THE RISE OF ASIA: OPPORTUNITIES AND CHALLENGES FOR BRITISH COLUMBIA

by
Rosalie L. Tung, Ph.D., FRSC
Faculty of Business
Simon Fraser University

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EXECUTIVE SUMMARY

Canada's Asia Pacific Gateway Initiative seeks to expand trade between the Asian economies and Canada. This initiative represents the collaborative undertakings at all levels of government, and between the public and private sectors in Canada. BC's Asia Pacific Initiative, also known as BC's 2020 Goal for the Pacific Century, is an important component of this federally-led strategy. Under this initiative, the 2020 projected annual gains in trade are $77 billion for BC and $231 billion for Canada as a whole. BC is well positioned to play the lead role in this program in light of its geographic location, more diversified external trade pattern and heavy inflow of immigrants from AP.

The paper first presents the economic growth in Asia in the context of Canada's overall trade and investment patterns with AP. It then presents the opportunities associated with the rise of Asia. These are six-fold and include the opportunities to: (1) partake more fully in the fruits of the economic miracle in many AP economies; (2) reduce Canada's over-reliance on the US for its overall economic health; (3) tap into the social capital that accrues from immigrants, foreign students and tourists from AP; (4) rejuvenating Canada through the inflow of young and highly educated/technically skilled immigrants; (5) benefit from ongoing regional economic integration in Asia; and (6) capitalize on the rise of Chindia – the power of two.

However, there are also challenges associated with Asia's ascendancy in the economic arena. These are also six-fold and include the challenges of: (1) lack of knowledge and/or misinformation about AP; (2) AP's perception that Canada does not provide a favorable environment for doing business; (3) under-development, economic hardships caused by the 2008-2009 financial crisis, and destabilizing social issues and security concerns; (4) institutional weakness, corruption and weak corporate governance in some AP countries; (5) regional economic integration – trade creation versus trade diversion; and (6) persistent tension among AP countries.

The paper concludes by recommending that while BC should be cognizant of the pitfalls of doing business in AP, it should nonetheless seek to capitalize on opportunities that arise in that region of the world. Specific recommendations to attain the five priority areas in BC's 2020 Goal for the Pacific Century are also identified.

INTRODUCTION

In October 2005, the Canadian Parliament promulgated the Pacific Gateway Act, subsequently known as the Asia Pacific Gateway Initiative, which objective is to strengthen Canada's position in international trade by deepening links with the Asia Pacific (AP) region. By virtue of its strategic location, both geographic- and sociocultural-wise, British Columbia will play a lead role in this initiative to promote "a seamless, matchless flow of trade with China, India and other Asian countries"[1]. Vancouver is home to the Asia Pacific Trade Council. As one of the largest ports on the west coast of North America, Vancouver represents a logical choice as it offers the shortest air-sea-land route between Asia and North America, with a two- to three-day sailing time advantage over U.S. ports on the West coast. In short, Vancouver lies on the cross-roads between North America and Asia and, hence, is well positioned as the strategic meeting point between East and West, much in the same way as Venice was during the Renaissance[2].

This initiative was prompted, in large part, by the phenomenal economic growth that has taken place in China, India (collectively referred to as "Chindia") and other economies in the AP region, on the one hand, and the decrease in Canada's share of the AP markets in the past two decades, on the other. Thus, Canada has not only failed to capitalize on its early mover advantage in many of these burgeoning Asian markets, but its role as a trading partner/investor in this region has actually decelerated over time. In light of the 2008-2009 global financial crisis, with its epicenter in the US, in retrospect, this initiative appears particularly apt and timely as it can assist Canada to lessen its dependence on our neighbor to the south by further diversifying our international trade.

This paper will first provide a brief overview of the growing importance of select AP countries in the world economy and Canada's trade and investment profile with these countries to set the stage to examine the opportunities and challenges for BC associated with the rise of Asia[3]. Because AP encompasses a vast geographic area that is comprised of many countries, the focus of this report will be on China, India, Japan, the Republic of Korea (South Korea), the ASEAN countries, and Pakistan.

As the Chinese term for "crisis" is made up of two ideograms, "danger" and "opportunity", this paper adopts a similar perspective by positing that challenges can pose tremendous opportunities for change and development, while opportunities that are unmet are tantamount to significant challenges. Thus, in the exploration of opportunities and challenges for BC, the discussion will focus on challenges that can be turned into opportunities and vice-versa.

THE RISE OF ASIA AND CANADA'S TRADE WITH ASIA PACIFIC

The Rise of Asia

The rise of many Asian economies that began in the second-half of the Twentieth Century – first Japan, then the four Asian Tigers (Hong Kong, Singapore, South Korea, and Taiwan, also referred to as the Asian newly industrialized economies or NIEs in this paper), followed by China and then India – has been nothing short of astounding. According to the Economist Intelligence Unit (EIU), in the past decade, the annual GDP growth of the emerging economies has averaged 7.5 percent, roughly 2.5 times faster than that for the rest of the world. Some of the factors that have contributed to the tremendous economic boom in this region include increased productivity and high savings rate in the region (with some exceptions which will be discussed later), growth in exports, rising education levels, and growing attraction as a destination for foreign direct investment (FDI) from around the world.

From the devastation of war (as in the case of Japan after World War II and the Republic of Korea after the 1950-1953 Korean War), the struggle for independence in the case of India, and civil war in China, in the course of less than half a century, many countries in this region have undergone remarkable economic transformations to become admired around the world. Singapore's real per capita GDP quintupled in the course of a generation and South Korea ascended to the ranks of the Organization of Economic Cooperation and Development (OECD), an elite club of industrialized nations, on December 12, 1996. China has been dubbed as the "workshop of the world" that manufactures a large proportion of the textiles, shoes and toys that are consumed around the world, and India has been referred to as the "back office of the world" from where it conducts much of the IT activities outsourced from advanced economies.

According to A.T. Kearney's Foreign Investor Confidence Index, every year since 2002, China has been chosen by CEOs and CFOs from around the world as the most attractive destination of FDI despite investors' lingering concerns about that country's lack of transparency. In 2005, India overtook the US to become the number 2 hot spot for FDI. Table 1 presents the 2008 GDP, export of goods and services, and population of select countries. Collectively, AP economies comprised 31.1 percent of the world's GDP.

Table 1: Select Economic Indicators for AP Economies

Economy	% of World's GDP (2008)	% of World's Exports (2008)	% of World's Population (2008)	Projected 2009 GDP growth	Projected 2010 GDP growth
US	20.7	9.3	4.6	-2.8	0.0
Canada	1.9	2.7	0.5	-2.5	1.2
Japan	6.4	4.5	1.9	-6.2	0.5
Asian NIEs	3.7	8.5	1.3	-5.6	0.8
China	11.4	8.4	20.2	6.5	7.5
India	4.8	1.4	18.1	4.5	5.6
Developing Asia (excluding Chindia)	4.8	4.0	14.5	3.3	5.3

Source: Adapted from *World Economic Outlook April 2009: Crisis and Recovery*. 2009. Washington, DC: International Monetary Fund.

China's growth rate in the past three decades averaged 9.5 percent. In 2003, Goldman Sachs has projected that China will overtake Germany as the third largest economy by 2008-2009 – a feat that China accomplished in 2007; surpass Japan's by 2015[4] and, ultimately, the US by 2039. According to the same forecast, India could overtake Italy's GDP by 2016, France's by 2019, the United Kingdom's by 2022, Germany's by 2023 and Japan's by 2032. Furthermore, because India boasts a younger population than that of China's (30 percent of India's population or 340 million is below the age of 15), Goldman Sachs has asserted that India has the potential to attain the fastest growth rate of economic growth in the next three to five decades[5].

According to Goldman Sachs, by 2025, emerging economies in Asia will grow to one-half the size of the G6 countries, and by 2050, the GDP for this region will exceed that of the G6 countries altogether. Even in light of the 2008-2009 global financial crisis, the consensus of opinion among the World Economic Forum (WEF), International Monetary Fund (IMF), Economist Intelligence Unit (EIU) and United Nations Conference on Trade and Development (UNCTAD) is that China and India will continue to experience growth in the 4.5 to 6.5 percent range while the majority of ASEAN countries are better positioned than the industrialized countries, in general, to recover more rapidly from the present economic downturn. According to an April 2009 report by the IMF, the grounds for optimism in Asia are several-fold, including the improved fundamentals that have been put into place in many of these economies after the 1997 Asian financial crises, the sizable monetary and fiscal stimulus packages that have been implemented, and the healthy foreign exchange reserves enjoyed by many of these economies (in end 2008, China possessed US$60 trillion in banking assets and its foreign reserves approached US$2 trillion). These factors have led the IMF to assert that in 2010 the average growth rate for developing Asian economies (excluding Chindia) will be around 5.3 percent, and 0.8 percent for NIEs in that region[6].

Canada's Trade and Investment with Asia Pacific

Canada has longstanding political and economic relations with several of the AP countries. In 2004, for example, Canada celebrated a century of bilateral trade with Japan, the third country with which it established diplomatic relations. Canada normalized its diplomatic relations with the People's Republic of China in 1972, seven years ahead of the US, and shares commonwealth ties with India. Furthermore, as a major producer of energy and natural resources, Canada is well positioned to expand trade with China and India, two countries with apparently insatiable appetites for energy consumption to fuel domestic growth. According to Rio Tinto, a world leader in the extraction of mineral resources, China, already the world's largest buyer of nickel, copper, aluminum, steel, coal and iron ore, is expected to consume more than one-half of the world's key resources in the next decade[7].

Despite these early mover advantages, Canada's exports and investment with AP, in the context of its overall trade and investment activities, has actually decreased over time. Tables 2a and 2b present Canada's bilateral trade with select Asian countries, i.e., exports to and imports from these countries, respectively.

Table 2a: Canada's Exports to Select AP Economies (C$ mil.)

Economy	1984	1989	1994	1999	2003	2008*
Cambodia	N.A.	N.A.	5.6	2.2	1.2	N.A.
China	1,236.5	1,120.0	2,126.1	2,520.9	3,853.1	4,448.1
Hong Kong	218.8	1,049.9	907.1	966.8	997.6	715.9
India	470.6	298.5	282.3	446.7	711.6	699.2
Indonesia	290.5	310.8	451.1	530.3	430.2	663.7
Japan	5,640.8	8,749.6	9,636.4	8,314.6	7,928.3	4,194.1
Malaysia	179.7	218.7	271.5	414.7	430.0	365.2
Myanmar	2.5	0.3	0.5	0.1	0.5	N.A.
Pakistan	90.3	68.9	70.1	80.3	287.0	306.0
Philippines	56.8	219.4	193.5	287.9	362.6	263.1
Singapore	143.0	243.5	367.2	349.4	375.3	362.5
South Korea	720.0	1,592.3	2,208.1	1,947.3	1,872.0	1,411.3
Taiwan	423.2	882.4	1,202.9	1,086.9	1,169.1	656.4
Thailand	117.2	339.8	398.3	292.5	394.8	293.1
Vietnam	1.9	2.7	24.2	46.7	81.3	152.4
Total AP	10,557.6	16,410.7	19,278.0	18,657.7	20,816.4	15,837.7
AP as % of total Canadian exports	9.6	12.3	9.0	5.6	5.9	N.A.

Table 2b: Canada's Imports from Select AP Economies (C$ mil.)

Economy	1984	1989	1994	1999	2003	2008*
Cambodia	N.A.	N.A.	0.2	11.3	84.2	N.A.
China	333.5	1,182.3	3,856.1	8,927.1	18,569.8	15,125.2
Hong Kong	966.2	1,160.7	1,304.0	1,448.9	857.8	177.02
India	147.1	224.1	458.8	1,017.8	1,423.3	854.5
Indonesia	71.9	192.1	522.2	865.0	926.5	399.6
Japan	5,711.5	9,549.6	11,366.5	15,033.3	13,827.1	6,585.2
Malaysia	168.0	320.1	12,213.8	2,057.1	2,227.4	1,157.9
Myanmar	0.2	1.5	16.8	27.5	41.8	N.A.
Pakistan	54.2	79.3	198.6	247.6	275.2	92.2
Philippines	117.3	204.9	469.5	1,046.9	974.1	315.5
Singapore	214.6	502.4	1,152.1	1,252.2	1,043.3	502.9
South Korea	1,152.3	2,441.0	2,504.2	3,572.7	5,106.7	2,261.3
Taiwan	1,223.8	2,351.4	2,780.4	4,592.2	3,765.3	1,572.7
Thailand	103.4	419.9	895.6	1,508.8	1,867.3	891.0
Vietnam	2.2	15.0	34.4	194.5	334.8	317.2
Total AP	10,823.7	19,571.3	28,286.5	45,577.3	54,123.1	31,418.9
AP as % of total Canadian imports	11.3	14.5	14.0	13.6	16.2	N.A.

Source: Adapted from Asia Pacific Foundation statistics for miscellaneous years. 2008* figures are for January-May of that year. "N.A." stands for "not available".

Based on Tables 2a and 2b, we can surmise the following:

1. While Canada enjoys an overall balance-of-trade surplus on a worldwide basis, it runs a deficit with most of its AP partners.
2. Throughout the 1980s, 1990s and the early 2000s, Japan was Canada's largest trading partner in the region. In 2003, China displaced Japan as Canada's largest trading partner; approximately one-half of Canada's AP imports now come from China. This change reflects, in part at least, the fact that Japan, South Korea and Taiwan have relocated many of their production facilities to China. An estimated one-half of China's exports are "processing exports", i.e., components that are imported for assembly and then re-exported.
3. Canada's top three trading partners in AP – China, Japan, and South Korea – account for roughly three-quarters of ours imports from that region.
4. Canadian exports to AP as a percent of its total exports worldwide has declined over time – from almost 10 percent in 1984 to its current level of under 6 percent. At least two factors could have contributed to this trend:
    - After Canada's accession to the North American Free Trade Agreement in 1991, its trade attention has shifted to the US. In 2007, for example, 79.03 percent of our exports went to the US while we imported 54.21 percent of our products from that country.
    - Despite the shift in Canada's export profile from raw materials to infrastructure-related items (such as telecommunications equipment and aircrafts) in the 1990s, its exports to AP have not followed suit – raw materials and natural resources still constitute the bulk of our exports to AP. This is even more marked in the case of BC where all top five exports are raw materials or natural resources, whereas for Canada as a whole, three of the top five exports are manufactured goods, including motor vehicles, machinery and electrical equipments[8]. Thus, it appears that Canada has failed to tap into the regional supply chains that have developed in AP as a result of the economic integration among countries in that area of the world.

Due to its geographical position and the larger concentration of immigrants from AP, the external trade picture for BC is more diversified than that of Canada's as a whole – a higher percentage of our exports to and imports come from AP, although in the decade between 1996 and 2005 our exports to AP decreased by 1 percent per annum vis-à-vis an annual increase of 5.2 percent in exports to the US. According to statistics compiled by Industry Canada, in 2007, the allocation of BC's exports to various regions of the world was as follows: US (60.4 percent), Japan (13.0 percent), China (5.5 percent), South Korea (4.2 percent), Taiwan (1.5 percent), Hong Kong (0.5 percent), and India (0.7 percent). Collectively, these six Asian economies absorbed 25.4 percent of our province's exports. In the same year, as far as imports to BC are concerned, 40.3 percent of our imports came from five Asian economies – China (22.4 percent), Japan (10.7 percent), South Korea (4.2 percent), Taiwan (1.9 percent), and Thailand (1.1 percent)[9]. Thus, our imports from AP were roughly equal to our 41.0 percent intake from the US for the same time period. Given BC's more diversified import profile, the province is poised to take the lead in the Asia Pacific Gateway Initiative to enable Canada to capitalize on the economic growth and opportunities that arise from the AP region.

However, there is room for improvement. For example, in 2007, only 5.5 percent of BC's exports were destined for China – in light of the current recession in the US and China's massive economic stimulus package to boost domestic consumption, our province can seek to expand its existing share of the huge China market with a population of 1.3 billion. Similarly, there are opportunities for expanding our presence in India in light of the growth forecasts for that country, the rising middle-class there and our social capital with that country – currently, less than one percent of our exports go to India.

An examination of FDI to/from Canada reveals a similarly high degree of concentration of our investment activities with one country, namely the US. Tables 3a and 3b present Canada's outward FDI (OFDI) and inward FDI (or reverse investment) into Canada, respectively. Almost two-thirds of Canadian OFDI goes to the US and over three-quarters of reverse investment into Canada come from the US. In the early 1980s, the largest countries of destination of Canadian OFDI in AP were Australia (not the focus of this paper) and Indonesia. Since the 1990s, our investments in that region have broadened to include Japan, Singapore, and Hong Kong.

Table 3a: Canada's Outward Foreign Direct Investment to Select Regions of the World (C$ mil.)

Country/region	1980	1990	2002	2005
US	17,849 (62.8%)	60,049 (61.0%)	199,992 (45.9%)	213,746 (46.0%)
Europe	5,066 (17.8%)	22,089 (22. 5%)	109,014 (25.0%)	118,887 (25.6%)
Japan	109	917	9,708	7,401
Singapore	8	1,837	4,228	3,551
Indonesia	590	934	4,193	3,171
Hong Kong	39	670	2,642	3,804
Thailand	N.A.	29	923	769
South Korea	N.A.	24	749	779
Malaysia	19	81	718	667
China	N.A.	6	721	1,017
India	61	94	222	204
Philippines	N.A.	36	153	145
Total Asia	1,605 (5.7%)	7,370 (7.5%)	33,139 (7.6%)	30,418 (6.5%)
Total Stock	28,413 (100%)	98,402 (100%)	435,494 (100%)	465,058 (100%)

Table 3b: Inward Foreign Direct Investment from Select Regions of the World (C$ mil.)

Country/region	1980	1990	2002	2005
US	50,368 (77.8%)	80,089 (64.2%)	231,566 (64.9%)	266,532 (64.1%)
Europe	12,434 (19.2%)	36,400 (27.8%	103,606 (29.0%)	119,438 (28.7%)
Japan	605	5,222	9,305	10,804
Singapore	N.A.	88	77	47
Indonesia	N.A.	N.A.	N.A.	N.A.
Hong Kong	51	1,374	4,135	6,274
Thailand	N.A.	N.A.	3	2
South Korea	N.A.	312	274	364
Malaysia	N.A.	N.A.	119	116
China	N.A.	N.A.	196	1,362
India	N.A.	N.A.	31	145
Philippines	N.A.	N.A.	1	2
Taiwan	N.A.	19	108	120
Total Asia	730 (1.1%)	7,773 (5.9%)	15,889 (4.5%)	20,924 (5.0%)
Total Stock	64,708 (100%)	130,932 (100%)	435,494 (100%)	465,058 (100%)

Source: Adapted from Asia Pacific Foundation statistical reports for various years. Figures in parentheses in the cells represent percent of total FDI stock from/to Canada. "N.A." stands for "not available".

Our OFDI to AP countries has hovered around 5 to 7 percent for the past two decades despite the phenomenal rise of many AP economies during this time period. In other words, Canada's investment in AP has not kept up with the frenetic pace of FDI inflows into that region from around the world– in year 2007, for example, FDI to AP rose for the fifth consecutive year and AP remained the largest destination of foreign investment among emerging markets on a global basis, capturing two-fifths of total inflows[10]. Similarly, Canada has not fared better in terms of attracting reverse investment from these countries. The two largest foreign investors in Canada are Japan and Hong Kong. Much of the investment from Japan is in the automotive industry while a substantial amount of investment from Hong Kong goes to real estate and financial services. Several observations pertaining to inward investment from AP merit attention:

1. When Canada entered into the North American Free Trade Agreement (NAFTA), it expected to benefit from foreign investment inflows into North America by attracting capital that might otherwise go to the US. However, because of lingering disputes between the two countries on duty-free treatment of specific components, despite the large influx of FDI into the US from AP in the 1990s and early 2000s, there was little spillover to Canada[11].
2. In general, investments in real estate and financial services do not create as many jobs as those in the manufacturing sector.
3. In light of China and India's insatiable demand for energy resources to fuel their domestic consumption, on the one hand, and the fact that Canada is a major supplier of energy in the world, on the other, there is a potential for substantial trade and investment between Canada and Chindia. However, some have viewed this situation as a zero-sum game whereby energy sold to or under the control of Chinese and Indian investors would be at the expense of the US. Since 2001, Canada has been the largest exporter of oil to the US, ahead of Saudi Arabia, Mexico and Venezuela[12].

The fact that, thus far, Canada has failed to capitalize more fully on the rise of Asia poses tremendous opportunities for BC and Canada as a whole. The following section will examine these opportunities.

OPPORTUNITIES FOR BRITISH COLUMBIA

The opportunities associated with the rise of AP are several-fold, including but not limited to: (1) Partake more fully in the fruits of the economic miracle in many AP economy. (2) Reduce Canada's over-reliance on the US for its overall economic health. (3) Tap into the social capital that accrues from immigrants, foreign students and tourists from AP. (4) Rejuvenating Canada through the inflow of young and highly educated/technically skilled immigrants to counteract our overall aging workforce. (5) Benefit from ongoing regional economic integration within the AP region by servicing the regional supply chains. (6) Capitalize on the rise of Chindia – the power of two. Each of these opportunities will be discussed briefly below. As noted at the beginning of this paper, since opportunities and challenges often represent two sides of the same coin, some of the opportunities can become challenges and vice-versa.

Opportunity #1: Partake more fully in the fruits of the economic miracle in many AP economies

Aside from the Goldman Sachs' projections reported earlier in this paper on the possible emergence of China and India as the largest economic powers in the world in the next forty years, as recently as April 2009, despite downward revisions to Chindia's growth forecast for 2009, the IMF has predicted that China, India and select ASEAN countries will continue to out-perform many of the industrialized countries in the West, including the US, Canada and Western Europe. See Table 4 for the GDP growth rates of select regions/economies in the world between the years 1991 and 2014. The projected GDP growth rates for 2009 through 2014 suggest that China, India and select ASEAN countries will recover from the current financial crises at a much faster rate than the advanced economies as a whole.

Table 4 also reveals that the Asian NIEs, in general, have fared worse than Chindia and some ASEAN countries because they are more susceptible to an economic downturn in the US in light of their heavy dependence on exports. According to the IMF, for every one percent decline in US growth, it could contract the economies of Singapore, South Korea, Hong Kong and Taiwan by 0.9, 0.1, 0.8, and 0.9 percentage points, respectively, as compared to an average of 0.5 percentage drop for the ASEAN 5 countries[13]. In 2007, exports accounted for a staggering 186 percent of Singapore's GDP. In the same year, exports as a percentage of GDP for other AP economies were: Hong Kong (166 percent), Malaysia (90 percent), Taiwan (63 percent), Thailand (60 percent), South Korea (38 percent), China (36 percent), Indonesia (24 percent), Japan (18 percent), and India (17 percent). Despite the almost ubiquitous presence of Chinese products worldwide, Chinese exports actually accounted for a surprisingly low percentage of that country's GDP – between the years 2002 and 2007, net exports accounted for only 15 percent of its real GDP growth, as compared to one-half in Singapore[14]. Furthermore, as indicated earlier, more than one-half of China's exports are comprised of re-exports of imported components.

Table 4: GDP Growth Rates, Year-on-Year (Actual and Projected)

Economy	Average 1991-2000	2007 GDP growth rate	2008 GDP growth rate	Projected 2009 GDP growth rate	Projected 2010 GDP growth rate	Projected 2014 GDP growth rate
World	3.1	5.2	3.2	-1.3	1.9	4.8
Advanced Economies	2.8	2.7	0.9	-3.8	0.0	2.6
US	3.3	2.0	1.1	-2.8	0.0	2.4
Euro Area	N.A.	2.7	0.9	-4.2	-0.4	2.3
Japan	1.3	2.4	-0.6	-6.2	0.5	2.5
Canada	2.9	2.7	0.5	-2.5	1.2	2.5
Asian NIEs	6.1	5.7	1.5	-5.6	0.8	4.8
China	10.4	13.0	9.0	6.5	7.5	10.0
India	5.6	9.3	7.3	4.5	5.6	8.0
Brunei	N.A.	0.6	-1.5	0.2	0.6	1.7
Cambodia	N.A.	10.2	6.0	0.5	3.0	7.5
Indonesia	4.0	6.3	6.1	2.5	3.5	6.0
Lao PDR	6.3	7.5	7.2	4.4	4.7	7.1
Malaysia	7.1	6.3	4.6	-3.5	1.3	6.0
Myanmar	7.1	11.9	4.5	5.0	4.0	4.0
Pakistan	3.9	6.0	6.0	2.5	3.5	7.0
Philippines	3.0	7.2	4.6	0.0	1.0	5.0
Thailand	4.4	4.9	2.6	-3.0	1.0	6.0
Vietnam	7.6	8.5	6.2	3.3	4.0	7.0

Source: Adapted from *World Economic Outlook April 2009: Crisis and Recovery*. 2009. Washington, DC: International Monetary Fund.

The bases for optimism for a more rapid recovery of Chindia and select non-Asian NIEs are several-fold. These include, but are not limited to the following:

1. *Rising labor productivity in these countries*. Labor productivity measures the amount of output for each hour of work. According to the 2006 Conference Board report that published comprehensive worldwide measures of labor productivity, since 2000, the average rate of increase in labor productivity in China is 8.7 percent per annum, the highest rate of increase in the world and almost double that of India's (4.7 percent)[15]. This compares with 1.8 percent, 1.19 percent, 1.9 percent, and 2.6 percent, respectively, for the US, Canada, Japan, and South Korea[16]. Figures 1a and 1b chart the growth in industrial productivity and total factor productivity, respectively, for select Asian countries, in comparison to the US.

   The overall youth of the workforce in both China and India and the strong work ethics in many AP countries will likely ensure the continued growth in labor productivity in these countries in the decades ahead. Geert Hofstede, noted management researcher, has shown that there is a high correlation between "Confucian dynamism" and high rates of economic growth. "Confucian dynamism" refers to countries that emphasize the principles of long-term orientation, hard work and savings.

Figures 1a: Industrial Productivity: China, Korea, Japan, and the US (1972=100)

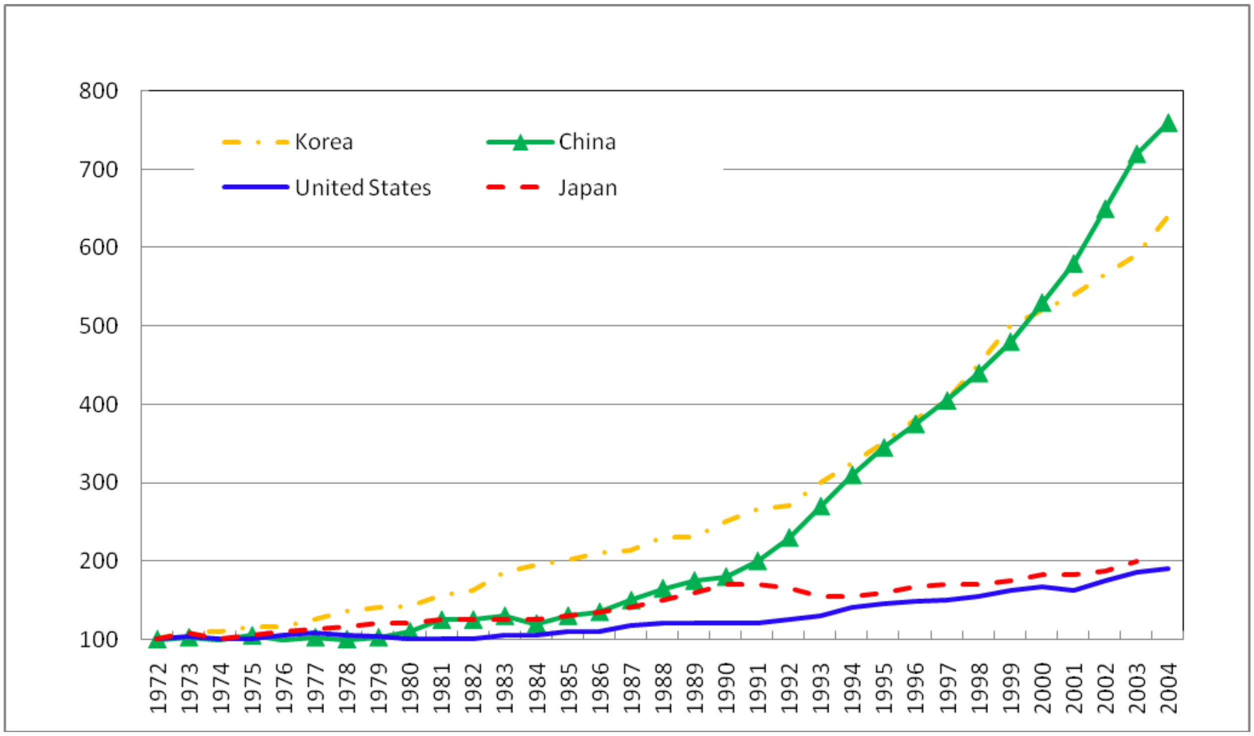
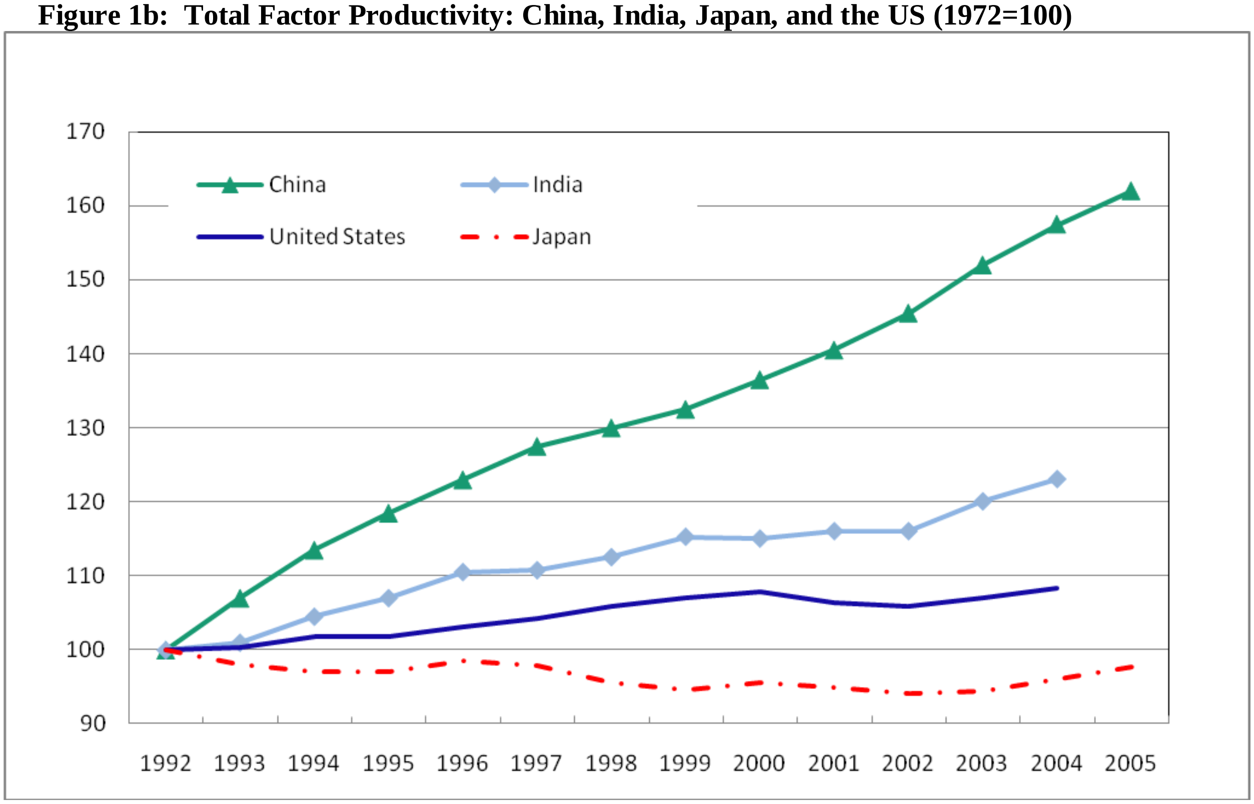


Figure 1b: Total Factor Productivity: China, India, Japan, and the US (1972=100)



Source: WEO, April 2007

2. *High rate of savings* is another characteristic of countries high on "Confucian dynamism". In general, Confucian and other philosophical traditions prevalent in many Asian countries emphasize thrift rather than instant gratification of one's needs. High savings, coupled with large foreign reserves (discussed below), help finance investment projects, both at home and abroad. Column 2 in Table 5 presents the 2006 net national savings rate, expressed as a percentage of gross national income, for select AP economies. With the exception of Cambodia, the savings rates of all the economies are in the double-digit range, with China in the lead at a staggering 44 percent. The high savings rate in China, coupled with its huge foreign reserves, will enable China to absorb sharp export declines and provide ample policy space to smooth its transition from an export-led economy to one focused on domestic consumption.

Table 5: Net National Savings and per capita GDP (ppp) of AP Economies (US$)

Economy	2006 Net National Savings	2008 Per capita GDP	2009 Per capita GDP	2010 Per capita GDP	2011 Per capita GDP
China	44.0%	$5,870	$6,509	$7,217	$7,987
Hong Kong	18.0	44,299	46,832	49,645	52,772
Taiwan	27.8*	31,892	32,915	34,366	36,310
South Korea	17.0	26,341	27,641	29,448	31,447
Japan	13.0	34,501	35,189	36,397	38,167
India	25.0	2,886	3,129	3,396	4,010
Pakistan	15.0	2,754	2,941	3,146	3,378
Brunei	29.0	50,757	52,086	53,522	55,159
Cambodia	9.0	1,942	2,081	2,234	2,402
Indonesia	14.43**	3,979	4,251	4,552	4,896
Lao PDR	12.0	2,225	2,405	2,582	2,784
Malaysia	21.0	14,023	14,776	15,685	16,695
Myanmar	N.A.	1,084	1,129	1,175	1,225
Philippines	22.0	3,575	3,776	3,996	4,245
Singapore	33.0	51,829	54,194	57,368	60,869
Thailand	21.0	8,401	8,942	9,550	10,234
Vietnam	29.0	2,792	3,009	3,259	3,542
Canada	1.2***	39,195	40,125	41,684	43,370

Source: The data on net national savings as percent of gross national income (GNI) are derived from miscellaneous sources, including investment boards of the respective economies and World Bank data. * Data for Taiwan represents gross national savings as percent of GNI. ** Indonesia datum is for 2005. *** Canada data is household savings for 2005. The data on GDP (ppp) per capita are taken from *World Economic Outlook*, April, 2008.

The high savings rates in AP stand in stark contrast to the low or negative savings rates in the US and Canada. For 2005, the household savings rates for the two countries, respectively, were -0.4 and 1.2 percent. The negative savings rate, whereby household expenditure exceeds income has contributed, in part at least, to the economic problems in the US. Even though the net savings rate as percent of gross national income is positive in South Korea, in 2008, household debts amounted to 150 percent of disposable income – much of this debt was in the form of variable rate home mortgages with three-year bullet loans making up a quarter of outstanding mortgages [17]. South Korea is the anomaly among Asian countries in this regard.

3. *Sizable foreign reserves*. The foreign reserves of select AP economies are presented in Table 6. With the exception of Pakistan, most of these economies possess healthy foreign reserves to help them withstand liquidity issues, in the near to intermediate term.

Table 6: Foreign Reserves and Current Account Balance of AP Economies (US$ Billions)

Economy	Foreign Reserves	Current Account Balance in 2008
China	**1,946.0****	**+371.8**
Hong Kong	**181.7 ***	**+27.1**
India	**238.9 ***	**-28.5**
Indonesia	**48.8 ***	**+3.9**
Japan	**1,010.9***	**+167.1**
Malaysia	**90.9 ***	**+38.3**
Pakistan	**6.8 ***	**-14.0**
Philippines	**34.7 ***	**N.A.**
Singapore	**161.7 ***	**+29.2**
South Korea	**201.7 ***	**-7.9**
Taiwan	**292.7 ***	**+28.8**
Thailand	**108.7****	**-0.6**

Source: *Foreign reserves as of January, 2009. ** Foreign reserves as of December, 2008. All the data, except that for Japan, were obtained from Economist.com, February 19, 2009. Data on Japan were obtained from the IMF.

3. *Rising per capita GDP in the AP economies* and hence potential for growth in domestic consumption. Columns 3 to 6 in Table 5 present the per capita GDP data, on a purchasing power parity (ppp) basis, for the AP economies for select years. The per capita GDP of Brunei, Japan, and the Asian NIEs either exceed or approach that of Canada's. For the other AP economies, the per capita GDP figures, while low, are on the upward trend, year-on-year. In the case of both China and India, the per capita GDP statistics has to be interpreted in the context of the huge populations and the large income disparities within these countries. In the case of China, according to the Chinese Academy of Social Sciences, 19 percent of its 1.3 billion population has attained the ranks of the "middle class" in 2003. This segment is projected to encompass 40 percent of China's population by 2020[18]. In the case of India, the middle class has also grown very rapidly. According to the World Economic Forum, personal disposable income in India in 2005 has almost doubled since 2000. In 1983, an estimated 45 percent of Indians lived below the poverty level. This shrank to 36 percent in 1993-1994, and was further reduced to 27.5 percent in 2004-2005. Rising per capita income and large populations, combined with a high savings rate, translate into huge potentials for growth of domestic consumption.
4. *Growth in competitiveness*. According to a 2009 report by the Information Technology and Innovation Foundation, a non-partisan research group, based on 16 indicators of innovation and competitiveness, Singapore and South Korea were ranked numbers 1 and 5, respectively, among 40 countries, ahead of the US which placed sixth. Japan, Canada, China and India ranked 9th, 16th, 33rd and 40th, respectively. Despite China's relatively low-ranking, it was among the ten most improved countries, along with Japan and Singapore[19].

The governments of China, Taiwan and Singapore have assigned high priority to spur innovation in their respective economies – in 2005, for example, China's R&D spending amounted to US$29.4 billion compared to US$4.9 billion in India. The Chinese State Council has boosted R&D investment to 2 percent of GDP by 2010 and 2.5% by 2020. This compares with 2.7 percent for the US. According to projections by the EU Commission, China's R&D expenditure, as a percentage of GNP, will surpass Europe's in 2010. In fact, many multinationals have already established their R&D facilities in

China – in 2005, there were 750 foreign-invested R&D sites in China, up from 200 in 2001. According to a 2005 UNCTAD report, China has emerged as the top choice for R&D expansion among multinationals, ahead of both the US and India.

Innovation is pivotal to a country's ability to sustain international competitiveness. Noted economist, Joseph Schumpeter, has highlighted the critical role that innovation can play in the growth of economies. As Charles Darwin wrote: "It is not the strongest of the species that survive nor the most intelligent, but the ones most responsive to change". According to the 2007 World Economic Forum on International Competitiveness among 134 countries, the rankings of select AP economies were as follows: Brunei (#39), Cambodia (#109), China (#30), India (#50), Indonesia (#55), Japan (#9), Malaysia (#21), Pakistan (#101), Philippines (#71), Singapore (#5), South Korea (#13), Thailand (#34) and Vietnam (#70).

Thus, even though the World Bank has released a dire report on the state of the global economy on March 9, 2009 – that 94 of 116 countries have been affected[20] – the prospects for a more rapid recovery of Chindia and select non-ASEAN Asian countries are better than that for other industrialized economies. Canada, and BC, can certainly benefit by expanding economic ties with these Asian countries.

Opportunity #2: Reduce Canada's over-reliance on the US

As two neighboring countries that share much in common – language, cultural heritage and political philosophy – it is natural for trade and investment to proliferate between the US and Canada. However, because the latter's economy is only one-tenth the size of the former's, over-reliance on the US can affect our ability to diversify and, thus, seriously impact our economic health in the event of a financial meltdown in the US. According to recently released US government statistics, in the last quarter of 2008, the US economy had contracted at the fastest pace since 1982[21]. The current financial crisis, with its epicenter in the US, lends credence to the popular saying that when the US catches a cold, Canada contracts pneumonia – Canada has entered into a recession despite the facts that our banks are financially sound and the country still enjoys a balance-of-trade surplus. The "buy America" provision associated with the $787 billion

US stimulus package is cause for concern, despite President Obama's assurance that his goal is to "grow trade" with Canada.

As evident in the NAFTA dispute over the "rule of origin" pertaining to Honda Civic Hatchback case highlights (see footnote 11), even though Canada won, there is a tendency for us to lose out in the longer run as far as investment inflows and trade expansion with other countries are concerned. The huge growth potential in AP, coupled with other factors to be discussed later in this paper, do provide favorable conditions for Canada to lessen its dependence on the US by diversifying our economic ties and interests with other countries across the Pacific. Since BC's trade profile is more diversified than that of Canada's as a whole, the province is well positioned to serve as a model to lead the rest of the country to seek opportunities in the growth region of the world, namely AP.

Opportunity #3: Tap into the social capital that accrues from immigrants, foreign students and tourists from AP

Table 7a presents the top source countries of immigration from AP to Canada between the years 1984 and 2003, whereas Table 7b shows the number of immigrants and very recent immigrants to BC from select AP economies. An estimated 20.3 percent of BC's population is Asian, the highest for any province in Canada[22]. Collectively, these two tables can provide a better indication of how BC and Canada, as a whole, can potentially benefit from the social capital that could accrue from this influx of Asian immigrants[23].

Table 7a: Top Ten Sources of AP Immigration to Canada, 1984-2003

Origin	Total # of Immigrants	% of Total
Hong Kong	356,593	21.9%
India	308,073	18.9%
China	307,023	18.9%
Philippines	216,948	13.3%
Pakistan	106,032	6.5%
Taiwan	100,411	6.2%
South Korea	79,681	4.9%
Vietnam	68,364	4.2%
Sri Lanka	59,331	3.6%
Bangladesh	24,421	1.5%
Total of Top 10	1,626,877	100%

Source: Citizenship and Immigration (2003 and 2004)

Table 7b: Country of Origin of Immigrants and Very Recent Immigrants to BC

Country/Region	Immigrants	% of Total Immigrants	Very Recent Immigrants (VRI)	% of Total VRI
Total	1,119,215	100%	177,840	100%
China	145,320	12.98%	41,500	23.3%
Hong Kong	78,065	6.97%	2,975	1.7%
East Asia (excl. China & Hong Kong)	90,035	8.0%	23,600	13.3%
Philippines	69,200	6.2%	17,585	9.9%
Southeast Asia (excl. Philippines)	51,665	4.6%	4,805	2.7%
India	119,265	10.7%	23,990	13.5%
South Asia (excl. India)	13,585	1.2%	3,935	2.2%

Source: 2006 Census, Statistics Canada. "Very recent immigrants" refer to those who landed between January 1, 2001 and May 16, 2006, time of the 2006 Census.

Asians have accounted for approximately 30 percent of the increase in Canada's population between the 1986 and 2001 censuses[24]. Several observations in this regard merit attention:

- *China and India are the largest source countries*. Chinese from Hong Kong, China and Taiwan[25] represent the largest ethnic non-white group of immigrants to BC and Canada, followed by South Asians. In 1998, China overtook Hong Kong to become the largest source country of immigrants to Canada. China and India are coincidentally the two countries that have experienced the most rapid economic growth in the recent past. Furthermore, they hold the greatest potential for continued economic growth in the foreseeable future, as discussed earlier.
- *Brain circulation.* In light of the economic growth in Chindia, Canada's fairly liberal policy on naturalization (three years as compared to five years in the US) and the more limited opportunities for gainful employment of recent immigrants, the number of immigrants who have returned or who choose to return to their respective countries of origin (COO) after acquiring their Canadian citizenship is noteworthy. In the opinion of many immigrants from AP, the important considerations in their choice of Canada as a destination country, i.e., pull factors, are the high quality of life, a good education

system, generous social welfare benefits, safe and clean living environment, and the existence of a multicultural society. The factors that push them to leave Canada to return to their COO or settle elsewhere, such as the US, are its high taxes and more limited job opportunities. Immigrants often encounter problems in obtaining accreditation/certification of their professional degrees/license. Some face difficulties because of poor language skills[26.]

According to the Research on Immigration and Integration in the Metropolis (RIIM) project, Canada is a "human capital entrepot" where immigrants acquire education and experience and then leave to return to their COO in search of better opportunities – their study showed, for example, that Hong Kong immigrants who were more highly educated and who were financially better off were more inclined to return to Hong Kong. An estimated 30 percent of immigrants return to their COO or relocate to a third country[27]. Similarly, in my study of Chinese students at a major university in Western Canada in business administration, engineering and computer science – disciplines in high demand in China – the vast majority of them indicated that they planned to work in Canada for a couple of years to acquire international job experience and then return to work in China. However, because over 90 percent of Chinese students have acquired Canadian citizenship, they have the option to return to Canada at a later time[28]. These findings, coupled with that of AnnaLee Saxenian's study on transnational entrepreneurship in the Silicon Valley suggest that the concepts of brain drain and brain gain may be obsolete as immigrants can contribute to transnational entrepreneurship by setting up dual businesses and residences in their COO as well as their adoptive country, Canada[29].

- *Transnational entrepreneurship*. According to a study conducted by Wenhong Chen and Barry Wellman, they found that 42 percent of Chinese-Canadian entrepreneurs are transnational who hire more employees and generate substantially higher revenues than their domestic counterparts. Correlational data on the inflow of Chinese immigrants to Canada and growth in Canada-China trade revealed that between the years 1995 and 2004, for every 1,000 new Chinese immigrants to Canada, there was a $700 million concomitant increase in bilateral trade between the two countries[30].

Similarly, research by Tung and Chung highlighted the importance of "immigrant effect" (IE) in affecting investors' choice of foreign market entry strategies. IE refers to firms that are owned or hired immigrants as key decision makers, and is a form of social capital. In general, IE firms were more likely to engage in joint ventures or wholly-owned operations in target markets as opposed to exporting and licensing favored by firms without these connections[31]. In fact, China's very rapid economic growth was fueled, to a large extent, by investment flows from its vast diaspora or overseas Chinese. Between the years 1980 and 2004, about one-half of the $336 billion foreign investment into China came from overseas Chinese[32]. The Chinese diaspora is estimated at 32 to 56 million and is concentrated primarily in South-east Asia.

In comparison, the Indian diaspora, estimated at 30 million worldwide, has been less successful than the Chinese in attracting overseas Indians to invest at home. The lower rate of trade and investment activities by overseas Indians in their COO might have stemmed from inaction of the Indian government. The latter has rectified this situation by enacting an "Overseas Citizenship of India" program to permit a limited form of dual citizenship to "Non-resident Indians" (NRI) and "Person of Indian Origin" (PIO) [33]. India, however, has been more successful than China in attracting remittances from overseas Indians – annual remittances from overseas Indians to their COO represents 3 percent of that country's GDP.

- *Tourists from AP.* Besides immigration, BC and Canada are attractive tourist destinations for visitors from AP. Table 8 presents the number of AP visitors between the years 2003-2007.

Table 8: Tourists to Canada from Select AP economies (in 000s)

Economy	2003	2004	2005	2006	2007	% change 2006-2007
China	77.5	104.8	120.3	147.9	155.8	5.3
Hong Kong	94.0	121.0	113.8	111.7	115.6	3.5
India	59.5	71.0	82.0	90.0	105.2	16.9
Indonesia	12.0	11.8	11.8	12.4	11.8	-4.8
Japan	273.9	437.2	441.8	401.1	343.5	-14.4
Malaysia	6.7	9.6	10.3	11.4	11.1	-2.6
Pakistan	8.0	10.6	13.3	15.6	16.3	4.5
Philippines	33.3	38.2	44.1	50.5	58.8	16.4
Singapore	17.5	23.9	25.7	24.3	24.8	2.1
South Korea	148.6	191.0	191.3	201.8	212.6	5.4
Taiwan	69.3	108.6	100.6	94.9	82.5	-13.1
Thailand	8.3	11.3	13.4	12.9	13.7	6.2
Other AP	11.4	12.0	13.6	15.3	16.3	6.5
Total	1,007	1,374	1,432	1,435.5	1,440.3	0.3

Source: Adapted from *Asia Pacific Visitors to Canada*.
http://www.asiapacific.ca/en/publications/statistical-reports/asia-pacific-visitors-canada

These statistics reveal several interesting trends:

- While Japan continues to remain as the largest source country of tourists to Canada, their numbers have dropped significantly in 2007;
- Tourists from China in 2007 have almost doubled that in 2003. This reflects a global trend whereby the number of Chinese tourists has exceeded that of Japan's on a worldwide basis. According to the World Economic Forum, in 2007, 31 million Chinese traveled abroad for business and/or pleasure. This growth has occurred despite the general difficulty that Chinese tourists have in obtaining visas to Canada. Negotiations are currently underway for the conclusion of an "Approved Travel Destination" agreement with China. The conclusion of such an agreement could witness a further explosion of Chinese tourists in this country, with Vancouver and BC as "must see" places on their Canadian travel itinerary;
- The number of Indian tourists in 2007 has almost doubled that in 2003;
- The largest source countries of tourists to Canada parallel that of the top countries that supplied immigrants to Canada, suggesting a correlation of the two trends.

5. *Students from AP*. Canada has also played host to many students from AP. On February 21, 2009, the Federal Government announced that it will "substantially increase" Canada's intake of foreign students as they represent an important "source of revenue"[34]. In academic year 2003-2004, a total of 70,000 foreign students accounted for approximately 7 percent of total enrolment in Canadian universities (note: Canadian immigrants and citizens, regardless of their COO, are not included in these figures). One-half of the foreign students were from Asia, with China accounting for 44 percent of that pool. These statistics do not include the 170,000 students who arrive in Canada every year to learn English. For BC, its stock of foreign students for the period 2001-2005 was as follows (figures in parentheses represent the number of foreign students): 2001 (35,471), 2002 (38,067), 2003 (40,170), 2004 (42,004), and 2005 (44,125). For 2005, the top source countries for foreign students were: South Korea (27.6 percent), China (21.6 percent), Japan (10.4 percent), Taiwan (6.6 percent), Hong Kong (3.6 percent) and India (1.7 percent).

Collectively, immigrants, tourists and foreign students can potentially constitute an important source of social capital to facilitate trade and investment between Canada and AP. Aside from immigrants, foreign students in Canada, through acquisition of knowledge of Canadian culture and society are well positioned to further trade links with their COO if they leave Canada upon graduation or if they choose to remain in Canada as they are on a "much faster pathway to immigration", to quote Immigration Minister Kenney[35].

Opportunity #4: Rejuvenating Canada's population and labor force

The inflow of young and highly educated/technically skilled immigrants can help rejuvenate Canada's population and labor force. Similar to the situation in many other industrialized countries, the overall population in Canada is aging. In 2006, the median age for British Columbia was 39.8, a slightly higher figure than that for the country as a whole (38.8). The median age for Canadians has increased steadily from 27.7 in 1946 and is projected to reach 46.9 by 2056[36]. Without the inflow of younger immigrants, the workforce in Canada will contract by 1.5 million by 2025[37].

An overall aging workforce has implications for a country's sustainability, including reduced tax revenues, lowered labor productivity, a drain on social welfare benefits, and ultimately declining international competitiveness. Hudson Institute, the global think tank, coined the term "Global Workforce 2000" to refer to the growing migration of workers from the developing countries to fill the vacuum created by the aging population in the industrialized west[38]. This trend is possible because of the reduction in immigration and emigration barriers to the movement of people across countries, and the rise in educational and technical skills among the peoples in the emerging economies. In 2006, for example, one-half of the immigrants to BC have a university degree as compared to one-quarter for the province as a whole. In 2004, China and India graduated almost a half million engineers, thrice as many as that in the US.

India trumps China in terms of the overall youth of its population. In 2007, the median age of Indians and Chinese was 25.1 and 33.2, respectively. As noted earlier, 340 million Indians or 30 percent of its population is under the age of 15[39]. The higher fertility rate in India of 2.76 children per woman in 2008 (vis-à-vis 1.77) in China, has contributed to the overall youth of the Indian population. China's lower fertility rate could be attributed to the success of its "one child policy" launched in the late 1970s. Population control is a double-edged sword because China would not have been able to achieve its phenomenal economic transformation without a drastic curb on its population growth, on the one hand. On the other hand, however, population control has contributed to an overall aging of the workforce – by 2020, an estimated 11.8 percent of China's population will be 65 years of age or older. Similarly, in India, because of economic growth, women are opting for fewer children – if this trend were to continue, its fertility rate will start to decline in 2015[40].

In light of our aging workforce, the inflow of young, highly educated immigrants from AP is essential to the sustainability and vitality of our province.

Opportunity #5: Benefit from ongoing regional economic integration in Asia

AP economies have made significant strides toward regional economic integration in the recent two decades. Aside from the Association of Southeast Asian Nations (ASEAN) that includes ten member countries – Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam – many free trade agreements (FTAs) have been concluded between ASEAN and non-ASEAN nations in that region. In 2008, intra-regional trade accounted for one-half of total trade in AP s as compared to one-quarter of total trade two decades ago. Between the years 2000 and 2007, trade among countries in the region expanded 75 percent faster than its trade with Europe and the US[41].

Based on an analysis of the sales and operations of the world's 500 largest multinationals, economist Alan Rugman has concluded that regionalism, rather than globalization, is a more apt characterization of the state of world trade, i.e., economic transactions are more intensive within regions than across regions, as attested to by NAFTA and the European Union[42]. Thus, regional economic integration within AP appears to be a natural development.

Perhaps the most significant of these FTAs is the one between China and ASEAN that would create a market of almost two billion people (roughly one-third of the world's population) with a combined GDP output of nearly US$3 trillion. If implemented by 2010, this will create the largest economic trading bloc in the world. The other significant economic agreement in the region is the Comprehensive Economic Cooperation Agreement currently under negotiations between China and Taiwan to allow for the free movement of capital, goods and services across the two economies. Critics of the proposed agreement have asserted that its conclusion would result in a de factor reunification of Taiwan with China[43]. Another major milestone in this development was reached on April 26, 2009 when China and Taiwan agreed to permit investment across the Taiwan Straits. While Taiwanese businesses already have substantial investments in China, this agreement could stimulate reverse investment from China to Taiwan[44]. This development will undoubtedly further strengthen the linkage across the Taiwan Straits and make the concept of "Greater China" a true economic reality.

While some ASEAN countries may still harbor lingering concerns about China's rise in the region, such as Vietnam's continued territorial dispute with China over the Spratley and Paracel Islands in the oil-rich South China Seas, China's trade with ASEAN in 2005 (US$130.4 billion) has continued to dwarf that of India's (US$30 billion in 2007). China's trade with the bloc is anticipated to grow at 23 percent year-on-year. Thus far, as compared to India, China has played a more important role in this trading bloc for two primary reasons:

- China embarked on its economic reforms in the late 1970s, fifteen years ahead of India.
- Many political and business leaders are of ethnic Chinese origin.

However, the factors that could play to India's advantage include:

- India does not have territorial disputes with the ASEAN nations,
- It has a stronger naval presence in the western Southeast Asian waters. Furthermore, its growing security ties with the US may be viewed as a welcome countervailing force to China's ascendancy in the region[45].

While the foregoing comparison between China and India's relations with ASEAN might suggest rivalry between the two countries, in reality, relations between China and India have improved considerably in recent years, to be discussed further under Opportunity # 6 below.

In November 2004, Canada has entered into negotiations for a free trade agreement (FTA) with South Korea. The conclusion of a FTA with South Korea would represent a step in the right direction to enable us to further integrate our economic future with that of AP and, more importantly, could serve as an model for similar agreements with other economies in that region.

Opportunity #6: Capitalize on the rise of Chindia – the power of two

Just as the US served as the engine of economic growth in the Twentieth Century, China and India will increasingly share this role in the Twenty-first Century. Canada is well positioned to capitalize on its long-standing and generally positive relationships with both of these nations – Canada's reputation as a friend to the Chinese has been inextricably linked to the work of Dr. Norman Bethune during the Chinese Communist Party's (CCP) Long March that culminated in the establishment of the People's Republic of China in 1949. In the case of India, both Canada and India are members of the British Commonwealth, and Canada has provided substantial aid to India (C$3.2 billion) between the years 1951 and 2000. In fact, throughout the 1950s, Canada was the fifth largest exporter to India, accounting for 5.4 percent of that country's import. However, bilateral trade between the two countries has dwindled to the point where India does not rank among our top twenty trading partners[46].

Historical goodwill aside, China and India now comprise the two largest source countries of emigrants to Canada. In addition, there are complementarities between the Canadian economy, on the one hand, and that of China's and India's, on the other. Canada has abundant natural resources that both China and India need to fuel further economic growth.

There is a tendency to view the rise of China and India as a zero-sum game, i.e., that China must grow at the expense of India or vice-versa. According to Tarun Khanna, Harvard Business School professor, and Robyn Meredith[47], a Hong Kong-based correspondent who covers Chindia for *Forbes* magazine, this does not have to be the case.

According to Khanna, on a purchasing power parity basis, China and India will become the largest and second largest economies in the world in the coming decade, and by 2016, the two countries will once again resume the economic status they enjoyed two centuries ago – namely, accounting for 40 percent of world trade as compared to 15 percent in 2006[48]. Despite the enormous differences between the two countries – political philosophy, path to economic development and challenges to their growth – the two countries have realized the benefits that could accrue from cooperating with each other. This collaboration was marked by the re-opening of the Nathu La border in 2006, a mountain pass along the Himalayas that was closed for 44 years when war broke out between the two countries. The bases for optimism of relative peaceful coexistence between China and India are three-fold:

- Historic – prior to the 1962 war between China and India, the two countries enjoyed two millennia of religious, economic and cultural exchanges, as evidenced by trade along the Silk Road and the introduction of Buddhism to China.
- Economic – John Dunning's eclectic paradigm of international trade[49] has shown that location (or geographic proximity) is a primary determinant of global commerce. Since the two countries are geographically contiguous to one another, bilateral trade between the two countries is expected to surge to $50 billion by 2010.
- Strategic – the two countries possess complementary strengths – manufacturing in the case of China vis-à-vis information technology in the case of India. Thus, both countries "have too much to lose by not working together. This doesn't suggest that a lovefest will ensue; it only implies less hostility and suspicion between fast maturing nations"[50].

In fact, a growing number of multinationals from around the world, including those from Chindia, have begun to capitalize on the synergistic effects that could be derived from establishing a dual presence in both markets. For example, Lenovo, the Chinese multinational that purchased IBM's personal computer division, has relocated its global ad-management function from Shanghai to Bangalore; and Mahindra and Mahindra, an Indian manufacturer of automobiles and tractors, has expanded into China[51]. The latter move is not surprising in light of the fact that in 2008, China overtook both the US and Germany to become the largest manufacturer of automobiles in the world[52], and in the first quarter of 2009 vehicle sales in China surpassed that in the US[53].

Increasingly, global multinationals have adopted a "China plus one or two" strategy, i.e., expanding into India and/or Thailand and Vietnam while retaining a presence in China[54]. Vietnam joined the World Trade Organization in 2007. This strategy is in recognition of the economic benefits to be derived from the "power of two" by diversifying their investments.

Both China and India have increased significantly their OFDI activities in the recent past. In response to the Chinese government's "Go Global" initiative, OFDI from that country has grown from US$2.5 billion in 2002 to $26.5 billion in 2007, a ten-fold increase in five years. By end 2007, the Chinese Ministry of Commerce estimated that there were 7,000 firms with investments in 173 countries worldwide. According to UNCTAD, China could be the fourth largest source country of FDI in the world between the years 2005-2008[55]. High-profile investments from India include the Tata Group's US$8-billion acquisition of Corus Steel and US$2.3 billion purchase of Land Rover and Jaguar.

Chindia, the "power of two", thus poses tremendous opportunities for Canada and BC, in particular.

CHALLENGES FOR BRITISH COLUMBIA

The challenges associated with our objective to grow trade with AP are several-fold, including, but not limited to: (1) Lack of knowledge and/or misinformation about AP. (2) AP's perception that Canada does not provide a favorable environment for doing business. (3) Under-development, economic hardships caused by the 2008-2009 financial crisis, and destabilizing social influences and security concerns. (4) Institutional weakness, corruption and weak corporate governance in some AP countries. (5) Regional economic integration – trade creation versus trade diversion. (6) Persistent tensions among AP countries. Each of these challenges will be discussed briefly below.

Challenge #1: Lack of knowledge and/or misinformation about AP

There are at least five possible types of misinformation about AP that could hinder our ability, as Canadians or British Columbians, to expand trade and investment with these countries. These are:

1. *The tendency to disaggregate ourselves from the economic fortunes of AP*. According to a survey conducted by the Asia Pacific Foundation in 2006, only 39 percent of Canadians polled thought that Canada was part of AP, albeit this figure represented a 7 percent increase from 2004. Thus, AP "is still not a part of the mental map" for many Canadians. This may be changing, however. In a survey by the Asia Pacific Foundation and the *Globe and Mail*, 77 percent of Canadians felt that China was important to our country's prosperity vis-à-vis 89 percent for the US, and almost one-half (42 percent) of Canadians projected that China will be our most promising market in the future, ahead of the US[56].
2. *The perception that we are already engaged in so much trade with AP*. This second type of misinformation appears to be diametrically opposed to the preceding one. Because of the belief that we have already engaged in so much trade with AP, there is no need to further develop trade ties. In the same survey jointly conducted by the Asia Pacific Foundation and the *Globe and Mail* reported above, almost one-half (47 percent) of those polled thought that between 26 to 50 percent of Canada's trade is already with AP[57]. In reality, Canada and BC's trade with AP has declined over the years, as noted earlier. According to the BC Ministry of Economic Development, our province's share of major Asian merchandise markets has decreased from 0.56 percent in 1994 to 0.26 percent in 2004. In financial terms, each 0.1 percent decrease in market share translates into $85 million and $250 million lost export revenues, respectively, for BC and Canada [58].
3. *Inability to separate the actions of the Chinese government from that of Chinese companies.* This perception might have contributed to the public pressure to block the sale of Canadian assets to prospective Chinese investors. In the case of the failed Noranda bid, the suitor, China Minmetals is indeed a state-owned enterprise. However, in a survey that I conducted of non-Chinese students at a major university in western Canada about their willingness to work for Chinese companies, only a

quarter (24.5 percent) indicated that they would "definitely do so". The reasons for reluctance to work for Chinese companies included: "perceived influence by the Chinese government in the company's operations" and "corruption and other unsavory business practices"[59]. While it is true that the Chinese multinationals that have been most active in OFDI are primarily state- or quasi state-owned enterprises, it ignores the reality that private enterprises have contributed very substantially to China's economic growth. Thus, it is erroneous to assume that all Chinese enterprises are state-owned. According to Yasheng Huang, a professor at the Massachusetts Institute of Technology, economists in the Western world has misunderstood the term, "enterprises sponsored by townships and villages" to refer to ownership, whereas it actually pertains to the geographic location of these economic entities [60].

4. *The perception that since the per capita income in many AP economies is low, developed countries are net lenders to the emerging markets*. Thus, under tight money market conditions, Canada should be more prudent with regard to its capital outflows. The reality is that emerging economies, on balance, are net lenders to the rest of the world. As of November 2008, China held US$681.9 billion worth of US sovereign debt, making it the largest holder of US treasury bonds in the world.
5. *The tendency to lump, and hence treat, the Asian countries as a monolithic whole*. There are significant and substantial variations across the Asian countries. Even within members of an ethnic group, there are salient differences among Chinese from Hong Kong, China and Taiwan. Similarly, even within China, there are vast variations among the Chinese from Beijing in the north, Shanghai in the middle, Guangzhou in the south, and the hinterland[61]. The existence of significant and substantial differences within AP can make entry, marketing and product branding more complex than may be assumed.

This lack of information or misinformation about AP could stunt Canadians' ability to effectively capitalize on potential trade and investment opportunities in that region.

Challenge #2: AP's perception that Canada does not provide a favorable environment for doing business

In general, while AP countries have positive perceptions about Canada as an open and friendly nation, they are fairly negative about the prospects of investing or doing business in Canada. Canada is associated with high taxes, strong unions and is perceived to be technologically less developed than the US – collectively, these factors do not contribute to a favorable investment climate. Whether these perceptions are accurate or not, they do guide actions. In a 2005 survey of 296 small- and medium-sized enterprises in China, only 4 percent of those polled had investment projects in Canada, while another 6 percent had considered the prospects of so doing but decided against it. In other words, "Canada is very faint on China's outward direct investment radar screen" and might have contributed, in part at least, to the fact that Canada has thus far attracted only 2 percent of China's OFDI[62]. Furthermore, China Minmetals' failed bid for Noranda in 2004 has dampened China's overall interest in investing in Canada, and could explain, in part at least, why China has redirected its efforts to other resource-rich countries, such as Latin America, Africa and Australia. For example, Canada has been bypassed on China's most recent buying spree of natural resources in Brazil, Russia, Venezuela, and Africa[63].

Similarly, Indian business leaders who were surveyed by the Asia Pacific Foundation in 2003 perceived Canadian businesses as less committed to long-term relationships with their partners, lacked entrepreneurial talent, and were "not associated with high quality goods and services"[64.] These fairly negative perceptions about Canada as a destination of foreign investment could account, in part at least, for our inability to attract sizable inward investment from other Asian economies, such as Japan, South Korea and Taiwan (see Table 3b) despite their overall favorable impression of Canada as a place to visit and emigrate to. In addition, it might have influenced the decision by some immigrants to return to their COO once they have acquired their Canadian citizenship, as in the case of the more highly-paid and educated immigrants from Hong Kong in the RIIM project and the students included in my survey of intentions to return to China upon graduation.

Investment climate aside, because of the relatively small size of the Canadian economy – Canada accounts for only 3.3 percent of global imports – it is not considered as a major player in the world economy. Hence, Canada is not high on the priority list for many countries as far as trade and FDI activities are concerned. Thus, Canada has to address and, more importantly, allay the concerns that prospective AP investors may have about us by, one, improving our investment climate; and/or, two, correcting misperceptions they have about us.

Challenge #3: Under-development, economic hardships caused by the 2008-2009 financial crisis, and destabilizing social issues and security concerns

Despite the impressive growth attained in many AP economies in the recent past, the 2008 per capita GDP, on a ppp basis, for ten of the countries included in this paper – China, India, Pakistan, Cambodia, Indonesia, Lao PDR, Myanmar, Philippines, Thailand and Vietnam – is still below US$10,000. Furthermore, in China and India, the income inequality in these countries has been rising. Column 2 in Table 9 presents the Gini index of select AP economies – the figures for Canada and the US are included for comparative purposes. The Gini coefficient is a measure of income inequality in a country. It ranges from 0 to 1 where "0" represents absolute equality. The Gini index is the Gini coefficient expressed in percentage; thus, the lower percentage ascribed to a country, the more inequitable the wealth distribution in that country[65]. Of itself, a high Gini index may not be destabilizing, as in the case of the US and Singapore; however, where it is combined with low per capita GDP, it could contribute to social unrest as the poor in the country may be marginalized.

In India, where the GDP per capita is still low, a rising Gini coefficient exacerbates the inequality. For example, in the 1990s, the bottom half of its population experienced a slower rate of consumption growth than the preceding decade. Most of the poor live in rural India which is primarily agricultural – an estimated 65 percent of the Indian population still depends directly or indirectly on agriculture that accounts for only 16 percent of that country's GDP[66].

Table 9: Gini Index, Corruption Perceptions Index (CPI) and Opacity Index

Economy	2007-8 Gini Index	2008 CPI	Opacity Index
China	46.9%	72	41
Hong Kong	43.4%	12	2
Taiwan	N.A.	39	28
South Korea	31.6%	40	24
Japan	24.9%	18	16
India	36.8%	85	40
Pakistan	30.6%	134	38
Cambodia	41.7%	166	N.A.
Indonesia	34.3%	126	35
Lao PDR	34.6%	151	N.A.
Malaysia	49.2%	47	25
Myanmar	N.A.	178	N.A.
Philippines	44.5%	141	43
Singapore	42.5%	4	3
Thailand	42.0%	80	N.A.
Vietnam	34.4%	121	N.A.
Canada	32.6%	9	12
USA	40.8%	18	13

Source: Gini index is obtained from UNDP, 2007. CPI is obtained from Transparency International. Opacity Index is obtained from Milken Institute.

In China, the sharp drop in exports in the last quarter of 2008 has resulted in factory closures with a loss of roughly 20 million manufacturing jobs, with more anticipated in late spring 2009[67]. The two groups most affected by the economic downturn in China are the 150 million migrant workers and new college graduates. The former have played an important role in China's growth by working at very low wages and often under hazardous conditions. Furthermore, because of the household registration system (*hukou)* in China, migrant workers are ineligible for social welfare benefits; consequently if they lose their jobs, their families in the rural areas would be badly affected. In 2005, the World Bank estimated that migrant workers remitted US$30 billion to their families in the countryside[68]. Migrant workers are not included in China's unemployment figures.

The second group that could potentially create social problems for China is college students. In end January 2009, an estimated 1.5 million (or 12 percent) recent college graduates, with high expectations for entry to well-paying positions fueled by the past growth of the Chinese economy, were unemployed[69]. In 2009, another 6.1 million will graduate. According to

Robyn Meredith, economic prosperity, more so than democracy, is of primary concern to most Chinese. In her opinion, since the Tiananmen incident in 1989, the Chinese Communist Party and its citizenry have entered into an implicit quid pro quo arrangement whereby as long as the people are materially better off, they are satisfied with an authoritarian government. Meredith noted that while there are demonstrations and protests in China, these pertain primarily to property rights[70]. Furthermore, democracy, as understood and practiced in the West, is a foreign concept that has not taken strong hold in China; rather, the concept of benevolent dictatorship, as evident to some extent in Singapore, has deep traditional roots.

The US$585 billion stimulus package introduced by the Chinese government could hopefully help alleviate rising social tensions there. In fact, some Chinese manufacturers have responded to the current global economic downturn by cutting labor costs because laid-off workers are willing to work for lower wages. In the past few years, labor costs have risen due, in part at least, to the appreciation of the Chinese currency (*renminbi)* since it was unpegged from the US dollar in July 2005. According to a 2009 survey by Booz & Company and the American Chamber of Commerce in Shanghai, they found that a "flight back to the `quality' of China was under way"[71] – namely, multinationals that have shifted some of their production facilities to neighboring countries to capitalize on lower costs elsewhere have decided to return to China because of the world-class infrastructure and highly developed supply chains there at now substantially reduced costs. In fact, 90 percent of the 108 multinationals surveyed planned to remain in China, a 7 percent increase over a year ago.

While the World Bank and the IMF have reduced their 2009 growth forecast for China to 6.5 percent[72], Xu Lin, head of the Department of Fiscal and Financial Affairs of the Chinese National Development and Review Commission, has asserted that "the target of 8 percent economic growth in 2009 will definitely be met"[73]. Chinese Premier Jiabao Wen has reaffirmed the goal of *bao ba*" (or "protect 8") at the Second Session of the 2009 National People's Congress and expressed confidence that this target could be met as long as the proper policies and procedures are in place, namely, to promote domestic consumption in the face of slumping exports. "Protect 8" refers to the goal of maintaining an annual growth rate of 8 percent growth so as to create 7 million new jobs annually to keep a 4.5 percent unemployment rate[74]. In an end December 2008 survey by the China Economic Monitoring and Analysis Center, a branch of the National Bureau of Statistics, the overwhelming majority (92 percent) of economists polled believed that China will recover by end 2009[75]. However, given the penchant toward thrift and savings, there has been a growing movement that exhorts Chinese youth to curb their weekly budgets to "100-yuan for a week" (under US$14.60)[76].

Some of the Asian economies that were originally projected to be more insulated from the current financial meltdown have been hard hit, albeit to varying degrees. The hardest hit economies are Japan, Taiwan, South Korea and Pakistan.

- Japan, for example, reported that its exports plunged 45.7 percent in January 2009. In the first quarter of 2009, its GDP contracted by 15.2 percent, the steepest drop in half a century[77]. The prognosis is not rosy in light of the strong yen, steep drop in demand for cars and other big ticket items, its aging population, and policy instability brought about by the rapid turnover of Prime Ministers – three since Shinjiro Koziumi's exit in September 2006. Furthermore, the current crisis broke out just as Japan was recovering from a very protracted recession – the lost decade of growth in the 1990s.
- Taiwan, a major exporter of computer components, saw its exports plummet by 44 percent in January 2009. GDP dropped 10.24 percent in the first quarter of 2009, the sharpest decline on record[78]. The bright spot, from an economic perspective at least, is the current negotiations for closer economic cooperation with China discussed earlier.
- South Korea's economy contracted by 5.6 percent in the final quarter of 2008 and exports in January 2009 fell by 30 percent. South Korea is a major exporter of cars and technological products, big ticket consumer items that are badly affected by a global economic downturn. Samsung Electronics, the world's largest manufacturer of memory chips, liquid crystal displays and a leading maker of cellular phones, for example, posted its first ever loss in January 2009. The fifth largest automaker in South Korea, Ssangyong Motor that is majority-owned by China's Shanghai Automotive Industry Corporation, has gone into court receivership in January 2009. The drop in exports has been accompanied by the third year of consecutive decline in investment inflows into the country, current account deficit, surging household debts (discussed earlier in this paper), a 40 percent depreciation of the Korean won vis-à-vis the US dollar, and rising inflation – all contributing to capital flight from that country at a rate higher than it was at the peak of the 1997 Asian financial crisis[79].

- Perhaps the country that has been most severely affected is Pakistan with "economic and political instability feeding off one another"[80]. Its economic plight – low foreign reserves that are barely sufficient to meet one month's imports, growing fiscal and current account deficits, and financial bailout by international monetary agencies – has fueled the potential for political insurgents and other terrorist groups to gain popular support in the country. Pakistan has been alleged to be a safe haven for many terrorist organizations, including Al Qaeda, and other groups responsible for the growing incidence of terrorism in India, including the three-day siege of the Taj Mahal Palace and Tower in Mumbai that killed 195 people.

In the meantime, pessimism about the economy has sparked fears of unemployment among a growing number of Filipinos – according to a Gallup International poll conducted in the last two months of 2008, 52 percent of those surveyed considered themselves as poor and 45 percent expressed concerns about losing their job in 2009[81]. Furthermore, because roughly 10 percent of Filipinos (8 million) work overseas and remitted home US$16.4 billion in 2008, the financial crisis could result in job losses, thus lowering the amount of annual remittances to the Philippines from abroad[82].

Similarly, Thailand has been hard hit because of its heavy reliance on tourism and the global automotive supply chain. The typically mild-mannered Thais have staged protests against their government, including the shutdown of Bangkok airport, to demand the resignation of their Prime Minister. In Indonesia, even though its trade is more diversified and its economy is less exposed than that of the Asian NIEs, because oil prices have plummeted from its 2008 summer high, revenues have declined. Bad loans increased by 35 percent in 2008; and in Hong Kong, personal bankruptcies grew 85 percent in 2008 over 2007. According to the March 2009 World Bank report, 30,000 workers in Cambodia have already lost their jobs due to factory closures in the textile industry[83].

Even though India, like China, will continue to grow at a healthy rate, the impact of the financial crisis will undoubtedly be felt, including a slowdown in remittances to India from abroad – India is the largest recipient of foreign remittances in the world with an annual inflow of US$20 billion or 3 percent of that country's GDP. An estimated one-half of these remittances come from the US and Canada. With recessions in these two countries, remittances will undoubtedly be negatively affected. In early March 2009, the World Bank reported that half a million jobs were lost in the last quarter of 2008 in India when worldwide demands for automobiles, textiles, gems and jewelry dropped. Furthermore, a growing number of Indians who work in construction projects in the Middle East or as H1-B visa holders in the US could lose their jobs because of the economic downturn[84]. In 2008, 65,000 H1-B visas were issued. In the US, a plan is currently underway to tighten the issuance of such visas[85]. In addition, according to the IMF April 2009 report, after the US, Indian firms are among the “world’s most vulnerable … because they borrowed aggressively during the boom”. Defaults of non-financial entities in that country could climb to 20 percent in 2010 due, in part at least, to the one-third drop in foreign loans and direct investment[86].

Challenge #4: Institutional weakness, corruption and weak corporate governance in some AP countries

Some persistent complaints from foreign investors about doing business in select AP economies include corruption or lack of transparency, inefficient government bureaucracy, poor or inadequate infrastructure, shortage of human capital, weak corporate governance, and political instability. Column 3 in Table 9 presents the 2008 rankings of select AP countries on the Corruption Perceptions Index (CPI)[87]. The CPI is compiled annually by Transparency International; in 2008, 180 countries were ranked. Myanmar ranked second last and only five of the AP economies included in this paper managed to score in the upper quartile of “clean” countries (Singapore, Japan, Hong Kong, Taiwan and South Korea). The fairly low ranking of many AP economies suggests that corruption, including the giving of bribes, can be considered as a cost of doing business in these countries.

Column 4 of Table 9 presents the 2007-2008 Opacity Index developed by the Milken Institute. This index measures the degree of development of legal systems and the extent to which international accounting standards are enforced [88]. The lower a country’s ranking, the more it complies with international norms.

The World Economic Survey[89] polls executives from around the world about the “most problematic factors for doing business” in select countries. The top five factors, in descending order, for each of the select AP economies in 2007 were:

- Brunei: poor work ethic in national labor force, restrictive labor regulations, inefficient government bureaucracy, inadequately educated workforce, and access to financing
- Cambodia: corruption, inefficient government bureaucracy, inadequate supply of infrastructure, inadequately educated workforce, and inflation
- China: access to financing, policy instability, inefficient government bureaucracy, inflation, and tax regulations
- India: inadequate supply of infrastructure, inefficient government bureaucracy, corruption, restrictive labor regulations, and tax regulations
- Indonesia: inefficient government bureaucracy, inadequate supply of infrastructure, corruption, restrictive labor regulations, and inflation
- Japan: inefficient government bureaucracy, tax regulations, tax rates, policy instability, and restrictive labor regulations
- South Korea: policy instability, inefficient government bureaucracy, restrictive labor regulations, tax regulations, and inflation
- Malaysia: inefficient government bureaucracy, corruption, crime and theft, inflation, and policy instability
- Pakistan: government instability/coups, corruption, inefficient government bureaucracy, inflation, and inadequate supply of infrastructure
- Philippines: corruption, inefficient government bureaucracy, inflation, inadequate supply of infrastructure, and government instability/coups
- Singapore: inflation, inadequately educated workforce, restrictive labor regulations, tax rates, and tax regulations
- Thailand: government instability/coups, policy instability, inefficient government bureaucracy, corruption, and inflation
- Vietnam: inflation, inadequate supply of infrastructure, inadequately educated workforce, corruption, and policy instability

Several of the problematic areas that consistently emerged among select AP economies merit elaboration:

1. Inflation refers to the rising costs of doing business in a country brought about, in part, by the increase in real wages and appreciation of the domestic currency in

2007. In that year, India recorded a steep rise in wages for managerial and supervisory staff – a 16 percent increase over the preceding year. A similar rate of increase was projected for 2008.

2. Aside from Japan, the Asian NIEs, and China that possess world-class infrastructures, many emerging economies in AP are very under-developed in this regard. In India, for example, aside from poor road conditions in many parts of the country, power shortages and outages have wrecked havoc for business operations. In 2007, on average, firms reported 85 days of power outages.

3. That "inadequately educated workforce" was mentioned as a problematic factor in the case of Singapore may come as a surprise to many because of the high emphasis that country has placed on education and the development of human capital. This situation may arise from Singapore's shift to high technology industries where there may be an insufficient supply of human capital to support development in that direction. In fact, in China, there is an acute shortage of managerial talent, resulting in the "paradox of shortage among plenty". According to Farrell and Grant of McKinsey, in 2005, the management pool was around 5,000 when China needed 75,000 to meet the demands of foreign-invested and domestic enterprises in that country[90]. The same paradox applies to India – Goldman Sachs[91] has identified the shortage of an educated workforce as a top challenge for the continued growth of that economy. To sustain a high rate of growth, the National Knowledge Commission in India has called for a 4.5-fold increase in the number of universities from its 2008 level of 350 to 1,500 by 2016, and a doubling of university attendance of 18-24 year olds from its 2008 level of 7 percent to 15 percent over the same time period.

Challenge #5: Regional economic integration – trade creation versus trade diversion

Similar to other regional economic integration programs around the world, such as the European Union and NAFTA, trade agreements do have the potential to create trade among the countries covered by the region at the expense of diverting trade from existing trading partners. Furthermore, the proliferation of free trade agreements within AP can potentially complicate investment decisions. According to the Asia Development Bank, "The danger lies in the emergence of crisscrossing agreements, which may lead to 'hub-and spoke' systems benefiting large trading hubs but obstructing market access among trading spokes, and which may complicate the commercial environment through restrictive rules of origin"[92].

However, while intra-regional trade within Asia has doubled in the past two decades, as discussed under the "opportunities" section, it does not necessarily mean that trade has to be diverted from Canada. This scenario would hold if the total volume of world trade were to remain constant, i.e., a zero-sum game. According to the IMF, since 1982, world trade has quadrupled. Even with the anticipated 28 percent shrinkage in world trade in 2009, there is still room for maneuver.

Therefore, the challenge for Canada is to tap into the global supply chains that are developing in the region to ensure that it stands to benefit from ongoing economic integration in AP. As noted earlier, countries outside of AP have also joined the bandwagon, such as the conclusion of the FTA between the US and South Korea in June 2007. If Canada does not enter into similar agreements, it could be excluded from fully partaking in the benefits that would accrue from such arrangements.

Challenge #6: Persistent tensions among AP countries

Despite the surge in intra-regional trade in Asia, it is important to recognize that the countries in that region are far from homogeneous.

1. There is a wide variation in per capita GDP and stages of economic and technological developments among these economies, as evident in Table 5.
2. There is a substantial diversity in political ideologies among countries in the region – China and Vietnam are officially communist countries even though they have embraced capitalist principles.
3. There are unresolved conflicts/tensions that could potentially pose as stumbling blocks to goodwill and cooperation among the countries. These include, but are not limited to:
    - Fear of China's rise in the region, although that country has emphasized the use of "soft power".
    - Potential rivalry between China and India, as discussed earlier.

- Boundary disputes over Kashmir between India and Pakistan, both nuclear powers; religious differences; and allegations of Pakistan as a safe-haven for acts of terrorism in India.
- Japan's continued attempts to rewrite history with regard to the World War II atrocities committed by its military in China, Korea and the Philippines, including the issue of "comfort women" or women forced into sexual slavery in Japanese military brothels.
- Territorial dispute between Japan and South Korea over the Dokdo Islands; between China and Japan over the Nanshan or Senkaku Islands; and between China and Vietnam over the Spratley and Paracel Islands.
- China's insistence that Taiwan is a province of China.
- Tensions between North and South Koreas – in end May 2009, North Korea claimed that it has successfully concluded its second nuclear test.

These lingering conflicts could potentially destabilize the region and the world, at large, although the countries involved are pragmatic enough to recognize the benefits that would accrue from pursuing smooth and cordial economic relations, as evident in the discussion under the "opportunity" section on the growth of intra-regional trade among those countries. To paraphrase Khanna[93], to continue on their growth path, there does not have to a "lovefest" among these countries as long as they could manage sufficiently the hostilities and tensions that divide them to avoid derailing further development.

Thus, the challenge for Canada is to recognize these underlying sentiments and be alert to sensitive issues in its pursuit of trade and investment opportunities with these countries.

SUMMARY AND CONCLUSIONS

Despite the current financial meltdown, the prospects for continued growth in AP remain solid, once the global economy turns around. Japan and the Asian NIEs, by virtue of their more mature economies, will not be able to experience growth rates as rapid as those in the emerging economies as the latter start from a lower base. Even at the height of the current crisis, both China and India continue to grow at impressive rates, although they have been scaled back from the 8 to 9 percent ranges attained in their recent past. Thus, whether the world is willing to accept the changed calculus of global competition or not, as Chris Patten, last British governor of Hong Kong and EU Commissioner, has aptly described it, China and India are "global heavyweights" that have to be reckoned with – a reality that countries that "are used to living in a world which has been shaped and led by the trans-Atlantic community – by America principally, but also Europe" have to come to terms with[94].

In a 2008 Pew Global Attitudes Survey of 24,000 people in 24 countries, many of those polled already believed that China will supplant the US as the "world's leading superpower"[95]. With the growing economic gloom in the advanced countries, there is a growing consensus of opinion that the BRICs (Brazil, Russia, India and China) – countries currently in the G-20, not G-6 – will "play defining roles in generating the purchasing power the global economy so desperately needs"[96].

In April 2009, the IMF has embarked on reforming its governance structure to reflect the growing role of the emerging markets in the global economy. These reforms include a more representative allocation of quotas to member countries. While revisions to the current quota allocations are still underway, a senior IMF official reportedly indicated that "China may leapfrog Japan to have the most say after the US in the IMF"[97].

Whether Canada acknowledges it or not, our over-dependence on the US, appears to be ill-advised. Even if the US were to remain as the preeminent country in the world, it will not hurt Canada to diversify its interest by pursuing a "US plus 1or 2 strategy", akin to the one embraced by multinationals in their dealings in AP. Thus, the Federal Government's Asia Pacific Gateway Initiative, with BC in the leadership role, represents a step in the right direction. BC, by virtue of its geographic location and high concentration of immigrants from AP, can "become the preferred economic and cultural gateway between North America and the Asia Pacific Region"[98]. However, there is room for improvement, such as expanding BC's exports to AP from its present level of 25 percent.

In April 2007, then BC Minister of Economic Development and Minister Responsible for the Asia Pacific Initiative, Colin Hansen, outlined five priority areas that the province should focus on to attain the province's 2020 Goal for the Pacific Century[99]. Each priority area and possible ways to attain the 2020 targets is discussed below:

1. *Establish BC's identity as Canada's Pacific Gateway*. This entails educating British Columbians and Canadians to embrace the dawning of the Pacific Century, rather than

approach this development with trepidation and consternation. Specifically, concerted efforts should be made to correct the two major categories of misperceptions identified under Challenge #1, namely:

- The tendency for many Canadians to disaggregate themselves from the economic fortunes of AP; and
- The assumption that Canada is already engaged in too much trade with AP.

2. *Support the development and expansion of a world-class infrastructure and supply chains* to accommodate the increased level of trade and economic relations between North America and Asia. This involves upgrading and expansion of all port facilities –land, sea and air.
3. *Promote and strengthen trade and investment ties with AP*. This requires:
   - The concerted effort at all levels of government, and collaboration between the private and public sectors to stimulate and spur trade and investment.
   - Tapping into the special knowledge and social capital that immigrants of Asian descent have in developing and growing trade between AP and Canada.
   - Providing a more favorable climate for prospective investors from AP, and correcting misperceptions investors from that region might have about Canada as identified under Challenge #2.
   - Negotiating free trade agreements with AP countries, similar to the one that we have initiated with South Korea.
4. *Become the "destination of choice" for AP education, tourism and other culturally related events and activities*. This necessitates the:
   - Further strengthening of our existing educational programs at all levels (university, secondary- and primary-school) to improve British Columbians' understanding and appreciation of AP.
   - Exporting of educational services to AP. Given the high priority that most Asian parents place on the education of their children, BC can follow the UK's lead[100] in attracting young people from AP to study in Canada and, at the same time, facilitating the efforts of Canadian educational institutions to establish satellite campuses/institutions of learning in AP. This could result in a win-win situation to all parties involved.

- The conclusion of an "Approved Travel Destination" (ATD) status with China to help capitalize on the benefits discussed under Opportunity #3. To date, China has concluded ATD agreements with 134 countries, including the US. If we are unable to reach an ATD agreement, it will result in lost revenues and goodwill with China, a leading outbound tourism market in the world[101].

5. *Upgrade the skills and competencies of our labor force to meet the needs of the Pacific Century.* This entails*:*
   - The provision of accurate and up-to-date information about developments in AP and the substantial differences among the AP markets.
   - Further strengthening of existing educational programs to develop the skills and competencies essential for doing business and interacting with people and investors from AP.
   - The creation of a more level playing field for the gainful employment of Asian immigrants with unique knowledge of their countries of origin. In a study by economist Phillip Oreopoulos, he found that subjects with Chinese, Indian and Pakistani names were less likely to be granted a job interview even if their resumes were identical to those with Caucasian-sounding names[102]. This bias, however unintentional, might have contributed, in part at least, to the more limited job opportunities of well-educated immigrants and their decisions to return to their respective countries of origin or relocate to a third country after obtaining their Canadian citizenship.

Contrary to some belief that China, India and other emerging economies are "stealing growth" from the industrialized countries, the one sure way in which this condition would materialize is if we fail to capitalize on the opportunities that arise in AP, even though it entails venturing beyond the safety and comfort of traditional trading partners that are culturally and/or geographically closer to our own.

Footnotes

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3. While transportation and infrastructure investments constitute an important component of the Asia Pacific Gateway Initiative, these aspects will be omitted from this report.
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11. See, for example, the dispute between the US and Canada on Canadian-built Honda cars. In 1992, US Customs contended that these imports from Canada did not qualify for duty free treatment and ordered Honda to pay $20 million in duties. While the case was finally resolved to Canada's satisfaction, namely to adopt the Canadian proposed net cost formula for the NAFTA automotive rule of origin, this case did send a very strong message to prospective investors to avoid potential future problems pertaining to "rule of origin". In other words, in order to penetrate the US market, it is best to locate their production plants in the US. For details, see *A Short History of Automotive Industry in Canada.* A publication of the Japan Automobile Manufacturers Association of Canada, 2005.
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23. See Kunin's paper on "Immigration and BC's Economic Future, for example. The data presented in this paper, however, disaggregate the number of immigrants from Asia Pacific from that of the Middle East which are grouped together in Kunin's paper. Given the significant differences that exist between immigrants from AP and those from the Middle East, this disaggregation is important.
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services across the Taiwan Strait, signify a high degree of integration of the three economies that comprise “Greater China”.

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