



How Important is the U.S.-Canada Border?

The United States and Canada are each others' most important trading partner, and the volume of trade between them is greater than that between any two countries in the world. In 1998, Canada imported \$137 billion of merchandise from the United States, which was 68% of total Canadian merchandise imports and 22% of total U.S. merchandise exports. During the same year, Canada exported \$169.3 billion of merchandise to the United States, which was 84% of total Canadian merchandise exports and 19% of total U.S. merchandise imports. U.S. trade with Canada exceeds its trade with all fifteen countries of the European Union combined, and its trade with Ontario alone exceeds its trade with Japan.

This volume of trade is perhaps not surprising considering that (1) the two countries share many economic and cultural similarities; (2) nearly 90% of the Canadian population lives within 100 miles (161 km) of the U.S. border; and (3) the border between Canada and the 48 contiguous states stretches for almost 4000 miles (over 6400 km). Also, starting with the 1965 Auto Pact, there has been an almost uninterrupted trend towards freer bilateral trade, culminating in the 1988 Canada-U.S. Free Trade Agreement, which was subsequently deepened and broadened by the North American Free Trade Agreement. In principle, the United States and Canada are about as economically integrated as are any two sovereign countries. Because of this, they provide an interesting real-world laboratory for estimating the extent to which international borders still matter in a world that some have declared to have become "borderless."

Although the volume of trade between the United States and Canada is enormous, it is still small when compared with the level of trade between states or provinces within a country. As an illustration of this, refer to the table, which summarizes the relative volume of trade between British Columbia and six Canadian

provinces, and six comparable U.S. states. The left side of the table provides total trade (exports plus imports) between British Columbia and other Canadian provinces as shares of their gross products. The right side provides the same information for six states that are roughly the same distance from British Columbia as are the corresponding provinces. If the two countries were truly integrated, and the international border between them mattered little, then the numbers in the two columns would be roughly the same. Nevertheless, in all cases the province is a far more important trading partner than the corresponding state. For all cases, the relative volume of province-province trade is at least double the province-state trade, and for some cases it is more than ten times higher.

Of course, the remaining barriers to trade between the United States and Canada explain some of these differences, but they are far too low to explain much of it. Also, some of this can be attributed to the foreign exchange costs associated with province-state trade. Nonetheless, one thing is clear: If even the relatively innocuous border between the United States and Canada is such a strong impediment to trade, the world is far from borderless.

—Howard J. Wall

British Columbia's Trade, 1996
**Total Trade with B.C. as Percent
 of Gross Product**

Alberta	6.9	2.6	Washington
Manitoba	2.0	0.3	California
New Brunswick	2.3	0.2	Maine
Ontario	1.9	0.2	Ohio
Quebec	1.4	0.1	New York
Saskatchewan	2.4	1.0	Montana

SOURCES: Statistics Canada, U.S. Department of Commerce

