

# **BUSINESS COUNCIL ON NATIONAL ISSUES**

## **CANADA AND JAPAN TOWARDS A STRONGER ECONOMIC PARTNERSHIP IN THE WAKE OF THE CANADA-UNITED STATES FREE TRADE AGREEMENT**

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Japan is Canada's second largest trading partner with two-way trade exceeding \$18 billion -- a sum twice as large as Canada's trade with the United Kingdom and three times that with the Federal Republic of Germany.

Although impressive, the author argues that the Canada-Japan economic potential remains largely unfulfilled. The Canada-United States Free Trade Agreement is explained and its positive impact on Canada-Japan economic prospects is outlined. Some critical opportunities in the Canada-Japan economic relationship are explored, and the case is made for closer cooperation on the multilateral front.

This address reflects the commitment of the Business Council to strengthening Canada's trade and investment relations with major economic partners other than the United States.

The Business Council on National Issues is composed of the chief executive officers of 150 leading Canadian enterprises. As a non-profit, non-partisan organization, it seeks to contribute to the development of sound public policies in the national interest.

The Chairman of the Business Council is David M. Culver, Chairman and Chief Executive Officer of Alcan Aluminium Limited.

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Mr. Morohashi, Mr. Lambert, Your Excellencies, Ladies and Gentlemen.

It is a privilege for me to be able to share my thoughts today with such a distinguished assembly of Japanese guests and Canadian business people. This gathering under the auspices of the Canada Japan Businessmen's Cooperation Committee (CJBCC), I am told is one of the largest regular bilateral business meetings to be found anywhere, and a testimony to the strong and growing economic bonds between Japan and Canada.

David Culver, the Chairman of the Business Council on National Issues and one of the prime movers of the CJBCC initiative, once told me why he was prepared to devote so much time to building linkages between our two nations. "Japan and Canada," he said, "are natural economic partners. In few bilateral relationships does there lie so much potential."

### **PROGRESS WITH MORE TO COME**

Canadians and Japanese alike over the years have demonstrated their belief in this idea. Today, Japan is Canada's second largest trading partner with two-way trade exceeding \$18 billion -- a sum twice as large as Canada's trade with the United Kingdom and three times that with the Federal Republic of Germany.

As impressive as this is, I am among those who believe that the Canada-Japan economic relationship harbours a potential that remains largely unfulfilled, and

that our two countries can and will significantly expand mutually beneficial trade, investment, and industrial cooperation in the years to come.

One reason for my optimism is that we are partners in the Pacific and we share the knowledge and conviction that the Asia Pacific region is rapidly rising to a position of preeminent global importance in both economic and geostrategic terms. We all are familiar with the statistics that reflect this startling growth. And the future looks even brighter. One perspective is offered by Canada's Department of External Affairs which estimates that trans-Pacific trade could reach \$500 billion annually by the year 2000, and that trade between Canada and Japan some \$40 billion.

Another reason for my optimism is Japan itself. The great strength of the Japanese economy -- its massive capital base, its broad technological capacity, its trading supremacy -- will guarantee that it remains a focal point of global economic activity for a long time to come. Rising Japanese domestic demand and the promise of even greater expansion is catching the eye of Canadian business people. In turn, the globalization of Japanese production offers Canadians the prospect of increased direct investment by Japanese companies in our country and the promise of enhanced technology transfer to Canadian firms as we in Canada broaden our technological base.

Yet another reason for my optimism are developments in Canada. During the past six years, Canadian industry has powered one of the highest growth rates and best employment creation records in the industrialized world. This record of achievement has coincided with some significant pro-market shifts in the policy environment -- shifts that were the subject of positive comment in the 1986 report of Minoru Kanao following the visit of his committee to Canada. These factors complement the many advantages that Canada offers Japan as an economic partner -- a massive resource base, a growing technological capacity, an educated work force, and a high level of political stability.

## CANADA-UNITED STATES FREE TRADE

All of these reasons can give us cause for optimism, to be sure. But there is still another reason to expect a surge in Canada-Japan economic activity, and this is the main subject of my remarks today. I am referring to the Canada-United States Free Trade Agreement implemented on January 1, 1989, and strongly endorsed by the Canadian business community.

To fully appreciate the Canadian business community's vision and expectations of the Free Trade Agreement requires us to revisit briefly the imperatives that drove us to push for such an accord. In the early 1980s, it became increasingly evident that declining United States competitiveness would lead inevitably to increasing protectionist pressures in that country. With so much of Canada's total export activity dependent upon access to the huge United States market, it became a matter of urgent necessity, in our view, that we negotiate with the Americans a comprehensive trade agreement that would help secure access to the United States market and subject the massive two-way flow of trade to an improved legal discipline. Within the Business Council, as early as 1981, the attainment of this goal was considered "of strategic importance and vital to Canada's economic security."

But the safeguarding of Canadian economic interests against the danger of United States protectionism was not the only imperative of this largely business-driven thrust for an accord with the Americans. The other dominant reason was the desire to benefit from access to a free trade area encompassing a market of over 265 million people. The expected benefits were those that normally flow from free trade and closer market integration -- increased export opportunities, enhanced competitiveness arising from an expanded production base, wider technological opportunities, and stronger capital formation and investment prospects. These advantages, anticipated by Canadian business, were seen to be part of a much broader positive impact on

the nation as a whole. The federal government and the vast majority of Canada's economic research organizations predicted that the Free Trade Agreement would lead to improvements in the Gross Domestic Product, in the income of workers, and in consumer prices.

My analysis would be incomplete without mention of one additional factor of particular importance to the vision and expectations of Canadian business flowing from the Free Trade Agreement. The achievement of this goal is not seen as an end in itself, far from it. The Free Trade Agreement is seen as a vehicle to help produce a globally competitive economy in Canada. It is seen as an instrument whereby Canadian enterprises can achieve both the size and reach that will assist exports and investment in the Asia Pacific area, in post 1992 Europe, and elsewhere. It is seen as a way of attracting Japanese and other non-United States investment to Canada together with all the opportunities that go with it.

Allow me to put this another way -- and perhaps more bluntly. As part of this vast free trade area -- the world's largest, encompassing some \$200 billion in two-way commerce, Canada is assured of being a potent economic force, a country with a vital role to play in North America, and increasingly beyond this continent. Without the Free Trade Agreement, at best we would have remained marginal players and we would have been condemned, relatively speaking, to a declining role internationally.

### THE FREE TRADE AGREEMENT AND JAPAN

Let me return now to the Free Trade Agreement and its relevance to Japan. I realize that this bold initiative has been a source of some concern to both the Japanese Government and to Japanese business. During my visit to Japan last December, I frequently was asked to explain the real intent of the Agreement. Did it signal a retreat from multilateralism? Was it a first step in the

building of a "fortress North America"? Would it be used against Japanese business? Would it really open up opportunities for trans-Pacific trade?

Many of you have heard responses to these questions from representatives of the Canadian Government or the United States Administration. Permit me to offer you a Canadian business perspective with all the frankness I can muster.

The Free Trade Agreement does not signal a retreat from multilateralism or the desire to build a "fortress North America". Consider its origins. It was in large measure a Canadian-inspired and Canadian-led initiative, and I have explained Canada's motives in seeking such an Agreement. They certainly did not spring from a desire to build a protectionist North America.

Additional evidence is in the Agreement itself. It is wholly compatible with the General Agreement on Tariffs and Trade (GATT). Many of the principles and much of the language is drawn from the GATT. In dealing with issues such as investment and services, and in establishing binding dispute settlement procedures, the Agreement reaches well beyond any existing free trade agreement and achieves a number of goals which to date have eluded GATT negotiators. For these reasons, the Agreement has been lauded by jurists and trade policy specialists around the world as a model for GATT reform. Further reassuring evidence can be found in the continuing pro-GATT postures of the Canadian and United States Governments, and of the business communities of both countries.

Would the Free Trade Agreement be used against Japanese business? The answer here must be very clear. There are no provisions in the Agreement that raise new barriers against Japanese access. Furthermore, and this is often misunderstood, the Agreement establishes a free trade association and not a common market. Unlike the European Community, Canada and the United States have not established a common tariff barrier against Japan or any other country. This, of course, means that Canada can continue to

conduct bilateral economic relations with Japan and other countries without fear of breaching the Agreement. The desire to maintain this freedom towards third countries is one of the reasons why the Business Council in the early 1980s explicitly rejected a common market arrangement in favour of a free trade association.

This freedom to deal with other trading partners has a special meaning to Canadians -- and in particular to business people in my country. It is something I want our Japanese counterparts to fully understand. Of course the Free Trade Agreement recognizes the high degree of interdependence and integration between the Canadian and United States economies. But it will not stand in the way of improved economic relations with other countries. In fact, I believe it will assist Canadians in achieving what should be a long term goal of strategic importance -- the building of a better balance in our trading relationships. I see Japan as the principal contributor to that better balance.

The critical question remains: what impact will the Free Trade Agreement have on trans-Pacific trade and more specifically on economic relations with Japan? I will attempt to answer this by using Canada as a reference point.

First, the widely held view is that Canada will be the principal beneficiary of free trade with the United States. The United States economy is some ten times larger than ours and improved access as well as bolstered two-way commerce will act as a stimulus. Overall economic growth in Canada will rise and so will disposable income. This has to be good news for business on both sides of the Pacific.

Second, the Free Trade Agreement will lead to a gradual elimination of all tariffs between Canada and the United States, and to the reduction or elimination of all other barriers to trade. This, together with the legal disciplines in the Agreement aimed at minimizing trade disputes, and the provisions dealing with services and investment, will allow for the more

effective management of change in the Canadian and North American economies. In turn, this will result in a more secure, predictable business environment for Japanese and other investors.

Third, Canada's attractiveness as a place to do business now takes on a more significant meaning against the backdrop of the Free Trade Agreement. I am referring, for example, to our advantageous exchange rates, generally lower labour costs, skilled work force, and cheaper land costs and energy inputs. These, coupled with our generous social support structure, our relatively low crime rate, a good system of schools, and a generally attractive physical environment, offer Canadian-based businesses very real advantages. Japanese companies, well-known for factoring into their business decisions a wide range of environmental considerations, should be encouraged by this.

Fourth, the Free Trade Agreement also highlights the dynamism of a series of regional economies within the North America marketplace. It is sometimes forgotten that Canada's industrial heartland is within easy reach of some 100 million Americans; or that Boston, New York, Chicago or Los Angeles are closer to major Canadian cities than to many of their American counterparts. Cross-border trade and investment among these regional economies already flourishes. The Free Trade Agreement will expand it further under an umbrella of greater security. Business travel from one country to the other will be facilitated as well under the terms of the accord. These realities will become increasingly material as Japanese investors and firms consider the prospects of geographical location in the free trade area.

Finally, based on analysis that I have seen of the impact of the Free Trade Agreement on Pacific Rim industries, the prognosis is strongly encouraging with benefits flowing to exporters, importers and investors alike.

In summary then, I believe that the Canada-United States Free Trade Agreement will have a positive impact on Canada-Japan economic relations.

## THE CANADA-JAPAN ECONOMIC RELATIONSHIP

Allow me now to make some observations on some specifics of the Canada-Japan economic relationship. Much of the ground was very ably covered by this morning's speakers, so I will stick to just a few points.

To my Canadian colleagues, I would stress the significance of Japan's drive to boost domestic demand. With the renewed upward climb in the already huge overall Japanese trade surplus, pressures are growing for Japan to take even more vigorous steps to attract imports, to accelerate the dismantling of non-tariff barriers, and to stimulate domestic investment. The adjustment process is far-reaching and there can be little doubt that it reflects a trend that will continue for many years to come. This opens up fresh opportunities that some of the companies represented here today have been quick to act upon. I am encouraged by the rapid rise in Canadian exports in the past year.

But the Canadian response, by and large, has not been broad or aggressive enough. Some of the reasons for this are now well known -- for example, the preoccupation of most of our export industries with opportunities in the huge United States market; our still relatively limited knowledge of the Japanese market; our reticence to commit sufficient resources to the long-term development of opportunities in Japan; our limited success in quality manufacturing; and of course, the fact that so few Canadians have or are seeking to achieve a proficiency in the Japanese language.

Can these deficiencies and others like them be overcome? They certainly can, and our business leaders and managers must show the way, taking full advantage of the assistance being offered by our various governments. Is it worth the effort? Our answer to this should be self-evident: to ignore the world's fastest growing economic super-power is bad politics, bad economics, and bad business.

Now let me offer our Japanese friends some thoughts about Canada. Most "Canada-watchers" among my Japanese circle of acquaintances readily admit that the country has changed a great deal since the 1976 visit of the Makita economic mission: the economy is more open and Canadians are looking increasingly outward. Like the Japanese, we have our share of problems, but our economic growth since the early 1980s also has been remarkable, and we offer an investment environment that is one of the most attractive in the world. And yet, judging from the relatively small share of Japanese direct investment in Canada, I would have to conclude that Canada does not occupy the priority in Japanese government and business circles that many of us in my country would wish.

To my Japanese colleagues, I would urge that you reassess the vantage point of Canada as a priority area for long-term economic commitment. In my remarks today, I have tried to explain why the United States Free Trade agreement should figure prominently in that reassessment. But there is, in my mind, an even more fundamental reason for greater Japanese involvement in Canada, perhaps best explained in terms of a strategic and economic quid pro quo.

It is widely accepted in Japan that secure access to the North American market is critical to Japanese prosperity and economic development. Japan must have, in other words, a reliable North American base. From Canada's point of view, the increased presence in our country of Japanese direct investment, management techniques, and technological know-how would be enormously beneficial to our firms and to the economy as a whole. Furthermore, it can be argued that the political environment in Canada is more receptive to a Japanese economic presence than generally is the case in the United States. These factors, coupled with Canada's desire to achieve over time a better balance in the distribution of our export trade, highlight the mutually attractive elements of such a strategic and economic quid pro quo.

They also add up to a powerful case for a much stronger Japanese presence in Canada and for Canada becoming a key access point to North America.

A background paper prepared for this conference by Mitsui & Co. (Canada) Ltd., reinforces this thinking. The paper states that "... Canada is unique among advanced economies in having no significant trade frictions with Japan. Both stand firmly in opposition to U.S. protectionist factions... This common ground should therefore serve as a basis for strengthening the Canada-Japan relationship..."

### CANADA, JAPAN AND THE WORLD

If the case for closer bilateral cooperation between Canada and Japan is compelling, it is equally so at the multilateral level. Among the G-7 countries, and as major exporters, our two countries have a vital stake in achieving trade liberalization on a global basis and in ensuring that the General Agreement on Tariffs and Trade (GATT) be appreciably strengthened. This was clearly the message delivered by the leader of the Keidanren private sector delegation, Akio Morita, at the Montreal GATT mid-term review meeting last December. We in Canada are fortunate to count Japan as one of our most powerful allies in advancing the GATT reform agenda.

I recognize that our mutual commitment to multilateralism has not precluded us from exploring new avenues of trade co-operation -- for example, the establishment of a Pacific Rim free trade area, or even the creation of a so-called "super-GATT" among industrialized nations. Consideration of these and other new initiatives should not be a source of concern, in my view, so long as it leads in one way or another to the dismantling of trade barriers and to a more liberal international economic order.

Our cooperation in helping to build global economic stability takes on a special urgency when we consider the enormity of the challenges facing us: slow growth and crushing debt loads in the developing world; the rapid deterioration of the planet's ecosystem; the threat of protectionism and trade wars among competing economic blocs; the growing tension between Japan and the United States on a wide range of economic matters; and the startling events which are re-shaping East-West relations.

In such a world, it is critical that friends such as Canada and Japan work closely together. The spirit of cooperation I refer to, and its great potential, was summed up succinctly with an intriguing image by a Japanese well-wisher during my recent visit to Japan. "Canada and Japan," he said, "are each other's safest harbours on the borders of the Pacific." "Aren't we fortunate," he concluded, "that the Pacific is where the future lies."

His sentiment and ours here today, I know, are the same. With imagination, hard work, and recognition of our strong mutual interests, I have every confidence that Canada and Japan will march towards that future arm in arm.

### Thomas Paul d'Aquino

Mr. d'Aquino is President and Chief Executive Officer of the Business Council on National Issues, an organization composed of some 150 chief executive officers of major enterprises in Canada. Formed in 1976, the Business Council is the senior voice of business in Canada and the principal means by which business leaders contribute personally to the development of public policy and to the shaping of national priorities. Member companies administer in excess of \$825 billion in assets which produce annually some \$300 billion in revenues. They employ more than one-and-a-half million Canadians.

A lawyer, Mr. d'Aquino acts as an advisor to clients in Canada and abroad on domestic and international policy and legal problems. He is Special Counsel to McCarthy & McCarthy, Barristers and Solicitors, Toronto. He is a member of the Canadian and International Bar Associations, and of the Law Society of British Columbia. From 1976 to 1983, Mr. d'Aquino was Professor Adjunct of the Faculty of Law of the University of Ottawa where he lectured on the law of international business transactions, trade, and the regulation of multinational enterprise.

Mr. d'Aquino is 48 and a native of British Columbia. He was educated at the Universities of British Columbia, Queen's, and London. He holds B.A., LL.B., and LL.M. degrees.

He was Special Assistant to the Prime Minister of Canada from 1969-1972. For the past fifteen years, including periods in London and Paris, he has acted as both legal counsel and advisor to a number of governments and major enterprises.

Mr. d'Aquino is Co-Chairman of the Canadian Labour Market and Productivity Centre -- Canada's principal vehicle for business-labour co-operation and dialogue, and he is a member of numerous boards and advisory groups.

He is an active advocate of closer economic ties among leading industrial nations and is considered one of the private sector architects of the Canada-United States free trade initiative.

He has special interest in Japan and most recently visited that country at the invitation of the Japanese Government in December, 1988.

Mr. d'Aquino is the author of numerous publications and a frequent speaker on platforms in Canada and abroad.

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