

Alternative to USA

success in mobilizing political conditions within the United States to effectively make this point.

In addition to the US market Canada offers the Canadian market — 25 million of the world's most affluent, quality- and cost-sensitive consumers, united by one of the world's finest transportation and communications infrastructures. For big Japanese firms in an open international economic system the Canadian market is a 10 percent bonus. For smaller Japanese firms starting out in North America it can be, as it was for the South Korean auto maker Hyundai, a manageable and less risky way to learn about, and grow into, the challenges of doing business in North America. And for both it is the much valued insurance policy that sits as the second option in their corporate business plans. For even if the US closes the door to Japanese goods built in Canada, Japanese firms can and do expect the Canadian government to exercise its right, often legally sanctioned under GATT, to exclude American competitors from the Canadian market. And a Canadian market devoid of US competition is often large and rich enough to allow the Japanese to operate their Canadian plants at a profit.

In deciding where to locate a plant to serve the North American market Canada, and particularly southern Ontario, has substantial appeal, especially for firms in the consumer-oriented, high quality, manufacturing sector. The location provides same-day-delivery, of components in or products out, to a large concentration of established suppliers and customers. The Canadian base also offers the cheaper Canadian dollar, low cost land and energy, abundant skilled labor and state-financed medical and pension programs. Moreover, as a host of examples in the nuclear and computer fields attest, Canada's open, high quality but under-financed R & D establishment, particularly in the university sector, offers much scope for collaborative ventures to provide relatively cheap basic research to Japanese firms competing from a national base where this asset remains relatively scarce. And the Japanese business community has a good appreciation of Canada's technological excellence in such fields as artificial intelligence, computer software, videotex, lasers, telecommunications equipment, digital and fibre optic communications, nuclear processes, Arctic, STOL and urban transportation, and space exploration.

Foreign investors welcome

Finally Canada provides a comfortable political and social environment in which Japanese firms and nationals can operate. Canadians have long accepted foreign direct investment as an essential part of their private sector, and look with favor upon a diversification in the nationality of its ownership. In many sectors beyond autos where the Japanese are most competitive, Canada has little domestic industry to protect, on defence or other grounds. We lack an aggressive nationalism, have a well developed multicultural ethos, and offer one jurisdiction — British Columbia — whose Japanese connection is sufficiently strong to ensure that the concerns of Japanese investors get injected forcefully into the political process. And the safety and civility of Canadian urban life remains reminiscent of these qualities of life in Japan itself.

With these assets Canada has the opportunity not just to attract Japanese investment in a competitive global environment, but to shape its entry into, and operation in, Canada in ways that meet Canadian priorities. For those Canadians still mindful of the insensitivities of large, fully owned, controlled and directed US branch plants in Canada, this is an important advantage. Indeed the climate would appear promising for moving beyond fully owned Japanese distribution and imported kit assembly investments in Canada, to more balanced technology agreements and joint ventures. The distinctive cultural base and business style of Japanese firms and their relatively recent advent into multinationalhood render some of them particularly open to participation by a Canadian partner which can offer an existing customer base, a distribution network or at least familiarity with how to move and market products in the Canadian environment. These Japanese firms are familiar with demands for host country participation having come from a country which long required foreign capital to enter in joint ventures. And their national experience leads Japanese business to understand, expect and often welcome, a strong government role in the economy and its constituent sectors and firms.

Looking out for Number Two

Canada's advantages are likely to appeal not to the Japanese titans who can take care of themselves in a difficult world, but to those in the number two position — be they sectors, strata, suppliers, firms, plants, products or components. The search for the second sector directs one's attention away from autos, where Canada's initial investment promotion activities have largely succeeded, to the next area of heavy Japanese import penetration, and particularly those where Japan's production presence in Canada is not pronounced, where few Canadian-located plants exist, where those that operate badly-need a technological infusion, and where the dangers of building future surplus production capacity are small. Here the sectors of consumer electronics, consumer electrical goods and office automation equipment appear especially promising, particularly given Japan's technological prowess in these areas and the likelihood of steadily expanding consumer demand for these products in Canada.

These second-ranking firms, forced to be more innovative and to take more risks in order to remain competitive or to close the gap with their dominant rival, would welcome help from Canadian partners in this struggle. It is instructive that the first major manufacturing investments in Canada by Japanese firms — in automotive assembly, cathode ray tubes, and electronic ceramics — came not from the Japanese firm or firms which dominated the industry in Japan but from their aggressive but fast rising rivals in the second tier.

Finally, for the largest Japanese firms, Canada's focus should be on securing the second plant, the second product line, or the secondary parts of the manufacturing process. Large Japanese firms, such as Toyota, wishing to serve the entire North American market typically begin in the south — in California, Georgia or Kentucky — and then, for their second or subsequent plant, look northward — to New York, Pennsylvania, Ohio, Michigan, or Ontario.

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