



**June 10, 2005**

## **Toyota's Plans to Expand in Canada Overshadowed by GM's Misery**

While media attention during the week was focused on the possible impact on Canada of General Motors' announcement that it will cut 25,000 jobs from its US workforce, news from Japan that Toyota Motor Company is finalizing plans to build another plant in Canada was overlooked (perhaps because the official announcement is not due until June 30). The new assembly plant -- Toyota's seventh in North America and second in Canada-- is to be located in Woodstock, Ontario just down the road from its current operations in Cambridge. Total capital investment is estimated to be about ¥50 billion (\$600 million). Opening in 2008, the factory will employ about 1,000 people and turn out 150,000 cars annually. The plant is expected to produce 1.5 litre-class cars targeted at young consumers. General Motors and the other American manufacturers are feeling the backlash from having relied heavily on sales of large-capacity SUVs and trucks, which in an era of rising gasoline prices are facing declining consumer interest. Toyota's focus on smaller, less-expensive vehicles in Canada bodes well for the viability of the plant.

Japanese investment in the auto industry in Canada began in the mid 1980s. In response to the high value of the yen and increased protectionism internationally and especially in the US, Japanese auto producers began setting up plants overseas. Honda established a manufacturing presence in Canada in 1986, followed by Toyota two years later and CAMI Automotive (a Suzuki-General Motors joint venture) in 1989. By 1993, the three plants, all located in southern Ontario, accounted for more than 15% of Canadian motor vehicle production. Over the following years, all three plants expanded significantly. These Japanese firms and the auto parts manufacturers that service them quickly became a substantial economic force in Ontario. Today, the three ventures represent a combined investment of \$6.13 billion, employ 10,400 people and produce over 670,000 cars a year. Supporting these three manufacturers are 36 Japanese producers of auto parts and related materials and nine machine tool operations employing about 14,000 people. When head offices and auto dealerships are included, the Japan Automobile Manufacturers' Association estimates that 56,000 people in Canada are employed in Japanese companies involved in the auto industry.

Toyota's Canadian expansion is part of a continuing trend by Japan's auto manufacturers to shift production offshore. Just under half of all Japanese-controlled auto processing now takes place outside Japan, with the Japanese parent firms working closely with local parts manufacturers and governments all over the world. Japanese auto makers now account for about 33% of total global auto production.

Toyota's anticipated announcement is a positive sign in the broader context of Canada-Japan economic relations. After several years of what has been characterized as "mutual disinterest" or "friendly indifference," the governments of both countries are attempting to increase ties and reignite interest between the two nations. In January, Prime Minister Paul Martin and Japanese Prime Minister Junichiro Koizumi issued a Joint Statement which called for the development of a Canada-Japan Economic Framework which would establish future strategic priorities for the cultivation of trade and investment, create an atmosphere for policy dialogue, improve economic ties in general and enhance cooperation in a number of other areas including food safety, social security, science and technology and tourism promotion. The Framework could be the catalyst needed to jump-start this important relationship.

Toyota's planned expansion, though independent of the Martin-Koizumi initiative, is just the kind of investment the Framework is designed to encourage. Hopefully it will focus attention on Canada's attractions as a destination for Japanese investment aimed at servicing the whole North American market. Last month in Toronto, the Japan External Trade Organization (JETRO) sponsored an event promoting Canadian investment into Japan, and through Japan, into the rest of Asia. At the conclusion of the event, JETRO and International Trade Canada signed a memorandum of understanding to promote bilateral investment and stimulate business activities between private enterprises in the two countries. Between the Economic Framework, the JETRO- International Trade Canada MOU, Toyota's investment and the planned fall visit to Canada by Prime Minister Koizumi, it is hoped that Canadians and Japanese will be reminded of how much they have to offer one another and of the benefits both have to gain from enhanced relations.

ISSN: 1712-0195

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