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CONTENTS

INTRODUCTION

DR. JOHN D. WIEBE	4
-------------------------	---

1 : OVERVIEW

CANADA'S ASIAN CRISIS	6
Canada's Share in Top Asia-Pacific Markets	8
Value of Canadian Mergers and Acquisitions in Asia Pacific	9

2 : FOREIGN POLICY REVIEW I

WHAT SHOULD WE DO ABOUT ASIA?	12
Canadian Embassy Staff in Asia Pacific, 2003-2004	14
Canadian Partners in Asia	16

3 : FOREIGN POLICY REVIEW II

MAKING OUR VOICE HEARD	18
Top Asia-Pacific Student Destinations, by Province	21
Canada's Top Asia-Pacific Immigration Sources	22

4 : MAJOR EVENTS

A YEAR IN REVIEW	24
Asia Day by Day	26

5 : REPORT CARD I

A LITTLE BETTER, BUT STILL NOT GOOD	38
Canada-Asia Report Card	39
Canada's Trade with Asia Pacific	40
Asia-Pacific Tourists Visiting Canada	42
Asia-Pacific Students to Canada	44
Asia-Pacific Direct Investment in Canada, by Economy	47
Canadian Direct Investment in Asia Pacific, by Economy	48

6 : REPORT CARD II

GENEROSITY EARNS ITS REWARD	50
Canada's Bilateral Official Development Assistance to Asia Pacific	52
Canada's Military Exports to Asia Pacific	54

NOTES AND REFERENCES	60
----------------------------	----

STATISTICAL APPENDIX	68
----------------------------	----

Growth in Selected Countries	68
------------------------------------	----

Canadian Tourists Visiting Asia Pacific	68
---	----

Canada's Merchandise Trade with the World	69
---	----

Canada's Merchandise Trade with Asia Pacific	69
--	----

Asian Mother Tongues of Canadians	70
---	----

Asian Ethnicity of Canadians	70
------------------------------------	----

Top Asia-Pacific Immigration Destinations, by City	71
--	----

Importance of Canada to Asia-Pacific Trade Partners	71
---	----

Importance of Asia-Pacific Trade Partners to Canada	72
---	----

Canada's Trade in Services with Asia Pacific	72
--	----

This year's *Canada Asia Review* has all the familiar elements that have made this publication the benchmark report on Canada-Asia relations — a wealth of data, succinct analysis and well-informed commentary. In the opening chapter, Canada's Asian Crisis, we point to what we see as a major developing issue in our ties with Asia Pacific. This year we highlight the erosion of our commercial expertise in the region as business leaders emerge who have focused consistently, and with great success, on our US neighbour since the initial Canada-US Free Trade Agreement came into effect on 1 January 1989. Unfortunately, neither they nor our government have devoted much attention to similar, and even faster growing, markets in Asia Pacific. As a predictable result, our share of those markets has steadily shrunk. Many in business and government seem to feel that Asia, especially since the financial crisis of 1997, is out of the game. They have failed to notice that, behind the headlines of bombings and terrorist networks, Asian economies have recovered strongly. Of course, not everyone is asleep at the wheel. Over the past couple of years, a considerable amount of Canadian investment has flowed into the chronically troubled Japanese economy. Recession and deflation may be painful for the Japanese, but they make for some attractive investment opportunities for Canadians who look beyond the next quarter. We believe there are many more opportunities like this in Asia and encourage Canadian companies to take a second look. Government could help by sending a strong signal to our business community that it sees Asia Pacific as just as important a growth market for Canada as the United States or Latin America.

Elsewhere, in our review of the previous year, we attempt to interpret major Asian events and developments of 2002 through Canadian eyes. We have again compiled our Canada-Asia Report Card — including a new category combining inward and outward investment — and devote two chapters to the detailed reasoning behind our letter grade assessments. Now in its sixth year, the Report Card provides a consistent, if subjective, meas-

ure of how Canada is doing in Asia. I hope it provokes thought and debate on the issues it raises. This year's results are slightly better than those previous — the overall grade rose to a “B–” — although there is little room for satisfaction in the upgrade, which was helped by improvements in non-economic categories such as Security Relations and Development Assistance.

In addition to these retrospective chapters, this year's *Canada Asia Review* devotes a substantial section to forward-looking issues in the Canada-Asia relationship. Based in part on seven papers commissioned by the Foundation from experts in their areas, we look at key issues under each of the three pillars of Canadian foreign policy: economic prosperity, security in a global context, and the promotion of Canadian values. The three major powers of Asia — China, Japan and India — are covered in separate papers. Southeast Asia is treated as a whole in one paper, in the context of the war on terrorism, and a fifth paper examines the broader question of Asian regionalism. Two other papers look at the prospects and implications of the substantial and sustained immigration from Asia to Canada.

The commissioned papers were part of the Foundation's contribution to a review of Canadian foreign policy, which was foreshadowed in the Throne Speech of September 2002 and launched in January 2003. The Foundation also sponsored an online discussion forum on its Canada Asia Pacific Research Network website and hosted a workshop in Ottawa in March 2003. Our official submission to the foreign policy review is available in full on our website, at www.asiapacificresearch.ca/caprn/discussion/roundtable_mar03.cfm.

Although the government's review of foreign policy in the end amounted to only a “dialogue” with Canadians — with no specific conclusions or outcomes — the stage has been set for a more extensive reconsideration of our external relations. Since the last major review of foreign policy in 1994, the world has seen dramatic changes, not least in Asia. During the past nine years, Asian countries have had to deal with a major financial

crisis, the emergence of China as an economic behemoth, security tensions in South and Northeast Asia, the opening of a “second front” in the war on terrorism and the SARS outbreak, to name just a few major events. Less dramatic, but of potentially greatest significance in the longer term, has been the growing assertion of Asian identity and the heightened pace of regional cooperation since 1997, led by an ascendant and ever more sure-footed China. Canada cannot be indifferent to these developments in Asia. On the contrary, we need new tools and new approaches in our foreign policy to ensure that Canada remains a committed and credible player in the region. I hope you find this year's *Canada Asia Review* to be a useful step in this direction.



Dr. John Wiebe
President and CEO
Asia Pacific Foundation of Canada

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CANADA'S ASIAN CRISIS

Last year Canadians seemed to hear and read more about Asia than they had at any time since the financial crisis of 1997. And, as with the financial calamity that pushed the region into the limelight, the picture painted was far from inviting. Yet some sectors of Canadian business must have seen a different Asia, because they invested more capital there than ever before. They looked beyond the images of ethnic violence, terrorist threats and bombings and saw the strong economic performance in most of the region as it recovered from the slowdown of 2001 caused by the collapse of the US high-tech bubble. They saw the substance of Asia. They looked to the future rather than at the headlines.

It is always a puzzle to explain why there are in Canada business people, along with a handful of government officials and academics, who show a strong belief in the economic potential of Asia, while most of their peers have a chronic fixation on the United States and the nations to its south as the true or only areas of Canadian economic interest. The answer may lie in their knowledge and experience of Asia. Many of today's business leaders and policymakers rose to prominence at a time when Canada's prosperity depended heavily on the benefits of the 1989 free-trade deal with the US. As a result, they have immersed themselves in our neighbouring market and have developed a level of expertise unsurpassed by any other non-US business people.

Fourteen years ago, when the Canada-US Free Trade Agreement (FTA) was signed, there was a competing vision of the future — tagged the Pacific Century — which saw Asia as the engine of economic growth in the twenty-first century. The Canadians who bought into this vision have generally remained convinced of where the economic future lies, while the FTA backers continue to look to the US. Certainly many others have joined the band of Asia enthusiasts in the meantime, some the products of Asian studies programs now available in our colleges; others include the large numbers of Asian immigrants who came to Canada in the 1980s and 1990s, bringing with them experience, skills and networks from their native countries. Their enthusiasm is not simply based on a love of Chinese food or Balinese dance. It is based on sound economics and a belief in the growing geopolitical weight of Asia. Even with the major setback of the financial cri-

sis, every major Asian economy except Japan has grown faster than the US during the past 10 years. All things being equal, the rational business response would be to jump into Asian markets in a big way. However, all things are far from equal. The costs and frustrations of doing business in distant Asian markets are far greater than in the nearby and familiar US market. And the way into that market has been smoothed by the free-trade pact. It is time for our government to begin seeking the same access to our major Asian markets to level a playing field that is tilted so heavily southward.

There is evidence of a correlation between knowledge about Asia and business commitment to the region. Since 1999, the Foundation has undertaken an annual survey of Canadian companies regarding their investment intentions in Asia. Every year the survey finds that the companies responding are bullish on Asian prospects — every year around half report they intend to increase their investment during the following year and more than two-thirds say they will do so within the next five years.¹ A key point, however, is that those surveyed are firms that already have a base in the region. In other words, they have access to first-hand knowledge of conditions in the part of Asia in which they are active. For the past two years we have also asked about investment intentions in other parts of the world. In 2001, 23% said they intended to invest in the US. Last year that was down to just 13%. Because knowledge of Asia seems connected to a greater willingness to undertake business there, one question, then, is how to increase the awareness in our business community and facilitate its entry into Asia on a greater scale.

FIVE YEARS AFTER ASIA'S CRISIS

Last year marked the fifth anniversary of the Asian financial crisis that began with the devaluation of the Thai baht in July 1997. The year was also the fifth anniversary of Canada's unfortunately timed Year of Asia Pacific (CYAP), a nationwide slate of events meant to coincide with our year in the chair of the Asia-Pacific Economic Cooperation (APEC) forum. CYAP was intended to celebrate and broaden understanding of Canada's ties with Asia. Ultimately, Canada's contribution to APEC that year was all but overshadowed by

CANADA'S SHARE IN TOP ASIA-PACIFIC MARKETS (percent)

Countries	1996	1997	1998	1999	2000	2001	2002
Australia	1.83	1.50	1.62	1.60	1.62	1.49	1.38
China	1.84	1.41	1.59	1.41	1.67	1.35	1.10
Hong Kong, SAR	0.59	0.65	0.65	0.55	0.66	0.57	0.44
India	0.89	1.06	0.56	0.63	0.68	0.90	0.64
Japan	2.90	2.89	2.72	2.54	2.30	2.20	2.10
Malaysia	0.60	0.78	0.64	0.58	0.46	0.42	0.41
Singapore	0.45	0.52	0.46	0.37	0.36	0.36	0.49
South Korea	1.81	1.79	2.12	1.50	1.31	1.29	0.88
Taiwan	1.32	1.39	1.11	1.01	0.85	0.93	0.83
Thailand	0.74	0.66	0.60	0.62	0.61	0.56	0.64
Total	1.59	1.54	1.37	1.35	1.32	1.24	1.08
Rest of the World *	4.16	4.65	4.72	4.87	4.87	4.99	4.59

Sources: International Monetary Fund, *Direction of Trade Statistics Yearbook 2000, 2001 and 2002*; *Direction of Trade Statistics Quarterly, June 2003*; and Republic of China, Board of Foreign Trade. 31 July 2001, 11 and 19 July 2002, 7 March 2003. <<http://www.trade.gov.tw>>.
* Canada's share of world import markets, excluding Asia-Pacific countries listed.

the financial crisis, and CYAP was seen by many, rather unkindly, as little more than a failed public-relations exercise by the government.

In the years since the financial meltdown, all the affected Asian economies have more than recovered the growth wiped out in the collapse, with the exception of Indonesia (and even that unsettled country appears set by the end of this year to finally regain all the economic ground it lost).² The economies of eastern Asia are stronger today than in 1997 because of economic reforms arising out of lessons learned from the collapse. Unfortunately, Canada seems stubbornly wedded to a view of Asia forged in 1997, failing to notice the positive changes since then. In 1997, 10.8% of our total trade was with Asia.³ Last year that number had slipped to 10.3% — and even that lower figure was supported very heavily by surging imports from Asia, rather than Canadian exports. Most telling is that our share of major Asian import markets last year slipped for the seventh year in a row, to just 1.08%, almost a third less than before the crisis. It would be an exaggeration to say Canada has turned its back on Asia — our total direct investment in the region has doubled since the crisis (in part taking advantage of the ability to buy some undervalued assets). But it is no exaggeration to observe that the attention of the private sector and government has generally been somewhere other than Asia — with business looking to the United States and government simply looking elsewhere, perhaps because of the setback it suffered with CYAP.

For their part, businesses will trade and invest where they believe the best opportunities are to be found: public companies have a legal obligation to do just that in order to maximize returns for shareholders. During most of the past decade, the United States offered great opportunities, so it was natural for business to focus on that nearby and familiar market. However, the rapid rise in our trade with the US since 1989 is not just the result of proximity and strong demand. Successive Canadian governments have adopted an explicit policy of maximizing Canadian trade with the US, first by promoting the FTA, then the broader North American Free Trade Agreement (NAFTA). Since September 11, 2001, the issue of our dependence on the US has become more complex. It is no longer just an economic question. Ottawa is facing pressure on its security and foreign policies to ensure we maintain the freedom to ship goods relatively unhindered across the US border.

Our attention to US trade has not been matched by concern with Asian markets, especially since 1997. Rather, Ottawa has focused on extending NAFTA into Central and South America, beginning with free-trade talks with Guatemala, Honduras, Nicaragua and El Salvador in November 2001. Negotiation of an agreement with Singapore, announced 17 months earlier, appeared to have lower priority. Although there may be some political motivation to helping the economies of Latin America with greater trade access, there is little economic rationale. Our total trade last year with Latin

VALUE OF CANADIAN MERGERS AND ACQUISITIONS IN ASIA PACIFIC

Year	VALUE REPORTED (US \$MILLIONS)			Sources: Thomson Financial Securities Data, 2003; and published sources. * Average of transactions with disclosed value.
	Number of Cases	Total	Average *	
1994	16	226.3	14.1	
1995	18	333.3	18.5	
1996	32	1,029.7	32.2	
1997	29	813.0	28.0	
1998	20	2,369.6	118.5	
1999	27	4,753.1	176.0	
2000	46	1274.6	29.0	
2001	42	2,393.8	70.4	
2002	32	479.7	32.0	

America (excluding our NAFTA partner Mexico) was \$10.3 billion. That level can certainly be increased. However, in total it is little more than half our trade with the booming economy of China. It would take only a 14% gain in our trade with Asia to match a doubling of trade with Latin America. Asia, it would appear, is the place to focus our efforts.

While Ottawa has concentrated on Latin America, other countries looking to cut deals in Asia have jumped ahead of Canada. In particular, the United States has reached agreement with Singapore and is talking with other regional countries. Australia is doing the same. The signal to Singapore, to Southeast Asia generally and to Canadian business, even if it is unintended, is that Canada has other priorities. Trade officials are quick to claim that they take their cues from the business community in setting priorities for trade deals, yet it is hard to imagine that Singapore would be considered a lower priority than the Central American four. Ottawa must take the lead in showing the long-term vision needed to revitalize our trading relationships in Asia, as it bears some of the responsibility for the dearth of Canadian business interest in the region. After a decade of easy and rewarding access to the US, the new generation of business leaders in Canada is equally at home in Los Angeles, Atlanta and Dallas as it is in Toronto or Montreal. Tokyo, Shanghai and Mumbai, on the other hand, are just faraway destinations, believed to be “too difficult” or, worse, in perpetual crisis.

Unlike the crisis that erupted in Thailand in 1997 — which quickly captured the attention of Canadians far removed from Asian affairs — this new challenge in Canada-Asia relations is going largely unnoticed. Our diminishing role in Asia — not just in business but also in other aspects of our relations — is overlooked in the preoccupation with continental security and North American integration. Canadian business, which is already out of touch with events in Asia, is not likely to show a renewed interest in the region unless it is convinced of an economic resurgence in Asia. Whether Canada will be in a position to take advantage of the new opportunities depends on how long we allow our collective disengagement with Asia to continue. Free trade with the US has resulted in a demonstrable lack of government and business attention to exploring opportunities elsewhere. With the clouds of uncertainty now gathering over the border, it is time to begin paying much greater attention to Asia.

FOREIGN POLICY REVIEW

In January 2003, Foreign Affairs Minister Bill Graham initiated a “dialogue” on Canada’s foreign policy,⁴ intended as an update to the last review, undertaken in 1994 — not long after the Chrétien government came into office — which led to the publication of a formal statement of our foreign policy.⁵ The update is needed, for the world, and Canada, have changed greatly in the intervening years, although the timing of the process, about a year before there is a change in government lead-

ership, seems a little awkward. Still, the process presents an opportunity to revitalize Canada's ties with Asia. Key priorities, as we see them, are to strengthen our relations with the major states of Asia — China, Japan and India — by working cooperatively and constructively with them in areas of mutual interest, rather than criticizing and confronting them.⁶ More broadly, there is a need for Canada to become more engaged with the regionalism that has emerged in East Asia, as shown in multilateral groupings such as ASEAN plus Three and the ASEAN Regional Forum, and through the network of trade and economic deals being forged across the region. Canada has been hesitant to join in this flurry of activity, as demonstrated by the slow progress in negotiations for a free-trade deal with Singapore. Ottawa should complete that deal as a matter of priority, then begin building a stronger economic bridge to Asia by

seeking a broad economic agreement with our main regional trading partner, Japan.

An important starting point in reshaping our Asia policy is to recognize Canada's limited influence, the result of a diminishing economic presence in the region. It is an unfortunate corollary of our economic relationship with the US that our trade and investment roles in Asia have eroded to the point they give us virtually no leverage in bilateral discussions. Cooperation, especially in non-economic areas, may help lessen this disadvantage and gain some goodwill in trade negotiations. For instance, in China, where human rights issues have been chronic irritants, Canada could focus on areas where Beijing itself seeks reforms, such as civil policing or the justice system, and confine criticism over the treatment of political dissidents to private meetings. Change in the political arena will be a long time coming and will not be

CANADA-ASIA REPORT CARD

Canada's involvement with Asia covers a broad range of relationships. In an effort to show where we stand in the major areas of interaction, each year the Asia Pacific Foundation has produced a Canada-Asia Report Card. This is necessarily a subjective evaluation, and not everyone will agree with our assessments. It is hoped any disagreement will stimulate discussion about our role in Asia, especially in specific terms rather than generalities. This year's analysis, covering 2002, can be found in Chapters 5 and 6, with a summary in the foldout table on page 39.

For the first time, the average grade for the nine areas discussed in the Report Card has climbed to a "B-" — far from satisfactory, yet an improvement nonetheless. The result owes a great deal to a strong performance in the Investment category (which this year covers inward and outward capital flows — in previous years they were separate categories). It was a record year for Canadian foreign direct investment in Asia, and this has had a considerable influence on the upgrade. It was also a good year for trade in information and communications technology products, which are seen as a key element in developing our broader economic ties with Asia. Finally, major changes in both funding and policy application in Canada's development assistance program have prompted an upgrade in that category to "A-," the highest grade awarded in the six years the Report Card has been drawn up. Our security ties with Asia, much intensified in recent years, first with the dispatch of Canadian peacekeepers to East Timor, then of combat troops to Afghanistan, were also awarded a slightly higher grade as the human security aspects of our involvement regained a prominence that had been overshadowed by the war on terrorism in the previous year. The area of education marketing has maintained its relatively high grade of "B+," although it was difficult to judge student inflow last year because of major changes in visa requirements under a new Canadian Immigration Act.

Although no category was downgraded, we were disappointed to again peg our trade performance at a most unsatisfactory "C-," as exports continued to stagnate and our share of major Asian markets continued to slide. It is recognized that the Report Card is a somewhat unbalanced affair, giving equal weight to rather disparate components. In any ranking that reflected the importance of a category to Canada's overall Asian relationship, trade would have a much larger impact on the composite grade, bringing it down considerably. This is just one more indication of the work that needs to be done to revitalize and rebalance this key element in our global partnerships.

the result of public pressure, especially by Canada. In India, where we have undermined long-standing goodwill by adopting an uncompromising moral position on New Delhi's development of nuclear and missile capability, we could work with, rather than against, the country's emergence as a major power. Our concern should be to ensure secure control of India's nuclear arsenal, rather than its elimination. This can be better achieved through security dialogues with New Delhi than through restriction of military contacts. In Japan, our influence at the government level is greater than in either China or India, and we already work cooperatively in such areas of concern to Tokyo as peacekeeping and development assistance. However, at a time of change in Japan, there are many opportunities to form new relationships beyond government. The emergence of young, vibrant civil society organizations appears to open such a door. Canada's strength in this aspect of democracy can be used to build links in this rapidly expanding segment of society. A political signal is needed. The new prime minister should visit Tokyo in 2004 — the 75th anniversary of bilateral relations. It has been four years since the last bilateral summit.

There is also work to be done at home, given the worrying lack of capacity in government, academia and the private sector in dealing with Asia, as noted in the opening section of this chapter. This is not to belittle those already working in these areas. However, over the longer term, it is essential for Canada to enhance the capacity of its policymakers, analysts and scholars to monitor changes in politics, economics and foreign policy, especially in Japan and China. An investment in Japanese and Chinese language training and area studies should be a fundamental component in this capacity-building strategy. It must not be assumed that the influx of immigrants from Asia over the past 15 years will automatically provide this expertise, although this valuable pool of people can provide candidates for specialized training, some of whom already possess the requisite language skills and cultural sensitivity.

The government needs to show long-term vision essential to a rebalancing of our trading relationships. Negotiations to revitalize our economic ties with Japan are the first step, although it is recognized this would be

far from easy. Canadian foodstuffs are a significant component of exports to Japan, and protection of its domestic agriculture is a politically sensitive issue. Yet many senior Japanese policymakers realize that agriculture is in need of major reform. Opening its markets to imports is the most likely way this will be achieved, so there will be allies within Japan for efforts by a major agricultural supplier like Canada to try to push the door open. Mexico, an important supplier of pork to Japan, found a way around this trade obstacle and reached agreement with Tokyo on a free-trade pact. Canada should have the confidence to try for its own deal, which will send a signal to business that trade with Japan, and other Asian markets, is a priority. A trade agreement is the long-term objective, but a change in priorities is a short-term necessity if we are to develop beyond the US market.

**WHAT SHOULD
WE DO ABOUT ASIA?**

In the eight years since the Government of Canada last formally set out the concepts and priorities guiding the nation's foreign policy,¹ much has changed. The world has settled into a post-Cold War era in which there is a single, dominant military power; in which more people than ever before have rapid access to a wide range of information and opinions via the Internet; and in which Asia's centre of economic and political gravity is slowly shifting with the emergence of an ascendant and confident China.² Recognizing this new environment, in late 2002, the government announced its intention to "engage Canadians in a discussion about the role that Canada will play in the world" and to "set out a long-term direction on international and defence policy that reflects our values and interests."³ APF Canada believes that some important aspects of Canada-Asia ties should be considered in any policy discussion. To this end, the Foundation made a formal contribution to the "dialogue" process.⁴ In this and the following chapter, the issues raised in this submission are discussed under the broad themes, or "pillars," underlying Canada's foreign policy as they were set out in the 1995 foreign policy statement.

PROSPERITY AND EMPLOYMENT

As a trading nation, Canada's economic success, more than that of almost any other country, depends on the strength of its commercial relations with other countries. Last year exports of goods and services represented 41% of our GDP.⁵ With nearly 82% of these exports going to the United States, the economic and political ties with our neighbour clearly outweigh all others and must be the major consideration in framing our foreign policy. However, our second-largest international market is Asia, so it is also important to develop policies that recognize and support Canada's ties with this region. Here we will focus on issues involved in our relationship with three of the most important Asian states — China, Japan and India.

CHINA

In recent years, Canada has maintained a slightly contradictory policy mix toward China. The government correctly identified and sought to help Canadians take advantage of the large potential gains resulting from China's rapid economic modernization. It undertook major

trade missions and supported China's entry into the global trading system through membership in the World Trade Organization (WTO). The government has worked hard, and with general success, to maintain a warm relationship with Beijing. At the same time, it has caused occasional annoyance to the Chinese government by expressing Canadians' distaste for the lack of political and human rights in the country, and has simultaneously annoyed many Canadians by not expressing that distaste even more forcefully. Although these twin priorities of trade and human rights in our dealings with China seem appropriate, they could be more nuanced, with a greater appreciation of the environment in which China's trade policy is developed or human rights have evolved.

Canada should not assume, as sometimes seems the case, that goodwill alone is sufficient to change Beijing's economic behaviour or human rights practices. It must be recognized that our economic ties with China — our trade represents only about 1.7% of China's two-way total,⁶ and the stock of Canadian investment there is less than 0.2% of total foreign direct investment (FDI)⁷ — give us very limited influence with Beijing or ability to shape its trade laws and practices. China's compliance with international trading norms will depend on the compatibility of those norms with the needs of Beijing. Essentially, compliance will depend on the central government's self-interest — which may not always be directly linked with trade. For instance, despite the unitary nature of the Chinese state, the division of powers between local and central authorities remains unclear. In practice, this hampers regional initiatives and also reinforces the abuse of discretion in favour of local goals. The central government has seized on its commitments under WTO membership as a means of increasing its control over provincial administrations.

In the case of human rights, progress will depend on the willingness of Chinese institutions and officials to accept foreign guidance or to respond to outside pressure. Progress also depends on the political and legal culture, which is and will remain very different from that of Canada. Regulatory culture in China has always tended to emphasize control by a political authority that remains immune to social challenge. Under such a system, political leaders are responsible *for* society but not *to* society.

Traditionally, the legal infrastructure is used by the government to protect itself from pressure from dissatisfied labour groups or religious sects like Falun Gong. It provides a means of repression for the authorities rather than a safeguard to protect citizens against abuses by officials. However, the way in which China dealt with the SARS outbreak in the early part of 2003 — at first suppressing information for fear of the impact on foreign investors, then yielding to pressure from foreign health authorities as the outbreak began to build domestically — offers one recent example of how China's regulatory culture may be changing as the country integrates with the world.

It is against this background of the realities of China that Canada's foreign policy toward Beijing must be developed. Key to this — and a recommendation of this Foundation — is the promotion of much greater mutual understanding of Canadian and Chinese culture, admin-

istrative systems and language. The level of expertise underlying Canadian official and non-official contacts should be raised, through exchanges of personnel, training programs (including language programs for officials, diplomats, executives and NGO staff) and the promotion of interest-based cooperation between Canada and China in multilateral trade and human rights organizations. Implementing these recommendations will provide better tools with which to develop Canada's policies toward China. More important, though, will be the acknowledgement that Canada's policies toward China, both in the areas of trade and human rights, should be based on a realistic analysis of what we can achieve in the short term, taking into account that country's political-legal culture and institutional practices. In relation to human rights, Canada should pursue a step-by-step approach to cooperation that links specific rewards to

CANADIAN EMBASSY STAFF IN ASIA PACIFIC, 2003–2004*

Country	TOTAL STAFF	SELECTED FUNCTIONS / ORGANIZATIONS				
		International Business Development	Public Diplomacy	Trade and Economic Policy	CIDA	Citizenship and Immigration
Australia	60.35	13.59	5.94	1.54	0.23	11.08
Bangladesh	32.84	1.57	1.23	0.43	5.02	2.01
Brunei	7.02	1.30	0.00	0.20	0.00	0.00
Cambodia	1.00	0.20	0.10	0.10	0.20	0.00
China	350.48	36.48	6.14	5.85	4.09	150.01
India	303.67	20.95	3.84	1.64	6.11	104.80
Indonesia	62.87	10.87	1.94	2.55	7.17	3.11
Japan	143.67	42.24	18.29	4.94	0.07	7.03
Malaysia	32.35	8.33	3.14	1.94	0.40	2.11
New Zealand	11.54	2.91	0.98	1.12	0.04	0.10
Pakistan	105.55	5.82	0.20	0.04	2.45	20.26
Philippines	107.67	14.25	2.45	1.27	6.82	53.07
Singapore	63.44	9.79	0.93	0.69	2.01	26.11
South Korea	61.24	12.03	3.14	2.52	0.00	18.08
Sri Lanka	42.91	1.20	0.20	0.40	0.60	21.69
Taiwan	52.45	13.05	3.12	1.05	0.00	19.08
Thailand	57.25	9.10	1.66	0.63	4.02	10.04
Vietnam	33.62	4.04	1.05	0.94	3.39	1.68
Total Asia Pacific	1,529.92	207.72	54.34	27.85	42.62	450.26

Source: Department of Foreign Affairs and International Trade, 2003. Notes: 1) Effective June 2003, 2) *Full-time staff equivalents.

measurable progress. While this approach may not satisfy those who believe Chinese citizens deserve the same political and human rights as their peers in the West, it recognizes that 4,000 years of cultural tradition cannot be changed overnight, especially at the behest of a partner of such limited influence as Canada.

JAPAN

Japan's economy, political system and international role are all in a state of flux, offering a unique opportunity for Ottawa to reinvigorate its relationship with Canada's most important regional partner. Although the full impact of these transformations has yet to be felt, there are many signs pointing to major changes ahead. Despite a widespread inclination to write off Japan as a fading power, now is an ideal time to re-examine the fundamentals of our relationship with Asia's dominant economy. Canadian policymakers should anticipate the fundamental shifts in Japan's economy, political system and role in the world, as they will provide new opportunities to develop our ties with our second-largest national market.

Important changes in Japan's economy are taking place at the microeconomic level, despite persistent depressing signals of stagnation from standard macroeconomic indicators. Of particular significance is the heavy flow of foreign portfolio investment into Japanese financial assets — more than 18% of listed Japanese equity is now foreign owned⁸ — and Japan's growing integration into global financial markets. Related to this is the large inflow of FDI since 1995. While both of these changes have to some extent been forced on Japan because of the serious capital shortages faced by many industrial sectors, they also reflect a major shift in social attitudes to foreign involvement in the domestic economy. As a result, there has been a significant rethinking of corporate focus and control. The pursuit of growth and market share led by corporate management — long the pattern of Japanese business — has given way to a quest for greater returns on equity in order to satisfy shareholders. This new attitude is unlikely to be reversed and has opened the door to Canadian firms wanting to enter the Japanese market, especially through joint ventures.

On the political front, too, a major transformation seems imminent — though many observers had expected

it to come much sooner as a result of comprehensive electoral reforms introduced in 1994.⁹ A split is likely in the ruling Liberal Democratic Party (LDP) as well as in the opposition Democratic Party of Japan, along with the merger of some opposition parties. These changes have the potential to reshape Japan's political landscape and to break the LDP's stranglehold on power. Even in the absence of a political realignment, a power struggle has been playing out in recent years, with the three poles in the Japanese system (party bosses, the bureaucracy, and the prime minister's office) vying for greater policy influence. So far the bureaucracy has been the loser.

Another source of change in the political culture is Japan's increasingly vibrant civil society. As a result of a major legislative change in 1998 that liberalized the rules for establishing non-governmental organizations (NGOs), between 2000 and 2002 there was a 600% increase in the number of registered NGOs in Japan.¹⁰ These newly formed groups advocate for issues such as environmental protection and women's rights and have been increasingly effective at building domestic coalitions and political support.

Externally, Japan has entered a period of change as well. After many years of focusing its trade liberalization efforts on multilateral agendas — such as the WTO and APEC — in 2002 the country entered into its first bilateral free trade agreement, with Singapore. Since then it has initiated FTA negotiations with Mexico, South Korea and the members of ASEAN. One of the objectives in seeking bilateral economic agreements is to use them as vehicles for advancing domestic economic reform. To a large extent, these efforts have been driven by politics as much as economic rationale, and they reflect the struggle within different arms of the bureaucracy and between the bureaucracy and the government.

Strategically Japan has been repositioning itself on geopolitical and military issues since September 11, 2001, driven in part by vigorous internal debates on the country's place in the global security architecture. Like Canada, Japan's relationship with the US has been central to its security role. Also like Canada, it has generally supported multilateral approaches to security issues. Since about 1993, the primary security concern for Japan has been North Korea. As Pyongyang's perceived threat

CANADIAN PARTNERS IN ASIA

	CHINA		JAPAN		INDIA	
	1995	2002	1995	2002	1995	2002
Canadian Exports to (C \$millions)	3,294	3,601	11,906	8,298	434	654
Canadian Imports from (C \$millions)	4,639	15,978	12,094	15,412	541	1,326
Total Canadian Investment* in, (C \$millions)	366	587	2,739	7,033	179	145
Canada's Share in FDI* (%)	0.27	0.15	8.17	13.98	3.17	0.65

Sources: Industry Canada, *Trade Data Online*. 18 June 2003. <http://strategis.ic.gc.ca/sc_mrkti/tdst/engdoc/tr_homep.html>, Statistics Canada, *Canada's International Investment Position, Year-end Stocks*. CANSIM II Table 376-0051. 28 March 2003. <<http://www.dfait-maeci.gc.ca/eet/pdf/CIIPO2-en.pdf>>, <<http://cansim2.statcan.ca>>. Reproduced with permission of the Minister of Public Works and Government Services, 2003.

* FDI share figures calculated using the most recent total FDI inward stock figures from United Nations, *World Investment Report 2002: Transnational Corporations and Export Competitiveness*. Canadian direct investment total and FDI share figures are for the years 1995 and 2001.

has increased, Tokyo has become more open in examining its own security options. The terrorist attacks in the US provided the impetus for the government to significantly broaden the role of its military and the scope of its “self-defence” doctrine. Japanese attitudes and responses to the North Korean threat are an indicator of broader thinking on geopolitical and security issues — and the degree to which Japan may decide to exercise its not-inconsiderable security muscle in the future.

A period of profound change, such as we are witnessing in Japan, offers great opportunity for new political and business initiatives. The Canada-Japan relationship therefore requires high-level attention and sustained focus. The prime minister has not visited Tokyo since 1999, when he led a Team Canada mission to Japan. There is an excellent opportunity for another prime ministerial visit in 2004, the 75th anniversary of bilateral diplomatic presence. Canada could use such a visit as a signal of its desire to reinvigorate bilateral relations by proposing a broad-ranging economic agreement along the lines of a Canada-Japan Partnership for Closer Economic Relations. This could include traditional elements of an FTA as well as non-traditional business facilitation issues.

To strengthen commonly held goals, Canada could cooperate with Japan to reinforce international law, multilateral rules and human rights norms. Similarly, there is scope for mutual support on foreign policy initiatives such as fostering China's integration into the international economic system and taking a peaceful and negotiated

approach toward North Korea. As Japan debates its future strategic options, it is important for Canada to help to keep Tokyo's attention focused on multilateral activities, such as United Nations peacekeeping missions, rather than on possible unilateral moves prompted by any sense of insecurity.

Over the longer term, it is essential for Canada to enhance the capacity of its policymakers, analysts and scholars to track changes in Japanese politics, economics and foreign policy. Similar to our recommendations on China, an investment in Japanese language training and area studies will be fundamental to this strategy.

INDIA

Canada's diplomatic relationship with India requires a complete rethink. Canada-India links can no longer be advanced on the basis of a shared colonial history and a strong commitment to democratic values, federalism, a multicultural society, parliamentary institutions, and a broader agenda of international peace and security. The country has emerged as a confident regional power that pursues bilateral relationships grounded in mutual interest. Neither the present nor any likely future Indian government will welcome moral admonitions about its nuclear agenda, which soured Canada-India relations in the late 1990s and still have lingering after-effects. However, enhanced economic ties alone will not be sufficient for Canada to regain a place of importance in Indian policymakers' concerns. New Delhi will remain cool to a

much closer bilateral relationship unless Canada acknowledges India's status as a nuclear power.

The level of Canada-India trade and investment leaves much to be desired, despite recent efforts to boost economic relations. Canada only accounts for about 1.1% of India's total trade, a considerably smaller proportion than our share with the much larger economies of Japan and China. At the same time, the path of economic reform in India has not been smooth, and many Canadian businesses that have undertaken Indian ventures express frustration at the numerous administrative and legal barriers they encounter.

One challenge for both Canadian business and the government is the need for a clearer understanding that there is no single "India." Deregulation has been accompanied by strong competition among Indian states to secure investment. Three of the biggest and wealthiest states have attracted about 40% of all value-added in manufacturing,¹¹ while eastern and central parts of the country have remained relatively backward, with low levels of industrialization and foreign investment. The result is a number of very different regional, state and city markets. If Canada does not want to be shut out of this huge market, its policies will have to focus on gathering business intelligence about the peculiarities of these distinct economies. At the very least this should involve the opening of full Canadian posts in south and west India, notably Chennai and Bangalore. Canadian businesses and trade officials should become accustomed to the idea that they are, in effect, dealing with several rapidly growing developing "countries," rather than a single entity. One step toward recognizing this would be to decentralize the issue of business travel visas away from the Canadian High Commission in New Delhi to posts that are closer to major commercial centres. At present, an Indian entrepreneur based in the business "capital" of Mumbai must apply by mail to New Delhi for the necessary paperwork for a trip to Canada, with all the attendant delays entailed in this long-distance process.

A special factor in our ties with India is the human dimension. The latest census figures show almost one million Canadians of South Asian origin. India ranks second, after China, as the major source of new immigrants to Canada. In addition to forging a strong sociocultural

bond between Canada and India, the Indo-Canadian community has the potential to create stronger economic linkages between the two countries. Over time, it is almost inevitable that the community's lobbying efforts in favour of a much closer and more positive relationship between India and Canada will expand and intensify. These twin developments should factor into Canada's policy toward India, including a more careful study of the role that Indo-Canadians play in strengthening ties between the countries.

The new global framework for controlling terrorism provides one avenue for improved bilateral relations. A Canada-India Working Group on Counter-Terrorism already exists, set up in 1997 as a response to the Air India bombing. The working group could provide a starting point from which to expand the scope of Indo-Canadian anti-terrorism cooperation. This cooperation plays to a central concern of Indian foreign policy and meshes comfortably with Canadian security priorities. A coordinated effort on anti-terrorism would allow for a resumption of contacts between the two military establishments, which have remained broken since India's nuclear tests in 1998. It could also see Canada become involved in diplomatic efforts to resolve the Kashmir dispute, which has strained India's relations with Pakistan for half a century.

The expansion and deepening of Canada's relationship with India will require Ottawa and New Delhi to conduct diplomacy on a peer-to-peer basis and over a full range of issues, not simply on business issues. From the Indian perspective, a stumbling block to closer relations with Canada, especially in security issues, is Ottawa's unwillingness to acknowledge and accept India's nuclear role. Canada must accept this reality if we are to further our relationship with the second most populous nation on earth. Recognition of India's nuclear status will open the door to security cooperation, potentially including issues such as nuclear non-proliferation and disarmament. We do not have to give up on Canadian hopes for a nuclear-free world, but we cannot talk to New Delhi about these hopes unless we recognize India's own current reality. We may even find an ally for our anti-nuclear stand — after all, disarmament is part of India's nuclear doctrine.

MAKING OUR VOICE HEARD

Security and the Projection of Canadian Values and Culture — the second and third pillars of Canada’s foreign policy framework set out in *Canada in the World* in 1995 — invite a regional approach rather than the country-specific discussion of economic relationships adopted in Chapter 2. More so than economic ties, these policy areas must also recognize substantial changes in the environment in Asia during the past eight years. In the broad area of security, a pattern and degree of regionalism is evolving that was hardly foreseen in 1995, when some form of transpacific economic community led by the United States was the flavour of the time¹ and the first-ever Asia-wide security grouping, the ASEAN Regional Forum (ARF), had just been formed. Regional security issues in the mid-1990s revolved around concern over possible US disengagement from the area. In direct contrast, today’s war on terrorism has seen US power projected into South and Southeast Asia to a degree and in ways that are not always welcome.² In terms of values and culture, the flow of immigrants from Asia since 1995 has added to the Canadian population nearly 800,000 people who maintain an affinity to the lands of their origin as well as to Canada. This has had, and will continue to have, a cultural impact on the country, affecting even the values that we may seek to project to the world. In this chapter, we continue discussion of the issues in these areas raised in the Foundation’s contribution to the “dialogue” on Canada’s foreign policy.

SECURITY AND REGIONALISM

East and Southeast Asian countries today are forming new economic and institutional arrangements that make Canadian interests and roles in the region increasingly marginal. Visions of the transpacific community enshrined in the APEC process — which remains Canada’s main institutional link with Asia — have faded. Instead, the countries of eastern Asia are cooperating in diverse ways to gain economic advantage, to build a stronger identity and to magnify their geopolitical weight independent of the countries of the eastern Pacific. While none of these developments have an immediate impact on Asia’s security relationships, they portend a regional tendency to look inward for support in times of trouble rather than to the United States, as has been the case since 1945.

Historically, Asian leaders have been slow to encourage multilateral cooperation or to try to build regional institutions. However, in the post-Cold War period, there has been a marked increase in sub-regional groupings (such as ASEAN), intraregional links (ASEAN plus Three) and transnational interaction (ARF). No true Asian regionalism has yet emerged in the sense of an Asia-wide aspiration for a closer union on the European or even North American model. The longest-established framework of regional cooperation is in Southeast Asia, where ASEAN has a 36-year history, although it is ironic that after all these years ASEAN has evolved into a broad trade pact and away from its origins as an overtly political grouping linking the anti-communist states of the region.

The developments that have gained the most attention recently, and appear to have the most momentum, are the various manifestations of East Asian economic integration, especially the role of China in encouraging and facilitating this movement. A driving force behind this recent surge in activity — though rarely stated — is the memory of the contagion of the financial crisis of 1997 and the sense that never again should the region have to seek outside support, especially from the United States, to regain its equilibrium. Still, even this level of interaction must be kept in perspective. While it certainly promises greater economic cooperation within Asia, it is not yet essentially “regionalism,” for many of the arrangements involve countries outside Asia. Only China is concentrating all of its efforts and negotiations within Asia, notably the agreement to form a China-ASEAN free-trade area. Japan is negotiating with the members of ASEAN (and has already completed a free-trade agreement with Singapore), but it is also involved in negotiations with Mexico. As part of ASEAN, Singapore is negotiating with China and South Korea, but has already concluded agreements with New Zealand, Australia, Japan and the US. Thailand is negotiating with Australia and has begun talks with Japan, the US and India. All these proposals and agreements are justified by the countries in question as contributing to the global trade liberalization process, rather than as a prelude to the formation of an economic bloc. Whether this is true or not, it is undeniable that the countries of eastern Asia are initiating preferential trading ar-

rangements with enthusiasm after decades of eschewing such interdependence.

The level of cooperation under way does not suggest the formation of any kind of regional institution in the near term, nor imply collaborative economic, political or security policymaking. Nevertheless, it points to a marginalization of Canada from regional economic and political processes. The formation of a network of FTAs across eastern Asia is unlikely to have much impact on Canadian trade, assuming they are all compliant with WTO principles. However, it will have an impact on trans-pacific institutions, notably APEC. Intermittent Team Canada visits are no substitute for the regular interaction between officials from many areas of government offered by this Pacific Rim forum. Canada can respond in a number of ways to ensure it maintains a range of policy links with Asia. First, it should take the lead in helping to redesign APEC so that its utility to the region will guarantee its survival. This could be achieved by transforming the institution into something closer to the OECD model, which can offer collaborative policy development for the whole Pacific community. Beyond this, Ottawa should work to revitalize the existing networks that permit Canadian experts and officials to have a window on the institutions that could provide the germ of Asian regionalism. While Canada already has a seat at the ASEAN Post-Ministerial Conference, we should seek a similar status, or at least an observer role, at the ASEAN plus Three forum. Although trade is not strictly a security area, Canada should pursue its own trade agreements in Asia, as much to signal to skeptical Asian partners that we want to remain involved with Asia as for the potential economic benefits. The agreements need not be traditional free-trade pacts focusing on tariffs and trade barriers, but rather comprehensive liberalization packages that cover investments, services and various facets of the knowledge economy.

Finally, Canada should re-engage with the countries of Northeast Asia to promote multilateral cooperation. We have diplomatic relations with all the countries of the region and a reservoir of goodwill from our efforts as a catalyst in bringing North Korea into regional meetings a decade ago. The current crisis over that country's nuclear program points to the value of these earlier efforts

at promoting dialogue. The longer-term management of North Korea's integration into global processes will require a multilateral framework of policy coordination. As a disinterested party on good terms with all the players, Canada is in an ideal position to again act as a catalyst for dialogue. However, such an effort will require high-level commitment, an integrated strategy, and new financial and intellectual resources.

SECURITY AND TERRORISM IN SOUTHEAST ASIA

While Asia's momentum toward regional cooperation, if not regionalism, is the longer-term issue for Canada's ties with Asia, the most immediate challenge, especially for Southeast Asia, is terrorism. The attacks in New York and Washington on September 11, 2001, suddenly changed the perception of threats to stability in the area. Issues that attracted most attention before then — disputes over sovereignty in the Spratly Islands, territorial squabbles over small islands between Malaysia and Indonesia, border tensions between Myanmar and Thailand — are chronic problems, unlikely to have an impact on internal or sub-regional stability. Before September 11, China was seen by many as a long-term security threat. Al-Qaeda dramatically changed priorities. The belief after September 11 that Southeast Asia would become the “second front” in the war on terrorism was proved tragically correct, with the deadly bombing of two nightclubs in Bali last October, posing a much more immediate security threat than China.

As with most security issues, the situation is complex. Terrorism in Southeast Asia is neither exclusively global nor exclusively local. It breeds from local causes, but draws energy from the outside. Issues such as the Palestine-Israel conflict and resentment against the global dominance of the United States give legitimacy to local terrorist causes among some supporters. Although many terrorist groups have religious roots, their motivations are ultimately political, the chief aim being to seize power in their respective states or in the region.

Since September 2001, the projection of American “hard” power globally has increased dramatically (however, the extent of US re-engagement in Southeast Asia should not be overstated — it is not comparable to the much deeper US involvement in India, Pakistan or Cen-

tral Asia). This has tipped the balance of Asian power relationships in the direction of US dominance, with the result that Southeast Asian countries are becoming worried about US military assertiveness and unilateralism. At the same time, there has been a noticeable erosion of American “soft” power in the region. Many US actions on the world stage have created a perception of US heavy-handedness and undermined popular sentiment, creating a more fertile environment for local terrorist groups.³ The conduct of the war on terror largely through military means, without regard for “root causes” such as economic disparities and long-standing political grievances, has further eroded the legitimacy of American power. Hence, the idea of US “benign hegemony” that has underpinned regional security in Asia for decades may be ending.

Over the years, regional multilateral groups such as ASEAN have contributed to the development of a balance of power by careful adjustments in their strategic policy and by seeking to engage bigger powers such as China and the United States in a shared framework of dialogue, notably through ARF. But Asia’s multilateral institutions are now being ignored by Washington, de-

priving the region of an opportunity to construct a wider basis for regional security relations. In part this reflects the urgency to combat terrorism on the part of the US, which sees regional institutions as unable to offer a strong, unified response beyond statements and declarations. A notable exception was the agreement between Malaysia, Singapore, Thailand and the Philippines to exchange intelligence information among themselves and with the US.⁴

While the US has opted to view Southeast Asian security through the lens of its own priorities, Canadian policy toward the region should not be cast primarily in terms of the war on terrorism. Despite the current focus on counter-terrorism, it is important for Canada to persist with longer-term initiatives that strengthen multilateral approaches to this question. Previous undertakings with a uniquely Canadian pedigree, such as human security, have gained increasing acceptance in Asian policy circles. Canada needs to invest in the long-term engagement of Asian countries on security issues; for example, on weapons of mass destruction and dual-use technologies in South Asia and the Korean Peninsula, and on

TOP ASIA-PACIFIC STUDENT DESTINATIONS, BY PROVINCE (2002)

Source Country	BRITISH COLUMBIA		ALBERTA		ONTARIO		QUEBEC		CANADA	
	Number	% Asia-Pacific Total	Number	% Asia-Pacific Total	Number	% Asia-Pacific Total	Number	% Asia-Pacific Total	Number	% Asia-Pacific Total
China	10,339	28.9	1,545	22.6	16,215	39.3	1,560	35.4	33,793	34.7
Hong Kong, SAR	1,992	5.6	783	11.5	3,077	7.5	110	2.5	6,558	6.7
India	583	1.6	274	4.0	5,578	6.3	263	6.0	4,203	4.3
Indonesia	630	1.8	54	0.8	503	1.2	61	1.4	1,359	1.4
Japan	5,439	15.2	903	13.2	2,729	6.6	582	13.2	10,453	10.7
Pakistan	106	0.3	118	1.7	1,285	3.1	254	5.8	1,980	2.0
South Korea	11,390	31.8	1,987	29.1	9,249	22.4	681	15.5	24,577	25.2
Sri Lanka	149	0.4	49	0.7	805	2.0	40	0.9	1,105	1.1
Taiwan	3,617	10.1	365	5.3	1,528	3.7	311	7.1	6,218	6.4
Vietnam	175	0.5	107	1.6	608	1.5	185	4.2	1,137	1.2
Other Asia Pacific	1,380	3.9	653	9.5	2,665	6.5	359	8.1	6,066	6.2
Total Asia Pacific	35,800	100.0	6,838	100.0	41,242	100.0	4,407	100.0	97,449	100.0

Source: Citizenship and Immigration Canada (2003).

non-traditional security issues such as infectious diseases, illegal migration, piracy and the resolution of ethnic conflicts in Southeast Asia.

PROJECTION OF CANADIAN VALUES AND CULTURE

There are many important facets to this policy area, ranging from promotion of human rights and political freedoms to the support of work by Canadian artists around the world. Our focus will be on Canada's human ties with Asia through immigration and the closely linked question of the role of Asian Canadians in the evolution of our foreign policy.

Immigration represents a necessary flow of labour and skills into Canada, to the huge benefit of our economy. Over the years, this country has been able to open and close its entry doors to admit as many new immigrants as it has wished, depending on the economic conditions of the day. However, hard facts do not support the conventional wisdom that a supply of skilled immigrants to Canada is unlimited. In the next decade, it is likely that demographic trends in source countries, the phenomenon of return migration, and the more restrictive Canadian

immigration policy adopted in 2002 will reduce the number of Asian skilled immigrants coming to this country. Recent changes⁵ to the points system have made immigration to Canada substantially more difficult, especially for applicants from China, the Asian country most likely to meet Canada's needs in this class. In fact, China's rapid economic development will eventually keep talented Chinese at home and even induce erstwhile immigrants to Canada to return to their homeland. Policies should be developed to compensate for this by encouraging short-term flows of qualified workers from Asia as a way to meet labour market needs.

In the past, waves of Asian immigration to Canada have had a negligible impact on our external relations. More recently, however, the large numbers of Asian immigrants arriving over a relatively short time have led to significant concentrations of Asian populations in a few major cities. "Critical mass" as well as rising skill levels and a greater degree of transnational activity among these new immigrants suggest that the future impact on Canada's external relations will be more noticeable. The popular perception of immigration as a process of inte-

CANADA'S TOP ASIA-PACIFIC IMMIGRATION SOURCES

Origin	1998	1999	2000	2001	2002	Total	% Business Class Immigrants
China	19,311	28,604	36,017	39,547	31,922	155,401	8.2
India	14,478	16,700	24,920	26,801	27,573	110,472	1.4
Pakistan	7,349	8,190	12,917	13,235	12,050	53,741	5.1
Philippines	8,155	9,176	10,080	12,869	10,973	51,253	0.4
South Korea	4,913	7,209	7,615	9,591	7,303	36,631	28.9
Taiwan	7,183	5,481	3,534	3,118	2,909	22,225	34.9
Hong Kong, SAR	8,076	3,665	2,854	1,972	1,537	18,104	29.3
Sri Lanka	1,200	2,108	2,601	3,009	2,754	11,672	0.4
Bangladesh	1,376	1,435	2,432	3,207	2,394	10,844	3.3
Vietnam	1,594	1,370	1,790	2,082	2,262	9,098	0.2
Total of Top 10	73,635	83,938	104,760	115,431	101,677	479,441	8.6
Refugees	4,748	5,288	6,538	6,717	7,019	30,310	

Source: Reproduced with permission from Citizenship and Immigration Canada (2002, 2003).

Notes: Figures are principal applicants and dependants for family class, business class, skilled workers and other categories. Other categories includes all other classes of immigrants not otherwise specified, the largest of these being live-in caregivers. Figures for refugees measure the number of individuals granted refugee status.

gration into Canadian society with a progressive renunciation of ties to the homeland is increasingly challenged by a new generation that perceives no contradiction between ties to their homeland and loyalty to Canada. Modern telecommunications, the Internet and inexpensive air travel make it easier than ever for people to maintain ties with the country of their birth.

Future immigrants to Canada will not necessarily stay here. There is growing evidence that many new arrivals see themselves as not just multicultural or binational, but globalized or transnational.⁶ Source countries such as India and the Philippines are placing great emphasis on their diaspora communities as strategic assets for national development. Within the past year or so, both states have revised their citizenship laws to allow emigrants who have taken a new nationality to retain their original citizenship as well.⁷ This points to an avenue for Ottawa to take advantage of our Asian-Canadian communities to further our ties with the region, not just through trade and investment, but also through transmission of our values and priorities. While return migration is usually deemed as a “loss” to Canada, it is also possible to consider this community as a “Canadian diaspora.” Immigrants returning to their countries of origin, either permanently or for extended stays, can play an especially important role in projecting accurate images of Canada, which is still widely perceived in Asia as an attractive tourist destination but of little importance as an economic and business partner. In this sense, the “hidden advantage” of Asian Canadians includes not only immigrants who settle in Canada but also those who have returned to their birth countries.⁸

More generally, the process of “Asianization” (which encompasses a large and growing body of Canadians with Asian language, culture, business and policy expertise who are not of ethnic Asian descent) enhances Canada’s credentials as a member of the Asia-Pacific community and, over time, increases our influence in the region. Our growing Asian demographic should be reflected more constructively in our foreign relations by actively engaging its different communities — few of whom are well represented in Ottawa — in trade promotion and commercial policy. We should develop a foreign policy stance that reflects Canada’s unique ability to link Asia and North America, and invest in intellectual, institutional and cultural assets that will allow us to project this ability. The expanding Asian influence in Canada will, over time, set us further apart from the United States, which

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A YEAR IN REVIEW

It was far from an easy year in Asia. In the aftermath of US military operations against al-Qaeda and the Taliban in Afghanistan, tensions between India and Pakistan over Kashmir heightened, pressure on the Saddam Hussein regime in Iraq mounted, and a rapidly worsening stand-off developed between the US and North Korea over nuclear weapons, hardly creating a climate of optimism in the region. Just as worrying were concerns that recovery in the US economy would slow or even reverse, that economic troubles in the EU would drag down European markets, and that Japan was headed into yet another recession. In the end, the economic picture turned out to be rather brighter than anticipated, helped by a stronger-than-expected performance by the US, continuing strength in the Chinese economy and growing regional domestic demand. Virtually all the Asian economies performed better than in the previous year, with the result that region-wide GDP growth (excluding Japan, Australia and New Zealand) was a respectable 4.9%.¹ On the other hand, unease over security threats rose as the year progressed, culminating in a terrorist bombing in Bali in October that killed 202 people and the seeming inevitability of war in Iraq as the US began moving massive forces into the Gulf region late in the year. The period ended much as it had started — with widespread concern over the repercussions of another war with Iraq and North Korea's growing belligerence, coupled with uncertainty over the economic impact a rise in oil prices caused by a US-Iraqi conflict would have on Asia.

The political situation was much less troubled, and certainly less so than in 2001, when elected leaders of both Indonesia and the Philippines were forced out of office in questionable circumstances. Two major changes of leadership began during 2002. One, in China, had been signalled, and progressed much as expected when Jiang Zemin stepped down as Communist Party General Secretary in favour of Hu Jintao, standard-bearer of the younger, so-called fourth generation leadership. The other, in Malaysia, came as a considerable surprise. Long-time Prime Minister Mahathir Mohamad announced his intention to quit in 2003, nominating his deputy, Abdullah Ahmad Badawi, as his successor. Elsewhere, incumbents retained office in four of the five countries

that held leadership elections (although in the case of Pakistan, Hong Kong and Vietnam, the elections were nominal at best).² In the fifth, South Korean incumbent Kim Dae-jung was constitutionally required to step down. Surprisingly, Roh Moo-hyun retained the presidency for the Millennium Democratic Party (MDP) that Kim had led. (However, Kim quit the MDP near the end of his term in a bid to protect the party from corruption scandals that tarnished Kim's last year in office.) While far from a change in leadership, or even suggesting one to come, Myanmar's opposition leader Aung San Suu Kyi was freed from two years of house arrest by the ruling military junta. The year ended with another foreshadowed change of leadership as Philippines President Gloria Macapagal-Arroyo announced she would not seek a second term at polls due in 2004, instead concentrating her efforts on repairing many of the country's endemic economic problems. Not everyone believed she was opting out of politics.³

The rapid emergence of China as the “new workshop of the world” dominated all regional discussions. The lure of China for Western business, which saw it attract more foreign direct investment in 2002 than even the US,⁴ persuaded many Asian leaders to seek a ride on its economic coattails. ASEAN was only too happy to sign a pact with Beijing that promises the formation of a huge free-trade zone with the 10-member grouping by 2010.⁵ Eager to counter this sudden expansion of Chinese influence, Tokyo sought to match Beijing's initiative by signing its own free-trade deal with ASEAN, just one day after the China-ASEAN accord was inked.⁶ However, the Japan-ASEAN proposal was much less comprehensive or developed than the China agreement, envisaging a web of bilateral trade deals in place of a full free-trade area. Observers suspected that Tokyo's real aim was to minimize the challenge to its political leadership in Asia posed by a Beijing-ASEAN economic alliance. Still, that defensive posture did not deter Japan from also talking with China and South Korea about working toward an eventual economic grouping encompassing both of its neighbours as well as ASEAN. Meanwhile India, which has had little to do with ASEAN, grabbed a spot at the regional negotiating table by proposing its own free-trade arrangement with Southeast Asia.

CHINA OPTS FOR CHANGE WHILE JAPAN MARKS TIME

China's status and influence within Asia continued to grow as it pressed ahead with economic modernization, turning in another year of 8% GDP growth. While a number of outside economists doubt the accuracy of Beijing's GDP estimate ⁷ — which is regularly released even before the year ends — few doubt that China's economy is expanding quickly and that it has become a key engine of regional growth. There is concern that the country's huge appetite for foreign investment, which saw it draw in almost US\$53 billion of new capital during the year, is diverting investment away from the rest of Asia. Offsetting this worry, however, is China's emergence as a major market for other Asian countries. Its imports from the rest of the region last year totalled US\$177 billion, up 31% from the year before. Import demand from its neighbours has risen so strongly that in the case of South Korea, for example, China already ranks as its second most important export market after the US, surpassing shipments to Japan.⁸

While trade and the economy dominated foreign interest in China, internally the change in leadership attracted most attention. For only the second time in its modern history, Beijing began a peaceful transfer of leadership (if not power), from the third generation, headed by outgoing Communist Party General Secretary Jiang Zemin, to his successor, Hu Jintao, the standard-bearer of the fourth. While Jiang gave up his day-to-day administrative role, he maintained his hold on power, and his ranking at the top of the party hierarchy, by retaining the chairmanship of the party's Military Commission. However, in his move to the leadership of the party, Hu was accompanied by a phalanx of supporters. About a third of the 62 cadres appointed to top provincial posts — party secretaries and mayors — are relatively younger men (and one woman) who rose through the ranks of the Communist Youth League, Hu's base of support.⁹

Hu's rise was predictable and was not expected to bring any substantial change in the recent policies Beijing has followed. Across the East China Sea in Japan, Prime Minister Junichiro Koizumi continued his reformist rhetoric, which was also predictable and also not expected to bring any substantial change to the recent policies Tokyo has followed. Events unfolded according to script during a difficult first half of the year, which saw considerable infighting in the entrenched Liberal Democratic Party leadership and a spate of political corruption scandals that appeared to undermine popular support for the

ASIA DAY BY DAY

▶▶ ASEAN

- JAN** (1) Free Trade Area comes into effect.
- FEB** (20) Foreign ministers meet in Phuket, Thailand, to discuss cooperation against terrorism.
- MAY** (14-16) Senior officials and Chinese counterparts meet in Beijing to discuss forming China-ASEAN Free Trade Area.
- JUL** (26-29) ASEAN Regional Forum in Brunei.
(30-Aug. 1) 35th Post-Ministerial Conference in Brunei.
- AUG** (1) US, ASEAN sign agreement on combating terrorism.
(12) Ministers from ASEAN, Japan, China and South Korea meet in Tokyo, agree to promote regional cooperation.
(27-31) ASEAN Regional Forum military conference in Seoul.
- NOV** (4) China, ASEAN sign free-trade agreement, code of conduct for the South China Sea.
(4-5) Eighth Summit in Phnom Penh, Cambodia.
(5) Japan, ASEAN sign free-trade agreement.
(5) First ASEAN-India Summit held in Phnom Penh.

▶▶ AUSTRALIA

- MAR** (2-3) Hosts Commonwealth leaders' summit.
(4) Ansett airline collapses after rescue plan fails.
- MAY** (20) Signs Timor Gap treaty with East Timor.
- JUN** (5) Announces it will not ratify Kyoto Protocol.
- AUG** (2) Agrees with Malaysia on military cooperation against terrorism.
- OCT** (24) Announces new anti-terrorism measures.
- NOV** (3) Signs free-trade agreement with Singapore.
- DEC** (1) PM Howard declares readiness to launch pre-emptive action against terrorists in neighbouring countries.
(13) Opposition parties block proposed anti-terror law.

▶▶ CANADA

- JAN** (7-12) Fisheries Min. Herb Dhaliwal visits India to discuss coal, mining and offshore fisheries cooperation.

	(18-27) Deputy PM John Manley visits India and Pakistan.		trade mission to India.		(13) Police enter South Korean embassy in Beijing, drag away N. Korean refugee.
	(25) Re-establishes diplomatic relations with Afghanistan.		(14-15) International Trade Min. Pierre Pettigrew attends informal meetings of WTO trade ministers in Australia. Ministers reach deal to deliver cheap prescription drugs to developing countries.	JUL	(18) Pres. Jiang's ideological theory elevated to Mao "thoughts" status.
	(29-30) Philippine Pres. Arroyo visits.		(28) Manila embassy closed indefinitely following terrorist threat.	AUG	(2) Pakistani Pres. Musharraf visits, meets Pres. Jiang.
MAR	(24-Apr 2) Sec. of State (Asia-Pacific) David Kilgour visits Sri Lanka, Thailand, Bangladesh.		(30) Manila embassy reopened.		(3) Beijing announces intention to ratify Kyoto Protocol.
	(25-27) Defence Min. Art Eggleton visits Australia.	DEC		OCT	(4-5) Authorities arrest N. Korean trade zone leader Yang Bin on tax evasion charges.
APR	(21-26) Team Canada trade mission in India.				(22-25) Pres. Jiang visits US, meets Pres. Bush.
MAY	(1-4) Bhutan FM Lyonpo Jigmi Thinley visits.		▶▶ CHINA		(25) Labour Min. Zhang Zhouji says 26 million workers laid off since 1998, 17 million re-employed.
	(9-18) Philippine trade mission visits.	JAN	(3) Pakistani Pres. Musharraf holds talks with PM Zhu Rongji in Beijing.		
	(11) Two N. Korean asylum seekers enter Canadian embassy in Beijing.		(11-18) PM Zhu Rongji visits Bangladesh, India.	FEB	
	(20) Recognizes E. Timor.				NOV
JUN	(3-4) Third Trade and Investment Mission to Brunei.	MAR	(5) National People's Congress opens.		(3) PM Zhu Rongji holds bilateral talks with Singaporean PM Goh Chok Tong in Cambodia.
	(17-24) Sec. of State (Asia-Pacific) David Kilgour visits Singapore, Malaysia, Indonesia.		(24-28) Indonesian Pres. Megawati visits, meets Pres. Jiang.		(4) Signs free-trade agreement, code of conduct for South China Sea, with ASEAN.
	(24) Pak Gil-yon, N. Korean ambassador to UN, visits, meets PM Chrétien.		(29) Indian FM Jaswant Singh arrives in Beijing on first direct commercial flight in 40 years.		(8-14) Communist Party's 16 th Congress meets.
	(26-27) G 8 Summit in Kananaskis.	APR	(12) First Asian Economic Forum of regional political and business leaders begins at Boao, Hainan.		(15) Hu Jintao introduced as new Party leader. Jiang Zemin retains leadership of Central Military Commission.
JUL	(2-3) Susan Whelan, Min. for International Cooperation, visits Afghanistan, Pakistan.		(23-26) Vice-Pres. Hu Jintao visits Singapore, Malaysia.		(24) US warship arrives at Qingdao for first visit since Hainan spy plane crisis.
	(25-27) Agriculture and Agri-Food Min. Lyle Vanclief attends agriculture meeting in Japan.		(27-May 3) Vice-Pres. Hu Jintao visits US, meets Pres. Bush.	DEC	(2) Pres. Jiang, Russian Pres. Putin meet in Beijing, urge US and N. Korea to normalize relations.
AUG	(8-24) Junior Team Canada trade mission to China, Philippines.	MAY	(1) Border with Pakistan reopened, closed since start of US attacks on Taleban.		(3) Shanghai awarded 2010 World Expo.
	(29-Sept. 7) Min. of Citizenship and Immigration Denis Coderre visits China.		(14-16) Senior officials meet in Beijing with ASEAN representatives to discuss China-ASEAN Free Trade agreement.		(5) Beijing, Taipei set WTO talks over steel dispute, first direct communication since 1999.
SEP	(5-9) HK Sec. for Commerce, Industry and Technology Henry Tang visits.		(15) PLA naval fleet leaves Qingdao for round-the-world voyage.		(16-20) Meeting with US officials in Beijing to address human rights concerns.
	(12-19) Indian Civil Aviation Min. visits, meets Transport Min. David Collenette.		(16) China National Offshore Oil Corp. and Taiwan's Chinese Petroleum Corp. sign deal for joint oil exploration in Taiwan Strait.		(17) Ninth National People's Congress to review draft of first civil code during its 31 st session.
	(19-20) Indian FM visits, meets Foreign Affairs Min. Bill Graham.		(21-23) Australian PM Howard visits, meets Pres. Jiang.		(18) UN given unconditional access to investigate claims of human rights abuses.
	(24) Cancels visa exemptions for Malaysians.		(22) Releases N. Korean asylum-seekers forcibly removed from Japanese consulate in northeast China.		(24) Pro-democracy activist Xu Wenli released, leaves for US.
	(30) HK Financial Sec. Anthony Leung visits.	JUN	(4) Pres. Jiang meets separately with leaders of India and Pakistan during conference in Kazakhstan.	▶▶ HONG KONG, SAR	
OCT	(27-28) Australian FM Alexander Downer visits, meets Foreign Affairs Min. Bill Graham.		(5) Pres. Jiang visits Russia.	JAN	(10) Court of Final Appeal rules against residency rights of thousands of mainland Chinese.
NOV	(11-16) Minister of Natural Resources Herb Dhaliwal leads				

prime minister. However, in September, Koizumi surprised his critics by appointing reform hard-liner Economics and Fiscal Policy Minister Heizo Takenaka concurrently as the Minister for Financial Services and head of the Financial Services Agency (FSA), which is tasked with cleaning up Japan's debt-ridden banks. It was a move that appeared to challenge head-on the LDP old guard and bureaucrats who see no advantage in the painful reforms needed to drag Japan out of its decade-long economic stagnation. As it turned out, nothing Koizumi said or the government did during the year changed the situation much. The economy turned in another anaemic performance, growing just 0.3%,¹⁰ and the slow deflationary spiral continued as the consumer price index eased another 0.9% over the year.¹¹ As the year ended, observers were waiting to see if Takenaka could put bite into Koizumi's bark.

LESS THAN PEACEFUL IN SOUTH ASIA

Unrest defined India and Pakistan's relationship as well as India's domestic politics in 2002. The year began just weeks after an attack by Islamic extremists on the Indian Parliament plunged Indo-Pakistan relations into their worst crisis in years. Then the decades-long dispute over the northern region of Jammu and Kashmir saw renewed violence and heightened military confrontation leading up to and during elections held in the Indian-controlled sector. Nepal, too, faced a challenge from the continuing armed Maoist insurgency. Only Sri Lanka experienced a period of greater stability as the 19-year insurgency by the Liberation Tigers of Tamil Eelam (the Tamil Tigers) moved from the battlefield to the negotiating table. This was likely an early dividend from Washington's declared war on terrorism, which threatened to cut off the Tigers' foreign support and funding.

The fallout from the US move against the Taleban in Afghanistan, in which Islamabad was a key ally of Washington, brought economic benefits to Pakistan and powerful new support for General Musharraf, head of the country's military government as the year began. With Washington's political and economic backing, the 1999 coup leader was able to manipulate popular support and move into the presidency for a five-year term. The newly confirmed president then oversaw an election and a return to parliamentary rule, although Musharraf held on to ultimate power. With financial aid from Western countries — a reward for his help against the Taleban — Musharraf's administration was able to turn in Pakistan's best economic

- FEB** (14-15) Nominations for Chief Executive open; Tung Chee-hwa wins re-election unopposed.
- APR** (2) Government begins repatriating mainlanders who overstayed visas.
(17) Chief Executive Tung Chee-hwa announces sweeping changes to civil service.
(29) US aircraft carrier visits Hong Kong, ending Beijing's ban on such visits.
- JUN** (24) Chief Executive Tung Chee-hwa announces SAR's first cabinet.
- JUL** (1) Tung Chee-hwa begins second term as Chief Executive.
(12) Government passes controversial anti-terrorism bill.
- SEP** (24) Government proposes controversial anti-subversion law.

▶▶ INDIA

- FEB** (27) Muslim mob sets fire to train carrying Hindu nationalists in Godhra, killing 58.
(28) Violent anti-Muslim riots break out in Gujarat; over 700 die in following weeks of unrest.
- MAR** (5-6) Agrees with Thailand, Myanmar to build highway linking their countries.
(7-11) PM Vajpayee visits Singapore, Cambodia.
(29) Coal and Mines Min. Ram Vilas Paswan resigns in protest over religious violence in Gujarat.
- MAY** (1) PM Vajpayee survives censure motion over government's handling of Gujarat religious violence.
(11) First-ever joint US-Indian military exercises begin near Agra.
(14) Islamic militants attack army camp in Kashmir.
(18) India expels Pakistan High Commissioner.
(21) Army begins withdrawing troops from Gujarat, redeploys them along border with Pakistan.
(21) Kashmiri separatist leader Abdul Ghani Lone shot dead in Kashmir, as PM Vajpayee begins visit.
(23) PM Vajpayee rules out talks with Pakistan on Kashmir crisis.
- JUN** (4) PM Vajpayee meets Chinese

performance in years. However, political stability and economic success did little to improve the security situation with India, in Kashmir or across their shared border. As the election campaign in Indian-controlled Kashmir progressed toward the September-October polling days, the level of cross-border attacks increased, along with a rash of political assassinations. Outside Kashmir, Indo-Pakistan relations were less violent, though no less acrimonious, as the fallout from the attack on the Indian Parliament persisted. There was a steady exchange of alleged provocations and tit-for-tat expulsions of diplomats.

Domestically India was far from tranquil, experiencing some of its worst political violence in years. It began on February 27, when a Muslim mob attacked and burned a train carrying Hindu activists in Gujarat state, killing 59. The event set off a wave of rioting and revenge killing that saw more than 1,000 people, mostly Muslims, killed in the following months. Critics charged that the Bharatiya Janata Party (BJP) government of Gujarat Chief Minister Narendra Modi had encouraged, or at least tolerated, the outpouring of Hindu anger to gain political advantage. There were allegations that elements within the BJP saw the opportunity to promote *Hindutva* (Hindu chauvinism) within the majority Hindu population of the state, which borders Muslim Pakistan.¹² They may have been right. The communal tensions were left to simmer for months, and after an election campaign late in the year that centred on the alleged threat of Muslim terrorism in Gujarat, Modi and the BJP won a generally unexpected landslide victory. Beyond the distaste caused by the exploitation of cultural and religious tensions for political purposes, the concern among many observers is that the BJP, which had faced a string of electoral setbacks before its Gujarat success, may turn to Hindu populism to win the electoral support needed to hold on to power in national elections due next year.¹³ In another sign that the BJP was looking to its electoral future, the economic reform and privatization process that has been moving ahead in fits and starts for the past decade slowed noticeably. While the returns to India from its economic liberalization have made it one of the fastest growing economies in Asia in the past 10 years, BJP supporters have not always been the main beneficiaries of this growth.

While communal relations in India clearly worsened, those in Sri Lanka — marked by the Tamil Tigers' armed struggle for a separate state for the country's Tamil minority — improved dramatically. In February, the newly elected government of Prime Minister Ranil Wickramasinghe signed a ceasefire agree-

- Indonesia wins court approval to resume operations; awaits appeal on bankruptcy ruling.
- JUL** (2) E. Timor Pres. Gusmao visits Jakarta, meets Pres. Megawati and establishes diplomatic ties.
(8) Supreme court overturns Manulife bankruptcy ruling.
(26) Tommy Suharto, son of former president, sentenced to 15 years' jail for murder.
- AUG** (14) Court sentences ex-governor of E. Timor, Abilio Soares, to three years' jail for "gross rights violations" during the 1999 independence vote.
(14-17) Taiwan VP Annette Lu visits; initially denied entry into Jakarta after protest from Beijing. Two days later allowed into Jakarta and meets government officials.
(15) Former E. Timor police chief and five lower-ranking officers cleared of human rights violations in 1999.
(16) Vote of no confidence against House Speaker Akbar Tandjung.
(31) Gunmen attack foreigners; two US teachers killed.
- SEP** (1) Court reverses central bank governor Sjaril Sabirin's corruption conviction.
(4) Parliamentary speaker Akbar Tandjung sentenced to three years' jail for corruption.
- OCT** (12) Terrorist bombings in Bali kill almost 200, mostly foreigners.
(18) Pres. Megawati signs emergency decrees to give authorities new anti-terrorism powers.
(25) UN places Jemaah Islamiyah, blamed for Bali bombing, on list of terrorist organizations.
- NOV** (1-4) E. Timorese Pres. Gusmao visits, urges E. Timor refugees to return home.
(6) Pres. Megawati signs anti-terror bill into law.
(8) Bali bombing suspect Amrozi confesses involvement in terrorist attack.
(21) Police arrest Iman Samudra, alleged mastermind of Bali bombings.
(27) Tribunal sentences former pro-Jakarta militia leader Eurico

Guterres to 10 years' jail for violence in E. Timor in 1999.
DEC (9) Government, Free Aceh Movement sign peace deal.
 (17) International Court of Justice rules in favour of Malaysia in Borneo coast islands dispute with Indonesia.
 (27) Tribunal sentences Indonesian security official Lt. Col. Soejarwo to five years in prison for human rights violations in E. Timor in 1999.
 (28) First peace monitors deployed in Aceh.

▶▶ **JAPAN**

JAN (9-15) PM Koizumi visits Philip-pines, Malaysia, Thailand, Indonesia, Singapore.
 (29) PM Koizumi dismisses FM Makiko Tanaka.
FEB (1) Yoriko Kawaguchi appointed FM.
MAR (4) Peacekeepers arrive in E. Timor in largest foreign deployment since WW II.
 (15) Prominent politician Muneo Suzuki fired from LDP.
 (18) Koichi Kato, reformist ally of PM Koizumi, quits LDP.
 (21-23) PM Koizumi visits South Korea, meets Pres. Kim Dae-jung.
APR (8) Koichi Kato resigns from parliament.
 (19) Yutaka Inoue, Speaker of upper house of parliament, resigns.
 (21) PM Koizumi visits Yasukuni war shrine.
 (28) LDP loses by-election in former stronghold Niigata prefecture.
 (28-May 2) PM Koizumi visits Vietnam, E. Timor, Australia, New Zealand.
 (29-30) Japanese and N. Korean Red Cross representatives meet in Beijing, discuss missing Japanese nationals.
MAY (2) Yutaka Inoue, former upper house Speaker, arrested.
 (17) Cabinet approves extension of navy's anti-terrorism mission by six months.
 (20-25) Laotian PM Bounnyang Vorachit visits.
 (21) Japanese parliament approves

Kyoto Protocol.
 (31-June 30) Football World Cup co-hosted by South Korea and Japan.
JUN (19) Former LDP politician Muneo Suzuki arrested on corruption charges.
JUL (30) PM Koizumi survives no-confidence vote.
AUG (9) Former FM Makiko Tanaka resigns after allegations of corruption.
 (25) Japanese, North Korean foreign ministry officials begin two days of talks in Pyongyang.
 (27) Court rules that Japan conducted biological warfare during WW II, rejects compensation for Chinese victims.
SEP (17) PM Koizumi visits North Korea, holds talks with Kim Jong-il, who admits to kidnappings of Japanese citizens.
 (18) South Korean Pres. Kim Dae-jung and PM Koizumi pledge cooperation on North Korea.
 (27) Government team visits North Korea to investigate kidnappings.
 (30) Koizumi shuffles cabinet, replaces Hakuo Yanagisawa with Heizo Takenaka as minister in charge of financial affairs; Shigeru Ishiba named head of Defence Agency.
OCT (15) Five Japanese abducted by N. Korea begin two-week home visit.
 (15) FM and Min. of Economy, Trade and Industry opt out of APEC meetings to attend extraordinary Diet session.
 (24) Government says Japanese abductees will not return to N. Korea.
 (25) Opposition lawmaker Koki Ishii stabbed to death.
 (28) FM Yoriko Kawaguchi says Tokyo will not normalize relations with N. Korea until nuclear weapons program is scrapped.
 (28) Ruling LDP wins five of seven by-elections.
 (29-30) Japan, North Korea hold talks in Malaysia.
NOV (4) Leaders of Japan, South Korea and China meet in Cambodia, discuss possible free-trade area and policy toward North Korea.

(5) Signs free-trade agreement with ASEAN.
 (8) High-level talks in Tokyo with US and South Korea on North Korea.
 (14) US, South Korea, EU and Japan halt oil shipments to North Korea.
 (21) Prince Takamado dies while playing squash with Canadian Ambassador.
 (30) Free-trade agreement with Singapore takes effect.
DEC (4) Announces Aegis-class destroyer will join US-led anti-terrorism forces in Indian Ocean.
 (13) DPJ opposition leader Yukio Hatoyama resigns.
 (14) Launches rocket with first commercial international payload.
 (19) Japanese abductees announce decision not to return to North Korea.

▶▶ **MALAYSIA**

JAN (4) Police announce arrest in December 2001 of 13 suspected members of regional terrorist cell.
 (7) Moro rebel leader Nur Misuari deported to Philippines.
 (19) Ruling coalition wins by-election in northern state of Perlis.
FEB (26) Police arrest 2,500 illegal migrants in Sabah.
APR (25) Tuanku Syed Sirajuddin Syed Putra Jamalullail installed as king.
MAY (7) Signs anti-terrorism pact with Indonesia, Philippines.
 (13-15) PM Mahathir visits Washington, meets Pres. Bush.
 (20-24) PM Mahathir visits Japan and South Korea, meets Pres. Koizumi, Pres. Kim Dae-jung.
JUN (5) Opposition leader Lim Kit Siang arrested for distributing critical pamphlets.
 (23) Fadzil Noor, leader of fundamentalist Islamic opposition party PAS, dies.
JUL (5-7) PM Mahathir visits Thailand.
 (8) Terengganu state legislature passes Islamic law.
 (10) Former deputy PM Anwar Ibrahim loses appeal of corruption conviction.
 (18) UMNO wins by-election in Kedah state; opposition Parti Islam

ment with the insurgents, bringing to a halt a guerrilla war that has left an estimated 64,000 people dead. During several rounds of negotiations held in Norway and Thailand, representatives of the government and the Tamil Tigers reached a series of agreements about the formation of a federal state, allowing for considerable Tamil autonomy. Although many issues remained to be resolved — not least of which was disagreement between Wickramasinghe and Sri Lankan President Chandrika Kumaratunga about the peace process — the period of stability led to a recovery of sorts by the war-torn economy.

In Nepal, the state of emergency declared late in 2001 remained in force for most of 2002, as Maoist rebels attacked villages and army posts, killing hundreds of soldiers, police and civilians. The poorly equipped and trained army seemed unable to make any headway against the rebels, who claim to be fighting for a greater role in government for the lower classes in Nepal's caste-ridden society. Infighting among the leadership of the ruling Nepali Congress eventually led to King Gyanendra sacking Prime Minister Sher Bahadur Deuba and his government on October 4, postponing elections, and appointing a new cabinet led by Lokendra Bahadur Chand, who immediately set out to end the insurgency peacefully. As the year ended, the Maoists appeared willing to accept a ceasefire and come to the negotiating table. One consequence of the instability is that, in the year to July 2002, Nepal's GDP contracted for the first time in 20 years.

SECURITY CHALLENGES TO THE NORTH AND SOUTH

The year saw the winding down of US military action in Afghanistan, with the overthrow of the Taleban and the scattering of al-Qaeda. However, security challenges elsewhere in the region were on the rise. Hopes of a breakthrough in the deadlock on the Korean Peninsula were dashed as Washington adopted an aggressive new policy suggesting pre-emptive strikes against states the US saw as threatening its security through support for terrorism or acquisition of nuclear or chemical weapons. North Korea, named as a potential target, reacted with defiance, rekindling tensions in the peninsula. In another chronic hot spot, the Taiwan Strait, 2002 passed without serious incident as Beijing focused all its attention inward on the leadership change under way. Despite a few verbal provocations by Taipei, the cross-strait security situation remained stable. However, at the southernmost extreme of the region, in Bali, a terrorist bombing by a group believed to be loosely affiliated with al-

wins by-election in Penang.

- AUG** (1) Government introduces new immigration law; illegal foreign workers given one month to leave. (2) Agrees with Australia on military cooperation against terrorism. (8) Electoral officials announce plan to create 25 new seats in parliament due to population growth. (14) Ban lifted on recruiting Indonesian construction workers because of labour shortage. (18-20) PM Mahathir visits Myanmar. (19) Myanmar ruling junta blocks talks between PM Mahathir and opposition leader Aung San Suu Kyi. FM Syed Hamid Albar to meet Aung San Suu Kyi instead.
- OCT** (10) Internal Security Act passed.
- NOV** (7) Agrees with Thailand to increase cooperation on security issues, crack down on arms smuggling. (12) Security laws tightened — courts are no longer able to challenge arrests made by the police or government. (17) International Court of Justice rules in favour of Malaysia in its Borneo coast islands dispute with Indonesia.

▶▶ MYANMAR

- JAN** (21) Announces plans to build nuclear reactor with help from Russia.
- MAR** (12) Junta reveals coup attempt by relatives of former dictator Ne Win.
- APR** (2) Junta announces treason trial for alleged coup plotters. (5-6) India, Thailand, Myanmar foreign ministers meet in Yangon, agree to build highway linking their countries.
- MAY** (6) Opposition leader Aung San Suu Kyi freed from house arrest. (13) Aung San Suu Kyi calls for reconciliation talks with junta. (20) Treason trial begins of relatives of former dictator Ne Win. (22) Border with Thailand closed after Thai army artillery attack.
- AUG** (19) Junta blocks talks between Malaysian PM Mahathir and Aung San Suu Kyi. Malaysian FM Syed

Hamid Albar tapped to meet Aung San Suu Kyi instead.

SEP (26) Son-in-law, grandsons of Ne Win sentenced to death for conspiracy.

OCT (15) Reopens border with Thailand.

DEC (5) Former dictator Ne Win dies.

▶▶ **NORTH KOREA**

JAN (15) International Atomic Energy Agency experts make first official visit to nuclear laboratory.

FEB (12) Signs trade memorandum with Russia pledging closer economic ties.
(28-Mar. 5) Kim Yong Nam, nation's second-in-command, visits Thailand, Malaysia.

MAR (14) Twenty-five North Koreans defect to Spanish embassy in Beijing.
(27) Annual session of parliament opens.

APR (5) Kim Jong-il meets South Korean presidential envoy Lim Dong-won.
(14) Kim Jong-il reshuffles top military.
(15) North and South Korea agree to new round of family reunions.
(29-30) Japanese and North Korean Red Cross societies meet in Beijing, discuss missing Japanese nationals.
(30) US accepts North Korean offer for renewed security talks after 18-month hiatus.

MAY (6) Pyongyang pulls out of economic cooperation talks with South Korea.
(11-14) Laotian PM Bounnyang Vorachit visits.

JUN (29) Naval clash with South Korea.

JUL (2) US postpones visit to North Korea by Assistant Secretary of State.
(5) Pyongyang says it suffered losses in naval clash with South Korea.
(17) State rationing system ended.
(25) Bilateral talks with South proposed; "regret" expressed for naval clash.
(30) Agrees with South Korea to resume talks.
(31) US Sec. of State Colin Powell and North Korean FM Paek Nam-sun meet at ASEAN gathering in Brunei.

AUG (13) Agrees to future economic talks with South Korea, family reunions.

(20) Kim Jong-il begins visit to Russia, meets Russian Pres. Putin.
(23) US imposes sanctions on North Korean company for selling Scud missile parts to Yemen.
(25-27) Japanese Foreign Ministry officials in talks in Pyongyang.

SEP (12) Issues decree to set up special economic zone in Sinuiji, near Chinese border.
(14) Kim Jong-il calls for diplomatic ties with Japan.
(15) North and South Korea reach agreement to clear some DMZ land mines.
(17) Japanese PM Koizumi visits, holds talks with Kim Jong-il, who admits to kidnappings of Japanese citizens, apologizes.
(23) Chinese-born entrepreneur appointed to oversee new border economic zone.
(27) Japanese government team visits to investigate kidnappings.

OCT (3-5) US envoy James Kelly visits.
(4-5) Chinese authorities arrest North Korean economic zone leader Yang Bin for tax evasion.
(17) Reveals it has resumed nuclear weapons program.
(21) Says willing to talk with international community regarding nuclear weapons program.
(22) Threatens "counter action" against US if pressures to dismantle nuclear program persist.
(25) Seeks Non-Aggression Treaty with US in exchange for talks on nuclear weapons program.
(29-30) Holds talks in Malaysia with Japan; rejects demand to scrap nuclear program.

NOV (17) Official radio says country has nuclear weapons.
(18) Official radio carries statement clarifying that N. Korea does not have nuclear weapons, but has right to possess them.

DEC (1) Switches all foreign currency holdings from US\$ to euro.
(4) Rejects UN call for nuclear inspections.
(10) N. Korean ship carrying Scud-type missiles bound for Yemen intercepted by Spain, then released.

(12) Says it will immediately reactivate nuclear power program.
(22) Removes monitoring devices at Yongbyon nuclear plant.
(26) UN says N. Korea has moved 1,000 fuel rods to reactor, which could be used to produce plutonium.
(31) UN nuclear inspectors leave; Pyongyang threatens to pull out of Nuclear Non-Proliferation Treaty.

▶▶ **PAKISTAN**

JAN (3) Pres. Musharraf holds talks with Chinese PM Zhu Rongji in Beijing.

FEB (14) Pres. Musharraf meets Pres. Bush in Washington.
(21) Abducted US journalist Daniel Pearl confirmed dead.

MAR (6) Pres. Musharraf announces intention to stay in power after parliamentary elections in October.
(12-15) Pres. Musharraf visits Japan.

APR (2) Pres. Musharraf visits Afghanistan.
(2) Six Islamic parties agree to boycott referendum on extending Pres. Musharraf's term.
(5) Pres. Musharraf announces referendum on extending his term for five years.
(22) Four suspects charged with kidnapping and murder of Daniel Pearl.
(30) Pres. Musharraf wins national referendum on extending his term.

MAY (6) Six political parties form National Alliance in support of Pres. Musharraf.
(8) Suicide attack on bus in Karachi kills 15, including 11 French nationals.

JUN (4) Russian Pres. Putin and Chinese Pres. Jiang hold separate meetings with Pres. Musharraf during conference in Kazakhstan.
(7) FM Abdul Sattar resigns on health grounds.
(14) Bomb attack outside US consulate in Karachi kills 11 Pakistanis.
(19) Inamul Haq appointed FM.
(27) Pres. Musharraf proposes constitutional changes to increase his role and limit PM's powers.

Qaeda confirmed intelligence community suspicions that South-east Asia would become the “second front” in the war on terror.

When US President George W. Bush singled out North Korea as a “sponsor [of] terror . . . threatening America or our friends and allies with weapons of mass destruction” in his Axis of Evil speech to the US Congress in January,¹⁴ he sharply reversed what many had hoped would be a rapprochement between Pyongyang and the West. In the years after the signing of the 1994 Agreed Framework, under which North Korea undertook to halt its nuclear program in return for assistance in meeting its energy needs,¹⁵ there was a slow build-up in contacts with the West. The inauguration of Kim Dae-jung as president of South Korea in 1998 saw Seoul’s introduction of a “sunshine” policy seeking economic relations with the North, while guaranteeing non-interference in its political affairs.¹⁶ After an initial hesitation, Pyongyang responded, leading to the historic breakthrough in relations that saw Kim visit the northern capital in June 2000, beginning an unprecedented series of inter-Korean contacts. In the wake of the North-South summit, many Western countries, including Canada, opened formal diplomatic relations with Pyongyang. Four months after the summit, even then-US secretary of state Madeleine Albright went to Pyongyang to see if there was enough of a thaw to justify a visit by US President Clinton during his last weeks in office. In the final analysis there was no visit: George W. Bush won the US presidency and all US initiatives toward the North were frozen, while the new Republican administration reviewed its policy toward Pyongyang. Then came the Axis of Evil speech.

Pyongyang was publicly indignant at its inclusion among Washington’s trio of targeted states. However, after 18 months without contacts, and in the wake of the successful American operations in Afghanistan and mounting pressure on Iraq, the regime of Kim Jong-il seemed sufficiently alarmed over Washington’s new hardline foreign policy to propose talks with the US. A deadly (but possibly inadvertent) naval clash between North and South Korean vessels on June 29 put negotiations on hold for a month, during which Pyongyang expressed its unprecedented “regret” over the incident. Finally, US Secretary of State Colin Powell and North Korean Foreign Minister Paek Nam-sun met “accidentally” on the sidelines of the ASEAN Dialogue in Brunei on July 31. The brief honeymoon period that followed saw a resumption of productive talks with the South, a surprise trip to Pyongyang by Japanese Prime Min-

(30) Kashmir’s Jama’at-e-Islami party severs ties with Muslim militants and Pakistan.

- JUL** (11) Supreme Court upholds Pres. Musharraf’s plan requiring legislative candidates to hold university degree.
 (15) Court sentences Ahmad Omar Saeed Sheikh to death for kidnap, murder of US reporter Daniel Pearl.
 (29-31) Pres. Musharraf visits Bangladesh, meets PM and apologizes for atrocities committed during 1971 war.
- AUG** (1) Pres. Musharraf visits Sri Lanka, holds talks with PM Wickramasinghe and Pres. Chandrika Kumaratunga, signs free-trade agreement.
 (2) Pres. Musharraf visits China, meets Pres. Jiang.
 (2) Electoral laws changed to exclude candidates who fail to answer corruption charges.
 (3) Shahbaz Sharif replaces former PM Nawaz Sharif as Pakistan Muslim League president.
 (21) Pres. Musharraf sets out sweeping constitutional changes, gives himself power to dismiss elected parliament.
 (23) Accuses India of assault on Pakistan army post in Kashmir; denied by India.
- SEP** (16) Hands over key al-Qaeda suspect Ramzi Binalshibh to US.
- OCT** (10) Pakistan Muslim League tops polls in general election but fails to secure majority.
 (18) Joint military exercises with US begin.
 (19) Pres. Musharraf signs new anti-terrorism law.
 (24) Key policymaker Tanwir Naqvi resigns as chairman of National Reconstruction Bureau.
- NOV** (5) Alliance for Restoration of Democracy and Islamic MMA agree to form civilian coalition government.
 (16) Parliament meets for first time since 1999 coup. Pres. Musharraf sworn in for five-year term.
 (23) Zafarullah Jamali, of Pakistan Muslim League, sworn in as PM.

(28) Muttahida Qaumi Movement withdraws support from Jamali-led coalition government.
 (29) Akram Khan Durrani, of Pakistan's pro-Taliban Jamiat Ulema Islam Party, elected North-West Frontier Province's chief minister.
DEC (9) SAARC meeting due to be held January 11-13 in Pakistan postponed indefinitely.
 (19) Police arrest two Americans and a Canadian for suspected links with al-Qaeda and the Taliban.
 (21) Police report most-wanted militant Asif Ramzi killed in explosion in Karachi.
 (27) Pakistan, Afghanistan, Turkmenistan sign trans-Afghanistan pipeline deal in Ashgabat.

▶▶ PHILIPPINES

JAN (7) Malaysia deports Moro rebel leader Nur Misuari to Philippines.
 (29-30) Pres. Arroyo visits Canada.
 (31) US troops launch six-month anti-terrorist operation in the south.
MAR (11-12) Foreign donors pledge US\$2.8 billion in aid.
APR (18) Fathur Rohman Al-Ghozi, Indonesian suspected of links to al-Qaeda, jailed.
 (19) Pres. Arroyo approves further deployment of US troops in the south.
 (21) Wave of bombings in General Santos City; Pres. Arroyo orders tightened security measures.
MAY (7) Signs anti-terrorism pact with Indonesia, Malaysia, Thailand.
 (7) Signs development agreement for southern Philippines with Moro Islamic Liberation Front.
JUL (12) VP Teofisto Guingona steps down as FM.
 (24) Opposition leader Blas Ople appointed FM.
AUG (13) Education Sec. Raul Roco resigns from cabinet, faces corruption inquiry.
 (25) Security forces kill Pentagon Gang leader Faisal Marohombsar and free two hostages.
OCT (8) Senate passes absentee voting law, allowing overseas Filipinos to vote in 2004 elections.

(24) Leader of communist Philippine Revolutionary People's Army, Lino Silvano, killed by soldiers.
NOV (14) Police report capture of key Abu Sayyaf leader Abdulmukim Edris in Pasay.
 (30) Pres. Arroyo cracks down on corruption, says accused Justice Min. Hernando Perez should face court.
DEC (1) Pres. Arroyo appoints Luis Lorenzo Jr. as Agriculture Sec., Elisea Gozun as Environment Sec.
 (13) Pres. Arroyo replaces Dante Canlas with economist Romulo Neri as Min. for Economic Planning.
 (21) Communist guerrillas reject government's customary offer of Christmas/New Year ceasefire.
 (30) Pres. Arroyo announces she will not run for re-election in 2004.

▶▶ SINGAPORE

JAN (5) Announces the arrest in December 2001 of 15 members of Islamic terror cell.
FEB (18-21) PM Goh Chok Tong visits Thailand.
APR (16) Pres. Nathan meets South Korean Pres. Kim Dae-jung in Seoul.
MAY (31-June 2) Hosts Asia Security Conference.
SEP (17-20) Senior Min. Lee Kuan Yew visits Taiwan, meets Pres. Chen Shui-bian.
NOV (3) Signs free-trade agreement with Australia.
 (3) Chinese PM Zhu Rongji holds bilateral talks with PM Goh in Cambodia.
 (14) Begins free-trade talks with South Korea.
 (19) Signs bilateral free-trade agreement with US.
 (30) Free-trade agreement with Japan takes effect.

▶▶ SOUTH KOREA

JAN (14) Pres. Kim apologizes for corruption in his administration.
FEB (4) FM Han Seung-soo dismissed, replaced by former deputy, Choi Sung-hong.
 (12) Southern section of rail link through DMZ reopened.
 (19-21) Pres. Bush visits.

MAR (21-23) Japanese PM Koizumi visits.
 (21-27) Large military exercise with US simulating conflict against North Korea.
APR (7-10) PM Lee Han-dong visits Vietnam, meets PM Phan Van Khai.
 (13) Finance Min. Jin Nyum resigns.
 (15) Jeon Yun-churl appointed Finance Min.
 (22) Government protests Japanese PM's visit to Yasukuni shrine.
 (27) Millennium Democratic Party elects Roh Moo-hyun as presidential candidate.
 (28-29) North-South family reunions held.
MAY (6) Pres. Kim resigns from governing Millennium Democratic Party.
 (16-20) Laotian PM Bounnyang Vorachit visits.
 (27) Subsidy for North Korean settlers reduced.
 (30-31) E. Timor Pres. Xanana Gusmao visits, meets Pres. Kim.
 (31-June 30) Football World Cup co-hosted by South Korea and Japan.
JUN (5) Pres. Kim's youngest son, Kim Hong-gul, charged with corruption.
 (13) Opposition Grand National Party wins 11 of 16 major posts in regional elections.
 (21) Pres. Kim's second son arrested on corruption charge.
 (28) Kim Hong-gul goes on trial in Seoul, denies corruption charges.
 (9) Naval clash with North Korea; six South Korean sailors killed.
JUL (11) Pres. Kim shuffles cabinet, names Chang Sang as country's first female PM.
 (9-12) Eighth Asia-Pacific Parliamentarians' Conference on Environment and Development in Seoul.
 (30) Agrees with North Korea to resume talks.
 (31) Parliament vetoes appointment of Chang Sang as PM.
AUG (3) Talks with North, aimed at resuming high-level meetings, begin.
 (8) Pres. Kim names Chang Dae-whan as new PM.
 (8) Opposition Grand National Party wins 11 of 13 seats in by-elections,

ister Junichiro Koizumi (who secured the repatriation of five Japanese nationals abducted by the North some 25 years earlier), and finally, in early October, a visit by US Assistant Secretary of State James Kelly. It was during this last visit that the North apparently confirmed to Kelly that it had resumed a nuclear development program, in apparent contravention of agreements with the US and South Korea. An immediate deterioration in relations with the US ensued, accompanied by a progressive ramping-up of the North's nuclear program and demands for a non-aggression agreement from the US as a condition for closing the program down. The year ended under a pall of tension between the North and the US, as Pyongyang ordered UN nuclear inspectors to leave and foreshadowed its withdrawal from the nuclear Non-Proliferation Treaty.

In Southeast Asia, reaction to the US war on terror was altogether different. The member states of ASEAN were enthusiastic partners of the US in identifying and rooting out suspected terrorists, whom they viewed more as potential domestic threats than enemies of the US. Even before the year began (although not announced until mid-January), Singapore and Malaysia between them arrested 28 people alleged to be planning terror attacks on local targets. Most of those held were members of Jemaah Islamiyah (JI), an underground organization with links to al-Qaeda that seeks to forge an Islamic state across much of Southeast Asia. Malaysia, Singapore, Thailand and the Philippines cooperated closely on the terrorism front, exchanging intelligence information among themselves and with the US. By mid-year the four countries turned their ad hoc cooperation into a formal anti-terrorism agreement, which a month later, on August 1, they expanded into an ASEAN-wide agreement with the US to work together to combat terrorism. Jakarta was a party to the agreement, although anti-American sentiment among many of its Muslim citizens seemed to hold back the politically cautious government from becoming as involved as its neighbours. That changed dramatically and painfully on October 12 when two bombs planted by members of JI exploded in Kuta Beach, Bali, killing more than 200 people, mostly foreigners. Under intense pressure from Australia (whose citizens were the largest group among the dead) and the US, the Indonesian authorities reacted swiftly. Within six weeks Indonesian President Megawati Sukarnoputri had issued a decree giving police sweeping anti-terrorism powers; the Bali bombers had been caught; and JI had been declared a terrorist organization by the United Nations.

gains control of National Assembly. (12-14) Cabinet-level talks with the North held in Seoul.

(23) Agreement on first joint development mineral project with North since 1948.

(28) Parliament vetoes appointment of Chang Dae-whan as PM.

(30) Agreement with North to begin restoring transport links.

SEP (10) Pres. Kim names Kim Seok-soo as PM.

OCT (5) National Assembly approves Kim Seok-soo as PM.

(24) Reaches agreement with Chile in first-ever free-trade talks.

(31) Pres. Kim's second son sentenced and fined for accepting bribes.

NOV (7) Bill passed ratifying joining International Criminal Court.

(7-8) Inter-Korean economic cooperation talks.

(10) Pres. Kim's youngest son, Kim Hong-gul, sentenced and fined for corruption.

DEC (14) Close to 50,000 protest in Seoul over acquittal of two US soldiers who killed two girls in road accident.

(18) Millennium Democratic Party candidate Roh Moo-hyun wins presidential election.

(20) Holds first meeting of special task force to revise SOFA with US.

(28) Signs agreement with North Korea to expand North-South sea routes.

▶▶ **SRI LANKA**

FEB (20) Former dep. defence minister arrested in probe of killing of 10 opposition supporters during Dec. elections.

(22) Implements permanent ceasefire with Tamil Tigers.

MAR (25) Chief Tamil Tigers negotiator Anton Balasingham returns after three years in exile.

APR (4) Lifts six-year ban on domestic flights, allowing commercial airlines to resume service to Jaffna peninsula.

(22) Pres. Kumaratunga visits New Delhi, meets Indian Pres. K.R. Narayanan.

MAY (21) Holds first direct talks with Tamil Tigers in seven years.

JUN (8) PM Wickramasinghe visits India, meets PM Vajpayee.
(11) Foreign Minister Tyrone Fernando and US Sec. of State Colin Powell sign "open skies" aviation agreement.
(27) Economic Reforms Min. Milinda Moragoda holds face-to-face talks with Tamil Tigers' chief negotiator, Anton Balasingham.

AUG (1) Signs free-trade agreement with Pakistan.
(14) Talks with Tamil Tigers begin in Norway.
(18) Announces constitutional amendments to cut presidential power.

SEP (4) Lifts four-year ban on Tamil Tigers.
(16-18) First round of peace talks in Thailand.
(28) Exchanges prisoners with Tamil Tigers for first time.

OCT (22) Supreme Court rules government must hold referendum prior to making constitutional changes to limit president's power.
(31) Court sentences Tamil Tigers chief Velupillai Prabhakaran to 200-year jail term in absentia for bomb attack in 1996.
(31-Nov. 3) Second round of peace talks with Tamil Tigers in Thailand.

NOV (12) Agrees with Tamil Tigers to establish committee to discuss Tamil minority self-rule.
(18) Pres. Kumaratunga accepts recommendations for appointment of seven non-cabinet ministers.

DEC (2) Third round of peace talks with Tamil Tigers in Norway.
(3-8) PM Wickramasinghe visits Tokyo, meets PM Koizumi and FM Kamuguchi.
(5) Government and Tamil Tigers agree to share power in federal system.

▶▶ TAIWAN

JAN (1) Formally joins WTO.
(21) Pres. Chen names Yu Shyi-ku as PM.
(24) Lee Yung-san appointed Finance Min.

MAR (27) Lifts ban on inflow of Chinese investments.

MAY (1) PM Yu announces relaxation of restrictions on mainland tourists.
(16) Chinese and Taiwanese state-owned companies China National Offshore Oil Corp. and Chinese Petroleum Corp. sign deal for joint oil exploration in Taiwan Strait.

JUL (21) Pres. Chen takes over DPP leadership.
(21) Nauru breaks diplomatic relations with Taipei, opens ties with Beijing.

AUG (2) Applies policy, allowing companies to invest directly in China.
(3) Pres. Chen backs calls for independence poll, says Taiwan is "a country."
(6) Pres. Chen says Aug. 3 comments on Taiwan's independence were misunderstood.
(14-17) VP Annette Lu visits Indonesia. Initially denied entry into Jakarta after protest from Beijing. Two days later allowed into Jakarta and meets government officials.

SEP (3) Agrees to exchange trade and economic offices with Mongolia.
(7-14) Dep. Defence Min. Kang Ning-hsiang visits US, meets Dep. Defence Sec. Paul Wolfowitz.

NOV (22) Finance Min. Lee Yung-san resigns, citing health reasons.
(27) Chief Statistician Lin Chuan appointed as Finance Min.

DEC (5) China, Taiwan set WTO talks over steel dispute, first direct communication since 1999.
(7) Opposition mayor Ma Ying-jeou re-elected in Taipei. In Kaohsiung, DPP mayor Frank Hsieh retains office — DPP wins control of local council for first time.

▶▶ THAILAND

JAN (17-18) PM Thaksin visits Indonesia.

FEB (20) ASEAN foreign ministers meet in Phuket to discuss cooperation against terrorism.

MAR (3) Thai Rak Thai party loses four seats in by-elections.
(4) Joins Indonesia, Malaysia and Philippines in anti-terrorism pact.
(29-Apr. 1) PM Thaksin visits

Australia, meets PM Howard.

APR (5-6) Agrees with India and Myanmar to build highway linking their countries.

MAY (8) Signs anti-terrorism pact with Indonesia, Malaysia, Philippines.

JUN (16) Opposition Democrat Party wins elections to Bangkok city council.
(18-19) Ministers from 17 Asian countries meet for first Asian Cooperation Dialogue.

JUL (9-10) PM Thaksin visits Bangladesh.

AUG (30) Cabinet approves ratification of Kyoto Protocol without consent of entire parliament.

OCT (3) Agrees to coordinate efforts with Australia to fight terrorism.

NOV (7) Agrees with Malaysia to increase cooperation on security issues, crack down on arms smuggling.

DEC (22) Joint meeting of Thai and Malaysian cabinets in Hat Yai.

▶▶ VIETNAM

FEB (19) First group of Vietnamese refugees from Cambodia returns home.

MAR (21) UNHCR halts Vietnamese refugee repatriation program in Cambodia.

MAY (2) Signs agreement with Russia for return of Cam Ranh Bay naval base.
(2) Pres. Tran Duc Luong begins visit to North Korea, meets North Korean leader Kim Jong-il.
(6) Pres. Tran Duc Luong visits Myanmar, meets junta head Gen. Than Shwe.
(13-16) Laotian Pres. Khamtay Siphandone visits

(18-19) Elections for new national assembly.
(25) Communist Party dominates results of National Assembly elections.

JUL (16) Communist Party officials sacked for alleged links with organized crime.
(24) Pres. Tran Duc Luong re-elected to second 5-year term.
(25) PM Phan Van Khai reappointed to second 5-year term.

OCT (3) Party Gen. Sec. Nong Duc Manh visits Japan, meets PM Koizumi.

DEC (25-26) VP Truong My Hoa visits Laos, meets Pres. Khamtai Siphandon.

**A LITTLE BETTER,
BUT STILL NOT GOOD**

Canada's interaction with the countries of Asia Pacific is complex, so an examination of the overall state of that relationship should look at the distinct areas of activity. That is the aim of the Canada-Asia Report Card. The Report Card reviews and critiques the main segments of Canada's transpacific ties, attempting to focus attention on areas of success or weakness. The categories chosen for consideration are necessarily subjective although hopefully not biased. One change to this year's Report Card is the merging of the Inward and Outward Investment sections into a single category of Investment, as it was felt that the separation might encourage a mercantilist view — that inward investment was “good” and outward investment “bad.” That is not the view of the Foundation. As we have noted previously, the absence of a distinct Services category is an obvious omission of an important and growing component of our international business ties. However, the lack of up-to-date statistics on services trade for the Asia Pacific has so far dissuaded us from assessing this area.

Grading in the Report Card is based on the consideration of a mix of factors. In the trade and economy-related areas, performance can be measured statistically, whereas aspects of public policy or business attitudes, which are also factored in, involve more subjective evaluation. In non-economic areas such as Security, for instance, in the absence of statistical measures, performance can be rated against the appropriateness and achievement of formal government policy goals. This year there have been a number of changes from grades awarded last year. For the first time we have awarded an “A,” actually “A-,” in the area of Development Assistance. Education held its “B+” grade and was joined at that level by Information and Communications Technology, which was restored to the level it earned in its first year in the Report Card. This year, also for the first time, there were no categories downgraded. Based on the nine-sector rating, the overall grade for Canada's performance in its Asia-Pacific relationship last year is rated at “B-,” its highest since the Report Card was introduced in 1998.

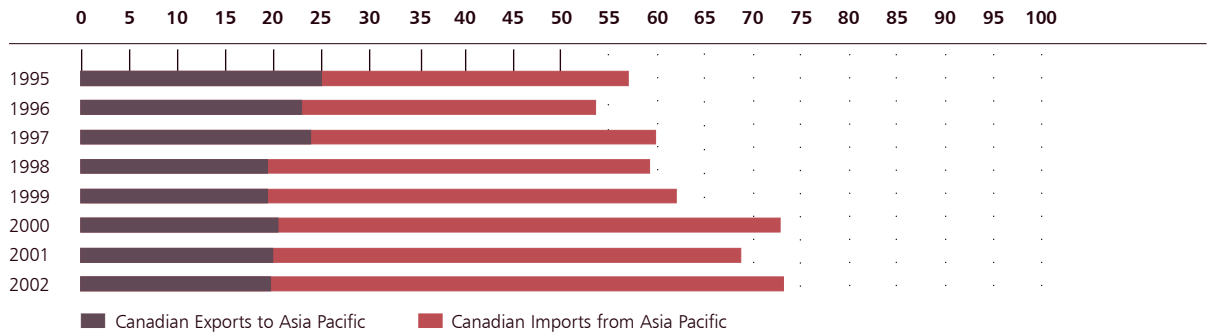
TRADE

Canada's trade performance in Asia last year was about average for recent times — exports were stagnant, im-

ports were up and our share of the major regional markets continued to decline. Although economic performance in most developed markets worldwide was lacklustre — uncertainty about the US economy, then about a possible war in Iraq dampened growth — Asian countries generally turned in a stronger performance than in 2001. Still, neither Canada nor major competitors like the United States or Australia were able to capitalize on this. In the case of Canada, strong domestic growth, which saw the country outperform the US for the fourth year in a row, helped boost local demand. The result was a marginal decline in shipments to Asia-Pacific markets. On the other hand, the strong Canadian economy attracted 9% more Asian-sourced imports.¹ Overall, imports from Asia outpaced exports by almost three to one. As usual, Canada's public and private sectors remained focused on the all-important US market. However, in the wake of concerns raised by the September 2001 terrorist attacks, as well as a high-profile trade dispute over softwood lumber, the concern of policymakers was more one of maintaining access in the face of tightened border security and protectionist challenges than it was on increasing access, as it has been in many recent years.

Overall, 2002 was a difficult year for Canadian trade. Globally, Canada's exports were down slightly and imports up a little. The pattern in our Asian trade was similar, although imports grew rather more strongly than those from other parts of the world. The only countries in Asia that were strong markets for Canadian exports were the Southeast Asian states of Malaysia, Thailand and Singapore. Elsewhere, shipments were either up only a little or, more commonly, down. One encouraging development was the strong increase in a number of manufactured export items such as telecommunications equipment, motor vehicle parts and integrated circuitry. Sales to China, which has been the bright spot in Asia for Canadian exporters in recent years, were down 9%. On the other hand, imports from China continued to climb strongly, gaining about 26%. Canada's poor year in China sales is explained by a significant decline in shipments of wheat, barley and canola/rapeseed, which fell from about \$690 million to around \$100 million — a decline of more than 85%. However, exports of the same three items to Japan rose, and those to the US fell by only about 8.4%. Globally, Cana-

CANADA'S TRADE WITH ASIA PACIFIC (C \$billions)



Source: Industry Canada, *Trade Data Online*. 16 June 2003. <<http://strategis.ic.gc.ca>>. Reproduced with the permission of the Minister of Public Works and Government Services, 2003.

dian exports of these three grains were down by a quarter, or \$1.4 billion — of which almost half was accounted for by China. Part of the explanation was the poor Canadian harvest, which left supply far below usual levels and prices far above.

One way to evaluate Canada's performance is in comparison with similar competitors. The numbers suggest that there was little to differentiate our performance in Asia last year from that of the US. Likewise, Australia's trade results in the region were very similar to Canada's (irrespective of the currency used for measurement). However, there were some important country-by-country differences: while all three experienced rapid growth in imports from China, only Canada recorded lower exports. Both the US and Australia enjoyed double digit growth in shipments to China. On the other hand, Canadian exports to Japan, Taiwan and Hong Kong fared somewhat better than those from either the US or Australia, and markedly better in several South-east Asian markets.

A more fundamental way of judging our trade success, especially over a longer period, is by tracking our share of major Asian import markets. On this basis, our performance was again disappointing last year. Canada has been steadily losing market share in Asia. Since the mid-1990s, the proportion of total Asian imports sourced from Canada has declined each year. It now stands at less than 70% of what it was just five years ago and barely half of what it was in 1991.² Some forces contributing to this

trend are clearly beyond Canada's control: increasing use of offshore production centres by Asian manufacturers, and the resulting growth in regional supply chains, has substantially increased intraregional trade. The changed trading pattern means total regional imports are growing more rapidly than those coming from outside the region, inevitably leading to a decline in market share by non-regional suppliers. But most of Canada's trade peers are holding on to more of their markets than Canada. Comparing the Asian market shares of Australia, New Zealand, the US, Sweden and Norway in 1991 with their market shares in 2002 shows that most of these countries have also experienced declining market shares. (The exception is Sweden, which has maintained its share.) However, none has fared as badly as Canada.

At the policy level, Canadian trade goals for 2002 reflected Canada's focus on the Americas and paid little attention to trade with Asia.³ The exception was the free trade agreement negotiations with Singapore, which continued throughout the year. There was deepening engagement with India, reflected in the mission led by Trade Minister Pierre Pettigrew.⁴ China moved closer to an acceptance of Canadian standards relating to wood frame construction products and meat plants.⁵ Canadian representatives worked closely with the Chinese ministry of construction in developing a new inspection code relating to wood frame construction.⁶ Also, the Chinese government approved 18 Canadian meat-packing plants for export to China, bringing the total of approved plants

to 41. Canada continued to focus on trade facilitation and capacity-building issues both within APEC, where there is a tradition of such efforts, and outside APEC, where Canada has been more of a leader. During the year, the Department of Foreign Affairs and International Trade (DFAIT) completed an exercise in which it settled on those markets that are to receive extra departmental attention. In addition to the G-8, they are Mexico, China, India and Brazil. It is unfortunate that the scarcity of resources at DFAIT means the department was unable to include important commercial partners like South Korea and Taiwan, both of which were among our top 10 trading partners in 2002. (In fact, they are the only top-10 trading partners excluded from the list of priority countries.) Trade policy-related efforts by Canada's private sector (and, increasingly, advocated by academics interested in trade policy) were dominated by concerns that trade flows with the US be interrupted as little as possible by tighter border security. There was also considerable effort directed toward resolving specific trade disputes with the US, especially the softwood lumber issue.

Much of Canada's trade policy and most of its trade liberalization efforts are at a global rather than Asia-specific level. The main focus of liberalization has always been the World Trade Organization (WTO), although not a great deal of progress was made in 2002. Canada continued to work on agricultural issues with its Cairns Group partners, including New Zealand and major agricultural producers in Southeast Asia, as well as a number of Central and South American countries, although this has not prevented disputes from arising among members of the group. Canada lost a WTO Appellate Body ruling (for the second time) on our dairy support measures in favour of the US and New Zealand. Unfortunately, not all Canada's trade initiatives are aimed at liberalization. The country has a history of relatively heavy use of countervailing/anti-dumping measures and of leaving such measures in place for relatively long periods. According to the Canada Customs and Revenue Agency, there were three new investigations initiated in 2002 (compared with five in 2001, eight in 2000, five in 1999, three in 1998, three in 1997 and four in 1996). Each of the 2002 actions named China, and one also named Vietnam. Two of the

three have not yet reached final determination, while the third (xanthates) resulted in a 45% duty application.⁷

In summary, Canada continued to search for ways to make the international trading system more efficient and transparent. This offsets the year's poorer figures, maintaining the grade for this area of our Asian relationship at an unsatisfactory "C-."

TOURISM

After a year disrupted by the World Trade Center attack in 2001, worldwide tourism rebounded surprisingly in 2002, despite the continuing aftershocks of September 11, the impending conflict in Iraq and the slowing international economy. Globally, international tourist arrivals were up 3.1% from 2001 levels, according to the World Tourism Organization.⁸ However, the picture in Canada was somewhat different. Inbound travel dropped 4.8%, and Canadian travel to overseas destinations declined by 9.2%. Despite the decrease in inbound visits, total foreign tourist spending in Canada remained unchanged, while Canadian spending overseas increased by 4.3%, resulting in a deficit in the travel account of \$784 million.⁹

Travel to Canada from Asia-Pacific countries was a little stronger than from the rest of the world. Arrivals from the region were only down 0.4% over the full year, almost halting the near-10% decline recorded in 2001, which reflected the drastic fall-off in visitors to North America after the September 11 attacks. As a result of the relatively better performance in the Asia-Pacific market, the proportion of tourists from this region in total non-US visitors to Canada increased to 33% from 31% a year earlier. In total, Asia-Pacific tourism contributed \$1.9 billion to Canada's GDP.¹⁰ The tourism result for Canada was quite encouraging in comparison with the performance of regional rivals the United States and Australia. Arrivals to the US from Asia were down 10% last year as repeated terrorism warnings and much stricter visa requirements continued to deter Asian visitors.¹¹ Australia, which seemed a safer alternative to North America, at least until the horrific October bombing in Bali, saw Asia-Pacific arrivals rise 1.5%.¹²

The better year for Canada primarily resulted from a small increase in Japanese tourists. Arrivals from Japan

recorded 1% growth last year, reversing a declining trend triggered by the 1997 Asian financial crisis. This recovery was particularly significant, as visitors from Japan in recent years have represented more than one-third of all arrivals from Asia Pacific,¹³ keeping Japan at the top of Canada's Asia-Pacific tourist markets. The recovery was also confirmed in a recent Japanese Association of Travel Agents survey.¹⁴ The report showed a marked increase in the number of Japanese visiting Canada rather than the US. Instead of choosing sightseeing tours, a growing number of Japanese prefer trips with a specific purpose, such as studying the manners and customs of the destination country, adding to the attraction of less well known Canada over the US.¹⁵ The Canadian Tourism Commission (CTC) office in Japan also reported that while package tour bookings are decreasing, the independent travel market is growing.

Apart from Japan, the top tourist source markets continued to be South Korea, Australia, Hong Kong SAR and Taiwan. Among these, South Korea was the only country to show any growth over the year. It is also the only country among the top five that has shown continuous growth since the Asian financial crisis, which had caused a 27% decline in total Asia-Pacific visitors to Canada. In 2002 there was 5.1% growth — or 8,000 in actual num-

bers — in visitors to Canada from South Korea. This total included a considerable number of young South Koreans coming to Canada for short-term language study. Some of the increase can be accounted for by changes to Canada's immigration regulations in the middle of the year that helped to boost the number of South Korean students travelling as tourists rather than on student visas.¹⁶

Another positive trend was the rapid growth in the number of visitors from China. Its sixth-place ranking was underpinned by the fastest growth in Asia-Pacific arrivals during 2002, with a 15% increase in visitors that bettered the 12% growth of 2001. The increase probably had more to do with China's dynamic economic growth than any specific attraction of Canada. China felt little impact from the September 11 terrorist attacks and continued to be one of the strongest economies in the world. GDP growth remained high at 8%, while investment inflow, exports and domestic consumption continued to soar. One of the results of its economic modernization has been the emergence of an affluent middle class with considerable disposable income, estimated to be as many as 110 million people.¹⁷ Some of these newly well-off Chinese are spending their wealth on tourism — as many as 10 million travelled overseas to Asian destinations in

ASIA-PACIFIC TOURISTS VISITING CANADA (in 000s)

Origin	1996	1997	1998	1999	2000	2001	2002
Australia	160	159	155	161	180	172	163
China	64	80	56	63	77	86	99
Hong Kong, SAR	209	153	157	143	145	130	123
India	62	61	48	52	55	58	59
Japan	729	625	525	550	540	449	453
New Zealand	41	50	41	42	38	33	32
Philippines	34	38	27	30	33	37	41
Singapore	31	34	25	25	29	26	23
South Korea	191	176	72	109	149	157	165
Taiwan	146	151	129	161	166	120	107
Other Asia Pacific	100	94	55	56	66	69	66
Total Asia Pacific	1,767	1,621	1,290	1,392	1,478	1,337	1,331

Source: Adapted from the Statistics Canada CANSIM II database, table 427-0003. 21 March 2003.

<http://cansim2.statcan.ca/cgi-win/cnsmcgi.exe?CANSIMFile=CII/CI_1_E.HTM&RootDir=CII/>.

2002. About three million are estimated to be planning travel outside of Asia, with 64%, or 1.9 million, of those hoping to visit Canada some day.

This potentially lucrative business would be more likely if bureaucratic obstacles in both countries could be removed. China's Approved Destination Status (ADS) system is one of the hurdles. ADS, once granted to a country, establishes a quota of outbound visas and facilitates selected tourist agencies in China to send packaged tour groups to approved countries, with the tourist agencies accepting the responsibility of ensuring that the tourists return. Regardless of the legitimacy of the ADS system, as long as it exists, Ottawa will have to negotiate an agreement with China if it wants to join the other 19 countries that had such arrangements by the end of 2002.¹⁸ Canada has been trying to reach an ADS agreement for at least three years, but progress has been slow. In June, a delegation led by the Department of Foreign Affairs and International Trade went to Beijing with hopes of speeding up negotiations. However, the mission appeared to make little progress.

Ottawa has thrown up a number of roadblocks of its own. There is a fear that more tourists from China will mean increased applications for refugee status: court decisions based on the Charter of Rights and Freedoms hold that anyone once in the country can apply for refugee status, and Citizenship and Immigration Canada is wary of a flood of Chinese applicants entering the country as tourists. Canada must also deal with US concerns that Chinese travellers will use Canada as a jumping-off point for illegal entry to the United States. In September, the Minister of Citizenship and Immigration, Denis Coderre, visited China to discuss immigration issues and policies, as well as to promote Canada as a destination for Chinese tourists.¹⁹ He, too, did not return with an ADS designation for Canada. Australia's success in attracting Chinese tourists is a demonstration of the benefits of achieving ADS status, which Canberra negotiated several years ago. Tourist arrivals from China now exceed those of all Asian countries except Japan and Singapore, and rose last year by 20%.

Overall, 2002 saw hints of a recovery in tourism from the Asia-Pacific region, reflecting the improved performance of regional economies. Still, the recovery has a long way to go, as arrivals from the region were 25% fewer

than before the financial crisis. An end to the downturn, plus the CTC focus on Asia and the government's efforts to develop Chinese tourism through ADS negotiations, are sufficient to support the grade of "C" for this category.

EDUCATION

Major changes in Canadian immigration laws mid-year had a significant impact on foreign students coming to Canada — and also make it difficult to compare student numbers with earlier years. However, the liberalization of visa requirements makes it easier for Canada to promote its education services in Asia by smoothing the way for students wishing to come to Canada for relatively short-term language and skills training programs. Even in the absence of comparable statistics, it appears that education marketing in Asia had another steady year in 2002 and showed encouraging progress in a number of smaller markets.

Facilitating the entry of foreign students was one of the central aims of the new Immigration and Refugee Protection Act (IRPA), which came into effect on June 28, 2002. Under previous regulations, visas, or Student Authorizations, were required by students attending non-language programs of fewer than three months' duration, and for some nationalities attending short-term language programs. Students attending any program involving more than three months of study required an authorization. Under the new IRPA, Student Authorizations have become Study Permits and are no longer required for students registered in courses of six months or less.²⁰ A Temporary Resident Visa (TRV) has replaced the Visitor Visa, and these are still required for some nationalities — such as Chinese, Thais and (since September 24, 2002) Malaysians — who wish to study in Canada for less than six months. Students from many countries — including some of Canada's largest source areas, such as South Korea, Japan and Mexico — do not even require TRVs for short-term courses and so are not identified as students in travel statistics. Based on the number of study permits issued by Citizenship and Immigration Canada (CIC), the number of foreign students coming to Canada last year appeared to drop, while the number from Asian countries rose only slightly. However, this largely reflected

the change in the law for the second half of the year rather than an actual decrease in the inflow.

Although statistics for 2002 are inconclusive, a wealth of data covering long-term trends became available early this year from the first comprehensive report by CIC on foreign students in Canada.²¹ Findings show that over the past two decades, Canada has recorded impressive growth in the number of foreign students looking to this country for an education. The report, covering the period 1980–2001, provides statistics not only on foreign student flows but also on the numbers residing in the country year by year. At the end of 2001, there were more than 130,000 foreign students in Canada, up from almost 57,000 in 1990 and 37,000 in 1980 — an impressive average 12% annual growth rate over the entire period. Increasing numbers of students have come from East Asia, notably South Korea, China, Japan and Hong Kong SAR. By 2001, these economies accounted for 43% of foreign students in Canada. Among top source countries, numbers from China have grown at the fastest rate in recent years. In 2001, there were 20,160 Chinese students in Canada, a nearly tenfold increase over the 1997 level.

In the latest year, the long-term trend of proportionately more students coming from Asia continued. While the 68,820 foreign students Canada admitted was

7% fewer than in 2001 (although using different criteria for each year), the inflow of students from Asia-Pacific countries (using the same statistical basis) recorded a 2% increase, to 39,708.²² Seven of the top 10 source economies were in Asia, with the result that inflow from Asia-Pacific countries made up 57.7% of total foreign students, up from 52.6% in 2001. South Korea, China and Japan remained the top three offshore markets. Students from these countries accounted for 78% of total Asia-Pacific students and 45% of all foreign students coming to Canada in 2002. However, there were differing factors at work influencing the reported totals for the top three. The number of South Korean students, officially up 2.2% on the year, is likely an underestimation, as they were the most affected by the liberalization of study permit regulations — many more South Korean students no longer require Study Permits. On the other hand, the change of IRPA regulations did not affect students from China, as most of them must still obtain a formal visa prior to entering Canada. Encouragingly, a change in CIC visa processing arrangements to speed applications in China has had a significant impact on the statistics. Since January 1, 2002, the Canadian Consulate General in Hong Kong has had responsibility for processing student applications from individuals living in several provinces of

ASIA-PACIFIC STUDENTS TO CANADA

Origin	STUDY PERMITS					% Change 2001–2002
	1998	1999	2000	2001	2002	
South Korea	3,750	6,505	10,815	13,479	13,774	2.2
China	1,871	4,112	6,470	11,138	11,395	2.3
Japan	5,527	5,744	5,501	6,409	5,771	-10.0
Taiwan	1,945	2,126	2,409	2,077	2,101	1.2
India	477	665	943	1,226	2,052	67.4
Hong Kong, SAR	1,236	1,338	1,558	1,530	1,405	-8.2
Australia	889	825	877	1,029	842	-18.2
Thailand	300	378	414	481	575	19.5
Vietnam	136	203	300	427	552	29.3
Indonesia	185	305	431	423	497	17.5
Singapore	320	363	354	408	416	2.0
Malaysia	227	303	253	292	328	12.3
Total Asia Pacific	16,863	22,867	30,325	38,919	39,708	2.0

Sources: CEC Network. 15 August 2003. <www.cecnetwork.org>; and Citizenship and Immigration Canada, *Facts and Figures 2000*, *The Monitor Spring 2003* and *The Monitor Summer 2003*. 18 June 2003. <<http://www.cic.gc.ca/english/pdf/pub/facts-temp2000.pdf>>.

Notes: 1) Figures for China, Hong Kong, Japan, South Korea and Taiwan are taken from Citizenship and Immigration Canada. 2) Most foreign students coming to Canada to attend any course of less than six months duration do not require a study permit. Before June 28, 2002, only students attending a language course of three months or less were exempt from obtaining a study permit.

southern China, as well as Hong Kong SAR and Macau SAR. Applicants from other parts of China continue to be processed at the Canadian embassy in Beijing. As a result, Study Permits issued out of China reportedly decreased by 10.7%, to 10,447 in 2002, while permits issued in Hong Kong increased by 17.3%, to 2,698.²³ Combining the number of study permits issued for Chinese students in Beijing and Hong Kong shows an apparent 6.1% decrease from 2002, suggesting there may be some stagnation in this market for Canadian education services. Japan was the only country among the top three sources that saw a decline, of 10%, in 2002. However, this decrease was mainly attributed to the IRPA change, as Japanese are not required to have student permits for short-term study in Canada.

While inflow from the top three countries plateaued, other source countries showed strong growth, notably India, Vietnam and Thailand. India reported the most dramatic increase in Study Permits, to 2,052, an increase of 67.4%. The increase can be attributed to a number of factors, including India's robust economy. The country's education system has been unable to keep pace with demand for skilled workers, generating a market that is ripe for offshore (particularly long-term) education. In Vietnam, Study Permits issued increased by 29.3%, to 552 in 2002. Gradual improvements in processing times, the increased presence and activities of Canadian institutions in Vietnam, and the growing perception of Canada as a safe destination that offers quality education at a reasonable cost are all factors that have contributed to the growth of this market. The Thai economy, too, is approaching levels of economic activity last seen before the financial crisis of 1997, with consumer spending supporting this growth. Thais, along with most Asians, consider education to be an investment, so it is not surprising that increased disposable incomes saw Thai Study Permits issued in 2002 increase to 575, up 19.5%.

Education marketing in Asia Pacific last year was generally successful, although it continues to face domestic obstacles that likely hamper progress. As the major player promoting Canadian education services offshore, the Canadian Education Centre Network (CEC), which has offices in 17 countries, undertook a comparative study of a select group of OECD countries and their policies

for international student recruitment.²⁴ Emphasis of the study is on initiatives by each country to attract the best students in order to build a pool of potential skilled workers. The report concludes that Canada's major OECD competitors have national policies in place to encourage, facilitate and welcome international students, and to increase earnings from this service sector. Most of them have adapted their immigration policies to make it relatively easy for students educated within the host country to remain permanently. Canada is unique within the OECD in not having an international education marketing and recruitment policy. Constitutional constraints preclude a national ministry of education, which would act as a natural locus for the creation of such a policy. Consequently, there is no national policy in this area, although individual Canadian government departments are engaged in various sectors.

The CEC continued to be active in Asia. In 2002, it opened a second office in Beijing to enhance its presence in this large market. In addition, it partnered with the Chinese Education Association for International Exchange to expand its service delivery. In September, the CEC opened a new sub-office in Surabaya, Indonesia, the second largest city in the country. This new presence helped to keep the number of student inquiries steady even after the Bali terrorist bombing.

Although the uncertainty about statistics is an obstacle to a full evaluation of the year's performance in education marketing, there is no reason to change the grade in this category from a respectable "B+."

INFORMATION & COMMUNICATIONS TECHNOLOGY

ICT trade with Asia Pacific last year was about the strongest area of that generally troubled industry sector. With the US high-tech downturn acting as a drag on the Canadian industry, growth lagged overall GDP growth for the second year in a row, after having been a strong component of economic expansion for a decade. The picture in Asian trade was much brighter. Exports of ICT goods to Asia, though still a relatively small component of the \$60 billion-plus a year industry, grew some 12%, to \$1.8 billion.²⁵ Although shipments were far behind those to the US — at \$16.6 billion representing 79% of all ICT ex-

ports — they did match those to Europe. The increased Asian export share reversed a trend that persisted during the years of the US high-tech boom, when the market to the south dominated manufacturers' attention. Increased shipments of manufactured products were spread broadly across six of our 10 major ICT markets in Asia, led by Singapore, where exports were up \$50 million; Taiwan, up \$46 million; and Japan, up \$40 million.²⁶ Offsetting this to some extent were lower shipments to China — still our top Asian ICT market, at \$271 million last year — Hong Kong SAR, South Korea and Australia. The strongest growth overall was to the ASEAN countries, where sales of some \$253 million of ICT products represented an increase of 62% on the previous year. Overall, exports of ICT products to Asia have risen by 29% in the past three years.²⁷

The largest component of the ICT industry within Canada is services — such areas as software publishing, cable TV distribution, data processing, computer systems design and telecommunications. However, in international trade, earnings from the shipment of manufactured products far exceed sales of services. As with products, more than 70% of ICT service exports go to the US.²⁸ In this area of trade, Asia also lags far behind, in large part due to the combined effects of remoteness from Canada, which makes delivery of services like cable TV and telecommunications interconnection difficult, and regulations, which restrict access to many markets. Detailed figures for trade in ICT services with Asia are not available. However, it appears to have increased in 2002, along with ICT merchandise trade, even though ICT services earnings globally were down.

ICT goods and services are given special attention in the Canada–Asia Report Card beyond the broader assessment of trade because of the importance placed on them by the Government of Canada in the country's economic future. *Canada's Innovation Strategy*,²⁹ a blueprint for Canada's economic growth presented by Ottawa early last year, was a formal statement of this priority. While the most notable results of this policy emphasis so far have been domestic (especially the review of the restriction on foreign investment in Canada's telecommunications carriers announced by Industry Minister Alan Rock³⁰), promotion of the export side of the industry has not been overlooked. Rock led a Trade Team Canada mission to the

International Telecommunications Union's major Telecom Asia trade show and conference in Hong Kong in December.³¹ During the year the government was also involved in high-tech missions to Taiwan, Singapore and China.

As in virtually all areas of trade, the private sector initiates and executes business transactions: government policymaking and promotion is of limited impact unless the companies actually involved in the ICT sector respond. In the case of Asia, the private sector certainly seems to be following, or perhaps even leading, the government's initiative. A survey of high-technology deals in Asia last year captured by the Foundation's *Canada-Asia News* database³² recorded 212 separate transactions involving Canadian companies. This was a significant increase on the 126 deals noted in the previous year. There was a jump from 56 to 123 in the number of reported sales of products or services. (Almost one-third of these involved industry leader Nortel; the most significant were a series of deals with China Unicom worth \$445.5 million, involving extension of fibre-optic networks.) The other major increase was a near doubling, to 28, in the number of new marketing or distribution agreements signed. There was a slight decline from 18 to 10 in licensing agreements negotiated, although the interest in joint or cooperative development jumped to 25 from 15 cases. Eight companies reported opening offices in the region, three more than in 2001. The locations of the reported business deals largely followed the rankings of countries as export destinations for Canadian ICT manufactured products, with China recording the most, followed by Japan. However, India, which has been by far our fastest growing market over the past five years, attracted more activity than higher-ranked markets, with 26 deals reported.

In 2001, a decline in ICT exports and number of deals reported earned a reduced grade in the Report Card. In 2002, ICT was one of the standout sectors in our Asia-Pacific relations and consequently sees its grade restored to the "B+" it enjoyed before last year's downturn.

INVESTMENT

It was a very good year for Canada's direct investment relationship with Asia, both in terms of capital inflow and outflow — better than our performance with Asia in 2001

and with the world in 2002. The growth rate of Canada's stock of direct investments in Asia in 2002 was higher than in 2001, and the proportion of total investment directed to Asia was also higher. The Asian share of foreign direct investment in Canada also increased in 2002.

Global FDI flows have been declining since 2000, which was by all measures a peak year for direct investment, much of it accounted for by merger and acquisition (M&A) activity.³³ According to the United Nations Conference on Trade and Development, global FDI inflows slumped more than 50% in 2001, and by about 27% in 2002. In both these years, Canadian FDI flows — both inward and outward — also fell. Inward flows fell at rates very much in line with overall global trends. However, reflecting relatively strong economic growth in Canada, outflows were down by only about 20% each year. (The flow data from the balance-of-payments accounts is not sufficiently disaggregated to allow for a meaningful Canada-Asia analysis.)³⁴

Turning first to outward investment, in each of the past two years, stocks of Canadian FDI held around the world have grown at 10–11%.³⁵ However, in 2001 Cana-

dian FDI in Asia rose by over 16%, and last year it grew at almost twice that rate. Most of the increase was concentrated in a small number of countries that have traditionally featured at the top of the list of Canadian investment destinations. These were Japan, Australia, Indonesia and Singapore, which together contributed 94% of the growth in Canada's 2002 investment stock in Asia Pacific. The increase was sufficient to boost the share of total Canadian direct investment abroad held in Asia to 8%, down from the 1995 level of 9.4% but a solid increase from 2000 and 2001 (6.4% and 6.7%, respectively). These aggregate numbers come from Statistics Canada, which once a year surveys firms that already have international operations, then builds economy-wide estimates based on the results. The methodology accounts for a variety of influences, including physical depreciation of productive assets.

Another way of looking at the data on a more detailed level is to consider specific deals concluded during the year. APF's *Canada-Asia News* service and its *Investment Monitor* track new investment activities by Canadian firms in Asia using company press releases and third-party

ASIA-PACIFIC DIRECT INVESTMENT IN CANADA BY ECONOMY (C \$millions)

Country	1995	1996	1997	1998	1999	2000	2001	2002
Australia	489	661	847	1,135	1,504	1,590	1,827	1,992
China	228	206	235	226	214	194	217	224
Hong Kong, SAR	2,809	3,022	2,971	2,957	2,296	3,393	3,885	4,983
India	n/a	n/a	n/a	n/a	18	n/a	29	29
Japan	6,987	7,873	7,990	8,393	8,270	8,126	7,909	8,600
Malaysia	66	124	166	133	71	118	120	121
New Zealand	n/a	n/a	n/a	n/a	1,516	101	90	98
Singapore	356	278	273	195	176	146	130	116
South Korea	120	112	132	142	168	184	218	230
Taiwan	117	114	153	107	115	97	104	105
Other Asia	n/a	n/a	n/a	n/a	2	3	2	2
Total Asia Pacific	11,172	12,390	12,767	13,288	14,350	13,952	14,531	16,500
Asia-Pacific Investment in Canada as % of All Sources	6.64	6.80	6.57	6.06	5.68	4.54	4.36	4.72

Source: Adapted from Statistics Canada, Year-end Stocks. CANSIM II Table 376-0051. 28 March 2003.
<<http://www.dfait-maeci.gc.ca/eet/pdf/CIIP02-en.pdf>>, <<http://cansim2.statcan.ca>>.

Note: n/a indicates that either the data is confidential or not available.

press coverage. In 2002, there were 97 separate investments in Asia announced publicly by Canadian firms. Countries of most interest to Canadian investors were China, India, Australia and Japan, together accounting for 62 of the 97 deals. The natural resource and ICT sectors saw the most investments (28 and 23, respectively), but finance sector and manufacturing investments were also common. In addition to the traditional construction of manufacturing facilities, these deals range from M&A activity to the opening of sales offices to funds expended on exploration for and development of natural resources. Among the more active firms were Manulife Financial, which acquired or increased holdings in Vietnam, Singapore, Taiwan and the Philippines, and Inco, which added to its holdings in China, New Caledonia and Indonesia.

Considering M&A activity specifically, 2002 saw less activity than in the previous year. There were 32 separate deals in 2002, compared with 42 in 2001 and 46 in 2000. The focus was heavily skewed toward Australia and China (11 deals and eight deals, respectively). Deal counts tell only part of the story; another relevant measure is the value of the transactions. Unfortunately, there is less

data to work with this year: of the 32 deals, only half provided a dollar value. This contrasts with 2001, when 33 of 42 transactions reported valuation data. Based only on those deals where valuation data was supplied, the aggregate value of all transactions (and average value per deal) was US\$2.4 billion (US\$70.4 million) in 2001 and US\$480 million (US\$32 million) in 2002. In addition to the relatively sparse data used to calculate the 2002 totals, the decline must also be interpreted in the context of reduced global M&A activity in 2002 relative to 2001. Thomson Financial data suggests that M&A deal flow declined by about 28% globally and by about 10% within Asia last year.³⁶ Moreover, the 2001 Canada-Asia statistics contained a “blockbuster” of sorts, in the form of Celestica’s nearly-US\$1-billion takeover of Singapore’s Omni Industries. While these caveats are all relevant, it is clear that after a string of relatively strong years for Canada-Asia M&A, 2002 appeared to have seen a marked slowdown.

Turning to inward investment, in 2002 Canada’s stock of FDI from the world grew by 4.7%, just over half of the previous year’s rate. Against this backdrop of slow-

CANADIAN DIRECT INVESTMENT IN ASIA PACIFIC BY ECONOMY (C \$millions)

Country	1995	1996	1997	1998	1999	2000	2001	2002
Australia	3,080	3,138	2,960	3,739	3,234	3,104	4,529	8,497
China	366	410	419	446	711	565	587	667
Hong Kong, SAR	2,400	2,708	2,672	3,425	3,616	3,740	2,838	2,810
India	179	128	122	169	247	129	145	144
Indonesia	1,472	1,579	2,013	2,027	2,118	2,412	2,524	3,725
Japan	2,739	2,676	2,985	3,268	3,853	5,664	7,033	9,203
Malaysia	96	-46	163	239	220	485	605	625
New Zealand	1,446	1,452	1,936	1,879	1,533	743	823	1,059
Philippines	342	609	553	389	266	394	409	374
Singapore	2,342	2,213	2,765	3,014	2,950	3,174	4,492	5,100
South Korea	146	188	172	542	1,234	760	725	819
Taiwan	252	248	253	323	271	331	362	444
Thailand	354	538	n/a	587	642	984	1,106	1,122
Vietnam	n/a	n/a	n/a	n/a	3	n/a	n/a	n/a
Total Asia Pacific	15,214	15,841	17,013	20,047	20,898	22,485	26,178	34,589
Canadian Investment in Asia Pacific as % of World Total	9.44	8.74	7.78	7.63	7.19	6.37	6.72	8.01

Source: Adapted from Statistics Canada, Year-end Stocks. CANSIM II Table 376-0051. 28 March 2003.

<<http://www.dfait-maeci.gc.ca/eet/pdf/CIIPO2-en.pdf>>, <<http://cansim2.statcan.ca>>. Note: n/a indicates that either the data is confidential or not available.

ing inflow, the stock of FDI sourced from Asia rose by more than 13%, far above the 4.1% growth of 2001. The most significant investment sources were Hong Kong and Japan, together accounting for more than 90% of the increase. In terms of market share, Asian investors held 4.7% of FDI in Canada in 2002, up from 4.4% in 2001 but still well below the 6.6% level reached in 1995, before the Asian financial crisis hit.

Industry Canada's website, investincanada.gc.ca, maintains a searchable database of inward direct investment deals.³⁷ These catalogue new physical investments; M&A is not included. There were nine investment projects making a first appearance in the database in 2002, including five by companies based in Japan and two by Chinese firms. Four of the nine were in the automotive sector, including a new components plant being built by a subsidiary of Toyota and an expansion of the Honda plant in Alliston, Ontario. Two were ICT-related, including India's Wipro choosing Windsor, Ontario, as the location for a new software design and development centre. Finally, two manufacturing investments and one warehousing investment also entered the database in 2002. The database contains information relating to job creation for all but the Wipro investment and valuation data for six of the nine projects. The totals are relatively modest, with approximately \$125 million in total investment and fewer than 500 new jobs created.

On the M&A side, the *Canada-Asia News* service provides detail on seven inward deals announced in 2002. Although two of these involved more than \$100 million, most were relatively small, like the \$4.5 million that a Malaysian firm paid for just under one-third of a Canadian lottery company. Among the larger deals were the purchase by New Zealand's Sanford Ltd. of just under 10% of High Liner Foods and Australia's Macquarie Infrastructure Group's acquisition of securities convertible into a 16% stake in Ontario's Highway 407, boosting its overall holding (assuming conversion) to 40%.

Discussion of the benefits of any economic policy typically focuses on job creation. This sometimes leads to a sort of mercantilist view of direct investment — inward investment is good, because it means additional jobs at home, and outward investment is bad, because it means local jobs are being sent somewhere else. This intuitive

but incomplete thinking has traditionally prevented government from being proactive about outward investment facilitation (and caused it to offer generous — sometimes too generous — incentives for inward investment). However, domestic economies derive many benefits from both inward and outward investment, as long as those investments are made in response to appropriate economic stimulus. These include heightened trade flows, productivity gains, greater competition (with commensurately lower prices), the potential to join global supply chain networks, and a host of benefits that come with exposure to new technologies, new business practices and new markets. Over time, the Canadian government has been paying increasing attention to the virtues of outward investment. Unfortunately, compared with the discussion and facilitation of inward investment, Ottawa remains low-key in its approach to outward investment. No doubt this attitude reflects, at least in part, fears that the public would focus on the “lost jobs” interpretation. It would serve the long-term interests of the economy for the government to undertake an education program on the gains to the nation from outward as well as inward investment.

All told, in a difficult year, Canada's investment profile with Asia improved from several different perspectives, while on the policy front, there was relatively little change. Hence investment merits a relatively good grade. This is the first year in which investment has been treated as a unified category, so the grade this year should be consistent with the two separate grades last year. Fortuitously, both Inward Investment and Outward Investment received a grade of “C+” for 2001. This year the combined grade is raised to “B-,” reflecting the fact that Canada performed strongly in most aspects of investment in 2002.

**GENEROSITY
EARNs ITS REWARD**

This section of the Report Card deals with the non-economic aspects of Canada's relations with Asia: Development Assistance; Security Relations; Projection of Canadian Values; and Media Coverage. In these areas, assessment must necessarily be subjective, as dollar values or volumes of exchanges are not the most significant aspects. Performance in each of these areas except Media Coverage is largely a function of government, so the grades awarded are essentially a measure of government performance — the relevance of policy, specifically to Asia-Pacific ties, and the degree to which policy has been effectively implemented. On the other hand, Media Coverage is the only area of the Report Card in which there is no government input. Policies adopted and performance achieved are in the hands of the private sector (with the CBC a grey area between the private and public sectors). The methodology used this year to help assign a grade in Media Coverage is explained in the text.

DEVELOPMENT ASSISTANCE

After years of declining budgets for development assistance, last year Canada took significant steps to strengthen its commitment to foreign aid. Not only was there a firm promise of substantially increased resources, but changes in the focus of development assistance, which previous issues of *Canada Asia Review* had anticipated, were put into effect. On several occasions the federal government undertook to allocate more funding and resources to poverty reduction in developing countries, a marked turnaround from recent budget cutbacks. It also appears that the government is taking a more holistic approach to the fight against poverty, incorporating a wide range of policy measures including enhanced market access, comprehensive development strategies and untied aid.

Canada's Official Development Assistance (ODA), as a ratio of gross national product (GNP), has been steadily shrinking since the mid-1980s. The ODA/GNP ratio in the year to March 2002 was just 0.22% — the lowest in 37 years. This trend appears to have been broken, first by new funds allocated in the December 2001 federal budget, then with the Prime Minister's commitment to double Canada's aid budget by 2010. This undertaking was reiterated by Mr. Chrétien on at least two occasions:

at the Kananaskis G8 Summit (June 2002) and in the Speech from the Throne (September 2002).¹

Critics of our aid effort point out that under current growth projections, a doubling of Canada's ODA by 2010 would still leave us well short of the UN's target of 0.7% of GNP. However, this doubling of aid funding will move Canada's ODA ratio up to 0.42% — substantially above commitments made by any other major donor country. In the absence of similar real increases by other governments, Canada's rank among donors could rise from its current sixteenth to a forecast sixth place by 2010, more in keeping with its economic position in the world. Canada's funding ratio would only be surpassed by Scandinavian countries that have traditionally allocated a substantial part of their annual economic value-added to international assistance.

More significantly, Ottawa's new approach does not seem limited to allocating more money. The government acknowledges that trade barriers to poor countries' exports inhibit their ability to create the jobs that are key to poverty reduction. Since January 1, 2003, the federal government has extended duty-free and quota-free access to all imports from 48 least developed countries (LDCs), with the exception of dairy products, poultry and eggs. In 2002, 0.18% of all Canadian imports, worth about \$631 million, came from LDCs. Although the amount of imports is insignificant, Canada's gesture allows these countries easier access to Canadian markets for their main export products — textiles and apparel. Three Asian LDCs (Bangladesh, Cambodia and Laos) are expected to benefit substantially from Canada's market access initiative.

Our aid program will also benefit from systemic improvements to development policies of the Canadian International Development Agency (CIDA). These changes, initiated over the past three years by (former) president Len Good,² culminated in the September 2002 policy document *Canada Making a Difference in the World: A Policy Statement on Strengthening Aid Effectiveness*.³ The three crucial elements of aid effectiveness identified by CIDA are comprehensive approaches to aid funding that emphasize programs rather than projects; concentration of aid in countries with sound policies; and provision of untied aid.

Efforts by the agency to adopt more comprehensive approaches to international aid are meant to encourage

better use of resources in assisted countries and to support local “ownership” of development programs. This approach differs from the previous reliance on local, regional and/or national governments of recipient countries to manage a series of often unrelated, smaller-scale projects funded by a variety of donor aid packages. The goal is to have various programs and projects complement each other under recipient countries’ national development strategies. Donor countries’ development assistance can be harmonized under this new approach. The policy change is not so much in what type of aid is delivered but in how CIDA goes about setting its priorities in poor countries. The new approach should mean that continued project funding is better integrated with the development strategies of recipient countries and other donors.

In the past, Canada consistently had the least geographically concentrated aid program of all donor

countries in the Development Assistance Committee (DAC) of the OECD. This limited our ability to make substantial impacts on development outcomes. Following through on the 2002 Peer Review by the DAC, CIDA is now focusing on establishing “enhanced partnership relationships” with a limited number of the world’s poorest states. Nine countries were selected: Bangladesh, Bolivia, Ethiopia, Ghana, Honduras, Mali, Mozambique, Senegal and Tanzania. CIDA’s increased aid will help these countries improve governance, particularly in public administration.

The final important change over the past year has been in the area of tied aid. CIDA has untied aid in seven categories of assistance to LDCs.⁴ It is also extending the eligibility to bid on agency contracts to entities from Sub-Saharan Africa and LDCs, and is introducing international competitive bidding procedures in certain circumstances, subject to approval by CIDA’s minister.

CANADA’S BILATERAL OFFICIAL DEVELOPMENT ASSISTANCE TO ASIA PACIFIC, 1996–2002 (C \$millions)

Country	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Asia Regional*	25.22	26.12	31.99	32.98	28.85	27.14
ASEAN	5.07	2.95	2.53	0.68	0.80	0.03
Bangladesh	67.94	65.77	56.04	56.66	39.23	53.77
Cambodia	4.56	4.69	5.01	3.57	9.89	13.11
China	52.69	49.06	67.14	47.05	49.03	50.68
East Timor	–	–	–	–	4.90	4.72
India	15.97	22.44	23.98	19.34	29.69	38.26
Indonesia	25.17	23.14	34.81	42.94	32.66	29.64
Laos	1.21	0.86	1.19	2.35	1.97	2.66
Malaysia	5.05	5.16	3.20	2.55	3.69	0.96
Nepal	10.14	7.86	7.51	9.71	11.32	9.41
Pakistan	13.15	12.08	23.68	22.00	22.51	18.00
Philippines	23.83	21.33	18.86	21.30	24.29	29.09
Sri Lanka	5.84	2.21	5.46	5.46	3.74	7.50
Thailand	14.50	12.07	8.18	6.91	5.02	6.15
Vietnam	17.68	18.06	17.23	26.99	25.14	33.96
Other Asia Pacific	2.12	7.36	10.84	5.59	4.27	7.28
Total ODA to Asia Pacific	290.14	281.16	317.29	306.08	297.00	322.36
% of Canadian ODA to Asia Pacific	16.00	17.37	18.05	16.70	16.31	16.41

Sources: Canadian International Development Agency, *Historical ODA System Database, 2000*; and *Statistical Report on Official Development Assistance, 1998-1999, 1999-2000, 2000-2001 and 2001-2002*. 28 April 2003. <www.acdi-cida.gc.ca>.

Notes: East Timor became an independent country, May 2002. *Funding provided for projects or assistance not geographically limited.

CIDA's emphasis on the comprehensive development model, geographic concentration and untied aid is in line with recent international efforts to make aid more effective. Whether this approach yields significantly different and measurable results in terms of poverty reduction is open to debate. The agency has moved to align its internal results framework with those of the UN's Millennium Development Goals.⁵ However, this may not be sufficient to measure CIDA's marginal impact on development outcomes, let alone report results to Parliament. The issue of measuring results is important, but it appears that neither CIDA nor the international aid community can yet translate work done under the comprehensive development model to measured changes in development outcomes.

In terms of geographic concentration, it is notable that Bangladesh is the only Asian country included on CIDA's list of poor countries. To be chosen, countries must fit CIDA's criteria of high levels of poverty (as measured by income per capita) and commitments to sound policies and development effectiveness (such as the rule of law, improved governance, poverty reduction, ending corruption and effective use of aid funds). Bangladesh has been the largest recipient of Canadian bilateral assistance in most recent years and appropriately remains a priority. Perhaps it is a good sign that other developing Asian countries are seen to have comparatively stronger economies, institutions and prospects, and are therefore not part of CIDA's focused attention. However, poverty is endemic in a majority of Asian countries. India, China, Indonesia and Pakistan together account for 746 million people living below the US\$1 per day international poverty line — accounting for roughly two-thirds of the world's poor.⁶ If anything, commitment to improved governance, poverty reduction and aid effectiveness is stronger in Asian countries than in many of the African countries on CIDA's enhanced partnership list. It will, therefore, be important for CIDA to expand its enhanced partnerships to willing Asian countries where substantial swaths of poverty persist. At the same time, CIDA will have to grapple with assistance to middle-income countries (many of them in Asia) and the issue of "graduation." While there is a strong case for ODA to be directed at LDCs, there are many international cooperation activi-

ties that should involve middle-income countries. CIDA is poorly equipped to manage this role.

It is encouraging that the federal government followed through on promises made at various international conferences held in 2001 and 2002. After achieving a string of healthy budget surpluses, the government finally feels it can afford to restore foreign aid and assert Canada as a more active participant in international development cooperation. More encouraging is the adoption of the broader policies, including those on market access and tied aid, that are needed if poverty is to be reduced substantially. In recognition of the government's efforts to turn intentions into actions, our grade in the area of Development Assistance is raised for the third year in a row, to "A-." CIDA's focus should now be to communicate the results of its higher levels of funding and their impacts on development outcomes in poor countries.

SECURITY RELATIONS

Security continued to command the much more prominent position in Canada's relations with Asia — a change in focus that began in the aftermath of the September 11, 2001, terrorist attacks in the United States. Ottawa's security establishment devoted much of its attention to participation in the war on terror.⁷ Throughout the year, Canada maintained a military presence in Asia through Operation Apollo, with naval and air forces deployed in the area around the Arabian Gulf and the Arabian Sea in support of the UN. For the first six months, Canadian ground forces were deployed in Afghanistan in support of the US military's hunt for remnants of the Taliban and al-Qaeda. However, as the year progressed, our role in Afghanistan changed from a combat presence to a strongly humanitarian involvement, marking a shift back to Canada's traditional emphasis in Asia on human security. This was in line with a subtle change in emphasis in Canada's overall foreign policy after Bill Graham succeeded John Manley as Minister of Foreign Affairs in January 2002. In contrast to Manley's robust support for a Canadian combat role in Afghanistan, Graham's past involvement in establishing the International Criminal Court, his background as a lawyer for international business and his advocacy for development and democratic

initiatives in less-developed countries seems a better fit with Canada's more traditional foreign policy priorities. However, the withdrawal from a combat role in Afghanistan was dictated by a shortage of military resources, rather than any policy shift by the minister.

Combat forces, primarily Princess Patricia's Canadian Light Infantry Battle Group, were deployed in Afghanistan through Operation Apollo and coalition operations Anaconda, Harpoon and TORII until July 13. Simultaneously, Canada pledged \$100 million in humanitarian assistance to support reconstruction and development efforts; governance, security and peace-building initiatives; and basic needs. However, the attempt to show the versatility of Canadian intervention led to questions about our ability to support both human security and military security policies at the same time. In November the Senate Standing Committee on Na-

tional Security and Defence published a report on the state of Canada's forces, stressing the need to formulate a clear framework for the development of foreign and defence policies in order to save Canada's cash-starved armed forces.⁸

As the year progressed and combat decreased, Canada was able to revert to a security role more suited to the state of Canada's defence forces. In November, Ottawa initiated Operation ACCIUS, deploying a senior Canadian Forces officer to Afghanistan to act as an adviser to the civilian-led UN Assistance Mission. This foreshadowed the return of Canadian ground forces in their more familiar role as UN peacekeepers. In this capacity, Canada will assist the UN in reconstruction, recovery and institution-building efforts in Afghanistan, rather than in combat operations against remnants of the Taleban.

CANADA'S MILITARY EXPORTS TO ASIA PACIFIC 1997-2001 (in C \$000s)

Country	1997	1998	1999	2000	2001
Australia	20,776	80,276	21,519	49,164	42,384
Bangladesh	1	-	920	-	-
Brunei	95	-	-	-	-
China	4	814	-	-	242
Hong Kong, SAR	9	371	12	120	40
India	-	-	-	-	-
Indonesia	191	4	21,764	161	109
Japan	743	3,764	3,173	7,471	10,815
Malaysia	2,890	91,792	5,882	2,101	10,485
New Zealand	4,680	769	2,945	4,553	6,728
Pakistan	370	2	-	-	-
Philippines	368	1,069	437	6,083	275
Singapore	2,231	2,857	1,089	2,423	5,882
South Korea	6,729	4,719	3,762	16,031	59,204
Sri Lanka	-	-	-	-	-
Taiwan	961	3,202	732	1,133	13,160
Thailand	14,680	37,175	5,268	1,442	219
Vietnam	491	-	-	-	-
Total Exports to Asia Pacific	55,219	226,814	67,503	90,682	149,543
Total Non-US Exports	304,268	421,354	433,973	477,611	591,984
Asia-Pacific % of Total					
Non-US Exports	18.1	53.8	15.6	19.0	25.3

Source: Department of Foreign Affairs and International Trade, Export and Import Controls Bureau, Export Controls Division, *Export of Military Goods from Canada: Annual Report, 1997-2001*. 21 February 2003. <<http://www.dfait-maeci.gc.ca/~eicb/>>.

Canada continued to support the United States in its war on terrorism through Operation Apollo, in spite of Ottawa's discomfort with a progressively more interventionist and unilateralist US foreign policy. This contrasted with strong and enthusiastic support from countries such as Britain and Australia, and caused some friction in US-Canada relations. President Bush's State of the Union address in January 2002, in which he defined an Axis of Evil made up of Iraq, Iran and North Korea, caused a dilemma for Canadian foreign policy as Ottawa continued to maintain diplomatic relations with all three states throughout 2002. After officially normalizing relations with North Korea in February 2001, and in the process of arranging for the exchange of ambassadors, Canada chose to maintain diplomatic relations with the North after the president's speech. However, Ottawa did nothing to encourage further development of relations. In October 2002, Canada cancelled a trip by Assistant Deputy Foreign Affairs Minister David Mulroney to Pyongyang after North Korea's renewed nuclear weapons program came to light. Later that month a North Korean delegation to Ottawa (to view possible sites for an embassy, scheduled to open in August 2003) was ignored by Canadian government officials. Both occasions offered an opportunity to talk with Pyongyang officials, seek to gain North Korea's trust and possibly aid in the establishment of future talks between the US, North Korea and other regional powers. Through this lack of action Canada forfeited a relationship with Pyongyang it had nurtured since the late 1990s through contacts and confidence-building measures in a series of Track II initiatives.

Canada was a little more adventurous in South Asia. Ottawa worked hard to re-establish its official ties with New Delhi, frozen after India tested a number of nuclear weapons in May 1998. A series of ministerial visits throughout the year and a Team Canada trade mission sought to regain commercial ground lost to other countries during the period of strained relations.⁹ However, conspicuously absent from the rapprochement was any renewed security dialogue. Reinforcing this was the much stronger reaction by Canada than other G-7 countries against India's Agni missile tests in late 2002, suggesting a poor appreciation of India's current mood and circumstances. In Sri Lanka, Canada played a useful role in peace

talks aimed at ending the long and bloody conflict between the government and the Liberation Tigers of Tamil Eelam (Tamil Tigers). Negotiations aimed at finding a long-term solution began after a ceasefire agreement was signed in February 2002. Although Canada did not have a direct role in the peace talks, it provided support for the process through several NGOs that advised on the mechanics of a possible federation as a way of accommodating Tamil demands for autonomy within Sri Lanka.

Canada actively promoted a human security agenda in Southeast Asia. Ottawa officially recognized the newly independent East Timor in May 2002. Canada ended Operation Toucan (mandated to assist the UN Transitional Administration in East Timor) in April 2001, but RCMP officers continued to assist in training East Timor's police force. In neighbouring Indonesia, the government in Jakarta and the Free Aceh Movement signed the Aceh Cessation of Hostilities Agreement in December, allowing for an immediate ceasefire in the strife-torn northern province and the start of peace talks (which ultimately failed). Canada pledged \$500,000 to aid in the implementation of the agreement. At the end of November, Canada closed its embassy in the Philippines citing a security threat, a decision that caused some strain in Philippines-Canada relations. The embassy was reopened on December 30 without incident.

Canada's return to a more traditional peacekeeping role in Afghanistan and its support for peace initiatives in South and Southeast Asia were more in keeping with its capabilities and middle-power status than the combat initiatives of 2001. However, consistency was lacking as Ottawa continued to maintain an active role in Operation Apollo while acting as peacekeepers elsewhere. In terms of impact, Canada's armed forces played a significant role in locating al-Qaeda and Taleban fighters in Afghanistan in the first part of 2002 and remained active in the Arabian Sea after the fighting in Afghanistan had abated. This played a major role in redefining Canada's commitment to Asia-Pacific security. Canada's cautious response to American pressure on the UN over Iraq at the end of 2002 indicated a more consistent projection of Canada's foreign policy for 2003. Unfortunately, Ottawa's inaction in the North Korea crisis represented a lost opportunity to positively influence security in the region.

Overall, Canada's security grade is raised from a "C" in 2001 to a "C+." This is due primarily to a projection of Canadian foreign policy more consistent with our strength and capabilities, although continuing policy ambivalence keeps it below the "B" awarded in 2000.

PROJECTION OF CANADIAN VALUES

Canada's goals in helping people in other countries understand and, hopefully, adopt the values that Canadians espouse remained unchanged last year from those set out in 1995 in the foreign policy document *Canada in the World*.¹⁰ Respect for human rights, participatory government, the rule of law and promotion of sustainable development continued to be key values on which policy proposals and implementation have been based, as well as explicit ends in themselves. These values are considered universal; their application is as relevant to Asia as to any other part of the globe. It is often difficult to isolate the "projection of values" goals from broader expressions of foreign policy or development assistance, as they underpin many of the programs Canada undertakes in developing countries. Nevertheless, as there has been no change in these goals in the past year, there is no reason to alter our assessment from previous Canada-Asia Report Cards that observed, "Our positions are well defined and in line with our international legal obligations." Fortunately, a review of the somewhat dated policy statement is at last under way, beginning with a "dialogue" on Canada's foreign priorities and directions initiated by Minister of Foreign Affairs Bill Graham.¹¹ Presumably this will make them more relevant to the conditions of Canadian engagement overseas, specifically in Asia. We live in a world in which non-state challenges to security have become a constant threat. The multilateral approach to global problems long favoured by Ottawa is being undermined by the unilateral path taken by our major ally since the Bush administration assumed office. These issues have raised important questions regarding the treatment of individuals and groups in conflict, as pointed out in *Canada Asia Review* last year.¹²

During 2002, Canada continued its involvement with a number of Asian countries in support of the advancement of human rights and good governance. However, it undertook none of the high-profile global ini-

tatives (such as the International Criminal Court or the Ottawa Convention on anti-personnel land mines) that had emerged from Ottawa in recent years (although in December, Canada joined many members of the international community in signing the Kyoto Accord on global warming). This was not surprising in light of the international situation, which focused more attention on war than on peace. The UN-sanctioned military intervention in Afghanistan was winding down, while a US-led strike against Iraq was building up. During the early months of the year Canadian forces were in action on the ground in Afghanistan, fighting against remnants of the Taleban and al-Qaeda in what was arguably an extreme example of Canada projecting its values abroad in support of better governance. Other activities in Afghanistan were less didactic. Canada is committed to supporting the humanitarian, transition and reconstruction efforts of the country. At the Tokyo Conference on the Reconstruction of Afghanistan in January 2002, CIDA pledged \$100 million, all of which was allocated during the year. Among the activities being supported are promotion of human rights — especially the rights of women — and provision of basic health care and education. The support during 2002 brought Canada's total assistance to the war-weary country to around \$260 million since 1990.¹³ In addition to bilateral programs, a long-term transition and reconstruction program is being developed in consultation with our partners in the international donor community.

Less publicized but potentially more influential work by Canada and Canadian organizations helped Sri Lanka develop a governance model envisioned by the ceasefire that halted the Tamil Tigers' long and bloody quest for a separate state in northeastern Sri Lanka. In September 2002, the Ottawa-based Forum of Federations and the Sri Lankan Centre for Policy Alternatives began a public education program aimed at providing understanding of the federal systems that could facilitate the goals of Tamil autonomy.¹⁴ The program is financed by CIDA and the Department of Foreign Affairs. The public education activities, with an emphasis on federal and multi-level models (including such issues as minority rights, intergovernmental relations and fiscal arrangements within federal systems), were part of a larger program in Sri Lanka that supported the country's peace

process. In addition, Forum experts, including former Ontario premier Bob Rae and University of Toronto political scientist Dr. David Cameron, provided direct advice to the negotiators. In December, the Sri Lanka government and the Tamil Tigers achieved a breakthrough when they issued a joint press release committing to some form of federal union as the foundation for the new peace.

In China — a country most Canadians place high on the human rights assistance priority list — Ottawa continued its involvement in various legal and judicial reform programs. It promoted human rights protection, the development of civil society and public participation in representative institutions and processes. A cleaner environment is one of the “Canadian values” supported by the CIDA-funded Canada-China Cooperation Project in Cleaner Production, which takes aim at emissions in the pulp and paper, fertilizer, oil extraction and brewing industries. It provides training and technical assistance to industries and government regulators to introduce cleaner production technologies. The project — its objective is to move pollution control from the end of the pipe to the beginning of the process — has already borne fruit. Better production methods have cut costs, increased productivity and reduced pollution in a number of demonstration cities. Building on experience with the Canadian-funded trials, the National People’s Congress approved a comprehensive new Cleaner Production Promotion Law.¹⁵ This new national policy is the most significant of a number of initiatives the Chinese government has taken to establish cleaner production nationwide as one of the nation’s key strategies for sustainable development.

CIDA is also helping Vietnam restore its environment, through the conservation and management of natural resources.¹⁶ It is working with the government to implement multilateral agreements such as the Kyoto Accord, to control pollution, to strengthen local capacity for strategic planning and policy implementation, and to manage natural resources. In one project, CIDA-supported technical cooperation has helped employees in the Department of Science, Technology and the Environment to increase their skill level, replacing an entrenched pollution-control mindset with more modern pollution-prevention approaches. The Vietnam-Canada Environment Project resulted in upgraded laboratory facilities and has

raised the credibility, reputation and use of departmental staff in environmental management issues.

In Cambodia, assistance is focused on good governance.¹⁷ CIDA is helping to improve the parliamentary and judicial systems, strengthen civil society (including advocacy groups and community-based organizations) and promote respect for human rights and democratic principles. Civil Society Initiative Fund programs implemented by local organizations have encouraged governors, militia members, police and government ministries to raise the quality of administration. A training course on political participation by women saw a sharp increase in their representation in decision-making positions: about 60% of those trained ran for local office, and more than a quarter of those candidates were elected.

Overall, last year was a period in which Canadian foreign policy marked time. The much-needed review of selected goals and tactics, launched in early 2003, the Foundation hopes will address some of the challenges faced in a unipolar world, where multilateralism seems to be threatened and important values traditionally espoused by Canada are being questioned. Meanwhile, the process of dialogue and exchange between officials from various nations (a continuing feature of multilateralism) remains an effective means of spreading Canadian convictions worldwide. Ottawa continued to apply this tactic in Asia last year with some success. There is no reason to vary the Report Card grade for the Projection of Canadian Values from the “B-” awarded for 2001.

MEDIA COVERAGE

Along with most Canadians, the attention of the media, beyond domestic issues, was drawn to the war in Afghanistan against al-Qaeda and the Taliban, especially the role of Canadian forces in those operations. This reached a peak after four soldiers were tragically killed in a US friendly fire accident during a night training exercise near Kandahar. Later in the year, the search for weapons of mass destruction (WMD) in Iraq, along with US manoeuvring at the UN to win support for military action and ongoing questions of Canadian participation in any war in Iraq became the top issues in foreign coverage. Although all these topics were of major importance, and each involved aspects of Canada’s relationship with

Asia, they also involve many issues that go well beyond the area of media coverage of Asia. For this reason, they were explicitly excluded when we asked a group of analysts and writers who are involved with Asian research and commentary to rank the most important events in Asia during 2002. We then examined the coverage of the top three nominated events to provide a yardstick for Canadian media coverage of Asia last year. While there was a range of opinions about what was important, there was considerable agreement about three events: the Bali bombing in October; North Korea's admission that it had pursued a secret nuclear arms program, also in October; and the change in leadership of the Chinese Communist Party at the Party Congress in November. We looked at the coverage provided in major Canadian media immediately before (in the case of the Chinese leadership change) and after (in all cases) the top three events selected. We also compared it with reporting on the same topics by several leading foreign publications.

Coincidentally, the events selected for examination offer three distinct types of stories. The Bali bombing was a typical, unexpected "disaster" story, but with important political and security implications. The North Korean nuclear admission, equally a surprise, at least when it was revealed publicly by the United States, set off a diplomatic crisis which, as in all diplomatic conflicts, required considerable explanation of context. The Chinese leadership change, the culmination of a long and quite deliberate process, held few surprises but was nonetheless very significant and warranted considerable analysis of its implications. How well served were Canadians by their media in covering these events and making them aware of their importance?

The Bali bombing caught everyone unprepared. The initial stories in Canadian media were graphic descriptions of an awful tragedy — the type of coverage at which new agencies excel — and all major media turned to the wire services for their initial reports. Although the event occurred far away from the bases of the few Canadian staff journalists in Asia, *The Globe and Mail* was quick off the mark in getting its own coverage through a Canadian stringer based in Jakarta.¹⁸ It also ran a number of good analytical pieces from well-informed writers based in the region, placing the event in the context of domestic Is-

lamic extremism. *The Toronto Star* was a little slower to react, falling back on agency coverage and Toronto-based commentary for the first week before sending in its own Hong Kong-based staff writer. Nevertheless, its columnists provided readers with good insight into the complexity of the situation in Indonesia, turning to Canadian experts for analysis. The CBC was also quick to provide in-depth analysis, relying mostly on Canadian experts in Southeast Asian affairs. The *National Post* opted to use agency copy for its coverage, which tended to place the Bali attack within a global pattern of terror, with analysis coming mostly from an American perspective. The paper also looked at the economic impacts of the attack, in line with its emphasis on economic rather than political coverage of Asia. The CTV network, unlike its print media partner *The Globe and Mail*, covered the bombing as part of the war on terror. *La Presse* carried extensive descriptive, rather than analytical, coverage. In general, however, Canadians had access to a range of information on what was certainly a confusing situation.

Canadian coverage compared well with the treatment of the attack by US media, which generally took the lead of the Bush administration and placed the bombing into a global framework of an al-Qaeda offensive. On the other hand, Asian media, not surprisingly, looked more closely at the situation in the region, examining the causes of Islamic extremism in Indonesia. The *South China Morning Post* was perhaps the best at this.

The second of the three events, North Korea's admission that it had maintained a secret nuclear weapons development program in contravention of a number of international agreements, presented several difficulties for media, focused as they were at that time on mounting American military pressure on Iraq. One was to find a context for the story amid the heated US rhetoric against WMD in Iraq. The second was the absence of Canadian journalists in Asia who might be able to give a perspective on the story independent from that of Washington. The result was a preponderance of coverage from the United States focused on how the US might deal with a North Korea that admitted to having WMD. There was relatively little examination of the reasons why the country might have activated and then revealed its nuclear program. Rather, media tended to fall back on characteri-

zations of the regime in Pyongyang as “bizarre,” “erratic,” “Stalinist” or just plain “secretive” to explain its actions. *The Globe and Mail* provided the best continuing coverage and provided some analysis from a Canadian source.¹⁹ However, most reporting came from US-based correspondents. The *National Post* offered somewhat less coverage, but sought out Canadian input. However, it did not seem to feel it necessary to try to explore why the North Koreans acted as they did. Like the *Globe*, *The Toronto Star* focused most of its attention on the US reaction, although it attempted some balanced analysis. In one sense the best coverage for Canadians came from the CBC, which offered an immediate, in-depth report on Pyongyang’s admission and what it meant. Although all the commentary came from US experts, this was preferable to CTV’s reporting, which, also based on US commentators, was somewhat alarmist. Francophone readers were offered surprisingly little coverage by *La Presse* in view of Québec’s traditionally great interest in Korea (and China).

US print media tended to provide more in-depth coverage of the issues than did Canadian papers. *The Washington Post*, although situated at the political centre of the US, nonetheless provided considerable nuanced, Asia-based comment on the story, examining North Korean motivations as well as the challenge for the US. Asian-based media similarly looked at both the North Korean and US sides of the issue. It was perhaps ironic that the Singapore *Straits Times* turned to a Canadian-based commentator for analysis of the North Koreans’ intentions.²⁰

Coverage of the leadership change in Beijing, the third of the selected events, ranged from adequate to very good. Because it was a scheduled event, news editors could plan in advance the resources (in terms of writers or editorial space) they could devote to the event. Most Canadian media seemed to think it was quite important and provided adequate coverage in terms of quantity, if not always depth. There were exceptions where reporting was much better than just “adequate,” notably in two papers that had their own correspondents in Beijing to cover the first institutionalized transfer of power in modern Chinese history. *The Globe and Mail*’s Beijing correspondent, Geoffrey York, provided not only excellent, in-depth reports, but also showed great enterprise

in locating the house where incoming party General Secretary Hu Jintao grew up and providing a fascinating insight into the then largely unknown new leader.²¹ The other national daily, the *National Post*, relied on wire services, with added commentary from North American-based staff to keep its readers informed. As a result, its coverage tended to be rather bland, and often dismissive, rather than insightful. *The Toronto Star* sent its Hong Kong-based Asia correspondent to Beijing for the Party Congress. The result was good, continuing coverage and analysis for its readers. CBC-TV, which also has its own correspondent based in China, offered surprisingly shallow reporting in its news programs, although it did rather better in its current affairs shows. The CTV network virtually ignored the event.

Major media in the US, with considerable staff posted in Beijing, generally offered extensive, in-depth reporting on the Party Congress — not surprising, in view of the complex relationship between Washington and Beijing. *The Washington Post*, for example, ran extensive coverage: well informed, if a little colourless. *The Globe and Mail*’s reporting held up well in comparison. East Asian media, too, gave the leadership change extensive space. The *South China Morning Post* provided voluminous coverage. The Singapore *Straits Times* was more restrained but nevertheless offered perceptive analysis, especially looking at the regional implications of a new leadership in Beijing. Only in India, among major Asian nations, did media show little interest.

Overall, Canadians had access to a broad and fairly perceptive range of coverage of the events selected for comparison. Newspaper readers were often better served than TV viewers, which is unfortunate as surveys show most Canadians get their news from TV rather than newspapers. As *Canada Asia Review* has noted previously,²² Canadian staff correspondents generally offer more insight and context to events (and are awarded more space for their reports) for a Canadian audience than do the alternative news agency sources. The absence of staff writers or broadcasters from all but one Asian country, China, is an impediment to better Canadian understanding of events in Asia. Still, this situation is unchanged from last year so does not affect the steady grade of “B” awarded to this aspect of Canada-Asia relations.

NOTES

Chapter 1

1. Asia Pacific Foundation of Canada, *Asian Investment Intentions Survey, 2001, 2002 and 2003*. 28 August 2003. <<http://www.asiapacific.ca/analysis/pubs/index.cfm#13>> and “Canadian Investments, Mergers and Acquisitions Increasing in Asia,” February 1, 2002. 28 August 2003. <<http://www.asiapacific.ca/about/pressreleases/surveyasia.cfm>>.
2. Consensus Economics forecasts put Indonesian GDP growth in 2003 at 3.5%. If achieved, this would take the country’s economic output slightly above that of 1997. Consensus Economics Inc., *Asia Pacific Consensus Forecasts, July 14, 2003* (London: Consensus Economics Inc., 2003).
3. Trade data from Industry Canada, *Trade Data Online*. 2 and 3 September, 2003. <http://strategis.ic.gc.ca/sc_mrkti/tdst/engdoc/tr_homep.html>.
4. The dialogue was launched on January 22, 2003, with the publication of a dialogue discussion paper as found on the Department of Foreign Affairs and International Trade (DFAIT) website, *A Dialogue on Foreign Policy: Discussion Paper*, January 2003. 2 September 2003. <<http://www.foreign-policy-dialogue.ca/pdf/DialogueEng.pdf?SESSION=0dcd91d1aa0a2c878982f334cda7b6f8>>.
5. DFAIT, *Canada in the World, Canadian Foreign Policy Review, 1995*. 2 July 2003. <http://www.dfait-maeci.gc.ca/foreign_policy/cnd-world/menu-en.asp>.
6. APF Canada made a formal submission to the dialogue as discussed in detail in Chapters 3 and 4.

Chapter 2

1. Canada’s foreign policy was formally set out in Department of Foreign Affairs and International Trade, *Canada in the World, Canadian Foreign Policy Review, 1995*. 2 July 2003. <http://www.dfait-maeci.gc.ca/foreign_policy/cnd-world/menu-en.asp>.
2. From 1995 to 2001, China’s economy grew by about 72%; India, 46%; while the economy of Japan, the traditional economic powerhouse in Asia, grew by only about 7%.
3. See Privy Council Office, *The Canada We Want, Speech from the Throne*, September 30, 2002. 2 July 2003. <http://www.pco-bcp.gc.ca/sft-ddt/hnav/hnav07_e.htm>. The foreign policy dialogue started as a recognition of the need for a full policy review and was progressively downgraded to first an “update” and then a “dialogue.” The timing of the “dialogue” (at the end of the Chrétien administration) seems somewhat unusual. However, it is to be hoped that the new administration will adopt the good ideas coming from the dialogue.
4. See Asia Pacific Foundation of Canada, *Submission to the Dialogue on Canadian Foreign Policy*, April 2003. 2 July 2003. <<http://www.asiapacificresearch.ca/caprn/discussion/papers/apfc.pdf>>.

5. DFAIT, *Fourth Annual Report on Canada's State of Trade*, May 2003. 2 July 2003. <http://www.dfait-maeci.gc.ca/eet/pdf/SOT_2003-en.pdf>.

6. Canada's market share figures, unless otherwise stated, are calculated using data from the International Monetary Fund, *Direction of Trade Statistics Quarterly, June 2003* (Washington, DC: IMF, 2003).

7. Canada's FDI share in China for 2001. Calculated using figures from DFAIT, *Canadian Direct Investment Abroad*, May 26, 2003. (From Statistics Canada, CANSIM Table 376-0051.) 17 July 2003. <<http://www.dfait-maeci.gc.ca/eet/pdf/CIIP02-en.pdf>>; and United Nations Conference on Trade and Development, *World Investment Report 2002; Transnational Corporations and Export Competitiveness*. (Geneva: UN, 2002).

8. Tokyo Stock Exchange, *2002 Shareownership Survey*. 23 July 2003. <<http://www.tse.or.jp/english/data/research/english2002.pdf>>.

9. The electoral reforms replaced the old system of a single non-transferable vote in multi-party constituencies, with a mixed system of 300 first-past-the-post, single-member districts and 180 seats allocated by proportional representation. It was expected that the changes would lead to a fairly balanced two-party system, however, this did not happen.

10. Natsuko Segawa, "NPOs Tap Volunteers to Better Society, Revitalize Economy," *Nihon Keizai Shimbun, Inc.*, February 4, 2002.

11. Reeta Chowdhari Tremblay, "Canada-India Relations: The Need to Re-Engage," research paper prepared for APF Canada's Roundtable on the Foreign Policy Dialogue and Canada-Asia Relations, March 27, 2003. 24 July 2003. <http://www.asiapacificresearch.ca/caprn/discussion/tremblay_mar03.pdf>.

Chapter 3

1. Leaders of the Asia-Pacific Economic Cooperation forum in November 1994 adopted the Bogor Declaration calling for "free and open trade and investment in the Asia-Pacific no later than the year 2020." Asia-Pacific Economic Cooperation, *APEC Economic Leaders' Declaration of Common Resolve*, November 15, 1994. 30 June 2003. <<http://www.apecsec.org.sg/loadall.htm?http://www.apecsec.org.sg/virtualib/econlead/bogor.html>>.

2. For example, as part of an extensive survey by the Pew Research Center for The People and The Press of attitudes toward the US in the aftermath of the Iraq war, it was found that 74% of people in Indonesia and 72% in Pakistan view the US as a potential military threat. In Indonesia, only 15% of those interviewed held a favourable attitude toward the US. The Pew Research Center for The People and The Press, *Views of a Changing World*, June 2003. 30 June 2003. <<http://people-press.org/reports/pdf/185.pdf>>, p. 2-3.

3. In Indonesia, the survey by the Pew Research Center found that between mid-2002 and mid-2003, those holding an unfavourable attitude toward the US climbed from 36% to 83%. The Pew Research Center for The People and The Press, *Views of a Changing World*, June 2003. 30 June 2003. <[\[press.org/reports/pdf/185.pdf\]\(http://people-press.org/reports/pdf/185.pdf\)>, p. 20.](http://people-</p></div><div data-bbox=)

4. See Asia Pacific Foundation of Canada, *Chronology*, May 7, 2002. 8 September 2003, <<http://www.asiapacific.ca/data/chronology/index.cfm>>.

5. Citizenship and Immigration Canada, *Six Selection Factors and Pass Mark*. 2 July 2003. <<http://www.cic.gc.ca/english/skilled/qual-5.html>>.

6. APF Canada, *Asian-Canadians and Canada's International Relations*. 2 July 2003. <http://www.asiapacificresearch.ca/caprn/discussion/szonyi_mar03.pdf>.

7. Since 1977, Canadian citizens have been allowed to hold one or more other citizenships.

8. APF Canada, *Asian Canadians, Canada's Hidden Advantage* (Vancouver: APF Canada, 1994). This early study of the benefits of transpacific linkages of Asian immigration did not consider the question of transnationalism, which is a quite recent phenomenon.

Chapter 4

1. GDP figures for developing Asia are calculated using data from the Asian Development Bank, *Asian Development Outlook 2003*. 13 May 2003. <<http://www.adb.org/documents/books/ado/2003/ado2003.pdf>>.

2. In East Timor, Xanana Gusmao was elected president in the newly independent country's first elections.

3. Some remembered that her father, the late president Dadong Macapagal, had made the same promise only to later change his mind.

4. Dong Fu and Jahyeong Koo, "Latest Economic Developments in China," *Expand Your Insight* (Federal Reserve Bank of Dallas), January 31, 2003. 17 July 2003. <<http://www.dallasfed.org/eiy/global/0302china.html>>.

5. Association of Southeast Asian Nations, *Framework Agreement on Comprehensive Economic Co-operation Between the Association of South East Asian Nations and the People's Republic of China*. 17 July 2003. <<http://www.aseansec.org/13196.htm>>.

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7. Gordon C. Chang, "The Capital Needs of the People's Republic of China (2001-2005), Appendix 1," US-China Economic and Security Review contracted research paper. 17 July 2003. <<http://www.uscc.gov/chapp1.pdf>>.

8. International Monetary Fund, *Direction of Trade Statistics Quarterly, June 2003* (Washington, DC: IMF, 2003) and IMF, *Direction of Trade Statistics Yearbook 2002* (Washington, DC: IMF, 2002).

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14. Government of the United States of America, The White House, "President Delivers State of the Union Address," January 29, 2002. 17 July 2003. <<http://www.whitehouse.gov/news/releases/2002/01/20020129-11.html>>.
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- Chapter 5**
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3. This statement refers to the content of the press release that accompanied *Opening Doors to the World: Canada's International Market Access Priorities – 2002*, last year's version of the annual compendium of Canadian trade policy goals and achievements. The full document, which goes into more than 100 pages of detail on a market-by-market basis, does devote specific attention to individual Asian markets. We focus on the summary material contained in the press release, which presumably contains the material deemed to be most important. Further details can be found at Department of Foreign Affairs and International Trade, *Market Access Report Outlines Canada's Trade Priorities*, April 16, 2002. 31 July 2003. <http://webapps.dfait-maeci.gc.ca/minpub/Publication.asp?FileSpec=/Min_Pub_Docs/105084.htm&bPrint=False&Year=&ID=&Language=E>.
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11. Government of the United States, Office of Travel and Tourism Industries, *Asian Arrivals to the U.S.* 26 August 2003. <http://www.tinet.ita.doc.gov/view/f-2002-418-001/index.html?ti_cart_cookie=20030821.133415.26026>.
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Chapter 6

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STATISTICAL APPENDIX

GROWTH IN SELECTED COUNTRIES (real GDP, % per year)

Country	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Average Growth
											1993–2002
China	13.5	12.6	10.5	9.6	8.8	7.8	7.1	8.0	7.3	8.0	9.3
India	6.0	7.8	7.2	7.5	4.8	6.5	6.1	4.4	5.6	4.4	6.0
Indonesia	7.3	7.5	8.2	8.0	4.7	-13.1	0.8	4.8	3.3	3.7	3.5
Japan	0.5	1.0	1.8	3.5	1.9	-1.1	0.2	2.8	0.4	0.3	1.1
Malaysia	8.3	9.2	9.5	8.6	7.3	-7.4	6.1	8.3	0.4	4.2	5.5
Singapore	10.4	10.5	8.7	6.9	8.5	-0.1	6.4	9.4	-2.4	2.2	6.1
South Korea	5.8	8.6	8.9	7.1	5.0	-6.7	10.9	9.3	3.1	6.3	5.8
Taiwan	6.3	6.5	6.0	5.7	6.7	4.6	5.4	5.9	-2.2	3.5	4.8
Thailand	8.7	8.6	8.8	5.5	-1.4	-10.5	4.4	4.6	1.9	5.2	3.6
USA	2.7	4.0	2.7	3.6	4.4	4.3	4.1	3.8	0.3	2.4	3.2
Canada	2.3	4.7	2.8	1.6	4.2	4.1	5.4	4.5	1.5	3.4	3.5

Sources: Asian Development Bank. 28 April 2003. <<http://www.adb.org>>, and International Monetary Fund. 29 April 2003. <<http://www.imf.org>>.

Note: Asian data (except Japan) 1993–2002 was taken from the Asian Development Bank, *Asian Development Outlook*, 1998 and 2003. Figures for Japan, USA and Canada 1993–2002 were taken from the International Monetary Fund, *World Economic Outlook*, May 2001 and April 2003.

CANADIAN TOURISTS VISITING ASIA PACIFIC (in 000s)

Top Destinations	2000	2001	% Change
Australia	87	107	23.0
China	92	107	16.3
Hong Kong, SAR	97	130	34.0
India	43	57	32.6
Indonesia	27	51	88.9
Japan	120	122	1.7
Malaysia	20	30	50.0
New Zealand	36	43	19.4
Philippines	50	43	-14.0
Singapore	37	65	75.7
Taiwan	31	44	41.9
Thailand	44	79	79.5
Other Asia Pacific	61	87	42.6
Total Asia Pacific	745	965	29.5

Source: Adapted from Statistics Canada, Culture, Tourism and the Centre for Education Statistics (2003).

CANADA'S MERCHANDISE TRADE WITH THE WORLD (2002)

CANADIAN IMPORTS FROM THE WORLD			CANADIAN EXPORTS TO THE WORLD	
	Merchandise Classification	%	Merchandise Classification	%
1	Motor vehicles, 1500–3000 cc	4.3	Motor vehicles, over 3000 cc	11.4
2	Crude petroleum oils	3.4	Natural gas	5.0
3	Motor vehicles, over 3000 cc	2.8	Crude petroleum oils	4.9
4	Motor vehicles, body parts	2.6	Trucks, 5 tonnes or less	3.5
5	Motor vehicles, other parts	2.0	Lumber, coniferous	2.8
6	Engines for vehicles over 1000 cc	1.8	Motor vehicles, 1500–3000 cc	2.1
7	Medicines	1.4	Newsprint	1.7
8	Trucks, 5 tonnes or less	1.4	Motor vehicles, other parts	1.7
9	Motor vehicles, gear boxes	1.1	Airplanes, 2000–15000 kg	1.6
10	Parts and accessories for computers	1.1	Motor vehicles, body parts	1.3
	Top 10 as % of Total from the World	22.0	Top 10 as % of Total to the World	36.1

Source: Industry Canada, *Trade Data Online*. 16 June 2003. <http://strategis.ic.gc.ca/sc_mrkti/tdst/engdoc/tr_homep.html>.
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CANADA'S MERCHANDISE TRADE WITH ASIA PACIFIC (2002)

CANADIAN IMPORTS FROM ASIA PACIFIC			CANADIAN EXPORTS TO ASIA PACIFIC	
	Merchandise Classification	%	Merchandise Classification	%
1	Motor vehicles, 1500–3000 cc	8.9	Lumber	7.5
2	Parts and accessories for computers	2.8	Chemical wood pulp, coniferous	5.3
3	Input/output units for computers	2.4	Fertilizer (potassium chloride)	4.7
4	Digital Integrated Circuits, MOS	2.1	Coal (not agglomerated)	4.6
5	Portable computers, 11 kg or less	1.7	Meslin and wheat	3.7
6	Transmission/reception apparatus	1.6	Rape (canola) seeds	3.4
7	Storage units for computers	1.5	Semi-chemical wood pulp	2.9
8	Motor vehicles, 1000–1500 cc	1.1	Swine, cuts boneless and frozen	2.4
9	Video cameras and recorders	1.0	Ethylene Glycol (Ethanediol)	2.2
10	Aluminum oxides (not artificial corundum)	0.9	Airplanes, 2000–15000 kg	2.0
	Top 10 as % of Total from Asia Pacific	24.2	Top 10 as % of Total to Asia Pacific	38.8
	Asia–Pacific Imports as % of Canadian Total	15.2	Asia–Pacific Exports as % of Canadian Total	5.6

Source: Industry Canada, *Trade Data Online*. 16 June 2003. <http://strategis.ic.gc.ca/sc_mrkti/tdst/engdoc/tr_homep.html>.
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ASIAN MOTHER TONGUES OF CANADIANS (% of population)

Mother Tongue	CENSUS YEARS				
	1981	1986	1991	1996	2001*
Chinese	0.9	1.1	1.8	2.5	2.9
Korean	0.1	0.1	0.1	0.2	0.3
Tagalog (Filipino)	0.2	0.2	0.4	0.5	0.6
Vietnamese	0.1	0.2	0.3	0.4	0.4
Other Southeast Asian	0.1	0.1	0.2	0.2	0.2
Punjabi	0.2	0.3	0.5	0.7	0.9
Gujarati	0.0	0.0	0.1	0.2	0.2
Hindi	0.1	0.1	0.1	0.1	0.2
Tamil	0.0	0.0	0.1	0.2	0.3
Urdu	0.1	0.0	0.1	0.1	0.3
Other Asian languages	0.2	0.2	0.2	0.3	0.4
Total Asian Languages	2.0	2.1	4.0	5.4	6.6
Total Population	24,083,495	25,309,330	26,994,045	28,528,125	31,110,600

Sources: Adapted from the following Statistics Canada publications: *Population, Mother Tongue: Canada, Provinces, Urban Size Groups, Rural Non-farm and Rural Farm*, Catalogue 92-902, 1982; *Language, Part 1*, Catalogue 93-102, 1987; *1996 Census Nation Series*, Catalogue 93F0020, September 1998; and from the Statistics Canada website. 17 December 2002. <<http://www.statcan.ca/english/IPS/Data/97F0007XIE2001001.htm>>.

Notes: Mother Tongue is the first language learned by a child. Statistics based on 20% sample data for 1991–2001.

* Percentages calculated with total (single and multiple) census responses rather than total Canadian population.

ASIAN ETHNICITY OF CANADIANS (% of population)

Ethnic Origin	CENSUS YEARS				
	1981	1986	1991	1996	2001*
Chinese (includes Taiwan)	1.2	1.4	2.2	2.8	3.2
East Indian	0.3	0.9	1.2	1.5	2.0
Filipino	0.3	0.4	0.6	0.7	0.9
Vietnamese	0.1	0.2	0.3	0.4	0.4
Korean	0.1	0.1	0.2	0.2	0.3
Japanese	0.2	0.2	0.2	0.2	0.2
Pakistani	0.1	0.1	0.1	0.1	0.2
Other Southeast Asian	0.1	0.1	0.1	0.1	0.1
Other Asian	0.5	0.1	0.2	0.4	0.6
Total Asian	2.8	3.4	5.1	6.5	7.9
Total Population	24,083,495	25,309,330	26,994,045	28,528,125	31,110,600

Sources: Adapted from Statistics Canada, *1981–1996 Census Nation Series*; and Statistics Canada, *Ethnic Origin. 2001 Census of Canada*. Catalogue no. 97F0010XCB01001. Statistics Canada websites. 22 January 2003. <<http://www12.statcan.ca/english/census01/products/standard/themes/index.cfm>>, <<http://www.statcan.ca/english/IPS/Data/97F0010XIE2001001.htm>>.

Notes: Ethnic or cultural origin refers to the ethnic “roots” or ancestral background of the population, and should not be confused with citizenship or nationality. Figures are taken from the single response category of the various censuses.

* 2001 percentages calculated with total (single and multiple) census responses rather than total Canadian population.

TOP ASIA-PACIFIC IMMIGRATION DESTINATIONS, BY CITY (2002)

Country	VANCOUVER		CALGARY		TORONTO		MONTREAL	
	Number	% Asia-Pacific Total	Number	% Asia-Pacific Total	Number	% Asia-Pacific Total	Number	% Asia-Pacific Total
Bangladesh	107	0.5	67	1.4	1,673	2.6	403	5.3
China	7,645	35.8	1,058	22.7	17,582	27.3	2,761	36.1
Hong Kong, SAR	482	2.3	70	1.5	745	1.2	87	1.1
India	3,950	18.5	1,108	23.7	18,292	28.4	983	12.9
Pakistan	619	2.9	649	13.9	10,359	16.1	1,054	13.8
Philippines	2,453	11.5	659	14.1	5,259	8.2	348	4.6
South Korea	2,168	10.2	486	10.4	2,976	4.6	517	6.8
Sri Lanka	195	0.9	24	0.5	3,713	5.8	775	10.1
Taiwan	1,863	8.7	67	1.4	546	0.8	191	2.5
Vietnam	260	1.2	164	3.5	930	1.4	237	3.1
Other Asia Pacific	1,590	7.5	314	6.7	2,399	3.7	291	3.8
Total Asia Pacific	21,332		4,666		64,474		7,647	

Source: Citizenship and Immigration Canada (2003).

IMPORTANCE OF CANADA TO ASIA-PACIFIC TRADE PARTNERS (2002)

Country	CANADA'S RANKING	
	Imports	Exports
Australia	14	15
China	14	8
Hong Kong, SAR	19	11
India	27	15
Indonesia	19	20
Japan	11	13
Malaysia	22	17
Singapore	23	32
South Korea	20	10
Taiwan	20	15
Thailand	26	17
Canada in the global market	7	8

Sources: International Monetary Fund, *Direction of Trade Statistics Quarterly*, June 2003; and Republic of China, Bureau of Foreign Trade. 7 March 2003. <<http://www.trade.gov.tw>>.

Note: Ranking of imports and exports of the partners listed from and to Canada.

IMPORTANCE OF ASIA-PACIFIC TRADE PARTNERS TO CANADA

Rank	1992		1997		2002	
	Country	% Asia-Pacific Trade	Country	% Asia-Pacific Trade	Country	% Asia-Pacific Trade
1	Japan	47.17	Japan	39.41	Japan	32.32
2	China	11.90	China	14.52	China	26.69
3	Taiwan	8.88	South Korea	9.73	South Korea	9.30
4	South Korea	8.87	Taiwan	8.44	Taiwan	7.27
5	Hong Kong, SAR	4.91	Hong Kong, SAR	4.89	Australia	3.77
6	Australia	3.65	Malaysia	4.47	Malaysia	3.37
7	Singapore	2.51	Australia	3.57	Thailand	3.09
8	Thailand	2.36	Singapore	2.82	Hong Kong, SAR	2.85
9	Malaysia	2.17	Thailand	2.71	India	2.70
10	Indonesia	2.15	Indonesia	2.67	Indonesia	1.96

Source: Industry Canada, *Trade Data Online*. 18 June 2003. <http://strategis.ic.gc.ca/sc_mrkti/tdst/engdoc/tr_homep.html>.

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Note: Total of exports to Asia Pacific and imports arriving from Asia Pacific. Percentage figures represent proportion of total trade with Asia Pacific. Indonesian figures include East Timor.

CANADA'S TRADE IN SERVICES WITH ASIA PACIFIC (C \$millions)

Country	1998		1999		2000	
	Receipts	Payments	Receipts	Payments	Receipts	Payments
Australia	429	473	463	449	549	431
China	546	420	551	443	623	528
Hong Kong, SAR	707	775	676	751	766	739
India	146	121	172	120	195	137
Indonesia	264	158	224	159	212	145
Japan	1,526	1,311	1,617	1,802	1,794	1,997
New Zealand	102	114	81	79	94	118
Malaysia	138	95	174	98	143	106
Pakistan	96	27	85	33	93	39
Philippines	133	196	127	189	137	214
Singapore	208	455	198	581	227	602
South Korea	416	181	474	170	579	236
Taiwan	425	183	504	234	537	225
Thailand	119	103	98	100	85	98
Vietnam	30	18	36	25	38	22
Total Asia Pacific	5,285	4,630	5,480	5,233	6,072	5,637
Services Trade with Asia Pacific as % of Canadian Total	10.5	8.2	10.3	8.7	10.6	8.7

Source: Adapted from Statistics Canada, *Canada's International Trade in Services with Selected Countries*. CANSIM II Table 376-0036. 27 March 2003. <http://www.dfait-maeci.gc.ca/eet/CIMT/2001/intern_trade_in_services_2001-en.asp>, <<http://cansim2.statcan.ca>>.