CANADIAN EXPORT INTERESTS AND CHALLENGES FROM THE PACIFIC

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ABSTRACT

From early colonial times the Canadian economy, highly dependent on exports, has developed a pluralist economic system in a generally congenial international environment. Since 1970 however, the Canadian economy has been challenged, albeit at the margins, by unfamiliar impacts largely originating in the Pacific economy. The institutional reactions of relevant Canadian export interests - defined as the federal government, provincial governments and a small number of Canadian firms - have, on the whole, proved inadequate to these challenges. This inadequacy threatens Canadian domestic prosperity and constrains economic and political options internationally.

This study hypothesizes that an adequate response to these new challenges depends on institutional adaptation within and among Canadian export interests. Six principles are advanced to promote this adaptation:

1. the priority of economic considerations;
2. the legitimate role of government;
3. full provincial participation;
4. coordination by the national government;
5. an authoritative voice for each interest;
6. better sharing and use of information.

The six principles are applied in three case studies. The first concerns the international marketing challenge posed by the Japanese general trading company (soga shosha), and the Canadian government's initiative to create a Canadian trading corporation. The application of the six principles suggests an alternative proposal, the Canadian Commercial Centre, in which Canadian export interests develop and share information in a way which recognizes the appropriate role of each and the obligation of all to attain a greater coherence.

The second case study concerns the recent Western Liquid Natural Gas (WLNG) project which featured a new form of investment (the miniority interest joint venture coupled with a long-term supply contract) in which a consortium of Japanese buyers represented by a Japanese general trading company sought to reach agreement with an uncoordinated collection of Canadian firms and governments. The lack of coherence among these Canadian interests was at least a contributing factor in the loss of an opportunity to expand and diversify Canadian LNG markets.

The application of the six principles to the WLNG case yields an alternative Canadian approach involving the early establishment of a committee of authoritative officials from the relevant Canadian interests, and a new coordinating role for a federal agency like the (now disbanded) Ministry of State for Economic and Regional Development and the Federal Economic Development Coordinator.

The final case study concerns the challenge to trade and investment represented by the movement to a Pacific economic community, notably the Pacific Economic Community concept (PECC). The current reactions of such institutions as the Canadian committee of the Pacific Basin Economic Council and the federal Department of External Affairs are assessed, leading to the recommendation that the Canadian government should involve a wider constituency of current and potential Candian export interests in an educational policy process which may bear on Canada's future prosperity and political resilience.

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CHAPTER 1 - INTRODUCTION

1. Prologue

Exports are central to the pursuit of a materially prosperous and culturally distinct Canadian polity. Canada exports 29% of its GNP compared to 13% for Japan and 21% for the United Kingdom, often regarded as 'export or die' economies. Without falling into too great a reliance on the 'staples theory' (Innis, 1933), it may be said that the prosperity of the Canadian economy has in large measure been based on the export of a succession of raw materials (fish, pelts, timber, cereals, ores and energy) demanded by foreign, often metropolitan, economies. This pattern has so affected succeeding generations of Canadian immigrants, each usually associated with the staple dominant at the time of their arrival, that it has become part of the Canadian psyche. Individuals, industry and governments have been formed within this environment which, combined with Canada's relatively small domestic market, has produced a national economy extraordinarily dependent on foreign demand.

In the past, Canadian export interests have generally responded to challenges from economic cultures in which their decision-makers were partners, albeit junior partners. Canadian decision-makers were successively mostly French-, British- and American-oriented when such systems as mercantilism, imperial free trade, portfolio investment, and direct total-ownership foreign investment succeeded each other as leading forces in Canadian economic life.

This familiarity with dominant North Atlantic economic patterns informed the evolution of a complex weave of federalism and business-government relations in Canada. Conflict between the international system and dominant Canadian attitudes and organization was minimal; the Canadian elite understood the components and the rules of the greater game.

In the past 20 years a new set of challenges from unfamiliar cultures has confronted Canadian decision-makers, most of whom were schooled in the international Anglo-American school of liberal laissez-faire economics. These new challenges were numerous. They included dealing with a variety of Asian and American 'development states' (Johnson, 1982) like Japan and Mexico; with 'Confucian' states (Hofheinz and Calder, 1982) like Japan, South Korea and China; and with regional groupings like ASEAN (Crone, 1983). They also included coping with the risk of foreign resource- or labour-substituting advanced technologies on the one hand, and labour-intensive standardized technologies in low wage countries on the other.

There are nonetheless two challenges which have tended to incorporate the effects of others, and which are particularly significant in their impact on the realization of the goals of Canadian export interests in Pacific markets. These are (1) the Japanese general trading company, which has largely defined the present nature of the Pacific economy, and (2) current attempts at an elaboration of an economic community, which are contributing to the definition of the Pacific economy of the future.

Canadian decision-makers are badly equipped, in terms of attitude, information and organization, to respond adequately to the 'Pacific challenges'. This is unfortunate since many see the Asia-Pacific region as the global centre for economic growth into the twenty-first century (McGee, 1983). Canadians must learn to perform better in the Pacific economy, or be faced with the consequences of failure: a decline of living standards and, ultimately, of an expensive national sovereignty.

2. Problem Statement

The purposes of this thesis are: (1) to identify weaknesses in the institutional reactions of major Canadian export interests to a number of relatively recent challenges in the Pacific economy, and (2) to suggest responses to remedy some of these weaknesses.

This thesis argues that there are feasible, better alternatives to the confrontational and uncoordinated approach which has characterized export planning in Canada among senior governments, and between the public and private sectors generally. An 'adequate response' by the managers of Canadian export interests to the implications of these Pacific challenges will be one which advances their particular goals; these are at present largely centred on revenue.

This <u>response</u> will differ from current <u>ad hoc reactions</u> in being dependent on correlated changes in attitude among decision-makers and reorganization <u>within</u> and <u>among</u> decision-making units.

3. Methodology

Chapters 2 and 3 define the main terms of the problem statement. Chapter 2 defines 'Canadian export interests' and assesses the relations among them over the past decade with particular emphasis on matters relating to Pacific trade.

Chapter 3 assesses the challenges to Canadian export interests.

The first section delineates the characteristics (particularly the trading and investing characteristics) of the Japanese general trading company, contrasting these with aspects of other multinational companies. The second section assesses the various elements which have contributed to the concept of 'Pacific economic community' over the past twenty years.

Drawing on the empirical lessons of Chapters 2 and 3 as well as on the planning theories of a number of Canadian and American analysts, Chapter 4 proposes six planning principles which may be applied to improve the individual and collective performance of Canadian export interests. Four of these principles call on each of Canada's various export interests to acknowledge the right of the others to perform certain functions in the formulation of export policy and programs. The four principles of legitimacy are: (1) the priority of economic considerations, (2) the central role of government, (3) the full participation of provincial governments, and (4) the national government's responsibility to coordinate. The other principles concern communication. They are: (1) that each export interest speak with a single authoritative voice and (2) that there be established a better sharing and use of information.

Each of Chapters 5, 6 and 7 is a case study of the challenges confronting Canadian export interests. Each case study includes a recital of salient elements, a critical application of the six principles, and a proposed alternative approach based on these principles.

Chapter 5 ('The Marketing Challenge') investigates the reactions of Canadian export interests to the trading challenge of the Japanese general trading company in a case study of the federal government's abortive Canadian Trading Corporation. An alternative response, Canadian Commercial Centres in Pacific markets, is proposed on the basis of the planning principles.

Chapter 6 ('The Investment Challenge') examines the failed Western Liquid Natural Gas project as exemplifying the reaction of Canadian export interests to the investment challenge of the Japanese general trading company. Application of the six principles leads to an alternative institutional arrangment for this kind of complex megaproject.

Chapter 7 ('The Pacific Economic Community Challenge') describes the current leading version of the Pacific community, the Pacific Economic Community concept. Inadequacies in the recent reactions of Canadian export interests are identified and remedies proposed.

Most of the material in this paper is drawn from secondary sources located in the UBC library system; from government documents from Ottawa, Toronto, Edmonton and Victoria; and from The Globe and Mail (hereafter 'GM'), The Financial Post (hereafter 'FP') and the Far Eastern Economic Review (hereafter 'FEER') over a period of eighteen months beginning in mid-1983. The case studies are greatly assisted by information from interviews conducted in Vancouver, Ottawa and Toronto; those in Ontario were made possible by a travel grant from the Max Bell Foundation.

In what follows, Japanese names are given in the Japanese manner; that is, family name first.

CHAPTER 2 - THE CHALLENGED: CANADIAN EXPORT INTERESTS

1. Introduction

This chapter defines the protagonists of the thesis--those Canadian interests whose activities and interactions must improve to achieve adequate responses to the opportunities presented by new, largely Japanese, challenges to Canada's export economy.

After defining Canadian export interests for the purposes of the thesis, this chapter continues with an assessment of some recent interrelations between the major Canadian export interests--the federal government, some provincial governments, and a number of firms.

2. Canadian Export Interests and their Goals

Canadian export interests will be defined as those engaged in current decision-making which directly and centrally affects Canadian export capacity in the Pacific economy. This means governments and firms, but not all governments and not all firms.

(a) The Public Sector

Section 91(2) of the Canada Constitution Act gives the national government 'exclusive legislative authority' over 'the regulation of trade and commerce' and Ottawa is generally acknowledged to be the sole locus of Canadian sovereignty. These factors alone are sufficient for considering Ottawa a Canadian decision-maker in the Pacific. Section 92(13) gives the provincial legislatures jurisdiction in 'property and civil rights in the province' and, through a 1982 amendment (section 92A), in 'non-renewable natural resources, forestry resources and electrical energy' except where in conflict with a national law.

Moreover, many of the provinces have been pursuing an active foreign trade promotion policy which, however much it offends the national government's claim to exclusive representation of Canadian sovereignty or confuses non-Canadians, adds weight to the consideration of Canadian provinces as decision-makers in the Pacific economy. Not all provinces are equally active in exports or export promotion in the Pacific economy. Among those that are can be numbered British Columbia, Alberta and Ontario; the Government of Alberta will provide the provincial focus in what follows.

The use of the simple word 'government' should not mask the increasing complexity of the national and provincial levels of administration. As Cairns (1977:703-704) writes:

> The ministries, departments, agencies, bureaus, and field offices to which they (government bureaucracies) daily report constitute partially self-contained entities, valued for their own sake, and possessed of their own life and interests. Their minimum desire is for a steady level of activity. Typically, however, they seek to enlarge the scope of their functions. If the environment offers new opportunities for expansion in emergent problem areas they will compete with other bureaucracies for the prizes of status and growth offered by enhancement of their activity.... These pyramids of bureaucratic power and ambition are capped by political authorities also possessed of protectionist and expansionist tendencies. The eleven governments of the federal system endow the incumbents of political office with the primary task of defending and advancing the basic interests of crucial sectors of the provincial or national economy and society.

If all of these agencies have bureaucratic maintenance as an individual goal, <u>collectively</u> (as governments) they seek revenue (in such forms as taxes and royalties) from exports to the Pacific, or elsewhere. In a period of large deficits and economic stagnation, governments require revenue as never before to support their operations, including large transfer and social infrastructure programs in such areas as health, education, unemployment benefits and welfare, without which their continuance would be threatened. This revenue goal is clearly prior to job creation, for example, since even very high unemployment is less likely to unseat governments and civil servants than is a general curtailment of services adversely affecting a greater number of voters. The Government of British Columbia is perhaps unique in its explicit adoption of this priority (GM, 3 May 1984: BC1):

> The Government's wide-ranging blueprint for economic growth stresses increasing exports, reducing costs, removing 'barriers' to the labour market and cutting regulations. Government involvement 'should be directed away from simply subsidizing jobs and income and toward wealth-creating activities,' says the report on reviving B.C.'s faltering economy.

Since all constitutional power, including that relating to export promotion, is divided between the national government and the provincial governments and since public-sector export decision-makers and resources are concentrated in these governments, there is no reason to consider as export interests Canadian regions not territorially congruent with the provinces. Thus, whatever the merit of considering Canada's four western provinces, or three prairie provinces, as a region; or of selective closure and territorial relationships (Friedmann and Weaver, 1979:7); or of defining Canada as parts of six North American nations, each based on 'a distinct prism through which it views the world' (Garreau, 1981:2), the fact is that current governmental power resides in Canada's eleven senior governments.

This reality also excludes cities or urban regions. Whatever their economic importance in the production and organization of export activity (Jacobs, 1984), their governments, being constitutional creatures of the provinces, are too politically and fiscally dependent to be considered 'Canadian export interests' in this thesis.

(b) The Private Sector

In the private sector it is clear that relatively few firms constitute Canadian export interests in the sense of being significant decision-making units in export promotion. These firms are typically very large because of the scale usually required for competitive export activity. Whatever the future success of 'threshold firms' (as Steed (1983) describes those smaller firms with a potentially competitive product but limited resources committed to export marketing), it should be acknowledged that they cannot figure among Canadian export interests since the exports of all small firms will continue to be only a small fraction of the total Canadian picture. Figures from the federal Secretariat of Small Business suggest that of the 11,500 firms surveyed in 1979, the smallest 5300 had aggregate sales of about $5 billion, of which $221 million (4.5%) was earned by exports. By contrast, 5000 medium-sized operations had aggregate sales of $28.4 billion, of which $3.5 billion (12.4%) came from exports, while the thousand largest firms had $145 billion in sales, $31 billion (27.5%) in exports. The importance of exports by smaller firms cannot be said to reside in their sales or revenue potential, but in their typically higher value added and in the recognized capacity of small industry to create employment, in contrast to labour-shedding larger industry.

Related to their relative size is the fact that, owing to the high degree of concentration of Canadian industry (GM, 5 May 1984: 14), firms that may be counted as Canadian export interests are very few in number. In global terms, the fifty leading export firms in Canada account for half the country's export of goods ($45.5 billion of $91.3 billion in 1983) while the top ten (Note 1) account for 30% (The Financial Post 500, 1984: 125). Most of these exports were in the primary sector; that is, in forest products, energy (petroleum and electricity), minerals, and cereals. Only thirteen of the leading fifty Canadian exporters could be said to export finished products (automobiles, aerospace, communications, urban transport, farm machinery, steel, chemicals and food products), mostly to the United States. By the same token, it is a few large Canadian financial and other corporations that account for most of Canada's revenue ($17 billion in 1983) from foreign invisibles such as interest, dividends and royalties.

The managers of exporting firms share many of the bureaucratic motivations of their counterparts in the public sector. There is, however, a major distinction between the government and the firm. If government decison-makers are ultimately answerable to their various pluralistic electorates, corporate managers are responsible to their owners, whether few or (as in some publicly-traded firms) many in number. This means that, even more single-mindedly than government leaders, the managers of exporting firms are interested in revenue, a major element in profits and so of a supportive ownership.

A related difference is that, in the public sector, all voters and their representatives, however constrained by foreign circumstances, are resident in Canada and at least one of its provinces, whereas corporate owners and decision-makers are often foreign. Twenty-two of Canada's fifty leading exporters (already qualified above as 'Canadian export interests') have foreign ownership. Most of these firms are engaged in the export of energy, and industrial and agricultural raw materials; only eight (including four operating under the Auto Pact of 1965) are engaged in the export of manufactured goods.

Thirty-three of the fifty largest foreign-owned firms in Canada, however, are essentially engaged in satisfying Canadian demand for internationally-promoted goods and services. Regardless of the hopes of their Canadian managers and of Canadian governments, or of the promise of world product mandates, it is unlikely that the foreign directors of these firms contemplate a role for them in the augmentation of Canadian exports. It is accordingly difficult to consider these firms as even potential Canadian export interests.

Also to be excluded as Canadian export interests are private non-business sector individuals and institutions with a stake, but no direct decision-making power, in the question of Canadian exports to Pacific markets. These include labour, consumers, and researchers, both individually and collectively through their unions and associations. They can attempt to affect exports through strikes or boycotts or reports, for example, but their participation is neither regularized nor central and their influence is normally transmitted through one or more of the major interests; that is, through the large exporting firms, or provincial or national governments.

3. The Recent Organization of Canadian Export Interests

(a) Intra-Interest Relations

(i) The National Government

The national government has for more than a decade approached export planning with a centralist intention and a rationalist approach. This has led to internal contradictions in Ottawa, to say nothing of the effect beyond the national capital.

The government's policy was to direct the other Canadian export interests - the private sector in particular - in a drive to establish increased and diversified exports in the Pacific. The prime minister and other ministers initiated reciprocal visits in the region, setting a rhetorical challenge to Canadian firms to pursue opportunities which were often asserted rather than demonstrated. Stairs (1981:98) has succinctly stated two of the weaknesses of this approach:

> The diversification strategy is prima facie an attractive one, and in broad outline is likely to remain a permanent feature of Canadian foreign policy. At the same time, it suffers from ... disadvantages or uncertainties. The first is that it ultimately relies for its success on the active support of private organizations and individuals, and hence is not fully under the administrative control of the government. Public policy initiatives can seek to make opportunities available, can attempt to ensure that Canadians are aware of them, and through tax incentives and the like can try to make them appear more attractive. In the final analysis, however, a great deal must be left to the private sector, which may not be very responsive.
>
> The second limitation is that it also depends on the willing co-operation of the third parties - that is, the governments and the relevant constituencies of the targeted states....

Meanwhile, in its fascination with organization and with central agencies, the Privy Council Office under Michael Pitfield engineered the protracted amalgamation into the Department of External Affairs (DEA) of the Trade Commissioners Service (TCS) of the Department of Industry, Trade and Commerce when the industrial components of that ministry were joined to the Department of Regional Economic Expansion to form the Department of Regional Industrial Expansion. The purpose of the integration was to give organizational substance to the government's goal (enunciated in DEA, 1970) that diplomacy promote Canadian bilateral interests, notably economic growth through exports.

There are conflicting interpretations of the new external affairs super ministry. According to Dewitt and Kirton (1983:229):

> By 1982, the foreign policy decision-making process within Ottawa's executive branch had in large measure developed the autonomous force, internal pluralism, structural co-ordinative mechanisms, and defined conception of the national interest that the complex neo-realist perspective predicts...
>
> Only with the definition within Ottawa of the concepts and applications of bilateralism and the emergence of External Affairs as a *de facto* ministry of state was the national interest endowed with autonomous, transcending, and enduring force. (p. 232)

Others agree with Colin Campbell (quoted in *FP*, 15 October 1983:16):

> 'The late 1960s,' says Campbell, 'saw the start of an age of revitalization of bureaucracy. With that, there was a tremendous self-confidence and a sense that if you get the machinery right, you'll improve government's delivery of services. There clearly has been a failure of this type of process (in Canada).'

Notwithstanding integration, External Affairs still shares the federal field in trade relations with a number of other agencies. Among these are the Canadian International Development Agency (which retains its identity) and the Canadian Wheat Board, responsible for foreign sales of most western Canadian cereals.

Moreover, on the policy side, the International Economic Relations Division of the Department of Finance 'ensures that Finance's interests are safeguarded in international trade and investment, two fields with operational arms largely in other departments or quasi-autonomous agencies' (Campbell, 1983:155).

> Finance differs from the US and British treasuries in one important respect. In the United States, the Office of the US Trade Representative takes the lead in policy development and negotiations; in the United Kingdom, the Treasury yields many of these responsibilities to the Department of Trade. Finance, however, has succeeded in maintaining the upper hand in these matters. For instance, it always contributes the senior official or minister to the Canadian delegation at international panels such as the recent Multilateral Trade Negotiations in Geneva.

And the finance ministry's International Programs Division focuses on policy concerning government trade-development operations. It contains units responsible for export financing, international development, and financial institutions' (ibid: 156).

DEA's most important liaison among Ottawa's export-related bureaucracies, however, is with the Department of Regional Industrial Expansion (DRIE). DEA's 24 Pacific rim diplomatic posts (14 of them in the west Pacific) are notionally connected back through DEA and DRIE in Ottawa to the latter's regional executive directors in each of the ten provincial capitals. It is along this lengthy chain that data on foreign demand and Canadian supply capability are expected to pass. This routing in fraught with barriers. Indeed, according to the FP (18 February 1984: 2):

> There is an admission that External cannot effectively work in the trade area without DRIE. For instance, if a foreign post makes a sourcing request, the telex goes initially to External, but the 'action copy' goes to DRIE, whose officials are responsible for working on the request....
>
> As one source puts it: 'There's no doubt that the people at DRIE are doing a lot of work that used to be done in the

> international trade section of ITC (Industry, Trade and Commerce).'
>
> The new status quo is not without its irony. In the old days, there was External and the international trade section of ITC. Today, there's External and the international trade dimension of DRIE. The difference is that in the earlier system, Canada's officials abroad had a direct line to the domestically based trade commissioners and the industry sector experts who worked in the same department....
>
> But talk of interdependence just serves to highlight the potential weakness of the DRIE-External connection. The problem is not just one of making sure officials communicate. On the broader level of policy, it's a matter of ensuring the right connections between trade and foreign policy and domestic industrial policy. There is potential for conflict rather than cooperation.

This last remark points to a planning problem of the first order, which French (1980:153), citing Phidd and Doern (1968:115), picks up:

> With an elaborate formal central decision-making process, and a multiplicity of planning and evaluation groups, the Trudeau government rarely faced explicitly the fact 'that the political meaning of co-ordination can only be contemplated when one acknowledges that such co-ordination involves in part the temporary victory of one or two...objectives over other values and objectives, the use of one or more instruments over other instruments, and the relative triumph of one department over another and of one or more ministers over others'.

This lack of direction is epitomized by DEA's 'Canadian Trade Policy for the 1980s' (DEA, 1983). Originally drafted in August 1982, it was patched and broadened to incorporate all points of view and was approved by cabinet only in August 1983. The trade policy paper was not a major planning document (FP, 20 August 1983: 4), but rather a recitation of the whole field of export policy. It can hardly be said to represent any progress in the pursuit of certain policy.

(ii) Provincial Governments - Alberta

Province building has become accepted behaviour for even the poorest Canadian provinces (Breton, 1981:67):

> Recent decades have ....witnessed entrepreneurial tendencies on the part of institutional actors in different regions...
>
> Resources, which are ... under provincial jurisdiction, constitute [an] area for institution building and growth in relation to industries based or related to the extraction and/or processing of resources, government agencies, research and development organizations, and educational programmes. Because resources are based in a particular territory, they are particularly important for regional institution building. They also can generate enormous profits, which the state, under whose jurisdiction they fall, can appropriate through royalties and taxes and which can be used for growth either through private or public channels.

In this environment a number of provinces have begun to supplement the national government's trade policies and activities in the Pacific. Although only about 6% of its exports by value are sold in the non-U.S. Pacific (as compared with about one-third for British Columbia), the government of Alberta has proved the pace-setter in this regard; a review of its activities since 1970 indicates the furthest advance of provincial initiatives in that market. This activity has been facilitated by the province's relative homogeneity in terms of both resources and politics. The government's export goals are closely related to its industrial goals, particularly in a period of stagnation in the domestic Canadian market. This stagnation affects even the province's dominant petroleum sector, a non-renewable source of wealth whose eventual depletion makes for perceived vulnerability. In its effort to diversify its export production, the provincial government has emphasized food processing, further upgrading of natural resources (especially petrochemicals), tourism, and the promotion of high technology industry (Jenkin, 1983:53).

The political stability of the province has permitted Premier Lougheed's Conservative government to direct provincial export policy since 1971. The premier claims (Lougheed, 1983:5) to have seen Alberta through its first phase in international trade through the appointment of a full time Minister for International Trade with whom Alberta business people travel on missions, and agents general (in Hong Kong and Tokyo (responsible for Japan and Korea), with one currently contemplated for Singapore) to monitor potential and to facilitate the marketing effort of the private sector.

Moreover, in its effort to at least hold its market share in grain and vegetable oils, and to gain new sales and investment in petrochemicals and oil and gas equipment and technology, Lougheed's Alberta has twinned with sub-national jurisdictions having similar resource endowments in Japan (Hokkaido), China (Heilonjiang) and South Korea (Gangweon). This 'back door' approach (GM, 8 May 1984) recognizes that trade is mutual and that countries like China and Japan may be uncomfortable with their large trade deficits with Canada. For 22 days in April 1984 the Chinese, with the support of the Alberta government, mounted in Edmonton the largest exhibit of Chinese goods ever assembled outside China (GM, 23 April 1984: IB8). About 100 Canadian companies also displayed products for possible export.

While administrative responsibility is fairly widespread among a number of ministries - notably International Trade, Economic Development, Agriculture, and Intergovernmental Affairs (this last taking a coordinating role vis-a-vis the Asian agencies-general and the three twinnings), the policy basis for Alberta's Pacific export initiatives lies firmly in the premier's office. This central direction is not universal among Canadian provinces and it does not necessarily imply coordination with national policy or programs, or prevent mutually damaging conflict with other provinces with similar resource endowments. Chapter 6 will describe and analyse both of these liabilities in a particular case.

(iii) Industries and Firms

If 'government' is initially organized from above into its constituent bureaucracies, the private sector of Canadian export interests is composed of many government-like firms, many of them competing or mutually indifferent. Firms are free to form associations from the bottom up to pursue shared purposes, but the dependence of trade associations on a variety of constituent firms means that these groupings are usually able to lobby governments only in common defence against a shared danger (as with the Canadian Forest Industries Council formed in 1984 to combat threatened U.S. duties on Canadian softwood lumber) or on such broad issues as the promotion of free trade. Broadly speaking, the large primary and tertiary firms (the backbone of private Canadian export interests) favour increasing free trade since this will tend to open foreign markets to the export activities which typically constitute a large fraction of their revenues and profits. The large secondary sector firms, on the other hand, relying typically on the domestic market for want either of competitiveness, resources, or export mandates from foreign owners, are often intent on barring the threatening entry of both labour-intensive and advanced technology imports from other Pacific countries.

(b) Inter-Interest Relations

There are those who maintain that conflict among such groups as those here called Canadian export interests arises from language- and region-based struggles for organizational power (Breton and Breton, 1980:2). Others claim that the question turns more on economic motives (e.g., revenue or income) or on legalistic constitutional interpretation. Whatever the mix, relations between and among Canadian export interests operate at four levels:

(1) the public ideological level - the preserve of politicians and corporate spokespersons--both categories often elected, albeit by different constituencies;

(2) non-public social relations among government ministers, corporate leaders and senior public officials;

(3) non-public institutionalized relations among government ministers, corporate leaders and senior public officials;

(4) non-public program level relations among government and corporate officials.

Specific instances of these levels will be introduced in the following consideration of federal-provincial, interprovincial, federal-business and provincial-business relations.

(i) Federal-Provincial Relations

Typical of recent federal-provincial incoherence was the contest between Ottawa and Edmonton over the 1980 National Energy Program which Carmichael and Stewart (1983:52-53) criticize as crowding out the concerns of other interested parties (notably the petroleum industry), as characterized by delay, uncertainty and unpredictability, and as contributing to undue secrecy and extraordinary complexity in public policy formulation.

This secrecy did nothing, however, to disguise the acrimony of public polemics led by cabinet ministers on both sides. In this kind of heated exchange of non-information, personal relations among the various government elites can mitigate or exacerbate conflict on technical problems in industrial or trade issues. The difference in quality of the relations between former Prime Minister Trudeau and Premiers Davis and Hatfield, on the one hand, and between Mr. Trudeau and Messrs. Lougheed, Bennett, Peckford and Lévesque on the other were not entirely dependent on perceived jurisdictional conflict and not entirely independent of personality.

There are few solidly established institutions to bring the eleven sets of Canadian ministers and officials together. Many agree that open ministerial conferences of eleven during the 'executive federalism' of the Trudeau era were a failure. By late 1983 most of the eleven governments eschewed them as exercises in grandstanding by others.

> The approaching federal election was also on the premiers' mind as they refused to accept the Ontario suggestion that Ottawa be pushed for a First Ministers' conference on the economy. Several premiers felt such an event would only give the federal Liberals a national platform for electioneering. (FP, 20 August 1983: 4)

> [A]s far as Ottawa is concerned such gatherings belong to a by-gone era. No longer will the Liberal government preside over sterile, nationally televised conferences where for 10 premiers playing to the home crowd, problem-solving means dissecting federal policies and demanding larger provincial powers. (FP, 31 December 1983: 23)

Academic analysts seem to concur. Brown and Eastman (1981:183) asserted, with reference to the 1978 First Ministers Conferences on the Economy with their industrial and trade implications, that 'there seemed to be constant tension between the imperatives of the open media event, public education, political grandstanding and statesmen-like compromises, and the substantive policy objective of designing a medium term economic strategy.' Moreover (p. 182):

> There remain significant institutional obstacles to open and useful federal and provincial consultation in such a forum. Within bureaucracies there were differences in approach; some federal officials and politicans were much more willing to confer with their provincial counterparts (and more convinced of the need to) than others.

Since 1970 most Canadian governments have established some agency of intergovernmental affairs. Yet these arrangements are not a federal-provincial panacea, since many ministries in all governments have federal-provincial coordination units. At the national level, for instance:

> We ... see that, as with the other broad functions of central agencies, federal-provincial relations fall within the domain of one institution designed primarily to control it. Yet, other central institutions are involved as well. For example, without the expertise and the knowledge generated by Finance in the area of economic, fiscal, and tax policy, conduct of federal-provincial relations is impossible. At the decision-making table, whether in cabinet committee, in an intergovernmental committee, or in an interdepartmental committee, Finance presents its case and its particular point of view which is maintenance of the country's economic stability. Such a view may not always mesh with the more delicate and illusory requirements of political stability, nor with the short-term tactics and scenarios which FPRO (the Federal-Provincial Relations Office) may want to employ to gain a political advantage over one or more provinces. (Campbell and Szablowski, 1979:50)

These disharmonies were apparent, too, at the federal-provincial level in the 1978 First Ministers Conference on the Economy. In addition to the dilemma of the public politics already referred to:

> [a] second but related cleavage within governments was between finance officials and the growing bureaucracy specifically organized to conduct intergovernmental relations....One finance official explained: 'When finance ministers meet, they usually have eleven budgets staring them in the face, and they have pretty hard, specific 'macro' decisions to be made, and they're concerned with the general outlook of the Canadian economy for the next 12-18 months. That's a decision making milieu which operates with real deadlines and specific economic decisions (in terms of instruments if not impact). Whereas my perception of intergovernmental affairs is that you're hardly ever getting down to that kind of specificity or that kind of deadline, and you're dealing often with very general issues!' (Brown and Eastman, 1981:61)

And in the words of a western official:

> 'The battle is between Finance and FPRO. To a lesser extent we have the same kind of tensions in this government. Finance has traditionally had broad responsibilities in this area, but it's inevitable that the intergovernmental bureaucracies, with even broader mandates, and a political sensitivity, will play a greater role. Economic development policies are broad in their scope and intergovernmental people have a better grasp of this than Finance traditionally has had.' (Brown and Eastman, 1981:62)

This potential for conflict between the political economists and the fiscal economists is a very important aspect of federal-provincial trade relations. At the program level, however, there is greater harmony between federal assistance (in trade identification, promotion and financing) and supplementary provincial efforts. As Hayter (1983:30) says: 'Federal and provincial export programs appear to be administered in a spirit of cooperation.' Simeon (1978:8) concurs: 'Often these negotiations are cooperative and harmonious, especially when the relationships are between program professionals at each level.'

(ii) Interprovincial Relations

Even compared to federal-provincial relations, relations between and among Canadian provinces are undeveloped. This is because the former concern shared constitutional interests that can conflict; furthermore, these interests relate to a single territory in two guises--the provincial territory *qua* province and *qua* federal region. Interprovincial relations, on the other hand, concern the narrower band of interests that resemble more international than federal-provincial relations. In sum, regularized personal, institutional and program relations at the political and bureaucratic levels are virtually non-existent among the provinces.

Interprovincial relations relating to trade are of interest to the extent that provinces compete for exports or for foreign investment in their territories, or that provinces combine to press shared export goals on Ottawa. Specific problems of interprovincial trade restraints such as those affecting labour (for example, differing labour standards, strict pension portability rules, and policies favouring local employment) and capital (for instance, preferential tax schemes and local ownership requirements) seem peripheral to the purpose of this paper, however exhaustively studied by researchers (see Safarian, 1980; and Trebilcock *et al*, 1983) or excoriated by federal ministers. They assume more relevance to the extent that they may collectively be 'inhibiting Canada's ability to build world-scale companies that can thrive in an increasingly competitive international market.' (*GM*, 27

September 1983: B3).

There are three annual conferences of provincial premiers: national (all ten provinces), Western (WPC) (four provinces) and Maritimes (three provinces). Their main characteristics are their discontinuous nature and their opportunity for publicity-motivated 'Ottawa bashing'. The 1983 national and the 1984 western conferences emphasized export questions. In August 1983 the ten premiers met in Toronto. As the FP (20 August 1983: 4) saw it:

> It's not difficult for the provincial 10 to agree that more needs to be done to promote foreign trade, in part because it's the federal government that must provide much of the action and expenditure needed in the field. And it's an area in which Ottawa has not shone in the past year.

At the WPC of May 1984, too, the four western premiers called for, among other things: increased trade promotion and marketing efforts, including greater federal-provincial co-ordination and communication in trade fairs and missions; competitive export financing; the encouragement of competitive export consortia; recognition that trade in the Pacific rim is a Canadian priority; an economic climate that encourages international investment; resistance to import quotas on automobiles and other nontariff barriers; and quick action in developing duty-free zones in western Canada (FP, 19 May 1984). As usual, these demands were made to Ottawa, the jurisdictional and fiscal barrier to the West's aspirations; little was offered by way of bargaining, and no difficult provincial trade-offs were advanced.

(iii) Federal-Business Relations

Federal-business relations, too, work at the political/rhetorical level. At its worst, this is marked by a public belligerency from business champions under the banner of economic rationality, free enterprise and international harmony of interests. This is countered by a scepticism about capitalism from government leaders advancing the claims of social justice, planning and nationalism. As Reich (1983:234) puts it in the American case:

> Because neither government nor business can admit to the intimacy of their relationship, both sides treat it as an illicit affair, hiding it from public view and thereby undermining the chances for those aspects of the relationship that do promote positive adjustment to earn cultural legitimacy.

This assessment, modified, applies to Canada where state and private enterprise have long been engaged in mutually-enriching activities. Moreover, the shrillness of totemic debate blinds ideologues to the fact that both positions, however overstated, hold large grains of truth. Items from the Canada West Foundation (1983:26) and the Department of External Affairs (1982:158), respectively, illustrate this:

> The sources of delays and cancellations (to mega-projects) which are of particular concern to the authors of this study are those which arise from economic uncertainty caused by rapid, politically motivated shifts in government policy, and jurisdictional disputes between federal and provincial governments.
>
> Canadian companies strive to show a maximum return on investment, and there have been no incentives for them to upgrade their products prior to export to Japan. In part due to the Japanese metal-pricing structure, it has been more profitable from an individual company's standpoint, to export material in raw form than to attempt the more difficult (and less profitable) marketing route of pursuing metal and fabricated product sales.

Personal relations among members of the corporate and political and official elites play a large role. These relations depend on the size and location of the industry, and are also associated with social class - with certain schools, universities and clubs which tend to form and house the corporate and state elites. (Clement, 1975: 224-269). Personality and image matter:

> Business...appeared so relieved to see the end of Allan MacEachen's reign as Finance minister, it seemed ready to swallow almost anything. Its subsequent tolerance of Marc Lalonde still seems strange, given his authorship of the much-disliked National Energy Program, but his desire to co-operate and consult with business seems to have done the trick. (FP, 31 December 1983: 13)
>
> By last summer Marc Lalonde seemed to have wholly transformed himself in the eyes of business. No longer social-policy activist and energy-policy interventionist, he had become Ottawa's recovery architect, and arguably, the most powerful Finance minister the capital has seen for several decades.
>
> But despite the accolades and the gradual thaw in business-government relations - all vital in the faltering government's game-plan for electoral resurgence - something more was needed.
>
> Enter Roy MacLaren, the then up-and-coming Liberal backbencher from Toronto with real Bay St. connections. Named to the cabinet last August as minister of state in the Finance Department, MacLaren is a former advertising executive and part-owner of Canadian Business magazine, and his mandate is to provide a direct link between Toronto's financial community and the cabinet table. (FP, 17 December, 1983: 9)

At the institutional level (Clement, 1975:349):

> Government and business come together on a number of fronts in Canada but one of the most effective is through advisory councils and associations...created by both business and government....Through these elite forums, and in a variety of other ways, government and industry relate to one another and discover each other's views, form alliances and plan strategies of development not open to the great majority of people.

The Canadian committee of the Pacific Basin Economic Council (PBEC) is one such advisory council. It sees a threefold role: advising Canadian governments; informing Canadian companies on developing or expanding their activity in the Pacific region; and representing Canadian business in international fora such as PBEC International (PBEC, 1984B). As for the first aim, the Committee sees itself as the official private sector advisor to the Canadian government on Canada's relations with the Pacific region. In that capacity, it meets with officials of the federal government and, on occasion, various provincial governments, to discuss issues affecting Canada's trade, economic and political relationship with Pacific countries (PBEC, 1984B). The federal government, for its part, has found in PBEC 'a means for the expression of views to governments individually and jointly' (DEA, 1970:19). Members of PBEC Canada have regular access to certain federal officials; there are, for example, consultations before and after each annual PBEC International meeting.

In addition to information bulletins and seminars (often co-sponsored by the Department of External Affairs and local chambers of commerce) in manufacturing centres across Canada, the Canadian Committee's most prominent information activity has been the sponsorship of the second Pacific Rim Opportunities Conference (Toronto 1982) and its leading co-sponsorship (with eight other business associations and the governments of Canada and Alberta) of the third such Conference (Calgary 1983) following the federal government's first conference in Vancouver in 1980. These conferences provide, inter alia, an opportunity for interested Canadian business people to meet Canadian trade commissioners without leaving Canada.

A number of Canadian firms and individual professionals have supported PBEC from its beginnings. There were roughly 130 member firms in 1984, most of them from the tertiary sector (financial, legal, accounting, engineering, transportation and insurance) and almost half based in Vancouver. The primary sector accounted for about 15 firms - most of them among Canada's corporate giants - and the manufacturing sector for roughly an equal number; few of the latter, however, were among the country's larger firms or were subsidiaries of foreign companies. PBEC Canada's board in 1984 was composed of three members from primary industry (Alcan, Inco, Nova) and 11 with a tertiary affiliation (including three large banks, three large transportation companies and the Vancouver Stock Exchange). The Canadian committee of PBEC was originally sponsored by, and is still closely affiliated with, the Canadian Chamber of Commerce and the Canadian Manufacturers Association, each of which has a director on PBEC's board (PBEC, 1984A).

In contrast with the personal and 'social' dimension, the official, public organization of federal-business relations has not advanced very far. The government-industry consultation in 1978 illustrates the difficulties. Brown and Eastman (1981:178) have identified some of these as the absence of any single business organization to legitimately represent the private sector and the lack of authority of those national bodies that do exist, for reasons of foreign ownership, the cleavages between large and small business, and the regional dispersion of business. They also point out that the 'North American political and social climate is not as conducive to public intervention in the economy as are some European societies' and 'that governments have not been overly anxious to seek extensive consultation. They (governments) are also responsible to many interest groups which lie outside of 'big' business and labour and which are hostile to 'corporatist' institutions. One must also note that corporatist mechanisms do not fit easily into the framework of parliamentary government, cabinet solidarity and bureaucratic responsibility' (op. cit: 179).

Finally, there are federal government programs to assist small and medium firms overcome imperfections in export marketing. Among these are programs to match foreign demand to Canadian supply (the Business Opportunities Sourcing System <BOSS>); to promote trade and investment (pro-actively through the Trade Promotional Projects Program <PPP> and reactively through the Program for Export Market Development <PEMD> and CIDA's Industrial Cooperation Program <ICP>); and to help finance exports (the Export Development Corporation <EDC>) (Hayter, 1983). There is also the domestic Industrial and Regional Development Program (IRDP) with its potential to stimulate the production of exports (DRIE, 1984).

(iv) Provincial-Business Relations

Considerations of the foregoing section apply, *mutatis mutandis*, to the relations between provincial governments and business, with the difference that provincial governments, particularly those that see private enterprise as the engine of provincial development, can encourage, through various policy instruments, especially close relations with firms in their territory. This is clearly the case with the proliferating number of provincial Crown corporations and other quasi-autonomous commercial entities; it can also be so with such sectors as British Columbia's dominant forest products industry or Alberta's giant petroleum industry.

> (M)any provinces are developing their own consultation mechanisms. There is the danger, described by Alan Cairns, that rival governments will seek to bind important economic interests to them, in networks of dependency, and that as a result private interests will find themselves again caught between competing economic and governmental systems. (Brown and Eastman, 1981:189)

4. Summary

Some of the weaknesses in the organization of Canadian export interests may now be apparent. At the federal level, there has been a largely unsuccessful *dirigiste* Pacific export campaign which has attracted few new adherents. Organizationally, the federal government has confused the relationship between trade and industrial responsibilities by creating new ministries of External Affairs, and Regional and Industrial Expansion, while at the same time establishing a supposed super foreign ministry which still shares critical elements of commercial and trade policy with other rival agencies (notably Finance).

Some provinces have shown an equal lack of coordination in their Pacific export activities (see *Vancouver Sun*, 3 September 1984:1, on the case of British Columbia) and even those with some measure of central direction are capable of disregard of the imperative of trade-offs in a federal system, or of the maintenance of the Canadian common market.

Similarly, for reasons of ownership, regionalism, or disparaties in size and focus, Canadian firms, even those qualified in this chapter as Canadian export interests, display a remarkable lack of perceived shared interest- often least of all (as in the B.C. Northeast Coal case) within the same industry.

Coherent Canadian planning has not been helped by the public polemics of political and corporate spokesmen, even in national forums theoretically intended to advance common attitudes. Nor has it been advanced by a proliferation of federal-provincial coordinating bodies which have compounded the problems of scoping agendas and identifying appropriate time frames.

The picture is not, of course, entirely bleak. On the positive side, quiet personal diplomacy among politicians and senior officials in elite forums and social milieux, however flawed from the standpoint of participatory democracy, can (as with the patriation of the constitution) achieve results. And there are heartening instances of cooperation at the program level, as in the federal-provincial-private sector harmony in organizing marketing assistance to threshold exporting firms.

On the whole, however, while Canada's organizational regime may speak well for the country's pluralism and prosperous post-war capacity for wasteful attitudes and organization, it says little for an ability to respond in competitive times to unfamiliar initiatives from abroad. The next chapter describes two important challengers - the trading and investing Japanese general trading company, and the western Pacific's concept of a Pacific economic community. Both require a rethinking and reorganization of Canadian export interests.

CHAPTER 3 - THE CHALLENGES: THE JAPANESE GENERAL TRADING COMPANY AND THE PACIFIC ECONOMIC COMMUNITY CONCEPT

1. Introduction

This chapter describes two Pacific challenges to Canada's export interests in the Pacific. Taken with Chapter 2, it completes the setting for the three case studies.

The first part of this chapter exposes the crucial elements of the Japanese general trading company. Of particular interest are its essential trading nature and its recent investment phase. The second part concerns the long-term challenge to Canadian export interests posed by the evolution of the disparate commercial, functional and strategic elements of the Pacific economic community concept.

2. The General Trading Company and the Pacific Economy

As its ancient insular people have developed a unique industrial culture, Japan has lately become the dynamo of the Pacific economy. Yet, for all modern Japan's importance, few of its institutions have any significant impact outside Japan. The towering exception, without which the Japanese and even the Pacific economies would not be as they are, is the Japanese general trading company (GTC) or sogo shosha.

The trading company is neither a new nor a Japanese invention. Whenever manufacturers have not wished to devote adequate resources to marketing (for example, because of a preference to concentrate on production) or have not been able to do so (for instance, by reason of an ignorance of foreign markets too great to be economically overcome), trading companies have arisen to fill some of the gap between producer and consumer. Trading companies are more likely to thrive in markets of many producers and many buyers and where products are undifferentiated except for price and require no after-sales service (Yoshihara Kunio, 1982:170-171). Manufacturers are more likely to rely on their own marketing devices in markets of many producers and few buyers, and of few producers, especially when buyers are also few in number.

Trading companies make their living by collecting fees on transactions. In a competitive market this living depends on the product of a large volume of transactions and a competitive fee structure. Trade on this scale rests on the efficient collection and manipulation of data relating to the supply and demand of as many commodities as possible. And this information aspect depends in its turn on the quality and location of traders, and on communications technology.

There is no shortage of trading companies. Japan is said to have about 6000 of them (Young, 1979:13) and Canada about 640 (FP, March 31, 1984: S3). What constitute a league by themselves are the GTCs, of which Japan has 16 (the Big Nine of which compete in three divisions determined by sales - Note 2), while Canada, for example, has none.

A number of related characteristics distinguish the GTC from other trading companies. First is the sheer volume of turnover based on large information networks. The average GTC is said to employ over 2,000 specialists (with an average of 15 years of experience) trading over 20,000 items in about 150 overseas offices (Cappiello, 1982:20).

Second is the GTC's financial power. GTCs are very highly leveraged (in fiscal 1981, for example, the Big Nine had a debt:

equity ratio of nearly 8:1), a characteristic made possible by their relationship to enterprise groups (keiretsu) centred on friendly banks and by the orderly borrowing from other banks (even in rival groups) which this permits. These banks and their GTCs co-exist symbiotically. GTCs get capital for trade facilitation; for example, the establishment of foreign affiliates, credit management, and overseas investments and loans. The banks gain group affiliates for the more efficient circulation of their deposits and an experienced 'hands-on' GTC intermediary in loans to commercial third parties. (Yoshihara Kunio, 1982:174-183)

A third characteristic of the Japanese GTC is the support and 'guidance' it receives from the Japanese government (Yoshihara Kunio, 1982: especially 274-293). From the earliest days of the Meiji period, the Japanese government bureaucracy - whether civilian or military - has used the GTC to advance the evolving national goals of what is now called 'industrial strategy' (Reich, 1983; Johnson, 1984). These goals have included, sequentially, the promotion of labour-intensive exports, military imperialism, investment in labour-intensive industry outside Japan, and global sourcing of raw materials and energy. This relationship between government and industry, while not always harmonious, has been facilitated by the general respect most Japanese accord the country's leaders, including the corporate elite who are usually part of an 'old-boy' university network and have themselves often 'descended' from the senior government bureaucracies (amakudari) (Japan Cultural Institute, 1979).

A fourth distinguishing aspect of the GTC is its agility in creating the trade on which its profitability and (given its high debt:

equity ratio) very existence depend. The GTC is threatened by stagnant economies since those producers on which it relies have then occasion to use idle production resources to replace its trading network with their own. Recent examples of GTC agility are their advances into countertrade, and into third-country trade; that is, into deals where neither buyer nor seller is resident in Japan. New skills are continually required and developed. This flexibility, not usual in organizations as large as GTCs, is dictated by their fifth characteristic, one often overlooked by foreign observers: their vulnerability in the face of very keen competition. The 1920s and the period since 1975, in particular, have seen GTCs collapse under debt as the result of poor management strategies or bad credit risks. Firms amalgamate with some regularity, usually within the same enterprise group as their main banker. Current conditions of trade stagnation threaten even members of the Big Nine (FEER, 29 March 1984:89).

The global sourcing strategy of the GTCs, especially since the first oil shock, illustrates all five characteristics. By 1973 GTCs were no longer able to secure stable supply on spot markets or from areas of political or labour unrest, or of inadequate infrastructure. Increasingly aware of the threat this raised to Japan's industry, exports and living standards, the Japanese government (led by the Ministry of International Trade and Industry together with utilities, banks, and heavy and consumer industries) encouraged GTCs to accelerate the quest for industrial raw materials and energy. The GTCs had already in fact initiated these operations because of their capacity to use GTC services in mammoth and accordingly very profitable transactions. Adding to their human skills, the GTCs made contacts and organized production in resource-rich countries around the Pacific basin. They were not the first mulinationals or even the first trading companies to have done so. European trading firms had shown the way since the seventeenth century, reaching a peak in the high imperial age, even in Japan (Yoshihara Kunio, 1982:184). But, in many ways, the methods of the Japanese GTCs, dependent on their trade goals and organization, differed from those with which Pacific governments and their companies were familiar; these differences presented a novel challenge to trading partners, including Canadians.

In the first place, the GTC was not interested in controlling ownership of production facilities. Indeed, since their object was trade and since their resources disposable overseas were limited (particularly before the relaxation of Japanese exchange controls around 1970), the GTCs (and other large Japanese firms) were content to offer loans and/or minority interest joint ventures with local firms. Even this minority risk was often shared with other normally competing GTCs. This arrangement had the additional advantages of providing a lower political profile in sensitive foreign jurisdictions than that of the complete ownership preferred by vertically-integrated manufacturing multinationals, while affording the same access to the producing industry's information. This information proved useful to the GTC in its frequent role as buyer or coordinating agent for the buyer which was typically a group of Japanese firms in the same industry. To sum up:

> Japanese investors seem to prefer joint ventures. Why? One reason is that some Japanese investors do not have adequate funds...(Second) a partner in the host country can be useful in many ways...(Third) inexperience on the part of Japanese investors is also a factor. (Yoshihara, 1978:44)

These, however, seem partial answers. The key may lie in Yoshihara's later remark in discussing the electronics industry.

> The willingness of Japanese firms to invest under a joint-venture arrangement is somewhat puzzling to those of us who believe that complete ownership is, in general, a better corporate strategy than joint venture. Complete ownership, for example, prevents disclosure of proprietary knowledge....But this problem does not arise if the level of technology to be transferred is low (or, a fortiori, there is no such transfer)....In this case, it is sufficient to assume that the overseas affiliate operates under instructions from the parent company. (Yoshihara, 1978:167-168)

Another contrast with the strategy of the wholly-owned subsidiary of the manufacturing-based multinational firm is that its transfer pricing is replaced in the Japanese model by the long-term purchase contract. These contracts, typically for 20 to 25 years and at a fixed price, suit all interests directly concerned - the producers for their apparent guarantee of a fixed return on investment, the Japanese consumer for a more guaranteed regularity of supply and price, and the GTC for sustained trade on which survival depends. Being based in shared interests and mutual dependence, these contracts constitute informal partnerships subject to renegotiation (often under 'mutual cooperation and understanding' clauses) as demand varies. According to a number of observers (including Drysdale, 1983), this partnership will work well as long as the negotiating strengths of seller and buyer are roughly equal and as long as government intervention, based on shorter-term political considerations, can be avoided.

3. The Evolving Pacific Economy

The international corporate economy is not only a current phenomenon; it is also the basis from which originate a number of concepts about the direction of an evolving Pacific economic environment, involving some degree of integration and institutionalization. The past two decades have witnessed a growing debate over concepts variously termed the Pacific 'economy', 'rim', 'basin', or 'community'. These terms, and others like them, have reached the status of cliche, widely used but not clearly understood. Yet they spring from quite specific and interested visions of a future Pacific economy.

The middle ground between pan-Pacific regionalists and bilateral sub-regionalists has long been occupied by a number of senior Japanese and Australians, for the most part economists, operating at the policy interface of the worlds of business, academia and government. It is logical that Japan and Australia provide the soil from which ideas on an evolved Pacific economy or Pacific community should first emerge. Respectively the industrial exporter and the developed resource exporter par excellence, insular Japan and the island continent Australia are Pacific states in a sense which none of the other major Pacific trading economies is. The United States, Canada, the U.S.S.R. and China abut the Pacific - in such cities as Los Angeles, Vancouver, Vladivostok and Shanghai, but their capitals and their 'brains' have long been elsewhere. Washington, Ottawa, Moscow and Peking have traditionally had their priorities in land-locked continental questions and/or in Europe. Japan and Australia, whatever their dissimilarities, are Pacific states before all else: their major centres of population front on it, their economies depend on it, and their histories over the past century have increasingly emphasized their dependence; the abrupt dissolution of the Japanese and British empires left both isolated in a post-1945 world which was centred on the distant North Atlantic.

(a) Elements of the Evolving Pacific Economy

(i) Business

The Pacific Basin Economic Council (PBEC) represents a group of Pacific interests which has evolved from the Australia-Japan Business Cooperation Committee founded in 1961. The backgrounds of its founders, Sir Edward Warren, once chairman of the Australian Coal Association, and of the Coal and Allied Property Limited, and Nagano Shigeo, once honourary chairman of the Nippon Steel Corporation and president of both the Japan and Tokyo Chambers of Commerce and Industry, suggest the Council's initial and continuing ties with industry elites in those states in which it has members.

In 1968 PBEC held its first meeting in Sydney with Member Committees from Japan, Australia, New Zealand, Canada and the United States. A Regional Member Committee [which in 1983 consisted of ASEAN, Hong Kong, the Pacific Islands, Mexico, and a Latin American Regional Division (including Peru and Chile)] has since been formed. South Korea and Taiwan were granted Member Committee status in 1984.

Article 1 of the PBEC Covenant gives as its principal objectives the strengthening of the business enterprise system, the improvement of business environments, the generation of new business opportunities and relationships, and the increase of international trade and investment (PBEC, 1983:64). According to the Santiago Resolution (PBEC, 1983:62):

> PBEC pursues its purposes in three principal ways. The first is to provide an international forum for an **exchange of views among businessmen** of the Pacific Basin and other nations on topics affecting development of the region. The second is to provide **advice** and counsel **to governments** and international agencies on **basic economic business matters** affecting the Pacific Basin. The third is to provide information to other organizations concerned with Pacific development and cooperation to ensure that private sector views play a role in the contemporary dialogue about Pacific affairs....The private sector must **play a role in developing a suitable business environment.** It must increase its understanding of the interaction between domestic and international political and economic forces. It needs to **promote better government-to-government policy coordination** and to **improve private sector-government liaison programs.** (emphasis added)

To realize its objectives PBEC is directed by a rather unwieldy Steering Committee whose chairman is the International President. The Steering Committee appoints an international director-general to head a recently formed international secretariat.

PBEC Canada has had a measure of success in representing Canadian business in international fora. A number of senior Canadian corporate personalities have been members of PBEC International's executive (J. H. Stevens, the Chairman of Canada Wire and Cable, was International President in 1983-84, for example) and have achieved a place in what Eric Trigg of Alcan calls the Pacific 'mafia' (Woods, 1983:44).

(ii) Economic Research

A more or less purely academic strand of the Pacific economic evolution began when then Japanese Foreign Minister Miki Takeo asked Dr. Kojima Kiyoshi to follow up his 1965 paper on a 'Pacific Economic Community' with a survey of the extent of regional interest in such a community. Dr. Kojima, professor of international economics at Tokyo's Hitotsubashi University, was an early proponent of a Pacific Free Trade

Area (PAFTA) whose design involved the abolition of trade barriers among the five advanced industrial countries (AICs) of the Pacific and tariff concessions to the region's less developed countries (LDCs) and newly industrializing countries (NICs).

While the PAFTA concept formed the basis of Miki's foreign policy, it was opposed by many of Japan's Asian neighbours. The region's developing states were attracted neither by a plan which stirred fears of Japanese hegemony nor by a meaningless free trade region which would be simply a part of a wider global free trade system. These reservations have been succinctly stated by two senior south-east Asian leaders, the Malaysian Foreign Minister and the Minister of Economic Planning for the Philippines:

> A Pacific community concept that promises little beyond the freezing of the present international division of labour and the entrenchment of the current political and military divisions of the developed North will be quite distasteful to ASEAN. (Ghazali Shafie, 1981:78)

And: if the United States and Japan 'are pursuing a policy of an open, global and multilateral international trading system' and hence cannot pursue preferential relations, 'one wonders how special a region the Pacific is, especially if it is only a part (perhaps even a minor part) of the global relations of the Pacific countries' (Sicat, 1982:58).

Nor would PAFTA necessarily favour smaller AICs:

> Trade liberalization between the United States, Japan, Canada, Australia, and New Zealand could be substantial and immediate, but as it proceeded major problems would be confronted. Japan would benefit greatly from wider access to the other markets, while its own would remain relatively protected by cultural factors and by the well-established neomercantilist

> orientation of the business-government partnership. The unfavorable balance in U.S. trade with Japan would grow but U.S. exports to Canada, Australia and New Zealand would increase. Unless protected, moreover, efficient moderately sized industries in those smaller economies would be absorbed or eliminated by U.S. and Japanese firms. (Boyd, 1982:251)

PAFTA was dealt a final blow by Japanese 'internationalists' who maintained that Japan's best strategy was to emulate the U.S. as a global trader committed to an open and universal economic system, not an inward-looking European Community-type free trade region. In 1968 Dr. Kojima convened the first Pacific Trade and Development Conference (PACTAD) in Tokyo; this session laid to rest the PAFTA concept. Since then, there have been twelve PACTAD meetings of economists in various AIC, ASEAN and NIC cities around the Pacific - two each in Japan, Australia, Canada and the United States; one each in New Zealand, South Korea, Thailand, the Philippines and Mexico. Each meeting has had a theme (See Table I); these themes and the particular venues seem to have determined the nationalities and economic specializations of those who accept invitations to attend. In 1981, for example, the theme 'renewable resources' drew representation to Vancouver from thirteen countries and three international organizations (English and Scott, 1982:5). Since 1978 all Pacific states (including China, Taiwan, Brazil, Venezuela and the USSR) except the Central American republics, Columbia and the Indochinese states have been represented at least once. As with PBEC International, however, there is a core of individuals and institutions in regular attendance.

As PACTAD evolved from Dr. Kojima's free trade orientation to broad substantive economic topics, some of the core participants nurtured an interest in an official international institutionalization of the

TABLE I

THEMES ADDRESSED BY THE PACIFIC TRADE AND DEVELOPMENT CONFERENCES

(PACTAD)

Year	Theme
1968	Alternative trade arrangements
1969	Role of developing countries
1970	Foreign direct investment
1971	Obstacles to trade
1973	Adjustment policies
1974	Transfer of technology
1975	Island economies and ocean resources
1976	Trade and employment
1977	Mineral resources
1979	ASEAN
1980	Advanced developing countries
1981	Renewable resources
1983	Energy
1984	Financial services

Adapted from: L. Woods, 'Political Science Sets Sail: the Pacific Community Concept', 1983, table 9, page 38.

Pacific economy. In 1979-1980 these interests matured in the shape of two concepts under the respective aegis of the East Asia-Pacific Subcommittee of the United States Senate Foreign Relations Committee, and Japanese Prime Minister Ohira Masayoshi.

The U.S. Senate sponsored-report, 'An Organization for Pacific Trade and Development (OPTAD): an Exploratory Concept Paper' by Peter Drysdale of the Australian National University's (ANU) School of General Studies and Hugh Patrick of Yale University's Economic Growth Center, proposed a structure like that of the Organization for Economic Cooperation and Development (OECD) with a Council of Ministers and permanent secretariat format; unlike the OECD, however, OPTAD would include developing as well as developed states and would avoid a large bureaucracy. OPTAD would be a consultative body with periodic summits and would formulate joint policies on issues relating to Pacific economic interdependence. The OPTAD report suggested the establishment of ad hoc task forces of professional experts to investigate a number of areas: trade restructuring (including the adjustment process and relocation of resource- and energy-using industries); free and fair trade; the financing of regional development (including the use of capital markets and the untying of aid); foreign direct investment (including a code for such investment); resource and energy security (including stabilization programs); and the issues of trade with communist states.

The Japanese initiative, under the initial chairmanship of Dr. Okita Saburo (before he moved to the foreign ministership), was prepared by a number of Japanese academics. The 'Report of the Pacific Basin Cooperation Concept' (PBCC) proposed an open 'cooperative organization' with a wide membership - a modified OECD to ensure the realization of the Pacific region's full potential.

> As the impact of industrial growth of the Pacific region's newly industrializing and developing countries gains in intensity, a forum will be needed for more effective debate and cooperation on North-South industrial adjustment. (U.S. Congress, 1981:42)

The principal tasks of a Pacific Basin Industrial Policy Consultative Forum would be:

> ...to increase the transparency of mutual industrial activities and policies and foster common understanding of them through exchange of information, and also to formulate a structure of dynamic international division of labor around the region....The Forum's activities should initially center on information exchange, surveys and research. Eventually, however, it should be developed into a policy-oriented body. (ibid.)

But nothing came of these proposals. Although the OPTAD report proposed that the United States take the lead in establishing regular international summits, Congressional and State Department support was hesitant, partly for reasons of deference to ASEAN feelings. The Government of Japan too was unwilling to appear to be railroading the smaller economies of the Pacific region. In July 1982, South Korean President Chun Doo Hwan called for a heads-of-government meeting of Pacific rim countries 'to discuss matters of mutual concern and consult on ways and means to expand mutual cooperation' (English, 1983:340), but nothing came of this either and the prospect for the institutionalization of the Pacific at the government level withered. The notion of task forces, however, survived.

(iii) Strategic

There is a third element in the evolving Pacific economic tapestry, though it is more like the loom's frame that the commercial warp and economic weft just assessed. This strategic element is interested in the longer term and the wider focus of the balance of inter-state power, a balance in which trade and investment, and economic order and efficiency, play only a partial, if important, role along with such other factors as the military and 'national resiliency'. Strategy is the province of governments and their researchers, its shape is foreign policy in the most comprehensive sense, and its means are diplomacy and war.

If it was the Japanese and the Australians who took the lead in corporate and economic research efforts to elaborate the Pacific economy, it has been Americans who have stressed the strategic factor. The U.S. government, with its global interests and its long military and commercial history in the Pacific, cannot ignore the security issues (for itself and its allies) raised by present and possible power configurations in that vast region. A recent example has been the U.S.-Japan relationship with its important security aspects.

> (The Williamsburg economic summit of June 1983) coincided with the ascendancy of a 'Pacific basin' group in the Reagan administration which argues that US and Japanese interests converge on a broader range of international economic issues than do those of the US and Europe. US Secretary of State George Shultz, a prime mover of the Pacific lobby, set the stage at Williamsburg, and (Japanese Prime Minister) Nakasone did not disappoint him: the summit demonstrated (in, inter alia, endorsing a new global round for GATT) how the international agenda can be shaped in their common interests once the two Pacific powers - which together comprise 35% of the global economy - cooperate....This is a broader view than that of the hawks in the US trade bureaucracy, for whom beef and citrus exports symbolize the US historical mission to open the Japanese market. (FEER, 14 July 1983:55) (parentheses added)

And, demonstrating the supremacy and inclusiveness of the security perspective over the shorter-term trade and economic positions:

> (As a result of the American president's visit to Japan in mid-November 1983, Reagan and Nakasone) laid the groundwork for closer cooperation on a number of issues, especially mutual security. If each man can stay in office for another term, US-Japan relations could become substantially different from earlier ties. Essentially, Reagan has listened to Secretary of State George Shultz, US Ambassador to Japan Mike Mansfield and others who take the big-picture approach to US foreign policy. These policy planners see Japan, not China, as the nation best suited to furthering American interests in Asia....If Reagan and Nakasone have their way, (the) bond will be based much more on political-military interests than in the past....Economic differences will persist and probably widen, but the White House and sections of the US State Department will not let trade disputes transcend the US-Japan security alliance. (FEER, 24 November 1983:14) (parentheses added)

This strategic awareness plays a major part in U.S. academic consideration of the region (Krause, 1981; Niksch, 1983). The Pacific Basin Project of the Georgetown Center for Strategic and International Studies is a good example in that it:

> seeks to place the strategic and economic significance of the Asian-Pacific nations into global perspective, with special reference to the emerging identity of the regional 'Pacific Basin Community' concept....The project, begun in 1978, is multidisciplinary in approach, concentrating on the interplay among political, economic, and security factors affecting the Asian-Pacific region and the interconnections of that region with the United States. The objective is to promote mutual understanding and provide information and analysis for policy discussions in Washington that concern the individual nations of Asia and the Pacific Basin and multilateral movements toward regional cooperation. (CSIS, 1983:1)

Other states in the Pacific, such as Australia, Korea and Taiwan, though by no means able to ignore questions of regional security, have been able to pursue other values more actively under the umbrella of American security than they otherwise could have. The socialist states of the Pacific have shown varying degrees of hostility to the presence and potential of American military power, while still other states, notably those of ASEAN, have courted American presence to a degree dependent on their perceptions of the threats from other contending regional or global powers. As the former Malaysian foreign minister's remarks (supra) make clear, this attraction-repulsion has made such states wary of subscribing to concepts or institutions in which the political/strategic element was suspected.

Indeed, uncertainty as to what governmental commitment might entail in terms of future consequences has stayed the hands of all Pacific governments, not least of all Canada's (see Chapter 7 infra). Apprehension about being seen either to take too directive a lead or to be dragged along in a powerful tow has meant that even the most anodyne suggestions have generally failed to elicit public support from currently active, as opposed to retiring or aspiring, national leaders.

4. Summary

This chapter has identified two challenges to Canadian export success. Following on from, and contrasting with, Chapter 2's analysis of weaknesses in the organization of Canadian export interests, the exposition of these challenges sets the stage for a delineation of principles by which Canadian export interests may achieve the coherence to perform better.

CHAPTER 4 - PRINCIPLES FOR CANADA'S INSTITUTIONAL RESPONSE TO THE PACIFIC CHALLENGES

1. Introduction

This chapter proposes six principles which may be used analytically and normatively to move from an inadequate institutional reaction by Canadian export interests to a more coherent and effective response to the recent Pacific challenges to Canadian export performance.

These principles are divided into two sets - those of legitimacy and those of communication. The four principles of legitimacy derive in the main from recent Canadian experience and the consideration of that experience by Canadian analysts (for example: Brown and Eastman (1981), Cairns (1977), Campbell (1983), Carmichael and Stewart (1983), French (1980), Phidd and Doern (1978), Simeon (1978), Stairs (1981), and Veilleux (1979). The principles advocate (1) that primacy in formulating Canadian export policy and programs be given to economic considerations, (2) that the important role of senior Canadian governments be recognized in this formulation, (3) that the full role of provincial governments be acknowledged, especially when natural resources are involved, and (4) that the government in Ottawa coordinate the Canadian position by acting as a national government, not just as one contending government in a federal state.

The two principles of communication are also rooted in recent Canadian experience, drawing on the analysis of Canadian and American theorists (among the latter: Cohen (1969), Friedmann (1973), Friedmann and Hudson (1974) and Johnson (1982)). These principles propose (1) that each complex Canadian export interest speak with a single authoritative voice and (2) that better sharing and use of information be developed among Canadian export interests.

2. Rationalism and Organization Development

Friedmann and Hudson (1974) posit rationalism and organizational development as two major post-1945 planning traditions. Rationalism, explicitly embraced by the Trudeau governments from 1968 to 1984, is defined as 'a set of methods designed to prepare information in such a way that decisions can be made more rationally' (1974:8) through the setting of goals, the formulation of alternatives, the prediction of outcomes, and the evaluation of these alternatives in relation to the goals and the outcomes. Many of the weaknesses attributed to rationalism apply to the Trudeau era's initiatives within the federal bureaucracies and among the bureaucracies of the other Canadian export interests. A major problem was that of coordination - the inability to implement Ottawa's decisions once taken. Another was disregard for the fact that 'the future does not unroll incrementally but in a disjointed series of crises, breakthroughs, and transformations' (Friedmann and Hudson, 1974:8). Or, in the words of a senior Ottawa official (quoted in McCall-Newman, 1982:34):

> 'Like so many ideas that the Trudeauites conceived, (the new government machinery) was completely rational but deeply impractical. It was based on the belief that you could construct a system and then force not only people but events to fit themselves into it.'

Instead of rationalism, this chapter relies on the tradition of organization development whose operating principle (according to Friedmann and Hudson (1974:10)) is that 'planning could not be meaningfully separated from implementing action' and that 'any lasting change in process and structure must come from within the organization and involve far-reaching changes in awareness, attitudes, behaviour and values on the part of its constituents.' In this paper 'the organization' is taken as being that within and among Canadian export interests as defined in Chapter 2.

Chapter 2 suggests the complexity of these Canadian export interests, all of differing sizes and locations, all with different policies and financial capacities. This variety of interests must provide the basis for planning a more adequate response to the challenges set out in Chapter 3. The current dispensation has history and defenders; it cannot be wished or commanded away for purposes of intellectural, political or commercial expediency. Nonetheless, it is susceptible to the application of concepts which might further the interests of its decision-makers. This Chapter proposes an overall goal - coherence - and six principles which could take hold in a country increasingly aware of the interdependence of its parts in a time calling for better responses to a reduced number of opportunities.

Coherence can be defined as the quality of being logically consistent, well-knit, clear and intelligible. In the present context this means that participants in a fragile federal economy ought not sustain relations approximating those of rival sovereign states. Relations among Canadian export interests must take place in a more consensual context than at present; all Canadian interests must increasingly coordinate their goals and methods in order to present a more coherent position in foreign trade.

Coherence is, of course, easier to propound than to realize. There is a loop consisting of cooperative attitudes and coordinated organization. Most theorists underline the importance of attitude. Cohen (1969:3) suggests that enlightened self-interest form the basis of a cooperative psychological environment. Such perceived self-interest underpins and issues from what are called here principles of legitimacy.

Cooperative organization rests on principles which may be essentially constitutional, fiscal or political (power-based). Without denying the relevance of these bases of organization, this thesis relies on principles of communication as those upon which the coordination of Canadian economic interests should be founded.

Since the goal of greater coherence consists of elements of better attitudes and better organization, the six principles of this chapter are divided into two categories: principles of legitimacy and principles of communication. The four principles of legitimacy assert an appropriate role for each of the three major sets of Canadian export interests: the private sector, and the provincial and federal governments. The two principles of communication relate, first, to authoritative communication by each interest, and, second, to improved communication among Canadian interests.

These principles can be applied analytically to criticize inadequate past and present organization and normatively to suggest adequate response. Both kinds of application will be undertaken in the case studies of Chapters 5, 6 and 7. The six principles are based in the strengths and weaknesses of Canadian planning experience as interpreted by planning theory. Some of this theory is Canadian in that it has been developed with reference to Canadian experience. Some is foreign in the sense that it was elaborated in response to other (American, Japanese or French) conditions and issues. Clearly, the Canadian system, different in many aspects even from those countries most similar to it, cannot hope to copy wholly the theory or practice of another place. Johnson (1984:6) warns that the 'United States cannot and should not copy Japan's industrial policies. The responsibilities, endowments and political institutions of the two countries differ too much for that.' And Cohen (1969:30) makes clear that 'the power structure in which French planning operates determines the nature of the planning process.' Yet, alert to inappropriate or contradictory alien elements, Canadian planners may profitably consider lessons from abroad as well as these from their own experience and situation.

3. Principles of Legitimacy

Whether the public polemic originates in a corporate boardroom, a government cabinet or an intergovernmental affairs bureaucracy, it must be acknowledged that the politicization of relations among Canadian export interests is not simply a limited bargaining tactic. It is also a symptom of and, through positive feedback, a cause of the rending of the national community. If each Canadian export interest is to achieve its goals in harmony with each other (and is not to fail to achieve them in harmony with non-Canadian interests), it is necessary for each of them to recognize the capacity of the others to thwart; or, put another way, each must recognize the legitimate role of the other Canadian export interests.

(1) The Priority of Economic Considerations

The first principle is acceptance that the decision to produce and market goods and services for export should *prima facie* be one for private enterprise to take on the basis of economic considerations. This principle is founded in the current disrepute of public sector interventions which have been criticized as being too costly for their economic and social returns. These interventions have included subsidies to industries with limited linkages to the depressed regional economies into which government policy set them (Weaver and Gunton, 1982); subsidies to uncompetitive, traditional 'smoke-stack' industries; and very high subsidies to wasteful 'strategic', high-technology industries, often Crown corporations.

Since many private companies have benefitted from patently uneconomic arrangements, the first principle is not an unconditional legitimization of whatever the private sector characterizes as desirable. The test is, rather, whether the production or marketing arrangement in question is economic in terms of such classic tests as appropriate scale, profitable marketing and efficient use of factors of production.

(2) The Legitimate Role of Government

The second principle is acceptance (subject to the first principle) of the legitimacy of a government role in industrial and export policies. In the pursuit of values sometimes related to economics and commerce and sometimes to other political or social considerations, national and provincial governments have become progressively and inextricably involved in everything, whatever the nineteenth century shibboleths of free enterprise or the equally hoary legalities of the constitution.

> What we have seen is thus not so much centralization or decentralization as the expansion of <u>both</u> levels of government. One result of that is that it is difficult to find any field of public policy today in which both levels of government are not deeply involved. (Simeon, 1978:8)

<u>(3) Full Provincial Participation</u>

The <u>third principle</u> concerns the legitimate and reasonable rights of Canadian provinces to participate fully as Canadian export interests. This principle has a basis in the reality of the evolution of the Canadian federation:

> L'accroissement de l'interdépendance des niveaux de gouvernement fût accompagne d'une dimunition de leur autonomie. En effet, l'interdépendance implique que les niveaux de gouvernement doivent nécessairement se concerter s'ils veulent agir de façon cohérente. S'ils refusaient d'harmoniser et de coordonner leurs actions, celles-ci pourraient s'opposer ou se contradire, devenant ainsi inutiles ou inefficaces....L'autonomie provinciale ainsi que son corollaire, l'autonomie fédérale, n'existent plus....
>
> En perdant leur autonomie, les gouvernements ont perdu leur capacité de décider en toute independance dans des domaines bien circonscrits. Mais à cause de l'interdépendance des fonctions de l'Etat moderne, ils ont la possibilité de participer aux grandes décisions dans des domaines ou ils étaient autrefois absents. (Veilleux, 1979:42-43)

As an Alberta official put it (Clifford, 1981:7):

> While regulation of international trade and commerce is clearly a federal prerogative, the promotion of trade is an area where both provincial and federal governments can play an active role.

Indeed, (as demonstrated for Alberta in Chapter 2) the activities of those provinces (British Columbia, Alberta, Ontario and Saskatchewan) with the greatest export potential in the Pacific can hardly be denied. The federal government has been unable to satisfy the variety of economic interests in Canada's constituent provinces and regions with a national economic policy. At the same time, because of their greater economic and political homogeneity, a number of Canadian provinces have evolved industrial-export strategies (whose origins are explained in Davenport et al., 1982:35), with more detail, coherence and political support than has been possible at the federal level.

The third principle does not mean that provincial governments may advance industrial-export policies which erode the Canadian common market or that they should engage in such devices as beggar-my-neighbour subsidies to attract foreign investment from other provinces.

(4) Coordination by the National Government

The fourth principle of legitimacy is in many ways the most important and the most subtle: that the national government's proper role is to coordinate in a creative manner the various, but not invariably conflictual, Canadian export interests as defined in this thesis while also heeding those other 'residual' export interests mentioned in Section 2 of Chapter 2.

This principle does not relegate the federal government to being the headwaiter for the provinces (or other interests) as P.M. Trudeau, arguably the autocrat of the national breakfast table, once warned. What it may entail is:

> a distribution of powers that much more clearly restricts the federal government to what is clearly national in such areas as foreign policy, defence, regional income distribution, a maintenance of the common economic market, and some of those powers that are required for improvement of our economic stance in the world....(Simeon, 1978:23) (emphasis added)

This view of the role of the national government is challenged by Rexford Tugwell, an American progenitor of conjunctive planning (Weaver, 1984). Tugwell's formula of a strategic interference by the state in the service of values in a holistic society demands too much from federal, pluralistic Canada. Yet the words of his fifth lecture (1958) on 'The Place of Planning in Society' (Padilla, 1975) bear consideration:

> The truth is that in a technological society...., the one inescapable imperative is that each activity shall derive from a well-conceived whole, rather than that separately undertaken activities shall be thought of as adding up to a whole. The additive conception makes any coordination impossible. And it seemed inevitable that the believers in minimum strategic controls would find in time - when the period of ebullient production to be paid for carelessly by inflation was over - that this was so. Their fiscal devices would not be enough to insure the continuous activity of a system whose parts did not supplement each other, did not, as a matter of fact, make a defensible whole. (p. 120)

The Canadian relevance of this passage is that the Canadian government must create the 'well-conceived whole' from elements of other Canadian export interests and from those other Canadian interests ('threshold firms', for example) which it wishes to promote. It is important, as Tugwell suggests, that coordination need not mean the mere addition of parts or a mindless countervailing; coordination in the Canadian context should mean the arrangement of Canadian export interests in a relationship which permits an efficient and harmonious working together.

The national government has a number of advantages in its role as creative coordinator of Canadian interests - its superior constitutional capacity to raise money through taxation, its ability to regulate in a wide variety of inter-sectoral, interprovincial and international contexts, and, not least of all, its superior administrative and technical assets. All three permit the 'buying' of compliance from otherwise recalcitrant provincial governments or industries or firms. The advantage in human capital also permits some of the strategies to be proposed in the next section.

4. Principles of Communication

The two principles of communication presuppose a growing acceptance of the principles of legitimacy. Coherent communication, whose antonym is dissonance, can only proceed when Canadian export interests accept limits on their own legitimate areas of activity.

(1) An Authoritative Voice for each Export Interest

The first principle of communication for an improved Canadian export posture is that there be an authoritative coordinating agent for each of the Canadian economic interests. This intra-interest coherence would meet both French's criticism (expressed in Chapter 2) that effective planning requires the concentration, not the diffusion, of power in each planning unit, and Johnson's point (1984:12) that the role of government (or, in Canada's case, governments) in export promotion ought to be an explicit attempt to coordinate its multifarious activities and expenditures to develop various industries for global competitiveness. This principle is difficult to realize. Quite apart from inter-ministerial infighting and over-lapping jurisdictions, cabinets, which are at least notionally subject to central direction, often find it politic to pursue, or to permit the pusuit of, contradictory or inconsistent directions by subordinate agencies. The situation of firms and industries is even more problematic. Unlike governments, industries are composed of units (firms), whose coherence is usually merely classificatory (in the sense, for instance, of the auto industry, the coal industry, the engineering profession). In a free enterprise approximation, firms in a single industry compete with each other (prime example, Northeast Coal) and their associations (as suggested in Chapter 2) are weak, single-issue groupings.

(2) Better Sharing and Use of Information

The second principle is that Canadian export interests share and use information in new ways. Steps must be taken to move from what John Friedmann calls a corporate type to a policies type of planning (see Table II). This implies turning from bargaining among Canadian export interests to restructuring the environment for decisions through policy announcements, inducements and information (Friedmann 1973:75). Cohen's work on educative and indicative planning is germane here. Educative planning has a number of apparent goals. One of them is to introduce a more common attitudinal and methodological world-view among top business people and senior civil servants through participation in forums on such questions as government policies and activities, industrial organization and foreign competition (Cohen 1969:3). The Canadian seeds for the kinds of forums Cohen speaks of are already planted (see Brown and Eastman, 1981), but require cultivation.

As important in encouraging coherence as approaches to a common perception is the sharing of information that Cohen (1969:10) calls indicative planning. This would have representatives of major

TABLE II

THE CORPORATE AND POLICIES PLANNING STYLES OF ALLOCATIVE PLANNING

	Corporate Planning	Policies Planning
Distribution of Power	Fragmented	Weakly centralized
Method of Implementation	Bargaining	Mixed Field Controls - general rules - inducements - information
Predominant Forms of Control	Normative Compliance	Restructuring of the decision environment
Predominant Orientation toward	Processes	Policies
Characteristic Role of Technical Experts	Negotiator and Broker	Advisor

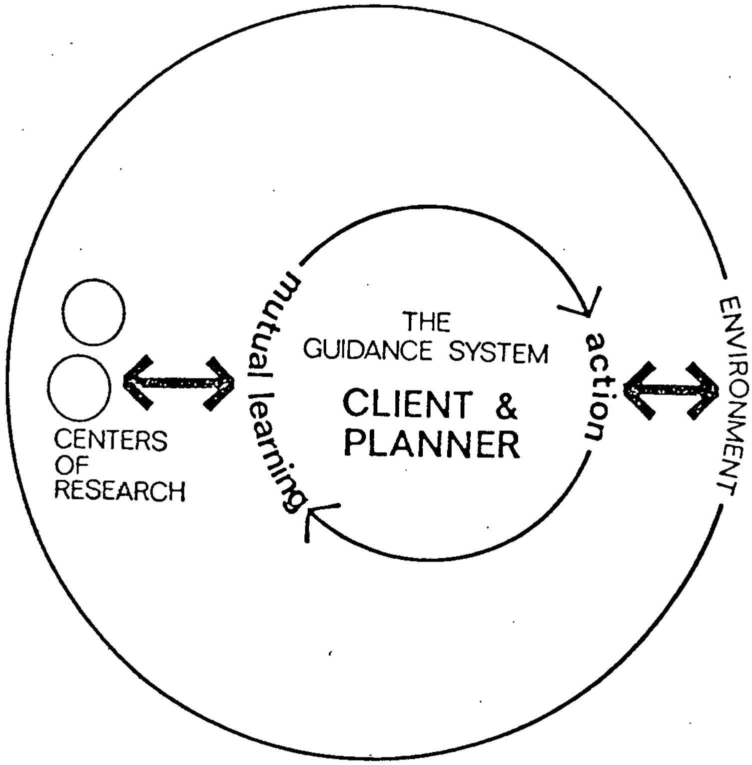
Adapted from: John Friedmann, Retracking America, table 1, page 71.

Canadian export interests construct giant market-research projects for the main export sectors. Indicative planning features the collection and organization of information which is more complete and comprehensive than any single interest could access on its own; this information is also significant in that it is consistent and available to all. At present Canada is far from a system like indicative planning. Each Canadian export interest has jealously guarded information from other interests. For reasons of competitive production or marketing strategy, public relations, political sensitivity, indifference, mistrust or bad will, Canadian export interests regularly deny each other data, often available to non-Canadian interests, which would assist each in its planning.

These improvements in communications strategy and technique have organizational implications. Planning Canada's export policies and their implementation in the Pacific economy, as elsewhere, will require more coordination, not just consultation, than has existed in peacetime among Canadian industry and governments. Periodic gatherings are not the only, or the best, means to this end. The senior bureaucracies of the Canadian export interests should be in regular, face-to-face contact. This would mean, for example, the location of senior federal coordinating officials in provincial capitals and industrial centres across the country. Communications on the export economy should be exercised at the level of particular industries and particular projects; this would involve joint on-site planning by senior line officials from the federal government and affected corporations and provinces.

One way to strengthen mutual understanding, consultation and coordination lies in the formation of a pool of expertise in the field of industrial-export policy-making and implementation through encouraging cross-pollination of personnel across the now relatively impermeable barriers of various governments and industries. Contemporary Canada, which cannot rely as has post-war Japan or as a less pluralistic Canada once did (Granatstein, 1982) on a cadre of mandarins, should strive to approximate this community through secondments, transfers and exchanges of senior and, especially, middle ranking officials. This process has long existed at the summits of government and industry, and has occurred spontaneously at lower levels as relatively highly-trained federal officials, for example, have 'devolved' to provincial and industrial bureaucracies. It now needs to be pursued consciously by decision-makers in all Canadian export interests to ensure that the views of each are understood and, if possible, shared by all. In some ways this cross-pollination is an instance of Friedmann's transactive planning concept in the sense of being a continuous mutual learning among 'migrating' officials (the planners) and Canadian export interests (the clients). Transactive planning can be defined (after Friedmann, 1973), as a style applicable to both allocative planning (concerned with actions affecting the distribution of limited resources among competing users) and innovative planning (concerned with actions that produce structural changes in the pattern of institutional arrangements that guides the processes of change in society) in which processes of mutual learning (in which knowledge of the planning expert is related to the personal knowledge of the clients) are closely integrated with an organized capacity and willingness to act. Figure 1 gives a schematic representation of the transactive style.

FIGURE 1 - A MODEL OF TRANSACTIVE PLANNING



PLANNERS CONTRIBUTE

- concepts
- theory
- analysis
- processed knowledge
- new perspectives
- systematic search procedures

CLIENTS CONTRIBUTE

- intimate knowledge of context
- realistic alternatives
- norms
- priorities
- feasibility judgments
- operational details

Source: John Friedmann, Retracking America, Figure 7, p. 187.

5. Application of Principles to the Case Studies

Chapter 3 has delineated two challenges to Canadian exports: the GTC challenge as trader and as coordinator of investment in Canada; and the evolution of the Pacific economic community concept. The final three chapters will suggest, on the basis of the principles of this chapter, an alternate approach to each of these challenges.

None of what follows is particularly radical. A number of complex, largely inertial Canadian export systems already exist. They are not utterly inadequate and in any case there can be no starting *de novo*. Proposals made in the following chapters are therefore largely incremental and suggestive.

CHAPTER 5 - CASE STUDY 1: THE MARKETING CHALLENGE

1. Canadian Reaction: The Canadian Trading Corporation

By 1980, some Canadians saw merit in emulating the success of the Japanese general trading company in promoting exports and investment opportunities. A number of analysts proposed the establishment of a Canadian _sogo shosha_. Tsurumi (1980:85) in fact recommended that Canada create at least two competing government trading companies in order to complete the existing export assistance services of Canadian government.

The last Trudeau government was interested. In mid-1980 the House of Commons established a special committee consisting of seven members of parliament and a research staff. The committee considered five options for the establishment of a Canadian trading company. These were (1) trading houses owned by banks with their massive finances and facilities, (2) subsidiaries established by multinational corporations, (3) strengthened existing trading houses, (4) a government-owned trading company (possibly based on the government-to-government Canadian Commercial Corporation), and (5) a trading company jointly owned by government and private interests. In the end, the committee decided on the fifth option, a major Canadian Trading Corporation (CTC) with a $300 million equity base, funded up to 50% by the federal government 'with the rest held by perhaps 10 private sector investors' drawn in particular from the banks and large international businesses (House of Commons, 1982:49). The corporation would provide a complete set of trade-related services covering both _general trade_ (market intelligence, marketing and sales, procurement, transportation, storage and service, financial support and government-to-government transactions) and capital projects (marketing and sales, deal-making and project management).

Since the committee's decision ignored its own recognition that it had 'not met any members of the Canadian business community eager to take the lead, or for that matter even to get involved in the development of a major trading house in Canada' (p. 35), it was hardly surprising that it encountered opposition in the private sector (FP, 31 March 1984:S3). Compelled to shelve the proposal which he had supported, Trade Minister Lumley established a government task force under Tom Burns, former president of the Canadian Export Association, to study ways of promoting Canadian exports through strengthening private trading houses in Canada (DEA, 1984).

While unsuccessful with its national trading corporation, the federal government was able to secure the establishment (until its abolition by the Conservative government in early 1985) of the Canadian Agricultural Export Corporation. Canagrex, a Crown corporation, was to supplement the Canadian Wheat Board's export marketing monopoly in western Canadian wheat, oats and barley, and the Canadian Dairy Commission's responsibility for the export of milk products, by engaging in export activities, not in conflict with those of the private sector, in such commodities a poultry, soybeans, field crops, fruit and vegetables (GM, 25 July 1983:B7).

With both the CTC and Canagrex, there was hardly any consultation with the provinces and they were assigned no role in either agency. Of the six principles, the one most transgressed, however, was 'the priority of economic considerations' (See Table VI - 'Compliance with the Six Principles in each of the Case Studies'). Both the CTC and Canagrex met with heavy opposition from the sectors they were intended to rely on because of the federal government's inability to communicate effectively with business even after having heard the views of hundreds of corporate representatives.

Nor was the economic need for the establishment of a massive new Canadian Trading Corporation ever made clear. Given the paucity of potential Canadian export goods and services not already marketed by Crown corporations or giant firms, the current difficulties experienced by already established GTCs (FEER, 29 March 1984:89) and the early travails of the U.S.A.'s first GTC, Sears World Trade (FEER, 19 April 1984:72), it might have been concluded that 'new' Canadian export interests could best be served by the competition among existing trading companies, Canadian and non-Canadian. Canadian trading houses, for example, handle 13% of total Canadian exports and 40% of those to non-U.S. markets (DEA, 1984:6), and a number of Canadian advanced technology manufacturing firms (among them Telidon and Microtel, a unit of B.C. Telephone) have entered Asian marketing agreements with Japanese GTCs (in the two cases cited, with Mitsui and Nichimen, respectively (GM, 5 April 1984:B10)).

Another breach of the principles of legitimacy was the federal government's ultimate failure to serve the 'residual interest' of those threshold firms ignored by other Canadian export interests (not least of all by the giants of the extractive, manufacturing and financial services sectors), and of those provinces which cannot or will not establish their own offices in the attractive markets of the Pacific.

2. A Better Response: the Canadian Commercial Centre

The trading success of the Japanese GTC misled some Canadian analysts into believing that it was necessary to replicate the model in order to duplicate its success. Yet, as shown in Chapter 3, the strength of the GTC is rooted in the quality and location of its traders in their gathering, manipulation and use of information on demand and supply. 'No other factor in trade is more important than market intelligence' (House of Commons 1982:55). And although this is an area in which most Canadian firms and industries are deficient, it is not necessary to create a GTC to improve Canadian performance.

Smaller firms are more likely than larger ones to have committed their resources to production at the expense of marketing. Canadian governments have tried to remedy this deficiency through subsidized marketing programs and the provision of trade officials at home and abroad. But some observers have complained that the government system tends to emphasize Canadian supply rather than foreign demand, and to work with aggregated data which conceal opportunities for smaller Canadian firms. Moreover, Canadian trade officials may be constrained by the diplomatic environment of the embassies in which they work. They may, for example, be reluctant to pursue opportunities for particular firms and unable to secure timely information on local and third-country competition to potential Canadian exports.

To respond to these criticisms, there may be a case for establishing a new element in the array of Canadian export agencies: the 'Canadian commercial centre'.

Canadian commercial centres (CCCs) would be offices detached from Canadian embassies in markets in which the business culture constitutes a considerable barrier to Canadian exporters; in which potential markets for Canadian products exist in a multiplicity of private, quasi-public and government institutions; and in which competition is particularly keen.

These centres would be cooperative marketing institutions in line with the principles set out in Chapter 4; there would be an appropriate balance of private and public sector responsibilities, a coordinating agent for each of the export interests, and a more coherent Canadian approach to the collection and sharing of information on export and investment opportunities.

Canadian commercial centres would consist of a permanent core of federal, provincial and corporate officials from those export interests wishing to maintain a presence in a particular market. They would also provide a home base for other private and public officials with an initial or partial interest in identifying or developing particular niches. All these Canadian representatives would work together in an environment in which exchange of information on such matters as business culture, contacts, opportunities and other commercial intelligence could be on a more permanent and consistent basis than is now possible.

The performance of Canadian trade officials in CCCs would benefit from detachment from the diplomatic and the political and economic reporting functions of the embassy. The careers of trade officials would depend solely on performance in advancing Canadian export and investment interests. Yet that performance would continue to be assisted by intimate access to the embassy's information and analysis on economic developments in the host country. Moreover, trade officials in CCCs would be more accessible to local private interests who might be more comfortable dealing with an office not so obviously associated with government.

Provincial trade promoters in CCCs would gain through regular communication with federal and private sector colleagues, through savings (foreign operations are notoriously expensive) and through association with a recognizably Canadian operation. Similar advantages would accrue to those private firms which chose a more significant and cost-effective presence than that afforded by occasional visits, and a cheaper and potentially more productive one than that derived from a single-firm office.

The centres would be part of an evolving array of training and intelligence facilities for Canadian marketers. They would supplement market training programs of the major Canadian corporations, the various governments, and universities and community colleges. In supplementing the intelligence gathering and interpretation efforts of all Canadian export interests (with particular emphasis on the small and medium firm), they would closely approximate Cohen's concepts of educative and indicative planning set out in Chapter 4.

The structure, management and funding of the Canadian centres could be tailored to the requirements of each case. Core funding and staffing would be the responsibility of the Department of External Affairs. Core staffing would consist of trade officials and locally-engaged commercial and secretarial/support staff versed in the languages and skills of both Canadian and local business. Core funding would come from allocations which currently support commerical activity in Canadian embassies.

The nature of provincial and corporate participation would determine refinements to the management and funding of the centres. The head of the centre, whether from the public or private sector, would work in close liaison with the Canadian ambassador. Non-core funding could be based on subscriptions from major 'tenants', and user-pay formulas could be established for less regular participants. How Canadian commercial centres would relate to each other or to a central organization in Canada should attend the evaluation of a pilot centre or two. Such organizational aspects might rely on Chapter 4's principles of communication.

A number of Pacific rim capitals would be appropriate locations for CCCs by reason of cultural barriers to Canadian penetration, relative prosperity, variety of institutions, or 'fit' of domestic resource endowments and import patterns with the product of Canadian manufacturing or services firms.

In sum, Canadian commercial centres would:

1. train participants in the business culture(s) of the host country, (including out-of-house language and business programs);
2. apply embassy information on current macro-economic and structural conditions and trends to particular opportunities in the host country;
3. identify demand niches relating to the particular export interests of participating firms and governments;
4. identify local and third-country competition to Canadian opportunities;
5. serve as an alternate home base for all Canadian export interests regardless of size or sector.

As such, commercial centres would satisfy the principles enunciated in Chapter 4. They would meet a need of some current and potential business and provincial export interests while benefiting from the coordination and nurturing of the federal government. They would establish a rational balance between the federal government's trade promotion and other diplomatic functions, at least in the field. And a model information network would unite all those Canadian export interests which might benefit from cooperation in a particular foreign market.

CHAPTER 6 - CASE STUDY 2: THE INVESTMENT CHALLENGE

1. Introduction

For the twenty-five years following the end of the Second World War, Canadian mineral and energy deposits were successful in attracting American and (to a lesser extent) European multinational capital, typically in the form of completely-owned subsidiaries. By 1975, however, dwindling international demand, the high cost Canadian environment, and increasing international competition had greatly reduced opportunities for new large-scale development and production. In this situation the response of cash-starved, debt-ridden Canadian primary industry and governments to Japanese joint venture investment and long-term contracts was understandably positive; in its absence the future of the traditional Canadian staples cow seemed precarious indeed. In addition, the organization of consumers in Japan resolved the peculiar difficulties of marketing in that country whose economy is noted for its tariff and even more formidable non-tariff barriers to imports (Ross, 1979).

Nonetheless, the general trading company (GTC) approach described in Chapter 3 found the various Canadian export interests unprepared to respond in a coherent manner. As demonstrated in Chapter 2, the affected companies, provincial governments, and the federal government had both little recent history of cooperation and insufficient institutional machinery to defuse the potential for political conflict which their varying interests generated. There is also evidence that they shared an incomplete understanding of the complexity of the motivations of the various Japanese interests represented by the single

GTC negotiator, and that they paid too little heed to the international economic environment in which negotiations took place. The most important failure was their inability or unwillingness to gauge future costs and benefits even within their individual jurisdictions, to say nothing of nationally.

2. The Western Liquid Natural Gas (WLNG) Case

The story of the Western project centred at Grassy Point in north-west British Columbia provides a current example of the vitality of Canadian pluralism and of the concomitant lack of predictability and reliability in Canadian economic planning. All elements of Canadian industry and government, and of the Japanese sourcing strategy referred to in Chapter 3, are found in this project which taps into the core of current Canadian (and Japanese) economic planning.

In 1979 Nissho Iwai (NIC), Japan's sixth largest GTC in terms of sales, undertook a joint study with Dome Petroleum of Calgary and the next year reached a positive conclusion on the feasibility of shipping Canadian LNG to Japan. By 1981 NIC had organized five of Japan's major utilities (Note 3) into a sales contract with the Western LNG (WLNG) project (whose manager and major element then was Dome with 80% of the equity, 10% each being held by NIC Resources <NICR> - a totally-owned Canadian subsidiary of NIC - and Union Oil of Calgary) to buy on a take-or-pay cost-insurance-freight basis 2.9 million metric tons of LNG per year for 20 years. In July 1982, the British Columbia government announced that it had chosen Western LNG over two other GTC-related projects (one involving Petrocan, Westcoast Transmission and Mitsui; the other Carter Energy, Noranda Gas, Daewoo Corporation of Korea and

Japan's Sumitomo and Marubeni Corporations) because of WLNG's secure position in the Japanese market, its promised return to the province, its attractive concessional financing from Japan and its 'state of readiness' (McClelland, 1982). Then began Dome's long and ultimately vain attempt to secure the cooperation of gas producers, regulatory agencies and governments in B.C. and Alberta, and the National Energy Board (see Table III for a list of the major regulatory requirements for the Western LNG project), while restraining the growing impatience of its NICR partner and the Japanese customers. In the event Dome failed as project manager to persuade either Alberta to commit gas to the project or (partly because of the continuing unsettled state of its debt renegotiations) other Canadian firms to commit equity to WLNG. Dome handed over the management role to Union Oil and NICR in late June 1984.

While the story of WLNG may have a successful sequel with a new Canadian LNG company (Note 4), a summing-up of WLNG is now possible. To begin, a sketch of the various interests in the project will demonstrate the complexity, particularly of the Canadian process. (Figure 2 gives a schematic representation of these interests.)

(a) Japanese Interests

The Government of Japan, led by the planning of the Ministry of International Trade and Industry, was interested in the project as part of an energy policy which emphasized diversification in two senses - away from oil, and by source. (MITI, 1982; and Nemetz and Vertinsky, 1984).

Chubu Electric, which was to take 55% of the project's product,

TABLE III

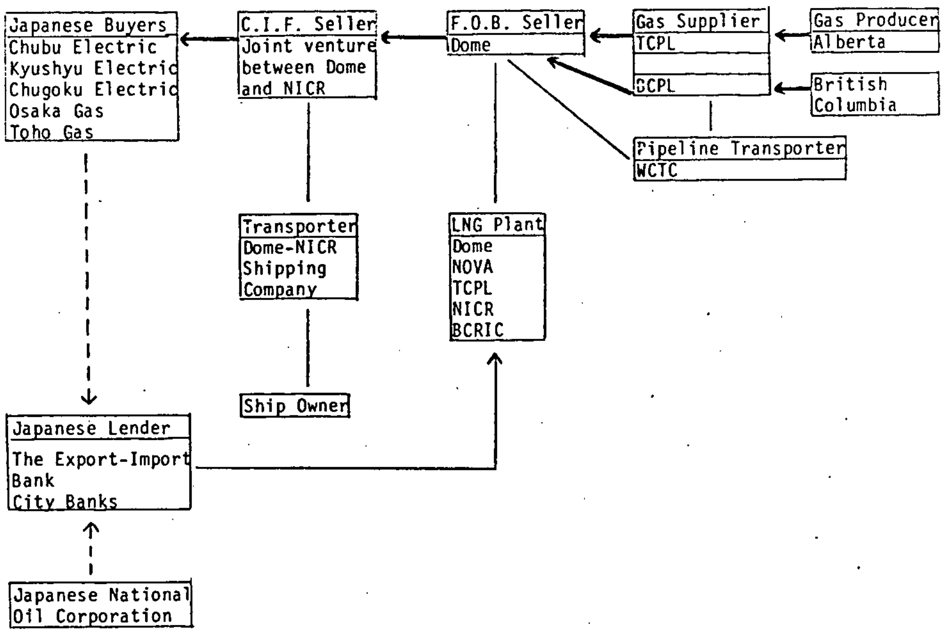
MAJOR REGULATORY REQUIREMENTS FOR WESTERN LNG PROJECT

1. NATIONAL ENERGY BOARD
Energy forecast and determination of export policy
Review of individual project applications
Individual project licensing
Certificate of public convenience and necessity
Certificate to operate
2. BRITISH COLUMBIA UTILITIES COMMISSION
Gas allocation process
Energy forecast and determination of export policy
Gas removal certificate
Energy project certificate
Energy operation certificate
3. ALBERTA ENERGY RESOURCES CONSERVATION BOARD
Energy forecast
Export license

Source: Nissho-Iwai Corporation

FIGURE 2 - **PROJECT SCHEME**

(THE SCHEME FOR THE WESTERN LNG PROJECT)



Legend: heavy line - principal contracts (product flow)
regular line - other contractual relationships
dotted line - loan guarantee

Abbreviations:
- Dome - Dome Petroleum
- NICR - Nissho -Iwai Resources Inc.
- TCPL - Trans Canada Pipeline
- NOVA - NOVA, an Alberta Corporation
- BCPC - British Columbia Petroleum Corp.
- WCTC - West Coast Transmission
- BCRIC - B.C. Resources Investment Corp.
- C.I.F. - cost-insurance-freight
- F.O.B. - free on board

Source: Nissho-Iwai Corporation

and the other utilities shared MITI's desire and, moreover, favoured LNG's clean, efficient properties (Gale, 1981). The utilities urged an early completion of Western LNG to permit deliveries to expensive new receiving terminals by mid-1987; two of Chubu's 'requests' to be satisfied before October 31, 1984, were that Dome obtain gas removal permits from the B.C. and Alberta governments and that it conclude an agreement to finance and build the necessary pipeline. (GM, 31 March 1984:B1) The Japanese utilities had a further need: to be assured that Dome, which has sustained enormous reverses since the conception of the project (Foster, 1983), was a financially reliable partner. This requirement explains Chubu's further 'requests' that Dome secure its banks' approval for the refinancing of its $6 billion debt, and that it obtain additional partners in Western LNG to reduce its equity and attendant risk to the project.

For reasons of GTC profitability set out in Chapter 3, Nissho Iwai, Dome's junior joint venture partner, needed the income Western LNG would provide. In its rivalry with the other GTCs, NIC's reputation was also at stake. That LNG projects are particularly difficult to organize and coordinate is generally recognized:

> The LNG sector...is in a special position because of the massive commitments which both buyers and sellers have to make to get even the smallest delivery system working. Pipelines take years to construct and years to pay for. Any upset in the energy or economic balance can easily delay a project or force its promoters to cancel it for good. (FEER, 15 October 1982, page 69)

And NIC recognizes that:

> Not every proposal leads to success, as we can tell from experience. Many projects are stymied for some inherent reason - insufficiency of gas supply or consumer demand, difficulty of transportation or facilities construction, lack

> of government approval for gas export, or other factors. We've done feasibility studies for many LNG projects since the 1960s....Yet many were unable to progress beyond the study stage for some reason. (NIC, n.d.:7)

NIC sets out 'seven keys to success' for an LNG project. The timely coordinated turning of these keys is the test by which its GTC expertise can be judged. Table IV illustrates the post-feasibility study progress of Western LNG in terms of NIC's seven keys.

To 'lose' Western LNG and its Japanese customers to the rival GTCs, Mitsui and Mitsubishi, with their 6 million ton per year North West Shelf project in Australia (FP, 12 March 1984:23), would be embarrassing to NIC. And there were other risks. NIC's expenditure in promoting the project was relatively small, but GTCs must be mindful that the only major GTC to face bankruptcy since 1945, Ataka Corporation, was the immediate victim of miscalculations in another Canadian mega-project, the Newfoundland refinery at Come-by-Chance (Yoshihara Kunio, 1982:144; Young, 1979:226).

(b) Canadian Interests

Dome Petroleum's agenda was a long one. First and foremost, a successful Western LNG project would have assisted in its struggle to recover financially by providing revenue in the late 1980s and early 1990s to replace that lost from anticipated declining returns on its conventional oil properties (FP, 21 January 1984:12). To ensure Western LNG's viability, Dome had to keep the construction costs for the liquefaction plant and terminal (costed at $1.7 billion), the 550-mile pipeline ($0.7 billion) and shipping, and the cost of gas stocks, to a minimum, while at the same time securing various provincial and federal approvals. Specifically, Dome had to:

TABLE IV

KEYS TO LNG PROJECT DEVELOPMENT
(mid-1984)

1.	Project economics	- dependent on elements 2A, 6 and 7A
2A.	Availability of Gas reserves	- physically available (politically dependent on 7A and economically dependent on the Alberta producers)
2B.	Availability of LNG Technology	- OK (provided by Nissho Iwai Corp.)
3.	Ocean Transportation	- question of $1 billion financing of five carriers (probably Japanese) - question of Canadian content (N.E.B.) 7A
4.	Committed Purchasers	- until at least 31 October 1984 (Japanese utilities and financial institutions)
5.	Appropriate Financing	- until at least 31 October 1984 (Japanese utilities)
6.	Optimum Project Structure	- depends on replacement of Dome's equity in the project
7A.	Wholesale support of Exporting governments	- B.C. - OK - Canada - probably OK - Alberta - not OK
7B.	Wholesale support of Importing governments	- Japan - OK

Source: adapted from Nissho-Iwai Corporation, n.d.

1. maintain the patient forebearance of the Japanese utilities (which were not only the customers, but also guarantors of the $2 billion loan for the plant, terminal and pipeline) by meeting Chubu's four requests, viz:

   - obtaining a gas removal permit from the Government of Alberta [that from B.C. had already been secured (GM, 14 April 1984:B2);
   - concluding an agreement with Westcoast Transmission of Vancouver on the financing and construction of the pipeline;
   - reducing its equity position from 80% to something like 30%, probably through the involvement of some of the participating gas producers;
   - persuading Canadian and foreign banks (notably the Canadian Imperial Bank of Commerce and Citibank) to agree to the restructuring and refinancing of its debt;

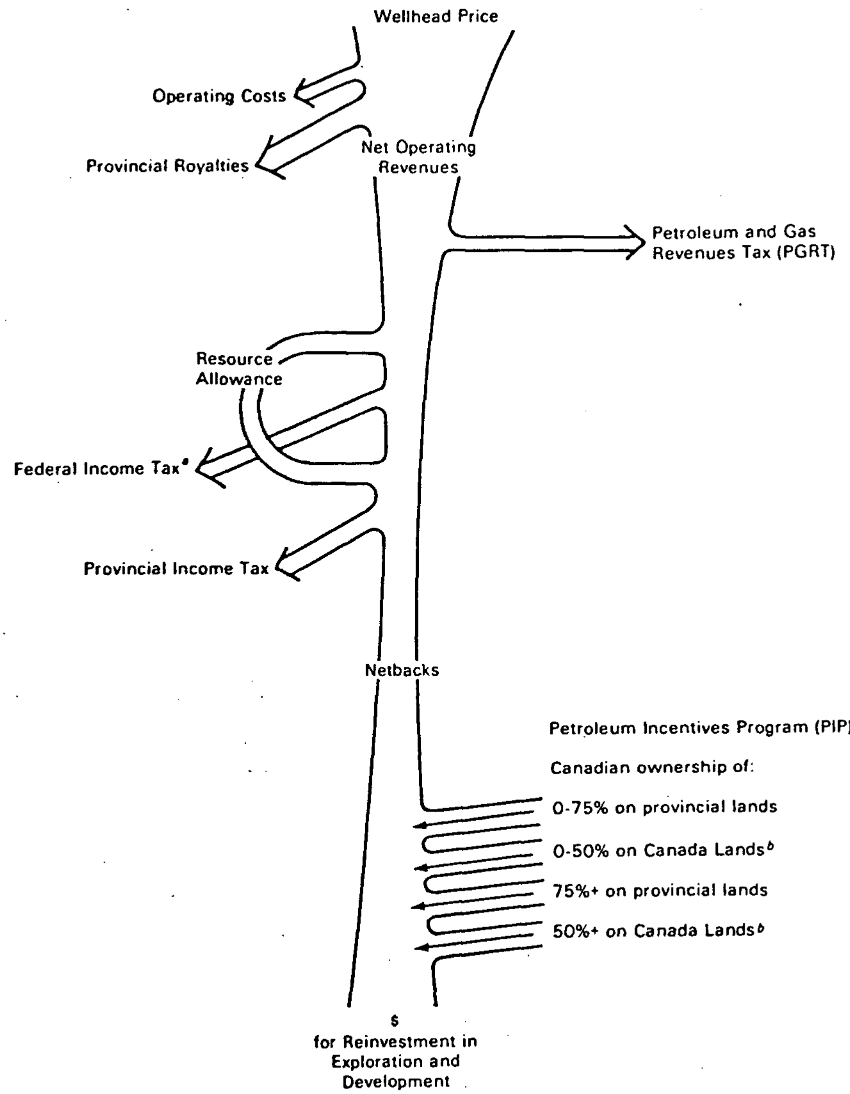
2. obtain a certificate of public convenience and necessity from the federal National Energy Board; and

3. obtain the assent of Alberta and B.C. gas producers to provide WLNG with about half each of the total of 3.2 trillion cubic feet of gas required over 20 years.

For producers, the issue was simply to keep the netback from WLNG sales greater than or equal to the netback from gas sales in the United States. Figure 3 illustrates the fiscal regime and Note 5 the calculations involved. The evidence suggests that the larger multinationals (in the Canadian Petroleum Association) held back, hoping for a rise in the U.S. domestic price and/or a slackening of Canadian government regulation of gas prices to the American market [This deregulation began on November 1, 1984 (GM, 14 July 1984:B1)]. A number of smaller independent producers (represented by the Independent Petroleum Association of Canada) may, however, have been prepared to risk long-term netbacks for mid-term cash flow. Dome's offer to take 90% of its WLNG requirements at 55% of the U.S. border price during the gas industry's slack summer months (GM, 31 August 1983:B1) may also have been attractive to the smaller firms.

Although its Energy Resource Conservation Board approved the export

FIGURE 3 - THE FISCAL REGIME OF THE PETROLEUM INDUSTRY UNDER THE NATIONAL ENERGY PROGRAM



[a] Depending on eligibility for write-offs, allowances, and so on.
[b] Depletion allowances on qualifying expenditures will be net of incentive payments.

Sources: Canadian Petroleum Association, *Submission to the National Energy Board Hearing on Energy Supply/Demand*, Vol. 3 (Calgary, 1980); Department of Energy, Mines and Resources, *The National Energy Program, 1980* (Ottawa, 1980), p. 40.

Source: E.A. Carmichael and J.K. Stewart, Lessons from the National Energy Program, Chart 2, page 25 of Alberta gas for the WLNG project in terms of its availability, and although the project would have diversified Alberta's market for gas away from exclusive reliance on the United States (where Canadian imports constitute only 4% of the market), the Government of Alberta seemed to share the desire of its major producers to await Canadian deregulation and better American prices. It too had no wish to see Alberta producers jeopardize American contracts or market share through the granting of more favourable wellhead prices to a project which, in terms of total gas exports, would represent only 20% of Alberta's export market. The Government's resistance was reinforced by its reluctance to accept the low returns to the province in terms of royalties and taxes that it believed the contract price with Japanese consumers coupled with WLNG's high fixed costs would entail. There was also a political element with roots dating to the conflict with Ottawa over the National Energy Policy in 1980, and a corresponding readiness to await a new federal government more sympathetic to Alberta's position on energy matters (FP, 12 May 1984:21).

The B.C. Government would likely have shared Alberta's concerns had it been more confident of markets for its surplus gas and had the project, with its construction and other multipliers, not been in B.C. The project was also consistent with the Social Credit Government's traditional penchant for regional development through major energy projects. This tradition from the W. A. C. Bennett era (Mitchell, 1983) had been most recently exemplified by the North-East Coal Project in which the provincial government staked $500 million in rail infrastructure costs for a private sector joint venture involving

Mitsui and a number of Canadian mining firms (McDonnell, 1983). In the WLNG case the project was to assume the transmission costs; the province's faciliation was limited to deregulation of the supply of gas through the British Columbia Petroleum Commission, and an undertaking to supply nearly half of the gas required rather than the quarter originally projected.

The Government of Canada generally welcomed the WLNG project which represented market diversification and growth in Canada's second largest export. The government also explicitly counted on mega-projects to be the engine of economic growth in the period from the budget of November 1981 to that of April 1983, and foreign joint ventures provided most of the few mega-projects of the late 1970s and early 1980s. Moreover, WLNG involved Dome, a high profile offspring of the government's National Energy Program of 1980.

On the other hand, since the foreign investment in the WLNG project was not such as to come within the Foreign Investment Review Agency's definition of 'control', there was no opportunity for the Agency to assess this investment by the standard of 'significant benefit to Canada' with such criteria as backward and forward linkages, exports, employment and revenue. It fell to another federal agency, the National Energy Board (NEB) to assert the federal government's national and 'nationalist' interests. The NEB is largely independent but subject to administrative direction from the minister of Energy, Mines and Resources who answers for it in Parliament. In addition to its responsibility to advise the national government on the development and use of energy resources, the NEB has a duty to regulate specific areas of the gas industry (as well as other energy industries) in the public interest. It does this through the issue, with Cabinet approval, of certificates for, inter alia, the construction and operation of interprovincial pipelines and licenses for the export of gas (see Table III). Among the NEB's interests in the WLNG project were regulatory responsibilities in the technical, socio-economic, environmental and economic areas. Hearings, held in October 1983, approved Dome's agreement to provide for payments in excess of $20 million over 25 years to the Lax Kw'alaam band near Grassy Point. The Board's interest in the economics of the project was reserved pending approvals by the producers and the provincial governments.

The NEB, in an unprecedented step (GM, 21 November 1983:B9), became engaged with the question of the five specialized ships required to transport LNG from the WLNG terminal in B.C. to Japanese receiving terminals. Dome and NICR, through their joint shipping company, had initially planned to lease existing carriers, hoping to keep the project's responsibility for the costs of transport to a minimum; five new ships would cost them about $1 billion. This plan miscarried when Japanese buyers insisted that only new carriers could assure the security required for the handling of such volatile product in the densely populated ports of Japan. The desire of the Japanese government for construction in Japanese ship yards, depressed by lack of demand and by Korean and Taiwanese competition, may also have been a factor. In any event, there was strong indication (GM, 21 November 1983:B9) that such leaseable ships as Dome sought were not in fact available.

At the instigation of the Canadian shipping community, the NEB entered the debate by insisting on Canadian content in the construction, supply and operation of the vessels. Although actual construction in Canada seemed unlikely, two Canadian groups with connections in Norway and the U.S., respectively, bid for one or more of the ships, and at least one of the Japanese contenders for the project's ship construction spoke of the inclusion of Canadian technology in its plans. In this regard, it is interesting to note that Kawasaki Heavy Industries, a member of an enterprise group headed by Nissho Iwai's second banker, seemed to have had an early inside track with the project's shipping company.

(c) An Assessment of Canadian Reactions

The fundamental issues in the WLNG case were, of course, economic. In international terms these issues were the importance of forecasts of the demand in the dominant American export market which affected forecasts as to what that market would pay, and the urgency of the Japanese demand which conditioned the pricing formula proposed by the Japanese buyers. In Canadian terms: the intimately related question of short- and long-term returns to Canadian LNG producers resulting from a decision to commit production to WLNG. In corporate terms: the viability of Dome as manager in the project. These economic questions alone would have determined whether WLNG could proceed.

Complicating these basic private sector considerations were shortcomings that seemed to fall mostly within the two communications principles of Chapter 4: namely, that each Canadian export interest should speak with a single coordinated voice, and that there should be improved sharing of perceptions, experience and information among such interests (see Table VI - 'Compliance with the Six Principles in each of the Case Studies')

The representatives of the Canadian primary sector (Dome and the gas producers), secondary sector (shipping concerns based in Toronto and Montreal) and tertiary sector (notably the Canadian Imperial Bank of Commerce and three other banks) have all demonstrated a rigorous interest in revenue. Yet the shared project interest between Dome and its banks in retiring Dome's debt proved incompatible with that of the gas producers and the Canadian shipping suppliers and yards. Alberta and B.C., too, were at potential loggerheads because of B.C.'s additional interest in securing the jobs and other benefits of plant and pipeline construction. For its part, the federal government, in advancing its own interests in terms of gas sales taxes and of seeing Dome [its wounded NEB champion (Foster, 1983)] recover without jeopardizing the federal banking system, came up against Alberta's own revenue interests and its concerns in the U.S. export market. And there were related conflicts arising from differing industrial and export policies. For example, while both governments espoused diversification of export markets, it is clear that the Alberta economy, dependent as it is on gas exports, had more to lose should WLNG go ahead and miscarry economically. Moreover, the national and B.C. governments had greater interests in promoting linkages to other sectors (eg. plant and pipeline construction, and shipbuilding and provisioning) than did the government of Alberta. Finally, the project must be seen in the highly visible and politicized context of competing provincial and national directions in energy policy generally.

These non-market factors made for the worst kind of planning environment, one based in competition for limited revenue, in differing negotiating styles, and in lack of shared information, perceptions or goals. For all the pretensions to coordination of Nissho Iwai or Dome or the national government, the Government of Alberta's position, for example, was practically unheeded by all of them. This was dysfunctional in terms of their own interests since Alberta had the capacity to deny the project.

The major flaw in Canadian public planning policy and practice was its failure to determine the over-all benefits and costs of WLNG to the Canadian economy and Canadian society in a more coordinated, rational manner.

It would be unreasonable to expect a rapid and entirely smooth convergence of the disparate interests represented in this case. The setting, a partial consequence of the role of the GTC in the Japanese and Pacific economies, is as complex as has ever confronted Canadian export planning. The point is not whether it was feasible for governments to will WLNG into existence in the face of overwhelming economic 'facts'. Nor is the issue whether Canadian pluralistic and federal politics should be scrapped. The issue is a parochial lack of awareness - astonishing in a country with a small domestic market, limited international political influence, and a history of foreign-directed exports - of the larger context in which Canadian export interests operate. In sum, while all senior Canadian governments and firms seem to have been protecting their constitutional and constituency prerogatives with vigour, their narrow approaches were collectively dysfunctional in the context of the world scramble for markets and Canada's ominously shrinking share of them.

It is possible that Canadian interests do not share enough common goals and attitudes to act with the coherence that one must expect of a viable national economy. This deficiency may be rectified by a drastic decline of Canadian living standards leading to pressure from an electorate or ownership (where this is Canadian) more interested in protecting a common weal than that of any of the constituent parts. But, in the absence of collapse or a revolutionary re-education of Canadian export decision-makers, it is clear that these decision-makers require appropriate methods and institutions with which to communicate, establish shared priorities and plan together.

3. A Better Response to the WLNG Situation

Application of Chapter 4's principles to the Western LNG case suggests a number of appropriate responses among Canadian export interests. Immediately NIC and Dome agreed on the economic feasibility of an LNG plant in Canada (necessarily in British Columbia, Canada's only province with Pacific ports), Dome (as project manager) and the governments of British Columbia and Canada ought to have begun to work together. This interaction ought to have involved a committee composed of senior executives delegated to speak for the various sub-units of all three export interests. And immediately it became clear that Alberta gas was essential to the success of the project, that province ought to have been added to the committee.

A problem in the recognition of the role of the private sector arises in this formula of Canadian consultation when the management of the project fell to Canadian subsidiaries (Union Oil, a 100% American-owned firm) and NICR (100% owned by Nissho Iwai) (GM, 30 June 1984:B5). There may be grounds for maintaining distance from the foreign-owned subsidiary until senior levels of government have worked out a Canadian negotiating position, possibly through a kind of federal-provincial screening process. The important element, again, is that Canadian interests determine a joint position before entering into negotiations with non-Canadian interests.

In assessing the relationship between the senior Canadian governments in the WLNG case, recognition should be given to the provincial ownership of the resource. There is a hopeful precedent of the federal government's willingness to work in partnership with the provinces in the General Development Agreements (GDA) under DREE, and the successor Economic and Regional Development Agreements (ERDA) administered by DRIE. The major difference between GDAs and the approach recommended here is that the primary goal of cooperation here is export-related efficiency rather than the promotion of regional equity. Since provincial economic and social planning would on balance direct the recommended arrangement, however, the regional development element might be more effectively promoted than it was with DREE's often uneconomic and ineffective regional development subsidies.

In pursuit of the principles of communication, the federal components of the approach proposed here could be a ministry of industry (DRIE) composed of sections in Ottawa responsible for all major sectors (including natural gas) and officials resident in provincial capitals working in close liaison with counterparts both in provincial ministries of industry and in the private sector.

Remarkably, the essential federal institutional framework has already been created but not yet been given the appropriate mandate. In 1982 the federal government established the Ministry of State for

Economic and Regional Development (MSERD) to coordinate regional economic development policy formulation. MSERD's minister was to chair the Cabinet Committee on Economic and Regional Development responsible for the management of the government's economic development and energy expenditures, and to ensure that Canada's regional diversity was considered in all economic development decisions (MSERD, 1984). MSERD set up in each province an office headed by a Federal Economic Development Coordinator (FEDC) whose duties included coordinating federal economic development activities in the province (inter alia, by chairing a committee of the federal economic development officials in the province), promoting cooperation with the provincial government, and consulting business, labour, municipal governments and other economic development groups.

There is little evidence of the effectiveness of the FEDCs. One observer in Edmonton (GM, 3 July 1984:8) seemed to regard the incumbent there as no more than a Trudeau government response to a lack of other political representation in Alberta.

> His appointment two years ago spearheaded the bureaucracy's response to a unique political situation, its attempt to create a high-powered facilitator who could cut through or around the old established lines and report directly to the federal Cabinet.
>
> To some extent at least the experiment seems to be working. The two political sides (Ottawa and Edmonton) are gearing up for another, post-election energy battle. But in the meantime they have successfully concluded a series of long-range agreements in other areas, touted here as the rebirth of co-operative federalism.
>
> By several accounts, the...experiment has come to be thought of as rather essential, this in a region leery of Ottawa, but where a proposed provincial power project on the Upper Slave River has provoked the statutory interest of 25 different federal agencies.

The role of the B.C. and Alberta FEDCs in the Western LNG case is not clear; they came late in the fall of 1982 to a process, normally acrimonious, which had begun several years earlier. Nor is the future of the FEDCs clear with the dissolution of MSERD by the Turner government as one of its first acts. FEDCs were integrated into DRIE where their future may be either vestigial or transitional.

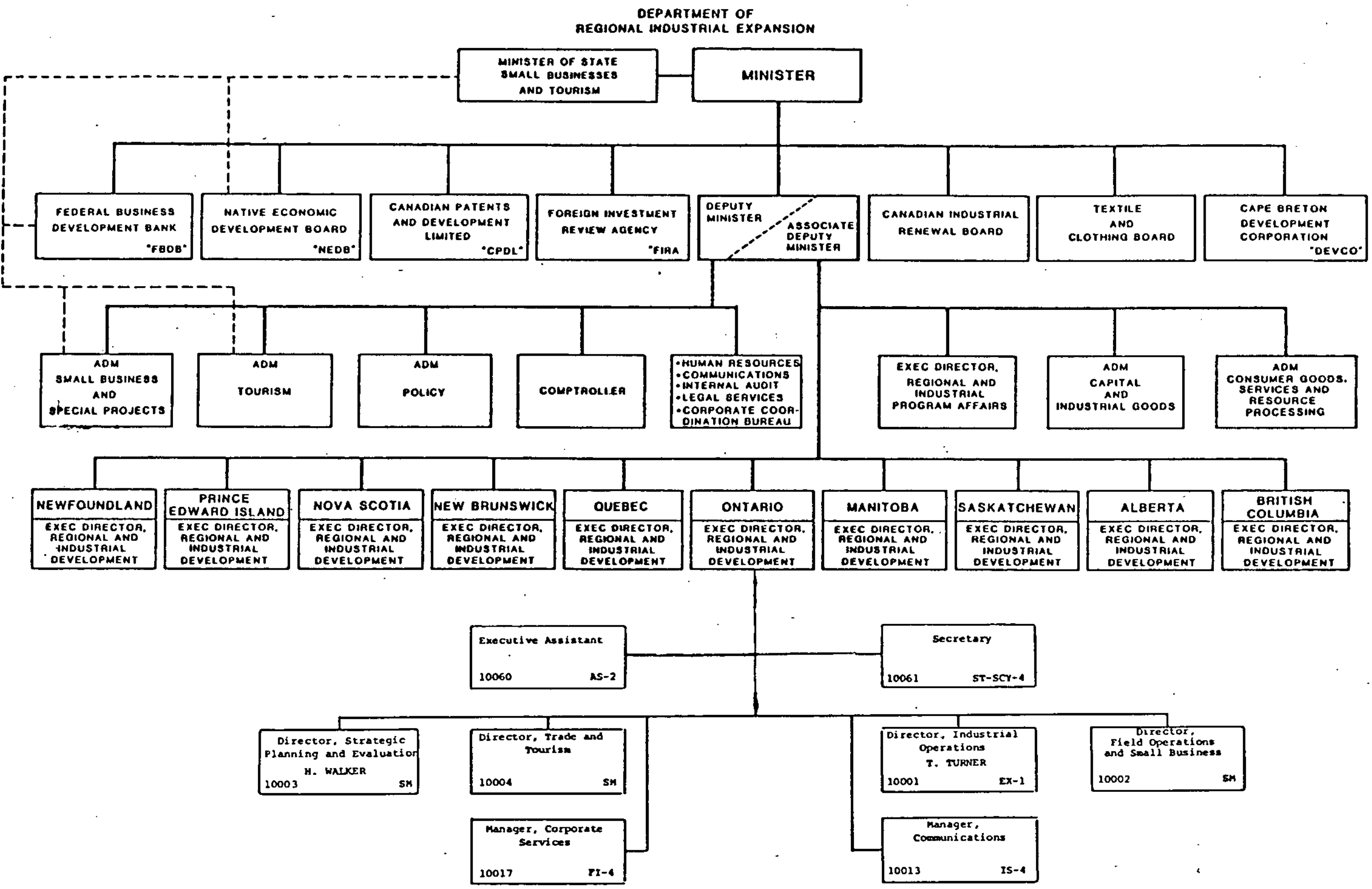
The federal Department of Regional Industrial Expansion (DRIE) was also intended to respond more effectively to regional conditions. Its regional Executive Directors were made responsible for both industrial development and export trade promotion (see Figure 4). As with the FEDCs there is little evidence of the effectiveness of this still fledgling operation. And as little certainty of its future.

Should these organizational innovations (FEDC and the DRIE regional director) survive, the fundamental question will remain whether this federal machinery is intended to do more than organize elements in Ottawa's regional industrial and economic policy, while at the same time underlining the visibility of a large and legitimate presence in each of the provinces. Or whether they can evolve into the kind of neo-cooperative federalism suggested by the principles set out in Chapter 4.

Associated questions are whether the provincial governments are prepared to display a solidarity beyond their occasional joint communiques (referred to in Chapter 2) which make demands for the transfer or use of powers from Ottawa without any suggestion of reciprocity, and whether they are prepared to enter into a more pragmatic relationship with the central government. And, finally, the question to be put to Canadian corporations is whether they will

Figure 4

ORGANIZATION CHART FOR THE DEPARTMENT OF REGIONAL ECONOMIC EXPANSION



Source: DRIE

display both the good corporate citizenship and the practical sense to accept the legitimate role of government in Canada.

CHAPTER 7 - CASE STUDY 3: THE PACIFIC ECONOMIC COMMUNITY CHALLENGE

1. Regional Theory

Regional theory offers no sure guidance to the planning and formation of international regional economies. The various theories - functionalism, neofunctionalism, and the communications approach - are 'pretheories in that they exhibit little theoretical power of explanation and prediction' (Duffy and Feld, 1980:508). In the absence of theory, Duffy and Feld suggest that 'another and perhaps more intriguing alternative lies in the construction of a pretheoretical causal model, based upon the national interests of the chief actor of the integrative process, the nation state.'

One of Duffy and Feld's operational concepts relates to nation states, the chief actors in regional integration, defined as national governments. There is an assumption that government decision-making is rational and coherent in the sense that it furthers the national interest and the survival of the government, both domestically and internationally. Another concept concerns the national interest which is

> based not only on the achievement of international power and prestige, but must also consider the continued social and economic health of the state... (p. 511)

These concepts, the nation state and its interests, are fundamental to the development of the Pacific economy.

> What matters, then, is not simply the political importance of the issue which may serve as the juncture for initiating an integration network, but how the decision makers of each potential member state consciously or unconsciously impose a set of priorities to foreign or domestic policy objectives. (p. 512)

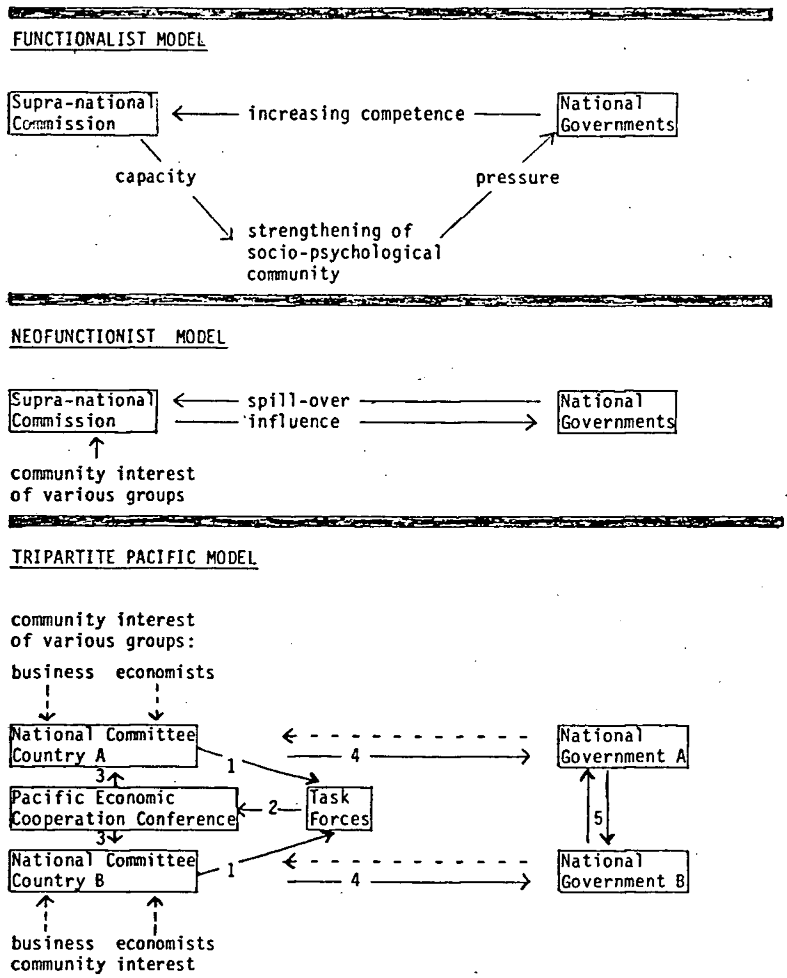
The current elaboration of the Pacific economy seems to have recognized the impracticability of the 'supranational frameworks' posited by functionalism and neo-functionalism, and to rely instead on conferences of increasingly important national groups (including official components from the respective national governments) which will promote common policies (once these have been hammered out in various task forces) to those same national governments (see Figure 5 for a schematic representation of the functionalist, neofunctionalist and the PECC Pacific models for region building).

2. The Pacific Economic Community Concept (PECC)

A Japanese and an Australian were, predictably, responsible for an attempt at synthesis of some of the various strands in the elaboration of the Pacific economy. This attempt resolved the contentious issues of supra-national instititions and security by ignoring them; it was, nonetheless, an effort to make previous effort significant by making it legitimate and relevant.

In 1980 Japanese Prime Minister Ohira and Australian Prime Minister Fraser co-sponsored at the Australian National University (ANU) (with ANU Chancellor Sir John Crawford and Dr. Okita Saburo as co-chairmen) a Pacific Community Seminar whose tripartite national delegations were composed of businesspeople, academics, and government officials in a private capacity. The delegations, agreeing that an exploration of the rationale, format and agenda for a new Pacific consultative system should be undertaken, established a Pacific Cooperation Committee to oversee the work of task forces charged with the pragmatic study of a limited number of issues. In June 1982 the Pacific Economic

FIGURE 5 - MODELS OF INTERNATIONAL REGION BUILDING



Policy Process for Tripartite Pacific Model (solid line):
1. differing policy inputs
2. negotiated policy recommendation
3. common agreed policy
4. advice on acceptance of common agreed policy
5. diplomatic negotiation of international economic environment

Membership of National Committees is indicated by broken line

Source : L. Woods, 'Political Science Sets Sail: The Pacific Community Concept', page 9
(for Functionalist and Neofunctionalist Diagrams)

Cooperation Committee (PECC), meeting in Bangkok (a significant venue given previous ASEAN reticence at being involved in such meetings), with tripartite representation from twelve delegations - the five Pacific AICs, the five ASEAN states, South Korea and the Western Pacific - initiated, and designated responsibility for, four task forces, one each for the manufacturing trade (Korea and its Development Institute), international investment (Japan), food and agricultural trade (the Thai Pacific Cooperation Committee), and mineral resource trade and development (Australia's ANU). The most recent PECC was held in Indonesia (again an ASEAN venue) in November 1983 and consisted of tripartite representation from the five AICs, South Korea and the ASEAN states plus delegations from Mexico, Chile, Peru, France and the PEC Committee in Taipei. The task force themes were further elaborated and some re-assigned - fisheries development (assigned to Canada, specifically to Dr. Gordon Munro of the University of British Columbia), consultative arrangements in minerals and energy (to Australia/ANU and PBEC), industrial complementation (i.e., the question of what manufacturing each Pacific country should emphasize) and trade negotiations (to Korea's KDI), technology transfer through investment (USA, Japan and Singapore), and financial resources and services (USA, Japan and Indonesia) (PECC, 1983). Observers agreed that this third PECC was the most useful in breaking the conceptual and rhetorical inertia of the past.

As a consequence of these developments, the focus of the elaboration of the Pacific economy is becoming sharper. The divisive issue of membership has been largely resolved, and that of supranational organization largely overtaken. In the question of membership, only the Pacific Trade and Development Conference [PACTAD: see page 42], with its strictly economic research focus, can be said to have represented the whole Pacific region, and that only sporadically. PBEC has moved to incorporation of the two leading NICs, South Korea and Taiwan (and hence the exclusion of China) in addition to the original five AICs. A marginal ASEAN participation has been arranged through a Regional Member Committee which also contains representation from Hong Kong, the Pacific Islands, Mexico, Peru and Chile. Thus, PBEC International (see page 39) is composed of eight membership committees - five AICs (Japan, the United States, Canada, Australia and New Zealand), two NICs (South Korea and Taiwan) and one LDC (the undifferentiated regional committee). The PECC reflects the tripartite business, academic and government participation of the five AICs, the five ASEAN states and Korea. Here, Taiwan's status (in the form of the 'Chinese PEC Committee in Taipei') is that of observer, a situation shared by three Latin American states - Chile, Mexico and Peru - and France, by virtue of its Pacific territories.

Neither PBEC nor PECC, with their similar loose and fluid international structures of conferences, steering committees, and task forces (for PECC) or special committees (for PBEC) seems particularly interested at this stage in a modified organization such as that proposed for OPTAD or PBCC (see page 44). Their emphasis is on national organization and effort coupled with increasing 'international' communication taking place between as well as during roughly annual conferences. This paucity of international organization is even more evident in PACTAD's case.

If they differ from PACTAD in some respects, PECC and, in its wake, PBEC, have been quick to adopt its focus on themes, with the difference that theirs are becoming increasingly specific and salient in terms of economic planning and development in the Pacific. Once international agreement has been reached on particular policy recommendations, these are to be promoted by each national committee to their respective national governments. This aim is made explicit in the final documentation of both PECC's and PBEC's 1983 meetings in Bali and Santiago. PECC's Steering Committee recommended:

> (2) that the governments concerned should give full consideration to a set of specific measures which were identified in the area of trade and other economic policies. (PECC, 1983)

And from PBEC's Santiago Resolution:

> PBEC pursues its purposes in three principal ways....The second is to provide advice and counsel to the governments and international agencies on basic economic (and) business matters affecting the Pacific Basin. (PBEC, 1983:62)

There is recent evidence that PBEC International is sensitive to the need to remain in the forefront of Pacific evolution in the face of PECC's increasingly specific activity. PBEC's International President may now, at the request of at least three of the eight Member Committees, appoint special committees, and, on the recommendation of the International Vice-president, appoint program chairmen to develop special topics for the General Meetings. Eric Trigg, an important figure in both PBEC and PECC, has added a note of caution to this rapid mobilization (PBEC, 1983:23):

> PBEC, however, should not try to 'out academic' the academics, nor should we confuse the tripartite process (of PECC) with our established government liaison programs. Thus, the proper stance for PBEC at this time is one of involvement to help shape the tripartite dialogue into one that usefully parallels PBEC's own program of activity. Each step of that involvement can be measured by the accomplishment of the previous step.

He has also proposed that 'specific criteria' be brought to the attention of the Pacific Economic Community's Bangkok Conference. These criteria included:

- studies should clearly relate to the Pacific Region and concern themselves with problems there that are unlikely to be solved in other ways if no special work is done...
- work should not be undertaken simply to provide papers to lecture governments on policies and issues that have already been dealt with at length in other forums...
- any reports submitted must be written in clear terms and must recognize the realities of governments. And they should be clear about what industry countries might gain or lose, indicating in particular where the larger countries stand in relation to the smaller ones.

3. Reactions of Canadian Export Interests to the Attempted Elaboration of the Pacific Economy

The evolution of the Pacific economy moves increasingly from the dissemination of basic information and conceptualizing to the identification of specific issues on which consensus is sought. What planning challenges does this direction pose to Canada's national government, the major 'Pacific' provincial governments, and the relevant Canadian primary, secondary and tertiary industrial sectors?

J. Hugh Stevens, President of PBEC International in 1983-84, has succinctly enunciated the challenge to Canadian business interests (PBEC, 1983:63):

> The credibility of PBEC's message to governments is linked directly to the quality of membership. If PBEC is not representative of our respective business communities, we limit our ability to examine problems and develop solutions. Each of us, therefore, must participate in the appropriate processes leading to the **strengthening of membership and participation.** (emphasis added)

PBEC's Canadian membership is still small and 'personal' in the sense that firms are typically represented by virtue of the activity of one or two of their senior executives. In these terms, the primary (mineral, energy and forestry) exporting sector is relatively well represented, but the agricultural much less so. This is probably because so much of the export of agricultural products is done by Crown corporations. The tertiary sector is also widely represented in an array ranging from major banks to small law firms. It is the manufacturing sector - large, threshold, and small, Canadian-owned as well as foreign-controlled - which is greatly under-represented in PBEC Canada. This is probably a reflection of two factors: the sector's general lack of interest or success in exporting its products to the Pacific, and PBEC's pronounced interest in free trade and the reduction of protectionist commercial policy.

Pacific Rim Opportunity Conferences, whatever their publicity value, are insufficient to greatly enlarge PBEC's membership. To be more comprehensive, PBEC Canada must at least recognize explicitly and speak to the protectionist interests of a sizeable component of Canadian industry. The vehicles for achieving Stevens' call for strengthened membership and participation may be the Canadian Chamber of Commerce and the Canadian Manufacturers Association, both of which sponsor PBEC Canada.

The academic and research communities should also be subject to Stevens' exhortation to widen participation in Pacific matters. A small group of economists form the core of Canadian scholarly representation at PACTAD and PECC. The planning of even economic communities can no more be left only to economists, however legitimate their leading role, than the organization of commerce can be left only to some business people. There are too many other affected interests.

The interests of provincial governments in the elaboration of the Pacific economy are met only through representations to, or limited representation on, the official element of the tripartite business, academic and government arrangement organized by the federal Department of External Affairs. This marginality may reflect as much a general provincial lack of understanding of, or of credence in, the PECC process as a respect for Ottawa's paramountcy in international affairs. Whatever its cause, it is certainly at odds with the active Pacific strategies of a number of Canadian provinces.

The national government's response to the economic planning of the Pacific is conditioned by its position on the strategic issue - avoidance. There appears to be a general feeling among Ottawa decision-makers that the political and other costs of endorsing any formal Pacific community might well outweigh any conceivable benefit. The major reasons for this aversion are a total reliance on the U.S. military in the Pacific, a disinclination to contribute to Pacific military security, and an unwillingness in the complex bilateral relationship with Washington to risk U.S. displeasure over issues of Pacific security and other matters on which the Canadian government might espouse a position at variance with Washington's. There are elements here reminiscent of Canadian policy on membership in the Organization of American States.

The corollary of this is that Canadian policy in the Pacific is essentially bilateral; this too is in line with the direction of Canadian foreign policy since 1968 (External Affairs, 1970; and Dewitt and Kirton, 1983), as well as with the pragmatic view that 'there can be no such thing as a policy for the Pacific Rim' (Holmes, 1982:11). A concomitant to bilateralism is support for the least specific forms of pan-Pacific regionalism. This approach is exemplified by the response of W. T. Delworth, then Assistant Under-Secretary of State for External Affairs, to a question as to the timing of a Pacific community (Donnelly and Falkenheim, 1981:55):

> I give it about another decade. I think it will come about in a very ad hoc, unstructured way. I think it will end up looking very much like a kind of Commonwealth meeting in the Pacific, a kind of town meeting. I think it is not going to have a big mandate, or a charter of rights built into a constitution. I think it will be a habit of talking together at senior levels about whatever it is that is bugging the community, and not an organization with a formal mandate such as the OECD.

Notwithstanding the federal preference for bilateralism, and the arguments that Canada's export expectations in the Pacific are limited and that effort should be concentrated on sectoral free-trade negotiations with the United States (DEA, 1983), a few Canadian officials have been increasingly active in PECC as it has evolved and as other countries, notably the United States, have shown greater interest. The officials in Canada's most recent tripartite formula (1983) were two External Affairs officers (one at the assistant deputy minister and the other at director-general level), one ADM each from the federal ministries of Transport, and Energy, Mines and Resources, and an ADM from the Ministry of Industry and Small Business of the Government of British Columbia.

The range of interests which the federal government must reflect, however, is much wider. The federal government has a role not just for economic matters pertaining to the Pacific, but also is responsible for the diplomatic representation of its own and the provinces' views on the social, economic and cultural implications of its Pacific policy that fall within its and their constititional powers. This is a tall order. There is, however, evidence that the federal government can respond to its responsibilities. In early 1984 the Asia and Pacific Branch of the Department of External Affairs canvassed a wide range of interests (see Table V) as to points of view on the direction and context of Canadian involvement with Japan. Future efforts must consciously canvas and inform an ever wider range of Canadian interests on the subject of the Pacific as a whole.

4. A Better Response to PECC

Of the three case studies of this thesis, the application of the planning principles of Chapter 4 is easiest in the matter of the economic framework of the Pacific (See Table VI - 'Compliance with the Six Principles in each of the Case Studies'). The private sector has taken a leading role in line with the first principle of legitimacy and has shown an awareness of the importance of improving membership numbers and quality in line with the first principle of communication. What is clearly lacking in the PECC process is an assertion by Canada's

TABLE V

INSTITUTIONS CONTACTED BY THE DEPARTMENT OF EXTERNAL AFFAIRS JANUARY - MARCH 1984

Ministries of the National Government	- Regional Industrial Expansion - Energy, Mines and Resources - Fisheries and Oceans - Agriculture - Finance

Ministries of Provincial Governments	- Alberta
	  - Federal and Intergovernmental Affairs
	  - Economic Development
	  - Energy and Natural Resources
	  - Agriculture
	  - Tourism and Small Business

	- British Columbia
	  - Intergovernmental Affairs
	  - Industry and Small Business
	  - Energy
	  - Tourism

	- Ontario - Industry and Trade
	- Quebec - various
	- others - met as a group
Business	- Canadian Manufacturers Association - various Alberta firms in canola, coal, alfalfa, tourism, food processing - petro-chemicals: Shell, Dupont, Alberta Gas - Royal Bank of Canada
Labour	- International Woodworkers of America - Solidarity (B.C.)
Research	- Economic Council of Canada - Science Council of Canada - University of Toronto/York University Centre for Modern East Asia - University of British Columbia, Institute of Asian Research - Laval University - Canada-Japan Trade Council - Brookings Institution
Others	- Canadian Embassy, Tokyo - U.S. State Department

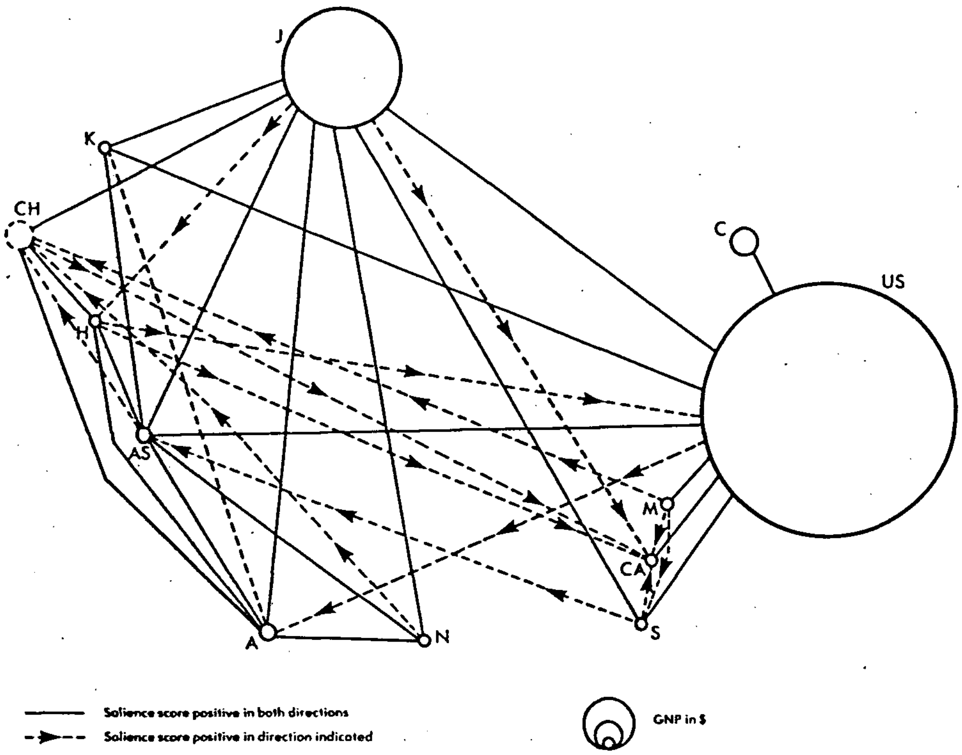
senior governments of their proper place; in particular, the national government seems reluctant to accept the call of the fourth principle of legitimacy to coordinate the interests of all relevant Canadian parties.

It is increasingly difficult to maintain that the federal government's representation in the tripartite PECC process is informal or unofficial. PECC is formulating studies and etablishing 'specific measures...in the area of trade and other international policies' (PECC 1983), and there is strong evidence that PECC and PBEC wish to promote these proposed policies with Pacific rim governments. Canadian government representatives must not lapse into behaving as if the PECC process has not a very serious potential. However 'informal' PECC may appear, it is composed of a mix of quite highly-placed officials, business people and researchers who, particularly in the absence of other multilateral regional fora, may in certain circumstances establish the parameters of the Pacific environment with all the economic, social, regional and political domestic consequences that such an environment would entail. The Canadian government may choose to reject these parameters, but, if the region's powerful governments accept them, the Pacific economic environment may be set notwithstanding Canadian rejection. As Hayter shows (Figure 6), Canada is not very articulated into the present Pacific economy as it is.

The Canadian government (through the Department of External Affairs) has a responsibility to lead by soliciting and coordinating the views of other federal institutions and the provincial governments, of labour, social and consumers groups, and of those firms, industries, academics and researchers not represented in the PECC

FIGURE 6 - TRADE AMONG PACIFIC ECONOMIES (1979)

ON THE BASIS OF SALIENCE SCORES



C = Canada
US = United States
M = Mexico
CA = Central America (El Salvador, Guatamala, Costa Rica, Nicaragua, Panama, Honduras)
S = South America (Columbia, Ecuador, Peru, Chile)
N = New Zealand
A = Australia
AS = ASEAN (Malaysia, Singapore, Thailand, Indonesia, Philippines)
H = Hong Kong
CH = China
K = S. Korea
J = Japan

Source: Roger Hayter, 'Canada's Pacific Basin Trade and its Implications for the Export of Manufactures in B.C. and Alberta', Figure 1, page 5a process - and then representing this coordinated stance internationally.

There is a place for an energetic politics and diplomacy in the formulation of the proposed policies. D.A. Ross of UBC's Institute of International Relations (1982) maintains that, while there is as yet no compelling evidence that Canada's future prosperity will be dependent on the evolution of the Pacific's economic processes (and that Ottawa will accordingly maintain 'traditional scepticism' towards even quasi-institutionalized multilateral relationships), there is much to recommend a far more activist approach to problems of Pacific security.

The April 1985 PECC meeting in Seoul and subsequent meetings may be stages in the refinement of the guidelines for the future Pacific economy. PBEC Canada, Canadian political economists and, particularly, the Canadian government have a responsibility to ensure that Canadian representation at Seoul is informed by the views of the widest possible range of Canadian interests.

How this can be done effectively is as central an issue in Canadian national, regional and sectoral export planning as are planning questions raised by resource exports or the marketing of Canadian goods and services. If Canadian export expertise is dedicated exclusively to the premises of free trade with the United States, Canada may find its Pacific option relegated to continuing marginality or determined by far fewer voices than it should be. This will only matter if Canadians are content to subscribe to the consequences of economic continentalism without considering the advantages of viable alternatives.

CHAPTER 8 - CONCLUSION

Findings

The case studies of Chapters 5, 6 and 7 yield some particular and general findings.

(a) Case Study 1 - The Marketing Challenge: Findings

1. Canadian export interests lack adequate organization to achieve optimal performance in marketing Canadian goods and services.
2. An adequate response would rely principally on the second principle of communication which calls for a better sharing and use of information by Canadian export interests (see Table VI). It would also depend on two principles of legitimacy: cost-effectiveness for both the private and public sector involvements (principal 1) and coordination of a national effort by the federal government (principle 4).
3. The Canadian deficiency in marketing can be easily corrected through small-scale innovative concepts (like the Canadian Commercial Centre model proposed in Chapter 5) to provide additional components where there are gaps in the existing range of Canadian marketing agencies.

(b) Case Study 2 - The Investment Challenge: Findings

1. Canadian export interests also lack an adequate cooperative organization to secure the foreign investment which would generate sales of natural gas in markets other than the United States.

TABLE VI

COMPLIANCE WITH THE SIX PRINCIPLES IN EACH OF THE CASE STUDIES

	Canadian General Trading Company	Western Liquid Natural Gas Case	Pacific Economic Community Concept
PRINCIPLES OF LEGITIMACY			
1. Priority of Economic Considerations	LOW		
2. Role of Government			LOW
3. Full Provincial Participation		LOW	
4. Coordination by National Government	LOW	LOW	LOW
PRINCIPLES OF COMMUNICATION			
1. Authoritative Voice for each export interest			LOW
2. Better Sharing and Use of Information	LOW	LOW	LOW

Empty Cells are within acceptable limits relative to low compliance cells.

2. While economic considerations of cost and price might always have prevented the realization of the Western LNG project, the disarray among Canadian export interests denied them the flexibility to manipulate any 'window of opportunity' in international energy prices to their separate and mutual advantages.
3. To have enjoyed this 'window of opportunity', the application of the fourth principle of legitimacy - coordination by the national government - would have acknowledged the political and constitutional importance of the Alberta government (in line with the third principle of legitimacy) in a matter relating to the resource base of that province's economy.
4. Moreover, the sharing among Canadian firms and governments of information relating to Japanese goals and the domestic and international energy environments (in line with the second principle of communication) would doubtless have been important in securing a joint Canadian position.

(c) <u>Case Study 3 - The Pacific Economic Community Concept Challenge: Findings</u>

1. Canadian export interests have failed to establish a mechanism through which a thorough national consideration could be made of the consequences for Canada of various scenarios resulting from the continuing elaboration of the Pacific economy.
2. This failure could in certain circumstances have profound negative consequences for the Canadian economy and polity.
3. This failure could be corrected if each Canadian export interest (especially the Pacific Basin Economic Council and the federal

government) established an authoritative voice (in accordance with the first principle of communication); and if all Canadian export interests acknowledged the legitimate role of government, or (put another way) if the federal government assumed its responsibility (under the fourth principle of legitimacy) to lead and coordinate a national response.

(d) General Findings

1. While each of the case studies shows a different set of deficiencies as far as the six principles are concerned (see Table VI), they combine to demonstrate that the Canadian export system is generally deficient in a number of ways.
2. The most serious general deficiency relates to the second principle of communication. In none of the three case studies (and least of all in the critical WLNG case) did Canadian export interests share or use information in a satisfactory manner.
3. Related to the deficient sharing of information is the clear failure of the national government to identify its proper coordinating role in any of the three cases.
4. To achieve a greater national coordination, the federal government should not (as in the Pacific Community case) define its role as peripheral; it should not (as in the Canadian General Trading Company case) define its role as if Canada were a unitary state or a command economy; and it should not (as in the WLNG case) betray the (not always ineffable) national interest in a single-minded pursuit of its own interests.

2. Recommendations for Future Research

The general recognition of the inadequacy of the proposed Canadian General Trading Company has reduced it as an interesting object of further research. The apparent ascendancy of economic considerations since late 1983 and the recent proliferation of appropriately scaled marketing innovations (see, for example, DEA, 1984) suggest that many of the next steps are being taken.

The Pacific Economic Community Concept has a daunting number of variables and, barring major changes in international politics and economics, it may have little importance in its present form. These factors make it difficult to specify useful immediate research on this question.

The Western Liquid Natural Gas case, on the other hand, is incontestably central to Canadian export performance. Whether or not the Port Simpson project goes ahead, it would be instructive to know more about the relations within and among relevant Canadian export interests during WLNG's brief history. This could be effected through interviews of the decision-makers in the private sector (for example, in Nissho-Iwai Corporation Resources, Dome Petroleum, Union Oil, the Canadian Petroleum Association, and the Independent Petroleum Association of Canada) and the public sector (for instance, Energy, Mines and Resources Canada, the Government of Alberta (notably the Premier's office), and the Government of British Columbia (including the Ministry of Energy, Mines and Petroleum Resources)) as to what they wanted, what they knew, and with whom they were in contact at each statge of WLNG's history. It would also be interesting to know what information and contacts they now wish they had had.

This exercise would give institutional meat to the bones of the six principles and to the sinews of the general institutional proposals made in Chapter 6. The purpose of the research would be that Canadian export interests might in future be better organized for coherence and success in similar circumstances.

NOTES

1. (Page 10) The Financial Post 500 for Summer 1984 gives the ten leading export firms (with total exports in $ million and exports as percent of total sales) as:

1.	General Motors of Canada	$9,107 m.	66%
2.	Canadian Wheat Board	4,649 m.	85%
3.	Ford Motor of Canada	3,850 m.	45%
4.	Chrysler Canada	2,727 m.	63%
5.	Canadian Pacific	2,271 m.	18%
6.	Alberta and Southern Gas	1,327 m.	83%
7.	MacMillan Bloedel	1,057 m.	52%
8.	Mitsui & Co. (Canada)	986 m.	59%
9.	Nova	971 m.	25%
10.	Mitsubishi Canada	846 m.	69%

2. (Page 33) Tsurumi (1960:6) cites Mitsubishi and Mitsui as 'Class A' soga shoshas; C. Itoh, Marubeni, Sumitomo and Nissho-Iwai a 'Class B'; and Kanematsu-Gosho, Tomen and Nichimen as 'Class C'.

3. (Page 74) The five Japanese utilities were the Chubu Electric Power, Chugoku Electric Power, Kyushu Electric Power, Toho Gas and Osaka Gas Companies. The withdrawal from negotiations of Osaka Gas in January 1985 may have fundamentally undermined the economics of the project.

4. (Page 75) Since mid-1984 the Canadian consortium, renamed Canada LNG Corporation, has been restructured to add Pan-Alberta Gas Ltd. of Calgary, Suncor Inc. of Toronto and Westcoast Transmission Co. Ltd. of Vancover to Union Oil and NIC Resources Inc. With the granting of a gas removal permit by the Government of Alberta, the main issues in March 1985 (according to GM, 9 March:B4 and 19 March:B3) related to price and loan guarantees, the Japanese utilities insisted that price escalation over the 20-year term of the contract be tied to LNG prices in Japan, where there was evidence of an LNG glut and strong competition from other energy sources. Canadian suppliers, on the other hand, held to tying escalation to the U.S. border price, expected to rise in the next few years. Both formulas probably required that Canadian governments relax their tax and royalty revenue on LNG to be exported as part of the project.

   The Japanese utilities also required that the Canadian Government guarantee Japanese loans to the consortium. This requirement seems to have replaced (and toughened) the earlier Japanese desire to have Petro-Canada join the project as an earnest of the Canadian Government's commitment to it.

   Given the importance of these demands and the previous history of failed communication, it seemed unlikely that agreement could be attained before the latest in a series of Japanese deadlines - March 31, 1985.

5. (Page 81) The formula was:

$$N_1 = P_1 - C_1 - T_1$$

$$\text{and } N_2 = P_2 - C_2 - T_2$$

where: N_1 is the netback from WLNG sales

N_2 is the netback from gas sales in the United States

P_1 is half the price of Arabian and Indonesian crude oil landed in Japan plus half P_2

P_2 is the price of Canadian gas delivered to the U.S. border, a price in early 1984 supported by Ottawa and Edmonton, and much above the U.S. domestic price

C_1 are the (high) fixed and variable costs of WLNG

C_2 is the cost of gas for export to the U.S.

T_1 and T_2 are royalties and taxes to provincial and federal governments

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