

### Ten-Year Housing Warranty System

In implementing the new ten-year Housing Warranty System, Canada is encouraging Japan to ensure that requirements are not so onerous as to discourage SMEs from competing for construction services.

### IMPROVING ACCESS FOR TRADE IN SERVICES

#### Telecommunications Services

Over the last year, the Japanese market for telecommunications services has seen a significant opening to foreign companies. There are now 200 facilities-based (Type I) carriers in the Japanese market, with a significant portion backed by foreign operators, including one controlled by a Canadian company. Of the more than 90 companies with Special Type II licences (resale), over 40 are foreign-controlled local carriers. As well, there are over 7,000 companies, including Internet service providers, which operate under a General Type II licence.

The Government continues to monitor Japanese implementation of GATS commitments for basic telecommunications services. Several issues have been flagged by Canadian companies with respect to compliance with the Reference Paper on Regulatory Principles, including the dominant position of the incumbent, difficulties with interconnection and administrative procedures and the independence of the regulator.

#### Financial Services

The substantial reform, deregulation and restructuring of Japan's financial services sector currently under way offer enhanced opportunities for Canadian financial services companies. The "Japanese Big Bang" proposals announced in 1996 have led to date to the liberalization of the Japanese financial system, notably through the removal of restrictions on foreign-exchange transactions. However, some regulatory barriers to competition remain, such as entry restrictions. It is hoped that by the end of 2000, banks, insurance companies and securities firms will have complete freedom to enter into each other's activities.

Areas of particular interest in which Canadian companies have both experience and expertise include asset management, asset securitization and insurance. Already several Canadian companies have expanded their existing operations or are considering important investments in Japan. The Embassy has worked closely with some of the financial services companies new to this market to ensure that Canadian companies have equal opportunity compared to foreign and domestic rivals.

#### Investment

Japan is a major source of foreign investment in Canada, accounting for \$8.1 billion in FDI in 1998. Canadian direct investment in Japan now stands at approximately \$3.2 billion, a slight increase from 1997, but down from a high of \$3.5 billion in 1994. There are encouraging signs that this total may increase given recent indications from Japan of its desire to increase foreign inward investment. In April 1999, the Japan Investment Council (JIC) issued a report incorporating seven sets of recommendations for improving Japan's investment environment, and the Prime Minister released an official policy statement noting that increased foreign investment is vital to the reinvigoration of the Japanese economy. Deregulation is ongoing, particularly in the financial sector, and the Government has introduced such measures as consolidated accounting and bankruptcy legislation in order to increase financial transparency and facilitate corporate restructuring, thus encouraging foreign investment.

Japan imposes few formal restrictions on FDI and has worked to remove or liberalize most of the legal restrictions that apply to specific economic sectors. Prior notification is now required only for investment in certain restricted sectors. The Government does not impose export-balancing requirements or other trade-related FDI measures on firms seeking to invest in Japan. Moreover, risks associated with investments, such as expropriation and nationalization, are not an issue in Japan.

However, Japan continues to host the smallest amount of inward foreign investment as a proportion of GDP of any major OECD nation, and several long-standing, structural impediments remain.