

initiatives, with further projects expected to take place in 2006. Canada will also continue work on counterterrorism capacity building.

Japan

Overview

Japan is Canada's second largest export destination, receiving 2.1% of our total merchandise exports, and is the fifth largest source of foreign direct investment in Canada. Canada is a leading supplier to Japan of a number of products of key export interest, including lumber, oilseeds, meat, pulp and paper, coal, fish and aluminum.

While resource-based exports continue to represent much of our trading relationship, Canada is an increasingly important source of sophisticated, value-added, technology-driven products and services for Japan. There is an increasing interest in and demand for Canadian technology in areas such as aircraft, information technology, environmental products and services, optical instruments, vehicles and chemicals.

The total stock of Japanese FDI in Canada increased by about 55% over the last decade. In 2003, with a stock of \$9.7 billion, Japan accounted for about 2.7% of FDI in Canada. Thus, Japan is the most important investor from Asia-Oceania, accounting for about half of all FDI from the region. Canadian direct investment in Japan has doubled over the last five years, with the current total stock standing at \$9.1 billion.

In 2004, total merchandise trade between Canada and Japan was \$22 billion. Canadian exports to Japan have been declining steadily since the mid-1990s. Our exports to Japan rose slightly to \$8.5 billion in 2004, from \$8.1 billion in 2003. Imports from Japan decreased by 3% in 2004 to \$13.4 billion. In 2004, Canada exported \$1.9 billion in services and imported \$3.5 billion. The long-term trend in Japan is toward a growing demand for cost-competitive and innovative imports, which represents a significant market opportunity for Canadian exporters.

To identify opportunities arising through regulatory reform and restructuring in Japan's changing marketplace, International Trade Canada analyzed trading patterns in potential sectors of opportunity. The results of this study have been shared with Canadian and Japanese business, as well as with interested representatives of the Japanese government. The analysis points to new opportunities in information and communications technologies, value-added food products, transportation equipment, building products and prefabricated buildings, medical devices and pharmaceuticals, new energy products such as fuel cells, power generation and environmental services.

In addition, DFAIT (IT) and Industry Canada commissioned a study on opportunities in the services sector, which identified where shifts in the Japanese economy have created significant potential. Produced by the Japan Market Resource Network in August 2002, this study found that the most potential for Canadian business lies in services related to information technology, the environment, accounting, architecture and health care. It also found, however, that barriers to trade such as domestic opposition to foreign competition, excessive regulation and opposition to deregulation of certain sectors pose serious challenges for Canadian companies aiming to enter the Japanese market. The Government of Canada will use these findings to supplement its efforts in established trade sectors (such as automotive, aerospace, forest products, minerals, agriculture and fisheries, and consumer products) with new initiatives aimed at supporting these emerging priority industries.

To encourage further diversification of Canada's traditional commodities-based trade relationship with Japan, efforts are being made to emphasize Canada's strengths in high-technology sectors and to re-brand Canada as a technologically sophisticated society. These efforts have begun to bear fruit, with signs of increased business activity, especially in the high-technology sectors. Despite a worldwide slowdown in the information and communications technologies (ICT) sectors, Canadian companies continue to take advantage of opportunities in the huge Japanese ICT market, valued by InfoCom Research Inc. at \$490 billion in 2001. This amounted to 13% of the world ICT market in 2001, with a growth rate of 4.5% during that year. During the past two years, many Canadian ICT companies have entered the