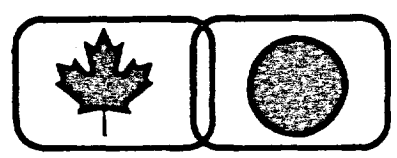


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CANADA/JAPAN
BUSINESSMEN'S CONFERENCE

OSAKA
JAPAN

MAY 16-18, 1988



Government of Canada
External Affairs

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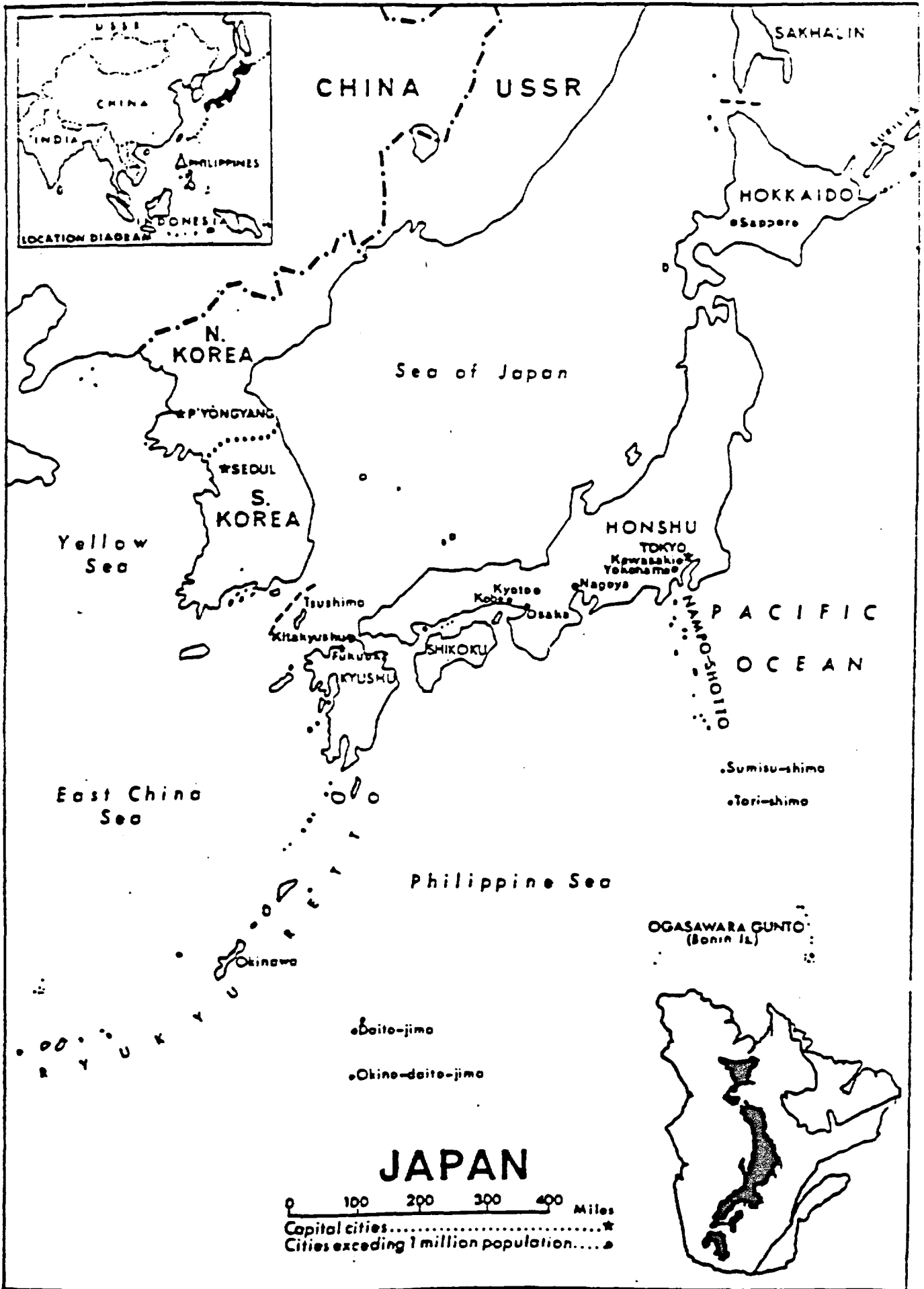
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ECONOMIC CONDITIONS IN CANADA

Growth. The Canadian economy in 1988 is moving into a sixth year of recovery from the 1981-82 recession. While growth levels slowed from 4% in 1985 to 3.1% in 1986, Canadian performance improved in 1987 with 3.8% growth. 2.8% growth is anticipated in 1988 and 3% in 1989.

Inflation. Strong gains against inflation have been made. Canada's double digit CPI figure of the early 1980s fell to less than 6% in 1983 to 4.1% in 1986. The inflation rate grew slightly to 4.4% in 1987 but is expected to fall to 4.0% in 1988 and 3.9% in 1989. By the early 1990s, the inflation rate is expected to average about 3.4%.

Unemployment remains a serious problem in Canada despite the fact that our record on employment growth is unequalled among major countries. Our rate of 9.6% in 1986 fell to 8.9% in 1987 and will decline further to 7% by 1993.

Short term interest rates trended downwards to 8.5% in mid-1986 after rapid increases early in the year when the Canadian dollar came under strong pressure. On March 19, 1987 the bank rate dropped to 7.14% (lowest level since 1974) while the prime rate declined to 8.75%. On March 24, 1988 the bank rate and the prime rates were 8.78 and 9.75 respectively. Interest rates are expected to average 8.6% over the 1988/89 fiscal year.

Investment. 1987 business plant and equipment investment was up 9% and investment in non-residential construction was up 1.5%. These figures indicate an overall improvement in the business community climate.

The current account deficit rose from less than \$600 million in 1985 to about \$9 billion in 1986 to \$8.9 billion in 1987. This was due to a deterioration in terms of trade as a result of declines in energy, grain and other commodity prices and also to a deterioration in trade in services and strong import demand in Canada. Canadian export of merchandise increased by about 5% in 1987, most of this to the United States and Japan.

The federal budget deficit has been brought down from a record high of \$38.3 billion in 1984-85 (8.6% of GDP) to \$29.3 billion in 1987/88 (5.3% of GDP). The deficit is predicted to drop to \$28.9 billion in 1988/89 and to \$28.6 billion in 1989/90. By 1993, the deficit is expected to be \$19.5 billion.

Labour Costs. Unit labour costs rose by 2.7% in 1987, a much slower rate of growth than that of most Western countries. Wage gains remain lower than the rate of inflation.

Consumer Spending reached its highest level in 1987 since the mid-1960s and reflects the fact that the 1987 personal savings rate fell to 9%, its lowest level in 15 years.

Before - Tax Corporate Profits rose by more than 25% in 1987.

Business reinvestment. In 1987, businesses reinvested about 10% more of their profits in new plants and machinery and an increase of 13.9% is expected in 1988.

JAPANESE ECONOMIC SITUATION

- GNP constitutes about 10% of global GNP, and ranks third after the United States and USSR. In 1987 Japan's nominal gross national product was CDN \$3053 billion. GNP per capita was CDN \$25,000.
- The structure of the Japanese economy has changed dramatically in the post-war period. The output share of primary industry has fallen steadily to approximately 3%, secondary industry has expanded rapidly and is steady at 41%, while the share of tertiary industry - the locus of much recent growth - has grown to 56%.
- Revaluation of the yen in the past two years has accentuated demand for restructuring. Japanese firms have shown remarkable resilience in restoring profit levels.
- The highest growth rates are in electrical machinery and precision instruments, with telecommunications and knowledge-intensive industries showing the greatest prospects for future growth.
- Unemployment, low by international standards, is 2.7% but is expected to rise toward 4% by the early 1990s. Labour unrest is minimal in Japan and industrial production is little affected by it.
- The rate of price increases has been low in recent years, partly due to depressed world commodity prices and the appreciation of yen.
- The Japanese economy forecast includes reduced growth as a result of a slow down in the export sector and the deflationary impact of the rapid appreciation of the yen. However, GNP is forecast to grow in the 4% range in 1988.
- The annual rate of increase of money supply since 1982 has been 7-9%. Japan has lowered its official discount rate to 2.5% to stimulate domestic demand and to counter the expected deflationary effects of the yen appreciation.
- Japan's trade surplus rose from US \$79.83 billion in 1986 to \$93 billion in 1987.
- Japan's surplus with the United States and its bilateral surpluses with Europe and other countries have produced pressure on Japan to improve access to its markets.
- The value of exports at the end of 1987 was 6% up from 1986, whereas the value and volume of imported goods rose by 20% and 10% respectively.

CANADA/JAPAN TRADE

Over the past decade, trade between Canada and Japan has quadrupled. Japan is now Canada's largest single overseas market. In 1987, two-way trade reached C\$14.5 billion (up from C\$13.5 billion in 1986), of which Canadian exports to Japan totalled \$7.0 billion and imports from Japan totalled \$7.5 billion. Canadian exports to Japan in 1987 increased 19% over those in 1986. In 1987, export gains were concentrated in wood and paper products, non-ferrous metals, industrial machinery, equipment and tools, and consumer goods. Japan continues to offer great potential as an economic partner for Canada, particularly with our growing emphasis on the Pacific Rim. With the development of Japan into a major industrial and trading power, Canadian business in Japan faces major opportunities and challenges in expanding trade, promoting investment in Canada and acquiring technology.

While Canada enjoyed an uninterrupted trade surplus with Japan from 1973 to 1983, we recorded a deficit of C\$70 million in 1984. This deficit accelerated to C\$400 million in 1985 and C\$1.7 billion in 1986. The trading relationship improved considerably in 1987 with the Canadian deficit with Japan dropping sharply to \$514 million. To alleviate some of the large bilateral trade imbalances between Japan and her principal trading partners, Japan took welcome steps to liberalize her domestic market and stimulate domestic demand. The room for growth in Japanese consumption in the social goods sectors such as housing, combined with Japanese government undertakings to liberalize its import regime, should offer new and lucrative export opportunities to many Canadian industries.

The Canadian export performance should also benefit from signs of an ongoing economic recovery in Japan. Japan is adjusting well to the revaluation of the yen. There are indications that major Japanese firms boosted their unconsolidated pretax profits in 1987, the first increase in three years. Such an increase reflects a rise in domestic demand and personal consumption amid a steady economic recovery. There are also signs that the Japanese economy will quicken its inflation - adjusted growth pace in 1988. According to OECD projections, Japanese imports from the rest of the world are expected to rise 25.3% between 1987 and 1989.

Canadian exports to Japan in 1987 were primarily concentrated in basic crude materials (39.8% metal ores, concentrates, and scrap, fur skins) and fabricated materials (37.8% wood and paper, textiles, chemicals, iron and steel, non-ferrous metals). Agriculture and fishery products, including processed foods and beverages, accounted for 17% of Canada's exports to Japan in 1987, with finished industrial and consumer goods accounting for 5 per cent. At the end of 1986, Canada ranked eighth as a source of imports to Japan. In the coming years, Canadian government and business will increase efforts to become an ever more important source of Japanese imports. In 1987, Canada continued to take full advantage of the changes in the Japanese economy in order to maximize trading opportunities.

The Government of Canada's comprehensive Strategy for Japan seeks to ensure greater and more frequent interaction between our countries, so that we may pursue mutually beneficial trade goods. In particular, Canada aims to protect and expand her market share of resource products to Japan, increase sales of Canadian value-added products and fully manufactured goods and improve access to Japanese markets in forestry, agricultural and fish products. In addition, the Strategy envisions Canadian industry having access to Japanese production and product technologies, and stimulating Japanese investment in Canadian manufacturing. With respect to the latter goal, it is believed that the Canada-United States Free Trade Agreement will encourage Japanese investment here because of our enhanced access to the United States market.

Numerous consultative mechanisms exist between Canada and Japan. For example, the Canada Japan Business Cooperation Committee (CJBCC), under the Chairmanship of David Culver, Chairman and Chief Executive Officer of Alcan Aluminium Limited, consists of senior executives of major corporations in both countries. Its aim is to foster closer interaction between the private sectors. Another mechanism is the Joint Economic Committee which meets every 18 months at the deputy minister level to coordinate trade, technology and investment relations. The eighth meeting of the Committee will be held in Tokyo in 1988.

Further economic consultation was seen in 1986 with the exchange of visits between Prime Ministers Brian Mulroney and Yasuhiro Nakasone and the January 1988 visit by the newly-elected Noboru Takeshita to Canada. Such meetings promote greater awareness of each country's economic objectives and provide opportunities to improve the bilateral relationship and address the major trade issues facing the international economic order.

The major statistical indicators of the relationship for Canada are:

Two-way Trade	= \$14.5 billion (1987)
	= \$13.5 billion (1986)
Canadian Exports	= \$7.0 billion (1987)
	= \$5.9 billion (1986)
Japanese Exports	= \$7.5 billion (1987)
	= \$7.6 billion (1986)
Direct Investment (estimated)	= \$3.8 billion (1987)
	= \$2.8 billion (1986)
Portfolio Investment in Canadian bonds (estimated)	= \$35.9 billion (1987)
	= \$30.5 billion (1986)
Tourism to Canada (total spending)	= \$299 million (1987)
	= \$220 million (1986)

VISIT OF PRIME MINISTER TAKESHITA TO CANADA,
JANUARY 1988

Japanese Prime Minister Noboru Takeshita met with Canadian Prime Minister Mulroney in Toronto January 15-16, 1988. By all accounts, the "get-acquainted" visit was both successful and productive. Both Prime Ministers reviewed a range of political, economic and cultural issues. They resolved to strengthen bilateral understanding through the rigorous use of the 22 bilateral consultative mechanisms currently in place. Furthermore, there would be additional cultural programs and youth exchange visits, as well as an enhanced inter-parliamentary visits program.

The Prime Ministers agreed on the importance of the trade and economic relationship. With respect to the Canada-United States Free Trade Agreement, their joint statement read:

"The two Prime Ministers expressed the hope and expectation that the Agreement will result in increased trade and investment opportunities not only between Canada and the United States but also between third countries and North America, particularly between Japan and Canada."

Prime Minister Takeshita also promised to carry to Japan a message for increased investment in Canada.

Prime Minister Mulroney outlined Canadian trade concerns, particularly with respect to the mix of our exports to Japan. Canada would like to see the mix change so that a percentage higher than the current 5% of our exports to Japan are fully manufactured goods. He also expressed his desire for Japan to eliminate its discriminatory tariff on Canadian SPF dimension lumber.

On the subject of foreign investment, Prime Minister Mulroney stated that his Government had created a positive climate for investment. He encouraged greater Japanese investment in Canada since, at the moment, Canada is receiving a smaller share of direct Japanese investment than their market share would warrant. Prime Minister Mulroney praised existing Japanese investors as good corporate citizens and expressed the hope that more would follow not only in auto assembly but in electronics, industrial machinery and others previously identified in the Kanao Report.

During the visit, the January 14, 1988 announcement by Honda that it plans a three-phase \$80-million expansion at its Alliston, Ontario plant was greeted with enthusiasm by the Prime Ministers. It was also viewed as an indication that Japanese business considered that the Free Trade Agreement would be beneficial. According to a company press release,

"Honda is continuing to invest in Canada with optimism and looks forward to the general opportunities provided by reducing restrictions brought about by the proposed Free Trade Agreement with the United States. The Free Trade Agreement was a positive influence in concluding our recently announced expansion decision. The new Agreement will give us free access for our products between the United States and Canada."

On culture and communications, Prime Minister Mulroney stressed the importance of cultural exchanges in developing openness and tolerance particularly among youth who would one day be leaders of Canada and Japan. Prime Minister Takeshita stated that he shared this view and indicated his support for more cultural exchanges. He announced a one million dollar endowment fund for the Canada Council to promote touring of Japanese artists in Canada. Prime Minister Takeshita also referred to the Japanese programme to invite eighty Canadian youths to teach English and also mentioned his pleasure at having hosted a Canadian exchange student in his home some 10 years ago.



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JOINT STATEMENT ON ECONOMIC ISSUES

Prime Ministers Noboru Takeshita and Brian Mulroney met in Toronto on January 15, 1988 and discussed, among other issues, bilateral and global economic questions. They shared the view that the bilateral economic relationship is essentially sound and they agreed to work together toward the common goals of further expanding both the trading and investment relationship between Japan and Canada.

The two Prime Ministers shared the view that economic policy coordination among the major industrial countries is of vital importance in the current global economic situation. They also reaffirmed their determination to fight protectionism in order to maintain and strengthen the open world trading system. In this context, they placed great importance on the upcoming Economic Summit to be held in Toronto in June and agreed to cooperate closely to ensure the success of the summit.

They also reaffirmed their commitment to the open and multilateral trading system and to a strong and credible GATT as essential to the well-being of all trading countries. The two Prime Ministers agreed to work together toward the successful completion of the Uruguay Round of Multilateral Trade Negotiations. They welcomed progress being made in the first year of the round, and agreed to support a mid-term Ministerial Review to take place in Canada before the end of 1988 with the joint objective of consolidating early results and of giving further momentum to the negotiations.

The two Prime Ministers discussed the recently concluded Free Trade Agreement between Canada and the United States. Prime Minister Mulroney described the Agreement as an important contribution to trade liberalization. Prime Minister Takeshita paid tribute to the Canadian

Prime Minister for his effort and leadership in concluding the Agreement and noted his assurances that the Agreement is consistent with the goals and provisions of the GATT. The two Prime Ministers expressed the hope and expectation that the agreement will result in increased trade and investment opportunities not only between Canada and the United States but also between third countries and North America, particularly between Japan and Canada.

CANADA-U.S. FREE TRADE AGREEMENT: IMPLICATIONS FOR JAPAN

Background:

Following 18 months of negotiations, Canada and the United States arrived at an agreement in principle on October 4, 1987. Over the course of the next two months, the Elements of the Agreement were translated into a legal text which was formally tabled in the House of Commons on December 11, 1987. The FTA was signed by Prime Minister Mulroney and President Reagan on January 2, 1988. The FTA will be implemented by the passage of amending legislation by the national legislatures in each country during 1988 and is expected to enter into force on January 1, 1989. The Canadian Government estimates that, as a result of the Agreement, real income will be raised by at least 2.5 percent over the long term and that 120,000 new jobs will be created over the first five years of the Agreement. This will strengthen consumer spending, offering more opportunity for Japanese exporters.

In essence, the FTA provides for: the elimination of all bilateral tariffs and other border restrictions within ten years, backed up by stronger rules of origin, special measures to enhance market access for each other's exports in the areas of agriculture, energy, automotive products, and wine and distilled spirits; liberalization of the regulatory framework surrounding government procurement, investment and financial services; a precedent-setting code providing for national treatment in future legislation in a broad range of service sectors; and a variety of institutional provisions to guarantee impartial application of trade remedy laws and to oversee implementation of the FTA.

In its relations with third countries over the past two years, Canada has consistently stressed that the FTA is entirely compatible with Article XXIV of the GATT, which explicitly allows for the formation of regional free trade areas. All of the conditions attached to Article XXIV, particularly the requirement that "substantially all the trade" between the concerned parties be included, have been met in full.

Impact on Japan:

Japan has been keenly interested in the outcome of the FTA process. Canada and the United States comprise more than 40% of the market for Japanese products. In 1987 Japanese exports to North America exceeded U.S. \$85 billion. Canada has received approximately 2% of Japanese direct investment abroad, whereas the U.S. has received 44%. The financial sectors in Canada and the U.S. have also attracted considerable Japanese equity investment as a result of Japan's massive trade surpluses (over \$100 billion in 1987) and its high domestic savings rates. Total Japanese portfolio holdings in Canada are estimated to be about \$35 billion, primarily in government bonds.

The Japanese Government has taken a supportive approach to the trade liberalization philosophy underlying the FTA. During his meeting with Prime Minister Mulroney in January 1988, Prime Minister Takeshita expressed the "hope and expectation" that positive results would flow from the Agreement. Japanese support for the Agreement is predicated on the understanding that the FTA would be compatible to the GATT and not adversely affect third countries. Prime Minister Mulroney assured Prime Minister Takeshita that this is the case and that the Agreement represented an important first step towards reducing trade barriers worldwide.

Impact on Japan regarding FTA Tariff Elimination:

The removal of tariffs on items in which Japanese and American suppliers are in direct competition, such as on consumer electronics, telecommunications and machinery, will increase the need for Japanese exporters to become more competitive.

Impact on Japan regarding FTA Financial Services:

The concessions granted to American financial institutions, particularly with respect to exempting the U.S. banks from the 16% asset ceiling on the size of the foreign bank sector in Canada, have not been extended to Japanese financial institutions. The question of the extension of certain FTA provisions to third countries will be reviewed by the Government of Canada at an appropriate time.

Impact on Japan regarding FTA Investment Provisions:

The FTA does not change the ground rules regarding Japanese or other third country investment but it does extend certain benefits to U.S. investors not at present offered to investors from other countries. Japanese and American investors receive different treatment in that the review threshold is raised solely with respect to direct U.S. acquisitions, and phased out altogether with respect to indirect U.S. acquisitions. The pre-FTA Canadian investment regulations apply to the Japanese except where a Japanese company acquires a U.S.-controlled Canadian company (directly or indirectly), in which case the FTA threshold limit for review would apply. On the other hand, the FTA should make Canada a more attractive location for Japanese investment seeking to take advantage of the cost benefits of locating in Canada while enjoying secure access to the U.S. market.

Impact on Japan Regarding the FTA Automotive Provisions:

The FTA automotive provisions can be described as "Auto Pact Plus". Not only have the fundamentals of the Auto Pact been retained, but new opportunities for production and employment in Canada have been added. New rules of national origin will determine if a car is eligible for duty-free treatment. If companies want to export duty-free to the United States, or if United States transplants want to ship to Canada, their labour and North American parts must equal at least half the value of each vehicle's production cost. The FTA creates incentives for parts producers located in Canada to procure higher levels of domestic parts.

The Japanese have several concerns about the automotive sector under FTA such as the ineligibility for Auto Pact status, higher content requirements to qualify for FTA tariff treatment and the elimination over time of duty remission schemes. Such concerns were raised during the negotiations between Canada and the United States in an attempt to address them.

For example, the FTA provides a mechanism for Canada to honour its duty remission commitments with Honda and Toyota. This allows for continuity of the commitments made in previous Memoranda of Understanding. Subject to ministerial approval, each company will receive duty remission benefits commensurate with Canadian value-added performance. At lower performance levels, the remission benefits are nominal when compared to those received by Auto Pact producers, but increase as performance begins to approach that required under the Pact. All benefits will terminate by January 1, 1996 although companies will continue to receive some duty remission based on Canadian value-added exports to countries other than the United States until January 1, 1998.

The FTA builds on the Auto Pact by keeping intact safeguards and the list of qualified participating firms. As such, Honda and Toyota will not be eligible to join the Auto Pact and will not therefore be able to import duty-free from outside North America. As General Motors, Chrysler and Ford retain the option of importing on a duty-free basis from third countries, Honda and Toyota will be subject to heightened competition and face an increase in costs when duty drawbacks on components are terminated in 1994.

Japanese auto makers have also expressed interest in the new rule of origin for duty-free entry under the FTA. The new rule, based as it is on direct manufacturing costs, ensures a greater degree of North American content. It further provides a clear direction to Honda and Toyota to use higher levels of North American parts. This reinforces a trend set by the continuing appreciation of the yen and should serve to accelerate investment by Japanese parts suppliers in North America.

In sum, there are several positive consequences flowing from the FTA for offshore automakers who established facilities in Canada. Products which qualify under the rule of origin receive preferred duty treatment, permitting rationalization on a North-South basis. Production-based duty remission arrangements Canada has with Japanese and Korean automakers building plants in Canada will be honoured until 1996. Duty remissions on parts exports to third countries continue for 10 years. Elimination of customs user fees will result in reduced costs and administrative burdens for exporters from Canada.

Impact on Japan of FTA Energy Provisions:

There appears to be little impact here. The FTA largely formalizes the deregulation initiatives taken by the Canadian Government since 1984. The Japanese have expressed some concern over security of

supply in times of shortage. However, the FTA states that it is subject to the Emergency Sharing System (ESS) of the International Energy Agency (IEA). Under the ESS, Canada would likely be required not only to maintain its exports to other IEA countries but to increase them. While the upgrading requirement for uranium exports to the USA has been eliminated, the policy will continue to apply to all exports of Canadian uranium for end use in third countries such as Japan. Under the Agreement, Canada retains the ability to place restrictions on energy imports from third parties. As for foreign investment, the FTA should enhance investor confidence by creating a more stable trading environment. The existing Canadianization policies, laws and regulations in the energy sector have been grandfathered.

CANADA/JAPAN INVESTMENT RELATIONS

Japan is a significant overseas investor with multinational capabilities and a willingness to expand its manufacturing base abroad. The rate of Japanese direct overseas investment has increased rapidly with the revaluation of the yen. In fact, 25 per cent of all Japanese direct overseas investment took place in 1986. Figures for 1987 indicate that the trend is likely to continue for some time. Japanese business has looked with growing interest to Canada as it examines manufacturing locations in the North American market. Recent automobile assembly investments by Honda, Toyota and Suzuki in Ontario reflect this interest. Such developments have prompted their parts suppliers to begin assessing nearby locations. Japanese investment in 1987 was concentrated in the electronics, paper, auto parts and industrial corporate sectors.

Further encouraging investment is seen in the following examples:

- ° Kao Corporation's opening of a facility in Arnprior, Ontario to manufacture floppy disks for computers;
- ° Oji Paper's recent announcement of a joint venture with Canfor for worldwide export. New capital expenditure for this project could amount to a billion dollars.
- ° Mitsui Petrochemicals Industries has signed a contract with Allelix of Mississauga, Ontario to obtain manufacturing technology for an anticancer agent.
- ° Nishikawa Kasei Co. is planning to manufacture auto instrument panels near Toronto.
- ° Toyoda Gosei Co., a Toyota component supplier has taken a 65% interest in Waterville TG Inc., a Quebec-based rubber parts firm.
- ° The January 1988 announcement by Honda Canada Inc. of an \$80-million expansion of its plant in Alliston, Ontario.
- ° The February 1988 announcement by Magna International and Japan's Mitsui & Co. of a \$49 million auto parts plant to be built in Tillsonburg, Ontario by April 1989.
- ° The February 1988 announcement by Daishowa Paper Mfg. Co. that it will build a \$500 million pulp plant at Peace River, Alberta. The plant is to go into production in the fall of 1990.

Canada strongly favours Japanese direct investment particularly in the manufacturing sector and has an active promotion program in Japan.

The Japanese Economic Mission (Kanao) visited Canada in 1986 following the introduction of the Investment Canada Act in July 1985. Regarding Japanese investment in Canada, the business delegation members were encouraged by the policies initiated by the federal and provincial governments to promote and improve the Canadian investment environment. The Mission's discovery of a "new Canada" of high technology and growth will encourage the continued expansion of the Japanese investment base in Canada beyond the resource sector. The Mission is reported to have observed many indications that Japan-Canada relations will expand from that of purchaser of resources to include more diverse relations based on mutual exchange within the entire manufacturing field.

Securing market access has always been a major factor in the decisions of Japanese manufacturers to locate in North America. The enhancement of access to the large United States market obtained by Canada in the recently concluded Canada-United States Free Trade Agreement will play a significant role in future Japanese investment in Canada. Under the Agreement, Canada will continue to be an attractive environment for Japan because of resource availability, low cost energy, competitive labour costs, productivity, quality of life and the above-mentioned access to the United States market.

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.

CANADA/JAPAN TRADE IN MANUFACTURED GOODS

Canada exports a wide range of manufactured goods to Japan: from gold coins and fur garments in the consumer goods area, to specialized semiconductors and computer products in the electronics area, to software and consulting in services and to simulators, helicopters and engines in the aerospace industry.

The Japanese market offers growing opportunities to Canadian exporters of manufactured goods and services, particularly in automotive parts and accessories, telecommunication equipment, defense equipment, computer software, energy conservation and pollution control equipment. Furthermore, Japan has enormous industrial cooperation potential in terms of direct investment, technology transfer, licensing, joint ventures, subcontracting and third country co-operation.

Yen appreciation in its simplest dimensions means Canadian products have never been cheaper in Japan. The effects of yen appreciation and trade friction are continuing to be measured very consciously by Japanese business circles. For Canada, this is creating opportunities in areas of trade promotion and industrial development (with the latter encompassing both investment and industrial cooperation).

Nevertheless, certain features of Japanese business practice, such as the distribution system and propensity to protect well-established supplier relationships, have mitigated against dramatic shifts to date. However, certain trends beneficial to Canadian business have been observed. For example, many export-dependent companies in the electronics and automobile sectors have announced plans to increase their offshore procurement and investment programmes.

Structurally, the Japanese economy is adjusting with an expanding service sector and a move into higher value-added product manufacturing. The liberalization occurring in areas such as the telecommunications field is also providing a more favourable environment for foreign, including Canadian, suppliers.

1987 marked a good year for the export of manufactured goods to Japan. The following list illustrates the growth in export value in 1987 as compared to 1986: leather and leather - fabricated materials (+226%), textiles (+95%) chemicals (+9%), special industry machinery (+40%), agricultural machinery (+15%), transportation equipment (+35%), televisions, radios and phonographs (+520%), electric lighting and distribution equipment (+38%), apparel and accessories (+28%), toys, games, sporting recreation equipment (+30%), medical ophthalmic, and orthopaedic supplies (+121%) and photographic goods (+6%), containers and closures (+52%).

Petro Chemicals

Imports of major petrochemicals from Canada showed an overall increase in 1987 over 1986. Products which experienced a rise included ethylene dichloride (14,423 MT to 48,099 MT), methanol (476,313 MT to 532,339 MT), and LDPE (948 MT to 2,117 MT). Imports declined in 1987 from 1986 for styrene monomer (60,516 MT to 51,001 MT) and HDPE (414 MT to 68 MT). Ethylene glycol remained about the same at 63,140 MT in 1988 (64,066 MT in 1987).

Although demand for commodity petrochemicals and resins has increased both in domestic and international markets, Japanese producers will most likely take a conservative view in the construction of new capacity. All producers will turn their attention increasingly to high value-added specialty chemicals and advanced polymers. Competition in this market will be tough since foreign manufacturers along with non-chemical producers are entering the Japanese market. Joint development of new products with end-users and international producers is expected to increase. Japanese producers will also be following their end-user markets as production continues to shift overseas.

CANADA/JAPAN TRADE IN MINERALS AND METALS

Japan is the second largest market for Canadian minerals and metals exports.

Demand in Japan for increased sales of Canadian minerals and metals improved somewhat in 1987 over 1986. Canadian minerals and metals exports to Japan in 1987 exceeded \$3.3 billion representing about 10 percent of our sector's total exports. Japan was our second largest export market after the U.S.A.

The principle mineral commodities exported to Japan are coal (at 50% of the total), copper, aluminum, gold, uranium, potash, asbestos, iron ore and other nonferrous metals.

Canadian industry also imports minerals and metals from Japan, principally steel and nonferrous metals. In 1987 these purchases totalled \$370 million.

The volume and value of minerals trade with Japan has grown steadily over the past few decades. Japanese industry is virtually totally dependent on imported minerals and metals due to a lack of sufficient indigenous resources. The Canadian mineral industry has thus focussed its sales efforts on the Japanese market, emphasizing that Canada is a stable and secure source of supply for many of the commodities.

Coal constitutes 20% of our exports to Japan. 71% of Canadian coal exports go to Japan. Sales of coking coal to the Japanese Steel Industry were valued C\$1.3 million. Canada supplied 23% of Japanese import requirements in 1987. Only one year after posting deep operating losses, Japan's major steel makers are expected to announce solid operating profits for the fiscal year that ended March 31, 1987. Strong steel demand is expected to continue in the coming financial year.

Japanese tariffs on minerals and metals imports have had some detrimental effects on Canadian exporters. Although the Japanese are now in accord with the agreement reached at the Tokyo GATT round of negotiations, some irritants remain. One example is the tariff escalation with the stage of processing provides Japanese smelters economic advantage over offshore metals suppliers (e.g. Canada) and encourages a policy of importing the lowest stage of product - ores and concentrates (e.g. aluminum, copper, zinc). As a result, Canadian mineral and metal sales to Japan are predominantly in ores and concentrates, at approximately 84 percent of our total sales as compared to an average of 45 percent for this stage in our global sales.

Japan takes 63% of Canadian export sales of copper concentrate. Canada has 50% of the Japanese potash market. Japan also takes 33% of Canadian exports of uranium, making it Canada's largest single importer, and is our second largest market for asbestos.

Approximately 80 per cent of total Canadian production of metals and minerals is exported, accounting for 17 per cent of Canada's total export earnings. Primary and fabricated resource-based materials account for approximately 80 per cent of Canadian exports to Japan.

CANADA/JAPAN TRADE IN AGRICULTURE, FISH AND FOOD PRODUCTS

Food and Agricultural Products

Japan remains the world's largest net importer of food and 30% of total food consumption comes from abroad. Canada is a major supplier to Japan of a number of agricultural commodities. Canada is Japan's third largest supplier with a 7% market share compared to the U.S.A. share of 38%. However, Canadian exports of flaxseed, canola and alfalfa pellets dominate the market with over 90% share in each category. In 1987, our major exports were grains, oilseeds, pork and animal feeds. The total value of food, feed, beverages and tobacco shipped to Japan was \$1.7 billion, including meat (\$161 million), fish (\$481 million), grains (\$403 million), and oilseed (\$409 million).

Research is currently underway in Canada to establish the scientific background necessary for the Hay Protocol with Japan to enable the export of hay products. Similar work is being done for apples, green peppers and tomatoes.

The market for processed food products is growing due to increased demand and the high value of the yen. At the same time this expansion is impeded by import quotas for certain items (beef, beans), phytosanitary requirements (apples, hay) and a host of non-tariff problems such as restrictions on additives, labelling and market distribution practices.

While Canada welcomed the January 1988 decision of Japan to accept the GATT Panel ruling against quantitative restrictions on certain agricultural products, we will continue to press for further liberalization of the Japanese agricultural market.

Fisheries Products

Japan is the world's largest consumer of fish and fish products and Canada's second largest market after the U.S.A., absorbing \$481 million in 1987. Japanese production of fisheries products has declined gradually over the past decade in large part due to the reduced fishery allocation given to Japan by other countries since the implementation of the 200-mile limit. As a consequence, imports are increasing very rapidly and in 1987 accounted for about 29% of total fish consumption. The Japanese market for imported fish products will almost certainly continue to grow at a healthy rate in the medium term. Opportunities exist for a wide range of Canadian products.

In 1987 Canada gave Japan fishing allocations for 6 fish species. Preliminary indications for 1988 call for a reduction in total foreign allocations for redfish and silver hake and Japan's allocations will be reduced proportionally.

For the most part, Japan supports Canada's stand in international fora on fish stock conservation issues.

Within the overall cordial relationship, Canada continues to lobby Japan on the latter's system of import quotas on eleven fish species, particularly with respect to cod, squid, mackerel, herring and scallops. Canada has also lobbied for the removal or reduction of the 12% tariff on herring roe in brine.

In November 1987 the Minister of Fisheries and Oceans, Thomas Siddon, announced a moratorium on the experimental squid driftnet fishery within Canadian territorial waters and called for more effective action to regulate the use of driftnets in international waters. He also endorsed the establishment of a new International Pacific Science Organization.

Recent successes - new business

McCain Foods	- french fries (10% of Japanese market)
Canadian Rocky	- bottled water (300,000 cases)
Canadian whiskey	- sales (bulk) increased from \$6 million to \$20 million
Fishery Products International	- frozen sea nuggets - \$10 million
Bread mixes	- from nothing to 16 containers per month in 1987
Fresh mushrooms	- exports valued at \$10 million
Pet foods	- exports valued at \$8 million
Lobster	- from nothing a few years ago to \$20 million in 1987

CANADA/JAPAN TRADE IN FORESTRY PRODUCTS

Forest products have been Canada's stellar performers in 1987 with a 60% increase in export sales due to the expansion of construction starts in Japan, a strong demand for our competitively priced pulp, and higher lumber prices. Exports in 1987 to Japan exceeded \$1.8 billion. Sales value was up 16% in pulpwood chips, 74% in softwood lumber, 27% in veneer, 115% in plywood and 40% in wood pulp over 1986. Newsprint paper and shakes and shingles declined in value 7% and 24% respectively. Pulp shipments were up 47% and wood shipments increased 72%. Canadian exports of lumber and pulp will continue to do well due to firm Japanese demand.

Japan's 8% Tariff on Spruce, Pine and Fir Dimension Lumber

Canada considers that the application by the Japanese of a higher tariff on Spruce-Pine-Fir lumber (SPF) than that on dimension lumber made from other species of wood, such as kiln-dried hemlock-fir (KDHF, primarily from the USA) hurts Canadian trade and that the discriminatory treatment is contrary to Japan's GATT obligations. Canada has requested that Japan eliminate the tariff on SPF to zero so as to make it equal with the tariff on KDHF. In addition, Canada has requested formation of a GATT panel at the March 22, 1988 meeting to investigate its complaint.

Japanese Building Code

A major Canadian trade objective has been to encourage the Japanese Government to amend its building code to allow the expanded use of wood in construction, in particular, three-storey platform frame apartment buildings. Such a revision would increase prospects for exports to Canada's second-largest lumber market.

Joint research activities between Canada and Japan have been initiated to encourage better understanding of the safety and fire aspects of wood frame buildings. For example, the Canadian National Research Council participated in a Japanese building burn experiment on November 17, 1987. This was the start of an exchange of technical data and dialogue between Canada and Japanese experts. A group of Japanese scientists are expected to visit the NRC in 1988.

Progress has been made during 1987 with respect to code version. A bill enabling the amendment of the building code law for the construction of three-storey single family units was passed by the Diet on May 27, 1987, and regulations for local implementation are now being established.

Investments

Japan's forest products sector has been active in developing Canadian investment projects in the last year. For example, Oji Paper Company and Canfor Corporation have announced plans for a kraft pulp

facility and newsprint production at Port Mellon, British Columbia. In addition, two other plans have been announced: 1) Daishowa announced its plan to build a \$500 million greenfield kraft pulp mill at Peace River, Alberta; 2) Primex Forest Industries, a Canadian firm, and Sanyo Kokusaku Pulp have announced a joint venture agreement to construct and operate a \$7 million hardwood pulp chipping plant in Delta, British Columbia.

Product Diversification

Marketing efforts have been stepped up to encourage the sale of building components and value-added forest products into the Japanese market. A recent Japanese buying mission was impressed with Canadian flooring, windows and doors and bannisters. Canadian log homes have found considerable success in the Japanese vacation regions.

CANADA/JAPAN INDUSTRIAL COOPERATION

Industrial cooperation between Canada and Japan brings significant benefits to the Canadian manufacturing sector, contributes to correcting the imbalance in the trade relationship, and fosters greater understanding of each other's economic opportunities.

On September 3, 1985, the Canadian Department of Regional Industrial Expansion and the Japanese Ministry of International Trade and Industry announced an Arrangement to Promote Industrial Cooperation between Canada and Japan. The purpose of the Arrangement is to encourage more joint ventures, licensing agreements, joint research and development projects and increased two-way investment between the private sectors of both countries. Canada proposed nine sectors for joint action: advanced manufacturing technologies, ceramics, microelectronics, advanced industrial materials, space, biotechnology, steel making, office equipment, and telecommunications. Three sectors were selected for initial activity: advanced manufacturing technologies, microelectronics, and ceramics. In 1986, two new priority sectors were added: space and biotechnology.

The Industrial Cooperation Arrangement is a very successful vehicle for Canadian companies. The leadership of Japanese industry in applied product and production technology has great potential for improving the competitiveness of Canadian industry in the North American market. A project introduced by the Department of External Affairs under the title Technology Awareness and Acquisition Project (TAAP-Japan) seeks to introduce Canadian manufacturers to Japanese manufacturers who are leaders in their section. On return to Canada the industry missions are required to meet formally with Canadian companies in their sector to advise them of the potential for, and means of, accessing leading applied industrial technologies in Japan.

Since its inception, the Arrangement has proven most beneficial in providing Canadian companies with a better opportunity to visit key Japanese manufacturers and industrial laboratories. As a result of these missions, many new business relationships have been initiated which should bring new products and production technology knowledge to the Canadian manufacturing sector. Some 25 joint ventures have been confirmed or are under discussion with Japanese companies. In 1986, eleven hundred Canadian business people have attended 26 seminars across the country as a follow-up to the missions. In 1987, 30 seminars were attended by approximately 1400 Canadian business people.

A review of the Arrangement was conducted by Canadian and Japanese officials in Tokyo in January 1988. With respect to advanced manufacturing technology, a number of subsectors - such as robotics technology - were identified as a focus for future consideration. In the microelectronics sector, both countries welcomed the announcement that the Canadian Semiconductor Design Association (CSDA) has joined the International Semiconductor Co-operation Centre (INSEC). Furthermore, Japan

stated that the assistance its Electronics Industry Association provides to Canadian companies wishing to enter into business arrangements with Japanese companies would continue.

Information services were also a focus for discussion with both countries observing that the June 1988 Paris World Computing Services Industry (WCSI) Congress would provide an excellent opportunity for their respective software companies to meet. As for biotechnology, Japan supported Canadian proposals for the promotion of information, personnel exchanges and formal affiliation between BIDEC and IBAC, the new Canadian biotechnology industry association. Canadian participation in the BIDEC-sponsored Second International Biofair in Tokyo in October 1988 was also discussed. A Japanese Biotechnology mission came to Canada April 18-29, 1988 and visited CANBIOCON, a leading exhibition and conference held in Montreal on April 19-21.

The 1988 review of the Arrangement further noted the progress made in the advanced ceramics and aerospace sectors. Regarding the former, both sides noted the increased exchange of members and publications and agreed to consider the possibility of sending a Japanese mission to Canada to meet with Canadian ceramics companies. On aerospace, the slow but constant progress in Canada-Japan collaboration was highlighted. Promising areas for possible increased cooperation in the future include: remote sensing, microgravity experimentation, communications (particularly mobile communications) and space-related robotics.

The Department of Regional Industrial Expansion has entered into discussions with the leading Japanese trading houses operating in Canada concerning diversification of their Canadian business interests. Many of the larger trading houses are looking to broaden their business base in Canada by entering the manufacturing and service sectors. One result of these discussions has been the signing of the Letter of Understanding with three trading houses: Mitsubishi (June 1986), C. Itoh (March 1987), and Nissho Iwai (July 1987). These documents essentially call for increased cooperation by identifying business opportunities of benefit to both trading houses involved and Canadian firms. These arrangements have resulted in a number of trade deals and joint-ventures.

CANADA/JAPAN ENERGY RELATIONS

Oil and Gas

Japanese companies are becoming increasingly active in international exploration and development projects. Overseas projects now provide 13% of Japan's current domestic consumption. In early 1988, a consortium of Japanese oil companies announced Japan's first investment in conventional resources in Canada - a joint venture agreement with Ultramar Canada for drilling 75 wells in four western provinces.

The Canadian Government welcomes new foreign energy investment within the parameters of the Investment Canada Act. However, financially-sound Canadian-owned companies in the oil and gas sector are not eligible for foreign direct acquisition.

Nuclear

A decision on the introduction of CANDU into Japan is not imminent. Such a decision would involve many considerations including load growth and the progress of the DATR program, Japan's indigenous heavy water reactor. Power demand in Japan has been slow and CANDU is unlikely to be permitted to get ahead of the DATR project.

Japan is an important customer for Canadian isotopes and related products. In addition, there are a number of cooperation agreements between Canada and Japan in the nuclear sector, including waste management.

Uranium

The single most important market for Canadian uranium is Japan which has accounted for nearly 40% of total exports since commercial deliveries began in the 1960s.

According to MITI, Canada now holds 31% share (62,930 tonnes) of supply of uranium in Japan. The USA holds only 5% or 10,150 tonnes. Current uranium supply contracts with the Japanese power industry are through to be sufficient until the 1990s.

CANADA/JAPAN SCIENCE AND TECHNOLOGY (S&T) RELATIONS

Canada and Japan concluded an S&T Agreement in May 1986 during Prime Minister Mulroney's visit to Japan. The Agreement provides a formal stimulus to the expansion of joint research and development projects across a broad spectrum of peaceful technologies.

Pursuant to the S&T Agreement, the first meeting of the Joint Committee took place in Vancouver in the fall of 1986. Some 75 existing projects were brought under the Agreement, and eight new proposals were approved, ranging from agriculture to laser development and space science.

The Agreement is seen as useful means of moving the Canada-Japan S&T relationship in the direction of joint technology development. Japan's rapidly growing status as a world force in S&T development provides Canada with a further incentive for closer cooperative efforts. For this reason, the Canadian government has initiated the Technology Awareness and Adjustment Program (TAAP) for Japan. This Program has funded a number of major industry-led missions to strategic sectors in Japan over the past two years. The objective is to make the new technology knowledge gained available Canada-wide. The Technology Inflow Program (TIP) of the Department of External Affairs is also in high demand for Japan.

The Japanese industry has been favourably impressed by Canadian technology, especially in the fields of space, communications, computer software and advanced transportation systems.

CANADA/JAPAN TOURISM

Japanese Travel Market

Since the liberalization of overseas travel, Japanese outbound traffic has grown at a phenomenal rate from 128,000 in 1964 to 6.8 million in 1987. This trend, stimulated by the substantial appreciation of the yen against the dollar, shows no sign of abating and the total for 1988 is expected to be about 7.53 million with projections of 10 million by 1992.

Japanese Travel to Canada

Japan now ranks as the second largest source of overseas visitors to Canada. Total Japanese travel to Canada in 1987 was 311,687 visitors, a 33% increase over 1986, and represents 4.6% of the Japanese outbound market. The Japanese tourists spent \$299 million in Canada in 1987, an increase of 36% over 1986. Canada does face severe competition from other countries, notably the United States, Australia, Hong Kong, China, and Western Europe.

Canada's west coast is the most popular region for Japanese visitors to Canada. About 40% of Japanese visitors go to British Columbia, 20% to Alberta and 30% to Ontario. However, greater numbers of Japanese visitors are touring the Maritimes, especially given the popularity of "Anne of Green Gables" in Japan. Trade and scenery in B.C., skiing and scenery in Alberta, and the Niagara Falls in Ontario are other major attractions. Canada is the leading overseas destination for Japanese skiers and with a ski population of over 11 million in Japan, there is opportunity to expand the market.

A Priority Market

Japan is a top priority market in Tourism Canada's overseas market strategy commanding major attention in the overall marketing campaign. The advertising and trade development program aims to increase Canadian awareness, enhance its image and obtain a growing share of the Japanese travel market. The 1988 Canadian message highlights the beauty of Canada, skiing, the Winter Olympics, urban attractions such as restaurant and night life, and Niagara Falls.

Strong growth patterns in Japanese overseas leisure travel hold the promise of Japan becoming Canada's second largest source of international travel receipts after the USA.

Travel from Canada to Japan

Over the last few years Japan has become an increasingly important destination for Canadians. The number of Canadian visits there grew from 28,000 in 1979 to 48,000 in 1987, and their spending in Japan rose from \$15.6 million to \$49.7 million. Business and pleasure are major reasons. Japan is also an entry point to China.

JAPANESE INVESTMENT IN THE CANADIAN TOURISM INDUSTRY

Information on Japanese investment in the Canadian tourism industry is difficult to ascertain. It is felt that "Japanese investment usually follows Japanese visitors". Hence, there is heavy Japanese investment in Guam, Hawaii, and parts of the United States where a large number of Japanese visitors go or where their businesses are located (as in New York City and Los Angeles).

There are, at present, hotels and restaurants in Toronto and Vancouver which are partly or fully owned by Japanese firms. For example, a substantial investment in Vancouver's Canada Place by Japanese interests (Tokyu Hotels International) has been underway since May of 1983 in the 514-room Pan-Pacific Hotel which was opened in time for Expo in 1986.

Many opportunities exist for Japanese participation in the continued development of the tourism sector. Accordingly, Japanese investment is welcome and encouraged.

MANAGER EXCHANGE PROGRAM WITH JAPANESE INDUSTRY

Background

The Manager Exchange Program with Japanese industry seeks to facilitate the development of technology relations between Canadian and Japanese firms.

A high level business mission from Japan under the leadership of Mr. Minoru Kanao, Chairman of Nippon Kokan, a leading steel company visited Canada in October 1986. The Mission participants identified technological collaboration and joint venture as having potential for expanding Canada-Japan trade relations. The exchange program is aimed at assisting the practical implementation of this goal. The program promotes private sector exchange that will result in technological collaboration needed to transfer new products, processes or services to Canada. The exchange is aimed at mid-level technical managers in Canadian firms who are responsible for the identification and implementation of technology development in their company. This activity is funded by the Department of External Affairs Technology Inflow Program and is assisted in its operations both in Canada and Japan by private sector organizations.

The Canada-Japan Business Cooperation Committee assists to exchange programme in alerting Canadian firms to opportunities in working with Japanese business in the acquisition of new technology. The Keidanren, Japan's leading business organization comprising 800 large corporations and 100 trade associations, will assist in identifying relevant Japanese technologies and locating companies who will receive Canadian participants.

How the Program Works

Specifically assigned staff in our Tokyo and Osaka posts in collaboration with the Keidanren specialists will:

- respond to requests from Canadians to identify technology sources and investment opportunities for collaboration with the Japanese private sector;
- arrange for the prospective partners to be brought together to discuss the technical, commercial and legal aspects of specific technology transfers.

The program may provide grants for short term exploratory missions to Japan to identify emerging technologies and innovations of interest to Canada.

The following activities are supported:

- working visits to Japanese business organizations by Canadian scientists, engineers, and technical executives to obtain hands-on experience in the development and application of a technology required to Canada;
- working visits to Canada by Japanese experts where the Canadian firm will obtain significant benefit from the visitor's expertise; and
- cooperative research and development project designed to produce new technologies of interest to Canada.

THE TORONTO ECONOMIC SUMMIT,
JUNE 1988

From June 19-21, Canada will play host to the 14th Economic Summit. At that time Prime Minister Brian Mulroney will welcome to Toronto the leaders of the six other major industrialized democracies -- Japan, France, the Federal Republic of Germany, Italy, the United Kingdom, the United States, and the President of the Commission of the European Community.

These leaders will review the progress made since the Venice Summit in the various institutional fora which deal with international economic policy (particularly the IMF/World Bank, the GATT, the OECD and the periodic meetings of G-7 ministers). At Toronto, leaders will seek to give renewed impetus to a variety of themes. Some will be persistent topics of summit discussion, such as economic policy co-ordination, microeconomic policy and structural adjustment; trade (especially agriculture); international debt; and significant social developments confronting Western nations. Others will be new items particular to the economic and political circumstances that will emerge by June.

The Economic Summit meetings have been held annually since 1975 (Canada and the European Community began their participation in 1976 and 1977, respectively). The first Summit meeting was held at Rambouillet, near Paris, at the invitation of the President of France. The Economic Summit has no permanent home or Secretariat. Rather, Summit sites and organizational responsibilities are rotated among member nations: Rambouillet (1975), Puerto Rico (1976), London (1977), Bonn (1978), Tokyo (1979), Venice (1980), Ottawa/Montebello (1981), Versailles (1982), Williamsburg (1983), London (1984) Bonn (1985), Tokyo (1986) and Venice (1987).

The original concept was to have leaders discuss economic subjects outside the usual institutional framework, much along the lines of the "Library Group" of Finance Ministers that first met in 1973 in the White House library to discuss the international economic problems incurred due to the unravelling of the Bretton Woods fixed exchange rate system. Fostering personal contact among leaders to bring about progress on the issues facing the world has remained an important objective of Economic Summits. These meetings have brought key leaders together in a group that is powerful enough to have an important bearing on significant developments in the world (both economic and political), yet small enough to make open and direct discussions possible.

These yearly meetings are the most visible elements of a broader, complex process of international consultation and cooperation in the management of the world community. The Summits are closely linked to work done in other international fora including the International Monetary Fund (IMF)/World Bank, the General Agreement on Tariffs and Trade (GATT), the Organisation for Economic Cooperation and Development (OECD), and the group of Seven (G-7) Finance Ministers. The continuing objective of Summits has

been to work towards compatible macroeconomic policies to foster balanced growth. These Summits are not decision-making fora, but over the years have enabled the leaders of the industrialized democracies to gain a deeper appreciation of the extent to which their economies are linked, to strengthen their consensus on key issues, to pursue a more co-ordinated (and effective) response to economic problems and, when necessary, to generate new policy initiatives.

All Economic Summits have emphasized the inter-relationship of world problems. Economic growth, employment, inflation, energy, debt and the maintenance of a liberal trading environment are all facets of an interdependent world economy. Summits recognize the close connection between the prosperity of the industrialized countries and that of the developing world. Naturally, the focus has shifted from year to year reflecting the most pressing preoccupations at the time. Despite the fact that Summits are essentially economic in character, a tradition of discussion of political subjects has developed, and political declarations have been issued from time to time. While the significant political developments to emerge in 1988 will be on the minds of leaders at Toronto, there can be little doubt that recent economic developments affecting stock markets and exchange rates will ensure that the original objectives of economic summitry remain central at the Canadian Summit.

The participation of Canada's Prime Minister in the annual meeting is immensely valuable. It assures our full involvement in the shaping of major economic trends of enormous importance to a trading nation such as Canada, and allows us to voice our concerns, be they on the need to lower international barriers of trade, to deal equitably and humanely with the desperately indebted nations of sub-Saharan Africa, or to seek political solutions to deep-rooted problems such as apartheid or disarmament.

OSAKA MEANS BUSINESS

Canadian tourists arriving from Tokyo at Kyoto to visit Japan's thousand-year-old temples, are probably not aware that they have arrived at the gateway to an industrial area rivaling the world's largest. Osaka, the heart of the Kansai region, is the home of one of the world's three largest banks, the third largest stock market, 30 of the world's largest corporations and produces 2% of both the world's GNP and the world's noncommunist trade, all packed into space no bigger than the size of the Fraser Valley but with almost the equivalent population of Canada!

One is not in Osaka long before one realizes there is a difference between Osaka and Tokyo. Kansai people are quick to point out that its highly competitive commercial businesses are more sensitive to customers' needs, more flexible and more direct in doing business, and always willing to try new ideas especially if it means profit. Japanese instant noodles, karaoke (sing-a-long bars), business hotels and cigarette vending machines saw their debut in the Kansai before Tokyo. The qualities of individuality and pride are the reasons why we are told, Japanese communities overseas are usually led by successful Japanese from the Kansai and perhaps why all six of Japan's Nobel Prize winners were born and/or educated in the Kansai.

Osaka people are especially proud of their cultural and social traditions which extend back to feudal times when the region prospered as a commercial centre built up through huge commercial monopolies and controlled by the same philanthropic industrialists whose names still identify the many bridges across Osaka's canals.

But there is a new sense of urgency in Osaka and city fathers are working feverishly to make the city more international in the face of Tokyo's dominant economic and political power. Stylish new hotels and other major facilities are now hosting big name international conferences, and trade shows and exhibitions are helping to both revitalize the local economy and attract foreign businessmen and officials to the region for the first time.

Hopes and New Projects for the Future

Hopes for Osaka in the next century rest upon three major projects largely financed in the region. The first is the construction of the Science City, doing for Osaka what Tsukuba, 100 km north of Tokyo is doing for the Kanto region. At its core will be two of the Kansai's important research organizations: The Advanced Telecommunications Research Institute which concentrates on artificial intelligence and optical telecommunications and the International Institute, which concentrates on basic research, particularly in biotechnology. Three companies have already committed to setting up research centres; Matsushita (Consumer Electronics), Fujitsu (Telecommunications) and Kyocera (Ceramics and New Materials). By 1997, the Science City is expected to be home to over 120,000 researchers

and students. Three ingredients are thought to be essential to plot Osaka's future: a core group of companies strong in particular fields, people willing to invest money and a strong research capability. With the first two definitely well in place, the Science City is expected to add the third.

The second major project, the Kansai International Airport scheduled for completion in 1993, will be the first of its kind in the world, built on a man-made island reclaimed from Osaka Bay. Due to pollution and noise problems at the existing airport, and to avoid environmentalist pressure which plagued Tokyo's new airport at Narita, an offshore location was seen as the only alternative. The added advantage is that the airport will operate around the clock, something Tokyo can never have. Passenger volumes are expected to increase to 5 times current volumes by 2010 but it is the 13 times current volumes expected for air cargo that will create the biggest impact on local business.

Technoport is the third and perhaps most imaginative project which will impact on the Kansai and catapult it into the next century as a major international centre. Simply put, the concept is to plug Osaka and the Kansai into the information sources of the world. In addition to hotel, conference, cultural, and residential facilities, Technoport will receive and consolidate information for distribution by optical cable throughout Osaka's subway and rail system. Not only will it promote Osaka as one of Asia's financial centres, but the coordination and distribution of technological, trade and transportation information may even serve to lure some of the head offices from Tokyo where the word staggering is no longer strong enough to describe land prices.

CANADA COMES TO THE KANSAI

Our new Consulate General in Osaka was established as part of the Government's National Trade Strategy and is Canada's first-ever such consular office anywhere in Japan. A temporary office was opened in an Osaka hotel in January 1986 and the Consulate General was inaugurated that November in a new building on Osaka's main thoroughfare. There is currently a total staff of nine: three rotational Canadians (the Consul General, one Consul and one Vice Consul) and six locally-engaged Japanese (two commercial officers and four support staff).

The territory covered by the new office is the Kansai area of central Japan: a seven-prefecture region; Osaka, Hyogo, Kyoto, Nara, Wakayama, Mie and Shiga. Though small geographically, this region has a total population of about 22 million, most of it concentrated in the cities of Osaka, Kobe, Kyoto and Nara. The region is Japan's second-largest industrial, financial, commercial and population centre after Tokyo, accounting for 20% of the Japanese economy and, correspondingly therefore, about 2% of the free world's GNP.

The city of Osaka alone has a population of over 2.6 million while Osaka Prefecture has 8.7 million. Osaka is the headquarters of 30 of the world's 500 largest corporations outside the U.S., ranking fourth in that regard behind Tokyo, London and Paris. Osaka was the original great business city of Japan, serving as the nation's distribution centre, and most of Japan's most famous trading companies started here. Despite being the headquarters of such famous names as Sumitomo, Matsushita (National/Panasonic/Quasar/Technics), Sanyo and Sharp, the region is now better characterized as the centre of medium and small companies which represent some 92% of its work force. Virtually everything except defence products is made there but electronics has displaced textiles as the dominant industry.

Canada's opening in Osaka is designed to capitalize on the opportunities for both trade and investment offered by the region's powerful economy.

The new office was established to:

- 1) promote exports of Canadian goods and services
- 2) encourage Japanese manufacturing investment in Canada
- 3) stimulate technology transfer between Japanese and Canadian companies.

Priority areas for the promotion of Canadian exports are:

- 1) communications and informatics
- 2) processed foods and beverages
- 3) fish and shellfish and other marine products
- 4) manufactured wood products

The new office has a large multi-purpose room which is being well-utilized by Canadian businessmen and officials for a wide variety of events including computer software demonstrations, beef promotions, fur shows, 2x4 wood seminars, provincial and municipal presentations, film shows and receptions and other functions. The room is normally made available to Canadian organizations free of charge on a first-come first-served basis.

Priority areas for the new office for the promotion of manufacturing investment in Canada are:

- 1) manufacturing
- 2) consumer electronics
- 3) automotive parts
- 4) pharmaceuticals and biotechnology

In March 1987, Communications Minister Flora MacDonald was the keynote speaker at a Canadian Investment Seminar in Osaka which attracted 254 participants including representatives of five provinces. The very successful event was co-sponsored by the Canadian Government and the Osaka Chamber of Commerce and Industry. The Chamber which has a membership of

over 28,000 of which 22,000 are corporate, sent a high level economic mission to Vancouver, Toronto and Montreal in April, 1987 to promote Canadian interest in the Asia-Pacific Business Convention which was held in Osaka last October. Another working level manufacturing investment mission organized and sponsored by the Osaka Chamber is scheduled to travel to Canada May 24 - June 9th this year.

In May 1988, Osaka will host the annual meeting of the Canada-Japan Business Cooperation Committee. Osaka was the site of the very successful 1970 World's Fair and will be hosting Expo '90 which is an International Garden and Greenery Exposition, the first of its kind in Asia.

SOME SUCCESS STORIES IN 1987
FOR CANADA'S CONSULATE GENERAL

- Canadian consumer products manufacturers enjoyed direct sales worth over \$1 million on the premises of the Consulate.
- \$750,000 export sales of Canadian processed food exports occurred through direct promotion activities.
- Technology exchange agreements were successfully concluded worth more than \$600,000 between Canadian and Japanese companies.
- Department Store Canada Food Fairs supported by Canada and the Provinces have generated more than \$2 million in retail sales since the Consulate was established in the Kansai.
- Twenty-three buying connections were established between Japanese importers and Canadian exporters.

CANADA/JAPAN FOOTNOTES

- Prime Minister Takeshita is the eighth Japanese Prime Minister to visit Canada (January 1988).
- 1988 marks the 60th anniversary of Prime Minister Mackenzie King's announcement that Canada intended to establish full diplomatic relations with Japan.
- Canada is proceeding with plans to rebuild the Embassy in Tokyo as a dynamic new complex "Canada Place" across from the Imperial Household Palace. The building, designed by Japanese-Canadian Raymond Moriyama, will serve as an architectural showcase and cultural centre, and contains surplus space for leasing to Canadian commercial entities.
- Japan has become Canada's second largest source of tourists.
- As of September 1987, there were 2,555 Japanese students in Canada, the majority of whom were studying English.
- In November 1986 Honda Canada Inc. became the first Japanese automaker to open a Canadian plant and in 1988 announced a major expansion of its plant in Alliston, Ontario.
- At the end of 1987, 8 of the top 10 banks ranked by value of deposits were Japanese-owned.
- Canada's twice as dependent on exports as a percentage of GNP (28%) as Japan (13%).
- Canada has a diplomatic mission in Osaka in addition to Tokyo. Japan maintains diplomatic offices outside Ottawa in Edmonton, Montreal, Toronto, Vancouver and Winnipeg and has honorary representatives in Halifax and Regina.
- In Canada, October is Exports Promotion Month. In Japan, October 1987 was Import Promotion Month.
- The Japanese government contributes only 20% to the total R&D effort of the country. Canada is precisely the opposite, at 80%.

CANADA FACT SHEET

Type of Government	Constitutional Monarchy
Head of State	The Queen, Represented by Governor General Jeanne Sauvé
Head of Government	Prime Minister Brian Mulroney
Secretary of State for External Affairs	Joe Clark
Minister for International Trade	John Crosbie
Finance Minister	Michael Wilson
Area	9,970,610 km ²
Population	25.6 million (1987)
GNP	C\$493,012 billion (1986) C\$537,199 billion (1987)
GNP Per Capita	C\$19,445 (1986) C\$20,963 (1987)
GDP	C\$509.9 billion (1986) C\$553.9 billion (1987)
GDP Per Capita	C\$19,503 (1986) C\$21,291 (1987 estimate)
Inflation Rate	4.4% (1987)
Unemployment Rate	8.9% (1987)
Current Account Deficit	C\$8.9 billion (1987)

JAPAN FACT SHEET

Type of Government	Constitutional Monarchy
Head of State	Emperor Hirohito
Head of Government	Prime Minister Noboru Takeshita
Minister Foreign Affairs	Sosuke Uno
International Trade and Industry Minister	Hajime Tamura
Area	378,000 km ²
Population	121.4 million (annual growth rate 0.54% 1987)
GNP	C\$2,743 billion (1986) C\$3,053 billion (1987) 1988 forecast 3.7% - 4.0% growth
GNP Per Capita	C\$22,594 (1986) C\$25,000 (1987)
GDP	C\$2,719 billion (1986) C\$3,043 billion (1987)
GDP Per Capita	C\$22,393 (1986) C\$25,061 (1987)
Inflation Rate	1.1% (January 1988 year-to-year change)
Unemployment Rate	2.7% (January 1988)
Current Account Surplus	C\$111.8 billion (1986) C\$110 billion (1987)

CANADIAN TRADE WITH JAPAN

	EXPORTS	IMPORTS	BALANCE
1987	7,036,245	7,550,304	-514,059
1986	5,908,225	7,626,298	-1,718,073
1985	5,707,160	6,113,422	-406,262
1984	5,640,848	5,710,833	-69,985
1983	4,721,745	4,409,441	312,304
1982	4,568,389	3,527,119	1,041,270

Source: Statistics Canada (Customs Cleared Basis)

CANADIAN EXPORTS TO JAPAN

PRODUCTS	(Cdn \$ thousands)		
	1985	1986	1987
1. Coal	1,430,718	1,312,057	1,188,266
2. Woodpulp	396,873	524,162	738,915
3. Softwood Lumber	398,246	473,785	825,181
4. Rapeseed	521,598	376,594	371,639
5. Copper (Ores, Concentrates)	341,288	367,741	455,409
6. Wheat	282,040	309,809	275,320
7. Fishery Food and Feeds	206,787	225,503	336,782
8. Fish	106,063	198,622	134,900
9. Meat (Fresh or Frozen)	127,995	163,128	160,049
10. Aluminum (incl. alloys)	199,311	153,582	221,480
11. Crude Wood Products	106,714	142,507	264,970
12. Organic Chemicals	185,490	136,885	134,340
13. Precious Metals (Ores, Concentrates)	105,708	122,213	151,954
14. Newsprint Paper	48,560	117,996	109,305
15. Precious Metals Incl. alloys	73,817	92,081	284,205
16. Barley	130,716	89,882	71,300
17. Vegetable Origin Foods	48,472	59,066	51,487
18. Unmanufactured Asbestos	46,003	50,233	40,519
19. Fertilizers	79,838	49,722	68,326
20. Iron Ores and Concentrates	67,171	44,476	43,858
SUB TOTAL	4,903,408	5,010,044	5,928,205
OTHER	803,752	898,181	1,108,043
GRAND TOTAL	5,707,160	5,908,225	7,036,248

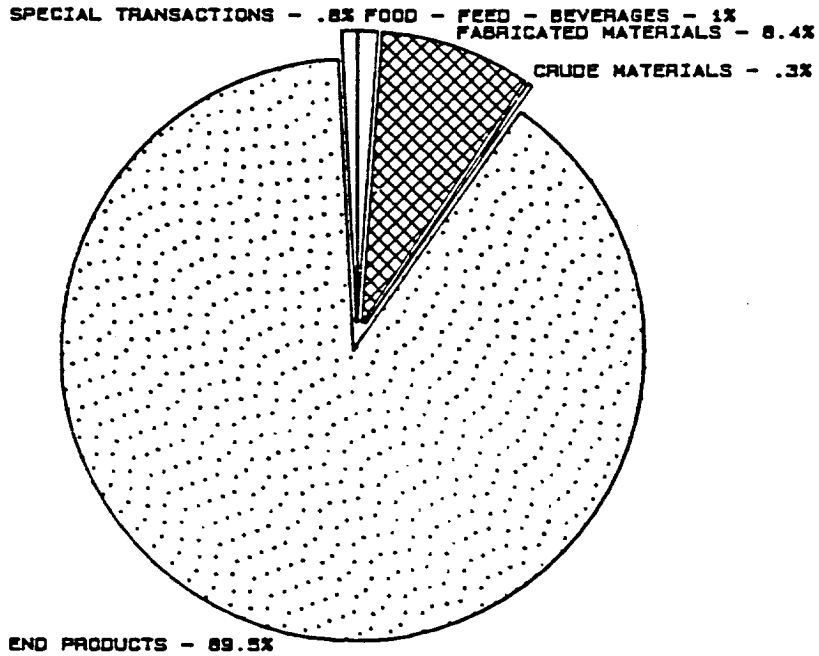
Source: Statistics Canada (Customs Cleared Basis)

CANADIAN IMPORTS FROM JAPAN

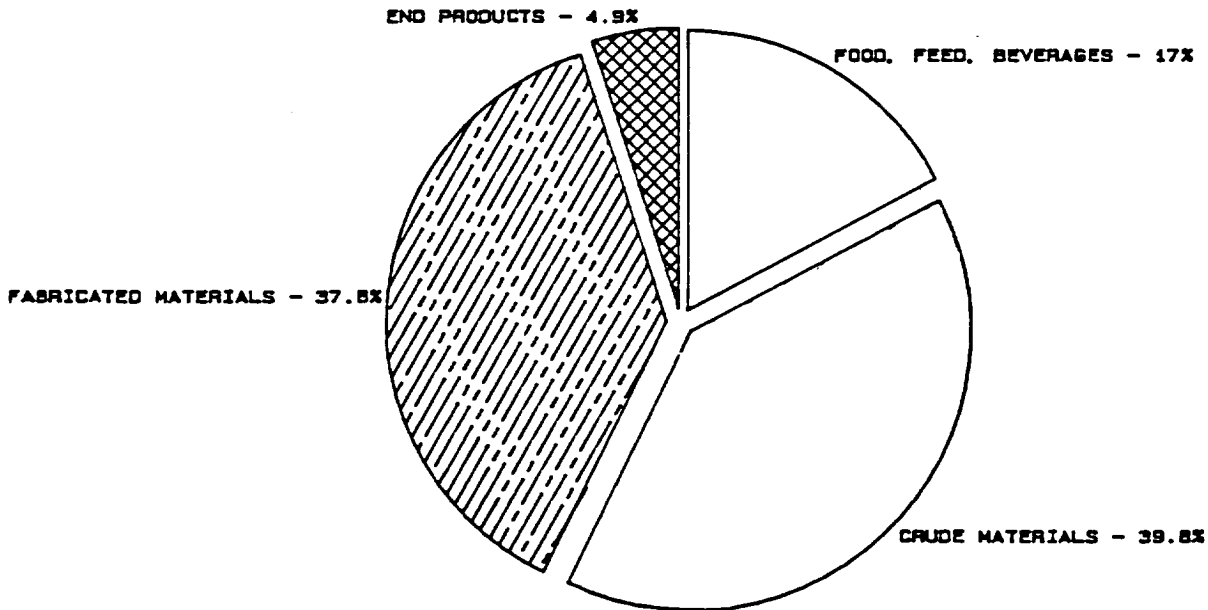
PRODUCTS	(Cdn \$ thousands)		
	1985	1986	1987
1. Passenger Cars, Chassis	1,483,675	2,048,000	2,361,174
2. Telecommunications Equipment	771,366	848,560	670,144
3. Trucks, Chassis	233,867	323,377	287,529
4. Motor Vehicle Engines	198,276	289,520	287,397
5. Photographic Goods (except film)	234,178	288,275	283,274
6. Other Motor Vehicles	230,723	264,604	164,325
7. Televisions, Radios, Stereos	188,715	214,109	158,647
8. Auto parts (except engines)	149,408	190,838	312,802
9. Equipment and tools, misc.	154,062	188,068	122,115
10. Other Transportation Equipment	145,313	167,524	160,862
11. Electronic Computers	110,570	160,344	204,420
12. Machine tools	51,045	114,406	81,754
13. Unexposed photo film	77,966	104,488	108,675
14. Office Equipment (except computers)	84,364	87,057	82,746
15. Industrial Machinery, general	9,546	78,916	48,232
16. Power Shovels	70,693	70,541	91,191
17. Man Made Fibre Broad Woven Fabrics	43,690	66,277	68,021
18. Pipes and Tubes Iron and Steel	127,486	63,782	54,063
19. Aluminum Ores, Concentrates, Scrap	58,478	57,162	18,105
20. Plate, Sheet, Strip Steel	46,534	56,341	46,078
SUB TOTAL	4,469,935	5,392,619	5,611,554
OTHER	1,643,487	2,233,679	1,938,750
GRAND TOTAL	6,113,422	7,626,298	7,550,304

Source: Statistics Canada (Customs Cleared Basis)

CANADA'S IMPORTS FROM JAPAN
BY COMMODITY CATEGORIES - 1987

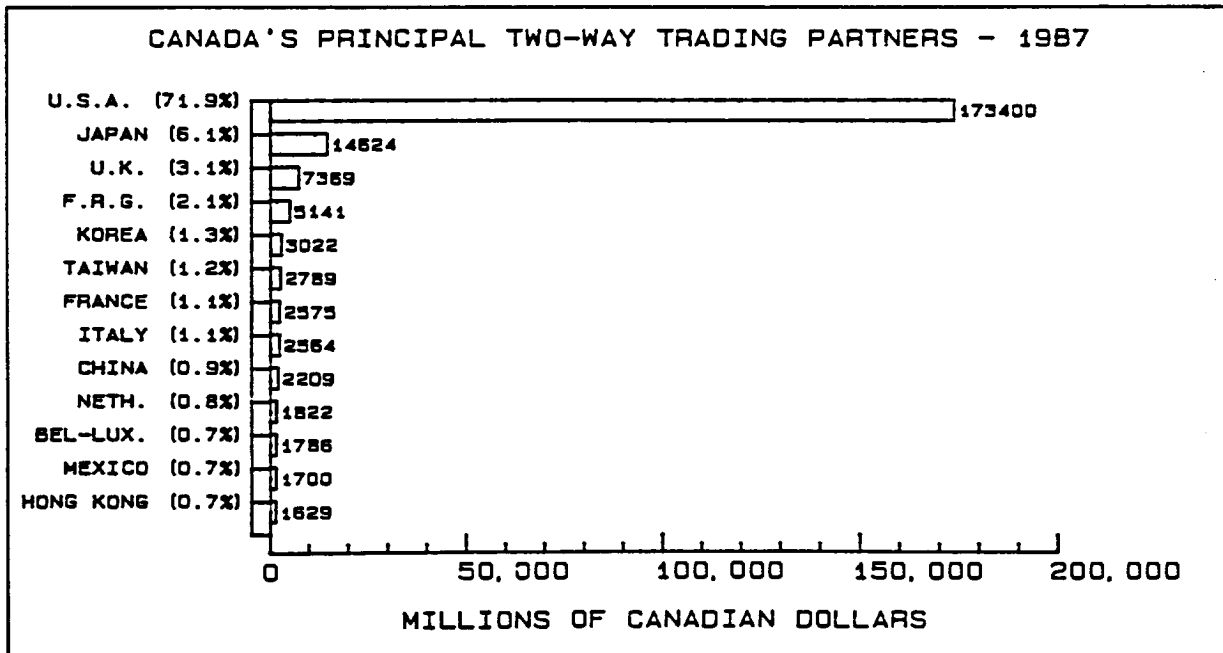
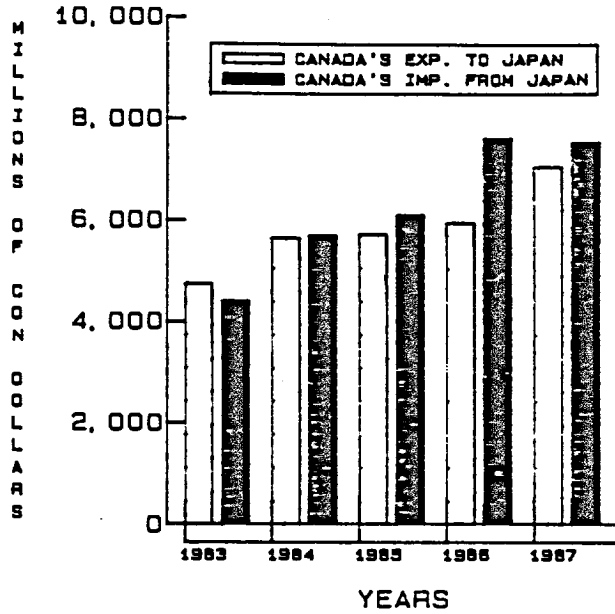


CANADA'S DOMESTIC EXPORTS TO JAPAN
BY COMMODITY CATEGORIES - 1987



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ECONOMIC AND TRADE ANALYSIS DIVISION
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**CANADA - JAPAN
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