DITCHELY PARK

MAY 2007

GLOBAL ECONOMIC COMPETITION

INTRODUCTION

THE TITLE OF THIS SESSION – WHERE HAVE ALL THE COMPETITORS COME FROM – SAYS IT ALL: THE WORLD DOESN'T STAND STILL, NO LESS FOR BUSINESS THAN FOR OTHER HUMAN ENDEAVOURS.

IN THE SHORT TERM, WE ARE ALL AFFECTED BY EXCHANGE RATE FLUCTUATIONS LEADING TO BASIC CHANGES IN THE TERMS OF TRADE, VOLATILE COMMODITY PRICES, RISING LABOUR COSTS – LOOK AT ALBERTA THESE DAYS.

IN THE MEDIUM TERM, THE GROUND RULES KEEP CHANGING: THERE WERE LESS THAN 10 FREE TRADE AGREEMENTS IN 1980, THERE ARE 180 TODAY; FISCAL AND MONETARY POLICY ENVIRONMENTS ARE IN CONSTANT EVOLUTION, IF NOT IN CANADA, THEN IN YOUR MARKETS ; NEW COMPETITORS CHALLENGE YOUR MARKET SHARES – TWO CHINESE AUTO COMPANIES WILL BE MARKETING CARS IN NORTH AMERICA NEXT YEAR; YOUR CUSTOMERS ARE FRIVOLOUS AND UNPREDICTABLE.

MUCH OF THE DYNAMIC FOR CHANGE IN THE WORLD ECONOMY IN THE LAST 40 YEARS HAS COME FROM ASIA. ACCORDING TO SCOTIA BANK, EMERGING AND NEWLY INDUSTRIALIZED ASIAN COUNTRIES NOW PRODUCE 23% OF GLOBAL EXPORTS. ON A PPP BASIS, AND EXCLUDING JAPAN, THE REST OF ASIA ACCOUNTS FOR 30% OF GROSS WORLD OUTPUT, VS. 41% FOR THE G7.

YOU HAVE SEEN THESE KINDS OF NUMBERS FOR YEARS NOW, AND I WON'T BELABOUR THEM.

IN THE FACE OF ALL OF THIS, BUSINESS AND ENTERPRISES HAVE TO THINK ABOUT HOW THEY WILL PROTECT THEMSELVES AND HOW THEY ARE TO PROSPER. I DON'T HAVE MANY OF THE ANSWERS TO THAT QUESTION – I DON'T HAVE TO MEET A

PAYROLL IN THE SAME WAY THAT YOU DO – BUT I BELIEVE THAT THERE ARE THREE REALITIES THAT YOU CAN COUNT ON, AS YOU THINK ABOUT ASIA AND PLAN FOR THE FUTURE.

FIRST, CANADA'S TRACK RECORD, MEANING YOUR TRACK RECORD, IN MEETING THE CHALLENGES OF TRANSFORMATION IS AMONG THE BEST IN THE WORLD. YOU CAN DRAW ON CANADA'S RESILIENCE AND ADAPTABILITY TO A GREAT EXTENT, NOW AND IN THE FUTURE.

TWO, DOING BUSINESS WITH JAPAN CAN HELP YOU MAKE MONEY AND PREPARE YOU FOR OTHER MARKETS.

THIRD, CHINESE DOMESTIC GROWTH AND INTERNATIONAL ECONOMIC EXPANSION IS SET TO CONTINUE AT TODAY'S BURNING RATES UNTIL AT LEAST THE END OF THE DECADE, IF NOT LONGER. WITH JAPAN, IT IS THE OTHER DRIVER OF ECONOMIC CHANGE IN ASIA

<u>1. CANADA'S TRACK RECORD BUILDS FOR THE FUTURE</u>

CANADA IS GOING THROUGH A PERIOD OF ADJUSTMENT FACING A HIGHER DOLLAR, INCREASED COMPETITIVE PRESSURE FROM CHINA, INDIA AND OTHERS, AND ALSO DEALING WITH HIGH RESOURCE PRICES IN PARTS OF THE COUNTRY WHICH DEPEND MORE ON MANUFACTURING THAN RESOURCE PRODUCTION. HAVING SAID THIS, OVERALL, THE ECONOMY APPEARS TO BE ADJUSTING WELL TO A CHALLENGING ENVIRONMENT, WITH BROAD-BASED EXPANSION IN THE ENERGY SECTOR OF COURSE, BUT ALSO IN WHOLESALE TRADE, BUSINESS AND FINANCIAL SERVICES, AND EVEN IN SOME LEADING EDGE MANUFACTURING, LIKE PHARMACEUTICALS AND TRANSPORTATION EQUIPMENT. BUSINESSES IN A RANGE OF SECTORS HAVE TAKEN THE STEPS TO INCREASE THEIR COMPETITIVENESS AND THEIR PRODUCTIVITY: INVESTING IN THE SKILLS OF THEIR WORKFORCE AND DOING MORE TO ATTRACT SKILLED LABOUR FROM AROUND THE WORLD; REDUCING COSTS IN PROCUREMENT AND IMPROVING THEIR ENERGY EFFICIENCY; INVESTING IN NEW AND BETTER MACHINERY AND USING IT MORE AND MORE EFFECTIVELY; AND INVESTING IN RESEARCH AND DEVELOPMENT TO ENSURE THEIR PRODUCT PIPELINE IS FULL AND THEY REMAIN AT THE FOREFRONT OF GLOBAL INNOVATION.

I DON'T WANT TO SAY THAT WE HAVE BEEN SPARED THE PAIN OF ADJUSTMENT: SOME SECTORS HAVE NEEDED TO OFFSHORE THEIR PRODUCTION, OR OUTSOURCE MORE, OR CUT JOBS AND CAPACITY IN CANADA. BUT OTHERS HAVE BARELY BEEN ABLE TO KEEP UP WITH DEMAND AND THEY HAVE OFTEN TAKEN UP LABOUR SHED BY OTHERS. WHILE IT IS TOO SOON TO CALL IT A LONG TERM TREND, FIGURES FOR LABOUR PRODUCTIVITY, WHICH GREW A RELATIVELY FAST 2.3% IN 2005, SUGGEST THAT BUSINESSES ARE FOCUSSING MORE ON INCREASING PRODUCTIVITY THAN THEY HAD IN THE PAST WHEN THE DOLLAR WAS LOWER, WHICH IS GOOD FOR OUR PROSPERITY IN THE LONG RUN, AND GOOD FOR THE INCOMES OF WORKING CANADIANS. THIS NEEDS TO CONTINUE, AND THE MORE WE ENGAGE IN INTERNATIONAL COMMERCE AND INVESTMENT, AS OPPOSED TO SHYING AWAY FROM IT, THE MORE THIS TREND WILL SOLIDIFY.

WE WILL CONTINUE TO PROSPER TO THE EXTENT THAT WE EMBRACE THE LESSONS OF GLOBAL COMPETITION. IT IS INDISPUTABLE THAT THOSE FIRMS IN CANADA THAT ENGAGE IN FOREIGN TRADE AND INVEST IN OTHER COUNTRIES HAVE HIGHER LEVELS OF PRODUCTIVITY, ON AVERAGE, THAN THOSE THAT DON’T. IT IS ONLY BY PARTICIPATING IN GLOBAL MARKETS THAT WE SUCCEED IN GLOBAL MARKETS. AS WE ALL RECOGNIZE. CANADA’S MARKET ALONE IS TOO SMALL TO PROVIDE THE OPPORTUNITIES AND DISCIPLINES THAT COMPETITION IN THE NAFTA ZONE, IN EUROPE AND ASIA CAN PROVIDE.

SO, THE POINTS THAT NEED EMPHASIZING IS THAT WE HAVE IN THIS COUNTRY THE TRACK RECORD OF ADAPTING TO CHANGE, AND THAT THIS ADAPTATION MUST INCREASINGLY BE DONE BEYOND OUR BORDERS AND THOSE OF OUR NAFTA PARTNERS.

<u>2. THINK OF JAPAN NOT ONLY AS A MARKET BUT AS A STRATEGIC PARTNER</u>

I AM HERE TO MAKE THE CASE THAT, FOR A GOOD PART OF CANADIAN BUSINESS, TRANSFORMATION CAN BE SPURRED BY DOING BUSINESS IN AND PARTNERING WITH JAPAN AND JAPANESE ENTERPRISES.

JAPAN HAS FOUR THINGS GOING FOR IT, THAT REQUIRE YOUR ATTENTION.

FIRSTLY, ITS ECONOMY HAS TURNED AROUND.

YOU HAVE BECOME AWARE I AM CERTAIN OVER THE LAST YEAR OR MORE THAT JAPAN'S ECONOMY IS BACK ON TRACK.

IN 2005, THE JAPANESE ECONOMY GREW BY 2.6%, THE SIXTH YEAR IN A ROW THAT GROWTH WAS POSITIVE FOR THE YEAR. THAT GROWTH ALONE ADDED OVER US $115 BILLION IN OUTPUT, ABOUT THE SIZE OF THE SINGAPORE OR CHILEAN ECONOMIES. PROFITABILITY OF JAPANESE FIRMS HAS INCREASED BY 86.5% SINCE 2002. THE BREAK-EVEN POINT OF PUBLICLY TRADED MANUFACTURERS REACHED 77.5% IN 2005, THE LOWEST POINT SINCE ITS PREVIOUS LOW OF 81.6% IN 1989. IN 2005, FIXED COSTS FOR JAPANESE MANUFACTURERS INCREASED BY 1%, BUT THEIR SALES GREW BY 7%. THE OECD ESTIMATES THAT LABOUR PRODUCTIVITY HAS RISEN BY AN AVERAGE OF 1.8% PER YEAR OVER THE LAST 4 YEARS, AND WILL BE THE HIGHEST AMONG THE G7 OVER THE BALANCE OF THE DECADE, AT 2.2%. JAPAN'S PER CAPITA GROWTH IS HIGHER THAN THAT OF CANADA, DESPITE HAVING A DECLINING POPULATION. AND SO FORTH. JAPAN HAS A VERY HEALTHY CORPORATE SECTOR.

JAPAN'S TRANSFORMATION FROM THE WEAKNESS OF THE 90s TO TODAY'S STRENGTH WAS DRIVEN BY THREE OVER-RIDING FACTORS: PUBLIC SUPPORT FOR THE REFORM AGENDA OF PRIME MINISTER KOIZUMI, WHICH OFFERED JAPAN A WAY OUT OF THE DOLDRUMS OF THE 1990s; AND FEAR OF CHINA; AND GLOBALIZATION, WHICH FOR JAPAN HAS MEANT DRAMATIC INCREASES IN OUTWARD AND INWARD INVESTMENT AND THE INTERNATIONALIZATION OF MANAGEMENT.

JAPAN'S GOVERNMENT GOT SERIOUS ABOUT REFORM. IT PURSUED DEREGULATION AND PRIVATIZATION. KOIZUMI'S RHETORIC ABOUT REFORM EMBOLDENED THE MANAGEMENT OF JAPANESE COMPANIES. THEY READ THE WRITING ON THE WALL: KEEP INNOVATING, FOCUS ON WHAT THEY DO BEST, OR FACE BANKRUPTCY WITHOUT A SAFETY NET.

THE RESULTS ARE EVIDENT TO ANYONE WHO TAKES THE TIME TO LOOK. NONE OF THE 8 CITY BANKS THAT I DEALT WITH IN THE 70s, 80s AND 90s EXIST TODAY. HUGE TRADING FIRMS WENT UNDER. NICHIMEN AND NISHO-IWAI DISAPPEARED. NISSAN WAS BOUGHT AND IS NOW RUN BY DAIMLER-CHRYSLER. SONY IS NOW LEAD BY A UK

BORN AMERICAN, AS IS THE NEW SHINSEI BANK. 25% OF SHARES ON THE TOKYO STOCK EXCHANGE ARE OWNED BY FOREIGN INVESTORS, WHO HAVE ADDED THEIR OWN IDEAS ABOUT MANAGEMENT AND RETURN ON INVESTMENT. TOYOTA IS ON THE VERGE THIS YEAR OF BECOMING THE WORLD'S LARGEST AUTO COMPANY. JAPAN ENJOYS A TRADE SURPLUS WITH CHINA, A POSITION SHARED ONLY WITH KOREA AMONG THE TOP DEVELOPED ECONOMIES. UNLIKE MOST INDUSTRIALIZED ECONOMIES.

CONTINUITY WAS WHERE IT WAS NEEDED. THROUGHOUT THE DIFFICULT 90s, BOTH PRIVATE AND PUBLIC SECTORS CONTINUED INVESTING HEAVILY IN R&D. JAPAN SPENDS TWICE PER CAPITA ON R&D THAN WE DO. 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. BY CONTINUING TO INNOVATE EVEN IN THE TOUGH TIMES, BY SHIFTING LOW-VALUE ADDED PRODUCTION OFFSHORE AND INVESTING IN THE HIGHER END AT HOME. ONLY A QUARTER OF THE INPUT IN TODAY'S JAPANESE ELECTRONIC PRODUCTS ARE MADE IN JAPAN. BUT THEY ARE THE MOST EXPENSIVE AND TECHNICALLY ADVANCED PARTS OF THE MACHINES. JAPAN HAS MOVED ALMOST COMPLETELY FROM MASS MANUFACTURING TO SPECIALIZATION IN HIGH END COMPONENTS AND ADVANCED MATERIALS.

SECONDLY, SIZE MATTERS. JAPAN IS THE SECOND ECONOMY IN THE WORLD, IN US DOLLARS, LARGER THAN ALL OF THE REST OF ASIA, INCLUDING CHINA AND INDIA. IT IS EQUIVALENT TO THE UNITED STATES, FROM THE MISSISSIPPI TO CALIFORNIA. 52 OF THE 70 FORTUNE 500 FIRMS IN JAPAN ARE LOCATED IN TOKYO, A GREATER NUMBER THAN NEW YORK OR LONDON, AND HIGHEST CONCENTRATION OF CORPORATE POWER IN THE WORLD.

THIRD, TECHNOLOGICAL LEAD MATTERS. JAPAN IS THE TECHNOLOGICAL FRONT RUNNER IN AREAS THAT WILL SHAPE THE IMMEDIATE AND LONG TERM FUTURE. THIS INCLUDES IN AREAS SUCH AS DIGITAL ELECTRONICS, WIRELESS DISTRIBUTION, NANOTECHNOLOGY, COMPOSITE MATERIALS, ROBOTICS, ADVANCED MANUFACTURING, BIOTECHNOLOGY, ENERGY EFFICIENCY, HYBRID ENGINES. IT IS STILL BETTER THAN THE US AND EUROPE IN R&D INTO USABLE TECHNOLOGY AND

COMMERCIALIZATION. (THE US STILL HAS THE LEAD IN PURE RESEARCH AND ICT SOFTWARE AND ITS APPLICATIONS.)

FOURTHLY, JAPAN'S CONSUMERS DEMAND THE LEVEL OF QUALITY AND SAFETY THAT WILL INCREASINGLY SET THE STANDARD FOR NORTH AMERICANS AND EUROPEANS AND ASIANS.

WHAT THIS MATRIX MEANS FOR CANADIAN BUSINESS IS THAT JAPAN IS NOT ONLY AN EXPORT MARKET; IT IS THE VEHICLE TO GO UP THE TECHNOLOGICAL AND QUALITY CHAIN. DOING BUSINESS IN JAPAN, MEETING VERY HIGH QUALITY AND SERVICE STANDARDS, PARTNERING WITH STATE OF THE ART MANUFACTURERS, UNDERTAKING JOINT R&D OPERATIONS, THESE ARE MEANS TO IMPROVE YOUR COMPETITIVENESS IN JAPAN, IN ASIA, IN NORTH AMERICA AND IN EUROPE.

CISCO SAYS THAT JAPAN IS A "PROOF OF CONCEPT" MARKET, THAT IS, IF YOU CAN MAKE IT THERE, YOU CAN MAKE IT ANYWHERE.

STARBUCKS CONSIDERS THAT JAPANESE CUSTOMERS ARE A GOOD INDICATION OF WHERE THEIR MARKET IS GOING.

HIGH END CONSUMER PRODUCT MANUFACTURERS USE JAPAN FOR R&D AND FOR PRODUCT TESTING.

A LARGE NUMBER OF CANADIAN FIRMS ARE IN JAPAN FOR STRATEGIC AS WELL AS COMMERCIAL REASONS.

LET'S LOOK AT SOME REAL EXAMPLES.

IN BIOTECHNOLOGY:

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.

16 CANADIAN ORGANIZATIONS PRESENT AT THE LARGE BIOJAPAN SHOW IN OSAKA EARLIER THIS MONTH, INCLUDING TWO FROM ALBERTA.

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.

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.

IN THE AUTO SECTOR:

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.***

IN AGRIBUSINESS:

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.

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.

IN HIGH TECHNOLOGY:

OVER 50 CANADIAN HIGH TECH FIRMS MAINTAIN OFFICES IN JAPAN. CALGARY-BASED ZI CORPORATION, HAS SIGNED A LICENSING AGREEMENT WITH NINTENDO CO., LTD FOR ITS HANDWRITING RECOGNITION SYSTEM TO SIMPLIFY HANDWRITING INPUT AND RECOGNITION FOR GAMES USERS.

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.

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.

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.

IN ALTERNATIVE ENERGY:

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 IF THEIR CUTTING EDGE HYDROGEN-POWERED RX8 ROTARY ENGINE - I WAS ABLE TO TEST DRIVE THIS VEHICLE LAST NOVEMBER NEAR HIROSHIMA.

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 WHICH WILL INTRODUCE THE LATEST ROBOTIC, FLEXIBLE *KAIZEN* MANUFACTURING TECHNIQUES INCLUDING MANAGEMENT KNOWHOW. 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.:
BENEFITS FROM JAPAN EXTEND TO THE PUBLIC SECTOR IN THE NATIONAL INTEREST.

FOR THE PAST THREE YEARS CANADIAN GOODS AND SERVICES EXPORTS HAVE GROWN – TO ALMOST $1 BILLION A MONTH - AND SO HAS FDI IN BOTH DIRECTIONS:

LAST YEAR'S INCREMENT IN CANADIAN GOODS EXPORTS TO JAPAN – ALMOST $500 MILLION - WAS ABOUT THE SIZE OF ALL OUR EXPORTS TO RUSSIA.

SO THINK ABOUT THIS.

<u>3. CHINA IS THE OTHER UNAVOIDABLE ECONOMY</u>

LAST YEAR, I SPOKE AT LENGTH ABOUT CHINA AND THE RISKS OF DOING AND NOT DOING BUSINESS THERE. SITTING IN JAPAN, MY ASSESSMENT OF CHINA'S FORWARD DYNAMIC HAS NOT CHANGED A GREAT DEAL.

I NO LONGER LIVE IN CHINA, AND SO DO NOT HAVE THE SAME "FEEL" FOR DEVELOPMENTS THERE. NEVERTHELESS, I BELIEVE THAT I CAN MAKE THE FOLLOWING POINTS, BASED ON THE VIEW OF THINGS FROM JAPAN:

CHINA HAS SEVERAL YEARS OF HIGH GROWTH RATES AHEAD OF IT, BUILDING ON 25 YEARS OF 9.5% AVERAGE ANNUAL EXPANSION. MORE MODERATE RATES MAY BEGIN TO EMERGE BY THE END OF THE CURRENT DECADE. THIS VIEW IS BASED ON THE TRACK RECORDS OF 40 YEARS OF ECONOMIC EXPANSION AND CONTRACTION IN THE ECONOMIES OF NORTH EAST AND SOUTH EAST ASIA. CHINA' SECRET IS NO SECRET: VERY HIGH LEVELS OF SAVINGS AND CONCOMITANT LEVELS OF INVESTMENT. THIS, AND THE USE OF HERETOFORE UNDERUTILIZED FACTORS OF PRODUCTION, SUCH AS LABOR, IS WHAT SPURRED GROWTH IN JAPAN, IN KOREA, IN TAIWAN, IN SOUTHEAST ASIA. THE SAME APPLIES TO CHINA.

SEEN FROM JAPAN, THE RISKS OF DOING BUSINESS IN CHINA REMAIN AT THE MICRO-ECONOMIC LEVEL. WHILE THE BUSINESS ENVIRONMENT IS IMPROVING, IT IS STILL NOT POSSIBLE TO RELY ON INSTITUTIONAL SUPPORT FOR RESOLVING CONTRACT DISPUTES OR PROTECTING INTELLECTUAL PROPERTY. SOME PROGRESS IS BEING MADE, THANKS TO OUTSIDE PRESSURES AND THE INCREASINGLY TECHNOCRATIC MIND-SET OF CHINESE OFFICIALS, BUT CHINA WILL RETAIN THE INSTITUTIONAL CHARACTERISTICS OF A DEVELOPING COUNTRY FOR A DECADE OR MORE.

SOCIAL AND POLITICAL INSTABILITY ARE THE GREATEST CHALLENGES TO GOVERNANCE AND THE AUTHORITY OF THE COMMUNIST PARTY. RECENT CRACKDOWNS ON THE MEDIA AND POLITICAL ACTIVISTS MAKE IT CLEAR THAT

TENSIONS BETWEEN AN INCREASINGLY OPEN ECONOMY AND SOCIETY IN CHINA, AND THE CLOSED POLITICAL SYSTEM ARE INCREASINGLY INCOMPATIBLE. DEBATE WITHIN THE CPP ON THE FUTURE DIRECTION OF GOVERNMENT WILL CONTINUE, AS WILL THE STATE'S CAPACITY TO CONTROL INSTABILITY.

WHILE THERE ARE TENSIONS BETWEEN CHINA AND JAPAN, AND CHINA AND TAIWAN, THESE ARE BEING AND WILL BE MANAGED. BARRING A UNILATERAL DECLARATION OF INDEPENDENCE BY TAIWAN – NOT AT ALL A LIKELY DEVELOPMENT - NOTHING ON THE HORIZON CHALLENGES FUNDAMENTAL STABILITY. NORTH KOREA IS DIFFICULT AND SEEMINGLY IRRATIONAL, BUT BASICALLY, ALL IT WANTS IS REGIME PRESERVATION, AND FOR OTHERS TO FEED ITS PEOPLE AND ITS MEAGER ECONOMY. SO FAR, CHINA AND THE ROK HAVE BEEN WILLING TO BUY PEACE WITH THE DPRK, AND THAT SITUATION IS LIKELY TO PERSIST.

BEYOND RISK MANAGEMENT, THE CANADIAN BUSINESS ISSUE FOR CHINA REMAINS UNCHANGED FROM THE RECENT PAST: AT LESS THAN $1 BILLION, CANADIAN FDI IN CHINA IS NOT SUFFICIENT TO INSURE STABLE AND PREDICTABLE GROWTH IN TRADE. MOST CANADIAN COMPANIES STILL HAVE NOT FOUND IT IN THEIR INTEREST TO DEVELOP THE TYPES OF FINANCIAL PARTNERSHIPS THAT WE SEE EMERGING WITH JAPAN AND WHICH ARE A MATTER OF COURSE IN OUR BUSINESS RELATIONS WITH THE US, THE UK AND OTHER EUROPEAN ECONOMIES.

WE ARE BEYOND THE AGE THAT CAN DEPEND SIMPLY ON SELLING THINGS. WE ARE IN A GLOBALIZED WORLD BUILT ON INVESTMENT, R&D COLLABORATION, EXPANDED SERVICES TRADE, AND IP COMMERCIALIZATION.

THIS IS WHAT BUSINESS IS ABOUT THESE DAYS. CANADIAN COMPANIES KNOW THIS AND PRACTICE IT WITH INCREASING VIGOUR. THE RISING TIDE IS IN ASIA, AND THIS IS WHERE INCREASINGLY, CANADIAN BUSINESS MUST SET ITS SITES.

THANK YOU.