

CANADA-JAPAN TRADE AND ECONOMIC RELATIONS

Over the past decade, trade between Canada and Japan has quadrupled. Japan is now Canada's largest single overseas market. In 1988, two-way trade reached \$17.8 billion (up from \$14.5 billion in 1987 and \$13.6 billion in 1986). In the first five months of 1989, Canadian exports to Japan expanded 17 percent over the same period in 1988.

Japan continues to offer great potential as an economic partner for Canada, particularly with our growing emphasis on the Pacific Rim. With the development of Japan into a major industrial and trading power, Canadian business in Japan faces major opportunities and challenges in expanding trade, promoting investment in Canada and acquiring technology.

While Canada enjoyed an uninterrupted trade surplus with Japan from 1973 to 1981, we recorded a deficit of \$80 million in 1982. This deficit accelerated to \$368 million in 1985 and \$1.7 billion in 1986. Since then, however, fuelled by a lower dollar and strong domestic demand in Japan, the overall Canadian deficit with Japan has fallen to \$575 million.

To alleviate some of the large bilateral trade imbalances between Japan and her principal trading partners, Japan took welcome steps to liberalize her domestic market and stimulate domestic demand. The room for growth in Japanese consumption in the social goods sectors such as housing, combined with Japanese government undertakings to liberalize its import regime, should offer new and lucrative export opportunities to many Canadian industries.

The Canadian export performance should also benefit from signs of an ongoing economic recovery in Japan. Japan is adjusting well to the revaluations of the yen. The Japanese economy grew in 1988 by 5.7 percent and is expected to grow at least by 4.5 percent in 1989.

Canadian exports to Japan continue to be concentrated in basic resource materials (45 percent coal and non-ferrous metals) and fabricated materials (29 percent lumber, paper, petrochemicals, aluminum ingots).