

Achieving a Canada-Japan Free Trade Agreement

The CCCJ's Board of Governors has adopted the promotion of a Free Trade Agreement (FTA) between Canada and Japan as a guiding principle for the CCCJ. An FTA between these two highly-developed trading partners sharing common values would:

- open markets to new goods and services;
- promote competition;
- promote innovation;
- promote transparency; and
- increase flows of people and, inevitably, good will between the two countries.

Increased Trade and Investment:

At present, Japan is Canada's second-largest trading partner, with trade levels reaching approximately USD 12 billion annually. While significant, this amount is smaller than expected given the very high levels of trade between Canada and the United States and between Japan and the US, and given the natural complementarity of the Canadian and Japanese economies.

Opening Markets to Goods and Services:

We believe an FTA would substantially help promote trade in goods and services and bring greater welfare to people and businesses of both countries. While tariff levels in many areas are already fairly low, various non-tariff trade barriers do exist and can be addressed. Even those sensitive areas subject to high protective barriers, particularly certain agricultural products, could also be brought to the table in FTA negotiations, recognizing that a very long phase-in period may be necessary. In principle, an FTA should be as broad as possible.

Non-Tariff Barriers:

Existing non-tariff barriers include regulations that are overly complex or lacking in scientific basis concerning such products as building materials, glass windows and certain agricultural goods. Mutually-acceptable solutions could be found and embodied in an FTA.

Promoting Innovation:

Both Canada and Japan have highly developed R&D capabilities. Canada does outstanding R&D, for example, in IT, energy, fuel cells and telecoms. Also, Canada has significant cost advantages compared to other G7 countries, in particular through R&D tax credits. An FTA can be expected to stimulate

significant additional Japanese investment into Canadian R&D facilities (KPMG Study 2006).

Promoting Transparency:

Public procurement in Japan has been characterized by close relations between government bodies and the companies to which they award contracts, in particular through the practice of '*amakudari*,' by which former ministry officials are hired by companies they regulated. Such favouritism has gathered increasing criticism within Japan and, as well, represents an important non-tariff barrier. Public projects in both countries should be awarded based on rational objective factors such as technical ability and price—in principle, through a transparent competitive bidding process.

Canada has strengths in finance and insurance, architecture, engineering and design, business consulting, legal services and other services relevant to public procurement. Thus, Canadian service industry companies could bring significant savings of Japanese tax money if they could bid on Japanese procurement projects. An FTA is the ideal forum to address these issues.

Entrepreneurship and Increasing Flows of People:

The experience of Canada and the United States under the NAFTA is instructive. Consumers in both countries have made gains through lower prices, better and more diversified services, more product choices and better use of tax money. Along with this, in the NAFTA context, about 96% of traders are small- and medium-size companies—SMEs—which are the engine of growth in any developed economy. We believe a Canada-Japan FTA would yield similar benefits.

On the Japanese side, recent changes to the Commercial Code of Japan have made it easier to establish new corporations, partly reflecting greater emphasis on entrepreneurship in Japanese society. This will help Japan maximize the benefits of an FTA, through economic diversification and creation of more SMEs.

The Time is Right:

After a long recession, Japan has returned to robust growth. This higher level of economic activity will increase Japan's ability to benefit from an FTA and help minimize any dislocations brought about by market openings. Canada too is experiencing sustained economic growth. This is an outcome of both a surge in resource prices and also the dynamism of Canadian labour markets, which have gained resiliency and vitality responding to NAFTA.

Japan's current priorities for economic integration are focused on the Pacific Rim and ASEAN areas. Recently, Canada and Japan entered an economic

framework agreement, with a view to increasing integration of their economies. While efforts by both countries are laudable, they have been insufficient to allow Canada and Japan to make the most of their already-strong relationship and complementarity of economies. Further, Japan's efforts towards bilateral FTAs with other countries, such as its recently-concluded FTA with Mexico, run the risk of creating distortions that would harm the logical flow of trade between Japan and Canada, such as in pork and certain other agricultural products.

The increasing integration of value-added chains between North America and East Asia, including the automobile assembly and auto parts industries of Japan and Canada, can amplify the benefits of an FTA. At the same time, the integration of manufacturing value-added chains within East Asia has made Japan more vulnerable to shocks—financial, economic or political—in the region, particularly in China. By further internationalizing the Japanese economy through greater integration with Canada via an FTA, such shocks could be mitigated.

Conclusion:

The CCCJ urges the governments of Canada and Japan to work toward the implementation of a Free Trade Agreement at the earliest possible date.