Canada must tap into growth of the developing world

By Deborah Yedlin, Calgary Herald November 10, 2010 7:39 AM

Many economists say the Canada-U. S. border is "thickening," making trade between the countries more difficult.

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CALGARY - It's kind of nice living next to the world's largest economy -- it puts Canada on the right side of what is the world's largest bilateral trading arrangement. But it also breeds complacency. According to Wendy Dobson, co-director of the Institute for International Business at the Rotman School of Management at the University of Toronto, it's time to examine the future of the Canada-U. S. trade relationship in the context of a changing global economy.

As many economists have pointed out since the Great Recession began, it's not the developed countries that are going to lead the world in terms of economic growth -- it's the developing cohort. To that end, partnerships and trade agreements are being put in place in the industrializing countries aimed at boosting economic integration while the contrary is happening between Canada and the U.S. -- despite the North American Free Trade Agreement.

"The difference between Asia and North America is that they are integrating and we are disintegrating," said Dobson, referring to what many are calling a "thickening border" between Canada and the U.S. that is making trade more difficult. The so-called thick border, said Dobson, manifests itself in trade numbers between the two countries that showed a drop of 12.5 per cent in terms of merchandise trade in 2007, alongside exports falling eight per cent and imports dropping by 18 per cent.

In other words, it's time to stop taking this privileged trading relationship for granted and diversify Canada's trading relationships in terms of where and with whom this country does business. In a paper authored by Dobson -- who spoke at a breakfast hosted by the University of Calgary's School of Public Policy on Tuesday -- the argument for striking agreements with other trading zones is more than compelling.

"The severity of the balance sheet out of which the U.S. has to dig itself will take a decade," said Dobson, who also said she didn't believe the second round of quantitative easing currently underway courtesy of the U.S. Federal Reserve will achieve the desired end.

In other words, the U.S., as the world's largest debtor nation, is going to face some significant challenges and decisions, which will undoubtedly have an impact on Canada's economy. That doesn't mean ditching NAFTA, but augmenting it by adding other bilateral trading agreements with developing countries.

Canada, as a result of sound financial regulation and its healthy endowment of natural resources, emerged from the recent economic turmoil relatively intact and these strengths should be used to its advantage. "Indeed, Canada has emerged from the global meltdown with a sound macroeconomic base and favourable financial conditions, which give it the flexibility it needs to make choices about its economic future," wrote Dobson.

"Canada's response should be to marshal its advantages by building on its strengths to both differentiate itself in bilateral strategies and to use these strengths as bargaining chips."

Just like banks don't like the businesses to which they lend to be dependent on one customer, the same holds true for a sovereign nation. It's only by creating alternatives to U.S. markets, wrote Dobson, that Canada can improve its potential bargaining position and undermine U.S. protectionist pressures. She cites one example where this approach is proving successful: China has become the second largest market for Canadian lumber.

This, of course, brings us to other natural resources: oil and natural gas.

No surprise here, that Dobson advocates using Canada's abundant energy reserves as a cornerstone of its diversification strategy. "Because Canada is largely dependent on U.S. markets for its oil and gas exports . . . it bargains from a weak position in bilateral energy matters and is vulnerable to future trends in U.S. demand." Add to that statement the fact that the International Energy Agency released its World Energy Outlook on Tuesday stating that unconventional sources of energy -- including Canada's oilsands -- will play a key role in the world's energy needs.

And the reason for that?

The rising demand in China, which is forecast to account for 36 per cent of the growth in energy demand between 2008 and 2035. How hard does Canada need to be (metaphorically) hit over the head to realize that diversifying the market for energy exports is no longer negotiable?

Dithering over Enbridge's proposed Northern Gateway pipeline, adding capacity to Kinder Morgan's infrastructure and getting the Kitimat export LNG terminal moving ahead are all important in the context of this country's economic future. When it comes to issues such as securing energy and food supplies or building infrastructure, China thinks in terms of decades.

So, too, should Canada. Our economic future depends upon it.