

CANADA/JAPAN TRADE

Over the past decade, trade between Canada and Japan has quadrupled. Japan is now Canada's largest single overseas market. In 1987, two-way trade reached C\$14.5 billion (up from C\$13.5 billion in 1986), of which Canadian exports to Japan totalled \$7.0 billion and imports from Japan totalled \$7.5 billion. Canadian exports to Japan in 1987 increased 19% over those in 1986. In 1987, export gains were concentrated in wood and paper products, non-ferrous metals, industrial machinery, equipment and tools, and consumer goods. 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 1983, we recorded a deficit of C\$70 million in 1984. This deficit accelerated to C\$400 million in 1985 and C\$1.7 billion in 1986. The trading relationship improved considerably in 1987 with the Canadian deficit with Japan dropping sharply to \$514 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 revaluation of the yen. There are indications that major Japanese firms boosted their unconsolidated pretax profits in 1987, the first increase in three years. Such an increase reflects a rise in domestic demand and personal consumption amid a steady economic recovery. There are also signs that the Japanese economy will quicken its inflation - adjusted growth pace in 1988. According to OECD projections, Japanese imports from the rest of the world are expected to rise 25.3% between 1987 and 1989.

Canadian exports to Japan in 1987 were primarily concentrated in basic crude materials (39.8% metal ores, concentrates, and scrap, fur skins) and fabricated materials (37.8% wood and paper, textiles, chemicals, iron and steel, non-ferrous metals). Agriculture and fishery products, including processed foods and beverages, accounted for 17% of Canada's exports to Japan in 1987, with finished industrial and consumer goods accounting for 5 per cent. At the end of 1986, Canada ranked eighth as a source of imports to Japan. In the coming years, Canadian government and business will increase efforts to become an ever more important source of Japanese imports. In 1987, Canada continued to take full advantage of the changes in the Japanese economy in order to maximize trading opportunities.