

**A Whole-of-ASEAN Strategy that is Greater than the Sum of Its Parts:
Unsolicited Advice for the soon-to-be-appointed Canadian Ambassador to the
Association of Southeast Asian Nations**

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An appointment to the newly-created position of Canada's Ambassador to the Association of Southeast Asian Nations (ASEAN) is in the offing. It follows on a recent increase in the tempo of Canada's relations with the regional grouping, which consists of 10 countries with a combined population of 600 million and an aggregate GDP that is larger than India's. Canada already has diplomatic representation in each of the member economies, and will soon have Ambassadors/High Commissioners resident in all of the ASEAN capitals. What then should be the role of an Ambassador to the region as a whole? How can this person make a contribution to Canada-ASEAN relations that is greater than (or at least different from) the sum of bilateral relations with each of the member countries?

A starting point is the reality that Canada's relationship with ASEAN, despite the progress of recent years, is one of looking in from the outside. Unlike say Australia or the United States, Canada is not a member of key ASEAN-led institutions and initiatives, such as the East Asia Summit, Economic Research Institute for East Asia and ASEAN (ERIA), the ASEAN Defence Ministers Meeting Plus, the ASEAN+3 Macroeconomic Research Office, Chiang Mai Initiative Multilateralization (CMIM), the Executive Meeting of East Asia Pacific Central Banks, and the Regional Comprehensive Economic Partnership (RECP). It is more than a little telling that we are the only dialogue partner of ASEAN that was not invited to be part of the ADMM+. Securing membership in selected ASEAN institutions should therefore be a top priority for the new

Ambassador. As a goal, Canada should seek to secure an invitation to the ADMM+ within the next 1-2 years, and to join the East Asia Summit in 3-5.

There will be those who question the need for Canada to take part in yet more clubs when our diplomatic resources are already stretched thin. Indeed, this line of argument has been one of the principal reasons for our lagging relationship with ASEAN. The point, however, is not just about membership in a particular organization or about its near-term efficacy. It is rather about being taken seriously as a country that wants to build long-term relations with an organization that is in many ways shaping a new form of regional cooperation and integration in East Asia.

Another important starting point for our new Ambassador to ASEAN to consider is the current status of Southeast Asian economies and the likely trajectory of their development in the decades to come. There are four broad features of ASEAN economies that have particular salience for Canada's interests.

The first is that less developed ASEAN economies will be at the forefront of a re-ordering of regional production networks that will create new opportunities for Canadian companies. With the exception of a few companies such as Celestica, corporate Canada by and large did not take part in the dispersal of production in the 80s and 90s that was centered first on the East Asian "tigers" and later on the People's Republic of China and parts of Southeast Asia.

The next round of production "unbundling" will on the one hand include frontier economies such as Indonesia, Vietnam, Myanmar and Cambodia, as well as involve a greater degree of services input to the value-chain, as product specifications become more diverse and the quality of production, distribution and marketing becomes as important as the volume of output. Canada did not have much of a manufactured or industrial goods sector that could take part in the first and second rounds of production unbundling in Asia, but we do have world-class companies that offer a wide range of business and professional services that will be

needed in the next round of production network expansion. Indeed, a survey of Canadian businesses in ASEAN conducted by the Asia Pacific Foundation of Canada in 2012 found that a quarter of respondents plan to relocate part or all of their operations in China to Southeast Asia.

At the same time that less developed areas of ASEAN will be looking to take part in regional production networks because of their ability to offer low-cost production, other parts of the region will be characterized by a burgeoning middle-class seeking to increase consumption beyond basic needs and a better quality of life. By 2030, the middle class in ASEAN is estimated to number about 450 million (over 60% of the population). In the same way that Canadian companies can contribute to value creation in the supply chains of new production networks in developing Southeast Asia, firms which offer products and services that appeal to “quality of life” will find massive growth opportunities in selected cities and sub-regions of ASEAN. Education, environmental, advertising, health care, hospitality, recreation, architectural, and design services are just a few examples of the sectors in ASEAN that will offer fresh growth opportunities for Canadian firms.

A third trajectory of Southeast Asia’s economic development is infrastructure. There are trillions of dollars of infrastructure development needed in the region, a large portion of which involves cross-border projects. It is not clear where the money for these investments will come from, but there is, in theory, a sufficient pool of savings in East Asia to finance these projects, if a means for structuring projects and channeling funds can be designed that is better than the current alternative of parking Asian surpluses in US Treasury Bills that yield very nominal returns.

The Canadian government has already initiated a project that will facilitate the structuring of public-private infrastructure projects in Southeast Asia. This is a good start on what could be a larger effort led by the new Canadian Ambassador to ASEAN to encourage Canadian banks, institutional investors, engineering firms, and other infrastructure-related companies to make

Southeast Asia a priority for their business development. The launch of an Asian Infrastructure Investment Bank (AIIB), led by China, could be a key factor in unlocking investment capital for the region – and is as relevant to an ASEAN strategy as any initiative that is specifically focused on the region. Canada should get on board with the AIIB sooner rather than later, and has an opportunity in this instance to get ahead of Australia, the United States, Japan, and other western allies.

Fourth, ASEAN's economic trajectory in the next few decades will depend crucially on the pace, depth, and quality of its financial sector development. The financial sectors of ASEAN members could not be more diverse, with Singapore already a global financial centre at one extreme, and countries such as Myanmar, which is only just opening up to international trade and capital flows, at the other end of the spectrum. Financial sector development is a complex amalgam of carefully sequenced liberalization of the capital account, macro and micro prudential regulation of financial institutions, opening up to foreign competition, mobilization and intermediation of domestic savings, development of capital markets, and the attraction of foreign capital for both portfolio and long-term investment. Canada has a well-deserved track record of and reputation for sound financial institutions and regulation, and would in all likelihood be seen as a valued partner in helping ASEAN with financial sector development in all of its dimensions.

Needless to say, the long-term commitment of the Government of Canada to provide tangible support in establishing Canada's credentials in any or all of the four areas is crucial. Given limited resources, Ottawa will have to choose where it wants to make an impact, and allocate time, energy, and money accordingly. But there should be no delusions about the scale of commitment that will be needed, if we are serious about being a credible player in ASEAN. As a point of comparison, Australia's development assistance program to ASEAN countries is about five times larger than Canada's.

Even with limited resources, there are many ways to have a near-term impact, building on the momentum of a new Ambassadorial appointment. For a start, Ottawa should look at seconding

senior staff to ASEAN institutions such as the Secretariat, ERIA, EMEAP, and AMRO so that Canada can gain a vantage point on issues that are being debated in ASEAN and the region. Indeed, we can go further by offering to lead a multi-year research and policy development effort focused on one of the four thematic areas identified in this essay. Financial sector development would seem to have special resonance for ASEAN countries, and would correspond well with Canada's reputation and capabilities. Other ASEAN partners such as Japan and Australia are contributing to the development of ideas for the region, and have funded personnel and projects for this purpose.

The new Ambassador should look to spend a disproportionate amount of time in Canada (compared to other Canadian Ambassadors) in order to champion the importance of ASEAN to Canadian industry, government departments and agencies, education institutions, and other stakeholders. A high priority should be the creation of a Canadian counterpart to the Canada-ASEAN Business Council (CABC) in Singapore. A CABC chapter in Canada would provide the platform for consultation, outreach, and business development activities with the Ambassador and with ASEAN counterparts. It may be unorthodox for the Canadian Ambassador to be focusing as much attention on Canada as he or she spends on ASEAN, but the reality is that the main challenge in Canada-ASEAN relations is not in Southeast Asia; it is right here at home. Furthermore, there is no counterpart ASEAN Ambassador to Canada to champion the relationship. The new Ambassador will be filling a unique position and working on a unique bilateral relationship -- hence the need for a fresh approach to this diplomatic posting.

A final note: The upgrading of Canada-ASEAN relations has been long awaited and is very much welcomed. But there is a danger if Ottawa frames ASEAN as an alternative to China, or worse, as a counterpoint to the PRC. When Canada began ramping-up ties with India towards the end of the last decade, there was a hint that it was about "countering" China's influence in the region -- this is an approach that the Indians did not want to be party to, and it backfired. It will likewise not work with ASEAN. Canada has nothing to gain from taking sides on China-ASEAN territorial disputes. In any case, Southeast Asian views are not uniform and any sense that we

are cozying up to ASEAN as a show of support for the territorial claims of some of their members will be received poorly by Beijing, especially when the relationship is already characterized by starts and stops. ASEAN policy should be set within a larger Asia strategy which has China at the centre, with India and Japan also featuring prominently. The importance of ASEAN for Canada, after all, is not just about the 10 countries that make up Southeast Asia; it is also about how the region connects with the rest of Asia and drives global growth.

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