CANADIAN TRADE WITH ASIA PACIFIC: TRENDS AND DIRECTIONS

Department of External Affairs

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EXECUTIVE SUMMARY

Asia Pacific is Canada's second largest trading partner, after the United States. Certain characteristics of Canada's trading relationship with the region are noteworthy. Japan is Canada's major partner and best export market, while imports from South Korea, Taiwan and Hong Kong have been expanding at a rapid rate. Exports lean heavily towards commodities while imports come mainly in end products, especially automobiles, clothing, and consumer electronics. Trade balances have been shifting in Asia Pacific's favour during the 1980s. The growth of Canadian exports to Asia Pacific has not compared well with that of other OECD members.

The explanations for these trends lies in the focus of national economies. The more industrialized the partner country, the worse Canadian trade performs. Poor world commodity markets during the 1980s have hurt Canadian exports, and the importance of the United States market to the Canadian economy causes trade with other countries to pale in comparison. Growing imports from the aggressively industrializing countries in Asia Pacific, however, accounts for much of the decline in terms of trade. The ability of these countries to compete in labour-intensive, mass-production industries has pushed them into the forefront of world economic growth.

As we head into the twenty-first century, Asia Pacific appears ready to lead worldwide economic expansion. Within the region, the flying geese pattern of development will continue to be apparent. Japan, South Korea, Hong Kong, and Taiwan should develop into fully industrialized consumer societies; other countries will take their places as capital-intensive, export-oriented economies; while the least developed members of the region will use labour-intensive industries like textiles to kickstart their industrialization. Most of these countries will require assistance in the development of the infrastructures necessary for the functioning of an economy in this technological age.

The development of these infrastructures is where Canada can make the most contribution by trading with Asia Pacific. We can expand on areas of Canadian strength and skill. Telecommunications, transportation, and energy are the most prominent sectors of Canadian expertise which will be needed by Asia Pacific. Through active cultivation of the available markets, and by participating in a co-operative role via joint ventures and other vehicles for partnership and technology sharing, Canadian participation in the industrialization of Asia Pacific can result in economic gains of great mutual benefit.

1. INTRODUCTION

1.1 Purpose

This report has been prepared to improve understanding of Canada's economic relationship with Asia Pacific. Consistent methods and sources have been used wherever possible to ensure comparability within the report. The report was written to identify trends in Canadian trade with Asia Pacific, explain what caused them and what their effects have been, and analyze where Canadian trade is going in the future, including potential problems and opportunities.

1.2 Scope

Canadian merchandise trade with other countries will be the major focus of this report. The role of Asia Pacific in Canada's overall external trade is one aspect of this, as the report will compare trade with Asia Pacific to trade with the other major geographical regions of the world. Trade with most countries within Asia Pacific, selected according to their share of Canadian trade, will also come under scrutiny.

Trade within the region is another area this report will examine. Intra-Asia Pacific trade is one aspect of this, and Canada's penetration of the market, versus that of Canada's major competitors, is another.

In looking at trade statistics, several areas must be examined to identify more clearly what has been happening in the international marketplace. One of these areas is the question of price versus volume changes. It is relevant to understanding the issue to see whether a change in the value of trade is due to an actual expansion or contraction of trade volumes or to changing prices. Related to this idea is the matter of exchange rates. A fall in the Canadian dollar, for example, will increase the cost in Canadian dollars for the same quantity of imports, even though the exporting country's price has not changed.

Changes in trade do not often occur uniformly over all products. In addition to looking at overall trade, therefore, this report will break down trade statistics by sector and product, wherever relevant and possible. The relative growth rates of exports and imports also reflect what is happening in the evolution of Canadian trading relationships.

One major problem in such a project is the time period under examination. Many compilations of trade statistics take several years to prepare. The period which will form the basis for most of this report will generally run from 1975 to 1987, giving a picture which approaches the long run, and coming close to the present. If 1987 figures are not available, the period will run from 1975 to the most recent year for which data can be obtained. Additional years will be included where they add something to the analysis.

Asia Pacific is here meant to include countries within Oceania and all countries of Asia except Middle Eastern countries (such as Israel, Iran, and Iraq) and the Soviet Union. The region thus runs from Afghanistan and Korea down through Australia and the islands of the South Pacific. Asia Pacific includes several groupings of nations, including the Newly Industrialized Economies

(NIEs) - South Korea, Hong Kong, Taiwan, and Singapore - and the Association of South-East Asian Nations (ASEAN) - Singapore, Thailand, Malaysia, Indonesia, the Philippines, and Brunei Darussalam. To prevent double counting, Singapore will be included in ASEAN, rather than among the NIEs. Japan, the People's Republic of China, India, Australia, and New Zealand are also part of Asia Pacific.

1.3 Overview

The foundation for trade statistics lies in a complex set of political and economic actions. That is, international merchandise trade (as with all public matters) involves the interrelationship between the actions of economic units, who are pursuing their own interests within the framework established by political units, and the political units themselves, who alter the framework in order to meet objectives which may not be in the interests of the economic units.

Thus, for example, when the Canadian government decided to limit oil exports in the late 1970s in order to conserve a non-renewable resource, demand for Canadian dollars on international currency markets fell, contributing to the decline in the value of the Canadian dollar. At the same time, commodity prices worldwide were booming. With most Canadian commodity exports being priced in American dollars, the revenues earned by Canadian commodity exporters in Canadian dollars were enormous.

1.3.1 Primary Commodity Trade

Trade in primary commodities plays an important role in the economies of Canada and Asia Pacific and requires an extensive introduction. The commodity boom of the mid and late 1970s lasted until roughly 1981, as prices on most world markets peaked between 1980 and 1982. The rest of the 1980s have seen a general decline or failure to rise in commodity prices, while volumes of commodities traded did not increase significantly. These price and volume trends imply a drop in world demand for commodities and a possible rise in supply. As many of the economies of Asia Pacific rely on commodity exports as their major source of foreign exchange, and others need to import most of their raw materials, structural changes in the world's commodity markets have important effects on economies in the region.

An understanding of the characteristics of primary commodity trade will help in analyzing the structural changes which occurred during the 1970s and 1980s and their impact on Asia Pacific. One key characteristic is the inflexibility of the production function. Producers of primary commodities find it very hard to adjust their production according to market conditions. Due to the large amount and immobility of capital involved, quantity produced tends to remain high when prices fall - unlike manufacturing. The reliance on production of a few commodities also means that labour cannot switch to other sectors during a slump. The necessity of earning foreign exchange to pay for imports means that commodity exporters are often forced to sell on a falling market in order to afford imports, thereby exacerbating gluts on world markets. This last phenomenon is known as the fallacy of composition. It is in each individual's best interests to increase production, while for producers as a whole it is in their best interests to limit production.

Another characteristic of commodity trade adding to its vulnerability to market conditions is the degree of homogeneity. Commodity markets approach perfect competition in that commodities are generally homogeneous and competition takes place on the basis of price alone. Producers of manufactured goods, in contrast, are able to differentiate their goods by quality, brand names, packaging, and cosmetic changes to their products. In this way they can engage in non-price competition and protect themselves from falling demand. A final note regarding the characteristics of commodity trade concerns the asymmetric macroeconomic effects of business cycles. For example, a rise in commodity prices generally entails an increase in the prices of manufactured goods: cost-push inflation. The reverse, however, is not true. The markets for end products are harder to define, and through differentiation and other means manufacturers can keep their selling prices high even when their input prices fall. On the national accounts level, this can lead to balance of payments difficulties. During the 1970s, for example, the increase in commodity prices did not help non-oil producing developing countries to offset the rise in oil and manufactured products prices. Conversely, the drop in oil prices in the 1980s has not been enough to compensate for the lower export earnings these countries have been getting.

These characteristics help to explain the economic difficulties in which many commodity-based economies find themselves. The 1970s were a time of rising commodity prices, in response to fears about the ability of the world to provide for itself. These fears arose from Malthusian predictions of the world reaching the limits to its growth. With supply fixed or falling and demand increasing, it appeared that commodities were going to be scarce for the foreseeable future. As it turned out, such analyses overstated the problem. They did not take into account the effects of technological substitution and innovation, through increased efficiency and use of synthetics, both of which serve to lower demand for scarce resources and increase demand for abundant ones. The 1980s have seen a return to pre-1970 beliefs of long-run manufacturing growth being superior to that of commodities, based on the principles of innovation, substitution, and higher value-added in manufacturing.

Thus the 1980s have been a period of growth in commodity trade being outpaced by that of manufactures. Besides substitution and innovation, the reasons for this slowdown include the nature of the leading sectors of world economic growth in this decade. They include services, with no commodity inputs, agriculture in developed countries, which is due to increased protectionism and which hurts world trade, and technological industries like computers and telecommunications, which require a lower volume of raw materials than industries like capital goods, clothing, and textiles manufacturing. Another factor has been the increased production capacity of world commodity producers. The high prices of the 1970s encouraged more marginal producers to enter the market, leading to an increase in supply. When the increased supply and lower demand led to gluts on world markets, governments were reluctant to abandon the high-cost producers which they had helped to set up. A Canadian example is found in the oil sands refineries of Alberta, which are viable only when world oil prices are around $27 a barrel. Relieving the gluts on world markets will involve large structural adjustments as governments abandon their less competitive commodity producers.

The structural adjustments will have major impacts on countries in Asia Pacific who rely on exports of commodities for their economic well-being. For the short term at least, these countries can not expect their economies to grow significantly. With a recovery in commodity prices unlikely in the near future, and with the unhappy prospects for long-run commodity prices, it will be in their best interests to lower their dependency on exports of raw materials and imports of finished products. Industrialization is easier said than done, but places like Japan and Australia have shown that high standards of living are possible with or without endowments of primary commodities.

1.3.2 Other aspects of the international economy

World trade has improved in the years following the recession of 1982. While much of the growth in developed countries came in the service sector, the manufacturing sector benefitted from lower commodity prices. Thus end products led the expansion in world trade flows.

Another factor contributing to world trade growth has been expansion of the international division of labour. World markets have generally become more and more open over the last several decades, with the result that the world economy has become more and more integrated. Recent years have seen third world economies taking advantage of opening markets and their own inherent advantages, capitalizing on opportunities to participate in international manufacturing trade. At one point, in the 1960s and 1970s, this took the form of moving into labour-intensive industries like clothing. Latterly, however, governments have emphasized development of durable and capital goods, and participation in the internationalization of production by multinational corporations. The success of some of them is reflected in their being called Newly Industrializing Economies.

Nevertheless, many clouds remain on the horizon of world trade. The international debts of many third world countries, in particular Latin America, could have serious repercussions through world financial markets if they are not eased. The debts have already impeded development efforts by the debtor countries. Trade in food products, too, faces several problems which must be dealt with. Of particular interest to Canada are issues like wheat subsidies and protection of fishing resources. Finally, there is the danger of Canada being left behind by development of the world economy. Current trends seem to be towards lower emphasis on primary commodities and protectionism, and towards integration and high-technology products. These trends make up the context of future economic conditions, a network of challenges and opportunities in which Canada must define its participation in world trade.

2. TRADE WITH THE REST OF THE WORLD

This section will examine Canadian trade with the major geographical regions of the world for the 1975-87 period. It will look at the overall condition of Canadian trade, break it down by regions, examine the expansion of trade volumes versus changes in price, and present an overview of certain key products in Canadian external trade.

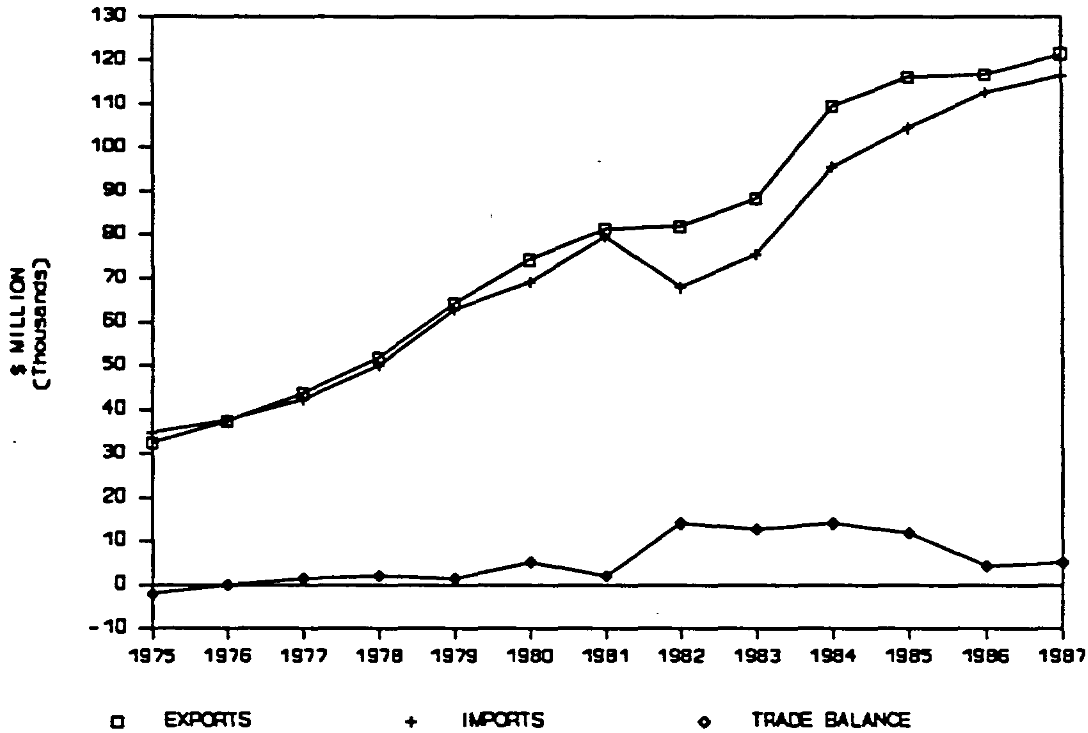
There are several messages which can be read from this section. The most obvious is the importance of the United States to Canada's economy. In addition, trade with the U.S., exports in particular, accounts for much of the growth in Canadian trade following the 1982 recession. The size and expansion of automotive trade with the United States is especially significant.

Other important themes running throughout the analysis include the poor performance of Canada's commodity exports, the importance of these exports to Canadian trade, and the regional breakdown of non-U.S. trade. Canadian external trade generally sees large surpluses in food and related products and crude (unprocessed) materials, and deficits in end (finished manufactured) products trade. Fabricated, or semi-processed, materials produce the most balanced trade. Even in fabricated materials, though, a split is evident with exports leaning towards refinement of wood and metal products, and imports coming in steel and chemical products. While this split worked to Canada's advantage during the late 1970s, with their strong commodity prices, the shift in world trade to end products during the 1980s have led to a weakening of Canada's terms of trade, or ratio of export to import prices.

The relative importance of Canada's trading partners has changed, too. Oil exporting regions like the Middle East and South America, which supplied much of Canada's oil in the 1970s, have declined in importance. The three factors explaining this decline are the shift to non-OPEC sources (mainly the United Kingdom), the fall in value of oil, and the poor economic health of the regions following the loss of their oil revenues. Trade with Europe has seen an expansion of imports and a fall in exports, as Canada imports capital goods to support growing domestic industries and consumer goods to fill consumer demand, while European consumers of Canadian commodities switch to other, largely EC, sources. Asia Pacific, meanwhile, became by 1987 Canada's second most important trading partner. Exports to the region grew as the growing economies of the region fed off of Canadian commodities. By consuming the consumer goods produced by these economies, Canada helped to fuel their growth. Next to the United States, Asia Pacific appears to be the market engaged in the most symbiotic economic relationship with Canada.

2.1 Overall Trade

Trade between Canada and the rest of the world has grown enormously. Over the 1975-87 period, it rose from $67 billion to $237 billion. The importance of trade to the Canadian economy has also risen, with merchandise trade equivalent to 40.9% of gross domestic product (GDP) in 1975 and 43.4% of



Canadian Exports To and Imports From the World, 1975 - 1987

1987 GDP. The growth rate of trade decelerated during the 1980s, however. The recession of 1982 is one reason, as imports fell 14.6% in that year. The lower rate of worldwide inflation which has prevailed following the 1982 recession can also explain the apparent slowdown. Trade volumes actually expanded more rapidly in the 1981-7 period than they did over the 1975-81 period.

Canadian Exports To, Imports From, and Trade With the World:
1975, 1981, 1987 ($ million)

	1975	1981	1987	Avg Ann Growth 75-87	Avg Ann Growth 81-87
Exports	32466.1	81336.7	121462.3	11.6	6.9
Imports	34690.7	79481.7	116238.6	10.6	6.5
Balance	-2224.6	1855.0	5223.7		
Total	67156.8	160818.4	237700.9	11.1	6.7

Canadian Exports and Imports: Price and Volume Changes, 1975-81 and 1981-87 (percentage change)

	1975-81		1981-7	
	Price	Volume	Price	Volume
Exports	85.0	35.4	0.1	49.2
Imports	96.4	16.6	3.7	41.0

(Source: Statistics Canada)

Canadian exports grew more rapidly than imports over the 1975-87 period, both in dollar and volume terms. The merchandise account surplus peaked in 1984, after which increasing end product imports began eroding it. Much of the increase in trade over the 1975-81 period was due to commodity prices, such as exports of wheat, metals, and forest products, and imports of oil. During the 1981-7 time span, Canadian export volumes grew the most in automobiles and parts. Import volumes rose primarily in the same sector, as well as telecommunication products, computers, and technical products. With the exception of computers, prices for these products were all rising on international markets. Growth in aggregate price indices was dampened by weak commodity markets, however, which affected Canadian exports more than Canadian imports. This heavier reliance of Canadian trade on commodities has resulted in a decline in Canada's terms of trade, or ratio of export prices to import prices.

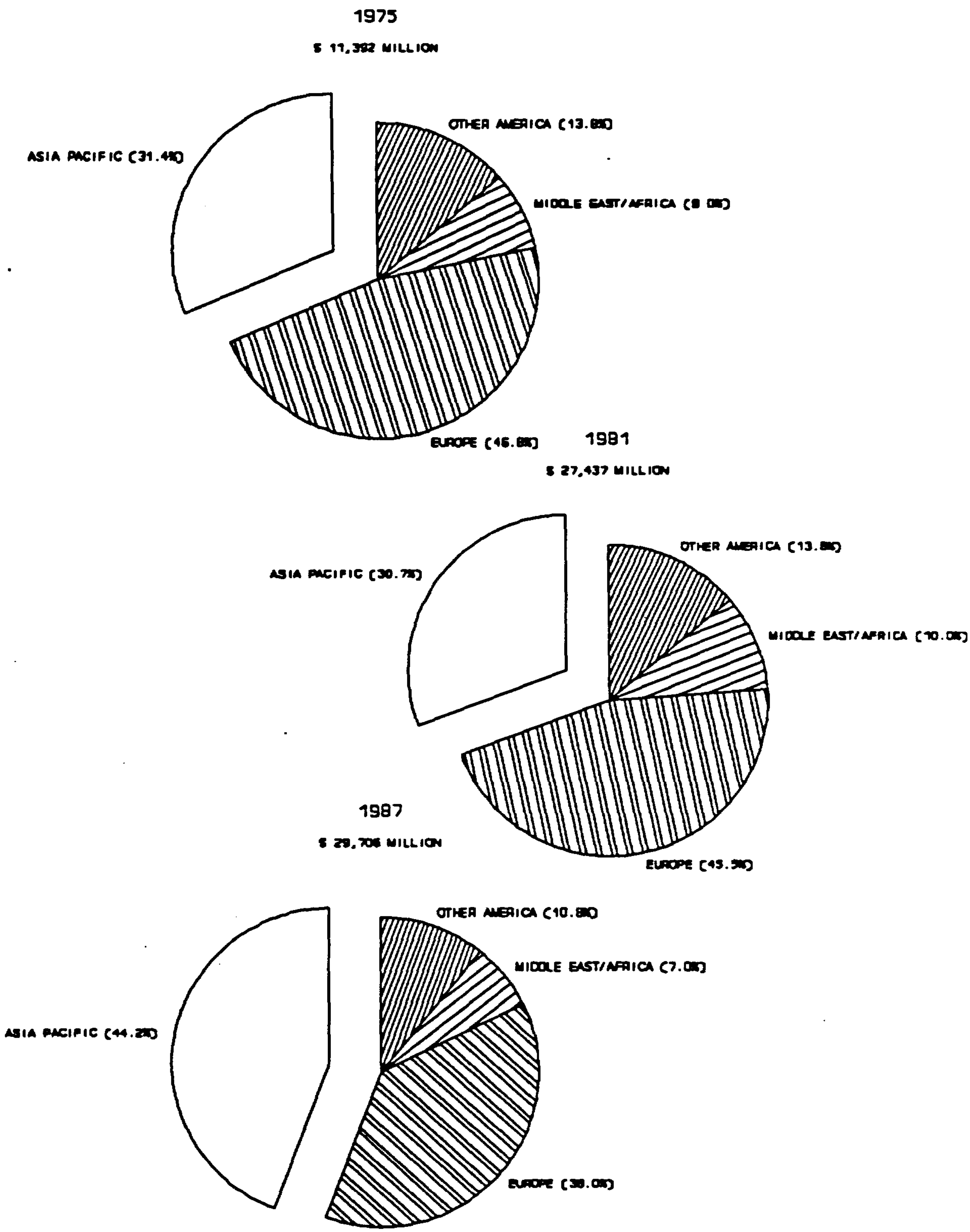
2.2 Regions

In breaking down Canadian trade by regions, three factors stand out. The most relevant to this analysis is the displacement by Asia Pacific of Europe as Canada's second largest trading partner. Also noteworthy is the decline of Canadian trade with the Middle East, Africa, and other American states, and the importance of the United States as a trading partner.

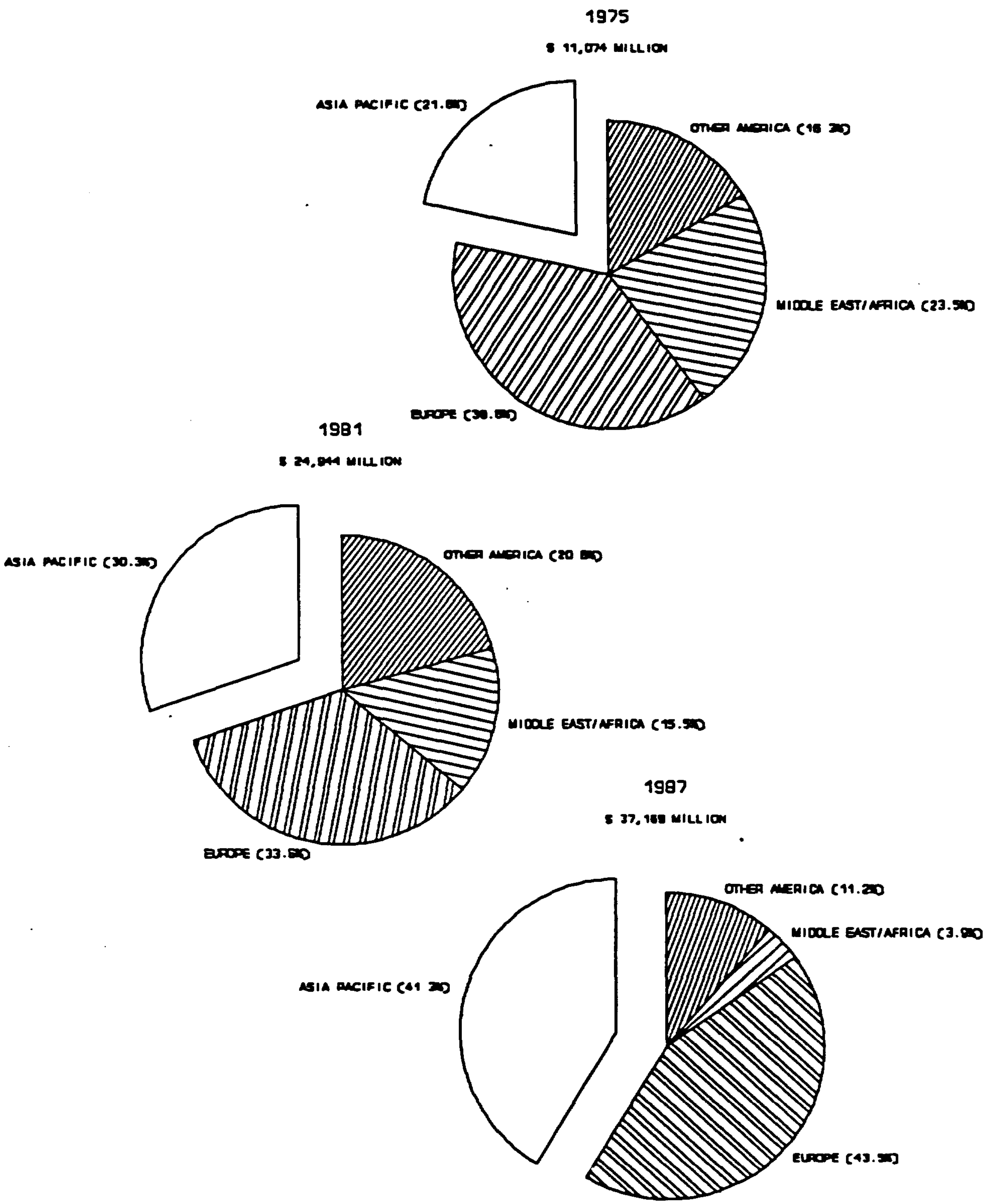
The lion's share of Canada's trade is with the United States: 72% in 1987, to be exact. 76% of our exports were to the U.S., and 68% of Canadian imports originated there. Most of the worldwide growth in exports came in exports to the United States, mainly in fabricated materials before 1981 and end products (automobiles and parts) after.

Asia Pacific and Europe rank as the number two and three regions in Canadian external trade. Historically, European trade was larger than trade with Asia Pacific, but growth in imports of end products from Asia Pacific and sluggish expansion of exports to Europe reversed the rankings in 1987, and the gap continued to widen in 1988.

The Middle East, Africa, and other American countries combined for a total of less than five per cent of Canadian external trade in 1987. These areas lack a large trading country on the order of West Germany, the United



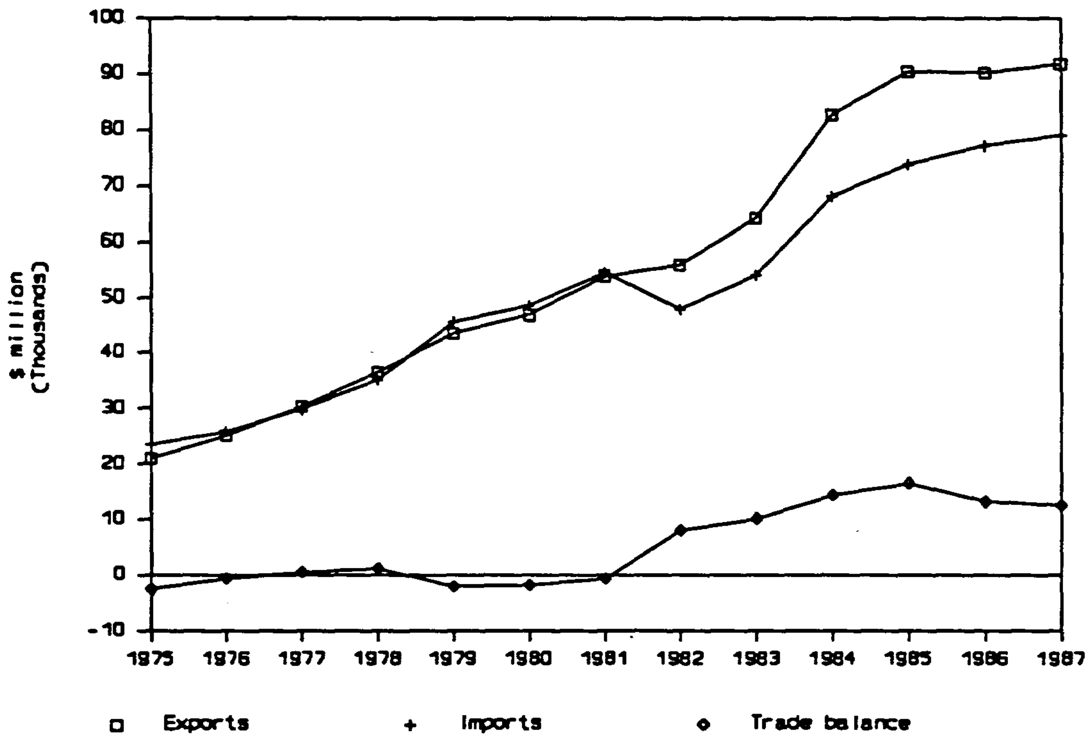
Canadian Exports (excluding the United States), by Importing Region, 1975, 1981, 1987



Canadian Imports (excluding the United States), by Exporting Region, 1975, 1981, 1987

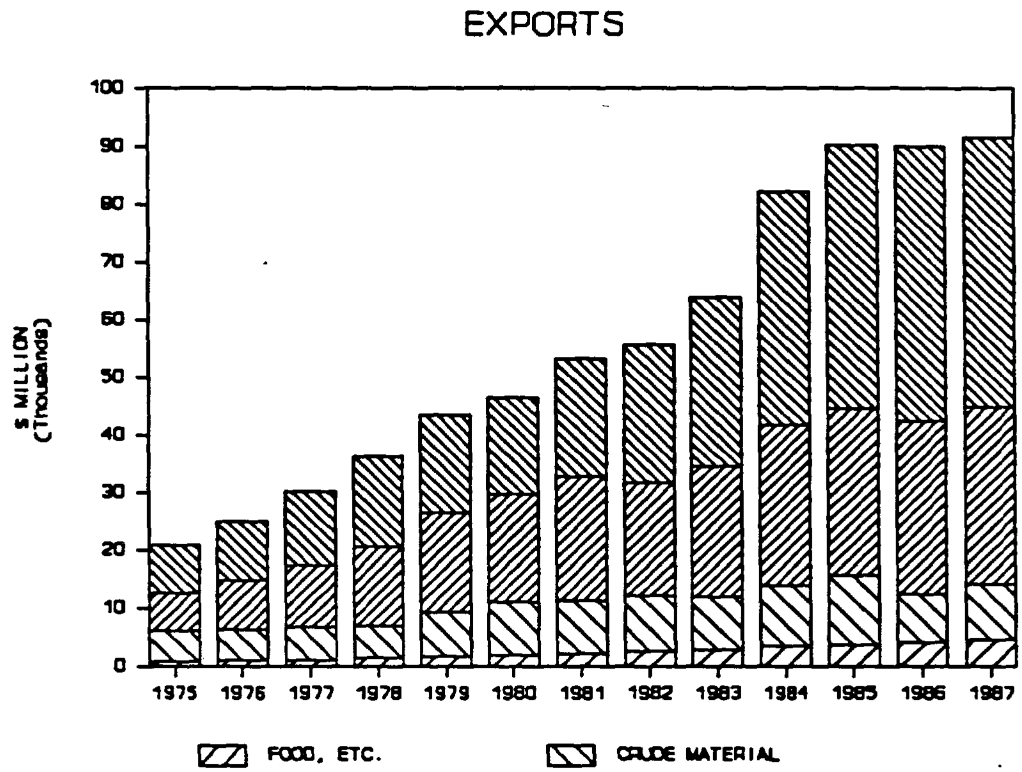
States, or Japan. Their exports, like Canada's, are mainly of commodities; consequently, their exports are largely substitutes rather than complements of Canada's. Trade is generally limited to the commodities which the partner country lacks, and to some manufactured goods in which the country has a comparative advantage. Growth in trade has been hurt by weak commodity markets. A circle of stagnation has developed in countries in these regions, whereby the country's economy is weakened by poor commodity sales, external debts pile up, and the government is forced to use austerity measures to lower import demand, which slows the economy down even more and may cause structural damage to it. Some countries in Asia Pacific may also be vulnerable to this scenario.

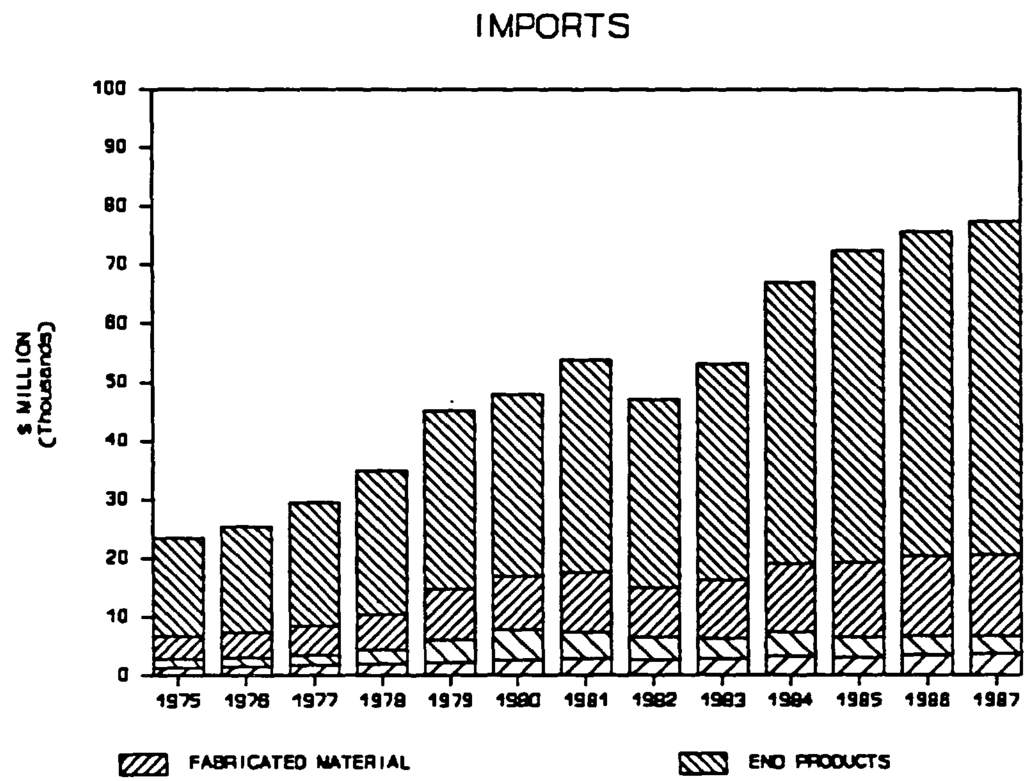
2.2.1 The United States



Canadian Exports To and Imports From the United States, 1975 - 1987

The importance of trade with the United States to the Canadian economy is a well-known fact. What is interesting for the purposes of this paper are the relative sizes and growth rates of various sectors, in both imports and exports, in Canada/U.S. trade.



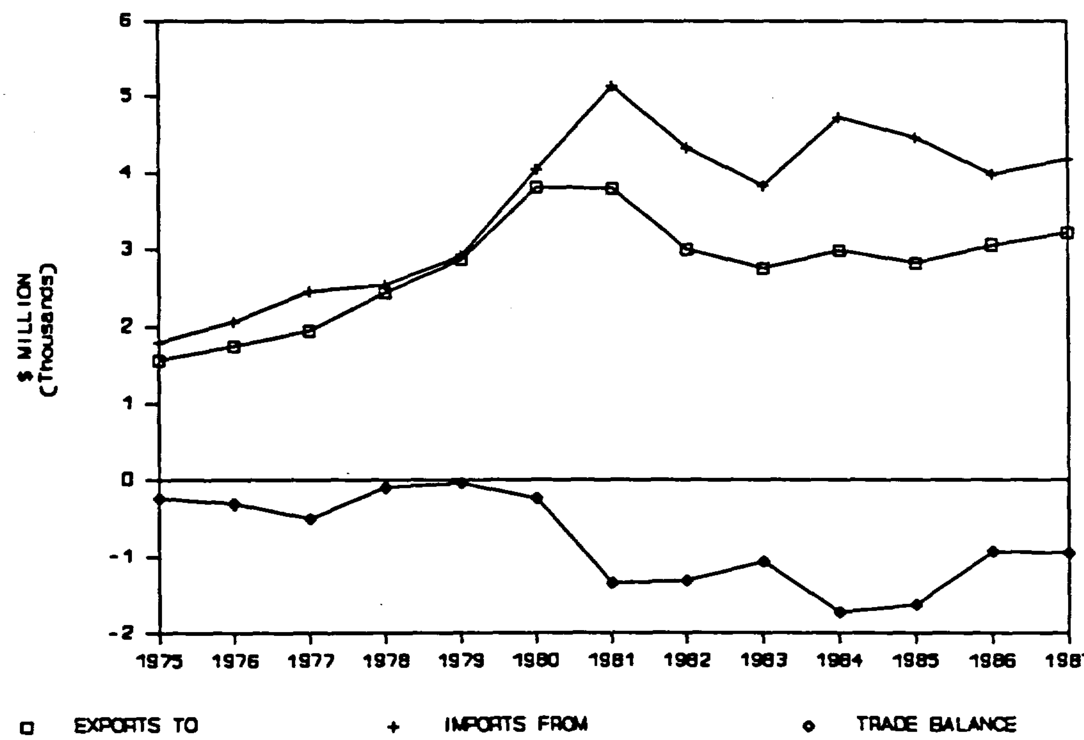


Canadian Exports To and Imports From the United States, by Sector, 1975 - 1987

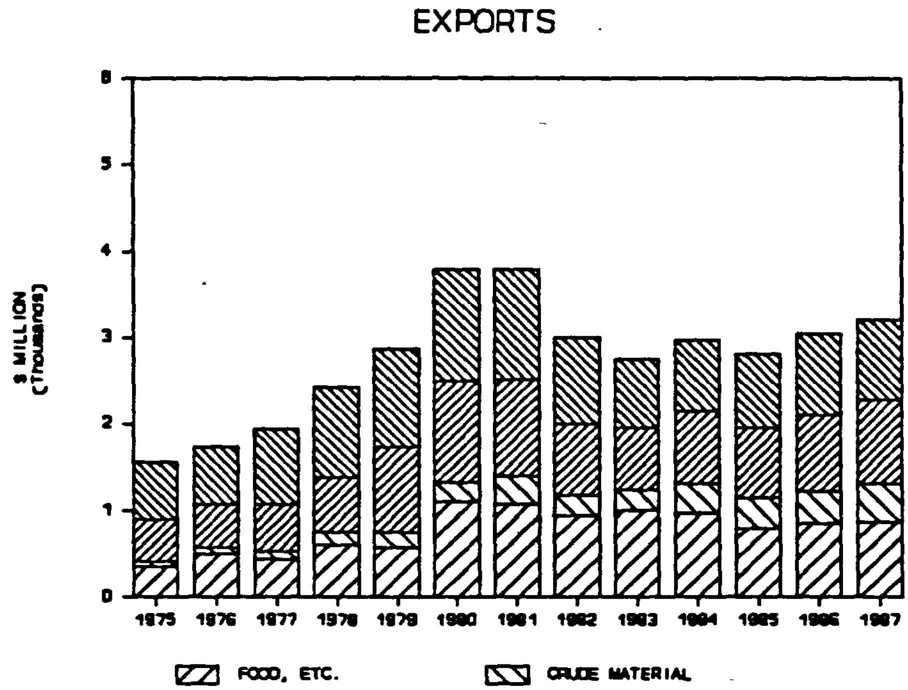
The largest sector of bilateral trade is end products. It has been the fastest-growing sector during the 1980s as well. Flows of automotive products dominate, making up 90% of bilateral trade in the sector. Computers and telecommunications equipment are also significant industries, and these three have been among the fastest growing industries over the 1981-7 period. Canadian imports also trend towards consumer products and industrial machinery. While Canadian exports have been rising faster than imports, the United States still runs a surplus in end products trade.

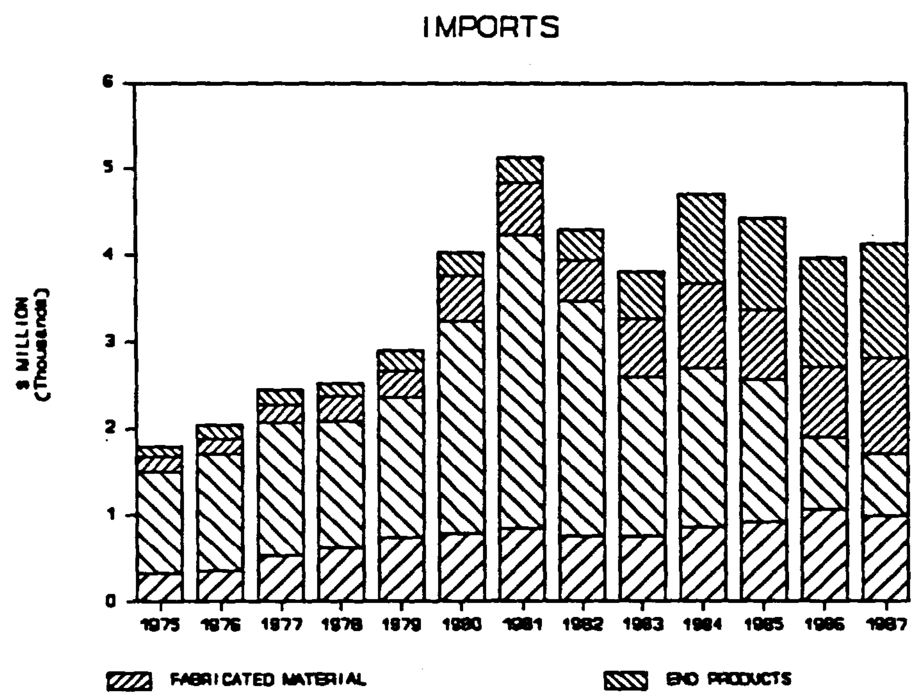
Canadian exports to the U.S. were also growing in forest products, fish, and pork. The other most significant Canadian exports included crude oil, natural gas, and electricity. These products gave Canada large surpluses in the crude materials and the expanding fabricated materials sectors, enabling overall merchandise trade with the United States to be balanced in Canada's favour. Outside of end products, the chief imports from the United States were coal, chemicals, and plastics.

Overall, the dominant aspect of Canadian trade with the United States is the size of the end products sector. Nine-tenths of Canadian end product exports in 1987 went to the U.S. Most of these, and the majority of Canadian



Canadian Exports To and Imports From Other American States, 1975 - 1987





Canadian Exports To and Imports From Other American States, by Sector, 1975 - 1987 imports from the U.S., were in automotive products: a dependence which increased markedly between 1981 and 1987. The United States receives most of Canada's technological exports, and is the only important recipient of Canadian energy. Canada's role in providing forest, metal, and mineral inputs for American industry is notable, as well as the flow of capital and consumer goods and industrial inputs like chemicals which cross the border in return.

2.2.2 Other America

Canadian trade with other American countries is not very large, compared with other regions, and it declined over the 1981-87 period. On the exports side, there has been a general decline. Imports fell sharply due to crude petroleum, as Canada switched to North Sea oil, but all other sectors have seen greater imports.

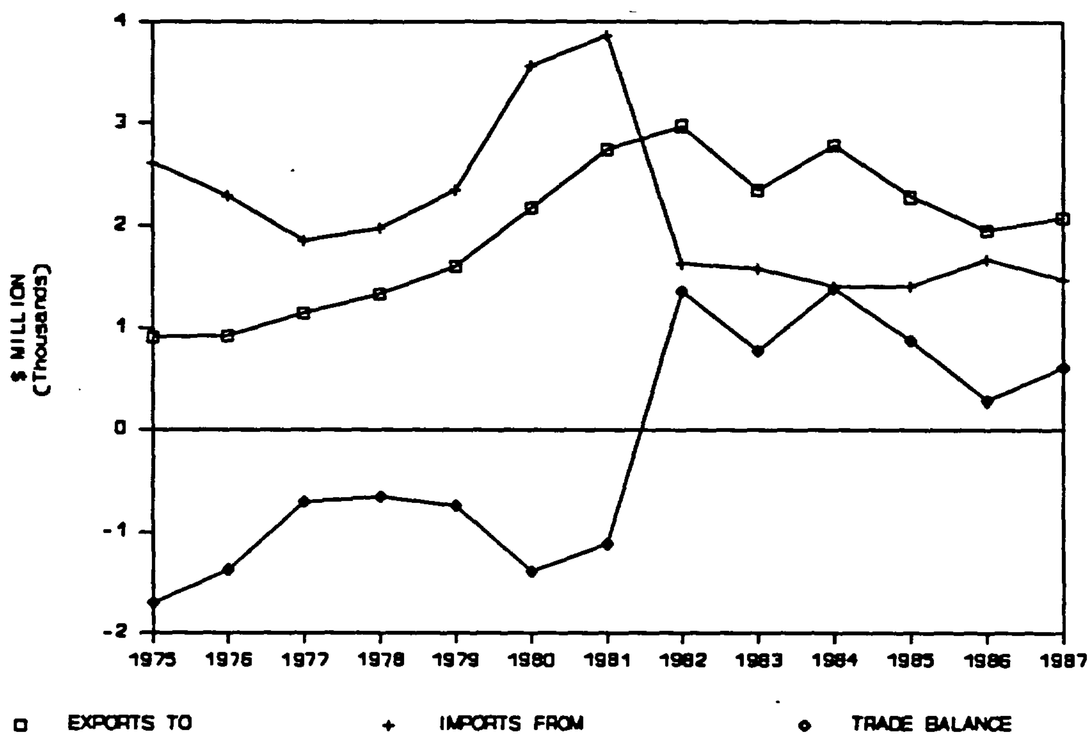
Brazil, Mexico, and Venezuela are Canada's largest trading partners in the region. Imports from Mexico and Venezuela have been hurt by the former dependence on oil, but other sectors have risen to partially replace oil as foreign exchange earners. From Canada's point of view, the most important of these industries are motor vehicles and parts from Mexico; footwear, televisions, transmission equipment and steel from Brazil; and Venezuelan fuel oil. Canadian imports from the region also include coffee, fruit, and aluminum ore.

Canadian exports to other American states are distributed across several sectors. Wheat is the most important food product (Cuba being a large buyer) and forest products take up a large part of fabricated materials exports. Among end products, motor vehicles and telecommunications and transmission equipment are important Canadian exports.

There are two major conclusions to be drawn about the pattern of Canadian trade with other American states. The first is that generally poor economic conditions among states in the region - due to a combination of weak prices for oil and other commodities, political instability, and foreign indebtedness - have resulted in lower import demand. Canadian exports to the region are not likely to grow until political and economic problems in the region are sorted out. The second conclusion is that growing Canadian imports of fabricated and end products from Latin America are a sign of a reorientation towards export-led growth among some of the major economies of the region. These countries may be trying to grow in a manner similar to the NIEs of Asia Pacific, although they are much further from the takeoff stage of industrial development. These two trends add up to continuing deficits in Canadian merchandise trade with Latin America.

2.2.3 Middle East/Africa

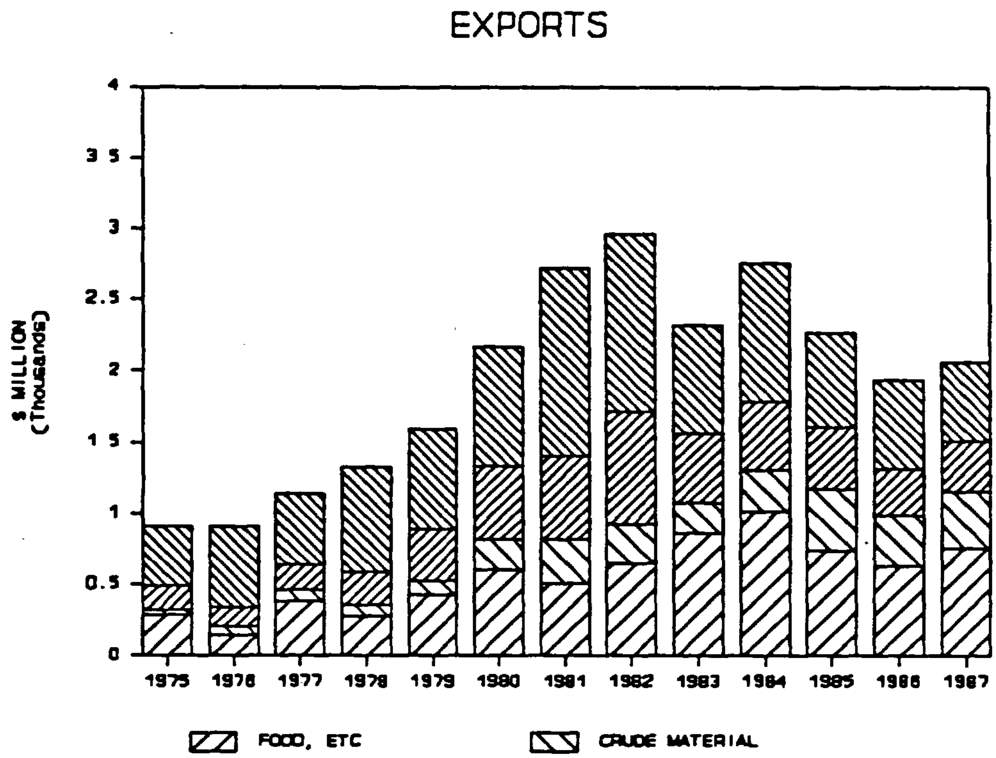
Trade with the Middle East and Africa bears a similarity to trade with other American states. It has been severely curtailed since 1981, due to

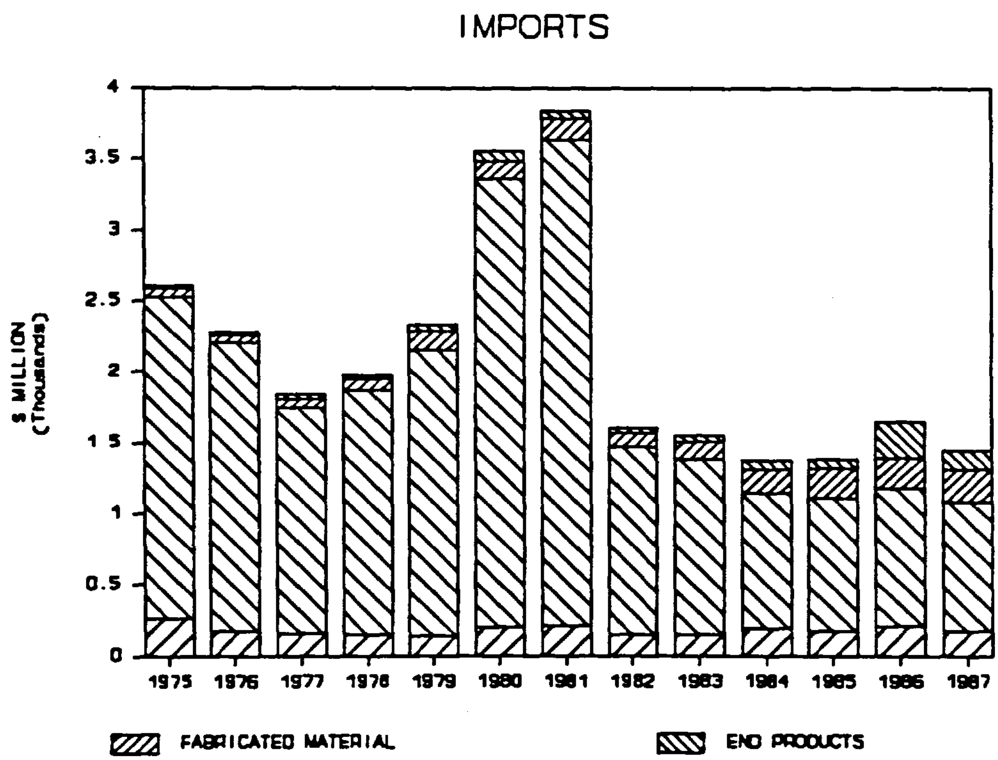


Canadian Exports To and Imports From the Middle East and Africa, 1975 - 1987

lower world prices for oil and a Canadian switch to North Sea suppliers (crude petroleum being the region's primary export). Weak commodity prices, political instability, and military conflicts have hurt the region's economies; poor economic performance and heavy foreign debts have lowered import demand. Unlike Latin America, however, the Middle East and Africa contain no economies which parallel the NIEs of Asia Pacific. The strongest economies in the region belong to Turkey, Israel, and South Africa.

Canadian exports to the Middle East and Africa peaked in 1981 for end products, 1982 for fabricated materials, and 1984 for food - indicating necessities were the last imports to be cut back in attempts to ration foreign exchange reserves. Telecommunications have been Canada's strongest export industry, other than wheat, with exports to Turkey being especially strong towards the end of the 1981-87 period. Imports are still dominated by oil, despite the fall in Canadian oil imports from the region. South African metals and a variety of Israeli goods also make up a sizeable part of Canadian imports from Africa and the Middle East.

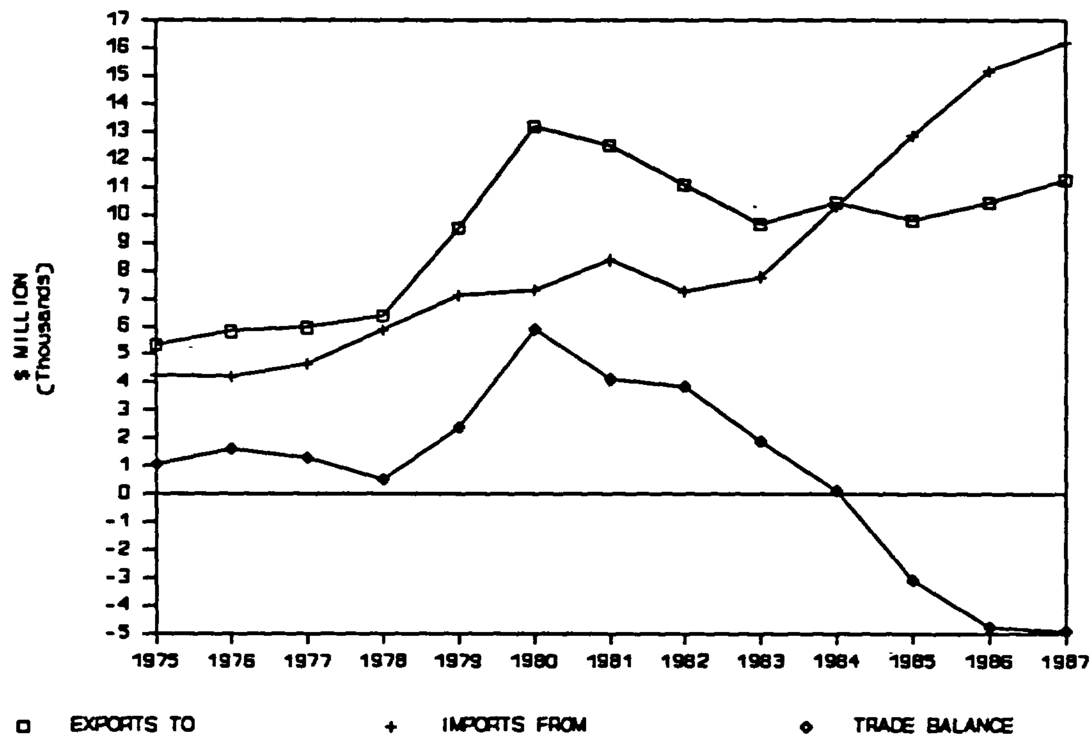




Canadian Exports To and Imports From the Middle East and Africa, by sector, 1975 - 1987

The profile of trade with the region demonstrates Canada's comparative advantage in telecommunications products, but otherwise has few bright spots. No significant increase in trade between Canada and the countries of the Middle East and Africa should be expected before the year 2000, as it is unlikely that debt and other economic problems can be resolved by then.

2.3.4 Europe



Canadian Exports To and Imports From Europe, 1975 - 1987

The importance of Europe as a trading partner is unlikely to approach again the dependence the Canadian economy had on Great Britain in the nineteenth century. Nevertheless, there has been a resurgence of imports from Europe since 1982, symptomatic of the revitalization of continental industry. Next to the United States, Europe is Canada's second largest source of imports. Canadian exports to Europe have still not recovered from a 26% decline between 1980 and 1983. As a result, Canada runs a sizeable deficit in merchandise trade with Europe.

The growth in imports has been strong in all sectors, but especially so in crude materials and end products since 1981. The increase in end products

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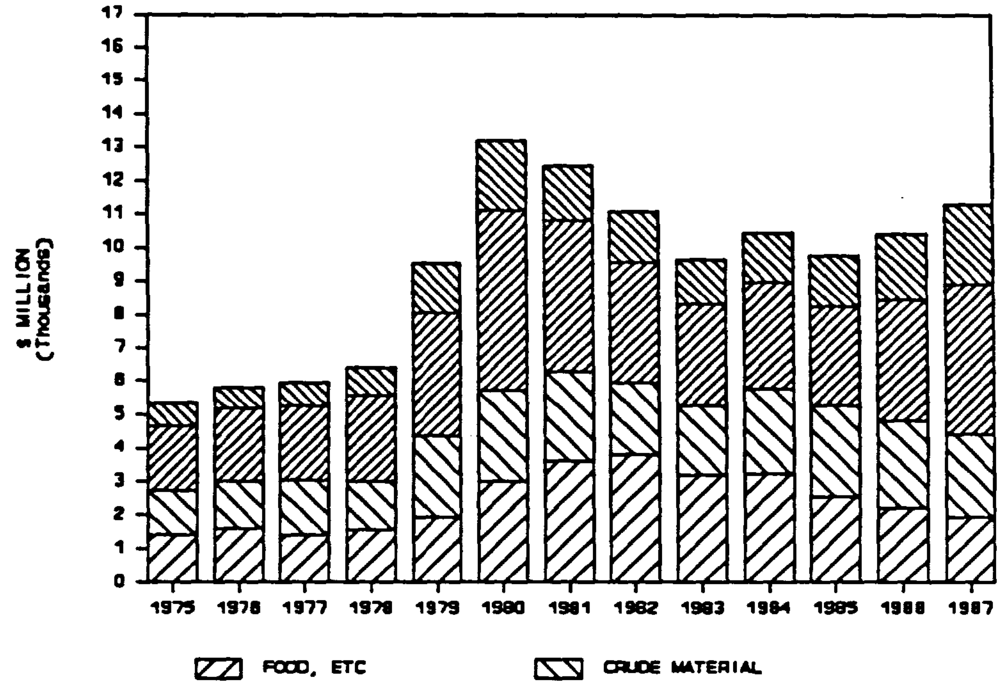

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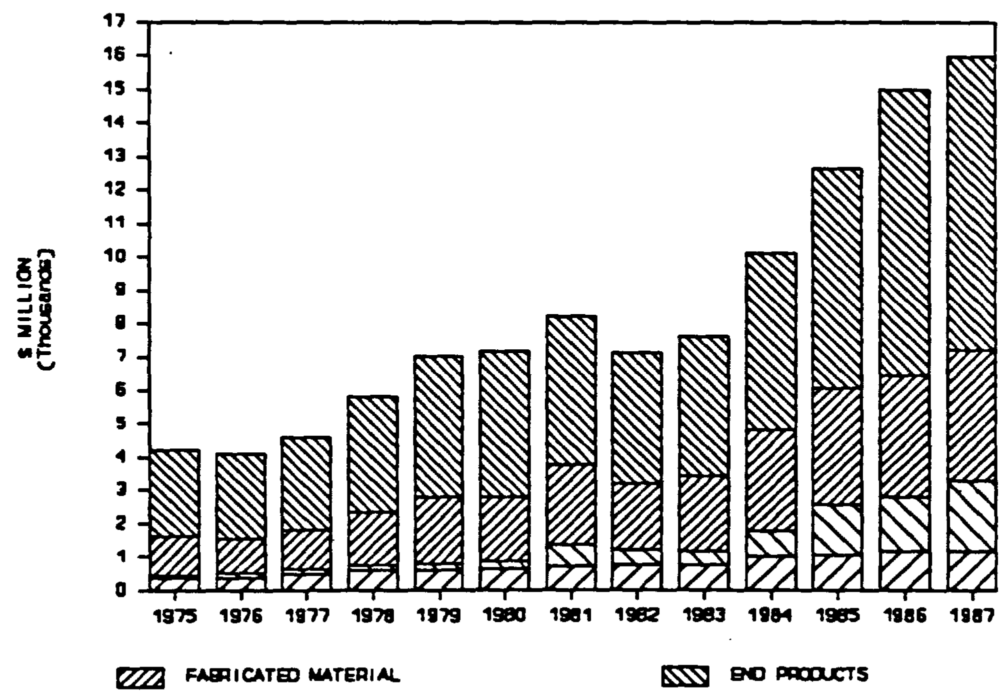
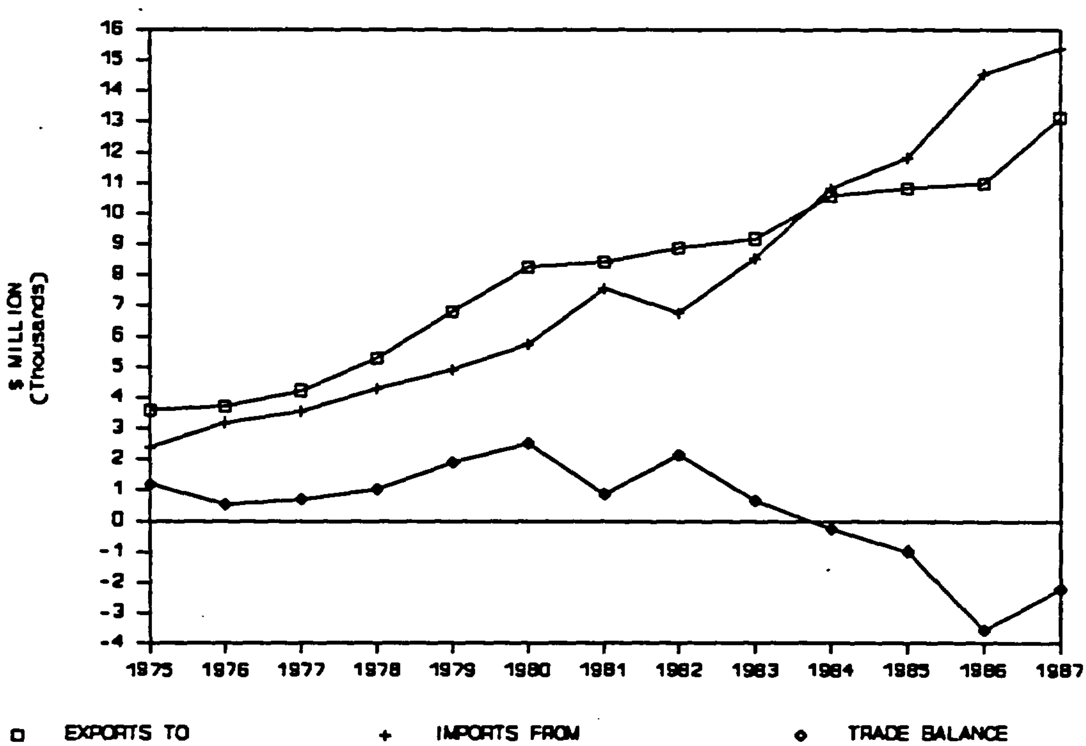


Canadian Exports To and Imports From Europe, by Sector, 1975 - 1987 imports (which doubled between 1983 and 1987) has been concentrated in industrial machinery, automobiles, and clothing. Crude petroleum accounts for the rise in crude materials imports, as Canada has switched to the United Kingdom as a major oil supplier. Other industries which have been expanding shipments to Canada include chemicals, plastics, steel, and wines and spirits.

Canadian exports were hurt by falls in fabricated materials exports between 1980 and 1985, and in food following 1982. Wheat and fish exports have been hurt by conflicts with the European Community, better grain harvests in the Soviet Union, and poor commodity prices. Fabricated metals and forest products exports to Europe have also been victims of oversupply in commodity markets and, to a limited extent in forest products, competition with Scandinavian producers. Exports of end products in 1987 leant toward technological products: computers, telecommunications equipment, and aircraft and parts. Gold coins sales also became significant in that year.

Trade with Europe, then, shows imports to be increasing in all sectors. Within fabricated and end materials, the dynamism seems to be coming from capital intensive or skilled industries, implying that Europe helped supply to a large extent the products necessary for the economic growth Canada



Canadian Exports To and Imports From Asia Pacific, 1975 - 1987 experienced in the post-1982 expansion (a claim supported by, for example, the decline of Canadian machinery industries during the same period). Canadian exports were hurt by the weak commodity prices and strong Canadian dollar, relative to European currencies, of the 1980-85 period. Recovery of exports to Europe since then have been fuelled by stronger commodity prices, the fall in the U.S. dollar, and certain products in which Canada specializes, like telecommunications equipment and gold coins. With continued strong import growth, low levels of end products exports, and slow expansion of overall exports, the prognosis for Canadian trade with Europe is not good in the medium term. The resurgence of European industry under the framework of the European Community will be enhanced by the freer market of Europe 1992. As a result, Canada can expect continuing large deficits in merchandise trade, especially in end products.

2.2.5 Asia Pacific

Canadian trade with Asia Pacific, while similar in overall size to that with Europe, shows significant profile differences. It can be briefly described as an exchange of raw and semi-processed materials for end products. In addition, and unlike trade with Europe, exports to Asia Pacific have been expanding at a steady rate over all sectors, though at a slower rate than imports from the region. Canada's major trading partner in the region is Japan, but trade with the Newly Industrialized Economies (NIEs) - South Korea, Hong Kong, Taiwan, and Singapore - is increasing its share of overall trade.

Canadian exports to Asia Pacific are dominated by several commodities, which go to specific countries. Wheat is one, with Japan and the growing Chinese market being the major consumers. Japanese imports of coal have topped $1 billion several times in the 1980s, and softwood lumber and wood pulp exports to Japan are also very large. Since the recession of 1982, exports of fish and softwood lumber have risen enormously. The biggest increase among end products has come in gold coins.

End products dominate Canadian imports from Asia Pacific. They have been rising very quickly as well. The emphasis is heavily on consumer goods, such as automobiles, clothing, and telecommunication products. Imports have been tending more towards capital-intensive products since 1975, starting with automobiles, and moving into entertainment-oriented telecommunications equipment (stereos, VCRs), computers, and fabricated materials like steel and plastics. In addition, there have been shifts in the supplying countries for each product within Asia Pacific. These shifts are associated with the "flying geese" pattern of development, whereby countries in the region are at many different stages of industrialization. As Japanese industry becomes more capital-intensive, for example, other countries like South Korea and Taiwan have moved into lower-skilled, more labour-intensive industries like clothing and children's games.

Trade with Asia Pacific, overall, resembles an exchange of raw and semi-processed materials for finished goods. Unlike trade with Europe, however,

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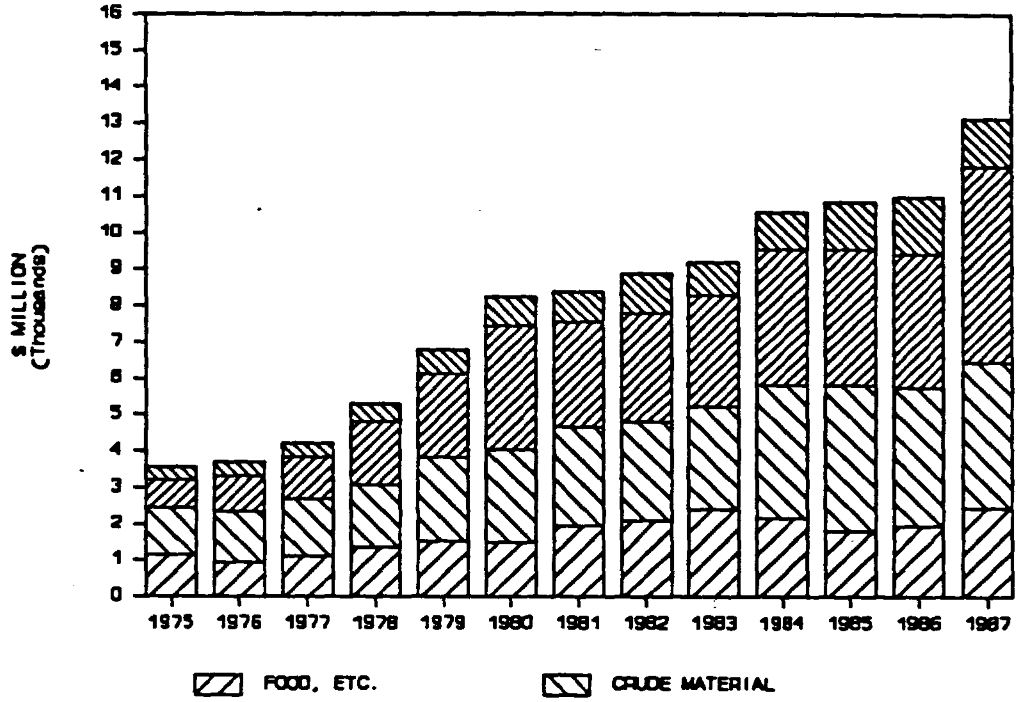

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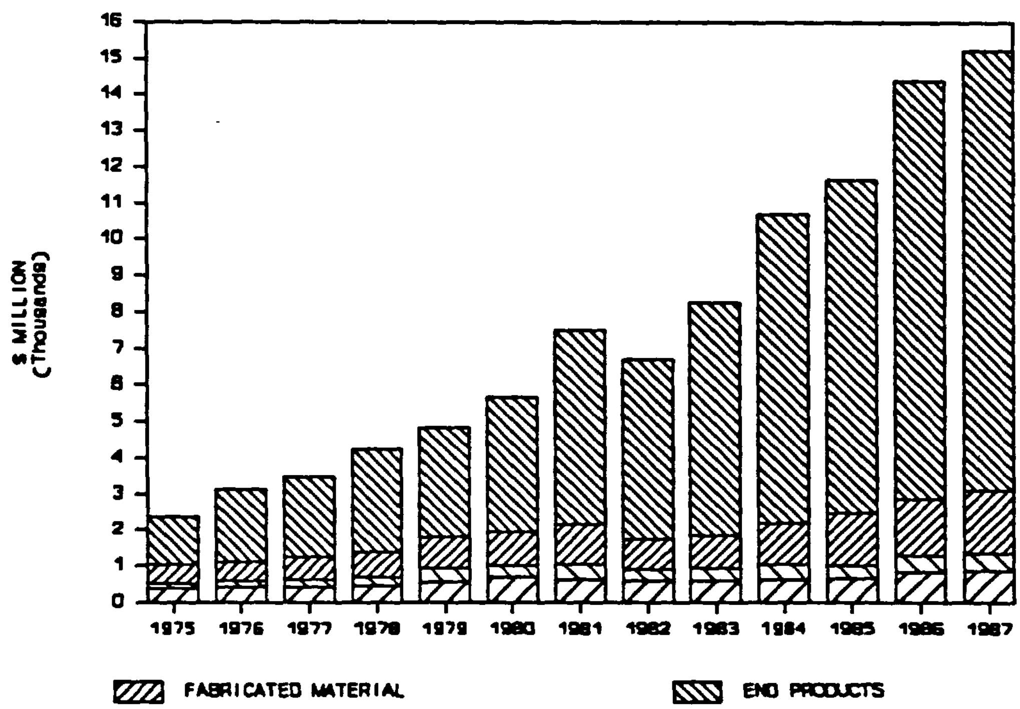
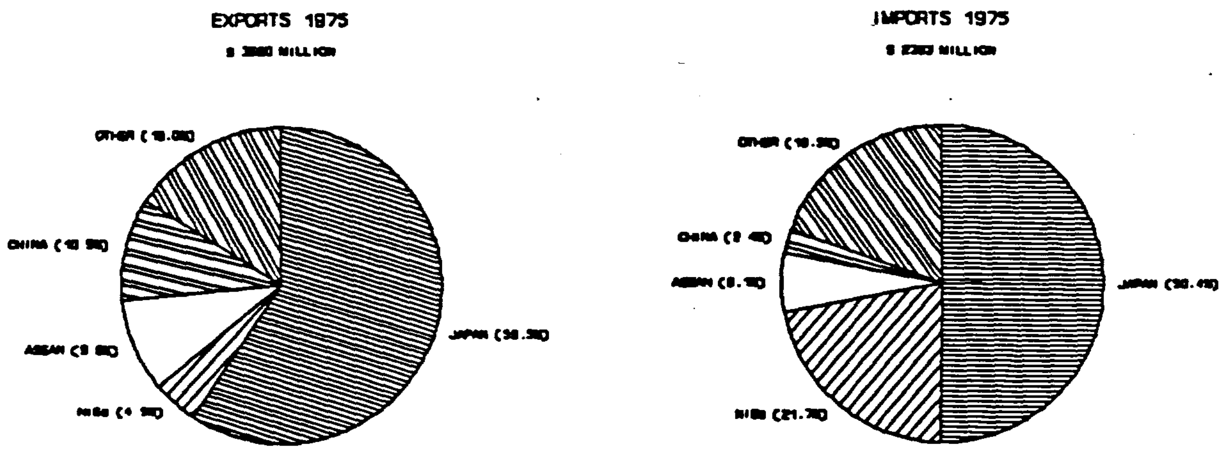


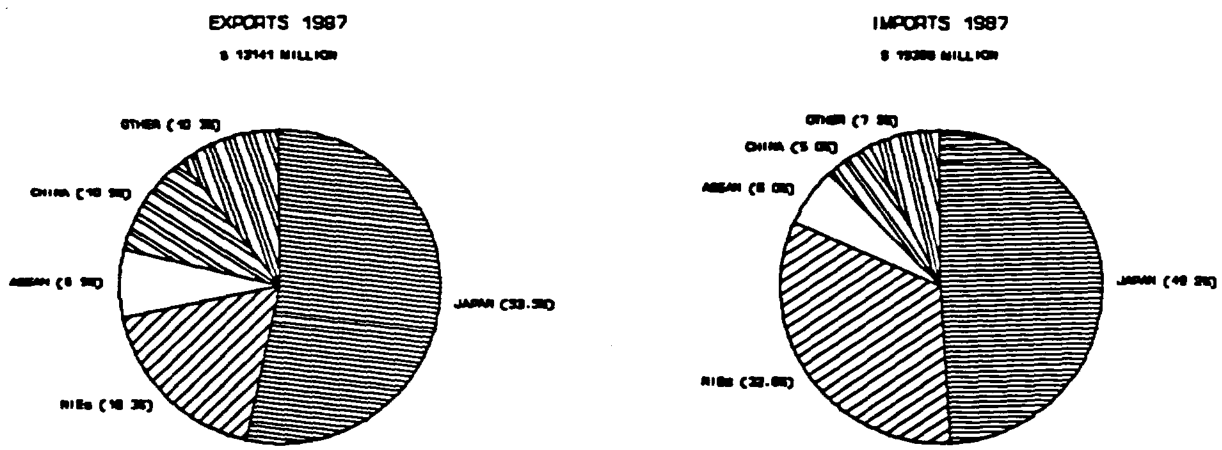
Canadian Exports To and Imports From Asia Pacific, by Sector, 1975 - 1987 exchange rates, trading blocs, and barriers to trade do not appear to be harming Canada's merchandise balance. Rather, it appears that the economies of Asia Pacific require industrialized markets like Canada's, with high personal consumption rates, to fuel their growth, and they consume inputs from Canada in order to produce their finished products.

3. TRADE WITH ASIA PACIFIC



Canadian Exports To and Imports From Asia Pacific, 1975

Within Asia Pacific, trading patterns differ from partner country to partner country. These differences can be attributed to several factors, including the size of the partner country's population, the industrialization and dynamism of its economy, the natural resource endowments of the country, and political factors.



Canadian Exports To and Imports From Asia Pacific, 1987

Japan is by far the largest partner Canada has in the region, accounting for over half of Canadian trade with Asia Pacific in 1987. The NIEs also account for significant and growing portions of our imports, but relatively less of our exports. Countries within ASEAN have not penetrated Canadian markets to the extent that the NIEs have, especially in terms of end products, but that is the area into which they are starting to expand. China has become Canada's single most important wheat market, while Australia remains the country for whom Canadian exports lean most heavily towards manufactured goods.

3.1 Japan

The most important feature of Japanese/Canadian trade is its size. As noted above, Japan is Canada's biggest trading partner in Asia Pacific; moreover, it ranks second to the United States as Canada's largest trading partner worldwide. Japan's share of Canadian trade with Asia Pacific has, however, fallen somewhat. Japan accounted for 49% of Canadian imports from Asia Pacific in 1987, roughly the same proportion as in 1975 but down from 54% in 1981. Exports to Japan in 1987 were equivalent to 54% of exports to the entire region, unchanged from 1981 but a decline from 59% in 1975. Trade with Japan has nevertheless been expanding at a rapid rate, and the decline in proportion is due to the rapid increase in trade with the NIEs rather than to any weaknesses in Canadian/Japanese trade.

Because of the magnitude of trade between Canada and Japan, its context deserves separate explanation. The central role which Japan plays in the economic structure of Asia Pacific also makes its position unique. There is therefore a need to look at the Japanese economy and its worldwide trade in greater detail than is presented for other countries.

3.1.1 Japanese/Canadian Trade in its Global Context

One approach to examining Canadian/Japanese trade is to look at changes in exchange rates. Fluctuations in the yen/dollar rate explain certain aspects of bilateral trade. One angle is the extent to which the growth in trade can be attributed to exchange rate changes. The falling dollar has certainly encouraged Canadian exports to Japan, both at the start of the 1980s when commodity prices were high and post-1985 when the dollar depreciated seriously. The rapid rise in the value of imports, meanwhile, is partially explained by the increasing cost of the yen. It appears that exchange rate changes account for around a quarter of the higher value of imports in 1981 versus 1975, while the magnitude of the rise of the yen from 1981 to 1987 means that increases in Japanese export volume to Canada during that period were mostly accompanied by export price decreases. Thus the fall in the dollar stimulated growth in export volumes and made imports more expensive, in both cases increasing the value of trade.

Yen Per Canadian Dollar, 1975-1987 (average of noon spot rates)

1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
292	301	251	182	186	193	183	201	193	183	173	121	109

Source: Bank of Canada

The trend of a depreciating Canadian dollar is mostly independent of

Canadian/Japanese trade. It comes more from the close relationship between the Canadian and American dollars. Canadian/Japanese trade in goods and services simply does not account for the appreciation of the yen between 1985 and 1987. Investment flows, meanwhile, should have led to appreciation of the dollar, not the yen, during those years, as there has been more Japanese investment in Canada than vice versa.

The issue of investment flows leads into the broader field of Japanese economic relations with the rest of the world. The key feature of these relations during the 1980s has been the huge surpluses which Japan has been running in its merchandise trade account. Japan's export sector experienced tremendous growth over the 1975-87 period, as Japanese automobiles penetrated world markets and other consumer products came increasingly to be made in Japan. At the same time, Japanese imports did not grow nearly to the same extent. The country has a high savings and low consumption rate, its agricultural sector is highly protected, and its industry developed with a full-set structure (ie. imports are as unrefined as possible). The majority of imports have thus consisted of unprocessed inputs for industry.

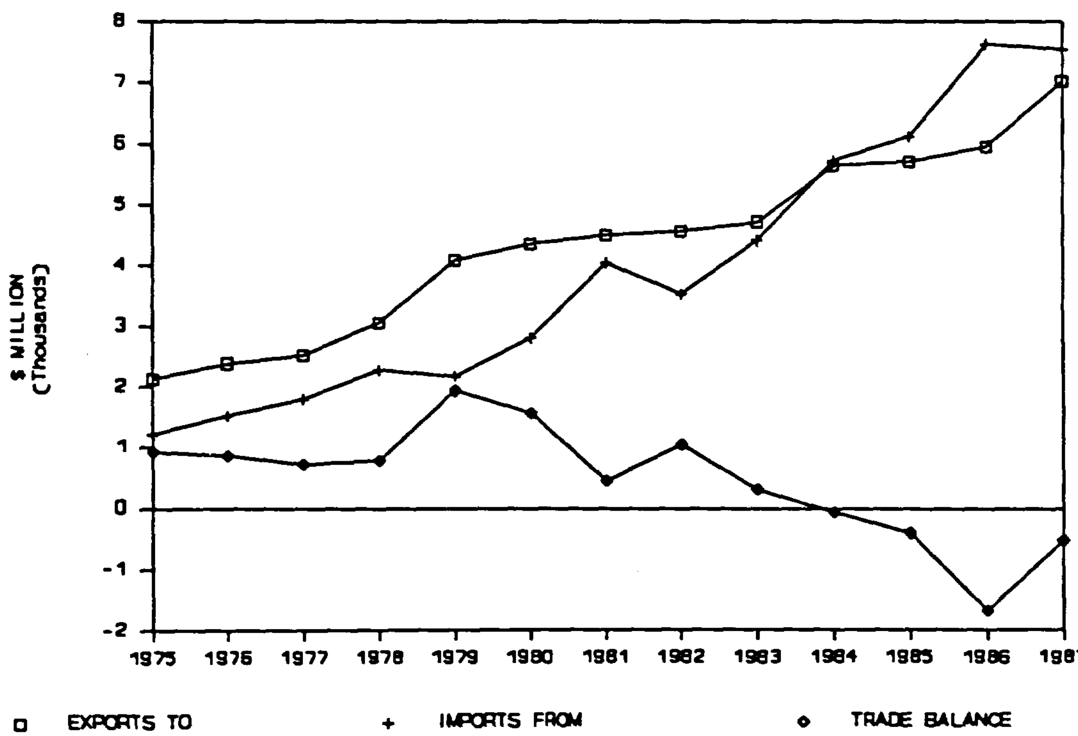
The combination of a high savings rate and consistently large trade surpluses has had two effects. One is appreciation of the yen, which occurred in two phases, one after 1975 and the second ten years later. The other effect has been outflows of foreign investment. Japan has been using its accumulations of U.S. dollars and other foreign currencies (the United States accounting for most of Japan's trade surpluses) for foreign investment. Another way of looking at this outflow of investment is to view Japan as using its foreign exchange earnings to buy foreign capital and debt instruments, rather than foreign goods and services. At any rate, the result has been that Japan replaced the United States during the 1980s as the world's largest creditor nation.

Some of this Japanese foreign investment has spilled over into Canada. Any appreciation of the dollar which should have followed, however, was negated by the depreciatory effects of Canada's merchandise trade deficit with Japan and the fall of the American dollar in 1986-7. This depreciation has worked to Canada's advantage. The Canadian dollar has fallen against all major currencies except the American dollar, thus stimulating Canadian exports worldwide (except to the United States) and making non-U.S. imports less competitive with Canadian products.

Some trends and possibilities in the Japanese economy may be relevant for the future of Canadian/Japanese trade. For one thing, the full-set structure of Japan's economy is beginning to break down. Japan's participation in the international division of labour has increased, as corporations move their labour-intensive stages of production to countries with lower wages. Japanese investment in its Asia Pacific neighbours has come in consumer electronics, textiles, assembly plants, and raw material extraction and refinement. Canadian trade may see a shift away from Japan and towards ASEAN and the NIEs as Japanese multinationals increasingly locate their operations abroad. In addition, Japanese companies are locating in industrialized countries. One result will be increased fabricated product imports by Japanese assembly companies operating in Canada.

Another possible boon for Canadian exporters will be increased imports by Japan. One route for these imports to come about will be through lower protection of the Japanese market; for example, by dropping bans on imports of certain foodstuffs. Another means would be increased consumption rates among the Japanese populace. Higher rates of consumption would spill over into imports, possibly at a relatively greater rate as imports tend to be seen more as luxury goods. Japanese policy is currently aimed at lowering the savings rate and raising the consumption rate as a means of easing trade imbalances, through both greater imports and fewer savings being available for foreign investment. Attempts to shorten the work week to five days are one aspect of this policy. The success of these moves remains to be seen, especially in the face of contra-consumption measures like the introduction of a sales tax in Japan.

3.1.2 Analysis of Bilateral Trade



Canadian Exports To and Imports From Japan, 1975 - 1987

Canadian imports from Japan come predominantly in the end products category. Cars, trucks and other motor vehicles, engines, and parts account for the largest segment, at $3.4 billion in 1987. The automotive sector has been increasing, too, with post-1981 increases coming in the quantity of parts and the value of automobiles imported. Telecommunication equipment - mainly consumer electronics like tapedecks and telephones - totalled over $1 billion in 1987. While the telecommunications sector is far from a sunset industry in Japan, the NIEs have also established a presence in segments like televisions, stereos, and integrated circuits. Japan is also the leading but far from the only exporter of computers to Canada from Asia Pacific. In photographic goods and industrial machinery, however, Japan remains the only very large supplier.

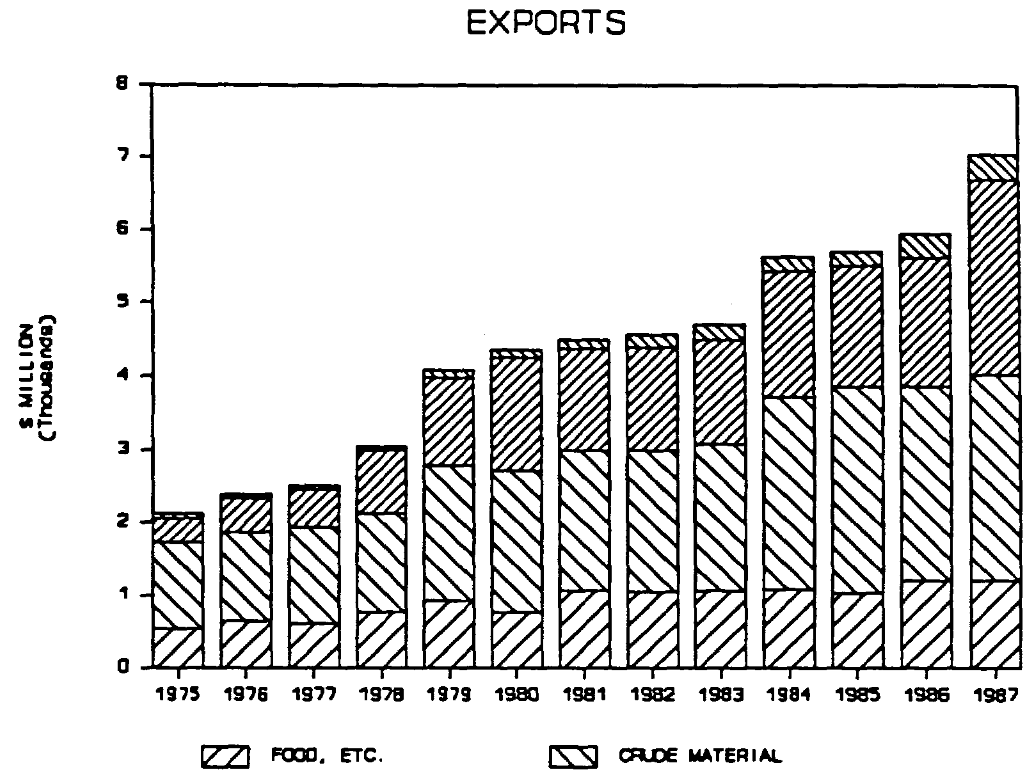
Canadian Imports from Japan and Asia Pacific, 1975-1987

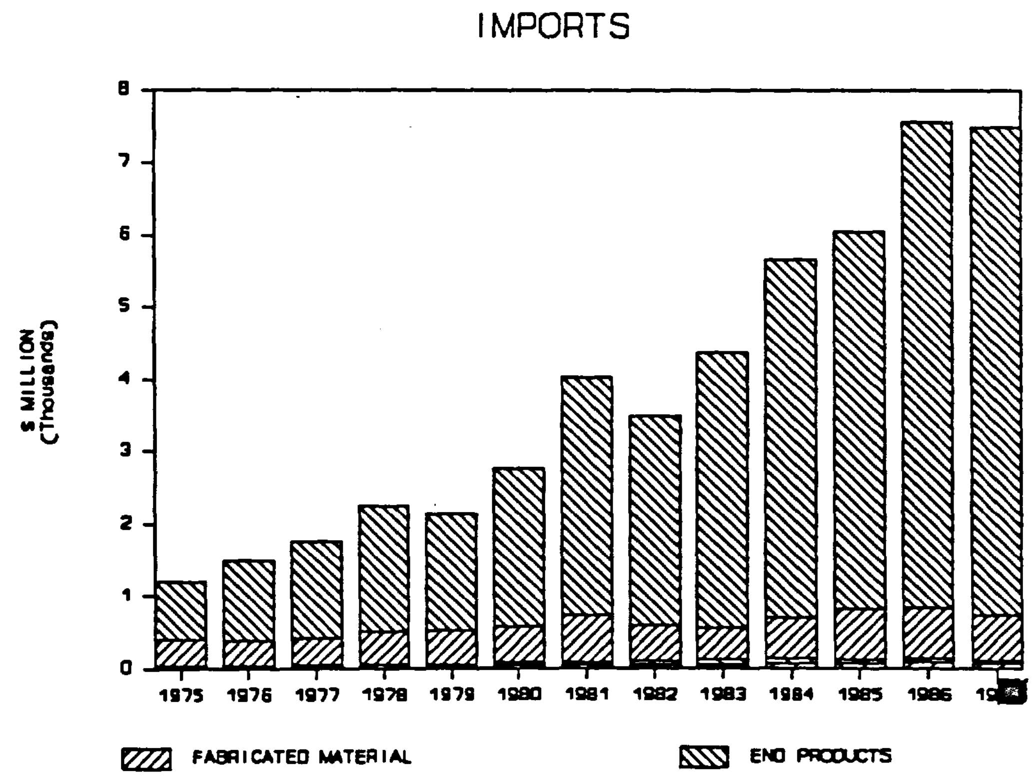
	1975		1981		1987	
	Quantity	Value	Quantity	Value	Quantity	Value
Passenger Automobiles (1,2)						
Japan	71.9	158.5	204.2	994.8	261.5	2361.2
Asia Pacific	71.9	158.5	204.2	994.8	280.4	2503.3

(1) quantity in thousands
(2) value in $ million

Other sectors of the Japanese economy provide Canada with relatively little. Imports include fish and, until 1987, aluminum ores. Steel and textiles also enter Canada, but steel imports fell after 1985. This is probably an indication that exchange rate changes made Japanese steel uncompetitive, especially with the upsurge in Canadian steel imports from Korea since 1985. The efficiencies or market dominance of Japan's leading end products like automobiles and radios has prevented them from meeting a similar fate.

Canadian exports to Japan, meanwhile, have been growing at a slower rate. End products are the smallest section. Coal, the biggest export item, and other major export commodities like wheat, rapeseed oil and most metals, face markets which are stagnant or slow in growing because of maturity, barriers to trade, or gluts on world markets. While protectionism can be overcome, maturity and unpredictable world markets mean that expanding sales of Canada's major export items to Japan will require diligent work by Canadian exporters.





Canadian Exports to and Imports From Japan, by Sector, 1975 - 1987

Canadian Exports to Japan and Asia Pacific, 1975-1987

	1975		1981		1987	
	Quantity	Value	Quantity	Value	Quantity	Value
Pork (1,2)						
Japan	24.5	68.0	42.5	179.5	20.6	125.7
Asia Pacific	25.3	69.7	44.0	183.2	21.0	127.0
Fish (1,2)						
Japan	15.3	39.6	52.0	172.2	61.1	484.5
Asia Pacific	22.5	48.2	61.0	220.7	74.4	561.0
Unmilled Cereals (1,2)						
Japan	2345	393.2	2346	565.7	2251	368.1
Asia Pacific	5699	957.6	5751	1322.3	11207	1406.1
Coal (3,2)						
Japan	10.8	455.0	10.9	680.8	16.6	1188.3
Asia Pacific	10.8	455.0	13.3	840.7	21.4	1453.4
Wood Pulp (1,2)						
Japan	434	151.8	714	399.9	1130	744.3
Asia Pacific	597	205.8	1127	631.8	2047	1356.2

(1) quantity in thousand tonnes
(2) value in $ million
(3) quantity in million tonnes

Export commodities like coal and rapeseed oil fell between 1985 and 1987, due to lower volumes and prices. Pork has been hurt by competition from Denmark and South Korea, and wheat and barley exports have been static. Other commodities, however, have expanded their exports to Japan. These include fish products, wood pulp and softwood lumber, the latter benefitting from a boom in Japanese residential construction. Associated opportunities are presented in the $500 million building products industry. Gold in ores, metals, and especially coins constitutes the other major increase in exports. The Maple Leaf gold coin has become enormously popular, which would likely increase if tariffs were reduced. Other countries may soon be more competitive with the Maple Leaf, though.

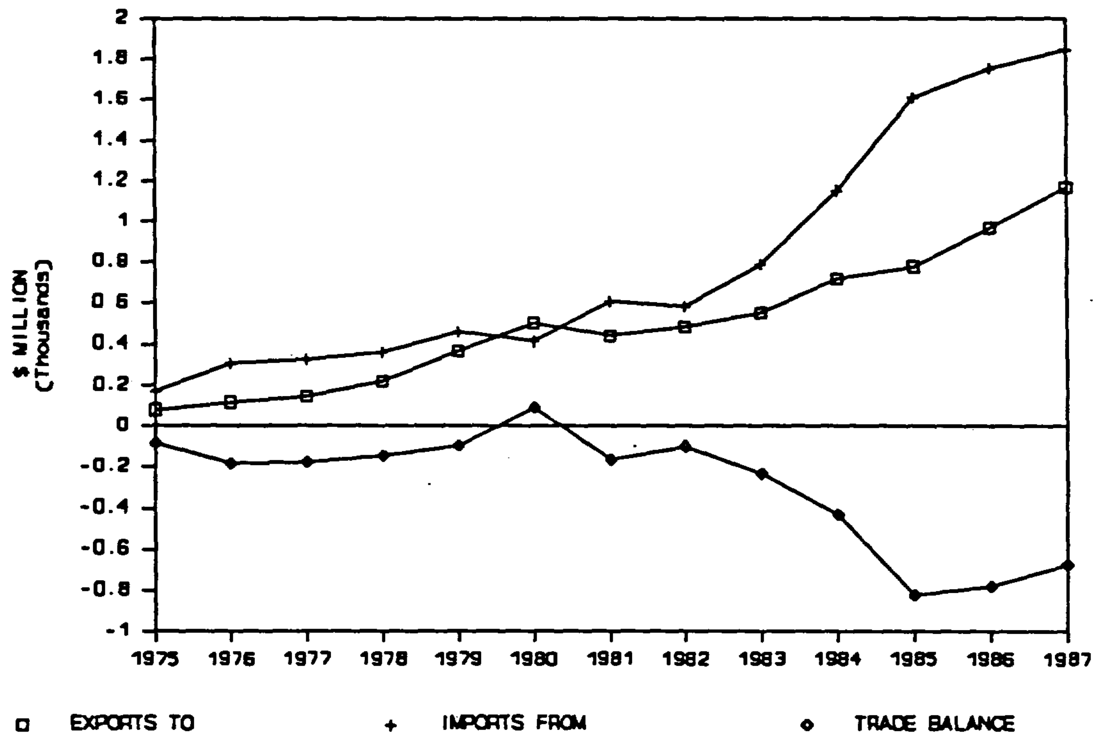
Canada's exports to Japan overall still rely almost exclusively on raw and semi-processed materials. End products exports remain fairly small, with increased coming largely from the gold coin specialty item. Technological exports like computers and telecommunications equipment totalled under $40 million in 1987, which is less than the value of, for example, exports of iron ore to Japan.

Over the medium term, Japan should continue to be a leader in economic growth among OECD countries. Combined with a high yen, opening markets, increased consumerism, and the breaking down of the full-set industrial structure in Japan, Canada should be able to increase its penetration of the Japanese market. In primary commodity markets, like agricultural products and processing, minerals, coal, and petroleum, Canadian exporters should also be able to capitalize on this country's reputation for quality and security of supply. Lumber and construction products and services are sectors which should continue to be strong in Japan and in which Canada has some expertise. Canadian efforts to reduce or remove tariffs and import restrictions should continue, especially in the fields of agricultural and other commodities and gold coins.

3.2 Newly Industrialized Economies

Growth in trade between Canada and the NIEs has been enormous. From under $700 million in 1975, bilateral trade has risen to $6.4 billion in 1987. Exports to and bilateral trade with South Korea was the largest in 1987, while Taiwan was the largest source of imports and Hong Kong the smallest destination of exports. The major difference between the three economies is the role of government. South Korea and Taiwan see a lot more government intervention than Hong Kong, which runs basically as a free market.

3.2.1 South Korea



Canadian Exports To and Imports From South Korea, 1975 - 1987

South Korea's participation in world affairs has grown tremendously over the last several decades. Efforts devoted to industrialization have turned it into one of the most dynamic economies in the world. Development has begun to spread to other areas of Korean society as pressures to raise the quality of life have increased. These pressures have taken forms as diverse as democratization and hosting the 1988 Olympic Games. It seems that political and cultural integration with the world community is following on the heels of economic integration.

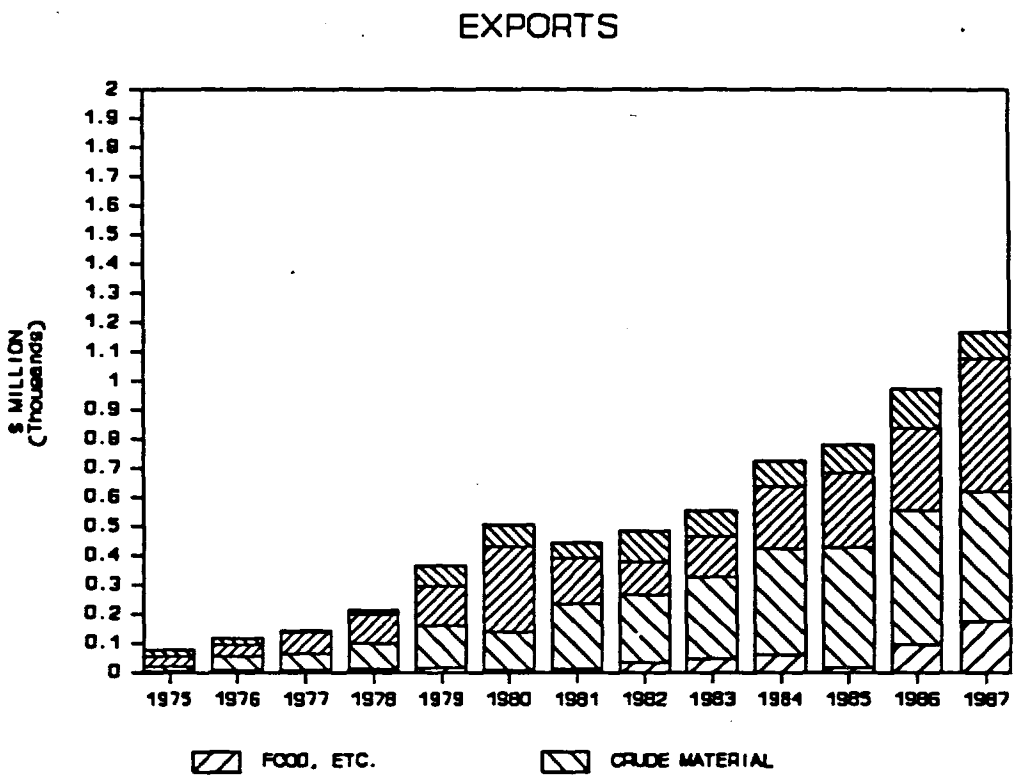
The South Korean economy remains export-oriented, and therein lies a potential weakness. Its strength has come through relying on its low labour costs to sell to the United States. An American recession, or attempts to limit imports from South Korea as part of a remedy for the U.S. trade deficit, would deal quite a blow to the Korean economy. Similarly, domestic pressures to increase the standard of living could reduce South Korea's competitiveness in its labour-intensive industries like textiles. On the other hand, possibilities exist in replacing Japan as a supplier of many goods, due to the appreciation of the yen. Exports from South Korea have thus been shifting towards capital-intensive industries like steel in recent years. Increased consumption rates in Japan would also open up that market to Korean products, and South Korea is benefitting from Japanese industry farming out its production operations. The Korean government is making a deliberate attempt to diversify its imports away from Japan to countries with which South Korea runs a trade surplus, and its surplus with Canada is one of its largest.

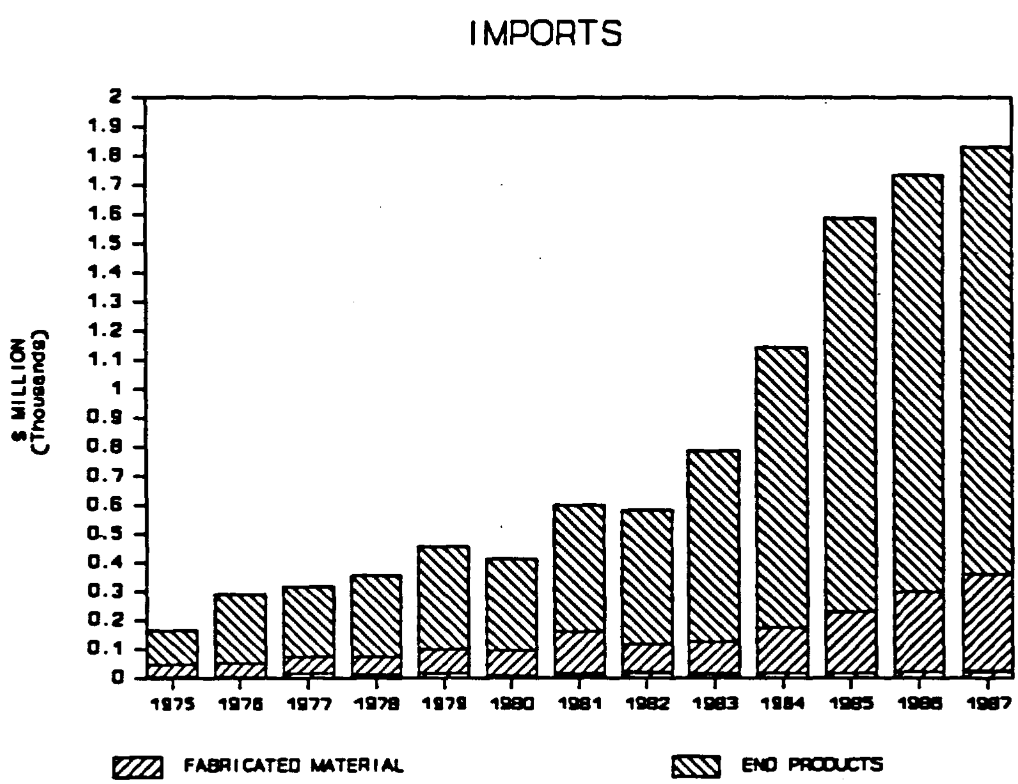
Canadian exports may also benefit from appreciation of the won, making Canadian products more competitive, and better patent protection in South Korea. The patent protection is a reflection of the Korean government's desire to be seen as a responsible member of the international community.

Canadian trade with South Korea shows the distinctive profile of an exchange of industrial inputs for finished products. Canada's biggest exports to Korea in 1987 were coal, wheat, and wood pulp, while the major imports were clothing, footwear, and telecommunication equipment like televisions and integrated circuits. Some shifting of the import balance can be seen. Clothing, while still growing in value, has fallen as a share of total imports, especially since 1982. The Korean shipbuilding industry has sold little to Canada since 1984. Korean automobiles, in contrast, began entering Canada in 1985. Other industries with growing exports to Canada include computers and steel, while telecommunications equipment has been strong in televisions, telephones, stereo equipment and circuitry.

Exports to South Korea, meanwhile, have been expanding mainly in crude and fabricated materials. While coal, at $214 million in 1987, was the largest export, it has fallen in value since 1985. Wheat, raw cattle hides, wood pulp, and fabricated aluminum are some of the products which have shown exceptional growth between 1985 and 1987. Another sector worthy of mention is the chemical industry, Organic chemicals, fertilizers, and synthetic rubbers and plastics accounted for 14% of Canadian exports to South Korea in 1987. Chemicals became a significant export in 1985, and rubbers and plastics expanded in 1985-7.

End products exports to South Korea have not historically been very large. Telecommunications equipment and general purpose industrial machinery have normally accounted for most of these exports, with the balance shifting from machinery before 1982 to telecommunications after. Since 1984, exports





Canadian Exports To and Imports From South Korea, by Sector, 1975 - 1987 of motor vehicle parts have also grown, indicating a Canadian role in providing parts to the expanding Korean auto industry.

Opportunities for Canadian exporters exist in the telecommunications, electronics, and measuring equipment sectors, with joint ventures and services being areas of Canadian competitiveness. Canada is well supplied in grains and livestock and barriers to agricultural products are expected to fall in coming years. In the transport sector, automotive parts present an opening sector, as it only opened to foreign trade in 1986. Canada has already begun to capitalize on the opportunity. Forest products are another sector of interest to Canadians. South Korea has little in the way of domestic supplies, and higher consumption rates will lead to rapid growth of demand for wood pulp and construction materials.

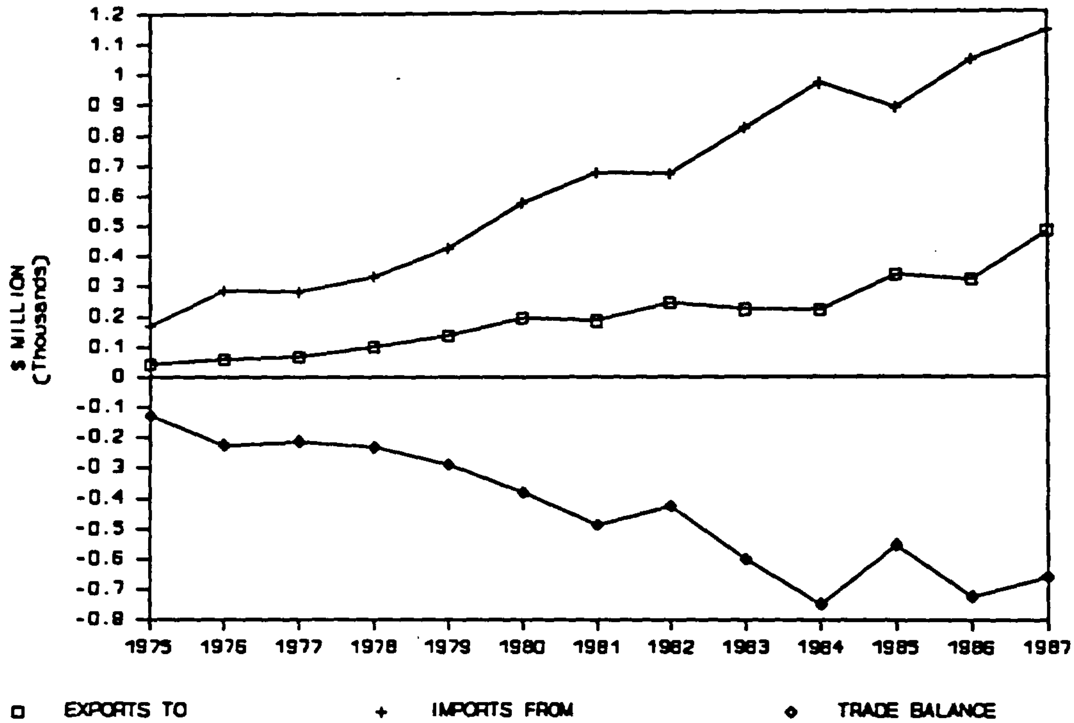
To sum up, Canada/South Korea trade grew by leaps and bounds during the 1975-87 period. The export-led industrialization of Korea provided goods which were more than competitive in the Canadian market, while Canada supplied inputs for Korean industry. Canadian exports were limited by regulations on the Korean market, contributing to a Canadian deficit in bilateral merchandise trade - except for 1980, Canada ran a deficit in every year from 1975 to 1988. Canadian exporters can hope that changes in South Korean society will include a reorientation towards consumption, higher standards of living, and an open-market economy, which would boost Canadian competitiveness and stimulate agricultural and end product exports. Domestic industries, meanwhile, can expect increased Korean competition in sectors like steel, automobiles, computers, and telecommunications equipment, where the capital costs are significant and technologies are in a state of flux.

3.2.2 Hong Kong

Hong Kong, while classified like some of its neighbours among the NIEs, nevertheless has its own economic peculiarities. One is its financial strength; another is its close relationship with China pending return of the British colony to China in 1997. A third feature is the high proportion of total exports taken up by re-exports. In 1986, 44% of Hong Kong's exports were re-exports, due to its position as a middleman for trade between China and the rest of the world.

Canadian trade with Hong Kong is balanced heavily in Hong Kong's favour, Canada having run deficits of between $200 million and $750 million every year between 1975 and 1987. Imports from Hong Kong consisted of 87% end products in 1987, with the rest being mostly textiles and fish. Fabricated materials have traditionally been the largest segment of Canadian exports to Hong Kong, but end product exports more than tripled between 1984 and 1987. Unlike Canada's trade with many other countries, Canadian exports of foodstuffs and crude materials do not make up a large share of total exports.

End products imports from Hong Kong come almost exclusively in consumer



Canadian Exports To and Imports From Hong Kong, 1975 - 1987

products. Apparel is the biggest single component, totalling $427 million in 1987, and having taken an increasing share of trade over the 1975-87 period. Watches, clocks and jewellery, and games and toys are another large sector ($167 million in 1987), but it grew more slowly towards the end of the 1975-87 period. Sectors which have been expanding include consumer electronics and computers.

Since 1983, gold coins have become Canada's largest export item to Hong Kong, and fabricated precious metals also sold well over the 1983-7 period. Pulp and paper products have been a traditional, if volatile, export item, which grew 330% between 1985 and 1987. Aluminum has been a consistent export, and plastics and chemicals exports tripled in 1987 over their 1986 levels. Among end products, telecommunications equipment (communication oriented) and computers are the major products.

Canadian export opportunities have been identified in defence products. Government procurement will increase with Hong Kong taking over policing responsibilities from Great Britain. Also, deregulation in the telecommunications sector will proceed until 1993, giving Canada a chance to

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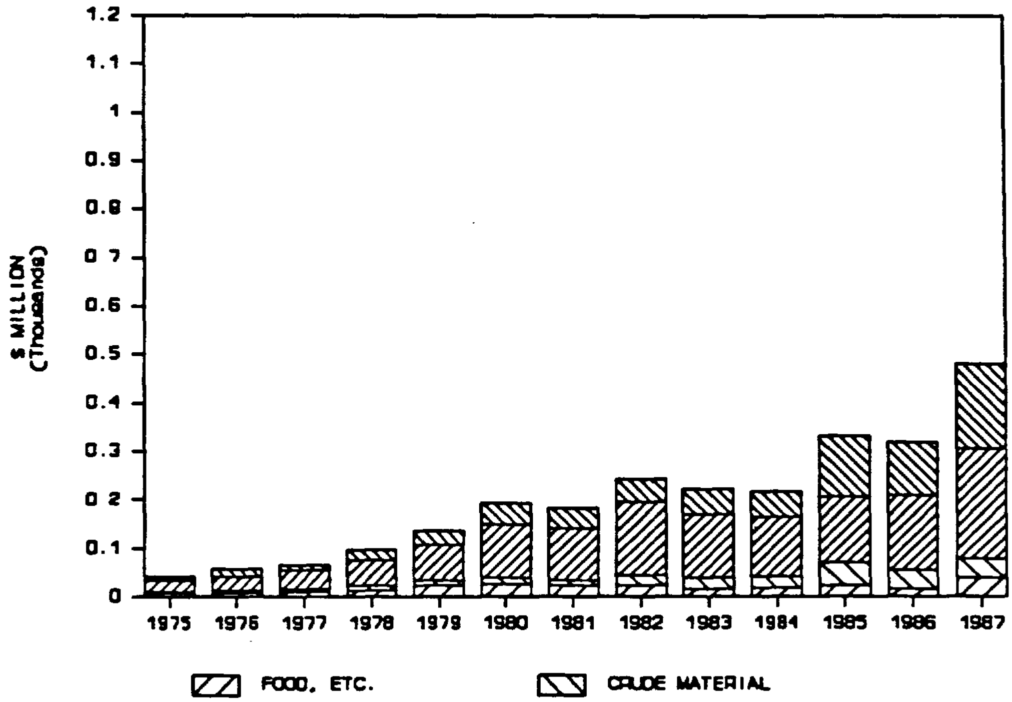

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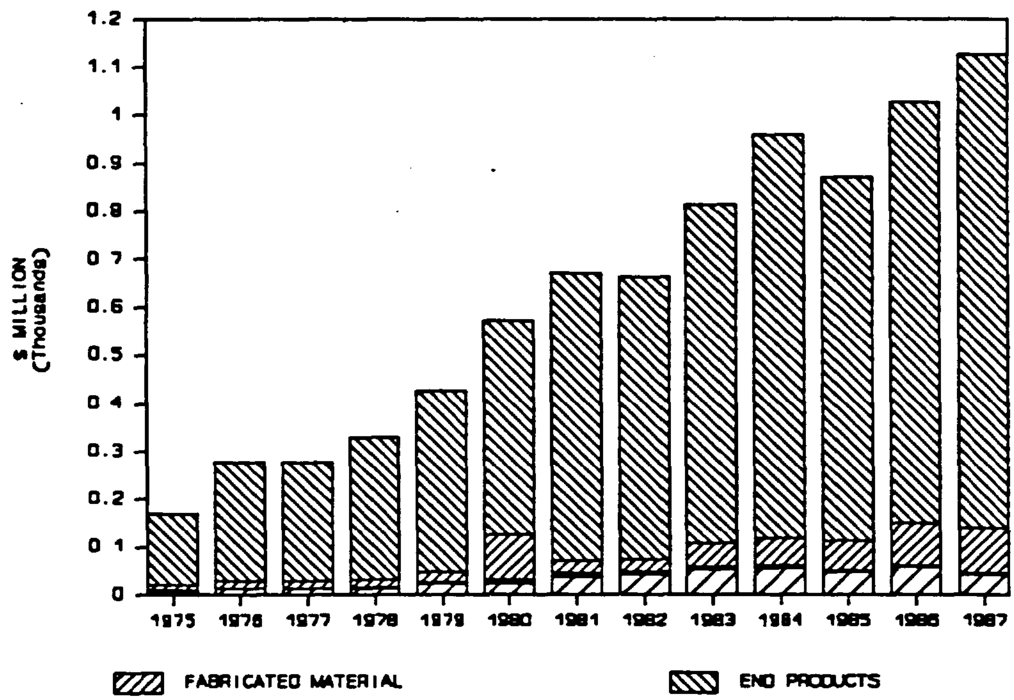


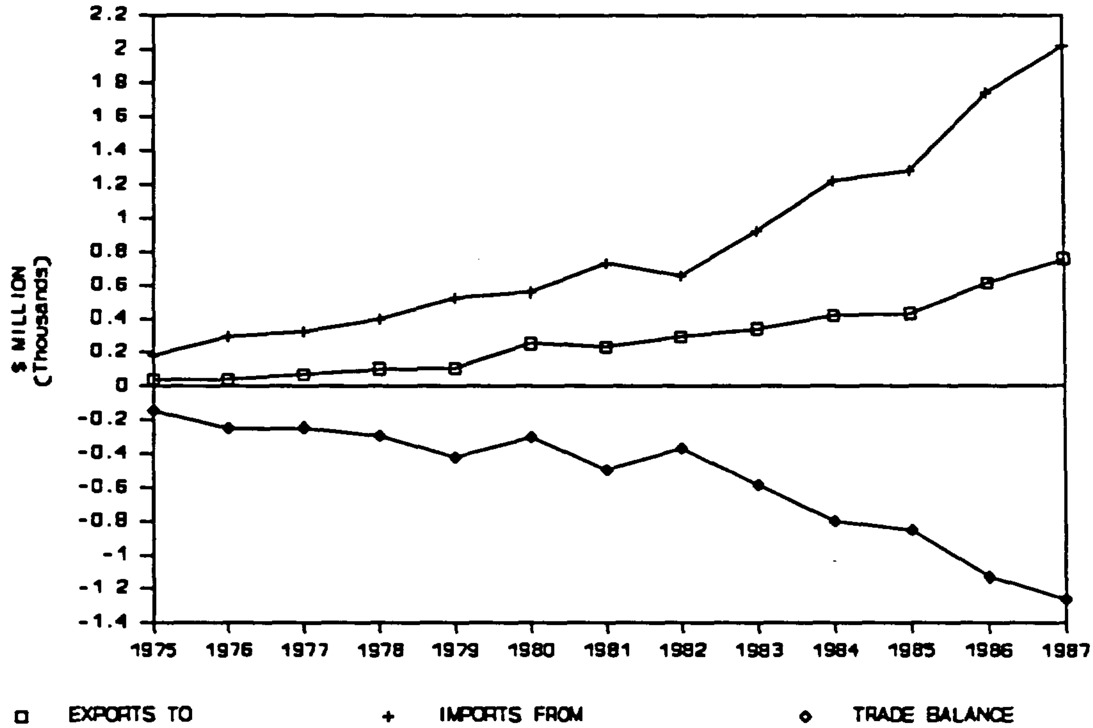
Canadian Exports To and Imports From Hong Kong, by Sector, 1975 - 1987 recover its market share. A trend towards more Western-oriented consumption patterns has been predicted, which should help with exports of Canadian food and fish.

Overall, Canada's trade with Hong Kong differs from trade with other NIEs in Hong Kong's position as middleman for Chinese trade, its alternative food sources, and its industrial structure which does not require Canadian inputs to the extent that other countries' do. Canadian exports to Hong Kong have fared well when the Hong Kong economy has been expanding, like in 1986-7. To the extent that Hong Kong grows in anticipation of being handed back to China in 1997, with its special status as a free trading province guaranteed for fifty years, Canadian exports to the colony should increase. Opportunities also exist for Canadian businesses to take advantage of the Hong Kong window on the Chinese market, especially in telecommunications and computers where China is not strong. Hong Kong's exports of clothing and other consumer products should be more competitive in Canada than those of Japan and the other NIEs because Hong Kong has less of a transition to make to a consumer society, but they may face increased competition from ASEAN and other countries which attempt to follow the NIEs' route to industrialization.

3.2.3 Taiwan

Canadian trade with Taiwan has grown enormously, despite the lack of diplomatic relations between the two. Taiwanese development has followed a route similar to that taken by South Korea, with the government directing development of an export-oriented economy. Taiwan's emphasis on light manufacturing, like clothing and household goods, has paid off. Its total trade in 1986 was close to U.S. $64 billion - larger than its gross domestic product. Taiwan also generally runs a large trade surplus, coming mostly from its exports to the United States, with Japan being its major source of imports. Since 1985, Taiwanese exports have received a boost from the depreciating U.S. dollar, to which Taiwan's currency is closely tied.

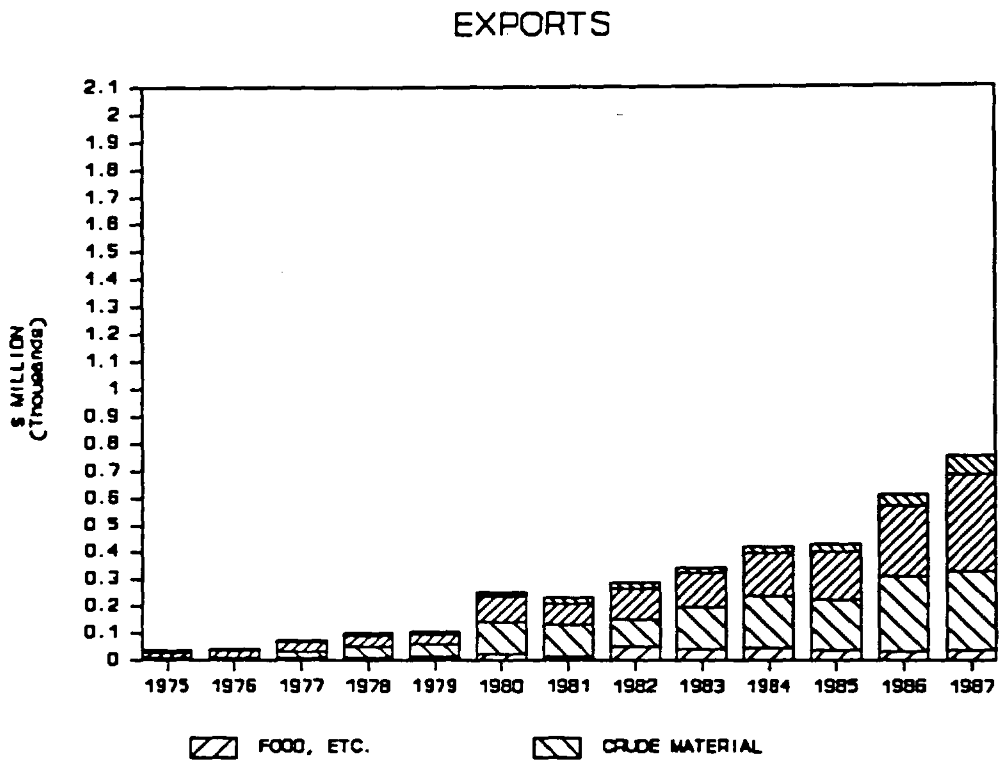
Imports from Taiwan almost trebled between 1981 and 1987, after quadrupling in the 1975-81 period. Apparel has been the largest single import during 1975-87, but its share of end products imports has fallen from 40% in 1977 to 18% in 1987. Growing sectors include computers, having grown from zero to six percent in 1981-87; automobiles, which totalled nothing in 1985 and $65 million in 1987, and industrial machine tools and machinery, which doubled over the 1985-7 period to stand at $75 million. Footwear and personal and household goods maintained their share over the period, and furniture and fixtures increased from two to six percent of end products imports in the ten years up to 1987. Fabricated materials imports, meanwhile, have grown even more quickly than imports of end products. Textiles form the greatest part of these imports, but fabricated metal products (such as bolts, screws, valves, and pipe fittings) have more than doubled their share of fabricated product imports since 1981.

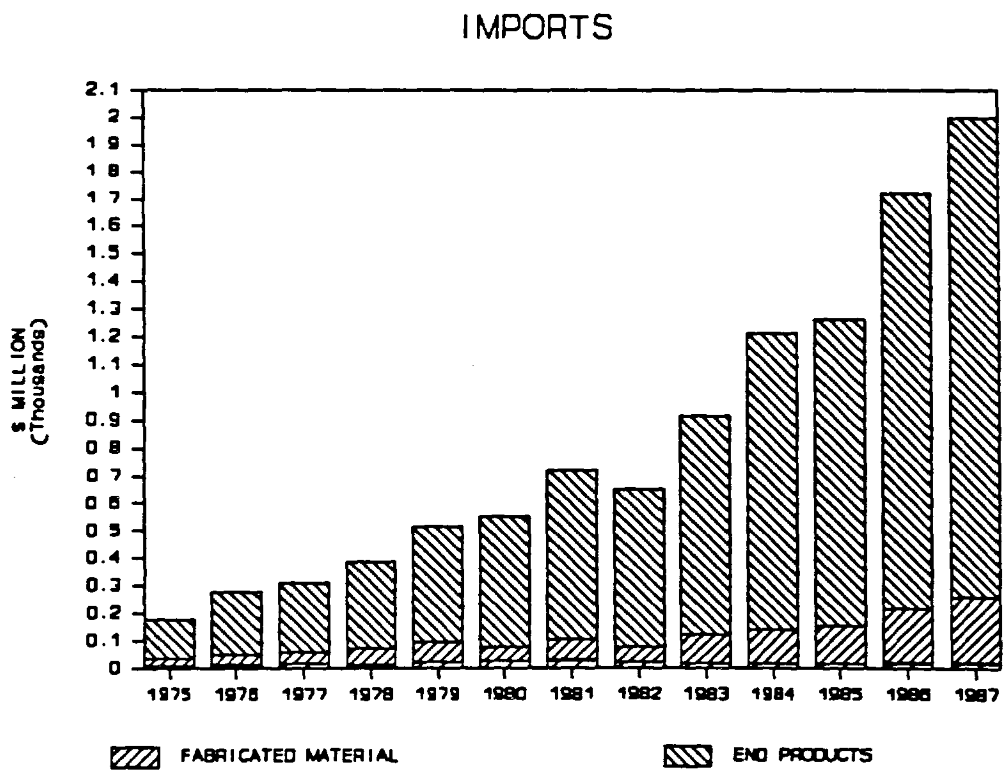


Canadian Exports To and Imports From Taiwan, 1975 - 1987

Canadian exports to Taiwan made up 27% of bilateral trade in 1987, up from 17% in 1975 and 24% in 1981. Crude and fabricated materials are the largest sections among Canadian exports. Among crude materials, raw cattle hides were the largest seller in 1987, equivalent to 31% of crude materials exports, compared with 13% in 1981. Coal and sulphur dropped off in importance towards the end of the 1975-87 period, while nickel exports jumped from $8.8 million in 1985 to $73.9 million in 1987. The most important products in the fabricated materials section are organic chemicals and wood pulp. Hydrocarbons and alcohols make up the organic chemicals, which accounted for 27% of fabricated exports in 1987, while wood pulp exports were equal to 22%. As for end products, the most consistent exports over the 1975-87 period were telecommunications equipment and medical products in dosage. The $31 million surge in 1987 came in automobiles and gold coins.

The trends in Canada/Taiwan trade indicate a shift in Taiwanese exports towards heavier manufacturing, such as automobiles and metal fabrication, with less emphasis on clothing and textiles. Canadian exports are expanding, too. Economic growth and a desire on the part of Taiwanese authorities to limit bilateral trade surpluses have stimulated Taiwan's demand for Canadian



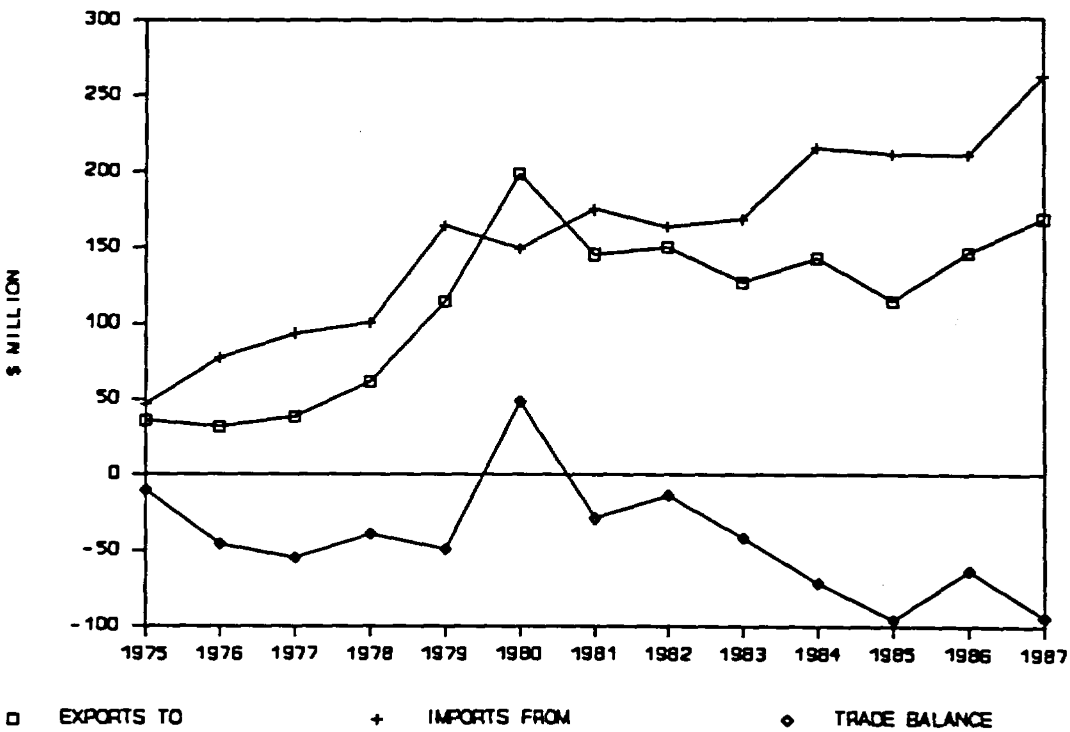


Canadian Exports To and Imports From Taiwan, by Sector, 1975 - 1987 products. While the export mix does not include a lot of highly capitalized or technological products, chemical products like organic chemicals and synthetics have been a growing sector.

3.3 ASEAN

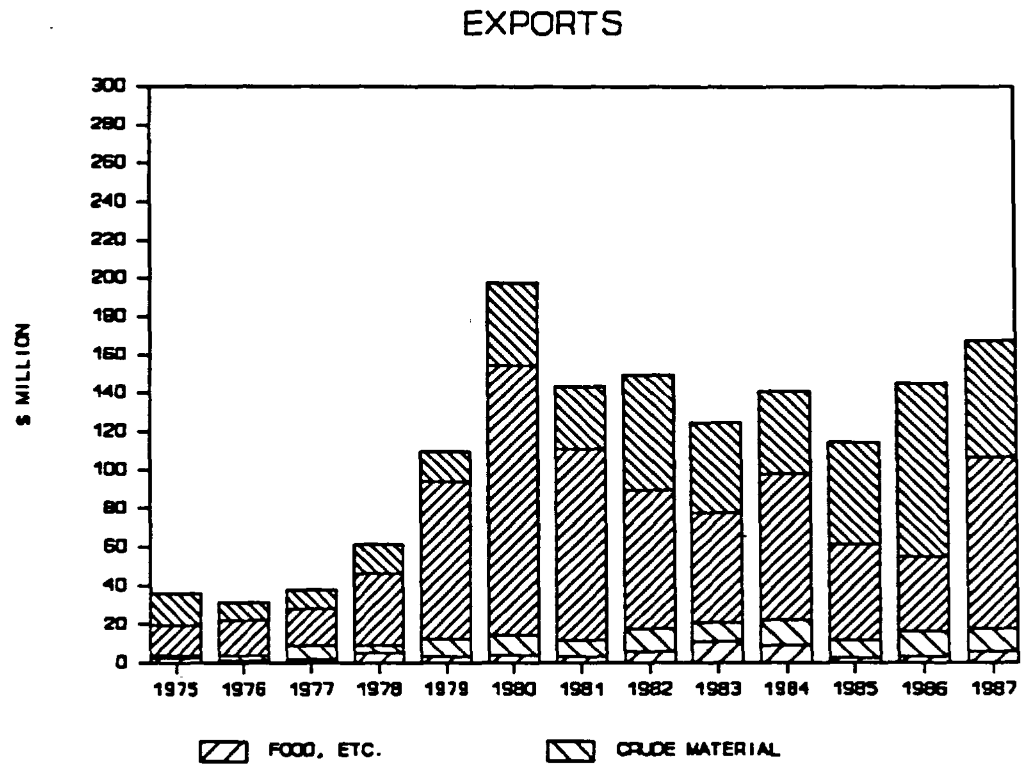
The nations of ASEAN demonstrate the flying geese pattern of development, with Singapore the leading economy, followed by Thailand, and Indonesia, Malaysia, the Philippines and Brunei not yet at the takeoff stage of industrialization. Canada's chief opportunities in the area lie in participating in development of the infrastructure which will be needed for industrialization, and providing the capital goods for industries which are growing in Thailand, Indonesia, and Malaysia.

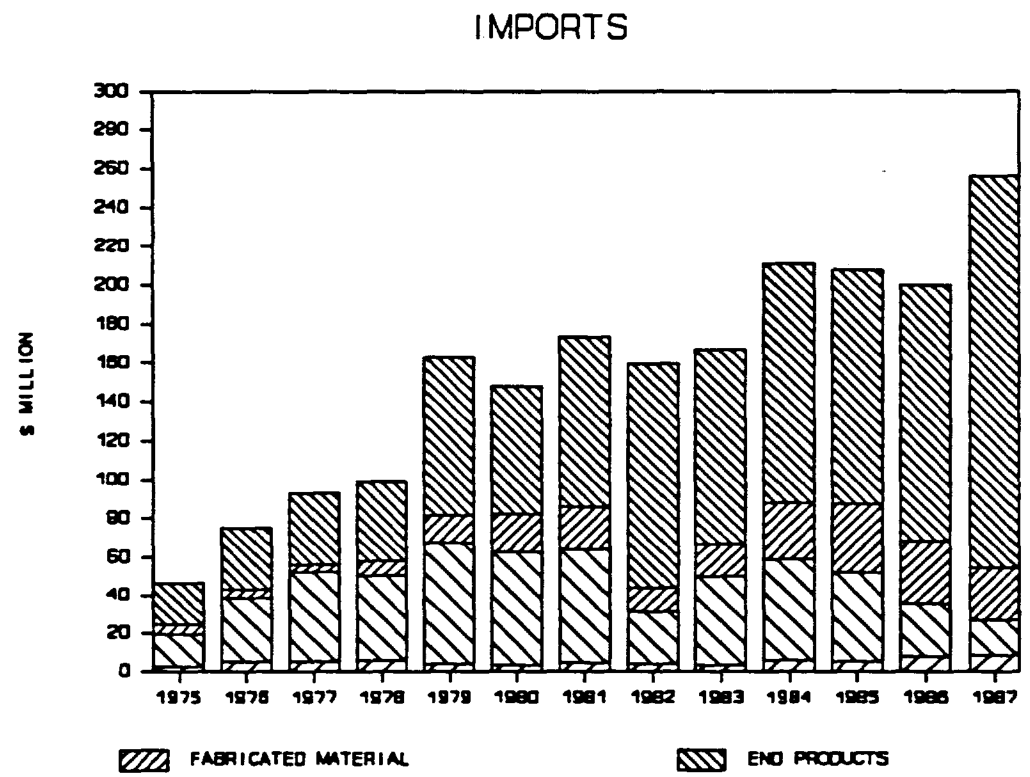
3.3.1 Singapore



Canadian Exports To and Imports From Singapore, 1975 - 1987

Singapore is often included in the NIE grouping because of the state of its economic development. The city-state is noteworthy for its lack of any significant natural resources or agricultural sector; consequently, it relies on industry, finance, and other services like transportation for its economic health. Singapore relies heavily on external trade: exports and imports each exceed gross domestic product by a significant margin.





Canadian Exports To and Imports From Singapore, by Sector, 1975 - 1987

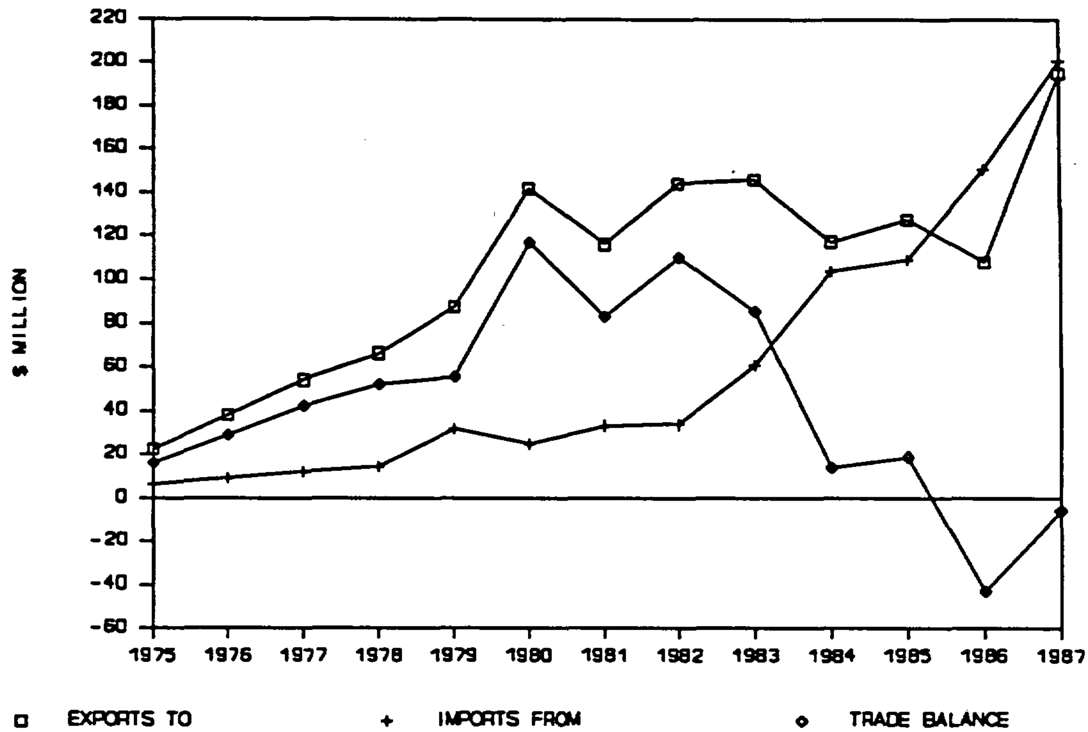
Trade with Singapore fell after peaking in 1980, and only began rising steadily again with the start of economic recovery in Singapore in 1985. The emphasis also shifted, with crude and fabricated materials changing from leading to lagging sectors and growth coming from Canadian imports of end products following 1981. Crude materials trade over the 1975-81 period grew mainly on the strength of rubber imports, under the influence of rising commodity prices. Between 1981 and 1987, Canadian imports of rubber from Singapore fell 64% in volume terms, as Malaysia and Indonesia replaced Singapore as Canada's principal suppliers. Imports of fabricated materials fell with the decline in tin imports. End products, the largest category, led in growth due to the 1987 expansion of imports of computers and telecommunication products. Over the 1975-87 period, telecommunications products and apparel were the steadiest imports.

Canadian exports to Singapore peaked in 1980 at $198 million, and had not regained that level by 1987. Fabricated materials were the largest sector in each year from 1975 to 1984, and again in 1987. Petroleum and coal product exports led to the 1980 peak, but have not been significant since then. All export sectors have shown considerable year-to-year volatility. Wood products, fertilizers and synthetics, and non-ferrous metals are the areas in which exports have been concentrated, with 1987 having been a good year for nickel and rapeseed oil. End products have seen expansion of telecommunications products exports, and declines in exports of medical equipment in 1987 and special industry machinery (especially drilling and excavating machinery) after 1983.

The performance of Canadian exports to Singapore has not been inspirational, having undoubtedly been hurt by stagnation in Singapore's economy for the first half of the 1980s. Imports from Singapore picked up in 1987. As it was led by technological products, the revival may be a sign that Singapore is once again on track in its industrialization drive, with a focus similar to that of other NIEs. Canada can foresee increased imports from Singapore in the form of computers and telecommunications products, and in some capital sectors like industrial machinery. Growth in Singapore's economy may lead to more requirements for Canadian-supplied commodities, but it is unlikely that their value will approach that of the expanding imports. Significant growth in Canadian exports to Singapore could come about through Canada capitalizing on Singapore's economic strengths - as a transitpoint for Asia Pacific trade and as a financial hub for ASEAN.

3.3.2 Thailand

Economic conditions and the political climate in Thailand are among the most stable in the developing world. The country has been following a long-term approach to industrialization, which has generally been in tune with Western concepts of the appropriate path to development. In the 1950s and 1960s, this amounted to a laissez-faire attitude, limiting the government's role to maintaining the proper infrastructure. Import substitution policies



Canadian Exports To and Imports From Thailand, 1975 - 1987

were dominant in the 1970s, and emphasis shifted to export-led growth in the 1980s.

Among the characteristics of the Thai economy which affect its external trade are its rural population and its savings-investment gap. Thailand still has a large proportion of its population living on the land, and agriculture and fishing provide a significant part of gross domestic product and an even larger part of employment. It has been the experience of Western nations and the NIEs that industrialization is coincident with population shifts from rural to urban areas. Also, the low level of gross national savings, which has fallen every year since 1973, has lowered gross capital formation and forced Thailand to obtain investment funds from abroad. The current account thus runs perennial deficits and Thailand's net external debt grew over 1400% between 1975 and 1985. Poor economic growth, high interest rates, and devaluation of the Thai baht threatened to stifle economic progress in the 1980s by increasing the weight of foreign debt. The World Bank has pointed out, nevertheless, that the problem is rooted in public sector deficits, which lower savings and necessitate foreign borrowing.

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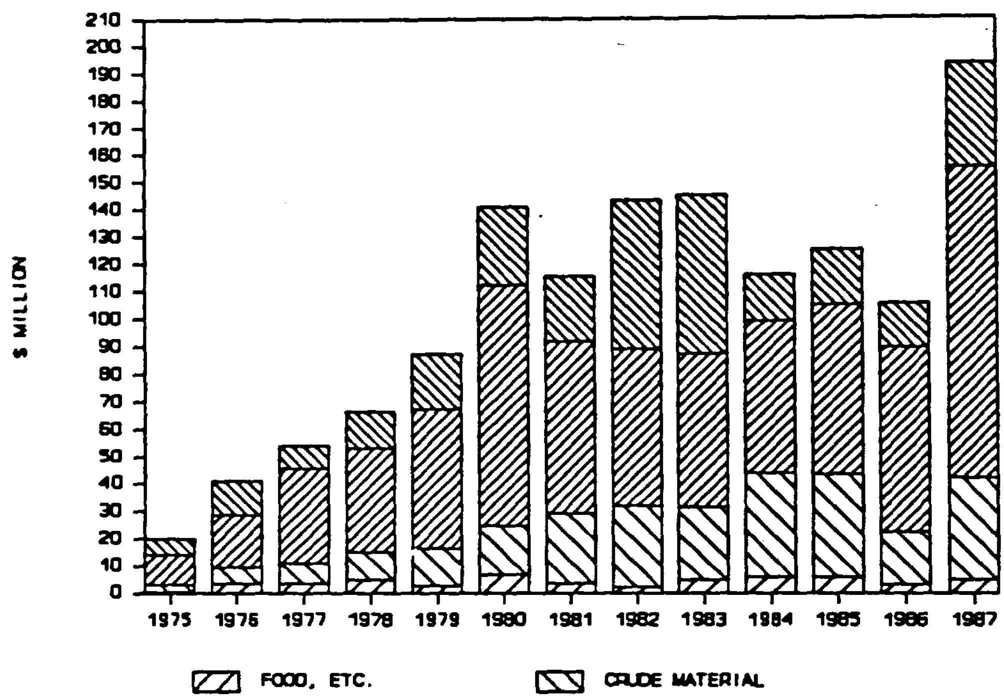

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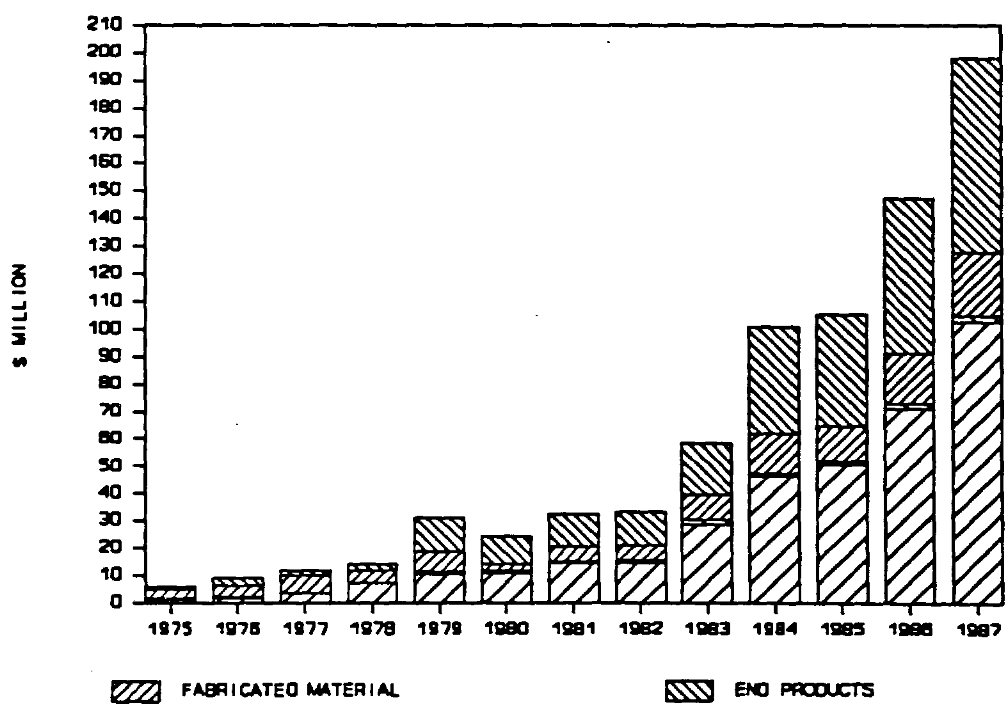


Canadian Exports To and Imports From Thailand, by Sector, 1975 - 1987

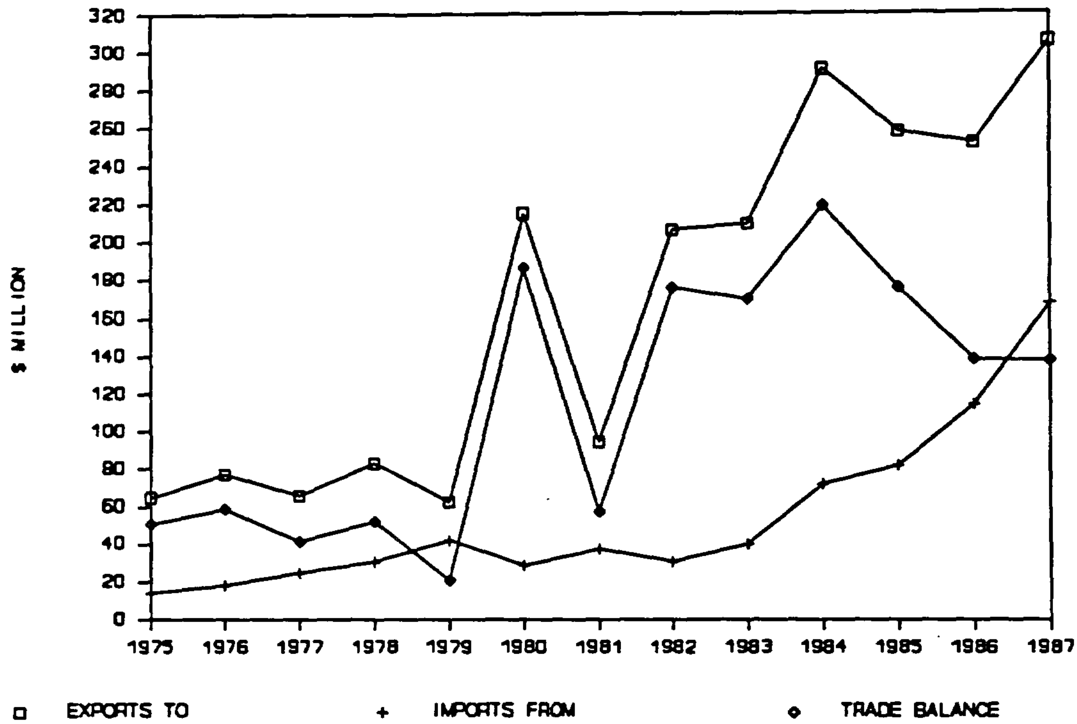
The growing industrialization of Thailand is reflected in its trade with Canada. Exports of manufactured goods to Canada have been growing much faster than traditional exports like rubber, although the rapid rise in exports of fish to Canada outpaced all other products (Thailand is Asia Pacific's third largest fish harvester, after Japan and China). Most of the growth in Canadian imports, other than fish, came in clothing and textiles. Towards the end of the 1975-87 period, other consumer products like watches and clocks, games and toys, and other personal and household goods began to increase penetration of the Canadian market. Canned fruit is a significant food export to Canada, but its importance in the food sector has been superceded by fish.

Unlike imports from Thailand, which showed fairly steady growth, Canadian exports to Thailand have displayed considerable volatility but no overall increase. Fabricated materials has been the largest and steadiest sector, but the steadiness conceals tremendous variability among products. Wood pulp, newsprint paper, synthetic rubbers and plastics, and aluminum are some of the major exports which have swung widely from year to year. From 1985 to 1987, organic chemicals and steel products showed some growth while zinc dropped off. Asbestos has been the largest and most consistent crude material export, but it did not expand after 1984. End product exports have been diffused over a wide range of products, including industrial machinery, telecommunications equipment, hand tools and computers. Power boilers were the largest seller in 1987.

Trade between Thailand and Canada is not significant to either country in terms of their worldwide trade. The signs of export-led industrialization indicate that Canada can expect its imports from Thailand to grow in future years, especially in clothing, textiles, and consumer products. Thailand's industrialization should emphasize these light manufacturing industries at first. Unlike many of its neighbours, though, Thailand has plenty of natural resources, and will be able to supply itself with much of its food and required industrial inputs. Growth of Canadian raw materials exports should not be proportionate to expansion of Thai industry, and Canada can foresee rising bilateral trade deficits unless other export avenues can be pursued. One such route may develop from the past success of capital goods exports. Another could come through development of Thailand's communications infrastructure, which is seen as an impediment to industrialization. Thai imports of capital goods and telecommunications equipment from the rest of the world can be expected to increase as a prerequisite for economic development and diversification.

3.3.3 Indonesia

Indonesia has the third largest population in Asia Pacific, and in 1987 was Canada's largest ASEAN market. In the flying geese pattern of development in Asia Pacific, Indonesia ranks around the middle, with its economy still in the early stages of industrialization. Its natural resources, including petroleum, are plentiful. Low commodity prices for much of the 1980s have

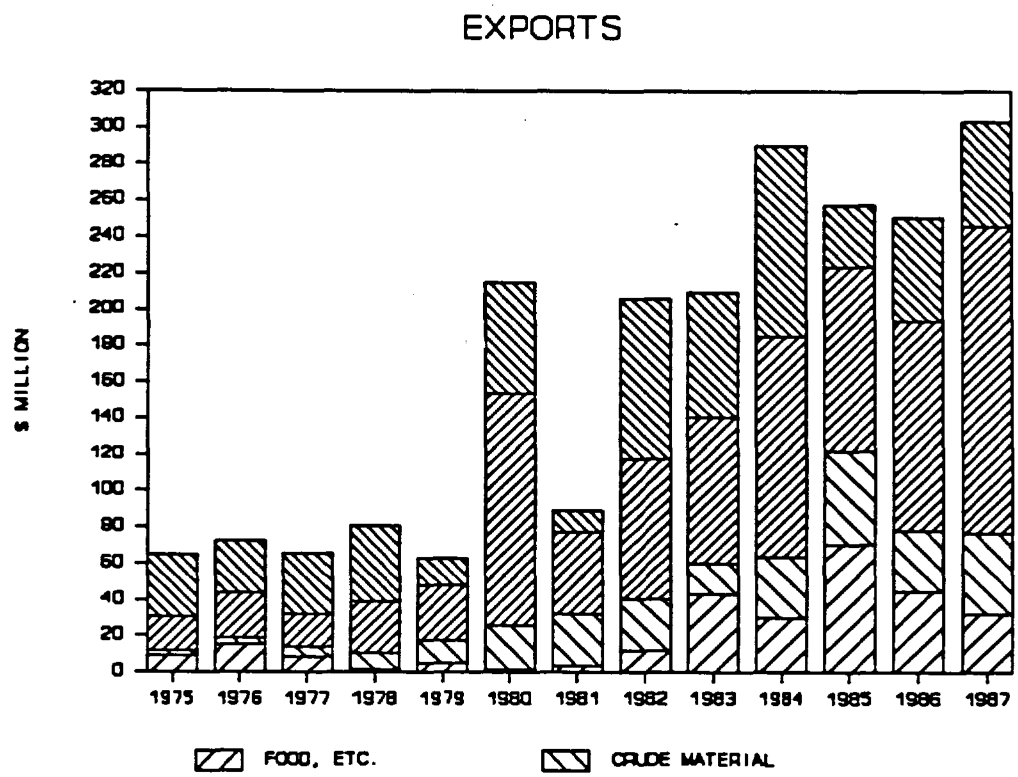


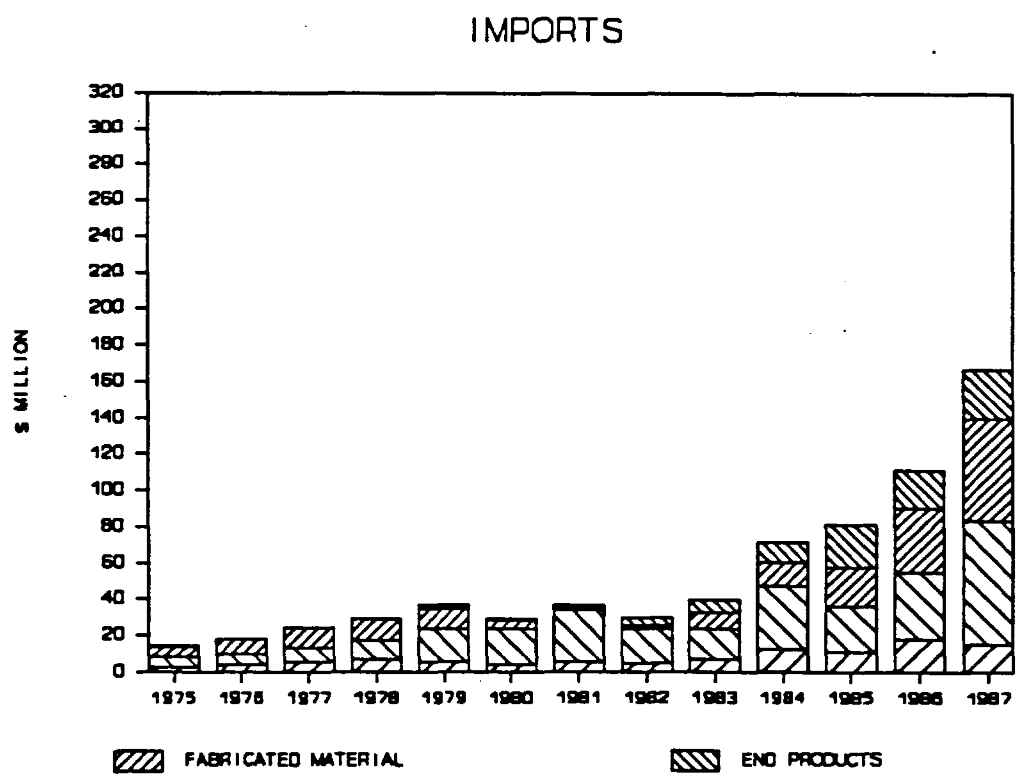
Canadian Exports To and Imports From Indonesia, 1975 - 1987

been a hindrance to economic growth, and have put pressure on Indonesia's international financial position.

Imports from Indonesia varied between $14 million and $42 million during the 1975-83 period, but quadrupled between 1983 and 1987. In crude materials, Indonesia became Canada's largest source of natural rubber, imports of which doubled in volume from 1981 to 1987. $20 million worth of copper and gold imports also added to 1987 import figures. Fabricated materials registered impressive growth, starting in 1983 with plywood and being joined after 1985 by textiles. End product imports grew from 1982 to 1985 and then levelled off, with clothing accounting for almost 90% of the total in 1987.

Exports to Indonesia showed the strongest and most consistent growth in fabricated materials. Forest products have been variable but nevertheless contributed to export growth, with 1987 wood pulp exports five times their 1985 level. The chemical products industry began providing Indonesia with large quantities of fertilizers and synthetic rubbers and plastics in 1982. End products were a leading sector from 1982 to 1984, but experienced a dropoff in sales of aircraft and variable sales of power boilers and railway

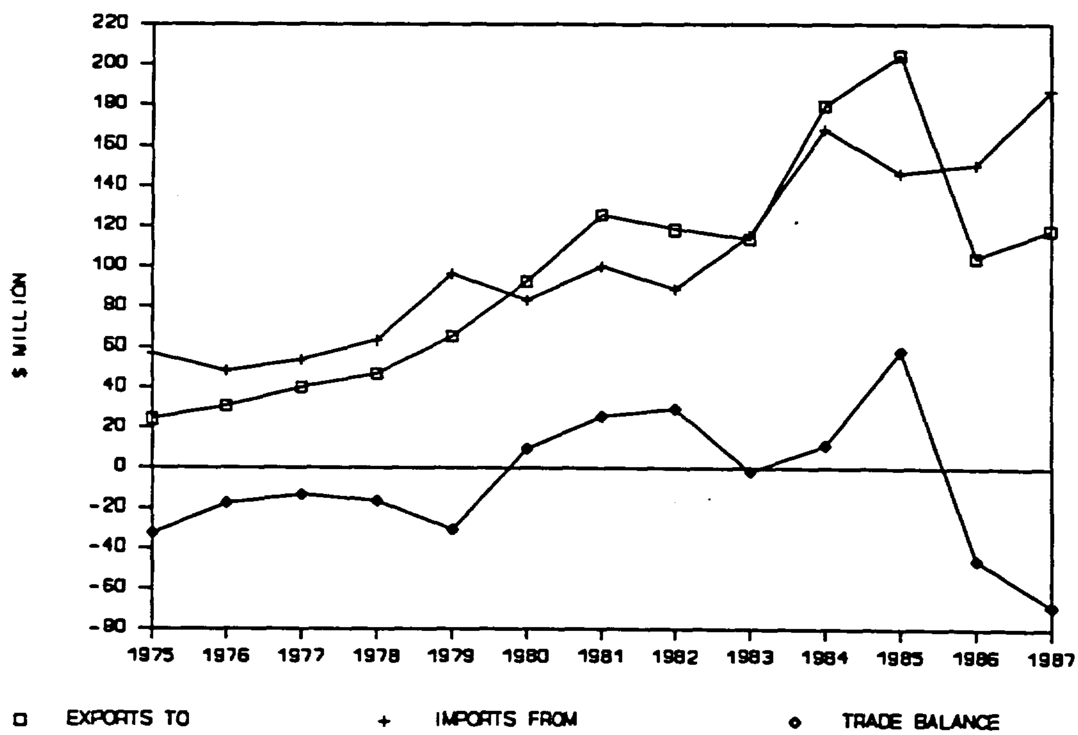




Canadian Exports To and Imports From Indonesia, by Sector, 1975 - 1987 stock from 1985 to 1987. Among crude materials, sulphur has been the major export since 1984, and wheat and rapeseed products are the principal food product exports, which peaked in 1985 at over $70 million.

Canada's trade profile with Indonesia is indicative of Indonesia's lack of industrialization. The proportion of commodities in imports from Indonesia is high, and industrial goods make up an unusually large share of Canadian exports. Increasing imports of clothing and textiles, if experiences with other countries are any indication, signal the initial steps in export-led industrialization of Indonesia. While sales of Canadian capital goods have not been expanding consistently, the opportunity exists for Canada to participate in Indonesian development through providing technological and capital goods for industry and its infrastructure.

3.3.4 Malaysia



Canadian Exports To and Imports From Malaysia, 1975 - 1987

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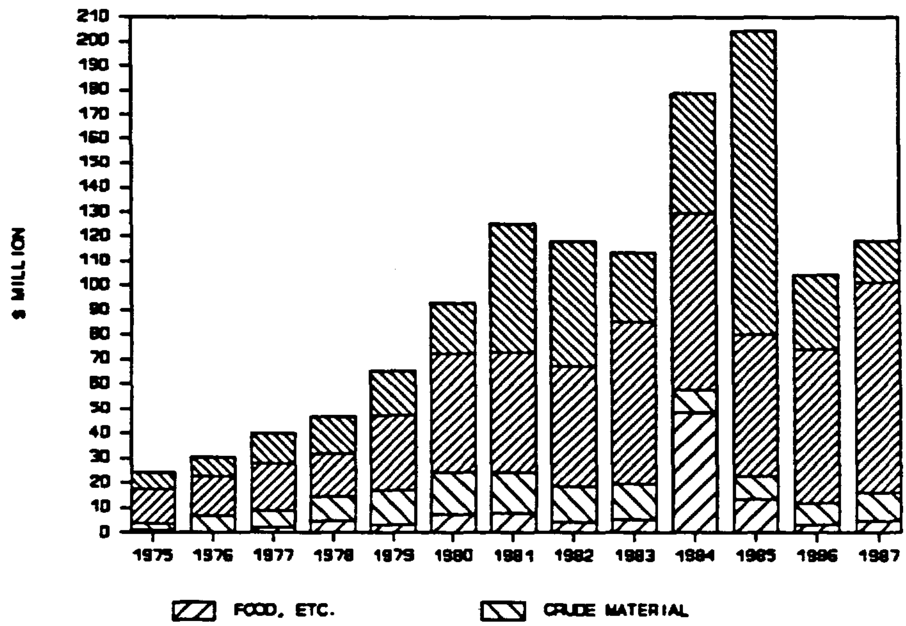

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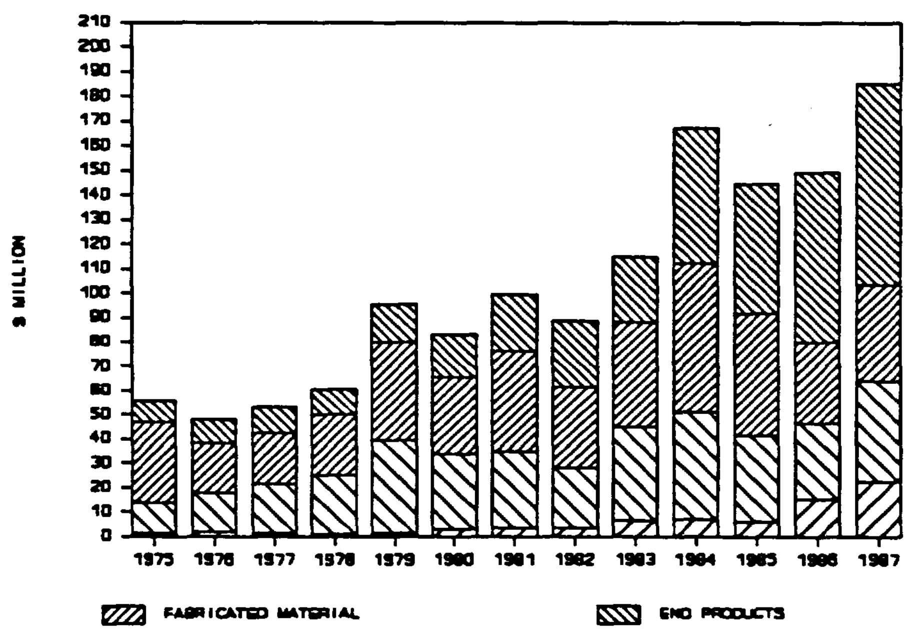


Canadian Exports To and Imports From Malaysia, by Sector, 1975 - 1987

Malaysia's economy is similar to its partners in ASEAN in that it has not reached the take-off stage of industrialization, experienced by the NIEs in the late 1970s, and it has natural resources and a rural population in abundance on which development will be able to draw. Economic stagnation due to low commodity prices and a burdensome foreign debt are two of the features which have hindered development in the 1980s.

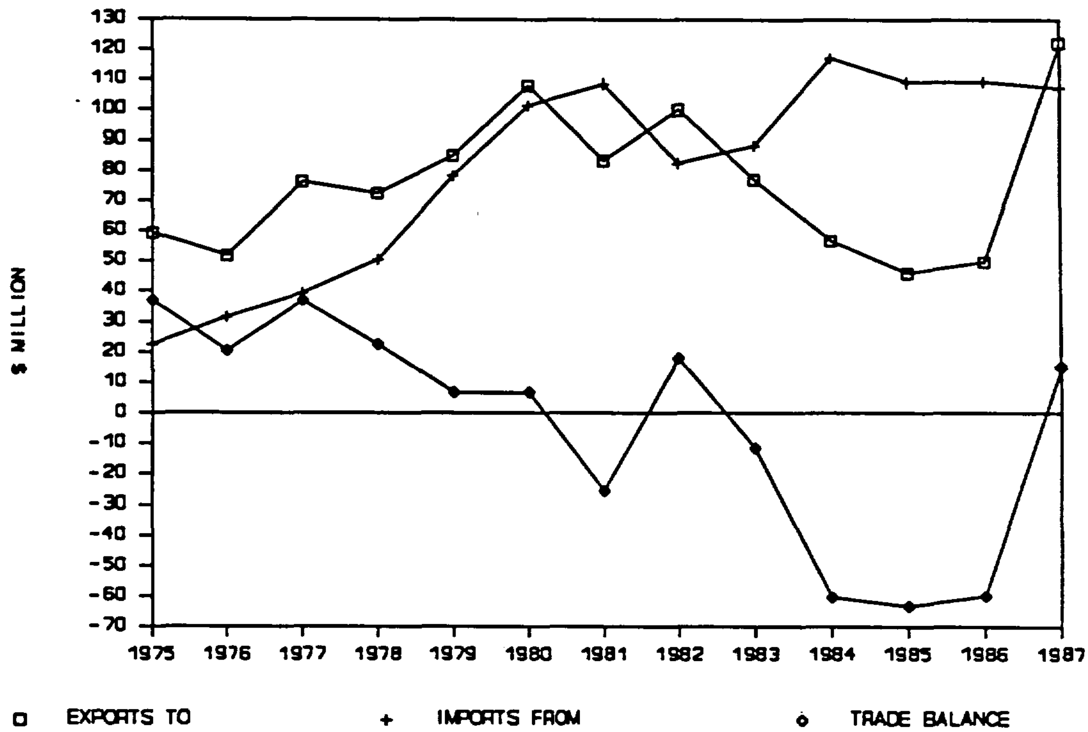
Canadian imports from Malaysia grew fairly steadily over the 1975-87 period. Until 1979, growth was led by rubber imports. Imports of natural rubber have been volatile since then, with swings coming both through commodity prices and the distribution of Canadian purchases among ASEAN members. End products became the leading sector after 1979, thanks to clothing and, increasingly in the 1980s, telecommunications. Fabricated materials were the largest sector until 1986, with textiles the most important commodity, but wide swings in other commodities like tin, vegetable oils, and wood products have nulled any overall growth in the sector.

Exports from Canada to Malaysia grew steadily from 1975 to 1981 but, although variable, did not expand from then until 1987. Fabricated materials showed the steadiest growth over the 1975-87 period, consisting largely of a mix of wood pulp, newsprint paper, and aluminum from 1975 to 1981, and fertilizers, newsprint paper, and wood pulp from 1985 to 1987. The steadiest element among end products exports was telecommunications equipment, but one-time-only sales of items like aircraft, military hardware, and most recently pulp and paper machinery have led to considerable volatility in statistics for the sector. Crude materials and food products have not shown any signs of becoming significant areas of exports.

With plans on developing an industrial infrastructure, Malaysia presents Canadian business with several opportunities. Development of transportation and communication networks, and construction of energy transmission facilities (electrical and oil pipeline), will require higher levels of Malaysian imports. Modernization of agriculture and increasing population shifts from rural to urban areas will lead to higher industrial requirements in the agricultural sector and food and construction materials in urban settings. These potential growth areas, along with expanded natural resource exploitation, are fields in which Canada could capitalize on its expertise. Involvement in most of the areas would only come about and continue over the long term if Canadian businesses participate actively in their development, through means such as consultive services and joint ventures.

3.3.5 Philippines

The Philippines has seen tremendous changes during the 1980s, with the change in government associated with new outlooks on trade, investment, and development. The economy has become much more open. Trade and investment regulations have been liberalized, and debt management policies now take into

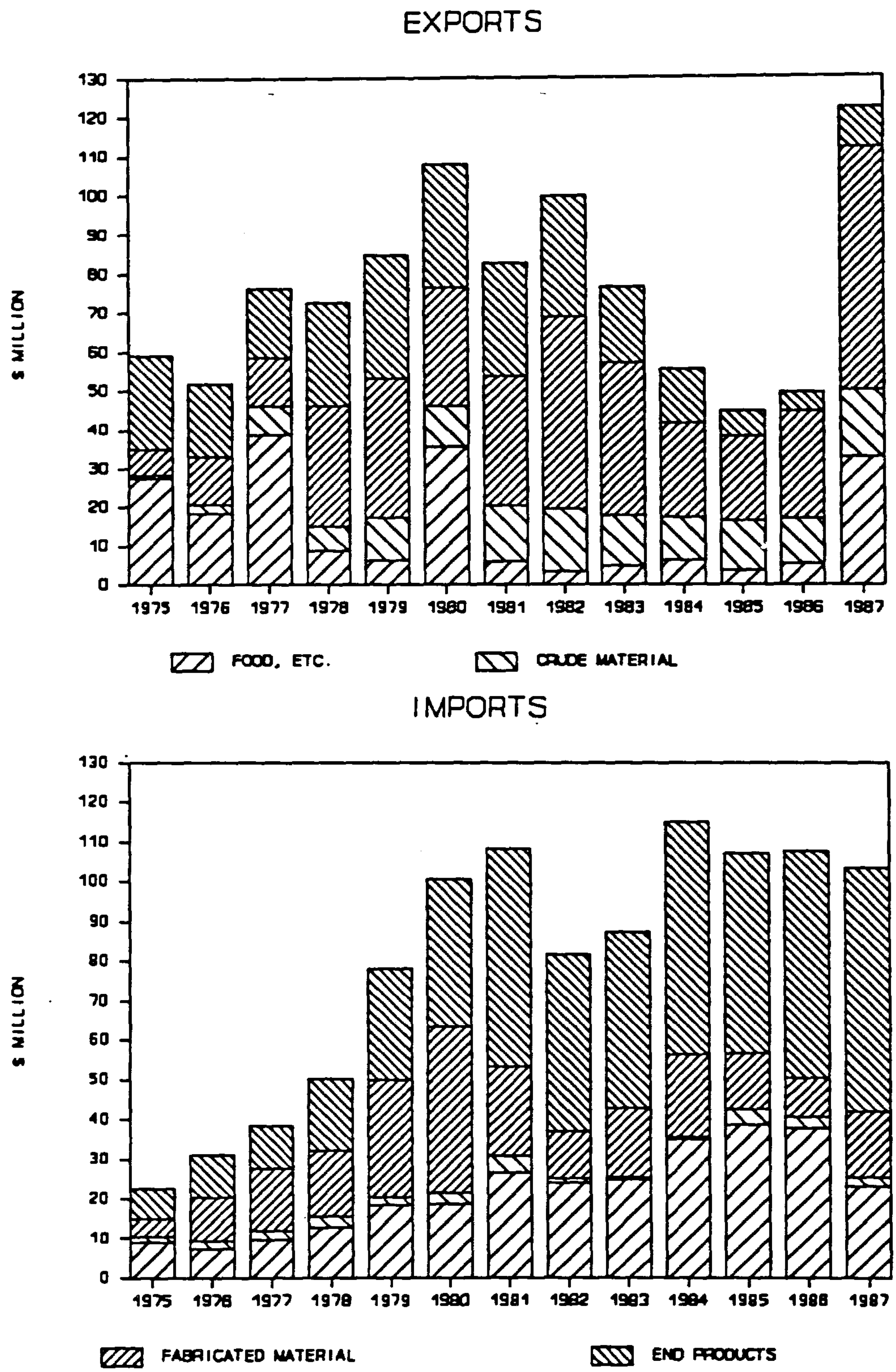


Canadian Exports To and Imports From the Philippines, 1975 - 1987

consideration effects on development. With a largely undeveloped infrastructure, a continued economic reliance on commodities, and foreign and public debt consuming large amounts of export earnings and the budget, the Philippine economy faces an uphill climb to achieving prosperity.

End products led the growth in Canadian imports from the Philippines from 1975 to 1981, although imports of food and fabricated products also increased. Between 1981 and 1987, total imports did not expand. A small increase in end products imports during that time was annulled by dropping imports of fabricated materials. Clothing represents the largest part of end products imports, but declines in other consumer products imports like furniture, household goods, and watches and jewellery almost equalled the rise in clothing imports. Vegetable oils imports rose in the 1970s and fell in the 1980s, dictating the trend of fabricated products. Coffee is the largest food product imported, having been strong from 1979 to 1986. Fish and canned fruits are the other major food imports.

Canadian exports to the Philippines expanded in 1987 after having been stagnant since 1980. Increases in sales of wheat, fertilizers, and synthetic



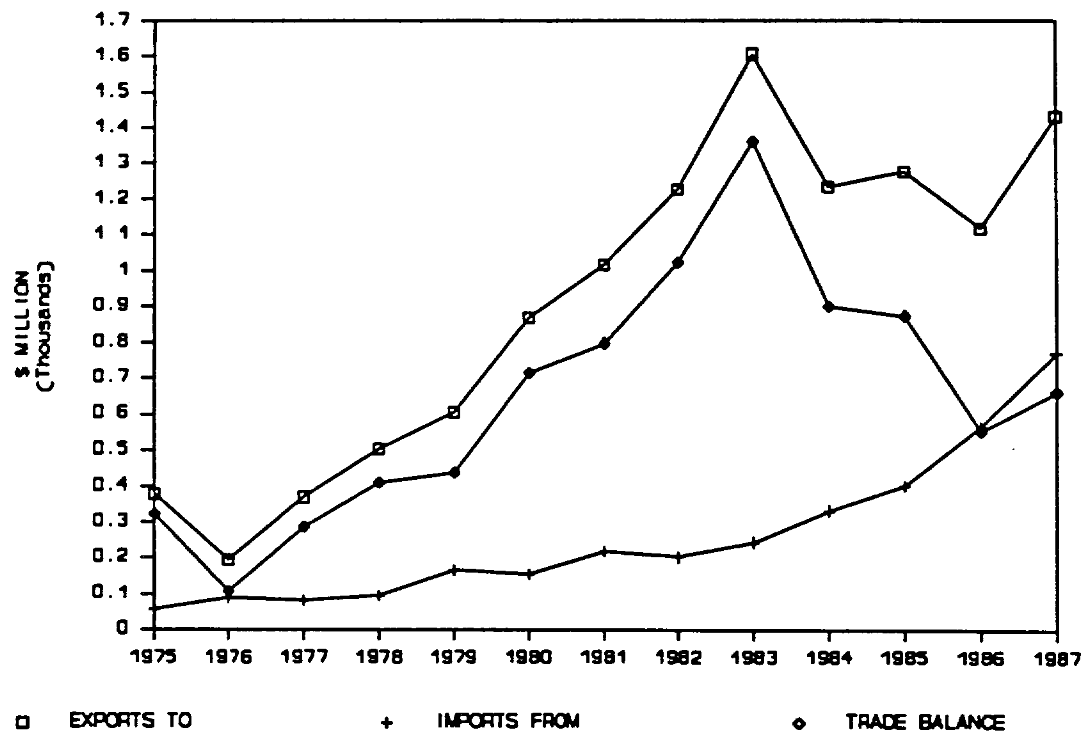
Canadian Exports To and Imports From the Philippines, by Sector, 1975 - 1987 rubber and plastic accounted for most of the 1987 rise, although fertilizers had been declining since 1983. Iron ores and steel products are other sectors which were growing at the end of the 1975-87 time period. Wood pulp, zinc, and telecommunications equipment exports trailed off towards the end of the period.

The combination of political and economic recession and uncertainty hurt Canadian trade with the Philippines throughout much of the 1980s, but resurgence of bilateral trade in 1987, which continued into 1988, may signal a new period of confidence and growth in the Philippine economy. An unreliable power generation and transmission system and a political desire to improve internal transportation networks provide opportunities for Canadian economic involvement in revitalizing the Philippine economy, while the lowering of tariff barriers will open up other areas for export development. Intense competition from Japan and West Germany and an exacerbation of the external debt burden through a combination of higher world interest rates and sluggishness in world commodity prices are the major problems facing Canadians hoping to export to the Philippines.

3.4 Other Countries

The remaining countries in Asia Pacific vary considerably in size and economic development. China is the largest country in overall importance and especially for wheat exports, and it provides in return labour-intensive consumer products like clothing. Other less developed countries, like India, Bangladesh, and Sri Lanka, do not approach China in terms of shares of Canadian trade, but are similar in product profiles. Australia and New Zealand, meanwhile, are developed nations which provide Canada with food and other commodities in return for a wide variety of products.

3.4.1 China



Canadian Exports To and Imports From China, 1975 - 1987

The People's Republic of China contains an intriguing wealth of possibilities for expansion of Canadian trade. The tremendous population and untapped natural resources of the country have been joined by an increasingly progressive and accessible economy, which allows for greater personal initiative and rewards for success. The new era in Chinese economic policy began in 1979. Excess demand, combined with insufficient forethought as to questions of supply, caused the economy to overheat and then stall in 1984, but a restrained approach to managing the economy has led to more sustainable growth since then. Canada, having opened diplomatic relations with China in 1970, has enjoyed an excellent rapport with China and has found China a receptive partner in trade.

Growth in imports from China was small before 1978, but the period of greatest expansion began after the 1982 recession. 65% of import growth in the 1982-7 period came in end products. Clothing led the expansion, joined towards the end of the period by other consumer products like footwear and personal and household goods. Among the other sectors, textiles and crude textile fibres accounted for much of the increase in imports after 1983, especially in 1985-7.

The dominant product among Canadian exports to China is wheat. Its preeminence has been variable, though: after peaking in 1983, wheat exports declined to 1986 before taking off again in 1987-8. Fabricated materials are the next largest section for exports, but by 1987 they had not surpassed their 1983 peak of $579 million. Wood pulp and newsprint paper are the largest commodities in this category. Metals like copper, aluminum, and zinc have played a variable but non-growing part since 1983, and fertilizers and synthetic rubber and plastic appear to be on the upswing following some volatile years in the mid 1980s. End products exports surged in 1985-6, thanks to industrial machinery, aircraft, and motor vehicle sales, but fell off again in 1987. Telecommunications equipment, industrial machinery, and other manufactured equipment sold steadily throughout the 1980s.

Expansion of trade with China is a distinct possibility if the Chinese economy can continue the growth it experienced during the 1980s. The political instability of 1989 could hinder growth, however, as such social disturbances tend to be reflected in a loss of economic confidence. Opportunities exist, nevertheless, in already planned capital expenditures. These will include development of energy and transportation infrastructures. The giant Three Gorges hydroelectric project is the highest profile example, but other projects like the Shanghai subway system could benefit from Canadian involvement. Another sector with potential for Canadian exporters is oil and gas equipment and services, which has the added advantage of being a priority sector within China and thus has foreign exchange allotted to it. With ore and mineral markets within China seen as having matured and wheat exports being variable, it is important for Canada to diversify its exports to China (as to many countries) into technological areas where, though we must compete with other developed nations, at least we have a comparative advantage in relation to the importing country. Besides transportation and communications, food processing and chemical products industries are areas of Canadian expertise. The growth of Chinese industry, meanwhile, should lead to growing Canadian imports of consumer end products like clothing, personal and household goods, and electronic equipment.

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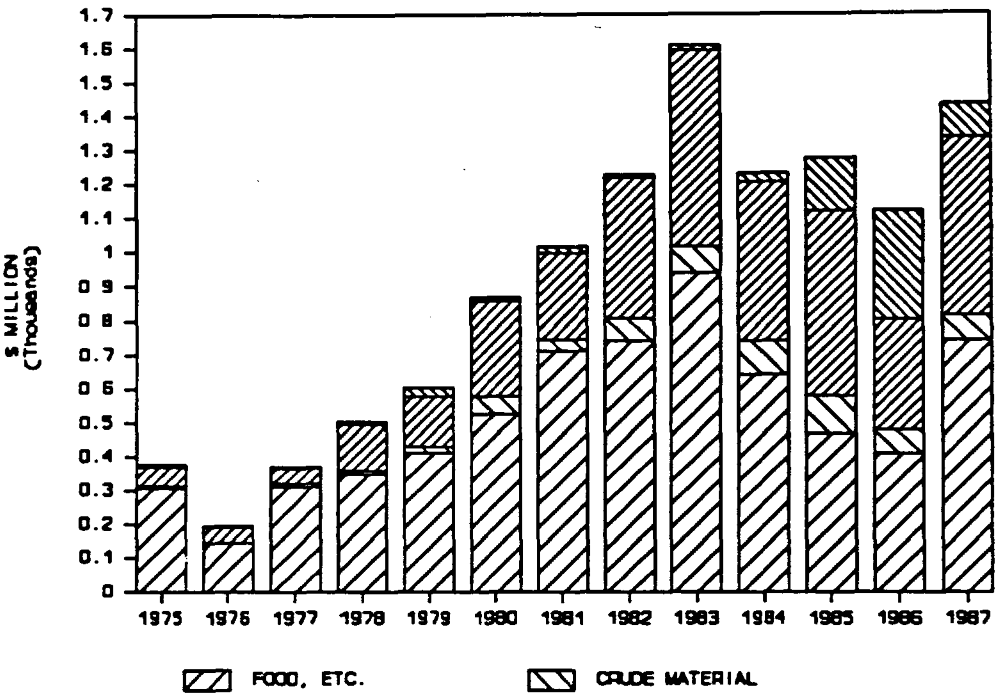

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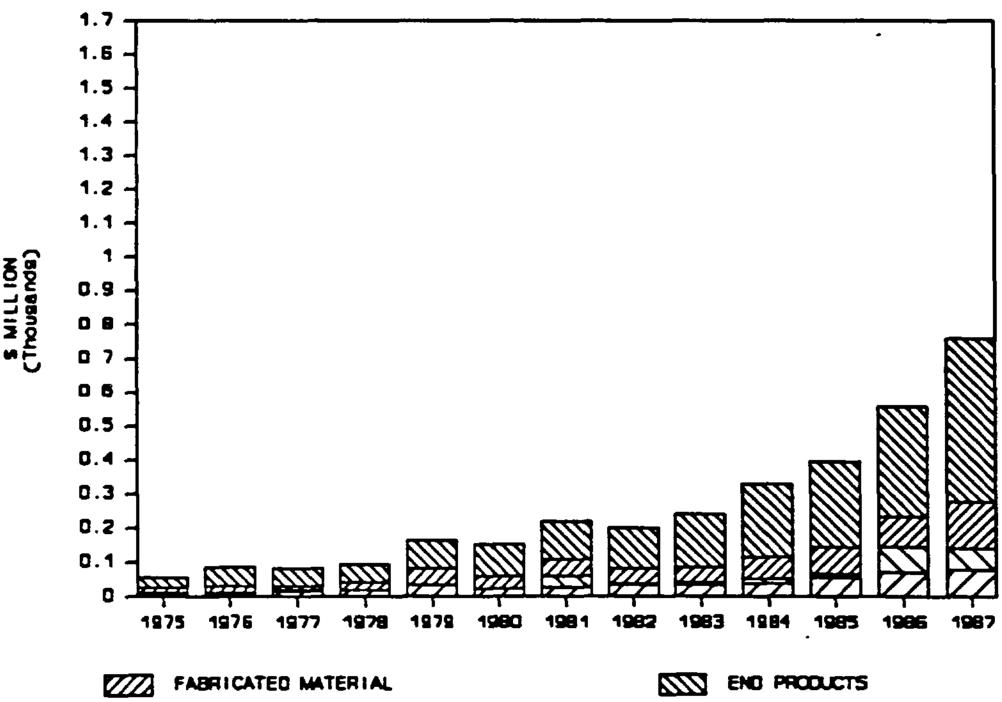
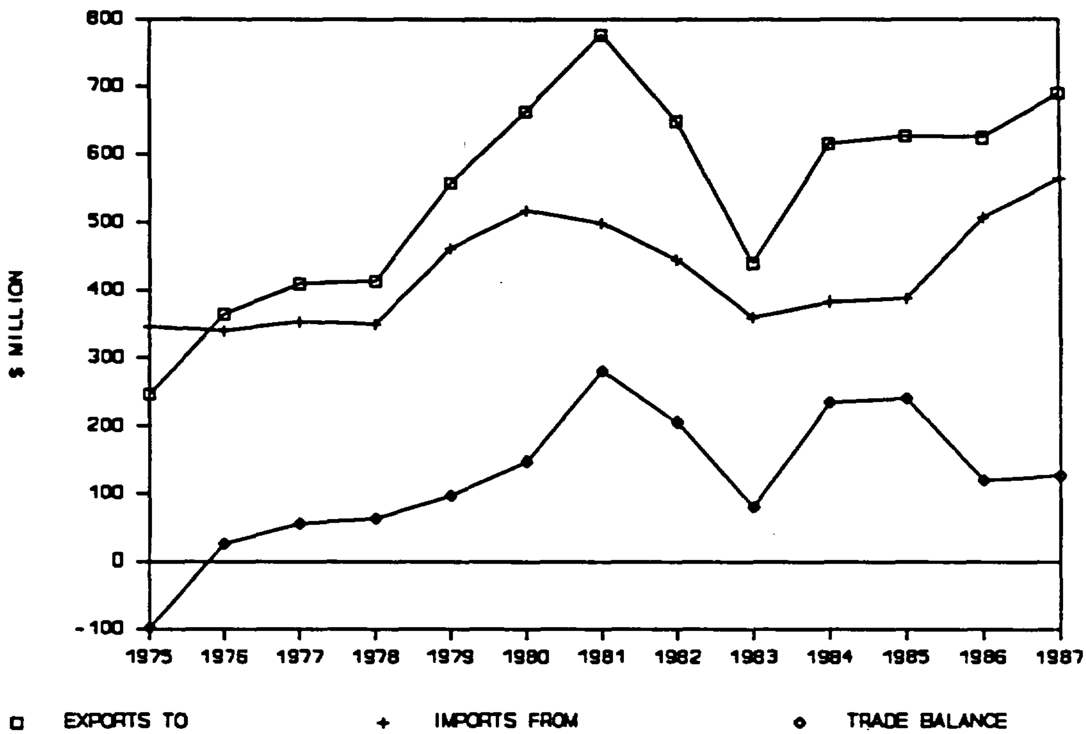


Canadian Exports To and Imports From China, by Sector, 1975 - 1987

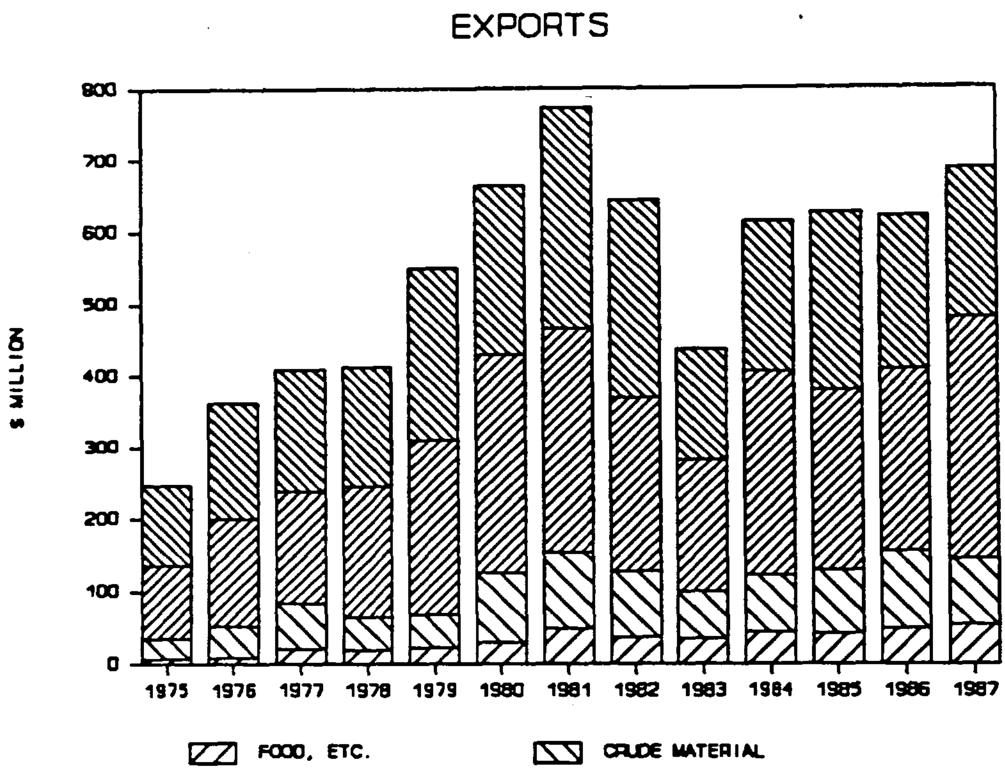
3.4.2 Australia

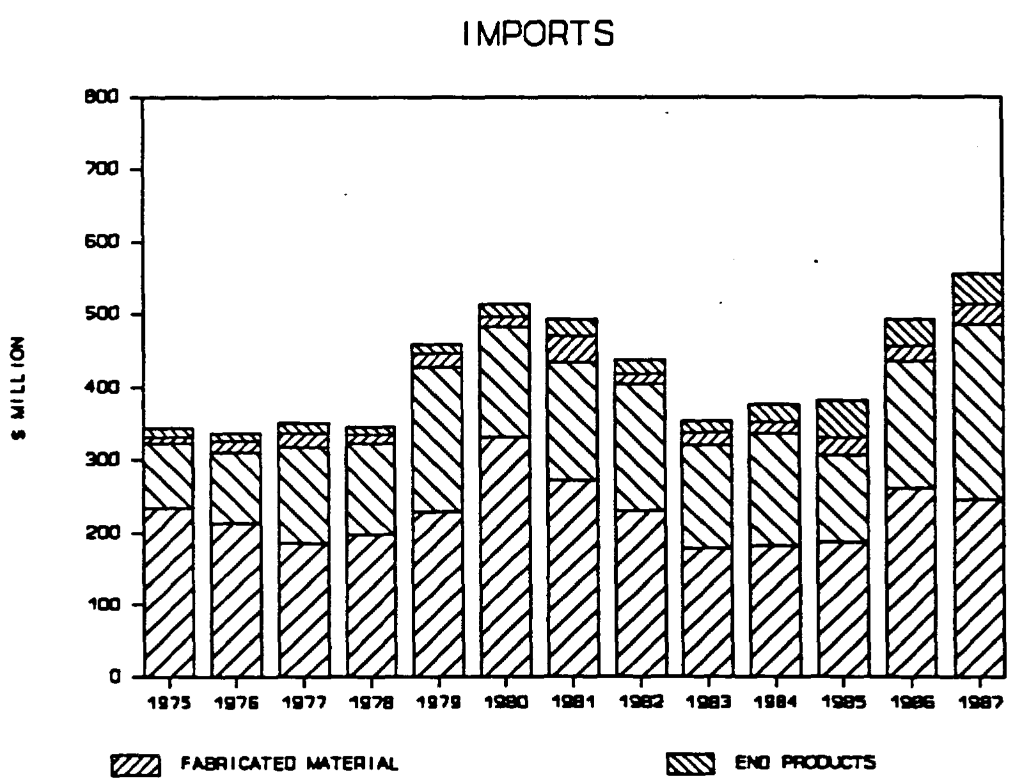


Canadian Exports To and Imports From Australia, 1975 - 1987

Australia possesses an economy with many similarities to Canada's. The timing and British influence on development are part of a common heritage, while both economies are largely resource-based and dependent on imports of end products. The Australian economy suffered through most of the 1980s, with balance of payment problems being one symptom of the structural imbalances present. However, through co-operation between government, business, and labour, fiscal restructuring has taken place. A balanced budget in 198?-8? is one sign of the success of these efforts.

Trade between Canada and Australia peaked in 1981. Slow growth in the Australian economy and poor commodity prices had a dampening effect on trade until 1986, when bilateral trade began to pick up again. Imports come largely in commodities. Metals and sugar were major items prior to 1981, while Canadian imports of beef and alumina in 1986 and 1987 signalled the renewed expansion of trade.



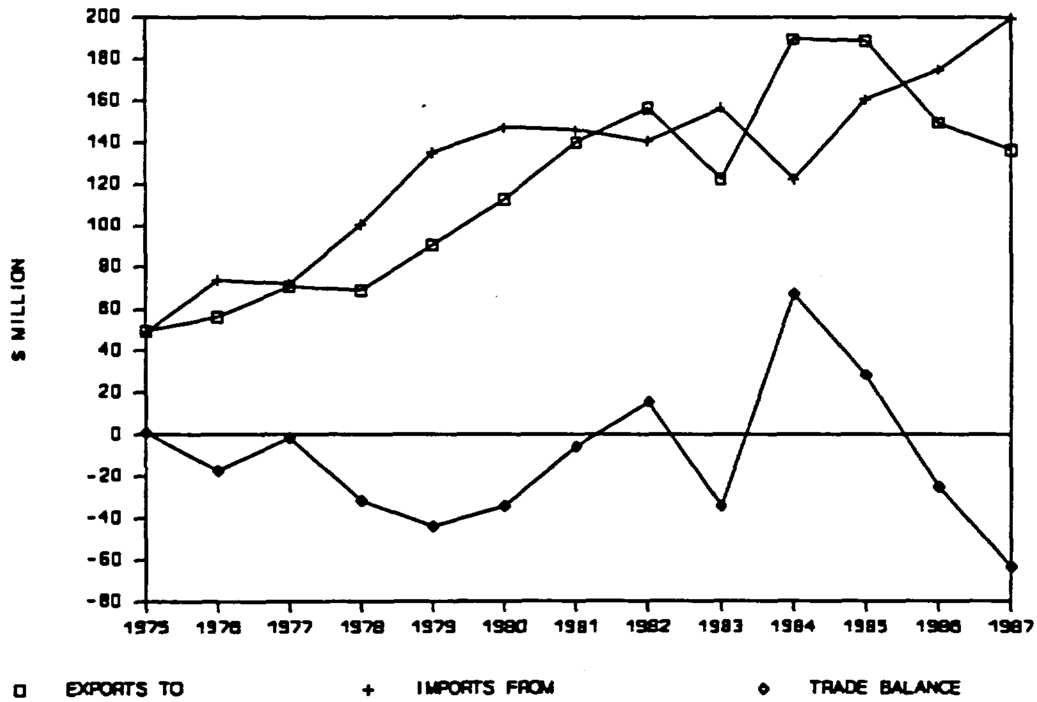


Canadian Exports To and Imports From Australia, by Sector, 1975 - 1987

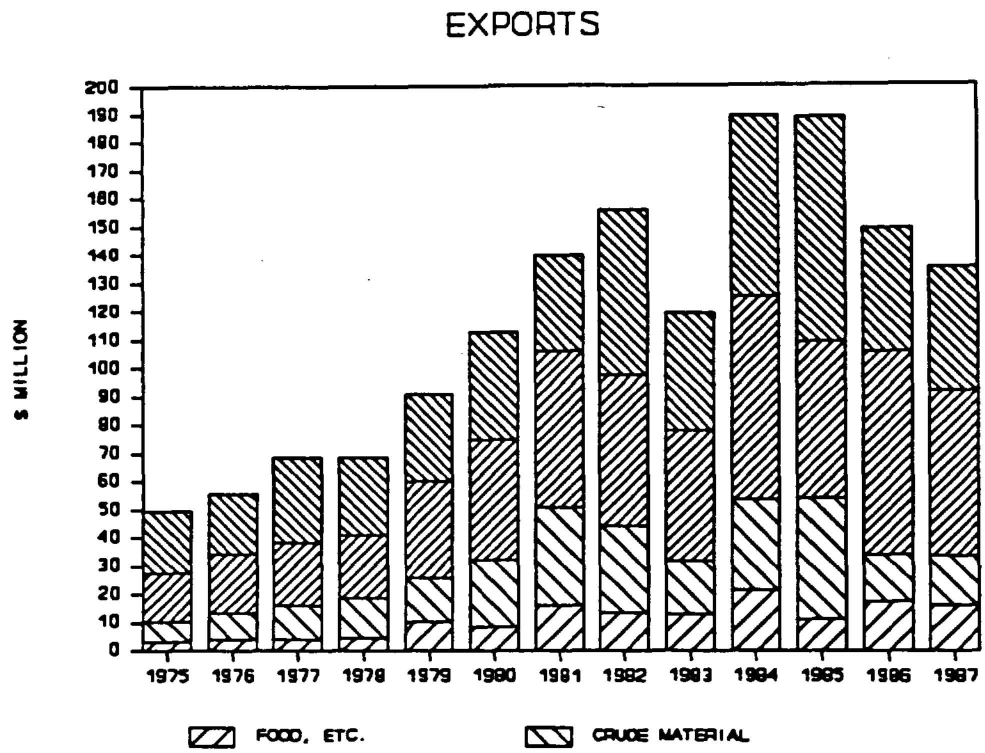
Canadian exports to Australia include plenty of fabricated and end products, with fabricated products leading since 1982. Wood products, including softwood lumber, wood pulp, and newsprint paper, account for most of the fabricated materials exports. End products exports are widely distributed across machinery and transportation, telecommunication, and electronic equipment, and consumer products. The emphasis has shifted away from agricultural and industrial machinery and transportation equipment to electronic and consumer goods. The balance of Canadian exports are found in fish and sulphur.

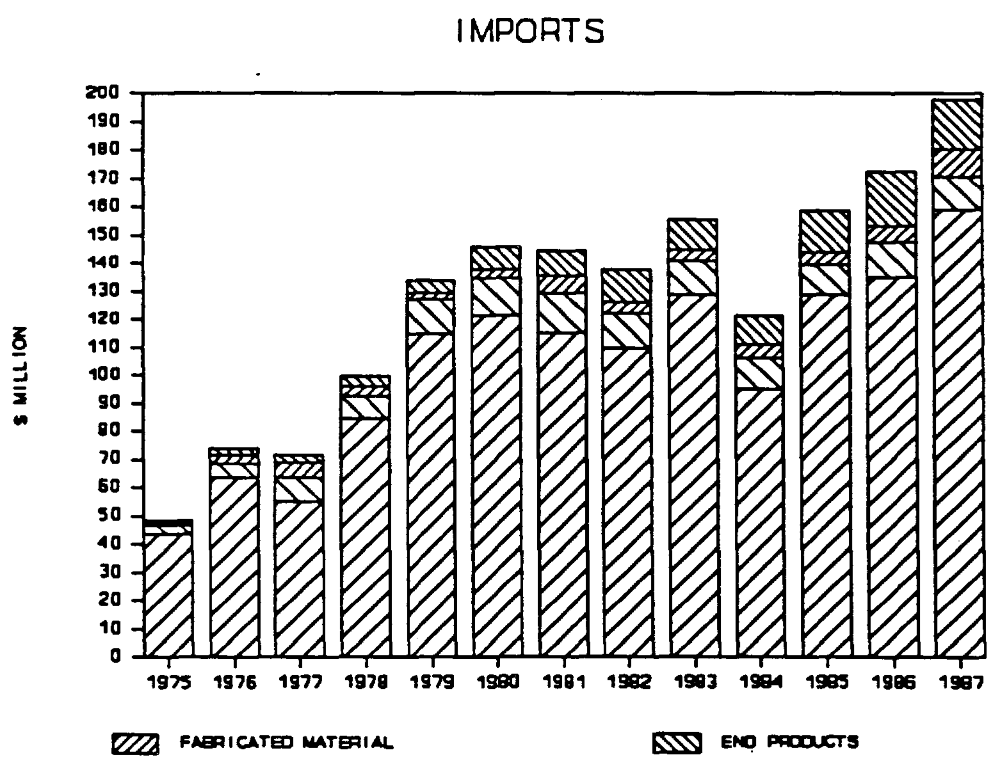
Canadian export opportunities exist in consumer products, thanks to the cultural similarity between the two countries. Defence products are also a possibility, having been identified as a priority sector by the Australian government. Canada's strong sectoral capability in telecommunications products and the inability of Australia to meet its own machinery requirements provide opportunities for Canadian exporters in those sectors. Capitalizing on the opportunities will require work by potential exporters, as market penetration is hindered by international competition.

3.4.3 New Zealand



Canadian Exports To and Imports From New Zealand, 1975 - 1987



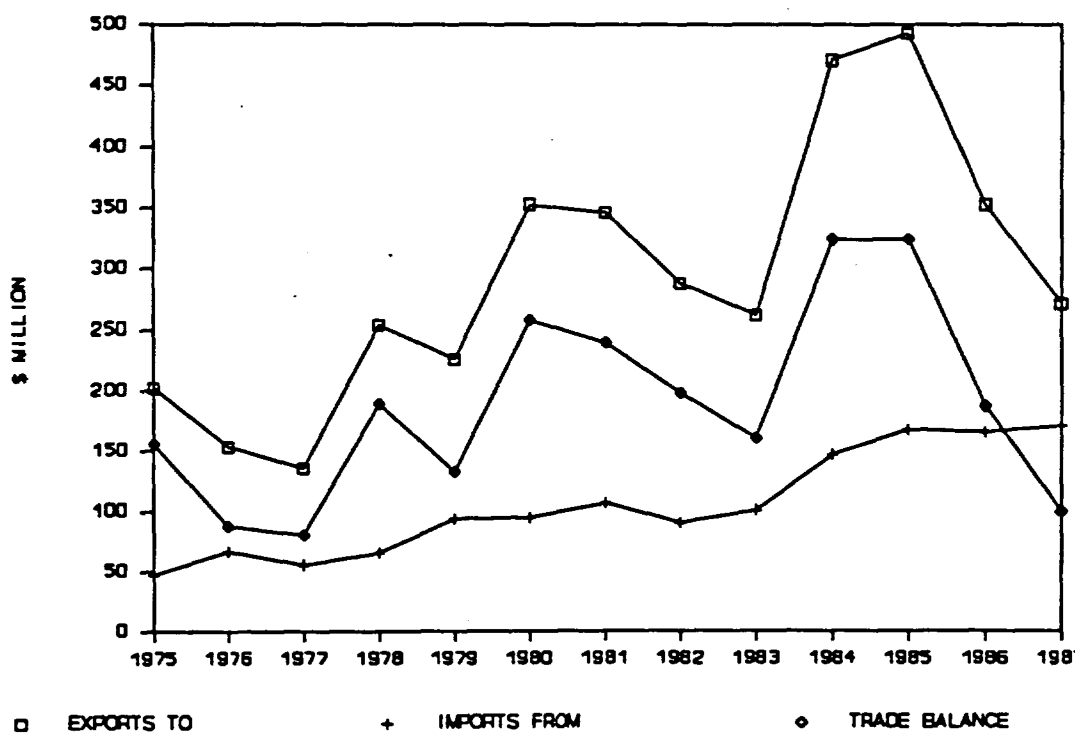


Canadian Exports To and Imports From New Zealand, by Sector, 1975 - 1987

The economy of New Zealand developed with a large primary sector. Restructuring has been the keyword for the 1980s, as severe recession led to deregulation of New Zealand's commercial and financial markets and the dropping of barriers to trade and investment. The Closer Economic Relations (CER) agreement between Australia and New Zealand has been of benefit to the latter country, while the rift with the United States over nuclear weapons has damaged trade in that quarter.

Canadian imports from New Zealand are dominated by food. Frozen beef is the largest single commodity, and lamb and fruit are also significant. Imports of these products grew over the 1985-7 period in both price and volume. Wool is the most significant of other imports, while end products play no major part in New Zealand's exports to Canada.

Exports to New Zealand, meanwhile, have been falling off since their peak in 1984. Besides low commodity prices, slow economic growth and restructuring have lowered imports by that country. Sulphur dominates Canadian exports of crude materials to New Zealand, and fabricated materials involve a blend of forestry and chemical products. End products exports have been hurt by the loss of aircraft sales, which boosted totals in 1984-5.



Canadian Exports To and Imports From India, 1975 - 1987

Machinery sales have dropped off as well, with telecommunications, computers, and consumer products exports increasing to compensate.

Canadian export opportunities are particularly good in defence, electronics, and telecommunications products. Canada can use its sectoral strength to increase sales in these areas, possibly by replacing the United States as a supplier if antagonism between the U.S. and New Zealand becomes a serious impediment to trade. Food and inedible consumer products are another area of possible export growth, thanks to an opening market combined with a preference for Western products. Canada could also assist in development of New Zealand's forestry industry, as harvesting of forests increases in that country.

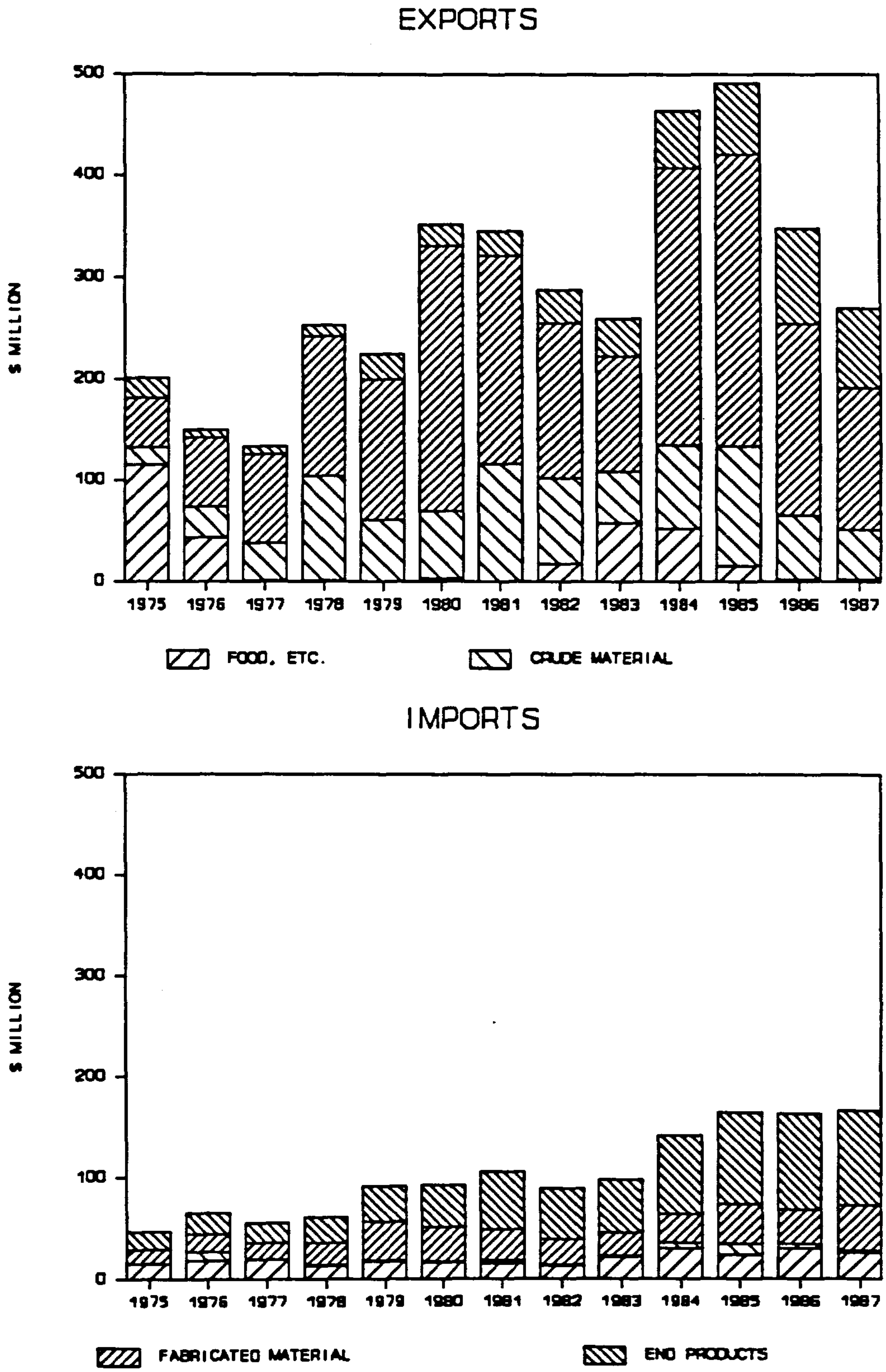
Bilateral trade between Canada and New Zealand does not play a very large part in either country's trade profile in aggregate terms. Some sectors are important, nevertheless, as New Zealand provides Canada with a secure source of certain foodstuffs and a market for technological products. The cultural similarity between Canada and New Zealand is another favourable factor for bilateral trade. It is to be hoped that recovery in the New Zealand economy will continue, leading to increased growth, dynamism, and trade relations with other economies like Canada's.

3.4.4 India

India is a developing nation notable for its large and growing population. Unlike China, the only country with more people than it, India's growth rate has been more notable over the 1980s than its economic development. The country is nevertheless well endowed with natural resources. Its general approach to trade is to avoid imports, and to arrange counter-trade with countries which do export to India.

Canadian exports to India have been variable over the years, while imports from India have been growing at a steady rate. Overall, bilateral trade has usually been heavily balanced in Canada's favour. End products make up the largest part of Canadian imports from India. Apparel has been the major product here, though house furnishings have been taking an increasing share since 1985. Otherwise, Canadian imports consist mostly of fabricated textiles and leather products, and coffee and tea.

Fabricated materials hold the largest share of Canadian exports to India. Fertilizers and vegetable oils are important products, although vegetable oils exports fell between 1985 and 1987. Wood pulp and newsprint paper exports also account for a good portion of trade. Exports of food (wheat) and crude materials (sulphur) dropped off by the end of the 1975-87 period, hurt, like fabricated products, by a combination of weak commodity prices, improved domestic production in India, and continued rationing of foreign exchange. Exports of end products have not fared as badly. These exports consist largely of industrial machinery.

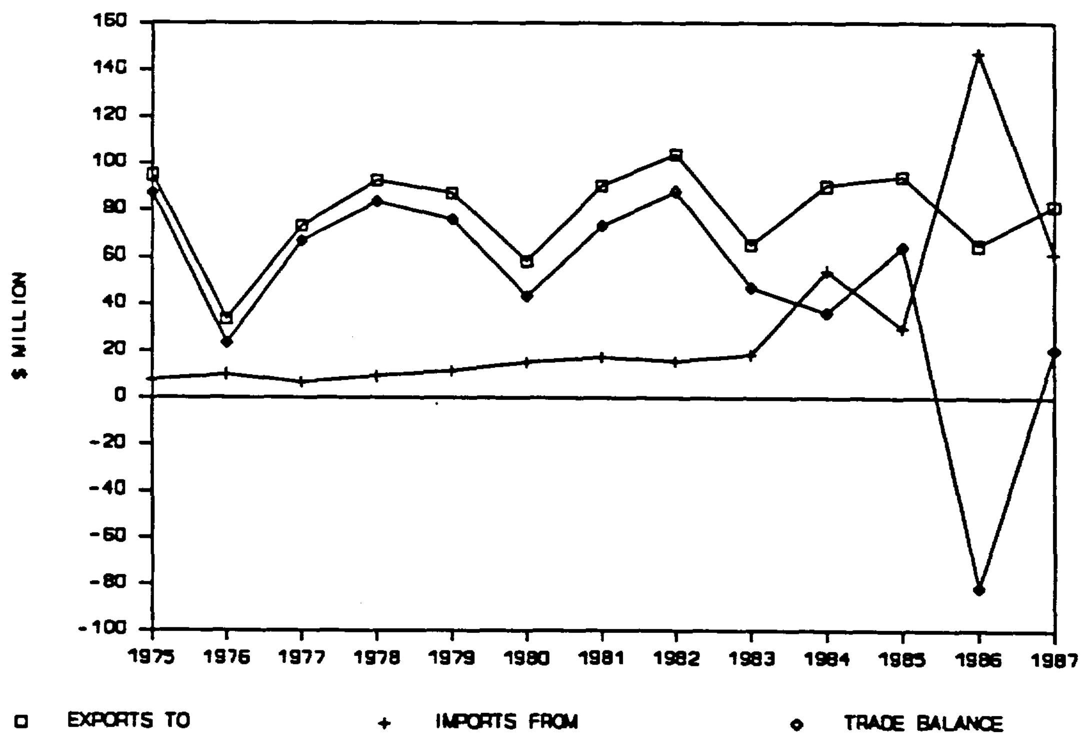


Canadian Exports To and Imports From India, by Sector, 1975 - 1987

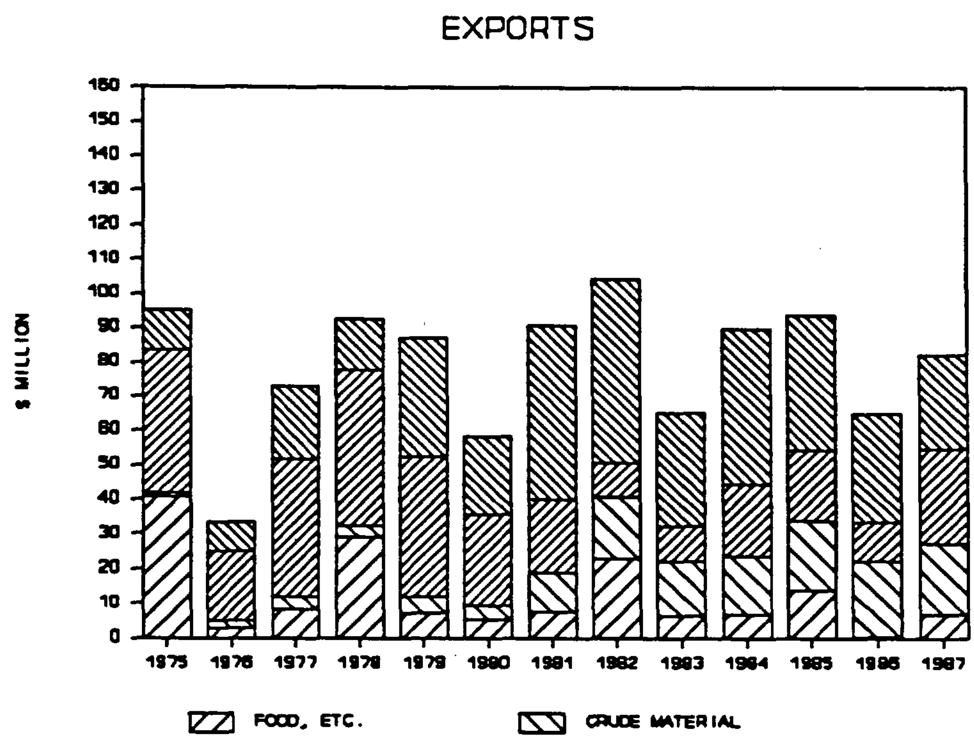
Canadian exporters should try and capitalize on opportunities in the telecommunications and transportation sectors. These sectors provide a good match between Canadian goods and Indian needs. They include the infrastructure which will be needed for industrial and commercial growth. In addition, India has liberalized its telecommunications sector, easing market penetration and encouraging rationalization and growth. Also, the energy sector holds a high priority in Indian development plans. Offshore resources and other sources of electrical generation are being promoted by the Indian government; Canadian firms can provide both goods and services towards this end.

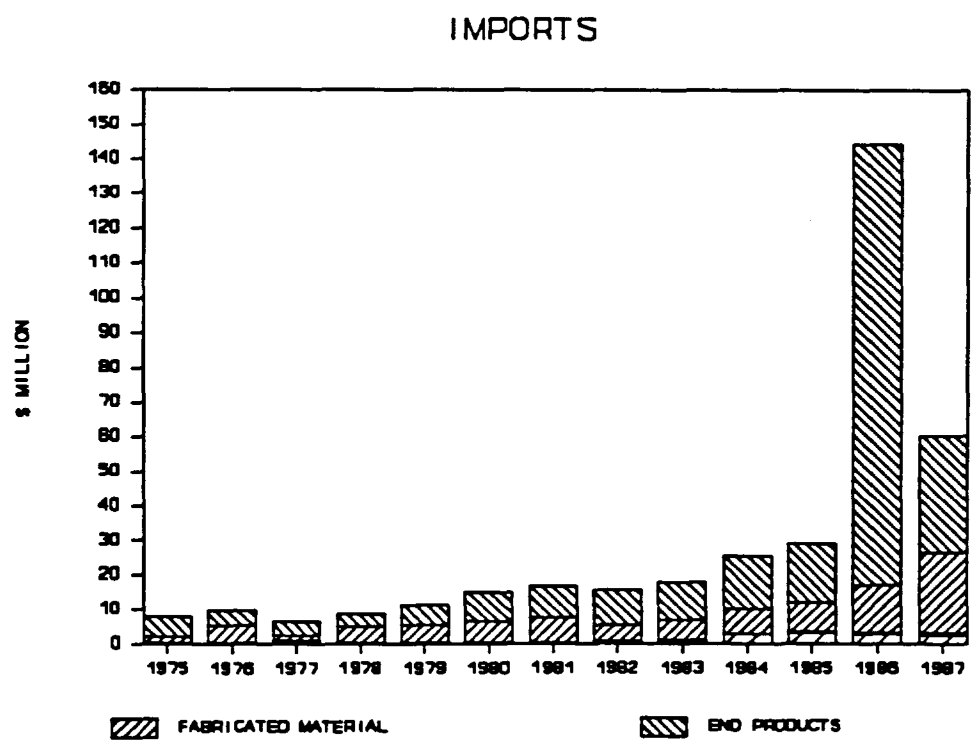
While India has not been an open market in the past, it presents many opportunities in the medium and long term. Development initiatives will lead to a general opening of the market, as well as sector-specific imports. In the long run, a rise in disposable income would turn India's large population into one of the most sought after of world markets.

3.4.5 Pakistan



Canadian Exports To and Imports From Pakistan, 1975 - 1987



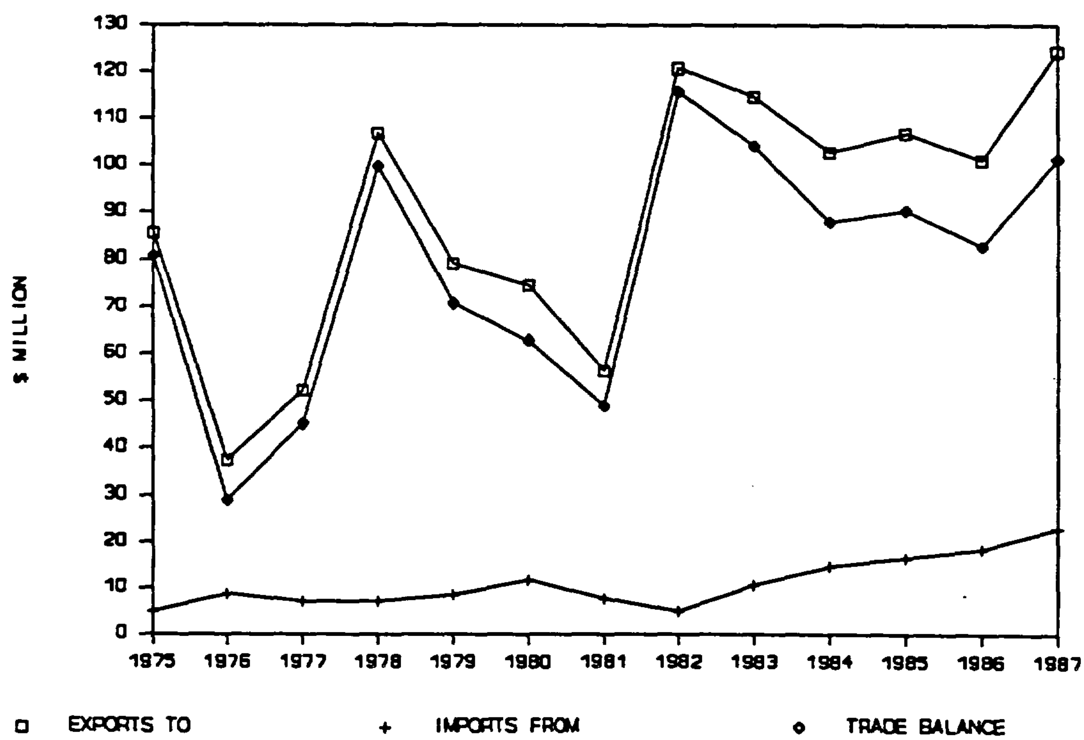


Canadian Exports To and Imports From Pakistan, by Sector, 1975 - 1987

The Pakistani economy has been beset by balance of payments difficulties throughout the 1980s. Combined with heavy defence expenditures (45% of gross domestic product), the availability of foreign exchange for imports has been limited. The country has not approached the takeoff stage of industrial development yet, either.

Canadian trade with Pakistan, like that with India, displayed considerable volatility over the 1975-87 period in exports, while imports from Pakistan grew steadily but at a much lower level. The major exception was the 1986 Canadian purchase of aircraft and parts, underneath which the growth of imports continued steadily. This rise has come in end products (primarily clothing but also house furnishings) and fabricated materials (textiles).

Exports to Pakistan did not grow overall between 1975 and 1987, although the share held by each sector changed significantly from year to year. Wheat, the only food product exported, has not faced a steady market, nor have sales in the 1980s been as large as those of 1975 and 1978. Fabricated materials have been variable, with aluminum being important in the 1970s and mid 1980s; oils, fats, waxes and their derivatives leading growth in the early and late



Canadian Exports To and Imports From Bangladesh, 1975 - 1987

1980s; and wood pulp and newsprint paper finding steady sales during the 1980s. Growth in crude materials exports in the 1980s has been led by coal and, to a lesser extent, iron ore. End products, meanwhile, have generally seen a mixture of industrial machinery, transportation equipment, and telecommunication and electrical equipment, indicating an involvement in development of Pakistan's industry and infrastructure.

Export opportunities should continue to appear in the energy and defence sectors. The acquisition of petroleum concession areas by Canadian companies and the attempts to modernize electrical transmission systems will require a whole range of goods and services which Canada can provide. The size of the defence sector implies a large demand for foreign-produced goods and services. Another area which Canadian officials have identified as a priority for export promotion is canola oil, which could replace American-supplied soybean oil.

3.4.6 Bangladesh

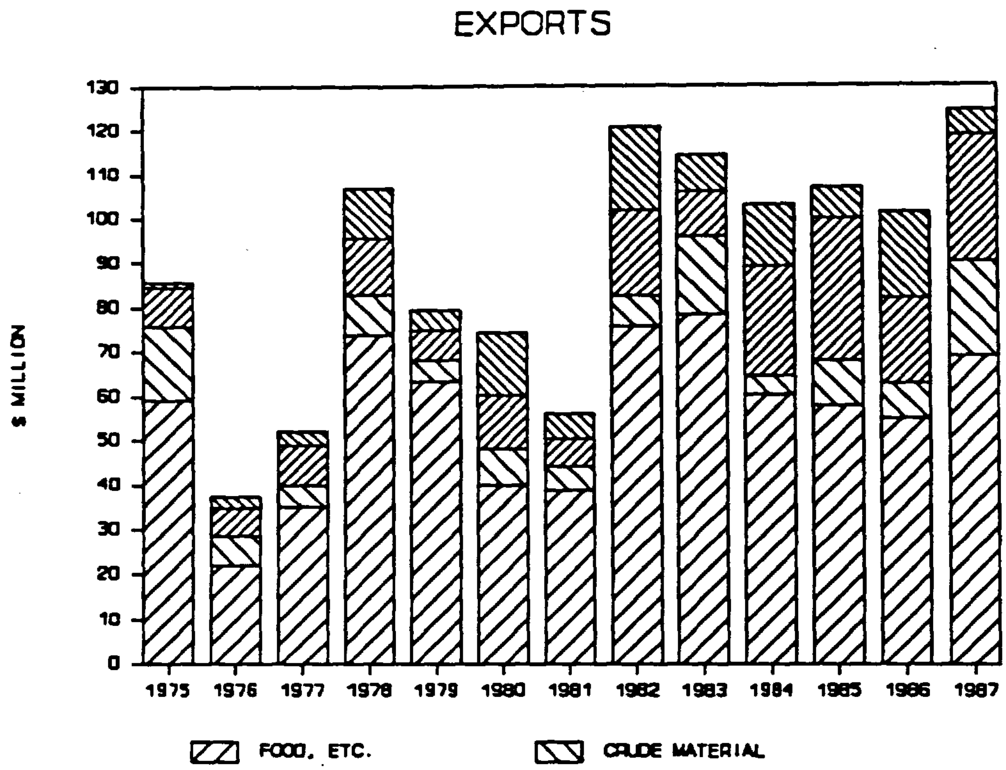
One of the most impoverished nations in the world, Bangladesh must overcome many barriers in order to improve the standards of living of its inhabitants. The country has few natural resources, and meets with frequent disasters like flooding. During the 1980s, Bangladesh's government has faced continuing balance of payment difficulties as it tries to finance development and emergency relief efforts with limited exports. The government has turned to austerity measures to lower import demand, and used privatization and encouraged foreign investment to stimulate economic activity.

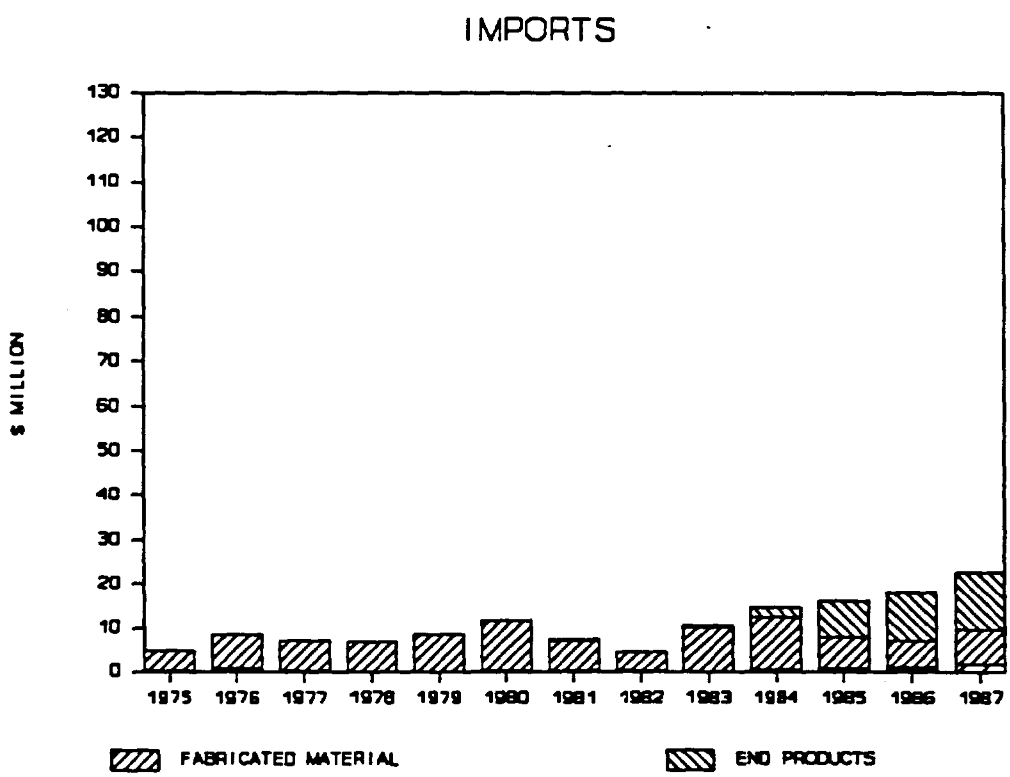
Canada has consistently run surpluses in trade with Bangladesh. Imports from Bangladesh are small, but displayed a slow increase between 1982 and 1987. This growth was led by textiles until 1984, and by apparel thereafter. Canadian exports have been significantly larger and more variable, dominated by wheat. Fabricated materials exports rose over the 1983-7 period, propelled by fertilizers and forest products. Otherwise, exports consisted of oilseeds and sulphur, and industrial machinery and railway materials. Exports of these latter products did not display an upward trend.

The Bangladesh government's industrial strategy for the short and medium term favours the agricultural, energy, and transportation sectors. Canadian expertise in the development of petroleum resources is recognized, and Bangladesh is somewhat familiar with Canadian power generation technology thanks to CIDA programmes. Canada thus has a foot in the door of the priority energy sector. As for transportation, the infrastructure is not well developed. Road, rail, bridge, and port facilities all require attention, and Canada is again among the world leaders in these fields.

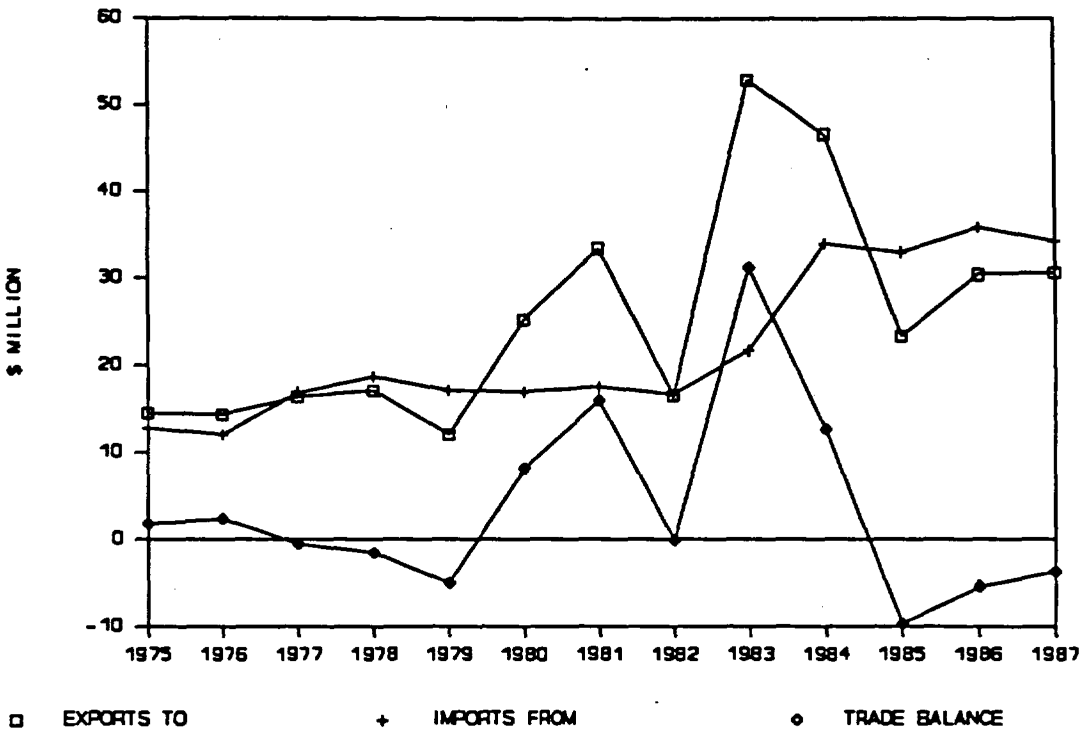
3.4.7 Sri Lanka

Canada/Sri Lanka trade is not very large, having varied between $30



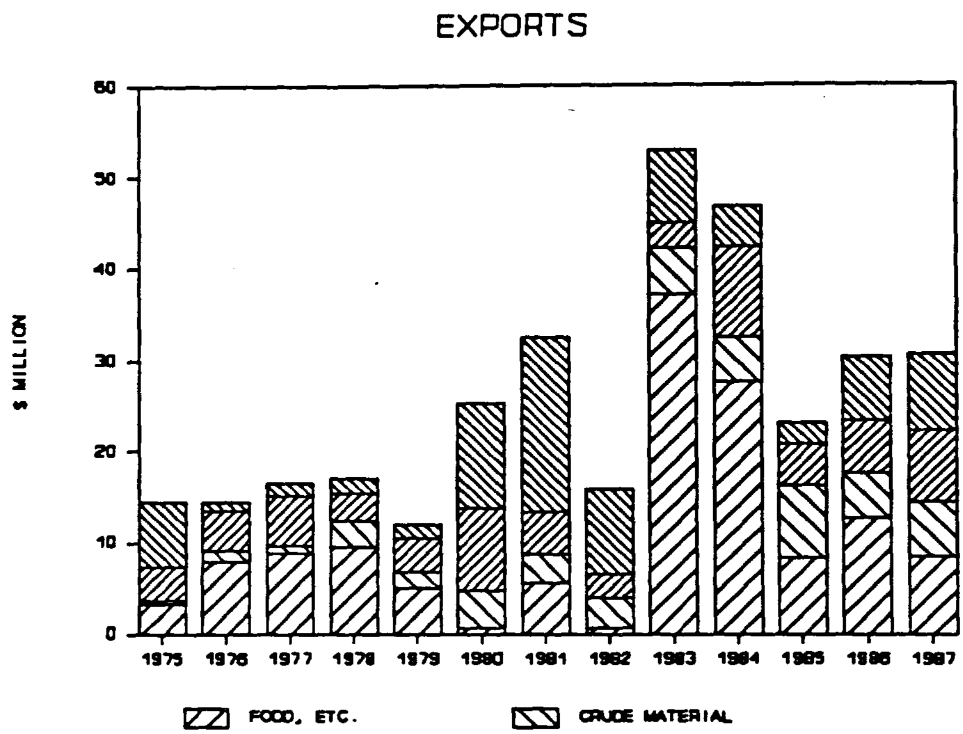


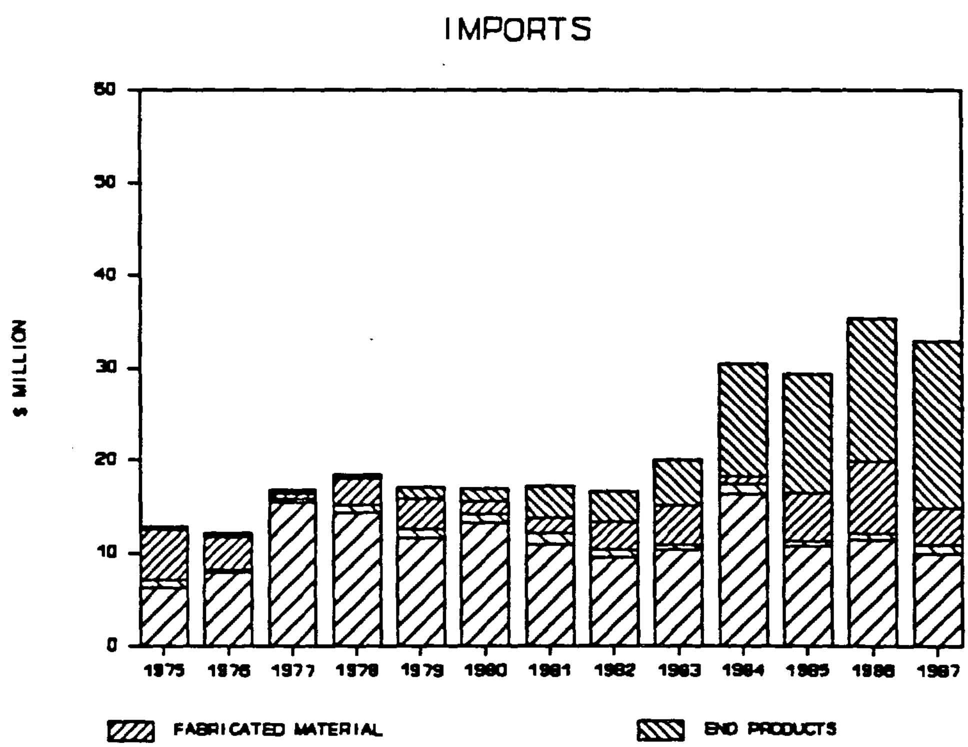
Canadian Exports To and Imports From Bangladesh, by Sector, 1975 - 1987 million and $80 million during the 1975-87 period. During the late 1970s, bilateral trade was fairly evenly balanced, while the 1980s have seen a steady rise in Canadian imports from Sri Lanka and volatile export performance.



Canadian Exports To and Imports From Sri Lanka, 1975 - 1987

The growth in imports came from end products - largely clothing. These compensated for falling imports of traditional commodities like tea, fish, and rubber. Vegetable oils and shoes are other products which Canada has tended to import from Sri Lanka. Much of the variability in exports came from wheat sales, which do not face a steady market. End products were most important as Canadian exports in the early 1980s, thanks to industrial machinery and transportation equipment, and the 1985-7 period, due to telecommunications equipment and industrial machinery. Wood pulp, newsprint paper, asbestos, and fertilizers are the other major exports to Sri Lanka.





Canadian Exports To and Imports From Sri Lanka, by Sector, 1975 - 1987

4. TRADE WITHIN ASIA PACIFIC

4.1 Intra-Asia Pacific Trade

Trade within Asia Pacific has shown some trends which are distinctive of the world economy, both during and following the commodity boom of the mid and late 1970s. Economic performance was strong during the late 1970s in most countries in the region, but it has been limited to the more industrialized economies since the turn of the decade. In the meantime, trade has shifted away from primary products towards manufactured goods.

Manufactured Goods as a Percentage of Asia Pacific's Exports:
1976, 1981, 1986 (SITC 7, 8)

	1976		1981		1986	
	7	8	7	8	7	8
Japan	53.4	9.0	56.8	13.2	61.7	14.7
NIEs	17.3	45.5	23.1	39.9	28.3	39.6
ASEAN	8.2	4.2	11.0	4.3	20.1	7.6
Aus/NZ	4.7	1.5	5.1	2.1	5.0	2.4

Note: SITC 7 = industrial and transportation machinery and equipment
SITC 8 = miscellaneous manufactured goods

Asia Pacific's exports rose rapidly between 1976 and 1981. ASEAN and the NIEs provided the most dramatic export growth, while exports from Japan also rose significantly. Intra-Asia Pacific trade led overall export growth, especially exports to the NIEs and ASEAN. Manufactured goods increased their share of exports during this period, which is surprising, considering the importance of the commodity boom to economies in ASEAN and South Asia. However, commodity sectors did not necessarily shrink in these countries; growth was just more selectively distributed.

Growth and Destinations of Asia Pacific's Exports:
1976, 1981, 1986

exports from		Japan	NIEs	ASEAN	Aus/NZ	% increase 76-81	81-86
Japan:	1976		6.9	9.0	4.1		
	1981		7.2	10.0	3.7	125.8	
	1986		11.6	7.9	4.2		23.7
NIEs:	1976	14.3	5.1	6.9	4.1		
	1981	10.6	6.4	8.0	2.6	168.8	
	1986	15.5	5.9	5.2	2.6		67.6
ASEAN:	1976	26.4	6.0	15.5	2.5		
	1981	27.0	7.4	20.1	3.2	168.8	
	1986	20.1	8.2	18.4	2.5		-5.2

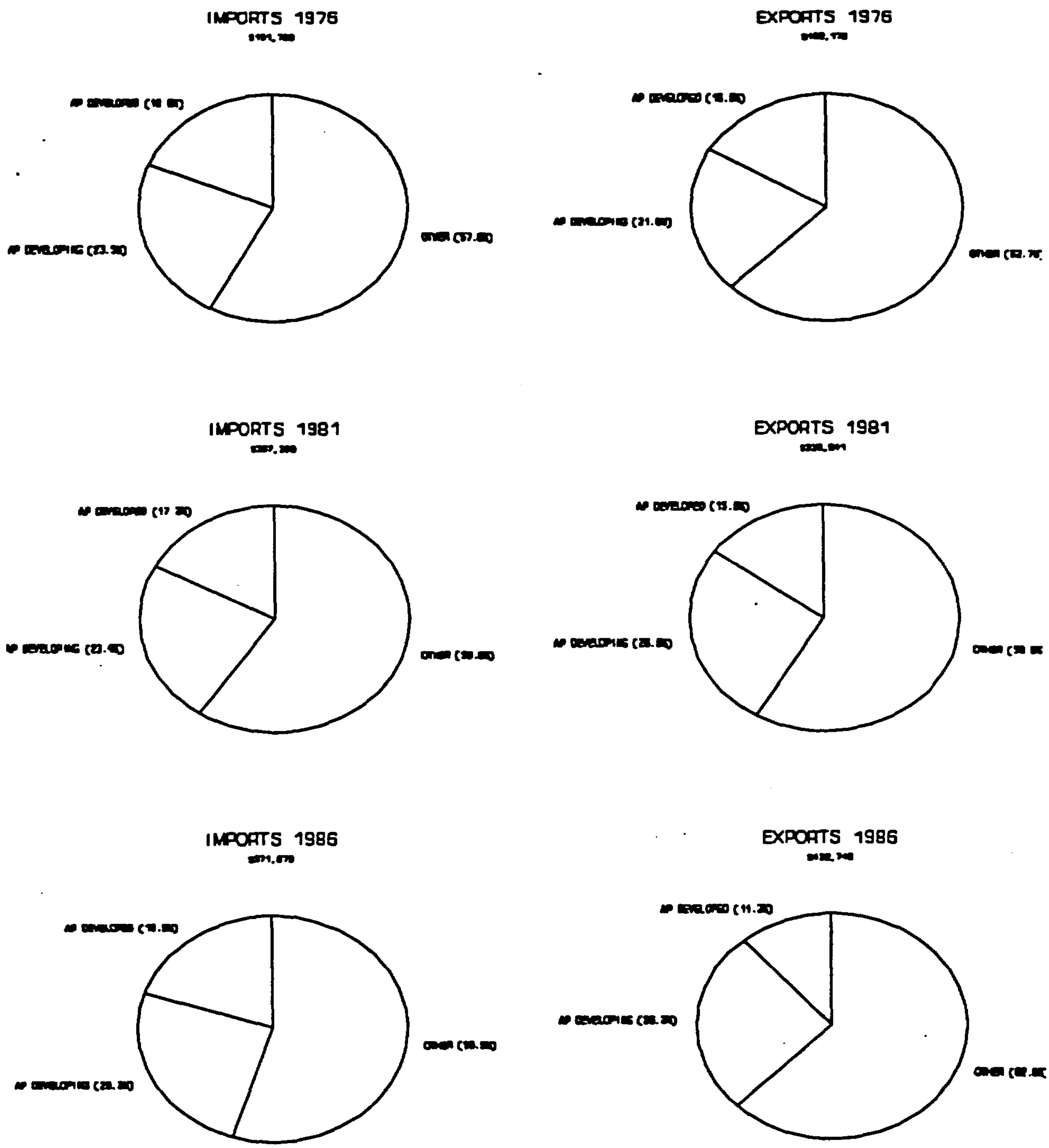
From 1981 to 1986, Asia Pacific's export performance was more varied. The NIEs and Japan did well, while total ASEAN exports fell. Exports to the NIEs increased their share of the region's exports while ASEAN's share fell. Japan also increased its share of NIE exports. Japan, the NIEs, and ASEAN all saw their machinery and equipment sectors increase their share of exports, while other manufactured goods held their own.

Several trends were apparent in the development of trade in this period. First, the importance of commodity exports for all countries fell following 1981. This decline came about both relatively, through increasing exports of manufactured goods, and absolutely, as commodity prices dropped. Second, ASEAN's exports and imports both fell. Exports were hurt directly by lower commodity prices, while the drop in imports both had a direct cause in lower prices and an indirect cause in lower import demand, due to the stagnation brought on by weak commodity markets.

Another trend worth noting has been the shift in emphasis of exports from the NIEs. Their exports have come increasingly under SITC classification 7, for industrial and transportation machinery and equipment, shifting away from commodities and other manufactured goods. Several factors are at work here. Industry in the NIEs is becoming more capital-intensive, as the labour force becomes more skilled, capital accumulates, and the economies benefit from the increasing international division of labour. At the same time, they are losing their competitive position in commodities and labour-intensive manufactured goods. These industries are shifting to their less industrialized neighbours in ASEAN and South Asia. Within SITC category 8, there has been a shift underlying the stability of the category's exports. This shift has been away from the less-skilled industries like textiles, clothing, and household furnishings into high-technology industries like computers and telecommunication equipment. The shift has occurred in Japan as well as the NIEs.

The poor export performance of ASEAN hides the growth in their exports of manufactured goods. These have risen to partially compensate for the drop in commodity exports, and the increases have been in SITC categories 7 and 8. The increase reflects the association's growing comparative advantage in labour-intensive industries like clothing, footwear, and textiles, as well as electronics. Growth in machinery and automotive exports have come about through participation in the international division of labour, with transnational corporations based in Europe, the United States, and Japan locating some of their production facilities in the region. Many of the products exported from the region go to the European Community or the United States, either as consumer goods or as parts for assembly.

Perhaps most significantly, integration of the economies in the region has grown. Exports from Japan and the NIEs stay increasingly within Asia Pacific. This integration reflects the central role of Japan in the region's economies and the growth of the NIEs as suppliers to Japan. Other countries have not increased their integration as much. To the extent that it has occurred, integration is an encouraging sign. It indicates increased trade and, hence, specialization and efficiency, as well as the shaking off of the economic fetters binding Asia Pacific to European and North American industry.



Asia Pacific: Import Sources and Export Destinations

The accompanying graphs indicate the increased share of Asia Pacific's trade held by intra-regional trade. These increases have come despite the growth in imports from western Europe and exports to the United States. The leading export sectors in the 1980s have been industrial and transportation machinery and equipment, and clothing.

The increasing industrialization and integration of the economies of the region indicate that the flying geese pattern of industrialization is continuing. ASEAN appears set to replace the NIEs as the home of labour-intensive, less-skilled industry, while the NIEs themselves will move into more capital-intensive, skilled manufacturing, coming increasingly into competition with Japan and other OECD economies - including Canada.

Industrialization and the rise in incomes which should accompany it will affect the imports of countries in Asia Pacific. Increasing standards of living will lead to greater imports of consumer goods. Development of the necessary infrastructures for transportation, communications, and energy will likewise have to rely on foreign producers. The demands for industrial inputs like metals and chemicals will increase, as will the requirement for residential construction materials like softwood lumber. Food imports may decline as industrialization reaches agricultural sectors; they may rise, however, as resources shift to industry and Gatt-induced freer agricultural trade enables countries to reverse the trend towards autarky in foodstuffs markets.

The most likely locations for these trends to become apparent are Thailand, South Korea, Singapore, Malaysia, and perhaps China and Taiwan. The necessary requirements for the trends are industrialization and socio-cultural changes favouring consumerism; the listed areas are on the road already.

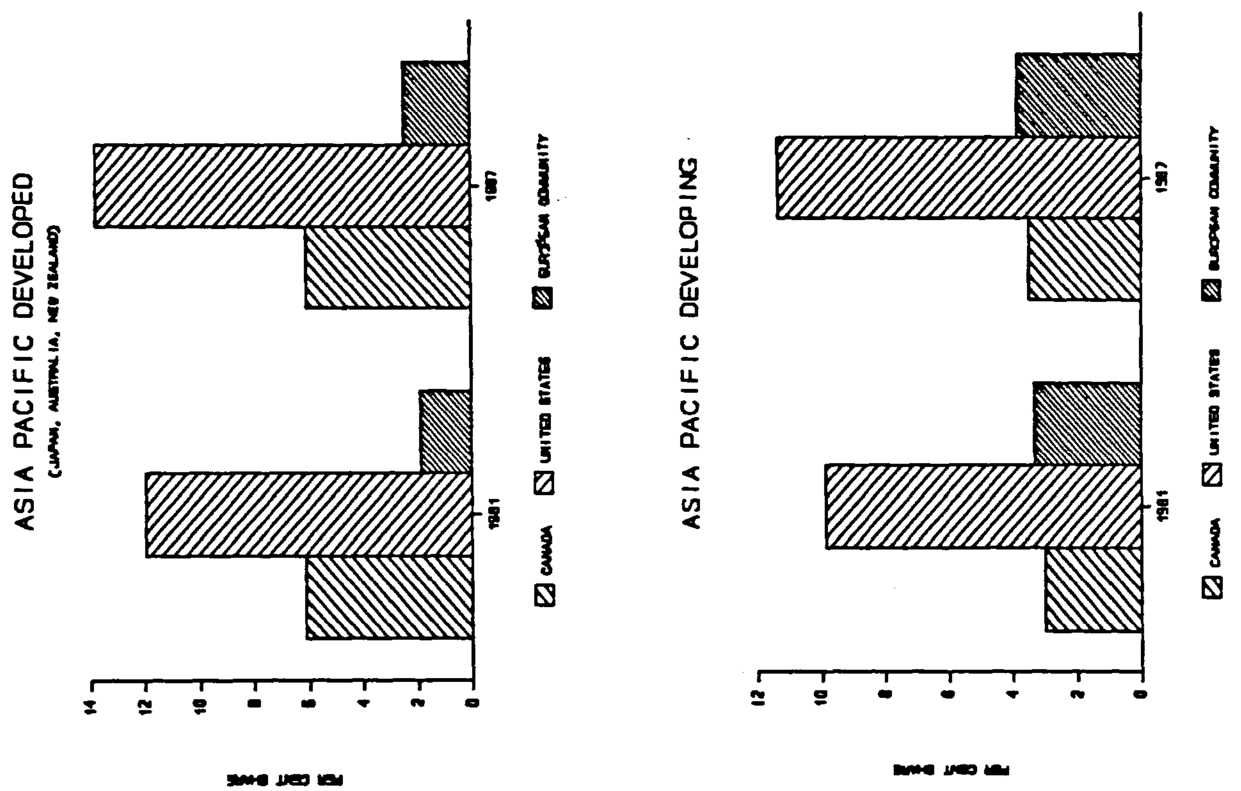
CHINA AND INDIA: VALUE OF EXPORTS AND SHARE HELD BY
ASIA PACIFIC, 1976, 1981, 1986

		1976	1981	1986
China:	World (US $000,000)	6045	21476	31366
	Asia Pacific (% share)	58.1	56.3	55.0
	Hong Kong (% share)	24.0	24.5	31.2
India:	World (US $000,000)	5020	6827	10317
	Asia Pacific (% share)	23.7	19.6	22.9

Several other issues will determine future directions in Asia Pacific trade. Development of the massive Chinese market and its effect on Hong Kong may create new sources of dynamism in the region's economy. Countries like India, Bangladesh and Pakistan face continuously the challenges of growing population and undeveloped industry. These countries, as well as Sri Lanka, have the potential to follow ASEAN in the next wave of industrialization. At the other end of the spectrum, Australia and New Zealand are industrialized countries whose economies depend extensively on commodity exports - will they become relatively deindustrialized? And finally, will Asia Pacific become integrated enough to break its dependence on inter-regional export markets?

It is within this framework that Canada must compete in Asia Pacific. Many of the import markets which will open can be supplied within Asia Pacific. Others must come from elsewhere. In those areas in which Canadians can compete - telecommunications, transportation, energy, and construction, to name a few - an attempt must be made to identify growing markets, the best ways to enter them, and the advantages which Canadian suppliers have over their competitors.

4.2 Canadian Penetration of the Asia Pacific Market



Asia Pacific's Share of Exports: Canada, United States, European Community

Canadian penetration of the Asia Pacific market over the 1981-87 period does not compare favourably with other OECD members. While Canada's share of overall OECD exports to the region is relatively large, the distribution between agricultural, unprocessed, and refined materials shows Canada to be behind in the latter category. In addition, and partly as a result, the growth of Canada's exports to Asia Pacific has lagged behind that of other

OECD members. The United States and the European Community have redirected their exports to Asia Pacific more than Canada has, which has seen most of its export growth fuelled by the U.S. during the 1980s.

OECD Exports to Asia Pacific: Shares by Country and Commodity Category, 1981 and 1986

	Total		SITC 0-3		SITC 4-6		SITC 7-9	
	1981	1986	1981	1986	1981	1986	1981	1986
OECD (US $b)	160.6	197.9	43.4	40.0	47.8	57.0	69.5	100.9
Canada	4.4	3.9	11.2	13.0	3.0	2.6	1.0	1.0
United States	33.5	28.5	50.1	43.1	25.7	19.6	28.4	27.7
Japan	28.6	29.8	5.1	5.0	35.6	35.4	38.5	36.7
Australia	7.2	5.7	20.2	20.8	3.5	3.1	1.6	1.1
New Zealand	1.5	1.4	3.2	4.0	1.6	1.5	0.4	0.3
Belgium	1.3	1.6	0.5	0.5	2.8	3.6	0.8	0.9
France	3.1	3.7	2.1	2.2	1.6	4.2	3.7	4.1
West Germany	6.5	8.8	1.1	1.2	7.7	9.7	9.0	11.2
Italy	2.1	3.0	0.6	1.3	2.5	3.3	2.6	3.5
Netherlands	1.4	1.6	1.0	1.4	1.9	2.2	1.2	1.2
United Kingdom	5.4	5.4	1.6	2.2	5.9	6.5	7.5	6.0
Sweden	1.1	1.2	0.3	0.6	1.1	1.2	1.5	1.5
Switzerland	1.5	2.1	0.1	0.3	2.0	2.9	2.1	2.4

Between 1981 and 1986, three OECD countries lost a lot of ground in exporting to Asia Pacific. These countries were Canada, the United States, and Australia, the three countries whose exports to the region are the most concentrated in commodities. The countries who increased their share of OECD exports to Asia Pacific include Japan, West Germany, France, and Italy. All these countries' exports lean towards manufactured products, from whence came the most growth in exports to the region.

Canada's weakness in manufactured product exports is evident. Of the OECD nations listed, only Belgium and New Zealand held a smaller share of manufactured exports to Asia Pacific. Canada's strength in commodity exports is not reassuring when the market is shrinking (from 27% of Asia Pacific's imports in 1981 to 20% in 1986). Another feature, hidden in the table, is the importance of the Japanese market to Canadian exports. Canada held 11.7% of the market for OECD exports to Japan in 1986, compared to 3.9% for exports to the entire region. These exports are concentrated in coal, wood pulp and softwood lumber, and rapeseed oil. The site of the best performance of Canadian manufactured products in 1986 was China, where the Canadian share for SITC 7, 8, and 9 was 1.8%.

The major players in the Asia Pacific market for manufactured goods are Japan, the United States, and West Germany. Other competition comes from the United Kingdom, the NIEs, and China. A variety of countries have also established market share in sectors like foodstuffs (Thailand and Australia), petrochemicals (Singapore), mining (Australia), and building materials

(Indonesia).

Looking at specific segments of the manufacturing sector, Canadian trade officials have identified communications and information equipment and services as particularly strong and promising. Canadian products dominate the remote sensing field, which is unfortunately fairly small (a total market of under $300 million). In larger segments like telecommunications equipment, Canada generally holds a share of two to five per cent. The market size runs from several hundred million to over two billion dollars in Hong Kong and Japan. In computers, software, and services, Canada holds a smaller share and the markets are not quite as large. As with telecommunications, Japan and the United States provide the most competition.

Telecommunications Markets in Asia Pacific, 1989 (est.)

Country	Market Size (US$b)	Canadian Share	Major Competitors
Hong Kong	2000	1.5%	Japan, Taiwan
Philippines	200	25%	West Germany
China	1300	2%	Japan, U.S.
Singapore	1200	1.6%	Japan, Malaysia
Japan	2400	2.4%	U.S., U.K.

Computers Markets in Asia Pacific, 1989 (est.)

Country	Market Size (US$b)	Canadian Share	Major Competitors
Hong Kong	1680	1.6%	U.S., Japan
Indonesia	300	50%	U.S., Japan
China	300	1.7%	U.S., Japan
Singapore	880	0.8%	U.S., U.K.
South Korea	1876	2.7%	U.S., Japan
Japan	2900	1.4%	U.S.

Other large sectors in which Canadian exports have been identified as performing well include power generating equipment and services, defence contracting, and transportation systems, equipment, and services. The United States and Japan again hold the major market shares, with the United Kingdom, West Germany, France and Italy also playing a big part in the market.

Selected Manufacturing Markets in Asia Pacific, 1989 (est.)

	Market Size (US$b)	Canadian Share	Major Competitors
power generation			
Thailand	1800	0.8%	U.S., Japan
Philippines	200	10%	Japan, U.S., FRG
Pakistan	500	5%	U.S.
China	1100	13.6%	Japan, U.S., FRG, USSR
defence			
Thailand	1500	2%	U.S., Italy, FRG
Singapore	1130	4.2%	U.S., Sweden
South Korea	1020	7.4%	U.S.
Malaysia	600	7.5%	U.S., U.K., FRG
transportation			
Thailand	100	15%	U.S., Japan,France
Indonesia	1300	5%	U.S., U.K., Japan
China	4850	2%	Japan, U.S.
Japan	6000	1.5%	U.S., E.C.
Pakistan	230	12%	U.S.

The countries listed demonstrate several features of the import markets of Asia Pacific. The largest markets generally appear in the largest countries: Japan, China, Indonesia. Other industrialized countries hold the major shares of these markets. The United States and Japan dominate, but West Germany, Great Britain, and other European Community members have significant market presence. Canadian products fare better proportionately in the smaller and less industrialized markets - thus Canadian penetration is higher in ASEAN and South Asia than in the NIEs and Japan. Also, while Canada's share of the overall end products market may not be large, Canadian products remain competitive in certain segments like telecommunications and transportation in which this country has developed expertise.

There are, of course, many sectors of international trade. Some of these are more important to Canadian trade than others - communications, wheat and coal, wood pulp and softwood lumber, and metals like nickel and copper. The manufactured goods segments, though, are those with which Canadians should be most concerned. End products have been the fastest growing sector in world trade and growth, and are likely to continue leading economic performance into the twenty-first century. While Canada has never been able to shake itself from its dependency on commodity exports, its strength in telecommunications is an advantage. Competitors in the European Community should be able to take advantage of economies of scale which will develop after 1992, while the NIEs will increase their market share as the technological level of their industry rises. Canada's mission in this context is to stimulate its strengths and not allow the communications industries to wither, and expand through linkages into related fields like consulting.

5. CONCLUSIONS

The central focus of this paper has been to address the future of Canada's trading relationship with Asia Pacific. Specifically, it has sought to identify trends in the economies of countries in Asia Pacific and in Canada's trade with them, and identify areas where Canadian trading opportunities may occur and what Canada can do to capitalize on them.

The broadest question to be addressed concerns worldwide trade. Is it growing or contracting; if so, in what way, and how does this affect Canada? One perspective is offered through viewing the world economic system as riding Kondratieff waves. These waves have occurred roughly every fifty years following the Industrial Revolution. The first half of the wave is an economic upswing, such as happened in the first quarter of the nineteenth century or, most recently, from the end of the Second World War to around 1973. This upswing is followed by a prolonged period of economic depression or sluggish growth. The world is in the middle of such a period right now, and it is due to end around the year 2000.

Kondratieff waves are basically a statistical phenomenon, and would appear to say that economic actions are useless; the world must ride the waves as they rise and fall. Such an attitude is misguided, for several reasons. First, the past performance of the world's economy does not dictate future growth or decline. Second, within each period of growth or stagnation, there is considerable variation between countries; some countries do quite well while the rest of the world is slumping and vice versa. Third, and most important, Kondratieff waves must come from somewhere. Rather than sitting back and waiting for things to improve, it is far better to be searching for the innovations that will spur the next period of economic growth. As this next period of growth should begin in ten years or so, it is within the horizon of economic planning. This is especially true for Asia Pacific, which, with its population, resource endowments, and largely untapped industrial potential, will likely serve as the engine for economic expansion in the twenty-first century.

The next question concerns the broad economic conditions which will prevail for the remainder of this century. It seems unlikely that commodity markets will recover significantly. Continued gluts on world markets with accompanying sluggish prices will impede development efforts of staple-dependent economies while favouring economies with large industrial sectors. The standard of living in less developed countries will rise in accordance with the size and rate of expansion of their industrial sectors. The most dynamic areas of the world economy are likely to be the European Community, with its adjustment to a larger free market area in 1992, and the NIEs, whose highly industrialized economies should begin to mature. Another important trend should be the concentration of industrial expansion in the more high-technology sectors of computers, electronics, and telecommunications.

The last trend offers opportunities for less developed countries. On the one hand, they can penetrate the growing market in segments of electronics which do not require a highly-skilled labour force. On the other, LDCs will gain comparative advantage in labour-intensive and raw material-intensive industries. Their large, unskilled labour forces, their proximity to sources of raw materials, and the continuing weakness of commodity prices will enable them to enter fields such as textiles, clothing, and wood and metal fabricating with relatively low variable costs. Many countries have done or are already doing exactly this; for example, the growth of textile industries in the NIEs and the electronics industry in the Philippines.

As for Canadian trade with Asia Pacific, it is clear that historically it has not been impressive. While Canadian penetration of the market is overall fairly high, Canadian products are concentrated in commodities, while imports come in automobiles and light industrial and technological products. Given the broad trends delineated above, Canadian trade with Asia Pacific has been and should continue to shift in Asia Pacific's favour. The emphasis of trade between the two areas is not unique to their bilateral trade, however. Canada's reliance on commodity exports and the emphasis of Asia Pacific exports on end products are the distinctive features of their trade. The best policy for Canada to pursue is to take advantage of economic opportunities in the growing technological sectors of industry, thereby stimulating a restructuring of the Canadian economy. In the sphere of Asia Pacific trade, Canadian actions should complement both the natural advantages of partner economies and the development efforts they are making.

Such an approach requires an appraisal of the economic conditions in the partner country. These clearly differ, as Asia Pacific presents economies in varying degrees of industrial development. Those countries with the highest rates of personal consumption, specifically Australia, New Zealand, and Hong Kong, provide the best opportunities in consumer products. Other industrialized or industrializing economies, like Japan, South Korea, and Taiwan, need more development of the infrastructure of consumerism - retail, commercial, and communication development. The less developed countries of ASEAN and South Asia, meanwhile, require more basic infrastructure development: transportation, communications, energy generation and transmission.

Canadian expertise can be a great help to development efforts in these areas, as Canadian industry has a certain intensive development in technological areas, even if it lacks extensive development. Specifically, Canadian telecommunications, transportation, and energy transmission have overcome significant geographical considerations to become world leaders in their fields. Emphasizing exports in these areas should, through linkages, contacts, and familiarity with products, stimulate Canadian exports in related fields. Countries in the greatest need of infrastructure development include the members of ASEAN, South Asia, and China. Canadian involvement could come through exports of equipment and machinery, and of construction and consulting services.

Another area of potential Canadian involvement is in development of commodity-based industries. One of the weaknesses of the reliance of many economies on commodity exports is that relatively little of the processing of these commodities takes place in the producing countries. The developed countries take care of most of the refinement and, hence, differentiation and value-added of commodities. Increasing the vertical structure of industry in the LDCs, via more refinement of raw materials in order to export a more finished product, would raise the level and lower the variability of economic performance in those countries. Canadian industry could provide the most assistance in wood and metal-based industries. Refinement and fabrication, rather than extraction facilities, should receive the most emphasis. Canadian involvement could come through joint ventures and other technology-sharing methods, giving Canada increased ties to and prestige in the partner economy, as well as initial exports of capital goods, without placing Canada in an exploitative position.

A third area of potentially significant trade development over the next decade is the People's Republic of China. The country's huge population and growing openness to foreign economic involvement provide many opportunities for Canadian trade. These come in all areas, including transportation and communications, energy generation and transmission, and the consumer market. With China, Canada's historically good relations boost the advantages offered by Canadian membership in the Pacific Rim community.

All the considerations enumerated with regards to end products exports should not belittle Canadian exports of primary commodities. Canadian exports of wheat, fish and other foodstuffs, and of wood, metals, and their products are a large part of the economy. These exports can be stimulated in several ways. Most basically, a general rise in the incomes of countries in Asia Pacific will entail increased imports. Improved economic conditions will hopefully enable these countries to diversify away from emphasizing agricultural and raw material production, by increasing industrial demands for labour and lowering export reliance on commodities. With an accompanying liberalization of world commodity trade, especially in food products, Canada's comparative advantage in wheat, fish, and meat production will come to the fore. Increased consumption in world economies will stimulate demand for Canadian wood pulp and paper and metals and ores, as Canada remains a major supplier of these to the world market, and they serve as the inputs to many consumer products.

Nevertheless, the main focus of Canadian trade promotion efforts should be directed at the sectors in which assistance will provide the largest payoff. These areas clearly lie in the growing fields of high-technology industry, and Asia Pacific is the likely source for economic expansion as the world enters the next century. It already presents a highly integrated market whose members are showing signs of breaking away from the economic tutelage of Japan, just as Japan has left behind its dependence on the United States. As the NIEs develop consumerist traits, as their vacated niche is filled by members of ASEAN, who will themselves become NIEs, and as China, India, and other LDCs in the region develop the infrastructure necessary for industrial growth, volumes of trade within and with the region will increase exponentially. Canadian industry and exporters should be prepared to identify and take advantage of the growing opportunities for trade and economic involvement with Asia Pacific, especially in end products. In this way, Canada can help spur the upswing in economic growth which will lead the world into the twenty-first century.

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