

# CANADA-JAPAN RELATIONS

## Building an even stronger partnership

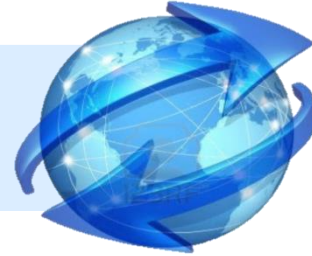
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March 21, 2016



# Canada-Japan relations: Building an even stronger partnership

**A history of collaboration but low trade flows**



Mutual strengths and synergies can be leveraged

There are opportunities to explore private and public partnerships

Next steps and potential questions for discussion

# Canada and Japan have a mutually beneficial relationship across key strategic areas

## Economic



- **\$27B annual trade**<sup>1</sup>
- **\$17.5B FDI** from Japan -Canada's largest FDI from Asia <sup>1</sup>
- **\$6.4B FDI** from Canada to Japan<sup>1</sup>
- Over **100 years** of formal commercial relations

## Political



- Collaboration in international forums, including:
  - WTO, G8, OECD, etc.
- Both part of the Trans-Pacific Partnership to shape mutually beneficial policies in Pacific nations

## Social



- Over **2,400 student** exchanges per year
- **135,000 annual Canadian** visitors to Japan
- **226,000 annual Japanese** visitors to Canada

## Geographic



- **10 shipping container** service routes
- **2,600 passenger flights** between Japan and Canada per year

## Technological



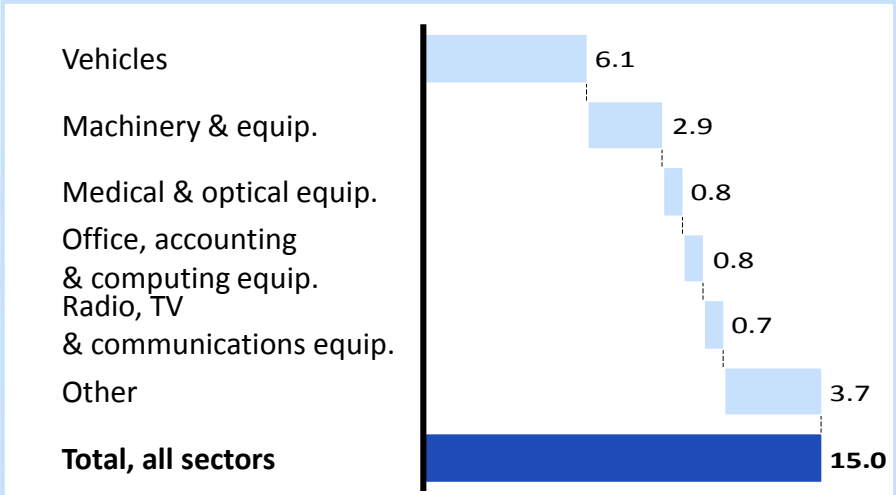
- Agreement on Cooperation in Science and Technology (1986)
- Prioritized research cooperation fields (e.g., stem cell and sustainable energy)

<sup>1</sup> Data from 2012

# Trade between Canada and Japan appears low

Canada's Top 5 imports from Japan<sup>1</sup>

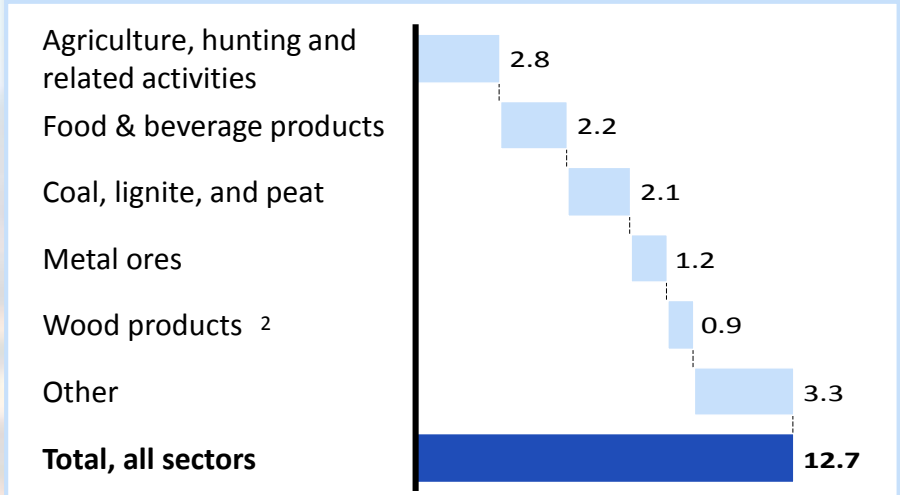
\$ Billions (2012)



Percent of total Canadian imports **3.3%**

Japan's Top 5 imports from Canada<sup>1</sup>

\$ Billions (2012)



Percent of total Japanese imports **1.4%**

- Japan mostly imports resource based goods from Canada with the share of value-added products increasing over time (4.6% in 1990 to 7.6% in 2012)
- Trade is low compared to other global partners for example Canada imports 25% from the US and 6% from China
- Similarly, Japan imports 5% from the US and 11% from China

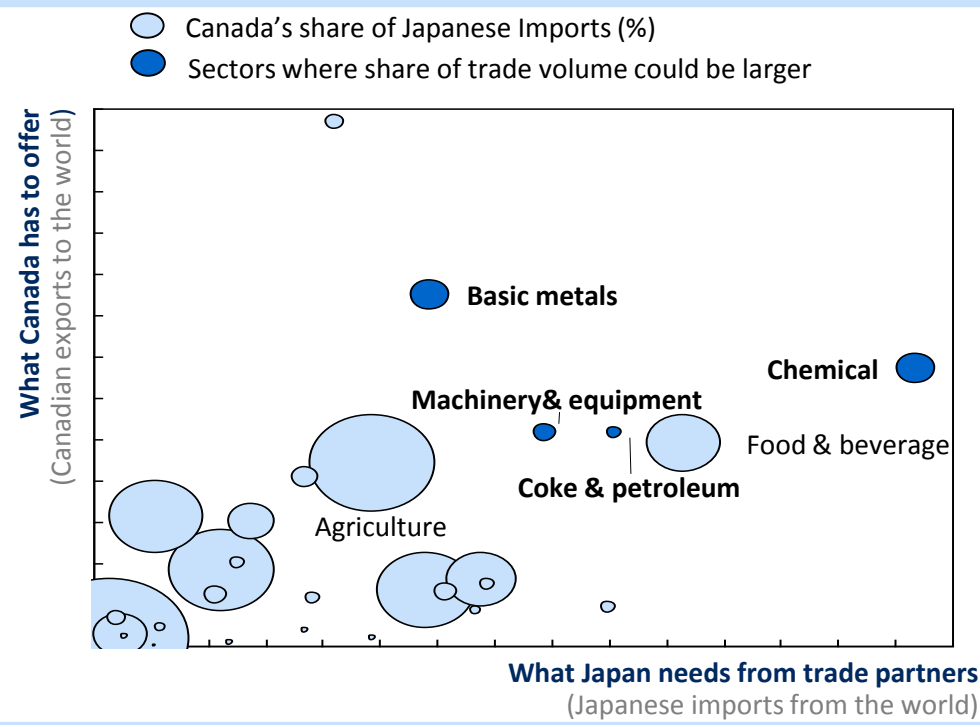
<sup>1</sup> Imports reported by each country (projected for 2012)

<sup>2</sup> Excludes furniture

SOURCE: WITS database World Trade Bank (2012 projected) using sector definitions from ISIS; Statistics Canada

# There are major opportunities across key sectors in Japan where Canada is underpenetrated

## Canadian exports to Japan by sector

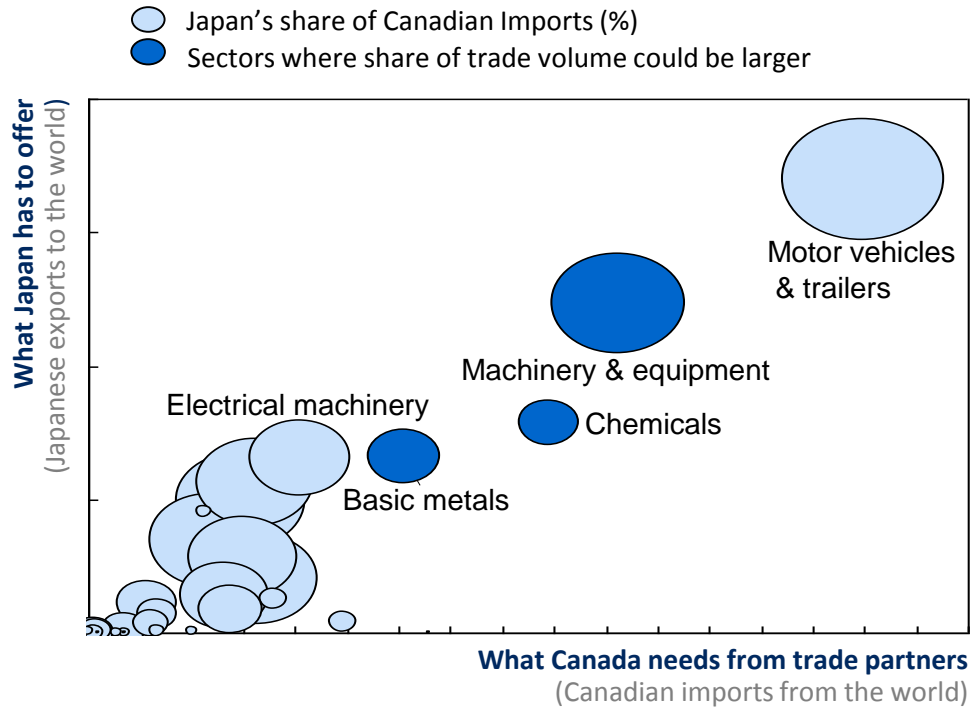


There is high supply in Canada and high demand in Japan in a number of industries but yet stronger trade relationships with other countries

- 1 Coke and petroleum**
  - Canada: 0.2% of Japan's total imports
  - Qatar (14%), South Korea (12%), and UAE (11%)
  - Examples include petroleum oils
- 2 Manufacturing basic metals**
  - Canada: 1.3% of Japan's total imports
  - South Korea (17%), South Africa (14%), China (13%)
  - Examples include aluminium
- 3 Chemical manufacturing**
  - Canada: 1.2% of Japan's total imports
  - USA (21%), China (14%), and Germany (10%)
  - Examples: medicaments and diagnostic/lab reagents
- 4 Manufacturing machinery and equipment**
  - Canadian: 0.5% of Japan's total imports
  - China (42%), USA (13%), and South Korea (7%)
  - Examples include injection moulds for rubber/plastics

# Opportunities also exist for increased trade from Japan to Canada

## Japanese exports to Canada by sector



There is high supply in Japan and high demand in Canada in a number of industries but Canada has stronger trade relationships with other countries

### 1 Chemical manufacturing

- Japan: 1.2% of Canada's total imports
- USA (62%), Germany (5%), and Switzerland (4%)
- Examples include photographic film and silicon

### 2 Manufacturing basic metals

- Japan: 1.7% of Canada's total imports
- USA (27%), Peru (6%), and Argentina (3%)
- Examples include semi-processed line pipe, rails and iron and steel

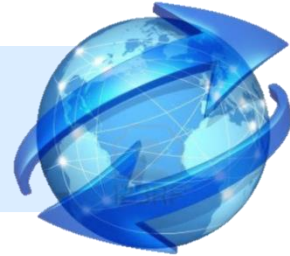
### 3 Manufacturing machinery and equipment

- Japan: 5.6% of Canada's total imports
- USA (56%), China (10%), and Germany (5%)
- Examples include gas turbines, shovels and tractors

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# Canada and Japan have unique, complementary assets...



**Resource wealth in oil, natural gas, and forestry**

**Estimated \$500B in capital investment in natural resources required over the next 10 years**

**Home to the world's 3<sup>rd</sup> largest aerospace cluster**

**2<sup>nd</sup> highest growth in share of International students**

**Over \$32 billion in GDP from tourism**



**Second largest net importer of fossil fuels in the world**

**68 companies in global fortune 500 and the #1 and #3 cities by corporate banking pool size<sup>1</sup>**

**#3 in the world in research funding – number one in patents granted**

**Growing interest to study abroad in Canada where visa demand was up 10% from 2011**

**Increasing number of international visitors (up 32% from 2011)**

<sup>1</sup> Tokyo \$3.1 B USD and Osaka \$1.2B USD vs. London \$1.6B USD



# ...and alignment in key areas of national priority



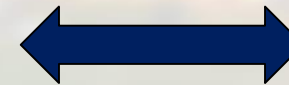
**Develop a world-class R&D and commercialization ecosystem**

**Leverage best practices in infrastructure through global partnerships**

**Design global partnerships along sector value chains**

**Improve performance of Canadian students in STEM**

**Engage in responsible resource development**



**Foster entrepreneurship and commercialization of innovation**

**Invest in building a world class Japan for the Tokyo 2020 Olympics**

**Globalize Japan by going abroad and raising competitive intensity at home**

**Develop global talent and leadership, starting from early education**

**Commit to more dispersed and decentralized energy sources**

# There are also three potential sectors of aligned interest

## Energy



- Japanese renewable energy targets of **25%- 35%** of total power generation
- **62%** of Canada's electricity generation is from renewable sources
- **Japan imports over \$70B of natural gas**, and Canada is the world's 3rd largest producer of natural gas
- **'Statement on Oil and Gas Cooperation'** signed this year by Canada and Japan to enhance cooperation

## Technology



- The Government of Canada contributed **over \$70M in stimulus funding** to Toyota for fuel-efficient and electric vehicle R&D
- Osaka University and TRIUMF collaborated to create the **Ultra-Cold Neutron Facility** to advance innovation in particle physics
- Centre for Drug R&D and TODAI share **best practices in commercialization of life sciences technologies**
- Canada is strong in basic research where Japan has expertise in commercialization

## Agri-food



- Japan's food security targets resulted in high tariffs and large subsidies for agriculture
- Recent **decision to reform the Gentan** policy would gradually abolish the subsidies and open opportunities
- Canada became **Japan's 3rd largest food supplier** in 2012 in agriculture and seafood
- **Canada is viewed as a reliable exporter to Japan with supply routes** through the Pacific Ocean rather than the Malacca Straits or South China Sea

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# Japanese and Canadian business leaders are already collaborating...



Japan's Government Pension Investment Fund (GPIF) recently invested capital in OMERS managed Global Strategic Investment Alliance (GSIA) which targets operational large-scale infrastructure projects and includes a consortium of investors from JBIC to Mitsubishi



Toyota Motor Manufacturing Canada operates three plants in Canada, including one auto parts plant and two vehicle assembly plants. The newest plant was built in Ontario in 2008 due to the high quality of the local workforce



One of the first foreign life insurance companies to establish operations in Japan and the first Canadian life insurance company to launch a joint venture in Japan



Following the nuclear events in Fukushima, Japan worked closely with major Canadian nuclear facilities to review lessons learned and strengthen the safety of their plants



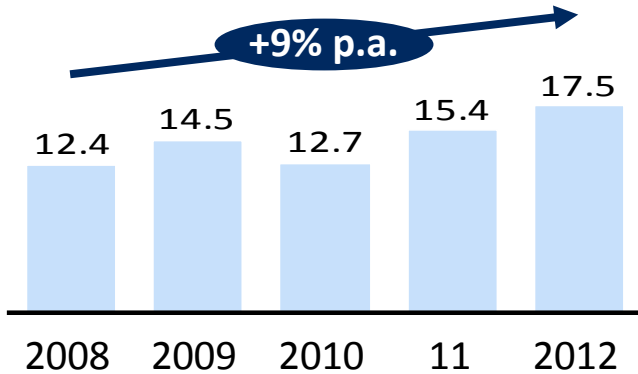
Japan Bank for International Cooperation has started discussions with private and government entities in Western Canada to invest in natural gas infrastructure

# ...And investing in one another

## Foreign direct investment stock flows

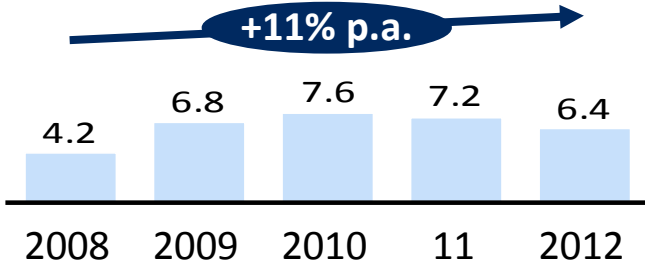
\$ Billions

### From Japan to Canada



- Canada's **6<sup>th</sup> largest** investor
- 300+ Japanese companies in Canada

### From Canada to Japan



- Japan's **13<sup>th</sup> largest** investor
- 100+ Canadian companies in Japan

### Trend toward deeper relationships

FDI stock flows have been growing, although at a slower pace for Japan (9% versus 11% for Canada)

# The third arrow of Abenomics to revitalize Japan will require global investment and partnership

## The three “arrows” of Abenomics

- 1 Quantitative easing**  
Monetary stimulus that is “large beyond reason” with a 2% inflation target
- 2 Fiscal policy**  
Active fiscal policy with a JPY 13 trillion amended budget
- 3 Growth strategy**  
Policy package to stimulate private investment

A number of the growth strategy goals will require collaboration with global players

- 1 Speed up the restructuring of industries**
  - 10% increase in capital investment next 3 years
  - 2x business start-up and closure ratio
- 2 Promote economic partnership**
  - Trading FTA ratio of 70% by 2018 (currently 19%)
- 3 Strengthen Japan’s international competitiveness as a business hub**
  - Japan to rank in the top 3 OECD countries
- 4 Increase infrastructure export**
  - Infrastructure exports of 30 trillion yen by 2020
- 5 Support SMEs**
  - By 2020 double the export amount from SMEs compared to 2010



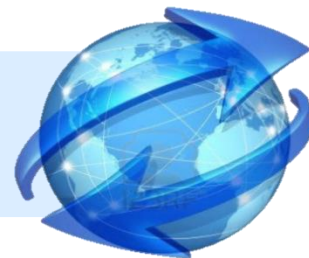
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# Much more can be done to realize these opportunities including regional or bilateral free trade agreements

## Canada-Japan Economic Partnership Agreement (CJEPA)

### Key aspects of the negotiations include:

- Market access for goods and services
- Agricultural and forestry products
- Non-tariff barriers (NTBs), regulatory cooperation and rules of origin
- Intellectual property

## Trans-Pacific Partnership Agreement (TPP)

- Canada joined negotiations in 2012 with Japan following in 2013
- Covers 40% of the global economy
- Last formal round in December 2013
- There are many outstanding issues, including market access for goods, SOEs, etc.

### Key questions for 2014:

- Level of ambition?
- Will US win Trade Promotion Authority?

# The impact of an Economic Partnership Agreement could be substantial

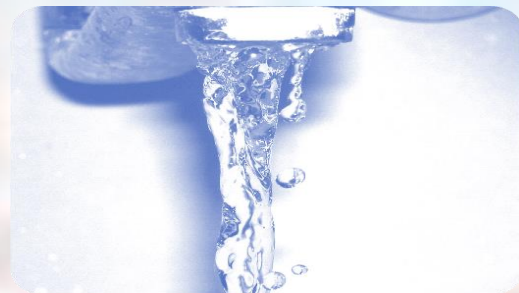
The 2012 *Joint Feasibility Study* conducted by Japan and Canada on an Economic Partnership Agreement quantified the opportunity as:



**~\$4 billion**  
each in potential GDP gains



**\$7.1 – 10.9 billion**  
in export gains for Canada



**\$3.5 - 4.1 billion**  
in export gains for Japan

# Potential questions for discussion

What are the best examples of collaboration between Canada and Japan in either the public or private sector?

Why have they worked so well and how do we raise awareness about these successes?

Where are the greatest areas of need or synergy going forward?

What can be done to accelerate these opportunities?

What obstacles need to be overcome?

Where should we go from here?

As business leaders what are our objectives for this relationship, and what are appropriate metrics to monitor progress?

How can business leaders in both of our countries cooperate to help inform negotiations for the TPP and EPA?

