

Global Vision Perspective

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Building the Transatlantic Bridge: The potential for Canada-UK trade

By Brent Cameron



When most people refer to the 'global economy,' it conjures up images of an orderly and organised system of trade and commerce, with set rules and understood conventions. While not a wild free-for-all indicative of the American Old West, we must appreciate that the global economy does not possess the same level of structure and regulation as we expect in national economies.

The global economy is in a state of evolution. New rules are being established, new partnerships are being forged, and new markets are coming into the mainstream. What commentators refer to as 'globalisation' is actually the process by which the world economy is evolving. Like biological evolution, however, it is impossible to know with any certainty what the end result will be – or if the process has a definite end at all.

We may not know what the result of this process of globalisation will bring, but we know what it has done so far, and what trends are for the immediate future.

First, we are experiencing a contraction of time and distance through faster transportation and communications networks. In the 1800's, personal and business transactions between our two countries took weeks and months to complete. Today, they are done in less time than it will take for me to finish this perspective.

Second, we are seeing the rise of non-traditional economic powers, the so-called BRICs – Brazil, Russia, India, and China. Between them, we find the majority of humanity who, until recently, were outside the world's economic system. The addition of 3 billion new consumers represents a shift of economic power not seen since James Watt developed the steam engine.

Third, we see the transformation of our own national economies to accommodate this expanding frontier, either through regional alliances like the EU and NAFTA, or through mergers of large corporations with those from other jurisdictions. In my own country of Canada our oldest brewery, Molson, merged with Coors of the USA to form a company that is avowedly neither American nor Canadian, but both – in its corporate governance, its stock listings, and in its production and marketing. In Europe, the Airbus consortium may be the most established example.

These moves might appear to be part of a conscious strategy to deal with a globalising world, but I am somewhat sceptical of that explanation. Podging economies and industries together is no more a strategy for globalisation than saying that 'buy low, sell high' is a strategy to make money in the stock market. Surely no one would suggest it would make good business sense if all of Britain's financial institutions should merge into some über-bank and set up shop on every High Street on the planet.

The truth is that we are still struggling to understand the rules of globalisation, and tend to improvise when we cannot read the tea leaves. We fail to appreciate

that there are no rules because globalisation is a means to an end, and not an end in itself. Some of us believe that if nations and corporations are truly concerned about their future, they will focus not on the nature of globalisation, but what they want to get out of it.

As I said before, globalisation is an evolutionary process, meaning that it follows a natural course based on its environment. Governments can help the process along, through trade agreements and treaties, but many times this has not been necessary. The UK trades as much with the United States as with its EU partners, and yet no free trade treaty with the US exists. Canada's exports to the UK in 2004 were 25 percent higher than the year before, and again, no free trade treaty exists between us. Australian exports to Canada have increased at an average rate of nearly 4 per cent each year for the last decade – again, no free trade treaty in place.

What is the explanation for this? Why, in the absence of a comprehensive deal at the WTO, or the establishment of free trade agreements, are we seeing impressive growth in both the quantity and quality of trade between these countries? Is there something unique about these countries that encourages trade and commerce?

The answer to the last question is, of course, yes.

In 1997, the Commonwealth Heads of Government commissioned research into the nature of trade between its member states. The suspicion was that Commonwealth countries had a natural advantage in trade with each other that did not exist elsewhere. The result of this inquiry was a research paper published in 2001 by Sarianna Lundan and Geoffrey Jones that identified a 'Commonwealth Effect' in trade. By their estimates, Commonwealth countries trading with one another experienced business costs that were 10 to 15 percent lower than similar dealings with non-Commonwealth countries of comparable size and GDP.¹

According to the study's authors, trade between Commonwealth nations was enhanced because of such things as a common language of business, education and scientific research, common legal and political structures, and historical links. That is, we do business in English, according to rules based on the English Common Law, passed by legislatures based on the Westminster model, and interpreted by jurisprudence influenced by the British tradition. Those shared attributes reduce impediments to trade, and therefore, also the overhead in conducting business.

Comparing the way in which Commonwealth nations do business is, in many respects, a case of comparing apples to apples. And so, it should be obvious

¹ Lundan, Sarianna M. and Jones, Geoffrey, "The 'Commonwealth Effect' and the Process of Internationalisation," in *The World Economy* 24 (1), (London: Blackwell Publishing, January, 2001), 99-118.

why companies in our respective countries find natural markets and natural partnerships from amongst our ranks.

Another study, conducted in 2000 by Jeffrey Frankel of Harvard University, attempted to measure the impact of certain factors on international trade. In his findings, Frankel estimated that the lack of a free trade agreement between two countries reduced potential trade by 33 per cent – the same as the impact of using separate currencies.²

Frankel also measured the impact of using different languages, and lack of geographical proximity. Each of these reduced potential trade by 50 per cent.

What does this say about Commonwealth trade? Quite simply, in terms of trade between Canada and the UK, the common use of English nullifies the impact of the ocean that separates us. The use of a common language and legal structures has more of an impact on our bilateral trade than the adoption of a single currency has had for the eurozone.

Just as important, if the impact of the 'Commonwealth Effect' is greater than the impact of a trade treaty, then a *de facto* free trade deal already exists – whether or not Brussels cares to negotiate with Ottawa, or vice versa.

So, the reality is that the global economy is both a formal and informal creature. We sign official treaties, but we also gravitate to those partners to whom we have an affinity.

What does that mean for us today? Well, a great deal – for us and for the world economy as a whole.

We are citizens of two Commonwealth countries who share a natural and historical bond that gives us all the advantages of free trade without the formal treaty. We are also respective members of the two largest trading blocs on the planet – NAFTA and the EU. Between these blocs, over US\$25 trillion of GDP is generated – roughly half the world's economic output.

While Brussels and Washington argue and squabble over tariffs and duties, the truth is that businesses and investors on both sides of the Atlantic already have a bridge to one another. As gatekeepers on respective ends of the bridge, Britons and Canadians have a powerful role to play in shaping the evolution of globalisation, and our own futures. That is, if we recognise it.

It can begin today – right now.

We do not need to wait for a WTO deal, or a truce between the EU and the US. We do not need to wait for a change in the policies of governments or political

² Frankel, Jeffrey A., "Assessing the Efficiency Gains from Further Liberalization," John F. Kennedy School of Government, Harvard University, Faculty Research Working Papers Series, RWP01-030, December, 2000.

parties. All we need to do is open our eyes, open our minds, and get on with the business of doing business.

The trade promotion programme, *Commonwealth Advantage*, is working to help Commonwealth companies use the cost benefit of doing business in Canada as a means of gaining access to our NAFTA partners, the United States and Mexico. I would suggest that this concept needs to be expanded so that the UK becomes a conduit for Commonwealth firms to access the EU.

As someone from outside Britain, it would be impolite of me to state any opinion as to Britain's prospects in Europe. I realise that any discussion of trading alternatives does run the risk of being pulled into the debate over EU membership, but it is an unnecessary entanglement.

If you want a different relationship than the one currently offered vis-à-vis the EU, this model offers a ready alternative. If you support EU membership, you may see Britain's opportunity to be Europe's bridge to both North America and to the Commonwealth. If you care about Britain's economic prospects in the coming decades, you see the promise of new trade and investment opportunities.

Britain and Canada have a proud and positive past. Over generations, we have evolved our relationship from that of an empire and its colony, to proud sovereign nations who have been partners in prosperity, and allies in adversity. This partnership is not a relic of a bygone era – it has currency in today's world. For whatever reasons, we have failed to appreciate its value and its potential to transform – the virtual bridge between America and Europe, and a guarantee of continued relevance in a changing world.

Canada-UK trade is not just about two sister nations of the Commonwealth deepening our ties. It is about constructing the two end points to the bridge that unites Europe and North America, and opens access to our broader family – nearly 2 billion of us in total.

Let me conclude with my own bit of prognostication on the future of globalisation and the world economy. It is a world economy of regional trade blocs that are interconnected into a much larger network – the Commonwealth economy. Whether it exists in some official capacity, as I would hope to see, is a point to be debated and discussed. What cannot be denied is that it exists unofficially, and that it impacts business decisions around the world every day.

Whether or not it lives to be something more is a matter for each and every one of us to decide.

Note on the author:

Brent Cameron is the author of, *The Case for Commonwealth Free Trade: Options for a new globalization*, published in Victoria, Canada by Trafford Publishing, 2005, (ISBN 1-4120-4277-1). He is also a member of the Board of Directors of the Commonwealth Advantage – www.the-ca.ca. The opinions expressed in this document are solely those of the author.

Global Vision is a new campaign group backed by economists and business leaders that argues for a looser British relationship with the EU, based on free trade and mutually beneficial cooperation, whilst opting out of economic and political union. Global Vision believes that this is the right relationship for Britain in the 21st century's rapidly changing world. For more details on Global Vision please visit our website: www.global-vision.net.