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### THE STATE OF CANADA'S TRADE WITH JAPAN

An Address by the Honourable Jean-Luc Pepin,  
Minister of Industry, Trade and Commerce, to  
the Japanese Press Club, Tokyo, January 24, 1972.

The mission that I am leading here is the largest economic mission Canada has ever sent anywhere in the world. With me are 31 senior Canadian businessmen. They represent a cross-section of Canadian industry, including manufacturers of products in which Canada has a proven international capability. The mission also includes a number of senior Canadian Government officials from Ottawa and from our Tokyo Embassy, all of whom have a major interest in Canada-Japan economic relations. Leading Canadian journalists have judged the event important enough to come along.

The size of this mission, and the quality of its membership reflect the importance which Canada attaches to its trade with Japan.

What are our objectives? We are here, as you expect, to promote Canadian products and to increase our exports to your market. Of course we want to increase the volume of our exports, but we also want to improve their quality. By this I mean the degree of fabrication of these exports. We want to continue to sell you industrial materials and foodstuffs. We also want to diversify our range of exports to include more manufactured goods.

To achieve these objectives it is important that Canadian businessmen learn more and more about the Japanese market, get to know better and better, on a firsthand basis, the techniques of doing business here. On the other hand we want to talk to your Government and business leaders about some obstacles which appear to stand in the way of Canadian exports to Japan and we want to contribute to the resolution of these problems.

My officials and I will also be talking to your Government about recent international trade developments, about our community of interests in trade liberalization, about Canada's and Japan's roles in the evolving international trade scene.

What is the state of trade between our two countries? It is large and growing fast.

In 1965, two-way trade totalled \$456 million and Canada had a surplus of almost \$100 million. By 1970 it had more than doubled, reaching \$1.3 billion. The trade surplus for Canada had kept pace, attaining over \$200 million. As we entered 1971, most Canadians, and I suspect most Japanese, had come to expect that a large excess of Canadian exports to Japan over Japanese exports to Canada was a normal feature of trade between our two countries.

This situation changed dramatically last year. In 1971 Japan's sales to Canada increased by a record 38 per cent, while Canadian exports to Japan actually declined. Canadian imports from Japan leaped by more than \$217 million, to over \$800 million, while Canadian exports to Japan decreased slightly, to about \$792 million. So in one year Japan moved from a deficit of \$209 million to a possible surplus of about \$10 million. The actual decrease in Canadian sales was due, experts say, to a temporary slow-down in the Japanese economy. That slow-down has not affected your exports to Canada. Major increases occurred in your exports of cars, motorcycles, steel pipes and tubes, double-knit fabrics, to name just a few. In the case of automobiles, Japan doubled its sales and presently supplies 15 per cent of the total Canadian market for automobiles.

This shift in our bilateral trade might be permanent or it might be temporary. We hope that our export decline is temporary; you hope that your export leap is permanent. As I have said on many occasions, when we had a surplus, Canada does not seek a bilateral balancing of trade with any country, Japan included. Now that the shoe (granted it is a small one) is on the other foot -- our foot, now that you have the surplus and we have the deficit, I do not intend to change my tune. We do not seek a balancing in our two-way trade. What we do seek, however, is a better balance in the terms of access to each other's market. We want the freedom to sell in your market. Sincerely, we do not feel that this is yet the case. I will come back to this point in a moment.

But first let me look at the content of the trade between our two countries.

Canada has been one of Japan's most important sources of industrial materials and foodstuffs -- 73 per cent of Canadian exports to Japan are in this category. We are in this position because we are stable and competitive suppliers. This trade has been good for Canada and it has certainly been good for Japan. We want it to continue on a mutually advantageous basis.

In the other direction, Canada has been a major market for Japanese manufactured products -- 97 per cent of our imports in 1971 were in this category. Your performance in Canada is a tribute to your marketing skills, but I submit it is also an indication of the openness of the Canadian market. Look again at the products you sell in Canada. Automobiles, trucks and motorcycles, TV sets, tape-recorders and radios, steel products, snowmobiles and textiles. Most of these items compete directly with Canadian products in the Canadian market.

At the very mention of the word textiles I know you expect me to say something about Canada's textile policy.

Textile products are still an important part of your exports to us, although they are becoming less so as Japanese sales to Canada of automotive, steel and electronic goods increase. Of the 15 leading imports categories from Japan last year, textiles made up only 10 per cent of the total.

Textiles are recognized internationally as a "problem sector" of world trade. In this situation Canada does maintain some trade-restraint arrangements with Japan. But they are selective. Canada's textile policy very carefully sets out the criteria for the imposition of trade controls in this sector: imports must be causing or threatening serious injury, and the manufacturer seeking safeguards for particular products must demonstrate that he will become internationally viable through rationalization plans which he must present to the textile board. We have not asked for restraints over broad categories of goods. Restraints on individual products are removed when they are no longer needed. In the longer term, we look to a solution to the textile problem by an orderly opening-up of markets by all countries. We support efforts in the GATT to this end.

The other major industrialized countries have for many years enforced much more restrictive policies on textiles than has Canada. *Per capita*, Canada buys ten times more textiles from Japan than does the EEC or the UK, almost double the *per capita* imports of the U.S.A. and triple those of Sweden. In value, Canada imports roughly as much from Japan as does the entire European community -- a market approaching 200 million people.

As I was saying, with a very few exceptions all your goods enter Canada without limitation and, in most cases, in direct competition with Canadian products. In turn, we should like to have the fullest opportunity to compete with Japanese products in Japan. That is what I meant when I referred to a better balance in the terms of access.

You buy from us copper, nickel and iron as ores and concentrates; you buy lumber and wood-pulp. But you do not buy our manufactured products. Only 3 per cent of Canadian exports to Japan are end-products, and, if I may speak frankly, as we do among friends, this is an unsatisfactory situation. There is a short-term and a long-term explanation to this.

Both Canada and Japan are coming through a difficult period. Both of us have experienced an economic slow-down. In Japan this has resulted in a decrease in the rate of growth. In Canada it has also resulted in high unemployment, a situation aggravated by the fact that Canada has the fastest-growing labour force among the industrialized nations. In order to provide jobs for this fast-increasing labour force, we feel we must expand further our manufacturing sector. But simple economic recovery from a temporary slow-down and fuller employment is not enough. Each country -- yours and mine -- has wider obligations and consequently wider objectives, economic, social and political. Canadians have a new desire, a determination to ensure a sophisticated,

up-to-date, mature economy. There are some good economic reasons for this; we need job opportunities in all parts of Canada; we need to hedge against sharp fluctuations in commodity markets; we need to provide career opportunities for our bright young people; we need to participate in the more rapidly expanding sectors of international economic activity -- the high technology industries. I know you will understand this in Japan.

We want to produce and specialize in the things we do well. This means we need markets not only for our industrial raw material but for our manufactured products too -- markets not only in the U.S., but overseas as well.

In searching for these markets we obviously look to Japan. The "economic miracle" for which you deserve praise has created here a large and rich domestic market. Apart from supplying raw materials and foodstuffs, we have not been able to penetrate it. As I have said, less than 3 per cent of our total exports to Japan were in the form of end-products. This compares badly with our performance on other markets. As a simple example, about 45 per cent of our total exports to the U.S.A. are fully manufactured. In the Philippines, over 60 per cent of our sales are in manufactured form.

In the process of solving our problems of distances and climate, and of developing our natural resources, we have created a body of original technology and products. We know we have competitive products to offer. What we do not have is success in selling in your market, and the question then is why not. There may be several reasons. It may be our fault, it may be your fault, or both. As Mr. Fujino, the President of Mitsubishi, said in the course of his economic mission to Canada last summer, Canadian businessmen do not try hard enough in Japan. He said that they should become more market-oriented, and that they should better familiarize themselves with Japanese business customs and consumer tastes. Mr. Tanaka, your Minister of Trade and Industry, said the same thing in our ministerial meeting in Toronto last September. We acknowledge that there may be a lot of truth in that, which is why we have included a large group of businessmen in the present mission to Japan.

But I think there are other reasons for our lack of success in selling our manufactured products to Japan. Specifically, I am concerned that Japan's import rules and practices seriously restrict Canadian sales opportunities. We recognize that considerable progress has been made by Japan in the dismantling of direct import controls, and we are looking forward to further progress. In our view much remains to be done. For example, although most Japanese imports are no longer under direct quantitative restriction, each and every import transaction still requires an import licence or a form of administrative approval. We are also concerned that in a number of cases import items of interest to Canada have been liberalized but that at the same time tariffs have been increased, and we are concerned that other items of special interest to Canada remain under quantitative restriction. We wish to discuss these matters. I am sure that the exchanges I am having with Mr. Tanaka and other ministers through this week, and the discussions our Canadian businessmen are having with leading Japanese industry representatives, will be most useful in providing a mutual understanding of each others points of view.

Both Canada and Japan are major trading nations. There are natural areas of co-operation between our two countries. In technology, for example, there is much to gain through bilateral co-operation. As a matter of fact, at the Canada-Japan Ministerial Meeting in September, it was agreed that a Canadian science and technology mission would visit Japan in 1972. Plans are proceeding for this mission.

Foreign investment also offers opportunities. For our part, we welcome Japanese investment in Canada, particularly where this investment is directed towards new enterprises. As you may be aware, the matter of foreign investment in Canada has been under Government review. While a policy statement has yet to be made, you can expect that it will not be aimed at restricting foreign investment but rather at ensuring optimum returns to the Canadian economy.

Canadians have some equity investments in Japan. I have noted Japanese progress in dismantling restrictions on foreign investment and I hope that you will continue this policy in order that we can maximize the benefits that accrue from the exchange of capital.

There is another form of desirable exchange between Canada and Japan, the exchange of people -- i.e., tourism. Canadians more and more are looking to the Pacific and to Japan as a travel destination. Japanese tourists are also coming more and more to Canada for an international holiday. From 1968 to 1970, the number of Japanese visitors to Canada almost doubled, from 12,000 to 22,000, and I am sure that, when the figures are in for 1971, another significant gain will have been achieved. We must continue to build on the successes we have had in terms of exchange of people and ideas through Expo 67 and Expo 70. These were great moments in the history of our two nations but also in the history of relations between our two countries, partners in the Pacific.

In the multilateral sphere we have much to gain by co-operation; we have even more to lose if the trading world is allowed to take on a protective colouring. Canada and Japan agreed last September in Toronto, and more recently at the GATT meeting in Geneva, that work should go forward towards a major new round of international trade negotiations. Prospects in this direction seemed dim a year ago, but I think this has changed. The recent dramatic shocks to the international trade and monetary system seem to have revived a willingness among the major trading nations to enter into early negotiations. We welcome recent Japanese pronouncements in this regard.

To conclude, we are anxious to strengthen our relations in every way; we are anxious to develop two-way exchange on a mutually advantageous basis; we are anxious to deepen our relations in the Pacific; we are anxious to work with Japan in partnership looking to the further strengthening of international trade and economic co-operation on a world wide basis. That is why we are here.