

WITH Andrea Mandel-Campbell, journalist and author of *Why Mexicans Don't Drink Molson*



ANDREA MANDEL-CAMPBELL, a journalist currently living in Toronto, has published in many venues, including *Macleans* and *The Walrus*. She served as Mexico bureau chief for London's *Financial Times* and as a *Business Week* correspondent in Buenos Aires. During 10 years in Latin America, she covered stories from environmental issues and agriculture to the war on drugs and the Zapatista rebellion in Chiapas, Mexico. Her writing on global competitiveness led to a book, *Why Mexicans Don't Drink Molson*. Recently focused on ways to improve the potential of business and trade ties between Canada and China, she was awarded a Media Fellowship from the Asia-Pacific Foundation to pursue that topic. Her previous book, *Passport Argentina*, was published in 1999. Her articles are considered required reading for college courses in world economics and international development. She was interviewed following a speech titled "The Milk Mafia" at a Frontier luncheon April 17, 2007.

Frontier Centre: Most ordinary Canadians are totally unaware of the importance of international trade to Canada's prosperity. Can you enlighten them?

Andrea Mandel-Campbell: It's hugely important. It relates to a lot of technical terms like productivity, prosperity and the standard of living. Basically our ability to compete internationally is directly related to our ability to provide for our children.

FC: Central to the message of your book, *Why Mexicans Don't Drink Molson*, is the thought that a host of laws, regulations, taxes and tariffs diminish Canada's reputation and effectiveness in world trade. How serious are those problems? How much wealth are we losing?

AM-C: I think we're losing an untold amount of wealth. We are hamstringing the ability of potential companies and entrepreneurs to create wealth, provide jobs and compete internationally.

FC: It's difficult to regard what doesn't happen as a loss. But that's what you're talking about, isn't it? What doesn't happen because of these silly little autarchies?

AM-C: You have to compare us to other countries. Look at areas where Canada should be strong – whether that is in agro-business, banking, mining, fishing, what have you. Look at what other countries have been able to create with those resources, or even without those resources. Even a country like land-locked Switzerland has managed to arbitrage their position; the Swiss actually own Canada's leading mining company. All the money it makes from it goes back into the coffers in Switzerland to pay for all kinds of things, be it better infrastructure or healthcare, you name it. I mentioned Cargill in Minnesota, with 150,000 jobs, \$75-billion in sales. Guess who's benefiting from that? If you compare it to what we have – 460 civil servants working at the Canadian Wheat Board – you can do the numbers from there.

FC: How can Canadians expect mutual reductions in world trade restrictions when we have huge existing barriers between provinces? You still can't sell beer from Manitoba in Saskatchewan, never mind Mexico. Is TILMA [the Trade, Investment and Labour Mobility Agreement between Alberta and B.C.] the way to go? Why?

AM-C: You compete internationally the way you compete in your own country. If we don't even have free trade in

Canada, then I don't see how you can really trade freely internationally. If you're already weighed down by all these millstones of inter-provincial trade barriers, it reduces your potential to be successful and competitive. It forces you to look inward and restrain your business to your own province instead of looking at all of Canada. I think TILMA is a nice half-measure, a Canadian middle-of-the-road sort of solution. Personally, I would take a much stronger approach. If Ottawa were really determined to do what was best for this country, the federal government would take this issue to the Supreme Court and impose free trade between provinces. It is within their legal jurisdiction. It's ridiculous that we've waited all these years with the hope that the provinces would come together and agree with one another. Now we're going to do it bit by bit. I hope other provinces sign on, but in the meantime we've lost years of potential economic growth.

FC: You argue that a fulsome level of competition among provinces would sharpen our international game.

AM-C: I do believe that. If in your home country you're being held down by all these different obstacles, your competitive edge is significantly less sharp. If the signals sent by domestic competition are not getting through to you, how would you be able to recognize them in the international realm?

FC: You've described Canadian trade policy as "lazy," and said that Canadian trade figures have been falling since the 1970s. That sounds counter-intuitive; we hear all the time that globalization is increasing. What do the numbers say?

AM-C: Our trading activity, both in imports and exports, has increased significantly since the 1980s. It's gone from 25% of GDP up to about 45% in 2000. But since 2000 – the apex of the North American Free Trade Agreement, which gave us a short boost between 1995 and 2000, where we enjoyed the fruits of NAFTA – it's declined. Now, once again, trade only represents about 35% of our GDP. We got a little bit of leverage when NAFTA opened up a bottle neck in the Canadian economy. But at the end of the day, unless we go the full route and liberalize our economy, we're not going to be able to continue at the same level.

FC: You're going to be debating one of our economic nationalists, Buzz Hargrove, on this issue next month in Toronto. Can you give us a preview of your arguments?

AM-C: I respect Buzz; I interviewed him once for the *National Post*. I do believe that he is genuinely trying to protect the interests of the Canadian Auto Workers. They have had a great run. But I oppose his stance against a free-trade agreement between Canada and South Korea. He says that, if South Korea isn't going to open up their automotive industry, then why should we? But I don't believe that two wrongs make a right. Just because others punch themselves in the eye doesn't mean we should. In fact, the reason South Korea has become aggressive in the last year, in trying to sign free-trade agreements around the world, is because its own economy has started to stagnate. It realizes that protectionism has really hurt it. Its trade has started to decline and its standard of living has started to level off. It needs to rejuvenate its own industry because it is stultifying under current levels of protection.

FC: Japan had the same problem, with a big explosion of trade and then a refusal to open up its own markets. That's hurt them as well.

AM-C: They went into a massive recession in the 1990s for that reason. Now they are pursuing trade agreements, because they realize that that is what they need to do. Korea is now facing the fact that its very successful automotive industry is going to be competing against China, and it won't be able to compete unless it starts to open up. I think the more free-trade agreements we sign, the better.

FC: Are unilateral trade agreements an acceptable substitute for ones that include more countries?

AM-C: There's no question that multi-lateral is the best way to go. But if multi-lateral isn't working, it seems to me that unilateral agreements are our only alternative. I agree that having a spaghetti bowl of all these different free-trade agreements doesn't help as much because it makes it very confusing at the end of the day for businesses to try and figure out comparative advantages. But if the multi-lateral avenue is stalled, we don't have any other option.

FC: Supply management is only one of the irritants to our trading partners you describe, but how big an issue is it? Dairy and poultry farmers gain a measure of income security, but what do the rest of us lose, aside from higher domestic prices?

AM-C: It comes at a huge cost. First of all, you're limiting the amount of people who are in the protected business. Only these privileged people get the quota, and nobody else. Somebody who decides to become an entrepreneur and start milking cows or raising chickens can't. You shrinking the economic pie to begin with, to the benefit of other people ensured with a secure income. What should be the guarantee of their income is that they run a good business. At the end of the day you're just ensuring inefficiency. What are these people's rewards if they become more efficient and more globally competitive and seek out international markets? Not much, when they've got a guaranteed price.

FC: Our climate is one reason we should be a major producer of chickens in the world market. We are ideally suited to become huge producers but we can't because of the restrictions of supply management.

AM-C: That's exactly right. I was recently in Hong Kong and I talked to a Canadian working there who heads up the biggest Chinese fast-food chain in the world. He said, "I'd love to be getting product from Canada, but there's nobody supplying it, there's nobody knocking on my door."

FC: Because of Western Canada's advantage in feed grains, we should also be huge exporters of dairy products, but we're constrained in that industry, too.

AM-C: Absolutely. There's a huge potential for Canada. We are very well placed. Why is it that Minnesota is supplying cheese to Boston when Ontario and Québec are much closer? They could be doing a great business across the border. But they're not, because they have decided that they would rather have a guaranteed price in a very small market than to take the risk of competing.

FC: You contacted the Frontier Centre some time ago to ask about the Canadian Wheat Board's monopoly powers. What have you since learned about that issue's importance for our trading partners?

AM-C: Obviously it's a huge irritant for the United States and for the European Union, as well. I think that that argument has always been cast in a shadow, in the guise that the Americans are once again trying to bully us. But frankly I think that they have a justifiable reason to block our trade at the border because of the Board.

FC: Is that based on hidden state subsidies for the cost of the Board's capital and other price protections?

AM-C: Ironically, I think the Americans are doing the job of making a case that we should be making. There is some debate about how much of a price differential the Board does glean for our farmers. I'm not an expert, and I can't say what the truth is. I think the Americans argue it more on principle than on anything else. I think they find the idea of monopoly to them somewhat repugnant. They're challenging the whole fundamental concept of the Wheat Board, something we should be doing.

FC: Beer was the title topic of your book. Farmers here recently voted for marketing choice in barley. What effect will that have? Will Mexicans now start buying our brews?

AM-C: I think this is only the first step. The opportunity is now there and it's up to Canadian farmers, entrepreneurs and people in the industry to take up the opportunity and use it. That's crucial. Even in areas where there is no protection, Canadians still suffer from a significant lack of confidence and a significant lack of a global perspective. We still have the errant belief that other people wouldn't be interested in our products. We have to overcome that.

FC: Another set of restrictions that affect us more than we think are limitations on foreign ownership in certain industry sectors. How extensive is that problem?

AM-C: It's huge. The OECD says that Canada has one of the most restrictive regimes in the world, in terms of restrictions on foreign ownership. Our ownership rules in telecommunications, airlines and banking have been a huge impediment. Despite the fact that Canada has hugely

profitable banks, with \$19-billion in profits last year, not one of them is really an international player.

FC: Do you think we should abolish all such restrictions?

AM-C: Yes, I do. As with the Wheat Board, I believe they have held our companies back from going international because they are nicely cocooned here in Canada, where they make exceptional profits without having to be really competitive. They're oligopolies and semi-monopolies, and they make huge profits without being very productive. In the case of the banks, they are only 60% as productive as U.S. banks in terms of using information and communications technology, and yet their profits are among some of the largest in the world on a relative basis. That has kept them in Canada. In the 1970s, Royal Bank was about the 12th largest bank in the world and today it's internationally irrelevant. All the banks that were big back then are still big, and some of them, like HSBC, have come from nothing to become global giants. I think that removing these regulations would unleash our global potential.

FC: HSBC got into Canada by buying existing branches in B.C. and within a year become the most profitable because it targeted an underserved market for lending risk capital. Then other banks started doing it.

AM-C: I've found that over and over again. It's the same with Macquarie, the Australian bank, which innovated with public-private partnerships. They've gotten into areas that Canadian banks couldn't be bothered with, like the financing of the sea-to-sky highway in B.C. and Edmonton's ring road. They're now buying into all kinds of things, even Leisure World, healthcare facilities for the aged. They got into new parts of the lending market that Canadian banks neglected because they thought they weren't worth the effort.

FC: We have nine chartered banks and the Americans 70,000. Ours play it safe. The main impediment is the fact that to charter a new bank in Canada you have to get a bill passed through Parliament. Isn't that the most ridiculous restriction of all?

AM-C: Yes. The end result is that you have all these companies sitting on their tidy little nest eggs. Their reserves are immense, yet Canadian entrepreneurs are starving for capital because the banks don't feel the need or the urge to loan money to them. They cherry-pick whom they'd like to lend to, and in the end a lot of opportunities waste away for a lack of capital.

FC: What other areas of Canadian enterprise are hampered by foolish rules? What about broadcasting?

AM-C: I would extend that across the board, to all the so-called cultural industries. I talk in my book about the beginnings of all this, through Sir John A. MacDonald's National Tariff Policy. At the time he linked industry to nationhood and forging a Canadian identity. He said in order for Canadian industry to come into its own, to create and nurture these infant industries into adulthood, they needed these kinds of protection. Of course, over time with the expansion of trade agreements, a lot of those restrictions went by the wayside. But we very effectively transferred that argument to cultural industries, by thinking

that somehow they were different and needed special protection. That extends everywhere, from broadcasting to newspaper ownership to bookstores.

FC: What about the phenomenon of medical tourism? If Canada's health system were working properly, would there be any need for it? Should our health authorities pay the bills for people who purchase services offshore that they can't get at home?

AM-C: It feeds into the whole thing. It's just another example of a system that can no longer really provide for its population. It tells me that the system is sadly underfunded and no longer meets the needs of the Canadian public. It's that feel, once again, of a lack of choice. We somehow feel that this unknown quantity will destroy us as Canadians, will undermine our sense of who we are and attack what makes us different. In the long run, that attitude really weakens us.

FC: In many intellectual circles in Canada, the United States and Mexico, there still exist people who think that NAFTA has hurt their respective countries. Isn't NAFTA a huge success?

AM-C: It is an unmitigated success. These people have their heads under a rock, and frankly they just have no basic, fundamental understanding of economics.

FC: Is it a case of "one part pain and nine parts gain" and all we focus on is that one part?

AM-C: Absolutely. For some reason, Canada in particular seems to specialize in protecting the underdog. I think that in our national psyche, Canadians identify ourselves as underdogs, and I'm not really sure why that is. So we feel this knee-jerk reaction to protect the losers rather than celebrate the success.

FC: You are considered an expert on Latin America, where recent trends towards extremist left-wing governments are troubling. How has the world failed that region? What do you recommend we do to reverse that current tide?

AM-C: I'm not a big proponent of blaming other people for your problems. I'm sure there are some things that the world could have done better in terms of helping these economies when they decided to liberalize themselves and privatize parts of their economies. Many of them did not have institutions in place to facilitate that evolution. A lot of times, they didn't have a proper legal framework so that citizens had the right to challenge some things, or so that they had legal recourse if a newly privatized company would start gouging customers. I think that to a large degree there was mismanagement in how it was done. But, at the end of the day, I do frankly believe that these countries must take responsibility for their own actions. They can't be blaming the rest of the world for the fact that their economies failed. A lot of that failure had to do with their own choices, their own mismanagement and, frankly, a lot of corruption.

FC: We thought that Vicente Fox was going to open up Mexico's oil monopoly, Pemex, and get rid of its circle of local patronage.

AM-C: I think Fox really wanted to implement a lot of reforms. He knew what needed to be done and that labour

and energy reform were crucial. But he was up against real political dinosaurs. These countries have a lot of left-wing politicians left over who can make a lot of political hay in blaming other people for their problems instead of their own mismanagement and their unwillingness to reform systems that are obviously not working.

FC: You have now turned your focus on an emerging colossus, China. How has that country managed to create steady growth rates near double digits?

AM-C: Well I have to say that it does help to be a dictatorship. Part of the challenge with Mexico is that it is a democracy. A lot of reforms have been continuously blocked because they have a Parliament and they have dissent. It's a constant struggle to push through reforms and there's constant compromise. Because China is a dictatorship, they can push through all kinds of reforms.

FC: You're going to be free whether you like it or not.

AM-C: Free in the limited sense that they can push through economic reform because there isn't a lot of debate. In fact, some people argue that that's why Chile is more successful, too. But there is a price to pay for that. By nature, the Chinese are incredibly entrepreneurial. After so many years of deprivation, they desperately want to improve their standards of living. So they are willing to work six-day weeks and 18-hour days. They'll do anything for a job. When you've got 1.3 billion people all competing for a limited number of jobs, there's a tremendous release of new, productive energy.

FC: China reduced the size of its government in the economy from about 78% to about 30%, which brought them much closer to that sweet spot where you have an optimal size of government. Where do we stand?

AM-C: Something like 20% of the Canadian workforce is employed in the public sector, from memory about 3.2 million people. In my interviews with business people, I rarely met any with the kind of kinetic energy that succeeds in the international business world who were native-born Canadians. Even if they were brought up in Canada, in almost every case they seemed to have been born somewhere else. I kept wondering where all the Canadians

were? What were they doing? I started to think that they must be holed up in some government department somewhere, you know, tasting cheese to see if it competed with cheddar. I think if we were able to cut back on government and all these onerous agencies, whether in the forestry industry or in marketing boards, and on all the different levels of regulations that we toss on to the economy, if we actually allowed these people to unleash their potential energy, we'd have a lot more entrepreneurs in this country.

FC: We're always hearing about Canadian trade missions led by politicians and peopled by Canadian businesspersons. How effective are such strategies? What could we do to reduce existing trade barriers instead?

AM-C: The idea of a "Team Canada" was a good one at the start because it gave us a nice branding. But unfortunately these trade junkets were largely ineffective. They ended up being giant promotional events, without really getting down to the nitty-gritty of opening up markets and promoting business. As someone else said, it ended up as a high-school reunion that just keeps coming back. It distracted the government from actually working on serious trade policy: opening up markets and removing barriers, like tariffs on canola in Japan, or whatever. Instead of really working on market-entry obstacles, they were going around with these giant missions that at the end of the day weren't really accomplishing much.

FC: 231 years ago, the world's first economist, Adam Smith, argued in the *Wealth of Nations* that unilateral free trade was a good policy for any country. Do you agree? Why has it taken so long for the world to learn that lesson?

AM-C: I heartily agree. You can see that when you look at the dismantling of many of the trade impediments that Australia and New Zealand, for example, engaged in. Now you see Australian and New Zealand dairy products covering Asia. Now their companies are actually investing in China. They are buying into milk-processing and all kinds of things. I absolutely think that unilaterally reaching out like that can't help but help.