

Trade, Investment and the New Regionalism: Cascadia and its Economic Links with Japan

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Metropolitan Portland, Seattle and Vancouver are the centres of a vast region of geographical affinity that extends from Southern Oregon to far up the British Columbian (hereafter B.C.) coast. This region is commonly titled 'Cascadia' by its promoters, after the Cascade mountains on the U.S. side of the border (Schell and Hamer 1993; Economist 1994) (see Figure 1). At its most extravagant the region includes the northwest states of Alaska, Idaho and Montana, as well as the western province of Alberta (together, these are known also as the Pacific Northwest Economic Region). Pundits often note that if the 'greater Cascadia' region were a country, then with a combined population approaching 15 million and a 1991 GNP of nearly U.S. \$300 billion, it would rank as the tenth-largest economy in the world, behind the United States and the other G7 countries, the Commonwealth of Independent States (C.I.S.) and mainland China (Pacific Northwest Economic Region 1992).

Apart from enjoying substantial natural resources, relative economic buoyancy and rapid growth, an equally significant affinity has been the dependence of Cascadia's states and provinces on international trade. The entire Pacific Northwest has become very trade-dependent, due firstly to its location far from major domestic U.S. and Canadian consumer markets, and secondly because of its proximity to the Asia-Pacific region, home to the world's most rapidly growing economies (Northwest Policy Centre and U.S. Bank 1992; Kwan 1993). Thus, not only is the central Cascadia region (B.C., Washington and Oregon) dependent upon overseas trade for its livelihood, but it is dependent specifically for about half of its exports upon Asia-Pacific countries (including Australia and New Zealand). In fact, part of the reason for the region's recent economic stability has been its booming exports to, and inbound foreign investment from, the Asia-Pacific block (Northwest Policy Centre and U.S. Bank 1992, 1995). British Columbia's situation is typical. Provincial statistics show that exports to the rest of Canada accounted for less than one-quarter of B.C.'s total merchandise exports during 1994, yet over the year B.C.'s world exports increased at nearly four times the rate of its exports to the rest of Canada. In addition, by 1990 Asia-Pacific grew to be an equal partner with the U.S. as a destination for B.C. goods, although this trend has weakened in recent years (see, Statistics Canada, Catalogues 13-213 and 65-202). Furthermore, while the two states of

Oregon and Washington contain only 3 per cent of the United States' population, their ports handle about 25 per cent of the value of export goods. Washington workers, for instance, rank second in the U.S. in the degree of dependence on export-related employment, and Oregon workers rank tenth (U.S. Bank and Northwest Policy Centre 1990).

FIGURE 1 Cascadia and the Pacific Northwest Economic Region

FIGURE 2 British Columbia, Washington and Oregon: Major Export Markets, 1990 (%)

These impressions are confirmed by Figure 2 which displays the 1990 export profile of the three main members of Cascadia divided between the three global 'triad' economies of Europe, North America and Asia Pacific (Ohmae 1985). The patterns show that, compared with the U.S. and Canada, the region's exports as a whole were dominated by the Asia and West Pacific block. Further analysis (not shown in Figure 2) revealed that within that block Japan was the most commanding international trading partner for Washington and Oregon, and second only to the USA for British Columbia. Beyond trade, each of Cascadia's core cities has had culturally diverse populations, and each has been a preferred destination for new migrants from Asia-Pacific nations (Bain 1991; Edgington and Goldberg 1992; Pivo and Rose 1992). In addition, recruiting efforts have brought in numerous Japanese investors to the region, such as Sharp and NEC, and also Nintendo, which set up its North American headquarters close to Seattle and in 1993 employed around 1,200 people (Economist 1993). It is this growing diversity of markets and sources of investment which, so it is often claimed, helped the region weather the storm and outpace the national average economic performance both in the U.S. and Canada through the recessionary years of 1990-91 (Economist 1992). Although the regional economy has since seen lower growth rates, especially when compared with the previous decade, certain forecasts foresee overall expansion continuing at rates greater than national averages over the 1990s, due in part to strong economic links with Japan and other Asia-Pacific countries (Northwest Policy Centre and U.S. Bank 1994).

Based on the above trading profiles and other similarities, the last few years have seen initiatives put in place to harmonize policy development among the states and provinces of Cascadia and the Pacific Northwest, and to cooperate on development and trade issues.⁽¹⁾

This paper argues that the manner in which the two Canadian provinces and five American states shown in Figure 1 have set aside their major differences is part of the 'new regionalism', a phenomenon that stems from the growing integration of national economies and the obstacles that small political units and their firms face in trying to compete for a share of international business. There is a sense that global trends in trade and internationalization of production have compelled collaboration between states or provinces in ways that were unthinkable only a decade ago. This has arisen partly from want of leadership from the national or federal level. Thus, prior to the 1993 APEC (Asia Pacific Economic Cooperation) conference held in Seattle there was a clear feeling that

federal governments in Ottawa or Washington lacked any serious international trade policy or economic development program, leaving it the states or provinces to join together to promote their region's products (Kelly 1994). Moreover, many states and provinces continue to face budget constraints and cannot support initiatives to promote themselves or their products in light of a growing importance of foreign trade and the threat of growing competition from abroad (*ibid.*).

The aim of this paper is not to document fully the regional policy initiatives which have emerged lately in Cascadia, or the trading initiatives of individual states and provinces, but rather to look at this region from the viewpoint of its economic interactions with Japan, the most important member of the emerging Asia-Pacific 'triad' (Ohmae 1985). The paper attempts an explanatory examination of Japanese corporate activity in the Northwest Pacific region, one which allows a evaluation of Japanese trade and investment within the 'core' region of Cascadia -- B.C., Washington and Oregon -- and an identification of an emerging functional specialization of Japanese activities within the region as a whole. It seeks to ask how the Cascadia region has fitted into Japanese trading and investment strategies in NAFTA and the wider Pacific Rim? Moreover, how have Japanese firms addressed the challenges of the new move towards regionalism in Cascadia; and, across this vast territory, how have Japanese firms viewed each component of the Cascadia region?

This research is based on 33 interviews conducted during 1992 which were held across the region with relevant government officials and Japanese trading companies.⁽²⁾ As well, comparable trade, direct foreign investment (DFI) and tourism data from the early 1990s was analyzed. The unique contribution of this research is to provide comparative data and analysis for the core Cascadia region as a whole and to reveal the critical links with its major international trading partner. The following section of the paper provides an initial overview of some of the theoretical issues at stake in this research. This is succeed by an analysis of Japanese trade, overseas manufacturing investment, and tourism in B.C., Washington and Oregon. The paper concludes by considering the implications of the analysis for Cascadia's future pattern of trade and development.

Trade, Foreign Investment and the New Regionalism

The contemporary world economy is characterized by an extensive realignment of international patterns of competition, trade and production, as well as the existing geopolitical order (McGrew 1992; Morales and Quandt 1992). Two forces are at work which have major implications for the future efficiency of the nation state. The first of these is globalization and the surge in integration of the international economy through trade and foreign investments (Dicken 1992; Thrift 1992). The second force has been a movement towards regionalism, as the nation state is increasingly unable to serve as a champion against the tensions inherent in globalization. Ohmae (1990: 227-228) notes that "as the borderless and interlinked economy develops, regional- and city-level interests come more and more into play.... the global economy follows its own logic and develops its own web of interest which rarely duplicate historical borders between nations". Under the banner of the 'new regionalism', both macro-regional groupings of

countries and sub-national groupings have been identified in North America, Europe and Asia-Pacific (Johnson 1991; Gipouloux 1994; Ohmae 1995). A number of dimensions account for this trend. An economic one is grounded upon the acknowledgement of the role of proximity as an important determinant in the structure of international exchange. Hence, Krugman (1991) has noted that the nation-state has a less important impact on the geographical structure of trade than proximity. A political dimension has been identified by Markusen (1987) who contends that growing unevenness in economic fortunes between regions has given rise to sharpened local antagonism in the spatial development of North America, and that regional competition is now a prominent feature of modern political life. Cultural dimensions to the new regionalism have also been identified by Garreau (1981) and Barber (1995) who have documented the strong focus of cultural commonality as a regional phenomenon. Each of these three dimensions has played a role in shaping regionalism in Cascadia and the Pacific Northwest.⁽³⁾ In the case of Cascadia, relative isolation from the national centres of power in Washington DC and Ottawa has deepened the resolve on the part of its leaders to forge economic policies aimed at meeting its special needs. Conversely, the region's relative isolation from North America's major commercial centres has encouraged the development of international trade. In particular, geography and well-developed transportation links have meant that regional members are well situated for extending into Asia-Pacific trade markets. All of the states and provinces in Cascadia have drawn up trade strategies to maximize these benefits, and the members of Cascadia have tried to supplement what are perceived to be inadequate federal government services by their own initiatives. Oregon, for instance, hopes to export 50 percent of its manufactured products annually by 2010, up from 22 per cent in 1991; it has also begun to promote new products such as berries, live seafood, and 'engineered' wood products (interview with J.Barclay, Oregon Economic Development Department, Portland, April 1992). The cheaper U.S. and Canadian dollar against the Japanese yen has been a contributing factor to the success of these efforts, so have broader trade initiatives such as NAFTA, APEC and the World Trade Organization (WTO). Growing consumerism in Japan and other East Asian economies has also assisted (Far Eastern Economic Review 1991).

FIGURE 3 Estimates of 1990 Trade Balance with Japan for States and Provinces

There is a strong feeling in Cascadia that federal governments have not done enough for regional exports, and officials in the region are anxious that the continuing 'get tough with Japan' strategy, mainly from the U.S., should not damage Cascadia's most crucial relationship. Figure 3 shows an estimate of 1990 trade balances with Japan by each state and province in Canada and the United States. Not surprisingly, Japanese trade with core Cascadia region (and much of the wider Pacific Northwest Economic Region) reveals a trade surplus in Cascadia's favour. By comparison, the old industrial regions, such as Ontario and the mid-west states recorded trade deficits, finding it difficult to compete with imported Japanese manufactured goods. To a degree then, Figure 3 acts as an indicator of regional antagonisms (or regional patterns of 'Japan bashing') within North America (see Franz and Collins 1989). While it is acknowledged that much of the region's trade lies in resources rather than manufactured goods, there is a distinct feeling that without Asia-Pacific business Cascadia would have been worse off in the recent

recession. Consequently, in B.C., Washington and Oregon there appears to be a different attitude about Japan and the Pacific Rim than say the North American mid-west (Knauf 1991). "In Cascadia the last thing the local business community wants is a wave of resentment rolling across the Pacific. An angry Japan would have a much more devastating effect here than if would on, say Oshawa or Detroit" (interview with senior trade official, B.C. Ministry of Economic Development, Small Business and Trade, Vancouver, February, 1992). Beyond the patterns inherent in Figure 3, Cascadia's state and provincial governments have executed a credible task in presenting a positive image to Japanese business and government officials at a time when there has been considerable friction between the U.S. and Japan. Governors from Oregon and Washington, as well as B.C.'s Premier, have been personally involved in developing relationships in Japan. Each has a representative office in Tokyo which continues to receive effective support. There are also strong community ties between Cascadia and Japan, including relationships between Portland and Sapporo, Seattle and Kobe, and Vancouver and Yokohama (Washington State Department of Trade and Economic Development 1991; Baldrey 1991; Bain 1992).

Since the mid-1980s, Japan has taken on the role of 'demand side absorber' for Pacific Rim countries through the growth of its domestic consumer and industrial markets. At the same time, Japan emerged as an important source of direct foreign investment. The need to recycle large trade surpluses, the rising costs of labour, currency appreciation and menacing protectionism, have driven Japanese firms to rationalize at home as well as to globalize many of their operations (Edgington 1993). Where does Cascadia fit into this new order? To explore this question it is necessary to examine recent connections between Japan and Cascadia, and obtain a more precise focus on the role played by the subsidiaries of Japanese corporations which have located in the region. Consequently, the paper now turns to an examination of the connections with Japan in the areas of trade, investment and tourism.

FIGURE 4 British Columbia, Washington and Oregon: Exports to Japan by Commodity Type, 1990 (%)

Patterns of Trade and the Japanese Sg Shsha

An analysis of Japanese trade with each of the three core states/province was carried out to identify the commodity mix involved in current exports to Japan. The results for 1990, which are shown in Figure 4, have been arranged by three categories in order to aid analysis of different data sets. Raw materials refers to items such as coal and minerals, unsawn logs, and unprocessed agricultural produce. Simply transformed manufactures (STMs) refers to those goods associated with low added-value production, such as sawn lumber, metals, chemicals and so on. Elaborately transformed manufactures (ETMs) designates those items having relatively high added-value such as clothing, furniture, prefabricated housing components, machinery and electronic products. Figure 4 indicates that taken together, raw materials and the relatively low value-added STM categories dominated Cascadia's trade with Japan, reflecting the predominantly agricultural, marine, timber and minerals resource base of the region. Interviews with trade officials in B.C.,

Washington and Oregon confirmed that the vast gains in trade with Japan since the mid-1980s had indeed taken place largely in low value-added STMs such as processed food, agriculture and timber products. Regarding the export of high value-added ETMs, Washington had by far the highest proportion of Cascadia's exports to Japan in this category, 90 per cent of which comprised the sale of Boeing aircraft (JAL is currently Boeing's number one customer, Awanohara 1991). A further finding was that the sales of high technology services into Asia-Pacific, such as software, was problematic due to the lack of copyright protection legislation in these countries when compared with NAFTA and the European Union (interview with D. Lorenz, Director, Marketing and Targeted Industry Development Group, Washington State Department of Trade and Economic Development, Seattle, February, 1992).

The trade profile in Figure 4 reveals therefore a contour of commodities which was highly skewed towards raw materials and low value-added products--with the exception of Boeing in Washington. What is also of significance is the vast bulk of Japan's trade with each of the three states/province was not primarily the result of enterprising Canadian or American suppliers audaciously entering and breaking open 'closed' Japanese markets. Rather, it was controlled largely by Japan's 'infamous' *sg shsha* or general trading companies. The role of these enormous and global trading enterprises in Japan's post-war development has been described by Ell (1990) and Edgington (1990), among others. While they do not generally manufacture products in Japan or abroad, the *sg shsha* have taken the lead task of arranging the country's international trade, both exports and imports, as well as providing important distribution and financial services and marketing advice to a wide range of production and service companies in Japan and overseas. Together, the nine largest general trading companies (examples are Mitsui, Mitsubishi, Sumitomo and Nissho-Iwai) continue to organize about 50 per cent of Japan's world-wide trade, and are especially strong in the import of raw materials to Japan (estimates vary but probably about 80-90 percent of all imports) and the exports abroad of Japanese industrial machinery, chemicals and textiles. Consumer products such as electronics and motor vehicles are generally handled more and more by the manufacturing companies concerned (for example Sony and Toyota) (Ell 1990).

TABLE 1 The Sg Shsha in Cascadia, 1992

Source: Company Interview (1992) and Japan External Trade Organization (1993).en, each of the nine major trading companies had at least one office in the region's main centres. This distribution suggests that while the trade with Japan favoured Cascadia's resource hinterland, important trading functions were conducted close to the ports in each major metropolitan region.

Considering the nature of the Pacific Northwest's profile of exports it is perhaps not surprising to learn that the *sg shsha* have long been involved intransacting the region's bilateral trade partnership with Japan. By way of illustration, In the case of Oregon the trading companies have operated there since the late 1940s and early 1950s, due chiefly to the need to obtain North West Pacific wheat funnelled to Japan through Portland

(interview with Y. Kishi, General Manager, Mitsubishi International Corporation, Portland Branch, April 1992). Table 1 displays the distribution of sg shsha offices through the Cascadian region recorded in 1992. Apart from Kanematsu-Gosho and Nichimen, each of the nine major trading companies had at least one office in the region's main centres. This distribution suggests that while the trade with favoured Cascadia's resource hinterland, important trading functions were conducted close to the ports in each major metropolitan region.

Overall, it proved difficult to discern just what share of total trade flows between Cascadia and Japan were undertaken by the sg shsha, yet some sense of how these companies have divided the territory, and the region's resources and markets, was obtained through corporate interviews. By way of illustration, Table 2 presents how Sumitomo (ranked number 3 among Japan's sg shsha in turnover and first in profitability, Ell 1990: 115) apportioned the region's trade among its offices during 1992. The export orientation of Sumitomo's Cascadia operations is readily apparent. Over 85 percent of total turnover in each office is currently devoted to the export of raw materials (for example coal in B.C., timber in Washington, and wheat in Oregon), together with simply transformed bulk commodities, such as pulp, newsprint and metals. While each of the three offices operated in a fairly autonomous manner, Table 2 reveals a pattern of complementarity which reflects the proximity to the resources of each state or province.

TABLE 2 Sumitomo Corporation's Operations in British Columbia, Washington and Oregon, 1992 (date of commencement, employment, and percentage breakdown of total dollar value turnover)

Typically, small percentage commissions were made by the sg shsha on each of the bulk staples products handled, with the Tokyo head office retaining all planning functions, including responsibility for securing the contract. In the case of commodities such as timber, trade negotiations were conducted directly with major suppliers (for example Weyerhaeuser in Washington and MacMillan Bloedel in B.C.) for final delivery to house builders in Japan via a myriad of domestic distribution outlets. In the case of agricultural produce or fish, the suppliers were often North American wheat boards or farming cooperatives, and the major purchaser in Japan the Food and Agricultural boards of the national government. Thus, while at the detailed level there were a variety of contract arrangements for each item, the overall impression was that the region's commodities were traded between a small and limited number of buyers and sellers (interview with H. Enjo, Director, Branch Administration, Sumitomo Corporation of America, Seattle, May 1992).

From the sg shsha's perspective, companies such as Mitsui and Mitsubishi saw their first priority to secure stable supplies of resources for Japanese industrial and consumer markets, and consequently diversification into higher value-added products and services played only a subsidiary role. Moreover, they considered that a more diverse trade between Cascadian producers and the Japanese market would not easily emerge without substantial adaptation of local commodities on the part of firms in Cascadia to fit

Japanese market requirements (interview with T. Tashiro, Manager, Project Planning and Coordination Department, Mitsubishi Canada Ltd, Vancouver, December 1992). By and large, the *sg shsha* felt that they could not easily support the marketing any local small firm's products into Japan; the large amount of time and attention required to help just one small firm in Japan was reportedly equivalent to that required to arrange a single timber contract with one of the region's major companies. So, in summary, while the *sg shsha* were well set up to deal with long-term commodity contracts with a small number of large suppliers they were essentially conservative when it came to promoting innovative products from local 'start-up' companies. Such a stance is clearly problematic for the region's future development and export product diversification, especially considering that Cascadia is replete with small and medium business requiring special assistance in overseas markets (interview with R. Holland, Director Americas Branch, International Operations, Ministry of Economic Development, Small Business and Trade, BC, Vancouver, February, 1992).⁽⁴⁾

Yet another finding was related to the possibility of innovative import strategies by the *sg shsha*, and whether Cascadia could ever play the role of an import gateway and centre of adding value for products bound for the North American market. It was discovered through research interviews that Japanese trading companies did not yet appear interested in importing Asia-Pacific products into Cascadia, adding value locally and then trading across the U.S.-Canada border. In fact, certain Japanese traders mentioned in interviews that, following the U.S.-Canada Free Trade Agreement of 1989, superior opportunities in trans-border trade existed in the more industrialized east coast (Ontario and northeast USA) and, following a full North American Free Trade Agreement, in the southwest (Mexico-California) and southeast (Mexico-Texas) (interview with H. Iwamura, Senior Vice President, General Manager, Seattle Branch, Mitsubishi International Corporation, Seattle, May 1992). Nonetheless, the Japanese traders pointed to the need to harmonize Cascadia's regional infrastructure, such as the joint promotion of Portland's relatively underutilized -- and therefore cheaper -- grain handling terminals by diverting wheat shipments south from Alberta and Saskatchewan, away from Vancouver's crowded and more expensive port facilities (at present heavy rail subsidies ensure the viability of wheat shipped through Vancouver or Prince Rupert) (interview with Y. Kishi, *op.cit.*). Alternatively, it was thought that U.S. coal could be exported through Vancouver's efficient Roberts Bank coal loading facility (interview with H. Mitsunaga, General Manager, Seattle Office, Mitsui and Co (USA) Inc, Seattle, April 1992).

Japanese Direct Manufacturing Investment

Apart from trade, the Pacific Northwest has also done rather well from Asia-Pacific direct investment. For reasons of both geography and history, Japanese firms have tended to choose West Coast locations for their manufacturing ventures (mainly California) (see Japan Economic Institute 1991). Over the 1980s, there was a surge of Japanese investment in North America which subsided in the early 1990s due to a contraction of Japanese bank credit for overseas investment (for details of recent Japanese DFI in Canada, see Edgington 1992, 1994a). The Northwest gained popularity as a location at a time when high costs, security problems and poor environmental quality changed

California's image in the minds of Japanese investors in an adverse way (Financial Post 1991; Beresford 1992). By the beginning of the current decade Japanese investments in B.C., Washington and Oregon outnumbered those of any other source nation, reflecting the region's proximity to Asia-Pacific together with a long-term commitment and recruiting effort by local government officials aimed primarily at Japan (Bain 1990; KPMG Peat Marwick 1992, 1993).

FIGURE 5 British Columbia, Washington and Oregon: Number of Japanese Direct Manufacturing by Type, 1992 (%)

The 1992 sectoral distribution of Japanese direct manufacturing investments by number of plants in BC, Washington and Oregon is displayed in Figure 5. Unfortunately, no comprehensive comparative data is available which records capital expenditure or labour intensity. Nonetheless, it appears that Japanese manufacturers have arranged their investments to reflect differences in perceived comparative advantages within the Pacific Northwest. By way of illustration, in terms of number of investments B.C. recorded the lion's share of timber or pulp mill operations, the bulk of which were made to bolster the development of resources for the Japanese market. Japanese investment in B.C. dates from the 1960s, when joint ventures were made by the *shusho* in copper mines and timber mills. In the period following the sharp upward realignment of Japan's currency in 1985 (known as *endaka*) a new wave of investments was made to secure additional supplies of pulp (for example Oji Paper Company's investment in the Howe Sound pulp and paper project in 1988, Edgington 1992) as well as to compensate for the lack of labour in Japan (for example the investment by Emachu Corporation in a specialized timber cutting mill in Maple Ridge, B.C., to suit Japanese dimension lumber, Edgington and Hayter 1995). A 1993 survey by KPMG Peat Marwick (1993) reported that Japanese companies in British Columbia were ranked first by number (56 companies), in front of those from the United States, and third in terms of employment levels. Japanese DFI in Washington state's timber, newsprint and aluminium plants dates from the 1970s. The higher cost of manufacturing in Japan after the mid-1980s promoted the processing of Washington agricultural and marine produce before leaving for Japan (examples are the Glico Apple juice plant in rural Wentchee, and HFI Frozen Foods Inc in Redmond). Washington also attracted certain manufacturers in the airline equipment sector hoping to supply Boeing (for example JAMCO America), and these are included in the 'other' category of Figure 5 (Japan External Trade Organization 1993). KPMG Peat Marwick (1992) reported that Japanese investors controlled about one-third of the 341 foreign-owned companies in Washington during 1991, leading those from Canada and the United Kingdom. In terms of total numbers, Japan dominated the manufacturing categories of foreign-owned companies as well as the sales and distribution sectors. Japanese firms also contributed about one-third of the 36,800 direct jobs provided by foreign-owned companies, and in 1991 they overtook Canada as the foreign country employing most employees in Washington (KPMG Peat Marwick 1992).

By comparison with a steady build up of Japanese firms in B.C. and Washington, Oregon experienced a more dramatic increase in Japanese manufacturing DFI after 1984, when

the state repealed its unitary tax law, thus giving it a competitive edge over neighbouring California (unitary tax is applied by certain states to the world-wide revenue of foreign companies operating rather than purely local operations, and represents a substantial disincentive for potential foreign investors) (Bain 1990, 1991). One estimate recorded that in the ten years up to 1992, Japanese companies placed US\$650 million in plant and equipment and created about 5,000 jobs in Oregon. Besides, Japanese investors also accounted for about two-thirds of the total new foreign investment in so-called 'greenfield' operations, much of which came to Portland due to its existing domestic high-tech sector (interview with J. Barclay, *op.cit.*). As Figure 5 attests, Oregon successfully targeted Japanese electronics companies -- such as NEC, Fujitsu and Epson, producers of sophisticated electronics components and integrated circuits. Apart from metropolitan Portland, the adjoining city of Vancouver (in Washington state) also benefitted from this surge of Japanese DFI (*ibid.*). All told, about 70 per cent of all Japanese manufacturing investments up to 1992 located in the three core Cascadian states were located in the region's major metropolitan areas (data derived from Japan External Trade Organization 1993).⁽⁵⁾

In all, the recent establishment of Japanese manufacturing investments in Cascadia's electronics and high technology sector has been a welcoming diversifier to the Pacific Northwest's economy, despite its metropolitan bias. Nonetheless, as already cautioned by the author elsewhere, a broad strategy with regards to these new investments may be required by host regional governments to ensure full participation by local firms in Japanese projects, and to protect local industrial and research interests (see Edgington 1991a). For example, in Washington, Boeing is involved with a Japanese consortium to share risks involved in developing the Boeing 777. Boeing's response to criticism that it relinquished technology in order to win sales has been that vendors must respond to buyer's aspirations or lose the business to competitors. Nonetheless, Japanese designers and suppliers have fully integrated into Boeing's 777 aircraft production (Awanohara 1991). In Oregon, Bain (1991) reported that Japanese manufacturers in the Portland area had avoided local suppliers in favour of their keiretsu-linked Japanese firms (such as members of large Japanese enterprise groups) located in California and the American mid-west.

Japanese Tourism and Related Investments

Beyond manufacturing, Japanese corporations have also been active in the Pacific Northwest's service economy. Tourism has been the major interest here, as during the 1980s the Japanese government encouraged its citizens to travel overseas in an effort to reduce the country's burgeoning trade surpluses. A '10 Million Programme' was initiated in 1987, aimed at encouraging 10 million Japanese consumers to spend more time and money on travel by 1992 (Ministry of Transport 1991). In fact, the number of Japanese outbound travellers -- including tourists and business travellers -- exceeded the goal of ten million, two years early in 1990 (*ibid.*). The major attractions of Cascadia -- its scenic landscapes, open spaces and outdoor recreational opportunities -- have made the region an attractive tourist destination for urban based Japanese visitors. Tourism has in fact

been shown to be the fourth largest income producing industry among the Northwest Pacific states and provinces (Pacific NorthWest Economic Region 1993).

Still, while the number of Japanese tourists has increased throughout the region -- and all three major urban centres in Cascadia are well served with trans-Pacific air routes -- only B.C. presented a viable series of destination resorts on Cascadia that could attract thousands of tourists to a single site. Whistler, B.C., for example, grew to be the number one international destination for Japanese skiers in the late-1980s (Edgington 1992). This imbalance in B.C.'s favour is reflected by the numbers of Japanese visitors recorded in 1991 for each state and province--British Columbia 189,255; Washington 40,837; and Oregon 17,445 (data provided by B.C. Ministry of Economic Development, Small Business and Trade; Washington State Department of Trade and Economic Development; Oregon Economic Development Department). The sharp increase in Japanese visitors to British Columbia in the late 1980s assisted tourism to overtake mining as the second largest sector of the B.C. economy behind the forestry sector (see Edgington 1991b). In this regard, action has already been taken to jointly promote the region to international tourists. Nonetheless, tourism *per se* is unlikely to lead to a highly paid flexible workforce; hotel and restaurant work is in large part unskilled, part-time or casual, and poorly paid--typically 50-60 per cent of average wages (Pacific Northwest Economic Region 1994).

In terms of tourism investments, Japanese property investors soon followed the boom in Japanese tourism world-wide, and in Cascadia most of this activity took place in B.C., where they were active in selectively buying hotels and destination resorts in the core 'golden triangle' area of Vancouver, Victoria and the Whistler ski resort (Edgington 1994b). It should be noted, however, that Cascadia has not been able to attract much Japanese investment in other service activities. Thus, Japanese corporate regional headquarters and research centres in North America, as well as Japanese financial institutions, have set up in New York, Toronto, or California, rather than in the Pacific Northwest (Rose 1991; Edgington 1992; Edgington and Fruin 1994; Florida and Kenney 1994).

Conclusions

In the era of globalization, the rush to emphasize increasing economic integration between nations has overlooked the certitude that nations are comprised of functional and distinct economic regions, and that these regions often defy national borders. Cascadia is one of these transnational regions; and its trading and investment links with Japan are stretching and possibly fracturing the idea of national interests. This research has shown that, more than the remainder of the North American continent, Cascadia has managed to diversify its export markets and sources of investment. It is not surprising, therefore, that there exists a different attitude about Japan and the Pacific Rim than in the mid-west or eastern regions. And, in part, this different attitude has helped define the regional identity of Cascadia.

Nonetheless, the flowering of local initiatives in Cascadia cannot conceal certain limitations inherent in its economic links with Japan, as indicated above. Thus, while there is now a growing mix of goods being shipped from Cascadia to Japan, ranging from navigation-guidance equipment to neoprene wet suits, a worrisome trend is the continuing dominance of staple raw materials and simply processed materials and the relative lack of progress in diversifying export products (Hutton 1994). Besides, there is the concern that apart from Boeing airplanes Japan is loathe to take much value-added production from the region; this is the case even though such products can find markets in Europe or elsewhere in North America (interview with D. Lorenz, *op.cit.*). Such a situation is in line with the staple dependency theories associated with Harold Innes and others (Resnick 1985; Hayter and Barnes 1990). In the case of British Columbia, for instance, it is the U.S. which takes nearly all of the province's ETMs rather than Japan (Table 3). Conversely, Oregon has had some success in the export of metropolitan-based machinery and electronic equipment to Japan, recording sales in 1990 which were higher than the combined exports in these categories from the two larger economies of Washington and B.C. (International Trade Institute 1991). In the case of service activities, most of Cascadia's links with Japan are in tourism rather than more sophisticated financial or research operations.

TABLE 3 Exports of British Columbia's Elaborately Transformed Manufactured Goods (ETMs) to Japan, USA and the E.C. (\$'000), 1990

Still, as indeed anticipated under the 'flying geese' model of the Japanese economist Kaname Akamatsu the region as a whole appears to have benefitted from its trade and investment connections with Japan (Kwan 1993, 1994). Moreover, some Japanese companies have invested in value-added resource production, or provided a market for those local firms able to adapt their output to Japan's expensive and fastidious markets -- for example, through finishing wood into products such as windows and doors, refining minerals, and processing and packaging food. Upgrading for the Japanese market has included the processing of staples such as Oregon and Washington agricultural products and B.C. timber (interview with R. Fritz, Assistant Director of Agriculture, Agricultural Development and Marketing Division, Oregon Department of Agriculture, Portland, April 1992; see also Edgington and Hayter 1995). Furthermore, there are continuing cost pressures upon Japanese industry to look for ways to increase the processing of resources in off-shore regions, closer to raw materials. To illustrate, trading houses such as Mitsui and Mitsubishi are now searching for value-added timber production in Washington and Oregon, especially as the 'spotted owl' conservation controversy means they can no longer purchase adequate supplies of unprocessed logs (Northwest Policy Centre 1991). This problem is compounded by labour shortages in the domestic timber production industry in Japan (interview with H. Iwamura, *op.cit.*). In the future, subsequent upon a continuing move of production out of Japan and assuming no insoluble local supply constraints, Cascadia should expect an increase in Japanese investments in new food and timber processing facilities. These may provide new markets for local resource industries while creating value-added products to be exported to Japanese markets. In some cases

this will benefit depressed raw materials dependent rural communities in the region's periphery.

Beyond natural resource commodities, Cascadia (and the wider Pacific Northwest) has the ability to provide other attractive commodities that cannot be found elsewhere in Japan and other countries of the Pacific Rim -- these include its skilled labour and high quality lifestyle image. However, due to its relatively small population and high wage structure, the region does not have advantages in terms of either economies of scale or in terms of cheaper, but unskilled, labour that other countries might have. As a result, the highest longterm growth in future regional employment opportunities is likely to occur in the services sector, both in metropolitan and non-metropolitan areas. There is an arguable need, therefore, to seriously consider recasting Cascadia's role in the Pacific Rim based upon one centred around its acknowledged high levels of amenity (Pacific NorthWest Economic Region 1994). Accordingly, in addition to the policy work already in train, plans should be made for Cascadia as a centre for Pacific Rim hospitality and recreation and, importantly, other allied service activities.

Based on Porter's work on strategic industrial clusters (Porter 1990), a number of high value-added industries may thus be suitable for further investigation and promotion in Japan. These allied service industries could develop from a cluster of competitive strengths founded upon the region's superior environment, human resources and transport networks back to Japan and Asia. Speculatively, they could include cuisine, medical products, environmental industries, engineering and professional services, and creative and design industries. These are the industries which at first glance accrue from the Pacific Northwest's particular geographical competitive strengths as one of the world's better living environments. If this is the case, these industries need to be created and/or sustained with intelligent policies and programmes in areas such as education, special infrastructure, local research and design centres, local integrated supply networks, as well as associated supports, regulations, facilitation and information (Birss 1993; Hutton 1994).

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Endnotes

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1. Several Cascadia regional organizations have emerged since the late 1980s, including: the Pacific North West Economic Region (PNWER), an organization composed of legislators from five Pacific Northwest states plus the provinces of Alberta and British Columbia (see Figure 1); the Pacific Corridor Enterprise Council (PACE), a private sector organization devoted to encouraging closer business, trade and tourism links throughout the region; and the Cascadia Transportation Trade Task Force, which has public and private representation to develop cross-border strategies focusing on growth management, cross-border mobility and improved regional trade and tourism linkages (Cascadia Institute/Discovery Institute 1994).

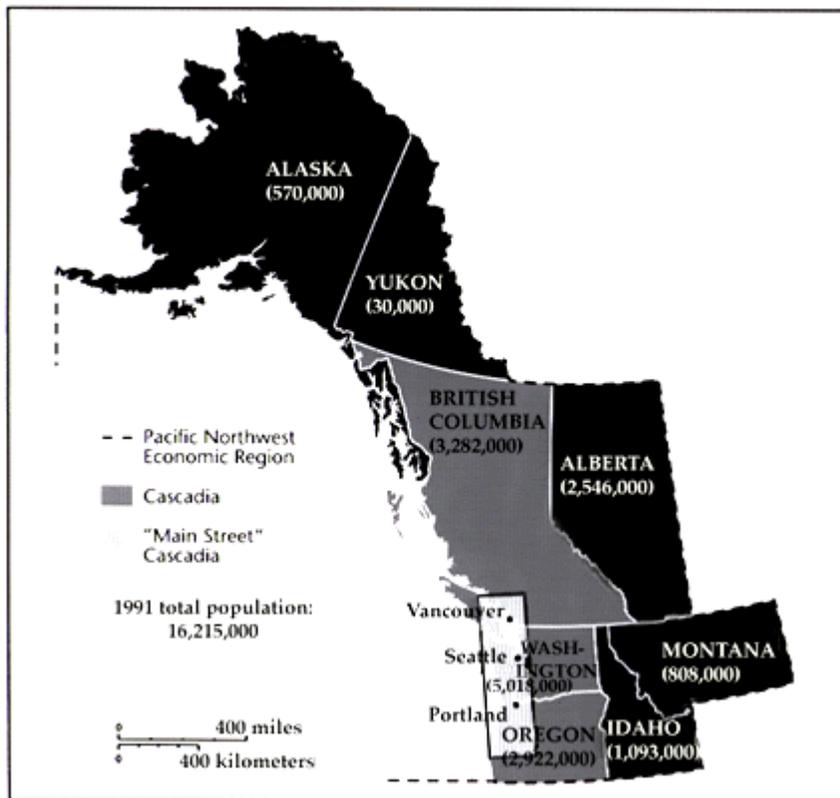
2. The authors survey consisted of unstructured interviews in B.C. (15), Washington (7) and Oregon (11) which covered, inter alia, recent trends in Japanese trade and investment, and perceived constraints and future opportunities for Cascadia. It is acknowledged that there may be a small sample bias in the results presented.

3. Inspired by the distinct Northwest landscape and a pro-environment attitude, Ernest Callenbach's 1975 novel, 'Ecotopia', described a future Cascadia region, at the end of the century, as so self-sufficient and so committed to the purity of the environment and to natural living that northern California, Oregon, and Washington seceded from the United States and formed an independent nation, an 'ecological utopia' (Callenbach 1975). Cascadia's cultural affinity has also been noted by Garreau (1981) who argued that Vancouver had more in common with Seattle and Oregon than eastern Canadian provinces, and so formed part of 'Ecotopia'.

4. However, over the 1980s the sg shsha did increase their Cascadian exports to third countries (such as non-Japanese markets), such as Canadian coal sold to Brazil, and U.S. wheat sent by trading companies to Taiwan and the Philippines due to Japan's aid programs with southeast Asian countries (interview with Y. Kishi, *op.cit.*).

5. Events subsequent to the author's survey halted the boom of Japanese investment in Cascadia, although there is little evidence of retrenchment or disinvestment. Specifically, a variety of factors caused a dramatic drop in annual Japanese overseas direct investment in this region generally following 1990. These included weaker property and stockmarkets in Japan (which meant that Japanese companies had less access to financial resources), stricter capital requirements which crimped the lending of Japanese banks, a domestic recession, and the more attractive investment opportunities available in East Asia. Moreover, fears of a political backlash in the U.S. also helped to reduce Japanese investment from the strong levels of a few years ago (Wood 1992; Tejima 1993).

FIGURE 1 Cascadia and the Pacific Northwest Economic Region



Source: Adapted from International Centre for Sustainable Cities, 1994. *Newsletter#2*. Vancouver: ICSC; and Cascadia Institute/Discovery Institute, 1994. *Opportunities for Achieving Sustainability in Cascadia*. Vancouver: International Centre for Sustainable Cities.

FIGURE 2 British Columbia, Washington and Oregon: Major Export Markets, 1990 (%)

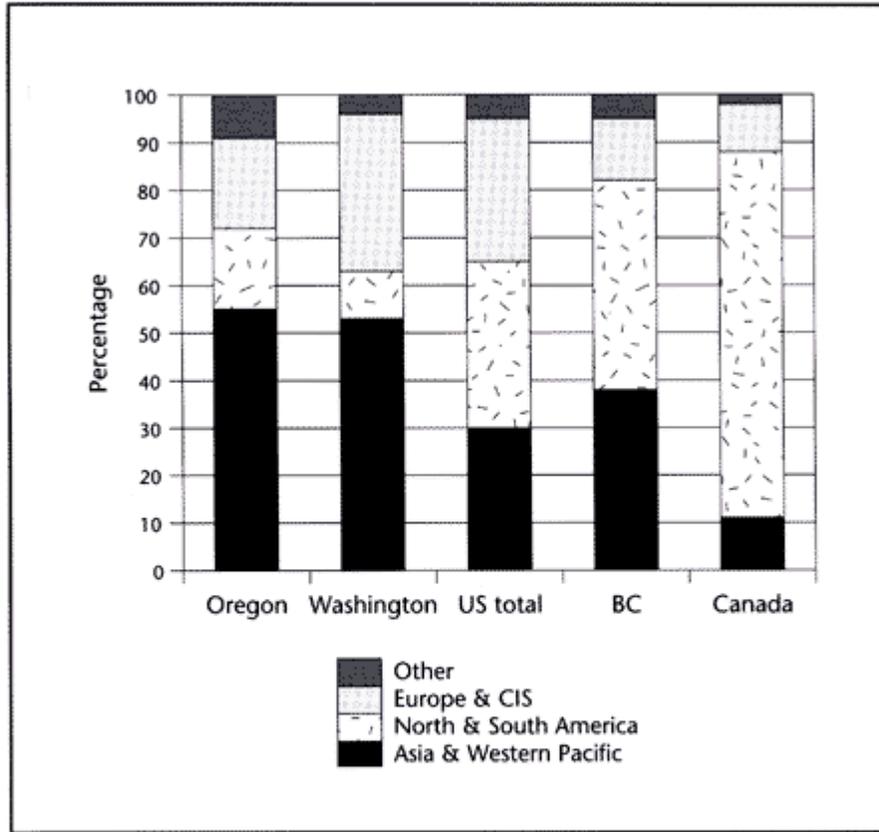
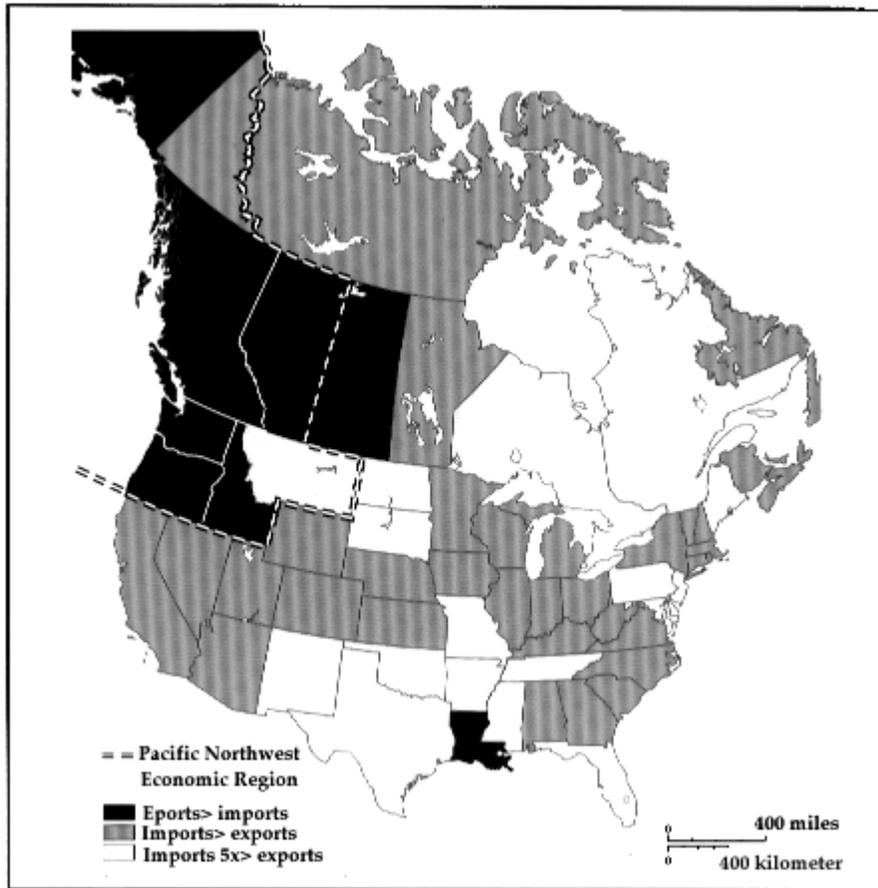


FIGURE 2 British Columbia, Washington and Oregon: Major Export Markets, 1990 (%)

Source: Statistics Canada, *Exports and Imports by Country and Commodity*, 65-202. Ottawa: Supply and Services Canada; International Trade Institute, Portland State University; National Trade Data Bank, University of Massachusetts State of Origin of Exports Program (MISER)

FIGURE 3 Estimates of 1990 Trade Balance with Japan for States and Provinces



Note: Net trade balance based upon differences between exports and imports which were calculated as follows: export data were derived from sources listed below and refer to levels originating from each state and province; import data were derived from national level; imports and apportioned according to the relative share of population of each state and province.

Source: *Statistics Canada, Exports and Imports by Country and Commodity*, 65-202. Ottawa: Supply and Services Canada; International Trade Institute, Portland State University; National Trade Data Bank, University of Massachusetts State of Origin of Exports Program (MISER).

FIGURE 4 British Columbia, Washington and Oregon: Exports to Japan by Commodity Type, 1990 (%)

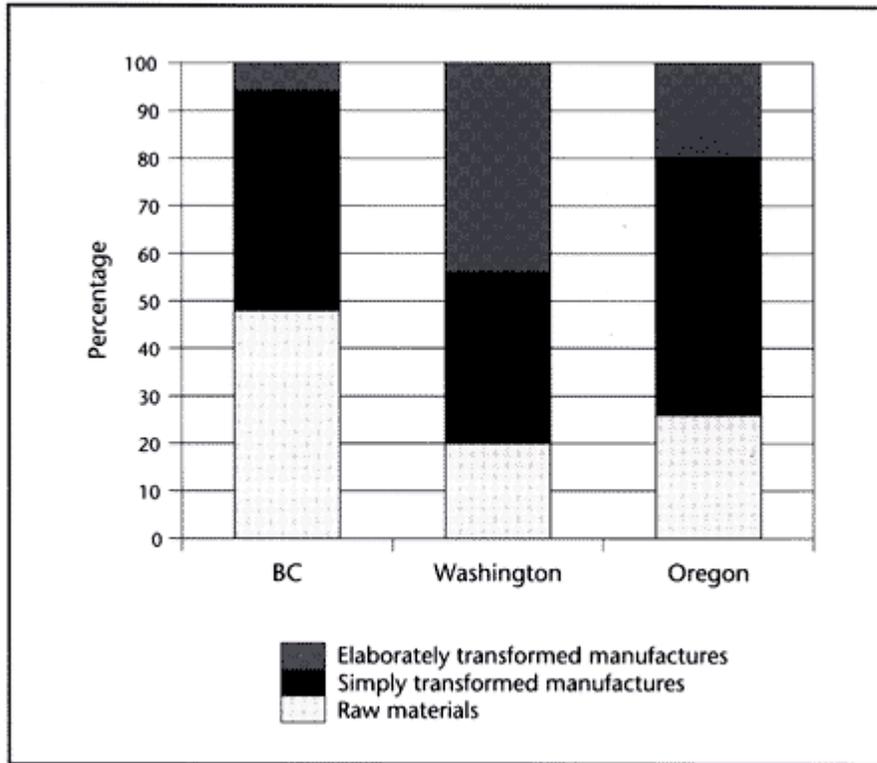


FIGURE 4 British Columbia, Washington and Oregon: Exports to Japan by Commodity Type, 1990 (%)

Note: Raw Materials includes logs, fruit and vegetables, meat, fish, and minerals; STMs refers to Simply Transformed Manufacturers and includes sawn lumber, pulp and newsprint, processed food, metal and chemicals; ETMs refers to Elaborately Transformed Manufacturers and includes electrical products, clothing and textiles, and machinery.

Sources: Statistics Canada, 1991. Cat. 65-202, *op.cit.*

FIGURE 5 British Columbia, Washington and Oregon: Number of Japanese Direct Manufacturing by Type, 1992 (%)

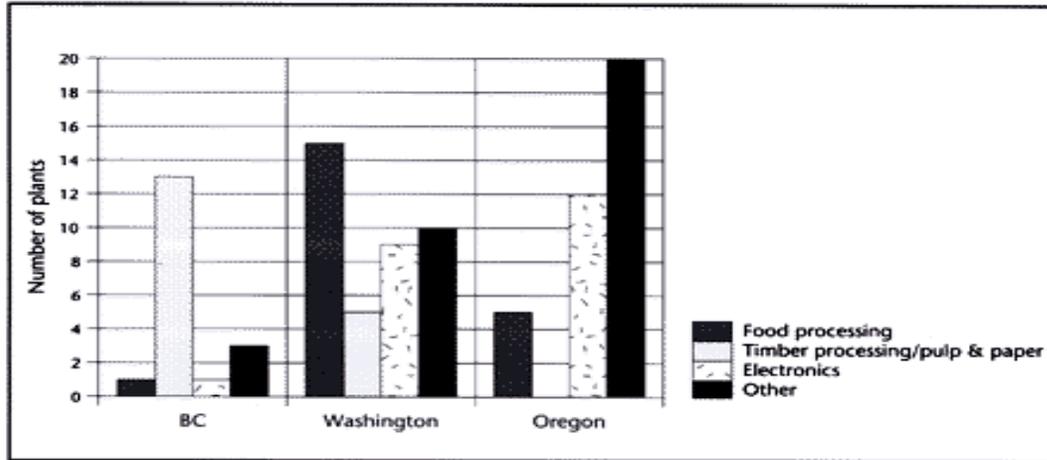


FIGURE 5 British Columbia, Washington and Oregon: Number of Japanese Direct Manufacturing by Type, 1992 (%)

Source: Japan External Trade Organization, 1993.

Source: Japan External Trade Organization, 1993.

TABLE 1 The S_g_ Sh_sha in Cascadia, 1992

	Vancouver	Seattle	Portland
C. Itoh	X	X	X
Kanematsu-Gosho	X	-	X
Marubeni	X	X	X
Mitsubishi	X	X	X
Mitsui	X	X	X
Nichimen	-	X	-
Nissho-Iwai	X	X	X
		X (Bellevue)	
Sumitomo	X	X	X
Tomen	X	X	X

Source: Company Interview (1992) and Japan External Trade Organization (1993).

TABLE 2 Sumitomo Corporation's Operations in British Columbia, Washington and Oregon, 1992 (date of commencement, employment, and percentage breakdown of total dollar value turnover)

A. Vancouver Office (est. 1961) (24 employees)		Percent	
Exports:	Copper/ Gold	38	
	Coal	18	
	Timber/pulp/newsprint	13	
	Chemicals	11	
	Agriculture/fish	10	
			88%
Imports:	Machinery	8	
	Steel	4	
			12%
	Total		100%
B. Seattle Office (est. 1972) (18 employees)		Percent	
Exports:	Timber	29	
	Wood chips	29	
	Fish	28	
	Boeing parts	9	
			95%
Imports:	Steel	4	
	Industrial Products	2	
			5%
	Total		100%
C. Portland Office (est. 1963) (18 employees)		Percent	
Exports:	Timber	40	
	Grains/hay	60	
			100%
Imports:	NIL		
			0%
	Total		100%

Source: Company interviews (1992).

TABLE 3 Exports of British Columbia's Elaborately Transformed Manufactured Goods (ETMs) to Japan, USA and the E.C. (\$'000), 1990

	Export Markets		
	Japan	USA	E.C.
ETMs:			
Plastic Articles	549	48,798	507
Apparel	2,761	39,010	1,321
Trucks	86	129,721	83
Machinery	8,374	265,749	20,817
Ships	2,529	21,647	1,214
Electronics	1,396	88,551	4,815
Total	15,695	593,476	28,757

Source: Statistics Canada, *Exports and Imports by Country and Commodity*, 65-202.