

Commentary



APRIL 2021

Connecting after COVID: How Canada and its allies can partner on Indo-Pacific infrastructure and trade

Infrastructure development is sorely needed in the Indo-Pacific region to sustain growth among large and mid-sized economies alike. The Asian Development Bank estimates that more than US\$25 trillion will be needed by 2030. The region also continues to evolve when it comes to trade and the importance of supply chains. Under Japan's leadership, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) has now been put in force – and next steps in terms of trade policy sorely need to be discussed. In addition to the CPTPP, another regional trade agreement – the Regional Comprehensive Economic Partnership (RCEP) – was signed last year.

Importantly, Canada has an opportunity to join the United States, Japan, Australia, and European countries (among others) in proposing a sustainable trade and investment strategy based on fair-lending, transparent institutions, and long-term growth.

To shed light on these issues, MLI hosted an event with experts from like-minded countries to discuss infrastructure development and trade in the Indo-Pacific, and what role Canada might play in these shifting dynamics.

We are pleased to release an edited transcript of the presentations from this event.

Jonathan Berkshire Miller:

Good evening (or morning for those who are joining us from Asia). Welcome and thank you for joining us today.

My name is Jonathan Berkshire Miller and I am director and senior fellow of the Indo-Pacific program at the Macdonald-Laurier Institute. It is my great pleasure today to be your moderator for what I'm sure will be a dynamic and timely discussion on the challenges and opportunities facing the Indo-Pacific region.

This session will be focusing in particular on infrastructure development, trade, and the future of economic governance.

Simply put, infrastructure development is sorely needed in the Indo-Pacific region to sustain growth amongst large and mid-sized economies alike. The Asian Development Bank estimates that more than US\$25 trillion will be needed by the end of this decade. As the G20 noted under Japan's Chair in 2020, infrastructure is a driver of economic prosperity, it provides a solid basis for strong, sustainable, balanced and inclusive growth. Nonetheless, the world still faces a massive gap in financing for investment in new and existing infrastructure, which could generate a serious bottleneck to economic growth and development.

The Indo-Pacific region also continues to evolve when it comes to trade in the importance of supply chains. Economic governance and trade are also key measuring sticks for a free and open Indo-Pacific region. The CPTPP, or TPP-11, has now been put in force and further steps in terms of trade policy are sorely needed to be discussed. In addition to this, another regional trade agreement, the Regional Comprehensive Economic Partnership was signed last year. Importantly, Canada has an opportunity to join the United States, Japan, Australia, European countries and others, in proposing a sustainable trade and investment strategy based on fair lending, transparent institutions in long-term growth.

To begin our discussion, we're delighted to welcome to our platform Japan's Ambassador to Canada, his Excellency Yasahesa Kawamura.

Japan continues to be not only a key friend and partner for Canada in this region but also an essential proponent of strong economic governance, trade integration and infrastructure development.

I'd like to hand the virtual floor over to Ambassador Kawamura, but before doing so, I'd like to briefly introduce him.

Before coming to Canada, Ambassador Kawamura served as Ambassador and Deputy Representative of Japan to the United Nations between 2017 and 2019. He has also served in a range of senior roles in Japan's foreign ministry, including as press secretary and director general for press and public diplomacy. Ambassador Kawamura is also one of Japan's most seasoned diplomats with overseas postings in New York, Delhi, Indonesia, Brussels and elsewhere. He continues to be a good friend and a strong proponent of strengthening Japan-Canada relations, both on the official track but also through his robust and keen engagement with public policy institutes such as Macdonald-Laurier Institute, which we are eminently grateful.

Ambassador, the floor is yours.

Ambassador Kawamura:

Thank you, Jonathan.

Good evening and good morning, everybody on and behind the screen.

Looking over the past year, COVID-19 has not only threatened public health in the world but also accelerated the world division in which the rule-based international order has been challenged. The Government of Japan has been emphasizing the importance of multilateralism and leading efforts towards international unity and cooperation in order to realize a world that respects fundamental values and the rule of law, especially within regard to Japan's Free and Open Indo-Pacific (FOIP) vision.

Japan and Canada which have the Pacific Ocean in between them, share values including the rule of law and free trade and have been working for the realization of such values, for example, through close collaboration in the G7. In recent years, Japan and Canada strengthened their collaboration both in security and economic areas. For example, through cooperation in monitoring ship-to-ship transfers, which aims to target North Korea's circumvention of numerous United Nations Security Council resolutions, and enacting the CPTPP. Our two prime ministers also agreed to enhance our countries' strategic partnership and their FOIP vision.

The Indo-Pacific region accounts for 50 percent of the world's population. The region, which also connects strongly with Africa, has been the centre of world economic growth. The prosperity and stability of the region will have a direct impact on the prosperity and stability of the world.

The rise of unilateralism was seen internationally even before the COVID-19 crisis. Facing such a move, Japan realized the importance of enhancing a free trade regime and made an effort to conclude CPTPP with 11 member states in the Indo-Pacific region in 2018. CPTPP, for example, prohibits non-commercial assistance by state-owned enterprises, which would cause adverse effect or injury to another party, and prohibits data localization requirements for electronic commerce. It also includes strict regulation to address counterfeiting and piracy.

CPTPP aims to promote such high standards and well-balanced rules in the Indo-Pacific region and in the world. In that sense, interests shown by many economies in CPTPP are a welcome move, as it shows that CPTPP is highly valued. The Government of Japan, as the Chair of CPTPP this year, will look closely at the interests of non-member economies. Japan considers it important to commit to the high standard rules of CPTPP, while also overseeing its steady implementation and a possible expansion by taking into account strategic points of view.

In recent years, Japan and Canada strengthened their collaboration both in security and economic areas.

COVID-19 shut down the global supply chain in its early stages, for example, by export restrictions and border closures. This made the enhancement of a free trade regime and resilient supply chain even more important. Japanese Prime Minister Yoshihide Suga repeatedly stated his determination to facilitate an economic order based on free and fair rules. Even in the COVID era, the Government of Japan signed a comprehensive economic partnership agreement with the UK last October and the Regional Comprehensive Economic Partnership (RCEP) last November with 15 Asia-Pacific countries.

RCEP is an economic partnership agreement that includes countries with different systems and different economic sizes, although it differentiates itself from CPTPP in its member states, backgrounds and conditions. It is a meaningful agreement from the standpoint that it includes the rule for intellectual property and electronic commerce. It improves market access for goods and services, and its member states account for 30 percent of the world trade volume, as well as population.

In the post-COVID era, where we will see more remote work and digitalization, it is also important to make new rules to create a business environment in which cyberspace would be protected and companies will be able to conduct business at ease. The Canadian Centre for Cyber Security, for example, pointed out in its *National Cyber Threat Assessment 2020* that the number of cyber threat actors is rising and state-sponsored actors will almost certainly continue to conduct commercial espionage against businesses, academia, and governments to steal intellectual property and proprietary information.

At the G20 Osaka Summit, Japan launched the Osaka Track, which aims to promote international rule-making on digital economy, especially on data flow and electronic commerce. Japan has been working together with partner countries to create the rules, based on the concept of Data Free Flow with Trust (DFFT), for example, by leading discussion in the World Trade Organization (WTO) meeting for exploratory work on electronic commerce as co-conveners.

In addition to rule-making, it is important to develop hard infrastructure in order to realize resilient supply chains. In the Indo-Pacific region, Japan has been supporting the construction of economic corridors by connecting countries with high quality infrastructure in order to achieve development in the region as a whole.

Since 2018, Japan has been collaborating with the United States and Australia in this endeavour. At the G20 Osaka Summit, G20 principles for quality infrastructure investment were endorsed. These highlighted the importance of introducing clear rules, a solid system and good governance, such as openness, transparency, economic efficiency and debt susceptibility in infrastructure investment. Japan considers it is important to work with other countries, under the principle of multilateralism, to enhance a free trade regime, resilient supply chains and creating rules based on the DFFT.

I look forward to in-depth discussion in this webinar, and I hope it will lead to Japan's further cooperation with Canada and other countries in the Indo-Pacific. Thank you.

Jonathan Berkshire Miller:

Thank you so much, Ambassador.

I think we can learn a lot from Japan's leadership experience and wisdom on many of these issues and I think this provides a per-

fect segue to some of the topics that we'll discuss today. I think you highlighted a number of them here – Japan's role in the G20 and its overall leadership role, which I think sometimes is taken for granted. But getting the CPTPP across the finish line was a fundamentally difficult thing to do. I think Japan's leadership in doing that, and now Canada's position as a member of that agreement, are very important elements.

Another area that I think Japan has been very influential is the Asian Development Bank. Other members states, including Canada, have been founding members of it. But I don't think this organization gets as much attention as it should. On that note, I am very glad that we have joining us today Bart Édes, who is a former official of the Asian Development Bank. He's a distinguished fellow with the Asia-Pacific Foundation in Canada. He also has an affiliation with CSIS in Washington, DC And he's the author of a book called *Learning from Tomorrow Using Strategic Foresight to Prepare for the Next Big Disruption*, which I think is extremely timely. Bart, happy to have your remarks, please.

Bart Édes:

Jonathan, thank you very much.

I do want to talk about the role of the multilateral development banks (MDBs) including the one I just worked at for the last 20 years, the Asian Development Bank. But I first want to make a couple of points leading into that. The first one concerns Canada's trade – specifically the diversification of Canada's trade and investment and how that, as a second point, leads to Asia. And then I'll talk a bit about the MDBs, and I'll be rather succinct given we've got a panel to go through.

On the first point, regarding diversification, about 70 percent of Canada's trade is with the United States. Canada is very dependent on the US economy and it kind of makes sense. The markets are heavily integrated especially, for example, in the automotive sector. And frankly, for a lot of Canadian businesses, especially smaller and medium-size enterprises, it's quite comfortable having such a large market, one that speaks English and is geographically close right next door. But in the last four years, there's been a bit of a wakeup call about that kind of dependence.

In August 2020, you had the US administration saying that Canadian imports of aluminum threatened the national security of the United States. And then you had a change of administration quite recently and one of the first things it did was cancel the Keystone XL pipeline and announce measures to promote the procurement of American-made goods and services. This kind of comfort that's

existed for many years of having a huge market right next door, with that comfort comes risk.

On my second point, in looking to get beyond reliance on one major market, Canada needs to move more aggressively toward pursuing opportunities in large and growing markets and these markets are, for the most part, in Asia. You have government agencies at the federal and provincial level like the trade commissioner service frankly doing a great job. They're really working closely with business to identify opportunities and promote Canadian business abroad, but it hasn't really moved the needle that much thus far.

When we think of Asia in terms of markets, often times, China comes to mind because it is such a large economy and continues to grow. In fact, it's one of the few economies in Asia or in the world that grew on a net basis in 2020 in the midst of the pandemic, but it's not the only one. Vietnam and Taiwan, for example, those economies also grew in 2020.

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One of the things I'm watching, in terms of looking beyond China for opportunities in Asia, are the plans of the Canadian Pension Plan Investment Board. The board manages around \$430 billion worth of pensions and assets, and much of the investment that it carries out are in North America. Outside of Canada, the leading destination is, perhaps obviously, the US. But after the US, it's Asia. And it's interesting to note that between now and 2025, the Pension Plan Investment Board plans to make one third of its investments in emerging markets, in particular India, including on infrastructure in real estate and in public and private equities.

I know that Yuka will talk a bit more about Japan, but let's also mention Korea. Korea was the first country Canada had a free trade agreement with going into effect in 2015. And just a couple of weeks ago, we had a major announcement of the Korean tech giant Naver, kind of a Google+ within the Korean market, buying Wattpad, a social storytelling platform catering to the Gen Z generation. This was a US\$600 million investment from Korea in Canada. And if we look to the 10 ASEAN countries in Southeast Asia, this is a massive market: 670 million people, booming mid-

middle class, 60 percent under the age of 35. The top five developing countries in ASEAN grew about 5 percent a year in the last decade: 2010 to 2019. And by 2030, ASEAN is expected to be the fourth largest economy in the world.

One of the smart things that Canada has done recently, and the ambassador referred to this, was joining the CPTPP, and it was because of Japan's leadership in large part that this agreement came into being and Canada joined early on. And four of the countries that are signatories of this major agreement are in ASEAN. And it's heartening to see that Canada is talking about a possible free trade agreement with ASEAN, and right now, the government is consulting on a potential Canada-Indonesia Comprehensive Economic Partnership Agreement (CEPA).

This takes me to the multilateral development banks, which work in many of these countries. Jonathan, you mentioned at the outset the big infrastructure needs in Asia. And the Asian Development Bank (ADB) itself has estimated that the annual need for infrastructure investments is about US\$1.7 trillion. This is between 2016 and 2030. That's the need each year and only about half of that is currently being met, and almost all of it (90 percent) is from the public sector, including money that some of the governments borrow from institutions like ADB. And when we talk infrastructure, we're thinking, for example, of water, information technology, energy, and transport.

Now of the overall investment in infrastructure taking place, the multilateral development banks like ADB, were financing about 2.5 percent a handful of years ago. If you take China and India out of the equation, it rises to 10 percent. And that sounds like a very small amount and in a way it is, but the MDBs also lead by example. And the example they're leading by is providing very high standards and due diligence, well in line with the Osaka principles that the ambassador referred to. That means taking seriously the social, economic, environmental and governance aspects of projects, and also the debt standing of countries so as not to overload them with debt.

ADB and other multilateral development banks – and I point to the World Bank Group, the European Bank for Reconstruction and Development (EBRD), which works in some of the former Soviet Republics and Central Asia and the newer Asian Infrastructure Investment Bank (AIIB) – they were all playing a key role in providing sovereign loans to governments for infrastructure while also having private sector wings that promote private sector investment, which is really what's going to be needed to address this large gap. In the case of ADB, I know it's greatly ramped up its

work in the private sector. We've hired more staff and you also see in the last couple of years the International Finance Corporation, the private sector wing of the World Bank Group, has received a capital increase and some of that is being directed to Asia as well.

I want to mention Canada's role in all of this. Canada is a founding member of ADB, of the World Bank and of the EBRD. And it joined the AIIB within two or three years of the start of that new institution.

At ADB, Canada is number seven in terms of shareholding out of 68 countries. In the last eight years, it has contributed over \$300 million to a number of special funds dealing with climate change and promoting private sector investment to address adaptation and mitigation and also disaster risk management. Canada has played a big role in ADB. It's also been active in some of these other development banks that I'm talking about, again, with the focus on ADB. Since Canada joined at the outset in the mid-1960s, Canadian consultants, individuals and companies have won some 400 contracts for consulting and procurement worth some US\$170 million.

It's heartening to see that Canada is talking about a possible free trade agreement with ASEAN.

I'll conclude by saying that Canada is there both directly and through these multilateral development banks that are upholding high standards of infrastructure investment, which the region desperately needs. It can do more. In the case of ADB, individual consultants and procurement providers are not winning as many contracts as they could. If they looked beyond the North American continent and spent a little more time investing in Asia and taking advantage of government support programs and advice, they could have a bigger impact. And outside of the development banks, Canada could be teaming up more closely with Japan, Australia, India and the US in partnerships. For example, there's the US proposal for a Blue Dot Network, a certification scheme for infrastructure. It's not clear whether this will continue with the new administration. But in any case, there are various initiatives available, for example, in the energy sector promoting investment in Southeast Asia and beyond and Canada can play a bigger role in all this.

Thank you, Jonathan.

Jonathan Berkshire Miller:

Thank you, Bart. There's a lot of great information there to distil and think about. But just very quickly, I thought you made a lot of excellent points.

I like the fact that you underscored that there's a lot that we can do within the Asian Development Bank, but also with the World Bank Group and EDRD. I think when people think of the region, they tend to think in terms of the Asian Development Bank and the new AIIB, but the idea that other more established players could also play a role there is very crucial.

I also like your overarching point that when we look at this region, it's broader than just Canada's engagement with China. Of course, China is a big market and there are risks and opportunities there. But there are many other players in this region outside of China. The ambassador has rightly highlighted some of the benefits Japan has provided to the region.

If we think about some of the key trade agreements that are established now in this region, I think the TPP (before it became an 11-member CPTPP) was seen as a US deal and the RCEP a China deal. But these are ASEAN origin and ASEAN focused deals that involved at one point or other the big players. I think India was involved in RCEP until it decided it didn't want to be involved. It's important to remember the centrality of ASEAN to both of these trade deals.

This will segue us to our next panelist, Amitendu Palit, a great friend of mine. He's a senior research fellow and research lead at the Institute of South Asian Studies in the National University of Singapore. Amitendu also has a number of other roles and experiences. Most notably, he spent several years in the Ministry of Finance and the Government of India, so he has both the perspective from being on the ground now in the ASEAN region but also his long history of working in the Indian bureaucracy on trade and development issues.

Amitendu, I'll give the floor to you, please.

Amitendu Palit:

Thank you Jonathan, a pleasure to be with you all today and it's a great pleasure to be part of this conversation with MLI. Thank you for inviting me to share my views.

Both Ambassador Kawamura as well as Bart have very clearly ar-

ticulated the specifics that are driving the core granular issues involved with the subject that we are discussing today. They have alluded to the specific trade developments that have taken place in the region, the CPTPP and RCEP. They've alluded to a series of developments that have come into the larger matrix of conversation around the Indo-Pacific today.

I would like to bring to the table a few distinct points, which I think are going to influence the way infrastructure takes shape in this part of the world. And when I say in this part of the world, I do have primarily Asia on my mind, but I am trying to focus on it from a Canadian vantage point as well.

When we talk about infrastructure in Asia and particularly from an outsider perspective, it's important to note that the Indian Ocean and the Pacific Ocean and the region that they encompass constitute an extremely heterogeneous region. The capacities with respect to infrastructure are very diverse and it's very challenging to address the infrastructure deficits in the region. This has an impact on the way multilateral institutions and even individual country governments would address the issue of infrastructure. The focus was largely internal and led to external engagements around the specific neighbourhoods of countries. For example, in Southeast Asia, countries like Myanmar, Vietnam, and Laos would look at infrastructure development or internal integration within them in a somewhat different way compared to countries like Malaysia or Indonesia or Singapore, which were ahead in terms of institutional capacities.

But this perspective has become a bit clouded of late, because there has been a shift in the way infrastructure development is being addressed these days. The focus has moved on from traditional infrastructure capacities to modern infrastructure capacities. And what I mean by that distinction is that seven to eight years ago, the question of cyber connectivity or digital integration between markets and communities were not as prominent in the Indo-Pacific. Today, there is a clear realization that while land connectivity is important, maritime connectivity is much more important for a number of economies – and beyond that, perhaps economic benefits can only be well and truly realized if the countries are connected through a cyber-network, enabling greater inflow and outflow of cross-border transactions and exchanges.

To that extent, it's no longer easy for countries to actually focus on all elements of infrastructure development. They have to prioritize, and this is where the role of a country like Canada – which looks at building engagement and investment opportunities with the Indo-Pacific – becomes important.

To give you an example, there is a very interesting development that brought certain countries from across the region together. This is called Digital Economic Partnership Agreement (DEPA), which has taken off between Singapore, Brunei and Chile: three small economies of the Asia-Pacific, all of them part of the CPTPP that was alluded to earlier.

Now what this probably means is that while countries are willing to become part of big trade agreements in order to benefit from their common rules of origin and trade facilitation, they are also willing to engage in much more selective spaces on specific issues – with respect to the digital economy, for example – that enables them to focus on areas of cutting-edge advantage.

Now if one looks at this in the context of a higher demand for modern 21st century infrastructure, then one also needs to note the fact that this realization has led to a distinct geopoliticization of infrastructure in the region.

It's no longer easy for countries to actually focus on all elements of infrastructure development.

This first happened with the emergence of the Belt and Road Initiative. No other initiative focused on this new generation infrastructure connectivity in the region as prominently as the Belt and Road Initiative.

Once the Belt and Road Initiative brought the entire question of modern infrastructure and greater connectivity on the table, the responses that came up were articulated primarily through the US's *Asia Reassurance Initiative Act* under President Trump, which spelled out the US vision of the Indo-Pacific and, in a focused and pointed fashion, the importance of investing in modern, cutting-edge infrastructure. But then the question of national security also becomes prominent; for example, telecom infrastructure that is an integral part of the digital infrastructure and cyber connectivity that countries in the region are looking for. The question of national security can no longer be disconnected. That then leads to another set of complications on the question of common data rules or trade rules. While regional countries understand the importance of coming together on this area, they also understand the risks that greater integration creates in this regard. And that is the big challenge that this region has to grapple

with right now, which has been further complicated by COVID-19.

COVID-19 has made it very clear that this pandemic (or similar pandemics in future) cannot be handled in isolation. It's important for countries to cooperate. And when it comes to cooperation, it's not just in terms of having similar strategies with respect to the public health systems. More importantly, it's about sharing information on how the pandemic is progressing, what's happening with respect to the development of vaccines, how these are being administered, etc. Now that vaccines have become available, countries across Indo-Pacific have begun immunizing their populations. The biggest challenge that has come up for the region is how to effectively create a logistics infrastructure that will enable the vaccines to move from one part of the region to another seamlessly. Most of it has to be integrated with the digital infrastructure capacities that the countries in the region have. And in a number of cases, countries with low digital capacities are unable to handle this challenge.

A country like Canada needs to visualize what's happening on the ground. It can have an extremely important constructive role to play here, especially as Canada's capacity to look closely at the region and in terms of the trade agreements come into force.

Major shifts have taken place in the perspective towards infrastructure building in the region.

Importantly, Indo-Pacific countries at large, and particularly those in Asia, have not actually given up on trade, as compared with the Atlantic part of the world where a large number of trade restrictions and export restrictions were established in the wake of COVID-19. Export restrictions in Asia have been much fewer and by-and-large, Southeast Asia and the wider region have remained committed to a free trade agenda. That is clearly visible in the Regional Comprehensive Economic Partnership and the standalone bilateral trade agreements that have either been finished or are being worked upon, e.g., the UK-Japan Partnership Agreement, the EU-Vietnam Free Trade Agreement and the various agreements that ASEAN is engaged with and finally, the CPTPP.

Today, the CPTPP presents a host of exciting possibilities, particularly given the arrival of a new US administration. That administration might want to recommit itself to the CPTPP, but in the

meantime, a number of substantive geopolitical changes have taken place in the region. For instance, China had previously looked at CPTPP with a great degree of suspicion, but it's now expressing an interest to join the agreement. And they have also been occasions where Taiwan has expressed an interest to join the CPTPP. It's going to be a very interesting but complicated way of looking at trade.

Major shifts have taken place in the perspective towards infrastructure building in the region. While there have been trade activities that have gone on in terms of institutional trade agreements, there's also been a great degree of radical reordering in Asia – and that's primarily in terms of the repositioning of supply chains.

Ambassador Kawamura alluded to the resilience supply chain initiative that Japan, China and Australia have taken up. There are also other similar efforts at making the regional supply chains less prone to disruption and widening the basket of procurement for individual countries. But, to a very large extent, this is a push coming from a geopolitical perspective. There is a geopolitical urge to take the production out of China, to the extent that is possible.

Now there is a certain geopolitical rationale to it. There is an anxiety that China has been consistently weaponizing the economic interdependence it has with a large number of countries in the region. But the question is: is this sentiment also shared by businesses? I think that's the key point that will drive the future focus on infrastructure investment and trade relationships of the region. Does the geopolitical perspective lead to a similar enthusiasm on the part of business, particularly private business? A country like Canada will need to bring that on the table to its investors and check with them whether this consistently converges between two sides of the spectrum, the political side and the business side.

Jonathan Berkshire Miller:

Thank you so much Amitendu.

I think there are a lot of great points there to think on. In particular, I think it was very interesting that you brought up the digital-economic side, which I think is going to be very important. I think the other really important point you brought up was the need to work together and how this connects with the digital side in the post-COVID world.

I'd like to move on now to our next panelist, who is coming to us from Tokyo. Yuka Koshino is a research fellow on Japan's security and defence policy with the International Institute for Stra-

tegic Studies' Japan Chair Programme. She's one of Japan's best emerging scholars on the intersection between national security and economic governance and economic statecraft issues. Before joining IISS and the Japan Chair there, she was at another Japan Chair with the Center for Strategic and International Studies in Washington, DC.

Yuka, we're delighted to have you with us.

Yuka Koshino:

Thank you very much for that kind introduction, Jonathan, and for inviting me to this online event. I feel grateful and honoured to join such a distinguished group of experts today, and to speak after Ambassador Kawamura's excellent and very comprehensive and informative remarks on Japan's approach to regional connectivity in the Indo-Pacific region.

Unlike the other speakers, I am not an economist. I don't have experience in development financing, but today I hope to contribute to the discussion by focusing on the security and the strategic dimension of regional connectivity, with a focus on digital infrastructure and digital economy. As I will discuss, there's a growing need for like-minded partners like Japan and Canada to cooperate in promoting connectivity with a rules-based liberal order in the Indo-Pacific.

I have three very brief points today for my opening remarks.

My first point is that the Indo-Pacific region is the engine of the global economy in the 21st century and is becoming increasingly so as the world's fastest growing digital economy.

The region has the fastest growing digital population driven by the young digital native population and the region is also rapidly digitizing its economy and society by adopting technologies brought about by the fourth industrial revolution like 5G, artificial intelligence, big data and the Internet of things (IOT) and robotics, to meet its economic and social development goals. And the region is also driving digital innovation because of that.

My second point is that we still see gaps in governance, rules and norms in the digital space. That is why the digital infrastructure in the Indo-Pacific region, which will serve as the important backbone of this future global economy, has become the centre of geopolitical competition between China and the United States.

Most importantly, Chinese digital technologies like 5G, e-commerce and e-payment systems, and smart cities have rapidly spread across the region under President Xi Jinping's Digital Silk

Road project. That is the digital dimension of the Belt and Road Initiative – one that has become increasingly apparent over the last several years and been developed through the government’s provision of massive funding and regulatory support. And this raises security, economic and political concerns for Japan, Canada and like-minded countries. The links between Chinese firms and the Chinese state, for example, especially given the Chinese intelligence law, raise additional questions over the security and reliability of this very important digital backbone of the economy. Meanwhile, unfair lending practices undermine the rules-based free and fair economic order in the region. And the spread of Chinese technologies is also spreading the Chinese model that reflects a more authoritarian form of governance, raising questions around data protectionism, democratic values and even human rights abuse through the spread of state surveillance technologies.

We still see gaps in governance, rules and norms in the digital space.

My final point is that Japan, the United States or any other like-minded country cannot meet these challenges alone, and the Free and Open Indo-Pacific vision, which the ambassador has laid out in great detail, has already served and developed into a very useful economically inclusive construct over the past years to mobilize like-minded countries to respond to these challenges through a rules-based approach.

Digital connectivity, for instance, is a key pillar of this FOIP vision proposed by Japan and also shared between the United States and Japan. And, as the ambassador has mentioned, Japan also launched the Osaka Track to promote rules-making in the field of e-commerce through the concept of DFFT.

Also, if you look at the region, Australia, India and the countries in Southeast Asia have also embraced the principles of the Free and Open Indo-Pacific, although maybe the countries might not be exactly using the term FOIP.

More importantly, countries beyond our region have begun to uphold this approach. The United Kingdom, France, Germany and the Netherlands have all launched their own Indo-Pacific policies embracing these principles. And, while there were questions about the longevity of FOIP under the leadership transitions over the past several months, for instance, in Japan, Prime Minister

Suga had committed to continue the country's approach to FOIP and reaffirmed to the region of Japan's role as an Indo-Pacific nation during his first foreign visits to Vietnam and Indonesia last year.

And there is also increased opportunity and momentum for a US leadership role in upholding the rules-based economic order in the region. The Biden administration's senior officials have agreed to cooperate to achieve a Free and Open Indo-Pacific with their Japanese counterpart, and the US is more willing to take part in regional multilateral forums, such as the East Asia Summit, which the previous administration had often skipped during Trump's presidency.

With the absence of a US leadership role to fill in the gap over the past several years under the Trump administration, and the regional and Chinese increasing willingness to take on that leadership role to shape the governance and rules and norms in this region, there is a growing need for like-minded partners like Canada and Japan to cooperate in this region of the world.

I very much look forward to continuing the discussion today and thank you very much again for inviting me.

Jonathan Berkshire Miller:

Thank you so much, Yuka.

That's a very interesting discussion on Japan's approach to FOIP, but also the intersection with digital connectivity. And I think you brought up earlier an important point at the end when talking about the multilateral architecture - that it's a necessary condition, but not always a sufficient one. There are many different vehicles of engagement that like-minded states will need to be driving to pursue their interests in this area. The current multilateral architecture is one of them, but I think working together with like-minded countries and Japan, being one of the first and foremost in my mind, will be an important element.

I'd like to now bring to our last panelist, our Canadian friend Dan Ciuriak. Dan has many affiliations and roles, including as Director and Principal of Ciuriak Consulting Incorporated, a senior fellow with the Centre for International Governance Innovation in Waterloo, in addition to being a fellow at the C.D. Howe Institute in Toronto, the Asia-Pacific Foundation in Vancouver, and the BKP Development Research and Consulting Institute in Munich, Germany.

Dan, the floor is yours.

Dan Ciuriak:

Thank you very much, first of all, for the opportunity to be on this panel, and of course, for the great presentations by Ambassador Kawamura, Bart, Amitendu and Yuka. I would focus on underscoring two particular risks, one of them is economic geography and the other one is technology.

With the Canada-European Union Comprehensive Economic and Trade Agreement (CETA), the Canada-United States-Mexico Agreement (CUSMA), and the CPTPP, we could think of Canada as being in the centre of gravity with the world trading system, safely embedded in a multilateral framework in which goods were “made in the world” by global value chains. But the Indo-Pacific framing, which is at the heart of a broader re-emergence of an Afro-Eurasian trading system that was dominant prior to the industrial era, things feel a bit different. Canada does not even have trade agreements with the three large population, high growth economies in this region, specifically China, India and ASEAN.

As Bart said, the US is looking inward at a time when Japan anchors the CPTPP and is now part of RCEP, which draws it west and south for production links and markets.

Meanwhile, the European Union is looking east with its investment agreement with China. This is actually accentuated by the splintering caused by Brexit, because the UK, which is Canada’s largest trading partner in the EU, is now outside and looking west to the United States.

In economic geography terms, the economic tectonic plates are moving and Canada is now starting to look distant from the world centre of gravity. We have to re-visualize our place in the world and I think this is a very important thing for us to absorb and reflect upon.

The second risk concerns technology. Our trade agreements were optimized for and are shaped by the industrial/knowledge-based economic era. This is the world of global value chains.

Since around 2010, we have entered the data-driven economic era and this is the result of key technological breakthroughs in the 2000s, such as the introduction of the iPhone, which triggered the mobile era and explosion of data with breakthroughs in neural net technology and the application of parallel computer chips to optimize these neural nets. This resulted in the powering of artificial intelligence through machine learning. Make no mistake, we are in a very new technological era. The digital transformation that this is powering it is now moving very quickly and it’s acceler-

ated by the pandemic. What does this mean for Canada?

Well, in the first instance, there are no oceans or literals in cyberspace. Canada is not necessarily outside of this system in the new antipathies to the new Afro-Eurasian/Indo-Pacific system. The trade agreement most critical for Canada going forward may be with DEPA, as Amitendu emphasized, but there are major issues to be addressed in keeping the flow of data going. A free flow with trust, as per the G20 proposal that was developed during Japan's year as Chair of the G20, is threatened by national security and sovereignty concerns. When it comes to these challenges, DEPA is very thin in terms of how to regulate and how to deal with this economy. The infrastructure that shapes connectivity in digital space is undersea cables and satellites, and these systems are now subject to fragmentation along security lines. China has its Baidu system, the US has GPS, and the Europeans have the Galileo system. And when we think about the undersea cables, the major powers are moving to exclude each other from laying them because they want to be certain about the security of the flow of information through these cables.

Canada's disadvantage in this particular new economy is that we have no production capacity.

Canada's disadvantage in this particular new economy is that we have no production capacity, particularly in the hardware side of the economy. We really miss Nortel.

The second thing is that the digital economy is a world of super star firms and these are now concentrated in Northeast Asia. China has 126 *Fortune 500* firms, which are actually more than the United States. And then there's Japan, Korea, Taiwan, all of them have major centres for these large firms. These firms draw energy and scale from the integrated Northeast Asian economy and RCEP will work to further deepen these networks. So technological decoupling, which is raised by the security side, could cripple our ability to gain a foothold in the digital economy of the future. By the way, in today's news, I see that US firms are now voicing the same fear.

Wayne Gretzky, a famous Canadian hockey player, once famously said the secret was to move to where the puck was going. Today, the technological and economic geographic tectonic plates are

moving, and we need to move towards a new centre of gravity when it comes to Canada's economic and trade strategy. We have to re-visualize how we fit in the world and this will take us, as a number of speakers have said before me, towards prioritizing our linkages, in particular vis-à-vis ASEAN, which seems the most promising market for a new free trade agreement. In general, however, Canada has to find its way in the digital economy space in this brave new world of the future.

Jonathan Berkshire Miller:

Thanks very much Dan.

I think those are really helpful comments and really help us circle this conversation back when it comes to disruptive technologies, the new economy and our need to adapt. We have important relationships in Northeast Asia. But I think even within Northeast Asia we can think a little different when it comes to our partners. As many of today's panelists have noted, we can work more closely with Taiwan, South Korea and obviously, Japan. This does not mean we shouldn't look for opportunities to engage with China, but there's potentially much more easier partners to work with in that region, even as we strengthen our ties with countries in ASEAN and India.

Thanks to my fellow panelists, who I think had a set of great remarks and really helped us to better understand these issues going forward. It also lead very well and very nicely to our future work on these issues as part of our Canada and the Indo-Pacific Initiative. Thanks also to our audience for tuning in.

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