

## 1 Executive Summary

West of Osaka, Honshu becomes a long, narrow and hilly spur, tapering off as it nears the strait that separates mainland Japan from Kyushu. Covering 40 000 km<sup>2</sup>, this peninsula is called Chugoku.

To the north of Chugoku lies the Sea of Japan, which the Japanese consider as their country's cold backside because of the harsh Siberian winds that descend upon it. On the other side lies the Seto Inland Sea, a sheltered waterway and the cradle of Japan and its economy.

Although historically the temperate coast between Osaka and Shimonoseki formed the north side of Japan's marine "main street," the nation's economic and political axis has since shifted eastward to the coastal strip between Osaka and Tokyo.

Only recently, however, has the full effect of this shift been felt. Through Japan's postwar boom, the region's well-established heavy industries — most notably steel and shipbuilding — guaranteed economic growth. But as the oil crises of the 1970s moved the economic focus away from heavy industry, growth along the Inland Sea stalled. The fact that the area's hinterlands — located along the Japan Sea and on Shikoku Island's Pacific prefectures — are among the poorest and least developed agricultural regions in Japan has compounded the problem.

Chugoku — known as the "central land" — is the region caught in-between. Chugoku's economy is not as buoyant as that of Osaka to the east or Fukuoka to the west. However, as the region comprises approximately one-twelfth of Japan's landmass and over six per cent of its population and gross domestic product (GDP), it represents a significant global market.

Of the region's five prefectures — Tottori, Shimane, Yamaguchi, Okayama, and Hiroshima — Okayama and Hiroshima offer market potential for Canadian exporters. The principal cities of both prefectures have a population of over one million people and serve as the region's commercial centres.

Hiroshima is competing with Fukuoka as the commercial centre of southwestern Japan and is trying to build a reputation as an international conference centre. The city also serves as the headquarters and main manufacturing site for Mazda Motors.

Although less known than Hiroshima, Okayama City hopes to use its relative proximity to Osaka to lure industrial plants away from that metropolis and to establish itself as the main distribution centre for the rest of Chugoku and Shikoku Island — which is now linked to Okayama by a giant bridge across the Inland Sea.

While both cities may succeed in attracting new industrial activity, they are largely seen as branch-plant locations, rather than key metropolitan centres with important decision-making power. At present, very few companies of any significant size have their headquarters in the region.

While many Canadians of Japanese ancestry trace their roots to Chugoku, links between Canada and the region are sparse — especially when compared to other regions such as Hokkaido. Apart from the twin-city relationship between Hamilton, Ontario and Fukuyama, the only activities that regularly draw Canadians to the region are peace-related events held in Hiroshima.

Canada exports approximately C\$530 million in goods and services directly to the Chugoku region annually. These include coking coal (C\$400 million), lumber (C\$50 million), fish products (C\$45 million), thermal coal (C\$30 million), and miscellaneous products (C\$10 million). (These figures do not include exports which enter the region via Tokyo or Osaka.)

As Chugoku redevelops its economy, Canadians should see a rise in market opportunities. There is every reason to believe that Canada's success in the Tokyo and Osaka markets — particularly in high-quality consumer and building products — can be duplicated in Chugoku.

A large number of small companies in the lumber and food sectors may represent trade opportunities for Canada. The tourism and auto parts industries also hold market potential. As a result of joint ventures between Chugoku and Canadian firms, two auto-parts plants have already been established in Canada.

Other potential market opportunities include the following:

- Canada enjoys a strong reputation as a stable supplier of both coking and thermal coal to Chugoku. Market conditions permitting, there should be steady growth in export volumes.