



THE ASEAN ADVANTAGE

Exploring Canada's
Trade Potential

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TABLE OF CONTENTS

EXECUTIVE SUMMARY	4
SECTION 1: ASEAN OVERVIEW	7
ASEAN: An Overlooked Growth Story	7
Canada and ASEAN: Blowing Hot and Cold	7
ASEAN's Members	16
Brunei	16
Cambodia	17
Indonesia	17
Laos	19
Malaysia	20
Myanmar	21
Philippines	23
Singapore	24
Thailand	26
Vietnam	28
SECTION 2: BUSINESS OUTLOOK	30
The Case for a Trade Agreement	30
Case Studies	32
Agrocorp	33
Canadian Solar	34
Canadian National Railway (CN)	34
Hatfield Consultants	35
Manulife	36
OpenText	38
Pacific Oil and Gas	39
United Overseas Bank	40
Conclusion	41
SECTION 3: FIVE PROMISING SECTORS	43
Agriculture and Agri-Food (Including Fish and Seafood)	43
Natural Resources and Related Products	44
Industrial Machinery and Equipment	46
Infrastructure, Transport and Aerospace	47
Services	49
Conclusion	51

SECTION 4: BENEFITS OF A FREE TRADE AGREEMENT	52
Lessons from Australia and New Zealand	52
The Macroeconomic Impact	53
Sectoral Impacts	54
Additional Benefits	55
SECTION 5: NEXT STEPS	56
Recommendations	57
Conclusion	58
LIST OF ABBREVIATIONS	59
APPENDIX	60
SOURCES	61
PARTNERSHIP AND ACKNOWLEDGEMENTS	64
ABOUT THE ASIA PACIFIC FOUNDATION OF CANADA	65
ABOUT THE BUSINESS COUNCIL OF CANADA	66
ABOUT THE CANADA-ASEAN BUSINESS COUNCIL	67
ABOUT THE INSTITUTE OF ASIAN RESEARCH	68
CABC'S PATRON MEMBERS AND REPORT PARTNER	69

EXECUTIVE SUMMARY

THIS YEAR MARKS the 40th anniversary of the first formal meeting between Canada and the Association of Southeast Asian Nations (ASEAN). The 10 ASEAN economies have evolved dramatically since then, and today rank among some of the most promising markets in the world. In August 2016, looking ahead to this 40th year of partnership – and with a view to enhancing the relationship through trade ties – Canada and ASEAN announced a joint study on the feasibility of a free trade agreement.

The Asia Pacific Foundation of Canada, the Canada-ASEAN Business Council, the Business Council of Canada, and the University of British Columbia have worked together on this report in anticipation of the government-led feasibility study. Our purpose has been to put forward recommendations for a Canada-ASEAN pact and to detail the economic benefits that would flow from such an agreement if it is reached.

Canada needs a renewed trade strategy for Asia, one that positions Canadian exporters to capture a greater share of the region's demand for imports. Asia is home to the world's second- and third-largest economies, China and Japan respectively, as well as many of the world's fastest-growing economies. According to the International Monetary Fund, six of the 10 fastest growing economies in 2016 were in Asia. Of those, three are members of ASEAN: Cambodia, Myanmar and Laos. Asia is also home to some of the world's most populous countries. In total, more than half of the world's population resides in the continent.

Asia's impressive rate of economic growth has given rise to a large and consistently expanding middle class. EY estimates that by 2030, some two-thirds of the global middle class will reside in Asia, compared to just 28 per cent in 2009.

Despite the region's importance to the global economy, Asia-Pacific nations collectively account for only 17 per cent of Canada's goods trade and 11 per cent of Canada's services trade. There is a broad consensus in Canada in favour of strengthening commercial ties with the region; the question is how. In our view, an essential element in any such strategy is to secure a deeper partnership with ASEAN, taking advantage of its status as a trade-friendly region with high levels of economic integration and a burgeoning middle class.

Our research suggests that a Canada-ASEAN Free Trade Agreement ("CAFTA") could potentially generate between C\$4.8-billion and C\$10.9-billion in additional bilateral trade, benefiting a wide range of companies and many millions of workers. Such an agreement would also bolster Canada's competitive position in the ASEAN region.

It would give Canadians, and Canadian companies, an advantage over rivals in countries that lack similar market access. At a time when protectionist sentiment is rising in many parts of the world, Canada and ASEAN should seize this opportunity to burnish their reputations as forward-looking and trade-friendly partners, while leveraging their respective economic complementarities for increased domestic growth.

At the risk of stating the obvious, a stronger, more formal partnership with the ASEAN region would help Canada achieve its longstanding goal of greater trade diversification. The United States currently accounts for 64 per cent of Canada's goods trade and 54 per cent of its services trade. This heavy dependence creates economic as well as political risks. Enhanced trade flows with ASEAN would help to mitigate this exposure.

This main body of this report is divided into five sections:

SECTION 1: ASEAN OVERVIEW – This section outlines the current state of Canada's relationship with ASEAN. It includes brief snapshots of the 10 member states, their level of economic development, and their respective trade relationships with Canada.

SECTION 2: BUSINESS OUTLOOK – This section summarizes the business climate for Canadian and ASEAN companies based on the 2016 Canada-ASEAN Business Outlook Survey. The survey shows widespread optimism among businesses, as well as strong support for a free trade agreement. The section also includes case studies of Canadian businesses that now operate in the ASEAN region, as well as ASEAN businesses that operate in Canada.

SECTION 3: FIVE PROMISING SECTORS – This section looks at five broad sectors that offer significant opportunities for Canadian exporters: agriculture and agri-food; natural resources and derived products; industrial goods; infrastructure, transportation and aerospace; and services.

SECTION 4: BENEFITS OF A FREE TRADE AGREEMENT – This section presents the results of an economic modeling exercise by Ciuriak Consulting Ltd. It seeks to quantify the potential benefits of a Canada-ASEAN FTA based on the 2012 free trade agreement between ASEAN, Australia and New Zealand – ASEAN’s most ambitious trade agreement to date. The model shows benefits for Canadian GDP, employment, and wages over the 10 years following the implementation of the agreement. The model shows that two-way trade flows between Canada and ASEAN would expand by C\$4.8 billion. Taking into account the expected reductions in bilateral uncertainty engendered by a CAFTA, potential trade growth could reach as much as C\$10.9 billion. Most of this trade growth would be concentrated in industrial goods, followed by agriculture and natural resources.

SECTION 5: NEXT STEPS – This section outlines a number of policy recommendations, the most important of which is for Canada to seek a trade agreement with ASEAN that exceeds the level of market access obtained by Australia and New Zealand. Canada should not miss the opportunity to benefit from such a large, growing marketplace.

As organizations committed to our country’s success in the global economy, we look forward to working with the federal government and with other stakeholders in pursuit of a deeper, more beneficial Canada-ASEAN relationship.

SECTION 1

ASEAN OVERVIEW

ASEAN: AN OVERLOOKED GROWTH STORY

The engine of the world's economy is shifting from the West to the East. The International Monetary Fund expects that the Asia-Pacific region's share of global GDP will soar from 29 per cent in terms of purchasing power parity in 2001 to 45 per cent, or almost half, in 2021. ¹

While China and India often get the credit for Asia's new status as a global powerhouse, the Association of Southeast Asian Nations (ASEAN) is also a major driver of the transformation.

ASEAN is a regional grouping made up of 10 countries—Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam—with varying political, economic and socio-cultural systems. If ASEAN were a single country, its annual output of US\$2.5 trillion would make it the world's seventh-largest economy, and its 600 million people would constitute the world's third-largest labour force. ²

CANADA AND ASEAN: BLOWING HOT AND COLD

Since Canada began taking an interest in the region in the 1970s, the two sides have notched up some significant diplomatic, commercial and socio-cultural achievements. But Ottawa's shifting priorities over the past 40 years have led to an inconsistent approach towards ASEAN and its members.

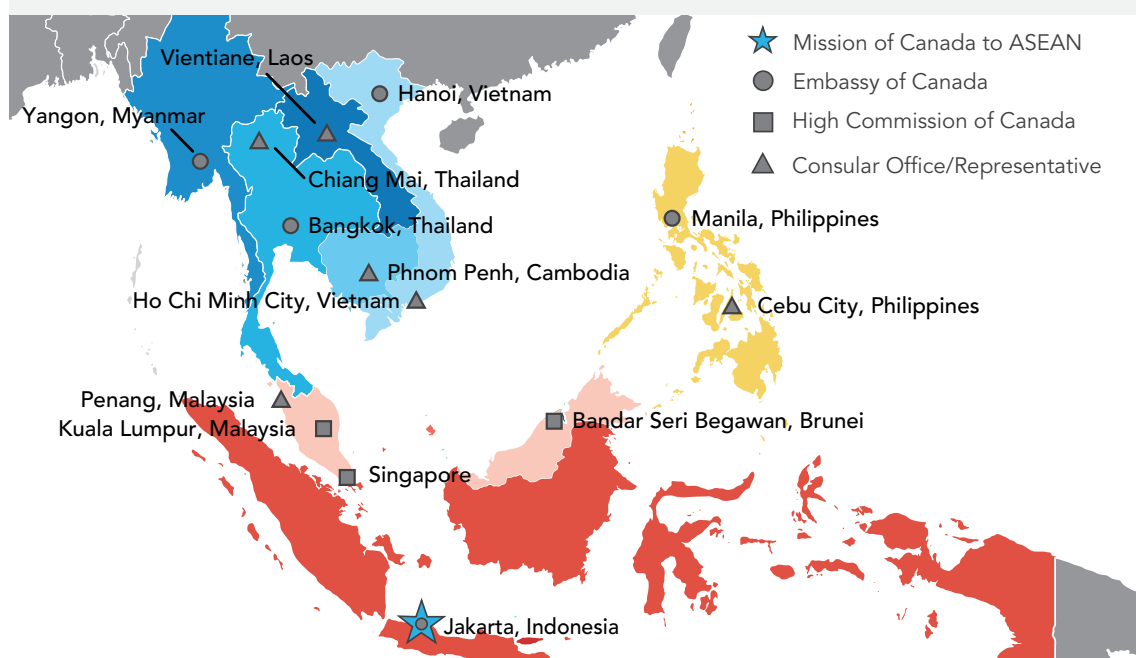
Highlights include strong people-to-people ties and Canada's stand-out role in development assistance. Most recently, Ottawa has assigned a dedicated ambassador to ASEAN, in addition to diplomatic representation in all 10 member countries. These initiatives, reinforced by various targeted business groupings and chambers of commerce (notably, the Canada-ASEAN Business Council), have raised Canada's profile in the region.

¹ International Monetary Fund, World Economic Outlook Database October 2016 Edition.

² McKinsey, Understanding ASEAN: Seven Things You Need to Know.

FIG. 1

Canada's Diplomatic Presence in ASEAN, 2017



Source: Global Affairs Canada

Canada's two-way trade with the ASEAN countries totalled C\$26 billion in 2015, making the region Canada's sixth-largest trading partner—behind Japan but ahead of South Korea.³ Two-way direct investment has been more modest, with total investment stock standing at C\$11 billion in 2015, or 0.6 per cent of Canada's total.⁴

Ottawa has actively sought to expand trade with the region. It is currently conducting exploratory talks on free trade agreements with the Philippines and Thailand, carrying out a feasibility study on a pan-ASEAN pact, and a bilateral negotiation with Singapore (currently dormant). Canada has also signed the Trans-Pacific Partnership (TPP), which includes Brunei, Malaysia, Singapore and Vietnam. The TPP's future is uncertain following President Donald Trump's decision in January 2017 to pull the U.S. out of the agreement.

On the other hand, Canada faces the reality that the ASEAN members' trade and foreign investment ties centre on each other, as well as on the region's other economies, notably Australia, China, India, Japan, South Korea and New Zealand, known as ASEAN+6. Not only is Canada far away, but it does not have the advantage of a free trade agreement with either ASEAN or any of its members.

³ Innovation, Science and Economic Development Canada, Trade Data Online.

⁴ Statistics Canada, CANSIM 376-0051.

FIG. 2

ASEAN's Top Two-Way Trading Partners (2015)

Top Ten (USD)	1	Japan	2.6B	China	4.3B	China	44B	China	59.3B
	2	S. Korea	1.3B	U.S.	2.4B	Japan	31B	Singapore	49B
	3	Malaysia	976M	Thailand	2B	Singapore	30.6B	U.S.	33B
	4	Singapore	674M	Vietnam	1B	U.S.	24B	Japan	32.7B
	5	Thailand	670M	Japan	995M	Malaysia	16.2B	Thailand	22B
	6	India	612M	U.K.	900M	S.Korea	16.1B	Taiwan	15.5B
	7	Taiwan	463M	Hong Kong	896M	India	14.5B	Indonesia	15.4B
	8	China	433M	Germany	855M	Thailand	13.5B	S.Korea	14B
	9	U.S.	384M	Taiwan	663M	Australia	8.5B	Hong Kong	12.4B
	10	New Zealand	337M	S. Korea	597M	Taiwan	8B	India	12B
		Brunei		Cambodia		Indonesia		Malaysia	

Top Ten (USD)	1	Japan	19B	China	90B	China	64B	China	66B
	2	China	18B	Malaysia	71B	Japan	51B	U.S.	41B
	3	U.S.	16B	U.S.	57B	U.S.	38B	S.Korea	36B
	4	Singapore	8.5B	Indonesia	43B	Malaysia	22B	Japan	28B
	5	Hong Kong	8B	Hong Kong	42B	Singapore	16B	Taiwan	13B
	6	Taiwan	7.6B	Taiwan	39B	Indonesia	14B	Thailand	11B
	7	S.Korea	7B	Japan	34B	Australia	13.8B	Singapore	9B
	8	Thailand	6.7B	S. Korea	33B	Hong Kong	13B	Germany	8.9B
	9	Germany	5B	Thailand	22B	Vietnam	12.7B	Hong Kong	8.2B
	10	Malaysia	4.5B	India	16B	U.A.E.	11B	Malaysia	8B
		Philippines		Singapore		Thailand		Vietnam	

Source: UN Comtrade

Canada faces some major challenges as it seeks to strengthen economic ties with ASEAN. It remains out of the mainstream, as evidenced by its exclusion from some crucial regional initiatives, like the East Asia Summit, the ASEAN Defence Ministers' Meeting-Plus, and the Regional Comprehensive Economic Partnership, known as RCEP.

For its part, Canada is currently preoccupied with what it deems to be higher priorities, such as renegotiating the North American Free Trade Agreement (NAFTA) and exploring a bilateral trade deal with China.

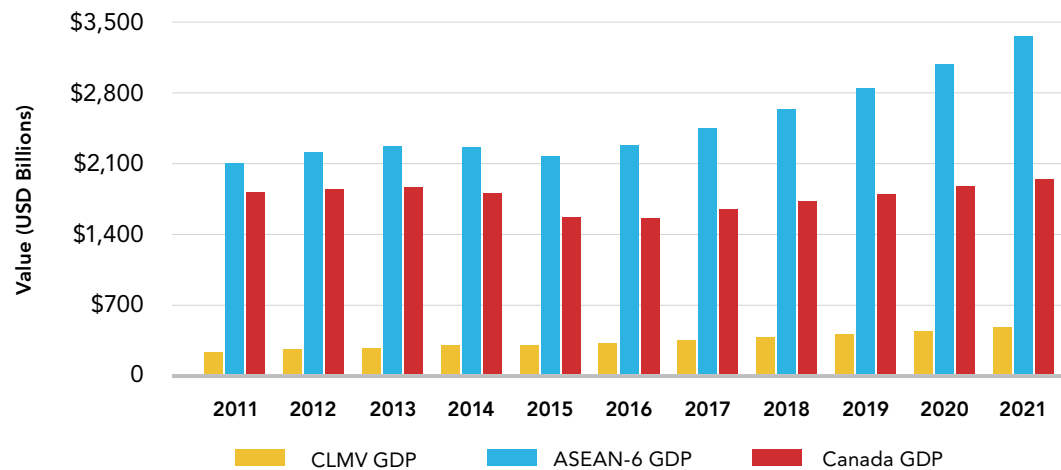
Even so, ASEAN, as a fast-growing dynamic market, deserves serious consideration. A free trade deal with the region would not only contribute to jobs and economic growth in Canada, but also to a higher Canadian profile in an increasingly important part of the world. Liberalized trade and investment would help Canada build its credibility in the region and expand its involvement in other Asia-Pacific initiatives.

While an ASEAN trade agreement would not match the TPP's reach or coverage, it could include provisions that would allow Canada to take part in broader trade liberalization initiatives concluded by ASEAN. Canada should also consider pursuing bilateral deals with individual ASEAN members to improve its preferential access, as several ASEAN+6 countries have done.

In other words, we need to consider how to strengthen relations not only with the region as a whole, but also with each of the 10 member economies.

FIG. 3

ASEAN and Canada GDP in Current Prices, 2011–2021



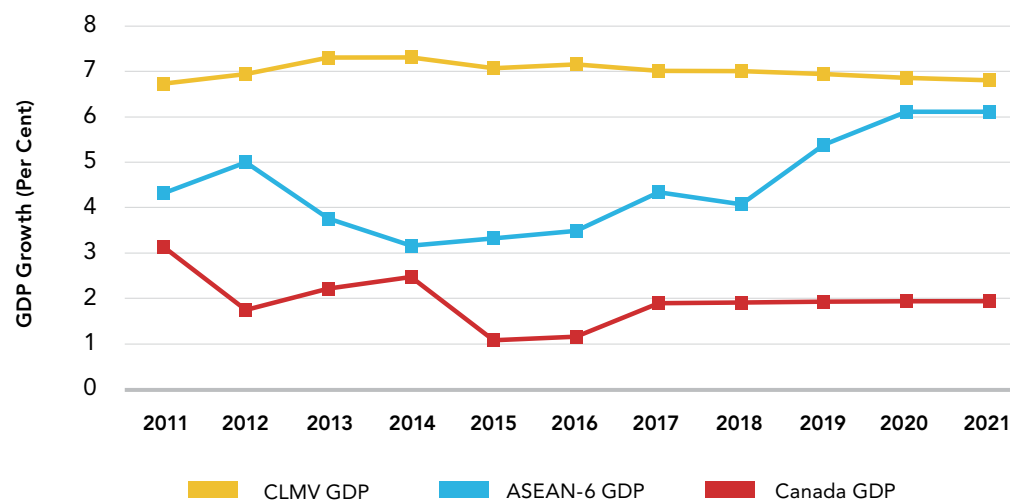
Source: International Monetary Fund, World Economic Outlook Database, October 2016 Edition

Note 1: CLMV refers to Cambodia, Laos, Myanmar, and Vietnam

Note 2: ASEAN-6 refers to Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand

FIG. 4

ASEAN and Canada GDP Growth in Constant Prices, 2011–2021



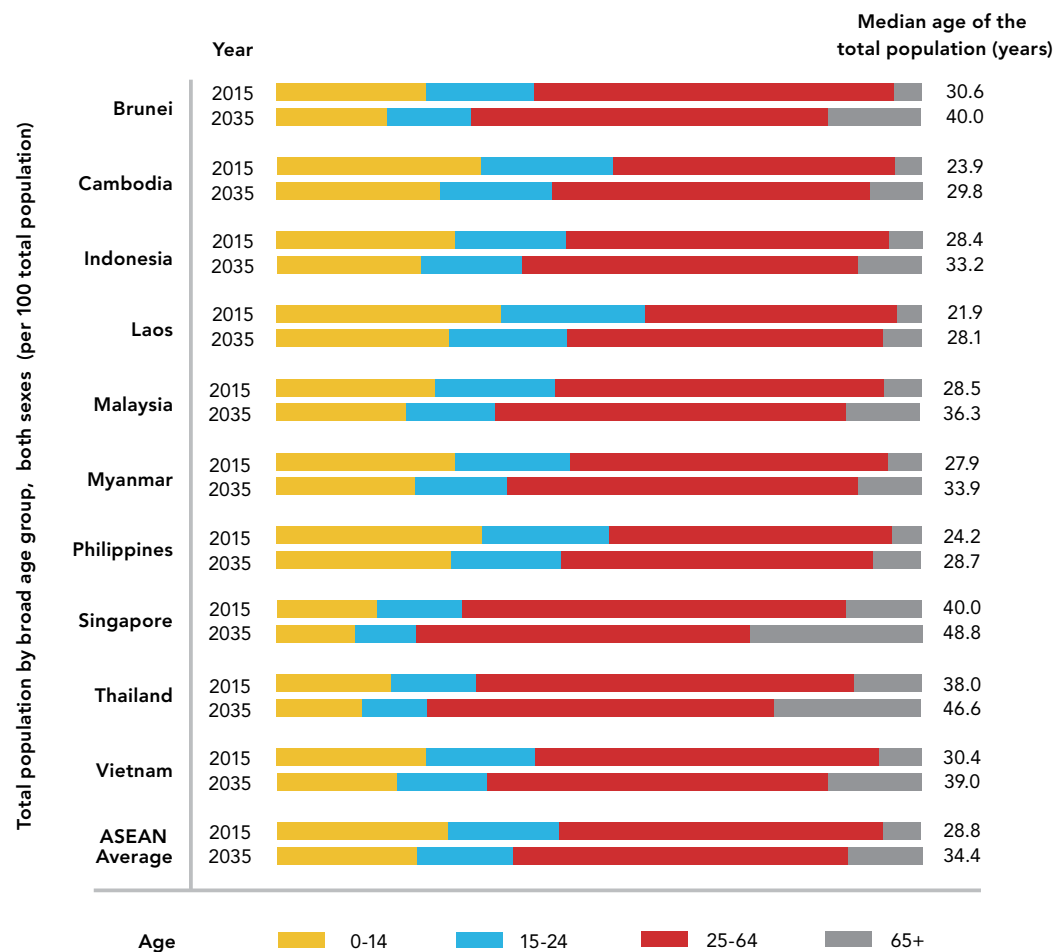
Source: International Monetary Fund, World Economic Outlook Database, October 2016 Edition

Note 1: CLMV refers to Cambodia, Laos, Myanmar, and Vietnam

Note 2: ASEAN-6 refers to Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand

FIG. 5

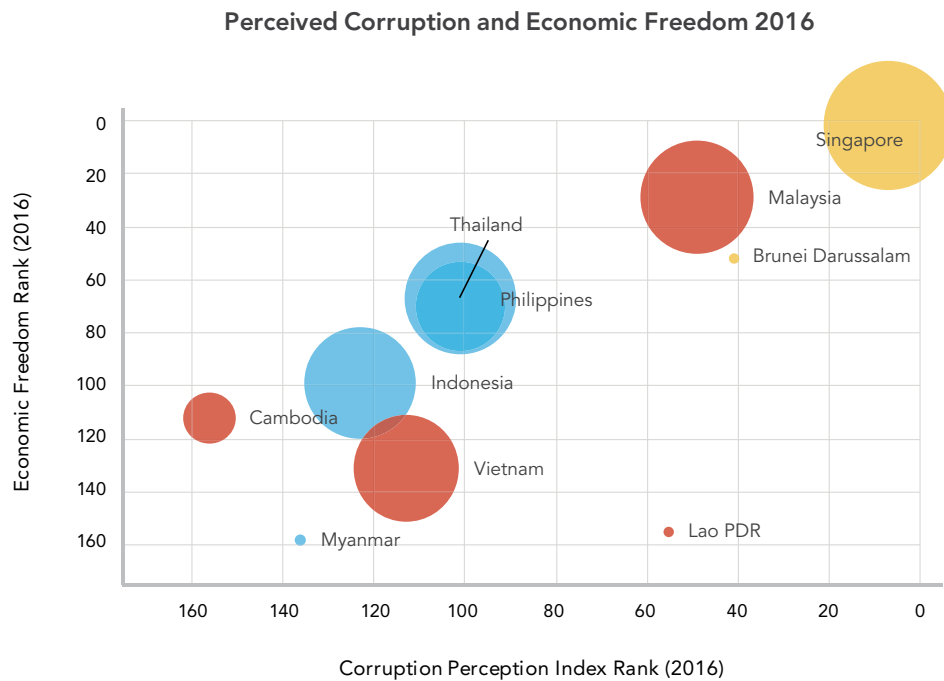
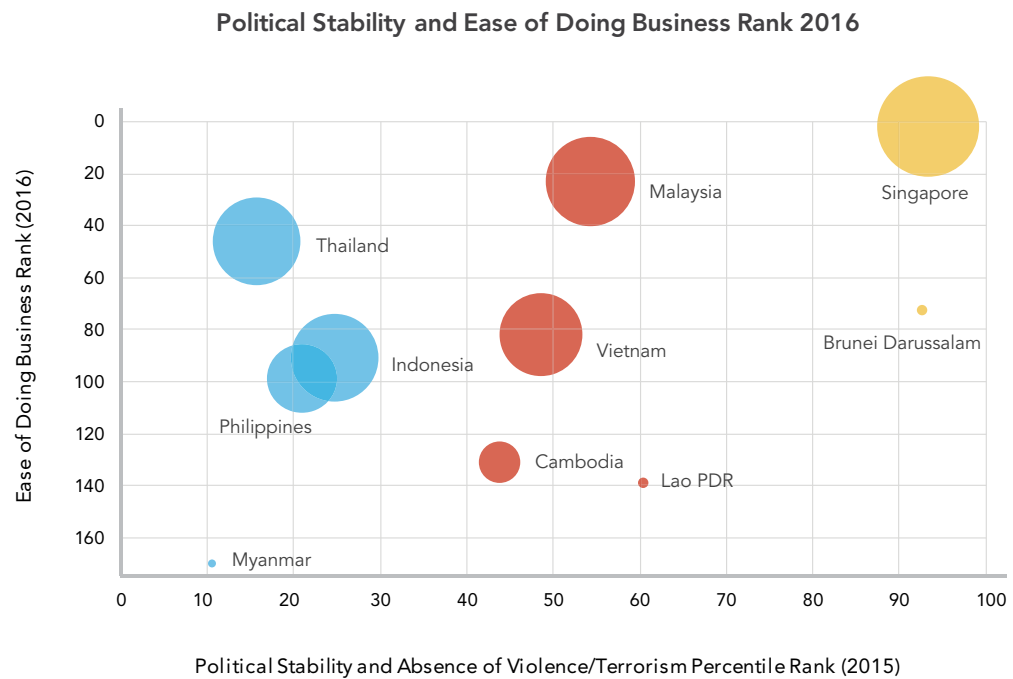
ASEAN Population Demographics, 2015 and 2035



Source: United Nations Population Division, Department of Economic and Social Affairs

FIG. 6

ASEAN Business Environment



Source: The Heritage Foundation; 2017 Index of Economic Freedom
Transparency International; Corruption Perceptions Index 2016

FIG. 7

Canada-ASEAN People-to-People Ties

ASEAN into Canada

	Immigrants (2015)	Students (2006-2015 yearly average)	Ethnic Origin (2011)	Tourism (2015)
Brunei	9	11	N/A	489
Cambodia	205	139	34,340	801
Indonesia	377	691	18,125	24,391
Laos	19	11	22,090	188
Malaysia	332	573	14,165	12,668
Myanmar	439	37	7,845	563
Philippines	50,846	1,151	662,600	63,900
Singapore	255	266	2,050	33,362
Thailand	484	828	15,080	16,579
Vietnam	2,591	1,885	220,425	10,914

Canada into ASEAN

Brunei	188 (2011)	1	2,245
Cambodia	N/A	N/A	56,834
Indonesia	N/A	N/A	75,816
Laos	N/A	N/A	19,785
Malaysia	N/A	104	79,550
Myanmar	N/A	N/A	14,050
Philippines	4,731 (2010)	N/A	156,363
Singapore	N/A	N/A	135,900
Thailand	500 (2015)	24	227,300
Vietnam	N/A	1	105,670

Immigrants
Students
(2015)
Tourism
(2015)

Source: ASEAN into Canada

Immigrants - Immigration, Refugees and Citizenship Canada; Permanent Residents by Source Country

Students - Immigration, Refugees and Citizenship Canada; Study Permit Holders

Ethnic Origin - Statistics Canada 2011 National Household Survey, total generation status and both single and multiple

Tourism - UN World Tourism Organization

Canada into ASEAN

Immigrants - UN Data; Foreign population (non-citizens) by country of citizenship

Students - UNESCO Institute for Statistics

Tourism - UN World Tourism Organization

ASEAN'S MEMBERS

ASEAN's 10 member states are at various stages of development, and their engagement with Canada varies significantly. Below are snapshots of each economy, and an assessment of the opportunities it presents to Canada.

BRUNEI

Country overview

The small but oil-rich country of Brunei is located on the island of Borneo. Its population of 437,000 enjoys one of the highest living standards in the world. Citizens do not pay personal income tax and derive generous government benefits from the country's oil and gas income.

The oil and gas industry make up more than 60 per cent of Brunei's GDP. The economy has struggled recently, posting negative growth for five of the eight years up to 2015.⁵ However, the economy grew slightly in 2016, with the pace expected to accelerate until at least 2021. Total GDP at current prices is US\$10.5 billion.⁶

Political and diplomatic ties with Canada

The two countries established diplomatic relations in 1984 on Brunei's independence from Britain. The relationship is mostly focused on trade, with little tourism or immigration between the countries.

Economic relations with Canada

Two-way trade in goods totalled C\$7.3 million in 2015,⁷ making Canada Brunei's 27th-largest trading partner, behind Mexico and ahead of Belgium.⁸ Brunei relies heavily on Canada for imports of yarn (95 per cent), soybeans (91 per cent), aircraft launching gear (54 per cent), and silver (27 per cent). However, the total value of these goods imported from Canada was only C\$725,000.⁹

Two-way investment is also minuscule. In 2015, direct Canadian investment in Brunei stood at an estimated C\$3 million.¹⁰ Information on Brunei investment in Canada is not available.

⁵ World Bank Open Data

⁶ International Monetary Fund, World Economic Outlook Database October 2016 Edition.

⁷ Innovation, Science and Economic Development Canada, Trade Data Online.

⁸ UN Comtrade Database.

⁹ Ibid.

¹⁰ Statistics Canada, CANSIM 376-0051.

CAMBODIA

Country overview

Relative stability has returned to Cambodia over the past two decades after much political and economic turmoil in the 1970s and 1980s. However, widespread poverty remains.

Cambodia's economy is broadly spread between agriculture (28 per cent of GDP), industry (29.5 per cent) and services (42 per cent). ¹¹ Growth has been steady at around seven per cent annually over the past few years, and is projected to continue at roughly this rate until 2021. GDP totalled US\$19.4 billion in 2016. ¹²

Political and diplomatic ties with Canada

Canada has a long bilateral relationship with Cambodia, stretching back to 1953. However, ties at an individual level are relatively weak, with an average of only 291 Cambodians arriving in Canada as permanent residents each year from 2006 to 2015. ¹³

Economic relations with Canada

Two-way trade in goods totalled C\$1.1 billion in 2015, ¹⁴ with Canada ranking as Cambodia's 11th-largest trading partner. ¹⁵ While Canada's share of Cambodian imports is very small at only 0.03 per cent, its share of Cambodia's exports is higher, at 4.7 per cent. ¹⁶ Cambodia received C\$18.4 million in official development aid from Canada in 2015. ¹⁷

INDONESIA

Country overview

Indonesia is Southeast Asia's largest economy and most populous nation with over 258 million people. The country comprises over 17,000 islands spread over the edges of the Indian and Pacific oceans. Despite a past marked by Dutch colonization followed by martial law and dictatorships, Indonesia has developed into a democratic republic in recent decades.

¹¹ World Bank Open Data.

¹² International Monetary Fund, World Economic Outlook Database October 2016 Edition.

¹³ Immigration, Refugees and Citizenship Canada, CR-17-0002.

¹⁴ Innovation, Science and Economic Development Canada, Trade Data Online.

¹⁵ UN Comtrade Database.

¹⁶ International Trade Centre, International Trade Statistics.

¹⁷ Canadian International Development Platform.

The economy is based mainly on agriculture (13.5 per cent of GDP), industry (40 per cent) and services (43.5 per cent). ¹⁸ It has been on a steady growth trajectory after a significant setback during the Asian financial crisis of the late 1990s. GDP was estimated at US\$940 billion in 2016, and is projected to reach US\$1.4 trillion (at current prices) by 2021. ¹⁹

Political and diplomatic ties with Canada

The relationship between Canada and Indonesia spans more than 60 years. Canada's embassy in Jakarta also houses the ambassador to ASEAN. Considering the size of Indonesia's population, people-to-people ties between the two countries are relatively weak. An average of only 511 Indonesians immigrated to Canada each year between 2006 and 2015. ²⁰

Economic relations with Canada

Two-way trade in goods totalled C\$3.5 billion in 2015, ²¹ making Canada Indonesia's 22nd-largest trading partner, just behind France and ahead of Pakistan. ²² Canada's share of Indonesia's imports has remained stagnant at slightly over one per cent for the past decade, and there is room for expansion. ²³ Similarly, in 2015, Canada accounted for just 0.48 per cent of Indonesia's exports.

Two-way trade in services has grown steadily over the past decade. Canadian exports of services totalled C\$251 million in 2015 while imports of services were C\$160 million, giving a services trade surplus of C\$92 million. ²⁴

Canadian investment in Indonesia has increased gradually over the past decade, to the point where Indonesia is the largest destination in the ASEAN region. Direct investment stock from Canada almost doubled from C\$2.3 billion in 2006 to C\$4.1 billion in 2015. ²⁵ Data on Indonesian investment in Canada is not available.

In 2015, Indonesia was Canada's second-largest recipient of international assistance among ASEAN members, receiving C\$35.5 million in bilateral and multilateral aid. ²⁶ The amount of Canada's international assistance given to Indonesia has slowly declined in the past few years from C\$47.7 million in 2012.

¹⁸ World Bank Open Data.

¹⁹ International Monetary Fund, World Economic Outlook Database October 2016 Edition.

²⁰ Immigration, Refugees and Citizenship Canada, CR-17-0002.

²¹ Innovation, Science and Economic Development Canada, Trade Data Online.

²² UN Comtrade Database.

²³ International Trade Centre, International Trade Statistics.

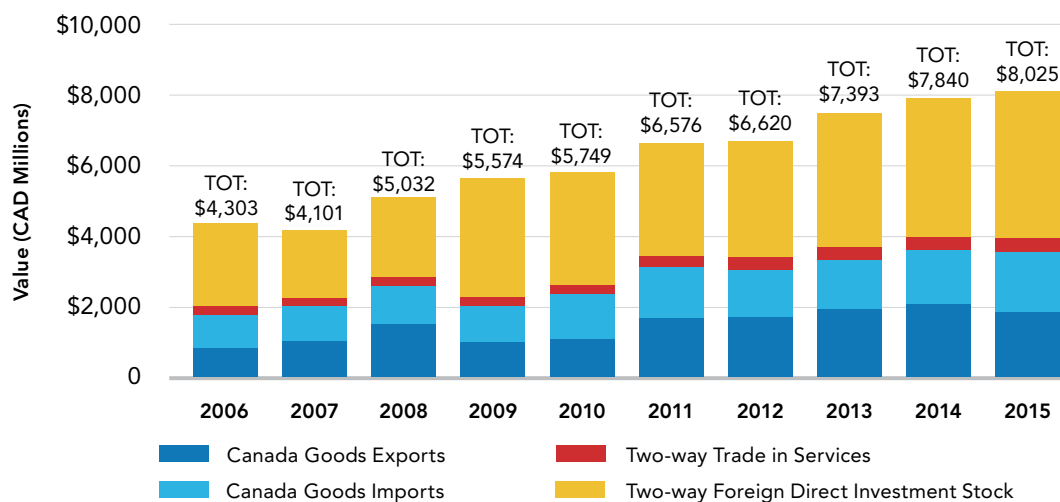
²⁴ Statistics Canada, CANSIM 376-0036.

²⁵ Statistics Canada, CANSIM 376-0051.

²⁶ Canadian International Development Platform.

FIG. 8

Canada-Indonesia Economic Relations, 2006–2015



Source: Trade Data Online (ISED), CANSIM 376-0036, and CANSIM 376-0051

LAOS

Country overview

Laos's economy is balanced between agriculture (27 per cent of GDP), industry (31 per cent) and services (42 per cent).²⁷ This is a marked change from the mid-1990s, when the economy tilted heavily towards agriculture. GDP growth was 7.2 per cent in 2016, and is expected to remain over seven per cent for the next five years. Laos's GDP totalled US\$14.8 billion in 2016, at current prices.²⁸

Political and diplomatic ties with Canada

The two countries established bilateral relations in 1954 when Laos gained independence from France. Over 22,000 Canadians said they were of Laotian origin in the 2011 census.²⁹ However, an average of only 37 Laotians arrived in Canada as permanent residents each year from 2006 to 2015.³⁰

Economic relations with Canada

Two-way trade in goods between Canada and Laos amounted to C\$29.6 million in 2015.³¹ Canada's share of Laos's imports was a minuscule 0.08 per cent.³² Laos received C\$9.2 million in official development aid from Canada in 2015.³³

²⁷ World Bank Open Data.

²⁸ International Monetary Fund, World Economic Outlook Database October 2016 Edition.

²⁹ 2011 Census of Canada.

³⁰ Immigration, Refugees and Citizenship Canada, CR-17-0002.

³¹ Innovation, Science and Economic Development Canada, Trade Data Online.

³² International Trade Centre, International Trade Statistics.

³³ Canadian International Development Platform.

MALAYSIA

Country overview

Malaysia is a mid-sized, multi-ethnic country located at the southern tip of the Malay Peninsula. Malaysia established a federal constitutional monarchy after gaining independence from Britain.

Although the economy has performed strongly in recent decades, GDP growth has slowed over the past few years, from 6 per cent in 2014 to 4.3 per cent in 2016. The growth rate is expected to rebound to five per cent in 2020. The economy is heavily based on the service and industry sectors, at 44.3 and 39.1 per cent of GDP, respectively. ³⁴ Total GDP stood at an estimated US\$302.8 billion in 2016, at current prices. ³⁵

Political and diplomatic ties with Canada

Canada and Malaysia set up diplomatic ties in 1957, when Malaysia was newly independent. The people of the two countries have enjoyed strong connections. According to the 2011 census, 14,000 Canadians are of Malaysian origin. ³⁶ An average of 492 Malaysians come to settle and 573 Malaysians come to study in Canada each year from 2006 to 2015. ³⁷ In a 2015 survey on Canadian Views on the Trans-Pacific Partnership by the Asia Pacific Foundation of Canada, about 47 per cent of Canadians favoured a free trade agreement with Malaysia, 34 per cent were opposed, and 18 per cent were undecided. ³⁸

Economic relations with Canada

Two-way goods trade totalled C\$3.4 billion in 2015, ³⁹ with Canada ranking 26th among Malaysia's trading partners, between Belgium and Turkey. ⁴⁰ Even so, Canada has a low share of Malaysia's imports and exports, at just 0.39 per cent for each. ⁴¹

Canada's services exports to Malaysia have grown rapidly over the past decade from C\$146 million in 2006 to C\$481 million in 2015. ⁴² Imports of services, however, have remained flat at around C\$320 million.

³⁴ World Bank Open Data.

³⁵ International Monetary Fund, World Economic Outlook Database October 2016 Edition.

³⁶ 2011 Census of Canada.

³⁷ Immigration, Refugees and Citizenship Canada, CR-17-0002.

³⁸ Asia Pacific Foundation of Canada, 2015 National Opinion Poll: Canadian Views on the Trans-Pacific Partnership.

³⁹ Innovation, Science and Economic Development Canada, Trade Data Online.

⁴⁰ UN Comtrade Database.

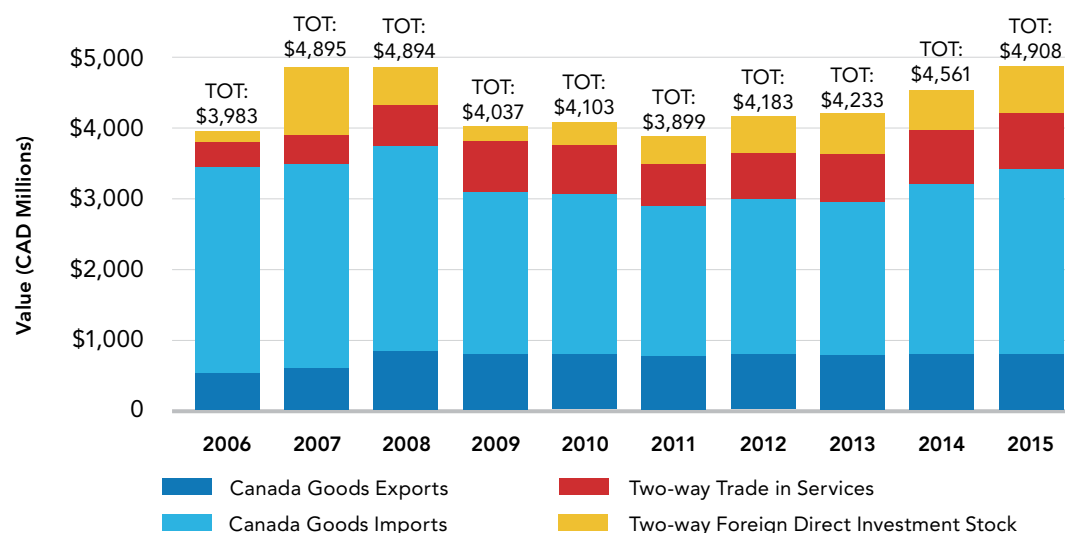
⁴¹ International Trade Centre, International Trade Statistics.

⁴² Statistics Canada, CANSIM 376-0036.

Canada's stock of direct investment in Malaysia dropped from a high of C\$886 million in 2007 to C\$139 million in 2009, but has rebounded since then, reaching C\$666 million in 2015.⁴³ Malaysian investment in Canada reached a high in 2006, at C\$167 million, but has since dropped to only C\$10 million in 2015.

FIG. 9

Canada-Malaysia Economic Relations, 2006–2015



Source: Trade Data Online (ISED), CANSIM 376-0036, and CANSIM 376-0051

MYANMAR

Country overview

Myanmar is a richly diverse country, located on the western edge of Southeast Asia and bordering India, Bangladesh, China, Laos and Thailand.

Myanmar is not only the fastest-growing member of ASEAN, but it is also one of the world's top performers. GDP has soared from US\$16.7 billion in 2006 to US\$68.3 billion in 2016 at current prices, with a growth rate of just over eight per cent last year.⁴⁴ The economy is expected to continue expanding at an annual rate of at least 7.5 per cent for the next five years. The composition of Myanmar's GDP has also changed dramatically. Agriculture made up 60 per cent of total output in 1995, but the economy is more balanced today, with 27.4 per cent of GDP in agriculture, 26.5 per cent in industry and 46 per cent in services.⁴⁵

⁴³ Statistics Canada, CANSIM 376-0051.

⁴⁴ International Monetary Fund, World Economic Outlook Database October 2016 Edition.

⁴⁵ World Bank Open Data.

Political and diplomatic ties with Canada

Canada opened diplomatic relations with Myanmar (then Burma) in 1958, and Myanmar opened an embassy in Ottawa in 1986. Relations suffered during the military regime, and Canada imposed stringent sanctions on the country in 2007 in protest to human rights abuses. Canada's policy on the country began to change in 2011. Sanctions were eased the following year and the embassy was reopened in 2013. The remnants of the military junta ceded power in 2015 after the first national democratic election in decades led to a resounding victory for the National League for Democracy.

People-to-people relations between the two countries are limited. An average of only 722 Myanmar residents a year settled in Canada between 2006 and 2015.⁴⁶

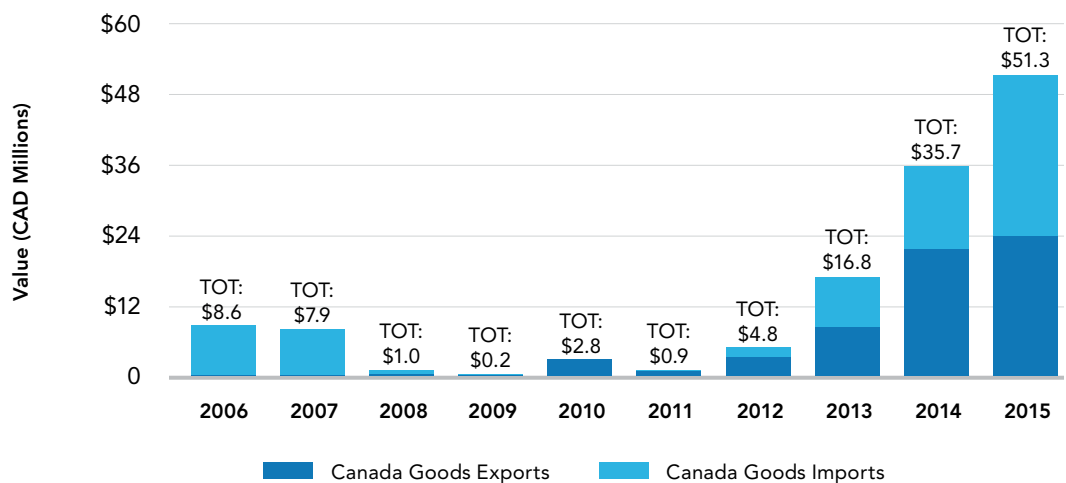
Economic relations with Canada

Two-way trade in goods between Canada and Myanmar totalled C\$51.3 million in 2015.⁴⁷ Little information is available on Canada's current share of imports and exports.

Myanmar was Canada's fourth-largest recipient of international assistance among ASEAN members in 2015, receiving C\$20.7 million in bilateral and multilateral aid.⁴⁸ The amount of Canada's international assistance given to Myanmar spiked from 2013 (C\$9.9 million) to 2014 (C\$48.3 million), coinciding with Myanmar being labeled a country of focus for Canadian ODA, and then dropped in 2015.

FIG. 10

Canada-Myanmar Economic Relations, 2006–2015



Source: Trade Data Online (ISED)

⁴⁶ Immigration, Refugees and Citizenship Canada, CR-17-0002.

⁴⁷ Innovation, Science and Economic Development Canada, Trade Data Online.

⁴⁸ Canadian International Development Platform.

PHILIPPINES

Country overview

The Philippines has the second-largest population among ASEAN members at over 102 million. The economy relies mainly on services (58.8 per cent of GDP), followed by industry (30.8 per cent) and agriculture (10.2 per cent).⁴⁹ Growth has been strong over the past few years, reaching 6.7 per cent in 2016. The economy is expected to grow at a similar rate in the next four years, reaching 7 per cent in 2020. Total GDP was estimated at US\$311.7 billion, at current prices, in 2016.⁵⁰

Political and diplomatic ties with Canada

Canada has strong relations with the Philippines, centred on migration. The Philippines has been a top source of immigrants to Canada in recent years. Over 50,000 Filipinos immigrated to Canada in 2015, most as economic migrants.⁵¹ About 660,000 people of Filipino origin are now living in Canada,⁵² and about 4,700 Canadians live in the Philippines.⁵³ In a 2015 survey on Canadian Views on the Trans-Pacific Partnership by the Asia Pacific Foundation of Canada, most Canadians supported free trade with the Philippines, with 54 per cent in favour, 30 per cent against and 16 per cent unsure.⁵⁴

Economic relations with Canada

Two-way trade in goods amounted to C\$2.2 billion in 2015,⁵⁵ making Canada the Philippines' 18th-largest trading partner, just behind Australia.⁵⁶ Canada's share of Filipino imports has remained steady over the past decade at about 0.6 per cent.⁵⁷ But Canada's share of Filipino exports has grown significantly, almost doubling over the past decade to 0.96 per cent of the total in 2015.

Canada's services trade deficit with the Philippines has grown over the past decade, reaching C\$174 million in 2015.⁵⁸ Exports of services for that year were C\$171 million, while imports totalled C\$345 million.

The Philippines is the number-three destination for Canadian investment in ASEAN, with C\$1.4 billion in direct investment stock in 2015.⁵⁹ Filipino investment in Canada has grown but remains modest, with the stock standing at C\$48 million in 2015.

⁴⁹ World Bank Open Data.

⁵⁰ International Monetary Fund, World Economic Outlook Database October 2016 Edition.

⁵¹ Immigration, Refugees and Citizenship Canada, CR-17-0002.

⁵² 2011 Census of Canada.

⁵³ UN Data.

⁵⁴ Asia Pacific Foundation of Canada, 2015 National Opinion Poll: Canadian Views on the Trans-Pacific Partnership.

⁵⁵ Innovation, Science and Economic Development Canada, Trade Data Online.

⁵⁶ UN Comtrade Database.

⁵⁷ International Trade Centre, International Trade Statistics.

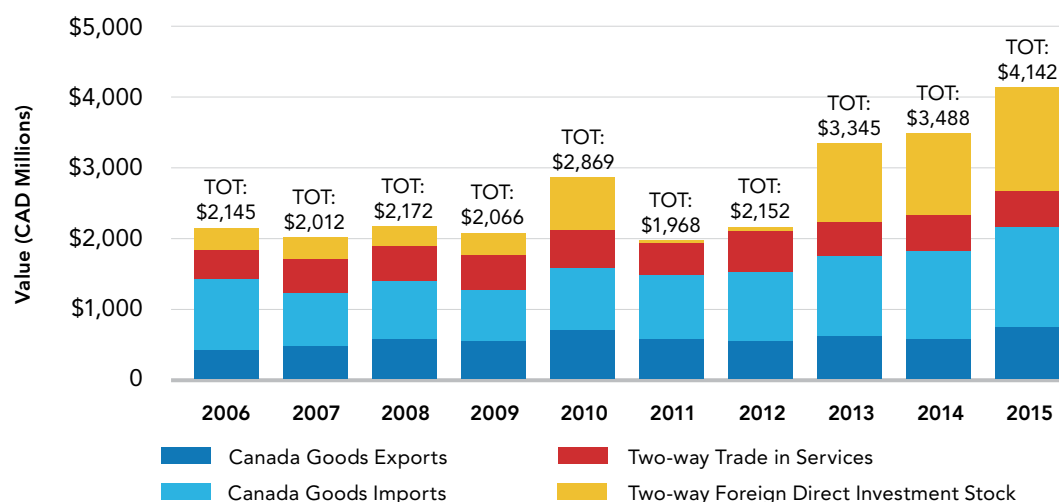
⁵⁸ Statistics Canada, CANSIM 376-0036.

⁵⁹ Statistics Canada, CANSIM 376-0051.

In 2015, the Philippines was Canada's third-largest recipient of international assistance among ASEAN members in 2015, receiving C\$26.2 million in bilateral and multilateral aid. ⁶⁰ The amount of Canada's international assistance given to the Philippines spiked in 2014 (C\$121.8 million); however, this was an anomaly as the average aid from other years between 2011 and 2015 was C\$20.9 million.

FIG. 11

Canada-Philippines Economic Relations, 2006–2015



Source: Trade Data Online (ISED), CANSIM 376-0036, and CANSIM 376-0051

SINGAPORE

Country overview

Singapore's economy is heavily tilted towards services, which make up almost three-quarters of its GDP. ⁶¹ Industry contributes almost all the remaining 25 per cent. GDP at current prices stood at an estimated US\$357.3 billion in 2016. ⁶² GDP growth is expected to remain steady at 2-3 per cent a year over the next few years, and to accelerate to almost 5 per cent by 2022.

⁶⁰ Canadian International Development Platform.

⁶¹ World Bank Open Data.

⁶² International Monetary Fund, World Economic Outlook Database October 2016 Edition.

Political and diplomatic ties with Canada

Canada was one of the first countries to establish diplomatic ties with Singapore after independence from Britain in 1965. Individual relationships between the two countries are largely based on tourism, with 135,900 Canadians visitors in 2015.⁶³ An average of only 384 Singaporeans immigrated to Canada each year from 2006 to 2015.⁶⁴ According to a 2015 survey on Canadian Views on the Trans-Pacific Partnership by the Asia Pacific Foundation of Canada, more than half of Canadians supported a free trade deal with Singapore, and only 28 per cent opposed one.⁶⁵

Economic relations with Canada

Two-way trade in goods totalled C\$2.4 billion in 2015,⁶⁶ with Canada being Singapore's 34th-largest trading partner.⁶⁷ Canada's share of Singapore's foreign trade is low, at just 0.37 per cent of imports and 0.22 per cent of exports.⁶⁸ Both numbers have changed little over the past decade.

Services trade between the two countries has grown slowly. Canada's services exports reached C\$995 million in 2015, while imports stood at C\$1.8 billion, giving a services deficit of C\$785 million.⁶⁹

Canada's direct investment stock in Singapore has remained constant over the past decade. At C\$3.7 billion, Singapore is the number-two ASEAN destination of Canadian investment, after Indonesia.⁷⁰ Meanwhile, Singapore is the top ASEAN investor in Canada, with a direct investment stock of C\$953 million in 2015.

⁶³ United Nations World Tourism Organization.

⁶⁴ Immigration, Refugees and Citizenship Canada, CR-17-0002..

⁶⁵ Asia Pacific Foundation of Canada, 2015 National Opinion Poll: Canadian Views on the Trans-Pacific Partnership.

⁶⁶ Innovation, Science and Economic Development Canada, Trade Data Online.

⁶⁷ UN Comtrade Database.

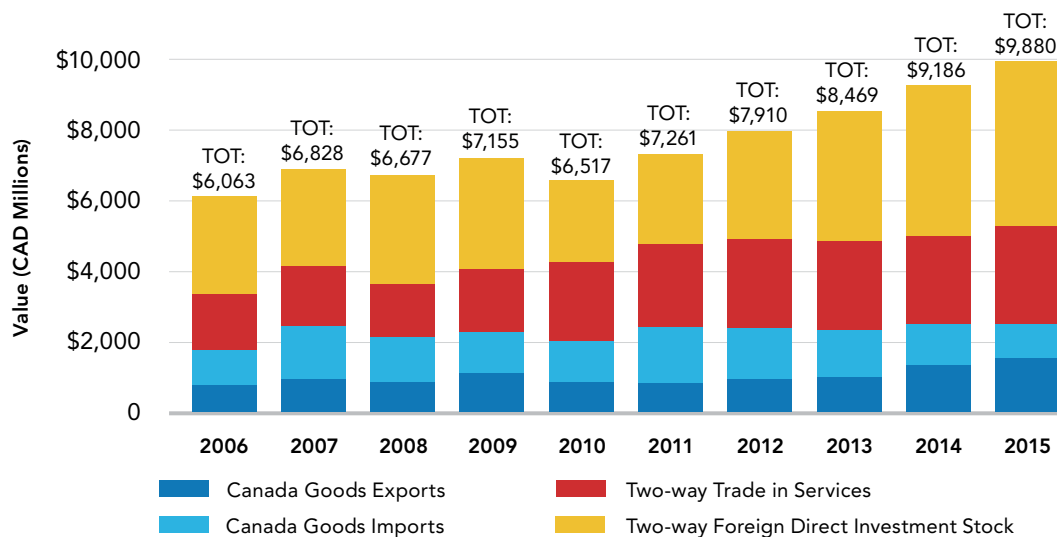
⁶⁸ International Trade Centre, International Trade Statistics.

⁶⁹ Statistics Canada, CANSIM 376-0036.

⁷⁰ Statistics Canada, CANSIM 376-0051.

FIG. 12

Canada-Singapore Economic Relations, 2006–2015



Source: Trade Data Online (ISED), CANSIM 376-0036, and CANSIM 376-0051

THAILAND

Country overview

The services sector makes up more than half (55.1 per cent) of Thailand's GDP, overshadowing industry (35.7 per cent) and agriculture (9.1 per cent).⁷¹ Thailand's growth rate, at 3.2 per cent in 2016, has recently been among the slowest in the region. Total GDP stood at US\$391 billion in 2016, and is expected to top US\$400 billion in 2017 at current prices.⁷²

Political and diplomatic ties with Canada

Canada has had diplomatic relations with Thailand for over 50 years. The people-to-people relationship centres mainly on Canadian tourists visiting Thailand. While 227,300 Canadians visit Thailand each year,⁷³ fewer than 17,000 Thais have come to Canada as tourists and just 470 as immigrants annually over the past decade.⁷⁴

⁷¹ World Bank Open Data

⁷² International Monetary Fund, World Economic Outlook Database October 2016 Edition.

⁷³ United Nations World Tourism Organization.

⁷⁴ Immigration, Refugees and Citizenship Canada, CR-17-0002.

Economic relations with Canada

Two-way trade in goods stood at C\$4 billion in 2015, ⁷⁵ making Canada Thailand's 32nd-largest trading partner. ⁷⁶ As with the rest of ASEAN, there is plenty of room for Canada to boost its share of the Thai market. Canada currently makes up just 0.46 per cent of Thailand's imports and 0.64 per cent of exports. ⁷⁷ Canada's share of imports has remained steady over the past decade, but its share of Thai exports has shrunk by almost a third.

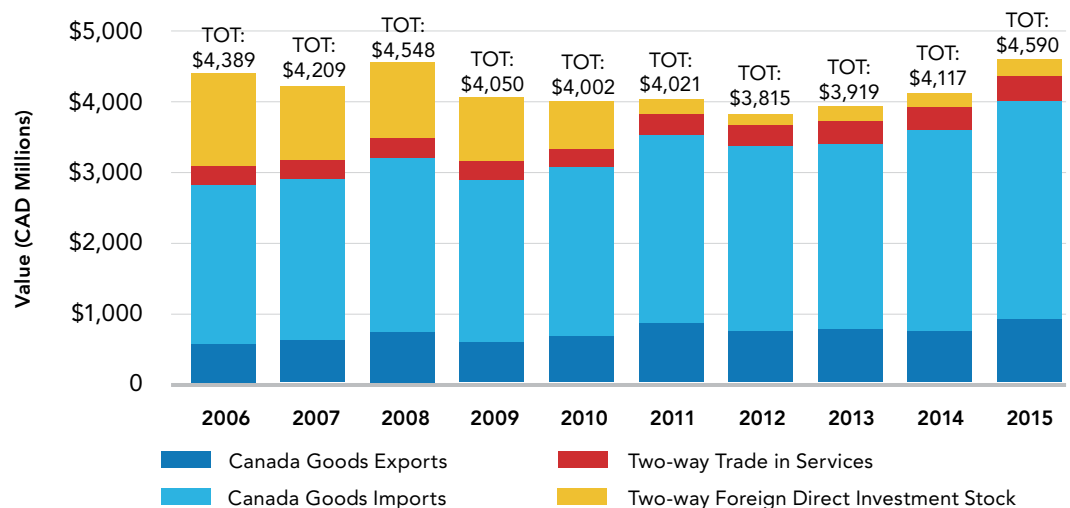
Trade in services has been steadily growing over the past decade. Canada's exports of services reached C\$140 million in 2015, while imports totalled C\$207 million, giving a services deficit of C\$67 million. ⁷⁸

Although Canada's direct investment stock in Thailand has grown steadily over the past four years, it remains well below where it was a decade ago. Canada's direct investment stood at C\$1.3 billion in 2006, but it had slid to C\$233 million by 2015. ⁷⁹

Thailand received C\$6.0 million in official development aid from Canada in 2015. ⁸⁰

FIG. 13

Canada-Thailand Economic Relations, 2006–2015



Source: Trade Data Online (ISED), CANSIM 376-0036, and CANSIM 376-0051

⁷⁵ Innovation, Science and Economic Development Canada, Trade Data Online.

⁷⁶ UN Comtrade Database.

⁷⁷ International Trade Centre, International Trade Statistics.

⁷⁸ Statistics Canada, CANSIM 376-0036.

⁷⁹ Statistics Canada, CANSIM 376-0051.

⁸⁰ Canadian International Development Platform.

VIETNAM

Country overview

Vietnam's economy is strongly weighted towards the services sector, which makes up 40 per cent of GDP.⁸¹ Industry accounts for another third. Vietnam's economy has expanded steadily for the past two decades. Even during the 1997 Asian financial crisis, growth remained at a respectable 4.7 per cent. The current annual growth rate is around 6.2 per cent and expected to remain at roughly that pace for the next five years. Vietnam's GDP stood at US\$216 billion at current prices in 2016.⁸²

Political and diplomatic ties with Canada

The two countries did not forge diplomatic relations until 1973 near the end of the long Vietnam war. A large influx of Vietnamese immigrants came to Canada during the end and aftermath of the war, creating a large Vietnamese community in Canada, which recently numbered over 220,000.⁸³ The flow of migrants has continued, with an average of 2,227 Vietnamese settling in Canada each year from 2006 to 2015.⁸⁴

Economic relations with Canada

Two-way trade in goods amounted to C\$4.8 billion in 2015,⁸⁵ making Canada Vietnam's 22nd-largest trading partner.⁸⁶ Canada's share of Vietnamese imports is tiny (.26 per cent), but its share of exports is somewhat higher at 1.38 per cent.⁸⁷ Two-way trade in services has grown steadily over the last decade, reaching C\$168 million in 2015.⁸⁸

In 2015, Vietnam was Canada's largest recipient of international assistance among ASEAN members, receiving C\$133 million in bilateral and multilateral aid.⁸⁹ This is a significant increase from the previous year in which total international assistance amounted to C\$88 million.

81 World Bank Open Data.

82 International Monetary Fund, World Economic Outlook Database October 2016 Edition.

83 2011 Census of Canada.

84 Immigration, Refugees and Citizenship Canada, CR-17-0002.

85 Innovation, Science and Economic Development Canada, Trade Data Online.

86 UN Comtrade Database.

87 International Trade Centre, International Trade Statistics.

88 Statistics Canada, CANSIM 376-0036.

89 Canadian International Development Platform.

FIG. 14

Canada-Vietnam Economic Relations, 2006–2015



Source: Trade Data Online (ISED), and CANSIM 376-0036

SECTION 2

BUSINESS OUTLOOK

THE CASE FOR A TRADE AGREEMENT

Even in the absence of a formal trade agreement, many Canadian exporters have moved into the ASEAN market, often with great success and with plans for further expansion. These businesses – and those still to come – would undoubtedly benefit from improved access to the region’s markets. This point was a central theme of the 2016 Canada-ASEAN Business Outlook Survey, to which we now turn.

2016 Canada-ASEAN Business Outlook Survey

The University of British Columbia and the Canada ASEAN Business Council conducted a survey in mid-2016 of Canadian businesses in the ASEAN region, as well as of firms based in Southeast Asia-with strong ties to Canada. The main purpose of the survey was to gain an insight into the opportunities, challenges and general operating conditions that businesses face in the region.

A total of 175 respondents, with interests in all 10 ASEAN countries, took part in the survey. Respondents included business support organizations, and represented a wide range of sectors and company sizes. The study proved valuable not only in understanding the business environment in the ASEAN region, but also in highlighting an overwhelming demand for a Canada-ASEAN free trade agreement.

The main conclusion was a strong sense of optimism about the future, a view expressed by 94 per cent of respondents.

Almost nine out of ten businesses that operate in multiple parts of the world expect the importance of Southeast Asia to grow over the next five years. Nearly two-thirds reported an interest or firm plans to expand to other countries in the ASEAN region. Given this enthusiasm, it is hardly surprising that a large majority of respondents expressed confidence that a Canada-ASEAN free trade deal would open up further opportunities for them.

Among the factors that make the ASEAN region appealing to Canadian businesses:

- Most important is the rapid rise of the middle class among the region's 600 million inhabitants. These people represent an enormous untapped market.
- Infrastructure improvements and human development, both of which are priorities for numerous ASEAN member governments.
- Efforts, still mostly unfulfilled, to accelerate regional economic integration—for example through the ASEAN Economic Community and the Regional Comprehensive Economic Partnership.

Optimism about the future of Canada-ASEAN ties is reinforced by the strong profitability of companies already operating in the region. Three out of every four respondents reported significant or moderate profits during the previous year. By contrast, only 10 per cent reported moderate losses, and none suffered significant losses. Two-thirds of respondents said their ASEAN operations achieved profitability in less than three years. What's more, nearly 80 per cent expected their businesses to become more profitable over the next three years, while only two per cent forecast lower profits. Expectations were highest for the fast-growing markets of Cambodia, Laos, Myanmar, and Vietnam.

Even so, the survey highlighted numerous challenges, some of which vary from country to country. Across the region as a whole, respondents identified the following key barriers to trade and investment:

- Inconsistent enforcement of laws and regulations.
- Difficulty obtaining reliable and cost-effective skilled labour.
- Corruption.
- Preferential treatment of local firms.
- The vulnerability of small and mid-sized companies to these challenges.

Closer economic integration would mitigate these drawbacks while creating new business opportunities. For that reason, ASEAN members have given priority to integration initiatives since the early 1990s. The result has been a substantial reduction in tariffs on intra-regional trade, and numerous inter-regional trade agreements.

Among recent initiatives:

- The **ASEAN ECONOMIC COMMUNITY (AEC)**, launched on January 1, 2016, is an attempt to address regulatory and non-tariff barriers and promote further regional integration. Almost three-quarters of survey respondents felt the AEC has the potential to help their businesses. But slow implementation means that most of the potential gains have yet to be realized.

- Respondents expressed strong support for the **TRANS-PACIFIC PARTNERSHIP (TPP)** despite the fact that President Donald Trump's decision to withdraw from the agreement has cast grave doubts on its viability.
- Survey respondents were less enthusiastic about the **REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP (RCEP)**. The lukewarm support may reflect a lack of knowledge about the partnership's core objectives.

A Canada-ASEAN trade agreement generated more enthusiasm among respondents than any other existing or proposed economic integration initiative. Multinationals as well as small and mid-sized businesses on both sides of the Pacific said that such a deal would be the best way to expand opportunities for Canadian firms.

Respondents identified several ways in which closer economic integration would benefit their operations. The four most widely cited were:

- More consistency in enforcement of laws and regulations.
- Less favouritism towards local firms.
- Lower non-tariff and regulatory barriers to trade.
- Fewer barriers to foreign investment.

Respondents cited the following as the top five benefits of closer economic integration among ASEAN countries:

- Standardized marketing strategies.
- Staff consolidation.
- Streamlined regional production.
- More fragmented supply chains to draw out comparative advantages.
- Relocation of back-office operations.

Several respondents also underlined the wider importance of a Canada-ASEAN trade deal. In the words of one: **“I see a Canada-ASEAN free trade agreement as very important, given the economic difficulties facing the US and its global outreach, the rise of China economically and, in other areas, the uncertainties of the European Union.”**

CASE STUDIES

As a way of gaining deeper insight into the potential benefits of a Canada-ASEAN trade agreement, the University of British Columbia researchers asked Canadian businesses about their experiences in the ASEAN region, and ASEAN-based companies about their operations in Canada.

This section presents the views of eight companies from a variety of sectors including agri-food, natural resources, infrastructure and services. Some have been doing business across the Pacific for decades; others are more recent entrants.

AGROCORP



Founded	Entered Canada	Revenue
1990 (Singapore)	2009	US\$2 billion (2016)
International Operations		Operations in Canada
13 countries, 200 employees, handling and trading 6 million tons of commodities each year		Four processing plants, 50 employees, handling 1.5 million tons each year

Singapore-based Agrocorp exemplifies the opportunities that await ASEAN businesses in Canada. The company trades commodities such as grains, pulses, sugar, oil seeds, cashew nuts and cotton. Its Canadian operation focuses on wheat, pulses and canola oil, which are shipped primarily to South and North Asia. Agrocorp has recently expanded its Southeast Asian operations to Vietnam, Indonesia, Philippines and Myanmar. In Myanmar, it is especially active in wheat production.

Agrocorp was initially drawn to Singapore by the island city-state's excellent business climate and easy access to credit. Singapore also offers easy access to other parts of Southeast Asia. According to Agrocorp, the ASEAN region offers an attractive trading environment because of its strong trading history and culture. Even so, it is imperative to find strong and reliable trading partners in each country to smooth the process.

Agrocorp takes the view that a free trade deal would unlock the potential for closer ties between Canada and ASEAN members, in the process raising Canada's profile in the region. Specifically, Canadian wheat and pulses would become more competitive. As Agrocorp sees it, Canada's global outlook stands in sharp contrast to the protectionist sentiment that has recently emerged in some other countries. Canada can seize on this advantage to build new trade and investment bridges.

However, Canada has some constraints to overcome in the farm sector. They include different phyto-sanitary requirements, and restrictive import and export regulations. Launching trade talks would set the stage for a productive dialogue that could expand Canada's horizons in the ASEAN region, and vice versa.

CANADIAN SOLAR



Founded	Entered ASEAN	Revenue
2001 (Canada)	2011	US\$3.5 billion (2015)
International Operations		Operations in ASEAN
20 Countries, on six continents, 8,900 employees, a project pipeline of 20GW of equipment		Eight countries, based in Singapore

Canadian Solar is a fairly recent entrant into the ASEAN market, and its innovative energy equipment has been well received. The company entered the region because it anticipated growing demand for solar energy, especially in the form of solar farms. Its sales have indeed risen, and it now sells to almost every ASEAN country. South-east Asia is not Canadian Solar's largest market, but it has proved to be a valuable one thanks to the range of new business opportunities that it offers.

Canadian Solar takes the view that a Canada-ASEAN free trade agreement would be very beneficial. Different countries in the region currently impose their own rules and duties. A free-trade deal would simplify customs procedures and generally make the trading process more efficient. Canadian Solar would not be the only Canadian company to benefit. Demand for renewable energy is expanding rapidly across Southeast Asia, and several Canadian suppliers are capitalizing on its popularity. Initiatives that make it easier for these companies to work in the region would also create business opportunities in related sectors, such as information technology.

Success in the renewable energy business depends heavily on appropriate government regulation. But policies among ASEAN member states are inconsistent, the rules often change, and customer demands can shift quickly, creating a challenging business environment.

A trade deal with the region could bring greater stability and predictability for companies like Canadian Solar.

CANADIAN NATIONAL RAILWAY (CN)



Founded	Entered ASEAN	Revenue
Privatized in 1995	2015	US\$8.9 billion (2016)

Operations in Canada	Operations in ASEAN
Canada's largest rail network, headquarters in Montreal, 24,000 employees	Singapore office with operations in Malaysia and Indonesia

As one of Canada's most prominent businesses, CN's expansion into Singapore sends a strong signal to other Canadian firms about opportunities in the region. CN operates the largest rail system in Canada, and its network services three-quarters of the US population. It has continued to diversify and seek out new markets since privatization. It set up a small office in Singapore to capitalize on the city-state's strategic position. In particular, a presence in the region has enabled CN to strengthen supply-chain connections between Canada and Southeast Asia.

Singapore is an attractive location for large international corporations due to its welcoming business climate and efficient logistics hub. In addition, it provides access to Southeast Asia's diverse and expanding markets. A growing volume of manufactured goods from the region is finding its way to North America. Canadian ports offer an efficient gateway into the large US market, thanks to NAFTA. It is important to get this message through to ASEAN firms, which can also benefit from these facilities.

According to CN, a free trade agreement would improve efficiency and thus lower costs. A streamlined supply chain would open the way for higher trade volumes, boosting the profits of both Canadian and ASEAN-based firms. CN emphasizes that shipping companies operate on very tight margins, which means that even modest cost savings can be crucial to long term growth.

HATFIELD CONSULTANTS



Founded	Entered ASEAN	Revenue
1974 (Canada)	1990	C\$25 Million (2016)
Operations in Canada	Operations in ASEAN	
Head office in Vancouver; Three other offices	Indonesia and Laos	

Hatfield Consultants is a leading environmental consultancy company from Canada that has operated in the ASEAN region since the late 1980. Hatfield works closely with development agencies and industrial partners across a range of sectors, including energy, infrastructure, mining, oil and gas, forestry/pulp and paper, fisheries/marine management, and geomatics/information services. It undertakes complex and multi-disciplinary environmental projects, often in collaboration with networks of local experts and specialists in particular fields.

Hatfield sees the great opportunities a free trade agreement may provide, which would expand cross-cultural working opportunities – including for scientists – thereby facilitating knowledge transfers. It would also be symbolically important: after the long period of disengagement between Canada and the ASEAN region, an agreement would add energy to reengagement. Canada's new government has created a buzz, but more is needed to increase awareness of the myriad opportunities that Canada-ASEAN engagement creates for both Canadian and ASEAN-based firms.

Hatfield saw clear potential for its services in the ASEAN market in part because several countries have resource-based economies with similar environmental and social challenges to those in Canada. Their work is dependent on a strong understanding of local environmental, political, social, and cultural contexts. Although it is not aggressively growth-oriented, it takes advantage of growth opportunities as they arise. Its Indonesian operation is currently thriving, and has grown by about 50% and added two new offices since 2014. It has begun exploring new opportunities for expansion in Vietnam and Myanmar. The ASEAN market is a large and ever growing market full of well-educated professionals and consumers with increasing expectations around environmental performance, social license, transparency, and quality of life. This is particularly true for business sectors such as natural resource development, infrastructure, conventional and renewable energy, and investment decision-making in these sectors.

For new entrants in the ASEAN market, it is important to plan thoroughly, to understand the local market and business culture, to establish strong local relationships, and to be patient. It is not easy to establish a company in a different country and culture. Weak and non-transparent legal systems, risks of corruption, and technical capacity of local governments can sometimes present challenge in the ASEAN region, but as a whole the region is on stronger footing today than it has ever been before.

MANULIFE



Founded	Entered ASEAN	Revenue
1887 (Canada)	1901	C\$53.3 billion (2016)

International Operations	Operations in ASEAN
More than 20 million customers in 22 countries; more than 34,000 employees and 63,000 agents	Headquarters in Toronto; more than 10,000 employees

Manulife Financial Corporation is a leading international financial services group, headquartered in Toronto, Canada. The company has a global presence with operations in 22 countries. Manulife has had a presence in the ASEAN region for over a century. It first entered Philippines about 108 years ago, and has continued to expand. It currently operates in seven ASEAN countries including Singapore, Indonesia, Philippines, Malaysia, Vietnam, Thailand, and Cambodia. Manulife has over 5,000 employees and over 43,000 agents in the region. Currently, Manulife is also exploring entering Myanmar.

Manulife believes that the ASEAN region will continue to be an important market due to the rapid growth of wealth and the middle class – millions of people are entering the middle class each year in countries like Indonesia. Life insurance is powered by growth of the middle class, which makes ASEAN an attractive market for Manulife. Asia also has stronger savings rates relative to North America.

A free trade agreement would allow Canadian companies to have equal access to this growing market. According to Manulife, there are often stricter rules and unusual barriers for foreign companies, and an FTA would create a more level playing field by providing Canadian companies the same rights as local companies. This is especially pertinent in today's political climate. Alongside the protectionist sentiments in the United States, nationalist feelings are building in ASEAN countries as well. This may cause governments to enforce stricter regulations on foreign companies. Although Canada has a favourable image, an FTA would ensure that Canadian companies don't become ensnared by the same regulations.

The ASEAN region is growing in importance relative to other regions, and has substantially more potential relative to Japan or North America. In recent years, governance in the region has improved. Acquisition opportunities and the capital available to business have also grown. The ASEAN region is also becoming more favourable due to fast growing mobile technology and increasing local talent. Compared to some years ago, Manulife is able to hire more local talent with high qualifications and English language skills. However, poor infrastructure and unreliable internet service remain obstacles to successful business operations in some countries.

For Canadian businesses thinking of entering the market, investing in government relations can be advantageous, as can be reaching out to the Canadian government for support. Before entering, it is also essential to understand the market and make a business case for the company. Further, it is critical to conduct due diligence before choosing local partners to avoid business and reputational risks.

OPENTEXT

OPENTEXT™

Founded	Entered ASEAN	Revenue
1991 (Canada)	1997	US\$1.8 billion (2016)
International Operations		Operations in ASEAN
130 offices; 12,000 employees; 600K global trading partners		Offices in Singapore (headquarters), Philippines and Malaysia

OpenText is a leading Enterprise Information Management (EIM) company with products that enable businesses to grow faster, lower operational costs, and reduce information governance and security risks. OpenText's industry focus is diverse, and includes the government, financial solutions, energy and utility, as well as manufacturing and engineering sectors. The company's global headquarters are in Waterloo, Canada.

In the ASEAN region, Singapore is OpenText's headquarters for Southeast Asia, and is its gateway to Asia. The company's global call centre is based in Manila (the Philippines) and has roughly 2,500 staff members. OpenText is highly optimistic about the ASEAN region due to its continuing high growth rates, in GDP as well as population. The GDP for the region is growing at the rate of five per cent annually, which makes it one of the fastest growing regions in the world. ASEAN has a population of about 650 million people, which surpasses both the USA and Japan combined.

OpenText believes that this outlook will be highly beneficial to the company, as it plans to continue expansion, and aims to grow into a US\$5 billion company in the next five to ten years. Indonesia, Thailand, the Philippines, and Myanmar have immense potential because these markets are not mature. Moreover, the middle class is growing and people's spending powers are increasing. These conditions are highly attractive for businesses.

According to respondents from OpenText, a free trade agreement between Canada and ASEAN will increase the volume of trade, grow transaction amounts, lower taxes, and simplify the process of doing business. Moreover, an FTA will increase the awareness of Canada, resulting in local companies being more willing to engage in business with Canadian companies. Likewise, it will increase awareness of the many opportunities in Southeast Asia for Canadian companies.

The main challenge of operating in the ASEAN region is that the cultures and business practices vary widely across countries. There is no one-size-fits-all solution. Canadian companies planning to enter the ASEAN region should keep this in mind, and understand each market individually in order to succeed.

This can be difficult because information is not always easy to find, particularly for less-developed countries. Companies often have to do their own market research. They should engage with locals to understand the ground-level realities. OpenText has had great experiences working with the Canadian government, and would advise new companies to seek help from the Canadian Chambers of Commerce and Canadian Embassies, particularly the Trade Commissioner services.

PACIFIC OIL AND GAS



Founded	Entered Canada	Revenue
2003 (Indonesia)	2011	Not available
International Operations		Operations in Canada
Indonesia, China, and Singapore		Developing a Liquefied Natural Gas (LNG) processing and exporting facility in Squamish, through PO&G subsidiary's Woodfibre LNG Limited

Pacific Oil and Gas (PO&G) is an energy resource development company with major investments throughout the energy supply chain and operations in Indonesia, across China, and a planned LNG plant in British Columbia. Its mission is to develop long-term energy and power projects in a sustainable manner and to encourage local economic growth. Currently, PO&G focuses their operations in Indonesia and China, with its corporate office in Singapore.

PO&G began its operations in the ASEAN region and continues to operate in Indonesia because of the nation's natural resources and growing energy markets. This history has provided the company with the confidence to say that there are two relevant pieces of advice for operating in all ASEAN nations: (1) there is no one-size fits-all solution, and (2) local partnerships are essential. PO&G had the benefit of starting its operations in ASEAN and due to its vast experience would recommend entering the region to other firms because of ASEAN's extensive growth potential.

The Canadian operations of PO&G are currently in their beginning stages, but reflect an acknowledgement that Canada's abundant natural resources are a good match for the growing energy demands within the ASEAN region. This is one of the key reasons PO&G is supportive of a free trade agreement. Customer spending throughout the region is expected to double by 2020 and the demand for LNG is expected to be 70 million tons in 2035. PO&G indicates that an ASEAN-Canada free trade agreement will also help with Canadian LNG projects that want to expand into the ASEAN region.

Another way it could benefit both parties is through knowledge transfer. One challenge to working in Indonesia is finding employees with the appropriate qualifications. PO&G addresses this by actively investing in the continued education of their employees and some of the experiences of Canadian energy firms could complement that education. Despite this challenge, PO&G continues to operate in Indonesia because they are aware of the tremendous opportunities to be found there.

PO&G's perspective is interesting when considering a free trade agreement with the company business growing in Indonesia and recent expansion into Canada. The company sees the energy sector as an important confluence of interests between Canada and the ASEAN region where mutual benefits can occur.

UNITED OVERSEAS BANK



Founded	Entered Canada	Revenue
1935 (Singapore)	1987	S\$8.1 billion (2016)
International Operations		Operations in Canada
530 offices in 19 countries, with over 26,000 employees		Vancouver, Calgary & Toronto

Established in 1935, United Overseas Bank (UOB) is a leading Asian Bank rated AA-, with over 26,000 employees and strong global connectivity. UOB provides a wide range of financial services ranging from personal banking, Commercial Banking, and Corporate Banking to capital and asset management. UOB is a unique Asian based financial institution, with branch operations in 15 countries and an unparalleled presence in Southeast Asia (i.e., 490 branches in 10 countries).

As a financial institution in the service sector, UOB sees a great benefit in a free trade agreement between Canada and ASEAN. This stems both from direct benefits to the financial sector – which could see greater investments – and indirect benefits through growth in other sectors that the financial sector supports. The prospects are especially strong in the latter area, as financial institutions like UOB, are well-positioned to provide the local knowledge on context and regulations required to make investments into other sectors successful.

The ASEAN market is complex and diverse. In places like Singapore, the financial regulatory system is similar to Canada's, which facilitates market entry and creates an environment conducive to business. While emerging markets like Myanmar offer remarkable opportunity, they are still working on establishing regulations and solidifying financial markets. In 2014, UOB was one of nine foreign banks granted approval to open a branch in Myanmar, which UOB did in May of 2015.

UOB attributes some of its success to its ability to identify gaps in Asian banking services offered in Canada. Understanding local markets and local cultures is essential for financial institutions to thrive in new contexts. Many financial institutions have failed due to lack of expertise, partnerships, and not adequately weighing costs and returns. Some major barriers to entry in the ASEAN region take the form of complex and costly regulatory compliance, as well as inefficient resource allocation that may affect customer opportunity and service. Nonetheless, the ASEAN market is growing steadily – unlike the EU and US – and it is not as risky as the African market. Many areas are under banked and demographic trends are constantly creating new opportunities, especially in cash management services, supply chain finance, and leveraging real estate and local working capital credit facilities.

CONCLUSION

A number of key themes emerge from these case studies about Canada, the ASEAN region, and the potential benefits of a free trade agreement between the two. Some highlights include:

- ASEAN region markets continue to be attractive due to the region's continued investment in development and growing consumer base.
- Well-researched local partnerships in the ASEAN region are critical because there is no one-size-fits-all solution to working in the region as a whole.
- One frequent approach towards entering the ASEAN region entails establishing a regional headquarters in Singapore.

Our interviews also demonstrated positive expectations around the potential gains from a free trade agreement between Canada and ASEAN. This optimism stems from the hope that an FTA would address several of the key challenges that currently impede Canada-ASEAN economic engagement, including:

- 1. LACK OF AWARENESS:** Firms expressed a lack of awareness about Canada and the “Canadian brand” within ASEAN, which can make it difficult for Canadian businesses to distinguish themselves from other international players.
- 2. REGULATIONS AND EXPANSION:** Working within the ASEAN region means working across vastly different regulatory environments. These can be smoothed out through a pan-regional trade agreement that decreases overall costs by creating more efficient supply chains. While these obstacles can be substantial, firms operating in Canada and the ASEAN region continue to expand their operations and thrive.
- 3. LABOUR AND MOBILITY TRANSFER:** ASEAN-based and Canadian firms both expressed challenges in labour mobility, as well as hiring and retaining sufficiently skilled labour.

These case studies suggest that the ASEAN region offers rich opportunities for Canadian companies. But realizing those opportunities means having trusted partners on the ground, and an in-depth understanding of each country’s business environment. The region’s diversity means that a one-size-fits-all approach is unlikely to succeed.

At the same time, Brand Canada is a valuable asset for forging closer relationships. Canada has a reputation as a neutral country with an economy big enough to offer a substantial market. It also has the advantage of easy-to-access ports and valuable access to the US market.

SECTION 3

FIVE PROMISING SECTORS

As outlined in this report, the potential gains from closer economic ties between Canada and the ASEAN region are substantial. This section examines opportunities in five especially promising sectors: agriculture and agri-food; natural resources; industrial goods; infrastructure, transport and aerospace; and services.

AGRICULTURE AND AGRI-FOOD (INCLUDING FISH AND SEAFOOD)

Key points

- The ASEAN region supplies a broad range of farm commodities with a ready market in Canada.
- Conversely, demographic patterns in the ASEAN region, especially a fast-growing middle class, are changing dietary habits. This creates a growing market for high-quality farm products that Canada can supply.
- Productivity in the ASEAN farm sector is generally low. This creates lucrative openings for Canadian investment and technology.

Regional overview

Farming and fishing make a substantial contribution to several Southeast Asian economies. Overall, agriculture and associated agribusiness account for over 35 per cent of GDP. ¹ In some member states, agriculture employs more than three-quarters of the workforce. The ASEAN region is Canada's fourth-largest supplier of farm and seafood products, with imports valued at C\$1.7 billion in 2014. ² The products include rubber, palm oil, corn, sugar, fruits and vegetables, among others.

Agriculture in emerging economies, including the ASEAN countries, is attracting sizeable foreign investment. Their large pool of low-cost labour creates ample opportunity to boost productivity. The region's balanced climate and fertile soil enhances the potential for outside, including Canadian, investors. Opportunities also abound in livestock production (especially livestock technology, genetics, and farm to table tracking systems), managing food supply chains, agriculture infrastructure, and agribusiness safety.

¹ Paul Teng and Andrew McConville, Agriculture and ASEAN Economies: Still Key for Growth, RSIS Commentary, S. Rajaratnam School of International Studies, Nanyang Technological University.

² Agriculture and Agri-food Canada, Why Southeast Asia for Canada's Agri-Food Products?

On the demand side, population growth and the emergence of the middle class are causing a shift in consumer habits. Demand for farm products such as grains, oilseeds, pulses, dairy products, meat, fish and seafood is growing, and Canada is in a strong position to be a leading supplier. In particular, Quebec and Ontario are exclusive suppliers of non-genetically modified soybeans, for which there is a growing global market. ³

Market trends

ASEAN investors presently dominate Southeast Asia's farm sector, and Canada has never accounted for significant inflows of direct investment into the region. But there appear to be promising opportunities for Canadian firms, given the demand for innovation and new technology.

The ASEAN region is also a potentially valuable export market. Canadian agri-food and seafood shipments to ASEAN nations grew from C\$400 million in 2003 to C\$1.4 billion in 2014, making ASEAN Canada's sixth-largest market for these products. Even better, ASEAN demand is rapidly growing compared to the US and Europe. Canada's agri-food and seafood exports to the US grew by 10.4 per cent in 2015, while sales to the Europe slumped by almost nine per cent. By contrast, the value of these products shipped to ASEAN member states shot up by 42.3 per cent. ⁴

Trade Barriers

The main barriers to farm trade in the ASEAN region can be traced to regulatory constraints. For example, the cost of land permits is high in Indonesia, the region's largest market with the most expansive agricultural land base. Further, obtaining these permits can be an arduous process. ⁵ Although regional policies are boosting food security, much still needs to be done to protect fisheries, forestry and wildlife for long-term growth. Widespread reforms may be needed if agricultural exports between Canada and ASEAN are to grow. These measures would need to include a clearer definition of overlapping responsibilities among individual ministries, and expanded health and safety inspections.

NATURAL RESOURCES AND RELATED PRODUCTS

The ASEAN region is rich in natural resources that Canada needs. Likewise, there is significant ASEAN demand for Canadian resources. In addition, the region's rising living standards are boosting demand for energy, creating openings for Canadian expertise. While US and Chinese investors have already stepped in, many gaps remain.

³ The Canadian Trade Commissioner Service, ASEAN Agri-Food Market: Opportunity Assessment for Canadian Suppliers, Malaysia Agriculture and Agri-food, and The Philippine Food and Agriculture Sector at a Glance.

⁴ Agriculture and Agri-food Canada, Why Southeast Asia for Canada's Agri-Food Products?

⁵ Export Development Canada, Doing Business in Southeast Asia.

Key points

- The ASEAN region is remarkably rich in natural resources. Canada is well equipped to help develop many of them.
- Demographic shifts and rising incomes in the ASEAN region will lift demand for commodities, including energy, that Canada can supply. The market for energy technology will also grow.

Regional overview

The ASEAN region is rich in natural resources. These include commodities like rare earth minerals, precious metals and forest products from Indonesia, Myanmar, Malaysia, Cambodia, and Laos. The region also has substantial energy resources, including oil and gas in Brunei and Malaysia and hydroelectric power in Laos. Large scale processing of petroleum products occurs in Singapore. Renewable energy sources, like wind, solar and biomass, are still relatively untapped. ⁶ Separately, ASEAN-based resource firms have sought to apply their expertise in Canada, notably in wood pulp and liquefied natural gas.

Some ASEAN members, notably Laos, Myanmar and Cambodia, are enjoying a mini-boom in natural resource projects, especially hydro-electric power and mining driven by investment from China and the US. ⁷ They are looking to develop their resources in a responsible manner, but require outside expertise and support. ⁸ Canadian firms have an opportunity to leverage their experience and reputation to support sustainable growth in the region.

Several countries have encouraged resource extraction and relaxed foreign ownership rules in the mining industry. For example, the Philippines recently streamlined approval of mining permits to exploit gold, copper, nickel and chromite deposits. ⁹ Myanmar has introduced policies to attract foreign investment for resource development. ASEAN member countries are also eager to boost their energy independence, creating new opportunities for oil, gas and other energy projects.

Market trends

Demand for energy is growing across the ASEAN region as incomes and consumption grow, and local industry expands. Demand for electricity is expected to jump by about 2,300 terawatt hours between 2009 and 2030. ¹⁰ However, this demand will likely go unmet in countries whose topography is not well suited to large-scale energy production, particularly Cambodia, Laos, Myanmar, Indonesia and the Philippines. ¹¹ Canada has the expertise to help exploit available resources.

⁶ OECD, Economic Outlook for Southeast Asia, China and India 2016: enhancing regional ties.

⁷ Ibid.

⁸ Export Development Canada, Doing Business in Southeast Asia.

⁹ Ibid.

¹⁰ OECD, Economic Outlook for Southeast Asia, China and India 2016: enhancing regional ties.

¹¹ Ibid.

Trade Barriers

Tariffs and non-tariff barriers are widely seen as the main deterrent to investment and trade in ASEAN's natural resources. Protectionism is especially rampant in the renewable energy sector, where it has slowed regional integration and kept prices high.¹² Another trade barrier is the preferential treatment given to state-owned enterprises in raising capital.¹³ Opportunities abound across the region to liberalize trade, tighten regional cooperation and generally improve efficiency.¹⁴

INDUSTRIAL MACHINERY AND EQUIPMENT

The growth of the ASEAN middle class creates a strong market for consumer goods. The availability of those goods, in turn, depends on a thriving local manufacturing sector.

Manufacturing has been central to the economies of Singapore, Malaysia, and Thailand for decades. More recently, growing specialization and rising wages have also created the conditions for vibrant manufacturing sectors in Vietnam, Indonesia, and Cambodia. This trend presents many openings for Canadian exporters and investors. There are also opportunities for Canadian firms to integrate Southeast Asian manufacturers into their supply chains.

Key points

- The ASEAN region's demographic changes have triggered an explosion in demand for manufactured goods. This trend presents opportunities for Canadian investors and manufacturers.
- Southeast Asia's strengths in manufacturing offer opportunities for Canadian companies to integrate ASEAN-origin products and services into their supply chains.
- Lower trade barriers for exporting to Canada would make it easier for goods produced in the ASEAN region to reach the Canadian market, which would lower prices for consumers.

Regional overview

The ASEAN manufacturing industry has become more specialized as member countries use their comparative advantages to gain a competitive edge. Singapore, Malaysia, and Thailand focus largely on high-value precision manufacturing, while Cambodia and Myanmar capitalize on inexpensive labour to produce goods with less value added. Vietnam, Indonesia and the Philippines produce a broad spectrum of manufactured goods. Industries across the region have sought to improve efficiency by incorporating technology and new machinery in their production processes, thereby creating substantial opportunities for outside investors.¹⁵

¹² OECD, Economic Outlook for Southeast Asia, China and India 2016: enhancing regional ties.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Ostwald, K. and Samphantharak, K, 2015, Limits of ASEAN Economic Integration: the AEC and the domestic political costs of dismantling non-tariff barriers.

The ASEAN Economic Community, launched in January 2016, aims to accelerate manufacturing opportunities, and to boost competitiveness and connectivity. But that is unlikely to happen without investor-friendly policies.

Market trends

The ASEAN region is marked by diverse markets and resources, which means that each country has its own competitive advantages in manufacturing. This diversity allows for both supply chain consolidation and fragmentation, depending on manufacturers' needs.

Investment to ASEAN's manufacturing sector increased by 61 per cent from 2014 to 2015, from US\$18 billion to US\$29 billion. ¹⁶ It makes up 24 per cent of foreign direct investment to the region, the highest for any sector apart from finance. ¹⁷ As the middle class continues to grow, demand for manufactured goods is sure to thrive.

Trade barriers

Barriers to trade in the ASEAN manufacturing sector are typically those that affect all supply chains at the sub-regional and regional level. This includes delays caused by customs and other inspections; complex regulations around appropriate documentation; and inefficiencies caused by poor infrastructure, including ports, roads, and rail networks. Creating special manufacturing zones and improving legal, administrative and technical access to those zones will further spur the region's trade in manufactured goods. ¹⁸ While tariffs and non-tariff barriers have come down for intra-ASEAN trade, they remain significant for imports from Canada.

INFRASTRUCTURE, TRANSPORT AND AEROSPACE

Key points

- ASEAN demand for improved infrastructure is surging due to urbanization, rising incomes and a rapidly growing population. This is especially true in Cambodia, Laos, Myanmar, and Vietnam.
- The aerospace industry presents a particular opportunity for Canadian companies in the form of investment and alliances. Some ASEAN countries, such as Brunei, need foreign expertise to help develop their aviation industries.

Regional overview

According to one study, the ASEAN region needs infrastructure investments totalling over US\$1 trillion through 2020 to accommodate economic integration at the regional, national and international levels. ¹⁹

¹⁶ The ASEAN Secretariat, ASEAN Investment Report 2016.

¹⁷ Ibid.

¹⁸ Aggarwal, B and Park, B, 2015, The ASEAN Economic Community 2015: Implications for supply chain management, ASEAN.

¹⁹ The ASEAN Secretariat, ASEAN Investment Report 2016.

Modern infrastructure helps attract investment and grease the wheels of trade, hence sharpening overall competitiveness.²⁰ The needs of the various ASEAN countries vary markedly, with the strongest demand coming from the CLMV (Cambodia, Laos, Myanmar, and Vietnam), the Philippines, and Indonesia. The voracious appetite for infrastructure offers an immense opportunity for private investors from abroad, for public-private partnerships, and for Canadian expertise.

Market trends

The surge in demand for infrastructure has attracted a good deal of private investment to the region, but huge gaps remain to be filled.²¹ Specifically, rising living standards will lead to rapidly growing demand for air travel, and many ASEAN member states plan to upgrade their airports.²² ASEAN members have also identified 47 port projects, with work yet to start on three-quarters of them.²³

Infrastructure demand is strongest in CLMV. In Laos, foreign direct investment almost doubled between 2014 and 2015. Much of it was earmarked for infrastructure to smooth the movement of goods and for better access to energy supplies.²⁴ China is currently the dominant investor in these countries' infrastructure projects, with other ASEAN countries and South Korea also making significant contributions.²⁵ Even so, numerous opportunities remain for investors from other countries and multilateral agencies.

Trade barriers

Poor regulatory systems in many ASEAN countries remain one of the highest barriers to foreign infrastructure investment. The regulatory shortcomings undermine private-sector confidence, cause inefficiencies, delay project implementation, and result in weak support from governments and the public.²⁶

Other challenges in attracting large-scale projects to the region include: underdeveloped capital markets, a lack of viable projects, high transaction costs, high risks, and barriers to investment flows.²⁷ Many investors also worry about finding reliable local partners, a lack of capacity, high costs, an absence of arbitration mechanisms, and weak contract enforcement.²⁸

²⁰ Ibid.

²¹ Ibid.

²² The ASEAN Secretariat, ASEAN Investment Report 2015.

²³ Ibid.

²⁴ The ASEAN Secretariat, ASEAN Investment Report 2015 and ASEAN Investment Report 2016.

²⁵ Ibid.

²⁶ The ASEAN Secretariat, ASEAN Investment Report 2015.

²⁷ CIMB ASEAN Research Institute, Lifting-the-Barriers Report 2015: Infrastructure.

²⁸ Ibid.

However, member states are taking steps to overcome many of these challenges. They include streamlining investment procedures, providing stronger institutional support for investors, setting up economic zones, and expanding their own infrastructure investment. Many governments have also drawn up national infrastructure plans designed to attract foreign investors. ²⁹

SERVICES

The service sector has become an increasingly vibrant contributor to ASEAN economic growth. On a regional level, services have overtaken agriculture and industry in terms of contribution to GDP.

Key points

- The region's service sector has been a driving force of economic development. About half of all foreign investment in the region over the past decade has flowed into services. Rising living standards are driving demand for information and communication technologies, finance, and transport services.
- Information and communication technologies offer especially promising opportunities for foreign investors. There is a growing appetite for digital services, especially those related to e-commerce.

Regional overview

All ASEAN member countries are giving high priority to the service sector. It already makes up 50.2 per cent of the regional economy, and is projected to continue growing rapidly. ³⁰ Services also accounted for more than 40 per cent of added economic value in the region and more than half of total employment in 2010. ³¹ However, the make-up of the service sector varies widely among individual countries. Traditional services, such as transport and travel, dominate in the CLMV. In Singapore, Malaysia, and to a lesser extent Thailand, information technology, insurance, and business services are dominant. ³²

ASEAN trade in services grew rapidly between 2007 and 2015. Service imports reached US\$312 billion in 2015 and exports US\$306 billion, making up 13 per cent of regional GDP. ³³ The region has attracted more direct foreign investment in services than China. Singapore remains the largest recipient, but recent liberalization in other countries – notably Myanmar – has driven a sizeable increase in inflows. ³⁴

²⁹ The ASEAN Secretariat, ASEAN Investment Report 2015.

³⁰ The ASEAN Secretariat and the World Bank, ASEAN Services Integration Report 2015.

³¹ The ASEAN Secretariat and the World Bank, ASEAN Integration Monitoring Report 2013.

³² The ASEAN Secretariat, ASEAN Investment Report 2016.

³³ The ASEAN Secretariat, ASEAN Economic Chartbook 2016.

³⁴ The ASEAN Secretariat, ASEAN Investment Report 2016.

Market trends

The service sector's share of the ASEAN economy is rising rapidly. As living standards keep rising, so does demand for information and communication technologies, finance, and transport. However, regulatory restrictions remain a real challenge in some countries.

In 2015, services account for 62.1 per cent of ASEAN's investment inflows. Investment in financial and insurance activities comprise about a third of the region's total direct investment inflows, followed by manufacturing, with just under a quarter, and wholesale and retail trade, with 9 per cent). ³⁵ Travel, transport and other business services make up the largest shares of the ASEAN's service sector. ³⁶ Travel is the largest service export earner, with 37.5 per cent of the total, while financial services make up 7.1 per cent of exports. Transport services make up 35.2 per cent of imports, while intellectual property accounts for 9.8 per cent and is growing rapidly. ³⁷

Information and communications technology offers an enormous opportunity for foreign investors. Southeast Asian countries have seen rapid growth in internet, digital, social media and mobile activity. With more than 250 million internet users in November 2015, there is growing demand for digital services in most countries and most segments, especially e-commerce. ³⁸

Tourism is another fast-growing sector in most member states, with a significant potential to create jobs and drive growth in the wider economy. There is still much room to integrate air travel in the region and to cater to the popular eco-tourism market. ³⁹

Tourism between Canada and the ASEAN region has expanded markedly, with the number of visits rising by more than one-fifth between 2009 and 2013. In the latter year, 415,000 Canadians visited ASEAN countries as tourists, while 165,000 ASEAN residents travelled to Canada. ⁴⁰ Student exchanges have also mushroomed. The number of ASEAN students in Canada soared by 75 per cent between 2005 and 2014. ⁴¹

³⁵ The ASEAN Secretariat, ASEAN Economic Chartbook 2016.

³⁶ Ibid.

³⁷ ASEANStats, Trade in Services in ASEAN.

³⁸ Tech in Asia, Digital Landscape of Southeast Asia in Q4 2015.

³⁹ OECD, Economic Outlook for Southeast Asia, China and India 2016: enhancing regional ties.

⁴⁰ Global Affairs Canada, Canada's relations with ASEAN.

⁴¹ Ibid.

Trade barriers

The major barriers to trade in services are restrictive government policies on foreign investment and on the movement of people across borders.⁴² The Service Trade Restrictions Index (STRI) for the region is 60 per cent higher than the global average. The restrictions vary widely. Cambodia and Singapore have the most open policies. Myanmar and Vietnam are also relatively open, but other members (Indonesia, Thailand, the Philippines and Malaysia) have imposed significant curbs.⁴³ Initiatives such as the ASEAN Framework Agreement on Services and mutual recognition agreements have made little headway. What's more, changes are needed in other areas, such as labour law, before some countries can implement mutual recognition agreements.⁴⁴

CONCLUSION

There are substantial opportunities for increased economic integration across the five key sectors assessed above. Trade in all sectors has seen growth in recent years, and demographic trends suggest that this growth is set to accelerate in several areas. In particular, trade in services will expand rapidly as developing economies become more services-oriented and the middle class continues to grow. These trends compare very favourably with those of Canada's other major trading partners. The numerous barriers to trade, however, inhibit fully leveraging the opportunities at present. A comprehensive trade agreement would substantially reduce these and allow both Canada and the ASEAN region to fully embrace the potential of economic exchange.

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⁴² The ASEAN Secretariat, ASEAN Integration in Services.

⁴³ The ASEAN Secretariat and the World Bank, ASEAN Services Integration Report 2015.

⁴⁴ OECD, Economic Outlook for Southeast Asia, China and India 2016: enhancing regional ties.

SECTION 4

BENEFITS OF A FREE TRADE AGREEMENT

LESSONS FROM AUSTRALIA AND NEW ZEALAND

ASEAN's most ambitious trade initiative to date is the agreement with Australia and New Zealand, commonly known as AANZFTA, which took effect in 2012 after seven years of negotiation. Ciuriak Consulting, an Ottawa-based consultancy, has compiled an economic model assessing the impact of AANZFTA, and how it might apply to a Canada-ASEAN free trade agreement. Details of the model are available [here](#).

BOX 1: AANZFTA BACKGROUND

The AANZFTA is ASEAN's first comprehensive FTA. It has eighteen chapters including the standard core chapters on trade in goods, rules of origin, customs procedures, sanitary and phytosanitary (SPS) measures, technical barriers to trade (TBT, including technical regulations and conformity procedures), safeguards, electronic commerce, competition, intellectual property, and dispute settlement. It also covers trade in services with specific annexes on financial services and telecommunications, investment, and movement of persons.

The agreement varies in ambition, for example:

- It has a high level of ambition in tariff elimination with most tariffs being phased out and only a limited number of sensitive product areas remaining protected.
- In services and investment, its main impact is to improve on the parties' bindings under the WTO General Agreement on Trade in Services (GATS), which reduces uncertainty for service providers, and only limited new market access on an applied basis.
- In trade facilitation, it is consistent with the WTO Trade Facilitation Agreement and thus would not materially improve upon that agreement which will represent the new status quo for any negotiation.

A Canada-ASEAN agreement based on AANZFTA would provide a modern framework for bilateral commerce between ASEAN and Canada. The main liberalization gains would come from tariff elimination. There would be limited improvements on non-tariff barriers facing goods, services and investment, mainly in terms of reducing uncertainty about market access, and in providing bilateral mechanisms to address trade frictions and disputes.

Based on this model, a Canada-ASEAN free trade agreement concluded in 2017 would generate about C\$4.8 billion in two-way trade (at current prices) over the first 10 years. ASEAN exports to Canada would grow by close to C\$2.8 billion, while Canada would add close to C\$2 billion in sales to ASEAN member states. Most of the increase would come from industrial goods, with farm and agri-food products and other natural resources also chalking up substantial gains.

Almost all the benefits of a Canada-ASEAN deal modeled on AANZFTA would come from eliminating customs tariffs. The model concludes that lower non-tariff barriers on trade in goods and services and on foreign investment would bring few tangible benefits over the first 10 years.

The combined GDP of ASEAN members is about 70 per cent larger than Canada's, measured at 2017 exchange rates. They presently apply more protectionist policies than Canada, and run a bilateral trade surplus. However, the Ciuriak model suggests that a trade agreement would generate a balanced share of benefits, with Canada gaining slightly more in real GDP expansion and welfare.

THE MACROECONOMIC IMPACT

A Canada-ASEAN free trade agreement would boost Canada's GDP by C\$1.2 billion by 2027, with much of the benefit coming from higher wages and improved terms of trade. In terms of economic welfare, the benefit for Canada would amount to C\$1.1 billion. This benefit represents structural, long-term improvements in Canada's economic performance, such as enhanced productivity and sharper competition.

A Canada-ASEAN agreement would make Canada a more open economy because both exports and imports would grow more strongly than domestic consumption and investment. What's more, the deflection of some Canadian exports from traditional markets such as the U.S. would help diversify Canada's foreign trade, a key policy goal in recent years. Similarly, an expanding range of imports would bring wider variety to Canadian consumers and manufacturers, and bring a more competitive edge to parts of the domestic market.

For the 10 ASEAN countries, a trade deal with Canada modeled on AANZFTA would generate combined GDP gains of about C\$1.8 billion over 10 years. Welfare gains would be substantially less—amounting to about C\$1 billion—because of higher consumer prices. The benefits would not be evenly spread across the region. Indeed, the least developed members—Cambodia, Laos and Myanmar—would probably bear a net cost based on their limited potential to expand trade and investment with Canada.

A trade deal would thus likely need to be coupled with a development assistance package for those members that would benefit least from the trade and investment provisions. Such an aid component would enhance the overall benefits to ASEAN, but could also help Canada if it allowed Canada to capture collateral benefits. Some options to consider:

- Investments to improve access to regional trade routes, such as working through the Asian Infrastructure Bank, or joining China's One Belt, One Road initiative. For example, Canada could use these initiatives to generate exports of engineering and construction services.
- Relaxed rules of origin for least-developed countries. Such preferential arrangements would enable these countries to attract investment for industrial projects whose products might find a market in Canada. Possible candidates include textiles and clothing, or basic ingredients for pharmaceuticals.
- Transplanting Canadian production facilities to these countries. One example might be dairy equipment that no longer has a use in Canada as the supply management system erodes. Such arrangements would help meet Canada's aid commitments while addressing structural adjustment programs at home. At the same time, such transfers would boost the ASEAN countries' technology capabilities.
- Facilitating travel to Canada from these countries for business, education and/or temporary work. These trips would create linkages that might eventually spawn a variety of commercial ventures.

SECTORAL IMPACTS

Under the Ciuriak model, Canada realizes its largest export gains in two industrial sectors: chemicals, rubber and plastics (C\$758 million); and machinery and equipment (C\$339 million). ASEAN, meanwhile, stands to benefit most in textiles and clothing. ASEAN inroads into Canadian markets in these sectors would have a positive material impact on the value added by Canadian industry.

Other Canadian exports that stand to make significant gains in ASEAN markets under a free trade agreement:

- Industrial products (dollar amounts below are projected sales from 2017-2027)
 - motor vehicles (C\$68 million)
 - electronic equipment (C\$45 million)
 - transport equipment (C\$23 million)
- Agri-food
 - processed food products (C\$116 million)
 - pork and poultry (C\$108 million)
 - oilseeds and vegetable oils (C\$87 million)
 - fruit and vegetables (C\$57 million)
 - beef (C\$26 million)
 - dairy (C\$25 million)
- Natural resources
 - wood and paper products (C\$92 million)
 - metal products (C\$91 million)
 - minerals (C\$40 million)

The model sees little scope for growth in services trade. Even internally, ASEAN members have made little progress in liberalizing services, including the movement of skilled personnel. The hope is that awareness of the benefits of services trade will grow, and that governments will become more willing to take action as the ASEAN Economic Community's single market takes shape.

On the subject of trade in services, a narrowly focused negotiating strategy may end up being more rewarding for Canada than one seeking broad liberalization. Australia honed in on education and health services in its trade agreement with China. Similarly, Canada might push for gains in specific areas of interest to Canadian business, such as financial services, engineering and environmental services. Another worthwhile (and achievable) goal would be to ease temporary exchanges of people between Canada and ASEAN, on condition that ASEAN members made progress among themselves in this area.

ADDITIONAL BENEFITS

Economic modelling may understate the economic impacts of a Canada-ASEAN agreement entering into force. For example, modeling does not take into account the announcement effects of an agreement, which may lead businesses to explore opportunities in a market with FTA coverage. In addition, with increasing trade policy uncertainty with many of Canada's large trade partners, increased certainty with ASEAN may lead to increased trade and investment flows. Such impacts could roughly double the positive impacts of an agreement.

In this scenario, by 2027, the bilateral trade impact of CAFTA would be in the range of C\$4.8 billion to C\$10.9 billion, with welfare gains for Canada in the range of C\$1 billion to C\$3.5 billion and real GDP gains of about 0.03 per cent to 0.1 per cent. For ASEAN, the gains would be in a similar range, with welfare gains on the order of C\$1 billion to C\$2.3 billion and real GDP gains on the order of 0.02 per cent to 0.36 per cent.

TAB. 1

Summary of Trade Impacts, CAD millions or % Change

Canada Trade Impacts	Bilateral Exports	Bilateral Imports	Bilateral Exports %	Bilateral imports %
Baseline - no FTA	23,479	25,734		
Base Case with FTA	25,466	28,544	8.46	10.92
Incorporating Uncertainty	27,856	32,539	18.64	26.44

Source: Ciuriak Consulting.

SECTION 5

NEXT STEPS

The economic modelling in this report presented the anticipated benefits to Canadian and ASEAN economies under an AANZFTA-styled agreement, ASEAN's most ambitious agreement to date. While the results in the first 10 years (2017-27) are satisfactory, the Canadian government should seek an agreement that exceeds what was accomplished by Australia and New Zealand.

In a bid to conclude an agreement more beneficial than AANZFTA, the CAFTA should be developed based on the anticipated realization of the ASEAN Economic Community (AEC) coming into full force. This plan, if fully realized, would liberalize the movement of goods, services, capital, and people within the ASEAN region. Under this system, the region would become a single market of over 600 million people, a larger population than the EU.

A negotiation should keep ASEAN's future economic potential in mind. Most ASEAN countries are growing rapidly and have populations in or moving towards the middle class. Over time, demand from these consumers will grow. If Canadian companies can establish themselves and become competitive in the region early, they will be well-positioned to benefit from this future customer base.

Finally, CAFTA should be viewed as a part of a larger national strategy focused on Canadian competitiveness. To this end, success in the CAFTA negotiation will be determined by how well it situates Canada relative to its trade competitors. Opening up ASEAN with this goal in mind will ensure our industries remain among the most competitive in the world. It will also help to attract more job-creating investment to Canada from companies hoping to benefit from Canada's increasingly competitive environment.

RECOMMENDATIONS

- **SERVICES:** The most recent CAB/UBC Canada-ASEAN Business Outlook Survey showed that services companies are some of the most eager and optimistic Canadian companies operating in the region. However, under the AANZFTA model, they would benefit little. To produce a better result for services trade in the short-term, an agreement should focus on liberalizing key services, such as financial services, equivalent to what was achieved in the TPP and CETA negotiations. Over the medium-to-long-term Canada should strive to meet AEC's level of services liberalization.
- **GOODS:** An ambitious CAFTA could increase the export of manufactured goods from Canada to the ASEAN region. Canada should seek to improve upon the AANZFTA goods commitments, with a particular focus on manufactured goods.
- **SECTOR FOCUS:** The agreement should play to Canada's key sectoral strengths, including agriculture, industry, services, natural resources and infrastructure. Consider the sectors outlined in this report to appreciate the need for sector-specific trade liberalization strategies.
- **BILATERAL DEALS:** In the event that an ASEAN-wide agreement is impossible, the Canadian government should strive for a number of bilateral agreements with key markets in ASEAN. Vietnam and Indonesia, due to their size and high level of trade restrictiveness, would be the two most valuable FTAs in lieu of an ASEAN-wide agreement. Attention should also continue to be paid to ensuring a strong economic relationship with Singapore, given its role as an important hub for business in the region.
- **REGIONAL DEALS:** The TPP's future is uncertain, but Canada should not give up on the goal of being part of an Asia-Pacific-wide free trade agreement. A deal that Canada should watch closely, and could compliment CAFTA, is the Regional Comprehensive Economic Partnership (RCEP) agreement. RCEP, while presumably less ambitious than the TPP, could provide additional benefits to CAFTA through enhanced regional trade flows. Once the final scope of the agreement is known and deemed beneficial, Canada should move swiftly to join the agreement.
- **TPP:** Use the TPP as a template where appropriate. ASEAN countries in the TPP made bold new concessions including, in some cases, substantial legislative changes. The TPP may never enter into force, but parts of deal can be used as goal posts in CAFTA.

- **COMPLEMENTARITY TO OTHER ASIA AGREEMENTS:** Southeast Asia is already well integrated into supply chains in Northeast and South Asia. Agreements with China, Japan, and India should be developed with Southeast Asian supply chains in mind. Enhanced trade with ASEAN could compliment the results of each respective agreement.
- **PROMOTION:** Many Canadians are unfamiliar with ASEAN, let alone the opportunities created by a trade agreement. ASEAN is a complicated region, and many Canadian companies, particularly small and medium size companies, might not understand how to take advantage of market access opportunities. The government should have plans in place, upon entry into force, to highlight ASEAN as an important partner for Canada's future growth prospects and promote the use of the preferential market access provided by the agreement.

CONCLUSION

The Asia Pacific Foundation of Canada, Canada-ASEAN Business Council, and Business Council of Canada endorse the CAFTA. We urge policymakers to consider the recommendations outlined in this paper to ensure that Canada benefits from an enhanced economic partnership with ASEAN.

LIST OF ABBREVIATIONS

AANZFTA	ASEAN-Australia-New Zealand Free Trade Agreement
AEC	ASEAN Economic Community
APF CANADA	Asia Pacific Foundation of Canada
ASEAN	Association of Southeast Asian Nations
ASEAN+6	ASEAN's six FTA partners (Australia, China, India, Japan, South Korea and New Zealand)
BCC	Business Council of Canada
CABC	Canada-ASEAN Business Council
CAFTA	Canada ASEAN Free Trade Agreement
CN	Canadian National Railway
EIM	Enterprise Information Management
FTA	Free trade agreement
GAC	Global Affairs Canada
GATS	General Agreement on Trade in Services
GDP	Gross domestic product
IAR	Institute of Asian Research
ISED	Innovation, Science and Economic Development Canada
NAFTA	North American Free Trade Agreement
PO&G	Pacific Oil and Gas
RCEP	Regional Comprehensive Economic Partnership Agreement
SPS	Sanitary and phytosanitary
STRI	Service Trade Restrictions Index
TBT	Technical barriers to trade
TPP	Trans-Pacific Partnership
UOB	United Overseas Bank
WTO	World Trade Organization

| APPENDIX

BOXES

BOX 1. AANZFTA Background (p.52)

FIGURES

- FIG. 1. Canada's Diplomatic Presence in ASEAN, 2017 (p.8)
- FIG. 2. ASEAN's Top Two-Way Trading Partners (2015) (p.9)
- FIG. 3. ASEAN and Canada GDP in Current Prices, 2011-2021 (p.11)
- FIG. 4. ASEAN and Canada GDP Growth in Constant Prices, 2011-2021 (p.11)
- FIG. 5. ASEAN population Demographics, 2015 and 2035 (p.12)
- FIG. 6. ASEAN Business Environment (p.13)
- FIG. 7. Canada-ASEAN People-to-People Ties (p.14 - 15)
- FIG. 8. Canada-Indonesia Economic Relations, 2006-2015 (p.19)
- FIG. 9. Canada-Malaysia Economic Relations, 2006-2015 (p.21)
- FIG.10. Canada-Myanmar Economic Relations, 2006-2015 (p.22)
- FIG.11. Canada-Philippines Economic Relations, 2006-2015 (p.24)
- FIG.12. Canada-Singapore Economic Relations, 2006-2015 (p.26)
- FIG.13. Canada-Thailand Economic Relations, 2006-2015 (p.27)
- FIG.14. Canada-Vietnam Economic Relations, 2006-2015 (p.29)

TABLE

TAB. 1. Summary of Trade Impacts, CAD millions or % Change (p.55)

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PARTNERSHIP AND **ACKNOWLEDGEMENTS**

THE ASEAN ECONOMIC REPORT 2017 was created through a partnership between the Asia Pacific Foundation of Canada, the Business Council of Canada, the Canada-ASEAN Business Council, and the Institute of Asian Research at the University of British Columbia (UBC), with assistance from UBC's Master of Public Policy Global Affairs (MPPGA) program.

We would especially like to acknowledge contributions from the following MPPGA students: Kiran Alwani, Corrin Bulmer, Zameena Dadani, and Emily Mann.

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