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STATEMENTS AND SPEECHES

Speech by
the Honourable Pat Carney,
Minister for International Trade,
to the Canadian Club

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Canada

Good afternoon, ladies and gentlemen. It is a distinct honour to stand before this distinguished forum and, of course, it is a distinct pleasure to be back home in this great city of Vancouver.

It seems most appropriate to be in Vancouver for this first opportunity to speak to you in my new role as Minister of International Trade because British Columbia has always made a major contribution to Canada's external trade.

Of course, British Columbia is also Canada's presence in the Pacific Rim, and area that is unmistakably the economic hub of the future, the area in which there is considerable economic potential for Canada.

In fact, according to a recent report of the general agreement on tariffs and trade -- the GATT -- Trans-Pacific trade now exceeds Trans-Atlantic trade for the first time. That puts Vancouver -- our gateway to the Pacific Rim -- right in the middle of the action. This is the place to be. Of course, this comes as no surprise to me. As British Columbians, we've always known that!

British Columbia was one of four provinces visited last month by a group of senior businessmen from one of our most important Pacific Rim neighbours -- Japan. These businessmen were here on a trade and investment mission organized by Mr. Minoru Kanao, the Chairman of the Canada-Japan committee of the Keidanren, the leading association of Japanese business decision-makers.

At the end of their week-long visit, they told the Prime Minister that they had "discovered in some ways a new Canada". In their previous visit to Canada they found barriers to investment, poor Federal-Provincial relations, and great labour unrest. This time they found Investment Canada seeking new investment, a new spirit of national reconciliation, and a better labour climate.

The Kanao mission emphasized that Canada's traditional role as a major supplier of natural resources to Japan must continue on a long-term basis.

At the same time, however, they also made it clear that Japan must deal with the new Canada. Japan must increase its imports of our manufactured goods. In high-tech areas, they consider it very important for us to explore opportunities for technology transfers and joint ventures between Japanese and Canadian companies. Canada has world class competitors in a wide variety of different industries.

These conclusions of the Kanao mission are extremely significant, given the considerable impact that this mission is likely to have on how Japan does business with Canada in the coming years.

This is a new foundation upon which we can build a more expansive economic relationship with Japan. While the impressions of the Kanao mission are fresh in our minds, I shall take the opportunity to go to Japan next week to explore further new trade and investment opportunities between our countries.

I will be meeting with many members of the Kanao mission, including senior executives of Mitsui, Mitsubishi, Seiko, Toyota and the Industrial Bank of Japan. I will also be attending two investment seminars, one in Tokyo and one in Osaka, that are being organized by Mr. Kanao as part of Japanese efforts to promote what they described as " a new Canada".

Since coming to power in September, 1984, the Government has devoted an enormous amount of energy to revitalizing Canada's economic environment and reshaping Canada's image abroad. At a time when protectionism and inward thinking is very real in some western industrialized countries, we are determined to fight against these negative pressures. Through several constructive measures, we have opened up the Canadian economy, building bridges, not barriers, to economic opportunity.

Two very real barriers to growth -- the national energy program and the Foreign Investment Review Agency -- have been eliminated. I have referred earlier to Investment Canada, an agency whose mandate is to facilitate and promote investment that will bring Canada new technologies, ideas, capital and jobs, investment that will increase Canada's international competitiveness.

The major focus of Investment Canada, during its first year of operation, has been to change negative perceptions of Canada as a location and a partner for business and investment. Much of the agency's time has been spent on promoting the kind of "new Canada" to which Mr. Kanao referred during his recent visit.

The NEP has been dismantled, oil and gas prices have been deregulated and we have introduced a market-oriented policy that limits government intervention and allows business to balance its risks with rewards.

We are working with real determination to break down two other obstacles that stand in the way of our reaching our economic potential -- the federal deficit and barriers that impede our trade relations with the United States and our other GATT partners.

With initiatives such as these, the government is redesigning Canada's economic environment, building the "new Canada" that the Kanao mission saw in October. Canada's business climate is now more open, positive and dynamic.

By seizing opportunities, we are creating opportunities. The major economic initiatives of the Federal Government clearly demonstrate this fact: business opportunities in this country have never been better. In fact, Investment Canada is forecasting that the growth rate of our GNP this year will outpace even that of Japan.

The Japanese are taking advantage of this "new Canada". They know a good opportunity when they see one. The Japan external trade organization -- JETRO -- has established centres for industrial and technological cooperation abroad, including one in Toronto. And seven Japanese banks are now established in this country. These actions reflect and renewed confidence and interest in Canada among Japanese traders and investors.

Recent increases in Japanese trade with, and investment in, Canada also demonstrate this renewed confidence and interest. The facts speak for themselves.

While the amount of two-way trade between Japan and Canada is overshadowed by trade between the U.S. and Canada, it is increasing. In 1983, trade between Japan and Canada totalled \$9.13 billion (Cdn). By 1985, the total increased to \$11.8 billion (Cdn). This represents an average annual increase of 13.1 percent over those three years. It is interesting to note that the growth of Canada-Japan trade is keeping pace in recent years with that of our other most important trading partners.

Japan is our second largest export market, a market upon which 100,000 Canadian jobs depend. Japan has become the world's largest net exporter of capital.

Japanese foreign direct investment in Canada is also

increasing. Japan is now the fifth largest foreign direct investor in this country. The stock of Japanese direct investment in Canada rose from \$275 million (Cdn) in 1975 to \$1.7 billion (Cdn) in 1984. This represents an average annual growth of 23 percent -- a very encouraging growth rate by any standard.

A major industrial cooperation agreement between Japan and Canada also reflects a new interest in investments in manufacturing in Canada. In September, 1985, the Japanese Ministry of International Trade and Investment -- MITI -- and our Federal Department of Regional Industrial Expansion signed an agreement to facilitate joint ventures between Japanese and Canadian firms in advanced manufacturing technology, microelectronics and fine ceramics. This agreement has been so successful that it was expanded this year to include space technology and biotechnology. Another such agreement was signed this summer with Mitsubishi.

Certainly, there is already much progress being made to enhance our economic relationship with Japan. The momentum is there. to build on this momentum is the purpose of my trip to Japan next week. Let me outline very briefly some of the specific objectives of my trip.

First, I want to emphasize the importance Canada accords to its economic relationship with Japan. This fact was enunciated in the recent Speech from the Throne, which indicated that the Government of Canada will work vigorously to improve our stature as a trading nation with Japan and other Pacific Rim nations.

Second, I want to promote increased exports of Canadian manufactured goods, a subject raised by the Kanao mission, as I mentioned earlier. In recent months, we have seen a dramatic increase in sales of certain Canadian products, such as processed food, due, in part, to a revalued yen. This is an area in which I firmly believe Canadian exporters can achieve greater success.

Third, because trade and investment are so interdependent, I shall use the two investment seminars I will attend to promote an increased flow of Japanese technology and capital to this country. I intend to focus attention specifically on the development of greater industrial cooperation between Canada and Japan.

I look forward to this upcoming trip to Japan as an exciting opportunity to promote an increase in Canada's economic participation in the Pacific Rim.

One thing I do want to make clear, however, is that Canada's interest in the Pacific Rim is by no means limited to Japan. China is our fifth largest export market and South Korea our seventh.

And of course our continental partner, the United States, is also a Pacific Rim neighbour.

I spoke earlier about building bridges, not barriers, to economic growth and, specifically, about the elimination of domestic barriers, like FIRA and the NEP. Of course, not all such barriers are domestic. That is why we have embarked on major initiatives to enhance our trade relations with our GATT partners as well as specifically with the United States.

Canada and the U.S. have an economic partnership that is the envy of the world. And no wonder! Our two economies are highly integrated. We share a Continent, a common language, similar cultures, consumer tastes and habits as well as business practices.

The vast North American market is the richest in the world, and Canada is an integral part of it. Many markets on this Continent operate on a regional, cross-border, North-South basis. For example, more than 35 million consumers are within two days' trucking distance of B.C. this includes major urban markets in British Columbia, Alberta, Saskatchewan, Washington, Oregon and California.

In 1984, Canada and the U.S. did more than \$150 billion (Cdn) in two-way trade in goods and services. More than two million American and two million Canadian jobs depend on that trade. By 1987, 80 percent of Canadian exports south of the border and 65 percent of U.S. exports to Canada will be duty-free.

Without a doubt, there is no more important or complex trading relationship in the world. Traders and investors in both countries need governments to set standards of conduct which are appropriate for a relationship of such size and sophistication. A long-term, binding trade treaty can give them that certainty, by limiting the ability of interest groups on both sides of the border to use harassment tactics.

Given the obvious integration of our economies, it is simply not in our mutual interest to maintain tariff and non-tariff barriers that prevent Canadians and Americans from achieving the full potential of which our people and our resources are capable.

The government believes we must work vigorously to address these barriers. We must make every effort to ensure that our economic relationship with the U.S., that has set the world standard in terms of size, cooperation and dynamism, is not impeded by such obstacles to growth and development.

Barriers to trade are, quite simply, barriers to business. They are an international deterrent to entrepreneurial activity. The government is working to break down trade barriers because we believe that international cooperation in the interest of continental as well as global objectives is absolutely essential today. To do otherwise, in my opinion,

would be, as Marshall McLuhan once said, to march backwards into the future.

We must concentrate our efforts on securing and improving our economic position in a rapidly changing world economy. If we have ever taken our economic relationship with even our closest friend, ally and neighbour for granted, we must not do it now.

We must not burn our bridges to economic opportunity. The rise of U.S. protectionism makes us acutely aware that we cannot be smug or complacent, that the world economy and our place in it is changing whether we want it to our not.

The Economic Council of Canada predicts a net increase in jobs by 1995 of as much as 376 thousand if a bilateral agreement is reached.

Conversely it predicts a net decrease of 528 thousand jobs by 1995 if no bilateral agreement is reached, assuming the USA expands protectionist measures.

What we must do is learn the lesson of West Germany and Japan. as Peter Drucker recently pointed out in Foreign affairs, these countries have based their economic policies on the world economy, they have systematically tried to anticipate its trends and have exploited its changes as opportunities. Both have made their country's competitive position in the world economy the first priority in their policies. Their focus on the world economy and the priority they give it may be the real "secret" of their success.

Now is the time to recognize the unique opportunity that we have in the world. We can try to reshape our trading relationship with the U.S.

This is the basis of our pursuit of a long-term binding trade treaty with the united states. We have three primary objectives which are worth restating here. They are:

- o to secure stable access to each other's markets,
- o to eliminate remaining tariff and non-tariff barriers; and,
- o to establish better trade rules and a better framework for settling trade disputes.

First, secure and stable access to each other's markets is absolutely essential to the growth of exports, jobs and investments. Business needs a stable and reliable environment in which to prosper. A comprehensive and binding trade treaty with the U.S. would provide traders and investors with the kind of stability and predictability that their activities demand.

The importance of our securing access to our single most important market cannot be overstated. In a recent article,

published by the Asia-Pacific Foundation, Dr. Wendy Dobson, director of the C.D. Howe Institute, cites uncertainty about Canada's access to the U.S. market as a major reason why Japanese trade with, and investment in, Canada have not been even greater in the early 1980s.

The fact that Canada plays a major role in the North American market is a major competitive advantage that we must protect. Our place in this Continent's economy is a major competitive advantage, a leading incentive for investment. Increased investment and the resulting increases in trade it so often brings are vital to Canada's economic development. Clearly, Japan is not the only country with a keen interest in Canada's access to the American market.

Second, while there are no tariffs already on many products traded between Canada and the U.S., an agreement would reduce or eliminate all other tariff and non-tariff barriers over a specified period of time. Transition arrangements for the phasing out of such barriers would, of course, be tailored to the needs of the sectors affected.

There will be some adjustment, but as the Economic Council of Canada recently pointed out, the Canadian economy is constantly adjusting to global competition in any event. Indeed, four million Canadians change jobs every year.

Third, an agreement could establish a mechanism for the fair settlement of trade disputes between our country and the United States. I do not have to remind this audience in this province of the need for such a mechanism.

Such a path-breaking trade agreement with our most important trading partner could also have a significant impact on the international economic environment. First and foremost, it could serve as a model for other countries who want to negotiate liberalized trade agreements. Certainly, Canada is not the only nation with serious concerns about the increase in protectionism south of the border.

A Canada-U.S. Trade Treaty could also set a precedent for global action on such vital issues as trade in services. Services constitute the fastest growing part of both the Canadian and U.S. economies, and yet, they are not properly regulated by international treaties. A Canada-U.S. trade treaty could make a considerable contribution to broader international negotiations.

In addition, it could also serve as a model for the 93 nations of the GATT on how to solve disputes and improve existing codes on subsidies and government procurement. These were top american objectives at the new round of GATT negotiations launched at Punta del Este, the most important round of negotiations since the GATT was established 40 years ago. However, these negotiations will take years to produce significant results, while an agreement between Canada and the

U.S. could be finalized within the next year, given strong support on both sides of the border.

Finally, a Canada-U.S. Trade Treaty can give us the market that Canadian business needs to specialize and achieve economies of scale. Successful Canadian businesses will be able to move through the U.S. market to compete in other markets.

Of course, it only makes sense to seek enhanced economic relationships with our trading partners. Given the growing interdependence of the international economy, it only makes sense to develop further our most significant trading relationships. And given the growing significance of the Pacific Rim, it only makes sense to focus our attention on enhancing our economic relationships with our neighbours in that area.

I have spoken earlier this afternoon about building bridges, not barriers, to economic opportunity. I cannot think of two better opportunities.

Thank you.