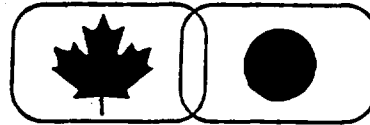


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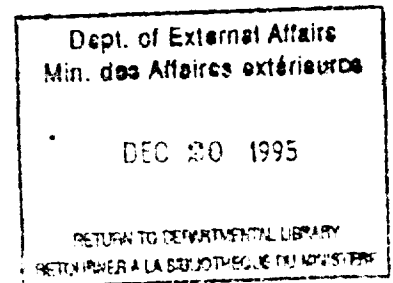
MAY 15 - 18, 1994

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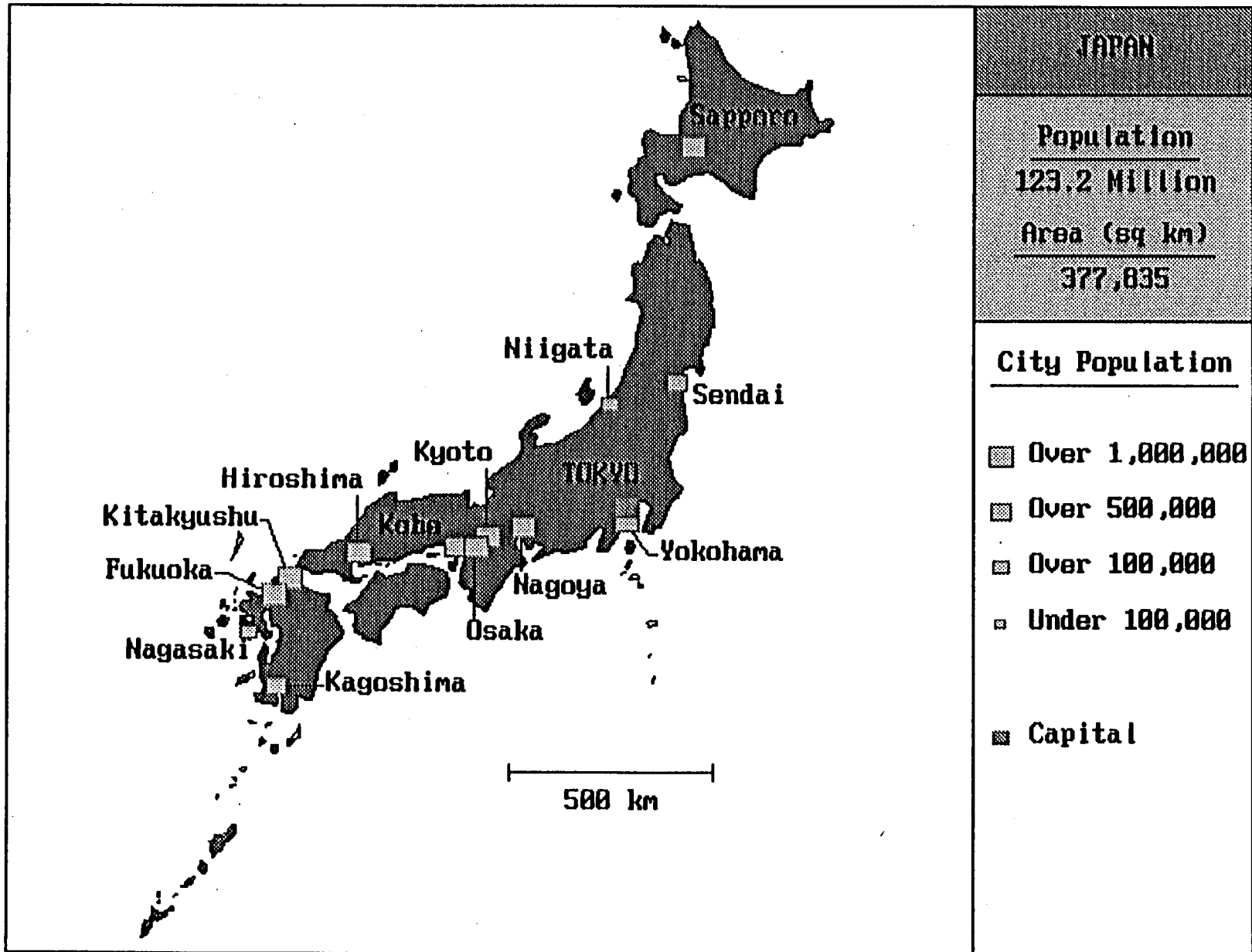
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JAPAN FACT SHEET

Head of State: HM Emperor Akihito

Prime Minister: Tsutomu Hata

Canadian Ambassador:
Donald W. Campbell

GNP: C\$5 trillion

Currency: Cdn \$1 = 75 Yen

Unemployment Rate: 3%

New Housing Starts: 1.5 million/year

Foreign Minister: Koji Kakizawa

Minister of International
Trade and Industry: Eijiro Hata

System of Government: Constitutional Monarchy

Population: 125 million

Economic Growth: 0.1% (GNP)[†]

Inflation Rate: 1.0% (CPI)[†]

Major Trading Partners (1992)

Exports (Total: US \$340 billion)

1. USA	\$99.9
2. Taiwan	\$21.1
3. Hong Kong	\$20.8
4. Germany	\$20.3
5. South Korea	\$17.8

Imports (Total: US \$233 billion)

1. USA	\$52.2
2. China	\$16.9
3. Australia	\$12.4
4. Indonesia	\$12.2
5. South Korea	\$11.6

Trade with Canada

Customs Basis

(C\$ millions)	1988	1989	1990	1991	1992	1993
Exports to Japan	8,708	8,749	8,171	7,111	7,413	8,393
Imports from Japan	9,267	9,549	9,517	10,249	10,758	10,690
Balance	-559	-800	-1,345	-3,137	-3,345	-2,297

Major Exports to Japan (C\$ millions)*

Lumber, Plywood	2,295
Coal	1,205
Pulp & Paper	841
Fish, Seafood	624
Oilseeds	503

Major Imports from Japan (C\$ millions)

Motor vehicles & Parts	3,956
Office Machines, Computers	1,473
Telecommunications & Electronics	1,444
Photographic Equipment	344
Chemicals	302

Main Sectors of Opportunity for Canada

1. Processed Foods and Seafood
2. Building Products
3. Aerospace
4. Information Technologies
5. Auto Parts
6. Tourism

[†] Current Estimate

* 1993 figures

THE NEW JAPAN

ECONOMIC AND POLITICAL REFORM

Political Update:

The process of political realignment continues in Japan with the Socialists quitting the ruling coalition, leaving the newly elected (April 25) Prime Minister, Tsutomu Hata, to lead a six-party, minority, coalition government.

Hata's coalition controls just 187 of the 511 Lower House seats. The opposition Liberal Democratic Party (LDP), with 206 seats, the Socialists with 74, and former coalition partner Takemura's *Sakigake* with 15 seats, together hold a clear majority and can defeat the government at any time - unless Hata can attract additional LDP defectors into his ranks. There is speculation that Hata's government could fall as early as mid-June, once the Diet passes the long overdue 1994/95 fiscal year budget.

This ongoing political turmoil further delays the Japanese government's domestic agenda of regulatory reform, tax reform and economic stimulus, and puts Japan in the position of having a leader without a strong mandate in the bilateral trade talks with the USA and during the lead-up to the G-7 Summit in Naples in July.

Background on Political Realignment and the Reform Movement:

This past year has been a watershed in Japanese politics with the end of 38 years of LDP rule and the election of a seven-party coalition government under Morihiro Hosokawa which has now been replaced by Tsutomu Hata's minority, coalition government.

There were four main reasons for the historic fall of the LDP in July 1993: a succession of political scandals eroded the credibility of existing political arrangement; the bursting of the "bubble" economy called into question the LDP's economic competence; the dissolution of the Soviet Union meant that the LDP became less indispensable as a bulwark against the communist threat; and, a younger generation of leaders within the LDP had decided that, in view of the first three factors, it was time to alter Japan's political outlook.

Economic Troubles

During the bubble economy, Japan's stock market boomed. Most investors had their money in the stock market only indirectly, through insurance and pension funds. Operating on razor-thin profit margins which allowed them to penetrate foreign markets, companies tended to pay very low dividends. Success in the stock market relied on continued inflation of asset values. Companies depended on the ability of their partners in the *keiretsu* conglomerates to make capital available

and keep it circulating. When the money supply dwindled and this could no longer be sustained, the stock market began its downward spiral and land values followed suit. The banks started to gather up the collateral on debts that could no longer be serviced. While large corporations and banks at least continued to hold real assets (land), small investors took a bath.

The Reformers

Political scandals, economic downturn, and the end of the cold war coincided with a power struggle which was occurring within the LDP. Seen in its simplest light, the split came from a personal rivalry between the former LDP Secretary General, Ichiro Ozawa (now a power broker in the coalition government), and the current Secretary General Seiroku Kajiyama. But the split also occurred in part along generational lines, as a group of younger LDP members had grown restive over the "natural order" of succession, based on factional leadership which was, in turn, financed by money politics. As the Prime Minister of the day, Kiichi Miyazawa, himself a faction leader, had been discredited over his failure to enact political reform, and as the other faction leaders had their own problems - for Michio Watanabe, illness; for Hiroshi Mitsuzuka, scandal - the effectiveness of the factional structure came into question.

On June 18, 1993, LDP members Ozawa and former Finance Minister Tsutomu Hata (now Prime Minister) voted against their own government on a non-confidence motion after the LDP abandoned promised political reform legislation. They then quickly led thirty-four other members from the LDP to form *Shinseito*, the Renewal Party (currently, *Shinseito* and the Buddhist Party, *Komeito*, are the key alliance within the ruling coalition).

In the July 18 Lower House election, the LDP's seat count fell from 275 to 223. The Renewal Party (*Shinseito*), the Japan New Party, and *Sakigake* (Harbingers) gaining 55, 35 and 13 seats respectively. The Social Democratic Party was reduced from 133 seats to 75, signalling the end of the "LDP vs Socialists" paradigm which had defined Japanese politics since 1955..

The opposition parties united to form a grand coalition, taking power on August 6, 1993 after electing Morihiro Hosokawa (Japan New Party) as its leader and defeating Yohei Kono, the LDP candidate for Prime Minister. The seemingly indestructible LDP suddenly resembled monolithic political structures the world over: once a few cracks appeared in the foundation, the entire superstructure looked ready to come crashing down.

Ironically, the LDP chose, in the person of Kono, a leader who had abandoned the party in 1976 to form the reformist New Liberal Club. (His movement eventually collapsed and he rejoined the LDP in 1986.) That Kono had defeated faction leader Michio Watanabe and come full circle to lead the party in 1993, was a clear

indication that political reform as an issue was about to supersede traditional factional politics.

WHERE WILL THE CHANGES LEAD?

Reforming the Political System

The reformers' *raison d'être*, is to enact legislation aimed at changing the way the Lower House is elected and the way politicians are funded, thereby consolidating the political realignment that is already underway. With this purpose, the Hosokawa government passed a package of four political reform bills on January 29.

The package includes the Public Election Law Revision Bill, the Political Fund Control Revision Bill, the Political Party State funding Bill, and the Bill Establishing a Deliberation Council to Draw Electoral District Boundaries for Members of the House of Representatives.

Reforming Economic Management

The Japanese government's primary economic objective is deregulation. In this task, the reformers are clashing head-to-head with the bureaucrats of MITI (Minister of International Trade and Industry) and Finance who pride themselves on the economic control that they exert.

Upon his election, Prime Minister Hata announced that the main tasks facing the new government are to deregulate the economy and to resolve the ongoing trade dispute with the USA. Likewise, former MITI minister Hiroshi Kumagai (now Chief Cabinet Secretary), accepted U.S. and E.U. criticism of Japan's closed markets. He has also said that the markets must be opened up as there can be no other way for consumers to enjoy the fruits of the country's economic success.

Faced with the rapid appreciation of the yen, the Advisory Group for Structural Economic Reform, headed by Keidanren chairman Hiraiwa, established in December 1993 5 policy principles for economic reform:

- deregulation to improve market transparency and efficiency
- the formation of a domestic-demand led economy through greater investments in the social infrastructure (eg housing)
- a "comprehensive welfare vision" to cope with an aging society
- promoting a "free and large" Japanese market for imports
- encouraging fiscal policy reform and financial market liberalization

Based on these principles, the Japanese cabinet approved an outline of external economic reform measures on March 29. These measures were primarily aimed at restarting the failed USA-Japan Framework trade talks. The package includes both structural and sectoral measures. However, due to bureaucratic resistance in line ministries, and uncertainty over the direction of US policy (particularly on the issue of quantitative indicators), specific details have been put off until June. The best case scenario would see this package providing the basis for a Japan-USA agreement to restart the working group discussions under the Framework umbrella with a view to reaching an agreement on new measures prior to Prime Minister Hata's meeting with President Clinton on the margins of the G-7 Summit in July.

The package reaffirms the July 1993 Framework commitment to achieving a medium-term reduction in Japan's current account surplus and a significant increase in imports of competitive foreign products and services. The package includes:

- more tax cuts and tax reforms to be decided by the year-end;
- an addition to the 10-year, ¥430 trillion - \$CDN 3.1 trillion, public works plan;
- a fast-track package of deregulation measures (to be announced in June);
- creation of an independent body to monitor deregulation (a key recommendation of the Hiraiwa committee);
- an expanded investigative staff of the Fair Trade Commission; new guidelines to deter bid-rigging in public works projects;
- expanded import and investment promotion measures;
- increased transparency of government procurement procedures;
- measures to increase foreign access in the telecommunication, medical equipment, insurance, and auto sectors.

Reforming Japan 's diplomacy

The reformers are able to point to a host of LDP failures, one of which was in foreign affairs. If "administrative guidance" from MITI and the Ministry of Finance is reduced and markets begin to open up, the effect on Japan's foreign relations would be enormous. The trade surplus continues to cloud Japan's relations with the United States (most recently demonstrated in the failure of the February 11 Clinton-Hosokawa summit on the Framework trade talks).

In 1992, Ichiro Ozawa (now a power broker in the coalition government) chaired a commission tasked with reviewing Japan's foreign policy. With regard to security issues, he concluded that Japan would have to assume a fuller role in the UN and make a greater contribution to peacekeeping, that Article 9 of the Constitution, the so-called peace clause, could be interpreted more liberally to allow for this. Prime Minister Hata and former Prime Minister Hosokawa made similar statements about Japan's foreign policy in the 1993 election campaign.

Pursuit of a more activist foreign policy by the Hosokawa administration was constrained by the alliance with the Socialists, whose policies remain far to the left. Although the Socialists have left the coalition, Prime Minister Hata is not in a position to pursue the peacekeeping issue while leading a minority government.

HOW WILL CHANGES IN JAPAN AFFECT CANADA?

Linked as we are to the USA, inevitably Canada will be affected by whatever happens in the Japan-USA relationship. The stakes are very high because of the huge trade imbalance and the economic friction between the two countries. We will need to monitor closely the fall-out from deterioration in the Japan-US relationship to protect our interests.

As the Japanese government follows through on its actions to open up its domestic markets, there could be new opportunities for Canadian exporters. The process is difficult for Prime Minister Hata as it was for Hosokawa, particularly as elements of the bureaucracy and/or the business world resist. The key for Canada is to monitor the effects of deregulation on particular sectors and determine how Canadians might best draw benefits from these changes. In the final analysis, the Canadian government should be supportive of political change in Japan and view it as a potential opportunity for Canada.

JAPAN'S FOREIGN POLICY INTERESTS

Against the background of profound domestic political transition and structural economic change, Japan's key international economic concerns continue to centre on addressing the causes and consequences of its chronic current account surpluses. Specifically, Japan is concerned to stabilize exchange rates; to maintain access to its export markets in North America, Europe, and Asia; to avoid being politically or economically isolated; and to increase its presence and influence in international political and economic institutions to a level commensurate with its global economic power.

At this particular juncture, Japanese policy makers are preoccupied with Japan-USA economic relations, in the context of the bilateral "Framework for a new Economic Partnership" agreed to in July, 1993. The failure of Japan and the USA to reach agreement on new sectoral trade agreements (which foundered over the issue of the definition and application of so-called "objective indicators"), and U.S. dissatisfaction with Japan's efforts to stimulate domestic demand, have brought upward pressure on the yen threatening to choke off Japan's fragile prospects for economic recovery.

In addressing the strains in their trade relations with the USA, Japan has consistently asserted that the cornerstone of its trade policy remains the GATT. Japan, like Canada, made significant concessions on agricultural imports in the interests of securing the success of the Uruguay Round. Japan will continue to play an important role in the multilateral trading system, both in consolidating the WTO, and in developing the post-Uruguay Round trade policy agenda. Japan has been particularly active, including at the OECD, in discussions on new issues, such as trade and the environment, trade and competition policy, and the impact of globalization.

These issues will strongly influence Japan's approaches to this year's economic Summit in Naples (Prime Minister Hata and President Clinton are also scheduled to hold a second bilateral Summit in Naples under the Framework Agreement). Japan brings a somewhat different perspective from its Summit partners to issues as divergent as Summit reform, assistance to Russia, and the upcoming Employment Summit in Detroit. Nevertheless, Japan has become increasingly assertive in pursuing its interests through the Summit process.

Japan's economic influence is particularly pronounced in Asia. As the significance of the dynamic Asian economies in the world economy continues to rapidly expand, so too will the importance of Japan in Asia as an investor, as a source of technology, and as an important market for Asian goods. In this regard, APEC has become an increasingly important forum for Japan's international economic interests. Japan will host the third APEC Heads of Government meeting in 1995, and is playing an important role in developing APEC as an institution.

Asia is also the focus of Japan's massive ODA program. Japan has made a commitment to disburse US \$75 billion in ODA through the 5-year period 1993-1998, making it the largest aid donor in the world. Japan's recently-announced FY94 budget calls for a 4% increase in development assistance expenditures over 1993. Canada and Japan have a longstanding program of consultation on ODA matters, and have recently agreed to begin joint third-country projects in Asia.

JAPAN'S IMPORT PROMOTION PROGRAMS

The Japanese Government's approach to Canada with regard to import promotion is consistent with broader trade policy objectives outlined in MITI's Export Expansion Program of 1990. This \$US 100 million program called for the establishment of an information network for the promotion of imports, an exchange program among importers and exporters, the dispatch of sectoral experts overseas to seek products with import potential, and pilot projects to establish comprehensive import promotion centres. The country focus of this program is on the EC, Canada, the US, and Oceania. The importance which the Hosokawa Government has placed on opening up the Japanese import market will ensure that this approach continues to be accorded a top priority.

JETRO (the Japan External Trade Organization) is an organization charged with promoting Japanese trade abroad. Originally it promoted exports of Japanese products, but for the last 20 years it has increasingly turned its efforts to promoting imports. While it likes to characterize itself as a private sector organization (and indeed receives some private sector support), the bulk of its funding comes from the Japanese government through MITI. MITI uses JETRO to deliver most of its import promotion programs.

Import promotion programs include:

- publication of a comprehensive series of market guides
- dispatch of experts to identify products in Canada that have import potential in Japan
- organization of import fairs in Japan
- provision of a "Business Support Centre" in Tokyo to provide free office space and advice to foreign companies (for a limited period).
- co-sponsorship of various seminars and workshops dealing with various aspects of doing business in Japan
- dispatch of some 25 import specialists around the world on a long-term basis to work with local companies in developing appropriate strategies for Japan

We are involved with JETRO and the CEA as a co-sponsor of one of these import specialists. We make use of the current incumbent, Mr. Nakayama, to counsel Canadian companies on approaches to the Japanese market. We are now discussing a second import specialist to focus on the building products sector and to be based in an industry association (the BC Specialty Wood Products Group).

We are also working with JETRO to deliver the "Japan Manufacturing Engineer Exchange", whereby up to 10 Canadian engineers will work in Japanese companies for a year to learn of advanced manufacturing technologies. The Japan Science and Technology Fund is being used to provide the Canadian participants with language and cultural awareness training and to help defray some of the costs of their stay in Japan.

The Canada Japan Industrial Cooperation Forum (ICF) has JETRO, the CEA, the CMA, the CCC and the Japanese Chamber of Commerce in Toronto as full members, and includes as "ex-officio" members several federal and provincial departments, including FAIT. Its objective is to foster linkages between Canadian and Japanese companies.

The ICF was first raised in May 1992 by then MITI Minister Watanabe with Minister Wilson. While the idea of a private sector group to foster corporate linkages was appealing (and indeed was welcomed as a private sector initiative by Minister Wilson), the Canadian partners (CEA, CMA and CCC) were initially sceptical of the concept, particularly as it had the potential of eating up scarce resources. There was also a feeling that the idea, as originally developed by JETRO, was heavy on process but was not well formulated with respect to how the ICF would add value. The concept has since been refined and now enjoys the support and participation of the Canadian private sector as represented by the three associations. The driving force behind this initiative, however, remains JETRO.

Indeed, ICF "activities" to date are largely JETRO activities repackaged under the ICF banner.

Over the past year JETRO has helped us with an Automotive Mission to Japan (paying the costs of 3 of 18 mission members and organizing a reception in Tokyo) and arranged for one Canadian auto parts company to participate in a "design in" program with a Japanese auto assembler. We are currently exploring other ways in which JETRO can complement our efforts.

THE REGIONAL FOCUS IN JAPAN **INCREASING BUSINESS OPPORTUNITIES FOR CANADIANS**

Since the Plaza Accord of 1985, the Japanese market has undergone significant changes. Due to factors such as yen appreciation, a policy of domestic demand stimulation, and a more open import regime, the Japanese market is evolving into an amalgamation of regional markets, similar to the United States.

The Japanese government is actively promoting a "U-Turn" program directed at reversing the flow of industrial development to the Tokyo area and enticing the population segment of 30 and 40 year-olds to return to the outlying areas of Japan. Trade patterns also are shifting. Increasingly, there are direct trade ties with Japan's regional markets. Regionally-based companies are pursuing commercial relationships more aggressively with their foreign counterparts. New transportation projects, including major international airports, are being constructed in various areas to foster these trends.

Wealth in Japan is relatively evenly distributed among the majority of Japanese who consider themselves middle class. Years after the post-war period of deprivation, the Japanese are finally beginning to realize affluence concomitant with their per capita buying power. Predictions of a US\$40,000 per capita GNP by the year 2000 support the concept of Japan as a "nation of 21st Century aristocrats".

This wealth does not reside solely in Tokyo. Japan's economic activity is still concentrated in the Tokyo (Kanto) and Osaka (Kansai) regions which produce over half of the GDP and contain about 60% of the population (a separate brief on the Kansai and Canadian business opportunities follows). The other regional markets together, however, produce annually more than US\$1,000 billion, representing a GDP greater than that of the United Kingdom or France or Italy.

Apart from the size of the markets themselves, there are several advantages to pursuing business opportunities in Japan's outlying regions. There is more possibility for contact with the small- and medium-sized businesses which often seem to be buried among the large corporations in Tokyo. Regionally-based companies are increasingly international; trade flows through regional centres are now beginning to reflect this, as more foreign firms bypass Tokyo and Osaka to establish commercial linkages in other centres. Import penetration of these regional markets is not as high as in Tokyo or Osaka, so there should be potential for proven products and services, as well as new ones. In addition, operating in regional markets is certainly less expensive than in Tokyo, where the cost of doing business is still the highest in the world.

To increase business opportunities for Canadians in these important regional markets, the Government of Canada appointed senior Japanese business leaders to serve as Honorary Commercial Representatives in Sapporo, Sendai and Hiroshima in May 1991. Shortly thereafter, Canadian Government Trade Offices, manned by Canadian trade officials, were established in Fukuoka and Nagoya. These offices, combined with the Canadian presence in Tokyo and Osaka together give Canadian businesspeople seven critical points of service throughout Japan.

Summaries of the Fukuoka, Nagoya, Sapporo, Sendai and Hiroshima regional markets follow:

Regional Markets Outlines:

Fukuoka: (population: 1.2 million) is the commercial centre of Kyushu, Japan's southernmost major island. The 15 million people of Kyushu produce 1% of the world's GNP. Known as "Silicon Island" because it is responsible for 10% of world and 30% of Japanese IC production, Kyushu's traditional economy is diversifying. Toyota's decision to locate its new plant in a former coal-mining district near Fukuoka will continue the transformation of Kyushu's economy. Kyushu is promoting itself as the "Gateway to Asia", and rapidly is expanding business and cultural links with neighbouring Korea and Taiwan.

In recognition of the importance of Japan's regional markets, Roy MacLaren, Minister for International Trade, who led a business delegation to Japan in April, 1994, arrived by way of Fukuoka. While there, he chaired a business forum which brought together Canadian and local companies. This visit confirmed that immediate opportunities exist for Canadian forest products, building materials, processed food and consumer products. Growth in Kyushu's automotive and software industries offer additional targets. The unqualified successes of several Canadian solo shows in both the food sector and building products sector in Fukuoka have underscored the potential for Canada in Kyushu.

Nagoya: (population: 2.5 million) is the fourth largest metropolis in Japan, after Tokyo, Yokohama, and Osaka. It is located between Tokyo and Osaka on major transportation routes in Aichi prefecture, which is the centre of Japan's manufacturing heartland and is responsible for 2% of the world's industrial output. Aichi-based companies such as Toyota Motors, Brother Industries, NGK, among others, are world-wide exporters. In fact, as the source of 10% of Japan's entire production, the GDP of Aichi Prefecture alone exceeds that of Korea.

The opening of "Canada House", the Consul's imported Canadian residence, in December 1993, marked the occasion for the launch of a major promotional campaign in this regional market of over 10 million people for Canadian products, in particular for Canadian building, food and consumer products. Canadian companies are also taking advantage of Nagoya's predominance in manufacturing for tie-ups in machinery, aerospace, advanced industrial materials and more.

Sapporo: (population: 1.69 million) is Japan's largest city north of Tokyo, and is the capital of the island prefecture of Hokkaido which is linked by the world's longest railway tunnel to Japan's main island of Honshu. Sapporo's international airport, one hour closer to Canada than Tokyo by air, promises to be a new gateway to Japan for cargo and passengers. Hokkaido's economy, equal to that of Belgium, is based predominately on agriculture, fisheries, forestry and tourism. Cooperation with Canada in all these sectors is ongoing. This market has excellent potential, particularly for value-added exports of building products and processed food. Hokkaido has many links with Canada, including a ten-year sister province agreement with Alberta.

Sendai: (population: 876,000) is the principal city in the Tohoku region, located less than two hours north of Tokyo by a recently-upgraded bullet train system. In addition to expanded rail service, Sendai will benefit greatly from an extension to its airport (scheduled for completion in 1993) and the construction of its container port. These developments, coupled with newly finished highway infrastructure, will make Sendai a very competitive and convenient distribution centre for imported products, as well as a gateway for international air travellers. Due to the shortage of land and labour in the Tokyo area, the industrial structure of the Tohoku region has been changing from predominantly resource-based to manufacturing- and service-based. It is also a centre of resort development, which might open up new opportunities for Canadian expertise and products in log housing, resort design and other leisure-related fields.

Hiroshima: (population: 1.04 million) is the largest city of the Chugoku region, the area southwest of Osaka on the Island of Honshu. This region represents less than 7% of Japan's population and GDP, but with almost 8 million people, this regional market offers opportunities for Canadian business in the lumber, building materials, food and consumer products sectors. In addition, as home to Mazda Motors and its related companies, there is potential in the automotive sector. With the opening of a new major bridge, the nearby island of Shikoku and its population of 4.25 million is now part of Hiroshima's economic sphere, presenting even greater prospects.

May 1994

THE KANSAI REGION

As indicated previously, the economic activity in Japan is still maintained with Tokyo (Kanto) and Osaka (Kansai) as focal points. In economic scale, the Kansai accounts for 20% of Japan's and 3% of the world's economy. Both the population of the Kansai (23 million) and the GNP are quite similar to Canada's. Geographically, the Kansai includes the four large cities of Osaka, Kobe, Kyoto and Nara, as well as the immediately surrounding prefectures or provinces of Hyogo, Wakayama, Mie and Shiga.

According to Kankeiren figures, in 1992 Canada exported to the Kansai ¥168 billion, or about C\$2.2 billion, while Kansai exported to Canada ¥117 billion or about C\$1.5 billion. Canada's main exports to the Kansai include forest products (22%) and food and fisheries products (18%). Growing areas also include software, telecommunications, biotechnology and services. Manufactured goods account for 23% of Canada's exports to the Kansai. Major Canada imports from the Kansai include office equipment and electronics such as VCRs and TVs.

Canadian company representation in the Kansai is diversified but limited to firms such as the Bank of Nova Scotia, MacMillan Bloedel, Canadian Airlines, Air Canada and McCain's. Canadian subsidiaries of Kansai-based companies are more numerous at about 60. There are also approximately 50 Kansai-based firms distributing Canadian products within the Kansai. Canadian companies often find the average size of Kansai companies - small and medium sized - to be easier to deal with than larger organizations.

Since the 1986 establishment of the Canadian Consulate General in Osaka, linkages between Canada and the Kansai, especially in business, tourism and culture, have increased dramatically. There are now over 1,000 Canadians living in the Kansai -- double the number of only 5 years ago. These include those coming to study or to participate in the Japan Exchange and Teaching Program (JET), or in the Canada-Japan Working Holiday program (for young people up to age 25).

There are about 200 members in the Canada Japan Society of the Kansai, which was founded in 1958. This association is open to corporations and individuals, both Canadians and Japanese, in the Kansai area who have an interest in furthering good relations between Canada and Japan. There is also a Kobe-Canada Friendship Society with about 100 members, as well as an Ontario Club of Kansai businessmen whose earlier assignments included Toronto -- also about 100. The Kansai-Canada Alumni Association has fully organized itself with an executive. Total membership in the KCAA now stands at over 200 Japanese and Canadian graduates of Canadian universities.

Canada maintains a strong positive image in the Kansai as a tourism destination. Of the half million Japanese who visit Canada annually, many are

from the Kansai. And there will be even more with direct air links following the opening of the new Kansai International Airport in September 1994.

Canadian products enjoy a reputation in the Kansai for having top quality and safety (which is especially important for food products). Canada is often thought of as pristine natural wilderness, and as being heavily dependent on the USA for technology. This perception, which overlooks Canada's strong technological capability in software, biotechnology, telecommunications and aerospace is changing as we learn more about each other.

Some major Kansai industries of the past, e.g., shipbuilding, textiles, have become sunset industries. However, diversification is underway, and currently the Kansai is very strong in areas such as: pharmaceutical/biotechnology; new materials, such as ceramics; electronics/robotics; fashion/sporting and consumer goods. Numerous huge world-scale manufacturers are headquartered in the Kansai, such as Matsushita (National, Panasonic), Sharp, Sanyo, Kyocera and Omron.

The dynamic growth in the Kansai offers strong opportunities to Canadian firms. There are over 800 large-scale development projects, with a package of investments over a decade of US\$26 billion. These projects are all designed to give the Kansai the world's finest, state-of-the-art infrastructure. Key development projects include: the Kansai International Airport - opening September 4, 1994, it will be Japan's number one cargo airport, and as the only 24-hour facility, will be a major gateway to Asia; Technoport Osaka - world-class communications, trade/ technology, transportation and recreational centre; Osaka Bay Area Development - complex of bridges, tunnels, and expressways linking up the disparate parts of the megalopolis, now well underway; Kansai Science City - destined to become a world centre for R&D, including basic scientific research; Osaka Dome Stadium - due to open in 1997.

Canadian companies should remember that, contrary to the accepted view, Japan is not necessarily a homogeneous market. There are distinct regional differences, especially with regard to the Kansai. They should also remember that Japan's labour shortage in sectors such as construction create new opportunities for imports; that there are in Japan increasingly more open attitudes to imports; and that although Japanese standards for quality and delivery are sometimes so severe as to appear ridiculous, meeting these norms will boost competitiveness not only in Japan but also in other difficult third country markets.

A major upcoming Canadian Government initiative during the summer of 1994 is "Canada Days in the Kansai." The Canadian Consulate General in Osaka is sponsoring a wide range of over 30 events which include trade fairs and missions in priority sectors: building products, food and fisheries products, and biotechnology. The projects effectively build on promotional efforts of previous years. Many are geared to complement other related activities organized both by federal and provincial colleagues in Tokyo, Fukuoka, Nagoya, and other posts in Asia, and by private sector groups, such as the Canadian Beef Exporters Federation (CBEF) and the Council of Forest Industries (COFI).

May 1994

**CANADA - JAPAN
RELATIONSHIP**

CANADA-JAPAN RELATIONS

Overview

Canada-Japan relations are based on trade and economic linkages that arise from the complementarity of our economies and extensive transportation and communications links across the Pacific. They are sustained through extensive dialogue at the ministerial level and through various official and semi-official venues for cooperation and discussion. Bilateral relations also build on our partnership in the United Nations, the G-7 and the OECD, our common membership in the Asia-Pacific community (APEC and the ASEAN Post Ministerial Conference and Regional Forum), and a host of cooperative endeavours and consultative mechanisms.

Forum 2000

The Canada-Japan Forum 2000 report, submitted to Prime Ministers in December 1992, made nineteen recommendations designed to serve as guideposts for enhancing political, economic and cultural cooperation between our two countries. (One recommendation has resulted in the creation of a Canada-Japan joint panel on Cooperation in the North Pacific Environment. Another related response to the report is the Canada-Japan Bilateral Symposium on Stewardship of the North Pacific Ocean, held March 25-27 1994, in Vancouver.) There is a separate brief on this issue.

Trade and Investment

Japan is Canada's second largest trading partner; 1993 export figures are expected to reach \$8.5 billion, with imports amounting to just over \$10 billion. As Japan's economy continues to move up the technological ladder, one result is a weakening demand for the resource products which have traditionally dominated our exports. An "Action Plan for Japan" aimed at addressing this issue was announced last spring. There is a separate background brief on this issue.

Despite the drop in the value of the dollar against the yen over the past year, the total amount of securities and loans held by Japanese investors is about \$54 billion. Japanese direct investment continues to grow, reaching a cumulative total of \$6.4 billion in 1992. Some 48,000 Canadians are employed by Japanese-affiliated companies.

S&T Relations

A bilateral Science & Technology agreement was signed in May, 1986; a Complementarity Study was completed in July 1989, followed by the establishment of the Japan Science and Technology Fund (JSTF), through which Canada has sponsored over 200 projects.

CANADA/JAPAN CONSULTATIVE MECHANISMS

POLITICAL

1. Annual Foreign Minister's Consultations
2. Canada/Japan Policy planning Talks
3. Canada/Japan Arms Control and Disarmament Consultations
4. Canada/Japan Cultural Consultations
5. Canada/Japan Consultations on Major Issues in the United Nations
6. Canada/Japan Consultations on Latin America
7. Canada/Japan Security and Defence Discussions
8. Canada/Japan Consultations on Terrorism
9. Canada-Japan Parliamentary Consultations

ECONOMIC/COMMERCIAL

1. Canada/Japan Joint Economic Committee (JEC) Meeting
2. Canada/Japan Joint Committee on Scientific and Technological Cooperation
3. Canada/Japan Telecommunications Policy Consultations
4. Canada/Japan Aid policy Consultations
5. Canada/Japan Industrial Cooperation
6. Canada/Japan Third Country Cooperation Meetings
7. Canada/Japan Financial Consultations
8. Canada/Japan Nuclear Energy Consultations
9. Canada/Japan Consultations on Fisheries
10. Canada/Japan Informal Agricultural Consultations
11. Canada/Japan Canola Consultations
12. Working Group on Resource Processing (WGRP)
13. Canada/Japan Housing Committee Meeting

14. Canada/Japan Comprehensive Forest Product Consultations

PRIVATE SECTOR

1. Canada/Japan Business Committee
2. Canada/Japan TV Executives Committee Meeting
3. Japan Steel Industry (JSI) - Annual Visit to Ottawa

CANADA-JAPAN TRADE RELATIONS

Japan is Canada's largest trading partner after the U.S., and exceeds the importance of Canada's three biggest European summit partners combined. The overall trading relationship is generally harmonious. The volume of trade has more than doubled since 1985 and has been diversifying in its composition.

In 1993, Canada's exports to Japan amounted to \$8.4 billion, an increase of \$1 billion from 1992, almost reaching the peak reached in 1989. Canadian imports from Japan stayed constant at \$10.7 billion, leaving a deficit of \$3.3 billion.

While higher lumber prices have certainly been a factor in this recovery, it has been clear for some time that long term opportunities for Canada's lesser-processed, traditional exports will remain flat or decrease. This is a result of a shift in the Japanese market that is leading to a greater proportion of their imports being composed of "value-added" products.

Canadian imports from Japan have been dominated by automobiles, machinery and electronic equipment. These categories accounted for 80% of total Canadian imports from Japan.

In the Canadian Government's focus on Japan, the main objectives of our trade and industrial development program are:

- 1) to protect and expand Canada's market share of resource products;
- 2) to take advantage of the changing market and increase sales of Canadian value-added products and fully manufactured goods;
- 3) to provide Canadian industry with access to Japanese production and product technologies to improve its competitiveness; and
- 4) to stimulate Japanese investment in the Canadian manufacturing sector.

Many Canadian companies are experiencing real success in the Japanese market, especially in the growth sectors such as building products, processed foods, fisheries, tourism, auto parts, information technologies and aerospace. More firms need to do the same. Business must take advantage of Japan's changing import needs if it is to participate in the growth segments of the market.

Representatives of Canada's business community have recognized this imperative and have been working with the federal and provincial governments to develop "Action Plans" in the seven priority sectors.

These plans together constitute the Canadian Action Plan for Japan: an integrated effort on the part of all federal and provincial governments in support of clearly articulated private-sector strategies for realizing our potential in the high growth sectors.

CANADA-JAPAN INVESTMENT RELATIONS

Japanese Foreign Direct Investment

Japanese direct investment overseas first surpassed US\$10 billion annually in fiscal 1984, peaking at US\$67.5 billion in fiscal 1989, aided by an appreciating yen from 1985 onwards. The increasingly protectionist trade policies of major trading partners made it attractive for Japanese companies to establish or acquire operations abroad in order to maintain their market share. Spiralling land and stock prices, and easy-credit bank policies that resulted from this asset inflation (the so-called "bubble economy"), contributed to this spending spree. The main attraction in Asia has been the substantial differences in production costs between Japan and neighbouring Asian countries. Greater profits from Asian investments compared with North America and Europe, combined with the dynamic growth within Asian markets themselves, has recently tended to make Japanese investors concentrate on investment opportunities in that part of the world.

The reversal of some of some of the same factors that contributed to expansion in the "bubble" years came into play in the recent downturn in Japanese overseas investment. Growth in the Japanese economy reached a virtual standstill in early 1992 and has continued to be stagnant; land prices are off some 15 to 20% from their peak and the Nikkei stock index is hovering around the 20,000 mark, about half the level of its December 1989 peak. The combination of these and other factors has created a tighter credit environment in Japan. In addition, many enterprises posted substantial earnings declines as the economy slowed, and they slashed investment spending abroad as a result. Others felt that they had already completed the process of establishing themselves overseas, and the domestic and global recession dampened the urge to acquire new assets abroad. Instead of investing, many companies are struggling to find a way to shed poorly-performing assets.

Global Japanese foreign direct investment reached a cumulative value of US\$387 billion at 31 March 1993 and is estimated to have increased by US\$30 billion in FY 1993 (ending 31 March 1994). This flow in FY 1993 is down about 10% from the flow of US\$34 billion recorded in FY 1992. Approximately 42% of the cumulative total is in the USA, 2% in Canada, 20% in Europe, 16% in Asia and 12% in Latin America.

Japanese Direct Investment in Canada

Japan is our third largest source of foreign direct investment after the United States and the United Kingdom. Japanese investment in Canada is concentrated in five sectors: forest products (lumber, pulp, paper), automotive products, mining, financial services and merchandising/distribution facilities.

For the foreseeable future, it is expected that investors will continue to focus on manufacturing and energy-intensive industries but with an increasing interest in the chemical industry, electrical machinery, value-added wood products, pre-fab housing, food products, computer-related products/services and the leisure/travel industry. Recent major investments in Canada include the joint development of a large shopping centre in Vancouver by Mitsui and Yaohan International, an engine plant to be built in Cambridge, Ontario by Toyota, a \$30 million expansion of Kao Corporation's computer diskette facility in Arnprior, Ontario, and a new \$240 million hot-dip galvanizing line in Windsor, which is a joint venture between NKK, National Steel Corporation and Dofasco.

Foreign Investment in Japan

According to Japanese Ministry of Finance statistics, the United States is the leading foreign investor in Japan with a 41.9% share of the US\$26.9 billion notified. Canada's share is 4.4%, the Netherlands' 7.4%, the United Kingdom's 5.0%, Switzerland's 6.9%, Germany's 4.6% and Hong Kong's 2.3%. In FY 1992, foreign firms invested about US\$4 billion in Japan, down about 6% from the previous year.

Compared with other major industrialised countries, Japan's inward-bound FDI is very small. For example, Japan's ratio of outward to inward-bound investment is some twelve times that of Germany and seventeen times that of the United States.

The reasons for this imbalance are manifold, but most often cited causes are: the high cost of investment in Japan, characterized by high costs of commercial rental and office space; difficulties in securing necessary labour and skilled personnel; general lack of information about investing in Japan; and social, cultural and language differences, particularly as they affect business practices.

Canadian Investments in Japan

Canadian companies with established investments in Japan include: Alcan, Moore Business Forms, Canadian Airlines International, Falconbridge, Inco, MacMillan Bloedel and Canada Packers. More recent investors include: Northern Telecom, Newbridge Systems, Cognos, Imax and Four Seasons Hotels and Resorts.

Investment Canada Review Activity

Between 30 June 1985 and 31 December 1993, there were 337 cases of investment from Japan subject to review or notification under the Investment Canada Act. Of these, 82 cases were in manufacturing. The value of new businesses to be established was approximately \$2 billion and acquisitions totalled nearly \$5 billion.

Trends in Japanese Foreign Direct Investment to the Year 2000

A recent paper from the Canadian Embassy in Tokyo, based largely on a 1993 EXIM Bank survey of 338 Japanese firms and extensive research and interviews, notes that the rapid decline in annual Japanese foreign direct investment (JFDI) since 1989 is slowing and may be in the process of picking up again. Japan's overseas investment has developed late compared with other developed countries. For example, Japan's ratio of exports to FDI was only 10.3% in 1992 compared with 25% for the United States. The main features of the paper and its predictions are as follows:

- Japanese corporations are preparing themselves for a new investment cycle driven by the yen's appreciation.
- Small and medium-sized Japanese businesses, however, are experiencing difficulties in gathering sufficient human and financial capital to launch their operations abroad. As in the past, the burden of JFDI will be carried out by larger corporations, many of which already have significant exposure in North America.
- The most important objective underpinning growing JFDI in Asia and North America will be the preservation or expansion of local market shares in the wake of a recovery in the global economy.
- Economic development will alter the return on investment in Asia. Therefore, JFDI in Asia will increasingly be motivated by factors other than labour costs. Japanese corporations in North America will need to intensify capital infusions to meet the demands of a sophisticated and competitive market.
- North America will distinctively emerge as a high technology pole of strategic importance for Japanese investors. As Japanese corporations increasingly embrace the practice of fully-integrated production abroad, North American advantages will be clear. New investors will seek to insert R&D components in their production lines.
- Specific incentives or disincentives presented by NAFTA should not be overstated. Local content rules appear to be less of a concern than are taxes on foreign-owned corporations and other local conditions.
- A key challenge for Canada will be to demonstrate its advantage over the U.S. as a location for JFDI. Decisive factors considered by Japanese investors will be access to technology, improved productivity levels, exchange rates, taxation regimes and labour climate.

April, 1994

CANADA'S ACTION PLAN FOR JAPAN

Everyone talks about Japan, but nobody does anything about it - nobody, that is, but forward-looking Canadian exporters.

Canada's exports to Japan, our second largest market, dropped by over one billion dollars in 1991 and recovered only slightly in 1992. In 1993 we regained the billion dollars and more. What's happening to trade with our largest overseas partner? The answer is twofold. While wildly fluctuating commodity prices are a major factor, it has been clear for some time that long term opportunities for Canada's lesser-processed, traditional exports will remain flat or decrease, while Japan will continue to increase its imports of value-added products.

Canadian companies who have seized this trend are experiencing real success in the Japanese market for specialized manufactured goods and services. More firms need to appreciate Japan's long term strategic importance and do the same.

By responding to Japan's evolving economy, Canadian business can take advantage of emerging market opportunities and adapt to Japan's changing import needs. Participation in the growth segments of the market will ultimately position Canadians for business opportunities in Asia Pacific and other world markets.

The ACTION PLAN, announced last Spring, is designed as a cooperative venture to tailor government's role as the provider of services and information in support of private sector efforts to develop and grow business with Japan. An analysis of the Japanese market and Canadian industrial capabilities provided the starting point: seven priority sectors.

**BUILDING PRODUCTS, FISH PRODUCTS, PROCESSED FOOD,
AUTO PARTS, AEROSPACE, INFO TECHNOLOGY, TOURISM**

The three key objectives of CANADA'S ACTION PLAN FOR JAPAN are to

- increase awareness of Japan's changing market dynamics
- adapt product to these changes
- respond to the marketing challenges of these changes in Japan

What has happened so far?

The key to the PLAN's success is its cooperative, team effort. In the lead are industry groups, one for each priority sector. In some cases these are coalitions of industry associations, in some they are private sector groups that have come together specifically to tackle the Japanese market. Supporting these lead groups are government teams brought together from federal and provincial levels as appropriate for each sector.

These are not "advisory bodies." The idea is to take advantage of the synergies of a "team Canada" approach in penetrating the Japanese market. Governments stand ready to support activities to make industry more export ready, to deliver better strategic and market intelligence. They can help to adapt products, to acquire technology, to seek partners or to establish an industry presence in the market - on a collaborative, partnership and cost-shared basis.

The objective is business-led development of strategic sectoral action plans to adapt Canadian products to the changing needs of the Japanese market.

Some 75 events took place in 1993. These ranged from Seminars on Building Products held across Canada to Seafood Promotions held in Japan. The planning being done by the industry lead groups right now is creating a 1994 schedule that is just as ambitious.

CANADA JAPAN FORUM 2000

Background

The Canada-Japan Forum 2000 report was the result of an official bilateral review of Canada-Japan relations (conducted by a group of private individuals) and was submitted to former Prime Ministers Mulroney and Miyazawa in December 1992. The report's nineteen recommendations identify areas where potential exists for our two countries to collaborate more closely, including peacekeeping, G-7 cooperation on political issues, and enhanced cooperation on Asia Pacific security issues. The Forum 2000 recommendations also lay out ways in which our cultural and economic ties can be strengthened. These recommendations can be used as guideposts in developing the bilateral relationship.

Relatively few of the Forum 2000 recommendations have been pursued to date. This is in large part because the Japanese, and in particular their bureaucracy, have reservations about a number of the Forum 2000 recommendations, and have indicated that they do not wish to launch new initiatives in response to the report. They are, however, interested in pursuing activities "in the spirit" of the Forum 2000 report.

Each country has established a non-governmental advisory group to provide input on how best to implement the Report's recommendations. The Canadian advisory group is currently led by the Honourable Peter Lougheed, former Premier of Alberta and co-Chairman of the Forum 2000 exercise.

Canada-Japan Forum 2000 Strategy

1994

- March 1) DFAIT to prepare preliminary assessment of which recommendations are practical (attached)
- Mar-April 2) Confirm new advisory group members
- April 3) PM Chretien to send letter to PM Hosokawa advising Japan of our newly constituted advisory group and our continued interest in pursuing several Forum 2000 recommendations
- April 4) MINT visit to Japan-- raise the points outlined in PM's letter during bilaterals
- May 5) Develop detailed action plan (starting from the existing omnibus action plan) for each of the recommendations selected as priorities
- May 6) Present Forum 2000 update (possibly through advisory group member) at Canada-Japan Business Conference in Kyoto
- June 7) Possible joint Canadian/Japanese advisory group meeting (already suggested by Japanese Embassy) to discuss proposed action plans; forge sub-groups for each item-- have advisory group members "adopt" or find champions for particular topics; seek mutually acceptable compromise on reciprocity for FMU (opening of Japan cultural centre in Toronto may be cited as such);
- July 8) MINA to raise Forum 2000 follow up with Japanese Foreign Minister during bilateral meeting at ASEAN PMC
- July-Oct. 9) Sub groups to follow up on individual recommendations
- October 10) Canadian advisory group meeting to review progress on files prior to PM's November visit
- November 11) PM's visit to Japan: announce any projects agreed to; review progress on other files with Japanese PM; ask for increased movement on individual items as necessary.

Canada-Japan Forum 2000: Priorities for Follow Up

- 1) Canada-Japan Fund for Mutual Understanding (per Forum 2000 recommendation IV.1)
- 2) Canada-Japan seminar on conflict prevention and resolution (which, if successful, would be the first step in an ongoing dialogue on peace-keeping and related issues) (I.4)
- 3) Mandate the advisory group or a sub-group to act as a bilateral panel on current economic issues (would have a brief to discuss and analyze trade issues as necessary; it would study items jointly chosen by respective trade ministries, and would make non-binding recommendations) (II.4; also partly addresses II.2 and III.2)
- 4) Film Co-production MOU (we have been working on this for a considerable length of time and it is now, we believe, ready to be signed, but the Japanese are moving painfully slowly; a political impetus would be helpful)
- 5) Cooperation on Northern Development (we would earmark JSTF funding to support S&T cooperation in this sector, but the organization coordinating any activities [seminars, etc] would be outside the federal government) (III.4)
- 6) Continue cooperation on the North Pacific Environment Initiative (a bilateral panel has already been established) (III.3)
- 7) Enhanced cooperation on Human Rights (we would propose holding a Canada-Japan seminar on human rights, with "pan-Pacific perspectives on human rights" as its primary theme) (III.5)

DETERIORATION IN JAPAN-USA TRADE RELATIONS: POSSIBLE IMPLICATIONS FOR CANADA

Commercial:

There are two possible commercial effects of a further deterioration in Japan-USA trade relations to which we must be particularly alert. The first is that U.S. import restrictions may affect Canadian products. For example, U.S. restrictions on the import of Japanese electronic components might be applied to components manufactured in Canada by Japanese-owned companies. The second, a longer-term concern about the Japan-USA relationship, is that any action (capitulation) by Japan extending preferences to the United States could discriminate against imports from Canada. Both Tokyo and Washington have offered assurances that this will not be the case, but vigilance is required.

Investment:

The volatility of exchange rates stemming from deteriorating Japan-USA trade relations has weakened the Canadian dollar. Sustained weakness in the Canadian dollar/yen rate could forestall a renewed interest in Canadian portfolio investment by Japanese institutional investors.

Sustained uncertainty in the Japan-USA trade relationship could also negatively affect Japanese direct investment in Canada, despite the security provided by NAFTA. Japanese fears of possible U.S. harassment over local-content could serve to deter additional Japanese investment in manufacturing facilities in Canada.

The Rules-based Trading System - GATT/WTO, NAFTA:

The integrity of the rules-based multilateral trading system upon which Canada depends would be greatly undermined if the United States takes further unilateral actions against Japan under U.S. trade law. Should the United States resort to a vigorous use of Super 301, this would undermine the multilateral efforts to improve dispute-settlement procedures that were recently agreed to under the Uruguay Round.

American threats to withdraw their Uruguay round tariff reductions on electronic equipment may stall or derail implementation of the Round's results. Moreover, a recalcitrant Congress may hold up Uruguay Round implementation legislation.

In addition, further escalation of the USA-Japan trade dispute leading to American sanctions undermines the positive view of NAFTA as a trade-creating regional arrangement which complements and strengthens the multilateral trading system.

Regulatory Reform and Economic Liberalization in Japan:

On the positive side, it appears that the setback in USA-Japan trade relations will spur Tokyo to move forward more urgently with their economic reform program including progress on government procurement, deregulation, competition policy, and import and foreign investment promotion.

Regional Economic Institutions:

A further upshot of the souring of USA-Japan relations is that APEC may become an increasingly important forum for the United States and Japan to discuss trade and investment issues, thus bringing Canada and the other Asia Pacific partners into the debate.

THE URUGUAY ROUND OF TRADE NEGOTIATIONS: IMPLICATIONS FOR CANADA-JAPAN

The Uruguay Round of Multilateral Trade Negotiations is the first to reach beyond Japan and engage the Asia-Pacific region. The results of this round lay the basis for a growing economic relationship with the dynamic Asia-Pacific growth economies, which increasingly set the pace of change for the global economy. The region's annual growth rates will average 6-to 9 percent, generating more than half of the next decade's growth in world markets and providing significant export opportunities and growing competition for Canadian business. Improved and secure access to this growth region is critical to the long-term export success of Canadian firms.

With the emergence of new trading powers in East Asia, one of Canada's central objectives in the Round was to ensure that we could share in the booming growth of the region by further opening markets and by reducing ongoing barriers to our exports. The Round was a success in increasing market access and bringing the General Agreement on Tariffs and Trade (GATT) disciplines to restrictions on resource products (e.g. agriculture and fisheries) maintained by countries such as Japan, China, the Republic of Korea and members of the Association of Southeast Asian Nations (ASEAN), which will promote equitable access for Canadian suppliers. The parallel GATT accession exercise of China and Taiwan will be important in bringing them under multilateral GATT discipline.

Asia ranks as Canada's second-largest trading region after the United States, with four of our top nine export markets. In 1993, total trade with Asia-Pacific economies surpassed \$41.7 billion.

Japan is Canada's second largest trade partner with 1993 Canadian exports reaching \$8.5 billion. Korea is our fifth-largest trading partner, with 1993 exports of \$1.7 billion. China follows, with our total exports just under \$1.7 billion. The greater China market (China, Taiwan and Hong Kong) represents our third-largest export market at \$3.7 billion. Canadian exports to ASEAN countries have tripled over the past decade, reaching \$1.6 billion in 1993. Two-way ASEAN-Canada trade reached \$4.8 billion in 1993. Within ASEAN, Thailand represents Canada's largest export market, followed closely by Singapore, Malaysia and Indonesia. Taken as a group, the Southeast Asian countries rank seventh among Canada's top export markets.

The Asia-Pacific region is particularly important for Canada's western provinces. China and Japan were the second- and third-largest export markets in 1993 for all the Prairies. Korea was British Columbia's third-largest export market last year. Asian markets represented between 16 and 30 percent of every western provinces' export trade.

This growing relationship extends to investment flows, as direct investment links continue to grow totalling nearly \$10 billion each way. In ASEAN, Canadian investment now exceeds \$4 billion, largely in resource development and the financial sector.

Improved market access negotiated in the Uruguay Round will open growth markets in Asia and help exports of value-added goods and services by lowering tariffs on goods by at least one third over five years, as well as binding many tariffs and reducing non-tariff barriers.

Canadian exporters stand to benefit from Japan's extension of deep cuts of 75 percent on a trade-weighted basis from ceiling rates, and from a further opening of Japan's wood, fish and non-ferrous markets. This will also be true for paper, electronics, steel, pharmaceuticals and construction equipment, where Japan participated in zero-for-zero tariff reductions. Korea's tariff offer was 50 percent cuts on a trade-weighted basis, and it also participated in several of the zero-for-zero packages of interest to Canadian exporters.

Market access offers throughout Asia will improve opportunities in sectors, such as advanced technology (e.g. telecommunications, aerospace and defence equipment), energy and power (e.g. oil and gas), agri-food and environmental products.

The binding of the totality of ASEAN members' tariffs is a major improvement (Thailand at 30 percent, Malaysia 5 to 30 percent and Indonesia 30 to 40 percent). As free ports, Hong Kong and Singapore also participated in several of the zero-for-zero packages.

Australia reduced its tariffs by 50 percent on a global basis and also brought its regime fully under the GATT, increasing its bindings to 100 percent.

As leading exporters of wood, and pulp and paper products, British Columbia and Quebec stand to make major gains in Asian markets. The proportion of value-added and finished products in Canada's export mix, such as exports of converted paper products like tissues, should continue to increase in markets beyond Japan.

On agriculture, lower tariffs will improve access for grain and oilseed exporters supplying the needs of newly affluent Asian consumers. Agreement to reduce trade-distorting export subsidies will lower taxpayers' costs and benefit Canadian grain exporters who can compete on a more equal basis in the region. Better access for red meat, plus new markets in Japan and Korea, will benefit pork exporters in Quebec and Alberta and beef exporters throughout the West.

A more predictable and secure trading environment, including better disciplines on disguised non-tariff barriers such as health and sanitary regulations, should encourage further growth in agricultural exports. Canada will pursue improved access for oilseeds and spirits.

Canada's growing relationship with the Asia-Pacific region in services trade will be enhanced by its inclusion in the GATT framework and the inclusion of services in the government procurement code.

Commitments by developed countries such as Japan, Australia and New Zealand and binding commitments on temporary and intracorporate entry, as well as business services and some professional services (architects, professional and accounting, urban planning, computer consulting, telecommunications and general construction) have laid the basis for future growth in this fastest-growing segment of global trade.

Canada has interests in Japan's financial services market, both banking and insurance, and in markets for value-added telecommunications and computer services. Japan has maintained some restrictions on labour mobility, reflecting domestic sensitivity over immigration.

Korean financial services show excellent potential, once restrictions are clarified on right of establishment and regulations for service and infant industries.

ASEAN countries were more cautious, reflecting their developing country status, and practices such as discriminatory licensing procedures will be the focus of further discussions. In the long term, the growing role of services in all Asian economies, notably financial services, hold out strong growth prospects for Canadian firms.

The massive public infrastructure investments in Asia planned over the next decade are projected to total more the \$1 trillion. Improvements to the government procurement code should facilitate our exporters' ability to meet these growing needs in key sectors, such as telecommunications, hydropower, light rapid-transit and railways. Japan provides immediate opportunities in several sectors. With Korea, Canada is looking at the value-added telecommunications market, where new disciplines should reduce the effect of Korea's preferential U.S. purchasing relationship. ASEAN countries are taking the first steps toward complying more fully with GATT practices.

Asia generally has not participated in the dispute-settlement procedures of the GATT. The strengthened disciplines of the new agreement and the World Trade Organization provide the basis for effective dispute settlement that should

encourage early resolution of disputes and a firmer basis for long-term commitments in the region.

SCIENCE AND TECHNOLOGY RELATIONS

ISSUE

The economic recession in Japan is having an adverse effect on R&D spending in the private sector. Japanese industry may seek to pick up the slack in the technology development activities through increased domestic and international technology partnerships. Canadian companies willing and able to seek such partnerships may find more doors open to them than in the past.

BACKGROUND

Japan's total R&D spending in fiscal 92 amounted to 13,909.5 billion yen, up only 1% from the previous year, the slowest growth rate in over a decade. Government agencies remain committed to increasing their science and technology budgets to fund research and development projects - by 5.5% in 1992, 6.2% in 1993 and 6% in 1994. In fiscal 92, while outlays by universities and research institutes on R&D rose 7% and 9.4% respectively, industry spending fell by 1.9%. Since non-government sources accounted for 80.5% of total spending and the industry sector alone for 68.7%, the effect is far-reaching. Falls in specific sectors (electronic, automotive, chemical industries) will probably approach double-digit levels.

Japanese industry may seek to pick up the slack in the technology development activities through increased technology partnerships. Furthermore, technology life cycles are becoming incredibly short. Long term research planning is reserved for core technologies which can provide a wide range of potential uses. And to reduce the risk of technological dead-ends, Japanese firms are reaching out to strategic partners to keep their fingers in as many technology pies as possible.

In Japan, medium and long term priorities for technology development are set first, then research programs are developed to address those identified needs. As a part of the implementation strategies, international collaboration is sought in those areas where Japan is weak.

The Japanese government has proposed several international scientific research projects in order to expand its contribution to global scientific research. However, Japan's non-financial contributions to its advance are likely to remain modest, hampered in the near term by the weakness of Japan's basic research capabilities in many areas. Japan's proposed Intelligent Manufacturing Systems (IMS) project, however, focuses on an area (advanced manufacturing process technologies) in which Japanese firms are in a leadership position and to which they could make significant contributions. IMS' goal is to develop a global standard for a computer system, language interface that would cover all aspects of manufacturing, from design and production through distribution.

Japan continues to focus S&T resources on biotechnology, advanced materials, microelectronics and information technologies. In addition, there is considerable attention being given to medical technologies reflecting their rapidly aging population and the commercial importance of this sector. A renewed priority is sustainable development. The Ministry of International Trade and Industry (MITI) launched the "New Sunshine Program" in 1993. This program will dedicate \$500 million per year for R&D on alternate energy, energy conservation and environmental technologies. This is part of MITI's industrial strategy for the continued long term economic and industrial health of Japan.

The government's efforts over the past five years to encourage greater spending by industry on basic science has produced no significant shift in allocation to basic research, and is being short-circuited by the recession. In the short and medium-term, increased spending on basic science can only be expected from the government.

BILATERAL S&T LINKAGES

Canada's formal bilateral S&T relationship with Japan continues to flourish, with over 200 individual activities recognized under the bilateral agreement. Since 1989 there have been 17 bilateral workshops and 9 study missions to Japan.

Canada continues to send young researchers to Japan under the fellowship programs of the Science and Technology Agency and the Ministry of Education, Science and Culture. The CO-OP Japan Program is placing science and engineering undergraduates in Japanese industries, while the Japan Manufacturing Engineer Exchange Program is sending professional engineers to Japanese manufacturing facilities.

The Japan Science and Technology Fund is instrumental in increasing the overall level of bilateral collaborative activities and in raising awareness of collaborative opportunities in Japan.

POTENTIAL OPPORTUNITIES FOR CANADA

There is excellent complementarity of the respective needs and capabilities of Canada and Japan: Canada needs a longer term R&D planning focus, improved manufacturing capabilities, market access to the Asia and Pacific; Japan needs innovative R&D directions and basic research capabilities. There are many programs launched to "internationalize" S&T in Japan. These opportunities are constantly reviewed in terms of their benefit to Canada and participation is encouraged as appropriate. Scientific and technological cooperation is of mutual benefit to both countries and will grow and strengthen in the future. In addition, the bonds of friendship and mutual understanding which will be forged will be as important as the scientific, technological, trade, and economic benefits.

JAPAN MANUFACTURING ENGINEER EXCHANGE
SPONSORED BY THE
JAPAN SCIENCE AND TECHNOLOGY FUND

The Japan Manufacturing Engineer Exchange program places Canadian engineers in Japanese manufacturing companies for up to one year. The program presents a unique opportunity for engineers in Canadian industry to gain first hand experience on the shop floors of some of the world-leading Japanese manufacturing operations. It will also facilitate the exchange of knowledge and ideas to build a foundation for future cooperation that will provide long-term benefits to both countries.

The three year program responds to recommendations made in the Canada-Japan Forum 2000 report presented to the two former Prime Ministers last December. It is implemented jointly by Industry Canada and the Japan External Trade Organization. Company matching is made based on information supplied by the Japanese hosts and the Canadian sponsoring companies in consultation with the candidate. The participating engineers will spend up to 3 months on language and cross-cultural training in Canada and another month of training in Japan. The work period in Japan is from 6 to 11 months.

The orientation in Canada is funded by the Japan Science and Technology Fund (JSTF). Other incurred costs, such as salary, transportation, etc. are cost shared between the JSTF and the Canadian sponsoring company. The orientation in Japan is funded by the Japanese government and the Japanese host company provides single person accommodation.

The program placed 7 engineers in January, 1994 and will be sending another 5 this fall.

For further information on the Japan Manufacturing Engineer Exchange, please contact:

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CO-OP JAPAN PROGRAM

The Co-op Japan Program was established in May 1991 under the auspices of the Federal Government's Pacific 2000 Japan Science and Technology Fund. The program provides senior science and engineering students with the opportunity to gain valuable work experience in Japan.

The main thrust of the program is to develop a pool of young Canadian engineers and scientists with hands-on experience in Japanese industrial engineering and research practices. By enabling university students to develop an understanding and appreciation of Japanese industry, and by providing Japanese companies with the opportunity to take advantage of highly skilled and motivated students, the Co-op Japan Program encourages long term opportunities for scientific and industrial exchange between Canada and Japan.

A consortium of four Canadian universities was initially formed to implement the Co-op Japan Program: the University of Waterloo, Simon Fraser University, Universite de Sherbrooke, and the University of Victoria. Commencing in 1994, the Co-op Japan Program is expanding its mandate to include participation from other interested universities across Canada. To date, McMaster, Queen's, UBC, Toronto, Ecole Polytechnique, Saskatchewan and Dalhousie, have all expressed a strong interest in joining the Co-op Japan Program.

The Co-op Japan Program is open to senior level science and engineering students. In order to qualify for participation, students must have at least a year of Japanese language study, as well as a minimum of 8 months work experience related to their discipline, prior to their placement with a Japanese company. Once selected for placement, students are required to take a one month immersion Japanese language and culture program, which is taken directly prior to going to Japan. Work terms in Japan are seven months to one year in duration. Students live in company dormitories and commute to work each day, living and working along side their fellow Japanese researchers.

There are a wide range of co-op work term placements available, from hardware and software development using advanced technology, to new materials development, biotechnology, and chemical engineering. Since the program's inception, 82 placements have been developed for students in Japanese Industry, and over 40 companies in Japan have received students.

The majority of work placements are with large internationally-oriented companies in the Tokyo and Osaka areas of Japan. For example, some of the companies currently receiving students are: Toshiba, Mitsubishi Kasei, Nippon Steel, Kirin Breweries, Mitsubishi Electric, Fuji-Xerox, Chiyoda, NTT, NKK, Honda, Kubota and Asahi Chemical Corp. Many of these companies have visited the Co-op Japan Program in Canada in order to meet with students and faculty and to gain a first hand look at university based research and education as practiced in Canada.

Students and companies have been very pleased with the program and the benefits that have resulted from their participation. For example, Stephane Gagne, a 4th year computer science student from l'universite de Sherbrooke, recently completed an eight month work term at Asahi Chemical Corporation. He was assigned to Asahi Chemical's LSI Research Laboratory in Atsugi, Japan.

The objective of Stephane's research project was to develop a proto-type speech recognition system for mobile telephone technology. His task was to program a circuit board in such a manner as to recognize voice activated commands in a noisy environment. Stephane developed a proto-type system during his work term which was far more robust than had been anticipated by his fellow researchers. Asahi Chemical was so pleased with the results of his work, that they recently demonstrated Stephane's system to a telecommunications customer which had a similar system developed by another company. After completing some comparison tests, it was found that Stephane's system was faster and more reliable. Asahi Chemical Corp has indicated that they plan to put the proto-type into production in 1994.

Stephane Gagne is continuing his research on speech recognition and is currently completing a Masters of Science Degree at the University of British Columbia.

Susan Huggett, director of the Co-op Japan Program, has travelled to Japan eleven times since the program was established, in order to introduce the program to new companies, secure work placements for students and oversee the students during their work terms. Her next trip to Japan is planned for May, 1994.

For further information on the Co-op Japan Program, please contact:

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CANADA-JAPAN TRADE IN MANUFACTURED PRODUCTS

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

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

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

AEROSPACE/DEFENCE

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

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

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

AUTOMOTIVE

Canada's automotive relationship with Japan is continuing to evolve. Our objectives for the sector are somewhat unique in that they are double-tracked: some objectives deal with Japan directly, while others focus on the increasingly-important Japanese automotive interests which are located in the U.S.A. and Mexico. Over the past decade, Japanese direct investment in vehicle assembly plants and auto parts manufacturing plants in Canada has amounted to over \$1.5 billion. Our key objectives for the sector continue to be the following:

- increased sourcing of Canadian-made parts by Japanese assemblers located in Canada, the U.S.A and Mexico;
- increased exports to Japan of Canadian-made vehicles, automotive parts and vehicle servicing equipment;
- additional Japanese investment to achieve increased production capacity in existing Japanese-owned vehicle assembly and parts-manufacturing plants in Canada;
- new Japanese investment in complementary, high-end parts manufacturing facilities;
- further expansion of joint-venture, technology acquisition and licensing activities between Japanese and Canadian companies;
- additional R&D activity in Canada by Japanese companies.

Parts procurement in Canada by Japanese companies is increasing but has not yet reached a level commensurate with the share of the Canadian vehicle market presently enjoyed by Japanese-marque vehicles. It is estimated that parts sales by Canadian manufacturers in 1993 to Japanese vehicle assemblers located in North America as well as in Japan amounted to \$1 billion, and accounted for some 7% by value of total auto parts manufactured in Canada; at the same time, Japanese vehicles enjoyed just over 20% of the Canadian market.

Three major challenges remain:

- to demonstrate to the Japanese assemblers in North America that Canadian auto parts companies are extremely competitive in terms of cost, quality, JIT delivery and so on, shown by the fact that the Canadian industry has experienced a 40% rise in productivity since 1989;
- to point out that the Canadian investment climate has changed in 1994, with the resolution of the MTN auto parts tariff issue;
- to ensure that Canada is not adversely impacted ("side-swiped") by the outcome of the Japan-U.S. Economic Framework Talks (EFT), which encompass 16 sectors including automotive.

ELECTRONICS, INFORMATION TECHNOLOGIES AND TELECOMMUNICATIONS

The Japanese market for electronics is mainly supplied by the domestic industry, but there are niche markets for manufacturers of specialized electronic products. Japan is a staple market with relatively high profit margins for Canadian exporters.

The market for software products and services in Japan continues to grow at an estimated 15% annually. The dominance of the NEC standard software is weakening, opening market opportunities for MS-DOS and UNIX based software products. Canadian companies with Japanese partners are adapting and creating new product for this market. Major opportunities are in multimedia, text retrieval and LAN/WAN systems.

Privatization and the resulting competition in the Japanese telecommunications industry have increased Japan's imports to an average of 38.5% annually. The focus has been on the manufacturing segment of this sector, but there are emerging markets for telecommunications services and consulting services, especially for specialized communications products.

INDUSTRIAL MACHINERY

Canadian exports of specialised machinery and equipment to Japan have benefitted from the strong Japanese yen coupled with the advanced design and technology incorporated into some Canadian products. Typical products include forestry-related machinery such as tree-harvesting equipment and computer-controlled sawmill machinery, ocean industry (subsea) equipment, and road-building machinery.

May 1994

CANADA/JAPAN TRADE IN CHEMICALS, ADVANCED MATERIALS AND BIOTECHNOLOGY

Canadian exports of chemicals to Japan - the main items are methanol, styrene, ethylene glycol, ethylene dichloride, potassium chloride, butyl rubber, natural uranium, radioactive isotopes, ammonia - are worth about \$400 million per year. Most of this trade is well established and takes place on the basis of long term contracts.

In the area of advanced industrial materials, Japanese industry is particularly advanced, with a substantial research effort underway. Canadian expertise in advanced uses of, and manufacturing techniques for, such materials as magnesium, aluminum and others has opened up potential areas of cooperation and, ultimately, commercial prospects. One area of particular interest to Canadian firms is advanced ceramic powders used in the manufacture of ceramic products.

Japan's biotechnology market is expanding rapidly (now estimated at over \$1 billion per year), and presents opportunities for Canadian industry. Canadian strength in this market includes diagnostic drugs and techniques, and pharmaceuticals and biochemicals for agriculture. Canadian exports in this area have already exceeded \$50 million.

May 1994

CANADA/JAPAN ENERGY RELATIONS

COAL

Japan is the world's single largest importer of coal, both for thermal and coking coal. It is Canada's leading coal customer, purchasing 16 million tonnes in 1993, or 58% of Canada's total coal exports by volume, with a value of C\$1.1 billion. This is up marginally from the previous year, largely due to the resumption of production at three mines that were shutdown for 8 months during 1992/1993 due to labour disputes. Shipments in 1994 are expected to continue to recover some more of the volumes lost during 1992/93.

Forecasts of Japanese coal demand are divided between coking or metallurgical demand, which is likely to decline slowly for the remainder of this decade, and thermal or steaming demand, which is forecast to increase significantly. According to various sources demand for coal for Japanese power generation will more than double over the next decade. The predicted higher prices accompanying this rising demand could increase the opportunities for expanded Canadian exports.

April, 1994

JAPANESE MARKET FOR AGRICULTURE, FISHERIES & FOOD PRODUCTS

SECTOR OVERVIEW

Japan is the largest importer of food and seafood in the world. Japanese food imports in 1992 totalled U.S.\$45 billion, registering year-on-year growth of about 7.8%. Canada is the sixth largest supplier of agriculture and processed food products to Japan. Major export categories included meats, grains, seafood, processed foods and beverages, feeds, oilseeds and other products such as fresh mushrooms, peat moss etc. As shown in the following table, Japanese food and seafood imports continue to increase substantially.

Japan is the world's largest market for fisheries products and absorbs approximately 30% of the world's trade in fisheries products, on a value basis. Canada is the seventh largest supplier of fisheries products to Japan with exports totalling and the largest exporter of such products as herring roes, lobster, and capelin. Fisheries products figure prominently in the list of leading imported food products, with shrimp, salmon, tuna and crab appearing in the Top 10. In fact, the single largest imported food product in Japan is shrimp, with 1991 imports totalling US\$2.8 billion.

JAPANESE FOOD MARKET IN TRANSITION

Japan is Canada's second largest food market after the U.S.A. and is expected to continue to be so in the 1990's. Canadian agriculture, food and fish shipments to Japan totalled about \$2 billion (on CIF basis) in 1992 and have continued in a strong growth pattern established since the Plaza Accord, or the revaluation of the yen, in 1985. Total Canadian food exports increased by about \$500 million during this period with major gains in every product category including meat, fish, grains, oilseeds, feeds, processed foods and beverages. With all of this said, however, higher value added food products have the best export growth prospects in the Japanese market place.

Key variables that substantiate this claim and are expected to increase Japanese buyers and consumers' purchasing power are:

Economic Growth:

The current economic downturn in Japan means opportunity as Japanese food and beverage importers aggressively search for new products to sustain their sales.

Value of the Yen:

As long as the yen remains strong, the purchasing power and investment in value-added production by food importers will continue to rise.

Trade Liberalization:

Bilateral and multilateral efforts continue to pressure Japan to liberalize its food market. These developments will gradually loosen up Japan's distribution system, in turn, creating opportunities for middle size Japanese companies to import food products directly. The recent liberalization of beef, fruit juices, ice cream and yogurt are but a few examples of new opportunities.

Labour Shortages:

The lack of labour is forcing food processors to import further processed foods as well as investing offshore in the form of joint venture partnerships.

Declining Domestic Fishery Sector:

Japan's domestic supply of fisheries products continues to decline leading to increased imports of such products. Imports rose from U.S.\$4.9 billion in 1985 to U.S.\$13.2 billion in 1992. Lower catches in domestic waters, as well as decreasing access to international and foreign-controlled waters should lead to a continued increase in imports.

Inefficient Japanese Agricultural Economy:

Only 7 percent of Japan's land is suitable for agriculture. Land prices continue to rise, the farm population is aging, and farm size is not projected to change significantly from the one hectare average. Food production competitiveness is expected to continue to decline forcing an increase in demand to source food products from abroad.

Japanese Consumer Price Sensitivities:

Following the economic slow down in Japan, consumers (and importers) have become much more price sensitive. Brand is no longer as important as quality and value. This attitude is unlikely to change as the Japanese economy picks up again in the future.

Demographic Realities:

In 1990, the Japanese government confirmed the number of children per mother decreased to 1.57, the lowest in Japan's history. The Japanese food industry is targeting its efforts primarily at the age bands of 55-80 and 20-35. These age groups will figure prominently in the development of Canadian food product marketing strategies for Japan.

Food Safety:

Japanese consumers are avoiding foods with synthetic or chemical additives; closely monitoring ingredient labels, and increasing preferences for organically grown fruits and vegetables. Canada enjoys an excellent food safety record in Japan. This, coupled with Canada's positive image of cleanliness and wholesomeness, is a natural advantage in successfully marketing food products and beverages in Japan.

The current Japanese food market environment will create a number of export opportunities and trends for Canadians which include:

- Increased demand for beef and fruit juices as a result of liberalization measures announced by the Japanese government in June 1988.
- Greater consumption of fresh seafood (salmon, crab, lobster, sea urchin roe, surf clams)
- Greater demand for vegetable oils containing low saturated fat such as Canola (for cooking and salad oil purposes)
- Increased demand for beverages such as beer, liquor, wine, and mineral water.
- Expansion of leisure foods developed specifically for outdoor use (camping, picnics and barbecues).
- Increased usage of imported processed foods, meat and fish by the Japanese food service industry.
- Increasing correlation of marketing of food products to health, safety and ecology.
- Increase in consumption of bread (bread mixes), breakfast cereals and frozen foods as well as convenience foods (availability of ready to eat and ready to cook meals).
- Changing role of foods from satisfying basic needs to satisfying psychological needs (i.e. brand allegiances, gourmet and sophisticated food products).
- Custom-pack label joint ventures between Japanese importers and Canadian exporters.

May 1994

CANADA-JAPAN TRADE IN FOREST PRODUCTS

Overview

Canadian exports of forest products to Japan in 1993 amounted to \$3.146 billion, an increase of about \$800 million over 1992. Lumber accounted for over \$2 billion, pulp and paper \$840 million, wood chips \$82 million, logs \$108 million and plywood \$30 million. Forest products continue to comprise our single largest export sector in the Japanese market.

Japanese housing starts in 1993 were 1,486,000 units, an increase of 5.9% over the previous year. Nearly 700,000 units were of wooden construction, with the balance being apartment units. Prefabricated housing is a growing trend, accounting for about 17% of housing units last year. North American 2X4 platform frame construction made up 3.9% of housing units built in 1993, @ 56,300 units. In terms of single family wood frame housing starts, 2X4 housing made up 8% of such housing units last year, up slightly from 1992. Canada remains the principal supplier of dimension SPF lumber to Japan, with over 80% of the market.

Lumber and Plywood

Canadian exports of dimension lumber to Japan were valued at \$2,045 million in 1993, compared to \$1,338 million the previous year. This represented an increase in value of over 50%, and was attributable to the strong demand and high prices which prevailed during 1993. Japan depends on Canadian mills for much of its lumber requirements; the strong yen also contributed to the surge in export value last year. There is every indication that housing starts will continue to be strong in 1994 which should mean another strong export performance for this sector.

Canadian plywood exports to Japan showed excellent growth in 1993, in part due to Japanese concerns about supply constraints and environmental issues in South-East Asian countries which traditionally have supplied most of Japan's plywood requirements. It is also a reflection of the technical and promotional groundwork being carried out by COFI in recent years, along with a continuing trend towards the use of softwood plywood and imported panels coupled with some changes in procurement patterns, all of which should result in increased export sales in the future.

Pulp and Paper

The Japanese pulp and paper industry continued its economic slump in 1993, with the sector characterized as being non-competitive in world terms. With domestic paper demand soft due to the recession, production costs high in relative terms due to the strong yen, plus continuing structural over-capacity, there is likely to be further re-structuring in the months ahead. The recent merger of New Oji Paper and Nippon Paper Industries created one of the world's top ten paper producers in terms of revenue. However, low profitability in the industry, coupled with U.S. pressure to import more paper products, is likely to bring about further restructuring in the not-too-distant future.

In 1993, Canadian exports of pulp and paper to Japan increased by 8% to \$840 million. Canada supplies about one-third of Japan's import requirements; in turn, Japan accounts for about 15% of total Canadian pulp and paper exports. Some 40% of Japanese overseas investment in this sector has been made in Canada.

Housing

The Japanese government, as part of its economic stimulus program in 1993, continued to promote residential housing by increasing the ceilings on housing loans extended by the Government Housing Loan Corporation. Prevailing low interest rates and stable land prices contributed to a rise in housing starts to some 1,486,000 units in 1993, up 5.9% over 1992 levels. Of these, about 56,300 units were 2X4-type wooden houses.

Japan's stock of post-war housing is gradually being reconstructed; it is estimated that during the period 1994-1999, about one million privately-owned houses will be replaced each year. Increased emphasis and attention is being given to "imported housing", such as housing kits prefabricated in Canada and elsewhere and shipped to Japan to be erected by specially-trained crews. This approach is seen to accomplish several objectives at once--spurring economic growth, improving living conditions, capitalizing on the strong yen and helping to rein in Japan's burgeoning trade surplus. Canadian manufactured home builders are poised to take advantage of this opportunity, to the extent that they have surplus production capacity and the ability to adapt their home designs to suit Japanese requirements. Several Canadian companies are now involved in supplying the Japanese market and more are likely to do so in 1994 and beyond.

Manufactured Building Products

Japan's manufactured building products sector, which encompasses both wood and non-wood products, is valued at over US\$14 billion per annum, and includes such products as doors, windows, molding, staircases, kitchen components, flooring, and prefabricated home packages, among others. While Canada's market share remains miniscule at under \$40 million, Japanese buyers' interest in Canadian products has begun to show rapid increases. Recent large export sales by Canadian manufacturers have served to demonstrate the huge market potential offered by Japan, together with Canadian capacity to fill such demand as Japanese builders actively and aggressively seek out less-expensive, labour-saving Western-style building products.

In July 1993, the Embassy completed a year-long study of the manufactured building products market in Japan, examining in detail the potential for Canadian sales of windows, doors, kitchen cabinets, molding, flooring, staircases, and other value-added products. This study led to a series of marketing seminars across Canada, intended both to inform and to recruit Canadian suppliers to this market. Compared to those of Japanese and U.S. origin, Canadian products are extremely competitive in terms of both price and quality; furthermore, with Canada's dominant presence in the dimension lumber market and the close association with 2X4 construction in Japan, products from Canada enjoy a high degree of market acceptance. Efforts are on-going to introduce a still-wider range of Canadian firms and products to this market. Throughout 1994, Embassy, Consulate and company participation in major Japanese trade fairs will be complemented by solo shows and technical seminars to further heighten Japanese buyers' awareness of Canadian building products.

Canada will promote a full range of value-added building products by more aggressively marketing pre-engineered, manufactured housing in Japan. Such advanced housing is ideal for the Japanese market, because it offers a ready response to the urgent need to replace much of Japan's current housing stock, it provides a high-technology, Western-style product which is in high demand, it can incorporate many high-value manufactured products such as hardwood staircases, pre-finished hardwood flooring, "designer" kitchen systems, heat recovery systems, "smart" house technology, advanced R-2000 components/building systems, labour-saving construction methods, and so on. While Canada's export success with these products will not approach (in the foreseeable future at least) the present high level of forest product sales to Japan, it is nonetheless a very exciting development in terms of adding value to our building product exports to Japan, thereby creating high-paying, secure employment

for Canadian workers in SMEs across Canada, as well as attracting additional Japanese investment in related manufacturing facilities in Canada, with all the multiplier jobs involved as a bonus. The immediate challenge remains that of apprising Canadian companies of the Japanese market opportunity, and of making potential Japanese buyers more aware of what Canadian companies have to offer in the way of manufactured housing and a full complement of value-added building products.

April, 1994

THE JAPANESE TOURISM MARKET:
THE CANADIAN CONNECTION

Japanese outbound travel has grown at a phenomenal rate over the past 25 years, from 128,000 visits abroad in 1964 to 11.9 million in 1993. Some incentives to travel include a substantial appreciation of the yen against foreign currencies, a recent five-year program that actively encourages outbound travel, changes in Japanese lifestyle, and extremely competitive promotional efforts by the travel industry. Despite the slowing of economic growth, industry observers predict that, by the year 2000, over 20 million Japanese will travel overseas annually. To expand and enhance bidirectional tourism, the Japanese Ministry of Transport (MOT) recently announced a program called "Two-Way Tourism 21" to promote broad-based international tourism now and into the twenty-first century.

Tourism has important links to other sectors of the Canadian economy. It provides direct employment for more than 600,000 Canadians, and is ranked fourth in terms of export earnings.

Some Japanese businesses are investing in the Canadian tourism sector, particularly in hotel and resort properties in Toronto, Hamilton, Banff, Vancouver, Whistler and Victoria. Major Japanese travel companies have now established their own operations and liaison offices in Canada, creating employment and displaying their long-term commitment to promoting the Canadian travel destination.

Japan now ranks as Canada's most important overseas market in terms of visitor revenues, generating approximately \$435 million in 1992, excluding international airfares. Long-term Japanese visits (over 24 hours) increased by 3.6 percent in 1993 to reach 409,127 (preliminary figure); total visits from Japan to Canada increased 2 percent to 505,812. As Japanese visitors generate the highest yield per day of any of our major markets (\$174 in 1992), potential incremental revenue is significant, provided Canada can maintain or increase its market share.

To do that, Canada's tourism industry must become aware of, adapt to, and initiate programs that will further enhance Japanese tourism interest - and visits - to this country. A step in this direction is to understand more about the type of Japanese visitors that come to Canada.

While the major objective of increased revenue will be met partly through increased arrivals, another key variable is increased spending per trip. Emphasis is being placed on the latter by continuing to target high-yield segments. "Office ladies" remain the priority, followed by the "Silver Age" group, and skiers - a key niche segment. The marketing approach in Japan is tightly-focused, featuring product-specific messages aimed at these

segments. Efforts focus upon influencing a shift of visits from peak to shoulder and off-seasons. Investigations into the potential of new customer segments (e.g., Middle-age, incentive travel, "resort" travellers, and eco-tourists) are continuing. New products and regions are being packaged and promoted in a highly-targeted fashion (such efforts have already begun with the School Excursion Touring Project; the Canada West "Beaver Kaido" and Canada East "Romantic Kaido" projects). All activities flow from strategic direction outlined in Tourism Canada's Business Plan, and are summarized in their annual Operational Plan. Both of these form an important component of "Canada's Action Plan for Japan" - an integrated effort of federal and provincial governments and the private sector, under the aegis of the Asia/Pacific Partnership Committee (APPC). Chaired by Tourism Canada, the APPC is comprised of public-and-private sector organizations that have indicated an intention to invest funds and/or in-kind services in support of a jointly conducted Market Plan.

Japan is a sophisticated market of growing importance that is undergoing considerable change in consumer travel purchase behaviour because of the "bubble burst" economy: a wiser consumer seeking value rather than "brand", an increase in small groups as well as Foreign Independent Travel (FIT), and "off-peak" purchases. All these changes will require a long-term commitment to address. Competition for a greater share of this shifting yet lucrative market has become very intense. This competition will certainly increase with completion of the Narita Airport facility expansion, and with the opening of the Kansai International Airport in September 1994. The completion of this latter airport is expected to create another wave of strong growth in traffic. To maintain and build our share through to the turn of the millennium, Canada must achieve a strong market presence now, and position itself with tourism partners to meet the competition head-on in 1994.

One of the key recommendations of the Joint Report of the Canada-Japan Forum 2000, presented to the two Prime Ministers in December 1992, addresses this objective, i.e., the encouragement of enhanced mutual awareness of each other's cultural heritage and historical development. One direct result of these initiatives was the development of the successful September 1993 high-level Japanese MOT Tourism Mission visit to Canada. As part of the Mission's program, a Canada-Japan Tourism Conference was held in Montreal. As the main action item, the head of the Japanese delegation, the Japanese MOT Parliamentary Vice-Minister, challenged the Canadian and Japanese industries to triple the number of Japanese visiting Canada annually from approximately 500,000 to 1.5 million. This "1.5 Million Challenge" will impose significant implications on the Canadian

tourism product, including considerations such as the need for increased air capacity and access, the requirement for new product and packaging, customs and immigration policies and procedures, and the availability of sufficient Japanese-speaking guides.

One of the immediate initiatives flowing from the Tourism Mission is the formation of the "Canada Committee", chaired by Tourism Canada. This Committee brings together experts in various fields of the Canadian tourism industry to provide an in-depth review of the issues linked to the 1.5 Million Challenge. A half-dozen sub-committees of that committee have been established which are diligently considering ways and means of addressing the challenges of not only promoting increased travel, but the important sectoral issues influenced by the projected growth (transportation, both air & ground; accommodation; product & packaging; cross-cultural & servicing; regulatory & policy).

Already stemming from the "Canada Committee" meeting is the clear need for the adaptation and development of new tourism product. As a result, Japan will be represented at Rendezvous Canada 1994, Canada's internationally recognized travel trade marketplace, with its largest delegation ever. With over 60 select delegates in May 1994, Japan will field the largest number of representatives.

As a corollary to Rendezvous Canada, the Canadian Embassy in Tokyo will host Kanata '94. This latter Marketplace is designed to assist the Canadian travel trade to sell new Canadian product, to develop business networks and to improve market knowledge. It will be staged in Fall 1994 in the Kansai region of Japan, in preparation for the growing potential demand as a result of the September 1994 opening of the Kansai International Airport, the entry of Air Canada into Japan serving Osaka, and Canadian Airlines International's continued services between Canada and Japan at Nagoya (as well as Tokyo).

The sub-committees of the "Canada Committee" will formulate specific action items over the next few months, leading up to the 1994 Canada-Japan Tourism Conference. It is anticipated that the Honourable John Manley, Minister of Industry (responsible for tourism), will table the final report of the "Canada Committee" at that Conference, proposed to take place immediately following the World Forum of Tourism Ministers in Osaka in November 1994. Prepared by the Canadian tourism industry, his report will serve as an Action Plan. It will identify potential medium to long term market segments; product/service gaps to be filled in the short, medium or long term; the testing of a regional approach to strategy development; and, flowing from the success of the Japan mission, increased emphasis on Eastern and Atlantic Canada.

The economic benefits of reaching the target set by the 1.5 Million Challenge are enormous. An additional \$1 billion would be pumped into the Canadian economy each year, creating more than 20,000 new jobs. To achieve this end, the Canadian tourism industry must commit itself towards "making good" on the strategy as outlined in Canada's Action Plan for Japan -- with emphasis on awareness of Japan's changing market dynamics, product adaptation to these changes, and responding proactively to the marketing challenges of these changes in Japan. In particular, the Canadian tourism industry must commit itself to implementing the recommendations to be tabled at the Canada-Japan Tourism Conference taking place this fall in Japan. Companies that do so will position themselves to reap impressive benefits into the new millennium.

May 1994

STATISTICAL TABLES

STATISTICS CANADA - INTERNATIONAL TRADE DIVISION
 EXPORTS JANUARY - DECEMBER 1993 USER GROUPINGS
 BY COMMODITY (VALUES IN \$,000)
 COUNTRY OF DESTINATION - JAPAN
 REQUEST R19494

GROUP	UOM	PREV_YR=1993		MONTH=2 / YEAR=1994		MONTH=6 / PREV_YR=1993		YTD-YEAR=1994	
		QUANTITY	VALUE	QUANTITY	VALUE	QUANTITY	VALUE	QUANTITY	VALUE
ANIMAL AND EDIBLE ANIMAL PRODUCTS		.	831,736	.	24,201	.	32,499	.	65,113
- MEAT	TNE	44,792	211,082	2,712	14,369	2,933	14,673	6,808	32,343
-- BEEF	TNE	1,599	7,879	156	637	36	482	464	1,668
-- PORK	TNE	27,216	161,308	1,833	12,223	2,027	11,621	4,202	26,916
- FISH AND SEAFOOD	TNE	81,394	629,000	1,336	9,650	2,756	16,837	4,143	31,904
-- SALMON	TNE	19,923	129,245	569	2,669	463	2,310	1,699	9,746
-- COD (EXCEPT FROZEN FILLETS)	TNE	79	483	3	11	.	.	22	84
-- FISH ROES	TNE	8,640	159,371	0	6	27	612	120	980
-- CRUSTACEANS & MOLLUSCS	TNE	24,860	230,618	341	5,045	1,143	10,564	983	15,370
--- CRABS	TNE	13,608	122,342	26	288	1	12	110	1,194
--- LOBSTERS	TNE	1,861	24,302	96	1,703	104	1,704	167	2,904
VEGETABLE PRODUCTS		.	1,187,305	.	77,273	.	64,826	.	131,148
- FRUITS & VEGETABLES		.	25,389	.	417	.	560	.	1,997
- CEREAL GRAINS		.	436,333	.	28,851	.	24,404	.	48,393
-- BARLEY	TNE	959,628	128,503	69,990	8,952	104,307	15,123	144,981	17,982
-- WHEAT	TNE	1,794,578	280,267	119,985	19,231	50,152	8,035	179,979	28,895
-- RYE	TNE	142,521	19,470	1,603	234	7,068	996	4,089	539
- MALT		.	79,234	.	2,476	.	5,188	.	7,689
- OIL SEEDS	TNE	1,586,552	502,663	114,830	39,636	77,823	27,709	351,100	115,709
-- FLAXSEED (LINSEED)	TNE	80,632	21,333	.	.	1,339	379	13,794	3,721
-- RAPESEED (CANOLA)	TNE	1,471,338	467,818	113,935	39,208	76,171	24,821	333,459	110,571
- ANIMAL FODDER		.	134,995	.	5,336	.	6,420	.	16,163
OTHER FOOD & FOODSTUFFS		.	111,034	.	9,335	.	9,646	.	21,039
- SEAFOOD, PREPARED		.	15,752	.	1,178	.	226	.	3,008
- VEGETABLES & FRUIT, PREPARED		.	14,322	.	1,343	.	727	.	2,354
- WHISKIES		.	25,394	.	4,833	.	3,441	.	3,483
MINERALS		.	329,559	.	55,794	.	24,150	.	67,494
- ASBESTOS	TNE	86,183	43,884	4,067	1,690	3,894	3,031	12,378	5,868
- IRON ORES/CONCENTRATES	TNE	1,146,826	18,097	.	.	.	.	.	.
- COPPER ORES/CONCENTRATES	TNE	201,800	394,849	26,798	51,307	4,563	11,283	27,966	53,298

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GROUP	UOM	PREV_YR=1993		MONTH=1 / YEAR=1994		MONTH=1 / PREV_YR=1993		YTD-YEAR=1994	
		QUANTITY	VALUE	QUANTITY	VALUE	QUANTITY	VALUE	QUANTITY	VALUE
- LEAD ORES/CONCENTRATES	TNE	15.220	3,304	.	.	3,796	1,341	.	.
- ZINC ORES/CONCENTRATES	TNE	13,943	9,438	.	.	4,333	2,467	.	.
- MOLYBDENUM ORES/CONCENTRATES	TNE	3,889	24,279	63	335	340	1,823	391	3,059
MINERAL FUELS	.	.	1,267,724	.	84,363	.	36,499	.	233,280
- COAL	TNE	17,092.157	1,203,281	1,303,381	83,482	733,462	54,908	3,293,976	230,744
- PETROLEUM	.	.	43,234	.	38	.	7	.	39
- REFINED PRODUCT	HLT	2,142,933	43,234	140	38	17	7	143	39
CHEMICALS & PRODUCTS	.	.	307,652	.	10,213	.	20,131	.	31,338
- INORGANIC CHEMICALS	TNE	46,736	49,133	386	1,716	749	2,212	1,227	3,843
- URANIUM	TNE	.	.	7	491	.	.	7	491
- RADIOACTIVE ELEMENTS/ISOTOPES	.	0	24,773	0	361	0	307	0	1,038
- HEAVY WATER	TNE	.	.	.	.	.	.	0	13
- ORGANIC CHEMICALS	TNE	682,636	143,040	20,689	4,770	30,363	10,337	47,667	13,808
- STYRENE	TNE	48,486	29,116	1,000	341	3,678	1,389	6,000	3,311
- METHANOL	TNE	331,072	73,283	13,638	2,674	36,617	4,803	28,379	4,828
- ETHYLENE GLYCOL (ETHANEDIOX)	TNE	18,266	8,666	.	.	3,042	1,271	1,913	1,131
- PHARMACEUTICAL PRODUCTS	.	.	28,899	.	204	.	2,361	.	1,806
- FERTILIZERS	TNE	494,246	67,136	16,090	2,309	26,008	3,329	70,490	9,904
PLASTICS AND ARTICLES THEREOF	.	.	17,029	.	793	.	1,898	.	2,230
RUBBER AND ARTICLES THEREOF	.	.	21,433	.	1,114	.	1,838	.	3,367
- RUBBER TIRES	.	.	9,228	.	273	.	838	.	1,240
RAW HIDES/SKINS & LEATHER GOODS	.	.	23,833	.	719	.	1,022	.	1,399
FOREST PRODUCTS	.	.	3,178,333	.	234,630	.	204,962	.	483,789
- WOOD CHIPS	TNE	367,730	81,336	43,382	6,228	34,484	7,676	113,043	16,814
- LOGS	.	.	116,324	.	6,733	.	8,747	.	18,889
- LUMBER	MTQ	3,308,183	2,064,900	338,009	146,738	338,292	130,763	743,333	303,661
- SOFTWOOD	MTQ	3,432,261	2,051,391	337,427	146,197	337,473	130,099	743,828	301,336
- PLYWOOD, FIBREBOARD & VENEERS	.	.	60,167	.	3,691	.	2,988	.	7,182
- WOOD PULP	TSD	1,188,303	378,734	112,092	36,983	73,778	38,484	194,623	36,940

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GROUP	UOM	PREV_YR=1993		MONTH=1 ² / YEAR=1994		MONTH=1 ¹ / PREV_YR=1993		YTD-YEAR=1994	
		QUANTITY	VALUE	QUANTITY	VALUE	QUANTITY	VALUE	QUANTITY	VALUE
- PAPER	.	.	264,419	.	18,827	.	15,756	.	40,610
-- NEWSPRINT	TNE	221,728	228,950	8,477	9,609	14,251	13,358	31,561	32,641
TEXTILES & GARMENTS	.	.	14,090	.	544	.	666	.	1,678
- TEXTILES	.	.	5,709	.	166	.	363	.	911
- GARMENTS	.	.	8,381	.	378	.	301	.	767
BASE METALS & ARTICLES THEREOF	.	.	375,547	.	25,074	.	31,626	.	44,397
- IRON & STEEL	.	.	7,804	.	301	.	350	.	1,215
-- SEMIFINISHED METAL	.	.	5,402	.	119	.	216	.	685
-- ARTICLES THEREOF	.	.	2,401	.	182	.	135	.	530
- NICKEL (METAL & ARTICLES)	.	.	49,779	.	1,421	.	6,231	.	6,672
- ALUMINUM	.	.	273,751	.	21,977	.	21,450	.	30,172
-- UNWROUGHT	TNE	181,530	271,960	14,432	21,843	14,413	21,401	19,946	29,362
-- ARTICLES THEREOF	.	.	1,791	.	134	.	49	.	210
- ZINC (METAL & ARTICLES)	.	.	11,096	.	402	.	1,457	.	1,003
MACHINERY	.	.	180,921	.	16,439	.	12,911	.	31,304
- GENERAL MACHINERY	.	.	122,406	.	12,360	.	8,805	.	23,187
-- METALWORKING	.	.	957	.	13	.	28	.	60
-- OFFICE MACHINES/EQUIPMENT	.	.	63,013	.	6,675	.	5,426	.	11,133
- ELECTRICAL MACHINERY	.	.	58,516	.	4,099	.	4,106	.	8,118
-- TELECOM/ELECTRONIC EQUIP/PARTS	.	.	45,212	.	3,057	.	3,494	.	6,174
TRANSPORTATION EQUIPMENT	.	.	138,788	.	7,131	.	7,098	.	13,954
- MOTOR VEHICLES	.	.	32,013	.	2,747	.	170	.	5,216
- MOTOR VEHICLE PARTS	.	.	48,811	.	2,393	.	4,407	.	6,354
- MOTORCYCLES	.	.	38	.	.	.	.	.	.
- AIRCRAFT & EQUIPMENT	.	.	32,603	.	1,983	.	1,614	.	2,176
PRECISION EQUIPMENT	.	.	53,119	.	4,737	.	3,854	.	7,926
PREFABRICATED BUILDINGS	.	.	26,775	.	1,308	.	895	.	4,246
UNCLASSIFIED EXPORTS	.	.	73,115	.	7,835	.	5,525	.	12,495
FIRST LEVEL TOTAL	.	.	8,360,037	.	561,702	.	480,126	.	1,219,278

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GROUP	UOM	PREV_YR=1993		MONTH=4 /YEAR=1994		MONTH=4 /PREV_YR=1993		YTD-YEAR=1994	
		QUANTITY	VALUE	QUANTITY	VALUE	QUANTITY	VALUE	QUANTITY	VALUE
FIRST LEVEL RESIDUAL		.	66.733	.	3.430	.	3.533	.	7.763
JAPAN TOTAL		.	8,426,771	.	565,132	.	485,679	.	1,227,041

STATISTICS CANADA - INTERNATIONAL TRADE DIVISION
 IMPORTS JANUARY - DECEMBER 1993 USER GROUPINGS
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GROUP	UOM	PREV_YR=1992		MONTH=4 / YEAR=1994		MONTH=4 / PREV_YR=1992		YTD-YEAR=1994	
		QUANTITY	VALUE	QUANTITY	VALUE	QUANTITY	VALUE	QUANTITY	VALUE
ANIMAL AND EDIBLE ANIMAL PRODUCTS	.	.	7,850	.	557	.	244	.	1,560
- FISH AND SEAFOOD	TNE	1,310	7,850	55	557	38	244	263	1,560
VEGETABLE PRODUCTS	.	.	21,287	.	492	.	313	.	899
- FRUITS & VEGETABLES	.	.	17,863	.	137	.	97	.	260
OTHER FOOD & FOODSTUFFS	.	.	19,133	.	1,373	.	1,009	.	2,745
- SEAFOOD, PREPARED	TNE	463	1,843	38	108	5	31	82	258
MINERALS & MINERAL FUELS	.	.	1,890	.	196	.	114	.	397
CHEMICALS & PRODUCTS	.	.	302,441	.	27,258	.	21,523	.	48,419
- INORGANIC CHEMICALS	TNE	7,026	9,792	629	1,180	328	679	1,230	1,868
- ORGANIC CHEMICALS	TNE	38,937	72,455	3,669	6,302	682	5,124	6,860	11,308
- PHOTOGRAPHIC SUPPLIES	.	.	156,304	.	13,294	.	11,029	.	21,699
PLASTICS AND ARTICLES THEREOF	.	.	62,476	.	5,467	.	5,151	.	9,725
RUBBER AND ARTICLES THEREOF	.	.	212,795	.	19,025	.	14,937	.	32,855
- RUBBER TIRES	NMB	1,869,188	139,337	144,191	11,184	141,653	10,481	278,052	19,522
- MOTOR VEHICLE	NMB	1,541,960	102,762	117,951	7,962	116,580	7,812	202,957	13,785
RAW HIDES/SKINS & LEATHER GOODS	.	.	4,824	.	290	.	416	.	467
FOREST PRODUCTS	.	.	26,240	.	1,820	.	1,936	.	3,737
- PAPER	.	.	25,350	.	1,794	.	1,868	.	3,670
TEXTILES & GARMENTS	.	.	92,258	.	6,335	.	6,928	.	14,625
- TEXTILES	.	.	77,970	.	5,254	.	5,915	.	12,383
- GARMENTS	.	.	14,288	.	1,081	.	1,013	.	2,242
BASE METALS & ARTICLES THEREOF	.	.	425,382	.	34,041	.	27,196	.	83,806
- IRON & STEEL	.	.	287,715	.	26,303	.	19,075	.	61,446
- SEMIFINISHED METAL	TNE	113,264	117,609	7,350	8,230	6,304	7,178	15,598	19,232
- ARTICLES THEREOF	.	.	170,106	.	18,075	.	11,896	.	42,213
- NON-FERROUS METALS/ARTICLES	.	.	14,079	.	637	.	701	.	1,605
MACHINERY	.	.	4,778,899	.	413,272	.	357,654	.	769,745
- GENERAL MACHINERY	.	.	2,849,366	.	265,026	.	223,323	.	493,497
- INTERNAL COMBUSTION ENG./PARTS	.	.	685,462	.	73,207	.	56,437	.	134,059
- MOTOR VEHICLE	.	.	566,198	.	57,757	.	45,324	.	106,643

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GROUP	UOM	PREV_YR=1993		MONTH=1 / YEAR=1994		MONTH=1 / PREV_YR=1993		YTD-YEAR=1994	
		QUANTITY	VALUE	QUANTITY	VALUE	QUANTITY	VALUE	QUANTITY	VALUE
-- HEATING & COOLING MACHINERY	.	.	28,461	.	377	.	1,133	.	1,773
-- CONSTRUCTION/MINING	.	.	238,814	.	23,386	.	18,567	.	43,103
-- METALWORKING	.	.	179,910	.	12,437	.	11,347	.	21,700
-- OFFICE MACHINES/EQUIPMENT	.	.	1,209,488	.	106,449	.	97,936	.	197,738
--- ELECTRONIC COMPUTERS	.	.	72,646	.	9,331	.	3,337	.	17,966
- ELECTRICAL MACHINERY	.	.	1,929,533	.	150,247	.	134,332	.	276,249
-- HEAVY ELECTRICAL	.	.	80,202	.	9,146	.	6,824	.	16,796
-- COMBUSTION ENG. ELEC. COMPONENTS	.	.	43,306	.	4,208	.	3,323	.	8,243
-- TELECOM/ELECTRONIC EQUIP/PARTS	.	.	1,444,899	.	110,379	.	93,432	.	201,730
--- TELEPHONE/TELEGRAPH	.	.	147,167	.	17,869	.	12,921	.	28,698
--- AUDIO/VIDEO ELECTRONIC EQUIP.	.	.	678,483	.	39,607	.	43,418	.	71,968
--- RECORDING MEDIA	.	.	70,321	.	3,432	.	3,092	.	10,033
--- ELECTRONIC/SEMICONDUCTOR PARTS	.	.	495,633	.	43,008	.	34,691	.	81,837
- HOUSEHOLD APPLIANCES	.	.	29,280	.	1,896	.	1,533	.	3,342
TRANSPORTATION EQUIPMENT	.	.	3,467,029	.	274,687	.	373,763	.	487,963
- MOTOR VEHICLES	NHS	209,518	2,344,381	14,720	171,223	24,809	298,083	27,428	311,338
- MOTORCYCLES	NHS	13,079	31,693	3,347	14,708	2,809	8,434	6,009	24,226
- MOTOR VEHICLE PARTS	.	.	793,349	.	77,360	.	39,763	.	133,267
PRECISION EQUIPMENT	.	.	707,341	.	38,262	.	46,886	.	103,088
- PHOTOGRAPHY EQUIPMENT	.	.	343,739	.	30,333	.	13,379	.	31,878
--- CAMERAS	.	.	48,368	.	1,879	.	2,632	.	3,443
- PHOTOCOPIING EQUIPMENT	.	.	263,482	.	23,905	.	14,708	.	42,232
- WATCHES & CLOCKS	.	.	21,079	.	1,217	.	1,006	.	3,343
MISCELLANEOUS MANUFACTURED GOODS	.	.	383,231	.	23,894	.	24,337	.	46,123
- TOYS	.	.	239,790	.	14,313	.	14,423	.	26,499
- MUSICAL INSTRUMENTS	.	.	49,320	.	2,896	.	2,964	.	3,603
UNCLASSIFIED IMPORTS	.	.	33,806	.	4,634	.	3,361	.	8,096
FIRST LEVEL TOTAL	.	.	10,368,902	.	873,624	.	890,172	.	1,616,234
FIRST LEVEL RESIDUAL	.	.	148,398	.	11,799	.	10,079	.	22,328

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		QUANTITY	VALUE	QUANTITY	VALUE	QUANTITY	VALUE	QUANTITY	VALUE
JAPAN TOTAL		.	10,717,500	.	885,424	.	900,231	.	1,638,582

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