

CANADA-JAPAN TRADE IN MANUFACTURED PRODUCTS

Japan's imports of raw materials have levelled off, as major changes have made it a growing market for manufactured products. This shift, evident since the mid-1980s, is likely to continue. A key factor has been the near doubling in value of the Yen (with respect to the U.S. dollar). Beyond simply making imports less expensive, Yen appreciation has led to the "hollowing-out" of Japanese industry. This has involved the abandoning of many low-end manufacturing industries and the moving of major elements of production offshore to lower-cost regions. A second factor is changing demographics. Japan, with one of the world's lowest birth rates, is finding it increasingly difficult to attract Japan's highly educated youth to traditional manufacturing jobs.

One of the consequences of these factors has been an expansion of Japan's imports of manufactures and other higher value-added products to fill the gaps left by its own industry. In 1985, less than one third of Japan's imports were classified as manufactured goods. By late 1993, this proportion had grown to some 55% of a larger total. There is reason to think this curve will continue. In the Kansai region, with its smaller and more agile importers, the figure has exceeded 60%, very likely a harbinger of the national trend.

Changes in the Japanese consumer further reinforce the market for manufactured products. An increasing quest for value, income tax reductions, and promises of deregulation all will maintain the momentum of increasing imports.

AEROSPACE/DEFENCE

Japan is a substantial market for aerospace products. Canadian manufacturers have been successful in selling such major products as business jets, helicopters and flight simulators, as well as a wide range of smaller items and components. The prospects for expanded sales of all of these items is good. In addition, Japan has proven to represent a valuable market for a number of manufacturers of specialized, high technology defence products.

Japan's aerospace industry, although still modest in relation to Japan's overall industrial strength, is likely to grow rapidly over the next decade or so, and may well evolve into a first rank competitor on world aerospace markets. At this early stage, however, it is an incomplete industry, and one with which Canadian firms may find many opportunities for collaboration.

A priority strategy over the next few years will be to expand contacts between the Canadian and Japanese aerospace industry and to encourage the development of such opportunities.