



CANADIAN CHAMBER OF COMMERCE IN JAPAN  
CHAMBRE DE COMMERCE DU CANADA AU JAPON

Connecting Canada  
and Japan

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# THE CANADIAN

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## Reconnecting with an economic superpower

Japan the partner of choice in pursuit of our corporate objectives

By Joseph Caron, Ambassador of Canada to Japan

For a country as open to the world as is Canada, foreign relations is as much a matter of concern to business, the media, educational institutions, art and performance groups, as it is to governments, both national and provincial.

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.

I am writing to make the argument that, in the pursuit of our broad interests and individual goals, Japan deserves our renewed attention.

As I will demonstrate, Japan has turned the corner on a painful and lengthy period of readjustment and reform. Secondly, there are benefits beyond Canadian border interests that we can best pursue in and with Japan.

Throughout my career, I have had several opportunities to work in Japan. In fact, this is now the fourth decade during which I am living 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 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

Two decades ago, the 1985 Plaza Accord on exchange rates helped launch a spectacular rise in asset values in Japan, one that led to six years of unprecedented domestic growth, international expansion, and excitement and promise. It was an era of virtually free money lent by banks that had forgotten notions of Return on Investment and moral hazard.

However, in Japan like everywhere else, there is gravity. The turn-around was precipitated by a Bank of Japan decision to increase interest rates and reduce the flow of loans to the real estate sector, combined with a weak international trading environment.

Asset prices stopped rising and began a precipitous decline. Free money had led to bad investments and bad debts. Irresponsibility on the part of borrowers and lenders also led to serious problems of corruption, both political and corporate. Return on investment suddenly mattered. Loans had to be repaid. [There was] stagnating employment and loss of national momentum.

As a result of this change in national mood and circumstance, Japan found it difficult to respond to other challenges that hit at the same time (see p. 5, Table 1).

To address the challenges and stop the deflationary stagnation, many in Japan felt that fundamental changes were necessary. By now, all of the reforms have, largely, been implemented.



H.E. Joseph Caron, Canada's ambassador to Japan

Let me describe some of the economic reforms, and their consequences, to make the case that Japan has changed very significantly in the last decade and that these change have made the current economic turn-around sustainable.

### Reform of the micro-economy

Micro-economic reform, while being incomplete, is nevertheless the most transformative element in today's Japan. The Takenaka Plan aimed at 50% debt reduction by 2004 was easily met by banks. 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.

Some of these results are due to the fact that there has been substantial deregulation in the telecoms, transportation, energy and retailing sectors. 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. The commercial code is being overhauled to facilitate more rational movement of assets, including those of bankrupt companies; foreign firms may, later this year, be allowed to use their shares as currency in acquisitions in Japan.

Changes in ownership patterns are transforming the commercial landscape in Japan. In 1991, 46% of all listed equities were held as cross-shares, by one friendly Japanese company to protect the management of another. Today cross-shares represent approximately 20% of shareholdings. 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 managements, and signature companies such as Nissan and Sony are headed by foreigners.

### Recovering economy

The Japanese economy expanded by 0.3% in 2002, 1.4% in 2003, 2.3% in 2004 [and] 2.8% in 2005 (including 5.5% in the last quarter of 2005).

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## Changing with the times—the story of Sawanoya

Tucked away in the side streets of northern Tokyo, Sawanoya started off as a *ryokan* (Japanese-style inn) for travelling businessmen and organized school groups.

But when business slumped and occupancy rates slid from 71% to 56% within two years, Isao Sawa, owner and manager of Sawanoya, had to think of a way to boost business—and fast.

In July 1982, Sawa changed his business plan and began accommodating overseas travellers at his inn.

"At first I was hesitant. I had no previous experience dealing with foreigners, and I didn't know any English," Sawa recalls.

But Sawa and his wife, Yoneko, took up the challenge and

opened their inn to travellers from all over the world, adapting their business with each passing customer.

Their gamble paid off.

Now, 25 years later, Sawanoya has served over 120,000 overseas travellers, and Sawa was given the title of "Tourism Ambassador" by the Japanese government in 2000. This title is in recognition of his knowledge, experience and leadership in promoting international tourism in Japan.

Despite the initial cultural differences and communication challenges, Sawa carved a niche in the Japanese ryokan industry. Whatever your idea of success is, don't give up on it, advises the 69-year-old man.

"At first, I thought success was expanding the inn. Later, success was staying in the black," says Sawa. "Now, success is getting people to come back to Sawanoya. I could not envision this 25 years ago."

Sawa's recounts his experiences in his book *Welcome to Sawanoya, Welcome to Japan* (Omega-Com). The Japanese version is entitled *Sawanoya wa Gaikokujin Yado* (TOTO Ltd.).

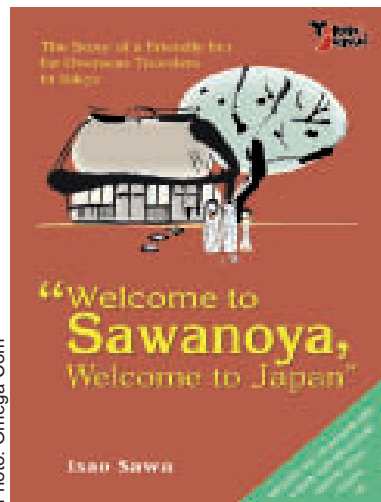


Photo: Omega-Com

Thank you for reading this sample issue. If you would like to read the full issue, or find out more about the Chamber of Commerce in Japan, please contact our office.

The Canadian is the Chamber's bi-monthly newspaper for members and is also distributed to a targeted and influential audience of businesses, public and private-sector business organizations, and key decision makers with an interest in the Canada and Japan relationship.

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