

Diversifying Canada's trade relations in the Indo-Pacific: what role for ASEAN?

Introduction

U.S.-China economic decoupling and geopolitical competition are dictating global politics, and Canada, like most other countries, is caught in the middle. This places Canada in a particularly difficult position as the United States and China are its first and third biggest bilateral trading partners, respectively.¹

Already, Canada has experienced this tension on the political level during the Meng Wanzhou affair. In late 2018, the United States issued an arrest warrant and filed a formal extradition request for the Chief Financial Officer of Huawei on charges of bank fraud, wire fraud and conspiracy to commit both bank and wire fraud.² A treaty between Canada and the U.S. required Canadian authorities to arrest her for extradition. In response, China detained two Canadian citizens, Michael Spavor and Michael Kovrig, on espionage charges, a move that both Canada and the U.S. called “arbitrary detention” and was widely seen as a retaliatory measure.³ This marked the lowest point in Sino-Canadian relations.

¹ Statistics Canada, 'Merchandise Trade: Canada's 10 Principal Trading Partners – Balance of Payments Basis, Current Dollars', 9 May 2023, <https://www150.statcan.gc.ca/n1/daily-quotidien/230509/t001a-eng.htm>.

² CBC News, 'U.S. Files Formal Extradition Request for Meng Wanzhou', 28 January 2019, <https://www.cbc.ca/news/business/meng-huawei-charges-fraud-1.4995848>.

³ CBC News, 'The Meng Wanzhou Huawei Saga: A Timeline', CBC, 24 September 2021, <https://www.cbc.ca/news/meng-wanzhou-huawei-kovrig-spavor-1.6188472>.

Although this was the most visible example of Canada being caught between the U.S. and China, it was not the only time. Just a few months before Meng Wanzhou's arrest in 2018, during the negotiation of the Canada-United States-Mexico Agreement (CUSMA), American negotiators added a clause that said that any party concluding a free trade agreement with a "non-market country" could be cause for the other parties, notably the U.S., to withdraw from the CUSMA. Although not explicitly named, it was understood that the clause was targeting China and aimed to put a stop to the exploratory discussions on a possible Canada-China free trade agreement that was ongoing at the time.⁴ On the techno-political level, the U.S. also exercised pressure on Canada at the Halifax International Security Forum in 2019, warning that the Government of Canada would jeopardize its membership in the "Five Eyes", the intelligence-sharing consortium, should Canada not exclude Huawei from its 5G telecommunications infrastructure.⁵ This is because the U.S. saw Huawei's close ties to the Chinese government as a potential security threat to the intelligence consortium and painted the Chinese tech company as a potential "Trojan horse" that could pose a danger to the Western democracies that are members of the "Five Eyes".

There are numerous reasons to believe that tensions between the U.S. and China will continue to simmer in the foreseeable future. The first is the American political rhetoric and policies vis-à-vis China, particularly in high-tech sectors. The Trump administration depicted China as an adversary whose unfair trade practices should be addressed, that has been meddling in American democracy, and that poses an increasing threat in the Indo-Pacific with its ships

⁴ Hugh Stephens, 'USMCA's Fine Print Giving U.S. the Right to Veto Canada-China Trade Deal Is a Major Setback', *The Globe and Mail*, 2 October 2018, <https://www.theglobeandmail.com/business/commentary/article-usmcas-fine-print-giving-us-the-right-to-veto-canada-china-trade/>.

⁵ Murray Brewster, 'Beware a Huawei "Trojan Horse," U.S. Security Adviser Warns Canada', *CBC News*, 23 November 2019, <https://www.cbc.ca/news/politics/canada-warned-of-fallout-on-five-eyes-relationship-if-huawei-allowed-on-5g-1.5370992>.

patrolling around Japanese waters and its military expansion in the South China Sea.⁶ The administration imposed several tariffs on Chinese products in 2018, which the Chinese government reciprocated by imposing tariffs on American products, leading to more tit-for-tat between the two countries. The Biden administration has continued this economic stance towards China in the interest of U.S. economic and national security, which it argues are intertwined. As U.S. Secretary of the Treasury, Janet Yellen, mentioned in her speech in November 2023 on the economic approach toward the Indo-Pacific, the Biden administration's approach is one of derisking and friendshoring: "strengthen our economic resilience through diversifying our supply chains across a wide range of trusted allies and partners".⁷ The Biden administration and Congress have also put in place policies such as the CHIPS and Science Act to bolster domestic manufacturing of high-tech products and components and decrease American reliance on Chinese imports.⁸ The Act also prevents recipients of U.S. subsidies from building facilities in China. Other policies also aim to limit Chinese technological development such as the executive order signed in August 2023 prohibiting U.S. investments in sensitive technologies like semiconductors and microelectronics, quantum information technologies, and artificial intelligence systems in China.⁹ Based on their rhetoric and policies, it is clear that both Republicans and Democrats will continue to maintain their current views toward China.

⁶ 'Trump on China: Putting America First. A Collection of Speeches Laying out the Most Significant United States Foreign Policy Shift in a Generation.' (Trump White House Archives, n.d.), <https://trumpwhitehouse.archives.gov/wp-content/uploads/2020/11/Trump-on-China-Putting-America-First.pdf>.

⁷ U.S. Department of the Treasury, 'Remarks by Secretary of the Treasury Janet L. Yellen on the Biden Administration's Economic Approach Toward the Indo-Pacific', 1 March 2024, <https://home.treasury.gov/news/press-releases/jy1872>.

⁸ The White House, 'FACT SHEET: CHIPS and Science Act Will Lower Costs, Create Jobs, Strengthen Supply Chains, and Counter China', The White House, 9 August 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/09/fact-sheet-chips-and-science-act-will-lower-costs-create-jobs-strengthen-supply-chains-and-counter-china/>.

⁹ The Strait Times, 'Biden Signs Order to Ban Certain Tech Investments in China', accessed 6 March 2024, <https://www.straitstimes.com/world/united-states/biden-signs-order-to-ban-certain-tech-investments-in-china>.

The second reason to believe that such tensions will continue is the geopolitical situation around the Indo-Pacific, starting with Taiwan. Both Democrats and Republicans in the U.S. have been openly supportive of Taiwan's independence from China: from former Speaker of the House Nancy Pelosi's visit to Taiwan in 2022, which was supported by Republicans in the Senate,¹⁰ to President Biden affirming more than once that U.S. forces would defend Taiwan,¹¹ to bipartisan support for democracy in Taiwan ahead of its general election in January 2024.¹² The U.S. has also bolstered its alliances in the region to counterbalance China's expanding influence. AUKUS, the Australia-United Kingdom-U.S. security partnership, will provide Australia with nuclear-powered submarines as a deterrence to China. AUKUS leaders are clear in their message with their commitment to "protect freedom and respect human rights, the rule of law, the independence of sovereign states, and the rules-based international order",¹³ although they have stopped short of naming China. Similarly, the Quad, the security dialogue between Australia, India, Japan and the U.S., is committed to a "free and open Indo-Pacific" and has pointed out the "challenges to the maritime rules-based order in the East and South China Seas",¹⁴ a jab at China's increasing military presence and clashes with other countries in the area.¹⁵ Taiwan will remain a point of contention in Sino-American relations as long as China maintains its position of "One Country, Two Systems"

¹⁰ Michael D. Shear, 'Over Two Dozen Republican Senators Laud the Speaker's Taiwan Visit.', *The New York Times*, 2 August 2022, sec. U.S., <https://www.nytimes.com/2022/08/02/us/gop-senators-pelosi-taiwan-visit.html>.

¹¹ Vincent Ni, 'Joe Biden Again Says US Forces Would Defend Taiwan from Chinese Attack', *The Guardian*, 19 September 2022, sec. World news, <https://www.theguardian.com/world/2022/sep/19/joe-biden-repeats-claim-that-us-forces-would-defend-taiwan-if-china-attacked>.

¹² Michael Martina and Patricia Zengerle, 'Dozens of US Lawmakers Back Resolution Supporting Taiwan Democracy', Reuters, accessed 8 March 2024, <https://www.reuters.com/world/dozens-us-lawmakers-back-resolution-supporting-taiwan-democracy-document-2024-01-10/>.

¹³ The White House, 'Joint Leaders Statement on AUKUS', 13 March 2023, <https://www.whitehouse.gov/briefing-room/statements-releases/2023/03/13/joint-leaders-statement-on-aukus-2/>.

¹⁴ The White House, 'Quad Joint Leaders' Statement', 24 May 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/24/quad-joint-leaders-statement/>.

¹⁵ BBC News, 'What Is the South China Sea Dispute?', 7 July 2023, sec. Asia, <https://www.bbc.com/news/world-asia-pacific-13748349>.

in its constitution,¹⁶ i.e. reunification with Taiwan, and as long as the U.S. supports Taiwan's independence.

Another strain between the U.S. and China, and by extension between other democracies in the West and China, is the current war in Ukraine. China has quietly supported Russia despite publicly nurturing its image as a peace broker and has helped Russia evade Western sanctions and imported Russian energy.¹⁷ China's position stems from the ideological alignment between Beijing and Moscow, with China largely repeating the rhetoric and the justification for the war that Moscow has used: that the war in Ukraine is largely due to NATO's expansion and Russia is simply pushing back on Western influence.¹⁸ China's leadership also believes that by supporting Russia, it can offer itself as an alternative to "American feudalism" and bring countries dissatisfied with the West under its influence.¹⁹

Where do these U.S.-China tensions leave Canada? Although the Trudeau government had intentions to improve relations with China when it was newly elected, Canada's interests and ideologies still clash with those of Beijing. When Canada was caught between the U.S. and China, the Trudeau government chose to exclude Huawei from its 5G infrastructure in the interest of its relationship with its Western allies and its membership in the "Five Eyes" intelligence consortium. The free-trade discussions with China were delayed due to politically-sensitive consular cases where China and Canada respectively detained citizens from the other on charges of espionage

¹⁶ Radio Free Asia, 'CPC Amends Its Constitution to Adopt a More Aggressive Chinese Policy towards Taiwan', 24 October 2022, <https://www.rfa.org/english/news/southchinasea/taiwan-china-plans-10242022032256.html>.

¹⁷ Noah Berman, 'Two Years of War in Ukraine: Are Sanctions Against Russia Making a Difference?', Council on Foreign Relations, 23 February 2024, <https://www.cfr.org/in-brief/two-years-war-ukraine-are-sanctions-against-russia-making-difference>.

¹⁸ *War on Ukraine: China's Domestic and Diplomatic Balancing Act*, Virtual Panel Discussion (Online: Chatham House, 2022), <https://www.chathamhouse.org/events/all/members-event/war-ukraine-chinas-domestic-and-diplomatic-balancing-act>.

¹⁹ Mark Leonard, 'What China Really Thinks about Ukraine', Politico, 7 August 2023, <https://www.politico.eu/article/china-russia-ukraine-war-world-peace-forum/>.

and eventually broke down because China rejected Canada's progressive trade agenda.²⁰ Additionally, the Trudeau government has echoed the American call for "friendshoring"²¹ and "decoupling".²²

Since the release of Meng Wanzhou and the "two Michaels", anti-China sentiments among the Canadian general public and in domestic politics has grown. A survey conducted by the Angus Reid Institute in 2022 shows that Canadians are increasingly concerned about China's conduct on the international scene with 74% believing that Canada will not be able to change China's behaviour and 61% wishing that Canada decreases trade with China.²³ Allegations of the Chinese government interfering in Canadian elections surfaced in February 2023 and led to fierce calls from opposition parties for a public inquiry into the matter.^{24,25} Recently, the Canadian Security Intelligence Service released documents on its investigation into the firing of two Chinese scientists who were found to be working to benefit the Chinese government. The Conservative Party has accused the Liberals of shutting down the debate on this issue and that this action is "neglecting Canada's national security".²⁶ Domestic politics is increasingly putting pressure on the Trudeau government to take a tougher stance on China.

²⁰ Gregory Thomas Chin, 'Canada Amid the U.S.–China Trade War: What Happened to the Canada–China Free Trade Agreement?', in *Canada and Great Power Competition*, ed. David Carment, Laura Macdonald, and Jeremy Paltiel, Canada and International Affairs (Cham: Springer International Publishing, 2022), 235–55, https://doi.org/10.1007/978-3-031-04368-0_11.

²¹ Deputy Prime Minister of Canada, 'Remarks by the Deputy Prime Minister at the Brookings Institution in Washington, D.C.', 10 November 2022, <http://deputypr.ca/en/news/speeches/2022/10/11/remarks-deputy-prime-minister-brookings-institution-washington-dc>.

²² Steven Chase, 'Time for Western "Decoupling" from China and Other Authoritarian States, Says Innovation Minister', *The Globe and Mail*, 21 October 2022, <https://www.theglobeandmail.com/politics/article-canada-trade-china-authoritarian-countries-champagne/>.

²³ Angus Reid Institute, 'Three-in-Five Canadians Want Less Trade with China, but Many Express Concern about the Economic Costs of Taking a Stand', 10 January 2022, <https://angusreid.org/canada-china-trade-economy-2022/>.

²⁴ 'Conservatives Force Trudeau to Call Public Inquiry into Foreign Interference', Conservative Party of Canada, 7 September 2023, <https://www.conservative.ca/conservatives-force-trudeau-to-call-public-inquiry-into-foreign-interference/>.

²⁵ 'Canada's NDP Wants Johnston to Step aside and Is Calling for a Public Inquiry into Foreign Interference', Canada's NDP, 30 May 2023, <https://www.ndp.ca/news/canadas-ndp-wants-johnston-step-aside-and-calling-public-inquiry-foreign-interference>.

²⁶ 'Unraveling the Winnipeg Disease Lab Mystery', *Front Burner*, accessed 7 March 2024, <https://open.spotify.com/episode/5sRpJ8yyZXaTLwh3x6vSam?si=4ba434d5058e4476>.

As the U.S. derisks its trade relations with China for geopolitical reasons, Canada has to prepare to follow suit. And it has taken steps to do so, with the launch of the Indo-Pacific Strategy in late 2022. In broad strokes, there are many parallels between Canada's Indo-Pacific Strategy and Janet Yellen's speech on the Biden Administration's Economic Approach Toward the Indo-Pacific. Canada's Indo-Pacific Strategy acknowledges that China is actively seeking to reinterpret the rules-based international order to its advantage and that its coercive foreign policies pose a challenge to the existing international order.²⁷ The Strategy also underlines support for individual and collective freedoms in Hong Kong, Canada's promise to keep speaking up for universal human rights for Uyghurs, Tibetans and other minorities in China, and its opposition to unilateral actions that threaten the status quo in the Taiwan Strait. The Strategy's objectives – promoting peace, resilience and security, expanding trade, investment and supply chain resilience, and defending and enforcing human rights – also echo American policies and public statements from the White House.

The Strategy outlines four major countries and regions that Canada targets: China, India, the North Pacific (Japan and South Korea) and the Association of Southeast Asian Nations (ASEAN). Historically, of the four major players mentioned, Canada's relationship in the Indo-Pacific has focused on the first three; its relationship with ASEAN is the most underdeveloped.²⁸ But with demographics and a changing geoeconomic context, ASEAN is playing an increasingly crucial role in the Indo-Pacific and Canada needs to build a deeper relationship with it. Formed of ten countries in Southeast Asia, the total population across ASEAN is estimated to be over 660

²⁷ Global Affairs Canada, 'Canada's Indo-Pacific Strategy', GAC, 24 November 2022, <https://www.international.gc.ca/transparency-transparence/indo-pacific-indo-pacifique/index.aspx?lang=eng>.

²⁸ Fen Osler Hampson, Tina J. Park, and Goldy Hyder, 'Introduction', in *The Indo-Pacific: New Strategies for Canadian Engagement with a Critical Region* (Sutherland House, 2022).

million people,²⁹ with the majority under the age of 30. It is predicted that ASEAN will become the world's fourth-largest economy by 2050.³⁰

Similar to Canada, ASEAN is caught in U.S.-China economic and political tensions. On the economic front, China is its biggest trading partner, with trade in goods in 2022 valued at US\$722 billion, nearly one-fifth of ASEAN's global trade.³¹ But ASEAN-U.S. trade is also significant for the bloc, totalling US\$520.3 billion in 2022 according to the Office of the United States Trade Representative.³² On the geopolitical front, ASEAN members are increasingly seeking ways to counter Chinese military incursions in the South China Sea, pushing back on Chinese claims through a public relations campaign and the filing of arbitration cases (Philippines) or through the increase of military presence and infrastructure (Vietnam) to deter China from outright using military force.³³ ASEAN's initial reaction to the creation of AUKUS was mixed, with both public and quiet support from some members (Singapore, Philippines, Vietnam) and outright criticism of a nuclear arms race in the region from others (Malaysia and Indonesia). However, the bloc's slow and informal acceptance of AUKUS³⁴ shows its strategy of “fence-sitting”, a concept Matias Spektor describes as a strategy of maintaining relations with all sides, keeping all options open in order to pivot foreign policies when needed.³⁵ But Spektor argues that this is an opportunity for the West to build deeper and more meaningful relationships with these

²⁹ Office of the United States Trade Representative, ‘Association of Southeast Asian Nations (ASEAN)’, accessed 15 March 2024, <https://ustr.gov/countries-regions/southeast-asia-pacific/association-southeast-asian-nations-asean>.

³⁰ World Population Review, ‘ASEAN Countries | Association of Southeast Asian Nations 2024’, accessed 15 March 2024, <https://worldpopulationreview.com/country-rankings/asean-countries>.

³¹ Shay Wester, ‘Balancing Act: Assessing China’s Growing Economic Influence in ASEAN’, Asia Society Policy Institute, 8 November 2023, <https://asiasociety.org/policy-institute/balancing-act-assessing-chinas-growing-economic-influence-asean>.

³² Office of the United States Trade Representative, ‘Association of Southeast Asian Nations (ASEAN)’.

³³ Gregory Poling, ‘China Loses Strategic Waters in the South China Sea’, *East Asia Forum* (blog), 15 March 2024, <https://eastasiaforum.org/2024/03/15/china-loses-strategic-waters-in-the-south-china-sea/>.

³⁴ Mingjiang Li, ‘ASEAN’s Responses to AUKUS: Implications for Strategic Realignment in the Indo-Pacific’, *China International Strategy Review* 4, no. 2 (1 December 2022): 268–87, <https://doi.org/10.1007/s42533-022-00121-2>.

³⁵ Matias Spektor, ‘In Defense of the Fence Sitters’, *Foreign Affairs*, 18 April 2023, <https://www.foreignaffairs.com/world/global-south-defense-fence-sitters>.

countries. Canada should seize this opportunity to strengthen its relationship with ASEAN, starting with its trade relations.

This paper seeks to answer the following question: how can Canada reduce its dependence on trade with China by diverting strategic trade areas to ASEAN countries? The paper answers this question by breaking it down into three parts. The first part examines the strategic trade areas in which Canada heavily depends on China, meaning trade areas that are large in volume and would need to be derisked because of their strategic importance to Canada's security. Those sectors would be agriculture and agri-food, natural resources, and electronics and manufacturing. The scope of this paper is limited to merchandise trade only. The second section examines Canada-ASEAN trade relations in the three sectors identified in the first section and determines which areas have potential and which ones are lacking. The final section explores the steps that Canada has already taken to expand Canada-ASEAN trade in the three sectors and prescribe strategies and policies that can further improve Canada-ASEAN trade in areas that are still lacking.

1. In which sectors could Canada's trade with China be vulnerable to geopolitical tensions?

Since 2002, a year after China joined the World Trade Organization, bilateral merchandise trade between Canada and China has increased fivefold, from \$20 billion to \$119 billion in 2023 (see Figure 1). China is now Canada's third largest trading partner after the U.S. (\$1.3 trillion in both merchandise and service trade in 2023)³⁶ and the European Union (\$176.4 billion in both

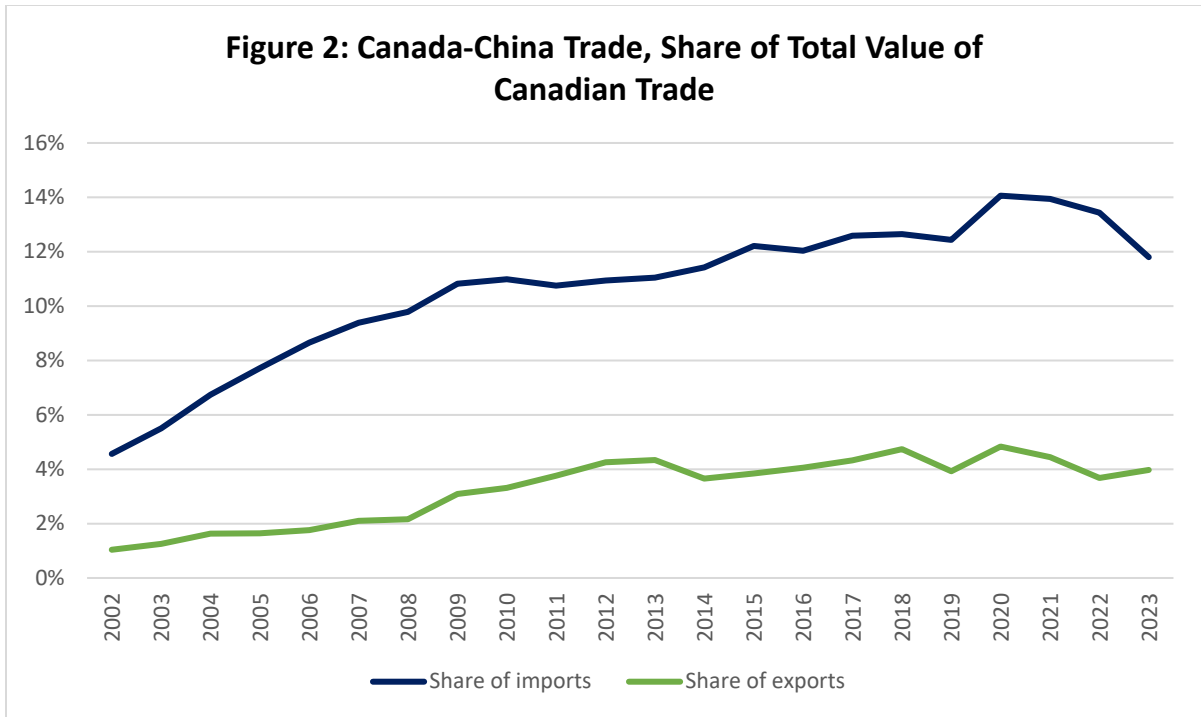
³⁶ Global Affairs Canada, 'State of Trade 2024: Supply Chains', 28 August 2023, <https://www.international.gc.ca/transparency-transparence/state-trade-commerce-international/2024.aspx?lang=eng>.

merchandise and service trade in 2023).³⁷ Imports from China have increased significantly, growing from 4% of the total value of Canadian imports in 2002 to a peak of 14% in 2020. Exports to China are also significant but seem to have plateaued at around 4% of the total value of Canadian exports since 2012 (see Figure 2).



Source: Statistics Canada. Based on calculations from Table 12-10-0136-01 Canadian international merchandise trade by industry for all countries

³⁷ European Commission, 'EU Trade Relations with Canada', accessed 28 July 2024, https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/canada_en.



Source: Statistics Canada. Based on calculations from Table 12-10-0136-01 Canadian international merchandise trade by industry for all countries

To derisk from China, Canada needs to assess the different trade areas and identify the most important sectors, both in terms of their size of trade with China and their potential exposure to geopolitical tensions. This section examines closely Canada-China trade in the sectors of agriculture and agri-food, natural resources, and electronics and manufacturing. It explains why they are strategic to Canada’s economic and national security.

Agriculture and Agri-food

First is a close look at agricultural and agri-food imports and exports with China. Canada does not import too many agricultural products from China. Since 2002, Canada’s imports of Chinese agricultural, forestry, fishing and hunting products, as defined by the North American Industry

Classification System (NAICS), has never exceeded 2.5% of all imports in that industry. Should China impose export restrictions of certain agri-food products, Canada's food security will not be significantly affected.

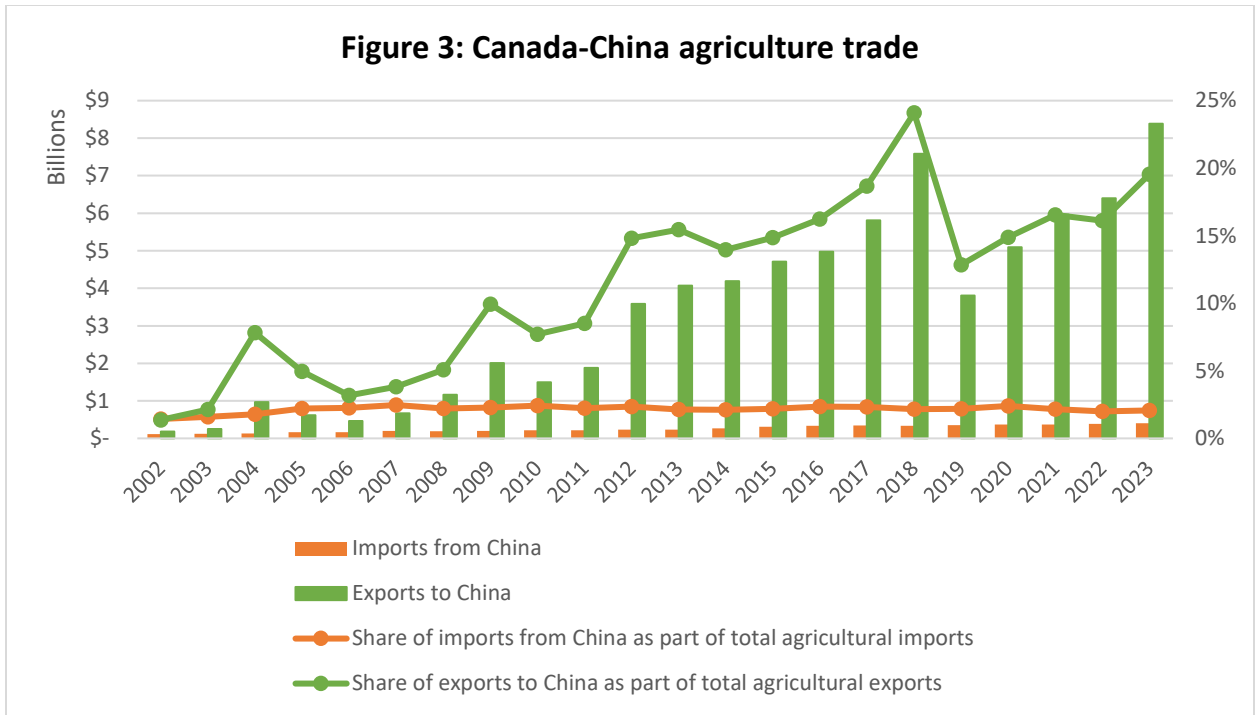
On the other hand, the Chinese market is an important export destination for Canadian agricultural products and it has become Canada's second agri-food and seafood export market since 2012, after the U.S.³⁸ Canadian agricultural exports to China have grown exponentially, from 1.4% of the total value of agricultural exports in 2002 to 24% in 2018 (see Figure 3). However, in 2019, China imposed a ban on Canadian canola,³⁹ which is estimated to have cost the industry upwards of \$2.35 billion.⁴⁰ In addition, China also imposed more customs process on Canadian pork, soybean, pea and other agricultural products while providing little explanation for these measures.⁴¹ These restrictions significantly reduced Canadian agricultural exports to China, with the share of exports to China dropping to 13% of total agricultural exports the following year. But it seems that agricultural exports are increasing again, reaching just below 20% in 2023 (see Figure 3).

³⁸ Agriculture and Agri-Food Canada, 'Overview of Canada's Agriculture and Agri-Food Sector', 5 November 2021, <https://agriculture.canada.ca/en/sector/overview>.

³⁹ Jason Kirby, David Parkinson, and Nathan Vanderklippe, 'Canada Braces for Trade Retaliation from China', *The Globe and Mail*, 8 May 2023, <https://www.theglobeandmail.com/canada/article-canada-readies-for-trade-retaliation-from-china/>.

⁴⁰ The Canadian Press, 'China Has Lifted a 3-Year Ban on Canadian Canola, Ottawa Says', *CBC News*, 19 May 2022, <https://www.cbc.ca/news/politics/china-canada-canola-ban-ends-1.6458746>.

⁴¹ Kirby, Parkinson, and Vanderklippe, 'Canada Braces for Trade Retaliation from China'.



Source: Statistics Canada. Based on calculations from Table 12-10-0136-01 Canadian international merchandise trade by industry for all countries

Although China cites the detection of pests as the reason for the ban on Canadian canola, the timing of the ban’s imposition and ending coincides with the arrest and eventual release of Meng Wanzhou. The trade restrictions were a clear political retaliation from Beijing. The Chinese government has also employed similar tactics against other countries. It imposed tariffs on Australian wine and barley, and restrictions on coal, timber, lobster, red meat and cotton shortly after the Australian government supported a call for an international inquiry into China’s handling of the Covid-19 coronavirus.⁴² These tactics have been seen so often that after Canada expelled a Chinese diplomat in 2023 following allegations of election interference, Canadian farmers feared

⁴² Saheli Roy Choudhury, ‘Here’s a List of the Australian Exports Hit by Restrictions in China’, CNBC, 18 December 2020, <https://www.cnbc.com/2020/12/18/australia-china-trade-disputes-in-2020.html>.

China would impose another ban on Canadian canola or other restrictions on agricultural products.⁴³

Canada is the world's 5th largest agricultural exporter, and the agriculture and agri-food sector is an important component of the Canadian economy, generating around 7% of Canada's GDP in 2022.⁴⁴ In that year, the sector employed 2.3 million people. Looking specifically at primary agriculture, it provided nearly 250,000 farming jobs. China is a top export market for Canadian principal field crops, which include grains and oilseeds; it represents 20.4% of all Canadian field crops exports. A disruption to this trade can have a direct impact on job security for farmers, particularly in the Prairies provinces, which are major producers of canola and wheat.

Leaving farming jobs vulnerable to Chinese trade restrictions could have an adverse political effect. Farmers' associations are organized on many levels, both geographically, with each province having its own farm organization, and by commodity nationally.⁴⁵ Many of these farmers' associations have also had a long history of organizing and representing farmers' interests, many of them existing from the 1930s.⁴⁶ Although farming represents a small portion of jobs in Canada, because of their history of organizing and farming jobs often associated with food security, farmers' protests can often draw media attention with tactics such as driving tractors through the city streets. Such disruptive stunts could make the issue more salient for politicians. This is seen recently with the protests both in Alberta and Quebec to draw attention to the rising costs to their operations,

⁴³ Kirby, Parkinson, and Vanderklippe, 'Canada Braces for Trade Retaliation from China'.

⁴⁴ Agriculture and Agri-Food Canada, 'Overview of Canada's Agriculture and Agri-Food Sector'.

⁴⁵ Canadian Federation of Agriculture, 'Our Members Organizations', accessed 7 May 2024, <https://www.cfa-fca.ca/about-us/our-members-organizations/>.

⁴⁶ Canadian Federation of Agriculture, 'About Us', accessed 5 August 2024, <https://www.cfa-fca.ca/about-us/>.

calling those threats existential crisis to their livelihoods.^{47,48} The federal government needs to consider the potential economic and political ramifications that Chinese trade restrictions could have on Canadian farming jobs.

Natural Resources

Next in this analysis is the natural resources sector, which encompasses resources such as oil, gas, coal, gold, silver, nickel, copper, zinc, potash and other metal ores and non-metallic minerals. Canada is a resource-rich country and natural resources account for 19.2% of the country's GDP in 2022, both in direct and indirect contributions.⁴⁹ Although Canada is a major exporter of natural resources, it also imports natural resources from other countries, including China. Therefore, it is important to identify potential areas where Canada would need to derisk from China to minimize disruptions to exports and economic stability for the Canadian extractive sector but also disruptions to imports and energy security for the country.

Overall, China is Canada's third biggest export market for natural resources, valued at \$12.7 billion in 2022. However, it only represents 3% of total sector exports, far behind the U.S., the biggest market, which accounts for 78% of total exports of natural resources.⁵⁰ Almost all of Canadian crude oil (96%) is exported to the U.S.⁵¹ Due to the difficulty to export natural gas, the

⁴⁷ Laura Krause, 'Farmers Protesting for Bill C-234', *CityNews Edmonton* (blog), 20 November 2023, <https://edmonton.citynews.ca/2023/11/20/farmers-protesting-for-bill-c-234/>.

⁴⁸ Matt Gilmour, '300 Quebec Farmers Stage Protest, Saying It's Tough to Make a Living', CTV Montreal, 5 April 2024, <https://montreal.ctvnews.ca/300-quebec-farmers-stage-protest-saying-it-s-tough-to-make-a-living-1.6835604>.

⁴⁹ Natural Resources Canada, '10 Key Facts on Canada's Natural Resources – 2023' (Natural Resources Canada, 31 January 2024), <https://natural-resources.canada.ca/science-and-data/data-and-analysis/10-key-facts-on-canadas-natural-resources/2023-10-key-facts-on-canadas-natural-resources/25653>.

⁵⁰ Natural Resources Canada.

⁵¹ Natural Resources Canada, 'Crude Oil Industry Overview' (Natural Resources Canada, 31 March 2022), <https://natural-resources.canada.ca/our-natural-resources/energy-sources-distribution/fossil-fuels/crude-oil/crude-oil-industry-overview/18078>.

U.S. is Canada's only export market by pipelines for this commodity.⁵² From a trade stability and job security perspective, the majority of Canada's energy exports is relatively isolated from direct Chinese import restrictions. But this could potentially change as Chinese demand for crude oil increases. In 2023, refineries in China imported a record volume of 11.3 million barrels of crude oil per day, a 10% increase compared to the previous year.⁵³ In March 2024, the Chinese multinational company Sinochem Group purchased a 550,000-barrel cargo of crude oil from Alberta through the Trans Mountain Expansion pipeline.⁵⁴ This pipeline transports crude oil from Alberta to the Pacific Coast and is expected to add about 890 million barrels per day to Canadian crude oil exports.⁵⁵ However, it is difficult to forecast how much of this crude oil Canada will export to China as demand from the Petroleum Administration for Defence District on the U.S. West Coast, one of the five U.S. refining district, will remain strong (markets closest in proximity are more economical options for exporters).⁵⁶ When it comes to imports, Canada is also reliant on its biggest ally: in 2021, 66% of Canada's crude oil imports and 76% of its imported refined petroleum products came from the U.S.⁵⁷ From an energy security perspective, Canada is not vulnerable to Chinese trade restrictions due to the highly integrated energy markets and infrastructure that it shares with the U.S.

⁵² Canada Energy Regulator, 'Market Snapshot: Why Does Canada Import Natural Gas, While Being a Major Exporter? Location, Location, Location!', 11 July 2018, <https://www.cer-rec.gc.ca/en/data-analysis/energy-markets/market-snapshots/2018/market-snapshot-why-does-canada-import-natural-gas-while-being-major-exporter-location-location-location.html>.

⁵³ U.S. Energy Information Administration (EIA), 'China Imported Record Amounts of Crude Oil in 2023', 16 April 2024, <https://www.eia.gov/todayinenergy/detail.php?id=61843>.

⁵⁴ Sarah Cheong, Lucia Kassai, and Alfred Cang, 'China's Sinochem Buys First Oil Cargo from Trans Mountain Pipeline', Financial Post, 20 March 2024, <https://financialpost.com/commodities/energy/oil-gas/china-sinochem-buys-first-oil-cargo-trans-mountain-expansion>.

⁵⁵ Canada's Oil & Natural Gas Producers, 'Canadian Exports of Crude Oil and Natural Gas', <https://www.capp.ca/wp-content/uploads/2024/03/Canadian-Exports-of-Crude-Oil-and-Natural-Gas.pdf>.

⁵⁶ Canada's Oil & Natural Gas Producers.

⁵⁷ Canada Energy Regulator, 'Market Snapshot: Crude Oil Imports Declined in 2021, While Refined Petroleum Product Imports Rose Modestly', 30 March 2022, <https://www.cer-rec.gc.ca/en/data-analysis/energy-markets/market-snapshots/2022/market-snapshot-crude-oil-imports-declined-in-2021-while-refined-petroleum-product-imports-rose-modestly.html>.

When it comes to critical minerals, however, Canada could potentially be vulnerable to geopolitical tensions with China. As Canada and the rest of the world transitions to a green economy, the demand for critical minerals is expected to quadruple by 2040.⁵⁸ This is because critical minerals like lithium, cobalt, manganese, nickel and graphite are needed to manufacture electric vehicle batteries while others like gallium and germanium are essential components for semiconductors. Presently, China dominates the global supply chain for critical minerals, accounting for 60% of production and 80% of processing globally.⁵⁹ It is also the country with the largest reserve of rare earth elements, accounting for nearly 38% of the world's reserve.⁶⁰ This places the world's transition to a green economy dependent on China. Drawing parallels to oil in the 1970s and natural gas in 2022, U.S. National Security Advisor, Jake Sullivan, warns that this Chinese monopoly puts the clean-energy supply chains at risk of being weaponized.⁶¹ Similarly, in the Canadian Critical Minerals Strategy, Canada's Minister of Natural Resources mentioned the potential risks of depending on "non-like-minded countries" for strategic commodities like critical minerals.⁶² These statements are not without claim, as China has used export controls of critical minerals in the past as leverage in political disputes with Japan.⁶³ Most recently, it has restricted

⁵⁸ Rodrigo Castillo and Caitlin Purdy, 'China's Role in Supplying Critical Minerals for the Global Energy Transition: What Could the Future Hold?', Brookings Institute, July 2022, <https://www.brookings.edu/articles/chinas-role-in-supplying-critical-minerals-for-the-global-energy-transition-what-could-the-future-hold/>.

⁵⁹ Castillo and Purdy.

⁶⁰ Nicholas LePan, 'Rare Earth Elements: Where in the World Are They?', Visual Capitalist, 23 November 2021, <https://www.visualcapitalist.com/rare-earth-elements-where-in-the-world-are-they/>.

⁶¹ The White House, 'Remarks by National Security Advisor Jake Sullivan on Renewing American Economic Leadership at the Brookings Institution', 27 April 2023, <https://www.whitehouse.gov/briefing-room/speeches-remarks/2023/04/27/remarks-by-national-security-advisor-jake-sullivan-on-renewing-american-economic-leadership-at-the-brookings-institution/>.

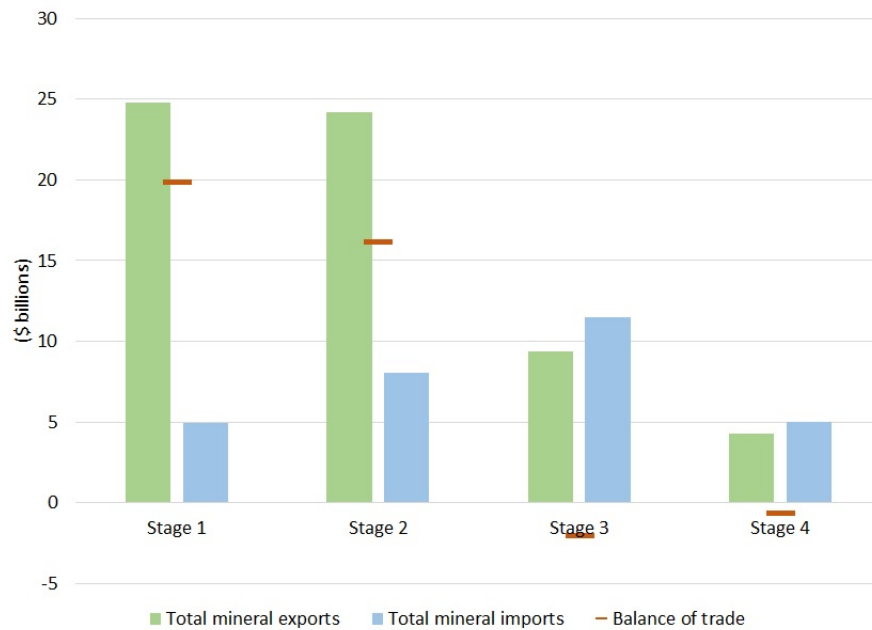
⁶² Government of Canada, 'The Canadian Critical Minerals Strategy', 9 December 2022, <https://www.canada.ca/en/campaign/critical-minerals-in-canada/canadian-critical-minerals-strategy.html>.

⁶³ Keith Bradsher, 'Amid Tension, China Blocks Vital Exports to Japan', *The New York Times*, 23 September 2010, sec. Business, <https://www.nytimes.com/2010/09/23/business/global/23rare.html>.

export controls of gallium, germanium and graphite in response to the U.S.’s policies targeting China’s high-tech sector.⁶⁴

Being rich in minerals, Canada exports more primary mineral products, and smelting and refining products (stages 1 and 2 in critical minerals processing)⁶⁵ than it imports, meaning that the critical minerals Canada exports are mostly in the upstream of the value chain. But when examining the downstream, meaning semi-fabricated and fabricated products, Canada imports a higher value of those products than what it exports (see Figure 4), signaling Canada’s current lack of processing capacity.

Figure 4: Critical minerals trade by stage (\$ billions), 2022



Source: Natural Resources Canada. Statistics Canada. Mineral Trade Information Bulletin (published in September 2023)

⁶⁴ Andy Home, ‘China Ups Critical Minerals Heat with Graphite Controls’, *The Globe and Mail*, 23 October 2023, <https://www.theglobeandmail.com/investing/investment-ideas/article-china-ups-critical-minerals-heat-with-graphite-controls/>.

⁶⁵ Natural Resources Canada, ‘Information Bulletin - Mineral Trade’ (Natural Resources Canada, September 2023), <https://natural-resources.canada.ca/maps-tools-and-publications/publications/minerals-mining-publications/mineral-trade/19310>.

In 2022, China was Canada's second biggest trading partner for critical minerals, after the U.S., with a total trade amount of \$7.5 billion, \$3.6 billion in imports and \$3.9 billion in exports. When only examining critical minerals, Canada mainly exports copper and potash, which together accounted for 79% of the total value of critical minerals exported to China.⁶⁶ Canada also exports unfinished critical mineral products, the biggest category being unwrought nickel and nickel alloys valued at over \$220 million in 2023.⁶⁷ The main critical minerals that Canada imports from China in 2022 were mostly semi-finished products of aluminum and aluminum alloys, and magnesium, which together accounted for two thirds of the total value of critical minerals imports from China.⁶⁸

Aluminum is a key component in making metal alloy for electric vehicles parts and bodies. It is a metal that allows for the vehicles to be lighter, which helps EV batteries to last longer before needing to recharge. Magnesium is a versatile component that can go into the production of rechargeable batteries. Magnesium alloy is lightweight, strong and has multiple industrial uses and would serve a similar purpose to aluminum.

Canada has recently invested billions of dollars in EV manufacturing: Northvolt is receiving \$2.71 billion in total from the governments of Quebec and Canada for an EV battery plant; Stellantis is receiving \$10 billion from the Government of Canada and \$5 billion in tax breaks from the Government of Ontario; most recently, Honda received \$5 billion in provincial and federal funding to build four manufacturing plants that will produce EV components and assemble EVs.⁶⁹ With Canada's long-term plan to be a major player in the EV production, a stable supply

⁶⁶ Natural Resources Canada.

⁶⁷ Statistics Canada, 'Canadian International Merchandise Trade by Principal Trading Partner, and by Product Section and Group, Customs-Based, Annual', Statistics Canada Table 12-10-0172-01, 2 May 2024, <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1210017201>.

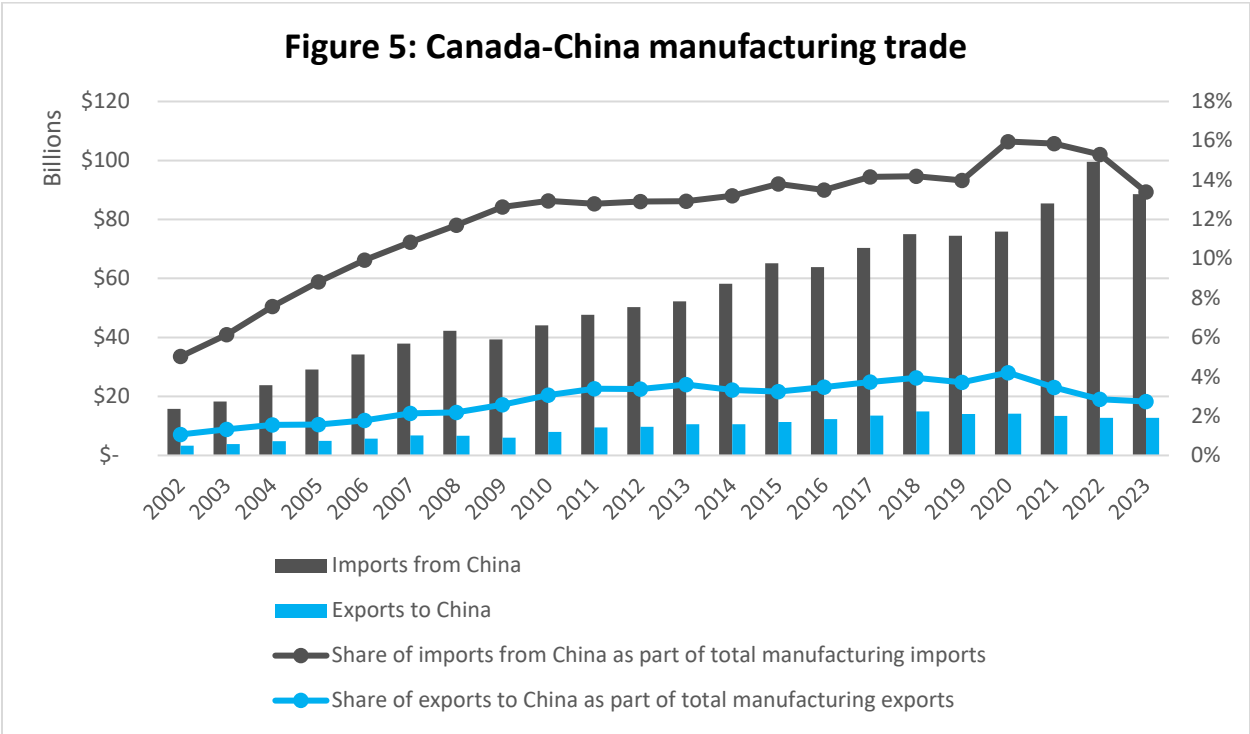
⁶⁸ Natural Resources Canada, 'Information Bulletin - Mineral Trade'.

⁶⁹ *The Biggest EV Investment in Canada Yet*, Podcast, The Decibel (The Globe and Mail, 2024), <https://www.theglobeandmail.com/podcasts/the-decibel/article-the-biggest-ev-investment-in-canada-yet/>.

of critical minerals input would be crucial. The second part of this research paper explores ASEAN’s potential as a critical minerals supplier for Canada.

Manufacturing

Finally, this section examines the Canada-China trade in the manufacturing sector, an area where Canada imports significantly more than it exports. Since 2002, Canada’s exports to China in the industry, as defined by the NAICS, have hovered below 4.2% of the total share of manufacturing exports and peaking in value at nearly \$15 billion in 2018. In contrast, Canada’s imports of Chinese manufacturing goods have been steadily growing from 5% of total manufacturing imports in 2002 to reach nearly 16% at its maximum, with the highest value of manufacturing imports at roughly \$100 billion in 2022 (see Figure 5).



Source: Statistics Canada. Based on calculations from Table 12-10-0136-01 Canadian international merchandise trade by industry for all countries

According to a report by the Office of the Chief Economist of Global Affairs Canada, the composition of Canadian imports from China has changed since 2000. At the beginning of the millennium, China was considered the final assembly point for Asian supply chains and, so, Canada was importing more consumer goods (57% of total imports) than intermediate goods or capital goods (respectively 16% and 27% of total imports), meaning goods that feed into the production of consumer goods. However, by 2019, Canada imported less consumer goods (41% of total imports) but more capital and intermediate goods (respectively 26% and 32% of total imports).⁷⁰ This is explained by China's shifting role in manufacturing. As its economy has grown and its workforce has become more skilled, it has transferred from low value-added manufacturing like final assembly of products to higher value-added activities. Research by the National Bureau of Economic Research had found that by 2014, Chinese exports were less focused on final consumer products; China was also importing more raw materials to make intermediate goods.⁷¹

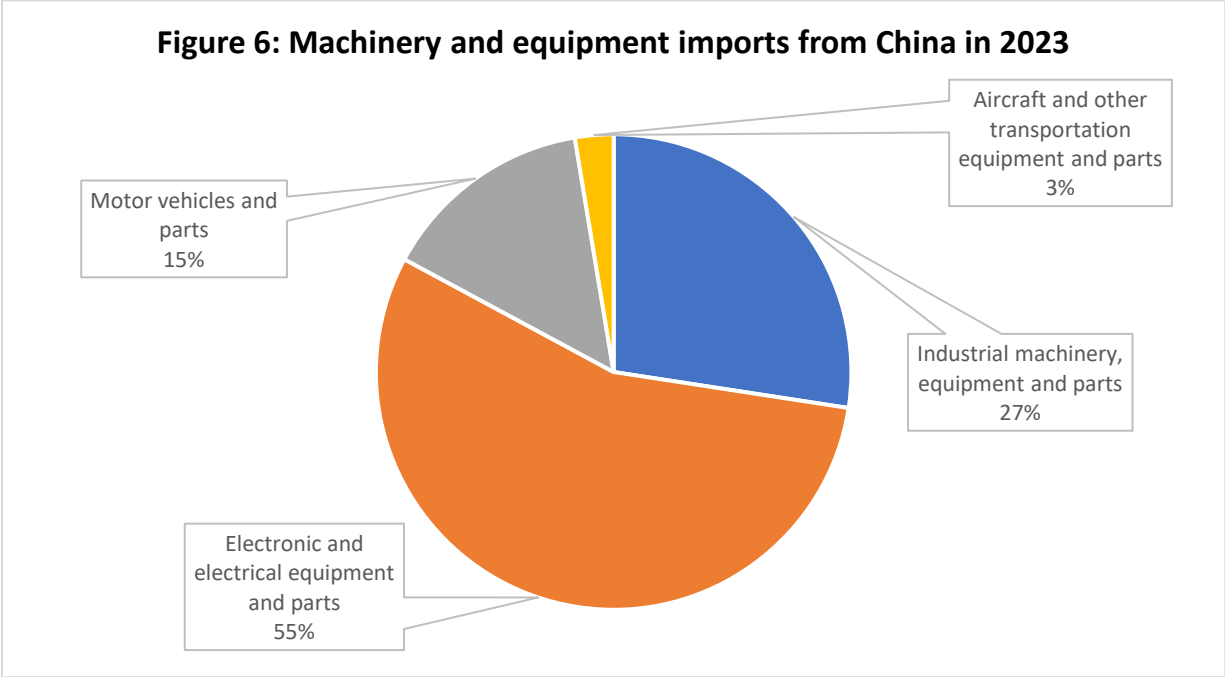
This shift in Chinese manufacturing also explains why Canadian imports from China have become more concentrated, with machinery and electrical equipment accounting for 45% of total imports.⁷² Indeed, Canada's imports of machinery and equipment from China have been increasing steadily and reached its highest at \$100 million in 2022. Most of the machinery and equipment imported were electronic and electrical equipment like computer parts, medical machinery, or communication and audio-visual equipment, which make up 55% of all machinery and equipment imports from China. Industrial machinery, such as agricultural, mining, logging, metalworking,

⁷⁰ Global Affairs Canada, 'The Canada-China Global Commerce Picture and Supply Chain Links', 8 October 2020, <https://www.international.gc.ca/trade-commerce/economist-economiste/analysis-analyse/china-canada-2020-commerce-chine.aspx?lang=eng>.

⁷¹ Davin Chor, Kalina Manova, and Zhihong Yu, 'Growing Like China: Firm Performance and Global Production Line Position', *NBER Working Paper Series*, September 2020, <https://doi.org/10.3386/w27795>.

⁷² Global Affairs Canada, 'The Canada-China Global Commerce Picture and Supply Chain Links'.

and construction equipment, is the second biggest category and represents 27% of machinery and equipment imports from China (see Figure 6).



Source: Statistics Canada. Based on calculations from Table 12-10-0172-01 Canadian international merchandise trade by principal trading partner, and by product section and group, customs-based.

There are some positive signs that Beijing is focusing its export controls on more advanced technologies due to its “tech war” with the U.S. In December 2023, the Chinese Ministry of Commerce updated its Catalogue of Technologies Prohibited and Restricted from Export in a routine adjustment of the Catalogue.⁷³ The Ministry of Commerce removed a number of categories from this list such as medical diagnostic instruments and equipment manufacturing technology and agricultural machinery technology, among others in an effort to be perceived as “promoting

⁷³ Ministry of Commerce of the People’s Republic of China, ‘The Head of the Department of Trade in Services of the Ministry of Commerce Answered Questions from Reporters on the Revised “Catalogue of Technologies Prohibited and Restricted from Export from China”’, 21 December 2023, <http://file.mofcom.gov.cn/article/xwfb/xwsjfzr/202312/20231203462273.shtml>.

openness and cooperation”.⁷⁴ On the other hand, advanced technologies such as Lidar system, rare earth processing technologies,⁷⁵ and solar technologies⁷⁶ were added to the list. However, China allowing the export of those technologies does not guarantee that there won't be other export controls on the equipment itself in the future. Geopolitical tensions and trade instability between Canada and China could impact many industries that rely on machinery imports to operate and could impair the Canadian economy.

Conclusion on geopolitical tensions and vulnerable trade sectors

Because China is Canada's third biggest bilateral trading partner, the Canadian economy could be vulnerable to Chinese trade restrictions. In terms of Canadian exports, canola and wheat farmers are particularly vulnerable, as seen when China imposed restrictions during the Meng Wanzhou affair. Other vulnerable categories of Canadian exports are crude oil and critical minerals, although Canada would have the leverage as Chinese demands for these products means that Beijing is less likely to impose import restrictions. However, considering the technological competition between the U.S. and China, Canada should consider limiting its supply of these materials to China and divert it to other potential markets. The next section of this research paper explores ASEAN's potential as one of those export markets.

⁷⁴ Lucia Brancaccio, 'What Technologies Are Subject to Export Control in China: New Catalogue', China Briefing News, 26 January 2024, <https://www.china-briefing.com/news/technologies-subject-to-export-control-in-china-prohibited-restricted-export-catalogue/>.

⁷⁵ Gracelin Baskaran, 'What China's Ban on Rare Earths Processing Technology Exports Means', Center for Strategic & International Studies, 1 August 2024, <https://www.csis.org/analysis/what-chinas-ban-rare-earths-processing-technology-exports-means>.

⁷⁶ Jeff Pao, 'China Bans Export of Core Solar Panel Technologies', Asia Times, 1 February 2023, <http://asiatimes.com/2023/02/china-bans-export-of-core-solar-panel-technologies/>.

In terms of imports, Canada has a few potential vulnerabilities. According to the Office of the Chief Economist at Global Affairs Canada, China is the top supplier for 158 different limited supply products for Canada. A product is considered to have limited supply for Canada if it imported the product from three or less supplier countries. For another 45 limited supply products, China is an important supplier for Canada, meaning it represents at least 10% of Canada's import of those 45 limited supply products. Additionally, there are currently 108 limited supply products that Canada imports from China, where China represents least half of the world's market in that product. For 89 out of those 108 products, China's share of Canada's imports is greater than 90%.⁷⁷ These numbers show how Canada is currently dependent on China for the supply of 158 products. In the short term, should Beijing place sudden export restrictions on those products, it could affect Canadian consumers and businesses who will need time to pivot and find other suppliers. But in the long term, Canada is particularly vulnerable in 89 types of products because China dominates the global market for those products.

The next section will examine ASEAN's potential as an alternative market for the Canadian trade sectors that are currently vulnerable to geopolitical tensions with China.

2. In what ways could ASEAN be a strategic trading partner for Canada in its efforts to derisk from China?

The Association of Southeast Asian Nations (ASEAN) is formed of ten countries, Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam,

⁷⁷ Global Affairs Canada, 'The Canada-China Global Commerce Picture and Supply Chain Links'.

with a total population of over 660 million people.⁷⁸ Their combined economic growth rate averaged at 4.1% between 2013 and 2022. During this period, ASEAN's economy only shrank in 2020 due to disruptions from the Covid-19 pandemic but recovered quickly, reaching its highest growth rate of 5.6% in 2022.⁷⁹ The group's GDP is estimated at over US\$3 trillion and the Asian Development Bank forecasts this group to have a robust GDP growth of 4.6% in 2024 and 4.7% in 2025.⁸⁰ ASEAN is also projected to become the world's fourth-largest economy by 2050.⁸¹

The economic potential of the group, coupled with its mixed geopolitical stance towards China given the latter's military incursions in the South China Sea, as mentioned in the introduction, makes ASEAN an ideal partner for the West in its objective to derisk from China. In fact, the U.S. has already taken steps to build more robust relationships with ASEAN countries, like a stronger military partnership with the Philippines since the election of President Ferdinand Marcos Jr.⁸² and the establishment of a Comprehensive Strategic Partnership with ASEAN as a whole in September 2022,⁸³ with Vietnam in September 2023⁸⁴ and with Indonesia in November 2023.⁸⁵ Australia has taken similar steps, establishing Comprehensive Strategic Partnerships with

⁷⁸ Office of the United States Trade Representative, 'Association of Southeast Asian Nations (ASEAN)'.

⁷⁹ The ASEAN Secretariat, 'ASEAN Statistical Yearbook 2023' (Jakarta, Indonesia, December 2023), <https://www.aseanstats.org/publication/asean-statistical-yearbook-2023/>.

⁸⁰ Asian Development Bank, 'Asian Development Outlook April 2024 (Highlights)' (Asian Development Bank, 1 April 2024), <https://doi.org/10.22617/FLS240222-3>.

⁸¹ World Population Review, 'ASEAN Countries | Association of Southeast Asian Nations 2024'.

⁸² Poppy McPherson, Karen Lema, and Devjyot Ghoshal, 'How the U.S. Courted the Philippines to Thwart China', *Reuters*, 29 November 2023, <https://www.reuters.com/investigates/special-report/us-china-philippines-marcos/>.

⁸³ The White House, 'FACT SHEET: U.S.-ASEAN Comprehensive Strategic Partnership, One Year On', 6 September 2023, <https://www.whitehouse.gov/briefing-room/statements-releases/2023/09/05/fact-sheet-u-s-asean-comprehensive-strategic-partnership-one-year-on/>.

⁸⁴ U. S. Mission in Vietnam, 'Joint Leaders' Statement: Elevating U.S. - Vietnam Relations to A Comprehensive Strategic Partnership', U.S. Embassy & Consulate in Vietnam, 11 September 2023, <https://vn.usembassy.gov/joint-leaders-statement-elevating-united-states-vietnam-relations-to-a-comprehensive-strategic-partnership/>.

⁸⁵ 'President Joseph R. Biden and President Joko Widodo Announce the U.S.-Indonesia Comprehensive Strategic Partnership', U.S. Embassy & Consulates in Indonesia, 14 November 2023, <https://id.usembassy.gov/president-joseph-r-biden-and-president-joko-widodo-announce-the-u-s-indonesia-comprehensive-strategic-partnership/>.

ASEAN in 2020,⁸⁶ with Malaysia in 2021,⁸⁷ and with Vietnam in 2024.⁸⁸ The European Union also established a Strategic Partnership with ASEAN in 2020 and committed to invest €180 million for regional cooperation with the group between 2021 and 2027.⁸⁹

Canada first established diplomatic relations with ASEAN in 1977, becoming a dialogue partner with the group but despite its length, the relationship lacked depth and has been underdeveloped.⁹⁰ However, with the release of the Indo-Pacific Strategy, Canada is looking to follow its Western allies and deepen its relationship with the region. This has been noticeable through a number of initiatives, including the launch of negotiations towards a free trade agreement with the region in 2021, an increase in high-level and ministerial visits since the release of the Strategy in 2022,^{91,92,93} and the appointment of a trade representative to the Indo-Pacific in 2023, based in Jakarta, Indonesia.⁹⁴ Canada also established a Strategic Partnership with ASEAN in

⁸⁶ Australian Mission to ASEAN, 'The ASEAN-Australia Comprehensive Strategic Partnership', accessed 21 May 2024, <https://asean.mission.gov.au/aesn/CSP.html>.

⁸⁷ Australian Government Department of Foreign Affairs and Trade, 'Joint Statement on a Comprehensive Strategic Partnership between Australia and Malaysia', 27 January 2021, <https://www.dfat.gov.au/geo/malaysia/joint-statement-comprehensive-strategic-partnership-between-australia-and-malaysia>.

⁸⁸ Jason Dasey and Stephen Dziedzic, "'The Most Popular Kid in Class": Vietnam Pens Deal with Australia after Being Courted by US and China', *ABC News*, 7 March 2024, <https://www.abc.net.au/news/2024-03-07/vietnam-australia-mou-albanese-pham-minh-chinh-coal-gas-deal/103555084>.

⁸⁹ The European External Action Service, 'EU-ASEAN Relations', 30 January 2024, https://www.eeas.europa.eu/eeas/eu-asean-relations_en.

⁹⁰ Hampson, Park, and Hyder, 'Introduction'.

⁹¹ 'Prime Minister to Travel to the Indo-Pacific to Strengthen Ties', Prime Minister of Canada, 30 August 2023, <http://www.pm.gc.ca/en/news/news-releases/2023/08/30/prime-minister-travel-indo-pacific-strengthen-ties>.

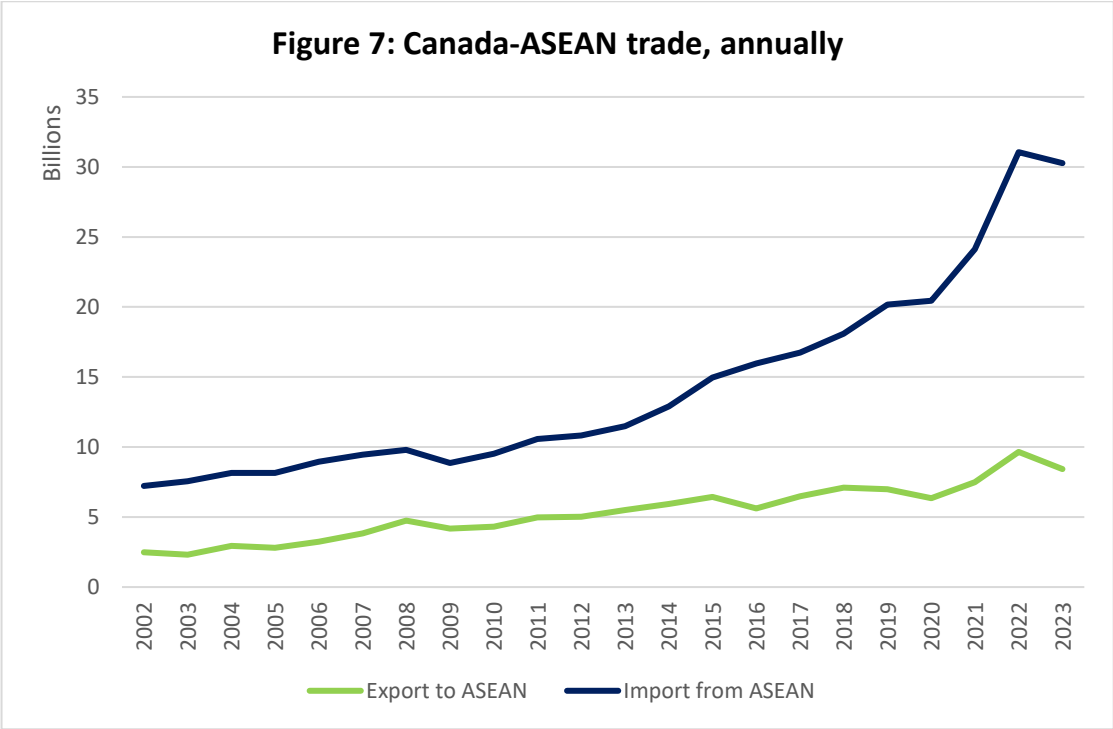
⁹² Agriculture and Agri-Food Canada, 'Minister MacAulay Promotes Canada's World-Class Products in Malaysia and the Philippines', News Releases, 23 February 2024, <https://www.canada.ca/en/agriculture-agri-food/news/2024/02/minister-macaulay-promotes-canadas-world-class-products-in-malaysia-and-the-philippines.html>.

⁹³ Global Affairs Canada, 'Minister Joly to Attend ASEAN Meetings in Indonesia', News Releases, 12 July 2023, <https://www.canada.ca/en/global-affairs/news/2023/07/minister-joly-to-attend-asean-meetings-in-indonesia.html>.

⁹⁴ The Canadian Press, 'Canada's Promised Indo-Pacific Trade Representative to Be Based in Jakarta: Mary Ng | CBC News', CBC, 5 September 2023, <https://www.cbc.ca/news/politics/trudeau-jakarta-asean-1.6956839>.

2023.⁹⁵ In early 2024, the Minister of International Trade, Mary Ng, led a large Canadian delegation of over a hundred representatives on a trade mission to Malaysia and Vietnam.⁹⁶

Canada-ASEAN economic relations have been consistently growing in the last two decades. In 2022, the ten ASEAN countries represented Canada’s fourth largest trading partner and merchandise trade between the two reached \$40.7 billion.⁹⁷ When examining the details, Canadian imports of ASEAN merchandise represent three quarter of this trade and have grown much more significantly (from \$7 billion in 2002 to \$30 billion in 2023) than exports to the region (from \$2.5 billion to \$8 billion in 2023) (see Figure 7).



Source: Statistics Canada. Based on calculations from Table 12-10-0171-01 Canadian international merchandise trade by country and by product section, customs-based, annual (x 1,000)

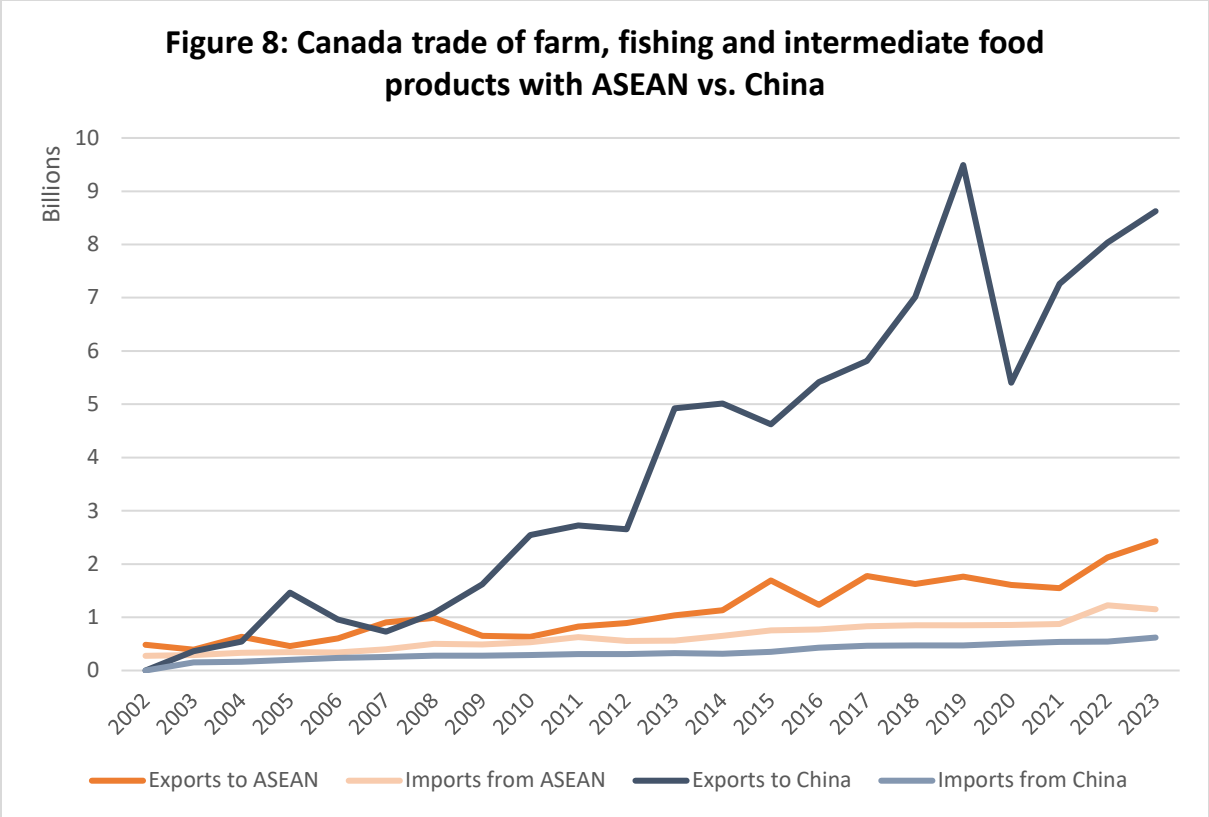
⁹⁵ ‘Joint Leaders’ Statement on ASEAN-Canada Strategic Partnership’, Prime Minister of Canada, 9 June 2023, <http://www.pm.gc.ca/en/news/statements/2023/09/06/joint-leaders-statement-asean-canada-strategic-partnership>.
⁹⁶ James Griffiths, ‘Canada Pushes for Trade in Vietnam as West De-Risks from China’, *The Globe and Mail*, 27 March 2024, <https://www.theglobeandmail.com/world/article-canada-pushes-for-trade-in-vietnam-as-west-derisks-from-china/>.
⁹⁷ Global Affairs Canada, ‘Canada and the Association of Southeast Asian Nations (ASEAN)’, 17 May 2024, https://www.international.gc.ca/world-monde/international_relations-reactions_internationales/asean/index.aspx?lang=eng.

This section delves into current Canada-ASEAN trade in the sectors of agriculture and agri-food, natural resources, and electronics and manufacturing. It also examines ASEAN's potential as an alternative market to China for Canada, particularly in areas that are more vulnerable to geopolitical tensions, as identified in the previous section: canola and wheat exports, critical minerals exports, semi-finished critical minerals imports, and machinery and equipment imports.

Agriculture and Agri-food

Canada's export of farm, fishing and intermediate food products to ASEAN has grown slowly from less than half a billion dollars in 2002 to \$2.5 billion in 2023 (see Figure 8). Following the North American Product Classification System (NAPCS), this category of products would include canola and wheat products⁹⁸ which, as mentioned in the previous section, have been shown to be vulnerable to political and diplomatic retaliation from China.

⁹⁸ Statistics Canada, 'Variant of NAPCS Canada 2017 Version 1.0 - Merchandise Import and Export Accounts', 26 June 2018, <https://www23.statcan.gc.ca/imdb/p3VD.pl?Function=getVD&TVD=817415>.



Source: Statistics Canada. Based on calculations from Table 12-10-0171-01 Canadian international merchandise trade by country and by product section, customs-based, annual (x 1,000)

Agriculture and agri-food products make up an important part of ASEAN’s import of Canadian merchandise. Of the top ten goods imported from Canada in 2022, four of those are agricultural goods, with fertilizers ranked first at a value over US\$2.2 billion dollars, cereals such as wheat ranked third (US\$974 million), meat and edible meat offal ranked seventh (US\$354 million), and oil seeds and grains such as soybeans ranked eighth (US\$346 million).⁹⁹ Canada’s current exports of canola to ASEAN countries remain limited: Vietnam is the biggest destination among the group for Canadian canola, with a total value of a little over \$600,000 in 2023.¹⁰⁰ Wheat,

⁹⁹ The ASEAN Secretariat, ‘ASEAN Statistical Yearbook 2023’.

¹⁰⁰ Canola Council of Canada, ‘Canada’s Top Canola Markets’, *Canola Council of Canada* (blog), 21 March 2024, <https://www.canolacouncil.org/markets-stats/top-markets/>.

on the other hand, is well received in ASEAN countries: in 2023, the total value of Canadian wheat export to these countries was \$1.65 billion, with Indonesia representing over \$1 billion.¹⁰¹

There is potential for Canada to export more agriculture and agri-food products to ASEAN, particularly canola, which can be used as feed for swine, poultry, aquaculture, dairy and cattle production in ASEAN's agriculture industry.¹⁰² In 2023, Vietnam and the Philippines were the biggest producers of beef and pork among ASEAN countries, yielding 462,000 metric tons of beef, which represent 0.8% of global production, and 4.6 million metric tons of pork, which is 4% of global production. For poultry, Thailand, Malaysia, Vietnam and the Philippines lead in production, with a combined yield of 7.7 million metric tons, almost 7.5% of global production.¹⁰³ When it comes to aquaculture, four ASEAN countries feature among the global top 11 producing countries, with a combined output of 22.5 million tonnes in 2021.¹⁰⁴ Meat production in Southeast Asia is expected to continue growing but domestic soybean meal and corn meal production for animal feed will not be able to meet domestic demands.¹⁰⁵ This is an opportunity for Canada to promote its canola products as an alternative option for animal feed. The Canola Council of Canada has already taken steps to build market opportunities for canola meal in Southeast Asia, with visits to the region in 2019 and 2022 to build relationships with importers.¹⁰⁶

¹⁰¹ Calculations based on, 'Canadian International Merchandise Trade Web Application', Statistics Canada, 5 October 2021, <https://www150.statcan.gc.ca/n1/pub/71-607-x/2021004/exp-eng.htm>.

¹⁰² Canola Council of Canada, 'Canola Meal Feed Guide', accessed 25 May 2024, <https://www.canolacouncil.org/canolamazing/feed-guide/>.

¹⁰³ 'USDA Foreign Agricultural Service', Production Data, 2023, <https://fas.usda.gov/data/production/commodity/0111000>.

¹⁰⁴ Perrin Remonte, 'Mapped: Ocean Fishing and Aquaculture Around the World', Visual Capitalist, 17 November 2023, https://www.visualcapitalist.com/cp/ocean-fishing-aquaculture-map/#google_vignette.

¹⁰⁵ Tani Lee and James Hansen, 'Southeast Asia's Growing Meat Demand and Its Implications for Feedstuffs Imports', USDA Economic Research Service, 1 April 2019, <https://www.ers.usda.gov/amber-waves/2019/april/southeast-asia-s-growing-meat-demand-and-its-implications-for-feedstuffs-imports/>.

¹⁰⁶ Brittany Wood, 'Canola Meal Fuels True Happiness in Southeast Asia – Canola Digest', *Canola Council of Canada* (blog), 2 November 2022, <https://canoladigest.ca/november-2022/canola-meal-fuels-true-happiness-in-southeast-asia/>.

With growing population, urbanization and increasing GDP per capita in Southeast Asia, it is forecasted that demand for high-protein foods will continue to grow as rising income allows people to purchase food richer in nutrients. However, Southeast Asia faces food security challenges as production could decrease due to biodiversity loss and climate change.¹⁰⁷ Increases in temperature and net zero emissions targets will make food production more expensive in the region, with costs estimated to rise between 31 to 59%.¹⁰⁸ ASEAN countries accounted for 15% of global wheat imports in 2021, 244 times more than the amount they can produce¹⁰⁹ and they have seen their imports disrupted by the war in Ukraine, one of their major wheat suppliers.¹¹⁰

This represents a good opportunity for Canada to position itself as a partner for ASEAN in food security and explore how it can increase exports of agriculture and agri-food products to ASEAN, particularly canola and wheat products. However, China still represents a major export market for Canadian farmers. Canada-ASEAN trade in farm, fishing and intermediate food products is dwarfed by the level of growth of Canadian exports of these products to China, from \$3 million in 2002 to \$8.5 billion in 2023 (see Figure 8). This presents a challenge in derisking Canada's agriculture and agri-food exports to China.

¹⁰⁷ Nhung Tran et al., 'What Do We Know about the Future of Agri-Food Systems in Southeast Asia?', *CGIAR* (blog), 27 April 2023, <https://www.cgiar.org/news-events/news/what-do-we-know-about-the-future-of-agri-food-systems-in-southeast-asia/>.

¹⁰⁸ Thang Nguyen Quoc and Theng Theng Tan, 'Climate Change and Food Prices in Southeast Asia: 2024 Update', *Oxford Economics*, 20 May 2024, <https://www.oxfordeconomics.com/resource/climate-change-and-food-prices-in-southeast-asia-2024-update/>.

¹⁰⁹ Paul Teng, 'Reducing ASEAN's Food Import Dependency', 25 August 2022, <https://eastasiaforum.org/2022/08/25/reducing-aseans-food-import-dependency/>.

¹¹⁰ Paul Teng and Genevieve Donnellon-May, 'Southeast Asian Food Security One Year Into the Ukraine War', *S. Rajaratnam School of International Studies*, 21 March 2023, <https://www.rsis.edu.sg/rsis-publication/nts/southeast-asian-food-security-one-year-into-the-ukraine-war/>.

Natural Resources

This section examines energy products and minerals in particular, both in terms of potential Canadian exports of crude oil to ASEAN and possible trade of critical minerals with ASEAN countries. The latter has been identified in the first section as potentially vulnerable to geopolitical tensions with China.

The majority of Canada's oil and gas exports is relatively isolated from direct Chinese import restrictions as 96% of Canadian crude oil is exported to the U.S.¹¹¹ This trade area is not one that would require immediate actions for derisking. However, as Chinese refineries could import more crude oil from Canada, as seen this year when Sinochem purchased its first oil cargo from the Trans Mountain Pipeline, it is worth exploring the potential of other markets in Asia Pacific as well.

ASEAN is a net oil importer, meaning the group of countries imports more oil than it exports. In 2021, its import of oil was US\$189 billion, double the amount of oil that it exported. This makes the Association vulnerable to potential risks of disruptions in the global supply chain of energy imports, in particular Singapore, Thailand and Vietnam, which have been identified as being at high risk.¹¹² With the exception of Indonesia, the remaining ASEAN countries import at least half of their crude oil from the Middle East and 30% of that import has had to take alternative trade routes due to disruptions caused by the Houthis in the Red Sea.¹¹³ Although ASEAN countries have made significant pledges to reduce their emissions by 2050, their economies will

¹¹¹ Natural Resources Canada, 'Crude Oil Industry Overview'.

¹¹² ASEAN Centre for Energy, 'Outlook on ASEAN Energy 2023 - Key Insights about ASEAN Energy Landscape and Trends in 2023', <https://asean.org/wp-content/uploads/2023/04/Outlook-on-ASEAN-Energy-2023.pdf>.

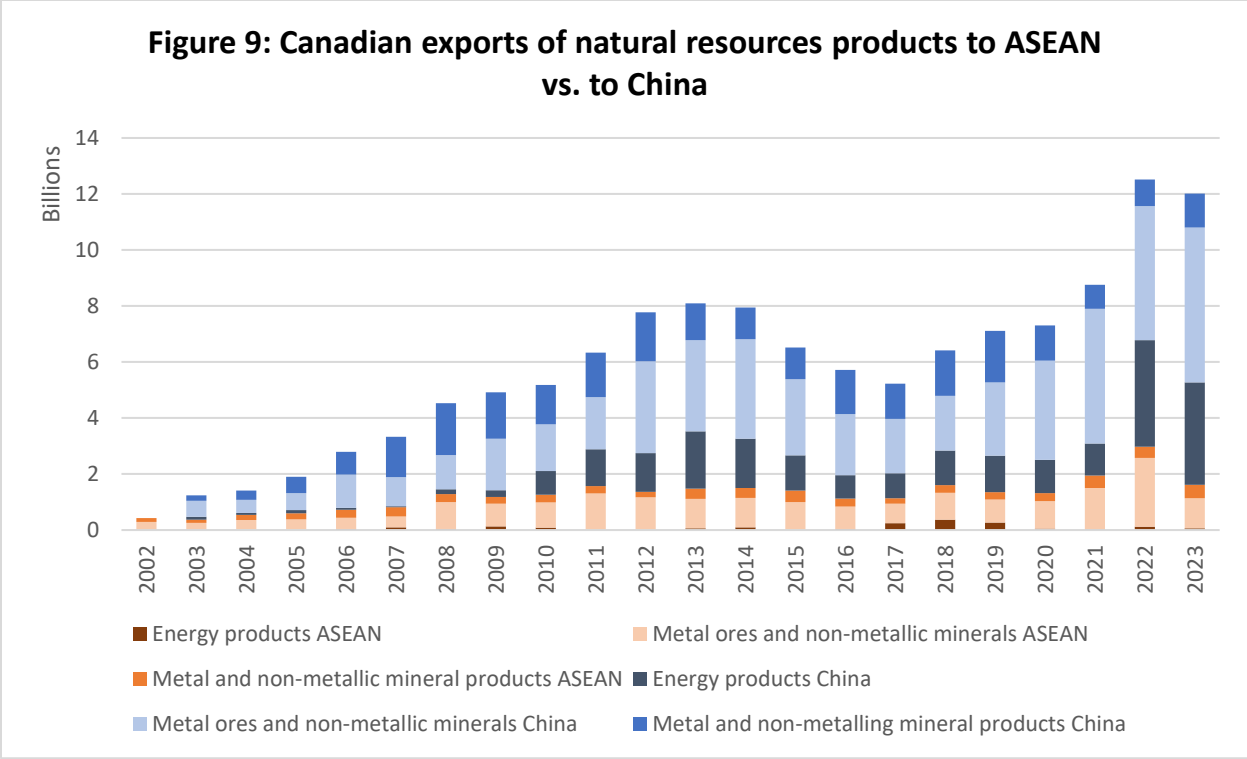
¹¹³ Yun Liu, 'ASEAN Perspectives', HSBC General Research Insights, Emerging markets, 21 March 2024, <https://www.gbm.hsbc.com/en-gb/insights/global-research/asean-perspectives-red-sea-red-flags>.

still be dependent on oil and gas imports while this transition takes places. Canada could position itself as a potential energy security partner for the group.

Canada's current energy products exports to ASEAN are minimal, especially compared to energy exports to China. The highest export amount was less than \$400 million in 2018 and it has since declined to \$62 million in 2023. On the other hand, energy product exports to China were over \$3 billion in 2023 (see Figure 9). However, as mentioned in the first part of this paper, the opening of the Trans Mountain Expansion Project should help increase Canadian crude oil exports to Asia Pacific and to ASEAN. In 2024, refiners in Asia are seeing a major drop in their margins, which has prompted them to seek to import more crude oil from the Americas rather than the Middle East.¹¹⁴ Canada has an advantage here as it has shorter seaborne transportation distances to reach Asia, compared to other suppliers in Latin America,¹¹⁵ meaning it could be less costly for ASEAN countries to import crude oil from Canada.

¹¹⁴ Clyde Russell, 'Weak Asia Refining Margins See Swing to Crude from the Americas', *Reuters*, 14 May 2024, sec. Energy, <https://www.reuters.com/business/energy/weak-asia-refining-margins-see-swing-crude-americas-russell-2024-05-14/>.

¹¹⁵ Canada's Oil & Natural Gas Producers, 'Canadian Exports of Crude Oil and Natural Gas'.

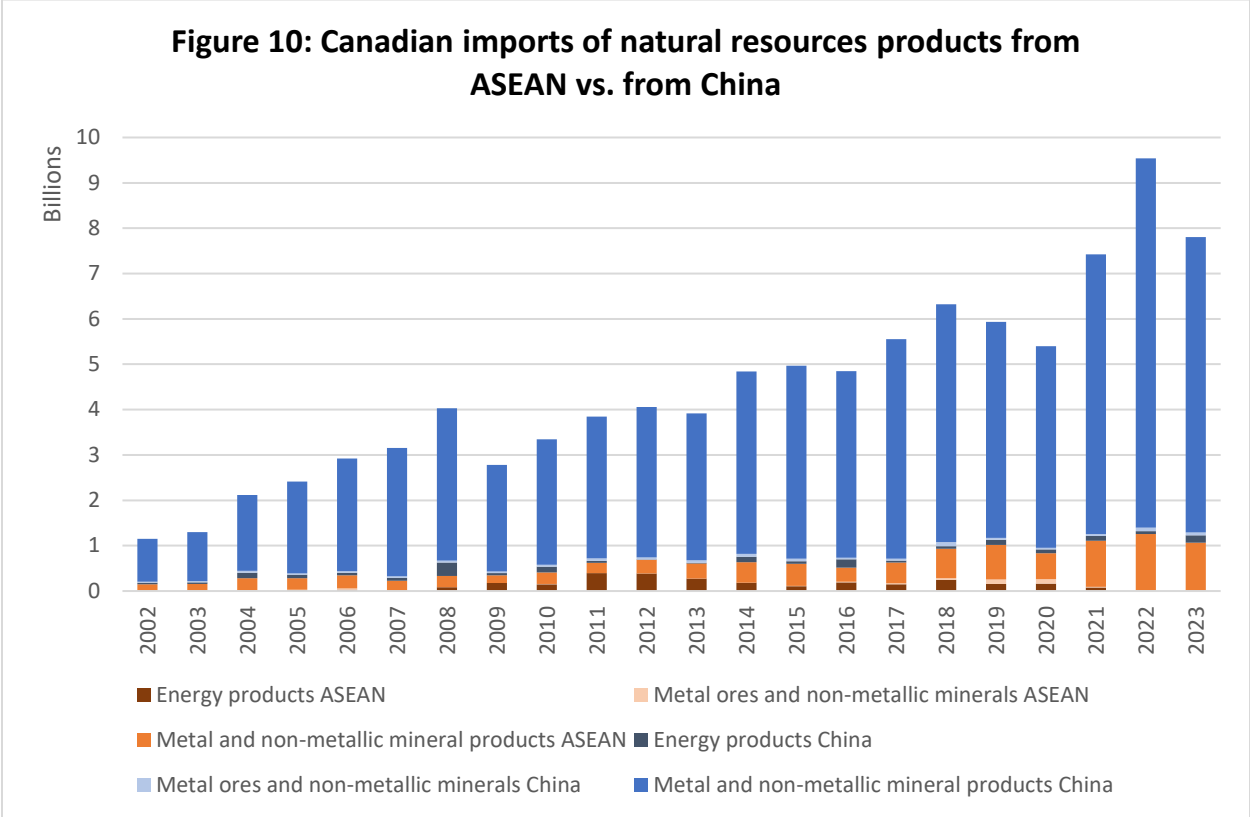


Source: Statistics Canada. Based on calculations from Table 12-10-0171-01 Canadian international merchandise trade by country and by product section, customs-based, annual (x 1,000)

When examining critical minerals, Canada exports five times more metal ores and non-metallic minerals to China than it currently does to ASEAN (see Figure 9). As for imports of metal and non-metallic mineral products, including processed and refined critical minerals, Canada also imports 6.5 times more from China than it does from ASEAN (see Figure 10). This is explained by China’s domination of the global supply chain for critical minerals, accounting for 80% of processing globally.¹¹⁶ China is importing critical minerals in the upstream (unprocessed) in order to refine and export the semi-processed and processed critical minerals. Because of this, it will

¹¹⁶ Castillo and Purdy, ‘China’s Role in Supplying Critical Minerals for the Global Energy Transition’.

likely be difficult for Canada to find an alternative market of similar size to export unprocessed critical minerals to and import refined critical minerals from, at least not in the short term.

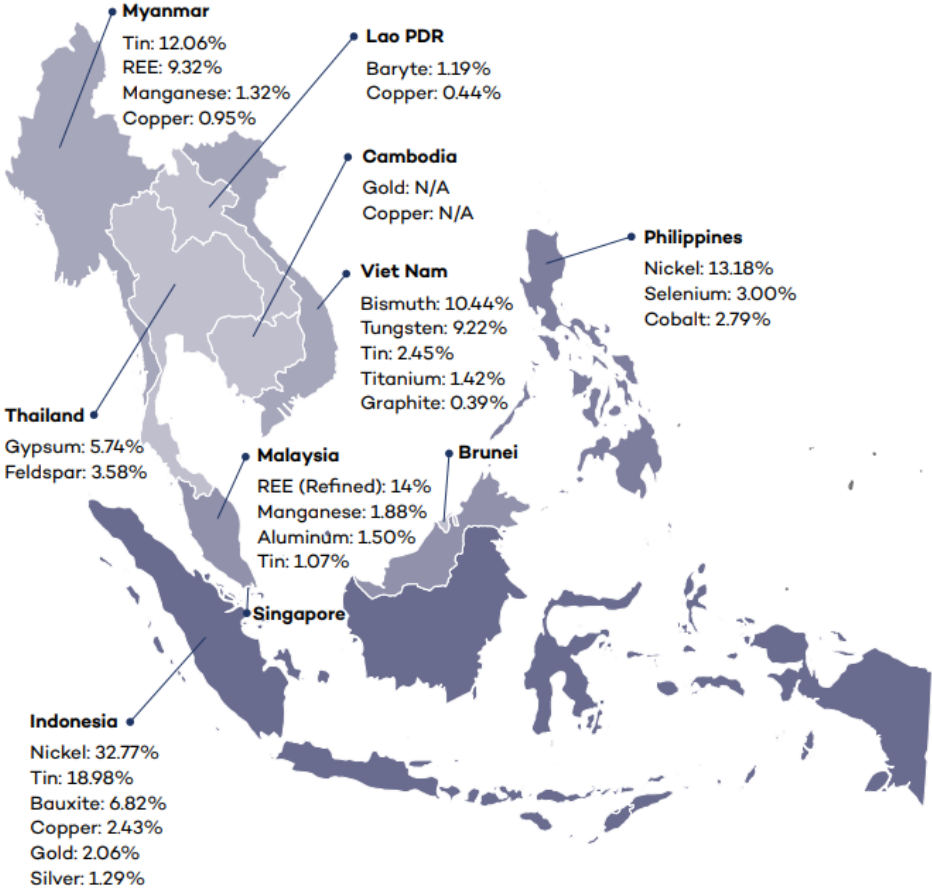


Source: Statistics Canada. Based on calculations from Table 12-10-0171-01 Canadian international merchandise trade by country and by product section, customs-based, annual (x 1,000)

Although Canada is resource-rich, it is richer in certain critical minerals than others. And while the federal government is investing in geoscience and exploration, it would be important for Canada to maintain a good partnership and trading relations with countries that have known reserves of the critical minerals it lacks. For example, Canada’s reserve of rare-earth elements accounts for 0.7% of the global reserve while Vietnam has the second largest global reserve at

19%, behind China at 38%.¹¹⁷ Other ASEAN countries are also rich in other critical minerals. Indonesia and the Philippines account for 27% of the global reserves of nickel. Indonesia, Myanmar and Malaysia account for 32% of global reserves of tin.¹¹⁸ Although far from Chinese capabilities, ASEAN countries also produce an important amount of critical minerals globally (see Figure 11) and their refining capabilities are growing (see Figure 12).

Figure 11: Country-level production of selected minerals as % of global production (2020)

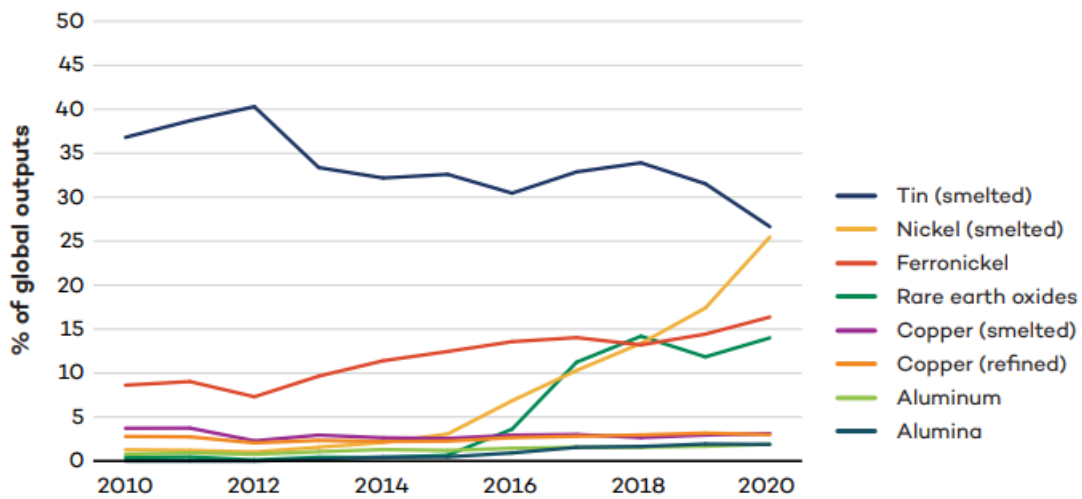


Note: Brunei has the potential for supply chain expansion, and Singapore is a major importer.

Source: *‘ASEAN-IGF Minerals Cooperation: Scoping Study on Critical Minerals Supply Chains in ASEAN’*, Report by the International Institute for Sustainable Development.

¹¹⁷ LePan, ‘Rare Earth Elements: Where in the World Are They?’
¹¹⁸ International Institute for Sustainable Development, ‘ASEAN-IGF Minerals Cooperation: Scoping Study on Critical Minerals Supply Chains in ASEAN’, May 2023, <https://www.iisd.org/publications/report/scoping-study-critical-minerals-asean>.

Figure 12: ASEAN Refining and smelting of selected metals as % of global outputs



Source: 'ASEAN-IGF Minerals Cooperation: Scoping Study on Critical Minerals Supply Chains in ASEAN', Report by the International Institute for Sustainable Development.

ASEAN countries have the potential to be partners with Canada in critical minerals. However, it will be years before either ASEAN countries or Canada can develop their production and refining capabilities to compete with China's current position in the global critical minerals supply chain. In addition, based on the Canadian Critical Minerals Strategy, it seems that the Government of Canada is already committed to developing domestic capabilities more so than abroad, investing \$4 billion to implement the Strategy, with \$79.2 million to geoscience and exploration, \$47.7 million to upstream critical mineral R&D, \$144.4 million to other research and development.¹¹⁹ In Budget 2023, the federal government proposed another \$500 million over ten years for the development of domestic clean technologies and directed the Strategic Innovation Fund to reallocate \$1.5 billion of its existing resources towards projects for critical minerals and

¹¹⁹ Government of Canada, 'The Canadian Critical Minerals Strategy'.

clean technologies.¹²⁰ With these current commitments, and given the importance of critical minerals to national security, it would be a better strategy for Canada to continue investing in domestic critical minerals production and refining, rather than diverting this crucial funding abroad.

Manufacturing

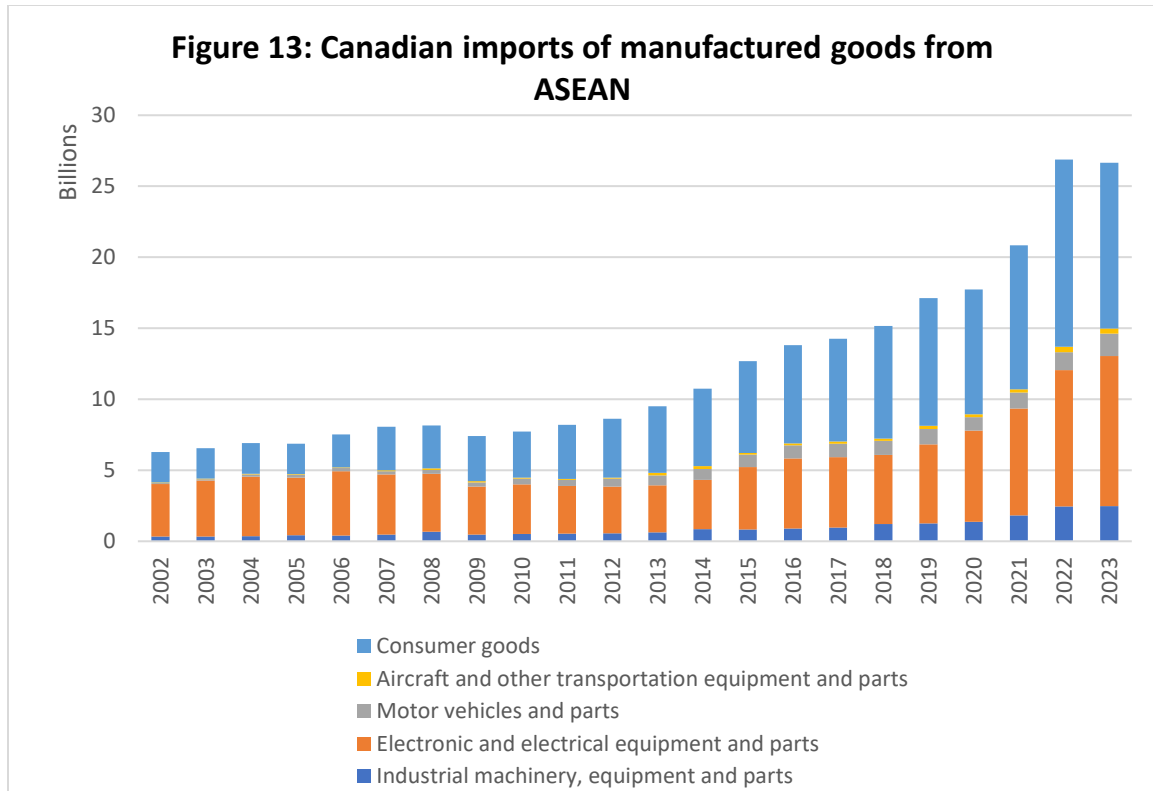
This last section examines the current Canada-ASEAN trade in the manufacturing sector and identifies whether ASEAN countries could be an alternative supplier of machinery and equipment, allowing Canada to reduce its dependence on China for this type of commodity.

ASEAN's manufacturing industry has grown to become a major part of the group's economy, generating 21.2% of the total GDP in 2022, a 5.2% growth compared to the previous year.¹²¹ The top export that year was electrical machinery and equipment and parts, valued at US\$557 billion. It was also the top category of ASEAN exports to Canada.¹²² Since 2002, Canada has imported as much electrical and machinery equipment and parts as it has imported consumer goods from ASEAN. In 2023, imports of those categories reached its peak, with nearly \$2.5 billion worth of industrial machinery and parts, and over \$10.5 billion worth of electrical equipment and parts (see Figure 13). However, Canadian imports of the same commodities from China was still more significant than imports from ASEAN: industrial machinery and parts were five times more while electrical equipment and parts were 2.4 times higher.

¹²⁰ Department of Finance Canada, 'Chapter 3: A Made-In-Canada Plan: Affordable Energy, Good Jobs, and a Growing Clean Economy | Budget 2023', 28 March 2023, <https://www.budget.canada.ca/2023/report-rapport/chap3-en.html>.

¹²¹ 'The Structure of ASEAN Economy', ASEAN Statistical Brief (Jakarta, Indonesia: ASEAN Stats, January 2024), https://astnet.asean.org/wp-content/uploads/2024/01/00.-ASEAN-Statistical-Brief-on-GDP_19Jan2024.pdf.

¹²² The ASEAN Secretariat, 'ASEAN Statistical Yearbook 2023'.



Source: Statistics Canada. Based on calculations from Table 12-10-0171-01 Canadian international merchandise trade by country and by product section, customs-based, annual (x 1,000)

But this situation could change. According to the Asia Pacific Foundation of Canada, ASEAN’s diverse manufacturing sector presents a good opportunity to integrate Southeast Asian manufacturers into Canadian supply chains as each ASEAN country takes a different approach to differentiate their manufacturing sector. Canadian companies can take advantage of Singapore, Malaysia and Thailand’s high-value precision manufacturing, make the most of low-cost labour in Cambodia and Myanmar for goods with less value added, and capitalize on Vietnam, Indonesia and the Philippines’s broad range of manufacturing capabilities.¹²³

¹²³ ‘The ASEAN Advantage: Exploring Canada’s Trade Potential’ (The Asia Pacific Foundation of Canada, 2017), https://www.asiapacific.ca/sites/default/files/filefield/asean_economic_study_final_1.pdf.

There are also multiple indicators suggesting that the manufacturing sector in ASEAN is growing and becoming more sophisticated, increasingly producing more of the commodities that will have increased demands as the world transitions to a green economy. For example, Malaysia, the Philippines, Thailand and Vietnam are increasingly participating in the manufacturing of memory chips and microprocessors, specializing in downstream activities such as assembly, testing and packaging. In fact, in 2023, 20% of the U.S.'s semiconductor imports were from Malaysia.¹²⁴ Thailand, Vietnam, Malaysia and Indonesia are also all developing their EV industries, and Malaysia and Vietnam are significant producers of solar PV panels globally.¹²⁵

Another factor is the Manufacturing Purchasing Managers' Index (PMI) for ASEAN. The PMI is an economic indicator which provides insights into the business conditions and helps anticipate economic trends. According to S&P Global, since 2013, the ASEAN Manufacturing PMI has fluctuated but mostly remained above the 50-point mark, which signals growth in the sector.¹²⁶

Finally, the level of foreign direct investment (FDI) into ASEAN's manufacturing sector has also significantly increased. In 2021, ASEAN surpassed China as the destination of choice for manufacturing investments from OECD countries (see Figure 14). Due to strict Covid-19 measures imposed by Beijing and China+1 policies from Western countries looking to derisk their operations, many companies have shifted their investment to ASEAN countries. In 2023, greenfield FDI, meaning FDI where a multinational company set-up a subsidiary in a country and builds new

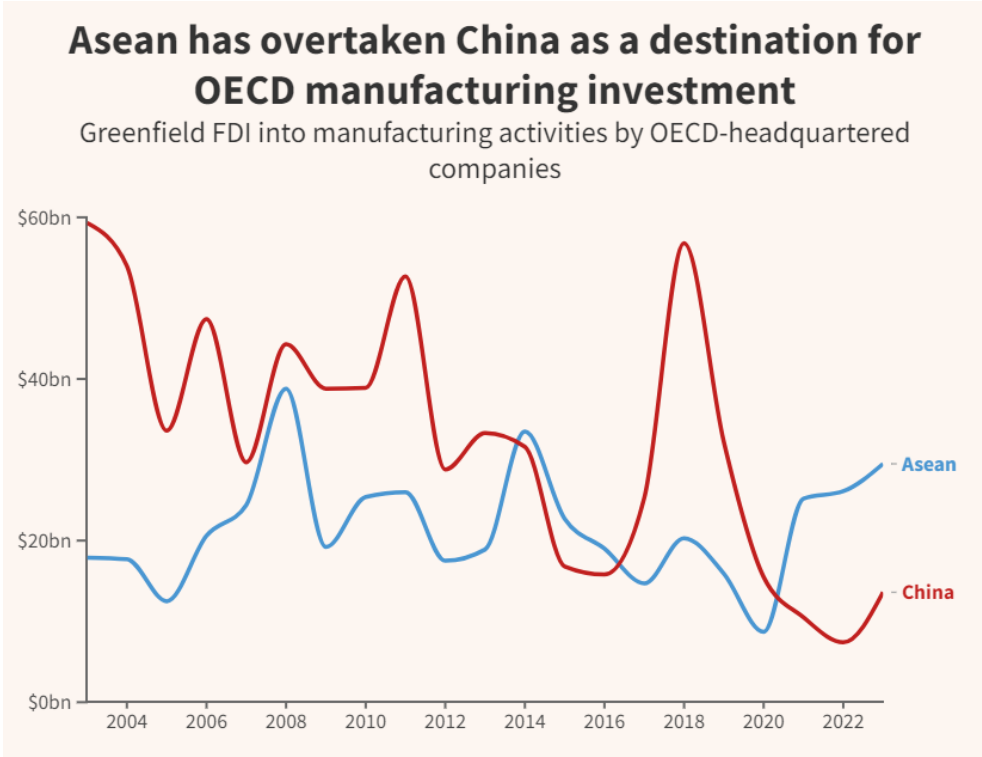
¹²⁴ Asian Development Bank, 'Asian Development Outlook April 2024 (Highlights)'.

¹²⁵ International Institute for Sustainable Development, 'ASEAN-IGF Minerals Cooperation'.

¹²⁶ 'S&P Global ASEAN Manufacturing PMI', News Releases, S&P Global, 2 May 2024, <https://www.pmi.spglobal.com/Public/Home/PressRelease/ece79ea9ccb746bbaf83b273880c2fc4>.

production facilities, distribution hubs and offices, reached nearly US\$ 30 billion for ASEAN countries compared to US\$ 13 billion for China.¹²⁷

Figure 14: Manufacturing FDI in ASEAN vs. China



Source: 'Asean Overtakes China for Manufacturing FDI', fDi Intelligence.

Conclusion on trade opportunities in ASEAN that can decrease the vulnerability of trade sectors heavily reliant on trade with China

As ASEAN's economies are growing, so does the potential for demand of products that Canada exports such as canola, wheat, crude oil, and unrefined critical minerals. ASEAN's manufacturing capabilities are also growing more sophisticated as they are able to produce and refine an important amount of critical minerals globally, as well as play a major role in the manufacturing of green

¹²⁷ Alex Irwin-Hunt, 'ASEAN Overtakes China for Manufacturing FDI', fDi Intelligence, 24 April 2024, <https://www.fdiintelligence.com/content/news/asean-overtakes-china-for-manufacturing-fdi-83610>.

technologies such as PV solar panels. There are many opportunities for Canada-ASEAN trade to grow, but Canada should prioritize in particular the areas that can alleviate Canada's vulnerability to China. Those areas are agricultural exports and machinery and equipment imports. For agriculture, there is an opportunity for Canadian canola to be exported as animal feed for ASEAN's production of poultry, meat and fish and for Canadian wheat to help ease the risks of food insecurity in the region. For machinery and equipment manufacturing, ASEAN already exports these products to Canada and there are signals that its manufacturing industry could respond to a higher Canadian demand.

Crude oil is a potential area where Canada could increase its exports to ASEAN but since this is not an area where Canada could be vulnerable to trade restrictions from China, it is more of an option that Canada could consider in the future rather than one it should act on now.

Finally, for critical minerals, although ASEAN is a promising critical minerals producer and refiner, Canada has already heavily invested in domestic extraction, production and refining as part of its Critical Minerals Strategy. As Western countries aim to reduce their dependence on China for critical minerals as fast as possible, Canada should focus its investments on domestic capabilities. Another reason to focus on the domestic front is because of the U.S. critical mineral policies. The Biden administration is also focusing its efforts on a "Made in America" supply chain for critical minerals, committing billions in investments for the U.S. to reduce its dependence on China.¹²⁸ In fact, Canada and the U.S. have joined efforts, forming the Canada-U.S. Energy Transformation Task Force and have announced a joint investment in two critical minerals mines

¹²⁸ The White House, 'FACT SHEET: Securing a Made in America Supply Chain for Critical Minerals', 22 February 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/02/22/fact-sheet-securing-a-made-in-america-supply-chain-for-critical-minerals/>.

in Canada.¹²⁹ Canada should take this opportunity to work with its closest ally to develop North American supply chains.

Now that areas of trade with promising opportunities have been identified, the paper's next part examines the current tactics and initiatives Canada is undertaking to increase trade with ASEAN in those particular areas. It also recommends other initiatives that Canada should consider pursuing to further expand the trade relation with the region and potential challenges it might encounter, like its competition with other countries also looking to ASEAN to derisk from China, as well as China's influence in the region.

3. What are the current challenges for Canada in expanding trade with ASEAN? How are the current federal initiatives tackling those challenges and what other actions should be taken?

Since the launch of its Indo-Pacific Strategy (IPS) in November 2022, the Government of Canada has significantly increased its engagement with the region, with nearly fifty visits to the region by the Prime Minister and Cabinet ministers.¹³⁰ Some notable visits to ASEAN countries, in particular, include the Prime Minister's meeting with ASEAN,¹³¹ the Minister of Foreign Affairs visiting the region two years in a row in 2022¹³² and 2023,¹³³ the Minister of Agriculture and Agrifood's visit

¹²⁹ Natural Resources Canada, 'Government of Canada and the United States Co-Invest to Strengthen Critical Mineral Value Chains', news releases, 16 May 2024, <https://www.canada.ca/en/natural-resources-canada/news/2024/05/government-of-canada-and-the-united-states-co-invest-to-strengthen-critical-mineral-value-chains.html>.

¹³⁰ Global Affairs Canada, 'Canada's Indo-Pacific Strategy – 2022 to 2023 Implementation Update', GAC, 31 January 2024, <https://www.international.gc.ca/transparency-transparence/indo-pacific-indo-pacifique/2022-2023.aspx?lang=eng>.

¹³¹ 'Prime Minister to Travel to the Indo-Pacific to Strengthen Ties'.

¹³² Global Affairs Canada, 'Minister Joly Concludes Successful Visits to Indonesia and Vietnam', news releases, 14 April 2022, <https://www.canada.ca/en/global-affairs/news/2022/04/minister-joly-concludes-successful-visits-to-indonesia-and-vietnam.html>.

¹³³ Global Affairs Canada, 'Minister Joly to Attend ASEAN Meetings in Indonesia'.

to Malaysia and the Philippines in 2024¹³⁴ and the Minister of Trade leading a trade mission to Vietnam in the same year.¹³⁵

However, as mentioned in the previous section, other countries are also looking to enhance their partnership with ASEAN, as part of their China+1 policies. In some areas, Canada is competing with its allies, such as the U.S., Australia, and the European Union, which are looking to trade in similar areas as Canada does with ASEAN. In addition, Canada is also facing competition from other major powers in the Indo-Pacific, such as China, which is the biggest trading partner with ASEAN, and Japan, South Korea and India, which are among the top ten trading partners with the group.¹³⁶

The IPS provides a ten-year framework for Canada's relationship with the Indo-Pacific and includes \$2.3 billion of investment in initiatives for the first five years, from 2022 to 2027. The IPS outlines five strategic objectives to engage with this wide region: (1) promoting peace, resilience and security; (2) expanding trade, investment and supply chain resilience; (3) investing in and connecting people; (4) building a sustainable and green future; and (5) Canada as an active and engaged partner to the Indo-Pacific.¹³⁷ This section delves into the challenges Canada may face in expanding trade with ASEAN, such as competition and geopolitical considerations. Then, it examines how the five strategic objectives of the IPS, specifically those focused on trade, could overcome those challenges. Finally, the section includes recommendations on other initiatives the federal government could implement as part of the IPS.

¹³⁴ Agriculture and Agri-Food Canada, 'Minister MacAulay Promotes Canada's World-Class Products in Malaysia and the Philippines'.

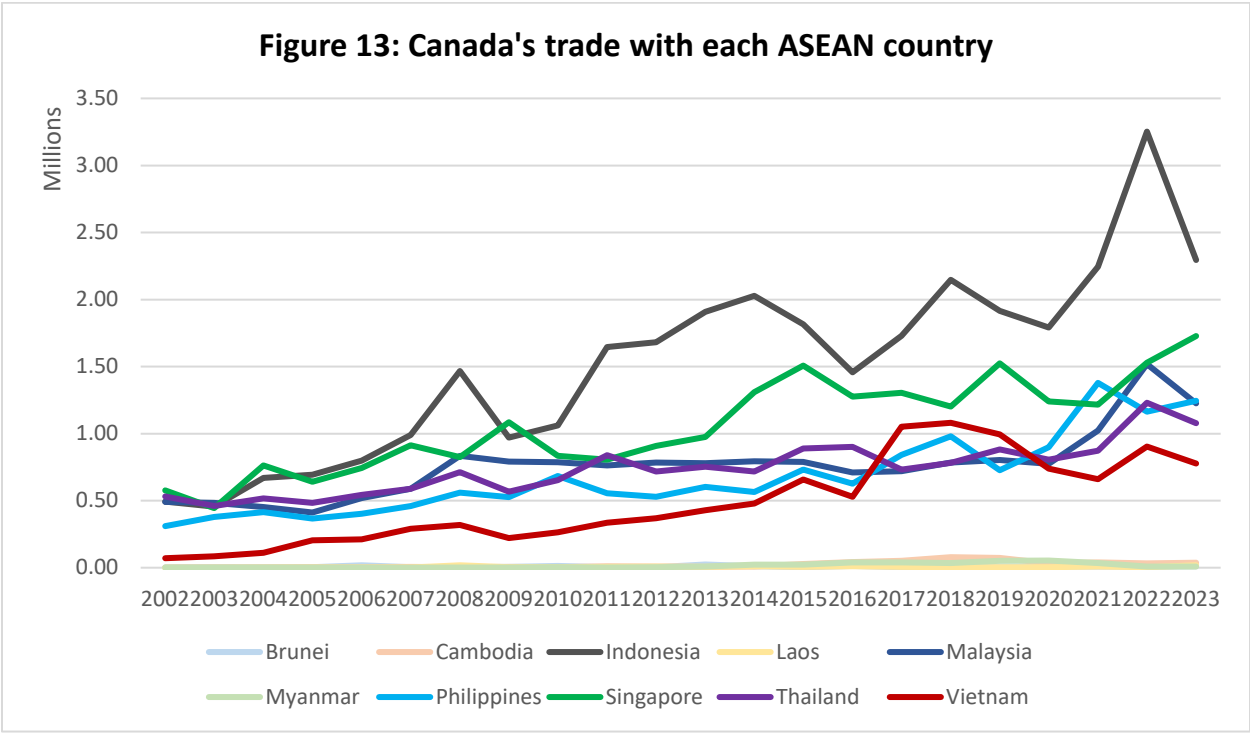
¹³⁵ Griffiths, 'Canada Pushes for Trade in Vietnam as West De-Risks from China'.

¹³⁶ The ASEAN Secretariat, 'ASEAN Statistical Yearbook 2023'.

¹³⁷ Global Affairs Canada, 'Canada's Indo-Pacific Strategy: New Initiatives and Resources', backgrounders, 27 November 2022, <https://www.canada.ca/en/global-affairs/news/2022/11/canadas-indo-pacific-strategy-new-initiatives-and-resources.html>.

Challenges for Canada in expanding trade with ASEAN

Canada’s trade with ASEAN in the last two decades has grown most significantly with the fastest growing and biggest economies within the Association: Indonesia, Singapore, Malaysia, Thailand, Philippines and Vietnam (see Figure 13).



Source: Statistics Canada. Based on calculations from Table 12-10-0171-01 Canadian international merchandise trade by country and by product section, customs-based, annual (x 1,000)

Canada did not have a free trade agreement (FTA) with any ASEAN country until December 2018, when the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) entered into force for Canada and Singapore and then at different subsequent

times for Vietnam (January 2019), Malaysia (November 2022) and Brunei (July 2023).¹³⁸ It is interesting to note that the existence of trade barriers did not stop Canadian trade with ASEAN from growing before the CPTPP. In fact, Canada does not have an FTA with Indonesia, yet the latter is its biggest trading partner among ASEAN countries. Another observation is that since the removal of trade barriers through the CPTPP, Canada's trade with Singapore and Vietnam has not increased drastically (it may still be too early for the effects to show for Canadian trade with Malaysia and Brunei). This draws attention to the fact that removing tariffs alone is not sufficient to boost trade. Canada needs to further promote its products in Southeast Asia as well as encourage Canadian businesses to explore opportunities in ASEAN markets.

The second challenge Canada faces is competition with other powers in the region. Western allies like the U.S. and the European Union have already taken great steps and made significant investment to deepen their relationships with ASEAN, establishing strategic partnerships with the group and with individual ASEAN member states as mentioned earlier in part two of this paper. In terms of trading relations, in 2022, the U.S. was the biggest export destination and the fourth biggest import origin for ASEAN while the EU was ASEAN's third biggest export destination and sixth biggest import origin.¹³⁹ ASEAN also has strong relations with Australia and New Zealand. The ASEAN-Australia-New Zealand Free Trade Area has been in effect since 2010.¹⁴⁰ In 2022, Australia featured among the top 10 trading partners for ASEAN.¹⁴¹ Recently, Australia has also

¹³⁸ Global Affairs Canada, 'Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) - View the Timeline', 25 August 2023, https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpp/view_timeline-consulter_chronologie.aspx?lang=eng.

¹³⁹ The ASEAN Secretariat, 'ASEAN Statistical Yearbook 2023'.

¹⁴⁰ Australian Government Department of Foreign Affairs and Trade, 'ASEAN-Australia-New Zealand FTA', accessed 8 June 2024, <https://www.dfat.gov.au/trade/agreements/in-force/aanzfta/asean-australia-new-zealand-free-trade-agreement>, <https://www.dfat.gov.au/trade/agreements/in-force/aanzfta/asean-australia-new-zealand-free-trade-agreement>.

¹⁴¹ The ASEAN Secretariat, 'ASEAN Statistical Yearbook 2023'.

established a Comprehensive Strategic Partnership with the group¹⁴² as well as with individual countries within the group.^{143,144}

Aside from Western allies, other regional powers that have strong relations with ASEAN include India, Japan and South Korea. ASEAN and India have an FTA that entered into force in 2010¹⁴⁵ and have recently upgraded their relationship to a Comprehensive Strategic Partnership.¹⁴⁶ Japan and South Korea both have FTAs with ASEAN, which entered into force in 2008¹⁴⁷ and in 2010, respectively.¹⁴⁸ They are also important investors in the region and were the second and fifth top source countries of FDI inflows in ASEAN.¹⁴⁹ Although ASEAN is expanding and building relationships with a large number of partners, it may prioritize those with whom it has a longer, more established relationship.

The third challenge for Canada to consider is China's influence on ASEAN and how it factors into ASEAN's decision to build relations. ASEAN's economies are deeply linked to China. In 2022, China and the U.S. shared the top spot as the biggest export destinations of ASEAN goods, each representing 15% of ASEAN's total exports. For imports, China was the top supplier, representing 23% of ASEAN's imports, far ahead of the second biggest supplier, South Korea

¹⁴² Australian Mission to ASEAN, 'The ASEAN-Australia Comprehensive Strategic Partnership'.

¹⁴³ Australian Government Department of Foreign Affairs and Trade, 'Joint Statement on a Comprehensive Strategic Partnership between Australia and Malaysia'.

¹⁴⁴ Dasey and Dziedzic, "The Most Popular Kid in Class".

¹⁴⁵ 'ASEAN-India Economic Relations', ASEAN Main Portal, accessed 8 June 2024, <https://asean.org/our-communities/economic-community/integration-with-global-economy/asean-india-economic-relations/>.

¹⁴⁶ 'ASEAN, India Reaffirm Comprehensive Strategic Partnership', ASEAN Main Portal, 19 March 2024, <https://asean.org/24th-meeting-of-asean-india-joint-cooperation-committee-convenes/>.

¹⁴⁷ Ministry of Foreign Affairs of Japan, 'Notification of the Entry into Force of the Japan-ASEAN Comprehensive Economic Partnership Agreement', 21 October 2008, https://www.mofa.go.jp/announce/announce/2008/10/1184016_1060.html.

¹⁴⁸ Ministry of Investment, Trade and Industry of Malaysia, 'ASEAN-Korea Relations', accessed 8 June 2024, <https://fta.miti.gov.my/index.php/pages/view/asean-korea>.

¹⁴⁹ The ASEAN Secretariat, 'ASEAN Statistical Yearbook 2023'.

(7.5%), while the U.S. took the 4th spot (6.9%).¹⁵⁰ According to the Asian Development Bank, in 2020, a 1% increase in Chinese economic output led to a 6.3% increase in ASEAN's output.¹⁵¹

But ASEAN's heavy economic dependence on China could become an opportunity for Canada. ASEAN's economic dependence also means that when the Chinese economy shrinks, ASEAN's economies are also negatively impacted, as seen with the strict lockdown measures imposed by Beijing during the Covid-19 pandemic. ASEAN, recognizing its dependence on China as well as the U.S.'s growing engagement in the region, is welcoming the interest from other countries to expand the relationship, as seen by the numerous Comprehensive Strategic Partnerships mentioned previously. The Association is employing its strategy of "fence sitting", a strategy of maintaining relations with all sides, the U.S., China and other third-party partners, keeping all options open in order to pivot foreign policies when needed,¹⁵² or, as Vietnamese officials have called it, "bamboo diplomacy", referring to the plant's resilience while being flexible and bendable to the elements.¹⁵³

ASEAN's strategy could also be due to public opinion in its countries on the growing Chinese influence in the region. According to The State of Southeast Asia survey conducted by the Yusof Ishak Institute in Singapore in 2024, 67.4% of respondents say that they are worried about China's growing economic influence in the region. The respondents' top three worries are China's growing economic dominance and political influence in their country, China's strong-arm tactics in the South China Sea and the Mekong, and China's potential use of economic tools to punish their countries for foreign policy decisions. Respondents' perception of the U.S. is slightly

¹⁵⁰ The ASEAN Secretariat.

¹⁵¹ Wester, 'Balancing Act'.

¹⁵² Spektor, 'In Defense of the Fence Sitters'.

¹⁵³ Khanh Vu and Francesco Guarascio, 'Vietnam's "bamboo Diplomacy" Shifts into Higher Gear', Reuters, March 2024, <https://www.reuters.com/world/asia-pacific/vietnams-bamboo-diplomacy-shifts-into-higher-gear-2023-12-28/>.

more positive than China, with 52% welcoming American growing regional economic influence. However, when asked to choose which rival ASEAN should align itself with between the two, if forced to choose, respondents are split nearly down the middle, with 50.5% choosing China and 49.5% choosing the U.S..¹⁵⁴

One interesting point from this survey is when asked which “third party” ASEAN should seek out to hedge against the U.S.-China rivalry, the European Union came out as the top choice (37.2% of respondents), followed by Japan (27.7%) and India (10.5%), all three more aligned with the U.S. and its liberal and democratic ideals than with China.¹⁵⁵ This presents an opportunity for Canada to position itself as another “third party” option for ASEAN. It is also important to note, however, that Australia and the United Kingdom, both members of AUKUS and therefore seen to be much closer to American influence, are only the preferred “third party” partner for 9% of respondents, suggesting that being perceived as “taking sides” between the U.S. and China could be a drawback for Canada.

To increase its exports to ASEAN and make itself an attractive economic partner, Canada will need to continue its efforts to remove trade barriers but also invest more in promoting its products in ASEAN markets and differentiate them from other competitors. In addition, Canada should also work with ASEAN countries to ensure that they increase their production capacity to respond to demands in both Canada and other markets, rather than Canada compete with its allies for the existing ASEAN outputs. But Canada needs to be careful in not antagonizing China while deepening its relations with ASEAN as this could worry the public in Southeast Asia that China

¹⁵⁴ ISEAS Yusof Ishak Institute, ‘The State of Southeast Asia: 2024 Survey Report’, 2024, <https://www.iseas.edu.sg/centres/asean-studies-centre/state-of-southeast-asia-survey/the-state-of-southeast-asia-2024-survey-report/>.

¹⁵⁵ ISEAS Yusof Ishak Institute.

would impose economic penalty on them. It is important to consider that despite their desire to diversify relations, ASEAN's economic output is still heavily dependent on China.

Canada's current and planned efforts to expand trade with ASEAN

This section examines Canada's current strategies to deepen its relations with ASEAN, particularly its economic ties. Canada currently only has one free trade agreement with some ASEAN countries through the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP): Singapore, Vietnam, Malaysia, and Brunei. This effort to expand trade with countries around the Pacific Ocean started ten years before the launch of the IPS, when Canada joined the Trans-Pacific Partnership, which was the precursor to the CPTPP, when the U.S. was still leading the negotiations.

In June 2021, Canada and Indonesia launched negotiations towards a Comprehensive Economic Partnership Agreement (CEPA), a free trade agreement. To date, there have been seven rounds of negotiations with an eighth round anticipated in June 2024.¹⁵⁶ In November 2021, Canada and ASEAN also announced the start of the negotiation process towards a free trade agreement and to date, there have been five rounds of negotiations.¹⁵⁷

But as previously mentioned, only removing tariff barriers is not sufficient to increase trade. A good understanding of the market and finding the right buyers are also necessary. The Government of Canada has taken several steps to promote trade and investment with ASEAN

¹⁵⁶ Global Affairs Canada, 'Canada-Indonesia Comprehensive Economic Partnership Agreement – Background Information', GAC, 14 June 2021, <https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/indonesia-indonesie/cepa-apeg/background-contexte.aspx?lang=eng>.

¹⁵⁷ Global Affairs Canada, 'Canada and the Association of Southeast Asian Nations (ASEAN)'.

(measures that are either specific to Southeast Asia or to all of the Indo-Pacific but also benefiting ASEAN countries). These include:

- The commitment of \$24.1 million over five years to establish a Canadian Trade Gateway in Southeast Asia.¹⁵⁸
- \$45 million over five years dedicated to Team Canada Trade Missions to the Indo-Pacific¹⁵⁹ with three missions to ASEAN countries already completed in 2023 and 2024 (Singapore, Malaysia and Vietnam) and at least two more planned in 2024.¹⁶⁰
- \$31.8 million over five years to establish the Indo-Pacific Agriculture and Agri-Food Office based in Manila, Philippines, to promote Canadian agriculture and agri-food products.¹⁶¹
- The appointment of a trade representative office for the Indo-Pacific based in Jakarta, Indonesia.¹⁶²
- The launch of a new funding program in 2023 of \$1 million per year to help strengthen regionally based Canadian chambers of commerce in the Indo-Pacific.¹⁶³
- \$37.7 million over five years to expand the CanExport program to support Canadian businesses promote and export their products.¹⁶⁴ The program has already approved funding for nearly 500 initiatives in fiscal year 2023-24.¹⁶⁵

¹⁵⁸ Global Affairs Canada, 'Canada's Indo-Pacific Strategy: New Initiatives and Resources'.

¹⁵⁹ Global Affairs Canada.

¹⁶⁰ Global Affairs Canada, 'Canada's Indo-Pacific Strategy – 2022 to 2023 Implementation Update'.

¹⁶¹ Agriculture and Agri-Food Canada, 'Canada Names Location for New Indo-Pacific Agriculture and Agri-Food Office', news releases, 7 June 2023, <https://www.canada.ca/en/agriculture-agri-food/news/2023/06/canada-names-location-for-new-indo-pacific-agriculture-and-agri-food-office.html>.

¹⁶² Press, 'Canada's Promised Indo-Pacific Trade Representative to Be Based in Jakarta'.

¹⁶³ Global Affairs Canada, 'Canada's Indo-Pacific Strategy – 2022 to 2023 Implementation Update'.

¹⁶⁴ Global Affairs Canada, 'Canada's Indo-Pacific Strategy: New Initiatives and Resources'.

¹⁶⁵ Global Affairs Canada, 'Canada's Indo-Pacific Strategy – 2022 to 2023 Implementation Update'.

The concrete results of these investments are still early to be seen but there are several signs that Canadian businesses are increasingly interested in expanding into ASEAN markets, as shown by the Business Council of Canada advocating for an ASEAN-Canada FTA back in 2019.¹⁶⁶

Other trade-related initiatives planned but not yet implemented focus more on strengthening collaborations and coordination between Canadian and Indo-Pacific industry standards. They include:

- \$13.5 million to expand natural resources ties with the Indo-Pacific, with Singapore and Indonesia as two ASEAN countries considered priority partners for this project.
- \$65.1 million to strengthen science, technology and innovation partnerships with five key partners in the Indo-Pacific, one of them being Singapore.
- \$2.2 million to deepen partnerships with accreditation bodies in the Indo-Pacific and align standards of certain sectors.
- \$25 million to provide technical assistance to countries in the Indo-Pacific on labour policies.¹⁶⁷

Canada and ASEAN reached an important milestone in September 2023 when the leaders established the ASEAN-Canada Strategic Partnership Agreement.¹⁶⁸ Although this initiative is not specific to trade, it showcases Canada's commitment to engaging with the region more significantly than it has done in the past. At the same time that Canada and ASEAN leaders announced this Strategic Partnership, they also issued a joint statement on food security and

¹⁶⁶ Goldy Hyder, 'Letter to the Honourable William Morneau, P.C., M.P., Minister of Finance on Budget 2019', *Business Council of Canada* (blog), accessed 9 June 2024, <https://thebusinesscouncil.ca/publication/letter-to-the-honourable-william-morneau-p-c-m-p-minister-of-finance-on-budget-2019/>.

¹⁶⁷ Global Affairs Canada, 'Canada's Indo-Pacific Strategy: New Initiatives and Resources'.

¹⁶⁸ 'Joint Leaders' Statement on ASEAN-Canada Strategic Partnership'.

nutrition.¹⁶⁹ This is an important strategic move that establishes Canada as a partner in food security to the region, which can help in promoting Canadian agriculture and agri-food products. A complementary initiative was the Asia Pacific Foundation of Canada hosting a Canada-in-Asia conference series with support from the federal government and several government agencies, with one focused on agri-food.¹⁷⁰

What Canada should do next to tackle the challenges

The IPS implementation's first year was positively received by academics and experts but there is still a sense that these announcements are more signals rather than concrete responses on what Canada's role in the Indo-Pacific and in ASEAN, a "semi-autonomous middle power or an integral component of a grand U.S.-led initiative".¹⁷¹ Given ASEAN's hesitation to choose between the U.S. and China, their countries' economic dependence on the Chinese economy, and public opinion in ASEAN favouring other democratic powers over those closest to the U.S. in the region, Canadian political leaders should keep in mind that actions perceived as "taking sides" between the U.S. and China could be negatively perceived by ASEAN leaders. Canada should emphasize on the similar geopolitical situation that it shares with ASEAN, being caught in between two major powers and needing to diversify its trade to lessen the economic impact of the U.S.-China rivalry.

¹⁶⁹ 'ASEAN-Canada Joint Leaders' Statement on Strengthening Food Security and Nutrition in Response to Crises', Prime Minister of Canada, 9 June 2023, <https://www.pm.gc.ca/en/news/statements/2023/09/06/asean-canada-joint-leaders-statement-strengthening-food-security>.

¹⁷⁰ 'Canada In Asia Conference 2024: Agri-Food', Canada in Asia Conference, accessed 9 June 2024, <https://www.canada-in-asia.ca/ciac-2024-agri-food>.

¹⁷¹ Fen Osler Hampson et al., 'Strategic Reflections: APF Canada Analysis of Canada's Indo-Pacific Strategy One Year After Implementation', Asia Pacific Foundation of Canada, 9 May 2024, <https://www.asiapacific.ca/publication/strategic-reflections-first-anniversary-indo-pacific-strategy>.

This would help frame strengthening the ASEAN-Canada relationship as mutually and equally beneficial.

In the IPS implementation's next years, Canada should consider some of the following concrete initiatives. The first is showing public support for other ASEAN countries that have expressed interest to join the CPTPP, particularly Indonesia,¹⁷² the Philippines,¹⁷³ and Thailand.¹⁷⁴ This effort may seem redundant given that Canada is already in the process of negotiating an FTA with ASEAN, but it is a show diplomatic goodwill that could help paint Canada as a trustworthy partner. Canada should use its chairing of the CPTPP Commission in 2024 to do so. Another reason for this is that Myanmar's place in the ASEAN-Canada FTA could be a potential roadblock in the negotiations process, given the civil war in the country and Canada's sanctions on the military junta in power.¹⁷⁵ The third reason is that the CPTPP already includes clauses on protection and transparency for investors.¹⁷⁶ To protect and help Canadian investors compete with domestic investors, Canada has multiple Foreign Investment Promotion and Protection Agreements (FIPA) in place, one with the Philippines since 1996 and with Thailand since 1998.¹⁷⁷ Through the new 2021 FIPA model, investment promotion and protection are also included in the CPTPP¹⁷⁸ and

¹⁷² Ismi Damayanti, Maki Sagami, and Iyo Senga, 'Indonesia to Apply for CPTPP Membership This Year: Minister', *Nikkei Asia*, 24 May 2024, <https://asia.nikkei.com/Spotlight/The-Future-of-Asia/The-Future-of-Asia-2024/Indonesia-to-apply-for-CPTPP-membership-this-year-minister>.

¹⁷³ Roy Stephen C. Canivel, 'PH Wants to Join Mega Free Trade Pact', *Inquirer.net*, 25 March 2021, <https://business.inquirer.net/319987/ph-wants-to-join-mega-free-trade-pact>.

¹⁷⁴ Reuters, 'Thailand Plans to Join Talks on Trans-Pacific Trade Pact Membership', accessed 10 June 2024, <https://www.reuters.com/world/asia-pacific/thailand-plans-join-talks-trans-pacific-trade-pact-membership-2021-11-22/>.

¹⁷⁵ Neil Moss, 'Liberals' Progressive Trade Agenda Faces Uphill Battle in Southeast Asian Negotiations', *The Hill Times*, 9 August 2023, <https://www.hilltimes.com/story/2023/08/09/liberals-progressive-trade-agenda-faces-uphill-battle-in-southeast-asian-negotiations/394538/>.

¹⁷⁶ Global Affairs Canada, 'What Does the CPTPP Mean for Investment?', 21 February 2018, <https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpgp/sectors-secteurs/investment-investissement.aspx?lang=eng>.

¹⁷⁷ Global Affairs Canada, 'Trade and Investment Agreements', 13 December 2023, <https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/index.aspx?lang=eng>.

¹⁷⁸ Global Affairs Canada, 'Canada's 2021 Foreign Investment Promotion and Protection Agreement (FIPA) Model', GAC, 5 May 2021, <https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/fipa-apie/index.aspx?lang=eng>.

likely in the ongoing Canada-Indonesia Comprehensive Economic Partnership Agreement. If not through the CPTPP, Canada should consider an agreement on investment protection with ASEAN countries to promote FDI from Canada into ASEAN and vice versa, perhaps even including clauses on protection and transparency for investors in the negotiations of the ASEAN-Canada FTA. Having such an agreement in place could boost investors' confidence in setting up manufacturing facilities in ASEAN that could satisfy Canada's demand for imports from the region, most importantly for electrical machinery and equipment.

To further Canada's position as an ASEAN partner in food security, Canada should explore different strategies to tackle factors hampering agriculture and agri-food trade with the region. First is identifying Canadian products that would most fill the immediate needs for ASEAN countries. According to the International Trade Centre's gap-analysis of regional trade potential, Canadian soybean, seafood, and pork products could fill a growing demand in Indonesia and Vietnam.¹⁷⁹ ASEAN agricultural industries have also not largely used canola in their production and could benefit from learning more about its versatility as animal feed. As for human consumption, canola oil presents a nutritious alternative to other types of cooking oils. The Indo-Pacific Agriculture and Agri-Food Office should consider strategies to promote this product in the region, in partnership with the Canola Council of Canada, which has begun establishing contacts with potential buyers.¹⁸⁰

Canada should also address non-tariff barriers such as sanitary and cultural practices.¹⁸¹ For example, due to its large Muslim population, Indonesia requires halal certification for meat

¹⁷⁹ Pia Silvia Rozario, 'Positioning Canada's Agriculture to Meet Asia's Growing Food Security Needs', Asia Pacific Foundation of Canada, accessed 25 May 2024, <https://www.asiapacific.ca/publication/positioning-canadas-agriculture-meet-asias-growing-food>.

¹⁸⁰ Wood, 'Canola Meal Fuels True Happiness in Southeast Asia – Canola Digest'.

¹⁸¹ Rozario, 'Positioning Canada's Agriculture to Meet Asia's Growing Food Security Needs'.

and food products. This could be another task for the Indo-Pacific Agriculture and Agri-Food Office to partner with local non-governmental organizations to gain knowledge and provide assistance to Canadian exporters seeking to get the required certifications. Partnerships with local academics and think-tanks could also help share knowledge and information so that Canadian exporters can understand taste preferences and economic trends and adjust or develop products tailored to the ASEAN markets.

Canada should also consider the advantages it can bring to its partnership with ASEAN on food security, notably its research in agricultural technology and biotech and Canada's agri-food and food safety standards. The Government of Canada can support and provide funding for Canadian agri-food companies to host trainings, organize visits and form applied research partnerships with Southeast Asian partners.¹⁸²

One of the five strategic objectives that the IPS has outlined is the need to expand trade and strengthen supply chains. However, not once does the IPS mention the potential of imports of goods or influx of investments from ASEAN that could benefit Canada. To deepen trade relations with the region, Canada should consider a two-way view of the flow of trade and investments. While increasing exports to ASEAN is important, the region is one of the most dynamic in the world in terms of innovation. For example, Malaysia and Vietnam are already important exporters of solar panels. In addition, with the influx of FDI into ASEAN manufacturing industry, there is potential that it could respond to a higher Canadian demand with increased technological advances and infrastructure over time. Federal and provincial governments should explore how ASEAN could become an important supplier of goods and services to Canadians. One way to do so it to

¹⁸² Canada-ASEAN Business Council (CABC), 'A PARTNER IN FOOD SECURITY: Canada's Opportunity for Agri-Food Trade with ASEAN', 28 April 2023, <https://www.canasean.com/post/a-partner-in-food-security-canada-s-opportunity-for-agri-food-trade-with-asean>.

have trade commissioners on the ground also paying attention to what Canada can import from ASEAN, and not only looking for export potential. Another tactic could be to organize sectoral meetings, exposition events or even inviting ASEAN trade missions to Canada where Southeast Asian manufacturers can connect with potential Canadian buyers. More consideration for what the region can offer would also align with the framing of the ASEAN-Canada relationship as mutually and equally beneficial.

Finally, one thing for the Government of Canada to consider is the potential impact that its political actions could have on its work to strengthen trade relations, particularly its desire to join AUKUS. Australia and the U.K., two members of AUKUS, are not seen as favourably by the public in Southeast Asia as other “third parties” partners such as the European Union and Japan. Additionally, with the announcement of *Our North, Strong and Free: A Renewed Vision for Canada’s Defence* in April 2024,¹⁸³ Canada should consider how it can feasibly fulfill its commitment to NATO and the defense of the Arctic region while taking on other military commitments in other regions.

Conclusion on recommendations

ASEAN has been clear on its position in the U.S.-China rivalry: it does not want to take sides. In the ASEAN Outlook on the Indo-Pacific, the affirmation that ASEAN published in 2019 that has guided its foreign policies, it has highlighted its vision of an “Indo-Pacific region of dialogue and cooperation instead of rivalry”.¹⁸⁴ The public in Southeast Asia has also shown preference for

¹⁸³ National Defence, ‘Our North, Strong and Free: A Renewed Vision for Canada’s Defence’, 8 April 2024, <https://www.canada.ca/en/department-national-defence/corporate/reports-publications/north-strong-free-2024.html>.

¹⁸⁴ ASEAN Secretariat, ‘ASEAN Outlook on the Indo-Pacific’, statements, 23 June 2019, <https://asean.org/speechandstatement/asean-outlook-on-the-indo-pacific/>.

“third parties” perceived to be semi-autonomous from either American or Chinese influence, like the European Union and Japan, rather than those visibly closer to the U.S., like Australia and the U.K. through the AUKUS partnership. Canada should focus on its similar position to ASEAN, being caught in the middle of the U.S.-China rivalry and looking to diversify its partnerships and trade to mitigate the negative economic impacts caused by this geopolitical tension. The continuing implementation of Canada’s IPS should respect ASEAN’s preference for neutrality.

Canada should focus its partnership with ASEAN on the less traditional sense of security: food security, economic security and supply chain resilience. By positioning itself as a partner for ASEAN on food security, Canada would be able to grow its agricultural and agri-food exports to the region. By seeking ASEAN’s help to be a partner in economic security and supply chain resilience, Canada would be able to expand ASEAN’s production capacity through FDI and source more of its manufacturing, electrical machinery and equipment imports from ASEAN.

Concluding thoughts

The U.S.-China geopolitical rivalry is anticipated to drag on given American political rhetoric and policies vis-à-vis China, the tensions in the South China Sea and in the Taiwan Strait, and the war in Ukraine. All these issues have marked a clear divide between the U.S. and China. As the U.S. continues to implement economic restrictions on China, most recently with the announcement of 100% tariffs on Chinese EVs,¹⁸⁵ Canada needs to prepare to mitigate the negative impacts that American policies on derisking could have on the Canadian economy. Canada is vulnerable to both economic retaliations from Beijing in the form of tariffs and non-tariff trade barriers and

¹⁸⁵ Larry Elliott, ‘Biden Announces 100% Tariff on Chinese-Made Electric Vehicles’, *The Guardian*, 14 May 2024, sec. Business, <https://www.theguardian.com/business/article/2024/may/14/joe-biden-tariff-chinese-made-electric-vehicles>.

pressure from the U.S. if Canada does not implement similar policies to hinder China. The most recent example is the pressure on the Trudeau government to impose tariffs on Chinese EVs: some experts think that not following the U.S. policies could hinder with the CUSMA review while others are worried about possible Chinese retaliation on Canadian canola, barley and coal exports to China.¹⁸⁶

Canada's economy has certain vulnerabilities to China and it should explore other markets that it could alternatively trade with. As identified in this paper, Canada's three main strategic trade sectors most vulnerable are (1) agriculture and agri-food products, in particular exports of canola and wheat, (2) natural resources, mostly imports of processed and refined critical minerals, and (3) manufactured electrical equipment and industrial machinery.

This paper focuses on assessing ASEAN's potential to be an alternative trading partner for Canada to derisk from China. The reason for analyzing ASEAN as potential derisking economic partner for Canada is because of its fast-growing economies and increasingly sophisticated manufacturing capabilities. In addition, some ASEAN countries have ongoing territorial contestation with China in the South China Sea and the public in those countries express worry about Beijing's growing political and economic influence in the region. These elements make ASEAN an ideal partner for countries to pursue their China+1 policies. Indeed, in recent years, the U.S., Canada, the European Union, Australia, India and Japan have all established either a Comprehensive Strategic Partnership or a Strategic Partnership with the bloc.

¹⁸⁶ Mark Rendell, 'Canada's Trade and Industrial Policy in the Balance as It Contemplates Chinese EV Tariffs', *The Globe and Mail*, 14 July 2024, <https://www.theglobeandmail.com/business/article-canadas-trade-and-industrial-policy-in-the-balance-as-it-contemplates/>.

In assessing ASEAN's potential as a partner for Canada, this paper focuses on Canada's three main strategic trade sectors currently dependent on China. In the agriculture and agri-food sector, Canada has the potential to position itself as a food security partner for the region, considering that ASEAN countries are at risk of being food insecure due to climate change and a growing population. This is an opportunity for Canada to promote its agricultural and agri-food products, especially canola products, which are not yet widely used in Southeast Asia as animal feed or as cooking oil. Although the Government of Canada has taken great steps to expand trade with the region in this sector, notably with ongoing FTA negotiations, it should consider initiatives that can reduce non-tariff trade barriers such as building partnerships for knowledge sharing that can provide market research to Canadian exporters and research collaborations that can further establish Canada as a food security partner.

In the natural resources sector, ASEAN countries have rich critical minerals reserves. They also already produce an important amount of critical minerals globally and are increasing their refining abilities. However, through the Canadian Critical Minerals Strategy, the federal government has already committed a substantial amount into developing domestic extraction and refining capabilities. As part of the IPS, it has also committed \$13.5 million to expand natural resources ties with Singapore, Indonesia and other countries in the Indo-Pacific. At this time, it would be more important for Canada to focus on critical minerals domestically rather than divert this investment abroad.

In the manufacturing sector, ASEAN's capabilities have grown significantly and there are signs that Southeast Asia will continue to develop those capabilities, especially in green technology manufacturing, such as solar panels, and semiconductor manufacturing. ASEAN currently produces many of the electrical machinery and equipment that Canada needs. But Canada

may be in competition with other major economic partners of ASEAN that are currently major importers of similar products. The federal and provincial governments should consider incentives for Canadian investors to increase FDI into ASEAN countries and formal agreements similar to a FIPA, to not only protect Canadian investors but also allow them to compete on a level playing field with domestic investors. The CPTPP could be an option given that it has a chapter that could benefit many investors. Supporting other ASEAN countries ascension to the CPTPP could also be a show of diplomatic goodwill that can pay off later for Canada.

Since the scope of this paper is limited to strategic trade sectors vulnerable to Chinese economic restrictions, there is room for future studies on Canada's vulnerability in other sectors or aspects of trade. One such aspect could be digital trade, how to improve digital trade with ASEAN and concrete measures the Government of Canada can implement to help Canadian small and medium enterprises be able to reach this market.¹⁸⁷

Overall, to expand trade and deepen relations with ASEAN, Canada needs to take into account the delicate nature of ASEAN's connection to and economic dependence on China, and how that might factor into its foreign policy decisions. ASEAN's desire is to remain neutral and ensure that the Indo-Pacific is a region of cooperation rather than rivalry. Although the public in Southeast Asia is worried of China's growing influence in the region, their opinion is split between the two rival powers. Democratic powers perceived to be more autonomous from the U.S. such as the European Union, Japan and India are the preferred "third parties" that ASEAN would want to partner with to hedge against the U.S.-China rivalry, over closer American allies such as Australia and the United Kingdom, members of AUKUS. Taking these sentiments into consideration,

¹⁸⁷ Hampson et al., 'Strategic Reflections: APF Canada Analysis of Canada's Indo-Pacific Strategy One Year After Implementation'.

Canada should keep in mind the impact that its political actions could have on the perception of ASEAN leaders, and potential negative repercussions on the trade relations.

Canada should focus its energy on partnering with ASEAN in the non-traditional sense of security such as food security, economic security and supply chain resilience, and climate security, as it has already done through FinDev funding programs for infrastructure, and other development initiatives.

Ultimately, the success of the IPS and Canada's ability to expand trade with ASEAN hinges on Canada being able to overcome its past reputation as a "fair-weather friend" to ASEAN and show that it can commit to a long-term partnership despite changes in domestic political leadership.