

Our share of the Japanese import market grew from 3.1% in 1981 to 4.4% in 1988. The stock of Japanese direct investment in Canada more than doubled after the mid 1980s, reaching \$5.3 billion in 1991. The importance of Japanese holdings of Canadian portfolio investment instruments grew even more sharply: from \$6.4 billion in 1983 to \$58 billion in 1991, with the Japanese share of total foreign holdings quadrupling.

Nonetheless, the sources of frustration in Canada-Japan economic relations are also evident, clearly delineating the limits of bilateralism. Canada captured a mere 1% of outflows of Japanese direct investment abroad in 1985-90. The Japanese share of direct investment in Canada has increased only modestly and, at 4.1% of total FDI in 1991, remains far below potential and well off the levels of commitment and confidence in Canada shown by the European majors and the Americans (28% and 64% respectively). During the 1980s, Japanese-controlled assets in Canada increased from just 0.4% of total assets of non-financial corporations to a meagre 0.9%.

In recent years, the attractiveness of the Japanese market for Canadian exports has also peaked. Total exports declined in 1990 and 1991 by almost \$2 billion before recovering modestly last year. The share of our total exports destined for the Japanese market has declined steadily since the late 1980s from over 6% to under 5%. And Canada has lost market share in Japan, dropping from 4.4% of Japanese imports in 1988 to 3.3% in 1991.

Perhaps most distressingly, the structure of Canada's exports to Japan remains heavily skewed towards crude materials and away from end products to a degree unknown in any other major Canadian export market. In 1980, inedible crude materials comprised 70% of Japanese imports globally and 45% of Canada's exports to that market. Ten years later, the relative importance of these same imported materials had declined substantially for Japan, comprising 41% of total imports (but still 42% of Canadian exports). During the 1980s, Japanese imports of semi-manufactures doubled from 7% to 14%-15% of total purchases off-shore, compared to a fairly stable one-third of Canadian exports destined for Japan (representative of continuing Canadian strengths in sectors relatively rich in good quality jobs such as forest products). The real disappointment for Canada lies in end products, dominated by machinery and equipment and a variety of consumer goods. The share of these products in global Japanese imports almost tripled during the 1980s to reach 30%. Yet in 1980, end products comprised only 2.4% of all Canada's exports to Japan. Ten years later, this proportion had increased to just 5% (one-tenth the proportion of our exports of end products into the U.S., and one-fourth the level into Europe).