

CANADA/JAPAN FINANCIAL RELATIONS

As a result of a reciprocal banking agreement that was concluded in 1980, Japanese and Canadian participation in each other's banking sectors has grown noticeably. The six largest Canadian banks have branches in Tokyo. Canadian banks have generally avoided traditional lending activity and have concentrated on such fee-based activities as trade financing, foreign exchange dealing, trading in money market securities, and the arrangement of currency and interest rate swaps. Seven Canadian investment and trust companies also have offices or representatives in Tokyo: Richardson Greenshields of Canada Ltd., Dominion Securities Inc., Wood Gundy Inc., McLeod Young Weir Ltd., Royal Trust Corporation of Canada, CIBC Limited (Merchant Bank) and Orion Royal Bank Ltd.

Eleven Schedule B banks in Canada are Japanese-owned. They account for about \$4.9 billion (11.6 per cent) of the total assets of foreign banks operating here. They concentrate their business in trade financing, servicing the needs of Canadian subsidiaries of other (primarily industrial) Japanese companies and make commercial loans to Canadian clients of funds raised in international capital markets. In 1987, 4 Japanese banks obtained Canadian charters. Foreign banks in general have an 11%-12% market share in Canada. In the year ending October 31, 1987, more of the 57 foreign-owned banks reported losses, including the subsidiary of Japan's Sumitomo Bank. Pursuant to the Canadian federal government's recent market liberalization initiative, Sanyo Securities and Yamaichi have been given approval to establish subsidiaries. The Canadian government has authorized Nomura, Nikko and Nomura Securities to establish stock brokerage operations in Canada on April 26, 1988.

Japanese investors hold disproportionately large shares of their portfolios in Canadian dollar instruments. For instance, Postal Life Insurance, the government-operated insurance system and largest life insurance institution in Japan, has 28% of its overseas assets in Canadian dollars with only 23% in U.S. dollars. Nippon Life, the largest private life insurance company, also has major holdings of Canadian dollars. Currently, eight Japanese institutions hold over \$1 billion each in Canadian portfolio investments.

The Tokyo Stock Market (TSE) and other stock markets in Japan have recently become more significant in global terms. The value of shares on the TSE already exceeds its counterpart in New York by 25% and developments on the TSE were watched closely throughout the world during the stock market crisis of October 1987. Fuelled in part by the massive pool of Japanese savings and the extensive practice of cross-holdings of shares by major corporations, the TSE has displayed remarkable strength since the crash with its trading index now back to over 90% of pre-crash levels.