

Fostering the role of municipalities within the North America advanced manufacturing and trade corridor

Since the establishment of the NAFTA agreement, advanced manufacturing sectors today extend their supply chains across the United States, Mexico, and Canada, anchored by productive metropolitan hubs in all three countries. Efforts must be undertaken to foster and enhance the integration of Canadian and other municipalities and their constituent businesses within supply chain corridors.

According to a recent report from the Brookings Institute titled “Metros as Hubs of Advanced Industries and Integrated Goods Trade”¹, metropolitan areas within North America generate an overwhelming 86 percent of the combined GDP of Canada, Mexico and United States. They are an especially concentrated host of advanced manufacturing industries in the automotive, aerospace, agri-food, clean technology, pharmaceutical and electronic industries amongst others. It is also estimated that over three quarters of North American trade in advanced manufacturing occurs between these metropolitan areas.

Additionally, Canada’s largest exporting destination is the United States. Of the \$1.5 trillion in exports in 2013, \$338 billion were manufactured products, with advanced manufacturing industries like automotive (\$58.4 billion) and mechanical machinery (\$23.1 billion) making up a considerable portion of that figure.²

Many of these industries operate within complex “value chains” of intersecting natural resources, talent, innovation ecosystems, infrastructure and knowledge capital. Value chains are formally defined by the OECD as “full range of firms’ activities, from the conception of a product to its end use and beyond.”³ Advanced information and logistics management systems allow businesses to spread out production lines over multiple countries globally, while also allowing smaller businesses to seamlessly integrate within the manufacturing cycle of multinationals. Furthermore, these industries tend to congregate within municipalities due to the availability of STEM graduates and knowledge spill overs.

A prime example is the Michigan auto sector, which has slowly evolved from in state production to its current global value chain with many Canadian cities actively contributing parts or manufacturing end products, with the cumulative value of auto exports being \$58.4 billion and rising in 2013.⁴

In light of these trends, one must also recognize that the trading climate also has the counter effect of excluding businesses that are unable to maintain their competitive advantage. Some of the environmental factors that inhibit regional clusters are infrastructure and freight movement congestion (especially along nodes leading to Canada-US border crossings, red tape associated with tariffs, low labour productivity and challenges with attracting foreign direct investment.

The Canadian Chamber has already addressed and advocated on a number of these environmental factors through various policy initiatives; however, there remains room for more advocacy.

Recommendations

That the federal government:

1. Building on the successful model of the Pacific Northwest Economic Region, expand the capacity of Invest Canada and Canadian High Commissions and Embassies abroad to spearheading and facilitating opportunities for municipalities, local chambers and their constituent businesses to increase their integration within global value chains.
2. Improve goods movement efficiency by targeting additional freight infrastructure investments, including by increasing the annual allocation for the Border Infrastructure Investment Plan, Gateways and Border Crossings

¹ <http://www.brookings.edu/research/interactives/2013/metro-north-america>

² Canada’s State of Trade and Investment Update- 2013. http://www.international.gc.ca/economist-economiste/performance/state-point/state_2013_point/index.aspx?lang=eng

³ Organization for Economic Cooperation and Development, “Interconnected Economies: Benefiting from Global Value Chains” (2013).

⁴ Cities and Metros as Hubs of Advanced Industries and Integrated Goods Trade, 2014. Brookings Institute.

Fund and the Asia-Pacific Gateway and Corridor Initiative. Special considerations should be added for transportation nodes leading into the border crossings and between major sectoral supply chains.

3. Continued implementation of work plan objectives for the Regulatory Cooperation Council related to transportation⁵. Regulatory alignment will increase the ability for Canadian businesses to integrate within North American value chains. For example, Australia's Trans-Tasman Mutual Recognition Agreement⁶ provides a framework so that goods produced or imported into one territory may be made available in the other without additional approvals or requirements.

⁵ <http://actionplan.gc.ca/page/rcc-ccr/transportation>

⁶ http://www.coag.gov.au/the_trans-tasman_mutual_recognition_arrangement