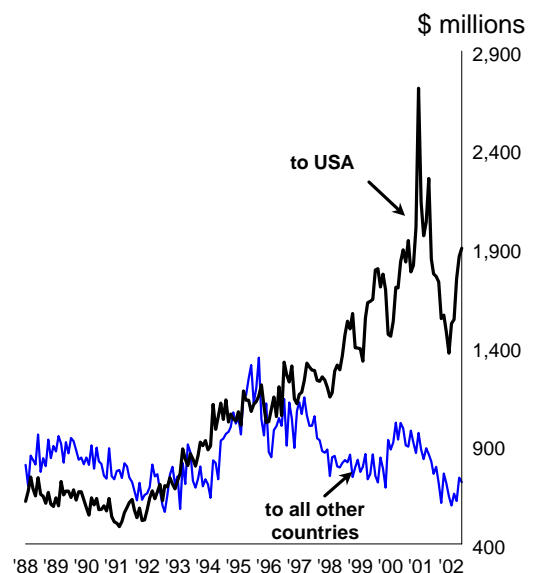


Exports ♦ May 2002

- The value of BC origin exports is down 18% year-to-date compared to the January to May period of 2001. The main reason for the decline is a return to more normal energy prices from the record high levels recorded in late 2000 and early 2001. The value of exports of both natural gas (-56%) and electricity (-94%) have dropped sharply due to the fall in price.
- The flood of softwood lumber shipped to the United States as Canadian lumber companies took advantage of a loophole in American trade law allowing a short period of duty-free shipments before the countervailing and anti-dumping duties kicked in has helped boost the value of solid wood exports almost 12% higher than in the first five months of 2001. Now that the duties are being applied, we may see a drop in softwood shipments to the US, particularly in June and July as inventories built up during the duty-free period are used up.
- BC origin exports of pulp and paper continue to lag behind last year's pace, down 23% year-to-date. Shipments to the United States (-16%), Japan (-39%) and the European Union (-35%) are all well below last year's levels.
- The value of exports of metallic mineral products is also down, 20% lower year-to-date compared to the same period in 2001. Exports of copper ores and concentrates (-30%) and unwrought aluminum (-24%) are responsible for most of the decline. Reduced shipments to Japan (-45%) as a consequence of economic difficulties in that country are responsible for the bulk of the drop in metallic mineral exports.
- The lingering problems with the Japanese economy are likely responsible for the drop in exports for virtually all other commodities as well. The total value of exports to Japan has fallen over 27% compared to the first five months of 2001 (see the special feature article for more on Japan's trade links with British Columbia).
- Team Canada's trade mission to India may have reaped benefits for BC as the value of BC exports to India is up 12% year-to-date.

Exports are down compared to last year due to lower prices for energy and other commodities



Japan's Economic Woes Translate to Reduced Trade for BC

Just as Japan appeared to be in recovery from the recession of 1998, in 2001 the economy plunged into its worst slump since the Second World War. In fact, Japan's economy has been in a slowdown for more than a decade and the problems of recent years are a signal of a pressing need for structural reform. For the last several years, Japan has been experiencing deflation, which has seriously affected investment. Although the Bank of Japan committed itself to expand the money supply such that inflation was at least at zero, the measure has had little effect. Despite the increase in the base amount of money, Japanese banks have not expanded their money lending correspondingly.

This is a symptom of a deep-seated problem in the Japanese banking system. Japan's financial institutions continue to prop up bad investments, rather than cutting their losses and moving on. As a result, they either have no resources to pursue other opportunities, or they are too afraid to take on further risks since they are already stuck with such a large number of non-performing loans, many of which are in or near bankruptcy. Critics, including the Organisation for Economic Cooperation and Development (OECD), are urging the Japanese banks to refrain from propping up the bad loans and instead invest their resources in areas where they can be more productive, both in earning a return for themselves, as well as contributing to an economic recovery for Japan.

Recently released figures indicate that Japan's economy grew by 1.5% in the first quarter of 2002 after three consecutive months of decline. However, there appears to be a great deal of skepticism that this signals a return to prosperity for Japan as the structural problems responsible for the difficulties of the last few years still exist. Analysts suggest that the Japanese economy needs serious reforms before it can experience a return to its previous strength. This economic resurgence is not only important for Japan, but also for its trade and investment partners.

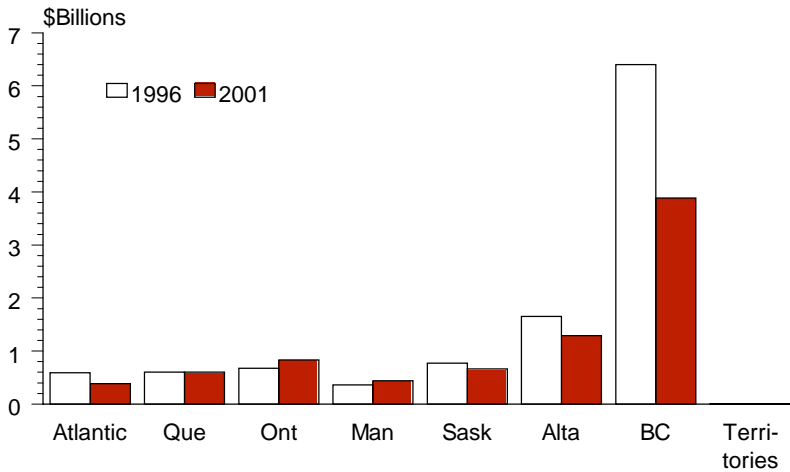
British Columbia is one trade partner that has felt the sting of the Japanese misfortune as economic problems in Japan have translated into a reduction in exports for BC. British Columbia depends more on exports to Japan than any other province in Canada. In fact, before 2001, BC was the source of over half of all Canadian commodity exports to Japan, peaking at 59% in 1994. In 2001, only 48% of Canadian goods exports originated in BC. However, British Columbia is still by far more dependent on trade with Japan than any other province.

In 2001, Japan's economy was mired in its worst downturn since World War II

Financial sector problems stemming from bad investments is one of the main factors behind the economic malaise in Japan

BC is the origin of almost half of all Canadian commodity exports to Japan

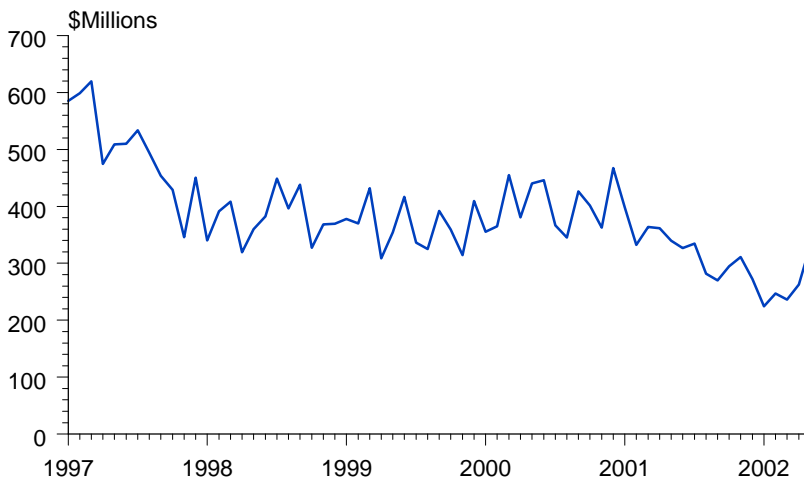
BC exports as many goods to Japan
as all the other provinces combined



Although BC's share of Canadian exports to Japan has fallen in recent years, it is still almost half the total

Japan was the destination for just under 28% of all BC origin exports in 1990, but by 2001, under 13% of BC exports were destined for Japan. Since the mid-nineties, when the structural problems inherent in the Japanese economy started to have a significant effect, exports of goods from BC to Japan have dropped considerably, such that they are now at their lowest level in over a decade.

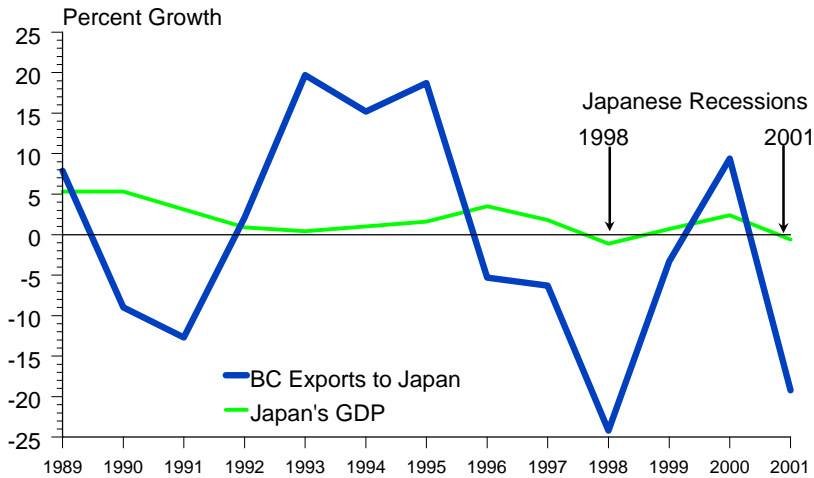
Since the beginning of the Asian economic crisis, BC origin exports to Japan have declined dramatically



BC exports to Japan fell significantly from 1997 to 1998 before stabilising for a few years, then starting to decline again in 2001

The following chart illustrates more clearly the relationship between BC exports to Japan and the strength of the Japanese economy. When there is a slowdown in GDP growth and particularly when there is a recession, there is a significant reduction in demand for goods from BC.

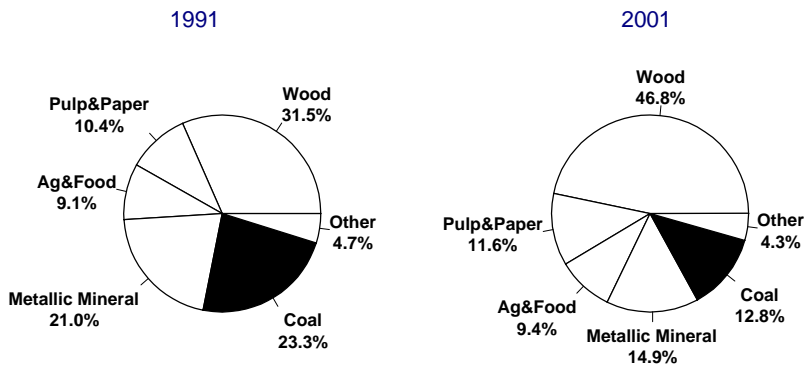
Poor economic conditions in Japan have resulted in reduced demand for BC export products



The recent recessions in Japan have resulted in a significant drop in demand for BC export products

The types of commodities that BC ships to Japan are often inputs to other industries, so that reduced demand for these products are a natural consequence of a slowdown in production resulting from economic recession. For example, Japanese steel industries have been forced to cut back production due to lower domestic demand as well as global oversupply conditions. As a result, demand for coal from British Columbia is well down from what it was ten years ago. The value of coal shipped to Japan in 2001 was about half what it was in 1991. In 1991 over 23% of BC exports to Japan were coal, but in 2001 this figure was down to less than 13%. Metallic minerals are also less in demand compared to a decade ago, but wood product exports have actually increased significantly.

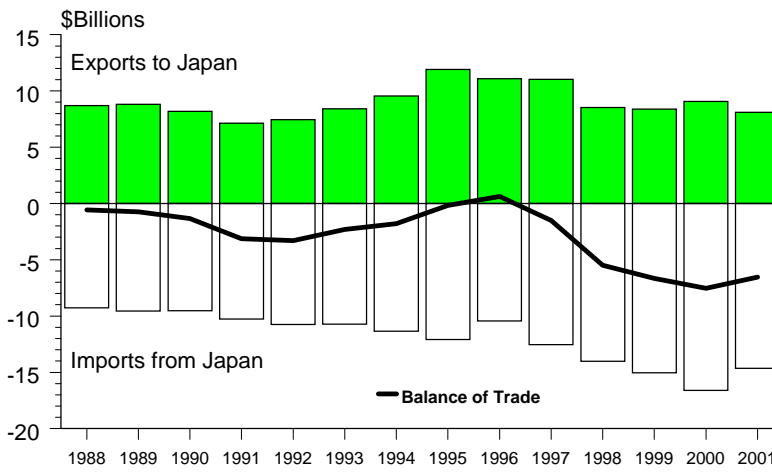
The types of commodities traded to Japan have changed over the last decade



Products from BC's mining industry have fallen out of favour in Japan, but BC wood products are still a popular import

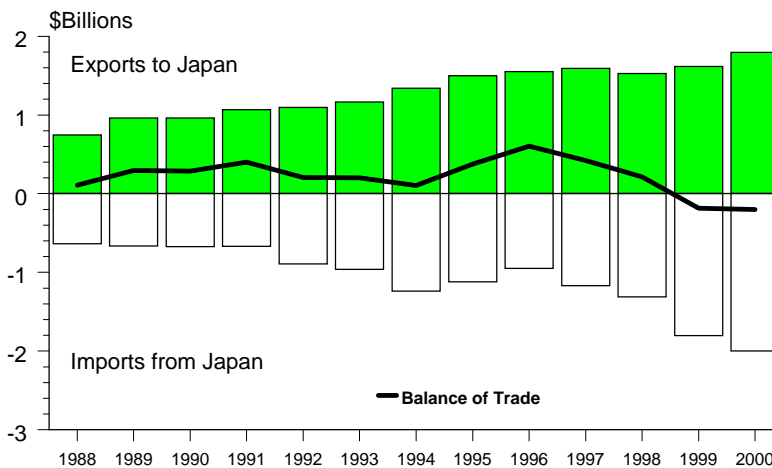
While exports from Canada to Japan have been falling over the last few years, imports from Japan to Canada have actually risen significantly, peaking in 2000 at \$16.6 billion. With imports rising and exports falling, Canada's trade deficit with Japan has grown, peaking at \$7.5 billion in 2000, although it improved to \$6.5 billion in 2001. Until recently Canada had a trade surplus in terms of trade in services, but as of 1999, this too has shifted into a deficit as service imports from Japan jumped substantially, while exports grew at a more modest pace.

Canada generally has a trade deficit with Japan with respect to goods...



Canada's commodity trade deficit has been increasing as more imports arrive from Japan while fewer goods are shipped from Canada

...and in the last couple of years, with services also



Significant growth in imports of services from Japan has put Canada in a services trade deficit as well

The majority of Canada's service exports to Japan are tourism-related. The economic problems in Japan have affected the number of tourists visiting Canada as the number of travellers to both BC and Canada as a whole has dropped substantially compared to five years earlier. There were 25% fewer travellers entering BC from Japan in 2001 compared to

1996. The number of travellers from Japan entering anywhere in Canada dropped 38% over the same time period. Not surprisingly, the largest declines in tourist travel occurred in the recession years of 1998 and 2001.

Although Canada has a significant trade relationship with Japan for both goods and services, there is relatively little direct foreign investment in Japan by Canadian companies, or vice versa. Preliminary numbers for 2001 indicate that Canadian direct investment in the United Kingdom was six times that of investment in Japan. In terms of investment in Canada, there was three times as much by companies in the UK compared to those in Japan. Considering the relative size of the Japanese economy, and the fact that Japan ranks second only to the United States in terms of two-way commodity trade with Canada (at almost \$6.5 billion more than Canada-UK trade in 2001), these figures seem out of proportion.

Foreign Direct Investment (Canada and Japan)

\$Millions	Japanese FDI in Canada	Canadian FDI in Japan
1992	5,962	2,521
1993	6,249	2,845
1994	6,587	3,485
1995	6,987	2,739
1996	7,873	2,676
1997	7,990	2,985
1998	8,393	3,268
1999	8,206	3,948
2000	7,897	5,596
2001 (p)	8,285	6,435

Japan lags behind other nations in terms of foreign direct investment, and Canadian FDI in Japan is no exception

Source: Statistics Canada, *Canada's International Investment Position, 2001, cat. 67-202-XPB*

However, Canada is not the only country for which this is the case. Japan's stock of foreign direct investment (FDI) lags well behind that of other developed countries. FDI has historically been a low priority for the Japanese, but more recently they have taken steps to change this, particularly in light of the current economic challenges facing Japan. As Japan reduces the regulatory burden for foreign investors and implements other measures to make it a more attractive place for investment, there will be more opportunities for Canadian investors.

Japan has historically been a key trade partner for BC, giving the province a more diversified export market than other provinces and helping mitigate against downturns in the American economy. However, this relationship also means that BC is more vulnerable than the rest of Canada when Japan is in an economic slump. If Japan can get its finances in order, it may very well help kick-start British Columbia's economic recovery.

**Recent Feature Articles In British Columbia Origin Exports Release
Listed By Statistical Reference Date of Issue**

02-04	<i>Team Canada Promotes Trade With Mexico (released June 2002)</i>	00-11	<i>After Much Economic Diversification, B.C. Exports Are Still Mainly Resource Based (released January 2000)</i>
02-03	<i>Chile Warms Up to Trade With Canada (released May 2002)</i>	00-10	<i>Ambitious Western Hemisphere Trade Agreement Could Help Shape Canadian Trade In the New Decade (released Dec. 2000)</i>
02-02	<i>The Threat of American Protectionism (released April 2002)</i>	00-09	<i>Trade Growth Tied To Transportation Infrastructure (released November 2000)</i>
02-01	<i>Canada Seeks to Increase Trade With India (released March 2002)</i>	00-08	<i>Some Familiar Patterns Developing In Trade Between China and British Columbia (released October 2000)</i>
01-12	<i>Is "Runaway" Film Production in Canada Harming the U.S. Industry? (released February 2002)</i>	00-07	<i>International Trade In Services Produces B.C.'s Only Trade Surplus (released October 2000)</i>
01-11	<i>Team Canada Scouts Russia and Germany for New Trade Ties (released January 2002)</i>	00-06	<i>Value Added Wood Exports Grow Fast In B.C., But Faster In Rest of Canada (released August 2000)</i>
01-10	<i>Exploring China as a Market for BC's Wood Products (released December 2001)</i>	00-05	<i>What Has Free Trade Meant For B.C.'s International Trade? (released July 2000)</i>
01-09	<i>Is Trade Threatened by Security? (released November 2001)</i>	00-04	<i>British Columbia Shipping Smaller Portion of Canadian Forestry Products (released June 2000)</i>
01-08	<i>Thirst for Energy Powers British Columbia's Exports (released October 2001)</i>	00-03	<i>1990s Brought New Markets and New Products For B.C. Exports (released June 2000)</i>
01-07	<i>International Trade in High Technology Goods and Services (released September 2001)</i>	00-02	<i>United States Continues Substantial Log Exports In 1999 (released April 2000)</i>
01-06	<i>Interprovincial and International Trade in Goods and Services (released August 2001)</i>	00-01	<i>B.C. Goods Export Growth Among Lowest In Canada During 1990s (released March 2000)</i>
01-05	<i>Buy Low, Sell High: Trade in Electricity (released July 2001)</i>	99-12	<i>British Columbia Trade Becoming More Continental Than Global (released February 2000)</i>
01-04	<i>Attack of the Canadian Tomatoes (released June 2001)</i>	99-11	<i>Growing Cross Border Trade In Agricultural Food Products (released January 2000)</i>
01-03	<i>The Softwood Lumber Dispute (released May 2001)</i>	99-10	<i>Trade Imbalances Growing Within NAFTA (released December 1999)</i>
01-02	<i>(no article)</i>	99-09	<i>B.C. Exports Recovering In Some Asian Markets, Still Declining In Others (released November 1999)</i>
01-01	<i>(no article)</i>	99-08	<i>British Columbia Exports to United States Move Increasingly By Truck (released October 1999)</i>
00-12	<i>(no article)</i>		

NOTES

Countries Included Within World Regions:

(1) **Western Europe:** United Kingdom, Ireland, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland.

(2) **Eastern Europe:** other Europe, including all of Russia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, etc.

(3) **South East Asia:** Malaysia, Brunei Darussalam, Singapore, Myanmar, Kampuchea, Laos, Indonesia, Philippines, Thailand, Vietnam.

(4) **Africa:** continental Africa, excluding Ethiopia, Libya, Somalia, Sudan, Egypt.

(5) **South America:** continental South America from Colombia and Venezuela south to Chile and Argentina, including offshore islands, but not Caribbean.

(6) **Central America and Caribbean:** from Guatemala and Belize to Panama, plus Caribbean Islands.

(7) **Pacific Rim (including Japan):** Japan, Hong Kong, Malaysia, Brunei Darussalam, Singapore, Laos, Mongolia, China, Indonesia, North Korea, South Korea, Philippines, Macau, Taiwan, Thailand, Vietnam, Australia, Fiji, New Zealand.

(8) **Pacific Rim:** as above, but excluding Japan.

(9) **Middle East:** from Turkey and Iran south through the Arabian Peninsula. Excluding Afghanistan and Pakistan, but including Cyprus, Ethiopia, Egypt, Somalia, Sudan and Libya.

'**Selected Value-added Wood Products**' category includes prefabricated houses, doors, windows, furniture, moulding, siding, etc. It does not include panel products, shakes, shingles or any pulp and paper products.

Revisions

Statistics Canada revises trade data for the previous three data years with release of the December data. The revision number is indicated in the footer of the tables (e.g., Rev 1 is the first annual revision, etc., and Prelim indicates it is the first release of data to December for that year). In addition to annual revisions, Statistics Canada revises the data for the previous data year every quarter (indicated in the footer by Rev Q1, etc).

Service Offered for Detailed Trade Statistics

For B.C. government statistics users requiring more detailed information on exports or imports, a special report service is offered through the address below:

Dan Schrier - Trade Statistics

BC STATS

553 Superior Street, Victoria, B.C. V8V 1X4

(250) 387-0376

This service is provided through the Trade Research and Inquiry Package (TRIP) computer reporting system. TRIP offers user-defined tabulations of export or import statistics for British Columbia, Canada, the United States and other countries. Tabulations can include information on commodities, countries, U.S. states, years, months, mode of transport, etc.