

security (not to mention Japanese profits!). Japanese relations with Russia have improved. While the failure to resolve the Kurile Islands dispute is frequently cited as preventing any significant amelioration in or normalization of relations, should the domestic political situation in Russia become more stable and further market oriented reforms implemented, Japan would probably play a more active role in promoting trade with and investment in Russia by Japanese firms. Full normalization of relations, however, probably will not occur until the territorial dispute is resolved.

While Japan is viewed as a model for economic development by most of the economies in both North and Southeast Asia, its motives for trading with and investing in these same countries are frequently scrutinized by both their residents and governments. The perceived single-mindedness of purpose of the agents of "Japan Inc.", combined with often still vivid memories of the Japanese expansionist agenda before 1945, has occasionally provoked hostile reactions in countries such as Korea and China.

Japan's exports of goods and services continue to be dominated by shipments of manufactures (63 per cent in 1992); manufactures also account for continuously larger shares of imports.<sup>41</sup> While trade with the economies of North Asia has expanded both in absolute and, although more modestly, in relative terms, Japan's exports to these markets have generally increased faster than its imports from them. Despite initiatives that have reduced its tariff and non-tariff barriers and efforts to stimulate import purchases, Japan continues to face pressure from both western and Asian trading partners to increase its imports. While Japan's large and ongoing trade surpluses alone do not necessarily demonstrate that its markets are unfairly protected, the continuing deficits and the perception on the part of the economies of North Asia that they are unable to penetrate Japanese markets because of barriers to entry, may cause trade frictions that will slow any initiative to integrate the economies of North Asia more formally.

Japan also has received a relatively small amount of foreign direct investment. During the 1981-86 period, it received 0.8 per cent of the total world flow of FDI,<sup>42</sup> and since 1987 it has received a mere 0.1 per cent of the total flow per annum. The low levels of FDI appear to reflect the low level of import penetration in Japanese markets. If one assumes that multinational firms invest in a country because of

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<sup>41</sup> Nonetheless, Japan's imports represent only 3.2 per cent of GDP, less than one-half the average of 7.3 per cent for the rest of the G-7 economies. See IMF, Direction of Trade Statistics; and World Bank, The World Tables, 1994.

<sup>42</sup> U.N./CTC., World Investment Report, 1993.