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A BILATERAL THESIS FOR CANADA

The Bilateral Foundation

Why Canada has the wrong number of friends, why the swap line nobody talks about is the most important asset on the books, and how a thirty-year Canada–Korea sovereign bond becomes the architecture of middle-power independence.

AUTHOR	Jesse James	SERIES	NPSI Working Papers · WP-01
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Canada has the most concentrated counterparty exposure in the G7 and one significant exception to it. The exception has been sitting in a drawer for twelve years.

Three-quarters of what Canada exports flows to a single buyer. The country has no federal sovereign wealth fund. It has no meaningful bilateral currency swap network outside the Federal Reserve. By the metrics that fiduciaries use to evaluate counterparty risk, Canada is among the most exposed industrial democracies on earth.

The exception is a permanent, no-limit currency swap line between the Bank of Canada and the Bank of Korea, signed in 2017. It is the only unconventional bilateral financial infrastructure Canada possesses with a non-G7 partner. It has not been used for anything.

This paper proposes that it become the institutional foundation of a thirty-year Canada–Korea co-issued sovereign bond programme — assembled entirely from off-the-shelf instruments, designed to fund Pacific corridor infrastructure, and structured so that Indigenous co-ownership is embedded at issuance rather than retrofitted under political pressure.

01 The Bank of Canada–Bank of Korea swap line is the institutional foundation.

Permanent, no preset limit, signed November 2017. It removes the residual liquidity-failure risk that destroys cross-border bond markets in crisis.

02 The dollar is the benchmark, not the target.

Pricing as a spread over thirty-year US Treasuries is how every sovereign communicates with global capital. The architecture is additive to dollar liquidity, not substitutive.

03 Indigenous co-ownership designed in at issuance.

A Series I tranche, ten to fifteen percent of programme value, with a structural twenty-five-basis-point coupon ratchet against dilution. The only version that survives Canadian politics in 2026.

CONTENTS

Four parts. One architecture.

I The Diagnosis 04

A middle power with the wrong number of friends.

II The Unused Foundation 07

A swap line, signed in 2017, twelve years dormant.

III The Architecture 10

Off-the-shelf components. Bilateral co-issuance. Indigenous at issuance.

IV The Verdict 13

What gets built when middle powers stop waiting for permission.

PART I

The Diagnosis

It is uncomfortable to discover, in middle age, that the friend you have relied on for everything was the only friend you ever bothered to make. Canada is, geopolitically, in middle age, and the discovery is presently occurring.

The defining trade fact of modern Canadian life is that approximately three-quarters of everything Canada sells leaves the country in the direction of a single buyer. The buyer is geographically convenient, linguistically familiar, politically allied, and — until recently — institutionally predictable. For most of the post-war period this was treated by Canadian policymakers, with some justification, as a permanent feature of the landscape rather than a counterparty to be diversified.

That treatment was always a choice. Norway holds less than half its exports to its largest counterparty. Australia, another resource-export economy with a Pacific orientation, has spent twenty years reducing concentration and currently holds the figure under thirty percent. Germany, before its energy crisis, held the figure to roughly nine percent. Canada is, on this measure, an outlier even among small open economies — which is to say, Canada has built an export economy on what professional asset managers would diagnose, without hesitation, as a single-counterparty risk profile.

This was acceptable so long as the counterparty was reliable. That assumption has now been retired, and the retirement was not announced by foreigners. It was announced by the counterparty itself, in language that was clearer than Canadian commentary has been prepared to acknowledge.

In February 2022, the United States, the United Kingdom, the European Union, Canada, and Japan acted in concert to freeze approximately half of the foreign exchange reserves held by the central bank of the Russian Federation. The action was unprecedented in scope. Whatever one thought of its merits, its operational message was unmistakable: dollar and euro reserve assets, held by sovereign central banks, can be rendered inaccessible at the discretion of the issuing jurisdictions.

The reserve-management community noticed. A survey conducted later that year by Central Banking and HSBC of fifty-three reserve managers responsible collectively for over five trillion dollars in assets found that eighty-five percent expected the action to have material consequences

for the future of reserve management. Roughly a third reported that their institutions had begun examining alternatives.

The world did not de-dollarise in response. The world is not going to de-dollarise. The dollar will remain the principal reserve asset for as long as anyone reading this paper has a professional reason to care. But every serious reserve manager on earth filed, in the back of the institutional mind, the new and unpleasant fact: that the rules of the system in which they operated were, in extremis, available for selective application.

Canada was, in 2022, a participant in the freeze. Canada is, in 2026, a country that has been told, repeatedly and at high volume by the political class of its largest trading partner, that its exports are unwelcome, its border is a problem, and its sovereignty is a matter of ongoing negotiation. The question of whether Canada is on the receiving end of the same instruments it once helped to deploy is no longer hypothetical. It is operational risk.

Let us take the inventory plainly. Canada has no federal sovereign wealth fund. The Maple 8 pension giants — CPP Investments, OTPP, OMERS, BCI, AIMCo, HOOPP, PSP, the Caisse — hold over two trillion dollars between them and are, in scale and global behaviour, sovereign-adjacent. They are not sovereign wealth. They have a fiduciary obligation to retirees, and we should be grateful for that. They will buy a Canada–Korea bond at a competitive risk-adjusted return; they will not, and cannot, manufacture one. Canada has the institutions to invest sovereign-class capital and does not have the sovereign-class capital to invest.

Canada has no significant non-G7 currency swap network. The Federal Reserve maintains standing dollar swap lines with the Bank of Canada and four other major central banks. These are operational. They are not diversification — diversification, if it is to mean anything, requires partners other than the counterparty you are trying to diversify away from. Canada does have one exception. It is the subject of Part II.

Before closing the diagnosis, one charge of anti-Americanism must be answered, because it is the charge that will be made first and most loudly. The argument here is not that the United States will betray Canada — the United States has been, for most of two centuries, a more reliable partner to Canada than Canada has been to itself. The argument is more modest, and more durable.

Canada has built an economy and a financial architecture that assumes a single counterparty is permanently friendly, and serious institutions do not build on assumptions of permanent friendliness with anybody. This is not a controversial principle in any other domain. No pension fund maintains a hundred-percent allocation to a single equity. No central bank holds reserves in a single currency. No serious commercial enterprise sources from a single supplier. The principle is

universally recognised in every field in which professionals manage other people's money or risk. It has, by an accident of mid-twentieth-century geographical convenience, not been applied to the Canadian economy as a whole.

The accident is presently being noticed. The question is what to do about it. Any answer must respect three constraints. It must not be performative — Canada has produced two decades of diversification reports, none of which has resulted in diversification. It must not be anti-American — the architecture must be additive rather than substitutive, defensible in Washington as well as in Ottawa. And it must use the institutions Canada already has — there is no political bandwidth available for a new federal sovereign wealth vehicle.

It happens that one of those institutions already exists. It has been quietly maintained for twelve years. It is the only institutional plumbing of its kind connecting Canada to any non-G7 partner. It is operational, permanent, and unused.

Canada does not need to choose against anyone. Canada needs to stop pretending that having one friend is the same as having a foreign policy.

PART II

The Unused Foundation

There is a particular kind of strategic asset that is so quiet, so undramatic, and so technical that the country which holds it can possess it for twelve years without noticing what it is for. Canada has one of these. It was signed on a Wednesday in November 2017, in Seoul, by two central bank governors, and almost nobody in Canada has heard of it.

The Bank of Canada–Bank of Korea bilateral currency swap line is the only standing financial agreement Canada maintains with a non-G7 partner that meaningfully extends beyond the limits of ordinary central bank cooperation. It permits the two institutions, in the event of cross-border liquidity need, to swap unlimited quantities of Canadian dollars and Korean won at prevailing market rates for as long as both governments wish the arrangement to continue. It has no expiration. It has no preset limit. It has no fixed pricing formula. It is, in the technical sense, a permanent commitment by each central bank to maintain unfettered operational access to the other's currency.

To grasp how unusual this is, consider what Canada does not have. Canada has no standing bilateral swap line with Japan. Canada has no standing bilateral swap line with the United Kingdom, the European Central Bank, Switzerland, Australia, India, Singapore, Mexico, or Brazil. The arrangements that exist with these jurisdictions, where they exist at all, are conventional reciprocal facilities of limited size and fixed duration. The Korean arrangement is in a category of one.

The line was signed by Governor Stephen Poloz on the Canadian side and Governor Lee Ju-yeol on the Korean side, in the closing month of 2017. The official rationale was the deepening of bilateral trade and the stabilisation of cross-border financial flows in the event of unspecified future stress. The unofficial rationale, audible to anyone who reads central bank releases for tone as well as text, was that two technocratic institutions led by serious people had decided that the political winds of 2017 made a quiet permanent option valuable to hold. Both countries had, at that moment, recently sworn in administrations in their largest neighbours whose attitudes to trade and alliances were, to put it gently, in flux. The line was an option, in the financial sense — paid for in advance, exercisable on demand, valuable mostly because nobody could be sure when it would be needed.

It has not been exercised. There has been no operational requirement to use it. The Federal Reserve's dollar swap lines absorbed every cross-border liquidity event of the intervening period — 2018's emerging-markets stress, 2020's pandemic dash-for-cash, the 2023 regional banking episode. The Bank of Canada–Bank of Korea line has simply sat in the institutional drawer, where useful technical options frequently sit until someone develops a reason to take them out.

Consider what the line, in operation, would accomplish. A supranational issuer with Canadian and Korean joint backing sells thirty-year bonds denominated in dollars, swapped through derivative overlays into Canadian dollars and Korean won. The cross-currency swap, in normal conditions, is provided by the global bank dealer community at observable market spreads. In abnormal conditions — when the dollar swap market freezes, as it did briefly in March 2020 — the hedge becomes uneconomical and issuers are stranded. This is the failure mode that destroys cross-border bond markets in crisis. It is the reason every reserve manager in the world watched the March 2020 dollar swap-line activations with the attention they would devote to oxygen.

The Korean line is not a substitute for the Fed line. It is a redundancy on it. It is the second engine on the airliner. It exists for the moment the first engine has a problem, and in financial architecture, redundancy is the difference between a system that survives stress and one that does not.

The relationship the line supports has, in twelve years, gone from peripheral to consequential. Bilateral merchandise trade has approximately doubled. Korean direct investment in Canada has accelerated through three distinct waves — LNG (Korea Gas's five percent in LNG Canada, the largest single-project energy investment in Canadian history), critical minerals and batteries (POSCO, LG Energy Solution, and SK On with multibillion-dollar commitments across Ontario and Quebec), and defence-industrial (Hanwha Ocean's two hundred and fifty million dollar arrangement with Algoma Steel signalling Korean intent on the largest Canadian naval procurement of the decade). The swap line, signed when the relationship was small, has remained the only piece of significant bilateral financial plumbing while the relationship has grown around it.

On the buyer side, the case writes itself. The National Pension Service of Korea holds nine hundred and sixty billion dollars in assets, third among the world's pension funds. Korea Investment Corporation holds two hundred and six billion. Korea Post, Samsung Life, Hanwha Life, and Kyobo manage another seven hundred billion combined. Two trillion dollars of long-duration Korean institutional capital, operating under IFRS 17 reporting that creates structural demand for thirty-year duration. The Korean buyer for a thirty-year Canada–Korea bond exists at a scale that is hard to find anywhere else on earth.

The supply gap that NPS and the Korean life insurers face — long-duration, investment-grade, currency-diversified assets — is the exact gap that a CKPIF bond would fill. Korean institutional buyers have spent the last decade looking for thirty-year sovereign paper that is not Korean, not American, and not denominated in a currency they already hold to excess. The bilateral character of the proposed instrument addresses the diversification requirement at the same time it addresses Canada's.

This is not affinity. It is matched institutional demand. The two countries have, by accident of timing and policy, ended up with mirror-image financial-architecture deficits: Canada with the wrong number of friends and no instrument to issue, Korea with deep institutional capital and no matched-duration asset to acquire. The swap line, signed twelve years ago by central bankers who could not have predicted any of this, turns out to have been the missing piece of plumbing connecting the two deficits.

The case for a Canada–Korea bond, on the buyer side, is so obvious that the only mystery is why nobody has issued one. The swap line is the answer to that mystery.

PART III

The Architecture

There are two kinds of financial proposal. The first requires the invention of new instruments. The second requires the recombination of old ones. The history of financial innovation since Bretton Woods collapsed is overwhelmingly the second kind. This is a paper in that tradition.

Everything in what follows already exists. Sovereign co-issuance has been operationalised by the European Union at one-trillion-dollar scale through the NGEU and SURE programmes. The legal wrapper for a treaty-based supranational issuer was perfected by the European Investment Bank, the Nordic Investment Bank, and the Islamic Development Bank decades ago and is used routinely for benchmark dollar bonds. KPI-linked coupons are standard market practice under the ICMA Sustainability-Linked Bond Principles, with cumulative issuance exceeding one hundred and seventy-five billion dollars across more than two hundred and thirty issuers. Tokenised sovereign bonds have moved past the experimental phase, with the Hong Kong Monetary Authority issuing routine ten-billion-Hong-Kong-dollar tranches and the Bank for International Settlements operating Project Agorá as the multi-central-bank settlement layer in which the Bank of Korea already participates.

The novelty of the proposed instrument is not technological. It is geopolitical. Nobody, to date, has issued a sovereign bond co-guaranteed by two independent nations operating outside a currency union or supranational framework. The instrument would be first-of-its-kind in that one respect, and entirely conventional in all others.

The recommended structure is a treaty-based supranational entity, provisionally named the Canada–Korea Pacific Infrastructure Facility, owned jointly by the Government of Canada and the Government of the Republic of Korea, seated in Luxembourg, governed by English law, with submission to the London Court of International Arbitration for dispute resolution. The choice of Luxembourg is conventional — EU prospectus passporting, neutral domicile, existing market expertise. The choice of English law is similarly conventional and avoids any perception of US-jurisdictional capture, a consideration not without weight in the present geopolitical environment.

The most important structural decision is the form of the sovereign guarantees. The instinct of policymakers is to specify joint and several guarantees — under which each guarantor is liable for the full amount. This instinct is wrong. The relevant comparator is NGEU, whose architects faced the same question in 2020 and chose several but not joint guarantees, in which each member state is liable only for its proportional share. The choice was made for political durability rather than financial maximisation. The same logic applies, with greater force, here: sixty percent Canadian, forty percent Korean, several not joint, callable guarantees backstopped by appropriations from each treasury. The pricing penalty is modest — ten to twenty basis points on the benchmark tenor. The political durability gain is enormous, and durability is the consideration that matters over a thirty-year instrument.

The facility issues across four parallel tranches. A USD benchmark, thirty-year fixed, three to five billion dollars inaugural, priced as a spread of approximately fifty to eighty basis points over the thirty-year US Treasury at launch, tightening to thirty to sixty as the curve develops. A CAD parallel, thirty-year fixed, one and a half to two billion Canadian dollars inaugural, cross-listed Toronto and London, targeting the Maple 8 and Canadian domestic life insurers seeking asset-liability matching duration. A KRW parallel, thirty-year fixed, one and a half to two trillion Korean won inaugural, targeting the National Pension Service, Korea Investment Corporation, Korea Post, and the Korean life insurers under IFRS 17 thirty-year matching requirements.

The fourth tranche is the most consequential. Series I, an Indigenous co-ownership tranche, ten to fifteen percent of programme value, subscribed by a Pacific Corridor Indigenous Limited Partnership financed at Canada Infrastructure Bank Indigenous Equity Initiative rates significantly below the CKPIF coupon. The structural protection — a twenty-five basis-point coupon ratchet activating if Indigenous equity share falls below ten percent — renders dilution economically painful to the senior issuer, creating a durable financial incentive to maintain participation. This is not aspirational language. It is contract.

There is a recent history, in Canada, of major infrastructure proposals that performed extensive consultation with Indigenous communities, achieved superficial accommodation, and were subsequently halted in court because the consultation had been performative rather than substantive. Northern Gateway. Trans Mountain, in its original iteration. Energy East. The pattern is consistent and the courts have been consistent in reading it. The Series I tranche addresses the problem at the source — rather than treating Indigenous economic participation as a political condition to be satisfied after the financial architecture is built, the architecture is designed from issuance to embed co-ownership at the corporate level, with structural protection against subsequent dilution.

The operational precedent already exists. Athabasca Indigenous Investments' acquisition of an eleven and a half percent net operating interest in seven Enbridge pipelines, completed in 2022 at a transaction value of one and one-eighth billion dollars, is the direct structure on which Series I builds. The Canada Infrastructure Bank's Indigenous Equity Initiative provides direct loans at minimum Government of Canada rates, financing up to ninety percent of equity participation value. The federal Indigenous Loan Guarantee Program, announced in Budget 2024 at five billion dollars, provides sector-agnostic backing.

The proposition is not that Indigenous communities are partners in spirit. The proposition is that they are partners in the senior debt of the facility, with structural rights, structural protection, and structural cash flows that none of the foregoing depends on any government's continued political enthusiasm.

The proposed programme size is twenty-five to forty billion US dollars over five to seven years, issued in benchmark-sized inaugural tranches of three to five billion dollars and tapped subsequently. The size is calibrated to two simultaneous constraints — large enough to develop a credible secondary-market curve, and modest enough that the inaugural transaction can be executed without market disruption.

The pricing reference is the thirty-year US Treasury. Three reference points anchor the indicative spread of fifty to eighty basis points at launch: NGEU at launch in 2021 priced thirty-two basis points over the equivalent Bund (supranational, joint backing, no derivatives market); thirty-year Government of Canada bonds price thirty to sixty basis points over thirty-year US Treasuries (sovereign AAA, deep secondary market); Korea Treasury Bonds at thirty-year duration price sixty to one hundred and ten basis points over US Treasuries (sovereign Aa2, less liquid offshore). The CKPIF blended credit, with novelty premium and supranational illiquidity discount in years one through three, should land in the fifty-to-eighty range and compress to thirty-to-sixty within three years of inception, generating present-value savings of two to four billion dollars over the life of the programme.

What the facility funds is the second-order question, but it determines whether the facility is built. The candidate list as of 2026, in order of commercial maturity: the North Coast Transmission Line, BC, with ~50% First Nations equity already in development — the right first project; the Critical Minerals Corridor through northern Ontario and Saskatchewan, where POSCO, LG, and SK On have committed multibillion-dollar investments needing rail, transmission, and port infrastructure; Pacific LNG Phase II, where Korea Gas holds five percent and the post-Hormuz commercial logic is unanswerable; and defence-industrial procurement infrastructure supporting Hanwha's CPSP

participation. The most politically freighted candidate, a Fort McMurray–Prince Rupert pipeline, remains subject to Indigenous consent and Bill C-48 resolution.

The architecture is designed so progress on the facility does not depend on any single project's regulatory outcome. If the pipeline proceeds, the facility is the natural vehicle. If not, the facility still delivers four-fifths of the strategic value through the other categories. This decoupling is itself one of the chief design accomplishments.

PART IV

The Verdict

There comes a moment in the affairs of any institution at which the available tools, the available counterparties, and the available political conditions briefly align, and the question is no longer whether the work is possible but whether the people involved will do it. Canada is, presently, having such a moment.

The tools exist. Every component of the proposed architecture is documented under existing legal regimes, settled by existing market infrastructure, and tradeable by existing institutional participants. Nothing in this paper proposes a new instrument. Nothing proposes a new legal doctrine. Nothing proposes a new market.

The counterparty exists. Korea, in 2026, holds approximately two trillion dollars of institutional capital with structural demand for long-duration high-quality fixed income; a free trade agreement with Canada in force for eleven years; a standing currency swap line with the Bank of Canada that has been quietly maintained for twelve; a strategic interest in critical-minerals and energy security following the February 2026 Hormuz crisis; and a President whose Ministry of Economy and Finance has, repeatedly and in writing, identified Canada as a priority counterparty for the bilateral diversification of Korean energy and industrial supply chains.

The political conditions are unusually aligned. Mark Carney, sworn in as Prime Minister in March 2025, is the most capital-markets-literate person to hold the office in Canadian history. Tim Hodgson, as Minister of Energy and Natural Resources, brings two decades of investment banking and central banking experience to the relevant portfolio. The federal Major Projects Office, established in 2025, has the mandate to bring major projects to final investment decision within twenty-four months. The corresponding institutional alignment in Seoul is equally favourable, and is not guaranteed to persist beyond the current administration.

What this paper does not argue is worth naming. It does not argue that the dollar will collapse, that the United States will be unfriendly, or that Canada should reorient its primary alliance. None of these claims is required for the proposal to make sense, all of them — if true — would only strengthen it, and the proposal would remain sound if all of them were false. The case for the instrument is independent of any particular forecast about American conduct. It rests on the

simpler proposition that prudent middle powers maintain redundancy, and that a country with the wrong number of friends should consider acquiring more.

What this paper does argue is the following. Canada has, by global standards, an unusually concentrated counterparty exposure and an unusually thin set of bilateral financial-architecture tools to address it. One significant exception exists. The exception is the institutional foundation for a serious bilateral programme. The programme that exception enables is a thirty-year Canada-Korea co-issued sovereign bond, deployed at scale, structured under conventional legal and financial precedents, with embedded Indigenous co-ownership designed at issuance rather than retrofitted under political pressure. The instrument is buildable. It is politically framable. It is institutionally backable. The case for it is independent of any particular forecast about adverse events. The case against it is, on close examination, almost entirely a case for postponement — and postponement is itself a decision that the political conditions and counterparty positions of 2026 will continue to be available in 2027, 2028, and beyond.

On the twenty-third of May 2026, the Republic of Korea Navy submarine Dosan Ahn Chang-ho docked at Esquimalt, the Pacific home port of the Royal Canadian Navy in Victoria, British Columbia. The visit was, in the conventional press, treated as a goodwill call. It was, in the technical press, treated as a procurement signal — Hanwha Ocean is one of the two leading bidders for the Canadian Patrol Submarine Project, and the visit served notice that Korea regards itself as a participant in the largest Canadian naval acquisition in a generation.

The submarine, sitting alongside in Esquimalt, was a thing one could photograph. It was the visible part. There were also, in Esquimalt and Ottawa and Seoul, parts that one could not photograph — the lawyers drafting the bilateral procurement framework, the trade officials sketching the industrial-participation requirements, the bankers privately reckoning what a Korean win on CPSP might mean for the next twenty years of bilateral capital flows. The submarine was the visible part. The financial architecture is the invisible part. They are the same conversation, conducted in different vocabularies.

This paper is an attempt to render the invisible part visible: to describe, in the language of conventional finance and verifiable precedent, what is institutionally possible between two countries whose relationship has, finally, reached the scale at which institutional plumbing is worth the trouble of building. The submarine, in the end, will sail home. The architecture proposed here, if it is built, will outlast that submarine, that president, that prime minister, that government, and probably that author. That is, of course, what institutional architecture is for.

The dollar will remain dominant through the thirty-year life of this bond. The case for the instrument is not that the dollar fails. The case is that prudent middle powers diversify counterparty risk before they need to.

— Jesse James · North Pacific Strategy Initiative · 15 May 2026

ABOUT THIS SERIES

The North Pacific Strategy Initiative.

NPSI is an independent research practice publishing working papers on the strategic geometry of the North Pacific. Its remit is the corridor of relationships, capital, energy, and defence linking Canada to its Pacific partners — chiefly the Republic of Korea, Japan, and the United States — at a moment when the architecture of that corridor is being rebuilt.

Working papers are released for public distribution. They are intended for policy makers, sovereign and pension investors, energy and defence sector leadership, and the working press. They are not commissioned. They reflect the views of the author alone. Substantive critique, technical correction, and named commentary are welcomed.

SERIES INDEX

WP-01 The Bilateral Foundation — A thirty-year Canada–Korea sovereign bond. (this paper)

WP-02 The Canada–United States Energy and Compute Compact. (in development)

WP-03 The Canada–Korea Pacific Defence-Industrial Corridor. (in development)

WP-04 The Addition Paradox — An Energy Thesis for Canada. (published May 2026)

Author: Jesse James

Publisher: North Pacific Strategy Initiative

Web: npsi.ca

Contact: [linkedin.com/in/jessecares](https://www.linkedin.com/in/jessecares)

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