

"Asian Flu"—Significance for Western Canada

Much has been written on the Asian financial problems which first erupted in mid-1997. A year later, the effects are still unfolding. The hardest hit countries – Thailand, Indonesia, Korea, Malaysia, and the Philippines – are forecast to be headed for recession or very low growth this year. Currencies in these nations have recovered somewhat from recent lows, but are still down significantly. There are also serious problems in Japan's economy which is now in recession.

It is still early to judge the full impact of "Asian flu" and opinions differ about its severity and duration.

This factsheet looks at the significance of the Asian flu for Western Canada. There are several reasons for concern:

- the west has strong trade ties with East Asia, especially Japan, our second largest trading partner (23% of B.C.'s exports go to Japan);
- the core activities of our railways, truck operators and ports are closely linked to western resource exports;
- uncertainties about Asian markets could eventually influence infrastructure investments in Canada;
- west coast container traffic is highly dependent on Asian trade (and each container handled adds \$1,000 to the western economy);
- travellers to and from Asia-Pacific account for 66% of all offshore passengers through Vancouver International Airport – they also use other western airports, passenger rail (e.g., BC Rail, Rocky Mountaineer) and motor coach lines. Although more Canadians may travel and spend in Asia, there may be an offsetting benefit of more travellers from the U.S. (over) ►

Origins and Spread of Asian Flu...

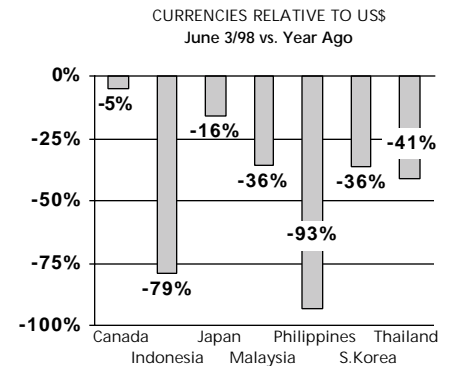
The bubble had been building for some time in East Asia. The economies of South Korea, Taiwan, Hong Kong, Singapore, Indonesia, Thailand and Malaysia expanded rapidly from 1990 to 1996. Growth was 7-8% per year compared to a world average of 3%. Easy access to cheap foreign funds led to a huge inflow of capital to pay for investments in these countries. The result was over-investment in capacity, large trade deficits, inflated currencies, and unfounded value in stock markets and properties.

In mid-1997, confidence in the region burst. Global investors shifted funds from Asia into other markets. This triggered huge drops in currency values, higher interest rates through attempts to defend the sinking currencies, and thus higher costs of repaying foreign debt. Further capital outflows ensued and currencies declined even further.

While countries such as Japan, China, Taiwan, Hong Kong and Singapore have been less affected, there is still concern because of a lack of confidence in East Asia as a whole. Most recently, the situation has weakened Japan's already stagnant economy and it is now experiencing a recession.

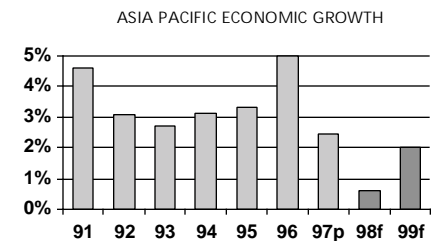
The Asian-6—refers to Indonesia, Malaysia, the Philippines, South Korea, Thailand and Japan. The first five have been experiencing strong growth and are most seriously affected by the financial crisis. Japan is included because of its economic importance in East Asia and as a Canadian trading partner.

Asian-6 currencies have declined:



Source: *The Economist Magazine*

Asia Pacific region growth has slowed sharply; recovery is expected to be slow:



Asia-Pacific includes: Australia, China, Hong Kong, Indonesia, Japan, Malaysia, N.Zealand, Philippines, Singapore, S.Korea, Taiwan, Thailand.

Sources: *Conference Board of Canada; IMF; OECD; Consensus Economics Inc.*

Asian-6 growth is expected to decline sharply from historical levels:

ECONOMIC GROWTH
(Annual % Change in Real GDP)

	Avg. 1990-96	1997e	1998f	1999f
Indonesia	7.8	5.0	-5.0	-2.2
Malaysia	8.6	7.8	2.5	2.8
Philippines	2.7	5.1	2.5	4.0
S.Korea	7.4	5.5	-0.8	4.1
Thailand	8.1	-0.4	-3.1	1.0
Japan	1.8	0.9	-0.5	1.0

Sources: *IMF; TD Economics*

A major concern is what happens in the U.S., the destination of over 80% of Canada's exports. A slowdown in U.S. growth could curtail our own growth, undermining an already weak Canadian dollar and putting upward pressure on interest rates.

The charts on this page illustrate the western provinces' dependence on East Asian markets.

Other indirect factors which are still unfolding could have a serious impact on the west:

Commodity prices and demand—Although the impact of the Asian flu on Canada is expected to be modest (only 8% of Canadian exports go to Asia), the western provinces and some industries stand to be hit harder. Lower commodity prices (forest products, base metals, coal, oil, livestock, grain) and sagging demand, because of sharply lower industrial production and excess capacity across East Asia, will impact investments and exploration activity in Canada.

Asian competition—With devalued currencies, Asian products cost less for many buyers. For Asian economies, boosting their exports offers one of the best opportunities for recovery. This increases competition for Canadians shipping into global markets. This is particularly important in the U.S. market. The possibility of an export-led recovery in Asia may be limited by the fact that about 40% of Asian trade is within Asia itself, where demand is likely to be weak in the near future.

Forecasts show poor economic results for 1998 for Asian countries, with some improvement for 1999. This will result in slower Canadian export growth to Asia. For some, this means redoubling efforts in Asian markets; for others it means exploring opportunities in different regions.

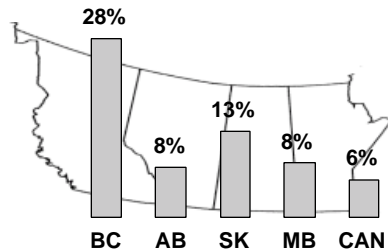
Putting the Asian flu in perspective...

Although Canada depends heavily on exports (35% of GDP), just 8% of exports go to Asia, including 4.7% to Japan. Any impacts will be much greater in the west which sells three-quarters of all Canadian exports to the Asian-6.

Freight

Bulk commodities and containerized freight to the Asian-6 are major users of western rail, truck and port facilities.

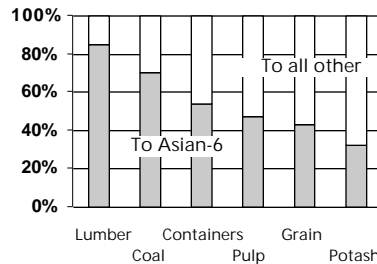
IMPORTANCE OF THE ASIAN-6 AS BUYERS OF WESTERN EXPORTS



Share of 1997 export value destined for Asian-6 from each western province & total Canada.

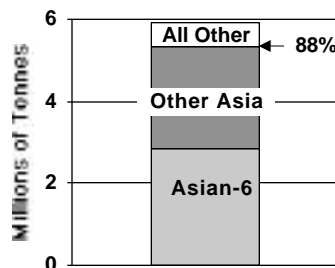
Source: Statistics Canada

PROPORTION OF SELECTED WEST COAST EXPORTS SHIPPED TO ASIAN-6 IN 1997



Sources: Vancouver Port Corp.; Prince Rupert Port Corp.

VANCOUVER CONTAINER TRAFFIC



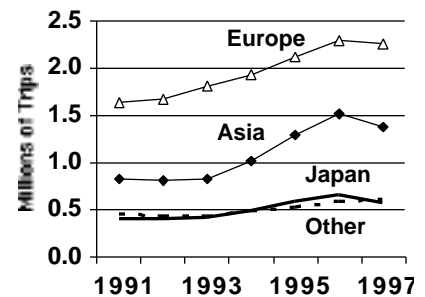
1997 inbound + outbound tonnage through Vancouver. Other Asia = China, Hong Kong, India, Taiwan.

Source: Vancouver Port Corp.

Passenger

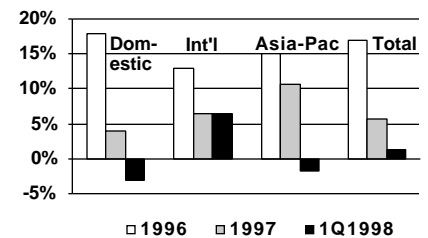
A third of Canada's overseas visitors are from Asia, of which Japan accounts for 41-46%. In the west, two-thirds of overseas travellers through Vancouver are from the Asia-Pacific.

ORIGINS OF OVERSEAS VISITORS TO CANADA



Source: Statistics Canada

VANCOUVER INTERNATIONAL AIRPORT PASSENGER GROWTH



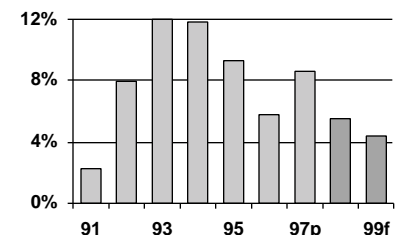
Enplaned + deplaned passengers, scheduled and chartered flights. International includes transborder, Asia Pacific and all other international points.

Source: YVR Vistas

Outlook

Growth in Canada's exports is expected to slow from 8.6% in 1997 to 5.5% this year and only 4.4% in 1999:

CANADIAN EXPORT GROWTH



Annual percentage change in real exports.

Sources: Conference Board of Canada; Statistics Canada