

Increased Business ties with Latin America and the Caribbean

During the 1990s, the changes in economic development strategies by Latin American and Caribbean governments have led to a greater emphasis on foreign economic ties. Most of the states have moved away from the protectionist, import-substitution model in favour during the 1950s, by decreasing most restrictions placed on purchasing foreign goods. The economic role of the state has been de-emphasized by fostering a more prominent role for private enterprise, both domestic and foreign owned. These policy changes have led to more opportunities for Canadian firms to gain a greater presence in the vibrant Latin American and Caribbean markets as well as develop strategic ties that will place them favourably in the years to come.

INCREASED TRADE

- The rapid expansion in Canadian exports to the Latin America and Caribbean region between 1994 and 1998, a 9 percent annual growth, was not repeated in 1999. In the latter year, Canadian exports declined by 11 percent. This drop in exports to the region was accounted for by a dramatic 25 percent drop in exports to South America.
- In part, Canadian exports fell sharply in 1999 because most South American countries experienced a sharp drop in foreign exchange. Both the fall in South American exports and the problems some of these countries encountered in accessing international capital markets for portfolio borrowing contributed to lower levels of foreign exchange.
- Canadian exports to Latin America and the Caribbean will likely continue to fluctuate from year to year, since the region remains susceptible to a "boom and bust" economic cycle.
- The annual expansion of exports from 1994 to 1999 to Latin America and the Caribbean was about one-half the growth of Canada's overall exports. As a result, the Latin American and Caribbean area accounted for a smaller share of total Canadian exports during this time period, falling to about 1.6 percent in 1999 compared to 1.9 percent in 1994.
- The fastest growing markets where in the smaller Caribbean Basin economies.
- In terms of Canada's largest export markets, Mexico ranks 8th, Brazil 15th and Venezuela 22nd. During the space of five years, Mexico has jumped from Canada's 15th to the 8th largest export market.

Table: Canada's overall trade with Latin America and the Caribbean

Country	EXPORTS	IMPORTS
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Country	1994	1999	CAG	1994	1999	CAG
<u>Mexico</u>	1,055	1,522	7.6%	4,525	9,521	16.0%
<u>Brazil</u>	953	825.4	-2.8%	960.5	1,358.5	7.2%
<u>Venezuela</u>	303	431.7	7.3%	507.7	1,013.6	14.8%
<u>Cuba</u>	116.9	355.3	24.9%	194.4	305.8	9.5%
<u>Chile</u>	299.6	346.9	3.0%	238.2	421.3	12.1%
<u>Colombia</u>	406.8	242.4	-9.8%	257	280.6	1.8%
<u>Argentina</u>	196.3	198.2	.2%	132.7	303.7	18.0%
Rest of Caribbean Basin	529.1	900.9	11.2%	713.6	962.3	6.2%
Rest of South America	243	327.3	6.1%	468	678.9	7.7%
Latin America and Caribbean total	4,102.7	5,150.2	4.7%	7,997.1	14,845.8	13.2%
World total	212,493	330,409.5	9.2%	202,736	319,909.6	9.6%

In millions of Canadian dollars. Where CAG is compound annual growth rate.

- The value of the goods Canadians purchased from the Latin American and Caribbean region has grown sharply during the 1990s, increasing by 13 percent annually between 1994-1999. This growth has seen the share of Canadian imports accounted for by the Latin America and the Caribbean region rising from 3.9 percent in 1994 to 4.6 percent in 1999.
- In terms of importance as suppliers of goods and services to Canada, Mexico ranks 3rd, Brazil 15th and Venezuela 24th.
- With imports from Latin America and the Caribbean expanding by a faster rate than exports, Canada's trade deficit with the region has increased during this time period. By 1999, Canada purchased about three times the amount sold to the region. Canada runs a trade deficit with Mexico roughly equal to the trade deficit for the region.

IN WHAT MARKETS HAVE CANADIAN FIRMS SUCCEEDED?

- The top 25 Canadian products exported for 1999(at the SIC four digit level) are reported for three different Latin American and Caribbean subregions. Mexico is separate on its own because of NAFTA. The economic variations between South America and the Caribbean Basin countries also warrant two separate groupings for these countries.
- The top 25 products exported in 1999 from Canada to the three regions are presented in Tables 1-3 at the document's end. As can be seen, the degree of disaggregation at the product level makes it difficult to draw any conclusions on the performance of individual industries/sectors.
- To get a better idea of the performance of different industries, the amounts exported for the top 25 products was aggregated to get exports (SIC two digit level) at the industrial level. The top six industries in 1999 are presented below. In order to provide a benchmark to assess the performance of Canadian industrial exports, the same exercise was completed for the USA.

SUB-REGIONAL PERFORMANCE - MEXICO

- During the 1990s, Mexico underwent profound changes because of NAFTA, becoming more oriented toward and integrated with the North American market. In part, this is reflected by the high growth rates in trade for industries with integrated production processes such as transportation equipment.
- The higher value added products of electrical and electronics, chemicals and transportation equipment posted the highest growth rates, suggesting a reorientation of Canadian exports to Mexico during the five years.
- US industrial exports were geared more toward nonresource-based industries compared to Canada. The divergence between the growth rates for the top six US industrial exports were relatively small.
- The growing importance of just in time deliveries combined with the USA and Mexico being next door neighbours, has led to a higher degree of integration developing for Mexican firms with the US compared to Canadian firms. This integration would become more prevalent if trade between the southern US states and Mexico was analyzed.

Table: Top Six Canadian and US exports to Mexico

Canadian Exports to Mexico			US Exports to Mexico		
Industry	Percent of Sub-Total	CAG	Industry	Percent of Sub-Total	CAG
Transportation Equipment	34.0%	14.1%	Electrical and Electronics	43.2%	24.1%
Agricultural	28.8%	5.5%	Transportation Equipment	20.7%	19.3%
Food	9.3%	13.7%	Chemicals	8.0%	18.2%
Machinery	5.9%	- 4.2%	Plastics	6.9%	26.2%
Electrical and Electronics	5.5%	46.2%	Fabricated Metals	6.6%	22.7%
Chemicals	5.0%	35.2%	Refined Petroleum and Coal	4.7%	24.3%
Resource Based	47.8%	4.9%	Resource Based	11.4%	21.3%

Percent of sub-total is the subtotal from the top 25 product exports. Where CAG is compound annual growth rate.

SUB-REGIONAL PERFORMANCE - CARIBBEAN BASIN

- For the top 25 Canadian product exports to the Caribbean Basin countries in 1999, the agri-food sector accounted for about 50 percent of the total. Agricultural products (such as wheat) were the fastest growing component of the agri-food exports.
- US exports to the Caribbean basin countries were more oriented to higher value added products compared to Canada.
- The importance of US clothing exports stems from the outward processing agreements the USA has with the Caribbean Basin. The outward processing measures allow US firms to send out relatively unfinished garments and cloth

for processing before being shipped back to the USA. Hence, it is unclear how much value added US clothing exports contain.

Table: Top Six Canadian and US exports to Central America and the Caribbean

Canadian Exports to Central America and Caribbean			US Exports to Central America and Caribbean		
Industry	Percent of subtotal	Annual growth	Industry	Percent of sub-total	Annu gro.v.t.
Agricultural	26.6%	40.7%	Clothing	31.7%	8.1%
Food	24.0%	11.8%	Transportation Equipment	16.1%	26.9%
Electrical and Electronics	11.5%	10.5%	Electrical and Electronics	13.5%	30.5%
Paper	10.9%	- 3.8%	Machinery	8.4%	12.9%
Transportation Equipment	9.6%	28.5%	Refined Petroleum and Coal	8.1%	- 0.4%
Machinery	6.0%	9.1%	Agricultural	5.9%	2.8%
Resource Based	64.5%	13.7%	Resource Based	21.5%	0.8%

Percent of sub-total is the subtotal from the top 25 product exports. Where CAG is compound annual growth rate.

SUB-REGIONAL PERFORMANCE - SOUTH AMERICA

- For the final geographic subregion, South America represented the only subregion where Canada's exports decreased over the five-year time period. Once again, a larger percentage of Canada's exports to South America were accounted for by primary industries relative to the USA.
- Agricultural products again represented one of Canada's most significant exports in 1999. However, since the higher value added food industry wasn't one of the top six industries, Canadian exports were less oriented toward the agri-food industry as a whole.
- Although transportation equipment again ranks as a key US export, its composition differs significantly from the two previous regions. For South America, a smaller percentage of transportation equipment exports were accounted for by motor vehicles, while the largest component was aircraft and its parts. In part, this reflects less integration in the production process for motor vehicles between North America and South America, owing to the distance between them and a high degree of protection.

Table: Top Six Canadian and US exports to South America

Canadian Exports to South America			US Exports to South America		
Industry	Percent of sub-total	Annual growth	Industry	Percent of sub-total	Annual growth
Agricultural	32.4%	6.0%	Electrical and Electronics	37.1%	10.6%
Paper	19.4%	- 15.0%	Transportation Equipment	21.1%	21.8%
Mining	17.2%	3.8%	Chemicals	17.2%	2.1%

Electrical and Electronics	10.2%	0.7%	Machinery	16.4%	1.1%
Machinery	7.8%	- 5.0%	Agricultural	4.0%	- 3.1%
Chemicals	4.2%	- 2.6%	Paper	2.4%	- 5.2%
Resource Based	75.3%	- 4.3%	Resource Based	8.2%	- 4.7%

Percent of sub-total is the subtotal from the top 25 product exports. Where CAG is compound annual growth rate.

CANADA'S RELATIVE PERFORMANCE IN LATIN AMERICA AND THE CARIBBEAN

Based on the above export figures for the three subregions, the following points can be made for the Latin American and Caribbean region as a whole:

- US exports have grown at a faster rate to the Latin American and Caribbean region compared to Canada. For Mexico and South America, US exports have expanded at a quicker rate compared to Canadian sales. Only in the case of the Caribbean Basin countries, have Canadian exports grown at relatively the same pace.
- In all three geographical subregions the top twenty-five US products accounted for a smaller percentage of overall exports compared to Canada in 1999. With the US economy being more than ten times bigger than Canada, the USA can efficiently manufacture a wider range of products for the international marketplace.
- Canadian exports are much more oriented toward primary products than the USA. Excluding clothing exports to the Central Caribbean Basin countries, transportation, and electrical and electronics are the top two exports to each of the subregions for the USA. Meanwhile, for Canada, agricultural products rank as one of the two top exports to each subregion. Of key importance, is the USA advantage in electrical and electronics which includes the emerging technologies associated with computers and their applications.
- A higher percentage of Canada's exports have been accounted for by resource-based products the further south that is examined. This has not held true for the USA.

Table 1: Exports of Canadian Products to Mexico

Product (at the four digit SIC code level)	1998	Annual Growth
Oilseed Farms - except Corn	280,154	17.3%
Wheat Farms	166,691	6.3%
Other Motor Vehicle Accessories, Parts and Assemblies	95,741	37.1%
Other Machinery and Equipment	64,217	11.0%
Telecommunication Equipment	47,437	27.7%
Electronic Parts and Components	46,177	188.1%
Motor Vehicle Wheel and Brake	45,127	53.3%
Other Chemical Products	42,616	187.9%
Motor Vehicle Engine and Engine Parts	41,096	13.6%

Other Dairy Products	38,872	17.1%
Pulp	28,458	-11.9%
Floor Tile, Linoleum and Coated Fabric	23,968	-2.3%
Meat and Meat Products	23,315	-1.4%
Other Primary Steel	21,868	-15.5%
Motor Vehicle Stampings	20,147	2.1%
Motor Vehicle	20,138	-24.2%
Plastic and Synthetic Resin	16,718	28.5%
Bituminous Coal Mines	15,057	-12.0%
Small-Grain Farms - except Wheat	15,040	60.3%
Forage, Seed and Hay Farms	13,424	6.0%
Asbestos Mines	13,026	-9.9%
Electronic Computing and Peripheral Equipment	12,947	-2.1%
Metal Dies, Moulds and Patterns	12,924	1.5%
Motor Vehicle Fabric Accessories	12,769	8.0%
Dry Field Pea and Bean Farms	12,445	29.6%
Sub-Total	1,130,372	11.0%
Total	1,378,932	7.0%

Table 2: Exports of Canadian Products to Central America and Caribbean excluding Mexico

Product (at the four digit SIC code level)	1998	Annual Growth
Wheat Farms	104,327	54.3%
Newsprint	69,673	3.9%
Dry Field Pea and Bean Farms	66,515	22.0%
Fish Products	58,509	6.9%
Other Machinery and Equipment	48,353	30.5%
Other Dairy Products	44,510	61.1%
Meat and Meat Products	41,319	24.7%
Construction and Mining	39,099	40.1%
Poultry Products	32,744	84.3%
Telecommunication Equipment	31,663	-11.6%
Pharmaceutical and Medicine	24,097	11.2%
Electronic Computing and Peripheral Equipment	23,411	24.6%
Frozen Fruit and Vegetable	21,274	21.4%
Electric Lamp (Bulb and Tube)	19,067	310.7%
Other Communication and Electronic Equipment	18,238	46.9%
Potato Farms	17,686	8.0%
Potash Mines	16,353	3.0%
Paperboard	15,507	-2.0%
Malt and Malt Flour	14,734	73.3%
Other Food Products	13,462	3.3%
Other Paper	12,471	7.3%
Other Plastic Products	12,212	34.3%
Motor Vehicle	11,691	-0.4%
Metal Office Furniture	9,032	41.5%
Other Commercial Printing	8,868	16.7%
Sub-total	774,817	18.9%
Total all industries	1,131,662	15.5%

Table 3: Exports of Canadian Products to South America

Product (at the four digit SIC code level)	1998	Annual Growth
Wheat Farms	624,571	6.1%
Newsprint	370,078	3.9%
Other Communication and Electronics	160,032	24.2%
Potash Mines	158,223	6.6%
Telecommunication Equipment	153,063	13.5%
Other Machinery and Equipment	117,557	11.9%
Bituminous Coal Mines	105,220	6.9%
Construction and Mining Machinery	95,092	8.7%
Dry Field Pea and Bean Farms	89,251	13.8%
Refined Petroleum Products	86,756	1.6%
Other Primary Smelting and Refining of Non-Ferrous Metals	82,834	-1.8%
Malt and Mal ^t Flour	53,145	136.7%
Pulp	40,802	-5.0%
Coated and Treated Paper	31,203	20.0%
Aircraft and Aircraft Parts	30,457	-18.9%
Plastic and Synthetic Resin	29,028	13.0%
Asbestos Mines	28,887	-3.0%
Electronic Computing and Peripheral Equipment	27,491	22.8%
Other Agricultural Chemical	25,384	133.8%
Pharmaceutical and Medicine	24,338	41.6%
Industrial Organic Chemical	23,001	-6.7%
Other Non-Metal Mines	22,724	196.8%
Indicating, Recording and Controlling Instruments	22,404	34.1%
Conventional Crude Oil and Natural Gas	22,345	-14.8%
Other Motor Vehicle Accessories, Parts and Assemblies	21,748	19.9%
Sub Total	2,445,633	7.1%
Total All Industries	3,160,870	7.3%

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