

Is Canada Ready for a Pacific Future?

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Canadian confidence is on the rise. Prime Minister Harper calls Canada an emerging energy superpower. At a recent Empire Club lunch in this very hotel, Conrad Black gushed about this country's newfound global influence. It is only a matter of time before breathless editorialists and pundits refresh Wilfrid Laurier's famous prediction about the 20th century belonging to Canada.

But if we truly are returning to the world stage, what is our role in an increasingly multi-polar world? How do we define ourselves in relation to our geography, our history, and our changing demography?

What will be our relationship to the status quo powers and to the would-be challengers of the emerging world? Are we Atlantic, Pacific, circumpolar, or just North American? Should our motto be "from sea to sea *to sea*" as some have suggested? How do we distinguish ourselves from the United States, our most important trading partner and closest ally?

John Howard famously said early in his term as Prime Minister that Australia does not have to choose between its history and its geography. Australia under his charge has positioned itself as part of the Asian economic space while pursuing closer ties with historic "western" allies, principally the United States.

On the face of it, Canada has chosen geography over history. Our trans-Atlantic links have generally diminished in importance while our North American ties have deepened.

It isn't simply that NAFTA has increased our trade and investment with the United States; it is also that – in the post 9/11 context – we are increasingly defining ourselves in continental terms, and are trying to deal with economic and security challenges from a continental perspective. It may be that no one currently is seriously talking about a North American customs union, but our government is pursuing, with the Americans and the Mexicans, wide-ranging discussions on a “Security and Prosperity Partnership”. The SPP may not foreshadow a common external tariff, but it does take a continental approach to the challenges of global competition, border security, and threats to human health.

Given the trend towards continentalism, why do a majority of Canadians believe that in 20 years, Asia collectively will be a more important trading partner for Canada than the United States? According to a recent national opinion poll conducted by the Asia Pacific Foundation of Canada and the Globe and Mail, 58 percent of Canadians agreed with the statement: “Looking 20 years ahead, trade with Asia will be more important to Canada than trade with the US”.

The same poll found that Canadians chose China over the United States as the country which offers the most potential for exports and investment by a margin of 13 percentage points. Japan was third, with India and Southeast Asia next, and the EU in sixth position.

A Pacific Future?

Do these poll results offer us a glimpse of the future? Let me first of all quote Lao Tzu – the Chinese Taoist philosopher – who said “if you are wise, don't make predictions”.

In 2005, our trade with Asia – including exports and imports – was about 12 percent of total trade. In contrast, the United States accounted for around 70 percent of Canada's total trade. In fact, at historic growth rates and using simple minded straight-line projections, Canada's trade with Asia could well overtake our trade with the US by 2031 – which is only 25 years away. Nobody should bet the farm on the basis of straight-line

projections, but Canadians have clearly observed a trend in our changing trade patterns and they can imagine a future where Asia may well be more important than the United States.

The point of these observations is not about the accuracy of Canadian public opinion and whether Asia will in fact overtake the US as our most important trading partner. It is rather that Canadians are already attuned to the importance of Asia – China, Japan, and India especially – and that we are embracing the need for closer economic ties with the region. This extends beyond trade into two-way investment. When asked if the government of Canada should promote greater Asian investment in Canada, including in the sensitive energy sector, a strong majority agreed. An even larger percentage of respondents concurred with the statement that the government of Canada should promote investment in Asia, despite obvious concerns over short-term job losses.

The important statistic, to my mind, is not the relative importance of the United States or China for Canada; it is the importance of China for the United States and vice versa. On current trends, China will displace our prized role as the United States' number one source of imports next year, and will overtake us as the most important overall trading partner for the United States in five years. At a time when our government is hesitating about our so-called "strategic partnership" with China, the United States is aggressively pursuing a deeper level of engagement with Beijing. In launching a set of strategic dialogues between top officials of the US and China, Treasury Secretary Hank Paulson has made clear that he is taking a "generational view" of relations with China. I would suggest that this shift in the relative importance of Canada for the United States is much more important than any shift in the relative importance of the United States for Canada.

Global Asia

It is customary in speeches on Asia to underscore the growing importance of the region. An audience such as this will be familiar with the standard descriptors of Asian economic prowess. We could pick any number of indicators to make the point: Asia accounts for

40 percent of the world's economic output. Developing countries in Asia doubled their share of world exports between 1989 and 2004. The middle class in China and India is perhaps 15 times larger than the population of Canada. China alone boasts more than 300,000 US-dollar millionaires. In 2004, China graduated 644,000 engineers; nearly three times the number in the United States. Between 2004-2009, China is building 108 new airports. The largest IPO ever took place last week – over US\$19b was raised by the Industrial and Commercial Bank of China. On the seedier side, Macau has overtaken Las Vegas as the gambling capital of the world. The mind numbs to this seemingly endless litany of accomplishment.

But the really important thing about Asia is not what is happening within particular countries. In many senses, the rapid growth of countries such as China and India, and before that the Asian tigers of South Korea, Taiwan, Singapore, and Hong Kong – all of which followed in the path of the Japanese post-war economic “miracle” – can be explained as a normal process of “catch-up”, where previously underutilized resources were put to productive use, with increasing efficiency. It is important to remember that Asia – led by China – was the most economically vibrant region in the world until the early 19th century. Economic historians estimate that as late as 1820, the region accounted for 60 percent of global economic output. The emergence of Asia, in this sense, is as much a re-emergence of the region and a return to its place on the world stage.

What is really important about the re-emergence of Asia is how it is affecting global production, sourcing, and investment decisions, and how the three major Asian powers – China, Japan, and India – are reshaping international relations and the architecture of global governance. I have time to only touch on a few examples of how Asia is going global and why it is important for Canada.

The idea that China has become the workshop of the world is misleading. There is no question that China has a formidable manufacturing capability, one that is extending well beyond basic consumer durables to more sophisticated technology-intensive products.

However, the best in Chinese manufacturing is by and large a multinational endeavour, consisting of foreign capital and technology, intermediate inputs from surrounding Asian neighbours; and, most importantly, demand for final products that is still to a large degree from the industrialized world.

Canada is of course on the receiving end of many products made in Asia but exported from China. However, Canadian firms by and large have not participated in Asian production networks in any meaningful way. For example, Canada's share in the Southeast Asian electronics trade -- one of the best examples of regional production networks -- is barely one percent.

Japan is now in its fourth year of economic expansion, following a decade-long period of very low growth, falling prices, weak consumer confidence, and stagnant corporate investment. The recovery in Japan is still not well known in this country, where many business leaders still have a view of the Japanese economy that is based on three enduring beliefs from the 90s: debt, deflation, and the deadweight of the ruling Liberal Democratic Party. While Japan continues to face many challenges that are intrinsic to a mature, industrialized economy with a falling population, the three Ds are no longer of primary concern. More so than most provinces, Ontario understands the importance of Japan. Some of the most important automotive investments in this province in recent years have come from that country.

While Japan has only recently come out of a decade-long economic stagnation, India has enjoyed robust economic growth for more than ten years. The rise of India is not only about software, call centres, and cheap pharmaceuticals. It is only a matter of time before India joins the rest of Asia as a manufacturing centre, destination for foreign investment, and participant in regional production networks. I was speaking recently with one of the pioneers of the Indian IT industry, Dr F.C. Kohli of Tata Consultancy Services, who told me that he expects India to be a major manufacturer of computer hardware within three years. The move into manufacturing will start with low-cost computers for the domestic market but will quickly move into higher-end products for export to world markets. India

and China may have historic grievances and they will likely compete for influence in the region for years to come, but Indian and Chinese enterprises fully understand the potential of combining Indian software expertise with Chinese manufacturing talent. Two-way trade and investment are expanding at a record pace. When Chinese and Indian leaders set a target of \$20b for two-way trade by 2008, many analysts scoffed at such an ambitious goal. That goal will be met this year, well in advance of the 2008 target.

In their own ways and sometimes collectively, China, Japan, and India are seeking to increase their influence on global affairs and on the architecture of global governance. It isn't simply about the quest for a place on the UN Security Council or as a member of the G8. It is about a fundamental shift in the way Chinese, Japanese and Indians see themselves in the world – a combination of growing confidence that comes with increasing economic clout; a sense of inequity in the current configuration of international institutions and in the global distribution of wealth and influence; and increasingly, an aspiration for Asia-wide economic and political institutions that give the region as a whole greater influence globally. Canadian thinking on Asia – in both foreign policy and economic policy – is starting to come to grips with the economic power of China, Japan, and India, but it has not yet begun to contemplate the ramifications of Asia's global influence beyond the immediate commercial considerations.

What must we do to prepare for a Pacific Future?

Our opinion poll suggests that Canadians are already attuned to the rise of Asia as an economic power, and that we embrace the need for closer economic and political ties with the region. We are still a long way, however, from embedding the Asia Pacific into our mental maps. When we asked the question “Is Canada part of the Asia Pacific region?” only 39 percent agreed with the statement (only 35% in Ontario). It strikes me that there really is only one answer to this question, since Canada clearly borders the Pacific Ocean, and is a member of the only Asia Pacific wide intergovernmental organization (APEC), but the issue of course is not one of geographic awareness, it is about mental maps. The Asia Pacific is not yet part of Canadians' mental map. We may

joke about changing the motto to “A mari usque ad Maria” but the truth of the matter is that we are still getting used to one of the two “maris”. More than one hundred years after the completion of the trans-continental railway, Canada has yet to come to terms with the idea that we border the mighty Pacific Ocean on our west coast and are connected through it to a part of the world that will inevitably shape our future.

The need for a change in Canadians’ mental maps is the reason why I believe the most important priorities in strengthening Canada’s ties with Asia are not about what we do over in Asia, but about what we do here in Canada. The Pacific Gateway and Corridors Initiative, which was (re)announced by Prime Minister Harper a few weeks ago is an important part of the domestic investment that is needed for stronger ties between Canada and Asia.

This initiative is in the first instance a transportation infrastructure investment project, focused principally on the west coast of Canada. The goal of these investments is to expand the physical capacity of ports and corridors to handle the growing volume of trade with Asian countries, including the need for smarter and safer borders, and the establishment of sound governance mechanisms for ports and transportation infrastructure. These investments are critical if our west coast ports are to remain competitive and if we want to reduce congestion in the transportation corridors that in many cases have their final destination right here in Ontario and beyond into the United States.

The Need for Pacific Gateway Thinking

But the Pacific Gateway has to be more than a set of infrastructure investments. It has to be part of a national strategy on Canada’s Pacific Future and how all parts of the country have an interest and an imperative to be part of that future. The Asia Pacific Foundation of Canada has been hosting a series of cross-country consultations on the idea of a National Pacific Gateway Strategy, including meetings in Toronto, Calgary, Regina, Winnipeg, Montreal, Halifax, and of course Vancouver. At our Toronto meeting a few

months ago, I was impressed by the number of companies and organizations that are thinking gateway even if they have no interest in the expansion of west coast ports. We learned about the efforts of the TSX to attract listings from China – to build a financial gateway no less; the success of the Ontario College of Art and Design in building links with Asian designers to tap into global markets; and the fascinating story of the Royal Conservatory of Music, which is seeking to export its system of music education and examinations to China. The RCM strategy builds directly on gateway assets that are right here in Toronto. The large Chinese population in this city (and across the country) is a major user of the RCM system. This demographic is not only a test case for the RCM system; it is a source of validation and word-of-mouth marketing for the transfer and adaptation of that system to Hong Kong and the mainland, where family ties with Canadian relatives remain very strong.

The common theme in each of the examples I have given you is that the Pacific Gateway matters even here in Ontario, thousands of kilometers from the Pacific Ocean, because people are thinking about how they can build on the gateway assets that they possess, going well beyond ports, roads, and rail. I had the privilege of joining Premier McGuinty on his mission to China last year and was struck by the fact that his Chinese counterparts were using gateway language to describe the potential for stronger ties with Ontario. There weren't confused about Ontario's location in the hinterland of the country; rather they were thinking about gateways in the broadest sense and were looking at Ontario's gateway assets – innovation, advanced manufacturing, high quality education, a skilled labour force, and easy access to the United States, to name just a few. I expect that these same competitive strengths will resonate strongly during the Premier's upcoming mission to India and Pakistan.

In the same way that there is a need for investments in physical gateway infrastructure, there is also a need for investment in soft gateway infrastructure that lead to more durable ties with Asia – these include language and cultural skills, market intelligence, and broad Asia-awareness across government, business, and schools. Some of the best educational and cultural resources on Asia are right here in Ontario. I am referring not simply to

traditional “Asian studies”, but also to the growing interest on the part of Ontario scholars from all disciplines in factoring Asia into their fields of study. For example, we are supporting, through our grants program, scholars in Ontario who are looking at the implications of changes in the Chinese financial system for Canadian banks, the management of health pandemics such as Avian flu, and lessons of Japanese hospital management for the Canadian health care system. But there is so much more that needs to be done, and it has to start with an understanding of the global impact of Asia.

To summarise, the rise of Asia has caused a tectonic shift in the global economic landscape, and it will be followed by a similarly powerful realignment of geopolitics and international relations. As a North American country with historically good relations across the Pacific, Canada is in an enviable position. We don’t have to choose between our geography and our destiny. Canada can embrace a Pacific Future without reservation. However, we need to equip ourselves for that future. We need to build Pacific Gateways across this country – the ports, the roads, the bridges, and other infrastructure -- but most importantly, we need to build a Pacific Gateway mentality that recognizes the importance of Asia not just as “out there”, but as “right here”.

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