

Japan to remove restrictions on partnerships and employment between foreign and Japanese lawyers, and to abolish current restrictions on the ability of foreign lawyers to provide legal advice on home or third-country law for which they are qualified.

INVESTMENT

Japan is the third-largest source (after the United States and the European Union) of foreign direct investment in Canada, with a stock of \$8.4 billion. A recent study reported that over 540 Japanese affiliated companies have established in Canada, accounting for more than 35,000 jobs. Although Japan's relationship with Canada through its FDI greatly enhances the ability of Canadian industry to compete in the global marketplace, Canada accounts for a relatively minor portion of Japanese FDI worldwide.

Since 1999, Japanese Ministry of Finance figures have shown an increase in the number and value of Japanese investments in China (and a move away from North America and Europe). This trend is tied to the Japanese belief that their economic interests lie in further integration with China and Asia.

In Canada, investment has traditionally been in the resource industries and heavy manufacturing, but trends indicate a shift to high-technology elements of the manufacturing industries, plus IT and biotechnology. The lion's share of Japanese FDI is in the automotive industries. This investment trend has maintained its impetus over the past years, reflecting the strong showing of Japanese autos in the North American marketplace. Efforts to encourage investment to focus on high-end research and development are part of the strategy to direct the FDI into areas with maximum benefit for Canada over the long run.

While large greenfield investments still happen, an increasing number of smaller investments, strategic partnering and joint ventures are taking place. These investment decisions are often made by Japanese subsidiaries in North America, which are assuming the responsibility that once belonged to Japanese head offices. Canadian senior officials regularly visit the North American headquarters of Japanese companies, in addition to headquarters in Japan, to promote further investments in Canada.

Canadian FDI in Japan is lagging behind that of other OECD countries, although there have been some notable investments in the past few years. Regulatory reform in Japan's financial sector and the shift to consolidated accounting should increase financial transparency and encourage more Canadian investment into Japan. On a prefectural level, a growing interest in attracting foreign investment, especially into high-technology areas, has been noted, although to date, growth in Canadian FDI has concentrated in the important urban areas.

Japan imposes few formal restrictions on FDI and is working to remove or liberalize most of the legal restrictions that apply to specific economic sectors. Prior notification is now required only for investments in certain restricted sectors. However, longstanding structural impediments continue to hamper FDI into Japan. These impediments include a high overall cost structure, bureaucratic discretion, exclusive buyer-supplier networks, a lack of labour mobility, bankruptcy regulations and a lack of financial transparency, which serves to inhibit the establishment and acquisition of businesses. Japan has, however, made some progress in implementing its deregulation program, with measures intended to improve the overall investment climate. Measures include revising the Commercial Code with respect to corporate capital structure and corporate governance, increasing funding to the Japan Fair Trade Commission to improve enforcement of anti-competition laws, implementing special structural reform zones, introducing increased competition into the telecommunications sector and introducing revised regulations related to e-commerce and intellectual property.

China

Overview

The People's Republic of China (not including the Hong Kong Special Administrative Region) is Canada's fourth-largest export market. In 2002, Canada's total exports of goods to China were \$4.0 billion, a decrease of 5.1% over 2001. The total value of imports of goods in 2002 was \$16 billion, an increase of 26% over 2001.