

## Feature: British Columbia Hardest Hit By Slumping Asian Exports

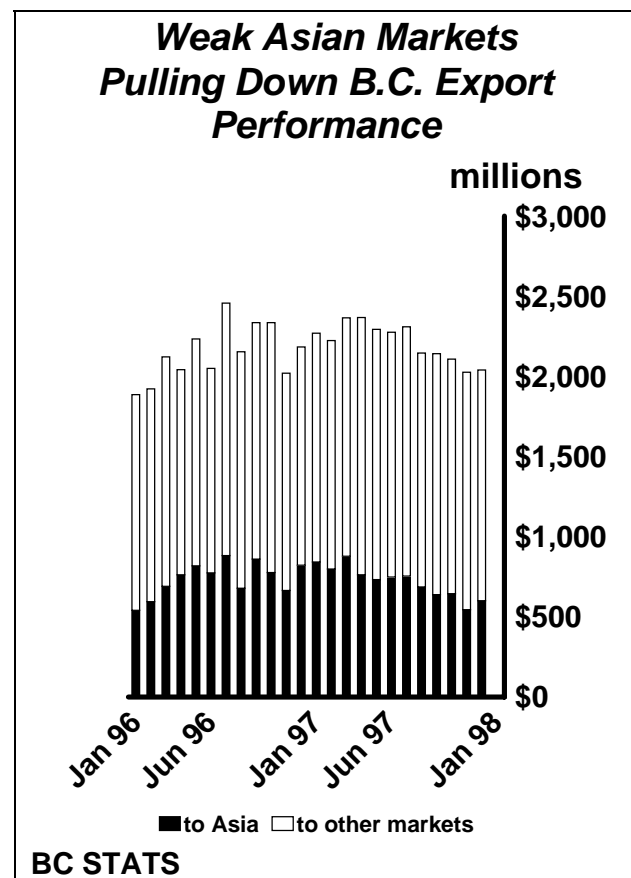
During most of the 1990s, British Columbia was able to count on rapidly rising exports to Asia to maintain its economic growth. But monthly exports to the region went into sharp decline early in 1997 and continued to fall throughout the year, dropping 46 per cent from January 1997 to January 1998. The single most important reason for this trend has been the slowdown in the Japanese economy. The more recent development of the Asian financial crisis in July of last year compounded the problem. However, its direct affect on British Columbia's exports has been secondary to the affect of Japan's chronic economic difficulties.

The slump in exports to Japanese and other Asian markets has been felt across Canada, but inflicted the most damage in British Columbia. The province's export losses accounted for almost half (46 per cent) of the \$840 million drop in the monthly value of Canadian goods exported to major Asian markets between January 1997 and January 1998.

British Columbia's economy has become closely linked to Asia over the past two decades. In 1997, its Asian exports were about four times as large in relation to our gross domestic product (GDP) as those of other provinces (taken together). And while Asia has been the destination for only 5 per cent of the combined exports of other provinces, it has accounted for 32 per cent of British Columbia's exports.

The province's exports are all the more sensitive to changing economic conditions in Asia because they are concentrated in resource commodities that are subject to wide variations in international trading prices. Eighty-five per cent of British Columbia exports to Asia are natural resource products, compared to only about 20 per cent for the rest of Canada. Weak Asian

markets have reduced the prices British Columbia exporters have received for resource products shipped to other parts of the world, effectively magnifying the impact of the Asian crisis on British Columbia's economy.

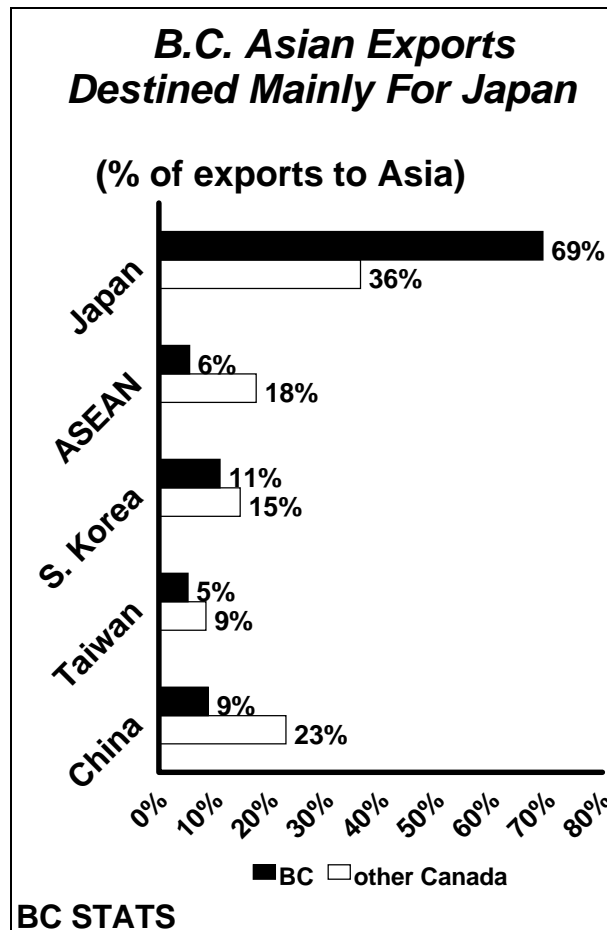


Most importantly, weak Asian markets have affected resource prices and supplies in the all important U.S. market. This played a part in reducing values of British Columbia exports to the United States from a monthly peak of \$1,319 million in April to \$1,162 in January this year.

Another way in which British Columbia's Asian exports differ from those of other provinces is the extent to which they are concentrated in Japan. Although trade with other Asian countries has been growing rapidly, Japan was still the destination for 69 per cent of British Columbia's Asian exports in 1997. By contrast, only 36 per cent of Asian exports from the rest of Canada went to the Japanese market.

Unfortunately for British Columbia, exports to Japan have fallen further since early 1997 than exports to other Asian markets (taken together). Most of the weakness in Japanese markets for resource commodities is associated with long term financial and structural problems that have plagued the Japanese economy throughout the 1990s. But growing international competition has also played a part. British Columbia exporters have been confronted with a steady increase in the number of international competitors selling forest and mineral commodities in Japan from South America, New Zealand and Europe. When the affect of the relatively recent Asian-wide financial crisis on Japanese economic growth is added to these problems, the outlook for British Columbia's exports to Japan cannot be optimistic, at least for the short term.

The most serious impacts for British Columbia from these developments have been felt by the province's sawmills, particularly those in the coastal industry that have traditionally relied heavily on the Japanese market and that do not hold sizeable export quotas for the United States market. Lumber exporters faced an additional handicap in 1997 as the Japanese government introduced a sales tax increase applying to new home purchases.



All of this has brought a predictable sharp drop in lumber exports to Japan. These sank from \$293 million in December 1996 to \$118 million in December 1997. In January this year they dropped further, to \$92 million, a third of what they had been in the same month last year.

Japanese and wider Asian economic problems also produced drops in the value British Columbia's exports of metallic mineral commodities. These fell off from \$85 million in October to \$40 million in December. They recovered somewhat in January to \$68 million. Much of this was caused by falling metal prices, as world markets anticipated the impact of the Asian crisis on world demand.