

The issues of trade barriers and proximity to the United States have come together most powerfully in the automotive sector. Canadian voluntary export restrictions (VERs) on Japanese automobiles coupled with Canada's own easy access to the U.S. market under the Canada-U.S. Auto Pact have combined to increase Japanese investment in the automotive sector.

For Japanese SMEs, other motives include following their bigger manufacturing clients into the Canadian market. Thus, in the automotive sector, a number of Japanese automotive parts suppliers followed Honda, Suzuki, and Toyota to Ontario. Nishikawa Kasei Co. started a instrument panel manufacturing plant near Toronto; Toyoda Gosei Co. took a 65% interest in Waterville TG Inc., a Quebec-based rubber parts firm; and Komatsu Ltd. acquired a 26% stake in Husky Injection Moulding Systems.

Japan is poor in natural resources and so the availability of raw materials in Canada remains a powerful incentive to come here. Daishowa Paper Manufacturing Co. bought Reed Inc. of Toronto in 1988 and built a \$500 million pulp mill in Peace River to gain access to cheaper raw materials.

Japanese companies have also invested in Canada to gain access to new technologies and new markets. For example, Lumonics of Ottawa was recently purchased by Sumitomo in order to gain access to laser technology and its associated markets in North America and Europe. Archer Communications Inc. of Calgary has signed a licensing agreement with Nintendo to supply it with Q sound. Newbridge Networks Corp. and Sumitomo have entered into an agreement to sell Canadian communications equipment. The movement of technology is not all one way, however. For example, Fujitsu Canada recently established a software research centre in this country.

As Japanese investment in Canada increases and diversifies, more of it is becoming available to smaller Canadian enterprises. Many of the investments summarized went into smaller companies such as auto parts suppliers, light manufacturers, pharmaceutical producers, food processors, and livestock breeders.

Cumulative Totals of Japanese Direct Investment in Canada, by Industry
(\$ millions)

	1980	1984	1985	1986	1987*	1988*	1989#
Manufacturing	158	209	200	278	371	926	1,156
Petroleum & Natural Gas	48	468	477	520	550	553	565
Mining & Smelting	70	210	237	322	352	370	446
Merchandising	257	608	711	841	890	945	995
Financial	27	222	268	353	496	634	810
Other Enterprises	45	14	31	26	41	172	228
Total, All Industries	605	1,731	1,924	2,340	2,700	3,600	4,200

* estimates

estimated book value as of the end of the third quarter

Source: D. Oikawa & S. Loizides, Japanese Direct Investment in Canada, (Conference Board, July 1990).