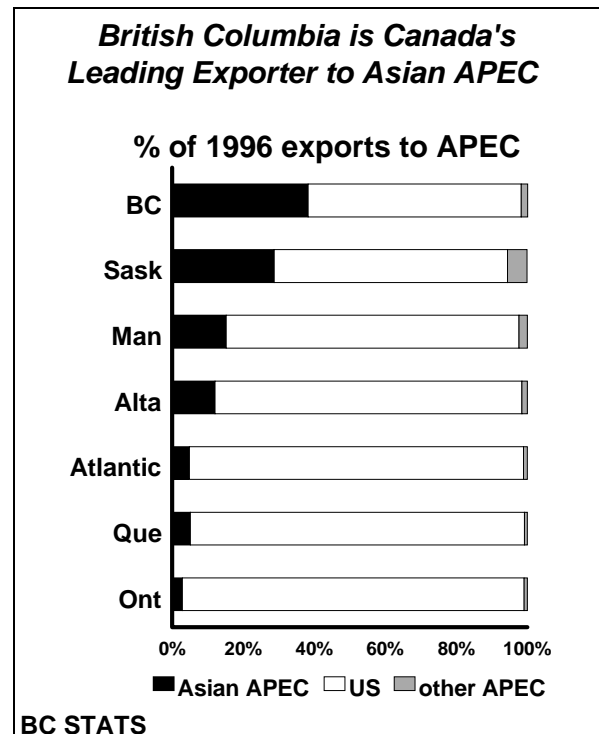


Feature:
New APEC Markets For British Columbia As Asia Industrialises

For British Columbia and most of Canada, trade with Asia has mainly meant trade with the advanced economies of Japan, South Korea and Chinese Taipei (Taiwan). This is changing quickly as industrialisation in other parts of Asia has made fast growing export markets of China and the developing economies of South East Asia. The result for British Columbia has been that its Asian trade has expanded across a much greater number of countries in the Asia Pacific Economic Cooperation (APEC) trade forum.

A wider spread of trading markets in Asia is important to all provinces, but to none more so than British Columbia. Over 38 per cent of British Columbia's 1996 exports to economies within APEC were to its Asian members. This was the highest proportion of any Canadian province. British Columbia's position as Canada's leading Asian trader derives naturally from its Pacific location, and its ability to supply forestry and mineral products to the resource poor economies of the Asian Pacific Rim. Having more of its trade vested in Asia means that British Columbia has more to gain from APEC successes, and potentially more to lose should trade in the region fail to live up to its potential.

Over time, the emergence of new Asian markets for natural resource products is likely to dampen some of the wide swings in British Columbia export revenues. Natural resource exports are notoriously susceptible to fluctuations in demand. By securing a wider selection of Asian destinations for its resource product exports the province lessens its vulnerability to disruptive events such as a slowdown in



Japanese building activity or a currency crisis in Thailand.

Asian industrialisation has also provided a much larger collection of Asian producers of manufactured consumer goods from which Canadian importers can select their purchases. Among the benefits to Canadians have been greater variety of choice, lower prices and reduced rates of inflation.

APEC has contributed to all this by providing a forum in which Asian trading countries and their partners about the Pacific can reach consensus on how best to enhance growing trade in the region.

Although APEC membership includes the United States, Mexico, Chile, Australia, New Zealand and Papua New Guinea, its significance to British Columbia and to the rest of Canada is mainly as a forum to promote trade and investment flows with Asian members. For most Canadian trade

with non-Asian members of APEC, there are other agreements in place. Trade with the United States and Mexico, for example, is governed by the far more concrete and wide ranging terms of the North American Free Trade Agreement (NAFTA). Trade with Chile is presently expanding under the Canada-Chile Free Trade Agreement.

Old and New Customers In Asian APEC

Japan is still the destination for the bulk of British Columbia's exports to Asia, accounting for 72 per cent of the province's exports to Asian members of APEC. The first Asian country to industrialise, Japan became established as the province's most important overseas market during its period of rapid post-war economic growth in the 1960s and 1970s. Exports to Japan soon exceeded the value of exports to Europe, and grew faster than exports to the United States up to the late 1980s. The portion of total provincial exports shipped to Japan rose from about 2 per cent in the 1950s to a high of 28 per cent in 1989.

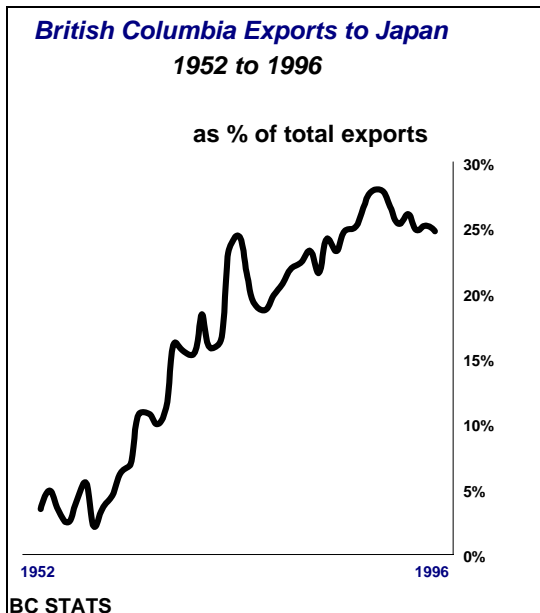
Until the early 1980s, British Columbia exports to Asian economies other than Japan were minor in terms of the province's total international trade. This began to change as South Korea, Chinese Taipei (Taiwan), and the then colony of Hong Kong began to industrialise rapidly and, in the process, to develop appetites for imported forest, mineral, and food products. British Columbia's exports to these economies grew, and by 1989 they claimed a combined share of total provincial exports of 6 per

cent. This share has remained at about 6 per cent through to 1996, as other trade developments have rearranged the market distribution of British Columbia exports.

In this decade exports to western Europe have fallen from 16 per cent of provincial exports in 1990 to 8 per cent in 1996. This striking decline was produced by a 27 per cent drop in the value of goods shipped to

western Europe, reflecting a protracted economic slowdown there, and stiffer international competition for natural resource product exporters.

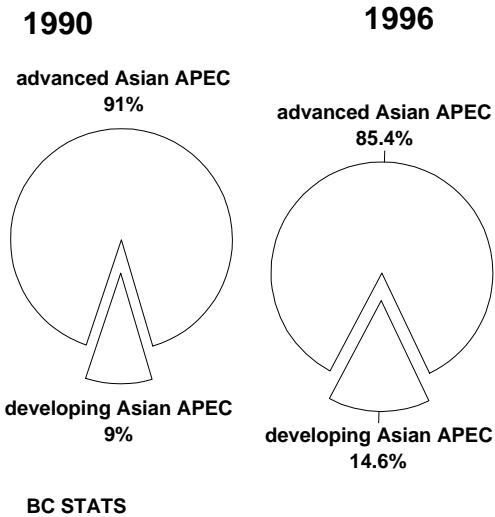
On the other hand, British Columbia's exports to the United States have risen sharply in the 1990s, with the strength of the American economy and the rapid expansion of North American trade.



And in Asia, the focus of British Columbia export growth has been shifting slowly toward the latest group of newly industrialising economies. Exports to China and the South East Asian members of APEC combined expanded from 3 per cent of exports to all countries in 1990 to 5 per cent in 1996.

This growth, combined with the growth of exports to the United States, caused exports to Japan to decline as a percentage of provincial exports to all countries. They dropped from 28 per cent of provincial exports in 1990 to 25 per cent in 1996, even as the value of goods shipped to Japan actually rose 37 per cent.

Per Cent of B.C. Exports To Asian APEC



When the growth in exports to newly industrialising Asia is seen in terms of British Columbia - APEC trade, the shift is more conspicuous. In 1990 China (including Hong Kong) and the South East Asian members of APEC accounted for 9 per cent of British Columbia exports to all of Asian APEC. By 1996, this had risen to 15 per cent – 9 per cent to China and 6 per cent to the six South East Asia members of the trade forum.

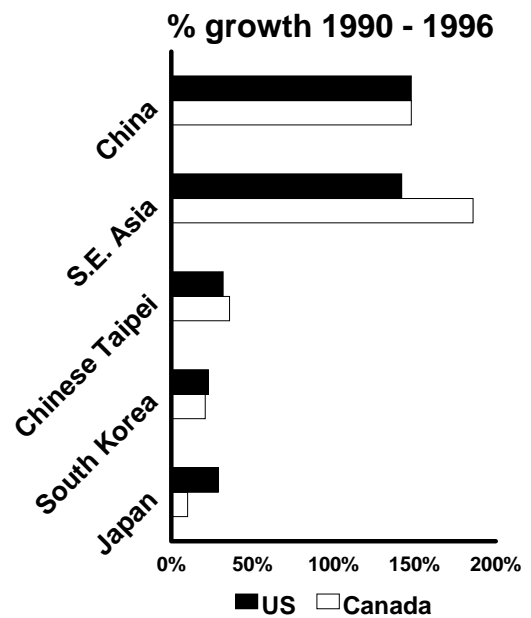
Behind this expanding share were increases in British Columbia exports of 165 per cent to China, and 86 per cent to South East Asian members of APEC. By comparison, the rates of growth for exports to Japan, South Korea and Chinese Taipei between 1990 and 1996 were more moderate – 37 per cent, 42 per cent and 47 per cent, respectively.

Newly industrialising economies in Asia have been distinguished by their rapid economic growth. International Monetary Fund statistics for the years 1990 to 1996 report annual average growth of 10.5 per cent for China (excluding Hong Kong), 8.0

per cent for Indonesia, 8.8 per cent for Malaysia, and 8.6 per cent for Thailand. By contrast average annual growth was 2.3 per cent for Japan in this period; 7.7 per cent for South Korea; and 6.3 per cent for Chinese Taipei.

Just as British Columbia exports to Asian APEC have grown fastest to the newly industrialising and rapidly growing economies of the region, Canadian imports from these same economies have grown faster than imports from the more advanced economies of the region. (Statistics are not available specifying British Columbia imports from Asian APEC.)

Canadian & U.S. Imports From Asian APEC



Canadian imports from China rose 148 per cent between 1990 and 1996, as imports from South East Asian APEC members rose 186 per cent. The rates of growth for imports from Japan, South Korea and Chi-

nese Taipei were 10 per cent, 21 per cent and 36 per cent respectively.

American import figures show a similar pattern. US imports from China (with Hong Kong) rose 148 percent between 1990 and 1996; as U.S. imports from South East Asian APEC rose 142 per cent. U.S. imports from Japan rose 29 per cent in the same period, as those from South Korea rose 23 per cent, and those from Chinese Taipei rose 32 per cent.

Asian APEC Economies Need North American Markets

Exports to Canada are no doubt important to most Asian APEC economies, but access to the United States import market might well be regarded as essential. Both developed and developing Asian APEC economies still ship very large portions of their total exports to the United States market.

Figures from Statistics Canada's World Trade Database indicate that in 1995, about 28 per cent of Japanese exports were destined for the United States. The estimates were 19 per cent for South Korea; 24 per cent for Chinese Taipei; 20 per cent of exports from China (with Hong Kong); and 15 per cent of exports from South East Asian APEC.

By comparison, exports to Canada made up only a small part of the total exports of Asian members of APEC. According to the World Trade database, the portion of total exports shipped to Canada ranged from about 2 per cent in 1995 for Japan, South Korea and Chinese Taipei, to about 1 per cent for most others.

While Asian APEC economies have been very successful in exporting to the United States, the United States has not always enjoyed the same success in Asian markets. Its merchandise trade deficits with Asian APEC trading partners have given it ample incentive to press for more open Asian markets. In 1996 the United States ran a merchandise trade deficit of \$US 114 billion with Asian APEC trading partners, taken collectively. It experienced positive merchandise trade balances with only three individual economies – South Korea, Hong Kong and Brunei Darussalam. It ran particularly massive deficits with Japan (\$US 48 billion) and the People's Republic of China (\$US 40 billion). The deficit with China was more than three times the total value of U.S. exports to China.

United States exporters have generally succeeded best in trade with more developed Asian APEC countries. Japan provided a market for 9 per cent of total U.S. exports in 1996. South Korea was the destination for another 3 per cent and Chinese Taipei for 2 per cent. China (excluding Hong Kong) accounted for only 2 per cent of U.S. exports in 1996 while the South East Asian countries of APEC together accounted for about 5 per cent.

The relatively better success of U.S. and Canadian exporters in selling to more developed Asian economies would be expected from the greater purchasing power of those markets. It argues the long term advantage to North America of promoting Asian industrialisation as a means of building future markets for U.S. (and Canadian) manufactured goods. Manufactured goods comprise most US exports to Asian APEC. In 1996, about 56 per cent of American exports to Asian members of APEC were machinery and equipment. The machinery and equipment portions of

Ontario and Quebec exports to Asian APEC were 47 per cent and 33 per cent, respectively. For British Columbia it was only 4 per cent. One implication of this for British Columbia is that it must increase this ratio if it is to enjoy the full economic benefit of future trade with a more completely industrialised Asia.

From an Asian perspective, continuing industrialisation promises more local markets with which to trade, but also more competition between Asian APEC economies.

Industrialisation in Asia has so far been built largely on the production of mass produced consumer manufactured goods for export to North American and European markets. Each newly industrialising member of Asian APEC adds another producer of these goods striving to extend its export mix beyond textiles, apparel, toys, agricultural and resource commodities to electronic goods, transportation equipment and eventually into specialised high technology products.

To make the transition quickly they need first to attract investment capital; and for this they must compete with other economies at a similar stage of industrial development.

The most spectacular gains in the competition to attract investment capital have been made by China. According to numbers compiled for the United Nations World Investment Report, foreign direct investment in China increased more than tenfold in the first half of the 1990s, from \$US 3.5 billion in 1990 to \$US 37.5 billion in 1995. This rate of increase far outpaces that for

any South East Asian members of APEC. The Chinese share (not including Hong Kong) of foreign direct investment absorbed by all Asian APEC economies in 1995 was 61 per cent. The next largest inflows went to Malaysia (9 per cent), Singapore (9 per cent) and Indonesia (7 per cent).

