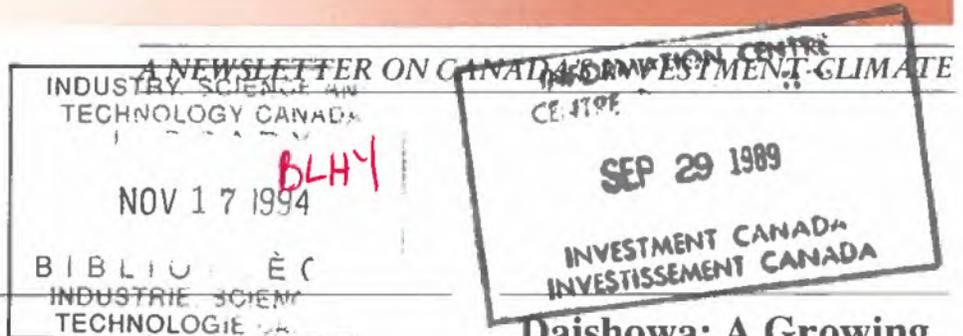
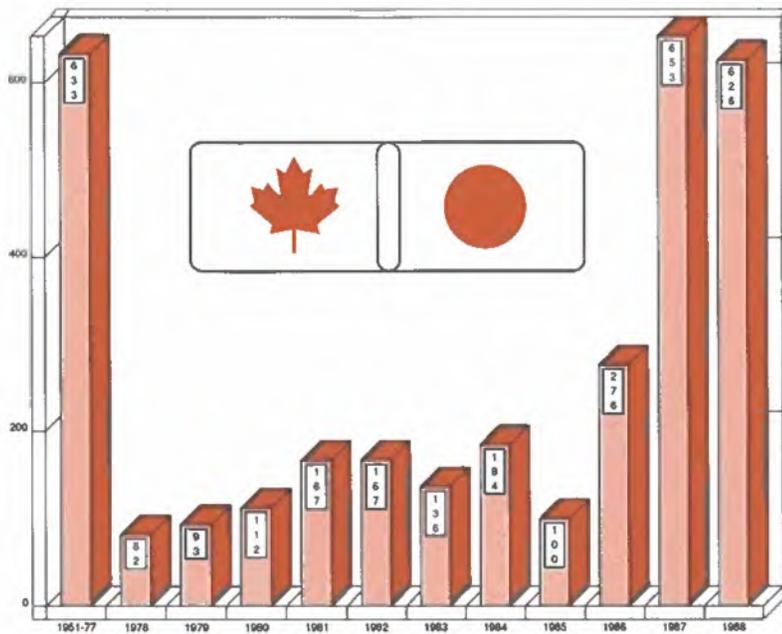


INVESTING IN CANADA

Vol. 3, No. 2 — Fall 1989



CANADA • JAPAN Enhancing the Partnership



Source: Ministry of Finance, Japan

Japanese Direct Investment in Canada (Million US\$)

The following article was written for *Investment Canada* by the Ambassador of Japan, His Excellency, Mr. Hiroshi Kitamura.

This year, 1989, is a special year in Canada-Japan relations — the 60th anniversary of the establishment of our diplomatic relations. It is a pleasure to note that our bilateral relations have developed remarkably in various fields, as if to coincide with this commemorative year. Therefore, I would like to review briefly the fruits of past bilateral economic relations, and express some personal comments on how we could elevate and deepen them in the future.

Where We Stand

With regard to our trade relations, two-way trade has amounted to C\$18 billion in 1988 (a 17% increase over the previous year) consolidating the Japanese position as Canada's second largest trading partner next to the United States. This figure is twice that of Canadian trade with the U.K., three times its trade with West Germany, and five times its trade with France. Also, I would like to stress that Canada is one of a few industrialized countries which maintains a trade surplus with Japan — a magnitude of C\$2 billion in 1988. (p. 2) ▶

Daishowa: A Growing Presence in Canada

Daishowa Paper of Japan is one of the leading worldwide manufacturers of paper and paperboard, and produces 10% of the total Japanese output of these products. During 1988, which marked the company's 50th anniversary, Daishowa rapidly expanded its overseas operations in North America, particularly in Canada.

Western Canada

Daishowa Canada Co. Ltd. began construction of a \$550 million greenfield bleached kraft pulp mill near Peace River in Northern Alberta. The total of Daishowa's capital investment in North America, including the new mill, now exceeds \$1.3 billion.

"Northern Alberta's abundant wood supply and the provincial government's strong commitment to development of the forest industry proved an unbeatable combination in Daishowa's (p. 3)

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Hiroshi Kitamura, Ambassador of Japan

Next to review is our investment relations. Up to 1985, the average annual Japanese direct investment in Canada stood at some US\$100 million. Since then, however, with the rapid appreciation of the yen and with the shift of production bases from Japan abroad backed with the change in Canada's foreign investment policy, which created a favourable investment climate, Japanese direct investment in Canada has been increasing remarkably.

The Japanese cumulative direct investment in Canada, from 1951 up to last March, reached US\$3.23 billion, and it is amazing to note that almost half of that amount was placed during the last three years. According to statistics from Investment Canada, in these years, the amount of Japanese direct investment is approximately 4% of total foreign investment in Canada, which is the third largest share next to the U.S. (62%) and the U.K. (10%).

In the field of science and technology co-operation, both countries signed "The Agreement on Co-operation in Science and Technology" in May 1986, and in only three years since then, various co-operative activities have been initiated on more than 60 themes. In

CANADA • JAPAN (Cont'd from p. 1)

addition, in January last year, Prime Ministers of both countries agreed to launch a joint "Complementarity Study in the Field of Science and Technology" in order to identify possible future areas and ways of co-operation. I am very pleased to comment that the final report of this study was submitted to the respective Prime Ministers last June and will be implemented for further strengthening of our mutual co-operation in this field.

Furthermore, since 1985 both governments have conducted a series of consultations on industrial co-operation, the purpose of which was to encourage investment and technology transfer between the two countries. Initially, these consultations focused on three specific industrial areas: fine ceramics, robotics and microelectronics. However, due to the fruitfulness of our mutual co-operation, the scope of the consultations has now been expanded to such areas as aerospace, bio-industry, and environment protection.

Concerning industrial co-operation, I must also add that the Department of Regional and Industrial Expansion (now,

Industry, Science and Technology Canada) has signed "Letters of Understanding" with leading Japanese trading firms as well as the EXIM Bank of Japan, in order to achieve collaboration in various areas including the creation of joint ventures, various co-operative overseas projects and expansion of export to Japan. I highly value such a unique and positive initiative on the part of the Canadian government.

Investment

As indicated earlier, Japanese direct investment in Canada has increased remarkably in recent years. However, Japanese direct investment is expanding all over the world and the Canadian share in the total Japanese direct investment abroad remains at less than 2%, and even shows a slight decline. If we take into account the fact that the U.S. share has reached almost 40% and that the size of the U.S. economy as well as Japan-U.S. economic relations is 10 times larger than that of Canada, I would not be surprised if the Canadian share in Japanese foreign direct investment increases significantly — say, to around 4%.

The resources sector traditionally accounted for a large share of Japanese investment in Canada. However, we note with pleasure that investment has recently increased in automobiles, auto parts, electrical equipment, pulp and paper, tourism, as well as in such high-tech areas as mobile satellite telecommunications, laser equipment and computer software. We expect and encourage more such diversified Japanese investment in Canada. I am sure that such expectations are not impracticable if we take into account the recent developments in bilateral science and technology co-operations and industrial co-operations as well as the positive impact which the Canada-U.S. Free Trade Agreement (FTA) might create through the unification of the North American market. (p. 7) ➤

60th ANNIVERSARY

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In Japan, a 60th Anniversary is called "Kanreki" and carries a special meaning — in the Japanese zodiac, 60 years is a complete cycle and brings one back to the original starting point for a new and revitalized round of life.

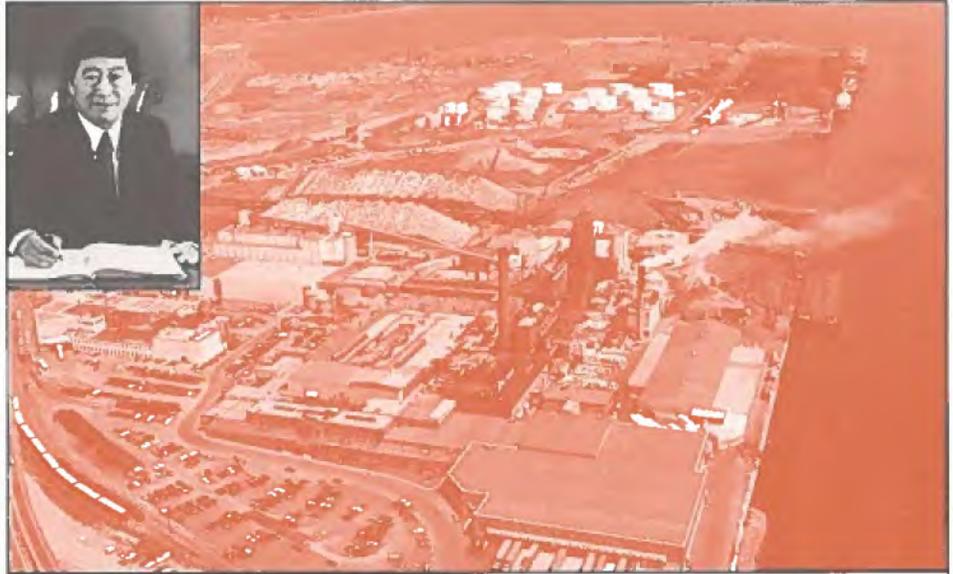
DAISHOWA *(Cont'd from p. 1)*

decision to create the greenfield bleached kraft pulp mill," says Mr. Tom Hamaoka, Vice-President and General Manager of Daishowa Canada Co. Ltd.

Scheduled for start-up in July 1990, the mill incorporates the latest technology, especially for environmental protection, and will pioneer the utilization of hardwoods, notably aspen and balsam poplar. Annual sales revenues are expected to be in the range of \$220 million from buyers in the Pacific Rim, North America and Europe. When fully operational, the pulp mill will employ 300 people; another 300 are expected to find jobs with independent contractors in the woodlands.

Eastern Canada

Daishowa Forest Products Ltd. (formerly Reed's North American Paper Group), is Daishowa's newest subsidiary in Canada, producing newsprint, paperboard, sulphite pulp, lumber and packaging. The primary market is in North America, but substantial volumes are also exported to Europe, South America



Daishowa's Quebec mill complex. Inset: Koichi Kitagawa, President & CEO, Daishowa Forest Products Ltd. (Courtesy of Daishowa)

and the Far East. Employing about 2,300 people, its annual sales are currently \$435 million.

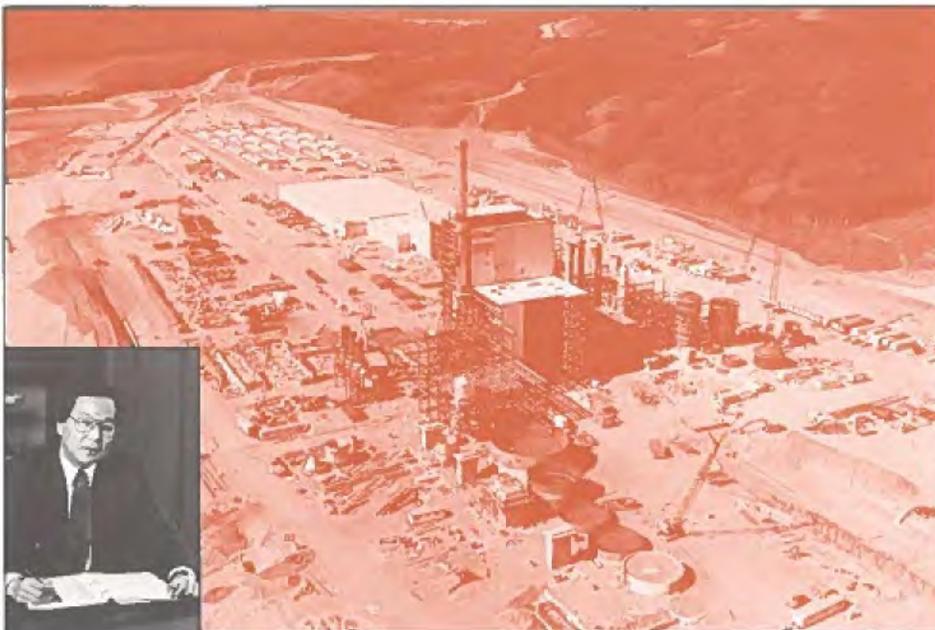
A new thermo-mechanical pulp mill capable of producing 600 tonnes per day is in the start-up phase at the company's Quebec City complex. While this caps a \$146 million capital spending program that began in mid-1987, studies are

already under way for additional improvements including expansion of the mill, the possible installation of another paper machine and a paper de-inking facility. Also under active study is the construction of a hardwood bleached kraft mill near Quebec City or in the Maniwaki region of Quebec.

"Eastern Canada is a logical location for Daishowa because it opens the way to nearby markets in the United States well as those in Europe," says Mr. Koichi Kitagawa, President and Chief Executive Officer of Daishowa Forest Products Ltd. "The outstanding characteristics of the fibre available from the black spruce forests of Quebec enable Daishowa to maintain its reputation for premium quality paper products."

With nearly 20 years experience in Canada through joint ventures, Daishowa added to its profile as a Canadian corporate citizen in 1988 when it became a proud shareholder in the Quebec Nordiques hockey team. When Quebec City residents feared the loss of their home team, Daishowa Forest Products Ltd. joined in partnership with several other Quebec companies to acquire the team.

— by Réjean Lemieux, Investment Canada



Peace River, Alberta pulp mill under construction. Inset: Tom Hamaoka, Vice-President & General Manager, Daishowa Canada Co. Ltd. (Courtesy of Daishowa)

INTERVIEW: MICHAEL HOWARD

Michael Howard served at the Canadian Embassy in Tokyo as Special Adviser (Investment) from 1986 to 1989. In this capacity he developed the Embassy's strategy for promoting and encouraging Japanese direct investment in Canada. In this interview Howard discusses the insights he gained into Japanese business practices and international investment strategies.

As Investment Canada's first investment counsellor in Tokyo what was the biggest hurdle you had to overcome?

The Japanese knew the U.S.A. very well as an investment location, but there were some fundamental image problems for Canada, or lack of image, that we had to deal with. Before we could talk in a detailed way about Canada's industrial environment, and our comparative advantages with the United States, we had to demolish the image that we were snowbound 12 months of the year.

We didn't find this problem with the international companies such as Mitsui, Toyota and Daishowa; they obviously knew Canada. But for the large domestic companies — which are enormous from our viewpoint — we first had to deal with these images. On the other hand, part of the job that did work out as I had envisaged was the progress we made with the investment intermediaries, banks and trading companies.

Is this when you developed the outreach program?

Yes. The premise of the outreach program was that we needed lots of help in Japan to get our minds around marketing ourselves to six million companies on an individual basis — how we would find them, how we would select them, how we would approach them, and how we would get over the cultural hurdles in getting their confidence, etc. The job was unmanageable unless we had the leverage, and the banks and the trading companies have that leverage. So we said, if we can get them on our team, show them it's in their commercial self-

interest to work with us, we will make progress. And we made progress.

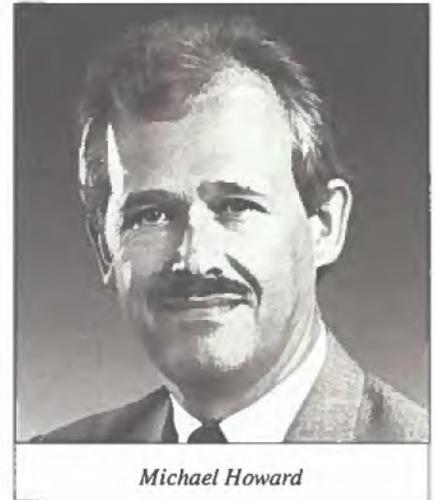
There are many examples of investments that were facilitated with the help of banks and trading companies. We used them as vehicles for sectorally-oriented promotional programs, focusing on sectors that the Canadian government, broadly speaking, had agreed were high priority for Canada. We also had collaboration on some of our marketing programs. For example, a free trade brochure was produced in Japanese, and co-financed by the banks and trading companies, who dedicated versions for their own client bases.

What sectors do you feel are most promising?

I think we can make a legitimate case for attracting Japanese investment in biotechnology, auto parts, the health care field, information technology, pulp and paper, two by four housing, furniture and food. And I can build strategic arguments for these. For example, the Japanese are rapidly increasing their taste for international food. By 1991 you will be able to import beef into their markets, and the Japanese have a natural interest in investing in foreign markets to lock in the flow of food products back to Japan. Look at the massive investments Japan is making in the U.S. beef industry, from cattle ranches to meat packing plants. They are doing so not because they want to sell beef in America, but because they see a tremendous market in Japan.

Can you describe Japanese investment strategies?

Japanese investors come to Canada for three strategic reasons. One, they want secure access to a market. The best examples are the car companies. The automotive plant assemblers put their plants up in Canada because they wanted to solidify their hold on the market position they had established earlier through distribution. They had sold their cars in North America which they had shipped over from Japan, and they



Michael Howard

saw that putting up a plant and building the cars here would be a way of securing that market position.

The second type of investment is for acquiring products that are needed back in Japan. For example, the steel companies' investments in coal mines in western Canada were made in order to bring back the coal to Japan and use it to make steel. So that's a strategic decision.

A third strategy is for securing or acquiring technology, and the Japanese see investment as a means of getting that technology. They don't invest for profit, although they expect profits down the road. If you can't convince the Japanese that it is in their strategic interests — not financial, but strategic — to make the investment, then you're wasting your time.

What is the most important advice you would offer to Canadian business people?

Do your homework. Too many people send over a one-page letter saying, "I'm in this business, I want to expand, and I need \$2 million, can you help me find a Japanese investor?" I have to send it back and say, "What about a business plan?" I'm not going to approach a Japanese investor and embarrass myself, because he's going to ask a hundred questions that I don't know the answers to. The Japanese need to be shown specific investment opportunities, so make the effort to develop your case for investment from Japan. I cannot (p. 8) ➤

MESSAGE FROM THE CANADIAN EMBASSY, TOKYO

The strength and importance of Japan's economic power has been growing steadily for some 20 years. However, with the sudden strengthening of the yen in 1986, Japan's economic strength took a dramatic quantum leap. This, in combination with a number of economic initiatives by the Canadian government, increased Japan's importance as a source of direct foreign investment for Canada.

For example, by 1986, the new Investment Canada Act, designed to promote instead of regulate foreign investment, was in its first full year of implementation. Japan was also included in the government initiative to hire private sector investment advisers to assist Embassy investment programs in key markets, which provided the resources and greater opportunity to carry out major promotional activities.

In promoting Canada as an investment location during the past three years, Investment Canada faced a large challenge. The majority of Japanese who knew Canada were aware of its rich resources, its remarkable tourist attractions, and were highly impressed with its trading relationship with the United States. They were not as aware, however, of its industrial strengths, skilled labour force, transportation networks, technological accomplishments, and so many other factors that make Canada an attractive investment location. They were also not widely aware of the government's policy of actively encouraging foreign investment into Canada. Specifically, many Japanese thought that the Foreign Investment Review Agency still existed in Canada.

To improve this position the investment promotion program over the next three years had to be aggressive. The task, both in the Embassy in Tokyo and the Consulate General in Osaka, was to raise the profile of Canada in Japan as an investment location. Our program, in partnership with the Canadian public and private sectors, had a number of major elements:

- to develop solid business relationships with key Japanese banks and trading companies, and through those relationships present Canadian investment opportunities to their clients and associates;
- to get Japanese investment decision-makers to Canada. Over the past three years the Embassy has organized about 40 trips for Japanese individuals or groups to review potential investments in Canada;

- to mail informative literature to Japanese business people concerning important aspects of Canada's investment climate. We have mailed, to a targeted audience, over 53,000 pieces of information, the vast majority of which was in Japanese.

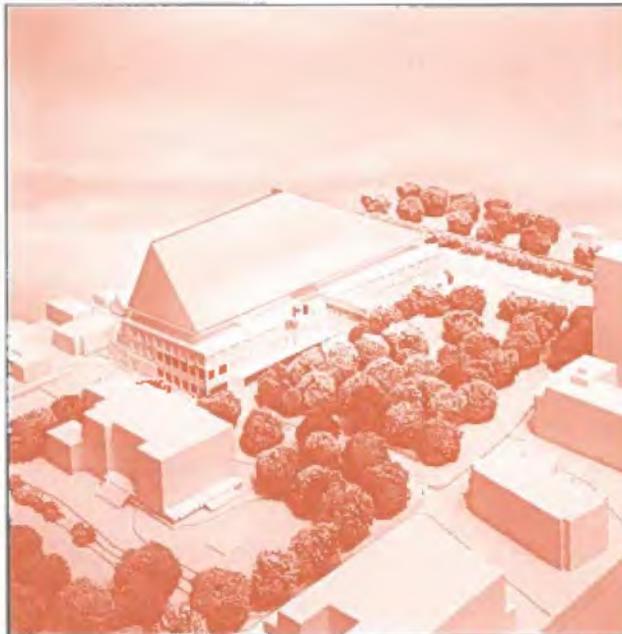
The results are significant. According to Japan's Ministry of Finance, Japanese direct investment flowing into Canada during 1985-86 amounted to US\$100 million, with 41 registered investments. During 1988-89, it increased to US\$626

million, with 109 registered investments, showing a marked increase, both in value and number, over 1986.

What is Japan investing in, and where? Over 40% of Japan's investment in Canada has gone into natural resource development. More recently, there have been some very large investments in Alberta and Quebec in the pulp and paper sector by such major Japanese firms as Oji Paper and Daishowa Paper. Investment in merchandising and distribution outlets has accounted for about 25%. Manufacturing has attracted about 20%. The automotive industry in Ontario has seen some major investments in assembly plants by Honda,

Suzuki and Toyota. This in turn has spawned further investments by Japanese suppliers to these plants.

Other examples of important Japanese investments in Canada are Mitsui and Company's investment in Moli Energy in British Columbia to produce lithium batteries, Sumitomo Heavy Industries' investment in Lumonics of (p. 8) ➤



Artist's model of the new Canadian Embassy in Tokyo, close to the Imperial Palace. Construction began in early 1989, with the chancery scheduled to be completed in March 1991, and the permanent housing in October 1992. The principal architect for the project is Raymond Moriyama of Toronto. (Courtesy of External Affairs and International Trade Canada)

- to get Canadian business people to Japan, to present their expertise and their investment opportunities. There have been about 175 such visits to Japan;
- to hold seminars reaching as many key Japanese business people as possible. The Embassy has held over 35 investment seminars, directly reaching over 2,000 Japanese decision-makers;

INTERVIEW: CHARLES McMILLAN

Dr. Charles McMillan is professor (on leave) at York University's Faculty of Administrative Studies. From 1983 to 1987 he was senior policy adviser to Prime Minister Mulroney, specializing in trade and investment policy, science and technology, energy accords, regional development, financial services and Canadian policy in the Pacific Rim.

What are the three most important realistic strategies the Canadian government and businesses should be implementing to increase awareness about Canada within the Japanese business community?

From the government point of view it is fundamental that senior ministers, the Deputy Prime Minister, the Minister of International Trade, the Minister of Finance and the Minister of Industry, Science and Technology Canada, visit Japan. Canada and Japan will learn from one another when the top officials in each country meet and discuss mutual problems.

Second, with regard to the private sector, the Japanese are sending their second mission to Canada this fall (the

first was the Kanao Mission of 1986), but where are the Canadians? Why haven't we sent over our own? In my view, senior business people in Canada, for example the Business Council on National Issues (BCNI), should be leading their own mission to Japan, particularly to contact those small and medium-sized Japanese companies, which in our terms are huge and which house so much technology and surplus capital.

Third, Canada must somehow devote more resources to studying the Japanese market. Whether we do it through private sector or public sector working together, through more trade associations and companies establishing offices in Tokyo or Osaka, or through some new arrangements because of the cost of doing business in Japan, those are simply tactical things. We must bear in mind that over 40 U.S. states have their own offices in Tokyo.

How do you see the Free Trade Agreement affecting the relationship between Canada, Japan and the United States?

My view of the free trade agreement is that it definitely helps to attract Japanese



Charles McMillan

companies into Canada. It gives a more level playing field, and it means that a lot of Canadian advantages, such as availability of raw materials, working environment, cheaper energy, the social climate and the favourable attitude towards the Japanese, are very positive for Japanese investors. But bearing in mind the huge trade imbalance between the U.S. and Japan, the Japanese are going to go to the United States, and the bottom line is that Canada will just have to try harder to earn its share of incoming Japanese investment.

—by Lillian Rukas, *Investment Canada*

INVESTMENT BAROMETER

The stock* of foreign direct investment (FDI) in Canada at the end of 1988 totalled an estimated \$110.3 billion, an increase of 10% over the previous year and double the \$54.3 billion at the end of 1979. While the United States remains by far the single largest source of FDI in Canada, through the 1980s there have been some notable shifts in the proportion of the total stock of FDI by country of ownership.

At year-end 1980, the stock of FDI in Canada held by U.S. investors was valued at \$48.7 billion and accounted for 78.9% of the total. By the end of 1988, that value had increased 56.7% to an estimated \$76.3 billion but dropped as a proportion of the total stock of FDI, to 69.2%. Direct investment from

European and Asian countries has picked up the slack.

The United Kingdom, Canada's second most important investment partner, has seen its share of the total stock of FDI in Canada increase from 8.6% at the end of 1980 to an estimated 12.4% at the end of 1988. This represents a more than doubling of the stock value of U.K. investment in Canada, from \$5.3 billion in 1980 to an estimated \$13.7 billion by the end of 1988. However, investments from Asian countries have been growing even faster, although measured from smaller base values.

The value of direct investment from Hong Kong increased over 15 times between 1980 and 1988, from \$51 mil-

lion to an estimated \$800 million, but still accounting for less than 1% of the total FDI. Hong Kong's share of total FDI in Canada has increased from 0.1% in 1980 to 0.7% in 1988.

Direct investment from Japan has grown more than five times in the same period, from \$600 million to an estimated \$3.1 billion. Its share of total FDI has risen from 1% in 1980 to 2.8% in 1988.

—by J. William Galbraith, *Investment Canada*

* "Stock" represents the book value, at a point in time ("year-end" for this data), of long-term capital (long-term debt, and equity, including retained earnings) owned by a foreign investor in a Canadian business, giving influence in the management of the business.

McMILLAN OFFERS RECOMMENDATIONS:

In *Bridge Across the Pacific: Canada and Japan in the 1990s*, Dr. McMillan stated: "The Japanese presence in Canada is here in strength, and it is growing. The weakness in the bilateral relationship is in the Canadian presence in Japan." He offered the following recommendations:

1. Industry Associations

Our industry associations should be strengthened sector by sector to develop detailed co-operation with their Japanese counterparts, especially on such topics as market access, technology transfer, third country marketing and joint ventures. They must also develop and cultivate a presence in Japan.

2. Japanese Language Training

Federal and provincial governments should commit substantial resources to education, language training and work exchange for Canadian students with specific targets to increase the number of Canadians learning Japanese.

3. Long-Term Planning

Japan's research institutes, investment and financial houses, government and private think tanks all invest heavily in long-term planning. Canada has no equivalent approach. Canadian researchers should undertake a long-term project on bilateral co-operation, not just in industry, technology and economic resources, but also in new areas where Japanese interest is high (human biology and ageing, robotics and

artificial intelligence, computer translation, marine manufacturing and biotechnology), and where Canadian skills and interest are high (Arctic development, satellite sensing, environmental protection, educational broadcasting and transportation infrastructure).

4. Joint Research

Canada and Japan each has a major vested interest in state-of-the-art distribution — Canada because of a small population in a large country, Japan because of overcrowding and distant markets. Technology is creating a revolution in the logistics of manufacturing and distribution, affecting everything from super-market location to point-of-sale software and sourcing. Virtually no joint research exists nor are there many serious technology agreements between the two countries.

5. Research & Development

Japan, which is producing a rising share of the world's stock of knowledge, organizes its science efforts to use and develop the 96% of world knowledge it imports. Japan's government helps to organize and subsidize large R & D consortia to develop basic technologies and then lets companies on their own convert the technologies to commercial applications. Canada, which produces less than two per cent of the world's stock of knowledge, should study and apply this approach with a vengeance.

CANADA • JAPAN

(Cont'd from p. 2)

In this regard, I would also like to comment on the visit of the "Japanese Investment Study Mission" jointly sent by the Government of Japan and Keidanren (Japan Federation of Economic Organizations), from October 22nd until November 2nd of this year.

The main purpose of this mission is to investigate the investment climate in Canada, especially after the implementation of the FTA. It is my impression that, among Japanese business people, there exists some apprehension and lack of understanding on the investment climate in Canada, and on the FTA. Therefore, I believe the visit of this mission will provide an excellent opportunity for Canada to convince Japanese business people of the attractiveness of Canada and of the positive effects of the FTA.

It is my sincere hope that frank discussions between the Japanese mission and federal and provincial government representatives, as well as private sector business people will contribute toward further strengthening and diversification of our investment relations, which will also promote the creation of a horizontal supplementary trade relationship.

New Challenges and Opportunities

Canada and Japan share important roles in the world economy. Both have abundant opportunities to seize, and great challenges to meet for the enhancement of our bilateral relations and for the steady development of the world economy. Accordingly, I would like to reiterate once again my sincere hope that this "Kanreki" year will mark a new beginning towards a more mature partnership between our two countries through the efforts and collaboration of all concerned.

— by *Hiroshi Kitamura, Ambassador of Japan*

MESSAGE (Cont'd from p. 5)

Ontario, and C. Itoh's participation with Japanese partners in joining Telesat Canada to form Telesat Mobile Inc.

Geographically, Japanese direct investment is concentrated in Ontario and British Columbia, creating about 10,000 directly-related jobs, and representing 75% of the total Japanese investment in Canada.

While it would be easy to conclude that Canada is doing well in attracting Japanese interest, we must consider that we receive only 2% of Japan's total direct foreign investment. The United States receives approximately 45%. There is much to be done to improve our market share and Canada's free trade agreement with the United States will assist us in this objective.

The Embassy will continue in 1989-90 with promotion techniques that have proven to be successful. We will continue Japanese missions to Canada and Canadian missions to Japan, but will focus on specific industry sectors and investment opportunities. One example is the Japanese Investment Study Mission coming to Canada this fall which will focus the attention of a large number of leading Japanese industry representatives on certain Canadian industry sectors. We will continue holding seminars, but will be more specific in terms of Canadian industry sector or investment subject, and we intend to increase the Embassy's corporate liaison pro-

Erratum

Our apologies for the error which appeared on page one of our summer issue, Vol. 3, No. 1. Alberta's gross domestic product (GDP) should have read \$63 billion.

gram. Canada is in a position to make the case to Japanese firms, by sector, of the benefits of Canadian locations over U.S. locations.

The free trade agreement is central in allowing us to make clear and convincing arguments, for example, of lower production costs in serving the entire North American market. With the help of many Canadian partners and Canadian business people we will be making this case to Japanese companies. The effort required is large, but the potential for increased investment is significant.

—by Brian Wilkin, Canadian Embassy, Tokyo

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HOWARD (Cont'd from p. 4)

overemphasize the need for personal relationships with senior Japanese people to form a foundation for subsequent results. The Japanese need to have personal relationships, which underly their lives far more than here. Too seldom did we see a commitment by senior people to visit on a regular basis and see the same people over and over again to build a friendship. The Americans have done it at the state level, we haven't, and we probably have missed some opportunities because of it.

What about industrial incentive programs to attract Japanese investment?

I don't think that, by and large, many Japanese investors come to Canada because of some program that is being offered. The fundamental economics of the investment and their strategies bring them here. They want the market. One problem with Canadian industrial incentive programs is they are not transparent. The Americans publish their rebate and incentive schemes while Canadian governments offer a more open-ended approach, relying more on negotiations with individual companies.

What long-term effects do you see for Canada vis-à-vis Japan now that the Free Trade Agreement is in place?

I think it will increase Japanese investment in Canada. Part of it will be the enhanced attraction of Canada since the FTA essentially has made North America one market, and we are as logical a place to invest in as Florida or Oregon. The other part of it will be the people following other Japanese investors into the market — one big investment acts like a seed and everybody goes where their competition is going. The toughest investment to get is the first.

—by Lillian Rukas, Investment Canada

Investing In Canada is published quarterly by Investment Canada, the investment development agency of the federal government. The mandate of Investment Canada is to promote investments in Canada by both Canadians and non-Canadians, that contribute to economic growth and employment opportunities, and that are of net benefit to Canada. Opinions expressed in Investing In Canada are not neces-

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