

Insurance

In Japan's insurance market, public sector financial institutions, such as Postal Insurance System (known as Kampo), play an important role. In the light of potential Japanese plans for an expansion of Kampo offerings, Canada considers that public institutions should not be allowed to expand their product lines to compete directly with those being offered by private insurers. Foreign insurance providers should be consulted on any plans for such expansion. Also, public institutions should be made to compete in a manner which does not discriminate against the private sector through, for example, government-backed guarantees.

While recent developments in accounting practices in Japan are welcome, the accounting standards of life insurers should be improved. The current uncertainty within the Japanese public about the health of the life insurance industry can be attributed, in part, to concerns about the true financial health of the companies. The Financial Services Agency should strive for accurate reporting so that the public is fully aware of the relevant safety of their policies. Furthermore, the Financial Services Agency should make clear the level of policyholder protection in the event of a failure.

Legal Services

In the face of globalization, increased merger and acquisition activity, and domestic regulatory reform in Japan, the demand for legal services with expertise in cross-jurisdictional issues to assure due diligence is acute. These services could be provided through the co-operation of Japanese (*bengoshi*) and foreign lawyers (*gaiben*), however, due to the restricting structure of specified joint enterprise system, the expertise in Japan is limited and Japan-based businesses often seek services abroad. The Foreign Lawyers Law explicitly forbids partnerships and most joint enterprises between Japanese and foreign lawyers. The exception is a specified joint enterprise system, which allows for such partnerships but limits the scope of their practice to a tightly defined mandate. In addition, foreign lawyers cannot employ Japanese lawyers and are subject to restrictions with respect to the type of advice they are allowed to provide while their Japanese counterparts are not subject to similar limitations. Canada continues to urge 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 of \$6.3 billion. Over 440 Japanese-affiliated companies established in over 740 locations currently create over 52,000 jobs for Canadians. Japan's relationship with Canada through its foreign direct investment greatly enhances the ability of Canadian industry to compete in the global market place. Canada accounts for a relatively minor portion of Japanese foreign direct investment worldwide at 3.7 percent in 1999, according to Japanese Ministry of Finance figures (up from between 1 percent and 2 percent over the previous ten years). Investment has traditionally been in the resource industries and heavy manufacturing but trends indicate a shift to high technology industries. 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 decided by Japanese subsidiaries in North America, who are assuming the responsibility which had belonged to the Japanese head offices—reflecting the globalization process of successful Japanese industries.

Canadian foreign direct investment in Japan is lagging behind other OECD countries, although there have been some notable investments in the past two 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 foreign direct investment has concentrated in the important urban areas.

Japan imposes few formal restrictions on foreign direct investment 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 investment in certain restricted