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The U.S.-Canada Border: Benefits of an “External Perimeter” Strategy

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Introduction

The U.S. and Canada are the world's two largest trading partners, and both experienced rapid growth in trade volumes over the last decade. And while much of the trade growth can be traced to the NAFTA and predecessor U.S.-Canada FTA, the NAFTA itself did little to liberalize or modernize border crossing or customs processes. In fact, while the border is often referred to as the longest undefended boundary in the world, the customs processes and border crossing strategies that are used to manage the border are still rooted in a system that was originally developed to collect customs duty and control the flow of people. These border processes and strategies have a significant cost impact on the economies of the two countries. At the same time, a number of observers have questioned the degree of security that the current system can provide given the level of trade and personal traveler interaction across the border. This article reports on the results of ongoing research aimed at estimating the cost impacts of the border and explores an approach to gradually opening the border.

U.S.-Canada and Michigan-Canada Trade and Transportation

Trade between the U.S. and Canada is, of course, the largest bilateral trading relationship in the world, with 2000's total trade in goods and services of US$489 billion being some 52% greater than the trade with the U.S.'s number two trade partner, Japan. U.S.-Canada trade has grown by 152%, or 13.8% per year since implementation of the U.S.-Canada Free Trade Agreement in 1989. U.S. exports of goods to Canada totaled US$178.9 billion in 2000, or some 23% of all U.S. exports. The U.S. market is even more important to Canada's economy, with exports to the U.S. in 2000 totaling US$230.8 billion and representing 87% of all Canadian exports. Levels of foreign direct investment and personal travel also reflect a high level of integration between the two economies. This trade, investment, and personal travel result in a great deal of border crossing activity. In 2001, 68.3 million personal vehicles crossed the U.S.-Canada border along with 13.4 million trucks. And while personal vehicle travel was down from a peak of 77.5 million units in 1995, commercial traffic grew 29.7% between 1995 and 2001.

Michigan accounts for a major portion of all trade activity between the U.S. and Canada, and the trading relationship is critical to the state's economy overall and to many regions of the state, such as the Greater Grand Rapids area. In 2000 Michigan-Canada trade totaled US$69.7 billion with two-way trade in finished vehicles and parts totaling US$53 billion. In addition to autos and parts, Michigan exported US$242 million of furniture and fixtures, a good part of which likely originated in the Greater Grand Rapids area. Michigan's role in cross-border trade is actually far greater than what is reflected in Michigan origin- or destination-based trade because the state also serves as a gateway for other states' trade with Canada. In 2000 land based trade through the ports of Detroit and Port Huron alone totaled US$154 billion, meaning there was at least another US$84.3 billion of indirect trade that crossed Michigan. This land-based trade included moves on 4.8 million trucks that crossed the border at Detroit and Port Huron.

While trade and truck traffic increased dramatically between 1995 and 2000, the events of 9/11 have spurred a decline in the level of border-wide trade and truck traffic. In addition, personal vehicle traffic, which had been growing in recent years, is down 15.0% since 9/11. Figure 1 shows U.S. economic activity, imports from Canada by land, and inward truck moves for each of nine months pre-9/11 compared to the same nine months post-9/11. On a cumulative level, while the U.S. industrial production index was at the same level at the end of both nine-month periods, and auto production was actually up 4.24% in the U.S., imports of goods by land from Canada fell 10.8%, and truck traffic entering the U.S. fell 2.2%. This fall-off in Canadian exports to the U.S. by land will be of considerable concern in Canada where a number of trade associations expressed fears that post-9/11 perceptions of border delays and uncertainty might have this effect. The fact that Canadian exports fell 10.8% despite flat economic activity may in part be due to U.S. industrial buyers' concerns about the costs of the border now and in the future. But what are the cost impacts of the border?

Costs of the Border

Figure 2 on page 15, provides a summary of the estimated minimum, midrange, and maximum levels of various border crossing costs. These costs are for the combined economies of Canada and the U.S. and are for a calendar year. In total, costs for all delay, uncertainty, and other border related costs are estimated at a midrange point of US$10.293 billion. This cost estimate was developed following a research project in which numerous border crossing site visits were made, and in which some 173 interviews were conducted, and hundreds of secondary sources were reviewed. Specifically, delay and uncertainty related costs are estimated to total US$4.014 billion. For carriers the total midrange cost impact is estimated at US$1.867 billion. Primary inspection booth delays are estimated to have a cost of US$324.2
million, while secondary yard processing times cost another US$755.4 million. Other major costs included excess time built into route plans, documentation preparation time, and the need for additional equipment and drivers due to reduced cycle times. Another major category of cost impact from delays and uncertainty is on manufacturers who suffer reductions in productivity because of reduced sourcing from Canada. These lost productivity benefits are estimated at US$1.53 billion per year. These reductions in Canadian sourcing are thought to be at least in part due to buyer perceptions about the level of delays and uncertainty on the border.

Other major costs of the border, but not related to delays, are estimated at US$6.279 billion. For carriers the midrange estimate is a cost impact of US$350 million. These costs relate to administration of border crossing processes to “cabotage” costs. U.S. cabotage regulations, in the form of U.S. Customs and Immigration rules, prohibit Canadian drivers from making domestic freight moves in the U.S. Other border related costs include an estimated US$5.358 billion paid by manufacturers for brokerage fees, duty, and managing customs processes. Customs administration and brokerage fees alone are estimated at US$3.752 billion. Duties and fees are estimated at US$1.605 billion including recent softwood lumber duties. A final border cost is for federal inspection services staffs. These costs are estimated at US$571.5 million for personnel costs alone.

Alternative Border Management Strategies

Many of the border impact costs described above are a direct result of the border management strategy that has been employed on the U.S. border over the last 75 years. That strategy has involved a relatively wide-open border along most of the 5,500 miles, with relatively few checkpoints and many unguarded roads, trails, and river crossings. At many road crossings in rural areas, checkpoints shut down at night and a red cone is put in the road with a roadside sign instructing that persons should check in at some other point or return during the day. In other more urbanized areas, suburban streets run down the side of the border. Crossing the border in these areas is as easy as stepping out of the backyard into the street. At the same time, traffic crossing the border at some 130 border crossing checkpoints is lined up and each vehicle and its passengers are inspected. However, the volume of vehicles at peak times at some crossings, often exceeding 700 personal vehicles per hour and 400 trucks per hour, makes anything but cursory inspections difficult.

Given the level of cross-border travel and the backups and delays that border checkpoints create, it may be time to rethink the way the border is managed. The current system does very little to enhance security significantly, yet creates chokepoints and a variety of border crossing cost impacts. Is there a better way that can assure security and facilitate trade?

One of the key options is an “external perimeter” strategy that would replace the current border management system with more effective external border checks at the perimeter while reducing controls at the U.S.-Canada border and replacing routine checks with random inspections. This strategy would place the emphasis on border security at the U.S. and Canadian external border and reduce the emphasis on the U.S.-Canada border itself where levels of interaction and commerce make it almost impossible to provide effective security. Such a policy would require Canada and the U.S. to harmonize some immigration policies on the scrutiny and admissibility standards of immigrants, refugees, and foreign visitors. An external perimeter strategy would also require Canada and the U.S. to more closely cooperate on immigration and customs.

![Figure 1: Total U.S.-Canada-U.S. Economic Activity, Canadian Land Exports to U.S. and Trucks](image-url)
enforcement offshore and at our external borders—changes that are currently in process to some degree. However, it would not be necessary to harmonize all immigration policies, or to harmonize monetary systems or other domestic policies such as those on gun control, illegal drugs, and the like. Nor would it be necessary to eliminate all remaining trade restrictions between the U.S. and Canada, although such a goal would be beneficial to both economies in the long run. The key to being able to reduce scrutiny at the border without harmonizing all policies is the ability to build a robust system of random inspections and post-audits of the companies that conduct the bulk of trade across the border, and a system of severe penalties for corporate or personal violators of each country's domestic laws.

An “external perimeter” strategy could have a long-term goal of bringing the U.S.-Canada border to a level of “openness” similar to what is seen on European Union internal borders without the need for total harmonization of all policies. Such a system could be phased in with a ramping up of external border controls and post-audit procedures and a gradual loosening of the U.S.-Canada border with initially high random inspection rates and eventual reduction of inspections to an almost free-flow state. The benefits of such a system would be significant. First, there is the potential to save the US$10.293 billion per year in the costs of the current system. Secondly, there is an opportunity to actually increase security by redeploying the money spent on U.S.-Canada border guards to the external border, to intelligence activities, and to post-audit inspections where a more effective job can be done. While there has been little discussion of such changes in policy on the U.S. side of the border, there has been considerable discussion in Canada about the potential for an external perimeter strategy. In fact, one recent Windsor newspaper editorial suggested the Canadian government should seriously explore a European Union style border arrangement with the U.S.1 Should the U.S. and Canada want to maintain their current levels of integration, while enhancing security efforts against terrorism, it may be time to consider dramatic changes in the way we manage the border.

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