

## GLOBAL BUSINESS FORUM BANFF, ALBERTA 22/23 SEPTEMBER, 2005

Session ONE: The Asia Challenge: Is the World Prepared for the Major Economic Trends Emanating from China, India and Other Nations?

China continues to post remarkable economic growth and Asian economies are recovering, making Asia an attractive region to invest and grow business. The desire for business to expand into these markets brings new opportunities and challenges. **What factors should business evaluate when they consider business opportunities in Asia?**

*Presenters:*

Ambassador Joseph Caron  
Canadian Ambassador to Japan

Mr. Richard F. Celeste  
President, Colorado College, former United States Ambassador to India,  
and former Governor of Ohio

Mr. Haruhito Takeda  
Vice Chairman & President, Fujitsu China Co., Ltd. (*China*)

1. IN LESS THAN A GENERATION. THREE BILLION PEOPLE HAVE JOINED THE GLOBAL ECONOMY: MORE THAN 1 BILLION IN CHINA, 1 BILLION IN INDIA; AND CLOSE TO 1 BILLION IN EASTERN EUROPE AND RUSSIA. THE IMPACT ON CANADA AND THE USA OF THE RISE OF CHINA AND INDIA HAS BEEN ESPECIALLY SIGNIFICANT.
2. THIS AROSE BECAUSE OF: POLITICAL DISINTEGRATION OF THE USSR AND THE EAST BLOC; THE COLLAPSE OF COMMUNIST IDEOLOGY AS ORGANIZING PRINCIPLE OF THE ECONOMY OF THE PEOPLE'S REPUBLIC OF CHINA; THE DECLINING CREDIBILITY OF NEHRU'S AUTARCHIC VISION FOR INDIA; AND THE RENEWED ENERGY OF THE 150 YEAR OLD PROCESS OF GLOBALIZATION, DUE TO THE MOST RECENT REVOLUTIONS IN COMMUNICATIONS, AND THE ARRAY OF EFFICIENCIES IN MANUFACTURING FACILITATED BY COMPUTER TECHNOLOGIES.
3. THESE DEVELOPMENTS ARE LARGELY POSITIVE, WHERE ADJUSTMENTS ARE ALLOWED TO TAKE PLACE - ASEAN, CHINA, SOUTH KOREA, JAPAN - AND THREATENING WHERE ADJUSTMENTS ARE NOT TAKING PLACE - DPRK, VIETNAM, PARTS OF THE INDIAN BODY POLITIC, AS THE PREVIOUS ELECTION MADE CLEAR.
4. THE RELATIVE BALANCES IN ECONOMIC, POLITICAL AND MILITARY POWER ARE EVOLVING BECAUSE EACH OF THE MAJOR COUNTRIES IN ASIA OR WITH INTERESTS IN THE REGION, PRINCIPALLY THE USA AND THE EU, ARE ALSO THEMSELVES CHANGING RAPIDLY.

5. FURTHER TRANSFORMATION WILL BE DRIVEN BY: THE GROWTH OF MANUFACTURING IN CHINA AND THE POTENTIAL AND CONSEQUENCES OF FURTHER ECONOMIC EXPANSION; FURTHER REGULATORY REFORM WITH POSITIVE CONSEQUENCES FOR GROWTH IN INDIA; STRENGTHENING OF THE JAPANESE ECONOMIC PERFORMANCE AND RISING CONSUMER AND INVESTOR CONFIDENCE IN THE FUTURE, MOST RECENTLY EVIDENT IN THE ELECTION VICTORY OF PRIME MINISTER KOIZUMI; INCREASING NUMBER OF REGIONAL FTAs, WHICH WILL FACILITATE THE FUNCTIONING OF REGIONAL SUPPLY CHAINS; CONTINUING US, JAPANESE AND EU INVESTMENT FLOWS TOWARDS, AND DEMAND FOR MANUFACTURED GOODS FROM, ASIA, PRIMARILY CHINA.
6. AS A CONSEQUENCE OF THESE AND OTHER TRENDS, POLICY DECISIONS ARE BEING MADE AT THE POLITICAL LEVELS IN CHINA, THE UNITED STATES, INDIA, JAPAN AND IN SOUTH EAST ASIA THAT ALSO AFFECT THE OPERATING ENVIRONMENT FOR BUSINESS AND FUTURE INVESTMENT AND COMMERCIAL DECISIONS. BECAUSE CHANGE IS OFTEN UNPREDICTABLE AND WRENCHING. RISK ANALYSIS BECOMES EVEN MORE IMPORTANT IN BUSINESS DECISION MAKING.
7. IN ALL OF THIS, CANADIANS AND CANADIAN COMPANIES FACE CHALLENGES THAT ARE VERY DIFFERENT FROM THOSE OF OUR AMERICAN NEIGHBOURS. A PROMINENT PLACE FOR CANADA IN ASIA IS NOT GUARANTEED.
8. LET ME ELABORATE ON THESE POINTS, IN PARTICULAR WITH RESPECT TO CHINA AND JAPAN.
9. CHINA'S RISE NEED NOT BE A THREAT TO ITS NEIGHBOURS, SUCH AS WAS THE CASE OF GERMANY AND JAPAN IN THE 19TH AND 20TH CENTURIES. THE CHINESE NEED TWO MORE GENERATIONS TO ATTAIN, ON A PER CAPITA BASIS, NATIONAL WEALTH AND POWER COMMENSURATE WITH MID-LEVEL DEVELOPING COUNTRIES. ITS ECONOMIC DEVELOPMENT PLAN DEPENDS ON EXTENSIVE TRADE AND ECONOMIC TIES AND A PEACEFUL INTERNATIONAL ENVIRONMENT. THE CHINESE MAKE CLEAR THAT THE EXCEPTION TO THIS BENIGN SCENARIO IS TAIWAN, AGAINST WHOSE DECLARATION OF INDEPENDENCE THEY WILL RESPOND MILITARILY.
10. US INTEREST IN THE REGION IS UNDEMINISHED, BUT ITS ATTENTION IS FOCUSED ON IRAQ, IRAN AND THE WAR ON TERROR; IT IS NOT YET CERTAIN HOW TO DEAL WITH THE RISE OF CHINESE MILITARY POWER ON CHINA'S COASTS; IT IS WORKING TO READJUST THE DEPLOYMENT OF FORCES IN THE REGION, ESPECIALLY WITH RESPECT TO JAPAN AND KOREA, BU THE PROCESS IS COMPLEX AND TIME CONSUMING. AND THE PROLIFERATION THREAT POSED BY NORTH KOREA IS STILL WITHOUT A SOLUTION.
11. JAPAN IS SEEKING A MORE ACTIVE REGIONAL AND INTERNATIONAL ROLE. IT HAS NAVAL FORCES IN THE INDIAN OCEAN AND A SMALL CONTINGENT IN SOUTHERN IRAQ; IT HAS STATED CLEARLY ITS SHARED INTEREST WITH THE UNITED STATES IN THE SECURITY OF THE STRAITS OF TAIWAN; IT IS GIVING INCREASED CONSIDERATION TO AMENDING ITS CONSTITUTION TO MAKE ROOM FOR THE THEORY AND PRACTICE OF COLLECTIVE SECURITY. ITS POLITICAL RELATIONS WITH CHINA AND KOREA ARE TENSE, EVEN IF ITS ECONOMIC TIES WITH THOSE



20. THE BUSINESS ENVIRONMENT IS STILL FROUGHT WITH UNCERTAINTIES. FOR EXAMPLE, THE LEGAL SYSTEM IS GAINING IN COMPLEXITY, SOPHISTICATION AND EXPERIENCE, BUT IT IS STILL NOT RELIABLE. INTELLECTUAL PROPERTY PROTECTION HAS NO HISTORY IN CHINA, AND EFFORTS TO IMPORT IP PROTECTION CONCEPTS THROUGH THE WORKINGS OF LAWS ON COPYRIGHT AND PATENT PROTECTION ARE INCOMPLETE. WESTERN COUNTRIES AND BUSINESSES MAY BE THE ONES WHO WILL HAVE TO ADAPT AND OTHERWISE WORK AROUND CONTINUOUS AND FREQUENTLY SUCCESSFUL THREATS TO THEIR INTELLECTUAL PROPERTY.
21. THE BOTTOM LINE ON ACHIEVING BUSINESS SUCCESS IN CHINA IS TO UNDERTAKE YOUR BUSINESS RISK ASSESSEMENT BASED NOT ON EXPECTATIONS OF CHINESE INSTITUTIONAL SUPPORT AND RELIABILITY, BUT RATHER ON YOUR OWN CAPACITY TO PROTECT YOUR INTERESTS. THIS MEANS UNDERTAKING A GREAT DEAL OF DUE DILIGENCE, AND IDENTIFYING BUSINESS PARTNERS AND CUSTOMERS WHOSE ASSESSMENT OF THEIR INTERESTS ARE ALIGNED WITH YOUR OWN. THIS FORMULA EXPLAINS IN PART THE SIGNIFICANT COMMERCIAL SUCCESS OF SOM MANY FOREIGN FIRMS IN CHINA, INCLUDING CANADIAN, AND CONSIDERABLE OPTIMISM FOR THE FUTURE.
22. THE OTHER MAJOR RISK IS POLITICAL. CHINA DOES NOT POSSESS REPRESENTATIVE POLITICAL INSTITUTIONS. THE COMMUNIST PARTY IS DEEMED TO REPRESENT THE INTERESTS OF ALL CHINESE. BUT, ACCORDING TO CHINESE SOURCES, ALMOST 4 MILLION CHINESE WERE INVOLVED IN 74,000 "MASS INCIDENTS" DURING 2004.
23. THE GOVERNMENT OF CHINA HAS UNCHECKED CAPACITY TO SUPPRESS PUBLIC EXPRESSIONS OF DISCONTENT, AND CAN USE CONSIDERABLE FORCE WHEN IT CHOOSES TO .
24. OPPOSITON TO THE REGIME IS NOT YET CAPABLE OF ORGANIZING ITSELF IN WAYS THAT THREATEN ANYONE OTHER THAN LOCAL PARTY CADRES AND GOVERNMENT OFFICIALS.
25. THE POLITICAL THREAT TO THE PARTY IN CHINA IS RATHER WITHIN THE COMMUNIST PARTY ITSELF. MANY SENIOR LEADERS IN THE PARTY KNOW THAT AS A MATTER OF RECENT HISTORICAL EXPERIENCE, NO COUNTRY HAS ACHIEVED HIGH LEVELS OF DEVELOPMENT AND MODERNIZATION WITHOUT SOME FORMS OF BROAD REPRESENTATION AND ACCOUNTABLE INSTITUTIONS, ACCOMPANIED WITH MEANINGFUL RULE OF LAW .
26. FURTHERMORE, MEANS HAVE TO BE INSTITUTIONALIZED TO RID THE SYSTEM OF CORRUPT OFFICIALS.
27. THE PERVASIVE AVAILABILITY OF DIGITAL CAMERAS AND THE INTERNET FOR INTERNAL AND INTERNATIONAL DISTRIBUTION OF PICTURES HIGHLY DAMAGING TO THE REGIME, ALONG WITH SOCIAL AND REGIONAL DISPARITIES UNDERPIN THE THREATS TO THE LEGITIMACY OF THE COMMUNIST PARTY OF CHINA.

28. A SERIOUS AND WIDELY DISSEMINATED SOCIAL AND POLITICAL CRISIS IN CHINA COULD AFFECT YOUR BUSINESS IN TWO WAYS. FIRSTLY, YOUR SHAREHOLDERS MAY QUESTION THE INVOLVEMENT OF THEIR COMPANY IN A COUNTRY THAT HAS SUCH PROBLEMS WITH HUMAN AND POLITICAL RIGHTS.
29. SECONDLY, DECISION MAKING IN CHINESE GOVERNMENT INSTITUTIONS COULD COME TO A HALT AS THE PARTY WAGES ITS INTERNAL DEBATES ON HOW TO RESPOND TO THE CRISIS THAT IT IS FACING.
30. REFORMIST VIEWS FAVOURABLE TO INTRODUCING MORE REPRESENTATIVENESS IN POLITICAL INSTITUTIONS AND DECISION-MAKING WILL BE COUNTERED BY THE PREVAILING OPINION THAT THE PARTY MUST UPHOLD ITS ABSOLUTE POWER IF THE COUNTRY IS TO BE GOVERNED SUCCESSFULLY. IN SOME RESPECTS, IT WILL BE A BATTLE OF TECHNOCRATIC AND MODERN GOVERNANCE INTERESTS, WHICH ARE GROWING IN CHINA, AGAINST THE INTERESTSSETS OF THOSE WHO ARE IDEOLOGICALLY COMMITTED TO ONE PARTY RULE, AND THOSE WHO BENEFIT PERSONALLY FROM THE CURRENT REGIME.
31. THE BUREAUCRACY WILL WAIT TO SEE WHERE THE WIND WILL BLOW. TAKING SIDES PREMATURELY COULD HAVE DISASTROUS PERSONAL CONSEQUENCES, AS IT DID DURING THE PARTY'S PAST BATTLES, SUCH AS DURING THE CULTURAL REVOLUTION.
32. BUSINESSES DEPENDING ON GOVERNMENT DECISIONS WILL BE STYMIED AND MANY THINGS WILL SLOW DOWN OR WILL STOP.
33. FOREIGN BUSINESSES WILL HAVE A BIG STAKE IN BUT LITTLE INFLUENCE ON THE MANAGEMENT OF THESE RISKS. YOU MUST AT LEAST BE AWARE OF THEM, AND PLAN ACCORDINGLY. IN MY OPINION, THESE RISKS ARE MANAGEABLE BECAUSE I BELIEVE THAT IN THE LONG RUN, THE TECHNOCRATS AND MODERNISTS WILL WIN.
34. THE RISKS IN JAPAN ARE ALMOST ENTIRELY OF A DIFFERENT ORDER.
35. JAPAN IS A MATURE ECONOMY. AT \$4.7 TRILLION, IT IS THREE TIMES LARGER THAN THAT OF CHINA. INDEED, JAPAN'S ECONOMY REMAINS GREATER THAN THE REST OF ASIA COMBINED.
36. JAPAN IS CANADA'S SECOND EXPORT MARKET, WITH SALES OF OVER \$10 BILLION LAST YEAR IN GOODS AND SERVICES.
37. THE JAPANESE ECONOMY IS STEADILY IMPROVING. 11 OF THE LAST 12 QUARTERS HAVE REGISTERED IMPROVED YEAR-OVER-YEAR GROWTH RATES. THE DEFLATIONARY CYCLE IS COMING TO AN END. CONSUMPTION AND INVESTMENT ARE RISING. THE MAJOR BANKS HAVE LARGELY RESOLVED THEIR NON PERFORMING LOAN PROBLEMS. CORPORATE RESTRUCTURING HAS REDUCED DEBT LEVELS. BANKRUPTCIES HAVE FALLEN SHARPLY. PROFITABILITY, RETURN ON EQUITY AND CONFIDENCE ARE AT POST-BUBBLE HIGHS. UNEMPLOYMENT IS AT ITS LOWEST LEVEL IN 7 YEARS. THE PRIVATE SECTOR, NOT THE PUBLIC SECTOR, IS DRIVING THE

ECONOMY FORWARD. SOCIAL CHANGES ARE CREATING NEW MARKETS FOR EVER MORE GOODS AND SERVICES IN WHICH CANADA HAS STRONG BUSINESS PERFORMERS.

38. THE IMPACT OF RISING ENERGY PRICES SHOULD BE MITIGATED - WHEN COMPARED TO THEIR IMPACT IN OTHER COUNTRIES - BY THE HIGHER EFFICIENCY OF ENERGY USAGE IN JAPAN - WHICH USES ENERGY 7 TIMES MORE EFFICIENTLY THAN CHINA.
39. THE JAPANESE ECONOMY THAT IS RE-EMERGING WILL BE FUNDAMENTALLY STRONGER THAN WHAT IS WAS PRIOR TO THE BURSTING OF THE BUBBLE IN 1991.
40. THE BUSINESS ENVIRONMENT IS INCREASINGLY OPEN. FOREIGN INVESTMENT IS RISING, M&A ACTIVITY INCREASING. FOREIGNERS OWN AN ESTIMATED 20% OF SHARES ON THE TOKYO STOCK EXCHANGE. 3,500 FOREIGN COMPANIES HAVE OFFICES IN JAPAN.
41. PRIME MINISTER KOIZUMI'S ELECTION GAMBLE HAS PAID OFF. HIS VICTORY HAS STRENGTHENED HIS ABILITY TO MOVE FORWARD ON THE REFORM AGENDA.THE STOCK MARKET HAS STRONGLY WELCOMED THIS VICTORY
42. THE RISKS OF DOING BUSINESS IN JAPAN IN THE COMING YEARS ARE THOSE OF PASSIVITY AND NON- PARTICIPATION.
43. CANADIAN COMPANIES IN JAPAN ACCOUNT OF 3% OF THE TOTAL NUMBER OF FOREIGN EXTABLISHMENTS. CANADIAN FDI IN JAPAN IS \$8 BILLION, 2.9% OF THE TOTAL. THE ESTIMATED NUMBER OF CANADIAN COMPANIES TRADING WITH JAPAN IS 2,300, OUT OF A TOTAL OF 41,00 CANADIAN GOODS EXPORTERS WORLDWIDE.
44. AT A MICRO LEVEL, A LARGE NUMBER OF CANADIAN FIRMS HAVE NOT FOUND IT IN THEIR INTEREST TO COMMIT THE RESOURCES NECESSARY TO TRADE AND INVEST IN JAPAN, THE WORLD'S SECOND LARGEST ECONOMY. THE DECISION TO INVEST IS FOR THE FIRMS THEMSELVES TO MAKE. BUT THE DECISION NOT TO DO SO - AND NOT PARTICIPATE IN THE MANUFACTURING, SERVICE, DISTRIBUTION AND R&D NETWORKS, MANY OF WHICH START IN JAPAN, AND THEN CONNECT TO THE CHINESE, KOREAN AND EAST ASIAN MARKETS - THAT DECISION SHOULD ALSO BE A CORPORATE ONE.
45. THE DECISION NOT TO PARTICIPATE IN THE JAPANESE ECONOMY SHOULD BE BASED ON THE SAME DUE DILIGENCE - WHAT ARE THE COSTS, WHAT ARE THE OPPORTUNITIES, WHAT ARE THE COMPETITORS UP TO - THAT WOULD GO INTO DECIDING OTHERWISE. IN THE END, THE RISKS ASSOCIATED WITH NOT BEING INVOLVED MAY BE GREATER THEN THE RISK OF DOING SO.
46. THE SAME CALCULUS APPLIES TO CHINA. ACCORDING TO THE BEST AVAILABLE FIGURES, TOTAL CANADIAN FDI STOCK IN CHINA IS LESS THAN \$750 MILLION DOLLARS, MUCH LESS THAN TWO PERCENT OF TOTAL FDI STOCKS NOW IN THE PRC.
47. THE USA, UK, JAPAN, ROK, TAIWAN, FRANCE, GERMANY, ITALY AND OTHER MATURE

ECONOMIES HAVE INVESTED HEAVILY IN ASIA, TO A TUNE OF MORE THAN \$600 BILLION IN CHINA AND \$200 BILLION IN JAPAN AND 100 BILLION IN KOREA. OUR TOTAL IN ALL THREE COUNTRIES IS LESS THAN \$10 BILLION, DESPITE THE FACT THAT CANADA IS A MAJOR FORCE FOR INVESTMENT THROUGHOUT THE WORLD, AND A NET OUTWARD INVESTOR.

48. THERE IS AN EMERGING EAST ASIAN ECONOMIC HUB, CONSISTING OF JAPAN, CHINA, KOREA AND THE 10 COUNTRIES OF SOUTH EAST ASIA. THE REGIONAL CROSS TRADE WAS \$642 BILLION LAST YEAR, DOUBLE A DECADE AGO.
49. THE TOTAL GDP OF NORTH EAST ASIA IS \$6.8 TRILLION, ABOUT 60 % OF THAT OF THE USA AND 55 % OF THE EU. THE LINKED ECONOMIES OF JAPAN, CHINA AND KOREA WILL SURPASS THAT OF THE USA WITHIN A GENERATION.
50. THIS, THEN, MAY BE THE MOST IMPORTANT FACTOR THAT BUSINESS SHOULD EVALUATE WHEN CONSIDERING ITS FUTURE IN ASIA: THE RISK OF NOT PARTICIPATING IN THE BUSINESS OPPORTUNITIES PROVIDED BY RAPIDLY EVOLVING MARKETS THAT ARE, MORE AND MORE, AN INTEGRAL PART OF COMPLEX REGIONAL AND GLOBAL SUPPLY CHAINS; THE RISK OF LEAVING THOSE MARKETS TO ONE'S COMPETITORS; THE RISK OF MISSING OPPORTUNITIES TO PARTNER WITH THE NEXT GENERATION OF TECHNOLOGICAL INNOVATORS; THE RISK OF LOSING YOUR COMPETITIVENESS, WHEN COMPANIES BASED IN THE REGION START PENETRATING BUSINESS'S DOMESTIC AND OTHER MARKETS, AND FIRMS DO NOT HAVE THE COST STRUCTURES IN PLACE TO BEAT THEM OFF.
51. THESE ARE RISKS BUSINESSES SHOULD NOT TAKE.
52. THANK YOU.