

Study: Estimating the effect of provincial borders on trade

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Canada's economic history is marked by efforts to bind provincial economies together through trade. Despite these efforts, the study released today finds that provincial borders may actually impede trade. The amount of trade across provinces observed over the 2004 to 2012 period is estimated to be at a level that would be expected if a 6.9% tariff were imposed on inter-provincial trade.

When similar methods have been applied to the United States, there was no evidence that state borders impede inter-state trade.

Estimated border effects capture a multitude of factors that affect inter-provincial trade, of which provincial non-tariff barriers (for example, differences in product standards) are just one. An estimate of the effect of borders on trade rests on accounting for the cost of trading goods, which increases with distance between regions, as well as the capacity of the economies of the trading region to generate and absorb trade. After taking these factors into account, the study finds that over the 2004-to-2012 period, on average, regional trade within provincial borders was 53% higher than regional trade across provincial borders. In the absence of border effects, regional trade within and across provincial borders should be equal when other factors are taken into account.

These estimates were developed from a [new database](#) that measures goods traded, exclusive of goods moved by pipeline, within and across provinces at the sub-provincial level.

The research paper, [Going the Distance: Estimating the Effect of Provincial Borders on Trade when Geography Matters](#), which is part of the *Analytical Studies Branch Research Paper Series (11F0019M)*, is now available.

For more information contact us (toll-free 1-800-263-1136; 514-283-8300; STATCAN.infostats-infostats.STATCAN@canada.ca).

To enquire about the concepts, methods or data quality of this release, contact Mark Brown (613-951-7292); mark.brown@canada.ca, Economic Analysis Division.

