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Pacific Rim Opportunities Conference

BACKGROUND

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Pacific Rim Opportunities Conference

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Government
of Canada

Industry, Trade
and Commerce

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PACIFIC RIM OPPORTUNITIES CONFERENCE

Introduction

The countries to be examined at the Pacific Rim Opportunities Conference include Australia, China, Fiji, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, Papua/New Guinea, the Philippines, Singapore, Thailand and Western Samoa. Together they constitute what might broadly be termed the Western Pacific Rim.

These countries vary greatly in terms of geography. Included are large land masses such as Australia and China, multi-island nations and the tiny city state of Singapore. The region's population is 1.5 billion, more than one-third of the earth's total. Its peoples are ethnically distinct and speak a wide variety of languages and dialects.

The region's nations cover the spectrum of politico-economic systems from laisser-faire capitalism to socialism. There are great differences in wealth with GNP per capita ranging from around $200 in Indonesia to over $10,200 in Japan.

If there is an element of commonality in addition to a Pacific littoral, it is that all the countries of the region share an economic dynamism and potential. Moreover, political and business leaders in these countries increasingly see the region as an area of resource complementarity where opportunities for intra-regional trade and economic cooperation will multiply. Prominent political figures and businessmen in the region are promoting the creation of new Pacific Rim institutions to facilitate intra-regional exchange and cooperation.

Most Canadians are unfamiliar with the countries of the Western Pacific Rim. Distance limits the opportunities for first hand trans-Pacific contacts. Fortunately, air travel provides greater opportunities for contacts at the personal level. This is important if Canadians are to begin to understand the rich and complex cultures, lifestyles, and social values of the region.

The Canadian businessman venturing into the region will need to familiarize himself with business methods which are often very different from Canada's. He will learn that in some countries patience and perseverance are important elements of a successful sales strategy. He may also need to accept that business success may depend on a willingness to become associated with local corporations in joint ventures and perhaps even be involved in the international marketing of the products of such ventures.

For Canadians, including businessmen, the process of familiarization with the diverse cultures and business methods of the countries of the Pacific Rim will pose major challenges. The effort, undertaken, will probably be rewarding professionally as well as personally. In the 1980's, the Western Pacific region will likely have a growth rate in excess of any other region in the world with the exception of the Middle East. The ability of Canadian companies to benefit from the opportunities of this growth will impact importantly on Canada's own economic performance in this decade.

As Canadian businessmen have come increasingly to recognize the importance of Canada's economic links with the Pacific Rim countries, they have sought closer and more regular contact with business communities in those countries. A number of Canadian business leaders have become actively involved in the Pacific Basin Economic Council (PBEC). The Council was formed in 1967 by businessmen in Canada, the United States, Japan, Australia and New Zealand. Subsequently businessmen from other Pacific Rim countries including the ASEAN and Korea, became associated with the Council's work. The Council meets annually in different centres around the Pacific Rim. It last met in May 1980 in Sydney and it will meet in 1981 in Hong Kong. These meetings provide opportunities for the Pacific Rim business leaders to exchange views and perceptions on issues of common interest, e.g. trade and investment.

It is the principal objective of the Pacific Rim Opportunities Conference to contribute to the process of acquainting Canadians with the Pacific Rim region and hopefully to encourage the exploration of the business opportunities that undoubtedly exist for many of them.

The first day of the Conference is devoted to a series of "country" sessions designed to provide informed views on the political and economic forces in the individual countries of the region and their likely evolution over the next few years. Thus, the Conference should illuminate for individual corporations, prospects for sales, investment or other forms of cooperation. The Conference will also cover aspects of Canadian policy which have a direct bearing on Canada's relations with the Pacific Rim; i.e., commercial policy; export financing and aid; investment joint ventures and technology transfer. A fourth seminar session will provide a forum for an exchange of views on the likelihood of a future Pacific Rim institution and the contribution that Canada can make to its creation.

JAPAN

In terms of political stability and economic growth, Japan's record over the last 30 years has been quite remarkable. Parliamentary democracy, introduced after World War II, has provided a durable political context for what has justifiably been described as "miraculous" economic growth. As recently as 1959, Japan ranked 6th among the world's nations in terms of gross national product. By 1980, it had risen to number three, after the U.S.A. and U.S.S.R. In this period, average per capita income rose in current dollar terms from $2,400 to $10,220.*

Japan's economic success has usually been attributed to the characteristics of Japanese society itself, its ethnic homogeneity and tradition of cooperation rather than conflict, which extends to relations between business, labour, and government. Japan has a well educated labour force with a strong work ethic. Japanese firms have been able to combine employment security for their workers with technical innovation and adaptability to the changing domestic and international economic environment.

Poorly endowed with natural resources, Japan imports most of its energy (88%) and raw materials, and much of its food (about 30%). To meet import costs, Japan has exported about one-third of its manufactured output in international markets both in industrialized and developing countries. Japanese industry has proved itself strongly competitive in a number of different sectors over the last quarter century beginning with textiles and clothing and progressing through steel, ships, cameras, radios, TVs and automobiles.

Canada's diplomatic relations with Japan date from 1929 and, interrupted by World War II, were resumed in 1951. Bilateral trade relations with Japan have been governed since 1955 by the GATT after Japan's accession to that Agreement in that year.

The emergence of Japan as an economic super power has made a notable contribution to the development of the Canadian economy particularly in the Western provinces. Japan is now Canada's principal customer for coal, copper ores and concentrates and rapeseed, and a major offshore market for asbestos, pulp and paper, wheat, potash, and fish products. Exports to Japan totalled $4.093 billion in 1979.

At the same time, Japanese manufactures have obtained an increasing share of the Canadian market. Canada's imports from Japan rose from $125 million in 1955 to almost $2 billion in 1979. Japanese competition has had a major impact on a number of Canadian industries; textiles and clothing in the late 1950's, consumer electronics in the late 1960's, and more recently automobiles (13.5% of the Canadian market in the first half of 1980).

* $ employed throughout this text is Canadian currency unless otherwise indicated.

Japan is now Canada's largest offshore market and most important offshore source of imports; second only to the U.S.A. among Canada's trading partners. Japanese investment in the Canadian economy is still relatively small, amounting to only $810 million as of March 1980. Japanese holdings of assets in Canada are below those of the U.S., U.K., France, Belgium, Germany, Holland and Switzerland. Japanese investment has mainly taken the form of minority share-holding, particularly in the energy and resources area (coal, oil, and pulp and paper).

In September 1974 the Prime Ministers of Canada and Japan agreed that the two countries should make concerted efforts to expand the relationship from being largely trade oriented to one encompassing more extensive political, economic, and cultural activity. This goal was reaffirmed and further refined during Prime Minister Trudeau's visit to Japan in October 1976. At that time, two documents were signed: a Framework for Economic Cooperation and a Cultural Agreement, both designed to demonstrate the political will of the two Governments to achieve a greater degree of mutually beneficial cooperation. A successful visit by Prime Minister Ohira in May 1980 reassessed and confirmed the importance of the relationship, inserting new political momentum into the consultative process. Officials' meetings take place regularly - notably the Joint Economic Committee (JEC), which meets annually - and exchanges occur in the area of science and technology.

As bilateral trade between Canada and Japan expanded, businessmen in both countries recognized that regular structured meetings between representative groups of both sides would be beneficial in enhancing mutual understanding. The Canada/Japan Business Cooperation Committee was formed in 1977. The Committee, which has held three meetings, the last in Kyoto in May of this year, has provided a forum for an exchange of views between the two private sectors on current bilaterial economic issues. The Committee has served to clarify business attitudes on policy questions and to provide both parties with a better appreciation of one anothers perceptions.

The characteristics of Japanese society which contributed to Japan's post-war stability and extraordinary economic performance should persist into the 1980's. Japan remains a socially cohesive and technically innovative society. A number of the problems in the 1960's and 1970's are on the way to solution. The environmental threat of rapid industrialization and urban population growth is being brought under control through strict government controls and heavy expenditures. Economic growth will be further sustained through increased government expenditures on social infrastructure, which has lagged behind other industrialized countries. Population increase is now less than 1 percent per annum and total population is expected to level off at around 133 million by the year 2000.

The Japanese economy has proved remarkably resilient in the face of major oil price increases in 1973 and 1979. Japan had an inflation rate of 8.9 percent in September 1980, which, while high compared to earlier years, is significantly below the OECD average of 10.5 percent. Unemployment at 2 percent hardly constitutes a problem. Japan is in a good position to take a leading role in the development of new industries, based on micro-circuit electronics, in communications, information processing, and robotics. The adaptation of the Japanese industrial structure to production opportunities of these new technologies will be accelerated by the increasing competitiveness of newly industrialized countries in areas of traditional Japanese strength; e.g., steel, shipbuilding and consumer electronics. Indeed, Japanese investment is contributing to the rapid economic development of newly industrialized countries such as Brazil, South Korea and Singapore.

Although structural adjustments could in time reduce the demands of Japanese industry for imported energy and resources, the country's vulnerability to supply interruption and rising prices will remain an overriding concern of the Japanese Government and business community. Japan will undoubtedly continue to seek to diversify sources of oil, over 70 percent of which are now of Middle East origin, and to reduce dependence on imported oil by encouraging alternative energy sources, notably coal, LNG, and nuclear power, and by importing "packaged" energy, such as aluminum and petrochemicals.

Japan perceives of Canada as a source of raw materials and of energy. Considering Canada's wealth, and Japan's dearth of these resources, they are clearly the base on which to build a mutually satisfactory trading relationship. Nevertheless, many Canadians are evidently dissatisfied with the present pattern of exports in which less than 2 percent of the total are in the form of end-products, and would like to see more value-added and technological content in products sold to Japan. It is a widely held view in Canada that sales of Canadian manufactured items to Japan are impeded by the maintenance of trade barriers which are nonetheless real for their being largely invisible. "Administrative Guidance," by which the Government of Japan, through its close working relations with Japanese companies, is thought to influence their purchasing and sales decisions. On the other hand, Japanese can point to the significant tariff and non-tariff liberalization over the past 20 years, and will argue that Canadians and other offshore suppliers are often unwilling to devote the necessary effort to adapt to unique cultural features of marketing in Japan.

To the extent that they can now be discerned, the major issues in Canada's relations with Japan in the 1980's will revolve around Japan's interest in Canadian resources and Canadian goals to achieve greater value-added and greater technological content in Canadian production for export. The vital economic interests of both Canada and Japan require that their governments and private sectors use the consultative mechanisms available to them to reconcile divergent policies and perceptions.

KOREA

Despite periodic political upheavals, Korea has recorded remarkable economic successes in the thirty-five years of independence following World War II. Korea has been transformed from a primarily agricultural society into one of Asia's major industrial nations and the world's 16th largest trader. In the early 1960's, Korean economic policy was switched from import substitution to export promotion. Since then, Korea's economic growth has been based on the creation of a large-scale export-oriented manufacturing industry. Efficient, centralized economic management by the government, entrepreneurial agressiveness in the private sector, and a low-cost, industrious and well-educated labour force have contributed to a 9.3 percent annual growth rate over the last 17 years, with GNP rising from $2.3 billion in 1962 to $59.1 billion in 1979. In the same period, per capita GNP rose from $87 to $1624 and exports, led by light manufactured products, from $55 million to $15 billion.

This spectacular growth has not been achieved without strains. Inflation, in part a result of excessive credit expansion and investment growth as well as two major oil price hikes in the last seven years, has been running at close to 30 percent and has resulted in a serious erosion of Korea's export competitiveness. Korea's export difficulties have been aggravated by the recent slow growth in Korea's two principal markets, the U.S.A. and Japan. The 1979 trade deficit exceeded U.S. $4 billion and is projected at U.S. $5.8 billion for 1980. Korea's rapidly growing work force is now straining the economy's job creation capacity and unemployment has increased for the first time in 17 years. The real rate of growth of the GNP in 1979 was 7.1 percent which, although nearly double the average for OECD countries, was well below the rates achieved in Korea in recent years. In the first quarter of 1980 the situation continued to deteriorate as real GNP declined by 1.7 percent.

The Korean government took rigorous action in early 1980 to restore economic health. The growth of the money supply has been curbed and interest rates raised. A floating exchange rate was adopted in February and the Korean currency (the Won) has devalued by about 24 percent against the U.S. dollar. Wage rate increases have been held to about half the level of inflation.

Recent political uncertainty has compounded the economic difficulties facing Korea in 1980. However, the new Cabinet appointed by President Chung on September 2 places experienced economic planners into the key portfolios and the new measures announced by Deputy Prime Minister and Economic Planning Minister Shin on September 16 re-affirm the Korean government's goal of restoring economic health and revitalizing exports. The government's economic guidelines include committments to foster private enterprise, reduce direct government intervention in the economy, strengthen the market mechanism, promote exports as the main source of economic growth, ease controls on the inflow of foreign capital and technology, reform of the taxation and banking systems and rationalize certain key industries. With oil price increases becoming more difficult to absorb, Korea has embarked upon an ambitious nuclear energy program to reduce its overdependence on imported oil which comprises 61 percent of its energy requirements.

Recent studies released by the Economic Planning Board (EPB) suggest that the next five year plan to be introduced in August 1981 will contain major policy shifts. The Korean government can be expected to promote skill-intensive, high-technology industries and reduce the dominance of capital and energy-intensive heavy industries where rationalization will be needed to raise capacity utilization and establish greater financial and market stability. Industries targeted for rationalization include automobile, power generating, copper smelting, heavy electrical and marine diesel manufacturing. The government will probably relax its current rigorous regulation of the financial sector. Improved social services and income redistribution will be accorded greater emphasis.

Although the U.S.A. and Japan continue as Korea's dominant trading partners (29 percent and 22 percent of 1979 exports respectively), Korea's trade has become increasingly diversified. Twenty percent of Korea's exports are now marketed in Asia and the Middle East and 19 percent in European countries. Korea is poorly endowed with natural resources and imports are mainly fuel and industrial raw materials. Until recently, Korea has been able to offset its growing oil import bill by undertaking major construction projects in the Middle East. The fastest growing import category in recent years has been capital goods which increased by 69 percent from 1977 to 1978.

Korea is Canada's third largest market in Asia, after Japan and China. In 1979, Canadian exports reached $364 million and imports $462 million. Canadian exports are primarily raw materials, notably coking coal, sulphur, wood pulp, and raw hides and skins. Canada has so far been unable to market any significant quantity of wheat to Korea in the face of U.S. sales on concessional terms. Fully manufactured products account for less than 4 percent of Canada's exports to Korea.

On the Korean side, exports to Canada have over the past five years risen by over 50 percent. Textiles and clothing have always accounted for a major proportion of Korean sales to Canada and Canada is the world's largest per capita purchaser of Korean clothing. Other major components of Korea's sales to Canada are: footwear, sporting goods, toys, bicycles and canned mushrooms.

The expansion of trading links between Canada and Korea has led the business communities in both countries to a view that bilateral economic relations could be strengthened through a joint private sector consultative mechanism. The Federation of Korean

Industry and a group of Canadian businessmen have agreed in principle to establish a consultative committee in 1981.

The list of issues in Canada/Korea trade relations at the beginning of the 1980's is not long. Korea is evidently interested in access to Canadian energy and other natural resources. There are likely to be Korean investments in Canadian resources.

Although Korean imports of Canadian products are heavily concentrated in industrial materials, Korea has made significant purchases of Canadian high technology items including a CANDU reactor and recently a $90 million telecommunications system. Efforts are being made to obtain for Canadian wheat growers a share of Korean imports commensurate with Canada's normal share of the international wheat market.

Further economic development and diversification in Korea will lead to greater competition from Korean imports for Canadian manufactures. Korea is currently a beneficiary of the General Preference Scheme and it may be expected that during the 1980's, the question of Korea's preferential tariff access to the Canadian market will be addressed.

Although these and other issues may assume increasing importance as the Canada/Korea relations mature, they are unlikely to detract significantly from the growth of bilateral trade and economic links during the 1980's.

AUSTRALIA

Australia is a vast, continental, but sparsely populated country rich in mineral resources and, to a lesser degree, in arable land. It is a parliamentary democracy with a federal structure. Australian living standards are high. Per capita income in 1978 was around 87 percent of the Canadian level. However, with its small population of only 14 million, the impetus to economic development in Australia has come from exports rather than the domestic market.

Australia's export trade depends heavily on agricultural products and industrial raw materials, and the greater part of its imports consists of finished goods. Its manufacturing sector is broadly based but, largely because of small production runs, is not always competitive. Australian development, particularly in the resource field, depends to a large extent on overseas capital and there is growing concern over the degree of foreign control in the economy. Current rates of inflation and unemployment are much the same as those in Canada and growth predictions for the next few years are low.

Over the longer term, however, significant changes are expected. Australia can claim major reserves of low-cost energy in the form of crude oil, natural gas, coal and uranium. In the minerals field, Australia is already the world's largest producer of bauxite/alumina and an important source of copper, lead, zinc, nickel and iron ore. Because of growing demands in Japan and other overseas markets for its resources, particularly coal, Australia appears to be on the threshold of a new resource boom with capital projects amounting to billions of dollars already under construction or in the advanced planning stage. Bumper crops and high world prices are currently bringing about increased investment in agriculture while, in order to take advantage of the recently established 200-mile economic zone around its shores, efforts are being made to develop a more integrated approach toward the harvesting and processing of fisheries resources. Maturing softwood plantations and the construction of new mills are bringing Australia gradually closer to self-sufficiency in the forest products sector as well.

Important changes are also taking place in the manufacturing sector which, given the small domestic market, is generally uncompetitive internationally. In 1973, the high Australian tariff was reduced by 25 percent and successive Australian governments have, in principle at least, been committed to the development of a more rational industrial structure. However, high levels of unemployment and protectionist pressures are constraints to further structural adjustment.

Australia's expanding resource base and energy reserves are already giving it a new importance in international trade. The direction of its trade has been changing as well. Efforts are being made, for example, to develop new and more diverse overseas markets, most notably in Eastern Europe, the Middle East and Asia. Particular attention in this regard is being given to the fast growing countries of ASEAN, to Japan, China, South Korea and Hong Kong. Australia is also becoming considerably more preoccupied with the future of the Pacific region as a whole. Special consultative arrangements have already been established with the ASEAN nations and in concert with its neighbour, New Zealand, a non-reciprocal free trade area has been established with the smaller countries of the South Pacific. It has recently strengthened its free trade arrangements with New Zealand with a view to developing new and more effective means of economic cooperation between the two countries.

Australians and Canadians share a common language, political philosophy, Commonwealth membership, heritage and lifestyle. Despite the distance between the two countries, there have been fairly extensive contacts between the two countries. However, and perhaps because they have so much in common, both peoples have tended to take their relationship for granted.

Trade between Canada and Australia is governed both by the GATT and a separate bilateral trade agreement, the Canada/Australia Trade Agreement (CATA) of 1960. The Agreement provides for the exchange of tariff preferences on an extensive range of products. An Exchange of Letters was signed in 1973 to supplement CATA and to provide for the continuation of preferences which had been derived from each country's bilateral agreement with the United Kingdom prior to the latter's entry into EEC.

In 1979, Canada's two way trade with Australia reached $1 billion. Exports were valued at $560 million and imports to $450 million. Eighty-eight percent of Canada's exports to Australia were in the form of fabricated materials and end products, many of them entering under preferential rates of duty. Indeed, Australia stands only behind the United States, the United Kingdom and occasionally Venezuela as a market for Canadian manufactures. Major Canadian imports from Australia are agricultural items, particularly beef and sugar as well as alumina.

Canada currently supplies less than 2 percent of Australia's total imports. However, there are considerable opportunities for Canadian exporters in the Australian market. Australians with their high living standards are a ready market for Canadian processed foodstuffs and other consumer items. Moreover, Australia's burgeoning resources boom will call for large purchases of mining machinery and for heavy investment in transportation facilities, telecommunications, the generation and distribution of power. There will probably be few other countries that will be able to offer a comparable range of opportunities for Canadian producers of capital equipment, specialized machinery and technical services during the next decade.

In recognition of the opportunities in the Australian market, the Honourable Ed Lumley, Minister of State for Trade, in May, 1980, led a group of 32 Canadian businessmen on a trade development mission to five major trade and industrial centres in Australia. During the visit, the Minister signed a Double Taxation Convention with the Government of Australia and announced the establishment of a $10 million revolving line of credit by the Export Development Corporation to facilitate the expansion of Canadian exports.

Contacts with members of the Australian Government have revealed that Australia, like Canada, wishes to see the economic ties between the two countries reinforced. Both governments have accepted that trade and economic relationship should be reexamined now that the Multilateral Trade Negotiations in the GATT have been concluded. The process of review is underway in Canada and it is expected that the two governments will meet in 1981 to determine the shape of the future bilateral intergovernmental arrangements needed to permit the full exploitation of mutual opportunities for economic cooperation in the 1980's.

The development of future bilateral economic links with Australia will undoubtedly have to take into account the existing Canada/Australia Trade Agreement. The tariff preferences which it provides for have been gradually eroded over the years but are still regarded in both countries as a valuable encouragement to two way trade. Both governments will need to consider whether it would be useful to include in any new agreement provisions designed to foster investment and joint ventures. Canada has no joint trade and economic committee with Australia, as it does with a number of other countries. In the rapidly changing trade and economic environment in the 1980's, a broad consultative mechanism may be required to give both sides every opportunity to consult with a view to enhancing mutual trade and economic interests.

NEW ZEALAND

New Zealand is a parliamentary democracy and a unitary state. With a limited population, just over 3 million people, and few mineral resources, New Zealand's economic development has depended heavily on the agricultural sector and the export of its produce, particularly dairy products, wool and meat. The country's economic performance is thus sensitive to the vagaries of international commodity prices and protective agricultural import policies in major industrialized country markets, particularly the EEC, U.S.A. and Japan.

New Zealand's economy suffered severe dislocation in 1973 when the United Kingdom, its major export market, joined the European Economic Community. In the same year, the price of New Zealand oil imports, on which it is highly dependent for energy, rose sharply. While New Zealand currently enjoys a favourable trade balance, interest payments on overseas borrowings and other invisible transactions ensure a chronic deficit on current account. Import quotas have been in place for a number of years on consumer goods. While this policy has contributed positively to New Zealand's balance of payments position, it has also encouraged uneconomic production domestically. While the disappointing rate of growth over the last six years is unlikely to be improved upon in the immediate future, longer term prospects are promising.

In the energy sector, New Zealand is rich in coal, hydro-electric power and natural gas; development of these resources should reduce the country's present heavy dependence on imported oil. Maturing softwood plantations and the construction of new processing facilities promise to make New Zealand a major exporter of forest products by the end of the decade. With the establishment of a 200-mile economic zone around its shores, a more efficient approach is also being taken toward the harvesting and processing of its fisheries resources. In the manufacturing sector, efforts are being made to rationalize a number of the less competitive industries and a wide range of incentives have been introduced to encourage the export of finished products. Finally, New Zealand's position as one of the world's most efficient food producers will remain an important element in its overall prosperity.

Canada's relations with New Zealand are of long standing. A Canadian trade commissioner was posted to Auckland in 1910. High Commissions were established on our respective capitals in 1940. Similarities in heritage, lifestyle and political institutions have facilitated Canada's trade and personal contacts with New Zealand. However, as in the case of Australia, there is the risk that both countries, because of preoccupations with domestic and regional issues, will allow the opportunities for cooperation, particularly in the economic field, to go by default.

In 1979, Canadian exports to New Zealand amounted to $91 million or approximately 2 percent of New Zealand's total imports. Canadian imports from New Zealand were valued at $135 million, and comprised almost entirely of agricultural products, particularly beef. Canadian exports are diversified and include a broad range of manufactured items.

Trade between Canada and New Zealand is conducted under the rules of the GATT and a separate trade agreement, the Canada/ New Zealand Trade Agreement (CNZATA) of 1932. The Agreement provides for the exchange of tariff preferences on a wide range of products. Supplementing the CNZATA, an Exchange of Letters was signed in 1973 to provide for the continuation of preferences which had been derived from each country's bilateral agreement with the United Kingdom prior to the U.K.'s entry into the EEC. These tariff preferences have played an important role in the development of trade between Canada and New Zealand. The bulk of New Zealand exports enter Canada under preferential rates of duty bound in the Trade Agreement.

As noted, long term prospects for the New Zealand economy are promising. The development of energy resources provide marketing prospects for Canadian suppliers of machinery and technology. Alberta Gas Corporation has recently entered into a major joint venture with New Zealand's national oil company to produce methanol from natural gas. The development of New Zealand forests and fisheries may also lead to new opportunities for specialized Canadian companies. An increase in living standards in New Zealand will enlarge the market for Canadian consumer goods.

The business mission led by the Honourable Ed Lumley, Minister of State for Trade, visited Auckland and Wellington as well as Australian centres in May 1980. Mission members were impressed with the sales and investment prospects in New Zealand for Canadian companies, including small and medium-sized firms.

The Government of Canada is currently conducting a review of its relations with New Zealand as well as with Australia. An underlying assumption of the review is that a special effort should be made to broaden and intensify Canada's trade and economic relations with New Zealand during the 1980's. However, in seeking to broaden our relationship, particular attention will need to be given to the existing Canada-New Zealand Trade Agreement and the tariff preference it contains. While it is generally agreed that these preferences have had a beneficial effect on the development of commerce between the two countries, their value has been mitigated over the years by a number of factors including, on the New Zealand side, a comprehensive import licensing regime and on the Canadian side, the establishment of certain restrictions on meat and dairy imports. Nevertheless, both Governments continue to see advantages in maintaining some form of reciprocal preferential tariff regimes. The New Zealand Government appears, however, to share Canadian perceptions that a new agreement should be broader in scope than the present agreement. The review of bilateral relations now underway will address the question of whether a future agreement with New Zealand should contain provisions relating to investment and whether it should establish regular intergovernmental consultative mechanisms.

FIJI

Fiji has a population of approximately six hundred thousand and is located about a thousand miles to the north of New Zealand. The country gained independence in 1970; is a member of the Commonwealth; and has a parliamentary system of government with the Queen as Head of State. While the country's development is heavily reliant on bilateral and multilateral aid, private investment is playing an increasingly important role. Production of raw sugar is the main source of the country's export earnings. Tourism, gold mining, timber and cement production are other important sources of income.

Two-way trade between Canada and Fiji totalled $11 million in 1979, with the balance strongly in Fiji's favour. Canadian exports of $1.8 million consisted primarily of canned fish, paper, and non-electric lighting. Imports from Fiji were valued at $9.4 million and were comprised mainly of canned tuna, ginger and food products. Fiji has benefited from Canadian development assistance programs, and Canadians have invested in the tourist and mining sectors of the economy. The Asian Development Bank has also provided the necessary funding for a number of significant projects of potential interest to Canadian suppliers. Excellent opportunities exist for Canadian participation in pine forestry development, utilization and harvesting, hydro-electric and port development.

PAPUA NEW GUINEA

Papua New Guinea achieved independence in 1975 and is a member of the Commonwealth. It has a population of 2.9 million and a parliamentary form of government, with the Queen as Head of State. The country's economic performance since independence has been encouraging. The economy remains heavily dependent on the export earnings of a limited number of commodities, the most important of which are coffee, copper, copra and cocoa. Although vulnerable to commodity price fluctuations, the country's economy has remained relatively steady during the past three years. The country's promising deposits of gold, silver and copper have only recently begun to be exploited and there are estimated to be good prospects for nickel, oil, forestry and fisheries development.

Two-way trade between Canada and Papua New Guinea is relatively modest with Canadian exports valued at $3 million in

1979 and imports at $6.4 million. The major Canadian export items were motor vehicles, parts and machinery while imports consisted mainly of coffee, cocoa and tea. Opportunities for increased participation by Canadian firms in the economic development of Papua New Guinea should occur in sectors related to power generation and transmission mining and exploration, prefabricated buildings, consumer products, fish processing, forestry development and consulting services. The Asian Development Bank is providing financing for projects related to rural development and infrastructure.

WESTERN SAMOA

Western Samoa, an island group, with a population of approximately one hundred and sixty-three thousand, is located to the north-west of New Zealand, near Fiji. The country attained independence in 1962. New Zealand, which had held a United Nations trusteeship for the islands, remains responsible for Western Samoa's external affairs. The country has an elective head of state and a legislature elected by chiefs. With limited natural resources its economy is based on a few agricultural products, notably copra, cocoa and bananas from which derive much of the country's export earnings. The country has had modest success in developing an infrastructure for exploitation of its forestry resources which cover approximately two-thirds of its area.

Trade between Canada and Western Samoa has been minimal. However, there are a number of development projects in the hydro-electric, forestry utilization and resort development sectors which might offer opportunities for Canadian firms.

ASSOCIATION OF SOUTHEAST ASIAN NATIONS

AN OVERVIEW

The Association of Southeast Asian Nations (ASEAN) - Indonesia, Malaysia, Philippines, Singapore, Thailand - was formed in 1967 to "accelerate economic growth, social progress and cultural development in the region in a spirit of equality and partnership". The member countries have consulted closely on political matters and have adopted common ASEAN positions on regional and international issues including Indo-China.

The ASEAN member nations now frequently pursue their relations with other governments as an Association. Reciprocally, other countries including Canada, the U.S.A., Australia, New Zealand, Japan and India as well as the European Community, have often seen it to their interest to deal with ASEAN nations as a group and have become "dialogue" partners of the Association.

The ability of the ASEAN nations to reach common political positions is all the more remarkable because the countries themselves display considerable diversity. They are ethnically and linguistically distinct and there are wide differences in political systems, economic structures, and living standards. However, there are areas of commonality. The ASEAN countries are broadly market-oriented in their approach to economic development and all have shown high rates of growth over the past decade. Projections indicate that in the next decade the GDP of ASEAN countries will double from $120 billion to $250 billion.

To date, cooperation among ASEAN countries in the economic area has been modest. Tariffs on intra-regional trade have been reduced on some 2,527 items covering 16 percent of the trade. Four major joint industrial projects have been initiated. Because of their economic structures which, with the exception of Singapore, are raw material based, intra-regional trade of the member countries is small compared with extra-regional sales to the U.S., Japan, and the E.E.C.

Canada has enjoyed good relations with the countries of the ASEAN region and the government is seeking to strengthen existing ties. The Secretary of State for External Affairs, Mr. MacGuigan, met with the ASEAN foreign ministers and "dialogue" partners in June of this year. The Minister of State for Trade, Mr. Lumley, has visited all five ASEAN members in recent months. Two Canadian aid projects in the region have been designated "ASEAN" as they cover more than one country. Efforts are being made to broaden our relationship with the Association through political, media and academic contacts. Canada has proposed an Industrial and Technical Cooperation Agreement which is now under study in ASEAN capitals and which hopefully will be concluded in 1981.

INDONESIA

Indonesia is the world's fifth most populous country with 140 million people, and an anticipated population of 210 million by the year 2000. It comprises over 13,000 islands and its combined land and territorial sea area covers 2,000,000 square kilometers. It is strategically placed in the sea lanes between the Indian Ocean and the Pacific Rim. The size and location of Indonesia, its resource base, and its economic potential make it a major factor in the Pacific and indeed in the larger world economy.

Indonesia's political institutions are democratic with an elected President and parliament. These institutions have proved durable since 1965.

Over the past decade, the Indonesian economy has grown on average between 7 and 8 percent. GNP exceeded $45 billion in 1978. Indonesia is rich in natural resources including minerals and oil. It is an OPEC member and rising oil revenues have contributed importantly to export earnings. The major problems facing the country are population pressures (in Java), unemployment and inflation.

Canadian/Indonesian relations have been close. Indonesia, because of its low per capita income, is a country of concentration for CIDA bilateral development assistance. Approximately $122 million will be disbursed on projects over the next five years. Indonesia has become the major beneficiary of CIDA's industrial cooperation programme.

Two-way trade was $100 million in 1979 remaining at about 3:2 in Canada's favour. Canadian exports include aluminum, pulp and paper, synthetic textile fibres, asbestos, machinery and wheat. Major Canadian imports from Indonesia are rubber, palm oil and tea.

Canadian companies have been active in pursuing opportunities offered by Indonesia's development including the $1.5 billion Bukit Asam project which aims at the annual extraction of 3 million tons of coal in Southeastern Sumatra and its transportation for use in thermal electricity generation in Java. The project will require mining machinery, rail and port handling equipment and thermal generating plant. Financing involves the World Bank, CIDA and the EDC.

MALAYSIA

Malaysia is a federal state covering peninsular Malaya and the states of Sarawak and Sabah in North Borneo. Its central political institutions are parliamentary in form. It has an elective monarchy, rotating among the hereditary rulers of its component states. It is a member of the British Commonwealth. Fifty-four percent of its 13 million population is Malay, 35 percent Chinese and 10 percent Indian.

Malaysia's GNP is expected to increase by about 7 percent in 1980, the average rate achieved over the past decade. Government expenditures on defence, education and rural development will provide the impetus to economic growth. Malaysia, which is a major world supplier of rubber, vegetable oils and tin, enjoys a positive trade balance. Malaysia has oil and natural gas reserves and the potential to achieve energy self sufficiency.

Canada's major exports to Malaysia are asbestos, aluminum, newsprint, telephone equipment, steel and zinc. Malaysian exports to Canada enjoy Commonwealth preferences. Major items are rubber, palm kernel oil, textiles and clothing. Canadian companies have invested in Malaysia particularly in aluminum and communications. Although there are fairly vigorous regulations pertaining to domestic participation, Malaysia's attitude to foreign investment is certainly positive. Opportunities for Canadian firms to invest and/or supply equipment will arise, particularly in hydro and thermal generating and mining development.

Shared membership in the Commonwealth and ongoing Canadian development assistance to Malaysia in the form of the CIDA administered Industrial Cooperation Programme, contribute to a Canada-Malaysia relationship which should serve as a firm basis for future cooperation. As resource-rich countries, Canada and Malaysia can share experiences in many areas, with Canada serving as a source of expertise and information to assist in Malaysian economic development.

PHILIPPINES

The Philippines have a population of 47 million distributed mainly over 12 islands of an archipelago numbering approximately 7,000. The country has been governed under martial law since 1972. The government of President Marcos has announced its intention to hold elections and return the country to civil government but no date has been fixed. The Philippines economy is heavily dependent on oil imports. The Government has, however, embarked on an active program to reduce this dependence by both developing domestic energy sources (coal and geothermal) and by encouraging conversion from oil to coal.

The Government is taking steps to promote foreign investment. Tariffs are to be reduced to improve the competitiveness of the Philippine economy.

Two-way trade between Canada and the Philippines totalled $163 million in 1979 and was slightly in Canada's favour. Canadian exports are predominantly semi-processed goods and capital items. Major items in the Philippines exports to Canada are coconut oil, pineapples, clothing and footwear, and timber products. If Canada can capitalize on the opportunities available through resource and industrial development in the Philippines, Canada's exports to that country should increase to $125-150 million annually within the next five years from $85 million in 1979. Canada is the sixth largest investor in the Philippines with Canadian companies involved in manufacturing, banking, insurance and mining. Canadian banks have participated in syndicated loans.

Canada's relations with the Philippines are excellent; there are significant immigration and investment components and the special political dimension provided by the Philippines' role as Canada's "contact point" for the "Dialogue" with ASEAN. The relationship should continue to develop along present lines into the 1980's. There should be opportunities for Canadian firms in a number of major projects in areas which include thermal generating, pulp and paper, telecommunications and coal mining and transportation.

SINGAPORE

Singapore's 2.3 million people inhabit an island, 10% the size of Prince Edward Island. Singapore has been an independent republic since 1965.

Political stability, a skilled and industrious multiracial work force and an open attitude to private, including foreign, investors have combined to give Singapore one of the world's fastest growing economies. During the 1970s the rate of growth averaged 8.4%. GDP is expected to reach $10 billion in 1980 giving an average per capita income of $4,400. Singapore's strategic location on the major sea lane between the Pacific and Indian Ocean have helped to make it the world's fourth busiest port and the major entrepôt for the region's raw material exporters.

The economy of Singapore is highly developed and includes sophisticated tourist, commerce, banking, insurance and shipping services. The island possesses almost no natural resources. Agriculture and fishing account for only 2% of the GDP. Manufacturing, which contributes over 26% of the GDP, is based on petroleum refining, shipbuilding, wood products, textiles and electronics. Singapore's main export market are Malaysia, the United States and Western Europe.

Singapore is entirely dependent on outside sources for its energy and is vulnerable to increased oil prices. Environmental concerns are strong in an over-crowded island and inhibit adoption of coal and nuclear energy for electricity generation.

Canada's major exports to Singapore are potash (for transshipment to neighbouring countries), soyabeans, newsprint, zinc, chemical resins and gold. Although crude rubber is Singapore's major export to Canada, this is a reflection of the Island's entrepôt role. Singapore does, however, sell to Canada manufactured items including refrigerator compressor units, ships, TVs and radios.

Canadian development assistance to Singapore is now limited to projects which are either designated as "ASEAN" (i.e. involving other countries in the region) or undertaken by the IDRC and non-governmental organizations. All major Canadian banks have opened offices in Singapore.

Shared membership in the Commonwealth; similarity of political institutions and approaches to international issues; and common attitudes to business have forged strong links between Canada and Singapore. Singapore's growth is likely to continue at current high levels throughout the 1980s. There will be opportunities for Canadian companies in such areas as urban mass transit, power generation and telecommunications.

THAILAND

Thailand with a population of 45 million is a hereditary monarchy with parliamentary institutions. In practice, however, Thailand's political life has in recent years been managed by a series of military officers who have taken a direct role in government. The absence of continuity in political leadership has evidently impacted on the implementation of the government's policies. However, in fact the different governments which have succeeded one another in Bangkok have shared similar economic goals and have promoted an economic environment favourable to private investors, including foreigners. Thailand's economic growth in recent years has been rapid, averaging around 8% per annum.

Thailand's export trade and economic performance are significantly dependent on the agricultural sector. Major export items include rice, sugar, pineapples and cassava. Thailand is also the world's third largest tin producer. The manufacturing sector, while still small, is the most dynamic in the economy. The major economic problem confronting Thailand is the country's 80% reliance on imports for its energy needs. Petroleum price increases have led to a growing trade deficit which now exceeds $2 billion per annum and has contributed to an inflation rate approaching 20%. Fortunately, however, there are significant domestic deposits of natural gas and coal.

Relations between Canada and Thailand have intensified in recent years. Canada enjoys an approximate 3:1 trade advantage with total two way trade exceeding $100 million. Canada has contributed to development assistance for rural electrification and family planning. Thailand, as the country of first asylum for the bulk of Indo-Chinese refugees, has been appreciative of Canada's decision to absorb 50,000 refugees and for food aid and other assistance provided for refugee camps in Thailand. Canada's major exports to Thailand are aluminum, steel, asbestos, man-made fibres, woodpulp and chemical resins; imports from that country include clothing and textiles, canned pineapples, raw sugar and tin.

Thailand's economic prospects are inevitably coloured by the country's proximity to areas of hostility in Indo-China. The speed with which dependence on offshore oil can be reduced will also be a factor. However, barring major disruption, it seems likely that growth will proceed at a rate only somewhat below that achieved in recent years. There will be opportunities for Canadian companies in major projects involving thermal and hydro power, irrigation, steel, aircraft, forestry and urban mass transit.

CHINA

With one-quarter of the earth's population and abundant natural resources contained in 9.6 million square kilometers, China has the potential to emerge as an economic super power in the 21st century. The success of China's present efforts to modernize will have a profound impact not only on China itself, but on the international economy as a whole.

The Communist Party has provided continuity in Chinese leadership since 1949. However, the course of Chinese economic development has been subject to sudden and sharp changes in direction. While there has been improvement in living standards in the country over the last 30 years, China remains basically a poor country with per capita income estimated at about $475.

In 1978, the Government of China announced far-reaching plans of modernization for agriculture, industry, science and technology, and national defence. One hundred and twenty major heavy industry and infrastructure projects were identified for priority development. It soon became apparent, however, that these plans were overly ambitions and a period of "readjustment" ensued. The August-September 1980 meeting of the National People's Congress ratified a more cautious approach to modernization aimed at reducing the proportion of capital expenditure in national income and giving higher priority to agriculture and light industry so as to increase levels of consumption and export potential. This period of "readjustment" is likely to persist until the middle years of the decade.

The modernization of China's economy requires difficult policy choices and a major effort to remove significant constraints to economic development, particularly in the area of energy and infrastructure. China possesses major energy resources including on- and off-shore oil, coal, and hydro potential. A successful exploitation of these resources will provide a major impetus to economic development and could see China emerge as a major regional energy exporter. China's transportation and communication system, particularly its railways, will need significant upgrading to ensure its capacity to sustain the high level of economic activity which will result from modernization.

Although, because of the size of the economy, China has been able to generate a significant volume of saving, the national goal of rapid modernization will require a major infusion of foreign capital and technology. Earning foreign exchange to finance imports of capital and technology will be a major preoccupation of China's policy makers. In the long run, the repayment of a significant level of foreign credit would require a surplus on current account and, in all probability, a rapid expansion of Chinese exports to the outside world.

At present, China is not a major international trader. In 1979, exports were valued at $13.5 billion and imports at $15.5 billion. Exports in fact constitute less than 2 percent of estimated gross domestic product, reflecting the basic "self-reliance" policy of post-revolutionary China. Chinese imports have mainly consisted of crude materials and steel, foodstuffs, chemicals and manufactures including machinery. Recently, however, China has begun to import small quantities of consumer items such as T.V. sets. Approximately one-half of China's exports are durable manufactures (mainly products of light manufacturing) the other half consists of foodstuffs and crude metals.

Canadian exports in 1979 were valued at almost $600 million. Wheat remains the most important individual commodity export contributing about 70% of the total. Remaining exports are primarily industrial materials including potash, aluminum, woodpulp, newsprint and sulphur. Less than 3% of Canada's exports in 1979 were in the form of finished goods.

Canada's imports from China in 1979 reached $170 million, made up of textile products, foodstuffs and handicrafts. Leading individual import items are nuts, clothing and woven fabrics.

Under a trade agreement signed in 1973, Canada and China exchange MFN tariff treatment. The Trade Agreement provides for a joint trade committee which meets regularly to discuss means of facilitating two way trade. The seventh such meeting was held in Peking in September 1980, during the visit to China of the Minister of State for Trade, the Honorable Ed Lumley. An economic cooperation protocol, an addendum to the Trade Agreement, was signed in October 1979 during the visit to Canada of the Chinese Foreign Trade Minister, Li Qiang. The protocol identifies areas where Canada can contribute to China's development. These sectors include agriculture, light industries, telecommunications, petroleum, coal extraction, ferrous and non-ferrous metals, communications, transportation and hydro and thermal power generation. During his visit to China in September 1980, the Canadian Minister of Agriculture signed a Memorandum of Understanding for Agricultural Cooperation and Technological Exchange.

In August 1979, the Export Development Corporation opened a five year $2.3 billion line of credit with the Bank of China. The rapid rise in two way trade, which is expected to exceed $1 billion in 1980, reflects the positive nature of Canada's relations with China. However, the fact that there is a large growing Canadian surplus in this trade is undoubtedly of concern to China.

Recognizing the importance China attaches to developing sales of new products to Canada, the Government granted China general preferential tariff treatment effective January 1, 1980.

This reduces the rate of duty on eligible Chinese imports by one-third or more. However, sensitive items such as textiles and clothing which are major Chinese exports to Canada are excluded from the General Preferential System.

Canada's future trade prospects in China will be strongly influenced by China's economic policies and the success of the modernization drive. During the 1980s, China should continue to provide a regular market for Canadian wheat, but will no doubt face stronger competition from the United States as can be seen in the recently announced U.S. PRC grains sales. Growing fertilizer requirements should maintain sales of potash and sulphur. Prospects also appear good for industrial materials including pulp and newsprint.

There may also be opportunities for Canadian companies to participate in major capital projects. Canada has expertise in areas of likely Chinese priority including energy, telecommunications, transportation, forestry, mining and metal processing.

Competition among industrialized countries to participate in the economic development of China will be intense. Western European nations, the United States and in particular Japan will be active in the supply of capital goods and technology. Japan is likely to maintain a competitive edge in China. It now provides credit on concessionary terms; enjoys certain advantages of geography and culture; and is in a much better position than Canada to absorb imports from China in the form of resources.

The successful response to the opportunities presented by Chinese modernization will certainly call for adaptability on the part of Canadian companies. China will seek to "domesticate" foreign technology as rapidly as possible to reduce outlays on imports. Joint ventures will be encouraged and the Chinese authorities have recently formulated legislation to govern taxation of profits and other aspects of foreign investment in China. Canadian firms should be prepared to consider various mechanism proposed by the Chinese to conserve foreign exchange and increase their exports, such as "countertrade", which would involve Canadian exporters' finding foreign markets for Chinese goods produced as a result of their machinery sales or investments in China.

HONG KONG

As it has been for decades, Hong Kong remains a leading commercial, financial and transportation centre and an important point of access to China. Two-way trade totalled $37 billion in 1979 (exports $17 billion, imports $20 billion), a figure in excess of that recorded by China itself. The trade imbalance of $2.4 billion was more than offset by tourist expenditures, earnings from travel and profits in the local banking and insurance sectors. A British possession since the 19th century, Hong Kong enjoys a degree of autonomy with regard to trade and financial matters.

Canadian links with Hong Kong are long standing. Canadian troops were involved in the defence of the Colony during the second World War. Today, Canada is regarded as a desirable new home for many of Hong Kong's prospective emigrants. Recently, Canada agreed to resettle 13,000 Indo-Chinese refugees who had been given temporary sanctuary in Hong Kong. This action was much appreciated since, with a population of 5 million, Hong Kong has one of the highest population densities in the world. More than 15,000 Hong Kong residents are now studying in Canada, of whom 16% are university students, the remainder are studying at the high school level.

Canadian exports to Hong Kong in 1979 were valued at $141 million. Major items were aluminum, gold, newsprint, chemical resins, and rapeseed oil. Imports were in excess of $400 million and covered a range of consumer items including clothing, wrist watches, and radios.

Hong Kong will remain a valuable trading partner to Canada, not only because of the access it provides to China but because, with an industrious and relatively affluent population of 5 million people, it constitutes a significant market for consumer items.

There is a perception among Canadians that it is difficult to win contracts for major capital projects in Hong Kong. Evidently, success by Canada in the project area would go far to reduce the large and growing adverse balance in Canada's bilateral trade. The Secretary of State for External Affairs and the Minister of State for Trade have during visits to Hong Kong in recent months urged on the Hong Kong authorities the importance Canada attaches to equitable treatment by Hong Kong in the award of project contracts.

EXPORT FINANCING

Introduction

The extent of Canada's financial links with the Pacific Rim region are roughly proportionate to the importance of this region in Canada's trade. The countries of the region account for around 10 percent of EDC financing, and a lower percentage of chartered bank activity. Canada contributes 7 percent of the capital resources of the Asian Development Bank. The region absorbs only 5 percent of disbursements under CIDA's bilateral programs, reflecting in large measure its relative wealth. Two-way investment links with countries of the region are dealt with in the section "Investment, Technology Transfer and Joint Ventures".

Elements of Canada's Financial Relationship with the Pacific Region

(a) Official Development Assistance

The inclusion of CIDA and its programs under "Export Financing" is of course misleading. Canadian aid, whether in the form of grants, concessional loans or food is intended to meet the development needs of the recipient country. However, financial flows from CIDA evidently have a significant impact on the volume, composition and destination of Canadian exports and it is from this perspective that it has been decided to include CIDA programs in the Conference session on Export Financing.

(i) Canadian International Development Agency (CIDA)

Canada's aid relationship is conducted mainly through two channels: direct bilateral development assistance offered on a government-to-government basis, and indirect multilateral development assistance offered through relevant international financial institutions such as the World Bank and, of particular relevance in the context of the Conference, the Asian Development Bank (ASDB). For Canadian businessmen, the essential difference between these development assistance mechanisms is that the implementation of projects financed bilaterally is administered by CIDA itself (and the recipient government), and these funds are 80 percent overall tied to the procurement of Canadian goods and services, whereas the implementation of projects financed multilaterally is administered by the Banks and is subject to International Competitive Bidding.

Of the Pacific region countries under discussion, only Indonesia, the Philippines, Thailand, Malaysia, Papua/New Guinea, Fiji and Western Samoa are recipients of Canadian bilateral assistance although Singapore benefits from regional bilateral programs. Indonesia is a major recipient, receiving more funds than any other country in the region, and is eligible for multiyear assistance, planned on a continuing basis. Malaysia, Thailand, and the Philippines are eligible for assistance on an exceptional, project-by-project basis, when important Canadian objectives will be met. Papua/New Guinea, Fiji and Western Samoa receive assistance from the Mission Administered Funds (MAF) controlled by the Canadian High Commissions in Canberra and Wellington. In the last fiscal year (1979/80), bilateral disbursements to Malaysia were $1.75 million, to Thailand $6.79 million, to the Philippines $0.37 million and to Indonesia $11.75 million. It is expected that in the current fiscal year (1980/81), 0.5% of bilateral disbursements will go to Malaysia, 0.8% to Thailand, 0.08% to the Philippines, and 5.4% to Indonesia. Planned disbursements in 1981/82 indicate increased flows to Indonesia with no drastic changes to the broad parameters of the program for the other countries of the region.

The projects being financed in Malaysia, Thailand, and the Philippines are in the following sectors: geochemical survey and hydro-electric (Malaysia), rural electrification and family planning (Thailand), and agricultural development (Philippines). However, future projects are planned in the fisheries sector of all three countries and in the forestry sector in Thailand. In Indonesia, CIDA's program is concentrated in the transportation/communications, agriculture/water resources, and power sectors. Planned future projects continue to give priority to these sectors, in particular non-fossil-fuel power development and transmission, and rail and road transport.

Although a relatively small proportion of the Bilateral Program is directed to the Pacific region, CIDA's separate Industrial Co-operation Program, designed to focus on the more industrialized, middle-income developing countries, is available for financing selected private sector activities in the ASEAN region and Korea. This program, initiated in 1978 to assist Canadian companies to participate in joint ventures by providing financial assistance for starter studies, viability studies, technology/product testing, and investment missions, was recently broadened to provide financing for selected pre-feasibility studies in areas where a potential for substantial Canadian downstream involvement is identified (the Canadian Project Preparation Facility). Though the current level of funding for this program ($9 million in 1980/81) is a small proportion of the total CIDA budget, the program's size and scope, and hence its importance as an element of Canada/Pacific region financial relations, is expected to increase in the future.

(ii) International Financial Institutions (IBRD and ASDB)

Canadian contributions to the World Bank and Asian Development Bank constitute another element of our financial relationship with the Pacific region. At June 30, 1980, Canada had Paid-in and callable capital subscriptions to the International Bank for Reconstruction and Development (IBRD) and contributions to the International Development (IDA) (the World

Bank window which lends on extremely concessional terms to the poorest developing countries) totalling US $2.5 billion for 4.26% of total subscriptions and contributions by all donors. At December 31, 1979, Canada had Paid-in and callable capital stock subscriptions to the Asian Development Bank and contribution commitments to the more concessional funds of the Bank totalling US $863.2 million for 7.1% of the total subscriptions and contributions.

Except for China, which only joined the IBRD in 1980, and Hong Kong, which is a non-member, all the Pacific region countries under discussion have been recipients of some 343 IBRD loans valued at US $13.1 billion. In addition, Indonesia, Korea, Philippines and Thailand have had access to 74 IDA credits valued at US $1.4 billion. With the exception of the developed (Japan, Australia, and New Zealand) and non-member countries (China), all the countries of the Pacific Rim region received loans from the various resources of the Asian Development Bank (ASDB) during 1979.

Both the IBRD and ASDB have emphasized projects in the agriculture and rural development sector, extending 21 loans to four Pacific region countries for development of this sector in 1979. Other sectors of priority interest during 1979 were power and transportation. Indonesia, Philippines, Thailand, Korea, and Malaysia were the principal borrowers in these sectors.

The eligibility status of the various countries for financing from the World and Asian Development Banks is not expected to change over the medium term. In the longer term, however, it is possible that countries at the upper end of the development spectrum, such as Singapore, Hong Kong, Malaysia, and Korea may be phased out as eligible borrowers. Major factors affecting the timing of any future phase-out will be per capita GNP and the resources available to the institutions which, in turn, will reflect inter alia the position of donor developed countries with respect to proposed concessional fund replenishments and capital subscription increases.

Like those of other donors, Canadian contributions to the International Financial Institutions are, with very few small exceptions, totally untied. That is, each institution is free to lend this money according to its own priorities and planning, and procurement from these funds is largely subject to International Competitive Bidding, under which Canadian suppliers of goods and services must compete with suppliers from all other member countries of the institution. Canada's procurement experience under World Bank and Asian Development Bank financing is in the range of 1.6% to 2.8% of total procurement, among the lowest of all donor countries. Canadian procurement from the World Bank, at 47¢ per dollar of contribution and Paid-in capital, is the poorest of all major donor countries, and compares to $2.09 for Japan, $1.64 for Germany, $1.59 for France, and a 97¢ average for all industrialized countries. From the Asian Development Bank (all resources), Canada has received 9¢ procurement per dollar of contribution and subscribed capital compared to 42¢ for the U.K., 34¢ for Japan, and 32¢ for Germany.

The government has analyzed the problem of lack of Canadian success for the supply of goods under International Competitive Bidding; the analysis clearly indicates the principal reason to be lack of pursuit by Canadian companies of IFI-financed opportunities. Canadian bids were submitted on a very small percentage of the tender opportunities available (1.4% in 1978), but the success ratio of those bids has been very high (49% in 1978). One of the major constraints to bidding by Canadian manufacturers for internationally financed projects is the limited export freedom enjoyed by many Canadian subsidiaries of foreign owned companies.

In recognition of the important opportunity that membership in the International Financial Institutions represents for the export of Canadian goods and services, the Department of Industry, Trade and Commerce has implemented a new system for informing potential exporters of opportunities abroad, organized conferences and seminars for the same purpose, located an officer in Washington to liaise with the World Bank, and mounted a program to inform the institutions of Canadian capabilities and competitiveness. As well, both CIDA and ITC are assisting with the formation of joint ventures and consortia appropriate to specific opportunities. The government is also considering the possibility of programs to make available coverage for the risks associated with exchange fluctuations, cost escalation, and undefined ultimate risks.

(b) Export Development Corporation (EDC)

The Export Development Corporation (EDC), a Crown Corporation established to facilitate and develop export trade, assists Canadian exporters in international markets by providing long term export loans, export credits insurance, surety insurance, and foreign investment guarantees. Statutory liability limits for the various operations of the Corporation total $26 billion.

From 1961 to the end of 1979, EDC had signed a total of over $8.5 billion financing agreements and guarantees, approximately $885 million or 10% of which were related to exports to Pacific region countries. In addition, the Corporation signed with China in August 1979 a $2.3 billion Unconfirmed Line of Credit. Of signings in the Pacific region, by far the largest proportion (52%) was for sales to Korea. During 1979 the Corporation concluded financing agreements and guarantees totalling approximately $266 million related to Canadian commercial activity in the area. This comprised 12.8% of EDC's signings for the year. (The percentage for 1979 is unusually high because a single financing agreement for a nuclear reactor to Korea).

A variety of sectors of Canadian capital goods and services exports were facilitated by EDC in recent months including locomotives to New Zealand; telecommunication equipment and services to Korea; and aircraft training and testing equipment to Singapore.

(c) Canadian Chartered Banks

The five major Canadian chartered banks account for 95% of Canadian chartered bank international activity. Of total Canadian chartered bank assets abroad (i.e., claims on non-residents of Canada) at June 30, 1980, of about $74 billion, slightly more than 8% relates to countries of the Pacific region.

Creditworthiness ratings and establishment of country limits by each chartered bank are functions not only of their assessments of the social and political environments and the future debt servicing capacity of potential borrowers, but also of existing exposure or concentration in the country and the sector proposed. The Canadian chartered banks would be willing to consider financing in all the Pacific region countries.

Canada's existing Bank Act makes no provision for foreign banks to operate as banks in Canada. This limitation on the activities of banks of the Pacific region countries has in varying degrees affected opportunities available to Canadian banks to operate in those countries. There are, however, numerous foreign bank representative offices in Canada, which promote the services of the foreign bank but do not undertake banking business in this country. Further, there are a number of foreign banks with equity interests in Canadian financial and non-financial corporations. These companies are not incorporated under the Bank Act, but under other federal and provincial legislation, and are precluded from describing their business as that of banking.

Bill C-6, the Banks and Banking Law Revision Act, 1980, at the time of this writing, is at second reading in the House of Commons. The existing Act is slated to expire on November 30, 1980.

The overall thrust of Bill C-6 is to foster greater competition in banking while at the same time ensuring Canadian control over the financial system. The Bill would affect Canadian banking activity overseas since it makes provision for foreign banks to own foreign bank subsidiaries in Canada, subject to certain limitations, and, notably, requires that the home jurisdiction of the foreign bank must afford Canadian banks reciprocal banking rights, on the basis of similar competitive opportunity to that proposed in Bill C-6.

"TRADE IS A TWO WAY STREET"

Introduction

The title of the seminar session "Trade Is a Two Way Street" is a simple rendition of a truism in economics. In the last analysis, any country trading with the outside world must export sufficient goods and services to pay for its imports of goods and services after netting out payments/ earnings as an international borrower/lender. Balancing of payments/receipts with the outside world does not, of course, mean that a balance be achieved bilaterally with individual trading partners. In a multilateral trading system involving convertible currencies and relatively free capital movement there is no need for bilateral balancing. Nevertheless, even in the free market economies of the western industrial world there is a tendency, particularly in situations of overall balance of payment deficits, to focus attention on adverse bilateral balances. A large and growing deficit with a particular country can become a political issue, especially if it is perceived that an adverse imbalance results not from market forces but from the intervention of the government of the bilateral partner. This tendency is certainly present in Canada's relations with the countries of the Pacific Rim.

In China, state-owned agencies are responsible for all foreign trade and financial transactions. In other countries of the region, as in Canada, governments are major direct purchasers of goods, particularly equipment for public utilities. Even where economic decision making is essentially in the private sector, governments openly or discreetly regulate the volume, pricing and sourcing/destination of imports/exports through tariffs, non-tariff measures and administrative guidance. Through their "commercial policies" governments have a profound impact on trade flows.

The barriers imposed by governments of Pacific Rim countries can impede Canadian exports to those countries. Examples would include residual import restrictions on certain agricultural and fish products maintained by Japan; balance of payments restrictions in force in New Zealand; tariff increases in Australia for the promotion of domestic industrial goals, bans on the importation of certain aircraft by Indonesia. Opportunities to discuss such impediments to Canadian exporters will arise in the individual country plenary sessions. The seminar session "Trade Is a Two Way Street" also provides an opportunity to examine issues of Canadian commercial policy which will impact on Canada's future relations with the countries of the Pacific Rim.

In its broadest sense, Canada's commercial policy goals are to maximize the contribution that trade can make to the realization of Canada's domestic economic objectives in a given international economic and political environment. It is equally concerned with the maintenance of a domestic economic and regulatory environment which is consistent with the need to maintain Canada's competitiveness internationally. Against this backdrop and as a major world trader, Canada's trade policy thrust continues to be to maintain an open multilateral trading system based on the GATT; the use of the tariff as the usual means of protection of domestic producers; and progressive trade liberalisation (both for tariff and non-tariff barriers) through multilateral negotiation. In common with other GATT members, Canada also maintains mechanisms to deal with unfair trade practices and/or disruptive changes in trade patterns which cause or threaten injury to domestic producers or call for too rapid a structural adjustment.

Tariffs

a) General

The Canadian tariff has been significantly reduced in the post World-War II period as a result of successive rounds of Multilateral Trade Negotiations under the GATT. As a result of the MTN which were concluded in June 1979, the trade-weighted average industrial tariff in Canada will be 4.5% when the cuts are fully implemented in 1987. All but a few Canadian tariffs are bound against increase.

b) "Commonwealth" Preferences

As noted in the country texts, Canada exchanges preferences with Australia and New Zealand under bilateral trading arrangements. Malaysia and Singapore, Fiji, Papua/New Guinea and Western Samoa enjoy preferential entry at British Preferential rates on a non-reciprocal basis.

c) General Preferential Tariff

Canada, along with other developed nations, including Australia, New Zealand and Japan, have introduced preferential tariff systems whereby most imports from developing countries are eligible for preferential duties under a general preferential tariff (GPT).

The Canadian GPT was brought into effect on July 1, 1974, as part of an international effort to assist developing countries expand their exports of manufactured products to developed country markets. In the Pacific region the original beneficiaries of Canada's GPT include the five ASEAN nations, Korea and Hong Kong. The GPT was extended to China on January 1, 1980. The GPT rate is either the Most-Favoured-Nation (MFN) tariff rate reduced by one-third, or the British Preferential (BP) tariff rate, whichever is the lower. The preferential scheme applies to all manufactured and semi-manufactured goods from beneficiary countries except for a selected list of textile products, footwear and certain electronic goods. Specific GPT rates also apply to a selective list of agricultural products.

In 1979, more than 80% of dutiable imports into Canada from Indonesia, Malaysia, and Singapore entered at GPT rates. For the Philippines, Hong-Kong and Korea, the comparable figure was over 45% and for Thailand, 25%. Because of the high concentration of excluded textile items in its exports, only 20% of items imported from China entered at GPT rates. Three GPT beneficiaries in the Pacific region, Korea, Hong Kong and Singapore, supply more than 50% of all imports into Canada under GPT rates.

The General Preference Scheme in Canada and other donors was introduced to encourage industrialization in developing countries. A number of the beneficiary countries including Hong Kong, Singapore and Korea have, since 1974, made considerable progress in industrialization and are now included in the group of countries known as "Newly Industrialized Countries" (NIC's) which among the developing countries enjoy relatively high per capita incomes. The NIC's, which also include some of the more advanced countries of Latin America, have dominated trade under the GPT in Canada and other industrialized countries. This raises some questions which will undoubtedly be addressed by Canada and other industrialized countries during the 1980's:

1) Should the NIC's, with their relatively high living standards, continue to enjoy GPT treatment when other poorer and less industrialized developing countries are often unable to compete effectively with NIC's in the markets of the developed countries?

2) Should NIC's receive tariff preferences when they are evidently already capable of competing effectively on normal terms with Canadian industry on a large range of products?

International consideration of these issues among GPT donor countries may result in agreed rules and procedures providing for NIC's to "graduate" and forego eligibility for GPT when they achieve certain thresholds of industrialization and per capita income.

Non-Tariff Measures

a) Agricultural Controls

Canada maintains very few quantitative limitations on imports. Quantitative restrictions are, however, maintained on certain agricultural products. In common with much of the northern hemisphere producing temperate agricultural products, Canada has found it necessary to maintain quantitative import measures in support of domestic agricultural policies. They include limitations on the import of beef, and dairy items. They are of particular interest to Australia and New Zealand, among the world's most efficient producers in these sectors. At the same time, Canada has worked with these countries in the multilateral, particularly the GATT context to develop more comprehensive multilateral approaches to agricultural trading problems, of which the newly developed GATT International Meat Council is a good example.

b) Textile & Clothing Import Policy

A variety of factors have had a critical bearing on the evolving structure and performance of the Canadian textile and clothing industries over the past decade. These industries, as in most industrialized countries, are extremely vulnerable to import competition from countries enjoying significantly lower wages. Many of the production units of these industries are located in small towns in regions with limited alternative sources of employment and a lack of mobility in the workforce.

In response, the Government introduced a series of measures known as the Textile Policy of 1970, which sought to create an environment in which firms could "plan, invest and develop with a greater degree of confidence" and continue to move progressively towards viable lines of production on an increasingly competitive basis internationally. Special protection is accorded in cases of serious injury or threat of injury from low-cost imports provided the companies benefitting from such protection submit plans to the Textile and Clothing Board, describing the adjustments that they propose to ensure greater competitiveness. The government also introduced a limited adjustment assistance program for firms and for the workers. Some rationalization and adjustment has taken place, particularly in the textile sector.

Until 1976, the Canadian market for clothing was relatively open with special measures of protection being limited to specific products from a few sources. In late 1976, however, following a rapid surge (46%) in low-cost imports, the Government, on the advice of the Textile and Clothing Board, placed global quotas on virtually all clothing and some textile items. This global regime was replaced on January 1, 1979, by a series of three year bilateral export restraint arrangements, now totalling eighteen, covering nearly all clothing items and a range of textile items. Arrangements are in place with, inter alia, Hong Kong, Korea, The People's Republic of China, Singapore, the Philippines, Malaysia, Thailand and Taiwan. Hong Kong, Korea and Taiwan account for over 70% of all imports of clothing by volume.

Canada, in contrast to the other major industrialized countries, has exercised a selective approach to textile and clothing restraint with only six percent of textile imports presently under limitation. With the current bilaterals in place, clothing imports continue to account for 31% of the Canadian market in unit terms compared to a level of 17% in the U.S. market.

The vulnerability of the textile and clothing sectors to low-cost import competition has resulted in a special status for these products under a derogation from the GATT known as the Arrangement Regarding International Trade in Textiles or the Multi-Fibre Arrangement (MFA). The expiry of the current MFA at the end of 1981 will provide an opportunity for review of the Arrangement. It is Canada's hope that any new MFA for the post-1981 period would more clearly respond to the interests of the smaller textile and clothing exporters, including those in the Pacific Rim, and to the concerns of the smaller importers such as Canada.

In June 1980, the Canadian Textile and Clothing Board submitted a Report on the textile and clothing industry which contained recommendations for Government consideration relating to the appropriate import policy on these products for the 80's. The Board found that in the absence of special measures of protection, imports from low-cost sources will continue to threaten serious injury to production in Canada and therefore recommend continued protection through to 1990.

Canadian Ministers are currently reviewing the findings and recommendations of the Board in the overall context of Canada's broader industrial and trade objectives, the prevailing international environment and the pursuit of a policy to increase trade with the lesser developed countries, including those on the Pacific Rim. It is anticipated that a statement of Government policy will be made in the spring of 1981 in this regard.

INVESTMENT, TECHNOLOGY TRANSFER AND JOINT VENTURES

Introduction

Canadian perceptions of the issues of foreign direct investment tend to be domestically focused. Foreign investment has made a vital contribution to the development of Canada's natural resources and the creation of its manufacturing base. Canada will, throughout the 1980's, continue to require major inflows of foreign investment particularly for energy related projects. The massive injections of foreign direct investment in the Canadian economy have led to a situation in which more than one-half of this country's productive assets in mining and manufacturing are controlled by foreigners. This has raised concerns as to the impact of foreign ownership on the performance of the Canadian economy with respect to, inter alia, exports and technical innovation. The Foreign Investment Review Agency was formed in (1974) with the object of ensuring that new foreign investment offers significant benefit to Canada.

The preoccupation of Canadians with the impact of foreign investment in Canada has tended to obscure the fact that Canadians are increasingly investing abroad. Canadian direct private investment abroad will grow rapidly in the 1980's and is likely to become a more significant element in Canada's economic relations with a number of countries including those of the Pacific Rim.

By 1977, the book-value of Canadian investments abroad stood at $13.4 billion. Although this figure is dwarfed by the very large $46.9 billion in book-value of investments controlled by foreigners in the Canadian economy, it is significant, in the context of this Conference, that Canadian private direct investments in the Pacific Rim countries are somewhat greater than those countries' investments in Canada.

Japanese Investment in Canada

Investments from the Pacific Rim countries in Canada were valued at around $400 million in 1977 with over 80% of Japanese origin and the remainder mainly Australian. Japan is becoming increasingly involved in the international economy as a capital exporter. Japanese investments abroad have been concentraded in resource projects in developing countries and in manufacture in the United States, Southeast Asia and Brazil. Japanese investment in Canada to date has been minimal. Canada has absorbed only 3% of Japanese investment abroad. Japan's share of foreign-owned assets in Canada is less than 1%. Japanese investment in Canada is concentrated in resource extraction and could, in the view of many Canadians, be expanded and diversified into manufacturing; e.g., in the automotive parts sector. Japanese attitudes toward investment in Canada will evidently be influenced by perceptions of Canadian policy on foreign investment, particularly the operations of the Foreign Investment Review Agency. Of investment proposals received by FIRA since its inception, only 2% were from Japan and of these 70% were allowed by the Agency.

Canada would welcome the participation of Japanese capital and technology in offshore oil and gas exploration and the development of alternative energy sources. Canada's ability to produce more oil domestically will contribute to a reduction of demand on international markets to the benefit of consuming nations. However, in Japanese perception, Canadian energy policy is a detrement to investments by Japanese companies in hydrocarbons since the export of oil and natural gas is only permitted to the extent that they are demonstrably surplus to projected Canadian requirements. Canada is, however, in a position to meet Japanese requirements of coal, uranium and nuclear energy.

Canadian Investment in the Pacific Rim

It is only in recent years that Canada has emerged as a significant source of foreign direct investment. Overseas assets of Canadian corporations had reached $16 billion by 1978. This investment, however, has been heavily concentrated in the United States which accounts for 52% of the total. Canada is in fact among the largest investors in the U.S. economy but outside the Caribbean area is only a minor supplier of capital to the developing world. In 1977 Canadian assets in the Pacific Rim were valued at $870 million. Major recipients were Australia ($442 million) and Indonesia mainly in a nickel project.

Foreign Investment Regulations in the Pacific Rim Countries

All the countries of the Pacific Rim welcome private direct investment from abroad as a means of acquiring foreign technology and capital. However, they are anxious to ensure that foreign investment confers benefits on the local economy and conforms to domestic policy goals. Accordingly, they have legislated to regulate the entry of and operating conditions for foreign direct investment.

Since 1975 Japan has had virtually no restrictions on direct foreign investment in new ventures except in four designated industries (agriculture, forestry and fisheries, mining, petroleum, and leather and leather products) which are subject to case-by-case screening. Takeovers of existing Japanese companies, however, may be subject to government intervention and have generally not been permitted.

In Korea all foreign investment proposals are subject to government approval. There is in Korean legislation a preference for joint ventures involving Korean equity. Criteria employed in the approval process include the contribution of the proposed investment to Korea's balance of payments (export oriented ventures would be favoured) and consistency with the country's long term planning objectives.

Australia's foreign investment laws are similar to Canada's and in large measure are modelled on Canada's Foreign Investment Review Agency. The Australian Foreign Investment Review Board (FIRB) screens applications from prospective foreign investors and assesses against certain criteria the desirability of allowing the proposed investment to proceed. It is a basic objective that, wherever practical, Australians should have an opportunity to participate with foreign investors in major projects. In mining, there is a requirement for 50% Australian equity (75% in the case of uranium). Foreigners are excluded from certain sectors; e.g., banking, insurance, broadcasting, newspapers and civil aviation.

Foreign investments are subject to government approval in New Zealand. A screening mechanism (Overseas Investment Commission) has been established and proposals tested against criteria which include effects on competition and prices, the introduction of new technology and the development of new export markets.

In all five ASEAN countries, prior government approval is necessary for the entry of foreign investment. Joint ventures, with local equity participation, are either required or favoured. It is the policy of the Malaysian government to achieve 70% Malaysian equity participation in most companies by 1980. A further requirement is for 30% Malay participation. Indonesia likewise is seeking to increase indigenous participation in the economy through setting minimum equity participation goals. Certain sectors of the Indonesian economy including aircraft, petroleum refining and distribution, food and textiles are barred to foreigners. In the Philippines, too, certain sectors are reserved for local entrepreneurs but foreigners may be permitted to set up wholly owned corporations to manufacture new products.

Foreign investment in China ceased after the revolution in 1949. However, since 1978 and in the context of policies designed to modernize the economy, China has adopted a positive position on the formation of joint ventures, involving foreign private investors, as a means of obtaining foreign technology and capital. A joint venture law was promulgated in 1979 setting a minimum 20%, but no maximum for foreign equity participation in joint ventures. In September 1980, the National Peoples Congress approved a Joint Venture Income Tax law. The basic income tax rate was set at 30% with an additional 3% "local surtax". A further 10% will be levied on profits remitted abroad. However, there are provisions for tax holidays and deferrals for re-invested profits. Of all the countries examined in this Conference, only Hong-Kong makes no distinction in law between foreign and domestic private investment.

Technology Transfer

The technological endowments of the Pacific Rim countries covered in this Conference vary greatly.

Japan, as a modern industrialized nation, now has a major innovative capability. In some areas Japan has surpassed the traditional developers of technology - the U.S. and Western Europe. Japanese companies have a record of success in developing and marketing products involving sophisticated technologies in such categories as electronics, optics, photography and robotics.

The other countries of the Pacific region have not developed any significant indigenous industrial innovative capability and for the most part depend on imported technology usually in the form of direct investments by multinational corporations. This situation will certainly persist throughout the 1980's. These countries will, however, seek to ensure that technology obtained from abroad is acquired at a reasonable cost and in a manner that will bring about its transfer as rapidly as possible to the domestic economy.

Canada's development has also depended heavily on the import of technology and Canada will undoubtedly remain a net technology importer during the 1980's. However, Canadian companies already possess the technical capacity to contribute to modernization and industrialization in the Pacific Rim countries in the next decade. Canadian corporations have achieved world technical leadership in such areas as telecommunications, mass transit, heavy water nuclear and thermal energy, mineral extraction, and forestry exploitation. Canadian taxation and other policies are designed to promote further domestic R and D capability in Canada. Moreover, Canadian subsidiaries of U.S. and European corporations have acquired the technologies of their parents. Although, in some cases, Canadian subsidiaries do not have the freedom to transfer technology abroad, there will be many instances in which Canadian subsidiaries can participate, through investments, in the transfer of technology to the Pacific Rim.

Joint Ventures

As noted above, most of the countries of the Pacific Rim, in their approach to foreign investment, require or favour joint ventures as a means of acquiring foreign technology and capital. A number of Canadian companies have already entered into joint ventures in the Pacific Rim. In Australia, joint ventures include: aluminum, asbestos, pharmaceuticals, lamps, meat packing, glass containers, paper containers, business forms, and footwear. In New Zealand, a $140 million joint venture was established recently to manufacture methanol. Aluminum is produced under a joint venture in Thailand. A Canadian firm is a partner in a joint venture in China for the production of valves.

As most of the Pacific Rim countries regard the joint venture as the preferred means for acquiring foreign technology and capital, it will likely be the most common form of Canadian investment in the Pacific Rim in the 1980's. The advantages of the joint venture to the host country, in terms of "domestication" of foreign technology transfer, have already been mentioned.

However, there will also be advantages to the Canadian corporation entering into the joint venture. The involvement of local partners in the venture will facilitate contacts with government and access to the local business community. Local entrepreneurs will contribute through their understanding of local laws and customs. Financial risks will be spread through local equity participation. The involvement of local businessmen will probably provide greater access to markets, not only in the country of incorporation, but also in regional markets in which the local partner may already have a presence.

International Investment Activities

There have been a number of international activities in recent years designed both to encourage foreign investors and influence their behaviour by (a) providing some safeguards for transactional corporations against arbitrary actions of governments; (b) setting out procedures and guidelines for compensation in the event of nationalization; and (c) proposing guidelines for the behaviour of multinational corporations. A list of investment activities in the area would include:

1. The OECD Declaration and Decisions on "National Treatment" and the accompanying guidelines on corporate "good behaviour" (signatories include Canada, Japan, Australia and New Zealand).

2. The work of the United Nations Commission on Transnational Corporations (involves all the countries covered by this Conference except Hong Kong). The Commission is working on guidelines which would apply to all countries (OECD guidelines apply only in OECD member countries).

3. A number of countries of the Pacific Rim are signatories to the International Convention on the Settlement of Investment Disputes (ICSID). The Convention, which was drawn up under the aegis of the IBRD, sets out flexible procedures for the resolution of disputes involving foreign investors. Membership includes Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, and Singapore. Canada is not a member (and Australia does not apply the Convention) mainly because of problems arising from its federal structure.

4. In 1978 Pacific Basin Economic Council (PBEC) members, which include Canada, Japan, Australia, New Zealand and the five ASEAN countries, drafted an investment charter setting out guidelines for the behaviour of international investors and of host and home governments.

THE PACIFIC COMMUNITY: NEW INSTITUTIONS FOR THE 1980S

Introduction

Political, business and academic leaders in countries of the Pacific Rim, particularly in Japan and in Australia, are exploring the concept of a Pacific Community. Ideas on how the community concept should be embodied remain diffuse and even vague. Although there have been fairly substantive discussions of a new Pacific institution, no consensus has yet emerged as to defining the role, function, and membership of such an institution. However, from the Canadian perspective, the importance of the Pacific Community concept lies in the fact that influential individuals in the Pacific region are coming increasingly to see the future prosperity and political relations of their countries in regional terms; to recognize the economic complimentarities and dynamism of all the countries of the region. Canada, as a Pacific nation, can claim a legitimate role in the process of giving substance to the community; national economic and political interests dictate that the claim be exercised.

Origins

As the leading economic power with a uniquely Pacific focus, it is not surprising that the concept of a Pacific Community has received new impetus in the past few years from Japan. Early in 1979, the then Japanese Prime Minister, the late Mr. Ohira, established a panel of Japanese government and academic specialists, under the Chairmanship of Saburo Okita (subsequently Foreign Minister in the Japanese Government and now Japan's Representative for External Economic Relations) to define, in broad terms, the parameters of a "Pan-Pacific Community" - the re-emergence of a concept put forward, among others, by a previous Japanese Foreign Minister, Miki, in 1975. In a report released in May 1980, the Okita panel sketched the outline of a free and open community of countries, based on mutual interdependence and under-pinned by a commitment to free trade. Five broad areas were identified for further more specific investigation: (1) the promotion of mutual understanding in the area of cultural, academic and person-to-person exchanges; (2) the structural adjustment of commercial and economic relationships which would maintain the principle of free trade and at the same time promote trade and economic growth in the region; (3) cooperation in ocean development and management; (4) the enrichment of economic cooperation, and (5) the discussion of monetary issues on a regional basis.

The Ohira initiative sparked lively interest, particularly in the United States and Australia, where there have also been independent studies on the future of the region. The Australian government gave its support to the Community concept in the communiqué issued at the conclusion of the visit to Canberra of the late Premier Ohira in January 1980.

In the United States, Congressional hearings were held and there was some support for the Organization for Pacific Trade and Development (OPTAD). Spokesmen from ASEAN countries have been cautious, noting that they would not wish to see ASEAN submerged in a broader economic or political community.

The question of membership of a Pacific organization will present certain political difficulties, the resolution of which will depend in large measure on the organizational structure established for the community. The principal consideration is whether any "organization" should be governmental, private, or a combination of both. For the moment, there seems to be a developing consensus that there should be at least 11 "core" states: Canada, the United States, Japan, Australia and New Zealand plus the five ASEAN countries.

Theoretical organizational options range from a regional common market with legal force along the lines of the European communities (now virtually ruled out); a relatively cohesive consultative and consensus forming body of the OECD type; or a loose association for which the Commonwealth may be a model.

As has already been described, there is a wide range of opinion on the activities and subject areas which a Pacific community might address. While the initial Ohira proposal, and the independent work in the United States and Australia, focussed largely on the economic aspects of any community activity, there will also be a need for a greater cultural and political sense of community to underpin the economic links.

The attention given to the Pacific Community Concept over the past year in the Pacific region has pointed to the need for further examination and discussion of the complex issues involved before any concrete steps can be taken to create an organization. The Community concept has been examined by academics, businessmen and government officials at conferences held in Bali in January 1977 sponsored by Indonesia's Centre for Strategic and International Studies (CSIS) and in Canberra where the Australia National University (A.N.U.) held a symposium in September of 1980.

The principal decision of the Canberra symposium was to recommend the establishment of a standing committee of about twenty-five persons to coordinate an expansion of exchanges of information within the region. The Committee, which could be called the "Pacific Coordination Committee (PCC)," would be unofficial, private and informal. Members of the Committee would be drawn initially from North American and Western Pacific market economies and would include government officials, businessmen and academics. Task forces would be established to cover trade, direct investment, energy, marine resources, transportation, communications and educational exchanges. The Committee would continue the exploration of a possible future permanent institutional structure for Pacific cooperation. The first meeting of the Committee could take place in the spring of 1981. The Chairman of the seminar (Sir John Crawford of the A.N.U.) when he reports to governments on the seminar will advise them on the arrangements necessary to establish the Pacific Cooperation Committee, the secretariat and questions of funding.

ANNEX 1

Pacific Rim Countries

Basic Economic Data

Country	Population 1979 Millions	GNP Billions	Ratio Exports To GNP	Average Annual Rate of Growth GDP 1970-78 %
CANADA	23.7	260.3	28.6	4.4
AUSTRALIA	14.4	137.7	18.1	3.8
CHINA	945.0	482.0	2.6[2]	6.0
FIJI	0.6	0.6	43.4	N/A
HONG KONG	4.7	13.6	85.3	8.2
INDONESIA	148.5	39.7	21.7	7.8
JAPAN	115.9	1,079.8	12.6	5.0
KOREA	37.6	71.4	30.1	9.7
MALAYSIA	13.3	22.7	60.6	7.8
NEW ZEALAND	3.1	19.9	27.4	2.2
PAPUA/NEW GUINEA	3.1	2.2	45.2	2.6
PHILIPPINES	47.7	34.2	19.1	6.3
SINGAPORE	2.4	10.5	68.6[2]	8.5
THAILAND	46.1	27.3	23.0	7.6

1. GDP used where GNP unavailable.
   Figures for 1979 or latest available.

2. Merchandise Exports

ANNEX 2

Canada's Economic Links With Pacific Rim Countries

Country	Total Country Exports 1979 Million $CDN	Total Country Imports 1979 Million $CDN	Total Canadian Exports to Country 1979 Million $CDN	Total Canadian Imports from Country 1979 Million $CDN	Export from Canada Composition by Classification 1979 - %: Food Products and Live Animals	Crude Material, Inedible	Fabricated Material, Inedible	End Products, Inedible	Special Trans-actions, Trade	Imports to Canada Composition by Classification 1979 - %: Food Products and Live Animals	Crude Material, Inedible	Fabricated Material, Inedible	End Products, Inedible	Special Trans-actions, Trade	Leading Items of Canadian Exports to Country -- 1979: Product	%	Leading Items of Canadian Imports from Country -- 1979: Product	%
AUSTRALIA	21,690	19,221	568	466	4	8	43	42	1	49	43	4	3	1	Motor vehicle parts Lumber, softwood Newsprint and printing paper	16.0 13.4 13.7	Meat (Beef, lamb) Nickel and other ores Sugar	21.2 40.7 17.4
CHINA	13,720	16,398	597	166	69	3	25	3	-	20	0.1	28	52	1	Wheat Aluminum Wood pulp	69.8 8.3 6.4	Outerwear Broad woven fabric Nuts	25.3 22.2 12.2
FIJI	300	557	2	9.4	18	-	28	41	1	97	-	-	-	2	Canned Fish Paper Special Industrial Machinery (Metal working & Wood working)	14.4 19.5 5.7	Canned Tuna	94.8
HONG KONG	17,586	19,881	141	427	17	7	53	20	-	5	1	5	88	1	Paper Products Non-Ferrous Metal (incl. alloy)	10.8 24.1	Outerwear Games, Toys Telecom Equipment	30.2 9.6 6.3
INDONESIA	18,101	8,395	62.7	41.8	8	20	48	24	-	14	43	26	6	11	Aluminum Textiles and related fibres	11.4 9.0	Rubber & allied gums Vegetable oils & fats	42.8 18.8
JAPAN	118,854	127,605	4,093	2,157	22	45	29	2	-	2	1	22	75	1	Coal Lumber, softwood Rapeseed Copper Wood pulp	14.0 11.5 9.0 8.9 8.4	Automobiles Telecom equipment Photographic goods T.V.s, radios	21.6 10.5 7.2 4.8
KOREA	17,494	23,634	366	463	6	39	37	19	-	3	-	19	75	1	Coal Wood pulp Engines and turbines	15.3 10.6 9.9	Outerwear Televisions, Radio Footwear	24.6 14.1 7.6
MALAYSIA	12,811	8,772	69.7	95	5	21	47	27	-	2	39	42	16	1	Asbestos Telecom equipment Aluminum	18.0 14.0 13.7	Rubber Vegetable oils and fats	40.0 21.0
NEW ZEALAND	5,468	5,290	92.3	133.6	11	17	37	34	-	85	9	2	3	1	Sulphur Industrial Machinery Synth. rubber & plastics	11.4 8.7 5.5	Meat, (beef, lamb) Wool	75.0 6.6
PAPUA/NEW GUINEA	1,066	1,054	3.0	6.4	1	-	-	99	-	95	-	-	-	5	Motor Vehicles & Parts	66.7	Coffee	85.9
PHILIPPINES	5,261	7,621	87.1	77.8	7	13	42	38	-	23	2	38	36	-	Zinc Synth. rubber & plastics Drilling, mining machinery	9.3 8.1 5.7	Vegetable oils & fats Nuts Outerwear	18.0 8.2 7.4
SINGAPORE	16,538	20,494	117.4	164	3	8	70	14	5	2	39	9	50	-	Fertilizers & fertilizer material Petroleum & coal products	22.6 16.6	Rubber T.V.s, radios	36.3 11.8
THAILAND	4,747	6,223	87.3	31.4	3	16	57	23	-	33	3	23	39	2	Aluminum (incl. alloys) Plate, sheet, strip steel	24.6 14.1	Canned fruits Outerwear	16.0 16.1
TOTAL	253,636	265,145	6,286.5	4,238.4														

Sources: 1) Direction of Trade Yearbook, 1980, I.M.F.
2) Exports by countries, January-December 1979 - Statistics Canada, Catalogue 65-003 Quarterly
3) Imports by countries, January-December 1979 - Statistics Canada, Catalogue 65-006 Quarterly
4) Imports, Exports, Merchandise Trade 1977-79 - Statistics Canada, Catalogue 65-202, 65-203

ANNEX 3

FOREIGN REPRESENTATIVES OF THE PACIFIC RIM COUNTRIES ACCREDITED TO CANADA

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ANNEX 4

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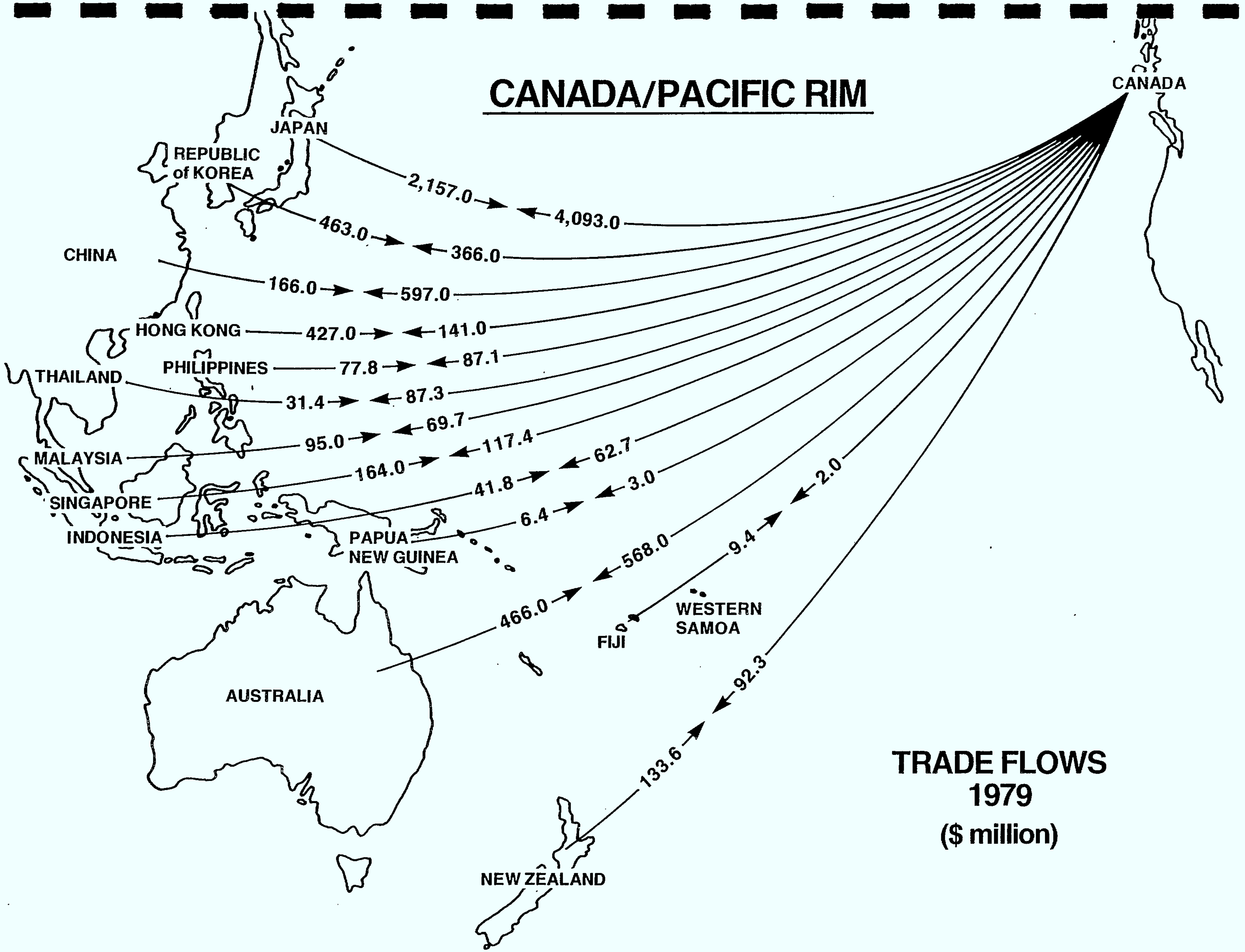
CHINA; PEOPLE'S REPUBLIC OF		Mr. M. Gauvin Ambassador 10 San Li Tun Road Chao Yang District, Peking Tel. 521475
FIJI		Mrs. I. Johnson High Commissioner c/o The Canadian High Commission to New Zealand P.O. Box 12-049 Wellington North, New Zealand

HONG KONG	Mr. W. Warden Commissioner Office of the Commission for Canada 14/15 Floors, Asian House 1 Hennessey Rd Tel. 5282222 Telex: HX 73391
INDONESIA	Mr. W.H. Montgomery Ambassador 5th Floor, WISMA Metropolitan JL Jendral Sudirman Jakarta Tel. 5840309 (day) 584031 (night) Telex: 44345
JAPAN	Mr. B.I. Rankin Ambassador 3-38 Akasaka 7-Chome Minato-ku, Tokyo 107 Tel. 408-2101 Telex: 22218
KOREA	Ambassador (to be designated) 10th Floor, Kolan Building, 45 Mugyo-Dong Jung Ku, Seoul Tel. 776-4062 Postal Address: P.O. Box 6299, Seoul 100 Telex: 27425
MALAYSIA	Mr. J.R. Francis High Commissioner American International Assurance Building Ampang Road Kuala Lumpur Postal Address: P.O. Box 990 Tel. 897222 Telex: 30269

NEW ZEALAND	Mrs. I. Johnson High Commissioner c/o The Canadian High Commission to New Zealand P.O. Box 12-049 Wellington North, New Zealand Tel. 739-577 Telex: 3577
PAPUA NEW GUINEA	Mr. Ray Anderson High Commissioner (designate) c/o The Canadian High Commission to Australia Commonwealth Avenue Canberra, ACT, 2600, Australia
PHILIPPINES	Mr. E.L. Bobinski Ambassador 4th Floor, PAL Building, Ayala Avenue Makati, Rizal, Manila Postal Address: P.O. Box 971, Commercial Centre Makati Rizal Tel. 87-6536 Telex: 63676
SINGAPORE	Mr. L.M. Berry High Commissioner 7th/8th/9th Floors, Faber House 230 Orchard Road Singapore 0923 Postal Address: Maxwell Road P.O. Box 845 Singapore 9016 Tel. 737-1322 Telex: 21277

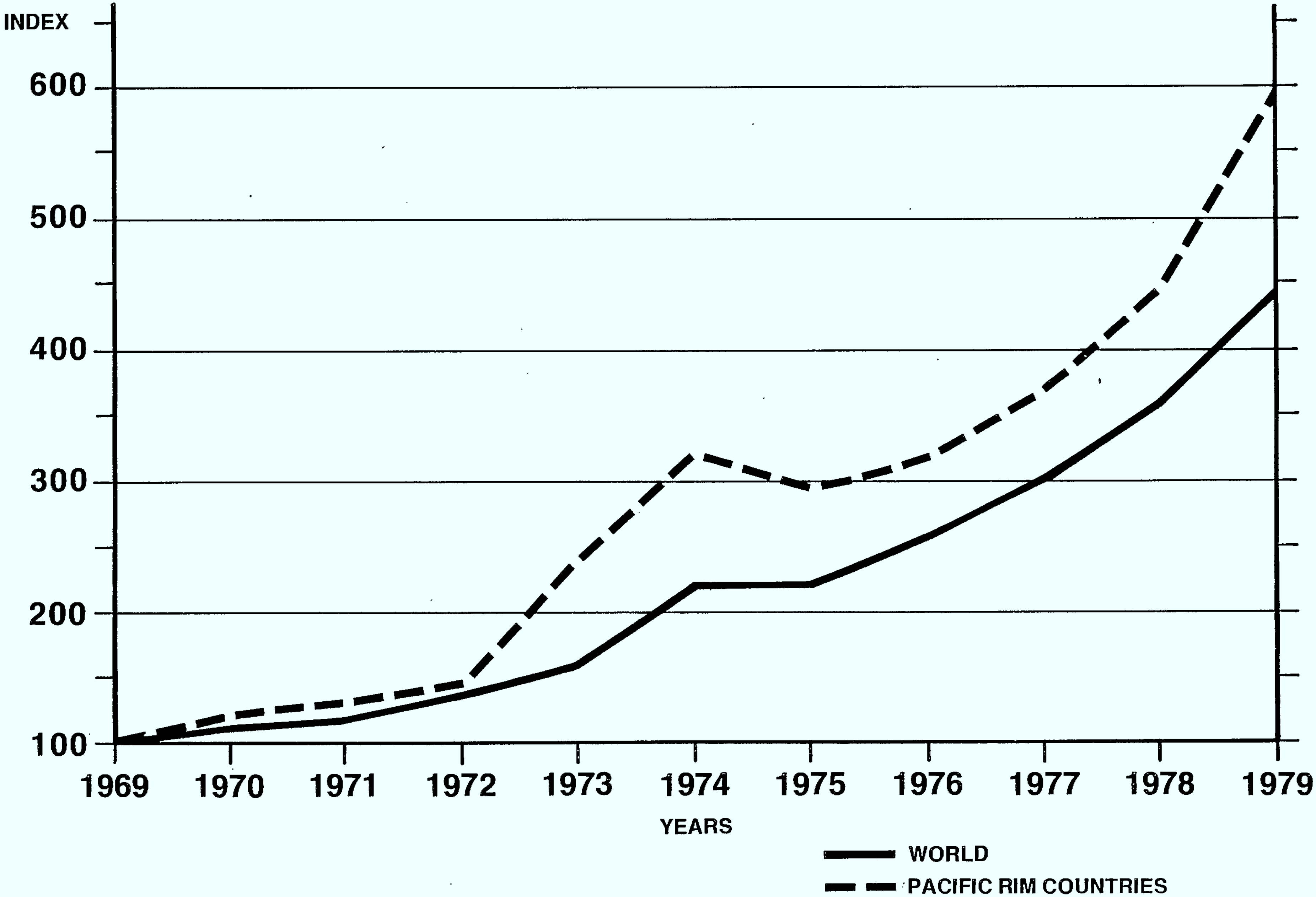
THAILAND	Mr. F. Bild Ambassador Boomitz Building 11th Floor, 138 Silom Road Bangkok 5 Tel. 234-1561 8 Telex: 2671
WESTERN SAMOA	Mrs. I. Johnson High Commissioner c/o The Canadian High Commission to New Zealand P.O. Box 12-049 Wellington North New Zealand

CANADA/PACIFIC RIM



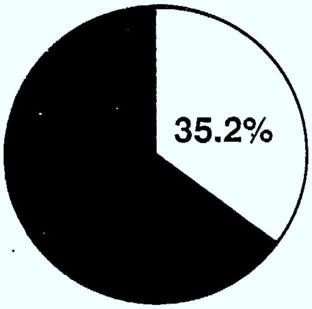
TRADE FLOWS
1979
($ million)

COMPARATIVE GROWTH RATES OF CANADIAN EXPORTS 1969-1979



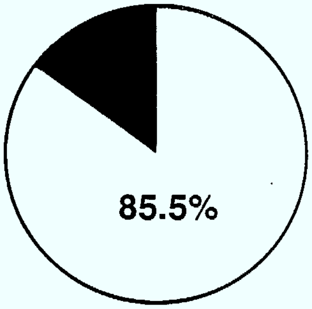
SELECTED EXPORT ITEMS 1979

MAJOR GRAINS AND OILSEEDS



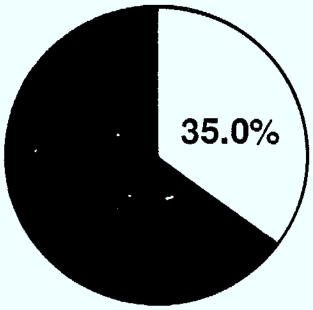
WORLD TOTAL $3,535 million
PACIFIC RIM COUNTRIES $1,246 million

COAL



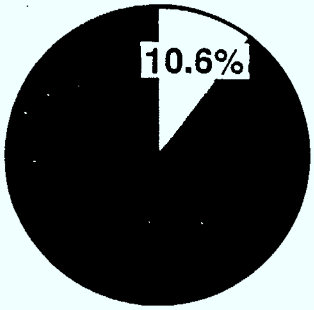
WORLD TOTAL $732 million
PACIFIC RIM COUNTRIES $625 million

MAJOR METALS AND MINERALS



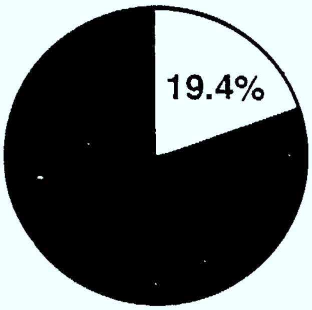
WORLD TOTAL $2,353 million
PACIFIC RIM COUNTRIES $823 million

MAJOR FOREST PRODUCTS



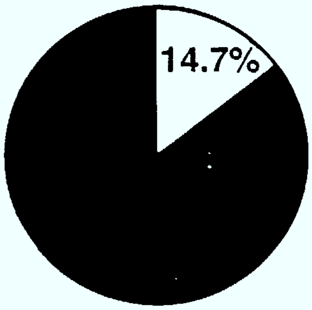
WORLD TOTAL $10,278 million
PACIFIC RIM COUNTRIES $1,086 million

PETROCHEMICALS, POTASH AND SULPHUR



WORLD TOTAL $1,294 million
PACIFIC RIM COUNTRIES $251 million

MANUFACTURED END-PRODUCTS*

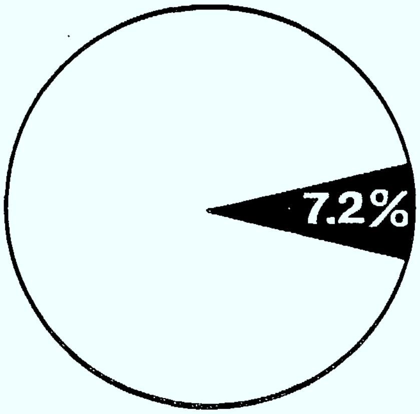


WORLD TOTAL $3,954 million*
PACIFIC RIM COUNTRIES $582 million

*excludes exports to the UNITED STATES

GROWTH OF CANADIAN EXPORTS TO PACIFIC RIM COUNTRIES ($ MILLIONS)

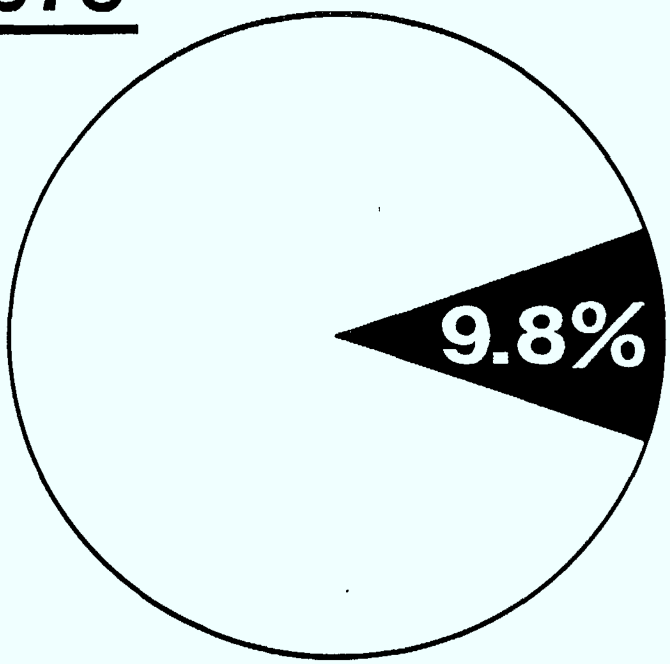
1969



JAPAN	624.8
AUSTRALIA	163.2
CHINA	122.9
NEW ZEALAND	37.0
PHILIPPINES	32.3
HONG KONG	17.7
MALAYSIA	15.5
REP. of KOREA	15.3
THAILAND	8.6
SINGAPORE	4.8
OTHER OCEANIA	3.4
INDONESIA	2.9
	1,048.4

GLOBAL TOTAL 14,503.6

1979



JAPAN	4,093.0
CHINA	597.0
AUSTRALIA	568.0
REP. of KOREA	366.0
HONG KONG	141.0
SINGAPORE	117.4
NEW ZEALAND	92.3
THAILAND	87.3
PHILIPPINES	87.1
MALAYSIA	69.7
INDONESIA	62.7
OTHER OCEANIA	5.0
	6,286.5

GLOBAL TOTAL 64,193.6

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