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**NOTES FOR AN ADDRESS BY
THE HONOURABLE ROY MACLAREN,
MINISTER FOR INTERNATIONAL TRADE,
TO THE CANADA-JAPAN SOCIETY OF TORONTO,
THE JAPAN SOCIETY AND THE ASIA-PACIFIC FOUNDATION**

**TORONTO, Ontario
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Few would now doubt that we are on the threshold of the "Pacific century." Growth rates in much of the Asia-Pacific region are already double the world average. If current trends continue, the region will account for 60 per cent of the world's population, 50 per cent of global production and 40 per cent of total consumption by the year 2000. What we are witnessing is nothing less than a shift in the world's economic centre of gravity from the Atlantic to the Pacific.

The very scale of this transformation poses challenges as well as opportunities. How does a small country such as Canada access a market of over two billion? What approach can encompass economies as diverse as Singapore and China? Where should we begin to look for a bridge over the Pacific? Canada clearly needs to come to grips with the rise of Asia, and yet the sheer magnitude of the challenge seems to obscure the way forward.

There is, of course, no single Pacific bridge. Canada is a member of APEC [Asia-Pacific Economic Co-operation] which, as a result of last month's summit in Indonesia, aims to provide a free trade framework for the region by the year 2020. Just recently the Prime Minister led a highly successful "Team Canada" trade mission to China, following on missions which I have led to India, Hong Kong, Korea, Japan and China over the last 12 months. Canada has also established a "special partnership" with Korea, and we are open to similar bilateral agreements with other key economies in the region. Taken together, these and other initiatives underscore Asia's new priority for Canada and reflect our willingness to push forward on the broadest possible range of fronts.

Yet if there is a key to our Asia-Pacific strategy as a whole, it remains Japan. The strength of our bilateral relationship alone justifies Japan's pre-eminence. Japan is Canada's third-largest export market after the United States and the European Union. In 1993 alone, Canadian exports to Japan rose 13 per cent to over \$8 billion — equalling our exports to the rest of Asia combined.

At approximately \$10 billion, Japan is also our third-largest source of foreign direct investment — the importance of which was underscored by the recent announcement of a new \$600-million investment by Toyota in Ontario. And Japanese investors hold over \$45 billion in Canadian bonds. Put simply, Canada cannot afford to overlook Japan.

But Japan represents more than Canada's third-largest trading partner. As one of the world's three great economic powers, Japan is the engine — and the model — behind the Asian economic miracle. As the source of an expanding web of investment, trade and technology, Japan is at the centre of a vast economic empire spanning the Pacific Rim. By securing its position in Japan — as well as in other core economies such as Taiwan, Korea, Hong Kong and Singapore — Canada gains a window on Asia as a whole.

This of course begs the question, "How is this position to be secured?" If Japan is the key to unlocking the Asian economy, what is the key to unlocking Japan? Japan has scarcely had a reputation for openness in the past. Opaque corporate linkages, restrictive distribution networks, distinctive cultural preferences — these and other factors made Japan one of the most protected industrialized economies in the world. Yet much of this is changing. Over the last several years, Japan has been undergoing its own quiet restructuring — a restructuring that will, in time, make Japan an even more important market for Canadian exports and an even more strategic springboard into Asia as a whole.

Sweeping economic changes are creating a new Japan. This economic transition is being driven in part by broad social and demographic changes and in part by the startling effects of the appreciation of the yen in recent years. The latter has greatly increased the relative costs of production in Japan and widened the price gap between Japanese products and imports.

The effects are threefold: first, a transfer of labour-intensive and lower-technology production out of Japan; second, a wave of outward investment in Asia and elsewhere; and third, a shift from export-led to demand-driven economic growth. The pace of change may be unpredictable, but the direction is clear. Economic liberalization — principally through deregulation and the removal of import barriers — is stimulating domestic demand, creating opportunities for offshore goods and services, and fuelling Japan's recovery.

Japan's economic restructuring has taken place against the backdrop of equally profound political changes. The 1993 general elections ended 38 years of continuous rule by the Liberal Democratic Party. The hegemony of the LDP has been replaced by a new generation of reformers impatient with the old political accommodations. Another important aspect of political change is the increasing saliency of regions.

Japan is not a monolith: it is a country comprising four main islands, 47 prefectures, profound climatic variations and hundreds of years of history. This in turn has created greater pressure for pluralism and decentralization. Canada has responded by opening consulates in Nagoya and Fukuoka in addition to our Osaka consulate general and Tokyo embassy.

A new drive for political restructuring has thus accompanied the equally powerful drive for economic restructuring. The resulting dialectic means that Japan will never be the same.

Overall, these trends should provide three principal benefits. First, the widespread liberalization of the economy and the political system should place new limits on bureaucratic guidance

— bureaucratic guidance that fostered the industrialization of Japan, but has little or no place in a modern market economy.

Second, liberalization should lead to expanded domestic demand, lower consumer prices, increased disposable income and new investment opportunities. Third, liberalization should improve the transparency of Japan's markets and business practices and thereby ease international trade tensions.

These changes are radical changes. We know there is opposition from vested interests in Japan, and that the uncertainty of the political environment constrains policy initiatives. But there is no turning back. Japan's previously complacent consumers have become more keenly price-sensitive and more impatient for change.

The private sector in Japan is also beginning to reinforce the trend toward liberalization, citing the high cost of regulatory compliance and astronomical prices for land, energy and distribution. Canada and other foreign countries can only benefit from such developments.

It is true that access barriers to trade continue to exist in Japan, but we are dealing with them in a concerted manner at both the bilateral and the multilateral level. We continue to pursue a rules-based approach as opposed to any specific targeting of export volumes.

For example, on his recent visit to Japan, my colleague the Minister of Industry signed a joint agreement with the Japanese Minister of Construction that will lead to mutual recognition of test data for construction materials — an agreement that will eliminate costly duplication of testing, evaluation and certification procedures. At the same time, implementation of the results of the Uruguay Round will improve access conditions in many sectors. And we will continue to work with Japan to push our trade liberalization efforts even further, through, for example, meetings of the Quadrilateral Trade Ministers group, and trade initiatives in the context of the G-7.

Yet perhaps the single greatest constraint on Canada's export potential is not demand-side barriers, but our own supply-side weaknesses. We are improving our performance in supplying growing Japanese demands for value-added, labour-saving, price-competitive imports, but an enormous task remains.

Our central challenge is to position ourselves to take advantage of the opportunities that the new Japan offers. Canada's Action Plan for Japan is central to our efforts. The Action Plan, first unveiled at a meeting of the Canada-Japan Business Committee in 1993, responded to one of the key recommendations of the Canada-Japan Forum 2000 report, which called for greater Canadian awareness of business opportunities in Japan.

I am pleased to provide you today with the first release of the third version of the *Action Plan*. The revision reflects the fact that this is a living, not a static document; we are constantly refining it as we adjust strategies and practices to the changing conditions in Japan.

The revision also reflects our efforts to make the plan industry-driven, with active involvement from private sector groups and individual companies. This is Canada's Action Plan for Japan, not just that of the Department of Foreign Affairs and International Trade. It is the embodiment of extensive collaboration, consultation and co-operation involving my department, other federal departments, the provinces and, most importantly, the private sector.

Collectively we have identified seven priority sectors for trade development in Japan — building products, food products, fish and seafood products, the automotive sector, information technologies, tourism and aerospace — built around three principles of action:

- first, to build awareness of changes and market opportunities through the provision of timely and accurate market intelligence;
- second, to foster the necessary adaptation of products for the Japanese market; and
- third, to promote products more effectively in the marketplace.

The *Action Plan* is not an exclusive list; it represents a good first effort to think strategically and to bring our collective resources to bear on shared goals.

Canada is strongly committed to furthering its trade and economic relations with the countries of Asia-Pacific — a commitment confirmed by our active membership in APEC. We are determined to be part of the profound transformation taking place.

But of all the countries of the region, Japan represents not only our oldest and most important partner, but in many ways the key to new partnerships throughout the region. Canadian business must understand the sweeping changes taking place in the Japanese market and must capitalize on the opportunities that those changes provide.

Many Canadian firms are already doing just that, but many more are scarcely scratching the surface of the tremendous potential that exists. What is at stake is not only our presence in Japan, but our presence in Asia as a whole.

Thank you.