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A NEW OUTLOOK

Strengthening cooperation between
Canada, Indonesia and ASEAN in the Indo-Pacific





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Foreword

Jonathan Berkshire Miller and Ben Perkasa Drajat

Indonesia and Canada have enjoyed nearly seven decades of diplomatic relations. Both states have also been increasing areas of convergence in recent years, both bilaterally and through multilateral forums. As Canada looks to tilt its outlook more purposely in the Indo-Pacific, it is only natural that a partnership with Indonesia – as one of the biggest democracies and the founding member of the Association of South East Asian Nations (ASEAN) – should be enhanced.

This compendium of articles is an inaugural collaboration between Indonesia's Foreign Policy Strategy Agency (known before as Policy Analysis and Development Agency) and Canada's Macdonald-Laurier Institute. The volume, the first of its kind, is aimed at two objectives. First, to highlight national views in both Indonesia and Canada of their respective strategies for engaging in the Indo-Pacific region. Second, and perhaps most importantly, these essays also outline the importance of the bilateral relationship between Jakarta and Ottawa, contextualized under the strategic rubric of the Indo-Pacific partnership.

Indonesia has been a leader within ASEAN in promoting the development of the ASEAN Outlook on the Indo-Pacific (AOIP), which underscores for the first time some of the organization's shared values and norms in the context of the Indo-Pacific. AOIP is the way in which ASEAN envisions the Indo-Pacific and the guiding principles for cooperation in the Indo-Pacific region.

This is not an insignificant development. With cooperation and partnership as key principles of AOIP, it adds weight to the growing consensus that there is room both for ASEAN as the region's central hub and regional architecture alongside the need to view the interlinkages between states in the broader Indo-Pacific.

For Canada, the traditional lens to look at such engagement has been through the Asia-Pacific framing – defining the region largely through our experience

in the multilateral architecture. Canada was a founding member of the Asia-Pacific Economic Cooperation (APEC) in 1990 and has been a dialogue partner in the ASEAN Regional Forum since its formation in 1994. Aside from these two main vehicles, Canada has been active in the international development space over the years and is a member of the Asian Development Bank, and more recently joined – while not before considerable internal debate – the Chinese-led Asian Infrastructure Investment Bank in 2017.

Yet, despite having key interest in a stable and rules-based region, Canada seems late to both the Indo-Pacific game and in clearly and thoroughly articulating its rationale to invest in the region compared with other middle powers.

It's time for a paradigm shift, and for Canada – along with its traditional partners and allies – to assertively and unapologetically promote its interests in the Indo-Pacific region. The amity between Canada and ASEAN should be an ace card for Canada to use in the game as it is a testament to the recognition of ASEAN centrality. The volatility in the region underpins the need for Canada to work with our key democratic partners to push forward the rules-based liberal order. There is not an option to stay on the sidelines. Canada can and should play a role here to promote and stand for a free and open Indo-Pacific vision to promote these shared interests.

It is our hope that this booklet will stimulate more discussions and thoughts in both countries on the importance of Indonesia and Canada to work together in the region for years to come.



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Part I:

Indo-Pacific and the Geopolitical Context

ASEAN Outlook on the Indo-Pacific and the economic opportunity for Canada

Leonard F. Hutabarat

Economic engagement and the need to boost trade relations between Canada, Indonesia, and the Association of Southeast Asian Nations (ASEAN) remain an important endeavour. Canada could engage Southeast Asia in an economic framework by establishing a regional trade agreement or increased bilateral trade with a particular country in the region. ASEAN, as a leading regional organization, could propose to have a regional free trade agreement (FTA) with Canada, especially in light of its position as one of Canada's important trade partners. Meanwhile, as the biggest market in Southeast Asia, Indonesia could also suggest the negotiation of a bilateral trade agreement with Canada.

Canada's engagements in a regional trade agreement

It is very crucial for Canada and Indonesia, as well as ASEAN, to have a vision for the next five-year partnership. The way Canada engages with ASEAN countries today can be seen in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). This trade agreement connects Canada

to ASEAN member's countries, such as Vietnam, Malaysia, Brunei, Singapore, and other major Canadian partners in the region, including Japan.

In addition to the CPTPP, Canada also plays a role in the United States-Mexico-Canada Trade Agreement (USMCA), which replaced the North American Free Trade Agreement (NAFTA). This agreement is a formal and established way for Canada to penetrate big markets in the North American region. As well, Canada engages European Union (EU) countries under the Comprehensive Economic and Trade Agreement (CETA), through which both parties enjoy reduced tariffs and which makes it easier to export goods and services, thereby benefitting people and businesses in both the EU and Canada.

Since the CPTPP agreement entered into force, Canada became the only G7 nation to have free trade access to North America, Europe, and the Asia-Pacific. Canada is thus able to easily engage with this triad of regional groups.

The CPTPP creates a framework for trade that enables greater market access between member states. Ever since the agreement was ratified, the elimination of tariffs abroad has stimulated Canadian foreign business activities. As a result, Vietnam has become Canada's largest trade partner in ASEAN and one of Canada's top 10 import countries alongside the US, China, Mexico, Germany, Japan, South Korea, Italy, UK, and Brazil (Table 1). In 2020, the trade value between Vietnam and Canada reached almost US\$9 billion. In the same year, the trade balance between Canada and many of its ASEAN partners such as Thailand, Vietnam, and Malaysia (except for Singapore) – all three also members of the CPTPP – showed a deficit on Canada's side (Table 2).

TABLE 1: MAIN EXPORTER COUNTRIES TO CANADA (IN US\$ THOUSANDS)

Country	2016	2017	2018	2019	2020	Jan - July 2020	Jan - July 2021	%
United States	3,740,203	3,915,062	4,159,089	5,266,238	6,084,601	109,792,559	134,741,194	22,7
China	2,377,630	2,543,369	2,749,382	2,820,403	2,635,067	29,366,280	36,486,323	24,2
Mexico	1,956,616	2,146,102	2,301,598	2,145,732	2,274,700	11,853,047	15,034,205	26,8
Germany	1,222,975	1,332,843	1,358,459	1,368,114	1,203,500	7,196,565	8,805,794	22,3
Japan	897,010	996,390	1,138,210	1,284,968	1,126,372	5,406,240	7,519,996	39,0
Korea, South	1,023,241	1,072,328	1,118,999	1,208,123	885,755	3,880,615	4,721,111	21,6
Italy (incl. Vatican City State)	746,375	774,727	981,494	924,849	878,984	3,613,385	4,747,638	31,3
Vietnam	62,135	93,595	101,273	137,834	130,381	2,933,454	4,261,237	45,2
United Kingdom	19,337	24,191	50,397	35,854	22,561	3,421,754	3,790,660	10,7
Brazil	1,571	4,167	5,807	296	1,379	2,653,197	3,207,773	20,9
Sub-total	12,047,092	12,902,774	13,964,707	15,192,411	15,243,299	180,117,101	223,315,936	24,0
Others	390,451,029	419,915,911	445,939,858	438,237,455	388,999,175	41,407,079	52,548,700	27,0
Total All Countries	402,498,121	432,818,685	459,904,565	453,429,866	404,242,474	221,524,181	275,864,636	24,5

Source: Canada 2021

TABLE 2: ASEAN-CANADA TRADE BALANCE (IN US\$ THOUSANDS)

Country	2016	2017	2018	2019	2020	Jan - July 2020	Jan - July 2021	%
United States	3,740,203	3,915,062	4,159,089	5,266,238	6,084,601	109,792,559	134,741,194	22.7
Indonesia	-122,271	-1,496	298,740	85,120	128,825	94,934	233,972	146.5%
Singapore	217,304	230,388	-54,081	223,775	42,401	52,404	53,816	2.7%
Brunei Darussalam	7,511	-1,704	-811	6,316	5,508	2,220	2,186	-1.5%
Laos	-10,683	-19,468	-47,754	-33,711	-20,654	-13,457	-13,527	-0.5%
Myanmar	-32,812	-63,017	-74,508	-98,593	-91,005	-53,819	-44,109	18.0%
Philippines	-550,482	-423,545	-362,570	-659,676	-219,521	-39,053	-80,929	-107.2%
Cambodia	-865,856	-956,742	-1,077,683	-1,229,769	-1,103,695	-569,544	-727,952	-27.8%
Malaysia	-1,420,957	-1,592,714	-1,696,413	-1,540,653	-1,606,983	-726,613	-1,312,788	-80.7%
Thailand	-1,697,278	-1,980,732	-2,146,656	-2,155,707	-2,039,889	-1,101,345	-1,402,028	-27.3%
Vietnam	-3,341,641	-3,104,694	-3,325,116	-4,517,350	-5,540,833	-2,604,975	-3,941,836	-51.3%
Sub-total	-7,817,165	-7,913,724	-8,486,853	-9,920,248	-10,445,845	-4,959,248	-7,233,196	-45.9%
Others	-4,621,753	-4,363,652	-459,089	3,108,093	-4,472,704	-2,777,654	13,670,198	592.1%
Total All Countries	-12,438,918	-12,277,375	-8,945,942	-6,812,155	-14,918,549	-7,736,903	6,437,002	183.2%

Source: Canada 2021

Approximately 70 percent of Canada's worldwide imports comes from the US and Mexico. Canada's other import partners include, from Europe, Germany, Italy, and the UK, and from the Asia-Pacific, China, Japan, and South Korea. Canada's major import partners in Southeast Asia are Vietnam, Thailand, and Malaysia (Table 3); the CPTPP agreement helps facilitate economic partnerships between Canada and these countries as compared to Indonesia, which is outside the agreement.

Given these facts, it is important for Canada to consider Indonesia as a potential market – especially given its large population of 270 million and its position as one of Asia's emerging markets. Indeed, in the long run, it would be very beneficial for both countries to have a bilateral trade agreement with each other.¹ The start of Indonesia-Canada Comprehensive Economic Partnership Agreement (ICA-CEPA) negotiations is expected to give Indonesian and Canadian business leaders the confidence to forge mutually beneficial business deals.

Which countries will be Canada's main export partners? According to Statistics Canada, among the top 10 exporters to Canada are the United States, China, Japan, Mexico, and South Korea. This fact underscores the relationship Canada has with its trade partners.

Apart from China, most of these countries already have a trade agreement with Canada. In the investment sector specifically, most of Canada's international investments are in North America, with the remainder spread across

Europe and Latin America, and with just a small number in Asia. Indonesia's Ministry of Investment notes that around 90 percent of Canada's investment in the country is concentrated in the mining sector. Indonesia should find ways to develop investment relations with Canada to benefit both countries, including by exploring potential investment in other sectors.

TABLE 3: MAIN ASEAN EXPORTER COUNTRIES TO CANADA (IN US\$ THOUSANDS)

No.	Countries	2016	2017	2018	2019	2020	January - July 2020	January - July 2021	%
1	Vietnam	3,740,203	3,915,062	4,159,089	5,266,238	6,089,343	2,933,454	4,261,237	45.26
2	Thailand	2,377,630	2,543,369	2,749,382	2,820,403	2,634,791	1,442,819	1,822,971	26.35
3	Malaysia	1,956,616	2,146,102	2,301,598	2,145,732	2,274,616	1,153,893	1,743,356	51.08
4	Indonesia	1,222,975	1,332,843	1,358,459	1,368,114	1,203,542	683,761	846,176	23.75
5	Cambodia	897,010	996,390	1,138,210	1,284,968	1,127,122	582,234	748,754	28.6
6	Philippines	1,023,241	1,072,328	1,118,999	1,208,123	885,864	452,357	604,181	33.56
7	Singapore	746,375	774,727	981,494	924,849	878,984	573,014	471,243	-17.76
8	Myanmar	62,135	93,595	101,273	137,834	130,632	68,985	58,589	-15.07
9	Laos	19,337	24,191	50,397	35,854	22,559	14,181	16,748	18.1
10	Brunei Darussalam	1,571	4,167	5,807	296	1,379	1,112	356	-67.91
	Sub-total	12,047,092	12,902,774	13,964,707	15,192,411	15,248,832	7,905,814	10,573,617	33.74
	Others	390,451,029	419,915,911	445,939,858	438,237,455	389,218,761	213,618,366	265,291,018	24.19
	Total All Countries	402,498,121	432,818,685	459,904,565	453,429,866	404,467,593	221,524,181	275,864,636	24.53

Source: Canada 2021

Future Canadian engagement in Southeast Asia

Canada is a strong believer in fair trade and plays an active role in maritime trade. With this in mind, what would be the best way for Canada to engage with ASEAN? Indonesia and Canada share common interests in health care technology, renewable energy, infrastructure, connectivity logistics or transportation, and the digital economy.

It is also important for Indonesia to consider promoting investment opportunities to a Canadian audience. Most Canadian investors are not aware that Indonesia has abundant natural resources and many investment projects. The Indonesian government should have clear and simple procedures and regulations for foreign investors to follow. Doing so would attract more foreign investment to Indonesia. In addition, it is also important for Indonesia to know what factors will attract Canadian investors. For example, Canadian investors are interested in investment projects with a fast payback and a Return on Investment (ROI) calculation above 25 percent in a 20-year period.

Canada also has strength in health care technology and renewable energy, in line with Indonesia's national investment priorities. Therefore, Indonesia should consider investing in health care technologies such as medical isotopes for hospitals given that Canadian companies that manufacture medical isotopes are the main players in the world for this product. Indonesia could also consider developing green technology for renewable energy from Canada.

Despite the various trade agreements, Canada and its partners in Asia continue to face hundreds of trade or non-tariff barriers. If we could eliminate these barriers, cooperation in the future could move quickly in the short- and medium-term. Canada's Ambassador to Indonesia, Cameron MacKay (2021), has already agreed to possible free trade agreements with both Indonesia and ASEAN. Canada should consider the sizeable market offered by the entire ASEAN region, not only for trade but also for investment.

Such agreements focus not only on engagement among diplomats or government officials; they also promote multi-track diplomacy. They are not limited to naval, defence, or army-related engagement; they are also a means to provide trade investment and economic cooperation. Ultimately, it is important for both regions to engage business players and communities since they will be the backbone of future cooperation.

“Indonesia is considered the heart of ASEAN and plays a key role in shaping the regional economy.”

If negotiations for an ASEAN-Canada Free Trade Agreement prove difficult given the need for consensus among ASEAN members, Indonesia and Canada could negotiate a bilateral agreement.

Indonesia is considered the heart of ASEAN and plays a key role in shaping the regional economy. Likewise, Indonesia and Canada are fellow members of the G20 and a comprehensive economic partnership between the two countries will facilitate the strategic cooperation between the two economic powers. It seems that Canada has found it difficult to avoid the influence of both China and the United States. As such, Canada's engagement in the ASEAN region, and specifically with Indonesia, could prove beneficial.

Economic and trade engagement are not only about connecting two business partners. Canada has a strong expertise in logistics and transportation, which are important for building the maritime connectivity needed for business and

investment. Canada is also well advanced in energy-related infrastructure, which the ASEAN region, including Indonesia, needs. These areas of potential cooperation are crucial for developing the economy and for the sake of the common future.

Many factors could attract Canada to forge a trade alliance with the ASEAN region. By doing so, Canada could diversify its partners – not only partners in the US and Mexico, but partners in the wider Asia-Pacific region.

The ongoing FTA negotiation between ASEAN and Canada, or even the bilateral FTA between Indonesia and Canada, will be a historical breakthrough in Canada's engagement in the Indo-Pacific.



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Endnotes

- 1 Indonesia and Canada recently agreed to start negotiations on the Comprehensive Economic Partnership Agreement (CEPA). The agreement to begin negotiations was formalized with the virtual signing of a joint statement on June 20, 2021, between the Indonesian Minister of Trade, Muhammad Lutfi, and the Canadian Minister of Small Business, Export Promotion and International Trade, Mary Ng. The agreement became a milestone in the bilateral relationship between Indonesia and Canada, particularly by establishing closer and comprehensive economic cooperation.



About The Foreign Policy Strategy Agency – Ministry of Foreign Affairs of Indonesia

The Foreign Policy Strategy Agency (FPSA, Indonesian: BSKLN) is an agency responsible for formulating foreign policy strategy recommendations in the Ministry of Foreign Affairs of the Republic of Indonesia. FPSA undertakes analysis, research, and foresight on issues of overall and strategic importance related to global situation and international relations as well as providing recommendations to ensure that policies and strategies are in line with Indonesia's foreign policy's priorities and interests.

FPSA holds Policy Planning Consultations regularly with counterparts from other countries to exchange views on international and regional situation, respective foreign policies, and other topics of common interest.

FPSA also strengthens cooperation through the conduct of research and analytical works with Indonesian and foreign partners from around the globe, including government institutions, research institutes, think tank, and universities.

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I want to congratulate the **Macdonald-Laurier Institute** for 10 years of excellent service to Canada. The Institute's commitment to public policy innovation has put them on the cutting edge of many of the country's most pressing policy debates. The Institute works in a persistent and constructive way to present new and insightful ideas about how to best achieve Canada's potential and to produce a better and more just country. Canada is better for the forward-thinking, research-based perspectives that the **Macdonald-Laurier Institute** brings to our most critical issues.

The Honourable Jody Wilson-Raybould

The **Macdonald-Laurier Institute** has been active in the field of Indigenous public policy, building a fine tradition of working with Indigenous organizations, promoting Indigenous thinkers and encouraging innovative, Indigenous-led solutions to the challenges of 21st century Canada. I congratulate **MLI** on its 10 productive and constructive years and look forward to continuing to learn more about the Institute's fine work in the field.

The Honourable Irwin Cotler

May I congratulate **MLI** for a decade of exemplary leadership on national and international issues. Through high-quality research and analysis, **MLI** has made a significant contribution to Canadian public discourse and policy development. With the global resurgence of authoritarianism and illiberal populism, such work is as timely as it is important. I wish you continued success in the years to come.

The Honourable Pierre Poilievre

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