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Canada and the United States: Let's Avoid Harmful Barriers at the Border

Opening remarks delivered at the high-level discussion titled "Canada–U.S. Relations in an Age of Economic Security" as part of the launch of the Second Century Commission on Canada–U.S. Relations

Stéphane Dion
Diplomat in Residence
Faculty of Arts and Science
Université de Montréal

We are asked to discuss the bilateral frameworks necessary for Canada and the United States to maintain cooperation, resilience and shared benefits in a more contested international environment. This question raises a great number of crucial issues, and I therefore find it reassuring to be part of a panel bringing together such advanced and varied expertise.

For my part, I will focus on the question of the border between our two countries. The resurgence of protectionism internationally and trade tensions between Canada and the United States have brought the issue of borders in international trade back to the forefront.

Together with Professor François Vaillancourt, we just released an essay published by the IRPP, which updates a famous study done by the late John McCallum on the border effect.[1] The border effect can be defined as the barriers, obstacles or impediments that national borders create for trade flows.

Here are our main findings: In 2024, despite the full implementation of the Canada–United States Free Trade Agreement since 1988, interprovincial trade in goods was still 14 times higher than trade in goods with U.S. states, taking into account the size and distance between states and provinces. In other words, once size and distance are taken into account, Canadian provinces trade 14 times more with each other than with U.S. states. Fourteen times, that's a lot, and this is in 2024, before the tariff escalation initiated by President Trump.

Our study also shows that interprovincial exports have remained relatively stable in relation to Canadian GDP since the early 1990s. Despite the implementation of free trade agreements, interprovincial trade has been maintained. It remains to be seen by how much the relative weight of interprovincial trade in the Canadian economy will increase, under the combined effect of the new tariffs imposed by President Donald Trump and Canada's efforts to reduce interprovincial trade barriers.

This illustrates the magnitude of the border effect on Canada and, by extension, the crucial importance of streamlining our internal trade and choosing the right strategies to increase and diversify our foreign trade. The border effect is here to stay. We must approach the issue with due rigour and consistency in two ways. First, we must continue to make our internal market more fluid by eliminating unnecessary barriers to interprovincial trade. The Canadian internal market being a stabilizing factor for our economy, it is necessary to take this into account in our policies, including in our current debates concerning Canadian unity. Economic exchanges within Canada remain far more fluid than those that Alberta and Quebec could develop with other countries. To benefit from this fluidity, Albertans and Quebecers must remain part of Canada, not turn other Canadians into foreigners.

1 Stéphane Dion and François Vaillancourt, "The Effect of National Borders as an Obstacle to Trade Flows: Consequences for our Economic and Political Choices" (Institute for Research on Public Policy, 2026), https://doi.org/10.26070/az5w-d294.

Second, we must make our trade policy ever more proactive and effective in supporting our exporters in all markets and in defending our interests both in bilateral negotiations and in international forums. We must promote our trade interests more vigorously than ever before, in our dealings with the United States but also with other countries and regions, so as to be less dependent on our American neighbours.

In Europe, where I have been the Prime Minister's Special Envoy during the last eight years, we are making effective diplomatic efforts to prevent Canadian exporters from becoming collateral victims of the industrial and trade strategies adopted by the European Union to counter American protectionism and stem the flow of Chinese goods. In many countries, the electoral weight of protectionist movements is increasing with the rise of the radical nationalist right and the anti-globalization left.

A strategic challenge that Canada will need to successfully address is restoring our access to the U.S. market without creating new barriers to our access to markets on other continents. As Andrei Sulzenko pointed out, during the current CUSMA (or USMCA) review, the United States insists on two key requests:[2] a very broad definition of North American content (as they did for cars) and a very broad definition of national security. North American content aims to exclude non-North Americans. The national security exception in the broadest possible sense aims to exclude non-Americans.

Regarding North American content, one of their objectives will be to prevent Chinese products or other "low-cost producers" from entering their market indirectly via Mexico or Canada.

The challenge for us is not to compromise our trade agreements with other countries or continents (CETA with the European Union, CPTPP with Pacific countries), and not to harm our diversification objectives, which aim to double our exports outside the United States in ten years. As Joel Baum rightly pointed out,[3] it is necessary to avoid locking ourselves into a "Fortress North America" that would prevent Canada from increasing trade with the rest of the world.

If we look at the case of Europe, to succeed in doubling Canadian exports to EU countries from 2025 to 2035, they will need to grow at an average annual rate of 7.18%. This rate is significantly higher than the average annual rate of 3.93% over the past ten years. This represents a considerable challenge that will require sustained performance well beyond recent historical trends. We will not be able to meet this demanding target if we erect new barriers to the European market to accommodate the Trump administration.

2 Andrei Sulzenko, "Keep Calm and Trade On: Canada Has Cards to Play In CUSMA Review," *Sage*, Substack (March 22, 2026), https://sagecanada.substack.com/p/keep-calm-and-trade-on-canada-has.

3 Joel Baum, "Fortress North America is replacing free trade in Canada's lexicon," Policy Options (May 11, 2026), https://policyoptions.irpp.org/2026/05/fortress-trade-language/.

On the national security exception, we will need to strongly play the NORAD card and the necessary cooperation in the Arctic and insist on the fact that we are a strategic supplier of petroleum products, electricity, uranium, potash and critical minerals that will allow the United States to be less vulnerable in this regard to less friendly regimes, particularly China.

Because the elephant in the room, actually the dragon, is China. In 2004, China accounted for less than 9% of global manufacturing output. In 2011, China had surpassed the European Union to become the world leader in manufacturing output. In 2023, China reaches 28% of the global total. It produces more than the next three largest manufacturing economies combined (the United States, Japan and Germany).

China's share in refining is about 35% for nickel, 40% for copper, 50% to 60% for steel, 50% to 70% for lithium and cobalt, and nearly 90% for rare earths, all essential materials for digital, military and energy transitions. China's control over the critical materials market is all the more concerning as it also dominates other key supply chains, such as batteries, solar panels and electric vehicles.

Hence the crucial role that Canada must play, provided that it succeeds, with the contribution of its partners, especially of course the United States, in mobilizing the considerable investments that will make it possible to bring to market the abundant critical resources contained in the Canadian soil.

The challenge for us is therefore threefold: 1) to restore our access to the American market, 2) without limiting access to other markets, 3) while making our domestic market increasingly fluid. If we succeed in all this, we will be well equipped in a world where the border effect will remain a significant obstacle to overcome.