

## Asian Fallout Has British Columbia Exporters Relying Heavily On U.S. Market

The effects of persistent economic difficulties in Asia show clearly in British Columbia's declining exports to that region, down 32 per cent in August year to date from the same months of 1997. Faced with a drastic drop in Asian demand, the province's exporters have naturally looked to the United States, where a booming economy and a high valued U.S. dollar have stimulated demand.

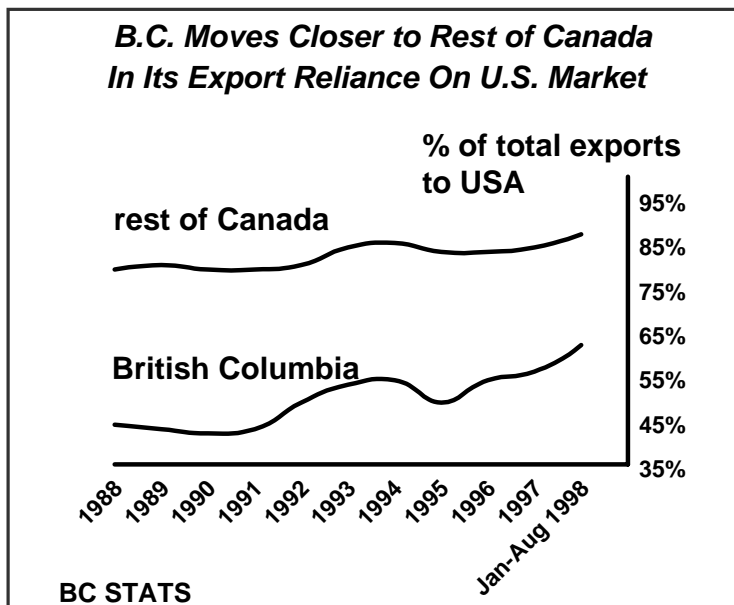
Focussing on U.S. markets has generally produced good results, but with some important exceptions. The hugely important lumber industry has found its access to the U.S. market seriously constrained by the Canada-United States Softwood Lumber Agreement, which limits the volumes that can be shipped to the United States.

Fortunately for other industries, the North American Free Trade Agreement has provided more or less open access, allowing rising exports to the United States to offset falling exports to Asia. For some of these industries the increase in exports to the United States exceeded the value of export business lost in Asia. For others, exports to the United States only partially offset losses in Asia. Overall, the value of British Columbia's exports to the United States for August year to date was up \$431 million from the same months of 1997. This gain is set against a loss of \$1,971 million in exports to Asia. Total exports, including all destinations, were down \$1,679 million.

### British Columbia Becoming More Like Rest of Canada in Reliance On U.S. Market

It has been fortunate that some exporters have been able to turn to the U.S. market to make up for poor markets in Asia. However, one effect has been to concentrate more of the province's export trade in the U.S. market. This has brought British Columbia's export profile closer to that of other provinces in that it now depends on the United States to purchase well over half of all of its exports.

Dependence on the U.S. market renders the province more vulnerable to any slowdown in the U.S. economy, or to any sharp drop in the value of the U.S. dollar against the Canadian dollar.



**Share of International Exports By Market Destination  
British Columbia and other Canada**

		1990	1991	1992	1993	1994	1995	1996	1997	Jan.-Aug. 1998
<b>to USA</b>	<i>BC</i>	42%	43%	49%	53%	54%	49%	54%	56%	62%
	other Canada	79%	79%	80%	84%	85%	83%	83%	84%	87%
<b>to Japan</b>	<i>BC</i>	28%	27%	25%	26%	25%	25%	25%	22%	17%
	other Canada	3%	2%	2%	2%	2%	2%	2%	2%	1%
<b>to rest of Asia</b>	<i>BC</i>	9%	10%	9%	9%	9%	10%	10%	10%	8%
	other Canada	4%	5%	4%	3%	3%	4%	4%	3%	2%
<b>to Euro. Union</b>	<i>BC</i>	16%	15%	12%	8%	8%	11%	8%	8%	8%
	other Canada	8%	8%	7%	6%	5%	6%	6%	5%	5%
<b>to other world</b>	<i>BC</i>	6%	5%	4%	4%	4%	4%	4%	4%	4%
	other Canada	7%	7%	7%	5%	5%	5%	5%	5%	5%

**BC STATS**

Between 1990 and the January to August period of 1998, the portion of British Columbia exports destined for the United States — a measure of our reliance on the U.S. market — rose from 42 per cent to 62 per cent. The U.S. bound export ratio for other provinces also increased, but more slowly, rising from 79 per cent in August year to date of 1997 to 87 per cent in the same period of this year.

Exports to Asia and especially to Japan have been and still are far more important for British Columbia than they are for the rest of Canada. This is partly because of British Columbia's location on Canada's Pacific coast. But it is also because British Columbia's exports are still mainly concentrated in the natural resource products for which Asia and Europe are major world importers.

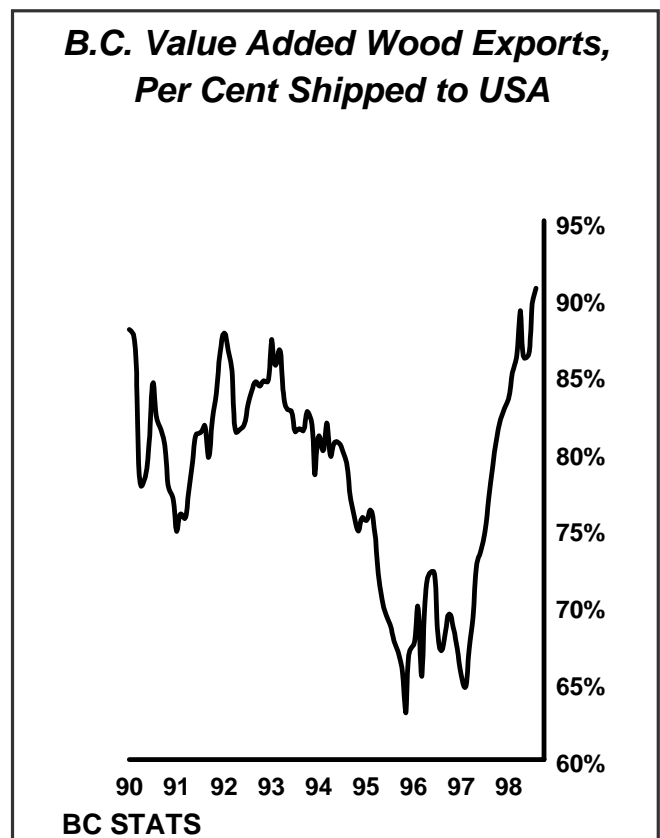
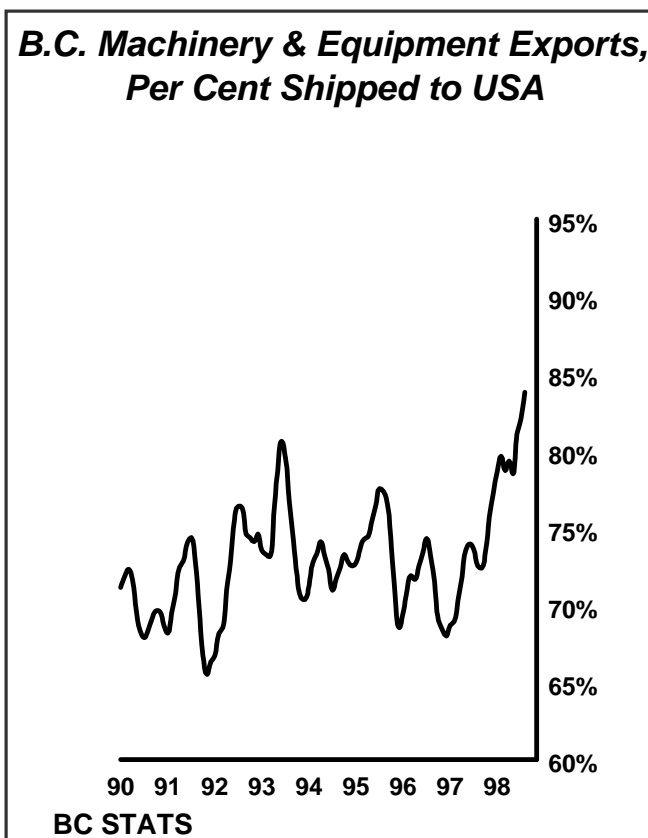
The importance of export mix in determining destination of exports is apparent in British Columbia's substantial trade with the European Union. Although British Columbia is further from Europe than any other province, it still produces 14 per cent of all Canadian exports to the European Union. Eight per cent of all British Columbia exports are shipped to Europe, a higher proportion than for any province except Nova Scotia, Newfoundland or Quebec. The key commodities in British Columbia export trade with Europe are pulp, coal and lumber.

## Value Added Exports Focussed On U.S. Market

While resource commodity producers have traditionally found ready markets in Asia or Europe as well as in the United States, British Columbia producers of finished manufactured products have exported mainly to the United States. Thus the steady expansion of secondary manufacturing activity in British Columbia during this decade has become an important factor behind the expanding portion of provincial exports destined for the United States. This effect has been strengthened by a surge in value added exports to the United States this year, and a sharp decline in value added exports to Asia.

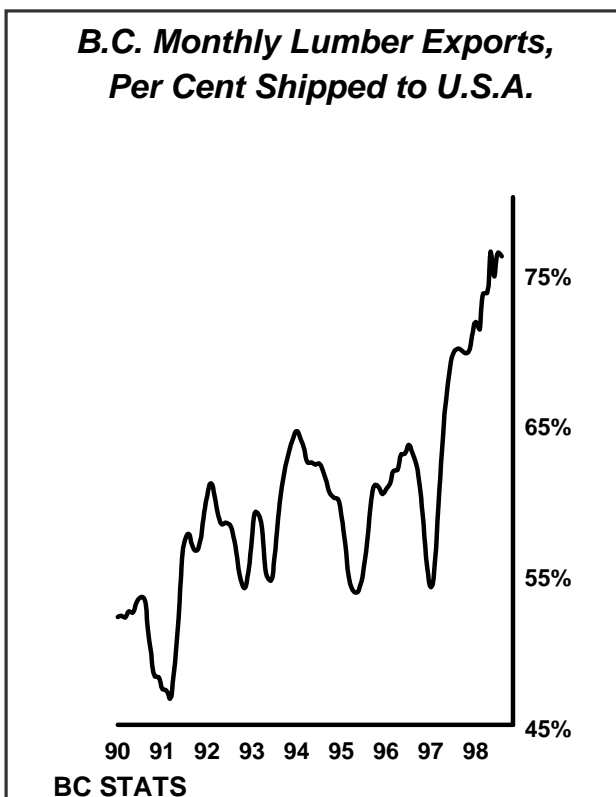
Between January to August 1997 and the same period of 1998 the portion of British Columbia exports of plastics destined for the United States grew from 81 per cent to 95 per cent. For electronic products the U.S. bound portion grew from 64 per cent to 70 per cent. For value added wood products, it grew from 71 per cent to 87 per cent; and for motor vehicles and parts, it grew from 76 per cent to 85 per cent.

Much of this was trade shifting from Japan. For example, the portion of all British Columbia exports of electronic products destined for Japan fell off from 7 per cent to 5 per cent during this period. For motor vehicle products, it fell from 9 per cent to 3 per cent. For apparel products it fell from 5 per cent to 1 per cent. And for value added wood products it fell from 24 per cent to 10 per cent.



## Resource Commodity Exporters Also Forced to Rely More On U.S. Market

The shift to U.S. markets has also been apparent for natural resource export commodities. It is a measure of the severity of export losses in Asia during the first eight months of 1998 that exports of some commodities have become increasingly concentrated in the United States market, even as the value of those exports to the United States has been dropping.



Lumber exports to the United States, for example, dropped 12 per cent between January to August 1997 and the same months of 1998, from \$3.5 billion to \$3.1 billion. Yet the U.S. bound portion of total lumber exports rose from 63 per cent to 74 per cent, mainly because exports to Japan dropped a much sharper 53 per cent from \$1.6 billion to \$770 million.

Other resource commodity exports that have become more concentrated in the U.S. market include zinc metal, whole salmon, non-newsprint paper, and plywood.

Exports of whole salmon, for example, were 81 per cent bound for the U.S. market in January to August this year, up from 72 per cent in the same months of 1997. Exports of paper other than newsprint were 74 per cent U.S. bound in August year to date, up from 66 per cent in the same period of 1997.

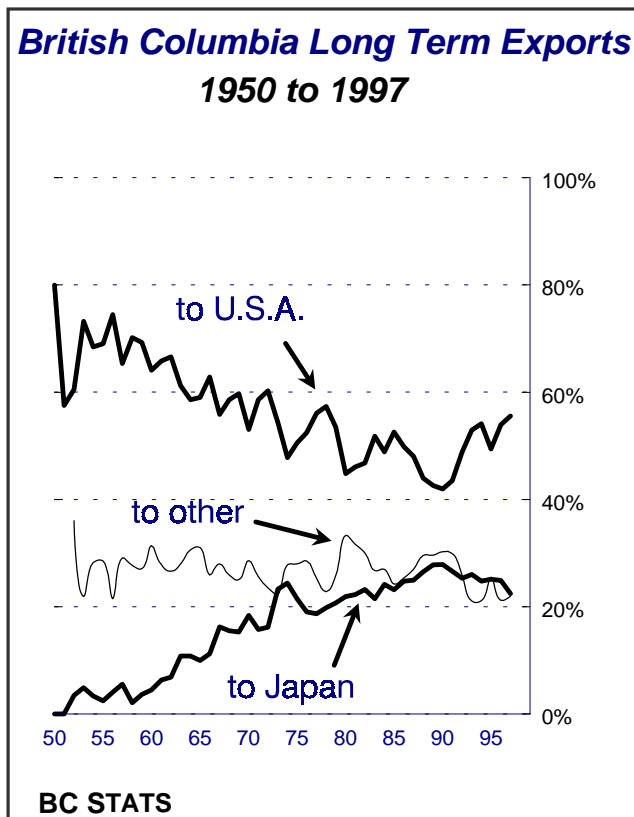
## Swing to the United States Reverses Long Term Trend

Seen in an historical perspective, the rising portion of British Columbia exports destined for the United States during the 1990s is a reversal of the prevailing trend of the previous four decades.

The reversal is explained by a number of developments occurring during the 1990s. One has been the long U.S. expansionary phase. Another was the collapse of the Japanese bubble economy. Another has been the steady increase in exports of value added products marketed mainly in the United States.

Yet another factor has been declining trade with Europe, traditionally the third major market for the province's exports. British Columbia trade with Europe has fallen off in absolute, as well as relative terms, during this decade. In absolute dollar terms, British Columbia exports to Europe fell from \$2,744 million in 1990 to \$2,144 million in 1997. In terms of share of total British Columbia exports, the portion of provincial exports destined for Europe

halved between 1990 and 1997, dropping from 16 per cent to 8 per cent.



Behind the fall-off in trade with Europe have been a somewhat inwardly focussed European Union, absorbing three new members (Sweden, Finland and Austria) bringing their own forestry and mineral resources within the trade block.

Europe, along with Asia and other traditional resource importing areas, has also gained access to new sources of forestry and mineral resources in Latin America and other developing regions. These new trading relationships have altered world trade patterns for resource commodities, forcing some permanent changes to British Columbia's role as an international trader.

While presenting economic difficulties for the province at present, these development may ultimately serve some good purpose by accelerating a shift in industrial focus from resource commodity production to secondary manufacturing and services.