CHAPTER -III
JAPANESE FOREIGN DIRECT INVESTMENT IN CANADA

AN OVERVIEW OF JAPAN'S OVERSEAS INVESTMENT POLICIES

In the post-war years, Japan's worldwide direct investment has become one of the most important sources of global investments. Japan's global investments between FY 1951 and FY 1993 stood at US$422.5 billion, and in Canada at $7.5 billion.¹ The focus of Japanese investment has also changed over the years. Initially, Japanese investments were concentrated in developing countries in order to secure raw materials. Later on, the emphasis in investment shifted to industrial nations to produce manufactured products.

Pre-war Japanese overseas investments went into its former colonies such as Taiwan, Korea and Manchuria, which were owned by its Zaibatsu companies. In the wake of Japan's defeat in World War II, these investments were seized by those governments. In the immediate post-war years, Japan was economically fragile and prostrate. To prevent capital outflows and to preserve balance of payments, the occupation authorities decided to impose restrictions on Japan's overseas investments.

These policies were continued until the mid-1950s, with some exceptions.² A few overseas investment proposals were approved after careful screening, under...

¹ Sekai no Nihon no kaigai ekokusetsu toshi, (Direct Overseas Investment by all countries and Japan. (Tokyo, 1993).

the 1949 Foreign Exchange Control Law. Japan's principal objective in allowing overseas investment was to either promote its exports or development of natural resources overseas considered vital to its domestic industry. Among Japan's post-war investments, thus, was in the iron-ore development project in Goa, 1951, then a Portuguese colony.3

Japanese investments averaged $10 million annually through the mid-1950s. The 1956 law concerning foreign investment brought restrictive regulations on Japanese foreign trade, exchanges and capital transactions.4

During the late 1950s and increasingly through the 1960s, Japanese investments went mainly into manufacturing sectors like textiles (labour-intensive) and resource production (to meet its industrial needs) in South East Asian and Latin American countries.5

New Investment Strategy

By the mid-1960s, Japan had begun to improve its balance-of-payments position, consistently with favourable rate of economic growth. The post-war economic growth, and the resulting changes in the industrial structure led to a rapid growth in Japan's need for raw materials. The economic growth also resulted

4 ibid.
in domestic problems like multiple wage increases, acute labour shortages, skyrocketing land prices and heavy industrial pollution. Thereafter, Japan's global export market was adversely affected with the appreciation of the Yen during the 1970s, where it earlier had leverage in exports compared to others.

The first wave of Japanese investments abroad was diminutive. The second wave, spurred by capital liberalization, and Yen appreciation in 1969-70, saw Japanese investments throughout the Asia-Pacific region. By 1976, more than 75 per cent of new foreign investment in the Asia-Pacific region came from Japan. For example, by 1980, the major eight recipients--South Korea, Taiwan, Hong Kong, Singapore, Malaysia, Indonesia, Thailand and the Philippines--received cumulatively 27.2 per cent of Japan's total foreign direct investment (FDI).

By and large, the intent of Japanese overseas investments was:

1. to promote the objective of securing resource flows;

2. to enhance the objective of seeking and securing market access; and

3. to develop overseas manufacturing bases at a low cost to export to third countries and Japan.

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6 ibid.

7 ibid.

Meanwhile the newly industrialized countries, including South Korea, Taiwan, Hong Kong and Singapore began to expand their labour-intensive industry like textiles, spurred on, especially, by lower wages. NIC exports thereafter started competing with Japanese exports. The response of Japanese industry, faced with the pressure to adopt a different strategy, was to invest in foreign countries and to re-export the products to Japan, the reduced cost of producing abroad becoming an attraction.\(^9\)

New strategies were drawn up by the government in Tokyo to enhance Japan’s investment overseas. It also backed overseas investors, with several incentives. Among these were:

(a) assistance to Japanese corporations in the form of soft loans;

(b) loans with low interest rates, given by the EXIM Bank of Japan;

(c) loans for acquisition of shares or to purchase machinery, provided by the Overseas Economic Corporation Fund (OECF);

(d) insurance programmes to rescue Japanese overseas companies, to underwrite losses, in the case of nationalization, expropriation, political instability or war in the host country;

(e) tax-incentives, abrogation of double taxation, tax-concession on depreciation costs, etc.;

information network services, such as the Japan External Trade Research Organization (JETRO), set up to provide information to investors; and

encouragement to investment missions to find investment opportunities overseas.¹⁰

Partly as a result of these measures, Japanese overseas investments began to increase. In the mid 1980s, Japan emerged as a major source of worldwide FDI and one of the "triad" of global economic powers, with an investment of US$12.2 billion in FY 1985.¹¹ By 1989, Japan emerged as the world's largest investor, surpassing the United States and the UK, with an annual outflow of US$67.5 billion. Among the factors prompting this increase were: a revaluation of the Yen, deregulation of the Japanese financial institutions, and increased protectionism in Japan's overseas export markets.¹²

Since 1990, however, Japanese investments began to decline. In fact, the Japanese economic growth had itself begun to decline and it was stagnant by 1992. Indicative of this decline was the decline in land prices, which fell by 15 to 20 per cent. The number of Japanese enterprises posting substantial earnings also

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¹⁰ Sekiguchi, n.2p. 29-33


declined, and led to higher credit environment in Japan. The net result of this overall economic decline was a decline in Japanese overseas investments.\(^\text{13}\)

In Canada, during the 1980s Japanese investment grew at an unprecedented rate. According to the Japanese Ministry of Finance, by March 1994, Japanese cumulative direct investment in Canada was US$8,259 million. By the end of the 1980s, Japan improved its position from the eighth largest foreign investor in Canada to the third largest, behind the US and the UK.\(^\text{14}\) Table 3.1 shows the annual investment trends of Japan in Canada between FY 1951 and 1994.

**Table 3.1: Japanese Direct Investment in Canada** (US$ million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Investment</th>
<th>Cumulative Investment in Canada</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951-69</td>
<td>113</td>
<td>211</td>
</tr>
<tr>
<td>1970</td>
<td>98</td>
<td>225</td>
</tr>
<tr>
<td>1971</td>
<td>14</td>
<td>276</td>
</tr>
<tr>
<td>1972</td>
<td>51</td>
<td>389</td>
</tr>
<tr>
<td>1973</td>
<td>113</td>
<td>441</td>
</tr>
<tr>
<td>1974</td>
<td>52</td>
<td>499</td>
</tr>
<tr>
<td>1975</td>
<td>59</td>
<td>585</td>
</tr>
<tr>
<td>1976</td>
<td>86</td>
<td>633</td>
</tr>
<tr>
<td>1977</td>
<td>48</td>
<td>715</td>
</tr>
<tr>
<td>1978</td>
<td>82</td>
<td>808</td>
</tr>
<tr>
<td>1979</td>
<td>93</td>
<td>920</td>
</tr>
<tr>
<td>1980</td>
<td>112</td>
<td>1007</td>
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<tr>
<td>1981</td>
<td>167</td>
<td>1254</td>
</tr>
<tr>
<td>1982</td>
<td>163</td>
<td>1390</td>
</tr>
<tr>
<td>1983</td>
<td>136</td>
<td>1574</td>
</tr>
<tr>
<td>1984</td>
<td>184</td>
<td>1674</td>
</tr>
<tr>
<td>1985</td>
<td>100</td>
<td>1950</td>
</tr>
<tr>
<td>1986</td>
<td>276</td>
<td>2603</td>
</tr>
<tr>
<td>1987</td>
<td>653</td>
<td>3229</td>
</tr>
<tr>
<td>1988</td>
<td>626</td>
<td>4591</td>
</tr>
<tr>
<td>1989</td>
<td>1362</td>
<td>5655</td>
</tr>
<tr>
<td>1990</td>
<td>1064</td>
<td>6452</td>
</tr>
<tr>
<td>1991</td>
<td>797</td>
<td>7205</td>
</tr>
<tr>
<td>1992</td>
<td>753</td>
<td>7767</td>
</tr>
<tr>
<td>1993</td>
<td>562</td>
<td>8259</td>
</tr>
<tr>
<td>1994</td>
<td>492</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Ministry of Finance, Japan.*

\(^{13}\) *Canada-Japan Briefing Book*, (Department of External Affairs, Ottawa, 1994), p. 16.

\(^{14}\) *Sekai To Nihon Kaigai Chokusetsu Toshi* (JETRO, Tokyo), 1994.
Canada as an Investment Proposition

Foreign investment played an important role in the post-war Canadian economic development. Foreign investment has also been involved in Canadian domestic politics and political parties have heatedly debated on the merits of foreign investment. For example, in several election campaigns held during the 1970s and 1980s, both the New Democratic Party and to a lesser extent the Liberal Party were critical of certain aspects of foreign investment; while, conversely, the Progressive Conservative Party took a clear pro-foreign investment stance in its election campaign. By and large, however, there was basic appreciation of the foreign investment in Canada.

To the Japanese, Canada's first big advantage as an investment proposition is its proximity to a large US market that offers relatively free access to exports from Canadian plants. Even if the US closes the door to Japanese goods built in Canada, Japanese firms can and do expect the Canadian government to exercise its right, often legally sanctioned under GATT, to exclude American competitors from the Canadian market.

Another attraction of Canada is its strategic location, enabling it to provide facilities like same-day delivery of components to a large concentration of established suppliers and customers. The Canadian base would also offer the cheaper Canadian dollar, low cost land and energy, abundant skilled labour and state-financed medical and pension programmes. Not least among the attractions of Canada for business is that it provides a comfortable political and social
environment in which Japanese firms and nationals can operate without undue restraint.

Canada's open, high quality, but under-financed R&D establishment, particularly in the university sector, offers much scope for collaborative ventures to provide relatively cheap basic research to Japanese firms competing from a national base where this asset remains relatively costly and scarce. The Japanese business community also has a good appreciation of Canada's technological excellence in such fields as artificial intelligence, computer software, videotext, lasers, telecommunications equipment, digital and fibre optic communications, nuclear process, Arctic, STOL planes, urban transportation, space exploration and so on.15

The main objectives of Japanese investment in Canada were: (a) to expand sales in the Canadian market, which would also provide a base for exporting to third countries; (b) to secure raw materials; and (c) to benefit from the political stability of Canada.16

The total Japanese investments between 1951 and 1994 in North America were 43.7 per cent of its worldwide investment. Canada's share of Japanese global direct investment was 1.8 per cent and roughly 14.5 per cent of Japan's North


American investment.\(^\text{17}\) In the 1970s, most of the Japanese investments in Canada were concentrated in the natural resources sector, such as minerals and forest products but since the mid-1980s the Japanese investment was also growing in other sectors like auto assembly, tourism and financial services. In the period 1968-80, Japan's FDI in Canada increased slowly and steadily, Canadian investment policies being something of a hindrance for Japanese investments in Canada. But by the 1980s, Japan's emergence as an economic power led to rapid foreign investments at the global level and this was reflected in its investments in Canada as well.

With the advent of a new Conservative administration in Canada, Canadian investment policies were also changed to attract more foreign investments. The nature of investments also changed from natural resources to manufactured goods, as Japanese economy began to move from heavy industries to manufacturing sectors. Japanese investments in Canada did increase but not correspondingly with its global investments.

**FIRST PHASE: 1968-83**

After the mid-1960s, the Japanese direct investment overseas began to increase. Japanese FDI stagnated for some time during the 1973 and 1977 oil

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\(^{17}\) *Okuraso ' Heisei 5 nendo ni okeru taigai oyobi taiinai chokusetsu toshi jokyo* (Tokyo, 1994).
crises and rose again in the early 1980s. In 1989, Japan's total overseas investment reached an all-time high of US$67 billion.18

The annual flow of Japan's FDI into Canada had been only 2.5 per cent of the total Japanese FDI until the 1980s. In contrast, Japanese FDI into the US doubled from 20 per cent to over 40 per cent of all Japanese FDI during the period.19 Japanese direct investment flows began to increase after the mid-1980s, making Japan the third-largest investor in Canada next only to the US and the UK by the end of the 1980s. Japan's total investments in Canada between FY 1951 and FY 1983 stood at $1390 million.20

During the early 1970s, the Japanese invested in Canada primarily to secure raw materials. Japanese investments were concentrated in copper, coal and forest product sectors. During this period Japanese business was attracted towards exploration of raw materials, such as minerals and timber, in western Canada. It was usually made in the form of joint ventures with Japanese trading companies (Sogo Shosha) and rarely with more than minor ownership participation.

The 1973 oil crisis forced Japan to rethink its industrial development strategies, international trade and its relations with trading partners, including Canada. Before the 1973 oil crisis Canada played a relatively minor role in Japanese energy policy.

19 Zaisei Kinkyu Tokei Geppo, Annual Reports (Ministry of Finance, Tokyo).
20 ibid.
Indeed, Japan's new policy revision and assessment led to forging closer economic links with energy-rich countries like Canada, as Japan was dependent on foreign supplies for its energy resources.\(^{21}\) After the oil shock in 1973, Japanese business houses wanted assurance on raw material supplies on a long-term basis. Thereafter, investments in Canada began to decline due to the Canadian policies enumerated by the Foreign Investment Review Agency as well as the National Energy policy. In 1974, during Japanese Prime Minister Tanaka Kakuei's visit to Canada the two countries showed a strong desire to cooperate in the development of Alberta tar sands. From then on, Japanese investments began to grow in energy-related sectors like petroleum and natural gas. Table 3.2 shows major Japanese investments sector-wise in 1970.

<table>
<thead>
<tr>
<th>Sector</th>
<th>No. of Japanese Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resources</td>
<td>39</td>
</tr>
<tr>
<td>Trading</td>
<td>39</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>12</td>
</tr>
<tr>
<td>Others</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>103</strong></td>
</tr>
</tbody>
</table>

*Source: Ministry of Finance, Japan.*

Japan's global investments were on the rise by the mid-1970s, but investments in Canada were at a comparatively low level. The then Finance

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\(^{21}\) D.J. Daly, "Canada's Comparative Advantage", *Discussion Paper, No. 135* (Ottawa, 1979), p.5
Minister, Ohira Masayoshi, in 1976, requested the visiting Canadian Prime Minister for his cooperation in increasing Japan’s investments in Canada. Prime Minister Trudeau also reciprocated by stressing the need for increased promotion of mutual economic relations.22

After the second major oil crisis, the Canadian government restricted the export of light petroleum. So, Japanese investors were obliged to invest in alternative energy sources including heavy oil, tar sands, oil sales, thermal and metallurgical coal, natural gas and uranium. 23

The Canada-Japan Joint Ministerial Meeting did not meet between 1971 and 1975. When the seventh meeting was held in June 1975 at Tokyo, the Canadian ministers argued in favour of more joint ventures in processing raw materials in Canada,24 their advocacy clearly reflecting the mood of the Canadian government for more investments from Japan. The Japanese too responded positively by enhancing the volume of investments in Canada in various sectors, specially the natural resources sector. The Prime Ministers of Japan and Canada in their joint communiqués and exchange of notes in 1974 and 1976 underlined the importance of increasing investment in Canada, and the importance of natural resources supply.

22 Japan Times (Tokyo), 28 October 1976.


24 Joint Communiqué of the Seventh Meeting of the Canada-Japan Ministerial Committee. (Department of External Affairs, Ottawa), 24 June 1975, pp.1-5.
In 1976 Japanese investment in Canada amounted to $585 million, spread over 300 projects. Most of these projects were in trading companies, banks, distribution, and other service enterprises. There were a few joint ventures in manufacturing or assembling sectors such as steel wire, pulp and paper, textiles, auto parts, television sets and bicycles. Of the US$82 million invested in March 1978, 51.5 per cent was related to resources, with 28.5 per cent in mining and 20.3 per cent in lumber and pulp. Investment related to commerce and services was 27.6 per cent, with 16.0 per cent in trading and warehousing, but only 0.8 per cent in construction and 0.5 per cent in banking and insurance. The remaining 20.9 per cent was in manufacturing, with iron and non-ferrous metals accounting for 12.5 per cent, textiles for 5.0 per cent, foodstuffs for 1.4 per cent, and other manufacturing for 2.0 per cent. Japanese investment was, however, mostly concentrated in British Columbia, particularly in copper, coal, and forest products, as noted above. Investments in other provinces covered a wide variety of activities, especially in cattle raising and oilseed crushing, hotels, fish processing, electronics and textiles, bearings and steel wire, but these were all medium size operations.

The rise of Japan's overseas investments was mainly brought about by Japan's economic growth, government's incentives to investors and Yen appreciation. Japanese investors themselves showed keen interest to shift

26 ibid.
manufacturing to production overseas, but Canada's small and saturated market and high production costs dissuaded Japanese investment plans. Canadian investment policies, and other domestic obstacles such as labour unrest also led to low Japanese investment in Canada.

In other sectors, however, conditions were auspicious for both Japan and Canada. The second group of investments, particularly in energy resources, occurred in 1981 which followed the second series of oil price increases between 1978 and 1980. The other important area of FDI in Canada was in trading companies (Soga Shosha), which were established in order to promote Japan's exports in various sectors, particularly manufactured goods.

During the 1980s Japanese investments increased steadily and got diversified into different sectors like car assembly, auto parts, fibrewood, processing, banking, finance and construction work, etc. There was also a greater regional variation to investment.27 In 1980, during Prime Minister Ohira's visit to Canada, the Prime Ministers of the two countries in their joint communiqué expressed their desire to renew their increasing economic cooperation. They also felt that there was considerable potential for increased investment, joint ventures, technological exchanges and other activities.28

28 Globe and Mail (Toronto), 8 May 1980.
SECOND PHASE: 1984-94

By 1984, the Japanese cumulative investment in Canada had reached US$1.5 billion. Prime Minister Nakasone, during his visit to Canada in 1986 stressed, together with Prime Minister Mulroney, the need for economic cooperation between their two countries and resolved to promote further Japanese investments in Canada. The Canadian government also undertook many initiatives to encourage Japanese manufacturers to invest in Canada like the creation of an investment promotion programme in the Canadian Embassy in Tokyo. By 1988, Japanese investment in Canada totalled US$3.2 billion.29 The introduction of Investment Canada (1985), CUSFTA (1989), and NAFTA (1994), together with Canadian government incentives and favourable Japanese Economic Mission (JEM) reports facilitated this growth in investment. In effect, in 1989 Japan's investment in Canada had reached an all-time high of US$1,362 million.

In the early 1990s, due to economic recession in Japan, its investments began to decline, including in Canada. No new investments were recorded, though their earlier investment projects were expanded.

JAPANESE INVESTMENT POLICIES IN CANADA

Japanese Economic Missions (JEMs) played an important role in promoting investments in Canada. The first economic mission led by Makita Hisao went to

29 *Investment Canada, Minister of Supply and Services.* (Ottawa, 1988).
Canada in 1976 to explore investment opportunities and returned with a critical report. Between 1982 and 1996, four JEMs went to Canada and filed reports. While the reports of the JEMs of 1986, 1989 and 1996 were favourable, the missions of 1976 and 1982 gave a critical account. Brief details of these missions are given below.

Table 3.3: Investment Trends in Canada Pre-mission Post-mission Visits

<table>
<thead>
<tr>
<th>Year</th>
<th>Mission</th>
<th>Pre-Investments</th>
<th>Post-Investments</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>Morahashi</td>
<td>$1,362 (1989)</td>
<td>$1,062 (1990)</td>
<td>-300</td>
</tr>
<tr>
<td>1996</td>
<td>Eiji</td>
<td>$492 (1994)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Ministry of Finance, Japan.

Japanese Economic Missions (JEM-I)

The Japanese government sent a 12-member economic mission led by Makita Hisao (President of the Nippon K.K. Ltd) to explore investment opportunities in Canada in 1976. The report of the mission as regards the investment climate in Canada was adverse. It cited a number of investment barriers such as high labour cost, strikes in private as well as public sectors, low productivity, government regulations, high taxes and the small market, federal-provincial conflicts, etc., as barriers to higher levels of investment. After the
publication of the Makita report, Japanese investment in Canada plummeted from US$86 million to US$48 million in 1977.30

JEM-II

Another JEM was sent to Canada six years later, in 1982, led by Shingo Moriya. This mission, too, returned with a quite critical report. The report endorsed Makita's findings and found no improvements in the Canadian investment climate.31

JEM-III

In 1986, the third Japanese Economic Mission led by Kanao Minoru (chairman, Nippon Kokan Co.) visited Canada. A little before, the 1985 Investment Canada Act had been passed. The Kanao mission returned with a favourable report. It reported finding "a new Canada". It also found improvements in federal and provincial investment promotion programmes, a better labour relations climate, and emphasis on high-technology industries.

The Kanao report perceived several FDI areas as being particularly beneficial to Japan. These included investment in manufacturing, especially in the high-tech industries (e.g. telecommunications, biotechnology, aeronautics and space technology) as well as in the natural resources sector. An assessment of the


machine and auto industries in Canada was also made with suggestions for future improvement. The mission found many indications in the investment area that Japan-Canada relations would expand from a mere purchaser of resources, to be a major participant based on the principle of mutual exchange in the manufacturing field. After the publication of the report there was an increase in Japan’s investment in Canada, which in 1989 increased to $622 million.

JEM-IV

Japan’s Ministry of International Trade and Industry (MITI) dispatched another economic mission to Canada in October 1989 to review the situation following the Canada-US Free Trade Agreement (FTA), which indicated Japan’s considerable interest in investing in Canada. This mission was led by Morohashi Shinroku, President of Mitsubishi. The mission comprised 47 members belonging to banking, manufacturing and trade sectors. In order to make an in-depth assessment, the mission was divided into two groups, one visiting western Canada and the other, eastern Canada.

The Morohashi report made favourable comments regarding the long-term investment environment in Canada, but had little to say about the short-term prospects. According to the report, there were several advantages in investing in

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33 ibid.
Canada, which included the relatively cheap energy costs, abundance of land, and moderate labour costs. The report complimented the high quality of labour, and high quality of life. It was also a time when the Japanese investment and trade friction were mounting with the United States. The Morohashi mission believed that this would become an additional factor in attracting Japanese FDI to Canada. It also suggested that "Japanese investment in Canada should be diversified. It should build upon a new situation found in Canada like FTA."35

**JEM-V**

The fifth Japanese Economic Mission was headed by Koichiro Eiji, Chairman of the Keidanren Japan-Canada Economic Committee. The Koichiro mission visited Canada in September 1995. It consisted of fifty representatives from twenty-five Japanese corporations and business associations.

The mission was divided into three groups, namely, the policy dialogue mission; the information technology sector mission and the processed food sector mission. The mission produced a favourable report, citing the favourable situation like the Canadian reduced federal deficit, and low inflation. It stated that these changes would prompt the private enterprises to push forward with large-scale restructuring, to make more capital investments and technological innovations. Thereby, it would boost production and improve international competitiveness.36

The processed food sector group reported "the need for Canadian producers to

35 ibid.

react quickly to changes in Japanese food trends and to price sensitivity of
Japanese food wholesalers, retailers and consumers." It noted that "there are
prospects for partnerships between Japanese and Canadian firms to supply the US
market". The report commented on the need for improved contacts between
companies and industry associations in Canada and Japan.37

DIFFICULTIES FACED BY JAPANESE INVESTORS

During the 1970s, Japanese companies showed considerable interest in
investing in Canada, but they faced many obstacles, besides those created by
government investment policies. Among these were:

High Cost of Production: Japanese investors cited the high costs in
production. Because of the slow decision-making in their approvals the investment
proposal costs were increased. The unstable domestic markets were seen as
stumbling-blocks for Japanese investments.

Labour Unrest: Labour unrest in Canada became a major concern for
Japanese investors. They felt that there was a lack of professionalism among
Canadian workers. They were also concerned about their militant trade unionism,
the frequent strikes and the uncertainty in supply of raw materials.

Federal-Provincial Jurisdictional Conflicts: Disputes between the federal
and provincial governments over the control of natural resources added
complexity and confusion to the investment climate in Canada. Japanese

37 ibid.
entrepreneurs were not sure with which authority (federal or provincial) they had to deal.

Other Bureaucratic Regulations: Japanese investors cited myriad bureaucratic controls and regulations which had the effect of inhibiting investment in Canada. For example, the Canadian immigration laws restricted work permits for Japanese managers to one year. The Japanese investors felt that it was a short period for effective corporate planning and management.38

Canadian investment policies and other domestic obstacles such as labour unrest, etc. resulted in low Japanese investment in the 1970s and continued so till the mid-1980s. Most discouraging for the Japanese business was the Canadian government's deliberate policy of restricting foreign investment through the Foreign Investment Review Agency (FIRA).

CANADIAN FOREIGN INVESTMENT POLICIES

Foreign Investment Review Agency (FIRA)

Foreign investment has played an important role in Canada's economic development. The Foreign Investment Review Agency was established in 1974 under the aegis of the Foreign Investment Review Act.39 This Act clearly stipulated that for all direct investments a certain threshold level must be approved.


by the federal cabinet. Its main task was to gather information about foreign direct investment in Canada, to counsel firms making applications, and to review the applications, besides making recommendations to the cabinet as to whether any proposed project would bring significant benefit for Canada. Its main objective was to encourage Canada's own favourable projects in sectors like manufacturing, processing of mineral resources and such other key areas. But it became functionally ineffective towards the potential investors due to its red-tapism and alleged corruption in its rank and file.40

Initially, the FIRA had adverse effects on FDI, for the following reasons:

(a) It simply turned down many investment proposals, and quite a few investment proposals were recommended to the cabinet.

(b) It modified the structure of many earlier investment proposals which had already been accepted. And

(c) Its slow decision-making in approving foreign investment proposals led to the additional finances, for the proposed investment proposals.

Many overseas investors thereafter decided either to withdraw or not to approach FIRA. In the initial years, the Act was enforced rigidly and many applications were rejected. Canadian business community and other related agencies, too, strongly criticized its rigidity. Due perhaps to this criticism, FIRA tended to become more flexible. Thus, FIRA, which in 1975 had turned down

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40 FIRA
67 per cent of earlier cleared investment proposals, had by the early 1980s approved about 90 per cent investment proposals.\footnote{FIRA: Compendium of Statistics on Foreign Investment (Ottawa, 1975).}

The Progressive Conservative party, then in opposition, was extremely critical of FIRA right from the beginning. In the 1979 election campaign, it promised that if elected back to power, it would abolish the FIRA to attract foreign investment. The Conservatives lost the elections in 1980, but the Liberals, themselves victorious in the elections, decided to introduce no new legislation to expand or strengthen FIRA's mandate.\footnote{James A. Brandes, "Canadian Foreign Investment Policy: Problems and Prospects", in Clarice Cutler and Mark Zacher (eds). Canadian Foreign Policy and International Economic Regimes (Vancouver, 1990), pp.113-23.}

In the 1984 elections, FIRA became a major electoral issue. The Progressive Conservative Party made FIRA a major election plank, and after being voted to power, it abolished FIRA, replacing it with the 1985 Canada Investment Act.

\textbf{INVESTMENT CANADA 1985}

The new agency was called Investment Canada. Its principal aim was to encourage investment. The Act establishing the agency itself made it clear that "increased capital and technology would benefit Canada." Investment Canada was based on the notion of a more open policy toward international investment, though it held on to its right to decide on investment proposals. The agency also had the authority to review acquisitions below the thresholds and investments by non-
Canadians to establish new business in culturally sensitive sectors which impact on the country's heritage and national identity. The primary goal of Investment Canada was to "encourage investment in Canada by Canadians and non-Canadians that contributes to economic growth and employment opportunities." Accordingly, Investment Canada began to approve almost all investment proposals.

Investment Canada was designed to integrate three activities: (1) encouraging and promoting investment in Canada, including policy development and research; (2) determining the retrievability of investments, assessing proposals and monitoring conformance; and (3) administration related matters.

Investment Canada also launched several initiatives in Canada and abroad in pursuit of its goal of encouraging investment by Canadians and non-Canadians. These initiatives were intended: (1) to ensure that Canada's environment for investment would be attractive compared with the other formidable competitors; (2) to carry out a sustained campaign in order to promote investment; and (3) to

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43 Investment Canada (Minister of Supply and Services. Ottawa, 1985).
44 ibid.
complement and support the promotion initiatives of the projects in the private sector.46

NATIONAL ENERGY POLICY

Sending ambivalent signals to potential investors, however, was Canada's Energy Policy strategy, called National Energy Policy (NEP), announced in October 1980 by the Trudeau administration. Based on natural resource "mega projects", this policy was based mainly on the assumption that "world prices for Canada's natural resources would go on rising through the 1980s".47 The new policy, covering many aspects of the energy sector, attempted to carry out three things, namely:

(a) to promote security of supplies and self-sufficiency in energy;

(b) to make it possible for Canadians to participate and to have a share in the benefits of energy-related industries, particularly the petroleum industry; and

(c) to establish a pricing and sharing scheme that would be fair to all Canadians.

In a nutshell, the policy was intended to discourage foreign investments in the energy sector. Foreign investors were forbidden to hold hundred per cent

46 ibid

ownership in energy-related investments. The policy also stipulated that "excessive energy sources only could be exported to other countries, after fulfilling the Canadian domestic requirements", and imposed restrictions on energy exports. In addition, it brought all energy projects under the federal jurisdiction.48

All the major political parties such as the New Democratic Party, Progressive Conservative Party and foreign investors were extremely critical of the NEP. As with changes to FIRA, foreign investors questioned the permanence of the Liberals' energy policy.49 The policy itself had a natural death and the proposed mega projects did not materialize, the prices of energy resources having begun to decline in world markets. The new Conservative administration dismantled the Liberals' energy policy in order to encourage foreign investments in the energy sector, thus demonstrating that Canada would rely more on market forces and less on government incentives and regulations to determine the pattern of investment in Canada's energy sector.50

Meanwhile, in order to enhance free trade and flow of foreign investment, Canada concluded agreements with the United States and Mexico, such as

48 ibid.


**DISTRIBUTION OF JAPANESE INVESTMENTS**

In the initial period, 1968-80, Japanese investments were concentrated mainly in mining and mineral processing and tar sands development, oil exploration, mining, uranium exploration, forestry resources and fisheries. On the manufacturing side, investments were mainly in low-value-added wood-pulp, medium technology and car assembly. Most of the Japanese investment in Canada was to assure food, materials and resources to Japan, and act as a conduit for Japanese exports. These investments went into different sectors like resources, merchandising, manufacturing and services. The data shows the distribution of Japanese investments between 1970 and 1989 (selected years).

**Distribution of Japanese Investments in Canada: Sectorwise (Selected Years)**

**Chart 3.1**
Chart 3.2

Japanese Foreign Direct Investment in Canada - 1975

- Manufacturing
- Merchandising
- Financial
- Petroleum & Natural Gas
- Mining & Smelting
- Other Enterprises

Chart 3.3

Japanese Foreign Direct Investment in Canada - 1980

- Manufacturing
- Merchandising
- Financial
- Petroleum & Natural Gas
- Mining & Smelting
- Other Enterprises
Chart 3.4

Japanese Foreign Direct Investment in Canada - 1984

- Manufacturing: 12%
- Merchandising: 1%
- Financial: 12%
- Petroleum & Natural Gas: 35%
- Mining & Smelting: 13%
- Other Enterprises: 27%

Chart 3.5

Japanese Foreign Direct Investment in Canada - 1985

- Manufacturing: 12%
- Merchandising: 2%
- Financial: 10%
- Petroleum & Natural Gas: 37%
- Mining & Smelting: 14%
- Other Enterprises: 25%
Chart 3.6

Japanese Foreign Direct Investment in Canada - 1986

- Manufacturing: 14%
- Merchandising: 1%
- Financial: 13%
- Petroleum & Natural Gas: 23%
- Mining & Smelting: 11%
- Other Enterprises: 38%

Chart 3.7

Japanese Foreign Direct Investment in Canada - 1987

- Manufacturing: 13%
- Merchandising: 2%
- Financial: 13%
- Petroleum & Natural Gas: 21%
- Mining & Smelting: 19%
- Other Enterprises: 32%
Chart 3.8

Japanese Foreign Direct Investment In Canada - 1988

- Manufacturing: 26%
- Merchandising: 10%
- Financial: 15%
- Petroleum & Natural Gas: 18%
- Mining & Smelting: 26%
- Other Enterprises: 5%

Source: Zaisei Kinkyu Tokei Geppo, (Japan).

Chart 3.9

Japanese Foreign Direct Investment In Canada - 1989

- Manufacturing: 24%
- Merchandising: 19%
- Financial: 13%
- Petroleum & Natural Gas: 11%
- Mining & Smelting: 5%
- Other Enterprises: 28%

Source: Zaisei Kinkyu Tokei Geppo, (Japan).
It would be seen from the data that several changes occurred during the period. During the early 1980s, pulp and paper sectors dominated. Even in FY 1989, these sectors accounted for about 40 per cent accumulated total investment. Investments in mining, the second largest, grew rapidly in the early 1980s, peaked in 1982, and then declined. The value of Japanese direct investment in pulp and paper declined in the early 1980s but grew after 1986 and accounted for 36 per cent growth within three years, by 1989.

The investment flows shifted emphasis after 1986. Japanese investments became particularly impressive in automotive, banking and service sectors. By the end of 1989, these sectors together comprised about 35 per cent of total Japanese investment in Canada. Japanese investment in the service sector in Canada was only 38.2 per cent of its total investment in that country, compared to 65.9 per cent in USA. Canada also attracted substantial investments in manufacturing, but mostly in the low-value-added products, wood, pulp and car assembly. More recently, the investments have gone into different sectors, software communications, information software, laser equipment and other technology-intensive activity with banking and services.

NATURE OF JAPANESE INVESTMENT IN CANADA

Resources

Since Japan's investment in resources was motivated mainly by its industry's needs for raw materials, its targets in Canada's resource sectors have shifted from
Japanese firms participating in at least 20 Canadian affiliates were engaged in exploration and mining activities. Japanese investment in mining amounted to 30 per cent of the total in 1975. From then on, investment began to decline in the mining sector, accounting for only 10.6 per cent by 1989.

**Copper**

The copper industry was the first resource industry in Japan to undertake overseas investment. During the early 1950s, leading Japanese companies made sporadic investments in the Philippines, Latin America and Canada. The most successful of these earlier efforts was Sumitomo's 30 per cent ownership of a Canadian mine, from which the company exported 20,000 tons of copper over a period of ten years. The overseas total investment in copper through 1970 was only slightly over $360 million. Most of these copper investments were, however, limited to a minor holdings.

During the 1960s, copper was particularly attractive to Japanese investors, who took minority positions in British Columbia, where much of the industry was concentrated. These investments took the form of loans to clear debts, and long-term sale contracts. Japan was ready to take almost all of the copper output on long-term contracts, which reflected its interest in stable source of copper supplies.

In 1970, the government of British Columbia passed a Mineral Processing Act, which stipulated that "at least half of the concentrate produced in the province

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51 Sekiguchi, n.2p. 21-9.
be smelted locally, with proper pollution controls". The law, however, made little impact because smelter operations were closed by then.\textsuperscript{52}

### Coal

During the early 1970s Japanese investors focused on the coal sector, in order to provide supplies for Japan's steel industry. Although Japan was importing from South Africa, Siberia and China, Canada remained the principal source of coal imports. Though Canadian coal was not of high grade, it was cheaper than Virginia and Australian coal and did not pose the problems that South African or Australian coal did, such as reduced deliveries. The efficient and reliable supplies of Canadian coal became an important element in Japan-Canada relations in the ensuing years, the trend being reflected in the expansion of volume of coal supplies to Japan from Canada.\textsuperscript{53}

The Japanese invested in Canadian firms like Kaiser Resources of Vancouver, and Japanese companies had 40 per cent share and acquired all of western Canadian coal production. Mitsubishi Trading Company reached an agreement with Kaiser Steel Company of California, in 1968, to purchase 45 million tonnes of coal over a fifteen-year period. In the beginning, the low prices


of coal and high production costs resulted in US$30 million losses. But the oil crisis of 1973 doubled coal prices and put the operations in the black.54

After the mid-1970s, higher oil prices led Japanese investors to participate in Arctic petroleum exploration and some other non-conventional oil resources in Alberta. These investments went into Canada mainly through massive long-term loans. Japanese investors also showed considerable interest in the exploration of uranium, reflecting their substantial interest in nuclear energy. Its main purpose was to generate electricity.55

Table 3.4 : Canadian Coal Supplies To Japan :Selected Years

*Unit: Metric Tonnes*

<table>
<thead>
<tr>
<th>Year</th>
<th>MT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1968</td>
<td>1152</td>
</tr>
<tr>
<td>1973</td>
<td>10423</td>
</tr>
<tr>
<td>1978</td>
<td>10965</td>
</tr>
<tr>
<td>1984</td>
<td>1,275013</td>
</tr>
<tr>
<td>1990</td>
<td>19,550,816</td>
</tr>
<tr>
<td>1994</td>
<td>17,697,427</td>
</tr>
</tbody>
</table>

*Source: Statistics, Canada*


Petroleum

Canada's petroleum and natural gas sectors attracted the Japanese, especially between 1975 and 1984 and Japan's investments in these sectors reached a peak of 27 per cent in 1984. During the late 1970s and early 1980s, these sectors acquired lot of importance for the Japanese because of the high prices of oil, and a string of Canadian-planned mega projects. Since the mid-1980s, the prices of oil and natural gas began to decline. Japanese investments in these sectors, too, began to decline and in 1989, the investments amounted to 13 per cent of total direct investment in Canada.

Mitsubishi was the first Japanese company to produce oil from the huge Canadian tar sands in Alberta. In 1974 Mitsubishi concluded a joint project with Great Canadian Oil Sands (now SUNCOR). The project also included a provision that Mitsubishi Metal Corporation would participate in the mining of the tar sands along with Mitsubishi Petro Chemical Company to begin extraction of oil for the manufacture of petrochemicals.56

Both the Marubeni Trading Company and the Fuyo Petroleum Development Corporation collaborated with the Canadian Industrial Gas and Oil Ltd. in 1974 to form the Fuyo-Marubeni Oil and Gas Company. They built a test plant at a cost of $20 million, the Japanese companies contributing half of the project finance, the rest coming from explorations of tar sands.57 Japanese investments in the

57 Vancouver Province (Vancouver). 3 August 1974.
petroleum sector amounted to only 1.17 per cent in 1975, but in 1987 around 27.04 per cent of its total direct investment was in Canada. After 1989 Japanese investment began to decline and it reached 13.45 per cent.

**Manufacturing**

The manufacturing activities of Japanese companies in Canada tended to fall in two distinct categories: (a) those involving the processing of primary goods prior to their export to Japan or elsewhere; and (b) those involved in the manufacture or assembly of consumer and industrial end products, mainly for the domestic Canadian market.58

Activities in the first category focused almost entirely on the manufacture of pulp, paper, timber, plywood, and other forestry products. Agriculture-related manufacturing was limited to three plants producing rapeseed oil, pulses, and some small fish-canning operations.59 Activities in the second category, focused on Japanese investment in end-product manufacturing in Canada, actually declined through much of the 1970s, as the result of a number of bankruptcies or disinvestments, most notably in the manufacture of textiles. Nevertheless, during the 1980s and 1990s investments in this category focused on products like car assembly, automobile parts, and electronic sectors.

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58 Langdon, n.53p. 132-35.

59 Langdon, n.53p. 82-5.
Forest Products

By far the largest direct economic impact of Japanese-controlled business in the Canadian resource sector was in forestry products. Most of the Japanese investments went into the forest industry between 1967 and 1973. The Japanese activity ranged from logging to the operation of several large saw mills, manufacturing, pulp, lumber and plywood.60

The trends continued through the early 1980s, and the forest products sector was very predominant. Most of these investments were concentrated in British Columbia and Alberta provinces, where they had a natural advantage. These investments were mostly in the form of joint ventures.

Japanese companies initiated forestry industry operations in Canada in 1969, with its ground wood pulp mill, producing 160 tonnes daily. For instance, Jujo Paper Manufacturing Company and Sumitomo Forestry Company collaborated with Cattermole Timber Ltd. of Chilliwack, the first two with 37.5 per cent each of the ownership, and Cattermole 25 per cent. From 1972, Cariboo Pulp and Paper Company had in its Quesnel Pulp-mill and Weldwood of Canada Ltd. of Vancouver, on a 50-50 basis with Daishowa-Marubeni Corporation, and Daishowa Pulp Manufacturing Company, each holding half of the portfolio.61

60 ibid.
61 ibid
Japan's wood production was not sufficient to meet its domestic needs and the country relied heavily on imported unfinished wood materials, particularly raw lumber, chips and fibres. Japan's rapid industrial growth and the increased demand of consumer markets after 1987 enhanced the demand for these products. Throughout the period of high demand, Canada continued as the most important source for Japan's lumber requirements. Conversely, Japan became Canada's most important offshore market for softwood lumber.\(^6^2\)

Yen appreciation in relation to the Canadian dollar and relatively low production costs in Canada also attracted the Japanese investors in the manufacture of forestry products. Another factor in attracting investment was Canada's political stability, compared to third world countries such as Brazil. The Alberta government's incentives such as low royalties, liberal environmental regulations, etc. also created an investment-friendly environment.\(^6^3\)

The new-found attractiveness of Canada was also due to an increase in the commercial opportunities for investment. Japanese companies such as Daishowa and Honshu Paper companies showed considerable interest in buying pulp and

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processing it in order to re-export to Japan. This led to a new round of massive mill investments by Japanese corporations.64

The Japanese investment in the Canadian forestry sector was led by the Daishowa paper manufacturing company. Daishowa was a relatively new comer, compared to Oji Paper and Honshu Paper industries. As a result, it had limited forests to exploit in Japan. The strict environmental regulations and the rising costs of building mills in Japan, compounded by the high value of the Yen, made investment in Canada unattractive for them. Daishowa, therefore, invested quickly in the ranks of the major Canadian players, and acquired initially the North American operations of Reed International for $631 million in 1988.65

In 1988, Mitsubishi Trading Company and Honshu Paper Industry jointly constructed a paper and pulp mill in Alberta, estimated at $1.3 billion. The project was owned and operated by Alberta-Pacific Forest Industries, a wholly owned subsidiary of Crestbrook Forest Products of Cranbrook, British Columbia.66

Oji Corporation was yet another Japanese firm which had been expanding overseas investments in forest products through a Canadian offshore production unit. Oji built a $1 billion expansion of the Howe Sound mill in British Columbia.

66 ibid.
established in 1988 as a 50-50 joint venture between Oji Paper Co. and Confor Corporation, major Canadian pulp manufacturers.67

Other forest product companies also expanded their operations after the mid-1980s. Many Japanese firms expanded their investments in Canadian small and medium level, and specially in saw mills in British Columbia. A few Japanese companies in the manufacturing sector produced a variety of products for export. Japanese investments in pulp sector between 1987 and 1989 was more than 30 per cent. By 1990, it fell sharply because many pulp projects were completed.

Other resource-related activities of Japanese business in Canada include several small companies involved in harvesting and canning fish products and three firms in processing rapeseed oil.

JAPANESE DIRECT INVESTMENT IN CANADA 1985 ONWARDS

Case Study of Automobile Sector

Japanese investments in Canada after 1985 got diversified into different sectors such as banking, finance, automobile, tourism, etc., of which the automobile sector accounted for a major chunk of Japanese investments in Canada. Moreover, the Free Trade Agreements (FTA) and North American Free Trade Agreement (NAFTA) contributed to the expansion of investments in the automobile sector in Canada.

67 ibid.
Among the factors which propelled Japan to invest in the automobile industry in Canada were: (a) the desire to maintain and increase its market in North America; (b) to avail of provincial and federal government incentives, and (c) to overcome the trade barriers and Voluntary Export Restraint (VER) agreements, and increasing protectionism in the US.\(^6\) Besides, Canada was perceived to offer abundant natural resources and skilled labour, and Canadian government welfare schemes like medical and pension programmes. This was reflected in the increased participation of Japanese automobile investments, which stood at $1.3 billion in Canada in 1989. The investment profile of three Japanese automobile giants, Toyota, Honda and Suzuki, is discussed here.

**Toyota:** Toyota entered the Canadian manufacturing sector in 1984 on a small scale. The first to be established was an auto parts manufacturing subsidiary, called Canadian Auto Parts Toyota Inc. This aluminium wheel plant was set up for export of its products to Japan and the US markets.\(^6\) By 1989, 90 per cent of the 20,000 aluminium wheels produced at the plant were exported to Toyota in Japan. The Toyota Manufacturing Canada Inc. was established in 1986 as a $400 million assembly plant in Cambridge, Ontario. After the formation of NAFTA, in 1995, this company announced plans to build a second $600 million production plant in Ontario, which would more than double the production volume. According to

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Toyada Tatsura, President of TMMC, "the company's decision to locate this new production in Canada was based on the quality and production performance of its existing Canadian operation." 70

*Honda:* Honda of Canada Manufacturing Inc. was established in 1984 to begin work on a $280 million assembly plant in Alliston, Ontario, which would manufacture the Accord and Civic models. Honda was the only plant not to ask for direct government assistance in its Ontario project. In 1994, Honda expanded production with a $20 million on its plant in Alliston. 71

*Suzuki:* In 1986, Suzuki entered into a 50-50 joint venture agreement with General Motors Canada Ltd. to build a $615 million small car assembly plant in Ingersoll, Ontario, under the name of CAMIA Automotives Inc. 72

**Services Sector**

A variety of services are performed by Japanese companies in Canada, tourism and finance being the more prominent. Canada has also benefited substantially from certain policy decisions taken by the Japanese government to liberalize Japanese investment in foreign securities. In April 1970, Japan granted permission to its trading firms to buy foreign securities. Toronto was among the

70 *Investment News* (Information Canada, Ottawa) 3 April 1995, p.3.


first eight foreign markets in which Daiwa, Nomura, Nikko and Yamaichi were permitted to purchase quoted stocks and debentures.73

Tourism

The tourism industry being another vital sector in the Canadian economy, increasing number of tourists to Canada adds to Japan's direct and indirect contribution to that sector. With the increase in Japanese tourists to Canada, Japanese investments also have entered different sectors related to tourism.

During the 1980s, the Japanese government was active in promoting overseas tourism, as one of the devices to reduce the country's trade surpluses. It initiated "10 million programme", to encourage overseas visits by the Japanese by 1992.74 Japanese out-bound travel has grown phenomenally over the quarter century beginning 1964, from 128,000 visitors in 1964 to 11.9 million in 1993. Among the factors contributing to this increase were: (a) substantial appreciation of the Yen against foreign currencies, (b) a five-year programme that actively encouraged out-bound travel; and (c) changes in the Japanese life-style, and extremely competitive promotional efforts by the travel industry.75

Despite the slowing down of Japan's economic growth, industry observers predicted that "by the year 2000, over 20 million Japanese will travel overseas

73 Richard Wright, n.15p.15-25.
75 Martin Thronell, Japanese Travel to Canada (Ottawa. 1993), pp. 1-10.
annually". In order to expand and enhance bidirectional tourism, the Japanese Ministry of Transport (MOT) announced, in 1996, a programme called "Two Way Tourism 21", to promote broad-based international tourism now and into the 21st century.76

Since the 1970s Canada has been among the favoured destinations for the Japanese. Factors like the high-valued yen against the Canadian dollar have also helped the trend. The number of tourists increased from 139,000 in 1985 to 474,000 by 1990, and 667,000 in 1995. Japanese tourists mostly visited British Columbia and Alberta. In the winter season most tourists visited Canada for skiing.

Tourism provided direct employment for more than 600,000 Canadians, and ranked fourth in terms of export earnings. Japanese investments in the Canadian tourism sector have been particularly in the hotel and resort properties in Toronto, Hamilton, Banitt, Vancouver, Whistler and Victoria. Major Japanese travel companies have established their own operations and liaison offices to promote Canadian travel destination. Japan ranked as Canada's most important overseas market in terms of visitors and revenues generated in 1992, amounting to approximately $435 million, excluding international air fares.77

Japanese property investors soon followed the boom in Japanese tourism world-wide. In Canada, especially in British Columbia, Japanese investors were

active in selectively buying city hotels in Vancouver and properties tied to tourism at resorts close by. Most Japanese hotel properties were, however, medium-range acquisitions (around $20 million), compared to Japanese acquisitions in Hawaii or Australia's Gold Coast. British Columbia and Alberta were the largest recipients of Japanese property investments, with over 80 per cent by numbers-with hotels and resorts as the most common investment categories.

Japanese real estate investors have also invested in hotels and other tourism-related establishments in Vancouver. In 1985, the Tokyo Construction Group built the Pan Pacific hotel in Vancouver. This was followed by the other Tokyo-based Okabe group which purchased two hotels in Vancouver in 1988.

CANADIAN CRITICISM OF JAPANESE INVESTMENT

The nature and level of Japanese investment, however, has not escaped critical comment from the Canadians. In the tourism sector, the increased Japanese investment caused concern among the local industry that Japanese visiting Canada stayed in Japanese hotels, bought things from the Japanese shops, ate at the Japanese restaurants etc., which would naturally affect the native operators adversely.

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Canadians in general also questioned their country's ability to retain its economic sovereignty in the face of extensive foreign ownership of Canadian industries. They found especially repugnant Japanese participation in ventures involving the alleged despoiling of the Canadian landscape to feed the Japanese industrial furnace. This way of thinking was reflected in the proposed changes in the federal mining legislation, which limited foreign ownership in any mine to 50 per cent.

Japanese business circles warned, however, that the Japan-Canada economic relations could suffer if Canada adopted this kind of approach towards foreign investors, especially the Japanese. In the early 1990s, the investments began to decline in this sector also due to recession.

Overall, the picture that emerges of Japanese investments in Canada is that of a country flush with funds looking for raw material sources to feed its industrial furnace. Canada proved attractive on account of many factors, especially its strategic location in the North American continent, political stability and closeness to the US market. Canada's reception to Japanese investment was not always whole-hearted, the lukewarmness being accounted for, partly, by the ideologies of different parties fighting the electoral battles, and partly Canada's long-term national interests.

Another aspect of the Japan-Canada economic relations is bilateral trade. Comparatively, inviting foreign investment, and the enthusiasm of a foreign country to invest, is a straightforward affair. Trade, on the other hand, can prove quite nettlesome in bilateral relations. It is worth seeing whether Japan-Canada
trade relations had a smooth sailing during the period under consideration, or they were bedevilled by the kind of problems witnessed in Japan's trade relations with some other countries of the western bloc. The next chapter, accordingly, discusses this aspect of Japan-Canada relations.