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CROSS-BORDER SHOPPING: TOURISM IN THE CANADA-UNITED STATES BORDERLANDS

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ABSTRACT

This research note examines the phenomenon of cross-border shopping between the United States and Canada as a form of borderlands tourism. This activity has always existed in the region and has traditionally been characterized by high but consistent numbers of Canada-to-US flows and lower but consistent numbers of US-to-Canada flows. However, in 1997, owing to an increase in value of the Canadian dollar and other economic variables, the number of Canadian shopping trips to the United States increased dramatically until 1992, when the value of the Canadian dollar began to fall. This in turn has led to the rapid increase in levels of American travel to Canada, including shopping trips, in the mid- and late-1990s. Characteristics of cross-border shopping are examined together with some of the economic and social impacts of the rise and decline of this phenomenon in American and Canadian border communities.

INTRODUCTION

Border regions have a tendency to be magnets for tourism development for a variety of reasons. Borderlines themselves may be tourist attractions if they constitute unique and interesting features in the cultural land-

scape. Borderlands, the areas adjacent to boundaries that are directly affected by their proximity to the border, exert an appeal to tourists because international boundaries mark the interface of differences in socio-economic and political systems. Differences between two sides of a border can be a driving force for economic development on one or both sides, particularly when these differences create a competitive advantage over neighboring regions, thereby functioning as an attraction to residents on the opposite side (38).

These conditions result in the development of several types of tourism that are traditionally associated with border regions. Vices, such as prostitution, underage and excessive drinking, and gambling, are commonly found in borderlands because activities of this nature thrive on foreign patronage when they are located adjacent to the boundary but within the more permissive country (39). Aside from these vices, the most common type of borderlands tourism is cross-border shopping. There is an extensive marketing literature on this phenomenon that has traditionally been referred to as outshopping, wherein people who live in one political jurisdiction travel to a neighboring jurisdiction to shop, owing to a variety of push and pull factors.

Trans-frontier shopping has a long history, probably as long as established political boundaries have existed, and is a common occurrence throughout the world. Most of the economics and geography literature dealing with this topic has focused on Europe (22, 24, 42) and North America (3, 11, 20, 40), although the phenomenon exists in South America, Asia, and Africa as well (41).

Several factors have been identified which contribute to the existence and growth of cross-border shopping. A favorable exchange rate between currencies appears to be the most influential reason for the phenomenon (25, 26), while other push and pull factors have been identified such as lower sales taxes; lower prices owing to more competitive and efficient distribution channels; wider selections of goods; and better customer service in the neighboring country (41). Several researchers have demonstrated a causal relationship between exchange rates and levels of international travel generally, and cross-border shopping in particular (e.g. 3, 9-12).

While most observers have focused on the economic rationale for the growth in cross-border shopping, in their examination of the subject, Timothy and Butler (40) suggested that the activity was not purely based on economic necessity. Rather, it was for many people, based on a pleasure, or leisure, motivation as well. Ritchie's (30) research confirms this assertion demonstrating that between one third and one half of the cross-border consumers in his study were motivated by pleasure. A study by the Canadian Chamber of Commerce (7) shows that one of the main reasons Canadians shopped in the United States was because it allowed them to get away from home and experience a different environment. Furthermore, "their trip is a family outing and, depending on the

length of their stay, may even be seen as a vacation" (7, p. 6). As with consumer activities in many other contexts, border shopping has taken on a pleasure, or recreational element. The fact that cross-border shopping experiences seasonality may be an indicator that many people participate in the same manner as in other forms of pleasure travel. A lack of seasonal variation would appear to imply a more purely economic function. The fact that border consumers eat out in restaurants and visit museums, movie theaters, historic sites, and sporting events while abroad, indicates that the trip does in fact include various forms of pleasure seeking (40, 41).

By extension, although border shoppers are day visitors, the activity itself is considered a form of tourism because people cross borders, spend money, are often motivated by enjoyment or curiosity, and use other tourism services. Some people even spend the night just over the border so that they can claim a higher tax-free allowance (41). Several authors have recognized the role of cross-border shopping as a form of tourism (19, 25, 31). In some locations, it has become so popular as a tourist activity that guides have been published to show potential shoppers the best locations along borders for the best bargains (e.g. 6, 37, 43).

According to Leimgruber (22, p. 54), four conditions must exist for cross-border shopping to occur. First, there must be sufficient contrast between the home environment and that on the other side. This is normally viewed in terms of price differences, product quality and selection. Second, residents of one country have to be aware of what is on the other side. Populations must have adequate information about the goods for offer beyond the border either through advertising, personal visits, or from people who have visited. Third, potential shoppers must

be able and willing to make the trip, particularly taking into account such things as exchange rates and personal mobility. Finally, the border must be sufficiently permeable to allow cross-border flows of people.

In light of the foregoing comments, this research note represents an attempt to describe the phenomenon of cross-border shopping as one form of tourism in the US-Canada borderlands, focusing primarily on its rapid growth between 1987 and 1992 into a concern of monumental proportions in Canada that dominated media headlines during its zenith. This situation has turned around since 1992, however, and the current changes and trends are described. Evidence in this paper supports Leimgruber's (22) conditions of cross-border shopping in the North American context as well.

CANADIAN SHOPPING IN THE UNITED STATES

Canadians traveling to the United States specifically to shop was a rather consistent phenomenon throughout the early 1980s at around 20-25 million trips per year. In 1987, however, the activity began to accelerate rapidly, finally reaching its peak in 1991, owing largely to the appreciation of the Canadian dollar against the US dollar, which began in 1986 (10). As Figure 1 shows, approximately 31 million Canadian shopping trips were recorded in 1987, but that number nearly doubled by 1991 when almost 60 million trips were recorded. In 1992, however, the number of trips began a steady decline until 1997, when just under 35 million trips were made. In an absence of precise data, same-day automobile trips and expenditures were, and continue to be, used by government agencies as surrogate measures of cross-border shopping (9, 28).

Research shows that the primary reason Canadians shop in the United States (even after the notable decline) is that prices are generally lower owing to lower profit margins, more retail competition, lower taxes, and earlier in the 1990s, the strong Canadian dollar (8-12, 16, 17). The exchange rate appears to be the most significant factor to influence the fluctuations in cross-border shopping. Figure 1 visually demonstrates a strong inverse relationship between levels of cross-border shopping and exchange rates. An analysis was conducted on these two variables between 1985 and 1997, which resulted in a Pearson product-moment correlation coefficient of -0.81 . This was significant at the .01 probability level. The relationship between these variables is further demonstrated in Figure 2 on a smaller scale by month. Although Di Matteo (9, p. 53) argues that "the response to a change in income and exchange rates will require some time to have its effects filtered down to the traveling public", Figure 2 shows that on a monthly basis for 1997, even the slightest shifts in the value of the Canadian dollar to the US dollar resulted in significant and rapid changes in numbers of Canadian cross-border shopping trips. Di Matteo (9, 10) has conducted similar tests on other variables and found that per capita income, seasonal factors, gasoline prices and the Goods and Service Tax (GST) are all important factors in Canadian cross-border shopping.

The introduction of the seven percent GST by the Canadian federal government in 1991 proved to be very unpopular and was reportedly a major push factor in cross-border shopping (40). However, according to Di Matteo (10, p. 60), the main reason for the rapid increase in frontier shopping was the "appreciation of the Canadian dollar, combined with the rise in real per capita income during the boom of the late 1980s...the GST merely provided an additional boost to the

cross-border spending phenomenon". Better service, a wider selection of products, active promotion, Sunday shopping in the US, lack of duty collection by Canada Customs upon return to Canada, increased per capita incomes, free amenities offered by American shops, and businesses accepting Canadian currency at par with the US dollar—a saving of approximately 10 to 20 percent—also contributed to the situation (9, 40).

Media coverage was also to blame, for it suggested that all goods were cheaper in the United States than in Canada (23). American businesses fuelled this information campaign by advertising in Canadian newspapers and television and on billboards. At its peak of popularity, this consumer craze was blamed by government officials and media representatives for the loss of thousands of jobs and retail bankruptcies in Canada, particularly near the border. It was also cited as the primary cause of millions of dollars being lost to national and provincial governments from potential tax dollars being spent outside the country. One estimate placed the number of lost Canadian jobs at around 55,000 and billions of dollars in lost sales in 1991 (16).

The suffering of Canadian businesses brought financial success to the American side of the border. In the state of North Dakota, sales to Canadian shoppers were estimated to be around USD \$2.5 billion in 1991, amounting to roughly 52 percent of that state's total retail sales (14). Many individual US businesses near the frontier reported sales receipts of between 50 and 80 percent of their total from Canadian shoppers (32). Cross-border shopping became so popular in fact that Canadian tour companies began offering one-day shopping trips, which they eventually expanded to weekend tours as well (21). In response to this high demand, additional shopping malls, grocery

stores, and hotels were built in American towns all along the border in the early 1990s, and many existing businesses were expanded (32, 35). Stores and hotels were not the only establishments that benefited from this craze, as cinemas, gas stations, museums, and banks all received a share of the profits as well (29).

RECENT PATTERNS

In an effort to keep Canadians at home, the national government took strides to redirect the flow of dollars across the boundary. For example, it launched a promotional campaign in 1992. Playing on sentimentalism and patriotism, the CAD \$3 million campaign focused on the beauty and heritage of Canada and attempted to make Canadians "fall in love with their country" (18, p. B13.). Extensive television and billboard advertising, much of it promoting shopping in Canada, was initiated in many communities as part of the government's crusade to keep people at home (40). At the same time, cross-border shoppers were made to feel unpatriotic to Canada, as though they were the cause of all economic ills facing the country at the time (1).

The Canadian government also initiated some influential changes at the border. Canada Customs, for example, began to tighten its control on the importation of many products by individuals, and tariffs were removed from a range of imported goods, thereby enabling merchants to offer lower prices, sometimes as low as their American competitors (29).

On a provincial level, bending to heavy pressure by public officials, business people, and residents, decision makers in Ontario voted in favor of Sunday shopping, and early in the summer of 1992 it became legal

in that province (40). Although the impact of this move has not been examined, it is believed that it likely contributed to the decline of outshopping from Ontario on Sundays, particularly in light of the fact that weekends were the most popular time of the week for cross-border shopping. In addition, some provinces, such as New Brunswick, in cooperation with Canada Customs, began collecting provincial sales tax at the border on goods purchased in the United States by returning residents.

As shown in Figure 1, Canadian cross-border shopping began a drastic decline in 1992. Although efforts on the part of legislators and the business community to keep Canadians from shopping abroad might have contributed to this, it was the depreciation of the Canadian dollar, beginning in 1992, that initiated the decrease in full force. The Canadian dollar hit a record low in the fall of 1998 (nearly 1.6 to the US dollar) as instability in Asian currency markets and falling prices for wood and other basic Canadian exports drove the country's currency downward (33). This trend has induced record-breaking streams of day trips to Canada by US residents in search of big-ticket items like furs, crystal, televisions, and in some cases, summer cottages and properties (5, 34), as well as smaller items like food, diapers, CDs, and clothes (4). As one US resident put it on his way to a mall in Canada, "I live here in Detroit, but I haven't been in Canada for years. But hey, the rate is good and I want some new clothes. Better take advantage of it now" (5, p. 1). In a complete turnaround since 1991, US tour organizers are now bringing busloads of Americans to shop in Canada, and shopping malls in cities like London and Hamilton, Ontario, are commonly crowded with busloads of people from Michigan and New York, particularly on weekends.

As early as 1992, this reverse shopping trend became apparent and Canadian businesses began to benefit (2). Business people in Canadian border towns feel that it is now pay-back time for the drastic losses they endured in the early 1990s. Figure 3 demonstrates the magnitude of American cross-border shopping in Canada. In 1992, just over 19 million same-day automobile trips were taken to Canada by Americans, and in 1997 the number had increased to over 25 million. In common with their Canadian counterparts, American shoppers are largely motivated by favorable exchange rates (see Figure 3), increased per capita incomes, and seasonal factors (see Figure 4), but are much less influenced by gas prices and the GST (9). American border shopping does respond to changes in real exchange rates, but it does not appear to be as sensitive to rate fluctuations as Canadian shopping, which is clearly evident in Figures 2 and 4.

Now with fewer Canadian shoppers heading south, coupled with floods of local customers heading north, American businesses are suffering grave losses. One store manager in Houlton, Maine, lamented to the author the difficulties facing US merchants as they deal with the loss of a significant portion of their market base. In an effort to alleviate the problem, he sends fliers across the border every week to neighboring Woodstock, New Brunswick, to promote special sales (41). Observations by the author in July 1998, found that dozens of grocery stores, shoe outlets, restaurants, gas stations, and department stores in many American communities along the border have closed down. The derelict shopping landscapes of the early 1990s have become reminders of the short-lived zenith of Canadian consumerism, and communities that became too dependent on dollars from their northern neighbors have become virtual ghost towns. On the Canadian side, however, shopping facilities

are being expanded and new ones are being built, albeit with more caution than their American neighbors practiced.

Canadian tourist literature is beginning to reflect this complete turnaround in shopping flow pattern. The title of one brochure, for example, artfully manipulates the first line of the American national anthem. The brochure, "Oh Say Can You Save!", aims to attract US residents and their dollars to Canada, listing dozens of retail businesses in New Brunswick and emphasizing the now-favorable exchange rate for Americans (15).

In addition to shopping, all forms of American travel to Canada have seen a rapid increase in the past few years, as the costs of hotels, restaurant food, transportation, and organized tours have decreased as well (34, 36). According to a restaurant owner in one Canadian border city, business has increased between 30 and 40 percent since mid-November, 1997, when the Canadian dollar began its biggest downward spiral. "We like Americans because they love to spend. They are the ones ordering \$40 to \$50 bottles of wine, the lobster tails, the surf and turf—all of the most expensive things on the menu" (36, p. 1). Interviews by the author with restaurant owners in Boissevain, Manitoba, in 1998, revealed that many Americans are now traveling 40-50 kilometers on a regular basis just to buy meals in Canadian restaurants. For US residents, the favorable exchange rate is extending their recreation action space onto the Canadian side of the border. As one woman declared to the author, "We are sort of isolated where we live in North Dakota. With the exchange rate we can now afford to come up here for dinner, and the Chinese food is even better."

DISCUSSION

Di Matteo's (9, p. 57) research suggests that Canadians have a differential view of the border as well as a differential response to economic variables when it comes to cross-border shopping. He further argues that the coefficient on lagged trips is larger for Canada than for the United States, which implies that Canadians are more aware of opportunities in the United States and can act on them more quickly. "This is perhaps not unexpected given that 90 percent of Canadians live within 100 kilometers of the American border" (9, p.55). This paper supports Di Matteo's findings.

Leimgruber's (22) four conditions for cross-border shopping can be applied to the US-Canada context. First, sufficient contrast between the United States and Canada exists to the effect that Canadians are avid shoppers in American border communities and since 1993, Americans have become more avid shoppers in Canada. Price differences, product quality, and selection are of primary importance for Canadians, while it is most likely the exchange rate that provides the contrast for Americans. Second, Canadians have always been much more aware of life in the United States than vice versa. This has resulted in a pattern where Canadians, per capita, are much more inclined to visit the United States than Americans to visit Canada. Third, residents of Canada and the United States are extremely mobile people, which allows the flow of traffic in both directions to flourish. Finally, the international frontier is sufficiently permeable to allow the free movement of people from one country to the next. Although some US legislation has recently been enacted that will put into question the traditional free movement of Canadians across the border (41), it is unlikely that the two countries will

ever share a border that becomes difficult to cross.

While this paper has focused on the Canada-US situation, it is important to note that cross-border shopping is popular in other parts of North America as well. Research by Asgary *et al.* (3) and Patrick and Renforth (26) shows that Mexican shopping in the United States resembles that of Canadians, being strongly influenced by exchange rates, income levels, quality, variety, and availability, and overwhelmingly characterized by the purchase of household goods, clothing, and electronics. Some estimates placed the value of Mexican shopping in US border towns in 1995 at around USD \$20-22 billion and accounted for more than one million American jobs (41).

American shopping in Mexican border towns tends to be characterized by two primary types of purchases: souvenirs and medical services (e.g. dentists, physicians, and pharmacies) (26). Health care services are most prominent in Mexican border towns closest to US communities whose populations are comprised largely of retired, seasonal migrants to the American sunbelt. This older age cohort is drawn to the border in search of cheaper medical services and dentures, as well as medications that require a prescription in the United States but not in Mexico (41). Souvenirs such as blankets, sombreros, paintings, and piñatas, are most popular among other types of American border crossers—day trippers who more closely resemble traditional mass tourists.

Trans-border shopping in this location has many characteristics in common with the situation on the US-Canada border (3, 26, 27). As mentioned above, the goods sought after by Mexican consumers are largely the same types as those sought by Canadians. Furthermore, levels of Mexican cross-

border shopping are affected significantly and quickly by changes in the exchange rates. Residents of the Mexican borderlands, like their Canadian counterparts, are aware of the US dollar exchange rate on a daily basis, while Americans, given the nature of what they buy, are less influenced by rate fluctuations and are much less aware of what lies on the Mexican side of the border (13, 26, 27). Like the northern example, cross-border shopping along the United States southern boundary in both directions is motivated by both economic necessity and pleasure (3).

CONCLUSION

Empirical evidence abounds to testify of cross-border shopping and its economic impacts. As political reforms continue to occur throughout the world it is likely that this cross-border shopping phenomenon will continue to grow in regions where it already exists, and it will probably spread to borderlands where it has heretofore not been allowed. It is also likely that this activity will begin to take on a more tourism, or recreational, role as shopping assumes a more central role in vacation travel and as shopping becomes the primary motivation for traveling abroad.

Many studies have been published that test the relationships between levels of cross-border shopping and other variables. Di Matteo's work is exemplary in this regard, and much has been said about the economics of the phenomenon. Several factors are particularly influential in creating conditions for cross-border shopping. Currency exchange rates, per capita incomes, taxes, and seasonal factors appear to be the main push and pull factors for this phenomenon in the US-Canada context, and studies from other regions would probably result in similar

findings. Political conditions, mobility, and awareness of what lies on the other side create the environmental conditions within which this activity grows and develops.

Very little is known about the touristic aspects of trans-frontier consumerism, including its pleasure motivations, socio-cultural, political and environmental impacts, as well as the effects of different types of political boundaries on it. However, it is

clear from this account that cross-border shopping is a vital form of borderlands tourism in North America. In fact, for some communities it is the only form of tourism that exists. Additional research along these lines would no doubt build our understanding of the dynamics of borderlands tourism and would contribute vital information to communities near international frontiers where tourism has significant potential for growth and expansion.

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FIGURE 1

Canadian Cross-Border Shopping and the Average Annual Exchange Rate (Source: Statistics Canada and Bank of Canada)

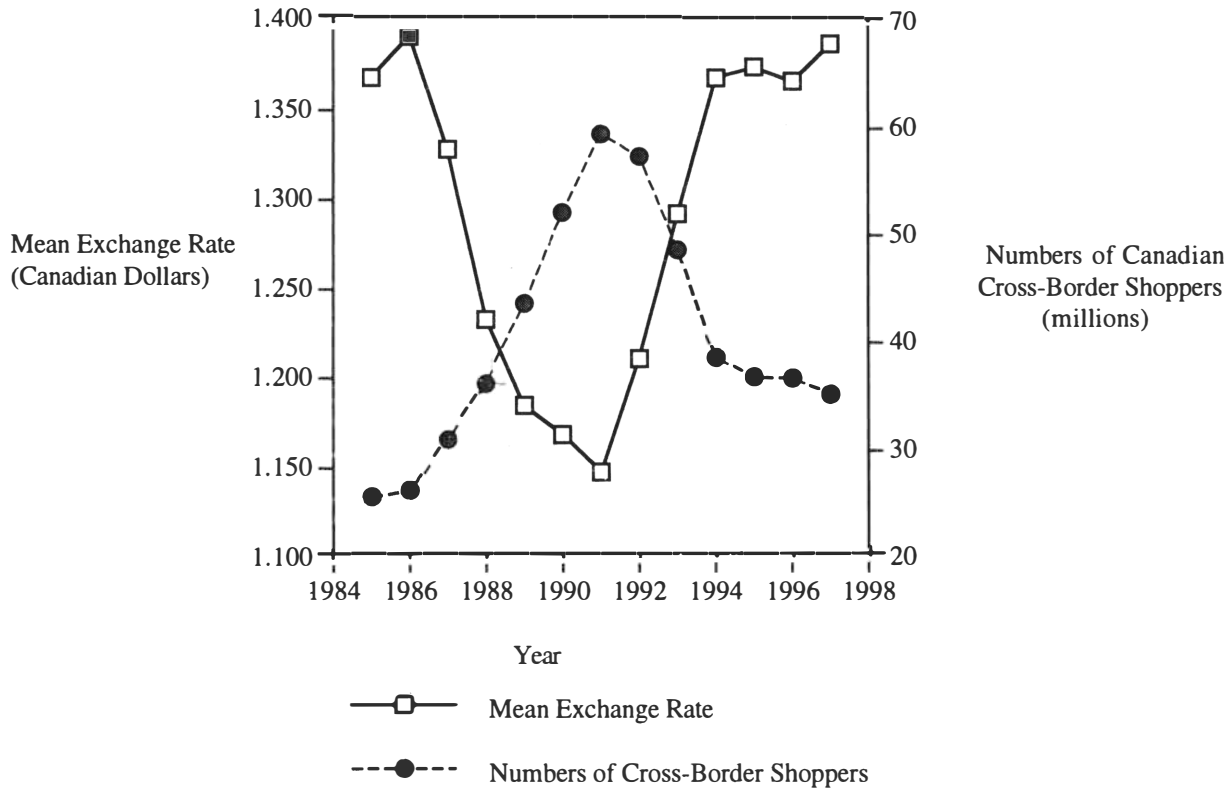


FIGURE 2

Canadian Cross-Border Shopping and the Average Monthly Exchange Rate for 1997 (Source: Statistics Canada and Bank of Canada)

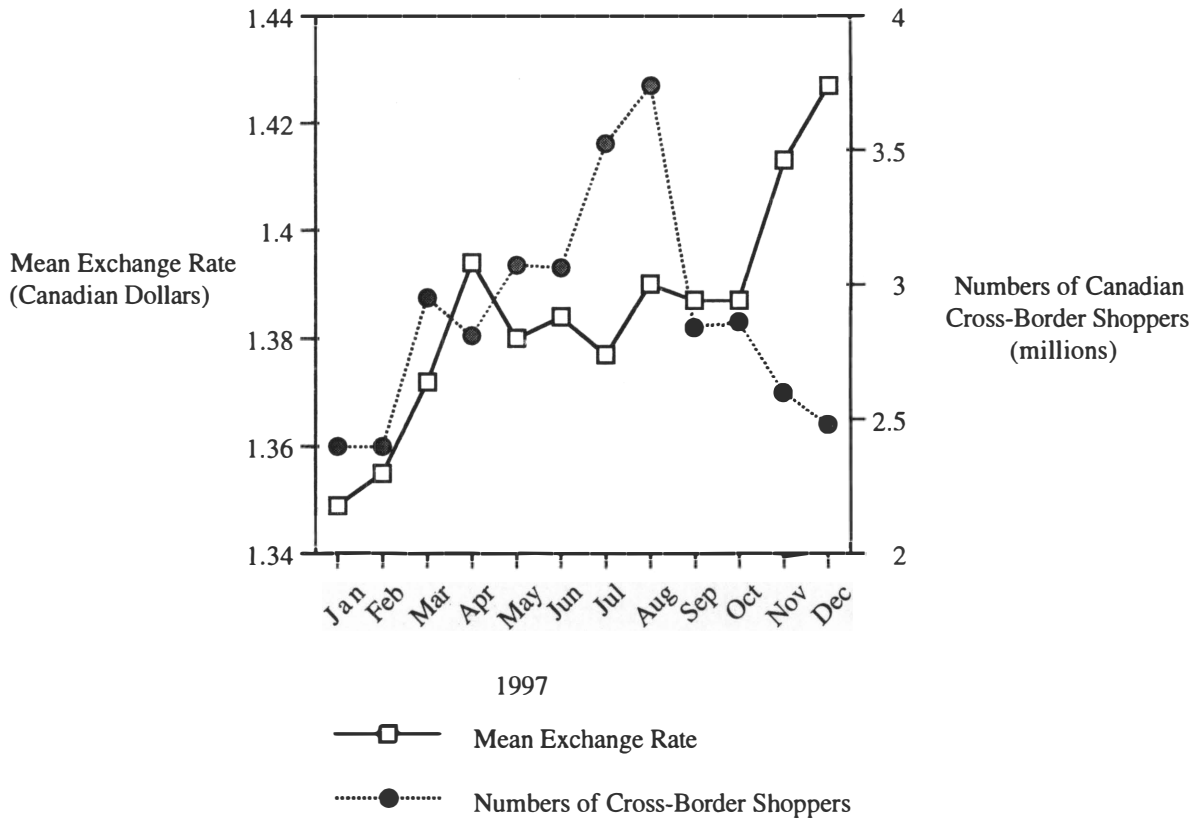


FIGURE 3

American Cross-Border Shopping and the Average Annual Exchange Rate (Source: Statistics Canada and Bank of Canada)

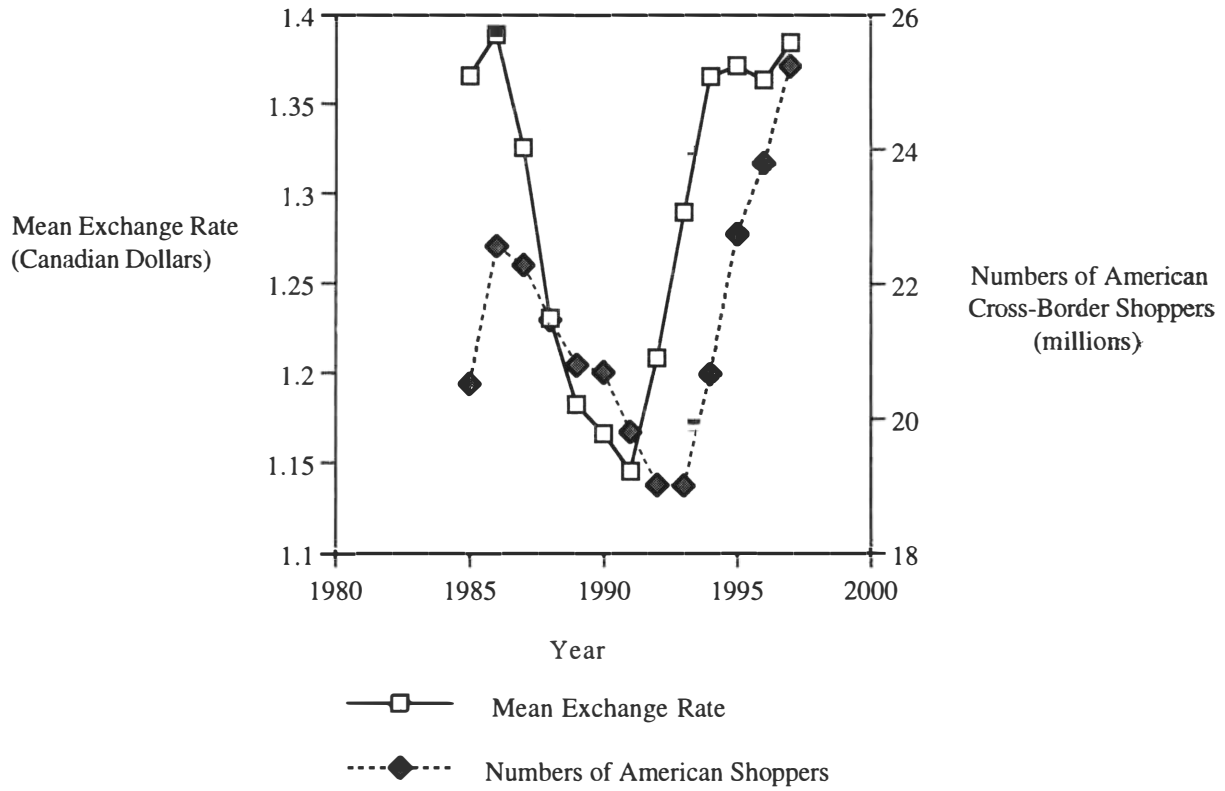


FIGURE 4

American Cross-Border Shopping and the Average Monthly Exchange Rate for 1997 (Source: Statistics Canada and Bank of Canada)

