

DETERIORATION IN JAPAN-USA TRADE RELATIONS: POSSIBLE IMPLICATIONS FOR CANADA

Commercial:

There are two possible commercial effects of a further deterioration in Japan-USA trade relations to which we must be particularly alert. The first is that U.S. import restrictions may affect Canadian products. For example, U.S. restrictions on the import of Japanese electronic components might be applied to components manufactured in Canada by Japanese-owned companies. The second, a longer-term concern about the Japan-USA relationship, is that any action (capitulation) by Japan extending preferences to the United States could discriminate against imports from Canada. Both Tokyo and Washington have offered assurances that this will not be the case, but vigilance is required.

Investment:

The volatility of exchange rates stemming from deteriorating Japan-USA trade relations has weakened the Canadian dollar. Sustained weakness in the Canadian dollar/yen rate could forestall a renewed interest in Canadian portfolio investment by Japanese institutional investors.

Sustained uncertainty in the Japan-USA trade relationship could also negatively affect Japanese direct investment in Canada, despite the security provided by NAFTA. Japanese fears of possible U.S. harassment over local-content could serve to deter additional Japanese investment in manufacturing facilities in Canada.

The Rules-based Trading System - GATT/WTO, NAFTA:

The integrity of the rules-based multilateral trading system upon which Canada depends would be greatly undermined if the United States takes further unilateral actions against Japan under U.S. trade law. Should the United States resort to a vigorous use of Super 301, this would undermine the multilateral efforts to improve dispute-settlement procedures that were recently agreed to under the Uruguay Round.

American threats to withdraw their Uruguay round tariff reductions on electronic equipment may stall or derail implementation of the Round's results. Moreover, a recalcitrant Congress may hold up Uruguay Round implementation legislation.