

Statement

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NOTES FOR AN ADDRESS BY
THE HONOURABLE ROY MACLAREN,
MINISTER FOR INTERNATIONAL TRADE,
TO THE JAPAN CHAMBER OF COMMERCE
AND INDUSTRY

TORONTO, Ontario
September 29, 1995



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I am pleased to welcome you, Mr. Inaba, and your colleagues to Canada. I am delighted that you were able to accept the invitation I extended during my visit to Japan last spring. I congratulate the Japan Chamber of Commerce and Industry [JCCI] for organizing today's event and I thank you for including me in your program.

I am equally pleased to see among your guests representatives of many Canadian subsidiaries of Japanese companies and some of our leading Canadian companies with strong business ties to Japan. Given my personal commitment to the Canada-Japan relationship, I value the opportunity to exchange views with such a well-informed and influential audience.

The position paper prepared by the JCCI for this visit, *For The Further Development of Japanese-Canadian Relations*, recognizes that long-term prosperity is founded on partnerships.

Indeed, through partnerships, Canadian and Japanese companies can not only serve their own domestic markets more effectively, but they can penetrate third countries as well. Recent deals to supply power generating equipment in Thailand and Indonesia, and machinery and engineering equipment in China and Siberia demonstrate what can be achieved.

Greater business co-operation would be particularly appropriate in Southeast Asia, where Japanese companies have developed a significant presence and a skill for finding innovative ways of financing projects.

I applaud the efforts of many JCCI members, particularly the trading companies, to build partnerships with Canadian companies. I hope your discussions this afternoon with the Canadian Chamber of Commerce will lead to more of these essential relationships.

In the spirit of the Canada-Japan relationship, I'd like to share some frank thoughts on the current state and future direction of our trade and investment relations.

Canada and Japan have built a solid foundation. Two-way trade continues to gain momentum, surpassing \$20 billion last year. Canadian exports grew by \$1 billion for the second consecutive year. By conservative estimates, our sales to Japan this year could well exceed \$12 billion. This explosive growth comes from hard work and creative thinking on both sides of the Pacific.

One often hears of the changing patterns of Japanese investment, in particular the shift toward Asia. Yet, Japan continues to view Canada as a sound investment. No doubt that assessment is based on the strong fundamentals of our economy and its long-term prospects.

Canada led G-7 economic growth in 1994. Real gross domestic product grew 4.5 per cent - its strongest growth in five years. Record-level exports have been the main driving force behind this strong growth. Exports now represent more than one third of our total GDP.

Productivity in Canada has surged. Our cost competitiveness is at its highest level in more than 40 years. Canada's current account deficit has been cut in half over the past year. Our inflation remains among the lowest in the world.

At the same time, the Canadian government has taken decisive action to reduce Canada's fiscal deficit. Deep cuts to government spending will reduce the federal deficit to 3 per cent of GDP by next year. Provinces have also been active in reducing or eliminating their fiscal deficits.

Canada's commitment to liberalized trade and investment is undeniably a large part of our success. We have been an active proponent of regional and multilateral initiatives to help improve Canada's competitiveness. This approach also reflects our belief that we must go beyond existing commitments wherever we can in order to drive the multilateral system toward global free trade.

Our participation in the Canada-U.S. Free Trade Agreement and its successor, the North American Free Trade Agreement [NAFTA], has given firms in Canada free and secured access to a huge market and excellent sources of supply.

Under the NAFTA, clearer North American content rules, including those for autos, have reduced the risk of unilateral interpretations by customs officials. The interests of exporters and business investors are better protected by an efficient and transparent dispute settlement system which ensures that the rules are enforced.

Today, the North American economy is based upon converging infrastructures, common distribution links and an intricate web of cross-border production and investment. Economic integration in North America has stimulated specialization within Canadian industries as they take advantage of greater economies of scale.

The results speak for themselves. Canada and the United States now exchange over \$1 billion worth of goods and services a day and Canadian exports to Mexico grew by nearly 30 per cent in 1994. Canada accounted for one third of total export growth in North America last year.

Our commitment to an open trade and investment regime and to sound macro-economic policies have helped create in Canada one of the most competitive business environments in the world. This has not gone unnoticed.

Total foreign direct investment has increased 20 per cent since implementation of the first free trade agreement with the United States. Of the total increase in foreign investment in Canada, 30 per cent is reinvested earnings. Many multinational corporations, such as 3M, Dow, DEC, IBM, Bell Helicopter Textron,

and Procter and Gamble, have awarded North American or global mandates to their Canadian subsidiaries.

Recent investment decisions by Japanese firms show that they also appreciate these developments. For example, Toyota has begun a \$600 million expansion of its operations in Canada. A number of other Japanese companies have also made important investments in Canada recently, including NKK, NEC, Mitsui, Mitsubishi Materials, Sumitomo, NTN, Kao, Omron, Moli Energy, Makita, Sakai Spice, Honda, among others.

But the picture could still be better. Despite Canada's attractiveness, Japanese investment in Canada is significantly less than that in the United States, even taking into account the differing sizes of our economies.

Therefore, I encourage you and, through you, other Japanese firms to take a new and even harder look at what Canada has to offer.

Canada and Japan, as members of the G-7, partners in the Quad [Quadrilateral Trade Ministers' Meeting] and enthusiastic members of APEC [Asia-Pacific Economic Co-operation forum] have a strong common interest in promoting growth, expanding free trade and advancing the rule of international law.

In APEC, we are working closely with Japan - the chair of this year's APEC meetings in Osaka - to create a detailed work plan that responds with concrete action to our leaders' commitment in Bogor, Indonesia, last year. Canada's goal is to push for a broadening and deepening of our mutual commitments, and to ensure that the collective focus is outward and expansive. What emerges from the Osaka meetings will be of great consequence to Canada as we prepare to chair APEC in 1997.

We also share with Japan the basic commitment to develop a strong, effective, rules-based, multilateral trading system centred on the World Trade Organization [WTO]. Our mutual interest in the smooth functioning and respect for the WTO was never more evident than during the recent Japan-U.S. bilateral negotiations on autos. During that period, Canada made it clear that unilateral measures would threaten the stability of the multilateral trading system. At the same time, we stressed - along with Japan's other major trading partners - that the solution must be found in true market-opening in Japan where the key element must be effective and far-reaching deregulation.

Some observers in Japan argue that pressure to deregulate should ease in the current climate of stagnation. Yet we believe that exactly the opposite is true.

Only through effective, far-reaching deregulation will Japan stimulate the necessary domestic demand - particularly demand from

the private sector – to accelerate economic recovery and sustain growth.

Moreover, reform must aim to reduce domestic prices through increased competition, particularly competition from imports, to be of benefit to the Japanese consumer and business.

In my view, Japan should:

- eliminate all regulatory restrictions on market entry and price competition that cannot be justified on the basis of economic efficiency;
- ensure full transparency and non-discriminatory application of all regulations;
- streamline domestic standards systems and bring them in harmony with international norms; and
- expand public awareness and debate on the benefits of deregulation.

These proposals address the two most common concerns of Canadian business in Japan: poor regulatory transparency and high domestic costs. Addressing these problems would considerably facilitate trade and avoid future trade friction.

We are looking to the Japanese government and industry to demonstrate the leadership required to overcome opposition and implement true reform.

The measures announced last March in Japan's *Deregulation Action Program* were a start. Some of Canada's concerns in the housing and building products sector were addressed. But the measures didn't go far enough; they were far from meeting international or domestic expectations.

The *Action Program* failed to provide a coherent approach to eliminating restrictions on market-entry and price competition, particularly in highly regulated sectors, such as agriculture, land and housing, transportation and retail distribution, which have a significant impact on the domestic economy as a whole.

Given the request-driven nature of the *Action Program*, international pressure will likely be an important stimulus for change. But Japanese business has the most important role to play in this ongoing process. I urge you to continue to press for the implementation of a far-reaching and effective program.

That is the challenge that I put to you today.

Domo arigato gozaimasita! (Thank you).