OBSERVATION

TD Economics

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INTERNAL TRADE IN CANADA: TO SUSTAIN SOLID GAINS, BARRIERS MUST FALL

Highlights

- Interprovincial trade in Canada has been growing at a healthy pace since 2002, supported by strong domestic demand. Despite these recent gains, Canada-wide interprovincial trade has failed to expand as a share of GDP. This provides a clear signal that numerous non-tariff barriers continue to impede trade flows across provinces.
- Over the near-term, growth in internal trade is likely to slow. The decline in commodity prices will drag down nominal export sales and real economic activity in the commodity-rich regions is projected to ease noticeably and weigh on total interprovincial trade in Canada.
- National trends in internal trade mask significant variations from coast to coast. On a provincial basis, there is a noticeable range in terms of trade orientation, net interprovincial export performance and the types of goods and services traded across provinces. This is consistent with the different industrial and resource make-up across the country.
- Current research estimates that current barriers to trade cost the Canadian economy up to 7% of real GDP and contribute to welfare differences across regions. The good news is that all levels of government clearly recognize this issue with a revamping of the existing Agreement on Internal Trade expected in March 2016.

The spotlight tends to be cast on international exports as a key driver of economic growth in Canada. However, this misses the growing importance of interprovincial trade to regional economic fortunes over the past decade. Steadily, if not quietly, interprovincial exports have been expanding at a healthy clip, as companies have been establishing a stronger presence in other provincial markets. These trends largely reflect positive gains made in the services sector. International exports of goods and services continue to account for a larger share of GDP in most Canadian regions. But, with both real and nominal interprovincial exports advancing at over twice the rate of its international counterpart since 2002, this gap has narrowed.

Looking forward to the next few years, the pendulum is likely to swing back toward growing north-south trade relative to east-west. This can be chalked up to the expectations of superior growth in the U.S. economy and a weaker Canadian dollar, which is likely to deliver a significant boost to U.S. bound exports. Interprovincial trade flows are poised to expand further, but with domestic activity likely to cool meaningfully compared to recent trends – most notably in the commodity-driven provinces – comparatively muted gains appear in store over the 2015-16 period.

Boosting internal trade prospects in Canada would help to address Canada's meek productivity gains. Over the medium-term, increased efforts by Canadian governments to remove non-tariff barriers will be critical to ensuring that interprovincial trade opportunities are fully realized. Indeed, current research

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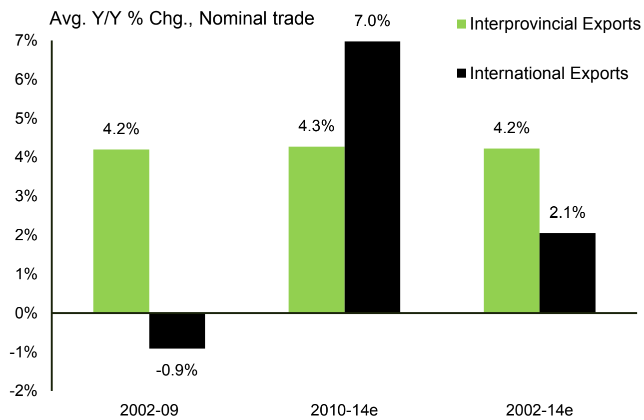
CHART 1: NOMINAL INTERPROVINCIAL EXPORTS HAVE OUTPERFORMED OVER THE LONGER-TERM



Source: Statistics Canada, Provincial Economic Accounts (PEA).
E: estimated by TD Economics.

estimates that these impediments to trade cost the Canadian economy as much as 7% of real GDP and contribute to sizeable welfare differences across provinces.[1] Canada can look to Australia as a good example on how to address inefficiencies tied to interprovincial trade regulation. The Mutual Recognition Accord (MRA), which came into effect in 1992, has proven effective in increasing the mobility of labour and goods across regions in Australia and New Zealand. Fortunately, positive strides have been made at the recent First Ministers meetings towards revamping the existing Agreement on Internal Trade (AIT), with a new deal expected in March 2016.

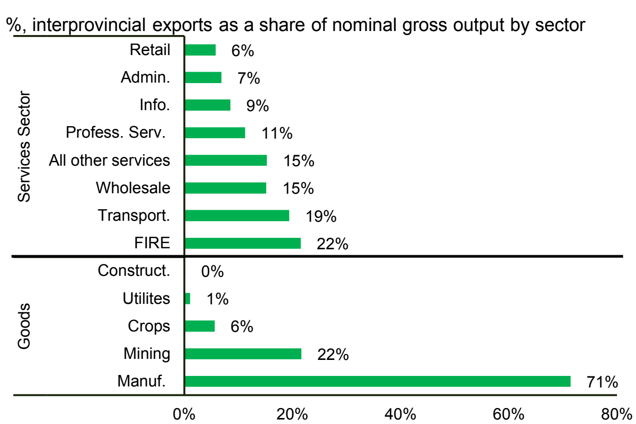
Interprovincial trade: An important part of regional economies

The pendulum in trade has swung back and forth in recent decades. In the 1990s, a boom in north-south trade coincided with the signing of NAFTA and the long-term downtrend in the Canadian dollar. Gains in Canadian international exports eased noticeably over the 2002-09 period, partly on account of two economic downturns (2001 and 2008–09) and a dramatic upswing in the Canadian dollar. Over that same period, internal exports moved into the driver's seat, supported by strong domestic demand. Since the global recovery started to gain traction in 2010, international exports have rebounded, but not enough to put a real dent in the outperformance of internal trade activity over the past 13 years. While we don't yet have official 2014 data, our estimates show that the solid and steady growth in interprovincial exports extended into last year (see Chart 1).

Gains made in interprovincial trade over the 2002-14 period largely reflect advances made in the services sector. Within this sector, the finance, insurance and real estate services as well as the transportation and warehousing, wholesale trade and professional services dominate internal trade activity. And, these components have been the major contributors to the growth outperformance. On the goods side of the ledger, the manufacturing and mining, oil and gas extraction sectors remain the major players, with the latter area receiving a boost from the run up in commodity prices prior to the 2008-09 global financial crisis. Stripping away price effects, the service sector has outperformed the goods sector but by a slightly narrower margin (see Chart 3).

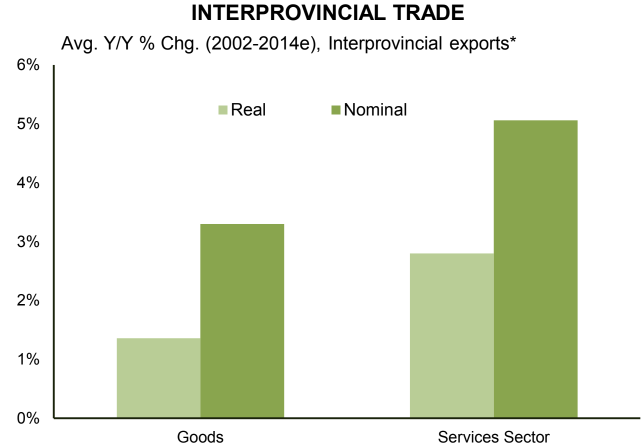
Despite recent steady gains, Canada-wide interprovincial trade has failed to expand as a share of nominal GDP. The same holds true in real volume terms. These trends, which paint gains in interprovincial trade in a somewhat less rosy light, provide a clear signal that numerous barriers continue to impede trade flows across provinces.

CHART 2: SECTORAL BREAKDOWN OF INTERPROVINCIAL EXPORTS



Source: Statistics Canada, I-O tables, year 2011 (latest year available), TD Economics.

CHART 3: SERVICES BIGGEST CONTRIBUTOR TO INTERPROVINCIAL TRADE



Source: Statistics Canada (PEA). E: estimated by TD Economics.
*Interprovincial exports = interprovincial imports.

TABLE 1: INTERPROVINCIAL TRADE PERFORMANCE BY REGION AND SECTOR												
By Province	Average annual % growth									$ Millions		
	Total Trade			Exports			Imports			Balance		
	2002-14	2002-09	2010-14	2002-14	2002-09	2010-14	2002-14	2002-09	2010-14	2002	2008	2014
NL*	6.0	5.7	6.5	7.4	8.2	5.7	5.1	4.1	7.1	(1,882)	1,073	(2,909)
Goods	5.8	6.0	5.4	6.7	7.8	4.5	4.8	3.9	6.7	474	4,477	1,198
Services	6.1	5.3	7.7	9.3	9.5	8.9	5.3	4.3	7.3	(2,356)	(3,404)	(4,107)
PE*	3.7	3.8	3.4	4.1	4.1	4.2	3.4	3.7	2.9	(951)	(1,524)	(1,238)
Goods	3.1	3.2	2.8	3.3	3.1	3.6	3.0	3.3	2.4	(389)	(761)	(513)
Services	4.1	4.3	3.8	4.9	5.0	4.7	3.8	4.0	3.3	(562)	(763)	(725)
NS*	3.5	4.0	2.6	3.1	3.2	2.9	3.8	4.5	2.4	(3,028)	(3,670)	(4,931)
Goods	2.2	2.8	1.0	1.7	2.1	1.1	2.5	3.3	0.9	(1,036)	(1,155)	(1,726)
Services	4.7	5.1	3.9	4.5	4.5	4.5	4.8	5.4	3.6	(1,992)	(2,515)	(3,205)
NB*	4.5	4.8	4.0	5.3	5.1	5.7	3.9	4.5	2.6	(2,204)	(4,481)	(1,039)
Goods	3.6	2.6	5.5	5.1	3.2	9.2	1.8	2.1	1.3	(738)	(1,271)	1,976
Services	5.7	7.3	2.7	5.6	7.9	1.2	5.8	6.8	3.6	(1,466)	(3,210)	(3,015)
QC	3.1	3.2	3.0	3.2	3.5	2.8	3.0	2.9	3.2	(2,051)	(1,014)	254
Goods	2.1	2.1	2.2	2.6	2.8	2.3	1.5	1.2	2.1	926	2,309	7,934
Services	4.1	4.4	3.7	4.0	4.3	3.4	4.3	4.5	4.0	(2,977)	(3,323)	(7,680)
ON	3.6	3.3	4.1	3.5	2.8	4.6	3.8	3.9	3.5	26,232	25,074	35,218
Goods	2.6	2.1	3.5	1.9	1.2	3.2	3.3	3.1	3.7	3,174	(6,572)	(6,304)
Services	4.4	4.2	4.6	4.4	3.9	5.3	4.3	4.9	3.4	23,058	31,646	41,522
MB	4.4	4.8	3.8	3.7	3.8	3.4	5.0	5.7	4.0	(1,257)	(3,893)	(5,672)
Goods	3.9	4.3	3.2	3.9	4.3	3.1	3.9	4.2	3.3	(1,143)	(2,594)	(2,391)
Services	4.9	5.4	4.3	3.5	3.3	3.7	6.3	7.2	4.7	(114)	(1,299)	(3,281)
SK	6.0	5.9	6.2	6.0	5.8	6.4	6.0	5.9	6.1	(3,820)	(2,775)	(7,784)
Goods	5.6	5.2	6.1	5.3	4.8	6.1	5.9	5.7	6.1	1,130	4,130	1,103
Services	6.6	6.7	6.3	7.8	8.3	7.0	7.8	6.1	7.0	(4,950)	(6,905)	(8,887)
AB	5.6	5.6	5.6	5.8	6.5	4.5	5.5	4.6	6.9	(690)	3,618	1,271
Goods	4.5	4.0	5.3	4.6	4.7	4.6	4.4	3.2	6.2	2,503	8,688	6,106
Services	6.8	7.3	6.0	7.2	8.9	4.5	6.4	5.8	7.4	(3,193)	(5,070)	(4,834)
BC	4.7	4.9	4.3	5.3	5.6	4.9	4.2	4.4	3.9	(8,706)	(9,423)	(9,665)
Goods	3.4	3.3	3.5	3.3	3.0	3.8	3.4	3.4	3.3	(4,389)	(5,947)	(6,985)
Services	5.7	6.2	4.9	6.6	7.4	5.5	4.9	5.3	4.4	(4,317)	(3,476)	(2,679)
CAN	4.2	4.2	4.3	4.2	4.2	4.3	4.2	4.2	4.3	--	--	--
Goods	3.4	3.0	4.0	3.4	3.0	4.0	3.4	3.0	4.0	--	--	--
Services	5.0	5.3	4.5	5.0	5.3	4.5	5.0	5.3	4.5	--	--	--

Source: Statistics Canada, Haver Analytics. 2014 estimates: Ontario Ministry of Finance and Institut de la statistique du Québec, TD Economics. *Note: Interprovincial trade estimates for individual Atlantic provinces were not generated for 2014. As such, growth rates and balances for Atlantic provinces are for 2013.

Canada's diverse economy on display in interprovincial trade

As Table 1 highlights, the national trends in internal trade hide significant variations from coast to coast. Intuitively, aggregate interprovincial trade nets out to zero since the exports of one province are the imports of another. However, on a provincial basis, there is a significant range in terms of trade orientation, net interprovincial export performance and the types of goods and services traded across provinces. This is consistent with the different industrial and resource make-up across the country:

Only three provinces are net exporters

Among the provinces, only Ontario has recorded annual trade surpluses in each year dating back to the start of the data series in1981. Alberta and Quebec are two other provinces that have been consistent net suppliers of goods and services to the rest of the country since 2003 and 2009, respectively. Apart from Newfoundland and Labrador, which briefly flirted with an interprovincial trade surplus in the 2006-08 period on the back of rising oil exports, all other provinces have recorded perennial deficits. As a share of GDP, the surplus is the largest in Ontario, while Prince Edward Island (PEI), Nova Scotia, Saskatchewan and Manitoba post the most sizeable deficits.

Commodity-driven provinces rely on goods trade while others rely on services

Figures on interprovincial trade composition by sector and market destination are only available to 2011 using the Input-Output tables.[2] In 2011, manufactured goods were the single largest traded category in virtually all provinces. Even commodity-rich provinces such as Alberta and Saskatchewan are more reliant on manufacturing exports than mining, oil and gas. While we note that refinery activities would be captured in the manufacturing sector, this result may also reflect stronger international demand for commodities and, in the case of oil, a lack of pipeline infrastructure within Canada.

At a higher level, half the interprovincial export baskets in Canada are more oriented towards goods. The commodity-rich provinces of Newfoundland and Labrador, Saskatchewan and Alberta (only marginally) are part of this group. New Brunswick and Quebec also export more goods than services, with the manufacturing sector accounting for at least 50% of exports in both regions. In contrast, service exports account for as much as two thirds of overall interprovincial exports in Ontario and British Columbia.

Manufactured goods also represented the single largest interprovincial import in every province in 2011. However, all provinces (with the exception of Ontario) import more services than goods. The finance, insurance and real estate, wholesale trade, transportation and warehousing and professional services represent a significant share of import activity in all regions. In Alberta, finance, insurance and real estate services accounted for 16% of gross output of imports in 2011 – the highest share across all provinces.

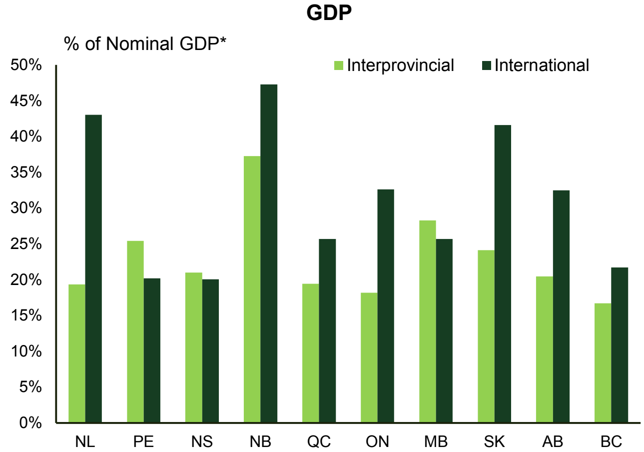
Most provinces remain more reliant on international exports

Despite the overall outperformance of interprovincial trade, international exports still account for a higher share of nominal GDP compared to internal exports in seven of ten provinces. Only three provinces – PEI, Nova Scotia and Manitoba – buck this trend (see Chart 4). At the bottom end of the table, Ontario, B.C. and Quebec are the least reliant on interprovincial exports. The same three provinces are also among the most dependent on internal imports in Canada – with imports in PEI accounting for around 50% of GDP. New Brunswick and Saskatchewan also have an elevated reliance on interprovincial imports.

Interprovincial export growth hottest in commodity-rich regions

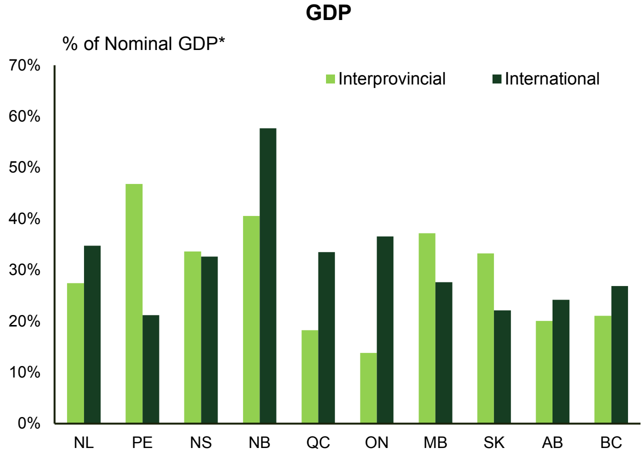
In addition to the diversity of export and import structures, absolute growth performances since the early 2000s have also ranged widely. Gains in interprovincial exports have been strongest in the resource-rich provinces of Saskatchewan, Alberta and Newfoundland and Labrador. Internal exports in B.C. and New Brunswick have also outperformed the Canada-wide average over the 2002-14 period. Among the laggard provinces, only Ontario and PEI have recorded an uptick in trade activity since the economic downturn. Growth in interprovincial exports in Nova Scotia,

CHART 4: EXPORTS AS A SHARE OF NOMINAL GDP



Source: Statistics Canada (PEA), TD Economics. *2013.

CHART 5: IMPORTS AS A SHARE OF NOMINAL GDP



Source: Statistics Canada (PEA), TD Economics. *2013.

Manitoba and Quebec has decelerated in recent years, leading to a widening gap vis-à-vis the rest of Canada.

As noted, one challenge in analyzing internal trade trends in nominal terms is that it embeds commodity price movements which have inflated nominal export performances in the resource-producing regions since the early 2000s. Indeed, even with the dramatic pull-back in prices over the second half of 2014, the Bank of Canada's commodity price index was roughly 114% above its 2001 level. Adjusting for price changes, the Western Canadian provinces have recorded the fastest pace of growth in real internal exports over the 2002-14 period – with B.C., Alberta and Saskatchewan leading the charge. This result likely partially reflects improvements in internal trade within the region made under the New West Partnership Agreement (NWPTA) and the previous Trade, Investment and Labour Mobility Agreement (TILMA). Both agreements have knocked down non-tariff trade barriers among the western provinces since 2007.[3] Consistent with the nominal story, growth in real service exports has outstripped goods since 2002.

On the import side, trends have shaped up somewhat differently. A stronger Canadian dollar over the past decade has lowered the cost of importing foreign goods and services. As such, growth in real international imports has outstripped that of interprovincial in all provinces.

In general, provinces that have enjoyed stronger growth in interprovincial exports have also recorded faster internal import gains. This likely reflects the use of imported inputs from other regions in manufactured exports.

Trade still largely conducted on regional lines

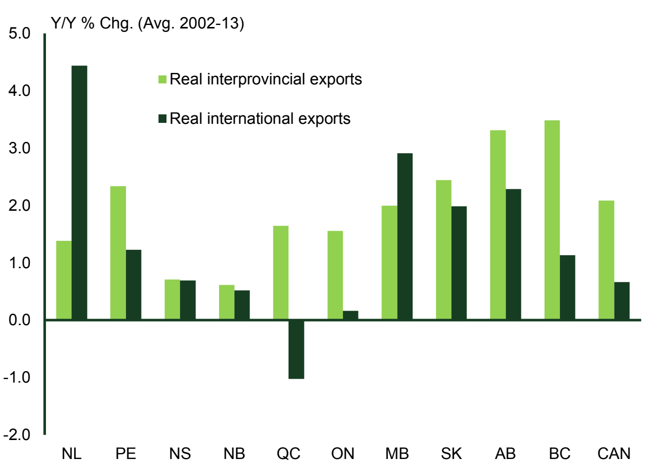
As one might expect, trade flows have been generally stronger within regional blocks compared to those across regions. While the sheer size of Central Canada (55% of Canadian nominal GDP in 2013) dictates that the bulk of trade has been either destined or originated from Ontario or Quebec, the linkages with Western Canada have also been strong.

Using Statistics Canada Input-Output tables we estimate gross output flows in interprovincial exports and imports across regions in Canada from 2004 to 2011. The share of total exports originating from and staying within Atlantic (+1.8 points to 36.5%) and Western (+4.2 points to 51.8%) Canada increased over the seven-year period. Central Canada saw its share of exports remaining within the region decline slightly (-3.2 points to 44.4%). This decline was largely offset by an increased share of exports destined for Western Canada – namely Alberta. Indeed, Western Canada became a more important market for almost all provinces in Canada. That said, Central Canada still accounted for more than half of total interprovincial exports in Canada in 2011.

Regional "openness" varies

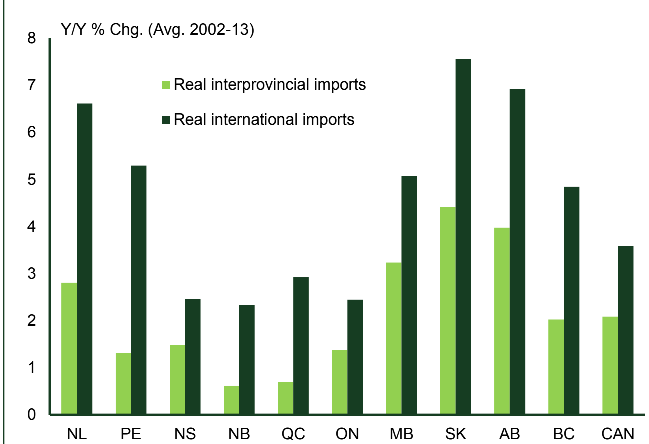
One way to gauge a region's propensity to engage in internal trade – or so-called openness – is to compare gains in overall trade (i.e., total interprovincial exports plus imports) to growth in the economy. If the ratio of total trade to GDP is rising, trade is growing faster than the overall economy. If the ratio is falling, it implies that the economy is growing faster than its trade activity (see Table 2).[4] To avoid distortions resulting from changes in commodity prices, we focus on the real (price-adjusted) total trade to GDP ratios. We note that for all provinces, the current reading for this metric is lower than its 2011 level which has coincided with a pick

CHART 6: COMPARING REAL EXPORTS BY PROVINCE



Source: Statistics Canada (PEA), TD Economics.

CHART 7: COMPARING REAL IMPORTS BY PROVINCE



Source: Statistics Canada (PEA), TD Economics.

TABLE 2: INTERPROVINCIAL TRADE RELATIVE TO SIZE OF ECONOMY* (REAL)										
Index (2002=100)	Ratio below 2002 level						Ratio above 2002 level			
	QC	NB	PE	ON	NL	NS	AB	BC	MB	SK
2002	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2003	101.9	102.2	99.6	101.6	108.4	104.1	102.4	102.4	102.6	99.1
2004	99.4	100.9	99.6	100.6	111.6	105.4	99.7	104.1	103.4	100.0
2005	98.6	100.5	96.8	97.4	114.5	104.3	97.9	103.1	100.4	96.5
2006	99.4	103.4	98.6	100.1	112.7	104.5	99.1	105.5	103.7	104.6
2007	102.3	110.7	104.5	100.4	105.5	108.5	102.8	107.8	108.7	106.7
2008	96.1	105.2	102.8	96.9	105.1	104.1	97.4	105.4	104.7	104.5
2009	98.2	97.8	99.3	100.6	100.1	101.7	108.9	108.5	110.8	113.7
2010	97.6	102.7	99.6	100.5	103.8	102.7	107.9	109.5	109.7	115.2
2011	97.3	108.0	101.8	99.1	105.8	104.3	107.7	109.0	109.3	113.3
2012	96.1	100.5	98.3	98.8	116.8	101.5	105.6	107.4	107.0	112.3
2013	95.2	95.4	97.6	98.5	98.5	99.1	104.3	106.6	106.6	112.0

Source: Statistics Canada, TD Economics. *Measured as the ratio of (real) total interprovincial trade as a share of real GDP.

up international exports.

Given the limited size of the national economy and the huge market south of the border, this index needs to be used with some caution – especially for commodity based economies. That said, both Alberta and Saskatchewan the current level of their indices is above its 2002 reading. This suggests that these regions are still capitalizing on Canada's domestic economy despite the fact that their resources are more directed towards international markets.

Indeed, there is a clear east-west divide in regional performance, with all Central and Atlantic Canada provinces recording a lower reading in their real openness indices compared to 2002. Internal trade in Manitoba has also outpaced real GDP gains over the period under analysis – reflecting the importance of interprovincial trade in its economy. In contrast, the other regions heavily reliant on internal trade – Nova Scotia and PEI have both seen their indices dip below the 100 mark. In PEI, the decline in the index may reflect the recent emergence of the aerospace sector in the province which is more geared towards international markets. For Nova Scotia, we note that the metric fell sharply in 2013 – falling below the 100 mark for the first time – alongside contraction in output in the manufacturing sector. Newfoundland and Labrador also recorded a sharp decline in its metric in 2013, reflecting a pullback in real exports of goods alongside a surge in real GDP.

The lower readings of openness indices in the Central and Atlantic regions can reflect a number of factors:

- Non-tariff trade barriers may be more prevalent in trade between these regions.
- Domestic demand in some of these provinces may have also declined in recent years, limiting potential gains through trade. Given the strong intraregional ties in interprovincial trade, this will impact all trade activity within a region.
- Firms in these regions may not be competitive on a national basis or lack market knowledge.[5]

Regardless of the reason, one clear conclusion from the table above is that in the Central and Atlantic regions, opportunities exist for these regions to better leverage off of domestic demand.

Internal trade activity to slow but continue advancing

As the U.S. economy has recovered, momentum has swung back to international exports as a larger driver of growth in recent years. And, we expect this trend to continue over the medium-term in light of superior U.S. economic growth relative to Canada. Having said that, we do expect interprovincial trade activity to continue to advance (albeit moderately) over the 2015-16 period.

We see growth in internal trade slowing the most in commodity based regions. Not only will the decline in commodity prices drag down nominal export sales (we note that volumes are expected to hold up better), but the impact is projected to have varying effects on real economic growth at a regional level. Commodity-rich regions such as Alberta, Saskatchewan and Newfoundland and Labrador are forecast to be in recession in 2015. Given the leading profile these provinces have had on the interprovincial trade landscape since 2002, the pullback in activity in these provinces is projected to weigh on total internal trade in Canada.

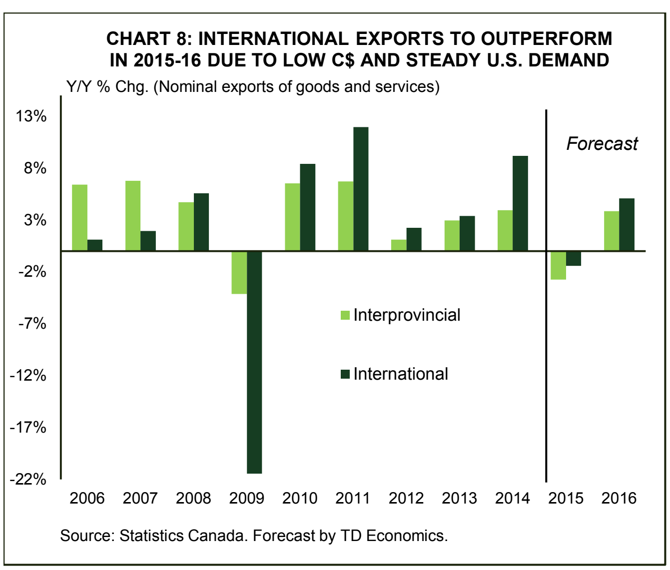
Prospects are brighter in other regions. British Columbia and Ontario, which are projected to be at the top of the leaderboard in terms of economic growth over the next few years, should continue to import from other provinces at a healthy pace, especially now that the low Canadian dollar makes it more costly to import goods from the United States.

All told, nominal interprovincial exports are projected to contract 2.8% in 2015 before rebounding 4.0% in 2016 – partially buoyed by higher commodity prices. The decline this year is expected to be entirely on the goods side, while interprovincial service exports are still expected to grow, albeit at a slower pace than the prior year. As shown in the Chart 8 below, the interprovincial export growth profile is weaker than our international exports forecast which will be supported by a low Canadian dollar and steady demand Stateside.

The cost of interprovincial trade barriers

Explicit trade barriers within Canada are not permitted. That said, a number of non-tariff barriers tied to regulatory differences between provinces impede on the trade of goods and services across regions. The most common impediments relate to labour mobility, government procurement and business regulation. The agriculture and transportation and warehousing industries are often cited as the sectors most stunted by this regulatory environment.

There have been a wide range of estimates regarding the impact these impediments have on the Canadian economy. The Canadian Federation of Independent Business estimates the total cost of regulation from all levels of government at $37 billion per year.[6]



Recent research by Albrecht and Tombe has also focused on these inherent costs by identifying trade cost asymmetries (e.g., it is more costly to trade in one direction between two provinces) and trade costs not related to geographical distance (e.g., a proxy for regulatory costs). Removing these costs is estimated to boost Canadian real GDP by 3-7% respectively. From an industrial perspective, Albrecht and Tombe also find that reducing trade barriers in highly interconnected sectors (e.g., industries with the highest Input-Output multipliers) can yield the greatest real GDP gains. As such, policy aimed at liberalizing trade within the agriculture, mining, finance and wholesale and retail trade sectors should be front and center for provincial governments. The study also finds that regions with relatively lower standards of living – e.g., PEI, Manitoba and New Brunswick – gain more from trade liberalization. While the authors note that this result may also be a reflection of the above-average dependence on internal trade in these regions (recall Charts 4 and 5), it does provide evidence that welfare differences can be addressed by knocking down trade barriers.[7]

Regulation on internal trade "completely backwards" in Canada

Potential for interprovincial trade to grow over the longer term will depend on what progress governments make in knocking down existing barriers to the movement of goods and provision of services. A related challenge is addressing impediments to the free movement of people to pursue employment opportunities is vital to Canadian economic growth prospects. Indeed, sectoral and demographic shifts can lead to widening economic growth differentials across the regions. Ideally, this should pave the way for workers in regions of high unemployment to fill job vacancies in areas with lower unemployment. However, labour mobility in Canada is primarily restricted through a myriad of provincial/national regulations that generally target the skilled trade occupations and other professional services (e.g., doctors, lawyers, nurses).[8]

Most regions have acknowledged the inefficiencies tied to non-tariff barriers to trade and have signed agreements that build off of the somewhat "toothless" 1995 Agreement on Internal Trade (AIT).[9] As already noted, the TILMA (which paved the way for the NWPTA) has coincided with a noticeable improvement in interprovincial trade in the Western provinces. Among the improvements relative to the AIT, the NWPTA includes a longer list of regulated professions, lower bidding thresholds for procurement, and more efficient dispute settlement process. Another advantage of NWPTA is that it uses "negative lists" – meaning the agreement covers all items except those specifically omitted from the agreement. However, it is recognized that the AIT covers many different regions that have complex and competing interests which makes it challenging to implement such an approach.[10]

There are other provincial trade agreements in Canada, but in general, these accords are not nearly as all-encompassing as the NWPTA. Rather, they provide a more efficient dispute settlements process and lower bidding thresholds for government procurement.[11]

The good news is that interprovincial trade is clearly on the radar of the federal and provincial governments. In June, outgoing Minister of Industry James Moore highlighted the necessity in addressing this issue by stating that current trade deals with the U.S. and Europe translate to "less economic freedom within Canada than we have agreed to with the rest of the world, which is completely backwards".[12] Earlier this year, the federal government made changes to the *Importation of Intoxicating Liquors Act (IILA)* to "allow individuals to move beer and spirits from one province to another for personal use".[13] As provincial regulation often governs the trade of liquors, provincial governments will need to follow suit for the full benefits from the IILA to be realized. Fortunately, provincial governments have already highlighted addressing barriers to internal trade as a key priority. In early June, it was announced that Federal, Provincial and Territorial Ministers had made significant progress on creating a new internal trade deal with a "historic" amount of agreement.[14] A target of March 2016 has been set to complete the deal.[15]

Outside Canada's borders, one can look at Australia as an example on how to address inefficiencies tied to interprovincial trade regulation. All levels of government came together in the late 1980s/early 90s to create an integrated market and reduce regulatory burden. The Mutual Recognition Accord (MRA) came into effect in 1992. The accord was expanded to include trade with New Zealand in 1997 under the Trans-Tasman Recognition Agreement. These agreements have proven effective in increasing mobility of labour and goods. The Australian government has also set up the necessary institutions to monitor and promote trade – such as the Productivity Commission.[16]

Bottom line

Interprovincial trade has grown in importance in Canada since 2002, as regions have increasingly been able to leverage off growing domestic demand. That said, challenges to sustained gains clearly remain. Knocking down trade barriers can boost interprovincial ties across regions, reduce welfare inequalities across regions and promote stronger economic growth in Canada. The good news is that policy makers have taken notice. With a new agreement on internal trade slated to be introduced next March, both trade and labour mobility will hopefully receive a boost.

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End Notes

1. Albrecht, Lukas and Tombe, Trevor, "Internal Trade, Productivity and Interconnected Industries: A Quantitative Analysis", May 2015, Working Paper. The paper is forthcoming in the Canadian Journal of Economics. The authors note that the trade costs estimates must be interpreted with caution. The estimates are most relevant if trade costs reflect physical costs incurred on shipped goods. To the extent that they do not (e.g., limited information, cultural differences), the estimates may overestimate the gains.
2. Detailed data on interprovincial trade data was sourced from the symmetric 2011 Input-Output tables from Statistics Canada. This is the most recent data available. The tables present gross output by industry classification in 2011 current dollars, expressed at basic prices.
3. For more information, please see http://www.newwestpartnershiptrade.ca/the_agreement.asp or http://www.tilma.ca
4. DailyStats: Nova Scotia Interprovincial Trade 2013, Government of Nova Scotia, December 31, 2014.
5. Ibid.
6. Canadian Federation of Independent Business, Canada's Red Tape Report, 2015.
7. Albrecht, Lukas and Tombe, Trevor, "Internal Trade, Productivity and Interconnected Industries: A Quantitative Analysis", May 2015, Working Paper. The paper is forthcoming in the Canadian Journal of Economics. The authors note that the trade costs estimates must be interpreted with caution. The estimates are most relevant if trade costs reflect physical costs incurred on shipped goods. To the extent that they do not (e.g., limited information, cultural differences), the estimates may overestimate the gains.
8. Mertins-Kirkwood, Hadrian, "Labour Mobility in Canada: Issues and Policy Recommendations", Canadian Labour Congress, October 2014.
9. The AIT was the first domestic agreement to establish rules for trade within Canada and came into force in 1995. Its purpose is to reduce and eliminate, to the extent possible, barriers to the free movement of persons, goods, services and investment within Canada and establish an open, efficient, and stable domestic market.
10. Capitalizing on Canadian Markets, Alberta Government, May 2014.
11. Other provincial trade agreements in Canada include: the Ontario-Quebec Trade and Cooperation Agreement (TCA), New Brunswick-Nova Scotia Partnership Agreement on Regulation and the Economy (PARE) and the Atlantic Procurement Agreement (APA).
12. McKenna, Barrie, " Internal trade barriers are too deeply entrenched for a quick fix", The Globe and Mail, June 15, 2015.
13. http://news.gc.ca/web/article-en.do?nid=933109
14. http://news.ontario.ca/medt/en/2015/06/joint-statement-by-ministers-responsible-for-internal-trade.html
15. "Federal, provincial ministers meet to discuss interprovincial trade barriers; Ministers to discuss interprovincial trade", Canadian Press, June 9, 2015.
16. MacMillan, Kathleen, " A Comparison of Internal Trade Regimes: Lessons for Canada", International Trade Policy Consultants Inc., September 10, 2013.