

**Speech by Ambassador Joseph Caron
to the Global Business Forum**

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Taking on global markets -- Japanese style

KEY MESSAGE:

Japan is growing again. It represents immense purchasing and investing power – plus it's a world R&D leader. The advent of fierce competition from major developing countries is a wake-up call. Like Japanese firms, Canadian business needs to use competitive pressure as a motivation to become leaner and more active on global markets.

A number of Canadian firms are doing just this, using the Japanese market and partnership with Japanese business as a way to hone their business skills, and access the quality-conscious Japanese consumer as well as emerging markets in Asia. Winning Canadian researchers are working with the Japanese in crucial technologies for the future such as nanotech, biotech and alternative energies. Canadian jurisdictions are benefiting competitively (including re the US) from increasing Japanese FDI.

INTRODUCTION:

Last year, I spoke to this audience about China. Despite some concerns about the pattern of Chinese growth, there is little doubt that Chinese economic developments remain impressive.

Important emerging market economies, like China, India, Brazil, as well as Russia and its former Communist satellites, are transforming the global competitive landscape. Not since the opening of the American West has a supply shock of this scale affected the global economy. The competitive landscape has gotten much fiercer.

So what can Canada do? Are we doomed to be out-manufactured by the Chinese, out-serviced by the Indians? Well, some of us are.

But we can continue to prosper as a country if we collectively learn the lesson of global competition: research by the Canadian government and a number of Canadian think tanks has shown time and time again that those firms in Canada that engage in foreign trade, and invest in other countries, have higher levels of productivity. It is only by participating in global markets that we succeed in global markets, and increase our competitiveness and prosperity.

I will talk today from the perspective of Canada's Ambassador to Japan:

- By updating you on developments there, highlighting how Japan seized the opportunity of global competition to shake its economy out of its lethargy and return to a position from which it is investing abroad again, including in Canada
- To show how Canadian firms active in Japan are meeting the challenge, using the Japanese market to hone their skills, access a wealthy and quality conscious consumer, and reach wider Asian markets.

A RECOVERED JAPAN:

Most of you are now familiar with the story that would have surprised only a few years ago. Japan's economy is back on track.

In many ways, the juggernaut of Chinese competition was the wake-up call Japan needed. Yes, Japan's government got serious about reform, notably cleaning up the banking sector. Yes, Japan pursued deregulation, privatization and policies designed to spur industry restructuring.

But perhaps most importantly, Japan's firms read the writing on the wall: keep innovating, focus on what we do best, or face extermination. All through the difficult 90s both private and public sectors continued investing in R&D and today you see the fruits of that focus – hybrid engines, plasma and LCD screens, composites for new generation aircraft, digital cameras, 3G and soon 4G broadband and so on.

Some failed or were consolidated, and they were allowed to by a government that accepted the need for some firms to fail. But many rose to the challenge: by continuing to innovate even in the tough times, by shifting low-value added

production offshore and investing in the higher end at home. They learned that final assembly is not necessarily where their strength is....

Eg: METI stats regarding electronic devices (made in Japan: 27%, but parts and devices, 50%, advanced materials, 60%, and manufacturing equipment still key.)

The result is an economy recovered, with investment growing strongly, corporate debt at record lows, domestic demand and exports both up and among the highest rates of labour productivity growth in the OECD (*reference: include statistic.*). A leading indicator of Japan's well earned reputation to be able to bounce back is the fact that Toyota is on the verge this year of becoming the world's largest auto company. Japan enjoys a trade surplus with China – something few industrialized countries can claim.

Of course, challenges remain, like Japan's fiscal situation, the need to address an aging and declining population and the world energy situation. But if Japan can do more of what it is done to now to further engage in global markets and raise productivity, then half the battle will have been won.

Canadian firms finding success in Japan

So Japan is recovered. So what?

Many of you will still ask “why should I do business in Japan when the really exciting markets are in China, in India, in Brazil?”

Well, because other Canadian businesses are doing it, working with world class Japanese firms, reaching the quality conscious Japanese consumer, benefiting from robust IP protection and a stable system of government, and showing that is worth doing. Our OECD competitors are also realizing that a big, rich, premium market which can reward high quality standards with strong loyalty, is there for the taking.

Because Tokyo has more Fortune 500 head offices than any other city in the world, more than New York and London combined, 52 in all. Because its economy is more about the same size as the rest of Asia – and that includes China and India. Because Japan is a market worth going after, and it's great place to find sophisticated partners to do business with globally. Just think trading houses and supply chains making up Japan's global business network, some of it present right here in Canada.

For the past three years Canadian goods and services exports have grown and so has FDI both ways – in terms of order of magnitude ---last year's increment in Canadian goods exports to Japan – just the increase was about the size of all our exports to Russia.

Let's look at some real examples. Let me start with a few that may surprise you, since they come from a mainstay sector of the Canadian economy, namely agri-business.

Maple Leaf Foods and Olymel ship Canadian pork tailored to Japanese tastes, from breeding to cutting to packaging, earning them higher prices and creating higher paying jobs at home. Last year Canada exported more pork to Japan (about a billion Canadian dollars worth) than to the USA --such a market diversification helped keep volumes up and prices competitive.

The same can be said for another premium agri-food product, canola oil exports by firms such as Canbra Foods and Bunge who have become competitive enough to distribute in Japan despite significant import duties levied to protect domestic crushers. In an innovative way of thinking, the Canola Council of Canada views Japan as “an emerging market”, ie: a market with great potential for development beyond traditional markets for canola.

Rancher's Beef of Alberta specializes in meeting niche demand for their high end beef products to the extent that they have just opened a new processing plant in Alberta to cater to specific Japanese needs. We in the government worked hard to re-open Japan to Canadian beef. Rancher's is one of those who responded effectively to the opening. Such specialization generates higher productivity and income.

Our high tech industry has much to gain too. Over 50 Canadian high tech firms maintain offices in Japan. For example, Calgary-based Zi Corporation, signed a licensing agreement with Nintendo Co., Ltd for its handwriting recognition system to simplify handwriting input and recognition for games users.

Auto parts manufacturer Magna is present in four locations in Japan, close to decision makers in some of the world's leading auto assemblers to assure its competitive position as a supplier of auto parts which respond to Japanese design needs. It is worth noting underlining that Magna's presence in Japan is not just about exporting car parts to Japan, it is about working with world-beating

companies at the design stage so that Magna can sell auto parts to Japanese assembly plants *globally*.

QuestAir of Burnaby, BC is able to access the Chinese market by selling its gas purification technology to the Iwatani engineering firm in Osaka, which imports and bundles their technology into a package deal for China through its Hydro Edge subsidiary.

Ballard of BC and Hydrogenics of Ontario are able to test and market their stationary fuel cells to Japanese utilities, one of the few markets where that is possible - the same pattern is developing for vehicles. Dynatek of Alberta has a partnership with a major Japanese steel miller - JFE - to sell hydrogen tanks to Japan, including to Mazda for use in their cutting edge hydrogen-powered RX8 rotary engine - I was able to test drive this vehicle last November near Hiroshima.

Ontario high tech companies ATI and Gennum are supplying semiconductors and other specialized components to Japan's leading consumer electronics companies in high volumes because those inputs go into assembly in China and Japan. Like Magna, they are working with Japanese firms *at the design stage* and supplying Japanese-affiliated global supply chains.

Cognos is among 20 Canadian software firms with offices in Tokyo selling their CAD/CAM, digital entertainment and data storage/security applications to Japan's multinational corporations again in large quantity because those licenses are often used by the customer in their worldwide operations. We expect the same trend once RIM introduces the Blackberry in Japan later this year.

Of course, one should also factor in the role Japanese investment in Canada plays:

Toyota Canada and Honda Canada in the last year have started building new plants in Ontario that will introduce the latest robotic, flexible *kaizen* manufacturing techniques including management know-how. A quarter of our auto exports are generated by Japanese invested plants - a proportion which will rise by 2008/09.

Japan can also improve our capacity to innovate and commercialize technology, a factor of increasing importance to our global competitive position. For e.g.:

ARIUS Research of Toronto and Takeda Pharmaceutical Company Limited, Japan's biggest pharmaceutical firm based in Osaka, have entered into a three-year, C\$ 3 million multi-product collaboration using ARIUS' technology to discover novel treatments for human disease.

Since biotech is such a promising area of Japan-Canada cooperation (we had 16 Canadian organizations present at the large BioJapan show in Osaka earlier this month, including two from Alberta for the first time), let me cite one more example. MethylGene Inc, based in Montreal, entered into a collaboration, license and commercialization agreement with Taiho Pharmaceutical, a leading Japanese company, on a program for cancer treatment. Taiho will provide the Canadian firm with research funding support for eight scientists over a minimum of two years as well as fund preclinical and clinical development costs in North America. On top of this, the Canadian drug company will receive royalties based on sales in Japan, Korea, Taiwan, and China. If successful, all potential payments to MethylGene from its Japanese partner could total US\$37.5 million. Quite substantial multiple benefits for the firm and for Canada, wouldn't you say?

Benefits from Japan extend to the public sector in the national interest. When the NRC's new National Institute for Nanotechnology (NINT) opened in Edmonton this spring, Japan's Nanotech Research Institute (NRI) was present and signed an MOU which will allow contacts with world leading Japanese experts in advanced ceramic and other materials and their industrial applications. A joint lab is being considered.

This is one reason in that this month the President of the National Research Council Dr Pierre Coulombe and the Prime Minister's National Science Advisor Dr Arthur Carty are visiting Japan for meetings with their Japanese counterparts in support of enhanced efforts to commercialize innovative technologies. Japan is one of the world's top R&D spenders and patent issuers. There ARE compelling complementarities in many areas – for e.g. Canada has the second biggest number of biotech firms in the world (mainly small) while Japan, as the world's number two pharmaceutical market, lacks new advances in pharma product pipelines.

CONCLUSION:

Exporting and investing are – to use a Rocky Mountain analogy – like skiing. The more you ski, the better you become. You shift up from the snowplow to parallel turns, to mogul jumping and winning the race despite the steep and tricky terrain. Every time a firm exports, it (and its management) become more competitive. Entering one of the world's biggest, most lucrative and toughest markets is like skiing the Olympic giant slalom, it adds challenge but also can deliver even higher dividends in creativity, specialization and innovation.

Japan's economy has recovered, and its path to recovery can teach us something about how to deal with global competition.

So I encourage Canadians follow in the footsteps of some of those innovative firms I have offered as examples and to do more business internationally to meet the challenge of competition, and face emerging markets like China and India, and re-emerging ones like Japan, by looking at opportunities there. Learn from Japanese partners and customers. Meeting high Japanese quality standards provides your next calling card to other global markets, making you even more competitive.

For some, Japan represents an interesting jumping off point to South Korea, Taiwan and indeed China. Any Canadian firm of any size already active and successful in the US should also consider seriously Japan. They would not be alone. My colleagues and I stand ready to support you face the daunting linguistic, cross cultural and information gaps and other challenges of entering the Japanese and therefore North Asian market. Trade commissioners in Tokyo, Osaka, Nagoya, Fukuoka, Hiroshima and Sapporo can champion your cause and help hundreds of Canadians every year to break into the Japan market – to be more ambitious and therefore more competitive.