

Canadian exports to Mexico have traditionally been based on raw materials and agricultural commodities — dairy products, grains, iron and steel — and some manufactured products such as auto parts and telecommunications products. Canada imports mainly manufactured goods from Mexico — primarily autos and auto parts — and a somewhat smaller proportion of resource and agricultural products such as petroleum, fruits and vegetables. Recently, however, there are signs that Canadian exports to Mexico have begun to shift away from resource-based commodities and toward manufactured products. This change is likely to accelerate in the future as Canadians begin to contribute more directly to the development and modernization of Mexico's infrastructure.

Market reforms, Mexico's desire to upgrade its technological capability and global competitiveness will all create more opportunities for Canadian technologies, manufactured products, and services. Canadian exporters in

the telecommunications, plastics, automotive, machine tooling, and metal working sectors have already been able to penetrate the Mexican market successfully, achieving significant sales from strong marketing efforts.

Promotion of better trade relations between the two countries was the purpose of Prime Minister Mulroney's visit to Mexico in March 1990. On that occasion, an Agreement on a Framework for Consultations on Trade and Investments was signed by the two countries. A similar framework agreement has been signed by the governments of the United States and Mexico. When the North American Free Trade Agreement is fully implemented in 1994, commercial opportunities will expand even further. Moreover, Canadian firms that have developed strategic positions in Mexico can expect to reap additional benefits from their experience in this Latin American market as they move to tackle the growing markets of South America.

Investment

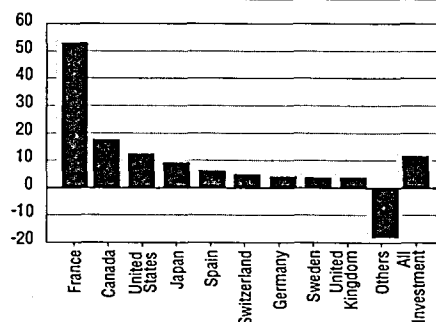
Canada's economic relationship with Mexico goes beyond trade. It includes investment links developed by many Canadian companies as a way of enhancing and extending their trading activities. There is, for example, a market of some 500 million people south of Mexico in Latin America.

By the end of 1991, accumulated Canadian direct investment in Mexico totalled \$US491 million. During the twelve months of 1991 alone, Canadians invested \$US74 million in Mexico, a substantial 17.7 percent increase over investments made in 1990. Though Canadian investment still comprises only 1.4 percent of total foreign direct investment in Mexico, it is growing more quickly than investment from all other countries except France (see Figure 3.4).

Many investors remain cautious in their approach to Mexico. They are waiting to see if the country will continue along its current course of fundamental economic reform and transformation and they want to be reassured that the Mexican economy will remain stable throughout this process. Even so, more Canadian companies are making inquiries, participating in trade missions and positioning themselves to profit from the new Mexican investment climate. The Canadian embassy in Mexico City reports that it received more than 1,500 inquiries from the Canadian business community in 1991, almost double the number recorded in 1990. This figure will likely double again in 1992.

As has already been noted in Chapter I, the *maquiladoras* are an important element in the development of Mexico's manufacturing sector. A small number of Canadian companies have been established in *maquiladora* plants since 1978 when Ideal Equipment Co. Ltd. of Montreal set up a plant in Matamoros (see Figure 3.5). The underlying rationale for Canadians is invariably to maintain competitiveness. Major customers are encouraging their suppliers to go to Mexico to reduce their costs and thereby their prices. This phenomenon is particularly evident in the automotive products, white goods and consumer electronics industries. It accounts for the presence in the *maquiladora* of companies like the Dominion Group, Fleck Manufacturing Limited and Custom Trim.

Figure 3.4
Fastest Growing Sources of Foreign Investment
in Mexico, 1992
(increase over 1990 in percent)



Source: SECOFI.