



Statements and Speeches

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PACIFIC ECONOMIC COMMUNITY CONCEPT: A CANADIAN VIEW

Excerpts from a Speech by Mr. R.G. Rogers, Chairman, Crown Zellerbach (Canada) and Vice Chairman, Canadian Committee of the Pacific Basin Economic Council, to the Institute for U.S.-Japan Relations, San Francisco, November 10, 1981

...In our early years, Canadians were oriented towards the East, and the Atlantic connection with Europe. In this century, our orientation has gradually shifted southward, as the United States has become our major trading partner. Today, although we are making inroads into our Arctic territories, we find ourselves increasingly looking West across the Pacific. Because that's where our new opportunities lie...

Leaving aside the rarified aspects of constitutional law, much of Canada's internal friction today centres on the divergent economies of the western and central regions. In both regions, production for export is crucial. Last year, Canadian exports of goods and services totalled \$90.3 billion in Canadian dollars. This year, for the first time, we expect that total to exceed \$100 billion. In 1980, exports were equivalent to more than 31 per cent of Canada's gross national product. Imports of goods and services in the same year totalled \$93.4 billion, or more than 32 per cent of GNP.

The western and central regional economies are both heavily reliant on this production for export. Where they differ, and where their conflict affects Canada's stance on Pacific Rim trade, is in the nature of the products each offers to world markets. Central Canada is highly industrialized, and produces steel, technology, consumer goods, automobiles, electronic equipment, and all the other outpourings of an industrial economy. The economy of western Canada, on the other hand, is based on the extraction and export of primary resources, like wood, coal, metal ores and natural gas. The metallurgical coal industry, for example, was created entirely for export production, almost all of which goes to Japan. Natural gas is available in large surplus quantities, and a number of western Canadian companies are seeking to export gas in liquified form to Japan.

To the western Canadian, therefore, increased trade with Japan and other Pacific Rim countries offers opportunities for broadening and strengthening the regional economy. To central Canada, however, the reciprocal aspects of transpacific trade offer threats to the region's industrial complex — and not only in export markets, but in the domestic sphere. These conflicts have also led to a series of meetings between provincial and federal ministers and it seems likely that a comprehensive resolution will in time be achieved. On the whole, greater involvement with the emerging Pacific Basin economic zone appears to be in Canada's national interest.

The other trade-related issue affecting both western and central Canada's economies is the devaluation of our currency against the U.S. dollar. America remains our primary export market, but the advantages of lower-priced Canadian products have been more than offset by the fall in demand brought on by a slowed-down American economy.

The sharp rise in the Canadian dollar against currencies other than the American dollar now further burdens our offshore exports. In the western forest industry, for example, our lumber exports to the United States have declined as interest rates have risen to unprecedented heights. On a national scale, the fall of the Canadian dollar demonstrates that there are fundamental problems to be addressed in the Canadian export sector, and that both government and the private sector must work out the solutions. I believe an important part of those solutions will lie in the development of expanded trade relationships with the Pacific Rim.

Canada's westward outreach to the economic and cultural fabric of the Pacific Basin is a natural extension of our historical and economic evolution. For 400 years, Canada's "centre of gravity" as a society and as an economy has gradually shifted to the West. But that is not to say that we have only recently made contact with the Far East. Canada's transpacific trading and immigration relationships paralleled America's in the nineteenth century.

When the California gold fields petered out, thousands of "forty-niners" poured north into Canada. Many of them were Chinese who helped unite our nation by laying track and chiselling tunnels for the Canadian Pacific Railway's "thin ribbon of steel". Canadian missionaries established schools and churches throughout China in the 1800s, and Canadian traders brought lumber and sea-otter pelts to Asian ports as early as 1788.

**Canadian ties
in the Pacific**

Canadian cultural and trade links with modern China have grown steadily since the normalization of diplomatic relations 11 years ago. I take some pride in pointing out that this preceded the Nixon "ping-pong accord" which led the way to re-establishment of U.S. ties.

But today our major Pacific trading partner is Japan. Since the beginning of the 1970s, Japan has displaced the European Economic Community as our second largest trading partner, and trade with Japan and other Pacific Rim nations has grown faster in the past decade than with any other country, including the United States.

Japan has been increasingly in the market for Canadian wheat, wood products, rapeseed and pork. The thriving western Canadian coal industry was built with Japanese participation, and Japanese mills are the major destination for the ore concentrates and ingots that flow from our smelters. Japan is voicing a new interest in the development of Canadian oil sands and Arctic oil and gas. The benefits of our \$7 billion trade volume with Japan — strongly in Canada's favour — reach virtually every Canadian.

While Japan is by far our major export market across the Pacific, Canada has trading relationships with most of the countries west of our shores. South Korea is our fifteenth largest export customer, and last year it purchased \$431-million worth of Canadian coal, pulp, minerals and machinery. A South Korean-Canadian joint venture is opening a world-class coal mine in British Columbia, and Canadian nuclear and communications technology have found significant acceptance among the South Koreans.

Despite the severing of formal diplomatic relations between Canada and Taiwan 11 years ago, trade relations have shown a marked increase in activity over the past few years. Trade volume doubled to \$708 million between 1977 and 1980, decidedly in Taiwan's favour. Iron and steel, metal ores, paper and wheat left Canada for Taiwan, while we received electrical appliances, machinery, clothing and leatherware in return.

In Indonesia, Canadian oil, mining and manufacturing concerns are involved in joint ventures and investments. Canadian engineers have won contracts to build Indonesian ports, railroads and communications systems. Canadian-Indonesian trade volume reached nearly \$239 million last year, and intergovernmental aid arrangements gave Canada an almost embarrassing favourable ratio of ten to one.

In Singapore, total trade volume is a healthy \$264 million, and visits by Canadian business people have almost doubled in the past year. Singapore is a receptive market for Canadian high technology exports, and is also attracting many Canadian firms into joint ventures. The Canadian banking community is also represented in force, with our five largest financial institutions deeply involved in trade financing.

Canada's trade with the Philippines fairly evenly divided a total of \$209 million last year, but Canadian consumer goods are virtually unknown there. Instead, Canada supplies raw resources, and looks towards making progress in helping the Filipinos achieve their goals in the 11 basic industrialization projects set for this decade. Canadian insurance and financial enterprises are increasingly well represented in the Philippines, with some \$160 million (U.S.) in loans and investments by the end of last year.

Canadian companies and business representatives are finding their way into more and more Pacific Basin boardrooms and government chambers. Oilwells and communications technology in Australia, methanol and natural gas plants in New Zealand, mining equipment in Papua New Guinea — all of these demonstrate a broad Canadian entry into the Pacific Rim economies. But if Canada is diving into the Pacific, we are not yet diving deep. Canada remains primarily a supplier of raw resources to industrialized Japan while the rest of our Pacific trade barely wets our ankles.

**Canadian banks
active in Pacific
Rim**

There is, however, one area where Canada has plunged right in: banking and finance. Canadian banks have a share of the Asian financial market which is said by some analysts to be second only to America's. With a total loan exposure of some \$10 billion (U.S.), and a rate of return on assets half again as great as in their domestic market, Canada's major banks are familiar members of the Pacific financial community. Based in Hong Kong and Singapore — with one regional head office located in Manila — seven of our largest banks are now edging into the Japanese market.

The Royal Bank of Canada, with a total of \$4.61 billion (U.S.) in loan exposure in Asia, expects to triple its personnel, assets and capability by 1985. The Toronto Dominion Bank, one of the first Canadian banks to establish an Asian presence, has \$3.5 billion (U.S.) total exposure. The Bank of Nova Scotia, despite a fairly recent entry into the area, is close behind Toronto Dominion with a total of \$3.3 billion (U.S.).

With over \$10 billion in total assets in Asia and the Pacific, the seven largest Canadian banks are expanding their networks in preparation for financing increased Canadian trade efforts across the Pacific. Our banks may do more than give Canadians a familiar face to turn to as we tentatively work our way into the potentials of Pacific trade — they may also serve as good examples of our reliability and consistency in our international dealings.

Of all the goods and qualities Canada can bring to the Pacific economic fabric — our raw resources, our technology, our experience in dealing with transportation across vast distance — reliability and consistency may be our strongest selling points. Canada is still searching for a national identity, and perhaps the new perspectives we gain from increased contact with our Pacific neighbours will help us find ourselves. But if there is not yet a Canadian national identity, there is a discernible Canadian national character — and reliability and consistency rank right up there with our addiction to hockey as major components.

We admire reliable and consistent people in all fields of endeavour, particularly in politics and government. Our leaders and public service bureaucracies are often totally wrong in their policies, but because they are so reliably and consistently wrong, we continue to put up with them. In its policy towards expanding the Canadian presence in the Pacific, however, I feel that our federal government is definitely on the right track. In November of last year, the federal government sponsored the Pacific Rim Opportunities Conference in Vancouver which was very well attended. It served to acquaint Canadian business, government and academic circles with at least the scope of opportunity open to us around the Pacific Rim.

We are now building on the success of that program and have scheduled a second Pacific Rim Opportunities Conference for early next year in Toronto. I think it's an indication of the level of our commitment to the development of trade relations in the Pacific that this conference will be sponsored by the private sector with the blessing and co-operation of the federal government.

**Canada backs
PEC**

As far as Canada is concerned, we're all for the establishment of a Pacific Economic Community. There is a general consensus among Canadian governments, business people, professionals and academics that we want to be actively involved in creating something out of the concept. We will not take a "wait-and-see" attitude. I think that was clearly demonstrated at the Australian National University Conference last fall, when the Canadian representatives threw themselves into the discussions with energy and resolve. Equally clear, however, was the realization among all participants in the ANU conference that the establishment of a Pacific Economic Community remains some distance away. And we will all have to work hard to make it, someday, a present reality.

When the idea of a Pacific Economic Community was first put forward by the Japanese, and enthusiastically seconded by the Australians, the proposal was to set up something like the European Economic Community. From the Canadian point of view — which is, I think, the prevailing opinion among other Pacific nations — an EEC was not feasible in the Pacific. The European Common Market states, despite

their various differences, are reasonably alike economically. The economies of the Pacific Rim states likely to be involved with each other in a Pacific Economic Community are ranged along a much broader scale.

Leaving aside Canada and the United States, the region's economies can be divided roughly into three kinds. At one end of the scale is Japan, already heavily industrialized. Then come the newly industrialized economies of South Korea, Singapore, Hong Kong, Taiwan and Malaysia. Finally, we have the resource-rich countries, including the already developed — like Australia and New Zealand — and the still-developing economies like Indonesia's.

These three economic and industrial components could fit together in an integrated economic system the like of which has never yet been seen. Powered by Japan's development into more high-technology production, both the resource-rich and the newly industrializing nations could advance in harmony. Japan's demand for imports will stimulate development of raw and processed resources, as well as manufactured goods. The newly-industrialized nations could fill the gap at the intermediate technology level, as Japan's own industrial structure evolves.

Criteria for membership

Although this integrated economic structure seems to fit so neatly together, it oversimplifies the immense complexity of the Pacific community. At one end of the spectrum are peoples who are only now emerging from the stone age; at the other end is the transistorized, micro-chip world of Japan, the second largest free market economy on earth. China, with one quarter of humanity, shares the same neighbourhood as the South Pacific state of Nauru, not much bigger than Golden Gate Park [in San Francisco].

Politically, the region runs the gamut from representative democracy to Communist states and military juntas. Diversity of religion, race, language and culture makes the Pacific one of the most checkered cultural mosaics in the world. It will take time, commitment and co-operation to chart a common course and pilot it among all these many Pacific currents.

Take, for example, the basic question of who will be a member of the Pacific Economic Community. If the organization is limited to free-market economies, it automatically excludes China, the U.S.S.R., and the Communist states of Southeast Asia. If it is limited to sovereign states, Hong Kong would not qualify. Taiwan's diplomatic status presents other problems.

I'm not seeking to paint a discouraging picture, only to give some idea of the complexity we all face. At the Australian conference last year, the consensus seemed to be that the "core" states of a Pacific Economic Community would be the North American and Western Pacific market economy states. That would include Canada and the United States, Japan, Australia, New Zealand, the ASEAN nations, Korea, and the Pacific islands states as a group. It was envisaged that other Pacific countries could participate in task forces to address various issues.

The most constructive result of the Australian conference was the agreement to

establish a standing committee to co-ordinate and plan the next steps in defining what kind of organization we are moving towards. The idea of a European-style community has now been virtually abandoned. Other existing models are the Organization for Economic Co-operation and Development (OECD), the Pacific Basin Economic Council (PBEC), and the British Commonwealth. The standing committee, composed of business people, professionals, academics and senior government representatives, may soon be formed to begin studying these options.

**Canadian
priorities**

Canadians will actively participate in the standing committee. The Canadian position generally favours an organizational structure that would give first importance to economic issues of trade, investment, development and co-operation. Additionally, we favour a strong emphasis on social and cultural relations, to increase understanding of Canada among our Pacific neighbours, and more awareness among Canadians of what the Pacific offers to us.

Canada does not see the Pacific Economic Community as a natural forum for political questions, although in time it may become an appropriate vehicle for some issues. Military and security matters we see as being beyond the purview of what is essentially an economic and cultural co-operative body. I think the nub of the Canadian view on the Pacific Economic Community is that it should be a multilevel organization, and that its effectiveness would be in proportion to its ability to create bridges between peoples rather than states.

The role of our governments in building those new bridges is important. Indeed, much of Canada's entry into the Pacific has been assisted by intergovernmental agreements on economic and cultural co-operation. But our business communities should not expect government to lead the way in this project. The economies of free-market states can speak to each other with a clarity and succinctness that must be the envy of the United Nations translator corps. In the *lingua franca* of trade and investment, we have the beginnings of a common language for our Pacific Economic Community. Without the niceties of diplomatic speech, I think we can communicate to each other what we each have to offer to our Pacific neighbours, and what our neighbours may offer in return.

For Canada, expansion into Pacific trade offers us new and larger markets for our traditional resource exports. Although American producers will still keep us competitive, Canada will continue to supply wheat to China and Japan, and to hold our own in other agricultural products. Our wood pulp will remain a premium product, although New Zealand may begin to edge into our markets later in the decade.

Our other major resource exports — lumber, coal and minerals — will face competition from the rapidly developing Australian resource base, as well as from the ASEAN nations. Canada's share of the Asian market may well decline, but our export volumes will increase to meet the growing demand. As well, the developing Pacific economies in Indonesia, Malaysia, the Philippines and other states may offer us new opportunities in providing the equipment and services they need to achieve their development goals.

Long shopping list

Canadians who have sometimes chafed at being hewers of wood and drawers of water may instead become the people who supply others with new axes and buckets. Canadian expertise in forestry, mining, transportation and communications will be more and more in demand around the Pacific Rim. Energy-saving hog-fuel boilers, hydraulic mining techniques, short-take-off-and-landing (STOL) aircraft, and our world-leading videotext technology are just a few of the items that developing Asian nations can put on their Canadian shopping list. And we can add to that list a wealth of other possibilities in hydro-electric power systems, offshore drilling equipment, computer hardware, and a great deal more.

In return, Canada can offer much to our Pacific Rim neighbours. In addition to reliable supplies of raw and processed materials, we offer Japan opportunities for joint ventures in the development of our resources. We offer a growing market for consumer goods, from digital watches and pocket calculators to the thousands of Datsuns, Hondas and Toyotas rolling onto our city streets.

To the newly-industrialized nations, we offer investment and markets for leather and textiles, wood and steel products, appliances and toys. We offer engineering and project management skills to help those economies make the change from rice paddies to refrigerator plants, from ox-cart tracks to open highways.

And to resource-rich developing nations, we offer financing and investment, know-how and expertise, training and joint ventures. And I might as well add the stimulus of keen competition in our established export markets.

Competition will be keen, and Canada will have to increase the effort if we are to win our share of the Pacific's opportunities. Our traditional resource markets, as well as the promising prospects of technology sales in the developing Asian economies, will be available to Canadian business if we fight for them. Our first step — and I believe this was well driven home at last year's Vancouver conference — will be to get out there across the Pacific and make ourselves known. Canada must establish a business presence in Asia. We must have more Canadian companies opening offices in Hong Kong, in Bangkok, Singapore, Tokyo and Manila. Just because the Pacific Ocean comes conveniently to our doorsteps, we cannot expect the Pacific nations to automatically follow.

More Canadian involvement needed

How many of our manufacturers have representatives in Korea or Indonesia? How much direct contact has there been between Canadian technology firms and potential Asian customers? How many Canadian engineering firms are well-known names around the Pacific Rim? The answer, unfortunately, has too often been: none, or at best, a few. From now on, the answer to the question: "how many Canadians"? is simply "not enough"; and it will be not enough until Canadian business people take a lead from the Canadian banking community and get out across the Pacific to where our future is waiting.

As I mentioned earlier, Canada's banks, already well established around the Pacific Rim, can be a major stepping stone for bringing Canadian business into closer touch with their Asian counterparts. Canadian banks are also well placed to assist both

parties in arranging financing for new or expanded trade ventures. But the key player in Canadian export financing is our federal Export Development Corporation. The EDC has been active in several Asian projects, and actively supports more Canadian penetration into the Pacific.

However, although the EDC offers rates below its actual market cost for the money it lends, it cannot always compete with the aggressive and innovative credit terms offered by the subsidized export-financing agencies of some of European competitors. The EDC will have to take a close and continuing look at its terms and practices to make sure that Canadian entrepreneurs are not being sent-out ill-equipped to meet the competition.

New board

As a further back-up to the Canadian exporter, the federal government has recently created a new advisory board made up of government, industry and labour representatives. The Canadian Export Trade Development Board will help the government focus its programs in support of exports to let Canadian firms take best advantage of market opportunities, and to keep government and the private sector in close co-ordination of our export drive. As a member of this new board, I look forward to some interesting challenges in helping to shape a more efficient system of support for Canadian exporters in all sectors.

Developing closer contacts, trade financing, and co-ordination of common efforts — these things that Canada is now doing in preparation for expanded Pacific involvement — reflect the steps being taken by economies all around the Pacific Rim. Something new is slowly and steadily coming into existence. At this stage, we can only draw the haziest sketch of what that something, this Pacific Economic Community, will be. But, as the months go by, as some of the best minds in the world begin to assemble the pieces, we will start to outline our trade futures.

If all goes well the standing committee charged with designing this new cultural and economic arrangement could hold its first meeting in 1982. And early next year, the ASEAN countries will meet in Thailand to review the Pacific Economic Community concept, and perhaps to decide what their position will be.

As a Canadian businessman, I can only say that I hope the ASEAN states will find that the Pacific Economic Community concept will fit their national and regional economic goals. I hope that we will be able to join together in a sharing of development, of cultural ties, and simply of understanding among neighbours on the shores of a common sea.

Ladies and gentlemen, the Pacific Ocean has too often failed to live up to its name. For 40 years and more, there has been little peace in the Pacific; few of the countries that rim this Ocean are without the scars of war. If there is any cure for war, it must be co-operation and sharing of mutual goals.

The bridges we are seeking to build can do more than carry goods and services between nations. They can make strangers less strange to us. They can make out of foreigners a new circle of friends. They can help us to find our common ground and lead us towards the common good.

Or, if a Pacific Economic Community leads us only a few short steps towards better understanding ourselves and our neighbours, then those will still be steps well taken.

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