

***CANADA AND JAPAN  
PARTNERING FOR GROWTH AND OPPORTUNITY  
IN A CHALLENGING ENVIRONMENT***



**PRESENTATION TO THE 25TH ANNUAL MEETING OF  
THE CANADA JAPAN BUSINESS COMMITTEE  
BY THOMAS D'AQUINO  
PRESIDENT AND CHIEF EXECUTIVE  
CANADIAN COUNCIL OF CHIEF EXECUTIVES**

***MAY 9, 2002  
SENDAI, JAPAN***



**CANADA AND JAPAN: PARTNERING FOR GROWTH  
AND OPPORTUNITY IN A CHALLENGING ENVIRONMENT**

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Chairman Okuda, Chairman D'Alessandro, Deputy Minister Edwards, Ambassadors Wright and Hogen, Mr. Zaizen, ladies and gentlemen. It is a pleasure to once again address this important gathering, on this occasion, on the 25<sup>th</sup> and final conference of the Canada Japan Business Committee (CJBC). Together with my Canadian colleagues, we are delighted to be so warmly received in this beautiful city of Sendai, founded some 400 years ago by the feudal lord Date Masamune.

My presentation, *“Canada and Japan: Partnering for Growth and Opportunity in a Challenging Environment”* builds on those that I made in Calgary last year and in Tokyo the year before. The goal of Canadian business leaders remains the same – to advance in important ways the trade and investment relationship between us, and to foster better understanding of the significant potential of Canada and Japan working more closely together.

Before beginning my presentation, I am pleased to convey to the CJBC the greetings of the Canadian Council of Chief Executives (CCCE) – an organization composed of the chief executives of Canada’s leading 150 companies.

Several Council members are in fact present today, including David Culver, former Chairman of our Council and former Chairman of Alcan. As you know, David Culver was the co-founder of the CJBC along with Hisao Makita of NKK. His presence here today signals the commitment of Canadian business leaders to both our past accomplishments and our promising future co-operation.



***FROM BCNI TO CCCE  
RESTRUCTURING AND BROADER MANDATE***

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***BUSINESS  
COUNCIL ON  
NATIONAL ISSUES***



***CANADIAN  
COUNCIL OF CHIEF  
EXECUTIVES***



**CANADA AND JAPAN: PARTNERING FOR GROWTH  
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At the outset, let me say a few words about my organization. For the past quarter century, it was known as the Business Council on National Issues (BCNI).

We began this year, with a new name, the *Canadian Council of Chief Executives*, and a new mandate. Building on a remarkable twenty-five year record of success, we decided to re-brand ourselves worldwide and pursue a three-fold mandate. With a focus on *Canada, North America* and the *world*, our work is channeled through three standing committees: the *National Policy Committee*; the *North American Policy Committee*; and the *Global Policy Committee*.

The Council's *Global Policy Committee* concentrates on international finance, trade, investment and development policy as well as on key multilateral, regional and bilateral relationships beyond North America. This includes the forward agendas of key institutions such as the WTO, the G-8 and the G-20.

Because the Council considers Japan a strategic partner, we also have created the *Canada-Japan Committee*. This Committee, I am pleased to say, is chaired by Manulife chief executive, Dominic D'Alessandro, who also co-chairs our *Global Policy Committee*.

Just as we have re-engineered our organization, we have watched with great interest as you have engaged in your own re-engineering in Japan. As you prepare to lead a merged *Keidanren* and *Nikkeiren*, we wish you every success, Okuda-san, and we look forward to a continuation of our close and productive relationship.



## ***THE GLOBAL BACKDROP CHALLENGES IN AN AGE OF TERROR***

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**CANADA AND JAPAN: PARTNERING FOR GROWTH  
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When we met in Calgary last year, we could not imagine that a single terrorist attack, executed with such brutality and audacity, could so profoundly transform the world and alter forever our expectations of life in the 21st century.

The vicious attacks of September 11 targetted the United States – but innocent people from more than 60 countries lost their lives. Japanese and Canadians were among the victims.

The attacks symbolized something much deeper – the United States was the immediate target, but implicitly the targets were the world order as we know it: an increasingly integrated global society; open and democratic governance; market-based economies; and the flourishing growth in the exchange of ideas, capital, trade and investment.

Both Japan and Canada have responded constructively to these events. Both of our countries recognize that a democratic world based on the rule of law and on an open trading system are essential to the livelihood and security of our citizens.

We also recognize that the war against terrorism must be fought on many fronts: the diplomatic, the economic, and the social as well as the military.

Above all, Canada and Japan recognize that the war against terrorism and lawlessness will not be decisively won until the global divide between rich and poor, and opportunity and hopelessness, is closed. This will not happen without education and democratic governance becoming globally entrenched as fundamental rights.



## ***9-11: THE CANADIAN RESPONSE***

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## **CANADA AND JAPAN: PARTNERING FOR GROWTH AND OPPORTUNITY IN A CHALLENGING ENVIRONMENT**

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The Canadian response to September 11 was decisive. On that tragic day, 226 aircraft were diverted from American airspace to Canadian airports. Canadians of all walks of life opened their arms and hearts to welcome 33,000 travelers on the diverted aircraft into our churches, schools and homes.

Canadians across the country (including more than 100,000 people in Ottawa on Parliament Hill), participated in an unprecedented national day of mourning in memory of those whose lives were lost.

The Canadian government responded swiftly to bolster national security, to protect the physical security of Canadians and to commit to the fight against terrorism.

Canada very early on deployed over 2,000 military personnel to the war effort including special operations forces and combat troops as part of the American-led military campaign in Afghanistan. What is not generally known is that Canada's overall engagement has been second only to that of Britain.

Managing the Canada-United States border to ensure security without interrupting the smooth flow of people and goods has become the dominant concern of business leaders and governments alike in my country. Following September 11, the Canadian and United States governments quickly agreed on a sweeping *Smart Border Declaration* -- a wide swath of measures designed to expedite the legitimate flow of people and goods across our shared border.





## ***THE CANADA-UNITED STATES SMART BORDER DECLARATION***

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## **CANADA AND JAPAN: PARTNERING FOR GROWTH AND OPPORTUNITY IN A CHALLENGING ENVIRONMENT**

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The Canada-United States *Smart Border Declaration* sets out a 30-point action plan to ensure the secure flow of both people and goods, to improve our common infrastructure and to coordinate our enforcement of those objectives.

The plan, negotiated by Canadian Deputy Prime Minister John Manley and Governor Tom Ridge, Director of the White House Office of Homeland Security, will not simply guarantee cross-border flows. It will lead to innovations in border management that will be a model to the world.

Biometric identifiers in the transit of people, visa co-ordination, air preclearance, away from the border processing for truck and rail cargo and crews, intelligent transportation systems, integrated border and marine enforcement teams, integrated intelligence – these are some of the elements of the 30-point action plan.

The Canadian government, in its most recent budget, committed significant new financial resources to enhance the security and efficiency of cross-border flows.

Prime Minister Chretien and President Bush will address progress on this important initiative on the occasion of the meeting of G-8 Leaders in Canada in June.



## *THE CANADA-UNITED STATES RELATIONSHIP TODAY AND TOMORROW*

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The Canada-United States relationship continues to reflect growing interdependence. More than 300,000 people cross the Canada-United States border each day.

Canada remains well ahead of other trading partners in the United States market: 19 percent of imports to the United States in 2001 came from Canada; Mexico was second at 11.5 percent; Japan dropped to third, accounting for 11.1 percent; and China accounted for 9 percent.

As a percentage of United States merchandise imports, Canada's market presence increased from 18.8 percent in 2000 to 19 percent in 2001. The value of these imports from Canada was about two thirds higher than that of American imports from Mexico.

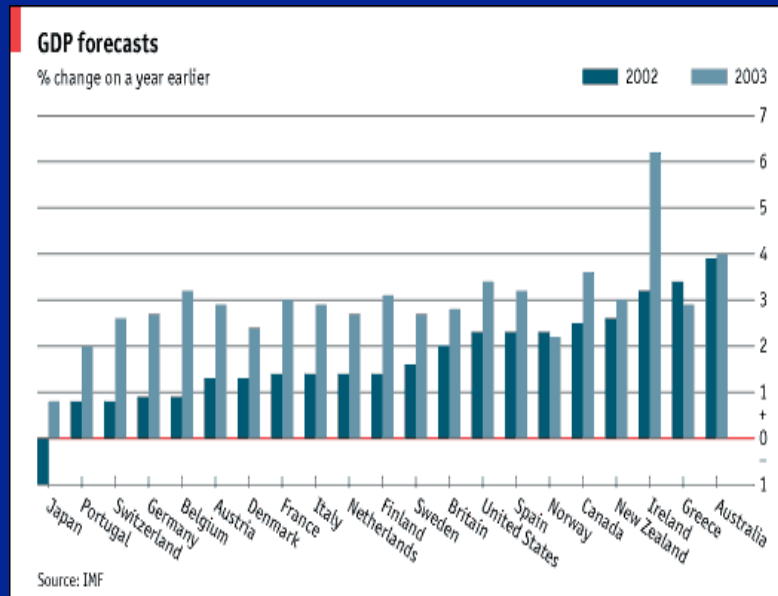
Canada's surplus in goods and services trade with the United States rose to a new record of C\$89.5 billion in 2001, up from C\$85.3 billion in 2000.

Canada is now the largest single supplier of the energy needs of the United States.

Growing interdependence in the economic and security domains has sparked a healthy debate in Canada about our country's future in North America. Does Canada's future lie in a NAFTA plus arrangement? In a customs union? In a common market? In an eventual currency union? These questions will receive growing attention by governments and private-sector players alike in Canada in the months and years to come.



## THE GLOBAL ECONOMY: TREMENDOUS CHANGE AND CONTINUING UNCERTAINTY



The IMF predicts that the global economy should bounce back solidly thanks to an upturn in the United States economy.



## **CANADA AND JAPAN: PARTNERING FOR GROWTH AND OPPORTUNITY IN A CHALLENGING ENVIRONMENT**

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In the period following the tragic events of September 11, the global economy experienced a downshift in economic activity, followed by an equally unexpected but welcome recovery.

The IMF recently predicted that the global economy will experience a solid economic rebound directly as a result of positive economic growth prospects in the United States. The effects of September 11 have proved to be milder than expected despite the continuing uncertainties.

But, there is mounting evidence that this pick-up in activity could be short-lived. Indeed, we may already be witnessing a deceleration in the United States economy – not the predicted ‘double-dip’ but a pause nonetheless.

Higher energy prices since mid-January will reduce overall consumer buying power. Also, household spending may in fact be exhausted after essentially rescuing the global economy from a significant global recession over the past six months.

The United States business sector, after suffering one of the worst profits recessions since the Great Depression, has slashed inventories and production significantly. There is clear evidence of recovery in the manufacturing sector, but on a sector-by-sector basis. Some degree of rising profitability is evident. But business leaders remain much more sanguine about economic prospects than economists.

Will the pace of household spending continue? Will rising profits lead to significant new investment? Uncertainty in these two critical areas remains.

The most recent evidence is encouraging but the risks remain quite high. Will the rapidly escalating United States current account deficit which requires financing from abroad to the tune of U.S.\$2 billion a day prove to be the Achilles heel? Will organized terrorist forces strike again? Is the Middle East moving towards growing conflagration? Is the United States likely to widen the war against terrorism with an attack on Iraq? An affirmative answer to any one of these questions could dramatically alter the global environment for the worse.



## ***THE CANADIAN ECONOMY: STRUCTURAL REFORMS HAVE WORKED WELL***

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Canada is better positioned to weather difficult economic circumstances than at any time in the past three decades.



## **CANADA AND JAPAN: PARTNERING FOR GROWTH AND OPPORTUNITY IN A CHALLENGING ENVIRONMENT**

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Canada is better positioned to weather difficult economic circumstances than at any time in the past three decades. The Organization for Economic Co-operation and Development (OECD) concurs. In its latest biannual global outlook, the OECD forecasts that Canada will far outshine other leading countries with growth of 3.2 percent this year and 4 percent in 2003. These growth rates will be stronger than Canada's other NAFTA partners.

Canada's competitiveness ranking by the World Economic Forum has improved from 16th in 1994 to 3rd last year (in terms of medium-term economic growth prospects). Moody's has readmitted Canada into the exclusive club of the world's most creditworthy nations by re-ranking federal government bonds back to triple-A.

The federal government has run surpluses for the past five years, and despite the economic downturn, expects to run balanced budgets or better this year and next year as well.

For the first time in 17 years, federal debt will fall below 50 percent of GDP next year. Canada's foreign indebtedness will decline to about 20 percent of GDP, from a high of 44 percent. Canada is now recording large current account surpluses.

The federal government has put in place a C\$100 billion tax cut package over five years, proportionately larger than the one approved last year in the United States. In addition, many provincial governments have been cutting both personal and corporate tax rates significantly.

Canada remains committed to low and stable inflation.

Canadian interest rates remain close to the lowest levels in more than 40 years.

The Canada Pension Plan, the equivalent of United States social security, is on a secure and strong footing.

Canada is a model of successful application of structural reforms applied relatively quickly.





## ***CANADA IS AN ATTRACTIVE PARTNER FOR JAPAN IN NORTH AMERICA***

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- Declining corporate and capital gains taxes
- Competitive payroll taxes and benefit costs
- Proven cost advantages
- Attractive tax write-offs
- Supportive government
- Well educated, talented, efficient workers
- A quality health-care system
- An attractive business environment
- Booming clusters in: health, biotechnology, agriculture and marine biotechnology, information and communications technologies, automotive, aerospace, petrochemicals and chemicals, advanced manufacturing.



## **CANADA AND JAPAN: PARTNERING FOR GROWTH AND OPPORTUNITY IN A CHALLENGING ENVIRONMENT**

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Canada is an attractive partner for Japan in North America.

Declining corporate and capital gains taxes: By 2005, the average corporate income tax rates in Canada will be more than five percentage points lower than the United States average. The top marginal tax rate on capital gains in 2001 in Canada is below the equivalent rate in the United States. Payroll taxes in Canada are the lowest in the G-7.

Proven cost advantages: A recent KPMG study of 64 cities in North America showed average Canadian costs after taxes to be 8 percent below average United States costs and 15 percent below in high-technology sectors.

Attractive tax write-offs: Canada offers the most generous R&D incentives in the G-7. Depending on the province, each dollar a company spends on R&D will end up costing between 34 and 50 cents.

Supportive government: Canadian governments are focused on investing in the new economy and on making Canada a global leader in connectedness.

Well educated, talented, efficient workers: Almost 50 percent of Canadians over 25 have completed post-secondary studies at university, college or technical school. Eighteen of the top forty North American university-level electrical engineering programs are in Canada. Canada ranks first in the world in knowledge workers.

A quality health-care system: Canada's health care system is in need of reform. However, even in its current form, it delivers quality public care to all citizens at far lower cost than in the United States.

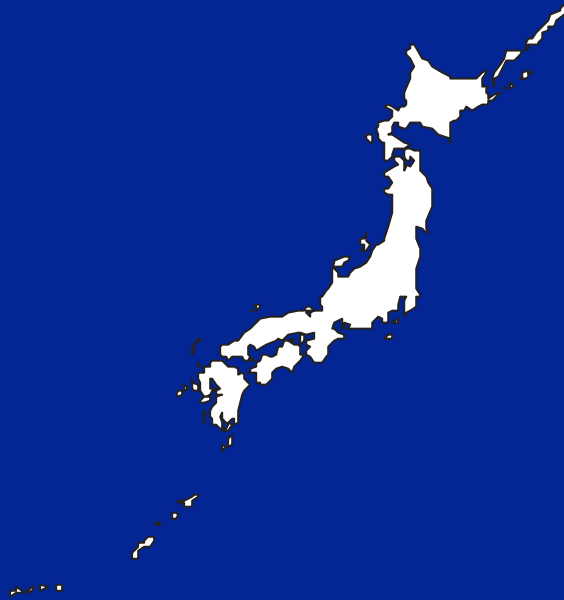
An attractive business environment: The Economist Intelligence Unit ranks Canada fourth in terms of business climate with relatively little bureaucracy associated with business start-ups.

Booming clusters in: health, biotechnology, agriculture and marine biotechnology, information and communications technologies, automotive, aerospace, petrochemicals and chemicals, advanced manufacturing.



## **WHY JAPAN MATTERS TO CANADA**

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- **Japan second largest economy in the world.**
- **GDP half the size of the United States and equal to the combined GDPs of Britain, France and Italy.**
- **Per capita income remains among the highest in the world.**
- **Japanese technology one of the most advanced in the world.**
- **Japan is Canada's second largest trading partner.**
- **Japan's long-term potential is very significant.**



## CANADA AND JAPAN: PARTNERING FOR GROWTH AND OPPORTUNITY IN A CHALLENGING ENVIRONMENT

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A growing number of Canadians are asking – what does Japan mean to us? Should we devote more of our attention and efforts towards developing the relationship, or would we be better advised to focus on opportunities in other traditional markets and in emerging economies in Asia and Latin America?

My response is that Japan does matter, and should matter.

It is the second largest economy in the world.

Its GDP is about half the size of that of the United States and equal to the combined markets of Britain, France, and Italy.

Its per capita income, even after a decade of slow growth and economic turmoil, remains among the highest in the world.

Its technological capabilities and potential are among the most advanced. For example, the Japanese government has spent 17.3 trillion yen on research and development between 1996 and 2001, much of it on science facilities that are now becoming ready for use.

Its economic influence in Asia and worldwide as a trader, investor and creditor is very significant.

Furthermore, Japan is Canada's second largest national trading partner and an important investor in our country.

This having been said, we realize that Japan continues to face daunting challenges: non-performing loans and distressed assets, continuing price deflation in many sectors, an alarmingly high and climbing public debt to GDP ratio, and disturbing demographic trends.

Will Japan overcome these challenges in the long run? I remain optimistic. Change is in the air and a new spirit is emerging across the country, a spirit that can be found in a popular Japanese television documentary entitled "*Project X*". I understand it is one of Okuda-san's favorite shows because it venerates teamwork, innovativeness and the will to overcome insurmountable challenges. It underscores the importance of what the Japanese call the spirit of *gambare*.



## ***THE CANADA-JAPAN RELATIONSHIP OPPORTUNITY AT UPCOMING G-8 SUMMIT***

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## **CANADA AND JAPAN: PARTNERING FOR GROWTH AND OPPORTUNITY IN A CHALLENGING ENVIRONMENT**

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From the broad perspective, the Canada-Japan relationship is in good shape. Our ties are as strong as ever. We are bound together by a comprehensive network and we have more than forty-four bilateral consultative processes in place. We continue to cooperate in multilateral fora such as the United Nations, the G8, the OECD, APEC and the WTO.

But, as we have discussed many times before at the CJBC, the relationship suffers from a degree of complacency which in turn has led to stagnation. Simply put, our economic relationship is not growing and the full potential that our relationship offers is not being met.

The relationship needs a high level injection of vision and concrete commitment. The G-8 Summit in Kananaskis, Alberta in June, offers an intriguing opportunity for Prime Minister Koizumi and Prime Minister Chretien to kick start a new phase in Canada-Japan relations. The Summit will focus on three major priorities: strengthening global economic growth; building a new partnership for Africa's development; and fighting international terrorism.

But on the borders of the Summit, the two Prime Ministers might talk about new directions in the Canada-Japan relationship.



## ***IN THE MEANTIME, JAPAN HAS MADE PROGRESS ON VARIOUS FRONTS***

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- **Economic Agreement for a New Age Partnership with Singapore.**
- **Study group launched with Mexico towards an FTA.**
- **Study group launched with Korea towards an FTA.**
- **JETRO recommends an FTA with Chile.**
- **There are obviously regional interests, i.e., China, ASEAN+3, Thailand, Australia.**





**CANADA AND JAPAN: PARTNERING FOR GROWTH  
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It appears that Japan is gradually willing to embrace new approaches in its bilateral relationships.

Japan's *Economic Partnership for a New Age Agreement* with Singapore has been agreed upon and put into place.

Study groups have been launched to discuss further steps toward free trade agreements with Korea and Mexico.

Increased interest is emerging in the potential for bilateral agreements with countries as diverse as Chile, Australia and Thailand.

Most significantly, there seems to be a real degree of interest in an enhanced arrangement with China and with other ASEAN members.

These initiatives suggest an overall interest in bilateral and regional integration efforts as a complement to multilateral liberalization.

What continues to frustrate me and my colleagues is that despite overtures from Canada, Japanese interest in an enhanced partnership with Canada has little support in this country.





# **TOWARDS A CANADA-JAPAN “TRANSPACIFIC PARTNERSHIP AGREEMENT”**

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CANADIAN COUNCIL OF CHIEF EXECUTIVES



**CANADA AND JAPAN: PARTNERING FOR GROWTH  
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What do we mean by an enhanced economic relationship? Our proposals in the past have not been short on vision nor on ambition.

Last year in Calgary, I proposed that our two governments and our respective business communities explore the idea of a Canada-Japan *"Transpacific Partnership Agreement."* The idea grew out of the encouraging consensus reached by my organization and Keidanren the previous year in Tokyo when we expressed support for deeper and more effective linkages between Canada and Japan. The key elements of the proposal included:

- An investment agreement.
- Joint principles on competition policy.
- Tariff reductions – including longer liberalization time-frames that would take into account sensitivities with respect to tariff reductions.
- Sector-specific Mutual Recognition Agreements or perhaps a Regulatory Agreement.
- Simplified customs clearance and related procedures.
- Discussions regarding clear, predictable and easy to use rules of origin.
- Discussions on the possible application of anti-dumping/countervail duty/safeguard rules .
- A set of principles and rules to liberalize trade in services, consistent with GATS principles.
- Framework principles to protect intellectual property.
- Joint consultation with industry on privacy issues and e-commerce regulation.
- Bilateral co-operation in financial services and information and communications technology, trade and investment promotion, SME development, facilitating the movement of business people, education and private sector exchanges of personnel, tourism development and an agreement on social security.

Neither the Japanese government nor our Japanese business colleagues were prepared to move this quickly. So today I am proposing some preliminary steps.



## ***THE FRAMEWORK -- STRENGTHENING THE ECONOMIC AND TRADE RELATIONSHIP***

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- **TOWARD CONCRETE SHORT AND LONG TERM JOINT ACTIONS**  
(In addition to support of Canada's Market Access Priorities for 2002):
  - **SHORT-TERM ACTIONS**
    - Consider and negotiate a Canada-Japan Agreement on Mutual Recognition.
    - Negotiate an equitable agreement on social security.
    - Update the Canada-Japan Science and Technology Agreement on joint research.
  - **LONG-TERM ACTIONS**
    - Increase mutual understanding of the agricultural situation in Canada and in Japan and intensify dialogue on issues of mutual concern.
    - Launch discussions, exchange views and information on competition rules, possibly resulting in an agreement on principles.
    - To enhance further regulatory cooperation, establish a regulatory reform dialogue to foster growth and remove barriers to growth and investment.
    - Encourage information sharing and data sharing as well as greater industry to industry cooperation in a number of sectors.



**CANADA AND JAPAN: PARTNERING FOR GROWTH  
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Let me begin with some broad areas of co-operation. Canada and Japan should continue their close co-operation to strengthen the multilateral trading system under the auspices of the World Trade Organization. Canada and Japan should also improve their efforts to facilitate the accession of current applicants, including in particular Russia. Also, our two countries should encourage China's full embracing of the WTO, including the fundamental principles of national treatment, most-favoured nation treatment, transparency, the rules-based settlement of trade disputes, and the continued liberalization of international trade. Canada and Japan should also continue to cooperate closely on measures to improve and strengthen the international monetary and financial system and also focus on mutual areas of interest in the reduction of poverty globally.

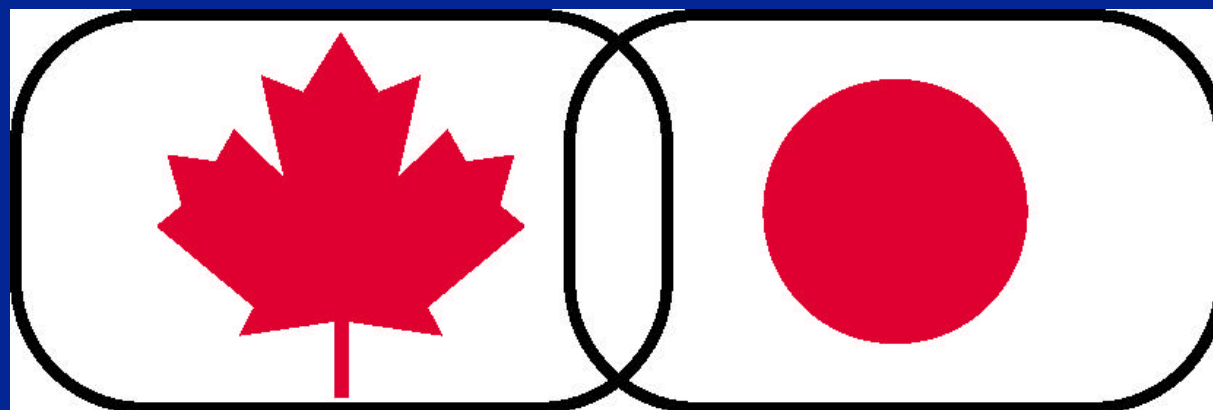
Let me be more specific. It would make sense to take actions that would include the following:

- An agreement between Canada and Japan on mutual recognition of standards and regulations for a number of sectors to be determined in consultation with both business sectors.
- Our governments should identify ways to enhance further regulatory cooperation to remove barriers to growth and investment.
- An immediate effort to facilitate the movement of people between our two countries, of Canadians working in Japan and of Japanese working in Canada, through an equitable arrangement on social security.
- An agreement to update the Canada-Japan Science and Technology Agreement, with a particular view towards increasing joint research efforts.
- Promotion of mutual understanding of the agricultural situation in Canada and Japan.
- The exchange of more information and views on competition policy rules, possibly resulting in an agreement on principles.
- The encouragement of information and data-sharing as well as greater industry to industry cooperation in a number of sectors to promote greater investment in Canada and Japan.



## ***CJBC: 25 YEARS OF SUCCESS AND STRONG FOUNDATIONS***

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**CANADA AND JAPAN: PARTNERING FOR GROWTH  
AND OPPORTUNITY IN A CHALLENGING ENVIRONMENT**

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I will conclude with some thoughts on the CJBC and the road ahead in the Canada-Japan relationship. We have good reason to be extremely proud of twenty-five years of achievement on the part of the Canada-Japan Business Committee. So many friendships and networks have been created and nourished under this important initiative that have stood the test of time.

As you all know, this will be the final meeting of the CJBC. After Sendai, the *Canadian Council of Chief Executives* and the newly formed Japan Business Federation will build on this extraordinary record of achievement and trust, and establish an effective consultation mechanism.

This morning, our two organizations, under the co-chairmanship of Dominic D'Alessandro and Hiroshi Okuda, held a productive first meeting to discuss the principles which will guide our co-operation in the future. Our discussions were marked by a great deal of good will and commitment.

Japan's interests in Canada will also be served by another organization, The Japan Society, which currently is revitalizing its activities. The Japan Society has prepared the *25<sup>th</sup> Special Commemorative Issue – Canada-Japan Economic Relations*, which you have received, and the Society's representatives will be contacting you regarding your participation in their activities.

Personally and professionally, I am very pleased. The network of the CJBC is in good hands and I wish The Japan Society well in its future endeavors. You will inherit a network of dedicated professionals who have been passionate and loyal to the Canada-Japan economic relationship for a quarter century.

Ladies and gentlemen, thank you for the opportunity to address this important and historic event. I wish you well in your deliberations today and look forward to working with all of you in the future as we continue to build a strong transpacific partnership.