The Provinces and Canadian Foreign Trade Policy

Christopher J. Kukucha

The Provinces and Canadian Foreign Trade Policy

UBCPress · Vancouver · Toronto

17 16 15 14 13 12 11 10 09 08 5 4 3 2 1

Printed in Canada with vegetable-based inks on FSC-certified ancient-forest-free paper (100% post-consumer recycled) that is processed chlorine- and acid-free.

Library and Archives Canada Cataloguing in Publication

Kukucha, Christopher John
The provinces and Canadian foreign trade policy / by Christopher J. Kukucha.

Includes bibliographical references and index.
ISBN 978-0-7748-1584-0

1. Canada – Foreign economic relations. 2. Canada – Commerce. 3. Canada – Commercial policy. 4. Foreign trade promotion – Canada – Provinces. I. Title.

HF1455.K83 2008 382'.30971 C2008-903397-3

Canada

UBC Press gratefully acknowledges the financial support for our publishing program of the Government of Canada through the Book Publishing Industry Development Program (BPIDP), and of the Canada Council for the Arts, and the British Columbia Arts Council.

This book has been published with the help of a grant from the Canadian Federation for the Humanities and Social Sciences, through the Aid to Scholarly Publications Programme, using funds provided by the Social Sciences and Humanities Research Council of Canada.

Printed and bound in Canada by Friesens
Set in Stone by Artegraphica Design Co. Ltd.
Copy editor: Matthew Kudelka
Proofreader: Sarah Munro

UBC Press
The University of British Columbia
2029 West Mall
Vancouver, BC V6T 1Z2
604-822-5959 / Fax: 604-822-6083
www.ubcpress.ca

To James

Contents

Preface / ix

List of Abbreviations / xi

Part 1: Systemic Factors and Canadian Federalism

1 The Role of Provinces in the Global Political Economy / 3

2 International Pressures and Canadian Federalism / 12

3 The Federal-Provincial Committee System on International Trade / 43

Part 2: Considerations of *Process* and *Outcome*

4 The Political Executive in Provincial Foreign Trade Policy / 61

5 Bureaucratic and Legislative Pressures / 81

6 Issues of Implementation, Negotiation, and Consultation / 98

7 Is Anybody Listening? Evaluating Societal Considerations / 120

8 Dominant Ideas, Ideology, and Intrusive Neoliberalism / 139

Part 3: Evaluating Regimes and *Change*

9 Non-Central Governments' Cross-Border Functional Relations / 157

10 Emerging Regional Environment and Labour Regimes / 175

Conclusion / 193

Notes / 200

Selected Bibliography / 226

Index / 231

Preface

I first started thinking about the provinces and Canadian foreign trade policy when I was a doctoral student at the University of Alberta. It was during negotiations for the North American Free Trade Agreement and the Uruguay Round of GATT, and several exceptional academics, including Douglas Brown, Earl Fry, Brian Hocking, and Hans Michelmann, were looking specifically at the role played by subfederal governments in international relations. Desperately seeking a thesis topic, I was inspired by their work.

After graduation I was hired to teach at Douglas College in my hometown of New Westminster, British Columbia. Though I enjoyed my experience in the trenches of BC's community college system, it allowed me little time for research. Only after my arrival at the University of Lethbridge in 2001 was I able to return to this topic. Over the next five years I interviewed bureaucrats and other officials in Ottawa and all ten provinces. During this period I also struggled to develop an appropriate analytical framework to engage the provinces' international activities. This book is the outcome of that process.

When something takes this long to write, there are numerous people to thank. There will also be inevitable omissions, and for this I apologize. Regardless, I was fortunate to have excellent feedback from Paul Gecelovsky, Anil Hira, Tom Keating, and Kim Nossal, who read all or parts of the first draft. Several of the chapters started out as conference papers; regarding those, I benefited from the insights of Bruce Doern, Geoffrey Hale, Harold Jansen, André Lecours, Stephen McBride, Alex Michalos, Nelson Michaud, Heather Smith, Elizabeth Smythe, Claire Turenne Sjolander, and Patrick Wilson. In addition, I thank Shauna Langemann for compiling the statistical data in Chapter 2 and Gerald Baier and Sujit Choudhry for stressing the benefit of brevity. And I am indebted to Peter Meekison and Ian Urquhart, who tutored me – a student of international relations – on the merits of federalism during my time at the University of Alberta. Finally, a number of people in government and industry reviewed specific chapters and corrected a number of mistakes. Any remaining errors are my sole responsibility.

As a first-time author, my experience with UBC Press was extremely positive. Senior editor Emily Andrew was patient and supportive throughout the writing and editing processes and offered excellent suggestions for revising the first chapter. Matthew Kudelka, Ann Macklem, Megan Brand, Melissa Pitts, and Jason Congdon provided further assistance related to the editing and marketing of the book. The manuscript's anonymous reviewers also offered advice that greatly improved the final result.

The University of Lethbridge Research Fund and a University of Lethbridge Chinook Research Summer Award helped fund this project. Over the past several years the Forum of Federations has generously facilitated my participation in several round tables and meetings, during which I had an opportunity to broaden my understanding of federalism. An invitation by the Privy Council Office (Intergovernmental Affairs) to participate in the Fourth International Conference on Federalism in New Delhi, India, added to this experience. The final revisions for this book were completed while I was a William J. Fulbright Research Chair in Canadian Studies at the State University of New York (Plattsburgh). I thank Chris Kirkey and everyone at the Centre for Canadian Studies for providing a relaxed and intellectually vibrant work environment.

On a personal level, I want to acknowledge my colleagues in the Department of Political Science at the University of Lethbridge for their dedication to teaching and research excellence. As always, my family and friends in Vancouver, Lethbridge, and elsewhere in Canada, continue to provide the wisdom and encouragement that I value so greatly. My wife Renee and son James, however, remain my main source of love and support.

Abbreviations

ACOA	Atlantic Canada Opportunities Agency
AEF	Atlantic Economic Forum
AFPA	Alberta Forest Products Association
AGO	Attorney General's Office
AHST	Alberta Heritage Savings Trust Fund
AIT	Agreement on Internal Trade
APEC	Asia-Pacific Economic Cooperation
BC-ACTS	BC Agri-Food Council on Trade and Subsidies
BNA	British North America Act
BSE	bovine spongiform encephalopathy
CAP	Canada Assistance Plan
CAPP	Canadian Association of Petroleum Producers
CCA	Consultative Committee on Agriculture
CCF	Co-operative Commonwealth Federation
CCME	Canadian Council of Ministers of the Environment
CCPA	Canadian Centre for Policy Alternatives
CCTN	Canadian Coordinator for Trade Negotiations
CEC	Commission for Environmental Cooperation
CEDC	Community and Economic Development Committee
CEPA	Canadian Environmental Protection Act
CFFO	Christian Farmers Federation of Ontario
CFTA	Committee for the Free Trade Agreement
CGLG	Council of Great Lakes Governors
CHST	Canada Health and Social Transfer
CIA	Canadian Intergovernmental Agreement
CIFFC	Canadian Interagency Forest Fire Centre
CLSC	Centre Locale de Services Sociaux et Communautaires
CME	Committee of Manufacturers and Exporters
CNAFTN	Committee for North American Free Trade Negotiations
COFI	Council of Forest Industries

COGP	Committee on Government Productivity
CSG-West	Council of State Governments-West
CSL	Consultations and Liaison Division
CSN	Confédération des Syndicats Nationaux
CTTC	Canadian Trade and Tariffs Committee
CUPE	Canadian Union of Public Employees
DFAIT	Department of Foreign Affairs and International Trade
DFO	Department of Fisheries and Oceans
DIIR	Department of Intergovernmental and International Relations
DIST	Department of Industry, Science, and Technology
DREE	Department of Regional Economic Expansion
DRIE	Department of Regional Industrial Expansion
EC	European Community
ECE	Evaluation Committee of Experts
ECO	Executive Council Office [of New Brunswick]
EPF	Established Programs Financing
EU	European Union
FAC	Foreign Affairs Canada
FEDNOR	Federal Economic Development for Northern Ontario
FIRA	Foreign Investment Review Agency
FPCD	Federal Provincial Coordination Division
FPU	Fishermen's Protective Union
FRBC	Forest Renewal BC
FTA	Canada-US Free Trade Agreement
FTAA	Free Trade Area of the Americas
FTQ	Fédération des Travailleurs du Québec
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDA	general development agreement
GPA	Government Procurement Agreement
IGAS	Intergovernmental Affairs Secretariat
IGR	Intergovernmental Relations Secretariat
IJC	International Joint Commission
ILO	International Labour Organization
IMTC	International Mobility and Trade Corridor
IPE	international political economy
ISWG	International Strategy Working Group
ITAC	International Trade Advisory Committee
ITCan	International Trade Canada
ITS	Intelligent Transportation Systems
IWA	Industrial, Wood, and Allied Workers
JCPC	Judicial Committee of the Privy Council
JUVIS	Joint Use Vehicle Inspection Stations

MABAC	Montana Alberta Bilateral Advisory Council
MAI	Multilateral Agreement on Investment
MEDT	Ministry of Economic Development and Trade
MERD	Ministry of Economic and Regional Development
MFN	most favoured nation
MIA	Ministry of Intergovernmental Affairs
MIIR	Ministry of International and Intergovernmental Relations
MIR	Ministry of International Relations
MLB	Maritime Lumber Bureau
MLC	Midwestern Legislative Conference
MOU	Memorandum of Understanding
MRA	mutual recognition agreement
NAAEC	North American Agreement on Environmental Cooperation
NAALC	North American Agreement on Labour Cooperation
NAC	National Advisory Committee
NAFTA	North American Free Trade Agreement
NAO	National Administrative Office
NDP	New Democratic Party
NEC	New England Council
NEGC	New England Governors' Conference
NEP	National Energy Program
NFFAWU	Newfoundland Fish, Food, and Allied Workers' Union
NFU	National Farmers Union
NIFC	National Interagency Fire Centre
NTB	non-tariff barrier
OAS	Organization of American States
OFA	Ontario Federation of Agriculture
OFEC	Ontario Farm Environmental Coalition
OPEC	Organization of the Petroleum Exporting Countries
OSCIA	Ontario Soil and Crop Improvement Association
PACE	Peace Arch Crossing Entry program
PCO	Privy Council Office
PLQ	Parti Libéral du Québec
PNWER	Pacific Northwest Economic Region
POGG	peace, order, and good government
PPC	[Newfoundland] Planning and Priorities Committee
PPCB	Priorities, Policy, and Communications Board
PQ	Parti Québécois
PRI	Policy Research Institute
PSAG	Provinces-States Advisory Group
SAGIT	Sectoral Advisory Groups on International Trade
SCM	Subsidies and Countervailing Measures
SGI	Saskatchewan Government Insurance

SLA	Softwood Lumber Agreement
SPC	Standing Policy Committee
STEP	Saskatchewan Trade and Export Partnership
SUFA	Social Union Framework Agreement
SWEEP	Soil and Water Environmental Enhancement Program
TCB	Trade and Competitiveness Branch
TILMA	Alberta-BC Trade, Investment, and Labour Mobility Agreement
TNO	Trade Negotiations Office
TPCLD	Trade Policy Consultations and Liaison Division
UFA	United Farmers of Alberta
UN	United Nations
UNESCO	UN Educational, Scientific, and Cultural Organization
UNFCC	UN Framework Convention on Climate Change
UPA	Union des Producteurs Agricoles
USTR	US Trade Representative
VQA	Vintners Quality Alliance
WCER	Western Centre for Economic Research
WD	Western Diversification
WGA	Western Governors Association
WPC	Western Premiers Conference
WTO	World Trade Organization

Part 1
Systemic Factors and Canadian Federalism

1
The Role of Provinces in the Global Political Economy

Canadian provinces have long pursued a wide range of international objectives. They have sought trade and investment opportunities, opened foreign offices, and Quebec, specifically, has pursued nationalist goals related to language and culture. Recently, though, these activities have increased. In 2006, Quebec negotiated a "formal" role for itself in the UN Educational, Scientific, and Cultural Organization (UNESCO). Then in 2007, British Columbia signed a climate change agreement with California. That same year the Government of Alberta opened an office in Washington, DC, to lobby the White House and members of Congress directly. There are two different opinions on these subfederal initiatives. Some, such as Paul Heinbecker, Canada's former UN ambassador, suggest that this activity – especially in the context of Quebec – represents a continuation of past ad hoc provincial efforts. Others, such as Andrew Coyne, have argued that the foreign presence of Canadian provinces "blurs our international identity" and duplicates the activities of federal officials at considerable expense to taxpayers.[1]

This book engages these arguments in the context of provincial foreign trade policy. It begins with an examination of the increasing intrusiveness of international trade commitments into domestic policy space and the impact of these changes on Canadian federalism. Canada's membership in international trade regimes, such as the General Agreement on Tariffs and Trade (GATT), the North American Free Trade Agreement (NAFTA), and the World Trade Organization (WTO), expanded rapidly in the decades following the Second World War. Initially, these commitments did not directly include Canadian provinces. However, as issues of provincial jurisdiction were added to the international agenda – issues such as agriculture, alcohol, government procurement, energy, labour, the environment, and national health and safety standards – Ottawa became increasingly aware of the need to secure the provinces' compliance when negotiating and implementing these agreements.

Thus was created a new dynamic in Canada's federal-provincial relations. The federal government expanded consultative linkages with the provinces through a series of federal-provincial committees, now known as CTrade; and to formalize ties with business it established the International Trade Advisory Committee (ITAC) and the Sectoral Advisory Groups on International Trade (SAGITs). Ottawa also began to engage non-governmental players through parliamentary committees, foreign policy reviews, and other forums. For all these changes, however, there is nothing to suggest that the federal government suffered a significant loss of autonomy owing to international pressures. Changes in the global political economy modified Ottawa's approach to formulating trade policy, but federal officials maintained considerable independence, despite a proliferation of new and legitimate actors.

Part 1 of this book focuses on these developments in relation to provincial autonomy. First, subfederal trade patterns were not significantly altered in the aftermath of GATT, NAFTA or WTO. The United States remained the dominant trading partner for most provinces and there was no transformation of Canada's fragmented and highly specialized political economy. Historic conflicts related to fiscal policy, regional development programs, and natural resources, also reflected decentralizing trends in federal-provincial economic relations that were well established prior to these agreements. The decision to implement CTrade and previous consultative committees further demonstrated Ottawa's trust in traditional models of "executive federalism" to manage intergovernmental relations. All of this suggests that Ottawa and the provinces relied on customary practices of Canadian federalism to counter challenges associated with the intrusiveness of foreign trade commitments.

Part 2 explores the question of subfederal autonomy in terms of the provincial policy *process* and its capacity to directly affect *outcomes* related to Canada's foreign trade relations and international norms and standards. It argues that the provinces' trade policy choices are shaped by institutional, sectoral, societal, and ideational considerations. Institutional factors are dominated by constitutional and bureaucratic realities. Provincial executives occasionally involve themselves in trade issues, but this is limited to crisis situations, trade promotion, and specific trade disputes. Provincial legislatures have only a minimal impact in this policy area. Sectoral factors are important, though the business sector's relevance tends to fluctuate as a function of its economic strength and ties to government. Societal factors are less relevant, typically because of "consultation fatigue" and limited resources. Ideational considerations, which are more important than sectoral ones, include dominant ideologies, the priorities of specific regional economies, and attitudes toward participatory government.

Any evaluation of *outcomes,* however, must also address questions of *change*. Part 3 of this book focuses on emerging cross-border cooperative regimes

and the NAFTA "Side Deals" on labour and the environment. The provinces have enjoyed success in cross-border forums in terms of setting agendas, negotiating bilateral agreements with American states, and developing personal relationships with senior officials; however, there is no evidence that these ties are fostering deeper continental integration. The fact that these regimes continue to focus on functional issues, and rarely challenge existing regulatory practices and judicial precedent, also suggests they will not serve as catalysts for "significant" change in North American trade relations. The resilience of federal institutions in response to these developments also challenges broader assumptions regarding the "decline" of the nation-state in the contemporary international system.

International Political Economy and Provincial Trade Policy

An exploration of the provinces' role in Canadian foreign trade policy is worthwhile for four main reasons. First, it will serve as a source of information for federal and provincial officials in this policy area. Also, non-Canadian practitioners will find it useful when it comes to understanding the provinces' increasing relevance in matters of international trade. Second, this analysis will draw attention to the intrusiveness of international developments for other states in the global political economy. Ottawa faces specific constitutional realities vis-à-vis the provinces that many other federal states do not; that said, most governments find themselves confronting pressure from a range of non-central actors as trade agreements enter domestic policy space.[2] Third, this study will cast light on important distinctions between issues of promotion, negotiation, and implementation. As already noted, the provinces play an active role in trade promotion, and most such endeavours are now considered a legitimate aspect of provincial economic development. Trade policy, on the other hand, is linked to provincial development, but it is also a distinctly separate matter that involves negotiating and implementing international trade agreements.

Most importantly, however, this book will address the limited and institutional nature of the international political economy (IPE) literature. Specifically, there is a lack of IPE scholarship relating to the global trade relations of subfederal actors. Realist and mercantilist frameworks are state centred, focus on power relations, and tend to ignore distinctions between international and domestic levels of analysis.[3] Similarly, orthodox or laissez-faire liberal models have long limited their discussion to the promotion of free markets.[4] As liberalism evolved, discussions of market intervention concentrated on how to rebuild war-torn economies, which culminated in Keynesian economics and the Bretton Woods system.[5] In the four decades that followed Bretton Woods, liberalism was dominated by questions of autonomy, cooperation, and emerging structures of international governance.[6]

Liberalism's interest in governance and cooperation contributed to the emergence of various regime theories in the 1980s and 1990s. Regime theory does not focus on domestic actors such as provinces; it does, though, provide insight into this book's assertion that emerging cross-border regimes may reflect a substantial reorganization of North American economic relations. Regime-based frameworks can be power-, interest-, or knowledge-based.[7] Realist ("power-based") approaches focus on balance of power and hegemonic dominance (rather than institutionalized cooperation) as the basis of international stability.[8] Neoliberal ("interest-based") approaches represent the more mainstream assumptions regarding international regimes. Neoliberal institutionalists, for example, embrace a number of realist principles, including rationality, state sovereignty, and the relevance of anarchy. The difference is that interest-based theories portray regimes as both effective and resilient.[9] Finally, there are "knowledge-based" theories of regimes, which focus on how interests originate in the policy process and on the impact of regimes in terms of the identities of international actors. These contributions fall outside the more traditional realist-liberal debate and suggest that significant change is possible.[10]

A small number of liberal scholars have specifically addressed the relevance of domestic actors; examples include Peter Gourevitch's "second-image reversed" approach and Robert Putnam's discussion of "two-level games."[11] Though it is possible to include subfederal interests in these two frameworks, neither fully engages with questions of provincial autonomy and broader issues of change. Gourevitch's approach is essentially a statist analysis of domestic interests. Though he recognizes the impact of the bureaucracy and the importance of transnational actors, in the end he relies on a "strong state" (limited domestic influence) versus "weak state" (strong domestic influence) argument. Putnam focuses on domestic "win sets" and on the opportunities and constraints these impose on international negotiators. Some critics suggest that in doing so he has simply restated an argument commonly made by liberal scholars: that state preferences in international bargaining reflect international *and* domestic considerations.[12] Much like Gourevitch, Putnam also tends to focus on developments taking place within states.[13]

Karl Polanyi folded international and domestic factors into his "double movement" theory, albeit in a much broader manner than Putnam and Gourevitch. Specifically, he critiqued orthodox liberalism and its commitment to open markets.[14] For him it was imperative to consider the impact of societal factors on market forces. He argued that "society" would protect itself if faced with a market-driven crisis such as the Great Depression. John Gerard Ruggie took this argument a step further by suggesting that liberal principles are embedded in domestic societies, as are basic concepts such as security and stability. Hence the compromise of "embedded liberalism"

allowed for measures to protect domestic economies as long as these efforts did not dramatically interfere with the expansion of international trade.[15] Ultimately, both Polanyi and Ruggie examined the importance of numerous domestic institutional, sectoral, and societal actors; and they did so in a way that is consistent with this book's analysis of provincial autonomy. But unlike other contributions such as that of Putnam, Polanyi and Ruggie made no attempt to examine causal links between specific domestic and international actors.

Other liberal studies have focused on the international activities of federal states.[16] One early effort centred on "trans-sovereign" linkages and "perforated sovereignty."[17] These themes were subsequently explored by other scholars under the rubric of "paradiplomacy."[18] While these contributions highlighted the global role of non-central governments, they suffered from specific weaknesses. Studies of perforated sovereignty, for example, failed to adopt any explicit theoretical framework. Studies of paradiplomacy claimed that state-centred views of global politics were a "gross distortion of reality," yet in the end they concluded that subfederal activities were limited to areas of "low politics." Also, studies of perforated sovereignty and paradiplomacy restricted discussion to institutional factors, though John Kincaid did highlight pluralist domestic forces in his analysis of "constituent diplomacy."

Recent discussions of perforated sovereignty and paradiplomacy have embraced, albeit selectively, several of the themes that are central to this book. Francisco Aldecoa and Michael Keating have acknowledged that paradiplomacy extends beyond domestic institutional variables such as sectoral issues, institution building, and civil society. Aldecoa and Keating have offered a more holistic approach but have failed to disaggregate the policy process except to note that other domestic actors are relevant.[19] André Lecours has challenged the lack of theoretical substance in the paradiplomacy literature and has argued for the adoption of an analytical framework that focuses on structure and agency. For him the key is to examine how subfederal governments are legitimized as international agents and how they pursue their objectives through "opportunity structures."[20] Ultimately, this book's theoretical framework builds on the domestic and international insights of Aldecoa, Keating, and Lecours.

It is Brian Hocking who has done the best job of integrating state and non-governmental actors into studies of international and domestic trade policy. For example, he has dismissed realist, state-centred models as inadequate but is just as critical of generalized studies of globalization that posit the death of the nation-state. He argues instead for a multiperspectival approach with the goal of understanding "the impact of influences at the systemic, state and sub-state levels."[21] Initially, he engaged this challenge by focusing on "multilayered diplomacy" and the role of non-central governments in Canada, Australia, and the United States.[22] Later he isolated

environments, agendas, and *processes* in an effort to better understand the nuances of trade policy at the domestic and international levels of analysis.[23] This book will share many of his conclusions. However, its focus will be on distinct process factors and their impact on international norms and standards.

A Review of the Canadian Literature

According to Maureen Appel Molot, most studies of Canada's foreign relations are largely descriptive.[24] They generally rely on traditional approaches; they focus on Canada's status as a principal, middle, or dependent power; and they have only implicit ties to neorealist, neoliberal, and regime-based models.[25] Subsequent observers, such as David Black and Heather Smith, challenged these conclusions but acknowledged that the literature has been "marked by significant inadequacies and lacunae," especially in terms of integrating "both domestic and international influences on the state."[26] Kim Nossal has suggested that after an initial reliance on realist models, over the past decade efforts have been made to engage broader theoretical frameworks.[27] These include feminist, post-positivist, and constructivist approaches.[28]

Canadian scholars of trade policy have engaged liberal IPE theory to some extent. Gilbert Winham has explored the historic tension between market forces and regulatory mechanisms, arguing that the present-day complexities of international trade require better "multilateral management."[29] In his study of GATT, Frank Stone notes that this forum represents "one of the most successful efforts in international cooperation of the post-war period."[30] Other authors highlight the issue of state autonomy within these evolving governance structures. According to Sylvia Ostry, smaller states have the power to challenge economic hegemons; moreover, the success or failure of multilateral frameworks can be directly tied to domestic politics.[31] Andrew Cooper, Richard Higgott, and Nossal also have noted the relevance of middle-power leadership.[32] But it is Robert Wolfe who has applied theory most explicitly, in his analysis of the political economy of agriculture.[33] Much like Ostry, he focuses on the relevance of international and domestic factors while adopting Polanyi's "double movement" framework to emphasize the impact of societal pressures on market forces.

Studies focusing on NAFTA, the globalization of public policy, and North American integration tend to be more theoretically developed, especially in terms of domestic factors and the adoption of regime-based frameworks. Unfortunately, most such studies tend to take a state-centred and institutional approach.[34] Furthermore, it is clear that "alternative" models relating to ideas, democratization, and gender have the most explicit ties to IPE theory. At this stage, however, only minimal critical attention has been directed at Canada's external trade relations.[35]

The literature on the provinces and Canada's global trade relations is also limited. These contributions generally focus on provincial actors, questions of centralization/decentralization, and Canadian trade policy's institutional frameworks. In one early study, Douglas Brown and Earl Fry suggested that central governments could better manage the foreign policy initiatives of provinces, states, and cantons through decentralization.[36] Making a somewhat similar argument, Nossal suggested that Ottawa remained firmly in control of Canada's global trade relations.[37] Grace Skogstad, on the other hand, concluded that Ottawa and the provinces had developed a mutual dependency in terms of negotiating and implementing international trade agreements.[38] Finally, Michael Hart, G. Bruce Doern, and Brian Tomlin have cited the relevance of the provinces and executive federalism in the negotiation of the Canada-US Free Trade Agreement (FTA).[39]

Other studies have examined a broader range of subfederal activities. Stephen de Boer has explored the potential for a greater provincial role in North American integration. Ian Robinson has suggested that neoliberal agreements such as NAFTA have exposed the vulnerability of provinces in terms of regional development programs, worker rights, environmental programs, and health regulations.[40] A number of economic studies have reviewed provincial trade patterns, especially in terms of North American regional economies and the provinces' global exports.[41] These observations are important, yet no one has addressed the potential long-term impact of other non-governmental interests at the domestic and international levels. Scholars in this field tend to focus instead on institutional, bureaucratic, and constitutional factors; their studies' links with broader debates over sovereignty and state autonomy are at best inconsistent.

The literature on Quebec's international relations is well developed but somewhat eclectic.[42] There is an obvious emphasis on Quebec's history of international activity and its linkages with France and la Francophonie.[43] Other contributions have reviewed Quebec's foreign activities in the context of autonomy and provincial representation in Canadian federalism.[44] There are also numerous studies examining Quebec's international trade policy. Ivan Bernier and André Binette, for example, completed an analysis of provincial trade policy in the aftermath of the FTA.[45] In 1993, Louis Balthazar, Louis Bélanger, and Gordon Mace conducted an empirical review of Quebec's foreign policy that included several chapters on international and regional trade.[46] Others, such as Mace, Bernier, Jean-Phillipe Thérien, and Guy Gosselin, have compared Quebec's commercial and cultural relations with those of other subfederal governments in Canada, Europe, and Latin America.[47] Balthazar and Bélanger have written extensively on Quebec's relations with the United States.[48] Finally, Stéphane Paquin has reviewed the province's decision to ratify and review international treaties in the Quebec National Assembly.[49] By contrast, little or no attention has been directed at the foreign

trade relations of other provincial governments, with the possible exception of Ontario during the NAFTA negotiations.[50]

Evaluating Process, Outcome, and Change

This book aims to complement already existing liberal IPE frameworks by focusing more directly on issues of *process, outcome,* and *change*. In terms of international factors, the assumption made here is that Canada formulates its trade policy in a neoliberal global economy that is increasingly competitive with ongoing pressures to deregulate, privatize, and pursue further trade liberalization. At the same time, it accepts (a) that cooperation is possible in an anarchic economic system and (b) that states, including Canada, maintain the capacity to pursue autonomous decisions in international institutions and regimes. By including a review of non-governmental actors, this analysis also accepts liberal efforts to engage civil society and improve democratization.[51]

In terms of *process,* this book focuses on a weakness of liberal IPE – namely, the need to expand discussion of domestic considerations beyond institutional variables. In his review of North American integration, George Hoberg accounted for non-institutional factors with a typology that explored international-domestic linkages related to economics, politics, and culture.[52] This study replaces Hoberg's model with more comprehensive categories – institutional, sectoral, societal, and ideational – within which economic, political, and cultural considerations are relevant. In the case of Canadian foreign trade policy, domestic *institutional* issues include constitutional and judicial realities, the role of the executive at both levels of government, federal and provincial legislatures, bureaucratic interests, and intergovernmental relations linked to international affairs. *Sectoral* factors include industry associations, specific corporations, individual executives, and advisory groups, as well as their consultative links with federal and provincial departments and officials. *Societal* factors, which are typically treated as secondary, incorporate organized labour, environmental groups, First Nations, civil society, and a wide range of non-governmental organizations. Finally, *ideational* factors focus on how dominant ideas are transferred or entrenched. Dominant ideas relating to ideology, sectoral priorities in regional economies, and attitudes toward participatory government exist in every province and are relevant to a better understanding of provincial trade policy.

But simply creating new categories is not enough to fully comprehend process-related issues. It is also important to recognize that domestic actors, even at the provincial level, can shape policy *outcomes* in both Canada and the international system. For example, the institutional policies of central and non-central governments developed by executive, legislative, and bureaucratic interests are often transferred among levels of analysis as states consult, negotiate, and implement global trade commitments. Also, many

business interests and industry associations have a presence in the global political economy that is distinct from that of the nation-state. And societal groups have sometimes developed cross-border partnerships relating to organized labour, the environment, and civil society. In other words, when evaluating the provinces' role in Canada's global trade relations, it is important to realize that causal relationships are "top down," "transnational," and "bottom up."

Wolfe has pointed out that *change* does not happen if institutional or non-state actors support policy positions that the government already advocates.[53] So when evaluating provincial influence, it is important to compare the provinces' positions to that of Ottawa. The key is to seek examples of provincial pressure actually altering federal policy (as opposed to simply reflecting that policy). A core argument of this book, however, is that the emergence of multilevel governance structures is a potential indicator of change. Power- and interest-based regimes at the international level do not always require significant commitments of sovereignty; conversely, knowledge-driven approaches represent different levels of cooperation.[54] Hence the existence or creation of new regimes – especially knowledge-based ones – could represent "significant" change.

Finally, it is important to consider the role of social issues. Given that change can be positive or negative, it is possible that higher standards of living, subfederal governance, and the greater recognition of human rights could be replaced by weakened social, economic, and environmental standards. This book argues that states and provinces still have the capacity to formulate independent policy. Unfortunately, the policy processes of most governments, including that of Canada, often fail to place a high priority on these normative issues. By addressing a wide range of international and domestic factors, this book hopes to draw greater attention to questions of political and economic marginalization as they relate to Canada's global trade relations.

2
International Pressures and Canadian Federalism

This chapter makes two main arguments. First, there is little evidence that intrusive international trade commitments have altered the provinces' foreign trade relations. Indeed, trade statistics confirm the ongoing dominance of the United States as a trading partner and point to a lack of provincial export diversification. In practical terms, this encourages Ottawa to protect provinces' interests when negotiating and implementing international trade agreements, which in turn reinforces the specialization and fragmentation of Canada's economy. Second, the same can be said of federal-provincial economic relations in Canada. A review of fiscal policy, regional development strategies, and past conflicts over natural resources makes it apparent that decentralizing trends in Canadian federalism predate recent international trade commitments. These economic realities also contribute to the emergence of provincial dominant ideas (see Chapter 8).

Evaluating Provincial Political Economies

A number of different perspectives are available regarding Canada's role in the North American economy. Some scholars, such as Stephen Clarkson, have argued for greater economic nationalism to counter threats to Canada's economic and political sovereignty.[1] In contrast, Thomas Courchene has supported a common North American currency and suggested that some provinces, notably Ontario, are now part of larger cross-border economies.[2] Others, including Michael Hart, William Dymond, Daniel Schwanen, and Geoffrey Hale, have called for an incremental approach to continental integration.[3] This chapter, however, supports Richard Simeon's argument that provincial economies and the institutions of Canadian federalism are not significantly influenced by international economic pressures.[4] Simeon does not propose that developments in the global political economy are irrelevant; he does, though, question the inevitability of North American integration and the erosion of the Canadian state. George Hoberg and Grace Skogstad,

who point to the ongoing support for domestic economic interests, also support Simeon's conclusions.[5]

Economic studies questioning the inevitability of integration reinforce Simeon's argument. Of specific interest are contributions evaluating the relevance of borders to international trade. John McCallum, for example, has suggested that the Canada-US border has had a "decisive impact" on North American trade.[6] John Helliwell has reached a similar conclusion, noting that Quebec trades substantially more with other Canadian provinces than with US states of similar size and distance.[7] Though provocative, there are two major weaknesses with these studies. The first, which McCallum himself has acknowledged, is that both used small data samples of one to three years. Second, conclusions regarding North American Free Trade Agreement (NAFTA) were based on dated figures from only the first years of the Canada-US Free Trade Agreement (FTA).

Other studies focusing on provincial trade and specific exports also point to significant subfederal autonomy. In his analysis of Alberta and British Columbia, Edward Chambers observes that both provinces rely on natural resource exports.[8] Not surprisingly, these exports include energy and agriculture for Alberta and forestry and mining for BC. W. Mark Brown, on the other hand, argues that the relevance of national borders varies from sector to sector and that these variances are a result of "government imposed barriers to trade."[9] Notably, he finds that "political" considerations are "strong" in terms of food products and textiles but are absent for other sectors such as transportation equipment. Both Chambers and Brown make it clear that governments maintain the capacity to protect certain industries that the result is often missed market opportunities in the global economy.

This chapter attempts to improve on past studies by examining trade data for all provinces over a thirteen-year period (1993 to 2005). These statistics, however, have specific limitations. The first relates to reliability. Provincial trade statistics are compiled by Industry Canada, and these figures combine data collected by Statistics Canada with data collected by the Census Bureau of the US Department of Commerce. The two agencies use similar methods, but there are slight differences. This is not an issue when examining aggregate trade; but when data are broken down to four-digit product codes – as they are in this chapter – inconsistencies arise in terms of collection and categorization. Another peril of comparative statistical analysis on a yearly basis is that trade relations do not march in step with twelve-month cycles. Fluctuations, therefore, often reflect statistical anomalies rather than actual changes in trade patterns. An important reality is that trade is influenced by exchange rates, inflation, and investment and production cycles, which are difficult to account for with the raw data these agencies collect. One possible solution is to review data in sets of three- to five-year averages, which would lessen

the impact of these factors. Unfortunately for this study, provincial trade statistics have only been available for slightly more than a decade, which makes long-term trends difficult to identify.

Reliability issues are exacerbated when international imports are added, given that these goods are not always shipped directly from the country of origin. Trade from Mexico, for example, often first travels through the United States, which makes it difficult to evaluate the impact of national borders on trade. In addition, parts from Place A are often shipped to Place B where they are added to a product that is subsequently shipped to Place C, the final destination. Similar problems exist in tracking goods once they enter Canada. Available data suggest that Nova Scotia and BC are major importers of foreign automobiles when in fact both provinces are simply the main points of entry for vehicles from Asia and Scandinavia. Moreover, oil and natural gas pipelines can distort provincial trade statistics. Washington State, for example, is a major importer of Alberta energy, but this is due to Terasen's Trans Mountain pipeline, which carries crude oil from Edmonton to BC. Terasen's Express System, meanwhile, moves heavy oil from the Alberta tar sands to refineries in the US Rockies and the Midwest. A similar problem arises when examining BC's energy exports to California; these, too, are recorded as trade with Washington State.

Yet another issue is the impact of individual trade contracts on various sectors. In the 1990s, for example, one Mexican company, Avantel, purchased $178 million worth of telecommunications equipment from Northern Telecom (Nortel). Not surprisingly, Alberta's trade with Mexico collapsed in this sector when Nortel encountered financial difficulties.[10] Another example: Manitoba imported approximately $1.2 billion in airplanes in 2002 as the result of a contract that Air Canada had signed to purchase new jets. The planes were dispersed across the country, yet the sale was listed as a provincial import because Air Canada's head offices are in Winnipeg.[11] Contracts can have an even greater impact on smaller provincial economies. In Newfoundland and Labrador, for example, Iraq became the province's primary source of imports in the late 1990s. This was due to the UN's Oil for Food program and the province's sale of a troubled refinery at Come By Chance. The refinery was purchased by the Swiss-based oil trader Vitol SA in 1994. Vitol held a number of permits allowing it to purchase Iraqi oil through the UN. It was interested in the refinery because oil-trading firms are only eligible to purchase crude oil from the Organization of the Petroleum Exporting Countries (OPEC) if they own refineries. The Come By Chance refinery was available and affordable.[12]

Another factor is that wheat-producing provinces face extremely volatile export markets. Thus in Saskatchewan and Alberta, wheat exports to China and other Asian countries collapsed in the mid to late 1990s. This was due to China's improved transportation system, which meant it no longer had

to rely on foreign shipments into southern Chinese ports. Indeed, China became an *exporter* of wheat during this period as a result of increased domestic production. Remember, though, that provincial producers do not export wheat. Canadian wheat is sold by the Canadian Wheat Board, which pursues a wide range of international markets that vary in terms of availability. This can result in sudden statistical increases, such as Saskatchewan's emerging trade relationship with Algeria. It also accounts for historic exports to Eastern Europe and Russia, which were important markets for Canadian wheat during the Cold War.

Finally, this chapter is unable to offer detailed data on provincial trade in services. Arguably, shifts in the services sector are a more accurate signifier of changes related to neoliberal international pressures. Several provinces emphasize services-based trade, including call centres and tourism. The main difficulty here is the shortage of data for provincial trade in services, especially over extended periods.[13]

Ontario

Ontario has long dominated Canada's export economy with shipments approaching $200 billion annually. The next largest province, Quebec, exports approximately $60 billion. Ontario's top three export partners are the United States, the United Kingdom, and Mexico. Sales to the US peaked at approximately $193 billion in 2002. In contrast, UK and Mexican exports totalled $4.5 billion and $1.6 billion in 2005. For the most part the province's export profile has remained stable over the past three decades. Though Ontario's main exports are passenger vehicles and automobile parts, the province also ships large quantities of nickel mattes and nickel oxide to both the UK and Norway. Trade with the United States dominates provincial imports, with China, Japan, and Mexico consistently ranking in the top four. Other states enjoying similar import growth, albeit on a smaller scale, are Germany, the UK, Taiwan, South Korea, and Italy, whose total exports to Canada are all in the $2 billion range.[14]

The integration of the North American automobile industry in the 1960s created a regional economy dominated by manufacturing. As Table 1 indicates, Ontario's motor vehicle exports represented 25 percent of the province's total exports to the United States in 2004, with sales in excess of $46 billion. Trucks and motor vehicle parts competed for second place, at levels of $12 to $14.5 billion. In terms of imports, the province's top three sectors between 1993 and 2003 were motor vehicle parts ($15 to $20 billion), passenger vehicles ($1.3 to $5 billion), and spark-ignition reciprocating or rotary internal combustion engines ($2 to $6 billion).

Ontario's scale of trade with Mexico has increased in the post-NAFTA era but has not significantly diversified the province's export profile. In fact, the only sector that has enjoyed consistently high exports to Mexico since 1993

Table 1

Ontario exports to the United States – total trade (percent)

Product	HS4 code	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Automobiles	8703	24.0	24.7	26.4	25.1	24.5	24.6	24.5	25.7	24.4	24.2
Vehicle parts	8708	7.0	6.9	7.1	6.9	6.8	7.6	8.3	7.8	7.7	7.1
Trucks	8704	7.2	5.4	7.2	6.8	6.9	6.9	6.9	6.0	6.0	5.1
Engines	8407	2.0	2.2	2.3	2.1	1.8	1.8	2.0	2.1	1.9	1.6
Tractors	8701	1.6	1.6	1.5	0.9	0.6	0.5	0.5	0.7	1.1	1.5
Medicaments	3004	0.4	0.3	0.2	0.3	0.5	0.5	1.0	1.1	1.2	1.5
Telephone sets	8517	0.6	0.6	0.8	0.9	0.8	0.7	0.6	0.7	1.1	1.4
Furniture	9403	1.1	1.3	1.3	1.5	1.4	1.3	1.3	1.2	1.2	1.3
Non-crude petroleum	2710	0.4	0.3	0.3	0.5	0.7	0.9	1.0	0.7	1.0	1.2
Gold	7108	1.7	1.5	1.3	1.2	1.0	1.3	1.1	1.0	0.9	1.2

is auto parts, which increased between 1999 and 2001 from approximately $250 million to more than $400 million. Other areas of trade that already existed prior to NAFTA include transmission shafts, engine parts, moulding boxes, milk, and synthetic rubber. Sectors enjoying moderate expansion include seats, motor vehicles (since 1999), and computers. Imports from Mexico are more diversified, albeit at less significant levels, peaking at $2.5 billion in 2002. The biggest import from Mexico is motor vehicle parts, which reached a high of almost $450 million in 2001.

Ontario's trade with specific US states further strengthens Simeon's argument. The province's number one export destination in the United States is Michigan, which received over $59 billion in Ontario exports in 2003. This level of trade is not surprising, for two reasons. First, in almost all provinces, neighbouring US states are the primary export markets. This is due to the location of border crossings and the presence of regional transportation corridors. The second reason relates to the dominance of the automotive sector. In 2003 more than $29 billion of Ontario's exports to Michigan were motor vehicles. The remaining top five exports were also related to the automotive industry; they included trucks and other vehicles, motor vehicle and engine parts, and seats. In the past four years, California has replaced New York as Ontario's second major export market. Trade in motor vehicles also dominates this relationship, with close to $12 billion in exports in 2003.

Quebec

The United States dominates Quebec's export profile. In 1993 that province exported $27 billion to the US, and in 2005 trade exceeded $57 billion. Quebec's second largest trading partner is the UK, with exports peaking at $2 billion in 2000. The UK is the second largest exporter to Quebec, whose imports from Norway, Germany, Italy, France, Algeria, and China have also increased since 1992. Generally, Quebec relies on imports of crude petroleum, which is the number one shipment to that province from the UK, Mexico, Algeria, and Norway. Quebec tends to export goods in a number of areas in which it also has high imports. One example is imports of airplane and helicopter parts from the UK, which total close to $500 million. Other overlapping sectors include turbojets and turbopropellers, passenger vehicles, and circuit boards.

In terms of exports to the US (Table 2), Quebec has two sectors regularly over $3 billion: helicopters and airplanes ($6 billion), and unwrought aluminum ($3 billion). Sectors in the $1 to $2 billion range include lumber, newsprint, uncoated paper and paperboard, turbojets and turbopropellers, and circuit boards. Two sectors with trade over $1 billion – electronic integrated circuits and turbojets and turbopropellers – dominate Quebec's imports from the United States. As with its exports, Quebec's imports have remained relatively consistent over most sectors. The only area of significant decline

Table 2

Quebec exports to the United States – total trade (percent)

Product	HS4 code	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Aluminum	7601	7.6	6.4	5.7	5.1	6.4	6.1	6.8	6.8	7.4	9.9
Airplanes	8802	4.3	5.7	6.1	6.3	9.7	10.2	13.3	9.4	9.5	6.4
Newsprint in rolls	4801	5.6	5.1	4.3	3.9	4.0	3.7	3.7	3.2	3.0	3.1
Uncoated paper	4802	2.4	2.6	2.3	2.2	2.6	2.7	2.5	2.8	2.8	2.9
Turbojets	8411	2.2	2.4	2.2	2.0	2.5	2.5	2.1	2.5	2.4	2.7
Lumber > 6MM	4407	4.8	4.4	4.4	3.2	3.3	3.0	2.6	3.2	2.7	2.2
Copper wire	7408	0.1	0.4	0.4	0.5	0.5	0.6	0.5	0.9	1.2	2.1
Circuits	8542	8.5	6.8	5.1	4.3	3.9	2.5	2.4	2.5	3.2	2.0
Copper	7403	1.2	0.7	0.6	0.6	0.5	0.4	0.4	0.7	0.9	1.9
Non-crude petroleum	2710	0.7	0.5	0.5	0.8	0.6	0.7	0.9	1.1	1.6	1.7

was a reduction of approximately $1 billion in circuit boards in 2001. As with Ontario, these changes do not represent a long-term shift in the province's political economy.

There is no evidence that NAFTA significantly altered Quebec's export profile. Mexico is not ranked as one of Quebec's top ten export or import destinations. In fact, only two exports are close to $60 million – unwrought aluminum and mixed alkylbenzenes. Before NAFTA, the one sector with any presence in Mexico was asbestos, but trade in this commodity reached a low of $4.3 million in 2002, down from a high of $19.7 million in 1994. Regarding imports, Quebec has diversified its trade profile, but purchases in most sectors are well below $50 million. One exception is shipments of Mexican crude petroleum. In recent decades this sector experienced a low of approximately $102 million in 1995 and a high of $950 million in 2006.

New York is the main destination for Quebec exports to the United States, with sales ranging from approximately $5 billion in 1994 to almost $8 billion in 2006. Quebec has expanded its trade with a number of other states over the past decade. These include Pennsylvania, Ohio, and Texas. Vermont remains the third highest importer of Quebec goods, but trade figures with that state have declined consistently from a high of $4.7 billion in 2000. Exports of aluminum have dominated Quebec's trade with New York since 1993, reaching more than $1.2 billion in 2006. Other key sectors include copper wire, electrical energy, and newsprint. Trade with Pennsylvania and Ohio is driven by aluminum, whereas the primary export to Vermont is circuit boards, which, however, declined from $2.6 billion in 1997 to $1 billion in 2006. The dominant export to Texas, which totalled $1.2 billion in 2001, is helicopters, airplanes, and spacecraft.

Alberta

Alberta's international trade is also dominated by the United States, reaching a high of $81.2 billion in 2005. Alberta's second largest export market is Japan, though provincial sales exceed over $150 million in only three sectors: rape or colza seed, meat of swine, and chemical wood pulp. Alberta's trade with China has also increased due to exports of sulphur and acyclic alcohol. Exports to South Korea are dominated by one sector, chemical wood pulp, which totalled over $180 million in 2002. The province's primary sources of imports have also remained stable, except in China's case. In 1993 Alberta's imports from China totalled under $34 million. By 1997 this had expanded to $81.5 million, and in 2005 trade levels reached $1 billion. France, Germany, and the UK have also steadily increased trade. Imports from Japan, on the other hand, have remained relatively stable, with only slight increases since 1992.

Alberta's exports to the US reflect the province's long-term reliance on crude petroleum and liquefied petroleum. As Table 3 suggests, Alberta

Table 3

Alberta exports to the United States – total trade (percent)

Product	HS4 code	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Crude petroleum	2709	31.3	26.3	26.1	30.2	24.7	29.1	30.7	34.2	33.8	42.3
Liquefied petroleum	2711	36.1	33.8	34.5	37.7	45.2	39.2	45.8	42.2	44.7	34.9
Ethylene	3901	1.7	1.3	1.4	1.1	1.9	2.0	2.7	3.2	3.3	3.8
Live bovine animals	0102	2.4	2.7	1.5	1.0	1.3	1.4	0.3	–	0.3	0.9
Non-crude petroleum	2710	1.0	0.9	1.0	1.3	0.9	0.6	0.7	0.6	0.7	0.9
Fresh bovine meat	0201	2.0	3.0	3.3	2.0	2.3	2.7	1.6	1.9	1.5	0.9
Wood pulp	4703	1.4	1.9	1.7	1.2	1.0	1.0	0.8	0.7	0.7	0.8
Acyclic hydrocarbons	2901	0.3	0.3	0.1	0.2	0.1	0.2	0.4	0.4	0.5	0.7
Particle board	4410	0.6	1.2	1.5	0.7	0.6	0.8	1.1	1.6	1.0	0.6
Cyclic hydrocarbons	2902	0.4	0.4	0.5	0.9	0.9	1.1	0.8	0.7	0.6	0.6

exported roughly equivalent amounts of each product to the US until 2000; then, in 2001, sales of liquefied petroleum increased significantly. By 2006, shipments of crude petroleum had surpassed those of liquefied petroleum, totalling more than 42 percent of Alberta's American exports. Other products, such as ethylene, have enjoyed steady growth over the past decade, reaching a high of 3.8 percent of US exports in 2006. Imports from the US are dominated by five sectors. The most consistent import is computers, with shipments above $300 million since 1998. Passenger vehicles have remained stable at approximately $200 to $300 million since 1992, notwithstanding reductions to below $100 million in 1997 and 1998. Helicopters, airplanes, and spacecraft topped $900 million in 2005.

Unlike Ontario and Quebec, Alberta has increased its scale of trade with Mexico, though it is limited to a small number of sectors. Indeed, since 2000 one product group, meat of bovine animals, has dominated Alberta's exports to Mexico. This sector has grown from less than $10 million in 1998 to more than $260 million in 2004. There are only three other sectors with exports to Mexico in the $60 to $130 million range: wheat, polymers of ethylene, and rape or colza seed. In terms of imports, Mexico is now the second leading exporter to Alberta, though it is dominated by one sector. Since 2000 Alberta has imported close to $140 million annually of "electrical apparatus" for telephones. This is significant because trade in this sector was at or below $20 million between 1992 and 1999. No other import from Mexico exceeds $40 million.

Not surprisingly, Alberta's trade with specific US states focuses on energy. In fact, more than thirty-six states import more than $100 million from the province, and thirteen of them exceed the $1 billion mark. The top three export destinations – Illinois, Washington State, and New York – are consistently at or above $6 billion. These figures are driven by imports of liquefied petroleum or hydrocarbon gases and/or crude petroleum oils. The only state near the top ten not historically dominated by oil and gas is California. Ranked eleventh, the state's major purchases from Alberta are wood particleboard, which increased from approximately $100 million in 1999 to more than $330 million in 2004; and meat of bovine animals, with levels between $140 million and $260 million since 1997.

British Columbia

British Columbia has long been the least dependent province in terms of trade with the United States. Sales to the US, however, have grown considerably since 1999. In 1995, provincial exports to the US totalled approximately $14.5 billion; by 2005, however, annual trade had levelled off at about $23 billion. Exports to Japan peaked in 1995 at just over $6.8 billion before declining to $4.2 billion in 2005. Despite these reductions, Japan continues to be BC's second largest trading partner. Another consistent provincial

export market is South Korea, with trade meeting or exceeding $900 million since 2004. In recent years South Korea has been surpassed by China, with BC increasing its exports there from about $500 million in 1994-95 to more than $1.3 billion in 2005. BC imports are dominated by the United States, with levels reaching $14.1 billion in 2005. The second major exporter to BC is Japan, with sales of about $7.1 billion in 2002. The third ranked exporter is China, which had raised its share of the provincial import market to approximately $7.5 billion by 2005.

As Table 4 makes clear, a handful of natural resources dominate BC's trade with the United States. Not surprisingly, the most important export is lumber, with trade ranging between $3 and $5 billion since 1993. The other significant export, liquefied petroleum, peaked at $3.9 billion in 2005. The most consistent import from the US dating back to 1993 is passenger vehicles, with yearly sales ranging between $200 and $500 million. Another import with steady growth since 1999 has been non-crude petroleum. Three other US imports exceeding sales of $300 million in 2005 were electrical energy, trucks, and tractors.

There is little evidence that NAFTA has greatly altered BC's trade relationship with Mexico. Mexico is currently the province's eleventh-ranked export market, with only three sectors above $50 million: molybdenum ore, coal, and uncoated kraft paper. Mexico is BC's fifth-ranked source of imports, though these remain at low levels. Before NAFTA, BC's major import is motor vehicles, with shipments reaching about $80 million in 2001 before returning to $60 million in 2005. The other major import sector for BC is television receivers. Trade in this sector was around $10 million in 1993 but had expanded significantly to more than $180 million by 2005.

BC's number one export market in the United States is Washington State. Not surprisingly, trade with Washington continued to increase after BC's sales to Japan declined. BC exports to Washington are dominated by energy and lumber. The province consistently ships roughly $2 billion in liquefied petroleum; sales of lumber range between $400 million and $650 million annually. California is the province's second-ranked American market, accounting for close to 6 percent of provincial exports. Primary exports to California include newsprint, wood particleboard, fresh and chilled fish, lumber, and uncoated paper and paperboard, with sales between $100 and $200 million in 2005.

Manitoba

Manitoba's traditional export market is the United States. Indeed, the percentage of Manitoba's exports that went to the US increased from 62.8 to 76.3 percent between 1992 and 2003. During the same period, Japan was Manitoba's second-ranked trading partner, fluctuating between 5 and 7 percent of overall provincial exports. The province's primary sales to Japan

Table 4

BC exports to the United States – total trade (percent)

Product	HS4 code	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Lumber > 6MM	4407	33.1	27.2	26.0	19.6	20.9	22.5	19.0	24.4	21.1	20.4
Liquefied petroleum	2711	4.8	5.9	6.3	11.0	11.9	9.2	14.6	12.0	17.1	14.3
Wood pulp	4703	5.0	3.1	3.6	3.5	2.7	2.6	2.7	2.8	2.9	3.3
Particle board	4410	1.5	1.7	2.0	1.6	1.5	1.7	3.0	3.3	2.4	2.3
Windows and doors	4418	3.0	3.7	3.9	2.3	2.5	2.6	2.3	2.3	2.2	2.3
Uncoated paper	4802	1.7	2.1	1.9	1.7	2.1	2.5	2.3	2.1	2.0	2.2
Zinc/alloys	7901	1.9	1.8	1.7	1.4	0.7	1.1	1.2	1.3	0.9	1.8
Fresh/chilled fish	0302	1.7	1.7	1.6	1.2	1.4	1.8	1.7	1.3	1.3	1.7
Newsprint in rolls	4801	3.1	2.9	2.5	2.1	2.1	1.9	1.8	1.4	1.5	1.5
Electricity	2716	1.4	1.8	2.2	8.4	9.0	1.3	1.9	1.3	2.9	1.5

are rape or colza seed ($100 to $200 million) and meat of swine (around $200 million in 2005). Manitoba consistently purchases over 85 percent of its imports from the US. China is Manitoba's second major source of imports. Other importers to the province include Germany and Mexico.

Of all Canadian provinces, Manitoba has the most diverse export profile vis-à-vis the United States (Table 5), largely because it serves as a gateway to the industrialized US Midwest. Manitoba's top-ranked exports are crude petroleum and electrical energy, with sales of over $500 million in 2005. Other exports in the $200 to $400 million annual range include medicaments, buses, helicopter and airplane parts, motor vehicle bodies, unrefined copper, and live swine. Manitoba's imports are equally diversified but at lower levels. The number one import is passenger vehicles, with totals between $300 and $450 million since 1992. Motor vehicle parts are also typically between $200 and $300 million.

Though Manitoba's trade with Mexico has steadily increased in the post-NAFTA period, it has not dramatically altered the province's export/import profile. Mexico is now the province's fifth-ranked export destination, with totals climbing from 0.9 percent of overall sales in 1992 to a high of 2.6 percent in 2004. Exports are dominated by three commodities: wheat, meat of swine, and rape or colza seed. Imports also increased following NAFTA so that Mexico is now the province's fourth-ranked importer, behind the United States, China, and Germany. Even so, the goods Mexico exports to Manitoba amount to less than $20 million annually. They include bananas, women's and girls suits, engine parts, electric motors and generators, motor vehicle parts, furniture, and insulated wire and cable.

Geography dictates that the top four US states for Manitoba exports are Minnesota, North Dakota, Michigan, and Illinois. The number one export to Minnesota is electricity, with sales peaking at $583 million in 2006. Exports of motor vehicle bodies to that state have ranged from $150 million to $250 million since 2000, up from approximately $110,000 in 1994. Motor vehicle body exports also dominate trade with North Dakota, whereas Michigan's biggest import is unrefined copper. Manitoba's main source of imports, across a wide range of sectors, is Illinois; in 2005 imports from that state totalled roughly $1.2 billion. Perhaps surprisingly, Manitoba imported more than $200 million in 2003 from fifteen other US states. Trade with Minnesota mainly involves passenger vehicles.

Saskatchewan

Saskatchewan also trades less with the United States than most other provinces. In fact, the province's exports to the US (as a percentage of total trade) were as low as 42.5 percent in 1992, though this had increased to 65.5 percent by 2006. Historically, China has been the second-ranked destination for Saskatchewan exports, with a high of 12.4 percent in 1992. As the province's

Table 5

Manitoba exports to the United States – total trade (percent)

Product	HS4 code	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Crude petroleum	2709	8.0	5.0	7.6	7.4	8.7	9.8	6.8	5.5	7.2	8.9
Electricity	2716	5.7	5.8	5.2	5.5	7.0	5.0	3.7	5.2	7.5	7.3
Medicaments	3004	0.3	0.4	0.5	0.6	0.6	0.5	1.1	1.8	1.5	6.3
Copper	7402	3.9	5.9	5.1	2.8	4.7	5.0	4.8	3.9	3.9	4.8
Live swine	0103	3.0	2.5	2.5	2.6	3.2	3.1	3.8	4.8	5.5	4.3
Buses/transport	8702	2.7	3.0	2.4	0.03	0.02	0.1	2.0	3.4	3.1	3.1
Airplane parts	1514	4.7	7.4	7.6	4.6	5.0	3.4	2.5	2.5	2.6	2.8
Potatoes/frozen vegetables	2004	1.6	2.2	2.1	1.5	1.8	2.0	2.8	3.3	3.1	2.7
Bodies/vehicles	8707	2.9	3.1	4.0	4.7	5.6	4.1	3.3	2.6	3.0	2.6
Furniture	9403	3.0	2.9	3.0	2.9	3.5	3.7	3.6	3.4	3.1	2.4

exports to the US have increased, however, trade with China has diminished, sinking to a low of 3.1 percent in 2006. Wheat long dominated Saskatchewan's exports to China, though sales in this sector have decreased substantially since 1996. Purchases of mineral and chemical fertilizer, on the other hand, remain high – between $300 and $435 million per year since 2000. Japan has a more stable trade relationship with Saskatchewan, importing wheat, rape or colza seed, and mineral and chemical fertilizers. When it comes to imports, however, the US dominates; close to 90 percent of Saskatchewan's imports come from there.

Table 6 makes it clear that Saskatchewan has a resource-based economy. Specifically, the province's trade relationship with the US is based on two commodities. Exports of crude petroleum peaked at $5.8 billion in 2006. Shipments of mineral or chemical fertilizer – also a key export to China and Japan – have remained stable at approximately $1 billion since 1998. Over the past decade Saskatchewan's third- and fourth-ranked exports to the US have been bovine animals and wheat; both, however, have declined sharply since 2003. Saskatchewan's imports from the United States encompass a diverse range of goods; that said, the dominant products are passenger vehicles, tractors, harvesting and threshing equipment, self-propelled bulldozers, and retail pesticides.

NAFTA has not significantly altered Saskatchewan's overall trade with Mexico. In 1992 Mexico was Saskatchewan's seventh-ranked export destination behind the US, Japan, China, Brazil, India, and South Korea. Over the following decade Mexico remained positioned between sixth and eighth, though it did climb as high as fourth in 2003. Wheat and rape or colza seed are Saskatchewan's principal exports to Mexico, with sales in those sectors totalling more than $200 million in 2005. Saskatchewan imports a number of products from Mexico, but only three exceeded $3 million in 2005: tractors, electrical transformers, and iron and steel tubing and pipe fittings.

Montana, Wyoming, and Illinois are the top three US states for Saskatchewan exports. In Montana and Wyoming export trade is tied to crude petroleum, with sales between $1 and $1.5 billion in 2005. Regarding Illinois, crude petroleum is Saskatchewan's number one export, though mineral and chemical fertilizers run a close second, both at approximately $350 million. Minnesota is ranked fourth, with sales of crude petroleum and mineral and chemical fertilizers dominating trade. The province's number one source for US imports is Illinois, with annual shipments between $500 and $750 million, consisting of bulldozers, threshing and harvesting equipment, and trucks. Other key exporters are Texas (more than $300 million in 2003) and Wisconsin and Iowa (around $200 million each).

New Brunswick

New Brunswick has significantly expanded its bilateral trade with the United

Table 6

Saskatchewan exports to the United States – total trade (percent)

Product	HS4 code	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Crude petroleum	2709	34.1	26.1	29.0	41.8	36.9	36.7	46.3	48.1	49.8	55.9
Fertilizers/potash	3104	15.6	20.6	19.9	14.5	15.2	15.7	16.2	13.7	15.9	13.4
Tubes and pipes	7305	0.1	0.2	0.4	0.9	1.1	1.1	0.6	1.9	1.1	1.9
Particle board	4410	0.3	0.7	0.8	0.4	0.1	0.6	1.7	3.2	3.4	1.8
Uranium	2844	2.3	1.4	0.8	0.8	1.8	1.0	1.1	1.0	1.1	1.6
Fertilizers nitrogenous	3102	1.4	1.9	2.5	1.1	1.5	2.0	1.3	1.5	1.6	1.7
Canola and colza	1514	1.1	1.5	1.7	1.3	1.1	1.3	1.2	1.3	1.1	1.5
Live bovine animals	0102	3.7	3.0	2.3	1.3	2.8	5.4	1.1	–	1.8	1.5
Wheat	1001	4.9	4.2	4.1	2.3	3.2	3.0	0.2	0.8	0.6	1.4
Oats	1004	2.7	1.7	1.5	1.3	1.6	1.4	1.0	0.8	0.9	1.2

States over the past fifteen years. In 1992 it shipped 64.3 percent of its total exports to the US market. By 2006 this bilateral relationship had increased to 90 percent. During this period Japan was New Brunswick's second-ranked export market, reaching a high of 7.4 percent of total exports in 1995. By 2006, however, that amount had fallen to 0.5 percent, placing Japan on par with Brazil, India, Poland, and Belgium. Trade with the United Kingdom also suffered a significant decline, from a high of 6.3 percent of total trade in 1992 to less than 1 percent in 2006. New Brunswick's exports to the United States (Table 7) are dominated by non-crude petroleum, which totalled more than $5.6 billion in 2005. No other export regularly exceeds $550 million. Trade with Japan is on a much smaller scale, with sales of crustaceans (live or chilled) averaging between $40 and $80 million annually. Exports to the UK include chemical wood-pulp soda and newsprint.

New Brunswick's imports are more diversified relative to other Canadian provinces. US imports, for example, reached a high of 50.9 percent of total imports in 1999 before dropping to a low of 27.3 percent in 2006. Norway and Saudi Arabia have long been the province's second- and third-ranked sources of imports, though Norway has now replaced the US in first place. The main import from the United States is live and fresh crustaceans, with sales of approximately $230 million in 2002. New Brunswick's other bilateral relationships are dominated by crude petroleum. Imports of crude from Norway have maintained levels between $1.4 and $2.1 billion since 2000. Imports from Saudi Arabia are also now consistently in the $1.5 billion range. In 2003 Equatorial Guinea became the province's fourth-ranked source of imports, accounting for 5.7 percent of total imports – again, this was crude petroleum. Before 2002 New Brunswick had no trade relationship with that country. Angola also became an oil exporter to New Brunswick in 2005, with sales exceeding $190 million.

New Brunswick and Mexico have always had a marginal trade relationship. Indeed, Mexico does not rank consistently in the province's top ten for either exports or imports. The two most important US states for New Brunswick exports are Maine and Massachusetts. In 2003 Maine imported $3.1 billion worth of goods from the province; $2.1 billion of this was non-crude petroleum. Exports in this sector, however, had declined to $2.4 million by 2006. Electricity, lumber, and chemical wood pulp are consistently the province's other three main exports to Maine, with sales between $130 and $160 million. Trade with Massachusetts is also dominated by non-crude petroleum: shipments of that commodity totalled more than $560 million in 2006, with sales of crustaceans coming second at about $220 million. In terms of imports, Maine is the number one source of goods to New Brunswick, with trade ranging between $450 and $500 million; about $200 million of that consists of crustaceans. Texas is ranked second, with sales dominated by ether and ether alcohol.

Table 7

New Brunswick exports to the United States – total trade (percent)

Product	HS4 code	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Non-crude petroleum	2710	29.9	19.8	22.2	30.5	41.5	41.5	47.2	48.9	58.4	57.7
Lumber > 6MM	4407	12.7	13.4	15.0	10.4	8.0	7.1	5.7	6.8	5.1	4.0
Crustaceans	0306	3.2	3.1	4.0	4.3	4.0	4.1	4.4	3.8	3.3	3.4
Coated paper	4810	8.8	11.4	9.5	8.6	4.3	4.4	4.9	4.0	0.6	2.9
Uncoated paper	4802	1.5	2.0	1.4	1.4	2.7	2.8	2.0	2.3	3.1	2.7
Liquefied petroleum	2711	0.1	0.1	0.09	1.1	1.2	1.2	1.2	1.4	1.9	2.1
Windows and doors	4418	0.3	0.6	1.2	1.1	1.1	1.3	1.6	2.2	1.9	1.8
Petroleum coke	2713	1.3	1.0	0.6	0.9	0.9	0.8	1.2	1.6	1.0	1.6
Chemical wood pulp	4704	1.8	2.3	2.0	2.3	1.8	1.4	1.7	1.4	1.2	1.4
Crustaceans/prepared	1605	2.0	2.1	2.3	2.3	2.1	1.9	1.8	1.4	1.4	1.4

Nova Scotia

Nova Scotia has shipped between 75 and 80 percent of its total exports to the United States since 1999. Until recently, Japan was the second-ranked export destination with shipments consistently falling between 2.3 and 4.5 percent. In 2006, Japan gave way in second place to the United Kingdom, which accounted for 3.1 percent of total sales. Rounding out the top five export destinations for Nova Scotia are China, France, and India. Exports to the US are dominated by liquefied petroleum, with sales between $0.8 and $1.3 billion since 2000 (see Table 8). Interestingly, there was almost no bilateral trade in this sector before 1999. The second major export to the US is pneumatic tires, at $650 to $700 million. Historically, the UK's imports from Nova Scotia have included chemical wood-pulp soda. Chemical wood-pulp soda and molluscs dominate exports to France.

Imports to Nova Scotia, as with New Brunswick, reflect a lack of reliance on the United States. In fact, Germany is the number one source of provincial imports, with totals ranging between 25 and 30 percent since 1999. The UK, which has consistently shipped between 13 and 15 percent of Nova Scotia's overall imports, ranks second. Norway, Sweden, and Cuba follow, accounting for between 4.9 and 8.1 percent of Nova Scotia's imports in 2006. The US is now ranked ninth, with levels dropping to 4.1 percent in 2006. Imports from Germany and Sweden are overwhelmingly dominated by passenger vehicles and automobile parts. These statistics are somewhat misleading, however, given that Nova Scotia is the point of entry for European producers such as Mercedes Benz, Saab, and Volvo. Imports from the US are more diverse, including non-crude petroleum, passenger vehicles, and machinery.

NAFTA has not increased Nova Scotia's trade with Mexico. Exports to Mexico have ranged between 0.1 and 0.9 percent of overall exports since 1998. Mexico is also not one of the top ten importers to the province. Nova Scotia's number one export destination in the United States is Massachusetts, with trade exceeding $1.8 billion in 2005. The two sectors that dominate this relationship are liquefied petroleum and crustaceans, with sales of approximately $1.3 billion and $500 million respectively in 2005. The only other US state with provincial exports over $200 million is South Carolina, which imported more than $355 million from Nova Scotia in 2005, consisting primarily of tires. Other top export destinations include Michigan (tires), Texas (crude petroleum), and Maine (crustaceans). Given the less than dominant import relationship with the United States, Nova Scotia has an eclectic range of US trading partners, including Texas, Louisiana, Connecticut, California, and Ohio. Imports from all of these states, however, do not exceed $100 million in any sector.

Table 8

Nova Scotia exports to the United States – total trade (percent)

Product	HS4 code	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Liquefied petroleum	2711	0.03	–	–	18.1	24.9	16.9	25.3	23.1	28.7	22.0
New tires of rubber	4011	22.5	21.6	21.2	17.8	14.7	16.9	14.4	15.1	14.5	17.9
Crustaceans	0306	5.7	6.3	7.1	6.8	7.6	8.8	8.8	8.2	7.1	8.0
Lumber > 6MM	4407	3.6	5.6	7.9	5.6	4.2	4.8	3.6	5.0	4.5	4.8
Non-crude petroleum	2710	0.5	1.4	0.9	0.9	2.0	1.1	1.5	3.1	1.0	3.0
Chemical wood pulp	4703	1.5	1.1	1.8	2.7	2.7	2.8	2.7	2.6	2.0	2.9
Gypsum	2520	2.6	2.5	2.7	2.2	1.7	1.5	1.5	1.8	2.0	2.2
Vehicle parts	8708	0.1	0.3	0.7	1.1	1.5	1.8	1.8	1.9	1.8	2.1
Fresh/chilled fish	0302	2.5	2.6	2.3	2.3	2.0	2.2	1.9	1.7	1.7	2.0
Molluscs	0307	3.9	3.8	3.5	3.4	2.3	2.7	2.2	2.1	1.6	1.9

Prince Edward Island

The most significant difference between PEI and other Canadian provinces is its small scale of trade. The United States dominates the island's exports. PEI's bilateral relationship with the US has increased significantly since 1992, when trade totalled less than 60 percent of PEI's exports. Since 2000, sales to the US have reached levels close to 90 percent, reducing all other markets to 1.5 percent or less. As with other provinces in Atlantic Canada, Mexico is not ranked in the top ten. PEI's exports to the US are dominated by frozen potatoes, which account for $150 to $200 million in sales, and live crustaceans, which account for $50 to $100 million (Table 9). Fresh potatoes and molluscs were between $35 and $45 million in 2005. PEI has also developed an export market in turbojets and turbopropellers, though this declined to $18 million in 2005 from a peak of $30 million in 2001. In terms of US states, PEI exports most of its goods to Massachusetts and Maine. Once again, potatoes and crustaceans dominate that trade.

In terms of overall imports, PEI relies on the United States, though sales are tied to a diverse range of goods. In 2005 the province imported $21 million in electric generating sets. Trade in that sector did not exist prior to 2004. The other primary import in 2005 was fertilizer ($8 million). Other sectors below $1 million included seeds, fruits and spores, liqueurs and spirits, parts for machinery, harvesting and threshing equipment, and transmission shafts. Only two countries accounted for more than 1 percent of PEI's total imports in 2003. France was the source of 1.3 percent of PEI's imports, mainly exported grape wines, with some additional trade in spirits and liqueurs. Mexico is a top ten exporter to PEI; however, the raw figures are low – only $480,000 in 2005. The two dominant imports from Mexico are beer, and spirits and liqueurs. Florida is consistently the number one US importer to PEI, with totals of almost $10 million in 2004. This trade consists almost entirely of fertilizer. In 2006 Maine was the only other state to sell more than $1 million of goods to the province.

Newfoundland and Labrador

Newfoundland and Labrador also relies on trade with the US market, though not as much as other provinces. In 1992, Newfoundland shipped 50.7 percent of its total exports to the United States. In 2002 bilateral trade with the US peaked at 74.2 percent before declining to 55 percent in 2006. In the early 1990s Japan and the United Kingdom were the second-ranked destinations for the province's exports; they were later replaced by China and Germany. Shipments to the US are dominated by crude and non-crude oil, with annual sales of over $1 billion (Table 10). Crustaceans (live, fresh, chilled, or frozen) and newsprint are the other two major US imports from Newfoundland, with trade between $200 and $400 million. Exports to the UK were once dominated by iron ore and newsprint; now they are dominated by

Table 9

Prince Edward Island exports to the United States – total trade (percent)

Product	HS4 code	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Potatoes/frozen vegetables	2004	28.1	28.2	28.8	29.2	35.8	28.3	30.7	30.7	26.1	27.8
Crustaceans	0306	11.5	13.3	17.4	16.0	14.4	20.1	16.9	13.7	13.5	12.4
Potatoes/fresh	0701	7.8	9.7	7.2	4.0	2.3	4.8	5.8	3.5	5.2	7.1
Textured protein	2106	–	–	0.01	–	–	–	–	0.02	3.7	6.6
Crustaceans prepared	1605	8.1	8.6	8.9	9.0	6.4	8.1	6.4	6.9	7.2	5.9
Turbojets	8411	4.9	5.4	3.9	7.1	5.0	4.0	4.1	2.4	2.8	4.7
Molluscs	0307	5.0	5.2	4.3	4.8	5.1	5.0	5.1	4.6	4.7	4.0
Parts of rail vehicles	8607	–	0.2	0.8	0.6	0.1	0.8	1.4	3.2	2.8	2.2
Diagnostic/lab reagents	3822	1.7	1.6	1.7	1.1	0.8	1.1	1.4	2.1	2.0	2.2
Lumber > 6MM	4407	3.2	4.4	4.1	2.4	2.0	2.1	2.0	2.9	2.4	1.3

non-crude petroleum. China has become the province's second-ranked export market; in 2005 it purchased $215 million of iron ore and $125 million of crustaceans. Germany has long imported Newfoundland's newsprint; since 2000, however, it has been importing more iron ore – about $364 million worth in 2005. Mexico is not ranked in the top ten for provincial exports.

Newfoundland's import profile is unique among Canadian provinces in that the United States has never accounted for more than 20 percent of its imports; in 2005 that figure fell as low as 7.9 percent. Other governments have dominated imports on a cyclical basis. For example, Russia increased its trade from virtually zero in 1992 to over 20 percent of provincial imports the following year. In 2005 Russia was the province's second-ranked importer, accounting for 13.4 percent of trade; however, this declined to 2.9 percent by 2006. Since 2000 the number one importer to Newfoundland has been Iraq, which in 2006 accounted for 57.6 percent of the province's imports – exceeding $1.6 billion. A close examination of Newfoundland's imports makes two things clear: they are dominated by crude petroleum from the US, Russia, and Iraq; and contracts and individual firms have a strong impact on this small provincial economy. As with the other Atlantic provinces, Mexico was not ranked in the top ten for provincial imports.

Regional Economies, Provincial Priorities, and Canadian Trade Policy

The above discussion makes it clear that definitive provincial economies exist within Canadian federalism. The question is whether the provinces' economic priorities have shifted dramatically in response to rising pressures from international markets. It would be a mistake, for example, to argue that global economic developments have had no influence on provincial trade and investment strategies. To do so would be to ignore the fact that Canadian provinces are integrated in different ways into continental and global political economies. This became evident during the 1970s, when the OPEC oil crisis made it obvious that Canada lacked a national economic strategy. These tensions and divergent priorities are equally important today. Some observers have argued that these differences have heightened competition among the provinces as they pursue trade and investment goals; usually in the form of tax concessions, "soft" loans, and other incentives. It has also been pointed out that cross-border regional economies, such as Cascadia (i.e., the Pacific Northwest) and the Great Lakes Basin, reinforce diversified subfederal economic interests.[15]

The preceding review of provincial trade statistics, however, challenges the assumption that external pressures define subfederal trade relations. First and most important, divergent provincial and regional economic interests have long been an element of Canadian federalism. These cleavages predate

Table 10

Newfoundland and Labrador exports to the United States – total trade (percent)

Product	HS4 code	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Non-crude petroleum	2710	46.2	28.3	35.5	39.6	44.6	27.3	44.1	54.6	71.6	74.2
Newsprint in rolls	4801	18.1	17.9	15.0	12.5	15.3	9.2	6.3	6.9	6.1	7.6
Crustaceans	0306	3.3	7.2	12.8	9.3	12.6	7.6	10.8	11.2	7.6	5.5
Crustaceans prepared	1605	1.3	2.7	2.8	2.2	2.6	1.5	1.0	1.5	3.0	1.9
Crude petroleum	2709	–	13.2	15.1	21.6	10.0	46.8	28.7	14.2	–	1.6
Iron ores	2601	19.4	17.0	6.3	5.0	3.7	0.8	0.9	1.8	1.7	1.2
Fish fillets	0304	3.8	5.2	4.8	3.2	3.7	2.1	2.5	2.4	2.0	0.8
Fresh/chilled fish	0302	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.5	0.8
Fish/caviar	1604	0.7	0.6	0.6	0.4	0.7	0.5	0.6	1.2	1.1	0.6
Molluscs	0307	1.5	0.6	0.2	0.2	0.1	0.07	0.02	0.1	0.1	0.2

recent international developments and reflect subfederal political economies entrenched over several generations. In the case of BC, North America is increasingly replacing the Pacific Rim as an influence on that province's trade relations; however, there is no evidence that this has dramatically altered sectoral priorities. For example, BC has succeeded in developing new "niche" markets in the technology sector, but these industries are not reflected in provincial trade statistics, which continue to be dominated by softwood lumber and liquefied petroleum. Alberta has consistently relied on energy and agriculture, with international trade dependent on access to the North American market. The province has also attempted to increase trade with the Pacific Rim, albeit with limited success.[16]

Ontario has long depended on the US market, but it also has a more diversified economy than either BC or Alberta. Besides sectoral trade in automobiles, transportation equipment, and telecommunications, Ontario has an extensive export profile that reflects its strong manufacturing base. Quebec's economy is not as diversified, but it, too, has escaped reliance on one or two primary sectors. The province exports energy and pulp-and-paper products (including newsprint, coated and uncoated papers, chemical pulp, specialty papers, and softwood lumber). Quebec is also home to a number of transportation and aeronautics corporations, software services, industrial equipment manufacturers, and specialty food producers, as well as consulting engineering firms and other professional services. At the same time, however, Quebec faces greater liberalization in previously protected areas, such as textiles and the dairy and poultry sectors.

Some observers question just how different Canada's provincial and regional economies are from one another; the point here is that each of Canada's provinces has long had its own distinct economic priorities. Not surprisingly, the fragmented nature of Canada's economy has had a direct impact on Canadian foreign trade policy. It follows that provincial sectoral interests can provide us with insight into this country's inconsistent position on liberalization. Energy providers in Alberta want greater market access to the US as well as increased trade liberalization. Ontario's automotive sector desires freer trade, but only under strict rules of origin as set down in the Auto Pact and NAFTA. The aeronautics industry in Quebec demands protectionism – an approach that is already being challenged by other states, such as Brazil. Canada's softwood lumber exports are so contentious that they are purposely omitted from foreign trade agreements, leaving the issue to be resolved through federal-provincial consultation, Canada-US negotiations, and international dispute settlement mechanisms. Finally, there is the reality that regional sectoral interests are not monolithic; different producers in a given sector often have divergent goals. The result is a complicated policy process in which multiple state and non-governmental actors compete for influence.

The Economic Decentralization of Canadian Federalism

Questions of economic centralization and decentralization have arisen in the Canadian federalism literature for generations.[17] More recently this debate has shifted to include international considerations. Ian Robinson has suggested that intrusive international pressures have the potential to centralize Canadian federalism as Ottawa seeks to guarantee provincial compliance with international trade commitments.[18] Courchene has pointed to the benefits of North American integration. Others, such as Garth Stevenson, have noted the relevance of provincial jurisdiction in international negotiations.[19] The rest of this chapter briefly explores these questions in relation to fiscal policy, regional and industrial development strategies, and natural resources. In doing so, it supports the argument that provincial economic autonomy was established prior to recent intrusive neoliberal pressures.

The Relevance of Fiscal Policy

Regarding taxation, Ottawa historically controlled a highly centralized system, one that allowed for redistributive transfers to the provinces. In 1957 a series of "tax rental" agreements were negotiated that introduced a tax-sharing arrangement based on taxes collected within specific provinces. In 1962 the Federal-Provincial Fiscal Arrangements Act replaced the previous tax rental arrangement. Under the new system, Ottawa transferred personal income taxation to the provinces. Since then, fiscal relations in Canada have been based increasingly on the transfer of "tax room" to the provinces.[20] Additional tax points were transferred in 1967 in lieu of previous cash transfers for post-secondary education. In 1977 this process culminated in the establishment of Established Programs Financing (EPF), which granted further tax room to the provinces.

Besides new tax-collection agreements, Ottawa initiated an increasingly decentralized approach to federal-provincial shared-cost programs. After the Second World War the federal government offered a series of conditional grants to persuade the provinces to establish programs for public health services, welfare assistance, and health care. "Cost matching" ensured that Ottawa would reimburse the provinces 50 cents for every dollar spent provided that federal standards were met. In the 1960s new programs for medical care and welfare assistance were introduced; once again, these were funded by conditional grants. This time, however, owing to the provinces' demands for flexibility, the conditions attached to these funds, under the Canada Assistance Plan (CAP), were less rigorous. In 1977 the EPF granted further tax points to the provinces but also established a series of "block grants" for health care that came with even fewer conditions for provinces. The existing CAP program was not altered by the EPF.[21]

The 1981 federal budget initiated a reduction in EPF funding. This reduction would remain in place for the next fifteen years. As well, CAP suffered

a significant reduction in federal contributions during the 1990s. In 1996, as part of a consolidation effort, health, education, and social assistance were combined in a new block-funding arrangement known as the Canada Health and Social Transfer (CHST). The CHST put an end to the EPF and CAP. Under the new regime, the provinces were given flexibility for program delivery; also, most funding was replaced with expanded tax room, which meant that the provinces would be paying for services by occupying departed federal tax space. Almost immediately, there erupted a series of federal-provincial disputes over social programs. One of the most controversial involved Alberta premier Ralph Klein's decision to offer his province's welfare recipients one-way bus tickets to BC. The BC government responded by imposing residency requirements, which Ottawa then prohibited. In response to this and other developments, in 1999 funding for the CHST was changed to a per capita basis.[22]

Health care remained a significant issue after the CHST was implemented. Ottawa insisted on national standards as outlined by the Canada Health Act (it did not insist on this for social assistance programs). Not surprisingly, the provinces were less than enthusiastic about this, especially given that public discontent over health care was often directed at provincial governments. The ensuing controversy led to the Social Union Framework Agreement (SUFA), signed in February 1999. This agreement did not allow provinces to opt out of programs; however, it did lead to a federal-provincial health accord, signed in September 2000, that committed Ottawa to $15.5 billion in increased spending in 2000, $18.3 billion in 2001, and a total of $21 billion by 2005. A subsequent health deal negotiated in February 2003 increased that figure to $27 billion.[23] Despite these changes, Alberta, BC, and Ontario imposed individual health-care premiums tied to income; these were designed to pressure Ottawa for greater funding.[24]

In February 2006 the Liberal government of Quebec announced that it would pay for certain private surgeries (namely, cataracts and joint replacements) if the public system could not provide adequate service within six months. This program was in response to an earlier 2005 Supreme Court ruling, *Chaoulli v. Quebec (Attorney General),* that endorsed the funding of medical procedures by private health insurance after reasonable wait periods had passed.[25] Opponents of the plan contended that it violated the Canada Health Act, but there was limited opposition from the new Conservative government of Stephen Harper.[26] A month later, Alberta announced further health-care reforms that even Klein conceded might violate the Canada Health Act.[27] Under Alberta's proposals, doctors would be required to work in both the public and private sectors and patients would be able to pay for faster access to health care. This time, Harper questioned Alberta's proposals, suggesting that Quebec had the better model.[28] Ed Stelmach, Klein's replacement, has yet to announce specific plans related to health care in Alberta.

Regional and Industrial Development Strategies

Regional and industrial development strategies strongly suggest a long-term trend toward the decentralization of Canadian federalism. Since the early postwar years, provinces and other local governments have attempted to attract business and investment by offering economic incentives. These incentives include loans, tax holidays, guarantees for corporate borrowing in the private sector, and direct financial participation by provincial governments. Critics have suggested that these programs have increased the fragmentation of the Canadian economy, besides limiting local governments' ability to provide taxpayer services. Regardless, these provincial and municipal programs grew in popularity during the 1950s and 1960s.[29]

In 1968, when Ottawa established the Department of Regional Economic Expansion (DREE), this issue became a focus of federal-provincial relations. DREE's main task was to coordinate regional infrastructure programs and develop incentives for industrial expansion and relocation. DREE was also responsible for maintaining already existing agricultural and rural development initiatives. After the 1972 federal election, industrial incentives were de-emphasized in favour of coordinated federal-provincial trade and investment strategies. General development agreements (GDAs), which called for the implementation of jointly funded and coordinated regional development programs, were negotiated with every province except Prince Edward Island (which had a pre-existing arrangement with Ottawa). In 1984, DREE was replaced by the Department of Regional Industrial Expansion (DRIE), which took over much of the former Department of Industry, Trade, and Commerce. Several new agreements, which replaced the old GDAs, were negotiated between Ottawa and the provinces.[30]

Despite these initiatives, Ottawa failed to establish a harmonized national industrial strategy. In 1984, after a Conservative government was elected, the agencies responsible for regional development underwent another period of transition. By the end of the decade, the Atlantic provinces and Western Canada were complaining that DRIE was biased in favour of Central Canada. Ontario's strong economic performance during those years only strengthened these complaints. In response, the Mulroney government established the Atlantic Canada Opportunities Agency (ACOA) and a new department responsible for Western Diversification (WD). To address concerns in Central Canada, Ottawa also established Federal Economic Development for Northern Ontario (FEDNOR) and the Department of Industry, Science, and Technology (DIST), which focused on Ontario and Quebec. A subsequent $820 million accord was signed with Quebec; this amount was increased by $283 million in 1989. Jean Chrétien's election as prime minister resulted in a review of many of these programs as part of the government's fiscal restraint efforts. As a result of that review, ACOA suffered cuts to program spending of approximately 40 percent. Then in 2000 much of ACOA's funding was

restored in advance of the upcoming federal election.[31] The current Harper government has maintained a regional approach to running these programs. ACOA is the responsibility of Peter MacKay, the Minister of both National Defence and the Atlantic Canada Opportunities Agency. Rona Ambrose, the Minister of Intergovernmental Affairs and Western Economic Diversification controls WD, and FEDNOR is under the mandate of Industry Canada.

Natural Resources and Federal-Provincial Conflict

Natural resources have had a decentralizing influence on Canadian federalism. Provincial control in this policy area was established by Section 109 of the British North America (BNA) Act, which granted lands, mines, and minerals to Nova Scotia, New Brunswick, Ontario, and Quebec. Other provinces were extended similar control on entering Confederation. The Prairie provinces, however, were not granted this jurisdictional authority until 1930, and only after political and populist pressure from that region. Ownership of natural resources guaranteed a source of revenue for provincial governments; in early years it also contributed to provinces' economic diversification. As Donald Savoie has pointed out, "since resources are, in practice, very unevenly distributed, section 109 made a major contribution to the much-discussed phenomenon of regional disparities."[32]

Ontario was one of the first provinces to benefit from resource control. By the nineteenth century the provincial government had placed considerable restrictions on the harvesting of timber on Crown lands. In later years, most provinces shifted their attention to the production of hydro-electric power. Concerned about competition from Quebec and the United States, the Ontario government pioneered the use of hydroelectricity as an affordable source of power for the manufacturing sector. Around the same time, other provinces – Saskatchewan, Manitoba, New Brunswick, Quebec, BC – developed local power supplies. Not surprisingly, the export of hydro and thermal electricity quickly became a symbol of provincial control over energy resources.

But when it comes to the decentralizing impact of energy policy, there is no better example than the oil-and-gas sector. Crude oil production in Canada began with the opening of the Leduc oil field near Edmonton in February 1947. Ever since, Alberta has produced as much as 80 percent of Canada's oil and gas. Relations between Ottawa and Alberta were generally cordial in the early years of production. Though imported oil was less expensive, the federal government actively developed markets for the province's petroleum products.[33] During the OPEC oil embargo of the 1970s, however, world prices soared. For Alberta the oil crisis represented an opportunity to raise domestic prices to increase profits for local companies (and royalties for the Progressive Conservative government). Ottawa, however, declared that the domestic price of oil would be kept below international levels to

ensure that the Canadian market had guaranteed access to affordable energy. These guidelines were institutionalized by Parliament in 1975 with legislation granting the federal cabinet the right to set prices for oil transported across provincial borders.[34]

Pierre Trudeau's re-election in 1980 and his Liberal government's decision to implement the National Energy Program (NEP) further damaged relations between Ottawa and Alberta. The NEP allowed for a gradual increase in domestic prices; however, it limited Alberta's ability to raise prices to international levels. The NEP also implemented a series of federal taxes on profits in the oil-and-gas industry and provided financial incentives for the exploration of alternative oil supplies in northern and offshore locations.[35] Not surprisingly, Alberta condemned the NEP and threatened to reduce its supplies of oil and gas to drive up domestic prices. Western separatist movements also gained support within the province. At the same time, the US government attacked the NEP as a protectionist subsidy that violated existing trade laws. Owing to these pressures, Ottawa negotiated a new agreement with Alberta in September 1981 that raised domestic oil prices and promised a number of energy-related megaprojects, including the extraction of synthetic oil from the province's tar sands. In 1985 Mulroney sponsored the Western Accord, which eliminated the NEP. As Donald Smiley suggested at the time, "perhaps never in the history of Confederation has the economic dominance of the centre been so effectively challenged by the peripheries."[36]

From the preceding discussion, two general conclusions can be reached regarding the economic decentralization of Canadian federalism. First, domestic considerations – often in conjunction with international developments – continue to affect federal-provincial relations in Canada. Second, and perhaps more important, Ottawa has a limited capacity to develop independent initiatives aimed at controlling Canada's economy. This does not mean that Ottawa has lost all ability to coordinate economic initiatives. Here many critics point to the Agreement on Internal Trade (AIT) and SUFA as examples of renewed federal-provincial cooperation. Overall, though, a review of the long-standing tensions related to fiscal policy, regional development, and natural resources makes it difficult to deny that over the decades, the Canadian federation has become decentralized in economic terms. So when examining the impact of international pressures on Canadian federalism, it must be remembered that decentralizing trends are not solely attributable to external developments; they are also related to a number of long-term domestic ones.

Conclusion

An analysis of subfederal trade patterns underscores the fact that Canada has specialized provincial political economies and that the provinces have specific sectoral interests. Also, the statistics provided confirm that the

provinces' economic interests predate increasingly intrusive international trade commitments. This is not to suggest that global developments are irrelevant to Canadian provinces; rather, it highlights a level of provincial autonomy that some observers questioned in the aftermath of NAFTA and the World Trade Organization (WTO). It follows that provincial economic interests have implications for Ottawa when it comes to negotiating and implementing international trade agreements. Specifically, the provinces pressure Ottawa to represent the priorities of non-central governments. Given that some sectors benefit from greater market access, while others want to maintain protectionist barriers, Canada often articulates a contradictory position on liberalization. Yet there is also evidence that the ongoing decentralization of Canadian federalism is more closely tied to domestic economic developments than to neoliberal pressures in the global economy. A review of Canada's fiscal policy and regional development programs and of provincial control over natural resources reinforces the fact that Canada's political economy evolved over several decades and is not tied directly to international pressures. As subsequent chapters suggest, these realities are so entrenched in Canada that they contribute to dominant ideas reinforcing Canada's fragmented and specialized economy. BC's lumber, Alberta's oil, Ontario's manufacturing, and Atlantic Canada's fisheries are more than economic realities; they are also tied to concepts of identity within provincial political cultures.