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Backgrounder

What do businesses in Alberta need from an Indo-Pacific strategy?

Canada West Foundation
Alberta & the Indo-Pacific

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BACKGROUND

Alberta & the Indo-Pacific

The Indo-Pacific region is important for Alberta. It contains three of Alberta's top five trade partners after the United States. It was the destination for approximately \$14 billion worth of provincial exports in 2022, including energy products, agriculture and agri-food, forestry products, chemicals and other goods and services. The region is the fastest growing in the world with a nearly \$50 trillion economy. It is also a significant source of in-migration for the province, with strong and growing cultural communities from the region. Alberta is well placed to build its economic relationship with the Indo-Pacific.

But there are challenges. The global relationship with China has become increasingly complex. Alberta's exports – its agricultural exports in particular – have faced arbitrary trade barriers in several countries. And Canada's infrastructure constraints remain a challenge.

Last December, the federal government announced a new Indo-Pacific Strategy to re-focus, re-order and re-prioritize its resources in Asia and the Indian sub-continent.

To implement the strategy the federal government has proposed over \$2 billion in new spending in Canada and abroad, of which just under half will be some form of support for economic activities. This includes investments to create a new agricultural office in the region, expand natural resource ties, clean energy demonstration, and labour and investment attraction among others.

The specifics of the strategy and its implementation are still being developed in Ottawa. A window currently exists to influence the development, specific focus and implementation in Canada and in the region.

What is the Indo-Pacific?

There is no one definition of what constitutes the Indo-Pacific region. The U.S. government, whose strategy dominates Canadian news coverage, lists only 14 countries. The Canadian federal government lists 40 countries of which just under half are significant trade partners for Alberta: Australia, Bangladesh, India, Indonesia, Japan, Malaysia, New Zealand, Pakistan, China, the Philippines, Korea, Singapore, Sri Lanka, Taiwan, Thailand and Vietnam.¹

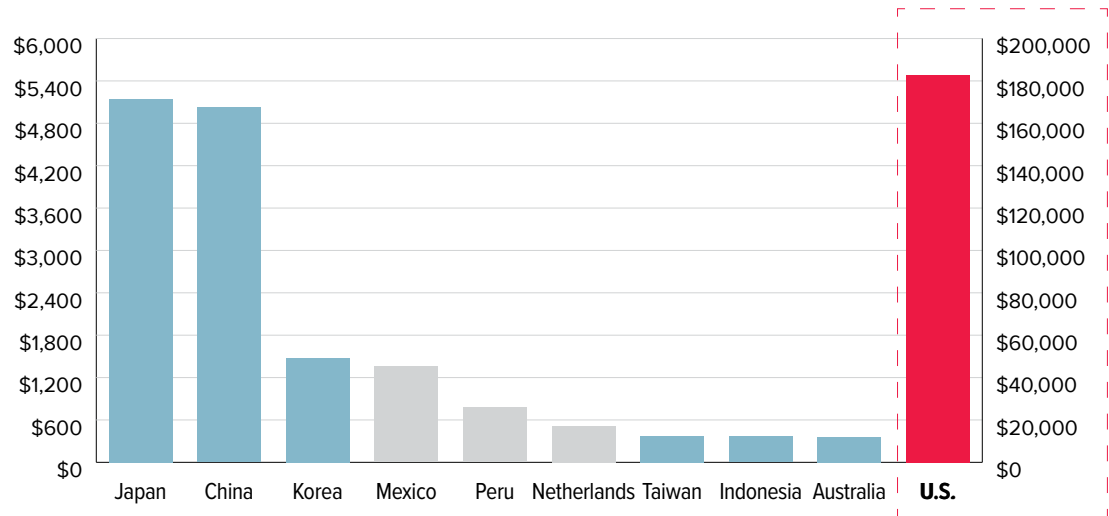
¹ The full list includes Brunei, Cambodia, North Korea, Laos, Maldives, Mongolia, Myanmar, Nepal, the 14 small Pacific Island Countries and Timor Leste.

Why is the region important to Alberta?

This region contains six of Alberta's top ten export markets and accounts for seven per cent of Alberta's exports by value. (NAFTA dominates our exports at 90 per cent.) The Indo-Pacific region accounts for just under one-third of total global GDP, or nine per cent more than the U.S., and has a population of 3.9 billion. All the Indo-Pacific countries of importance to Western Canada, except Japan, have higher projected GDP growth rates to 2027 than Canada or the U.S. It is interesting to note that in 2022, Japan supplanted China as Alberta's second largest trade partner, restoring the position it last held in 2002. China was one of the only major economies still under COVID lockdown in 2022. Whether Japan's change in position will hold now that China has emerged from lockdown remains to be seen.

Alberta Top Ten Export Destinations 2022 (CAN\$)

(U.S. on right axis, Other countries on left axis) ■ Indo-Pacific countries



Source: Statcan trade data

What is the strategy and why is it important to Alberta?

The Indo-Pacific strategy is a rare public Canadian foreign policy document; Canada seldom puts these strategies in writing. For the first time in recent memory, security has moved ahead of trade as the driver of foreign engagement. This will likely impact trade in services, research cooperation and foreign investment attraction before other sectors. The strategy mentions but does not specify new federal resources to help businesses, primarily those in China, manage security concerns.

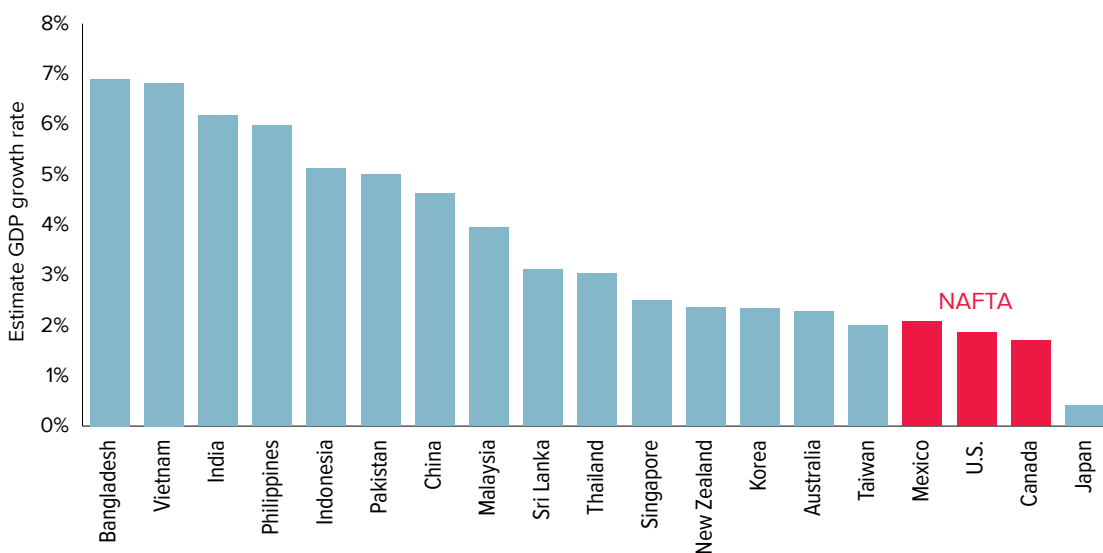
With respect to trade, the strategy strengthens the federal government's commitment to negotiate new trade agreements with the Association of Southeast Asian Nations (ASEAN), India and Indonesia. It also supports the expansion of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) to which five new economies have formally applied: the U.K., China, Taiwan, Ecuador, Costa Rica, with applications also expected from Korea, Uruguay and Thailand.

Alberta Top 25 Exports to 14 Significant Indo-Pacific Markets, 2022

Rank	Product	thousands CAN\$
1	Liquefied Petroleum or Hydrocarbon Gases	\$ 2,014,815
2	Coal and Solid Fuels Manufactured from Coal	\$ 1,825,734
3	Wheat	\$ 1,313,813
4	Canola Seeds	\$ 1,304,601
5	Acyclic Alcohols and Derivatives	\$ 736,433
6	Chemical Wood Pulp – Soda or Sulphate	\$ 553,835
7	Oil-Cake and Other Solid Residues Vegetable Fats or Oils	\$ 537,398
8	Unwrought Nickel	\$ 514,670
9	Meat of Bovine Animals – Frozen	\$ 418,124
10	Semi-Chemical Wood Pulp	\$ 414,145
11	Sulfur	\$ 346,972
12	Barley	\$ 314,222
13	Canola or Mustard Oil – Not Chemically Modified	\$ 280,580
14	Petroleum Coke; Residues of Petroleum Oils	\$ 280,306
15	Meat of Swine – Fresh, Chilled or Frozen	\$ 275,717
16	Cobalt and Articles Thereof	\$ 248,078
17	Leguminous Vegetables – Dried and Shelled	\$ 244,286
18	Polymers of Ethylene in Primary Forms	\$ 229,800
19	Edible Offal – Fresh, Chilled or Frozen	\$ 225,010
20	Alfalfa, Hay, Clover, Similar Forage Products	\$ 144,108
21	Pet Food and Animal Feed Preparations	\$ 125,381
22	Raw Hides and Skins of Bovine or Equine Animals	\$ 115,001
23	Lumber (Thickness > 6mm)	\$ 110,733
24	Nickel Powders and Flakes	\$ 110,135
25	Particle Board of Wood or Other Ligneous Material	\$ 90,626

Source: Trade Data Online

Indo-Pacific Countries, Canada and the U.S., GDP growth 2027, est.

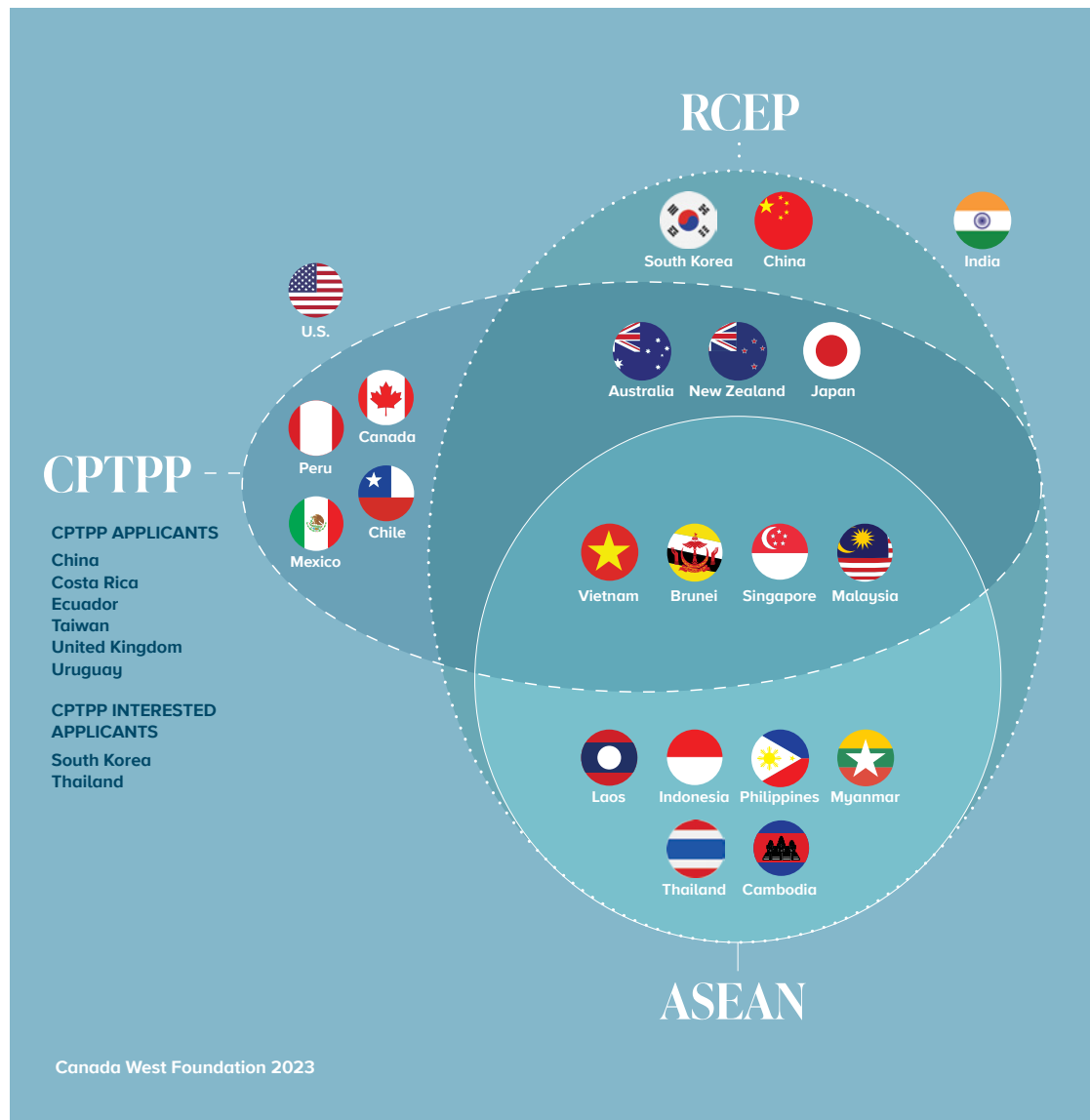


Source: IMF, World Economic Outlook Database

The strategy also calls for Canada to join the U.S.-led Indo-Pacific Economic Framework, but it should be noted that this is not a traditional trade agreement with provisions such as tariff reductions and market access. The good news is that the lack of those elements in the U.S. Indo-Pacific engagement and that country's continued inability to join the CPTPP means Canada has and will maintain a market access advantage over the U.S. in the region. At the same time, Canada's Indo-Pacific Strategy does not include the intention to pursue membership in the Regional Comprehensive Economic Partnership (RCEP), which includes China, ASEAN, Korea, Japan, Australia and New Zealand, which means Canada will remain behind Australia and New Zealand in market access in the region.

But as we have experienced with China as well as India and the U.S., it's non-tariff barriers that happen after market access that can pose the big problems and where help in the region really matters.

Indo-Pacific Trade Agreements: Member Countries



The federal government has shifted their approach to China, with a greater focus on security. The IPS essentially lays out a business-as-usual path for trade with China. While it warns of potential volatility, there is nothing in the strategy that funds or facilitates a broad decoupling from China, such as cuts to trade personnel, offices or resources in China. Instead, the strategy states that the Chinese market is too big to ignore and that the federal government will continue to support businesses entering or operating in China. This would obviously not include support for sensitive sectors where selective decoupling is likely.

India is flagged as the next big target for Canadian trade policy and support. As opposed to China, the focus of engagement for India is trade. Here security is a secondary concern.

What's potentially available for Albertans in the Indo-Pacific Strategy

The strategy comes with significant spending, some of which could be directed to address specific concerns of Alberta stakeholders, while others, such as opening a new agricultural office in the region and trade gateway office, may be able to align with or leverage existing Government of Alberta investments.

Spending line items announced with the IPS are listed below. As with so much of the strategy, clarification is still needed on the purpose and implementation of each item:

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- Trade-specific items of interest include an agri-food office in Singapore, a trade gateway office, and Team Canada trade missions. Also of relevance is a CanExport investment attraction component.

 - Outside of the 'trade' bucket, increased funding for visa processing and student recruitment in India and Pakistan and business intelligence in the region are of interest.

 - Funding for Canadian capacity building could be useful for building capacity in Alberta to better engage and manage relations with the region, depending on how the funding is targeted.

 - The strategy's focus on a sustainable and green future includes promising potential opportunities in clean technology. The bulk of the money here is to fund infrastructure projects in the region.

 - Expanding natural resource ties is an item of obvious importance that needs further clarification from the federal government and input from Alberta.

Alberta industry and other stakeholders have an opportunity to identify their interests in the Indo-Pacific, the challenges that they face related to trade and investment, and to provide ideas and direction as to how Canada should best engage in the region.

Now is the time to communicate what Alberta needs to succeed in the Indo-Pacific region.

Indo-Pacific Spending Announced with Release of the Strategy

Items of potential interest for Western Canada highlighted

CATEGORY	ITEM	MILLIONS CAN\$
Peace, Resilience, Security		\$ 720.70
Trade, Investment, Supply Chain Resilience		\$ 243.70
	Canadian Trade Gateway in Southeast Asia (over five years)	\$ 24.10
	Modern Team Canada 3.0 Trade Missions (over five years)	\$ 45.00
	CanExport Enhancements for exporting / investment attraction	\$ 37.00
	Indo-Pacific Agriculture / Agri-Food Office (over five years)	\$ 31.80
	Technical Assistance for Trade and Labour Compliance	\$ 25.00
	Expanding Natural Resource Ties	\$ 13.50
	International Science, Technology, Innovation Partnerships	\$ 65.10
	Enhanced Indo-Pacific Engagement in Standardization	\$ 2.20
Investing In / Connecting People		\$ 260.90
	Visa Processing, Student Recruitment, Business Intelligence	\$ 74.60
	Expanded SEED Scholarship (Canada-ASEAN Scholarships and Educational Exchanges for Development (SEED) program)	\$ 14.20
	Indo-Pacific Engagement Initiative (over five years)	\$ 40.10
	Feminist International Assistance	\$ 132.00
Sustainable and Green Future		\$ 1,002.70
	Indo-Pacific Infrastructure Support for FinDev Canada	\$ 750.00
	Shared Ocean Fund (over five years)	\$ 84.30
	Disaster Risk, Resilience	\$ 52.40
	Clean Technology Demonstration	\$ 16.00
	Environment Bilateral Programming	\$ 100.00
Canadian Capacity Building		\$ 137.60
	Indo-Pacific Regional Capacity Uplift	\$ 100.00
	ASEAN Partnership, ASEAN-Canada Plan of Action Trust Fund (over five years)	\$ 13.10
	Asia Pacific Foundation	\$ 24.50

Source: Office of the Minister of International Trade, Export Promotion, Small Business and Economic Development

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