

Business Indicators ♦ March 1999

British Columbia Export Reliance On U.S. Market Highest Since Early 1960s



British Columbia shipped a record value of exports to the United States in 1998, as exports to overseas markets continued their four year slide. The effect was to push the percentage of total provincial exports destined for the United States to the highest level since 1962.

Growing dependence on the U.S. market has become a well established trend of the 1990s. Between 1990 and 1998, the portion of total exports destined for the United States market rose from 42 per cent to 63 per cent. This higher concentration of exports in the United States increases the risk of serious setback for the province should the U.S. economy turn down.

However, even with almost two thirds of total exports destined for the United States, British Columbia still remains less

dependent on the U.S. market than most of Canada. The 63 per cent of British Columbia's exports that were shipped to the United States in 1998 compared with 85 per cent for Canada as a whole.

But British Columbia is steadily losing its claim to being more independent of the United States than the rest of Canada. In 1990, British Columbia's 42 per cent U.S. bound export ratio compared to a national average of 74 per cent, a difference of 32 percentage points. By 1998, this had shrunk to a difference of 22 percentage points.

Before 1990s, Exports Grew Faster to Japan Than to U.S.A.

Up to the 1990s, British Columbia's export markets were growing steadily more diversified as shipments to Japan, Europe and other world markets grew faster than exports to the United States. Between 1950 and 1990, the portion of total exports being shipped to the United States decreased gradually from 80 per cent to 42 per cent, as the portion destined for Japan rose from virtually zero to 28 per cent.

In the first decades after the Second World War Japan was virtually the only Asian market of any significance for British Columbia. It was in this period that Japanese forestry and mineral imports from British Columbia gave the province the claim to being less reliant on the United States market than most of the rest of the country.

Although the trend prior to 1990 was to less trade reliance on the United States, there were occasional reverses. The long downward movement in the proportion of total exports destined for the United States was marked by 5 or 6 year swings associated with U.S. economic growth. Whenever the U.S. economy grew faster, it drew in larger volumes of exports, temporarily increasing the portion of total British Columbia exports destined for the United States. Export growth to the United States would fall off again whenever the U.S. economy retracted. These swings were accentuated by the tendency of the U.S. dollar to rise against the Canadian dollar in those periods when the United States economy was expanding quickly.

of the most important can be dated to the beginning of this decade. At that time the Japanese bubble economy burst, issuing in a period of economic stagnation that has persisted to this day. This occurred just as the U.S. economy was recovering from a difficult recession and entering a long period of economic growth that has also continued into the last year of the decade.

1990s Usher In New Trade Patterns

A number of developments have encouraged the shift back to more heavy export reliance on the United States market. Two

Continental free trade has been another factor promoting more trade reliance on the United States. As the Canada-U.S. Free Trade Agreement, and the North American Free Trade Agreement (NAFTA) which followed it have opened up North American trade, secondary manufacturers in British Columbia and elsewhere in Canada have lost previously tariff-protected domestic markets, but have gained more reliable access to markets in the United States and Mexico. The result has been a rapid increase in trade in both directions.

	1990	1991	1993	1995	1997
BC	41.9	43.5	48.9	52.9	54.0
Alta	74.4	73.0	76.6	80.9	80.1
Sask	46.5	42.1	44.5	51.5	50.6
Man	60.5	60.2	59.7	70.2	72.7
Ont	85.9	87.8	88.4	90.9	89.9
Que	71.6	73.0	75.3	81.8	80.4
NB	66.1	65.0	63.8	71.1	74.1
NS	66.9	67.9	67.8	73.1	68.9
PEI	60.1	53.3	58.3	71.8	74.2
Nfld	67.9	53.4	50.3	55.5	59.9
Canada	74.4	74.8	76.9	80.2	81.5

BC STATS

Per Cent of British Columbia Exports Going to the United States

	1990	1991	1992	1993	1994	1995	1996	1997	1998
WOOD PRODUCTS	53.8	55.3	58.8	60.6	63.4	58.1	62.3	66.0	74.0
Lumber (softwood)	51.8	53.1	57.4	59.2	62.0	56.9	61.6	65.0	72.1
Cedar Shakes and Shingles	97.2	97.7	97.6	97.6	96.9	97.5	97.9	96.4	97.0
Plywood (softwood)	8.6	6.1	7.2	11.2	14.0	5.3	6.6	9.1	28.4
Selected Value Added Wood Products	81.6	80.2	84.3	82.9	78.5	69.1	69.1	74.2	86.8
other	38.5	43.4	45.3	56.0	67.6	74.0	74.7	79.5	79.6
PULP AND PAPER PRODUCTS	41.7	38.9	38.3	45.0	41.3	39.4	44.7	41.6	43.1
Pulp	28.3	24.2	25.2	33.5	30.5	29.2	32.4	27.7	21.5
Newsprint	75.6	68.4	60.0	60.1	61.2	64.2	63.0	57.0	64.7
Paper, Paperboard - exc. Newsprint	49.1	48.7	54.7	57.9	59.0	51.9	60.4	68.1	74.8
other	67.7	62.2	77.1	77.4	77.7	80.0	77.7	78.5	87.1
AGRICULTURE AND FOOD OTHER THAN FISH	57.7	65.4	61.6	62.8	63.4	57.0	62.7	56.6	69.3
Fruit and Nuts	69.4	69.5	69.8	70.9	73.7	76.3	74.3	76.1	83.8
Vegetables	58.2	53.3	60.1	53.6	49.0	51.4	63.8	76.9	86.4
other	56.1	65.6	60.4	62.4	63.1	54.4	60.8	52.0	64.1
FISH PRODUCTS	26.3	32.8	34.3	37.4	37.1	41.9	37.4	46.8	55.7
Whole Fish; Fresh, Ch'd, Froz. exc Salmon	53.4	52.1	62.0	66.0	61.2	58.3	59.9	59.6	68.9
Whole Salmon; Fresh, Chilled, Frozen	40.5	49.6	51.5	53.5	49.1	68.5	71.2	70.3	81.3
Salmon; Canned, Smoked, etc.	2.9	2.4	2.2	2.1	3.8	5.2	4.0	5.5	4.6
other	19.0	22.5	22.3	23.5	24.3	25.6	22.7	29.8	39.1
METALLIC MINERAL PRODUCTS	10.0	11.5	17.6	15.6	23.8	16.8	18.9	23.6	33.9
Copper Ores and Concentrates	0.1	0.1	2.8	0.5	7.6	0.0	0.0	0.0	3.6
Molybdenum Ores and Concentrates	0.0	0.2	5.3	12.4	12.1	18.3	18.9	7.2	4.8
Unwrought Aluminum	6.3	6.6	5.1	4.3	9.1	10.9	6.5	6.1	21.7
Unwrought Zinc	58.8	52.1	69.1	66.7	77.9	76.6	66.5	71.6	75.5
other	18.3	25.0	30.3	52.9	66.9	44.5	36.5	39.3	36.5
ENERGY PRODUCTS	24.0	27.2	39.7	34.8	40.1	30.3	30.0	36.0	44.1
Natural Gas	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Coal	0.8	1.1	0.2	0.1	0.1	0.1	2.3	2.7	2.6
Electricity	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
other	73.5	70.0	74.0	64.4	96.1	88.6	98.2	91.5	93.1
MACHINERY AND EQUIPMENT	69.9	70.0	72.8	75.1	72.7	73.5	71.2	72.9	80.9
Motor Vehicles and Parts	77.5	68.4	70.1	70.8	70.8	80.4	76.7	78.9	85.7
Electrical/Electronic/Communications	72.1	65.0	68.4	68.9	72.4	71.4	65.2	65.4	70.9
other	66.5	72.1	74.9	78.0	73.7	71.2	71.8	73.8	82.7
PLASTICS AND ARTICLES OF PLASTIC	89.0	85.2	81.7	84.8	90.0	82.5	88.4	84.6	94.7
APPAREL AND ACCESSORIES	89.0	82.8	92.7	93.0	90.3	91.0	93.4	92.2	95.1
ALL OTHER COMMODITIES	57.0	61.5	69.9	72.0	71.5	73.1	78.8	70.5	77.0
GRAND TOTAL	41.9	43.5	48.9	52.9	54.1	49.4	53.9	55.6	63.0

BC STATS

Exports to the United States market have also been encouraged by the fall of the Canadian dollar against the American dollar in recent years. The exchange rate has conferred a price advantage for Canadian goods in U.S. markets, but has led some economists to caution that it could be masking competitive weaknesses as Canadian productivity rates have failed to match those in the United States.

While British Columbia producers of secondary manufactured *products* have been steadily expanding their exports to the United States in the 1990s, it has been a different story for producers of raw and semi-processed resource commodities. These have always relied more heavily on overseas markets than have secondary manufacturers, but are now faced with shrinking markets and poor prices stemming from tough new international competition and, more recently, from the Asian economic crisis.

While the Asian crisis has presented some very acute economic problems during the past year, it is not expected to persist over the long term. Stiffer competition to sell resource commodities in international markets, on the other hand, is likely to be a reality for the indefinite future.

Examples of this competition have included lumber from Chile, New Zealand and Sweden; coal from Australia and China; and pulp from Brazil and Indonesia. In future, there is potential for additional competition from Russia and other east European sources, as those countries improve their transportation and legal infrastructures.

A More Value Added Export Commodity Mix Has Tended to Bind B.C. Closer To U.S. Market

The persistent efforts of successive British Columbia governments to increase the value added content of the province's export mix have received a considerable boost from NAFTA. The Agreement was particularly effective in opening trade for manufactured goods moving between Mexico, the United States and Canada. This has encouraged the freer continental exchange of manufacturing components and completed assemblies. One result has been to integrate British Columbia (and the rest of Canada) more completely into a larger North American economy, effectively tying the province more closely to the United States.

Prior to NAFTA, U.S. tariffs applying to raw or semi-processed natural resource products had generally been low, so that the Agreement brought little immediate change to the then existing pattern of provincial resource exports to the United States.

However, for more finished goods there were sharply higher tariffs. These 'escalating' tariffs worked to discourage British Columbia's resource producers from exporting their goods in more finished forms. With their removal Canadian manufacturers gained reliable access to U.S. markets, but are still faced with considerable barriers in overseas markets. Not surprisingly, this has led to a steadily growing concentration of British Columbia's value added exports in the United States market.

For example, 81 per cent of machinery and equipment exports went to the United States in 1998, up from 70 per cent in 1990.

The percentage of plastic product exports shipped to the United States grew from 89 per cent of all plastics exports 1990, to 95 per cent in 1998.

Similarly for apparel products export , the portion destined for the United States rose from 89 per cent bound for the United States in 1990, to 95 per cent in 1998.

The trend to greater concentration in the United States market has also applied to valued added goods produced by the traditional resource industries. For example, the portion of all exports of non-newsprint paper products shipped to the United States grew from 49 per cent in 1990, to 75 per cent in 1998. Zinc metal exports bound for the United States went from 59 per cent of total zinc metal exports in 1990, to 76 per cent in 1998. And value added solid wood products went from 82 per cent bound for the United States in 1990, to 87 per cent U.S. bound in 1998.

Future Prospects

Some of the developments that have led to the increased concentration of British Columbia exports in the U.S. market during the 1990s are reversible.

Japan must sooner or later find its way out of its economic quagmire. The United States expansion, already almost a decade old, may not continue indefinitely. New economic superpowers could emerge in the next century, presenting new overseas export opportunities. And finally, the Canadian dollar could rise sharply against the U.S. dollar, braking Canadian export growth to the United States for a period.

On the other hand, international competition in resource commodity markets is likely to continue to grow. While this could check resource commodity export growth

in overseas markets, it could also give greater incentive to forestry and mineral producers to differentiate their products from those of their competitors by marketing them in more finished forms.

For the medium term, at least, the continuing integration of British Columbia's manufacturing sector into the North American economy should expand the portion of total exports destined for the United States. Over the longer term, however, it is possible that non-resource based value added exports will become a more important part of overseas trade. Gains already made in shipping secondary manufactured goods to the United States could eventually be followed by similar successes in overseas markets.

Working from a North American base, some British Columbia high technology manufacturers have already made important inroads into Europe and Asia. It is not out of the question that some of these companies could someday grow into a British Columbia version of Washington State's Boeing or Microsoft.