# North America's Border Infrastructure:

## How It Limits Global Competitiveness and How to Fix It

By Matthew Rooney and Carlo Dade


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By Matthew Rooney and Carlo Dade, with thanks to Nick Saliba and Taylor Blaisdell

## Introduction

A lot has changed since the North American Free Trade Agreement (NAFTA) was launched. But two recent events have exposed weaknesses in one of the fundamental assumptions behind the agreement. The rise of China as a global economic power and the retrenchment of globalization post-COVID have called into question whether the trade bloc can remain effective and respond to challenges without more robust institutions.

The challenges posed by China and post-COVID re- and near-shoring do not require creating an all-encompassing "Brussels on the Potomac" that would arguably cause more problems than it would solve. But responding to these challenges does require the introduction of new capacity to do the few specialized things that individual governments cannot. Chief amongst these is taking a long-term view to pro-actively and permanently facilitate the efficient movement of goods throughout the entire bloc.

North America lags most other major trade groups in its capacity to plan, fund, and monitor trade infrastructure. Currently, it does not collect long-term data on the movement of goods throughout its integrated supply and production chains, which means that it cannot use this information to guide governments in long-term decision making. Furthermore, the group lacks a mechanism to collectively develop and fund infrastructure projects that are a high priority for border regions.

The Pacific Alliance has the data collection, analysis, technical capacity, mediation services and financing of the Inter-American Development Bank. ASEAN has the same from the Asian Development Bank. The European Union has the European Investment Bank, one of the largest supranational lenders in the world and a provider of guarantees and technical assistance. China has the Asian Infrastructure Bank. However, North America has no equivalent international financing institution.

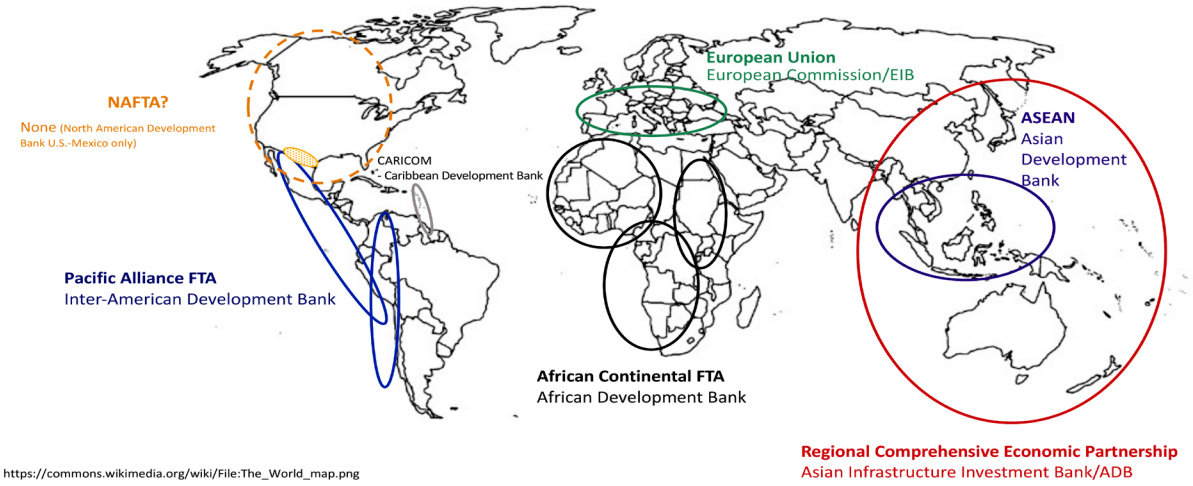


Figure 1: North American Trade Infrastructure Intelligence Weakness

These "development" banks have permanent, professional staff with long-standing knowledge of the movement of goods throughout integrated supply and production chains. Importantly, they have a mandate to think beyond election cycles or current administrations. After all, trade infrastructure investments are long-term, and the management of such investments should also be. These institutions also play a critical neutral third-party role in prioritizing cross-border projects. When it comes to re- or near-shoring production back to the North America, the capacity to know where to invest is fundamental. It is also currently lacking in North America.

This paper makes the case for and lays out the path to creating a North American Trade Infrastructure Bank (NATIB)to bolster the competitiveness of North America. With a one-system view of supply and production chains, the NATIB would collect data on the movement of goods and use of assets throughout North America and use this data to advise governments on how and where to invest. When needed, NATIB would provide guarantees and help to finance infrastructure projects. The NATIB would be a permanent institution.

## Making the Case: Global Competition

When first introduced, the original North American Free Trade Agreement (NAFTA) gave the three countries of North America a competitive advantage in a world with few such agreements. Although the 1990s was a period of significant regional trade agreement expansion — with MERCOSUR in 1991 and the ASEAN Free Trade Agreement in 1992 — NAFTA was among the most ambitious agreements of its time. Never had such a large free-trade zone, as measured by gross domestic product, been established, and never had highly developed countries formed a free trade area with less developed partners. It reduced barriers to trade and investment in the region, enabling a level of economic integration among the United States, Canada and Mexico that has bolstered North America's competitive position in the world. The U.S.-Mexico-Canada Agreement (USMCA, CUSMA or T-MEC, depending on your point of view) largely continues these trends, as it extends NAFTA's coverage to an array of service and digital industries that were not addressed by NAFTA, even as it takes a step toward government-managed trade in the strategic sectors of autos and steel.

But several policy issues crucial to North America's ability to compete in the global economy remain outside the framework of USMCA. Addressing these issues will prepare North America to increase the resilience of its supply and production chains as it adapts to post-COVID realities of re- and near-shoring. Border infrastructure, in particular, is emerging as a competitive disadvantage for the three North American economies individually and collectively. Work by the Canada West Foundation highlights the decline in global measures of the competitiveness of trade infrastructure for Canada and the U.S. versus competitors.[1] Most alarmingly, Canada has dropped to 32nd globally. In a 2021 White House press release[2], Biden addresses the two-point drop in global infrastructure for the U.S., which now ranks 13th globally. The drop in ranking has elicited a vigorous response from the Biden administration— also known as the Bipartisan Infrastructure Law[3].

North America's Trade Environment score on the George W. Bush Institute's Global Compet-

1 From "Shovel Ready to Shovel Worthy." CWF, 2022. https://cwf.ca/research/publications/new-report-from-shovel-ready-to-shovel-worthy/
2 https://www.whitehouse.gov/briefing-room/speeches-remarks/2021/03/25/remarks-by-president-biden-in-press-conference/
3 https://www.whitehouse.gov/bipartisan-infrastructure-law/

Table 1: World Economic Forum 2019 Transport Infrastructure Rankings

| Rank | Country | Score |
|---|---|---|
| 1 | Singapore | 91.7 |
| 2 | Netherlands | 89.2 |
| 3 | Hong Kong SAR | 89 |
| 4 | Japan | 87.8 |
| 5 | Korea, Rep. | 87.6 |
| 6 | Switzerland | 87.5 |
| 7 | Germany | 84.3 |
| 8 | U.A.E. | 84.1 |
| 9 | Spain | 83.6 |
| 10 | France | 82.6 |
| 11 | United Kingdom | 81 |
| 12 | United States | 79.6 |
| 13 | Taiwan, China | 79.4 |
| 14 | Austria | 78.7 |
| 15 | Denmark | 75.7 |
| 16 | Belgium | 75.6 |
| 17 | Italy | 73.2 |
| 18 | Oman | 73.1 |
| 19 | Qatar | 71.4 |
| 20 | Luxembourg | 71.4 |
| 21 | Portugal | 71.2 |
| 22 | Czech Republic | 70.5 |
| 23 | Sweden | 69.1 |
| 24 | China | 68.9 |
| 25 | Poland | 67.8 |
| 26 | Israel | 67.7 |
| 27 | Finland | 67.2 |
| 28 | India | 66.4 |
| 29 | Malaysia | 66.4 |
| 30 | Hungary | 66 |
| 31 | Azerbaijan | 65.8 |
| 32 | Canada | 65.7 |
| 33 | Turkey | 64.9 |
| 34 | Saudi Arabia | 64.4 |
| 35 | Bahrain | 62.1 |
| 36 | Croatia | 62.1 |
| 37 | Dominican Republic | 61 |
| 38 | Australia | 60.8 |
| 39 | Greece | 60.6 |
| 40 | Ireland | 60.4 |
| 41 | Morocco | 60 |
| 42 | Slovak Republic | 59.5 |
| 43 | Lithuania | 59.2 |
| 44 | Egypt | 59.1 |
| 45 | South Africa | 58.7 |
| 46 | Serbia | 58.7 |
| 47 | Slovenia | 58.3 |
| 48 | Panama | 57.8 |
| 49 | Russian Federation | 57.7 |
| 50 | Sri Lanka | 57.7 |
| 51 | Mexico | 57.4 |

itiveness Scorecard[4] has declined over the past decade – to 65.33 in 2020 from 70.67 in 2009. This fall reflects growing inefficiencies at the U.S.-Mexico and U.S.-Canada borders. The World Bank (a Scorecard source) reports that the time and cost of compliance at border crossings has increased substantially in all three countries over the past decade. In this same timeframe, North America's percentile rank on the World Bank "trading across borders" indicator decreased 14%. These declines demonstrate the need for Canada, Mexico, and the United States to increase their investment in border infrastructure, including digitization of border processes and coordinated pre-screening and pre-clearance programs at the borders.

4 See more at: https://www.bushcenter.org/publications/resources-reports/resources/scorecard/index.html

That being said, trade infrastructure is not solely a national issue. Given the levels of integration in supply and production chains built on three decades of NAFTA and USMCA, trade infrastructure is also a North American issue. Here the prognosis, especially compared to other trade blocs, is not good. Trade infrastructure in North America is a tangle of mismatched budget cycles, bureaucratic turf battles and financial dysfunction that prevents the market from responding to the needs of manufacturers, shippers, and travelers. Creation of a trilateral border infrastructure bank offers a cost-effective solution that would boost competitiveness and job creation across the region.

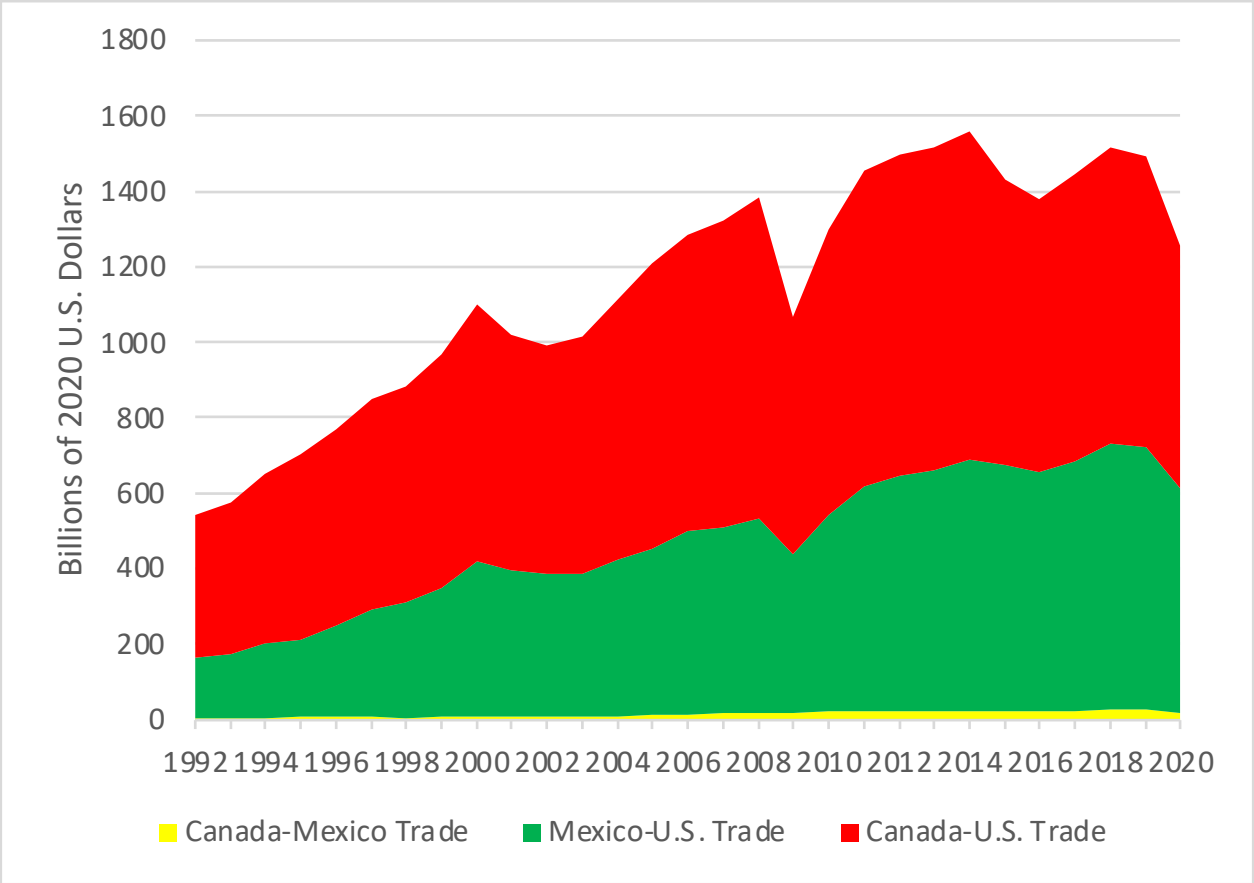


Figure 2: Trade Among North American Partners, 1992-2000

## Why Americans Should Care

Given the proximity and complementarity of our economies, the U.S., Canada, and Mexico are natural trading partners. Indeed, we are each other's most important counterparts when it comes to trade. Trilateral trade since the start of NAFTA has approximately tripled in real terms, from $542 billion in 1992 to $1.5 trillion in 2019 – 7% of America's GDP.[5] Over the same time, North America's exports to the rest of the world have grown almost as much, from $864 billion to $2.1 trillion.[6]

5 Measured in 2020 U.S. dollars. Source for goods trade data is IMF Direction of Trade Statistics. Source for services trade data is OECD.Stat. Source for U.S. GDP data is World Bank World Development Indicators Databank.
6 Ibid.

These are important measures, but we have reached the point that thinking only in terms of exports and imports is misleading: we make things together. A large portion of the trade within North America is inputs or component parts – the intermediate products, goods, and services used to make other goods or services. The ability to move goods efficiently across North America's borders is an important source of the competitiveness of our products on the global market. And the U.S. is at the center of this regional economy - of every dollar in goods that the U.S. imports from Mexico, 40 cents reflect the value of U.S. components. Similarly, for every dollar of goods imported from Canada, 25 cents reflect U.S.-origin components.[7]

North American major cities and regions are tightly integrated, particularly in high-tech manufacturing sectors, but also in energy, agriculture and livestock. Research by the Brookings Institution shows that about half of goods traded in North America are the products of advanced industries that include aerospace, automotive, electronics, machinery, pharmaceuticals and precision instruments.[8] For example, volumes of over $1 billion a year are traded in automotive parts and components between Detroit and Toronto, in electronics between San Jose, California and Mexico City, and in aerospace-related goods between Seattle and Montreal.

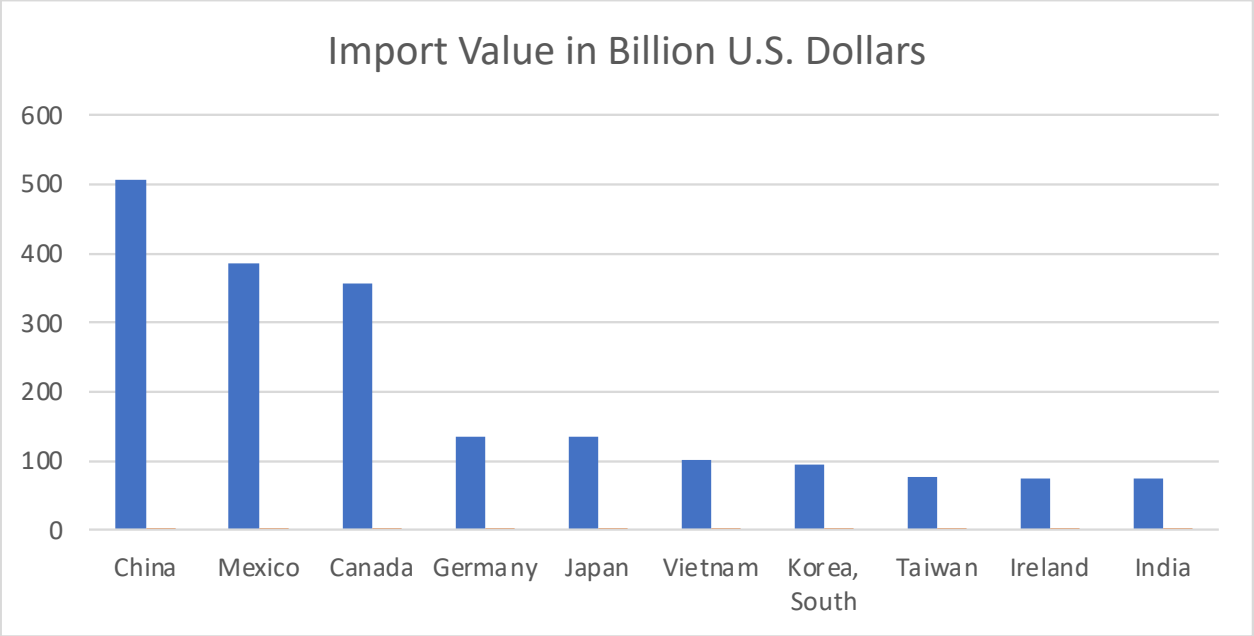


Figure 3: Top Ten U.S. Trading Partners by Import Value

Livestock is as much an integrated industry as the auto, manufacturing, and tech industries. The Canadian cattle industry pegs the value of its exports of beef and live cattle to the U.S. at between $2.5 billion and $3 billion annually. Economic integration within the industry is so significant that Canada and Mexico have emerged as two of the leading meat and poultry suppliers to the United States.[9] According to the Canadian Cattlemen's Association, 47 percent of domestically produced

7 From "U.S. Competitiveness: The Mexican Connection." Christopher Wilson, 2012. https://issues.org/p_wilson/
8 https://www.brookings.edu/wp-content/uploads/2013/11/bmpp_MetroNA_FINAL.pdf
9 https://www.meatinstitute.org//index.php/a/GetDocumentAction/i/188590?ht=a/GetDocumentAc-

Canadian cattle was exported to the United States in 2020.[10] Data from the U.S. Department of Agriculture reports that in 2019, 86 percent of Mexican beef exports were sent to the United States.[11]

This regional economic integration process has produced substantial gains for all three partners. Between 1990 and 2021, North America created over 69 million jobs on net, including 38 million net new jobs in the U.S.[12] Real GDP for the continent and for the U.S. expanded by 106 percent and 107 percent respectively.[13] On average, GDP per capita at purchasing power parity for the three countries grew 40 percent in real terms.[14] North American GDP per employed person, a measure of productivity, increased 44 percent in real terms.[15]

## The Secret Sauce of Our Success

Our advantage lies in the compatibility of our three nations' economic strengths, our collective ingenuity in leading sectors, and in our competitive workforces. The North American approach opens opportunities for entrepreneurs to respond to consumer preferences without creating supra-national institutions that override national sovereignty. This consumer-driven paradigm, with its light touch from government focused on coordination to streamline and harmonize regulations, has enabled North America to weather slowdowns in global trade even as major emerging markets and Europe have experienced serious challenges.

## The missing ingredient in the sauce

With the creation of the North American trade bloc, a deliberate decision was made to build only the bare minimum of bureaucratic institutions to manage the bloc. This has worked up to a point. When NAFTA was first created, there were not many other trade blocs and there was no successful, centrally planned economic model. That has changed in the nearly four decades since the first North American trade agreement, the U.S. Canada agreement. What worked in the past, or more correctly, what we could get away with in the past because there was no competitive pressure, is no longer good enough. As others have adopted the regional integration approach to manufacturing, it is time to review our hands-off approach.

## From Free Trade to Competitiveness

North America needs to think holistically about the challenges of global competition, especially considering changes to globalization post-COVID and the continued rise of Chinese infrastructure projects like the Belt and Road Initiative. For too many years, we have neglected the importance of infrastructure as the backbone for supporting regional economic integration and growth.

On the average day, approximately $3.5 billion worth – 1.6 million metric tons - of goods move across North American borders.[16] More than 83 percent of North American freight flows (by dollar value) move by truck, rail, or pipeline, with

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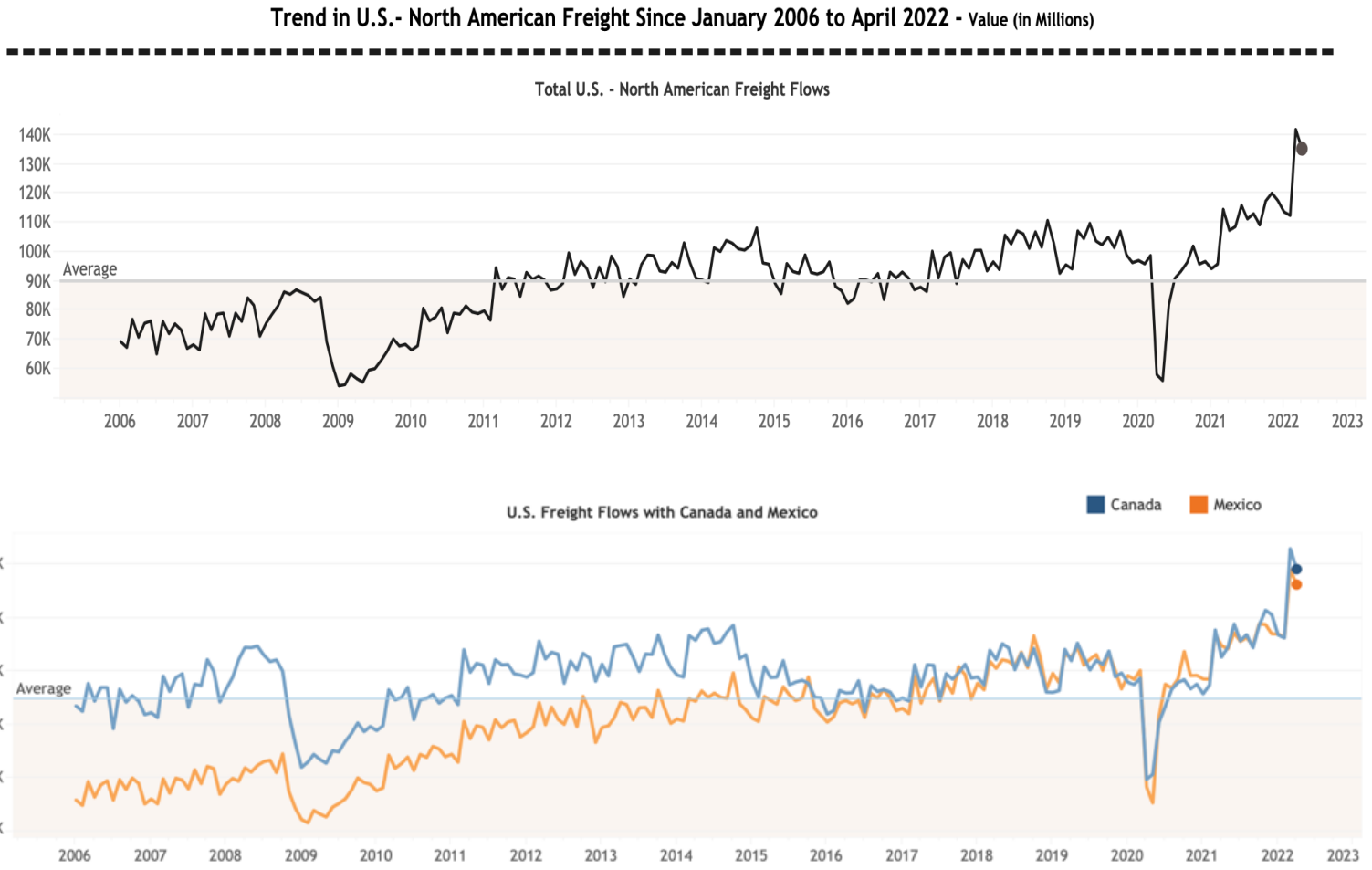
10 https://www150.statcan.gc.ca/n1/pub/18-001-x/18-001-x2021002-eng.htm
11 https://www.reuters.com/article/us-mexico-usa-trade-beef-idUSKBN22P2OK
12 World Bank World Development Indicators Databank. https://databank.worldbank.org/source/world-development-indicators.
13 IMF World Economic Outlook Database, April 2022. https://www.imf.org/en/Publications/WEO/weo-database/2022/April.
14 Ibid.
15 GDP data from IMF World Economic Outlook Database, April 2022. https://www.imf.org/en/Publications/WEO/weo-database/2022/April. Employment data from World Bank World Development Indicators Databank. https://databank.worldbank.org/source/world-development-indicators.
16 IMF Direction of Trade Statistics, https://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-




Figures 4 and 5: Freight Flows for North America and U.S. Freight Flows with Canada and Mexico (Source: U.S. Bureau of Transportation Statistics)

trucks accounting for just over three-fifths of the volume.[17] Increased integration of North American supply chains means that product inputs cross borders not once, but multiple times, during production.

Failure to improve border infrastructure and inspection procedures to handle increasing volume causes delays and increases the inventory needed to ensure reliable production and delivery. It also creates a competitive disadvantage. For example, an American-branded car might cross a North American border six or seven times on its way to the showroom and is inspected, with a clearance process, each time. A vehicle coming from Asia or Europe fully assembled is inspected only once.

Delays at the borders, and the unpredictability of crossing times, are the most common challenges faced by exporters and producers. These existed pre-COVID, but as the regional economy has recovered post-COVID, simmering problems have boiled over.

Queues of trucks and cars can be a result of inadequate infrastructure or delays caused by inspection functions at the customs plaza. There is broad agreement among stakeholders that budget constraints on border security resourc-

59B2CD424B85, and U.S. Bureau of Transportation Statistics, https://www.bts.gov/transborder.
17 U.S. Bureau of Transportation Statistics, https://www.bts.gov/transborder.

es and the challenges caused by a lack of adequate inspection capacity impact the speed of inspection.

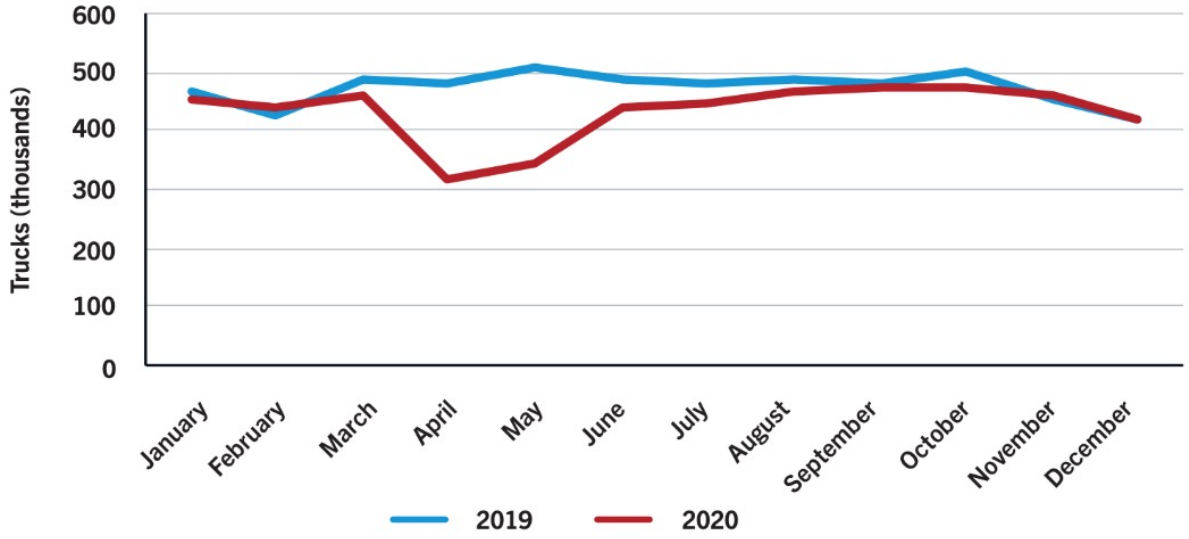



Figure 6: Monthly Truck Traffic Across the U.S.-Canada Border (Source: U.S. Department of Transportation Statistics)

A study conducted for the Bush Institute in 2016 by the North American Research Partnership determined that delays at the San Ysidro land port of entry between San Diego and Tijuana cost San Diego County $539 million per year in lost economic output and prevented the creation of 2,900 jobs. Furthermore, the State of California foregoes an additional $308 million in economic activity and 1,400 jobs, and the United States more broadly suffers $700 million in lost output and 5,000 lost jobs. That amounts to a drag of $1.5 billion per year to the U.S. economy and over 9,000 jobs that go unrealized, all due to delays at one border crossing. An economic impact model by University of Southern California in 2014 estimated that adding just one more Customs and Border Patrol (CBP) officer at each of 33 ports of entry would create an additional $66 million in GDP, 1,094 annual jobs and $21 million value in time saved – all at a personnel cost to the U.S. taxpayers of less than $10 million.[18]

In 2011, Bloomberg Government estimated that delays at U.S.-Mexico border crossings cost the U.S. economy $7.8 billion in lost output.[19] The costs are expected to have increased to $15 billion annually by 2020. According to a study by the University of Waterloo and Wilfrid Laurier University, delays at the U.S.-Canada border cost Canadians and Americans a combined $30 billion each year.[20] Sta-

18 Brian Roberts et al., "Analysis of Primary Inspection Wait Time at U.S. Ports of Entry," Analysis of Primary Inspection Wait Time at U.S. Ports of Entry (U.S. Customs and Border Protection, March 9, 2014), https://create.usc.edu/sites/default/files/projects/sow/3042/create20ofofinalreport032414.pdf.
19 Amanda J. Crawford, "Border Delays Cost U.S. $7.8 Billion as Fence Is Focus" (Bloomberg, May 14, 2013), https://www.bloomberg.com/news/articles/2013-05-15/border-delays-cost-u-s-7-8-billion-as-fence-is-focus.
20 Trien Nguyen and Randall Wigle, "Border Delays Re-Emerging Priority: Within-Country Dimensions for Canada," Canadian Public Policy, 2011, https://buildthedricnow.files.wordpress.com/2010/06/border_delays_study_2011.pdf.

tistics Canada estimates that the cost of shipping goods across the border increased by 25 per cent between 2000 and 2009[21] – a trend that likely continued in the 2010s.

Border infrastructure investments should be viewed in both regional and national terms. The greatest benefit is reaped by the region, but there are broader impacts to the national economy, including to GDP and jobs.

According to initial estimates prepared for the Bush Institute in 2016, targeted investments in border infrastructure would increase the U.S. GDP by one percentage point in five years — an addition of $220 billion — while reducing the U.S. federal budget deficit by 1.16% of GDP after five years, a savings of nearly $250 billion.[22]

| Region | Change in Key Metrics | | | |
|---|---|---|---|---|
| | Number of Travelers | Number of Trucks | State Bilateral Trade Value w/ Canada (USD) | State GDP (millions of USD) |
| Alaska | -568,290 | -830 | -$337,249,948 | -$15,282 |
| Cascadia (Washington State) | -8,528,964 | -27,370 | -$2,640,021,691 | -$1,956 |
| Plains-Mountain West (Idaho, Montana, North Dakota) | -2,448,815 | -31,413 | -$2,846,006,080 | -$22,181 |
| Upper Midwest (Minnesota) | -1,159,335 | -1,151 | -$1,771,147,714 | -$43,967 |
| Detroit-Windsor (Michigan) | -7,899,844 | -238,414 | -$15,284,934,435 | -$89,242 |
| Buffalo-Niagara (New York) | -9,170,939 | -64,651 | -$3,196,158,887 | -$324,913 |
| Eastern NY-VT-Montréal (Vermont) | -4,227,921 | -25,281 | -$520,005,830 | -$5,073 |
| Maine-Québec-New Brunswick (Maine) | -2,526,906 | -18,056 | -$352,780,589 | -$7,741 |
| Total | -36,531,014 | -407,166 | -$26,948,305,174 | -$510,356 |

Table 2: Regional Impacts of the Border Restrictions and COVID-19, Apr-Dec 2019 vs Apr-Dec 2020 (Source: U.S. Bureau of Transportation Statistics)

And yet, as extraordinary as it sounds, after 25 years of trade integration, the three national governments exchange information about their processes to plan and build critical infrastructure at a relatively junior bureaucratic level, far from the political commitment needed to ensure that cross-border infrastructure development meets the needs of producers, shippers and travelers. Despite the fact that North American trade has been declining, in line with global trade, since 2014, cross-border infrastructure remains inadequate. The result is embedded costs in the production chain that create a drag on our global competitiveness and inhibit job creation. We must do more to enable a market-driven approach to planning and financing border infrastructure to strengthen

21 Mark Brown, "How Much Thicker Is the Canada–U.S. Border? The Cost of Crossing the Border by Truck in the Pre- and Post 9/11 Eras," Statistics Canada, July 2015, https://www150.statcan.gc.ca/n1/en/catalogue/11F0027M2015099.

22 "Investing in North American Competitiveness." George W. Bush Institute, November 2016. Page 5. https://www.bushcenter.org/publications/resources-reports/reports/investments-in-north-america.html.

the productivity and global competitiveness of our region.

## Source of the Challenge

One of the biggest constraints to improving border infrastructure is knowing where to invest for maximum improvement in movement of goods and meeting future needs of business. But even if this knowledge were available, making needed investments would be stymied by funding the high capital costs. While large cross-border infrastructure projects can bring large economic returns, they often come with price tags that are too high for individual states and provinces, even with federal funding programs.

The U.S. struggles with financing infrastructure projects in large part because its system of state-based financing is complex. Funding for roads is channeled to the states though the Highway Trust Fund (HTF) such that proposals to invest in highways and bridges at international borders must compete with bypasses and improvements elsewhere in the state. Funding for port-of-entry inspection and office buildings comes out of the same appropriation as funding for other roads and federal buildings, such as courthouses in state capitals.

Hence, the U.S. government has no permanent mechanism through which it can set priorities for investment in border infrastructure. Further, according to the Congressional Budget Office, the cumulative HTF deficits are projected to be $75 billion by 2025. The challenge will only get worse.

Bilateral co-ordination issues are even more striking. By some counts, some 44 federal, state and local agencies on both sides of the U.S.-Mexico border are involved in planning, siting, financing and building border infrastructure, not to mention the civil society and private sector stakeholders. The U.S. built the Guadalupe-Tornillo Bridge halfway across the Rio Grande River before Mexico secured funding for its part of the bridge. On the other hand, Mexico completed its new inbound inspection facility west of Tijuana five years before the U.S. was scheduled to re-route the southbound lanes of Interstate 5 to link up with the new Mexican port of entry.

The Gordie Howe International Bridge between Detroit, Michigan, and Windsor, Ontario, one of the busiest commercial border crossings in North America, is a further example. More than 25 percent of all merchandise trade between the U.S. and Canada travels across the Ambassador Bridge that has linked the two cities for almost a century. This represents a volume of trade comparable to trade between the U.S. and the U.K. or Japan. Approximately 259,000 jobs in Michigan depend on the Ambassador Bridge.[23] A new bridge was proposed by a binational study group in the early 2000s to increase the capacity for traffic and passenger flow across the Detroit River. After years of delay, the U.S. government issued the necessary permit but simultaneously announced that it would be unable to fund its share of the construction costs. The Canadian government then decided that the importance of the project was such that it would finance the entire bridge construction, including the construction of highway approaches on the Michigan side. Subsequently, the U.S. government announced it would also not be able to fund construction of its own customs and border inspection facilities on the U.S. side; Canada, already committed to the project, agreed to build the needed facilities to U.S. specifications (and pay for staffing of the facilities) as part of the project, bringing the total price tag to nearly $6 billion.[24] Of course, users of the bridge will ultimately bear the cost through the tolls they will pay, but it is unusual for one side to bear the

23 Govt. of Canada, Michigan Trade Fact Sheet. http://can-am.gc.ca/business-affaires/fact_sheets-fiches_documentaires/mi.aspx?lang=eng.
24 "By the Numbers: Gordie Howe International Bridge," Gordie Howe International Bridge, ac-

entire financial burden and commercial risk of a cross-border facility that will produce significant benefits for companies and consumers on both sides of the border.

Cross-border infrastructure projects are notoriously difficult to assemble a political coalition around because half of the beneficiaries are in another country. This factor is heightened along the U.S.-Canada border, where the population tends to be denser on the Canadian side than on the U.S. side. For this reason alone, having planning and financing beholden to an annual budget process alongside competing domestic priorities will always tend to produce a sub-optimal outcome. Add to this the pressures on the government budgets of all three North American partners and the case for an alternative approach is compelling.

## How to Fix It – Imagining NATIB

Our proposal calls on the three USMCA partners to form and capitalize a North American Trade Infrastructure Bank (NATIB) to play a key role in planning, financing, and coordinating border projects. The NATIB would be a permanent entity, financed and staffed by all three governments. The Bank would play a limited, focused role to collect data and provide technical services and financing to all levels of government within North America. Its goal would be to improve the fluidity and efficiency of trade infrastructure for the integrated supply and production chains of the North American trade bloc.

Such an organization would be based on capital paid in by the three governments and could engage the private sector through issuance of bonds in addition to having private sector leaders on its board of directors. Working closely with government and industry, the institution would be well positioned to generate an "end-to-end" border perspective, enabling prioritization of projects according to market, not political, criteria.

The NATIB would synthesize the best thinking in North America on infrastructure needs. By assuming a neutral and non-regulatory coordination role for transnational projects, the bank would reduce the time and resource burden on national and sub-national entities of complex border projects, many of which never enter the planning phase due to the cost to local communities of conducting feasibility studies and meeting regulatory requirements. Moreover, the NATIB could position itself as an impartial provider of authoritative data on cargo and passenger traffic throughout North America, enabling it to provide objective projections of volumes and routes. The bank's permanence and institutional memory would enable it to invest in the region's long-term competitiveness. A North American border bank would serve as a valuable ongoing resource to all levels of government and the public.

It would also be a significant contribution to creating a level playing field with competitors such as China and the EU. Both have similar dedicated institutions that foster the development of world-beating supply chains. Their manufacturers, especially those in leading sectors such as automotive, aerospace and technology, are better able to source components to control costs and boost their global market position.

Perhaps most important of all, a publicly chartered financial institution creates remarkable leverage, relieving annual budget cycles of a significant burden. Existing multilateral banks, including the World Bank, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the European Investment Bank, the Asian Investment bank and many others, generally operate with a mixture of paid-in capital and callable capital provided by their member governments. The callable capital is paid only if necessary to enable the bank to meet its obligations, but it

cessed December 12, 2019, https://www.gordiehoweinternationalbridge.com/en/by-the-numbers.

forms part of the bank's capital base, boosting its ability to provide financing. As a result, leverage rates of two- to three times paid-in capital are common.

## Funding NATIB

Let us assume that the three parties agree to capitalize the new organization with $4.5 billion. If the bond markets and rating agencies accept a paid-in capital of 15%, $675 million would be paid in cash. Since the U.S. has two borders, and Mexico and Canada only one each, it would make sense for the U.S. to fund half this amount, or $337.5 million. Assuming the NABIB follows a relatively conservative leverage policy, this $675 million in newly paid-in capital would support lending of just over $2 billion, which would be further leveraged by the fact that the NATIB would generally not be the sole source of financing for projects.

From the U.S. perspective, this would amount to more than six dollars of investment for every American taxpayer dollar paid in. Given that the U.S. General Services Administration invested about $1.5 billion in infrastructure along the northern and southern borders from 1999-2014,[25] and that U.S. Customs and Border Protection estimates that it needs $6 billion[26] to modernize existing land ports of entry, this is a significant amount that would go a long way towards addressing the challenge we face.

From a Canadian perspective, the government has already allocated CD$35-billion over 10 years for the Canadian Infrastructure Bank (CIB), and the bank has spent only CD$4-billion in the five years since it was created.[27] The Canadian Parliamentary Budget Office has estimated that CIB is unlikely to disburse $35 billion within its 11-year mandate, forecasting a shortfall of $19 billion. The Canadian government has also recently announced additional new major infrastructure funds including a new $15-billion Canada Growth Fund. As a result, finding US$168.75 or CD$216 million dollars should be feasible.

The details of how the bank would be funded and structured would result from a trilateral negotiation. There is a precedent in the form of the North American Development Bank, which, despite its name, is a U.S.-Mexico institution founded in 1994 to address the environmental concerns arising from the implementation of NAFTA. The NADBank, as it is called, was endowed with $3 billion in capital, 15% of which – $450 million – was paid in equal shares by the two governments.[28] There is no reason to suppose that creation of a NATIB would be out of reach, if the USMCA partners were to agree to pursue it.

## Conclusion

As long as we don't have border infrastructure that responds to the needs of shippers and travelers, we are competing in the global market with one hand tied behind our back. It is costing us prosperity, jobs, and higher wages for our workers. Even more, it is making us less flexible and effective in our responses to crises such as the COVID-19 pandemic. We have readily at hand a sure way to tap into North America's potential in a cost-effective way. What are we waiting for?

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25 "Port of Entry Infrastructure: How Does the Federal Government Prioritize Investments?," Port of Entry Infrastructure: How Does the Federal Government Prioritize Investments? § (2014), https://www.govinfo.gov/content/pkg/CHRG-113hhrg91930/html/CHRG-113hhrg91930.htm.

26 Ibid.

27 Canada Infrastructure Bank: Status of investments up to 2020-21 Q3. Office of the Parliamentary Budget Officer. 23 March 2021. https://www.pbo-dpb.gc.ca/en/blog/news/BLOG-2021-015--canada-infrastructure-bank--banque-infrastructure-canada

28 "Capitalization," North American Development Bank, accessed December 12, 2019, https://www.nadb.org/about/capitalization.

# About the Authors

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