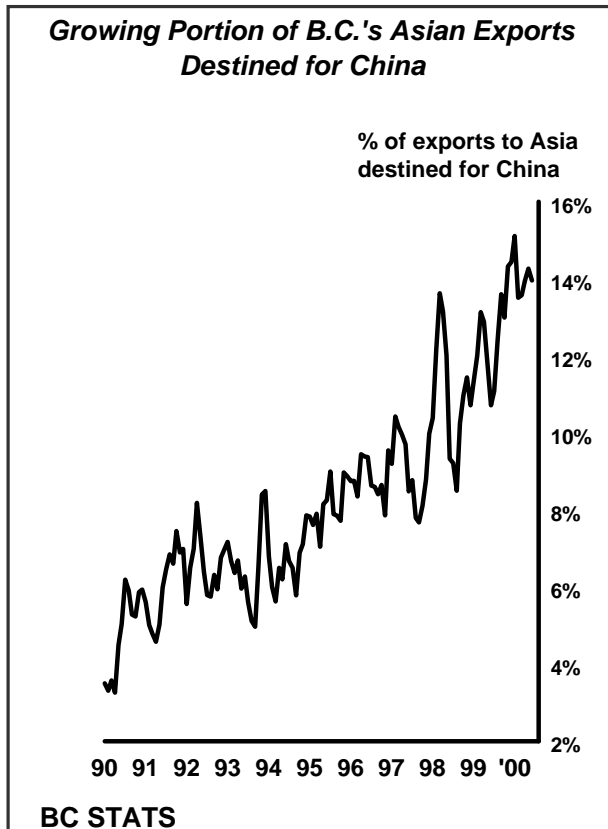


Some Familiar Patterns Developing In Trade Between China and British Columbia

Note: All statistics for 'China' include the People's Republic of China and Hong Kong combined.



China Emerging As New Asian Trading Giant

British Columbia's exports to China have climbed rapidly over the 1990's, as fast developing Chinese industrial production has pushed up demand for resource commodities. Imports from China have risen even faster. Canadians have been purchasing record volumes of Chinese made goods of all types, but mainly low technology labour-intensive manufactured items.

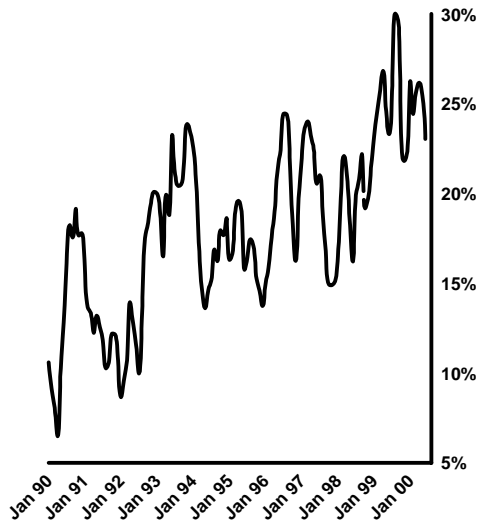
The pattern resembles the British Columbia-Japan trading relationship of forty years ago. During the late 1950s and early 1960s, British Columbia resource commodity output was expanded in response to new demand from a burgeoning Japanese economy. The value of British Columbia resource exports to Japan rose steadily up to the end of the 1980s. It fell back sharply with the bursting of the Japanese bubble economy in 1990, recovered up to 1995, but then fell steadily from 1996 through 1999.

Weak demand has persisted particularly in the Japanese market for mineral ores and coal. This may reflect a long term transfer of Japanese heavy industry offshore, to lower wage Asian countries such as China. The result could include changes in the market for British Columbia resource products.

As China industrialises, the early indications are that British Columbia will once more play an important supporting role in the emergence of an Asian economic giant. This will include more sales of value added consumer products to a growing Chinese middle class. Other possibilities include high technology production machinery needed by Chinese manufacturers. But for the short term at least, most British Columbia exports to China are likely to be raw or semi-processed forest and mineral commodities.

B.C. Accounting For Bigger Share of Canadian Exports to China

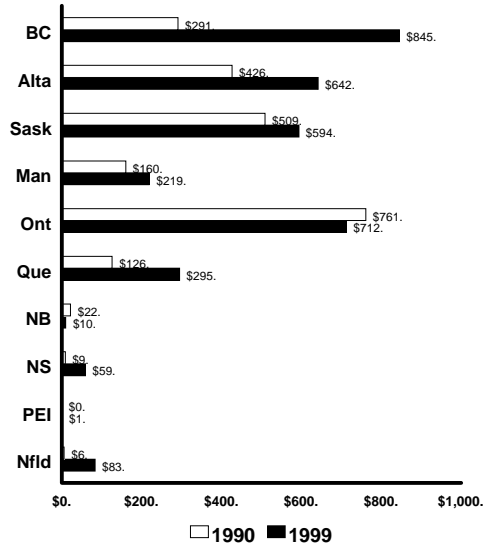
(B.C. share of Canadian exports to China)



BC STATS

B.C. Exporting More To China Than Any Other Province

exports to China in \$ millions



BC STATS

Exports to China have risen faster and more persistently than to any of the province's other major trading partners. China began the 1990s as the eighth ranking destination for British Columbia's exports. By 1999 it had become the third most important country of destination after the United States and Japan. In the present decade China may supplant Japan as British Columbia's second most important market globally, and as its most important market in Asia.

British Columbia has already become the leading exporter to China among Canadian provinces. Its exports to China grew more quickly than other provinces' over the 1990s, climbing 190 per cent between 1999 and 1990. Over the same years exports to China from the rest of Canada as a whole rose 29 per cent.

Equivalent statistics are not available to compare the growth of British Columbia imports from China with those of other provinces. However, statistics are available for imports from China into Canada as a whole. These indicate 317 per cent growth between 1990 and 1999. During this period China's ranking as a source of Canadian imports rose from fifth to third.

Canada is not the only country to have experienced rapidly growing trade with China. Since it abandoned Chairman Mao's policy of economic self-reliance, China has become a huge, and sometimes formidable presence on the world trading scene. Between 1990 and 1998 (1998 is the latest year for which global trade data are available) China grew from the eighth ranking exporter in the world to the fourth ranking. As an importer, it grew from tenth ranking to third ranking.

There are important implications in this for British Columbia. The province is already well established as a supplier of resource products to industrialising Asian economies. But the potential for greater resource product exports is limited. Global competition for sellers of resource products has increased, squeezing industry margins in British Columbia and discouraging new investment. It is unlikely that rapid industrialisation in China could provide resource industries with the same sort of boost they experienced during the period of rapid Japanese industrial expansion in the 1960s, 1970s and 1980s.

To fully benefit from trade opportunities in a more industrialised and prosperous Chinese market, British Columbia will need to further diversify its export mix. So far, there has been some moderate success in this line. The range of goods shipped to China has been expanded to include more highly processed resource commodities, value-added food products, and occasional shipments of high technology goods.

Most Exports To China From Pulp and Paper Industry

In spite of some diversification, British Columbia's exports to China remain heavily concentrated in resource commodities. Most are products of the pulp and paper industry. Of the \$845 million exported from British Columbia to China in 1999, 50 per cent by value were pulp and 8 per cent were paper. This was a somewhat less heavy concentration in pulp and paper products than at the beginning of the last decade. In 1990, 48 per cent of British Columbia's exports to China were pulp, and 14 per cent were paper products.

Lumber and lumber products accounted for only 3 per cent of exports to China in 1999. This was very small by comparison with the 46 per cent of exports to Japan that are lumber products. It is unlikely that lumber will ever play as important a part in exports to China as it does in exports to Japan. Whereas traditional Japanese houses are built of wood, Chinese houses are built mainly of masonry, and require proportionately less lumber.

High value fish products have been important in British Columbia's progress to date towards diversifying its exports to China. Fresh or frozen fishery products grew from 5 per cent of total British Columbia exports to China in 1990, to 8 per cent in 1999. Geoducks (a large species of clam) accounted for most of this. Of the \$69 million of British Columbia fisheries product shipped to China in 1999, \$43 million were geoducks. Other fish product exports included \$9 million of herring roe and \$3 million of fresh crab.

There were also successes on a smaller scale for exporters of agricultural commodities. In 1999 these included \$26 million of animal fat exported to China, \$22 million of ginseng, and \$6 million of canola.

Manufactured goods under the broad category of machinery and equipment accounted for \$62 million of British Columbia's exports to China in 1999, 7 per cent of the total. This was up slightly from 6 per cent of the total in 1990.

Machinery and equipment exports included a wide variety of different products, including computer equipment, auto parts, medical equipment, and paper making machinery. But most fit under the general heading of electrical or electronic equip-

ment. Exports to China in this category amounted to \$39 million in 1999.

Mineral commodities are not as prominent in exports to China as they are in exports to Japan or South Korea. However, they are significant, and could potentially grow much larger. The province's 1999 exports to China included \$13 million of zinc in unwrought form, and \$11 million of coal.

China As A Source of Imports

Over the 1990s China has been hugely successful at exporting low technology, labour intensive products to North America and other wealthy markets. Most are the exports typically expected from countries with disciplined but relatively low paid labour forces – apparel, toys, textiles, and consumer electronics.

Canadian Imports from China amounted to \$10.2 billion in 1999, far greater than the \$3.4 billion worth of goods exported from Canada to China.

Although available statistics do not specify how much of Canada's imports from China were consumed in British Columbia, it is possible to calculate crude estimates of the province's imports from China for some

types of products. For example, if it is assumed that British Columbians consume their per capita 13 per cent share of Canadian imports of Chinese made consumer goods, it can be estimated that residents of the province purchased \$290 million of apparel, footwear, and hats from China in 1999, \$153 million of toys and games, and \$76 million of furniture.

A substantial portion of imports from China are destined to be used as inputs by Canadian manufacturers. Unfortunately it is not possible to estimate the British Columbia consumed portion for these types of imports without substantial specialised research. 1999 Canadian imports from China likely intended for industrial use included, for example, \$950 million of parts and components for electrical or electronic equipment; \$137 million of chemicals; and \$206 million in fabrics, threads and yarns.

Canadian manufacturers, including some in British Columbia, depend on these inputs to remain competitive. Much of their output is exported, indirectly linking Canadian export performance in the United States and other markets to fast developing and mutually beneficial trade links with China.