

STATELINE MIDWEST ISSUE BRIEF

● ● ● MIDWEST-CANADA RELATIONS

More than just neighbors: Trade between Midwest's states and provinces is a powerful economic engine

The diagram to the right, which illustrates the sources of parts for one small part of an SUV, provides a good example of the integrated economic relationship between the U.S. and Canada. In other parts of the region, oil or beef cattle play a bigger economic role than manufactured goods, but in every way, the Canadian and American economies are closely tied together.

Christopher Sands, a Canada scholar and senior fellow at the Hudson Institute, says “we are less and less trading partners and more and more business associates.” Canadian and American businesses build things together, Sands says, selling the finished products domestically and around the world.

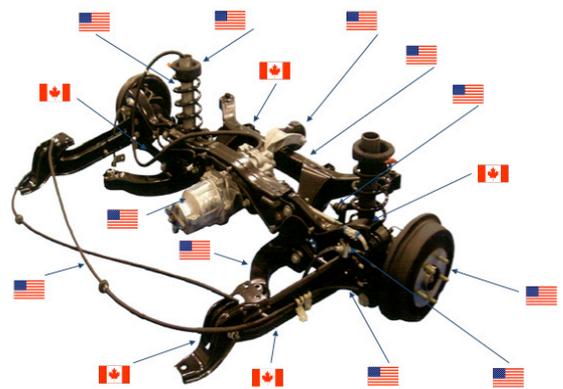
Colin Robertson says that products stamped with the “Made in Canada” label are a good example of the integrated nature of cross-border manufacturing. “Forty percent [of these products] contain U.S.-made content, an indication of the fact that we do more than trade across borders — we make things together,” says Robertson, vice president of the Canadian Defence and Foreign Affairs Institute and a former Canadian diplomat.

The U.S. – Canada partnership is the largest trading relationship in the world. In 2014, bilateral trade in goods reached \$660 billion, and more than \$2 billion in goods and services cross the border each day. Trade with Canada is critically important for the states in the Midwest – Canada is the largest trading partner for every state in the region. More than 11 million jobs – 9 million in the U.S. – depend upon the bilateral trade relationship.

Last year, Midwestern exports to Alberta, Manitoba, Ontario and Saskatchewan totaled nearly \$92 billion, while imports from the four provinces totaled \$139 billion. Nationally, for every dollar that the U.S. spends on Canadian products, Canadians spend more than 89 cents on U.S. products.

Sands calls this “a reasonably profitable, mutually beneficial relationship”. He has compared the Canada-U.S. trade balance to the U.S. trade balance with the European Union (Europeans spend 66 cents on U.S. products for every dollar spent by Americans on EU products) and with China (Chinese spend 26 cents for each dollar they sell to the U.S.).

Often, this trade is circular. Alberta is a major source of oil for the Midwest, where Canadian crude is refined. Yet some of the oil goes back to Alberta in the form



Source: Martinrea International Inc., London, Ontario

of refined oil products like engine additives. Cattle and other animals also cross the border, sometimes several times, as they move between the farm where they were born to feed, and then to slaughter.

By the time a car is finished being manufactured, the various parts may have each crossed the border seven times, according to Kim Hill at the Center for Automotive Research. In fact, cross-border supply chains are in place throughout the manufacturing process. More than 40 percent of daily trade between Canada and the U.S. occurs within the manufacturing process.

Recent efforts to include “Buy America” provisions in proposed federal legislation (and successfully included in the American Recovery and Reinvestment Act) are a challenge to these supply chains. Some U.S. companies, for example, those wanting to sell pipe for use in Recovery Act-funded water/sewer projects, sometimes had to forgo long-time, reliable and less expensive parts suppliers in Canada in order to meet the Buy American provisions of the law.

Buy American provisions can be harmful to U.S. companies in other ways. U.S. firms lost business as suppliers when the Canadian firms with which they had long-standing relationships were excluded from bidding on ARRA-supported projects.



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What role do states and provinces play?

State and provincial governments have a direct role to play in maintaining infrastructure. “The Canada-U.S. relationship is one where business takes care of itself”, says Sands, but he notes that public infrastructure is essential to businesses to get their products to market. “Because of the way we produce things, we are highly dependent on infrastructure,” he says.

States, provinces and local governments are responsible for building and maintaining the roads, bridges and airports that move products between the two countries. Modern, high quality infrastructure is vital to trade and travel. According to the U.S. Department of Transportation, more than 1.5 million trucks entered the U.S at Detroit in 2014, making it the largest commercial crossing in North America. Nationally, over 400,000 people cross the Canada-U.S. border every day.

States and provinces have a role in encouraging cross-border travel and tourism. A decline in cross-border travel beginning in late September 2001 and then as new passport requirements were put in place, had economic costs. Some border states and provinces now offer enhanced drivers licenses, a low-cost alternative to a passport that can be used at land borders. These travel documents can complement cooperative tourism efforts that state and provincial governments, or local governments, can do to promote their region.

The U.S. and Canadian federal governments are currently in negotiations over improving regulatory cooperation. As these discussions among move along, they should include a place at the table for state and provincial governments. Some regulations – certain trucking rules are an example – come from states and provinces. Including state and provincial governments in this discussion might help make for a more seamless regulatory system.

QUICK TRADE FACTS

- » **CANADA** is the top export destination for every state in the Midwest
- » Over 25% of merchandise trade between Canada and the U.S. travels across the **DETROIT-WINDSOR** corridor. It is the busiest commercial crossing in North America
- » **NORTH DAKOTA** sells more goods to Canada than all other trading partners combined. **MICHIGAN, OHIO** AND **SOUTH DAKOTA** sell more goods to Canada than their next 10 (or more) foreign markets combined.
- » **SASKATCHEWAN** receives 42 percent of its total global imports from the Midwest and 41 percent of **MANITOBA'S** imports come from the region. While approximately one-quarter of global imports in **ALBERTA** (26 percent) and **ONTARIO** (24 percent) come from Midwestern states.
- » **ILLINOIS** is the largest destination for **ALBERTA'S** exports in the world; 30% of Alberta's worldwide exports go to just one state, Illinois, a major refining centre for oil sands crude and a hub for oil and gas pipelines. Energy-related commodities and products account for 96% of the province's exports to Illinois

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\$ value of imports to Midwestern states from Canadian provinces (2014, USD)					
State	Alberta	Manitoba	Ontario	Saskatchewan	Total
Illinois	\$33.5 billion	\$1.1 billion	\$6.7 billion	\$2.6 billion	\$43.8 billion
Indiana	\$305 million	\$207 million	\$5.7 billion	\$596 million	\$6.8 billion
Iowa	\$908 million	\$404 million	\$1.1 billion	\$600 million	\$3 billion
Kansas	\$299 million	\$91 million	\$882 million	\$107 million	\$1.4 billion
Michigan	\$6.9 billion	\$140 million	\$41 billion	\$107 million	\$48 billion
Minnesota	\$7.1 billion	\$1.2 billion	\$1.9 billion	\$3.5 billion	\$13.7 billion
Nebraska	\$106 million	\$202 million	\$377 million	\$311 million	\$997 million
North Dakota	\$845 million	\$659 million	\$352 million	\$793 million	\$2.6 billion
Ohio	\$5.5 billion	\$237 million	\$7.8 billion	\$898 million	\$14.4 billion
South Dakota	\$103 million	\$110 million	\$118 million	\$93 million	\$424 million
Wisconsin	\$744 million	\$306 million	\$2.2 billion	\$353 million	\$3.6 billion
Total	\$56.3 billion	\$4.6 billion	\$68 billion	\$9.9 billion	\$139 billion

Sources: Statistics Canada and the U.S. Census Bureau

\$ value of exports from Midwestern states to Canadian provinces (2014, USD)					
State	Alberta	Manitoba	Ontario	Saskatchewan	Total
Illinois	\$5.3 billion	\$1.6 billion	\$8.8 billion	\$986 million	\$16.7 billion
Indiana	\$324 million	\$641 million	\$9.2 billion	\$599 million	\$10.7 billion
Iowa	\$247 million	\$867 million	\$2.1 billion	\$548 million	\$3.7 billion
Kansas	\$250 million	\$185 million	\$1.4 billion	\$175 million	\$2 billion
Michigan	\$127 million	\$288 million	\$22.6 billion	\$153 million	\$23.2 billion
Minnesota	\$299 million	\$1.6 billion	\$2.8 billion	\$482 million	\$5.1 billion
Nebraska	\$115 million	\$255 million	\$1.2 billion	\$253 million	\$1.8 billion
North Dakota	\$633 million	\$863 million	\$293 million	\$790 million	\$2.6 billion
Ohio	\$609 million	\$769 million	\$16.1 billion	\$507 million	\$18 billion
South Dakota	\$60 million	\$173 million	\$233 million	\$97 million	\$563 million
Wisconsin	\$407 million	\$1.1 billion	\$5.3 billion	\$473 million	\$7.3 billion
Total	\$8.4 billion	\$8.3 billion	\$70 billion	\$5.1 billion	\$91.7 billion

Sources: Statistics Canada and the U.S. Census Bureau

This is an updated version of an issue brief that was first published by the Midwestern Office of the Council of State Governments in the fall of 2012. This brief includes the most recent data available.