

Institute of Corporate Directors

Podcast Transcript: **Be It Resolved: Directors need a new playbook for Canada's place in the world.**

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Rahul Bhardwaj (0:06 - 1:17): Welcome to Be It Resolved, Season 2, the podcast where bold ideas meet courageous leadership. I'm Rahul Bhardwaj, President and CEO of the Institute of Corporate Directors in Canada. In each episode, I speak with experts to delve into pressing issues impacting directors and decision-making in the boardroom.

My guest today is Stuart Beck, the former President and CEO of the Asia Pacific Foundation of Canada and Canada's former High Commissioner to India. For more than 40 years, Stuart has served Canada as a diplomat, trade commissioner, and senior advisor on international business and public policy. His global career includes postings across Asia and the United States, including serving as Canada's Consul General in Shanghai and San Francisco.

At the Asia Pacific Foundation of Canada, Stuart advanced Canada's interests abroad, advising organizations on Asia-related strategy. He is uniquely positioned to offer insights into how directors can think about Canada's role in a rapidly shifting global landscape. Welcome Stuart.

Stewart Beck (1:17 - 1:19): Oh, thank you, Rahul. Looking forward to this.

Rahul Bhardwaj (1:20 - 1:56): Great to be here. Today's resolution, Be it Resolved, Directors need a new playbook for Canada's place in the world. I'll ask our audience, which way would you vote? And Stuart, you'll get to vote on this later.

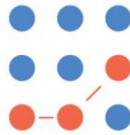
But a part of this resolution implies, well, there is a playbook and it begs the question, what's wrong with the old playbook? And I've been hearing both sides of this. I've heard directors say, listen, the playbook we've got now, it's in a different context, but it should work just fine. Others, not so sure.

So, are we saying what got us here won't necessarily get us there? What do you think?

Stewart Beck (1:56 - 2:36): Well, Rahul, I think we lived in a world where you had a rules-based order. And if you think about Canada and Canada's role in creating GATT and the WTO, it was based on a liberal-based order that we knew and understood, and there were rules that we lived by. Well, today that rule-based order has changed considerably, and that's basically because our largest trading partner to the South has decided they're going to change their playbook.

So, that means we have to think about changing our playbook, because if we don't, we just don't have the comfort and security that we used to have doing business in a market that is obviously the biggest in the world, and one that drives an awful lot of innovation and trade. And with the situation as it is today, it's going to be very, very complicated if we don't think differently.





Rahul Bhardwaj (2:37 - 3:31): So, before we start to look ahead as to what's changed, I think it's fair to say that the playbook that we've used, particularly under, you mentioned GATT, let's talk about NAFTA and CUSMA, there's certainty that went along with that. So, for the last while, the focus for directors has been on a particular context where fiduciary duty, oversight of culture, strategy, and risk, it felt tried and true. There was a muscle that was built there.

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We've often said that corporate governance, though, is not a one-size-fits-all, and we've always talked about the sectors, the type of companies, public, private, and the sort, but it seems like the one-size-fits-all concept has actually gone a little global. And it's not just about the type of industry and company, but it's literally the context within which companies are operating. And if that's changed, what are you seeing in that change that would help us understand what that change looks like?

Stewart Beck (3:31 - 5:00): Change is something that board directors have to be able to adapt to. And I was in the United States at the time that we negotiated the free trade agreement back in 1989, that created a huge amount of change. We had gone from a protected economy to one where we're roping up to the United States in particular, and that we had a lot of industries that got lost at the time.

Footwear, furniture, I mean, a lot of companies and boards had to adapt to that reality and the companies that were thinking globally at that time were the ones that became successful, but residential furniture suffered. Office furniture didn't because they were going global and they understood that. And the boards were taking people in the right direction.

So, the way we look at the world today is where will the economies be? Where will the growth be? Say 50% of global GDP is in Asia.

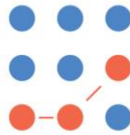
And by 2030, 60% of global GDP will be there. If you take a look at the middle class, global middle class, 50% is in Asia. By 2030, 66% will be in Asia, but really more importantly for Canada, where is innovation going to be going?

And you take a look at what's happening in Asia now in the context of innovation between Japan, Korea, China, and India, it's driving the innovation engine when it comes to IP, when it comes to new technologies, I guess there are always problems as we know with China and the world around AI, for example, but still this is what's going to be driving the future. So boards have to understand that directors have to understand where they need to go. And I don't want to use that the obvious term that we always talk about from a hockey perspective, but it is where things are going to be.

And we just need to know and understand how to get there and be prepared for that.

Rahul Bhardwaj (5:00 - 5:22): Well, let's talk about what some of those elements could be, because I think you'll hear from directors and I don't want to over-generalize here, but we're used to looking at strategy. We're used to looking at risk. We've done this before and that's why we're successful.





But by the undercurrent here is that that's just not going to cut it in the new playbook. What is some of the new elements of this new playbook directors should be focused on?

Stewart Beck (5:22 - 7:14): Well, again, no one never would have assumed that the type of risk you're looking at today around the United States would ever exist. I mean, it was our biggest friend, our biggest trading partner. We had the comfort.

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And as a former trade commissioner, having worked in this space for many years, in 1982, when I joined 78% of our trade was going with the United States. We talked about diversification then. Here we are today when we're at 74, 75% of our trade is with the United States.

So, we've talked about diversification for easily 40 years, and we haven't really had much difference in the way that we've been operating in the United States. So today we're working with a trading partner that is totally inconsistent and one that you just are not comfortable in terms of being able to say, yes, we will have a USMCA or a customer that's going to be negotiated in 2026, and we will go back to the way life was. And so if I'm a director, I'm going to be saying, okay, so I'm living in a world of tariffs today.

Those tariffs are impacting my business. I've talked to people who are directors, as you would know from my background, and they just really don't know how to manage this. Where will it be six months from now?

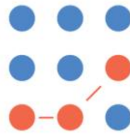
Where will it be 12 months from now? So when you talk about the international trading environment and you take a look at Asia in particular, there's much more consistency, there are different types of risk and I can tell you, trying to morph and move into an Asian type of strategy, there are risks that are quite a bit different than the United States. And so you need to understand what those risks are and how to manage that.

And whether it's a cultural risk, whether it's a legal risk, whether it's financial risk, those things are, we pass through that with the United States and we've had that comfort level. If we start to move, which we have to do, we need to be able to have a better, different playbook and understanding how risk operates in that environment. So that's really, I'd say would be my advice to directors is really, you got to think about it, you got to understand that there are different risks and you got to be able to prepare for them.

Rahul Bhardwaj (7:14 - 7:34): You touched on the risks and the type that might be a bit different. If we bring it down to brass tacks, what sort of questions would you be thinking as a director to be asking of management, especially if they're thinking about potential expansion into a new Asian economy, what sort of questions should we be asking around risk?

Stewart Beck (7:35 - 9:03): First question I would ask is, have you thought about it? Okay. To management, have you got a strategy?





Have you been thinking about where markets are? So I take a look at as an example, Lululemon, which again, being in Vancouver, it's something that's close to my heart, for them, they're suffering under the tariff rates that the United States have slapped on. So they're looking at markets and they're quite successful in China.

Now they're taking a look at India. Okay. They're going to a market that is the home of yoga, as you would know.

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And so, it's going to create a different set of risks and how they mitigate those risks will be important. But still, if you're going to be losing either market share or your pricing changes because of the realities of tariffs, you're going into a market where the opportunity is huge. Okay.

Quite frankly, and the question is you have to look at it differently and you have to understand that your business model, how are you going to work on your partnerships, how are you going to be able to build this? It's a different set of questions. So if I'm sitting on the board of Lululemon and having had my experience in India, I would be saying, okay, who are you looking at?

What's your business model? Are you going to do it on your own? Are you going to do it with a partner?

Are you going to do it online? Are you going to do it? So there's a set of questions that you would have that would help them think through, ideally, if you have somebody, have people on the board who ask these questions, it helps management come up with the strategic approach to a market.

You're taking a look at margins. I mean, all these things are really important and it's quite a bit different. And the thing is, it's a receptive market to that type of product.

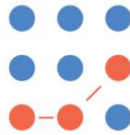
And that is what I think people need to understand. You have to just think differently. That's all.

Rahul Bhardwaj (9:03 - 9:30): So, in that point that you've made, it's to ask management to build out these scenarios. The board would have oversight of succession planning at the management level to make sure that they've got the right managers in place, that they've got people with the right set of skills to be able to respond to this type of diversification that you were speaking about. How about when the board looks as itself?

When they look around the board table, how do they know they've got the skills and competencies?

Stewart Beck (9:31 - 10:42): Well, that's a very good question. I mean, that's my assumption is having sitting on boards. Now we do a lot of board, I won't say introspection because it's not so much that, but you do a board assessment and board analysis, you do a skills matrix.





All these things would be normal practice on a board. But one of the things I would say, and it's very important, if you decided you're going to go into a market, did you see the opportunity? So, if you're going to be going to India, I would be saying quite seriously, we probably need a board director that's going to be able to come from that economy and be able to help us think through this.

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And it's ideally somebody from India who's had experience in other markets in Asia, and you have your background and want to understand those people exist. And you'll be able to find those people because that's how you have that type of assistance. And I remember having a conversation with a former CEO at CPPIB.

And one of the things that they added was somebody, because of Asia was becoming so important from their investment perspectives, they brought someone on the board from Asia to assist them with their thinking and their strategy. So that would be the first thing I would do. If I was sitting on a board and I was the chair, I would be looking around and saying, okay, who's terming out and then how do I think about this diversification in a way into Asia for the company that we're in the strategy that we're trying to build.

Rahul Bhardwaj (10:42 - 11:10): You know, I think that makes a lot of sense. And I think people will think that it's also a bit of an exception to one of the rules about, you don't typically look for subject matter experts to be brought onto the board, might be AI and others. There's been a resistance to doing that as a rule of thumb, at least, but this would seem to be one of those exceptions where it would make sense to be able to bring that lens to the oversight of strategy, to be able to test it and to be able to understand risks from a more lived experienced perspective, perhaps.

Stewart Beck (11:10 - 11:49): Business models in Asia are quite a bit different. Again, I keep talking about India, but only because I was there and I'm familiar with it, they're family run businesses. They're conglomerates, but they're, you know, the Tata group is a conglomerate of 65 companies that was run by the Tata family.

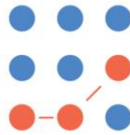
Now it's gone into professional management, but still, it is an example. ERLA, when you get into the Chinese context, it's different as well. So, you get into state owned enterprises.

So, you have to be able to say, if I'm going to go to a market or I'm going to go to Asia, how their business practices operate, I need to understand that and finding the right people to be able to sit on the board, it's easy enough to do. It's just want to make sure that they fit well with the culture of the board itself.

Rahul Bhardwaj (11:49 - 12:22): So, let's get back to the transition for a second, from the old playbook to the new playbook. Built into that, there's notion that there's going to be a necessary diversification that takes place as a result of the changes that we're seeing. Our government has been very vocal about the importance and the accelerated need for diversification.

That might be easier said than done would be my guess, Stuart. I'd love to get your thoughts on that. And where I'm really going is what should directors think about, about being realistic in their ability to diversify?





Stewart Beck (12:22 - 14:15): Diversification, you're talking about the world. I've been talking about Asia, but we can also talk about Europe and let's face it. Our historical links have been in Europe.

Our country, the initial immigrations were coming from Europe, whether it was Western or Eastern Europe. Today, our immigration is coming from Asia. I would say, if you're looking at diversification, go to where it's easy to begin with.

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In Europe and the agreements that we have with Europe, the CETA, it allows us access into important markets that will be able, that would allow us to grow and to diversify. Asia is more complicated and I'm the first to admit it, but it's where the growth is going to be. It's where the action will be in the future.

So, if you're at the board level, these are the questions you have to ask management. Okay. We're now in an environment where we are being encouraged by government to diversify.

We are in a situation where we no longer have that level of certainty going into the market in terms of how we operate. Let's be serious about this now. And our challenge in the past has been whenever something was going wrong with the United States, we talk about diversification.

When the ship righted it, everybody forgot about it. Okay. Oh, they went back to the United States.

Now I think it's, this needs to be a concerted type of approach and basically saying, let's take a look at diversification. I won't say the world's your oyster. We have to bring focus to it, but your management team's paid to do that.

And that's really just asking the right questions. Where are you going to go? Where do you rate?

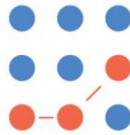
For example, CPTPP is a very strong agreement and one that works to our benefit. The United States is not in it.

I would be saying to management, have we taken a look at the CPTPP? What tariff rate advantages does it give us over US competition? And then we should be exploiting those tariff rate advantages and working, whether it's in Japan or even Australia, which is a member, other places where we have some benefits. I'm saying it's taking the toolkit that's there, asking management about it. Are they using it? And then again, exploiting where it makes sense to diversify.

Rahul Bhardwaj (14:15 - 14:33): So implicit in today's resolution is what got us here might not get us there. How big is the gap do you think right now between what boards are used to doing and what might be required going forward? Is it a big leap or are we talking about just some tweaks?

Stewart Beck (14:33 - 15:41): It's a change in thinking. I'm not a hundred percent sure it's a big leap because business is business. And at the end of the day, you know what your business is.





You know what your competition is. You know how your margins work. So, the question becomes, are we equipped to go into these new markets?

It doesn't matter whether it's West Germany or Germany or whether it's India. The question is, are we prepared to do that? And again, I'm not saying you need to do something like that if you're comfortable and you've got your, your business model set for the United States.

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But if you are concerned about what this means to you from a certainty perspective, it's in your interest. And it's in the time of management's interest to be able to come up with a strategic approach to the diversification realities. And as I said, this is something that a company like Lululemon, which is in the consumer products business has to look at.

It's if you're in the manufacturing side, you have to take a look at this as well. And you have to understand that it's a supply chain network, particularly in the manufacturing business, supply chains have changed considerably. It's a different world that we live in today.

And so, again, you have a lot of astute people out there, astute board members, astute managers, it's just a question of, is it a tweak, maybe a tweak, but it's really a change in thinking, that's all.

Rahul Bhardwaj (15:42 – 15:51): And a change of thinking or learning new ways is one thing. Unlearning the old ways, especially when they were successful under NAFTA, CUSMA or whatever, that's tough.

Stewart Beck (15:51 - 16:33): Yeah, it's path of least resistance. I hate to say that we tend to be lazy, and I don't mean that in a negative way, but look, I'm, if it's easy to do business in the United States and it's easy to drive across the border, you know, do you understand the legal system? I mean, why would you go through the pain and effort when it's expensive?

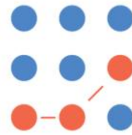
So, if you're going to go to India, it's going to cost you to send senior manager to India for two weeks. It's going to cost you a heck of a lot more to send them than sending them to Atlanta. These are things you have to be able to resource it.

You say it's a strategy and the strategy requires people and it requires money and time. And if I was to say, what are the most important things to have when you go into it, certainly in an Asian market is patience and perseverance, because it takes a long time to build that.

Rahul Bhardwaj (16:33 - 17:00): So, you use the word lazy. And I know you mean that in the sense of the Royal 'we', as I can tell you, and you know, very well, Canadian boards are as busy as ever and a serious commitment by directors these days, Stuart, you wrote a piece recently in the Globe and Mail about the EV sector and technology. And you had some really interesting points to make in there.

Can you fit that within the scope of what we're talking about today? Why did you use the EV sector as an example?





Stewart Beck (17:01 - 19:15): It's one of those ones where we thought we were doing something to our benefit with the United States and it didn't really mean anything. We tend to do things historically. I mean, I can think of other examples, but where we think, this is going to get us some benefit from the United States for doing this, it turned out it didn't really give us any sort of benefits.

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Take a look at our automotive sector right now, Atlantis is moving the tariff rates on aluminum and steel. I mean, all this is just, you say to yourself, why did we do this? Because at the end of the day, we have climate change responsibilities.

We have technologies in Canada that fit into this. And we're saying we're swapping 100% EV on a country that's producing cars that will be really the next generation of where things are going to be going. So the point I was trying to make is when China was getting into the automotive industries back in the early 2000s, even earlier, probably late nineties, they negotiated arrangements with US car manufacturers and Canada obviously was involved in that process because the cars that GM assembled in Shanghai were basically exactly the same car that was being assembled in Oakville.

They kitted the car and they shipped it to Shanghai. 40% of that car within three years had to be manufactured in China. And by seven years, a hundred percent of the car.

That's what the Chinese did. They negotiated that. So my point that I was making in the article is look, we are looking for EVs.

We want this because we have climate responsibilities. There's really in my mind, no reason. We have some leverage now because we have a hundred percent tariff.

We need to work with the Chinese and basically say, can we work with you? We'll lower tariffs, but we want you to make commitments, including the transfer of IP, which was very much important to the Chinese. And they took that and went to the next level.

We should be doing the same thing. Take their playbook. They took ours.

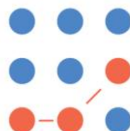
Now it's time for us to take theirs. So, I think that was the point I was going to make. Not, I made that in the context of the US has already put a poison pill into the USMCA about any sort of agreements that we have with China.

But this is, again, we have to begin to say we need to stand on our own two feet. We need to think about our strategic autonomy, and we need to make decisions that are in our interest, not just in the context of our global commitments, but also in the context of hiring people, paying salaries, creating an economy, building our own innovation ecosystem. These are things that we need to be thinking about in a greater context of an industrial strategy.

Rahul Bhardwaj (19:15 - 19:24): And that fits right in with the constant need for boards in particular to balance short-term pressures with the long-term opportunities. Would that be right?

Stewart Beck (19:25 – 20:04) Absolutely. It's a very difficult position to be in because you're answering earnings calls.





You're constantly dealing with your shareholders. You're trying to say, look, I'm going to be spending. Again, if you're upfront about it and say, look, for us to get into an Indian marketplace and let's face it, Magna, Linamar and others have done that.

And here we got 60 subsidiaries of Magna in China already. So, it's not like we don't understand it. Okay.

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It's a commitment that you have to make and you can, and as long as the board is comfortable that management understands how they're going to be executing on those commitments, I think you can explain it. You have the right type of narrative because this is where the market will be. And this is where the opportunities will be.

Rahul Bhardwaj (20:04 - 20:29): Well, Stuart, listen, thanks so much for bringing your lived experience. And there's been a lot of them to this conversation. And I would say to our audience now, now's your chance to vote on the resolution. Is it the old playbook good enough or is it the new one?

So Be it Resolved, Directors need a new playbook for Canada's place in the world. Stuart, the audience is thinking about it. Which way would you vote? I think I know, but which way?

Stewart Beck (20:29 - 20:38): Absolutely. You need a playbook no matter what you do. And the fact is the changes that are happening right now, it just means that it is a new playbook. Quiet and frankly, you can't avoid it.

Rahul Bhardwaj (20:38 - 21:02): Great speaking with you today, Stuart. And to our audience, I hope you enjoyed today's episode of Be It Resolved, that you've deepened your boardroom insights to stay ahead of emerging trends. If you found today's discussion thought-provoking, we encourage you to subscribe and leave a review on your preferred podcast platform.

From the Institute of Corporate Directors in Canada, I'm Rahul Bhardwaj. Until next time.

