MEI Ideas for a More Prosperous Society

ECONOMIC NOTES

REGULATION SERIES

MAY 2025

BILATERAL BREAKTHROUGHS IN CANADA: THE PROMISE OF RECIPROCAL MUTUAL RECOGNITION IN INTERPROVINCIAL TRADE

By Trevor Tombe, with the collaboration of Gabriel Giguère and Krystle Wittevrongel

Canada's vast geography and decentralized government structure create unique internal trade challenges. Provinces enjoy significant autonomy and regulatory authority over many economic activities, resulting in a patchwork of rules, regulations, standards, and certification requirements that vary by region.[1] This adds cost, complexity, and frustration to interprovincial commerce. A product or service that complies with one province's rules may require new testing, paperwork, or even redesigns to meet another's.

Policymakers have long sought solutions, ranging from the 1995 Agreement on Internal Trade to the 2010 New West Partnership, and the 2017 Canadian Free Trade Agreement (CFTA).[2] Still, progress has been slow. Harmonizing regulations across all provinces is complex and time-consuming.

MUTUAL RECOGNITION AS AN ALTERNATIVE WAY TO LIBERALIZE INTERPROVINCIAL TRADE

In contrast, mutual recognition—in which approved goods or services are automatically accepted in each others' jurisdictions—offers a more practical and politically feasible alternative. It avoids full harmonization across Canada while still reducing barriers for consumers and businesses.[3] Most importantly, provinces don't need to wait.

It is also different from unilateral liberalization—in which one province opens its market to goods and services approved elsewhere.[4] But without reciprocal access to other provinces' markets, the benefits may be harder to communicate. Conversely, mutual agreements between two or more provinces allow governments to frame reforms as delivering value to both sides. Reciprocity also provides cover for reform-minded provinces: they can justify regulatory changes as part of a negotiated partnership, rather than as a relaxation of their own standards.

In practice, however, wide-scale mutual recognition, across multiple provinces, remains

This Economic Note was prepared by **Trevor Tombe**, Senior Fellow at the MEI, in collaboration with **Gabriel Giguère**, Senior Policy Analyst at the MEI, and **Krystle Wittevrongel**, Director of Research at the MEI.
The MEI's Regulation Series aims to examine the often unintended consequences for individuals and businesses of various laws and rules, in contrast with their stated goals.

difficult.[5] This is why bilateral or small-group agreements may be more viable. They can limit the number of regulatory differences that have to be navigated and give governments greater control. Provinces with more aligned interests—geographic, economic, or political—can also move more quickly. And some appear already to be doing just that.

NOVA SCOTIA'S NEW APPROACH: ONTARIO AND PRINCE EDWARD ISLAND FOLLOWING

Specifically, Nova Scotia recently introduced a new approach that may change the game with respect to liberalization of internal trade. On March 26, 2025, it passed Bill 36—the *Free Trade and Mobility Within Canada Act*.[6] Though brief, the bill is wide in scope. For provinces that reciprocate, Nova Scotia will accept without additional testing or fees any goods approved for use in the other province, even if they do not technically meet local standards.

Importantly, the bill also covers services. Professionals licensed in reciprocating provinces will, with few exceptions, receive automatic licensure in Nova Scotia in a matter of days. Given that services dominate interprovincial trade, this could be a significant step.

The momentum is also spreading. Ontario's 2025 Bill 2—the *Protect Ontario Through Free Trade Within Canada Act*—takes a more cautious tone through an emphasis on reciprocity, but still aligns with Nova Scotia's approach.[7] New Brunswick has joined these two through a Memorandum of Understanding between them, and has signed an additional agreement with Newfoundland and Labrador.[8] And Prince Edward Island has introduced a similar bill of its own—the *Interprovincial Trade & Mobility Act*.[9]

These emerging subnational free trade zones appear to be the chosen route forward for many provinces, and they are therefore worth evaluating closely. To that end, the present note uses detailed trade data and economic modeling to quantify the potential gains from Nova Scotia–style mutual recognition deals.

HOW TO ASSESS THE IMPACT OF TRADE LIBERALIZATION

How does one estimate the economic impacts of these internal trade liberalizations? While there are many potential options, we use here a widely recognized computational model of Canada's economy, frequently cited in academic and policy research.[10] In essence, the model quantifies current trade costs between provinces and the potential gains from reducing them.

The concept is the following: trade costs are inferred by comparing actual interprovincial trade flows with what *would occur* in a market with no barriers. In such a market, buyers would face the same incentives regardless of where a supplier is based; if delivery costs were equal, whether from Halifax or Hamilton would make no difference. Not all trade costs come from policy, of course. Geography, language, and preferences also matter. Our model accounts for these factors, isolating "excess" trade costs more likely caused by regulation. These are the barriers that internal trade agreements aim to remove.

Mutual recognition—in which approved goods or services are automatically accepted in each others' jurisdictions—offers a more practical and politically feasible alternative.

This approach is a reliable method used globally to assess trade frictions, including by the World Bank.[11] Once these costs are estimated, the model simulates the effects of removing them on several indicators such as production, jobs, prices, and other outcomes across provinces.

The results from such simulations are robust and quite commonly used in evaluating trade deals. Applied to Canada's internal economy, they offer valuable insight into the

potential gains from reform. While precise numbers may differ depending on the assumptions, the general scale and direction provide a strong guide for policymakers about the magnitude of the gains from removing interprovincial trade obstacles as illustrated in the examples below.

POTENTIAL ECONOMIC GAINS FROM MUTUAL RECOGNITION BETWEEN NOVA SCOTIA AND ONTARIO

Nova Scotia's new mutual recognition legislation makes it a natural starting point for assessing the potential of subnational internal trade reform. Based on detailed 2021 Statistics Canada data, we estimate that (on average and adjusted for geography) Nova Scotia's internal trade costs add approximately 15 per cent to the cost of shipping goods and services across provincial borders.[12] These cost increases are especially high for services, at roughly 24 per cent, compared with only 4 per cent for goods.

This suggests that regulatory and licensing frictions—rather than transportation or logistical issues—are the dominant barriers and, therefore, represent the key opportunity for reform. Trade costs also vary by provincial partner. Barriers are relatively low with Ontario and Alberta (around 11 per cent), somewhat lower with British Columbia (8 per cent), but higher with Quebec (18 per cent) and highest with Manitoba, Saskatchewan, and Nova Scotia's Atlantic neighbours, where they reach nearly 20 per cent.

Importantly, the payoff from reducing these barriers depends not only on the size of trade costs, but also on the total trade involved. Figure 1 illustrates the total value of goods and services traded between Nova Scotia and each of the other provinces. Based on data from 2021, Nova Scotia's top trading partner is Ontario, with nearly $11 billion in trade. Quebec follows at over $5 billion, while New Brunswick and Prince Edward Island combine to total about $4.3 billion. Newfoundland and Labrador, British Columbia, and Alberta each exceed $1 billion while Saskatchewan and Manitoba trade in the hundreds of millions.

What, then, would be the potential economic payoff from a Nova Scotia–Ontario mutual recognition agreement?

Overall, our model estimates that such an agreement could boost Canada's GDP by roughly $4.1 billion. Nova Scotia, unsurprisingly, stands to benefit the most, with annual growth estimated at about $2,800 per person. Estimates for Ontario show gains of about $100 per person.

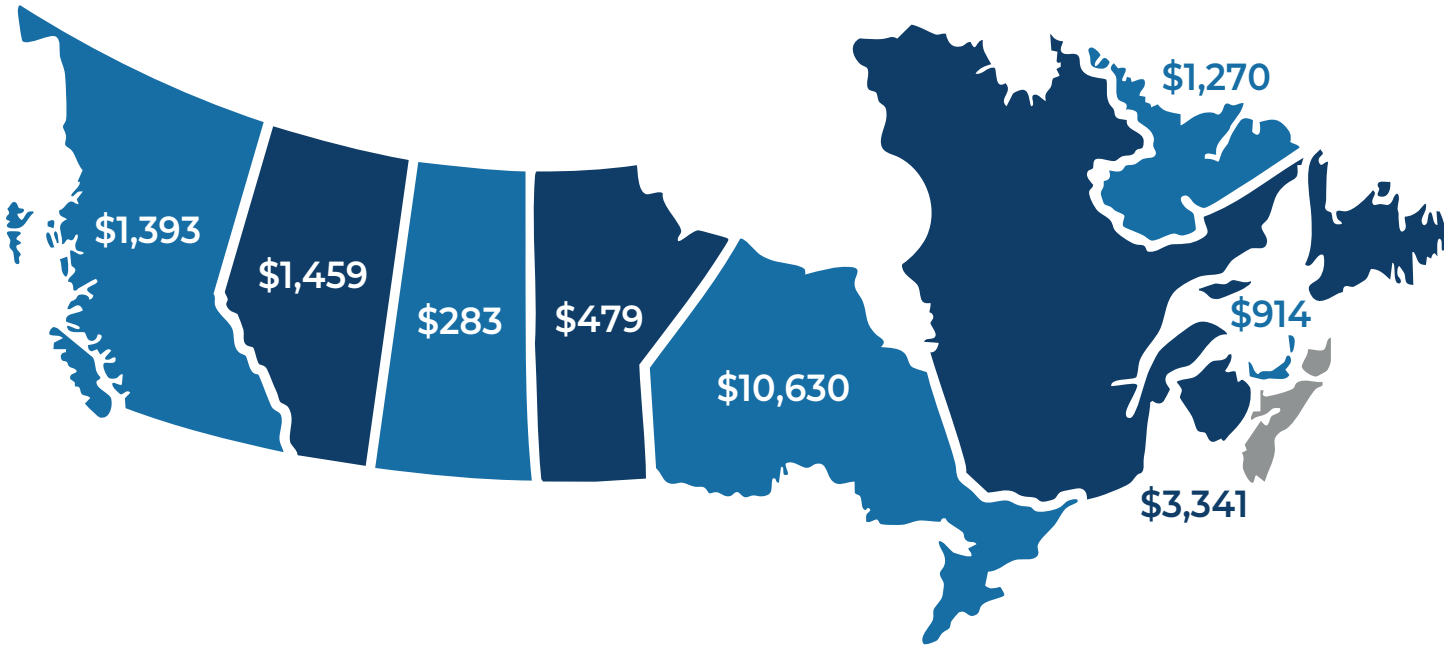
It might be tempting to assume that only Ontario and Nova Scotia would benefit, but in fact the gains are far broader. National supply chains link economic activity across provinces, meaning that even a two-province agreement can have positive spillovers elsewhere. We estimate that Alberta would gain about $15 per person, and British Columbia about $9. While seemingly modest, these gains reinforce the broader national value of mutual recognition. The one exception is Newfoundland and Labrador, which could see a slight decline of around $4 per person—likely due to economic activity shifting toward Ontario or Nova Scotia. Though minor, this illustrates how bilateral deals can incentivize others to join to avoid being left behind.

For provinces that reciprocate, Nova Scotia will accept without additional testing or fees any goods approved for use in the other province, even if they do not technically meet local standards.

The benefits also show up in wages and prices. Eliminating trade barriers lowers input and consumer costs between provinces. For services—where average trade costs are about 16 per cent—removal could significantly reduce cross-border prices.[13] Overall, our model predicts wages in Nova Scotia would rise by 4.1 per cent, while the average cost of goods and services would fall by about 1.2 per cent. In Ontario, prices would

Figure 1

Nova Scotia's Total Internal Trade, by Partner (2021)



Note: Figure displays the value of two-way trade (imports plus exports) in 2021 between each province and Nova Scotia, in millions of dollars.
Sources: Author's calculations using Statistics Canada data table 12-10-0101-01.

drop slightly—by about 0.1 per cent—reflecting the broader, albeit more muted, benefits of reform.

GAINS FROM BILATERAL FREE TRADE ZONES IN CANADA

Having examined Nova Scotia's potential agreements with Ontario, we now turn to other possible bilateral arrangements. The value of each partner varies, as Table 1 illustrates. An agreement between Nova Scotia and British Columbia could deliver $1 billion in gains; Alberta, $2.5 billion; Saskatchewan, $1.5 billion; and Manitoba, $700 million. Within Atlantic Canada, mutual recognition with New Brunswick could generate $5.3 billion, and with Newfoundland and Labrador, $3.2 billion. The biggest boost, at an estimated $5 billion, comes from a deal with Quebec. While Ontario's economy is larger, Quebec's higher trade costs mean that reducing those frictions brings a bigger payoff. Excluding Quebec, Nova Scotia's most valuable partners appear to be Ontario and New Brunswick.

Beyond Nova Scotia, many provincial pairs could benefit from adopting broad mutual recognition agreements. For example, if Alberta and British Columbia implemented a Nova Scotia–style agreement, Canada's GDP could grow by about $26 billion. Not surprisingly, the largest potential gain comes from Ontario and Quebec, but smaller provinces can also see significant returns. A Nova Scotia–Prince Edward Island agreement, for instance, would raise national GDP by $1.8 billion, with per capita gains of about $1,000 in Nova Scotia and over $6,800 in Prince Edward Island.

The largest barriers—and hence the largest gains from removing them—lie in services, where licensing and certification rules often restrict the ability to operate across provincial lines.

Table 1

National Gains from Bilateral Free Trade Zones in Canada, billions of dollars

	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
BC	$0.0	$25.7	$7.0	$2.8	$5.1	$3.5	$1.1	$1.0	$0.3	$1.3
AB	$25.7	$0.0	$18.1	$6.1	$10.6	$6.5	$3.0	$2.5	$0.6	$1.7
SK	$7.0	$18.1	$0.0	$6.1	$8.1	$3.9	$1.2	$1.5	$0.3	$0.8
MB	$2.8	$6.1	$6.1	$0.0	$5.2	$2.8	$0.8	$0.7	$0.2	$0.9
ON	$5.1	$10.6	$8.1	$5.2	$0.0	$32.2	$5.9	$4.1	$1.1	$6.7
QC	$3.5	$6.5	$3.9	$2.8	$32.2	$0.0	$9.2	$5.1	$1.5	$5.3
NB	$1.1	$3.0	$1.2	$0.8	$5.9	$9.2	$0.0	$5.3	$1.2	$2.7
NS	$1.0	$2.5	$1.5	$0.7	$4.1	$5.1	$5.3	$0.0	$1.8	$3.2
PE	$0.3	$0.6	$0.3	$0.2	$1.1	$1.5	$1.2	$1.8	$0.0	$0.6
NL	$1.3	$1.7	$0.8	$0.9	$6.7	$5.3	$2.7	$3.2	$0.6	$0.0

Note: Table displays the aggregate gains to Canada's economy resulting from bilateral mutual recognition between all pairs of provinces (in billions of current dollars).
Source: Author's calculations using Statistics Canada data table 12-10-0101-01.

While bilateral deals are illustrative, broader agreements involving more than two provinces could yield even larger benefits.

CONCLUSION

While the details of their respective agreements still need to be finalized, provinces exploring mutual recognition with Nova Scotia are responding to what could be a pivotal shift in Canada's internal trade policy.

Agreements that broadly recognize each other's regulations, credentials, and standards can deliver significant economic benefits—both provincially and nationally. This matters for individuals, who see results in the form of higher wages, lower prices, and better living standards. And for smaller provinces, per capita gains could reach several thousand dollars annually. Nationally, the benefits run into the billions.

The largest barriers—and hence the largest gains from removing them—lie in services, where licensing and certification rules often restrict the ability to operate across provincial lines. Though usually framed as labour mobility issues, they are more fundamentally barriers to service trade. For mutual recognition to reach its full economic potential, agreements must go beyond enabling relocation: they must allow professionals to work across provinces without duplicate licensing, exams, or paperwork.

At a time of slow productivity growth, internal liberalization may be one of the few tools available to drive sustained improvement.

These estimates are based on a well-established economic model grounded in real trade data, but they are not forecasts. Internal trade costs are not directly observed, and the results reflect long-run adjustments—not overnight effects. Gains would accumulate gradually as capital and labour shift toward more productive uses. Even so, the direction and scale of benefits are clear. Nova Scotia—joined by Ontario and Prince Edward Island—is charting a more ambitious course. If fully implemented, these efforts could mark a turning point. At a time of slow productivity growth, internal liberalization may be one of the few tools available to drive sustained improvement. Other provinces should take note. Canada's prosperity may well depend on it.

REFERENCES

1. Salim Zanzana, "Six Questions About the Significance of Interprovincial Trade Barriers in Canada," *RBC Thought Leadership*, March 2025.
2. Internal Trade Secretariat, Agreement on Internal Trade, consulted May 12, 2025; Internal Trade Secretariat, New West Partnership Trade Agreement, consulted May 12, 2025; *Canadian Free Trade Agreement*, Consolidated Version, April 17, 2025.
3. Standing Senate Committee on Banking, Trade and Commerce, *Tear Down These Walls: Dismantling Canada's Internal Trade Barriers*, June 13, 2016, p. 5.
4. Trevor Tombe, *Breaking Barriers: How Provinces Can Drive Canada's Prosperity by Unlocking Trade and Labour Mobility*, Macdonald-Laurier Institute, February 27, 2025, pp. 14-18.
5. Ryan Manucha, *Unlocking Canada's Economy: Why Mutual Recognition Is the Key to Supercharging Internal Trade*, Macdonald-Laurier Institute, April 8, 2025, pp. 9-11.
6. Nova Scotia Legislature, *Bill 36, Free Trade and Mobility Within Canada Act*, March 24, 2025.
7. Legislative Assembly of Ontario, *Bill 2: Protect Ontario Through Free Trade Within Canada Act*, 2025, introduced April 16, 2025.
8. Jesse Thomas, "N.B., N.S. sign agreements with Ontario to remove trade barriers," *CTV News*, April 16, 2025.
9. This does not apply to regulated health professions or those under the *Legal Profession Act. Government of Prince Edward Island, Bill 15: Interprovincial Trade and Mobility Act*, introduced April 11, 2025.
10. Author's calculations. Lukas Albrecht and Trevor Tombe, "Internal Trade, Productivity and Interconnected Industries: A Quantitative Analysis," *Canadian Journal of Economics*, Vol. 49, No. 1, February 2016, pp. 237–263.
11. The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) and the World Bank jointly produce the ESCAP-World Bank Trade Cost Database, which reports a similar measure of international trade between 180 countries over time using these methods. See Economic and Social Commission for Asia and the Pacific, ESCAP-WB Trade Cost Database: Explanatory Note for Users, July 2017.
12. Statistics Canada, Table 12-10-0101-01: Interprovincial and International Trade Flows, Basic Prices, Detail Level, November 7, 2024.
13. In contrast, trade costs for goods are low, at about 1 per cent, so price effects there are limited.

910 Peel Street, Suite 600, Montreal (Quebec) H3C 2H8 T 514.273.0969
150 9th Avenue SW, Suite 2010, Calgary (Alberta) T2P 3H9 T 403.478.3488
170 Laurier Avenue W, Suite 716, Ottawa (Ontario) K1P 5V5