



HOUSE OF COMMONS
CANADA

**REINVIGORATING ECONOMIC RELATIONS BETWEEN
CANADA AND ASIA-PACIFIC**

**REPORT OF THE STANDING COMMITTEE
ON FOREIGN AFFAIRS AND INTERNATIONAL TRADE**

**Bernard Patry, M.P.
Chair**

**Mark Eyking, M.P.
Chair
Subcommittee on International Trade,
Trade Disputes and Investment**

November 2003

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November 2003

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THE STANDING COMMITTEE ON FOREIGN AFFAIRS AND INTERNATIONAL TRADE

has the honour to present its

TWELFTH REPORT

In accordance with its mandate under Standing Order 108(2), your committee established a subcommittee and assigned it the responsibility of examining issues in view of strengthening economic relations between Canada and Asia.

The Subcommittee submitted its First Report to the Committee.

Your committee adopted the report, which reads as follows:

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LIST OF RECOMMENDATIONS

CHAPTER II — THE PROBLEM DEFINED: A SHRINKING CANADIAN PRESENCE IN A REGION BRIMMING WITH OPPORTUNITY

Recommendation 1:

That in light of the tremendous economic opportunities in Asia-Pacific, as well as the importance of trade growth to maintaining Canada's standard of living, the federal government make the expansion of economic ties with Asia-Pacific its number one policy priority for increased trade and investment with countries outside of the NAFTA area.

Recommendation 2:

That, although it has already identified China, Japan and India as its priority markets in Asia-Pacific, the Canadian government ensure that opportunities to improve economic ties with other countries in the region are not missed. These opportunities are particularly evident in South Korea and the leading members of the ASEAN community — Thailand, Singapore and Malaysia — among others.

Recommendation 3:

That when working to enhance trade and investment ties with Asia-Pacific, the federal government not only focus on encouraging Canadian exports and outbound investment, but also look for ways to attract more foreign direct investment into Canada from the region. In particular, more should be done to encourage investment from emerging economies.

Recommendation 4:

Because a sustained effort is needed in order to yield meaningful results, the federal government should not give Asia-Pacific intermittent attention as in the past, but commit itself to a long-term strategy for expanding trade and investment with the region.

CHAPTER III — TOWARDS A NEW ASIA-PACIFIC POLICY FOR CANADA

Recommendation 5:

That the Government of Canada negotiate with Japan, and any other country where one is needed, a Social Security Agreement that eliminates the need for companies to contribute to social security programs in both countries when benefits can only be collected in one.

Recommendation 6:

That the federal government seek out and negotiate free trade agreements on an ongoing basis with any countries with which Canada shares a free trade vision and respect for human rights. Steps should be taken to ensure that the government has a sufficient number of well-trained negotiators to carry out this mandate.

Recommendation 7:

That Canada adopt a trade negotiating strategy in which parliamentarians play a more active role. Parliamentarians should be consulted when the basic framework of the Canadian position in future trade negotiations is determined. Officials in charge of negotiations would be bound to stay within this broad framework and through the process of negotiations would provide regular updates on progress and challenges to interested and/or concerned parliamentarians or Parliamentary Committees. Finally, and beginning with the Canada-Singapore free trade negotiations, parliamentarians should be consulted before any tentative agreement is signed.

Recommendation 8:

That, given the importance of trade and investment in stimulating economic growth, and the need for a stable legal and regulatory environment to attract investment, the Government of Canada provide increased support to least developed countries for trade-related technical, policy and legal reforms.

Recommendation 9:

That in cases where issues such as agriculture protection prevents a comprehensive free trade agreement from being negotiated, Canada should instead pursue alternative economic co-operation agreements that promote trade or pursue sectoral agreements within the WTO. Free trade in services is an example of such an agreement.

Recommendation 10:

That to demonstrate its commitment to improving economic ties, as well as to cultivate a closer working relationship with Asia-Pacific, the federal government significantly increase the number of visits to key markets in the region by ministers, parliamentarians and senior government officials. Furthermore, these official visits should be more consistent, strategic and focused on achieving specific policy objectives.

Recommendation 11:

That the federal government invite willing provinces to jointly develop a national strategy on international education to more aggressively promote Canada as a study destination for international students.

Recommendation 12:

That the federal government work with the provinces to develop a certification program for education institutions to protect Canada's integrity and reputation and to prevent immigration scams and abuses.

Recommendation 13:

That, in an effort to more effectively promote Canadian education institutions in Asia-Pacific, as well as to improve linkages between Canadian alumni in the region, the Canadian government, in collaboration with the provinces and the institutions themselves, encourage the Canadian Education Centre Network to work closely with, and strengthen, Canadian alumni associations abroad. The necessary financial support to perform this function should be provided.

Recommendation 14:

That, without compromising the safety and security of Canadians, the federal government ensure that legitimate travel to Canada is not unnecessarily restricted.

Recommendation 15:

That the federal government examine ways to further remove impediments to establishing commercial air travel connections between Canada and key markets in Asia-Pacific.

Recommendation 16:

That when issuing travel advisories in Asia-Pacific, the Government of Canada distinguish between essential and non-essential travel. At the same time, given the large size of many countries in the region, advisories should be as specific to particular locations as possible without jeopardizing the safety of Canadians in the process.

Recommendation 17:

That, as part of a broader strategy to promote long-term trade and investment with Asia-Pacific, new programs that encourage personal exchanges with the region be explored and existing ones expanded. In particular, the Canadian government should consider expanding its Working Holiday Program to include more Asia-Pacific countries and to allow more Canadian youth to participate.

Recommendation 18:

That, the Government of Canada review the mandate of the Asia Pacific Foundation of Canada and ensure that through stable funding it is an effective tool in delivering the information and services that it provides. While conducting this review, the government should also review the effectiveness of other networks for business such as the Canadian Chamber of Commerce.

Recommendation 19:

That the federal government work in conjunction with other countries to harmonize statistical methodologies in the collection of international trade data.

Recommendation 20:

That, given the evidence that many Canadian companies are not sufficiently knowledgeable about the challenges of exporting and investing in Asia-Pacific markets, the Canadian government improve the effectiveness of its Team Canada Inc export-preparedness service. Specifically, it should determine if prospective exporters are aware of, and are using, this service, and whether or not it adequately prepares Canadian businesses for the challenges of exporting to overseas markets.

Recommendation 21:

That, in the interests of improving export-readiness and removing the obstacles to trade and investment in Asia-Pacific, the Government of Canada work with businesses that have demonstrated success in the region to establish criteria by which to evaluate the business plans and export-preparedness of Canadian SMEs looking to the Asia-Pacific market. Contingent upon meeting these criteria, SMEs would be provided with financial assistance to help offset the cost of travel to begin to put that plan into action.

Recommendation 22:

That the Canadian government, through the Trade Commissioner Services overseas, work with Canadian business associations operating in key Asia-Pacific markets to set up a mentorship program that would allow Canadian firms already established in those markets to share their knowledge and experience with new entrants in the region.

Recommendation 23:

That the federal government open three small business incubation facilities in Asia-Pacific — in Japan, Hong Kong and Singapore. These facilities would provide incoming Canadian small businesses with temporary use of office space and access to basic business services in order to ease their entry into the region.

Recommendation 24:

That, as part of a long-term strategy to build Canada's economic relationship with Asia-Pacific, as well as to exhibit Canadian technology and expertise, the federal government more effectively

encourage Canadian small businesses to participate in trade shows and exhibitions in Asia-Pacific and provide increased financial assistance for SMEs to attend those events.

Recommendation 25:

That, to improve trade, investment and Canada's image in Asia-Pacific, the Government of Canada encourage a significantly greater number of joint trade missions to the region involving the participation of businesses along with federal, provincial and/or territorial government leaders. Instead of broad-based delegations such as Team Canada missions, smaller missions focused on specific sectors should be favoured.

Recommendation 26:

That, in recognition of the critical role played by Canada's Trade Commissioner Service in promoting international trade and investment, and the importance of trade and investment to Canada's standard of living, the Canadian government substantially increase its funding of the Trade Commissioner Service in order to raise the number of trade officers operating abroad, particularly the number of sectoral specialists. The increase in resources should be concentrated in the Asia-Pacific region with the goal of Asia-Pacific accounting for 50% of all TCS expenditures abroad.

Recommendation 27:

That the Government of Canada extend the length of term of international postings for its trade officers to a period of five years.

CHAPTER I — INTRODUCTION

In November 2002, the Subcommittee on International Trade, Trade Disputes and Investment undertook an examination in view of strengthening economic relations between Canada and the Asia-Pacific region. This marks the third such regional study in as many years. In June 2001, the Subcommittee presented *Crossing the Atlantic: Expanding the Economic Relationship Between Canada and Europe*. This study was followed a year later by *Strengthening Canada's Economic Links with the Americas* which focused on improving economic ties with Latin America, with a special emphasis on the Free Trade Area of the Americas (FTAA) negotiations.

The decision to examine how to improve Canada's economic relationship with Asia-Pacific was motivated in large part by the tremendous trade and investment opportunities in the region. Indeed, Asia-Pacific countries have been at the forefront of global economic growth for decades, beginning with Japan and the newly industrialized economies (NIEs — South Korea, Hong Kong, Singapore and Taiwan) and more recently led by China, India and some member countries of the Association of East Asian Nations (ASEAN).

Recent developments in China make that country worthy of particular attention. China is currently experiencing a tremendous period of economic expansion, fuelled by domestic market-based reforms and an increasingly international focus, demonstrated by its recent accession to the World Trade Organization (WTO). The emergence of China in international markets is having, and will continue to have, a considerable influence on established world trade patterns.

The second motivating factor behind this study is that in spite of the tremendous opportunities available in the region, Canada has noticeably disengaged from Asia-Pacific in recent years. Prior to the Asian Crisis and the Asia Pacific Economic Co-operation (APEC) summit in Vancouver — both in late 1997 — Canadian interest in the economic potential of the region was high. Since that time, however, exports have fallen, government visits have decreased and business connections have been allowed to atrophy.

As a result, Canada's presence in Asia-Pacific is shrinking at the very time when trade and investment opportunities in the region may be the greatest. The principal objective of this report is to examine Canada's shrinking presence in Asia-Pacific in light of these tremendous opportunities, and to make recommendations for a new Asia-Pacific policy aimed at reinvigorating Canada's economic ties with the region.

The Subcommittee began its study in Ottawa with a series of briefings and formal hearings from government officials, business leaders, academics and experts on the Asia-Pacific region. Witnesses were asked to provide the Subcommittee with their views on how Canada could improve its economic relationship with the region. The Subcommittee focused on two specific questions: how best to encourage businesses to look to Asia-Pacific; and what obstacles stood in the way of greater trade and investment, and how those obstacles could best be overcome.

These hearings were followed by the Subcommittee's two successful fact-finding trips to Asia-Pacific. The first trip in early May took the Subcommittee to India, Thailand, South Korea and Japan. Unfortunately, the timing of the outbreak of severe acute respiratory syndrome (SARS) at that time forced the Subcommittee to postpone further travel until later in the year. In early September the Subcommittee travelled to China, Hong Kong, Malaysia and Singapore. While in the region, Subcommittee members also had the opportunity to meet with Canadian government and business representatives located in Mongolia and Indonesia.

The main objective of these trips was to learn firsthand about the specific challenges and opportunities present in key markets in Asia-Pacific. To that end, we met with Canadian officials and business leaders operating in the region, as well as local government and business leaders and research institutions. These individuals and organizations provided invaluable information: by demonstrating the potential of the region; sharing their unique perspectives and insight; alerting the Subcommittee to theretofore unknown challenges; and making helpful recommendations.

The main body of this report is divided into two sections. Chapter II, "The Problem Defined: A Shrinking Canadian Presence in a Region Brimming with Opportunity," makes the case for why, with the exception of Canada's North American Free Trade Agreement (NAFTA) partners, we believe Asia-Pacific should be Canada's number one priority for increased trade and investment. It examines recent trends in economic growth, reform and integration in the region, as well as some of the opportunities in specific sectors.

Chapter III, "Towards a New Asia-Pacific Policy for Canada," outlines the Subcommittee's recommendations on steps Canada can take to further develop its economic relationship with the Asia-Pacific region. These are divided into three categories. The first addresses the importance of removing the barriers to trade and investment with the region. The second outlines a number of broad suggestions which, although not directly related to trade and investment, create an enabling environment in which to more effectively pursue closer economic ties. Finally, recognizing that it is the business community that drives trade and investment, the third section examines the role that the federal government can play in helping the Canadian business community succeed in Asia-Pacific.

CHAPTER II — THE PROBLEM DEFINED: A SHRINKING CANADIAN PRESENCE IN A REGION BRIMMING WITH OPPORTUNITY

Asia-Pacific is a vast and populous region, ranging from Afghanistan in the west to the islands of the South Pacific in the east, to Japan and Mongolia in the north and to New Zealand in the south. Indeed, it is practically impossible to discuss Asia-Pacific as a single entity. The region is characterized by remarkable diversity in geography, culture, population density, political systems, economic and social development and personal freedoms. It is marked by the starkest of contrasts. Asia-Pacific includes some of the most densely populated countries in the world, as well as some of the sparsest. It covers some of the richest nations as well as some of the poorest. Modern democracies and market-based economic systems exist alongside Communism, dictatorships and planned economies. The political structure is highly volatile in some countries, and very stable in others.

A total of 3.5 billion people live in Asia-Pacific — primarily in South and East Asia — accounting for well over half of the world's population. China and India each have over 1 billion citizens. Other heavily populated countries in Asia-Pacific include Indonesia, Pakistan, Bangladesh and Japan. In all, 11 countries in Asia-Pacific have larger populations than Canada.

In terms of economic progress, most economies in Asia-Pacific are still in their developing, or emerging, stages, with a few notable exceptions. However, because of the tremendous population in the region, many of these countries are already among the largest and most powerful economies in the world. While the United States (U.S.) remains the largest national economy worldwide, the size and rapid development of China has made that country the second largest in the world on a purchasing power parity (PPP) basis,¹ followed closely by Japan. India has also experienced considerable growth in recent years, making that country the world's fourth-largest economy in 2002.²

¹ The purchasing power parity (PPP) measure of GDP calculates not just the value of total income (or output) in an economy, but also accounts for differences in the cost of goods and services between countries. In other words, it measures the value of production by what can be purchased with that income.

² **Source:** World Bank, World Development Indicators database. Available at: <http://www.worldbank.org/data/quickreference/quickref.html>.

Not surprisingly therefore, Asia-Pacific is the largest economic region in the world. On a PPP basis, the total value of the region's gross domestic product (GDP) in 2002 was approximately US\$15.8 trillion, equivalent to about one third of global output that year. By comparison, the value of North American output that year was US\$11.9 trillion while Europe produced about US\$12.5 trillion.³

Although the total value of economic output in Asia-Pacific is high, there is a wide range in the level of social and economic development in the region. On one end of the spectrum lies countries and economic regions such as Japan, Australia, Hong Kong and New Zealand. These are all characterized by high levels of per-person economic output (per capita GDP), well-developed public infrastructure, a degree of political stability, predictable legal and regulatory environments and high literacy and life expectancy rates. At the other end of the spectrum are some of the world's poorest countries. On the United Nation's list of the 49 least developed countries (LDCs) are 12 countries located in Asia-Pacific — Afghanistan, Bangladesh, Bhutan, Laos, Myanmar, Maldives, Cambodia, Kiribati and Tuvalu, Nepal, Samoa and Vanuatu. Two thirds of the world's poor live in Asia-Pacific.

A. Why Asia-Pacific?

Over the course of its hearings in Ottawa, as well as during its travels to the region, the Subcommittee heard overwhelmingly positive evidence about the economic potential in Asia-Pacific. Witnesses were unanimous in their belief that Asia-Pacific presented a tremendous economic opportunity for Canada and that more should be done to improve Canada's trade and investment relationship with the region.

1. The Size and Economic Dynamism of the Region

The simplest, and perhaps the most compelling reason for this conviction in the opportunities in Asia-Pacific is the size and economic dynamism of the region. As mentioned above, Asia-Pacific accounts for over half of the world's population and already contributes more to the global economy than either North America or Europe on a purchasing power parity basis.

Asia-Pacific's position as a global economic leader comes despite a number of economic setbacks that have beset the region in recent years. Although recent statistics suggest evidence of a long-awaited recovery, Japan, has been mired in a 10-year economic slump, affecting demand for products from other countries within the region. In 1997 and 1998, the Asian Crisis devastated financial

³ **Source:** *Ibid.* It should be noted that the value of production in Asia-Pacific is somewhat understated because data is unavailable for a number of countries in the region, most notably Afghanistan and North Korea.

markets and plunged several countries into severe recession. The recovery from that recession was prematurely arrested by the bursting of the high-tech bubble in 2000, which was then followed by the September 11th terrorist attacks a year later. Most recently, the outbreak of SARS has provided yet another interruption to the recovery of the Asian economies. The tourism industry in China and Southeast Asia, already struggling from lower air travel in the post-September 11th environment, has been devastated. Although the peak of the SARS crisis has since passed, it remains to be seen what the long-run effects of the outbreak will be on economic growth in East Asia.⁴

Notwithstanding these setbacks which have dampened recent economic growth in the region, many countries in East Asia are emerging as significant world economic powers. The newly industrialized economies (NIEs) made remarkable advances in the 1980s and early 1990s and continue to experience strong growth today. Currently, China, India and parts of Southeast Asia are leading the way in economic growth in emerging Asia. According to the International Monetary Fund (IMF), from 1995 to 2002, the world economy is estimated to have grown by an average of 3.6% per year, after accounting for the effects of inflation. By contrast, the Asian NIEs together grew by an average of 4.8% over the same period, while growth in Asia's developing countries has been even more pronounced, averaging 6.6% each year.

As Brian Hunter (Senior Economist, Canadian International Development Agency) informed the Subcommittee, this economic growth has resulted in unprecedented poverty reduction in many parts of Asia-Pacific. As Asia-Pacific economies continue to develop, wealth is increasing, improving the spending capacity of the most populous region in the world. Robert Keyes (Vice-President, International Division, Canadian Chamber of Commerce) testified that the increasing wealth of that large population adds up to considerable opportunities for Canada. The outstanding question, he stressed, was how Canada would harness those opportunities.

2. Market-Based Reforms in Asia-Pacific

One of the factors contributing to these optimistic prospects for economic growth in Asia-Pacific is that a number of countries in the region are engaged in a series of market-based economic reforms aimed at increasing trade, attracting investment and stabilizing financial markets. Indeed, the rapid economic development in much of East Asia can be attributed in large part to the liberalization of markets and the increased emphasis on international trade as a means of growth.

⁴ The most recent estimates suggest that the impact on many countries will be less severe than initially expected. Most SARS-afflicted countries are revising upward their economic growth forecasts for 2003 and 2004.

Nowhere is the significance of market-based reforms greater than in China. John Wiebe (President and Chief Executive Officer, Asia Pacific Foundation of Canada) characterized China's market reforms as "one of the most profound economic transformations of the modern era." The move towards internal competition in China is creating economic efficiencies and fuelling GDP growth within China. At the same time, China's emergence on the international economic stage, as evidenced by its recent accession to the WTO, has the capacity to redefine traditional trade flows and market priorities. Indeed, China's development and its impact on the world economy, is viewed in the rest of Asia as both a threat and an opportunity. The liberalization of trade in China creates unparalleled opportunities for exporters, but at the same time, many countries — particularly China's neighbours — are concerned that they will be unable to compete with the low labour costs and other economic advantages of a market-oriented China.

While witnesses in Canada were unanimous about the economic opportunities presented by Asia-Pacific as a whole, they were equally unanimous in their belief that the opportunities were greatest in China. The significance of China's market-based economic reforms and increased focus on international trade cannot be overstated. With its recent accession to the WTO, the world is facing the unprecedented emergence of a market of 1.3 billion people in an economy growing at between 8% and 10% per year. In light of the sheer magnitude of the opportunities presented by such an event, Wendy Dobson (Professor of International Business, Director, Institute for International Business, University of Toronto), stated that next to the United States, China should be Canada's most important strategic focus.

Although China's market-based reforms have captured the most international attention, other Asia-Pacific countries have also been actively pursuing reforms of their own. In particular, many countries in Southeast and East Asia are continuing the process of financial market reforms stemming from the Asian Crisis in 1997 and 1998. Japan is undergoing a similar set of reforms aimed not only at the financial sector, but also at jump-starting the Japanese economy. South Asia — India in particular — is also engaging in market reforms, but at a slower pace than in East Asia. Brian Hunter suggested that this more cautious approach to market liberalization has prevented South Asia from realizing the same level of economic development and poverty alleviation as has East Asia.

The specific economic reforms in East and Southeast Asia, China, India and Japan are discussed in more detail in Appendix I.

3. Economic Integration within Asia-Pacific

Economic reforms are leading many Asia-Pacific countries to become increasingly trade-oriented. Furthermore, a growing proportion of that trade is taking place within the region. In 1990, about 42.1% of all exports from Asia-Pacific countries were destined for other countries in the region. By 2001, that proportion had risen to 48.2%.

There are a number of factors behind the increase in intra-Asia-Pacific trade. John Wiebe suggested that it is in part due to the more frequent use of offshore production centres by Asian manufacturers within the region. The resulting growth in regional supply chains can have an inflating effect on trade statistics. Another factor behind the increase in intra-Asia trade is the emergence of China as a major trading nation. Mainland China, excluding Hong Kong, has become the second-largest exporter in all of Asia-Pacific, accounting for 17.8% of exports from the region in 2001, second only to Japan at 26.9%.⁵

The Subcommittee heard that, given this increase in intra-Asia economic activity, there is a growing awareness and acceptance in Asia-Pacific of the benefits of regional co-operation in areas such as trade, investment and financial affairs. Asia-Pacific is increasingly focusing on building economic relations within the region through the promotion of regional integration agreements. Economic integration agreements are nothing new in the region — organizations like ASEAN⁶ have functioned for several decades — however, the extent of integration and negotiating activity has accelerated in the last several years. These regional integration agreements are described in greater detail in Appendix II.

One of the principal concerns of many witnesses was that the increase in economic interdependence and the rise of regional trade blocs, particularly in East Asia, could effectively shut Canada out of those markets. When trade barriers fall between two countries, this causes goods produced by third-party countries to become relatively more expensive. Some economists argue that while multilateral agreements are economically efficient and produce real gains, bilateral or regional trade agreements are in fact market-distorting from a global perspective because countries within a trade bloc receive preferential treatment compared to those outside the bloc, regardless of whether or not they are more efficient producers.

The Subcommittee was warned that as countries in Asia-Pacific become more interdependent, Canada could lose access to some of the most potentially lucrative markets in the world. Other witnesses disagreed, however, arguing that

⁵ Data is from the World Trade Organization.

⁶ ASEAN consists of the following countries: Thailand, Malaysia, Singapore, Indonesia, the Philippines, Vietnam, Laos, Myanmar, Brunei Darussalam and Cambodia.

Canada might in fact benefit from Asia-Pacific economic integration. Robert Bélanger (Canadian Senior Trade Commissioner to Thailand), pointed to two such potential benefits. The first is that economic integration results in the rationalization and specialization of production. The Trade Commissioner used the example of the automotive sector in southeast Asia which is rapidly consolidating in Thailand. He maintained that this process of rationalization would make it easier for Canada to target its efforts in the region. The second major benefit is that trade liberalization within Asia-Pacific will create economic growth, wealth and prosperity in the region. This, in turn, will increase demand for all types of goods, including those produced in Canada.

B. Sectoral Opportunities in the Region

1. Investment Opportunities

The rapid economic growth in many Asian countries is expected to create considerable opportunities for foreign companies, particularly on the investment side. Indeed, the Subcommittee was impressed by the magnitude of investment opportunities it saw over the course of its fact-finding missions in Asia-Pacific, particularly in the developing countries.

The Subcommittee learned that a number of low- and middle-income countries are courting foreign direct investment to help finance investments in transportation and municipal infrastructure, including road, rail and utilities construction, electricity generation, hospitals and airports. In addition, many Asian countries are seeking foreign expertise in environmental industries such as water purification and waste management.

Looking more closely at specific countries, there are concerns in India that local capacity in transportation infrastructure has become an impediment to economic growth. Considerable opportunities exist for international firms in infrastructure projects in that country. However, the process of awarding contracts is a lengthy one and represents a major challenge to prospective foreign investors — over and above the challenges of India's various legal and regulatory hurdles. The Subcommittee was told that other major areas of investment opportunity in India include: oil and gas; telecommunications; biotechnology and pharmaceuticals; and information technology, to name a few.

In Thailand, the Subcommittee heard that the Thai Board of Investment is actively seeking foreign investment in five key sectors: Agriculture/food, automotive, information and communication technologies (ICT), fashion (garments, jewellery, leather) and high-value services. Most countries that the Subcommittee visited, including China, Malaysia and South Korea, identified similar investment priorities.

The Subcommittee is convinced that Asia-Pacific holds significant investment potential for Canadian firms willing to take advantage of the opportunities in the region. At the same time, however, we also heard from a number of witnesses overseas that Asia-Pacific should not be overlooked as a potential source of foreign investment into Canada. While Japan and Hong Kong are the most significant investors in Canada, the rapid economic growth of the ASEAN countries, China and India, creates considerable potential for future investment in the Canadian economy.

2. Trade Opportunities

In addition to the opportunities for Canadian investment in Asia-Pacific, as well as the potential for attracting investment from the region into Canada, the Subcommittee has also learned of tremendous potential to increase trade with the region. The most promising include the automotive, wood products, information, telecommunications, aerospace, environmental, advanced materials, energy, life sciences, professional services, and plastics sectors.

For example, Robert Greenhill (President and CEO, Bombardier International) told of considerable opportunities in regional aircraft and rail cars as cities struggle with mass urbanization. Other witnesses spoke of roles Canada could play in environmental industries such as water treatment and waste disposal. The need for construction and related consulting and engineering services is also considerable in a number of developing countries, particularly in India.

As well, the growth of a prosperous middle class is creating new demand for consumer-based products and services. Given the large populations of many of these countries, the impact of this increased demand could be enormous. The Subcommittee heard that the emerging middle class in India, for example, numbers between 30 million and 50 million households. While this represents but a small fraction of India's total population, it is greater than the entire population of Canada.

Among the specific opportunities in consumer goods, several witnesses, including Peter Barnes (President and CEO, Canadian Wireless Telecommunications Association), told of tremendous growth in demand for wireless telecommunications products. Developing countries that lacked adequate infrastructure for land line telephones are skipping directly to cellular telephones, personal digital assistants (PDAs) and wireless internet.

Over the course of its travels, the Subcommittee learned of other market opportunities for Canadian consumer goods and services in Asia-Pacific. In some cases, these opportunities were remarkably consistent across the region. In general, potential exists in areas such as finance and insurance, fashion, education, food, wood housing and cultural/leisure activities.

In other cases, market opportunities are more specific. In South Korea, we learned that movement from a six-day to a five-day work week is expected to increase consumption of cultural and leisure products. Similarly, the growing worldwide popularity of the Indian entertainment industry presents opportunities for Canadian companies in that sector. Finally, the Subcommittee heard several times that the growing middle class in emerging Asia has tremendous potential for the Canadian tourism industry. Although Canada is a great distance away, it enjoys an excellent reputation as a tourist destination, in addition to the fact that many Asians have connections to the country through friends or family who emigrated to Canada.

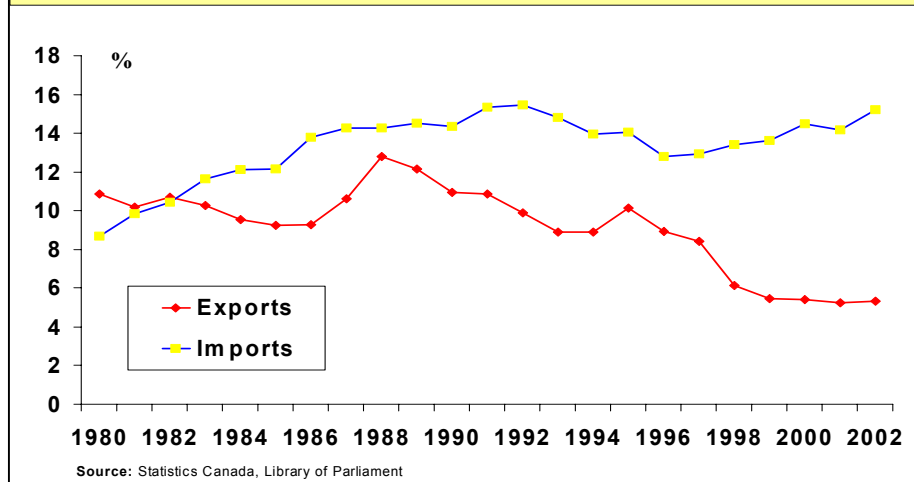
C. Canada's Presence in Asia-Pacific: Why is it Shrinking?

A number of witnesses expressed concern that Canada was losing significance as an economic presence in Asia-Pacific. Despite recent declines, Canadian exports to Asia-Pacific have, in aggregate, risen over the past ten years. However, they have not kept pace with the growth of imports into Asia-Pacific in general. The Subcommittee heard that as a result, Canada's market share of Asian imports is only 65% of its level of ten years ago. Details on Canada's trade and investment relationship with Asia-Pacific are discussed in Appendix III.

Despite the strong growth in imports from Asia-Pacific, the region has declined in significance as a trading partner for Canada. In the late 1980s, Asia-Pacific accounted for over 13% of Canada's total two-way trade worldwide. Since that time, the share of Canadian trade taking place with Asia-Pacific countries has fallen to below 10%.

In the case of Canadian exports to the region, the decline is even more acute. In 1988, just under 13% of Canada's total merchandise exports worldwide were destined for Asia-Pacific. However, as Canadian exports fell post-1997, so too did the significance of the Asia-Pacific market. By 2002, Asia-Pacific accounted for only 5% of Canada's total merchandise exports.

Chart 1 – Canadian Merchandise Trade with Asia-Pacific as a Share of Total International Trade, 1980-2002



This loss of market share in Asia can be explained at least in part by the emergence of China as a trading partner in the region. As trade between China and the rest of Asia-Pacific grows, by definition the market share of other countries outside the region must fall, even if their total value of trade remains unaffected. However, as John Wiebe stated, this mathematical truism does not absolve Canada of its relatively poor record of trade and investment growth in Asia-Pacific in recent years. While few countries trading into Asia-Pacific have improved their market share, research at the Asia Pacific Foundation of Canada (APF Canada) showed that Canada has one of the poorest records in this area. The same research showed that if Canada had maintained its market share in Asia-Pacific, the result would have been an annual increase in exports of at least \$6 billion over current levels.

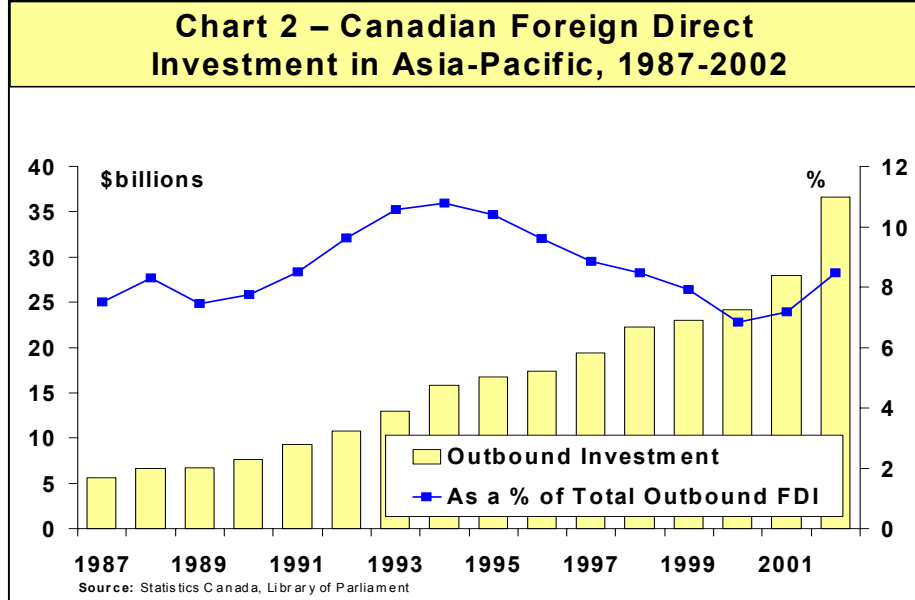
The Subcommittee is concerned that Canada is in danger of losing even more market share in the region. While economic integration in Asia-Pacific continues, a number of countries outside the region have actively pursued free trade negotiations within Asia-Pacific, in order not to be shut out of potential economic opportunities. The United States has successfully negotiated a free trade agreement with Singapore, is negotiating with Australia and expected to commence negotiations with Thailand. Mexico is also pursuing trade agreements with Singapore, and Japan, while South Korea and Thailand have both expressed interest in opening discussions with Mexico. Chile is also active in pursuing trade liberalization agreements.

A key reason for Canada to act quickly and redouble its efforts to expand its economic presence in the region, particularly in China, is what some witnesses called “first-mover advantage.” In the context of international trade, first-mover advantage refers to the fact that late entrants into specific markets are at a disadvantage because they must compete with established players who enjoy the advantages of experience and name recognition. Wendy Dobson advised the Subcommittee that given that Canada is a late entrant in many other Asian markets, it is all the more critical to act quickly to focus its efforts on the emerging Chinese market where Canada already benefits from a positive reputation thanks to the work of Dr. Norman Bethune.⁷

On the investment side, Canada’s record in Asia-Pacific is somewhat better. Preliminary estimates indicate that Canada’s foreign direct investment (FDI) in Asia-Pacific was worth a record \$36.6 billion in 2002.⁸ Although Canadian investment in Asia-Pacific has increased considerably — by an average of 13.9% annually since 1990 — Canadian investments in Latin America and Eastern Europe have grown even more rapidly. As a result, Asia-Pacific began to decline in importance as a destination for Canadian investors. From a high of 10.8% in 1994, Asia-Pacific’s share of Canadian total FDI worldwide fell to a low of 6.8% in 2000. In the past two years, however, investment in the region has picked up and Asia-Pacific is once again growing in importance as a destination for Canadian FDI.

⁷ Dr. Bethune was a thoracic surgeon who volunteered to provide medical treatment to Chinese peasants and troops fighting Japanese invaders in remote northern China in 1938 and 1939. In addition to operating on the wounded and ill, he established over twenty teaching and nursing hospitals in the region. Dr. Bethune died in 1939 from blood poisoning when he cut himself while operating on a wounded soldier. Mao Zedong wrote one of his most famous essays in memory of Dr. Bethune. It became required reading in China.

⁸ Data on FDI between Canada and Asia-Pacific are somewhat overstated because they include investment in and from the Middle East. However, Canada’s investment relationship with the Middle East is relatively modest and accounts for less than 5% of the total.



At the same time, investment by Asia-Pacific countries into Canada is also beginning to increase following an extended period of stagnation. Investment in Canada by Asia-Pacific countries had in fact been declining steadily since the Asian Crisis. However, this trend was broken in 2001 and a year later, inbound FDI from Asia-Pacific reached a record \$17.2 billion. Even so, the significance of Asia-Pacific as a source of investment into Canada remains much lower than in the recent past. As John Klassen (Executive Director, Investment Partnerships Canada, Dept. of Industry) observed, FDI from Asia-Pacific accounts for only about 5% of total Canadian inbound investment, down considerably from a high of 8.2% in 1993.

D. Making Asia-Pacific a Priority

The Subcommittee is convinced that the Asia-Pacific market holds tremendous potential for Canadian investors and exporters. Indeed, given the size and rapid economic development of a number of Asian countries, it would be difficult to overstate the magnitude of the opportunities in the region.

However, the Subcommittee also believes that Canada has not taken full advantage of these opportunities in the past. It notes that trade and investment with Asia are increasing, but at a much slower rate than a number of other countries exporting to, and investing in, the region. As a result, Canada's market share and presence in the region is diminishing at a time when, given the emergence of China and its effect on surrounding countries, the economic opportunities may never be greater.

It is critical that Canada reverse this trend. Canada is dependent on trade to sustain its standard of living and trade is of primary importance in ensuring long run economic prosperity. Exports account for over 41% of national GDP and sustain a significant proportion of Canada's overall employment.

In addition to the direct economic opportunities presented by Asia-Pacific, several witnesses, including Patty Townsend (Executive Director, Canadian Agri-Food Trade Alliance), expressed their belief that, given the increase in trade protectionism in the United States, as well as the number of high-profile trade disputes between Canada and the U.S., Canada needs to reduce its dependence on the U.S. export market. While not all witnesses advocated trade diversification as a matter of explicit government policy, there was considerable agreement that Asia-Pacific should be Canada's number one priority outside of the United States.

The Subcommittee agrees with those witnesses who stated that Canada's NAFTA partners should continue to be its number one policy priority from a trade and investment standpoint. However, we are also convinced that no other region in the world today is as dynamic or holds as much economic promise as Asia-Pacific. Trade *growth* is critical to the Canadian economy and standard of living. The Subcommittee believes that nowhere in the world is the potential for trade growth greater than in Asia-Pacific. We therefore recommend:

Recommendation 1:

That in light of the tremendous economic opportunities in Asia-Pacific, as well as the importance of trade growth to maintaining Canada's standard of living, the federal government make the expansion of economic ties with Asia-Pacific its number one policy priority for increased trade and investment with countries outside of the NAFTA area.

At the same time, however, it is important to recall that Asia-Pacific is a vast area, comprised of dozens of countries and economic regions at radically different stages of economic, social and political development. As such, it follows that some markets in the region would be easier to penetrate, offer lower risks and yield greater returns than others.

This suggests that, to some extent, the most effective way to accomplish the objective of expanding trade and investment with Asia-Pacific as a whole is for the Canadian government to place particular emphasis on certain markets within the region and thus concentrate its resources on improving economic ties where the strategic benefits to Canada would be greatest. This would allow for more targeted, and therefore more effective, strategies aimed at enhancing trade and would also be a more efficient use of federal government resources.

However, this is not to suggest that trade and investment opportunities do not exist all across the Asia-Pacific region. Indeed, Canadian companies have enjoyed success in trade and investment throughout Asia-Pacific, including in some of the least-developed countries in the region. The Subcommittee heard from one Canadian organization in Singapore cautioning that businesses make the ultimate decision on where their market opportunities are greatest and that in focusing on key markets in Asia-Pacific, the federal government should be careful not to explicitly or implicitly discourage Canadian companies from pursuing trade and investment opportunities elsewhere in the region.

The Subcommittee agrees that the role of the federal government is not to unduly influence business decisions. The strategy of emphasizing key markets in Asia-Pacific is intended, rather, as a directive of where an increase of government resources and effort would most effectively be made — without presupposing that opportunities do not exist elsewhere, or that resources be redistributed within the region. In other words, the strategies for improving trade and investment outlined in Chapter III below should extend across Asia-Pacific and not solely to Canada's key markets in the region.

The federal government has identified eleven countries worldwide as priority areas for increasing trade and investment ties. Of those eleven countries, three are in Asia-Pacific — China, Japan and India.⁹ As the second-through fourth-largest economies in the world on a purchasing power parity basis, these three countries are hardly controversial choices. At the same time, however, the Subcommittee is concerned that, given the tremendous economic opportunities elsewhere in the region, Canada should ensure that other significant markets are not overlooked.

In particular, we believe that more effort should be placed on increasing trade and investment with South Korea and members of the ASEAN community — especially the more advanced economies such as Singapore, Thailand and Malaysia. Indeed, as our third-largest trading partner in the region, Asia-Pacific's fourth-largest economy, and the leading source of foreign students into Canada, we believe that South Korea offers considerable potential that should not go unexplored. For these reasons, we were surprised that South Korea was not initially included on our travel itinerary. As for the leading members of the ASEAN community, their rapid growth, combined with the process of economic integration through regional free trade agreements, creates not only direct trade and investment opportunities, but also makes some ASEAN countries attractive as regional bases from which to expand further into the Asia-Pacific market.

⁹ The others are the remaining five members of the G-7 (the U.S., U.K., France, Germany and Italy), Mexico, Russia and Brazil.

Based on the advice of witnesses and its own observations, the Subcommittee recommends:

Recommendation 2:

That, although it has already identified China, Japan and India as its priority markets in Asia-Pacific, the Canadian government ensure that opportunities to improve economic ties with other countries in the region are not missed. These opportunities are particularly evident in South Korea and the leading members of the ASEAN community — Thailand, Singapore and Malaysia — among others.

For the most part, when witnesses spoke of the need to improve trade and investment ties with Asia-Pacific, the focus was on outbound flows — increasing Canadian exports to the region and encouraging Canadian investment abroad. The benefit to Canada of attracting inbound flows from Asia-Pacific was not frequently mentioned.

However, the Subcommittee did hear from some witnesses that Canada tends to overlook emerging economies in Asia-Pacific as potential sources of foreign direct investment. Indeed, as discussed in Appendix III, only a few Asia-Pacific countries are significant investors in Canada — Japan, Hong Kong and Australia. Furthermore, as John Klassen informed the Subcommittee, the Canadian government, in its ongoing efforts to attract foreign investment, is focusing on eight priority markets worldwide, of which only Japan is located in Asia-Pacific.¹⁰ However, we were told that emerging Asia was an excellent, rapidly-growing, and largely untapped source of foreign investment.

Canada's selling points as a destination for FDI from Asia-Pacific differ considerably from the benefits to Canadian companies of investing in that region. Canadian investment in Asia-Pacific is often the result of service industries such as finance and insurance establishing operations abroad — most service industries require a physical presence in the region in order to sell their products. As well, manufacturing companies invest in many Asia-Pacific countries to take advantage of the low-cost labour environment. For example, the Subcommittee heard that most of China's exports to the world are in fact produced by multinational corporations which have invested in low-cost production facilities in that country and then re-export products back to markets such as the U.S., Canada and Europe. We were told that this pattern of investment and trade accounts for China's large trade surplus with countries such as the U.S. and Canada.

¹⁰ The other priority markets identified by Mr. Klassen were the United States, the United Kingdom, France, Germany, Italy, the Netherlands and Sweden.

However, most labour-intensive manufacturing takes place in low-value-added industries. While some Canadian manufacturing industries will have difficulty competing with low-cost production in countries like China, Canada still has an important advantage in knowledge-intensive, high-value-added industries. Indeed, the Subcommittee heard in China that despite the abundance of workers in that country, wages and salaries for skilled labour were higher than in Canada because of the shortage of high-quality workers. In other words, Canada retains a competitive advantage in high-tech production.

In order to attract more FDI from Asia-Pacific, the Subcommittee believes that Canada can also take advantage of its NAFTA ties to promote itself as a gateway to the U.S. market. Some witnesses in Asia-Pacific were skeptical of this approach, stating that if they were interested in accessing the U.S. market, it would be more effective to go directly to the U.S. Others disagreed, pointing to Canada's multicultural makeup and reputation as a safe, tolerant society as factors that would make Canada a preferable investment destination.

There are several ways in which increasing investment flows from Asia-Pacific benefit Canada. Foreign investment creates jobs, and can bring new productivity-enhancing technologies and techniques to the country. In addition, since Canada is a relatively small consumer market, most foreign-owned production is intended for export — either to larger markets like the U.S., or back to the country from which the investment originated. In either case, higher exports would improve Canada's trade balances with other nations.

As countries such as China and India continue to develop, local companies are expanding, gaining knowledge and expertise in areas such as computer software and applications, biotechnology and other high-tech industries. These companies are beginning to look abroad for strategic partnerships and new markets for their products. Given the availability of a skilled, productive workforce, Canada would be a natural fit for foreign investors. The Subcommittee firmly believes that more should be done to promote Canada as a destination for FDI from all across the Asia-Pacific region. We recommend:

Recommendation 3:

That when working to enhance trade and investment ties with Asia-Pacific, the federal government not only focus on encouraging Canadian exports and outbound investment, but also look for ways to attract more foreign direct investment into Canada from the region. In particular, more should be done to encourage investment from emerging economies.

Establishing a successful economic relationship with any Asian country requires patience and a long-term view. However, the Subcommittee heard from numerous witnesses that Canada's past efforts to promote trade and investment have been often erratic. Several witnesses, both in Canada and in Asia-Pacific, offered examples of beneficial government programs that have been discontinued because of a lack of financing or initiatives that are too inconsistent to yield long-term gains. As Wendy Dobson stated:

In the late 1980s, I saw a shift in focus to Asia in the Pacific 2000 Program. But then rivalries within the government for resources meant that program was closed down and resources diverted elsewhere, until we were the hosts of APEC, and then there was another injection of resources. This won't do. Either we get serious or we don't proceed at all.

Inconsistent financial commitment has costly implications for Canada. Not only does ad hoc, unreliable financing undermine the effectiveness of trade and investment policy, but it damages Canada's reputation in the region as well. One witness in Kuala Lumpur stated that this sort of erratic behaviour had acquired Canada a reputation for being "fickle".

While traveling in the region, the Subcommittee heard repeatedly that Canada needs to demonstrate *sustained* interest in promoting trade and investment and that a more coordinated approach, with stable and predictable financial support, is needed to realize long-term gains. We were frequently reminded that establishing business relationships in the region is a long and time-consuming process. In Japan, we were told that once these had been established, however, customers tended to be very loyal and were not easily lost.

The Subcommittee believes that Canada's resources to promote trade and investment are most effectively used when tightly focused in a few key markets and not widely dispersed. In light of the testimony received, we also agree with those witnesses who claimed that if the federal government is to follow the advice of the Subcommittee and make the expansion of economic ties with Asia-Pacific a policy priority, then it must be prepared to make the necessary concerted and sustained commitment to that policy.

Recommendation 4:

Because a sustained effort is needed in order to yield meaningful results, the federal government should not give Asia-Pacific intermittent attention as in the past, but commit itself to a long-term strategy for expanding trade and investment with the region.

CHAPTER III — TOWARDS A NEW ASIA-PACIFIC POLICY FOR CANADA

A. Liberalizing Trade and Investment

A logical cornerstone of Canada's policy of expanding trade and investment with Asia-Pacific should be to remove all possible barriers that stand in the way of that expansion. The Subcommittee has long been an advocate of achieving closer economic ties through the liberalization of trade and investment. Indeed, our previous studies on Canada's economic relationships with Europe and the Americas underscored our support of the federal government's three-pronged strategy of removing all possible trade and investment barriers at the bilateral, regional and multilateral levels. Our views on Asia-Pacific are no different. We look to the ultimate long-term goal of free and open trade and investment with the entire Asia-Pacific region.

1. Major Barriers to Trade and Investment in Asia-Pacific

Barriers to trade and investment can take many forms, the most obvious of which are tariff barriers where countries apply duties on imported goods according to a predetermined tariff schedule. Other related trade barriers include import quotas, production and export subsidies, and inappropriate use of sanitary and phytosanitary measures, to name a few.

In its travels, the Subcommittee also learned of several other, less direct, obstacles that prevent Canada-Asia-Pacific economic ties from reaching their full potential. For example, the legal and regulatory environments in many Asia-Pacific countries are complex and unstable. Witnesses spoke of regulatory uncertainty, relatively undeveloped legal systems and a consequent lack of legal recourse in the event that regulations governing their activities change without notice. As well, a number of Asia-Pacific countries have foreign ownership or participation restrictions. In some cases, these restrictions were limited to specific industries, while in others they were more comprehensive.

The Subcommittee also heard that protection of intellectual property is a major concern for foreign companies looking to establish operations in Asia. With the exception of the most developed Asian countries, weak or uncertain intellectual property protection and patent laws can deter companies from investing in Asia, or establishing primary research and development operations in those countries. More generally, language and cultural barriers, travel distance, technological compatibility and shipping costs also constitute indirect barriers to trade.

2. Bilateral Agreements to Promote Trade and Investment

In most cases, the barriers to trade and investment described above can be effectively addressed through formal economic treaties such as free trade and investment protection agreements. These agreements provide the parameters for rules-based trade and investment, eliminate or reduce the effects of tariff and tariff-related trade barriers and offer the stability and predictability Canadian businesses need to invest in the region.

(a) Double Taxation and Foreign Investment Protection Agreements

As the Subcommittee noted in its report *Strengthening Canada's Ties with the Americas*, the most basic step towards improving economic linkages is to create an enabling environment for foreign investment. Foreign direct investment is widely believed to be a precursor to increased trade flows. At a preliminary level, creating the necessary conditions for foreign investment to flourish is accomplished through treaties such as double taxation agreements that harmonize tax policies in signatory countries to prevent businesses and individuals located in one country but operating in the other from being taxed (on the same income) in both. The Subcommittee is pleased to note that Canada has a solid network of double taxation agreements in Asia-Pacific, covering 15 countries and including the major markets in the region.

However, on a related issue, the Subcommittee heard testimony by Robert Keyes on behalf of the Canadian Chamber of Commerce in Japan specifically requesting that Canada negotiate a social security agreement with Japan. The Subcommittee also heard the same request directly from Canadian businesses operating in that country. Currently, expatriates from one country living in the other must contribute to social security plans in both, even though they can only receive benefits from one. This type of double taxation can represent a considerable business expense and adds to the cost for Canadian companies of doing business in Japan and for Japanese companies operating in Canada. The Subcommittee believes that this problem can easily be remedied. We recommend:

Recommendation 5:

That the Government of Canada negotiate with Japan, and any other country where one is needed, a Social Security Agreement that eliminates the need for companies to contribute to social security programs in both countries when benefits can only be collected in one.

A second step towards promoting foreign investment, and overcoming barriers to investment, would be to increase the number of countries with which Canada has signed Foreign Investment Protection Agreements (FIPAs). FIPAs are bilateral agreements that provide a predictable investment framework to foreign investors. They are valuable in providing assurance against the regulatory and legal uncertainty that foreign investors face in many countries.

In general, the need for FIPAs exists only in developing countries where unstable or underdeveloped domestic regulatory and legal environments discourage foreign investors. As such, there is no need for Canada to pursue such agreements with countries like Japan and Australia. However, the Subcommittee notes that Canada has to date signed FIPAs with only two countries in Asia-Pacific — Thailand and the Philippines.

Somewhat surprisingly, the view of FIPAs from the business community was mixed. A handful of businesses operating in Asia-Pacific stated that the presence or absence of FIPAs was often inconsequential to the decision to invest in the region. However, Robert Keyes argued the opposite point, stating that FIPAs were critical from a business perspective. He emphasized that these agreements have certainty, guarantee application of the law and ensure due process if investments are threatened.

(b) Free Trade Agreements

FIPAs and double taxation agreements help set the necessary foundation for expanding economic ties, as well as help overcome legal and regulatory impediments to investment. However, the Subcommittee believes that the most effective way to eliminate barriers to trade and investment is through the pursuit of free trade agreements (FTAs) with countries — or groups of countries — in the region. FTAs not only lower direct barriers to trade such as tariffs and import quotas, but can also address concerns over indirect barriers such as intellectual property protection, sanitary and phytosanitary measures and national treatment.

(i) The Canada-Singapore FTA

Canada currently does not have any free trade agreements in place with Asia-Pacific countries, although it is in the final stages of negotiating such an agreement with Singapore. It is hoped that a Canada-Singapore FTA will be completed by the end of 2003.

The process of negotiating an FTA with Singapore has taken somewhat longer than initially expected; the two countries first signalled their intentions to negotiate an FTA in June 2000. Since that time, the United States also initiated negotiations with Singapore and has already concluded an agreement. While in

Singapore, the Subcommittee heard that the reason for the current delay is that, because the Canadian and U.S. markets are so closely integrated, it is imperative that the Canada-Singapore FTA resemble as closely as possible the Singapore-U.S. FTA. Singapore had initially been reluctant to give Canada the same concessions it gave the U.S., but we were informed that considerable progress had been made in recent months.

As a small city-state of only 4 million inhabitants, it is easy to question why Singapore would be Canada's first choice for a free trade agreement in the Asia-Pacific region. However, there are several key reasons why a deal with Singapore would be of strategic importance. First, it is comparatively easy to negotiate with Singapore because, as a city-state, there is no appreciable agriculture industry in that country. Agriculture is a contentious issue in nearly all Asian countries, the absence of which makes negotiations with Singapore relatively uncomplicated.

More importantly, however, Singapore has built an impressive network of bilateral and regional free trade agreements — most notably as part of the ASEAN community. Compared to most other Asian countries, Singapore also has very liberal laws regarding foreign ownership. Any Canadian company operating in Singapore is automatically entitled to national treatment.¹¹ In other words, Canadian businesses in Singapore can take advantage of that country's growing network of free trade agreements to gain freer market access to all of Singapore's current and future FTA partners.¹² This network makes Singapore a valuable strategic entry point for Canadian businesses looking to gain access to Asia-Pacific markets.

(ii) The Potential for Free Trade Agreements Elsewhere in Asia-Pacific

Given its long-standing support of Canada's trade liberalization efforts, the Subcommittee is encouraged by the opportunities presented by a Canada-Singapore FTA and looks for that agreement to be the first of many in the region. At the same time however, during our two fact-finding missions to Asia, we observed that the responses to our queries about the prospects of free trade with Canada were decidedly mixed.

The Subcommittee found that some countries were not immediately receptive to the idea of free trade with Canada. This reticence was not due to a reluctance to negotiate with Canada, but rather a matter of sufficient resources and priority. As discussed in Chapter II of this report, the rapid pace of economic integration in the region has led to a flurry of intra-regional free trade initiatives.

¹¹ Canadian businesses are also assured national treatment in Hong Kong.

¹² In Asia-Pacific, Singapore has concluded or is actively negotiating with the nine other members of the ASEAN community, Australia, New Zealand, India, Japan, Sri Lanka and China.

The Subcommittee was told in Malaysia and in China that intra-regional agreements were the top priority and that trade liberalization opportunities outside the region — such as with Canada — were of secondary importance.

Many other countries, however, including Thailand, Japan, India and South Korea, were receptive in principle to the idea of trade liberalization with Canada. Even in those cases, however, it was clear that the issue of agriculture protection was a significant obstacle preventing any meaningful progress towards free trade. The issue of agriculture protection and trade liberalization are discussed in more detail below.

Despite this somewhat pessimistic appraisal of Canada's immediate free trade prospects in Asia-Pacific, the Subcommittee remains convinced that Canada should continue to aggressively pursue trade liberalization efforts in the region. Indeed, with progress in achieving a new multilateral agreement at the WTO stalled, the need to pursue bilateral and regional agreements is growing in importance.

The Subcommittee notes that Canada is a leader in pushing for rules-based trade worldwide. This position suggests that Canada's ultimate objective would be to operate in an environment where investment flows freely and all barriers to trade are removed. In that context, we believe it follows still further that in the interests of lowering barriers to trade, Canada should be willing to pursue bilateral or regional free trade agreements with any willing partner or party that shares its free trade vision and respect for human rights. With that in mind, the Subcommittee recommends:

Recommendation 6:

That the federal government seek out and negotiate free trade agreements on an ongoing basis with any countries with which Canada shares a free trade vision and respect for human rights. Steps should be taken to ensure that the government has a sufficient number of well-trained negotiators to carry out this mandate.

This is not to say, however, that we believe trade negotiations should take place without the knowledge or consent of Canada's elected representatives. Indeed, as trade plays such a significant role in the lives of Canadians, we believe the involvement of parliamentarians to be of critical importance. Members of Parliament may not have expertise in negotiating trade agreements, but, given consultation with their constituents and advocacy groups, they are in an excellent position to provide guidelines for negotiation that ensure that the views and concerns of Canadians are represented at the bargaining table. Parliamentarians are also in a good position to evaluate the outcome of trade negotiations, to

determine if Canada should ratify tentative agreements, and, once agreements have been implemented, to assess the impact they have had on Canadians and the Canadian economy.

In many other jurisdictions, elected officials already play a similar role. For example, when the EU negotiates free trade agreements with third parties, the process is undertaken by the European Commission which acts upon instructions from the Council of the EU — the legislative body of EU Member Countries in matters of foreign affairs. The Council is the decision-maker, issuing directives for negotiation to guide the Commission. The Council also makes the final decision on whether or not to adopt any accord reached by the Commission.

The Subcommittee believes that Canada could also encourage greater participation by its parliamentarians in the trade negotiation process. Specifically, parliamentarians should be actively involved in setting the broad parameters of Canada's negotiating position — such as limitations, exceptions and minimum requirements — but leave the details to the professional negotiators. As talks progress, negotiators would report to Parliament, or to the Subcommittee, on a regular basis for consultation and feedback. Finally, any tentative agreement reached by negotiators would require consultation with Parliament before being signed. In our opinion, the expected imminent completion of the Canada-Singapore free trade agreement offers an opportunity to set such a process into motion. We recommend:

Recommendation 7:

That Canada adopt a trade negotiating strategy in which parliamentarians play a more active role. Parliamentarians should be consulted when the basic framework of the Canadian position in future trade negotiations is determined. Officials in charge of negotiations would be bound to stay within this broad framework and through the process of negotiations would provide regular updates on progress and challenges to interested and/or concerned parliamentarians or Parliamentary Committees. Finally, and beginning with the Canada-Singapore free trade negotiations, parliamentarians should be consulted before any tentative agreement is signed.

(iii) Least-Developed Countries in Asia-Pacific

Although this report recommends that the Canadian government take a more strategic approach to increasing trade and investment with Asia-Pacific by focusing on key markets in the region, the Subcommittee believes that the 12 LDCs in the region require special consideration.

We are pleased to note that as of January 1st 2003, the Canadian government unilaterally eliminated all tariff and quota limitations on products entering Canada from 48 LDCs worldwide. The only exceptions to this concession were in supply-managed agricultural products: dairy, poultry and eggs. Least Developed Countries also gained preferential treatment in the key industries of apparel, textiles and agriculture.

However, given the recent failure of the latest WTO ministerial conference in Cancun, the Subcommittee is of the opinion that additional steps need to be taken to promote economic development in LDCs, both in Asia-Pacific and worldwide. Specifically, we have heard considerable testimony describing how political instability and legal and regulatory uncertainty repel foreign investment and thus trade and economic development. One of the ongoing challenges facing developing countries, and LDCs in particular, is that the costs of domestic policy and legal reforms are considerable and many such countries do not have the resources needed to undertake these reforms. With that in mind, the Subcommittee recommends:

Recommendation 8:

That, given the importance of trade and investment in stimulating economic growth, and the need for a stable legal and regulatory environment to attract investment, the Government of Canada provide increased support to least developed countries for trade-related technical, policy and legal reforms.

3. The Issue of Agriculture Protection

As mentioned above, the issue of agriculture protection is a major obstacle in the way of Canada pursuing free trade agreements with Asia-Pacific countries. The liberalization of agriculture markets is a politically sensitive topic across most of the region, from developing countries to advanced economies such as Japan. Tariff protection on agricultural products in the region is often high, particularly on value-added goods. In addition, many countries offer domestic production support to their farmers and have safeguards such as quotas in place to protect against a surge in foreign imports.

Agriculture is considered an industry of primary importance in Asia-Pacific, not only from the standpoint of food security, but cultural preservation as well. In Japan, for example, the Subcommittee heard that a worldwide crop shortage in the early-mid 1970s led the U.S. to withhold exports of soybeans to Japan. Some witnesses erroneously believed that Canada had also withheld food exports at that time. This incident was viewed in Japan as a reminder of the importance of maintaining some control over domestic food supply. In addition, the Subcommittee learned that the cultivation of rice is heavily supported in Japan because it is valued as a traditional Japanese industry. Furthermore, we heard that Japan's production system is characterized by high costs and not internationally competitive. The Subcommittee was told by Japanese business leaders that the prevailing fear in that country is that if any concessions on agriculture open the door even a crack to the Japanese market, it could be forced wide open and Japanese farmers would be unable to compete with the producers of cheaper imports.

The Subcommittee is frustrated by the continued subsidization of agricultural production, not only in Asia-Pacific, but around the world as well. In a previous report, *Building an Effective New Round of WTO Negotiations: Key Issues for Canada*, the Subcommittee examined the issue of global agricultural subsidies, noting that such protection — specifically in the form of production incentives, explicit price supports (where governments directly pay farmers above-market prices for their products) and export subsidies — creates market distortions that in turn lead other countries to adopt similar measures to protect their farmers. The end result is global overproduction and artificially low world prices. Few countries are willing to lower these agricultural support mechanisms unilaterally, because their farmers would then be competing unprotected (in a low-price environment) against subsidised production elsewhere in the world. The Subcommittee continues to examine different agricultural systems that do not provide subsidies or distort trade, such as supply management.

4. Overcoming Agriculture Protection: Alternative Trade Liberalization Agreements

The result of continued agricultural protectionism, from the standpoint of improving Canada's economic ties with its key Asia-Pacific markets, is that free trade agreements are very difficult to negotiate. In order for a bilateral free trade agreement to be permissible under WTO regulations, meaningful tariff reduction must occur on 90% of all tariff lines. This cannot be done without broaching the issue of agriculture. Indeed, as mentioned above, one of the major reasons Canada is negotiating a free trade agreement with Singapore is that this issue is of minimal significance.

The issue of agriculture protection was especially contentious in Japan. Although Canada has made recent attempts to explore a bilateral trade agreement with Japan, the Subcommittee observed that Japanese political and business leaders did not appear willing to revisit an FTA with Canada because of the agriculture issue. The Subcommittee heard testimony from Japanese business leaders that Japan is vulnerable in areas where Canada is a powerful exporter, such as value-added agricultural products and resource-based manufactured goods, and that Japan's tariffs are already low in areas where Japan is strong, such as high-tech goods. Therefore, the only potential gains from free trade for Canada would be in areas that Japan appears unwilling to negotiate. Doubtless, this unwillingness has only been exacerbated by the single case of bovine spongiform encephalopathy (BSE) found in a cow in Alberta and the subsequent closure of the Japanese market to Canadian beef, as well as by the ongoing closure of the Canadian market to Japanese beef resulting from the appearance of BSE in Japan several years ago.

As such, it would appear that there is little hope for Canada to negotiate a free trade agreement with Japan. However, the Subcommittee believes that if Canada is to pursue a long-run strategy to develop its key markets in Asia-Pacific, it must send a strong signal that, even in the face of this challenge, Canada is committed to improving its trade relations with the region.

Since most countries cannot negotiate a formal FTA without raising the issue of agriculture, it was suggested to the Subcommittee in Japan that Canada demonstrate its commitment to trade liberalization by proposing to negotiate a bilateral FTA in services only, and leave goods trade to multilateral negotiations at the WTO. We heard a similar message in a number of other countries as well, and agree wholeheartedly with this suggestion.

The Subcommittee maintains that a comprehensive free trade agreement is the preferred option in liberalizing trade and investment with Canada's key Asia-Pacific markets. However, if countries are unwilling to negotiate formal FTAs because of concerns that they would have to reduce domestic agriculture supports as a result, then we believe Canada should actively consider alternative "closer economic partnership" agreements.

The nature of economic partnership agreements is intentionally vague. They are not officially considered FTAs because they do not liberalize trade across at least 90% of tariff lines. Instead, countries agree to negotiate tariff concessions in a more limited group of products. As such, these agreements can vary considerably in size and scope from one to the next. Closer economic partnership agreements are becoming increasingly popular within Asia-Pacific because they achieve trade liberalization objectives, but do not necessarily bring contentious issues such as agriculture to the table.

Recommendation 9:

That in cases where issues such as agriculture protection prevents a comprehensive free trade agreement from being negotiated, Canada should instead pursue alternative economic co-operation agreements that promote trade or pursue sectoral agreements within the WTO. Free trade in services is an example of such an agreement.

B. Creating an Enabling Environment

The Subcommittee believes that as part of an Asia-Pacific Policy for increasing trade and investment, the federal government can take several steps to help create an enabling environment to improving economic linkages with the region. Specifically, the Subcommittee heard numerous suggestions on how Canada can improve the level of personal interaction and exchanges with Asia-Pacific countries. These personal ties have the potential to lead to greater economic ties as well.

1. Increasing the Frequency of Official Visits

While abroad, the Subcommittee frequently heard that there has been a dramatic decrease in the number of visits by Canadian government officials and Ministers to many Asia-Pacific countries in recent years. It was disquieting to learn that this drop in official visits has not escaped the notice of Canadian businesses, trade commissioners or, most importantly, local national governments.

The Subcommittee heard testimony about the merits of closer political ties all across the region. In South Korea, Canadian business leaders were convinced that political relations and official visits were key in opening the doors to the Korean market. This view was echoed across the region.

We are convinced that increasing the number of official visits is of critical importance to improving economic linkages with Asia-Pacific. Governments and businesses in the region value direct contact and the cultivation of personal relationships. Not only would these relationships be enhanced by more frequent official exchanges, but increased interaction would send a clear signal that Canada is serious about establishing a long-term, mutually beneficial economic relationship. Furthermore, official visits typically result in media attention, helping to raise Canada's profile in the region.

The Subcommittee is pleased to acknowledge that the number of ministerial visits to the region has increased this year. Our last fact-finding trip in September directly preceded or coincided with visits from several federal ministers. In the lead-up to the October APEC summit in Bangkok, several high-profile Ministers, including the Prime Minister, paid official visits to countries in the region. We hope that this increase in official visits is not exclusively due to the APEC conference, but instead represents a renewed commitment to revitalizing official ties with the region.

Although the flurry of official visits to Asia-Pacific is welcome, the Subcommittee believes that Canada needs to improve the consistency of these visits. While the absence of official visitors from Canada suggests a certain apathy to maintaining close relations, too many delegations in rapid succession reduces the significance of each. For example, this fall, four Canadian ministers and the Prime Minister visited India in the span of three weeks. To maximize their effectiveness, high-level visits need to be sustained, strategic and carefully coordinated to ensure that Canada is consistently visible in the region.

Recommendation 10:

That to demonstrate its commitment to improving economic ties, as well as to cultivate a closer working relationship with Asia-Pacific, the federal government significantly increase the number of visits to key markets in the region by ministers, parliamentarians and senior government officials. Furthermore, these official visits should be more consistent, strategic and focused on achieving specific policy objectives.

2. The Image of Canadians and Canadian Society in Asia-Pacific

In general, the Subcommittee observed that most Asians have a two-faceted view of Canada. From an economic standpoint, Canada faces an ongoing challenge in differentiating itself from the United States. Most businesses that the Subcommittee met during its travels tended either to view North America as a homogenous market or to focus exclusively on the United States. In terms of Canadian products, many business leaders were not aware of Canadian knowledge and expertise in a number of high-tech sectors. Clearly, more work needs to be done to promote Canada as a destination for investment as well as to market in Asia-Pacific Canadian production capabilities. This topic is discussed in greater detail in “Strategies for Helping Business.”

Although Canada's image as an economic agent is wanting in Asia-Pacific, its image from a social standpoint is strong. Canada is widely perceived in the region as a safe, clean society with vast natural beauty and a high quality of life. Furthermore, Canadian society is perceived as tolerant of other cultures and religions. The Subcommittee heard from several witnesses in Asia that since September 11th, 2001, the popular perception of the United States is that of a decreasingly tolerant society. By contrast, the perception of Canada as an accepting and accommodating culture has remained unchanged.

With a large immigrant population from Asia, personal connections between Canadians of Asian descent and their friends and relatives overseas are strong. While in the region, the Subcommittee encountered countless individuals who had friends or family living in Canada, or who had studied at Canadian universities. These connections to the region are an invaluable asset, not only from a cultural standpoint, but from an economic one as well. Canada can draw on the strength of its multicultural labour force to help bridge the language and cultural barriers between North American society and that of Asia-Pacific.

It also became clear to the Subcommittee that specific Canadians and events in Canada's history have had a considerable influence on how Canada is perceived in specific Asia-Pacific countries. Nowhere is this more true than in China. The humanitarian work of Dr. Norman Bethune, combined with the fact that Canada was the first western country to agree to sell much-needed wheat to Communist China in the 1960s, have together engendered considerable goodwill in China towards Canada.

In general, Canada enjoys an excellent reputation in Asia-Pacific. Our tolerant, multicultural society, the increasingly "Asian" composition of immigration to Canada and Canadians' past assistance to countries like China are all helpful in building upon our current economic relationship with the Asia-Pacific region. Canada should make effective use of these assets to further advance economic and social co-operation with the region.

3. Education Services

Over the course of the Subcommittee's travels, by far the most frequent topic of discussion was the opportunities available to Canada in the education services sector. In every country we visited, witnesses spoke unprompted about the potential for Canadian post-secondary institutions to benefit from the large numbers of Asian students seeking western educations.

We repeatedly heard that allowing greater numbers of foreign students from Asia-Pacific to study in Canada would be a good way to promote future trade and investment. Witnesses generally agreed that when those foreign students return to

their home country, they take with them knowledge of Canadian institutions, industries, products and expertise, as well as of our culture and the values of Canadian society. Indeed, the Subcommittee met or heard of many high-level government and business leaders — particularly in Singapore and Hong Kong — who were educated in Canada and spoke very highly of their experience.

In some countries, we heard frustration expressed at the small number of students admitted to universities in Canada, while in others, Canada is a major destination for foreign students. Currently, Canada hosts large numbers of foreign students from China and South Korea, but relatively few from India and Southeast Asia. However, most witnesses thought that Canada could do significantly more to attract foreign students from all across the region.

The United States and the United Kingdom (UK) are the long-established destinations for Asian students wishing to pursue a western-style education, while Australia has been very aggressive in promoting itself as a destination for foreign students. The number of such students in Australia has more than tripled since 1990. Australia now has the second-highest proportion of foreign students of any country in the world, behind Switzerland only. By contrast, Canada has not seen any significant growth in the number of foreign students in recent years.

Witnesses were divided as to whether or not Canada should vigorously pursue attracting more foreign students or, alternatively, set up overseas branches of Canadian institutions. Most saw the provision of education services as an industry with tremendous growth potential for Canada. A minority disagreed, however, stating that Australia had already cornered the market for a western-style education in Asia. Many also believed that Australia has a significant advantage in terms of relative proximity to Asia, despite the fact that for countries like Japan and South Korea, Western Canada is no further away. Still other witnesses reminded the Subcommittee of the fact that, as a matter of provincial jurisdiction, it is difficult for the federal government to make policies in matters of post-secondary education.

The Subcommittee is of the opinion that the opportunities for the Canadian education services sector in Asia are significant and should not be overlooked. Not only do post-secondary institutions benefit from the increase in revenues and international profile that foreign students offer, but providing foreign students with a Canadian education forges an indelible link between those students and Canada. These links can help pave the way for future economic and political co-operation.

Recommendation 11:

That the federal government invite willing provinces to jointly develop a national strategy on international education to more aggressively promote Canada as a study destination for international students.

At the same time, however, Canada should be more active in monitoring which Canadian education institutions are active in the region. The Subcommittee was troubled to hear that a number of Chinese and Pakistani students wishing to study in Canada were victims of elaborate scams, by which they were accepted to study at fictitious or poor Canadian post-secondary institutions. Such incidents not only damage the international reputation of Canada's high-quality education services industry, but tarnish the image of the country as a whole. The Subcommittee recommends:

Recommendation 12:

That the federal government work with the provinces to develop a certification program for education institutions to protect Canada's integrity and reputation and to prevent immigration scams and abuses.

It was suggested that Canada should not only work towards attracting new foreign students, but should also cultivate the existing links it has already made with former Canadian foreign students through international alumni associations. Indeed, such associations exist in Asia-Pacific, although some, such as in Hong Kong and Singapore, are more active than others. Successful international alumni speak highly of their experiences at Canadian universities. Their collective testimony would be an excellent promotional tool for Canadian institutions abroad.

The Canadian Education Centre (CEC) is the body currently responsible for promoting and marketing Canadian education institutions for international students. The CEC's overseas operations are already concentrated in Asia-Pacific — 11 out of the 17 foreign offices are located in the region.¹³ It was suggested to the Subcommittee by a witness in Singapore that the CEC could play a potentially valuable role, not just as a source of information, but also by working more closely with Canadian international alumni associations. In countries where Canadian alumni associations are strong, the CEC could work with those organizations to better promote Canadian schools. In areas where Canadian

¹³ Specifically, the CEC has operations in Australia, China, Vietnam, South Korea, Thailand, Malaysia, Singapore, India, Indonesia, Taiwan and Hong Kong.

alumni are less active or numerous, the CEC could play an organizational or support role while at the same time taking advantage of cross-promotional opportunities.

However, in order for the CEC to be able to add co-operation with alumni associations to its mandate requires additional financial resources. In fact, the ability of the CEC to fulfil its current mandate has been made more difficult in recent years by a decline in financial support from the federal government. The Canadian International Development Agency (CIDA) and the Department of Foreign Affairs and International Trade (DFAIT) together provided \$1.9 million in funding to the CEC in 2001-2002, down nearly 40% from four years earlier.

Recommendation 13:

That, in an effort to more effectively promote Canadian education institutions in Asia-Pacific, as well as to improve linkages between Canadian alumni in the region, the Canadian government, in collaboration with the provinces and the institutions themselves, encourage the Canadian Education Centre Network to work closely with, and strengthen, Canadian alumni associations abroad. The necessary financial support to perform this function should be provided.

4. Promoting Travel and Exchanges

In addition to promoting formal government visits with Asia-Pacific countries, the Subcommittee believes that encouraging travel and personal exchanges between Canada and its target markets in Asia-Pacific at all levels, ranging from business to education to tourist travel, is an effective strategy to promote trade and investment. Travel helps build business and personal ties with individuals in the region; it creates awareness of trade and investment opportunities in both countries; it showcases Canadian culture and values; and, perhaps most importantly, it breeds familiarity. Visitors from Asia-Pacific to Canada learn about the advantages and benefits of this country, while Canadians travelling in the region return with a greater understanding of cultures and lifestyles that may otherwise have seemed exotic or inaccessible.

The topic of improving travel and exchanges with Canada was a common one during the Subcommittee's fact-finding missions. While witnesses were adamant that business, personal and education exchanges were all valuable and should be encouraged, the Subcommittee also heard of several obstacles preventing these exchanges from reaching their potential.

Among these limitations is the fact that Canada is not an approved destination for Chinese tourists. Chinese citizens are only permitted to travel as tourists to countries with “approved designation status,” and even then only through pre-arranged tour groups. China has approved 28 countries and regions as eligible destinations. However, despite Canada’s efforts, the only permitted destination in the Americas to date is Cuba.

In addition, the Subcommittee heard numerous troubling anecdotes about the difficulty in acquiring a visa to travel to Canada — whether for business or for pleasure. The challenge was particularly acute in India where, as the Subcommittee learned, the High Commission in Delhi was the only location in the country at the time with the capacity to issue visas.¹⁴ Since then, Canada has opened a new consulate in Chandigarh in Northern India. While the Subcommittee is pleased that Canada has expanded its diplomatic presence in India, all residents of southern India, must still travel to Delhi in the north to apply in person for a visa. Furthermore, the approval process appears to have significant flaws. High-profile business leaders in India, looking to establish trade linkages with Canada, told the Subcommittee of having their visa applications rejected. In one case, those individuals instead travelled to the United States. In another case, high-level intervention was needed to allow the visa application to go through.

The Subcommittee also heard in Bangkok that Canada processes a daily limit of 60 visas from that country on any given day. We were told that Air Canada was effectively prevented from establishing direct air service to Bangkok because of the limitations the visa limit placed on travel to Canada.

The Subcommittee acknowledges that one of the challenges in issuing visas in India is that it is difficult to perform background checks on citizens. There is no national identifier such as a social insurance number, nor do credit-checking agencies exist that could help verify information. Nevertheless, given the importance of legitimate business travel to promoting trade and investment, it is critical that Canada be able to provide visas in a timely fashion.

Recommendation 14:

That, without compromising the safety and security of Canadians, the federal government ensure that legitimate travel to Canada is not unnecessarily restricted.

The Subcommittee heard that another major impediment to improved travel between Canada and Asia-Pacific is the availability of direct flights to some destinations. In particular, Singapore and Manila, Philippines are Canada’s only

¹⁴ This office also serves Bhutan and Nepal.

direct destinations in the ASEAN community. As well, until recently, Canada did not have direct service to India or elsewhere in South Asia. On October 18th, however, Air Canada launched a non-stop daily flight between Toronto and Delhi. Witnesses in India had felt that the lack of direct travel connections were hampering the development of business relations between the two countries. The Subcommittee is pleased that this impediment has been removed.

The Subcommittee believes that further improving transportation linkages between Canada and its key markets in Asia-Pacific would be beneficial to enhancing our linkages with the region. We do recognize that the capacity of the federal government to act in this area is limited by the fact that Canadian airlines are privately owned and by security concerns in particular countries. Within these limitations, however, we believe that the federal government should search for ways to encourage the addition of direct travel routes to Asia-Pacific. We recommend:

Recommendation 15:

That the federal government examine ways to further remove impediments to establishing commercial air travel connections between Canada and key markets in Asia-Pacific.

In Thailand, the Subcommittee was alerted to another travel-related issue affecting Canadian businesses operating in certain Asia-Pacific countries: the nature of Canada's international travel advisories.

For the safety of Canadians abroad, DFAIT publishes regularly-updated travel advisories informing Canadians about possible international danger areas. It was suggested to the Subcommittee that, when publishing such information, a distinction be made between essential and non-essential (tourist) travel. Travel advisories make it difficult for travelling business people to get insurance coverage and can be damaging to overseas business operations. This is particularly relevant in countries such as Indonesia or China, which are geographically large. Civil unrest or the outbreak of disease in one locality does not necessarily make the entire country unsafe.

The Subcommittee agrees that Canada's travel advisories should contain a distinction between essential and non-essential travel and that, where relevant, travel advisories should be as specific as possible. However, we also believe that the issue of travel advisories is an important service and that caution be taken to ensure that the safety of Canadians is not compromised as a result.

Recommendation 16:

That when issuing travel advisories in Asia-Pacific, the Government of Canada distinguish between essential and non-essential travel. At the same time, given the large size of many countries in the region, advisories should be as specific to particular locations as possible without jeopardizing the safety of Canadians in the process.

Aside from overcoming the various obstacles to travel between Canada and Asia-Pacific, the Subcommittee also heard numerous ideas concerning initiatives Canada could undertake, or existing initiatives it could expand, that might improve interaction with countries in the region. Some witnesses pointed out that an understanding of the local language is invaluable in conducting overseas business and, that as a result, government-sponsored language bursary programs could be a useful way of promoting economic and business relations. Others spoke of the value of Canada's Young Professionals International (YPI) program (formerly the Youth International Internship Program), which sends young Canadians abroad to gain valuable international work experience. In India, the Subcommittee heard of a related program which offered internships within Canadian overseas missions. We were told that this initiative gave participants the opportunity to gain valuable international exposure and experience. We were disappointed, however, to hear that this program had been discontinued. We see merit to foreign internships for Canadians and believe that they should be reinstated.

We also heard positive reviews for Canada's Working Holiday Program (WHP), which allows young Canadians to visit and work in selected countries for up to twelve months. The WHP is a reciprocal agreement, allowing young foreigners to come to Canada in a similar capacity. Currently, Canada has WHPs in place with four Asia-Pacific countries — Australia, New Zealand, Japan and South Korea. Several of Canada's young entrepreneurs in Japan believed the WHP to be an excellent program to encourage exchange between countries and to create trade and economic opportunities. Many of those entrepreneurs themselves were first exposed to Japan through such programs.

The Subcommittee believes that, as part of a broader strategy to promote long-term trade and investment with Asia-Pacific, policies should be implemented that encourage language acquisition and personal exchanges. As such, we recommend:

Recommendation 17:

That, as part of a broader strategy to promote long-term trade and investment with Asia-Pacific, new programs that encourage personal exchanges with the region be explored and existing ones expanded. In particular, the Canadian government should consider expanding its Working Holiday Program to include more Asia-Pacific countries and to allow more Canadian youth to participate.

C. Strategies for Helping Business

Ultimately, the decision to trade with or invest in Asia-Pacific rests with Canadian businesses. However, the Subcommittee firmly believes that there is a vital role for the Canadian government to play in helping the Canadian business community succeed in Asia-Pacific. This position was influenced by the testimony of numerous witnesses offering suggestions on specific ways they felt the federal government could assist businesses.

In nearly all cases, there was a common thread running through these suggestions. Witnesses asserted that the most useful role that the Canadian government could play in fostering increased trade and investment with Asia-Pacific was to create the necessary conditions for businesses to prosper; in other words, to open doors and allow Canadian companies to avail themselves of the opportunities in the region.

To a great extent, this is addressed by a strategy of trade liberalization as outlined previously. However, providing Canadian businesses with the tools they need to succeed in Asia-Pacific requires more than simply lowering barriers to trade. Given the rapid growth and development in Asia-Pacific, the need for up-to-date information is critical, as is, we believe, the need for the federal government to assist in re-establishing business relationships and linkages between Canada and Asia-Pacific, which have been allowed to atrophy since the Asian Crisis in 1997-98.

In our opinion, there are five distinct areas in which the federal government can play a valuable role in maximizing the potential for Canadian businesses to be successful in developing trade and investment linkages with countries in Asia-Pacific. The first is in ensuring that firms have access to accurate and timely information about overseas markets and about the opportunities in the region that are relevant to their businesses. The second is export-readiness: helping prepare Canadian companies for doing business in Asia-Pacific prior to leaving Canada. The third area is easing the transition from Canada to Asia-Pacific, especially for new exporters or investors. Fourth is raising the profile of Canada, Canadian companies and Canadian expertise in Asia-Pacific. Finally, the federal government

can ensure that Canadian companies operating or exporting in the region are provided with ongoing, high-quality government service overseas. Each of these five areas is discussed below.

1. Access to Accurate and Timely Market Information

Perhaps the most important role the Government of Canada can play in promoting trade and investment in Asia-Pacific is to equip Canadian businesses with the best possible information about the region. The Subcommittee heard that there is a low level of awareness among Canadians of the overall economic potential, and the specific market opportunities, in Asia-Pacific. As Ken McKeen (Consultant, Coast Forest and Lumber Association) testified, market intelligence is very useful to businesses, especially to smaller organizations lacking the wherewithal to conduct market analysis on their own or that do not have a full-time presence in the region. Access to relevant market information would allow companies to keep an eye open for opportunities and developments that might be favourable to their products and help gain access to these unfamiliar markets. This view was echoed by several other witnesses.

The Subcommittee agrees that providing timely, accurate and comprehensive market information about Asia-Pacific would be an invaluable tool for businesses and could help promote awareness of the economic opportunities in the region. We also note that this type of market information is already widely available through a variety of government sources. Through its Trade Commissioner Service (TCS) offices in Canada and abroad, as well as via its Web site, DFAIT provides market information and identifies key growth and investment opportunities worldwide. It also provides historical, cultural and political information. Export Development Canada (EDC) also provides market information and current economic analysis for members on its Web site. Industry Canada and Agriculture and Agri-Food Canada offer similar services.

Another, more comprehensive source of information is APF Canada. APF Canada is an independent, non-profit organization devoted exclusively to research and analysis on Asia-Pacific for businesses and policy-makers. It was established in 1984 by an Act of Parliament for the purpose of enhancing awareness and understanding amongst Canadians of the Asia-Pacific region. APF Canada is financially supported by DFAIT and CIDA.

In the opinion of the Subcommittee, APF Canada is an excellent example of how an organization can provide timely and comprehensive information and analysis on economic and political issues in Asia-Pacific and Canada's relationship with the region. In principle, we believe that APF Canada has, among other benefits, the capacity to be an invaluable tool in providing market information and promoting awareness of trade and investment opportunities in Asia-Pacific. In theory one step removed from government policy and policy-makers, APF Canada

has the advantage of greater freedom and objectivity in its research and analysis on Canada's relationship in the region compared to government departments performing similar functions.

We were disappointed to learn, however, that the ability of APF Canada to fulfil its mandate has been undermined by erratic and declining financial support. The organization's budget was about \$2 million in 2002, one quarter of its level ten years earlier. John Wiebe informed the Subcommittee that this decline in funding has forced APF Canada to forego a number of valuable programs that cultivated Canada's relationship with Asia-Pacific. Among these was the Young Leaders Program which brought young Asian leaders to tour Canada. These people then returned to their positions in industry and government with an improved understanding of Canadian products and opportunities for investment in Canada. As well, the media fellowship program is no longer operational. This initiative sent Canadian journalists to Asia in order to improve their understanding of the region when they wrote about it in Canadian media. The loss of funding also forced APF Canada to close its offices in Montreal, Toronto, Winnipeg and Regina.

One of the explanations for the decline in DFAIT funding for APF Canada is that a departmental audit dated April 2003 claimed that the organization had been accumulating significant cash reserves and concluded that this was the result of excessive funding by DFAIT. However, the cash reserves in question included those of two separate non-profit organizations created by APF Canada — the Canadian Education Centre Network and the GLOBE Foundation. Since these two bodies operate independently of APF Canada, it has no legal claim over, or access to, their reserves. APF Canada's own cash reserves were not in excess of the limits set by the Foundation's Board.

The lack of stable funding for APF Canada is a matter of concern to the Subcommittee. We see this as an example of the criticism that the federal government's foreign trade and economic policy is haphazard and lacking commitment. In order to allow APF Canada to play the role it envisions — as the primary Canadian source of market information and analysis on Asia-Pacific — it requires more financial support and greater funding stability. With that in mind, the Subcommittee recommends:

Recommendation 18:

That, the Government of Canada review the mandate of the Asia Pacific Foundation of Canada and ensure that through stable funding it is an effective tool in delivering the information and services that it provides. While conducting this review, the government should also review the effectiveness of other networks for business such as the Canadian Chamber of Commerce.

Related to the idea of providing accurate and timely information is the issue of the quality of international trade and investment statistics. In its most recent study, *Strengthening Canada's Economic Links with the Americas*, the Subcommittee encountered several instances where Canadian data on international merchandise trade with countries in the Americas was markedly different from the data used in those countries. The differences were due at least in part to the transshipment of goods through the United States or some other third-party country en route to their final destination.

Unfortunately, the Subcommittee encountered the same problem in the Asia-Pacific region. For example, Canadian data on merchandise trade with Japan indicates that Canada has a considerable trade deficit with that country. However, we heard that, according to Japanese trade figures, the opposite is true.

The Subcommittee firmly believes that a lack of reliable data undermines the credibility of trade-related research and analysis. We urge the federal government to address this issue as soon as possible. As John Wiebe stated:

Distorted trade statistics can leave business, the public and policy-makers with a commensurately distorted sense of Canada's global relationships and can impact the allocation of scarce policy resources, distract business and media interests from the ultimate consumer, and complicate the process of monitoring and adjusting to external shocks.

As such, the Subcommittee recommends:

Recommendation 19:

That the federal government work in conjunction with other countries to harmonize statistical methodologies in the collection of international trade data.

2. Ensuring Export-Readiness

Another important aspect of market information is ensuring that Canadian businesses are export-ready. The Subcommittee heard from Ian Cheng (President, Comox CanadAsia Business Society) that despite the fact that approximately 41% of Canada's GDP comes from international exports, many Canadian companies are not sufficiently knowledgeable about trade and investment overseas. Mr. Cheng stated that for many companies, international trade is tantamount to driving a truckload of cargo across the Canada-U.S. border and taking a bank draft back.

The Subcommittee heard similar testimony from Canadian companies and foreign service workers during its fact-finding missions to the region. Witnesses stated that too frequently, Canadian firms arriving in Asia-Pacific — most often small- and medium-sized enterprises (SMEs) — are poorly prepared for the challenges and obstacles associated with trade and investment in a foreign market. We were told that these companies frequently arrive in the region with no clear business plan, but with the expectations of sales and the assistance of Canada's Trade Commissioner Services (TCS). In such cases, the foray into the Asia-Pacific region becomes a costly, frustrating and ultimately fruitless experience for the company and an ineffective use of Canadian Trade Commission overseas resources.

It is clear to the Subcommittee that Canada needs to focus on providing more education to prospective exporters at home — before they enter the export market. However, the fact that some Canadian companies are not adequately prepared is not due to a lack of available government resources. Team Canada Inc — a network of over 20 federal government departments and agencies, as well as the provinces, territories and other partners — operates a comprehensive Web site designed specifically to be a one-stop resource to help businesses become export-ready.* Export Development Canada also offers a set of services for would-be exporters, assessing their readiness and preparing them for the export market.¹⁵

The Subcommittee is pleased that these programs are available to would-be exporters, but remains concerned that, given the anecdotal evidence about poorly prepared Canadian companies arriving in Asia-Pacific expecting to sell their products, either businesses are unaware of these services, or that these services are not effective in preparing prospective exporters. Without presupposing one or the other, the Subcommittee recommends:

Recommendation 20:

That, given the evidence that many Canadian companies are not sufficiently knowledgeable about the challenges of exporting and investing in Asia-Pacific markets, the Canadian government improve the effectiveness of its Team Canada Inc export-preparedness service. Specifically, it should determine if prospective exporters are aware of, and are using, this service, and whether or not it adequately prepares Canadian businesses for the challenges of exporting to overseas markets.

* www.exportsource.ca.

¹⁵ While in the region, the Subcommittee heard that, although EDC provides a valuable export-financing service, concerns were raised that it was crowding out private-sector lending activity.

On a related note, the Subcommittee heard generally positive reviews for CIDA's Industrial Co-operation Program (CIDA INC). This initiative provides financial support to Canadian companies planning business projects in developing countries in a range of sectors. While most witnesses in Asia-Pacific spoke positively about CIDA INC, some expressed concern that the program was too bureaucratic. Others thought that the eligibility criteria limit the participation of smaller companies. The Subcommittee believes that CIDA INC could be improved even further by addressing these concerns.

3. Easing the Transition Overseas

For export-ready businesses looking to trade or invest in Asia-Pacific, it is crucial to visit the target countries in the region to establish business contacts, meet prospective local partners and set up a base of operations. The Subcommittee heard a consistent message that, given the importance of face-to-face contact and interpersonal relationships to business leaders in the region, frequent visits to, and a physical presence in, the region are critical for success.

In our opinion, there is an important role for the federal government to play in paving the way for a smooth transition overseas for Canadian companies. This is particularly the case for SMEs. Large Canadian companies have sufficient internal resources to do the necessary advance research and to absorb the up-front costs of travel and establishing a presence in the region. However, the costs of travelling to the region, coping with an unfamiliar language and culture, establishing a local presence and navigating around on-the-ground legal and regulatory obstacles are all significant financial and psychological barriers to entry into Asia-Pacific for smaller firms, even for those that may have good products, have identified potential market opportunities and are export-ready.

The Subcommittee believes it is important that SMEs be given every opportunity to be present to take advantage of the market opportunities in Asia-Pacific. Some witnesses in the region suggested that the federal government offer a travel subsidy to SMEs to offset the costs to those companies of establishing initial business contacts overseas. Others, however, warned that in the past when Canada offered this type of financial support for travel, the results were disappointing because companies that did not bear the full burden of their travel expenses often did not work as hard to succeed. We agree that a program of indiscriminate travel subsidies is not a practical solution to this problem. However we see an opportunity to tie together the need to improve the export-readiness of Canadian SMEs with helping them establish initial direct contact overseas.

The Subcommittee notes that in its 2003-2004 Report on Plans and Priorities, DFAIT has highlighted the need to improve small firms' export-readiness and to assist them in taking advantage of the opportunities overseas. Specifically,

DFAIT is planning to revamp its Program for Export Market Development (PEMD) which provides repayable loans to small companies to help them identify and exploit sales and capital project opportunities abroad.

While the Subcommittee agrees with the need to better assist small businesses, we propose a somewhat different approach. Specifically, that the federal government work with businesses that have already been successful in Asia-Pacific to establish strict criteria by which to evaluate the business plans and export-preparedness of would-be exporters to that region. Upon completion of a sound business plan, and once export-readiness has been demonstrated, companies would then qualify for some financial support to help offset travel costs to begin to put that plan into action.

Although the specific details of how such a plan would be designed warrant careful study and consideration prior to implementation, we believe that a program patterned along these lines would yield significant benefits. It would encourage SMEs to look overseas for trade and investment opportunities rather than solely to the U.S. market; it would improve export-readiness; and it would help remove some of the financial obstacles faced by small companies to doing business in the Asia-Pacific region.

Recommendation 21:

That, in the interests of improving export-readiness and removing the obstacles to trade and investment in Asia-Pacific, the Government of Canada work with businesses that have demonstrated success in the region to establish criteria by which to evaluate the business plans and export-preparedness of Canadian SMEs looking to the Asia-Pacific market. Contingent upon meeting these criteria, SMEs would be provided with financial assistance to help offset the cost of travel to begin to put that plan into action.

While travelling through the region, one of the most frequent messages the Subcommittee heard was that, in order for Canadian businesses — particularly SMEs — to be successful in their ventures in Asia-Pacific, a good local partner is an invaluable asset and in many cases a requirement. Local partners have in-depth knowledge of the domestic market, local laws, regulations, customs, language and a host of other factors critical to business success. Local partners are especially critical in developing countries where the risks of doing business are higher. For example, the Subcommittee was told by the head of a Canadian company operating in Thailand, that government regulations and procedures are extraordinarily complex across most of Asia and are particularly difficult to comprehend for foreigners.

To a certain extent, Canada's embassies and high commissions work to facilitate these linkages by providing prospective exporters with information on Canadian companies and trustworthy domestic firms operating in the area. They also assist direct interaction through various planned events. Although this service is useful, the Subcommittee heard that a more formal system could be even more beneficial to helping Canadian companies overcome the initial uncertainty of stepping into a new country.

One way to help companies interested in establishing operations in Asia would be to create a mentorship program linking the prospective business with one already established in that country. This would allow the established company to share its knowledge and experience with the new entrant. Several Canadian companies already operating in India, Thailand, Hong Kong and Malaysia agreed that such a program would be valuable and expressed a willingness to play a mentorship role in the future.

The Subcommittee believes that Canadian chambers of commerce operating in the region could also assist in establishing and coordinating such a mentorship program. As Robert Keyes testified, these organizations are often informal and work closely with the Canadian embassies. They provide a good window into their respective countries. Indeed, while the Subcommittee was travelling in Bangkok, the Thai-Canadian Chamber of Commerce (TCCC) offered its services in facilitating this type of mentorship program.

Recommendation 22:

That the Canadian government, through the Trade Commissioner Services overseas, work with Canadian business associations operating in key Asia-Pacific markets to set up a mentorship program that would allow Canadian firms already established in those markets to share their knowledge and experience with new entrants in the region.

When in Japan, the Subcommittee heard of a model used by the United Kingdom in assisting its small businesses to establish themselves in a new market. The UK operates a "trade park" in Yokohama, near Tokyo, which provides modest office space and basic business services, such as Internet connections, to British SMEs when they first come to Japan. This provides the new entrant with an initial base of operations, easy access to market information and interpreter services from the embassy and a chance to ease its way into the Japanese market.

The Subcommittee sees considerable merit in such a proposal and notes that for a time a similar facility, called Canada House, operated in Singapore. We suggest that Canada open three such incubation facilities in the region — in Japan, Hong Kong and again in Singapore. As the most advanced economies in

the region, these three locations offer economic and political stability, stable legal and regulatory environments and open economies. Hong Kong and Singapore also have the potential to act as valuable springboards into the rest of Asia-Pacific: Hong Kong through its ties to China and Singapore through its growing network of free trade agreements with other Asia-Pacific countries. Furthermore, Commonwealth ties make the system of governance in those two jurisdictions relatively familiar and travel connections to elsewhere in the region are excellent.

Recommendation 23:

That the federal government open three small business incubation facilities in Asia-Pacific — in Japan, Hong Kong and Singapore. These facilities would provide incoming Canadian small businesses with temporary use of office space and access to basic business services in order to ease their entry into the region.

4. Raising Canada's Economic Profile

It is widely believed that national image, or “brand,” is a critical factor in the success of a country's exports abroad. Indeed, as stated in APF Canada's 2001 *Canada Asia Review*, several empirical studies have shown that a product's country of origin has an impact on purchasing decisions. In order for Canadian companies to be successful in selling their goods and services in Asia-Pacific, it is important therefore, that they benefit from a positive image of Canada, Canadian products and Canadian expertise.

Unfortunately, Canada's image abroad is clearly inaccurate. Indeed, while in Singapore, the Subcommittee was reminded by the Singapore Chinese Chamber of Commerce and Industry of a 2001 survey by the Asia Pacific Foundation on Canada's image in Asia.¹⁶ The survey confirmed that while Canada was seen as an attractive country with friendly, tolerant people, from a business perspective, it was not widely regarded as a dynamic economy with advanced technology and expertise.

At the Subcommittee's Ottawa hearings, several witnesses acknowledged that there was a need for Canada to recast its image in the Asia-Pacific region. The Secretary of State, the Hon. David Kilgour stated that Canada “enjoy[s] a generally positive image, but our brand is suffering.” He further stated his belief that the root of the problem is Canada's widespread perception as a travel destination and a source of raw materials and not as a high-tech, knowledge-based trading partner. Other witnesses were quick to point out that some of the

¹⁶ The results of this survey can be found in APF Canada's 2001 *Canada Asia Review*.

existing perceptions about Canada are beneficial — Asia-Pacific companies perceive Canada as a desirable place for employees to live in terms of standard of living and presence of many Asian-heritage communities.

As John Wiebe observed, however, the perception of Canada in Asia-Pacific is not an inaccurate reflection of Canada's trading relationship with many countries in the region. Most of Canada's high-tech trade takes place with the United States. Furthermore, over half of Canada's merchandise exports to Asia-Pacific are agricultural or resource-based goods (see Appendix III).

In this context, changing Canada's image is not an easy process. David Mulroney (Assistant Deputy Minister, Asia-Pacific, Department of Foreign Affairs and International Trade) highlighted some of the efforts that the Canadian government has used, or is considering to use, to overcome the branding issue. These include employing high-profile Canadian "champions" like astronaut Julie Payette as public figures to represent the country; large scale public diplomacy strategies in countries like China, Japan and India; and more subtle means such as the conspicuous use of high-tech goods in Canadian trade offices.

The Subcommittee believes that improving Canada's "brand" in Asia-Pacific is synonymous with increasing its visibility in the region. If Canada is indeed a world-class producer of high-tech goods and services, then the most effective way to promote itself as such is to be actively present in the region selling those products. We observed that Canada's trade offices in Asia-Pacific have an excellent reputation and work hard to raise Canada's profile in the region. However, their job is made considerably more difficult by the fact that relatively few Canadian companies are visibly present in the region.

Any attempt to change Canada's image, in our opinion, must focus on Canadian businesses, their capabilities and their successes. We heard in Hong Kong that people want to know about the business opportunities that Canada offers; they are not interested in a publicity exercise. As such, we maintain that a vigorous effort aimed at making Canadian firms aware of the trade and investment opportunities in Asia-Pacific, combined with removing as many of the barriers to overseas trade as possible, will help attract greater numbers of businesses to the region. As the Canadian presence in Asia-Pacific increases, awareness of Canadian products and expertise will do likewise.

In this context, major events like industry trade shows are an invaluable trading and networking opportunity for foreign companies looking to sell into the Asia-Pacific market. These not only allow Canadian companies to showcase their products, thereby encouraging trade and investment in the region, but also help update Canada's image as a producer of high-tech goods and services. However, we heard evidence that, at least in some cases, Canada's representation at these

events was minimal or nonexistent. The conspicuous absence of Canadian companies from trade exhibitions that attract firms from all over the world is troubling to the Subcommittee. It suggests either that Canadian firms are unaware of these opportunities and the potential benefit they offer — which speaks to the importance of providing timely and accurate market information — or that the cost of participation is prohibitive.

It is highly unlikely that large Canadian companies would be unaware of, or unable to afford to attend, international trade exhibitions if they so desired. However, the same is not true of smaller firms. Because there is often a lag between initial promotion and the resulting payoff, many smaller companies do not have the financial capacity to make the necessary commitment to attend such shows and make a concerted push into the region. Ken Ing (Member, Comox CanadAsia Business Society) thought that addressing the needs of SMEs in this regard should be a key consideration in forming any new strategy or a plan to help businesses trade and invest in Asia-Pacific. The Subcommittee agrees, noting that in a previous report, *Crossing the Atlantic: Expanding the Economic Relationship Between Canada and Europe*, it recommended that the federal government increase DFAIT's trade and promotion budget in order to expand Canada's involvement in European trade fairs.¹⁷ We hold the same view for the Asia-Pacific region as well and therefore recommend:

Recommendation 24:

That, as part of a long-term strategy to build Canada's economic relationship with Asia-Pacific, as well as to exhibit Canadian technology and expertise, the federal government more effectively encourage Canadian small businesses to participate in trade shows and exhibitions in Asia-Pacific and provide increased financial assistance for SMEs to attend those events.

The Subcommittee also received considerable feedback on one of Canada's most significant initiatives designed to raise the country's profile in the region — Team Canada trade missions. During our fact-finding trips in the region, we heard that Team Canada style trade missions were considered to be particularly effective at boosting the profile of Canada and Canadian businesses in many parts of Asia-Pacific. Witnesses widely agreed that these missions were useful in establishing business contacts and increasing awareness about Canada in the destination country. Furthermore, the presence of Canadian federal, provincial and territorial government leaders alongside their business leaders was seen as positive.

¹⁷ *Crossing the Atlantic: Expanding the Economic Relationship Between Canada and Europe*, page 22, Recommendation 6.

However, aspects of Team Canada visits drew criticism as well. Because of the time it takes to establish business relationships in the region, many witnesses felt that these missions were too infrequent and too inconsistent to yield lasting results. We were told that while Team Canada missions generate short-term interest, the lack of follow-up contact results in that interest dissipating. As Ken McKeen testified, even well-run promotional programs will fail if there isn't good commercial follow-up.

Indeed, China is the only country in Asia-Pacific that has hosted two Team Canada missions, and those were seven years apart — in 1994 and then again in 2001.¹⁸ Companies typically require several trips overseas to establish relationships. While the Subcommittee acknowledges that it is ultimately the responsibility of businesses to follow up on their Team Canada experience, we do believe that in order to promote trade and investment, trade missions should be conducted in a more targeted and consistent manner. Furthermore, the Subcommittee is of the view that a more formal process should be put in place through which Trade Commissioner Service officials aid Canadian businesses in performing a proper follow-up.

The Subcommittee heard criticism that Team Canada had become a huge political machine, more focused on large-scale public relations exercises than on actual trade and investment promotion. We also heard that since the final decisions on itineraries and destinations are made at the political level, the agenda did not always reflect the trade and investment priorities of the businesses in attendance.

At the same time, we were told that smaller missions targeted to specific sectors of the Canadian economy such as environment, information technology or biotechnology and accompanied by the relevant government minister were significantly more effective at promoting trade and investment. These smaller missions retained the positive aspects of Team Canada but were more focused on businesses' priorities.

For example, the Subcommittee heard from Ian Cheng about an upcoming trade and investment show in Sharmon, China. Thanks to the assistance of Environment Canada, which was actively promoting Canadian environmental products, it was hoped that 10-20 Canadian environmental product companies would be able to attend and showcase Canadian technology and expertise at this convention. Mr. Cheng admitted that in the absence of financial support from Environment Canada, he would not have been able to participate in the event.

¹⁸ India has also been the destination of one Team Canada mission and a Canada Trade mission.

All told, the Subcommittee believes that trade missions that involve a collaborative effort between the federal government, provincial and territorial governments, and the business community are an effective way to raise Canada's profile in Asia-Pacific and encourage trade and investment at the same time. In light of witness testimony, it appears that large Team Canada missions are more successful at garnering public attention, while smaller, more focused delegations yield better results from a trade and investment standpoint. In general, however, we find that trade missions occur too infrequently in any given country in Asia-Pacific to have a meaningful effect on changing Canada's image in that area. With those thoughts in mind, the Subcommittee recommends:

Recommendation 25:

That, to improve trade, investment and Canada's image in Asia-Pacific, the Government of Canada encourage a significantly greater number of joint trade missions to the region involving the participation of businesses along with federal, provincial and/or territorial government leaders. Instead of broad-based delegations such as Team Canada missions, smaller missions focused on specific sectors should be favoured.

5. Providing Good Overseas Service

Undoubtedly, Canada's most valuable tool in helping Canadian businesses succeed internationally is its Trade Commissioner Service. The TCS operates 135 offices around the world and provides six key services to Canadian firms: assessment of market prospects; visit information and coordination; lists of key contacts; face-to-face briefings; local company information; and troubleshooting.

Witnesses were unanimous in their praise of Canada's TCS offices in Asia-Pacific, stating that the officers are doing an exceptional job of promoting Canadian interests across the region and generating significant benefits for the Canadian economy. At the same time, however, the Subcommittee heard repeatedly that there are simply not enough trade officers in the region. While the quality of work remains high, witnesses testified that Canada has cut back on its presence in the region to the point that TCS offices are no longer able to provide the same services as they had in the past.

For example, several Canadian businesses in Thailand and Japan alerted the Subcommittee to the fact that in the past, TCS offices used to employ a number of industry specialists with expertise on specific sectors of the economy. Although popular with businesses in the region, the Subcommittee was told that

many of these positions no longer exist due to budget cuts and department reorganization. Many companies suggested that Canada revisit this model of employing industry specialists.

The Subcommittee also heard that, because of staffing shortages, Canada was heavily under-represented in certain countries. In India, for example, the southern half of the country is the main driver of national economic development, yet Canada maintains only one Trade Commissioner office (in Mumbai) for the entire region. Canada's trade office in Bangalore — arguably India's most dynamic and high-tech city — consists of only one permanent staff member. Many other booming cities in the south of India are without on-the-ground Canadian trade representation at all. This has hampered Canada's ability to promote trade and investment opportunities in that country.

However, the feeling that Canada's trade offices in Asia-Pacific were understaffed was not universal. In a number of cases, trade commissioners felt that their resources were about sufficient given the current workload. Nevertheless, the Subcommittee believes that the number of trade officers operating in Asia-Pacific should be increased. This would not only allow officers to perform their jobs more effectively, but would also allow for more industry specialists to be employed and for Canada to have wider, more effective representation in Asia-Pacific. Furthermore, since the objective of the Subcommittee is to see Canada strengthen its economic ties with Asia-Pacific, more staff would be needed to meet the increased demand.

Some witnesses suggested that one way to increase the number of officers in the region without incurring significant new costs would be to shift the focus of Canada's foreign service resources away from the U.S. and Europe because cultural, language and regulatory similarities make it comparatively easy to trade in those areas. Others, however, felt that diverting resources was not the answer, but that Canada needed to increase its foreign service presence worldwide. While this would require an injection of funding from the federal government, Peter Barnes suggested that the benefits to the Canadian economy from increased trade and investment would greatly exceed these costs.

Given the importance of trade to the Canadian economy, and the importance of TCS offices in facilitating trade, the Subcommittee believes that it is critical to increase Canada's trade presence in Asia-Pacific. The presence of trade offices and staff not only provides a valuable service to Canadians, but also helps cultivate an image of Canada as a trading nation committed to expanding in the Asia-Pacific market. The Subcommittee heard that the Asia-Pacific region accounts for about 34% of DFAIT's TCS services abroad. We believe that, given the current and future potential in the region, that figure should be raised to 50%.

Recommendation 26:

That, in recognition of the critical role played by Canada's Trade Commissioner Service in promoting international trade and investment, and the importance of trade and investment to Canada's standard of living, the Canadian government substantially increase its funding of the Trade Commissioner Service in order to raise the number of trade officers operating abroad, particularly the number of sectoral specialists. The increase in resources should be concentrated in the Asia-Pacific region with the goal of Asia-Pacific accounting for 50% of all TCS expenditures abroad.

A frequent complaint the Subcommittee heard from the business community in Asia-Pacific is that while Canada's trade officers abroad provide a valuable service, their placement terms are not long enough. We were told that often a business will have just established a good relationship with a trade officer when that officer is reassigned. That officer takes away his/her intimate knowledge of the local market, business networks and nuances of the posting. While new officers are also generally of high quality, it takes time before the same level of expertise and connections can be established. European foreign embassies received similar requests from their business communities and have already extended the length of their international postings from three years to five.

Recommendation 27:

That the Government of Canada extend the length of term of international postings for its trade officers to a period of five years.

APPENDIX I — ASIAN ECONOMIC REFORMS

A. East and Southeast Asia

In East Asia, financial markets have been the primary target for reforms, triggered by the aftermath of the Asian Financial Crisis in late 1997. For decades, the region had enjoyed unprecedented economic growth, development and poverty alleviation. However, this strong period of sustained economic growth was interrupted dramatically in 1997 in Thailand with a series of speculative attacks against the Thai currency, the baht. The crisis in Thailand became a contagion almost instantly as investors rapidly lost confidence in the entire region, pulling out of equity markets in neighbouring countries such as Malaysia, Indonesia and the Philippines. Soon after, the effects spread to South Korea, Hong Kong, Taiwan and Singapore. In the end, virtually all East Asian countries were touched by the contagion, with the notable exception of China.

The Asian Crisis was the result of a combination of macroeconomic factors. Prior to the crisis, most countries in the region operated fixed exchange rates tied to the value of the U.S. dollar. As investment in the region increased, a number of countries began to run considerable current account deficits, placing downward pressure on domestic currency values. Instead of devaluing domestic currencies, countries responded by raising their interest rates and selling foreign exchange reserves in order to defend the value of their fixed exchange rates. This made the region an even greater magnet for foreign investment and resulted in an abundant supply of foreign currency in East Asia.

Because foreign currency was plentiful, it became common to borrow money in foreign currency denominations. Since local governments had promised to defend the fixed exchange rate in money markets, this was seen as no less risky than borrowing money in the domestic currency.

At the same time, the financial institutions administering these loans suffered from inadequate supervision and a poor performance in assessing and managing financial risk. This led to an improper allocation of financial resources; loans were too liberally extended and frequently channelled into unproductive investments, nepotistic ventures, and unwise capital projects. Governments were also guilty of directing loans to un-creditworthy firms and industries. In some planned economies such as South Korea, and to some extent Japan, banks were seen as mere policy arms of the government.

This had two results. First, speculative investment became common and the value of Asian real estate and other asset markets were driven to artificially high levels. Second, the number of non-performing loans soared. These loans for the most part represented short-term debt held in foreign currency denominations — usually U.S. dollars.

This combination of factors began to signal cause for concern in East Asia. Expanding current account deficits required governments to raise interest rates and sell off foreign reserves in order to maintain fixed exchange rates. Trying to maintain exchange rates at artificially high levels hurt the competitiveness of Asian exports abroad and had a significant negative impact on local equity markets, even as prices for real estate and other assets soared.

Foreign and domestic investors began to worry that East Asian countries would not be able to sustain their fixed exchange rates in such an economic environment. At the same time, the implications of allowing exchange rates to float became clear. Given the number of loans denominated in foreign currencies allowing exchange rates to fall would dramatically increase the cost of these loans.

This speculation triggered the Asian Crisis which began, as mentioned above, in Thailand with a wide-scale sell-off of the local currency, the baht. The Thai government initially defended the currency by further raising interest rates and selling off foreign reserves, but once it was clear that the government would not be able to support the baht, the exchange rate was de-pegged and the baht was allowed to float. Its value plummeted immediately, and the panic quickly spread to neighbouring countries.

The combination of this sudden outflow of foreign capital and higher interest rates caused the speculative bubbles in real estate and other asset markets to pop, triggering massive deflation in the value of assets in the region. At the same time, the plunging exchange rates dramatically raised the costs of holding debts in foreign-currency denominations. These factors caused declines in spending, production, and employment in the region, as well as a sharp increase in the number of bankruptcies.

In addition, the sudden collapse of asset values and the flight of capital out of the region exposed the dangerous lending practices that had been allowed to persist in the Asian financial sector. As the number of bad loans became apparent, financial institutions were unable to recoup their losses and many became insolvent.

The turmoil created by the Asian Crisis had a dramatic effect on the regional economy. In 1998, economic activity fell by 9% in Southeast Asia and by 3% in the NIEs. The three hardest-hit countries were Thailand, South Korea and

Indonesia. Although many countries have since recovered from the crisis, weakness persists in some areas, most notably Japan where the financial crisis was only one of a number of economic challenges endured over the 1990s.

As mentioned above, China was one of the few countries essentially unaffected by the financial crisis. China's currency is fixed in value by the government and is not traded freely on global currency markets. As such, it was immune from attacks from currency speculators. As well, unlike Thailand and South Korea, China had a current account surplus at the time of the crisis. In addition, foreigners are heavily restricted in the types of shares they can trade on China's stock exchanges.

As Brian Hunter testified, the Asian Crisis revealed the need for significant institutional reforms in East Asia. He pointed out that the region was quick to react, initiating a series of economic and financial sector reforms aimed at improving transparency and accountability in the financial sector, decreasing the number of non-performing loans and improving the overarching legal and regulatory environments. Reforms are ongoing, but most countries have surpassed expectations in the progress they have made.

As a result of the crisis, a number of countries are implementing measures to ensure that such an event does not take place again. The Subcommittee heard that Thailand, for example, has accumulated vast quantities of foreign reserves to protect the baht from any future dramatic deviation outside its target band.

Robert Bélanger informed the Subcommittee that Thailand felt betrayed by the international community, believing that timelier assistance would have reduced the severity of the crisis in that country. Mr. Bélanger also stated that Canada was one of the few countries to step in to defend Thailand, providing an unconditional \$500 million loan during the crisis. The Thai government is repaying the loan on schedule.

B. China

Economic reformation in China has been a gradual process, dating back to the late 1970s. The death of Chairman Mao in 1976 and the subsequent arrest of the remaining members of the "gang of four" brought an end to China's Cultural Revolution (1966-1976) and opened the door for more moderate party members to assume control. In December 1978, at the third plenum of the 11th Party Congress, these moderates approved an ambitious series of agricultural and economic reforms. The economic reforms, known as the Open-Door Policy, were aimed at reforming the national economy and lifting the restrictions on foreign

commercial relations.¹⁹ The Open-Door Policy was made up of four components: the creation of special investment zones; the attraction and efficient investment of foreign capital; increasing foreign trade; and the import of modern technology and management techniques.²⁰ Reforms were phased in through the remainder of the 1970s and into the 1980s.

In subsequent years, economic reforms in China continued, at least one of the goals of which was to formally join the multilateral trading community. In 1986 China applied to join the General Agreement on Tariffs and Trade (GATT), the predecessor of the WTO. Discussions were set back by the Tiananmen Square massacre in 1989 and also by the creation of the WTO in 1994, which widened the scope of GATT rules, requiring China to undertake even more economic reforms in areas such as new or increased market access commitments and intellectual property rights.

In 1996, the European Union proposed that upon accession to the WTO, China be allowed transition periods to implement certain WTO obligations. This proposal helped invigorate WTO negotiations and economic reforms in China, that had been lagging. The following year, China began to restructure its state enterprise sector, allowing for a greater role to be played by markets. With new progress made on negotiations, China concluded several bilateral market access agreements, including with Canada in 1999. These agreements paved the way for China's eventual accession to the WTO in December 2001.

Chinese economic reforms will continue into the immediate future as well. This is due in large part to the transition period for phasing in certain WTO commitments. In particular, China is reforming its financial sector to allow greater access to Chinese financial markets by foreigners. This also involves further reforms to Chinese monetary policy. For example, the domestic currency, the renminbi, is not yet fully convertible on international markets. Many countries are optimistic that China's participation in the WTO will serve as a catalyst for even further market reforms.

C. India

India is also engaged in a series of economic reforms, largely as part of its effort to increase economic growth through trade and trade liberalization. John Wiebe informed the Subcommittee that the Indian government was in the process of selling a number of state-owned enterprises. In addition, import duties on most products are falling in accordance with its tariff reduction schedule which

¹⁹ Deyan, Z. *Economic and Trade Relations Between Canada and China*, Department of Economics, Wuhan University, working paper #24, 1983.

²⁰ Carson, R. *Comparative Economic Systems Part II: Socialist Alternatives*, M.E. Sharpe, Inc., Armonk, New York, 1990, page 303.

extends through 2005. Tariffs on raw materials and industrial goods in that country have fallen from an average of 300% in the early 1990s to about 25% today. India has plans to continue to lower its tariff rates to bring them in line with those of the ASEAN countries.

However, this plan is complicated by the fact that government revenue needs in India are slowing the pace of tariff reduction. India has a population of over 1 billion, but only an estimated 18 million pay income taxes. As a result, import duties are a significant source of revenues in India. With a large and chronic fiscal deficit, the Indian government is looking to implement a Value-Added Tax (VAT) on consumption that would help widen the tax base, generate more revenue and provide the tax room necessary to afford additional tariff reductions.

In addition to these broad national reforms, a number of India's southern states have enacted economic and regulatory reforms aimed at attracting foreign investment and economic development. These policies have largely been successful and as a result, much of southern India has seen remarkable growth in recent years. By contrast, most of northern India is stagnating as political instability along the Pakistani border and less liberal policies are dampening development.

D. Japan

Japan is also engaged in a series of economic reforms as the country attempts to break out of its prolonged period of economic stagnation. Japan's poor economic performance since the early 1990s is rooted in its economic policy in the 1980s. At that time, restrictive trade policy aimed at promoting exports and minimizing imports proved to be very effective, resulting in a large and growing trade surplus, that in turn, placed upward pressure on the yen. A rising yen not only threatened the competitiveness of Japan's exports, but spelled slower economic growth as well. To stimulate growth and place downward pressure on the yen, the Japanese government lowered interest rates and increased government spending. While this policy helped restore economic growth in Japan in the mid-late 1980s, low interest rates and a ready supply of government money also created tremendous inflation in Japanese asset markets. The rise in stock and land values became self-perpetuating as speculative investment took over. When the asset-price bubble finally burst in the early 1990s, it triggered a prolonged period of price deflation that eroded consumer spending and left producers with large surpluses in production capacity brought about by excessive capital investments in the 1980s.

The decline in asset values left Japanese banks saddled with volumes of non-performing loans, causing devastation in the financial sector and making banks far more reticent to provide loans in subsequent years. As the financial sector continued to struggle with non-performing loans and mounting debt levels in

a deflationary environment, Japan was hit by the Asian Crisis in 1997, exacerbating the difficulties of financial institutions and resulting in high-profile bankruptcies in the sector.

In an effort to stimulate economic growth, the Japanese government implemented a number of fiscal stimulus packages throughout the 1990s. However, these spending projects have been unsuccessful at jump-starting the Japanese economy and have only resulted in a burgeoning national debt. In 1991, net debt in Japan was only 6% of national GDP — the lowest level in the G-7. Ten years later, net debt had mushroomed to nearly 59% of GDP, making Japan the second *most* indebted country in the G-7. Indeed, John Wiebe informed the Subcommittee that there is very little the Japanese government can do to further stimulate the economy. Interest rates are near zero, and the high debt level limits the ability of the Japanese government to make future interventions in the economy.

However, Mr. Wiebe was quick to point out that the perception of Japan's economic weakness is much more severe than is actually the case. Indeed, while travelling through Japan, the Subcommittee consistently received the same message from Japanese business leaders and Canadian companies operating in Japan.

In recounting the recent performance of the Japanese economy, an economist in Tokyo likened the challenges facing Japan to a "rich man's disease." Japan is still among the wealthiest countries in the world and its current economic woes are the result of its earlier, overzealous growth to prosperity. He stated that it would take time, but Japan would surely recover and the domestic economy would once again resume growth.

In the meantime, Japan is engaged in a number of economic and political reforms aimed at restructuring the economy, attracting foreign investment and accelerating the recovery process. The Subcommittee heard that the Japanese government has divided the country into a series of economic zones to act as pilot projects for the implementation of various reforms and to speed their acceptance.

Among the specific areas targeted for reform are corporate restructuring, particularly in the financial sector. Many Japanese banks are still saddled with high debt and large numbers of non-performing loans, exacerbated by a deflationary environment. Other goals include regulatory, tax and political reforms. There have also been some attempts to change Japan's hugely inefficient distribution system to try to make it easier for countries to export to Japan and for foreign companies to establish Japanese operations. Indeed, in the Subcommittee's meetings with Canadian companies operating in Japan, the inefficient and complex distribution system was cited as one of the most significant obstacles to penetrating the Japanese market.

APPENDIX II — INTRA-REGIONAL TRADE AGREEMENTS IN ASIA-PACIFIC

The most significant economic integration initiative currently underway in Asia-Pacific is the “ASEAN Plus Three” (APT) initiative involving China, the ASEAN countries, South Korea and Japan. In November 2002, ASEAN held a summit with these countries to establish agreements for closer economic integration. China has taken the APT concept the furthest by initiating free trade area negotiations with ASEAN at the summit. ASEAN and China signed a framework agreement for comprehensive economic co-operation that committed to negotiation of a free trade agreement between China and ASEAN within 10 years. It is anticipated that any ASEAN–China free-trade agreement would eventually enlarge to include South Korea and Japan. If this 13-country free trade area were successfully formed, the APT would be the largest free trade agreement in the world. It also raises the potential concern for Canada of an inward-looking Asian trade bloc representing a market of 1.8 billion people.

In the meantime, the most evident progress of the APT relationship has been in monetary and financial co-operation. The Asian Crisis exposed the lack of an institution to address economic crises in the region. Since the Asian Crisis, APT finance ministers agreed to the Chiang Mai initiative to coordinate reform of international finance. As Wendy Dobson observed, the thirteen countries have a long-term vision of not only trade liberalization, but further economic integration through enhanced financial and monetary co-operation as well as the potential for some sort of common currency arrangement.

Although economic integration and co-operation in Asia are enjoying considerable momentum, the Subcommittee heard evidence in Japan and Malaysia that a pan-Asian free trade agreement is an unlikely proposition in the foreseeable future. A number of significant issues stand in the way of a comprehensive trade agreement. China would be opposed to recognition of Taiwan in such an agreement, while Japan would be reluctant to negotiate with China because of the effect such an agreement would have on agriculture trade in the region. In addition, Japan is concerned about a potential “hollowing out” of Japanese industry moving production to take advantage of China’s low-cost labour environment.

In addition to the APT initiative, ASEAN is fostering external links with Australia and New Zealand, and recently signed a Declaration on Closer Economic Partnership with the CER (Closer Economic Relations agreement between Australia and New Zealand) supporting increased co-operation in areas such as trade and investment, capacity building, and electronic commerce. Negotiations for a free trade agreement between ASEAN and CER are underway.

Similarly, ASEAN and India signed a Joint Statement on ASEAN–India Cooperation. In addition to addressing the promotion of peace and stability and general economic and development co-operation, the declaration expressed the long-term intention to adopt an India–ASEAN Regional Trade and Investment Area.

India is also active in economic co-operation in South Asia. The South Asia Preferential Trade Agreement (SAPTA) was signed in 1993 by seven countries²¹ with the aim of lowering tariff barriers in the region. Although progress has been modest, the ultimate objective is expansion of the terms of this pact.

Regional integration is also evident in the proliferation of bilateral trade agreements in Asia-Pacific. While not all are true free trade agreements, many countries within the region are actively negotiating or exploring closer economic ties with their neighbours. For example, Singapore recently concluded an Economic Partnership Agreement with Japan and signed free trade agreements with New Zealand in 2001, and with Australia in 2003. Similarly, Thailand has explored closer relations with South Korea, Australia, Japan, China, and India. In addition to its agreements with Singapore, New Zealand and Thailand, Australia has signed a trade and economic agreement with Japan and is now reaching out to Indonesia.

Bilateral trade agreements are also increasingly common in South Asia. There is a considerable network of free trade agreements and related, less comprehensive, treaties aimed at improving economic co-operation in the region. To name a few: India has signed trade agreements with Sri Lanka, the Maldives and Bangladesh and is examining a series of tariff concessions with Pakistan. Sri Lanka is also negotiating bilaterally with Pakistan and has an agreement in place with Nepal.

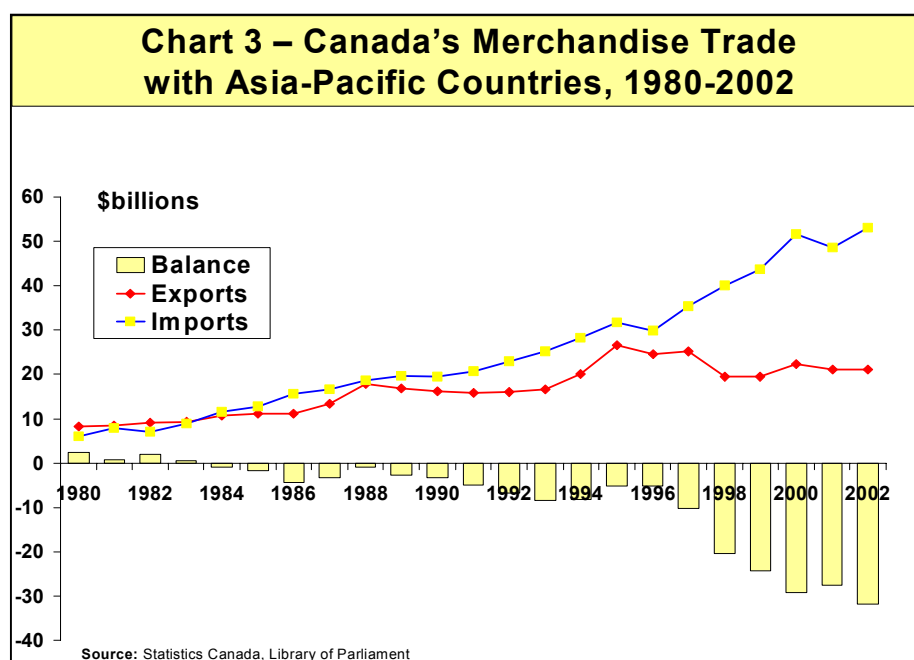
²¹ India, Pakistan, Sri Lanka, Nepal, Bhutan, Bangladesh and the Maldives.

APPENDIX III — CANADA'S TRADE AND INVESTMENT RELATIONSHIP WITH ASIA-PACIFIC

A. Trade Between Canada and Asia-Pacific

1. Merchandise Trade

With the exception of its NAFTA partners, Canada trades more with the countries in the Asia-Pacific region than any other major region in the world. Total merchandise trade between Canada and Asia-Pacific countries was valued at \$74 billion in 2002, accounting for about 45% of its merchandise trade outside the NAFTA region. Canadian exports to Asia-Pacific make up \$21 billion of that total while imports account for the remaining \$53 billion.



Although the distribution of exports and imports suggests that Canada holds a substantial trade deficit with Asia-Pacific, this was not always the case. In the early 1980s, Canada held a small trade surplus with countries in the Asia-Pacific region. Since that time, however, imports from Asia-Pacific have grown much more rapidly than have exports to that region. From 1980 to 1996 Canadian exports to Asia-Pacific increased by an average of 7.0% annually. By comparison, imports from Asia grew by 10.5% over that same period.

This growing trade imbalance was exacerbated by the Asian Financial Crisis in 1997. As much of the region slid into recession and local currencies tumbled, it became very difficult for Canadian exporters to continue to sell in most Asian markets. Some exporters were effectively priced out of many Asian markets by the exchange rate effects of the crisis, while others found that the impact of the recession in the region eroded demand for their products. Merchandise exports to Asia-Pacific fell by 22% from 1997 to 1998 and have yet to recover their pre-1998 value.

At the same time, however, the decline in the value of Asian currencies made their goods even more competitive abroad. While Canadian exports to the region fell, import growth continued unabated. As a result, Canada's trade deficit with Asia-Pacific has ballooned since 1997, rising from \$10 billion that year to \$32 billion by 2002.

(a) Canadian Merchandise Export Markets in Asia-Pacific

(i) Major Destinations

Canada's merchandise exports to Asia-Pacific are dominated by a handful of key markets, primarily in Asia. Countries in Oceania — most notably Australia and New Zealand — only account for about 5% of Canada's merchandise trade to the region as a whole. Canada's most significant export destinations are Japan and China which together account for nearly three-fifths of Canada's total exports to the region. With merchandise sales valued at \$8.2 billion in 2002, Japan is Canada's largest export destination in Asia-Pacific and second-largest in the world. For its part, China is Canada's fourth-largest export destination worldwide, with merchandise exports to that country exceeding \$4.0 billion in 2002.

Although Japan and China are Canada's two largest customers in Asia-Pacific, the evolution of exports to those countries are headed in opposite directions. Canadian exports to Japan experienced strong growth through the 1980s and into first half of the 1990s. However, the combination of the Asian Crisis and Japan's ongoing internal economic difficulties have dampened Japanese appetite for Canadian imports.²² After rising by 47% in the first half of the 1990s, merchandise exports to Japan peaked at \$12.1 billion in 1995 and have since fallen by over 30%.

²² However, total imports into Japan have remained strong throughout this period.

| Table 1 - Canada's Top Merchandise Export Destinations in Asia-Pacific | | | | | |
|---|---------------------------|---------------|--------------------------------------|----------------------------------|------------------|
| | Value (\$millions) | | Avg. Yearly Growth, 1990-2002 | % of Total Exports, 2002: | |
| | 1990 | 2002 | | To Asia-Pacific | Worldwide |
| Japan | 8,230 | 8,398 | 0.17 | 39.1 | 2.1 |
| China | 1,707 | 4,093 | 7.56 | 19.1 | 1.0 |
| South Korea | 1,554 | 1,998 | 2.12 | 9.3 | 0.5 |
| Hong Kong | 686 | 1,206 | 4.81 | 5.6 | 0.3 |
| Australia | 903 | 1,168 | 2.17 | 5.4 | 0.3 |
| Taiwan | 798 | 1,118 | 2.85 | 5.2 | 0.3 |
| India | 321 | 674 | 6.38 | 3.1 | 0.2 |
| Thailand | 506 | 530 | 0.39 | 2.5 | 0.1 |
| Indonesia | 313 | 493 | 3.85 | 2.3 | 0.1 |
| Malaysia | 257 | 491 | 5.54 | 2.3 | 0.1 |
| Singapore | 407 | 488 | 1.52 | 2.3 | 0.1 |
| Philippines | 206 | 300 | 3.18 | 1.4 | 0.1 |
| Others | 403 | 525 | 2.24 | 2.4 | 0.1 |
| Total | 16,291 | 21,482 | 2.33 | 100.0 | 5.4 |

Source: Statistics Canada, Library of Parliament

By contrast, export growth to China has been brisk, particularly in the recent past. As China continues with market-based economic reforms, access to the Chinese market has improved for foreign suppliers, including Canada. Since 1997, Canadian exports to China have increased by 67%.

Aside from Japan and China, other major export destinations in Asia-Pacific include South Korea, Hong Kong, Australia and Taiwan. Of these, South Korea is the most significant. Canada exported about \$2.0 billion in merchandise to South Korea in 2002 — about 9% of Canada's total exports to Asia-Pacific. Export totals for the other three countries are all between \$1.1 and \$1.2 billion dollars. Each accounts for slightly more than 5% of Canada's total exports to Asia-Pacific.

As noted for Japan above, 2002 export levels to South Korea, Hong Kong and Taiwan are well below their record levels set in the mid-1990s, immediately prior to the Asian Crisis. In particular, exports to South Korea have fallen dramatically — by 30% from 1996 to 2002. For its part, export growth to Australia has been more solid. All together, these four countries, along with China and Japan, account for about 84% of Canada's total exports to the Asia-Pacific region.

Although Canada's exports to most Asian countries have been stagnant in recent years and have yet to regain their pre-1997 levels, there are a few noteworthy exceptions. In addition to China where Canadian exporters are having some success, India and Vietnam are emerging as potentially significant markets. The total value of exports to those two countries remains relatively modest, but is growing rapidly in both cases.

(ii) Provincial Exporters

British Columbia (BC) is by far Canada's largest exporting province to Asia-Pacific. In 2002, BC shipped goods valued at \$6.9 billion to that part of the world, making up nearly one-third of Canada's total exports to the region that year. Although BC dominates Canada's trade with Asia-Pacific, its exports to that region have been hit hard since the mid-1990s. Japan is a dominant export market for BC and the poor performance of the Japanese economy through much of the 1990s took a toll on BC's overall exports to Asia-Pacific. Exports to the region have fallen by 33% from their peak of \$10.3 billion in 1995.

| | Value (\$millions) | | Avg. yearly growth, 1990-2002 | 2002 Exports as a % of: | |
|-----------------------|--------------------|---------------|-------------------------------|-------------------------|---------------------|
| | 1990 | 2002 | | Cdn. Total to Region | Total Prov. Exports |
| British Columbia | 6,510 | 7,020 | 0.63 | 32.7 | 23.3 |
| Ontario | 3,199 | 4,057 | 2.00 | 18.9 | 2.0 |
| Alberta | 2,372 | 3,312 | 2.82 | 15.4 | 6.7 |
| Quebec | 1,338 | 2,889 | 6.62 | 13.4 | 4.2 |
| Saskatchewan | 1,622 | 2,100 | 2.18 | 9.8 | 18.4 |
| Manitoba | 562 | 962 | 4.58 | 4.5 | 10.2 |
| Newfoundland and Lab. | 128 | 403 | 10.03 | 1.9 | 7.2 |
| Nova Scotia | 166 | 387 | 7.31 | 1.8 | 7.2 |
| New Brunswick | 253 | 335 | 2.37 | 1.6 | 4.1 |
| Prince Edward Island | 8 | 17 | 6.48 | 0.1 | 2.5 |
| Territories | 134 | 1 | -33.51 | 0.0 | 0.1 |
| Canada | 16,292 | 21,483 | 2.33 | 100.0 | 5.4 |

Source: Statistics Canada, Library of Parliament

Ontario and Alberta are the next largest exporters, selling \$4.0 billion and \$3.3 billion in merchandise to the Asia-Pacific region in 2002, respectively, accounting for about 19% and 16% of Canada's total trade to Asia-Pacific that year. While Alberta's exports to Asia-Pacific are primarily directed to Japan and to a lesser extent China, Ontario's exports to the region are relatively well-distributed. China and Japan are Ontario's largest export destinations as well, but Australia and Hong Kong are also important markets, each accounting for about 12% of Ontario's exports to the region.

Quebec and Saskatchewan are also significant exporters to Asia-Pacific, accounting for 13.8% and 9.8% of Canada's total merchandise exports to that region, respectively. With the exception of Newfoundland and Labrador, Quebec is the only province whose exports to Asia-Pacific in 2002 surpassed their pre-Asian Crisis value.

Although BC and Ontario are the two largest exporters to Asia-Pacific by dollar value, this fact does not necessarily reflect the importance of that region to the provincial economies. In BC, Asia-Pacific is a critical export market, accounting for over 23% of provincial exports worldwide. By contrast, Ontario's exports are heavily concentrated in the U.S., making the Asia-Pacific market comparatively insignificant. Less than 2% of Ontario's 2002 merchandise exports went to countries in Asia-Pacific. In general, Asia-Pacific is a more important export destination for western provinces than for those in the east. BC, Saskatchewan and Manitoba send the greatest proportion of total provincial exports to Asia-Pacific countries.

(iii) Major Export Products

Table 3 provides an overview of Canada's major export products to Asia-Pacific. While forest products — wood and wood products, pulp and paper — are the largest category of exports to the region, Canada in fact sells a wide range of goods in Asia-Pacific. Resource-based products, including agricultural commodities, minerals and fossil fuels account for over half of Canada's shipments to the region, but high-tech manufactured goods are also significant exports.

The composition of Canada's exports to Asia-Pacific has changed considerably since the early 1990s. Meat and meat products, telecommunications equipment and motor vehicles have emerged as significant export goods. At the same time, there has been a decline in shipments of cereal grains, plastics and fossil fuels.

| Table 3 - Canada's Top Merchandise Exports to Asia-Pacific | | | | |
|---|---------------------------|---------------|--------------------------|-------------------|
| | Value (\$millions) | | Growth: 1990-2002 | |
| | 1990 | 2002 | \$millions | % per year |
| Wood pulp and scrap paper | 1,159 | 2,233 | 1,075 | 5.6 |
| Wood and articles of wood | 1,406 | 2,144 | 738 | 3.6 |
| Machinery and equipment | 682 | 1,473 | 791 | 6.6 |
| Electrical/electronic machinery & equip. | 428 | 1,469 | 1,041 | 10.8 |
| Oilseeds, fodder, medicinal plants, etc. | 775 | 1,098 | 322 | 2.9 |
| Meat and edible meat offal | 179 | 984 | 805 | 15.3 |
| Fossil fuels and related | 1,938 | 984 | -954 | -5.5 |
| Fertilizers | 510 | 966 | 455 | 5.5 |
| Fish and seafood | 557 | 963 | 405 | 4.7 |
| Cereals | 1,594 | 858 | -736 | -5.0 |
| Motor vehicles, parts and related | 274 | 848 | 574 | 9.9 |
| Ores, slag and ash | 1,202 | 687 | -515 | -4.6 |
| Aircrafts and spacecrafts | 383 | 653 | 271 | 4.6 |
| Organic chemicals | 490 | 558 | 68 | 1.1 |
| Paper and paper products | 470 | 547 | 77 | 1.3 |
| Sub-total | 12,048 | 16,465 | 4,417 | 2.6 |
| Others | 4,243 | 5,018 | 775 | 1.4 |
| Total | 16,291 | 21,482 | 271 | 2.3 |

Source: Statistics Canada, Library of Parliament

Although all provinces export a broad array of goods to Asia-Pacific, the mix of products depends considerably on the region of origin. The Atlantic provinces export primarily fish, seafood, forest products and mineral ores. Ontario and Quebec also export forest and mineral products, as well as some agricultural products. However, the region's primary exports to Asia-Pacific are manufactured goods such as aerospace and motor vehicles, machinery and equipment, and electronics. The prairie provinces, for their part, are significant exporters of grains, meats, oilseeds and other agricultural products, in addition to fertilizers, other chemicals, fossil fuels and some electronics. Finally, BC exports a significant quantity of forest products to Asia-Pacific, as well as mineral products, fossil fuels and some manufactured goods.

(b) Canadian Merchandise Imports from Asia

(i) Major Sources of Imports

Canada's largest export destinations, China and Japan are also the most significant sources of imports into Canada from Asia-Pacific. Those two countries each account for about 30% of Canadian imports from the region. China is Canada's largest single source of imports from Asia-Pacific and second-largest source of imports worldwide, behind only the United States. Total sales from China to Canada were valued at \$16.0 billion in 2002. Imports from Japan — Canada's third-largest source of imports worldwide — were only slightly lower, at \$15.4 billion.

China's emergence as a major source of Canadian imports has been remarkable. In 1990, China was Canada's eleventh-largest source of imports, with sales valued at \$1.4 billion. Since that time, however, Chinese exports to Canada have soared, growing by an average rate of 22.5% per year. For its part, Japan's exports to Canada have also been growing, albeit at a much lower rate than imports from China. Japan had been Canada's second-largest source of imports until 2002.

| Table 4 - Canada's Top Sources of Merchandise Imports in Asia-Pacific | | | | | |
|--|---------------------------|---------------|--------------------------------------|----------------------------------|------------------|
| | Value (\$millions) | | Avg. Yearly Growth, 1990-2002 | % of Total Imports, 2002: | |
| | 1990 | 2002 | | From Asia-Pacific | Worldwide |
| China | 1,394 | 15,978 | 22.54 | 30.1 | 4.6 |
| Japan | 9,525 | 15,412 | 4.09 | 29.1 | 4.4 |
| South Korea | 2,255 | 4,860 | 6.61 | 9.2 | 1.4 |
| Taiwan | 2,109 | 4,241 | 5.99 | 8.0 | 1.2 |
| Malaysia | 380 | 2,018 | 14.93 | 3.8 | 0.6 |
| Thailand | 406 | 1,777 | 13.09 | 3.4 | 0.5 |
| Australia | 764 | 1,721 | 7.00 | 3.2 | 0.5 |
| India | 227 | 1,326 | 15.84 | 2.5 | 0.4 |
| Philippines | 203 | 1,113 | 15.23 | 2.1 | 0.3 |
| Hong Kong | 1,058 | 997 | -0.49 | 1.9 | 0.3 |
| Singapore | 551 | 988 | 4.99 | 1.9 | 0.3 |
| Indonesia | 202 | 964 | 13.91 | 1.8 | 0.3 |
| Others | 459 | 1,620 | 11.08 | 3.1 | 0.5 |
| Total | 19,533 | 53,015 | 8.68 | 100.0 | 15.2 |

Source: Statistics Canada, Library of Parliament

South Korea and Taiwan are also notable sources of imports into Canada. In both cases, imports grew strongly throughout the 1990s but have tapered off somewhat in the current decade. Imports from those two countries were valued at \$4.9 billion and \$4.2 billion in 2002, respectively, accounting for 9.2% and 8.0% of total imports from Asia-Pacific into Canada that year.

Although the above-mentioned four countries account for over three-quarters of all Canadian imports from Asia-Pacific, a number of smaller countries are rapidly emerging as significant exporters into Canada. Malaysia, Thailand, India, Vietnam and the Philippines have all made considerable gains in the Canadian market since the early 1990s.

(ii) Major Import Products

Canadian imports from Asia-Pacific are a mix of sophisticated high-tech goods and labour-intensive, low-value-added products. High-tech goods dominate, however, led by automobiles and auto parts, computers, electronics and telecommunications equipment. Together, electronics, machinery and equipment, and motor vehicles and parts made up over half of all shipments from Asia-Pacific countries in 2002.

However, high-tech goods are not the only products from Asia-Pacific entering the Canadian market. The clothing, apparel and other related industries in the region are also significant exporters into Canada, as are manufacturers of toys and games, iron and steel products, rubber and plastics. The recent strong growth in imports into Canada from Asia-Pacific countries is distributed across a wide range of products and product types. Electronics, furniture, knitted clothing and plastics have all made considerable gains in Canada over the 1990s.

| | Value (\$millions) | | Growth: 1990-2002 | |
|---|--------------------|--------|-------------------|------------|
| | 1990 | 2002 | \$millions | % per year |
| Electrical/electronic machinery & equip. | 3,024 | 9,669 | 6,645 | 10.2 |
| Machinery and equipment | 3,197 | 9,481 | 6,284 | 9.5 |
| Motor vehicles, parts and related | 4,222 | 8,319 | 4,098 | 5.8 |
| Toys, games, sporting goods, etc. | 572 | 2,310 | 1,737 | 12.3 |
| Woven clothing and apparel | 1,026 | 2,021 | 995 | 5.8 |
| Knitted or crocheted clothing and apparel | 659 | 1,789 | 1,130 | 8.7 |
| Optical, scientific and technical instruments | 570 | 1,769 | 1,198 | 9.9 |
| Furniture, furnishings, prefab buildings | 261 | 1,515 | 1,254 | 15.8 |
| Articles of iron or steel | 378 | 1,159 | 781 | 9.8 |
| Footwear | 410 | 1,121 | 712 | 8.8 |
| Plastics and articles thereof | 267 | 1,099 | 833 | 12.5 |
| Rubber and articles thereof | 386 | 876 | 489 | 7.1 |
| Leather goods | 385 | 722 | 337 | 5.4 |
| Inorganic chemicals and compounds | 281 | 655 | 374 | 7.3 |
| Iron and steel | 152 | 575 | 423 | 11.7 |
| Sub-total | 15,790 | 43,079 | 27,290 | 8.7 |
| Others | 3,744 | 9,936 | 6,192 | 8.5 |
| Total | 19,533 | 53,015 | 271 | 8.7 |

Source: Statistics Canada, Library of Parliament

With a few exceptions, Canadian imports from its major Asia-Pacific sources do not vary considerably from country to country. In general, most of Canada's major trading partners in the region sell a mixture of high-tech and labour-intensive goods. The most notable exception to this rule is Japan. Notwithstanding its recent economic difficulties, Japan remains the wealthiest

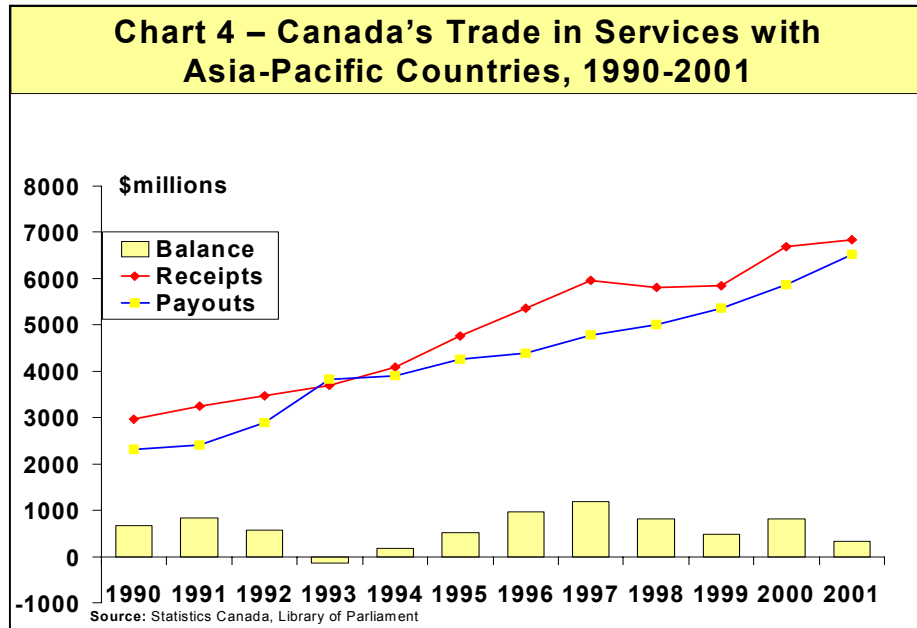
country in the region and trades almost exclusively in high-value goods. Not surprisingly, Japan is the dominant source of Canadian automobile imports from the region.

2. Trade in Services

Although Canada's economic relationship with Asia-Pacific is dominated by the exchange of merchandise, trade in services is an increasingly significant component of that relationship. These services include travel, transportation services, government services, and commercial services such as consulting, financial services, construction, computer and information services. In 2001, the most recent year for which data is available, Canada and Asia-Pacific exchanged services valued at a total of \$13.4 billion. Asia-Pacific countries purchased \$6.8 billion in Canadian services while Canada paid out \$6.5 billion for services from the region. Canada holds a small trade surplus in services of about \$300 million.

(a) Exports of Services

In terms of percentage shares, Asia-Pacific is a more significant market for the service sector than it is for merchandise products. The United States and Europe are Canada's primary and secondary destinations for service exports, but Canada's service exports to Asia-Pacific accounted for about 11.6% of its total service exports worldwide in 2001. By contrast, only 5.2% of Canada's merchandise exports went to Asia-Pacific that year.



Services exports to Asia-Pacific are also growing more rapidly than merchandise exports. Valued at just under \$3.0 billion in 1990, service exports to Asia-Pacific rose by an average of 7.9% per year from 1990 to 2001. By comparison, merchandise exports grew by an average of only 2.4% over that same period. As a result, services are increasing in importance as a component of Canada’s total exports to Asia-Pacific. In 1990, service exports were equivalent to about 18.2% of Canada’s merchandise exports. By 2001, that had risen to about 32.4%.

Canadian service exports to Asia-Pacific are more evenly distributed across the region as compared to merchandise exports. At \$1.7 billion in 2001, Japan is by far the largest purchaser of Canadian services, accounting for about 25.6% of Canada’s total service exports to Asia-Pacific. Japan is also the third largest destination of Canadian services worldwide, behind the United States and the United Kingdom. However, five other countries and economic regions are also significant buyers of Canadian services. Hong Kong, China, South Korea, Australia and Taiwan all account for between 8% and 12% of total Canadian service exports to the region. The latter three, along with Vietnam, have seen the most rapid growth in Canadian service exports since 1990.

Table 6 - Canada's Top Service Export Destinations in Asia-Pacific

| | Value (\$millions) | | Avg. Yearly Growth, 1990-2001 | % of Total Exports, 2001: | |
|--------------|--------------------|--------------|-------------------------------|---------------------------|-------------|
| | 1990 | 2001 | | To Asia-Pacific | Worldwide |
| Japan | 960 | 1,701 | 5.34 | 24.8 | 2.9 |
| China | 224 | 757 | 11.71 | 11.1 | 1.3 |
| Hong Kong | 465 | 725 | 4.12 | 10.6 | 1.2 |
| South Korea | 141 | 684 | 15.44 | 10.0 | 1.2 |
| Australia | 188 | 632 | 11.65 | 9.2 | 1.1 |
| Taiwan | 96 | 457 | 15.24 | 6.7 | 0.8 |
| India | 70 | 296 | 14.01 | 4.3 | 0.5 |
| Singapore | 139 | 280 | 6.57 | 4.1 | 0.5 |
| Indonesia | 80 | 185 | 7.92 | 2.7 | 0.3 |
| Philippines | 83 | 163 | 6.33 | 2.4 | 0.3 |
| Malaysia | 77 | 146 | 5.99 | 2.1 | 0.2 |
| Thailand | 49 | 131 | 9.35 | 1.9 | 0.2 |
| Others | 447 | 690 | 5.68 | 10.1 | 1.2 |
| Total | 2,970 | 6,847 | 7.89 | 100.0 | 11.6 |

Source: Statistics Canada, Library of Parliament

(b) Imports of Services

On the import side, Asia-Pacific is somewhat less significant to Canada as a source of services as it is a source of goods. The region accounts for about 9.7% of Canada's total purchase of services worldwide, compared to 14.2% of Canada's total merchandise imports. Canadian imports of Asian services are increasing slightly more rapidly than growth in merchandise imports. From \$2.3 billion in 1990, service imports from Asia-Pacific grew at an average rate of 9.9% annually to the year 2001, compared to an average rate of growth of 8.6% for merchandise imports over the same period.

Table 7 - Canada's Top Sources of Service Imports in Asia-Pacific

| | Value (\$millions) | | Avg. Yearly Growth, 1990-2001 | % of Total Imports, 2001: | |
|--------------|--------------------|--------------|-------------------------------|---------------------------|------------|
| | 1990 | 2001 | | From Asia-Pacific | Worldwide |
| Japan | 672 | 2,120 | 11.01 | 32.5 | 3.2 |
| Hong Kong | 468 | 920 | 6.34 | 14.1 | 1.4 |
| Singapore | 163 | 683 | 13.91 | 10.5 | 1.0 |
| China | 85 | 589 | 19.24 | 9.0 | 0.9 |
| Australia | 253 | 451 | 5.40 | 6.9 | 0.7 |
| Taiwan | 51 | 282 | 16.82 | 4.3 | 0.4 |
| South Korea | 74 | 249 | 11.66 | 3.8 | 0.4 |
| New Zealand | 89 | 184 | 6.83 | 2.8 | 0.3 |
| India | 55 | 159 | 10.13 | 2.4 | 0.2 |
| Philippines | 62 | 148 | 8.23 | 2.3 | 0.2 |
| Thailand | 73 | 141 | 6.17 | 2.2 | 0.2 |
| Indonesia | 42 | 115 | 9.59 | 1.8 | 0.2 |
| Others | 403 | 483 | 1.66 | 7.4 | 0.7 |
| Total | 2,313 | 6,524 | 9.89 | 100.0 | 9.7 |

Source: Statistics Canada, Library of Parliament

Compared to Canada's distribution of service exports, its sources of imports are somewhat more concentrated in a few key countries. Japan is Canada's largest source of service imports in Asia-Pacific and, as with service exports, the third largest worldwide behind the United States and the United Kingdom. In 2001, Canada purchased just under \$2.1 billion in services from Japan, accounting for about 32.5% of total service payouts in Asia-Pacific. Other significant sources of imports include Hong Kong, Singapore, China and Australia. Along with Japan, these five economies account for three-quarters of Canada's service imports from Asia-Pacific. Emerging, rapidly-growing service exporters to Canada include Indonesia, Malaysia, India and Vietnam.

B. Foreign Direct Investment

Foreign direct investment is a significant indicator, not only of the current economic relationship between Canada and Asia-Pacific, but of the direction of the future relationship as well. As John Banigan (Assistant Deputy Minister, Industry sector, Department of Industry) reminded the Sub-Committee, FDI acts as a catalyst for international trade. The interaction between parent companies and subsidiaries forges potential trade linkages and creates markets for goods and services.

Japan is Canada's largest destination for foreign direct investment in Asia-Pacific and ninth-largest in the world. Canadian FDI in Japan totalled \$9.2 billion in 2002, accounting for a quarter of Canada's total foreign investment in Asia-Pacific. Although Canadian exports to Japan have been stagnant since the Asian Crisis, Japan has remained an attractive environment for Canadian investors. Since 1997, Canadian FDI in Japan has more than doubled while merchandise exports have fallen by more than 25%.

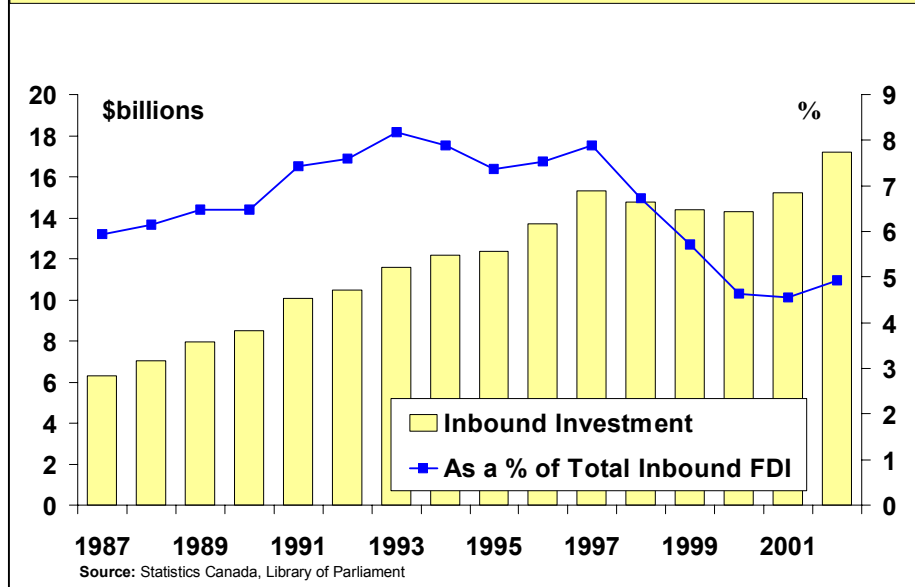
| Table 8 - Canada's Top Foreign Direct Investment Destinations in Asia-Pacific | | | | | |
|--|---------------------------|---------------|--------------------------------------|------------------------------|------------------|
| | Value (\$millions) | | Avg. Yearly Growth, 1990-2002 | % of Total FDI, 2002: | |
| | 1990 | 2002 | | In Asia-Pacific | Worldwide |
| Japan | 917 | 9,203 | 21.19 | 25.1 | 2.1 |
| Australia | 2,401 | 8,497 | 11.11 | 23.2 | 2.0 |
| Singapore | 1,837 | 5,100 | 8.88 | 13.9 | 1.2 |
| Indonesia | 934 | 3,725 | 12.22 | 10.2 | 0.9 |
| Hong Kong | 670 | 2,810 | 12.69 | 7.7 | 0.7 |
| Thailand | 29 | 1,122 | 35.61 | 3.1 | 0.3 |
| New Zealand | 180 | 1,059 | 15.91 | 2.9 | 0.2 |
| South Korea | 24 | 819 | 34.20 | 2.2 | 0.2 |
| China | 6 | 667 | 48.08 | 1.8 | 0.2 |
| Malaysia | 81 | 625 | 18.56 | 1.7 | 0.1 |
| Others | 557 | 2,988 | 15.03 | 8.2 | 0.7 |
| Total | 7,636 | 36,615 | 13.95 | 100.0 | 8.5 |

Source: Statistics Canada, Library of Parliament

Other significant destinations for Canadian FDI in Asia-Pacific include Hong Kong, Singapore, Australia and Indonesia. However, some of the most rapid growth in investment has been in China, South Korea and a number of Southeast Asian countries, most notably Thailand and Malaysia.

Only a handful of Asia-Pacific countries have significant investments in Canada. Japan, Hong Kong and Australia together account for 91% of all Canadian inbound FDI from the region in 2002. Of these, Japan is by far the largest investor in Canada. Primarily concentrated in the automotive sector, FDI from Japan totalled \$8.6 billion in 2002, making up half of all Asia-Pacific investment in Canada.

Chart 5 – Foreign Direct Investment from Asia-Pacific in Canada, 1987-2002



APPENDIX IV LIST OF WITNESSES

| Associations and Individuals | Date | Meeting |
|---|-------------|----------------|
| Department of Foreign Affairs and International Trade | 05/02/2003 | 2 |
| David Kilgour, Secretary of State (Asia-Pacific) | | |
| David Mulroney, Assistant Deputy Minister, Asia-Pacific | | |
| Ken Sunquist, Director General, Trade Commissioner Service, Overseas Programs and Services | | |
| Canadian International Development Agency | 12/02/2003 | 3 |
| Raymond Drouin, Program Manager, Industrial Cooperation Division | | |
| Brian Hunter, Senior Economist, Policy Branch | | |
| Jonathan Rothschild, Senior Economist, Policy Branch | | |
| Department of Foreign Affairs and International Trade | | |
| David Mulroney, Assistant Deputy Minister, Asia-Pacific | | |
| Department of Industry | | |
| John Banigan, Assistant Deputy Minister, Industry Sector | | |
| John Klassen, Executive Director, Investment Partnership Canada | | |
| Asia Pacific Foundation of Canada | 19/02/2003 | 4 |
| John Wiebe, President and Chief Executive Officer | | |
| Canadian Wireless Telecommunications Association | 26/02/2003 | 5 |
| Peter Barnes, President and Chief Executive Officer | | |
| Charles Bergeron, Director of Government Affairs | | |
| Export Development Canada | | |
| Stephen Poloz, Vice-President and Chief Economist | | |
| Henri Souquières, Vice-President, International Markets | | |
| Hong Kong-Canada Business Association | | |
| Mitch Kowalski, Vice-President | | |
| Bombardier International | 19/03/2003 | 6 |
| Robert Greenhill, President and Chief Operating Officer | | |
| Grain Growers of Canada | | |
| Ken Bee, President | | |
| Cam Dahl, Executive Director | | |

| Associations and Individuals | Date | Meeting |
|---|-------------|----------------|
| University of Toronto Wendy Dobson, Professor of International Business | 19/03/2003 | 6 |
| Canadian Agri-Food Trade Alliance Patty Townsend, Executive Director | 02/04/2003 | 7 |
| Canadian Chamber of Commerce Robert Keyes, Vice-President, International Division | | |
| Vancouver Port Authority Gordon Chu, Director, Transportation and Trade Policy | | |
| Coast Forest & Lumber Association Ken McKeen, Consultant | 09/04/2003 | 8 |
| Comox CanadAsia Business Society Ian Cheng, President Ken Ing, Member | | |
| Conference Board of Canada Charles Barrett, Vice-President, Business Research David MacDuff, Special Advisor/Senior Writer | 04/06/2003 | 9 |

**LIST OF INDIVIDUALS
WHO MET WITH THE SUBCOMMITTEE
(FROM MAY 2 TO MAY 17, 2003)**

FIRST TRIP — ASIA-PACIFIC REGION

**BANGALORE, INDIA
May 5, 2003**

**ADC (India) Communications and Infotech
Pvt. Ltd.**

Raj Rajkumar, Managing Director

Alliance Network

Priya Chetty-Rajagopal, Regional Manager,
Asia

Avestha Gengraine Technologies Pvt. Ltd.

Koen Wentink, C.O.O.

Vinay Konaje, Group Leader, Business
Development

ATW Technologies Pvt. Ltd.

M. Rajagopal, Founder and CEO

Bank of Nova Scotia

Peter L. Nesbitt, Manager, Bangalore Branch

Canada Trade Office, Bangalore

Sunitha Anand, Commercial Assistant

D.P. Vittal, Advisor (Trade)

Consulate of Canada

Doug Paterson, Consul and Senior Trade
Commissioner

Digital GlobalSoft Ltd.

Som Mittal, President and CEO

Bala Mahadevan, Head, New Business
Initiatives and Marketing

Indian Institute of Management, Bangalore

T.R. Madanmohan, Associate Professor,
Technology and Operation

Indian Institute of Science

Professor G. Mehta, Director

Professor Rahul Pandit, Chairman

Indus Trust

Lt. Gen. Arjun Ray, Chief Executive

Infosys

Bhavna Mehra, Executive, Corporate
Communications

Abhay Kulkarni, Delivery Manager, Canada
and North East Region

Murali S. Kakolu, Human Resources Manager

John Fowler (India) Ltd.

R.K. Jalan, Director

Moca Strategic Management

Laxam Sankaran, Consultant

Pivotal Corporation (India)

Chirantan Desai, Vice-President and
Managing Director

Price WaterhouseCoopers

Indraneel Roy Choudhury, Executive Director,
Tax and Regulatory Services

DELHI, INDIA
May 6-7, 2003

Bank of Nova Scotia

Denis Vaz, Vice-President and Country Head

Canadian High Commission

Peter Sutherland, High Commissioner

Benoît Préfontaine, Senior Trade
Commissioner

Zulfi Sadeque, Counsellor (Commercial)

Confederation of Indian Industries

Sugha Rajan, Director, Confederation of
Indian Industries

Rakesh Bakshi, Managing Director, Vestas
RRB India Ltd.

Jayant Prasad, Joint Secretary, Ministry of
External Affairs

Radha Bhatia, Director, The Bird Group

Denis Vaz, Vice-President and Country Head,
The Bank of Nova Scotia

Rajan Gupta, Manager, The Bank of Nova
Scotia

Vandana Mohata, Advocate, Dua Associates

Percy Billimoria, Partner, Ajay Bahl & Co.

L.C. Khatri, General Manager, NALCO

D. Kumar, Managing Director, A.R. Industries
P. Ltd.

R.N. Saxena, General Manager, Hindalco
Industries Ltd.

Ranjit Kapoor, Managing Director, Midi
Extrusions Ltd.

T.K. Bhoumik, Senior Advisor, CII

Gunveena Chadha

Prem Shankar Jha

Ernst and Young

K.N. Memani, Chairman and Managing
Partner

Supriya Sarin, Vice-President

Sharat Anand, Advisor to the Chairman

Gurav Taneja

Hero Honda Motors Limited

Brijmohan Lall, Chairman & Managing Director

**Indian Council for International Economic
Relations**

Anowarul Hoda, Adviser

**Lok Sabha (People's Assembly) Standing
Committee on Commerce**

Shri Mahendra Baitha

Shri Girdhari Lal Bhargava

Shri Ramchandra Paswan

Shri Danve Raosaheb Patil

Shri Pradeep Rawat

Shri Balbir Singh

Shri V.S. Sivakumar

Shri Ramakant Yadav

Raman Singh

Shri Bhartruhari Mahtab

Shri Suresh Pasi

Shri Satish Kumar, Additional Secretary

Ministry of External Affairs

Shri Digvijay Singh, Union Minister of State

National Highways Authority of India

Santosh Nautiyal, Chairman

N. Sethia International Group of Companies

Satish Girotra, Chief Representative

Provincial Electricity Authority

Weerachai Koykul, Director of Power System
Control and Operation Department

**Rai & Sons Private Limited (Consumer
Division)**

Vikram Sethi, Manager, Institutional Sales

**Rajya Sabha (Council of States) Standing
Committee on Commerce**

Shri Ashwani Kumar

Shri Parmeshwar Kumar Agarwalla

Shri Abu Asim Azmi

Shri S.P.M. Syed Khan

Shri Robert Kharshiing

Shri Mukhtar Abbas Naqvi

Shri N.K. Premachandran

Ranbaxy

Rashmi H. Barbhaiya, Ph.D., President,
Research and Development

Sushma Gupta, Associate Director

Kasim, A. Mookhtiar, Ph.D., Vice-President,
New Drug Discovery Research

Shervick Services Pvt. Ltd.

Pradeep Sethi, Chairman

Tafcon Group

M.L. Washwa, Chairman

BANGKOK, THAILAND

May 8, 2003

APEC Business Advisory Council

Viphandh Roengpithya

Isorn Pocomontri, Deputy Director General,
Department of American and South Pacific
Affairs

Medha Promthep, Director, North America
Division

Patcharee Poompachati, North America
Division

Phrommes Bhaholpolbhayhasena, North
America Division

Viroj Amatakulchai, Chairman, Committee on
Economics, Commerce and Industry,
Senate

Kraisak Choonhavan, Chairman, Committee
on Foreign Affairs, Senate

Mr. Supot, Chief of Protocol, Secretariat of the
Senate

Canadian Embassy

Ambassador Andrew McAlister

John Clapp, Counsellor (Commercial)

Ken Lewis, Senior Trade Commissioner,
Jakarta, Indonesia

Ron Bollman, Senior Trade Commissioner,
Kuala Lumpur, Malaysia

Carolyn Knobel, Second Secretary

Thawee Thaiprasithiporn, Commercial Officer

Veena Ngaocharoenchitr, Commercial Officer

Surin Thanalertkul, Commercial Officer

Nipa Banerjee, Counsellor (Development) and
Head of Aid

Canadoil Asia Ltd.

Giacomo Sozzi, Managing Director

Andrew M. Hill, Commercial Director

House of Representatives

CM.R.M. Deja Sucarom, Chairman of the
Committee on Foreign Affairs

Chuti Kririksh, Chairman of the Committee on
Economic Development

Provincial Electricity Authority

Paichit Thienpaitoon, Governor

Senate

Kraisak Choonhavan, Chairman of the
Committee on Foreign Affairs

Winyu Ularukul, Committee on Foreign Affairs

Jakaphob Penkhae, Adviser to the Committee
of Foreign Affairs

Anantachai Kunanantakul, Third Chairman of
the Committee on Economics, Commerce
and Industry

Prakiat Nasimma, Committee on Economics,
Commerce and Industry

Pha Agsonsua, Committee on Finance,
Banking and Financial Institutions &
Executive Committee of Thai National Group
of the Inter-Parliamentary Union (IPU)

SNC-Lavalin International

Krish Krishnamurti, Senior Vice-President

Michel Dubois

Robert McGrail

André Giroux

Thai Board of Investment (BOI)

Somphong Wanapha, Secretary General
Chutaporn Lambasara, Deputy Secretary
General

Warubon Sukasame, Director, Investment
Services Centre

Fern Saridratyothin, Investment Promotion
Officer

Thai-Canadian Chamber of Commerce

Kobsak Duangdee, President, The Bank of
Nova Scotia

Ron Livingston, Vice-President, International
Environmental Management

Sranyoo Chanate, Vice-President,
Kluaynamthai Hospital

Dave Brothers, Treasurer, Fire Ready Co. Ltd.

John W. Stevens, Secretary, The Best in
Bangkok Book

Sirithorn Rutnin, Ex Officio President, Rutnin
Eyes Hospital

Don Lavoie, Director, Avenier Co. Ltd.

Pascale Prudhomme, Director, Tilleke &
Gibbins International Ltd.

Luc Metivier, Director, Deloitte Touche
Tohmatsu Jaiyos Co. Ltd.

Andre Giroux, Director, SNC-Lavalin
International Inc.

Arom Phornpraphan, Director, Nortel Networks
(Thailand) Ltd.

Premisri Devahastin Na Ayudhya, Director,
Pac Rim International (Thailand) Co. Ltd.
Suzanne Thibault, Executive Director, Thai
Chamber of Commerce
Michael Ward, Representative Canadian
Embassy
Jinghai Hanchanlash, Advisor, Loxley PCL
Sam Cohen, Advisor, Sage Consultants

Thailand Development Research Institute Foundation

Chalongphob Sussangkarn, Ph.D., President
Deunden Nikomborirak, Ph.D., Research
Specialist, Sectoral Economics Program
Somchai Jitsuchon, Ph.D., Research Director
(Macroeconomic Development and Income
Distribution)

TOKYO, JAPAN May 13-16, 2003

Ambassador's Official Residence

L-P Émond
D. Lyons
N. Aoki
Y. Yabe
Isao Nagata, Vice-President, Columbia Music
Entertainment
Shigeki Kuwahara, Executive Deputy
President, Marubeni Corporation
Katsuya Ikeda, Executive Director, Metal
Mining Agency of Japan
Shoichiro Yonezawa, President &
Representative Director, Mitsui Matsushima
Co., Ltd.
Tomio Hamai, Deputy General Manager,
Overseas Uranium Resources Development
Co., Ltd.
Teruaki Kasahara, President, CEO, Astec Inc.
Mark Schikowsky, Manager, International
Dept. Argo21 Corporation
Hiroji Iwasaki, Managing Director, Sumisho
Computer Systems Corporation
Takeo Matsumoto, CEO & Managing General
Partner, Bio-Healthcare Partners Inc.
Toyoharu Kawaharada, Assistant Manager,
Tsu City Office
Hidemaru Umemoto, President, C-Pro
Incorporated
Shoue Fujioka, Director, Senior Civil Engineer,
Koa Kaihatsu Inc.
Kiyotaka Ichimaru, Deputy General Manager,
Civil Aircraft and Aeroengine Department,
Mitsubishi Heavy Industries, Ltd.
Shingo Noda, Senior Manager, Mitsui Bussan
Aerospace Co., Ltd.
Hiroaki Nakamura, Senior Managing Director,
Sumitomo Precision Products Co., Ltd.

Kenichi Matsumoto, Chairman and CEO,
Sakura Finetechical Col, Ltd.
Kosuke Kata, Sc.D., General Manager, CVS
Division, Edwards Lifesciences Co., Ltd.
Shinji Fukukawa, Executive Adviser, Dentsu
Inc.
Professor Yukiko Fukugawa, Graduate School
of Arts and Sciences, University of Tokyo
Prof. Ippei Yamazawa, President, Institute of
Developing Economies
Motohisa Ikeda, DPJ, Chairman, Lower House
Committee on Foreign Affairs
Yoshitaka Murata, LDP, Chairman of the
Committee on Economy, Trade and Industry
Akira Kojima, Senior Managing Director, Nihon
Keizai Shimbun
Yoshio Murakami, Advisor, Asahi Shimbun
Peter Morgan, Chief Economist, HSBC
Securities (Japan) Ltd.
Adriana Lever, President, Lever Enterprises,
APEC Business Advisor Council
Representative for Canada
Akira Kojima, Nikkei

Canadian Building Products in Japan

Yutaka Miyazaki, Project Director,
Japan/Canada Tsuga Partnership
Association
Scott Anderson, Canadian Plywood
Association/Council of Forest Industries
Canada (COFI)
Kevin J. Bews, SPF Program Manager, COFI
Edward T. Matsuyama, Director, COFI
Seiji Omote, President/Managing
Director/Interex Forest Projects (Jpn) Ltd.
Keith Vorland, General Manager, Sales and
Marketing, Interfor Japan Ltd.

Canadian Embassy

Ambassador Robert Wright
Peter Campbell, Minister (Commercial)
C. Charette, Second Secretary (Commercial)
C. Demers, Second Secretary (Commercial)
David S. Steuerman, Second Secretary (Commercial)
D. Horton, Minister-Counsellor (Commercial/Economic)
F. Rivest, Counsellor (Commercial)
Tomoki Kurihara, Commercial Officer
Kojiro Ichikawa, Commercial Officer
Bernard McPhail, First Secretary (Economic)
Stephen Doust, Second Secretary (Economic)
Bernadette St-Jean, First Secretary (Political)
Stéphane-Enric Beaulieu, Cultural Projects Manager

Canadian Embassy in China (via videoconference)

Ambassador Joseph Caron
Rob Mackenzie, Minister (Commercial)
Martin Moen, First Secretary (Economic)

Canadian Embassy in South Korea

Duane McMullen, Minister-Counsellor (Seoul, South Korea)

Canadian Entrepreneurs in Japan

Michael Kimeda, General Manager, Emissary Computer Solutions
Steven Oye, System Engineer, Panache Computer Consulting & Services
Sebastian Mair, Consultant, FujiPacific Music
Neil Van Wouw, COO, Vanten K.K.
Jean-Francois Ridet, Sales Engineer, Sensation Inc.
Vincent Poirier, Assistant Manager, Information Technology, DEPFA Deutsche Pfandbriefbank A.G.
Luc Lussier, R&D Director, Golemlabs Laboratories Inc.
Bruce Hill, Consultant, American Management Association
Kurt F. Hébert, Assistant Vice-President, FX E-Commerce, Citigroup
Jeffrey Bagshaw, President, Echigo Pacific Trading
Pierre Pariseau, Cabinetmaker

Foreign Ambassadors to Japan

H.E. Kasit Piromya, Ambassador of Thailand

H.E. Ing Kieth, Ambassador of Cambodia
H.E. Abdul Irsan, Ambassador of Indonesia
H.E. Vu Dung, Ambassador of Viet Nam

House of Councillors

Senator Keichiro Asao

Institute for Global Environmental Strategies

Shinichi Arai, Secretary General

Keizai Doyukai

Yoshihiko Miyauchi, Chairman, Chairman of the Committee on Americas-Japan Relations, Keizai Doyukai, Representative Director, Chairman and CEO, ORIX Corporation
Yoshiyuki Fujisawa, Chairman, Global Forum, Keizai Doyukai, Chairman and Representative Director, Merrill Lynch Japan Securities Co. Ltd.
M. Junichi Amano, Senior Corporate Adviser, Nihon Unisys, Ltd.
Noboru Hatakeyama, Chairman, Japan Economic Foundation
Akiyoshi Inoue, President, Sanyu System Research Institution Corp.
Minoru Nakai, Adviser, AFLAC International Inc.

NTT Docomo

Kenji Ota, Managing Director, Global Coordination Dept.
Naoto Ohashi, Executive Director, Global Coordination Dept.
Toshio Yamaguchi, Project Manager, Global Coordination Dept.
Seiki Oono, Manager, Global Coordination Dept.
Toshiko Yamazaki, Manager, Global Coordination Dept.
Yuko Nakayama, Assistant Manager, Global Coordination Dept.
Kouji Takamiya, Assistant Manager, Global Coordination Dept.

Research Institute for the Ministry of Economy, Trade and Industry

Toshiya Tsugami, Senior Fellow
C.H. Kwan, Senior Fellow
Atsushi Sunami, Fellow
Nozomi Sagara, Fellow

TEPCO Power Station and Facilities

Takashi Okamoto, General Manager

**LIST OF INDIVIDUALS
WHO MET WITH THE SUBCOMMITTEE
(FROM AUGUST 29 TO SEPTEMBER 12, 2003)**

SECOND TRIP — ASIA-PACIFIC REGION

BEIJING, CHINA

September 1-3, 2003

Asian Development Bank

Bruce Murray, Resident Representative,
People's Republic of China

Bob Chan, Traveller Consultant

APCO Worldwide Inc.

Christian Murck, Managing Director

Baker & McKenzie

Bing Ho, Attorney at Law

Blake, Cassels & Graydon LLP

Robert Y. Kwauk, Chief Representative &
Administrative Partner

Canada China Business Council

Kevin Tsui, General Manager

Canadian Embassy

Joseph Caron, Ambassador
Cynthia Bernier, Third Secretary
Martin Moen, First Secretary
Jim Zhou, Commercial Officer

**China National Aero-Technology Import &
Export Corporation**

Chen Qinan, Assistant to President

COFCO Grains & Oils Imp. & Exp. Co.

Xubo Yu, S.G. Manager

Crang & Boake

Zhi Gao, Director

Global Law Office

Liu Borong, Partner Attorney-at-Law

Ivanhoe Capital Corporation

David Bo, Manager

King & Wood

Xiaoming Li, Partner

KPMG Huazhen

Ian O'Brien, Managing Partner

Legend Group Limited

Jerome Ma, Government Affairs Dept.
Zhang Yuan, Government Affairs Dept.

Mitsui & Co., Ltd.

Gen. Aihara, Executive Managing Officer

Nortel Networks

Raymond Mark, Director
Sidney H.C. Chan, Vice-President
Robert Y.L. Mao, President, CEO

People's Republic of China

Fan Wenjie, Deputy Division Chief
Min Tang, Chief Economist
Shen Dan Yang, Vice-President
Zhang Xiangechen, Deputy Director General

Sun Life Everbright Life Insurance Co., Ltd.

Timothy Chen, President & CEO

Tsinghua Tongfang Co., Ltd.

Fugen Dai, Vice-President

HONG KONG, CHINA
September 4-6, 2003

Alcatel Asia Technical Services Ltd.

Peter Au Yeung, Project Manager

Asia Pacific Foundation of Canada

Woo Yuen Pau, Vice-President

Bank of Nova Scotia

Robin S. Hibberd, Senior Vice-President

Bombardier International

John Cheh, Regional Vice-President

Boughton Peterson Yang Anderson

Victor Yang, Partner

Canadian Chamber of Commerce in Hong Kong

Allan Matheson, Executive Director

Canadian International School of Hong Kong

Lee Ka Kit, Member of Foundation Governor

Cheung Kong (Holdings) Limited

H.L. Kam, Deputy Managing Director

Chinese Canadian Association (H.K.) Limited

Spencer Lee, Chairman

CIS Risk Technologies Ltd.

Francis Chan, Managing Director

Connector Systems Inc.

Donald Ho-Yin Wong, Managing Director

Consulate General of Canada

Nancy Bernard, Vice-Consul, Trade
Commissioner

David McNamara, Senior Trade
Commissioner

Brian Wong, Commercial Officer

Amy Yung, Trade Commissioner

Consulate of the Republic of Tunisia

Richard Che Keung Wong, Honorary Consul

Corel Corporation

Alex Kwan, Country Manager, Greater China

Dah Chong Hong, Ltd.

Clive Chan, Manager (Food, Oil & Misc.)

Delcan International Corporation

Peng Lee, Traffic/Systems Manager

Ernie W.W. Yung, Systems Specialist

Diversinet

Terence Chau, Vice-President, Asia Pacific

F.I.G. Canada

Wilson W.S. JIA, General Manager

Fairworld Environmental Technology Co.

Monoko KA, Marketing Manager

Fred Kan & Co.

Fred Kan, Solicitors & Notaries

Fruits & Passion (HK) Ltd.

K.C. Chan, Chairman

Hang Lung Properties Limited

Wilson Wong, Assistant Director

Hong Kong Trade Development Council

Lisa Goh, Head of External Relations

Michael C C Sze, Executive Director

Hongkong International Terminals

John R. Harries, Project Adviser

InterContinental Grand Standard

Annette Sasaki, Director of Sales

Eric Lo, Sales Manager

International Quality Education Limited

John Crawford, Chairman

K.J. Pacific Ltd.

Man Yee Kam, Sales Manager

KJP International Ltd.

Kam Man Yee, Business Development
Manager

Kampery Development Ltd.

Simon Ka Wo Wong, Chairman

MDS Nordion Inc.

Wai-Ming Hung, Area Sales Manager,
Asia-Pacific Office

Nortel Networks

Jolia Kua, Vice-President

SMATV Technology Limited

Stephen H.K. Wong, Director

Southa Group

Paul Chong, Managing Director

Sun Life Financial (Hong Kong) Limited

Janet De Silva, Chief Executive Officer

SUNDAY Communications Ltd.

Richard J. Siemens, Co-Chairman and
Executive Director

Telecommunications & Security Systems Ltd.

Fai Hon, Managing Director

TPC (HK) Limited

Alexandre Kung, Director & Principal
Consultant

Tsing Ma Management Limited

Philip K. W. Sze, Engineering Manager

Tung Tai Group of Companies

Vincent M Lee, Managing Director

Vancouver Port Corporation

Lawrence Tam, Representative, Hong Kong

VeriSafe International Limited

Francis Chan, Chairman

Warp Cybertech Limited

Alex Ing, Chairman & Chief Executive Officer

Wing Tai Corporation Limited and USI Holdings Limited

Christopher Cheng, Chairman

Worldwide Seafood Ltd.

Vivien Lee, Managing Director

KUALA LUMPUR, MALAYSIA**September 8-9, 2003****Bank Negara Malaysia**

Abdul Rasheed Ghafur, Senior Manager
Rosnah Abd Ghani, Manager
Dato'Ooi Sang Kuang, Deputy Governor

Canadian High Commission

Jean-Philippe Linteau, Trade Commissioner

Malaysian Institute of Economic Research

Mohamed Ariff, Executive Director

Multimedia Development Corporation Sdn. Bhd.

Najat Ahmad Marzuki, Senior Manager
Ping Yean Cheah, Client
Sharifah Hendon Syed Hassan, Manager

House of Representatives

Datuk Wira Abu Seman Yusop, Member
Datuk HJ. ABD. Hamid Bin ABD. Rahman,
Member
Teu Si, Member

Sunway City Berhad

Dato' Wong Choon Kee, Managing Director

Teknion Furniture Systems

Kulen Suntharalingam, Managing Director
Charlie Lim, General Manager

Teleglobe America Inc.

Manirajah Julanthavelu, Managing Director

Visionary Development

Roger F. Poulin, Managing Director/CEO

SINGAPORE**September 10-11, 2003****Canadian Chamber of Commerce in Singapore**

Elizabeth L. McDougall, Executive Director

Canadian High Commission

Anne Malépart, First Secretary & Trade
Commissioner
Daniel Mysak, Counsellor, Management and
Consular

CIBC World Markets

Russell A. Cranwell, Managing Director

Four Seasons Hotels and Resorts

Jean Forrest, Regional Director

jtc Corporation

Sally Tan Meow Ling, Manager
Soon Poh Heah, Deputy Director

Manulife Financial

Philip Hampden-Smith, President & Chief
Executive Officer

Ministry of Trade and Industry

Aubeck Kam, Director

Lee Chee Koon, Senior Assistant Director
Goh Gek Choo, Assistant Director

Rajah & Tann

Chia Kim Huat, Partner

**Singapore Chinese Chamber of Commerce
and Industry**

Lim Sah Soon, Secretary-General

Low Chee Meng, Vice-Chairman

Fiona Hu, Senior Director

Irene Low, Director

Chua Thian Poh, Vice-President

Kwek Leng Joo, President

TIF Ventures Pte Ltd.

Jimmy Hsu, Chief Executive Officer

APPENDIX V LIST OF BRIEFS

Asia Pacific Foundation of Canada

Asian Development Bank (ADB)

Canadian Agri-Food Trade Alliance

Canadian Chamber of Commerce

Canadian Wireless Telecommunications Association

Conference Board of Canada

Wendy Dobson

Export Development Canada

Grain Growers of Canada

Steven Oye

Taiwan Chamber of Commerce in British Columbia

Vancouver Port Authority

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this report.

A copy of the relevant Minutes of Proceedings (*Meeting No. 57 which includes this report*) is tabled.

Respectfully submitted,

Bernard Patry M.P.
Chair

CANADIAN ALLIANCE DISSENTING OPINION ON “ECONOMIC RELATIONS BETWEEN CANADA AND ASIA”

NOVEMBER 6, 2003

The Canadian Alliance takes issue with portions of the November 2003 Report on “Economic Relations Between Canada and Asia” prepared by the Subcommittee on International Trade, Trade Disputes and Investment in several areas.

Firstly, in respect to Canada pursuing lower trade barriers to trade or bilateral and regional trade agreements, the Canadian Alliance agrees that negotiations to further this end should be with those countries with whom Canada shares a free trade vision and respect for human rights as per the Report recommendation.

However, what is also clear is that while Canada is prepared to actively discourage trade relations with countries such as Burma, where human rights abuses continue, Canada is simply prepared to sacrifice human rights concerns in the People’s Republic of China on the altar of maintaining good trade relations.

The betrayal of PRC National Tao Mi by the Canadian government is a clear example, which has not been explained to the satisfaction of the Canadian Alliance either in Asia or in Ottawa. As part of the Lai Changxing IRB hearings in Vancouver, the Canadian government gave a clear understanding to Canadian legal counsel in Vancouver at an in-camera hearing that her deposition could be entered and that her identity would be protected. Canadian authorities shortly thereafter revealed her identity to Chinese police and placed her in jeopardy.

The government of the PRC has called the return to China of Lai Changxing as their highest priority. They have described him as their most wanted man. The Tao Mi deposition and other depositions, which are perceived by the government of the PRC to damage this eventuality at the Lai extradition hearings, are intolerable to the PRC government.

No plausible explanation for the betrayal of Tao Mi has been forthcoming from the Minister. This is further evidence that trade trumps human rights in our relations with the PRC and is the reason why the government avoids publicly including the PRC as a human rights abuser. Opposition members think it is important to name the PRC as a jurisdiction where human rights abuses are a concern irrespective of their status as a trading partner. The government position is hypocritical.

Secondly, the Report states that the, *“subcommittee continues to examine different agricultural systems that do not provide subsidies or distort trade, such as supply management.”*

The Canadian Alliance recognizes that a transition plan is essential if over quota tariffs are reduced and differs with the Report in regards to the status of supply management.

The Canadian Alliance recognizes that the landscape of agriculture is changing and with the current WTO talks, there is very real possibility that the agreement reached may result in a change to supply management. After all, Canada is the only country of 148 countries at the bargaining table that is asking for no reductions in the over quota tariffs. The Canadian Alliance wants to ensure the viability of all producers in Canada’s agriculture sector and that includes those who operate under the supply management system.

We believe it is in the best interest of Canada and Canadian agriculture that the industries under the protection of supply management remain viable. We will ensure that any agreement which impacts supply management gives our producers guaranteed access to foreign markets, and that there will be a significant transition period in any move towards a market-driven environment.

Finally, the Subcommittee itinerary in Asia was developed and handled in conjunction with dedicated and professional diplomatic personnel. The Subcommittee unanimously sings their praises. The Canadian Alliance representative was made aware during the trip of concerns developing within the professional diplomatic corps of the negative impact on the morale and the ability of the Foreign Service to recruit the best talent in the longer term if the government continues the trend of appointing diplomatic postings to political choices rather than from the Foreign Service.

Given that our diligent and respected Ambassadors and High Commissioners have a very positive impact on trade relations, this trend can negatively impact Canadian trade relations in the long term. The Canadian Alliance recommends that the government review its policy towards Ambassadorial and High Commission postings with a priority towards succession planning from within in order to retain a well-respected professional diplomatic corps.

Supplementary Opinion of the Bloc Québécois

The Bloc Québécois supports without hesitation all of the findings and recommendations contained in the report of the Subcommittee on International Trade, Trade Disputes and Investment entitled *Economic Relations between Canada and Asia*. This said, we consider it most unfortunate that the report addresses such important issues as human rights only superficially.

A number of witnesses stated that it would be difficult for us to address questions pertaining to economic relations between Canada and the Asia-Pacific region without reference to the issues of human rights and major poverty-related problems. Despite significant efforts by certain countries, such as the People's Republic of China, tangible results in the area of human rights and freedoms have yet to be seen. Thousands of individuals, in particular, Falun Gong practitioners, are still being detained in Chinese jails on highly questionable grounds and in deplorable conditions.

The case of Burma (Myanmar) is even more striking, particularly in light of the unjustified internment of Nobel laureate Aung San Suu Ky. The Bloc Québécois supports without reservation the government policy on Burma to curtail contact as much as possible with military authorities and to discourage Canadian businesspeople from doing business there.

All the members of the Subcommittee recognize these indisputable findings; however, not all are particularly keen to refer to them openly. Accordingly, most of the Subcommittee members have preferred to eliminate explicit reference to real situations, favouring instead the approach chosen in the end: to refer indirectly and in veiled terms to what the most elementary judgment and candour should have obliged us to address much more directly and openly. Instead, of holding to principles that would brook no compromise, we preferred to bury our heads in the sand.

This is why the Bloc Québécois believes that the report should have contained at least two sentences more, one of which had been included in the preliminary versions of this report. The two sentences in question would appear at the end of paragraph 3.20, just before recommendation 7. The passage should have read as follows: "The only exceptions would be in cases such as that of Burma (Myanmar), where human rights abuses have prompted Canada to actively discourage trade. Although they unreservedly support the goal of increasing trade relations between Canada and the Asia-Pacific region, the Subcommittee members have expressed concerns about the state of human rights in a number of countries in the region, such as the People's Republic of China."

Subcommittee on International Trade, Trade Disputes and Investment Report on Economic Relations Between Canada and Asia NDP Dissenting Report

**Bill Blaikie, MP
November 4, 2003**

The NDP wishes to dissent from the majority report of the Subcommittee on International Trade, Trade Disputes and Investment, entitled Reinigorating Economic Relations Between Canada and Asia-Pacific.

While we agree with certain particular aspects of the report, such as the suggestion that Canada needs to reduce its dependency on trade with the US, and the idea of more parliamentary involvement in trade negotiations, the report as a whole partakes fully of the false hope and moral poverty of the prevailing global trade liberalization paradigm, and is therefore unacceptable to the NDP.

The complete absence of any acknowledgement that labour rights and labour standards in Asia are in need of radical improvements is another serious flaw in the report. The value-neutral way in which China's "low labour costs" are referred to in the report, as a threat to the "surrounding Asian countries", who themselves are far from ideal, is a good example of what is wrong with this report. Instead of low labour costs being a cause for concern, or at least curiosity, about the ability of working people in China to defend themselves from exploitation, all we hear is excited language about how market reforms, economic efficiencies, and competition are creating investment opportunities in China for a small minority of Canadians. The Chapter on the Asia Pacific Foundation, for instance, could have stipulated that its function be more than the provision of market information about Asia-Pacific. Information on labour conditions should also be a Canadian interest.

Recommendations like recommendation no. 10 which calls for free trade in services is another good example of what is wrong with this report. The NDP believes that free trade in services would pose a serious threat to the Canadian way of providing health and education, and would also facilitate the privatization of water and other public services in Canada.

The NDP therefore submits this minority report.

MINUTES OF PROCEEDINGS

Thursday, November 6, 2003
(Meeting No. 57)

The Standing Committee on Foreign Affairs and International Trade met in a televised session at 9:02 a.m. this day, in Room 237-C Centre Block, the Chair, Bernard Patry, presiding.

Members of the Committee present: Stéphane Bergeron, Murray Calder, Aileen Carroll, Irwin Cotler, Stockwell Day, Art Eggleton, Mark Eyking, John Harvard, André Harvey, Francine Lalonde, Diane Marleau, Keith Martin, Alexa McDonough, Deepak Obhrai, Bernard Patry and Karen Redman.

Acting Member present: Greg Thompson for Bill Casey.

Associate Member present: Gerald Keddy.

Other Member present: Dan McTeague.

In attendance: House of Commons: Elizabeth B. Kingston, Committee Clerk. *Library of Parliament:* James Lee, Analyst; Gerald Schmitz, Principal; Peter Berg, Analyst; Michael Holden, Analyst.

Witnesses: As Individuals: William Sampson, James Sampson

Pursuant to Standing Order 108(2), and the motion adopted by the Committee on September 18, 2003, the Committee resumed its consideration of cases involving the detention of Canadian citizens in certain foreign countries.

William Sampson made statement and with James Sampson answered questions.

At 10:06 a.m., the sitting was suspended.

At 10:19 a.m., the sitting resumed.

The Committee proceeded to the consideration of matters related to Committee business.

Mark Eyking presented the First Report of the Subcommittee on International Trade, Trade Disputes and Investment entitled: *Reinvigorating Economic Relations Between Canada and Asia-Pacific*.

It was agreed, —

- That the first report of the Subcommittee on International Trade, Trade Disputes and Investment be adopted as a report to the House and that the Chair or his designate present it to the House.

- That, pursuant to Standing Order 109, the Committee request that the government table a comprehensive response to this report.

- That the Chair be authorized to make such typographical and editorial changes as may be necessary without changing the substance of the report.
- That, pursuant to Standing Order 108(1)(a), the Committee authorize the printing of brief dissenting and/or supplementary opinions as appendices to this report immediately after the signature of the Chair, that the opinions be sent to the Clerk of the Committee by electronic mail in both official languages on/before 8:00 p.m. Thursday November 6, 2003.

Art Eggleton moved, —

That the Standing Committee on Foreign Affairs and International Trade,

- Concerned about the ongoing tensions along the Eritrea-Ethiopian Border which jeopardize the tenuous peace reached with the signing of the Comprehensive Peace Agreement on December 12, 2000 in Algiers;
- Welcoming the recommendations of the Eritrea-Ethiopia Boundary Commission, created by Article 4.2 of the Algiers Agreement, to demarcate the disputed border between the two countries;
- Mindful that following Article 4.5 of the Algiers Agreement, the recommendations of the Eritrea-Ethiopia Boundary Commission are binding on both parties of the conflict and are final;
- Accepting the April 13, 2003 decision of the Eritrea-Ethiopia Boundary Commission to grant the disputed town of Badme to Eritrea;
- Aware of the controversial nature of the Badme decision and the catalyst role of this settlement in the initiation of hostilities between Ethiopia and Eritrea;
- Alarmed over Ethiopian failure to fully comply with, and accept, the Eritrea-Ethiopia Boundary Commission's recommendations, especially with regards to the town of Badme;
- Troubled by the findings of the United Nations Secretary-General on Ethiopia and Eritrea, in the September 4, 2003 Progress Report, that the number of border incidents in Sector Centre is increasing, including the growth in the numbers of Ethiopian herdsmen and livestock present in the Zone on the daily basis;
- Disturbed by the September 5, 2003 report of the United Nations Secretary-General with regards to the pointing of weapons by Ethiopian militia at United Nations Mission in Ethiopia and Eritrea (UNMEE) patrols on August 5 and the violation of the Agreement on Cessation of Hostilities in the Drum Drum Stream area of the Zone by 102 personnel from the Ethiopian Armed Forces on August 9-11, who refused to leave the area despite UNMEE protests;
- Appreciative of the leadership role that Canada has played in the United Nations Mission in Ethiopia and Eritrea (UNMEE), including the deployment of 450 Canadian peacekeepers to the region at the cessation of hostilities;

- Calls on the Government of Canada to increase the pressure on the Government of Ethiopia to accept, in full, the recommendations of the Eritrea-Ethiopia Boundary Commission, including the decision on the town of Badme,
- Proposes that the Government of Canada forcefully indicate to the Government of Ethiopia that our future cooperation, would heavily depend on Ethiopia's acquiescence to the recommendations of the Eritrea-Ethiopia Boundary Commission;
- Suggests that the Government of Canada offer incentives, in terms of developmental aid or/and other assistance to the Governments of Ethiopia and Eritrea, if they live up to their obligations under the Comprehensive Peace Agreement signed in Algiers, especially with regards to the Eritrea-Ethiopia Boundary Commission provisions.

Debate arose thereon.

On motion of Irwin Cotler, it was agreed, — That the motion be amended by deleting the words “, including development assistance,”.

The question was put on the motion, as amended, and it was agreed to, by a show of hands: YEAS: 6; NAYS: 1.

It was agreed, — That the motion be adopted as a Report of the Committee and that the Chair or his designate present it to the House.

Irwin Cotler moved, —

That the Standing Committee on Foreign Affairs and International Trade,

- Concerned that Dr. Wang Bingzhang, founder of the China Democracy movement, has been sentenced to life imprisonment in China;
- Aware that the United Nations Working Group on Arbitrary Detention has determined that the charges are without foundation, that they are in violation of international law and that he has been denied the right to a fair trial;
- Noting that Dr. Wang Bingzhang has a close connection to Canada — he is a doctoral graduate of McGill University in medicine and his parents reside in British Columbia, his children in Quebec and his siblings in Ontario;
- Calls upon the Chinese Government to release Dr. Wang Bingzhang from prison, and permit him to be reunited with his family and colleagues.

After debate, the question was put on the motion and it was agreed to, by a show of hands: YEAS: 6; NAYS: 3.

It was agreed, — That the motion be adopted as a Report of the Committee and that the Chair or his designate present it to the House.

Francine Lalonde moved, — That the Committee recommend to the government the Action Plan submitted by Stephan Hachemi and a coalition of 19 human rights defence organizations in order to insure that justice be rendered in the case of the assassination of Mrs. Zhara Kazemi, Montreal photo-journalist and Canadian citizen.

Debate arose thereon.

By unanimous consent, it was agreed, — That the debate be now adjourned.

Keith Martin moved, — That in the opinion of the Standing Committee on Foreign Affairs and International Trade, the Canadian Government should make all efforts to indict Zimbabwe's President, Robert Mugabe, for crimes against humanity.

Debate arose thereon.

By unanimous consent, it was agreed, — That the debate be now adjourned.

At 11:02 a.m., the Committee adjourned to the call of the Chair.

Stephen Knowles
Clerk of the Committee