Comparison between Mexican and Canadian Penetration of the U.S. Import Market

The ratio between the Canadian market share of U.S. imports of a particular category and the equivalent Mexican market share (the MSR) is used here as an analytical tool to review the evolution of the Canadian market share in U.S. imports in relation to the equivalent Mexican market share. An MSR exceeding one indicates an absolute market share advantage for Canada over Mexico, and a ratio below one indicates an absolute Mexican market share advantage over Canada.

The results of the MSR analysis on a category-by-category basis is mixed. In general, although Mexico has made progress in diminishing the scope of the absolute advantage that Canada enjoyed in most of the major categories in 1990 (with the exception of **electrical machinery and electronics**), the expansion of Mexico's market shares for these categories in the 1990-2000 period has not altered the fact that Canada still maintained an absolute market share advantage in 2000.

Table 2: Changes in the Canadian over Mexican Market Share Ratio (MSR) by Categories

	Commodity	Mexican Rank 2000	Canadian Rank 2000	Market Share Ratio 1990	Market Share Ratio 2000	% Change in MSR 1994-2000	% Change in MSR 1990-2000
	Reduction in the Canadian to Mexican Market Share Ratio (MSR) between 1990 and 2000						
Canadian Absolute Market Share Advantage in 1990	HS 87 - Motor Vehicles, Motorcycles	2	1	7.19	2.15	-59.3%	-70.0%
	HS-84 - Machinery and Engines	3	3	3.16	1.10	-48.1%	-65.1%
	HS 90 - Optical, Medical Instrumentation	6	13	1.00	0.65	7.1%	-35.0%
	HS-94 - Furniture and Lamps/Fixtures	7	8	1.95	1.39	-15.7%	-28.7%
	HS 73 - Articles of Iron or Steel	9	11	4.15	2.20	-27.6%	-47.2%
	HS 22 - Beverages, Spirits and Vinegar	11	25	2.21	0.70	-64.2%	-68.4%
	HS 39 - Plastics and Articles Thereof	12	7	6.38	5.63	-5.1%	-11.8%
	HS 72 - Iron and Steel	13	16	4.67	2.07	-43.4%	-55.8%
	HS 83 - Misc. Articles of Base Metal	14	28	1.26	1.10	-21.6%	-13.3%
	HS 70 - Glass and Glassware	15	33	1.14	0.88	-28.7%	-23.0%
	HS 74 - Copper and Articles Thereof	19	21	3.72	1.86	-42.5%	-50.1%
	HS 40 - Rubber and Articles Thereof	20	15	9.00	4.02	-52.0%	-55.3%
	HS 86 - Rail Transportation, Tramways	21	31	71.26	1.52	-86.4%	-97.9%
	HS 48 - Paper, Paperboard	22	6	32.74	19.86	-50.2%	-39.3%
	HS 03 - Fish, Crustaceans, Molluscs	24	19	4.60	3.23	-0.7%	-30.4%
Mexican Absolute Market Share Advantage in 1990	HS-85 - Electrical Machinery, Electronics	1	4	0.59	0.47	17.9%	-19.9%
	HS 62 - Woven Clothing	5	29	0.19	0.17	-40.7%	-12.1%
	HS 61 - Knitted or Crocheted Clothing	8	26	0.76	0.25	-43.5%	-66.8%
	HS 08 - Edible Fruits and Nuts	16	67	0.18	0.16	-3.7%	-14.5%
	HS 63 - Other Made-up Textile Articles	17	64	0.21	0.21	6.5%	-0.2%
	Increase in the Canadian to Mexican Market Share Ratio (MSR) between 1990 and 2000						
	Commodity	Mexican Rank 2000	Canadian Rank 2000	Market Share Ratio 1990	Market Share Ratio 2000	% Change in MSR 1994-2000	% Change in MSR 1990-2000
Canadian Absolute Market Share Advantage in 1990	HS 27 - Mineral Fuels and Oils	4	2	1.87	2.46	-0.2%	32.1%
	HS 71 - Pearls, Precious Stones, Jewellery	23	12	2.76	5.90	-6.0%	113.9%
Mexican Absolute Market Share Advantage in 1990	HS 07 - Edible Vegetables; Roots/Tubers	10	40	0.16	0.32	83.0%	99.4%
	HS 95 - Toys, Games, Sporting Goods	18	35	0.59	0.92	23.5%	57.7%
	HS 09 - Coffee, Tea, Maté and Spices	25	73	0.03	0.20	332.4%	653.2%

In addition, Canada increased its absolute market share advantage in the **mineral oils and fuels** over this period. On the other hand, in the 1990–2000 period, Mexico has strengthened the absolute market share advantage it initially enjoyed in a number of categories—such as **electrical machinery and electronics, textiles** and **clothing**. **Electrical machinery and electronics** is ranked as the 4th most important category in Canadian exports to the United States, whereas **textiles** and **clothing** are of lesser significance and are not included among Canada's top 25 export categories.

Table 2 presents a summary of the development of the MSR and indicates that, out of the top 25 Mexican export categories to the United States, the MSR declined—to the detriment of Canada—for 20 categories over the 1990-2000 period. For 15 out of these 20 categories, Canada had established a market share advantage in 1990, while Mexico enjoyed a market share advantage for five categories in 1990. On the other hand, the MSR increased—to the benefit of Canada—for five categories in the same period. Canada enjoyed a market share advantage for two of these categories in 1990, and Mexico enjoyed a market share advantage for the other three categories in 1990.

Despite the fact that Canada experienced a decline in the MSR for a number of major Canadian export categories to the United States between 1990 and 2000—**motor vehicles** (with a decline in the ratio of 70.0%), **machinery and engines** (down 65.1%), and **articles of iron or steel** (down 47.2%)—a reversal of Canada's market share advantage in 1990, which established a Mexican market share advantage in 2000, only occurred for three categories: **beverages; glass and glassware**; and **optical and medical instrumentation**[2].

However, as is evident from Table 2, the developments of the MSR are neither uniform between categories over the 1990-2000 period nor between the 1990-1994 and 1994-2000 subperiods. Although the implementation of the NAFTA in 1994 may be the most obvious aspect to distinguish the two periods, there are a number of macroeconomic factors to consider.

During the 1990-1994 subperiod, the negative effects of the global recession resulted in very limited growth in annual Canadian real GDP, with a 1.9% decline in real GDP in 1991, while Mexico enjoyed substantial annual real GDP growth throughout this entire period. The exchange rate between the Canadian dollar and the Mexican peso was C$0.41/peso in 1990 and C$0.40/peso in 1994, i.e. a marginal decline in the value of the Mexican peso by 2%. Thus, exchange-rate differences between the Canadian dollar and the Mexican peso are too insignificant in this period to have had a serious effect on Mexican and Canadian exports to the United States.

However, the situation is rather different in the 1994-2000 period. First, the economic crisis experienced in Mexico led to a substantive economic restructuring and a decline in Mexican real GDP by 6.2% in 1995. As part of an integrated measure of the economic restructuring, Mexico devalued the peso by 47.2% to C$0.21/peso in 1995. In addition to the devaluation in 1995, the Mexican peso continued to slide against the Canadian dollar for the remainder of the decade to C$0.16/peso in 2000. The combined effective depreciation of the Canadian dollar/Mexican peso exchange rate of 61.2% in the 1994-2000 period was a major factor behind the faster growth in Mexican exports to the United States.

In addition, 1994 remains the starting point for sharply increased inflows of foreign direct investment (FDI) into Mexico. FDI flows into Mexico more than doubled between 1993 and 1994, and remained at or exceeded that level throughout the rest of the 1990s. The growth in FDI into Mexico also boosted Mexican exports to the United States.

For the majority of the 15 categories where Canada enjoyed an absolute market share advantage in 1990, the MSR declined between 1990 and 2000. The categories with significance to Canada include **motor vehicles** (with the MSR falling by 26.3% in the 1990-1994 period and by a further 59.3% in the 1994-2000 period), **machinery and engines** (with the MSR falling 32.7% between 1990 and 1994, and 48.1% between 1994 and 2000); and **furniture and lamp/fixtures** (with the MSR falling 15.4% between 1990 and 1994, and 15.7% between 1994 and 2000). The notable exception is **paper and paperboard**, Canada's 6th largest U.S. export product in 2000, where the MSR increased by 32.7% in the 1990-1994 period, but experienced a decline of 50.2% in the 1994-2000 period.

Electrical machinery and electronics is the only category among Canada's top 25 U.S. exports that is included in the group of categories where Mexico enjoyed an

2 With respect to beverages (including spirits and vinegar)—ranked as Canada's 25th largest export category to the United States in 2000—the decline in Canadian exports can, to a large extent, be explained by an increase in cross-licensing arrangements between U.S. and Canadian brewers and beverage producers, which has largely reduced the need to ship large quantities of beverages across the border. Optical and medical instrumentation ranked as Canada's 13th largest export category to the United States in 2000, and glass and glassware ranked as the 33rd largest. For both categories, the MSR was only marginally above unity in 1990 and moved to marginally favour Mexico in 2000.