



## NORTH AMERICAN LINKAGES

# BRIEFING NOTE

# Canada-US Relations and the Emergence of Cross-Border Regions

## Highlights

- The Canada-US Free Trade Agreement (FTA) and the North American Free Trade Agreement (NAFTA) have resulted in an increasing level and diversity of links between Canada and the United States.
- These links are most intense and involved between adjacent and nearby areas along the border, and although cross-border regional relations can differ in extent and form as one moves across Canada, they are clearly entrenched as a key feature of present-day Canada-US relations.
- Two recently released PRI reports substantiate the growing significance, scope, and nature of cross-border regional relationships, and outline their policy implications for the Government of Canada.
- The growing cross-border regional relationships are resulting, among others, in greater participation of local stakeholders and regional players in the management of the Canada-US relations, and in new ways to address binational issues. As such, the emergence of cross-border regions enriches the policy toolbox of governments.

This briefing note is based on two recently released PRI publications available at <[www.policyresearch.gc.ca](http://www.policyresearch.gc.ca)>:

- *The Emergence of Cross-Border Regions: Interim Report* (November 2005)
- *Leader Survey on Canada-US Cross-Border Regions: An Analysis* (February 2006)

These publications are part of the PRI's ongoing research on key issues related to North American linkages. A final report on the emergence of cross-border regions will be released in 2006 that incorporates further analytic work on the economic dimension, reviews cross-border regional lessons from the European and Mexican experiences, and includes findings from a series of regional roundtables that are being held in the fall/winter of 2005-2006.

## What Is a Cross-Border Region?

To date, research on North American integration has mainly focused on the larger national perspective, but it is increasingly apparent that strong and multidimensional linkages are taking hold at the regional level, especially between adjacent and nearby areas along the border.

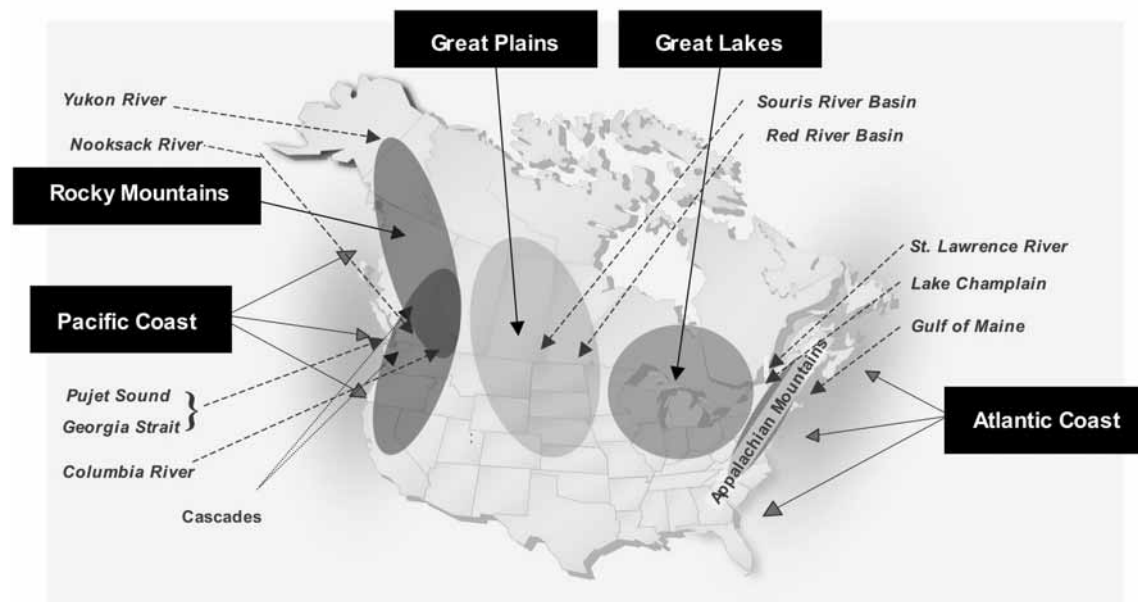
The research project attempts to answer the following question: Are there a few fairly distinct groupings of neighbouring and nearby provinces and states whose intra-regional links and commonalities set them apart?

In reality, the notion of a cross-border region remains somewhat fuzzy since different configurations of provinces and states could be construed as a cross-border region depending on the interest and dimensions considered.

While geography, history, demography, and transportation corridors all play an instrumental role in helping to set the stage for and shape the cross-border regional linkages we see today, cross-border regions should exhibit substantial economic links, socio-cultural similarities, and the presence of cross-border organization.

The economic dimension provides the foundation in the sense it is the quest for economic benefits that usually creates the incentives for cross-border initiatives. However, the socio-cultural and organizational dimensions help determine the environment and provide the facilitative means for cross-border co-operation and even, sometimes, cross-border regional awareness and identity.

**Figure 1**  
*Shared Geography*



## Economic Dimension

Trade levels and flows at the provincial-state level bear out the existence of regional economic links that are in many ways fairly distinct, increasingly important, and quite dynamic.<sup>1</sup>

Generally, not only is the level of trade much greater between individual provinces and neighbouring and nearby states, but so too, their recent growth in trade volumes.

Also, provinces now export a wider variety of goods to neighbouring states – in keeping with the view that the more integrated an area, the broader the range of goods exchanged. Indeed, Canada and the United States are moving away from being simply trading partners to functioning as more integrated economies, with much of this integration occurring in and impacting cross-border regions. Higher bilateral trade intensities further underline how much more the economies of neighbouring provinces and states now depend on each other.

These findings reflect, in part, the fact that a number of important regional economic activities are shared in common by neighbouring provinces and states along the border and that several important North American hubs have cross-border influences, including Boston, Montréal, Toronto, Detroit, Minneapolis, Winnipeg, Calgary-Edmonton, Seattle, and Vancouver.

Consequently, the economic performance of neighbouring and nearby provinces and states tends to be related. Moreover, this similarity in economic performance among intra-regional provinces and states has been, on the whole, getting tighter.

**Figure 2**  
*Correlations in Provincial Economic Activity*

Averages	West		Prairies-Plains			Great Lakes-Heartland	East				
	BC	AB	AB	SK	MB	ON	QUEBEC	ATLANTIC CANADA			
							QC	NB	NS	PE	NL
<b>1979-1988</b>											
With											
Neighbouring/Nearby States	0.566	0.388	0.378	0.314	0.398	0.894	0.946	0.958	0.953	0.974	0.962
Others	0.714	0.686	0.688	0.708	0.816	0.793	0.777	0.753	0.749	0.750	0.754
<b>1989-2004</b>											
With											
Neighbouring/Nearby States	0.972	0.954	0.972	0.961	0.947	0.877	0.976	0.976	0.972	0.971	0.953
Others	0.952	0.952	0.948	0.939	0.932	0.925	0.925	0.920	0.941	0.919	0.881

Neighbouring/Nearby States — West: Alaska, Washington, Oregon, Idaho, and Montana; Prairies-Great Plains: Montana, Wyoming, North Dakota, South Dakota, and Minnesota; Great Lakes-Heartland: Michigan, Indiana, and Ohio; East (Quebec): New York, Vermont, Maine, and New Hampshire; East (Atlantic Canada): Maine, New Hampshire, Massachusetts, Connecticut, and Rhode Island.

Source: PRI calculations based on quarterly data for provinces and states (and Washington, D.C.) from the Federal Reserve Bank of Philadelphia and Industry Canada.

An exception is Ontario whose economic performance was more similar with neighbouring states before the FTA,<sup>2</sup> but is now becoming more synchronized with states and provinces further away.

## Culture and Values

It is widely understood that the existence of commonly held and shared values among business and community leaders on both sides of the border facilitates the creation and expansion of cross-border links, and the development of cross-border regions. This makes organization building and joint decision making easier.

**Figure 3**  
*Socio-Cultural Value Gaps*

Cross-Border Socio-Cultural Value Differences\*

	British Columbia	Alberta	Saskatchewan-Manitoba	Great Lakes-Heartland	Quebec	East Atlantic Canada
	BC	AB	SK, MB	ON	QC	NB, PE, NS, NL
Northeast	8.0	7.5	6.0	5.5	8.0	4.0
Midwest	8.5	7.0	7.0	5.5	9.5	4.5
Southern	13.0	9.6	7.6	9.3	12.0	6.7
Western	6.3	4.6	7.3	5.3	7.6	6.3

\*Using 1990 and 2000 data from the World Value Survey, the PRI calculated for each region the average percentage of respondents who agreed to each of 32 different questions representing 7 socio-cultural dimensions. The results presented in the table are the percentage point differences between the regions indicated for all questions. The lower the number, the more similar are the regions.

Source: Boucher, Christian. 2005. *Toward North American or Regional Cross-Border Communities: A Look at Economic Integration and Socio-Cultural Values in Canada and the United States*. Working Paper. Policy Research Initiative.

Analysis by the PRI, based on a socio-cultural index involving 32 values shows that the northeast and northwest coastal regions are especially characterized by shared values.

The socio-cultural values of Atlantic Canada are closer to those of the US east coast. On the other hand, Alberta and British Columbia have socio-cultural values that are closer to those of the western part of the United States. An analysis of statements by regional political actors provides additional support to the notion of a regional identity.

However, the cross-border areas in and around the Great Lakes share commonalities in socio-cultural values and ideological communities, but not so much a common identity. The Prairies-Great Plains area has significant but generally weaker cross-border similarities in terms of socio-cultural values.

### Cross-Border Organizations

Cross-border organizations provide mechanisms for cross-border interaction and co-operation, facilitating the maintenance and development of further cross-border links. There are many types of cross-border organizations, in terms of make-up and objectives. They are also active in numerous fields, including transport, economy, environment, and security. However, most are created through private initiatives.

It is noteworthy that the FTA and NAFTA kept common institutions to a minimum, but cross-border regional organizations have helped fill the institutional void, confirming the general belief that North American integration is a bottom-up phenomenon. By their regional nature, these organizations frequently focus on local issues that may not have enough national momentum to attract the necessary resources from their respective central governments.

Consequently, cross-border regional organizations provide a useful vehicle for bi-national business and community groups to work together on issues of mutual interest, often with the ultimate aim of practical problem solving or creating local edges for success in the larger North American and global economies. The Pacific Northwest Economic Region (PNWER), with its network of private and government officials, provides an example of organized cross-border co-operation through its 17 different working groups and memberships that include premiers, governors, legislators, counties, economic development commissions, industry associations, and private sector members.

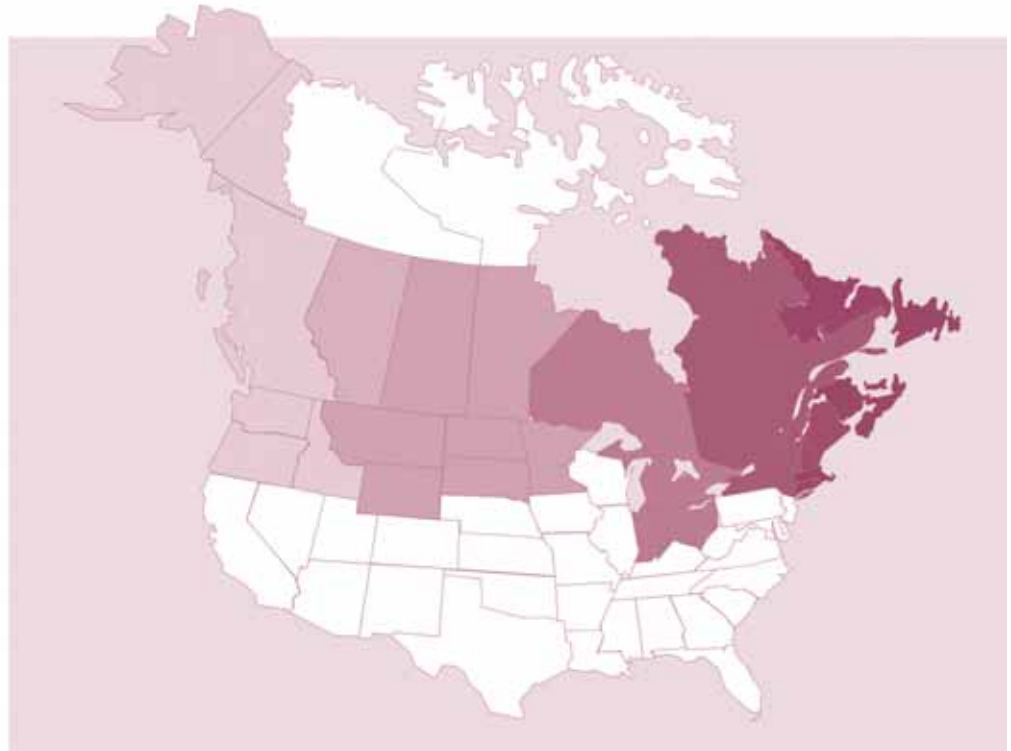
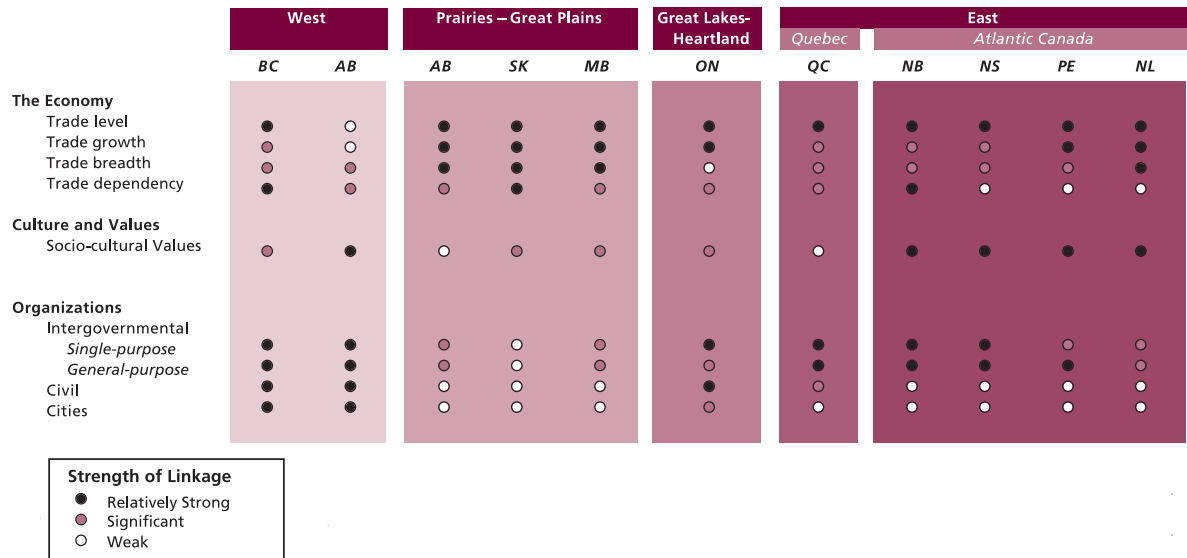
While shared interests appear to constitute a necessary condition for cross-border organizations, other features are often also present. For instance, cross-border organizations tend to be more numerous among provinces and states with strong trading relationships, and in fields under provincial/state or shared jurisdictions (although, cross-border organizations often invite federal government representation and active collaboration).

### Cross-Border Regions

Based on these economic, socio-cultural, and organizational considerations, a few fairly distinct groupings of neighbouring and nearby provinces and states can be identified. The links may not be equally strong in all dimensions, but they are significant across all regions of Canada.<sup>3</sup>

- In the West: British Columbia, Alberta, and Yukon with Alaska, Washington, Idaho, Oregon, and Montana.
- In the Prairies-Great Plains area: Alberta,<sup>4</sup> Saskatchewan, and Manitoba with Montana, Wyoming, North Dakota, South Dakota, and Minnesota.
- In the Great Lakes-Heartland area: Ontario with Michigan, Indiana, and Ohio.
- In the East: Quebec with Vermont, Maine, New Hampshire and New York. Atlantic Canada with Maine, New Hampshire, Massachusetts, Rhode Island, and Connecticut.

**Figure 4**  
*Putting It All Together*  
 Scope and Nature of Cross-Border Links – Select Indicators



Alberta and Montana are part of both the West and the Prairies-Great Plains cross-border regions.  
 In the East, New Hampshire and Maine are part of the two cross-border sub-regions for Quebec and Atlantic Canada.

Overall, the “thickness and intensity” of links appear greatest out west, where cross-border organizational links are most advanced, economic ties are significant, and socio-cultural values are quite similar.

In the Prairies-Great Plains, cross-border organizational links are perhaps at their weakest, but the Prairie Provinces' economic links and trade dependencies on their cross-border state partners are relatively strong compared to those between other Canadian provinces and states.

Ontario has important links with its neighbouring states in the Great Lakes-Heartland in all three of the economic, socio-cultural, and organizational dimensions. So does Quebec, with respect to economic and organizational links.

Atlantic Canada has quite active organizational links and fairly significant economic and socio-cultural links with its cross-border state partners.

### Leaders' Survey and Executive Interviews

The above findings were based mostly on quantitative indicators, which were then supplemented by survey evidence and executive interviews involving key individuals from business, various levels of government, academia, think tanks, cross-border organizations, and associations.

In addition to confirming the varied nature and broad scope of cross-border regional relationships, the survey and executive interview responses displayed a positive outlook concerning the future growth of cross-border regional relations, and highlighted several resultant benefits. Some of these benefits include:

- stronger bi-national regional networks;
- greater involvement of regional stakeholders in Canada-US issues;
- practical bi-national problem solving in a broad range of fields;
- improved access by regional stakeholders, through cross-border regional alliances, to national government decision making in Canada and the United States; and
- the consideration of regional cross-border issues by national governments.

Cross-border regional relationships were found to have an under-appreciated influence on Canada-US relations. But in fact, they could play an important role in helping to avoid and resolve bi-national disputes, thereby strengthening further economic integration between both countries. As well, they could serve as 'laboratories for policy innovation' (e.g., the PNWER successfully advocated for a 'Nexus Plus' program).

Some possible concerns about cross-border regions did not register as being significant to the leaders. For instance, the activities of cross-border regional organizations were identified as complementing rather than competing with federal activities. Also, while leaders regard the emergence of cross-border regions as a lasting phenomenon, they mainly agreed that such regions do not pose a challenge to Canadian identity. The leaders responses did, however, when broken down by cross-border region, reveal there exists among individual cross-border regions certain characteristics that are unique and distinctly different – the range of responses were often greater among cross-border regions than between Canada and the United States.

Suggestions raised on how the Government of Canada might best facilitate and encourage future benefits from cross-border regional relations include the provision of better monitoring, and improved information and support to cross-border regional stakeholders. Also noted were the importance of infrastructure development and transportation corridors to cross-border regions, and funding assistance to cross-border regional organizations.

The Leaders' Survey and Executive Interviews were designed by the PRI, with the assistance of academic experts, and carried out under the auspices of EKOS, between July 28 and October 15, 2005. It was the first time a survey and interviews of such magnitude were held on the topic of Canada-US cross-border regions.

More than 110 leaders from Canada and the United States responded to the mail-in survey that included 119 questions, six of which were open questions resulting in 41 pages of verbatim. This wealth of information includes important new details about the identity of stakeholders involved in cross-border relationships, and a better understanding of not only the nature and scope of cross-border linkages, but also the true opportunities and challenges facing the Government of Canada.

## Emerging Policy Relevance

So, what is the policy relevancy of emerging cross-border regions?

Increasing Canada-US integration results in the need for new ways for Canadians and Americans to work together, particularly on issues in which both countries share common concerns. To date, bi-national co-operation has remained mostly a dynamic involving politicians and larger companies. However, the ever-growing cross-border regional relationships are resulting in the greater participation of local stakeholders and regional players in the management of Canada-US issues.

Therefore, the federal government needs to pay closer attention to cross-border regions. It is at this cross-border regional level that the costs and benefits are actually felt, and more readily identifiable. Consequently, it is also at this level that it becomes easier and more practical to address bi-national issues through the active participation and co-operation of cross-border regional stakeholders and organizations.

This may mean that the governments of both Canada and the United States will increasingly have to co-ordinate their efforts with regional governments and partners, for more effective policies. This, in turn, means future policy development frameworks must, to a greater extent, involve the diversified stakeholders and additional levels of government at the cross-border regional level.

This is especially apt for those issues arising from increased North American integration and those policies aimed at regional development. As the economies of neighbouring and nearby provinces and states become more intertwined, and function more in tandem, it will be important that national and regional governments and their partners on both sides of the border consider ways to address joint problems more effectively and together promote the success of the overall cross-border region. This includes, for instance, the promotion of globally competitive cross-border activities.

It is noteworthy that cross-border regions can also be seen as important launching points for Canadian firms interested in introducing new products in the United States before subsequently tackling more distant markets. In other words, cross-border regions are critical gateways for the promotion of innovative activities and new products that could be important to Canada's future prosperity.

In summary, cross-border regions are often where North American integration is the most intense and dynamic, where Canada-US bridges of friendship, co-operation, and business are first developed, and where the benefits and challenges of North American integration will be first and foremost felt. Accordingly, cross-border regional relationships and co-operation will be increasingly important and indispensable considerations in Canada's future policy development toolkit.

### Notes

- 1 This includes measures of the absolute growth of trade and level of trade: a border bias occurs when states and provinces accredited as being export destinations or import origins are actually pass-through points. However, this reporting problem has more relevance for levels of trade than growth rates. Although the border bias is not likely to be sufficiently large to deny the relatively stronger trade links between Canada and northern US states, the significance of the problem has been an ongoing topic for research.
- 2 Ontario is generally more diverse in its US-bound exports, but more specialized in its exports to its cross-border states, which are relatively concentrated in such key industries as auto parts, chemicals, and industrial equipment. On the other hand, Ontario has always exported in a relatively more extensive range of industries to a wider number of US states than many of its provincial counterparts; Ontario targets the whole US marketplace. The border bias may explain some of this.
- 3 It is important to note one other important cross-border region - the North - comprising Canada's northern territories plus Alaska. While Yukon and Alaska have been considered above in the context of the West, it is also true that there is a strong similitude in the economic experiences, opportunities, and challenges facing the inhabitants of the continental north that contribute to a sense of northern identity. As well, the North is rich in the cultures of northern indigenous peoples, and has organizations that are specific to northern concerns and transcend northern boundaries.
- 4 Alberta is in a unique situation: data analysis would suggest that it belongs to two distinct cross-border regions. It could also be argued that Alberta is part of its own cross-border region.