Intelligence MEMOS

From: Trevor Tombe

To: Ontarians

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Re: **THE BENEFITS OF EXPANDING THE NEW WEST PARTNERSHIP**

Canada will soon celebrate the 25th anniversary of its 1995 Agreement on Internal Trade. Its aim was laudable: to promote an open, efficient and stable domestic market, reduce or eliminate barriers to the movement of persons, goods, services and investment, enhance the competitiveness of Canadian business, and promote economic opportunity for Canadians, among other aims.

Progress has been limited, but new and ambitious initiatives are taking shape.

The 2017 passage of the Canadian Free Trade Agreement put the issue at the top of the national agenda once again. Alberta's new government is prioritizing internal trade, moving unilaterally in many areas. And it's hoping to bring other provinces into the New West Partnership – a deal to help ease trade barriers between the four western provinces. Ontario, as the largest and arguably most influential player in Confederation, has a special role to play. Joining such an agreement would yield benefits for the province and for Canada as a whole.

In a recent IMF paper, Jorge Alvarez, Ivo Krznar, and I quantified the potential gains of such deals between provinces, of which there are many. We find trade costs fell between 1 to 4 percent, depending on the deal. For the New West Partnership specifically, we estimate it lowered measured trade costs by roughly 2.3 percent. This may sound small, but even modest improvements in costs yield real benefits for households and businesses.

How large the gains if Ontario joined the NWP? It's tough to say with certainty, but it's possible to get an idea.

Using the same model of Canada's economy as in our paper, I estimate the consequences of lowering trade costs between Ontario and the NWP provinces by 2.3 percent. Though just an illustration, it is informative. I find internal trade volumes in Canada would increase by $7 billion per year and Ontario's GDP would increase $1 billion, almost $200 per family. Lower prices mean families can purchase more goods and services with existing incomes. These gains also attract workers to Ontario. I estimate employment would increase by roughly 5,000. Not massive, but this only reflects a trade cost reduction of 2.3 percent. More liberalization would yield more gains.

Importantly, Ontario isn't the only beneficiary. Almost all provinces would see a GDP boost from Ontario joining the New West Partnership. Manitoba especially – with a GDP boost of 0.15 percent. Across Canada, overall economic activity and real income would increase by an estimated $1.8 billion. The gains for Canada are therefore nearly twice as large as for Ontario itself.

There is uncertainty around the specific values, but the gains from further liberalization are meaningful and real. Lower trade costs come with higher trade volumes, larger GDP, and higher employment. There's no free lunch, of course. Open markets allow sectors where Ontario has a relative advantage (including various manufacturing sectors, agriculture, and food and beverages) to expand and grow while other sectors (such as business services) shrink. The adjustment can be slow and, in some cases, costly, but smart policy can help.

Working through the challenging task of acceding to the New West Partnership (which might require a name change), ensuring gains are broadly felt, and tackling regulatory reforms (in professional services in particular) will require sustained leadership. But the potential gains make it well worth the effort.

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