

*Japanese Direct Investment in Canada: Recent Trends and Prospects*, by David W. Edgington. B.C. Geographical Series, Number 49. Vancouver: Department of Geography, The University of British Columbia, 1992. vi, 110 pp. Maps, tables. \$9.35 paper.

In the late 1980s, Japan's economy soared to unprecedented heights in terms of GNP, market share and asset prices. During this period, Japan became rightly viewed as the world's money machine, exporting on average more than \$100 billion of long-term capital per year. Canada, in particular, became increasingly reliant on inflows of Japanese capital. By 1991, Japanese investors held 25 per cent of all foreign-held Canadian bonds, up from less than 2 per cent a decade earlier, and Japan ranked third, after the United States and Britain, as a source of foreign direct investment in Canada. Pierre Elliott Trudeau's call for an Asian "third alternative" for Canada, based largely on Japanese direct investment, seemed, at last, near fulfilment. Yet Japanese foreign direct investment (FDI) in Canada remains frustratingly small, still below 2 per cent of global Japanese FDI, and only about one twentieth of the volume flowing to the United States. Most of the Japanese investment in Canada has also been qualitatively disappointing, involving minimal value added and little transfer of technology.

David Edgington's new study, published in the British Columbia geographical series, provides a comprehensive overview of the phenomenon of Japanese foreign direct investment in Canada. The author has reviewed the literature on the subject thoroughly, and the report is extremely well documented. The author's profile of Japanese FDI in Canada rightly begins with a review of Japanese-Canadian trade patterns, as "Japan's trade links with Canada have continued to drive its investments in this country" (p. 5). In addition to its descriptive profile of the patterns and evolution of Japanese FDI in Canada, the strength of the book lies mainly in its illustrative case examples of Japanese investments in three industries: forest products, automobiles, and banking and services. The author concludes each of these sections with a penetrating, and often critical, evaluation of the FDI activity in that sector. He points out, for example, that the subsidiary status of Japanese investments in pulp and paper "appears to have helped create a truncated local industry where higher level corporate functions, notably research and development and the import of critical technology, are carried out only in Japan" (p. 30). Similarly, in the automotive section, he concludes that "While Canada has gained more than its continental share of assembly jobs . . . , there has been little investment

in higher-order manufacturing, research and design functions, or technology-intensive automotive parts such as engines or electronic components" (p. 50).

The author attempts throughout the monograph to provide an interpretation of recent changes in Japanese FDI in Canada, in terms of corporate motivations, local opportunities and constraints, and the policy actions of federal and provincial governments. What comes out of all of this is a profile of a highly imbalanced relationship. While Japan is important to Canada (Japan is our second largest trading partner), Canada seems almost irrelevant to Japan: Canada ranks only in seventh place as a trading partner for Japan, and in thirteenth place as a destination of Japanese FDI.

If there is any weakness to the book, it may be in the absence of any clear policy recommendations, either for attracting more Japanese FDI or for upgrading its value-added content. The author can hardly be faulted for that as, realistically, there probably is not much that can be done. Japan's current economic slowdown will put a damper on new Japanese FDI flows globally, and almost all indications are that the attention of Japanese investors is being diverted increasingly to the large and rapidly-growing markets of Asia. Even within North America, Canada's prospects for attracting a larger share of Japanese FDI seem dim. Expectations, for example, that implementation of the North American free trade area will stimulate new Japanese FDI in Canada to serve the entire North American market seem wishful thinking. As long as Japanese investors remain sceptical about whether Canadian-made goods will in fact be allowed unimpeded access to the U.S. (and the U.S.-Canada Free Trade Agreement has so far provided a number of discouraging precedents), Japanese investors will seek to locate their new North American plants either in the country with the largest internal market or in the country with the lowest factor costs. Canada is likely to be neither.

Nevertheless, the growing importance of Japanese-Canadian business interactions clearly warrants more prominent attention by both the business community and by governments. Prof. Edgington's book is a significant contribution in this direction.