

# Features Section

## Canada and Mexico Trade with the United States

### Introduction

In the last decade, Canadian and Mexican exports to the United States have risen sharply. Although Canada still ranks as the premier source of imports into the United States, the more rapid recent growth in U.S. imports from Mexico has prompted speculation that Mexico would surpass Japan and subsequently Canada to take the lead as the major source of imports into the United States. The following analysis intends to review the structure and category composition of Mexican exports to the United States to examine the basis for, and validity of, the above referenced prediction.

### Background

Canada has maintained its ranking as the most important source of imports into the United States over the last decade, notwithstanding increases in U.S. imports from a number of other countries. In the 1990s, Canada's share of total U.S. merchandise imports increased from 18.7% in 1990 to 19.6% in 1994, levelling off to 19.1% in 2000. Japan—the 2<sup>nd</sup> largest source of U.S. imports—has seen its share decline from 18.1% in 1990 to 12.0% in 2000, while Mexico—ranked 3<sup>rd</sup>—has expanded its share from 6.1% in 1990 to 7.5% in 1994 and further to 11.2% in 2000. Over the last decade, China has also increased in importance as a source for U.S. imports. In 1990, China accounted for 3.1% of U.S. imports and ranked as the 8<sup>th</sup> largest source country, but moved up to rank as the 4<sup>th</sup> largest source country and to account for 8.2% of U.S. imports in 2000.

With respect to both Mexico and Canada, two parallel developments have enhanced the role of their exports to the United States:

1. An increasing share of overall exports destined for the United States, obviously stimulated by the Free Trade Agreement (FTA) (in effect since 1989 between Canada and the United States) and the North America Free Trade Agreement (NAFTA) (in effect among Canada, United States and Mexico since 1994). For Canada, the combined share of goods (merchandise) and services exports destined for the United States has increased from 71.2% in 1990 to 81.9% in 2000, while, for Mexico, the share has grown from 76.4% in 1990 to 82.1% in 2000.
2. Exports represent a growing share of gross domestic product (GDP) in both Canada and Mexico.

The combined effect of these two developments has expanded the share of GDP represented by exports of goods and services to the United States in both Canada and Mexico. In Canada, this share increased from 17.9% in 1990 to 36.3% in 2000, and, in Mexico, the share expanded from 14.2% in 1990 to 25.8% in 2000. For Mexico, most of the expansion of this share has taken place in the 1994-2000 period, i.e. following Mexico's entry into the NAFTA.

### Category Composition of U.S. Imports from Mexico

Our analysis of Mexico's penetration of the U.S. import market over the last decade—and the comparison with Canada's exports to the United States—is based on a review of the top 25 Mexican export categories shipped to the United States in 2000 (See Table 1.). Such a focus will of course lead to a positive bias in Mexico's favour. However, this bias is minimized by an overlap in the Canadian and Mexican category composition for their major exports to the United States—among the top 10 Mexican products in 2000, seven of the categories are also ranked among the top 10 Canadian U.S. export products<sup>1</sup>. Among the top 20 Mexican U.S. export products in 2000, 14 can also be found among the top 20 Canadian products.

Since 1990, most of Mexico's top 25 export categories to the United States, as measured by U.S. import data, have expanded rapidly. The three top categories of Mexican exports to the United States in the 1990-2000 period are **electrical machinery and electronics, motor vehicles and machinery and engines**. The dominance of these three categories has increased over time. Taken together, they accounted for 45.7% of Mexican exports to the United States in 1990, 54.4% in 1994 and 57.9% in 2000. Similarly, the top 25 categories also accounted for an increasing share of Mexican shipments over time. They accounted for 84.7% of Mexican exports to the United States in 1990, 87.7% in 1994 and 90.3% in 2000. The largest increase in the share of total Mexican exports to the United

States is accounted for by **motor vehicles**. Its share increased by a total of 7 percentage points in the 1990-2000 period, of which 4.7 points were added under the NAFTA since 1994. The share of **machinery and engines** increased by 4.6 percentage points from 1990 to 2000, led by an increase of 3.0 percentage points in the 1990-1994 period. On the other hand, the share accounted for by **mineral oils and fuels** decreased by 8.1 percentage points, led by a decline of 7.2 percentage points in the 1990-1994 period.

### Mexico's Market Penetration into the United States

Among Mexico's top 10 export categories, **edible vegetables** accounted for the largest U.S. import market share (for the individual category) at 59.8% in 2000, although this market share had declined from 68.4% in 1990. Seven of the top 10 categories increased their market share in the United States with more than five

percentage points in the 1990-2000 period. Increased U.S. import market penetration by Mexican shipments under the NAFTA have been particularly notable for **knitted and crocheted clothing**, where market penetration increased by 9.1 percentage points, **motor vehicles** (up 8.5 percentage points), **machinery and engines** (up 4.3 percentage points) and **electrical machinery and electronics** (up 4.0 percentage points).

Table 1: Major Categories Exported by Mexico to the United States

Category (HS Chapter) - Listed According to Year 2000 Mexico Ranking	1990			1994			2000		
	Category Ranking in Mexican Exports to United States	Category's Share of Total Mexican Exports to United States	Mexico's Share of Total U.S. Import of Category	Category Ranking in Mexican Exports to United States	Category's Share of Total Mexican Exports to United States	Mexico's Share of Total U.S. Import of Category	Category Ranking in Mexican Exports to United States	Category's Share of Total Mexican Exports to United States	Mexico's Share of Total U.S. Import of Category
HS-85 - Electrical Machinery, Electronics	1	25.7%	13.3%	1	29.1%	15.2%	1	26.3%	19.2%
HS 87 - Motor Vehicles, Motorcycles	3	12.1%	4.9%	2	14.4%	7.4%	2	19.1%	15.9%
HS-84 - Machinery and Engines	4	7.9%	3.6%	3	10.9%	5.1%	3	12.5%	9.4%
HS 27 - Mineral Oils and Fuels	2	17.5%	8.2%	4	10.3%	9.0%	4	9.4%	9.6%
HS 62 - Woven Clothing	8	1.8%	3.9%	7	2.6%	6.0%	5	3.8%	15.6%
HS 90 - Optical, Medical Instrumentation	6	2.2%	5.0%	5	3.7%	9.4%	6	3.3%	12.1%
HS-94 - Furniture and Lamps/Fixtures	7	2.2%	10.3%	6	2.6%	13.4%	7	2.8%	16.0%
HS 61 - Knitted and Crocheted Clothing	37	0.3%	1.0%	11	1.0%	4.2%	8	2.6%	13.3%
HS 73 - Articles of Iron or Steel	12	1.0%	4.6%	9	1.2%	7.5%	9	1.2%	11.2%
HS 07 - Edible Vegetables; Roots/Tubers	5	3.1%	68.4%	8	2.0%	65.1%	10	1.2%	59.8%
HS 22 - Beverages, Spirits and Vinegar	16	0.8%	6.4%	17	0.7%	7.4%	11	0.9%	15.3%
HS 39 - Plastics and Articles Thereof	19	0.8%	3.4%	12	1.0%	4.7%	12	0.9%	6.2%
HS 72 - Iron and Steel	14	0.9%	3.5%	10	1.2%	4.7%	13	0.8%	7.3%
HS 83 - Misc. Articles of Base Metal	29	0.5%	9.2%	25	0.5%	10.3%	14	0.6%	17.1%
HS 70 - Glass and Glassware	21	0.8%	13.2%	15	0.8%	14.2%	15	0.6%	18.2%
HS 08 - Edible Fruits and Nuts	11	1.1%	14.3%	14	0.9%	16.8%	16	0.5%	18.6%
HS 63 - Other Made-up Textile Articles	30	0.5%	11.8%	24	0.5%	12.7%	17	0.5%	14.9%
HS 95 - Toys, Games, Sporting Goods	17	0.8%	2.9%	13	0.9%	4.2%	18	0.5%	3.5%
HS 74 - Copper and Articles Thereof	23	0.7%	8.5%	20	0.6%	10.4%	19	0.5%	12.8%
HS 40 - Rubber and Articles Thereof	32	0.4%	2.3%	29	0.4%	2.7%	20	0.4%	5.8%
HS 86 - Rail Transportation, Tramways	72	0.0%	1.0%	44	0.1%	6.1%	21	0.4%	29.4%
HS 48 - Paper, Paperboard	25	0.6%	2.3%	32	0.3%	1.8%	22	0.4%	3.3%
HS 71 - Pearls, Precious Stones, Jewellery	13	0.9%	2.4%	22	0.6%	2.0%	23	0.4%	1.7%
HS 03 - Fish, Crustaceans, Molluscs	18	0.8%	5.5%	19	0.6%	5.6%	24	0.4%	6.2%
HS 09 - Coffee, Tea, Maté and Spices	10	1.2%	16.1%	18	0.7%	11.9%	25	0.3%	14.5%
Subtotal		84.7%			87.7%			90.3%	

<sup>1</sup> Missing from the top 10 Mexican export products to the United States in 2000 are the corresponding top 10 Canadian exports to the United States: **wood and wood products** (ranked as the 5<sup>th</sup> largest Canadian U.S. export product in 2000); **aircrafts** (ranked 9<sup>th</sup>); and **aluminium** (ranked 10<sup>th</sup>).