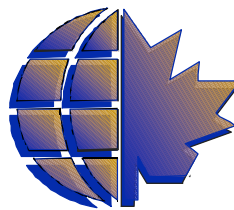




**THE HURRICANE'S AFTERMATH  
THE CHALLENGE TO THE GLOBAL FINANCIAL  
AND TRADING ORDER**

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**THE HURRICANE'S AFTERMATH  
THE CHALLENGE TO THE GLOBAL  
FINANCIAL AND TRADING ORDER**



A PRESENTATION TO THE  
TWENTY-SECOND ANNUAL  
CANADA JAPAN BUSINESS CONFERENCE  
BY THOMAS D' AQUINO  
PRESIDENT AND CHIEF EXECUTIVE  
BUSINESS COUNCIL ON NATIONAL ISSUES  
VANCOUVER  
MAY 17, 1999

- ✦ **Chairman Okuda, Chairman Bougie, Ambassadors Edwards and Uchida, ladies and gentlemen. I am especially honoured to address this 22nd annual conference of the Canada-Japan Committee here in beautiful Vancouver.**
- ✦ **The title of my presentation, “The Hurricane’s Aftermath -- The Challenge to the Global Financial and Trading Order” will offer a Canadian perspective on the global economy in these very uncertain times, and on Canada’s strengths and weaknesses as the country faces extraordinary change.**



**THE HURRICANE'S AFTERMATH  
THE CHALLENGE TO THE GLOBAL FINANCIAL  
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**THE BUSINESS COUNCIL ON NATIONAL ISSUES  
IS CANADA'S SENIOR BUSINESS ORGANIZATION COMPOSED OF  
THE CEOs OF THE 150 LARGEST CANADIAN ENTERPRISES AND  
REPRESENTING ALL KEY SECTORS AND WITH A MARKET  
CAPITALIZATION OF \$2 TRILLION**

Autos & Parts	Insurance	Printing & Publishing
Banking	Manufacturing	Retail Trade
Chemicals & Petrochemicals	Metals and Minerals	Steel
Engineering	Oil, Gas & Energy	Telecommunications
Elec. & Electronic	Paper and Forest Products	Textiles
Food & Beverage	Pharmaceuticals	Transportation

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BUSINESS COUNCIL ON NATIONAL ISSUES

Page 2

- ✦ First, a few words about the Business Council on National Issues -- the "BCNI".
- ✦ The Council today consists of 150 chief executives of leading Canadian enterprises.
- ✦ The organization concerns itself with strategic issues of national and global relevance to Canadian business leaders.
- ✦ Member companies currently administer close to CDN \$2 trillion in assets, have an annual turnover of approximately CDN \$600 billion and are responsible for a significant majority of Canada's exports, investment and research and development.



**THE HURRICANE'S AFTERMATH  
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**THE GLOBAL FINANCIAL CRISIS**

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- The global financial crisis of 1997 and 1998 has abated.
- Central banks around the world have cut interest rates more than 110 times since the depths of the crisis.
- But the global economy remains fragile and continues to underperform. Emerging economies have been particularly hard hit.
- Complacency is our greatest enemy. Profound challenges remain that must be resolved in order to return to solid, sustainable levels of global economic growth.
- The most dramatic economic cataclysm since the Great Depression has imposed devastating human costs and lowered the standard of living for a great number of people in many parts of the world.

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BUSINESS COUNCIL ON NATIONAL ISSUES

Page 3

- ✦ **The global financial crisis of 1997 and 1998 has abated but the global economy remains fragile and continues to underperform.**
- ✦ **Complacency is our greatest enemy. Profound challenges remain that must be resolved in order to return to solid, sustainable levels of global economic growth. World excess capacity, an important cause of the financial crisis, remains a serious problem.**
- ✦ **The most dramatic economic cataclysm since the Great Depression has imposed devastating human costs and lowered the standard of living for a great number of people in many parts of the world.**



**THE HURRICANE'S AFTERMATH  
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**GLOBAL ECONOMIC CONDITIONS**

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- **United States**      A beacon of strength with risks.
- **Europe**              Slowing growth but continuing optimism over the euro and the future.
- **Russia**                Continuing economic and political chaos.
- **Brazil**                Encouraging signs -- difficulties persist.
- **Asia-Pacific**        Progress in Philippines, Thailand and Korea in stabilizing their economies.
- **China**                Weathering the storm but facing major economic challenges.
- **Japan**                Many steps taken. Improving air of optimism, but has the bottom been reached?

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BUSINESS COUNCIL ON NATIONAL ISSUES

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- ✦ **The United States remains a powerful engine of growth and innovation, but the U.S. trade deficit is exploding, inflationary pressures are beginning to emerge and the stock market increasingly is defying the forces of gravity.**
- ✦ **European growth is slowing but the European current account surplus at nearly 2 percent of GDP demonstrates strength, and the introduction of the euro has gone quite smoothly. But the German and Italian economies are lagging, and Russia is engulfed in political and economic chaos.**
- ✦ **Brazil has edged back from the brink and is moving once again in the right direction, but serious problems persist.**
- ✦ **While there has been some progress in Asia Pacific, particularly in the Philippines, Thailand and Korea, China is saddled with slower growth, falling foreign direct investment and rising unemployment.**
- ✦ **Japan continues to face economic difficulties despite the significant initiatives of the Obuchi government. Without Japan's return to economic health, the prospects for the Asian region are dim.**



**THE HURRICANE'S AFTERMATH  
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**GLOBAL ECONOMIC PROSPECTS**

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- Global growth will continue to be lacklustre but an outright global recession so far has been avoided.
- Global growth will continue to be unbalanced and this will be a challenge moving forward.
- We must guard against over-confidence and complacency, and re-leveraging in financial and equity markets.
- If steps are not taken, the financial crisis of 1997-98 could become the trade crisis of 1999.
- Global economic turmoil and the “prosperity gap” are resulting in a backlash against globalization and free markets.

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BUSINESS COUNCIL ON NATIONAL ISSUES

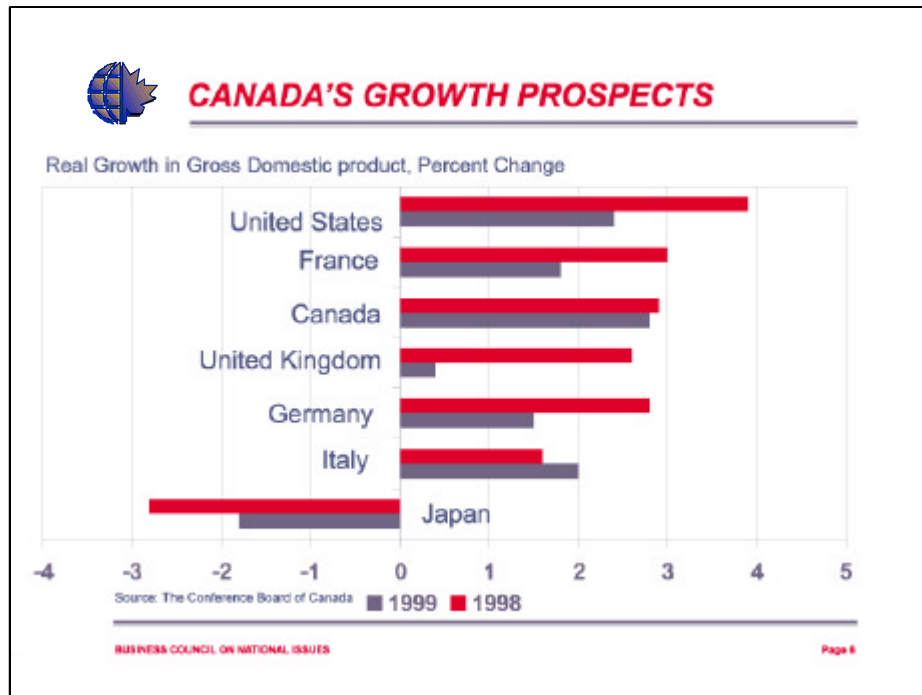
Page 5

- ✦ **While a global recession so far has been avoided, it cannot be said with certainty that this will continue to be the case. Global growth remains unbalanced and reforms that were expected to flow from the financial crisis have not been sufficient.**
- ✦ **I have mentioned overcapacity as a serious threat. Excessive re-leveraging in financial and equity markets is another threat.**
- ✦ **Protectionism is on the rise, raising the prospect of a global trade crisis, and the backlash against globalization and free markets can be seen in many parts of the world.**



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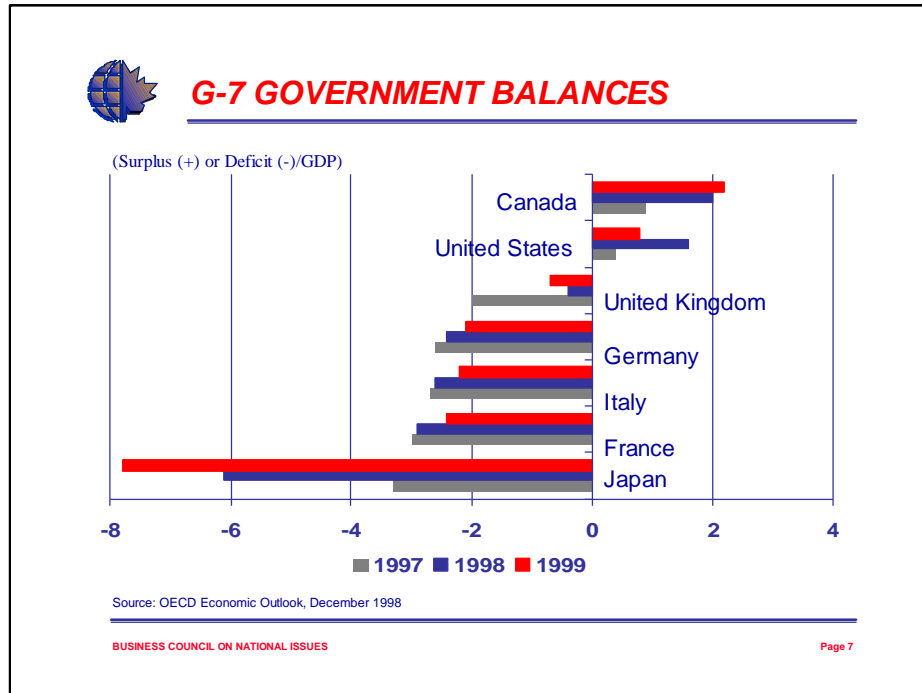
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- ✦ Despite global financial market volatility, the Canadian economy has performed comparatively well. Economic growth reached 2.9 percent in 1998. Both the OECD and the IMF conclude that Canada will register growth in line with its G-7 partners this year.
- ✦ Canada's economic performance in 1999 will depend largely upon the performance of the United States economy. In its 94th month of economic expansion, the longest in post-war history, the United States has surprised forecasters for four years in a row. A key question is whether United States economic growth will again surprise on the up-side.
- ✦ No matter what happens, Canada is much better positioned to handle global volatility than it was ten years ago. The country has made remarkable progress on a number of fronts.



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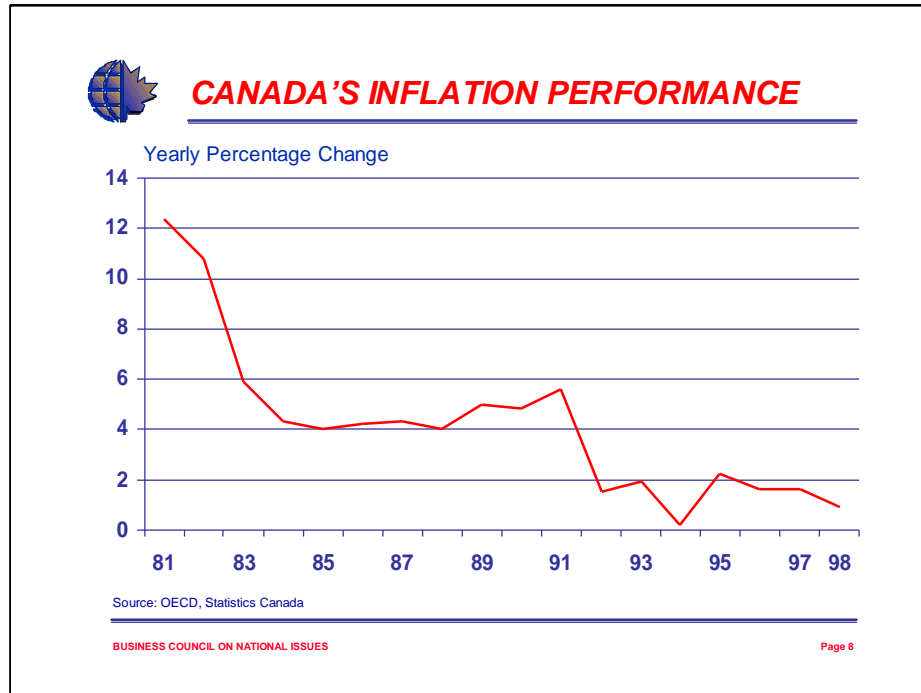


- ✦ **Canada's overall fiscal position has improved dramatically. With three consecutive years of fiscal surpluses, Canada will record its best performance since the 1960s.**
- ✦ **This strong performance can be traced to a relatively strong economy and continuing fiscal restraint. The federal government and the majority of the provinces are registering fiscal surpluses. Ontario and Quebec plan to balance their budgets within the year.**



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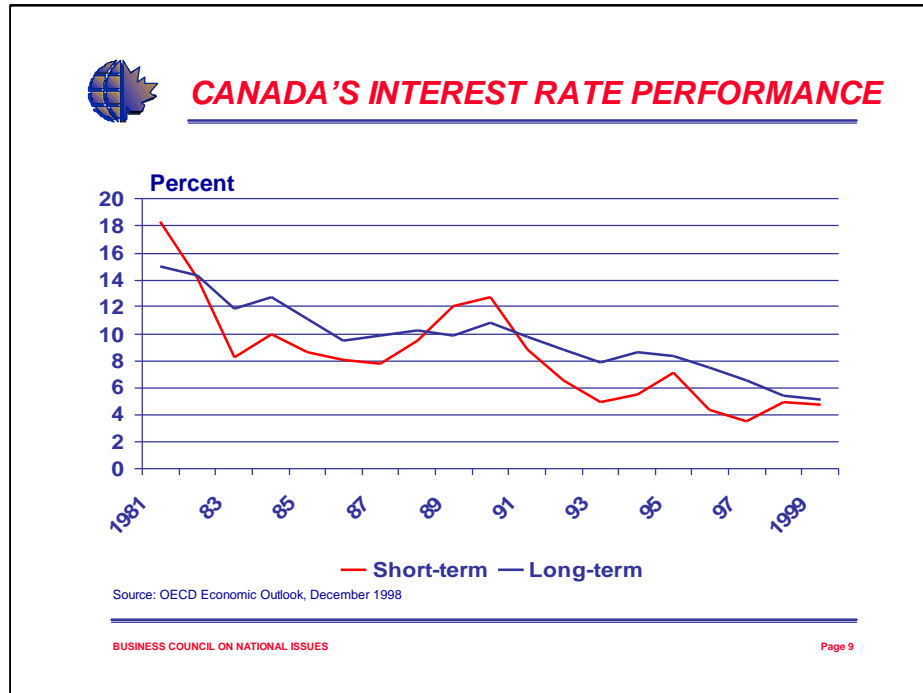
- ✦ Inflation has declined dramatically for industrialized and developing economies. Still, Canada has one of the best inflation performances over time, averaging less than two percent for most of the 1990s.
- ✦ Canada has the second best inflation performance in the G-7 and has had a superior inflation performance to the United States for more than five years.





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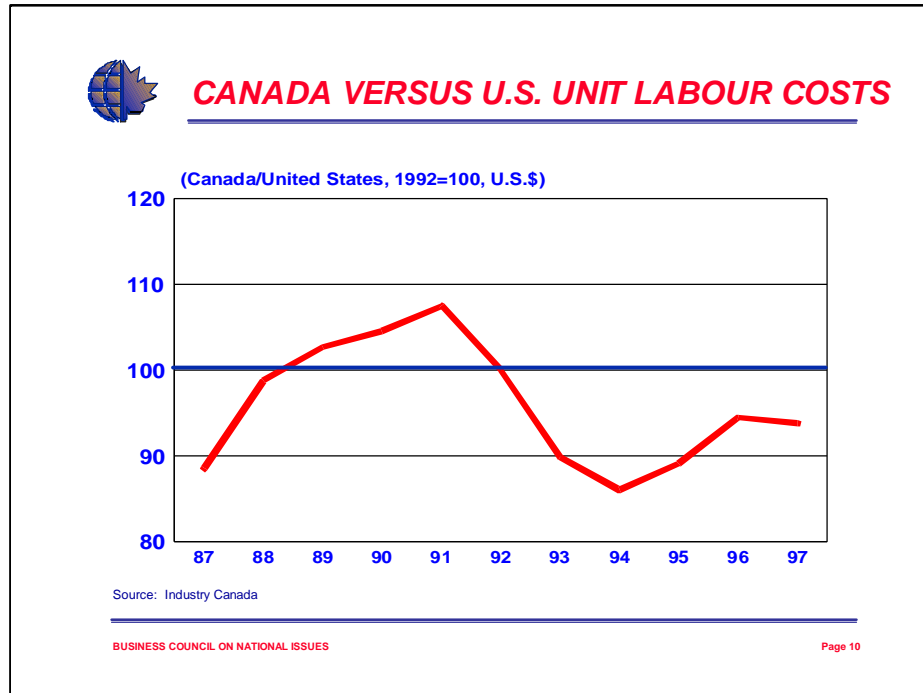


- ✦ **A strong commitment on the part of Canada to a policy of low inflation, and solid economic and fiscal management, has combined to offer interest rates in nominal terms among the lowest in the OECD. Both short- and long-term rates are at half their average levels of the past two decades.**



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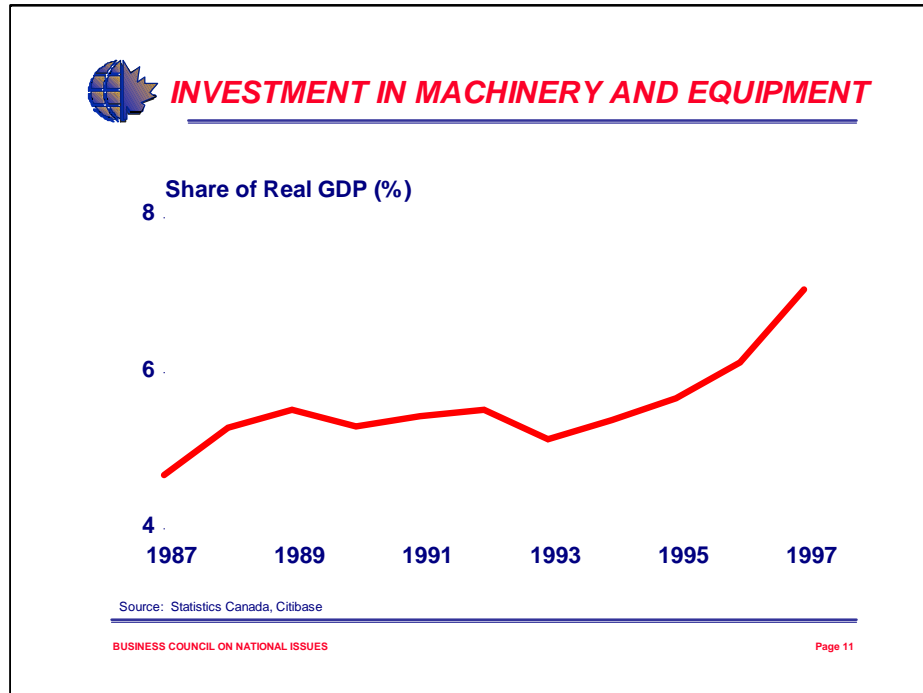


- ✦ **Canadian manufacturing workers are more price competitive than Americans according to the OECD and the Economist. Measured in the United States currency, Canada's unit labour costs are among the lowest in the OECD.**



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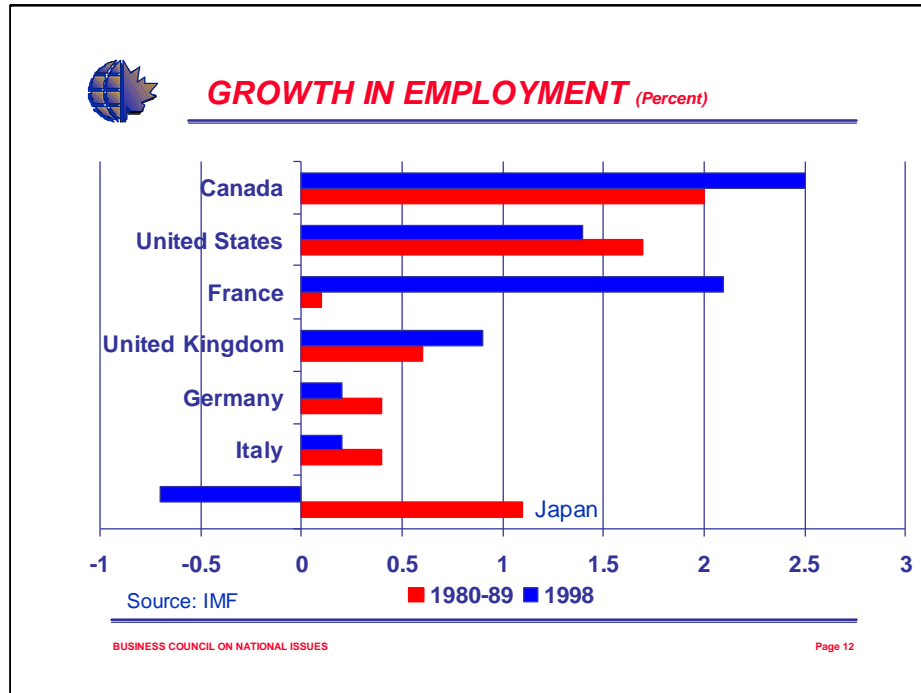


- ✦ **Despite global uncertainty, machinery and equipment investment in Canada is continuing to grow at a brisk pace.**
- ✦ **In terms of real fixed investment from 1993 to 1997, Canada has posted the second-best performance in the G-7 after the United States. The IMF also predicts that Canada will post a solid performance this year.**



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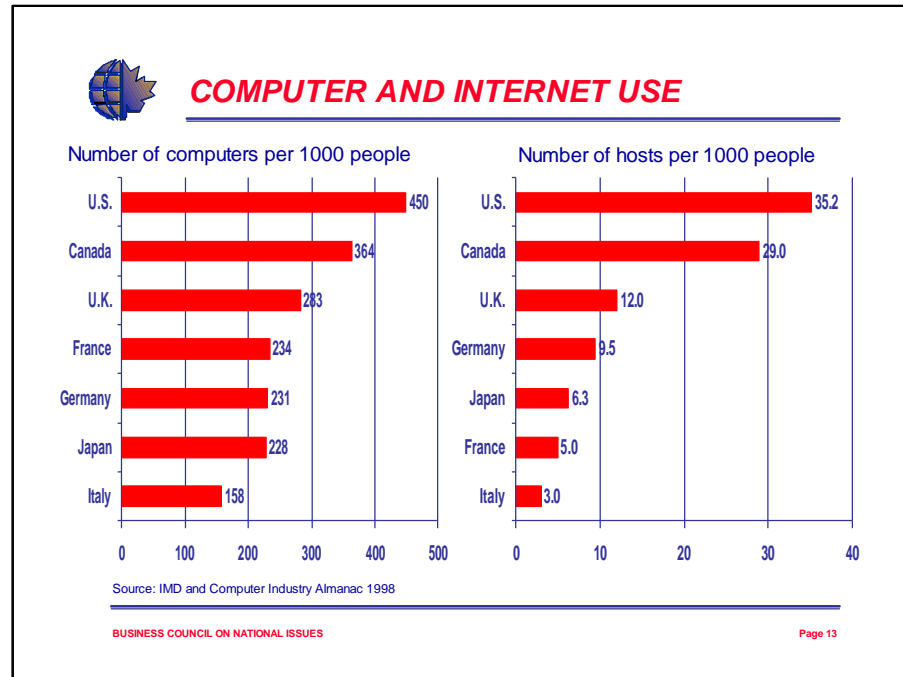


- ✦ **Canada leads the G-7 in terms of employment growth. Last year, Canada posted growth of 2.5 percent in employment.**
- ✦ **Canada also posted the best job creation record of the G-7 in the 1980s with 2 percent growth. The United States was not far behind with average growth from 1980 to 1989 of about 1.75 percent. Canada was second to the United States from 1993-97.**



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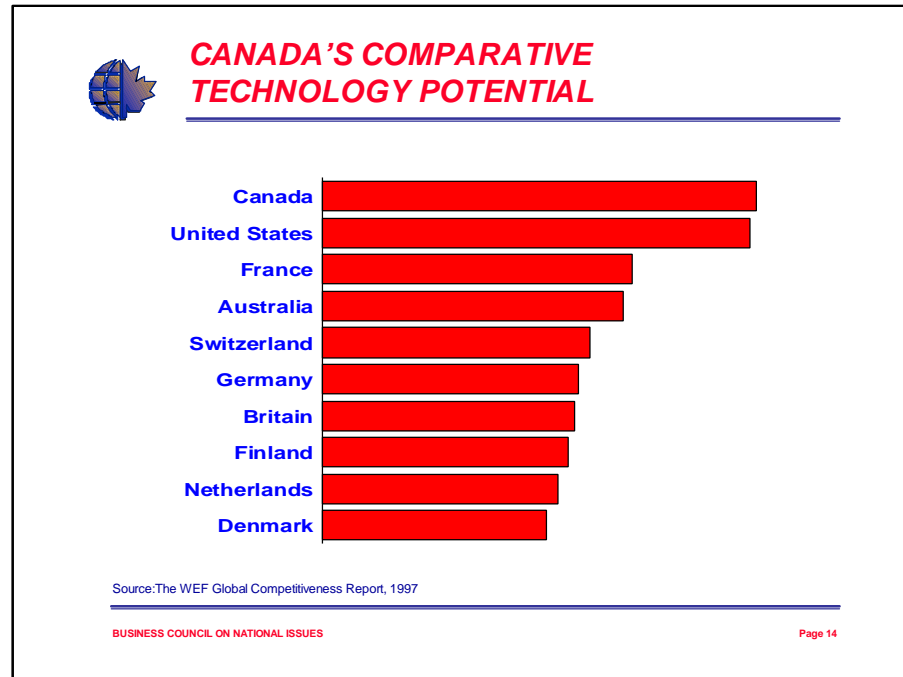


- ✦ **Canada ranks second only after the United States in the use of computers per capita and number of Internet hosts per capita.**
- ✦ **As well, Canada offers an extremely generous tax treatment for R&D.**



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- ✦ As indicated in this graphic (taken from the World Economic Forum's Global Competitiveness Report, 1997), Canada ranked first in technology potential.
- ✦ In the development of an index connecting basic national characteristics with the level of information technology, the following factors were deemed important:
  - ▶ enrollment in university;
  - ▶ the quality of scientific research institutions; and,
  - ▶ sufficient power generation capacity.
- ✦ Canada has marked strengths in all three areas.



**CANADA HAS A KNOWLEDGE-  
BASED INDUSTRIAL STRUCTURE**

---

- **In the G-7, Canada is second only to the United States in terms of size of its service sector as a percent of GDP.**
  - **Key service sub-sectors include: financial, information technology, management consulting and engineering services.**
  - **The World Economic Forum ranks Canada second in the G-7 and seventh among 45 nations in terms of quality of information technology.**
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BUSINESS COUNCIL ON NATIONAL ISSUES





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- ✳ **In the G-7, Canada is second only to the United States in terms of size of its service sector as a percentage of GDP.**
- ✳ **Key service sub-sectors include: financial, information technology, management consulting and engineering services.**
- ✳ **The World Economic Forum ranks Canada second in the G-7 and seventh among 45 countries in terms of quality of information technology.**
- ✳ **Canada's information and communications technology sector has grown 50 percent between 1990 and 1995 in real terms. This sector has grown much faster than the Canadian economy overall.**



## THE HURRICANE'S AFTERMATH THE CHALLENGE TO THE GLOBAL FINANCIAL AND TRADING ORDER

 **PERFORMANCE AGAINST OTHER KEY TRADING AND INVESTMENT PARTNERS**

Key Indicators				
Lowest Deficit	1	2	2	3
Lowest Inflation	2	3	1	4
Highest Growth in 98/99	1	1	4	3
Knowledge Workers	1	2	4	3
Lowest Labour Costs	1	2	4	3
Network Infrastructure	1	2	3	4
Lowest R&D Costs	1	2	4	3
Highest Quality of Life	1	3	2	4

Sources: Industry Canada; 1998 United Nations Human Development Report; 1998 Global Competitiveness Report; OECD; Conference Board of Canada; Statistics Canada; Federal Reserve Bank of St. Louis; U.S. Bureau of Labor Statistics; KPMG Management Consulting; International Monetary Fund; and 1998 World Economic Forum Global Competitiveness Report.

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✦ **Canada ranks very well against our key trading and investment partners in terms of:**

- ☑ **public deficits;**
- ☑ **inflation;**
- ☑ **economic growth;**
- ☑ **knowledge workers;**
- ☑ **labour costs;**
- ☑ **network infrastructure;**
- ☑ **research and development costs;**
- ☑ **and quality of life.**





**THE HURRICANE'S AFTERMATH  
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**CANADA'S BUSINESS ENVIRONMENT**

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- A critical mass of key technologies with strong telecom, multimedia and software capabilities
- The best educated workforce in the world -- highest percentage of university graduates
- Best quality of life in the world according to the United Nations
- Unparalleled access to the U.S. market
- Lowest cost of doing business in G-7 according to KPMG and Economist Intelligence Unit
- Well-run government, education, health care, business and community networks

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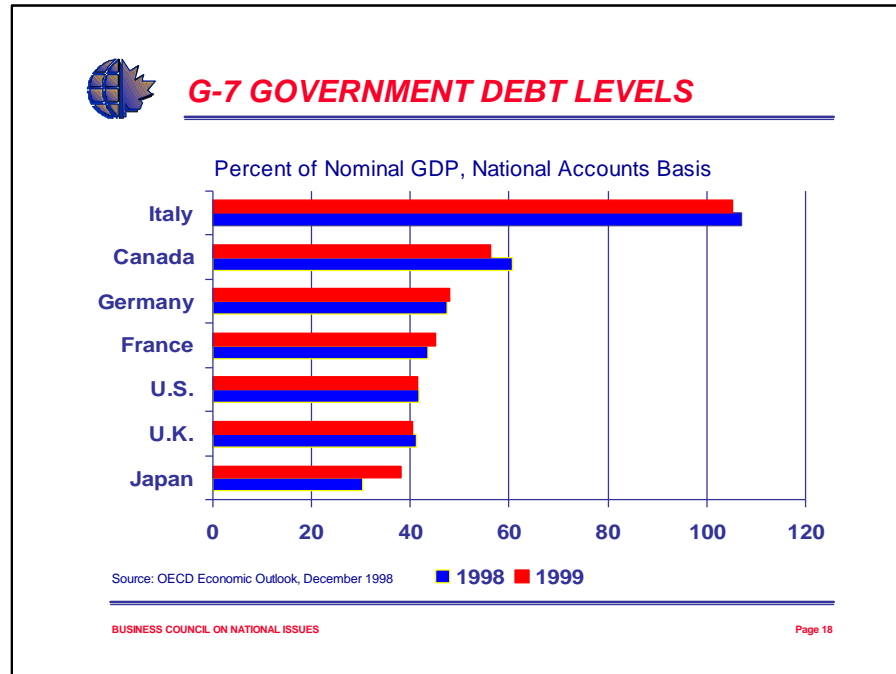
✦ **Canada possesses:**

- ☑ **a critical mass of key technologies -- with strong telecom, multimedia and software capabilities;**
- ☑ **the best educated workforce in the world with highest percentage of university graduates;**
- ☑ **the best quality of life in the world according to the United Nations Human Development Index;**
- ☑ **unparalleled access to the United States market;**
- ☑ **the lowest cost of doing business in G-7 according to KPMG and Economist Intelligence Unit;**
- ☑ **well-run government, education, health care, business and community networks.**



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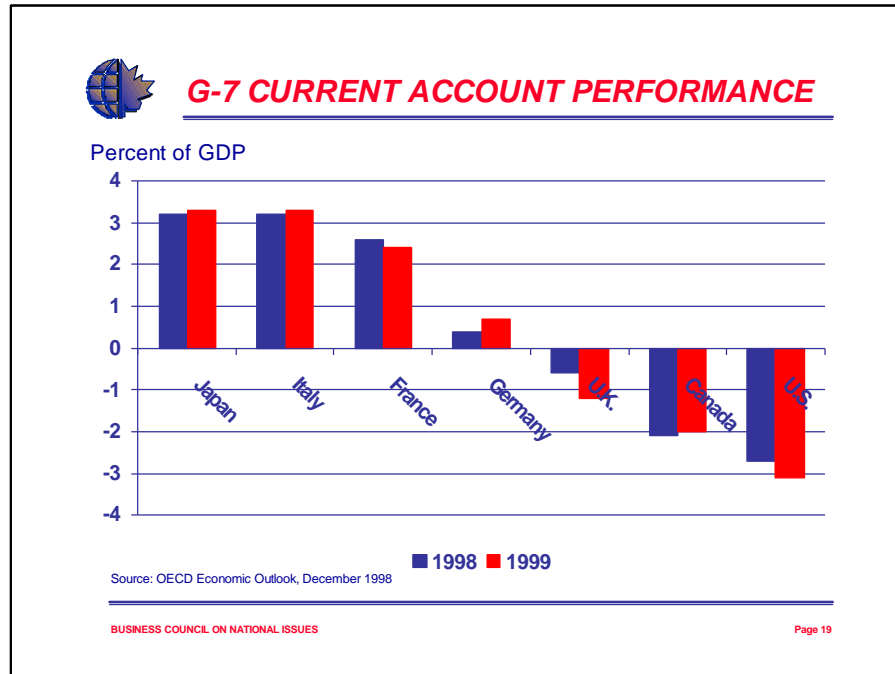


- ✦ **Despite all of this progress, serious challenges remain. Canada's indebtedness has declined in both absolute and relative terms, but is still high when compared to the G-7.**
- ✦ **On a national accounts basis, Canada's net debt to GDP ratio is expected to fall to 56 percent this year, down from 61 percent last year and 68 percent in 1996.**
- ✦ **Since 1996, net public debt levels have declined by more than 12 percent of GDP, the best performance in the OECD.**



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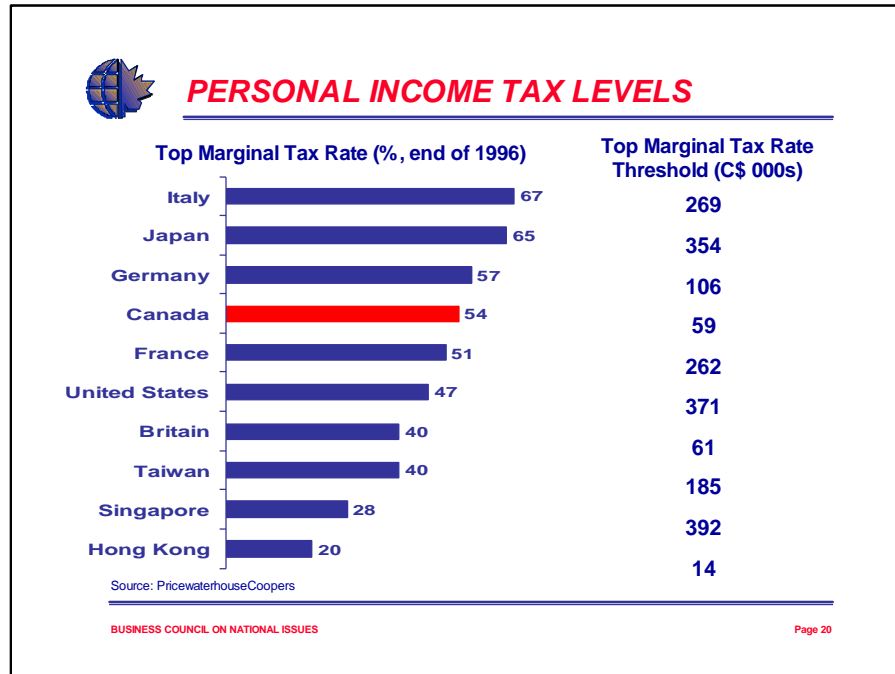


- ✦ **Canada's current account deficit, at about 2 percent of GDP, has declined from levels of about 4 percent in the mid-1990s.**
- ✦ **High levels of foreign indebtedness offset a strong surplus on merchandise goods.**
- ✦ **Canada's current account performance should improve as global economic growth returns to some degree of balance and consistency.**



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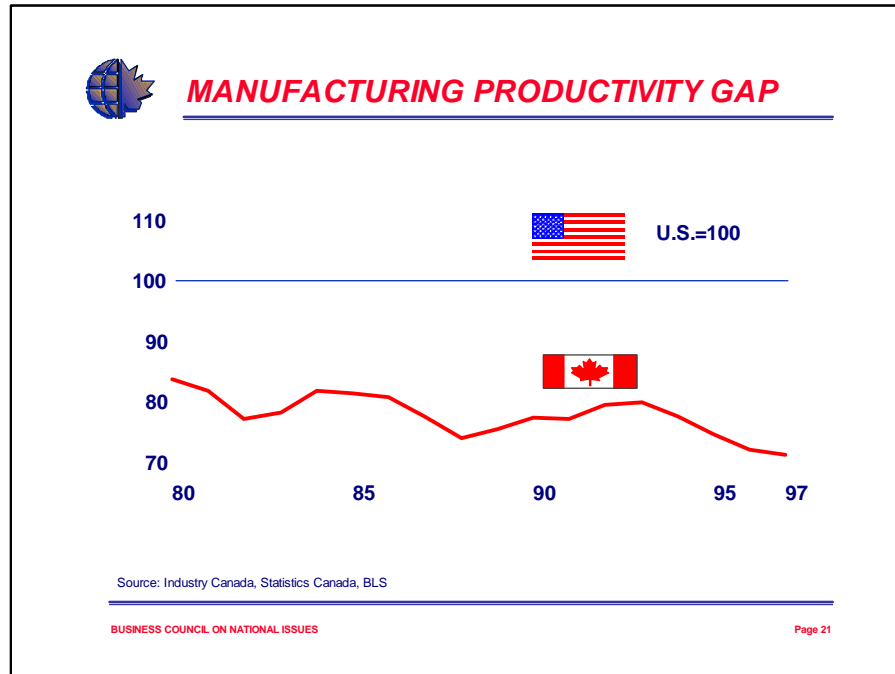


- ✦ **Canada has punishingly high personal income tax levels.**
- ✦ **This graphic indicates what many of you already know -- that Canada has among the highest top marginal tax rates on personal income in the industrialized world.**
- ✦ **The average top marginal tax rate is about 53 percent and is applied at the relatively low threshold of about C\$ 60,000.**
- ✦ **Incentives to work, save and invest are negatively affected by high marginal tax rates at relatively low levels of income.**
- ✦ **Recently, governments at the federal and provincial level have begun reducing taxes on personal income. But much more needs to be done.**



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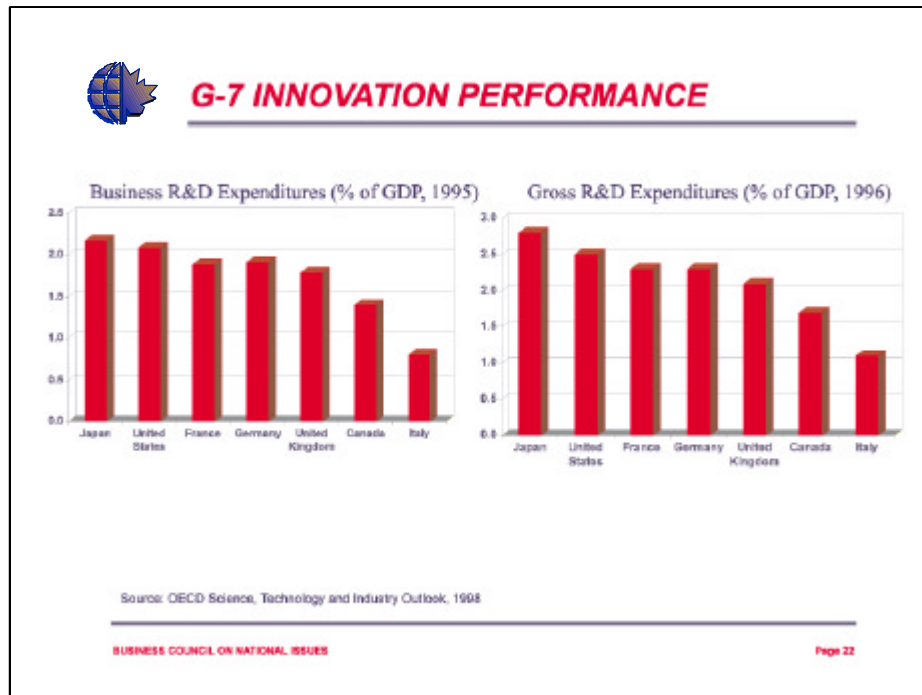


- ✦ **Productivity performance is directly linked to standard of living and quality of life.**
- ✦ **Canada's manufacturing sector has not been able to close a long-standing labour productivity gap with the United States manufacturing sector, even though our labour productivity growth has been quite robust in the 1990s.**
- ✦ **Currently, that gap stands at about 30 percent and has deteriorated from the mid-1990s.**



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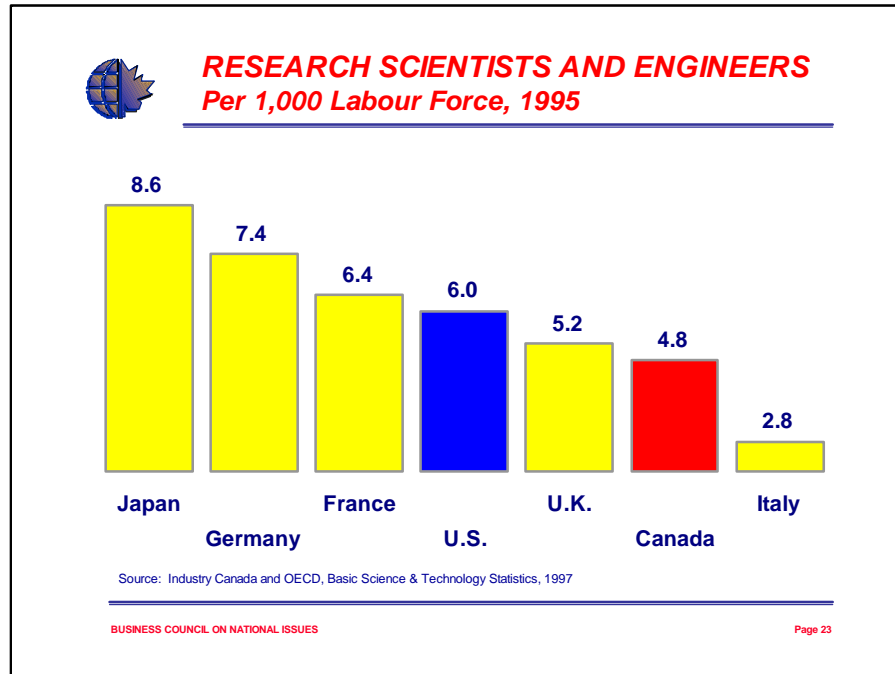


- ✦ **Canada's overall fiscal position has improved dramatically. With three consecutive years of fiscal surpluses, Canada will record its best performance since the 1960s.**
- ✦ **This strong performance can be traced to a relatively strong economy and continuing fiscal restraint. The federal government and the majority of the provinces are registering fiscal surpluses. Ontario and Quebec plan to balance their budgets within the year.**



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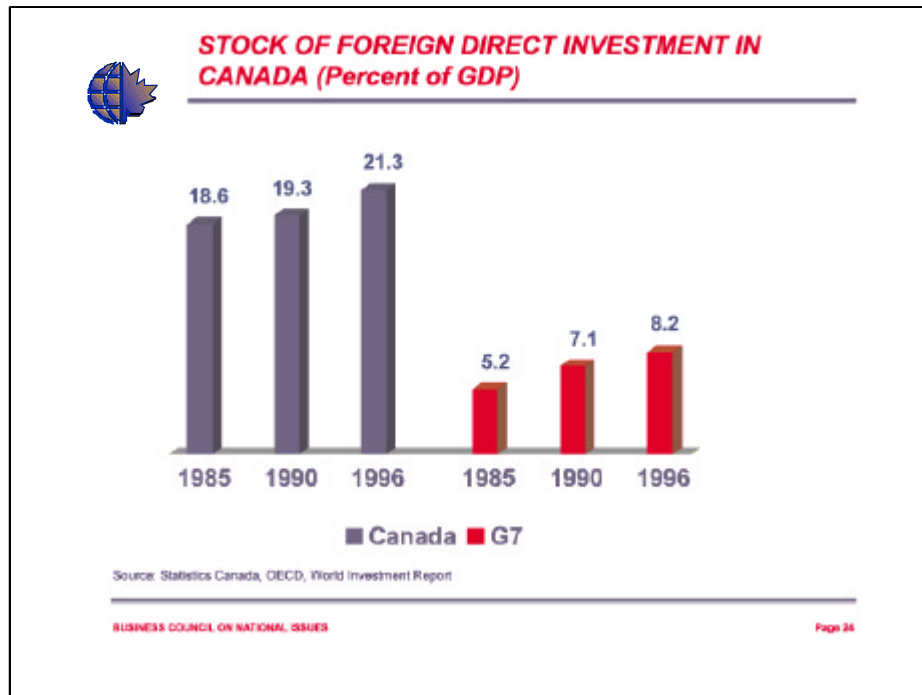


- ✦ **Canada does not seem to have a huge stock of research scientists and engineers compared to the rest of the G-7.**
- ✦ **In this graphic, Canada ranked sixth, well below Japan in terms of research scientists and engineers per 1,000 people in the labour force.**
- ✦ **Canada has some way to go to catch up even to the United States.**



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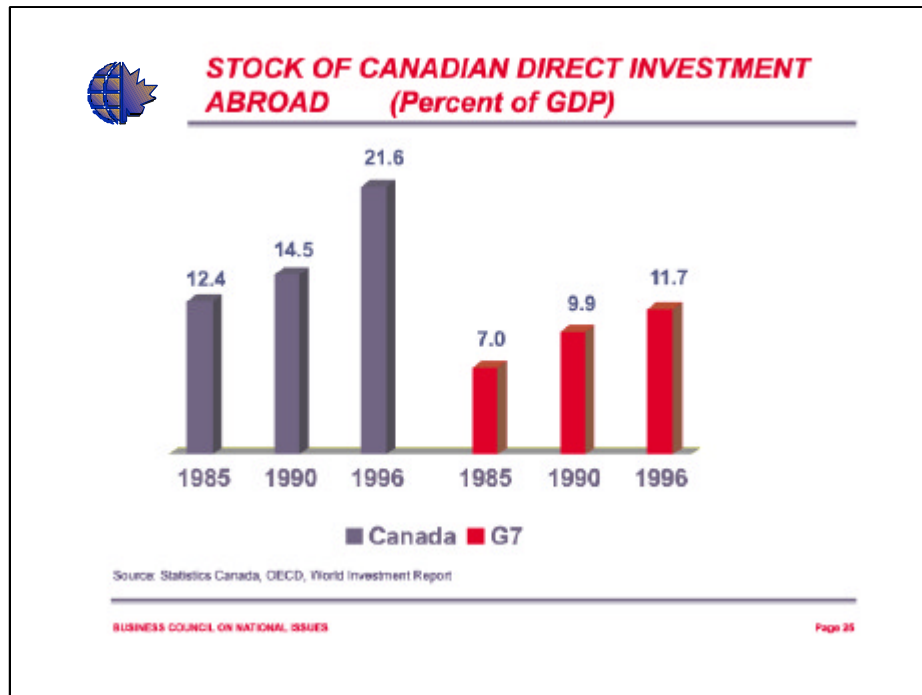
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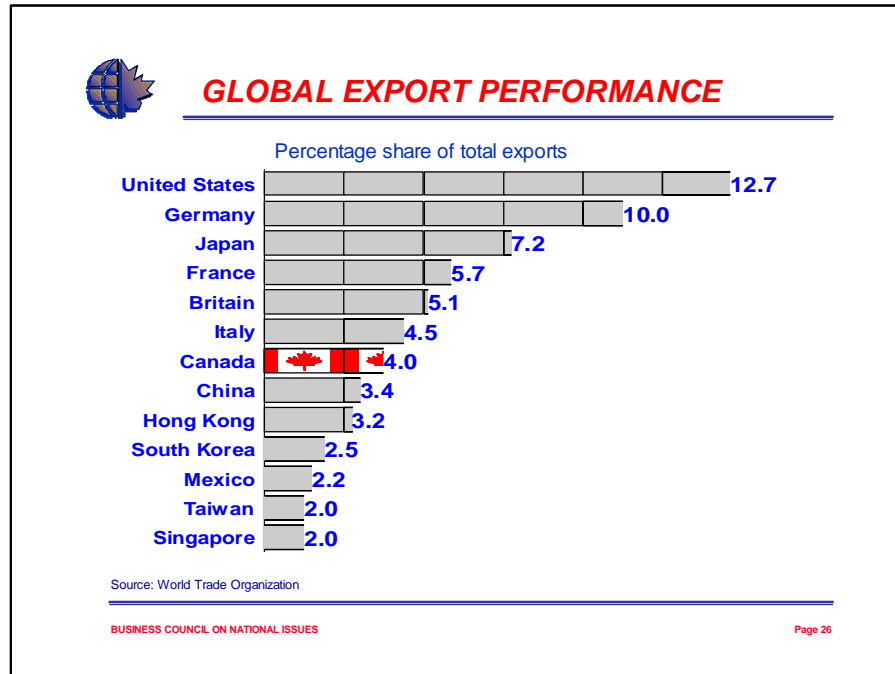
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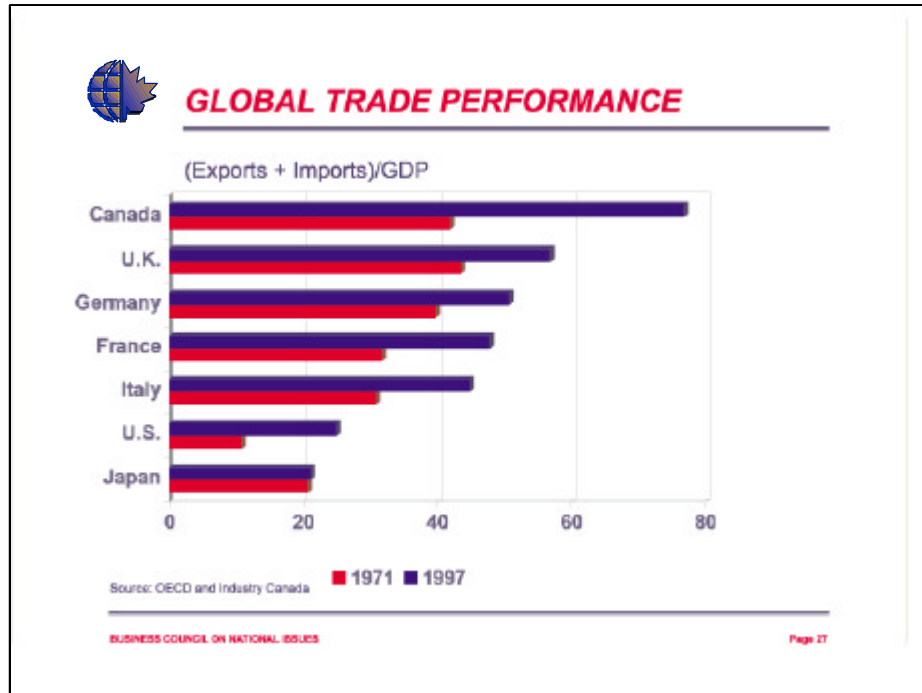


- ✦ According to the World Trade Organization, world trade in 1998 grew by only 3.5 percent, down from growth of over ten percent in 1997 and rates of between seven and eight percent in the mid-1990s.
- ✦ Nevertheless, Canada maintained its ranking as a top global exporter of merchandise goods (seventh in 1998 with a 4.0 percent share).
- ✦ The World Trade organization expects growth of only 3.5 percent again this year, a troubling prospect made worse by growing protectionism.



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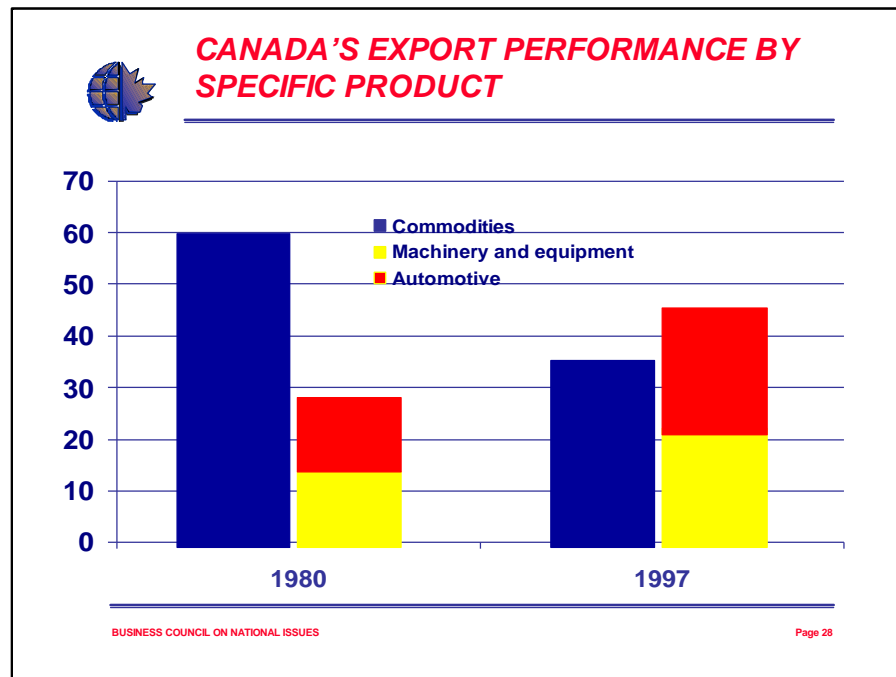


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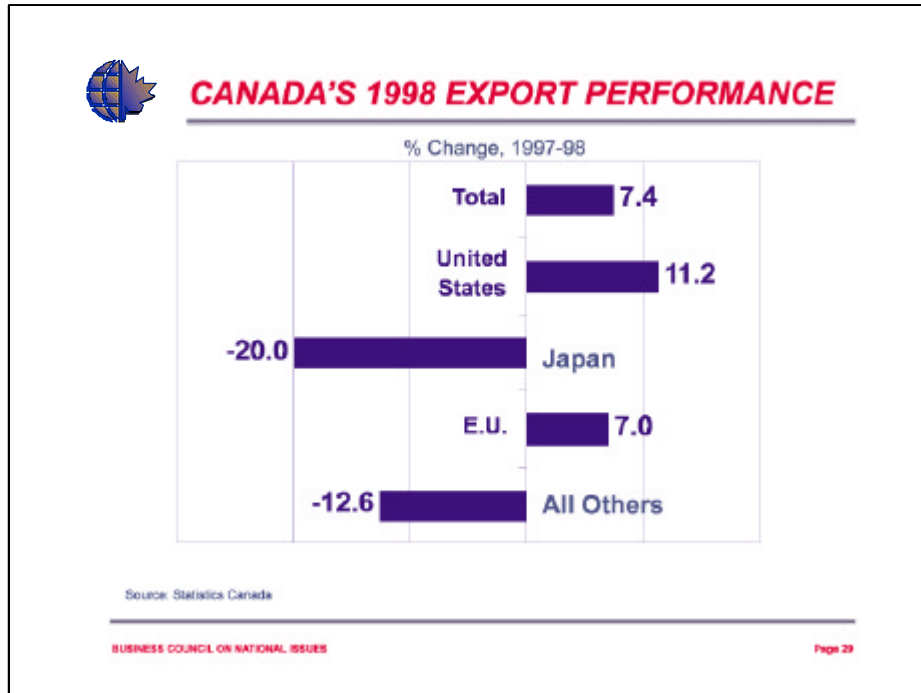


- ✦ The downdraft in global demand for goods as a result of the financial crisis has resulted in excess supply and lower commodity prices, and this is having an impact on some export sectors and regions.
- ✦ Commodities remain important to Canada's economy and to our export performance – but that reliance is in decline.
- ✦ Since 1980, our export reliance on commodities has declined from 60 percent to 35 percent. Meanwhile, exports of machinery and equipment and autos increased from 28 to 45 percent of total.
- ✦ The pace of change in a more integrated global economy will further accelerate the restructuring of Canada's exports.



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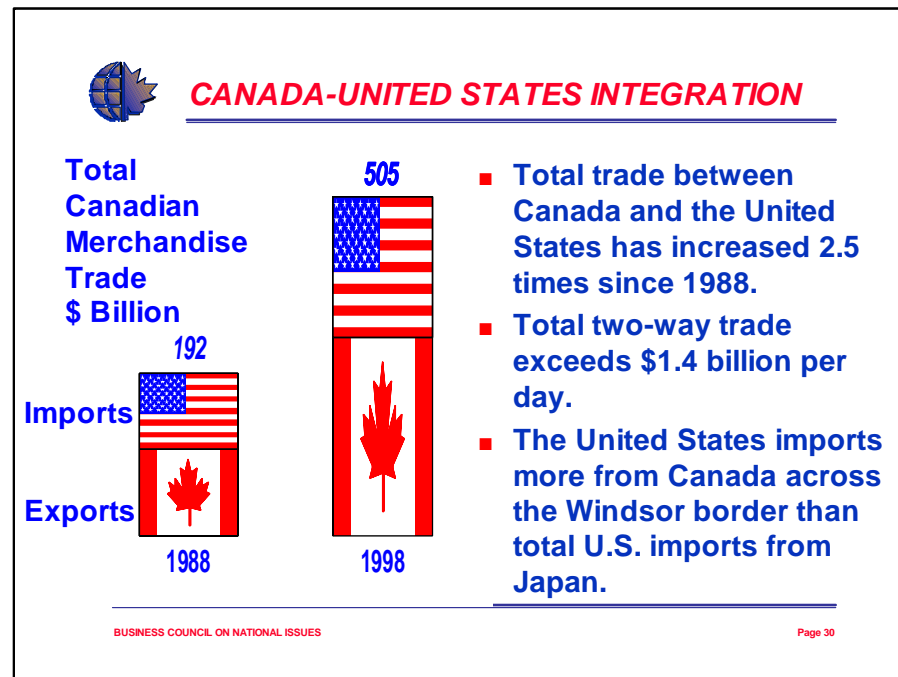


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- ✦ Improvement in total trade between countries is one of the most important indicators of integration between countries and of successful free trade agreements. On both, the Canada-United States Free Trade Agreement has worked as predicted a decade ago.
- ✦ Total trade between Canada and the United States has increased by two and one-half times from \$192 to \$505 billion in 1996 .
- ✦ Trade between the two countries now exceeds more than \$1.4 billion per day; and, United States imports at a single crossing in Ontario exceed the totality of United States imports from Japan.
- ✦ In 1998, Canada registered a merchandise trade surplus with the United States of \$37 billion.



**THE CANADA-JAPAN RELATIONSHIP**

**Japan is Canada's:**

**2nd largest trading partner**

**3rd most important foreign investor**

**2nd largest purchaser of Canadian debt**

**3rd largest source of tourists.**

**Canada is Japan's:**

**11th largest trading partner**

**14th most important export market**

- ✦ **In spite of tremendous change occurring in Japan, the Canada-Japan relationship does not have a high degree of symmetry.**
- ✦ **Japan remains our number two trading partner; our third most important foreign investor; our second largest purchaser of foreign debt and our third largest source of tourists.**
- ✦ **Meanwhile, Canada is Japan's eleventh-largest trading partner, and only the fourteenth most important export market.**



**THE CANADA-JAPAN RELATIONSHIP**

- **Expand network and intensify contact with public sector leaders and decision makers in Japan.**
- **Continue to press for deregulation and further structural reforms in the Japanese marketplace.**
- **Accelerate discussions on mutual recognition of standards.**
- **Recognize the importance of, and opportunities available in, Japan's regional markets.**
- **More vigorously promote the "Canadian Brand" in Japan, including our world-class high-technology capabilities.**

✦ **So what can Canada do to realize the opportunities in Japan moving forward? We must**

- ☑ **expand networks and intensify contact with public sector leaders in Japan;**
- ☑ **continue to press for deregulation and further structural reforms in the Japanese marketplace;**
- ☑ **accelerate discussions on mutual recognition of standards;**
- ☑ **recognize the importance of, and opportunities available in, Japan's regional markets;**
- ☑ **more vigorously promote the "Canadian Brand" in Japan, including our world-class high-technology capabilities.**





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AND TRADING ORDER**

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**CANADA -- A TRADE AND INVESTMENT  
BRIDGE TO THE WORLD**

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*Atlantic, Pacific, Hemispheric and Global Responsibilities*

- **G-7, WTO, NATO, U.N. and OECD**
  - **FTA, NAFTA and the hemisphere**
  - **APEC and the European Union**
  - **Commonwealth and Francophonie**
  - **The good news is that Canadian business is much more outward-oriented than in the past and more willing to capitalize on our strategic advantages.**
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- ✦ **It is sometimes forgotten that Canada, while small in population, has big international responsibilities and commitments.**
- ✦ **Membership in the G-7, NATO, NAFTA, APEC, the Commonwealth, the Francophonie, the WTO and the OECD are products of history, geography and wealth per capita.**
- ✦ **But the economic dimensions of these responsibilities offer Canadian business almost unlimited opportunities.**
- ✦ **The good news is that Canadian business is much more outward-oriented than in the past and more willing to capitalize on our strategic advantages.**



**THE HURRICANE'S AFTERMATH  
THE CHALLENGE TO THE GLOBAL FINANCIAL  
AND TRADING ORDER**

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**THE CHALLENGE TO  
BUSINESS LEADERS GLOBALLY**

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- Advocate that openness, transparency and public accountability should become the global standard.
- Ensure that the momentum in favour of trade and investment liberalization maintains a steady pace.
- Recognize that risks and opportunities go hand in hand with globalization.
- Encourage broader acceptance of the idea that the pace of globalization cannot be absorbed by all countries at the same speed.
- Champion the imperative of fairness and equity.
- Promote responsible change in the improvement of the global environment.

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- ⊕ **The global financial crisis may be over but the world faces serious risks. Business leaders have a key role to play. We must**
- ⊕ **advocate that openness, transparency and public accountability become the global standard for all trade and investment transactions;**
- ⊕ **ensure that the momentum in favour of trade and investment liberalization maintains a steady pace;**
- ⊕ **recognize that risks and opportunities go hand in hand with globalization and that this demands even closer co-operation among countries with better and swifter assistance to those who need it;**
- ⊕ **encourage broader acceptance of the idea that the pace of globalization cannot be absorbed by all countries at the same speed;**
- ⊕ **champion the imperative of fairness and equity and ensure that the fruits of the economic revolution spawned by globalization are more evenly shared;**
- ⊕ **promote responsible change in the improvement of the global environment.**



**THE HURRICANE'S AFTERMATH  
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**THE HURRICANE'S AFTERMATH  
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FINANCIAL AND TRADING ORDER**



A PRESENTATION TO THE  
TWENTY-SECOND ANNUAL  
CANADA JAPAN BUSINESS CONFERENCE  
BY THOMAS D'AQUINO  
PRESIDENT AND CHIEF EXECUTIVE  
BUSINESS COUNCIL ON NATIONAL ISSUES  
VANCOUVER  
MAY 17, 1999

- ✳ **Chairman Okuda, Chairman Bougie, ladies and gentlemen. I am especially honoured to address this 22nd annual conference of the Canada-Japan Committee here in beautiful Vancouver.**
- ✳ **The title of my presentation, “The Hurricane’s Aftermath -- The Challenge to the Global Financial and Trading Order” will offer a Canadian perspective on the global economy in these very uncertain times, and on Canada’s strengths and weaknesses as the country faces extraordinary change.**