

CANADA-JAPAN SOCIETY/VANCOUVER BOARD OF TRADE

Speech: October 31, 2005

1. I WISH TO THANK THE CANADA JAPAN SOCIETY AND THE VANCOUVER BOARD OF TRADE FOR THE OPPORTUNITY TO SPEAK TO YOU TODAY.
2. THE ROLE OF THE CANADIAN AMBASSADOR IS TO UNDERSTAND CANADA'S NATIONAL OBJECTIVES, IN MATTERS OF PEACE AND SECURITY, ECONOMIC DEVELOPMENT AND INTERNATIONAL SOCIAL HARMONY, AND IMPLEMENT THESE OBJECTIVES IN THE MANAGEMENT OF RELATIONS WITH THE COUNTRIES OF HIS OR HER ACCREDITATION.
3. AN AMBASSADOR MUST, ACTIVELY, SEEK THE VIEWS OF CANADIANS ON THEIR OBJECTIVES AND THEIR INTERESTS IN RELATIONS WITH THE FOREIGN COUNTRIES WITH WHICH THEY ARE, OR ARE CONSIDERING TO BECOME, ENGAGED.
4. FINALLY, AN AMBASSADOR SHOULD REGULARLY SHARE INSIGHTS ON THE BEST MEANS OF ADVANCING ALL OF THESE OBJECTIVES, AS WELL AS SEEK TO UNDERSTAND AND EXPLAIN WHAT IS HAPPENING IN THE COUNTRY WHERE HE IS POSTED.
5. I INTEND TO PLAY THESE ROLES TO THE BEST OF MY ABILITIES, IN THE MANAGEMENT OF CANADA'S RELATIONS WITH JAPAN. I WOULD LIKE TO PURSUE THE SUSTAINED DIALOGUE INITIATED BY MY PREDECESSORS, AND MY MANY COLLEAGUES WORKING IN THE SIX MISSIONS THAT CANADA MAINTAINS IN JAPAN.
6. I WANT YOUR VIEWS AS WELL ABOUT THE MESSAGES THAT SHOULD BE CONVEYED TO CANADIAN AUDIENCES TO ENCOURAGE GREATER ENGAGEMENT WITH JAPAN.
7. AT THIS MOMENT, I THINK THAT THE CORE OF THESE MESSAGES ARE THE FOLLOWING: THAT JAPAN HAS UNDERGONE VERY SIGNIFICANT INTERNAL CHANGES, WHOSE EXTENT IS NOT APPRECIATED IN CANADA; THAT JAPAN IS NOW, AT LAST, IN A VIRTUOUS CIRCLE OF GROWTH AND EXPANSION; AND THAT THE BIGGEST RISKS TO CANADIANS AND THEIR COMPANIES AND THEIR INSTITUTIONS IS IN FACT IN NOT PARTICIPATING IN WHAT IS THE WORLD'S SECOND ECONOMY, AND PERHAPS THE MOST TECHNOLOGICALLY ADVANCED SOCIETY IN THE WORLD.
8. NOT SURPRISINGLY, THESE THREE POINTS FORM THE CORE OF MY REMARKS TO YOU TODAY.

JAPAN RE-ENGINEERED

9. JAPAN IS A COUNTRY IN WHICH I HAVE LIVED FOR MANY YEARS. BUT THE JAPAN TO WHICH I HAVE RECENTLY RETURNED IS NOT THE ONE THAT I LAST LEFT IN 1998. FRANKLY, NOT A DAY GOES BY WITHOUT LEARNING ABOUT YET ANOTHER TRANSFORMATION OR REFORM, HERETOFORE IMPOSSIBLE TO CONTEMPLATE.
10. HAVE NO DOUBT: THERE IS BREADTH TAKING, IF STILL INCOMPLETE, TRANSFORMATION IN JAPAN. TRANSFORMATION IN PUBLIC OPINION, IN POLITICS, IN GOVERNMENT, IN FOREIGN POLICY, IN THE MICRO-ECONOMY. THERE ALSO APPEARS TO BE, AT LAST, SUSTAINABLE MACRO-ECONOMIC GROWTH.
11. I WANT TO SHARE WITH YOU MY FIRST IMPRESSIONS OF THESE CHANGES.

POLITICAL

12. PRIME MINISTER KOIZUMI'S OVERWHELMING VICTORY FOR THE RULING LIBERAL DEMOCRATIC PARTY AND ITS COALITION PARTNER, THE NEW KOMEITO ON SEPTEMBER 11TH WAS AN OUTCOME ESSENTIAL TO CONTINUING POLITICAL AND ECONOMIC REFORM IN JAPAN.
13. THE LDP THAT WON THE ELECTION IS NOT THE POLITICAL ORGANIZATION THAT HAS RULED JAPAN FOR THE PAST 60 YEARS. PRIME MINISTER KOIZUMI'S LDP HAS MANY DISTINGUISHING CHARACTERISTICS.
14. TODAY'S LDP WAS, FRANKLY, UN-IMAGINABLE EVEN 5 YEARS AGO.
15. THE PRIME MINISTER'S CAMPAIGN BRILLIANTLY CAST THE LDP AS THE PARTY OF REFORM, A LAUGHABLE NOTION TO MANY, UNTIL KOIZUMI PULLED IT OFF.
16. THE PRIME MINISTER'S LDP HAS VERY CONSIDERABLY REDUCED THE POWER OF FACTIONALISM, ALTHOUGH FACTIONALISM HAS NOT - IT LIKELY WILL NOT- DISAPPEAR COMPLETELY AS A JAPANESE ORGANIZATIONAL PRINCIPLE IN POLITICS, ANYMORE THAN ANYWHERE ELSE IN JAPAN'S VERTICALLY DIVIDED SOCIETY.
17. THE PM HAS CONSIDERABLY STRENGTHENED THE LDP INTERNAL MACHINERY, TO MAKE IT MUCH MORE RESPONSIVE TO THE WISHES OF THE LDP PRESIDENT AND SECRETARY GENERAL.
18. IT IS DEVELOPING INTERNAL CONTROL MECHANISMS THAT REWARD LOYALTY TO THE PARTY'S SENIOR LEADERSHIP, AND PUNISH - SEVERELY IN SOME NOTABLE

CASES - THOSE WHO FALL FOUL OF THIS LEADERSHIP.

19. PRIME MINISTER KOIZUMI HAS SUCCEEDED WHERE PRIME MINISTERS NAKASONE AND HASHIMOTO HAD FAILED, IN APPEALING TO FORCES OUTSIDE THE PARTY AND THE BUREAUCRACY TO PROMOTE CHANGE. RADICALLY, KOIZUMI APPEALED DIRECTLY TO THE JAPANESE VOTERS, AND HE GOT A RESPONSE.
20. SIGNIFICANT REDUCTIONS IN PUBLIC WORKS SPENDING - INITIATED BY HASHIMOTO - HAVE REDUCED THE SCOPE OF PORK BARREL POLITICS. A NEW, POLICY-ORIENTED APPROACH IS GAINING STRENGTH AND RELEVANCE.
21. SIGNIFICANTLY, THERE DOES NOT APPEAR TO BE ROOM FOR OPPONENTS OF THESE REFORMS TO REASSERT THEMSELVES. ALMOST ONE THIRD OF THE LDP LOWER HOUSE DIET MEMBERS ARE NEW TO THE PROCESS, AND BEHOLDEN TO THE PRIME MINISTER, PERSONALLY, AND TO THE NEW PARTY SYSTEM, INSTITUTIONALLY. GIVEN THE SERIOUS POLICY ISSUES FACING JAPAN, PM KOIZUMI'S SUCCESSOR WILL HAVE LITTLE CHOICE BUT TO STAY THE COURSE ON REFORM.
22. EQUALLY SIGNIFICANT IS THE APPARENT FACT THAT THE INDIVIDUAL, UNCOMMITTED AND URBAN VOTE IS NOW THE ONE TO COURT. THE ELECTION WAS PROOF THAT UNDER THE CURRENT ELECTORAL SYSTEM, HAVING A POPULAR LEADER CAN BRING GREATER REWARDS THAN WAS EVER THOUGHT POSSIBLE.
23. INSTITUTIONAL REFORMS IN THE LDP HAVE BEEN PARALLELED AT THE TOP OF GOVERNMENT, WHERE THE POLICY MAKING PROCESS HAS BEEN RADICALLY ALTERED TO GIVE THE PM, HIS CABINET, AND HIS INNER CIRCLE OF ADVISORS (THE COUNCIL ON ECONOMIC AND FISCAL POLICY FOR EXAMPLE) UNPRECEDENTED CONTROL AND INFLUENCE. THE PUBLIC, IT APPEARS, IS INCREASINGLY IN FAVOUR OF MUCH MORE EFFICIENT GOVERNMENT AND MORE TRANSPARENT DECISION-MAKING. THIS ALONE IS A DRAMATIC DEVELOPMENT.
24. THE RELATIONSHIP BETWEEN THE LDP AND THE GOVERNMENT BUREAUCRACY - STILL VERY POWERFUL AND STILL EXERCISING - IN CANADIAN TERMS - UNIMAGINABLE AUTONOMY, WILL BE A KEY DETERMINANT OF THE SUCCESS OF THE REFORM PROCESS. SOME MINISTRIES, SUCH AS METI AND THE MINISTRY OF FINANCE SEE OPPORTUNITY IN SUPPORTING KOIZUMI'S POLICY THRUSTS TO PURSUE GOALS THAT MAY NOT HAVE BEEN PREVIOUSLY POSSIBLE.
25. THIS COLLABORATION IS ESSENTIAL TO THE LONG-TERM PROSPERITY OF THE JAPANESE PEOPLE. A NUMBER OF THE PROBLEMS THAT THE PRIVATE SECTOR

WAS ABLE TO RESOLVE OVER THE PAST TEN YEARS HAVE IN FACT BEEN "SOCIALIZED" THROUGH INCREASED GOVERNMENT SPENDING. THE RUN-UP OF GOVERNMENT DEBT, NOW OVER 170% OF GDP IN GROSS TERMS, IS OVER FOUR TIME THAT OF CANADA ON A PER CAPITA BASIS, AND ALMOST THREE TIMES THAT OF THE NEWLY SPEND-THRIFT USA.

26. THE LIST OF URGENT NATIONAL POLICY ISSUES THAT NEED TO BE ADDRESSED IS A LONG AND EXPENSIVE ONE: FUNDAMENTAL TAX REFORM; THE REFORM OF PUBLIC FINANCIAL INSTITUTIONS; FURTHER REFORM OF A STRESSED PENSIONS SYSTEM, ARISING FROM AN AGING SOCIETY; THE NEED TO RE-BALANCE THE FISCAL AND POLICY RESPONSIBILITIES BETWEEN THE CENTRE AND PREFECTURAL GOVERNMENTS; MUCH ENHANCED CHILD CARE FACILITIES SO THAT WOMEN CAN JOIN THE LABOUR FORCE; HIGH AND RISING NATIONAL MEDICAL COSTS; AND CONTINUING REGULATORY AND MICROECONOMIC REFORM.

REFORM OF THE MICRO-ECONOMY

27. THE LAST OF THESE IS RELEVANT TO TODAY'S DISCUSSION. MICRO-ECONOMIC REFORM WHILE BEING INCOMPLETE, IS ALSO IN FACT, AMONG THE MOST TRANSFORMATIVE ELEMENTS IN TODAY'S JAPAN.
28. THE REFORMS THAT HAVE ALREADY TAKEN PLACE, OR ARE IN TRAIN, UNDERPIN THE NOTION THAT TODAY'S POSITIVE MACRO-ECONOMIC NUMBERS ARE THE RESULT OF STRUCTURAL IMPROVEMENTS AS MUCH AS POSITIVE CYCLICAL DEVELOPMENTS AND THE EXTERNAL ENVIRONMENT.
29. THESE REFORMS, PROMOTING OR BUILDING ON OTHER CHANGES TO THE DOMESTIC AND REGIONAL MARKETS, TOGETHER ALSO PROVIDE MANY OF THE IMPORTANT REASONS WHY CANADIANS AND THE COMPANIES AND INSTITUTIONS THAT THEY REPRESENT, WHY THESE SHOULD NOW BE TURNING THEIR ATTENTION TO JAPAN.
30. LET ME PROVIDE A FEW EXAMPLES:
31. THERE HAS BEEN MAJOR DEREGULATION IN: TELECOMS, TRANSPORT, ENERGY, FINANCE AND RETAILING.
32. THERE ARE MAJOR REFORMS TO ANTI-TRUST LAWS, AND A STRONGER FAIR TRADE COMMISSION TO ADMINISTER THEM. THERE IS GREATER READINESS BY THE TOKYO STOCK EXCHANGE TO DISCIPLINE ITS MEMBERS.

-
33. THE COMMERCIAL CODE IS BEING OVERHAULED TO FACILITATE MORE RATIONAL MOVEMENT OF ASSETS, INCLUDING THOSE OF BANKRUPT COMPANIES; FOREIGN FIRMS MAY, BEGINNING NEXT YEAR, BE ALLOWED TO USE THEIR SHARES AS CURRENCY IN ACQUISITIONS IN JAPAN.
 34. VERY SIGNIFICANTLY, CHANGES IN OWNERSHIP PATTERNS ARE TRANSFORMING THE COMMERCIAL LANDSCAPE IN JAPAN. IN 1992, 46% OF ALL LISTED EQUITIES WERE HELD AS CROSS-SHARES, BY ONE FRIENDLY JAPANESE COMPANY TO PROTECT THE MANAGEMENT OF ANOTHER. TODAY IT IS ONLY 24%. A DECADE OR MORE AGO, ONLY 6% OF SHARES WERE HELD BY FOREIGN INVESTORS. TODAY, THEY HOLD 25%, AND TRADING IS DRIVEN BY THEM AND A NEW BREED OF DOMESTIC DAY-TRADERS. A 'MARKET FOR CORPORATE CONTROL' IS EMERGING, AND MANAGERS ARE RESPONDING TO THE DEMANDS OF THEIR SHAREHOLDERS WHO ARE BECOMING LESS AND LESS COMPLACENT.
 35. THE CONSOLIDATION OF ENTIRE INDUSTRIES IS TAKING PLACE. IN THE LAST DECADE, 14 OIL COMPANIES HAVE BECOME 4; 7 CEMENT GIANTS ARE DOWN TO 3; 14 PULP AND PAPER COMPANIES ARE REDUCED TO 3; THE 15 LARGE BANKS THAT DOTTED THE CITY SCAPES ARE DOWN TO 3.
 36. FOREIGN AND DOMESTIC INVESTMENT FUNDS AND PARTNERSHIPS ARE DAILY CHALLENGING EXISTING MANAGEMENT.
 37. THE RATIO OF DEBT TO OPERATING PROFITS FOR LARGE AND MEDIUM SIZED COMPANIES IS DOWN TO ABOUT TEN TO ONE, COMPARABLE TO 1980S, AND ABOUT HALF OF MID-90S. FOR SMEs, THE RATIO IS ABOUT FIFTEEN TO ONE. CAPACITY UTILIZATION RATES HAVE RETURNED TO 1992 LEVELS, AND THE BANK OF JAPAN'S TANKAN SURVEYS REFLECT BUSINESS OPINION THAT EXCESS CAPACITY HAS BEEN ELIMINATED.
 38. MANY OF THE CHANGES WERE DRIVEN BY WHAT IS PROBABLY THE MOST SIGNIFICANT DEVELOPMENT SINCE THE BUBBLE FIRST BURST: THE HUGE RUN-UP AND SUBSEQUENT RAPID DECREASE IN THE LEVEL OF CORPORATE DEBT, WHICH HAD SADDLED FIRMS AND SAPPED THE ECONOMY'S VITALITY. THE RATIO OF CORPORATE DEBT TO GDP IS NOW THE LOWEST IT'S BEEN IN 25 YEARS, WITH THE EQUIVALENT OF 50% OF GDP HAVING BEEN PAID-OFF - THAT'S LIKE PAYING CANADA'S NATIONAL DEBT 4 TIMES OVER.
 39. AND BAD DEBT - THE NOTORIOUS NON-PERFORMING LOANS - IS DOWN AS A SHARE OF TOTAL DEBT AS WELL. THE CREATION OF A NEW FINANCIAL SERVICES AGENCY AND THE RELENTLESS PURSUIT BY THE FSA OF THE 'TAKENAKA PLAN' PUSHED THE

BIG BANKS TO CALL IN THEIR BAD LOANS, AND NPLs WENT FROM OVER 8% OF THE TOTAL LENDING TO LESS THAN 3% IN 3 YEARS, WELL EXCEEDING THE GOAL AND EXPECTATIONS. LENDING TO CORPORATIONS APPEARS TO BE RISING AGAIN FOR THE FIRST TIME SINCE 1998. FIRMS ARE ONCE AGAIN INVESTING IN CAPACITY, PAYING HIGHER DIVIDENDS AND INCREASING WAGES.

40. GREATER FLEXIBILITY IN LABOUR MARKETS DROVE JAPANESE BUSINESSES TO FOCUS ON PART-TIME EMPLOYMENT DURING THE YEARS OF DEBT REPAYMENT, BUT THIS APPEARS TO BE CHANGING WITH INDICATIONS THAT FULL-TIME EMPLOYMENT IS GROWING FASTER THAN PART-TIME FOR THE FIRST TIME IN A DECADE. WAGES ARE RISING AT THEIR FASTEST RATE SINCE 1998, WHICH IS GOOD NEWS BECAUSE JOBS AND INCOMES WERE THE MISSING PIECE OF A FULL-FLEDGED JAPANESE RECOVERY.
41. ET CETERA.
42. A STRONG ARGUMENT CAN BE MADE TO CONNECT THESE AND OTHER CHANGES TO THE RECENT PERFORMANCE OF THE JAPANESE MACRO-ECONOMY.

RECOVERING ECONOMY

- THE JAPANESE ECONOMY EXPANDED BY 0.3% IN 2002, 1.4% IN 2003, 2.7% LAST YEAR AND 5.8% AND 3.3% IN THE FIRST TWO QUARTERS OF THIS YEAR. SIMILAR SIGNIFICANT TREND LINES ARE OBSERVED IN THE RISE OF HOUSEHOLD CONSUMPTION, PRIVATE NON-RESIDENTIAL INVESTMENT, BUSINESS PROFIT GROWTH, FIXED BUSINESS INVESTMENTS, AND BUSINESS CONFIDENCE. THESE AND OTHER INDICATORS, IN SUCH A LARGE AND MATURE ECONOMY, UNDERPIN JAPAN'S ADDITIONAL STRENGTHS IN TERMS OF ENERGY EFFICIENCY, AND TECHNOLOGICAL DOMINANCE.
- THIS FUNDAMENTAL STRENGTH IS WHAT GIVES ME CONFIDENCE TO SAY THAT THE JAPANESE ECONOMY TODAY IS HEALTHIER THAN AT ANY TIME SINCE THE BUBBLE ECONOMY OF THE 1980s. IT MAY BE LESS SPECTACULAR THAN THE BUBBLE, BUT IT IS DEFINITELY MORE SOLID IN STRUCTURAL TERMS THAN THE ECONOMY THAT APPEARED SO DOMINANT BEFORE THE HOUSE OF CARDS COLLAPSED.
- IN 2005, WE ARE SEEING A COMBINATION OF STRONG BUSINESS SECTOR ACTIVITY AND INVESTMENT, GROWING CONSUMPTION SUPPORTED BY RISING INCOMES, AND MODERATELY GROWING EXPORTS.

-
- IT IS NECESSARY TO ADD THAT, DESPITE A POSITIVE STRUCTURAL PICTURE, THERE DO REMAIN SOME SIGNIFICANT CHALLENGES AT A MACROECONOMIC LEVEL, NOTABLY THE LAST THROES OF AN EXTENDED PERIOD OF MILD DEFLATION, AND PARLOUS GOVERNMENT FINANCES.
 - NEVERTHELESS, THE BANK OF JAPAN APPEARS CONFIDENT THAT CPI DEFLATION WILL END DURING THIS FISCAL YEAR. LIKE EVERYTHING ELSE, MUCH ALSO DEPENDS ON THE ECONOMIC HEALTH OF THE USA, CHINA AND THE EU, THE WORLD'S OTHER BIG LEAGUE PLAYERS. ALL ECONOMIES WILL BE AFFECTED IF THERE IS A MAJOR RECESSION IN OR AMONG ANY OF THEM. AT THE MOMENT, NOBODY IS PREDICTING THAT.
 - THERE IS ONE MORE ISSUE TO ADDRESS BEFORE I DISCUSS CANADA AND JAPAN. AND THAT IS ASIAN ECONOMIC INTEGRATION.

ASIAN ECONOMIC INTEGRATION

- IT TOO IS A POWERFUL DRIVER FOR ECONOMIC CHANGE, IN PART LED BY JAPANESE FIRMS THEMSELVES. THIS INTEGRATION HAS STRENGTHENED JAPAN'S POSITION ON GLOBAL MARKETS AND GIVEN JAPAN'S ECONOMY ACCESS TO THE MOST RAPIDLY GROWING REGION IN THE WORLD. I SAW THIS LIVE AND IN COLOUR WHEN I WAS IN CHINA.
- MORE THAN A SERIES OF TRADE DEALS – 14 AGREED OR UNDER NEGOTIATION OR AGREED IN THE REGION, AND ANOTHER 15 OR SO WITH PARTNERS OUTSIDE ASIA -- IT IS THE PROCESS BY WHICH THE ECONOMIES OF ASIA, FROM JAPAN TO ASEAN, ARE SPECIALIZING ACCORDING TO THEIR RESPECTIVE COMPARATIVE ADVANTAGES WITHIN A LARGER ECONOMIC WHOLE.
- THIS PROCESS IS PRIMARILY BUSINESS-LED, UNDERPINNED BY REGION-WIDE SUPPLY CHAINS THAT HAVE BECOME THE HUB OF GLOBAL MANUFACTURING IN EVERYTHING FROM ELECTRONICS TO TEXTILES. THIS MANUFACTURING STRUCTURE NEEDS IMPROVED MARKET ACCESS AND SIMPLIFIED PROCEDURES TO ATTAIN OPTIMUM EFFICIENCY. THUS, THE FTAs AND NEW ECONOMIC PARTNERSHIPS.
- JAPANESE FIRMS ARE A DRIVING FORCE IN EACH OF THE REGION'S ECONOMIES, AS THEY EXPLOIT COMPARATIVE ADVANTAGES IN THE PURSUIT OF THEIR BUSINESS STRATEGIES. THE SUM OF THEIR ACTIONS, ADDED TO THOSE OF THE USA, THE EU, KOREA, TAIWAN, ASEAN AND CHINA IS LEADING TO ECONOMIC

INTEGRATION AND SPECIALIZING ON A REGIONAL SCALE, AND TO TRADE
DEPENDENCY LEVELS REACHED BY NAFTA.

- JAPAN IS FURTHER PLAYING A CRITICAL ROLE IN THIS STRUCTURAL SHIFT IN THE GLOBAL ECONOMY: (I) BY BEING A KEY SOURCE OF AID, FINANCE AND FDI, TECHNOLOGY AND CAPITAL; (II) BY BEING A LOCATION FOR HEAD OFFICES WHERE DESIGN, TECHNOLOGY, PRODUCTION AND PURCHASING DECISIONS ARE MADE FOR THEIR REGIONAL AND GLOBAL OPERATIONS; (III) BY BEING A TREND LEADER IN TERMS OF CULTURAL INDUSTRIES, FASHION AND BRANDING; AND (IV) BY BEING THE "EARLY ADOPTER" AND TEST MARKET OF NEW CONSUMER PRODUCTS THAT ARE THEN MASS PRODUCED FOR GLOBAL MARKETS.
- JAPAN CANNOT COMPETE WITH CHINA OR INDIA IN LABOUR COSTS, BUT IT REMAINS IN THE DRIVER'S SEAT IN TERMS OF KNOWLEDGE, INVESTMENT DECISIONS AND AN ARBITER OF "COOL". TO ACCESS ASIAN MARKETS, ONE MUST RECOGNIZE THAT IN MANY INDUSTRIES, WORKING WITH A JAPANESE FIRM, OFTEN BY ESTABLISHING A PRESENCE IN JAPAN, IS THE BEST WAY TO PLUG INTO THE WIDER SUPPLY CHAINS CONTROLLED FROM JAPAN. IN ADDITION, FINDING SUCCESS WITH THE QUALITY-CONSCIOUS JAPANESE BUSINESS OR CONSUMER CAN THEN BE A CALLING CARD FOR WIDER MARKETS.

WHAT DOES THIS MEAN FOR CANADA

- JAPAN IS CANADA'S SECOND LARGEST EXPORT DESTINATION, RECEIVING 2.1% OF OUR TOTAL MERCHANDISE EXPORTS, AND ABOUT 25% GREATER THAN OUR EXPORTS TO CHINA LAST YEAR, BUT IS HAS DROPPED TO THIRD PLACE AS A BUSINESS PARTNER, GIVEN THE SPEED OF INCREASE OF CANADA'S IMPORTS FROM CHINA.
- JAPAN IS THE FIFTH LARGEST SOURCE OF FOREIGN DIRECT INVESTMENT IN CANADA - \$9.7 BILLION IN STOCK. CANADIANS HOLD ABOUT \$9 BILLION IN JAPAN.
- WE REMAIN A LEADING SUPPLIER TO JAPAN OF A RANGE OF HIGH VOLUME PRODUCTS INCLUDING FOREST PRODUCTS, GRAINS AND OILSEEDS, MEAT, SEAFOOD, COAL, POTASH, URANIUM, ALUMINUM AND OTHER MINERALS AND METALS.
- WHILE RESOURCE-BASED EXPORTS CONTINUE TO REPRESENT MUCH OF OUR EXPORT MIX, WE ARE BECOMING AN INCREASINGLY IMPORTANT SOURCE OF SOPHISTICATED, VALUE-ADDED PRODUCTS, SUCH AS INFORMATION TECHNOLOGIES INCLUDING SOFTWARE, ENVIRONMENTAL PRODUCTS AND

SERVICES, BIOTECHNOLOGY, FUEL CELLS, OPTICAL INSTRUMENTS, CHEMICALS, AUTOMOTIVE MANUFACTURING AND PARTS INVESTMENT.

- EXPORTS OF CANADIAN SERVICES TO JAPAN IN 2004 ROSE TO \$1.9 BILLION. IN 2004, 414,000 JAPANESE TOURISTS VISITED CANADA.
- THE FACT REMAINS HOWEVER THAT THESE ARE NOT OVERWHELMING NUMBERS, GIVEN OUR TRILLION DOLLAR ECONOMY. IN 2004, TOTAL MERCHANDISE TRADE BETWEEN CANADA AND JAPAN WAS \$22 BILLION. CANADIAN EXPORTS' SHARE TO JAPAN HAS BEEN DECLINING STEADILY SINCE THE MID-1990S. OUR EXPORTS TO JAPAN ROSE MODESTLY, TO \$8.5 BILLION, IN 2004. IMPORTS FROM JAPAN DECREASED BY 3% IN 2004 TO \$13.4 BILLION.
- WE HAVE TO DO BETTER. AND NOT BECAUSE HIGH NUMBERS HAVE ANY SIGNIFICANCE BEYOND THEMSELVES, OR BECAUSE CANADIAN BUSINESS SOMEHOW HAS A RESPONSIBILITY FOR OUR MACRO-ECONOMIC PERFORMANCE.
- THE ISSUE RATHER IS THE FOLLOWING: AS THE SECOND LARGEST ECONOMY IN THE WORLD. JAPAN'S GDP IS HIGHER THAN THAT OF GERMANY (\$ 3,224 BILLION), THE UK (\$ 2,497 BILLION) OR FRANCE (\$ 2,399 BILLION). THE LARGE URBAN REGION AROUND TOKYO, WITH A POPULATION JUST A BIT HIGHER THAN CANADA'S, HAS AN ECONOMY LARGER THAN CHINA'S AND NEARLY TWICE THAT OF CANADA'S (APPOX. \$2,085 BILLION VERSUS \$1,875 BILLION AND \$1,290 BILLION) .
- OSAKA AND ITS REGION HAVE A ECONOMY LARGER THAN MEXICO OR KOREA'S (\$875 BILLION VERSUS 795 AND 800 BILLION); NAGOYA AND IT'S REGION AN ECONOMY ABOUT THE SIZE OF BRAZIL 'S (\$705 BILLION VERSUS 710\$). IT IS AN ECONOMY THAT SPENDS 3.1% OF ITS GDP ON R&D, MORE THAN THE USA AND ANY OTHER G8 COUNTRY , AND WELL OVER TWICE WHAT WE SPEND IN CANADA (AT 1.9% OF GDP) . JAPAN REGISTERED 19,982 INTERNATIONAL PATENTS IN 2004 , VS. THE USA AT 41,870. THIS IS 17% OF THE GLOBAL TOTAL. IT LEADS THE WORLD IN TELECOMS, ITC, BIOTECHNOLOGY, ENVIRONMENTAL PROTECTION, EFFICIENT USE OF ENERGY.
- JAPAN HAS NEWLY DYNAMIC REGIONS - OSAKA/KOBE NOW LEADS THE NATION IN GROWTH, AND HAS BEEN DOING SO FOR SEVERAL QUARTERS. FUKUOKA AND KYUSHU ARE INTIMATELY CONNECTED TO CHINA AND KOREA. THESE REGIONS HAVE WHAT MANY CANADIAN BUSINESSES NEED IN TERMS OF JAPANESE AND NORTH EAST ASIAN PARTNERS.

-
- THE QUESTIONS WHICH ALL CANADIAN FIRMS NOT INVOLVED IN JAPAN MUST ASK THEMSELVES INCLUDE THE FOLLOWING: IN THE ABSENCE OF A JAPAN STRATEGY, ARE WE LIMITING THE OPPORTUNITIES FOR GROWTH AND ENHANCED PROFITABILITY? ARE WE MISSING ACCESS TO NEW TECHNOLOGIES THAT CAN MAKE US MORE EFFICIENT AND COMPETITIVE? ARE WE MISSING THE CURVE ON NEW TECHNOLOGICAL DEVELOPMENTS?
 - WITH RENEWED JAPANESE ECONOMIC GROWTH, CONTINUING DEMAND FOR STATE OF THE ART TECHNOLOGIES, AND AN AGING POPULATION, NEW OPPORTUNITIES ARE DEVELOPING IN INFORMATION AND COMMUNICATIONS TECHNOLOGIES, VALUE-ADDED FOOD PRODUCTS, TRANSPORTATION EQUIPMENT, BUILDING PRODUCTS AND PREFABRICATED BUILDINGS, MEDICAL DEVICES AND PHARMACEUTICALS, NEW ENERGY PRODUCTS SUCH AS FUEL CELLS, POWER GENERATION AND ENVIRONMENTAL SERVICES.
 - THERE ARE INTERESTING POSSIBILITIES DEVELOPING IN SERVICES RELATED TO INFORMATION TECHNOLOGY, THE ENVIRONMENT, ACCOUNTING, ARCHITECTURE AND HEALTHCARE.
 - THE GOVERNMENT OF CANADA HAS INTENSIFIED ITS EFFORTS IN ESTABLISHED TRADE SECTORS (SUCH AS AUTOMOTIVE, AEROSPACE, FOREST PRODUCTS, MINERALS, AGRICULTURE AND FISHERIES, AND CONSUMER PRODUCTS) WITH NEW INITIATIVES AIMED AT SUPPORTING THESE PRIORITY INDUSTRIES.
 - DURING THE PAST TWO YEARS, MANY CANADIAN ICT COMPANIES HAVE ENTERED THE MARKET DIRECTLY OR INDIRECTLY THROUGH PARTNERS, AGENTS OR DISTRIBUTORS, AND THEIR SHARE OF MANUFACTURED GOODS AND VALUE-ADDED SERVICES EXPORTS TO JAPAN CONTINUES TO INCREASE.
 - STILL, CANADA'S MARKET SHARE IN JAPAN CONTINUES TO BE LOW AND OUR CORPORATE PARTICIPATION RATES IN THIS PRIORITY MARKET NEED TO BE HIGHER.
 - JAPANESE AWARENESS OF CANADA AS A SOPHISTICATED BUSINESS PARTNER WILL ALSO HAVE TO BE RAISED THROUGH MORE PUBLIC DIPLOMACY, AND CANADIAN EFFORTS TO ATTRACT JAPANESE FDI. MORE THAN 550 JAPANESE COMPANIES HAVE ALREADY INVESTED IN CANADA, AND HAVE DIRECTLY CREATED OVER 55,000 NEW JOBS. THE LARGEST SECTOR INFLUENCED BY JAPANESE INVESTMENT IS THE AUTO INDUSTRY: HONDA, TOYOTA AND SUZUKI HAVE A MAJOR PRESENCE, WITH TOYOTA HAVING LAUNCHED A NEW AND MAJOR

MANUFACTURING FACILITY IN ONTARIO. 52 AUTO PARTS MANUFACTURERS OPERATE IN CANADA.

- BUT THE FACT REMAINS THAT A LARGE NUMBER OF CANADIAN FIRMS HAVE NOT, SO FAR, FOUND IT IN THEIR INTEREST TO COMMIT THE RESOURCES NECESSARY TO TRADE AND INVEST IN JAPAN. THE DECISION TO INVEST IS FOR THE FIRMS THEMSELVES TO MAKE. BUT THE DECISION NOT TO DO SO - AND NOT PARTICIPATE IN THE MANUFACTURING, SERVICE, DISTRIBUTION AND R&D NETWORKS, MANY OF WHICH, AS I HAVE STATED, START IN JAPAN, AND THEN CONNECT TO THE CHINESE, KOREAN AND EAST ASIAN MARKETS - THAT DECISION SHOULD ALSO BE A CORPORATE ONE.
- THE DECISION NOT TO PARTICIPATE IN THE JAPANESE ECONOMY SHOULD BE BASED ON THE SAME DUE DILIGENCE - WHAT ARE THE COSTS, WHAT ARE THE OPPORTUNITIES, WHAT ARE THE COMPETITORS UP TO - THAT WOULD GO INTO DECIDING OTHERWISE. IN THE END, PUT IN TERMS OF BUSINESS RISK, THE RISKS ASSOCIATED WITH NOT BEING INVOLVED MAY BE GREATER THEN THE RISK OF DOING SO.
- I MUST SAY THAT I AM ENCOURAGED BY THE FACT THAT CANADA'S RELATIONS WITH JAPAN HAVE BEEN RE-ENERGISED BY PM MARTIN'S VISIT TO JAPAN LAST JANUARY, WHEN AGREEMENTS WERE CONCLUDED WITH PM KOIZUMI ON AN ECONOMIC FRAMEWORK.
- IMPORTANTLY, THE TWO GOVERNMENTS HAVE AGREED AS WELL TO CONDUCT A SERIOUS EVALUATION OF OUR ECONOMIC RELATIONSHIP, TO DETERMINE WHAT CAN BE DONE TO OPTIMIZE ADVANTAGES. CANADA SUCCEEDED IN GETTING THE NOTION OF LIBERALIZATION INTRODUCED AMONG THE TERMS OF REFERENCE OF THE STUDY. CANADIAN BUSINESS VIEWS WILL BE SOUGHT AS THE PROCESS MOVES FORWARD, AND WE ARE ENCOURAGING THE JAPANESE GOVERNMENT TO CONSULT WITH THE KEIDANREN AND OTHERS, IN THE SAME SPIRIT. WATCH THIS SPACE.

CONCLUSION

- THE BOTTOM LINE IS THAT CANADIANS HAVE TO MAKE CHOICES, BASED ON THEIR ASSESSMENT OF COSTS AND BENEFITS. I FIRMLY BELIEVE THAT IF WE CAN GET THE MESSAGE OUT ABOUT THE PROGRESS OF REFORM AND TRANSFORMATION IN JAPAN, THE MESSAGE OUT ABOUT THE SUSTAINED TURN-AROUND OF THE JAPANESE ECONOMY, THE MESSAGE OUT ABOUT THE NATURAL CAPACITY OF TWO

VERY HIGH TECH ECONOMIES TO SHARE BUSINESS OPPORTUNITIES, CANADIANS,
IN THE PURSUIT OF THEIR INTERESTS, WILL RESPOND.

- THANK YOU.

JOSEPH CARON, TOKYO, JAPAN, 311005