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March 1972

Report
on

CANADIAN RELATIONS

with the countries of the

PACIFIC REGION

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The Standing
Senate Committee
on
FOREIGN AFFAIRS

Chairman: The Honourable John B. Aird, Q.C.

Deputy Chairman: The Honourable Allister Grosart

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CANADA

March, 1972

MEMBERSHIP OF COMMITTEE
(As of March 1, 1972)

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on
**CANADIAN
RELATIONS**
with the countries of the
**PACIFIC
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MEMBERSHIP OF COMMITTEE

(As of March 1, 1972)

THE STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

The Honourable John B. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Belisle	Haig	McNamara
Cameron	Heath	Nichol
Carter	Lafond	O'Leary
Choquette	Laird	Quart
Connolly (<i>Ottawa West</i>)	Lang	Rattenbury
Croll	Lapointe	Sparrow
Eudes	Macnaughton	Sullivan
Fergusson	McElman	White
Gouin	McLean	Yuzyk—(30).

Ex Officio Members: Flynn and Martin

(Quorum 7)

Note: The Honourable Senators Hastings, Pearson and Robichaud served on the Committee during the Third Session of the 28th Parliament.

ORDER OF REFERENCE

(Third Session—28th Parliament (1970-72))

Extract from the Minutes of the Proceedings of the Senate, Thursday, October 8, 1970:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Denis, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific";

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the Committee, before assuming any financial obligations in connection with the said examination and report, submit to the Standing Committee on Internal Economy and Contingent Accounts a budget for approval setting forth in reasonable detail the forecast of expenses to be incurred.

The question being put on the motion, it was—
Resolved in the affirmative.

ROBERT FORTIER,
Clerk of the Senate.

* * *

(Fourth Session—28th Parliament (1972))

Extract from the Minutes of the Proceedings of the Senate, Tuesday, February 22, 1972:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Smith:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating

to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific";

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the papers and evidence received and taken on the examination of the Pacific area in the preceding session be referred to the Committee.

The question being put on the motion, it was—

Resolved in the affirmative.

ROBERT FORTIER,
Clerk of the Senate.

ROBERT FORTIER,
Clerk of the Senate.

REPORT
of the
STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS
Respecting
CANADIAN RELATIONS
with the countries of the
PACIFIC REGION

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INTRODUCTION

1. The present report, the Committee's second for the twenty-eight Parliament, is closely related to the process of foreign policy review undertaken by the Government between 1968 and 1970. The product of that review, the series of six papers under the general title of *Foreign Policy for Canadians*, was tabled in the House of Commons on 25 June, 1970. On 8 October 1970, one of the papers, entitled *Pacific*, was referred by the Senate to this Committee.

2. The Pacific area, as defined in the Government's Policy Paper, includes more than twenty different countries and territories, encompassing well over one-third of the world's total population. Around the thousands of miles of the western Pacific rim is found impressive diversity in cultural, political and economic terms, as indicated by the following list: Japan, China, Indonesia, The Philippines, Australia, New Zealand, Malaysia, Singapore, North and South Vietnam, North and South Korea, Cambodia, Laos, Thailand, Burma, Hong Kong, Taiwan and the countries and territories of the South Pacific.

3. Clearly, Canada cannot attempt to adopt uniform general policies toward this heterogeneous group. The Committee has found, however, that an overall attitude and approach of increased Canadian interest and involvement in the whole Pacific region is not only possible but essential. The fact that Canada is a Pacific nation has long been viewed simply as a kind of geographical accident, with the world's largest ocean serving more as a barrier than a bond. With the revolutionary growth of communications, transport and global inter-dependence, however, it can now become vital reality. As the Policy Paper says, "In Canada's Pacific outlook, distance and remoteness are no longer synonymous." Yet it is important to recognize that most of the great movements of history which are taking place in the Pacific region are doing so with little significant involvement by Canada. It is probably only in the economic field, that Canada can be properly called "a Pacific power".

4. Any realistic survey of the present Canadian involvement in the Pacific must therefore give first attention to the economic sphere. This has been the field of most exciting and spectacular growth—with a doubling of Canada's Pacific trade between 1965 and 1970 and until 1971 a large surplus balance in Canada's favour. The direct economic benefits to Canadians are immense, and are reinforced by the healthy diversification of Canada's overall economic relationships.

5. The very rapid expansion of profitable economic relations in the Pacific region, however, has sometimes obscured a number of other vital concerns for Canada. It is probable that Canada cannot long sustain relations with its Pacific neighbors solely on the basis of trade, particularly trade which is in its own favour. Commercial considerations alone require a concern for reciprocal advantage, and

a widening knowledge and understanding of the partner-countries involved. The emergence of any broader sense of community involves the acceptance of wider responsibilities for the general well-being of the region. Pacific countries are anxious to see what role Canada will play in the achievement of regional peace and security, and in cooperative action to share the benefits of economic development with the disadvantaged countries. As a result, Canada faces a series of new decisions as to the directions of its Pacific policies.

6. The Policy Paper supplied some answers to these questions. In the period since this document was referred to it by the Senate on 8 October, 1970, the Committee has had the opportunity to observe the policies selected in practice. As the Policy Paper states, "For Canada, as for many of the smaller nations of the Pacific, the problem for the future will be to define constructive policies and interrelationships realistically tied to individual national capacities, yet effectively aimed at common Pacific objectives." (p. 11). This Report is concerned with elaborating the real meaning and potential of Canadian membership in the Pacific community of nations.

I THE BASIS FOR INVOLVEMENT

A. Awareness and Understanding

7. Canada's involvement in Pacific affairs pre-dated Confederation and increased throughout the late nineteenth and early twentieth centuries. "Until recently, however," as one of this Committee's witnesses has written, "the Pacific region did not hold a prominent place in the consciousness of Canadians." General interest in Pacific affairs, Dr. Kavic has stressed, was uneven, superficial and dealt too often in stereotypes. As he says, "The natural consequence of these attitudes was the presumption that Canada had no direct interest or stake in the Pacific, and the perpetuation of an increasingly obsolete image of the area that was a compound of ignorance, prejudice and misinformation."

8. In recent years there has been improvement, but the deficiencies in Canadian understanding of the Pacific cannot be remedied overnight, or by half measures. It must be recognized that Pacific Asia is the least familiar to Canadians of all the world's great zones of civilization. Even simple communication is more difficult. European languages are little used today in many of the Pacific countries. The unfamiliar and difficult languages of the region have deterred most Canadian students even when facilities were available. Furthermore, Western perceptions of the "Far East", which have always been shrouded in ignorance and myths, have failed to keep pace with the tremendous changes in progress, particularly in contemporary China and Japan. Canada, moreover has fallen behind most other developed countries of the Pacific (and a number of the less-developed) in generating a regional consciousness and in acquiring the necessary knowledge and expertise in Pacific affairs.

9. Even in business relationships, where Canadian ties are now most extensive, this lack of background familiarity represents a real and continuing problem. Mr. Robert Bonner outlined its dimensions in his testimony:

. . . when you seek to do business with Japan or when you seek to do business in Malaysia or the countries of Oceania, there is an immediate cultural lack of familiarity which represents a very real and practical psychological barrier against the otherwise commonplace task of doing business. In other words, you have to spend a lot of time finding your way in

In other words, the approach to the Pacific is not to be viewed as being other than a complicated question of culture, of language and of unfamiliar history and institutions, and it would be unwise to overlook these facts as an obstacle to easy penetration of the Pacific excluding the western hemisphere countries of the Pacific and excluding, of course, Australia and New Zealand. (p. 3:6)

10. It is clear that a large-scale and concerted national effort to improve Canadian understanding of the Pacific region will be a vital pre-requisite to broader and more fruitful Canadian involvement. In this effort, federal authorities can provide encouragement and example, but full participation will be required from

all the sectors concerned: governments at all levels, the academic community, business and industry, and the communications media.

11. The Policy Paper contained a number of suggestions for action in this field, especially directed to the projection of Canada to these countries, and some progress has been made. The Committee has concluded, however, that a much broader and more reciprocal range of initiatives is required, and these are outlined below.

Language Training and Orientation

12. Facilities and financing for training in the difficult languages of the region, particularly Chinese and Japanese, are important elements in an active Canadian presence in the Pacific. They are now badly lacking, and Canadians dealing with the area are often dependent on non-Canadian middlemen. In the new conditions which prevail in international commerce this is an unsatisfactory situation.

13. It is natural to assume that improved language training and orientation facilities should be built upon existing resources in universities. The Committee feels strongly, however, that an expansion of the traditional type of university language instruction will not go far enough to meet the present national need. The requirement for more academic specialists on the Pacific area is only one of several equally pressing priorities.

14. The Committee has been disappointed to learn (from an answer in the House of Commons on 3rd May, 1971) that the Government does not have under consideration financial assistance either to universities or to students to promote studies of Pacific area languages. Because of its importance to the whole new Pacific policy, such a programme should be started as soon as possible. The Committee is prepared to suggest a number of specific and practical guidelines.

15. Concentrating initially on a small number of existing centres of excellence (perhaps one each in British Columbia, Ontario and Quebec), the Government should make available special grants to expand the teaching of Chinese and Japanese, and perhaps one additional Pacific language at each centre. The grants could be distributed in roughly equal proportions between salaries for instructors (for supplementary language study and intensive summer programmes), and fellowships for students (from all regions) both for extended graduate programmes and field work and intensive summer courses. An annual grant of \$50,000 to each of three centres could quickly transform the national situation with regard to the availability of individuals proficient in these languages.

16. In addition to recruiting actively from this growing pool of skilled personnel—with the understanding that a period of in-job training may be required—government departments (both federal and provincial) and industry could use the facilities directly for the training of selected staff members. Because of their special needs, however, the government and business sectors will have to take urgent short-term measures to fill the present gaps. It should be a more standard and extensive practice for Federal Government departments concerned to post

officials in China and Japan with about half the normal load of duties to allow them to undertake intensive language training. It would probably be advantageous to maintain standardized arrangements (i.e. long-term contracts with tutors or schools) to keep up the momentum of this scheme. The Committee also believes that businesses operating in these areas would soon reap a considerable return from a similar programme of half-duty postings (although business trainees in Chinese would almost certainly have to be based in Hong Kong rather than in China proper). The Committee recommends that the government as soon as possible establish regular, in-area intensive language training arrangements for both Japanese and Chinese and offer a number of places in these facilities to business representatives and provincial officials.

17. Another general measure to up-grade overall Canadian capabilities in these languages would be to utilize more effectively the skills derived from the diverse national origins of Canadians. Even at the time of the 1961 census there were nearly 60,000 Canadians of Chinese origin and almost 30,000 of Japanese origin. Even in the second and third generations of residence considerable language skills remain. Both the government and business sectors concerned with these areas should be acutely aware of these substantial pools of language skills and cultural background.

Centres for Asian and Pacific Studies

18. Closely related to training in Pacific languages is the need for more study in depth of all aspects of the great civilizations of the region. A number of universities have developed local pools of expertise, * and in 1969 the scholars concerned established a national society of Asian Studies. In the Policy Paper the Government announced its intention to "appoint a small committee to examine, in consultation with the provinces and university authorities, ways by which it might make some contribution to strengthening teaching, library, research and publication facilities, with emphasis on contemporary Japan and China". There appears not to have been any subsequent action on this front.

19. The Committee considers it essential that there be more national cooperation, in order to better utilize existing resources and strengthen those where deficiencies exist. There should be in Canada several well-stocked university libraries on Pacific affairs. As a first step, it would seem advisable for the universities concerned to agree on different areas of specialization in their library holdings on Pacific affairs. This would reduce unnecessary duplication and permit the building of truly excellent collections on a national scale at an acceptable cost. Once specializations have been agreed upon, an up-to-date national inventory and inter-library loan facilities would allow all regions to draw on these specialized collections. Once agreements are made for the rationalization of national library holding on Pacific affairs, the Committee recommends that the Government

* The national capability in the fields of international and area studies has been analyzed in a survey commissioned by the Department of External Affairs and the Canadian Institute of International Affairs. This report, by Arthur R. Kilgour, is entitled "Resources for the Study of International Relations in Canadian Universities" published in 1969; updated December, 1970.

consider making up-grading grants to help bring the libraries up to the first level in their specialized fields.

20. The Federal Government could provide much-needed stimulus to Pacific area studies at relatively little cost by endowing a small number of senior and post-doctoral research fellowships at Canadian universities. These would broaden the base of Pacific studies and also keep qualified young specialists in Canada to fill faculty vacancies as they may arise. Six fellowships (three senior and three post-doctoral), would cost approximately \$60,000 annually. The Committee believes that such an expenditure could produce substantial results in a short period.

21. There should be, for non-Commonwealth Pacific countries, the equivalent of the Commonwealth Scholarship and Fellowship Plan to provide for scholars to move between Canada and these countries. Even a small number of scholarships (perhaps ten annually) for Canadians would in a very few years substantially augment the pool of knowledgeable Canadians. At the same time, the scholarships in Canada for Pacific area students (perhaps fifteen each year) would complement the present opportunities under the National Research Council (NRC) and the Canadian International Development Agency (CIDA) auspices. Such a scheme is mentioned in the Policy Paper (on page 23) but only in the context of incoming students from Pacific countries. Clearly a two-way flow would be most beneficial. On a formula similar to the Commonwealth Plan the total cost of such a scheme to Canada would be on the order of \$60,000 annually.

22. The strengthened expertise of the academic community must also be utilized in a more directly beneficial manner from the national point of view. High priority should be given to the kind of "continuing" educational activity mentioned by Dr. John Howes in his testimony. The Committee was impressed by his example of "short seminars or courses for people who are already involved in professions or business" dealing with the Pacific.

23. Another of Dr. Howes's suggestions which might be of considerable benefit, with relatively little cost, is for the compilation of a national directory of Canadian institutions and individuals with competence in different aspects of Pacific affairs. Circulating among the official, business, and academic sectors, such a directory would help to pool national talent and expertise and make fuller use of the resources available. Similarly, it is to be hoped that action will soon be forthcoming on the Government's plans for programmes of rotation and secondment among serving Foreign Service officers and academics and graduate students. In the Committee's view, this is a promising experimental scheme. Such short-term personnel, with special linguistic or other skills, could make a valuable contribution to the missions concerned while supplementing their own field experience.

Public Information

24. Full Canadian participation in the Pacific community cannot be achieved by a select few, while the vast majority of Canadians remain largely uninformed and exposed only to "spotty and crisis-oriented" media coverage of regional affairs.

The Policy Paper referred to the possibilities for "dramatically expanding" the Canadian capacity for reciprocal information exchanges with Pacific countries. Certainly, agencies such as Information Canada, the Canadian Broadcasting Corporation and the National Film Board should be encouraged to play an expanding role in such exchanges (as outlined on page 22 of the Policy Paper) but major initiatives must also come from the private media.

25. The volume and quality of Canadian media coverage has perceptibly improved in the past two years, partially as a result of visits by Canadian leaders, the exchange of diplomatic relations with the People's Republic of China, and the opening up of that country to Western journalists and travellers. It will be important to sustain this interest beyond the initial excitement of "discovery" and steadily deepen the public awareness and understanding of Pacific affairs. While there are short-term limits on the capacity of Canadian media organizations to maintain their own coverage, the Committee is convinced of the need for a growing Canadian perspective in in-depth news from the Pacific. The Special Senate Committee on the Mass Media discussed in its report the general problem of "Canadian content" in foreign news coverage (see especially Vol. 1, pages 232-235). The Committee would like to see the Canadian media give special priority to reducing their reliance on foreign news services in their Pacific coverage.

Sports and Cultural Exchanges

26. The Policy Paper (on page 23) mentions a number of plans for stepping-up exchanges of these kinds. One that is not mentioned, however, is reciprocal visits by sporting teams. Such visits have been shown, by recent experience, (including the Olympic games in Japan), to involve large numbers in friendly people-to-people contact, in spite of linguistic, cultural or political barriers. Support of sports exchanges with Pacific countries by the Canadian Government could be a highly effective means of increasing public interest and awareness.

27. Canadian participation, (with Japan, the U.S., Australia, and New Zealand), in the Pacific Games provides for regional competition in track and field events. Since Canada is to be the host country for these Games in 1973, they can be expected to have a particular impact. The Commonwealth Games, of course, also involve competition with a number of Pacific countries. Bilateral sports exchanges with Pacific countries have been growing steadily, sometimes at a provincial or club level. Some of the most prominent sports include swimming, rugby, soccer, field hockey, basketball, and volleyball. Table tennis has, of course, opened up the possibility of broadening athletic contacts with China, tours by badminton teams have followed and water sports may be the next area of competition with that country. The countries most involved in these bilateral sports exchanges in the past have been Australia, New Zealand, and Japan. It must be recognized that Canada's main sports are not widely shared by Pacific countries and that this fact places a definite limit on the exchanges which may develop. It is noteworthy, however, that hockey is of increasing interest in Japan and possibly also in China. With close co-ordination between the Departments of External Affairs and National Health and Welfare and private Canadian sports

bodies it should be possible to continue widening the scope of these exchanges, (both the number of countries and the number of sports involved).

28. In addition to sports and educational exchanges, there are a large number of other cultural contacts which can complement official and commercial dealings in expanding Canada's relationships with Pacific countries. In these fields, federal policy is only one element in the national effort, and a concerted federal government programme will require close co-ordination among a number of departments and agencies.

29. Australia and New Zealand, which have fairly well-developed educational contacts with Canada, have surprisingly few exchanges in the cultural fields. Expanded contacts with Japan, China and the Francophone states of Indochina are also possible and very desirable. In view of the importance of Japan, and its traditional unfamiliarity to Canadians, the establishment of a Canadian cultural and information centre in Tokyo might provide a necessary base for expanding cultural contacts. In the case of China, formal agreement may be required to ensure the reciprocity of cultural exchanges. The establishment of cultural centres may also be justified in Australia and, eventually, in Indochina.

30. The specific type of exchanges desired will differ from country to country. In general, however, there appear to be immediate opportunities in the following fields: financial and other assistance for exchange of musical, dance, and theatrical groups; encouragement of exhibitions of graphic arts, films and books; encouragement of co-operation and mutual assistance in cinema, radio and television, and the exploration of possible co-production arrangements in these fields; financial and other support of cultural research projects in such fields as anthropology, archaeology or ethnology.

Scientific Cooperation

31. With respect to scientific and technological cooperation, the Policy Paper, recognizing the growing importance of essentially transnational problems, envisages generally closer ties with the Pacific countries. The Committee emphatically favours such ties, especially in view of Japan's leading role in technological innovation, and the many common concerns of Canada and Australia in scientific and technical fields. Encouraging examples of this kind of co-operation are the September, 1971, Agreement between Canada and Japan to exchange technical information and work together on nuclear reactors, and the visit of an important Canadian Science and Technology Mission to Japan in March 1972.

32. The Committee wishes to emphasize that this kind of cooperation will become increasingly essential in international relations, and it seems clear that expert scientific and technological liaison and representation should be among the priority roles of the Canadian foreign service, particularly as it progresses toward greater integration.

B. Coordination

33.

If we are truly resolved, as a nation, to enter fully into the life and future of the huge Pacific community, . . . we must do so by a unified national effort. It is difficult for close-knit, nationalistic societies of the region, such as Japan, to understand the Canadian penchant for speaking abroad in a multitude of voices, some of which, on occasion, create a discord. (11:23)

34. The above quotation, from the testimony of the Canada-Japan Trade Council, succinctly summarizes perhaps the main theme emerging from the Committee's whole inquiry. Different witnesses repeatedly stressed that even in economic relations, where Canada's involvement is broad and well-established, this country suffers from the diffuse and uncoordinated character of its national dealings. A national policy of fuller and more active participation in Pacific affairs is unrealistic unless Canada is prepared to assert a unified national presence and pursue consistent and coherent national policies.

35. In part this need derives from the fact that the Pacific remains to most Canadians, a kind of "Terra Incognita". When venturing out into what the Prime Minister has called, "the New West" it stands to reason that Canadian explorers—official, commercial, or academic—should share the benefits of their particular knowledge and experience. It is also a simple fact, as the witnesses have stressed, that in dealing with the two giants of the region, China and Japan, (and increasingly with other countries), political, commercial and other relationships are inseparably mingled.

36. Clearly such an environment demands re-thinking and new approaches on the part of Canadians. The trade mission was cited as an example of the kind of technique required for successful collaboration between government and industry, and it is notable that the mission to Japan in January, 1972, was the largest economic mission that Canada has ever sent anywhere in the world. As Mr. Robert Bonner pointed out, however, the trade mission "is only the first thrust of the effort". Continued collaboration is required in the "follow-up" stages. While there has been no evidence to suggest that Government facilities are generally lacking in this regard, it must be recognized that they will face rapidly-increasing demands in coming years. "Facilities", however, are less the issue than "attitudes". Patterns of cooperation between industry and government are still hampered by mutual lack of knowledge and often suspicion. A related problem is the lack of communication and cooperation among Canadian businesses themselves. Testimony indicated that these problems lead to a costly "fragmentation of effort" in Canada's economic relations with Pacific countries. Specific references and a discussion of remedial possibilities will be found in a later chapter on "Canada's Economic Interests".

37. Similar gaps appear to exist between academics concerned with the Pacific and businesses and government departments sharing that interest. Once again, there are probably deep-rooted prejudices involved on both sides, but they clearly must be overcome. There should, for example, be continuing institutional contact between the Canadian Society of Asian Studies and the business groups concerned

with Pacific trade and investment. Among the many mutual benefits might be: the development of various types of "continuing education" programmes for executives; better information regarding opportunities for, and the availability of, graduates skilled in Pacific languages and Pacific area studies; the sponsorship of scholarships, fellowships, conferences and research grants; the sponsorship and distribution of Canadian publications on Pacific affairs.

38. One further possibility for evolving a more concerted national approach to Pacific involvement was opened up in the main Policy Paper, *Foreign Policy for Canadians*. It stated that a subcommittee of the Interdepartmental Committee on External Relations "will . . . concern itself with the formulation of programmes of rotation and secondment between the foreign service, on the one hand, and government departments, the business world, the academic community, on the other." (p. 40). According to a return tabled in the House of Commons on May 3, 1971, the Government was still "considering" such programmes. This Committee believes that this kind of rotation might be extremely valuable to all concerned in exposing individuals to the perspectives and problems of other sectors. These programmes should therefore be tested in practice as quickly as possible.

C. Representation

39. A number of recommendations in the two preceding sections have related to the strengthened representation of Canada and Canadian interests in the Pacific region. This factor will obviously have an important bearing on the success of all Canadian policies of increased involvement. Canadian missions abroad can play a vital role in channelling information, expediting people-to-people contact and thereby augmenting Canadian awareness and projecting Canada's image in their host countries. The missions will also have a major share in the assertion of a more concerted national presence and better co-ordinated national policies. The plans for integration of the foreign service should assist greatly in the achievement of the second goal, especially if the plans for wider rotation of personnel are also put into effect.

40. As the Policy Paper pointed out, "The expectation of rapidly increasing commercial and other relations with Pacific countries over the next few years suggest that Canada consider extending its presence by the opening of additional offices in the area". (p. 19). It later added, "The Government will . . . consider, as soon as financial resources are available, the extension of diplomatic links by means of dual accreditation and perhaps additional resident offices in those countries offering adequate scope for increased trade, investment, development assistance and useful political and cultural contacts."

41. The Committee is aware of the financial constraints involved in these decisions, since the Government has apparently been unable to act on the recommendation it made in June, 1970, for the establishment of a separate Canadian mission in Barbados. Nevertheless, the need for strengthened representational facilities in the Pacific is pressing. Because of the breadth and

importance of Canadian interests concerned, prompt action should be taken to raise the Canadian mission in the Philippines to the status of a full embassy, and to establish a resident embassy in South Korea.

42. It must also be stressed, however, that the strengthening of official representation will in no way reduce the need for active, on-the-spot involvement by businessmen and other interested individuals from the non-official sector. The Committee's witnesses have been unanimous in their conclusion that there is no substitute for first-hand Pacific experience and face-to-face contact. Some have also been highly critical of the past performance of Canadians in this regard. The Committee will have further comments on this subject, but it is worthwhile to quote at this point from the testimony of Dr. Lorne Kavic:

The cause of this neglect by the Canadian manufacturer would seem to lie in the comfortable preference for concentrating upon traditional markets in the United States and Europe and a tendency to rely upon the Canadian Trade Service to drum up business for them in less familiar markets. The continuance of such a posture, however, is manifestly impractical in view of contemporary patterns of competitive trade. (1:10)

Japan

43. Japan accounts for 40 per cent of Canadian exports to the Pacific and about the same percentage of imports. It is thus not only the dominant force in Canadian Pacific trade, but a top trading partner in its own right—Japan is the world's third largest export market and was probably even ahead of the U.S. in 1970 as a supplier of Canadian imports.

CANADIAN FOREIGN TRADE PARTNERS

46.

Export to	1970		Imports from	1970	
	\$ million	% of total		\$ million	% of total
United States	29,240	22.7%	United States	29,240	22.7%
Japan	11,480	8.9%	Japan	11,480	8.9%
Spain	790	0.6%	Spain	790	0.6%
Germany	580	0.4%	Germany	580	0.4%
France	530	0.4%	France	530	0.4%
Netherlands	470	0.4%	Netherlands	470	0.4%
Belgium	440	0.3%	Belgium	440	0.3%
Italy	430	0.3%	Italy	430	0.3%
Sweden	370	0.3%	Sweden	370	0.3%
Denmark	360	0.3%	Denmark	360	0.3%
Switzerland	350	0.3%	Switzerland	350	0.3%
Other	142	0.1%	Other	142	0.1%

II CANADA'S ECONOMIC INTERESTS

43. As mentioned at the outset of this report, it is in the economic field that the Pacific region looms largest for Canada, and economic relationships with Pacific countries are still growing at a remarkable pace. Canadian exports to the area doubled from \$699 million in 1965 to \$1.4 billion in 1971. During the same period, Canadian imports from the area rose from \$406 million to \$1.2 billion. The 1971 total of two-way trade with Pacific countries (at \$2.6 billion) represents almost 8 per cent of Canada's total trade and one-third of Canada's overseas trade. All available projections indicate that the volume of trade will continue to grow at a comparable pace over the next few years, with a continuing balance in Canada's favour. At the same time, the flow of Canadian investment to Pacific countries has intensified and Japan has become a very important new supplier of capital for the development of Canadian resources and industry.

44. In spite of this record of growth in Canadian economic relations with the countries of the Pacific region, the Committee believes that more can and must be done to realize the full national potential in this area. There is a special urgency to this objective in view of the growing realization that Canada's economic prospects are vitally dependent on a diversified range of expanding trade relationships. From a Canadian viewpoint, the vast potential markets of the Pacific have only begun to be tapped. If Canadians can meet the new challenges and opportunities in this area, the national economy will be immeasurably strengthened.

Japan

45. Japan accounts for 60 per cent of Canadian exports to the Pacific and almost the same proportion of imports. It is thus not only the dominant factor in Canada's Pacific trade, but a top trading partner in its own right—Japan is now Canada's third largest export market and will probably soon overtake the UK for second place. As the table below shows, Japan also ranks third (after the US and UK) as a supplier of Canadian imports.

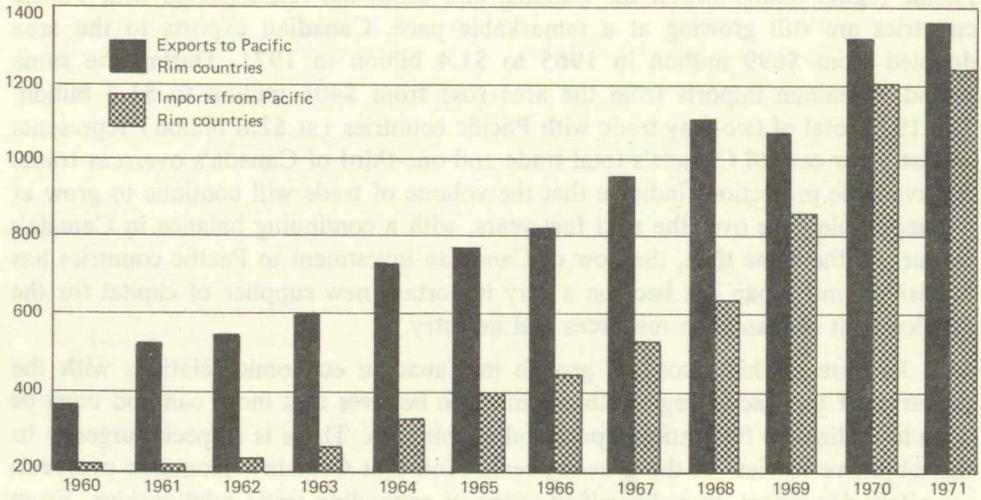
CANADA'S PRINCIPAL TRADING PARTNERS
1970 and 1971

46.

<i>Exports to</i>	<i>\$ millions</i>		<i>Imports from</i>	<i>\$ millions</i>	
	1970	1971		1970	1971
United States.....	10,641	12,149	United States.....	9,905	10,949
Britain.....	1,480	1,361	Britain.....	738	832
Japan.....	793	791	Japan.....	582	802
Germany, Federal Republic.....	384	319	Germany, Federal Republic.....	371	429
Netherlands.....	277	235	Venezuela.....	339	388
Australia.....	198	183	France.....	158	213
Belgium-Luxembourg.....	190	181	Australia.....	146	126
Italy.....	184	210	Italy.....	145	157
Norway.....	176	186	Sweden.....	106	113
France.....	154	156	Switzerland.....	81	86
China.....	142	204	Netherlands.....	79	76

GROWTH OF CANADA'S PACIFIC TRADE (1960 - 71)

(MILLIONS OF DOLLARS)

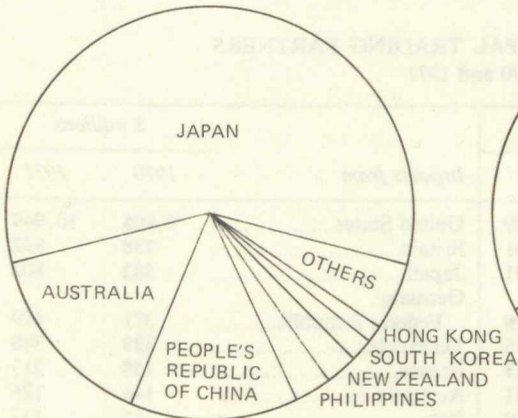


DISTRIBUTION OF CANADA'S PACIFIC TRADE (1971)

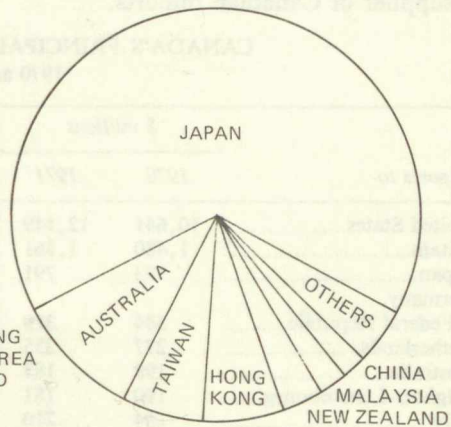
(MILLIONS OF DOLLARS)

Exports to Pacific Rim countries

Imports from Pacific Rim countries



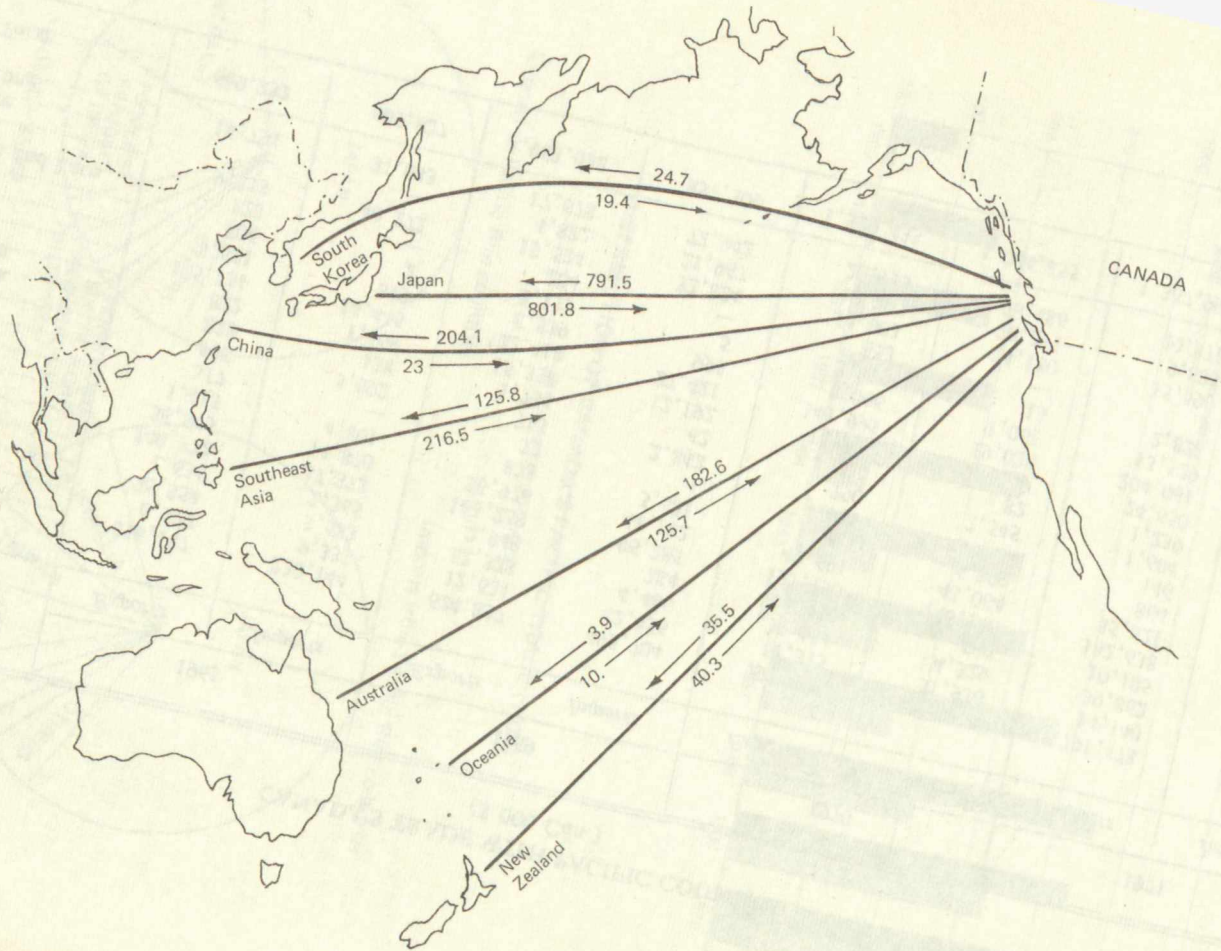
TOTAL - \$1,368



TOTAL - \$1,237

CANADA'S TRADE WITH PACIFIC COUNTRIES
(\$ 000 Cdn.)

	1965		1969		1970		1971	
	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>
Japan.....	316,187	230,144	624,837	495,704	793,079	583,715	791,478	801,842
Taiwan.....	6,577	9,333	12,631	42,456	18,315	51,936	14,140	80,717
Philippines.....	26,354	3,583	32,328	4,486	30,154	4,329	39,862	6,211
Indonesia.....	1,636	2,365	2,948	284	16,489	589	10,185	1,061
Australia.....	140,372	47,372	163,258	96,285	197,750	146,148	182,638	125,671
New Zealand.....	36,845	14,870	36,976	41,182	42,691	43,064	35,521	40,254
Fiji.....	1,115	4,801	873	5,681	905	6,899	864	8,664
Br. Oceania.....	317	—	72	1	174	—	146	3
Fr. Oceania.....	508	5,092	715	2,842	790	2,545	1,604	1,280
U.S. Oceania.....	828	138	1,734	42	1,234	82	1,239	17
South Korea.....	822	1,468	15,330	12,192	18,806	14,569	24,650	19,420
China.....	105,131	14,445	122,418	27,421	141,995	19,028	204,061	23,300
Thailand.....	5,621	899	8,539	995	8,006	1,061	13,129	3,011
Viet-Nam.....	804	2	2,135	5	3,839	13	2,828	7
Cambodia and Laos.....	128	—	204	—	653	—	9	10
Malaysia.....	9,253	40,272	15,524	32,824	14,003	34,180	15,590	26,867
Singapore.....	—	—	4,822	21,967	10,797	20,211	9,683	18,456
Hong Kong.....	16,734	31,043	17,678	72,942	20,753	78,486	20,371	80,187
Total.....	669,232	405,827	1,063,022	857,309	1,320,433	1,004,855	1,367,998	1,236,978



CANADA'S PACIFIC TRADE IN 1971
(Millions of Canadian Dollars)

47. These facts, however, fail to show the full impact of Canada-Japan trade on the Canadian economy. The great bulk of Canadian exports to Japan are in a few large commodity groups and their production is heavily concentrated in one geographic area. Thus, in 1969, 76% of Canada's exports were made up of: copper & copper products (21.8%); lumber & lumber products (20.2%); grains (13.4%) and other agricultural products (10.7%); aluminum and primary aluminum products (9.7%). In the same year, Western Canada accounted for almost 80% of Canada's total exports to Japan, comprising British Columbia, Yukon and the Northwest Territories (52.5%), Saskatchewan (13.4%), Alberta (10.8%) and Manitoba (3.0%). Thus if Japanese trade is important to the Canadian economy as a whole, it is crucial to the western provinces and territories.

48. In contrast with this export picture, in which the bulk of Canadian exports move in the crudest form (with only 3 per cent in the form of finished products), more than 96 per cent of Japanese sales to Canada are accounted for by a diversified range of processed and manufactured goods. The geographical distribution of Canadian imports from Japan is also markedly different from that of exports. Western Canada receives 26.4% of the total. Ontario and Quebec together take 67%.

49. The Committee believes that these basic factors of composition and distribution must be borne in mind in any discussion of Canada's overall trade balance with Japan. As the Minister of Industry, Trade and Commerce told the Committee, "we are very pleased about" the high volume of raw materials sales to Japan, but in view of the high job-producing manufactured content of Japanese sales to Canada, "this is a typical case of where asking for balance of trade between two countries is obviously not logical or acceptable."

50. These questions relate to some of the main policy issues at stake in Canada-Japan economic relations. Specifically, these include: the Canadian desire to up-grade the level of processing of existing exports and to sell a broader range of end-products; Japanese dissatisfaction about the total imbalance of trade and restrictions on access to the Canadian markets for some of their major exports; and varied concerns about the two-way flow of investment.

Upgrading and diversification of Canadian exports

51.

The Japanese ideal—and this is not criticism of the Japanese—is to send a steam shovel built in Japan, in a Japanese bottom, to Canada; ship it—all right—on a Canadian railroad to the mining site; put one Canadian at the controls; dig up the real estate; ship it out in Japanese bottoms to Japan—the minimum of Canadian participation, the minimum of Canadian value added. This is not, in my view, very advantageous to Canada. I agree that it is very advantageous to Japan. (p. 9:17)

52. This colourful illustration, from the testimony of Mr. T. J. Pope, a former Canadian Foreign Service Officer in Japan, depicts one of the perennial problems involved in resource industries. Issues of processing, like those of price, terms and delivery, are central to the bargaining process. Governments are concerned, because of the employment and economic "spin-offs" derived from processing. At

the same time, however, most of the international raw materials markets are uncertain and highly competitive. For this reason, the basic bargaining power of buyer and seller varies from time to time and from commodity to commodity. It is therefore neither realistic nor desirable to attempt to set up inflexible processing standards to apply to the whole range of raw-materials industries.

53. With these factors in mind, however, the Committee has concluded that, whatever the past considerations, it is no longer economically desirable (or perhaps necessary) for the great bulk (as much as 65%) of Canadian exports to be shipped to Japan, as the Policy Paper says, "in their newest transportable and least profitable form". Some of the Committee's testimony is encouraging about the prospects for improvement. Mr. Robert Bonner expressed the following view:

. . . having become a dependable, responsible, and large-scale supplier of many Japanese raw material requirements over the years we can interpose the legitimate viewpoint that we ought to be upgrading the quality of those exports to Japan in every possible way. When I had something to do with this subject as a matter of public policy, these points were touched upon with various Japanese delegations with whom I met. There was not at that time any resistance to this idea . . . so I think that there is on the Japanese side frank recognition of legitimate aspirations of this sort which might be voiced on our side. (p. 3:7)

54. These opinions were corroborated by the testimony of the Canada-Japan Trade Council. The Council's president, Mr. R. L. Houston, put it this way:

It might be a very interesting exercise were Canadian suppliers of basic raw materials . . . to suggest to their Japanese counterparts during contract negotiations that more Canadian content in shipments was desirable. There is nothing that I know of to indicate that Japanese businessmen would be adverse to a proposal that a greater degree of processing or even manufacture be undertaken in Canada before shipment. In such a proposal, of course, it would be desirable to see that it made sense commercially. (p. 11:7)

55. It has also been pointed out that Japan itself, while remaining dependent on imported raw materials for its industries, will almost certainly be shifting to a more sophisticated technological level of production over the next decade or two. This fact, combined with problems of pollution and labour shortages, make it very likely that Japanese industry will be less interested in processing raw materials at home and that Japan's "foreign investment will be made increasingly in projects which involve processing of raw materials to a progressively higher degree abroad." (p. 11:9)

56. It seems clear from this evidence that it would now be opportune for Canada to begin redressing this imbalance. The Canadian claims are reasonable and, for various reasons, the Japanese should be increasingly amenable. However, it is only reasonable to expect the primary initiatives should come from the Canadian side. There emerges the recurring problem of "fragmentation". Varied interests, including different provincial jurisdictions, are involved in the resource industries concerned. Japanese negotiators, who are able to represent concerted national policies, find no equivalent counterpart in Canada. With open competition among supplying industries and jurisdictions, it is of course difficult to set up and enforce consistent regulations or legislation. The Committee considers this an urgent priority for

action by industries concerned and by governments at all levels. The federal role will be particularly important in pressing for uniform legislation and in negotiating general improvements with the Japanese Government.

57. A concerted Canadian approach would allow this country to take full advantage of its very considerable bargaining assets: a highly stable economic and political climate to guarantee that the Japanese requirements for assured supplies will be met; abundant resources and reserves in certain commodities; and a proven record in relations with Japanese enterprises.

58. With respect to diversification of Canadian exports, the Committee has heard conflicting testimony about the gravity of Canada's problem, and its causes. With less than 3 per cent of Canadian exports to Japan in the form of end-products, the Committee believes that there is unquestionably a serious problem. There is not, however, any one simple explanation. It is to be expected, of course, given the structure of the Japanese economy, that a very large proportion of that country's total imports would be in the form of raw or semi-processed materials. However, among the industrialized countries, Japan imports the lowest proportion of its total imports in manufactured goods (15 per cent). This figure lends credence to the view, expressed by the Honourable Jean-Luc Pepin, that "in Japan, tariff and non-tariff barriers have tended to work excessively to control imports of manufactured products and to limit to a marked degree import competition."* It was stressed by other witnesses that Japan has made considerable progress in liberalizing its tariff restrictions, but the Committee believes that the Canadian Government is justified in pressing for acceleration of this process and for the elimination of Japan's "non-tariff barriers" which include import-licensing policies and quantitative import restrictions.

59. These Japanese controls, however, do not explain the fact that Canada lags so far behind the average in the proportion of its exports to Japan in manufactured form. The Canada-Japan Trade Council asserted that "markets in Japan for Canadian manufactured goods exist. More imaginative, dynamic and persistent Canadian salesmanship could probably have changed our trade 'mix' before now." (11:22). There have been several suggestions that this is attributable to a lack of "imagination and aggressiveness" on the part of Canadian businessmen, and the Committee has concluded that this criticism is basically valid. As mentioned in Chapter I, it relates to a general lack of familiarity with the Pacific area and its potential. Perhaps a more deep-rooted, and alarming cause however, was identified by Professor K. A. J. Hay:

... at the end of the 1960's the market for manufactured exports to Japan . . . was equal to \$15 billion . . . If one looks at the structure of that market one finds that it is dominated by three suppliers who have been supplying the market for 15 years, the United States, West Germany and the United Kingdom.

... The reason why the Japanese concentrated on these three suppliers is again very simple to understand: those three countries lead the world in investment in research and development and they are, in order, those countries which produce the largest number of patents, new ideas and new technology each year.

* Speech to the Annual Meeting of the Pacific Basin Economic Cooperation Council, Vancouver, May 14, 1971 (p. 8)

... Unless we concentrate a little more on developing highly sophisticated specialized manufactured goods it will be difficult for us to get back a substantial portion of the Japanese market for manufactures . . . (11:13, 14).

60. This problem, of course, relates to one of the main national concerns about Canada's general economic situation, and one which has been extensively studied by another Senate Committee. Canada's position in the highly competitive Japanese market appears to be yet another indication of the central importance of scientific and technological innovation to this country's vital trade interests.

61. An encouraging demonstration of the Canadian Government's determination, in co-operation with the business community, to attack these problems and promote the growth of mutually-beneficial economic relations with Japan, was the despatch of the Canadian Economic Mission to Japan in January, 1972. This mission, headed by the Minister of Industry, Trade and Commerce, was the largest Canadian mission of its kind ever sent anywhere in the world. It led to a full discussion of outstanding bilateral issues, and the initiation of important new contacts between Canadian and Japanese businessmen. The participants in this mission also indicated their firm intention to carry out all the necessary "follow-up", in order to achieve the most effective and lasting results.

Areas of Concern for Japan

62. Two kinds of Japanese concern have been referred to: dissatisfaction about the general balance of trade in Canada's favour; and complaints about access for specific products in the Canadian market.

63. The general concern has been dealt with in previous sections. There is no reason to believe that the total volume of bilateral trade should be in perfect balance, especially when 96 per cent of Japanese exports to Canada are end products, while only 3 per cent of Japanese imports from Canada are in this category. In 1971, in fact, the overall trade balance was suddenly and dramatically reversed. Japanese sales to Canada increased approximately 38% while Canadian exports to Japan actually declined slightly. It is not yet clear whether these developments represent the beginning of new trends, or are results of temporary circumstances. As Mr. Pepin told the Japanese Press Club on 24 January, 1972, "We hope that our exports decline is temporary, you hope that your exports leap is permanent". Whatever its duration, however, the Committee hopes that this changed balance of Canada-Japan trade will shift the focus of discussion from the overall dollar-volume of trade to the more pressing and relevant questions about the "quality" of that trade.

64. Specific Japanese complaints about bilateral trade with Canada relate especially to "anti-dumping" actions and procedures relating to the voluntary restraints system by which the Japanese agree to limit exports of certain goods in order to avoid disruption of the Canadian market. The range of Japanese exports to which restraints apply, however, has narrowed progressively, leaving only textiles as the real point of contention. The textile issue is, of course, part of a

broader global issue and is extremely important domestically in Canada. Mr. Pepin has been quite categorical in his assertions on this subject.

For this commodity, Canada is probably the most open of all industrial countries, as shown, for example, by the degree of penetration of the domestic market already reached by imports. Per capita, Canada buys ten times more textiles from Japan than does the EEC, or the U.K., almost double the per capita imports of the USA and triple that of Sweden. In value Canada imports roughly as much from Japan as does the entire European economic community—a market approaching 200 million people. (P.B.E.C.C. speech, p. 9)

65. These statistics are certainly impressive, and in this light, the Committee finds the present Canadian policy on textile imports to be reasonable. The criteria for protection, which include the obligation for producers to present rationalization plans to the textile board, are designed to guarantee that only viable and internationally-competitive producers will remain in operation.

66. In any discussion of this topic, it must also be recognized that for Japan, textiles represent a relatively small and declining proportion of total exports to Canada (10.48% in 1969). The main part of Japanese exports is now made up of diversified consumer durable goods (42.53% in 1969) and producers' goods (34.64%). In relative terms, textile and clothing exports are vastly more important to several of Canada's other Pacific trading partners. Some of these are in the category of "developing countries" with a less diversified industrial base and may merit special consideration on that basis. It must also be added that the Committee has seen no evidence to indicate that anti-dumping actions have been abused to hamper Japanese exports to Canada.

Two-way investment flows

67. Since both Japan and Canada have rapidly-expanding economies, with heavy domestic capital requirements, there has not been extensive investment by either country in the economy of the other. Another contributory factor has been the close control, by the Japanese Government, of both foreign investment in Japan and Japanese investment abroad. This is now changing, however, and a steadily-increasing volume of investment is flowing in both directions.

68. The book value of Japanese investment in Canada (at the end of 1969) has been estimated at \$110 million, concentrated primarily in the extractive resource industries. The bulk of this investment is in the form of debt rather than direct equity financing. While there seems to be a trend in the direction of more equity financing, Japanese investors seem to be flexible, depending on the needs of individual projects. Their primary concern is to secure a stable supply of resource materials. They have not sought majority control of Canadian industries and are aware of the advantages of joint ventures. Under these conditions, the Committee considers that Japanese investment can be particularly beneficial to the Canadian economy, with the further advantage of diversifying this country's sources of foreign capital.

69. Canadian investment in Japan remains small and narrowly distributed among a few large firms. The Japanese Government is now liberalizing its strict

controls, and there will be increasing scope for certain types of investment from Canada—although this is unlikely to reach large proportions. It is clear that joint venture arrangements in Japan will be almost essential for most types of Canadian investors.

Scientific and Technological Co-operation

70. Of all the Pacific countries, Japan, in particular, offers exciting scope for new co-operation in the scientific and technological fields. The March, 1972, Canadian Scientific and Technological Mission to Japan, headed by the Minister of State for Science and Technology, represents the beginning of an important new stage in this process of co-operation. The Committee believes that Canadians can now look forward to expanding and highly beneficial contacts in the future.

China

71. Intense interest has been generated in Canadian trade with China by the exchange of diplomatic recognition in October 1970, the opening of embassies and the successful visit of the trade mission headed by the Honourable Jean-Luc Pepin (in June & July 1971) and of visits by other Canadian leaders and business groups.

72. There are two striking characteristics of Canada-China trade: the heavy balance in Canada's favour (the value of exports was more than seven times that of imports in 1970), and the importance of grain sales as a proportion of Canadian exports, (well over 80% for the past decade).

73. Reporting on his discussions in Peking, Mr. Pepin noted that the Chinese did not insist on "balancing trade between China and Canada, which was a very important point for me." While it would not be reasonable to expect that perfect balance could be achieved, the extent of the present imbalance is understandably a matter of concern to China. The dollar-imbalance is not offset, as in the case of Japan, by a high volume of manufactured exports to Canada. China's foreign exchange is limited. To sustain imports at their present levels they will seek new opportunities to earn exchange with exports to Canada.

74. Chinese exports to Canada include a very wide range of products. The total volume has been growing significantly and an appreciable proportion of Canada's imports from Hong Kong—\$78 million in 1970—probably consists of re-exports from China. Restraint arrangements have been required on certain types of textiles and footwear, but here again the Chinese appear to have adopted an understanding approach to the problem of disruption of Canadian industry by low-cost imports. It is likely that there will continue to be increasing scope for Chinese exports to Canada, particularly as contacts widen through two-way travel and trade exhibitions.

75. It has been mentioned several times in testimony that the main obstacle to increased exports from China to Canada in the past seems to have been the limited Chinese supplies of the goods of interest to Canadian importers. The general opinion, based on recent trade fairs, seems to be that these shortages are now being rectified. Thus increases may be expected in a wide range of light

manufactures and textiles, as well as new commodities, including certain metals. The Chinese authorities look forward to increases in their exports to Canada and do not anticipate any serious problems in this mutually-beneficial trade relationship.

76. Since the first major wheat sales in 1961, China has each year provided a substantial outlet for Canadian grains, and therefore a continuing stimulus for the economy of the prairie region. While uncertainty has been a characteristic of most export markets for Canadian grains, China has been a reliable buyer, and now shows every indication of remaining one. Chinese planners have apparently determined that it will be beneficial to continue importing some proportion of the country's cereal needs. Canada has fared well in vigorous competition for this market and is now regarded as the priority grain supplier. In recent years it appears that political considerations have been a factor, with Canada's early initiative for recognition conferring a distinct advantage. As the normalization of China's relations with other Western countries progresses, Canada can expect increasing competition for the Chinese market in most products. Assuming that the present basis of good relations is maintained, however, the Committee believes that the Chinese will continue to be favourably disposed toward Canadian exports in general and will stand by their assurance that first consideration will be given to Canadian grains.

77. The Canadian Government was right in not expecting that diplomatic recognition would lead to a sudden upsurge in exports but there are signs that new types of opportunities are opening up. Forest products and minerals are now being bought, and the Chinese have agreed to consider Canadian machine products and transportation and communication equipment. They will also consider imports of Canadian technology—heavy machinery or perhaps complete plants—and have accepted the possibility of Canadian experts travelling to China to work temporarily in the installation and development phases. In general, the Committee has concluded that there is expanding scope for valuable economic relationships, both immediate and long-term, between Canada and China.

Australia and New Zealand

78. Canadians too often underestimate the importance of their economic relations with Australia and New Zealand. In 1970, Australia was Canada's sixth largest customer. Canadian exports were valued at \$197.7 million. Australia ranked well ahead of such countries as France, China and U.S.S.R. It is significant that 40 per cent of those exports were fully manufactured end products, providing extensive employment and other benefits to the Canadian economy. On a per capita basis, New Zealand has long been one of Canada's best customers. Imports from Canada (amounting to \$42.7 million) are largely manufactured and semi-manufactured goods.

79. Both of these countries, and particularly New Zealand, are confronted by an uncertain economic outlook because of British entry into the E.E.C. It will be important, for all concerned, to maintain the present preferential arrangements

between Canada and these countries as the Commonwealth (or British Preferential) system comes to an end. This seems to be fully recognized on all sides, and has been a frequent topic of discussion among representatives of the three countries in the recent past. Arrangements made in 1970 with both Australia and New Zealand should provide improved opportunities for close and regular consultation on economic matters at decision-making levels.

80. Apart from mutual trade, this consultation can be very beneficial on a number of broader economic issues in the Pacific region. The three countries share a common background and natural links of many kinds. As middle-ranking members of the Pacific community, however, the similarities of approach are reinforced by tangible common interests, particularly in the case of Canada and Australia. The two economies are competitive in many fields. This competition, no matter how vigorous, has not prevented cooperation, as in efforts to stabilize world trade in agricultural products. This experience (and the precedents of co-operation among producer-countries of other commodities) can and should be extended. Canada and Australia share an interest in a number of industrial raw materials flowing to a number of shared markets. It could be valuable for the two governments to maintain close consultation on matters of common concern (such as processing requirements) involved in this trade.

81. Canadian investment in Australia has been estimated at approximately \$400 million, distributed among a number of resource development and manufacturing industries. The Committee's evidence suggests that this will continue to grow. With respect to foreign investment in general, Canada and Australia once again have similar problems, and the sharing of experience may prove increasingly useful.

Other countries

82. Most of the remaining countries of the Pacific region are developing countries, at various levels of economic progress. Among them are a number which are already important to Canada in the fields of trade and investment, and several others which are certain to become so in the future. To the extent that these economic relationships bear on the general effort to advance development in the Pacific region they will be discussed in the succeeding chapter. However, it is to be noted that Canada tends to have a favourable balance of trade with the least developed of these countries. This reflects some natural economic forces, and, in some cases, the flow of aid-financed goods from Canada. It also illustrates the extent of the tasks which lie ahead if these countries are to be helped to help themselves by expanding their exports. In this process, of course, they will also offer expanding markets for Canadian exports of all kinds.

83. The more industrialized countries and territories of this group, such as Hong Kong, Singapore, Taiwan and South Korea, maintain healthy levels of exports to Canada. They have implemented voluntary restraint arrangements for certain commodities, so as not to unduly disrupt Canadian industry. The Committee's comments above on protection against certain Japanese imports generally

apply to these countries as well. Such protective arrangements appear to be justifiable in certain circumstances as a temporary measure to allow for the rationalization of specific industries with high regional employment impact.

84. In applying these limitations to less-developed countries, however, it must be recognized that they tend to be much less diversified industrially and are therefore more dependent on the exports in question. The Committee therefore recommends that wherever latitude exists a generous approach be adopted in limiting imports from these countries. (Note: See tables on pages 26 & 27).

85. Canadian-based investment is to be found throughout the region in different concentrations. Substantial new amounts may be invested, particularly in Indonesia and New Caledonia. It seems likely that investment, particularly under joint venture or management contract arrangements, will be a key factor in Canada's future economic relations with most of the developing countries of the area. The location and kind of Canadian investment will have a strong determining effect on the two-way flow of trade.

86. A formula which has been highly successful in the past, and which may prove increasingly essential in future, is the "package" approach to developing new industries. Under these arrangements, (which have worked well in forest products and minerals development) Canadian expertise is utilized in exploratory work, followed by management and engineering, machinery and capital. With this "package" are likely to come both sales outlets for the production of the new industry, and expanding opportunities for sales of Canadian goods and services. In a number of these countries fields are developing (particularly the two cited) in which Canadian corporations and individuals can offer substantial experience and expertise.

87. The Policy Paper outlines a number of measures being taken to facilitate investment by Canadian corporations. The negotiation of double taxation agreements with Pacific countries is a preliminary step. The Committee believes that the new investment insurance facility of the Export Development Corporation (EDC) will be extensively utilized by Canadian investors in developing countries in the Pacific. The Government also states that "it will continue to make available to Canadian firms information about national development plans and their prospects, and ensure that they are informed about the export financing assistance available." (p. 18).

88. All these measures will be of considerable value in encouraging Canadian investors to assume a larger role. In particular, the dissemination of information is a vital function the importance of which is too often under-estimated.

89. Further discussion of investment in these countries will be found in the succeeding chapter.

VOLUNTARY EXPORT RESTRAINT AGREEMENTS BETWEEN CANADA AND EXPORTING COUNTRIES IN THE PACIFIC REGION*
(December 1971)**

Country	Year First Agreement Negotiated by Canada (1)	Month Latest Agreement Concluded (2)	Period Covered by Latest Agreement (3)	Number of Separate Limits (4)	Cotton Textiles (more than 50 per cent Cotton Content) (5)	Other Textiles (6)	Non-Textile Products (7)	Implementing Provisions (8)
China, People's Republic of	1963		Aug. 1970–July 1971	11	cotton yarn, fabric pillow cases, sheets, shirts, blouses, slacks and shorts	fabrics, towels, knitted wear, shirts, blouses, slacks and shorts	men's and boys' gloves, wholly or partly leather	
Hong Kong	1961	Aug. 1971	Oct. 1971–Sept. 1972	8	fabric, towels, shirts, blouses, nightwear, slacks and shorts, cotton yarn	shirts, blouses, slacks and shorts, sweaters (woolen and man-made)	—	Hong Kong authorizes exports and supplies monthly statistics of licensed shipments
Japan	1960	Oct. 1971	Jan. 1971–Dec. 1971	9	fabric, pillow cases, sheets, blouses, shirts, slacks and shorts	nylon fabric, blouses, shirts, elastic braid, slacks and shorts, pillow cases, sheets, polyester cotton and filament	electronic receiving tubes for radio and television; only tube types produced in Canada	"The Japanese Gov't will use its best endeavour to urge Japanese producers and exporters to so plan their shipments that there will be no undue concentration on any item within the quota categories"
Korea, Republic of	1967	July 1971	Jan. 1971–Dec. 1971	9	broad woven fabric, cotton yarn, pillow cases, sheets, shirts, blouses, slacks and shorts, sleepwear	nylon fabric, worsted fabric, woven shirts, blouses, knitted shirts, slacks and shorts, pillow cases, sheets, sleepwear, polyester fabric		The Korean Gov't has agreed to certify shipments of restrained goods.
Macao		Dec. 1970	Jan. 1971–Dec. 1971	5	garments of any fibre content: woven shirts, pyjamas, knitted sweaters, knitted shirts, slacks and shorts			Shipments under quota require export licence

Malaysia	1968	Dec. 1969	Sept. 1969 Aug. 1971	2	shirts, trousers	shirts, trousers		Exchange of statistical data envisaged
Singapore	1968	Dec. 1970	Jan. 1971- Dec. 1971	3	cotton towels, shirts, slacks and shorts	woven shirts, slacks and shorts		Exchange of statistical data envisaged
Taiwan	1963	Nov. 1969 (Dec. 1970)	Oct. 1969- Oct. 1971	6	cotton fabrics, woven shirts, sleepwear, slacks and shorts, (sheets and pillow cases)	woven shirts, slacks and shorts, (sheets and pillow cases)		

*SOURCE: Based mainly on material assembled by Prof. Klaus Stegeman to be published in a 1972 study for the Private Planning Association of Canada.

**Agreements that had expired in December 1971 are being negotiated. The information given in columns 2 to 8 refers to the latest agreements as of December 1971.

B. New Issues

The Canadian Approach

90. The first chapter of this report stressed the need for improved general co-ordination between different sectors if Canada is to adopt a more active and constructive role in the Pacific community. In the economic sphere, which is so central to the present overall relationship, better cooperation (both between and within the government and business sectors) is a particularly urgent necessity.

91. Improved communication is an important condition, and was recognized as such in the Policy Paper. It stated that "the Government welcomes the active co-operation of private interests involved in the Pacific", and pointed out that "the existing Pacific Basin Economic Cooperation Council provides a means for the expression of views to governments individually and jointly" (p. 19). However, the existing channels were not considered adequate, and the Government went further to state that it:

is prepared to consider, with other interested parties, the establishment of a Pacific Economic Advisory Council which would bring private interests and the investment community together with government, in order to take best advantage of trading opportunities and investment possibilities in the Pacific area. (p. 19)

92. The Committee regrets that apparently no further action has been taken on this suggestion. In dealing with the Pacific in particular it is essential to maintain this kind of close and continuing dialogue. This requires a firm organizational structure. The Committee feels that the Canadian Committee of the Pacific Basin Economic Council *(P.B.E.C.)—with its established international connections and its joint sponsorship by the Canadian Manufacturers' Association and the Canadian Chamber of Commerce—should be able to provide appropriate representation from Canadian business for a continuing dialogue with governments. P.B.E.C. has a specialized committee structure and, according to the testimony of Mr. K. H. J. Clarke, the then Chairman of the Canadian Committee, has established a solid basis for exchanges with governments (see pages 4:53, 54). If it can be assured that P.B.E.C.'s Canadian membership is sufficiently representative of Canadian economic interests, the Committee recommends that a joint initiative be undertaken by the Canadian Committee of that group and the Government to establish arrangements for continuing consultation on a firm and regular basis, rather than attempting to set up a new advisory council.

93. Improved communications and continuing consultation are, however, only preliminaries to the kind of concerted economic policy required by Canada in the Pacific. Throughout the Committee's discussion of economic relations with Japan, it was clearly implied that Canada has been at a continuing disadvantage in dealing with that closely integrated and dynamic national entity. Related problems emerge in trading with the monopoly state trading corporations of China. Elsewhere in the Pacific, it has been pointed out, the greatest economic benefits will probably be reserved for countries which can assemble and implement composite "investment-aid-trade packages". Canada now uniformly lacks almost all the necessary characteristics, "Fragmentation of effort" is the rule.

* The name of the organization was changed in May, 1971.

94. The extent of adjustment required should not be under-estimated. Mr. G. H. D. Hobbs, of Cominco Ltd. was asked if he was not suggesting "restructuring the whole Canadian economy along the lines of some of these other countries" (and notably Japan). He replied that:

. . . in any economic situation you are dealing with dynamic factors that require change. Certainly the Pacific requires closer collaboration between industry and government, and the development of institutions to ensure that our best interests in aggregate are further to our maximum effort. This is a very sophisticated group of competitors that we are dealing with and it is quite unlike those in other areas of the world. (p. 6:17)

95. A necessary adjustment is the development and enforcement of uniform national requirements for the processing of resource exports. Resolution of the federal-provincial jurisdictional problems involved will be a less formidable matter when weighed against the heavy costs to the national economy of the continuance of the present unsatisfactory situation.

96. Another basic consideration in any attempt to extend and expand Canadian economic relations in an area is the availability of incentives and other stimulants from government to Canadian industry. These encouragements range from a tax climate which is generally favourable to exporting and to investment abroad by Canadian corporations, to a number of specific programmes of financial incentives including export credits insurance, export financing and foreign investment insurance. It is essential that Canadian businesses receive Government support which is fully comparable with that provided by other countries. A number of witnesses implied that this is not now the case. The Committee therefore recommends that urgent study be given by the Government to the incentives available to Canadian businesses involved in the Pacific region, with a view to ensuring a continuing level of "comparability" (especially in export incentive programmes) with the support available in competitor countries. The Pacific region is a highly competitive economic environment. It is therefore vital to remove unnecessary obstacles to a more dynamic Canadian performance.

97. Another far-reaching suggestion, which has been supported by a number of witnesses, is for the creation of some kind of Canadian counterparts for the most successful Japanese trading corporations. These corporations, with their special responsibilities and expertise in trading and overseas representations, are all either affiliated or integrated with a wide range of financial, producing and transportation companies. They are thus able to maintain continuing global representation and carry export transactions through from prospect to actual delivery. In carrying out these functions, they acquire an enormous fund of economic intelligence and familiarity with conditions in the countries in which they operate.

98. The contrast with the situation of Canadian companies is startling. In dealing with Japanese firms, for example, most smaller Canadian companies (and some of the larger ones) lack even their own translation services and are sometimes in the position of having to rely solely on the interpreter of the other party. Economic intelligence is sometimes comparably deficient.

99. The formation of large Canadian trading companies to remedy these shortcomings will not be a simple task. Some witnesses have argued that Japanese corporate forms are essentially indigenous to that country and cannot be transplanted. However, comparable trading corporations operate elsewhere in the world.

100. Detailed study will also be needed to determine the exact form of organizations appropriate to the Canadian situation. In some Canadian industries, export agreements among producers may be sufficient to achieve the desired result. In other cases, a trading corporation structure may also be needed to provide market intelligence, negotiating facilities and expertise, and coordination of production, distribution and sales.

101. While all of the Committee's witnesses questioned on this subject favoured the new structures being in the private sector, they could not point to any immediate prospect of action. Such trading corporations will require effective cooperation from governments in Canada. The Committee recommends that the federal Government be prepared to take the first steps in organizing them. Naturally, the full support of the private sector must also be secured. The Committee therefore recommends that the formation of new trading structures of this kind be the first priority for discussion with the Pacific economic advisory committee when that group is formally constituted. In the meantime, the Government should conduct full studies of the types of structures in use elsewhere and the organizational alternatives available to Canada. Preliminary discussions should also be held with the Canadian Committee of the Pacific Basin Economic Council and other interested groups.

102. Co-operation between government and business in the sponsorship of trade missions and exhibitions is imperative. As promised in the Policy Paper, this kind of promotional activity is being stepped up. Increasing numbers of businessmen are moving in both directions and expenditures on trade missions and trade fairs are being increased. The policy of selectivity in promotion should maximize their effectiveness.

103. It is also relevant to ask why there is such an institution as the Canada-Japan Trade Council based in Ottawa and no comparable body operating in Tokyo. The inescapable answer seems to be that the Japanese business community has been energetic in its initiative interest and support, while no comparable drive has been forthcoming from their Canadian counterparts (see p. 11:12). The Committee finds that the Canadian need for this kind of vehicle of communication is much greater than the Japanese need. Canadian business groups should be actively studying the experience of this institution and acting on it as appropriate.

104. Mutual relationships among the Pacific nations have been developing at an impressive pace. The increasing economic importance of Japan to Canada has been documented in previous sections—Japan has also become Australia's most important trading partner. Japan-U.S. economic relations, while difficult at times,

have reached a scale of critical importance for both countries. In view of these growing ties (and the natural complementarity of the economies mentioned), it is not surprising that some observers have been much attracted by the idea of closer (and formalized) regional economic associations. One such suggestion of a Pacific trading bloc was originated by Mr. Miki, the former Foreign Minister of Japan. Though the specifics of the "Miki concept" were never fully defined, the basic notion was enthusiastically received in some quarters.

105. A number of the Committee's witnesses commented favorably on the possibility of closer regional economic associations, and the president of the Canada-Japan Trade Council went so far as to advocate that Canada take the initiative. He stated:

I feel that Canada could take a lead in exploring the setting up of an economic association between the United States of America, Japan and Canada, and perhaps later on Australia and New Zealand, and perhaps still other countries such as the Philippines. We might then have a group of countries linked economically in a somewhat similar manner to the European Economic Community. Of course there would be many difficulties to be overcome, but I do not feel they would be insoluble. (11:10)

106. The parallel with the European Economic Community (EEC) indicates the ambitiousness of some of the hopes for regional economic integration. There is a wide range of more limited and gradual possibilities. In the light of developments subsequent to Mr. Houston's testimony (in March 1971), however, the prospects for any kind of closer regional integration appear slight at present.

107. From a Canadian point of view, there are also some very fundamental questions involved in any consideration of membership in a regional economic bloc. While the Pacific region unquestionably offers Canada expanding markets, it does not necessarily present the most attractive growth prospects for Canadian exports of fully-processed and manufactured goods. A regional arrangement in the Pacific, therefore, might benefit Canada much less than its partners and, conceivably, diminish more attractive Canadian opportunities elsewhere. The prospect of closer regional economic ties would, therefore, require intensive examination by Canada in the light of long term economic strategy. It is clear from the present state of economic relations between Japan and the United States that a regional trade bloc is probably a distant prospect and that Canadian initiatives in this regard would almost certainly prove ineffective at this time.

108. One field of cooperation, which is almost invariably mentioned in the context of regional economic arrangements among the developed countries of the Pacific, is assistance to the region's less-developed countries. Combined or better-coordinated aid efforts are generally to be welcomed, and the Pacific region may offer special opportunities for this kind of joint endeavour. Here, Canadian programmes may be effectively meshed with those of Australia, the Netherlands, Japan and other medium-sized donor-countries particularly involved. There are a number of possible mechanisms for achieving coordination on a regional scale—the Asian Development Bank (ADB) is one, and the Economic Commission for Asia and the Far East (ECAFE) another. The Committee recommends that Canada should work

actively within these institutions to help mobilize the kind of massive aid effort required. The existing machinery for "aid consortia" and "consultative groups" should provide valuable experience in aid cooperation and help build a basis for joint undertakings on a regional scale. On a parallel basis, non-governmental regional groupings, such as the Pacific Basin Economic Council (PBEC) should work to strengthen the contribution of the private sector to regional development.

III CANADA'S INTEREST IN DEVELOPMENT COOPERATION

A. The Rationale

109. It is clear from the Government's Policy Paper, and from subsequent statements and announcements, that international development aid will be one of the main elements in Canada's future involvement in the Pacific region. The Committee firmly supports this policy.

110. Development assistance is a responsibility of richer countries toward their poorer neighbours and is a contribution to international social justice and the improvement of the global quality of life. It seems especially appropriate that Canada should very actively discharge this responsibility in the Pacific community, to balance the attractive commercial opportunities and economic benefits which it finds in the region. It seems clear that this contribution is expected of Canada and will be a prerequisite for full Canadian participation in the regional community. Ultimately, only widespread economic and social development can eliminate the conditions which produce chronic instability in the Pacific and make it a prime focus of international tension and conflict. It is in the field of development aid that Canada can best utilize its existing national institutions and capabilities to make a constructive contribution to the long-term peace and stability of the region. Supporting the moral imperatives involved is the impressive economic potential of the developing countries of the region, some of which are already at or near the take-off point of economic viability. A number of these countries already provide important markets for Canadian exports, and if present trends are maintained, continued rapid growth can be expected. Canada's own interests are thus directly served by the general progress of the regional economies, and in particular by their familiarization, through aid programmes, with Canadian and Canadian goods and services.

111. In the face of these very strong arguments for an expanded Canadian programme of development cooperation in the Pacific, it is also recognized that there are a number of significant constraints. The main limitation is the availability of Canadian aid resources in relation to the size of regional needs. It was reported to the Committee by CIDA that Canada's bilateral aid commitments and disbursements to Pacific Rim countries represent just under 6 per cent of the value of Canada's world-wide bilateral programme. This very small proportion, in spite of rapid increases in recent years, reflects the extent of continuing Canadian aid commitments elsewhere in the world. It is clear that all of the existing areas of emphasis—India and Pakistan, the Commonwealth Caribbean, and Francophone and Commonwealth Africa—will continue to require intensive Canadian assistance. Even with continuing increases in Canada's overall aid programme, it will be extremely difficult to quickly raise allocations to the Pacific to a much higher proportional level. Another constraint is imposed by

Canada's relative lack of knowledge and experience of most of the developing nations of the Pacific. With a few exceptions, such as Malaysia, Canada has not had aid programmes of substantial size or duration in Pacific countries, nor extensive involvements in other fields.

112. In view of these problems, the Committee believes it probable that Canada's programme of development cooperation in the Pacific will grow gradually, perhaps more gradually than is implied by the Government's Policy Paper. It would be regrettable if the foreign policy review, with its emphasis on "new directions" and greater involvement in the Pacific region were to have led to unrealistic expectations among potential recipient nations as to the amount of aid which Canada may provide. An illustration of this problem is the fact that in the Policy Paper it was stated that Indonesia would become a "country of concentration" for Canadian aid. As a start in this direction, the allocation for that country was doubled to \$5.75 million in 1970. This figure, however, represented only slightly more than one per cent of the total aid received by Indonesia, a country of approximately 120 million people. Even with a continued rapid growth at this rate, it will clearly be some time before the Canadian programme assumes major importance from the Indonesian point of view.

113. In view of the limits on its present capabilities, the Committee considers it vital that Canada's approach to development cooperation in the Pacific be constructive and unostentatious in its tone. To make the most of the limited amounts of Canadian aid available, selectivity will be essential, both as to countries and fields of operation. In those countries where it will not be practicable to mount full bilateral programmes, Canada can still participate to great advantage through multilateral and regional channels.

B. Regional Channels

114. Canada is already contributing to the Pacific area programmes of the World Bank Group and the Asian Development Bank. On a sub-regional scale, Canadian support of the Mekong Committee has already proved worthwhile and shows continuing potential for the future. Similarly, Canadian assistance to the Asian Institute of Technology in Bangkok, and the University of the South Pacific in Fiji provide widespread development benefits in Southeast Asia and Oceania respectively. A particularly effective element of this assistance is the provision of scholarships for students from neighboring countries to study at these regional institutions. In most cases, this is a more efficient use of funds than bringing students to Canada, and has the further advantage of providing more relevant training conditions and helping to build up the capabilities of the local institutions.

115. Canada has encountered difficulties in pursuing its intention (expressed in the Policy Paper) "to establish closer relations" with the regional United Nations Commission, the Economic Commission for Asia and the Far East (ECAFE). The Secretary of State for External Affairs has said that the Canadian Government is postponing its application for non-regional membership "until after some ques-

tions of a constitutional and organizational nature within ECAFE have been resolved by the membership." It is to be hoped that this delay will not be prolonged and that Canada will soon be able to play a full role in this regional group.

C. Country Programmes

116. The Committee is encouraged by the apparent direction of the programme in Indonesia (stressing projects in the forestry and transportation sectors) and the continuing excellence of the diversified programme in Malaysia. Elsewhere, as in Thailand, Burma, Cambodia and Laos the emphasis on technical assistance and forestry and resource development seem to be a good blend of local needs and Canadian capabilities.

117. In the cases of Hong Kong and Singapore, the Committee notes the expressed view of CIDA that, in the light of their attainment of impressive and self-sustaining growth, it now "appears appropriate to de-emphasize Canadian assistance" to these countries. It remains true, however, that if these countries are to maintain their growth and extend its benefits throughout their societies, they will require continuing assistance from developed countries and fair access to overseas markets for their export products.

118. In the cases of South Korea and the Philippines, the Committee is concerned with the rationale presented by CIDA for the "modest" level of past Canadian assistance. The CIDA brief stated, "These countries have traditionally received substantial economic assistance from the United States and Japan, and for this reason have not been emphasized in the Canadian program." While the Committee would not be inclined to recommend concentrated Canadian assistance to these countries, it does not believe that such a retiring attitude is justified. No one, and least of all the countries concerned, would contend that it is healthy for them to be so largely dependent on any one "donor", and they are actively seeking to diversify their sources of development assistance. Furthermore, both of these countries are at a critical juncture in their economic development and both are important to Canada in their own right. Canada has substantial trade (and favourable trade balances) with both countries. The Philippines is Canada's largest market in Southeast Asia and the future potential appears bright. Both countries also provide significant numbers of immigrants to Canada. On these grounds, the Committee recommends that CIDA adopt a more positive approach to their development needs, and remain open to requests from these countries for Canadian participation in promising development projects.

119. In South Vietnam, and in Indochina generally, the Government anticipates that Canada may well have a significant role in rehabilitation aid after the cessation of hostilities. The Committee supports the emphasis placed on this future possibility in the Policy Paper. The needs for rehabilitation and reconstruction aid will of course be immense, and Canada, because of its non-involvement in the hostilities and its francophone capability can play a particularly helpful role.

120. A further element in the Government's plans for development aid in the Pacific is the projected expansion of assistance to island territories of the South Pacific. Beginning with assistance to the University of the South Pacific, (in the form of scholarships, instructors, and some equipment), the programme has been extended to include the occasional provision of experts to the South Pacific Commission, and "a modest number" of teachers to Western Samoa. The CIDA brief to the Committee stated that further Canadian assistance is under consideration. The Committee has heard suggestions for a much-expanded Canadian effort in this area. Its advocates have pointed out that a relatively small infusion of resources could have quite a decisive impact in this region of less than four million people, and that Canada's bilingual capabilities could be used to good effect. The Committee believes that these are very strong arguments for a more energetic Canadian role. On the other hand, there are also grounds for some caution in approaching this situation. Because of its very "manageability" in terms of size, there is a temptation for Canadians to think along the lines of "adopting" the region in order to accelerate its development. This kind of sentiment may be seen in suggestions that Canada provide subsidized shipping services to and between the islands and provide special markets for a proportion of their exports. Such a scheme, if realized, would be likely to draw these countries into a very artificial Canadian "orbit". This would quickly be resented as paternalism and would probably frustrate the original good intent.

121. The Committee therefore recommends that Canada expand its assistance to the South Pacific countries and territories, acknowledging the need for Canadians to learn more about the region, and cooperating rather than competing with other outside countries working for regional development. The possibility of some form of closer association with the South Pacific Commission merits further examination by the Government.

D. Coordination and Cooperation

122. Working with the South Pacific Commission would provide opportunities for Canada to learn more about the area and at the same time coordinate its aid efforts with those of other interested donors, especially Australia and New Zealand. Some observers have suggested that this co-operation might take the form of a "little Colombo Plan". It must be reiterated that in the Pacific region this kind of co-operation with other donors is especially essential because of Canada's relative inexperience in the area and the limits of its available resources. Participation in regional and sub-regional development programmes is one of the most effective ways of sharing experience and achieving coordination, but there are also an increasing number of other possibilities. It will be generally beneficial to maintain an active dialogue with other donor countries with special Pacific interests. At the 1971 meeting of the Japan-Canada Ministerial Committee, it was agreed that the two countries should co-operate in their respective aid programmes. Other possibilities include the aid consortia and consultative groups to coordinate programmes in individual countries. Canada's membership in the Inter-Governmental Group on Indonesia is a positive move in this direction. On

a much broader scale, the Committee has heard suggestions for a massive joint effort for development, particularly in Southeast Asia (Prof. Ben Higgins recommended a kind of "Marshall Plan" for the region). While the level of Canada's present efforts would not lend credibility to a Canadian initiative in this direction, Canada could play a valuable role in such a plan. The special ties with Commonwealth and francophone countries, for instance, might prove very useful indeed.

E. Trade, Investment and Development

123. The Committee wishes to stress as forcefully as possible the central role of providing expanding trade opportunities in the economic development of these countries. Their achievement of economic growth and long-term stability will depend to a vital degree on their ability to find markets for their products of all kinds, especially labour-intensive manufactured goods. Many of the Committee's recommendations with respect to Canadian imports from the Caribbean are also applicable to Pacific countries. A full discussion of the problems involved for Canada and the new policies needed has also been presented in Chapter II A of the Report of the Subcommittee on International Assistance of the House of Commons Standing Committee on External Affairs and National Defence (May, 1971). Without decisive action to further assist these countries in the trade area, the Committee believes that present aid efforts may prove largely ineffectual.

124. In the present difficult trading climate among the developed nations the special needs of the developing countries appear to have been pushed even further into the background. The Generalized Preference System (GPS) for manufactured and semi-manufactured products of developing countries, which showed considerable promise, has not yet been generally implemented. In this respect, Canada and the U.S. have fallen behind the EEC and Japan, which have already put GPS schemes into effect. Implementation by Canada as soon as possible is needed to demonstrate a genuine Canadian commitment to development assistance. Once a GPS scheme is in operation, it should be applied as generously as possible and its coverage should be extended steadily as circumstances permit. Another important opportunity to act on these essential development issues will arise at the Third session of the United Nations Conference on Trade and Development (UNCTAD) in Santiago, Chile in 1972. The Committee hopes that Canada will be able to exercise a leading and progressive role among the developed countries at this important Conference.

125. The Commons Subcommittee report also goes into the broad range of current issues involved in the operations of Canadian-based investors in developing countries. The evidence before this Committee indicates that there is a substantial flow of investment from Canada to a number of developing countries in the Pacific. In these cases, this form of economic cooperation has great potential and is welcomed by the host-countries concerned. The fact that most of this investment is new means that arrangements can be made which are in accord with the realities of the contemporary situation and do not result in the kind of conflicts which have occurred in the past.

126. The encouragement offered to potential investors by the Canadian Government—in the form of CIDA incentives and EDC investment insurance—is a valuable complement to the official aid programme, and there are indications that the response from the Pacific region has been very good.

F. The Work of Non-governmental Agencies

127. Similarly complementary to the official programme of development assistance is the work of non-governmental agencies concerned with development cooperation. While this kind of Canadian involvement in the Pacific region has historic roots, it is not now as intensive as in some other areas of the world. As in other fields, however, Canadian activity is growing rapidly. The Committee's discussion with representatives of the Canadian University Service Overseas (CUSO)—which has the most personnel in the field—made it clear that the agencies are learning rapidly about the area and that their services are increasingly sought-after by local governments. Here again, the Government recognizes the complementary developmental role of these groups and provides a substantial portion of their financing. The Committee believes that this is a worthwhile use of aid funds, and that further support will be justified as these agencies expand their work in the Pacific region.

IV CANADA'S POLITICAL AND SECURITY INTERESTS

A. Regional Challenges and Canadian Capabilities

128. It has been observed earlier that Canada can be described as a "Pacific power" only in the economic sense, and then only if the national potential is more fully realized. In the more traditional senses in which the term is used, Canada has neither the aspiration nor the means of being a "Pacific power". In regional politics, however, one important Canadian asset is the experience as a relatively small power co-existing side-by-side with a superpower. As a result of this background, Canadians have an instinctive understanding of the aspirations of the smaller Pacific powers for national independence, and a familiarity with the lopsided power relationships which are characteristic of the region.

129. In very broad terms, the regional outlook was cogently summarized for the Committee by Professor Hedley Bull of the Australian National University, when he said:

I think it is obvious that there grew up in the 1950's a pattern of power relationships in the Pacific area which in the course of the 1960's has been disintegrating and in the course of the 1970's will give place to something quite new. I believe that pattern will be governed primarily by the relationship of three great powers—the United States, the Soviet Union and China—and that the principal uncertainty of the 1970's is whether they will be joined by a fourth great power, Japan, and how the pattern of their relationships will be affected, if they are.
(7:15)

130. At this point in time, there are numerous possibilities for the relations among these four giants, in patterns of competition, cooperation or merely co-existence. Yet against this uncertain background the smaller powers of the Pacific must pursue their own national objectives.

131. At the same time, as the Policy Paper notes, "The shifting power balance is . . . only one aspect of the pattern of unresolved tensions in the Pacific region". Further "seeds of instability and conflict" are to be found in: the challenges of ideology and technological change to traditional societies and institutions; the race to meet the rising expectations of Asian peoples for economic and social development; and the racial frictions and territorial ambitions which are, "in Asia as elsewhere, an aspect of the inter-action of peoples and nations." (Policy Paper, p. 9)

132. The leaders of most of the smaller nations of the Pacific, preoccupied with these problems, seek an external environment sufficiently secure for them to devote their full energies to the urgent tasks of nation-building. They are anxious to avoid being drawn into regional rivalries among the great powers.

133. The Policy Paper stressed, as a Canadian contribution to general peace and stability in the Pacific, the effort to establish diplomatic relations with the People's Republic of China, "in the hope that Canada would be able to make a contribution

towards bringing China into a more constructive relationship with the world community". (p. 24). Subsequently, negotiations proved successful and ambassadors have been exchanged. The modest statement of the Government's hopes was appropriate; Canada could not aspire to any grand mediatory role, and the agreement with Canada was certainly more a result of a new Chinese approach than a cause. However, it is noteworthy that, in spite of China's new bilateral and multi-lateral initiatives, Canada is still the only developed nation of the Pacific region which enjoys the full range of interstate relations with China. As others work gradually to remove the barriers to communication and understanding, there may be numerous ways in which Canada, with open lines of communication to all these powers, can help. Such a role, the Committee believes, may represent a significant contribution that Canada can make in the normalization of great-power relationships and thus in the achievement of a more stable equilibrium in the Pacific.

134. The Canadian Government does not envisage any extensive military involvement, direct or indirect, in the Pacific region. As the Minister of National Defence, Honourable Donald Macdonald, told the Committee about Canada's general foreign policy objectives in the Pacific:

We believe the best way for Canada to enhance both its own aims and at the same time help the Asian countries achieve their goals of increasing their prosperity and raising the standard of living of their people is by increasing the level of trade and investment, and by development aid. The Government, therefore, . . . has given priority to our economic and political relations with the Pacific countries. (8:5)

135. The Committee agrees with these priorities, and particularly with the emphasis on development assistance as a constructive attack on the deep-rooted causes of social and international tension. While economic development provides no short-term assurance of stability, severe underdevelopment can only lead to continuing misery and conflict. The Committee therefore considers that development assistance is an urgent necessity for peace and stability in the Pacific, and one which is well-suited to Canada's interests and capabilities, especially in view of the flagging interest and commitment of some other donor countries.

136. In his testimony, Mr. Macdonald also stated:

While the Government feels that . . . Canada neither can nor should engage in large scale military participation in the Western Pacific in the present circumstances, there are various things that the Department of National Defence and the Canadian armed forces can usefully do to make some contribution both to the stability of the area and to the furtherance of our foreign policy objectives. (8:5)

137. The Minister added, however, that "the Government has concluded that at the present time it is not in the Canadian interest to seek to participate in the various multilateral or bilateral security agreements in the Pacific. We do not, in other words, propose to enter the Australia, New Zealand, United States (ANZUS) pact, or the South-East Asia Treaty Organization (SEATO), or the Five Power Defence arrangements, or any . . . bilateral military alliance, with a Pacific country." (8:6) On the basis of its study, the Committee concurs with this "basic conclusion" of the foreign policy review.

B. Particular Roles

138. The military activities in which Canada will remain involved, according to the Minister's testimony, are: "to continue Canada's long-established programs of military collaboration with Australia and New Zealand, possibly to have limited military contacts with other Pacific countries, notably Japan, and to provide some carefully evaluated training assistance to Malaysia and Singapore." In addition to these involvements, Canadian military personnel continue to represent Canada on the Military Armistice Commission in Korea (a two-man team) and on the International Commission for Supervision and Control (ICSC) to Indochina (22 all ranks: 20 in Vietnam and 2 in Laos). A final—and the major—element in Pacific activity involving Canadian security interests is in jurisdictional, coastal and territorial protection on Canada's West Coast.

Jurisdictional, Coastal and Territorial Protection

139. Canada's military activities in the West Coast region are, of course, related to Canadian security interests in the Pacific area, and in various ways involve Canadian relationships with other Pacific countries. The major functions of the Canadian forces components in the area are related to the integrated arrangements for North American defence under the North American Air Defence (NORAD) and Alaska, Canada and United States (ALCANUS) agreements. In addition to this, elements of the armed forces are increasingly being utilized in conducting surveillance, and maintaining a Canadian presence, in relation to various kinds of coastal jurisdiction claimed by Canada. The Department of National Defence, in addition to maintaining its purely military preparedness, is well-equipped to assist other departments in the protection of the Canadian territorial sea, fishing zones, and pollution control zones. These activities have been assigned a very high priority in the Government's new defence policy. The Committee considers this an important step in the effective utilization of the Federal Government's overall capabilities to promote important national interests in the Pacific coastal region.

Military Cooperation and Contacts

140. Australia and New Zealand are at present the only two Pacific countries with which Canada is prepared to undertake programmes of military cooperation on any scale. These programmes are well-established and mutually beneficial, and the decision to continue them is justified. The Committee understands that the plans for "limited military contacts" with other Pacific countries (notably Japan) are unlikely to involve standardization or technical cooperation agreements or large-scale training exchanges. More restricted contacts may, however, help to enhance mutual good-will and maintain an atmosphere conducive to collaboration on broad issues of security policy. There is some uncertainty about Japan's potential role in Pacific security affairs (particularly in the light of partial American disengagement). While its significance should not be exaggerated, there is an obvious rationale for a Japanese-Canadian dialogue on these matters.

Military Training Assistance

141. The Government clearly approaches these activities with a certain measure of caution, as evidenced by the following statement in the DND background papers: "The provision of carefully evaluated and limited military training assistance, both in Canada and in the recipient country, is one way in which Canada can help selected friendly states."

142. The Committee finds this cautious approach to be fully justified and in certain areas would recommend further caution. The largest and longest-established programmes are those in Malaysia and Singapore (introduced in 1964). Both programmes appear to have provided tangible benefits (to the Canadian forces personnel involved as well as to the recipient governments) and have contributed to continuing good Canadian relations with these countries. It must be recognized, however, that there are certain intrinsically sensitive characteristics to this kind of assistance (particularly when it is restricted to "friendly" countries) and that in the complex and fluid Pacific environment the political risks might outweigh any potential benefits.

143. These risks and complexities are evident in the fact that since 1969 South Korea has been sending small numbers of military personnel to Canada for staff training and, in 1971, Indonesia has also been included. Even with very small numbers involved, serious diplomatic complications could arise if these countries became involved in international or certain types of internal hostilities. The Minister stated that in future for budgetary reasons, "a very large amount of assistance will be confined to Malaysia and Singapore". (p. 8:11). The Committee welcomes this statement, on the grounds that well-tested activities can be sufficiently concentrated in these two Commonwealth countries to provide benefits commensurate with the possible diplomatic risks.

Peacekeeping and Truce Supervisory Roles

144. Canada's continuing representation on the Korean Armistice Commission is a hold-over from Canadian participation in the Korean War, but does not in practical terms represent any open-ended Canadian commitment in the event of a renewal of hostilities. As the Minister stated, "the extent of our involvement would, of course, depend upon our own decisions." (p. 8:14). At the same time, the Committee is concerned that no final legal settlement to the Korean War has been arrived at and that the original participant countries would, in theory, be automatically involved (under UN Command) in any new hostilities. This longstanding anomaly, and the legal, political and military implications of Canada's continuing representation on the Armistice Commission, should be thoroughly examined by the Government. The Committee believes that the establishment of a Canadian Embassy in Seoul would allow for political representation to reflect and clarify Canada's current policies on these changing issues.

145. The outlook for truce supervision or peacekeeping activities in Indochina remains highly uncertain. As the Policy Paper states, the circumstances surrounding the cessation of hostilities will determine the prospects for different types of

arrangement. Clearly reflecting the frustrating Canadian experience with the ICSC, the Government has adopted a cautious approach to future operations, stating that, in the event of a settlement, "there could even be a role for an international mechanism, provided that a clear mandate, adequate resources and the full cooperation of the parties could be assured. These are essential conditions if the role of such an international mechanism is to be effective rather than merely symbolic." (p. 24). During his Pacific visits in 1970 and 1971, the Prime Minister at times expressed an even more guarded approach to the suggestion of Canadian participation in a revitalized ICSC, or similar new body.

146. The Committee concurs with the testimony of Mr. Macdonald, who stated "... there is, I think justifiably, a feeling of Canadian opinion—and I think there would be in this case—that if we can play a constructive and helpful role in Vietnam, then we should get right in there and do it." (p. 8:13). As the Policy Paper points out, "The political aspect of a new settlement will, in all likelihood, be even more complex." (p. 24). Here, of course, the intentions and commitments of the parties involved will be fully tested. The Committee agrees with the Government's judgement that "It would be unwise for Canada to go any distance in advance toward undertaking a new obligation to supervise a political settlement until it has been fully defined and is judged acceptable and workable." (p. 24).

147. While understanding the reasons for the Government's reservations, the Committee believes it important for Canada to indicate its continuing willingness to accept a role in order to help bring an end to the war in Indochina.

HIGHLIGHTS
of
CONCLUSIONS AND RECOMMENDATIONS
of the
REPORT
of the
STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS
Respecting
CANADIAN RELATIONS
with the countries of the
PACIFIC REGION

GENERAL

While Canada cannot attempt to adopt uniform general policies toward the heterogeneous group of countries found in the Western Pacific Rim, an overall attitude and approach of increased Canadian involvement in the whole Pacific region is not only possible but essential.

It is probably only in the economic field that Canada can at present be called "a Pacific power". Canadian trade and investment relations in this area provide immense economic benefits to Canadians, including new opportunities for the diversification of Canada's overall economic interests. This alone is an insufficient basis for Canada's future relationships in the region. Pacific countries are anxious to see what role Canada will play in the achievement of regional peace and security and in co-operative action to share the benefits of economic development with the disadvantaged countries.

I THE BASIS FOR INVOLVEMENT

AWARENESS AND UNDERSTANDING

The Committee's evidence has indicated that Pacific Asia is the least familiar to Canadians of all the world's great zones of civilization. Canada lags behind other developed countries of the region, and some of the less developed, in generating a regional consciousness of the Pacific Rim and in acquiring the necessary knowledge and expertise. The Committee has therefore concluded that a large-scale and concerted national effort to improve Canadian understanding of the Pacific region is a vital pre-requisite to broader and more fruitful Canadian involvement.

Specifically, the Committee recommends measures to promote the study of Pacific area languages in Canada; to better utilize and strengthen Canada's resources for Asian and Pacific studies; to expand exchanges of public information with Pacific countries; and to increase cultural exchanges (including sports competitions) and scientific and technological co-operation.

CO-ORDINATION

Canada suffers distinct disadvantages, in its relationships with close-knit Pacific societies, because of the diffuse and unco-ordinated character of its national dealings. A national policy of fuller and more active participation in Pacific affairs is unrealistic unless Canada is prepared to assert a more unified national presence and pursue consistent and coherent national policies.

In order to overcome a costly "fragmentation of effort" in Canada's economic relations with Pacific countries there is an urgent need for improved patterns of co-operation and communication between government and industry and among Canadian businesses themselves. Involvement of the academic community will also prove beneficial, and the Committee recommends prompt action on proposals of the Government's Policy Paper on the Pacific, to stimulate exchanges of personnel among these three sectors.

REPRESENTATION

While recognizing the financial and other constraints involved, the Committee has concluded that, if Canada is to pursue broad policies of increased involvement, the need for strengthened official representational facilities in the Pacific is urgent and inescapable. Prompt action should be taken to raise the Canadian mission in the Philippines to the status of a full embassy, and to establish a resident embassy in South Korea.

II CANADA'S ECONOMIC INTERESTS

In recent years, Canadian trade with Pacific countries (in both directions), has expanded at a phenomenal pace, and two-way flows of investment are growing steadily. All the indications are that the Pacific will continue to be an increasingly important focus for Canadian economic interests.

JAPAN

Japan is the dominant factor in Canada's Pacific trade and will probably become Canada's second largest market within the next few years.

The most striking features of Canada's export flow to Japan are the predominance of a few major groups of raw materials, and the concentration of their production in Western Canada which accounts for almost 80% of total Canadian exports. In contrast, more than 96% of Japanese exports to Canada are made up of a diversified range of processed and manufactured goods, with two-thirds of the total going to Ontario and Quebec.

The Committee is deeply concerned with the need for upgrading and diversifying Canadian exports to Japan. There is no longer any justification for the

great bulk (as much as 65%) of Canadian exports to be shipped to Japan, as the Policy Paper says, "in their rawest transportable and least profitable form."

The time has come for Canada to begin redressing this imbalance. A concerted national effort will be required, however, and the Committee considers this an urgent priority for action by industries concerned and by governments at all levels.

With respect to the serious problem represented by the unsatisfactory level of Canada's manufactured exports to Japan (less than 3% of the total), the Committee believes that the Canadian Government is justified in pressing for further tariff liberalization by Japan and for the elimination of its many "non-tariff barriers". Other clear needs, however, are to overcome the lack of familiarity, imagination and aggressiveness on the part of Canadian businessmen in the area, and to attack the general problem of lagging scientific and technical innovation in Canadian industry.

In view of the vast discrepancy in the level of processing involved in Canadian and Japanese exports, the Committee found no basic inequity in the past in the overall dollar-imbalance in Canada's favour. Since Japan achieved a surplus in its 1971 trade with Canada there are now even more compelling reasons to focus on the "quality" rather than the gross volume of trade.

There have also been expressions of Japanese concern about Canadian limitations on certain types of imports. The Committee takes the view that Canada has a relatively open market in the textile field and that the voluntary restraint system, tied to rationalization plans, is a good one. Nor does it appear that the instrument of "anti-dumping" actions has been abused.

The increasing flow of private investment, in both directions, between Canada and Japan promises growing mutual benefit. Japanese investment in Canada represents a healthy diversification of Canada's sources of development capital, and seems to be sensitive and responsive to the conditions now prevailing for foreign investment in Canada.

Another increasingly important area of co-operation with Japan is that of scientific and technological exchanges. With the important Canadian mission of March 1972, a good beginning has been made in this field, and the Committee believes that Canadians can look forward to expanding, and highly beneficial, contacts in the future.

CHINA

Canada's trade with the People's Republic of China has been significant for more than a decade and shows considerable potential for further growth.

However, the present large imbalance of trade in Canada's favour cannot be sustained indefinitely. The main obstacle to increased exports from China to Canada in the past seems to have been the limited Chinese supplies of the goods of interest to Canadian importers. The general opinion, based on recent trade

fairs, seems to be that these shortages are now being rectified. While total balance is not necessarily to be expected, it is probable that China will increasingly press for Canada to accept more of its exports in return for a continuing and growing place in the Chinese market.

China continues to provide a substantial and reliable market for Canadian grains. There are also encouraging signs that China will in future buy a widening range of Canadian goods, including forest and mineral products, machinery and transportation and communication equipment.

In the next few years, Canada is likely to meet increasing competition from other Western countries for the Chinese market in most product-areas. While spectacular growth should not be expected, however, the Committee believes that with the proper selling efforts, the Chinese will continue to be favourably disposed toward Canadian exports.

AUSTRALIA AND NEW ZEALAND

Canadians too often underestimate the importance of their economic relations with Australia and New Zealand. Each of these countries has long provided a substantial market for Canadian goods, especially job-producing manufactured and semi-manufactured products.

For all concerned, it will be essential to re-negotiate the full range of mutual preferences on a bilateral basis once the Commonwealth preferential system comes to an end, as a result of Britain's entry into the E.E.C.

OTHER COUNTRIES

In general, Canada tends to have a favourable balance of trade with the developing countries of the Pacific region and especially with the least-developed among them. Various factors are involved, but major adjustments will have to be made if these countries are to be helped to help themselves by expanding their exports.

It seems likely that private investment, particularly under joint venture or management contract arrangements, will be a key factor in Canada's future economic relations with most of the developing countries of the area. A formula which has been highly successful in the past, and may prove increasingly essential in the future, is the "package" approach to developing new industries.

THE CANADIAN APPROACH

In view of the urgent need for improved co-ordination in Canada's economic relationships in the Pacific, the Committee recommends that further action be taken on the Policy Paper's proposal for the establishment of a joint Pacific economic advisory council. If it can be assured that the representation of the Pacific Basin Economic Council is sufficiently comprehensive, the Committee recommends that the Government take a joint initiative with the Canadian Committee of P.B.E.C. to establish arrangements for continuing consultation on a firm and regular basis, rather than creating a new advisory council.

These are only preliminary steps, however, to the very basic new co-ordination required. The establishment and enforcement of uniform national requirements for the processing of resource exports is one pressing need. Another is for a national approach to scientific and technological innovation which will keep Canadian products marketable in the highly competitive Pacific environment.

In this competitive environment, the Committee also considers it essential that Canadian businesses receive government encouragement to export and invest abroad which is fully comparable with that provided by other countries.

Another imaginative, and well-supported, suggestion is for the formation of some kind of Canadian counterparts for the highly-successful Japanese trading corporations. These structures would provide market intelligence, negotiating facilities (including translation) and expertise and co-ordination of export production, distribution and sales. The Committee recommends that the formation of new trading structures of this kind be the first priority for discussion by the Government with the Pacific economic advisory council when such a group is formally constituted. In the meantime, the Government should conduct full studies of the types of structures in use elsewhere and the organizational alternatives available to Canada.

In the Committee's view, Canadian business groups concerned with the Pacific should also be studying actively the experience of the Canada-Japan Trade Council in Ottawa and considering the establishment of a counterpart body in Tokyo.

One field of closer co-operation which seems to have immediate potential is that of development assistance to the region's less-developed countries. The scope for co-operation is wide: through regional organizations (such as the ADB and ECAFE); through consortia and consultative groups; and through joint efforts with other medium-sized "donors" such as Australia, the Netherlands and Japan.

III CANADA'S INTEREST IN DEVELOPMENT CO-OPERATION

The Government has made it clear that development aid will be one of the main elements in Canada's future official involvement in the Pacific region. The Committee firmly supports this policy emphasis. It seems especially appropriate that Canada should very actively discharge this responsibility in the Pacific community, to balance the attractive commercial opportunities and economic benefits which it finds in the region. Through development co-operation Canada can also best utilize its national capabilities to make a constructive contribution to the long-term peace and stability of the region.

In spite of the very good reasons for expanding aid to Pacific countries, it must be recognized that Canadian aid will be limited by the scarcity of Canadian resources in relation to the size of regional needs, by continuing commitments elsewhere in the world, and by Canada's general inexperience in the area. The Committee thus considers it essential that Canada's approach to development

co-operation in the Pacific be constructive and unostentatious in its tone, reflecting the limits of its present capabilities.

In the new Pacific aid programme, selectivity will be essential, both as to countries and fields of operation. In those countries where it will not be practicable to mount full bilateral programmes, Canada can still participate to great advantage through multilateral and regional organizations.

On a regional scale, Canada is already active in the Pacific programmes of the World Bank group and the Asian Development Bank, and it is to be hoped that closer association with the ECAFE can soon be achieved. At a sub-regional level, support of the Mekong Committee, Asian Institute of Technology and the University of the South Pacific appear to be highly effective uses of Canadian aid funds. (A discussion of Canadian programmes in individual Pacific countries may be found in paragraphs 116 to 121).

After the cessation of hostilities in Indochina, the needs for rehabilitation and reconstruction aid will of course be immense, and Canada, because of its non-involvement in the war and its francophone capability, can play a particularly helpful part.

The Committee recommends a vigorous expansion of Canadian assistance to the countries of the South Pacific in co-operation with other outside countries concerned. It is important, however, to acknowledge the need for Canadians to learn more about this area, and to avoid creating paternalistic relationships. The possibility of some form of closer association with the South Pacific Commission merits further examination by the Government.

As in its report on Canada-Caribbean relations (of June 1970), the Committee wishes to stress as forcefully as possible the crucial role of expanding trade opportunities in the economic progress of developing countries. Many of the Committee's recommendations with respect to Canadian imports from the Caribbean are also applicable to Pacific countries. A full discussion of the problems involved for Canada and the new policies needed has also been presented in Chapter IIA of the Report of the Commons Subcommittee on International Development Assistance (29 May, 1971).

Canadian implementation of the Generalized Preference System (GPS) for developing countries is needed as soon as possible to demonstrate a genuine Canadian commitment to development assistance. Once a GPS scheme is in operation, it should be applied as generously as possible and its coverage should be steadily extended as circumstances permit.

Under the right conditions, the flow of Canadian private investment to these countries offers exciting potential for economic co-operation and development. The encouragement offered to potential investors by CIDA and the Export Development Corporation (EDC) is thus a valuable complement to the official aid programme.

Similarly complementary to the official programme of development assistance is the work of non-governmental agencies in the development field. While the Pacific region has not been an area of primary emphasis for these groups in the past, they are successfully responding to a growing demand and merit continuing support.

IV CANADA'S POLITICAL AND SECURITY INTERESTS

REGIONAL CHALLENGES AND CANADIAN CAPABILITIES

Because of their own history, Canadians have an instinctive understanding of the aspirations of the smaller Pacific powers for national independence, and a familiarity with the lop-sided power relationships which are characteristic of the region.

It is noteworthy that Canada is the only developed nation of the Pacific region which enjoys the full range of inter-state relations with China. Since Canada also has open lines of communication with all the nations which will sooner or later be moving to strengthen their relations with the People's Republic, there appears to be a continuing potential for a modest but useful Canadian contribution in normalizing China's position in the Pacific community.

The Canadian Government does not envisage participation in military alliances with Pacific countries, or any other extensive military involvement, in the region. It has instead given priority to co-operative political and economic action to alleviate the deep-rooted causes of social and international tension. The Committee fully agrees with these priorities which are well-suited both to regional needs and to Canada's interests and capabilities.

The major element in Pacific activity involving Canada's direct security interests is in jurisdictional, coastal, and territorial protection on Canada's West Coast. These activities have been assigned a very high priority in the Government's new defence policy. The Committee considers this an important step in the effective utilization of the federal government's overall capabilities to promote important national interests in the Pacific coastal region.

The Committee generally supports the continuation of Canada's limited programmes of military co-operation and training assistance with a number of Pacific countries. In the absence of a final legal settlement to the Korean War, the Committee is concerned about the possible legal and political implications of Canada's continuing representation on the Armistice Commission. These matters should be thoroughly examined by the Government. The Committee believes that the establishment of a Canadian embassy in Seoul would allow for political representation to reflect and clarify Canada's current policies on these changing issues.

With respect to truce supervisory functions in Indochina, the Committee, while understanding the reasons for the Government's reservations, believes it important for Canada to indicate its continued willingness to accept a role in order to help bring an end to the war in Indochina.

APPENDIX

STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS (1970-1972)

<i>Issue Number</i>	<i>Date of Meeting</i>	<i>Witnesses Heard</i>
1	October 27, 1970	Dr. Lorne Kavic, Lecturer in International Politics, University of British Columbia.
2	November 4, 1970	<i>Department of Industry, Trade and Commerce:</i> Hon. Jean-Luc Pepin, Minister; Mr. F. R. Petrie, Director of the Pacific, Asia and Africa Branch; Mr. T. M. Burns, Assistant Deputy Minister for External Services; Mr. V. J. Macklin, General Director, Office of Economics. <i>Export Development Corporation:</i> Mr. F. M. Carlton, Loan Director, Asia Area.
3	November 10, 1970	Mr. R. W. Bonner, Executive Vice-President, Administration, MacMillan & Bloedel Ltd., Vancouver, British Columbia.
4	November 24, 1970	<i>ALCAN Aluminium Limited:</i> Mr. R. A. Gentles, Planning Co-ordinator; Mr. Karel C. Bala, Assistant Secretary; Mr. R. F. Allen, Assistant to the Vice-President (Finance) of ALCAN International. <i>International Nickel Company of Canada:</i> Mr. K. H. J. Clarke, Assistant Vice-President. <i>Canadian National Committee, Pacific Basin Economic Corporation Council:</i> Mr. K. H. J. Clarke, Chairman.
5	November 25, 1970	Mr. Mark Gayn, Chief of Asia Bureau, Toronto Star, Toronto.
6	December 1, 1970	<i>Canadian Pacific:</i> Mr. A. F. Joplin, Director of Development Planning. <i>C.P. Air:</i> Mr. Ian A. Gray, Vice-President—Administration; Mr. H. D. Cameron, Vice-President—International Affairs. <i>COMINCO:</i> Mr. G. H. D. Hobbs, Vice-President, Pacific Region.
7	December 8, 1970	Dr. Hedley N. Bull, Professor of International Relations of the Australian National University, presently on sabbatical leave at the Institute of War and Peace, Columbia University, New York.
8	January 27, 1971	<i>Department of National Defence:</i> Hon. D. S. Macdonald, Minister; Brig. General G. G. Bell, Director General of Plans; Mr. William Snarr, Director of Policy Guidance, Finance Division.

<i>Issue Number</i>	<i>Date of Meeting</i>	<i>Witnesses Heard</i>
9	February 9, 1971	Mr. Thomas Pope, Assistant Vice-President, Bankers Trust Company, New York City.
10	February 24, 1971	Mr. Chester A. Ronning, Former Canadian High Commissioner.
11	March 2, 1971	<i>Canada-Japan Trade Council:</i> Mr. Robert L. Houston, President; Mr. N. Gauthrie, Executive Secretary; Professor Keith Hay, Economics Professor at Carleton University.
12	March 9, 1971	<i>Department of Fisheries and Forestry:</i> Hon. Jack Davis, Minister; Dr. W. M. Sprules, Director, International Fisheries Branch.
13	March 11, 1971	Dr. John F. Howes, Professor of History, Department of Asian Studies, University of British Columbia.
14	April 6, 1971	Dr. Benjamin Higgins, Project Director, Centre for Research in Economic Development, University of Montreal, Montreal, P.Q.
15	April 27, 1971	<i>Canadian University Service Overseas (C.U.S.O.):</i> Mr. David M. Catmur, Director of Overseas Operations and Acting Executive Director; Mr. Robert D. H. Sallery, Editor-in-Chief, Readings in Development/Newstatements; Mr. Alfred E. Harland, Field Staff Officer in Papua-New Guinea; Mr. Jean-Marc Metivier, Director of Asian Programs; Miss Gail Ann Taylor, Assistant to Director of Fund Raising.
16	May 4, 1971	<i>Canadian International Development Agency: (C.I.D.A.):</i> Mr. Fergus Chambers, Director General of Planning; Mr. Rick Ward, Desk Officer, Asia Area.
17	September 22, 1971	<i>Department of Industry, Trade and Commerce:</i> Hon. Jean-Luc Pepin, Minister; Mr. Frank Petrie, Director, Pacific, Asia and Africa Affairs Branch, Office of Area Relations; Mr. J. L. MacNeil, Chief, Pacific Division of the same branch.
18	October 20, 1971	Dr. Phillips Talbot, President, The Asia Society, New York City, U.S.A.

Note: A number of informal meetings with experts were also held.