

ENHANCING CANADA-ASIA SUPPLY CHAINS

PLENARY SESSION ONE: OPENING REMARKS

THANK YOU, SENIOR VICE PRESIDENT AND SENIOR ECONOMIST GLEN HODGSON, FOR INVITING ME TO OPEN THIS CONFERENCE.

I HAVE BEEN ASKED TO SPEAK ABOUT THE OPPORTUNITIES AND OBSTACLES THAT CANADA WILL FACE AS IT DEVELOPS ITS ROLE IN ASIA. I HAVE AGREED TO DO SO ON CONDITION THAT EVERYONE REALIZES THAT THE VIEWS I WILL EXPRESS ARE ENTIRELY, COMPLETELY AND UNALTERABLY MY OWN, AND DO NOT REFLECT THE VIEWS OF OTHERS, INCLUDING MY EMPLOYER.

MY REMARKS WILL PRIMARILY ADDRESS THE SUPER MACRO, THE DRIVERS THAT WILL SHAPE THE WEST SIDE OF THE PACIFIC IN THE COMING YEARS. THEN, LIKE WITH GOOGLE EARTH, I WILL ZOOM DOWN TO THE CANADIAN DIMENSION, AND SOME ISSUES THAT ARE SPECIFICALLY RELEVANT TO THE THEME OF SUPPLY CHAINS.

FIRSTLY, WHERE ARE WE TODAY?

TECTONIC PLATES

GEOPOLITICAL TECTONIC PLATES ARE ON THE MOVE, AT NOTICEABLE SPEEDS IN ASIA. IN LESS THAN 30 YEARS, CHINA HAS EMERGED FROM ISOLATION TO A POSITION OF GLOBAL INFLUENCE; JAPAN IS GROPING FOR WAYS TO ASSUME INCREASING INTERNATIONAL RESPONSIBILITIES, WHILE SIGNIFICANTLY EXPANDING ITS SECURITY LINKS WITH THE UNITED STATES; KOREA HAS BECOME THE WORLD'S 12TH LARGEST ECONOMY, AND CAN MAKE POLICY CHOICES THAT DETERMINE THE INTERNATIONAL LANDSCAPE IN NORTH EAST ASIA AND THE BROADER PACIFIC; ASEAN IS THE INDISPENSABLE PARTNER IN EACH OF THE COMPETING VISIONS OF POLITICAL, ECONOMIC OR SECURITY ARCHITECTURE FOR THE REGION.

ASIAN INTEGRATION

INTERNAL ASIAN TRADE NOW REACHES OVER 60% OF THE REGION'S GLOBAL TRADE, THANKS TO INTRA-REGIONAL INVESTMENT, SUPPLY CHAIN STRUCTURES, AND RISING CONSUMER INCOME AND SPENDING. USA MARKET DEPENDENCE IS DECLINING – IN 2000, IT WAS EQUAL TO ABOUT 60% OF INTRA-ASIAN TRADE, LAST YEAR, IT WAS JUST

OVER 40%. TRADE DEPENDENCE ON EUROPE, ON THE OTHER HAND, IS INCREASING.

ALSO OF GROWING IMPORTANCE ARE THE LINKAGES BUILT THROUGH SOMETHING LIKE FORTY-FIVE FREE TRADE AGREEMENTS AND ECONOMIC COOPERATION AGREEMENTS IN EFFECT OR IN NEGOTIATION THROUGHOUT THE REGION, AND ANOTHER THIRTY-FIVE LINKING THE REGION WITH OTHER PARTS OF THE WORLD.

RESOURCE COMPETITION

RESOURCE COMPETITION IS REAL. UNTIL THE TURN OF THE CENTURY, INCREASED COMPETITION FOR INDUSTRIAL METALS AND ENERGY HAD BEEN LARGELY PLAYED OUT IN THE OPEN MARKET BUT THE PLACE OCCUPIED BY STATE - CONTROLLED RESOURCE COMPANIES HAS INCREASED SIGNIFICANTLY, ESPECIALLY IN CHINA AND RUSSIA. JAPAN IS DAILY QUESTIONING IF IT TOO SHOULD NOT RE-ESTABLISH THE KIND OF STATE LEAD INTERVENTIONISM IN RESOURCE ACQUISITION THAT WAS A PROMINENT PART OF POST-WAR REHABILITATION AND WAS ONLY CLOSED DOWN IN THE 1980s.

AS WE KNOW, STATE OWNED ENTERPRISES CAN BE AND FREQUENTLY ARE SUBJECT TO THE POLICIES OF THEIR HOME

GOVERNMENTS. NOT BEING DRIVEN BY THE LOGIC OF THE MARKET, THIS NEW REALITY HAS ADDED A HIGHER DEGREE OF UNCERTAINTY AND RISK WITH REGARD TO ACCESS TO RESOURCES, AS WELL AS POLITICAL CONSIDERATIONS TO THEIR DISPOSITION.

POLITICAL AND ECONOMIC WILD CARDS

I WOULD ADD TO THIS MACRO LIST A SET OF WILD CARDS, SUCH AS THE UNPREDICTABLE AND MOSTLY IMPENETRABLE COMPETITIVE INTERESTS AMONG MILITARY AND CIVILIAN DPRK ELITES OVER SHORT TERM NUCLEAR STRATEGY AND THE LONGER TERM PROSPECTS OF THEIR REGIME; THE CONSTANTLY SHIFTING CALCULATIONS OF CHINESE AND TAIWANESE LEADERS OVER THE FUTURE OF CROSS STRAITS RELATIONSHIPS; AND THOROUGHLY UNEXPECTED DEVELOPMENTS SUCH AS THE P3 INCIDENT OVER THE SOUTH CHINA SEA IN 2001.

ECONOMICALLY, THE BIGGEST SINGLE WILD CARD IN ASIA IS THE PERFORMANCE OF THE UNITED STATES ECONOMY, AND ITS ABILITY TO SUSTAIN CONSUMPTION, AND AVOID THE KIND OF MELT-DOWN SCENARIOS THAT THE MEDIA ENJOYED SPINNING THROUGHOUT THE LAST HALF OF THE SUMMER. WHILE ASIAN INTEGRATION IS PROCEEDING APACE, NEITHER ASIA NOR THE EURO-ZONE PROVIDES A CONSUMING ECONOMY AS LARGE AS DOES THE USA. A RECESSION IN THE US WILL REDUCE DEMAND FOR CHINESE, JAPANESE, KOREAN

AND TAIWANESE MANUFACTURED GOODS, AND INTERMEDIATE GOODS FROM SOUTHEAST ASIA. DEPENDING ON HOW LONG IT WOULD LAST AND ITS DEPTH, IT COULD ALSO ACCENTUATE THE NEED FOR MORE SIGNIFICANT AND COMMERCIALY MEANINGFUL TRADE AGREEMENTS.

SECONDLY, WHAT CAN WE SAY WITH CERTAINTY, TODAY, ABOUT THE FUTURE OF THE REGION? I WOULD SUGGEST: QUITE A LOT.

i. NATIONAL INTERESTS

THE COUNTRIES OF EAST ASIA REGION, FROM NORTH TO SOUTH, WILL BECOME INCREASINGLY WEALTHY CONSUMER SOCIETIES, VERY OPEN TO TECHNOLOGICAL ADVANCEMENT, WHERE NATIONAL INTERESTS ARE DEFINED AS ECONOMIC GROWTH AND DEVELOPMENT, ACCESS TO MARKETS, CAPITAL AND RESOURCES, WITH ATTENTION TO SECURITY AND, INCREASINGLY, A LIVABLE ENVIRONMENT.

ii. SOVEREIGNTY

NATION STATES WILL REMAIN THE LEAD ACTORS, BUT THE TRANSFER OF MODEST AMOUNTS OF SOVEREIGNTY, A PROCESS LAUNCHED BY ASEAN EXACTLY 40 YEARS AGO, WILL CONTINUE AND ACCELERATE, ALTHOUGH NOT REACHING THE LEVEL OF EUROPE.

iii. CENTRIPETAL TENDENCIES

INTEGRATIVE, CENTRIPETAL TENDENCIES, THOSE THAT ENCOURAGE GREATER COLLABORATION AND COMMONALITY, LEADING TO TREATY ARRANGEMENTS UNDERPINNED BY INTERNATIONAL LAW, WILL BE DRIVEN FORWARD BY A NUMBER OF SIGNIFICANT FORCES.

MANY STATES IN THE REGION HAVE RECOGNIZED THAT IT IS ESSENTIAL TO LIBERALIZE AND OPTIMIZE THE EFFICIENCY OF THEIR ECONOMIC ENVIRONMENT AND INTER-STATE RELATIONS, IF THEY ARE TO ENSURE THE CONTINUING RISE OF THEIR STANDARDS OF LIVING. ARRANGEMENTS TO THAT END ARE ALREADY TAKING SHAPE, THROUGH THE 45 OR SO BILATERAL AND PLURILATERAL FREE TRADE AGREEMENTS AND ECONOMIC COOPERATION AGREEMENTS THAT I HAVE ALREADY MENTIONED. THIS PROCESS IS CONTINUING.

INTEGRATION WILL ALSO BE SPURRED BY SHARED NOTIONS OF ASIAN IDENTITY, BY THE RISING COMPETITIVENESS OF ASIAN SOFT-POWER AND POPULAR CULTURE, ESPECIALLY WHEN MEASURED AGAINST THAT OFFERED BY THE WEST, PRIMARILY THE UNITED STATES.

INTEGRATION WILL BE ENCOURAGED BY COMPETITION FOR REGIONAL LEADERSHIP, A CONTEST PRIMARILY AMONG CHINA, JAPAN AND ASEAN.

IT WILL EMERGE FROM THE NEED TO MANAGE AND PROTECT VAST QUANTITIES OF ACCUMULATED FOREIGN EXCHANGE RESERVES, ON THE BASIS OF THE GROWING SENSE THAT THOSE WHO POSSESS THOSE ASSETS MAY BE BEST PLACED TO DETERMINE THEIR USE, RATHER THAN LEAVING THESE DECISIONS TO THE IMF OR DISTANT CAPITAL MARKETS. WE SAW THIS EARLIER THIS YEAR IN THE POST-CHANG MAI DISCUSSIONS AMONG ASIAN FINANCE MINISTERS AND THEIR CENTRAL BANK COUNTERPARTS. THEY ARE SEEKING TO DEVELOP MORE ROBUST RESERVE POOLING ARRANGEMENTS TO STAVE OFF CURRENCY CRISES SUCH AS EXPERIENCED IN 1997.

FINALLY, INTEGRATION WILL BE SPURRED BY REGIONAL INFRASTRUCTURE DEVELOPMENTS, SUCH AS IS SEEN AMONG SINGAPORE, MALAYSIA AND INDONESIA IN THE REGION AROUND SINGAPORE; BETWEEN CHINA, LAOS AND VIETNAM BOTH IN THE UPPER REACHES AND DOWNSTREAM REGIONS OF THE MEKONG; BY CHINA AND MYANMAR; AND EVENTUALLY BETWEEN TAIWAN AND FUJIAN PROVINCES, IN THE KAESONG AREA BETWEEN NORTH AND SOUTH KOREA, AND THE TUMEN RIVER AREA INVOLVING NORTHEAST CHINA, RUSSIA AND NORTH KOREA.

iv. CENTRIFUGAL TENDENCIES

IT IS EQUALLY CERTAIN THAT REGIONALLY DISAGGREGATING, CENTRIFUGAL FORCES WILL CONTINUE TO DETERMINE THE

SHAPE OF THE REGION, DRIVEN PRIMARILY BY VARYING DEFINITIONS OF LONG-TERM NATIONAL INTERESTS, AS WELL AS FUNDAMENTAL DIFFERENCES IN VALUES AND INSECURITIES.

POLITICALLY, WE CONTINUE TO SEE CLEAR EVIDENCE OF THE STRATEGIC COMPETITION BETWEEN CHINA AND JAPAN. CHINA'S VISION OF AN EAST ASIA COMMUNITY CONSISTING OF THE ASEAN PLUS 3, HAS BEEN STYMIED BY JAPAN'S DESIRE TO INCLUDE INDIA, AUSTRALIA AND NEW ZEALAND, IN AN EFFORT TO DILUTE CHINA'S GROWING INFLUENCE AND TO INCLUDE MORE DEMOCRATIC STATES AMONG THE EAS COMMUNITY. ON THE OTHER HAND, JAPAN'S EFFORT TO RAISE ITS REGIONAL, AS WELL AS GLOBAL PROFILE, BY OBTAINING A PERMANENT SEAT ON THE UN SECURITY COUNCIL HAS BEEN, SO FAR, EFFECTIVELY COUNTERED BY CHINA, WHO ENSURED THAT VOTER SUPPORT FOR JAPAN'S BID IN THE ASIAN REGION (AND BEYOND, FOR THAT MATTER) WOULD BE LIMITED.

ANOTHER ABIDING FACTOR IN THE YEARS TO COME IS THE FACT THAT ASEAN POSSESSES THE GREATEST, PERHAPS THE ONLY CONVENING POWER IN THE REGION. UNABLE AND UNWILLING TO COMPETE HEAD ON WITH EITHER CHINA OR JAPAN, ASEAN NEVERTHELESS SETS MANY OF THE GROUND RULES FOR REGIONAL COOPERATION, FROM APPROACHES TO MEMBERSHIP, TO THE CONSENSUAL, NON-BINDING

“ASEAN WAY” OF DECISION-MAKING. ASEAN RULES DEFINE NOT ONLY THE OPERATING PRINCIPLES OF THE ASEAN PARTNERSHIPS, BUT ALSO ASIA PACIFIC ECONOMIC COOPERATION, THE ASEAN REGIONAL FORUM AND THE EAST ASIA SUMMIT. ASEAN’S VERY CAUTIOUS OPERATING RULES AND CONSERVATIVE APPROACHES WILL CONTINUE TO DEEPLY INFLUENCE INSTITUTIONAL EVOLUTION IN THE REGION.

THE LIMITS OF INTEGRATION WILL ALSO BE SET BY PROTECTIONISM, WHETHER BY THE JAPANESE AND KOREAN AGRICULTURAL SECTORS, OR BY SPECIFIC ASEAN INDUSTRIAL SECTORS (SUCH AS AUTOS), OR BY THE MIXED RESPONSE THAT WILL ARISE IF AND WHEN THE UNITED STATES PRESSES FORWARD WITH A SERIOUS PROPOSAL FOR NEGOTIATING A WTO CONSISTENT FREE TRADE AREA OF THE PACIFIC.

v. CHINESE GROWTH

ABOVE AND BEYOND THE CERTAINTY OF THESE CENTRIPETAL AND CENTRIFUGAL FORCES, LET ME GO OUT ON A LIMB, AND OFFER ANOTHER CERTAINTY: IN MY VIEW, WE CAN ALSO BE CONFIDENT THAT CHINA’S GROWTH ENGINE WILL CONTINUE TO DRIVE THE REGION FORWARD, CERTAINLY FOR THE NEXT HALF DECADE, IF NOT LONGER. I APPRECIATE THAT ASSERTING THIS IS REACHING A BIT, AND I AM SURE THAT VERY DIVERGENT VIEWS WILL BE EXPRESSED

R TWO. BUT ALLOW ME TO POSIT THAT CHINA'S RUN IS NOT OVER; THAT IN AN ERA OF GLOBAL GROWTH IN THE NEIGHBORHOOD OF 3% TO 5% WITH ATTENDANT INTERNATIONAL DEMAND FOR CONSUMER AND INVESTMENT GOODS IN BOTH DEVELOPED AND DEVELOPING COUNTRIES; WITH, IN CHINA, SIGNIFICANT AMOUNTS OF UNTAPPED OR UNDERUTILIZED AND AVAILABLE FACTORS OF PRODUCTION – IN LABOR, IN CAPITAL, IN UNTAPPED DOMESTIC DEMAND, IN INFRASTRUCTURE DEMAND – ALL OF THIS WILL RESULT, IN THE LARGELY UNREGULATED AND IN MANY RESPECTS UNTAMABLE “WILD EAST” THAT IS THE CHINESE ECONOMY, IN SUSTAINABLE CHINESE GROWTH RATES OF 7% TO 10%. THIS GROWTH, NOW AND FOR THE FORESEEABLE FUTURE, WILL BE OF GREAT BENEFIT OF THE REGION AND THE BROADER GLOBAL ECONOMY.

vi. TECHNOLOGY

EVEN MORE CERTAIN IS THE FUTURE TECHNOLOGICAL LEADERSHIP, OF GLOBAL SIGNIFICANCE, OF JAPAN, KOREA, TAIWAN AND, INCREASINGLY, CHINA, IN INFORMATION TECHNOLOGIES, ENVIRONMENTAL PROTECTION TECHNOLOGIES, BIOTECHNOLOGIES, IN TECHNOLOGIES TO ACHIEVE GREATER ENERGY EFFICIENCIES, AND SO FORTH.

ALL OF THESE FACTORS CAN BE COUNTED UPON, IN MY VIEW, TO SHAPE THE EAST ASIA OF THE FUTURE, AND THUS, BY THE NATURE OF GLOBALIZATION, THE WORLD.

FINALLY, THIS SCENARIO MUST NOW BE TEMPERED BY ADDING THREE SIGNIFICANT FACTORS OF UNCERTAINTY.

i. SECURITY ARCHITECTURE

SECURITY IN EAST ASIA IS CURRENTLY UNDERWRITTEN BY THREE ARRANGEMENTS.

FIRST AND MOST OBVIOUSLY, THERE IS THE SET OF WELL ESTABLISHED HUB AND SPOKE SECURITY ARRANGEMENTS BASED ON US MILITARY POWER AND CONFIRMED BY TREATIES. THE RELIABILITY OF THESE ARRANGEMENTS, PARTICULARLY IN CASES OF OVERT MILITARY AGGRESSION, IS BEYOND DOUBT.

AN EMBRYONIC AND INFORMAL SECURITY COMMUNITY IS SLOWLY DEVELOPING UNDER THE AUSPICES OF THE SHANGHAI COOPERATION COUNCIL, BUTTRESSED BY AN EVOLVING CHINESE AND RUSSIAN STRATEGIC PARTNERSHIP, AS WELL AS VARIOUS CHINESE BILATERAL ARRANGEMENTS AMONG THE "STANS" ON ITS FAR WESTERN FLANK.

THERE IS A THIRD SECURITY COMMUNITY OF SORTS WHICH EMBRACES THE ENTIRE REGION, UNDERPINNED BY DEEPLY SHARED ECONOMIC DEVELOPMENT INTERESTS, AS A POSITIVE REINFORCEMENT, AND BY THE VERY HIGH COST OF

DISRUPTING THESE ECONOMIC LINKAGES IN FAVOR OF OTHER, SO FAR LESSER OBJECTIVES, SUCH AS, FOR EXAMPLE, RESOLVING TERRITORIAL DISPUTES BY UNILATERAL MILITARY ACTIONS.

THE BASIC CONUNDRUM IS HOW THESE THREE VARIEGATED AND OVERLAPPING SECURITY FRAMEWORKS WILL WORK OR COMPETE WITH EACH OTHER IN THE COMING DECADE. THE MEMBERS OF THE USA-LEAD SECURITY COMMUNITY, ON THE ONE HAND, AND THE SCO FAMILY OF AUTHORITARIAN REGIMES, ON THE OTHER, HAVE VERY DIFFERENT NOTIONS OF HOW TO MAINTAIN THEIR SECURITY, FUNDAMENTALLY DIFFERENT VIEW ON HUMAN RIGHTS, RULE OF LAW, DEMOCRACY AND THE ROLE OF GOVERNMENT IN SOCIETY. THIS FUNDAMENTAL CLEAVAGE NOT ONLY PREVENTS THE EMERGENCE OF A TREATY BASED EAST ASIAN SECURITY COMMUNITY; IT CREATES UNCERTAINTIES OVER THE EVOLUTION OF THE LONG TERM.

ii. CHINA

WHILE I AM POSITIVE ABOUT CHINESE ECONOMIC GROWTH, IT IS THE EVOLUTION OF POLITICS AND GOVERNANCE IN CHINA WHICH WILL MORE CLEARLY EFFECT THE SECURITY OF THE REGION. THE ISSUE IS NOT WHETHER THE COMMUNIST PARTY WILL LOSE POWER: IT WON'T, AT LEAST NOT SOON. ACCORDINGLY, THE PRINCIPAL LOCUS OF CHANGE REMAINS WITHIN THE PARTY, AS IT ADDRESSES – OR DO NOT ADDRESS

- INCREASINGLY DIVISIVE REGIONAL AND URBAN INCOME GAPS, THE CORROSIVE EFFECT OF MASSIVE CORRUPTION AT ALL LEVELS OF GOVERNMENT AND POLITICS, AN UNTRUSTWORTHY LEGAL SYSTEM, THE DETERIORATION OF THE ENVIRONMENT, THE LACK OF PUBLIC RECOURSE, THE CONSTRAINTS ON CIVIL SOCIETY.

HOWEVER, SELF-SERVING CADRES AND BUREAUCRATS ARE NOT THE ONLY PLAYERS DRIVING THE INTERNAL DEBATE IN CHINA. ALSO INVOLVED AND CONTROLLING SOME OF THE LEVERS OF POWER IS AN INCREASINGLY TECHNOCRATIC CLASS OF OFFICIALS WHOSE DECISIONS ARE BASED LESS ON SELF-INTEREST AND MORE ON A PROFESSIONAL AND RATIONAL UNDERSTANDING OF CHINA'S PROBLEMS AND THE MEANS TO SOLVE THEM. THE RISE OF TECHNOCRATIC, MERITOCRATIC MANAGERS IN BOTH THE PUBLIC AND PRIVATE SECTORS IS CLEAR TO ANYONE WHO DEALS WITH CHINA, BUT IS NOT SUFFICIENTLY STUDIED OR ITS IMPACT WELL UNDERSTOOD. BUT IT IS THERE, AND IT TOO IS SHAPING THE FUTURE OF CHINA.

THE SUCCESS OF THESE PROGRESSIVE FORCES IN ADDRESSING THE NEED TO INTRODUCE GREATER TRANSPARENCY, ACCOUNTABILITY AND PUBLIC ENGAGEMENT IN DECISION MAKING WILL DEEPLY INFLUENCE LONG TERM DOMESTIC STABILITY. THEIR SUCCESS WILL ALSO REASSURE CHINA'S NEIGHBORS OF THE COUNTRY'S

INTENTIONS AND RELIABILITY AS A REGIONAL PARTNER. SUCH DEVELOPMENTS WILL ALSO PROFOUNDLY INFLUENCE THE INTERNAL POLITICS OF TAIWAN. I AM CONFIDENT THAT CHINA WILL EVOLVE TOWARDS A MORE BENIGN AND REASSURING FORM OF GOVERNANCE, BUT I DO NOT PRETEND TO KNOW WHEN THIS WILL EMERGE, NOR WHAT WILL TRANSPIRE IN THE INTERIM.

iii. DPRK

THE DPRK PROVIDES THE GREATEST SOURCE OF UNCERTAINTY FOR THE FUTURE OF THE REGION, BECAUSE IT IS POTENTIALLY DESTABILIZING IN THREE DIFFERENT WAYS.

FIRSTLY, ITS EFFORTS TO USE THE NUCLEAR OPTION AS A BARGAINING CHIP HAS PROFOUNDLY ALTERED THE REGIONAL DYNAMIC: IT HAS CONTRIBUTED TO MOVING PUBLIC OPINION TO THE RIGHT IN JAPAN; CREATED SERIOUS IMPEDIMENTS TO THE SMOOTH MANAGEMENT OF ROK/USA RELATIONS; DISTORTED CHINA'S FOREIGN POLICY PRIORITIES, AND RAISED THE SERIOUS RISK OF NUCLEAR PROLIFERATION, EVEN LEAVING ASIDE THE NUCLEARIZATION OF CONFLICT ON THE PENINSULA. THE OCTOBER 3 ARRANGEMENTS, WHICH EMERGED FROM THE MOST RECENT SIX PARTY TALKS, MAY DIMINISH SOME OF THE UNCERTAINTIES ABOUT DPRK AND THE NUCLEAR OPTION,

BUT A GREAT DEAL MORE MUST BE DONE TO PUT THAT RISK TO BED.

BECAUSE THE DPRK IS ALSO DESTABILIZING FOR REASONS THAT HAVE LITTLE TO DO WITH THE NUCLEAR ISSUE, AND EVERYTHING TO DO WITH INTERNAL DPRK ELITE POLITICS.

ONE EFFECT OF ECONOMIC DEVELOPMENT IN NORTH EAST CHINA IS THE LEAKAGE, INTO THE DPRK, OF LARGE AMOUNTS OF CHINESE CONSUMER GOODS, CHINESE CELLPHONES, CHINESE (AND ROK) DVDs AND VIDEOS, AND THE MACHINES TO USE THEM.

HOWEVER DANGEROUS THIS COMMERCE IS FOR THOSE ENGAGED IN IT, IT IS NEVERTHELESS TAKING PLACE TO A VERY LARGE EXTENT. THIS HAS TWO NOTABLE CONSEQUENCES: THE PEOPLE OF THE DPRK ARE MUCH BETTER INFORMED OF DEVELOPMENTS OUTSIDE THEIR COUNTRY THAN WE MIGHT ASSUME. SECONDLY, THERE IS AN EMERGING KOREAN COMMERCIAL ELITE ON BOTH SIDES OF THE CHINA/DPRK BORDER WHO HAVE A STRONG INTEREST IN ENSURING THAT THEIR BUSINESSES ARE UNIMPEDED AND AN EQUALLY FUNDAMENTAL INTEREST IN KEEPING WHAT THEY HAVE ACCUMULATED. THERE IS EVIDENCE THAT THESE DEVELOPMENTS ARE CREATING INCREASED TENSIONS AMONG THE ELITES THEMSELVES, WITH ATTENDANT INCREASED COMPETITION FOR BENEFITS. ACCORDINGLY, THE

SECOND SOURCE OF POTENTIAL INSTABILITY IS NOT THE RISK AND CONSEQUENCES OF REGIME CHANGE BUT RATHER THE UNKNOWN DYNAMICS AND EFFECTS OF LEADERSHIP CHANGE, POSSIBLY OF A VIOLENT NATURE. HOW WILL WE KNOW WHAT IS HAPPENING IN THE DPRK IN SUCH AN EVENTUALITY? HOW WILL THE MILITARY BE USED, AND WHAT WILL BE OUR READING THE SITUATION IN SUCH AN OPAQUE ENVIRONMENT? HOW WILL BE DISTINGUISH INTERNAL UPHEAVAL FROM PREPARATIONS FOR AGGRESSION?

THE THIRD DPRK THREAT IS REGIME COLLAPSE ITSELF. MY OWN VIEW, SUBJECT TO CORRECTION THE NEXT TIME WE SWITCH ON THE BBC OR CNN, IS THAT THIS IS THE LEAST LIKELY DEVELOPMENT IN THE SHORT TO MEDIUM TERM. THE ELITES, INCLUDING THE MILITARY, ARE UNITED IN THEIR INTEREST IN KEEPING WHAT THEY HAVE. THE CAPACITY OF THE DPRK PUBLIC TO OPPOSE THE REGIME IS EXTREMELY LIMITED. THE STRENGTH OF THE REGIME REMAINS ITS MULTIPLICITY OF POLICE, MILITARY AND OTHER INSTRUMENTS OF COERCION, AND ITS ABILITY TO FORCE DEPRIVATION ON ITS OWN POPULATION, WITH LITTLE POLITICAL BLOWBACK.

THIS SITUATION WILL NOT LAST FOREVER, BECAUSE THE SPILLOVER OF CHINA'S ECONOMIC DEVELOPMENT IS UNRELENTING AND THE OPPORTUNITIES THIS PROVIDES ARE IMMENSE. BUT IN THE SHORTER TERM, THE REGIME ITSELF,

HOWEVER HATEFUL, RETAINS STRONG ELEMENTS OF STABILITY.

CANADA

THIS IS THE BIG PICTURE AS I SEE IT.

GIVEN THESE TRENDS, WHAT INDEED ARE THE OBSTACLES AND OPPORTUNITIES FOR CANADA. THE ANSWERS TO THESE QUESTIONS OBVIOUSLY HAVE TO BEGIN WITH ANOTHER QUESTION: WHAT DO CANADIANS WANT FOR THEMSELVES AND TO WHAT EXTENT CAN THEY ACHIEVE THEIR OBJECTIVES THROUGH RELATIONS WITH THE ASIA PACIFIC REGION.

IN OTHER WORDS, YOU HAVE TO BREAK DOWN THE QUESTION INTO A SUBSET OF CANADIAN NATIONAL, INSTITUTIONAL, CORPORATE AND EVEN INDIVIDUAL NEEDS AND OBJECTIVES, AND THEN GO SEARCHING IN THE REGION TO DETERMINE WHAT YOU CAN OBTAIN THERE IN EITHER GREATER AMOUNTS OR AT LESSER COST THAN YOU CAN FROM OTHER SOURCES. THIS RATHER MECHANISTIC APPROACH MAY BE APPROPRIATE FOR THE TIMES WE LIVE IN. IT HAS THE DISADVANTAGE HOWEVER OF RESPONDING ONLY TO SHORT TERM NEEDS, AND OF LIMITING INVESTMENT OF POLITICAL, INTELLECTUAL AND REPRESENTATIONAL RESOURCES FOR THE LONG TERM FUTURE.

ADDRESSING THE FORMER HOWEVER IS WHAT IS MOST RELEVANT FOR TODAY'S MEETING.

WHAT DO WE WANT?

IN A NUTSHELL, AND AT THE RECEIVING END, CANADIANS AND THEIR INSTITUTIONS WANT, FROM ASIA, MORE IMMIGRANTS FOR NATION BUILDING, MORE TOURISTS FOR THE SERVICES INDUSTRY, MORE STUDENTS FOR OUR UNIVERSITIES AND RESEARCH ORGANIZATIONS. WE WANT MORE INTELLECTUAL PROPERTY, MORE EFFICIENT TECHNOLOGIES, HIGH TECH CONSUMER PRODUCTS, LOWER COST HOUSEHOLD GOODS AND SERVICES. WE WANT MORE INVESTMENT IN MANUFACTURING AND RESOURCES. WE WANT OTHERS TO SHARE IN THE JOB OF IMPROVING GLOBAL SECURITY. WE WANT PEOPLE IN ASIA TO THINK OF CANADA AS THE IDEAL PARTNER FOR PURSUING THEIR DREAMS AND AMBITIONS.

AT THE SENDING END, WE WANT HIGHER RETURN MARKETS FOR OUR GOODS AND SERVICES. WE WANT TO BE PART OF GLOBAL SUPPLY CHAINS. WE WANT PARTNERSHIPS WITH THE WORLDS STATE-OF-THE-ART MANUFACTURERS. WE WANT TRANSPORTATION AND SHIPPING COMPANIES TO CHOOSE CANADA AS GATEWAY TO NORTH AMERICA. WE WANT OUR ARTISTS TO FIND ACCEPTANCE FOR THE GOODS THAT DEFINE CANADIANS AS A CIVILIZATION WORTH KNOWING. WE WANT

HOLIDAY DESTINATIONS THAT ARE SAFE AND INTERESTING.
AND SO FORTH.

TO SOME EXTENT, WE OBTAIN A LOT OF THIS THROUGH THE
FUNCTIONING OF FREE AND ACCESSIBLE GLOBAL MARKETS.

IN CANADA HOWEVER, WE ALWAYS BELIEVED THAT THE
MARKET MECHANISM ALONE DOES NOT PROVIDE FOR
EVERYTHING. MARKETS AREN'T PERFECT, AND KNOWLEDGE
OF OPPORTUNITIES IS NOT ALWAYS AS WIDESPREAD AS
NECESSARY. IMMIGRANTS DON'T GET THEIR VISAS THROUGH
MARKETS.

SO CANADA CAN AND DOES IMPROVE KNOWLEDGE AND
TRANSPARENCY THROUGH THE PROMOTIONAL ACTIVITIES OF
INSTITUTIONS AND GOVERNMENTS. THE GOVERNMENT OF
CANADA ENGAGES 150 PEOPLE IN TOKYO ALONE – ALMOST
500 IN GREATER CHINA – THAT WORK TO FACILITATE AND
PROMOTE THE MOVEMENTS OF PEOPLE AND GOODS AND
SERVICES AND IDEAS.

IN THE SIMPLEST, MECHANISTIC TERMS, CANADIANS AND
THEIR GOVERNMENTS CAN INCREASE OPPORTUNITIES BY
INCREASING THE RESOURCES DEVOTED TO THEIR PURSUIT.
IT'S A MATTER OF CALCULATING R.O.I.

BUT THIS DOESN'T ADDRESS THE LONGER TERM. THE LONGER TERM MEANS THE TERM DURING WHICH MARKET AND OTHER CONDITIONS CHANGE IN FUNDAMENTAL WAYS. AMONG OTHER THINGS, WHAT GLOBALIZATION HAS WROUGHT IS A TREMENDOUS SHORTENING OF THE LONGER TERM. IN BUSINESS, IT IS OFTEN MEASURED IN MONTHS, IF NOT WEEKS. I RECENTLY SPOKE HERE IN VANCOUVER TO THE CANADIAN MARITIME CONFERENCE, AND IN THE WORLD OF SHIPPING, WITH ITS SPOT MARKETS, THE LONG TERM BARELY LASTS 24 HOURS.

SO WHAT THIS MEANS IN A MACRO SENSE – AND HERE I AM REPEATING WHAT I HAVE BEEN SAYING FOR YEARS TO AUDIENCES SUCH AS THIS – THERE IS NO SUBSTITUTE TO DEVELOPING A FUNDAMENTAL STRATEGY THAT COMBINES A CLEAR ARTICULATION OF A BUSINESS' OR AN INSTITUTION'S OR EVEN AN INDIVIDUALS OBJECTIVES AND THE RESOURCES WHICH WILL BE DEVOTED TO ATTAINING THEM, BASED ON REAL KNOWLEDGE OF THE CIRCUMSTANCES WITHIN WHICH BUSINESSES AND INSTITUTIONS WILL PURSUE THESE OBJECTIVES.

THANK YOU