

Canada, return to earth about cross-border shopping

NEIL REYNOLDS (feat. COLIN ROBERTSON)

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U.S. trade policy analyst Daniel Ikenson got it right a couple of years ago when he proposed a long-overdue revision of product origin labels. They should all read, he said, "Made on Earth," to reflect the fact that almost nothing is manufactured in a single country any more. What good is it to calculate the dollar value of China's exports, he said, when other countries account for more than half of it? Global economic integration, he said, has made national trade policy and national trade statistics obsolete.

"The factory floor is no longer contained within four walls and one roof," Mr. Ikenson said. "The factory floor crosses borders and spans oceans, from the idea mills in Silicon Valley to the component producers in Singapore to the assembly operations in Shenzhen to the distribution centres in St. Louis and to the shoppers in suburbia."

Mr. Ikenson, associate director of Cato Institute's Center for Trade Policy Studies in Washington, cited Lenovo, the Chinese computer company, as an example of the irrelevance of "Made in China" product stickers.

"Lenovo's executive headquarters are located in Beijing, Singapore and South Carolina," he said. "It operates research centres in China, Japan and the U.S. Its production operations occur in China, India, Mexico and Poland."

"To call Lenovo 'Chinese' – or Nokia 'Finnish' or Dell 'American' – misses the broader point that these companies are global entities with employees in dozens of countries."

Global economic integration itself has been obvious for decades or, for that matter, centuries. IBM chairman and CEO Samuel Palmisano has nicely described the fundamental change. "State borders," he said, "define less and less the boundaries of corporate thinking and practice." Global corporations are the inventors, governments the statisticians. Free-trade agreements, which preoccupy governments, merely recognize – rather than create – trade flows. IBM itself has corporate headquarters in China, India, Brazil, Ireland and the U.S. It operates in more than 170 countries – essentially the same number as the UN itself (with 190).

For the first time in history, Mr. Palmisano observes, everything is connected. Along with a billion people, hundreds of millions of businesses share space on the Web – collaborating as much as competing. For the first time in history, work flows everywhere. "You Google a word," he said. "Where is the data you search? Where does the processing take place? Only a tiny fraction of this task is done by your computer." The physical world recedes. The human mind – intellectual expertise, commercial expertise – advances.

Meanwhile, governments cautiously perpetuate the economic disconnects that they have imposed on the free flow of commerce and, in most countries, add more. In Canada's case, as calculated by the Fraser Institute, federal and provincial governments add 4,500 new or amended regulations every year. Question: Do these governments comprehend the importance of the coming negotiations with the U.S. on an integrated border? Answer: So far, it doesn't look good.

Take one relatively minor – that is, relatively easy – border issue: the amount of goods that Canadians may bring back duty-free from cross-border shopping trips to the United States. Here is a simple way to show Canadians that integrated borders mean a more tangible economic relationship with the States. Yet, as The Globe and Mail reported last week, the federal government has told the U.S. that it will not increase these nuisance exemptions.

Earlier this year, former Canadian diplomat Colin Robertson proposed that the government increase these exemptions tenfold: raising the one-day allowance from \$50 to \$500 per person; the three-day allowance from \$250 to \$2,500; that longer-stay allowance from \$750 to \$7,500. For most Canadians, these higher allowances would eliminate the us-versus-them hassles of cross-border shopping – and permit customs agents to spend less time on “looking for bottles of duty-free whisky,” as a Senate report exhorted in a 2007 report, “and spend more time trying to identify people who might be a genuine threat.”

With largely integrated economies, the historic reasons for these anachronistic regulations between Canada and the U.S. no longer exist. Compared with the trade that crosses the border every day, the tax revenue extracted from shoppers is insignificant. Cross-border customs agents monitor a minor part of Canada-U.S. trade. It should be enough to know that these “Made on Earth” goods have been happily “Bought on Earth” as well.