

TRADE AND INVESTMENT IN THE PACIFIC RIM:  
CANADA IN THE REGIONAL SETTING

INTRODUCTION

In this paper, I would like to sketch some broad background relating to the Pacific region and the emergence of the concept of a Pacific community. As other papers in this volume describe in some detail regional economic performance and trade relations, I would like to focus my comments on the developing structures for economic cooperation in the Pacific, and the role Canada can play in relation to them. In doing so I will emphasize four points:

- i) There is emerging a world of three major trading blocs, but this need not be a bad thing. In a world of "open" regionalism, regional initiatives can promote the liberal multilateral trading and economic system on which middle powers like Canada must depend.
- ii) Within this overall system, the Pacific region has emerged as a major economic force, and in that region there is emerging a distinct concept of economic cooperation which I argue is particularly appropriate to our times.
- iii) For Canada, the Pacific region represents an increasingly important economic challenge, and there

is a constructive role to be played by Canada in the emerging institutional structures of the region.

- iv) The major challenge to be faced in economic cooperation in the Pacific -- as well as in the rest of the world -- is that of environmental degradation, and environmental -- as well as economic -- refugees. Management of the global commons is a task to be addressed urgently.

#### THE NEW REGIONAL ORDER

Before turning to developments in the Pacific region, a few more general observations about the changing structures of economic activity and world trade are in order.

It has become a cliché to note that we have seen the end of hegemony in the world trading system. We now live in a multi-polar world and, in these days, a particularly unstable and unsettled world at that. It's simply not the case that one can rely upon a single powerful policeman for the world economy. There are a number of key players, all of whom exercise significant political influence. And there are many players in a position to exercise some influence from time to time.

Secondly, we are also witnessing the decreasing relevance of national boundaries in world trade or, to put it another way, the

emergence of a borderless economy. The phenomenon of globalization is resulting in changing economic structures internationally. The relative importance of trade in goods is counterbalanced by significant increases in trade in services, international investment flows, flows of people for business and immigration purposes, transfers of technology and transmission of knowledge. In short, greater economic interpenetration. Trade policy can no longer deal solely with tariffs and border measures and must extend to include regulatory harmonization and policy coordination between nations. At the same time, it should be recognized that regulatory and social policies relating to the globalization phenomenon may strike at the heart of domestic political structures and interest group agendas, posing difficult tradeoffs between international obligations and domestic commitments.

Thirdly, in apparent lockstep with the forces of economic integration are those of democratization or political fragmentation. Along with economic integration come feelings of disempowerment and disillusionment, giving rise to appeals to ties of ethnicity, culture, and community for economic security. One sees nationalism emerging in many regions of the world, not just in Eastern Europe, although certainly most prominently there at the moment.

And finally, the process of atomization, if you like, the twilight of hierarchical structures, the emergence of a much more

flexible set of relationships, coalitions amongst smaller enterprises whose shifting alliances can challenge multinational enterprises for influence in the world economy and create all kinds of ties across national boundaries.

These then are some of the forces shaping or propelling us towards new arrangements or initiatives to promote trade, many of which are regional in nature. In particular, as we all know, Europe is on the move, changing from the paralysis of Eurosclerosis to a new dynamism in quite stunning ways. This is good for all of us. European integration has, so far, created far more trade than it has diverted and should continue to do so as linkages are developed between the European Community and the EFTA states (Nordic, Switzerland, Austria) and ultimately central and eastern Europe. Within this large and powerful economic grouping, Germany will be the centre.

In North America, still the largest economic entity in the world, the United States is the undisputed dominant power. Integration is not occurring at the pace witnessed in Europe, although the Canada/U.S. Free Trade Agreement and discussions currently ongoing with regard to a free trade agreement between Mexico and the U.S. (and Canada reportedly considering joining the talks) suggest that <sup>some version of</sup> a North American free trade zone may come to pass in the not so distant future. Relations with Latin America, however, remain surprisingly underdeveloped and a Western

Hemisphere free trade zone stretching from the Artic Circle to Tierra del Fuego, is on a more remote horizon.

About Asia, much more will be said below, but for purposes of completing this initial sketch of trading blocs and regional initiatives, let me simply note that a Japan-centered Asian grouping, very diverse but with rapidly growing internal trade links, has definitely emerged.

So we have a picture of a new interdependent interpenetrated economic world with three major regional groupings, centered respectively on Germany, the U.S., and Japan. And, as noted earlier, economic relations among them increasingly involve movements of people, service and investment flows, technology transfers and information exchange -- all manner of interactions to which frontiers and borders are increasingly irrelevant.

While one should not overlook the Orwellian possibilities in all this, or underestimate the potential for conflict as economic interpenetration increasingly over-rides old ideas of domestic sovereignty. But neither should we assume inevitable confrontation amongst these blocs. So long as these regional groupings maintain an open posture, promoting intra-regional relationships without erecting external barriers, they can be consistent with -- and, indeed, lead -- the successful development of the liberal world trading environment which must be sought in the Uruguay Round and

beyond.

Within each region, and between regions, governments can cooperate to establish a framework within which enterprises compete, and that is constructive, not to be feared.

I would now like to turn to a discussion of the Pacific region without any preconception that the emergence of closer ties there poses a threat to our world order.

#### THE PACIFIC REGION

We are told endlessly that the "Pacific Century" is upon us and that this region will be the driving force behind the future growth of the world economy. The remarkable economic and trade performances of Japan and the newly industrialized economies (NIEs) of East Asia buttress such claims. Numerous forecasts suggest that by the year 2000 the Asia-Pacific region will account for over 60 percent of the world's population, 50 percent of global production of goods and services and 40 percent of consumption. Trans-Pacific trade is expected to grow from a 1987 level of \$275 billion to close to \$1 trillion by the turn of the century. For Canadians - - and for British Columbians in particular -- the significance of these trends is already apparent. At the national level, our trans-Pacific trade now exceeds our trans-Atlantic trade -- Canada's trade with Japan alone is equal to its combined trade with the four largest Western European countries -- and over 40 percent

of immigrants to Canada now come from Asia. At a provincial level, the Asian countries of the region have become British Columbia's premier export market, primary source of immigration, major investor, and pre-eminent topic of conversation.

Competition among the advanced high-income countries and growing global rivalry among multinational corporations is the emergence of Japan as the second largest national economy (and principal lender) in the world. In the 1950s Japan accounted for only about 2 per cent of GDP in the industrialized countries. The higher rate of economic growth in Japan evident in Table 1 altered dramatically Japan's relative position. By 1985, Japan's share was 16 percent, and in the OECD Economic Outlook of December 1989, the forecast for 1990 of Japan's Gross Domestic Product as a proportion of the OECD total was 20.5 percent in 1988.

High rates of economic growth among the group of NIEs have also altered relative competitive positions in international trade. Hong Kong and Singapore have enjoyed robust economic growth based on an outward-looking trade strategy. In conjunction with domestic policies that have shifted from an emphasis on import substitution toward a policy of export orientation, countries such as South Korea and Taiwan have become powerful competitors in the basic heavy manufacturing industries. As Table 1 indicates, each of these Asian NIEs has enjoyed higher rates of economic growth than Japan. The NIEs are a diverse group, with differences in their

domestic policies, in their social and economic structures, and in their external trade and payments regimes, but several of them have emerged as significant international competitors in industries such as automotive production, steel, and shipbuilding, which were traditionally the preserve of the industrialized countries.

Third, a group of countries consisting of developing economies with large populations are shifting from a heavy agricultural orientation toward more industrial production and trade. Economies such as Thailand, the Philippines, Malaysia, and even India and the People's Republic of China are following the path trod by Hong Kong and Taiwan, by pursuing more outward-looking policies and expanding their production and exports in labour-intensive, light manufacturing and consumer products. These so-called DAIES (developing agro-industrial economies) must be expected to exercise significantly increased influence in the coming decade.

The dynamic growth of the Pacific economies has had significant implications for the patterns of B.C. and Canadian bilateral trade. A decade earlier, Western Europe accounted for 12 percent and the Western Pacific 9 percent of Canadian exports, while as Table 2 indicates these shares were reversed by 1988. Similarly, B.C. exports to the Pacific have grown from less than 30 percent in the late 1970s to almost 40 percent in 1988, and indeed, in 1989 B.C. exports to the Pacific surpassed exports to the United States. Such statistics confirm that British Columbia

serves not just as Canada's gateway to the Pacific, but as the nation's economic beachhead and commercial foothold in the region.

**Table 1**  
**Growth of Production in Pacific Economies**

Real Gross Domestic Product Average Annual Growth Rate (per cent)					
Countries	1965-80	1980-87	1988 <sup>2</sup>	1989 <sup>6</sup>	1990 <sup>6</sup>
<u>Developed Countries</u>					
Australia <sup>1</sup>	4.2	3.2	3.0	3.5	3.0
Canada	5.0	2.9	4.5	2.9	1.8
Japan <sup>1</sup>	6.3	3.8	5.7	4.8	4.0
New Zealand <sup>1</sup>	2.5	2.9	0.4	2.9	2.1
<u>Asian NIES</u>					
Hong Kong	8.6	5.8	8.1	4.5	4.0
Korea Rep. <sup>1</sup>	9.5	8.6	11.0	7.2	7.4
Taiwan <sup>3</sup>	8.5 <sup>4</sup>	6.3 <sup>5</sup>	7.1	7.1	7.2
<u>ASEAN Countries</u>					
Indonesia <sup>1</sup>	8.0	3.6	4.7	5.6	5.7
Malaysia <sup>1</sup>	7.4	4.5	7.9	6.9	6.1
Philippines <sup>1</sup>	5.9	-0.5	6.9	6.0	6.6
Singapore <sup>1</sup>	10.1	5.4	11.0	8.5	7.5
Thailand <sup>1</sup>	7.2	5.6	11.0	10.0	8.5
<u>China,</u>					
<u>People's Rep. of</u>	6.4	10.4	11.2	6.6	6.5
United States <sup>1</sup>	2.7	3.1	3.9	2.9	2.5

<sup>1</sup> GDP and its components are at purchaser values.

<sup>2</sup> Real GDP/GNP.

<sup>3</sup> Source: White Paper on International Trade, Japan 1988, Japan External Trade Organization.

<sup>4</sup> 1964-1979

<sup>5</sup> 1980-1985.

<sup>6</sup> Estimates from the 1989-90 Forecast of Real Economic Growth of Fourteen PECC Economies (Table 1 in the Pacific Economic Outlook 1989-90). It should be noted that the 1988 estimates from that table have not been fully reconciled with the estimates shown here for 1988.

Sources: World Development Bank, Annual Report 1989.  
Pacific Economic Outlook, 1989-1990; Pacific Economic Cooperation Conference.

Seiji Naya in a recent study for PECC <sup>1</sup> tells this story of changing patterns of production and trade as one of endless evolution, with the United States and now Japan passing through their period of comparative advantage first in labour-intensive goods and then in heavy manufacturing into an emphasis now on technology-intensive goods; the NIEs already handing off to the large ASEAN countries their role in exports of labour-intensive and light industrial products and moving, as just noted above, into heavy industry and more sophisticated goods; the ASEAN countries (other than Singapore) looking to become the next tier of NIEs; and through it all, Canada, Australia, and New Zealand trying to move from their position as producers of natural-resource-based products toward exports of more sophisticated manufactures and increasingly to reorient their economies toward Asia-Pacific markets.

Let me talk briefly about investment. Two fundamental developments, which have profound implications for the Canadian economy, have also altered the competitive position of the U.S. economy. First, the advantages to U.S. producers from economies of scale in production and innovation have declined at the same time that improvements in the technology and infrastructure of transportation and communications have increased global competition. Since Canadian manufacturing is dominated by U.S.

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<sup>1</sup> Seiji Naya et al, "Pacific Economic Cooperation in the Global Context", draft report prepared for the 7th PECC meeting, Auckland, New Zealand, November 1989.

multinational enterprises, the decline in the relative position internationally of U.S. firms has important implications for Canada.

The growing interpenetration of trade and investment by multinational corporations poses particular challenges for Canada which has a heavy preponderance of U.S. subsidiaries. Many Canadians express concern about how U.S. subsidiaries will adjust to the Canada-U.S. Free Trade Agreement, when the real issue in fact is how these subsidiaries will respond to global competition.

Canadian firms are poorly positioned to take advantage of emerging opportunities in the Western Pacific. Canadian direct investment abroad is heavily concentrated in the United States and the United Kingdom, which account for 71 per cent and 8 per cent respectively. Only Indonesia and Australia among Western Pacific economies account for more than one per cent of Canadian foreign direct investment.

Similarly, investment by Pacific economies in Canada is very limited. Together the United States and the United Kingdom account for over 80 percent of foreign direct investment in Canada, while Japan is the only Pacific economy represented among the ten largest foreign holdings in the Canadian economy. Although Japanese investment in Canada has grown very strongly in 1989 -- up 93 per cent as indicated in Table 4 - the stock of Japanese direct

investment in Canada is only about US \$3.9 billion or about 1/3 the level of investment in Australia and 1/20 the investment in the United States. Overall, Canada has attracted less than 2 per cent of Japan's foreign direct investment.

Among other Pacific economies, investment from Hong Kong and New Zealand has grown strongly in recent years (foreign indirect investment from Hong Kong has risen from 168 million in 1985 to 800 million in 1988 - not including funds accompanying migrants), but the absolute amount remains modest. As the Korean economy has matured it has also begun to invest abroad. The stock of Korean investment in Canada is concentrated in a few projects, such as the Hyundai plant in Bromont, Quebec. However, since Canada is attracting about 8 percent of Korea's foreign investment, the stock of Korean investment could grow rapidly in the future. (It should also be noted here in passing that there are immense data problems with regard to tracking foreign investment in the region. Given the importance of this topic, support for intensified academic work, and for Statistics Canada efforts to pursue bi-national and international exercises in reconciliation of balance of payments statistics and data on capital flows and direct investment -- such as those now contemplated with Japan and Korea -- is crucial to informed business and policy decisions.)

The second fundamental development is that the comparative advantage of the North American economies is changing as their

shares of specialized factor endowments, such as highly qualified manpower or modern technologically-advanced physical capital, are declining relative to the positions of the other high-income countries. This is most evident in the comparison with Japan where strong economic growth and high savings rates have been translated into high rates of investment in physical and human capital as well as in research and development.

If Canada is not to experience further decline in its relative economic position when compared with the high income European countries within the sphere of the European Economic Community, or the emerging Japanese economic giant, or the dynamic newly industrializing economies of the Pacific Rim, then Canada must achieve higher productivity growth in the domestic economy and strengthen trade and investment links with the dynamic Pacific economies. Canadian productivity growth has consistently ranked second last (ahead of the United States) in rankings among the industrial countries and lags far behind the productivity growth performance of the newly industrializing economies. The economic rationale for pursuing the Canada-U.S. Free Trade Agreement is to stimulate productivity gains and enhance the competitiveness of the Canadian economy. Realizing these potential economic gains, however, will depend upon the ability of Canadian firms to seize opportunities in offshore markets, particularly in the Pacific. And that will depend particularly on people. The story here is also quite remarkable.

Following a long decline in immigration levels beginning in the mid-1970's, the post-1986 levels have begun to climb. Preliminary data suggest that net immigration reached over 160,000 in 1988. The federal government has set its planning level for 1990 in the 165,000 - 175,000 range and is engaged in a broad consultative process to establish the levels for the medium-term future. Particularly relevant to Canada's and British Columbia's interests in the Pacific region are the significant changes occurring in the sources of its immigrants. The predominance of traditional countries of origin, including the United States and European countries, has been supplanted. In 1988, it is estimated that immigrants from Asia and the Pacific accounted for 43 percent of total immigration (Table 3) and the Pacific Asian countries of Hong Kong, the Philippines and Vietnam occupied the first, fifth and seventh places of the top ten countries of last permanent residence of landed Canadian immigrants.

The economic objectives of Canadian immigration policy have given birth to a business immigration program designed to encourage immigration that will create jobs for Canadians. From 1984-1988, 13,124 business immigrants were landed in Canada.

Again, it is the Asia-Pacific region that is the primary source of business immigrants. In 1988, 53 percent of all entrepreneurial immigration was from this region. Hong Kong, with

956 visas; South Korea, with 320; and Taiwan with 258 occupied three of the top five countries of last permanent residence for entrepreneur immigrants.

To summarize thus far: the Pacific Basin has been one of the principal engines in the process of growth and globalization of the world economy, and one of its principal beneficiaries. Canada shares with other countries in the Asia-Pacific region a fundamental interest in the maintenance of an open, multilateral trading environment, and particular initiatives need to be considered in the context of that fundamental and mutual interest.

While to a considerable degree the evolution of the Pacific will be dominated by the working out of the economic and political relationship between the United States and Japan, Canada as the third largest economy in the region has a key role to play and fundamental interests to protect and promote. Indeed, Canada's strategic interest in maintaining and enhancing its links in the Pacific is greater now than ever before in its history. This is because:

- in the coming decade Canada will no longer be able to depend on maintaining a surplus in its trade with the U.S., given the necessary efforts the U.S. will be obliged to make to address its own deficit, and the longer-term implications of that for exchange rates and

exchange flows. Canada will therefore need to look elsewhere to generate the surplus it vitally needs to service its international liabilities. Given the uncertainty of developments in Europe in the aftermath of 1992 (an uncertainty compounded by recent developments in Eastern Europe) which raises the prospect of an inwardly focused Europe in the short term, and given the overall dynamism and growth of the economies of the Asia-Pacific region, it is principally to the Pacific that Canada will need to look to make up the losses in its trade balance that will occur in North America as the period of an over-valued U.S. dollar comes to an end;

- in order to maintain some degree of leverage and manoeuvrability in its bilateral relationship with the U.S. in the aftermath of the Free Trade Agreement, Canada needs to diversify its markets and economic relationships, and again the Pacific region offers by far the most likely avenue for such diversification.

Not only does Canada have a fundamental strategic interest in enhancing its links and position in the Pacific, but also Canada faces the reality that, whatever we do, already established patterns of trade, investment, communication, transportation and immigration are making us, as never before, a Pacific nation. The

question is not whether we shall be part of the Pacific, but rather how well we shall be prepared for our rapidly developing role as a Pacific nation.

Strengthening Canada's trade with the countries of the Pacific will depend fundamentally on the development of long-term relationships with our partners in the region, and on a greater degree of mutual understanding and familiarity with our Pacific neighbours. Such relationships can only result from a sustained and consistent effort to build the social, intellectual, political, economic (both trade and investment), transportation and communications links on which success in the Pacific trading environment depend.

Those relationships are all the more important as our trade diversifies away from resources and commodities to include a far greater component of processed goods and especially services. Such "higher value added" trade requires greater familiarity with the different requirements and practices of particular markets and the development of a greater degree of mutual confidence and understanding between buyer and seller. To date Canada has not been as active in building these essential links as have other countries such as Australia and the United States, in part perhaps because we have not been as aware as others appear to be of the stakes involved or of the opportunities available in the Pacific. Some initiatives in recent years such as the Asia-Pacific

Foundation, the Asia Pacific Initiative and more recently Pacific 2000 have begun to reverse this but, given the magnitude and urgency of the task, they represent only a beginning.

For Canada, that web of human, institutional and investment relationships, which provides the essential infrastructure on which trade and economic relations depend, has been well established over the last century with the economies of Europe and the United States, and that very success may have distracted us from paying sufficient attention to the new environment emerging in the Pacific and to its fundamental implications for our future prosperity. We are at a relatively early stage, therefore, of establishing such relationships with our Pacific partners. To remedy that relative weakness, and to equip ourselves to participate more effectively in the Asia-Pacific region, will require that Canada and British Columbia devote significantly more attention and resources to strengthening our presence and links in the Pacific than ever before; the situation demands an investment that will enable Canada and Canadians to deal as effectively in the Asia Pacific region as in Europe or the United States.

### Pacific Community

I would also like to make the point that economic cooperation, or regionalism, in the Pacific is evolving, and should evolve, differently from earlier models in the rest of the world, or

indeed the earlier visions expressed for the Pacific.

Two main alternatives have been put forth with regard to institutional development in the Pacific. The first might be described as a comprehensive institutional approach leading to regional economic integration. The ideas of a Pacific free trade agreement was first raised by Professor Kiyoshi in 1968 and has resurfaced in various forms in subsequent years. The Pacific is, of course, already home to three sub-regional trading agreements - - the Canada-US Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the Association of South East Asian Nations -- and there has been considerable discussion around the notion of broadening these agreements to include other trading partners. However, the jump from subregional to regional integration faces substantial obstacles. Free trade agreements derive much of their strength from the similar heritages and levels of economic development of their member countries. But the Pacific region is notable for its economic and cultural diversity. Furthermore, the ASEAN countries are particularly reticent about such proposals fearing that their interests would be overwhelmed by those of the larger, more developed countries.

A very different view of Pacific regionalism is one that places less emphasis on institution-building and more on information flows, consensus forming and policy initiatives or negotiating

alliances by a group of countries that wish to take a lead in solving international problems. Institutions might be established to this end, but their role would be more limited, performing particular functions according to changing needs of the times. This form of regionalism has found its expression in the research and consultation activities of organizations such as PAFTAD, PBEC and PECC. PECC has been particularly effective in bringing together the tripartite participation of academics, businessmen and government officials to review through its working groups and policy forums "matters of common concern to the Pacific Basin countries."

The major problem of the PECC as a foundation for consensus-building in the Pacific arise of its failure to develop effective communications with government. Publication and dissemination of reports on PECC activities, making effective use of its Forum and Task Force outputs has been limited and not very imaginative. Perhaps more important, the National Committees in more member states have demonstrated only limited success in building bridges with the relevant government officials, and especially with political leaders. However, with Prime Minister Hawke of Australia initiative for a Pacific forum of economic ministers a vehicle for more effective PECC/government linkages, and more importantly, greater Pacific cooperation and dialogue, has emerged. After considerable diplomatic activity, the first Ministerial meeting of this initiative was held on November 5-7 in

Canberra. It has acquired the name APEC -- Asia Pacific Economic Cooperation -- and at its first meeting twelve countries were represented. For political reasons, China, Taiwan and Hong Kong, which most PECC members wanted included, were not present. The meeting was sufficiently "up beat" so that all participatory delegations agreed to at least two subsequent meetings, one in Singapore in 1990, and one in Seoul, 1991.

The important questions are two: does this governmental consultative group constitute a first step toward a Pacific version of the OECD? And how does its initial set of priorities and procedures relate to PECC?

On the first question, the jury will be out for some time. There is no evidence yet that there will be a Secretariat. Caution is everywhere. On the second question, the relation of this effort to PECC will be tested by the results of the next PECC Trade Policy Forum in order to develop consensus views on the issues that appear to be crucial to the success of the GATT negotiations. It is the intent of PECC to provide significant input to the mid-1990 APEC ministers meeting which will also seek consensus views with regard to the GATT. Close consultation between PECC Trade Forum members and their national government advisors to Trade Ministers is to be attempted. Thus the PECC is taking a risk -- can it be relevant and effective in strengthening the input to an APEC ministerial? In the context of the rather

constrained conditions of the crunch period in a trade negotiation it is indeed a question how "full and frank" communication will be.

Past and recent developments, particularly with regard to PECC and APEC, point to the distinctly different structures for cooperation in the Pacific. I would like to suggest that this very loose kind of regionalism is an effective vehicle for both accommodating the diverse interests in the region and lessening trade tensions and conflict.

To sum of thus far:

Interesting story as to what is happening in the Pacific:

- 1) won't see "Pacific community" in the send of "European community" - closeknit collection of countries pursuing political union;
- 2) won't see OECD as sequel to a Marshall Plan;
- 3) won't see Pacific Free Trade Area "stepwise" or otherwise;
- 4) will see a Japan-centered investment network;

5) will see growing trade, traffic, interpenetration through ownership, commerce, migration, etc.;

6) will see stronger PECC-APEC forum to resolve regional questions, pursue common interests in other fora

information-based

consensus-building            a framework for

multipartite                    our times

non-governmental

Environment

We in DC's must not lose sight of fact that it is our relentless pursuit of material well being, financed by \_\_\_\_\_ of the earth's natural resource endowments, that is largely responsible for the mess we are in. Much, if not most, of the world's population knows quite a different story than ours -- hunger, illness, unemployment and illiteracy are but a few of its chapters. The aspirations of these people for a better life depends on unprecedented rates of economic development. The disturbing truth is, however, that based on our current practices of promoting economic growth, development of this magnitude will most assuredly be ruinous. This is clearly a dilemma that requires creative thinking and a fundamental commitment to international cooperation. [Brundtland envisaged \_\_\_\_\_ 2 part bargain:]

Let us consider briefly one example of a most serious environmental problem and how we might globally address its resolution. The greenhouse effect is viewed by many as one of the most serious threats we face. Global warming is expected to cause shifting precipitation patterns and rising ocean levels, with catastrophic effects on food producing regions and low lying countries. How can we avoid this crisis? The answer is straightforward -- greatly reduce global carbon dioxide emissions. Implementing such reductions is, unfortunately, not so simple and

would require deep cuts in the world's use of fossil fuels through increased energy efficiency and the development of new non-fossil energy sources.

These changes must be made globally and will carry with them high costs, which will hit hardest in the developing countries which lack the accumulated wealth, technical capacity and infrastructure that more easily enable the rich countries to reduce their energy use. Consequently solving the greenhouse problem requires international cooperation on two fronts -- defining and enforcing an international program of emission reductions and equitably sharing the resultant costs. A number of proposals have been put forward to engender this type of cooperation, most of which involve raising revenue by measures that discourage fossil fuel use and making expenditures to ease the adjustment burden in developing countries by supporting research and development, technology transfers, and investment directed to sustainable low emissions development. There can be no disputing that such a scheme is fraught with difficulties and implementation problems. But the likeliest objection to the plan -- that such large resource transfers from the industrial to the developing world are politically impossible -- is simply not tenable. Current energy use trends are not sustainable and portend planetary disaster. The costs of changing course are rightly borne in large measure by those who have benefitted most from fossil fuel exploitation. It is also the case that there can

be no free riders in such a scheme. Competition and rivalry need not be sublimated in the name of cooperation if all partake in both the costs and the benefits.

Conclusion

"It is beyond dispute that the contemporary international environment is becoming more hostile: this poses major economic challenges and forces major structural adjustments. While it is fashionable to speak of the 21st century as the century of the Pacific, the possibility that these adjustments will take place in as accommodating a world economy as in the past is remote."

[remarks made with respect to ASEAN, July 1987 - Report of the Group of Fourteen]

We cannot take for granted that the path through the 21st century -  
- the century of the Pacific -- will be smooth. But a concept of a Pacific community is emerging and Canada has an important role to play in that community. Playing that role well will be important to Canada.