

CANADA-JAPAN INVESTMENT RELATIONS

Japanese Foreign Direct Investment

Japanese direct investment overseas first surpassed US\$10 billion annually in fiscal 1984, peaking at US\$67.5 billion in fiscal 1989, aided by an appreciating yen from 1985 onwards. The increasingly protectionist trade policies of major trading partners made it attractive for Japanese companies to establish or acquire operations abroad in order to maintain their market share. Spiralling land and stock prices, and easy-credit bank policies that resulted from this asset inflation (the so-called "bubble economy"), contributed to this spending spree. The main attraction in Asia has been the substantial differences in production costs between Japan and neighbouring Asian countries. Greater profits from Asian investments compared with North America and Europe, combined with the dynamic growth within Asian markets themselves, has recently tended to make Japanese investors concentrate on investment opportunities in that part of the world.

The reversal of some of some of the same factors that contributed to expansion in the "bubble" years came into play in the recent downturn in Japanese overseas investment. Growth in the Japanese economy reached a virtual standstill in early 1992 and has continued to be stagnant; land prices are off some 15 to 20% from their peak and the Nikkei stock index is hovering around the 20,000 mark, about half the level of its December 1989 peak. The combination of these and other factors has created a tighter credit environment in Japan. In addition, many enterprises posted substantial earnings declines as the economy slowed, and they slashed investment spending abroad as a result. Others felt that they had already completed the process of establishing themselves overseas, and the domestic and global recession dampened the urge to acquire new assets abroad. Instead of investing, many companies are struggling to find a way to shed poorly-performing assets.

Global Japanese foreign direct investment reached a cumulative value of US\$387 billion at 31 March 1993 and is estimated to have increased by US\$30 billion in FY 1993 (ending 31 March 1994). This flow in FY 1993 is down about 10% from the flow of US\$34 billion recorded in FY 1992. Approximately 42% of the cumulative total is in the USA, 2% in Canada, 20% in Europe, 16% in Asia and 12% in Latin America.

Japanese Direct Investment in Canada

Japan is our third largest source of foreign direct investment after the United States and the United Kingdom. Japanese investment in Canada is concentrated in five sectors: forest products (lumber, pulp, paper), automotive products, mining, financial services and merchandising/distribution facilities.