

# The Asia Pacific Gateway and the Reconfiguration of North America

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## Abstract

*Transportation gateways and corridors reflect broader economic and political forces at the same time that they shape them. Nowhere is this clearer than in Canadian efforts to create a multi-dimensional Asia Pacific Gateway. Its architects often draw inspiration from Lionel Chevrier and his post-war vision of a St. Lawrence Seaway to the Atlantic Ocean and the transformation of the central Canadian economy. They can also look back even further to 1880s and the building of the trans-continental Canadian Pacific Railroad. George Stephen, the President of the CPR, did not help drive the last spike in Craigallachie, BC in 1885 because he was in the U.K. raising capital for the steamship line across the Pacific that would be its logical, and necessary, extension. The objective was not just building a nation but driving commerce, and reshaping relations with the fulsome power to the South, by constructing a Pacific corridor and gateway to Asia.*

A century and a quarter later for most Canadians, and not just British Columbians, Asia is no longer “over there” but a daily economic reality in their lives. Globalization has meant soaring interactions in trade, investment, migration, tourism and culture. China is the number two trading partner of Canada, the United States and Mexico and already exports more to the United States than does Canada. The prices of goods consumed and produced in Canada are heavily determined by trends in Asia. Canadians negotiating a loan or mortgage are aware, especially in light of the current financial crisis in the United States and elsewhere, that interest rates depend upon the huge purchase of US treasuries by overseas investors, especially in China and Japan. And they are aware that the depth and duration of the current recession will heavily depend upon the responses and actions of Asian economies and governments.

Canadians are only dimly aware that the federal government (through its Asia Pacific Gateway and Corridor Initiative, APGCI hereafter) and several provincial governments, especially the

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government of British Columbia, are investing about \$5 billion over 5 years and attracting private investment of about the same amount for an ambitious series of infrastructure projects focused on ports, rail and roads intended to create a seamless, multi-modal network that can move people and goods across the Pacific and throughout North America more efficiently.<sup>1</sup> Its maritime entry points are Vancouver and the new container port facility in Prince Rupert.

B.C. has been thinking Pacific gateway for more than two decades and its successive Asia Pacific initiatives have focused on the hardware of transportation infrastructure as well as the software of business facilitation and human resources. It was Paul Martin's Liberal government that initially conceived and funded a national-level Asia Pacific gateway strategy in early 2005. Conceived as the companion to a "strategic partnership" with China announced jointly with President Hu Jintao in September 2005, it fit in the same strategic plan for boosting domestic competitiveness that included a bilateral free trade agreement with South Korea and making Asia a higher priority in Canadian foreign and trade policy.

The Stephen Harper Conservative government made some minor alterations to the gateway governance plan envisioned by the Liberals, eliminating the proposed "Gateway Council" and instead giving oversight to a single federal minister and Transport Canada. And it immediately increased the amount of funding by about 25%. But at the same time it downgraded relations with China based on a calculation that "cool politics, warm economics" would harm neither bilateral trade nor Chinese commercial interest in using and investing in expanded port capacity. While recognizing the importance of emerging markets like China and India, it has made the Americas, not Asia, its principal overseas priority. It has pursued the Pathways to Prosperity in the Americas Initiative and Free Trade for the Americas while failing to conclude FTAs with Singapore and South Korea. It has supported the Gateway as an instrument of economic growth and transformation but has not linked it to a broader strategic approach to individual countries in Asia, pan-Asian developments, or relations with the United States.

The immediate focus of Gateway planning is eliminating the capacity crunch in moving containers through congested ports on the West Coast of Canada and the United States. Estimates in 2006 were that anticipated volumes in container traffic alone would demand new annual capacity on the West Coast equal to the entire container traffic circulating through the three ports in the Greater Vancouver region.<sup>2</sup>

While the gateway projects are part of a national strategy, the context is inter-continental in two respects. First, China is the main target that Canadian planners have in mind even as they are aware of other dynamic economies on the other side of the Pacific. They are important in their own right but through distributed manufacturing are also being integrated into a regional economy that functions as an integrated production zone. The Gateway is about global Asia, with China as the place of final manufacturing. Asia's economic output already equals that of North America and Europe measured in PPP terms and by some projections may be 50% larger than either by 2020. And as demonstrated in a major report by the Asian Development Bank, Asia now trades as much with itself (a little more than 50% of Asia's trade is intra-Asian) as do Europe and North America. Japan and Korea do more trade with China than they do with the United States. The integration of production and financial markets is moving quickly as are the flows of technology, labour and tourists. "In several respects," observes the ADB study, "the 16 major Asian economies are as closely intertwined as Europe's single market."<sup>3</sup>

Second, it is inter-continental in that the gateways and corridors aim to connect Asia to producers and markets in Canada but also in the United States. The purpose of the new Prince Rupert container terminal and the rail corridor to which it is connected is to move goods across Western Canada but also into and out of the United States, principally in CN's rail system that runs through Chicago to Memphis. At this point less than 6% of the containers that come into Canada are destined for direct passage or re-export to the United States, but the figure is rising quickly with the objective being 15% by 2012.

Looked at more broadly, the Gateway strategy is intended not just to alter the volume of trans-Pacific movement but to change its composition. In an era in which production, supply chains and value chains are global, to be the mere transporter of goods is the 21<sup>st</sup> century equivalent of the hewers of wood and drawers of water of an earlier time. A gateway is valued for what happens within it rather than what passes through it. While the resources committed by government and the private sector have focused heavily on physical infrastructure, the bigger aim is the economic transformation of the economies in its path. This includes the creation of secondary industries in services, backhaul export opportunities for low-cost transport to Asia in forest and agricultural products, as well as inland container terminals and processing zones facilitated by more efficient and inexpensive transportation links to Asia *and* the United States.

In northern B.C., for example, the Gateway is promoted as the instrument for transforming a resource exploitation economy into a global supply chain economy in which intermediate components and manufacturing can add value to exports and reduce the costs of imports. Job creation and upgrading is expected, and encouraged, in professional services, logistics, and regulatory work, but also in forestry, agriculture, fishing mining, tourism, education. In the Vancouver region, it is the areas of logistics, professional services, and global value chain aspects of the new economy, including research and design, that are the transformative edge of Gateway thinking.

## **Re-Thinking North America**

The promoters of deeper economic integration in North America share the view that shifts in global production and competitive pressures from Asia are re-shaping the economies of all three countries in North America. But in devising practical measures for responding to this blend of pressures and opportunities they rarely put North America and Asia on the same page. Trans-Pacific interactions do not often enter the policy discussions at the Security and Prosperity Partnership meetings or the numerous study groups assessing North American options including the North American Competitiveness Council.

A recent example is a project based at Carleton University on Canada-US relations that commissioned sixteen papers and prepared a report on Canada-US relations and the future of North America. It is striking that the global power shift across the Pacific and Asia is mentioned only once in the 24-page summary report and then only with a reference to the traditional failures of diversification strategies that "tend to reflect more of a political than a commercial agenda."<sup>4</sup> Glen Hodgson's insightful essay on "Making Integrative Trade Real: Creating a Value Chain Trade Policy for North America" correctly notes the shift in global production systems and the ascendance of integrated supply and value chains that have revolutionized global manufacturing. Parts and semi-finished goods are part of the process of global supply chains but equally important, and of higher value, are the design, marketing and advertising that are

part of the knowledge economy. And it perceptively observes that conventional bilateral trade statistics on Canada-China trade are misleading and should be replaced by measures of Asia-North America integrative trade.<sup>5</sup>

The Gateway projects are designed to promote Canada's integration into the trans-Pacific dimension of these value chains. But there has been no systematic analysis of how this integration will connect to integration, border problems, and transportation systems within North America, whether conceived on a three-country or two-country basis. Canadian competitiveness cannot be conceived much less built within North America alone: it must be built with Asia.

For those interested in a three-country North America, the implications of the Gateway and the enlarged Asian presence are mixed.

On the negative side, the capacities of Canada and the United States to take advantage of global value chains with a high knowledge component are much greater than Mexico's. And more directly, so far as transportation infrastructure is concerned, Canada and Mexico are direct competitors in attracting investment and building capacity for trans-shipment to and from key market areas in the United States. At this point, all three countries are acting independently, and often in direct competition, in serving as portals to North America.

As for future planning, a recent study on freight transportation infrastructure by the North American Center for Transborder Studies at Arizona State University offers sobering news. The National Policy Framework for Canada's transportation strategy, including the APGCI, makes reference to the need for a continental approach, and indicates how Canada "can leverage significant Canada-US trade flows as part of national strategies to position Canada to benefit from the emergence of new economic powers such as China and India." But it does not indicate what that continental strategy would look like even as the continent become more economically integrated and more connected across the Pacific. The authors state that the notion "that the continent might be larger than its constituent parts never entered the transport dialogue."<sup>6</sup>

To date, Canada's gateway plans are in direct competition with Mexico, at least in respect to the movement of container cargo destined for or sourced in the U.S. They also are in competition with West Coast ports in the U.S., though because the demand for capacity has until recently been so great, this has not yet become a national issue in Washington.

On the positive side, there are opportunities within North America for cooperation on common matters of ensuing product safety and phyto-sanitary requirements, possibly on a perimeter basis.

In areas including film, new media, ICT, advanced research and commercialization in fields including bio-technology and nano-technology, and the marketing of educational services, interactions with Asia continue to proliferate. There has been very little if any collaboration on a bilateral or trilateral basis in cooperation with Asian counterparts. One area where cooperation is feasible and desirable is on standards and IPR protection. The increasing tendency of Asian governments to side with Europeans in the determination of standards may spur trilateral cooperation in North America.

So far as trade policy is needed to support transportation policy and evolution of Gateway thinking, it is the problems of regulatory standards, behind the border barriers, intellectual property rights and the like, not tariffs, which should be the priorities in next-generation “free trade” deals across the Pacific.

## **Implications of the Global Economic Slowdown**

It is already clear that with the contraction of the American economy and its ripple effects across the globe, the level of trans-Pacific cargo flow has hit a plateau in the past four months after a decade of rapid expansion. Yet the thickening of the Canada-US border that has affected road, marine and air travel post 9/11 still has not had a significant impact on rail crossings. Prince Rupert in particular has benefited from expanded demand even in a tight market, no delays at border crossings, and on-time delivery times.

The crisis so far has demonstrated that the Asian economies are anything but decoupled from the American. Several Asian countries including Japan and South Korea are already in recession and the growth rates in China and India have both dropped precipitously. The key point, however, is that it is expected that the key Asian economies are likely to be less severely affected by the crisis than the economies in North America and Europe, that Asia will be the prime generator of growth, and that regional integration in Asia and regional consumption will likely increase.

Even in the face of the global recession, Asia seems destined to play a larger role in global and North American affairs. Few doubt, and some celebrate, the likelihood that the current economic crisis will accelerate the rise of an integrated and global Asia as the centre of the world economy in a multi-polar world. Global Asia is part of the solution to the economic crisis rather than its source. Chinese and Japanese decisions to stick with U.S. Treasuries and support a strong US dollar are based on immediate self-interest but also aim to minimize systemic instability and rapid change in the international order. For the moment at least, Asia’s heavy weights seem to be comfortable in the role of responsible partners supporting the U.S. rather than alternative leaders.

The deeper concern is that the United States will institute protectionist measures and effectively end the era of hyper-globalization that has supported the global integration of production and the burgeoning levels of trans-Pacific integrative trade. The biggest threat to Gateway thinking is a closing of the gate and the turn to national or more likely regional economic blocs along the lines of the nightmare fears of the 1980’s. Here, the countries of global Asia are among Canada’s best allies in battling resurgent protectionism and isolationism in America.

For reasons of geo-economics, geo-politics and self-interest, Canada’s geographic destiny reflects both its continental and oceanic neighborhoods. Asia will be of increasing importance to Canada whatever the outcome of the economic crisis and the vicissitudes of the American response.

Asia Pacific gateway thinking in Canada was germinated in the context of a liberal international order that welcomes the freer movement of goods, services, investment and finance and people across the Pacific. Especially at a moment of economic and political uncertainty arising from the

American financial crisis, inspired Gateway thinking is less likely to be a casualty of uncertainty than an antidote to it.

As the federal government assesses the prospects for a second phase of the Gateway in Spring, 2009, Lionel Chevrier and George Stephen will be watching.

## Endnotes

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- <sup>1</sup> They also approve of the program. A national poll commissioned by the Asia Pacific Foundation in March 2008 found that 78% of respondents on a national basis and 85% in the four Western provinces felt that the expansion of port facilities in Vancouver and Prince Rupert will benefit Canada. See: <http://www.asiapacific.ca/en/survey/2008-national-opinion-poll-canadian-views-asia>.
- <sup>2</sup> See the Asia Pacific Foundation of Canada, "Canada-Asia Agenda 2006: Gateways to Asia," p. 9. Available on-line at [http://www.asiapacific.ca/analysis/pubs/pdfs/caa2006/CAA2006\\_full.pdf](http://www.asiapacific.ca/analysis/pubs/pdfs/caa2006/CAA2006_full.pdf).
- <sup>3</sup> Asian Development Bank, *Emerging Asian Regionalism: A Partnership for Shared Prosperity*, May 2008, pp.2 and 37. Available on line at: [http://aric.adb.org/emergingasianregionalism/pdfs/Final\\_ea\\_r\\_chapters/final%20report.pdf](http://aric.adb.org/emergingasianregionalism/pdfs/Final_ea_r_chapters/final%20report.pdf).
- <sup>4</sup> Derek Burney, Fen Osler Hampson, Michael Hart, Bill Dymond and Colin Robertson, "From Correct to Inspired Relations: A Blueprint for Productive Canada-US Engagement," December 2008, available at: [www.carleton.ca/ctpl/conferences/documents/Agenda-Canada-USConference-December82008-finalPDF](http://www.carleton.ca/ctpl/conferences/documents/Agenda-Canada-USConference-December82008-finalPDF).
- <sup>5</sup> Glen Hodgson, "Making Integrative Trade Real: Creating a Value Chain Trade Policy for North America," *Briefing*, Conference Board of Canada, December 2008, p. 3. Available on-line at: <http://sso.conferenceboard.ca/documents.aspx?DID=2820>.
- <sup>6</sup> Stephen Blank, Graham Parsons, and Juan Carlos Villa, "Freight Transportation Infrastructure Policies in Canada, Mexico and the U.S.: An Overview and Analysis," *Building North America Working Papers*, No. 5, March 2008, p. 21. Available at: <http://www.natcrc.org/Research%20Council%20Working%20Paper%205%20March%202008.pdf>.