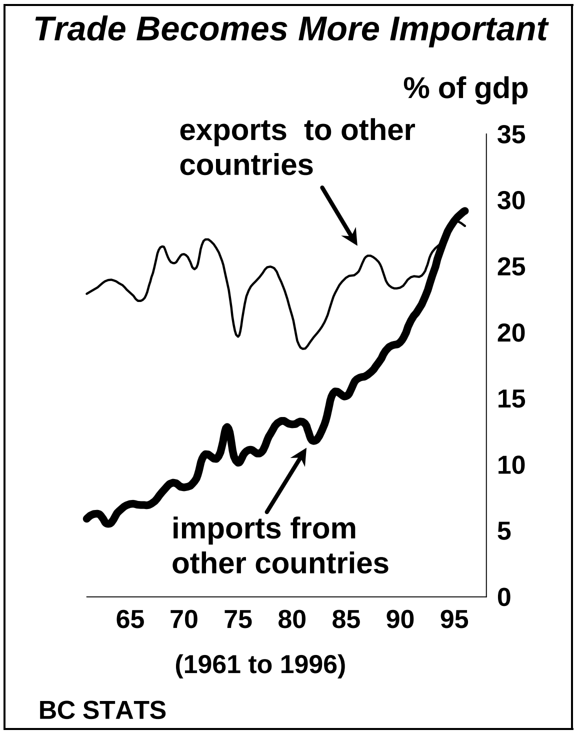
Feature:

Imports Catch Up to Exports, As Trade Surges in 1990's



In 1994, and again in 1996, British Columbia's international merchandise imports exceeded the value of its exports, after decades of catching up. The rapid rise of imports has been driven by a fast growing population, pushing demand for imported consumer goods, and by new demands for industrial commodities from a steadily diversifying economy.

Exports have always figured large in the British Columbia economy. From the early 1960's to the late 1980's, they accounted for between 19% to 27% of gross domestic product, the percentage rising or falling mainly with international demand for forestry and mineral products. However, there was no persistent trend to rise above this range until the 1990's, when accelerating globalisation of the world economy, and North American free trade in particular, produced a surge in the province's international trading.

Imports, on the other hand, have been growing faster than the economy for a long time. In 1961, the value was less than 6% of gross domestic product, while exports were 23%. By 1994, imports had risen to 27% of gross domestic product while exports were still in about the same range (26%) as they had been 33 years earlier. Since then both have grown together. By 1996 exports had climbed to 28% of gross domestic product and imports to 29%.

Imports Overtake Exports

One reason for imports to have caught up to exports has been the replacement of finished goods imported from eastern Canada with goods imported from outside Canada. This has been a long term trend that accelerated with North American free trade in the 1990's.

Another reason has been the global increase in international trade affecting Canada and many other countries. Imports of consumer products have grown rapidly, as Canadians in all provinces have developed a taste for foreign made products. For example, between 1990 and 1996, Canadian imports of toys and sports equipment grew 101%; imports of pharmaceuticals grew 188%; and imports of tobacco products grew 259%. By comparison, total Canadian exports grew a relatively modest 83% over the same period.

Rapid population growth has also contributed to rising imports. The number of people in the province grew by 17% between 1990 and

1996, adding 460 thousand new consumers.

Yet another reason for import growth has been diversification into secondary manufacturing. Most of the province’s traditional resource processing industries require little in the way of imported raw materials or components. However, many of the fastest growing industries in the 1990’s have been secondary manufacturers that are not resource based, and that require a steady supply of imported raw materials or components.

Industrial Importers

Imports have been important to some British Columbia industries for a long time. For example, aluminum smelting at Kitimat has always depended totally on imported ore, and zinc smelting at Trail depends on imported ore for about half of its raw material. Fish canneries have sometimes imported Alaskan salmon, and sawmills have imported logs.

In the 1990’s, industrial imports have surged with the growth of secondary manufacturing industries. Among these industrial importers were the plastics industry, which grew 22% between 1990 and 1996; the chemical industry which grew 29%; and the electronics industry, which grew 170%. As these industries expanded, the old resource sector shrank 1%.

Secondary manufacturers have proven to be strong exporters, as well as importers. They accounted for 25% of total exports in 1996, up from 18% in 1989. Far more than resource industries, they need to import in order to export.

As more of the province’s total exports have been produced by these industries, a link has been established between export growth and import growth. They have also bound the province more closely to its trading partners, as international markets have become essential sources of industrial imports, as well as destinations for exports.

Some Provinces Rely More On Trade Than Others

Among the provinces, British Columbia’s dependence on trade is not exceptional. Six provinces export more internationally in relation to the size of their economies than British Columbia, and three provinces export less. By the same relative measure, four provinces import more, and five import less.

The extent to which a province or country depends on trade is suggested by its ratios of exports or imports to gross domestic product.

Small ratios suggest relatively less reliance on trade. For example, the very low trade to gross domestic product ratios for the United States (8% for exports and 11% for imports, in 1995) imply that country is still a relatively self-contained economy and one that is therefore less vulnerable to interruptions in its international trade. This provides some relative advantage in trade negotiations, because the U.S. economy is generally able to absorb changes in its international commerce with less economic shock than would be felt in economies more thoroughly committed to international markets.

British Columbia is far more sensitive than the United States to interruptions in trade, and to changes in export commodity prices. But it is not more sensitive than most other provinces. Taken in relation to the size of its economy, its exports and imports are both lower than the Canadian average.

In 1996, the British Columbia ratios of exports and imports to gross domestic product were 28% and 29%, respectively. The ratios for all of Canada were 39% for exports and 37% for imports.

Ontario had by far the highest ratios of both exports and imports to gross domestic product in Canada. Its exports amounted to 48% of its gross domestic product in 1996. Its imports amounted to 49%.

Ontario's high ratios for both exports and imports reflect the importance of motor vehicle production and other manufacturing activities in its economy. Much of Ontario's manufacturing activity is in industries that are highly integrated across the Canada -United States border. An increase in car exports from Ontario to the United States, for example, is likely to produce an increase in auto parts imports from the United States, Mexico or Japan.

This integration tends to link export growth to import growth more closely for Ontario than for other provinces.

Exports also accounted for large parts of the economies of Alberta and Saskatchewan. Large exports of natural resource and agricultural products produced two of the highest ratios of exports to gross domestic product in Canada. But with relatively little secondary manufacturing activity to draw in industrial imports, their ratios of imports to gross domestic product were among the lowest in Canada.

In the past, British Columbia's trade pattern has been similar to that of Saskatchewan or Alberta. In the future it is likely to be closer to Ontario's, with both imports and exports growing together, and both becoming more important in terms of the overall economy.

1996 International Trade
As Percent of Gross Domestic Product

	Exports (%)	Imports (%)
British Columbia	28.0	29.2
Alberta	39.3	21.6
Saskatchewan	36.2	25.3
Manitoba	29.0	29.3
Ontario	47.9	48.5
Quebec	32.5	34.2
New Brunswick	27.7	32.5
Nova Scotia	18.7	31.4
Prince Edward Island	13.1	16.1
Newfoundland	38.6	29.1
Canada	38.5	37.1
United States (1995)	8.4	11.1

Source: Provincial Economic Accounts and U.S. Dept. of Commerce

It can also be expected that British Columbia will become more sensitive to changes in international markets, as more of its economy is devoted to producing exports. A six percent drop in provincial exports such as was experienced between 1995 and 1996 would have had more impact if exports had been 49% of gross domestic product, than it did when they were at 29%.

But the likelihood of severe drops in provincial export revenues is growing less year by year. As the province's exports have grown in the 1990's, they have become more diversified, including a higher portion of secondary manufactured goods. This has made them less vulnerable to the wide swings in price and demand that are typical of international markets for natural resource commodities.