

British Columbia Trade Becoming More Continental Than Global

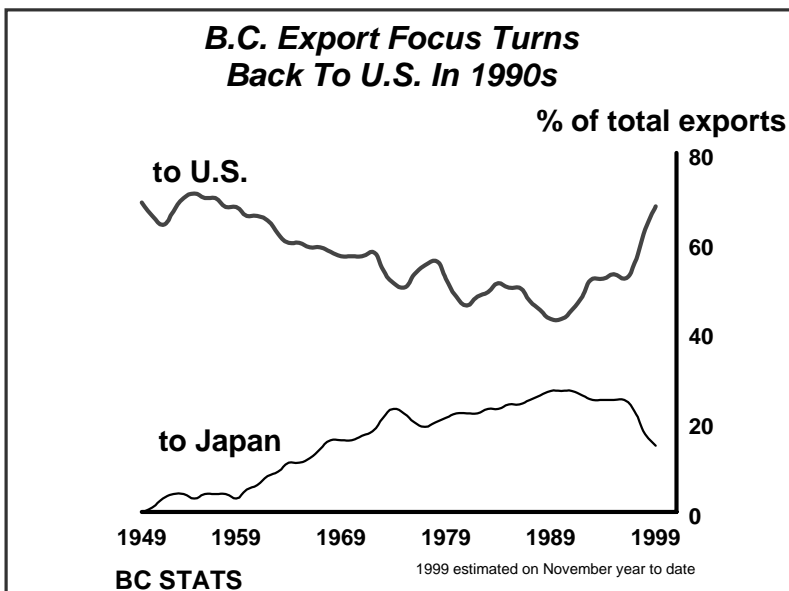
The 1990s brought substantial changes in the proportions of British Columbia exports shipped to major world markets. At the beginning of the decade, the portion of total provincial exports shipped to the United States began to grow, reversing a forty year declining trend. The proportion shipped to Asia and Europe shrank steadily throughout the decade.

Fifty years ago, trends in British Columbia's Asian exports were largely determined by rapid post Second World War growth in Japan. Just after the War, the United States' economy so dominated world trade that all other markets were small by comparison. As Japan recovered and became a major exporter of manufactured goods, it developed a powerful appetite for raw resource materials that British Columbia was able to provide. A natural trading partnership took shape and more and more of the province's exports became destined for Japan through the

United States was shrinking, although the absolute value continued to grow.

Changing World Marketplace

Then at the beginning of the 1990s several things happened to reverse these trends. The Japanese bubble economy burst, initiating a decade of feeble economic performance. The U.S. economy came out of recession and began what has become its longest post war period of growth. This contributed to a sharp rise in the U.S. dollar against the Canadian, which made Canadian goods more competitive in the U.S. marketplace. In addition, trade barriers between Canada and the United States were largely eliminated under the Canada-U.S.A. Free Trade Agreement. This was later to become the North American Free Trade Agreement with the addition of Mexico.



More open trade with the United States meant that Canadian exporters were better able to profit from fast rising demand in that market for secondary manufactured products. Prior to NAFTA, exports of these goods faced generally higher tariff barriers at the U.S. border than exports of raw or semi-processed resource commodities. Consequently, continental free trade provided more of a boost to exports in these more value added categories than it did to exports of the province's traditional resource commodities.

fifties, sixties, seventies and eighties. Over this period the portion destined for the

United States has been the only country in which British Columbia produc-

ers of secondary manufactured products have acquired a large and reliable export market. This has meant that the welcome trend to diversification of the province's export commodity mix has brought with it a less welcome increase in reliance on the U.S. market.

There have also been other developments in global markets that have tended to concentrate more of the province's exports in the United States market. One of these has been the appearance of more international competition in world trade of forest and mineral products. In Japan, new competition has come from South American, Australia, New Zealand, South East Asian and even European suppliers. Scandinavian producers have been among the important competitors shipping forest products into Japan. With slower growth of resource exports to Asia, the focus has shifted back to the United States.

Asian Market Becoming Export Side-show

The upshot of all this has been that the United States has become the destination for more than two thirds of all British Columbia exports. Exports to Asia, although the next largest component of the province's international export trade, are no longer in the same league.

In 1990, exports to Asia accounted for 36 per cent of British Columbia exports to all destinations, while exports to the United States accounted for 42 per cent. By 1999, the Asian portion had shrunk to 23 per cent, and the U.S. portion had expanded to 68 per cent.

In dollar terms, exports to the United States amounted to \$19.4 billion in 1999, up from \$7.0 billion in 1990. Exports to Asia were valued at \$6.6 billion in 1999, up from \$6.1 billion in 1990.

The drop in the share of exports to Asia between 1990 and 1999 mainly reflects the poor performance of the Japanese economy. Exports to Japan, still amount to 65 per cent of British Columbia's exports to Asia, even after the value of British Columbia exports to Japan dropped 7 per cent from \$4.6 billion in 1990 to \$4.3 billion in 1999.

But exports to other Asian destinations have been rising. Exports to China (including Hong Kong) were up 190 per cent between 1990 and 1999, from \$291 billion to \$845 billion. Gains were also made in exports to South East Asia and South Korea.

To some extent higher exports to these destinations have offset weak demand in Japan. But exports to all Asian destinations fell sharply with the economic crisis of 1997. By the end of 1999 they had only partly recovered.

The trend to greater trade dependency on the United States is not irreversible. While freer continental trade will permanently focus the province's exporters of manufactured products on the U.S. market, other factors behind the 1990s concentration of exports in the U.S. market have been of a more cyclical nature. At some point Asian economies will begin to grow strongly again. The U.S. expansion will end sooner or later and, perhaps most importantly, the Canadian dollar could rise strongly against the U.S. dollar.

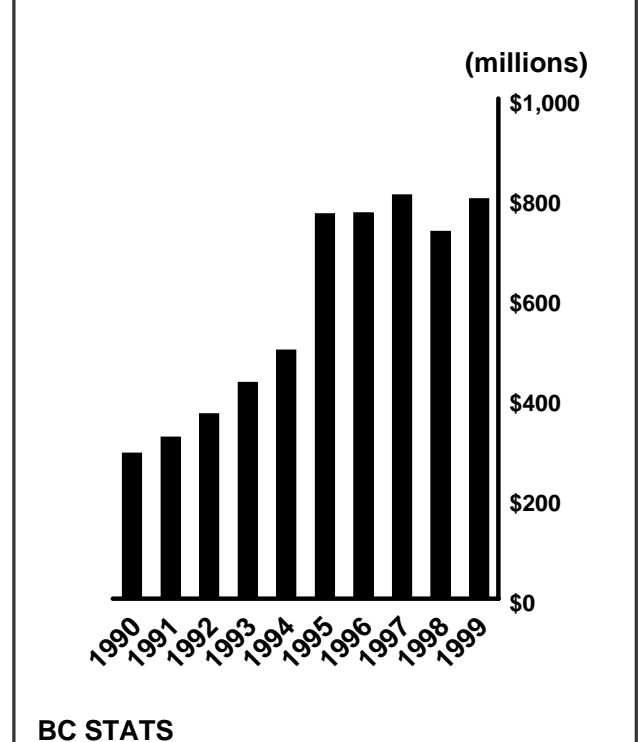
Portion of Exports to Europe Down By Half From A Decade Ago

At the beginning of the decade, the European Union was seen as one of the three important export destinations for British Columbia, after the United States and Japan. In 1990, 16 per cent of the province's exports were bound for the European Union. Many expected this proportion to rise higher because it had already climbed rapidly from 14 per cent in 1988, and because continued European integration appeared likely to create a more dynamic market.

However, 1990 was the peak of Europe's importance as an export market for British Columbia. The proportion of provincial exports destined for the European Union shrank through most of the 1990s, falling to 7 per cent by 1999. This reflected a drop in dollar terms, from \$2.7 billion in 1990, to \$1.9 billion in 1999.

Some trade analysts consider that the E.U. has been turning inward, feeling less need to trade on world markets as it has expanded to include new member states. Internal E.U. bargaining around the accession of new members may have led it to adopt certain barriers against external trading partners in order to ease the entry of new members. This could have provided some of the motivation behind E.U. rules restricting imports of non-kiln dried lumber from Canada.

B.C. Exports to China Climb Sharply Then Level Off In Late 1990s



Certainly, competition from internal E.U. sources has cut heavily into British Columbia's forest product exports. Exports of forest commodities to the E.U. have dropped sharply since Sweden, Finland and Austria acceded to the Union in the mid 1990s, taking with them substantial forest resources.

In addition to new sources within its own member countries, the E.U. has gained access to forest resources in Russia, Poland and other east European countries that emerged as active traders in world markets during the 1990s.