What Has Free Trade Meant For British Columbia's International Trade?

When the notion of continental free trade was first introduced to Canadians in the late 1980s, it sparked a great deal of often rancorous debate. Support for the idea varied from one part of the country to another.

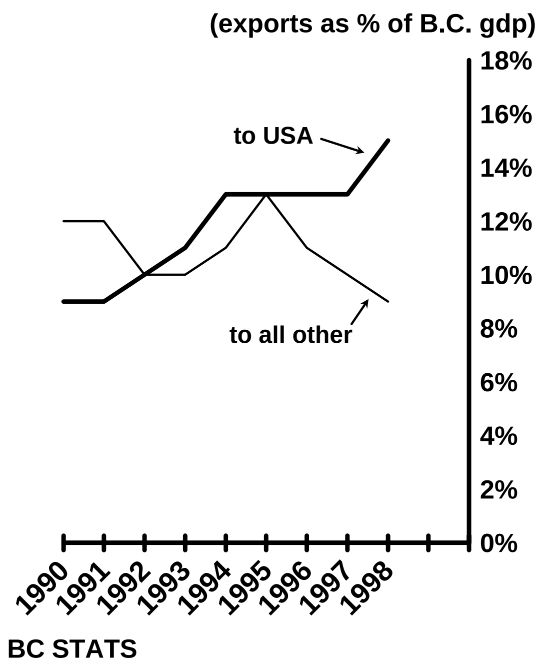
Free trade supporters in the province argued that it would lower prices and widen choices for British Columbia consumers by eliminating tariff barriers set up to protect manufacturers mainly located in Ontario and Quebec. It was argued that this would produce lower prices and greater choice for consumers in British Columbia and elsewhere in Canada. It was also argued that the fledgling British Columbia secondary manufacturing industry would flourish if reliable and unrestricted access to U.S. markets could be secured.

Opponents of free trade argued that it would bind Canada too closely to the United States, and threaten the country's social programs. It was thought by some that American negotiators would use Trade Agreement dispute resolution mechanisms to force Canadian governments to cut back on workers benefits that might be interpreted as industrial subsidies. A decade later, some of these predictions have proven out, others have not.

Growing Reliance On U.S. Market

Certainly British Columbia and the rest of Canada have come to rely more on the U.S. economy. The portion of provincial exports destined for the United States grew from 42 per cent in 1990 to 67 per cent in 1999, higher than it has been in any year since 1962.

British Columbia Exports to U.S. Accounting For Larger Part of Economy



Not all of this can be attributed to free trade. Over this period, the U.S. dollar climbed persistently against the Canadian dollar, making Canadian goods more cost competitive in the United States. It has also been a period when the U.S. economy has been flourishing, as those of other major trading partners have generally been weak. It can be said that free trade was one of the key factors behind the rapid rise of Canadian exports to the United States during the 1990s, but it cannot be said that it was the only one.

Expanded export trade with the United States has greatly increased the importance of the United States market for British Columbia's economic health, as is apparent in the growing portion of provincial GDP that is accounted for by exports to the United States. U.S. bound exports accounted for 8.6 per cent of the British Columbia economy in 1990. By 1999, this ratio had grown to 14.6 per cent.

As the province has come more to rely on exports to the United States for its economic well being, exports to other countries have become relatively less important. British Columbia exports to all countries other than the United States declined as a portion of GDP from 11.9 per cent in 1990, to 8.6 per cent in 1999.

A Small But Growing Share of U.S. Imports

Growing cross border trade has played an important role in shaping British Columbia's economic profile over the past decade. But for the American economy, the impact has been slight.

In 1990, when Canada-United States free trade was just a year old, it seemed likely that British Columbia, along with the rest of Canada, could expect to capture a growing share of the United States import market. But a decade later, with most trade barriers between Canada and the United States now removed, and with a low Canadian dollar to encourage Canadian exporters, the British Columbia share of total United States imports is only slightly higher than it was in 1990. The province shipped just 1.3 per cent of total U.S. imports in 1999, as compared to 1.2 per cent in 1990.

Although the percentage increase in British Columbia share of U.S. imports has been small, the dollar value has been high. Because of the large size ($US 1.025 trillion) of U.S. imports, the very slight gain of 0.1 percentage points in the British Columbia share of total U.S. imports between 1990 and 1999 amounted to a very considerable dollar value - $US 1 billion of the province's exports in 1999. This figure accounted for roughly 5 per cent of the value of provincial exports to all destinations in that year.

While most British Columbia exports to the United States have attracted little attention in that country, some particular exports from British Columbia have attracted a great deal of attention indeed. Most notably, the very large market share claimed by British Columbia lumber producers (46 per cent of total U.S. lumber imports in 1999) has been one of the reasons U.S. sawmill industry representatives have initiated a long series of trade actions against Canada.

Large as it is, British Columbia's share of total U.S. lumber imports is still down significantly from 1990 when the province produced 61 per cent of all U.S. lumber imports. Part of the reason for this has been the Canada-U.S.A. Softwood Lumber Agreement. The Agreement applies volume quotas for lumber exports to the United States from British Columbia, Alberta, Ontario and Quebec but not from other provinces. Naturally this has tended to shift share of the U.S. lumber market to those other provinces.

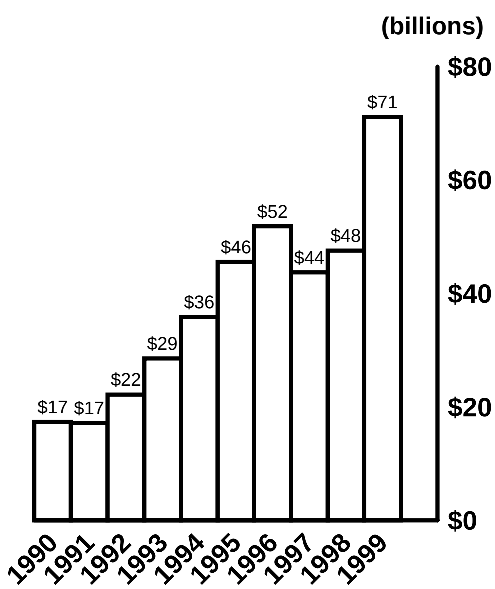
Similarly for pulp, the British Columbia share of U.S. imports is still high (21 per cent in 1999), but has fallen considerably from what it was when free trade was first introduced (25 per cent in 1990).

Lumber and pulp together accounted for 31 per cent of provincial exports to the United States in 1999, down from 41 per cent in 1990. As these commodities have become less dominant in the province's U.S. bound export profile, they have been replaced by other, more refined products.

Changing Trade Balances Suggest NAFTA Working For Canada

Further evidence of change brought about by continental free trade can be seen in Canada-U.S.A. trade balances.

Canada's Growing Merchandise Trade Surplus With U.S.



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Canada began the 1990s with annual surpluses in its merchandise trade with the United States. These surpluses were expanded in all but two years of the decade. They rose from $17 billion in 1990 and 1991, to a high of $71 billion in 1999.

Unfortunately it is not possible to calculate British Columbia trade balances with the United States because no sufficiently accurate estimates are available for British Columbia imports from that country.

Free Trade Encourages Broader Export Commodity Mix

NAFTA and the earlier Canada-U.S.A. Free Trade Agreements have opened doors for a wider variety of exports to the United States, helping to reduce British Columbia's traditional heavy reliance on forestry and mineral commodities.

Before the introduction of the Canada-U.S.A. Free Trade Agreement in 1989, many U.S. tariffs were arranged in an accelerating format, with higher rates applied to imports of more finished goods. The arrangement encouraged U.S. imports of raw materials needed by labour-intensive American manufacturing industries, while discouraging the entry of more finished goods that could compete with those industries.

Similar tariffs faced American goods entering Canada. Free trade began an ongoing process of 'rationalisation' whereby commodities could be processed at sites either side of the border, depending on which location could offer the best competitive advantage. This has not always meant that more of a particular raw material is processed in Canada. But when processing is done in Canada, producers can now hope to achieve the same economies of scale as their American competitors.

Some of the best evidence that continental free trade has widened British Columbia's export commodity base has been the rise in machinery and equipment exports to the United States. Shipments of goods in this broad category have been expanding as British Columbia has begun to establish a place for itself in the increasingly integrated North American manufacturing sector.

British Columbia's share of United States imports of machinery and equipment products edged up from 0.2 per cent in 1990 to 0.4 per cent in 1999. The small percentage on a large base produced a substantial dollar value of additional export trade – equivalent to $US 2.1 billion in 1999.

Plastic products are another value added category for which British Columbia products have claimed an expanding share of U.S. import markets. The British Columbia share of U.S. plastic product imports grew from 0.6 per cent in 1990 to 1.4 per cent in 1999.

Some of the free trade related export gains in the U.S. market have been in industries that are new to British Columbia on a large scale. For example, assured access to U.S. markets under NAFTA has encouraged large scale investments in greenhouse capacity. These investments have produced an export boom for tomatoes, cucumbers and peppers shipped to the United States.

Viewed in a larger perspective, this success can be seen as part of the same economic adjustment process that earlier caused severe setbacks in the province's agricultural sector as it was confronted with more direct competition from U.S. growers. Although it is difficult to measure, the theory of free trade suggests that consumers on both sides of the border should have benefited through improvements in quality, choice and price of produce available to them.

Large scale fish farming in British Columbia is another example of a relatively new industry in which more or less assured access to continental markets has encouraged heavy investment in the province. British Columbia exports of whole salmon to the United States market grew 119 per cent between 1990 and 1999. Largely the product of fish farms, these exports increased the province's share of total U.S. imports of whole salmon by 10.2 percentage points, from 40.2 per cent to 50.4 per cent.

Overall, the province now ships a considerably more varied and sophisticated selection of goods to its largest trading market than it did at the beginning of the last decade. Although raw or semi-processed resource commodities still accounted 65 per cent of British Columbia exports to the United States in 1999, this was down from 77 per cent in 1990.

Other Factors Concentrating Exports In U.S. Market

Continental free trade has likely played the largest part in concentrating British Columbia's exports in the United States market, but it has not been the only factor in this process.

The low Canadian dollar has also been important. Canadian dollar exchange rates with the U.S. currency dropped through most of the last decade, from 85.71 U.S. cents per Canadian dollar in 1990, to 67.32 U.S. cents in 1999.

Yet another factor has been the weakness of overseas markets. As the U.S. economy was expanding rapidly through most of the 1990s, the Japanese and European economies experienced mainly weak and intermittent growth.

Japan, the province's second most important export market, experienced a decade long economic slump. This meant reduced demand for forest and mineral products that account for the bulk of British Columbia's exports to that country.

Other Asian economies grew strongly up to 1997, but then shrank suddenly with the Asian economic crash. Exports to these countries fell off sharply as their economies collapsed. Economic recovery is well underway in several parts of Asia, but British Columbia exports to the region are still well below the levels of 1995 and 1996.

Europe, the third most important market for British Columbia, also experienced poor economic growth over most of the decade. This alone could have been expected to weaken demand for British Columbia exports.

The problem was made worse by the appearance of increased competition to sell resource products in Europe. The European Union acquired three new members during the 1990s, each with its own significant forestry and mineral resources. Additional supplies became available from Eastern European and South American sources.

The net effect was to reduce the portion of total British Columbia exports destined for the European Union by more than half, from 16 per cent in 1990, to 7 per cent in 1999.

B.C. Catching Up To Other Provinces In Terms of Reliance On U.S. Market

In the past, British Columbia's relatively strong trade ties with Asia have enabled the province to diversify its export trade over a wider range of destinations than other provinces. The reasons British Columbia has been more successful in Asia are mainly because its export mix features large volumes of resource commodities, and because it is conveniently located on Canada's Pacific coast. Being largely an exporter of resource products has also enabled British Columbia to become the third ranking province in terms of exports to the European Union, after Ontario and Quebec.

Substantial exports to Asia and Europe, have meant less dependence on the U.S. market. Benefits have included being less severely affected than other provinces by downturns in the United States economy, and suffering relatively minor disruption from the initial adjustments to continental free trade in the early 1990s. On the other hand, it has also meant that British Columbia has profited less from the U.S. economic boom of the late 1990s.

British Columbia still ships a smaller portion of its overall exports to the United States than any other province except Saskatchewan or Newfoundland. However the margin has been narrowing as British Columbia's exports to the United States have increased at a faster rate than its exports to its other important markets.

As Asian and European economies improve, British Columbia exports to those markets will likely increase faster than its exports to the United States, reversing the trend, at least for a time. There is already some evidence that this has been happening in the first five months of 2000. It remains to be seen if this means that British Columbia's export reliance on the United States has already peaked.

Market penetration figures show British Columbia's share of the total U.S. import market to be proportionately smaller than other provinces. Canada as a whole supplied 19.4 per cent by value of total U.S. imports in 1999. If the Canadian share of U.S. import market had been on a per capita basis, British Columbia's 13 per cent of Canada's population would have given it a 2.5 per cent share of total U.S. imports – almost twice its actual 1.3 per cent. If it had been based on 1998 provincial GDP (the latest available), British Columbia's share would have been 2.3 per cent.

The province's share of the U.S. import market has been proportionately lower largely because its secondary manufacturing industries are not as developed as Ontario's or Quebec's. This has meant that British Columbia has not been able to benefit from the growing integration of North American manufacturing to the same extent as those other provinces.

The indications are that British Columbia is catching up. The 19 per cent average annual compound growth of its machinery and equipment exports to the United States between 1990 and 1999 was well ahead of the 12 per cent rate for Ontario, Quebec, and for Canada as a whole. If this continues, British Columbia should gradually shed its identity as a province primarily dependent on resource industry exports.