

Trade Development within the Asia-Pacific Gateway:

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Introduction

On behalf of STEP I would like to reiterate the importance of today's discussions. From Saskatchewan's perspective, the Asia Gateway is especially important as we are one of the most trade-intensive provincial economies of any province in Canada. Moreover, we are among the least trade-dependent upon the USA of any province in the country as well, although clearly our positioning within NAFTA and next to the wealthy US market is still absolutely vital to us.

But it is important to note that China and Japan are now the #2 and #3 trade partners for Saskatchewan as buyers of our exported goods, with India and Korea in 9th and 10th place. The central Asian Republic of Kazakhstan is also one of our fastest growing markets. We also work with many STEP members active in Vietnam, Pakistan, Bangladesh, and Taiwan. And we are keeping a sharp eye on emerging opportunities in Indonesia, Malaysia, Singapore, Laos and Cambodia, just to name a few other opportunities we see ahead of us.

Saskatchewan ties with Asia are historic and significant. We may be located in the centre of North America, but increasingly the message is to look East for our growing prosperity and economic competitiveness. Let's begin with a few key dates in both the past and future of our growing relationship within the Pacific Gateway – both for Canada and Saskatchewan:

- ? Over 50,000 years ago, our aboriginal peoples likely arrived as “Asian immigrants” over a land bridge from northern Asia and across the Bering Strait.

- ? In the 1880's, if not for Chinese and other Asian labour, we would have not seen the completion of the CPR railway that opened up settlement in the West, and later the CNR mainline in the early 1900's. Many of our small towns and cities were later blessed with this Chinese heritage, and their entrepreneurial families, to this day.

- ? In the late 1950's the Canadian Wheat Board began its six decade long relationship as a major supplier of grain to feed Chairman Mao's revolution in China.

- ? In the 1970's and 80's, and on to this day, the growth and rise of Canpotex should be celebrated as one of the most effective, grass-roots, international marketing campaigns among all exporters to the modern Chinese nation.

- ? Over the last 30 years we have welcomed the creation of small but important Asian Diasporas of Vietnamese, Thai, Indian and Pakistan communities to Saskatchewan. Most have either come as entrepreneurial-minded refugees, or as an educated professional class of PhD's, medical doctors, engineers and other scientists attracted to our university or health care systems.
- ? The late 1980's saw the advent of Saskatchewan uranium exports to Japan, and our continuing interest in other Asian markets.
- ? Also in the mid 1980's, the strategic use of procurement policy by the government of the day leveraged a major direct foreign investment by Hitachi Japan to Saskatoon. It still represents one of the largest ever DFI initiatives in the province.
- ? Fast forward to 2001 and China has now entered the WTO with full membership status. Since 1990 China has achieved annual growth rates that averaged about 9.7 % each and every year (about four times the growth rate of GDP in Canada, over the same period and by far the fastest in the world for a large economy. It now represents 13 % of total world economic output in purchasing parity terms, second only to the USA.
- ? In real terms, China is now the world's third largest trading country, third only to the US and the UK for attracting FDI, and it now represents the second largest creditor in the world of US debt (holding \$750 billion in US foreign currency reserves and about \$230 billion in US treasuries).
- ? In this new century Canada has now begun further free trade negotiations with South Korea. We also got a serious wake up call when in July 2005, China's monthly sales to the United States edged out Canada's export sales for the first time in history.
- ? In September 2005 Chinese President Hun Jintao raised our connectedness up a notch, when he declared his interest in a strategic partnership with Canada. During President Hu's visit a target of \$30 billion was set for 2010 in two-way trade among our countries, up from its current level of about \$19 billion (many say we should aim higher, and shoot for \$100 billion by 2010).
- ? Looking forward, a prominent feature is not only the rise of China, but also less developed countries with the rest of the world accounting for a larger share of global trade within integrated regions. For example, currently within all of Asia, almost 60% of their total source of imports comes from other Asian countries themselves selling within the region. Economies are becoming inter-regional.
- ? For example, between 1993 and 2002, R and D spending by Multi-National Enterprises at their affiliates abroad grew at twice the rate of spending in their home country. Many

of this has taken place in India where they graduate over 600,000 highly qualified engineers each year, as well as in China, Thailand, Malaysian, Singapore and elsewhere.

- ? Almost everything that is happening in Asia today is on an unprecedented scale. The Three Gorges Dam is the biggest dam in history and will permit 10,000 tonne ships to penetrate deep inland. A national Chinese Highway Trunk System due for completion in 2010 will link major centres and connect to secondary Chinese cities. Its social and economic impact will be bigger than the building of the Autobahn in the 1930's or the US inter-state system and the TransCanada Highway in the 50's and 60's.

- ? In real economic terms, Goldman Sachs predicts China's economy will surpass that of the United States be around 2040.

So the key question is where and how Saskatchewan and the West should position itself to be part of this Asia-Pacific Gateway? Some say the rise of China and India are watershed events in history - on a par with the ascent of the United States of America as a global economic, political, cultural and military power a century earlier.

Do we want to be asleep at the switch? Or do we want to start building many gateways and linkages to this crossroads of the new millennium?

For the rest of my talk, I wish to briefly suggest 6 strategic ways in which Saskatchewan can build upon its past Gateway linkages, and also seize a much stronger future.

1. The Transportation Gateways

When we discuss the concept of "Gateway" most people think of transportation. We have already covered this in some detail earlier this morning, but from a trade perspective we are interested in the following:

- ? Building upon our competitive Canadian advantages through our west coast ports, which have at least 1-2 days advantage in shipping time over the congested ports in Long Beach and elsewhere in the US.

- ? Building inland ports, and smart ports to collect, stage, and cross-load container traffic – thus avoiding further delays and congestion on the coast and creating new alternatives to the intermodal "black holes" in Chicago and the US. Containerization and access to a steady and reliable supply of containers will be vital to our exporting interest in a world with increasing security, and increasing identity preservation and tracking through all stages of supply chain management.

- ? Promoting Saskatchewan and the Great Plains as strategic inland stops along a ‘land bridge’ connecting China to Europe and the east coast of North America.
- ? Maximizing our Western advantages through even shorter shipping time out of the new port of Prince Rupert (to be ready in 2007), or through the Arctic Passage from Churchill, which will be experiencing increasingly longer seasons free of arctic ice.
- ? Linking ourselves north-south as well as east-west. Our Burlington Northern railway crossing is a vital link to funnel more of the northern Great Plains traffic to our competitive ports, and our highway linkages are also vital gateway corridors to these key inland and multi-modal hubs.\

2. **Saskatchewan as Asia’s Powerhouse and Integrated Food Basket**

We must also build upon our natural strengths in trade to the Asia Pacific Region – in energy, mining and food exports.

- ? With China wanting to build the equivalent of a new 300 MW power plant every week for the next 10 years, Saskatchewan uranium becomes a very environmentally attractive substitute to help save our planet. Similar demands for energy exist in Japan, and other growing Asian countries. As the world’s largest U exporter, we have a crucial window of time to assert a key trading advantage, before it gets taken by our competitors in Australia and Africa.
- ? Similar windows of opportunity exist in mining, including rare earth minerals, diamonds, and other mineral commodities.
- ? Potash production will continue to be a dominant Asian export, but again we need to have the relationships and the transportation infrastructure to remain competitive.
- ? With 47% of all the arable land in Canada, our status as a food basket for Asia can also only grow and prosper. We not only have arable soils and climate, but also wide open spaces and cold temperatures to minimize disease and generate quality foods that are rapidly growing in demand from a fast-growing and more affluent middle class in Asia.
- ? The opportunity is to move up the agri-value chain, to generate higher protein red meats and pork production for a more prosperous Asian market, as well as improved livestock genetics to ensure food safety, traceability and quality characteristics.

- ? Our Pacific Gateway also requires safer and more disease-free poultry production, and new protein substitutes through our pulse crops like field peas and lentil production. Protein substitution will also increasingly apply to animal feeds as well as human, for example to help support the growing markets in aquaculture and pet food. Already we can see an explosion of Asian interest in buying various pea crops from Saskatchewan.
- ? I am also convinced that our export growth will come through the convergence of food and health. The future is not about wheat, flax and oats, but about adding value and marketing the health benefits of beta glucans, essential fatty acids, dietary fibres and other nutritive solutions to middle class diets.

3. **Building 21st Century Global Supply Chains**

Many would argue that merely selling our raw energy, minerals, and food production is not enough to generate a fair bargain in international trade between Saskatchewan and Asia-Pacific. We must also sustain and build our manufacturing and service industries, and add more jobs and margins to our export relationships.

In this sense, China, India and other Asian regions should be seen as a competitive opportunity and not as a competitive threat. But we need to build a strategic “gateway” of social and economic systems to link reliable and reputable Asian manufacturers and R and D services with local firms, to shift some of our production processes in different countries, based on comparative advantage. “Adapt or die’ is the mantra spoken by many of my industry colleagues, who will quickly point out that we are in an era of global supply chains which are essential to our competitiveness as a nation and a region.

Old fashioned concepts of trade through distribution channels and marketing agents are rapidly being displaced in this integrated global economy. Now the quest is for joint ventures through in-market integration and processing, joint equity and ownership of IP in foreign markets, and through sharing of the supply chain. We are in a world of just-in-time production, quality after-sales service, and getting products and services much closer to the customer by being more footloose at all stages in the value chain.

Other new ‘gateways’ are required to help source these supply chain partners, broker these joint ventures, search for and transfer interesting new technologies, and blend a company’s supplier with a new marketing partner in a much more integrated model of trade development. Without a “China Strategy” or an ‘India Strategy” or strategic partners in places like Indo-China, many companies are destined to follow the dinosaur in to extinction.

But as Thomas Friedman said in his recent book, “The World is Flat”:

“Never for a moment think that young Chinese or Indians are racing us to the bottom. They are racing us to the top. They do not want to work for us: they don’t even want to be us. They want to

dominate us – in the (positive) sense that they want to be creating the companies of the future that people all over the world will admire and clamor to work for. They are in no way content with where they have come so far.”

Our challenge is to approach and work within the Gateway in the best spirit of partnership, building upon our respective comparative advantages, and joint venturing together for our mutual prosperity in the global marketplace. That requires its own unique bridges, and separate set of tools and linkages.

4. The Quest for Trans-national Entrepreneurship

In a province obsessed with its shrinking population and a desperate need to repopulate, another form of Gateway Infrastructure must be build by encouraging more global citizenship in to Saskatchewan, and welcoming transnational entrepreneurs in to our region from Asia with open arms.

For example, the recent inflow of immigrants to Canada from China has been very positively related to bilateral trade between our two countries. From 1995 to 2004, it has been estimated that each 1,000 increase in the number of Chinese immigrants was associated with about a \$700 million increase in Canada’s trade with China.

We need to welcome and promote these transnational citizens as bridge builders, and to help Canadian firms do business in their home countries and vice versa. They bring us tremendous networks. In addition, nations like China have made it a national project to attract ethnic Chinese to return and do business – their nickname is “sea turtles” swimming home to the beaches where they were originally spawned.

Yet we do not welcome and strategically build upon these transnational immigration linkages very readily so far. We have many restrictions, such as strict residency requirements on foreign ownership of farm land, slow processing times, and reluctance to incentivize foreign capital to help invest in our many rural community projects.

With some huge successional challenges facing us to replace our aging baby boomer business owners, transnational citizenship becomes even more important. We talk about business immigration, but we really lack a cohesive and concerted strategy for tapping in to these transnational entrepreneurs.

5. Preparing for the Future Challenges of Ecological Migration

I would like to add one other trend where Saskatchewan and Canada could have a major trade advantage through a separate Gateway to the Pacific – an Environmental Gateway.

Saskatchewan has a proven ability to help Asia in areas of pastoral regeneration and pasture management, CO2 capture and sequestration, reforestation and agri-forestry, and soil and water management. Our hard lessons learned from the Dirty 30's are yet to fall upon many of our Asian partners.

For example, about 25% of the country's land mass is composed of deserts, which are growing. Officials estimate that desertification is costing China about \$7.7 billion (US) a year, and about 7,000 villages have been entirely swallowed by the encroaching desert. The legendary Gobi desert has expanded by about 25,000 square miles since 1994, and its sands are now within about 100 km of Beijing. In addition, about 90 percent of China's natural grasslands are being destroyed to varying degrees and about 180 million are severely damaged.

Some have argued that we are on the precipice of global climate change that will be neither mild nor gradual. Instead more and more scientists are talking about a series of sudden tipping points that will trigger more severe climatic impacts, including permanent droughts, severe storms, and even rising global seas to flood out large and populated coastal areas. A few climatologists have even described the current decade as akin to Europe and America just before World War II, totally oblivious to the calamitous war and holocaust about to befall them.

While I am not quite so convinced about these dire forecasts, I do know that we have a real opportunity to help many Asian countries with its rural development and resource management in a way that avoids major ecological migrations. For example, Saskatchewan could be a major partner in helping China achieve its new Countryside Initiative just announced in its 11th Five Year Plan. We can also be leaders in the global fight against climate change.

We have global advantages right here in Saskatchewan in remote sensing, zero tillage farming, CO2 capture, and extensive water resource engineering and drought proofing expertise – just to name a few areas of global expertise. I call this opening up our “Environmental Gateway” as part of our enhanced trade relationship.

Conclusion – A Regional Call to Action within a larger Gateway Strategy

As the old saying goes, it is important to think globally but act locally.

We do not need to wait for our National Government to get its act together around an expanded Pacific Gateway. Beyond the encouragement generated by these series of regional consultations, I suggest that our “Gateway Momentum” should also continue on a number of fronts. Many of these actions are already well in progress, and I would like to conclude with a few update reports and suggested areas of added follow up:

- ? Saskatchewan Inland Container Port Study – lead by Agrivision Corporation with guidance and support from RREDA and STEP

- ? The Great Plains Gateway Alliance – as currently being discussed with STEP and the old North West Central Corridor Association (note the four pillars of energy, transportation, border security management, and joint IT/technology development).
- ? The “Sask-i-Toba Concept” as recently discussed at the Canada-Hong Kong national chapters conference in Winnipeg in May.
- ? The Company Partners Initiative, as currently being researched by STEP.
- ? The Reciprocal Association Membership Initiative, also being planned by STEP, using global non-profit associations as another avenue of global connectivity.
- ? Finally, also mention STEP International, our bilateral strategies, the China plus One Discussion we have had with Australia and New Zealand, and our other partnerships with student recruiters, international science parks and universities, and other scientific and cultural exchanges.

In summary, I wanted to “push the envelope” a bit today to stress that the concept of a Gateway has many dimensions and should exist at many levels. The concept goes beyond physical infrastructure and transportation linkages – to include new social, environmental and economic networks and business processes.

But no matter what the shape of our many international fences of trade and commerce, the doors of each Gateway must definitely swing open wider for our mutual health, security and prosperity in this historic century ahead.

Once again, I applaud the Asia Pacific Foundation for their leadership in generating key discussions, like the kind we are having today!