U.S.-Canada Economic Relations: Interactions among the States and Provinces

By Earl H. Fry

The United States and Canada have the largest and most diverse bilateral economic relationship in the world. Even though the national governments establish the broad policy parameters in their respective federal systems, state, provincial, and municipal governments are becoming more actively involved in cross-border relations. This proliferation of trans-border linkages among sub-national governments can be expected to accelerate in the future.

Canada and the United States share a 4,000-mile border along the 49th parallel and another 1,500-mile border separating Alaska from British Columbia and the Yukon. The evolving cross-border relationship which affects 32 million Canadians and 297 million Americans is as complex and diverse as any in the world. In particular, the relationship goes far beyond the national governments in Washington, D.C. and Ottawa. Currently, Canada is the principal export destination for companies in 39 states, and businesses in each of Canada’s 10 provinces now export more to the United States than anywhere else in the world, including to the other provinces in Canada.

In economic terms, the United States and Canada maintain the largest and most diverse bilateral trading relationship in the world, with two-way trade in goods and services in the range of $1.2 billion per day, up more than 150 percent since 1988, the year before the Canada-U.S. Free Trade Agreement (FTA) went into effect (Figure A). U.S. foreign direct investment in Canada, a type of investment which provides Americans with control over the management of companies operating in Canada, surpassed $216 billion in 2004, with U.S.-owned companies accounting for over 10 percent of Canada’s gross domestic product (GDP) and providing more than one million jobs for Canadian workers. Canadian foreign direct investment in the United States stood at $134 billion at the end of 2004, with 473,000 Americans working for Canadian “majority-owned non-bank enterprises” (Figure B). Americans also account for more than 90 percent of all foreign visitors to Canada, and Canadians rank number one in terms of international arrivals to the United States (Figure C). Many Canadian and American families also have relatives on the other side of the border; 821,000 U.S. residents were born in Canada, according to the 2000 U.S. Census, and 238,000 residents in Canada come from the United States, according to the 2001 Canadian Census.

This represents only the tip of the iceberg, because for most of the history of these two nations, the border was completely open for people to move north or south without any interaction with immigration officers or census takers. Even today, with elaborate and time-consuming border checks, there are more than 200 million human crossings annually across the shared border.

The bilateral relationship is certainly asymmetrical in a number of ways. Canada’s economic well-being is linked inextricably to its neighbor to the south. Exports represent more than 40 percent of the nation’s GDP and four-fifths of these exports go to a single foreign market: the United States. The U.S. has nine times more people, an economy which

Figure A: U.S. Exports of Goods to Canada, 1988–2004 ($ billions)

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is at least a dozen times larger, and expends almost half of what the entire world is spending annually in the defense sector. Yet, Canada remains of vital importance to the United States’ security and economic growth. The 5,500 mile border could never be defended adequately by the United States without the active and persistent cooperation of Canadian authorities at all levels of government.

In addition, more than two million U.S. jobs are directly linked to exports to Canada, with the United States actually exporting more to Canada in 2004 than to the 25 members of the European Union which have a combined population of 456 million people. Canada is also the leading foreign supplier of petroleum products to the United States and supplies 94 percent of U.S. natural gas imports, 35 percent of uranium imports utilized for U.S. nuclear power generation, and nearly 100 percent of U.S. hydroelectricity imports.

The Transgovernmental Dimension—
States, Provinces, and Citie

Roughly two dozen of the 200 or so nation-states in the world today maintain federal systems of government, meaning that they divide governmental authority constitutionally between a national government and regional governments. All three members of the North America Free Trade Area (NAFTA), the United States, Canada and Mexico, are among the relatively few governments worldwide which maintain federal systems. The U.S. Constitution, which went into effect in 1789, provides the national government with authority over many aspects of foreign affairs, including making treaties and conducting foreign commerce, although the 10th Amendment to the Constitution stipulates that what is not explicitly assigned to the national government is reserved to the state governments and to the people.

Canada’s constitutions of 1867 and 1982 provide the reserved or residual powers to Ottawa, although a series of court decisions and intergovernmental agreements actually provide the provincial governments with some discretionary authority in the arena of international relations. The newly created Council of the Federation, consisting of the 10 provinces and three territories, includes the following wording in its preamble dated December 5, 2003: “Under the Constitution, Canada’s two orders of government are of equal status, neither subordinate to the other, sovereign within their own areas of jurisdiction and accordingly, they should have adequate resources to meet their responsibilities.”

All provincial and many state governments understand the importance of their neighboring nation to

Figure B: Canadian Foreign Direct Investment in the United States, 1994–2004
(historical cost basis, $ billions)


Figure C: Canadian Arrivals in the United States, 1997–2004 (millions)

Source: U.S. Department of Commerce, International Trade Administration, Office of Travel and Tourism.
the economic well-being of their respective constituents. Canadian exports to the United States are now almost twice as large as trade within Canada itself. All provinces now export more internationally than they dispatch to other parts of Canada, with the great bulk of all of their exports headed directly south of the border (Table A).

In comparative perspectives, the state and provincial governments are by themselves powerful economic entities. The United States and Canada currently rank as the largest and ninth largest economies in the world, and Canada’s economic performance has actually surpassed that of any other major Western nation over the past half decade in terms of GDP growth, the rate of job creation, and balancing government budgets. In 2004 three U.S. states could have been inserted among the top 10 nation-states in the world in terms of the annual production of goods and services, 14 states among the top 25 nation-states, 36 among the top 50, and all 50 plus the District of Columbia among the top 72.

Because of the growing pressures linked to globalization and the necessity of protecting and enhancing the economic prospects of their local populations, provincial and state governments are increasingly reaching beyond national borders and engaging in international affairs. At the end of 2002, 37 states and Puerto Rico had 243 foreign offices or foreign-based representatives, up from just four states with foreign operations in 1980. Most governors or lieutenant governors lead international trade missions every year and about 1,000 state employees devote their time to international pursuits. Total expenditures for international programs were $190 million in 2002, excluding hundreds of millions of dollars provided annually in incentives by state and local governments to foreign companies willing to locate facilities within their respective areas of jurisdiction. Because of budgetary problems earlier in this decade, some state facilities abroad have recently been reduced in size or even eliminated, with California abandoning all of its foreign offices under Gov. Arnold Schwarzenegger.

Twelve of the state foreign offices are situated in Canada. Many governors, and not just those found in border states, have directed trade missions to Canada. For example, in July 2004, Gov. Jeb Bush led a delegation from Florida to Quebec. His main objectives were to meet with government officials in Quebec, convince Quebec business leaders to invest more in Florida, and to encourage average Quebecers to vacation more often and for longer periods in Florida, especially at a time when the Canadian dollar has strengthened dramatically against the U.S. currency. Reportedly, 10 percent of Quebec’s population spends at least some part of each winter in Florida, so Bush had carefully targeted his audience.

The Canadian provincial governments are much more engaged internationally than their U.S. counterparts; Quebec, Ontario, Alberta, and British Columbia, which would each rank among the 40 largest nation-states in the world in terms of GDP, are the dominant Canadian players. Quebec alone has almost as many employees working on international programs and spends about half as much as the 50 U.S. state governments combined. Currently, Quebec maintains 25 offices in 17 different foreign countries, and has hired three business agents in two additional countries. Quebec’s U.S. offices are located in Atlanta, Boston, Chicago, Los Angeles, Miami, New York City and Washington, D.C. Premier Jean Charest has met with more than a dozen governors during his term in office and has signed cooperative agreements with the states which border Quebec, placing special emphasis on regular consultations with Gov. George Pataki of New York.

Ontario has 230 employees working on international programs and has focused on the United States as its prime international target, a priority which is not too surprising because Ontario alone is responsible for 53 percent of total Canadian merchandise exports to the United States and is the recipient of 74 percent of total U.S. exports to Canada. Alberta maintains nine foreign offices and has recently opened a tenth within the Canadian Embassy in Washington, D.C.

<table>
<thead>
<tr>
<th>Province</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Newfoundland and Labrador</td>
<td>67.1%</td>
</tr>
<tr>
<td>Prince Edward Island</td>
<td>88.8%</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>80.8%</td>
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<tr>
<td>New Brunswick</td>
<td>88.9%</td>
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<tr>
<td>Quebec</td>
<td>82.9%</td>
</tr>
<tr>
<td>Ontario</td>
<td>91.4%</td>
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<tr>
<td>Manitoba</td>
<td>76.3%</td>
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<tr>
<td>Saskatchewan</td>
<td>63.8%</td>
</tr>
<tr>
<td>Alberta</td>
<td>90.0%</td>
</tr>
<tr>
<td>British Columbia</td>
<td>66.0%</td>
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Premier Ralph Klein has met several governors and has also been accorded two tête-à-tête sessions with Vice President Dick Cheney to directly discuss future energy cooperation between Alberta and the United States. Among the provinces, Alberta is the dominant supplier of energy products to the United States, especially natural gas. British Columbia’s provincial government has about 100 employees who work on international issues, and the U.S. is clearly its foremost area of interest.

At most times of the year, at least one Canadian provincial delegation will be visiting some part of the United States. Even more important, however, is the fact that many of the provincial governments have institutionalized their linkages to U.S. state governments through the creation of bilateral or regional cross-border organizations and the signing of hundreds of memoranda, accords, or agreements with the U.S. states. Table B lists some of the cross-border organizations which meet on a regular basis. The major provincial governments have also become associate members of large U.S. state government associations. For example, Alberta and British Columbia are associate members of The Council of State Governments—West (CSG-West) and Ontario and Quebec are associate members of the Council of Great Lakes Governors. Quebec and Ontario are also international partners of the 50-state organization, The Council of State Governments (CSG) and the government of Quebec actually hosted the annual meeting of CSG in Quebec City in 1999. These memberships provide provincial representatives with direct access to executive and legislative leaders within the states and allow them to articulate issues of prime concern to the individual provinces. Such contacts helped convince the legislatures of Washington, Oregon, Idaho and Alaska to pass resolutions in support of Vancouver’s bid for the 2010 Winter Olympics, even though a successful bid may have diminished the chances of New York City being accorded the Summer Olympics in 2012 because of the International Olympic Committee’s unwritten rule prohibiting any continent from hosting back-to-back Olympic games.

Canada and the United States are also heavily urbanized nations with 80 percent of their respective populations living in municipalities. In Canada, over half of the population is concentrated in only four major urban regions—Toronto, Montreal, Vancouver, and the Calgary-Edmonton corridor. In the United States, three-quarters of the population reside in metropolitan areas with at least 250,000 people. Some municipal officials have begun to engender their own cross-border ties, although most are found in border states and provinces. The development of trade corridors between Canada, the United States and Mexico has also prompted cities along the corridors to meet on a periodic basis to pursue their common commercial interests. Representatives from the Federation of Canadian Municipalities, the U.S. National League of Cities, and the U.S. Conference of Mayors also meet occasionally and sponsor joint projects of interest to their municipal constituents on both sides of the border.

Future Prospects

There can be no doubt that the interest shown by Canadian subnational government representatives in developing ties with the United States is far greater than the interest in Canada manifested by U.S. state or municipal leaders. This is logical for a couple

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<th>Table B</th>
<th>Border Commissions and Groups</th>
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<tbody>
<tr>
<td>Alberta Bilateral Advisory Councils and Task Forces with Alaska, Idaho and Montana</td>
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</tr>
<tr>
<td>Council of Great Lakes Governors</td>
<td>Illinois, Indiana, Michigan, Minnesota, New York, Ohio, Pennsylvania, Wisconsin; Ontario and Quebec (associate members)</td>
</tr>
<tr>
<td>The Council of State Governments West</td>
<td>13 Western states; Alberta and British Columbia (associate members)</td>
</tr>
<tr>
<td>Pacific Northwest Economic Region (PNWER)</td>
<td>Alaska, Idaho, Montana, Oregon, Washington; Alberta, British Columbia, Yukon Territory</td>
</tr>
<tr>
<td>Western Canadian Premiers and Western Governors Association</td>
<td>4 provinces and 21 states which send designated representatives to each other’s annual meetings</td>
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of reasons. First of all, even though Canada is the second largest nation in the world in territorial size, two-thirds of its residents live within 100 miles of the U.S. border and three-quarters within 200 miles. In contrast, only one American in four lives in a state which shares a common border or waterway with Canada. Secondly, the economic prosperity of Canada is highly dependent on maintaining relatively open access to the U.S. marketplace, whereas most of America’s GDP is still generated from domestic trade flows.

Nonetheless, in spite of economic dependency which has been strengthened by the FTA and then NAFTA, the border still matters. As John Helliwell and others have pointed out, trade among Canadians, adjusted for population and distance, is still probably 10 times greater than trade between Canada and the United States. Canadian and American attitudes on a wide variety of issues still differ quite dramatically, including issues linked to health care, cradle-to-grave security programs, gun control, legalization of drugs, gay marriage, religiosity, unilateralism vs. multilateralism, and the government’s overall role in the economic sector.

However, in spite of some differences in outlook among the citizens of the two neighboring countries, one should anticipate that transgovernmental linkages involving provincial, state, and municipal governments will continue to proliferate, a direct result of the thick and expanding network of cross-border interdependence. Decisions made in Ottawa and Washington, D.C. will establish the major parameters of the relationship, but much of the future texture and substance of cross-border ties will be determined by the activities of subnational governments and private sector actors such as corporations and civic groups. In this respect, the work plan of the new Council of the Federation emphasizes that economic relations with the United States should be further strengthened, but the effort must involve a coordinated international strategy among federal, provincial, and territorial representatives in Canada.

As for the United States, state governments can do much more to build linkages with Canadian provincial governments and to encourage their business communities to export to Canada. Canada has one of the largest national economies in the world and is located right on America’s doorstep. NAFTA will also be fully implemented in 2008 and American companies can take advantage of free-trade arrangements in most economic sectors. Direct state-provincial linkages can also pay economic dividends, especially when one takes into account that Ontario produces almost as much as Russia each year, Quebec as much as Denmark, Alberta as much as Portugal, and British Columbia as much as Ireland. A few cross-border irritants still exist in the areas of softwood lumber and certain other natural resources, but the world’s largest bilateral trading relationship will most likely continue to grow and result in more job opportunities on both sides of the border.

Notes

1 This article is adapted in part from Earl H. Fry, “Federalism and the Evolving Cross-Border Role of Provincial, State, and Municipal Governments,” International Journal 60 (Spring 2005): 471–82. Permission to use this material was provided by the Canadian Institute of International Affairs, publisher of the International Journal.


4 Department of Foreign Affairs and International Trade, “Canada’s Relationship with the United States,” at http://www.dfait-maeci.gc.ca/can-am/.

5 In 1994, NAFTA superseded the FTA between the United States and Canada.

6 Data derived from the World Bank for nation-states, and the U.S. Department of Commerce for states.


8 Le Soleil, 4 October 2004.


10 The broad range of contacts between all levels of government in Canada and the United States is highlighted in Jeff Heynen and John Higginbotham, Advancing Canadian Interests in the United States: A Practical Guide for Canadian Public Officials (Ottawa: Canada School of Public Service, 2005).


About the Author

Earl H. Fry is professor of Political Science and Endowed Professor of Canadian Studies at Brigham Young University. He has written extensively on Canada-U.S. relations over the past three decades and is the author of The Expanding Role of State and Local Governments in U.S. Foreign Affairs (Council on Foreign Relations, 1998).