A CANADIAN TRADING COMPANY: AN ANALYSIS
OF THE POTENTIAL BENEFITS OF TRANSFERRING
A JAPANESE-STYLE EXPORT PROMOTION AND MARKETING
CONCEPT TO THE CANADIAN ECONOMIC ENVIRONMENT

by

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ABSTRACT

This paper is an attempt to look at the possibilities behind the federal government of Canada's proposal to create a new agency in the area of industrial export trade. According to the premises set down by the Government in its April 1980, Throne Speech, the initiative is primarily aimed at supporting small and medium-sized businesses in their efforts to penetrate foreign markets. It is natural for a government concerned with increasing competition abroad and rising unemployment in the industrial sector at home to start worrying about where industrial employment and overseas industrial markets are going to come from in the future. The wording of the Throne Speech and the policy studies undertaken prior to April 1980, regarding a potential national trading company seem to indicate that the Government had had the Japanese example of the trading house structure very much in mind, when closer study of such an enterprise was proposed, given Japan's thriving industrial sector and its successful export achievements.

In the aftermath of the Throne Speech a Special Committee of the House of Commons was created in June of 1980 to further study the question of a future "National Trading Corporation." The Committee came down with its fourth and final report, Canada's Trading Challenge, in June of 1981, in which its basic recommendation after a year of deliberations was that "the federal government sponsor the development of a major Canadian trading corporation." This final conclusion by the Committee stands in
direct contrast to evidence presented by witnesses before the Committee, and it seems to be an opinion reached by the Committee majority based on material and opinions obtained in addition to the briefs and the evidence gathered during the Committee's public hearings.
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Introduction

It is my intention to look at the question of a potential national trading structure by first tracing the history of the trading house concept in general terms and then concentrating on the Japanese trading house example in detail by looking at the country's economic background, national industrial strategy and international trading activities. Since the end of the nineteenth century the Japanese have developed and refined the trading house concept to what it is today, a smooth operation serving the needs of the country and the business community through a world-wide network of marketing and sales branches.

I will then move on to look at the corresponding Canadian conditions, such as the existing economic situation, the question of a possible Canadian industrial strategy, and the prevailing trading concerns. From there I will proceed to consider the action taken by the Canadian government during the years 1980-1981 to analyse the question of a national trading corporation and its implications for the country's future trade prospects overseas.

Finally I will reflect on the evidence, the alternatives, and the recommendations that have emerged from a year of Committee work and on the basis of the gathered data try to reach a conclusion as to the feasibility of setting up a national trading corporation within the Canadian context.
I. Trading Companies -- Past and Present

The trading company concept is in itself not a new idea. It is a general notion that up through the history of the world has taken on many different forms and shapes in various regions under changing governmental structures. Towards the end of the sixteenth and the beginning of the seventeenth century various European governments took steps to introduce new industries and helped the merchants involved replace the old local economies with new national markets, providing them with a generous supply of available labour and easy access to the necessary materials. But merchants and their governments not only joined together domestically; they also formed official companies for the purpose of trans-oceanic trade, with the East India companies being the most famous.

In England, these early overseas trading companies were basically merchant 'cartels' which received their charters from the Crown. In the various European countries, such as Holland, France, and England, these companies were state-supported organizations with special designated rights. Each one was actually a monopoly, as only merchants who belong to that particular company group could enter into trade in a particular region or area. Each of these 'regulated companies' was expected, in return for the granted charter, to find outlets and markets for his country's handicrafted manufactures. Without this type of government support the large merchants could not have flourished neither at home nor overseas. Their exports thus were heavily subsidized with the governments paying 'bounties' for goods they wished to 'promote' and erecting tariff barriers, where needed, to protect the country's producers from outside competition.¹

This kind of economic system flourished right through the eighteenth
century, representing the old merchant capitalism and mercantilist
government policies. A very close tie between government and private
enterprise was thus the rule of the time, with the governments financing
and guiding the trading community. In England, for example, a large por-
tion of the government debt was held by these trading companies. The
government would charter a company, support it with a monopoly in a given
line of products and a certain area of operations, and then received from
the company, in time, when the stockholders had bought up the shares, a
very large sum of cash as a loan, with the company thus holding a portion
of the national debt. In France, trade and manufacture developed under
even more direct government protection and guidance than in England. Col-
bert, in the seventeenth century, even went so far as to require that handi-
craft manufacturers produce goods of specific kind and quality, as he
believed that this type of national 'quality control' would induce foreigners
to buy French products in greater numbers, and he further gave subsidies,
tax exemptions, and certain other privileges to a number of merchants to
expand the more profitable lines of endeavour.²

In later centuries, colonial empires were seen as a 'must' with each
industrial country having its own overseas possessions as 'sheltered mar-
kets' to which the home country could supply its manufactured goods and in
return receive raw materials. The idea was thus to create a large, self-
contained trading unit, protected, if necessary, from foreign competition
through tariffs, so that the empire's members were guaranteed gold and
wealth and continuing prosperity. This system, in its later stages, was
called 'neo-mercantilism,' reviving as it did the original mercantilism of
the sixteenth, seventeenth, and eighteenth centuries. Britain had its old colonial trading companies: the East India Company, the Hudson's Bay Co., the Levant Co., the Russia Co., and the United Africa Co., and there were corresponding companies in the other European countries. Most overseas trade in Britain was handled by export houses before World War I, and as recently as 1951 around thirty-five percent of exports were still handled by some type of trading house.3

Towards the end of the nineteenth century the Japanese created their own special type of trading company for the purpose of modernizing their relations with the international world of trade, as detailed below, and this particular Japanese model, the sogoshosha, in the 1970's inspired a number of developing countries, especially in the wake of the 1973-74 'oil crisis,' to try to set up their own trading companies in connection with renewed export drives.

Among the leaders were Brazil and Korea, both hard hit by the four-doubling of the petroleum prices. Both countries have been trying to alleviate the rising imbalance on their foreign accounts by increasing their export efforts. Both countries' initiatives have been heavily assisted by solid financial backing and full government support. However, there are basic differences in the two countries' set-ups. The Brazilian trading companies are concentrated on commodities, a natural move for Brazil, and standard manufactured goods, whereas Korea, without natural resources, has concentrated its efforts on manufactures and heavy industry.

Brazil has two trading companies, both created in the 1970's, one being thirty percent owned by the government's Banco do Brazil (Cobec),
on the Japanese pattern. Since the beginning in 1975 the Koreans have changed their emphasis in trade from the U.S.A. to Europe and now again to the LDCs in Africa and Latin America. The Korean companies have offices at home and branches abroad, handling both exports and imports a la the Japanese trading houses. The Koreans have also taken up the Japanese example of emphasizing company loyalty and a national competitive spirit, with the latter now being a strong force behind the country's export drive. 5

Also such Asian countries as Singapore, Thailand, and Malaysia have begun to promote the development of national and private trading companies in order to expand the overseas business of their smaller producers. Singapore has thus set up Intraco. to expand this type of exports plus deal with Eastern bloc countries. Thailand is promoting the development of twelve trading companies to assist its future trade, and Malaysia is developing trading organizations within its borders in partnership with the Japanese sogoshosha, and even New Zealand in the southern Pacific region has operated a national trading company for years in order to promote its exports on behalf of small and medium-sized producers. 6

Turning back to Europe, in Britain today the export houses still hold about twenty percent of the export trade, with twenty-five percent of its eight hundred members being buying agents and confirming houses. There is not any more in Britain a particular policy to promote export houses business, but in connection with the country joining the European Economic Community the London Chamber of Commerce initiated an association with the European Association of Export Houses in 1972. As is the case
everywhere else, a limited number, thirty-two, of export houses dominate the export trading house picture, handling nearly seventy-five percent of total export turn-over within this group. An attempt has been made in Britain to get the government into the business by setting-up, in 1967, a joint private/government enterprise, the British Overseas Marketing Corporation, to supplement the private sector. Its purpose was to help small and medium-sized companies with their export problems and look into market opportunities for British firms overseas, within certain particular export groupings. However, the enterprise ran into difficulties due to the smaller companies lack of sufficient capital and production facilities, but the corporation is still being supported by its private enterprise backers, although the government appears to have pulled out. Another British venture, the Export Joint Ventures Ltd. (export marketing partnerships) initiated by the British Institute of Marketing seems to have had more success. The company started up in 1965 and now operates on a fully commercial, co-operative basis, on a fee-for-service arrangement.

The U.S.A., like Canada, is faced with a new economic phenomenon, the dawning of the Pacific age, and the opening-up of the Pacific Rim, and is encountering exactly the same problems, namely the domination up-to-now of American export trade by a limited number of larger firms, with the small and medium-sized companies concentrating on the easier domestic trade. The U.S.A. has a number of export promotion programmes in place, offering marketing information, financial assistance, and tax incentives through its Department of Commerce, Department of State, Export-Import Bank (EXIM), the Department of Defence and the Department of Agriculture, plus a long row of
other, smaller agencies. However, who uses these institutions? Mostly the large, well-established, old corporations. The now (in)famous Domestic International Sales Company Program, created by President Nixon in 1971, was a strong example of this phenomenon, as it over time became completely dominated by the large multinationals and was unsuccessful in helping smaller companies with their exports.

U.S. history of exports over the years has thus mostly been the history of expanding multinationals with little government input or attention. The country has produced some very strong examples of export industries such as the aerospace industry, the auto industry, and the defence industry and has had a very efficient, exporting agricultural sector, the latter perhaps the only one, due to its special nature, to act at times in cooperation with its corresponding bureaucratic structure, the Department of Agriculture. Over the last decades, the defence industry has also more and more felt the heavy hand of government restrictions in its overseas dealings, but the driving force behind the industry is still largely private enterprise. The American multinationals, in many cases, have the appearance of trading companies, with their trading arms displaying the characteristics of a sogoshosha, such as networks of market intelligence, direct access to growth-oriented manufacturing products, and a corporate 'culture-training' that lend itself easily to overseas export expansion. It thus seems that the U.S. might not be in any need of a trading house sector in order to keep expanding its markets over the 1980's. However, if the small and medium-sized American companies were to become involved in export trade, even the U.S.A. would probably be requiring some kind of
structured coordination in this area just like any other nation set on strengthening its overseas exports. Perhaps the re-introduced Stevenson-bill, sponsored by Senator Heinz and forty-eight co-sponsors, if it is passed by the U.S. Senate, might give encouragement to banks to become active in exporting trading corporations and become the incentive needed to get American manufacturing companies in the small and medium-sized sector a chance to enter the export market. Besides permitting substantial bank ownership in trading corporations this new legislation would provide less restrictive rules for export consortia with respect to earlier anti-trust legislation, and it appears that this kind of thinking acknowledges the need to promote institutional change in order to obtain foreign trade expansion.8

II. Japanese Economic Conditions and Trade Promotion Mechanisms

Economic Conditions

After World War II great changes were imposed on Japan both politically and economically. Among the commercial changes were the dissolution of the old Zaibatsus9 and the breaking up of the larger trading companies, leaving the economic sector somewhat rudderless. But at the urging of the American GHQ advisors, government and business drew up new, detailed plans for Japan's future economic life. Japan was further supported, in the immediate post-war period by extensive American aid, amounting to around two billion dollars which helped to finance up to sixty percent of its imports and renew a large part of its industrial plants.10

Japan gradually overcame its handicaps, and domestic producers became
more efficient and able to replace previous imports, while at the same
time expanding the country's export trade. In the mid-fifties Japan
reached a point where its exports began exceeding its imports, and it
gradually achieved a better balance on its foreign accounts. Its economy
expanded rapidly during the latter half of the 1950's with the GNP reaching
fourteen percent per year (eleven percent in constant prices) and capital
investments increasing by around twenty-five percent per year.

After a while, however, imports again tended to increase faster
than exports, sixteen percent compared to eleven percent, and in 1961
Japan's balance-of-payments again began to show deficits, in the area of
two billion dollars. 11 Also, this was a period of change, where the
country experienced a switch in its foreign trade, with more emphasis being
placed on the importation of minerals, metals, and machinery, and the
beginning of exports of heavy industrial products, indicating a move away
from predominantly cotton, textiles, and foodstuffs. 12

In the first half of the 1960's government restrictions were then
again, in the wake of the balance-of-payments' deficit, brought in,
bringing the boom in the economy to a close temporarily. The GNP fell to
an annual average of nine percent, and the annual increase in manufacturing
fell to about ten percent. However, in spite of the domestic boom being
brought to a halt, export growth continued, again bringing Japan's balance-
of-payments into the black. During the latter half of the 1960's, Japan's
economic growth thus began to increase again, at an average rate of about
seventeenth percent annually (thirteen percent in constant prices), and
increased investments were again a major factor behind the expansion.
There were several reasons for this expansion, such as an increased demand for export goods in the world as a whole by about thirteen percent per year and the fact that other coming Asian industrial centers, such as Hong Kong, Taiwan, and South Korea were looking for their share of this expanding market and imported Japanese semi-manufactures on which to build their own future manufacturing industry.\(^{13}\)

After the war, the Japanese government had also imposed strong restrictions on all imports and movements of capital into and out of the country. This carried on through the 1950's and early 1960's, but with Japan's heavy expansion both overseas and domestically, pressures increased to open the country up to other countries' exports and capital investments. Thus, when Japan joined the other industrial nations in the Organization for Economic Cooperation and Development (OECD) in 1964, it had to accept the prevailing trading conditions with respect to duties, tariffs, and import and export restrictions. However, it actually turned out that, in spite of initial difficulties, this opening-up became a plus for the Japanese economy over the long run.\(^{14}\)

In the 1970's Japan forged ahead with its development of heavy industry exports and experienced large surpluses on its international trade accounts. However, due to a number of extraneous circumstances Japan was led to the adoption of a more moderate stance in foreign trade areas with fewer incentives given to exports and more encouragement given to imports. Among the circumstances were the Tokyo Round of GATT talks and pressure from its trading partners to lower some of its 'walls' with respect to tariff and non-tariff barriers, import restrictions and foreign exchange controls.
Further Japan was hit by rising wage costs, due to a labour shortage which became strongly evident in the 1960's with a decreasing input of younger workers. By 1974 wage levels in Japan had reached, and in some cases even exceeded, those of Europe. Also differentials between younger and older workers diminished, and the differences between smaller and larger firms vanished to a large extent. And, finally, the traditional work discipline suffered, especially among the younger generation, with such 'Western' ideas as the five-day week and the annual holiday creeping in. But there was also the basic problem of young high school graduates being unwilling to work as factory workers or in other so-called 'blue-collar' jobs, and that pertained both to larger plants and smaller shops.  

Besides the labour costs, other rising cost factors were the existing scarcity of land for the heavier industries to build on and the increasing public concern regarding environmental problems. Japanese industry is concentrated mainly in three areas of flat and easily accessible land which makes up less than one third of the countryside, but contains more than half of the population. This creates a rather concentrated problem which has become the target of still rising citizen's protest movements. Public sentiment has gradually turned away from the strict, historic regimentation to a more modern, environmental attitude which especially comes into force, as in North America, in regard to the chemical, steel, and petrochemical industries.  

Contributing to Japan's increasing economic and trading problems has been the question of appreciation of the Japanese yen. Two rounds of appreciation in the early 1970's thus seriously damaged Japan's hitherto strong competitive position, and in the summer of 1973, for example, dollar depreciations and yen appreciations had caused the Japanese yen to appreciate by about
thirty-five percent against the U.S. dollar, a really hard blow to the country's exports.\footnote{17}

In spite of all the set-backs Japan's economy still promises to reach new heights in the 1980's, based on solid work, enthusiasm, and a healthy investment climate. The country is keeping up its well-known reputation for being in the forefront when it comes to electronics, automobiles, and petrochemicals, and its economic influence is continuing to spread to the furthest corners of the world. At the same time it is trying to accommodate its trading partners. The problem is that Japan sees itself as striving for export moderation, whereas its trading partners keep on complaining about Japanese export saturation in a number of industrial areas, and this is a question that will require time and diplomacy during future economic negotiations.

**Industrial Strategy**

The Japanese have since the end of World War II put their initiative and hard work to peaceful use and have reached a level of industrial production, unequalled in its strength and rapid growth. How did this happen? It has been estimated that during the war Japan lost close to half its industrial capacity and national wealth,\footnote{18} and an economic recovery after the war was thus a necessity. However, the first period after the war, under American occupation, was marked by several policy reversals with respect to industrial development. First there was a move to demilitarize and partly de-industrialize the country. Then followed a period where there was a concerted effort to assist the country in achieving a speedy economic recovery through industrial development, the latter partly inspired by the Korean war. Plans were drawn up to re-create Japan as an
industrial power by selecting four target industries, namely coal, fertilizer, power, and steel, based on the country's perceived strengths. The latter included its strongly motivated labour force, its potential for harnessing hydro-electrical energy, and its available coal reserves.\footnote{19}

Based on these pillars, Japanese industry in the 1950's and 1960's set about to rebuild and modernize its structure with a strategy that included three main elements: protectionism, strict control of development to ensure the most efficient use of capital, technology, and management labour and, finally, a heavy emphasis on exports to gain foreign currency to pay for imports of raw materials and modern technology. The government kept setting the course through its Ministry of International Trade and Industry (MITI), with private industry following right behind, putting emphasis on areas and products deemed by the government to be the most advantageous for a country in Japan's position. Japanese companies, for example, signed 17,600 licensing agreements between 1950 and 1972, covering technology in all fields of endeavour, such as electrical machinery, chemicals, pharmaceuticals, synthetic fibres, transportation equipment, ship-building technology, iron and steel. Japan thus became one of the top producers in these areas, with the heavy and chemical industries accounting for about seventy percent of the country's GNP in the late 1960's.\footnote{20} Unique as the idea of picking target industries for reconstruction of the country might sound, it was not new, but rather predicated on a nineteenth century concept of picking 'national champions', a method which had been used extensively, for instance in connection with Japanese shipping lines.

It has been estimated that roughly a third of total gross investment
in the 1950's took place in the manufacturing sector, creating large-scale employment for the increasing Japanese labour force. Manufacturing production was expanding by seventeen to eighteen percent per year. Japanese industry experienced a boom in the first half of the 1960's which was brought on, not by domestic buying, but by a growing demand for manufactures worldwide, a demand growing by about eleven percent per year, especially in the U.S.A., Japan's major external market. During the latter half of the 1960's the country continued to prosper and again experienced increased economic growth. However, there were two drawbacks within the industrial sector. One was a slowing down of the manufacturing employment to less than two percent growth annually, and the other was the diminishing share of manufacturing in total investment.21

Towards the end of the 1960's, however, the post-war era of expanding Japanese exports and the Japanese industrial strategy was hit by a number of problems which resulted in large part from Japan's economic success. The problems were rising objections to the taking-over by the Japanese of a number of other countries' home markets; the product mix of their exports, the latter being to a large degree concentrated in mass-produced, standard items; a declining level of competitiveness for Japanese goods due to rising costs domestically; a change in the relative position of the Japanese yen on the international money markets; the increasing demand for scarce resources world-wide which it had become gradually harder to obtain; the intensive protection of the Japanese home market against imports from abroad; and, finally, Japanese businessmen's unfamiliarity with local attitudes and business procedures which provoked anti-Japanese demonstration in some
countries.22

The reaction to Japanese mass exports came from both developed and less developed countries and gradually increased during the 1950's and 1960's. Most countries were anxious to build up their own industries, and since the Japanese excelled at the time in items that could be copied and mass-produced, more and more countries went in for import substitution, imposing both tariff and non-tariff barriers. In the USA which was hit by huge deficits in its trade with Japan there were increased protests against the competition in electronics, consumer appliances and automobiles, and all sorts of subtle, and not so subtle, means were applied to restrict Japanese imports. In the developing countries the first area of imports hit was usually the last stage of the manufacturing process of consumer goods, such as textiles, low-priced metal products, the packaging of soap and drugs, and the assembly of consumer appliances, i.e., television and radio sets, and refrigerators. These were areas which were tempting for the smaller overseas markets to take over and reap the profits for themselves.23

But Japanese industries had reached a point where they had invested so much overseas in marketing and servicing set-ups and borrowed so heavily to expand that they simply could not let anything stand in the way of continued growth internationally, and thus could not allow foreign retaliation to hinder their export strategies. Further, there was the question of technological progress which could only be achieved through new technology obtained abroad, as opposed to the earlier, standard technology which could be obtained by simple licensing. The new situation required the Japanese
to give in to foreign requests for access, on a permanent basis, to Japan itself. By the early 1970's, most import restrictions had been removed, and the liberalization of capital transfers had been achieved as well.\textsuperscript{24}

Finally, there was the question of raw materials. During the 1950's and 1960's, Japan had been able to obtain raw materials on the world market on favourable terms, due to its large and steady demand for these products, but by 1970 things began to change also in this area. Japan imported 100 percent of its aluminum, 98 percent of its petroleum, 79 percent of its coal, and 76 percent of its copper. Within the OECD, its share of coal climbed from 15.8 percent in 1964 to 41.6 percent in 1969, for iron ore the figures went from 23.7 percent to 39.3 percent, for timber from 15.4 percent to 29.9 percent for copper from 9.5 percent to 19.1 percent and, finally, for crude oil from 12.6 percent to 15.6 percent. These are rather high increases just for a five year period.\textsuperscript{25} In the early 1960's Japan found out that it could no longer acquire raw materials as easily as before, and as a counter-move it began investing in overseas raw material exploration, a large part of which became Japanese-owned and managed, and further the Japanese began setting up manufacturing plants abroad, some to be close to the source of raw materials, others to protect their overseas markets, and others again to make use of low-cost labour. This move gave Japanese industry access to advanced technology, low-cost energy, and low-cost labour, all of which would be 'hard to come by' at home in Japan. The move into raw material exploration was also a counter-move to foreign companies showing their intention to become active on the Japanese domestic market. The Japanese felt that they would be unable to complete efficiently, unless they also had vertically integrated
operations and raw material concessions spread over a number of overseas countries. 26

Japanese investments have been divided almost evenly between developed and less-developed countries, with about thirty-nine percent going into minerals, agriculture and fisheries, twenty-six percent into manufacturing, and twelve percent into commerce, with the remainder divided between construction, finance, and service-related fields.

With respect to manufacturing, Japan, as mentioned, began a gradual restructuring towards the end of the 1960's, an evolution which went on right through the 1970's. Its major aims were stability and protection of existing markets. The USA had ever since the mid-1950's taken about one third of all Japanese exports, and Japan had been very strong and competitive in such articles as textiles, steel, electronics, cars, and chemicals. But in the mid-sixties, things began to change. U.S. firms began procuring and/or establishing production facilities, particularly in the consumer electronics line, a major Japanese export, in overseas, lower-cost areas, in many instances practically cutting Japanese exports to the USA in half or even lower. This forced Japan to do likewise by establishing its own plants in low-wage countries to export to the American market. Investments were particularly concentrated in Eastern and Southeastern Asian countries, such as Taiwan, Korea, and Hong Kong, and it really took off in the years from 1965-1972. 27 Foreign manufacturing investments took place mostly (over sixty percent) in such areas as textiles, apparel, electric machinery, and fabricated metals. However, the overseas subsidiaries remained, to a large extent, limited in size mainly due to the interest on part of the
Japanese firms in maximizing exports from their own parent companies in Japan, but also due to the rather small size of the overseas markets and the 'follow-the-leader' approach, whereby when one Japanese company moved into a market, its main competitors of Japanese origin would follow suit.

Added to all the above mentioned problems, Japan began in the 1970's to encounter another factor in the continuous trade 'war.' The USA began setting up import restrictions in various forms for a number of products which were of vital importance to Japanese exports, such as ball-bearings, consumer electronics, motorcycles, pianos, and finally cars. This forced the Japanese firms, reluctantly to move into production on the American home ground.

The growth of the manufacturing sector in Japan since the war is clearly discernable from the following figures: in 1955 this sector accounted for twenty-two percent of GNP, in 1969 it accounted for over forty percent. Behind these amazing figures lie a high rate of technological change and a large force of willing, ready, and able manpower. The technological change depended to a large extent on the purchase from abroad of licences and patents for domestic production, and not so much on native inventiveness, and the labour factor was due to an abundance of manpower right after the war, lasting until the beginning of the 1970's. The question of a rapidly increasing labour productivity was due mainly to three factors, namely a fast growing flow of investment in new plants and industries, changes in the composition of manufacturing output and employment, so that these were attracted to the most rapidly growing areas, and, finally, the existence of important industrial elements, such as a high
concentration geographically of Japan's industries, a special interlocking nature in the country's industrial establishment, and strong improvements in the existing infrastructure, such as public utilities. The increase in the level of productivity in Japan in the post-war period shows in the following figures: in the 1955-1969 period the increase averaged ten percent, whereas in the 1965-1969 period alone it reached around fifteen percent.\(^{30}\)

The future of Japanese manufacturing at the moment is not too easy to predict. Japanese manufacturers are constantly searching for new ideas, new cost-cutting procedures, new production facilities, and new markets, but it would be hard for them to keep up the fantastic jumps in production figures that have taken place over the last twenty years. It has been suggested that the best prospects for Japan lie in areas where the economies of scale are very important, such as in the petrochemical industry. However, overall, Japanese industry is handicapped by a lack of 'native' innovativeness, forcing the country to be rather dependent on foreign industrial technology, and because Japanese industry thus tends to become strongly concentrated in so-called 'mature' industries, Japanese manufacturing investments are continually confronted with new threats to their competitive advantage and their existence \textit{per se}. What is urgently needed in the Japanese context is therefore a strong, home-based research and development policy (R&D) to ensure the country's manufacturing industry a bright future.\(^{31}\) However, there are signs at the present moment that even this aspect of the Japanese industrial life is changing, and that innovativeness is developing in the country's major industrial sectors.
Trading Patterns

Based on the above overall economic picture of Japan in the thirty-six years since World War II, how does the actual trading system work? There are two main ingredients of importance here, namely the private Japanese trading companies, the actual handlers of Japan's industrial export products, and the Japanese government, through its promotional agency, the Japan External Trade Organization (JETRO), with the latter vigorously aiding and supporting the private Japanese trading effort.

The Japanese trading companies originated in the nineteenth century, after Japan came out of isolation in the 1870's. At that time, Japan as a country decided that its national goal would be to overcome its 'backwardness' with respect to industrial development and to catch up with the larger industrial nations in Europe and America. It was realized that trading companies were needed to handle the interaction with the world outside, and Japanese business interests set up special branches to deal with exports of fabricated goods. It was further realized that five basic inputs were required for Japan's industrial development 'to take off,' namely capital, technology, foreign exchange, managerial skills, and a political commitment on part of the nation to devote itself fully to industrial growth and international trading. But mixed with the eagerness to rejoin the economic world outside was the fear of strangers, the foreigners who had been seen as threatening the Oriental way of life for centuries. This fear excluded the question of direct foreign investment in Japan and led the country to take on the problem of expansion along its own particular lines.
The Japanese therefore employed two tactics that have stood them in good stead ever since, namely the technique of 'search and retrieve' and 'division of tasks.' The 'search and retrieve' strategy was the process of going overseas, locating the appropriate technology, taking it home and applying it domestically. 'Division of tasks' was the process of dividing the necessary ingredients of a manufacturing business into three distinct divisions: production, financing, and sales. And to go even a step further, each manufacturing unit would only produce a single product, thereby achieving perfection in its particular area. Based on this division of labour, the manufacturer left the financing to the banks and the sales, overseas as well as domestically, to trading companies.

The first sogoshosha (general trading company) was established in 1876. It was the Mitsui and Co., set up as a separate trading arm of the House of Mitsui. Later a number of other sogoshoshas were added. Their original major trading items were coal, silk, and agricultural products for exports, and cotton and spinning wheel technology as imports. Another type of trading company, the senmonshosha (specialized trading company), was later added and specialized in certain fields of endeavour, such as cotton yarns and cloth, instead of encompassing the whole array of exports and imports.

Prior to World War II there was a period of consolidation in Japan's economy, where weaker companies were eliminated or merged, and where only the strong sogoshosha survived. After the War the large trading companies were, temporarily, broken up by the Allied Occupying Forces, but gradually, over the 1940's and 1950's, the trading companies found their way back on the scene, adapting themselves to the new post-war conditions, through
consolidation and diversification. Further, due to serious problems in obtaining sufficient capital to expand as rapidly as required, the larger companies in the post-war era tended to center their activities around ten of the largest commercial banks, the city banks. These banks then became the foundation for new groupings, consisting of manufacturing and service firms. Strong competition thus developed for market shares between the reconstituted Zaibatsus and the bank-centered groups, both domestically and internationally, to the benefit of the country as a whole. Moreover, two types of structural adaption gradually took place in the country. One was the revival of the old trading companies on a grand scale, encompassing more markets and wider product lines than ever before. The other was the restructuring of the Keiretsu-lineage which again gave the large trading companies increased flexibility in their export endeavours. The six largest trading companies in 1974 held stocks in a total of 5390 smaller companies, giving the structure a strong linkage between the large internationally trading corporations and the small and medium enterprises as the basic and intermediate units.

There are, at the present time, around 8,000 export/import companies in Japan that could be defined as trading companies. The nine largest of these are known as general trading companies (sogoshoshas). Over an average year these trading companies handle a total of about sixty-five percent of Japan's export trade, with the nine general trading companies accounting for about fifty percent. These nine sogoshoshas account for total sales equivalent to nearly one fourth of Japan's GNP, and the turnover of the two largest trading houses combined corresponds to the GNP of
Australia, with the total sales of all nine amounting to the GNP of Canada. The goods they trade amount to 20,000 to 25,000 items, and they can boast of the world's largest and most effective commercial intelligence networks set up with such complexity that the largest among them can match the complexity of the two superpower's military networks.\(^{38}\)

The post-war Japanese trading system in many ways reminds one of a set of Chinese boxes. If one starts from the outer layer, the Japanese government is the final protector (and arbitrator) of the whole system. When one removes this layer, one reaches the Keiretsu-level, a loose association of groupings and large general trading companies and trading companies which center around one or more of Japan's large banking corporations. Behind this layer one finds the Zaibatsu-level, where general trading companies, trading companies, insurance firms, shipping lines, etc. are grouped together for mutual benefit. Further into the system one finds the general trading company (sogoshosha) level, where large firms involved in as well exports as imports, overseas trade, investments, etc. are to be found. The comes the level of the smaller trading companies who are more specialized in their approach to exports and imports, and more limited in their overseas transactions, and inside the whole structure one finds the small, specialized manufacturing company, operating only as a supplier of its particular specialty to the larger, above-mentioned outer layers. It is an intricate system, indeed.

The Japanese trading companies have a number of strong points which are the keys to their success. They operate on very small profit margins, as they, especially the general trading companies, deal in thousands of
commodities at any given time. But not only do they deal in a large number of products, they also handle enormous volumes of goods and services among themselves and their affiliates, covering all aspects of the export trade. This is one of their major structural advantages. Another advantage is their easy access to low-cost financing and credits on a large scale, both long-term and short-term, thanks to their intimate connections with one or two of the major Japanese banks.

Finally, the Japanese executive structure has been subjected to a radical transformation in that promotion based on seniority gradually has been changed to promotion on the basis of merit. This could indicate an increased productivity on part of management personnel and added strength for the Japanese trading system which already contains the feature of 'collective responsibility,' whereby lower ranks are being encouraged to take an active interest in the company's well-being, and where management from the middle level and up is being directly engaged in strategic decision-making. Young men out of school and university are hired on the generally accepted premise that it is a job for life, a premise that on part of the employee requires a total commitment to the company. The trading companies thus rely on shared goals and shared responsibilities, based on a shared cultural background and shared economic interests to produce the highest obtainable quality based on the greatest obtainable productivity.

The list of trading company functions is nearly unlimited. If there is a task to be done and a profit to be made, the Japanese trading company will do the job. Naturally, their first task is plain and simple trading of goods. But what gives the Japanese trading company its added strength
is its coverage of the full trading life of a product, from the original acquisition of potential raw materials, by overseas investments and resource development, through initial production at the factory, transportation on land and at sea, warehousing and storage, financing, insurance coverage, risk absorption, on to the final follow-up services at the point of importation. These operations are also based on imponderable, valuable factors such as a wide-spread network of representatives with a detailed knowledge of overseas markets and local needs, the ability to act on short notice, and employing a wide variety of marketing techniques, including lease and barter. The advantages of trading companies in Japan could be summed up as follows: an exhaustive territorial knowledge; trading in such volume that it gives them great economies of scale; operations on a world-wide basis with a large, internal market to back them up; and, finally, the added asset of easily available financing on favourable terms.

After the war several Japanese trading organizations were created, on government as well as private initiative, basically to serve the same end, namely the promotion and expansion of Japanese export trade. The Ministry of International Trade and Industry (MITI) felt that the country needed a central organization to incorporate various scattered activities and proposed the setting-up of such an organization. Legislation to this effect was presented to the Diet and enacted at the twentieth-eighth ordinary session in 1958. The organization was originally named the Japan External Trade Rehabilitation Organization (JETRO), but this was later changed to its present name the Japan External Trade Organization. JETRO was founded as a non-profit agency under government auspices for the promotion of Japanese
international trade. It is responsible to the Ministry of International Trade and Industry (MITI) with head offices in Tokyo, an office in Osaka, and with twenty-seven local offices in Japan, plus eighty-one offices and trade centers spread over sixty-one countries. It has a staff of approximately six hundred in Japan and six hundred and fifty employees abroad, giving a total of about twelve hundred fifty (1978). It is headed by a president, an executive vice-president, two auditors, and six executive directors, a group which has been appointed by MITI.

The functions of JETRO are as diversified in its particular sphere, as are the trading activities of the Japanese trading companies. Exports, and now also imports, are promoted and facilitated in a hundred ways through research, information services, public relations activities, and trade fairs and exhibition arrangements. The Organization has departments for overseas activities, overseas research, and overseas public relations; it has economic information and trading information service departments; it has separate trade fair and publication departments, and special sections for machinery and technology, plus agriculture. There is no export department as such, but it does include an import department, indicating that the organization is dedicated to exports generally, and that the import section has been added at a later date.42

The information services are available to both Japanese and overseas businessmen. They include over-the-counter services, library services, seminars, periodicals and numerous other publications. JETRO further attends to overseas trade inquiries at the rate of around 200,000 annually; it publishes an export directory; it compiles information on all aspects
of economics, trade, and industry on a world-wide basis and maintains a list of subscribing members for its information distributing services.\textsuperscript{43}

JETRO's public relations activities have four different aspects: the promotion of an understanding overseas of Japanese economic conditions; the promotion of information programs for both exporters from and importers into Japan; the promotion of overseas Japanese investments; and, finally, the promotion of information regarding Japan's overseas economic cooperation activities. JETRO further sponsors an extensive range of public relations functions for the benefit of Japanese businessmen and overseas business representatives, journalists, economists, teachers, etc. It arranges briefing sessions for commercial attaches and keeps an international lounge in Tokyo available for seminars and visiting businessmen and journalists. JETRO has to date participated in over six hundred trade fairs and exhibitions. It takes part in both general trade fairs, special trade fairs, public relations exhibits, and special events.\textsuperscript{44} The JETRO enterprise must be one of the greatest promotion efforts in the world and combined with the activities of the Japanese trading companies it seems an unmatched international trading force.

III. Canadian Economic Conditions and Trade Promotion Mechanisms

Economic Conditions

Right after the end of World War II Canada went through a period of rapid economic growth with high employment and a sustained rise in the GNP and in productivity. Between 1945 and 1957 Canada's GNP thus grew at 4.2 percent per year and the per capita GNP figure was at 1.6 percent. The
period was marked, though, by price and wage pressures and beginning strains with respect to the balance of payments. During the 1950's, Canada's economic picture deteriorated. Unemployment rose, the growth in productivity slowed down, and so did the rise in GNP. Prices and wages, however, remained fairly stable, whereas the balance of payments accounts slowly kept losing ground. 45

During the 1960's, Canada's, and the world's, economic outlook improved. Unemployment fell, productivity gained ground, the balance of payments took on a more promising look, and prices and wages remained relatively stable. In the 1960's, Canada also had an average five percent annual growth in its GNP and a market share for manufactured goods close to the six percent level (5.9%) among the major industrial countries of the world. However, the 1970's generally saw a serious deterioration in Canada's position on many fronts. At the beginning of the 1970's Canada gained from the commodity price boom, but lost out, when the industrial world sector hit a recession in the mid-seventies, and Canada's manufacturing market share fell into the mid-four percent bracket (4.2 to 4.6%). Canada further suffered from a falling growth in its productivity rate, currently running around the two percent mark, and a very rapidly rising inflation rate with the latter playing havoc with all other efforts to 'reconstruct' the economy, based on a very low, devalued Canadian dollar. 46

Tied in with Canada's dwindling share of world exports has been a continuously increasing deficit on its payments accounts with the outside world, reaching a critical stage in 1975 when it increased by more than three billion dollars in one year to a total of around five billion dollars.
It has been going downhill ever since, estimated to reach the ten to twelve billion dollar mark in 1980-81. It seems that other countries are using non-tariff barriers much more skilfully than Canada to keep out unwanted products, the latter meaning competition for their own manufactured goods. Further Canada has been relying too heavily on technology originating in other countries, resulting in a heavy import of end products. In 1978 this amounted to about thirty billion dollars, giving Canada a deficit of twelve billion dollars on its manufactured products trade account.

But these are only the current accounts. There has also been a change in the country's capital accounts in the 1970's as direct foreign investments turned from a positive balance into showing a negative one, so that capital inflows from abroad no longer can offset existing deficits on the current accounts. The latter problem starts a vicious circle, where large external borrowing to pay for the deficits creates still higher interest and other service charges which again makes the current accounts 'get out of balance.' It is then increasingly clear why the government is in such great haste to promote the country's manufacturing sector. Somehow, somewhere, something will have to be found to get Canada out of its 'jam.' Otherwise the country will have to suffer under an increasing burden of taxes, directly or indirectly.

Thus doubt, uncertainty, and insecurity are prevailing while Canada is trying to get by in the 1980's. The deficits on the balance of payments accounts are constantly growing, inflation is rising, the Canadian dollar is falling in relation to the U.S. dollar, and the economic relations between the federal government and the provinces are deteriorating continuously.
In all fairness, however, it has to be said that certain conditions are improving somewhat, such as employment which has been increasing over the last year or so, in the area of three to six percent, the country's trade balance has become more positive, and the amount of business investment increased slightly in the late 1970's. Still, the fact that the level of inflation is hovering between the twelve and thirteen percent mark is putting a damper on most activity within the country itself, with everybody waiting to see what is going to happen in the 1980's. It does not seem a very encouraging picture for future investors, developers, and exporters who are trying to plan for the future.

**Industrial Strategy**

Staples have always been the mainstay of and the justification for Canada's existence since the beginning. Canada has been, and still is, a country heavily dependent on the exports of raw materials and foodstuffs. Canada's 'infant' manufacturing industry has grown up behind tariffs walls ever since the 'National Policy' of 1879, and the nation's tariff and transportation policies have over the years all supported this strategy. Tariff rates in the twenty-five to thirty percent bracket for industrial products have been the rule, in an effort to try to direct Canada's manufacturing production away from international into protected, inter-provincial markets, creating a system that would further East-West integration and interdependence.

As an employer of labour, manufacturing did not surpass agriculture until after World War II (about twenty-six percent to twenty-one percent in 1951), and it was not until that same year that Canada 'officially' became
an industrial nation, that is, it obtained a balanced growth between manufacturing and primary production. As a percentage of national income, manufacturing reached a level of thirty-one percent in that same year. Today, four-fifths of Canada's manufacturing output is still sold within Canada, with only one-fifth crossing the nation's borders.48

The first signs of a potential major, structural weakness in Canada's industrial approach began to appear in the 1960's. In the period 1961-1966 manufacturing accounted for about twenty-five percent of all new jobs created in Canada, whereas it in the period 1966-1972 accounted for only five percent. What lay behind this change was, according to economic experts, alterations in the very foundation upon which Canadian industry had been built since Confederation. The supply factors on the domestic front became more and more inelastic and expensive; foreign capital inflows decreased; interest rates rose sharply; costs of natural resources rose; skilled labour immigration fell off; and labour costs increased. On the international, and especially the U.S. front, there were major changes politically, socially, and economically, such as the U.S. major foreign trade initiatives and import restrictions of 1971, and the LDCs huge industrial offensives, based on low labour costs, and the constant increase in Japanese industrial effectiveness.49

During the 1970's Canada was thus not only plagued by the generally existing problems in the international sphere, but also by specific domestic problems of a structural, redundant nature which could not be 'cured' by the usual remedies applied to more short-term economic problems. The root causes of this state of affairs are, according to the Science Council of Canada the following: that the policy of 'import substitution' resulted in
an ineffective manufacturing sector, stunted by economic dependency and a growing rate of 'export substitution'; that the general healthy economic climate around the world in the 1950's and 1960's created an 'unhealthy' state of complacency in Canada, obscuring the real facts of the manufacturing economy here in the 1970's; that Canada's great dependency on the U.S. economy causes the Canadian manufacturing sector to become "an arena of surplus production" in a period of shrinking markets; and that Canada, due to its great dependency on transnationals, is especially vulnerable in times of international economic recession. It is thus a very "pronounced example of a dependent host country" which has a hard time adapting to a condition of economic 'pruning' and 'trimming.' Finally, Canada suffers from "a poor business climate," partly due to its dependency status, but also partly to internal political problems, such as the constitutional wrangle, the Quebec question, and the still unsolved energy tug-of-war. 50

The debate about possible ways out of the dilemma in which Canadian industry finds itself has centered on two alternatives, each with a somewhat regional, social, and political base of its own. One alternative is the so-called 'technological sovereignty option' and the other the so-called 'free trade option,' each championed by one of the government's advisory councils, namely the Science Council of Canada and the Economic Council of Canada, respectively. The 'technological sovereignty option' emphasizes the negative effects of Canada's historical approach to industrial development, based on Sir John A. Macdonald's 'National Policy' with its tariff structure walls and resulting high degree of foreign ownership and a severely limited secondary industry. The way out, as seen by supporters of this
option, such as the Science Council of Canada and others, would be innovation, followed by international competitiveness. The advocates see the possession of original technology as the most important factor and less foreign ownership in Canada as a necessary pendant, as foreign ownership and a too heavy reliance on natural resource exports can be considered the most damaging barriers to the development of Canadian-based technology. Thus Canada's great resource exporting companies will do a great part of their product development past the first stage outside Canada. Examples are ALCAN which does its product development in the U.K., INCO which does most of its development in the USA, Johns Manville which does all its asbestos development in the USA, Handy and Harman which does its silver product development in the USA, and Engehart which also carries on all its research in connection with platinum in the USA. The Science Council's idea is that, based on a government-supported joint venture, Canadian industry will be able to create its own technological base through a group of 'core' companies. These companies again could become the basis for future 'world trading enterprises' or 'world-scale national corporations.'

As far as the 'free trade option' is concerned, it also emphasizes the negative effects of the historical tariff structure, such as lack of efficiency, competitiveness, and the small market size's harmful influence on Canada's weak secondary industry. However, the solution to the problem is viewed differently. The free traders want the tariffs reduced or eliminated through international negotiations, believing that this will stimulate private business to become more cost-conscious and competitive. This reduction of tariffs should take place first on a bilateral basis with
the USA, and later on a multilateral basis with the rest of the world. This point of view is supported by the Economic Council of Canada which sees Canada's main problem on the industrial front as the lack of properly-sized markets (one hundred and fifty million people or more). It is the Economic Council of Canada's opinion that "Canada could prosper in a totally free trade situation...(and) that a free trade policy is not only feasible for Canada but in the best guarantee of its national objectives."52

The two approaches to an industrial strategy for Canada have been called respectively 'the operation-by-operation policy' which insists on a significant degree of public intervention on a continuing basis, based on planning and a set strategy, and 'the framework policy' within which private enterprise can flourish freely. However, those two points of view might not be irreconcilable, as the 'technological sovereignty' advocates do not completely reject the concept of free trade as an ultimate goal, and the 'free traders' acknowledge that technological sovereignty might be a very powerful weapon and competitive advantage in fighting on the international 'trade front'.53

Where does that leave Canada in an era of resource scarcity, an overflow of industrial goods, high inflation, monetary imbalances and low growth on part of most industrial nations? At the bottom of the industrial ladder when it comes to formulating a cohesive industrial strategy. Government, labour, and the general public in Canada have up to now tended to look at the country's industrial life through 'rose-coloured' glasses, pretending that since Canadians are a well-educated people with easy access to all North American products, and Canada has a good trade balance, all is well.
But according to experts and foreign businessmen this is not actually the case. Generally speaking, their opinion is that Canada should be characterized as a 'developing' country, heavily dependent on natural resource exports, and as far as technological capability is concerned, Canada should not be considered on a par with developed countries in Europe, and not at all with the U.S.A. 54

Why is Canada caught in such a dilemma? It is, because it "has neither the informal social cohesion of political, bureaucratic and business elites characteristic of Japan," nor "the formal government-wide machinery of coordination with business which has been created in many European economies," nor the economic might or political 'clout' as the U.S.A. Canada is in many ways a fragmented country, and there is, according to exports, "a social, geographical, and institutional isolation of government and business" which represents an extra complication for the future development of a cohesive industrial policy, and thereby also for a cohesive industrial export policy. 55 Politically, industrial policy in Canada has been subjected to a somewhat erratic treatment over the 1960's and 1970's. The Department of Industry was created in 1963 to work for the Canadian manufacturing industry, a move promoted by Walter Gordon, Maurice Lamontagne, and Tom Kent, all left-of-centre Liberals who supported the concepts of nationalism and state-initiated industrial development. However, in 1968, when the Department of Industry was merged with the Department of Trade and Commerce by Pierre Trudeau, two separate industrial policies, the one advocated by 'technological-sovereignty' advocates and the others advocated by traditional 'free trading' supporters were united in one unwieldy
bureaucracy. This created a lack of cohesion within the Department, and as a lack of coordination already existed on the overall inter-departmental level, no meaningful industrial policy was very likely to come out of this 'union.'

The initiative in policy-making was thus left to the Trudeau Cabinet's new 'Cabinet Planning System' through the Committee on Priorities and Planning. However, even this powerful system ran into the existing obstacles, such as the Department of Finance and its somewhat conservative philosophy regarding trade, and the established system within the Department of Industry, Trade and Commerce of line branches, each dealing with its own industrial sector. The 'Finance Planning System' has basically stood for incrementalism, centralism, and continentalism, founded on the concepts of market-orientation and non-intervention in private enterprise, and it has considered the 'Cabinet Planning system' with its planning, regionalism, and suggested systematic interference in the industrial sector as an area of social policy, not a viable economic approach.

The expression 'industrial strategy' was officially added to the governmental vocabulary around 1972, when Jean-Luc Pépin was the Minister of Industry, Trade and Commerce. Pépin made a major attempt in June 1972 to formulate a comprehensive industrial strategy. In his June 5 speech he outlined what he considered to be the major components of 'a governmental strategy for industry' with contributions from several departments such as Finance, Energy, Mines and Resources, Science and Technology, plus Transport. Pépin took the road of 'comprehensiveness' including all possible policy instruments and all possible areas of endeavour. But 1972 was the peak
year for such plans. It has been downhill all the way ever since.

After Pépin it was Alistair Gillespie's turn, and he rejected Pépin's global vision and his idea of an overall strategy for Canadian industry and instead adopted a policy of 'incrementalism,' based on the 'sectoral' approach. This approach involves separate strategies for Canadian industry on an industry-by-industry basis which would purportedly place more emphasis on improving the machinery for consultation with the various industrial sectors. During the period 1974-1975 Gillespie and the Department of Industry, Trade and Commerce reluctantly, under pressure from the 'Cabinet Planning System' came up with plans representing a compromise between the two basic philosophies. It was partly based on private industry's concern with the scattered government approach to regulation with each department taking its own separate road, and partly on the Department's belief that a macro-economic approach had to be stressed in order to be in tune with international politics in the trade arena.

Three major problem areas had been located which required closer government-business cooperation, namely the area of inflation, the area of productivity, which demanded an increased emphasis on industrial productivity and an even distribution within this sector, and, finally, a strong concerted effort to avoid protectionism, a 'fall-back' position which always seemed to be foremost in the minds of Canadian industrialists when the going got tough. However, as far as Canadian industry was concerned, the emphasis on sectoral policies remained, centered on the twenty to thirty more important industries in seven major areas. The outcome was an initiative which underlined the ideas of inter-departmental cooperation within the federal
government, more cooperation with industry, and a more general international macro-approach to industrial development and trade. In effect, the Department met the 'Cabinet Planning System' halfways.

After Gillespie came Don Jamieson and Jean Chrétien, plus Jack Horner, who all avoided the words 'industrial strategy.' Jamieson, for example was preoccupied with trade promotion, and Jean Chrétien, when he succeeded him in 1976, began to proclaim an even more active approach to international trade policies. He and his Deputy Minister Osbaldeston instituted a several-tier approach to the problem, uniting the existing sectoral groundwork with a national industrial development approach, plus the new internationally-flavoured industrial trade approach. This effort attempted to unite management, labour, academics, plus the federal and provincial governments. What Chrétien and his assistants were actually trying to do was to find a way to support selected industries in the country, industries which they considered to be in a position to 'enhance' Canada's competitive trade posture overseas.60

In the 1976-1977 period the problem of connecting commercial policy with industrial development was also taken up by a new committee, The Interdepartmental Committee on Trade and Industrial Development (ICTIP), headed by Allan MacEachen. It was set up in connection with the 'Tokyo Round' of the Multilateral Trade Negotiations (MTN) in order to try again to consolidate the two hitherto separated areas within the federal government, mentioned above. 61

In 1978, however, a new structural change took place, when the Liberal government set up its Board of Economic Development Ministers in order to
coordinate industrial and regional development policies within Canada. This Board was endowed with the assignment, for the first time in Canadian bureaucratic history, to combine policy-making with resource-allocation, giving it a potentially strong hand vis-à-vis the various individual ministries under it. Another first was the creation of a Ministry of State for Economic Development, to serve as a secretariat to the new Board.  

When the Conservatives took over as a government after the election in 1979, they more or less continued the previous Liberal government's sectoral/consultive approach to industrial policy. On the return of the Liberal government in 1980, however, the country was presented with a new Minister of Industry, Trade and Commerce, Herb Gray, and a new Minister of State for International Trade, Ed Lumley, and a new approach to industrial and commercial policy. The Throne Speech in April, 1980, revealed one of the first, new moves, the proposal to set up a Committee to study 'a National Trading Corporation,' a recommendation relating both to a new domestic policy regarding small and medium-sized businesses in the export industry and to a new foreign trade policy regarding the promotion and marketing of Canadian goods overseas.

Canadian industrial policy has very aptly been characterized as "an essentially reactive enterprise, preoccupied with weakness and with repulsing threats to Canadian jobs and industries," and it is faced with a world where "the reality is that many countries are now moving progressively towards 'political' economies in which market forces are manipulated for strategic national purposes." Can Canada cope successfully with such a world? One small first step might be the creation of the Special Committee
to consider 'a National Trading Corporation' which might possibly find a way whereby the country in an acceptable and successful manner could support its smaller export businesses in finding an international market for their technologically developed products, in competition with products from other countries which, nearly without exception, all support their export-producing industries in one way or the other.

Trading Patterns

When one starts contemplating Canada's past, present and future trade position within the totality of world trade, a trade which surpassed $1.5 trillion in 1979, it is necessary to take notice of the country's basic trading problems which are the following: Canada has a still declining share of total world trade, a too heavy dependency on automotive trade with the U.S.A., and a lack of presence in the world's developing economic growth areas, and all this in spite of the fact that the country's export in 1970 was equal to twenty percent of its GNP, whereas it in 1980 had grown to more than twenty-five percent. Canada's trade thus totalled $74 billion in 1980, with a surplus of $8 billion in merchandise exports over imports, down, however, from a surplus of $23 billion, if one only considered food products, raw materials, and resource-based fabricates, the latter being due to an imbalance of $18 billion on the end product. Statistics show that Canada in the ten-year period between 1969 and 1979 experienced a 33 percent decline in its overall share of world exports, the worst result of all so-called industrial nations during this period, and that Canada only had an average annual export growth rate of 15.1 percent during
this same period, compared to the less developed countries' average growth rate of 23.1%. Together with the United States and the United Kingdom, Canada in the 1970's has been receiving a constantly diminishing share of the world market in manufacturing. In 1967, for example, Canada obtained a share of 5.9 percent, while in 1977 it only accounted for 4.6 percent. The total world market in 1977 was estimated at $650 billion which means that a decline of one percent corresponds to about $6.5 billion, quite a difference. As a further problem can be added that two thirds of Canada's exports go to the U.S.A. with the latter country also being on the receiving end of 77 percent of Canada's manufactured products. The automotive exports thus dominate the picture, totalling 58.2 percent of all end products sent to the U.S., which is $8.6 billion out of $16.5 billion. In comparison, the rest of the world takes only $3.5 billion worth of end products from Canada.  

Part of Canada's general foreign trade problem is thus the fact that the private enterprise export trading in this country has its own special features, different from other, so-called industrial nations. Approximately half of Canada's export business is conducted directly between parent companies and their affiliates, a fact attributable to the high foreign ownership in the manufacturing sector. This leaves only about half of the exports to Canadian-owned enterprises of which the larger companies account for the main part through direct sales of their own products. It is thus a fact that 71.4 percent of Canadian exports are conducted by large companies within five dominant sectors: transportation equipment, machinery, wood, pulp and paper, plus primary metals.
Further entering the export picture is the reality that in spite of the fact that trade across the Pacific in 1979 surpassed the traditional trade across the Atlantic, and although the less developed countries have an increasing rate of economic growth, Canada's export to these countries has only experienced a slight increase to 8.4 percent of total exports, thus making Canada the country among the major producers and exporters with the least trade with the LDCs. In order to obtain more trade in this the strongest growing international market Canada will have to make some changes in its usual approach to foreign trade, diverting part of its share away from the U.S. market and into the Third World markets, placing greater emphasis perhaps on barter trade in which the East bloc countries and the LDCs are particularly interested. The LDCs are for the most part resource-rich just as Canada is and will therefore need industrial products from its trading partners and not additional natural resources.

Added to Canada's own specific domestic and export-related problems mentioned above there are a number of prevailing general trends on the international scene which it also will be necessary for Canada to take into consideration when it contemplates its position within the world hierarchy of exporting nations. These trends in the 1980's appear to be: a nearly universal urgency to export on part of all countries, a constantly growing government involvement with foreign trade and an increasing tendency towards non-cash transactions on part of Eastern and Third World countries. For most developing countries and many Eastern bloc countries, trade is a necessity just to stay alive. In Western Europe international trade is looked upon as a form of economic warfare, and as far as the U.S.A. is concerned, trade
is becoming more and more of an economic necessity. Only a few countries, including Canada, seem to be holding back somewhat and respond rather hesitantly to the realities of international trade competition. Further, governments have generally become very active when it comes to foreign trade, master-minding the behind-the-scenes moves to push their particular country to the forefront of international trade or at the very least into the successful part of the world's nations. Actual joint ventures between government and business are also in many nations becoming the result of prior shared priorities and strategies. As far as Canada is concerned such a set-up has not yet matured, but there might come a point, where Canada might be forced into such a venture, in spite of private enterprise resistance, as the survival of the fittest becomes the rule of the game. 67

Returning to the specific question of Canadian trading in connection with smaller and medium-sized companies it is not surprising based on the above facts that export middlemen in Canada only handle about twenty percent of the country's export trade, a result which might perhaps even be considered somewhat successful, when one takes Canada's special circumstances into consideration. But again, as was the case with the larger exporters, trading their own product lines, the greatest volume of trading house exports is concentrated in primary products and semi-finished goods, leaving only a rather small portion of Canadian industrial goods to be traded outside the multinational networks. There are roughly around five hundred businesses designated 'trading houses' of which ninety-four percent are Canadian-owned. Seventy-two percent are located in Ontario and Quebec and sixteen percent in B.C. Fifty-one percent have a sales volume of less than
forty-five million, and seventy percent have less than twenty employees. The trading house business in Canada thus seems to be rather concentrated with about a score of companies doing the main part of the business (companies with sales in excess of $10 million). Two of the largest and most successful are foreign-owned, Balfour Guthrie (Canada) Ltd. by British interests and Mitsubishi (Canada) Ltd. by Japanese interests. Also, half of the trading houses specialize in resource-based exports, with eight dealing exclusively in primary wood products, three in sulphur and potash minerals only, and twenty-four in agricultural products, meat and fish. Only about twenty percent deal exclusively in manufactured goods.

The private Canadian trading houses share many of the same characteristics as their Japanese counterparts: specialized knowledge of overseas markets with respect to political, economic, and social conditions; insights into special requirements and marketing techniques; a familiarity with the complexities of international trade in the areas of transportation, documentation, shipping, insurance, etc.; and rather detailed information regarding individual countries' import regulations, tariffs, licences, and quotas. Generally speaking, Canada has trading houses available with experts in minerals, metals, forestry products, livestock, and, to a much lesser degree, manufactured goods. Further there are specialists available to handle the Caribbean, the EEC, Eastern Europe, Latin America, and the Pacific Rim countries.

A study conducted in 1972 by R.B. Fournier for the Department of Industry, Trade and Commerce found that there was agreement among businessmen that small and medium-sized Canadian companies needed help to improve
their export performance. But five basic problems had so far hindered middleman-trade. First, Canadian export prices are too often not competitive. Second, Canadian manufacturers often considered a middleman an unnecessary link in distributing goods. Many producers would prefer to pay commission to customers on orders mailed to them directly instead of paying a middleman to develop and handle overseas trade. Third, Canada's Trade Commissioners overseas tend to refer orders to the manufacturers directly. The businessmen involved in the study concluded that there was a failing to recognize the market expertise and cost savings available through the use of middlemen. Fourth, the businessmen felt that there was inadequate sourcing assistance from the Canadian government, and that the Department of Industry, Trade and Commerce could give more active assistance to middlemen in their attempt to improve Canada's export trade. Finally, there was a problem due to the industry's particular ownership structure. The large degree of foreign ownership in Canadian manufacturing was a serious problem when the subsidiaries did not have any marketing autonomy.69

To overcome some of the above-mentioned problems, the Government has created a number of agencies to assist Canadian exporters. The Canadian Commercial Corporation (CCC) was established in 1946 after the war as a crown corporation. It took over the duties of the previous Canadian Export Board, an agency responsible for the procurement of goods and services in Canada on behalf of other governments and international relief agencies. In 1963 the corporation was integrated into the Department of Supply and Services (DSS) with the latter supplying the funds and staff required. The Corporation supplies a wide variety of Canadian products for individual
contracts; it assembles all required equipment for large package deals; and it acts as 'project manager' for delivery of major, complete systems and turn-key operations.

The Export Development Corporation (EDC) was established in 1970, as a successor to the Export Credit Insurance Corporation (ECIC), with its charter subsequently amended in 1971, 1974, and 1977. It is intended as a facilitator agency for development of Canadian exports by supplying insurance, guarantees, loans, and other financial programs, such as the Export Credit Insurance and the Foreign Investment Guarantee programs. It also sponsors a voluntary protocol agreement between the EDC and Canadian chartered banks for the joint financing of Canadian-sourced exports. It reports to Parliament through the Department of Industry, Trade and Commerce. It has a 12-man Board of Directors, including seven civil servants and five representatives from private business.70

The Canadian International Development Agency (CIDA) was set up in 1960 as the "External Aid Office," changing in 1968 to the present name. The Agency is directed by a president and a governing board and reports to Parliament through the Department of External Affairs. It is responsible for Canada's aid projects overseas. An estimated eighty to ninety percent of its budget takes the form of 'tied' aid, thereby giving a boost to Canadian industry.71

The Department of Industry, Trade and Commerce (ITC) sponsors a number of export promotion programs, such as the Promotional Projects Program (PPP) which encourages the exchange of information through international trade fairs and missions; the Program for Export Market Development (PEMD) which
promotes Canadian exports through the sharing of financial risks connected with overseas trade. The latter program has five sub-sections, namely the PEMD-A involved with capital projects; the PEMD-B for market identification or adjustment; the PEMD-C for participation in trade fairs outside Canada; PEMD-D, a program for incoming buyers, and, finally PEMD-E for export consortia assistance. In conjunction with the Department of External Affairs, the Department of Industry, Trade and Commerce also sponsors a Trade Commissioner Service (TCS) overseas in a number of selected posts, handling so-called "referral services" and "identification of foreign opportunities services" for the benefit of Canadian businessmen.

IV. Canadian Governmental Deliberations and Their Outcomes

After having looked at the above realities of Japanese and Canadian economic, industrial, and commercial conditions, the foundation upon which a potential future national trading corporation structure would have to be built, this chapter will examine the evidence, the alternatives and the recommendations brought forward in hearings and reports relating to the best possible future shape of such a structure.

Sequence of Events

In December, 1978, the federal government set a three year development process in motion to try to come up with the best possible solution to Canada's export trading problems. The first major move was to establish the Export Promotion Review Committee under the chairmanship of Roger Hatch. It sat for a year and brought out its final report on November 30, 1979. The second major move was the creation on June 12, 1980, of a Special
Committee of the House of Commons on a national trading corporation which held hearings for a year and published its fourth and final report on June 22, 1981. The detailed schedule of events are indicated below:

1. In December, 1978, the Minister of Industry, Trade and Commerce established the Export Promotion Review Committee with a mandate to look into the effectiveness of the existing government export promotion and support services and to recommend ways of improving these in the future.

2. On November 30, 1979, the "Hatch Committee" published its final report, containing its summary and recommendations.\(^{73}\)

3. This report by the EPRC appears to have been the spark behind the present initiative taken by the Liberal Government. An International Marketing Policy Group was established with Mr. R.A. Kilpatrick, the Department of Industry, Trade and Commerce, as its Head to consider the question of Canada's future strategy for marketing of its products abroad.

4. On April 7, 1980, the Minister of State for Trade, Edward Lumley, gave an interview to the *Financial Times of Canada*, stating directly that within six months he planned to establish a Canadian trading corporation with the purpose of promoting Canadian exports by small and medium-sized business.\(^{74}\)

5. On April 14, 1980, the 32nd Parliament of Canada was opened by a Speech from the Throne, read by the Right Honourable Edward Schreyer, Governor General of Canada. It contained the following short, but precise statement: "To improve the ability of Canadian industry to compete abroad in order to create jobs at home, My Government will
establish a national trading company."

6. On April 17, 1980, the Cabinet approved six task forces which were to assist the Government with future legislation. Among these was a task force to study the creation of a national trading company in Canada.

7. On April 18, 1980, the Prime Minister held a news conference at the Press Center in Ottawa, announcing publicly the creation of the task forces approved the day before. The task forces would have their chairmen approved by the Government and would be responsible to a minister of the Crown. The task forces were asked to report back by September 1980, so that their findings could be taken into consideration for legislation during the fall session of 1980.

8. On June 12, 1980, the Liberal House Leader, Yvon Pinard, rose in the House of Commons under Routine Proceedings and announced that after consultation with his colleagues he wished to move a motion with the unanimous consent of the House "That a Special Committee of the House of Commons, to be composed of seven members, be appointed to act as a parliamentary task force on a national trading corporation, to report finally no later than December 19, 1980...." This motion was agreed to.

9. On July 9, 1980, the Special Committee on a National Trading corporation met for the purpose of organization. The Committee was composed of seven members, four Liberals, two Conservatives, and one NDP member. The clerk of the Committee presided over the election of a chairman which became Jesse Flis (Liberal), Parkdale-High Park. The other members
Mrs. Meaufach-Niquet, L; Mr. Cardiff, PC; Mr. Deans, NDP; Mr. Lachance, L; Mr. Roy, L; and Mr. Thompson, PC.

The Committee's task was then to find ways in which a future national trading corporation could improve Canada's export performance, besides outlining the possible future form and functions of such a corporation. Specifically, the Committee was asked to look into the "means of assisting small and medium-sized Canadian business to expand (sic) their export markets." Further, the Committee was to query the extent of direct government participation, the methods of financing such a corporation, and the possible future costs and benefits of such a national corporation. 78

10. On October 27, 1980, Roger Hatch, the chairman of the Export Promotion Review Committee, which had issued its final report on November 30, 1979, was appointed chairman of the Export Trade Development Board, a Board whose creation had been recommended by the "Hatch Committee."

11. On December 19, 1980, the Special Committee presented its Second Report. The report was an analytical summary of the evidence which the Committee had collected to date. It was, however, stated that the report in no way represented the Committee's final position, but rather was an important part of the deliberations which had taken place and the alternatives available to Canada with respect to the question under discussion. 79

12. On June 22, 1981, the Special Committee presented its fourth and final Report representing the Committee's conclusions and recommendations, the essence of which was the proposed establishment of the Canadian
Trading Corporation, together with a specially focussed package of government trade support services. 80

The Export Promotion Review Committee

In December, 1978, the Minister of Industry, Trade and Commerce established the Export Promotion Review Committee (EPRC) with the purpose of examining Canadian export services and recommending potential new approaches in the field. The Committee, consisting of sixteen private enterprise members and one academic, headed by Roger Hatch of Canpotex Limited, solicited briefs from all areas of industrial enterprise, business associations, and provincial governments, and one hundred seventy briefs were received. Meetings were then held with federal agencies and national associations, and four regional sub-committees held meetings with provincial governments, local associations, and selected respondents. 81

The Committee's final report, Strengthening Canada Abroad (the Hatch Report) published on November 30, 1979, has a very sharply defined set of recommendations with an unequivocal commitment to the enthusiastic promotion of Canada as the home of a strong, export-based industry. Two of the main "Hatch Report" recommendations are improved competitiveness on part of Canadian export services and improved conditions for innovativeness within the Canadian manufacturing industry. In connection with the latter, the Committee recommends a "selective, low-key" program to encourage Canadian firms to produce a number of products in Canada for the home market, products which are now imported, to give the industry the necessary foundations for future exports. It also recommends the opening up of Canada to more direct foreign investment. Although this might seem to contradict its
main thrust, the Committee feels that this might open the way for turning hitherto 'subservient' branch plants into producers of new, 'world' products for export. The Committee further strongly emphasizes that innovation should be encouraged and favoured by future export support programs. Although the Committee shies away from the highly systematized and organized Japanese approach to foreign exports, it still believes that in today's world a more active government-business coordination is essential to keep Canada alive and well on the international trade front. 82

The specific recommendations expressed by the "Hatch Report" in 1979 are based on a strong and fundamental commitment to exports on part of both the Government of Canada and the business community. This would on the government side be expressed through new tax incentives for innovation and manufacturing exports; widened export financing and insurance services; an improved coordination in the field of trade-aid interface; the creation of a joint public-private facility to assist with risk evaluation and major risk-taking in the capital project field; and increased assistance, in various forms, to smaller and medium-sized companies to encourage them to join the export effort. It was particularly recommended that these should be given major economic incentives to help them overcome the advantages bestowed on other countries' exporters by their respective governments. This would include help in financing their exports on a one-to-five year basis; the restructuring and streamlining of the government's PEMD-structure (Department of Industry, Trade and Commerce), already used extensively by smaller firms; a system of effective taxation incentives on export earnings; and, finally, a 'one-stop shopping' export support service structure
which would be regionally based. The 'one-stop shopping' concept would allow smaller business firms to obtain all export-related information, services, and financing through one 'export office' in their region.

But what really caught the Government's and business community's attention in the "Hatch Report" recommendations was the proposal to form an Export Trade Development Board (ETDB). The Committee strongly recommended setting up such a Board, as it felt that Canada was greatly in need of better coordination in the export field with an increased private sector involvement. What the Committee wanted was private business participation in future Canadian international marketing strategies and priorities, including the activities of the already existing government agencies, such as the CCC, CIDA, EDC, ITC, and External Affairs. The Committee further wanted private sector input into the design and implementation of future government support programs (mainly within the ITC), and the future monitoring of the various agencies' performance, based on policies which had been agreed to by the Board. The Committee also recommended that the future Board should have a majority of members from the private sector, covering various industrial sectors and regions of Canada, but with representatives from the larger government agencies (federal and provincial), corporations, and departments concerned with export trade. The Board should be chaired by a private sector executive and should report to the Minister of Industry, Trade and Commerce from whom funds for export services would flow. The functions of the Board would include the zeroing in on specific markets, selected for a concentrated export effort; the determination of particular market strategies for these selected markets; the allocation of ITC funds
among the selected priorities, set by the Board, for achieving the maximum benefit; a constant monitoring of competing trading nations' programs to assess Canada's competitiveness in the export field; and, finally, the study and consideration of new and innovative means of supporting the country's exports. 83

The Special Committee on a National Trading Corporation

a) Witness Evidence

The Special Committee on a National Trading Corporation was proposed in the Throne Speech in April 1980, and created as a Committee of the House in June of that same year. It consisted of seven members, representing the three parliamentary parties. It began its hearings in July 1980, and tabled its Second Report in the House on December 19, 1980. Evidence gathered by the Committee had come from basically four different sectors, government, individual private industries, Canadian business associations, and individual academics and experts. Private industry produced the most witnesses, although smaller firms were not too well represented.

It became clear right from the beginning that there was no general support from the private business sector for an undertaking such as a large, government-dominated national trading corporation, a concept that conjured up all sorts of 'bad images' in the minds of business leaders. Everybody was keen to get a better and more fruitful cooperation going between business and government for the benefit of a strengthened Canadian export picture, but not within a bureaucratic, centralized agency that might run rough-shod over business and regional interests.

As with practically all the private enterprise witnesses before the
Special Committee, Roger Smith from Canada Wire and Cable International Ltd., was opposed to a national trading company, as he felt that it would fail to perform efficiently, and he could not see any industry or individual company that might possibly benefit from such an undertaking. It might even, in his opinion, drive out existing export and trading corporations and discourage new initiatives on the part of the private sector. He argued that there would be strong constraints on a government-dominated trading company when it came to cost competitiveness and 'cutting corners,' as private industry inevitably had to do. Also, with respect to local representation, that is 'contacts' and needed expertise in any specific field, he felt that a government-run agency would come up 'short,' as "you can't be all things to all people" at the same time. There was also a need for a steady commercial intelligence flow which could only come from the private sector, and a need to secure markets over the medium and long term which in Mr. Roger Smith's view could only be done through some sort of joint-venture, the latter requiring a high degree of special skills and expertise. Generally speaking, a national trading corporation, open to public scrutiny, with all the constraints following from this would, in his opinion, not be a viable proposition.

But, as there are problems for small companies trying to export, Smith felt that the Export Trade Development Board proposed by Hatch could play an important role, acting as a clearing house for incoming opportunities and medium-sized companies, and the larger ones as well, assisting and promoting export trade for Canada.

Another of the witnesses before the Committee was Mr. A.D. Burford, a
private trading house operator. He felt that both the provincial and federal governments in the early days (1960's) had been rather 'anti-trading house,' but that things had changed somewhat over the last five years. Mr. Burford had also run into problems when dealing with the various government agencies, such as the CCC, CIDA, and the EDC who seemed to give preference to the individual manufacturers and suppliers over direct trading houses. He also felt, as did so many other private enterprise witnesses, that since a coordinated effort was needed to put Canada on the export map, something would have to be done to create a true focal point, instead of having the existing, scattered approach through ITC, EDC, CCC and CIDA.

The Canadian Export Association (CEA), as one representative out of a large number of associations coming before the Committee, detailed its strong objections to a national trading corporation with the following points. A large national trading company would inevitably come into competition with the private sector, and the whole operation could become counter-productive. A national trading company would immediately be looked on as a government institution abroad and would not be able to operate on regular commercial terms. It could further run into problems with Canada's importers, if it was forced to import or barter in connection with its overseas transactions. And, finally, a national trading corporation would inevitably be saddled with high overhead costs, money which could more productively be used to strengthen already existing export programs.

Within the private sector, Canada's banks seemed to be some of the strongest opponents of a government-organized trading effort. Mr. Potter from Bank of Montreal's International Banking Division, expressed the
opinion of most of the private trading sector representatives, when he stated that

...it is our opinion that a government-owned national trading corporation would not be an effective instrument either in furthering the goals of the export community or in alleviating the known weaknesses of the system.89

What the Bank, and 'other' free enterprisers, mainly were concerned with, was the identification of existing shortcomings within the present system and the finding of new and more efficient ways of exporting, based on remedial action. What was wrong with Canada's export sector, according to Mr. Potter, was a lack of incentives to export, and a lack of competitive financial 'packages' to support potential exporters. As ninety-five percent of Canadian owned firms are classified as small or medium-sized businesses, the Bank's opinion was that Canada had to create the right environment for these companies, support them financially and provide them with professional 'export managers'.90

The Bank therefore suggested a three-stage approach to the export problem; first, the compilation of a complete inventory of available manufacturers; second, a study of overseas markets; and, finally, the taking of steps to approach potential, suitable exporters. The latter stage would involve promoting interest, providing guidance, assisting in establishing contacts, and in contract negotiations, providing advice and assistance with respect to suitable government support programs, and, if necessary, acting as export manager for specially identified smaller and medium-sized companies through private marketing organizations with specialists available in the various areas of export marketing.91
The Bank further found that Canada's basic export problem was in the area of production, where the country lacks competitive 'world' products of the highest technological efficiency at competitive prices. Thus the Bank of Montreal favoured a strengthening of the existing programs only, where deficiencies had directly been identified. It was the Bank's feeling that the creation of a centralized, national trading corporation would "subvert ...the principles of free enterprise...," and the Bank would instead recommend the implementation of many of the "Hatch Report" proposals to encourage "the innovative and imaginative" exporters and the continued growth of the private sector. As opposed to the situation in the USA (the Stevenson Bill) Canadian banks, with their ten percent equity provision, were not particularly interested in buying into existing export businesses.92

b) Alternatives

The Special Committee on a National Trading Corporation in its Second Report presented five related, but still somewhat different alternatives in its search for a suitable framework for such a corporation. The first alternative suggested was 'the banking alternative' based mainly on an American bill, The Export Trading Company Bill (S.2718) sponsored by Senator Stevenson and passed by the Senate in September 1980. The bill is designed to "encourage American banks to participate in the operations of export trading companies." The basic concept of this structure is to involve banks in making equity investments in trading companies to the level of control, and it is expected that these trading companies normally will be export-oriented. The main drive behind this initiative is the success obtained by foreign, e.g., Japanese, trading companies in unison with one or more
banks, where the banks supply the traders with easy loans, financing, and
investments. So the basic functions of such a company would be provision
of trade facilities and financial services for domestic producers, whereby
economies of scale can be obtained, with the banks taking care to diversify
the capital outlays and spreading their risks over a large number of loans
and investments. The advantages in such an arrangement are obvious. With
equities in trading companies the banks will be able to provide the capital
necessary to bring the exports up to a viable scale, while at the same time
helping smaller and medium-sized companies by providing medium and long
term loans. Most larger banks have already existing foreign contacts,
offices, and experience, and they would, supposedly, as a matter of course
begin to take an interest in and invest in foreign trade support services
and reinvest the profits in trading companies for future growth. The
limitations, especially in Canada's case, are obvious. Canadian banks are
restricted to a ten percent holding in any Canadian commercial enterprise,
so an amendment to the Bank Act would be necessary in order to allow for
bank ownership of trading companies. Also banks would more than likely fa­
vour export-only business over a mixed import/export/barter trade arrange­
ment due to the banks' general expertise and expectations, making it diffi­
cult for them to go outside the conventional markets. There is also a
question whether overseas banking experience can be transferred to com­
cer­
cial trading in foreign markets, as such functions as procurement and dis­
tribution are key elements in the total trade picture. And there will be
the all-overshadowing question of whether banks with their strong emphasis
on security will have the ability to risk investing in not fully covered
trading on overseas markets. The second alternative suggested by the Committee was the corporate alternative, based on the multinational corporate trading concept whereby a multinational corporation starts trading either through creating a special arm within its own corporate structure for handling small and medium-sized companies' exports or by acquiring an already existing trading house. A further option for the multinational corporation would be to start a new company to do the trading, that is actually 'starting from scratch.' The Committee suggests two different structural approaches in this instance for use in Canada: encourage some of the larger multinationals to set up trading operations for manufactured goods, or encourage the creation of united trading organizations by sectors within the manufacturing industry. Participants here might include manufacturing industries, banks, project management groups and government agencies, in other words, a Canadian version of a Japanese Keiretsu or Zaibatsu. The functions involved would be the same as mentioned under the banking alternative, with incentives to be contemplated in the area of legislation to encourage equity investment by banks, government guarantees regarding capital investments or possible tax incentives along the lines of the American programs already in existence. Further one could contemplate a form of priority access to EDC financing and other government schemes, and encouragement regarding procurement of government contracts.

The advantages of such an approach would be numerous. It would be possible to use already existing corporate expertise and connections overseas as a foundation on which to build an expanded structure with a greater
and wider coverage of product lines. The set-up, as is the case in Japan, might act as an umbrella under which smaller and medium-sized companies, who had previously had limited opportunities for trading abroad due to lack of capital and organizational support, could expand their export possibilities. The whole concept seemed to appeal to the Committee as a result of the fairly short start-up time required due to the use of existing organizations and previous experience and the lessening of risk for small and medium-sized companies attaching themselves to something already proven viable. However, there are also many limitations built into this scheme, such as an apparent lack of interest on the part of larger corporations in Canada to pursue such an alternative for a number of different reasons, not the least being the existing special ownership structure prevailing in the country (high degree of foreign ownership) which might very likely preclude such a set-up in most cases. Further there could be questions raised in connection with the Combines Investigation Act. However, even if such a structure were possible under the existing rules and regulations, most larger corporations would be hesitant to join, if they lacked sufficient control. Finally, overseas trading experience does not include, for most Canadian firms, experience in the Third World, where future markets would have to be found. If such an operation became successful, in spite of all the drawbacks, Canadian corporations would probably still have to fear legal challenges from American corporations and/or the U.S. government which would not look upon such competition with very friendly eyes. The U.S. corporations have learned to live with the Japanese system, to some degree, but to have this kind of business structure spread to a country like Canada might just be
"too close for comfort."94

The third alternative would be the trading house concept. Canada has, at the moment, according to a brief submitted by the Canadian Export Association (CEA), about five hundred existing trading houses. A number of possibilities exist for expanding these private sector trading houses. One would be to encourage greater specialization with respect to products, functions and market areas. Another would be to encourage increased company size either through increased capitalization or expanded product lines and, finally, there would be the choice of increasing the number of companies. The Government, for its part, could contemplate a number of incentives for the trading house sector, such as fiscal measures, including tax incentives, increased tax write-offs, income tax rebates for trade representatives abroad, plus tax incentive funds. Further the government could create capital investment incentives, such as loan guarantees and government-subsidized export customer loans on favourable interest rate terms, plus forgiveable loans for market development. Further functions supported by Government could be an expanded information network to cater to such trading houses, and the channelling of 'government business' to and from overseas markets through these trading houses by way of government directives to agencies such as CIDA, CCC, and other crown corporations.

The advantages of using private enterprise trading houses would be, again, to build on already existing expertise, based on private traders' ability to respond more rapidly and with more flexibility than government-run agencies. Also, encouragement from government would be seen as a reward to existing entrepreneurs, with a closer relationship between government and
business being beneficial as well to the trading houses as to government in the form of better structured future policies on part of government and better performance on part of the trading houses. It might also lead to a better relationship between banks and trading houses, giving the latter a better chance of obtaining favourable terms from the private banking sector. The drawbacks would naturally be that it would be hard to overcome trading house reliance mainly on commodities, as is the case now, especially, if the availability of manufactured products for export to overseas markets continues to be very limited. A further limitation would be the increased demand on part of Eastern bloc countries and LDCs to have trade conducted on a government-to-government basis due to these countries' domestic economic structures.  

The fourth alternative suggested is the government one. The Committee proposes to extend through future legislation the structure and functions of the CCC or the CDC to encompass exporting and importing goods from and into Canada, either as a principal or as a government agent. The purpose would be to obtain goods from outside Canada and to sell goods available for export from Canada. Such an agency would be empowered to act on behalf of and under the direction of the Minister of Industry, Trade and Commerce in exercising any powers and functions vested in the Minister. The agency would provide trade services available to all Canadian manufacturers, either as individual services or as partial service packages; negotiate contacts with potential domestic producers capable of getting into the export trade; and provide sufficient capital and marketing expertise to allow an enlarged number of small and medium-sized manufacturers to enter the world market. It
would further be able to diversify the risk in entering foreign markets on part of smaller companies, be able to handle government-to-government dealings, and improve the coordination between already existing trade-aid agencies and programs. As an alternative approach to setting up a government-owned trading company the Government might create a new national trading corporation through a new Act of Parliament, the latter idea, however, has not been given any significant attention by the Committee, in its Second Report.

The benefits would, in many respects, be immeasurable in connection with the government-owned trading company, such as the one suggested in connection with the CCC. It would give the government a direct opening into international commerce; the CCC would be able to 'gear up' for such an undertaking within a relatively short time; and 'the image' of trading houses which according to some witnesses before the Committee has not been particularly favourable up to now, could be enhanced by the government participation. Finally, government support might encourage Canadian banks to take a greater interest in investing in the export trade business. This alternative, however, has very strong limitations and drawbacks, when the government with all its collective economic 'clout' enters the private commercial sphere. This could lead to unfair competition with the private sector in the areas of personnel recruitment, financial subsidies to operations, and preferred capital support to government-connected firms; the support of non-competitive types of merchandise supported by the government agency; and a greatly increased use of government market information, procurement services, and distribution programs to the detriment of corresponding
private enterprises. But the worst 'threat' of all to a healthy agency is the tendency of government organizations to become 'bureaucratized' and end up as 'white elephants' among a row of other government trophies. In other words if, as the Committee rightly points out, there are no built-in incentives to create an entrepreneurial and aggressive trading operation, there will be a tendency on part of the appointed bureaucrats to concern themselves more with bureaucratic and political interests than strictly commercial ones, to the detriment of the private traders involved. Finally, there might be the technical obstruction that a government organization would not be able to handle the import and barter roles adequately.96

The fifth and last proposal for the establishment of a National Trading Corporation is the private-public combined alternative. Such an organization would be created either through legislation such as the 1971 statute for the CDC, where government provides the initial capital and financial support, but with provisions for private sector investment. The private sector might have a smaller share to begin with, but possibilities for an enlarged share over time. Or, the agency could be set up through government purchase of equity interest in an already existing organization, for example through the Department of Industry, Trade and Commerce. The functions of such an outfit, as in the previous cases, would be to assist export trade in manufactured goods through an easily and universally accessible trade vehicle; the initiation of contacts with eligible domestic producers in the export trade; the provision of capital and marketing skill to compete on the world market; and the supply of all services necessary to expedite export trade, such as financing, documentation, transportation services,
insurance, and marketing intelligence along the lines of Canada's commercial competitors. Two main points, as in all the other cases, would be the sharing in risk-taking and the undertaking of government-to-government trade, where required.

The benefits of such an arrangement would again be assurance of an appropriate scale of operations planning with government support behind the scheme, while, at the same time, an opportunity for private companies to reap the benefits of their participation and investments. While government participation would ensure an expanded range of potential customers and trading arrangements, the private enterprise participation would bring the strength of entrepreneurial skills and a fresh outlook to the undertaking. Also, the responsibility for the enterprise would be vested in a Board of Directors, recruited from both camps, a factor which might help improve the prevailing images of, on the one hand, the 'dead-weight,' bureaucratized government institution, and, on the other, the smaller, private-owned trading house, with its great risks and limited capabilities. Overall, the creation of such a corporation might help 'shake the dust off' the bureaucrats in the various government departments and encourage the government and the bureaucrats to come up with a new strategy for improving Canada's trading image on the world scene.

Naturally, there would be a number of limitations and drawbacks to such a set-up. Whenever government supports an enterprise it easily leads to unfair competition in terms of special allocation of financial support in the form of loans and grants, and preferential treatment from government information agencies and trading programs, domestically and internationally. Government participation can also easily lead to severe political restrictions
being imposed on such an organization with respect to which countries can be dealt with, what goods can be exported, and what business practices can be applied, while at the same time barter trade and/or certain imports might be restricted. There will always be bureaucratic worries on the government side that a new agency will take away power and control from already existing structures, while in the private enterprise sector there will be anxiety about the fact that attention and scarce resources might be transferred from other deserving trade projects and important trade measures to such a new project. Finally, starting up a joint public-private enterprise would necessarily involve a longer transition period and startup process in that both legislation and negotiations among the various parties would take time and delay the creation of such a shared agency.  

c) Recommendations

The Special Committee set up in June, 1980, received as its order of reference to look into ways in which a national trading corporation could further Canada's exports. After having gone through hundreds of meetings, open and closed, both in Canada and overseas, with witnesses from both the public and the private sectors, the Committee on June 22, 1981, tabled its fourth and final Report in the House of Commons in which it, based on its earlier outlined alternatives, laid out its final recommendations to Parliament, the Government, and the Public at large.

The final seventeen recommendations are based on a number of conclusions the Committee has reached as to Canada and its future trade perspectives. It has thus determined that Canada is "on the verge of ceasing to be a serious contender in many key trade areas," and that Canadian private enterprise is
not ready or eager to take the lead in any serious attempt to get the country out of its dilemma. Therefore, the Committee has resolved, it will be "urgently necessary to strengthen Canada's trading capability now" with its ultimate recommendation being that "the federal government sponsor the development of a major Canadian trading corporation" in order that such a trading house could help the country re-shape its approach to export trade and take advantage of new opportunities in the world's growth markets. The Committee further concludes that the greatest chance of success would be in two areas of endeavour: the small and medium business sector and the large capital project area. So it is suggested that a single corporation, the Canadian Trading Corporation, be set up on the shared enterprise model (alternative five in the second report) with two divisions, one to handle small business and the other to handle the capital projects. The 'shared enterprise model' is seen as the most effective when there is both a public purpose to be pursued and private business requirements to be fulfilled.

As far as structure is concerned the Committee recommends that a Canadian Trading Corporation be established by a new Act of Parliament on a shared enterprise basis with a minimum initial equity commitment of at least $300 million. It is suggested that the Government assume a 40-50 percent equity position, with private investors holding down 50-60 percent. As 'private investors' the Committee sees a few, selected companies (ten), in particular banks and a number of large international business firms. However, it is foreseen that the private investment side might later be expanded to include equity participation by the public at large.

The Trading Corporation is seen as having its mandate set out in clear
and precise terms, with separate positions as Chairman and President of the Company. The Board of Directors would be appointed by the shareholders in proportion to their ownership position which, in the first instance, would give Government (the Cabinet) the upper hand. The latter is thus seen as exercising its influence through the appointment of directors, but not through any direct, special relationship with the Board itself. The Board is seen as encompassing about ten to twelve members, a relatively small group so that an active influence can be kept on management and the future direction of the Corporation. The Chairman would be selected by the Board, with some consultation with the designated Minister and representative shareholders. The chief executive officer would be responsible for management of the Corporation. The President would be appointed by the Board of Directors.

With respect to functions, the new trading corporation which is seen alternatively as the 'flagship' of Canadian trade and an 'umbrella' for Canadian identity overseas, would encompass, according to the Committee, both an export and an import capability, plus a potential, possibly through connected trading houses, for third-party trade. It would have a wide range of competitive Canadian products in its portfolio and would be able to perform a complete service role with respect to exports and imports, with its special focus being on the world's growth markets. The Committee thus rejected the majority of the witnesses' evidence which clearly was opposed to including importing and third-party trade into a potential trading corporation, an attitude which the Committee (the Liberal majority) characterizes as "short-sighted" and "counter-productive." The Committee
sees Canada's large imports ($51.9 billion in 1980) in end products and fabricated materials as a stepping stone and a strong position from which to expand 'countervailing' exports, a 'real advantage which the future Canadian Trading Corporation should be able to exploit.\textsuperscript{101}

In regard to capital projects it is foreseen that the Corporation in time will be able to gather, supply, and secure all the ingredients necessary for capital project exports, including such areas as marketing, sales, deal-making, and project management. The Committee, however, acknowledges that outside assistance in engineering and construction technique might be required, an assistance which it might seek as well inside as outside of Canada.\textsuperscript{102}

For the Corporation as a whole it is recommended that it immediately give the highest priority to setting up foreign-based operations in specially selected growth areas, particularly the Pacific Rim and Latin America, giving the Corporation a focus on emerging markets with good sales potential, in areas where the Committee feels that Canada is underrepresented at the present. This first 'thrust,' however, is seen as taking place within a somewhat limited range of products, whereas later, through future expansion, the Corporation should be able to reach a larger number of markets with all "commercially viable" products. It is the Committee's opinion that "only if business and government join forces in a concerted effort can (Canada) hope to revive (its) industrial competitiveness."\textsuperscript{103}

In addition to recommendations relating to the creation of a new trading corporation the Special Committee in its report brought out recommendations regarding a number of existing government agencies and crown
corporations, such as the CCC, the EDC, CIDA, and some selected export programs, such as PEMD, plus suggestions for action on part of the Department of Industry, Trade and Commerce and the Department of Finance. To take the latter first, it is proposed that the Department of Industry, Trade and Commerce in a rapid and substantial way commit itself to improve and expand its market intelligence system into a competitive, international facility. The same Department is urged to set up an "export managers-for-hire" program, to be operated either by the federal government on its own or in conjunction with private interests. It is further suggested that the Department expand its PEMD-activities to include loans for development expenses connected with setting up of educational facilities for practical export trade courses. The Department of Finance is advised to look into extending its present tax concessions in connection with Canadian manufacturing and processing profits to export trade services in order to improve the Canadian export trade performance.

The recommendations relating to the CCC is of an amending nature, as it is proposed that the Government limit the Corporation's powers to defence procurement only in order to eliminate any potential overlap with the new, proposed Canadian Trading Corporation (CTC). The EDC is offered suggestions in the area of insurance and financing, with a proposal that the former be brought up to the level of foreign 'competition' and that the latter be expanded with a facility to offer partial loan guarantees to Canadian financial institutions in connection with short-term export loans secured by either orders or accounts receivable. It is also suggested to the Minister of State for Trade that consideration be given to integrate
PEMD's and CIDA's services, so as to avoid the existing overlap. \(^{105}\)

The Report's recommendations were, as could be expected, supported by a majority of the Committee's members, lead by the Liberal group of four, whereas it was opposed by the two Tory members who disagreed with the Report and felt that its recommendations were diametrically opposed to the testimony heard from business representatives and government officials in the year-long hearings period. The two Opposition members thus saw it as their task to urge their Conservative caucus in the House to oppose the creation of such a government-sponsored trading corporation, if and when it came before the House of Parliament. \(^{106}\)

In connection with the latter it seems very interesting to contemplate the comments made by Professor Robert Jackson in connection with the special parliamentary committees set up by the Government following its April 14, 1980, Throne Speech. He was pointed out that these committees have done a very excellent research job, besides fulfilling a need for good public relations on part of the Liberal government, but that the recommendations proposed by the committees in their reports could not be followed up directly by the Government, as this would take away part of the authority vested in the Cabinet and give the 'backbenchers' involved (chairmen and members) the appearance of wielding more power than they actually were entitled to. \(^{107}\)
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### TABLE 3

**Tsurumi Trading House Models**

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V. An Evaluation of Alternatives for Canada

Similarities and Differences

After having looked at Japanese activities in the areas of economic policy, industrial development, and foreign trade and the corresponding Canadian situation, plus the Committees' deliberations, it is time to compare the two different experiences and consider whether a national trading corporation is actually a viable option in the Canadian context.

Japan has its governmental external trade organization and its private marketing companies working hand-in-hand. When one asks the question if any such arrangement is a viable option for Canada, one has to look for similarities between the two countries with respect to the economic and political situations in which they found themselves when the options arose. In the 1880's and 1890's, Japan was having to cope with the question of national economic survival, after having taken the first, political step of breaking its isolation. The Government of Canada seems to have realized that rather hard political and economic questions are facing this country in the 1980's, especially in the industrial sector. Both countries have been faced with existing commercial alliances that at the time seemed almost impenetrable. Japan was faced with the British Empire, the French Empire and the growing American might. Canada today is faced with the strong European Community, the now established American commercial superiority, and, finally, the all-pervading Japanese influence. Both countries have been faced with an employment problem. Japan at the time had a growing population ready and willing to join the industrial world. Canada today is faced with rising unemployment in its industrial provinces due to the
falling-off of its 'old' industries and a concentration of the main part of its population in areas that have a tradition of heavy employment in the manufacturing industries. Both countries have lacked the heavy emphasis on investment in military equipment. Japan at the time was militarily oriented, but in the old, traditional sense which bears no resemblance of today's heavy reliance in a number of Western industrial countries on military production to keep large parts of the industrial machine going. Canada supplies parts and certain limited equipment to the U.S. arms industry, but everything here is controlled by foreign-based multinationals.

Today both countries have large export consortia that handle certain areas of international trade. Japan's trading companies thus do not handle exports to the U.S.A. and Europe of such products as passenger cars, electric appliances, telecommunications equipment, plus a number of other consumer durables, as these are handled by the concerns directly. 108 Equally, Canada has a number of large export consortia, numbering in the dozens that handle large turn-key projects, multiple product marketing and raw materials, both agricultural and industrial. What is 'left-over' in Japan is handled by the trading companies, heavily supported by the Japanese government through JETRO. What is 'left-over' in Canada is largely pursued in a scattered, non-systematic manner with some help from the Department of Industry, Trade and Commerce, but generally not coordinated into a deliberate export effort along the Japanese lines.

On the other hand, there are obvious major differences in the way in which Japan and Canada are organized as countries, politically and socially,
as well as economically. Canada is a federal state, with power-sharing between the federal government and ten provincial governments. Even if the federal government legally is the overseer of all inter-provincial and international trade, there are still many considerations to be taken which would not be the case in a unitary state such as Japan. Further, Canada, is a bilingual country, with very strong regional cultures. Any system that would, forcefully, regiment business enterprises in the various regions into a complete unified system for trade purposes would be a near impossibility.

Apart from the political and cultural diversity, there are many economic problems that make Canada a rather more difficult area to handle with respect to exports than is the case in Japan. There is the question of a high degree of foreign ownership, a problem which the Japanese wisely avoided in the 1870's and 1880's. There is the comparatively lower productivity in Canada, resulting in a greater portion of potential export industries being non-competitive both in price and quality. There is the attitude on part of many Canadian manufacturers that 'middlemen' basically are an unnecessary level to insert into the export business, reflecting the more individualistic nature of small and medium-sized manufacturers in Canada. There is also the major reliance over decades on the 'easier' export of raw materials and roughly fabricated products, the so-called 'hewers of wood and drawers of water' legacy which still dominates large parts of Canada. There is the convoluted tariff structure which has enmeshed Canada in a web of unproductive manufacturing industries in certain regions of the country. And there is finally an educational system which channels too few
young people into productive, technologically oriented trades and spends too little money on technical institutions.

The difference between Japan and Canada in their approach to the general relationship between government and private enterprise could roughly be summed up as follows: when the Japanese look for industries to support they look for their comparatively strong industries. When the Canadians are in the same situation, they look for their weak industries. One of the main forces behind the strong Japanese export drive has thus always been a heavy reliance on the output from the fastest growing industries in the country, thereby engineering a constantly accelerating growth picture. Before answering the question raised at the beginning of this chapter whether the Japanese system is a viable option for Canada, let us look at the advantages and disadvantages such a system might hold for the country. Advantages and Disadvantages

When talking about advantages to be gained by Canada from the Japanese example a number of traits associated with the Japanese trading structure would appear to be transferable and advantageous to Canada. One would be the involvement of the Government as an active partner in future Canadian export expansion. This could take the form of either a direct partnership with private business in a trading company format, or through a JETRO-type organization, leaving the actual marketing of Canadian products to private industry. This is primarily relevant to small to medium-sized business, not already existing export consortia or multinationals with their own export organization. It would most certainly be advantageous to Canadian exports to have a coordination, Japanese style, between the various agencies
concerned with export trade in Canada. Working together through one agency by the various government departments, the 'one-stop shopping' concept would seem a great step forward towards greater efficiency and hopefully greater export gains for Canada. Another worthwhile feature connected with the Japanese structure from which Canada could undoubtedly benefit, would be the setting-up of branch offices throughout Canada's main regional centers, as it has been done by JETRO. The same would have to be done overseas, with offices located in all major commercial centers relevant to Canadian trade. It seems significant that JETRO has placed its offices in Canada in Toronto, Montreal, Edmonton, and Vancouver, the main trading centers of Canada, and not in Ottawa, the country's political capital.

Several of the features of Japanese trading companies' personnel policy might be transferred to Canada with good results. These include the strong specialization of staff, so that they are fully versed in their particular fields, the promotion based on 'merit' which allows for a more efficient organization, and the 'company-spirit' attitude of sharing goals and decision-making right through the ranks of the organizational structure. There are also important functions performed by the Japanese trading structure that seem ideally suited for helping Canadian exports by small and medium-sized businesses. First and foremost is overseas market research and the channelling of exact, valuable information back to exporters. This would allow smaller firms to make a judgement at home whether or not they would be competitive overseas, in certain products within certain areas. Thus, effective market planning and control, with new innovative marketing techniques which would be too costly for the smaller, individual firm to
undertake, might be underwritten by a government-supported structure which could work full time on achieving a wider base and a longer reach for Canadian exports.

Another very important feature to be copied would be the financial security built up by the Japanese system. Small and medium-sized companies would need a form of 'security blanket' to participate in exports on any great scale. This would have to be built by government participation and guarantees in the area of export financing, credits, and insurance programs; in other words, the Government is needed to take the risk out of risk-taking overseas. In Japan this 'security blanket' is provided by the working together of government, banks, and trading companies, and some form of cooperation will have to be constructed in Canada to achieve the same good results. In addition, a more structured system of trading can, as has been proven by the Japanese, offer considerable cost savings through consolidation of production, transportation, and servicing. The savings come through more rational methods of handling exports, beginning with product specialization, productivity, and efficiency. Large savings can also be obtained in overland transportation, shipping and handling costs generally through organization based on large-scale product flows and efficient types of distribution equipment. Finally, follow-up and servicing costs can be reduced by having locally based agents handle the job on a continuing, widely-based product basis. This would also include factors such as price stability, quality control, and continuity of supply. 111

However, the disadvantages would in Canadian eyes also be numerous. A Canadian national trading company based on the exact Japanese model would
probably not be acceptable to Canadian businessmen. This would not fit into the North American business system. The structure's potential ability to dominate and subsequently regulate the existing, independent export sector would probably produce the loudest reactions. In addition, the domestic marketing aspect of the Japanese trading companies could not be transferred to Canada. The Japanese trading companies, as mentioned, conduct approximately half their business within Japan itself, and such a structure would not fit into any Canadian national exporting agency. Further, the importation of raw materials and consumer goods which in Japan is handled through the same structures that are involved in export trading, is in Canada handled by separate import companies or consortia in the import business, and this feature could not be incorporated into a national trading company.

Another function of the Japanese trading companies, the complete financing of large numbers of smaller industries would be a factor that could not be transferred to Canadian economic life. Certain off-shore and overseas functions which appear to be playing a growing role within the Japanese structure, such as off-shore trading and overseas investments, would probably not fit into the Canadian picture either. Off-shore trade among third parties would be out of the question and out of line with the Government's stated intentions for a Canadian trading company, and overseas investments would most likely not be a function delegated to a government-sponsored trading corporation dealing with small and medium-sized businesses.

Finally, the culturally-bound trait of expressing a form of 'blind loyalty' to one's company, a Japanese trait originating in the samurai-based
culture, could not be adopted in a Canadian context. Many multinational companies in North America have attempted to instill this type of loyalty in their employees, but it has never taken on quite the proportions to be found in Japan.

Is a National Trading Corporation a Viable Canadian Option?

The use of the expression "A National Trading Company" by the federal government in the 1980 Thorne Speech seemed to indicate that the 'Cabinet Planning System' and the Cabinet itself had certain preconceived notions about what shape and direction Canada's newest export thrust ought to take. The words pointed in the direction of the Japanese concept of trading houses and JETRO. However, as the Special Committee hearings went on, and the witnesses gave evidence, it became clear that a 'made in Japan' system was not what the Canadian private sector had in mind. The evidence showed, practically without exception that nobody within the business community was supporting the idea of a bureaucratized, official national trading company as the future means of gearing up Canadian industry for an export 'blitz.' The Japanese system might work beautifully for Japan, but clearly Canada was a 'different cup of tea.'

Japan is seen as a country that has a monolithic, well-organized society, where loyal duty to company and country is part of everybody's upbringing. It is a country that, because of its small size and lack of domestic resources, has been forced to scramble for every penny of foreign currency that has been brought into the country over the last hundred and fifty years. What the country lacks in size and natural endowments it has been forced to make up for through human ingenuity and hard work. The Japanese trading
houses have grown up through hundred of years of shaping and re-shaping to reach a point where they now fit the Japanese system and temperament as a glove fits the hand. To this can be added JETRO, again based on Japanese needs and requirements, with its official, but modern character and its all-encompassing system of services.

Canada, on the other hand, is seen as a country full of contrasts, between regions, between people, and between government and business. Canada, by coincidence, came into being in the same year the Meiji period began in Japan, and it has thus had the same span of time in which to develop its modern structures. But in spite of the 'National Policy,' Canada has not turned into a monolith, rather the opposite, and this will have to be taken into consideration when one considers a plan to promote Canadian exports. Further, Canada is not an 'isolated island' that, without regard for its friends and neighbours, can take its own course. Canada arose as a British dominion and as a weaker neighbour to the United States of America, a situation which made Canada a more subservient nation with a more 'follow-the-leader' type of economy.

The "Hatch Report" recommendations are clearly as far down the road towards an 'organized' export drive as most businessmen want to go at this particular point in time. The "Hatch Report" (November, 1979) received widespread support both within the federal government and the private sector and culminated in the October 27, 1980 appointment of Roger Hatch to chairman of the Export Trade Development Board, the Board being one of his committee's recommendations. What this will mean for the country in the future is hard to assess. But there is no doubt that with Hatch at its
helm the Board will soon begin to 'make waves' that will be felt from coast to coast.

Just after his appointment, Mr. Hatch was a witness before the Special Committee and expressed himself in no uncertain terms on the subject:

I am not aware of any general demand among the business community for a national trading corporation. The fact that the Special Committee is examining the question of setting up such a corporation would imply that there is a gap waiting to be filled, but this does not seem to me to be the case at all. I believe it is noteworthy that not one single brief that we receive in the Export Promotion Review Committee suggested that a National trading company was needed....

According to the "Hatch Committee's" proposed organizational structure for coordination of export development and support activities, the Export Trade Development Board (ETDB) is seen as an intermediary between the Minister of Industry, Trade and Commerce and the various government agencies concerned with exports, such as the EDC, CIDA, and a new recommended facility for large overseas capital projects.

The Special Committee came out with its preliminary report in December, 1980, based on hearings in the Committee, suggesting five alternatives for the creation of an export trade organization for Canada. By placing the private-public alternative as the last in a row of alternatives, it seemed clear that this alternative also would be what the majority of the Committee members would prefer. The fifth choice in the Committee's Report, the shared enterprise, private-public alternative, is an option that would combine the efforts of the private and the public service sectors in a joint venture to set up a type of trading service corporation. It would provide a trade instrument that would be accessible to all Canadian
firms, small or large. It would initiate efforts to contact Canadian producers with a potential for exports. It would set up a sufficiently strong structure to provide necessary capital and marketing expertise, plus share in the risk-taking in order to allow Canadian firms to compete on the international market. It would also provide such necessary services as trade documentation, financing, transportation, insurance, and market intelligence to assist Canada's manufacturing industry in its future export effort. It might further handle any trade ventures requiring direct government-to-government dealings.

When one looks at the "Hatch Committee Report" and its recommendations and the Special Committee interim report (Second Report) and its fifth alternative, the 'shared-enterprise alternative' it appears that, based on the large area of common ground, these two approaches could eventually be blended together into a unified approach. The two reports share common ground regarding purpose as well as structure and functions, and even if there are differences in relation to details, the common parts seem wide and large enough to be able to bridge the gap. Both committees seem to see the purpose of setting up such an organization as the furtherance of Canadian export trade with the participation of individuals and corporations from the private sector, but with an initial 'security blanket' provided by government in the form of public sector financial backing. The intended structures also seem to run along parallel lines in the two reports, both with a mixed public-private sector board, with a majority of private sector investments increasing over time and reaching, perhaps, a complete 'take-over' stage at some later date.
Although clearer in the "Hatch Report" than in the Special Committee Report it is also evident that what is needed for an effective export drive is a structure that in a friendly, but firm way can coordinate the hitherto existing, scattered government export trade services. As to functions, there also seems to be something close to unanimity between the two reports. It should be an organization available to all Canadian exporters, capable of entering the export market. There should be consideration of new and enlarged means to support the export trade in the form of tax incentives and export financing on competitive terms. A strong emphasis should be placed on market intelligence with respect to future markets and future strategies, either through 'copying' of successful foreign traders or the innovation of new methods and approaches. There would further be a requirement for a certain government backing in the risk-taking field, and a need for a 'one-stop shopping' facility, set up on a regional basis to help smaller and medium-sized firms with such tasks as trade documentation, arrangement of transportation, insurance, and follow-up services abroad.  

But then came the publication of the Special Committee's fourth and final report, Canada's Trade Challenge in June, 1981, and it became clear that the Committee had meant that introduction to its Second Report to be taken literally "While in no way representing the final position of the Committee...." After close to a year's hearings with hundreds of pages of public evidence on part of a wide variety of witnesses, practically all opposed to government meddling directly in the export trade, it was, in my opinion, rather surprising to receive a fourth and final report containing nine strong recommendations directly aimed at creating, here and now, a
national trading corporation with the specific purpose of instituting
direct government-handled and government-financed export trade on a large
scale. The new Canadian Trading Corporation "should have the capacity to
take title to goods and even complete the transaction at the supplier's
loading dock..." The recommendations are expressed strongly and forcefully
and there is no lack of resolve or clarity in the Committee's instructions
to the various government departments and agencies involved. The Committee,
as outlined in the Report, estimates that Canada has an export potential of
around $12 billion in manufactured goods and capital projects, this in­
cludes an estimated $2 billion profit, with the figures representing
roughly a fifteen percent increase over present levels. These optimistic
figures are given out with confidence and self-assurance, with the crowning
triumph of the Committee's year of toil to be found in the last paragraph
of the Report: "Export trade has to be made a top national priority."

In connection with the Special Committee's final report there would
seem to be, however, two rather significant omissions. One is that in spite
of the fact that Mr. Roger Hatch had been appointed president of a new
Export Trade Development Board on October 27, 1980, while the Committee was
sitting, a Board which represents an attempt to set up a joint private-public
agency to oversea trading services for Canadian exports, there is no mention
of this fact in the Committee's report. Another omission is in my opinion
the lack of reference at all to the 'one-stop' regional export trade office
concept, a concept which had been so heavily supported by witnesses before
the Committee and had been so frequently referred to by various Committee
members during meetings. The final report contains references to the setting
up immediately of overseas offices in various key locations, but there is no references to any domestic service network.

If one tries to put the contents of the Special Committee's final report in relation to the actual, existing economic, industrial, and trading conditions in the country today, is there in fact a meaningful connection between abstract, wishful planning and thinking and Canadian reality? Does Canada actually have an industrial policy for the 1980's? Setting up an effective export organization to expand Canadian overseas exports might not turn out to be a very productive effort, if it is not backed up by a constructive domestic industrial policy to deliver the goods that a trading company will be able to sell. There were rumours in June of this year that at a cabinet meeting at Meach Lake, P.Q., on June 13, 1981, three subjects in particular had been under discussion, namely the problem of inflation, a future industrial policy, and reforms of the House of Commons and the Senate. With respect to the industrial policy the 'news' were that the 'interventionists' in Cabinet were said to have won out over the 'free traders,' and that there possibly might be some truth to the rumours was partially confirmed when it was announced a short while later that the Liberal government had set aside $250 million over a five-year period for the modernization of the Canadian textile industry.116

The textile industry represents about 100,000 jobs in Quebec and about the same number in Ontario, and this probably explains the special emphasis on improving this particular industry in these two Liberal strongholds. But protecting an ineffective and 'aging' industrial sector such as the textile and clothing industry in this day and age amounts to trying
to prevent progress and supporting inefficiency. It is said that Canadian customers are supporting this domestic industry to the tune of about $500 million a year through higher prices created on the domestic market through restrictive import quotas. The latter is set up to keep Asian textiles and clothing out and protect Canadian jobs, and this might very well be a commendable move, if it was not because the textile industry in North America is somewhat of a 'dying' industry due to its falling productivity and rising wage demands. Most experts agree that keeping a 'bloated' textile industry alive in Canada is not a very business-like approach, in other words, it is not a very sound economic move, and, at the same time, it is not a very good way of strengthening the Continent's relations with the Third World, where a product like textiles is a main stay in the various countries' efforts to become more viable, economic units. These countries today undoubtedly has the 'comparative advantage' in this field of endeavour, as they have the newer machinery and lower-priced, plentiful labour able and willing to join this particular industry. How can Canada expect to sell these countries the huge amounts of agricultural products, and the newest in telecommunications and transportation equipment, if it is not willing to allow these countries to 'counter-trade' with their own 'comparative advantage' goods. If this move is indicative of what Canada's 'industrial policy' is going to look like in the 1980's, it does not sound too promising for the more viable sectors of Canadian industry.

There has in the spring of 1981 been at least two moves on part of the federal government which might possibly have some influence on Canada's trading policy of the future. One was the strong government (Liberal)
interest in the Canada Development Corporation (CDC) in connection with its annual meeting in Winnipeg, Manitoba. The federal government holds 49 percent of CDC stock and is thus the single largest shareholder. But the CDC has, since its inception in 1971, been very keen on guarding its independence from the government and has maintained a right to make its own investment decisions, a state of affairs which was originally protected through letters to the directors on part of Prime Minister Trudeau. But other members of the Cabinet, such as Minister of Finance, Allan MacEachen and the Minister of Industry, Trade and Commerce, Herb Gray, have apparently lead a strong move on part of the federal government to make the Corporation a more pliable tool of Cabinet policy with respect to trade, not only through the appointment of government-elected directors, but also through government-suggested appointees to the Board (in excess of the four board members to which the government is entitled.) It has been speculated that the government besides wanting to influence the CDC for nationalistic purposes also might want to use a future arm of the Corporation for possible foreign trading activities.

The second move, probably related to the publication of the fourth Report by the Special Committee, tabled on June 22, 1981, was a joint news conference, held on June 30, 1981, by the Minister of State for International Trade, Ed Lumley, and the Minister of State for Small Business, Charles Lapointe where a new addition to the existing EDC insurance program was aired. It was announced that the federal government, through the EDC, 'in the future would insure Canadian exporters against 'wars and revolutions.' This would take place in the form of the EDC offering 'forfaiting,' a service
apparently widely used by countries in Europe to help the cash flow problems of smaller exporters. It has been estimated that 'forfaiting' now finances one-fourth of one percent of all world trade which in Canada's case would 'boost' its export sales by around $200 million a year. The procedure allows the EDC to purchase promissory notes issued to Canadian exporters by foreign buyers which would give the exporters the cash necessary to withstand rather long delays in the finalizing of sales. At the moment, a fact also stressed in Special Committee evidence, the EDC provides this kind of 'political' insurance only when the company also has obtained insurance against strictly commercial losses. From now on exporters who lack the credit information they need for commercial insurance can still obtain 'war and revolution' insurance related to the buyer's home country. Further it was announced that the EDC in the future would insure short-term export loans by commercial bankers, a service which was also strongly underlined as necessary in the Special Committee evidence. The cost of the new service will be paid through regular commercial-rate premiums.

Finally, in the area of recent economic policy, the present federal government has shown a preference for guiding the Canadian economy through a number of centrally controlled measures with a strong 'interventionist' leaning. Its basic economic policy proposals, in all areas of endeavour, including energy, has had a heavy nationalistic and regulatory tone, and it seems as if Canada is headed for a period of increased central state intervention in most areas of economic activity. There is no doubt that Canada needs some kind of economic revival, but is the present approach the right way to go about it? It is a fact that Canada for years has been
held back in its development towards a true industrial state through its overwhelming dependence on the export of raw materials and through a burdening branch-plant economy, tying the Canadian economy into the U.S.A. market with no alternatives and no competitive outlets.

However, is a sudden, heavy nationalistic emphasis in the energy field with its very serious consequences for the country's future economic health really the answer? Further, there is no doubt that Canada's industry needs renewal, but will a strong state interventionist policy supporting non-productive areas of activity actually solve the problem? Also, nobody familiar with Canada's exports over the last decade or so will dispute that something will have to be done to turn Canada's heavy reliance on natural resource and non-fabricated materials exports around a more labour-intensive, industrial emphasis, but is a centralized, interventionist-guided industrial policy, crowned by a government-directed, national exporting corporation really the answer? In other words, Canada could in many ways be considered on a par with many of the world's developing nations who face the same problems as stated above, but will the present, somewhat scattered cabinet-policy approach solve these problems?

It is at the present moment clear to everybody that something is very wrong in the way the country's economy is functioning, weighted down as it is with very high interest rates, large deficits on its foreign payments accounts, a high inflation rate, twice that of the U.S.A., and growing unemployment in the most industrialized regions of the country, but is there actually a political and bureaucratic will to solve these problems at this point? How much of the action and activity in Ottawa is real, and how much
is just so much 'glitter and smoke?' So much emphasis has over the last year been placed on constitutional questions and the political future of the country that the politicians and the public are exhausted, so it will probably be left to Allan MacEachen, the present Minister of Finance, to gather the pieces of the Canadian economy together and see, if he can come up with a coherent policy later in the year, based on his ad hoc committee of 'economic' ministers, a policy that will satisfy not only the politicians, but also business and labour. The coming budget will need both well-thought out economic guidelines and an effective, but flexible framework for Canada's future industrial and commercial development. But a government-directed, national trading corporation, as recommended by the Special Committee in its final Report, should not be considered as a viable element to be included in this framework.

Conclusions

Based on the facts and evidence gathered above it would be my judgment that the following recommendations would have to be taken into consideration in order to reach a successful solution to Canada's external trade problems relating to industrial exports by small and medium-sized businesses. Steps should be take to:

a) form an Export Trade Development Board to coordinate Canada's future approach to export trade, a Board which should have a majority of private sector board members, representing the various regions and industries of Canada. The Board should be in a position to frame priorities, formulate policy, and generally supervise and support all
export-related activities in the country, as the most important interface between government and private enterprise.

b) create a joint 'operating agency' under the supervision of the Export Trade Development Board to oversee trading services for Canadian companies, small or large, which might want to avail themselves of such services. It would have under its umbrella all the existing export service agencies, expanded and improved, including an overseas and domestic market information service, financing, insurance, and documentation.

c) set up a series of 'one-stop' export trade offices on a regional basis right across Canada, encompassing all hitherto existing services, now fragmented and spread out over countless different agencies; offices where both trading houses and individual companies could collect valuable market intelligence and information on the JETRO-pattern and obtain assistance with all problems, small or large, pertaining to export trade from paperwork to export financing.
It appears that the change from setting up a task force, approved by the Cabinet and responsible to a minister of the Crown, with the opposition parties being encouraged to nominate representatives to same, to the creation of a special committee of the House of Commons, responsible to Parliament, was brought on by swift Opposition critique in the House with respect to the legitimacy of the so-called 'task forces.' On the same day of the Prime Minister's news conference two members of the Progressive Conservative party, House leader Walter Baker and Opposition leader, Joe Clark, rose on a point of order in the Commons and questioned the whole formation of the six task forces. Baker questioned the lack of consultation; the subservience of members' evidence to a minister of the Crown; the possible secrecy of same evidence; the lack of terms of reference involved in the set-up; the question of the final reports from the task forces -- would they be tabled in the House?; and, finally, the potential lack of ability on part of the members in the House to debate the subject matters.

It was further pointed out by the Leader of the Opposition that they were dealing with three completely different instruments, namely task forces, select committees, and the assignment of certain topics to a subcommittee of a standing committee of the House of Commons. The Opposition preference would, in this case, be a task force with all the powers of a parliamentary select committee, the latter providing the best protection for individual members of Parliament and the public at large. The Conservative view was supported by the spokesman for the New Democratic Party, Stanley Knowles, a procedural expert who pointed out that the members did
not want to find themselves co-opted by a minister of the Crown and made servants of same for the purposes stated by the Government. He recommended that the studies, under whatever name, be kept within the parliamentary context.

The Government's answer at the time, April 18, 1980, was to refer the PCs to precedences set by themselves when in office, by appointing three task forces which were questioned by the Liberal opposition at the time, but which were ruled in order by the then Speaker of the House. However, the Prime Minister promised consultation would follow, particularly regarding the terms of reference involving members from all parties, and he expressed his willingness to discuss the setting up of select committees, although he had doubts about Parliament's ability to handle both regular standing committees, select committees, and task forces. The Prime Minister was here supported by his House leader, Yvon Pinard, as the latter drew the members' attention to the fact that there already were twenty standing committees under S.O. 65, and that in the past only about a third of the members had shown an interest in actively working through committees. However, the Liberals were interested in giving the backbenchers an opportunity to take a more direct part in the decision-making process, and as such would be willing to include the topic of striking of select committees under the discussion of a more general parliamentary reform. 119
APPENDIX II

In March, 1980, prior to the creation of the Special Committee on a National Trading Corporation, Yoshi Tsurumi with Rebecca R. Tsurumi, in his book *Sogoshosha: Engines of Export-Based Growth*, suggested three different models for a Canadian 'sogoshosha,' based on his knowledge of the Japanese sogoshosha. His attention had been drawn to Canada's increasing economic dependence on the U.S.A. and the implied problems, and to the similarities between Canada and the LDCs, leading him to believe that Canada possibly could benefit from imitating one or another of the models of sogoshosha created in these countries.

Tsurumi's models include Model 1 which is a Canadian trading company built on the country's existing strength in the commodity field, tying as many end products as possible into Canada's present commodity exports, especially in its relationship with the U.S.A.

Tsurumi's Model 2 is a sogoshosha established on the basis of Canada's heavy imports of many manufactured products. The core of this idea is to concentrate on helping small and medium-sized companies in one region of the country sell their goods and technical know-how to potential customers in other parts of the country. This would be a link in switching over from import to export trading, as the sogoshosha would seek customers for the regional products overseas, at the same time it disposed of these products in Canada's various regions.

Tsurumi's Model 3 would be a copy of the Korean set-up, as he sees Canada being in the same position today, as Korea was in the 1960's and early 1970's. The Korean sogoshosha at the time were created as marketing
arms of about thirteen groupings of already existing domestic manufacturers. This would be duplicated in Canada with certain groupings gathering market and technical information on the Japanese pattern and searching for specially selected personnel, and thus beginning their own world-wide network of contacts and customers.  

Tsurumi sees the development of a Canadian sogoshosha-system as an absolute necessity, the rationale being that Canada has to further its own exports of manufactured products, not 'piggy-backing' on other countries' firms and organizations. Canada needs its own set-up, based on Canadian products, Canadian personnel, and Canadian conditions. In order for Canada to develop its already existing 'senmonshosha' (specialized companies) into 'sogoshosha' (general trading companies) it is necessary for the country to mobilize a public will and a common national goal to create suitable manufacturing establishments at home and an adequate export organization abroad; to create a service organization which gives the small and medium-sized producer a guaranteed access to fairly unlimited credit sources and insurance coverage; and, finally, it is absolutely necessary, in one way or the other, to train a Canadian group of dedicated trading officials who has a clear understanding of how to handle an international trading company, dealing in a wide variety of products and services.
APPENDIX III

Government and private enterprise in Japan join forces and come together as one unit on the highest level in the Supreme Trade Council. The Supreme Trade Council, headed by Japan's Prime Minister, has a membership of thirty, representing the key economic ministries and the major private industries. The main driving force behind the Council activities is the Ministry of International Trade and Industry (MITI), and it sets the course both through official directives and informal advice through social contacts.

The Council is charged with "the execution of the important policies of the government," and it is the main forum in which government leaders and top businessmen set the course for the good ship 'Japan, Inc.' Among its more important functions are the unofficial 'slicing up' of the world markets between various Japanese traders and the setting of the annual growth goals by product and country for Japanese exports. Further, groups of exporters meet here to set price levels and plan major combined offensives on the international markets. Also, the intimate contacts here lay the foundation for later cooperation on major projects, allowing for preferential financing and credits, and for the very important mutual understanding and support in the relationship between government and business.

Canada has its own 'mini-version' of the Supreme Trade Council in the form of an expanded Minister's Advisory Council. The latter consists of approximately forty representatives of trade, industry and regional interests with which the Minister of Industry, Trade and Commerce meets twice a year to discuss important issues concerning government-private enterprise relations pertaining to industry and trade.
FOOTNOTES


9. Zaibatus, meaning large family combines.


17. Ozawa, op. cit., p. 16.


30. GATT, op. cit., pp. 9-11, 12-13


34. Ibid., p. 17.
35. Ibid., p. 20.
36. Ibid., pp. 16-17.
41. Ibid., pp. 11-14.
42. Japan External Trade Organization 1979, JETRO, Tokyo, 1979, pp. 2 and 4.
43. Ibid., p. 9.
44. Ibid., pp. 12-13.


57. Ibid., p. 114.

58. Phidd and Doern, op. cit., p. 266. Jean-Luc Pépin's speech to the CMA's annual general meeting in Edmonton, June, 1972, "On Industrial Strategy."

59. Ibid., p. 287 and p. 290.

60. Ibid., p. 303.


62. Ibid., pp. 126-127.

63. Ibid., pp. 130-131.

64. Canada, Parliament, House of Commons, Canada's Trade Challenge, Report of the Special Committee on a National Trading Corporation, Ottawa, Minister of Supply and Services Canada, June 1981, pp. 4-5.
See also Export Promotion Review Committee, Chairman: Roger Hatch, Strengthening Canada Abroad, Ottawa, Department of Industry, Trade and Commerce, November 30, 1979, p. 13.


71. Ibid., pp. 141-142.

72. Ibid., p. 123.

73. Export Promotion Review Committee, op. cit., p. 8.


78. Loc. cit.


82. Ibid., p. 9.

83. Ibid., pp. 10-12.


85. Ibid., p. 8:21.


87. Ibid., p. 11:18.


90. Ibid., pp. 23:33 and 23:35.


94. Ibid., pp. 29:22-29:37.


96. Ibid., pp. 29:39-29:42.

97. Ibid., pp. 29:42-29:43.

99. Ibid., pp. 49-51.

100. Ibid., p. 47.


102. Ibid., pp. 40 and 43.

103. Ibid., pp. 40 and 52.

104. Ibid., pp. 56, 59, 60, and 61.

105. Ibid., pp. 51, 58 and 59.


109. Ibid., p. 59.


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