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How provinces can drive Canada's prosperity by unlocking trade and labour mobility

BREAKING BARRIERS

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15 MLI TRUE NORTH IN CANADIAN PUBLIC POLICY

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Canada's economy is tightly interconnected across provinces, but significant barriers to internal trade and limited worker mobility are holding back productivity, investment, and wage growth. These obstacles create major challenges for businesses looking to expand and for workers seeking new opportunities in other provinces.

Instead of waiting for a national solution, provinces have the power to take bold, independent action to tackle these obstacles head-on. Specifically, even without a national agreement provinces can:

- recognize regulations in other provinces as valid substitutes for their own.
- drop inspections of vehicles, equipment, agricultural commodities, and other goods when those items are already fit for use elsewhere.
- improve labour mobility by recognizing the job certifications of other provinces. (Ontario's "As-of-Right" exemption for regulated professions provides one narrow example of this approach to enhancing labour mobility).
- follow Alberta's recent example and unilaterally remove exemptions under the Canadian Free Trade Agreement (CFTA).

The provinces can take these and other specific steps independently to liberalize trade and labour mobility. In doing so, they will capture the bulk of the benefits from broader national reforms.

Taking unilateral trade action will not only boost provincial economies, but can have broad, positive effects on Canada's overall economic performance. Smaller provinces stand to gain disproportionately, thereby reducing regional economic disparities. Moreover, by strengthening internal trade, Canada can reduce its vulnerability to volatile international trade relationships and enhance its resilience against external shocks like tariffs.

While there are a lot of potential economic gains that come from implementing unilateral reforms, some sectors are more likely to benefit than others. If provinces are not ready to implement economy-wide reforms, we explain which sectors would benefit most from liberalized trade.

National reforms are important, and a coordinated nationwide effort would offer the most gains. However, the slow pace of change under existing frameworks like the

Canadian Free Trade Agreement (CFTA) highlights that provinces can and should act on their own. When provinces take action, even unilaterally, they can unlock considerable economic benefits – boosting opportunities for businesses and workers while setting a powerful example for others. By unilaterally adopting trade liberalizing policies, provinces can accelerate growth and create a more integrated, resilient national economy.

The urgency for provincial action is even more pressing given Canada's current economic challenges, including declining real GDP per capita and the looming threat of a 25 per cent tariff on Canadian exports to the US. Reducing internal trade barriers and improving labour mobility represent a major opportunity to strengthen Canada's economy from within by improving productivity, real incomes, and giving the country resilience against external shocks. The opportunity to act independently is one the provinces cannot afford to miss – and could have a lasting impact on Canada's economic future. MLI

L'économie canadienne compte sur d'étroites interconnexions entre les provinces. Toutefois, d'importants obstacles au commerce intérieur et à la mobilité de la main-d'œuvre freinent la productivité, l'investissement et les salaires : ils posent des défis majeurs pour les entreprises et les travailleurs en quête de nouveaux débouchés au-delà de leur province.

Les provinces n'ont pas à attendre une solution nationale, ayant le pouvoir d'adopter des mesures audacieuses et autonomes pour éliminer de front ces obstacles. Plus précisément, même sans consensus national, elles peuvent :

- *Reconnaître les réglementations des autres provinces en tant que substituts valables.*
- *S'abstenir de procéder aux inspections de véhicules, d'équipements, de produits agricoles et d'autres biens lorsque ceux-ci sont prêts à être déployés ailleurs.*
- *Faciliter la mobilité en reconnaissant les certifications professionnelles obtenues dans une autre province (les règles ontariennes « de plein droit » pour les professions réglementées en illustrent un exemple très circonscrit).*
- *S'inspirer de la récente décision de l'Alberta visant à mettre fin unilatéralement aux dérogations prévues par l'Accord de libre-échange canadien (ALEC).*

Les provinces ont la capacité de mener indépendamment ces actions et d'autres plus ciblées en vue de faciliter le commerce et la mobilité. Faire en sorte leur permettra de tirer parti des principaux bénéfices offerts par les réformes nationales étendues.

L'adoption d'une telle approche unilatérale au commerce ne se contentera pas de dynamiser les économies provinciales, mais contribuera également à la performance économique globale du Canada. Les petites provinces seront plus touchées, atténuant ainsi les disparités régionales. De surcroît, en consolidant son commerce intérieur, le

Canada pourra réduire sa vulnérabilité face à des relations commerciales internationales volatiles et sera beaucoup moins sensible aux chocs externes comme les tarifs douaniers.

Bien que des réformes unilatérales puissent engendrer de nombreux avantages économiques, certains secteurs sont plus susceptibles d'en bénéficier. Dans l'éventualité où les provinces n'étaient pas en mesure d'instaurer des réformes économiques de portée générale, nous identifions les secteurs qui bénéficieraient le plus d'une libéralisation des échanges.

Les réformes nationales revêtent une importance considérable, mais requièrent un effort coordonné pour produire des résultats optimaux. Or, la lenteur des évolutions au sein des structures en place, comme l'ALEC, impose aux provinces d'agir indépendamment. En intervenant, même de manière unilatérale, elles créent d'innombrables avantages économiques – pour les entreprises et les travailleurs, tout en servant de modèle. En adoptant unilatéralement des politiques de libéralisation des échanges, les provinces peuvent accélérer la croissance et participer à la construction d'une économie nationale intégrée et résiliente.

Une initiative provinciale est d'autant plus urgente étant donné les problèmes économiques actuels du Canada, notamment la réduction du PIB réel par habitant et le risque imminent d'un tarif douanier de 25 % sur ses exportations vers les États-Unis. L'abaissement des barrières au commerce interne et l'amélioration de la mobilité des travailleurs offrent une occasion inestimable de renforcer le Canada de l'intérieur, en améliorant la productivité et les gains réels, tout en fournissant au pays la résilience nécessaire pour faire face aux perturbations extérieures. Il serait peu avisé pour les provinces de ne pas profiter de cette circonstance opportune pour agir de manière autonome – elle pourrait influer durablement sur l'avenir économique du Canada. **MLI**

Introduction

While Canada's economy is highly interconnected across provinces, trade barriers and limits on worker mobility remain a significant drag on productivity, investment, wages, and more. These barriers are impediments to business growth and hinder workers from moving freely across internal borders. Efforts to address these issues, such as the Canadian Free Trade Agreement (CFTA), have generated some progress since 2017, but improvements remain slow and hard fought.

While waiting for all provinces to agree on fixes can be laborious, each province has the power to make changes on its own. By acting independently, provinces can remove roadblocks to trade and help their businesses and workers find better opportunities more easily. This paper will explore how much provinces can gain by acting on their own without waiting for Canada-wide agreements. While the best outcome is for all to move together, the gains available to any single province from a unilateral move can still be large – potentially capturing most of the gains from full nation-wide liberalization. Taking the lead can also set an example for other provinces, encouraging them to follow suit once the benefits become clear.

There is no more pressing time than now for Canadian governments, and especially provinces, to approach this often-intractable issue seriously. Canada's current economic challenges are clearest when compared with the United States. While Canada's real GDP per capita has declined by 3.6 per cent since 2022, the US has seen a 4.5 per cent increase over the same period, widening the economic gap to roughly $28,000 per person in 2024 (Tombe 2024). Compounding this, recent threats of a 25 per cent tariff on Canadian exports to the US could disrupt up to 2.4 million Canadian jobs, particularly in trade-dependent provinces like Ontario and Alberta.[1] In this context, reducing interprovincial trade barriers and improving labour mobility present an opportunity to strengthen Canada's economy from within. These internal reforms can boost productivity, improve real incomes, and reduce reliance on volatile international trade relationships, making the case for unilateral provincial action even more compelling.

To that end, this paper will explore what provinces can do by themselves, quantify the potential gains from unilateral liberalization, and explore which industries could experience the greatest gains. Specifically, I will highlight the ways provinces can cut red tape, standardize rules, and recognize other provinces' job certifications without needing national consensus. By using a well-established quantitative model of Canada's economy, this paper will calculate how large the economic gains may be. This analysis will also rank sectors that stand to gain the most from reducing internal trade barriers in those areas, which can help provinces target their efforts where they can make the biggest difference.

The details of the model do not need to be described here, but its overall structure is relatively straightforward. Specifically, I use a detailed general equilibrium model of Canada's economy, building on the methodologies from Alvarez, Krznar, and Tombe (2019) and Tombe and Winter (2021). This model represents the economy as a network of 230 interconnected industries, incorporating data from Statistics Canada's supply-and-use tables and trade flows. It captures key relationships between trade costs, prices, wages, and productivity, allowing for an in-depth analysis of how reductions in interprovincial trade costs influence economic outcomes. By examining changes in trade patterns, migration, and sectoral dynamics, the model provides a comprehensive view of the economic benefits of internal trade liberalization.

The results of this analysis reveal that the unilateral reduction of interprovincial trade costs creates significant potential for economic gains. A 10 per cent decrease in internal import barriers by a province, for example, could lead to real GDP gains ranging from over 2 per cent in Ontario to more than 6 per cent in Prince Edward Island. The elasticity of real GDP to internal trade costs (that is, a measure of how sensitive provincial economies are to changes in trade costs) averages approximately 0.3 nationally but rises to 0.6 in smaller provinces, reflecting the outsized benefits they stand to gain. That is, for each 1 per cent reduction in unilateral internal import costs a province enacts, its real GDP will increase by an average of roughly 0.3 per cent. This is a large effect. And since gains for smaller (typically lower income) provinces are larger, these reforms therefore also present an opportunity to narrow regional economic disparities by boosting their productivity and raising living standards relative to higher-income regions. Critical for this report, these gains do not depend on successful collaborative action; unilateral action allows provinces to capture a majority of the potential benefits of full nation-wide liberalization – over 60 per cent for Alberta, 50 per cent for British Columbia, and 67 per cent for Saskatchewan. In Newfoundland and Labrador, over 90 per cent of the potential benefits can be realized independently. I also find sectors like manufacturing, transportation, and petroleum refining would experience the largest benefits and should therefore top the priority list if economy-wide changes are not something a province is yet ready to tackle.

To better understand the path forward, it is essential to first start with a brief review of the historical and current efforts to address interprovincial trade barriers. The following section therefore reviews recent developments in internal trade policy before turning to the main quantitative results.

Recent developments in internal trade

Throughout Canadian history policy-makers have followed a long and challenging road in their efforts to eliminate barriers to interprovincial trade in goods and services. Indeed, Confederation itself was, at least in part, an effort to reduce barriers between the British North American colonies, with Section 121 of the Constitution explicitly prohibiting charges on the shipment of goods from one jurisdiction to another. It reads, “All Articles of the Growth, Produce, or Manufacture of any one of the Provinces shall, from and after the Union, be admitted free into each of the other Provinces.” But despite that constitutional guarantee, significant barriers to the shipment of goods and services across provinces remain – barriers that go beyond explicit tariffs, which have long since been eliminated.

In the early days, infrastructure limitations posed a critical hurdle. The physical ability to ship goods from Atlantic Canada to Central Canada was hampered by a lack of rail access, low-quality roads, and winter ice that prevented ships from making certain journeys. But even as Canada's infrastructure developed, regulatory barriers continued to obstruct trade. By 1940, the Royal Commission on Dominion-Provincial Relations – arguably the most comprehensive examination of Canadian federalism – identified local protectionism as being a problematic burden on the country's economy. Generations later, this remains true.

However, policy-makers have made notable efforts in recent decades to address these challenges. In 1989, for example, British Columbia, Alberta, Saskatchewan, and Manitoba entered an agreement on government procurement, ensuring that provincial purchases were not unduly biased toward local suppliers. In 1994, Ontario and Quebec signed an agreement on government procurement and labour mobility. In 2001, the Atlantic provinces reached an accord on certain vehicle regulations, among other areas. Perhaps the most significant effort at the time was the 1995 Agreement on Internal Trade (AIT). This agreement aimed to advance trade liberalization and brought more attention to the issue, but its material progress was limited, often requiring provinces to negotiate individual deals.

Even as Canada's infrastructure developed, regulatory barriers continued to obstruct trade.

Subsequent initiatives demonstrated greater success. In 2009, British Columbia and Alberta signed the Trade, Investment, and Labour Mobility Agreement (TILMA), which laid the groundwork for deeper collaboration. Between 2010 and 2016, the New West Partnership Agreement expanded this approach to include Saskatchewan and, eventually, Manitoba. This ambitious agreement measurably reduced interprovincial trade costs among participating provinces. Recent estimates suggest these efforts lowered trade costs by the equivalent of about 2.3 per cent, a modest but meaningful gain that boosted productivity across the region (Alvarez, Krznar, and Tombe 2019).

Today, the most ambitious effort to address interprovincial trade barriers is the Canadian Free Trade Agreement (CFTA), enacted in 2017. This agreement is the most comprehensive internal trade framework in Canadian history. While its successes to date have been limited to certain products, the CFTA establishes processes that enable provinces to collaborate in harmonizing differences in rules, regulations, standards, and certifications.

One notable feature of the CFTA is its focus on transparency. Problem areas are publicly identified and posted on a website, allowing Canadians to see where barriers exist and to track the progress of provincial negotiations to eliminate them. The agreement boasts broad coverage, encompassing about 80 per cent of Canada's GDP. It also includes stronger procurement rules, more robust dispute settlement mechanisms, and provisions to sustain momentum in addressing trade barriers.

Despite its potential, the CFTA highlights how long and complex the process of eliminating interprovincial barriers can be. To address a barrier, governments must first identify it, negotiate reconciliation agreements – often tailored to specific issues – and implement those agreements. Without unanimous consent from federal, provincial, and territorial governments, progress on major issues is slow.

In contrast, unilateral actions by individual provinces have proven to yield much faster results than the multilateral processes of the CFTA or earlier agreements. This underscores a tension in Canadian history between collective action and the autonomy of provinces in driving change. While the CFTA is a significant step forward, its full potential will depend on continued co-operation and a willingness to tackle the most entrenched barriers.

There is a faster (and potentially better) way to reduce trade barriers. In 2019, Alberta under then-Premier Jason Kenney embarked on a novel approach to liberalizing internal trade. At a First Ministers' meeting in July of that year, Premier Kenney announced that Alberta would unilaterally eliminate many of its explicit exemptions under the CFTA. This included opening more of its government purchases to competitive bidding. More importantly, though, it signalled a broader vision because Kenney also proposed mutual recognition of professional and skills certifications across all provinces – a significant step that could vastly improve trade in services and make it easier for Canadians to relocate for work. The potential economic gains from such a move were substantial. Recognizing the difficulty of achieving consensus among the provinces, however, Kenney also committed to unilateral action: if an agreement was not reached quickly, Alberta would independently recognize credentials from other provinces, even if reciprocity wasn't guaranteed.

Unfortunately, the onset of the COVID-19 pandemic disrupted these plans. Alberta's government priorities shifted to managing the public health crisis, and progress on internal trade stalled. Political challenges further complicated matters – Kenney's term as premier ended prematurely and his successor de-emphasized internal trade liberalization.

Despite this setback, Kenney's unilateral approach may have inspired others. Ontario, for example, adopted a similar idea in 2023 with its "As-of-Right" exemption to ease labour mobility.[2] Under this policy, individuals in specific regulated professions – including physicians, surgeons, registered nurses, nurse practitioners, respiratory therapists, and certain medical laboratory technologists – can begin working in Ontario immediately upon arrival in the province provided they hold a certificate of registration from another Canadian jurisdiction. While they must still undergo certification by Ontario's regulatory bodies, the policy allows them to practice for six months without delay. This ensures that local professional licencing requirements do not impede employment opportunities for skilled workers. Ontario's move is a modest step for improving labour mobility across Canada. Expanding this approach to cover all professions or eliminating the requirement for local certification altogether would further enhance its impact. Such reforms could significantly improve the flow of skilled labour and, by extension, bolster internal trade. If other provinces follow suit, Canada could make meaningful strides toward a more integrated national labour market.

Finally, and encouragingly, in the fall of 2024 there was another significant step toward a new vision for trade liberalization in Canada when the federal government, alongside most provinces and territories, committed at a meeting in Charlottetown to a new agreement on truck transportation rules.[3] The agreement focuses on mutually recognizing trucking regulations across jurisdictions. This initiative involves accepting the standards and rules of other provinces as fully valid within their own territories. The scope of the agreement is broad, covering various aspects of trucking operations, such as vehicle markings, definitions of daytime and nighttime rules, vehicle loads, the need for escort vehicles (and their specifications), and differing permit systems. The underlying principle is simple: if a configuration is acceptable in Alberta, it should also be acceptable in Saskatchewan; if it works in Ontario, it should work in Manitoba. Though still requiring implementation in participating jurisdictions, the agreement currently enjoys support from Ontario, Nova Scotia, Manitoba, Prince Edward Island, Saskatchewan, Alberta, Newfoundland and Labrador, Northwest Territories, Yukon, and Nunavut, as well as the federal government. Importantly, it is a pilot project and not yet a permanent feature of Canada's regulatory environment. However, if implemented successfully, it could mark one of the most significant advances in regulatory trade liberalization in Canadian history. Trucking, after all, is a critical sector in Canada's economy as vast amounts of goods are transported by road. Streamlining regulations in this sector has the potential to yield widespread economic benefits, improve efficiency, and create spillover effects throughout the economy. Despite its importance, trucking remains only a small fraction of the broader economic activity that interprovincial barriers impede. The greatest significance of this agreement may lie in its potential to serve as a model for regulatory liberalization in other sectors.

By taking unilateral steps, provinces can boost their own economies, strengthen productivity, and improve the livelihoods of their residents.

Interestingly, such an agreement didn't necessarily require all provinces to act collectively. Any individual province could have unilaterally chosen to recognize the trucking regulations of others at any time before this agreement. While co-operative frameworks like this pilot project are based on a coordinated approach, the real speed and impact of liberalization are likely to come from provinces acting independently. By taking unilateral steps, provinces can boost their own economies, strengthen productivity, improve the livelihoods of their residents, and enhance their investment environments.

In the next section, we will explore what unilateral moves by provinces might look like and the potential benefits they could unlock for Canada's internal trade landscape.

What provinces can do alone

To fully grasp the scale of the opportunity available to provincial governments, it helps to step back and understand the nature of interprovincial trade costs. These costs are not explicit taxes or physical obstacles, nor do they require unanimous provincial cooperation to resolve. Instead, they largely arise from independent policy decisions that individual provinces make – decisions that can often be reversed or modified through unilateral action.

Consider the perspective of a business that either buys from a supplier in another province or sells to a buyer in a different province. In such scenarios, the product or service must meet not only the rules and regulations of your own province but also those of the other province involved. Similarly, if you're importing goods, they must comply with your province's standards. This patchwork of varying regulations creates a web of costs for cross-provincial transactions. For instance, selling a product in another province may require compliance with differing health and safety standards, restrictions on product size or labeling, or specific signage regulations. In some cases, providing a service may necessitate certification from one of hundreds of provincial licensing boards.

A tangible example is the process of taking a used car from British Columbia to Alberta. Regardless of the vehicle's age or condition, it must undergo a costly inspection before being legally driven in Alberta – even if the car is nearly brand new and clearly roadworthy. This requirement, which costs hundreds of dollars, illustrates a classic interprovincial trade barrier, and it's just one of many. Such obstacles are widespread and continue to proliferate.

While no province can directly dictate the regulatory choices of another, each has the authority to recognize products or services that meet another province's standards as acceptable within its own borders. For example, if a product complies with Manitoba's regulations, it could be automatically accepted in Ontario, Alberta, British Columbia, or any other province. The real question is whether a province chooses to impose additional barriers on goods and services that are already deemed safe and acceptable elsewhere in Canada.

Provinces have the autonomy to act unilaterally, allowing their residents and businesses greater freedom to source goods and services from across the country. They can choose to reduce or eliminate barriers to imports from other provinces, thereby avoiding unnecessary costs. Yet, as long as these barriers persist, they continue to undermine Canada's economy and productivity, which is particularly problematic at a time when the country can ill afford such inefficiencies.

There are also significant benefits to facilitating exports within Canada. For provinces to take full advantage of these opportunities, however, other jurisdictions must lower their regulatory barriers. This highlights the importance of harmonizing rules, regulations, and standards across the country or, at the very least, mutually recognizing each other's standards as sufficient for compliance.

While collaboration between provinces to cut trade barriers would undoubtedly be the most effective approach, Canada's decentralized governance and the significant differences between provinces make such co-operation challenging. Despite this, individual provinces can still act unilaterally to liberalize their import policies. For most jurisdictions, the greatest economic gains come from reducing the cost of imports.

Although trade liberalization is often framed in terms of expanding export opportunities, the benefits of easing import barriers are equally significant. By reducing the costs of imports, provinces can not only boost their own economies but also enhance national productivity, paving the way for a stronger, more integrated Canadian

Gains from unilateral provincial action

It's worth examining the intuition behind how economies gain from trade. Politicians often highlight that trade liberalization generates benefits by enabling us to sell more to others – employing labour, investing capital, and using land to produce goods for export. While this perspective has merit, it doesn't fully capture the breadth of the benefits that trade offers.

On the export side, opening to trade tends to increase prices for goods that a region has a comparative advantage in – a big benefit for producers. That means that if there were fewer export opportunities, the price domestically would be low. Trade liberalization therefore leads to higher prices, which allows producers in the region to expand production and earn greater revenues. This creates more value for the exporting economy. But ultimately, the broader gains from trade come from increasing the ability of individuals and families to consume more of what they enjoy. Trade expands consumption possibilities beyond what an economy could achieve if it operated in isolation. It gives buyers access to higher-quality goods or lower-cost suppliers located elsewhere in regions that are relatively better at producing those items. These lower prices increase consumption and improve overall well-being.

> *There are also significant benefits for firms across the liberalizing economy, regardless of the sector they operate in.*

There are also significant benefits for firms across the liberalizing economy, regardless of the sector they operate in. Approximately half of all goods and services produced in Canada are intermediate inputs – products that businesses use to produce other goods and services. These are not final goods that individuals consume or that businesses or governments use for investment but rather are inputs such as raw materials, supplies, energy, and similar resources. So, when import costs fall, businesses gain access to cheaper inputs sourced from other jurisdictions or to higher-quality inputs that may not have been as readily available before. Improving access to these intermediate inputs is a crucial driver of productivity growth and economic gains. Lower input costs lead directly to lower production costs for businesses, which in turn allows them to reduce the prices they charge local consumers and other businesses that use their goods as inputs. Indeed, this report will show that the gains from unilateral liberalization are systematically larger in sectors that are key input suppliers in the economy.

Even if trade liberalization makes it primarily easier to import but does not provide substantial changes to export opportunities, it still captures a significant portion of the gains from trade. While complete liberalization would optimize all potential benefits, reducing barriers to imports alone represents a major part of the story. There are, of course, important trade-offs to consider when easing restrictions unilaterally. When a jurisdiction opens its market, domestic firms may face increased competition from more capable producers elsewhere. Prices for many goods would likely fall, and some local firms could shrink or even go bankrupt. These represent real and potentially significant adjustment costs for various sectors of the economy. I will address these challenges in more detail later in this report. But such adjustments are not insurmountable, nor are they unique to trade liberalization. Technological change, for instance, also alters the relative sizes of firms, leading to growth in some and decline in others. Adapting to these sometimes-rapid changes is a critical challenge for individuals, businesses, and governments alike.

When import liberalization occurs and some import-competing firms shrink, the resources they employed – workers, capital, land, and other factors of production – do not simply remain idle. These resources shift to other uses, moving into firms and sectors in which the province or economy has a comparative advantage. As capable firms expand, this reallocation drives overall productivity gains, benefiting both the province that liberalizes its trade and other provinces as well.

An economy that becomes more specialized in areas where it has a particular advantage can also benefit from increased economies of scale in those sectors. As firms in these areas grow larger, their production costs tend to decrease. Fixed costs can be spread over a greater number of goods, and innovation or new technology that these firms adopt can yield higher returns due to increased sales and output. This higher volume of operations creates stronger incentives for firms to adopt such technologies in the first place. And as production costs fall, firms in the liberalizing jurisdiction become more competitive in markets elsewhere. Their now-lower prices make them a more attractive supplier, even in regions that have not themselves liberalized trade. This boost in competitiveness provides further opportunities for growth, amplifying the benefits of trade liberalization for the economy as a whole.

From the perspective of the Canadian economy, this specialization also benefits productive firms elsewhere. As buyers select these firms as preferred sources of goods, they too grow larger and more efficient. If one province liberalizes its imports, it not only gains directly but also contributes to gains elsewhere. Economies of scale will take effect for the higher-productivity firms now producing and selling more, ultimately increasing the efficiency of the entire Canadian economy.

Over time, an economy that unilaterally liberalizes its trade can reap additional gains. Lower prices will enhance affordability, making the province more attractive for individuals and businesses. Households will benefit from a reduced cost of living, while firms will enjoy lower production costs by sourcing higher-quality or lower-priced inputs from wherever they choose. As a result, the province that unilaterally liberalizes trade may develop a more appealing environment for living and investment. This could lead to larger economic growth than it might otherwise have experienced, attracting more businesses and fostering greater dynamism within the economy. The enhanced dynamism would accelerate innovation, creative destruction, technological adoption, and, ultimately, economic growth. These longer-term dynamic gains amplify the shorter-term, static benefits derived from lower prices and improved access to goods and services.

Up to this point, the discussion has been qualitative, focusing on the potential gains from trade liberalization. However, it is possible to quantify these benefits and get a sense of whether the economic opportunity for provinces to move ahead with reforms are large or small.

Description of the model

The model used in this analysis builds on the work of Alvarez, Krznar, and Tombe (2019) and Tombe and Winter (2021) but includes a more detailed breakdown of industries. It represents Canada's economy as 230 connected industries and is built using data from Statistics Canada's supply-and-use tables, input-output tables, and trade data, all at a very detailed level. This framework also formed the foundation of recent analysis by Manucha and Tombe (2022) and Manucha and Tombe (2024).

While I leave the detailed explanation of the full general equilibrium model to those other papers, it is helpful to understand some key relationships. Changes in trade costs affect prices, wages, production, jobs, and productivity, among other things. Each requires some discussion.

First, trade flows in the model depend on productivity, production costs, trade costs, and the sensitivity of trade flows to these factors. Production costs, in turn, depend on inputs such as labour, capital, and the cost of intermediate goods. Both production and trade costs across all regions influence prices, along with decisions by individual consumers and businesses regarding where to source their purchases. Importantly, the model incorporates a full set of intersectoral connections and input-output linkages throughout the Canadian economy. It directly maps onto readily available Statistics Canada data, which detail how much each sector purchases from every other sector across all regions.

Sourcing decisions by consumers and businesses play a central role in economic outcomes in each region, with real GDP per worker (i.e., labour productivity) being the primary focus of this paper's analysis. When trade costs decrease, imports replace some less productive local producers, shifting resources to more efficient producers and thereby increasing average productivity in the sector. Put differently, a region's average productivity depends on the proportion of goods produced locally versus those imported. A higher import share means a smaller set of items that the region specializes in – typically those it can produce with relatively higher productivity. This is the key source of gains from trade in the model.

Algebraically, these gains can be represented in a compact form when input-output linkages are ignored. If the change in a region's real GDP per worker is denoted as $\hat{y}_n$ and the change in the share of items that are produced locally as $\hat{\pi}_n$ then the model implies that $\hat{y}_n = \hat{\pi}_n{}^{-1/\theta}$, where θ is a measure of how sensitive trade flows are to trade costs (i.e., the "elasticity" of trade).

Consider a simple example: Suppose a region unilaterally recognizes the rules and regulations that prevail elsewhere in Canada. This would reduce the share of items sourced domestically. If $\hat{\pi}_n = 0.9$ (meaning the region's locally produced share drops to 90 per cent of its previous level) and if the elasticity of trade $\theta = 4$ (a reasonable empirical estimate), then the model predicts real GDP per worker gains of 2.7 per cent (from $0.9^{-0.25}$).

But the gains do not stop here. Input-output linkages between sectors mean that productivity gains in one industry spill over into others, amplifying the overall benefits of trade liberalization. While the algebraic details are more complex, the real GDP gains from a small change in trade costs can be very well approximated by (1) the magnitude of the trade cost reduction, (2) the “importance” of the sector as an input supplier to others, and (3) the share of total expenditures accounted for by interprovincial imports. As a result, gains from a province’s trade liberalization tend to be larger for “upstream” sectors, such as transportation services or many manufacturing sectors, and for sectors where internal trade is already important. I’ll explore differences across sectors quantitatively later.

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At the national level, changes in Canada’s overall real GDP depend on changes in regional GDP per worker, adjusted for the distribution of employment across regions and each region’s share of national nominal GDP. In short, the model captures how reductions in trade costs can increase productivity by reallocating resources, raising both regional and national GDP through more efficient production and trade.

With this model, I can run several scenarios to measure the impact of changes in trade costs. Specifically, the model will predict new trade patterns, migration flows, wages, prices, and other outcomes based on different changes in trade policies. For example, I examine what happens if each province or territory unilaterally makes it easier to import goods from the rest of Canada, how the economy responds to trade liberalization across all sectors at once, and how targeting specific sectors affects economic outcomes. This approach allows us to estimate the “bang for the buck” of sector-specific reforms compared to broader changes. I do not attempt to provide estimates of internal trade costs. Instead, I illustrate how economic outcomes are affected by an illustrative change in trade costs of, say, 10 per cent. This may not be feasible to achieve in some areas, and potentially below the potential improvements available in others, but using a uniform 10 per cent change allows the results to be easily compared across sectors and regions.

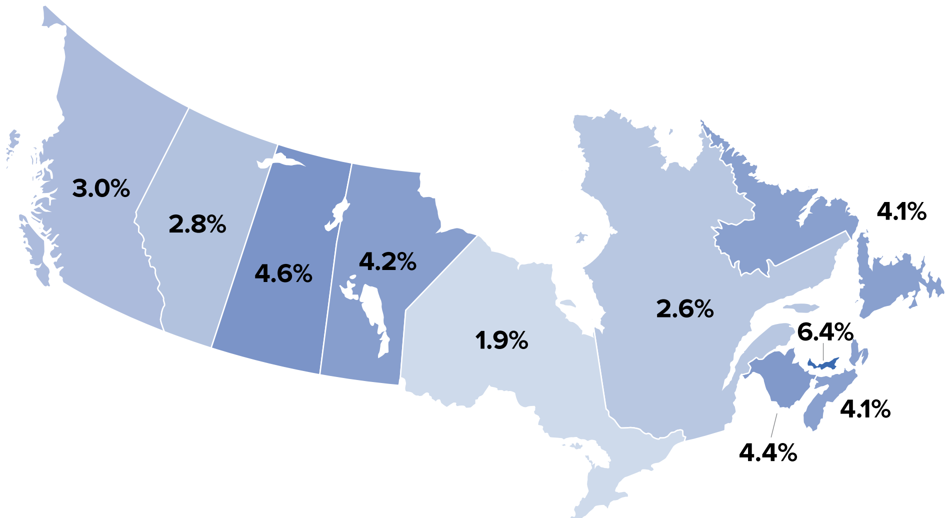
Results of the model

Consider a simple experiment where a province unilaterally lowers the cost of importing goods and services from elsewhere in Canada by 10 per cent, while leaving the costs of exporting and international trade unchanged. Figure 1 displays estimates of the long-term changes in the size of each province's economy resulting from such a development. The gains are significant across Canada, ranging from just under 2 per cent of real GDP in Ontario to well over 6 per cent in Prince Edward Island. Larger provinces such as British Columbia and Alberta, followed closely by Quebec, realize moderate gains of approximately 3 per cent. Other provinces see gains in the range of 4 per cent. This means that for every percentage point reduction in the cost of importing into a province from elsewhere in Canada, the province's economy grows by approximately 0.3 per cent. In economic terms, the real GDP elasticity of internal import costs is about 0.3. For smaller provinces, this elasticity tends to be higher, typically around 0.4 and as much as 0.6 in Prince Edward Island.

These larger gains in smaller provinces aren't solely due to their size. Many of these regions also have below-average standards of living. As a result, efforts to unilaterally lower internal trade barriers not only boost Canada's economy as a whole but also help reduce regional inequalities. Such actions can strengthen Canada's economic union and narrow the gaps between richer and poorer regions.

Importantly, these gains do not require provinces to act in partnership or conjunction with one another. Any province can achieve these benefits by aggressively and unilaterally liberalizing its market. This includes recognizing the rules, regulations, standards, and certifications of other provinces as valid within its own jurisdiction. To see this, consider the potential gains if all provinces were to collaborate and reduce Canada's internal interprovincial trade frictions by a full 10 per cent. How much additional benefit would each province see relative to acting on its own? In Figure 2, I display the total gains from unilateral liberalization, as previously discussed, alongside the incremental gains that would result from full nationwide liberalization. For many provinces, unilateral action can still capture a majority of the potential gains from trade. Alberta, for example, could capture over 60 per cent of the total potential gains by liberalizing on its own. British Columbia would achieve just under 50 per cent of its total potential gains through similar action. Saskatchewan

FIGURE 1: Economic gains from a 10 per cent unilateral reduction in trade costs



Note: This figure displays the change in each province's real GDP following a 10 per cent reduction in the cost of importing goods and services from other parts of Canada.

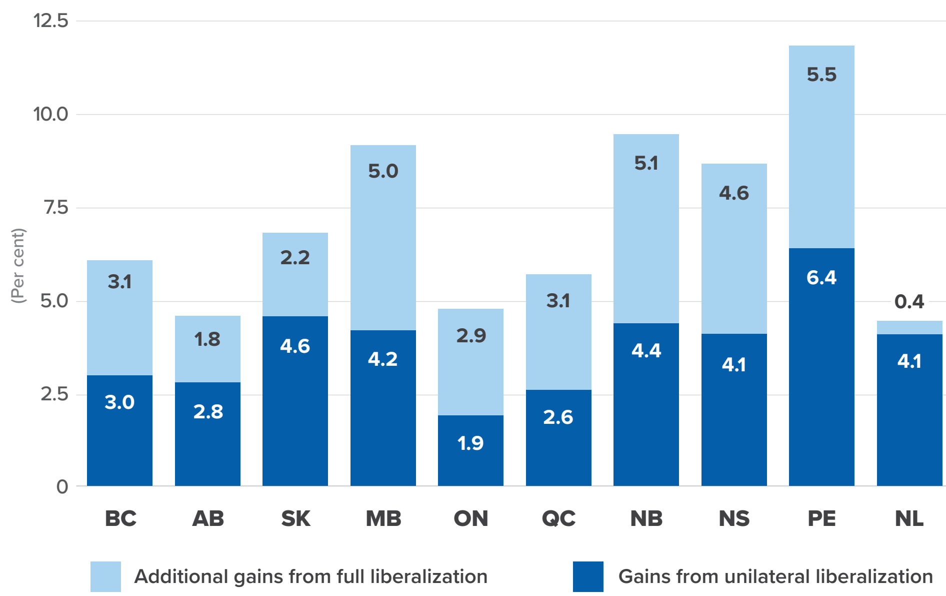
Source: Authors' calculations using a general equilibrium model of Canada's economy. See text for details.

could capture slightly more than two-thirds of its potential gains by acting unilaterally. Manitoba, Quebec, New Brunswick, Nova Scotia, and Prince Edward Island would each capture just under half of their potential gains by moving independently.

Newfoundland and Labrador stands out because it would capture well over 90 per cent of its total potential gains if it acted alone. Ontario, while benefiting the most from full multilateral liberalization, could still achieve approximately 40 per cent of its maximum potential gains through unilateral liberalization. These findings demonstrate that significant economic benefits are available to any provincial government that chooses to lower its internal trade barriers, regardless of whether other provinces follow suit.

While collective action would yield greater benefits overall, the fact that individual provinces can capture such a large portion of the gains on their own makes unilateral action a compelling option. Moving quickly to capture these benefits would not only provide immediate economic advantages but also help pave the way for broader, nationwide liberalization in the future.

FIGURE 2: Comparing real GDP gains from unilateral and multilateral liberalization



Note: This figure displays the change in each province's real GDP following a 10 per cent reduction in the cost of importing goods and services from other parts of Canada and the incremental gains that would result from fully liberalizing all trade between provinces by the same magnitude.

Source: Authors' calculations using a general equilibrium model of Canada's economy. See text for details

Where gains are largest

A province's cross-border liberalization of interprovincial imports could yield significant economic benefits. However, such an initiative may not be feasible, either logistically or politically, for governments to undertake. Indeed, given the risk-averse nature of many political leaders, pursuing unilateral liberalization in a more targeted manner might represent a more realistic approach.

This raises important questions: In which sectors should provincial governments concentrate their efforts? And where are the economic gains most significant if unilateral liberalization is pursued on a sector-specific basis?

To address these questions, I explore an alternative set of estimates that calculate the GDP impact for each province if it were to act independently, focusing on a single sector at a time. These estimates identify the most valuable sectors in terms of their aggregate contribution to provincial economies under such a scenario. Ranking the economic gains from sector-specific liberalization provides a clear picture of which industries are most affected by existing restrictions and where unilateral action could deliver the greatest economic impact.

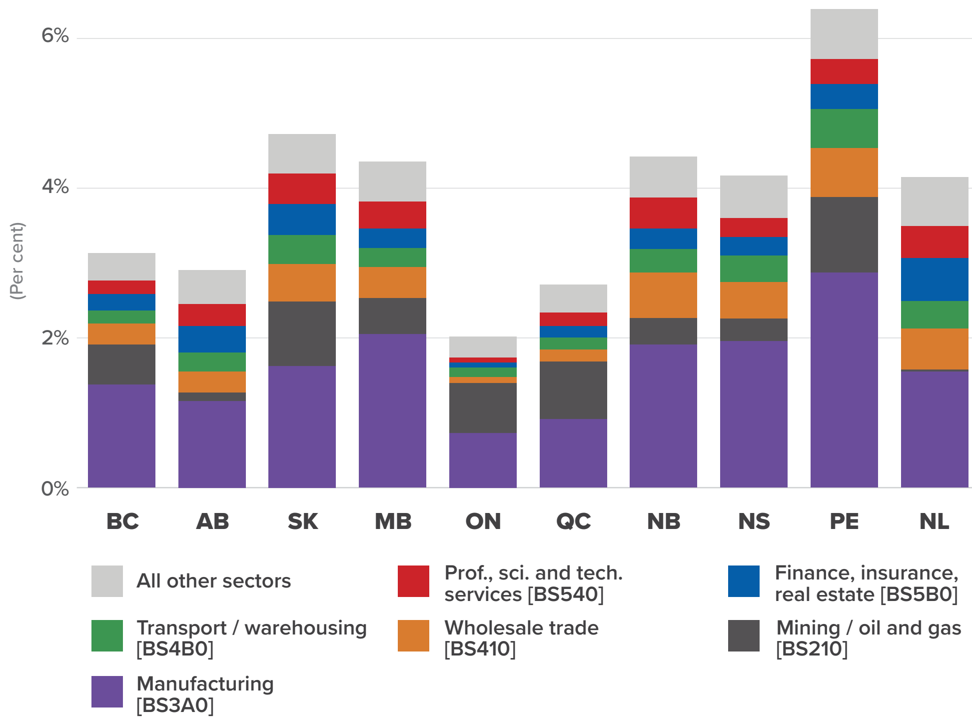
Before examining the model's results, it may be helpful to develop an intuitive understanding of where the largest economic gains from liberalization are likely to occur. Previous research has consistently shown that internal trade liberalization in Canada generates the most significant benefits when the goods or services produced by a particular sector are used as inputs by other businesses in the production of further goods and services.

Trade liberalization can undoubtedly benefit consumers through lower prices and producers by expanding market size. However, as discussed earlier, other businesses use much of what Canadian businesses produce. This interconnected network of input-output linkages amplifies the economic benefits, cascading through the supply chain and resulting in significant overall gains.

Sectors that are largely upstream – such as wholesaling, transportation, finance, and many manufacturing industries – are therefore poised to see the greatest benefits. Additionally, the trade intensity of a sector is a critical factor in determining the potential gains from liberalization. If a good or service is not heavily traded across provinces, then the impact of reducing barriers will naturally be limited. For instance, haircuts are a localized service, produced and consumed simultaneously at a specific location, making interprovincial trade in such services irrelevant.

The quantitative results paint a striking picture of where the largest gains from internal import liberalization are likely to occur. I estimate that nearly 90 per cent of the total economy-wide gains from eliminating interprovincial import costs are concentrated in just six sectors. The manufacturing sector alone accounts for over 40 per cent of the total available gains nationally when provinces act unilaterally to reduce these barriers. While the relative contribution of each top sector to the gains varies slightly across provinces, the overall pattern remains consistent. This variation highlights the differing economic structures of each province, but the results underscore the central role of manufacturing and a handful of other key sectors in driving the economic benefits of trade liberalization. Figure 3 provides these results. For governments looking to have the greatest impact on their economies from liberalization, efforts directed towards unilateral recognition of regulatory barriers in manufacturing should top the list.

FIGURE 3: Gains from a unilateral 10 percent reduction in interprovincial import costs by sector



Note: This figure displays the contribution to overall real GDP gains in each province from unilaterally easing interprovincial import costs by the equivalent of 10 per cent. The figure explicitly identifies the six largest contributors; all other sectors aggregated into a single residual.

Source: Authors' calculations using a general equilibrium model of Canada's economy. See text for details.

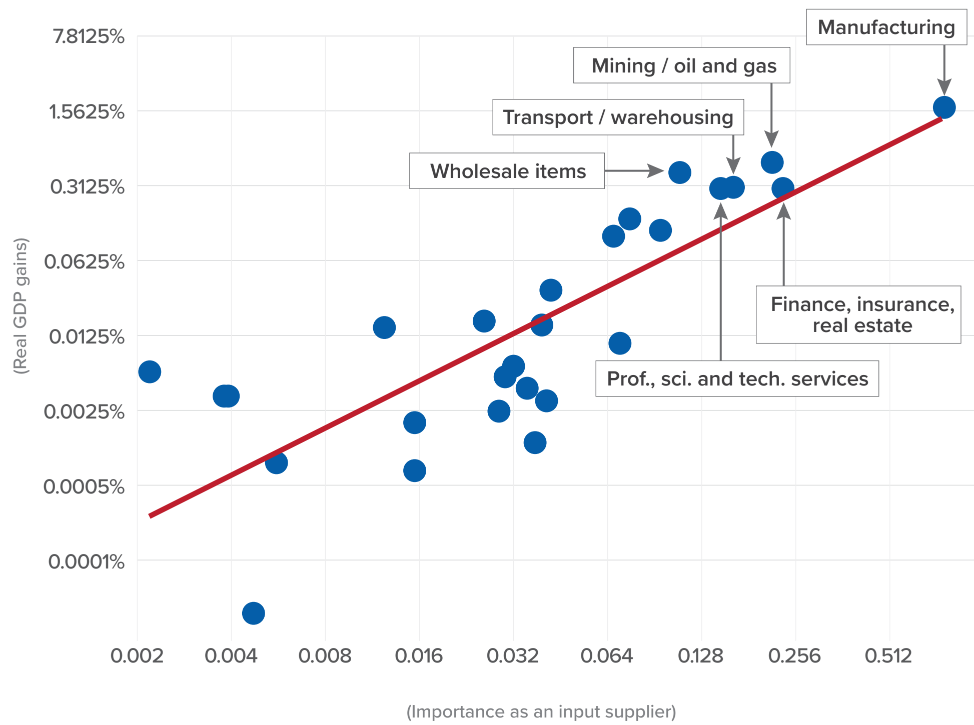
This paper does not explicitly report the results of the detailed sectoral analysis. However, a similar exercise could be undertaken for approximately 230 individual, detailed sectors to identify specific areas within manufacturing and other industries that might see the largest gains from internal liberalization. My estimates indicate that petroleum refining is the sector that would realize the most significant potential economic gains from internal trade liberalization, followed by the conventional oil and gas sector and non-conventional oil extraction. Unlike regulatory differences, the barriers in this sector are primarily tied to infrastructure limitations such as a lack of appropriate pipeline access. There may be unique challenges in overcoming these barriers, so they should be thought of slightly differently from a policy perspective. But at least in the context of the economic model used here to estimate gains from trade, the way in which trade costs decline (whether through unilateral policy recognition or improved transportation infrastructure) the overall economic gains are similar. And while enhancing the internal movement of resources across the country might require substantial investment in capital and resources, this does not necessarily mean that *public* funds must be expended on such efforts. Instead, governments should focus on establishing efficient, stable, and effective regulations. Unfortunately, in recent years, Canada has moved away from this ideal, with regulatory processes for transportation infrastructure – particularly those relevant to resources – becoming increasingly unpredictable, lengthy, and prone to political interference.

> *Governments should focus on establishing efficient, stable, and effective regulations.*

Other detailed sectors where the economic gains from liberalization are substantial include computer system design, machinery and equipment wholesale distribution, plastic product manufacturing, meat product manufacturing (a sector where improvements to inspections and health and safety regulations may represent low-hanging fruit for governments), air transportation, banking, chemical manufacturing, food and beverage wholesaling, and more. In each of these sectors, barriers largely arise from differences in regulations across provinces. These discrepancies often lack a strong justification as there is little reason why regulations should differ so significantly. Provinces should have confidence in the regulatory frameworks established by their counterparts and accept them as sufficient for compliance with their own standards.

As a final exercise to illustrate where the gains from unilateral trade cost reductions are largest across different sectors, I plot the average gains that provinces experience from a 10 per cent unilateral reduction in interprovincial import costs against a measure of each sector's importance to the overall economy. Some sectors – such as mining, oil and gas, wholesale trade, transport and warehousing, and technical services – are critical suppliers of inputs. These sectors are rarely associated with goods that consumers purchase directly as final

FIGURE 4: Gains from unilateral liberalization versus the sector's importance as input supplier



Note: This figure displays the average gains to all provinces from a 10 per cent unilateral reduction in the respective import costs for each sector (holding the costs for all other sectors fixed) against a measure of the sector's importance as an input supplier.

Source: Authors' calculations using a general equilibrium model of Canada's economy. See text for details

products. The measure of a sector's importance to the overall economy captures two key aspects: the sector's position within the broader web of intersectoral connections and the extent to which consumers purchase from the sector as a source of final goods.[4] Intuitively, this measure reflects how central a sector is to the functioning of the overall economy. In Figure 4, I display the gains from unilateral import cost reductions plotted against this measure of a sector's importance, explicitly highlighting several of the critical sectors. The results show a strikingly clear and strong positive relationship between the gains from import liberalization and the sector's importance. This finding reinforces an earlier point: if governments are limited to making changes in specific areas, they should prioritize easing regulatory barriers for the inputs that businesses use to produce other goods and services.

Trade-offs and downsides of trade liberalization

While reducing trade barriers between provinces has clear benefits, it's important to also recognize the potential downsides. Like any policy change, trade liberalization comes with trade-offs, and these should be considered to ensure well-balanced decisions.

One concern is that businesses and professionals may seek out the provinces with the easiest rules or the lowest standards in which to do business or relocate. If one province accepts out-of-province credentials or regulations without requiring the same level of oversight as others, there's a risk that safety, environmental, or labour standards could weaken over time. However, a strong counterargument is that Canadians across all provinces value quality, safety, and fairness. So long as professional organizations in all provinces do not deliberately pursue lower-quality credentials at the expense of public trust, then mutual recognition of standards can improve efficiency while still maintaining high expectations for quality and safety. Alternatively, a narrower approach may be for one province to unilaterally recognize the credentials from another for a time-limited period. That is, for one year, say, an individual's credentials would be automatically recognized while the local professional body conducts a review. This is the approach Ontario has taken, though it falls far short of allowing for the free trade in services that a unilateral and permanent recognition of Canadian credentials would create.

Another challenge is the increased competition that local businesses may face. If a province removes trade barriers while others keep theirs, businesses from other regions might have an advantage, especially if they operate in provinces with more efficient regulations. This could put local producers at a disadvantage, making it harder for them to compete. Governments should consider whether they need to provide additional support or transition measures to help affected industries adjust. However, this kind of competition may also be the key driving force behind other jurisdictions adopting reforms that streamline and improve their own local regulations.

Beyond economic effects, reducing trade barriers can have social and regional consequences. Some communities rely heavily on certain industries that could be disrupted by increased competition. If a key local industry weakens or disappears due to changes in trade policy, it could lead to job losses and economic hardship, even if the overall economy benefits. This is not unlike the effects that can come from any economic change, whether international trade liberalization or technological change, and policy-makers could consider ways to help workers and businesses adapt, such as offering retraining programs or temporary supports for those most affected. The adverse consequences for some in the population is a serious challenge for policy-makers, to be clear. Around the world, there has been growing concern that while free trade brings benefits, it can also lead to uneven gains and losses. Ensuring that the benefits of trade liberalization are widely shared is important to maintaining public confidence and long-term support for open markets, both of which are waning in many jurisdictions.

Despite these challenges, the case for reducing internal trade barriers remains strong. Most of the risks can be managed with careful planning, and perhaps by employing a slower and more targeted approach. Given the international trade disruptions that have erupted in 2025 between Canada and its major trading partner, and a renewed commitment by many political leaders to strengthening Canada's internal economic union, a balanced, thoughtful approach to unilateral moves is worthy of consideration.

Policy implications and conclusions

Canada's provinces have a significant opportunity to improve their economies by addressing barriers to internal trade and labour mobility unilaterally if they find they can't do so as a group. In short, there are substantial benefits available to provinces that act independently to reduce regulatory frictions, harmonize standards, and recognize interprovincial certifications. While national and coordinated efforts to liberalize internal trade yield the greatest benefits, unilateral actions by individual provinces can unlock a majority of the available gains. When provinces act independently to reduce internal trade and labour mobility barriers, the benefits extend beyond their borders. By lowering import costs and enhancing competitiveness, provinces not only boost their own GDP but also contribute to the productivity and efficiency of Canada's overall economy. Smaller provinces that act unilaterally can reduce economic disparities by capturing a larger share of the benefits, helping to create a more balanced national economy with smaller regional differences. Reducing reliance on international trade by enhancing internal trade flows can also make Canada's economy more resilient to global shocks and external tariffs, which is an unfortunate new reality today.

This ability to act independently is particularly important given the slow pace of national reforms under frameworks like the Canadian Free Trade Agreement. While multilateral agreements provide structure and transparency, the challenge of achieving consensus often delays meaningful change. Provinces can and should act now to reduce trade costs, improve labour mobility, and achieve greater economic integration. Provinces can recognize the regulatory standards, certifications, and licensing requirements of other provinces. Ontario's "As-of-Right" (i.e., something already allowed) exemption for specific regulated professions is a practical model for easing labour mobility. Expanding such policies to include more professions would further improve the efficiency of Canada's labour market. Streamlining regulations and eliminating unnecessary inspection requirements for goods crossing provincial borders could lower trade costs significantly. Alberta's unilateral elimination of certain exemptions under the CFTA is another example of how provinces can lead reform efforts. Focusing on industries with the most significant potential for economic gains such as manufacturing, transportation, and finance can maximize the benefits of liberalization.

The evidence and analysis in this paper highlights the tangible benefits of unilateral provincial action to address internal trade barriers. Provinces do not need to wait for a national consensus to make significant strides in improving trade and labour mobility. By acting independently, provinces can achieve substantial economic gains for themselves, strengthen regional economies, and set the stage for a more integrated and resilient national economy. Further, by proceeding unilaterally, no province has to wait for the federal government to act. Provinces have the tools and autonomy to reduce trade frictions on their own. They can and should use them. MLI

About the author

Trevor Tombe is a professor of Economics at the University of Calgary, the director of Fiscal and Economic Policy at The School of Public Policy, and a senior fellow at the Macdonald-Laurier Institute. He holds a PhD and MA in Economics from the University of Toronto and a bachelor's degree in finance from Simon Fraser University. His research spans a broad range of economic topics, including international trade, public finances, and fiscal federalism. Tombe has published extensively in top-tier academic journals. He has made significant contributions to internal trade in Canada, particularly by highlighting the economic benefits of reducing interprovincial trade barriers. And in the realm of fiscal arrangements, his work on equalization and other federal transfers offers clear insights into the various programs. More broadly, his work has explored key macroeconomic challenges facing Canada, including demographic changes, productivity growth, public debt, and more.

In addition to his academic work, Tombe has co-authored widely used textbooks, including *Public Finance in Canada* and a forthcoming book on macroeconomics. He also co-edited the volume *Fiscal Federalism in Canada*. Tombe's commitment to practical economic policy is reflected in his role as co-director of Finances of the Nation, an organization that provides accessible financial and economic information to the public. MLI

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Endnotes

1 Author's calculations using Statistics Canada 2024, table 12-10-0100-01.

2 "As of Right" generally means that something is already allowed and doesn't require special permission. For details around the "As of Right" exemption in Ontario, see Ontario (2023).

3 For more on this agreement, see the Canada, Intergovernmental Affairs (2024).

4 More precisely, and for those familiar with input-output notation, this reflects the Leontief Inverse Matrix multiplied by the vector of final demand shares.

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