Feature:
With Hong Kong, China Becomes Third Largest Export Destination For Western Provinces

With the inclusion of Hong Kong, China has become the third most important export destination for all four western provinces, trailing only the United States and Japan.

Elsewhere in Canada, China is also an important trade partner, but not yet as important as in the west. In Ontario, for example, China (including Hong Kong) ranked as the fourth largest export destination in 1996, behind the United States, the United Kingdom and Germany. It was the sixth most important export destination for Quebec and the seventh most important for the Maritimes.

British Columbia exporters have made their strongest inroads into China during the past six years. In 1990, mainland China and Hong Kong together were the destinations for only 1.7 per cent of the province's exports, considerably less than those shipped to the United States, the United Kingdom, Germany or South Korea. By 1996, the proportion of provincial exports destined for China had risen to 3.0 per cent, and in the January to April period of this year it climbed to 3.7 per cent.

On the flip side of rising trade with China are the massive volumes of Chinese consumer goods now familiar in Canadian stores. But this exchange poses little threat to Canadian manufacturers. Imports from China are mainly apparel, footwear, toys and low cost electronic goods. Canadian consumption of these items is already served largely by imports. The rising influx of Chinese goods has mainly displaced competition for imports from other Asian countries, and driven down prices for Canadian consumers.

Booming Chinese Economy Opens to International Trade

There is every reason to believe that a much larger proportion of British Columbia and western Canadian exports will be committed to the Chinese market in the next decade. The Chinese economy has been posting some of the fastest annual growth rates in the world in the first half of the 1990's, and is expected to continue growing rapidly.

International Monetary Fund (IMF) economists project the Chinese economy (excluding Hong Kong) to expand 9.5 per cent this year, only slightly less than the double digit growth rates it has registered in recent years. They also suggest that Chinese economic planners have finally subdued the boom and bust cycle of the early 1990's. Its most recent slowdown involved a relatively slight drop from 10.5 per cent in 1995 to 9.7 per cent in 1996, as inflation was brought down from 14.8 per cent to 6 per cent.

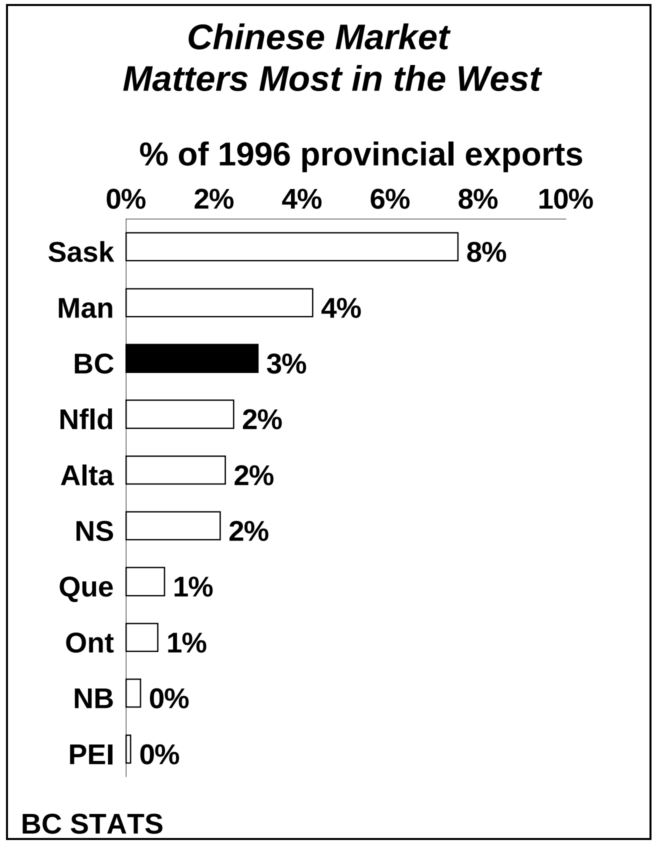
Years of rapid economic growth in China have expanded both its export capacity, and its appetite for foreign imports, as it has developed from a closed economy with relatively little impact on world trade, to a major player in international markets. Much of this was accomplished in the first half of this decade. In 1990 Chinese exports (including those of Hong Kong) ranked tenth in the world, and amounted to 2.9 per cent of world trade. Its imports were also tenth highest, and amounted to 2.5 per cent of world trade.

By 1995, the value of Chinese (including Hong Kong) exports had risen to the seventh highest in the world, after the United States, Germany, Japan, France, the United Kingdom and Italy. They amounted to 4.3 per cent of world trade. Its imports were the sixth highest, after the United States, Germany, Japan, France and the United Kingdom, and accounted for 4.4 per cent of world trade. By comparison, Japanese imports accounted for 6.0 per cent of the world total, and Canadian imports accounted for 3.3 per cent.

Rapid as it has been, China's import growth has been constrained by problems associated with its transition from a centrally administered economy, and by its continuing exclusion from the World Trade Organisation. For decades the Chinese economy emphasised self-sufficiency in the structure established under Chairman Mao. Imports were discouraged, exports were at very low levels, and the country's productive capacity was concentrated in large, monopolistic state owned enterprises.

State enterprises still dominate large sections of the economy, and are sometimes reported to be strongly opposed to open competitive markets. This resistance has been an important barrier to Chinese entry to the World Trade Organisation (WTO). Nevertheless, negotiations are under way, and some predict that accession to the Organisation could take place as early as the spring of 1998.

China's acceptance in the WTO is a daunting prospect for some of its international competitors who fear that its huge production capacities will alter established patterns of world trade.



Others feel that a greater disruption would result from a China not bound by the WTO trading system. A Chinese economist is reputed to have likened Beijing unbound by WTO constraints to 'a 900 pound gorilla' running wild in international markets.

For western Canada at least, the prospects of China expanding its international trade within the WTO are, on the whole, very much positive. A China growing wealthier through increased trade is apt to provide an even better market for western Canadian resources and agricultural products.

The west already has committed a large portion of its export production to trade with China. British Columbia, Saskatchewan and Manitoba each have larger portions of their exports concentrated in the Chinese market (including Hong Kong) than any other provinces. Eight per cent of

Saskatchewan's exports were destined for China in 1996; 4 per cent of Manitoba's; and 3 per cent of British Columbia's. Alberta and Newfoundland both shipped 2 per cent of their exports to China.

Wheat was far and away the principal western Canadian export commodity to China (including Hong Kong). It accounted for 63 per cent of Saskatchewan exports, 57 per cent of Manitoba exports and 43 per cent of Alberta exports.

Pulp and paper products, largely from British Columbia, constituted the next most important western export commodity. Following this were potash from Saskatchewan and petrochemicals from Alberta.

Continuing rapid industrialisation in China promises to increase the need for machinery and equipment. Goods in this category have already become the main item in Central Canadian exports to China. In 1996 they accounted for 60 per cent of Ontario exports to China, and 35 per cent of Quebec's. They have been much less a part of western Canadian trade. Machinery and equipment formed virtually no part of Saskatchewan exports to China in 1996. They accounted for only 1 per cent of Manitoba's and 4 per cent of Alberta's exports to China. British Columbia was the exception in the west. Machinery and equipment made up 11 per cent of its exports to China in 1996. Most were electrical or electronic goods.

British Columbia transportation and shipping industries stand to gain whenever any region of Canada expands its trade with China or other Pacific countries. Pacific Rim trade has already sparked remarkable growth in the province's port, rail, road and air services. China's emergence on the world trading scene at anything like its full potential could sustain or even accelerate the investment surge in British Columbia transportation facilities.

Chinese Exports Squeeze Profit Margins For South East Asian Traders

Canadian imports from China have increased from $2.5 billion in 1990, to $6.1 billion in 1996.

For the most part they are the familiar, low technology, mass production export staples of newly industrialising countries. In 1996, 25 per cent were apparel or footwear. Another 11 per cent were toys, ornaments, sport equipment or games. Some 21 per cent were electronic products, mainly computer parts and sound equipment.

Massive Chinese exports of these products to international markets have already caused considerable economic discomfort for Southeast Asian competitors. Thailand, the Philippines, Indonesia and Malaysia have faced declining exports and slower economic growth as Chinese products have crowded in beside their own in North American and European markets. More thoroughly industrialised Asian economies, those that have moved on to more 'high end' export products, must anticipate dealing with intense competition from Chinese producers in the years ahead.

Continuing expansion of world capacity for standardised low cost manufactured goods confirms the already established notion that Canadian manufacturers must look more to sophisticated niche market production. To avoid coming head to head with hyper-competitive Asian mass market producers, many Canadian manufacturers have concentrated on high technology, design flair or fashion, often with short, fast production runs.

In British Columbia, where non resource based manufacturing has emerged more recently than in Central Canada, many producers have grown up already well adapted to exploiting niche market opportunities. Competition from China is less of a threat to them than it is to eastern Canadian textile or steel industries, for example. For some British Columbia manufacturers, rising imports from China may be welcomed as an alternative source of manufacturing components.