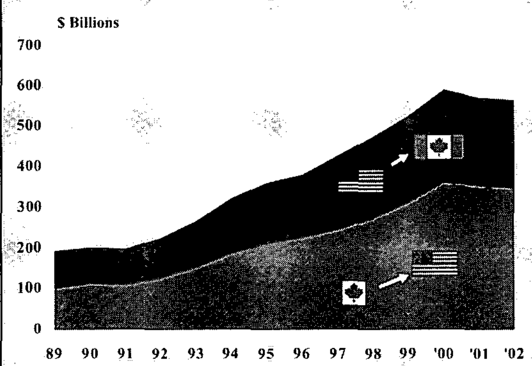
2.2 MERCHANDISE TRADE[10]

The primary accomplishments of the FTA and NAFTA were to eliminate tariffs on almost all merchandise trade between Canada and the U.S. (FTA) and subsequently with Mexico (NAFTA). As such, we would expect to see the strongest impact of these agreements on the merchandise trade numbers.

Figure 2.2.1

Canada-U.S. Merchandise Exports & Imports



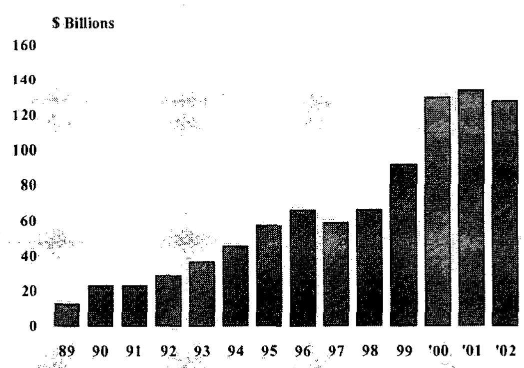
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Customs Basis

Between 1989 and 2002, Canadian merchandise exports to the U.S. increased by a tremendous 250 percent from $100.5 billion in 1989 to $345.4 billion in 2002. Imports increased by a smaller, but equally impressive, 150 percent over the same period, rising from $88.2 billion to $218.3 billion. The U.S. share of Canadian merchandise exports increased from 73.2 percent to 87.2 percent while the U.S. share of Canadian imports declined somewhat, from 65.2 percent in 1989 to 62.6 percent.

With Canadian exports to the U.S. outpacing the growth in our imports from the U.S., our trade surplus has increased significantly from $13.5 billion in 1989 to a peak of $133.5 billion in 2001, before falling off slightly to $127.1 billion in 2002 – or approximately 23 percent of our total merchandise trade with the U.S. In 2002, the U.S. accounted for 268 percent of our total trade surplus; in other words, Canada has a deficit in merchandise trade with the rest of the world.

Figure 2.2.2

Canada-U.S. Merchandise Trade Balance



Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Customs Basis

Transportation Equipment currently accounts for the single largest share of our merchandise exports with the U.S. at 27.0 percent in 2002. This is down somewhat from the 32.8 percent in 1989. Most other major export sectors also witnessed a decline in share of exports with "All Others" making up for most of this, gaining 10.7 percentage points – most of this gain was made by 'special transactions'. Metals & Minerals was the only other sector to gain in share; much of this occurred principally in the past few years with increases in resource prices. Another resource sector, Wood & Paper, saw a significant 4.5 percentage point drop in share and posted the slowest growth in exports over the period at only 7.0%, likely related to U.S.

[10] All of the data presented in section 2.2 is calculated on a customs basis for the purpose of being consistent with data for Mexico, but may differ from balance of payment data.