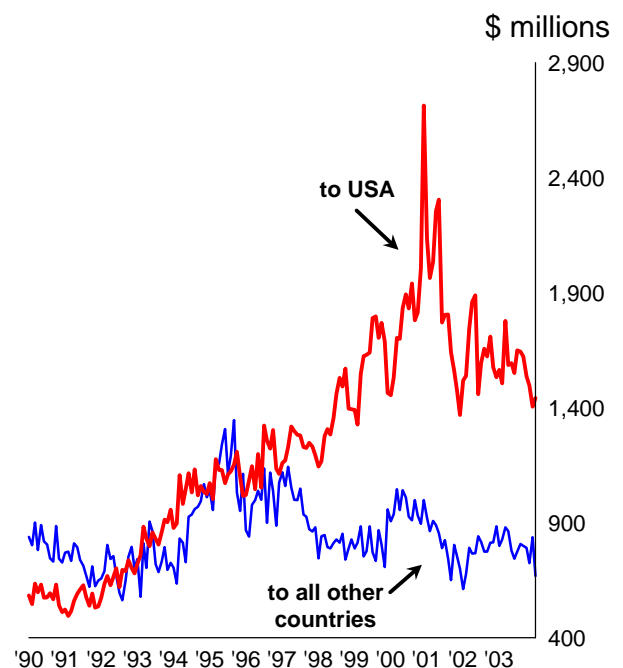


## Exports ♦ January 2004

- The value of total BC origin exports experienced a significant drop in January, falling 10.7% compared to the same month in 2003. Exports of most major commodity groups saw a double-digit decline.
- The forest sector continued to slump with solid wood exports down 10.9% and pulp and paper products 13.3% lower than in January 2003. Plywood and veneer constructed out of softwood (+2.9%) and other panel products (+8.6%) were the only forest products that showed improvement in January.
- Agriculture and food (-20.2%) and fish products (-31.4%) both plunged in January. Exports of fresh and frozen salmon were less than half the value shipped in January 2003 (-55.6%).
- Exports of metallic mineral products (-11.0%) and machinery and equipment (-15.7%) also experienced double-digit declines.
- The only major BC exports to buck the trend were energy products, which edged up 0.7% in January as an increase in shipments of natural gas (+12.1%) offset declines in exports of coal (-17.6%) and electricity (-1.1%).
- Exports to the United States dropped 7.8% in January compared to the same month a year earlier. Significant declines in shipments of wood products (-7.3%), pulp and paper (-14.3%) and machinery and equipment (-10.5%) were mainly responsible for the overall drop.
- Shipments to Japan fell again with the value of BC exports dropping by almost a quarter (-23.3%) compared to January 2003. Exports were down for virtually all major commodity categories.
- The story was not much better for BC's other major trading partners. Exports to the European Union plummeted by 34.7% in January, while exports to the Pacific Rim (excluding Japan) were down 6.7%.

*BC exports dropped significantly in January*



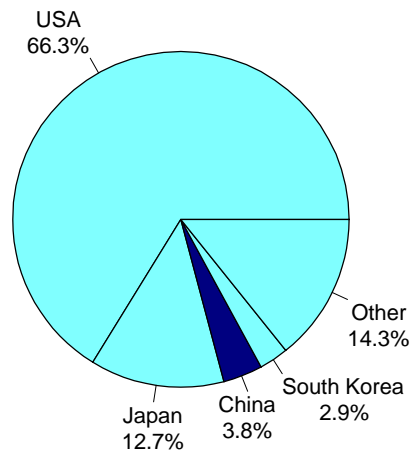
## China Offers Considerable Opportunities for Trade

With a population of 1.3 billion, China offers vast opportunities for trade. There have been significant market reforms in China over the last several years, reflected by its accession to the World Trade Organization (WTO) in 2001, which has made this country an even greater presence in the overall trade picture. In 2001, China ranked sixth in the world in terms of two-way commodity trade (i.e., exports and imports) with \$US 573 billion of goods passing in and out of the country. Canada, with \$US 500 billion in two-way commodity trade, ranked seventh.

*China ranked sixth in two-way trade in 2001, behind the United States, Germany, Japan, the United Kingdom and France and just ahead of Canada*

Mainland China was the fourth most significant destination for Canadian exports in 2003 with 1.1% of total exports shipped there, and the second largest source of imports, with 5.5% of goods entering Canada originating in China. For British Columbia, China ranked third behind only the United States and Japan as a destination for BC exports, with 3.8% of commodity exports originating in BC shipped to China.

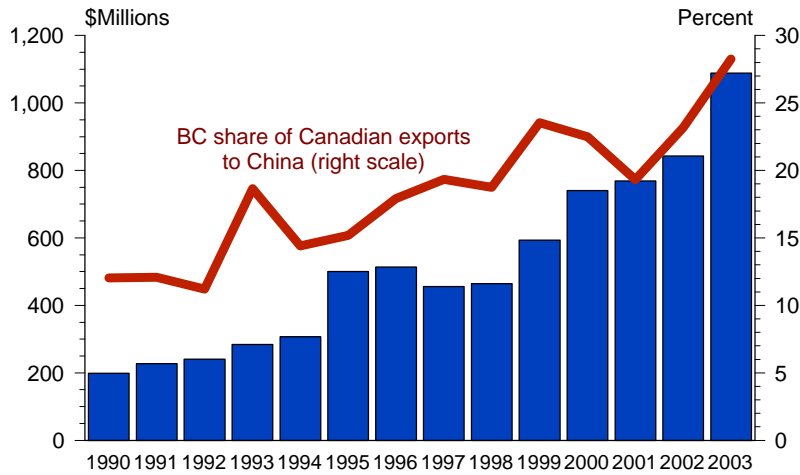
### China ranks third as a destination for BC exports



*BC shipped 3.8% of its exports to China in 2003, making it the third most significant destination for BC goods*

The value of BC commodity exports headed to China surged 29% in 2003 compared to the previous year and has increased almost 300% since 1993. British Columbia has overtaken Alberta as the top ranked province in terms of exports to China with 28.2% of Canadian exports to China in 2003 originating in this province. Alberta, with 19.2% of Canada's shipments to China, ranked second, followed by Ontario (16.6%), Quebec (13.0%) and Saskatchewan (10.2%). BC's share of Canadian commodity exports to China has more than doubled since the early 1990s.

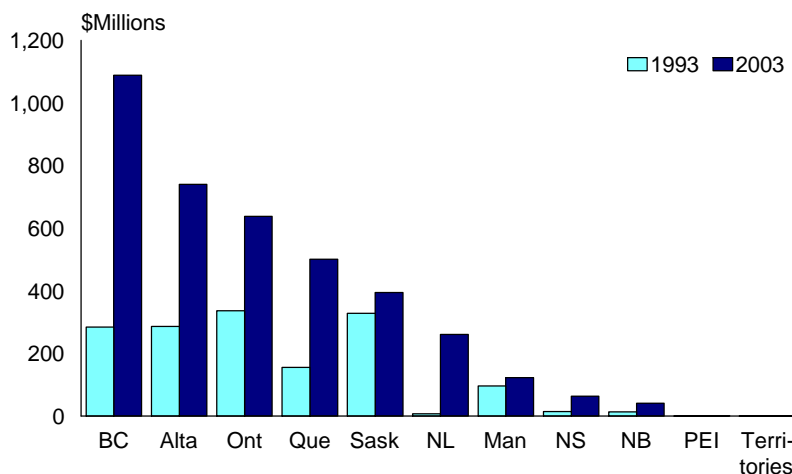
### BC's share of Canadian exports to China has more than doubled since the early 90's



*BC's share of Canadian exports to China has grown steadily, peaking at 28.2% in 2003*

Although the types of goods exported to China have become more diversified, there is still an emphasis on resource-based products, which is why provinces such as Ontario and Quebec, where manufactured goods comprise the majority of exported goods, lag behind BC and Alberta. It is possible that as the Chinese middle class continues to expand, demand for manufactured products from Canada will also increase, but for the short term it is probable that resource-based commodities will continue to be the chief exported goods. The top Canadian export to China is wood pulp, of which the majority (63.8%) is from British Columbia. In fact, wood pulp comprised almost half (48.8%) of all BC exports to China in 2003. Ethylene glycol, a chemical used in antifreeze, among other things, is the next largest export to China and BC and Alberta are the two source provinces for that product.

### BC ranked first in Canada in 2003 as a source of exports to China



*BC now ranks first in Canada as a source of exports to China*

## China's new building codes hold promise for lumber industry

BC's main export good overall is softwood lumber, but it is not one of the primary exports to China. Although shipments of softwood lumber from BC to China have grown tenfold since 1998, from \$4.0 million to \$44.8 million in 2003, they still represent less than one per cent of BC's total softwood lumber exports. The demand for lumber in China has historically been low due to the fact that there was very little housing constructed of wood; rather, most residential construction was done using masonry. Until recently China's building codes did not allow for wood construction; however, as a result of efforts from various western countries, including Canada, China introduced a new building code in November 2003 that included provisions for wood-frame construction. Experts from BC directly assisted in the development of the new code, which should help open up China's housing market to houses constructed from wood and possibly provide a new market for BC wood products.

*China has implemented a new building code that includes provisions for wood-frame construction, which should open up China's housing market to houses constructed of wood*

Historically, the majority of China's housing was owned by the state, but over the last decade the government has privatized much of the housing inventory. As a result, investment in housing has become more of a priority. According to the Council of Forest Industries (COFI), there is estimated to be two billion square feet of residential construction per year in China.<sup>1</sup> If new housing averaged 2,000 square feet, that would be one million new houses per year. As it is, counts of housing starts in China vary considerably depending on how a house is defined. Much of the housing being built is far less than 2,000 square feet and some counts include individual apartment or condominium units of smaller than 700 square feet as one housing start, in which case the annual housing start figure rises to as much as 10 million or more. Regardless of what figure is used, the magnitude of ongoing residential construction in China is impressive.

How this robust spell of construction will impact demand for lumber is difficult to say. The new lumber code will likely spur more construction using wood, but what proportion of new housing will be made of wood is unknown. It could take decades for China's housing market to be transformed into mainly wood-frame construction. The other challenge for lumber producers in BC hoping that China will become a significant importer of BC lumber is the competition from countries like Russia, where lumber is available at a significantly lower price than in Canada. In the short term, the benefit for BC from the new building codes may be an increase in exports of services as carpenters and trades

*Most of the benefits to BC of the new lumber code will likely be realized in the long term, rather than immediately*

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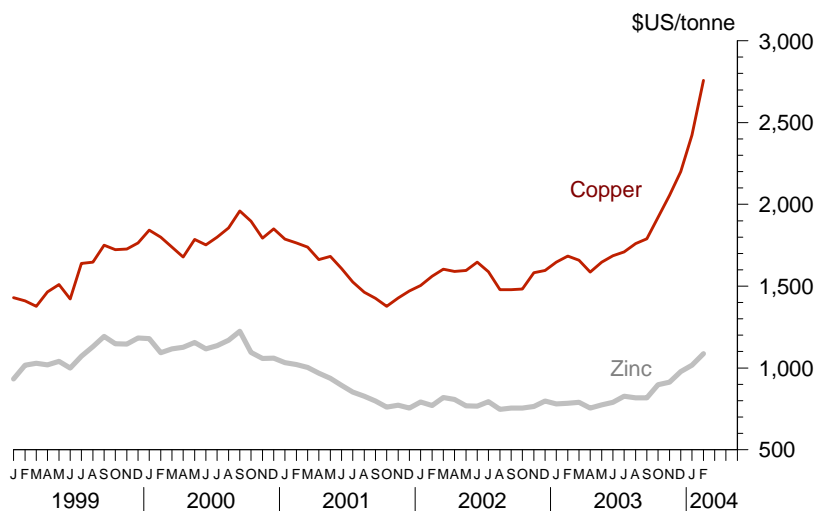
<sup>1</sup> From "Developing New Markets for BC Lumber in China," on COFI's website: <http://www.cofi.org/issues/bclumberinchina.htm>

people need to be trained in wood construction techniques. It is unlikely that demand from China for softwood lumber will bring relief to BC lumber producers beleaguered by the softwood lumber dispute with the United States; however, over the long term, China may prove to be a significant market for BC lumber.

### China's booming economy could help BC's mining industry

Industrial production in China has been flourishing, which in turn has boosted Chinese demand for inputs into production, such as base metals. This has resulted in significant price inflation for metals, as well as other commodities. Copper, an important metal export for BC, has been one metal that has particularly appreciated in price, especially over the last several months. The persistent demand from China has been a large part of the reason for the price inflation. Other metals have also experienced price increases, albeit to a lesser extent compared to copper.

#### Demand from China has boosted metal prices, particularly for copper



Source: London Metal Exchange, monthly average cash buyer contract price

*Robust industrial production in China has boosted demand for metals, which in turn has increased prices, particularly for copper*

A rise in prices for metals is positive news for BC's mining industry, which has seen the value of exports of metallic minerals fall well below historical levels in recent years. There were some positive signs in 2003, as the value of exports of these commodities was at its highest level in three years. With China's industrial production boom continuing, there could be yet another increase in metal exports from BC in 2004. Even if BC does not increase its metal exports to China, it will still benefit from the price inflation.

## The potential of investment and tourism from China

Currently, Canadian direct investment in China is almost three times that of Chinese direct investment in Canada. In 2002, according to Statistics Canada, Canadians invested \$667 million in China, but China invested only \$224 million in Canada. While Canadian investment in China has grown considerably over the last decade, Chinese investment in Canada has been fairly flat. As China gets more involved in global trade, it is likely that investment in Canada will grow, but it is even more likely that there will be more Canadians investing in China as Canadian companies look to take advantage of China's burgeoning economy.

Chinese investors may be slow to embrace Canada, but tourists are eager to visit. Tourism from China is an area where BC may eventually see a big benefit. According to the World Tourism Organization, China ranked seventh in the world in tourism spending in 2002. Although the number of Chinese travellers entering Canada through BC has grown significantly over the last decade, such that China ranked eighth as a source of travellers to BC in 2003, it is still only about a third of the number from Japan, a country with about 10 per cent the population of China. One reason for the lower numbers is that Canada has not received approved destination status (ADS) from the Chinese government, which would be required before Chinese tour groups could organize major tours in Canada. Australia, which was given ADS by China in 1999, has seen visitor visas issued to Chinese citizens to travel to Australia rise from 55,897 in 1997-1998 to 129,446 in 2002-2003, more than doubling in just five years.<sup>2</sup> As a result, the number of Chinese tourists travelling to Australia has increased substantially. Although Canada has attempted to get ADS, so far China has refused and has given no explanation for the rejection. If China eventually comes around to granting Canada ADS, the benefits to BC should be quite significant.

*China ranked seventh in the world in spending on tourism in 2002*

*So far Canada has not been able to attain approved destination status from China*

Whether it is trade in goods or services, China has enormous potential for BC and Canada as a whole, but the competition to tap into this huge market is stiff. The challenges for Canadian companies will be difficult, ranging from dealing with current Chinese bureaucracy, as with the attempt to get approved destination status, to dealing with low cost competition, such as from Russia for wood products, to answering calls from groups protesting trade with China based on accusations of human rights violations. With a market the size of China, there is little doubt that there will be companies up to the challenge.

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<sup>2</sup> Source: Australian Government, Department of Immigration and Multicultural and Indigenous Affairs website.

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

<b>04-01</b>	<i>China Offers Considerable Opportunities for Trade</i> (released March 2004)	<b>02-10</b>	<i>Lumber Battle Takes an Unexpected Turn</i> (released December 2002)
<b>03-12</b>	<i>Rising Commodity Prices Could Signal Turnaround for BC Exports</i> (released February 2004)	<b>02-09</b>	<i>Canada Looking to Shed Light on Trade With the Dark Continent</i> (released November 2002)
<b>03-11</b>	<i>The Lows of High Tech Trade</i> (released January 2004)	<b>02-08</b>	<i>Canada's Share of US Softwood Lumber Market Slipping</i> (released October 2002)
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<b>03-07</b>	<i>A Summary of the NAFTA Panels' Decisions on Lumber Duties</i> (released September 2003)	<b>02-04</b>	<i>Team Canada Promotes Trade With Mexico</i> (released June 2002)
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<b>03-05</b>	<i>Value Added Wood Production in BC Lagging Rest of Canada</i> (released July 2003)	<b>02-02</b>	<i>The Threat of American Protectionism</i> (released April 2002)
<b>03-04</b>	<i>Exports and the Rising Dollar</i> (released June 2003)	<b>02-01</b>	<i>Canada Seeks to Increase Trade With India</i> (released March 2002)
<b>03-03</b>	<i>Canada Talks Trade With Turkey</i> (released May 2003)	<b>01-12</b>	<i>Is "Runaway" Film Production in Canada Harming the U.S. Industry?</i> (released February 2002)
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<b>03-01</b>	<i>Review and Outlook for BC Exports</i> (released March 2003)	<b>01-10</b>	<i>Exploring China as a Market for BC's Wood Products</i> (released December 2001)
<b>02-12</b>	<i>Team Canada Returns to Europe</i> (released February 2003)	<b>01-09</b>	<i>Is Trade Threatened by Security?</i> (released November 2001)
<b>02-11</b>	<i>Canada Courts the European Union for Freer Trade</i> (released January 2003)	<b>01-08</b>	<i>Thirst for Energy Powers British Columbia's Exports</i> (released October 2001)

## 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**

P.O. Box 9410 Stn Prov Govt

Victoria, B.C.

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(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.