

Mexico overtakes Canada as No. 2 exporter to U.S. ahead of Trump presidency

By Greg Quinn and Nacha Cattan

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Mexico is overtaking Canada as the No. 2 exporter of goods to the U.S. this year, in a sign of how economic ties have deepened between the two countries even as the relationship is being questioned by president-elect Donald Trump.

Shipments from Mexico totalled \$245 billion (U.S.) in the first 10 months of the year, according to Commerce Department figures released Tuesday, ahead of Canada's \$230 billion. If the trend continues, it would be the first time ever the U.S. bought more imports from its neighbour to the south. The two countries ended 2015 tied in exports to the U.S.

The trend of catching up to Canada puts China and Mexico as the top two exporters to the U.S. just as Trump prepares to take office in January, reflecting the strong pull of lower cost jurisdictions for the U.S. economy. Canada, which has one of the highest cost bases in the Americas, has seen its share of U.S. imports fall to about 13 per cent from around 20 per cent two decades ago.

"Integration with Mexico has become more solid than with Canada," said Marco Oviedo, chief Mexico economist for Barclays Plc. "Manufacturing continues to be very competitive in terms of wages and location to other U.S. producers and suppliers."

The growing links between Mexico and U.S. hinge on motor vehicles. Mexico has won new factories over the past six years from Toyota Motor Corp., Volkswagen AG's luxury Audi unit, Kia Motors Corp. and BMW AG — up to \$25.9 billion in new auto investments since 2010, according to the Center for Automotive Research in Ann Arbor, Michigan — fuelling car shipments totalling \$90 billion in the first

10 months. That's versus \$54 billion from Canada.

Canada's cost base is also a big part of the story. Canada's labour bill has swelled with unit labour costs in U.S. dollars, a key index of competitiveness, increasing by 64 per cent since 2002 even with Canada's currency weakening in recent years.

Mexico's average salaries meanwhile rose 0.5 per cent a year in the decade through 2014, the least among the 11 largest Latin American nations after Venezuela, International Labor Organization data show.

"Our competitiveness hasn't been what it could be," Bank of Canada governor Stephen Poloz, who grew up in General Motors Co.'s Canadian production hub of Oshawa, told lawmakers in October. Auto manufacturers "can just as easily do it in Mexico, and get a fine dedicated workforce, they get the advantage of lower costs."

And the problems go well beyond the auto sector for Canada. In a down year for all shipments to the U.S., Canadian exports have fallen 7.7 per cent so far in 2016, versus a 1.6 per cent drop for Mexico.

The twist is that, even with Canada suffering from lost trade to Mexico, there is little populist anger. According to Oshawa Mayor John Henry, Canadians should rise to the challenge of competition and be a good friend in the world.

"The world has changed in the auto industry a lot since the 1990s, automation, more and more countries are making cars," Henry said in an interview. "But based on the economics of Canada, given an equal playing field, we can build the best vehicles in the world."