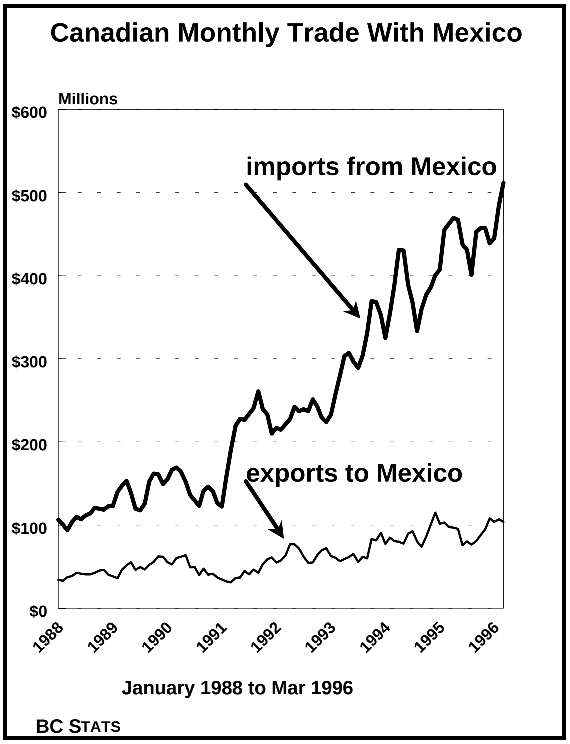
Feature: Soaring Trade Deficits With Mexico More a Problem for Ontario Than British Columbia



Canada's trade deficit with Mexico has soared over the past three years, as Mexican produced imports have risen to record levels. Meanwhile Canadian exports to Mexico have been sluggish at best. The deficit with Mexico grew from $1,154 million in 1990 to $4,240 million in 1995. Halfway through 1996 it had already reached $2,358 million.

Although precise figures are not available for British Columbia's trade deficit with Mexico, it is safe to say that it is large and growing fast, along with the trade deficit for the rest of Canada. The B.C. balance cannot be calculated precisely because no numbers are available on the value of imports from Mexico actually consumed within the province. The only current indicators available are numbers on the value of imports to Canada clearing Customs at Revenue Canada offices located in British Columbia, regardless of where in Canada these goods are ultimately consumed. These figures show a sharp rise in imported goods produced in Mexico.

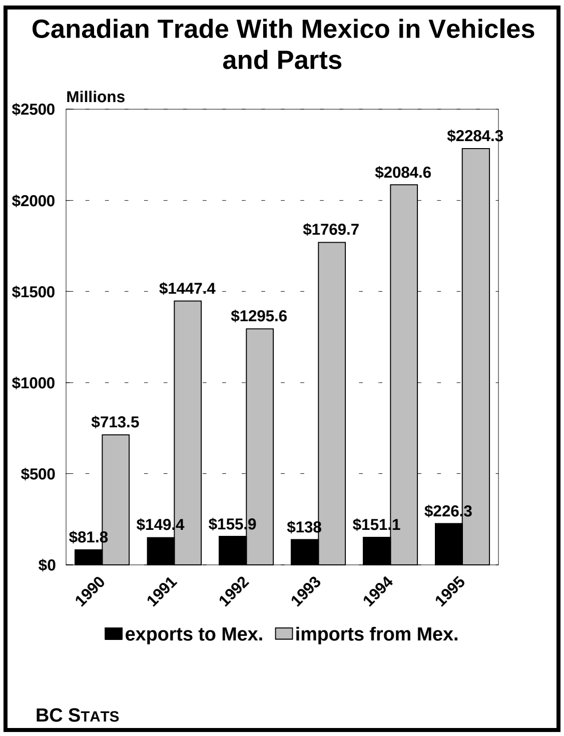
For British Columbia exports to Mexico, reasonably accurate and consistent statistics are available to identify what, and how much the province ships to that country.

These indicate a decline over the past two years. British Columbia exports to Mexico fell from $41 million in the January to June period of 1994, to $32 million in January to June 1995, and then to $22 million in the same months of 1996.

On the face of it, Ontario exports to Mexico fared somewhat better, rising from $179 million in the first half if 1994 to, $264 million in the same period of 1995, and then to $285 million in the same period of 1996. But Ontario exports to Mexico include a considerable content of imported components, so that the Ontario produced portion of its exports to Mexico is likely to be far less than the B.C. produced portion of its exports. What may be of even more concern in Ontario, is that most Mexican exports to Canada are finished manufactured products entering Canada through customs ports in that province. In many cases these will be products that might otherwise have been manufactured in Ontario and sold to consumers in other provinces.

The changing trade relationship between Mexico and Canada reflects a broader international pattern. Before the widespread globalization of manufacturing, more industrially developed countries would typically ship value added manufactured products to their less developed trading partners, in exchange for raw materials and agricultural produce. This pattern has been greatly altered with the emergence of multinational corporations operating production facilities in many different countries. In the case of Canadian trade with Mexico, it is now Canadian exports that include the larger portion of agricultural and natural resource commodities. Mexican exports to Canada are overwhelmingly concentrated in manufactured goods such as motor vehicles, televisions and computer equipment.

For some manufactured product groups a two way traffic has developed between Mexico and Canada as the two countries have become linked in an increasingly integrated North American economy. The most important of these product groups is vehicles and parts. Automobile components produced in Canada, for example, may be shipped to Mexico to be incorporated into a vehicle assembled in that country, which may then be shipped back to be sold in Canada.

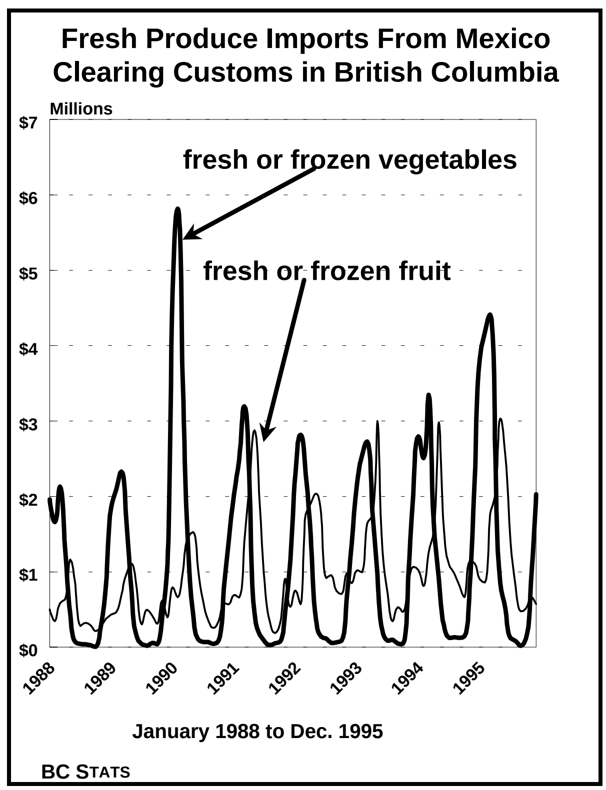


Where industries have become integrated across borders, export and import flows can be taken together to determine which country is the net exporter. In the case of automotive trade with Canada, that claim clearly belongs to Mexico. While Canadian automotive exports to Mexico have been large ($226 million in 1995), imports from Mexico have been ten times larger ($2,284 million) and are still growing faster.

A similar trade relationship has developed for computer equipment. Imports from Mexico of products in this category are five and a half times greater than exports to Mexico. Canadian produced computer equipment bound for Mexico amounted to $56 million in 1995, as compared to imports from Mexico of $317 million. Both imports and exports have grown rapidly since 1992.

Televisions and television components are another important import category from Mexico. For these products, however, there is very little Canadian production and, therefore, little or no hint of industrial integration. Against Canadian imports from Mexico of $259 million in 1995, there were a paltry $1.4 million in Canadian produced components shipped to Mexico from Canada.

Although imports from Mexico have become increasingly concentrated in manufactured products, there is still a large and steady seasonal flow of agricultural produce being imported. Imports of these goods amounted to $173 million in 1995, 21% of it brought in through customs ports in British Columbia.



The Impact on British Columbia

For British Columbia, burgeoning imports of secondary manufactures from Mexico do not suggest any serious worsening of the province's overall trade deficits. With very little mass production of secondary manufactured products of its own, B.C. has traditionally imported these goods from eastern Canada, the U.S. or overseas. What the rising imports from Mexico do indicate is a shift in the sources of consumer electronics, cars and other manufactured products being consumed in the province.

For Ontario and Quebec, where Canadian manufacturing has been concentrated, imports of secondary manufactured products from Mexico represent a much more serious problem. They have likely contributed to the shutdowns and job losses that have been part of the painful adjustment to continental free trade in that part of the country. This adjustment was a factor in the protracted recession of the early 1990's which, significantly, was much milder in British Columbia, where the new imports did not generally compete with existing domestic production.

Over the longer term, it can be expected that Canadian industry will reshape itself to compete in an environment of continental free trade and more open trade world-wide. Rather than supplying a wide range of products to a national market protected by tariffs and other trade barriers, Canadian manufacturers will be increasingly obliged to concentrate on a few 'niche market' products for which they have some particular commercial advantage. These products will then be sold in increasingly open international markets.

There is persistent statistical evidence that this adjustment is already well underway in British Columbia, as export figures have climbed steadily for a variety of manufactured products. The process in B.C. has included very little sacrifice of domestic production to imports because there was relatively little to lose.

More open continental trading has benefited the province by more or less assuring access to U.S. and Mexican markets. B.C. manufacturers have been able to invest in specialised high technology production equipment needed to compete internationally with the confidence that their targeted markets will remain open to them.

Declining exports to Mexico do not impose a great threat to the economic status quo in British Columbia, simply because they were not large in the first place. B.C. exports to Mexico have never amounted to more than a fraction of 1% of total exports, and have mainly been concentrated in low value added energy and forest products. In 1995 well over half were pulp and coal, the only two commodities for which there has been a steady export traffic to Mexico. Most of the remainder were occasional shipments of sulphur and canola.

While B.C. and total Canadian trade with Mexico has been heavily in Mexico's favour, and is likely to remain so for at least the next few years, it is not expected that this should continue indefinitely. Over the long term Mexico's export success under NAFTA should produce enough growth in its own economy to increase demand for British Columbia exports – including both raw materials and finished products.

Broader Implications

Integration of low wage countries in trading blocs with more developed countries can be expected to accelerate the shifting of manufacturing jobs as international producers take advantage of lower labour costs. The effect was described in emotive terms by an American political aspirant as "the giant sucking sound" of U.S. jobs being siphoned off south of the border.

Free traders argue that the jobs lost are largely low skilled, and that the process will ultimately lead to larger and more affluent markets for products exported from more developed (higher wage) countries. It is also argued that the lower cost of imported goods benefits consumers in the more developed trading partners.

U.S. policy makers have anticipated another advantage. The North American Free Trade Agreement has sometimes been cited as the best and kindest U.S. option to eliminate incentives for large scale illegal immigration from Mexico, by improving employment options and living standards within Mexico. The same argument has been raised in Western Europe where illegal immigration from Eastern Europe, the middle east and Africa has presented similar problems.

In response to job losses caused by imports from low wage countries (among other important reasons, such as automation), developed countries have often stressed growth in those industrial sectors where low wage unskilled labour is not a critical factor. An important aspect of this stress has been renewed emphasis on work force training.

This response has been central to British Columbia’s efforts to adapt to the new era of global competition. There has already been evidence of success in rising exports of high technology products and value added products requiring high technology in their production processes.