Better institutions needed for full auto recovery

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OTTAWA, ON, and PHOENIX, AZ, May 13, 2011 - According to the experts, auto sales and earnings are up thanks to the massive restructuring the industry – including the old "Detroit Big Three" (Ford, GM and Chrysler) as well as Japanese, Korean and German transplants - has undergone.

This good news, however, is not reflected in stock prices, a key indicator of future expectations, which were basically flat or down slightly. This unenthusiastic response doubtless reflects the problems the sector faces and which obstruct a full recovery.

Some of these problems are internal to the companies, but equally important are a number of public policy challenges, one of which is that the three NAFTA countries all continue to treat the auto industry - and others such as electronics, energy, and transportation - as discrete national businesses rather than integrated continental enterprises.

Building cars a cross-border activity

The North American auto market stopped being three separate, distinct national markets years ago. The reality is that Canadians, Americans, and Mexicans build autos together. A quarter of the more than one and one half billion dollars of goods that cross the U.S.-Canada-Mexico borders daily are automotive; not finished vehicles but parts, components, and modules. Auto sector jobs located in the U.S. or Canada are not American or Canadian jobs, but jobs that depend crucially on the workers, machinery and investment on the other side of the border. They are truly North American jobs.

The old "Ford" model of a vertically-integrated firm which internalized as much of the value chain of production as possible in a single firm, in one location, is largely history. Parts and components are now manufactured and assembled by many firms in multiple locations and brought to final assembly using a highly advanced logistics system.

Auto parts, components and modules move up and down complex cross border supply chains that link centres and distribution hubs across the continent based on favourable local conditions regarding research and development, production, distribution, and management. One assembly - of many in the final vehicle - may be composed of pieces made by more than a dozen suppliers in all three NAFTA nations. The final auto represents a remarkable ballet of movement from sites across the continent, all arriving on loading docks at a given moment in "just-in-time" (JIT) systems.

In this decentralized, dispersed model of production, transportation infrastructure is as important as production capacity. Maintaining efficient, secure, and sustainable border crossings is a pivotal issue that needs to be prioritized. It involves federal, provincial and state, as well as local governments.

Unfortunately, this is not an area of good news. In post 9-11 border management, security has trumped efficiency.

Delays and congestion at borders are but one example of the consequences of the substantial gaps in our institutions that continue to limit automotive success and competitiveness. We lack government and non-government institutions that focus on economic integration. Most institutions are inward looking within each nation in North America. Indeed, there is a remarkable asymmetry between the reality of the deeply integrated North American economy and North American governance, which is weak, fragmented, and often uninformed.

Action urgently needed

While U.S. President Barack Obama and Canadian Prime Minister Stephen Harper have committed to a reduction in cross-border congestion through the creation of a perimeter security shield and by tackling the regulatory thicket that impedes our shared competitiveness, expeditious action on border congestion is needed immediately. For example, Obama should intervene immediately to mitigate the special-interest objections to the construction of a new border crossing at Windsor-Detroit, where roughly a quarter of U.S.-Canada trade crosses.

Such decisive actions would deal with some of the short-term problems. The longer term issue is that our institutions have to reflect the reality of the North American economy. That will take leadership and vision on the part of leaders in all three countries.

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