

## **A NEW JAPAN FOR A NEW CANADA: RECONNECTING TO AN ECONOMIC SUPERPOWER**

### **SUMMARY**

Ambassador Caron will argue for a re-assessment of Japan, and its renewed energy and confidence, in light of the economic, political and diplomatic reforms that have been implemented in the last decade. The largest economy and most stable democracy in Asia – by far – is a partner of choice in the pursuit of our national, corporate and individual objectives.

### **INTRODUCTION**

I AM VERY PLEASED TO HAVE BEEN INVITED TO SPEAK TO THE ECONOMIC CLUB OF TORONTO THIS MORNING.

I AM HERE TODAY TO SPEAK TO YOU ABOUT JAPAN, BUT REALLY, MY STARTING POINT, AND INDEED MY END POINT, IS TO SPEAK TO YOU ABOUT CANADA.

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FOR A COUNTRY AS OPEN TO THE WORLD AS IS CANADA, FOREIGN RELATIONS IS AS MUCH A MATTER OF CONCERN TO AND INVOLVEMENT BUSINESS, THE MEDIA, EDUCATIONAL INSTITUTIONS, ART AND PERFORMANCE GROUPS, AS IT IS TO GOVERNMENTS, BOTH NATIONAL AND PROVINCIAL. TO ME, FOREIGN RELATIONS AND OUR OVER-RIDING FOREIGN POLICIES, BEGIN AND END IN CANADA. WHAT WE ARE TALKING ABOUT TODAY AND EVERY DAY IS THE PURSUIT OF OUR INTERESTS, OF OUR PURPOSES AS INSTITUTIONS AND AS INDIVIDUALS.

FOREIGN RELATIONS – FOR GOVERNMENT OR FOR BUSINESS OR FOR THE MEDIA OR OTHERS - IS SIMPLY PURSUING BEYOND OUR BORDERS THE OBJECTIVES WE SET FOR OURSELVES AT HOME.

AS A COUNTRY, WE SEEK TO HAVE MUTUALLY BENEFICIAL RELATIONS WITH JUST ABOUT EVERY OTHER NATION IN THE WORLD. BUT THE REALITY IS THAT OUR RELATIONSHIPS WITH PERHAPS A DOZEN OR SO COUNTRIES PROVIDE US WITH MOST OF THE BENEFITS THAT WE CAN OBTAIN FROM ABROAD. IN VERY

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IMPORTANT WAYS, OUR MAJOR PARTNERS SHOULD BE SEEN AS EXTENSIONS OF CANADA. THEY ARE OUR MORE DISTANT PROVINCES, OUR CROSS-BORDER TERRITORIES, THE ONES THAT CONTRIBUTE TO OUR SECURITY, OUR MATERIAL WELL-BEING, AND OUR CULTURAL AND SPIRITUAL ENRICHMENT.

IN EVERY SENSE, THE UNITED STATES IS BY FAR OUR MOST IMPORTANT PARTNER, BECAUSE WE CAN PURSUE JUST ABOUT ALL OF OUR OBJECTIVES THROUGH RELATIONS WITH ITS GOVERNMENTS, ITS COMPANIES, ITS INSTITUTIONS AND ITS PEOPLE.

BUT THE UNITED STATES CAN'T PROVIDE FOR ALL OF OUR NEEDS. NOR WOULD MOST CANADIANS SUPPORT THE KIND OF MONOPOLISTIC AND MONOPSONISTIC SITUATION THAT WOULD MAKE US ENTIRELY DEPENDENT ON OUR SOUTHERN NEIGHBORS. I AM CONFIDENT THAT EVERYONE IN THIS ROOM UNDERSTANDS THE WISDOM OF PLACING ONE'S BETS ON SEVERAL HORSES, IN SEVERAL MARKETS AND WITH A VARIETY OF RELATIONSHIPS, SO

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THAT CYCLICAL SWINGS CAN BE MANAGED. MORE  
FUNDAMENTALLY, HUMAN INGENUITY AND SCIENTIFIC PROGRESS,  
NOT TO SPEAK OF ARTISTIC ENDEAVOUR AND INTELLECTUAL  
ENERGY, ARE FOUND VIRTUALLY EVERYWHERE ON THE PLANET.  
FOR ANYONE, ANY GROUP, ANY COMPANY TO LIMIT ITSELF TO ONE  
MARKET, EVEN THE LARGEST ONE, IS TO RISK NOT ACHIEVING  
ONES POTENTIAL. AMONG OTHER THINGS, SUCH NEGLECT CAN  
COST REAL MONEY AND REAL JOBS.

I AM HERE TODAY TO MAKE THE ARGUMENT THAT, IN THE PURSUIT  
OF OUR BROAD INTERESTS AND INDIVIDUAL GOALS, JAPAN  
DESERVES OUR RENEWED ATTENTION. AS I WILL DEMONSTRATE,  
FIRST, THAT JAPAN HAS TURNED THE CORNER ON A PAINFUL AND  
LENGTHY PERIOD OF RE-ADJUSTMENT AND IS NOW REAPING THE  
BENEFITS OF SIGNIFICANT REFORMS. SECONDLY, THERE ARE  
BEYOND THE CANADIAN BORDER INTERESTS THAT WE CAN BEST  
PURSUE IN AND WITH JAPAN.

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SEEKING TO ACHIEVE OUR INTERESTS IN AN INTERNATIONAL FRAMEWORK IS NOT A ZERO SUM GAME. I AM NOT SUGGESTING THAT A RENEWED INTEREST IN JAPAN SHOULD BE TRADED OFF AGAINST YOUR INTERESTS IN THE US OR IN THE E.U. EACH OF THESE MARKETS HAS UNIQUE ADVANTAGES AND RISKS. YOU CAN OBTAIN BENEFITS FROM DEALING WITH INDIA AND CHINA THAT YOU CAN'T GET FROM JAPAN. AS AN INTERNATIONAL BUSINESS OR ANY OTHER KIND OF INSTITUTION WITH BROAD INTERESTS, YOU HAVE TO DECIDE WHAT YOU WANT, AND WHERE YOU CAN BEST GET IT.

TO DO THAT, YOU HAVE TO STAY ON TOP OF THINGS. THAT IS WHY WE ARE DISCUSSING JAPAN THIS MORNING.

SOME OF YOU ARE AWARE THAT I HAVE SPENT MANY YEARS OF MY PROFESSIONAL LIFE IN JAPAN. INDEED, THIS IS THE FOURTH DECADE DURING WHICH I LIVE IN JAPAN, HAVING HAD PUBLIC AND PRIVATE SECTOR ASSIGNMENTS THERE IN THE 70s, 80s, 90s AND NOW IN THE SECOND HALF OF THE FIRST DECADE OF OUR NEW

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MILLENNIUM. BASED ON THIS EXPERIENCE, I CAN SAY IN ALL HONESTY THAT I HAVE SEEN MORE CHANGE IN JAPAN IN THE LAST DECADE, THAN IN ANY OTHER PERIOD OVER THE LAST 30 OR SO YEARS. LET ME DESCRIBE SOME OF THIS FOR YOU.

### THE OLD JAPAN

THINK BACK TWO DECADES. THE 1985 PLAZA ACCORD ON EXCHANGE RATES HELPED LAUNCH A SPECTACULAR RISE IN ASSET VALUES IN JAPAN, ONE THAT LEAD TO 6 YEARS OF UNPRECEDENTED DOMESTIC GROWTH, INTERNATIONAL EXPANSION, AND EXCITEMENT AND PROMISE. AN ERA OF VIRTUALLY FREE MONEY FROM BANKS THAT HAD FORGOTTEN NOTIONS OF RETURN ON INVESTMENT AND MORAL HAZARD. JAPAN AS NUMBER ONE. THE TOKYO STOCK EXCHANGE OUTDISTANCING NEW YORK AND LONDON. JAPANESE PURCHASE OF THE ROCKEFELLER CENTER, THE BURNING TREE GOLF COURSE. COLUMBIA PICTURES. JAPANESE CORPORATIONS WERE SEEMINGLY UNSTOPPABLE, HAVING INVENTED NEW CORPORATE

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CULTURES AND EMPLOYER-EMPLOYEE RELATIONS. THE JAPANESE, CAUGHT IN A CYCLE OF UNPRECEDENTED HUBRIS, THOUGHT THAT THEY HAD INVENTED AN ANTI-GRAVITY MACHINE, AND FOR A WHILE, WE THOUGHT SO TO.

WE READ MANAGEMENT BOOKS ON JAPAN, WENT TO SEE KABUKI AND NOH PLAYS IN OUR THEATRES, DRESSED IN FASHIONABLE BLACK SUITS AND T-SHIRTS. WE DEVELOPED A TASTE FOR SUSHI, HOPING TO ABSORB SOME OF JAPAN'S ENERGY THROUGH THE HERETOFORE UNTHINKABLE PRACTICE OF EATING RAW FISH.

UNFORTUNATELY, IN JAPAN LIKE EVERYWHERE ELSE, THE PARTY DOESN'T LAST FOREVER. IN THE FINE TRADITION OF GREEK TRAGEDY, RETRIBUTION FOR ALL OF JAPAN'S SUCCESS WAS SOON AT HAND. THE TURN-AROUND WAS PRECIPITATED BY NOTHING MORE MYSTERIOUS THAN DECISIONS BY THE BANK OF JAPAN TO INCREASE INTEREST RATES AND REDUCE THE FLOW OF LOANS TO THE REAL ESTATE SECTOR. AS WELL, JAPAN FACED A WEAK INTERNATIONAL TRADING ENVIRONMENT.

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ASSET PRICES STOPPED RISING, AND BEGAN A PRECIPITOUS DECLINE. FREE MONEY, IT TURNED OUT, HAD LEAD TO BAD INVESTMENTS AND BAD DEBTS. RETURN ON INVESTMENT SUDDENLY MATTERED. LOANS EVENTUALLY HAD TO BE REPAYED. BADLY RUN COMPANIES COULD ONLY BE KEPT ON LIFE SUPPORT FOR SO LONG. THE RULING LIBERAL DEMOCRATIC PARTY, HEAVILY DEPENDENT ON A SHRINKING RURAL POPULATION, COULD ONLY MANIPULATE THE ELECTORAL SYSTEM SO MUCH. URBAN VOTERS WERE UP IN ARMS OVER STAGNATING EMPLOYMENT AND LOSS OF NATIONAL MOMENTUM.

JAPAN FOUND IT DIFFICULT TO RESPOND TO OTHER FUNDAMENTAL, INDEED STRUCTURAL, CHALLENGES:

- ∞ A GLOBAL ECONOMIC DOWNTURN REDUCED THE CONFIDENCE OF CONSUMERS;
- ∞ A SUCCESSION OF CORRUPTION SCANDALS TARNISHED THE REPUTATION OF JAPAN'S MANAGERS: THE LDP, THE



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BUREAUCRACY AND ELEMENTS OF THE BUSINESS

COMMUNITY;

- ∞ TIENANMEN AND THE COLLAPSE OF THE SOVIET UNION  
CONTRIBUTED TO UNCERTAINTY ABOUT JAPAN'S STRATEGIC  
DIRECTION.

THESE AND OTHER FACTORS MARKED THE BEGINNING OF THE  
“LOST DECADE” OF THE 1990s, A PERIOD THAT SERIOUSLY  
TARNISHED JAPAN'S IMAGE. SO BADLY, IN FACT, THAT JAPAN  
REMAINS TODAY SADDLED WITH A REPUTATION THAT IT NO  
LONGER DESERVES.

NEVERTHELESS, IT IS UNDENIABLE THAT JAPAN MADE SOME BAD  
ECONOMIC CHOICES, SUCH AS RAISING THE CONSUMPTION TAX IN  
1996, OR INTEREST RATES IN THE YEAR 2000. WHAT HAD SEEMED  
LIKE RATIONAL DECISIONS BY BUSINESS IN THE GO-GO 1980s,  
BECAME IN THE 1990s, EXCESS DEBT, EXCESS CAPACITY, AND  
EXCESS STAFF, LEADING TO STAGNATION IN INVESTMENT, IN THE

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LABOUR MARKETS, AND THE FURTHER COLLAPSE OF ASSET PRICES.

FISCAL POLICY WAS VERY EXPANSIONARY, WITH MUCH OF THE SPENDING ON WASTEFUL PUBLIC WORKS. REFORM OF THE MICRO-ECONOMIC FRAMEWORK WAS HESITANT AND THE EFFICIENCY OF THE ECONOMY SUFFERED. JAPAN WAS IN A SERIOUS ECONOMIC CRISIS.

THE COMBINATION OF THE ASIAN FINANCIAL CRISIS AND THE COLLAPSE OF THE DOT-COM BUBBLE WAS THE WAKEUP CALL. THE FINANCIAL SECTOR WAS UNDER SERIOUS AND THREATENING STRAIN. FALLING EXPORT MARKETS MADE THE DOMESTIC ECONOMIC SITUATION EVEN MORE VULNERABLE. BUSINESS FIRMS, FOR THEIR PART, WERE FACED WITH A STARK CHOICE - RESTRUCTURE, PAY DOWN DEBT, OR DIE. THE BANKS REALIZED THAT IF THEY DIDN'T FIX THEIR BALANCE SHEETS AND FORECLOSE ON BAD LENDERS, THEY WOULD FACE DOMESTIC AND INTERNATIONAL SANCTIONS, POSSIBLY EVEN NATIONALIZATION.

A CRITICAL MASS OF OPINION IN JAPAN CAME TO THE VIEW THAT OTHER FUNDAMENTAL CHANGES WERE ALSO NECESSARY TO REVERSE THE DEFLATIONARY STAGNATION THAT AFFECTED THE SPIRIT AS MUCH AS IT DID ECONOMIC PERFORMANCE.

THE SOLUTIONS WERE EASY TO IDENTIFY: REDUCE REGULATIONS AND ALLOW MORE SPACE FOR MARKET BASED DECISION MAKING; PROVIDE A WELCOMING ENVIRONMENT TO ENTREPRENEURS AND RISK CAPITAL; ALLOW MORE FOREIGN INVOLVEMENT IN THE ECONOMY, INCLUDING WITHIN THE MANAGEMENT OF CORPORATIONS; INTRODUCE A FUNCTIONING BANKRUPTCY SYSTEM; REDUCE THE DEPENDENCE OF THE ECONOMY ON PUBLIC EXPENDITURES; LIBERALIZE THE SERVICES SECTOR SO THAT IT BECOMES INTERNATIONALLY COMPETITIVE; REDUCE THE POWER OF INTEREST GROUPS IN THE FORMULATION OF PUBLIC POLICIES. AND SO FORTH.

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IT IS A LONG LIST, BUT, IN FACT, THIS IS LARGELY WHAT HAS TAKEN PLACE. FOR EXAMPLE, IN 1996, THE INTRODUCTION OF SINGLE CONSTITUENCY ELECTORAL SYSTEM BEGAN THE PROCESS OF REDUCING THE INFLUENCE OF THE MOST ANTI-MARKET INTEREST GROUPS IN THE COUNTRY: THE ORGANIZED FARMING COMMUNITY AND ITS AGRIBUSINESS PARTNERS; THE HEALTH INDUSTRY; THE CONSTRUCTION INDUSTRY, AND OTHERS.

IN 1998, ECONOMIC MINISTER TAKENAKA HEIZO INTRODUCED A “BIG BANG” BANK REFORM PACKAGE, WHICH SOUGHT TO REDUCE NON-PERFORMING LOAN PORTFOLIOS TO SUSTAINABLE LEVELS.

IN 2001, THE LDP CHOSE KOIZUMI JUNICHIRO AS ITS LEADER. KOIZUMI HAD CAMPAIGNED FOR LEADERSHIP OF THE PARTY ON THE RATHER NOVEL PLATFORM OF PROMISING TO DESTROY THE PARTY: NO GROWTH WITHOUT REFORM, HE BELIEVED, CONTRARY TO THE CONSERVATIVE VIEW THAT THERE CAN BE NO REFORM UNTIL THE ECONOMY IS TURNED AROUND. NOT ONLY THAT, BUT KOIZUMI, RATHER THAN ACTING AS A SCRIPTED FALL-GUY, AND

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AGAINST THE EXPECTATIONS OF MANY, ACTUALLY LAUNCHED THE PROCESS THAT HAS TRANSFORMED THE LIBERAL DEMOCRATIC PARTY AND LED TO THREE MAJORITY ELECTORAL VICTORIES, ALL THE WHILE SIGNIFICANTLY CHANGING BOTH THE POLITICAL LANDSCAPE AND THE RULES OF THE GAME IN JAPANESE POLITICS.

PRIME MINISTER KOIZUMI'S UNWAVERING RHETORICAL COMMITMENT TO FUNDAMENTAL REFORM AND THE RELATIVE POLITICAL STABILITY OF FIVE YEARS OF POWER AND THREE MAJOR ELECTORAL VICTORIES PROVIDED THE BREATHING SPACE FOR ELEMENTS OF THE GOVERNMENT AND SIGNIFICANT PARTS OF THE PRIVATE SECTOR TO PUT INTO EFFECT SUBSTANTIAL CHANGE.

LET ME JUST DESCRIBE SOME OF THE ECONOMIC REFORMS THAT HAVE BEEN PUT IN PLACE, AND THEIR CONSEQUENCES, TO MAKE THE CASE THAT JAPAN HAS CHANGED VERY SIGNIFICANTLY IN THE LAST DECADE, AND THAT THESE CHANGES HAVE MADE THE CURRENT ECONOMIC TURN-AROUND SUSTAINABLE. THE 1990s

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IMAGE OF JAPAN IS OUT OF DATE. WE ARE TALKING ABOUT A NEW,  
A RENEWED JAPAN.

### **REFORM OF THE MICRO-ECONOMY**

MICRO-ECONOMIC REFORM IS THE MOST TRANSFORMATIVE  
ELEMENT IN TODAY'S JAPAN.

LET ME PROVIDE A FEW EXAMPLES:

THE TAKENAKA PLAN FOR REDUCING BANK DEBT AIMED AT A 50%  
REDUCTION BY 2004. BANKS EASILY MET THAT TARGET. NPLs AT  
MAJOR BANKS WERE AT 2.4% OF ASSETS IN THE LAST QUARTER OF  
2005. BANKS ARE MAKING RECORD PROFITS, WITH THE RISE IN  
INTEREST RATES WILL LIKELY STRENGTHEN THIS POSITION  
OVERALL. WHEN I LIVED IN JAPAN IN THE 1990s, THERE WERE 12  
MAJOR CITY BANKS. TODAY THERE ARE THREE, NONE OF WHOM  
EXISTED AT THE TURN OF THE CENTURY.

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THE 1998 "BIG BANG" IN THE BANKING SECTOR AND CREATION OF THE NEW REGULATORY FINANCIAL SERVICES AGENCY HAVE ALSO RESULTED IN THE REDUCTION OF CORPORATE DEBT. DEBT LEVELS ARE NOW LESS THAN WAS THE CASE IN THE PRE-BUBBLE 1970s, COMPANIES HAVING REPAID DEBTS EQUIVALENT TO 40% OF JAPAN'S GDP. THE LIABILITY TO BALANCE SHEET RATIO IS THE LOWEST IN 50 YEARS. PROFITABILITY IS AT 50 YEAR HIGHS. CAPACITY UTILIZATION RATES HAVE RETURNED TO 1992 LEVELS, AND TANKAN SURVEYS REFLECT BUSINESS OPINION THAT EXCESS CAPACITY HAS BEEN ELIMINATED.

SOME OF THESE RESULTS EMERGE FROM THE FACT THAT THERE HAS BEEN SUBSTANTIAL DEREGULATION IN TELECOMS, TRANSPORTATION, ENERGY, AND RETAILING.

THERE ARE MAJOR REFORMS TO ANTI-TRUST LAWS, AND A STRONGER FAIR TRADE COMMISSION TO ADMINISTER THEM.

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THERE IS GREATER READINESS BY THE TOKYO STOCK EXCHANGE TO DISCIPLINE ITS MEMBERS.

THE COMMERCIAL CODE HAS BEEN OVERHAULED TO FACILITATE MORE RATIONAL MOVEMENT OF ASSETS, INCLUDING THOSE OF BANKRUPT COMPANIES; THE TAX CODE IS BEING REVISED TO ALLOW FOREIGN FIRMS TO USE SHARES IN THEIR COMPANIES FOR MERGERS AND ACQUISITIONS.

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 IN THE NEIGHBOURHOOD OF 20%. A DECADE OR MORE AGO, ONLY 6% OF SHARES WERE HELD BY FOREIGN INVESTORS. TODAY, THEY HOLD 24%. FOREIGN AND DOMESTIC INVESTMENT FUNDS AND PARTNERSHIPS ARE DAILY CHALLENGING EXISTING MANAGEMENT, AND SIGNATURE



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COMPANIES SUCH AS NISSAN AND SONY ARE HEADED BY FOREIGNERS.

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 CITYSCAPES ARE DOWN TO 3.

GREATER FLEXIBILITY IN LABOUR MARKETS UNDERPINS INDICATIONS THAT FULL-TIME CONTRACT EMPLOYMENT IS GROWING FASTER THAN PART-TIME FOR THE FIRST TIME IN A DECADE, AND THERE ARE OTHER INDICATIONS THAT FULL TIME REGULAR EMPLOYMENT IS ALSO INCREASING. WAGES ARE RISING FOR THE FIRST TIME SINCE 1998. THERE ARE NOW MORE NEW JOBS ON THE MARKET THAN THERE ARE JOB SEEKERS.

VERY SIGNIFICANTLY, ALL THROUGH THE DIFFICULT DECADE, JAPAN - BOTH PUBLIC AND PRIVATE SECTORS - CONTINUED TO

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INVEST STRATEGICALLY IN R&D, GENERATING THE INNOVATIONS YOU SEE TODAY IN THE WORLD MARKETPLACE: HYBRID CARS, LARGE PLASMA AND LCD SCREEN TVs, DIGITAL CAMERAS AND 3RD AND 4TH GENERATION WIRELESS AND INTERNET TECHNOLOGY. JAPAN IS LEVERAGING ITS RICH HUMAN CAPITAL. DURING THE LAST FEW YEARS, JAPANESE NATIONAL UNIVERSITIES HAVE BROKE FREE OF THE STATE NET AND ARE NOW MORE INDEPENDENT AND ABLE TO CARRY ON MORE RESEARCH JOINTLY WITH INDUSTRY - BOTH DOMESTIC AND FOREIGN. THERE HAS BEEN A REMARKABLE GROWTH IN THE VOLUME OF PATENTS AND THE VALUE OF LICENSING OF TECHNOLOGY UNDERTAKEN BY JAPAN'S NETWORK OF UNIVERSITIES AND GOVERNMENT RESEARCH LABS. ATTENTION TO PIONEERING SCIENTIFIC AND TECHNOLOGICAL DEVELOPMENTS HAS MADE JAPAN, IN MANY WAYS, THE FIRST POST INDUSTRIAL NATION.

THESE AND OTHER CHANGES UNDERPIN THE ARGUMENT THAT JAPAN'S ECONOMY HAS TURNED AROUND FUNDAMENTALLY. THIS

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IS NOW CONSISTENTLY REFLECTED IN THE MACROECONOMIC NUMBERS.

### **RECOVERING ECONOMY**

THE JAPANESE ECONOMY EXPANDED BY 0.1% IN 2002, 1.8% IN 2003, 2.3% IN 2004, 2.7% LAST YEAR INCLUDING 5.4% IN THE LAST QUARTER OF THE LAST CALENDAR YEAR. IT IS WORTH NOTING THAT A 2.7% INCREASE IN GDP ADDS \$160 BILLION TO THE ECONOMY, WHICH IN TURN IS ABOUT 12% OF THE SIZE OF THE CANADIAN ECONOMY AS A WHOLE. THE JAPANESE ECONOMY IS BASICALLY EQUIVALENT TO THE USA ECONOMY, FROM THE MISSISSIPPI RIVER ALL THE WAY TO THE PACIFIC OCEAN.

AS OF THE END OF APRIL, JAPAN HAS SEEN STEADY GROWTH DURING THE LAST 51 MONTHS, MAKING THIS ERA THE SECOND LONGEST GROWTH PERIOD SINCE THE LAST HALF OF THE 1960s.

SINCE THE YEAR 2000, GROWTH HAS DEPENDED NOT ON PUBLIC EXPENDITURES, WHOSE SHARE OF THE NATIONAL BUDGET HAS

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DECLINED STEADILY OVER THE LAST HALF DECADE, TOWARDS DEPENDENCE ON DOMESTIC INVESTMENT, CONSUMER DEMAND AND EXPORTS. THIS GROWTH HAS BEEN STRONGEST IN THE LARGE URBAN AREAS OF TOKYO, OSAKA, NAGOYA AND NORTHERN KYUSHU. IN CONTRAST, SOME OF THE OUTLYING PREFECTURES ARE EXPERIENCING CONTINUING ECONOMIC WEAKNESS AND EVEN A NET DECLINE IN POPULATION.

SIMILAR SIGNIFICANT MACRO ECONOMIC TREND LINES ARE OBSERVED IN THE RISE OF HOUSEHOLD CONSUMPTION, PRIVATE NON-RESIDENTIAL INVESTMENT, BUSINESS PROFIT GROWTH, AND FIXED BUSINESS INVESTMENTS. THESE AND OTHER INDICATORS, IN SUCH A LARGE AND MATURE ECONOMY, UNDERPIN JAPAN'S ADDITIONAL STRENGTHS IN TERMS OF ENERGY EFFICIENCY, AND TECHNOLOGICAL DOMINANCE.

THERE IS ANOTHER FACTOR TO BEAR IN MIND. AND THAT IS THE IMPORTANCE OF CONFIDENCE. IN THE BUSINESS SECTOR, THE TANKAN SURVEYS OF BUSINESS ATTITUDES DEMONSTRATE, IN

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BOTH MANUFACTURING AND NON-MANUFACTURING, A CONSTANT AND UPWARD TREND, TO REACH THE HIGHEST IN 5 YEARS. THE SAME CAN BE SAID REGARDING THE PROSPECTS FOR CORPORATE FINANCE AND THE LENDING ATTITUDE OF FINANCIAL INSTITUTIONS.

THIS IS ALSO REFLECTED IN THE STOCK MARKET INDICES, WHICH HAVE BEEN RISING SINCE EARLY 2003.

ALSO SIGNIFICANT IS THE IMPACT OF GLOBALIZATION ON JAPAN.

SINCE THE OPENING OF JAPAN TO THE OUTSIDE WORLD IN THE MID-19<sup>TH</sup> CENTURY, JAPAN HAS BEEN AN IMPORTANT TRADING NATION. INDEED, ITS IMPACT ON CANADA AND THE WORLD IN THE POST WAR ERA WAS VERY MUCH THROUGH ITS PURCHASE OF OUR RESOURCES AND THE EXPORT OF ITS INCREASINGLY ATTRACTIVE AND COMPETITIVE PRODUCTS AND GOODS.

IN MY VIEW, GLOBALIZATION HAS TRANSFORMED JAPAN FROM A TRADING NATION, TO AN INVESTING NATION AND, INCREASINGLY,

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AN INVESTED NATION. JAPAN'S FDI STOCK IS ROUGHLY ON PAR WITH THAT OF GERMANY OR FRANCE. IT IS CONCENTRATED IN ASIA. COMBINED WITH JAPAN'S TECHNOLOGICAL LEAD, JAPAN IS AT THE CENTER OF MANY OF THE ASIAN REGION'S SUPPLY CHAINS. ITS COMPANIES ARE LEAD PLAYERS IN CHINA, THROUGHOUT SOUTH EAST ASIA, EVEN IN KOREA.

BUT WHAT IS ALSO IMPORTANT IS THAT INWARD INVESTMENT HAS BECOME SIGNIFICANT, ESPECIALLY PORTFOLIO INVESTMENT. THIS HAS, AS NOTED ABOVE, BROUGHT A DEGREE OF INTERNATIONALIZATION TO JAPAN THAT CULTURAL IMPORTS THROUGH MEDIA AND THE MOVIES HAD NOT EARLIER ACHIEVED.

JAPAN IS THUS MORE OBVIOUSLY INTERNATIONAL THAN IT HAS EVER BEEN, AND MORE OPEN TO NEW IDEAS, NEW PRODUCTS AND NEW PARTNERS.

YES, THERE ARE PROBLEMS. THE JAPANESE BELIEVE THAT KOIZUMI'S FIVE YEARS HAVE RESULTED IN REAL PROGRESS IN

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ADDRESSING THE ISSUES THAT AROSE DURING THE 1990s. BUT THEY ALSO FEEL THAT THERE IS GROWING INEQUALITY IN JAPAN. THEY KNOW THAT GOVERNMENT DEBT IS NOW 95% OF GDP AND THAT SERIOUS TAX, PENSION AND MEDICAL INSURANCE REFORMS ARE ESSENTIAL. THEY UNDERSTAND THAT REFORM IS NOT COMPLETE. THEY REALIZE THAT DEMOGRAPHICS ARE NOT IN THEIR FAVOR, AS THE POPULATION GETS OLDER AND THE BIRTH RATES ARE TOO LOW.

BUT THEY THINK THAT A NUMBER OF STRUCTURAL PROBLEMS HAVE OR ARE BEING SOLVED, AND THUS THEY ARE CONFIDENT IN THEIR PROSPECTS FOR THE FUTURE.

### **THE CANADIAN DIMENSION**

IT IS IN OUR INTERESTS, IN THE INTEREST OF CANADIANS, IN THE INTEREST OF EVERYONE HERE TODAY, THAT WE ACKNOWLEDGE AND SHARE THIS CONFIDENCE.

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WE HAVE TO RECALIBRATE WHAT IT IS THAT WE CAN OBTAIN FROM JAPAN, IN THE PURSUIT OF OUR NATIONAL, CORPORATE, INSTITUTIONAL AND PERSONAL OBJECTIVES FROM THESE NEW REALITIES.

WE HAVE TO REMEMBER THAT, IN DISCUSSING JAPAN, WE ARE TALKING ABOUT THE WORLD'S SECOND ECONOMY, BIGGER THAN ALL OF THE OTHER ECONOMIES OF ASIA. ALMOST THREE CHINA. MORE THAN TWICE THE UK, MUCH LARGER THAN GERMANY. THE REGION AROUND TOKYO, WHERE I LIVE, HAS A BIGGER ECONOMY THAN THAT OF CANADA. WE ARE TALKING ABOUT THE USA WEST OF THE MISSISSIPPI. THE COUNTRY WITH THE HIGHEST INDIVIDUAL ASSETS IN THE WORLD. THE WORLD'S BIGGEST CREDITOR NATION.

SO, GOING BACK TO OUR STARTING POINT, AND AT THE RISK OF PUTTING IT RATHER CRUDELY, WHAT IS IT THAT WE, AS CANADIANS, CAN GET FROM THIS RENEWED JAPAN? WHAT INTERESTS CAN WE PROFITABLY PURSUE?



I COULD MENTION SOME OTHER AREAS OF INTEREST, BUT LET ME FOCUS ON FUTURE TRADE AND ECONOMIC POTENTIAL.

CANADIANS ARE NOW SELLING ABOUT \$1 BILLION IN GOODS AND SERVICES TO JAPAN EVERY MONTH. SIMILARLY, OUR IMPORTS FROM JAPAN ARE OVER \$1 BILLION PER MONTH. COUNTING IN BOTH DIRECTIONS, TRADE IN GOODS AND SERVICES BETWEEN CANADA AND JAPAN ACCOUNT FOR ABOUT 10% OF OUR TOTAL NON-USA TRADE.

ONE BILLION A MONTH BUYS A LOT OF OUR RESOURCES. PORK FROM OUR FOOD PRODUCERS IN MANITOBA AND QUÉBEC. POTASH AND URANIUM FROM SASKATCHEWAN. FOREST PRODUCTS AND COAL FROM B.C. WHEAT AND CANOLA FROM ALL THREE WESTERN PROVINCES. JAPAN IS EITHER THE BIGGEST OFF-SHORE PURCHASER OF THESE GOODS FROM CANADA, OR THE SECOND LARGEST BUYER.

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BUT IT ALSO BUYS AUTO PARTS AND INSURANCE SERVICES FROM ONTARIO AND COMPUTER SOFTWARE FROM QUÉBEC. IT BUYS A BILLION DOLLARS OF FISH AND SEAFOOD PRODUCTS FROM THE MARITIMES EVERY YEAR. JUST THE 6% INCREASE IN OUR TRADE WITH JAPAN LAST YEAR – VALUED AT OVER \$560 MILLION – WAS GREATER THAN OUR TOTAL EXPORTS TO RUSSIA

THE FACT OF THE MATTER IS THAT THE JAPANESE ARE AMONG THE WEALTHIEST PEOPLE IN THE WORLD, WITH SOME OF THE BROADEST DISTRIBUTION OF INCOME. THUS, IF YOU ARE IN RESOURCES OR IN HIGH TECH OR IN SERVICES OR JUST ABOUT EVERYTHING IN BETWEEN, JAPAN HAS OPPORTUNITIES THAT YOU CAN FIND IN FEW OTHER MARKETS, IF ANY.

IT IS WORTH THINKING OF JAPAN AS THE COUNTRY WITH THE HIGHEST PER CAPITA R&D EXPENDITURES IN THE WORLD, AND MUCH HIGHER THAN IN CANADA. WE TEND TO THINK OF JAPAN AS WEAK IN PURE SCIENCES, BUT ADEPT AT TURNING OTHER PEOPLE'S IDEAS INTO SUCCESSFUL PRODUCTS.

LIKE IN JUST ABOUT EVERY AREA OF ENDEAVOUR, WE HAVE TO THINK AGAIN.

IF YOU ARE IN THE LIFE SCIENCES, YOU HAVE TO DEAL WITH JAPAN, WHICH HAS THE LEAD IN MANY AREAS OF GENOMICS, MOLECULAR IMMUNOLOGY, BRAIN SCIENCE AND TOXICOLOGY.

IF YOUR ARE IN ENVIRONMENTAL GOODS OR ENGINEERING SERVICES, JAPAN HAS THE LEAD, ESPECIALLY IN SUCH AREAS AS FUEL EFFICIENT VEHICLES AND HYBRID CARS. IT IS CUTTING EDGE IN THE GEOSCIENCES, FOR EXAMPLE IN SIMULATION OF CLIMATE CHANGE.

EVERYONE KNOWS THAT IN ICT, JAPAN IS THE WORLD LEADER IN INSERTING TECHNOLOGY INTO PRODUCTS. BUT IT IS ALSO CUTTING EDGE IN NEW INTERNET PROTOCOLS, WIRELESS APPLICATIONS, AND IN SUCH NEW AREAS AS MOLECULAR TRANSISTORS AND FILTERS.

JAPAN IS WHERE YOU WANT TO PURSUE YOUR PARTNERSHIPS IN NANOTECHNOLOGY, IN HIGH ENERGY PHYSICS, CERAMICS, NEW MATERIALS, POLYMERS.

JAPAN HAS THE LEAD IN ELECTRONIC GAMING AND ANIMATION – IF YOU DON'T BELIEVE ME, AS YOUR KIDS – WITH ABOUT 30% OF THE WORLD MARKET.

IT REMAINS THE WORLD LEADER IN INDUSTRIAL AND PERSONAL ROBOTS.

JAPAN IS ONTARIO'S BIGGEST SOYBEAN MARKET WORLD WIDE, BUT BECAUSE OF ITS AGING POPULATION AND A 60% DEPENDENCE ON IMPORTED FOODSTUFFS, IT IS BECOMING THE WORLD'S LEADING MARKET FOR ORGANIC, GOURMET AND FUNCTIONAL FOODS, NUTRICEUTICALS, AND OTHER PREPARED FOOD PRODUCTS.

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JAPAN AND CANADA SHARE A STRONG COMMITMENT TO FOOD SAFETY. WE ARE IN THE LEAD ON ISSUES RELATED TO TRACEABILITY, TRACKING AND RISK MANAGEMENT. THE JAPANESE NEED OUR FOOD AND WE NEED THEIR MARKET.

JAPANESE COMPANIES HAVE A SPECIAL RELATIONSHIP WITH ONTARIO. THIS PROVINCE HAS ABOUT 50% OF JAPAN'S FDI IN CANADA, WITH INVESTMENTS BY SUCH CORPORATE GIANTS AS TOYOTA, HONDA, SUZUKI AND CANON. ONE QUARTER OF ONTARIO'S AUTO EXPORTS COME OUT OF JAPANESE INVESTED FACTORIES, LOCATED LARGELY IN THIS REGION. YOU SELL TOURISM SERVICES TO WELL OVER 100,000 JAPANESE TOURISTS A YEAR.

FOR QUÉBEC, JAPAN IS THE BIGGEST PORK MARKET OF ALL. IT IS ALSO THE SECOND MARKET FOR MAPLE SYRUP. ALMOST 10% OF JAPAN'S INVESTMENTS ARE IN THIS PROVINCE.

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MOST PEOPLE WILL BE AWARE OF THE FONDNESS OF JAPANESE FOR ARTS AND CULTURAL PRODUCTS, BUT FEW WILL KNOW THAT LAST YEAR, 55 NEW CDs WERE RELEASED BY CANADIAN ARTISTS IN JAPAN, AND OVER 40 ROCK BANDS TOURED THE COUNTRY OR PARTICIPATED IN MUSIC FESTIVALS. UNIVERSAL, SONY, WARNER MUSIC AND OTHER MAJORS HAVE EACH RELEASED CANADIAN MUSIC IN JAPAN IN THE LAST 12 MONTHS.

IN THE LAST 16 MONTHS, 15 CANADIAN FILMS HAVE BEEN RELEASED ON THE JAPANESE MARKET AS WELL. TORONTO'S OWN NIV FICHMAN HAS JUST FINISHED SHOOTING A JAPANESE-CANADIAN CO-PRODUCTION OF 'SILK', BASED ON THE BEST SELLER OF THE SAME NAME.

AND A COUPLE OF WEEKS AGO, I PARTICIPATED IN A SOD TURNING CEREMONY IN TOKYO FOR THE NEW PERMANENT FACILITY FOR CIRQUE DU SOLEIL, JUST OUTSIDE THE GATES OF DISNEYLAND.

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## **CONCLUSION**

SO WHERE DOES THIS TAKE US?

EVERY DAY WE READ IN THE NEWSPAPER THAT CHINA'S ECONOMIC GROWTH IS ONE OF THE MOST TRANSFORMATIVE FEATURES OF OUR NEW CENTURY. I WON'T ARGUE AGAINST THAT INTERPRETATION, HAVING BEEN A STRONG PROPONENT OF THIS VIEW DURING MY YEARS AS AMBASSADOR IN BEIJING. THERE ARE FEW INDEXES OR CHARTS DESCRIBING CHINA'S ECONOMIC DEVELOPMENT THAT DON'T SHOW A SEEMINGLY INEXORABLE VERTICAL, UPWARD MOVEMENT. JUST ABOUT EVERYTHING IN CHINA IS GOING UP.

HAVING EXPERIENCED BOTH CHINA AND JAPAN FIRST HAND, I WOULD DESCRIBE JAPAN'S RE-EMERGENCE AS GROWING HORIZONTALLY; AS BROADENING THE REACH OF ITS DOMESTIC MARKETS, THROUGH REGULATORY REFORM; AS OPENING ITSELF TO FOREIGN INFLUENCE THROUGH THE WORKS OF INWARD FDI

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AND MARKET OPENING MEASURES; AS INCREASING ITS INFLUENCE THROUGH ITS INVESTMENTS ABROAD; AS EXPANDING ITS DOMESTIC MARKETS BECAUSE OF THE DEMANDS OF A WEALTHY AND AN AGING POPULATION.

THIS HORIZONTAL BROADENING OF JAPAN'S REACH WON'T END THERE. BEYOND THE NEGOTIATIONS IN THE DOHA DEVELOPMENT ROUND, JAPAN IS BUSILY NEGOTIATING BILATERAL AND PLURILATERAL TRADE AND ECONOMIC AGREEMENTS WITH A NUMBER OF COUNTRIES, TO ANCHOR ITS POSITION AS ONE OF THE WORLD'S LEADING COUNTRIES, THOUGH EXPANDED LIBERALIZATION.

I BELIEVE THAT CANADA SHOULD BE PART OF THIS LIBERALIZING PROCESS. WE HAVE IN PLACE SINCE LAST YEAR A NEW ECONOMIC FRAMEWORK IN PLACE WITH JAPAN, WHICH INCLUDES A JOINT UDY TO DETERMINE WHERE MORE LIBERALIZATION AND BETTER ECONOMIC TIES COULD LEAD. THE FRAMEWORK ITSELF HAS LEAD TO AGREEMENT ON SOCIAL



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SECURITY PAYMENTS AND INVESTMENT PROMOTION. THE JOINT STUDY IS CURRENTLY TAKING PLACE. PUBLIC CONSULTATION IS TAKING PLACE. INDEED, THERE IS AN ONGOING EXCHANGE WITH BUSINESS ON HOW TO EXPAND CANADA JAPAN TRADE AND ECONOMIC RELATIONS. YOU MIGHT CHECK THE WEB SITE, AT:

[WWW.DFAIT-MAECI.GC.CA](http://WWW.DFAIT-MAECI.GC.CA).

THE OPPORTUNITIES THAT ARE ALREADY IN PLACE ARE AVAILABLE TO THOSE WHO MAKE THE EFFORT TO LEARN ABOUT THIS NEW INTERNATIONAL, RE-EMERGED JAPAN. IT IS MY JOB TO INSURE THAT YOU ARE AWARE OF THIS NEW REALITY. IT IS YOUR JOB TO INSURE THAT YOU DETERMINE HOW YOU CAN TAKE ADVANTAGE OF IT.

THANK YOU.

JOSEPH CARON

TOKYO, MAY 2006