

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 1986, two-way trade reached C\$13.5 billion (up from C\$11.8 billion in 1985). 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 C\$80 million in 1982. This deficit accelerated to C\$368 million in 1985 and C\$1.7 billion in 1986. Based upon trading between Canada and Japan from January to September 1987, the overall Canadian deficit with Japan is expected to be lower in 1987 than in 1986. While bilateral trade from January to September 1986 was C\$1.1 billion in Japan's favour, the situation improved over the same period of 1987 with Canada recording a deficit of C\$600 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. There are indications that major Japanese firms will boost 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.

Closely reflecting the composition of Japanese total imports from all sources, Canadian exports to Japan in 1986 were primarily concentrated in basic resource materials (45 per cent coal and non-ferrous metals) and fabricated materials (29 per cent lumber, paper, petrochemicals, aluminum ingots). Agriculture and fishery products, including processed foods and beverages, accounted for 20 per cent of Canada's exports to Japan in 1986, with finished industrial and consumer goods accounting for 5.5 per cent. At the end of 1986, Canada ranked eighth as a