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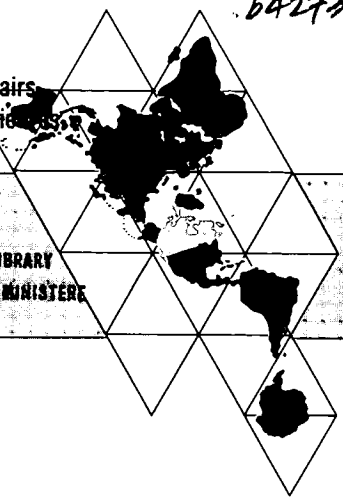
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As the centrepiece of its Pacific policy, the Canadian government has placed high priority on the development of relations with Japan, a country that since World War II has emerged as a global economic and technological leader. Canadian trade with Japan exceeds that of the total combined trade with three of Canada's most important trading partners in Europe. Indeed, Japan offers excellent prospects for financial relations and for investment. Since 1984, a high-level focus, new programs, and new bilateral initiatives and agreements have solidified a valuable relationship encompassing important political and economic ties and enriching cultural exchanges.

POLITICAL RELATIONS

In recognition of Japan's increased international role, Canada has expanded its political consultation and co-operation with that country on all major global and regional issues. For instance, the two prime ministers have met four times in the past three years, and some 22 consultative mechanisms exist, including the annual Foreign Ministers' Consultations, the Joint Economic Committee, policy planning talks, as well as others in various sectors. Important consultations also take place in the multilateral forums in which Canada and Japan share common membership, such as the United Nations, the Organization for Economic Co-operation and Development (OECD), the General Agreement on Tariffs and Trade (GATT), and the Group of Seven Economic Summit countries.

Strengthened consultations and targeted pursuits of Canadian objectives are components of the Strategy for Japan, a plan of action adopted by Cabinet in 1986 aimed at providing leadership and co-ordination in the pursuit of Canadian political, economic and cultural interests in Japan.

ECONOMIC RELATIONS

Economic relations between Canada and Japan offer great potential. The Strategy for Japan promotes mutual economic growth through trade and investment, and in the new areas of expanded financial market activity, technology acquisition and development, industrial co-operation, and tourism.

Trade

Over the past decade, trade between Canada and Japan has quadrupled. Japan is now Canada's single largest overseas market and Canadian trade with Japan is greater than the combined trade with Canada's three largest European partners. In recent years, Canada has moved from a traditional trade surplus with Japan into a temporary deficit situation. However, the export/import trend of the first half of 1988 indicates a return to the surplus position is likely by the end of the year. Evidently, the long-awaited yen revaluation, combined with steps to liberalize Japan's domestic market and stimulate demand, has created new export opportunities for Canada, particularly in sectors beyond the traditional commodity categories.

Investment

Realizing that Japan is a significant overseas investor with multinational capabilities and a willingness to expand its manufacturing base abroad, Canada strongly favours Japanese direct investment, particularly in the manufacturing sector, and has an active promotion program in Japan. Japan's direct investment in Canada exceeds \$3.6 billion, while its portfolio investment is more than \$34 billion. Canada will continue to be an attractive environment for Japanese investment because of increased access to the U.S. market. Other significant factors also favour Japanese investment, such as resource availability, low-cost energy, competi-

tive labour costs, high productivity, and quality of life.

Finance

As a result of a reciprocal banking agreement that was concluded in 1980, Japanese and Canadian participation in each other's banking sectors has grown noticeably. The six largest Canadian banks have branches in Tokyo, and there are 11 Japanese-owned banks operating in Canada. The banks tend to concentrate their fee-based activities in the areas of trade financing, foreign exchange dealing, trading in money-market securities, and the arrangement of currency and interest rate swaps.

Science and Technology

Canada and Japan concluded a Science and Technology (S and T) Agreement in 1986 that provides a formal stimulus to the expansion of joint research and development projects across a broad spectrum of peaceful technologies. The agreement could move the relationship in the direction of joint technology development. A joint S and T Complementarity Study has been initiated to determine suitable research areas for mutual co-operation. Japanese industry has been favourably impressed by Canadian technology, especially in the fields of space science, laser development, communications, computer software, advanced transportation systems, the environment, medicine, agriculture, and energy processing.

Japan's rapidly growing status as a world force in S and T development encouraged the Canadian government to initiate the Technology Awareness and Acquisition Program (TAAP) for Japan which has funded several major industry-led missions to strategic sectors in

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