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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

The Rise of Asia and the ASEAN Outlook on the Indo-Pacific

Siswo Pramono

This essay will discuss the rise of Asia and the ASEAN Outlook on the Indo-Pacific (AOIP). While the increasing US-China rivalry has influenced the way strategists from the Association of Southeast Asian Nations (ASEAN) have crafted the AOIP, many have also anticipated the potential and prospects that the geo-economic shift to Asia offers. AOIP is part of the ASEAN contribution in shaping the geopolitical shift to Asia.

The rise of Asia is real

In 2010, we saw an early sign of Asia's rise. To be clear, I do mean the rise of Asia as a whole, and not just the rise of China. For that reason, I am including countries like Indonesia, India, and ASEAN member states, along with China. We also need to pay attention to the strategically important role of developed economies in the region, such as Japan, South Korea, Australia, and New Zealand.

I will begin with a few statistics, specifically, the development of the G20's combined GDP-Purchasing Power Parity (PPP) from 2000 to 2020, along with the projection to 2030. In 2000, Asian members made up 28 percent, North America made up 30 percent, and the European Union made up 30 percent of the G20's total GDP. In 2020, 45 percent of the G20's GDP was generated by Asian countries. The portion of the G20's GDP that comes from North America has shrunk to 23 percent, and the portion from the European Union

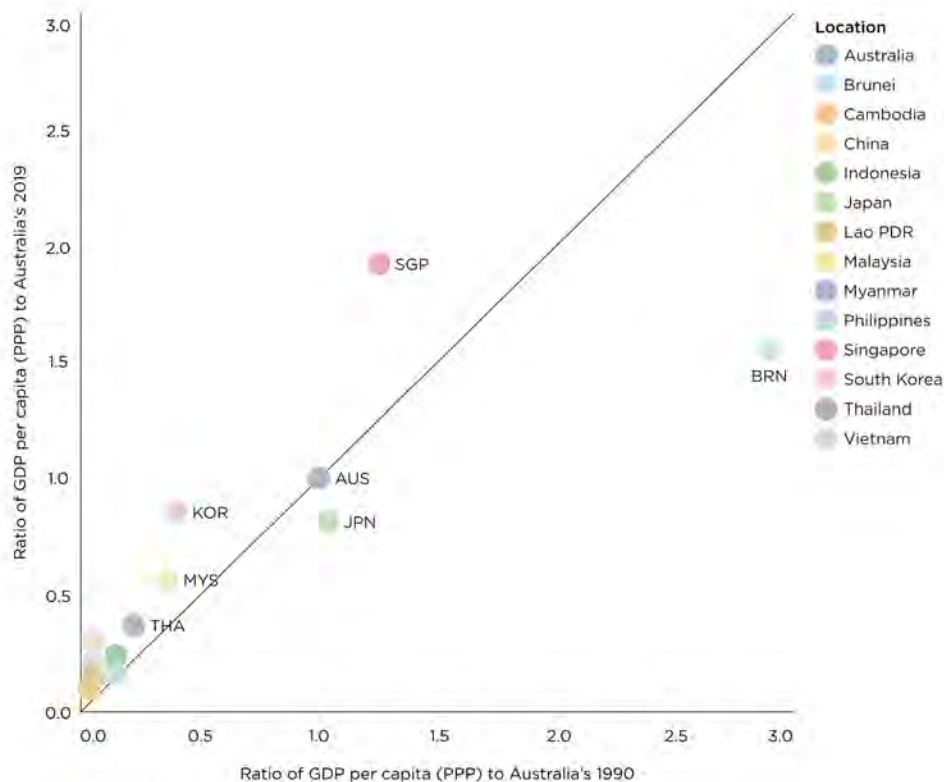
to 20 percent. Ten years from now, in 2030, Asia’s portion of GDP for the G20 is projected to be 51 percent.

Asia’s growing portion of the G20’s GDP is sustained by China, but also relies on the developing economies of India, Indonesia, and other ASEAN countries. However, the contributions of the developed economies of Asia-Oceania, such as Japan, South Korea, Australia, and New Zealand, are equally important.

Converging towards open-regionalism

What is particularly interesting is the level of Asian-Oceanian convergence. To prove that this convergence exists, we need to compare, for instance, the situation in 1990 with the one in 2019 – a span of about 30 years (Figure 1)

FIGURE 1: ASIAN CONVERGENCE: ASEAN IS “CATCHING UP” WITH AUSTRALIA



Source: GDP per capita PPP Asia Oceania 1990 – 2019, Oxford Economics Global Data Workstation, 2021, processed by PADA MoFA.

Figure 1 uses Australia as a benchmark; it is the most stable country in the region and its economy is also highly advanced. This exercise looks at the ratio of GDP per capita (PPP) of every country in the region and compares it with Australia’s at any given time (in this case 1990 and 2019). In so doing, it demonstrates how economies like ASEAN members, China, Japan, and South Korea have successfully “caught-up” with the Australian economy. As such, it

is evidence of economic convergence in East Asia and Oceania.

The 45-degree line in Figure 1 is a guide that positions each country's GDP per capita ratio to Australia's in 1990 as compared to 2019. By comparing each country's position, one can observe whether their GDP per capita ratio has increased or decreased in relation to Australia's. Thus, for example, in 1990, the GDP per capita of Brunei Darussalam was almost three times that of Australia's, while in 2019 it decreased to only 1.5 times that of Australia's. So, in 2019, the position of Brunei was relegated into a commensurate point located below the 45-degree line. The same interpretation applied to Japan.

Meanwhile, ASEAN countries (including Indonesia), as well as China and South Korea have improved their GDP per capita ratio compared to Australia's between 1990 and 2019. For example, Singapore's GDP per capita ratio was 1.25 times Australia's in 1990, and improved to 1.90 times in 2019. As such, Figure 1 shows Singapore in 2019 positioned in a commensurate point above the 45-degree line.

The more economies are located on the 45-degree line or above it, the more convergence is shown. When such a condition exists, the region is ready for open regionalism. The Regional Comprehensive Economic Partnership, or RCEP (a free trade agreement among Australia, Brunei, Cambodia, China, Indonesia, Japan, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam), which was concluded in November 2020, is a good case in point. With the level of convergence among its members that Figure 1 describes, RCEP could potentially become the largest trading bloc in the world.

This level of complexity is why we should not reduce the rise of Asia to the rise of China. With the level convergence described, the rise of Asia also means the rise of India (even though India is currently not a party to RCEP), ASEAN (Indonesia in particular), and many others.

Economic cooperation is the mantra of ASEAN

In East Asia – and in particular in ASEAN – the *animo* (or deep affection) among the member countries has always existed in the economy and business. From the day that ASEAN was established, the 1967 *Bangkok Declaration* clearly mentioned that the focus of ASEAN cooperation was the economy and culture. Political and security cooperation came much later.

At the time, due to tensions stemming from the Cold War, discussions about possible political cooperation would have been deemed too sensitive. Only four years later, however, ASEAN declared the region to be a “Zone of Peace, Freedom and Neutrality,” which was meant to allow ASEAN member states to preserve their independence and economic development.

Political and security cooperation are strategically important, but because most ASEAN member states are developing nations that are struggling for economic advancement, the people of ASEAN – the middle class in particular – are keen to engage in economic and business deals. This bias was confirmed by a poll taken in 2018, the year that ASEAN formulated the ASEAN Outlook on the Indo-Pacific (AOIP). One of the poll results was that a majority of respondents considered the economy to be the biggest contributor to a sense of community among ASEAN citizens, overriding variables such as values, common vision, politics, or even geography (ASEAN Secretariat 2019).

In 2003, about 10 years after the establishment of the ASEAN Free Trade Area, ASEAN launched the ASEAN Business Advisory Council (ASEAN-BAC). This council's mandate is to provide corporate feedback and guidance to strengthen ASEAN's efforts to promote economic integration. The establishment of the council emphasizes that role of the private sector is becoming increasingly important in Southeast Asia and beyond.

Corporations as determining actors in new international relations

Of the 100 largest economic revenue generators in the world today, 29 of them are states and 71 are corporations (see Babic, Heemskerk, and Fichtner 2018). Among the 71 largest companies, 25 are Asian, and this number is growing quite rapidly. At the present, those Asian companies are mostly from Japan, China, and South Korea. I anticipate that in the near future, big companies from India, Indonesia, and Malaysia will also be on the list.

Through the pillar of the ASEAN Economic Community, ASEAN has intensified its promotion of small and medium-sized enterprises (SMEs), start-ups, and the attempts to incorporate them in the digital economy.

Economic and business aspects aside, as ASEAN member countries – and East Asia more generally – are becoming more affluent, and as the region has been able to remain relatively stable, the level of national resilience has also been steadily improving. Of course some countries, like Myanmar and the Philippines, are still working hard to improve their economic performance. Hopefully their attempts produce good results.

The Fragile State Index and the Human Development Index

The Fragile State Index (FSI) is a tool that measures national resilience. In general, the national resilience of Southeast Asian countries has improved between 2006 and 2019. Stronger national resilience can strengthen regional resilience. This positive development can be inferred from the annual Fragile State Index that the Fund for Peace, a Washington-based research centre,

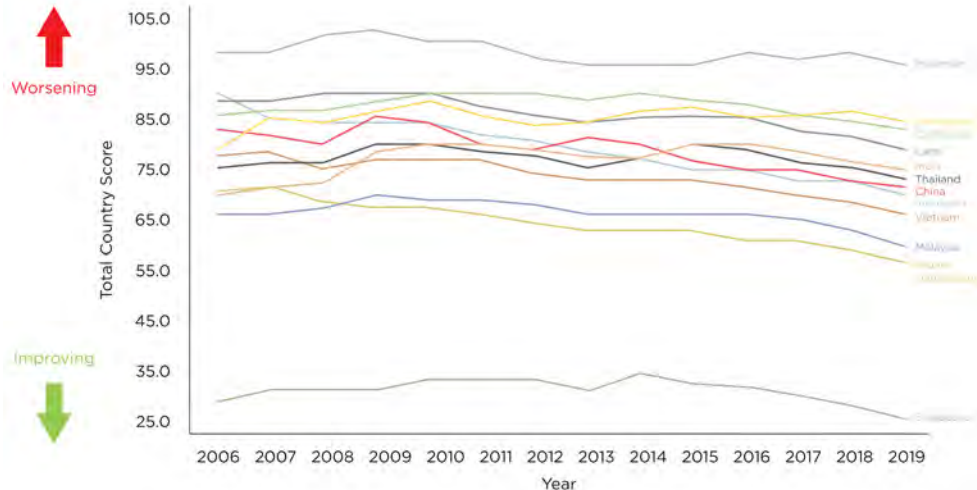
produces.

The Fragile State Index empirically assesses the level of a state's fragility as measured by 12 indicators. The index is a useful tool to measure national resilience among ASEAN member states (Figure 2).

If the Fragile State Index curve slopes down (from a higher point into a lower point) the particular country is moving away from a fragile condition into a less fragile one. Conversely, if the curve slopes upwards, then a jurisdiction's level of resilience is worsening. On the resilience score, the curves of most ASEAN countries tend to be sloping downwards, which means they are relatively better off than they were 15 years ago.

A few countries are worth highlighting. The Philippines, for instance, went from a total score of 77 to 83 (the curve slopes up overall). At the top of the index for the entire 15-year period, Myanmar is the most fragile ASEAN country. Singapore, already in the strongest position at the bottom of the index in 2006, has improved its score further in the intervening years. The red, upward-facing arrow points to a worsening resilience while the green downward-facing arrow indicates an improving resilience.

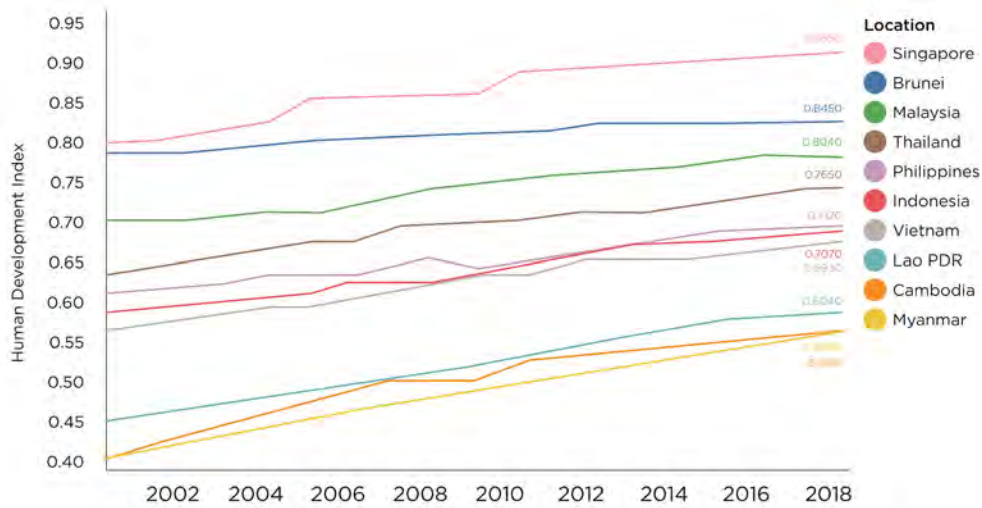
FIGURE 2: IN THE LAST 15 YEARS, ASEAN MEMBER COUNTRIES HAVE DEVELOPED REGIONAL RESILIENCE



Source: Fund for Peace 2018, processed by PADA MoFA.

On the human development index (HDI), all ASEAN countries have been improving in the last 20 years. The HDI gives us a good picture of economic development, in particular how a country is progressing on economic welfare. In the case of ASEAN, all member states have improved their ranking on the HDI, as depicted in Figure 3.

FIGURE 3: ASEAN HUMAN DEVELOPMENT INDEX 2000-2018



Source: UNDP Human Development Report 2020, processed by PADA MoFA.

So, in the last 50 years of ASEAN development, we see that economic and business cooperation has been progressing well. However, as an association of developing countries, ASEAN still needs advanced economies as partners for development.

ASEAN needs to develop strategic ties with both the US and China

ASEAN has established free trade agreements (FTAs) among themselves (AFTA or the ASEAN Free Trade Area). While the AFTA has improved intra-trade among ASEAN members, it's not effective enough to attract foreign direct investment. That is why ASEAN needs to enhance economic cooperation with other partners in the region and other advanced economies. The need to improve its strategic partnership with advanced economies, such as China and the US, despite the animosity between the latter two, has always been important for ASEAN.

As such, since 2015 Asia's rise has been coupled with the increasing strategic rivalry between the United States and China. The animosity materialized into a trade war, and has now become a technological war as well. The rivalry was made more complicated with the fragile situation in the East China Sea and the South China Sea. Specifically, the US increased freedom of navigation operations (FONOPs) in these two seas and China deployed missiles to the Parcel Islands and established military facilities on some of the islands it claims as its territory. Military brinkmanship contributed to several incidents involving US and Chinese warships. Worse, China refused to accept the Permanent Court of Arbitration's ruling on its dispute with the Philippines. The region is also bedevilled by other crises, including the Indonesia-China stand-off over

the Natuna Islands and the Vietnam-China stand-off over Vanguard Bank (the longest stand-off in the last decade).

However, despite the increasing number of crises, regional economic convergence has safeguarded economic cooperation in the region, as previously discussed. Statistics show that total trade and inflows of foreign direct investment (FDI) from China, South Korea, and other developed economies to the region have not been affected by these regional incidents.

China and the US need ASEAN more than ever

Interestingly, the flow of foreign direct investment to China has ceased – and in fact has turned negative. Even before the 2018 trade war with the US, the influx of FDI to China had long been decreasing, likely due to the increasing price of labour on the mainland. This has meant that China needs the regional market to compensate for the lack of FDI.

Coupled with the speculation (or calculation) that the US-China strategic rivalry – the trade war in particular – would turn from bad to worse, big corporations are under pressure to decide whether they are going to stay in China or diversify their value chain by investing in neighbouring regions and beyond. Their options include, among others: to relocate from China, to stay in China while opening a production branch outside China, or simply to reduce their production in China while increasing their production at their subsidiaries outside of China.

The trend of diversifying away from China was made partly for economic reasons, including the increasing salary of China's workforce. Further, the outbreak of COVID-19 in China has revealed the vulnerability of the current global value chain, which has also pushed companies to consider relocating their businesses.

As such, while majority of American companies would likely to continue doing business in China, a 2018 poll shows that those who wish to relocate would likely move to ASEAN member countries rather than to other regions (Hayat 2019). ASEAN is a good choice for a diversified global value chain due to its improvement in regional resilience (i.e., political stability), large and growing market (i.e., the regional economic progress), and the fact that the regional economy is increasingly convergent.

All the above developments were among those considered in the deliberations during the formulation of the ASEAN Outlook on the Indo-Pacific (AOIP) in 2018. The AOIP was adopted in June 2019, a short two years later.

Underlining the reasons for an inclusive AOIP

2018-2019 were crucial years for the formulation of ASEAN's vision of the Indo-Pacific:

- The US-China strategic rivalry intensified under President Donald Trump. The two major powers “raced to the bottom” as the rhetoric of “American First” became a policy of Chinese containment and evolved into a trade war. This resulted in more FONOPs in the East and South China Seas, alongside China’s increasing assertiveness and bullying towards its smaller neighbours.
- Power projection by these major powers toward the Pacific Ocean and Indian Ocean have intensified. Brinkmanship and military posturing in the East and South China Seas run the risk of miscalculation that can lead to unexpected incidents.
- Indonesia and ASEAN member states are located in the fulcrum of Indo-Pacific, but are struggling to maintain their autonomy.
- For Indonesia and ASEAN, choosing between the US and China would violate the longstanding principles of the Zone of Peace, Freedom and Neutrality (ZOPFAN) and the Treaty of Amity and Cooperation. Worse, such a choice is deeply prejudicial to the strategic needs of development partners.
- As an economic community, ASEAN’s main interest is to promote economic development, of which strategic partnerships with the US, China, and other partners must be maintained at least, and improved if possible.
- The debates on AOIP were not immune from the strategic development of 2018-2019, namely, the rise of Asia, which has been cemented with the conclusion of the ASEAN-based Regional Comprehensive Economic Partnership (RCEP). RCEP has the potential to develop into the world’s largest trading bloc. Indonesia and its ASEAN counterparts will likely see the Indo-Pacific from this outlook.
- AOIP, as a practical vision, must be able to help transform ASEAN into a competitive production base and an indispensable part of the global value chain.

The Indo-Pacific as part of ASEAN’s vision

The AOIP promotes four clusters of cooperation, each focusing on business and economic cooperation:

- Since the realm of the Indo-Pacific is the “seascape” of the Pacific and Indian Oceans, *maritime cooperation* should be the main priority.
- As reinforcing the master plan of ASEAN Connectivity 2025 is a prerequisite for transforming ASEAN into a competitive production base and an essential part of the global value chain, *connectivity* should be a focus of cooperation.
- With ASEAN embarking on green and sustainable development, cooperation on *Sustainable Development Goals* should be another priority.
- Last but not least, *economic cooperation* that can address development gaps in ASEAN is also important. Such cooperation encompasses, among other things, small and medium-sized enterprises, the digital economy, and preparing the region for the fourth industrial revolution.

Conclusion

We understand the anxiety about the Indo-Pacific among the major and middle powers in North America and Europe. The nagging question for them is whether Asia’s rise is going to change the rules of the game as we know them today. What will happen with the liberal world order?

Asia, particularly the group of developing countries in ASEAN, cannot survive alone. We need the world. In recent Asian history, the so-called Asian Tigers were the beneficiaries of the liberal world order. Partnership with Europe and North America has always been strategically important for cooperation in technology, finance, and investment.

It is a fact that a reform of the world order is needed so that the global community can keep up with strategic change, geopolitical and otherwise. That is why the UN, the WTO, and other international agencies representing the current global order and architecture have reform on their agendas. But all the reforms must be rules-based, inclusive, and be part of the spirit of alliance of multilateralism.

Ultimately, the message emerging from both the rise of Asia and the ASEAN Outlook on Indo-Pacific is that the region needs to have more constructive dialogue, more cooperation, and more partnerships with the rest of the world.



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Europe and the Indo-Pacific

Rizal Sukma

As we enter the third decade of the 21st century, the shift in the world's centre of gravity from West to East has become a key characteristic of global politics. That shift has been primarily due to, and shaped by, the rise of China. As the shift has also led to more competitive relationships among major powers, global and regional powers have begun to re-assess and re-conceptualize the strategic space where such competitive relationships take place. That space is no longer confined to East Asia. It has expanded to include the wider Indo-Pacific region; a region that integrates two strategic oceans – the Pacific and Indian Oceans – as a single strategic unit.

Within that context, confining their role to only within the East Asian region no longer makes any strategic sense for global, major, and regional players. They began to articulate their views and strategy on how they want to shape the new strategic space of engagement: the Indo-Pacific regional order. For example, the US, China, India, Japan, and Australia have all come up with their own vision of how the region should be restructured. The Association of Southeast Asian Nations (ASEAN), at the 34th ASEAN Summit in June 2019 in Bangkok, also articulated its own collective view, one called “the ASEAN Outlook on Indo-Pacific” or AOIP. The participants agreed, in light of the ongoing strategic changes in the region, that ASEAN needs its own vision about the future of the regional order – one that represents ASEAN's distinct view and voice.

Key European countries have also taken a deep interest in the Indo-Pacific region and have begun to incorporate the growing importance of the region into their foreign and security policies and strategies. Three countries have articulated their vision for the region: France (which calls it a strategy),

Germany (which calls it guidelines) and the Netherlands (which calls it a non-paper). The fact that three key EU members have made the case for a common EU approach toward the Indo-Pacific within such a short time is commendable, and the EU has recently adopted an official common view in fall 2021. Another European power, the United Kingdom, which just exited the EU, has also formalized its approach towards the Indo-Pacific with the launching of its “Integrated Review of Security, Defense, Development and Foreign Policy” in March 2021.

Why are European countries interested in the Indo-Pacific?

The recent surge of interest among key European powers in Indo-Pacific affairs clearly reflects the growing importance of the region. Even though the EU has played its role primarily as a civilian or normative power in the Asia-Pacific, it does have wide-ranging interests here. In fact, countries like France and Great Britain can even be considered “resident” powers, as they still maintain a physical presence and historical ties in the region. British Indian Ocean Territory, for example, is part of Britain’s overseas territories in the Indo-Pacific. Around 1.7 million British citizens live across the region. Many countries in the region are part of the Commonwealth, and Britain also maintains a military presence through military assets and facilities in Oman, Bahrain, Singapore, and Brunei. France also has overseas territories in the region, and around 1.5 million French citizens live across the Indo-Pacific. It also has 8000 French soldiers stationed there (Nouwens and Mohan 2021).

There are at least five reasons why the Indo-Pacific has become attractive to the EU and the UK. First, there are geopolitical reasons. This European “pivot” to the Indo-Pacific, as mentioned earlier, reflects the growing understanding in Europe that the world’s geo-economic and geopolitical centre of gravity has shifted from West to East. The future of Europe’s prosperity and security increasingly depends on the geopolitical and geo-economic dynamics of the Indo-Pacific. More importantly, the Indo-Pacific also serves as an emerging arena where great powers, especially the US and China, will define the future and the nature of their bilateral relationship. That, in turn, will affect the interests of many other countries.

Second, economic interests and opportunities abound in the region, and Europe wants to tap the benefits. Asia accounted for more than 60 percent of global economic growth in 2018 and 2019 according to the International Monetary Fund. German exports to the Indo-Pacific rose by 7 percent in recent years. About a fifth of all Dutch imports comes from Asia. The Indo-Pacific is also important to Britain’s economic interests. Britain has growing bilateral trade relations with all key economies in the region, especially with China, Japan, South Korea, India, and ASEAN. Britain is also one of the largest sources of foreign direct investment in the region. European countries

realize that they could benefit immensely from close economic cooperation with the Indo-Pacific countries.

Third, the growing awareness of the geopolitical and economic importance of the Indo-Pacific is reflected in the third reason for Europe's interest in deepening its engagement in the region, namely, the desire to maintain a rules-based order and preserve the importance of multilateral arrangements, both in political-security and trade. Members of the EU, especially Germany, France, and the Netherlands, have strategic interests in “the defence of multilateralism” and “freedom of trade and access to the common spaces that are essential to [their] security and prosperity” (Esteban and Armanini 2021). The EU and the UK both believe that their interests can be better served if the region continues to be open, inclusive, and rules-based, where multilateral institutions remain the main platform for cooperation.

Fourth, Europe's pivot to the Indo-Pacific is also driven by reasons of security, especially maritime security. Keeping shipping routes safe will be crucial to Europe's trade with the region and beyond. About 90 percent of global trade is conducted by sea, with two-thirds of it passing through the Indo-Pacific. It is estimated that between 8 and 12 percent of all trade by the UK, Germany, and France passes through the South China Sea.

“Europe's pivot to the Indo-Pacific is also driven by reasons of security, especially maritime security.”

In this context, European countries also see that keeping the Indian Ocean and the Pacific Ocean “free and open” is in their interests. This clearly suggests that the two oceans are crucial transport lanes between Europe and East Asia that ensure the supply of energy, food, and commodities. Historically, maritime trade has been of paramount importance for Europe, where the annual value of trade between the EU and Asia in 2019 amounted to 1.5 trillion. More importantly, 50 percent of the EU's total maritime trade passes through the Indian Ocean (Iuppa 2020, 7).

The fifth reason is the imperative of diversification. As Europe's economic relationship with China grew rapidly and substantially, excessive reliance on China has also become a concern in many capitals of EU member states. Positioning itself as a power that engages with the entire Indo-Pacific region would give the EU a better platform to expand and deepen its relationship with other regional powers. This is why the EU and the UK want to strength-

en their relations and cooperation with India, Japan, and the middle powers in the Indo-Pacific (especially Australia, South Korea, and ASEAN member states).

The characteristics of the European approach

While individual European countries might have different views regarding the Indo-Pacific, they do share several characteristics. First, present in all visions and understandings of the Indo-Pacific is the emphasis on the rules-based international order. It implies that the rise of China somehow will have profound impacts on the existing (liberal) international order. What those impacts are is not very clear, and a few European countries might have different views on this issue. Yet, the EU pivot to the Indo-Pacific is the consequence of the rise of China as a great power. Deeper engagement with the Indo-Pacific reflects the recognition that the EU needs to respond and shape the changes taking place in the area.

Second, the EU tends to embrace an “inclusive” approach, not too dissimilar from the ASEAN’s approach to the Indo-Pacific. The EU is cautious and clearly aware of the sensitivity surrounding the concept and seemingly wants to avoid any unnecessary misperceptions regarding its approach to the Indo-Pacific. The EU does not want to alienate China. In fact, it wants to strike a balanced approach. For example, it will “work with China on climate and stand up to China on human rights.” The question, however, is whether Beijing will welcome this approach. How the EU resolves the tension in such an approach remains to be seen.

Third, at the same time, the desire to be inclusive means that this approach lacks clarity. If the EU’s goal is to contribute to stability in the Indo-Pacific by positioning itself as a bridge, it is not clear how it can play that role. The key issue in the Indo-Pacific is the growing Sino-US strategic rivalry. What is EU’s role here? Can and will the EU support the US? Or will the EU build a third force that tries to mitigate and moderate the rivalry? If so, how will the EU do that? These are the key crucial questions that need to be answered, not only by the EU but by other powers as well.

Conclusion

Key European countries have declared that they want to intensify and deepen cooperation and engagement with Indo-Pacific countries. We have heard this sort of declaration many times before. However, the question remains whether Europe is really interested in the Indo-Pacific as a strategic region. There have been suggestions that it is only interested in China. Therefore, in order to remove this doubt, the EU needs to address the issue as it implements its strategy. It needs to demonstrate and convince the regional countries that Europe’s commitment to an inclusive, open, and free Indo-Pacific

is real and genuine.

Two unique challenges face the EU's outlook and policy on the Indo-Pacific. The first is the challenge of convincing China that the EU's pivot to the Indo-Pacific is not meant to contain a rising China. Second, the EU will do well if it works with ASEAN member states to reconcile its own vision and approach on the Indo-Pacific with that of the ASEAN Outlook on Indo-Pacific. After all, both the EU and ASEAN emphasize the importance of inclusiveness and multilateralism in their respective visions of the regional order in the Indo-Pacific.



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Canada's engagement in the Indo-Pacific

Jonathan Berkshire Miller

The Indo-Pacific is a pivotal region that has arguably become the world's centre of geo-economic and geostrategic gravity. Indeed, the true litmus test for the rules-based order will be its ability to evolve and withstand the challenges in the Indo-Pacific in the coming years. The COVID-19 crisis has only heightened these challenges and proven the need for Canada to develop a robust, comprehensive, and multipronged approach to the region.

This region, which connects the vast oceans of the Pacific and the Indian along with the states in between, is not a new geostrategic concept. Indeed, scholars and practitioners in the region have been using the idea of a broader geographic region – rather than more traditional subsets such as East Asia, South Asia, or the more expansive Asia-Pacific – for more than a decade. An Indian naval captain began using the concept in geopolitical terms over a decade ago, but the terminology has not been limited to scholars in Delhi. Japan's former Prime Minister Shinzo Abe, back during his first stint as prime minister in 2007, spoke to India's parliament about his country's vision for the Indo-Pacific. During that visit, he noted a “confluence of the two seas” and pressed for a need to transcend the traditional frameworks that had often separated or minimized the geopolitical connections between South Asia and the Indian Ocean region with that of East Asia and the Pacific.

While other countries have since developed Indo-Pacific approaches, it is crucial to remember that the intellectual origins of this kind of strategic thinking

came from the region itself – especially from policy-makers and officials from Japan, India, and Australia – and will largely continue to evolve based on the strategic interests and resulting policy approaches from regional states. That said, other states invested in the Indo-Pacific have also been developing approaches to the region in recent years, including the United States, Germany, France, the United Kingdom, the Netherlands, and others. These approaches, while not identical and obviously premised on unique national interests, largely converge on a range of shared pillars – principally the need to maintain a rules-based system in the region that prioritizes the peaceful settlement of disputes and follows international law. These approaches also underscore the importance of open and transparent infrastructure development in the region so as not to burden donor-recipient countries with heavy debt for infrastructure projects that don't serve their long-term interests.

The importance of understanding the regional origins of the Indo-Pacific concept, including its articulation as a Free and Open Indo-Pacific (FOIP) first introduced by Japan, is essential for modifying an incorrect (yet often stated) framing of the FOIP – that is merely a hard stick created by the United States to curtail China's rise. This narrative, which is often spun by detractors of Canada following through on an Indo-Pacific strategy of its own, misses the complexities of other states in the region and their shared interest in the FOIP principles that are often aligned, but not completely congruent, with those of the United States.

Indeed, the rules-based liberal international order in the Indo-Pacific now faces serious challenges on a number of fronts: the rise of protectionism and widespread authoritarianism, the growing skepticism about liberal values, and the malfunctioning of international institutions. These concerns are symptoms rather than a cause of the current stress on the international system. In the developed economies, there has been a widening income disparity gap and, consequently, disenfranchisement from citizens who are not benefitting from the financial successes of globalization. This has partially led to the growth of populist rhetoric and new political voices aimed at securing this “lost” part of the electorate in a range of countries in the West and beyond.

These economic tensions and dissatisfaction with the inequities of current institutions have been inflamed by simultaneous challenges in the geopolitical landscape, with growing strategic rivalries and the marginalization of international law as a means of solving disputes. Helping to magnify these divisions even more is the rapid growth of digital tools and the intentional misuse of these capabilities – such as social media or cyber tools being used for misinformation campaigns and to launch influence and interference operations.

Advances in digital technologies have radically improved convenience across all aspects of society, from state administration and industry to individual

lifestyles, and they have already reached an irreversible level. At the same time, however, negative phenomena such as cyberattacks against various targets, fake news, interference in the elections of other countries, and national surveillance and data hoarding by authoritarian states have been adversely affecting the international order. The only peaceful way forward is for the international community to construct common rules compatible with advances in digital technologies.

Moreover, the international rules-based order is also adapting to a rapidly evolving security environment with a host of territorial disputes, growing strategic rivalries, and the development of cutting-edge military technologies. The Indo-Pacific, in particular, is facing a host of shared security challenges, from maritime piracy and crime to heated territorial disputes. In this vast maritime space – stretching from East Africa to the Pacific Island chains – the foundations of regional commerce and security are achieved through freedom of navigation and secure sea lines of communication. The governance of the region, which can't be limited to a maritime framework, relies on secure supply chain connectivity and sustainable development that is done in a transparent and equitable way.

“ *The imperative to diversify to our like-minded partners in the Indo-Pacific has never been stronger.* ”

There is significant economic opportunity in the region, especially given the large economies and diverse, fast-paced growth in many middle-sized economies. The Indo-Pacific is now home to a growing web of important trade agreements that signal greater economic integration. Most importantly, there is the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) – a highly ambitious trade deal involving 11 economies in region, including Canada. In addition, the Regional Comprehensive Economic Partnership (RCEP) features other large economies not represented in the CPTPP, such as China, South Korea, Indonesia, and Thailand. Both agreements reassert the centrality of Southeast Asia as a trading hub and centre for regional integration. Alongside this economic growth is a large demand for infrastructure development in the region – some estimate the need for more than US\$4 trillion in such developments over the next 20 years. Several powers that have the ability to do so could fill this void by working with states in the region to fund these projects sustainably, based on fair-lending, transparent institutions, and long-term planning.

Yet, there remain a number of key challenges to the rules and order that have underpinned security and prosperity for states in the Indo-Pacific. In the South China Sea, Beijing continues to undercut international law and aims to subjugate its neighbours through extensive land reclamation, the imposition of military equipment and infrastructure, and the diplomatic splitting of states in the Association of Southeast Asian Nations (ASEAN). Meanwhile, Beijing also continues to raise regional concerns from its constant incursions into the maritime and airspace surrounding Japan's Senkaku Islands in the East China Sea. China has also been ramping up its belligerence against its other neighbours, including increasing tensions at an alarming rate with India along its disputed borders, and raising its coercion tactics against Taiwan. An increasingly confident and assertive China, in addition to other regional challenges such as North Korea's growing nuclear weapons capabilities, have amplified a number of tripwires in the region that could, depending on their resolution, stall or upend the trajectory of the Indo-Pacific's transformation.

While the Indo-Pacific concept is not new to many states in the region, the discussion of it and its convergence with Canada remains at a nascent stage. Indeed, Canada's traditional regional lens has long been framed in terms of the "Asia-Pacific" or "East Asia," rather than from an Indo-Pacific angle. Contextualizing this framing is important. Up until this point, the focal points of Canadian engagement have been premised on the multilateral forums through which it is engaged. Examples of this include Canada being a founding member of the Asia-Pacific Economic Cooperation (APEC) and the Asian Development Bank (ADB). Canada also is a long-standing Dialogue Partner with ASEAN and a member of the ASEAN Regional Forum. More recently, Canada has joined other organizations, including the Asian Infrastructure Investment Bank (AIIB).

To date, for the past several decades this multilateral underpinning of Canada's engagement has been decidedly "Asia-Pacific" in its focus. Yet it has become increasingly clear that, while many forums in which Canada traditionally engages remain relevant, its approach to the region is antiquated and in need of significant policy evolution. Some detractors might argue that Canada should not look at developing an Indo-Pacific approach because it would betray our commitment and experience to organizations and partnerships centred around the Asia-Pacific, such as ASEAN and its related bodies. The short answer to these critics, however, is that the development of an Indo-Pacific approach in line with FOIP principles is not mutually exclusive or meant to replace our traditional engagement in the region. To the contrary, the development of an Indo-Pacific approach – which Ottawa is currently undertaking – would complement Canada's current strategy by clearly outlining the stakes and interests Canada has in this pivotal region.

A frequent critique from stakeholders and officials in the region is that Canada must take a more consistent and comprehensive approach that demon-

strates an investment of time and capital that goes beyond mere trade and investment. Specifically, there is a need and desire – at least from most states – for a strong Canadian voice on political-security developments in the region, be it maritime security, nuclear non-proliferation, or the plethora of non-traditional security challenges facing the region. This is where the tenets, rules, and values that form the basis of the emerging Indo-Pacific frameworks will help Canada better serve its interests and promote its role.

Canada must become more engaged in the region in order to both profit from the region’s economic dynamism but also ensure that its interests in the Indo-Pacific are protected by enhanced participation on political and security issues. As Canada’s former foreign minister, John Baird, once noted: “We cannot afford to be a spectator. We know we have a contribution to make in shaping the future of Asia and Canada’s role in it. We know that Canada must take an active role in this part of the world. It’s simply not a choice; it’s not an option; it’s a national imperative” (Baird 2012). In sum, an antiquated “trade-first” strategy that downplays security challenges in the region is no longer tenable.

Canada is not alone in grappling with these challenges and it will be imperative for the country to work ever more closely with such partners as the United States, Australia, New Zealand, Japan, South Korea, the UK, and the EU, as well as with emerging partners India, ASEAN, and so on. Canada often underestimates itself and its ability to build resiliency away from non-transparent markets, such as that in China. The imperative to diversify to our like-minded partners in the Indo-Pacific has never been stronger. This challenging period has also brought clarity of purpose and it should be seen as an awakening that will enable Canada to reorient and rethink about the nature of its partnerships and priorities in the Indo-Pacific, and build an appropriate strategy to underpin this shift.

Up until this point, successive Canadian governments have failed to lay out a clear strategy for how Canada can develop a robust role in the Indo-Pacific. Yet this crucial region will likely shape the world’s future. On the one hand, the Indo-Pacific contains four of the world’s five largest economies and over half of global GDP. On the other, it also plays host to some of the most significant challenges to the rules-based international order, including managing China’s increasingly assertive behaviour, North Korea’s nuclear weapons program, tensions between India and Pakistan, conflicts over freedom of the seas, and much more. The threats and opportunities emanating from the region present Ottawa with a compelling need to engage the region more substantively. Through stronger collaboration with allies and partners, there is an opportunity for Canada to transform its role.



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Reinvigorating a Canada-Indonesia Partnership in the Indo-Pacific

Abdul Kadir Jailani

A decade ago, the term “Indo-Pacific” was almost absent from the discourse of international relations. But today the term is widely used to describe a geopolitical construct. It refers to the dynamic between the Indian and Pacific Oceans in which major powers, wealthy economies, and advanced regional blocs are trying to redefine their strategic visions, particularly as they relate to each other.

Indeed, the region continues to experience geopolitical and geostrategic shifts. The game-changer is quickly becoming the rise of China. Triggered by the Belt and Road Initiative (BRI) unveiled in 2013 by China’s President Xi Jinping, the Trump administration subsequently announced the Free and Open Indo-Pacific (FOIP) initiative to counter China’s global strategy.

According to the US, the BRI constitutes a grand strategic vision to seek hegemony in the region, rather than being merely a series of infrastructure projects with smaller developing nations. Against this backdrop, the FOIP assumes that China’s economic and military rise is an international challenge that should be dealt with collectively. There is a shared belief that the growing influence of China challenges the international “liberal” rules-based order. Therefore, protecting this rules-based order should be at the heart of FOIP.

Furthermore, anchored in the logic of containing Chinese power, FOIP is inherently imbued with an exclusionary and militaristic approach.

Indonesia, however, believes that cooperation in the Indo-Pacific should not be framed merely under the logic of containment. At the same time, cooperation should not exclude a formal partnership that helps to solidify US military predominance in the region. For Indonesia, in a region that needs leadership, rivalry should not consume space for collaboration. This is particularly important as the geopolitical interplay comes at a time when the Indo-Pacific is still grappling with various traditional and non-traditional security challenges, particularly the COVID-19 pandemic.

Moreover, as one of the founding members and key players in the Association of Southeast Asian Nations (ASEAN), Indonesia believes ASEAN centrality is paramount as “the manager of regional affairs.” ASEAN must not be seen as passive and at a standstill when it comes to the dynamics of the region. To that end, Indonesia has played a leading role in encouraging ASEAN to face the security challenges of the region.

Indonesia has called for ASEAN member states to develop a strategic commitment to cope with the Indo-Pacific as a geopolitical reality, and requests that every matter pertaining to it is best addressed through ASEAN mechanisms. To begin, ASEAN first needs to understand and identify how the regional bloc can leverage and adjust the competing visions of the Indo-Pacific. In this spirit, at Indonesia’s initiative, in June 2019 ASEAN adopted the ASEAN Outlook on the Indo-Pacific (AOIP).

The AOIP reflects ASEAN’s collective will to sign up to neither a China-centric order nor to a US-led strategic confrontation with China. Instead, it seeks a third way of managing differences through rules, non-coercion, and regional diplomatic institutions centred on ASEAN. Its inclusive character means that the AOIP emphasizes engagement with all states in the region without exception. Such an inclusive vision will make ASEAN the only acceptable platform for external powers to engage with in this pivotal region.

Canada’s way forward

The AOIP is essentially a strategic outlook that embraces “middle players” – key countries that are neither China nor the United States. In this context, it offers tremendous opportunity for a country like Canada to become more visibly engaged by playing a more active and consistent role in the region.

Throughout its history, Canada’s diplomatic, military, cultural, and economic orientation has focused on the North Atlantic. It is now time for Canada to start realigning itself to reflect a new reality – that the world’s centre of geo-economic and geostrategic gravity has moved from the North Atlantic to

the Indo-Pacific.

By increasing its engagement in the Indo-Pacific, Canada can benefit from the region's economic dynamism while also ensuring its interests are protected. A robust strategy for dealing with the political, security, strategic, and economic aspects of the Indo-Pacific region is becoming necessary, if not inevitable.

Subsequently, Canada should also look for opportunities to become more intertwined with the growing regional groupings in the Indo-Pacific. In this regard, a strengthened strategic collaboration with ASEAN is clearly the most viable option. Canada can best accomplish this collaboration by recognizing ASEAN's centrality and leadership within the Indo-Pacific. Any collaboration should continue to promote the two sides' shared interests through existing ASEAN mechanisms, in which Canada has been very active.

Canada's Indo-Pacific approach must complement the AIOP and be done in a manner that advances the country's national interest. It also needs to embrace the AIOP principle of inclusivity. A "normative alignment," by committing to the non-competitive regional order in Indo-Pacific, clearly offers valuable opportunities for Canada.

“There is ample room for Canada to build greater synergy and closer collaboration with Indonesia.”

Canada can build upon its excellent bilateral relations with Indonesia by having a more intensive engagement in the implementation of the AOIP. Not only has Indonesia played a pivotal role in the development of the AOIP, but it is also in a good position to support Canada's accession to the East Asia Summit, which will serve as the principal platform to address issues related to the AOIP's implementation.

Canada can contribute by helping to strengthen regional governance and rules of law as well as addressing common challenges such as climate change, water security, and illegal, unreported and unregulated fishing. Such engagement will also help reinforce Canada's presence in the region.

There is ample room for Canada to build greater synergy and closer collaboration with Indonesia, namely, by expediting the realization of an ASEAN-Canada free trade agreement, mitigating the consequences of the COVID-19 pandemic, and boosting the digital economy at a regional level, to name a few. If successful, the Indonesia-Canada partnership would serve as a good

global example of the way in which countries can accelerate the post-pandemic economic recovery.

A reinvigorated Indonesia-Canada partnership can offer positive and constructive solutions to various challenges in this dynamic region. Such cooperation will also further emphasize the excellent bilateral relations the two countries have had for almost seven decades. A stronger Indonesia-Canada partnership will not only enable both countries to stand the tests of our time and emerge stronger together, but also reinforce ASEAN's centrality within the Indo-Pacific.



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Indonesia and the Pursuit of Cooperation in the Indo-Pacific

Shafiah F. Muhibat

Indonesia's place in the wider world has evolved profoundly since the end of Cold War. The country is now facing new actors, or actors with changed characteristics, new threats, new institutions, new platforms of engagement, and new arenas for state competition and cooperation. Many of these changes are courtesy of technological advancement.

Amidst the ongoing international changes, Indonesia has become quite comfortable relying on the status quo for its foreign policy. Historically, Indonesia's foreign policy doctrine, "*bebas aktif*" or "free/independent and active," has served as a permanent compass to guide the country's foreign affairs since its independence (Hatta 1953). This overarching doctrine has translated to a number of distinct policies, including the establishment of the Association of Southeast Asian Nations (ASEAN).

ASEAN remains Indonesia's traditional diplomatic vehicle. It is true that Indonesia has adapted its foreign policy in various ways – by introducing narratives such as the moderate Muslim-majority democracy rhetoric in the 2000s, the zero-enemies-thousand-friends slogan, and the much covered Global Maritime Fulcrum. Yet none of these narratives have changed Indonesia's inclination for the status quo, which has kept the country loyal to its core principle of *bebas aktif*.

Now the question is: has that approach allowed Indonesia to be sufficiently

adaptive and flexible so it can effectively face the latest international and regional challenges?

Indonesia and the Indo-Pacific

Although the Indonesian lexicon has long recognized the connectedness of the Pacific Ocean and the Indian Ocean, the discussion about the “Indo-Pacific” per se started to readjust the existing narrative with the current great-power competition that began in the 2000-2010s. During his presidential campaign in 2014, Joko Widodo moved the discussion forward when he introduced his vision of the Global Maritime Fulcrum. He described Indonesia as being the fulcrum of the Indian Ocean and Pacific Ocean, thus portraying his country as a significant geostrategic player in the Indo-Pacific.

In November 2014, after he became president, Widodo went on to share his Global Maritime Fulcrum with regional counterparts at the 9th East Asian Summit. The term “Indo-Pacific” was used for the first time in the Indonesian Foreign Ministry’s five-year strategic plan published in April 2015. Following this, Jakarta then hosted the Indian Ocean Rim Association’s High-Level Forum in the first trimester of 2017.

Coincidentally, the Indo-Pacific soon became a buzzword for the region. The United States made a relevant introduction of the term at the Asia-Pacific Economic Cooperation (APEC) CEO Summit in Da Nang, Vietnam, at the end of 2017; this event coincided with the release of the US National Security Strategy (NSS), which outlined the US Indo-Pacific Strategy (IPS). Japan and Australia (to name a few countries) followed the lead of the US IPS by using the Indo-Pacific term, which had a significant impact on Southeast Asia.

In response to this trend, Indonesia opted to push for a collective outlook on the Indo-Pacific – one that could help address the gravity of the challenges posed by great power politics. In the ASEAN Foreign Ministers’ Retreat in 2018, Indonesia conveyed its intention to work collaboratively on a collective outlook for the Indo-Pacific.

I have previously discussed that Indonesia’s involvement in the Indo-Pacific narrative is to an extent a response to the increasing tension stemming from great power rivalry (Muhibat 2019). Southeast Asia has been on the receiving end of competing narratives on the Indo-Pacific driven by major actors. The concern, however, has been that the competing narratives have not really served Southeast Asia’s interests, yet are increasingly shaping the geopolitical dynamic of the region.

In particular, Indonesia sees the US Indo-Pacific approach, which in the 2017 NSS implicitly portrayed the Indo-Pacific region as a main battleground with its so-called adversaries and competitors, as a threat to ASEAN centrality.

Moreover, the Quad narrative, which was presented as a potential strategic coalition (consisting of the US, India, Japan, and Australia), sent a strong signal that it might contest ASEAN centrality when the time is appropriate. This pushed Indonesia to respond by initiating talks with its regional counterparts on adjusting its geostrategic environment.

On the other hand, since China introduced its Belt and Road Initiative (BRI), that country has been the major player in infrastructure projects in Southeast Asia. Southeast Asian states have different relations with China, including with regards to BRI. Some are more welcoming than others, but there are general concerns about over-dependence on China. This is, to be fair, also the case with how Southeast Asian states view other major powers' connectivity strategies (Muhibat and Kharisma 2020).

Moral values that have many different interpretations – such as democracy and human rights, as promoted by the Indo-Pacific narratives of the great powers – could also be inferred as one of the driving forces for Indonesia's eagerness to have a regional collective outlook. There is an emerging belief that such values could be used to stifle the engagement of certain Indo-Pacific countries that do not uphold the same standard as the great power.

Working through ASEAN and the ongoing challenges

On June 23rd 2019, the ASEAN Summit adopted the ASEAN Outlook on Indo-Pacific (AOIP). It has four key elements: the integration of the Asia-Pacific and Indian Ocean regions; the promotion of dialogue and cooperation instead of rivalry; development and prosperity of all; and the importance of the maritime domain in the regional architecture (Parameswaran 2019). Areas of collaboration include maritime cooperation, connectivity, sustainable development, and the economy.

According to the AOIP, the regional architecture is envisioned to include concepts such as “inclusivity,” “collective leadership,” “ballast for the current dynamism,” “inclusiveness,” alongside an effort to “liberate” ASEAN from the views of competing great powers. The AOIP, to some extent, is also seen as an effort to connect with and empower other potential partners. As this is a regional document, ASEAN fully intends to recognize the presence of non-ASEAN-led mechanisms and non-ASEAN countries through a region-to-region approach. It manifests in the point where AOIP looks for “cooperation with other regional and sub-regional mechanisms in the Asia-Pacific and Indian Ocean regions.”

While it has been applauded as an important breakthrough, AOIP has also disappointed many of those who had high expectations of the strategy. AOIP does not explain what measures it will take in response to any escalation of conflict in the region, even though regional peace and stability are deemed

necessary to guarantee this region’s sustainable growth. In addition to that, the AOIP should be understood as the way ASEAN guards its members and the region from the growing competition now evident between great powers. To quote a review critical of AOIP: it is “less as a security-driven phenomenon and more as an economic and connectivity-linked construct” and like “old wine in a new bottle” (Ha 2019).

Two years after its conception, the promotion of AOIP is no longer as grand as it was in the past. Identification of the existing and forthcoming hot spots are necessary before differences in the Indo-Pacific region can be bridged. These hot spots include, among others, the South China Sea, the Indian Ocean, and the Korean Peninsula. The issues vary and range from traditional challenges – building overseas military bases, the race for potential regional submarines, nuclear warheads, increasing freedom of navigation operations by the great powers – to non-traditional ones.

Seeking more cooperation

We see several trends in the geopolitical “downturn,” i.e., dwindling trust towards multilateral forums, unilateral and populist foreign policy, and decreasing global leadership. On the first point, there is apparent dissatisfaction with the way international organizations have dealt with newer challenges. In 2021, COVID-19 has intensified these trends. States are preoccupied with managing the outbreak in their respective countries, thus giving less priority and fewer resources to international issues because all are exhausted dealing with issues related to the pandemic. Moreover, restriction of movement has decreased interaction among states; countries have closed their borders and meetings and negotiations have been put on hold.

During the pandemic, especially in its early phase, there was international outcry over how the World Health Organization handled the health crisis. Perhaps as a backlash to this, more states have opted for unilateral measures in foreign policy and have promoted populist policies. In the last few years, the role of being the provider of public goods and the sponsor of collective efforts appears to have diminished, especially for the state(s) with the capacity to do so, like the United States.

What does this say about the Indo-Pacific? Indonesia sees the Indo-Pacific through a particular lens – specifically, its need for a stable order in the region to maintain the life and growth of the state and its people, as well as to ensure that its borders and sovereign rights are respected by others. That is why its aim is eventually an Indo-Pacific that has less competition and rivalry, and more cooperation.

Of course, any Indo-Pacific regional architecture for Indonesia cannot and should not undermine ASEAN's centrality in regional affairs. The Indo-Pacific constructs and mechanisms can co-exist with Indonesia's own preference for multilateral institution building. From Indonesia's point of view, emphasizing ASEAN's centrality in the regional architecture is necessary to establish a rules-based order and prevent extra-regional powers from shaping the region.

But back to our original question: is this sufficient to allow Indonesia to adapt to current international and regional challenges? The answer is no. The Indo-Pacific is important, and Indonesia made the right move to shift focus to the larger Indo-Pacific. However, it will need a more comprehensive and innovative strategy to face the current challenges. Now, in 2021, the Indo-Pacific is a different arena for state competition and cooperation than when ASEAN was first developed.



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Part II:

Indo-Pacific and the Economic and Development Context

Strengthening Canadian economic engagement in the Indo-Pacific

Daniel Schwanen

In coming years, Canada and countries of the Indo-Pacific region will seek to recover from the damage brought by the COVID-19 pandemic, by investing in and facilitating economic activities that can raise their respective peoples' standards of living.

During the pandemic, technological change accelerated worldwide, some elements of global supply chains as well as domestic social infrastructure have been exposed as fragile, and concerns for environmental sustainability remained at the forefront of public agendas. At the same time, geopolitical tensions and economic rivalries among leading powers, and disenchantment with globalization in some countries experiencing slow increases in standards of living, have led to the rise of more nationalistic economic policy approaches.

In this context, a strengthening of ties between Canada and the rising “middle power” countries of the Indo-Pacific – and for simplicity's sake I will concentrate here on Association of Southeast Asian Nations (ASEAN) economies at the core of the Indo-Pacific region – can benefit both parties, by affording each more ways to navigate the shoals and benefit from tremendous technology-led economic opportunities post-COVID, and in general giving each

country more options and room to manoeuvre to chart its specific development course.

Given these common interests, there is a lot of room for the development of mutually beneficial ties. Canada and ASEAN economies each have complementary strengths in natural resources, agri-food, other manufacturing, and services such as tourism, logistics, software, and finance as Dan Ciuriak and I noted elsewhere ([Schwanen and Ciuriak 2020](#)). Trade in medical devices, pharmaceuticals, as well as digital trade, and the development of related technologies, seem particularly ripe for growth given the circumstances of the past two years.

For all this bilateral trade potential, it would be a mistake to limit our thinking to how much more we can export bilaterally to each other. The focus must be on how Canadian investors, talent and skills, resources, and providers of services can work together with partners in the Indo-Pacific to better access and succeed together in world markets, not just in our respective domestic markets.

Canada and countries of the Indo-Pacific could enhance their respective global competitive positions by working together.

Be it through a new Canada-ASEAN agreement, currently being mooted, or even bilateral agreements with countries interested in “going deeper” in facilitating these interactions, or through new countries joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Canada and countries of the Indo-Pacific could enhance their respective global competitive positions by working together more closely and purposefully.

What’s holding us back? It would be fair to say, unfortunately, that Canadian engagement with the region, in the sense of a continued and prioritized political and commercial attention, has been sporadic. This attitude has bedevilled Canada’s approach to the Asia-Pacific more generally, despite efforts of some think tanks and good diplomatic relations. For example, Canada was very late in entering the type of economic arrangements that its competitors in the region, like the United States, the European Union, or Australia, embraced with more gusto.

The cause of that sporadic attention is surely Canada’s natural focus on the United States, which is the market for nearly 70 percent of its exports of goods and services. That focus is unsurprising given Canada’s geography, its

comparative advantage in natural resources (alone of the G7 economies), the long-standing integration of both countries' manufacturing, and the (pre-pandemic) ease of movement of skilled and business people between the two countries.

Canadians have encountered many successes in the US market in sectors encompassing financial, educational, cultural, and transportation services, as well as exports of research and development, in addition to more traditional agriculture and manufacturing trade. Canada boasts a highly educated population and its tech sector has been growing by leaps and bounds – the percentage increase in the stock value of Canadian tech companies on Toronto's stock exchange has risen as fast as that of the six US-based "big tech" companies since 2016. Canada is also a significant net source of direct investment capital around the world.

Despite these successes, Canada does not grow enough small companies into bigger ones, which hurts the country's productivity performance overall. More Canadian companies need to seek growth outside of the North American or European markets if Canada is to benefit from areas of likely higher growth opportunities globally. This is, or should be, a major incentive for Canada to strengthen its links with the Indo-Pacific, in addition to wanting to level the playing field in the region with traditional competitors.

Conversely, the strong Canada-US links should be a major incentive for economies in the Indo-Pacific to strengthen trade and investment relations with Canada. While two ASEAN member states – Singapore and Vietnam – already have freer trade with Canada through the CPTPP, a Canada-ASEAN agreement would help build a more resilient, flexible, and competitive platform for firms from Canada and ASEAN countries to access regional and global markets.

Through their negotiating experience with Australia and New Zealand, and now with the European Unions, ASEAN member states would already have dealt with a range of sensitive issues with economies and societies roughly comparable to Canada's. At the same time, a Canada-ASEAN agreement may offer a fresh opportunity to deepen bilateral trade rules with Canada on areas of specific interest, such as digital trade or the temporary movement of workers.

Such agreements open doors, but businesses need to walk through those doors to see how they can take advantage of them in practice. To capture the potential benefits of more open trade and investment between them, Canada and the ASEAN economies would need to facilitate the way for companies and institutions to take advantage of new opportunities.

While Canada can boast hundreds of thousands of residents whose country of birth is the Philippines or Vietnam, let alone China or the major economies of

South Asia, it does not have anywhere near the same links with other major ASEAN economies proportionately to their population. This can be a disadvantage in developing stronger trade links.

Yet common grounds for dialogue abound. For example, Canada has much more in common with Indonesia than is often realized – think vast and dispersed geography and populations, the role of provinces in economic governance, cultural diversity, the challenge of managing, developing, and exporting natural resources, or even health policy challenges.

A specific Canada-Indonesia series of exchanges could help build beneficial business and institutional links around finding solutions to common problems or working together on a common vision of the opportunities in sectors such as transportation, communications, and other services, or infrastructure investments. In the past, Canadian businesses have found doing business in Indonesia tough, but both countries could learn from each other to make the regulatory environment more predictable. Notably, Canadians would be interested in knowing more about the recently passed Omnibus Law on job creation in Indonesia, which would help foster bilateral links.



Canada could similarly foster bilateral approaches with other countries in the Indo-Pacific.

Canada could similarly foster bilateral approaches with other countries in the Indo-Pacific, focused on practical matters that would be key to benefitting from future agreement. The focus would include:

Fostering business-to-business linkages: Facilitate and track growth in joint business and/or research ventures and trade in commercial services including digital trade and movement of skilled personnel. These collaborations, investments, and exchanges should be seen as indicators that Canada and its partners are building more robust and competitive economies together.

Encouraging small and growing businesses: Reduce trade, information, financing, and technology adoption costs for small businesses and foster a welcoming environment for micro-multinationals. Taking these steps will foster growth in small businesses, which is essential to raising living standards in the diverse economies of Canada, Indonesia, or the Philippines.

Collaborating on infrastructure, tourism and sustainable resources: Innovate around new goods and services and sustainable activities based on our

respective resources and adapt our logistics and infrastructure to take advantage of new post-COVID trends in demand, including demands for safety and security and public services.

Seeking to share and jointly develop leading-edge technologies and skills and their beneficial applications: Sponsor fairs and virtual marketplaces around specific themes such as health, clean energy, and the use of artificial intelligence. Open these initiatives to businesses, research institutions, and professionals operating in Canada or ASEAN member states.

In short, common interests and joint economic potential abound. During the strains on global trade in recent years, and during the COVID crisis in particular, we have seen how Canada can collaborate with like-minded partners, including those in the Indo-Pacific, to maintain a rules-based international system that is as open as possible – a goal vital to future economic progress of so many of our economies.

Building on this experience, Canada and countries of the Indo-Pacific need to foster stronger economic linkages between them. These links would help them realize not only their hoped-for rebound post-COVID, but also strengthen their competitive positions globally, and provide safety and reliability to each other as customers in an age that is lacking both.



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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.

Strengthening the bilateral connectivity of Indonesia and Canada through the ASEAN Outlook on the Indo-Pacific

Ben Perkasa Drajat

With the region's rapidly shifting geo-economic and geopolitical dynamics, Southeast Asia has become a strategic hub for major powers and a focus of their potential frictions. For this reason, leaders of the Association of Southeast Asian Nations (ASEAN) officially endorsed and adopted the ASEAN Outlook on the Indo-Pacific (AOIP) at the 34th ASEAN Summit in Bangkok in 2019.

AOIP's main objective is to create an environment that will foster peace and stability in the region by addressing security challenges and promoting prosperity through closer economic cooperation. AOIP also reinforces ASEAN's ongoing efforts to advance cooperation – through existing mechanisms – with other countries. As such, AOIP plays an important role in strengthening ASEAN relations with its key partners, including Canada. Indeed, it guides ASEAN and Canada as they work to enhance cooperation in key priority areas such

as achieving sustainable development goals by 2030 (SDGs 2030), enhancing economic cooperation, and contributing to greater regional integration.

Integration and interconnections among the countries of the Indian Ocean and the Pacific Ocean will not happen unless all parties make an effort to build a sound connectivity infrastructure, including physical, institutional, and people-to-people linkages. This article focuses on how Indonesia and Canada can use trade, within the framework of AOIP, to strengthen their connectivity.

Bilateral economic relations between Indonesia and Canada

In 2020, trade between Indonesia and Canada totaled US\$2.4 billion. Indonesian imports from Canada have continued to grow in the past five years. In fact, Indonesia is Canada's largest export market in Southeast Asia (Government of Canada 2019).

TABLE 1: THE INDONESIA-CANADA TRADE BALANCE, 2016-2020 (US\$ THOUSANDS)

Description	2016	2017	2018	2019	2020	Trend, 2016 – 2020 (%)
Total Trade	2,115,477	2,374,859	2,754,638	2,696,923	2,404,510	3.91
Export	732,447	821,233	913,889	858,206	789,050	1.95
Import	1,383,029	1,553,625	1,840,749.5	1,838,717	1,615,460	4.91
Trade Balance	650,582	-732,392	-926,860	-980,511	-826,410	-8.01

Source: Ministry of Trade, Republic of Indonesia 2020.

To better enhance economic cooperation, Indonesia's Policy Analysis and Development Agency developed a composite index to identify Indonesia's 30 top markets and 30 potential markets. The index is built using the following six indicators: the average value of imports from partner countries; the average value of exports to partner countries; the average market share/contribution to non-oil and gas exports to partner countries; Indonesia's average market share in partner countries; the trends in imports from Indonesia's partner countries; and the trends in Indonesia's exports to partner countries.

Based on this index, Canada is Indonesia's 12th top market, and its second in the Americas. However, the trade figures between the two countries does not reflect the real potential.

Using various measuring instruments, we are able to gain a better sense of market complementarity and can better identify products that Indonesia

could potentially and more competitively export to Canada. These include items like telephones for cellular networks, data processing machines, and communications apparatus, all of which could potentially strengthen the bilateral connectivity between the two countries.

While most of the industries that have export potential are still dominated by natural resources products, several strategic industries, including those producing electrical machines, vehicles, and optical apparatus, are on the rise; focusing on those areas could enhance connectivity between the two countries in the long-term.

Encouraging SMEs to cooperate in the pursuit of economic growth

ASEAN believes that everyone should cooperate in the quest for economic growth and that no one should be left behind. That's why ASEAN places a heavy emphasis on the principle of inclusivity in the AOIP, which means that all stakeholders must be involved, including small and medium-sized enterprises (SMEs) as the key drivers of inclusive growth.

SMEs represent 99.9 percent of all businesses in Indonesia and 99.8 percent of businesses in Canada. They contribute to 61.1 percent of GDP in Indonesia and 55.3 percent of GDP in Canada. Further, SMEs account for 97 percent of employment in Indonesia and 68.8 percent of total employment in Canada. In an increasingly integrated global economy, the extent to which SMEs are participating and benefitting from economic cooperation will determine the strength of the relationship between Indonesia and Canada.

In this regard, showcasing and implementing each country's best practices for SME policy will send a strong policy signal that both countries are committed to cooperate on trade and investment. Because SMEs are the majority business stakeholders in both countries, successfully linking SMEs in Indonesia with those in Canada would also ensure that the trade agenda is inclusive and sustainable.

Despite their pivotal role, SMEs are more likely to be resource constrained than larger firms when they seek to take advantage of the benefits from trade and investment liberalization. Based on a 2018 survey by Canada's Asia-Pacific Foundation, SMEs in Indonesia face a wide range of issues. Most (70 percent) cited lack of access to financing as their main barrier to growth. Micro and small enterprises in particular rely heavily on family for financing; they pursue formal financing only as a secondary option as the barriers to attaining such financing are high.

Another significant barrier to growth in Indonesia is human capital (identified by 32 percent of survey recipients). Indonesia ranks 65th out of 130 countries

assessed in the Global Human Capital Index. The ability to attract and retain talent remains the biggest challenge for human capital development in the country.

While these factors present challenges, they could serve as a good starting point for cooperation with Canada. Canada could provide capacity-building assistance for SMEs, which could be done through the following key avenues:

Joint Canada-OECD projects to assist ASEAN SMEs. Previously, the government of Canada and the OECD initiated the “Canada-OECD Projects on ASEAN SMEs,” which was designed to help empower SMEs in ASEAN member countries. Through the project, Canada sought to encourage ASEAN SMEs to formulate policies and programs that would enable them to enter the global supply chain.

Digital economy (e-commerce for SMEs). The digital transformation has opened up a range of opportunities for SMEs in both countries. It has continued to enable them to innovate with their products and services, improve their market intelligence, ease their access to talent, more easily secure financing, and enhance their competitiveness in local and global markets. However, before SMEs can take advantage of the many digital opportunities that abound, they must also have increasing mobile device penetration and better infrastructure.

“*The digital transformation has opened up a range of opportunities for SMEs in both countries.*”

The industry is currently growing in an incredible speed. This year revenue in the eCommerce market is projected to reach US\$38.2 billion in Indonesia and US\$32.4 billion in Canada. Revenue is expected to show an annual growth rate of 10.2 percent in Indonesia and 5.6 percent in Canada. In Indonesia, mobile user penetration will be 57.4 percent in 2021 and is expected to hit 77.0 percent by 2025. Meanwhile, in Canada, user penetration will be 72.5 percent in 2021 and is expected to hit 77.6 percent by 2025. The average annual revenue per user is expected to be US\$240.75 in Indonesia and US\$1,175.93 in Canada.

In addition, greater access to financing needs to be prioritized. This can be done in the following ways:

Improving access to micro loans/low-interest loans and grants, and promoting a user-friendly online information portal. Such measures will help address information barriers and allow greater sharing of market and business-related information. Social media platforms, traditional media, crowd-funding applications, peer-to-peer lending, among other means, could help policy-makers raise awareness of funding opportunities.

Expanding cross-border SME financing. Lack of financing, particularly trade and supply chain financing, is a key constraint to the internationalization of SMEs. Therefore, facilitating the cross-border flows of financing and financial instruments (e.g., credit, credit guarantees, and particularly trade and supply chain finance) is especially important to encourage SMEs to go international.

Conclusion

The bilateral connections between Indonesia and Canada could be strengthened by further encouraging trade and investment between the two. SMEs are indispensable to the economic growth of both countries and their involvement should be promoted within the framework of AOIP in order to ensure that both countries foster inclusive economic cooperation. As the e-commerce sector in both countries continues to grow, it will become one of the areas most appropriate for potential further development.



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Papua as the gateway to trade and tourism activities in the Pacific

Melyana R. Pugu

The Pacific region is in demand by many major countries as a destination for economic activities, especially trade and investment, and serves as a cross-border route between major countries such as China, the United States, India, and Australia, among others. With its generally favourable geopolitical and geoeconomic conditions, the Pacific is currently an area of significant interest for many countries in the world, including Indonesia.

There is no denying that Indonesia has not paid enough attention to the Pacific region, especially when it comes to seeing the small countries in the South Pacific as attractive economic cooperation partners. Is it because these countries are too small and will not provide economic benefits for Indonesia? Indeed, some of these countries' income per capita is about the same as the regional income in Indonesia. However, Indonesia should not discount the potential for good neighbourly relations with this region. Engagement will certainly prove beneficial when connectivity or connectedness occurs, especially if accompanied by economic improvement and investment growth as well as social and cultural activities across communities.

Similarly, Papua – one of the biggest provinces in Indonesia with a majority Melanesian population – is located very close to the Pacific region, especially the South Pacific countries of Australia and New Zealand, but so far the province has not enjoyed the benefits of its proximity to the economic trade flows and especially connectedness with the Pacific region. Geographically, Papua

is directly adjacent to Papua New Guinea, with land borders located in five regencies in the province, namely Jayapura City, Keerom Regency, Bintang Mountains Regency, Merauke Regency, and Boven Digul Regency. There are also sea borders with Papua New Guinea in Jayapura City and in Merauke, as well as with Palau state in Supiori Regency.

Given those facts, could Papua province become Indonesia's gateway to trade and investment activity with the broader Indo-Pacific region and what challenges can be expected? The following discussion will seek to answer these important questions.

Theoretical framework

As Indonesia's easternmost region and populated by its ethnic Melanesian population, Papua province has become a source of strength for Indonesia when building trade, investment, and tourism relationships with Pacific countries, including India, Australia, New Zealand, and the United States. For our analysis, it is useful to turn to liberalism in the study of international relations, which is firmly rooted in classical analysts such as John Locke, Hugo Grotius, and Immanuel Kant. The basic assumptions of classical thinkers that inspired many liberal theories include beliefs about the rational qualities of individuals/people; beliefs about possible progress in social life; and the belief that human beings, despite their own interests, are also able to work together and build a more peaceful and harmonious society. Liberal scholars further transfer these basic assumptions into the context of the international community.

According to liberal theory, the success of the international order depends on at least four main factors: (1) the role of international institutions; (2) international norms and rules for regulating the conduct of countries; (3) increase in economic interdependence between countries; and (4) technological developments and the growth of global communications. Connections among these four factors will lead to cooperation, trust between countries, and a greater reliance on negotiations to resolve disputes between countries. While not ignoring the importance of high politics, liberalism pays more attention to low-politics issues such as economic, social, and environmental issues as priorities on the international agenda.

Based on this theory of liberalism, Indonesian diplomacy can help facilitate economic cooperation and the opening of connectivity with the Indo-Pacific region. In that formulation, Papua can serve as a gateway for connectivity – by facilitating sea and air transportation, trade with the broader region, and by providing a significant source of economic and cultural cooperation.

Indonesia's challenges and expectations for the Indo-Pacific

Geopolitically, Indonesia is located in the Indo-Pacific between Asia and the Pacific, bordered by the Indian and Pacific Oceans. This region is the world's most important trade route and also serves as a confluence of cultures and civilizations. It is rich with abundant natural resources but has become a target of large countries who recognize its political and economic importance.

Papua has 28 regencies and one city, with a total population of 4.3 million people in 2021. Geographically, Papua is the closest Indonesian province to the Pacific region, not notably the South Pacific countries. So far, Indonesian cooperation with surrounding countries has largely focused on technical cooperation. A good example is with Fiji, with which it cooperates on agriculture and training. Similarly, Indonesia also cooperates with Papua New Guinea on agriculture and infrastructure assistance. Indonesia has not cooperated much with the wider region in other sectors.

Papua's potential to become the gateway to Indonesia's trade activities in the eastern region can be seen in a number of ways. First, the province's geographic proximity to the Pacific region is vitally important. An open sea border connecting Jayapura in Papua with Pacific countries will shorten the shipping routes between Indonesia and Indo-Pacific countries, which will lower costs of production and other trade costs. Papua is quite close to the countries of the three large Pacific island groupings: Melanesia (Papua New Guinea, Solomon Islands, Vanuatu, New Caledonia, Fiji, Australia), Polynesia (Samoa, Tonga, Cook Islands, Niue, Tuvalu, New Zealand, French Polynesia), and Micronesia (Marshall Islands, Federated States of Micronesia, Kiribati, Nauru, Palau). Major countries such as Australia, New Zealand, Japan, and India are also nearby. Given this close proximity and the possibility of connectivity, Papua has the potential to become a gateway of economic activity to the Pacific region within the Indo-Pacific corridor.

Second, given its ethnic Melanesian population, Papua has much in common culturally with the surrounding countries in the South Pacific. That similarity opens up the possibility of facilitating economic and cultural cooperation between Indonesia and the Pacific while encouraging cooperation in other fields. In so doing, it would help encourage investment growth, trade, and development both in Papua and the wider Pacific region.

Third, it can be used as a transit point for ships from Indo-Pacific countries, which will facilitate trade activities in the region. Those activities will provide economic benefits for Indonesia and especially Papuans, such as the absorption of Papuan labour and the increase of tourism between Papua and Pacific countries. For example, Indonesia could work with Fiji, which has become the centre for global communication and transportation routes (shipping and

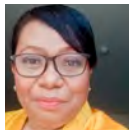
air travel) in the South Pacific region. With access to Fiji market, companies could take advantage of low import duties to export their products to other island nations.

Fourth, focusing on increasing cooperation and connectivity with Papua might reduce the political debate and tensions between Indonesia and other countries in the Indo-Pacific. After all, development and connectivity could reduce their suspicions about human rights, poverty, and other issues in Papua.

There are still a number of challenges that may need to be overcome: the readiness to make Papua the eastern gateway of trade and investment; the skilled labour required in Papua for it to become the centre of economic and trade activity; and security factors that often challenge economic and investment activities in the region. The Indonesian government and the local government of Papua province need to address these challenges to ensure that Papua can emerge as a trading gateway to the Pacific region.

Conclusion

Indonesia has an opportunity to make Papua province the eastern gateway to economic and cultural trade connectivity. This would provide economic, political, and cultural benefits for Indonesia, for Papua, and for Indo-Pacific countries as a whole. In addition to providing economic benefits for Indonesian and Papuans themselves, it could minimize the issues of separatism, human rights, and poverty in Papua in international forums.



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