- Forging new partnerships across the three levels of government and with the private sector to attract and retain investment in all regions of Canada.

The purpose of this paper is to adapt the above strategy not only to Japan but to other economies in Asia Pacific that are important sources of foreign investment in both the short and long term. The economies are grouped into four "Tiers" according to investment potential as follows:

Classification of Economies

main source of capital and technology and expertise in management and marketing

From the point of view of potential for attracting investment, the economies can be divided into four categories, based approximately on per capita GDP, availability of foreign exchange and general industrial sophistication. In Table I the economies are grouped according to GDP per capita and other parameters. In Tier I Japan is shown as the main source of capital and technology and expertise in management and marketing, by far the most advanced member, and the economic power house of Asia. Japan also has the largest trade and investment relationship with Canada and the greatest potential for cooperation with Canada in projects in other countries in Asia. Although Japan is in a class by itself, nevertheless Hong Kong and Singapore have been grouped with Japan in Tier I. One important feature of these three economies (and Brunei) is that their GDP per capita on a Purchasing Power Parity (PPP) basis is significantly lower than their domestic GDP; for example Japan's GDP is US$35,800, but, on a PPP basis it is only $22,000, meaning that international investments have a much higher yield than domestic investments, so Japan is more or less forced to seek investments overseas. Similarly, the other high income economies with relatively low PPP are also looking for strategic diversification opportunities overseas.

In Tier II are placed Taiwan, Korea, Australia and New Zealand whose currencies are so aligned that their domestic and PPP GDPs are more in equilibrium. So their FDI is not price driven, domestic and international opportunities have similar profit potential, and they are only seeking foreign investments for industry specific reasons.

In Tier III are placed most of the other countries of the Association of Southeast Nations (ASEAN) Thailand, Malaysia, the Philippines and Indonesia. In these cases, generally, domestic opportunities have higher yields than international ones, although some profitable conglomerates may be seeking to diversify overseas.

A decision by Thailand to float the baht in the face of sustained selling pressure resulted in a 30% drop in the value of the baht between June and September 1997. This has triggered a regional realignment that has resulted in substantial currency devaluations in neighbouring countries: the Philippines, Malaysia, Indonesia and Singapore. Governments and Central Banks in each of these countries have taken swift actions in attempts to cushion the economic impact of the devaluations and ASEAN finance ministers have agreed to adopt a common stand on currency speculation. The region is facing its first shakeout after more than a decade of unparalleled economic expansion, but it does not appear at this stage that the shakeout will take on the proportions of Mexico's crisis in 1994-95. Growth momentum in the region and internationally is still strong, inflation is contained and national governments in the region are generally in good fiscal condition. The main concern continues to be the size of current account deficits that many of these economies have been running which exposes them in the case of any weakening in their exports.

The region's current economic woes have exposed structural weaknesses that will set the stage for aggressive policy adjustments. These new measures will include faster privatization, financial reform aimed at transparency, necessary industrial restructuring and a renewed focus on competitive fundamentals such as education and infrastructure spending. Once these adjustments are made, Southeast Asian economies will emerge stronger for the exercise and rapid development will continue.

The chief mechanism for developing long term business relationships to enhance current trade relationships will be to promote Canadian direct investment abroad (CDIA) through partnerships in infrastructure projects, development of natural resources, manufacturing in those high technology sectors in which Canadā excels and in services.