

JAN 10 2002

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SUMMARY

- Japan has become more involved with Asia in recent years. Although unlikely over the medium term to displace Tokyo's current mainstream directions, this thrust will become increasingly important in Japanese policy and debate.
- Japan's economic exchanges with Asia have surged: 1995 saw increases over 1994 in Asia-related Japanese trade (exports up 20% and imports up 24%) while 1994 (latest numbers) saw strong growth in FDI (46%) and bank loans (20%). Some of this increase represented a cyclical rebound, but it also reflected a structural shift of production by Japanese firms offshore, both to traditional partners (eg the NIEs and ASEAN) and to newer ones (eg China, Vietnam, Burma and India).
- The Japanese Government's response has been positive, but the debate is intertwined with broader questions of foreign policy and domestic concerns on industrial "hollowing out".
- Japanese ODA and EximBank financing have long supported the activity of Japanese firms in Asia, and are beginning to respond to the recent surge in corporate activity there.
- A formal yen bloc is unlikely to emerge soon, but incremental increases in the regional use of the yen for trade pricing, capital movements and foreign reserves are probable.
- APEC, as a trans-Pacific entity, will continue to be Japan's favoured regional economic forum, but closer informal links with more "Asian" groups are also likely.
- While Asia is becoming the most important region economically for Japan, the reverse is not necessarily true. East Asia in particular has other economic options and drivers, especially intra-regional trade and investment. The EU will be an increasingly important outside player as well.
- Japan's strengthened Asia focus will not seriously affect Canadian trade flows or inward FDI from Japan, but will strengthen opportunities for third-country corporate synergy and for governmental cooperation in regional fora.

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