Trends Supporting Greater Imports

Japan possesses a mature economy; its days of juggernaut growth have ended. GDP figures have been erratic since the bursting of the inflationary bubble of the late 1980s, registering as much as 3.6% in 1996 but having plunged into negative territory in three quarters since 1992. Growth is likely to remain modest over the near term.

Importantly, however, over this same period import growth has expanded faster than GDP, owing to structural changes to the economy. Factors behind this have included: overall appreciation of the yen since 1985, making imports cheaper; a shift towards off-shore production as domestic, lower value-added manufacturing became uncompetitive; a partial breakdown of inefficient, centralized distribution channels, spurring direct entry to regional markets for lower-priced, quality foreign goods; a shift in consumer tastes towards foreign lifestyles; and the needs of a rapidly aging population. Government efforts to deregulate the economy have also had a positive impact.

Statistically, one can measure the results of these changes. Import penetration increased 7.5% in 1996 and has nearly doubled over the last decade. While much of the growth has occurred through the sourcing of imports from Japanese-invested companies in Asia, the changing market has created abundant niche opportunities well suited to SMEs. For example, exporters who can accurately anticipate the needs of Japan's rapidly aging population by offering high quality products should do well. In an area of more traditional Canadian strength, Japan remains the world's largest net importer of agrifood, fish and beverage products.

About 70% of Canadian imports enter Japan duty-free. With full implementation of the Uruguay Round tariff reductions, Japan's simple average tariff will fall from 7% (applied) in 1994 to 4.6% (bound) in 2000 (excluding agricultural commodities subject to tariffication under the Uruguay Round Agreement on Agriculture). While the bulk of Canadian exports will or already benefit from duty-free access, high average tariffs will continue to be applied to some important Canadian exports, particularly certain agri-food products, SPF lumber, softwood plywood and non-ferrous metals.

While Japan's import market is large and expanding, it is also sophisticated, complex and highly competitive. The right combination of quality, price and persistence will be needed to succeed. For the Canadian companies that have readied themselves to enter this market, the long term benefits have been significant.

Japanese Direct Investment Favours North America

Japanese foreign direct investment (FDI) flows have risen steadily since 1993, reaching almost US$50 billion in FY 1995, with an increase of 9.1% in FY 1996, according to Japanese Ministry of Finance notification statistics. While the recent greater profitability of Asian markets pushed FY 1996 Japanese investments in the region to over 24% of total Japanese FDI, even surpassing flows to Europe (15.3%), the total flow of investment to North America continues to outpace that to Asia by a significant margin, reaching 47.9% in FY 1996.

Prospects for Canada (and North America) are encouraging due to the need for Japanese companies to avoid high domestic labour costs, protect foreign market share and pursue more fully-integrated production overseas, including R&D.