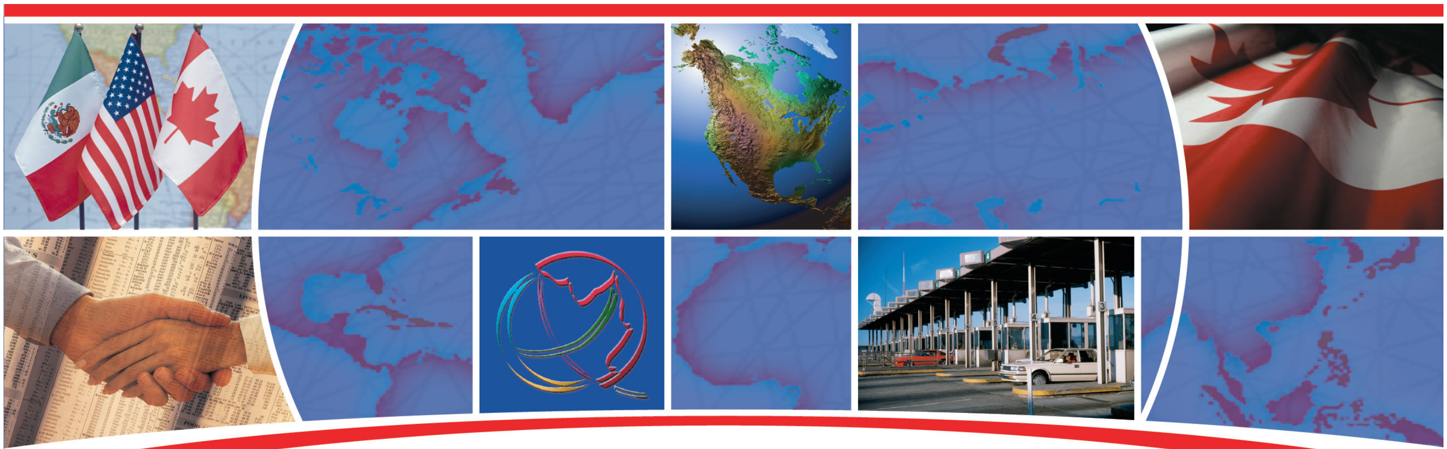
Department of Foreign Affairs and International Trade
Ministère des Affaires étrangères et du Commerce international



NAFTA@10

A Preliminary Report

Canada

NAFTA @ 10
A Preliminary Report

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ABOUT THIS DOCUMENT

NAFTA @ 10 - A Preliminary Report is the first of two reports to be produced by the Department of Foreign Affairs and International Trade providing both statistics and analysis of Canada's international trade and investment performance leading up to ten years after the North American Free Trade Agreement (NAFTA) and to fifteen years after the Canada-U.S. Free Trade Agreement (FTA). A second report will be published in the spring of 2004 making use of the full ten years of data.

This report was prepared by the Trade and Economic Analysis Division (EET) of the Department of Foreign Affairs and International Trade under the overall supervision of John M. Curtis, Senior Economic Advisor and Coordinator. The report was written by Aaron Sydor, Senior Policy Research Coordinator. Statistical assistance was provided by Suzanne Desjardins and Björn Johansson.

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A MESSAGE FROM THE
HONOURABLE PIERRE S. PETTIGREW,
MINISTER FOR INTERNATIONAL TRADE

There is no trading relationship more important for Canada than the one with our North American Free Trade Agreement (NAFTA) partners – the United States and Mexico. This coming January will mark the tenth anniversary of the NAFTA and the fifteenth anniversary of its precursor, the Canada-U.S. Free Trade Agreement. These important anniversaries will allow us the opportunity to take stock of how far we have come and to reflect on the future of the North American trade and economic relationship.

This report highlights the rapid expansion of Canada's trade with our NAFTA partners since the implementation of the two landmark agreements. The United States has, for some time, been Canada's largest trading partner, but has increased in importance over the past fifteen years, particularly with respect to our merchandise trade. Indeed, Canada now exports more of its manufacturing output to the United States than we consume domestically. Mexico, on the other hand, while still accounting for a relatively small share of our trade, has grown tremendously, and is now Canada's fourth largest trading partner. We have also seen increases in trade in services and foreign direct investment between Canada and its North American partners.

Looking forward, Canada's economic prosperity will continue to be defined by its success in an increasingly integrated and well-functioning North American market. Although Canada already enjoys a solid trading environment, we continue to be committed in principle to the removal of remaining barriers to the free flow of trade and investment. This, combined with our government's commitments to fiscal responsibility and support for innovation, will ensure that we continue to provide the conditions under which Canadians can excel.

MAIN FINDINGS

- The NAFTA is the world's largest trade bloc with a gross domestic product (GDP), at present, of US$11.4 trillion, about one-third of the world's total and seven percentage points more than that of the European Union (E.U.).

- The U.S. accounts for the lion's share of both population and GDP in the NAFTA region as well as having the highest GDP per capita. Canada, while having a slightly lower GDP per capita is only about one-ninth the size in terms of population and one-eleventh for GDP while Mexico, having a slightly smaller GDP than Canada, is about three times as populous and posts a standard of living about one-third that of Canada.

- $1.9 billion[1] of goods and services crosses the Canada-U.S. border every day making the Canada-U.S. trade relationship the largest in the world.

- Since 1989, Canada-U.S. trade has nearly tripled from $235.2 billion to $677.8 billion in 2002. In 2002, the U.S. accounted for 80.8 percent of Canada's total exports, up from 71.1 percent in 1989.

- Merchandise exports to the U.S. expanded by 250 percent since 1989 to reach $345.4 billion in 2002 and account for 87.2 percent of Canada's total merchandise exports. Imports from the U.S. grew by 150 percent over the same period to reach $218.3 billion which contributed to Canada's $127.1 billion merchandise trade surplus with the U.S.[2]

- The importance of trade with the U.S. has increased for every Canadian province and nearly every industry. Canada now exports more manufacturing production to the U.S. than it consumes domestically.

- There has been a shift in Canada's trade with the U.S. toward the South and West of that country.

- Services are a relatively small and declining share of Canada-U.S. trade; however, this is mostly due to a rapid increase in merchandise trade rather than to poor performance of services, which expanded at an average annual rate of 8.8 percent for exports and 6.5 percent for imports between 1989 and 2002.

- FDI flows between Canada and the U.S. increased dramatically between 1998 and 2001, driven by booming stock markets, and surging merger and acquisition (M&A) activity. However, the U.S. share of Canada's inward FDI stock fell from 65.6 percent in 1989 to 64.2 percent in 2002, and of the outward stock from 63.0 percent to 46.7 percent.

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[1] All figures are in Canadian dollars except where noted.

[2] Merchandise trade is calculated on a customs basis, all other trade is calculated on a balance of payments basis.

- The susceptibility of Canada-U.S. trade to increased security and delays at the border is one of the most challenging aspects to Canadian trade policy over the medium term.

- The U.S. economy is also heavily dependent on trade and investment linkages with Canada; this dependence has increased over the past decade as production in each country has become increasingly interdependent. Canada is the most important destination for exports from 39 U.S. states and the number one supplier of energy, including oil, to that country.

- Canada-Mexico trade and investment flows remain relatively small with Mexico accounting for only 0.7 percent of Canadian exports and 3.1 percent of imports in 2001. Mexico accounted for an even smaller share of Canada's outward FDI stock, at 0.8 percent, and of its inward FDI stock, at 0.02 percent, in 2002.

- However, trade, and especially imports, has exploded in recent years. Between 1994 and 2002, Canadian merchandise exports to Mexico rose 10.5 percent per year while imports increased at a rapid rate of 13.8 percent per year.

- On the surface, Canada and Mexico appear to exchange many of the same products: Motor Vehicles, Machinery & Electrical, and Special Instruments. But, at a more detailed level, the differences become apparent. Canada exports higher value-added products, such as telecommunications equipment and specialized technical equipment, while importing from Mexico more labour-intensive products, such as ignition wiring, television receivers and thermostats.

1.1 NAFTA PARTNERS – BASIC STATISTICS

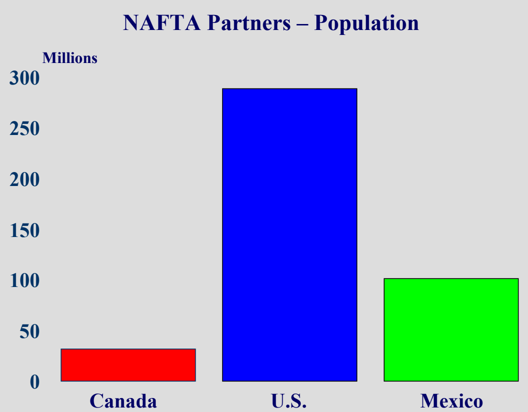
A unique aspect of the trade agreement covering Canada, the U.S. and Mexico is the significant differences between the three NAFTA partners. In terms of economic size, the U.S. is clearly dominant, accounting for 88.4 percent of gross domestic product (GDP) in the NAFTA area at US$10.4 trillion. Canada, a little less than one-tenth the size of the U.S., accounts for 6.2 percent while Mexico accounts for 5.4 percent of NAFTA area GDP.

Figure 1.1.1

Note: Data for 2002, Converted to US$ using market exchange rates
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: World Bank, World Development Indicators 2003

When measured by population, the U.S. is still the dominant partner, but not to the same degree as for GDP. The U.S. accounts for just over two-thirds of NAFTA area population at 68.6 percent, compared to 23.9 percent for Mexico and 7.5 percent for Canada. Mexico also possesses a much younger and faster growing population than its two northern neighbours creating a unique set of opportunities and challenges for that country within North America.

Figure 1.1.2



Note: Data for 2002
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: World Bank, World Development Indicators 2003

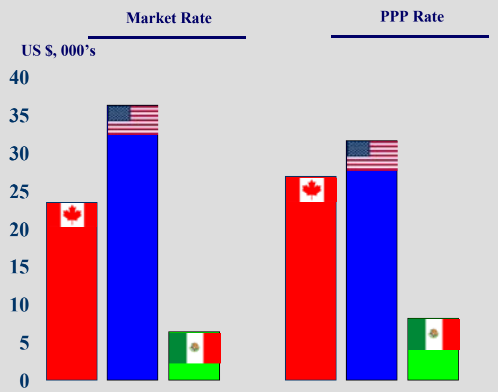
Possibly most revealing is the difference in GDP per capita between the three NAFTA partners. Here too, the U.S. stands out. When measured using market exchange rates, the U.S. posts the highest GDP per capita at US$36.2 thousand per person. Canada lags somewhat at US$23.4 thousand, while Mexico trails significantly at US$6.3 thousand per head.[3] Using a PPP measure of GDP per capita closes the gap between Canada and the U.S. from US$12.9 thousand per person (using market exchange rates) to US$4.7 thousand per person (using PPP exchange rates). Still, Canada's GDP per capita is only 85 percent of U.S. levels and the object of much debate and concern in Canada. The difference is even more dramatic for Mexico, whose GDP per capita measured at market exchange rates is only 17.4 percent of the U.S. level but jumps to 25.7 percent of the U.S. level when measured using PPPs.

[3] GDP per capita measured at market exchange rates, although useful for providing an indication of the potential size of the market, is in part driven by volatile exchange rates. GDP per capita measured using purchasing power parities (PPPs) provides a better measure of well-being and state of development by also taking into account relative prices.

The sheer size of the U.S. economy makes it less dependent on trade in general, including with its NAFTA partners. Canada has the highest trade-to-GDP ratio at more than 80 percent, and just under 60 percent of Mexico's GDP is traded, while the U.S.'s trade-to-GDP ratio is around one-quarter. Furthermore, both Canada and Mexico send more than 80 percent of their exports to NAFTA partners and rely on them for the large majority of their imports. The U.S. however relies on its NAFTA partners for only about 30 percent of its trade.

Figure 1.1.3

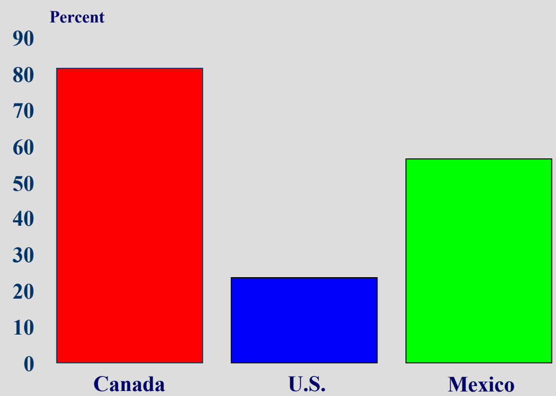
NAFTA Partners – GDP per Capita



Note: 2002 data, GDP at 1995 prices and PPPs
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: World Bank, World Development Indicators 2003 and OECD

Figure 1.1.4

NAFTA Partners – Trade Share of GDP

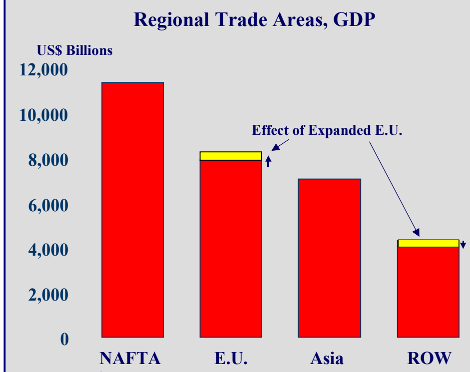


Note: Data for 2002
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: International Monetary Fund and World Bank, World Development Indicators 2003

1.2 NAFTA IN A GLOBAL CONTEXT

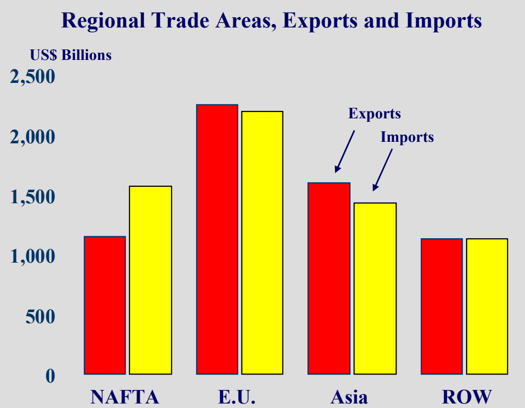
Measured by gross domestic product (GDP) the NAFTA area is the world's largest trading bloc, representing 32.7 percent of world GDP or US$11.4 trillion. The E.U., at 25.8 percent of global economic output, lags considerably. Even with the addition of ten new members next year, the E.U. GDP will increase from its current US$7.9 trillion to US$8.3 trillion, still well behind the NAFTA region. Asia, although not a formal trading bloc, has many trade linkages as shown by its high level of intra-regional trade – comparable to that of formal trading blocs, and accounts for another 23.0 percent of global output.[4] This triad combined accounts for 85.9 percent of global output.

Figure 1.2.1



Note: Data for 2001
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: World Bank, World Development Indicators

Figure 1.2.2



Note: Data for 2001
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: IMF, Direction of Trade Statistics

Measured by trade volumes, the E.U. dominates: it accounts for 36.8 percent of global exports and 34.8 percent of imports, compared to 18.8 percent and 24.8 percent for NAFTA. NAFTA ranks second, behind the E.U. for imports, but ranks third, only marginally above the rest of the world (ROW) for exports, a reflection of the U.S.'s huge current trade deficit.

Using total trade, however, somewhat overstates the size of the E.U. and other regions relative to NAFTA. With only three member countries, much of NAFTA's exchanges occur within countries (mostly in the U.S.) and are therefore not considered trade. As can be seen from the chart below, this fact is reflected in the much higher share of intra-E.U. trade compared to NAFTA: 60.7 percent *v.* 46.3 percent. By using only external exports, the NAFTA region is the world's largest importer but comes after the E.U. and Asia in terms of exports.

[4] Based on the IMF definition of Asia with the addition of Japan.

Table 1.2.1

Share of Exports, Percent

	Destination			
Exporter	**NAFTA**	**E.U.**	**Asia**	**ROW**
NAFTA	56.0	14.6	17.4	12.0
E.U.	10.9	61.0	7.2	20.9
Asia	26.3	14.7	48.1	10.9

Share of Imports, Percent

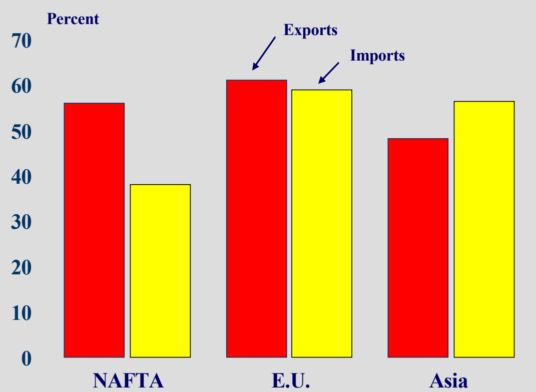
	Source			
Importer	**NAFTA**	**E.U.**	**Asia**	**ROW**
NAFTA	38.1	17.6	31.5	12.8
E.U.	8.1	58.9	12.0	21.0
Asia	13.7	12.1	56.3	18.0

Data: IMF, Direction of Trade Statistics

Measured by global foreign direct investment (FDI), NAFTA ranks number two behind the E.U. for both inward FDI – 23.9 percent of global FDI stocks in 2001 *v.* the E.U.'s 38.7 percent – and even further behind for outward FDI – 25.0 percent compared to the E.U.'s 52.5 percent. Similar to trade, however, these numbers should be interpreted carefully, as a considerably larger share of investment qualify as FDI within the fifteen E.U. countries while most U.S. investment is considered domestic.

Figure 1.2.3

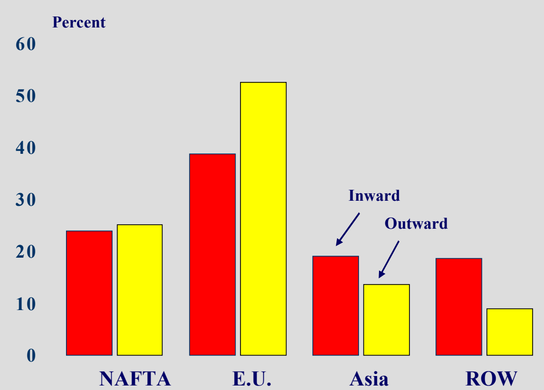
Regional Trade Areas, Intra-regional Share of Exports and Imports



Note: Data for 2002
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: IMF, Direction of Trade Statistics

Figure 1.2.4

Regional Trade Areas, Share of FDI Stocks



Note: Data for 2001
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: World Investment Report 2002

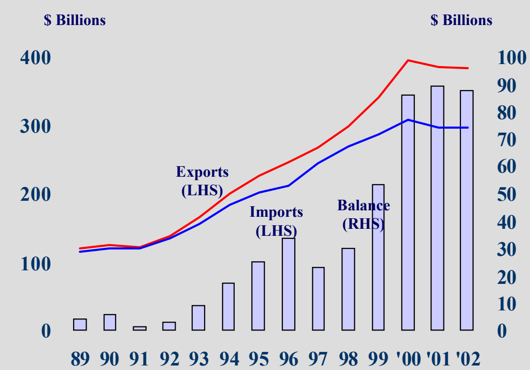
Canada-U.S.

2.1 TOTAL TRADE

Canada and the U.S. enjoy the world's largest bilateral trading relationship. Nearly $1.9 billion in goods and services cross the border each and every day. Canada-U.S. trade has grown considerably since the Canada-U.S. Free Trade Agreement came into force in 1989. Between 1989 and 2002, Canadian exports to the U.S. grew at an average annual rate of 9.3 percent while imports grew at 7.5 percent. Canada's trade surplus with the U.S. also increased tremendously, from $4.4 billion in 1989 to a peak of $90.7 billion in 2001 before falling off somewhat to $86.4 billion in 2002.

Figure 2.1.1

Canada-U.S. Trade in Goods and Services



Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Balance of Payments

Table 2.1b

Canada's Bilateral Trade with the U.S., 2002

	Per Year	Per Day	Per Hour	Per Minute
	Billion		Million	
Goods and Services	CND$677.8	CND$1.9	CND$77.4	CND$1.3
	US$431.5	US$1.2	US$49.3	US$0.8
Goods	CND$601.9	CND$1.7	CND$68.7	CND$1.1
	US$383.2	US$1.1	US$43.8	US$0.7

The U.S. share of Canadian exports increased tremendously, gaining 10.3 percentage points between 1989 and 2000, but has remained relatively stable since as U.S. economic growth slowed considerably. The U.S. share of Canadian exports stood at 80.8 percent in 2002. The U.S. share of Canadian imports increased much less dramatically, gaining 6.1 percentage points to peak at 74.7 percent in 1998, but it has dropped steadily since to 69.9 percent in 2002 – only 1.3 percentage points over 1989 levels.

Figure 2.1.2

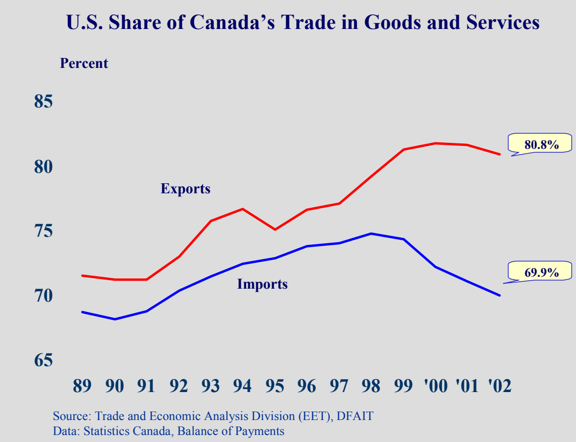


Table 2.1

Canada's Trade in Goods and Services with the U.S.

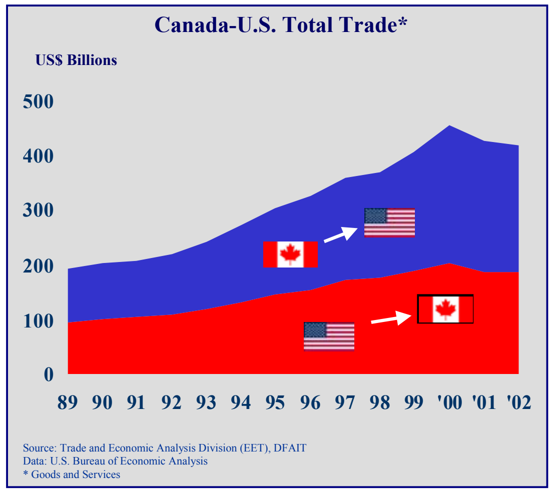
	Millions of current dollars			CAGR*, %			Share of World, %[5]		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Exports	119,820	199,864	382,101	10.77	8.44	9.33	71.43	76.60	80.85
Imports	115,381	182,574	295,734	9.61	6.21	7.51	68.62	72.37	69.89
Balance	4,439	17,290	86,367	N/A	N/A	N/A	-1,109.7	200.30	174.42

* Compound annual growth rate
Source: Statistics Canada, Balance of Payment

[5] "Share of World" in this table and throughout this document refers to the share of that partner relative to all partners. In this case exports to the U.S. as a share of exports to all partners. The balance under share of world refers to the share of the balance with all partners accounted for by that partner. It is possible to have share in excess of 100%, indicating a deficit with the rest of the world.

THE IMPORTANCE OF CANADA FOR THE U.S. ECONOMY[6]

Canadians are well aware of the importance of the U.S. economy for Canada; from the high share of exports that go to the U.S. to the importance of U.S. firms in the Canadian economy. The sheer size of the U.S. economy, however, makes it much less reliant on foreign markets in general and on Canada in particular – less than ten percent of U.S. GDP is exported, compared to over forty percent for Canada. The U.S. is also not as tied to any single country. Canada, the U.S.'s most important trading partner, accounts for 19.0 percent of exports and 16.5 percent of imports, compared to 81.6 percent and 69.9 percent of Canadian exports and imports respectively that come from the U.S. The U.S. economy is increasingly linked to its northern neighbour.



Since the implementation of the Canada-U.S. Free Trade Agreement in 1989 and the North American Free Trade Agreement in 1994, there has been a dramatic increase in two-way inter-dependence between the two economies. As can be seen from the adjacent chart, U.S. exports bound for Canada increased from $US 93.4 billion in 1989 to $US 184.9 billion in 2002 – an increase of almost 100 percent. Similarly, U.S. imports from Canada increased from $US 99.0 billion to $US 232.4 billion between 1989 and 2002.

	Millions of current US$			CAGR*, %			Share of World, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
U.S. Exports to Canada									
Goods and Services	93,415	132,076	184,929	7.17	4.30	5.39	19.18	18.76	19.03
Goods	79,888	114,650	160,879	7.49	4.33	5.53	22.20	22.80	23.57
Services	13,527	17,426	24,050	5.20	4.11	4.53	10.64	8.67	8.31
U.S. Imports from Canada									
Goods and Services	98,982	141,497	232,421	7.41	6.40	6.79	17.06	17.67	16.51
Goods	89,944	131,149	213,151	7.83	6.26	6.86	18.83	19.61	18.27
Services	9,038	10,348	19,270	2.74	8.08	6.00	8.82	7.85	8.01

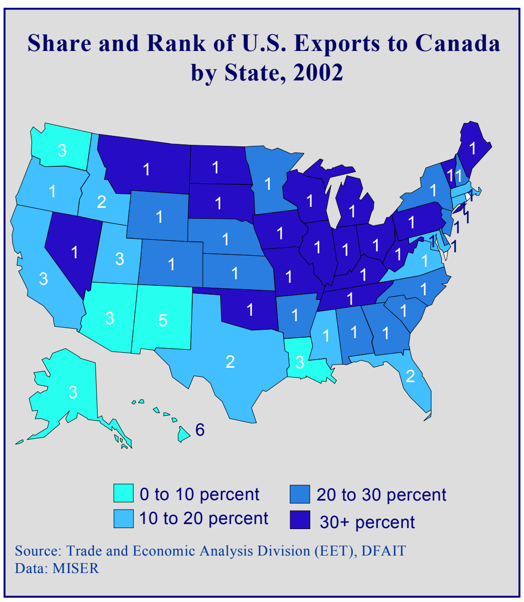
* Compound annual growth rate
Source: U.S. Bureau of Economic Analysis, Balance of Payments

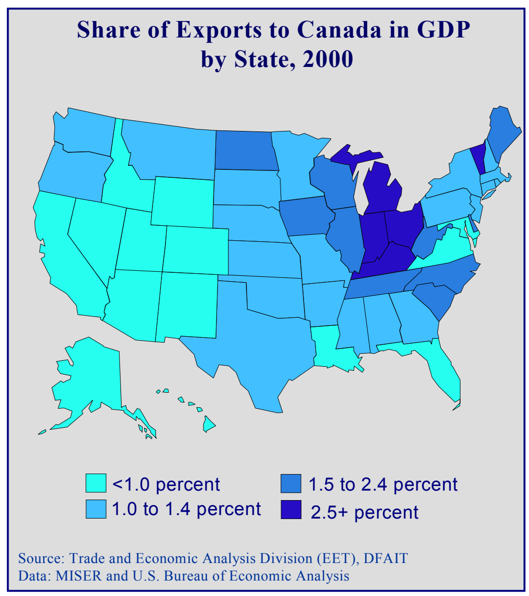
[6] This special report is intended to provide a U.S. perspective on Canada-U.S. trade and investment; therefore, all values in this report are stated in U.S. dollars.

Most Canada-U.S. trade is merchandise trade. Merchandise trade accounted for 87.0 percent of total U.S. exports to Canada in 2002 and 91.7 percent of total imports from Canada in that year. Merchandise trade growth between the two countries also outpaced growth in services trade, albeit by a small margin. Canada-U.S. trade is much more dependent on merchandise trade than the U.S's trade with other countries, as is shown by Canada's low share of U.S. services trade – 8.3 percent for exports in 2002, compared to 23.6 percent of merchandise trade. A similar trend is observed for imports where Canada accounts for only 8.0 percent of U.S. services imports *v.* 18.3 percent for merchandise.

Canada is also, by far, the largest single market for U.S. goods – taking about the same value of U.S. exports as the entire fifteen-member European Union, despite the fact that Canada is one-tenth its economic size. In 2002, Canada was the most important destination for merchandise exports from thirty-nine out of the fifty U.S. states. Canada is the most important destination of exports for most of the states along the border as well as the north-east and central U.S., but ranges as far south as Missouri and Nevada. Twenty-nine states sent more than one-quarter of their exports to Canada in 2002.

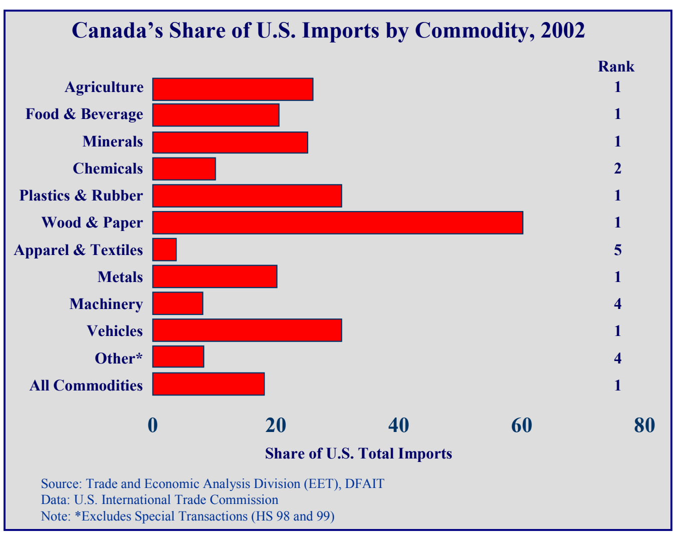
Only 9.6 percent of U.S. GDP is accounted for by exports – exports to Canada account for 1.9 percent of U.S. GDP with 1.5 percent of U.S. GDP is attributable to merchandise exports to Canada. There is a significant variation by state, however. Only five states rely on Canada for more than 2.5 percent of their GDP, four of which are clustered just below the Great Lakes. The level of dependence on the Canadian market declines as one moves away from this region.





Canada is the most important destination for U.S. exports in eight out of eleven major commodity groupings; only in Agriculture and Minerals, where Canada is a major exporter, and Apparel & Textiles ranking lower – but still among the top three.

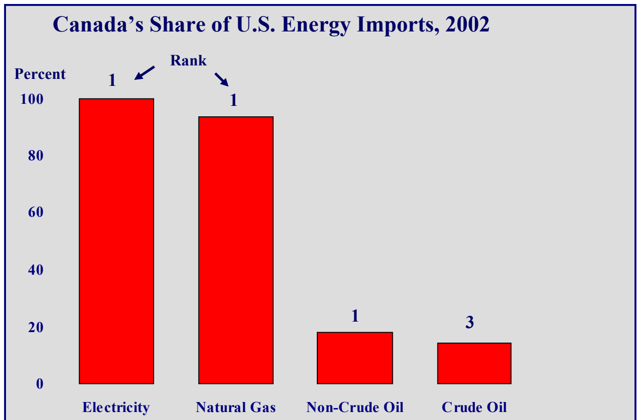
Canada is also an important source for U.S. imports used in the production process or directly consumed. Just under one-fifth of total U.S. imports come from Canada. Over 60 percent of U.S. Wood & Paper imports came from Canada in 2002, despite the softwood lumber dispute between the two countries. Canada is the most important source of U.S. imports in seven out of the eleven major commodity groupings and ranks among the top five sources in the remaining four commodity groups.



These trade numbers also reflect the high degree of integration between Canadian and U.S. industry. Over 40 percent of U.S. trade with Canada is intra-firm – trade occurring between parts of the same firm operating on both sides of the border. The automotive industry is a prime example of this type of trade. Every vehicle assembled in North America now contains nearly US$ 1,250 of Canadian-made parts.[7]

[7] Scotia Economics, *Canadian Auto Report*, January 29, 2003.

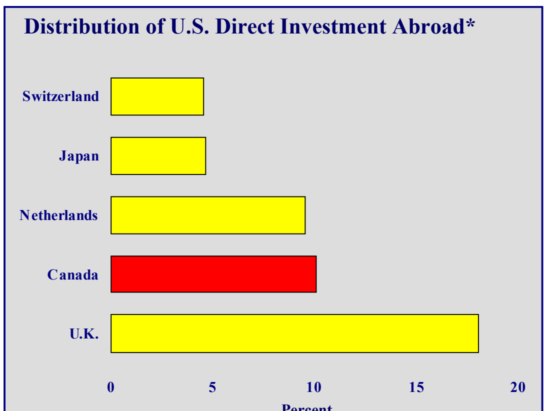
Canada is also the U.S.'s most important source of energy imports. Canada is undoubtedly the dominant source of Electricity and Natural Gas imports, accounting for 100 percent of U.S. electricity imports, and 93.5 percent of natural gas imports. But, even for oil – combining crude and non-crude oil, the U.S. imports more from Canada than from any other country.



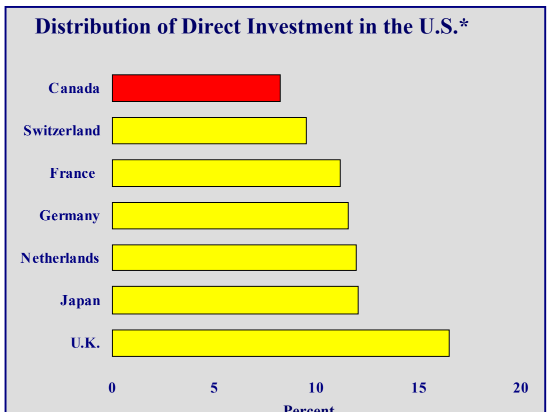
Note: Electricity (SITC 351), Natural Gas (SITC 343), Crude Oil (SITC 333) and Non-Crude Oil (SITC 334)
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: U.S. International Trade Commission

Furthermore, Canadians are an important source of tourism revenue for the U.S. They spent US$ 6.2 billion on travel in the U.S. in 2002, or 8.5 percent of total foreign travel spending in the U.S. that year.

Canada-U.S. economic linkages extend beyond trade. As already mentioned, many firms operate on both sides of the border with activities that are often tightly integrated. Canada is one of the most important destinations for U.S. investment abroad. 10.1 percent of U.S. direct investment assets abroad were located in Canada in 2001. There are just under 2,000 U.S. affiliates operating in Canada that generate US$ 2.9 trillion in sales annually.[8]



* Historical Cost Position, 2001
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: U.S. Bureau of Economic Analysis



* Historical Cost Position, 2001
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: U.S. Bureau of Economic Analysis

Canadians are also among the largest investors in the U.S., accounting for 8.2 percent of all foreign direct investment in that country in 2001. Canadian companies own US$ 434 billion in assets in the U.S., generating US$ 168 billion in sales and employing 643 thousand people[9] and returned US$4.4 billion in income to Canadians.

[8] Data for number of affiliates and sales are for 2000; U.S. Bureau of Economic Analysis.

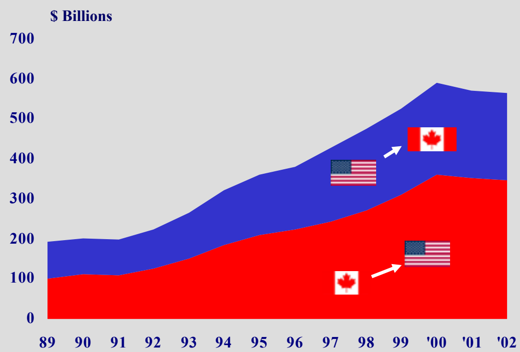
[9] Data for assets, sales and employment are based on 2000 statistics, the most recent year available; U.S. Bureau of Economic Analysis.

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



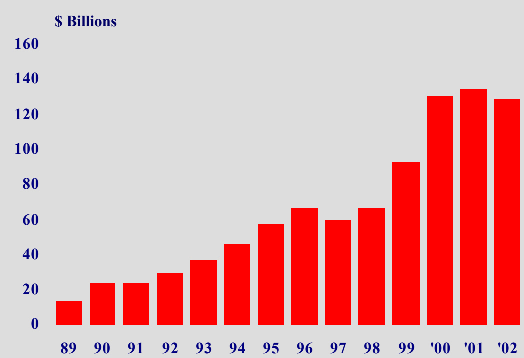
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Customs Basis

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.

softwood lumber trade actions over the decade. Apparel & Textiles, on the other hand, posted the strongest growth at 15.7 percent.

Table 2.2

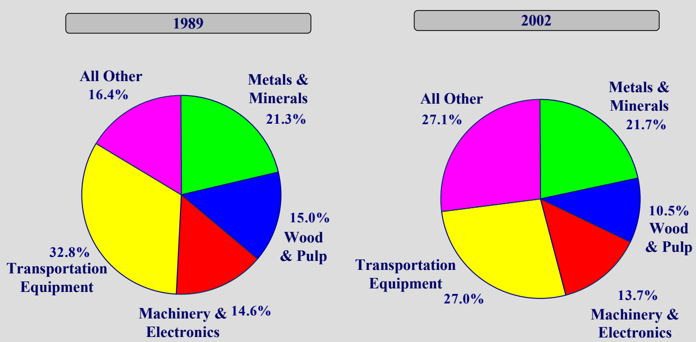
Merchandise Trade, Canada -U.S.

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Exports	101,592	183,303	345,427	12.53	8.24	9.87	73.24	81.22	87.20
Imports	88,104	137,347	218,308	9.29	5.96	7.23	65.17	67.75	62.62
Balance	13,488	45,956	127,119	N/A	N/A	N/A	384.25	200.32	267.75

* Compound annual growth rate
Source: Statistics Canada, Customs Basis

Figure 2.2.3

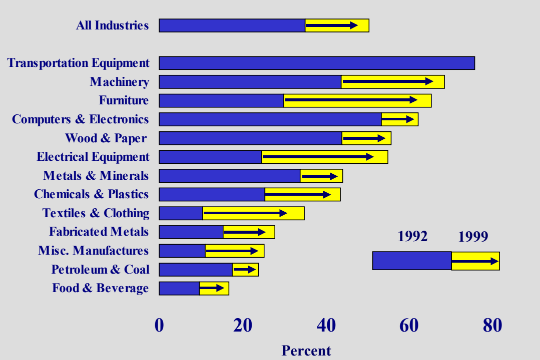
Industrial Distribution of Canadian Merchandise Exports to the U.S.



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

Figure 2.2.4

Exports to U.S. Share of Total Canadian Shipments*



* Domestic Exports / Shipments
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Customs Basis

Every Canadian industry saw an increased importance of the U.S. market, with the exception of Transportation Equipment, which as stated above was already extremely dependent on the U.S. market. Canadian manufacturers now send more than half of what they produce to the U.S. – making the U.S. a more important market than the Canadian market for Canadian manufacturers![11] It is well known that most of Canada's Transportation Equipment production is exported to the U.S., 75.6 percent in 1999. Some "high-tech" industries also depend critically on the U.S. market. In 1999, 68.4 percent of Machinery produced in Canada is exported to the U.S.,

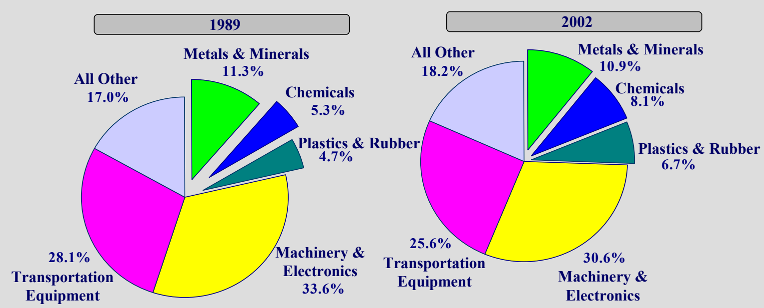
[11] For more information refer to *Fourth Annual Report on Canada's State of Trade: Trade Update 2003*, Department of Foreign Affairs and International Trade, pp. 19-20.

62.1 percent of Computers & Electronics and 54.7 percent of Electrical Equipment.

At 25.6 percent in 2002, Transportation Equipment also accounts for a large share of Canadian imports from the U.S. but is down slightly from 28.1 percent in 1989. The single largest component of our merchandise imports from the U.S. is Machinery & Electronics, which accounted for 30.6 percent of imports, down from 33.6 percent, with most of this decline occurring over the past two years following the 'high-tech meltdown'. The big gainers were Chemicals, which saw its share increase 2.8 percentage points, and Plastics & Rubber which jumped 2.0 percentage points. More than 80 percent of our Plastics & Rubber imports came from the U.S. in 2002, second only to Wood & Paper which sources 82 percent of Canada's imports from the U.S. At the other end of the scale, we get relatively little Apparel & Textiles and Miscellaneous Manufactures (which includes toys) from the U.S. These are two product categories that are traditional strengths of developing countries such as Mexico and China. Three product categories, Metals & Minerals, Transportation Equipment and Wood & Paper account for the vast majority (40.0, 29.5 and 19.6 percent, respectively) of our trade surplus with the U.S.

Figure 2.2.5

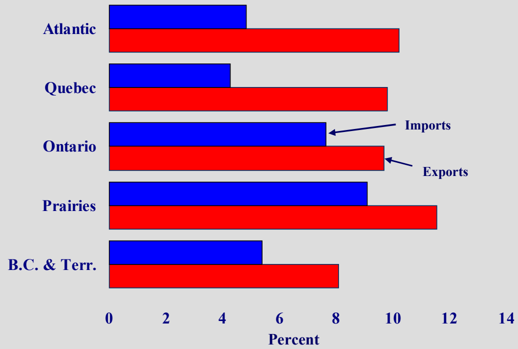
Industrial Distribution of Canadian Merchandise Imports from the U.S.



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

Figure 2.2.6

Canadian Regions Trade with the U.S., Annual Growth in Exports and Imports, 1989-2002



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

Ontario is the most dependent province on the U.S. as a market for its exports, sending 93.5 percent of its merchandise exports to the U.S. in 2002. A significant amount of this volume is due to the north-south integration and resultant bilateral trade flows of the automobile industry. British Columbia and Territories are the least dependent on the U.S. as a market their exports, sending just over two-thirds of exports to the U.S. And, while every Canadian region witnessed an increase in the importance of the

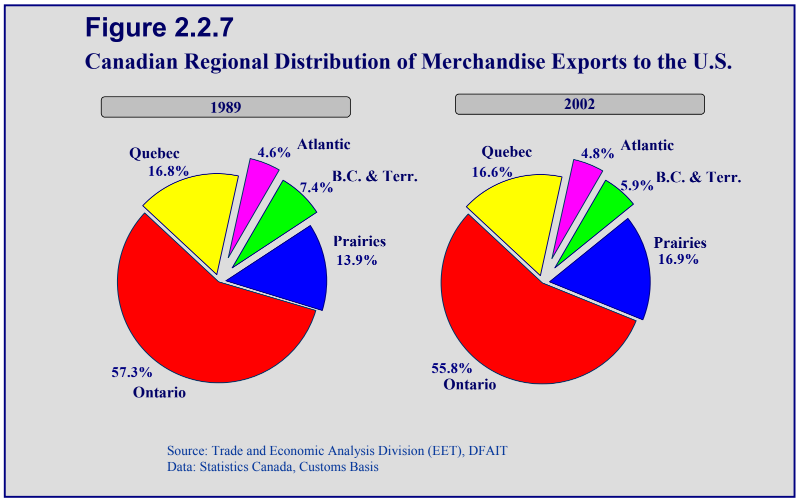
U.S., B.C. saw the largest gain, increasing 26 percentage points since 1989. Atlantic Canada was the other region that saw a large increase in the importance of the U.S. as a market for its exports. The relatively low share of B.C. exports going to the U.S. is partially a result of the heavy concentration in resources, for which the U.S. is a relatively less important market.

Table 2.2.1

Merchandise Trade, Canada-U.S., by Product

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Exports									
Agriculture	3,327	6,389	12,666	13.94	8.93	10.83	35.23	44.89	59.42
Food & Beverage	1,529	3,299	8,124	16.63	11.92	13.71	74.99	82.83	91.22
Metals & Minerals	21,595	35,533	75,102	10.47	9.81	10.06	69.37	82.06	90.10
Chemicals	4,022	7,078	13,300	11.97	8.20	9.64	66.65	74.64	78.65
Plastics & Rubber	2,840	6,457	15,327	17.85	11.41	13.84	81.49	91.70	94.82
Apparel & Textiles	991	2,837	6,598	23.41	11.13	15.70	56.31	79.15	87.11
Wood & Paper	15,205	23,361	36,535	8.97	5.75	6.98	64.97	69.79	80.76
Machinery & Electronics	14,870	26,684	47,357	12.41	7.43	9.32	78.61	81.70	83.21
Transportation Equipment	33,311	56,030	93,622	10.96	6.63	8.27	95.09	94.04	94.36
Misc. Manufactures	1,835	3,765	9,925	15.46	12.88	13.86	90.20	89.96	94.33
Special Transactions	2,076	11,914	27,957	41.83	11.25	22.14	38.14	83.88	92.44
Imports									
Agriculture	3,048	4,090	7,192	6.06	7.31	6.83	62.59	58.42	61.36
Food & Beverage	1,424	3,305	6,200	18.34	8.18	11.98	42.37	58.42	62.11
Metals & Minerals	9,950	13,792	23,742	6.75	7.03	6.92	53.58	55.49	50.73
Chemicals	4,671	9,153	17,730	14.40	8.62	10.81	64.79	69.84	64.66
Plastics & Rubber	4,139	7,406	14,510	12.34	8.77	10.13	77.04	80.65	80.71
Apparel & Textiles	1,981	3,596	4,901	12.67	3.95	7.22	27.47	37.27	31.84
Wood & Paper	4,274	6,963	11,406	10.25	6.36	7.84	83.03	87.12	81.73
Machinery & Electronics	29,599	46,415	66,666	9.42	4.63	6.44	67.31	66.48	61.33
Transportation Equipment	24,751	35,145	55,794	7.26	5.95	6.45	78.83	82.53	72.90
Misc. Manufactures	1,655	3,530	4,893	16.36	4.16	8.70	48.27	56.78	43.12
Special Transactions	2,661	4,013	5,165	8.56	3.21	5.23	54.65	57.87	57.47

* Compound annual growth rate
Source: Statistics Canada, Customs Basis



On the import side, every Canadian region saw a decline in the importance of the U.S. as a source of imports from 1989 to 2002. Quebec and the Prairies saw the largest declines, although from very different levels. In 1989, 84.3 percent of the Prairies' merchandise imports came from the U.S., the highest in Canada, while only 45.0 percent of Quebec's imports came from the U.S. It is interesting to note that the three regions, B.C., Atlantic and Quebec, which have easier access to maritime shipping, are the least dependent on imports from the U.S.

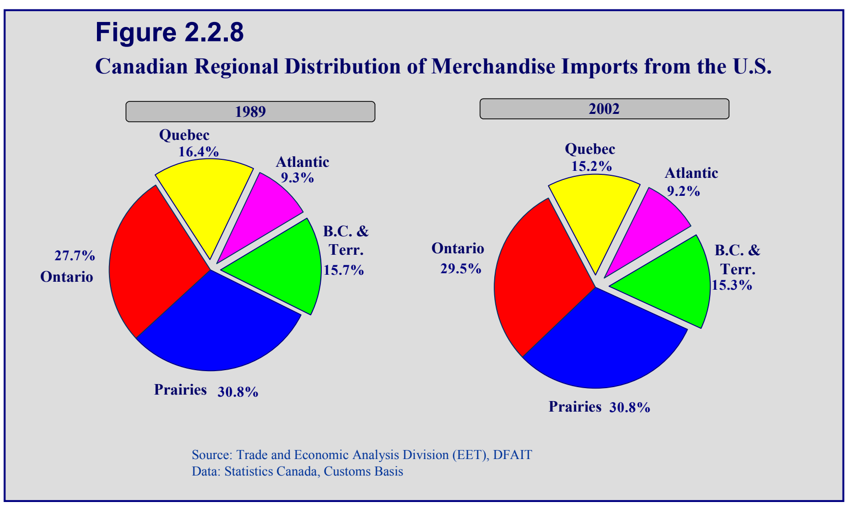


Table 2.2.2

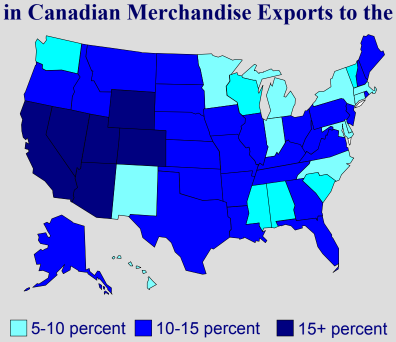
Merchandise Trade, Canada-U.S., by Canadian Region

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Exports									
B.C. & Territories	7,480	13,188	20,564	12.01	5.71	8.09	40.75	54.46	66.70
Prairies	14,160	26,142	58,565	13.05	10.61	11.54	66.81	72.80	83.07
Ontario	58,204	103,887	193,308	12.28	8.07	9.67	85.47	90.21	93.51
Québec	17,030	33,574	57,344	14.54	6.92	9.79	71.69	81.73	83.99
Atlantic	4,717	6,512	16,677	6.66	12.47	10.20	64.64	69.92	83.51
Imports									
B.C. & Territories	6,000	9,355	11,868	9.29	3.02	5.39	43.13	51.30	37.61
Prairies	6,909	12,564	21,409	12.70	6.89	9.09	84.32	84.76	75.63
Ontario	62,493	98,839	162,857	9.60	6.44	7.65	76.01	75.95	72.54
Québec	11,136	14,488	19,130	5.40	3.53	4.25	45.03	44.64	37.24
Atlantic	1,565	2,100	2,889	6.06	4.07	4.83	25.50	29.63	22.72

* Compound annual growth rate
Source: Statistics Canada, Customs Basis

Figure 2.2.9

Growth* in Canadian Merchandise Exports to the U.S. by State



* Average annual growth, 1989-2002
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Customs Basis

Canada has strong trade linkages with many of the U.S. border states, traditionally the heartland of U.S. manufacturing. Over the past decade or more, however, the south-west of the U.S. has been undergoing a tremendous industrial and high-tech boom. This has also been reflected in Canadian trade patterns with the U.S. The adjacent figure illustrates Canadian merchandise trade growth with individual U.S. states. As can be clearly seen, Canadian exports are increasingly penetrating in the South and West of the U.S.

Tables 2.2.2.1 to 2.2.2.5 decompose Canada's trade with the U.S. by Canadian region as well as major product groups. B.C. and the Territories, the Prairies and Atlantic Canada all depend very heavily on resources for their exports to the U.S. For B.C., Wood & Paper accounts for the largest share of their exports at 45.2 percent, it is Metals & Minerals (which includes oil) for the Prairies at 62.0 percent and 48.7 percent for Atlantic Canada. Ontario is much more manufacturing based with Transportation Equipment (41.3 percent) and Machinery & Electronics (16.2 percent) accounting for the largest share of exports. Only Quebec's exports to the U.S. are balanced among a variety of products; Transportation Equipment (18.9 percent), Wood & Paper (18.8 percent), Metals & Minerals (18.4 percent) and Machinery & Electronics (16.0 percent). Although each region is highly dependent on a small number of commodities for their exports to the U.S., and most of these are resource-based, there has actually been a significant decline of the importance of the top products.

Machinery & Electronics is the single largest import from the U.S. for every Canadian region, accounting for from a low of 20.1 percent of Atlantic Canada's imports from the U.S. to a high of 37.2 percent for Quebec. Generally, Canadian imports from the U.S. are manufactured products such as Transportation Equipment and Chemicals.

Table 2.2.2.1

Merchandise Trade, British Columbia and Territories-U.S., by Product

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Exports									
Agriculture	289.1	559.6	1,322.6	14.12	11.35	12.41	31.34	44.69	70.06
Food & Beverage	108.7	235.5	465.9	16.73	8.90	11.85	33.57	58.82	74.42
Metals & Minerals	1,265.9	1,717.4	3,892.6	6.29	10.77	9.03	24.46	39.74	60.87
Chemicals	119.4	399.9	444.8	27.34	1.34	10.64	48.77	59.63	52.95
Plastics & Rubber	48.9	106.7	509.7	16.91	21.59	19.77	81.96	84.85	94.48
Apparel & Textiles	59.5	124.1	300.1	15.85	11.67	13.26	58.07	81.94	92.88
Wood & Paper	4,593.8	7,822.9	9,304.3	11.23	2.19	5.58	45.08	54.84	65.68
Machinery & Electronics	512.4	905.8	2,140.0	12.07	11.35	11.62	74.25	72.92	78.63
Transportation Equipment	269.8	332.3	1,055.7	4.26	15.54	11.06	72.34	51.17	88.24
Misc. Manufactures	63.3	107.4	521.2	11.16	21.82	17.61	66.51	60.25	78.06
Special Transactions	149.3	876.6	614.4	42.48	-4.34	11.50	83.27	91.45	41.68
Imports									
Agriculture	549.1	737.0	1,230.3	6.06	6.62	6.40	62.19	57.61	59.57
Food & Beverage	207.5	509.9	835.9	19.69	6.37	11.31	40.11	55.87	59.99
Metals & Minerals	732.8	1,092.2	1,814.7	8.31	6.55	7.22	51.55	59.26	52.43
Chemicals	231.0	436.9	636.5	13.60	4.81	8.11	45.79	67.63	65.67
Plastics & Rubber	199.3	395.0	654.5	14.66	6.52	9.58	54.48	62.91	53.91
Apparel & Textiles	113.7	264.1	285.6	18.37	0.98	7.34	20.32	26.09	14.45
Wood & Paper	547.5	895.0	1,223.4	10.33	3.98	6.38	85.17	88.16	80.18
Machinery & Electronics	1,789.8	2,621.9	2,844.4	7.93	1.02	3.63	50.68	49.51	37.83
Transportation Equipment	1,257.3	1,698.3	1,684.0	6.20	-0.11	2.27	26.71	40.23	18.92
Misc. Manufactures	141.7	345.6	366.8	19.53	0.75	7.59	35.60	43.72	19.15
Special Transactions	232.2	362.7	294.9	9.33	-2.55	1.86	60.42	60.19	46.22

* Compound annual growth rate
Source: Statistics Canada, Customs Basis

Table 2.2.2.2

Merchandise Trade, Prairies-U.S., by Product

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	**1994**	**2002**	**1989-94**	**1994-02**	**1989-02**	**1989**	**1994**	**2002**
Exports									
Agriculture	1,194.5	2,987.8	5,205.8	20.12	7.19	11.99	22.77	34.86	47.39
Food & Beverage	116.8	206.5	711.2	12.08	16.72	14.91	73.00	76.82	90.45
Metals & Minerals	8,515.3	15,457.8	36,295.6	12.66	11.26	11.80	89.23	93.26	97.05
Chemicals	1,330.8	2,078.5	3,565.5	9.33	6.98	7.88	57.05	64.49	66.53
Plastics & Rubber	382.1	743.7	1,567.9	14.25	9.77	11.47	74.13	86.24	88.85
Apparel & Textiles	64.7	152.2	247.2	18.66	6.25	10.86	37.13	49.51	45.90
Wood & Paper	1,119.6	1,029.6	3,236.4	-1.66	15.39	8.51	89.50	52.83	75.53
Machinery & Electronics	846.0	1,399.3	4,385.3	10.59	15.35	13.49	80.80	73.68	75.63
Transportation Equipment	460.6	854.4	1,564.2	13.16	7.85	9.86	92.39	94.04	94.34
Misc. Manufactures	58.3	213.2	843.0	29.60	18.75	22.81	86.38	85.60	96.58
Special Transactions	71.5	1,020.5	943.9	70.19	-0.97	21.96	20.02	92.63	89.75
Imports									
Agriculture	338.2	478.4	1,188.0	7.18	12.04	10.15	81.57	76.99	85.27
Food & Beverage	212.8	386.7	890.3	12.69	10.99	11.64	73.17	77.32	77.73
Metals & Minerals	625.3	1,316.8	2,582.9	16.06	8.79	11.53	85.91	85.10	84.48
Chemicals	468.3	936.4	1,993.7	14.86	9.91	11.79	73.05	80.65	82.58
Plastics & Rubber	320.2	633.9	1,286.5	14.64	9.25	11.29	83.87	90.57	87.88
Apparel & Textiles	141.1	301.2	454.0	16.38	5.26	9.41	49.37	59.63	50.31
Wood & Paper	299.3	537.3	1,018.3	12.41	8.32	9.88	94.49	95.09	91.75
Machinery & Electronics	2,554.4	4,527.8	7,635.1	12.13	6.75	8.79	85.75	84.42	73.89
Transportation Equipment	1,587.8	2,709.4	3,453.6	11.28	3.08	6.16	97.72	95.53	67.73
Misc. Manufactures	123.5	345.0	513.6	22.81	5.10	11.59	71.92	80.18	66.18
Special Transactions	239.9	394.3	396.1	10.45	0.06	3.93	66.08	65.65	63.85

* Compound annual growth rate
Source: Statistics Canada, Customs Basis

Table 2.2.2.3

Merchandise Trade, Ontario-U.S. by Product

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Exports									
Agriculture	445.1	1,243.0	2,798.4	22.80	10.68	15.19	43.75	70.69	83.13
Food & Beverage	830.3	1,998.5	4,564.4	19.21	10.88	14.01	84.69	87.27	93.80
Metals & Minerals	6,263.9	9,566.7	16,226.2	8.84	6.83	7.60	75.13	85.53	88.47
Chemicals	1,915.1	3,434.2	7,133.4	12.39	9.57	10.64	76.75	85.07	89.69
Plastics & Rubber	1,586.1	3,820.5	9,194.9	19.22	11.60	14.47	80.41	91.16	94.87
Apparel & Textiles	448.9	1,302.5	2,609.6	23.74	9.08	14.50	59.15	81.73	86.74
Wood & Paper	3,992.4	6,056.8	10,007.0	8.69	6.48	7.32	94.51	94.94	96.30
Machinery & Electronics	10,394.2	18,149.6	31,243.6	11.79	7.03	8.83	81.99	82.98	86.38
Transportation Equipment	29,490.0	48,245.1	79,941.8	10.35	6.52	7.97	96.99	95.86	96.84
Misc. Manufactures	1,347.9	2,527.1	5,656.8	13.39	10.60	11.66	93.89	93.22	96.23
Special Transactions	1,493.2	7,577.6	23,958.3	38.38	15.48	23.80	39.30	85.63	97.64
Imports									
Agriculture	1,675.9	2,197.2	3,915.0	5.57	7.49	6.74	70.34	63.56	63.94
Food & Beverage	842.4	2,152.2	3,982.9	20.64	8.00	12.69	50.02	68.57	69.38
Metals & Minerals	7,190.5	9,830.4	17,255.4	6.45	7.29	6.97	78.31	76.68	78.48
Chemicals	2,967.4	6,300.4	12,335.4	16.25	8.76	11.58	72.09	78.08	69.58
Plastics & Rubber	3,017.4	5,406.0	11,150.1	12.37	9.47	10.58	85.73	86.12	86.66
Apparel & Textiles	1,092.5	2,044.6	3,137.5	13.35	5.50	8.45	36.82	46.86	42.67
Wood & Paper	2,709.2	4,456.3	7,370.4	10.47	6.49	8.00	86.12	89.64	85.98
Machinery & Electronics	20,926.7	33,871.9	48,482.3	10.11	4.58	6.68	71.21	70.46	63.79
Transportation Equipment	19,137.7	27,497.6	47,930.3	7.52	7.19	7.32	92.72	89.13	86.67
Misc. Manufactures	1,160.4	2,514.6	3,677.9	16.73	4.87	9.28	55.40	62.72	51.73
Special Transactions	1,814.3	2,615.1	3,654.4	7.59	4.27	5.53	55.52	60.83	60.92

* Compound annual growth rate
Source: Statistics Canada, Customs Basis

Table 2.2.2.4

Merchandise Trade, Quebec-U.S., by Product

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Exports									
Agriculture	358.6	489.6	1,194.7	6.43	11.80	9.70	47.81	58.77	61.44
Food & Beverage	269.8	570.1	1,496.3	16.14	12.82	14.08	83.30	85.87	93.02
Metals & Minerals	4,063.2	6,630.1	10,564.7	10.29	6.00	7.63	67.86	78.90	85.75
Chemicals	589.4	1,071.1	2,050.4	12.69	8.45	10.06	75.00	81.11	80.07
Plastics & Rubber	417.5	1,120.2	3,097.9	21.83	13.56	16.67	79.44	94.09	96.77
Apparel & Textiles	402.4	1,225.1	3,299.3	24.94	13.18	17.57	57.42	81.90	92.85
Wood & Paper	4,217.8	6,852.6	10,800.9	10.19	5.85	7.50	79.00	83.28	88.43
Machinery & Electronics	3,036.6	6,091.9	9,181.0	14.94	5.26	8.88	69.43	81.82	78.41
Transportation Equipment	3,005.7	6,430.8	10,812.7	16.43	6.71	10.35	83.92	85.96	80.00
Misc. Manufactures	354.0	882.2	2,742.8	20.03	15.23	17.06	84.36	88.57	93.81
Special Transactions	322.3	2,214.7	2,107.4	47.03	-0.62	15.54	32.91	73.08	77.25
Imports									
Agriculture	383.7	474.3	439.8	4.33	-0.94	1.06	42.82	39.79	31.83
Food & Beverage	128.8	209.3	419.0	10.19	9.07	9.50	19.20	24.16	27.43
Metals & Minerals	1,180.6	1,280.5	1,591.7	1.64	2.76	2.33	26.05	23.37	13.04
Chemicals	943.0	1,345.2	2,457.4	7.36	7.82	7.65	50.87	43.83	43.54
Plastics & Rubber	501.0	815.0	1,169.8	10.22	4.62	6.74	54.69	62.05	57.48
Apparel & Textiles	579.3	912.8	951.6	9.52	0.52	3.89	17.50	24.85	18.83
Wood & Paper	607.5	908.4	1,498.6	8.38	6.46	7.19	66.86	72.28	62.87
Machinery & Electronics	3,875.8	4,933.4	7,122.6	4.94	4.70	4.79	54.79	48.83	52.49
Transportation Equipment	2,440.0	2,789.4	2,418.3	2.71	-1.77	-0.07	77.68	83.16	53.36
Misc. Manufactures	168.9	238.5	278.3	7.14	1.95	3.91	24.63	27.34	19.14
Special Transactions	331.1	587.6	786.2	12.16	3.71	6.88	42.53	44.49	47.78

* Compound annual growth rate
Source: Statistics Canada, Customs Basis

Table 2.2.2.5

Merchandise Trade, Atlantic Canada-U.S., by Product

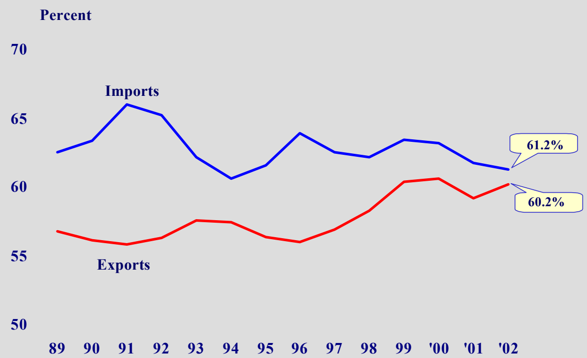
	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Exports									
Agriculture	1,039.9	1,108.7	2,144.6	1.29	8.60	5.73	69.01	61.01	68.44
Food & Beverage	203.6	288.6	886.7	7.23	15.06	11.98	81.06	80.22	86.91
Metals & Minerals	1,486.2	2,161.3	8,122.4	7.78	18.00	13.96	71.25	76.68	91.30
Chemicals	67.0	93.8	105.7	6.97	1.49	3.57	38.16	40.64	53.81
Plastics & Rubber	406.0	665.5	956.8	10.39	4.64	6.82	98.43	99.09	98.88
Apparel & Textiles	15.2	32.7	142.0	16.49	20.16	18.73	66.33	92.75	94.03
Wood & Paper	1,281.5	1,599.3	3,185.9	4.53	9.00	7.26	53.41	60.27	76.18
Machinery & Electronics	80.8	137.3	407.1	11.19	14.55	13.24	63.94	68.27	78.98
Transportation Equipment	85.3	167.0	248.1	14.38	5.07	8.56	49.84	77.52	84.12
Misc. Manufactures	11.7	35.4	161.7	24.77	20.89	22.37	70.05	69.11	89.78
Special Transactions	39.9	224.3	333.0	41.27	5.07	17.74	31.04	84.81	73.96
Imports									
Agriculture	100.9	202.7	418.9	14.98	9.50	11.58	34.46	44.97	55.29
Food & Beverage	32.5	47.2	72.2	7.76	5.44	6.33	16.47	19.65	41.00
Metals & Minerals	221.1	271.6	497.2	4.21	7.85	6.43	8.16	8.58	8.16
Chemicals	61.1	134.0	306.6	17.02	10.90	13.22	65.52	83.86	46.21
Plastics & Rubber	100.7	155.8	249.1	9.14	6.04	7.22	53.33	59.09	62.43
Apparel & Textiles	54.0	73.0	72.5	6.20	-0.09	2.29	62.24	77.30	66.08
Wood & Paper	110.8	165.8	295.0	8.39	7.47	7.82	82.65	90.17	81.04
Machinery & Electronics	452.1	460.4	581.4	0.37	2.96	1.95	45.16	46.85	45.58
Transportation Equipment	328.0	450.3	307.8	6.54	-4.65	-0.49	25.61	34.07	11.38
Misc. Manufactures	60.4	86.6	56.2	7.46	-5.25	-0.55	77.18	75.15	61.22
Special Transactions	43.8	53.1	33.1	3.92	-5.72	-2.12	57.50	47.79	39.09

* Compound annual growth rate
Source: Statistics Canada, Customs Basis

2.3 SERVICES TRADE

Figure 2.3.1

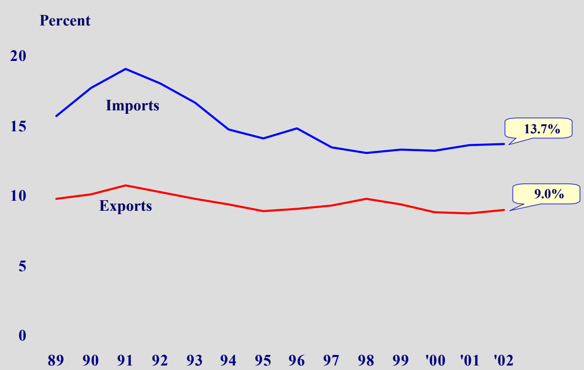
U.S. Share of Canadian Service Exports and Imports



Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Balance of Payments

Figure 2.3.2

Services as a Share of Total Canada-U.S. Trade



Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Balance of Payments

The U.S. share of Canada's services trade, has not increased as rapidly as it has for merchandise trade. The U.S. share of our services imports actually fell slightly, from 62.5 percent in 1989 to 61.2 percent in 2002 although there was a slight upward trend in the U.S. share of our services exports which increased from 56.8 percent to 60.2 percent over the same period.

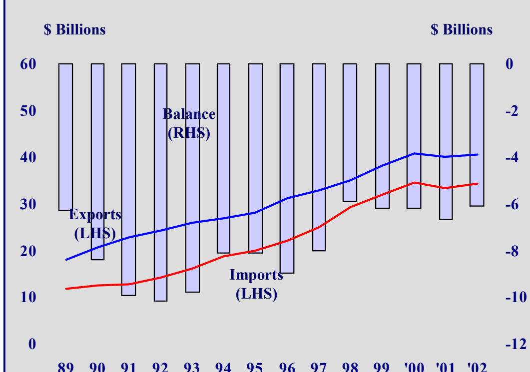
Services account for a small and declining share of our total trade with the U.S. In 2002, 9.0 percent of Canadian exports to the U.S. and 13.7 percent of Canadian imports from the U.S. were services. This is down from 9.8 percent and 15.7 percent respectively, in 1989. The share of services in Canada's total trade with the rest of the world is not only significantly higher, reaching 23.2 percent in 2002, but also has been on the rise.

Despite the declining share of services in total Canada-U.S. trade, services trade volumes between the two countries were up considerably, as Canada's services exports to the U.S. nearly tripled from $11.8 billion to $35.1 billion while imports doubled from $18.1 billion to $40.8 billion. Growth in Canada-U.S. services trade roughly matched that of Canada with the rest of the world. It was therefore only a result of even faster growth in merchandise trade that resulted in the declining share of services in total Canada-U.S. trade.

While Canada has traditionally maintained a large trade deficit with the U.S. in services, it has fallen considerably in recent years. In

Figure 2.3.3

Canada-U.S. Services Trade



Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Balance of Payments

2002, Canada imported $6.0 billion more in services from the U.S. than it exported. This is down from $6.3 billion in 1989 and an all-time peak of $10.2 billion in 1992. Canada also runs a deficit in services with the world, which stood at $7.9 billion in 2002, of which the U.S. accounted for 68.4 percent.

Table 2.3

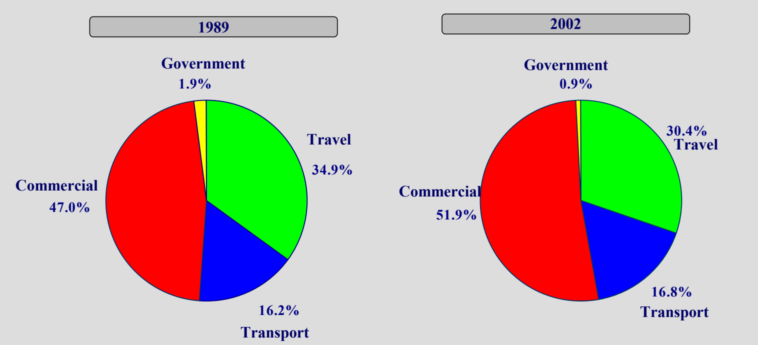
Canada's Services Trade with the U.S.

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Exports	11,796	18,815	35,110	9.79	8.11	8.75	56.77	57.45	60.20
Imports	18,083	26,913	40,805	8.28	5.34	6.46	62.52	60.60	61.22
Balance	-6,286	-8,098	-5,695	N/A	N/A	N/A	77.16	69.43	68.37

* Compound annual growth rate
Source: Statistics Canada, Balance of Payments

Figure 2.3.4

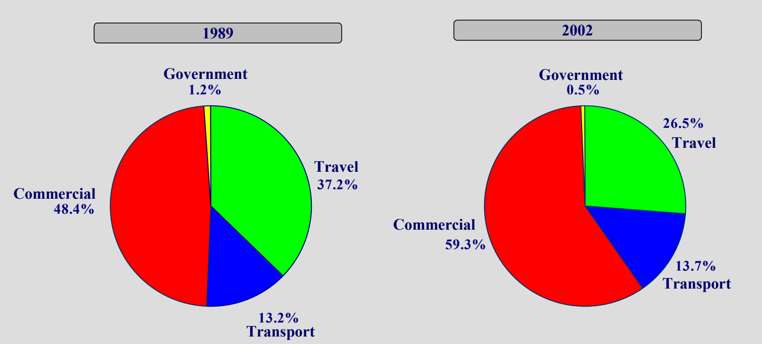
Industrial Distribution of Canadian Service Exports to the U.S.



Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Balance of Payments

Figure 2.3.5

Industrial Distribution of Canadian Service Imports from the U.S.



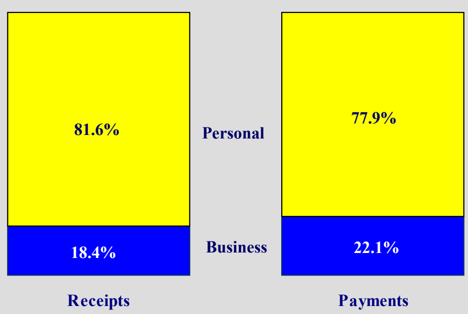
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Balance of Payments

Travel accounts for the second largest share of our services trade with the U.S., behind commercial services. The share of travel exports (Americans travelling to Canada) at 30.4 percent, however, has dropped considerably from 34.9 percent in 1989. The share of travel imports (Canadians travelling to the U.S.) has dropped even more, declining from 37.2 percent of our service imports in 1989 to 26.5 percent in 2001. Not surprisingly, Canada's travel trade balance with the U.S. has fallen significantly as well, from $2.6 billion to $0.7 billion and now stands at only 3.2 percent of our total travel trade. 1986 was the last time that Canada had a positive travel balance with the U.S. The declining value of the Canadian dollar relative to the U.S. dollar over this period was likely the primary factor contributing to the decline in Canada's travel deficit, which has made Canada a more attractive destination for U.S. travellers and increased the cost of travelling to the U.S. for Canadians.

These trends are supported by the declining share of travel spending by Canadians in the U.S. relative to destinations elsewhere in the world, which fell from 68.5 percent to 59.1 percent between 1989 and 2002. This has not translated, however, into a dramatic rise in the share of travel to Canada by Americans, which fell slightly from 61.7 percent to 61.6 percent.

Figure 2.3.6

Canada-U.S. Travel by Type, 2001



Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Balance of Payments

18.4 percent of Canada's travel receipts with the U.S. are from business travel, while 22.1 percent of payments are accounted for by business travel. While this distribution has fluctuated over time, it has not trended in one direction or the other since the data started to be collected in 1990. One might have suspected that there would have been a rise in the share of business travel given the dramatic growth in trade and foreign direct investment between the two countries over this period, but this does not appear to have been the case.

The share of Transportation in Canada's total services trade has increased only slightly since 1989. The share for exports increased from 16.2 percent in 1989 to 16.8 percent in 2002 while that for imports increased from 13.2 percent to 13.7 percent over the same period.

There is a strong relationship between transportation trade and merchandise trade. As can be seen from the adjacent chart, Canada's transportation trade with the U.S. closely matches that of merchandise trade with merchandise trade growth slightly outpacing transportation trade.

Table 2.3.1

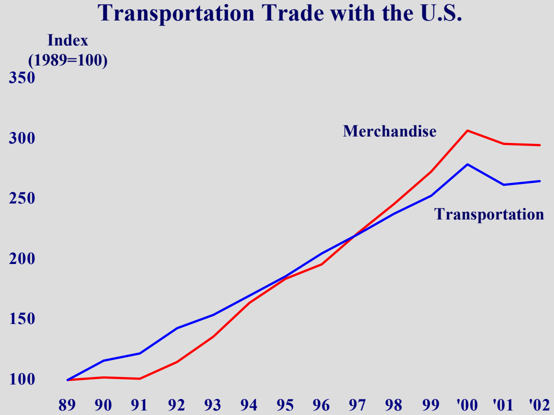
Canada's Travel Trade with the U.S.

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Exports	4,118	5,469	10,310	5.84	8.25	7.31	61.65	57.22	61.62
Imports	6,732	9,044	10,991	6.08	2.47	3.84	68.51	66.12	59.14
Balance	-2,614	-3,576	-681	N/A	N/A	N/A	83.06	86.80	36.75

* Compound annual growth rate
Source: Statistics Canada, Balance of Payments

Figure 2.3.7

Canada's Merchandise Trade and Transportation Trade with the U.S.



Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Balance of Payments

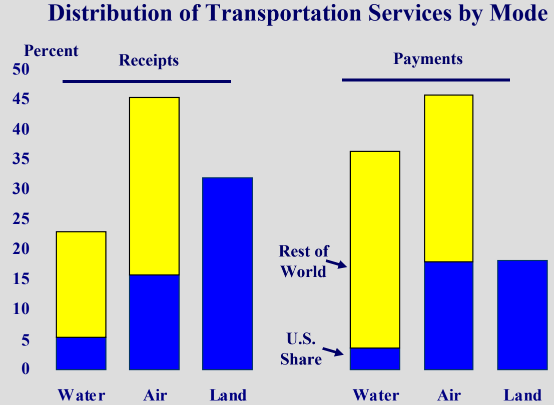
As for every major category of services trade, with the exception of government services, growth between 1989 and 1994 significantly outstripped growth since 1994 which is a reflection of the strong economic recovery in the early 1990s and the economic slowdown in the U.S. since 2000. It is notable that in both periods export growth outpaced import growth resulting in a positive trade balance in 1999 and in two out of the three years since then. Canada had not held a trade surplus with the U.S. in Transportation Services since 1954.

Most Canada-U.S. transportation trade is land-based which accounts for 60.3 percent of receipts and 45.7 percent of payments and is also the driver behind Canada's positive trade balance in recent years. The relatively low share of the U.S. in both exports (52.9 percent in 2002) and imports (38.8 percent in 2002) is a result of the high level of non-North American ownership in the marine shipping industry as well as travel by international airlines.

Commercial Services, at 51.9 percent, account for the largest share of Canadian service exports to the U.S. and with an average annual growth of 9.7 percent, it is also the fastest growing sector. At 59.3 percent, commercial services also account for the majority of Canadian services imports and while not growing as fast as exports, at 8.1 percent they have been the

Figure 2.3.8

Distribution of Transportation Services by Mode



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

fastest growing category of services imports. Although not nearly as high as for merchandise trade, the U.S. share of our Commercial Services trade is the highest among major categories of services trade at 61.0 percent for exports and 73.0 percent for imports. The U.S. also accounts for 173.0 percent of our deficit in Commercial Services trade, meaning that Canada runs a trade surplus with countries other than the U.S. And while this deficit has grown considerably, from $3.2 billion in 1989 to $6.2 billion in 2002, as a share of our total commercial services trade with the U.S., it has actually declined substantially, from 22.4 percent to 14.7 percent.

Table 2.3.2

Canada's Transportation Trade with the U.S.

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Exports	1,911	3,301	5,802	11.55	7.30	8.92	40.65	49.43	52.94
Imports	2,392	4,004	5,558	10.85	4.18	6.70	38.38	38.03	38.78
Balance	-480	-703	244	N/A	N/A	N/A	31.33	18.26	-7.24

* Compound annual growth rate
Source: Statistics Canada, Balance of Payments

Table 2.3.3

Canada's Commercial Services Trade with the U.S.

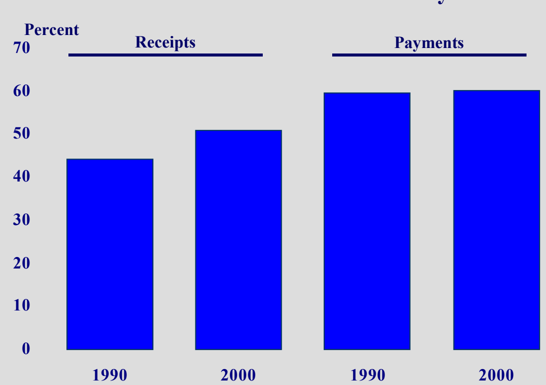
	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Exports	5,547	9,843	18,828	12.15	8.45	9.86	65.42	63.54	64.23
Imports	8,747	13,706	24,022	9.40	7.27	8.08	72.92	69.92	72.8
Balance	-3,200	-3,862	-5,194	N/A	N/A	N/A	91.01	93.97	140.64

* Compound annual growth rate
Source: Statistics Canada, Balance of Payments

Among our commercial services trade with the U.S., Management & Business services account for the largest share of both exports (21.8 percent) and imports (29.4 percent), and while our trade deficit has shrunk, it is still by far the largest within commercial services. On the other hand, R&D services have been among the fastest growing component, posting average annual growth rates of 11.5 percent of exports and 12.5 percent for imports, both outpacing the average growth rates for merchandise trade. This sector also posted, by far, the largest surplus within commercial services. Related to R&D, Royalty

Figure 2.3.9

Commercial Services Trade with U.S. by Affiliates



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

payments, with an average annual rate of export growth of 29.6 percent was the fastest growing, but saw its trade deficit reach $2.1 billion in 2002. It is interesting to note that the U.S. accounts for a very high share of our trade in Management & Business Services, Computer Services and Advertising Services which is likely related to the high share of U.S. foreign direct investment in Canada. On the other hand, the U.S. accounts for a relatively small share of our Finance & Insurance trade, which is also similar to the foreign ownership patterns in the Canadian economy.

In fact, 50.8 percent of Canada's services exports to the U.S. took place between affiliated companies (parts of the same multinational enterprise) in 2000, up from 43.9 percent in 1990. This could be a result of increased two-way foreign direct investment flows between the two countries as well as from third countries. An even larger share of imports, 59.9 percent, took place between affiliated companies, although this share has hardly changed from 59.5 percent in 1990.

Table 2.3.3.1

Canada's Commercial Services Trade with the U.S. by Sector

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Exports									
Architecture, Engineering & Construction	210	537	1,619	20.66	14.79	17.01	23.78	33.09	44.87
Finance & Insurance	1,181	2,397	2,729	15.21	1.63	6.65	60.63	54.33	57.37
Management & Business	1,669	2,440	4,102	7.89	6.71	7.16	75.11	74.75	63.27
Advertising & Audio-visual	330	674	1,764	15.35	12.78	13.76	72.53	80.82	74.02
Computer & Information	373	831	2,213	17.38	13.02	14.68	82.16	73.60	71.94
Communication	715	1,078	1,416	8.56	3.47	5.4	64.24	66.63	66.54
Royalties & Licence Fees	64	236	1,856	29.82	29.41	29.57	44.14	53.64	70.06
R&D	531	970	2,193	12.81	10.73	11.53	82.97	72.82	73.32
Other	472	679	936	7.54	4.09	5.41	76.13	81.03	75.73
Imports									
Architecture, Engineering & Construction	306	481	1228	9.47	12.43	11.28	61.45	43.45	61.65
Finance & Insurance	1,575	2,579	4,374	10.37	6.83	8.17	59.48	47.60	58.94
Management & Business	2978	4,603	7,062	9.10	5.50	6.87	82.98	88.67	82.78
Advertising & Audio-visual	771	1206	2,468	9.36	9.36	9.36	87.61	82.66	83.63
Computer & Information	264	653	1,278	19.86	8.76	12.90	98.14	95.33	92.21
Communication	530	824	1,320	9.23	6.07	7.27	46.74	53.16	64.08
Royalties & Licence Fees	1,471	1,985	3,951	6.18	8.99	7.90	85.87	82.40	68.98
R&D	224	508	1,040	17.79	9.37	12.54	49.78	66.06	72.83
Other	628	865	1,299	6.61	5.21	5.75	77.15	85.31	86.25

* Compound annual growth rate
Source: Statistics Canada, Balance of Payments

Government services is the smallest portion of Canada's services trade and includes international transactions arising from official representation and military activities. As would be expected, the U.S. accounts for a relatively small share of this form of services trade.

Table 2.3.4

Canada's Government Services Trade with the U.S.

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Exports	221	201	308	-1.88	5.48	2.59	24.10	19.67	21.23
Imports	212	158	202	-5.71	3.12	-0.37	24.42	26.12	25.25
Balance	8	43	106	N/A	N/A	N/A	16.33	10.31	16.28

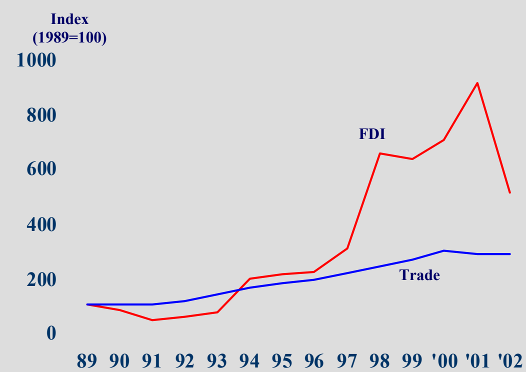
* Compound annual growth rate
Source: Statistics Canada, Balance of Payments

2.4 FOREIGN DIRECT INVESTMENT

Canadian foreign direct investment (FDI) flows with the U.S. increased tremendously between 1989 and 2002, growing at an average annual rate of 13.4 percent – significantly outstripping growth in trade (see Figure 2.4.1). Canada-U.S. FDI flows were roughly balanced over the period as a whole, with U.S. investment in Canada only slightly outpacing Canadian investment in the U.S. While a dramatic increase in FDI flows was witnessed shortly following the implementation of NAFTA, it is unlikely that NAFTA was actually a significant driver of these flows. A small number of "mega-mergers" is responsible for a large portion of this activity as well as for the extremely high volatility in FDI flows over this period. It must be noted that a similar boom in FDI activity also took place within many regional economies as well as between them; trends in Canada are generally consistent with those witnessed globally.[10]

Figure 2.4.1

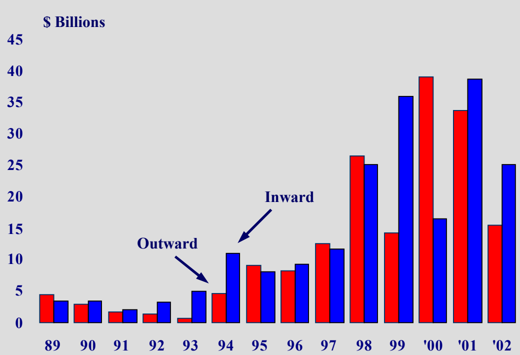
Growth in Canada-U.S. Trade and FDI Flows



Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Balance of Payments

Figure 2.4.2

Canada-U.S. FDI Flows



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

Table 2.4.1

Canada's Direct Investment Flows with the U.S.

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Outward	4,512	4,592	15,456	0.35	16.38	9.93	72.37	36.17	35.24
Inward	3,397	10,932	25,086	26.33	10.94	16.63	47.74	97.55	74.65
Balance	1,115	-3,057	-5,167	N/A	N/A	N/A	-126.56	-205.44	-50.37

* Compound annual growth rate
Source: Statistics Canada, Balance of Payments

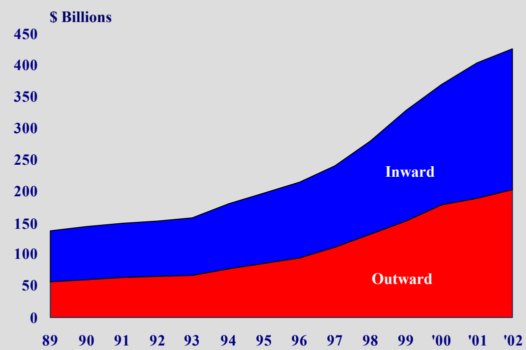
[10] M&As accounted for 50.3 percent of Canadian outward FDI flows and 57.1 percent of inward flows between 1997 and 2001. Data on the share of Canada-U.S. FDI flows accounted for by M&As are not available due to confidentiality reasons.

Due to the high volatility of FDI flow data, FDI position (stock) data is more useful for analyzing trends. Canadian inward and outward FDI stocks have also seen a dramatic increase, rising from $56.6 billion in 1989 to $201.8 billion in 2002 for outward investment – a nearly four-fold increase. Inward FDI increased at a slightly slower pace, rising from $80.4 billion to $224.3 billion over the same period. The most rapid growth for both inward and outward FDI stocks has taken place since 1994. On a global basis, Canada became a net exporter of FDI with its outward stock surpassing its inward stock in 1997. We remain, however, a net importer of FDI from the U.S., but the gap has been declining. In 1989, the U.S. had $23.8 billion more direct investments in Canada than Canadian firms had in the U.S., 17.4 percent of total investments in both directions. In 2002, the absolute difference had declined only slightly to $22.5 billion; however, as a share of total investments it had fallen to 5.3 percent.

The share of FDI in Canada coming from the U.S. has remained relatively stable at around two-thirds. There was a sudden drop in the U.S. share of Canadian inward FDI in 1999 and 2000 resulting from a small number of large acquisitions of Canadian assets by French companies, but it has since rebounded somewhat. The share of Canadian investment in the U.S. has declined drastically and in 2002 stood at just 46.7 percent.

Figure 2.4.3

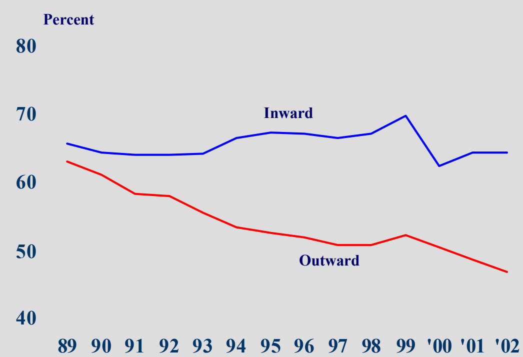
Canada-U.S. FDI Stocks



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

Figure 2.4.4

U.S. Share of Canadian FDI Stock



Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Balance of Payments

Table 2.4.2

Canada's Direct Investment Position (Stock) with the U.S.

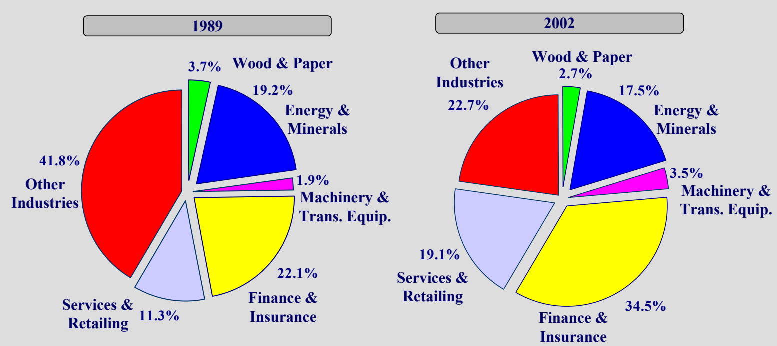
	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Outward	56,578	77,987	201,792	6.63	12.62	10.28	62.97	53.30	46.73
Inward	80,427	102,629	224,330	5.00	10.27	8.21	65.57	66.39	64.21
Balance	-23,849	-24,642	-22,538	N/A	N/A	N/A	72.68	297.64	-27.34

* Compound annual growth rate
Source: Statistics Canada, Balance of Payments

Canadian FDI in the U.S. is highly concentrated with the two largest sectors accounting for 57.2% of the total in 2002. The single most important sector, Finance & Insurance, accounts for over one-third of Canadian FDI in the U.S. Finance & Insurance also stands out as having been one of the three fastest growing sectors for Canadian direct investment in the U.S. along with Machinery & Transportation Equipment and Services & Retailing, the former growing from a small base. It is also interesting to note that the U.S.'s declining share of Canadian outward FDI has been occurring in all sectors, with the exception of Services & Retailing. The second largest sector for Canadian FDI in the U.S. is "Other Industries" which includes the computer and telecommunication industries. The slow rate of growth reported for this sector is largely a result of a large decline, by more than one-quarter, since its peak at $62.3 billion in 2000. The U.S. accounts for low shares of Canadian FDI in the Machinery & Transportation and Finance & Insurance sectors, whereas Europe accounts for a large share of the former and Latin America a large share of the later. At the other end of the spectrum, a large majority of Canadian Services & Retailing FDI went to the U.S.

Figure 2.4.5

Industrial Distribution of Canadian FDI in the U.S.

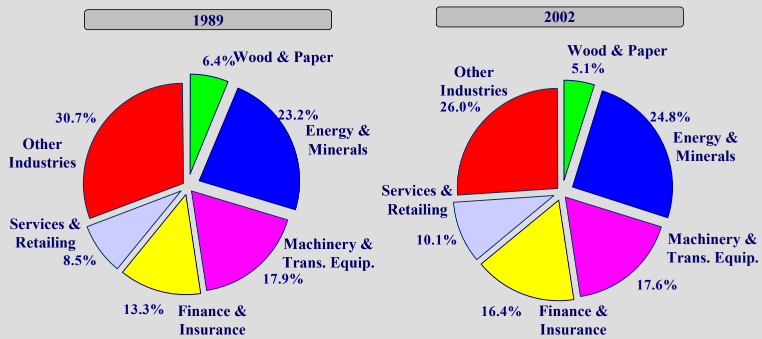


Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Balance of Payments

U.S. FDI in Canada is much more evenly distributed across industries than is Canadian direct investment in the U.S. The single largest sector, "Other Industries", accounts for just over one-quarter of all U.S. investment in Canada. Growth in U.S. FDI in Canada is also much more evenly distributed over the entire post-FTA period. The Energy sector does stand out as witnessing particularly fast growth in U.S. FDI, mostly driven by a flurry of acquisitions in the last couple of years of Canadian companies operating in the oil patch. It is interesting to note that while Canadian FDI in the U.S. in "Other Industries" fell sharply from its peak in 2000, U.S. investment in Canada in "Other Industries", while also peaking of 2000, fell only slightly. The U.S. accounts for a relatively smaller share of FDI in the Finance & Insurance and Other Industries sectors. In both cases, continental Europe is the major investor. This is most apparent in other industries where some Canadian high-tech, entertainment and food and beverage companies have been acquired in recent years, mostly by French companies.

Figure 2.4.6

Industrial Distribution of U.S. FDI in Canada



Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Balance of Payments

Table 2.4.2.1

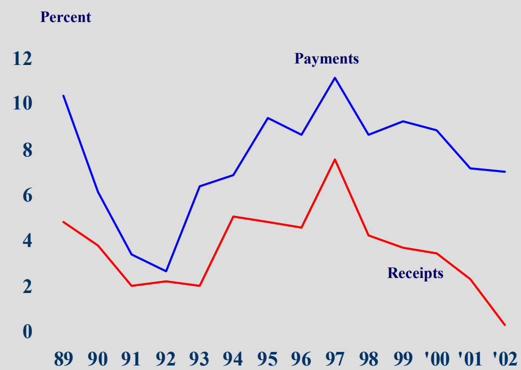
Canadian Foreign Direct Investment Stocks with the U.S. by Industry

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Outward									
Wood & Paper	2,118	3,021	5,451	7.36	7.66	7.54	64.32	69.32	56.75
Energy & Metallic Minerals	10,837	15,763	35,394	7.78	10.64	9.53	58.88	48.97	43.05
Machinery & Transportation Equip.	1,093	2,107	7,009	14.03	16.21	15.37	36.65	45.01	25.76
Finance & Insurance	12,502	18,855	69,615	8.56	17.74	14.12	50.07	42.16	39.04
Services & Retailing	6,399	8,871	38,583	6.75	20.17	14.82	71.22	73.52	71.61
Other Industries	23,628	29,370	45,740	4.45	5.69	5.21	75.69	60.81	56.75
Inward									
Wood & Paper	5,173	7,056	11,346	6.41	6.12	6.23	70.79	73.52	76.80
Energy & Metallic Minerals	18,694	18,230	55,718	-0.50	14.99	8.76	63.81	60.85	69.95
Machinery & Transportation Equip.	14,376	20,741	39,445	7.61	8.37	8.07	79.72	84.18	80.32
Finance & Insurance	10,695	14,012	36,840	5.55	12.84	9.98	47.67	49.83	54.84
Services & Retailing	6,802	10,535	22,699	9.14	10.07	9.71	70.54	73.07	77.96
Other Industries	24,687	32,054	58,282	5.36	7.76	6.83	68.67	66.97	53.20

* Compound annual growth rate
Source: Statistics Canada, Balance of Payments

Figure 2.4.7

Rate of Return on Canada-U.S. FDI*



* Income generated from FDI / FDI stock
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Balance of Payments

Canadian companies undertake international investments for the purposes of generating income. Figure 2.4.7 illustrates the rate of return received on Canadian direct investments in the U.S. (receipts) and income returned to U.S. firms with investments in Canada (payments).[11] The most striking fact is that Canadians receive a much lower rate of return on their investments in the U.S. than U.S. firms receive from investments in Canada. This could be the result of a number of factors – the age of the investment and the industry in which the investment is made; but it could also be playing a role in the declining share of Canadian investment going to the U.S. International income from FDI is also cyclical. As can be seen, Canadian payments on U.S. FDI in Canada fell dramatically between 1989 and 1992 reflecting the deep and prolonged recession in Canada, compared to Canadian income from investments in the U.S. which did not fall as significantly. The reverse is true for the 2000 to 2002 period which saw payments remain relatively unchanged while receipts plummeted.

Table 2.4.3

Canada's Direct Investment Income with the U.S.

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Receipts	2,693	3,893	502	7.65	-22.59	-12.12	50.90	42.39	3.61
Payments	8,279	7,040	15,707	-3.19	10.55	5.05	79.81	81.88	70.71
Balance	-5,586	-3,147	-15,206	N/A	N/A	N/A	109.90	-537.95	183.40

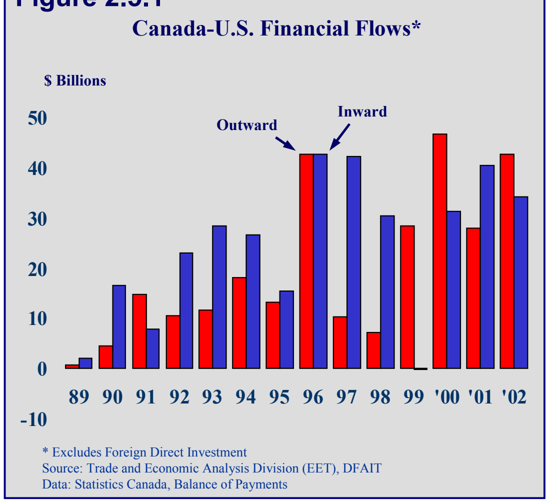
* Compound annual growth rate
Source: Statistics Canada, Balance of Payments

[11] Rate of return is calculated as income from FDI divided by total FDI stock.

2.5 FINANCIAL INVESTMENT

Financial investment refers to the non-foreign direct investment component of the financial account. It includes: portfolio investment, other investment, and other assets/liabilities. Financial investment, unlike foreign direct investment, does not give rise to or constitute a significant say in how a company is run.[12] Portfolio investment consists of stocks (equity) or bonds (debt): an example of portfolio investment would be a person's private holdings in a RRSP or indirectly through a mutual fund. Firms can also hold portfolio investments for a variety of reasons, but along with governments, are the issuers of the portfolio investment. Other investments include foreign loans/deposits, foreign holdings by banks, and official international reserves. Other assets/liabilities include trade credits, short-term receivables and a variety of other miscellaneous financial holdings.

Figure 2.5.1



Financial investments are often significantly larger than foreign direct investments. In 2001, Canadians owned $1.30 in U.S. financial assets for every dollar of direct investment assets. Foreign financial holdings in Canada are even larger, at $2.20, for every dollar of foreign direct investment in Canada.

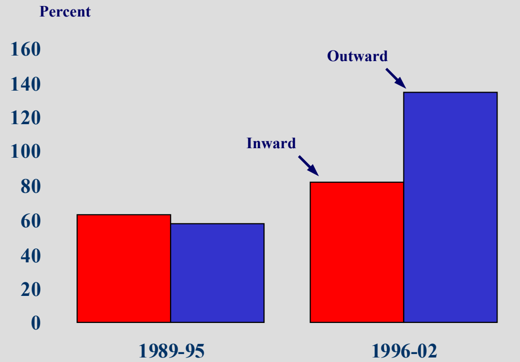
Financial flows, in both directions, picked up considerably in the later half of the 1990s. Between 1989 and 1995, financial outflows from Canada to the U.S. averaged $10.4 billion compared to an average of $29.3 billion between 1996 and 2002. The same is true for inflows which averaged $17.1 billion prior to 1996 and $31.5 billion after 1996. For both periods, inflows outweighed outflows, although the relative gap was smaller in the post-1996 period. The U.S. share also increased significantly, from 45.6 percent for outflows and 51.6 percent for inflows in the pre-1996 period to 70.6 percent and 110.6, percent respectively, in the post-1996 period.

Portfolio investment accounts for the majority of Canadian international financial flows. Over the 1989-2002 period, portfolio flows accounted for 74.1 percent of financial outflows and 84.8 percent of inflows. Inflows from the U.S. picked up in the early 1990s, but it was not until the late 1990s that outflows also began to increase and actually surpassed inflows for four of the past five years. It is likely that the differences in business cycles – the U.S. recovering much earlier than

[12] Following international convention, Statistics Canada defines an investment constituting 10 percent or greater ownership of voting shares as foreign direct investment. All investments below this threshold are considered portfolio investment.

Figure 2.5.2

U.S. Share of Total Canadian Flows of Portfolio Investment



* Excludes Foreign Direct Investment
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Balance of Payments

Canada, contributed to this result. In Figure 2.5.2, it can be seen that the U.S. share of Canadian outflows increased in the post-1996 period; however, inflows from the U.S. increased dramatically, reaching 134 percent, implying that there were net redemptions from countries other than the U.S.

As can be seen in Figure 2.5.3, U.S. financial investment in Canada out-weighs Canadian financial investment in the U.S., and unlike FDI, the gap is widening. In 2001, Canadians owned \$266.1 billion worth of financial assets in the U.S. compared to \$468.7 billion of Canadian financial assets owned by Americans. The U.S. share of Canadian financial assets remained steady at just over 45 percent; however, the U.S. share of our financial liabilities increased from 36.9 percent in 1989 to 58.0 percent in 2001.

Table 2.5.1

Flows - Financial Investment, Canada-U.S.

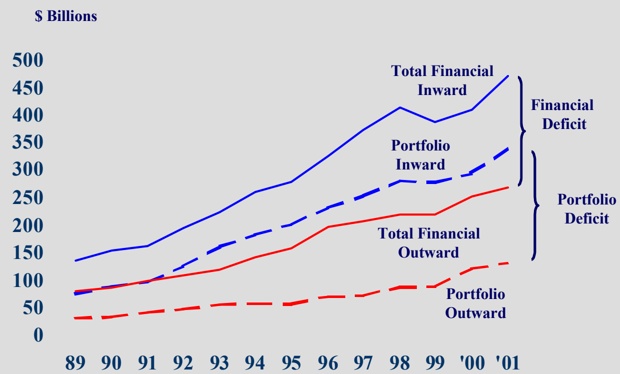
	Billions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Financial Assets	769	18,016	42,430	87.91	11.30	36.14	5.01	40.52	114.98
Portfolio Investments	4,693	1,967	26,144	-15.96	38.18	14.12	85.80	22.03	105.68
Other Investments	-3,558	12,992	11,119	N/A	-1.93	N/A	-44.25	47.40	159.96
Other Assets	-366	3,057	5,167	N/A	6.78	N/A	-19.79	37.60	99.12
Financial Liabilities	2,086	26,391	34,104	66.12	3.26	23.98	5.86	56.74	119.64
Portfolio Investments	7,405	11,792	22,491	9.75	8.41	8.92	31.90	50.58	125.82
Other Investments	-4,559	13,624	12,710	N/A	-0.86	N/A	-39.46	61.84	100.75
Other Liabilities	-760	975	-1,097	N/A	N/A	2.86	-91.90	83.69	55.29

* Compound annual growth rate
Source: Statistics Canada, Balance of Payments

As can also be seen from Figure 2.5.3, portfolio investment accounts for the majority of both inward and outward financial investment, as well as the deficit. Portfolio investment has also been the fastest growing component of financial investment, both inward and outward. Canadian portfolio investment in the U.S. increased at an average annual rate of 13.3 percent between 1989 and 2001 while U.S. portfolio investment in Canada increased only slightly faster at 13.5 percent.

Figure 2.5.3

Canada-U.S. Financial Investment Position

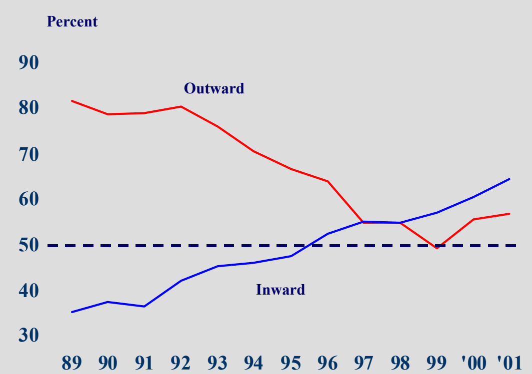


Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Balance of Payments

The U.S. share of foreign portfolio investment in Canada moved in the opposite direction to Canadian investment in the U.S.; the U.S.'s share of foreign portfolio investment in Canada went up considerably, from 35.0 percent in 1989 to 64.2 percent in 2001 (see Figure 2.5.4). Meanwhile the share of Canadian portfolio investment abroad going to the U.S. fell off considerably, dropping from 81.4 percent in 1989 to 56.5 percent in 2001.

Figure 2.5.4

U.S. Share of Portfolio Investment

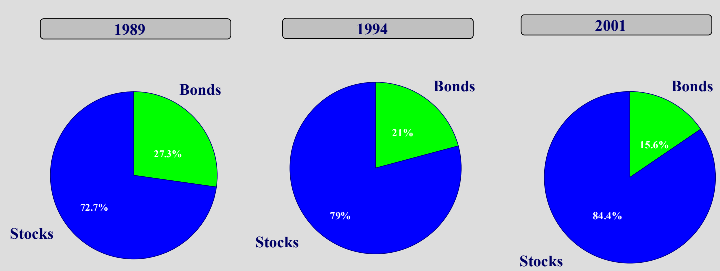


Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Balance of Payments

The product mix of outward portfolio investment is practically the mirror image of inward investment with the U.S. U.S. holdings of Canadian portfolio investment was heavily skewed towards bonds, which account for more than two-thirds of U.S. portfolio investment in Canada while only 15.6 percent of Canadian holdings in the U.S. are in bonds. Stocks, however, accounted for an uneven share of the growth in both inward and outward portfolio investment with the U.S. since 1994, with the share of stocks rising from 79.0 percent to 84.4 percent for outward portfolio investment and 16.0 percent to 24.4 percent for inward portfolio investment.

Figure 2.5.5

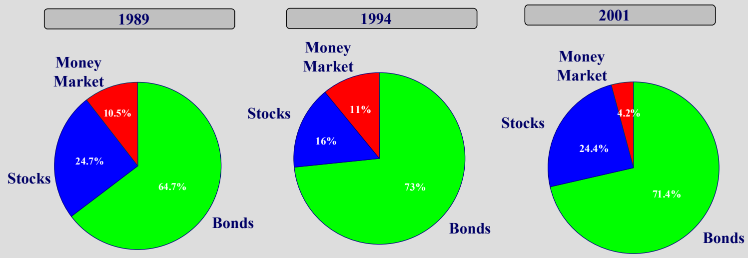
Composition of Canadian Portfolio Investment in the U.S.



Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Canada's International Investment Position

Figure 2.5.6

Composition of U.S. Portfolio Investment in Canada



Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Canada's International Investment Position

Table 2.5.2

Stocks - Financial Investment, Canada-U.S.

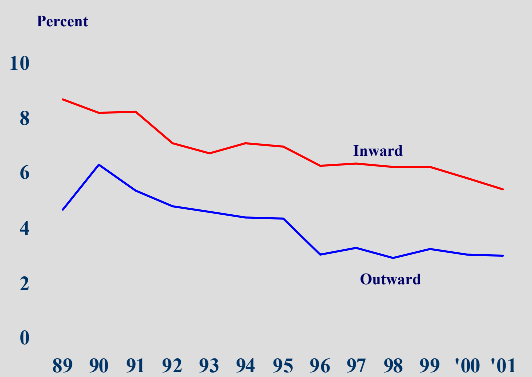
	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2001	1989-94	1994-01	1989-01	1989	1994	2001
Financial Assets	78,561	139,242	266,084	12.13	9.69	10.70	45.52	45.49	45.90
Portfolio Investments	29,321	56,567	130,558	14.05	12.69	13.25	81.35	70.27	56.47
Other Investments	40,709	64,830	112,142	9.75	8.14	8.81	36.32	38.70	39.50
Other Assets	8,531	17,845	23,384	15.91	3.94	8.77	34.90	30.75	36.19
Financial Liabilities	133,351	258,199	468,667	14.13	8.89	11.04	36.93	43.54	57.95
Portfolio Investments	73,898	180,417	338,183	19.54	9.39	13.51	35.00	45.64	64.16
Other Investments	54,238	70,671	120,270	5.44	7.89	6.86	39.81	39.23	46.27
Other Liabilities	5,215	7,111	10,214	6.40	5.31	5.76	38.09	40.42	47.05

* Compound annual growth rate
Source: Statistics Canada, Balance of Payments

Canadians receive income from their foreign financial investments and must make payments to foreigners on their investments in Canada. Canada continues to pay much more on U.S. investments in Canada than Canadians receive from investments in the U.S. In fact, Canada paid slightly more than double what it received in income in 2002. One of the primary reasons for this is that Canadians pay roughly 5 times more on U.S. portfolio investments in Canada than Canadian's receive from their portfolio investments in the U.S. And while some of this has to do with the fact that Canada has much less investment in the U.S., Canadians also make a significantly lower rate of return on their investments. As can be seen

Figure 2.5.7

Return on Canadian Portfolio Investment with the U.S.



Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Balance of Payments

from Figure 2.5.7, the rate of return on U.S. portfolio investment in Canada has consistently been two to three percentage points higher than that on Canadian investment in the U.S.[13] This could be the result of a number of factors, such as a premium required for investments in Canada to compensate for currency fluctuations or other forms of risk.

Table 2.5.3

Income - Financial Investment, Canada-U.S.

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	**1994**	**2002**	**1989-94**	**1994-02**	**1989-02**	**1989**	**1994**	**2002**
Financial Receipts	6,627	8,890	11,757	6.05	3.56	4.51	50.02	57.35	51.86
Portfolio Investments	1,360	2,438	3,884	12.38	5.99	8.41	82.62	76.28	49.52
Other Investments	3,579	4,410	3,550	4.26	-2.68	-0.06	39.92	50.57	43.54
Transfers	1,688	2,042	4,323	3.88	9.83	7.50	63.99	56.98	64.75
Financial Payments	12,239	18,119	25,133	8.16	4.18	5.69	36.45	42.69	57.96
Portfolio Investments	6,366	12,649	19,233	14.72	5.38	8.88	34.52	45.57	64.90
Other Investments	5,285	4,881	4,871	-1.58	-0.03	-0.63	46.59	45.90	57.85
Transfers	588	589	1,029	0.03	7.22	4.40	15.52	14.52	19.40

* Compound annual growth rate
Source: Statistics Canada, Balance of Payments

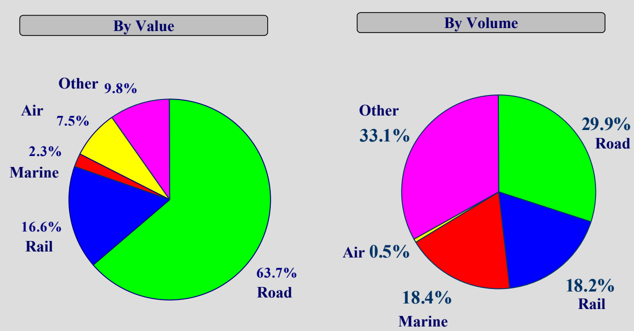
[13] This also holds for Canadian investment in the rest of the world.

2.6 TRANSPORTATION

A solid transportation infrastructure is essential to the performance of any economy by allowing for the fast and efficient movement of both goods and people. International transportation infrastructure must include both the physical and the administrative aspects of maintaining the border, including land crossings as well as marine and airports. Since the FTA came into effect in 1989 and NAFTA in 1994, there have been renewed economic pressures to improve the North-South transportation infrastructure. Canada-U.S. trade expanded by nearly 200 percent between 1989 and 2002, the majority of that from merchandise trade.

Figure 2.6.1

Canada-U.S. Trade by Mode, 2001



Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Transport Canada

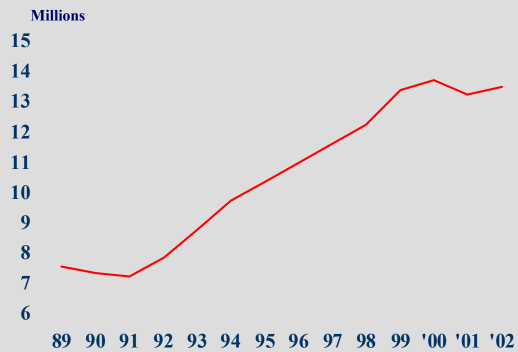
Almost two-thirds of Canada-U.S. trade, by value, occurs by road transportation. Road transportation is relatively more important for imports, 78.1 percent of which entered Canada by road, compared to 54.8 percent for exports. This is largely reflective of the difference in Canada's export mix, which is more commodity based and therefore relies more on rail (21.4 percent) and other modes (14.9 percent) – largely pipeline – as opposed to imports which are more manufacture-based and makes less use of rail (9.0 percent) and other modes (1.7 percent). On a volume basis, the differences between exports and imports are even more striking. Only 20.2 percent of Canada's exports to the U.S., by volume, travel by road, while the share of rail falls slightly to 19.2 percent. However, the share of Canada's exports carried by "other" means leaps to 44.9 percent while marine transportation increases to 15.5 percent. The composition of imports also changes, but not to the same extent as exports. The share carried by road falls to 55.4 percent, while rail and marine increase to 15.5 percent and 25.9 percent respectively. The value of trade per tonne is by far the highest for air transportation at $19.3 thousand per tonne, but then falls off drastically to $2.6 thousand for road, all the way down to $0.2 thousand per tonne for marine transportation.

As one would expect, Canada's trade with the rest of the world is much more dependent on marine transportation, which accounts for 67.9 percent of our exports by value; air transportation makes up the bulk of the rest at 24.2 percent. By volume, 96.2 percent of Canada's exports to countries other than the U.S. is shipped via marine transportation.

With the value of Canada's trade with the U.S. increasing dramatically over the 1990s and with much of this shipped by truck, there was also an explosion in cross-border truck travel. As can be seen on the accompanying graph, truck traffic increased at Canada-U.S. border crossings by 78.9 percent, from 7.5 million in 1989 to 13.5 million in 2002.

Figure 2.6.2

Cross-Border Truck Traffic



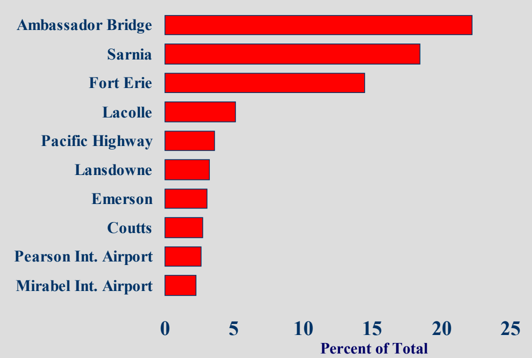
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada

Transborder truck traffic increased at an annual average rate of 13.3 percent between 1990 and 2000, three times greater than domestic truck traffic.[14] This has put a tremendous strain on border infrastructure which is compounded by the fact that the majority of Canada-U.S. trade by road passes through a relatively small number of border crossings.[15]

Measured by value, a whopping 63.7 percent of Canadian exports to the U.S. pass through only five border crossings. This represents $220.5 billion worth of exports – more than $600 million per day! More trade crosses the Ambassador bridge, between Windsor, Ontario, and Detroit, Michigan, than takes place between Germany and France, the two largest members of the E.U. Measured by the number of trucks, these five border crossings account for 58.5 percent of all border crossings – 21.9 thousand trucks per day.

Figure 2.6.3

Top Ten Border Crossings – by Value of Exports, 2002



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

[14] Measured in tonne-kilometres, Transportation in Canada 2001, Annual Report.

[15] Cross-border car traffic fell substantially over this period and, to some extent, has off-set the increase in truck traffic. Refer to the report on "The Impact of Increased Border Security on Canada's Trade and Investment" for more information on passenger vehicle traffic volumes.

THE IMPACT OF INCREASED BORDER SECURITY ON CANADA'S TRADE AND INVESTMENT

In a post-September 11th world, it is almost impossible to talk about trade and Canada-U.S. linkages without discussing security. This report will attempt put some numbers to the exploding trade and security discourse.

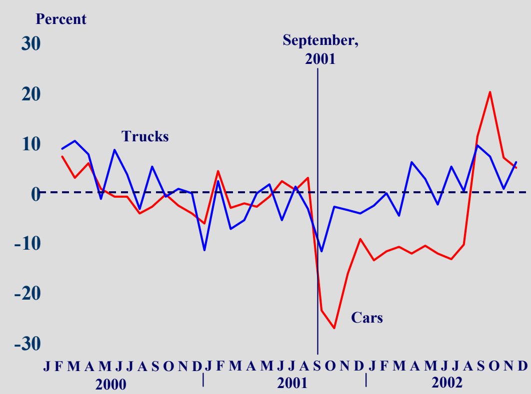
The main impact of new security requirements post September 11th on Canadian trade and investment flows will be at our border with the U.S. There may be some direct security-related charges such as the security tax at airports and the cost of extra border staff. However, most of the costs of increased security to traders will come in the form of increased delays at land border crossings. Not only will the actual delays impose a cost, but potentially even greater will be the uncertainty associated with these delays.

Increased actual wait times and the uncertainty associated with the variability of these wait times (short-run fluctuations as well as a longer term uncertainty over what the border will look like in the future) impose a tariff-like barrier to both imports of intermediate inputs or final goods for consumption as well as to exports. Unlike a tariff, however, wait times and uncertainty generate no revenue for the government, but are rather a complete dead-weight loss to the economy. Some of this loss will be borne by consumers in the form of higher prices, the rest will be absorbed by the traders themselves. For this reason, it is a top priority of both the Canadian and U.S. governments to minimize these losses while maintaining a desired level of security. There are also a number of actions that traders can take to minimize the impact of border frictions.

Traders can choose to hold extra inventory. There is a cost to holding such inventory and this cost must be set against the cost that a potential border delay would have on production. In addition to holding extra inventory, there may be other ways to reduce the costs imposed by border wait times. They would include: a) timing cross-border shipments when wait times are lowest; b) moving shipments to border crossings that have lower wait times; and c) changing mode of shipping to minimize wait times. All of these would require knowledge of border wait times. The Canada Customs and Revenue Agency now publishes on its website average wait times at major border crossings at three-hour intervals and has recently moved to one-hour intervals. Border wait time data should, to some extent, already reflect the fact that firms are adjusting their behaviour to minimize the impact on their business.

Change in Cross-Border Vehicle Crossings

Percent change from same month previous year

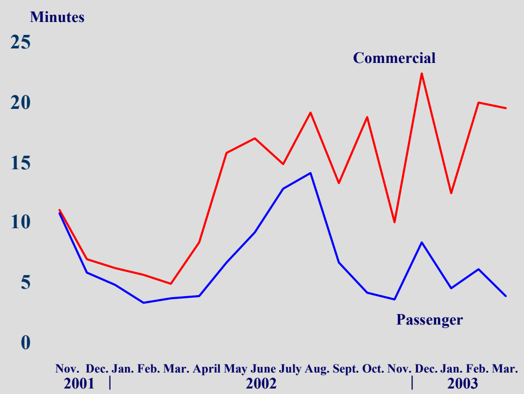


Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, International Travel Statistics

First, we see that increases in border wait times for commercial traffic may have been partially offset by reduced passenger traffic. A large portion of the traffic on Canada-U.S. border crossings is made up of cars and other vehicles. In fact, more than 80 percent of cross-border traffic in 2001 was cars and other vehicles. And while truck traffic has increased substantially, car traffic has been on a steady decline since its peak of 100 million crossings a year in 1991, subsequently falling to less than 70 million in 2001. This has resulted in total vehicle crossings falling over the period from 86 million to 78 million. Car crossings are also much more evenly distributed across various border points than are truck crossings. The Ambassador Bridge, for example, accounts for one-quarter of all truck crossings but for only 12 percent of car crossings; similarly, the top five Canada-U.S. border crossings account for a much reduced 46.7 percent of car crossings.

There is also some evidence that passenger traffic is more elastic with respect to wait times than is commercial traffic. Commercial traffic may be able to change crossing times within a small window but requires longer notice to switch modes or make alternate arrangements. Passenger traffic, on the other hand, responds quickly to news of increased security at the border. This is illustrated in the adjacent graph which shows monthly cross-border vehicle traffic over three years. As can be seen clearly, in September of 2001, both car and truck traffic fell off significantly as a result of the tragic events of September 11th. While truck traffic fell 12 percent from the same month a year earlier, car traffic fell by double that proportion. And while truck traffic quickly returned to relatively normal levels, car traffic remained depressed for nearly a year. This difference in responsiveness to security and wait times may result in significantly reduced border delays for commercial traffic at crossings where commercial and passenger traffic are not separated or where resources can be shifted between the two types. It is important to note that this is not a costless solution. Reduced cross-border passenger traffic implies a change in behaviour that would not have otherwise occurred and thus must imply a welfare loss. There would also be a significant impact on border communities, especially service providers that benefit from cross-border traffic.

Average Border Wait Time
Traveling from Canada into the U.S.*

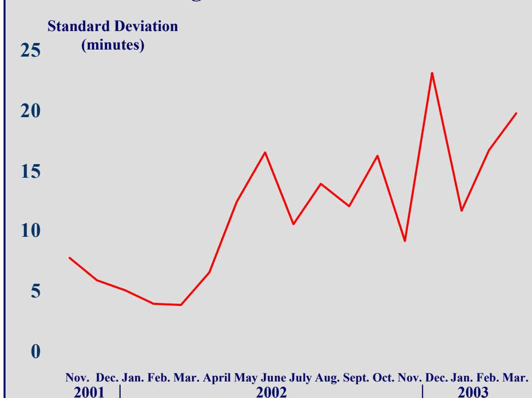


*Average of four busiest border crossings
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Canada Customs and Revenue Agency

It is difficult to determine the impact of increased security at the border on crossing times. Data on wait times have only been collected since November 2001. As can be seen in the adjacent chart, wait times for commercial vehicles at the four busiest border crossings appear to have fallen in late 2001 and early 2002, but began to rise again in early 2002. Since that time, there have been large fluctuations in average monthly wait times but no obvious upward trend. It is also important to note that the average wait time, although higher since the middle of 2002, is still only 15 to 16 minutes, with fluctuations of no more than 6 minutes in either direction.

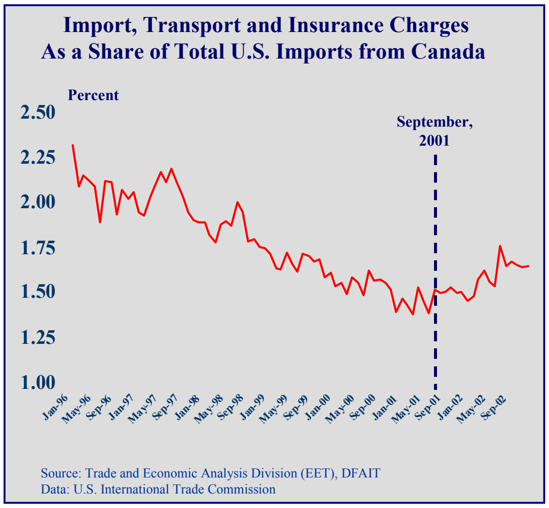
Monthly averages can be somewhat deceiving, as wait times can fluctuate greatly from day to day or even from hour to hour. The second chart provides the standard deviation, a measure of volatility, of average daily wait times at the four busiest border crossings on a daily basis for commercial traffic. The pattern is not that much different from average wait times but illustrates that there can be significant volatility day by day although the average is around 14 minutes. The true measure of volatility would be to conduct similar tests at an even more detailed level, but this is beyond the scope of our analysis.

Variability in Border Wait Times
Traveling from Canada into the U.S.*



* Commercial traffic only, four busiest border crossings
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Canada Customs and Revenue Agency

Attempts at measuring wait times, in this context, are crude approximations of border costs. A more direct measure of these costs can be obtained from U.S. International Trade Commission data on 'import, transport and insurance costs' (ITI costs). The adjacent chart presents ITI costs on Canadian imports into the U.S. as a share of total Canadian imports into the U.S. As can be seen, there is a clear downward trend for the five-and-a-half years prior to September 2001, at which point these charges begin an upward trend. ITI



charges increased 0.18 percentage points, or 12.4 percent, since prior to September 2001.[16] ITI charges should also include actions taken by exporters to change modes of transportation, ports or timing of border crossings as these would be included in transport charges. It is important to note, however, that ITI costs may be influenced factors unrelated to security. While at the aggregate level there appears to be a strong relationship to border security, at a more disaggregated level, most of these increased costs occurred for resource and resource-based products, which would not be expected to be as affected by border security concerns.

The greatest impact of increased border frictions may not be on trade, but on foreign direct investment (FDI). This would include Canada's ability to attract new investment as well as maintain existing investment and may even include keeping Canadian companies in Canada. Increased wait times would, in theory and in practice, reduce the incentive for companies serving the U.S. economy to locate in Canada. Any positive wait time (or variability in wait times) decreases the advantage of locating in Canada. It is too early to determine if border concerns have had or will have any impact on FDI in Canada, but the governments of Canada and the United States have been working together and have established a thirty-point action plan to address the issue of border frictions, and will continue to work closely together to minimize the impact of border frictions on the two economies.[17]

[16] Calculated using a three-month average to reduce monthly volatility.

[17] For more information on the effects of increased border security, see Lloyd, Carolyn "Is Secure Trade Replacing Free Trade?", Trade Policy Research 2003, Department of Foreign Affairs and International Trade, May 2003. For more on the thirty-point action plan, see the Government of Canada website at www.canada.gc.ca.

Canada-Mexico

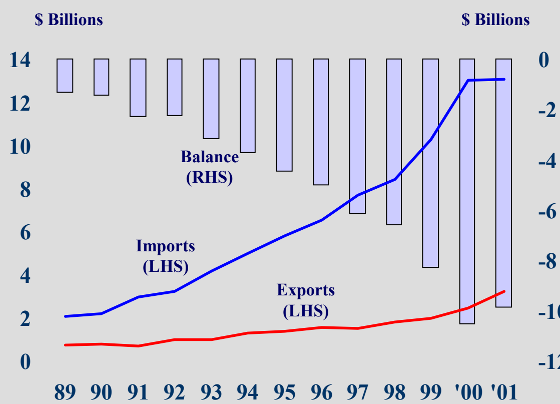
3.1 TRADE

Canada-Mexico trade has accelerated rapidly over the past decade, with exports more than doubling. The largest increase, however, came from imports, which jumped nearly five-fold. And, while Canadian exports to Mexico remain relatively small, at only $3.2 billion in 2001, or 0.7 percent of our total exports, Mexico has emerged as one of our most important sources of imports at $13.1 billion, or 3.1 percent of our total imports.[23]

Canada appears to have a large and growing trade deficit with Mexico, reaching $9.9 billion in 2001, more than four times the value of our exports to Mexico. It is important to note, however, that the merchandise portion of Canada-Mexico trade statistics may suffer significantly from a transhipments problem.[24]

Figure 3.1.1

Canada-Mexico Trade in Goods and Services



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

Figure 3.1.2

Mexico's Share of Canada's Trade in Goods and Services

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

Table 3.1

Goods and Services Trade, Canada - Mexico

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2001	1989-94	1994-01	1989-01	1989	1994	2001
Exports	733	1,269	3,208	11.59	14.17	13.09	0.44	0.49	0.67
Imports	2,042	4,983	13,067	19.53	14.76	16.73	1.21	1.98	3.13
Balance	-1,309	-3,715	-9,860	N/A	N/A	N/A	327.25	-43.04	-15.78

* Compound annual growth rate
Source: Statistics Canada, Balance of Payments

[23] Data on Canada's services trade with Mexico for 1989 was obtained by special request from Statistics Canada to make it comparable to post-1989 data and therefore does not match previously published data.

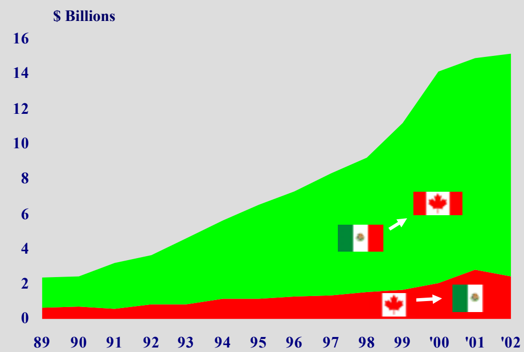
[24] Please see the special box on transhipments in this publication.

3.2 MERCHANDISE TRADE

Canada's merchandise trade with Mexico remains relatively small, constituting only 0.6 percent of Canada's exports and a little over 3.6 percent of imports in 2002.[25] But it has been growing quickly: exports grew 10.8 percent per year on average between 1989 and 2002 while imports grew considerably faster at 16.7 percent annually to reach $2.4 billion and $12.7 billion, respectively. The much faster growth of imports relative to exports has led Canada's trade deficit with Mexico to balloon from $1.1 billion in 1989 to $10.3 billion in 2002.[26]

Figure 3.2.1

Canada-Mexico Merchandise Exports & Imports



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

Canadian imports from Mexico grew relatively steadily between 1990 and 1998 and while accelerating between 1998 and 2000, they have since slowed down considerably. Although not growing nearly as rapidly as imports, Canadian exports to Mexico followed a generally similar pattern. It is interesting to note that the effects of nether the implementation of NAFTA or the Mexican peso crisis, both of which occurred in 1994, appear in the Canada-Mexico trade data, although it could be argued that the announcement of negotiations on the former could have contributed to the strengthening of trade linkages prior to the actual implementation of the agreement. The fact that many Canadian imports from Mexico in 2002 consisted of Motor Vehicles and Machinery & Electronics produced by foreign-controlled firms that have slowly migrated to Mexico and taken time to set up their Mexican operations may give some support to the argument that trade agreements are having a delayed effect on trade. In the case of Mexico, there appears to have been a more immediate effect on foreign direct investment flows.

Table 3.2

Merchandise Trade, Canada - Mexico

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Exports	638	1,084	2,412	11.16	10.52	10.77	0.46	0.48	0.61
Imports	1,708	4,525	12,708	21.52	13.78	16.69	1.26	2.23	3.64
Balance	-1,070	-3,442	-10,296	N/A	N/A	N/A	-30.47	-15.00	-21.69

* Compound annual growth rate
Source: Statistics Canada, Customs Basis

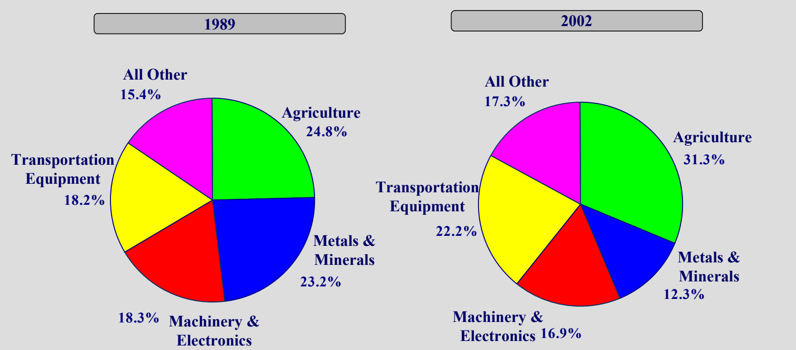
[25] Exports may be understated due to a transhipment problem which misallocates a portion of Canadian exports to the U.S. rather than their final destination in Mexico. Please see the special box on transhipments.

[26] The large share of Canadian trade accounted for by the U.S. dwarfs the shares of other trading partners. In terms of rank, Mexico share of Canadian exports increased from 16th in 1990 to 6th in 2002 while increasing from 9th to 4th for imports.

Agricultural products account for the largest share of Canada's exports to Mexico at 31.3 percent in 2002; they have also been the fastest growing among those products that are exported in a significant quantity to Mexico.[27] Agriculture, along with Transportation Equipment, is the only major category of exports to see its share increase from 1989. Machinery & Electronics and Transportation Equipment, combined, accounted for nearly three quarters of our imports from Mexico in 2002, up from just over 65 percent in 1989. Most of this increase came from Transportation Equipment which saw its share rise from 17.7 percent in 1989 to 29.3 percent in 2002 and was second only to Misc. Manufactures in terms of overall growth.

Figure 3.2.2

Industrial Distribution of Canadian Merchandise Exports to Mexico

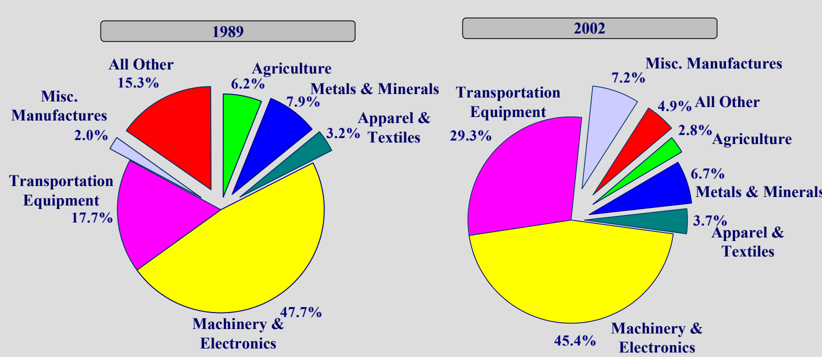


Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Customs Basis

Canada and Mexico trade in many of the same product categories (at the aggregate level) such as Agriculture, Metals & Minerals, Machinery & Electronics and Transportation Equipment. It is interesting to note that, in this context, a trade deficit is recorded with Mexico in each of these categories with the exception of Agriculture. It is also interesting to note that only in Agriculture does Mexico account for more that one percent of Canada's total exports (at 3.5 percent in 2002), whereas Mexico accounts for more than one percent of our imports in 7 out of 11 categories, and a relatively high share of two categories of imports that are considered 'high-tech', namely

Figure 3.2.3

Industrial Distribution of Canadian Merchandise Imports from Mexico



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

[27] Please see Annex for definition of sectors.

Machinery & Electronics and Transportation Equipment, as well as the catch-all category of Miscellaneous Manufactures.

Table 3.2.1

Merchandise Trade, Canada - Mexico by Product

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Exports									
Agriculture	159	360	750	17.84	9.60	12.70	1.68	2.53	3.52
Food & Beverage	1	6	19	32.10	15.78	21.81	0.07	0.15	0.21
Metals & Minerals	148	135	295	-1.80	10.22	5.43	0.48	0.31	0.35
Chemicals	7	20	99	22.70	22.35	22.48	0.12	0.21	0.59
Plastics & Rubber	14	19	49	7.10	12.38	10.32	0.39	0.28	0.30
Apparel & Textiles	10	36	41	28.64	1.48	11.17	0.58	1.01	0.53
Wood & Paper	38	91	133	19.25	4.90	10.21	0.16	0.27	0.29
Machinery & Electronics	117	176	405	8.57	10.95	10.03	0.62	0.54	0.71
Transportation Equipment	116	196	530	11.05	13.22	12.38	0.33	0.33	0.53
Misc. Manufactures	2	13	44	51.77	16.32	28.85	0.08	0.31	0.42
Special Transactions	27	30	29	2.56	-0.43	0.71	0.49	0.21	0.10
Imports									
Agriculture	106	186	351	11.81	8.25	9.60	2.19	2.66	2.99
Food & Beverage	24	36	165	8.61	20.94	16.04	0.71	0.64	1.65
Metals & Minerals	135	326	857	19.27	12.84	15.27	0.73	1.31	1.83
Chemicals	13	49	186	29.81	18.26	22.58	0.18	0.37	0.68
Plastics & Rubber	8	27	163	26.35	25.48	25.81	0.15	0.29	0.91
Apparel & Textiles	55	78	477	7.18	25.50	18.11	0.76	0.80	3.10
Wood & Paper	6	16	78	19.15	22.34	21.10	0.13	0.20	0.56
Machinery & Electronics	815	1,716	5,778	16.06	16.39	16.26	1.85	2.46	5.32
Transportation Equipment	302	1,748	3,721	42.10	9.90	21.32	0.96	4.11	4.86
Misc. Manufactures	33	331	919	58.22	13.61	29.04	0.97	5.33	8.10
Special Transactions	209	15	25	-40.56	6.17	-15.06	4.29	0.22	0.28

* Compound annual growth rate
Source: Statistics Canada, Customs Basis

At a more disaggregated level, significant differences in the types of products coming from Canada and Mexico can be observed. For example, there is considerable trade in both directions between Canada and Mexico in Automotive products. At the 6-digit HS level, 43.2 percent of Canada's imports fall under HS 870223 (Automobiles with engines displacing between 1500 and 3000cc) while 22.9 percent of our exports fall under the same HS category. This is likely due to different models of cars being produced in each country with Volkswagen, for example, producing only in Mexico and exporting to Canada.

Figure 3.2.4

Detailed Canada–Mexico Merchandise Trade for Select Categories

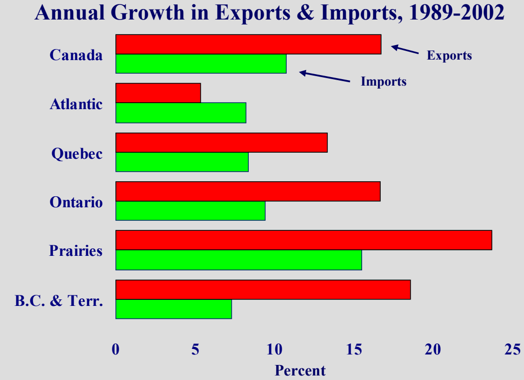
Canadian Imports from Mexico			Canadian Exports to Mexico		
6-digit HS	**Description**	**Share**	**6-digit HS**	**Description**	**Share**
		Motor Vehicles			
870223	Automobiles with engines displacing 1500-3000cc	43.2%	870223	Motor vehicle parts, nes	27.1%
870431	Trucks with GVW less than 5 tonnes	14.4%	870431	Automobile with engines displacing >3000cc	22.9%
870224	Automobiles with engines displacing >3000cc	10.7%	870224	Transmissions for automobiles	15.8%
		Machinery & Electrical			
852520	Ignition wiring sets	18.7%	851790	Parts of electrical apparatus for line telephone systems	9.4%
852812	Television receivers	16.2%	852520	Transmission apparatus that incorporates reception apparatus	9.3%
		Special Instruments			
903289	Automatic regulating or controlling apparatus, nes	41.4%	903290	Parts for automatic regulating or controlling instruments	27.4%
903210	Thermostats	7.2%	903180	Measuring or checking instruments	12.6%

A detailed desegregation of Machinery & Electrical and Special Instruments is even more revealing. At first glance, it would appear that a large portion of Mexican exports fall into these two "high-tech" product classifications. At a more disaggregated level, however, Mexico's exports are seen to be concentrated in the lower value-added products within these categories, such as ignition wiring sets and thermostats, or the assembly of goods not produced in Canada such as television receivers. Meanwhile, Canadian exports to Mexico are more likely to be truly "high-tech", such as telecommunications equipment.

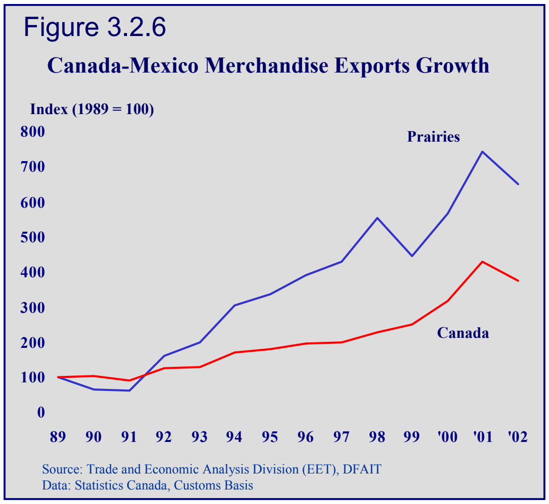
The Prairies experienced the fastest growth in exports to Mexico between 1989 and 2002, and by a considerable margin – exports to Mexico from that region grew at nearly twice the Canadian average. This resulted in the Prairies accounting for 34.3 percent of exports to Mexico by 2002, and was the only Canadian region to see its share increase. Mexico, however, has always been an important market for exports from the Prairies. In 1989, 19.8 percent of Canadian exports to Mexico came from the Prairies, more than from Quebec, even though the Prairies export less than half of Quebec's level.

Figure 3.2.5

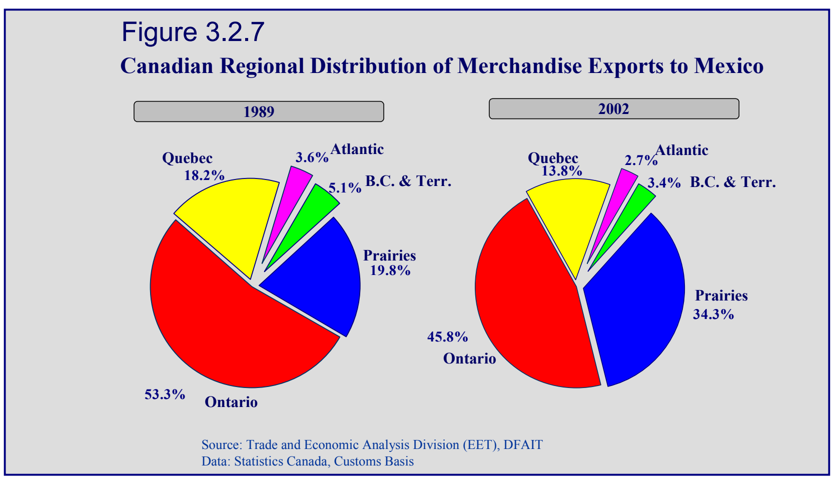
Canadian Regions Trade with Mexico, Annual Growth in Exports & Imports, 1989-2002



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



Ontario dominates imports from Mexico, absorbing 83.6 percent of all imports from that country in 2002. Quebec, on the other hand, stands out for its relatively small share of imports from Mexico at only 5.3 percent. Atlantic Canada also accounts for a relatively small share of imports from Mexico. As in the case of exports, the Prairies dominate growth, significantly outpacing the Canadian average and along with B.C. was the only region to see its share increase between 1989 and 2002.



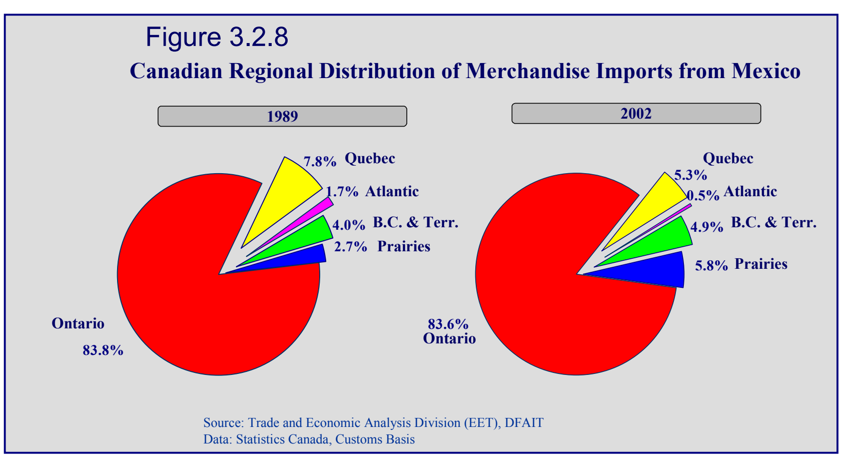


Table 3.2.2

Merchandise Trade, Canada - Mexico by Canadian Region

	Millions of current dollars			CAGR*, %			Share of Canada, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Exports									
B.C. & Territories	33	77	82	18.82	0.68	7.30	5.11	7.13	3.41
Prairies	126	385	822	24.95	9.96	15.50	19.78	35.50	34.33
Ontario	340	428	1,097	4.69	12.49	9.43	53.27	39.48	45.81
Quebec	116	171	330	7.98	8.57	8.35	18.21	15.75	13.76
Atlantic	23	23	65	0.03	13.66	8.21	3.63	2.14	2.70
Imports									
B.C. & Territories	68	169	617	20.04	17.60	18.53	3.96	3.73	4.86
Prairies	46	90	731	14.37	29.90	23.69	2.70	1.99	5.75
Ontario	1,432	3,965	10,619	22.59	13.11	16.66	83.84	87.61	83.60
Quebec	133	251	678	13.50	13.24	13.34	7.80	5.54	5.34
Atlantic	29	51	57	12.03	1.35	5.33	1.70	1.13	0.45

* Compound annual growth rate
Source: Statistics Canada, Customs Basis

The two largest export categories, Wood & Paper and Metals & Minerals, account for 79.0 percent of B.C. & Territories' exports to Mexico. These two resource-based sectors saw their share rise from 73.0 percent in 1989, with Metals & Minerals gaining share while Wood & Paper lost some. Machinery & Electronics, the third most important export sector, saw its share decline dramatically – from 18.6 percent in 1989 to 9.0 percent in 2002.

While B.C.'s exports to Mexico show a slight movement towards more resource-based products, B.C.'s imports from Mexico moved dramatically in the opposite direction. Machinery & Electronics share jumped from 25.6 percent of B.C.'s imports from Mexico in 1989 to 39.2 percent in 2002. Similarly, Transportation Equipment became the second largest import sector, increasing from only 1.1 percent in 1989 to 21.9 percent in 2002. Over the same period, the share of Agriculture imports from Mexico dropped from 41.8 percent to 12.2 percent.

Table 3.2.2.1

Merchandise Trade, British Columbia & Territories – Mexico, by Product

	Millions of current dollars			CAGR*, %			Share of Canada, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Exports									
Agriculture	1.7	2.6	7.2	9.64	13.45	11.97	1.04	0.73	0.96
Food & Beverage	0.5	0.9	0.3	10.06	-11.94	-4.05	37.25	14.95	1.67
Metals & Minerals	2.6	39.6	24.3	71.83	-5.93	18.60	1.78	29.25	8.24
Chemicals	0.0	3.4	0.8	N/A	-16.54	N/A	0.08	17.28	0.81
Plastics & Rubber	0.0	0.0	0.1	-15.24	29.83	10.19	0.23	0.07	0.23
Apparel & Textiles	0.1	0.1	0.0	0.23	-14.99	-9.43	0.85	0.24	0.06
Wood & Paper	21.2	22.1	40.1	0.86	7.73	5.03	56.18	24.31	30.06
Machinery & Electronics	6.1	1.4	7.3	-25.03	22.59	1.47	5.20	0.82	1.81
Transportation Equipment	0.3	4.9	0.2	74.71	-34.55	-4.52	0.26	2.49	0.03
Misc. Manufactures	0.1	1.8	0.5	98.28	-15.86	17.00	3.62	13.78	1.03
Special Transactions	0.0	0.4	0.7	58.32	8.87	25.74	0.14	1.25	2.56
Imports									
Agriculture	28.3	40.0	75.3	7.21	8.21	7.82	26.55	21.52	21.46
Food & Beverage	2.0	3.8	25.1	13.63	26.41	21.33	8.54	10.70	15.25
Metals & Minerals	13.1	21.7	83.9	10.59	18.39	15.33	9.73	6.67	9.79
Chemicals	1.0	1.2	2.8	5.19	10.88	8.66	7.22	2.52	1.51
Plastics & Rubber	0.1	0.9	5.5	47.78	25.51	33.65	1.53	3.34	3.35
Apparel & Textiles	2.4	3.5	14.6	7.44	19.56	14.75	4.44	4.50	3.05
Wood & Paper	0.4	2.3	8.5	39.79	17.90	25.88	6.57	14.61	10.87
Machinery & Electronics	17.3	29.7	241.9	11.33	30.00	22.48	2.13	1.73	4.19
Transportation Equipment	0.7	57.6	135.0	139.92	11.25	49.51	0.24	3.29	3.63
Misc. Manufactures	0.9	6.2	23.5	47.01	18.22	28.56	2.69	1.86	2.56
Special Transactions	1.3	1.8	1.2	6.40	-5.32	-0.97	0.63	11.58	4.63

* Compound annual growth rate
Source: Statistics Canada, Customs Basis

As already mentioned, the Prairies stand out with, by far, the best export performance with Mexico. The driving force behind the Prairies' strong export performance was a dramatic growth in Agricultural exports which increased more than 700 percent from $83.8 million in 1989 to $677.5 million in 2002. This was partially the result of a general boom in agricultural exports to Mexico, but also driven by the Prairies outperforming the rest of Canada. In 1989, 52.9 percent of Canadian agricultural exports to Mexico came from the Prairies; by 2002, this had increased to 90.4 percent.

The Prairies experienced import patterns similar to those in British Columbia, with Machinery & Electronics and Transportation Equipment increasing rapidly to dominate imports from Mexico.

Table 3.2.2.2

Merchandise Trade, Prairies – Mexico, by Product

	Millions of current dollars			CAGR*, %			Share of Canada, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Exports									
Agriculture	83.8	320.7	677.5	30.79	9.80	17.44	52.86	89.02	90.36
Food & Beverage	0.3	0.3	4.3	-4.98	42.08	21.71	22.91	4.41	22.68
Metals & Minerals	30.5	19.5	6.3	-8.51	-13.19	-11.42	20.54	14.42	2.14
Chemicals	0.0	6.2	5.8	N/A	-0.69	N/A	0.67	31.17	5.87
Plastics & Rubber	0.6	4.4	16.2	51.09	17.72	29.58	4.07	22.72	32.95
Apparel & Textiles	0.2	0.0	19.8	-52.65	N/A	44.32	1.64	0.01	48.85
Wood & Paper	2.3	25.2	33.5	61.87	3.63	23.02	6.01	27.70	25.11
Machinery & Electronics	1.3	7.9	47.8	42.66	25.25	31.68	1.14	4.48	11.81
Transportation Equipment	0.0	0.1	4.2	N/A	53.41	N/A	0.02	0.07	0.80
Misc. Manufactures	0.0	0.3	1.9	N/A	26.15	N/A	0.00	2.26	4.32
Special Transactions	7.3	0.1	4.5	-57.42	60.41	-3.69	27.39	0.34	15.33
Imports									
Agriculture	20.5	32.9	64.9	9.87	8.87	9.25	19.30	17.69	18.52
Food & Beverage	4.8	6.8	27.0	7.02	18.85	14.15	20.31	18.86	16.41
Metals & Minerals	2.6	9.5	56.0	29.95	24.90	26.82	1.89	2.90	6.54
Chemicals	0.7	1.1	6.7	9.97	25.27	19.15	5.20	2.27	3.59
Plastics & Rubber	0.6	1.3	9.0	17.42	27.93	23.78	6.83	4.74	5.53
Apparel & Textiles	2.4	6.2	52.0	20.96	30.44	26.71	4.37	8.00	10.90
Wood & Paper	0.1	1.5	11.8	65.79	29.38	42.32	1.85	9.63	15.07
Machinery & Electronics	11.1	23.5	367.1	16.17	40.98	30.87	1.36	1.37	6.35
Transportation Equipment	0.3	3.1	115.6	61.17	57.06	58.63	0.10	0.18	3.11
Misc. Manufactures	0.5	2.7	16.0	38.68	25.09	30.15	1.56	0.81	1.74
Special Transactions	1.8	1.6	4.6	-2.20	14.27	7.63	0.85	10.24	18.45

* Compound annual growth rate
Source: Statistics Canada, Customs Basis

Ontario's export performance with Mexico, although not nearly as strong as that of the Prairies, was solid and unlike the other Canadian regions was not dominated by resource-based exports. Rather, Transportation Equipment, at 47.7 percent, and Machinery & Electronics, at 27.3 percent, dominate Ontario's exports to Mexico. Metals & Minerals, at 9.9 percent, is Ontario's third most important export sector to Mexico, but its share has declined from 25.6 percent in 1989.

Machinery & Electronics and Transportation Equipment are also Mexico's most important exports to Ontario; however, Ontario imports $4.6 billion more in Machinery & Electronics and $2.9 billion more in Transportation Equipment from Mexico than it exports. Much of these imports are likely intermediate inputs that are then exported to the U.S. These two sectors account for 78.6 percent of Ontario's imports from Mexico.

Table 3.2.2.3

Merchandise Trade, Ontario – Mexico, by Product

	Millions of current dollars			CAGR*, %			Share of Canada, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Exports									
Agriculture	40.9	30.6	35.0	-5.64	1.69	-1.19	25.78	8.49	4.66
Food & Beverage	0.2	3.9	13.0	76.87	16.14	36.54	15.36	66.10	67.77
Metals & Minerals	87.1	47.3	108.7	-11.48	10.95	1.72	58.74	34.95	36.85
Chemicals	1.9	6.0	12.4	25.48	9.49	15.38	27.22	30.44	12.52
Plastics & Rubber	11.8	14.5	31.1	4.14	10.02	7.72	85.90	74.67	63.04
Apparel & Textiles	3.6	29.6	3.7	52.70	-23.00	0.19	34.82	82.05	9.01
Wood & Paper	3.5	14.5	28.5	32.80	8.80	17.47	9.33	15.98	21.38
Machinery & Electronics	100.3	151.8	299.4	8.63	8.87	8.77	85.90	86.12	73.99
Transportation Equipment	73.8	100.2	523.7	6.31	22.97	16.27	63.45	51.01	98.73
Misc. Manufactures	1.2	4.6	37.7	29.65	30.19	29.98	76.61	34.85	85.81
Special Transactions	15.7	24.9	3.8	9.69	-21.05	-10.40	59.02	82.58	12.91
Imports									
Agriculture	39.2	99.4	199.1	20.46	9.07	13.31	36.83	53.45	56.79
Food & Beverage	14.2	15.0	82.3	1.07	23.71	14.46	59.81	41.73	50.01
Metals & Minerals	61.2	131.9	391.8	16.61	14.58	15.36	45.28	40.46	45.73
Chemicals	5.5	42.5	166.1	50.41	18.57	29.93	41.76	87.21	89.07
Plastics & Rubber	6.0	19.1	139.6	25.90	28.26	27.35	72.97	71.69	85.43
Apparel & Textiles	25.5	55.2	349.4	16.69	25.94	22.30	46.56	71.24	73.27
Wood & Paper	1.5	9.7	56.0	45.97	24.47	32.33	22.60	62.36	71.58
Machinery & Electronics	756.4	1,600.8	4,942.1	16.18	15.13	15.53	92.84	93.30	85.53
Transportation Equipment	288.7	1,663.8	3,422.8	41.95	9.44	20.95	95.70	95.17	91.97
Misc. Manufactures	29.6	317.5	870.2	60.76	13.43	29.71	88.47	95.80	94.64
Special Transactions	203.7	9.9	18.2	-45.43	7.96	-16.96	97.60	63.67	72.80

* Compound annual growth rate
Source: Statistics Canada, Customs Basis

In 2002, 43.8 percent of Quebec's exports to Mexico were accounted for by Metals & Minerals, up from 8.5 percent in 1989. Curiously, an almost identical amount of imports from Mexico were in the same industry. Chemicals and Machinery & Electronics, at 24.0 percent and 14.8 percent, respectively, account for the bulk of the balance of Quebec's exports, both increasing from very small shares in 1989. It was Transportation Equipment that declined to almost zero in both share and absolute terms, and Agriculture that failed to grow in absolute terms that lost share in terms of Quebec-Mexico trade.

Quebec's imports from Mexico, as already stated, were largely in Metals & Minerals, with Machinery & Electronics also accounting for a large share.

Table 3.2.2.4

Merchandise Trade, Quebec – Mexico, by Product

	Millions of current dollars			CAGR*, %			Share of Canada, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Exports									
Agriculture	29.8	5.8	26.8	-27.84	21.03	-0.80	18.79	1.62	3.58
Food & Beverage	0.4	0.2	0.3	-13.14	8.35	-0.48	24.47	3.01	1.77
Metals & Minerals	9.9	22.9	144.5	18.15	25.90	22.86	6.70	16.89	48.99
Chemicals	3.0	3.8	78.9	4.70	46.14	28.55	42.40	19.18	79.47
Plastics & Rubber	1.3	0.5	1.7	-19.49	18.13	1.93	9.81	2.35	3.51
Apparel & Textiles	6.0	6.4	16.7	1.36	12.75	8.22	58.26	17.69	41.10
Wood & Paper	10.7	15.8	3.7	8.09	-16.54	-7.81	28.43	17.40	2.79
Machinery & Electronics	9.0	14.4	48.9	9.73	16.53	13.86	7.73	8.15	12.07
Transportation Equipment	42.2	91.2	2.3	16.67	-36.80	-20.00	36.27	46.42	0.44
Misc. Manufactures	0.3	6.4	3.9	81.97	-6.10	21.11	19.77	48.98	8.84
Special Transactions	3.6	3.3	1.8	-1.29	-7.59	-5.22	13.41	11.07	6.09
Imports									
Agriculture	13.9	12.4	10.2	-2.19	-2.43	-2.34	13.03	6.68	2.91
Food & Beverage	2.1	9.5	24.3	34.61	12.48	20.53	9.02	26.38	14.76
Metals & Minerals	47.2	126.1	302.9	21.73	11.58	15.38	34.92	38.66	35.34
Chemicals	6.1	2.5	9.9	-16.23	18.71	3.82	45.82	5.13	5.29
Plastics & Rubber	1.5	5.3	9.0	28.29	6.79	14.60	18.62	20.10	5.53
Apparel & Textiles	24.0	12.3	60.4	-12.47	21.96	7.35	43.82	15.92	12.67
Wood & Paper	4.5	1.6	1.4	-18.20	-2.17	-8.68	68.53	10.45	1.75
Machinery & Electronics	29.3	53.4	204.5	12.80	18.26	16.13	3.59	3.12	3.54
Transportation Equipment	0.6	22.4	45.9	108.21	9.40	40.12	0.19	1.28	1.23
Misc. Manufactures	2.4	5.0	9.1	15.82	7.73	10.77	7.17	1.51	0.99
Special Transactions	1.7	2.0	1.0	3.88	-8.21	-3.74	0.80	13.04	4.07

* Compound annual growth rate
Source: Statistics Canada, Customs Basis

The bulk of Atlantic Canada's exports to Mexico were in Wood & Paper while the bulk of imports into the region were evenly distributed between Metals & Minerals and Machinery & Electronics.

Table 3.2.2.5

Merchandise Trade, Atlantic – Mexico, by Product

	Millions of current dollars			CAGR*, %			Share of Canada, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Exports									
Agriculture	2.4	0.5	3.3	-26.33	25.82	2.41	1.53	0.15	0.44
Food & Beverage	0.0	0.7	1.2	N/A	6.95	N/A	0.00	11.52	6.11
Metals & Minerals	18.2	6.1	11.2	-19.63	7.91	-3.65	12.24	4.50	3.80
Chemicals	2.1	0.4	1.3	-28.97	16.83	-3.56	29.62	1.93	1.33
Plastics & Rubber	0.0	0.0	0.1	N/A	N/A	N/a	0.00	0.18	0.28
Apparel & Textiles	0.5	0.0	0.4	-100.00	N/A	-1.07	4.43	0.00	0.97
Wood & Paper	0.0	13.3	27.5	N/A	9.54	N/A	0.05	14.61	20.65
Machinery & Electronics	0.0	0.8	1.2	92.37	6.23	33.49	0.02	0.43	0.31
Transportation Equipment	0.0	0.0	0.0	N/A	N/A	N/A	0.00	0.00	0.00
Misc. Manufactures	0.0	0.0	0.0	N/A	N/A	N/A	0.00	0.13	0.00
Special Transactions	0.0	1.4	18.4	N/A	37.53	N/A	0.04	4.76	63.11
Imports									
Agriculture	4.6	1.2	1.1	-23.07	-0.94	-10.12	4.30	0.66	0.33
Food & Beverage	0.6	0.8	5.9	8.72	27.58	19.97	2.32	2.33	3.57
Metals & Minerals	11.1	36.9	22.3	27.25	-6.10	5.54	8.18	11.31	2.60
Chemicals	0.0	1.4	1.0	N/A	-3.90	N/A	0.00	2.87	0.55
Plastics & Rubber	0.0	0.0	0.3	56.04	27.35	37.70	0.05	0.14	0.16
Apparel & Textiles	0.4	0.3	0.5	-9.98	8.33	0.88	0.81	0.34	0.10
Wood & Paper	0.0	0.5	0.6	73.73	2.77	25.76	0.45	2.94	0.73
Machinery & Electronics	0.6	8.3	22.5	67.91	13.29	31.80	0.08	0.48	0.39
Transportation Equipment	11.4	1.4	2.1	-33.90	5.03	-12.11	3.78	0.08	0.06
Misc. Manufactures	0.0	0.1	0.7	13.60	32.75	25.03	0.11	0.02	0.07
Special Transactions	0.3	0.2	0.0	-2.46	-31.47	-21.50	0.12	1.46	0.04

* Compound annual growth rate
Source: Statistics Canada, Customs Basis

TRANSHIPMENTS

A common frustration for those working with trade statistics is dealing with the discrepancies between reported exports and imports among bilateral trading partners. As the table below illustrates, there can be enormous differences between the two values. Of Canada's five largest trading partners after the U.S., Canada reports trade deficits with all five while four of them report surpluses for Canada.

Comparison of Canadian and Partner Trade Statistics

Billions of Cnd$, 2001

	Canadian Exports	Imports from Canada	Difference
U.S.	351.8	334.8	17.0
Japan	8.3	12.0	-3.7
China	4.2	6.2	-2.0
Mexico	2.8	6.6	-3.8
U.K.	5.1	8.4	-3.4
Germany	2.9	3.8	-0.9
	Canadian Imports	**Exports to Canada**	**Difference**
U.S.	218.3	253.1	-34.8
Japan	14.6	10.2	4.5
China	12.7	5.2	7.5
Mexico	12.1	4.8	7.4
U.K.	11.7	8.4	3.3
Germany	8.0	7.2	0.8
	Canadian Balance	**Partner Balance**	**Difference**
U.S.	133.5	81.7	51.8
Japan	-6.3	1.8	-8.1
China	-8.5	1.1	-9.5
Mexico	-9.4	1.8	-11.2
U.K.	-6.7	0.0	-6.7
Germany	-5.0	-3.4	-1.7

Data: World Trade Atlas

It is well accepted that import statistics are generally superior to export statistics. Imports face a higher level of scrutiny than do exports for a number of reasons, such as for the purpose of collecting tariffs, applying quotas, and to enforce security, health and safety regulations. However, it is equally dangerous to use, without questioning, a partner's reported imports in place of official Canadian export statistics produced by Statistics Canada. There are legitimate reasons to expect differences between the exports reported by one country and the imports reported by its partner. This can include differences in how freight and insurance costs are treated, differences in timing, or more general conceptual differences. Canada and the U.S., for example, have a data sharing agreement that allows both countries to reconcile their trade statistics. The large differences between Canadian reported trade with the U.S. and the U.S. counterpart is simply a result of these conceptual differences and, as can be seen in the accompanying tables, can still be quite substantial.[28]

Although it is not a source of differences in reported trade statistics between Canada and the U.S., transhipments account for a large portion of the gap for other countries. Transhipments represent the misallocation of trade to a country that is not the final destination of the good. Transhipments are often the result of goods passing through an intermediate country on route to their final destination, such as Canadian goods exported through a U.S. port-of-entry on to its final destination. A recent reconciliation conducted for Canada-China trade, for example, found that of the $2.0 billion difference between Canada's reported exports to China and China's reported imports from Canada, almost $1 billion was the result of trade being reported as going to Hong Kong, another $0.15 billion going to the U.S. and $0.13 billion to other countries.

[28] Statistics Canada produces an annual report that reconciles the differences between Canada and U.S. current accounts.

Transhipments are particularly important in a North American context. Not only is the discrepancy in reported trade with Mexico among the largest, but the U.S. is likely to be the largest intermediary country for Canadian trade. Statistics Canada recently published a reconciliation of Canada's trade with Mexico.[29] It was found that of the $4.2 billion difference between Canada's reported exports to Mexico and Mexico's reported imports from Canada, $2.6 billion (62 percent) was due to trade that was transhipped through the U.S. Transhipments were even more important for North-bound trade, with 73 percent of the $7.3 billion difference attributable to transhipments through the U.S.

Trade reconciliations are performed on a country-by-country basis and do not represent changes to official trade data.[30] However, it is possible to make some estimates of the effect of transhipments on Canada's overall trade patterns. Trade reconciliation exercises have been conducted with some of our largest trading partners in recent years, including the E.U. and Japan in addition to those already mentioned.[31] Although these reconcilations were performed for different years,[32] by applying the same ratio of transhipments to the 2001 data, we can come up with an estimate of the effects of transhipments on our trade with the U.S. Removing exports that are reported as going to the U.S. rather than their actual final destination, Canada's reported exports to the U.S. would be lowered by $4.8 billion in 2001, the consequence of which would be to lower the U.S. share of our merchandise exports from the reported 87.4 percent to 86.2 percent – a drop of only 1.2 percentage points. Although relatively small in terms of Canada's total trade, recognizing the effect that transhipments can have on official trade statistics is essential for researchers or those working on trade policy, particularly in the case of our smaller trading partners.

Potentially of greater impact than the current size of transhipments could be changes in the rate of transhipments over time. Trends towards increased globalization, such as increased integration between Canadian and U.S. transportation infrastructures, and the reduced scrutiny over country of origin of imports that could result from more liberal trade agreements would likely have the effect of increasing the importance of transhipments. This could potentially distort observed trade growth patterns and change measured trade balances for countries and entire regions. Unfortunately, trade reconciliations are only performed for short time periods, and therefore we have no way of knowing what has happened to the transhipment rate over time.

For analysts, there is little that can be done to address the transhipment issue other than to be aware of the limitations of trade data, to examine and set out differences carefully, and to hope that the statistical authorities will continue to work towards improving the quality of official trade statistics.

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[29] Trade reconciliation with Mexico, Statistics Canada, 2002.

[30] For a summary of these findings, see CanadExport, Vol. 19, No. 1, January 15, 2001 Supplement: Canada Trade Review, Third Quarter 2000, "The Impact of Transhipments on Canada's International Trade Statistics: Department of Foreign Affairs and International Trade.

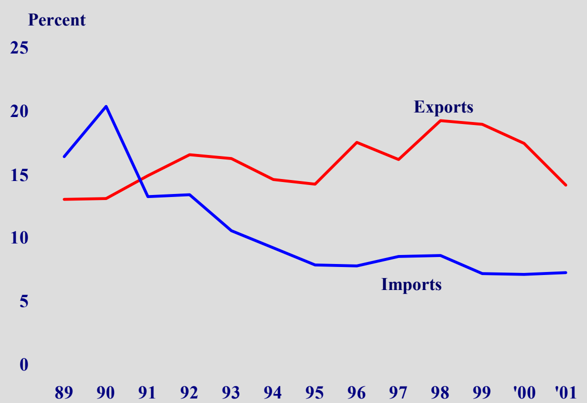
[31] Canada's combined exports to these countries account for 74% of Canadian exports to non-U.S. destinations based on Canadian export statistics.

[32] The most recent trade reconciliation for Japan covered the 1994 data year, and that for the E.U. covered 1993 to 1997.

3.3 SERVICES TRADE[33]

Figure 3.3.1

Services Share of Total Canada-Mexico Trade



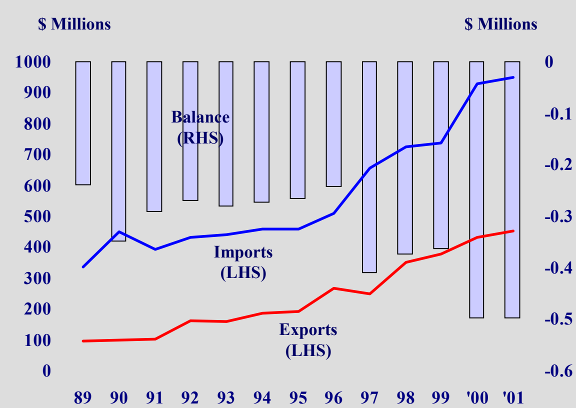
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Balance of Payments

Unlike Canada's service exports to the U.S., services account for a relatively large and growing share of Canada's exports to Mexico. In 2001, 14.1 percent of Canada's exports to Mexico were services, up from 13.0 percent in 1989. The opposite is true for imports, however, with the share of services falling almost 9.0 percentage points between 1989 and 2001 and now accounting for only 7.2 percent of our total imports from Mexico. It was more the result of a rapid increase in merchandise imports from Mexico over this period, rather than slow growth of services, that contributed to this observed decline.

In dollar terms, both imports and exports have increased tremendously. Exports more than quadrupled since 1989, to reach $453 million in 2001, while imports more than doubled to $950 million. As has been reported throughout this report, Canada still imports far more than it exports to Mexico with our trade deficit in 2001 exceeding our exports. Overall, Canada's services trade with Mexico outpaced that with other countries as can be seen from Mexico's rising share of our total services trade.

Figure 3.3.2

Canada-Mexico Services Trade



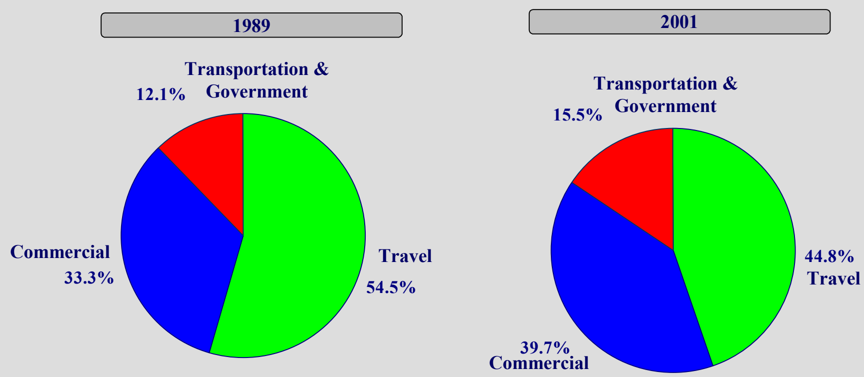
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Balance of Payments

Similar to trends in trade with other countries, Commercial services is the fastest growing and largest sector of Canada's services exports to Mexico, accounting for 39.7 percent of our total services exports in 2001, up from about one-third in 1989. On the import side, however, Travel accounts for nearly four fifths of Canada's services imports from Mexico.

[33] The most current data for services trade with Mexico at the time of printing was 2001.

Figure 3.3.3

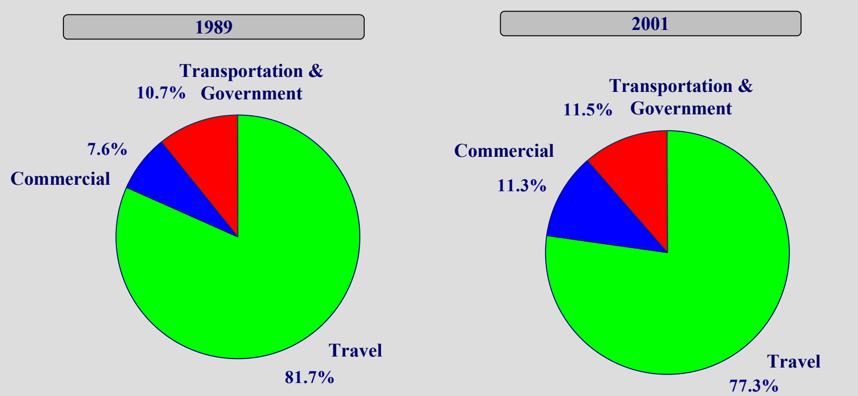
Industrial Distribution of Canadian Services Exports to Mexico



Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Balance of Payments

Figure 3.3.4

Industrial Distribution of Canadian Services Imports from Mexico



Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Balance of Payments

Table 3.3

Canada's Services Trade with Mexico

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2001	1989-94	1994-01	1989-01	1989	1994	2001
Exports	95	185	453	14.26	13.65	13.90	0.46	0.56	0.78
Imports	334	458	950	6.52	10.99	9.1	1.15	1.03	1.43
Balance	-239	-273	-497	N/A	N/A	N/A	2.93	2.34	5.97

* Compound annual growth rate
Source: Statistics Canada, Balance of Payments

Nearly all of Canada's services trade deficit with Mexico is due to travel. Canadians spend $531 million more on travel to Mexico than Mexicans spend in Canada – which probably has to do with the warmer winter-time weather in Mexico. Most of this increase has occurred in the last few years. Between 1989 and 1994, travel spending by Canadians in Mexico grew at the average annual rate of only 6.1 percent, but that rate more than doubled to 11.5 percent after 1994. Some of this increase might be due to increased business travel to Mexico since NAFTA came into effect, but is more likely a result of the massive devaluation of the Peso in 1994, which made vacationing in Mexico more affordable for Canadians, especially compared to other winter destinations. 3.9 percent of Canadian travel spending goes to Mexico.

Table 3.3.1

Canada's Travel Trade with Mexico

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2001	1989-94	1994-01	1989-01	1989	1994	2001
Exports	45	89	203	14.61	12.50	13.38	0.67	0.93	1.21
Imports	255	342	734	6.05	11.53	9.21	2.59	2.50	3.94
Balance	-210	-253	-531	N/A	N/A	N/A	6.67	6.14	28.66

* Compound annual growth rate
Source: Statistics Canada, Balance of Payments

Transportation & Government services account for a relatively small share of Canada's total services trade with Mexico. There was some solid export growth in the first half of the 1990s, but overall it has not managed to keep pace with other services. Canada has a small trade deficit in Transportation & Government services with Mexico.

Table 3.3.2

Canada's Transportation & Government Services Trade with Mexico

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2001	1989-94	1994-01	1989-01	1989	1994	2001
Exports	17	33	70	13.94	11.34	12.41	0.31	0.43	0.59
Imports	40	58	109	7.99	9.43	8.82	0.56	0.52	0.74
Balance	-22	-25	-39	N/A	N/A	N/A	1.50	0.73	1.43

* Compound annual growth rate
Source: Statistics Canada, Balance of Payments

Commercial services account for a large share of Canada's services exports to Mexico and have been the fastest growing component of both exports and imports. Commercial services are the type of services that most people think of when discussing services trade, such as engineering, architectural or business consulting services. Canada's commercial services trade with Mexico grew at a rapid pace throughout the entire period, to reach $180 million for exports and $107 million for imports in 2001. Just as with overall services trade, Canada's commercial services trade grew faster than with the rest of the world as can be seen from the rising share of world trade; this trend might be linked to increased Canadian FDI in Mexico.

Management & Advertising services, at 27.8 percent account for the single largest share of Canadian commercial services exports to Mexico. A number of other business support services also account for a large share of Canadian commercial services exports to Mexico, further supporting the link to FDI and merchandise trade. Insurance & Financial services account for a relatively small share of our commercial services exports to Mexico considering that a large share of our FDI in Mexico is in that sector, but can be largely explained by regulatory structure of this industry

Figure 3.3.5

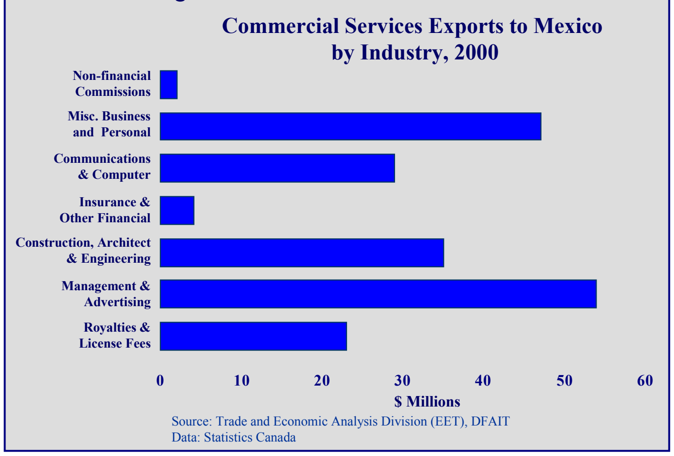
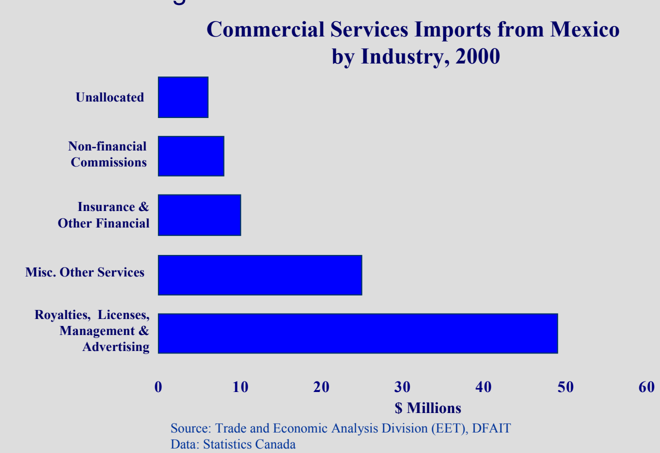


Figure 3.3.6



It is difficult to discern much about Canada's commercial services imports from Mexico due to the relatively small size of commercial services imports from that country. Half of Canada's commercial service imports are in Royalties, Licenses, Management & Advertising, an amalgam of many business services. Miscellaneous Other Services account for another 25 percent and include recreational, personal and cultural services.

Table 3.3.3

Canada's Commercial Services Trade with Mexico

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2001	1989-94	1994-01	1989-01	1989	1994	2001
Exports	33	63	180	13.94	16.18	15.24	0.39	0.41	0.61
Imports	40	58	107	7.99	9.14	8.66	0.33	0.29	0.32
Balance	-7	5	73	N/A	N/A	N/A	-0.06	-0.12	-1.98

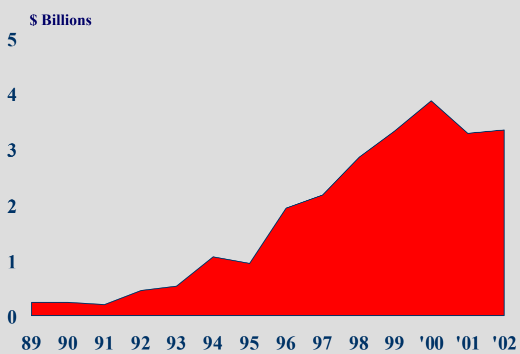
* Compound annual growth rate
Source: Statistics Canada, Balance of Payments

3.4 FOREIGN DIRECT INVESTMENT

As noted earlier, Canada's foreign direct investment (FDI) linkages with Mexico have grown rapidly, particularly since the North American Free Trade Agreement (NAFTA) came into effect in 1994. However, these linkages are still extremely small and therefore there is limited data available.

Figure 3.4.1

Canadian FDI Stock in Mexico



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

As can be seen from the table below, Mexican inward FDI to Canada stood at $83 million in 2002, representing only 0.02 percent of total FDI in Canada. Because of the relatively small amount of Mexican FDI in Canada, little can be said about trends or its industrial distribution.

Canadian FDI in Mexico outstrips Mexican FDI in Canada by a factor of forty-to-one. Canadian FDI in Mexico accelerated dramatically since the NAFTA came into effect in 1994 as is illustrated in the adjacent graph. Canadian FDI in Mexico increased fourteen-fold since 1989, and Mexico's share of total Canadian outward FDI nearly tripled from 0.3 percent in 1989 to a still modest 0.8 percent in 2002. Canadian FDI stock in Mexico is down from its peak in 2000, but this factor is more likely due to the global economic slowdown and to a decline in M&A activity. There is surprisingly little evidence of a dramatic impact of the 1994 Mexican Peso crisis on Canadian FDI in Mexico.

Table 3.4.1

Canada's Direct Investment Position (Stock) with Mexico

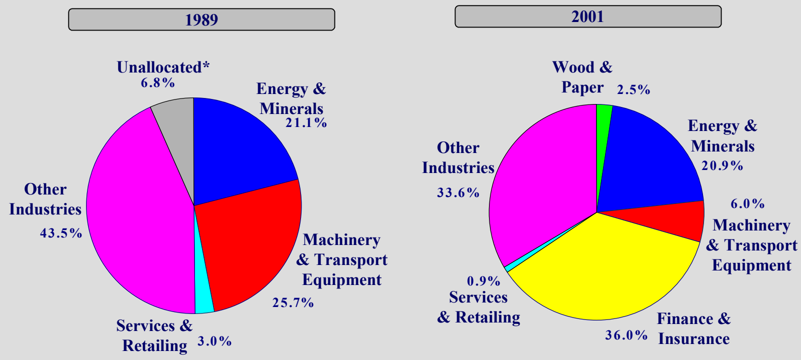
	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2002	1989-94	1994-02	1989-02	1989	1994	2002
Outward	237	1,073	3,344	35.26	15.27	22.58	0.26	0.73	0.77
Inward	12	177	83	71.30	-9.03	16.04	0.01	0.11	0.02
Balance	225	896	3,261	N/A	N/A	N/A	-0.69	-10.82	3.96

* Compound annual growth rate
Source: Statistics Canada, Balance of Payments

Figure 3.4.2, above, shows that the biggest investments occurred in the Finance & Insurance industry, which accounted for 36.0 percent of Canadian FDI in Mexico in 2001, while not even registering in 1989. In fact, this industry accounted for 38.3 percent of the growth in Canadian FDI in Mexico since 1989.

Figure 3.4.2

Industrial Distribution of Canada's FDI Stock in Mexico, 1989 and 2001



*Not allocated to an industry due to confidentiality
Source: Trade and Economic Analysis Division (EET), DFAIT
Data: Statistics Canada, Balance of Payments

The next two largest sectors for Canadian FDI in Mexico are 'Other Industries' which includes everything from the telecommunications industry to Textiles & Clothing and the Food & Beverage industry; and Energy & Minerals, a traditionally strong industry for Canadian investment in developing countries. It is interesting to note that, in 1989, 25.7 percent of Canadian FDI in Mexico was in the Machinery & Transportation Equipment sector, but this share had fallen to 6.0 percent in 2001.

Table 3.4.2

Canada's Foreign Direct Investment Stock in Mexico, by Industry

	Millions of current dollars			CAGR*, %			Share of World, %		
	1989	1994	2001	1989-94	1994-01	1989-01	1989	1994	2001
Wood & Paper	x	x	101	N/A	N/A	N/A	N/A	N/A	1.15
Energy & Minerals	50	162	840	26.51	26.51	26.51	0.27	0.50	1.13
Machinery & Trans. Equip.	61	x	243	N/A	N/A	12.21	2.05	N/A	0.95
Finance & Insurance	x	x	1,447	N/A	N/A	N/A	N/A	N/A	0.99
Services & Retailing	7	35	38	37.97	1.18	15.14	0.08	0.29	0.07
Other Industries	103	668	1,351	45.34	10.59	23.92	0.33	1.38	1.67
Undistributed Revisions	0	0	-741	N/A	N/A	N/A	N/A	N/A	N/A

* Compound annual growth rate
Source: Statistics Canada, Balance of Payments