

Japan's government, finance and industry organizations are committed to pursuing a long-term, coordinated course of action in electronics that is to see Japan become the world leader in this area. The effort is focussed, organized and national in scope. It is supported by all parties as a fundamental component of Japan's national industrial strategy.

Accordingly, there are difficulties facing foreigners who wish to do business in Japan in microelectronics. There is a clear tendency for Japanese companies to want to build on their existing strengths. They want to develop their own technology and sell the products of that technology. These companies have shown a preference for acquiring technology they can use in an unencumbered manner. They sell technology only in ways that protect or improve their competitive position (such as by gaining an equity position, improving market access through negotiations or limiting a competitor's access to the market). There is little likelihood they will sell anything but the already well-established technology to overseas buyers. Accordingly, such business relationships as licensing of new technology (which actually acquire Japanese technology or processes) are likely to be limited.

There are other barriers created by the Japanese context. Current trade frictions between Japan and the U.S. have brought about a sharp focus on the U.S. by Japan in microelectronics. Japanese companies are investing heavily in the U.S. to reduce trade surpluses and overcome trade problems. Equally, Japan's market has become a focus for all major producing countries, increasing the competition to be dealt with there. At the same time, Japanese companies are trying to cultivate domestic demand and are moving to base more of their future in their home market to reduce the impacts of the international situation on their corporate profit pictures - a factor that increases the difficulties of foreign companies in penetrating the market. Also important is the fact that small-scale manufacturers are being squeezed hard by major producers as they try to hold their market share in the face of tougher competition. Yet, it is these small-scale, innovative producers that offer the best prospects to foreign companies attempting to move into the Japanese market.

Adding to the barriers is the mismatch in economies and corporate scale between Canada and Japan in microelectronics. The difference is significant: Canada's total electronics industry output is less than the output of Japan's seven largest electronics companies (which also happen to be among the top ten in the world). Put another way, Canada's total output in electronics for one year is equal to four days production by Japan's electronics industry. This mismatch