

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 component of a sport utility vehicle, provides a good example of the integrated economic relationship between the U.S. and Canada.

Ontario provides one part of the car, states such as Michigan and Ohio provide another. And back and forth the car goes until it becomes a finished product.

"We are less and less trading partners, and more and more business associates," says Christopher Sands, a Canada scholar and senior fellow at the Hudson Institute.

The two nations' 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.

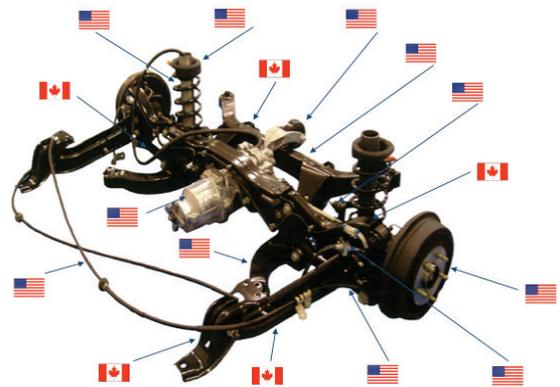
In other parts of the region, oil or beef cattle play a bigger economic role than manufactured goods, but in every way, the Canadian and American economies are closely linked.

The U.S.-Canada partnership is the largest trading relationship in the world. In 2011, bilateral trade reached \$689 billion, with \$1.9 billion in goods and services crossing the border each day. Trade with Canada is critically important for the states in the Midwest — it is the largest trading partner for every state in the region. More than 11 million jobs — 8 million in the U.S. — depend upon this bilateral trade relationship.

Last year, the 11-state Midwest's exports to Alberta, Manitoba, Ontario and Saskatchewan totaled \$82 billion (Canadian dollars), while imports totaled \$120 billion. Most states in the region had positive trade balances with the provinces.

Nationally, for every dollar that the U.S. spends on Canadian products, Canadians spend 78 cents on U.S. products. Sands calls this "a reasonably profitable, mutually beneficial relationship, especially as compared with the 50 cents Europeans spend and 20 cents Chinese spend for each dollar they sell to the U.S."

Often, too, this trade is circular. Alberta is a major source



Source: Martinrea International Inc., London, Ontario

of oil for the Midwest, where Canadian crude oil is refined. Yet some of the oil goes back to Alberta in the form of refined oil products such as engine additives. Cattle and other animals also are moved across the border, sometimes several times, during their lifetimes.

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 sector.

Recent efforts to include "Buy American" provisions in proposed federal legislation (and successfully included in the American Recovery and Reinvestment Act) are a challenge to these supply chains. For example, some U.S. companies wanting to sell pipe for use in Recovery Act-funded water and sewer projects had to forgo long-time, reliable and less expensive parts suppliers in Canada in order to meet this provision.

U.S. companies can be hurt by Buy American provisions as much as they can be helped. For example, when Canadian firms were excluded from bidding on Recovery Act-supported projects, U.S. suppliers that had long-standing relationships with these firms lost business as well.

The new bridge scheduled to be built between Detroit and Windsor has a "Buy North American" content rule, which



The Council of State Governments
Midwestern Office
701 E. 22nd Street, Suite 110
Lombard, IL 60148-5095
Phone: 630.925.1922
Fax: 630.925.1930

email: csgm@csg.org
website: www.csgmidwest.org

could be a new standard for future public works projects.

The role of Midwest's states and provinces

State and provincial governments have a direct role to play in infrastructure — building and maintaining the roads, bridges, pipelines and airports that move products between the two countries and help get these goods to market.

“Because of the way we produce things, we are highly dependent on infrastructure,” Sands says.

The actions of state and provincial governments, too, can influence and encourage cross-border travel and tourism.

Cross-border travel declined after new passport requirements were instituted in the United States following the September 11, 2001, terrorist attacks. In response, some border states and provinces now offer enhanced driver's licenses, a low-cost alternative to a passport that can be used at land borders.

These new travel documents can complement the cooperative tourism-promotion initiatives of state and provincial governments, or local governments.

States and provinces should also be part of ongoing efforts to create a more seamless regulatory system between the two countries. Some business regulations — certain trucking rules are one example — are set by the states and provinces.

The U.S. and Canadian federal governments are currently in negotiations over improving regulatory cooperation, and state and provincial leaders should have a seat at the table.



Article written by Ilene Grossman, the CSG Midwest assistant director who provides staffing services to the Midwestern Legislative Conference Midwest-Canada Relations Committee. She can be reached at 630.925.1922 or igrossman@csq.org.

QUICK TRADE FACTS

» **MANITOBA's** top three export destinations in the U.S. are **MINNESOTA, ILLINOIS** and **NORTH DAKOTA**; 55 percent of all of **Manitoba's** exports to the U.S. go to the 11 Midwestern states.

» Nearly 59 percent of **MANITOBA's** U.S. imports come from the U.S. Four of the province's top five states for imports are in the Midwest: **ILLINOIS** (1), **MINNESOTA** (2), **WISCONSIN** (4) and **IOWA** (5).

» **MANITOBA's** top exports to the Midwest are crude petroleum (being piped through Manitoba from **ALBERTA** and **SASKATCHEWAN**), electricity and live swine; its three largest imports from the Midwestern states are heavy equipment and trucks.

» **SASKATCHEWAN's** top exports to the Midwest are petroleum, potash and canola seed; its top imports from the Midwest are combines and truck tractors.

» Nearly 70 percent of **SASKATCHEWAN's** total U.S. exports go to the Midwest; 58 percent of all U.S. imports to Saskatchewan come from the Midwest.

» **ONTARIO's** top imports and exports with the Midwest are the same: automobiles and motor vehicle parts. This is due in large part to a closely integrated auto supply chain.

» Twenty-four percent of **ALBERTA's** worldwide exports go to just one state, **ILLINOIS**, a major refining center for oil sands crude and a hub for oil and gas pipelines. Energy-related commodities and products account for 95 percent of the province's exports to Illinois.

» **ALBERTA's** top exports to the U.S. are oil, plastics and organic chemicals. In 2011, nearly \$41 billion in oil was imported into the U.S. from Alberta. The provinces' top imports from the U.S. are oil, machinery and vehicles.

\$ value of imports to Midwest states from Canadian provinces (2011, Canadian \$)

State	Alberta	Manitoba	Ontario	Saskatchewan	Total
Illinois	\$23.3 billion	\$1.0 billion	\$5.1 billion	\$5.8 billion	\$35.2 billion
Indiana	\$355 million	\$108 million	\$4.1 billion	\$1.5 billion	\$6.2 billion
Iowa	\$940 million	\$366 million	\$791 million	\$735 million	\$2.8 billion
Kansas	\$190 million	\$72 million	\$568 million	\$547 million	\$1.4 billion
Michigan	\$5.7 billion	\$108 million	\$37.5 billion	\$689 million	\$44.0 billion
Minnesota	\$7.4 billion	\$1.1 billion	\$1.1 billion	\$1.8 billion	\$11.4 billion
Nebraska	\$76 million	\$112 million	\$273 million	\$87 million	\$548 million
North Dakota	\$1.1 billion	\$513 million	\$146 million	\$515 million	\$2.3 billion
Ohio	\$5.6 billion	\$223 million	\$6.7 billion	\$954 million	\$13.4 billion
South Dakota	\$86 million	\$110 million	\$59 million	\$84 million	\$339 million
Wisconsin	\$639 million	\$276 million	\$1.6 billion	\$422 million	\$2.9 billion
Total	\$45.4 billion	\$4.0 billion	\$58.0 billion	\$13.1 billion	\$120.5 billion

Source: Provinces of Canada

\$ value of exports from Midwest states to Canadian provinces (2011, Canadian dollars)

State	Alberta	Manitoba	Ontario	Saskatchewan	Total
Illinois	\$2.1 billion	\$1.9 billion	\$9.6 billion	\$1.1 billion	\$14.7 billion
Indiana	\$254 million	\$637 million	\$8.6 billion	\$481 million	\$10.0 billion
Iowa	\$192 million	\$823 million	\$1.8 billion	\$435 million	\$3.3 billion
Kansas	\$257 million	\$218 million	\$1.2 billion	\$158 million	\$1.8 billion
Michigan	\$846 million	\$254 million	\$20.1 billion	\$119 million	\$21.3 billion
Minnesota	\$440 million	\$1.5 billion	\$2.9 billion	\$410 million	\$5.3 billion
Nebraska	\$120 million	\$184 million	\$1.1 billion	\$245 million	\$1.6 billion
North Dakota	\$195 million	\$545 million	\$202 million	\$948 million	\$1.9 billion
Ohio	\$517 million	\$671 million	\$14.5 billion	\$364 million	\$16.0 billion
South Dakota	\$30 million	\$116 million	\$206 million	\$74 million	\$426 million
Wisconsin	\$390 million	\$883 million	\$4.1 billion	\$453 million	\$5.8 billion
Total	\$5.3 billion	\$7.7 billion	\$64.3 billion	\$4.8 billion	\$82.1 billion

Sources: Provinces of Canada

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