1997-2000 will likely average 2.5-3.5%. Its foreign exchange reserves exceeded $290 billion in 1996, the world's largest. As a result, Japan remains a leading source of portfolio and direct foreign investment, with total overseas assets in excess of $1.3 trillion.

- Japan is the world's third-largest trader (after the 15-member EU and the USA), accounting for 9.5% of world merchandise trade by value, and 5% of world service trade (1996). Japan's import market is growing faster than GDP growth. Import penetration increased 7.5% last year over 1995 and has nearly doubled in the last decade. During the same period, the proportion of manufactured imports has increased from 40% to 60%, while resource products have declined from 60% to 40%.

Japan's domestic economy is now a major engine of global economic demand

- Japan's domestic economy is now a major engine of global economic demand, with imports of goods and services continuing to expand at a rate well ahead of economic growth overall. Domestic deregulation and increasing consumer sophistication continue to boost imports of value added goods. In spite of recent depreciation of the yen, which fell 20.7% between April 1995 and July 1996, the period from September 1985 to December 1996 saw a 47.1% appreciation against the US dollar. Thus, structural economic change in Japan continues to promote outflows of investment and technology from Japan's leading-edge export-oriented manufacturing industries to production facilities in Asia, North America and Europe. Japan's economic future remains intimately entwined with that of the global economy - and vice versa.

Outlook to 2000

- To boost domestic productivity and living standards in the future, Japan will require high levels of capital and R&D investment, continued deregulation (especially in its weakly competitive service sectors) and further trade liberalization. Japan will seek to promote improved economic efficiency through regulatory reform and to stimulate the growth of new industries though enhanced R&D investments. Political sensitivities will impede change in some sectors, but structural economic change will continue with or without government intervention.

- High costs and structural inefficiencies in Japan's domestic manufacturing and services sectors, plus a volatile yen/dollar rate, will promote the further expansion of international manufacturing operations of Japanese multinationals, a major engine of globalization. The growing internationalization of Japanese companies will also continue as, even after a decade of strong overseas investment flows, only 9.1% of the production of Japanese firms is done outside of Japan, compared with 26% of the production of American multinationals or 23% of the production of German companies.

Canada's interests

- In 1996, Canada supplied some $11.2 billion worth of goods to Japan (4% of total Canadian exports). Structural economic change in Japan, along with the implementation of deregulation and other policy measures aimed at increasing productivity, will continue to improve access and create significant new market opportunities for competitive Canadian exporters in a wide range of sectors, including agri-food, housing, medical equipment, information technologies, financial services and tourism. As exports increase, it will become necessary to invest to expand Canadian production to meet market demands.

- 16.7 million Japanese travelled overseas in 1996. That number is expected to increase to 18 million in 1997 and 20 million in 2000. Japan is now the second largest source of overseas tourists to Canada, after the U.K., but is the largest source of overseas tourism revenue. The Canadian Tourism Commission expects 1.145 million Japanese visitors to travel to Canada in 2000, rising to 1.5 annual visitors in 2005.

- Japan is a prime source of direct investment in Canada with a cumulative value of $6.5 billion. (Canadian BOP figures; Japanese Ministry of Finance statistics put the amount at over $12 billion.) There are now over 400 Japanese-affiliated companies in Canada in over 700 locations employing about 50,000 people. Japan also remains Canada's second largest source of portfolio investment (estimated at $43.5 billion as of March, 1996). Japanese multinationals will continue to expand direct investment and transfers of technology to serve an