporary movement categories.

  Mutually recognizing each other’s accreditation and credentialing practices would increase the efficiency of our bi-national labor market and increase regional economic productivity. Individual and community well-being would also benefit. By eliminating unnecessary impediments to worker mobility during periods of high-demand, for example, a crane operator, welder or pipe fitter from Buffalo could work at his trade in Toronto but still return home to family at night.

[4] International Organization for Migration, *How the G20 Views Migration* (2015).
[5] John Austin, Elaine Dezenski, and Britany Affolter-Caine. Metropolitan Policy Program/Brookings, *The Vital Connection: Reclaiming Great Lakes Economic Leadership in the Bi-National US-Canadian Region* (2008).

- **Digital Trade**

  Digital trade is crucial for nearly all firms, from large multinationals to small businesses that rely on online platforms to connect and trade with customers around the world. As digitization expands, information, goods, and services cross borders more frequently and easily than ever before. American and Canadian firms selling goods or providing services digitally have taken local and national markets to a global scale. Both the United States and Canada have incentives to maintain strong commitments to the free flow of digital trade. Canada and the United States (as well as Japan and Mexico) are participants in the Asia Pacific Economic Cooperation (APEC) Cross Border Privacy Rules (CBPR) system. This system is a mechanism to raise standards for the protection of personal information while ensuring that data can flow freely between the 21 members of APEC.

  Canada and the United States have been strong partners in the creation, development, implementation and expansion of this important initiative. The work here should go a long way to furthering our goals of emphasizing privacy protection while supporting data flows that are so critical to trade and economic growth. Data localization measures – and specifically regulations requiring companies to store and process data on servers physically located across national borders – are increasing around the world. Whether within a modernized NAFTA or some other mechanism both countries should move expeditiously to commit to preserve the free flow of data across borders and refrain from enacting data localization requirements for particular industries such as financial services.

  Commitments reached in previous agreements can be reinforced or expanded to include a prohibition on the imposition of customs duties on electronic transmissions, and preventing the favoring of national producers or suppliers of such products through discriminatory measures or outright blocking
  To facilitate electronic commerce, both countries should promote paperless trading between businesses and the government, such as electronic customs forms; and provide for electronic authentication and signatures for commercial transactions, while limiting government mandates on authentication methods for commercial transactions. These steps will help to expand bilateral digital trade and further modernize the economic and commercial partnership between states and provinces and both countries.

- **Begin a dialogue to establish a Great Lakes Free Trade Zone (FTZ)**

  Over the past decade world trade in goods has increased dramatically from less than $8 trillion in 2003 to more than $18.5 trillion in 2013. Over the same period, trade in services has more than doubled, from $2 trillion to $4.7 trillion. This growth has been precipitated in many cases by specialized economic zones (SEZs), also known as Free Trade or export processing zones (EPZs), which now number in the thousands around the globe and can exist across international borders. As both countries seek new ways to expand economic development and empower businesses, the establishment of a public-private Great Lakes FTZ would galvanize the region. An FTZ could create favorable tax and regulatory environments for cross-border sectors and businesses in both the manufacturing and services industries and lead to greater flexibility in how companies store and transport goods.

- **Getting our small and medium-sized enterprises export ready**

  In the eight Great Lakes states, there are over 7.0 million SMEs, representing about 26% of small businesses in the United States. However, only 123,249 of these firms exported goods in 2014, supporting about 1.7 million American jobs. The value of SME exports to Canada in 2015, the top export destination for most small firms in the region, was USD$110.8 billion. In the same vein, almost 60% of all small and medium-sized enterprises (SMEs) in Canada, many of them manufacturers, are based in Ontario and Quebec, supporting 6.4 million Canadian jobs. The destination for their exports is the United States, which accounted for 88.1% of total exports of small businesses and 96.2% of exports of medium-sized businesses. However, only 21.3% of Ontario's and 21.5% of Quebec's SMEs exported in 2014.

  Capacity constraints limit SMEs ability to tackle border regulations, and participate fully in cross-border trade. We must do more to scale up SMEs and get them export ready in the Great Lakes-St. Lawrence Region by making available better market intelligence, as well as more targeted advisory and financial supports. Working with Canadian counterparts, the U.S. Department of Commerce's International Trade Administration and the Small Business Administration, with regional offices throughout the Great Lakes region, could expand its outreach and leverage new technology platforms to provide real-time information to export-ready SMEs on market opportunities, exporting advice and solutions to trade-finance challenges which often prevent SMEs from selling their products and services across national borders.

Conclusion

The importance of the U.S.-Canadian economic partnership is clearly demonstrated by robust bilateral trade, cross border investment, and everyday life as it exists in the Great Lakes region. Bound together by trade, technology, infrastructure and a common environment, the states and provinces in the region have a responsibility to future sustainability and prosperity.[6] Since 1814 both countries have maintained an outstanding relationship overcoming disagreements, disputes, natural disasters, and global threats. As both the Trump Administration and Trudeau government look to shape a 21st century economic framework for both countries, implementation of the Great Lakes agenda will result in future policies that reinforce and expand this extraordinary relationship.

All opinions expressed here are solely those of the authors.

[6] US-Canada SAGE Summit, *Columbus Statement on US-Canadian Relations* (November 2016).

About the Authors

Paul Thanos is the Global Trade and Investment Fellow at the Woodrow Wilson International Center for Scholars.

Mark Fisher is the Chief Executive Officer of the Council of Great Lakes Region.

About the Wilson Center's Canada Institute

The Canada Institute was founded in 2001 to increase awareness and knowledge about Canada and Canada-U.S. relations among policymakers and opinion leaders. The Institute currently stands as the only nonpartisan public policy forum in the world dedicated exclusively to exploring the full spectrum of bilateral issues.

About the Council of the Great Lakes Region

The Council is a non-partisan, non-profit, binational organization that is deepening the United States-Canada relationship in the Great Lakes-St. Lawrence region, and creating a stronger, more dynamic culture of collaboration in harnessing the region's economic strengths while enhancing the well-being of its citizens and protecting the environment for future generations.

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