Feature:
British Columbia Export Focus Swings Back To United States

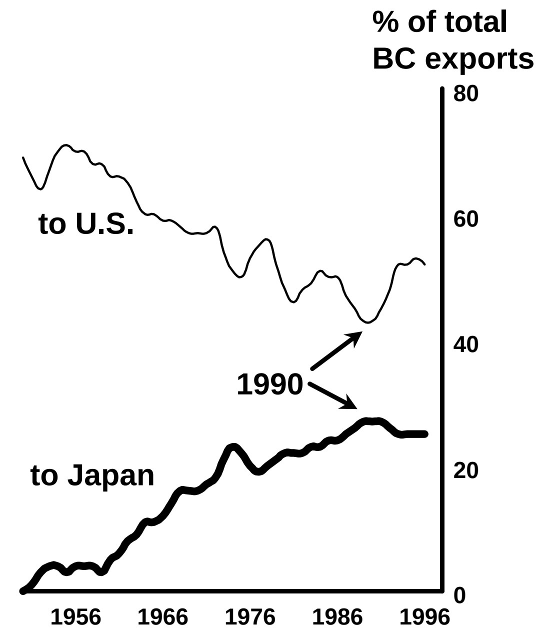
British Columbia's export markets are more diversified than those of any province except Saskatchewan. But during the 1990s trade has slowly become more concentrated in the U.S. market.

There are many reasons for this, but probably the most obvious is the reduction of trade barriers within North America through the Canada-U.S Free Trade Agreement, which first took effect in January 1989, and then later evolved into the North American Free Trade Agreement (NAFTA) including Mexico. In the nine years since the first Agreement came into effect, the portion of British Columbia's total exports shipped to the United States has risen from 43 per cent in the 1989 calendar year, to 56 per cent in the first three quarters of 1997.

The shift toward the U.S. during the 1990s is significant because it comes as a reversal of a forty year trend toward offshore markets.

The U.S. bound portion of British Columbia's exports fell gradually from post second world war highs of over 70 per cent in the 1950s, to lows of 43 per cent and 42 per cent in 1989 and 1990, respectively. This largely reflected faster growth in exports destined for Japan and Europe during their period of rapid post-war recovery. Along the way there were occasional short-term reversals of the trend, produced by slowdowns in U.S. economic growth occurring at intervals of five or six years. But the reversal that began in 1990 is the largest ever, and may mark the end of the long term trend.

Long Term Shift From US Market Reversed in the 1990s



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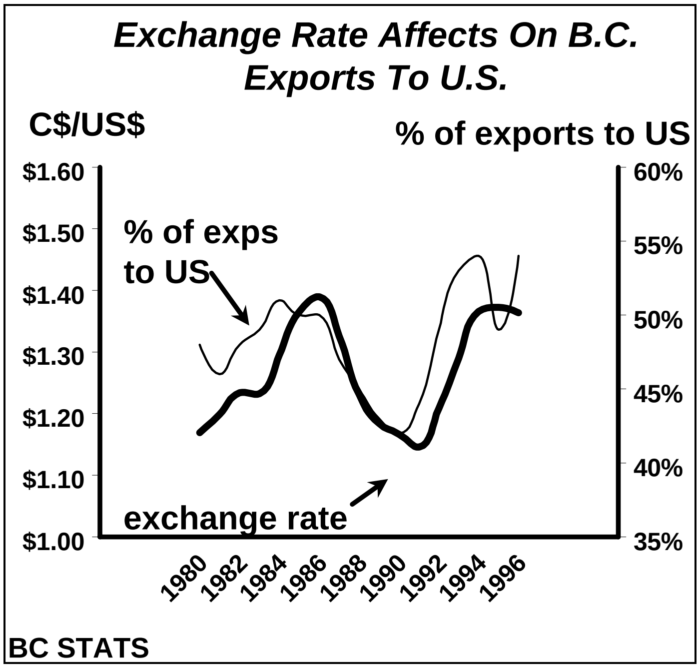
North American trade liberalisation has not been the sole cause of accelerated growth of U.S. bound exports during the 1980s. Exchange rate changes have also had some affect, with changes in the portion of total exports destined for the United States paralleling changes in the Canada-United States exchange rate since 1980. This implies that, when the value of the Canadian dollar declines against the U.S. dollar, British Columbia exports to the United States grow faster than British Columbia exports to other markets. The relationship is not evident in the period from the 1950s up to 1980, possibly because it was overridden by other factors, such as fast rising exports to Japan and Europe.



One factor that may have constrained British Columbia exports to offshore markets in the 1980s and 1990s, has been growing international competition to export forest and mineral commodities. This development has affected exports to the distant markets of Europe and Asia more than exports to nearby U.S. markets. The European Union, for example, has turned increasingly to Eastern Europe and Latin America for its wood, pulp, mineral and energy supplies. Asian consumers of these commodities have found alternative sources in Latin America, Australia and New Zealand.

The changing product mix of British Columbia's exports is another factor tending to bind the province more tightly to North American trade flows. The raw or semi-processed forestry and mineral resource commodities that still constitute about two thirds of British Columbia's international exports have been the main reason the province is Canada's greatest exporter to Asia. But the fastest growing products in British Columbia's export mix are value added goods that sell mainly into the U.S. market.

Among the most important products in this broad category are machinery and equipment, accounting for 10 per cent of total exports in September 1997 year to date. These grew 129 per cent between 1989 and 1996, more than three times as fast as the 40 per cent growth of total exports. Similarly, plastic products and apparel, accounting for 1 per cent each of total exports, grew 238 per cent and 311 per cent respectively between 1989 and 1996.

The bulk of value added exports are shipped to the United States. For example, the American market absorbed 71 per cent of British Columbia's machinery and equipment exports in 1996, 88 per cent of plastic product exports and 93 per cent of apparel exports. These percentages compare with only 20 per cent of metallic mineral products shipped to the United States, 30 per cent of energy products, 45 per cent of pulp and paper products, and 62 per cent of solid wood products.

Much of the increased North American trade in secondary manufactured products in this decade has been produced by the ongoing integration of continental manufacturing industries. As tariff barriers have fallen under NAFTA, cross border procurement arrangements have been established whereby parts for goods assembled in one North American partner are sourced in another. A British Columbia example might be a lower mainland aerospace manufacturer supplying components to Boeing's 747 assembly plant in Everett Washington.

This sort of cross border trade has long been a substantial part of Ontario and Quebec Auto Pact trade with the United

States. The wider integration of North American manufacturing that has taken place under NAFTA has bound the economies and trade of machinery and equipment producing provinces, mainly Ontario and Quebec, very firmly to the United States. In 1996, after six years of continental trade liberalisation, the U.S bound portion of exports from Ontario had risen to 90 per cent, up from 86 per cent in 1990. For Quebec, it was up to 80 per cent in 1996, from 76 per cent in 1990.

British Columbia, with its 54 per cent of exports destined for the United States in 1996, and 56 per cent in September 1997 year to date, is still a long way from Central Canadian levels of dependency on the United States market. But the rapid growth of value added exports to the United States, particularly exports of machinery and equipment and plastics products, suggests that British Columbia's secondary manufacturers are also becoming tied into the integrated North American manufacturing economy.

NAFTA rules have provided British Columbia manufacturers with security of access to U.S. markets, and also security from Canadian trade barriers that might otherwise have restricted their access to U.S. made production components. This security has encouraged investment in production facilities geared to compete in the huge North American market. Because the United States is such a large part of that market, it is likely to become the destination for a growing portion of the province's exports, and also the origin of a growing portion of its imports.

Over the short term, at least , there is unlikely to be any counterbalancing increase in resource commodity exports to Asia. Recent turmoil in Asian financial markets is expected to produce slower growth in that part of the world, something that must lead to weakened demand for imports.

In the meantime, the rapidly expanding economies of Latin America have presented opportunities for British Columbia exporters, particularly those with products and services needed for infrastructure development and natural resource processing industries. The NAFTA driven expansion of British Columbia secondary manufacturers and professional service companies within the North American market should help in this. Experience, capital, production and marketing systems developed through gearing up to compete in North American markets will provide a good base from which to confront European and American competition in Latin America and in other offshore markets.