

API6999 – FINAL COPY

# Developments in Canadian International Trade Policy

---

The impact of an economic shift West and the role  
of provinces in Canadian trade policy

**Stephanie MacKnight 6115811**

**8/25/2012**

## Contents

Abstract .....	1
Introduction.....	1
Structure of the Canadian System.....	3
Trade Trends and Canada .....	5
Evidence of the Shift Westward .....	7
Economic Shift.....	7
Demographic Shift .....	10
Political Impact .....	13
Federalism and Trade Policy .....	14
Changes in the Federal Governments Approach to Federalism.....	16
Natural Resources as the Key to Success.....	17
Changes to International Priorities and Focus .....	19
Trade with the United States .....	20
Canada's Interest in Europe .....	22
Importance of Emerging Economies.....	23
Provincial International Trade Initiatives .....	28
Development of Trade Missions and Trade Offices .....	28
Western Collaboration.....	33
Provincial Involvement in Trade Negotiation.....	35
Increased Provincial Involvement? .....	39
Conclusion .....	41
Bibliography .....	45

## Abstract

Emerging economies, especially those in Asia-Pacific, are growing at a rapid pace and are demanding natural resources in greater quantities than ever before. As a leading resource exporter, Canada benefits from increased demand, which has boosted the national economy and has helped contribute to a westward shift in both population and economic power. These socio-economic developments continue to impact Canadian trade priorities, and have contributed to a regional shift and changing inter-provincial dynamics. Despite these changes, there has been little transformation regarding provincial inclusion in federal decision-making related to international trade. While many provinces have worked within their own jurisdiction to undertake trade missions and establish foreign trade offices, their involvement in trade negotiations or decisions regarding Canada's trade agenda remains limited. Specifically, the federal government continues to maintain tight control over trade policy, despite the growing complexity of trade agreements and the importance of provincial involvement. While the future remains uncertain, evidence suggests that provincial inclusion in some aspects of Canada's trade agenda may become the norm.

## Introduction

Communication, transportation, and knowledge flows occur more easily with the increase in global population. Extensive changes have occurred in economic, political, and societal interactions, creating a more integrated global community and a more globalized economy. In response, national governments are increasingly entering into bilateral and multilateral trade agreements. In particular, to prevent falling behind, many countries have joined international organizations to react more effectively to changes in the global marketplace. With economies becoming more and more interdependent, economic challenges in one nation, increasingly affect the world as a whole.

It is within this global environment that Canada and other nations are developing creative solutions to succeed and prosper. Canada is currently undergoing a significant economic and societal transformation. Over the past decade, Canada's economy has become ever more dependent on the production and export of natural resources, in large part due to the growing

demand for raw resources in emerging economies, such as India and China. Additionally, high global prices for resources have allowed the three western Canadian provinces to flourish and become major sources of wealth within the Canadian federation. As these economies have grown, jobs have increased, and a population shift westward, taking advantage of growing opportunities, has transformed Canada's demographics.

In parallel to the economic and demographic shifts, the election of a Conservative Party of Canada (CPC) minority government under the leadership of Prime Minister Stephen Harper in 2006 triggered a political change. Six years later, strong and consistent support from western Canada, as well as growing support from Ontario, has helped the CPC form two minority governments, as well as a recent majority government. With a large proportion of CPC seats originating from western ridings, some analysts have made assumptions that policy decisions will favour the West at the expense of the East, especially in the area of natural resource development.

This paper discusses the westward shift of economic activity in Canada and the impact of the CPC's approach to federalism. It seeks to determine if the form and substance of Canadian international trade policy has adapted to reflect the economic shift. Specifically, this paper explores changes in the roles of provinces in international trade promotion, in trade agreement negotiation, and in the formulation of national trade priorities. While trade policy is becoming more complex, this paper argues that the provinces, including those in western Canada, continue to play a limited role in Canadian trade policy formulation and decisions.

## Structure of the Canadian System

Over the years, the international economic order has expanded and moved from a focus on trade liberalization, to a more comprehensive type of regime with the potential to affect domestic markets.<sup>1</sup> As the global market becomes more intertwined, the importance of domestic borders is increasingly obsolete, especially in relation to economic and trade-related issues. Many countries working to succeed in the global environment are often required to sacrifice autonomy and focus on key markets and factors that they may have the ability to influence. As a result, interconnectedness has brought significant wealth and growth to many nations but has also meant less domestic control over economies and markets.<sup>2</sup>

Globalization and its implications for domestic policy are not new issues to Canada, given the country's longstanding dependence on international trade. The Canadian federation functions as a system of divided powers between the provinces and territories and the federal government. Grace Skogstad explains that, "Canada's constitution gives the Government of Canada alone the legal authority to engage in international relations, including signing treaties that could cause a diminution in the political authority of national and provincial or territorial governments."<sup>3</sup> The Canadian form of government does not extend any formal jurisdiction over foreign relations to elected provincial legislatures. Additionally, international legal structure and

---

<sup>1</sup> Paul Gecelovsky and Christopher J. Kukucha. "Foreign Policy Reviews and Canada's Trade Policy: 1968–2009," *American Review of Canadian Studies* 41, no. 1 (March 2011): 39.

<sup>2</sup> *Ibid.*, 40.

<sup>3</sup> Grace Skogstad, "Canadian Federalism, International Trade, and Regional Market Integration in an Era of Complex Sovereignty," in *Canadian Federalism: Performance, Effectiveness, and Legitimacy*, by Grace Skogstad and Herman Bakvis (Oxford University Press, 2007), 224.

the Vienna Convention state that regardless of internal jurisdiction, the central government is responsible for fulfilling treaty commitments.<sup>4</sup>

While the federal government has always sought parliamentary support before official ratification of significant trade agreements, provincial legislatures are not involved in signing or ratifying treaties.<sup>5</sup> In the past, when trade agreements and initiatives were less comprehensive, the federal government did not face significant pressure to consult with the provinces before signing onto agreements. However, this is changing owing to the increasing scope of trade agreements to include matters of interest to provincial governments.

Developments within the international political economy have created a deeper world of complex sovereignty for federal states such as Canada.<sup>6</sup> Comprehensive agreements, which cover issues within both provincial and federal jurisdictions, such as procurement, services, and investment, require the two orders of government to coordinate their approach to policy development. In theory, while a distinct separation exists between federal and provincial governments, reality suggests that both orders must pool authority to accomplish mutual objectives.<sup>7</sup>

Provincial demands for consultation or inclusion in trade negotiations have increased as agreements have become more comprehensive.<sup>8</sup> With the ratification of new agreements, each province is now required to implement new laws to remain consistent with international

---

<sup>4</sup> Christopher J Kukucha, *The Provinces and Canadian Foreign Trade Policy* (Vancouver: UBC Press, 2008), 45.

<sup>5</sup> Kukucha, *The Provinces and Canadian Foreign Trade Policy*, 94.

<sup>6</sup> Skogstad, "Canadian Federalism, International Trade, and Regional Market Integration in an Era of Complex Sovereignty," 223.

<sup>7</sup> *Ibid.*, 224.

<sup>8</sup> *Ibid.*

obligations.<sup>9</sup> In the event that provinces fail to comply with measures in a signed trade agreement, the federal government could face repercussions under the enforcement provisions of these agreements. Although this does not occur often, the monetary repercussion can be substantial.<sup>10</sup>

## Trade Trends and Canada

From 2001-2006, the global economy expanded at a faster rate than during any other five-year period since World War II. As one of the most trade-reliant nations in the G8, Canada has benefited significantly from this growth.<sup>11</sup> The importance of trade to Canada predates Confederation, when the economy was dependent on the export of a limited number of resource-based goods. Over the years, however, the economy has deepened, developed and diversified.<sup>12</sup> Canada is now an advanced economy, and has shown a keen interest in developing and strengthening international trade linkages.<sup>13</sup>

The Canadian economy has experienced an overwhelming increase in demand for resources, allowing for unprecedented economic gains. The development of the oil sands in Northern Alberta has increased dramatically, bringing huge resource dollars and substantial foreign investment to the rest of the country.<sup>14</sup> In addition, the significant growth in individual wealth, along with the development of a middle class in emerging markets like China, continues

---

<sup>9</sup> Kukucha, *The Provinces and Canadian Foreign Trade Policy*, 95.

<sup>10</sup> Kukucha, *The Provinces and Canadian Foreign Trade Policy*, 98.

<sup>11</sup> Canada, Transport Canada, *National Policy Framework for Strategic Gateways and Trade Corridors* (2009), <http://www.canadagateways.gc.ca/media/documents/en/NationalPolicyFramework.pdf>.

<sup>12</sup> Gecelovsky and Kukucha, "Foreign Policy Reviews and Canada's Trade Policy: 1968–2009," 38.

<sup>13</sup> Serge Coulombe, "Globalization and Regional Disparity: A Canadian Case Study," *Regional Studies* 41, no. 1 (February 2007): 4.

<sup>14</sup> Alex Ballingall, Tamsin McMahon, and Paul Wells, "How Ottawa runs on oil," *macleans.ca*, March 23, 2012, accessed April 2012, <http://www2.macleans.ca/2012/03/23/oil-power/>.

to drive the production and consumption of manufactured goods. A wide range of raw materials is required to meet this exceptional demand.<sup>15</sup> Finally, the rise of low-cost manufacturing in emerging economies has negatively affected Canadian manufacturing and many Canadian companies now outsource manufacturing jobs abroad.<sup>16</sup> With manufacturing no longer the main driver of Canada's growth, natural resource extraction is gaining importance to maintaining Canada's economic strength.

Canada's export-dependent economy makes it vulnerable to external trade patterns whereby effective ways to close borders or cease monetary flows to mitigate the impact of external patterns no longer exist. Subsequently, it will become increasingly important to develop policy that alleviates growing domestic barriers.<sup>17</sup> At the 2012 Calgary Symposium, David Dodge outlined the barriers that Canada's economy will need to overcome:

First, population aging will lead to lower labour force participation, slower growth of incomes and government revenues, and greater pressures on government spending on old age security and health care. Second, and most importantly, the dramatic change in international and interprovincial terms of trade will make it increasingly impossible for the governments of terms-of-trade-disadvantaged provinces to raise sufficient own-source revenues to provide services to their residents comparable to services provided by terms-of-trade-advantaged provinces.<sup>18</sup>

---

<sup>15</sup> Western Economic Diversification Canada, *Through the Gateway: unlocking western Canada's potential for economic diversification by expanding trade with Asia-Pacific*, by Michael Holden, ISBN 1-897423-75-2 (Canada West Foundation, 2011): 4, [http://cwf.ca/pdf-docs/publications/Through\\_The\\_Gateway\\_February\\_2011.pdf](http://cwf.ca/pdf-docs/publications/Through_The_Gateway_February_2011.pdf).

<sup>16</sup> David A. Dodge, "The Economic Union and Pressures from Uneven Growth," *Calgary Symposium*, February 7, 2012, accessed June 2012: 5, [http://www.bennettjones.ca/uploadedFiles/News\\_and\\_Events/Seminars\\_and\\_Webinars/CalgarySymposiumDodge.pdf](http://www.bennettjones.ca/uploadedFiles/News_and_Events/Seminars_and_Webinars/CalgarySymposiumDodge.pdf).

<sup>17</sup> [macleans.ca](http://www.macleans.ca), "The west is in. Now what?: Can the West shape the national agenda? A Maclean's debate," *Macleans.ca*, February 3, 2010, accessed April 2012, <http://www2.macleans.ca/2010/02/03/the-west-is-in-now-what/>.

<sup>18</sup> Dodge, "The Economic Union and Pressures from Uneven Growth," 5.

Commodity producing provinces will have greater prospects and will become more favourable to attracting international and domestic business interests and populations. This will significantly assist such provinces in overcoming the increasing domestic barriers.<sup>19</sup>

Substantial growth in the demand for resources has led to significant economic gains for resource producing provinces. Recently, British Columbia, Alberta, Saskatchewan, and Newfoundland and Labrador have seen their annual GDP soar.<sup>20</sup> The flow of capital, specifically into the western provinces, initiated a demographic reorientation, which has contributed to more intense western regionalism in Canada, and, for the first time, a shift to an economy increasingly centered in western Canada has taken place. The following sections outline the economic and demographic shift to the West and examine the importance of this shift to a Canadian federation with a growing focus on commodity-based trade.

## Evidence of the Shift Westward

### Economic Shift

Canada's strategic position in the global economic environment is increasingly reliant on the demand of natural resources in the international marketplace. This reliance results in the increasing economic importance of emerging economies to Canadian trade decisions. Globally, a shift towards "growing economic importance of emerging economies... [which] boosts global demand for commodities and ... heightens cross border competition in manufactured goods and

---

<sup>19</sup> Dodge, "The Economic Union and Pressures from Uneven Growth," 3.

<sup>20</sup> Stephen Gordon, "Canada's economic core shifts west," *The Globe and Mail*, May 24, 2011, accessed April 2012, <http://www.theglobeandmail.com/report-on-business/economy/economy-lab/stephen-gordon/canadas-economic-core-shifts-west/article2032403/>.

services” is occurring.<sup>21</sup> Growth in developing nations, together with a significant increase in the production and consumption of manufactured goods, has helped catapult western Canadian commodities onto the world stage. The high levels of investment in resource development in western Canada, moreover, have also helped contribute to a westward shift in economic activity and influence.<sup>22</sup>

Canada’s economic system allows for the free flow of capital within the federation and uses fiscal transfers to redistribute income between provinces and regions. Canada has long been a story of unbalanced economic growth with resources, goods, and people distributed unevenly across the country. While all provinces function under a singular monetary policy, different periods have witnessed shifts in regional strength.<sup>23</sup> Historically, for example the western provinces have worked to overcome challenges concerning larger distances to markets and lower population levels. Western Canada has also experienced higher exposure to world commodity markets due to its heavily export-dependent economy. While currently thriving, the region remains vulnerable to global markets and remains highly dependent on natural resource production to maintain its relative economic strength.

Analysis of GDP growth in recent years shows that western provinces are performing above the national average. In 2011, Alberta showed the strongest economic performance of all the provinces with a 5.2% growth in GDP (3.3% increase in 2010). Much of the growth was a result of high energy prices and gains in oil and gas exploration and development.<sup>24</sup> In Saskatchewan, after an increase of 4.2% in 2010, GDP rose by another 4.8% in 2011. In

---

<sup>21</sup> Dodge, "The Economic Union and Pressures from Uneven Growth," 5.

<sup>22</sup> Ibid.

<sup>23</sup> Gordon, "Canada's economic core shifts west."

<sup>24</sup> Canada, Statistics Canada, *Gross domestic product by industry: Provinces and territories, 2011 (preliminary data)*, April 27, 2012, accessed June 2012, <http://www.statcan.gc.ca/daily-quotidien/120427/dq120427a-eng.htm>.

addition, the output of goods-producing industries increased by 5.9%, while services advanced by 3.8%, and agricultural crop production increased by 10%.<sup>25</sup> Strong export demand led to higher output in numerous resource goods, and strong population growth resulted in a 21% increase in residential construction. Finally, British Columbia experienced the least growth of the western provinces but was still above the national average, with 2.9% GDP growth in 2011 (3.2% growth in 2010). Significantly, support activities to mining and oil and gas extraction rose by 24%, in large part due to increases in mineral and natural gas exploration in the region.<sup>26</sup>

Rising employment numbers and increased job creation are other key indicators of a healthy economy. In July 2011, labour force survey results released by Statistics Canada indicated that employment was growing in western Canada and falling elsewhere in the country. From June to July of 2011, Canada witnessed a decline of 139,000 full-time jobs nationwide, with a growth of 130,000 part-time positions. In British Columbia, for example, employment expanded by more than 16,000 jobs. Alberta also gained 9,000 jobs during this period.<sup>27</sup>

In addition, recent unemployment statistics released in June 2012 suggest a significant economic advantage to western Canada, which had the lowest unemployment rates in the country. Alberta had the lowest jobless rate at 4.6%, with Saskatchewan closely following at 4.9%. Growing resource projects, construction, and service-based jobs in these provinces have helped contribute to the declining rates of unemployment. Manitoba also had an unemployment

---

<sup>25</sup> Canada, Statistics Canada, *Gross domestic product by industry: Provinces and territories, 2011 (preliminary data)*."

<sup>26</sup> Ibid.

<sup>27</sup> Roslyn Kunin, "Canada's Economic Sun is Now Rising in the West," *Canada West Foundation*, September 16, 2010, accessed April 2012, <http://cwf.ca/commentaries/canadas-economic-sun-is-now-rising-in-the-west>.

rate of 5.2% and B.C. experienced 6.6%. These low unemployment numbers stands in contrast to both Ontario and Quebec who each experienced 7.7% unemployment rates in June 2012.<sup>28</sup>

While western commodity exporting provinces have seen significant gains, manufacturing provinces have felt the negative impact of a high Canadian dollar, as well as the resulting loss in international competitiveness.<sup>29</sup> Demand for commodities, together with Canada's strong fiscal position, has pushed exchange rates to high levels in relation to other major currencies. Within this high exchange rate environment, Canada's manufacturing sector has struggled to remain competitive, both domestically and internationally. The high unemployment rates currently observed in eastern Canada are a reflection of this loss of competitiveness.<sup>30</sup>

## Demographic Shift

While the four western provinces continue to have smaller populations than Ontario, the western region in total generates more in government revenue.<sup>31</sup> According to a recent report by the TD Financial Group, western provinces will continue to experience significant economic success for at least ten-years, and projections show that the region will grow faster than the national average, especially in comparison to central and eastern Canada.<sup>32</sup> Since the majority of commodity exports come from western Canada, increased resource development has prompted many to move and benefit from these lucrative economic realities. The 2011 census shows that

---

<sup>28</sup> Alex Carrick, "Canada's labour markets on either coast offer advantages versus the centre," *Daily Commercial News and Construction Record*, July 10, 2012, accessed July 2012, <http://dcnonl.com/article/id50961/--canadarsquos-labour-markets-on-either-coast-offer-advantages-versus-the-centre>.

<sup>29</sup> Gordon, "Canada's economic core shifts west."

<sup>30</sup> macleans.ca, "The west is in. Now what?: Can the West shape the national agenda? A Maclean's debate."

<sup>31</sup> Ballingall, McMahon, and Wells, "How Ottawa runs on oil."

<sup>32</sup> The Guardian, "Canada's economic future: Slower potential growth, bigger East-West disparity," *The Guardian*, February 10, 2012, accessed April 2012, <http://www.theguardian.pe.ca/Business/2012-02-09/article-2891013/Canadas-economic-future%3A-Slower-potential--growth,-bigger-East-West-disparity/1>.

Canadians instinctively understand that the country is reorienting away from central Canada and towards the Pacific.<sup>33</sup> For the first time in Canada's history, more Canadians live west of Ontario than east of the province (30.7% to 30.6%).<sup>34</sup>

The TD Group's report states that the gravitation of economic power towards western Canada is gaining momentum, and migration will continue as job creation occurs. British Columbia remains a popular destination owing to the high demand for workers in the resource, finance, engineering, transportation and services sectors. Investment in oil, gas, and potash is helping draw immigrants to Alberta and Saskatchewan, and many, such as Bill Curry and Joe Friesen, argue that the region's political and economic influence is increasing as a result.<sup>35</sup> Populations drawn westward due to greater employment opportunities could result in regionalism. As the TD report states, "the expected outflow of individuals to other parts of the country, combined with struggles to attract international migrants, weigh down the labour supply prospects for Quebec and the Atlantic provinces."<sup>36</sup> Low labour growth could end up strangling economic growth entirely, which could lead to less cooperation among the regions and more tension within the federation.

As economic activity has moved westward, central and eastern Canadian provinces have witnessed declining populations and increasing rates of unemployment. For the first time in 25 years, Ontario's population growth rate is below the national average. Identified as the main

---

<sup>33</sup> Bill Curry and Joe Friesen, "Canada's future is in the West: 2011 Census," *The Globe and Mail*, March 31, 2012, accessed April 2012, <http://www.theglobeandmail.com/news/national/canadas-future-is-in-the-west-2011-census/article544556/>.

<sup>34</sup> The Canadian Press, "Canada's political power shifts westward with population," *Canadian Broadcasting Corporation*, February 8, 2012, accessed April 2012, <http://www.cbc.ca/news/politics/story/2012/02/08/pol-census-politics-west.html>.

<sup>35</sup> Curry and Friesen, "Canada's future is in the West: 2011 Census."

<sup>36</sup> The Guardian, "Canada's economic future: Slower potential growth, bigger East-West disparity."

cause to lower population growth rates, is the decline in manufacturing, which has seen a reduction in 300,000 jobs in Ontario over the past ten-years.<sup>37</sup>

While central and eastern Canada has historically welcomed a large percentage of immigrants, this trend is changing. For 20 years, Ontario attracted 60% of new immigrants to Canada, but the 2011 census shows a significant drop in growth. Ontario's share of immigration has dropped by 20 percent since 2001. In 2009, Ontario received its lowest number of new immigrants in 30 years (107,000).<sup>38</sup> In 2010, statistics show that only 42% of new immigrants went to Ontario.<sup>39</sup>

The loss of immigration to Ontario has been a gain for the western provinces, where every three out of five new immigrants head to cities such as Saskatoon, Regina, and Winnipeg.<sup>40</sup> Manitoba tripled its share of immigrants and welcomed 5.6% of the national total in 2010 (1.8% in 2001). Alberta's share climbed from 6.5% in 2001 to 11.6% of the national total in 2010.<sup>41</sup> Saskatchewan has witnessed the greatest change, where due to a lagging economy and low job prospects for youth, lost more than 1% of its population from 1996-2006. With the rapid improvement in its economy over the past five years, Saskatchewan's population has increased by 6.7%, surpassing the one million mark.<sup>42</sup> Saskatchewan went from welcoming a share of

---

<sup>37</sup> Curry and Friesen, "Canada's future is in the West: 2011 Census."

<sup>38</sup> Joe Friesen, "Immigrant drop imperils Ontario economy," *The Globe and Mail*, February 6, 2012, accessed June 2012, <http://www.theglobeandmail.com/news/politics/immigrant-drop-imperils-ontario-economy/article4197576/>.

<sup>39</sup> Louise Elliott, "Kenny lauds provinces' immigration success," *Canadian Broadcasting Corporation*, November 21, 2011, accessed July 2012, <http://www.cbc.ca/news/canada/story/2011/11/21/pol-immigration-kenney-skilled.html?cmp=rss>.

<sup>40</sup> Curry and Friesen, "Canada's future is in the West: 2011 Census."

<sup>41</sup> Elliott, "Kenny lauds provinces' immigration success."

<sup>42</sup> Curry and Friesen, "Canada's future is in the West: 2011 Census."

0.7% of the national total of immigrants entering Canada nearly a decade ago, to 2.7% of the national total in 2010.<sup>43</sup>

## Political Impact

Large population shifts inevitably affect the politics of a country. In Canada, a growing population base and increasing economic wealth has strengthened western provinces within the confederation. At the national level, it has also helped increase awareness of western political interests and has influenced the federal government to pay close attention to the priorities of these provinces.

In 2006, the CPC formed a minority government. At this time, Canada was experiencing widespread prosperity and the Conservative Party enjoyed considerable support from the western region.<sup>44</sup> In two subsequent elections, the CPC maintained a strong western support base and now hold a majority government. The CPC has experienced growing support from other regions in Canada as the economy has prospered and Canada weathered through the 2008 financial crisis relatively unscathed.<sup>45</sup>

The strong support for the CPC has resulted in a large contingent of western Members of Parliament (MPs) in Ottawa. Currently, 42% of CPC elected MPs are from the four western provinces; a significant change in western representation from 1988, where Brian Mulroney's Progressive Conservatives had 24% western representation in the ruling party, and only 7%

---

<sup>43</sup> Elliott, "Kenny lauds provinces' immigration success."

<sup>44</sup> Ballingall, McMahon, and Wells, "How Ottawa runs on oil."

<sup>45</sup> Kathryn Blaze Carlson, "Majority for Conservatives; NDP official opposition," *National Post*, May 2, 2011, accessed June 2012, <http://news.nationalpost.com/2011/05/02/conservatives-make-inroads-in-atlantic-canada-liberals-dwindle/>.

under Jean Chrétien's Liberal Party of Canada in 1991.<sup>46</sup> Although there has been an obvious growth in western representation in the governing party, there remains little evidence that the Federal government's priorities have become more 'western', or that one Canadian region is more favoured.

Significant changes of demographics and economics in the Canadian landscape continue. A growing population will likely only further influence the federal government to realize potential policy goals that align with those of western Canada. Recognizing that Canada is undergoing a regional shift, questions remain as to what degree economic and demographic changes matter in the larger context of Canadian trade policy. As natural resources continue to be the main driver of the Canadian economy, it is imperative that both federal and provincial governments re-examine Canada's approach to international trade. Trade agreements have opened up new opportunities and markets, providing Canadian companies with greater access to areas with high demand. Trade expansion will help permit Canada to maintain a healthy economic situation, at least in the short-term.

## **Federalism and Trade Policy**

It is difficult to analyze the recent changes in the Canadian economy without examining the impact of Canadian federalism on the development of international trade policy. As Gecelovsky and Kukucha state, "since the first days of European presence on the continent trade concerns have been an important component to Canada's foreign relations and policy."<sup>47</sup> The Canadian Constitution divides the authority to implement provisions of international trade

---

<sup>46</sup> Ballingall, McMahon, and Wells, "How Ottawa runs on oil."

<sup>47</sup> Gecelovsky and Kukucha, "Foreign Policy Reviews and Canada's Trade Policy: 1968–2009," 37.

agreements. It denies the federal government the right to implement treaty provisions within provincial jurisdiction, which over the years has made the federal government realize that it is necessary to extensively consult and build consensus with provinces on trade strategy.<sup>48</sup>

The commitments that the federal government makes under international trade agreements must advance the interests of the country as a whole while continuing to consider the impact of these decisions on individual provinces or regions.<sup>49</sup> At times, this balancing act limits bold trade initiatives and leads to contradictions in Canadian policy.<sup>50</sup> While divergent provincial and regional economic interests have always been an element of Canadian federalism, they can place significant strain upon intergovernmental relations.<sup>51</sup>

As trade becomes more complex, it is increasingly difficult for each level of government to attain its trade objectives without the cooperation and collaboration of the other.<sup>52</sup> In the case of natural resources, this is especially challenging in comparison to other countries owing to the nature of the Canadian Constitution. Unlike most countries, the administration and control of natural resources, including the revenues derived from the production of these resources, rests with the provincial legislatures and not the federal parliament. Provincial governments, especially those in western Canada, have adamantly guarded their powers over natural resources.<sup>53</sup>

---

<sup>48</sup> Skogstad, "Canadian Federalism, International Trade, and Regional Market Integration in an Era of Complex Sovereignty," 238.

<sup>49</sup> Gecelovsky and Kukucha, "Foreign Policy Reviews and Canada's Trade Policy: 1968–2009," 37.

<sup>50</sup> Kukucha, *The Provinces and Canadian Foreign Trade Policy*, 36.

<sup>51</sup> *Ibid.*, 35.

<sup>52</sup> Skogstad, "Canadian Federalism, International Trade, and Regional Market Integration in an Era of Complex Sovereignty," 240.

<sup>53</sup> Robert D. Cairns, "Natural Resources and Canadian Federalism: Decentralization Recurring Conflict, and Resolution," *Publius: The Journal of Federalism*, no. 22 (Winter 1992): 55.

## Changes in the Federal Governments Approach to Federalism

It is within the context outlined above that the CPC, led by Stephen Harper, came to power. Prime Minister Harper believes in a traditional approach to federalism that emphasizes the separation of powers under Sections 91 and 92 of the Constitution and has worked to remodel Canadian federal-provincial relations within this framework. During a speech in 2006, Mr. Harper trumpeted open federalism and praised the founders of Canada for the foresight to create a flexible federal system that “would accommodate our diversity and be a source of strength and innovation.”<sup>54</sup>

Open federalism, says Prime Minister Harper, is the way forward for Canada and it means truly respecting areas of provincial jurisdiction. Canada as a whole can benefit from the experience and expertise provinces bring to national dialogue. He believes in achieving gains through “establishing formal mechanisms for provincial input into the development of the Canadian position in international negotiations or organizations, where provincial jurisdiction is affected.”<sup>55</sup> According to Prime Minister Harper, this form of open federalism will result in greater collaboration between the various levels of government, and will help to maintain coherence as the international system becomes more complex and interconnected.<sup>56</sup>

In principle, this approach to federalism would allow the federal government to soften its footprint in provincial affairs while providing provinces with greater freedom to pursue matters within their jurisdiction. In the case of international trade, open federalism could ensure that

---

<sup>54</sup> Stephen Harper, "Prime Minister Harper outlines his Government's priorities and open federalism approach," *Prime Minister of Canada Stephen Harper*, April 20, 2006, accessed April 2012, <http://pm.gc.ca/eng/media.asp?id=1119>.

<sup>55</sup> *Ibid.*

<sup>56</sup> *Ibid.*

provinces, such as those in western Canada, would have a formal role in the negotiations of trade agreements that impact matters of provincial administration and control.

Contrary to Prime Minister Harper's stated views, the evidence to date suggests that in the area of trade policy the federal government has been selective, as well as hesitant, to create formal processes to include the provinces in trade negotiations or policy development. In the case of western Canada, this is especially challenging given the significance of the region's natural resources to federal trade policy. Decisions made by the federal government under these agreements have a direct bearing on investment in resource development and the terms of trade with external markets.

### **Natural Resources as the Key to Success**

In 2010, the natural resource sector (energy, forestry, and mining) generated 11.5% of Canada's GDP, and directly employed 763,000 people. The exports of natural resources contributed to the Canadian GDP by \$142.5 billion, which accounts for a greater share of Canada's outgoing trade than at any other time in the last 40 years.<sup>57</sup> With this significant achievement, political entities have noted Canada's resource success. Prime Minister Harper has focused on the economic future for Canada residing in natural resource development. As Adam Radwanski has reported, "without picking regional winners and losers Harper is convinced that resource development is the surest path to a brighter economic future for the whole country."<sup>58</sup>

---

<sup>57</sup> Canada, Natural Resources Canada, *Important Facts on Canada's Natural Resources (as of October 2011)* (2011) <http://www.nrcan.gc.ca/sites/www.nrcan.gc.ca/files/files/stat/2012/important-2012-eng.pdf>.

<sup>58</sup> Adam Radwanski, "Ottawa betting on the West for economic prosperity," *The Globe and Mail*, March 29, 2012, accessed April 2012, <http://www.theglobeandmail.com/news/politics/adam-radwanski/ottawa-betting-on-the-west-for-economic-prosperity/article2386653/>.

In July 2006, during his first speech as Prime Minister to a foreign business audience, Prime Minister Harper recognized the importance of resources to the growing Canadian economy. He stated his desire for other countries to take notice of Canada's booming energy sector and to see "Canada's emergence as a global energy powerhouse – the emerging 'energy superpower' [the federal] government intends to build."<sup>59</sup> Prime Minister Harper stated in his 2006 speech that Canada is the world's fifth largest energy producer (exceeded by Russia, China, United States, and Saudi Arabia); ranked fourth in natural gas production and seventh in oil production. Canada is also the world's second largest supplier of hydroelectricity and uranium. Prime Minister Harper claims this is only the beginning.<sup>60</sup>

Believing that natural resources will continue to drive the Canadian economy, the federal government has placed a priority on supporting and deepening Canada's competitive strength in resource development. Since administration and control of natural resources fall under provincial jurisdiction, the federal government has relied on other federal powers to influence this sector. Most recently, the 2012 budget goes to great lengths to support continued investment in natural resources as a cornerstone of the federal government's economic strategy. Policy changes in the 2012 budget allow streamlining of federal environmental reviews to speed up the process of approving new projects, and the creation of infrastructure projects to better transport goods to desired markets. The budget demonstrates a shift in federal attention, almost entirely away from manufacturing, and towards support for western Canada's economic growth.<sup>61</sup>

---

<sup>59</sup> John Schofield, "Canada: An Energy Superpower?" *Canada Manufacturers and Exporters Magazine* 20/20, September/October 2011, accessed April 2012, [http://www.2020magazine.ca/\\_uploads/magazine/issue/2020\\_sep\\_oct\\_2011.pdf](http://www.2020magazine.ca/_uploads/magazine/issue/2020_sep_oct_2011.pdf).

<sup>60</sup> Ibid.

<sup>61</sup> Radwanski, "Ottawa betting on the West for economic prosperity."

## Changes to International Priorities and Focus

Given the rapid growth in resource development in western Canada, the focus of federal trade policy could shift to this region. If this occurs, western Canada could play a key role in setting trade policy agendas and priorities. In addition, the western base of the Conservative government, together with the central role of western Canadians in federal government decision-making, could influence federal priority setting in international trade issues. Surprisingly, it has taken many years to see major changes in the federal approach to international trade, especially concerning western Canada. The federal government's most recent interest and push for entry into the Trans Pacific Partnership (TPP) trade negotiations, as well as increased interest in a bilateral trade agreement negotiations with China, indicates a substantial reorientation to encompass the Asia-Pacific region.

When Stephen Harper became Prime Minister, he showed little interest in international affairs and was highly focused on domestic policy. Economic and fiscal affairs within Canada were at the forefront of his government's political agenda. Over the past six years, his approach to international issues has evolved and according to columnist Eugene Lang, Prime Minister Harper has succeeded in creating the "clearest Canadian foreign policy posture in at least a generation."<sup>62</sup> In 2008, in an effort to focus objectives, the federal government identified four key priorities to guide Canadian foreign policy. Listed as the first priority, is the goal of ensuring "economic recovery and greater opportunity for Canada, with a focus on growing/emerging

---

<sup>62</sup> Eugene Lang, "The Harper Doctrine," *National Post*, April 16, 2012, accessed April 2012, <http://fullcomment.nationalpost.com/2012/04/16/eugene-lang-the-harper-doctrine/>.

markets.”<sup>63</sup> The following three priorities were “a focus on the US and the hemisphere, Afghanistan, and departmental modernization.”<sup>64</sup>

In August of 2008, after the introduction of the key priorities, the federal government further released a trade strategy that outlined thirteen priority markets for Canada. For each market a series of sector-based plans were developed and the whole initiative intended to help build the ‘Canadian brand.’ The priority countries ranged from the United States to India, Europe, China, Russia, Latin America, Brazil and Mexico. Following the release of its trade strategy, there was a marked increase in the federal government’s efforts to negotiate new bilateral trade agreements. This shift in focus indicates the intentions of the federal government to strengthen the overall economy by opening up new markets for Canadian goods and services.<sup>65</sup>

### **Trade with the United States**

In its first few years in office, the CPC appeared more than willing to place all of ‘Canada’s eggs in the American basket’, and worked to maintain a strong relationship with the United States.<sup>66</sup> During this period, commentators have claimed that the Prime Minister ignored economic opportunities that were arising within China and other emerging economies. The United States is Canada’s largest trading partner, both as an export market and as a supplier. In

---

<sup>63</sup> Gecelovsky and Kukucha, "Foreign Policy Reviews and Canada’s Trade Policy: 1968–2009," 45.

<sup>64</sup> Ibid.

<sup>65</sup> Ibid.

<sup>66</sup> Lang, "The Harper Doctrine."

2011, two-way trade in goods and services between the US and Canada totalled \$681 billion; this is more than the American's trade with either Mexico or China.<sup>67</sup>

With the majority of the Canadian economy linked to the US, it is hard to ignore the importance of the American market.<sup>68</sup> The Canadian economy will remain closely tied to the US for years to come due to geographic proximity, cultural similarities, shared common language, bilateral free trade agreements, significant cross-border economic integration, and the status of the US as a global superpower.<sup>69</sup> All of the provinces support, and depend on, a strong relationship with the US. Prime Minister Harper acknowledges this, and like past Prime Ministers, his government is working hard to safeguard market access and lobby to avoid trade policy discrimination.<sup>70</sup> Most trade issues that threaten this relationship are resolved through discussion, negotiation or dispute resolution under NAFTA.

In the late 2000s, the US experienced a significant financial crisis that resulted in job loss, slow growth and a reduction in the demand for imported goods. During this period, Canadian international trade focus began to broaden, owing to the continued worldwide demand for its natural resources, especially in the Asia-Pacific region. The financial crisis and economic downturn significantly damaged the American economy, but the US remains Canada's most important trading partner and continues to import large amounts of resources and goods. In

---

<sup>67</sup> Derek H. Burney and Fen Osler Hampson, "How Obama Lost Canada," *Foreign Affairs*, June 21, 2012, accessed June 2012, [www.foreignaffairs.com/print/134992](http://www.foreignaffairs.com/print/134992).

<sup>68</sup> Patrick Georges and Marcel Merette, "Canada's Strategic Trade Policy Options: Deeper Continental Integration or Diversification?" *Institute for Research on Public Policy*, December 2010, accessed April 2012: 3, [www.irpp.org/pubs/IRPPstudy/IRPP\\_Study\\_no11.pdf](http://www.irpp.org/pubs/IRPPstudy/IRPP_Study_no11.pdf).

<sup>69</sup> Western Economic Diversification Canada, *Through the Gateway: unlocking western Canada's potential for economic diversification by expanding trade with Asia-Pacific*, 4.

<sup>70</sup> Christopher Sands, "How the Trans-Pacific Partnership Will Change Canada," *The Huffington Post*, June 19, 2012, accessed June 2012, [http://www.huffingtonpost.ca/christopher-sands/g20-summit\\_b\\_1609732.html](http://www.huffingtonpost.ca/christopher-sands/g20-summit_b_1609732.html).

addition, the NAFTA has strengthened this economic relationship by providing a clear legal framework for managing the cross-border exchange of goods and services.

### Canada's Interest in Europe

In addition to the federal government's focus on the US, there is a strong desire at the federal level for a comprehensive trade agreement with the European Union. While pursuing a variety of trade agreements around the world, the federal government focuses heavily on concluding the Canada-European Union Comprehensive Economic and Trade Agreement (CETA).<sup>71</sup>

The EU is the largest market in the world. After three years, Canada and the EU have entered the final stages of negotiation of a comprehensive agreement. Canada's economic gains from the CETA are debatable and a number of commentators say, "CETA is a last grasp at the past."<sup>72</sup> CETA is the biggest bilateral initiative since NAFTA and is incredibly expansive in its inclusion, covering services, investment, procurement, environment and labour. The Minister of International Trade, Ed Fast, has claimed that CETA will increase bilateral trade by 20%, boost Canada's economy by \$12 billion a year, and create 80,000 new jobs within Canada.<sup>73</sup>

From Confederation, European markets have played a significant role in the development of the Canadian economy. Strong ties continue to exist largely due to proximity and imbedded trade relations, especially between the central and eastern regions of Canada, and Europe.

Central and eastern Canada has struggled to deal with the effects of globalization, resulting from

---

<sup>71</sup> BJ Siekierski, "Despite expected cuts, Harper's free trade agenda takes on all comers," *iPolitics*, March 22, 2012, accessed April 2012, <http://www.ipolitics.ca/2012/03/22/despite-expected-cutbacks-harpers-free-trade-agenda-takes-on-all-comers/>.

<sup>72</sup> Ibid.

<sup>73</sup> Kathleen Harris, "Trade building Blocs: is Canada's ambitious new trade deal with Europe the future, or an ill-timed diversion from greener pastures in Asia," *Macleans*, January 2, 2012: 67.

the structure of the regions' economy, which focuses more on manufacturing and less on natural resource extraction. The tariff elimination in CETA will significantly affect the sectors of metals, machinery and equipment, chemical products, motor vehicles and parts, electronic equipment, forestry products and fish and seafood products. The majority of these sectors are significant to the central and eastern Canadian economies and as western Canada thrives, a focus on improving European ties strengthens the federation and the other regional economies.<sup>74</sup>

### Importance of Emerging Economies

With CETA nearing completion, Canada is looking further abroad to diversify and deepen trade partnerships. In recent years, the federal government “embark[ed] on the most ambitious trade and economic diversification agenda in memory.”<sup>75</sup> Not only is the federal government pursuing a trade agreement with the EU but it is also working to complete one with India. Preliminary talks on trade agreements with Thailand and Japan have begun, and the federal government is trying to revive stalled negotiations with South Korea.<sup>76</sup>

The majority of new trade agreements with emerging economies, specifically in the Asia-Pacific region, will largely benefit the resource producing western provinces. Additionally, the increased wealth will benefit other Canadian regions, depending on the scope of each arrangement. Asia has significant ties to western Canada due to the proximity of important trade routes. The west coast ports handle 75% of Canada's export trade value to Asia.<sup>77</sup> Asia-Pacific is western Canada's largest market outside of the US and exports to Asia-Pacific have nearly

---

<sup>74</sup> Canada, Foreign Affairs and International Trade, *Canada-European Union: Comprehensive Economic and Trade Agreement (CETA) Negotiations: Initial Strategic Environmental Assessment*, February 2012, accessed July 2012, <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/eu-ue/initialEA-ceta-aecg-EEinitiale.aspx?lang=eng&view=d>.

<sup>75</sup> Lang, "The Harper Doctrine."

<sup>76</sup> Jeffrey Simpson, "Seeking a nibble in Asian trade waters," *The Globe and Mail*, March 23, 2012: A17.

<sup>77</sup> Canada, Transport Canada, *National Policy Framework for Strategic Gateways and Trade Corridors*.

doubled since 1990. Over two-thirds of Canada's overall exports to the region come from western Canada (\$22.8 billion annually) and the majority of exports are in the form of natural resources and resource-based goods.<sup>78</sup>

From a western Canadian perspective, the most important new trade partnerships lie in the Asia-Pacific region. Predominantly, China offers considerable opportunities for the region. The booming economies of the Asia-Pacific region are driving the demand for natural resources. As the most populous region in the world with 55.2% of the world's population (3.8 billion people), Asia-Pacific represents a critical market for Canada. Since 2002, the emerging markets in Asia grew by an average of 8.9% annually, compared to the global average of 4.2%, the US at 2.2%, and the EU at 1.7%.<sup>79</sup>

The federal government is working to gain entry into Asia-Pacific's emerging markets through multi-lateral trade partnerships, such as the Trans Pacific Partnership Agreement (TPP) and most importantly discussions have begun in regards to the development of a free trade agreement with China. Common themes among new priority countries and regions include young populations, exceptionally rapid growth, and an expanding middle class. These attributes are indicative of a long-term requirement for large quantities of raw resources coupled with a willingness to pay high prices to gain the resources.<sup>80</sup>

The federal government's recent efforts to gain entry into the TPP negotiations show an increased awareness of the importance of the Asia-Pacific region to the Canadian economy.

---

<sup>78</sup> Western Economic Diversification Canada, *Through the Gateway: unlocking western Canada's potential for economic diversification by expanding trade with Asia-Pacific*, 1.

<sup>79</sup> Ibid.

<sup>80</sup> Georges and Merette, "Canada's Strategic Trade Policy Options: Deeper Continental Integration or Diversification?" 1.

After a long courting process, the US gave its support for Canada's inclusion in these negotiations in June of 2012. The TPP already includes nine countries from the Asia-Pacific region: Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the US and Vietnam. Like Canada, Mexico has also received support from the US, and both countries should join the negotiations before the end of 2012.<sup>81</sup>

If successful, projected global income gains from TPP could reach \$295 billion by 2025. Membership could potentially increase the Canadian economy by as much as \$9.9 billion or 0.5% of annual GDP. According to commentators such as Andy Hoffman, using research by Peter A. Petri, Michael G. Plummer and Fan Zhai, Canada will gain much less economically and could give up much more by signing the TPP than other member countries.<sup>82</sup> Ongoing discussion has centered on the costs versus benefits aspects of Canada's involvement in the TPP. There are mixed opinions and the above authors believe that the percentage of economic gain that Canada will experience from free trade with the countries involved will be significantly less than the other TPP members.<sup>83</sup> Canada already has free trade agreements with the US, Mexico, Chile, and Peru, meaning that the Canadian economy would be expanding free trade into only six other countries. Additionally, these six countries currently only represent one percent of Canada's annual exports.<sup>84</sup>

---

<sup>81</sup> Sands, "How the Trans-Pacific Partnership Will Change Canada."

<sup>82</sup> Andy Hoffman, "TPP membership would give Canadian economy big boost, study says," *The Globe and Mail*, June 22, 2012, accessed June 2012, <http://www.theglobeandmail.com/report-on-business/international-business/asian-pacific-business/tpp-membership-would-give-canadian-economy-big-boost-study-says/article4365194/>.

<sup>83</sup> Peter A. Petri, Michael G. Plummer, and Fan Zhai, "The Trans-Pacific Partnership and Asia Pacific Integration: A Quantitative Assessment," Working Paper 119 (East West Center, October 24, 2011).

<sup>84</sup> Michael Geist, "What's behind Canada's entry to the Trans-Pacific partnership talks," *TheStar.com*, June 24, 2012, accessed July 2012, <http://www.thestar.com/business/article/1216011--what-s-behind-canada-s-entry-to-the-trans-pacific-partnership-talks>.

The TPP has spurred significant public interest in the federal approach to negotiations. A key concern has been the potential federal response to demands by other parties to the negotiations that Canada dismantle its dairy and poultry supply management system. Liberalization is central to TPP, and supply managed sectors, can create unfair trade distortions. Producers in central and eastern Canada, who depend on supply management for protection against imports from the US, and elsewhere, have already opposed any changes to the current system.<sup>85</sup>

Although the TPP will potentially be economically beneficial to Canada, the interests of the western provinces continue to be on bilateral trade with China. The Government of China has opted not to engage in the TPP negotiations in order to avoid stringent multi-lateral rules governing the Pacific trade agreement. China prefers bi-lateral agreements with select countries as they provide China with greater control over content and dispute mechanisms.<sup>86</sup> For western Canada, a strong relationship with China is important to maintaining resource sales and trade revenue. In dollar amounts from 1999 to 2009, western Canadian exports to China rose by an average of 14.1% annually, compared to an average growth rate of 4.1% for all other Canadian regions.<sup>87</sup>

Alberta exports the largest dollar amount of merchandise to China. In 2009, the total merchandise sales from Alberta to China, was \$2.8 billion. British Columbia was the next largest exporter with a total of \$2.5 billion, followed by Saskatchewan, \$1.1 billion, and Manitoba, \$648

---

<sup>85</sup> Bill Curry and Barrie McKenna, "Pacific free traders eye Canada's dairy, poultry markets," *The Globe and Mail*, June 20, 2012, accessed June 2012, <http://www.theglobeandmail.com/news/politics/pacific-free-traders-eye-canadas-dairy-poultry-markets/article4358953/>.

<sup>86</sup> Simpson, "Seeking a nibble in Asian trade waters."

<sup>87</sup> Western Economic Diversification Canada, *Through the Gateway: unlocking western Canada's potential for economic diversification by expanding trade with Asia-Pacific*, 19.

million.<sup>88</sup> From western Canada, the composition of exports to China, and Asia-Pacific is different from the rest of the country; the exports are a combination of agricultural products, forestry, and energy resources, whereas the rest of Canada exports mining products and manufactured industrial goods to the region.<sup>89</sup>

Upon election, Stephen Harper did not prioritize or cater to China.<sup>90</sup> Instead of wholeheartedly opening up trade routes to the country, he criticized Chinese leaders over their human rights record. In 2006 Prime Minister Harper said,

I think Canadians want us to promote our trade relations worldwide, and we do that, but I don't think Canadians want us to sell out important Canadian values – our belief in democracy, freedom, human rights. They don't want us to sell that out to the almighty dollar.<sup>91</sup>

Western Canada and many of the provinces at this time chose to venture abroad on their own to China and other emerging economies and developed campaigns to attract foreign investment from these countries.

China's rapid industrialization and booming economy has resulted in a deep need for natural resources and agricultural products. Even with the lack of active federal support, China has been Canada's fastest growing trading partner for over a decade, and while it still only receives 3.7% of Canada's exports, it accounts for 11% of imports.<sup>92</sup> The growing population of Chinese-Canadians, especially in key urban areas in central and western Canada, will also contribute political impetus to strengthening ties with China.

---

<sup>88</sup> Western Economic Diversification Canada, *Through the Gateway: unlocking western Canada's potential for economic diversification by expanding trade with Asia-Pacific*, 18.

<sup>89</sup> *Ibid.*, 21.

<sup>90</sup> Peter Goodspeed, "Canada's increasingly lucrative policy pivot on China," *National Post*, February 6, 2012, accessed May 2012, <http://fullcomment.nationalpost.com/2012/02/06/stephen-harper-in-china/>.

<sup>91</sup> Mark MacKinnon, "Harper's new China gambit; The PM's success next week with China's rising leaders would cement one of the biggest foreign policy reversals in recent years," *The Globe and Mail*, February 4, 2012: A4.

<sup>92</sup> Simpson, "Seeking a nibble in Asian trade waters."

In 2009, Prime Minister Harper made his first trip to China in an attempt to reset bilateral relations between the two countries. Upon arrival, the Chinese leaders openly criticized the Prime Minister for waiting so long to make his first official visit to the country but his attempt at reconciliation appears to have worked. Since 2009, eight major energy deals with Chinese companies have resulted in over \$16 billion in new investments into the Canadian economy. Further, Prime Minister Harper's position has drastically changed in regards to China. In January of 2012, the Prime Minister stated in advance of his second trip to China that "our government is committed to moving our relationship with China forward by focusing on deepening economic ties, including opening new markets, and setting the foundation for long-term growth."<sup>93</sup>

## Provincial International Trade Initiatives

### Development of Trade Missions and Trade Offices

While the federal government has not formally involved the provinces in decision-making over priority markets, the provinces do have the ability to look abroad and attract their own investment. For example, provincial trade offices, together with other trade promotion activities, have occurred on some level since Confederation. Christopher Kukucha believes that the Canadian provinces have "exercised partial and significant autonomy in terms of foreign offices, trade policy, cross border relations, development assistance and the environment long before Harper [came to power]."<sup>94</sup> Most provinces have, and continue to, engage in trade

---

<sup>93</sup> MacKinnon, "Harper's new China gambit; The PM's success next week with China's rising leaders would cement one of the biggest foreign policy reversals in recent years."

<sup>94</sup> Christopher J. Kukucha, "Dismembering Canada? Stephen Harper and the Foreign Relations of Canadian Provinces," *Review of Constitutional Studies* 14, no. 1 (2009): 21.

promotion at the international level in one form or another, be it trade missions, trade offices, or another form of interaction.<sup>95</sup> For example, Alberta has opened trade offices abroad, participated in and initiated trade missions, and has lobbied foreign governments in an attempt to gain greater market access and to protect Albertan interests.

In today's complex trade environment, provinces share the federal government's desire to respond rapidly to changing market conditions, and to accomplish this, some provinces continue to seek greater freedom concerning fiscal and policy matters.<sup>96</sup> The economic shift westward, and an increased focus on the resource sector, corresponds with the current federal government's efforts to shrink the federal footprint.<sup>97</sup> The federal government generally supports the provinces in trade promotion, should they choose to engage in such endeavours. Internationally, Prime Minister Harper has presented a different strategy and approach to trade promotion relative to Jean Chrétien's Team Canada international trade missions. While the Team Canada missions brought all regions together, under one banner, and with one focus, Prime Minister Harper favours allowing Canadian provinces to carry out their own trade promotion activities. Some efforts remain federal initiatives, such as the Prime Minister's recent trip to China, but a large number are provincially developed and executed.<sup>98</sup>

A nationwide debt and deficit reduction effort in Canada during the 1990s at both federal and provincial levels effectively limited the provinces' international profiles. The federal government was not particularly active abroad in either promotion of investment, or

---

<sup>95</sup> . Kukucha, "Dismembering Canada? Stephen Harper and the Foreign Relations of Canadian Provinces," 31.

<sup>96</sup> Carin Holroyd, "Deconstructing Canada in an Age of Global Competition," *Policy Options*, May 2009: 57.

<sup>97</sup> Radwanski, "Ottawa betting on the West for economic prosperity."

<sup>98</sup> Kukucha, "Dismembering Canada? Stephen Harper and the Foreign Relations of Canadian Provinces," 31.

international trade efforts.<sup>99</sup> Additionally, international economic troubles were abundant and growing during these years. The Asian Tigers' financial crisis and Japan's post-bubble economic problems helped to restrain provincial international engagement activities. In an effort to present a unified front to the international community and to assist the provinces in drawing investment, the Chrétien government organized Team Canada missions. These missions aimed at providing industry and government a low-cost approach to reach significant government officials in foreign nations.<sup>100</sup>

The rapid growth in global markets that occurred towards the end of the last decade renewed provincial interest in international trade policy and promotion. Coinciding with the election of the Harper government, the Asian economies began to recover, with both China and India experiencing rapid and unprecedented growth. Economic strength and changing global circumstances indicated to the provinces, especially those in western Canada, that it was time to re-engage internationally. As previously discussed, Prime Minister Harper's initial reaction, upon his election was to remain focused on Canada's strong and consistent partner, the United States. While this may have weakened Canada's international economic presence over Prime Minister Harper's first few years in office, his views and actions concerning trade partnerships have subsequently shifted to include diverse economies.<sup>101</sup>

Ideologically, Prime Minister Harper and the CPC believe that it is the responsibility of the private sector to deal with business. With a lack of a focused approach in recent years, wealthier, more active, provinces such as Alberta moved to expand their international presence.

---

<sup>99</sup> Holroyd, "Deconstructing Canada in an Age of Global Competition," 59.

<sup>100</sup> Ibid., 60.

<sup>101</sup> Ibid.

Increases in provincial activity abroad have been both a result of the fiscal capacity of each province and the federal government's approach.<sup>102</sup>

While Prime Minister Harper has kept a firm grasp on Canadian economic affairs and trade policy issues, he has not outwardly discouraged provinces from interacting abroad, at least on a trade promotion level. At present, the federal government encourages provinces to establish trade offices abroad and to undertake provincial trade missions. Provincial initiatives attract investment to Canada without the federal government's input or financial assistance. Despite the significance of international trade missions, says Kukucha, "it is important to keep the effort in perspective."<sup>103</sup> Provincial offices do not hold diplomatic status. These entities are not the representatives of a government with an independent international personality. They cannot conduct independent foreign policy and this significantly limits their authority, mainly to trade promotion.<sup>104</sup>

Former Alberta Premier Ed Stelmach identified Prime Minister Harper's flexible position in regards to provincial international activity, as "the most significant policy change in the federal government in at least 25 years."<sup>105</sup> Brad Wall, Premier of Saskatchewan, seconded Stelmach's remarks, and stated that:

this is a big country and each province has different economic interests to be pursued internationally... I think recognizing that flexibility and supporting and using the strengths of the provinces who understand their economies perhaps better than any federal government could – that's just wise. It's good policy and it's good for the country.<sup>106</sup>

---

<sup>102</sup> Holroyd, "Deconstructing Canada in an Age of Global Competition," 60.

<sup>103</sup> Kukucha, "Dismembering Canada? Stephen Harper and the Foreign Relations of Canadian Provinces," 32.

<sup>104</sup> Ibid.

<sup>105</sup> Holroyd, "Deconstructing Canada in an Age of Global Competition," 61.

<sup>106</sup> Ibid.

However, despite positive recognition among provinces, there is no indication that widespread provincial engagement of this type is effective in the long-term. It remains difficult to judge the value that provinces gain from operating trade missions and offices abroad; however, the provinces' continue to invest in such ventures, which indicate some perceived benefit from the exchange.<sup>107</sup>

Some provinces embrace the opportunity to operate independently in international trade promotion. However, only a limited number of provincial governments possess both a commitment and the expertise necessary to maintain a significant international presence. A sustained presence is vital to building the business relationships that translate into new investment or market opportunities. Therefore, provinces must carefully weigh the risks and the rewards to opening offices for investment and trade promotion.<sup>108</sup>

Since 2006, there have been ongoing efforts by a number of provinces in the area of trade promotion. Ontario has undertaken trade missions to India, Japan, and Western Europe focusing on sectors such as auto manufacturing and aerospace. Alberta has been expanding its foreign representation with offices in Beijing, Hong Kong, Tokyo, Seoul, Taipei, Mexico City, London and Munich.<sup>109</sup> The province is highly focused on the US and it prioritizes its trade promotion efforts to Washington, where it opened a mission in 2005 connected to the Canadian Embassy. The goal of this office is to protect and promote Alberta's energy and agricultural interests.<sup>110</sup>

More recently, western provinces have worked to create stronger trade promotion arrangements to reach more markets at a lower cost through provincial collaboration.

---

<sup>107</sup> Holroyd, "Deconstructing Canada in an Age of Global Competition," 61.

<sup>108</sup> Kukucha, "Dismembering Canada? Stephen Harper and the Foreign Relations of Canadian Provinces," 28.

<sup>109</sup> Ibid., 34.

<sup>110</sup> Ibid.

Collaboration on trade promotion and development of trade offices allows the provinces to achieve mutual international objectives, without relying on federal government support.<sup>111</sup> This collaborative approach still lacks the legitimacy to engage in federal trade policy decisions, yet creates a unique entity to reach out to the international community.

## Western Collaboration

As indicated, western provinces independently and collaboratively sought out opportunities to increase trade and investment.<sup>112</sup> Trade missions and establishing a physical presence in key cities, is important to enhancing investment relations without relying on federal government initiatives. As the significance of national borders changes and as provinces seek out international markets, growing provincial initiatives and collaboration will gain importance.<sup>113</sup>

Recognition by western provinces that not all markets of priority to western Canada are efficiently covered by the federal government, led to the inclusion of an international cooperation section within the New West Partnership (NWP) Agreement. The NWP, launched in April 2010, is a collaborative agreement between British Columbia, Alberta and Saskatchewan, aimed at strengthening the economy of the west. Within the International Cooperation Agreement, the provinces agree to “collaborate on high-quality, cost-effective, joint international initiatives.”<sup>114</sup> The agreement includes dedication to “undertaking joint mission or marketing visits, sharing

---

<sup>111</sup> Holroyd, "Deconstructing Canada in an Age of Global Competition," 62.

<sup>112</sup> Western Economic Diversification Canada, *Through the Gateway: unlocking western Canada's potential for economic diversification by expanding trade with Asia-Pacific*, 40.

<sup>113</sup> Gecelovsky and Kukucha, "Foreign Policy Reviews and Canada's Trade Policy: 1968–2009," 40.

<sup>114</sup> Government of Saskatchewan, "New West Partnership Backgrounder," *Government of Saskatchewan*, April 30, 2010, accessed April 2012: 2, <http://www.gov.sk.ca/adx/asp/adxGetMedia.aspx?mediaId=1118&PN=Shared>.

resources in international markets, such as co-locating marketing offices or personnel, [and] sharing market intelligence in areas of common interest.”<sup>115</sup>

The NWP addresses a longstanding challenge in advancing Canadian trade policy. Smaller regional alignments, such as the NWP, are large enough to attract attention in global markets but remain small enough to be manageable at the political and policy level.<sup>116</sup> Robert Roach of the CanadaWest Foundation wrote, “mobilizing all 10 provinces and three territories...is often...unmanageable. The number of players and the diversity of interests at the table mean that national negotiations are slow, complex, peppered with policy landmines and barriers to successful cooperation.”<sup>117</sup>

Regional interests can play a large role in negotiations and can lead to protracted discussions over priorities and approaches. For example, agricultural policy has caused great regional divides in the past and has drawn out multilateral and bilateral negotiations. As agriculture entered the global trading regime, competing interests among Canada’s regions meant that some provinces supported free market and export oriented policy while others worked to preserve high tariffs and supply management.<sup>118</sup>

Provincial collaboration is beneficial as provinces share mutual interests and can enhance political influence. From a fiscal perspective, trade collaboration can help reduce costs and increase provincial impact abroad, while avoiding duplication of trade offices or international

---

<sup>115</sup> Government of Saskatchewan, "New West Partnership Backgrounder," 2.

<sup>116</sup> Robert Roach, *Better neighbours: the ongoing case for interprovincial cooperation in western Canada* (Calgary: Canada West Foundation, 2009): 7.

<sup>117</sup> *Ibid.*, 11.

<sup>118</sup> Grace Skogstad, "Canadian Agricultural Programs and Paradigms: The Influence of International Trade Agreements and Domestic Factors," *Canadian Journal of Agricultural Economics* 56 (2008): 497.

efforts.<sup>119</sup> To date, the most significant accomplishment of the International Cooperation Agreement under the NWP was collaboration for a joint Premier's mission to China and Japan in May of 2010. The objective was to enhance trade and promote natural resources, clean technology, and a competitive investment climate. Together, the provinces were able to engage with new partners and gain significant interest in their region.<sup>120</sup>

During the trade mission, the premiers officially opened the Western Canada Trade and Investment Office, based in Shanghai. Trade missions and operating offices are considering important fixtures in the Asia-Pacific region, where sustained government-to-government relations influence commercial relations. Consistent senior official presence is helpful in attracting investment into western Canada and ensuring the management of problems in a smooth and efficient manner.<sup>121</sup> This office intends to promote and “advance industries including green technology, natural resources, agri-food and agriculture.”<sup>122</sup> It also represents the three provinces in priority sectors, including tourism, education and investment attraction. Shanghai is China's trade and financial hub and is the world's second busiest port. This new connection for western Canada is a substantial benefit for the region and strengthens the Pacific Gateway.<sup>123</sup>

### Provincial Involvement in Trade Negotiation

In addition to an increased presence abroad, provincial governments are also seeking greater involvement in negotiations of trade agreements. As trade agreements have become more

---

<sup>119</sup> Roach, *Better neighbours: the ongoing case for interprovincial cooperation in western Canada*, 6.

<sup>120</sup> Western Economic Diversification Canada, *Through the Gateway: unlocking western Canada's potential for economic diversification by expanding trade with Asia-Pacific*, 41.

<sup>121</sup> *Ibid.*

<sup>122</sup> Government of Saskatchewan, "Western Provinces Open Joint Trade and Investment Office in Shanghai," *Government of Saskatchewan*, May 17, 2010, accessed June 2012, <http://www.gov.sk.ca/news?newsId=5c7156ea-cc9d-4faa-8dd2-5c716e525f80>.

<sup>123</sup> *Ibid.*

comprehensive, they have encroached on matters of provincial jurisdiction such as, agriculture, alcohol, government procurement, health and safety, energy, mining, environment and labour.<sup>124</sup>

With encroachment and overlap, concerns have arisen regarding the level of provincial involvement in trade negotiations. While the federal government remains the sole signing authority to international trade agreements, over the years, consultation processes have expanded to include provinces in varying degrees. Provincial inclusion hinges on the political will of the federal government and generally, the federal government has resorted to executive federalism or committees to address international trade issues.<sup>125</sup>

During the Canada-US Free Trade Agreement negotiations, which began in 1986, the western provinces pressured for inclusion in negotiations in order to balance out Quebec and Ontario's perceived dominance.<sup>126</sup> In response, the federal government expanded its consultation efforts with provincial governments, but retained exclusive control over the negotiation process. The provincial representatives remained outside of the negotiating team but provided more input than any other previous trade negotiation.<sup>127</sup>

During the North American Free Trade Agreement (NAFTA) negotiations in the early 1990s, the federal government created the Committee for North American Free Trade Negotiations (CNAFTN) to ensure that the federal government heard provincial and territorial concerns. This group later evolved into C-Trade, a Federal-Provincial-Territorial Trade

---

<sup>124</sup> Kukucha, "Dismembering Canada? Stephen Harper and the Foreign Relations of Canadian Provinces," 35.

<sup>125</sup> Kukucha, *The Provinces and Canadian Foreign Trade Policy*, 43.

<sup>126</sup> *Ibid.*, 49.

<sup>127</sup> *Ibid.*, 50.

Committee system. Christopher Kukucha believes that Ottawa endorsed C-Trade for pragmatic reasons.<sup>128</sup> He states that:

For the better part of a decade, Canada had been involved in free trade negotiations at the global and regional levels. Now, the newly created WTO would encompass areas of provincial jurisdiction that required coordination between Ottawa and the provinces. Bureaucratic survival for both levels of government was also an issue. Past negotiations had forced Ottawa and the provinces to commit greater resources to international trade policy. As a result, there was pressure from the bureaucracy to maintain or expand the institutional infrastructure that already existed.<sup>129</sup>

Kukucha is of the view that the deepening of agreements to encompass provincial jurisdictions made ongoing consultations between Ottawa and the provinces a practical requirement.

C-Trade consists of quarterly meetings between federal and provincial officials to discuss trade issues. On the surface, C-Trade appears to represent an important commitment by the federal government to involve provinces in trade policy. However, there are concerns that C-Trade is more of a briefing session on federal government activities rather than a meaningful process for gathering provincial views on trade matters.<sup>130</sup>

While the federal government is the sole authority to sign trade agreements, it must rely on the provinces to implement many of their provisions. In both the NAFTA and WTO agreements, binding mechanisms exist to resolve trade disputes including the imposition of penalties on governments and industries that fail to abide to the terms of these agreements. These mechanisms ensure that trade rules, rather than short-term political considerations, govern

---

<sup>128</sup> Kukucha, *The Provinces and Canadian Foreign Trade Policy*, 53.

<sup>129</sup> *Ibid.*

<sup>130</sup> *Ibid.*, 57.

nation-to-nation dealings. Within these agreements, Canada has the legal right to lodge formal complaints and to initiate disputes under the dispute resolution guidelines.<sup>131</sup>

One challenge faced by the federal government related to dispute resolution is that provincial government actions can place the federal government in breach of its obligations under a trade agreement. The recent decision by the Government of Newfoundland and Labrador to seize the assets of AbitibiBowwater Inc., an international forestry company, demonstrates this challenge. Abitibi challenged the seizure under NAFTA and eventually received a cash settlement of \$130 million from the Government of Canada as compensation. Newfoundland and Labrador was not party to the settlement.<sup>132</sup>

In the past, the federal government limited its liability in trade agreements by implementing a 'federal clause' in relation to matters falling under provincial jurisdiction. The clause explains to foreign governments and investors that the federal government may have difficulty implementing certain provisions of a trade agreement that fall under provincial jurisdiction. As trade agreements become more complex, Canada's trading partners are reluctant to accept the clause and are seeking greater assurances that the terms of agreements are binding on all Canadian governments.<sup>133</sup>

---

<sup>131</sup> Skogstad, "Canadian Federalism, International Trade, and Regional Market Integration in an Era of Complex Sovereignty," 229

<sup>132</sup> John Ibbitson and Bertrand Marotte, "Provinces on hook in future trade disputes: Harper," *The Globe and Mail*, August 26, 2010, accessed June 2012, <http://www.theglobeandmail.com/report-on-business/provinces-on-hook-in-future-trade-disputes-harper/article1686431/>.

<sup>133</sup> Alexandre Gauthier and Simon Lapointe, "Canada's Provinces and International Trade Agreements," *Library of Parliament*, 2011, accessed June 2012, <http://www.parl.gc.ca/Content/LOP/ResearchPublications/cei-16-e.htm>.

## Increased Provincial Involvement?

International trading partners, specifically the EU, increasingly insist on provincial inclusion in negotiations to assure eventual compliance with their terms. Provinces are indicating a preparedness to accept financial responsibility in trade disputes in exchange for a more meaningful role in trade negotiations. Additionally, the federal government has proposed establishing formal mechanisms to ensure that if a situation like AbitibiBowater occurs again the federal government will not be the only entity financially responsible.<sup>134</sup>

Given the multiple stages during the negotiation process, there is room for provincial involvement, such as a presence at the negotiation table. A role at the negotiation table is different from a role in the approval, ratification, and implementation stages of agreements. In the long-term, it is unlikely that the federal government will move towards a system of formal provincial inclusion in all stages of trade agreement development.<sup>135</sup>

With Prime Minister Harper's approach to federalism, provincial input in negotiations will likely remain restricted to issues within provincial jurisdiction. This appears to be consistent with the recent provincial inclusion at the negotiation table during CETA negotiation rounds. The extent of provincial inclusion in CETA negotiations is unprecedented in scope and depth.<sup>136</sup>

Christopher Kukucha wrote that in the early stages of CETA talks there were approximately twelve negotiating groups established. Provinces were actively involved in at least six of these different forums and their inclusion stemmed directly from EU demands. Although

---

<sup>134</sup> Ibbitson and Marotte, "Provinces on hook in future trade disputes: Harper."

<sup>135</sup> Skogstad, "Canadian Federalism, International Trade, and Regional Market Integration in an Era of Complex Sovereignty," 238

<sup>136</sup> Althia Raj, "CETA: Provinces Failing To Defend Themselves In Canada-EU Free Trade Negotiations, Says Lawyer," *The Huffington Post*. July 9, 2012, accessed July 2012, [http://www.huffingtonpost.ca/2012/07/09/ceta-canada-eu-free-trade\\_n\\_1660348.html](http://www.huffingtonpost.ca/2012/07/09/ceta-canada-eu-free-trade_n_1660348.html).

the EU has not called for provincial participation in all areas of the negotiations, Kukucha believes that:

a successful resolution to the CETA process will depend a great deal on the final negotiating positions of Canadian provinces. The capacity of provincial governments to influence Canada's foreign trade policy and international norms and standards is evident when examining alcohol, agriculture, sanitary measures, technical barriers to trade, regulatory cooperation, procurement, services, and investment.<sup>137</sup>

Kukucha identifies the increased role of the provinces but also recognizes that their inclusion does not extend to all aspects of negotiations.

The provinces have long been unable to agree upon an approach to provincial inclusion in negotiations. However, in 2011, the Council of the Federation released its provincial trade strategy, titled *Canada in the Global Economy*. The strategy detailed a framework for the involvement of provinces and territories in international trade talks. This indicates the provincial and territorial willingness to negotiate with the federal government on a policy to codify their involvement in international trade negotiations.<sup>138</sup>

While it is important that the provinces indicated a readiness to sign a federal-provincial agreement on trade negotiations, it has been very difficult in the past for provinces to coordinate a unified front to achieve a final agreement.<sup>139</sup> If the provinces see the proposal through, it would represent an unprecedented level of inter-provincial cooperation.<sup>140</sup> Ultimately, much will depend on the federal government's willingness to share its exclusive authority in the area of international trade policy and trade negotiations.

---

<sup>137</sup> Christopher J Kukucha, "Provincial Pitfalls: Canadian Provinces and the Canada-EU Trade Negotiations" (Paper presented at Canadian Political Science Association Annual Conference, Montreal, June 1-3, 2010), <http://www.cpsa-acsp.ca/papers-2010/Kukucha.pdf>.

<sup>138</sup> Carl Meyer, "Provinces want trade role outlined in writing," *Embassy*, August 3, 2011, accessed April 2012, <http://www.embassymag.ca/page/view/provinces-08-03-2011>.

<sup>139</sup> *Ibid.*

<sup>140</sup> *Ibid.*

The wealthy and growing western provinces appear to embrace the idea of greater inclusion in trade negotiation. Alberta has lobbied for specific items to be included in trade negotiations, including protection of oil and gas exports and the reduction of agricultural tariffs.<sup>141</sup> However, Alberta's commitment has not appeared to move the province any closer to more sustained and meaningful inclusion. Inclusion that is more formal could develop, but the economic shift westward, by itself, will not likely influence the federal government to relinquish any true authority over international agreements.

The current federal government is pursuing an expansive deficit reduction plan, as indicated by recent budget cuts across federal government departments, including spending to the Department of Foreign Affairs and International Trade. Recent cuts to this Department will inevitably reduce its capacity to complete the large number of trade agreements currently under negotiation. The federal government has indicated that it may try to offload some aspects of the negotiation process, such as research and initial consultations, to provincial levels or to the private sector.<sup>142</sup> While this has not yet occurred, it will be important watch to see if there are future developments.

## Conclusion

This paper explored the connection between Canada's westward shift in economic activity, the CPC's approach to federalism, and changes in Canadian international trade policy. The shift in economic strength to western Canada has not significantly affected the form and substance of Canadian international trade policy. Despite the increasing importance of western

---

<sup>141</sup> Kukucha, "Dismembering Canada? Stephen Harper and the Foreign Relations of Canadian Provinces," 32.

<sup>142</sup> Carl Meyer, "Provinces want trade role outlined in writing."

Canada's natural resources to the Canadian economy, the role of these provinces within Canadian trade policy has remained relatively unchanged.

In respect to the formulation of national priorities for international trade, the federal government remains in control of decisions, priorities, and agenda setting. Western Canadian economic growth in natural resource commodities does not appear to have influenced the federal government to prioritize western economic interests. During his early years in government, the priority of Prime Minister Harper was on enhancing relations with the US and developing a comprehensive economic and trade agreement with the EU. It has only been more recently that the federal government started to focus attention on emerging markets in the Asia-Pacific region. While the US remains a priority market for western Canada, the western provinces welcomed the federal government's interest in Asia-Pacific, and especially China, a region of high priority for western trade.

Western Canadian provinces engage with Asia-Pacific through trade promotion initiatives in an attempt to bolster investment and sales. In the past, provinces have typically developed trade initiatives independently, but more recently, provinces are collaborating on international initiatives to cut costs and reach greater numbers of investors. The federal government supports international provincial trade promotion initiatives, which can allow for countrywide economic benefits. Provincial efforts work in conjunction with, and complement, the federal government's trade promotion initiatives. As of yet, only provinces that are in strong fiscal positions have been able to truly benefit from increased autonomy in trade promotion. Recently, the majority of these provinces are from western Canada.

The western provinces have invested in trade promotion in the Asia-Pacific region by increasing bilateral relations, carrying out trade missions, and establishing trade offices.

However, due to the complexity of international trade, it remains difficult to assess what impact, if any, these activities have had on new investment in western Canada. Ultimately, the success of these activities will depend on the implementation of supportive federal policies. This includes the decrease of trade barriers, through agreements such as the TPP, and enhanced bilateral relations with high priority countries, such as China and India.

While provincial involvement in trade promotion is relatively uncontroversial, the involvement of these governments in trade negotiation is a more challenging issue for the federal government. To date, the federal government has not relinquished control over trade negotiations and remains the sole authority in signing trade agreements. As trade agreements have broadened in scope, federal trade negotiations are increasingly more complicated. The federal government must balance competing regional and provincial interests and develop ways to include the provinces when new comprehensive agreements encroach on areas of provincial jurisdiction.

Historically, provinces have not had a direct role in trade negotiations beyond federal-provincial consultations, such as the C-Trade forum. As the comprehensive nature of agreements increases, pressure from both provinces and Canadian trade partners to enhance provincial involvement in trade negotiations has grown. Although Prime Minister Harper appears willing to expand provincial involvement in areas that fall within provincial jurisdiction, there is little to suggest that he intends to provide provinces with a more authoritative role in these negotiations.

The CETA process may foreshadow the approach that the federal government intends to employ in future trade negotiations. These negotiations have involved more formalized

consultation mechanisms with provinces where the matters subject to negotiation encroach on areas of provincial jurisdiction. This type of provincial inclusion in trade negotiation is unprecedented. During CETA, the EU was insistent that the provinces be present in the negotiation process, in an effort to ensure provincial support over jurisdictional matters and not to risk breaching elements of the agreement in the future.

The extent to which the provinces will be involved in future negotiations remains to be determined. It is unclear whether other states, such as China and the participants in the TPP negotiations, would be willing to engage Canada in this manner. An over-represented presence on either side of the negotiating table carries the risk of stalling or creating other troubling barriers to the negotiation process. However, there is no doubt the federal government will need to engage the provinces in meaningful consultations in those areas that fall under provincial jurisdiction.

Increasing formal inclusion in trade negotiations may not benefit the federation as a whole, but increasing national dialogue on issues covered in trade agreements is a good faith measure that could relieve provinces of concerns over encroachment upon their jurisdictions. Ultimately, with globalization and increasingly intrusive trade agreements, Canadian trading partners may be the greatest influence of change to Canadian trade policy. Continued analysis on this topic is important, as the western provinces grow further, and as various economies around the world continue to recover from the economic downturn.

## Bibliography

- Ballingall, Alex, Tamsin McMahon, and Paul Wells. "How Ottawa runs on oil." *macleans.ca*. March 23, 2012. <http://www2.macleans.ca/2012/03/23/oil-power/> (accessed April 2012).
- Barichello, Richard, John Cranfield, and Karl Meilke. "Options for supply management in Canada with trade liberalization." *Canadian Agriculture Trade Policy Research Network*. June 2007. <http://www.catrade.org> (accessed April 2012).
- Berdahl, Loleen. "Region-building: Western Canadian joint cabinet meetings in the 2000s." *Canadian Public Administration* (The Institute of Public Administration of Canada) 54, no. 2 (June 2011): 255-275.
- Burney, Derek H, and Fen Osler Hampson. "How Obama Lost Canada." *Foreign Affairs*. June 21, 2012. [www.foreignaffairs.com/print/134992](http://www.foreignaffairs.com/print/134992) (accessed June 2012).
- Cairns, Robert D. "Natural Resources and Canadian Federalism: Decentralization Recurring Conflict, and Resolution." *Publius: The Journal of Federalism*, no. 22 (Winter 1992): 55-70.
- Canada. Department of Finance Canada. *Equalization Program*. December 19, 2011. <http://www.fin.gc.ca/fedprov/eqp-eng.asp> (accessed June 2012).
- Canada. Foreign Affairs and International Trade. *Canada-European Union: Comprehensive Economic and Trade Agreement (CETA) Negotiations: Initial Strategic Environmental Assessment*. February 2012. <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/eu-ue/initialEA-ceta-aecg-EEinitiale.aspx?lang=eng&view=d> (accessed July 2012).
- Canada. Natural Resources Canada. *Important Facts on Canada's Natural Resources (as of October 2011)*. 2011. <http://www.nrcan.gc.ca/sites/www.nrcan.gc.ca/files/files/stat/2012/important-2012-eng.pdf> (accessed June 2012).
- Canada. Statistics Canada. *Gross domestic product by industry: Provinces and territories, 2011 (preliminary data)*. April 27, 2012. <http://www.statcan.gc.ca/daily-quotidien/120427/dq120427a-eng.htm> (accessed June 2012).
- Canada. Transport Canada. *National Policy Framework for Strategic Gateways and Trade Corridors*. 2009. <http://www.canadagateways.gc.ca/media/documents/en/NationalPolicyFramework.pdf> (accessed May 2012).
- Carlson, Kathryn Blaze. "Majority for Conservatives; NDP official opposition." *National Post*. May 2, 2011. <http://news.nationalpost.com/2011/05/02/conservatives-make-inroads-in-atlantic-canada-liberals-dwindle/> (accessed June 2012).

- Carrick, Alex. "Canada's labour markets on either coast offer advantages versus the centre." *Daily Commercial News and Construction Record*. July 10, 2012. <http://dcnonl.com/article/id50961/--canadarsquos-labour-markets-on-either-coast-offer-advantages-versus-the-centre> (accessed July 2012).
- Chapin, Angelina. "The CEO Poll: Bring on the Harper agenda." *Canadian Business*. May 19, 2011. <http://www.canadianbusiness.com/article/26151--the-ceo-poll-bring-on-the-harper-agenda> (accessed May 2012).
- Coulombe, Serge. "Globalization and Regional Disparity: A Canadian Case Study." *Regional Studies* 41, no. 1 (February 2007): 1-17.
- Courchene, Thomas J. "Hourglass federalism — how the feds got the provinces to run out of money in a decade of Liberal budgets." *Policy Options*, April 2004: 12-17.
- Covert, Kim. "Canada's prosperous West will 'reign supreme' in economic growth." *canada.com*. February 10, 2012. <http://www.canada.com/business/Canada+prosperous+West+will+reign+supreme+economic+growth/6133898/story.html> (accessed April 2012).
- Crowley, Brian Lee, and Jason Langrish. "Canada's vital interest in free trade." *The Globe and Mail*. April 27, 2012. <http://www.theglobeandmail.com/commentary/canadas-vital-interest-in-free-trade/article4102976/> (accessed May 2012).
- Curry, Bill, and Barrie McKenna. "Pacific free traders eye Canada's dairy, poultry markets." *The Globe and Mail*. June 20, 2012. <http://www.theglobeandmail.com/news/politics/pacific-free-traders-eye-canadas-dairy-poultry-markets/article4358953/> (accessed June 2012).
- Curry, Bill, and Joe Friesen. "Canada's future is in the West: 2011 Census." *The Globe and Mail*. March 31, 2012. <http://www.theglobeandmail.com/news/national/canadas-future-is-in-the-west-2011-census/article544556/> (accessed April 2012).
- Dodge, David A. "The Economic Union and Pressures from Uneven Growth." *Calgary Symposium*. February 7, 2012. [http://www.bennettjones.ca/uploadedFiles/News\\_and\\_Events/Seminars\\_and\\_Webinars/CalgarySymposiumDodge.pdf](http://www.bennettjones.ca/uploadedFiles/News_and_Events/Seminars_and_Webinars/CalgarySymposiumDodge.pdf) (accessed June 2012).
- Dymond, Bill, and Michael Hart. "Navigating New Trade Routes: The Rise of Value Chains, and the Challenges for Canadian Trade Policy." *C.D. Howe Institute Commentarty*, no. 259 (March 2008): 1-28.
- Elliott, Louise. "Kenny lauds provinces' immigration success." *Canadian Broadcasting Corporation*. November 21, 2011. <http://www.cbc.ca/news/canada/story/2011/11/21/pol-immigration-kenney-skilled.html?cmp=rss> (accessed July 2012).
- Enoch, Simon. "The 'New Saskatchewan' Neoliberal Renewal or Redux?" *Socialist Studies* 7, no. 1/2 (Spring/Fall 2011): 191-215.

- Evans, Paul. "Working with Asia." *The Mark*. July 8, 2010. <http://www.themarknews.com/series/20-talking-back-to-the-open-canada-report/articles/1831-working-with-asia> (accessed April 2012).
- Friesen, Joe. "Immigrant drop imperils Ontario economy." *The Globe and Mail*. February 6, 2012. <http://www.theglobeandmail.com/news/politics/immigrant-drop-imperils-ontario-economy/article4197576/> (accessed June 2012).
- Gauthier, Alexandre, and Simon Lapointe. "Canada's Provinces and International Trade Agreements." *Library of Parliament*. 2011. <http://www.parl.gc.ca/Content/LOP/ResearchPublications/cei-16-e.htm> (accessed June 2012).
- Gecelovsky, Paul, and Christopher J. Kukucha. "Foreign Policy Reviews and Canada's Trade Policy: 1968–2009." *American Review of Canadian Studies* 41, no. 1 (March 2011): 37-52.
- Geist, Michael. "What's behind Canada's entry to the Trans-Pacific partnership talks." *TheStar.com*. June 24, 2012. <http://www.thestar.com/business/article/1216011--what-s-behind-canada-s-entry-to-the-trans-pacific-partnership-talks> (accessed July 2012).
- Georges, Patrick, and Marcel Merette. "Canada's Strategic Trade Policy Options: Deeper Continental Integration or Diversification?" *Institute for Research on Public Policy*. December 2010. [www.irpp.org/pubs/IRPPstudy/IRPP\\_Study\\_no11.pdf](http://www.irpp.org/pubs/IRPPstudy/IRPP_Study_no11.pdf) (accessed April 2012).
- Gibbins, Roger. "Pillar 6 - A Collaborative Approach to Inter-Governmental Engagement." *Canadian Gas Association*. September 2009. <http://www.cga.ca/energy-framework-initiative/> (accessed April 2012).
- Goodspeed, Peter. "Canada's increasingly lucrative policy pivot on China." *National Post*. February 6, 2012. <http://fullcomment.nationalpost.com/2012/02/06/stephen-harper-in-china/> (accessed May 2012).
- Gordon, Stephen. "Canada's economic core shifts west." *The Globe and Mail*. May 24, 2011. <http://www.theglobeandmail.com/report-on-business/economy/economy-lab/stephen-gordon/canadas-economic-core-shifts-west/article2032403/> (accessed April 2012).
- Government of Saskatchewan. "Western Provinces Open Joint Trade and Investment Office in Shanghai." *Government of Saskatchewan*. May 17, 2010. <http://www.gov.sk.ca/news?newsId=5c7156ea-cc9d-4faa-8dd2-5c716e525f80> (accessed June 2012).
- Government of Saskatchewan. "New West Partnership Backgrounder." *Government of Saskatchewan*. April 30, 2010. <http://www.gov.sk.ca/adx/asp/adxGetMedia.aspx?mediaId=1118&PN=Shared> (accessed April 2012).
- Harper, Stephen. "Prime Minister Harper outlines his Government's priorities and open federalism approach." *Prime Minister of Canada Stephen Harper*. April 20, 2006. <http://pm.gc.ca/eng/media.asp?id=1119> (accessed April 2012).

Harris, Kathleen. "Trade building Blocs: is Canada's ambitious new trade deal with Europe the future, or an ill-times diversion from greener pastures in Asia." *Maclean's*, January 2, 2012: 67.

Hoffman, Andy. "TPP membership would give Canadian economy big boost, study says." *The Globe and Mail*. June 22, 2012. <http://www.theglobeandmail.com/report-on-business/international-business/asian-pacific-business/tpp-membership-would-give-canadian-economy-big-boost-study-says/article4365194/>. (accessed June 2012).

Holroyd, Carin. "Deconstructing Canada in an Age of Global Competition." *Policy Options*, May 2009: 57-62.

Hughes, J. David. "Canada's "Energy Superpower" Delusion." *The Mark*. July 8, 2010. <http://www.themarknews.com/series/20-talking-back-to-the-open-canada-report/articles/1827-canadas-energy-superpower-delusion> (accessed April 2012).

Hutchinson, Brian. "Affordable homes, resource economies drive the West as Canada's growth engine." *National Post*. February 8, 2012. <http://fullcomment.nationalpost.com/2012/02/08/brian-hutchinson-afordable-homes-diverse-economies-drive-the-west-as-canadas-growth-engine/> (accessed April 2012).

Ibbitson, John. "Being a spoke in American trade isn't enough for Canada." *Globe and Mail*. March 28, 2012. <http://www.theglobeandmail.com/news/politics/john-ibbitson/being-a-spoke-in-american-trade-isnt-enough-for-canada/article2382331/> (accessed May 2012).

Ibbitson, John. "Harper unbound: An analysis of his first year as a majority PM." *Globe and Mail*. April 28, 2012. <http://www.theglobeandmail.com/news/politics/john-ibbitson/harper-unbound-an-analysis-of-his-first-year-as-majority-pm/article2416555/singlepage/> (accessed May 2012).

Ibbitson, John. "Why protecting dairy, poultry farmers is no sacred cow for Harper." *Globe and Mail*. March 12, 2012. <http://www.theglobeandmail.com/news/politics/john-ibbitson/why-protecting-dairy-poultry-farmers-is-no-sacred-cow-for-harper/article2366116/> (accessed May 2012).

Ibbitson, John, and Bertrand Marotte. "Provinces on hook in future trade disputes: Harper." *The Globe and Mail*. August 26, 2010. <http://www.theglobeandmail.com/report-on-business/provinces-on-hook-in-future-trade-disputes-harper/article1686431/> (accessed June 2012).

Kheiriddin, Tasha. "Tasha Kheiriddin: Will the real Stephen Harper please stand up?" *National Post*. November 15, 2010. <http://fullcomment.nationalpost.com/2010/11/15/tasha-kheiriddin-will-the-real-stephen-harper-please-stand-up/> (accessed April 2012).

Kukucha, Christopher J. "Dismembering Canada? Stephen Harper and the Foreign Relations of Canadian Provinces." *Review of Constitutional Studies* 14, no. 1 (2009): 21-52.

Kukucha, Christopher J. "The Role of the Provinces in Canadian Foreign Trade Policy: Multi-Level Governance and Sub-National Interests in the Twenty-First Century." *Policy and Society* 23, no. 3 (January 2004): 113-134.

Kukucha, Christopher J. *The Provinces and Canadian Foreign Trade Policy*. Vancouver: UBC Press, 2008.

Kukucha, Christopher J. "Provincial Pitfalls: Canadian Provinces and the Canada-EU Trade Negotiations." Paper presented at Canadian Political Science Association Annual Conference, Montreal, June 1-3, 2010. <http://www.cpsa-acsp.ca/papers-2010/Kukucha.pdf>.

Kunin, Roslyn. "Canada's Economic Sun is Now Rising in the West." *Canada West Foundation*. September 16, 2010. <http://cwf.ca/commentaries/canadas-economic-sun-is-now-rising-in-the-west> (accessed April 2012).

Lang, Eugene. "The Harper Doctrine." *National Post*. April 16, 2012. <http://fullcomment.nationalpost.com/2012/04/16/eugene-lang-the-harper-doctrine/> (accessed April 2012).

MacKinnon, Mark. "Harper's new China gambit; The PM's success next week with China's rising leaders would cement one of the biggest foreign policy reversals in recent years ." *The Globe and Mail*, February 4, 2012: A4.

macleans.ca . "The west is in. Now what?: Can the West shape the national agenda? A Maclean's debate." *Macleans.ca*. February 3, 2010. <http://www2.macleans.ca/2010/02/03/the-west-is-in-now-what/> (accessed April 2012).

Meyer, Carl. "Provinces want trade role outlined in writing." *Embassy*. August 3, 2011. <http://www.embassymag.ca/page/view/provinces-08-03-2011> (accessed April 2012).

Norquay, Geoff. "The Death of Executive Federalism and the Rise of the "Harper Doctrine": Prospects for the Next Health Care Accord." *Policy Options*, December-January 2011-2012: 46-50.

Petri, Peter A., Michael G. Plummer, and Fan Zhai. "The Trans-Pacific Partnership and Asia Pacific Integration: A Quantitative Assessment." Working Paper 119, East West Center, October 24, 2011. [http://www.usitc.gov/research\\_and\\_analysis/documents/petri-plummer-zhai%20EWC%20TPP%20WP%20oct11.pdf](http://www.usitc.gov/research_and_analysis/documents/petri-plummer-zhai%20EWC%20TPP%20WP%20oct11.pdf) (accessed July 2012).

Radwanski, Adam. "Ottawa betting on the West for economic prosperity." *The Globe and Mail*. March 29, 2012. <http://www.theglobeandmail.com/news/politics/adam-radwanski/ottawa-betting-on-the-west-for-economic-prosperity/article2386653/> (accessed April 2012).

Raj, Althia. "CETA: Provinces Failing To Defend Themselves In Canada-EU Free Trade Negotiations, Says Lawyer." *The Huffington Post*. July 9, 2012. [http://www.huffingtonpost.ca/2012/07/09/ceta-canada-eu-free-trade\\_n\\_1660348.html](http://www.huffingtonpost.ca/2012/07/09/ceta-canada-eu-free-trade_n_1660348.html). (accessed July 2012).

Roach, Robert. *Better neighbours: the ongoing case for interprovincial cooperation in western Canada*. Calgary: Canada West Foundation, 2009.

- Robertson, Colin. "New Solutions to Canada's Old Problems." *The Mark*. July 8, 2010. <http://www.themarknews.com/series/20-talking-back-to-the-open-canada-report/articles/1822-new-solutions-to-canada-s-old-problems> (accessed April 2012).
- Sands, Christopher. "How the Trans-Pacific Partnership Will Change Canada." *The Huffington Post*. June 19, 2012. [http://www.huffingtonpost.ca/christopher-sands/g20-summit\\_b\\_1609732.html](http://www.huffingtonpost.ca/christopher-sands/g20-summit_b_1609732.html) (accessed June 2012).
- Schofield, John. "Canada: An Energy Superpower?" *Canada Manufacturers and Exporters Magazine* 20/20. September/October 2011. [http://www.2020magazine.ca/\\_uploads/magazine/issue/2020\\_sep\\_oct\\_2011.pdf](http://www.2020magazine.ca/_uploads/magazine/issue/2020_sep_oct_2011.pdf) (accessed April 2012).
- Siekierski, BJ. "Despite expected cuts, Harper's free trade agenda takes on all comers ." *iPolitics*. March 22, 2012. <http://www.ipolitics.ca/2012/03/22/despite-expected-cutbacks-harpers-free-trade-agenda-takes-on-all-comers/> (accessed April 2012).
- Simpson, Jeffrey. "Seeking a nibble in Asian trade waters." *The Globe and Mail*, March 23, 2012: A17.
- Skogstad, Grace. "Canadian Agricultural Programs and Paradigms: The Influence of International Trade Agreements and Domestic Factors." *Canadian Journal of Agricultural Economics* 56 (2008): 493-507.
- Skogstad, Grace. "Canadian Federalism, International Trade, and Regional Market Integration in an Era of Complex Sovereignty." In *Canadian Federalism: Performance, Effectiveness, and Legitimacy*, by Grace Skogstad and Herman Bakvis, 223-240. Oxford University Press, 2007.
- Skogstad, Grace. "Globalization and Public Policy: Situating Canadian Analyses." *Canadian Journal of Political Science* 33, no. 4 (December 2000): 805-828.
- Skogstad, Grace. "Who Governs? Who Should Govern?: Political Authority and Legitimacy in Canada in the Twenty-First Century." *Canadian Journal of Political Science* 36, no. 5 (December 2003): 955-973.
- Smith, David E. "Parallel Provinces: Saskatchewan and Alberta." *Journal of Canadian Studies* 44, no. 3 (Fall 2010): 5-25.
- Steger, Debra. "Harper and Obama at APEC: A New Focus on Asia or a Closer Canada-U.S. Relationship?" *Center for International Policy Studies*. November 17, 2011. <http://cips.uottawa.ca/harper-and-obama-at-apec-a-new-focus-on-asia-or-a-closer-canada-u-s-relationship/> (accessed April 2012).
- Stonaker, Mary E. "Canada: Energy Superpower? Analysis by Mary E. Stonaker." *Al Arabiya News*. July 22, 2011. <http://english.alarabiya.net/articles/2011/07/22/158768.html> (accessed April 2012).
- Taylor, Peter Shawn. "The Harper Doctrine." *Macleans*. February 7, 2007. [http://www.macleans.ca/article.jsp?content=20070205\\_140347\\_140347](http://www.macleans.ca/article.jsp?content=20070205_140347_140347) (accessed May 2012).

- The Canadian Press. "Canada's political power shifts westward with population." *Canadian Broadcasting Corporation*. February 8, 2012. <http://www.cbc.ca/news/politics/story/2012/02/08/pol-census-politics-west.html> (accessed April 2012).
- The Guardian. "Canada's economic future: Slower potential growth, bigger East-West disparity." *The Guardian*. February 10, 2012. <http://www.theguardian.pe.ca/Business/2012-02-09/article-2891013/Canadas-economic-future%3A-Slower-potential--growth,-bigger-East-West-disparity/1> (accessed April 2012).
- Wells, Paul. "Chairman Harper." *Macleans*. February 17, 2012. <http://www2.macleans.ca/2012/02/17/chairman-harper/> (accessed May 2012).
- Wells, Paul. "Stephen Harper's Confession." *Macleans*. February 3, 2012. <http://www2.macleans.ca/2012/02/03/harpers-confession/> (accessed May 2012).
- Western Economic Diversification Canada. *Through the Gateway: unlocking western Canada's potential for economic diversification by expanding trade with Asia-Pacific*. By Michael Holden. ISBN 1-897423-75-2. Canada West Foundation, 2011. [http://cwf.ca/pdf-docs/publications/Through\\_The\\_Gateway\\_February\\_2011.pdf](http://cwf.ca/pdf-docs/publications/Through_The_Gateway_February_2011.pdf).