



The Canada We Want in 2020

Towards a strategic policy roadmap for the federal government

NOVEMBER 2011

**RIISING TO MEET
THE ASIA CHALLENGE**

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ABOUT CANADA 2020

Canada 2020 is a non-partisan, progressive centre working to create an environment of social and economic prosperity for Canada and all Canadians.

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PREFACE

MAKING STRATEGIC CHOICES

GOVERNING IS ABOUT making choices. Sometimes the choices governments make are strategic, the product of hard thinking to address major hurdles which coalesce at a particular point in time. It is our belief that Canada is at such a point in time today and it is for this reason that we have produced this collection of papers to kick-start a discussion about the role of the federal government in Canada.

A serious public policy strategy for the country means doing less of some things, while focusing decisively and aggressively on a few important things. This requires in-depth analysis of the really big challenges and opportunities facing the country. It requires governments to be straight with Canadians about the risks and rewards that lie ahead, so that citizens will buy into a clear direction set by government.

The orientation of this volume – indeed the basic orientation of *Canada 2020: Canada's Progressive Centre* – is that the federal government has a vitally important role to play in developing and implementing strategic policies, focusing governments and other institutions in society on the big

challenges the country faces, and mobilizing consensus for action. In other words, we believe that the federal government can be a force for significant and positive change.

This does not mean big government. It means intelligent, innovative, analytical and strategic government. It could conceivably result in smaller government, focused on a few big and important areas of policy that really matter to the country's future.

FIVE CHALLENGES FOR 2020

Today, Canada faces challenges and opportunities that are quite unprecedented in our recent history, although they may seem rather opaque to most Canadians. Our ability to overcome these challenges – and seize the opportunities – will determine the future trajectory of Canada's economy and society over the next generation. Our standard of living and quality of life could well hang in the balance. This is why we need federal leadership.

Canada 2020 contends that there are five fundamental, inter-related challenges confronting the country which require strategic political leadership and policy action from the federal government.

1 Increasing innovation and productivity

Productivity growth and innovation are the sine qua non for economic prosperity. Canada's lack of productivity growth has been a worrying feature of the economy for decades. Since 1984, relative productivity in Canada's business sector has fallen from more than 90% of the U.S. level to 76% in 2007. There are no signs of things improving: quite the opposite in fact.

Since the 1990s, the federal government has been taking steps to try to reverse this trend, primarily by investing in university-based research and development and by cutting personal income and corporate taxes, the standard policy remedies for dealing with flagging productivity performance. Yet Canada's productivity growth has actually become worse over the past decade.

It is therefore time for a much more aggressive, focused and creative federal policy response to Canada's productivity growth and innovation challenge. Without this, we risk falling further behind and losing the revenues that enable us to sustain our standard of living.

2 Rising to meet the Asia challenge

The global centre of economic power is inexorably shifting from the West to the East. This trend has been underway for twenty years, but it is now reaching a crescendo, partly as a result of the fiscal and economic problems plaguing Europe and the United States. There is no better evidence of this shift in economic and financial power than the recent efforts by the European Union to persuade China to help prop up the teetering European financial system.

Canada has been on a slow boat to China – indeed to Asia, more generally – for many years, notwithstanding the fact that we have some significant advantages over other countries in this region of the world. Over the past fifteen years,

successive federal governments have made incremental attempts to broaden and deepen Canada's trade, investment and economic relationships with Asian economies. Despite such efforts, Canada is not really on the map in China and India today, in stark contrast to many of our major competitors.

It is time for the federal government to take a much bolder, more creative and aggressive approach to help deepen Canadian ties with Asia and enable Canadian businesses to take advantage of unprecedented market opportunities in the region. We must leverage our unique strengths and advantages and become an indispensable part of the new Asian century.

3 Squaring the carbon circle

Canada has among the highest *per capita* levels of greenhouse gas (GHG) emissions in the world (although our total contribution to global GHG emissions is low as a result of the relatively small size of the Canadian economy). High Canadian emissions are due in part to our unique geography and harsh climate, but also to a weak culture of conservation and inadequate policy and regulatory regimes.

Modest measures to reduce emissions have been implemented over the past decade. But these initiatives have been neither significant nor strategic; as a result they have had little to no effect on Canada's overall GHG emissions.

Canada is also fast becoming one of the world's leading fossil fuel producers and exporters. It has even been suggested that Canada is "an energy superpower", or at least can realistically aspire to that goal. With that title are likely to come increased emissions, at least in the absence of meaningful measures to combat these.

As a G8 country, an original signatory to the Kyoto Protocol on climate change, and one of the world's largest per capita

carbon emitters, Canada has a moral responsibility to make progress on limiting GHG emissions (if for no other reason than to set an example for the big emitting countries). We are also at serious risk of missing opportunities in the low-carbon economy of the future and of becoming increasingly marginalized economically if we fail to act. It is therefore time for a serious, strategic effort, led by the federal government, to square Canada's carbon circle and put in place policies that will significantly decrease our GHG emissions.

4 Reducing income disparities and polarization

Income inequality has been a creeping problem in Canada and other advanced economies for many years now. The bottom two quintiles of the income scale have seen their market incomes decline, in real terms, since the early 1980s (though transfers have resulted in some degree of after tax and transfer growth). At the same time, the top 1% of economic families have accumulated an ever-increasing share of Canada's wealth.

Income inequality, a feature of all market economies, is now giving way to income polarization. While this phenomenon is still more acute in the US than in Canada, some recent studies suggest the gap between rich and poor – and between the superrich and the middle class – is now growing faster in Canada than in the US.

Income polarization can have seriously perverse effects on the economy and on society. At an extreme, it can undermine social cohesion, unravelling the fabric of a country. The Occupy Wall Street protests, and their analogue in other countries, including Canada, are one early sign of the social discontent that can arise from income polarization and a growing perception that the economy is not working for most people.

Income polarization has not, up until now, been a big issue on the federal agenda. Various reforms to federal income security programs and the tax-transfer system have been put in place over the past twenty years, but these have not been aimed at dealing with income polarization. It is time for the federal government to analyze and consider the longer term effects of income polarization, and to consider strategic policy reforms to head off a looming problem.

5 Securing our health system for the future

Universal, high-quality healthcare has been a defining feature of Canada and Canadian citizenship for 40 years. It is the public service Canadians value most. Yet the general consensus among experts is that if we stick with the current funding/administrative models and tax structure, Medicare as we know it is not financially sustainable.

Healthcare costs have been rising significantly as a fraction of our national income and as a share of government budgets (especially provincial budgets) for a generation now. The basic causes of healthcare inflation are well-known: expensive new technologies, procedures and drugs that permit us to live longer, coupled with an aging society.

While healthcare delivery is a provincial responsibility, healthcare financing – paying for the system – has been a dual responsibility, shared by federal and provincial governments, since the beginning of Medicare. In 2004, in response to rising costs and pressures on provincial treasuries, the federal government announced a major increase in federal fiscal transfers to the provinces for healthcare. With some \$41 billion in transfers for health over ten years, the 2004 Health Accord was billed “a fix for a generation”. Unfortunately, it has proven to be little more than a stop-gap for a decade.

As we approach the end of the Health Accord in three years' time, innovative, strategic policy approaches on health-care financing are urgently required. We also need the federal government to provide leadership on the organizational and accountability issues that underpin our health system in Canada.

The scope of federal government activity clearly extends well beyond these five issues. But our belief is that informed, strategic decision-making in these areas will go a long way towards securing the Canada We Want in 2020.

Our choice to address all the issues together has two implications. First, we will, as we move on, have an opportunity to examine the links between areas (for example, the effect carbon policy will have on our trading relations or the links between income inequality and productivity). Second, the broad scope of issues will give us a chance to reflect more critically on the role of the state, and the effectiveness of policy in general in addressing the key issues of our time.

KICK-STARTING THE CONVERSATION

This volume contains 15 papers, three in each of the five areas identified above. We have brought together a group of authors, all experts in their respective areas, and asked them to approach the issues from a strategic policy standpoint.

For this is what has been missing. The areas have all received attention in the past, but often not in a truly strategic way. Perhaps this lack of policy strategy and priority attention is due to the fact the tipping point has not yet been reached in any given area (although it is looming large in some, notably healthcare financing). Perhaps it is because

governments and politicians lack the ideas to address these issues. Perhaps it is because of scepticism that the federal government can really make a difference. Perhaps we have reached the limits of innovative public policy and governance. Or perhaps we are just avoiding the issues – in a collective state of denial – in the hopes that they will resolve themselves in an acceptable way through incremental policy action.

Whatever the cause, it is time for Canada to break out of this mindset. Many elements of Canadian society – the business community, NGOs, governments at all levels, educational institutions, and Canadian citizens generally – must work to address the challenges. No single entity has the solution. A collective effort is required.

Our goal is to kick-start a strategic policy conversation throughout the country about The Canada We Want in (or by) 2020. Such a conversation has not been evident to date in Parliament, in general elections, in political party platforms, or in the media – indeed in any of the places you would usually expect to see it. The time for that conversation is now. Perhaps it will lead to a consensus among political, business, academic and other leaders in Canadian society that the federal government needs to chart a strategic direction for the country to secure Canada's prosperity and the quality of life Canadians have come to expect. We present this volume as a starting point. ■

INTRODUCTION TO OUR PROJECT

THIS VOLUME MARKS the culmination of **Phase 1** of our project: *The Canada We Want in 2020*.

The overall aim of the project is to launch a debate about the role of the federal government in Canada. This publication is intended to act as a focus for discussion and a core around which we can bring in ideas from a wider range of people. It is, in this sense, a starting point.

Canada 2020 has called on fifteen authors to share their wide-ranging views in the five areas. Sometimes they agree on policy prescriptions, sometimes they disagree. But what all authors have in common is a belief in the value of discussing the options and thinking strategically about the issues that Canada faces.

In **Phase 2** of the project we will stimulate further conversations in each of our five chosen areas. We will host a series of panel discussions and web-based exchanges that draw on the papers in this volume. These discussions will tease out areas of agreement and disagreement and begin to focus on implementation challenges. We expect to conclude this phase by mid 2012.

Phase 3 will see us narrowing back down and reaching conclusions. Drawing on the materials from the previous phases, Canada 2020 will produce a final, consolidated publication towards the end of 2012. This document will summarize our conclusions in each of the five areas. It will take into account recent changes and lay out proposed future strategies. ■

WHAT YOU CAN DO

Our aim is to draw as many viewpoints as possible into this project.

There are several ways you can get involved:

- // Attend our series of panel discussions in 2012**
- // Check our website: download documents, watch interviews and webcasts and make comments**
- // Contact us directly to arrange joint presentations or discussions**

Details are on our project site at: www.canada2020.ca

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RISING TO MEET THE ASIA CHALLENGE

THE CONTRIBUTORS IN this section all share the view that Asia is central to Canada's prosperity and economic future. The challenge is how to accelerate development of the economic, cultural and social links between Canada and Asia that will ensure that Canada plays a key role in the Asian century that is upon us. These are not old-style, bilateral relationships. They are dynamic, multi-stranded ties: Canada needs to establish itself at the heart of Asia as a hub nation, a facilitator and a source of new ideas, not just a traditional trading partner or resource provider.

Despite being a Pacific nation, Canada is a late arrival on the Asia scene. We must therefore apply ourselves, strategically, to leapfrog competitors, gain "mindshare" and build up the very visible brand that will be required to expand our presence in this highly competitive arena.

Rana Sarkar espouses a path of "frugal commercial diplomacy" with leadership by the federal government. This would follow the "frugal innovation" model for which Indian companies are becoming known (and which is referenced in Kevin Lynch's paper in this volume). Sarkar's view is that the more useful Canada can make itself in addressing the problems with which Asian leaders are grappling (including resource, population and climate concerns) and the better the Canadian government is able to "curate" the diverse groups involved in developing webs

of relationships, the more success we will have. His paper gives a very real sense of the dynamism and plasticity of both commercial and non-commercial relations with Asia and between Asian countries, and the diversified approach that is required for Canada to get ahead.

Canada needs to establish itself at the heart of Asia as a hub nation, a facilitator and a source of new ideas

All contributors stress the importance not only of economic, but also of cultural, and particularly educational, links between Canada and Asian countries. **Dominic Barton** reflects on Australian success in building education as a major export industry and a cornerstone of brand-Australia in Asia. Canada should be able to replicate this success on several fronts, but it will succeed only if there is bold, co-ordinated action, led by the federal government (with a dedicated Minister for Asia at the helm). Barton also proposes that our government should identify strategic sectors for support: this is not a question of picking champions, but rather of understanding where the real opportunities

for Canada lie, and putting concerted support behind them. Such a strategy may run counter to recent Canadian political inclinations, but it is the way that Asian countries themselves conduct business.

Our natural resources are clearly one of our great advantages. How can we make best use of them in the Asian context? Nobody wants Canada to become Asia's forest, quarry or well. Yet they can open doors. What is required is a smart natural resources policy that goes beyond the resources themselves to encompass technology transfers and human resource exchanges. Such a strategy must take into account the current and future needs of all Canadians – the building of a resource-revenue fed sovereign wealth fund is one way to do this – and that leads to deepening mutual investment on both sides of the Pacific.

Yuen Pau Woo focuses on Canada-Asia energy relations as a core aspect of his proposed “leap-frog strategy”. He calls for a broad relationship on energy, that would extend to such areas of cooperation as renewables and carbon pricing (echoing the call for decisive action made by the authors in the carbon area of this publication). He sees progress on developing the Asia Pacific Gateway, including energy pipelines to the West Coast, as essential to ensure that Canada does not lose out to emerging alternative sources of energy supply (such as US shale gas). Pau also calls for broad human capital agreements between Canada and Asia; such agreements would have at their base the large and growing communities that are truly “at home” in either Canada or Asia. Finally, he envisions a future in which the city of Vancouver stands as the undisputed Asia gateway for north America.

These are bold visions, but visions that are clearly warranted by the unprecedented change that we are currently witnessing in global economic relations. Although there are differences in detail between the papers, the clear message conveyed by all three is that this is not a time for incrementalism or restraint. If it is to maintain its relevance in the global economic order, Canada must find its place at the heart of Asia. ■

All contributors stress the importance not only of economic, but also of cultural, and particularly educational, links between Canada and Asian countries

RISING TO MEET THE ASIA CHALLENGE AND OPPORTUNITY

DOMINIC BARTON

Dominic Barton is the Global Managing Director of McKinsey & Company. He was McKinsey's Chairman of Asia from 2004 – 2009, based in Shanghai, and he led McKinsey's office in Korea from 2000 – 2004. He is a widely published author and active participant in many international fora. Dominic is a Trustee of the Brookings Institution, Chairman of the International Advisory Committee to the President of South Korea on National Future and Vision, and recently became a member of the Singapore Economic Development Board's International Advisory Council.

THE CHALLENGE

SHIFTING CANADA'S ECONOMY TOWARDS ASIA

For the past 250 years, Canada's deep and mutually beneficial economic links with its superpower neighbour to the south have stood as a cornerstone of our growth and prosperity. While the US will continue to be a major economic partner and critical ally for Canada, its hegemonic days are likely over. Over the decades to come, real growth rates in the west (with its aging populations, high debt, and slowing productivity growth) will continue to lag the east. Canada must therefore build links with the rising powers of Asia – in particular with China and India – as deep as those with its neighbour to the south.

The size of the Chinese economy is expected to rival that of the American economy by 2020 – 2030. That gives Canada only a decade or two to accomplish a major re-orientation of its economy. Doing this will require a significant shift, as **Figure 1** shows.

The economic links Canada has constructed with the US are broad as well as deep. There is a web of “connective tissue” that binds the two countries, not just economically, but also socially, culturally and politically. We share a border, a language and

much of our history and culture. In addition to trade and investment flows, there are flows of students and tourists, partnerships between businesses, links across civil society and flows across media, culture and sports. These connections are mutually supporting: former students become business and political leaders, shared cultural references smooth business relationships, and flows of people and ideas create the mutual understanding and trust that is fundamental to economic collaboration.

Asia, on the other hand, feels geographically and culturally distant, despite the fact that Canada is a Pacific nation. Links are sparse and Canadian businesses lag their rivals from other OECD countries in terms of Asian penetration: only half of the 20 largest Canadian companies have operations in Asia – 100% of the top 20 American companies do. For the average Canadian executive, continuing to grow business in the US may seem to be a lower risk strategy because of the relative familiarity and ease of this *modus operandi*.

According to a 2011 opinion poll by the Asia Pacific Foundation of Canada, 62% of Canadians think that Asia will be vital to the well-being of our country. However, recent

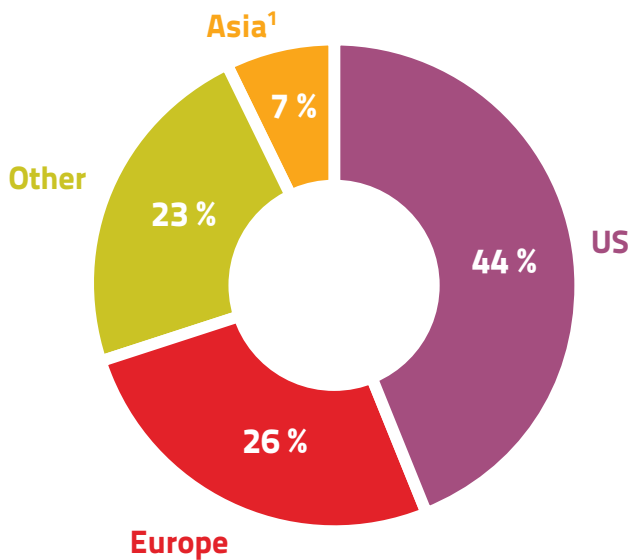
consumer research conducted by McKinsey & Company found that not only did Chinese consumers not know where Canada was, but that the only reference they had for the country was that it was the “place to go for clean air”. The story is similar amongst Asian business leaders. In a recent set of interviews we conducted with prominent businesspeople from China, India, South Korea, Indonesia, etc. we found that Canada was barely visible. Canada is seen primarily as a link to the US and has less “brand visibility” than small countries such as Switzerland or the Netherlands. Asian executives were confused

as to why Canada has not done more to capitalize on its strengths.

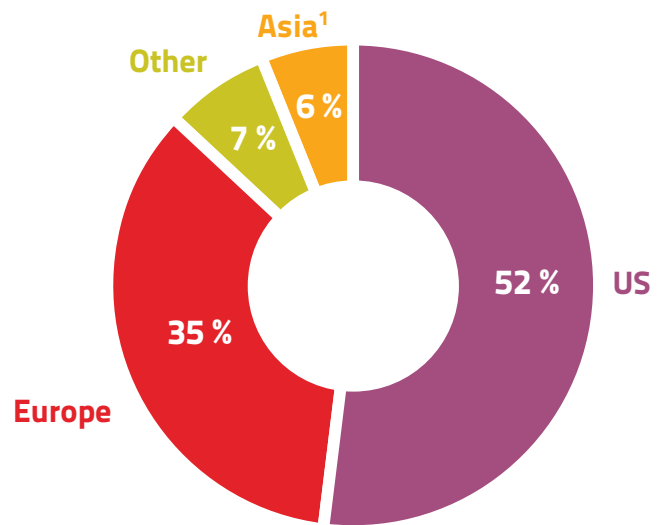
Australia, with a similar size population and economy, has far deeper links with Asia than Canada does. Australia’s trade with Asia grew from 19% in 1990 to 50% today (22% with China alone). Only 12% of Canada’s trade is with Asia (C\$13bn of exports go to China as compared to the nearly C\$300bn that goes to the US). In 2010, Australia issued 159,000 visas to Asian students compared to Canada’s 47,000, thus investing in personal links that will pay off well into the future.

Canada’s investment flows with Asia are significantly lower than with the US and Europe

Location for outward Canadian foreign investment in 2009



Origin of foreign investment into Canada in 2009



¹ Includes Australia

SOURCE: Asia Pacific Foundation, McKinsey analysis.

Figure 1

Asian executives were confused as to why Canada has not done more to capitalize on its strengths

These differences are not due to physical proximity. It takes 14 hours to fly from Sydney to Beijing – the exact same time as from Toronto. And it takes 16 days for a container ship to travel from Sydney to Shanghai – the exact same time as from Vancouver. And of course email travels instantly from both countries.

It is not just OECD countries that are overtaking Canada. In 1990 Brazil's trade with Asia accounted for 5% of its total; today it accounts for 26% (15% with China alone).

THE ASIAN OPPORTUNITY

FROM URBANIZATION TO INNOVATION

In order to identify opportunities for Canada in Asia, it is important to understand the forces shaping the region. While Asia is incredibly diverse, with a bewildering array of languages, cultures and systems of government, seven major trends can be identified:

1 Rapid large-scale urbanization

The urbanization that is underway in Asia, and especially in China and India, is unprecedented. By 2025, almost 2.5 billion Asians will live in cities and more than 220 Chinese cities will have over 1 million inhabitants (Europe has 35 such cities today). Many global companies (e.g. GE, Siemens, UTC, Bechtel) are supporting this massive urban infrastructure development.

Question Canada has some of the most admired cities in the world and some terrific infrastructure businesses – what opportunities are there for

Canada to participate in Asia's urban infrastructure build-out?

2 The emergence of 900 million new middle class consumers

By 2015, over 900 million new consumers will join the middle class in Asia (mostly in India, China and Indonesia). In urban China, discretionary spending is expected to constitute 45% of a household's total spend by 2025, up from 34% in 2000. Consumer products companies around the world (e.g. P&G, Unilever, Nestle, VW, GM) see this as an historic opportunity.

Question What products and services could Canada sell to Asia's exploding consumer market?

3 Shifts in global trade routes and centres

Asian countries are developing a broad range of important trading relationships, especially with other Asian countries, but also with the Middle East, Africa and Latin America. For example, exports from Asia to Latin America grew 25% per year from 2003 to 2008 (versus 11% to the EU and 6% to NAFTA).

Question What possibilities are there for Canada to be an Asian trading hub?

4 The increasing success of Asian companies

Asia is home to a growing number of the world's top companies. From 2005 to 2010 the number of Asian companies in the Fortune 500 list more than doubled from 37 to 76.

Question How can Canada attract more inward investment from Asia and become the location of choice for the Americas headquarters of top Asian companies?

5 The world's fastest growing talent pool

China and India graduate over 8 million new college, masters and doctoral students annually. But this is not nearly enough to support Asia's continued growth. For example, it is estimated that Asia needs roughly 1,500 more polytechnic schools.

Question Can Canada turn its successful education system into a major export industry? How else might Canada benefit from Asia's talent pool and education needs?

6 Insatiable resource demand

Asia's dramatic growth is putting strong pressure on natural resources especially land, energy and water. By 2020, 40% of the world's arable land may be needed to feed China alone. Between 2010 and 2030, China's natural gas usage is expected to quadruple. By 2014, Asia's demand for pulp and paper products is estimated to be more than double North America's demand.

Question How can Canada supply Asia's resource needs in a value-added way that is environmentally responsible and equitable to future generations of Canadians?

7 From low cost to high innovation

With its very large and demanding consumer base, massively increased government and corporate R&D investments and an ability to build new industries from scratch, Asia is becoming a global source of innovation.

Question How can Canadian companies be innovators in Asia, as well as benefit from Asian innovations?

A CANADIAN NATIONAL ECONOMIC STRATEGY FOR ASIA

The rapid re-orientation of Canada's economy towards Asia must be a strategic act, led by the federal government and strongly supported by Canada's provincial governments, its business leaders and its civil society.

The re-orientation of Canada's economy towards Asia is unlikely to happen organically – and certainly not at the speed required. The kind of strategic thinking, action and coordination required to achieve this will be a challenge in Canada's decentralized system of governance. But previous challenges have brought Canada's government, business and civil society communities together to act jointly to address major issues. We must do it again. For without such strategic action, Canada's future prosperity and political power and relevance are at risk.

The re-orientation of Canada's economy towards Asia is unlikely to happen organically

In essence, Canada must become more of an Asian-facing nation. In doing so, we must move beyond our current trading pattern with Asia: exporting natural resources and importing manufactured goods. There must be more value added to the relationship. Australia is also resource-rich, but is taking steps to avoid becoming merely a "quarrying nation" for China. Canada must do the same. We have many assets to deploy: our long history as a trading nation, a multicultural population, vibrant cities, natural resources, our high quality of life, a successful education system and a strong business community.

We need to act quickly and aggressively to develop a robust national economic strategy for Asia. While developing and executing

such a strategy will be a complex process over several years, there are five steps the government might consider to get started:

1 Establish an Asia Advisory Council to provide advice on key opportunities and challenges

The Prime Minister of Canada should establish an Asia Advisory Council made up of 15-20 influential Asia-based politicians and business people (along the lines of the International Advisory Council to the Economic Development Board of Singapore). The group should meet for roughly 1.5 days each year with senior government officials, including the Prime Minister and Finance Minister. A support system for the Council is critical to ensure that initiatives are pursued and delivered. The Council must also be established as a long-term body with terms that exceed the electoral cycle.

We need to act quickly and aggressively to develop a robust national economic strategy for Asia

2 Re-weight diplomatic activities towards Asia

In addition, the federal government should strengthen diplomatic ties between Canada and Asia, as these are critical to opening other opportunities in Asia. Specific steps might include increasing the number of consulates in Asia (especially in some of the 100 or more Chinese cities that will enter the top 600 cities in the world in the next 15 years), increasing the tempo and seniority of official trips to Asia, encouraging prominent Asian government officials to visit Canada and re-allocating diplomat-

ic budgets. The UK, for example, recently re-oriented the budgets and priorities of its Foreign and Commonwealth Office away from Western developed countries and towards Asia.

3 Actively pursue strategies to increase cultural and educational ties with Asia

Economic ties are not built by promoting trade and investment alone; they rest on a broader base of social and cultural links. Canada currently has no mechanism or institution to provide a centre of gravity for such efforts. The National Centre on Contemporary Asia, as proposed by the Asia Pacific Foundation, could play such a role. Such a centre, with a sufficiently ambitious mandate and budget, could act as a prominent force for increasing the cultural and educational links between Canada and Asia. For example, it could:

- // Promote Asian experiences (exchanges, hosting, language immersion, co-op terms, internships) for a dramatically increased number of Canadian high school and university students.
- // Encourage a major increase in Asian content in our education systems especially for kindergarten through grade twelve.
- // Increase access to Asian language studies in schools and universities.
- // Sponsor a national Asia speaker series that would bring prominent Asian businesspeople, politicians, artists and thinkers to Canada and give them exposure in Canadian media.
- // Partner with prominent Canadian business leaders to develop a biennial Canadian-Asian CEO conference.
- // Encourage the CBC and other cultural and media organizations to develop more Asia content.
- // Encourage more Canada-Asia linkages through the arts and sports.

4 Select five to seven key sectors for focused support to help Canada develop “global champions” that can compete successfully in Asia

I would not encourage the government to “pick winners” or provide direct support to individual companies. However, the government could, in conjunction with provincial governments and, ideally, the Asia Advisory Council, identify and actively support strategic sectors that can help drive the re-orientation of Canada’s economy towards Asia. This is, in fact, a very Asian approach – Asian governments are often mystified that Western governments do not do this more generally.

Selecting the specific sectors would require further analysis and a fair, transparent process by the Canadian government. But based on the trends outlined above, there are six that I would highlight:

A) INFRASTRUCTURE Canada has some of the most admired infrastructure in the world. Our cities have consistently been recognized as being amongst the best by *The Economist’s* Most Liveable Cities Index (Vancouver, Toronto and Calgary were all listed in the top five this year) and we have developed some very successful infrastructure models and companies (e.g. SNC-Lavalin, Infrastructure Ontario and TransCanada Corporation).

Federal government officials should help in introducing Canadian infrastructure companies to senior officials in the largest Chinese cities. They could also encourage partnerships between Canadian resource companies and infrastructure firms to build and operate ports, railways, airports and toll roads in Asian countries.

The government could actively support strategic sectors that can help drive the re-orientation of Canada’s economy towards Asia

B) FINANCIAL SERVICES Canada’s financial system came through the 2008 crisis in stronger shape than those of other developed economies. Our regulatory system and banks are globally recognized as role models for effective governance and risk management. Canada should leverage that recognition to establish closer financial ties to Asia. This should be a two-way street, with Canadian banks having greater access to the growing consumer markets of Asia and Asian financial institutions channelling Asian savings and capital into investments in Canada. At the governmental level, ways should be sought to help support Asian economies apply Canadian financial best practices. Efforts should also be made to link and harmonize financial policies and systems, in particular with China, India and Indonesia.

C) AEROSPACE Canada has much to offer in terms of know-how, products and services in aerospace. Montreal’s Bombardier is the third largest civil aircraft manufacturer in the world and we have many successful suppliers to the industry as well. China and other Asian countries are keen to develop aerospace industries. The Canadian government could have significant impact by facilitating the development of business relationships between Canadian and Asian firms in this strategic industry.

D) EDUCATION 97% of urban Chinese parents expect their children to go to university. In 2000, Australia adopted an ambitious strategy to take advantage of that opportunity. Today, education is Australia's third largest export, representing \$18.6 billion for the economy and 125,000 jobs in 2009. By comparison, Canada's global education exports were only \$6.5 billion in 2009, despite the fact that Canada is seen in Asia as one of the most desirable places to receive an education.

Increasing the number of Asian students studying in Canada has benefits beyond the pure economics: it also raises the profile of our country in Asia and provides an avenue for future Asian leaders to experience Canada firsthand. In addition to helping to attract Asian students to Canada, the government should also encourage strong universities and technical schools (such as the British Columbia Institute of Technology) to build campuses in Asia.

Canada must proactively invest in its resource infrastructure

But Canada will only succeed in these areas with support at the highest level. For example, State Councillor Liu Yandong, the highest-ranking woman in China, recently met with US Secretary of State Hillary Clinton to discuss educational ties with the US. State Councillor Liu then toured the campus of MIT with a delegation that included China's Education Minister and signed an agreement whereby China will provide 10,000 new scholarships for Chinese students to study in the US. Canada needs its senior leaders to promote

educational partnerships with Asia just as strongly.

E) TOURISM By 2020 it is expected that there will be over 400 million annual tourist trips coming from Asia to destinations globally. Many businesses and communities in Canada depend on tourism. For example, tourism accounts for one in eight jobs in British Columbia.

The federal government should encourage the marketing of Canadian tourist attractions in Asia and help ensure that such attractions are friendly to Asian tourists (e.g. language translations, familiar food options). Canada could also look at establishing companies focused on the "start-to-finish" experience of Asian tourists.

F) NATURAL RESOURCES The federal government should work with provincial governments and Canadian businesses to develop a clear position and approach to managing our natural resources and the industries' relationships with Asia.

Canada is the world's largest producer of potash, the second largest exporter of wheat and the third largest producer and exporter of natural gas. We also have the third largest proven reserves of oil (behind Saudi Arabia and Venezuela) and we should be a major player (and shaper) in the global agri-food industry. Growing Asian interest in both consuming and owning Canadian resources is inevitable.

This presents both opportunities and risks for Canada. Overseas investment could help bring down the cost of development, expand and modernize our resource infrastructure and create more jobs for Canadians. It could also allow us to encourage a hub of resource companies to set up in Canada. For example, Calgary could become a place where most major oil and gas companies, including Asian ones, have important

parts of their headquarters (e.g. R&D, financing) offices. Canada should also be a hub for major agribusinesses.

To take full advantage of this opportunity Canada must proactively invest in its resource infrastructure. For example, we cannot build an energy link to Asia, nor become an energy superpower, unless pipelines to the West Coast are built and the necessary export facilities/shipping lanes authorized. As the creation of such infrastructure would cross provincial lines and involve a variety of stakeholders, the federal government can play a significant role in leading and facilitating discussions.

At the same time, it is imperative that Canada has a long-term plan for managing its resource endowment.

Such a plan must address three questions:

Under what conditions and to what degree should foreign ownership of Canadian resources be allowed?

Canada's current policy on foreign ownership is unclear to many. Canada has historically allowed the sale of many of our natural resource companies to foreign ownership (e.g. Imperial Oil to ExxonMobil, Stelco to US Steel, Alcan to Rio Tinto). Yet the recent takeover bid for Saskatchewan's Potash Corp. was blocked by the federal government. As resources become more valuable it is important that we have a clear position on which resources may be sold to owners outside of Canada and under what conditions.

Foreign ownership rules should be designed to support an environment that allows globally competitive Canadian champions to emerge (as opposed to protecting uncompetitive local players from global competition). Despite being a natural resource and agri-food superpower, Canada has surprisingly few

natural resource and food companies that are global leaders. Changing this is key to ensuring that the benefits from knowledge, technology and value-added in the natural resources industries flow to Canada.

How will we ensure that future generations of Canadians benefit from the renewable resources we are extracting today?

Many of our most important resources are non-renewable. As Asia and the world demand more of Canada's resources, we must ensure that we are not simply spending the wealth of future generations. Norway provides an example. In 1991 it established a national fund to hold and invest the profits from its oil resources. To date, Norway has put over \$560 billion in this fund – over \$100,000 per person in the country. Only the interest is spent so the capital remains intact.

Although Alberta inaugurated a similar fund in 1976, oil revenues ceased flowing to it in 1987. Today, Alberta's oil revenue (and the income from the remaining fund) is funneled into the government operating budget. The Government of Canada should consider working with Alberta (and other resource rich provinces) to (re)establish such funds to ensure that future generations of Canadians benefit from our resource endowment. Some portion of interest income from the fund income could be used to support the broader re-alignment of Canada's economy towards Asia.

The Prime Minister has made, and must continue to make, Asia a priority

How do we most responsibly manage our resources from an environmental and social perspective?

The government should continue to work closely with natural resources businesses, environmental groups, indigenous peoples' groups and local communities to ensure that Canada supplies Asia's growing resource needs in a sustainable and responsible way.

cabinet rank responsible for the whole of the Asia agenda, cutting across ministries and departments. The Minister for Asia would be a key contact point for Canadian businesses, civil society and Asian governments.

In making such an appointment, the Prime Minister would send an unmistakable signal that Canada is fundamentally shifting its economic orientation.

5 Appoint a Minister for Asia and create a Cabinet Committee on Asia to drive and take accountability for this agenda

Nothing gets done in government without leadership. The Prime Minister has made, and must continue to make, Asia a priority. But there must also be focused leadership within the Ministry on this issue. While some cabinet ministers have elements of the Asia agenda in their portfolio (e.g. the Minister of International Trade also has the title of Minister of the Asia-Pacific Gateway), Asia is just one amongst many issues. In the past there was a Secretary of State for Asia within Foreign Affairs, along with other regionally focused Secretaries of State. However, what I am proposing is something different: a minister with

The world is re-balancing towards Asia; Canada must re-balance with it. Canada has benefited greatly from two centuries of deep links with other Western nations, in particular the US. Those links will continue to be important, but Canada must now rapidly build links with Asia that are at least as deep, broad and strong. This will not happen without strong federal government leadership. As a convener and leader the federal government should bring together major stakeholders to determine how Canada's Asia strategy should be formed and implemented. We must act quickly and decisively to ensure our place at the table. Canada's own Asia century must start now. ■

A LEAP-FROG STRATEGY FOR RELATIONS WITH ASIA

YUEN PAU WOO

The re-emergence of China as a global power is a subject that has found its way into the boardroom deliberations of corporate Canada and dinner conversations of Canadian families. Chinese-made goods dominate our stores and the fact that China is the world's second largest economy is now widely recognized by Canadians.

During the global recession of 2008 – 2009, it was continued Chinese demand for commodities that helped moderate the economic downturn in Canada. While Canadian exports to every other major market fell in 2009, sales to China rose by 7%. An unprecedented surge in Chinese demand for lumber took place just as the US housing market was collapsing, saving the wood industry in British Columbia industry from what would have been catastrophic losses. By May 2011, BC was exporting more wood products to China than to the US.

China's growing importance for Canadian exports means that the Chinese market (and indeed other Asian and emerging country markets) can no longer be ignored. Indeed, it is likely the case that in a number of key industries, "tipping points" have been crossed which will result in sustained corporate attention to China, leading to even stronger

growth. For some, this shift in focus has already occurred: in a 2010 Asia Pacific Foundation survey of Canadian businesses in China, 20% of respondents reported that more than half of their global revenues already came from the People's Republic.

Canadians too are starting to take note. In a speech delivered shortly before his first visit to Beijing as Minister of Foreign Affairs, John Baird said: "China is incredibly important to our future prosperity. My government *gets it* and as Canada's new minister of foreign affairs, I *get it*."

But what is it that Canadians "get" about the rise of China, and of Asia more broadly? And what are they going to do about it? Not enough, I fear.

There is no doubt that China looms large in the minds of Canadians. The Asia Pacific Foundation of Canada's 2011 national opinion poll found that 66% of Canadians agreed with the statement: "the influence of China in the world will surpass that of the United States in ten years" (up from 60% in 2010). 62% of respondents agreed that Asia is vital to the well-being of Canada, and China ranked second to the US in terms of importance for Canada's prosperity.

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But there are no prizes for recognizing the obvious. To “get” that China is a global economic player and that Asia is vital for Canada’s economic prosperity is simply to be on the same page as virtually every other major industrialized country. Canada’s recognition of Asia’s importance has come belatedly. If some of our industries have just now reached the tipping point and are beginning to place serious emphasis on Asian markets, they are doing so at least ten years after their counterparts in comparable economies such as Australia. In the same way, the federal government may now “get it”, but Ottawa has come late to a party where most of the guests have already arrived.

The challenge for government policy, therefore, is not just to “get it”, but to “get ahead of it”. For the federal government, a three-year program of *policy catch-up* should be combined with an ambitious longer-term program of *policy leap-frog*. The goal should be no less than for Canada to be the most Asia-engaged country in the western world.

tions, in part because of opposition from the Canadian automobile industry. The Americans started their own negotiations with Korea more than a year after Canada did, and came to an agreement in 2009 – overcoming the objections of their own, much larger, automobile sector. The federal government recently announced negotiations with India on a Comprehensive Economic Partnership Agreement and raised the prospect of free trade talks with Japan. If these negotiations end up languishing as the Singapore and Korea deals have, Canada’s image in Asia will be further tarnished.

Our government should send a strong signal that Canada does not intend to be left out of the rapidly evolving trade and investment architecture of the Asia Pacific region, including nascent groups such as the Trans-Pacific Partnership (TPP).¹ Pursuing trade agreements with Asian countries will mean confronting protectionist measures at home, some of which are deeply entrenched. If nothing else, putting agreements such as the TPP on the domestic political agenda will force a re-assessment of protectionism in Canada and focus attention on the very steep price that is paid for protectionist measures. There is an urgent need to:

- // bring trade negotiations with Singapore and Korea to a successful conclusion;
- // actively seek membership in the Trans-Pacific Partnership; and
- // investigate trade and investment agreements with other Asian partners, on a bilateral or sub-regional basis, for example with the Association of Southeast Asian Nations (ASEAN).

The challenge for government policy is not just to “get it” but to “get ahead of it”

POLICY CATCH-UP

Trade and investment agreements

Canada has no trade agreements with Asian countries. Worse, Ottawa has developed a reputation for not being able to close trade deals with Asian partners. Despite starting negotiations with Singapore more than a decade ago, a deal has yet to be reached. In the interim, Singapore concluded twelve agreements with other trading partners, including the United States, Australia, China, India, Japan and Korea. Likewise, the proposed Canada–Korea Free Trade Agreement is unfulfilled even after six years of negotia-

Political Engagement

There has been no shortage of ministerial visits to Asian countries since 2009. China alone has hosted numerous visits by federal cabinet ministers in the last 24 months and the Prime Minister has made visits to Asia an annual priority. Political engagement with

¹ The Trans-Pacific Partnership (TPP) is an Asia-Pacific regional trade agreement currently being negotiated between the US and eight other partners (Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, and Vietnam).

Asian counterparts is an essential part of broader relationship building, and the government should not be squeamish about either the frequency or cost of making these regular visits (other countries are not).

Political engagement in Asia should be stepped up in the following ways:

// A joint mission to India and China of the Prime Minister and provincial and territorial leaders would send a powerful signal of Canada's commitment to the region. The Council of the Federation proposed such a mission at its recent meeting in Vancouver. The federal government should act swiftly on this proposal, allowing plenty of preparation time to maximize the impact of such a mission.

// Ottawa should actively court the top echelon of leaders (including the next generation of political leadership) from China, India, Japan, ASEAN and Korea, bringing them to Canada and exposing them to a wide range of Canadian capabilities and assets. MPs of all parties should also be encouraged to participate in parliamentary friendship groups with Asian counterparts. In the same way that previous generations of Canadian parliamentarians have built long-term relationships with American and European counterparts, engagement with Asia's political class should be *de rigueur* for Canadian politicians. Furthermore, the government should invest in "Track Two" mechanisms for policy dialogue with Asian counterparts, as part of a broad-based effort to engage with Asian leaders across industry, civil society, and the think-tank community.²

Regional strategy

Canada has been notably absent in discussions on evolving regional architecture in Asia and has, until recently, shown no interest in joining new regional institutions such as the East Asia Summit. Although Canada is a dialogue partner of the ASEAN Regional Forum (ARF), Ottawa's participation at ARF meetings has been inconsistent at best. Tellingly, a recent ARF initiative to convene an annual meeting of defence ministers included all dialogue partners, but not Canada.

Purely bilateral strategies are an incomplete and potentially misleading approach to crafting an Asia strategy

Asian regional integration is largely driven by the private sector. The fragmentation and lengthening of supply chains across the region have led to explosive growth in intra-regional trade and investment and driven closer economic cooperation between countries. Canadian trade and investment promotion strategies must therefore take account of backward and forward linkages across the region. Intra-Asian exports account for more than half of total Asia exports, with much of intra-Asian trade consisting of intermediate goods. Hence purely bilateral strategies – and the concomitant measures of country-to-country trade and investment – are an incomplete and potentially misleading approach to crafting an Asia strategy.

A more effective regional strategy requires Canada to:

// Actively seek a seat at the East Asia Summit, starting with observer status, if necessary. Even if full membership is not attainable, there is value in being

² Track Two Diplomacy – also known as “private-citizen diplomacy” – has become particularly important in East Asia and involves a wide range of multilateral exchanges designed to help governments deal with issues ranging from economic cooperation to peacekeeping and conflict prevention. Kim Beng Phar (2006) “Asia’s Informal Diplomacy”. *Harvard International Review*. (<http://hir.harvard.edu/article-authors/kim-beng-phar>)

closely associated with a grouping that could emerge as the premier body representing Asian political and economic interests.

- // Engage more deeply with ASEAN both to enhance Canada's access to Asian regional fora and to broaden Canada's diplomatic ties in a region that is still vulnerable to sub-regional rivalries and security threats (emanating not least from the growing economic, political and military power of China and India).
- // Increase the bureaucratic resources dedicated to working on Asian countries and on Asia as a region.

Leap-frogging our competitors will also require a commitment to equipping Canadians with the knowledge and skills to be effective in an increasingly Asia-centric world

- // Develop metrics for Canada's performance in Asia that take into account the nature of regional production networks and the growing integration of Asian markets.

POLICY LEAP-FROG

If Canada is to increase both private sector market share and, importantly, the "mind share" of Asian leaders on regional and global issues, policy catch-up will not be sufficient. A leap-frog strategy for Asia would target a few key areas in which Canada already has recognized advantages, and leverage these assets through a well-resourced, long-term

strategy that is supported at the highest levels of government and the private sector. Leap-frogging our competitors will also require a commitment to equipping Canadians with the knowledge and skills to be effective in an increasingly Asia-centric world.

Canada-Asia energy relations

Prime Minister Harper has described Canada as an energy superpower, but abundance does not in itself translate into power. However large the resource base, a country that is dependent on one customer is more of a captive supplier than a superpower. Hence the need for Canada to diversify its energy exports beyond the United States. Fortunately, Asian demand for alternative sources of energy supply is as great as the Canadian need for new, non-North American markets. Accordingly, the federal government should:

- // Expedite approvals for the building of pipelines to transport oil and gas to the west coast, and for tankers to enter the waters off the west coast to ship oil or liquefied natural gas to Asia. The review process for these proposals should be subject to rigorous social and environmental assessment, including full consideration of the views of First Nations communities that will be affected. It is, however, critical that over-riding emphasis be given to Canada's long-term national interest. There is an urgent need to put in place the infrastructure for export of energy to Asia, given the fierce competition in this marketplace from Central Asia, Russia, and Australia, in addition to traditional Gulf suppliers. Given its abundance of shale gas, even the United States may be in a position to supply energy to Asia before Canada does.

// Broaden the Canada-Asia energy relationship to include: exchange of energy-related expertise; cooperation on renewable energy, human resource development and labour mobility; and two-way investment. A broad-gauge energy relationship with Asia that addresses many of the region's energy security and green-growth objectives is essential if Canada is to establish itself as a serious energy player in the region, indeed as a true "energy superpower".

// Provide leadership on key energy issues such as carbon pricing, major infrastructure projects, renewable energy and foreign investment in the energy sector. At the root of the various policies towards strengthening Canada-Asia energy relations is the need for a national energy strategy that will provide clarity on such issues and enable industry and provincial governments to make long-term investments.

// Resolve residual uncertainty about whether foreign investment – and especially state-led investment – is welcome in "strategic" industries in Canada, including oil and gas. While Canada should reserve the right to reject foreign investment on national security grounds or a broader test of "net benefit", the overall stance of the Investment Canada Act should be to warmly encourage foreign capital. To this end, the requirement in the Act for special scrutiny of investment by state-owned enterprises and sovereign wealth funds should be repealed.

Canada's people-to-people ties with China are arguably longer, deeper, and more profound than those of any other Western country

Capacity building: education and human capital cooperation

Canadians may now understand the importance of Asia for Canada, but they retain a curious reluctance to invest in learning about Asia and Asian languages. The Asia Pacific Foundation of Canada's 2011 national poll found that only 39% of Canadians support "more emphasis on Asia and Asian languages in the education system".

Major investment is required to ensure a more globally-oriented education system, not only in K-12, but also at the post-secondary level. Foreign student recruitment, curriculum development, overseas internships, and student/faculty exchanges are already being pursued by institutions across the country. A leap-frog strategy for Asia has to go even further and should include major scholarship programs that enable top students from Asia to spend time in Canada as well as young Canadians to study in Asia. These activities should be grounded in bilateral agreements with Asian countries (starting with China) that promote cooperation in education or, better still, in human capital more broadly.

Canada's people-to-people ties with China are arguably longer, deeper, and more profound than those of any other Western country. It is not just the large number of ethnic Chinese living in Canada and Canadians living in greater China. Rather, it is that this is a transnational community that is equally comfortable on either side of the Pacific. It has the potential to connect

Canadian and Asian interests in a way that goes well beyond the narrow lens of “diaspora politics”. As an example, over 70 schools across China already offer Canadian high school curriculum to mostly native Chinese students. Building on such existing links, the federal government should:

- // Engage in a strategic dialogue with key Asian countries (starting with China) on human capital cooperation. This initiative should involve not only schools, universities and colleges, but also research councils, professional organizations, industry, etc., and include within its scope objectives such as: joint training of officials, collaboration among research councils, facilitation of two-way flows of highly-skilled workers, and mutual recognition of credentials.
- // Promote teaching about Asia and Asian languages in schools by funding national programs that can be an adjunct to provincial education curricula and which incentivize schools, colleges and universities to sharply increase their Asia-related content.
- // Launch a major Asian scholarship initiative, in conjunction with the provinces and the private sector, to provide opportunities for 50,000 Canadians to study in Asia over the next five years, and for a similar number of Asians to come to Canada.

Vancouver has the potential to be a powerful asset in Canada's relations with Asia

From gateway to gateway economy

The federal government's Asia Pacific Gateway and Corridors Initiative (APCGI), which kicked off in 2006, signalled Ottawa's commitment to improve the port, road, and rail infrastructure of western Canada, in order to capture a larger share of in-bound trans-Pacific shipments. The project has been a great success thus far and the ports of Prince Rupert and Metro Vancouver can now compete with American rivals on the west coast. Throughput at these ports has increased and better handling capacity has accelerated delivery times to (mostly US) destinations. The transportation sector has grown and thousands of jobs have been created.

If competitiveness is to be maintained, the federal government must continue to monitor – and where necessary intervene in – regulatory impediments, labour disputes, environmental issues, trade actions, and other challenges that affect these trade routes. For the APGCI to be the flagship Asia initiative that it was intended to be, however, it is imperative for the focus to move beyond throughput (such as the number of containers moving through ports) to the creation of a “gateway economy” in which value-added activities take place in and around the gateway. Examples include business and professional services, supply chain management, maritime services, green transportation, education and training, and the establishment of Asian regional head offices for North America.

The focal point for development of an Asia Pacific gateway economy should be the city of Vancouver. As the most Asian city outside of Asia, Vancouver occupies a special position in the western world. It is not simply that ethnic Asians make up about 40% of the population; it is also that the city as a whole is oriented towards Asia in a way that creates a unique environment for the development of business, cultural, government and scholarly links with Asian countries. Positioned in this way,

Vancouver has the potential to be a powerful asset in Canada's relations with Asia.

In practical terms, this will mean investing in expertise, cultural institutions, trade and investment promotion, and convening capabilities in Vancouver that connect Canada and Asia. It will mean mobilizing a critical mass of people, knowledge, and networks that establish the city as the go-to place for Asia connections in North America and indeed across the western world. While this idea of concentrating resources in one location may be politically difficult, the case for Vancouver – in geographic, demographic, historical, and political terms – is compelling.

The federal government should therefore:

// (Re)locate to Vancouver those government agencies that have a significant Asia focus. Such units should be given high levels of autonomy and should be treated as top-level bureaus rather than outposts of Ottawa departments. A newly-established federal “Agency for Canadians Abroad” could, for example, be located in Vancouver, with principal responsibility for establishing connections with the estimated 600,000 Canadian citizens living in Asia.

// Focus on attracting Asian regional head offices to Vancouver, in conjunction with provincial and municipal authorities.

// Establish Vancouver as the preferred (but by no means exclusive) venue for Asia-focused events. This is not simply about conferencing facilities, which are already in place, but has to do with programming high-level visits to the city, attracting major conventions and festivals, and investing in supporting “soft infrastructure” such as scholarship and business and think-tank networks. The federal government is in a unique position to attract and host inter-governmental fora and semi-official meetings that are part of Canada's responsibility as a member of Asia Pacific organizations.

Together, these actions will put Canada well on the way to an effective leap-frog strategy with regard to Asia in general and China in particular. Most components of the strategy will require co-operation with other levels of government, with the private sector and with civil society. However, federal leadership is critical, and it has to come from the very top. The Prime Minister should signal a national commitment to Asia by way of a major policy statement that is directed not only to Canadians, but also to Asian leaders. More than a speech about the need to increase business with Asia, this statement should be about Canada's place in the Asia Pacific region and Ottawa's commitment to be an integral part of its future. ■

THE BIG CHALLENGE: ADJUSTING TO THE ASIA CENTURY

RANA SARKAR

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For future historians it is a safe bet that the biggest story of the first decade of the 21st century will be the re-emergence of Asia – not 9/11 or the global financial crisis. The vertiginous numbers accompanying Asia's roaring re-emergence inspire mixed reactions in the West: mostly fear and greed, but occasionally hope.

With burgeoning foreign exchange reserves, high savings rates, active sovereign wealth funds and cash-rich banks and companies, Asia will increasingly displace the West as the world's provider of capital. Across Asia, trillions are being invested in new infrastructure. Hundreds of new, smarter cities are being built: over 300 million people in India alone are expected to move from the countryside to urban centres over the next quarter century. And as Asian countries shift from export-driven to consumption-driven economies, they are becoming the greatest markets of scale for the 21st century.

Over the coming decades, Asia will become the centre of aspiration, innovation and technology, and it is Asia that will set the standards and norms that will influence us all. Cultural power will follow economic power. There will likely be reverses and stalls

in the decades ahead. Nonetheless, the world we live in, the goods, services and culture we consume, and the way we understand global power, will increasingly be created in and influenced by Asia. This is a sharp departure from the past.

In this new environment, Canada's long-term prosperity and security will depend on its ability to understand and seize economic opportunities in Asia (particularly in the twin giants of China and India, but also in countries such as Vietnam and Indonesia). The emergence of new, non-western webs of global power means that Canada's success in extended global markets – from Latin America to Africa – and our ability to project our values overseas, will depend critically on how much we matter in Asia.

ASIA'S WICKED PROBLEMS

Despite all this optimism, Asia also faces mounting problems. Asian countries are at the forefront of the biggest collective action challenges of our time, from critical shortages of water, power and food, to a need to fill education, healthcare and infrastructure gaps. Add to these demographic change, environmental degradation, healthcare and

climate change and the scope of concern is clear. Finding sustainable solutions for these “wicked problems” is the preoccupation of policy-makers across Asia.

The evolving and complex relationships between Asian companies and countries are also likely to be critical. Over half of Asia’s trade is intraregional. New regional institutions – not tied to legacy systems – are being created, and new generations of government and business leaders are taking the helm. Countries and companies are focused on each other as key partners, competitors, threats and sources of opportunity. Security dilemmas abound; China is the elephant in the room.

Asian countries also face uncertainty in their relations with other regions. Asian companies are able to draw on vast pools of savings and have strong competitive advantages. However, as new players, they lack experience and sometimes the necessary tools to forge effective relationships. Growing opposition in Africa to Chinese resource investments is but one example.

Outsiders that offer practical, targeted assistance to Asian countries to overcome these “wicked problems” and to help manage their international relationships – both inside and outside their neighbourhood – will be well-placed to reap economic and political benefits.

NEW TERMS OF TRADE AND NEW DIPLOMACY

New companies and new leaders in Asia are without preconceptions about whom they should partner with. Competition for their attention – not to mention their markets, capital and talent – is, and will continue to be, intense. The good news for Canada is that, amidst this historical power shift, anything is possible.

Asia’s reawakening coincides with ongoing change in the nature of international relations, brought on by the rapid growth of transportation and communication

networks. In the new global economy, ideas equate to value. Ideas are mobile, so for countries and companies, being “top of mind” is an increasingly important part of being competitive.

Asian countries are at the forefront of the biggest collective action challenges of our time, from critical shortages of water, power and food, to a need to fill education, healthcare and infrastructure gaps

Diplomacy has also changed. The growing influence of non-state actors, such as NGOs and business leaders, and private events such as the World Economic Forum (WEF), continue to undermine traditional, hierarchical forms of organization. Countries must therefore reach far broader and ever-changing constituencies in order to get things done. The new role of states is to co-ordinate the energy and efforts of these “wise crowds” in the pursuit of national interests.

Dense global networks may democratize diplomacy, but they also lead to the emergence of dominant nodes or hubs through which information, culture, goods, capital and people flow. These hubs do not correspond to the traditional distribution of power. Cities such as Dubai and Singapore have catapulted onto the world stage despite their size. Successful diplomacy requires understanding and targeting key hubs, as well as identifying and promoting new ones.

Countries that fail to understand and adjust to these new patterns of business and diplomacy will fall behind. The key tools in this environment are being visible, useful

and getting connected. Additional resources will help, but it is more important to be strategic and clever with how they are used. Done right, countries can punch well above their weight.

WHAT SHOULD THE FEDERAL GOVERNMENT DO?

In Canada, governments and big business are coming late to the party; Canada is falling behind its global competitors. By now most leaders, if not the public, are getting quietly worried about global economic realignment and looking to get their Asian game on. But how? And what can and should the federal government do to help, particularly in these lean economic times?

Competition for Asia's attention is intense. Despite Canada being a Pacific Rim nation, with long-established Asian Canadian diasporas (at 3.5 million total, Asian diasporas in Canada make up a larger percentage of the population than in any other G7 country), Canada's understanding of the "new Asia" is partial, at best. Given the mismatch between our strategic need to be in Asia, our domestic understanding of the market, and the market's understanding of us, there is need for a strong federal leadership role.

Canada's reputation as a gateway to natural resources may open the door to trade and investment with Asia, but it is our ability to be resourceful that will keep that door open

Canada must develop a coherent and consistent strategy, complete with guide posts and assessment measures, to move forward in an Asia-centric world. Shifting

gears in our existing approach towards Asia is a start. But we need to go further.

Canada's reputation as a gateway to natural resources may open the door to trade and investment with Asia, but it is our ability to be resourceful that will keep that door open. We must be responsive to Asia's crisis needs and recognize where we can play additional roles, be it in education, healthcare, environmental stewardship or elsewhere.

Likewise, we must be resourceful in the tools we use. We need make smart investments and implement co-ordination strategies that build Canada's profile and play to the new rules of the networked world. Designed properly, such investments and strategies offer high rewards for little money down; something that we may term as "frugal commercial diplomacy".

1 Double down on existing policy

A good starting point for Canada is to redouble its efforts and add more resources to our existing policy of commercial engagement with Asia, as outlined in the Department of Foreign Affairs and International Trade's (DFAIT's) Global Commerce Strategy. It is a given that we need to pursue more bilateral trade and investment protection agreements and rapidly conclude current negotiations (particularly the Comprehensive Economic Partnership agreement with India and our free trade agreement with Korea). These agreements will serve as symbols of Canada's interest in Asia and as templates for further deals.

More trade offices should be established in key regional centres as well as second and third tier cities, particularly in China and India. We should also step up engagement with regional inter-governmental forums, such as the Trans-Pacific Partnership and Association of South East Asian Nations (ASEAN), and continue to develop the Pacific Gateway initiative. More effective air travel agreements should

be pursued and education and research partnerships should be increased dramatically, fulfilling pledges already made.

We should also continue to make our trade and investment rules more transparent and to reform our immigration system so that it encourages talent circulation to Canada. Demographic changes in western countries are fuelling increased competition for qualified immigrants from Asian and elsewhere. Canada has a long-standing tradition of immigration but it cannot afford to be complacent; systems need to be in place that encourage the best to come here.

2 Lead from the top

Any new strategy for Asia must be led, and be seen to be led, from the top. This is expected by countries such as China, Korea and Singapore, where the state still plays a major role in the economy. To focus attention, two Cabinet ministers with economic portfolios should be appointed, one for India and one for China. Co-ordination between ministers and portfolios is also essential: we must seek synergies between our efforts in different Asian countries, as well as other parts of the world.

Our Prime Minister must be visible in the region, travelling – strategically and predictably, rather than episodically – with thematically (or sectorally) selected versions of Team Canada. Such an effort will be highly symbolic. Asian countries value the engagement of top leaders and Prime Ministerial leadership on engaging Asia will help galvanize the private sector and the public at large.

To be most effective, we should coordinate Asian visits, and exploit synergies between all levels of government. Currently, visits to Asia by federal, provincial and other public officials are uncoordinated and often confusing for our hosts. Coordination does not mean losing our

regional differentiation: each region has a compelling story to tell, but it should tell it under the Canadian umbrella.

In the coming years, as fiscal and program crises crowd the agenda, there is a very real danger that high-level engagement with Asia will fall by the wayside. We should do everything we can to guard against this danger: with our major trading partners facing a protracted period of slow growth, an effective Asia strategy is ever more essential for our economic health.

To be most effective, we should co-ordinate Asian visits and exploit synergies between all levels of government

3 Create occasions and support iconic projects

To ensure consistency and visibility, the federal government should focus on creating or joining regular forums of interaction in target Asian countries. We should look to anchor our efforts around these. For the past five years, the Canada China Business Council has run a successful week of activities every November to engage top government and business leaders. Similarly, the Canada-India Business Council has established a business forum for top leaders in India at the same time as the WEF India Summit and just prior to the China week of activities (making the best use of government and business leaders' time in the region). The federal government should look to support and curate similar annual occasions in all regional centres to galvanize senior business leaders and focus media attention.

Canada's brand can also be enhanced by strategically associating with iconic, highly-visible projects in Asian countries. For instance, we should look to co-ordinate Canadian participation in high-profile efforts such as the Delhi–Mumbai Industrial Corridor, Asia's largest building project. Equally, we might consider working with Chinese regions to target a smart city project in which Canadian investors and companies can take a leadership role, or, perhaps, develop a joint program with the Indian Space Research Agency. Engaging in such projects would focus the bilateral relationship and bring together top talent and companies, leading to further collaboration and thicker networks.

Canada should also look to maximize the value of its home-grown events and icons to build visibility in Asia. For example, the Toronto International Film Festival could be used as an anchor for our Asia digital media strategy, and become a key bridge to inserting more Canada into Asian popular culture.

Canada's brand can also be enhanced by strategically associating with iconic, highly-visible projects in Asian countries

4 Develop Brand Canada

To succeed in this competition for attention, Canada needs to command a higher “mindshare” of its would-be partners in Asia. The federal government has a major leadership and co-ordinating role to play in developing and promoting a strong brand. This brand can be inserted

into elite and popular imaginations through smart, strategic investments. These might include:

// Canada Brand Equity Foundation

Smart countries, from Singapore to Qatar, aggressively manage their brands abroad. Borrowing from similar institutions worldwide, a Canada Brand Equity Foundation should be established, co-funded by the provinces and industry and operated at arm's length from government. This body should be tasked with managing and measuring the perception of Canada in key hubs, cities and regions of Asia. Its initial goal could be to map and engage 10,000 key leaders, influencers, entrepreneurs, academics and journalists. It should partner with polling and citizen engagement experts and engage top private sector talent and digital entrepreneurs as advisors and contributors, showcasing their work in the process. Such a foundation could achieve significant results with modest seed investment through an incentivized partnership model.

// Digital CBC Asia

Broadcast and digital content still matters. Canada is absent from the airwaves and digital commons of Asia. Other countries, such as Russia, France, the UAE and the UK, have established broadcast brands in Asia which help shape the tastes, preference and the worldviews of millions. Even smaller countries from Latin America and the Middle East are entering the fray. The CBC has the reputation and talent pools to compete (internally and amongst Canada's diaspora pop-

ulations). It should use these to create an expanded service in Asia with a strong emphasis on creating relevant digital content for local markets.

5 Target the hubs

Since we cannot be everywhere at the same time, we need to prioritize specific locations for engagement. By identifying and targeting key trade hubs and nodes connecting Asian business networks, Canada can reach more actors and countries while limiting our costs. This is a departure from traditional bilateral commercial diplomacy.

Two types of hubs should be focal points for Canada's commercial diplomacy in Asia. First, there are intra-Asian hubs. Places like Dubai, Kuala Lumpur, Singapore and even tax-haven Mauritius are becoming indispensable conduits for business with China and India. Second are the critical non-Asian hubs. London, New York and San Francisco are important global gateways. Not only are they key sources of investment into Asia, they also house the foreign headquarters of a growing number of Asian firms looking to expand their global operations. In many cases, Canada has a better chance of attracting investment and trade by targeting these offices than by targeting their home bases.

We should also promote Canada as a conduit for the international strategies of Asian businesses. For instance, we should help address India's resource requirements, not just by selling resources to India, but by using our global resource finance and services leadership to help India access Brazil. Equally, Canadians can be useful to Japanese and Korean companies hoping to build their markets in India. Canada must promote itself as a connector nation and build the connecting infrastructure to support this.

6 Go to the head of the parade: be proactive with regional and global institutions

The post-war multilateral institutions, in which Canada was prominent, are now in a state of atrophy. In newer institutions, such as the G20, our role is precarious. While we should remain engaged in these forums, for added clout we should create or take leadership in new institutions with growth potential. Canada needs to get ahead of the curve: we should pinpoint where the action is, identify gaps, and join or create institutions to fill these voids. To be most effective, such institutions should relate to Canada's core advantages.

Canada must promote itself as a connector nation and build the connecting infrastructure to support this

We have a history in this. In 1991, Natural Resources Canada (NRCan) worked with the mining industry to create the Ottawa-based International Council on Mining and the Environment to help diffuse knowledge and awareness of environmental issues in mining. Within five years, the organization's membership covered 60% of the western world's metal production. More recently, NRCan took on the role of secretariat (and major financier) for the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development.

Canada should aggressively expand this type of institutional leadership to other crisis needs. We should leverage our expertise to create regional institutions focused on water management, pandemics and air pollution, for example.

7 Establish a Canadian “Open University” in Asia

Education is the gateway to our economic relationship with emerging Asia. This is particularly true in markets such as India where, to meet current demand, over 1,000 new universities would need to be built in the coming decade. Since nowhere near this number will be built, other means of delivering education will be found. To help fill the gap, a consortium of Canadian universities could offer programs online (predominantly) and also on physical campuses in Asia, through partnerships. This calls for a co-ordinated national approach, led by the federal government in co-operation with the provinces and key nodal institutions such as the Association of Universities and Colleges of Canada (AUCC) and the U15 group of Canadian research universities.

Engaging Asia is critical for all Canadian universities. Many already have advanced strategies in place and are set to attract more students, establish more research and commercial partnerships and develop more faculty exchanges. However, a strong signal would be sent to the region if the federal government were to sponsor the creation of a single institution branded under Canada’s banner, again, using mostly digital delivery. Creating a Canada University – perhaps as a 21st-century hybrid of the highly successful American University and

British Open University models – would galvanize resources and attention at a critical moment in Asia’s growth while helping to meet one of Asia’s crisis needs.

8 Curate wise crowds and empower them to work on Canada’s behalf

A challenge for the federal government is that most economic activity and new diplomacy happens outside of its sightlines. Canada’s businesses, academic institutions, NGOs, provincial governments and private citizens are already active in Asia and are important faces for Canada.

Any exclusively top-down or overly-bureaucratic approach runs up against the “distributed power” grain of our networked world. It risks missing important initiatives and failing to capitalize on effective approaches that are run outside government. In this context, the federal government needs to help source and coordinate leadership from below, acting as a facilitator, enabler and information provider and making available open-source tools that enable others to lead. This could include a “wiki-events” calendar that would enable open-source sharing of itineraries and allow groups to “self organize” events and partner in real time.

In addition, we need to create bottom-up incentives for participation using contests and challenges to get Canadians to promote Canada’s brand overseas. For instance, we could build on DFAIT’s Investment Champions program, which currently recruits Canadian business leaders to offer opportunities to foreign investors. We should push it one step further by offering a special designation or monetary prizes to companies, academics or civil society organizations that go global under the Canadian banner. A similar challenge could be issued to find a more systematic way for members of diaspora communities to share oppor-

Any exclusively top-down or overly-bureaucratic approach runs up against the “distributed power” grain of our networked world

tunities, skills and connections between their old and new worlds.

But our open-source strategy should not be limited to Canadians. For a small sum, we can offer a “Canadian X-Prize” to motivate smart crowds outside Canada to work on our behalf, particularly in Asia. This means picking a country and a specific problem (e.g. rural electrification in a given Indian region) and offering a prize in conjunction with Canadian and local universities, as well as leading Canadian companies. This would be a cost-effective, high-profile way to build perception of Canada as a useful and innovative nation with which it is worth doing business.

Private equity and venture funds are another way to get Canada more involved. For instance, the federal government could incentivize Canadian pension funds and capital providers, through lead organizations such as Export Development Canada, to work with Canadian universities and local venture partners to invest in high-growth sectors. With the right partners, these seed investments would be highly visible and get Canadian talent engaged in Asian innovation and help resolve our commercialization challenge. On a larger scale, it is also time to revisit the old argument to build a sovereign wealth fund pooling our resource rents to invest at home and abroad. Such a fund would enable us to invest at scale in Asia and put us at the top table of global capital partners for Asia’s leading companies and governments.

9 Engage in serial experimentation and measure results

An overarching part of Canada’s Asia (and global) strategy should be serial experimentation. Not all the ideas outlined above will work, but we need to experiment to see what gains traction. We should follow the lead of the smartest companies that rely on “fast failure” to find their way in a world changing too fast for 20-year plans.

Canada must collect better trade and investment data that truly reflects how the global economy works

But Canada cannot experiment effectively without proper benchmarks and means of assessment that rapidly and accurately evaluate the impact of policies and programs. For instance, the Canada-India Business Council has found that official bilateral trade and investment figures dramatically underestimate the density of business relations between the two countries (because much of this is in under-counted services or is conducted through intermediary countries and organizations).

We must identify new ways to make ourselves useful in Asia and to bring Canada to the top of the Asian mind

Canada must collect better trade and investment data that truly reflects how the global economy works. Organizations such as Statistics Canada should be encouraged to improve their measurement of Canada's economic relationship with Asia, capturing more of our services trade and trans-shipments through other countries. The Canada Brand Equity Foundation would also have a role to play in this respect, providing time series data on Canada's profile in Asia. This would allow us to evaluate our efforts and add leverage when engaging business and government leaders in the region.

CONCLUSION

The centre of the global economy is steadily shifting towards Asia; Canada needs to adjust. Our current strategy – pursuing trade agreements with key countries, expanding commercial representation and getting into regional forums – is a great start, and we should double-down on these efforts. But we must do more – much more. We need to be creative and resourceful and take advantage of cutting-edge, cost-effective tools of diplomacy. Above all we must identify new ways to make ourselves useful in Asia and to bring Canada to the top of the Asian mind. ■

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As we approach 2020, the world around us is changing rapidly. For Canada, there are many opportunities, but also fundamental and inter-related challenges. **The Canada We Want in 2020** launches a debate about the role of the federal government in Canada in meeting those challenges.

This is the starting point of a year-long project that will culminate in Fall 2012.



ABOUT CANADA 2020

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