



**ASIA-PACIFIC:
LET'S GET BACK IN THE RING**

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By

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EXECUTIVE SUMMARY

At the November APEC summit, having cleared the way with President Obama, Stephen Harper publicly announced Canada's formal interest in joining the TransPacific Partnership (TPP) trade talks. The US and others, while "welcoming" Canada's interest, reiterated the high bar that new entrants (Mexico and Japan as well as Canada) will have to meet. The promise of the TPP is that it could form the basis for a much wider Free Trade Area of the Asia Pacific (FTAAP), including China. Canada could have much more easily joined the TPP had it expressed interest back in 2008 when the door was open to expansion. At that time, Asia-Pacific was not on the radar in Ottawa, even for China which has now become a key country of interest for Mr. Harper.

Canada has an Asia Pacific legacy that it has squandered through neglect. From the 1960s through early establishment of diplomatic relations with China in 1970, and beyond into the 1980s, Canada was considered, and acted like, a leader in the region. That interest seemed to peak, and then wane, after the 1997 Vancouver APEC summit. At the same time, the face of Canada was changing rapidly with a strong and steady influx of Asian immigrants. These cultural and ethnic ties have underpinned a new interest in doing business with Asia, but Canada has been slow off the mark. While we have negotiated free trade agreements with 9 countries in the past six years, not a single one has been in Asia. Meanwhile, Asia is rapidly integrating and establishing new architecture, from which Canada, alone among major Asia Pacific countries, is absent. The US is reaffirming its ties with Asia through security and trade ties. Australia is doing the same. Canada is endowed with the physical and human resources that should allow us to take full advantage of our place in the region. We can re-establish our credentials through a sustained leadership and a long-term strategy. There are signs that this may be happening. The time to do it is now.

On November 13, 2011 at the APEC Leader's Summit in Honolulu, Prime Minister Stephen Harper publicly stated what had become an open secret; Canada wanted to participate in the Trans Pacific Partnership (TPP) trade talks. Mr. Harper had just completed his bilateral meeting with President Obama who had informed him that the hoped for approval of the Keystone XL pipeline would be significantly delayed beyond the 2012 US election.¹ To sweeten the bitter pill, Obama let it be known that if Canada publicly announced its expression of interest in the TPP, this would now receive a positive US response rather than the polite rebuff that Canada had been receiving behind closed doors. US Trade Representative Ron Kirk gave public expression to US support in a statement that welcomed Canadian (as well as Mexican and Japanese interest), but also underscored the "high standards" that were expected of TPP participant nations². Canada's protection of its dairy, egg and poultry industries, as well as US dissatisfaction with the state of Canada's laws on intellectual property rights, had been an obstacle as Canada was seen as not being willing to take on the obligations expected of TPP participants. The lack of US endorsement had prevented Canada from joining the talks earlier. Now, with this qualified endorsement, the door was open a crack.

The TPP had begun life modestly, originally consisting of just four small economies, New Zealand, Chile, Singapore and Brunei.³ Its attraction was that it had members on both sides of the Pacific and was thus a possible foundation for a Free Trade Area of the Asia Pacific, the so-called FTAAP, which would eventually include China. Nothing much happened on the TPP until the Administration of George W. Bush. Looking for an initiative to take on the trade front in the face of a hostile Congress, the Administration latched on to the TPP as a possible vehicle to promote trade liberalization. Once the US was in, the action began and at the APEC Summit in 2008 in Lima, Peru, Australia and Vietnam all enthusiastically signed on through unilateral declarations. Malaysia expressed cautious interest and eventually was admitted. Canada, still mired in a minority government that had not yet brought itself to the realization that Canada's future lies as much, or more, in Asia rather than across the Atlantic or exclusively in North America, was asleep at the switch. It did nothing. The TPP was not even on Canada's radar at that time⁴, although it should have been relatively easy for Canada to step up and be counted in, especially if an economy as underdeveloped and closed as Vietnam was admitted with little discussion. Even with an economic powerhouse like China, Canada was not much engaged back then, taking a "principled" approach that emphasized values over interests. That approach has, of course, recently been overhauled, as evidenced by the strong trade and economic focus of Mr. Harper's current visit to China.

But back in 2008, the chance to join the TPP was an opportunity missed. The reaffirmation of US interest in the TPP by the new Obama Administration led to the launch of negotiations in 2009, and a fast track that led to a declaration in Honolulu in November 2011 by the

¹ This was the initial setback. More was to come of course when the Obama Administration denied TransCanada's Keystone XL application on January 18, although leaving the door open for the company to reapply. The Keystone decision had another knock on effect for Canada and Asia; it focussed the Harper government's attention on the need for alternate energy markets for Canadian oil, with China being the leading prospect.

"The United States welcomes the interest of Canada and Mexico, our neighbors and largest export markets, in seeking to join the Trans-Pacific Partnership talks," said Ambassador Kirk. "We look forward to initiating consultations with them and with Congress and our domestic stakeholders and to discussing the TPP's high standards for liberalizing trade and specific issues of concern to the United States. These will include stronger protection of intellectual property rights, additional specific opportunities for U.S. goods, services, and investment, and the elimination of various non-tariff barriers. Along with Japan's similar announcement this week, the desire of these North American nations to consult with TPP partners demonstrates the broadening momentum and dynamism of this ambitious effort toward economic integration across the Pacific." Statement by the Office of the US Trade Representative, November 13, 2011.

³ Known as the P4, the original trade agreement came into force in 2006.

⁴ I recall talking to Canadian officials in Lima at the time and the response was, "we can't get Ministers interested in this".

Leaders of the TPP countries announcing that they had achieved the broad outlines of an “ambitious, 21st Century” agreement.⁵ It is hoped (by them) that the agreement will be concluded in 2012. That may be ambitious and there may still be time for Canada to climb aboard before the train reaches its final destination (although whether Canada is prepared to adopt the TPP “dress code” of putting all sectors on the table for negotiation and is thus able to convince the other participants of its *bona fides* remains to be seen). If it is not able to get aboard this moving train, it will have to go to the end of the line, queue up and buy a ticket. That ticket will outline what the costs of entry will be. That is an uncomfortable position for Canada, which has almost always been in on the ground floor of organizations to which it has belonged, whether the GATT/WTO, the United Nations, Commonwealth, NATO, World Bank etc. The fact that we were so slow to smell the Asian coffee is reflective of a malaise that has crept into Canada’s view of the world over the past decade and a half.

Much has been written in recent years about Canada’s place as an Asia Pacific nation. The Asia Pacific Foundation was established in the 1980s to promote that very concept. The Foundation has done good work and has striven valiantly to raise the consciousness of Canadians about the importance of the Asia-Pacific region to this country, and to make the population generally more aware of Canada’s Asia-Pacific cultural and historical connections. Although we always faced the dilemma of being primarily a Euro-centric nation based on the historical roots of most Canadians (until recent times) and the predominance of eastern Canadian business and political elites, there have been periods when it was fashionable to talk about shifting our eyes westward across the Pacific. Despite historical anomalies like the sending of two battalions of green troops to become cannon fodder for the Japanese in Hong Kong in 1941, and Canada’s not inconsiderable contribution to the Korean War, not much political attention was focused on Asia until the “great breakthrough” on China, when Canada and the Peoples’ Republic agreed to mutual diplomatic recognition on October 13, 1970.

Suddenly Canada was in the avant-garde. We had stolen a march on the Americans! Our breakthrough was not as great as many would have us believe because the British had never left Beijing, and the French made their peace with Beijing in 1964, but still Canada’s establishment of formal relations with Beijing was seen as a breakthrough at the time. The move was inspired by Prime Minister Trudeau, who held a pragmatic view of China influenced by his travels there in the 1940s. We had begun selling wheat to China in 1961,⁶ despite many pressures not to do so. The Globe and Mail had been the listening post of the western media since the late 1950s with its Beijing bureau, a post that it retains to this day. A new generation of Canadians discovered that they had a national hero in China, Dr. Norman Bethune. The Department of External Affairs was forced to purchase the Bethune homestead in Gravenhurst and turn it into a kind of shrine for visiting Chinese delegations.⁷ Huang Hua, who became China’s first ambassador to the UN and later Foreign Minister, was named as China’s ambassador to Canada. It was not the importance of the frozen capital on the Rideau that prompted the Chinese to send one of their best diplomats there; it was because Canada was the spearhead for China’s opening to North America.

⁵ <http://www.ustr.gov/about-us/press-office/press-releases/2011/november/trans-pacific-partnership-leaders-statement>

⁶ Despite US pressure to maintain an embargo on wheat sales to the PRC, the Canadian Wheat Board signed its first sales contract with the PRC in May of 1961, at a time of famine in China. Since that time, more than 120 million tons of Canadian wheat and barley has been sold to China.

<http://www.cwb.ca/public/en/newsroom/releases/2010/030810.jsp>

⁷ Bethune’s home is still a national historical site, now operated by Parks Canada. <http://www.pc.gc.ca/lhn-nhs/on/bethune/index.aspx>

If Canada punched above its weight in Asia in the 1970s⁸, that continued into the '80s and '90s. We actively courted ASEAN⁹, were active participants in the ASEAN Plus dialogues, the ASEAN Regional Forum (ARF), and were at the founding of APEC. In fact, in 1997 Canada hosted the APEC Summit in Vancouver, a meeting unfortunately more remembered for pepper-spray protests (“pepper, me, I put that on my plate”) than any significant achievements. That seemed to somehow mark the high point in Canada’s political and trade engagement with Asia. We went from punching above our weight to being barely in the ring.

Meanwhile, the face of Canada was changing rapidly. According to Statistics Canada’s report on the 2006 census, among the more than 1.1 million recent immigrants who arrived between 2001 and 2006, 58.3% were born in Asian countries, including the Middle East. Fully 14% of recent immigrants who arrived between 2001 and 2006 came from the People’s Republic of China (PRC), followed by India (11.6% of new immigrants), the Philippines (7%) and Pakistan (5.2%), just as in 2001. In addition, South Korea accounted for 3.2% of newcomers.¹⁰ An Asian country has been the top provider of immigrants to Canada ever since the 1991 census and in the 2001 census eight of the top ten source countries were in Asia (the other two being Iran at number six and the US in eighth place.)¹¹

The West Coast, despite its historic anti-Asian (some would say racist) bias, had already started in the 1950s and 60s to begin its transformation from a Euro-centric society to one more inclusive and embracing of different cultures. The “coming out” of the original Chinese-Canadian population, best epitomized by the 1957 election of Douglas Jung as the first Chinese-Canadian MP, accelerated. The long-established Chinese and Japanese communities were joined by Indo-Canadians, Vietnamese boat people, waves of immigrants from Hong Kong in the 1980s and 1990s and then Taiwanese and now Mainland Chinese immigrants, as well as those from many other cultures in Asia.¹² Most stayed, although many did not. Of those who returned to Asia, a large number regarded their Canadian passport simply as an insurance policy but even though they returned to what many of them considered a better business environment, despite themselves they left bonds to Canada, often in the form of offspring who became thoroughly Canadianized through spending their formative years in Canada. Those Canadians living abroad constitute what the Asia Pacific Foundation has characterized as “Canada’s secret province”¹³, many of them living in Asia, and they are an asset that remains under-exploited.

Walk down any street in a major Canadian metropolis today and the changing face of Canada is obvious.¹⁴ We are becoming increasingly more Asia-centric ethnically, and the same shift of focus is starting to happen in business. It is a cliché that Asia is an emerging giant, but that is indeed where the growth lies, in markets, investment, talent and tourism. The recent travails of the Euro zone have only highlighted an inevitable trend; the *relative* decline of Europe (and the US to a much lesser extent) in comparison with Asia. Canada must take account of this shift and refocus and redirect its attention on the Asia Pacific region.

⁸ Other Canadian Asian initiatives in the 1970s (and earlier) included our active participation in the International Control Commissions in Vietnam

⁹ Association of South East Asian Nations, established in 1967

¹⁰ See Census snapshot—Immigration in Canada: A portrait of the foreign born population: 2006 Census at www.statcan.gc.ca/pub/11-008-x/2008001/article/10556-eng.htm

¹¹ Ibid.

¹² Hong Kong rose from the seventh largest source of immigrants in the 1981 census to first place in 1991 and 1996, to be displaced by the PRC in the census results of 2001 and 2006. Ibid.

¹³ <http://www.asiapacific.ca/media/press-releases/25979>; Oct 29, 2009.

¹⁴ According to the 2006 census, the percentage of the population of Vancouver and Toronto was 42% and 43% respectively. In Vancouver, Chinese are the largest visible minority, comprising 18% of the total population of the city in 2006 while South Asians were the largest visible minority group in 2006, at 13% of the population. Statistics Canada Study: Projections of the diversity of the Canadian population. See <http://www.statcan.gc.ca/daily-quotidien/100309/dq100309a-eng.htm>

I use the word *refocus* deliberately because we have shown, going back some 40 years and more, that we *can* be a player in the Asia Pacific. Canada needs to re-energize and re-discover that vision that led to its emergence as a voice that was once listened to and respected on the other side of the Pacific. The shift in Canada's demographic make-up provides further incentive and necessity to do so. And our economic well being demands it.

After losing interest in Asia in the late 1990s, Canada needs to re-invent itself as a Pacific power. This need not come at the price of ignoring Europe. Indeed, Canada is on the verge of completing a potentially very significant free trade agreement with the European Union.¹⁵ And over the past few years Canada has managed to conclude a number of bilateral trade agreements, including with Colombia, Peru, Panama, Jordan, Honduras and the European Free Trade Association states of Norway, Switzerland, Iceland and Liechtenstein (none of which are significant trade partners), but has yet to conclude an agreement with any Asian country. The current efforts to gain entry into the TPP are a good start, as are the range of trade and investment negotiations underway with a number of Asian countries.¹⁶ However, despite some progress, none of these negotiations, some of which have languished for several years, have come to fruition. Episodic forays into Asia are not going to cut it. Canada needs a *sustained* effort built around a multi-year strategy. In short, a shot of energy is needed.

Meanwhile, the US has concluded FTAs with Singapore, Australia and Korea, intra-regional blocs like ASEAN have brought down internal trade barriers and there are a multiplicity of bilateral agreements among Asian countries, including China and Japan, (although admittedly some of these are of limited scope.) There is also a new forum in Asia, the East Asia Summit, established in 2005 and including the ten ASEAN countries: China, Japan, Korea, Australia, New Zealand, India and now the US and Russia. Guess who is the only major Asia Pacific state (the fourth largest economy in APEC) not at the table? The Canadian presence in Asia, once so vibrant and vocal, has faded drastically. In part that is a natural result of the economic and political rise of the Asian countries themselves, not only China, but Korea, India, Indonesia, Vietnam, Malaysia, Thailand and others. This relative rise, however, has not stopped our Australian cousins from continuing to make their mark in Asia, and Australia has no less of a Euro-centric heritage than Canada. If the Aussies can be a presence in Asia, and be seen to be a presence, why can't the Canucks?

We can. But it will take a concerted effort to turn the ship of state. Governments cannot create wealth but they can lead. After more than a decade of drift, it appears as if that leadership *may* be re-emerging. If Canada is to continue to prosper in the 21st century, it can no longer afford to squander its natural advantages as an Asia Pacific nation. Canada is a nation endowed with the range of physical and human resources that should enable it to take full advantage of its Asia Pacific persona. We *can* re-establish our credentials in the Asia Pacific. We *can* once again be on the inside looking out, not on the outside hoping to get in. We need to *refocus* and *re-energize*. The time to act is now.

¹⁵ 10.26% of Canada's bilateral trade in 2010 was conducted with the EU 27. Trade with China accounted for 7.189%, largely in China's favour. The US dominates at 62% of bilateral trade (74% of exports and 50% of imports). Source: Canada's Merchandise Exports, Statistics Canada, Office of the Chief Economist. http://www.international.gc.ca/economist-economiste/assets/pdfs/PFACT_Annual_Merchandise_Trade_by_Country-ENG.pdf

¹⁶ Canada is currently in negotiations with India, and is apparently close to concluding an investment agreement with China. Free trade negotiations with Singapore and Korea have stalled and are on the back burner.

ABOUT THE AUTHOR

Hugh Stephens has more than 35 years of government and business experience in the Asia region. He is currently senior advisor for Asia Pacific to Time Warner, based in Victoria, BC, Canada. Before returning to Canada in December 2009, he was based at the company's regional headquarters in Hong Kong for almost a decade where he managed the company's public policy program in the Asia Pacific region as Senior Vice President. . Mr. Stephens has extensive experience in dealing with media and IT industry issues in China, India, SE Asia, Korea/Japan and elsewhere in Asia.

Mr. Stephens has been an active leader in a number of regional business organizations. He currently serves on the Executive Committees of the US National Center for APEC and the US-Korea Business Council as was a member of the Board of Directors of the US-ASEAN Business Council for a number of years. He is a past Governor of the American Chamber of Commerce in Hong Kong and Vice Chair of the Quality Brands Protection Committee, a coalition of more than 180 multinational companies engaged in strengthening IPR protection in China. He recently completed two terms as a Governor of the Cable and Satellite Broadcasting Association of Asia.

During his almost 30 year career with the Canadian Government prior to joining Time Warner in 2001, Mr. Stephens held the positions of Assistant Deputy Minister for Policy and Communications in the Department of Foreign Affairs and International Trade in Ottawa (DFAIT), Director-General of Strategic Planning and Resource Management for DFAIT, Head of Mission of the Canadian Trade Office and Canadian Representative in Taiwan, and Counsellor and Charge d'affaires of the Canadian Embassies in Seoul and Islamabad, among a number other overseas and headquarters assignments, including service at the Canadian Embassy in Beijing.

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