

declined somewhat to 31.0 per cent in 1988.

Japanese nameplates, which seized import market leadership from the Europeans in the early 1970s, have been the principal motive force behind the latest import boom in Canada as in the U.S. Fuel economy and low price were the main initial selling points of the Japanese players, but their position in the marketplace has been reinforced in recent years by generally superior quality and reliability records and by technological innovation. This has allowed the Japanese manufacturers to shift their product portfolios upscale, with greater emphasis on the middle, and most recently, upper price ranges. Such "upscaling" has in turn enabled the Japanese to absorb the impact of the dramatic rise in the value of the Yen between 1985 and 1988.

Restructuring of the vehicle assembly industry across North America. This issue has become more critical with the presence of Asian-based vehicle manufacturers -- the so-called "transplants" -- in North America. These manufacturers are aggressively expanding their production capabilities, raising fears of a serious overcapacity problem in the North American motor vehicle industry in the 1990s. Output of the North American transplant facilities is expected to grow from 845 000 passenger cars in 1988 to near 2.2 million units by 1994.

c) Original Equipment Parts Subsector

Production of original equipment automotive parts (i.e., all components installed in the vehicle at the point of assembly) accounts for over 80 000 jobs in Canada with a 1988 value of shipments of \$13.6 billion. It has, like that of motor vehicles, become continental in focus since the implementation of the Auto Pact. Thus, Canadian assembly

plants import substantial percentages of their components from the United States, while the Canadian automotive parts industry exports a large percentage of its output to U.S. assembly facilities. Canadian OE parts production has also grown substantially under the Auto Pact, but the rapid growth in vehicle production has left Canada in a chronic trade deficit position vis-à-vis the United States in automotive components. In 1988 Canada enjoyed an \$8.2 billion surplus in trade of assembled vehicles with the United States, but this was to a considerable extent offset by a \$5.8 billion deficit in motor vehicle parts.

Nonetheless, the Canadian share of North American parts production has been growing throughout the 1980s. Between 1982 and 1987, Canadian parts output grew at an average annual rate of 15 per cent, versus 9.5 per cent in the United States. Favourable exchange rates, low benefit costs and a strong quality record have attracted parts investment to Canada and investment in assembly capacity. In fact, Canadian parts facilities have, throughout the 1980s, accounted for a disproportionately high percentage of the Big Three manufacturers' top quality awards -- General Motors' Spear 1, Ford's QI and Chrysler's Pentastar. Canada's share of North American parts production has traditionally been strongest in stampings and plastics.

Four principal factors may be highlighted as forces shaping the Canadian OE parts industry over the past two decades:

Emerging tier structure. The North American (including Canadian) automotive parts industry is witnessing the development of a tier structure, under which those parts makers dealing directly with the assemblers (Tier One Suppliers) are expected to take on responsibilities for research and development and the design, testing and sub-assembly of components previously