



# Changes in trade flows between Canada and Mexico: An orchestrated evolution

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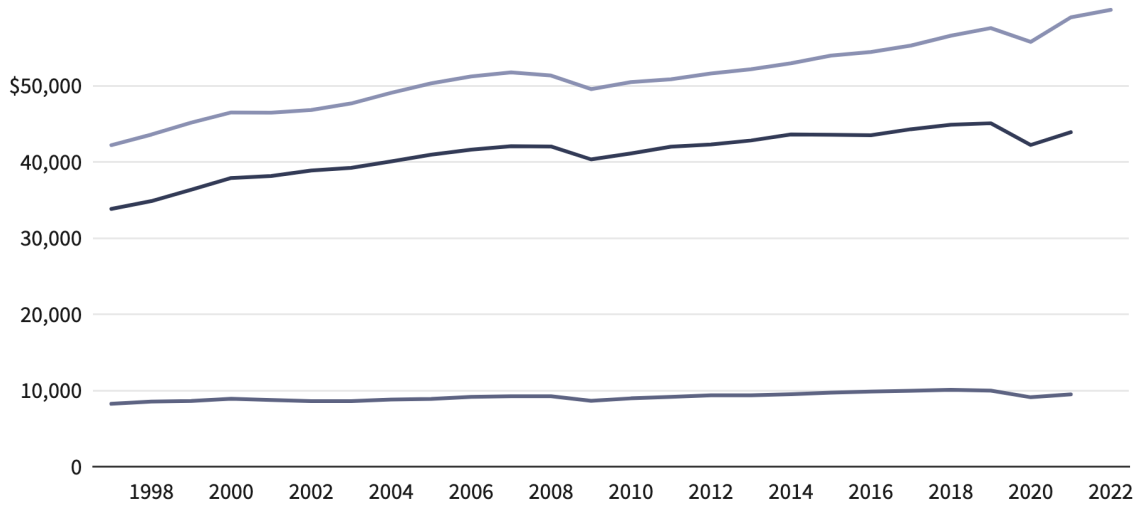
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International trade between North American partners accounts for about \$2 trillion in trade between Canada, Mexico, and United States, and the CUSMA (Canada–United States–Mexico Agreement), successor to the former NAFTA (North American Free Trade Agreement), represents one of the largest free trade agreements in the world. Canada's main export markets include the United States (24.3 percent), China, Japan, the United Kingdom, and Mexico (2.2 percent), while Mexico's main export markets include the United States (23.5 percent), Canada (3.3 percent), China, Germany, Brazil, and Japan.<sup>1</sup> Both Canada and Mexico are heavily dependent on international trade with the United States, and that dependence grew after the implementation of NAFTA and, later, CUSMA. However, NAFTA and CUSMA also contributed to an increase of trade between Canada and Mexico. As I will show below, the goods and services that are part of trade between Canada and Mexico have evolved but have remained focused within the machinery and automotive sectors. In addition, Canada exports a high percentage of resource-based goods, including agriculture and oil and gas products, to Mexico.

## **MEXICO–CANADA TRADE**

Under NAFTA, which was implemented in 1994, trade between Mexico and Canada grew quickly between 1999 and 2018. When CUSMA was signed in 2018, and later ratified in 2020, trade between Canada and Mexico fell somewhat, but patterns indicate a return to previous levels of trade between these two countries. NAFTA and CUSMA had a deep, but uneven, impact on trade flows in the region. The United States was the main winner in terms of gross domestic product (GDP) per capita throughout the period 1998–2022, but Mexico's GDP per capita remained steady, as indicated in figure 1.

Figure 1 Real per Capita Gross Domestic Product, 1997–2022 (in 2012 US Dollars)

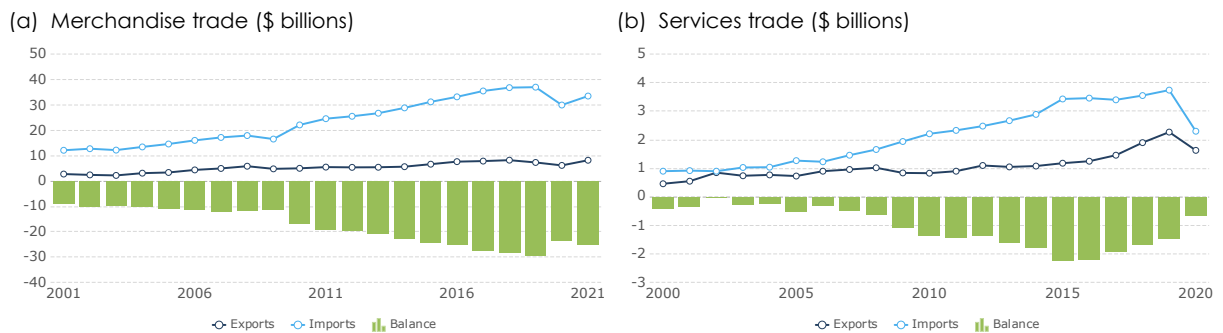


Source: Floyd, D. (2023). How did NAFTA affect the economies of participating countries? *Investopedia*. <https://www.investopedia.com/articles/economics/08/north-american-free-trade-agreement.asp>. Data retrieved from FRED, Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org/series/A939RX0Q048SBEA>

Focusing on trade flows between Mexico and Canada during this period, we observe a trade deficit for Canada. Exports from Mexico to Canada increased, as did the trade balance. Figure 2 shows Canada’s merchandise and services trade with Mexico. In terms of merchandise (figure 2(a)), we observe that between 2001 and 2019 the Canadian trade deficit with Mexico increased sharply, reaching \$28.59 billion in 2018, the year that CUSMA was signed. Following ratification of CUSMA in 2020, a reduction of exports from Mexico to Canada reduced the trade deficit.

In terms of services (figure 2(b)), we observe a similar pattern, but with a twist. From 2000 to 2015, there was a negative increase in the trade balance, but then a reduction in the trade balance after the signing and ratification of CUSMA. Exports of services from Canada to Mexico increased 30 percent in 2018 over 2017, and a further 19 percent in 2019 over 2018.

Figure 2 Canada's Trade with Mexico



Source: Therrien-Tremblay, A.-M. (2022, July 18). *Trade and investment: Canada–Mexico* (Publication No. 2022-516-E). Parliament of Canada, Library of Parliament. [https://lop.parl.ca/sites/PublicWebsite/default/en\\_CA/ResearchPublications/TradeAndInvestment/2022516E](https://lop.parl.ca/sites/PublicWebsite/default/en_CA/ResearchPublications/TradeAndInvestment/2022516E)

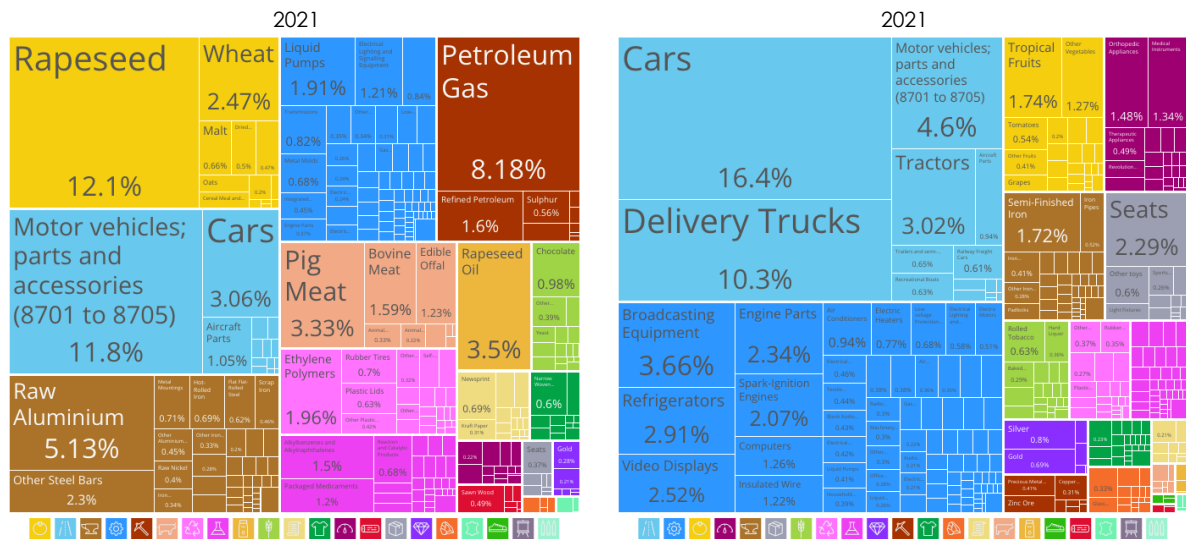
One of the main discussion points on Mexico–Canada trade concerns the types of exports and imports between Mexico and Canada, in terms of relative product specialization. Higher-value-added products reflect a higher domestic technological capacity and greater economic complexity—see, for example, the discussion of economic complexity by Hidalgo and Hausmann (2009).

In 1995, the main products exported from Canada to Mexico were rapeseed, motor vehicle parts and accessories, wheat, and computers. The main products that were exported from Mexico to Canada were cars, spark-ignition engines, computers, and insulated wire. In 2018, the main products exported from Canada to Mexico were motor vehicle parts and accessories, rapeseed, raw aluminium, and petroleum gas. The main products exported from Mexico to Canada were cars, delivery trucks, motor vehicle parts and accessories, and tractors. In 2021, the main products exported from Canada to Mexico were rapeseed (\$862 million), motor vehicle parts and accessories (\$842 million), and petroleum and gas (\$584 million). The main products exported from Mexico to Canada were cars (\$2.87 billion), delivery trucks (\$1.79 billion), and motor vehicle parts and accessories (\$801 million).

## **A DIGITAL FUTURE**

Exports from both countries throughout this period were concentrated in the transport and machines sectors; exports from Canada also included agriculture and resource-based products, such as vegetable products, gas and petroleum, and metals (see figure 3). We observe an important cluster of trade focused on the automotive and transport sectors. In terms of economic complexity, we see specialization across transportation and machines in both countries, which is also influenced by tight commercial ties with the United States and the triad of value chains between the three countries in North America.





Source: Observatory of Economic Complexity. (n.d.). *Canada/Mexico*. <https://oec.world/en/profile/bilateral-country/can/partner/mex?productSpaceYearSelector=year2013&dynamicBilateralTradeSelector=year2021>

It is important to note that these trends also reflect the intermediary trade between the three members of CUSMA. Since there has been a high reliance on the automotive and transport sector, will we see in the future more trade in software and batteries for electric and smart vehicles? Who will be the main winners in the future digital and smart technology transformation, and will the Canadian trade deficit mind the gap? ■

**NOTE**

1. Data from <https://www.economia.gob.mx/datamexico/en/profile/country/canada> and <https://www.census.gov/foreign-trade/statistics/highlights/toppartners.html>.

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