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Recalibrating Canada's Trade and Economic Foreign Policy:

The Persian Gulf States and ASEAN+3

Faramarz Tamanna
CIPS, University of Ottawa
2026



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Table of Contents

TABLE OF CONTENTS ---- 5

THE SECOND CIRCLE: ---- 1

EXPANDING PARTNERSHIPS WITH WEALTHY AND EMERGING ECONOMIES ---- 1

(THE GULF STATES AND ASEAN+3) ---- 1

Trade and Investment Overview ---- 3

1. Saudi Arabia ---- 3

2.United Arab Emirates (UAE) ---- 5

4. Kuwait ---- 10

5. Oman ---- 10

6. Bahrain ---- 11

Strategic Synthesis ---- 14

Recent Developments ---- 14

Opportunities and Key Sectors for Cooperation with the Gulf States ---- 17

Challenges and Risks: Managing the Values–Interests Dilemma ---- 20

Proposed Policy Framework ---- 21

Conclusion: ---- 23

Proposed Model for Canada's Policy: "Principled Pragmatism" ---- 23

Likely U.S. Reaction ---- 23

2- EAST ASIA (ASEAN + 3): LEVERAGING THE GROWTH OF EMERGING ECONOMIES ---- 24

Current Situation: ASEAN as a Trading Partner ---- 24

Policy Framework: From FTA Negotiations to Results-Oriented Diplomacy ---- 25

Risk–Reward Matrix (Illustrative) for Three Key ASEAN Partners ---- 27

1. Indonesia ---- 27

2. Vietnam ---- 28

3. Singapore ---- 29

4. Malaysia ---- 29

OVERALL ASSESSMENT: HIGH REWARD / LOW–MEDIUM RISK ---- 30

5. Thailand ---- 31

6. The Philippines ---- 32

7. Brunei Darussalam ---- 34

8. Cambodia ---- 35

9. Laos ---- 36

10. Myanmar ---- 38

11. Timor-Leste ---- 39

Opportunities in ASEAN: A Broad Set of Capacities for Canadian Businesses ---- 42

Policy Synthesis ---- 46

Challenges in Engaging ASEAN ---- 46

South Korea ---- 47

Taiwan ---- 47

Hong Kong ---- 48

Analytical Synthesis ---- 48

Likely US Reaction ---- 49

STRATEGIC IMPLICATIONS FOR CANADA ---- 49

The Second Circle:

Expanding Partnerships with Wealthy and Emerging Economies

(The Gulf States and ASEAN+3)

The second circle encompasses countries with significant emerging economies which, while not fully aligned with Canada politically, possess substantial wealth or exceptionally high growth potential and can emerge as important new partners for Canada. These states are predominantly capitalist economies, middle powers or emerging markets, often characterized by large pools of financial capital or expansive markets with a rapidly growing middle class. Although several African and South American countries share similar characteristics, this policy paper focuses, within the second circle, specifically on the Gulf states and East Asia.

Given the current context, where Canada is experiencing economic difficulties following the renewed U.S. tariff war, the second circle is structured around two key subgroups:

1. **The Gulf States** (Saudi Arabia, the United Arab Emirates, Qatar, Kuwait, Oman, and Bahrain): These countries possess vast financial resources, sovereign wealth funds, and ambitious economic diversification agendas.
2. **Major East Asian Economies** (ASEAN+3: South Korea, Taiwan, and Hong Kong): These economies feature large markets, relatively young populations, rapid economic growth, and an expanding middle class.

For Canada, engagement with second-circle partners implies the adoption of an opportunity-driven, interest-based approach, one that may require managing differences in

governance models or value systems, but which holds the potential to generate substantial economic benefits.

It is essential to emphasize that engagement with these countries does not imply endorsement of their domestic political systems. Rather, it represents a pragmatic opening for trade, investment, and the diversification of Canada's supply chains. This approach, particularly in a post-tariff-war global environment, signals a departure from Canada's earlier hesitations. As one analyst has observed, Canada has entered an era of "economic realpolitik"[1], an approach that is "less sensitive and perhaps less idealistic," with a stronger emphasis on productivity and economic growth.

Economic engagement with second-circle countries should therefore not be understood as a retreat from Canada's foundational principles. Instead, it constitutes a necessary strategy to safeguard Canada's sustainable economic future and reflects the imperative to move beyond the status quo by interacting with a broader and more diverse range of partners.

From a geopolitical perspective, the United States itself maintains extensive relations with both subgroups, the Gulf states and ASEAN+3 economies, and is therefore unlikely to oppose deeper Canadian engagement. On the contrary, in many cases Washington welcomes a more active role by its allies in these regions, particularly where such engagement contributes to balancing or reducing China's influence.

Figure 4: Canadian Trade with US compared with key Asian trading partners in 2024



[1] David Moscrop (2025), "Canada Is Entering an Era of Realpolitik,", Available at: https://time.com/7337391/canada-carney-economy-trade-trump/ (14,12,2025)

1. Oil, Wealth, and Opportunity: The Gulf States

The member states of the Gulf Cooperation Council (GCC), Saudi Arabia, the United Arab Emirates, Qatar, Kuwait, Oman, and Bahrain, represent a rare and powerful combination of hydrocarbon wealth and state-led capital accumulation, a concentration that is nearly unmatched globally. Several Gulf countries possess sovereign wealth funds managing hundreds of billions of dollars in assets and are actively seeking overseas investment opportunities as part of their efforts to diversify beyond oil-dependent economies. For example, Saudi Arabia's Public Investment Fund (PIF), the United Arab Emirates' Mubadala Investment Company, and the Abu Dhabi Investment Authority (ADIA) now rank among the world's largest and most influential global investors.

Despite this immense capacity, Canada's engagement with the Gulf region has historically been limited and, at times, strained. A prominent example is the 2018 diplomatic crisis, following Canada's public criticism of the human rights situation in Saudi Arabia, which prompted Riyadh to expel the Canadian ambassador and suspend trade relations. This episode vividly illustrated the tension between values and interests in Canadian foreign policy. However, between 2023 and 2025, a markedly different trajectory has emerged. Canada has made a calculated decision to re-engage with Gulf states in a gradual and pragmatic manner, promoting shared economic interests while continuing dialogue on difficult and sensitive issues.

Trade and Investment Overview

1. Saudi Arabia

Saudi Arabia occupies a central position in Canada's engagement with the Middle East, both economically and strategically. According to *Quick Facts* released by Global Affairs Canada, Saudi Arabia was Canada's largest trading partner in the Middle East in 2024, and deeper bilateral ties were explicitly framed as a means to "boost business opportunities and unlock export opportunities and investments" for both countries. Bilateral merchandise trade in 2024 reached approximately CAD 4.1 billion, comprising CAD 2.0 billion in Canadian exports and CAD 2.1 billion in imports. [2] Canada's principal exports to Saudi Arabia include aerospace and defence products, vehicles, pharmaceuticals, and industrial machinery.[3] Beyond trade flows, more than 150 Canadian companies are currently active in Saudi Arabia

[2] https://www.canada.ca/en/global-affairs/news/2025/11/minister-sidhu-strengthens-canadas-economic-relationship-with-saudi-arabia.html (13,1,2026)

[3] Ibid

across sectors such as artificial intelligence, infrastructure development, entertainment, and related industries, providing a solid commercial and institutional foundation for deeper and more diversified engagement. [4]

From Canada's perspective, engagement with Saudi Arabia directly serves several core national interests. These include access to a large, capital-rich market with significant opportunities in investment, defence procurement, and major infrastructure contracts; cooperation in the energy sector, encompassing both traditional hydrocarbons and the energy transition; and enhanced political influence and engagement within the Arab and Islamic worlds, where Saudi Arabia remains a pivotal actor. Taken together, these interests position Saudi Arabia as not only an economic partner but also a strategic node in Canada's broader Middle East and Global South policy architecture.

The scope for upgrading the relationship is particularly evident in Saudi Arabia's economic and investment capacity, shaped by the ambitions of Saudi Vision 2030.[5] This national transformation agenda requires large-scale inflows of foreign expertise and partnership in priority areas such as infrastructure development (including mega-projects like NEOM, transportation networks, and smart cities), clean energy (notably hydrogen, solar power, and carbon capture and storage), and advanced services including artificial intelligence, urban planning, and engineering. Canada holds clear comparative advantages in many of these domains, especially in engineering and project management, mining and critical minerals, and agricultural and agri-food exports, the latter being particularly relevant given that food security is a strategic concern for Saudi Arabia. A key policy lever to translate these complementarities into sustained outcomes would be the revival and institutionalization of joint economic commissions, supported by Export Development Canada (EDC) and Canadian pension funds, with the aim of normalizing engagement and anchoring long-term investment flows.

A second pillar of engagement lies in the defence–industrial domain. Saudi Arabia ranks among the world's largest importers of defence equipment, and Canada already maintains established industrial ties with the Kingdom, including cooperation in armoured vehicle production. Compared to some European suppliers, Canada is often perceived in Saudi policy circles as a more reliable and less politicized partner, which creates space for pragmatic cooperation. At the same time, domestic political pressures in Canada, particularly those related to human rights concerns, constitute a significant constraint on traditional arms-export relationships. This tension also opens a strategic opportunity:

[4] Ibid

[5] https://www.vision2030.gov.sa/en (23,,10,2025)

shifting the focus from arms sales alone toward dual-use arrangements, maintenance and servicing contracts, and technology transfer, all underpinned by stricter oversight, compliance, and accountability mechanisms that align with Canadian legal and normative standards.

Finally, there is meaningful potential to recalibrate engagement through political and diplomatic capacity. Saudi Arabia places a strong premium on respect for sovereignty and favors a diplomatic style that avoids public moralizing or "preachy" rhetoric. Within this context, Canada has scope to reposition its approach by remaining values-driven at the multilateral level, while adopting a more pragmatic and interest-based posture at the bilateral level. Such a dual-track approach would allow Canada to safeguard its normative commitments internationally while rebuilding trust and functionality in its direct relations with Riyadh, thereby enabling progress across economic, energy, defence, and political dimensions without abandoning core principles.

Policy lever:
Quiet diplomacy combined with economic engagement, avoiding highly mediatized confrontational approaches, while maintaining principled positions within multilateral institutions.

2. United Arab Emirates (UAE)

The UAE occupies a growing strategic place in Canada's global economic policies. In 2024, Canada's total bilateral merchandise trade with the UAE was valued at about CAD 3.4 billion, with Canadian exports to the UAE reaching roughly CAD 2.6 billion and imports around CAD 800 million, figures that reflect an upward trend supported by diversified exports such as aerospace and motor vehicles. Beyond goods, commercial services also contribute to the relationship, amounting to hundreds of millions in bilateral services trade.[6]

The UAE serves as a major global logistics and connectivity hub, linking markets across Asia, Africa, and Europe. For Canadian companies, this geographic and infrastructural advantage enhances access not only to the UAE domestic market but also to third-country markets in broader regions, making the UAE an effective gateway for Canadian exporters and investors seeking regional diversification.[7]

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[6] https://international.canada.ca/en/global-affairs/consultations/trade/2025-12-03-united-arab-emirates?utm (15,1,2026)

[7] Canada-United Arab Emirates relations, Available at: https://www.international.gc.ca/country-pays/uae-eau/relations.aspx?lang=eng&utm (3,2,2026)

Canada's core interests in deepening engagement with the UAE include attracting foreign direct investment, leveraging the UAE's logistics and connectivity assets, and advancing cooperation in technology, artificial intelligence (AI), and clean energy sectors. These objectives align with Canada's broader strategy to diversify export markets and engage with dynamic economies outside its traditional trade relationships.[8]

Key Capacities for Upgrading Engagement

(a) Capital Capacity and Sovereign Wealth Funds

The UAE is home to some of the world's largest and most active sovereign investment institutions, including the Abu Dhabi Investment Authority (ADIA), Investment Corporation of Dubai (ICD), and major state-owned investors such as ADQ and Mubadala's investment arms. Collectively, these institutions manage trillions of dollars in assets globally and continue to expand their presence in high-potential sectors such as technology infrastructure, energy transition assets, and diversified global investment portfolios.[9]

From the UAE's perspective, Canada offers a politically stable, well-regulated investment environment with long-term opportunities in infrastructure, advanced technology, and clean energy. In 2025, the two countries signed a new Foreign Investment Promotion and Protection Agreement (FIPA), which strengthens investor protections and sets a predictable legal framework for cross-border investment, laying the foundation for expanded capital flows. Negotiations toward a Comprehensive Economic Partnership Agreement (CEPA) were also launched, with the potential to further liberalize trade and investment.[10]

Policy levers that can be pursued include concluding and implementing the CEPA, upgrading investment frameworks to meet Gulf investor expectations, and curating a pipeline of "investment-ready" projects tailored to sovereign and institutional capital from the Gulf Cooperation Council (GCC).

(b) Logistical Capacity and Gateway Role

The UAE's strategic geographic location and advanced transport infrastructure, encompassing ports, airports, and free-zones, make it a natural hub for regional and intercontinental trade. Canadian firms can leverage these logistics networks to expand into

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[8] https://www.canada.ca/en/global-affairs/news/2026/01/minister-sidhu-to-visit-qatar-saudi-arabia-and-united-arab-emirates-to-promote-canadian-trade-and-investment.html?utm (1,2,2026)

[9] https://www.khaleejtimes.com/business/uae-adia-icd-mubadala-asset-jump-wealth-fund-next-5-years?utm (12,12,2025)

[10] https://www.mofa.gov.ae/en/mediahub/news/2025/11/22/22-11-2025-uae-canada?utm (12,12,2025)

markets across the Middle East, Africa, and South Asia, supporting both goods and services exports.[11]

To formalize this advantage, expanding trade services presence in key UAE cities such as Dubai and Abu Dhabi and strengthening bilateral business councils can enhance market intelligence, regulatory navigation, and sector-specific engagement.

(c) Technological and Innovation Capacity

The UAE government has articulated national strategies focused on AI, fintech, digital infrastructure, and advanced research. At the same time, Canadian cities including Montreal, Toronto, and Waterloo are recognized as global hubs for artificial intelligence research and innovation. This complementarity offers fertile ground for collaboration that can spur innovation, research and development (R&D) partnerships, and co-financed technological initiatives.[12]

Deepening university-industry linkages, signing research memoranda of understanding in priority technologies, and establishing jointly funded innovation hubs can generate both symbolic and economic gains while remaining relatively low political risk.

Policy Lever:
Deepening university–industry partnerships, concluding research MOUs in artificial intelligence, and establishing joint innovation hubs with co-financing, initiatives that are politically low-risk yet high-impact symbolically and economically.

3. Qatar

Qatar constitutes a strategically relevant partner for Canada at the intersection of energy security, global connectivity, education, and diplomacy. Canada's core interests vis-à-vis Qatar centre on cooperation in liquefied natural gas (LNG), enhanced engagement in aviation and education, and sustained collaboration in mediation and diplomatic engagement in a region marked by volatility. Qatar's role as a major energy exporter and an increasingly influential diplomatic actor provides Canada with both economic and geopolitical entry points.[13]

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[11] https://www.international.gc.ca/country-pays/uae-eau/relations.aspx?lang=eng&utm (3,1,2026)

[12] Rajeev (Raj), Dewan Tim, SunarIshita Kashyap (2026), "Canada-Gulf investment outlook 2026: Key sectors and opportunities," Available at: https://www.dlapiper.com/en-qa/insights/publications/2026/01/canada-gulf-investment-outlook-2026?utm (9,2,2026)

[13] https://www.international.gc.ca/country-pays/qatar/relations.aspx?lang=eng (16,10,2025)

A primary pillar for upgrading Canada–Qatar relations lies in energy and LNG capacity. Qatar is widely recognized as one of the world's three largest exporters of LNG, accounting for a substantial share of global supply and operating one of the most sophisticated LNG production and export systems globally.[14] At the same time, Canada is an emerging LNG exporter seeking to diversify export destinations beyond the United States, with new LNG supply from both the Atlantic and Pacific coasts forming a core part of Canada's energy-diversification strategy.[15]

Crucially, the interests of the two countries are complementary rather than competitive: Qatar brings global marketing power and established LNG trade networks, while Canada contributes new supply capacity, regulatory stability, and geopolitical diversification. A structured energy dialogue focused on coordination rather than competition, including joint investment in LNG infrastructure and maritime transportation, would therefore strengthen global supply resilience rather than exacerbate market rivalry.[16]

A second vector of engagement concerns aviation and connectivity capacity. Qatar Airways is consistently ranked among the world's leading global carriers and operates an extensive intercontinental network via Doha's Hamad International Airport.[17]

The International Air Transport Association's (IATA) empirical research shows that air connectivity has strong multiplier effects on trade, tourism, business mobility, and international education flows. For Canada, expanded air connectivity with Qatar would thus function not merely as a transportation issue, but as a broader trade-enabling and growth-supporting mechanism. A pragmatic and low-cost policy lever in this area involves expanding bilateral air services agreements and regulatory facilitation, an approach supported by Transport Canada's international air policy framework.[18]

A third and longer-term dimension of engagement lies in education and soft-power capacity. Qatar has made sustained and strategic investments in Western higher education through Education City, hosting branches of leading international universities and positioning Doha as a regional knowledge hub.[19]

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[14] Trent Jacobs (2025), "US Ranked as World's Top LNG Exporter in 2024, EIA Reports," Available at: https://jpt.spe.org/us-ranked-as-worlds-top-lng-exporter-in-2024-eia-reports?utm (4,12,2025)

[15] https://www.lngcanada.ca/?utm (12,12,2025)

[16] IEA (2024), Gas Market Report, Available at: https://www.iea.org/reports/gas-market-report-q1-2024 (1,1,2026)

[17] https://www.qatarairways.com/press-releases/en-WW/254995-qatar-airways-expands-connectivity-to-the-united-states-and-south-america-with-aer-lingus-and-level/?utm (12,10,2025)

[18] https://tc.canada.ca/en/corporate-services/policies/blue-sky-policy-made-canada-canada?utm (15,11,2025)

[19] https://www.qf.org.qa/education/education-city (15,12,2025)

By contrast, Canadian universities currently maintain a more limited institutional presence in Qatar compared to their American and British counterparts. Qatar's flagship higher-education hub, Education City, hosts multiple branch campuses of leading U.S. and U.K. universities, while no Canadian university operates a permanent campus in this ecosystem.[20] Canadian engagement in Qatar's higher-education sector has instead focused primarily on student mobility and partnership-based cooperation rather than institutional embedding.[21] This asymmetry represents an opportunity rather than a constraint. Expanding Canadian engagement through joint programs, research partnerships, faculty exchanges, and student mobility initiatives would strengthen Canada's educational footprint, enhance long-term people-to-people ties, and reinforce Canada's broader soft-power objectives in the Gulf and beyond.[22]

In the most recent phase of bilateral relations, Canada–Qatar ties have entered a more operational and forward-looking stage, particularly in the areas of trade and investment. The Canadian Prime Minister's visit to Doha on Jan. 18, 2026 and the announcement of progress toward a Foreign Investment Promotion and Protection Agreement (FIPA), targeted for completion by summer 2026, signal strong political commitment on both sides to institutionalize long-term economic cooperation. Current engagement focuses on attracting Qatari investment into major Canadian projects, expanding two-way trade, and deepening collaboration in strategic sectors such as technology, infrastructure, and defence. The agreement to establish structured mechanisms, including a joint economic, trade, and technical commission, reflects a shift from ad hoc engagement toward a more durable and strategic partnership. From a policy perspective, this development positions Qatar as a key actor within Canada's "second circle" of economic diversification, one that enhances Canada's economic resilience and reduces over-reliance on traditional markets while remaining broadly aligned with Western partners.[23]

Policy lever:

Establishing Canadian university branches, joint degree programs, and endowed research chairs, initiatives that are politically low-risk yet highly positive in reputational and soft-power terms.

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[20] Ibid

[21] https://www.qf.org.qa/education/education-city?utm (15,12,2025)

[22] https://www.international.gc.ca/education/index.aspx?lang=eng (14,12,2025)

[23] https://www.pm.gc.ca/en/news/news-releases/2026/01/18/prime-minister-carney-secures-new-partnership-qatar-increase-trade?utm_source=chatgpt.com (20,1,2026)

4. Kuwait

Kuwait represents a relatively low-risk and stable investment partner for Canada in the Gulf region, particularly in investment and diplomatic engagement. Canada's core interests in its relationship with Kuwait centre on working with a stable source of long-term capital and engaging a state whose foreign policy is generally conservative, cautious, and predictable. Global Affairs Canada characterizes bilateral relations as constructive and grounded in shared interests in trade, investment, and regional stability.

A key capacity for upgrading engagement lies in Kuwait's financial and investment profile, anchored in the Kuwait Investment Authority (KIA). Established in 1953, the KIA is widely recognized as the world's oldest sovereign wealth fund and operates with a long-term, conservative, and rules-based investment strategy focused on capital preservation and intergenerational wealth.[24]

This profile aligns closely with pension-fund–style investments, suggesting a clear policy lever for Canada: prioritizing cooperation in infrastructure, public utilities, and real estate, sectors well suited to stable institutional capital.

Kuwait also stands out in the Gulf for its comparatively pluralistic political culture, shaped by the long-standing role of its elected National Assembly. Despite periodic political tensions, Kuwait's parliamentary tradition remains a regional outlier and offers greater normative compatibility with Canada's parliamentary system.[25] Accordingly, a complementary policy lever lies in strengthening parliamentary diplomacy and technical cooperation in governance, reinforcing long-term institutional ties alongside economic engagement.

5. Oman

Oman represents a niche but strategically valuable partner for Canada, particularly in the areas of regional stability, mediation, and targeted, low-risk economic engagement. Canada's core interests in its relationship with Oman are therefore not driven by scale, but by function: supporting stability, enabling mediation efforts, and engaging selectively in economic sectors where risks are limited and returns are steady. Global Affairs Canada

[24] https://www.kia.gov.kw/?utm (20,1,2026)

[25] https://www.idea.int/democracytracker/country/kuwait (23,11,2025)

characterizes Oman as a constructive regional actor and highlights bilateral cooperation grounded in diplomacy, development, and modest commercial ties.[26]

A key capacity for upgrading engagement lies in diplomatic and mediation roles. Oman is widely recognized as a neutral and credible mediator in the Middle East, having played discreet facilitation roles in regional conflicts and diplomatic negotiations, including on Yemen and regional de-escalation efforts. This role has been acknowledged by the United Nations and by leading international policy institutions, which emphasize Oman's preference for quiet diplomacy and non-alignment.[27]

Canada's own foreign policy places strong emphasis on multilateralism and quiet diplomacy, creating clear normative compatibility. In this context, a realistic policy lever involves Track II diplomacy, support for mediation initiatives, and coordination on humanitarian and confidence-building measures, rather than high-visibility political intervention.

Economic engagement with Oman is best understood as targeted and limited, rather than comprehensive. Opportunities exist in specific sectors such as port development, fisheries, and renewable energy, areas identified by international development institutions as priorities for Oman's economic diversification. These sectors are relatively small in scale but low in political and financial risk, aligning with Canada's cautious engagement profile. The World Bank and other development partners have highlighted ports and logistics, sustainable fisheries, and renewable energy as areas where Oman seeks external expertise and investment without large-scale exposure.[28] For Canada, this suggests a focused engagement strategy emphasizing technical cooperation and selective investment, rather than broad trade liberalization or high-risk capital deployment.

6. Bahrain

Bahrain is geographically part of the Gulf region and a member of the Gulf Cooperation Council (GCC); however, its position in Canada's foreign and economic policy differs fundamentally from that of larger Gulf states such as Saudi Arabia, the United Arab Emirates, or Qatar. Bahrain's limited market size, the absence of a large sovereign wealth fund, and its lack of significant independent energy-export capacity constrain its ability to emerge as a standalone economic partner for Canada. According to the World Bank's

[26] https://www.international.gc.ca/country-pays/oman/relations.aspx?lang=eng (14,12,2025)

[27] https://www.newarab.com/analysis/muscat-mediation-omans-diplomatic-success-yemen?utm (3,9,2025)

[28] https://data.worldbank.org/country/oman?utm (23,8,2025)

country data, Bahrain's GDP and export base remain modest relative to other GCC economies, and hydrocarbons do not provide the scale of independent export leverage seen in Saudi Arabia, Qatar, or the UAE.[29] Similarly, the International Monetary Fund (IMF) notes that Bahrain's fiscal position is structurally constrained and heavily reliant on external financial support rather than export-driven revenues.[30]

Moreover, Bahrain's foreign and security policy is closely aligned with, and in key respects dependent upon, Saudi Arabia, particularly since the 2011 unrest and subsequent regional interventions. Multiple authoritative analyses highlight that Saudi Arabia plays a central role in Bahrain's security and fiscal stability, significantly limiting Manama's (the capital of Bahrain) strategic autonomy in regional affairs. This dependency is documented by Reuters, which has repeatedly reported on Saudi financial assistance and security backing to Bahrain.[31] Some policy research further emphasizes Bahrain's structural dependence on Saudi Arabia within the GCC security architecture.[32]

From a political-economy perspective, Bahrain also represents a case of an imbalanced "values–interests trade-off." Persistent governance challenges and human-rights concerns generate relatively high political and reputational risks for external partners, while the prospective economic returns remain limited due to market size and constrained growth potential. These governance and human-rights concerns are well documented by Human Rights Watch and Amnesty International, which consistently report restrictions on political participation, civil liberties, and dissent in Bahrain.[33]

Accordingly, Canada's engagement with Bahrain is best pursued not as a standalone bilateral strategy, but rather within broader GCC frameworks or in coordination with Canada's policy toward Saudi Arabia, where strategic leverage and economic returns are greater. This approach is consistent with Canada's broader Gulf engagement patterns, which emphasize regional and multilateral frameworks in smaller GCC states.[34]

Any bilateral engagement should therefore remain limited, technical, and low-profile, focusing on low-sensitivity sectors such as financial regulation, Islamic banking, education, or fintech cooperation, areas identified by international financial institutions as

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[29] https://data.worldbank.org/country/bahrain (12,9,2025)

[30] https://www.imf.org/en/Countries/BHR (12,9,2025)

[31] https://www.reuters.com/world/middle-east/ (12,9,2025)

[32] Carnegie Endowment for International Peace, Available at: https://carnegieendowment.org/2021/03/18/bahrain-s-fragile-sovereignty-pub-84166 (15,8,2025)

[33] https://www.hrw.org/middle-east/north-africa/bahrain (2,12,2025), and https://www.amnesty.org/en/location/middle-east-and-north-africa/middle-east/bahrain/ (2,122025)

[34] https://www.international.gc.ca/country-pays/bahrain-bahrein/relations.aspx?lang=eng&utm (16,9,2025)

comparatively insulated from political risk and more conducive to incremental cooperation.[35] Bahrain is geographically part of the Gulf region and a member of the Gulf Cooperation Council (GCC), however its position in Canada's foreign and economic policy differs fundamentally from that of countries such as Saudi Arabia, the United Arab Emirates, or Qatar.[36] Bahrain's limited market size, the absence of a large sovereign wealth fund, and its lack of significant independent energy-export capacity constrain its potential to emerge as a standalone economic partner for Canada.

Moreover, Bahrain's foreign and security policy is closely aligned with, and in many respects dependent upon, Saudi Arabia, reducing its degree of strategic autonomy in regional affairs. From a political economy perspective, Bahrain also exemplifies an imbalanced "values–interests trade-off": persistent governance challenges and human rights concerns generate relatively high political and reputational risks, while the prospective economic returns for Canada remain modest.

Accordingly, Canada's engagement with Bahrain is best pursued not as an independent bilateral strategy, but rather within broader GCC frameworks or in coordination with Canada's policy toward Saudi Arabia. Any bilateral engagement should remain limited, technical, and low-profile, focusing on specialized and low-sensitivity areas such as financial regulation, Islamic banking, education, or fintech cooperation, sectors where political sensitivities are lower and mutual benefits are more clearly defined.

Table 4: Comparative Summary

Country	Canada's Core Capacity	Risk Level	Strategic Value
Saudi Arabia	Infrastructure, mining, defence	High (political)	Very High
United Arab Emirates	Capital, technology, logistics	Low	Very High
Qatar	Energy, education, aviation	Low–Moderate	High
Kuwait	Long-term investment	Low	Moderate
Oman	Diplomacy, targeted trade	Very Low	Moderate
Bahrain	Financial regulation, Islamic banking, fintech (within GCC frameworks)	Moderate (political/reputational)	Low–Moderate

[35] IMF country analysis: https://www.imf.org/en/Countries/BHR (7,12,2025)

[36] https://data.worldbank.org/country/bahrain (19,11,2025)

Strategic Synthesis

Canada's capacity to strengthen relations with the Gulf states does not rest on ideological alignment, but rather on functional complementarity in economic and commercial terms:

- Canada offers stability, expertise, the rule of law, and advanced technology.
- The Gulf states provide capital, markets, energy leverage, and geopolitical reach.

A successful strategy therefore requires differentiation, not a one-size-fits-all approach to the Gulf. Each country should be engaged on its own terms, calibrated to its specific economic model, political culture, and risk profile. Such a tailored approach maximizes returns while managing political and reputational risks, and positions Canada to derive durable economic benefits from a diverse and strategically important region.

Recent Developments

Mark Carney's recent trip to the region in late 2025 marked a qualitative shift in Canada's engagement with key Gulf partners, particularly the United Arab Emirates. During this period, the Government of Canada concluded a Foreign Investment Promotion and Protection Agreement (FIPA) with the UAE, a move designed to enhance legal certainty for investors, encourage participation by Canadian pension funds and large firms in Gulf-based projects, and reassure UAE investors that their assets in Canada are protected against expropriation or discriminatory treatment.[37] At the same time, Canada launched negotiations toward a Comprehensive Economic Partnership Agreement (CEPA) with the UAE, aimed at reducing tariffs and administrative barriers, facilitating two-way investment flows, and significantly expanding bilateral trade over the medium term.[38] The ambition to substantially increase bilateral trade is consistent with Canada's past experience: following the entry into force of the Canada–Korea Free Trade Agreement in 2015, bilateral merchandise trade between Canada and South Korea grew markedly over the subsequent decade, demonstrating that deep trade agreements can credibly deliver sustained trade expansion.[39]

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[37] Global Affairs Canada (2025), Canada–UAE FIPA, Available at: https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/united_arab_emirates-emirats_arabes_unis/fipa-apie/background-contexte.aspx?lang=eng (28,12,2025)

[38] Global Affairs Canada (2025), Canada–UAE CEPA consultations, Available at: https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/united_arab_emirates-emirats_arabes_unis/fipa-apie/cepa-apeg.aspx?lang=eng (14,12,2025)

[39] Government of Canada, Canada–Korea FTA – Trade Outcomes, Available at: https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/korea-coree/index.aspx?lang=eng (15,12,2025)

Table 5: Risk–Reward Matrix for the Persian Gulf States (GCC)

Dimension	Potential Rewards	Risks / Costs	Overall Assessment
Economic–Financial	Access to very large pools of state capital; major infrastructure and energy contracts; trade expansion through CEPA with the UAE, FIPAs, and related instruments	Exposure to oil price cycles; potential project delays during downturns in hydrocarbon markets	**High Reward / Medium Risk**
Geopolitical	Enhanced Canadian role in the Middle East; partial alignment with U.S. interests; scope to balance Chinese influence (and, cautiously, explore limited commercial cooperation with China within a third-circle framework)	Risk of entanglement in regional rivalries (Iran–Saudi Arabia, Iran-UAE, Saudi–Qatar, and other Gulf tensions); sensitivity of security dossiers	**Medium–High Reward / Medium Risk**
Values-Based	Opportunity for constructive human rights dialogue from a position of partnership; gradual expansion of soft influence	Potential reputational costs at home if engagement is perceived as overly accommodative; risk of instrumentalization of Canada's brand	**Medium Reward / Medium–High Risk**
Commercial	Expansion of exports in aerospace, defence, education, healthcare, AI, and infrastructure; long-term contracts	Intense competition; sensitivity to regulatory changes; contractual and sovereign risks	**High Reward / Medium Risk**

Summary

For Canada, engagement with the Gulf Cooperation Council (GCC) represents a High-Reward / Medium-Risk proposition. It is recommendable provided that robust safeguards are in place, namely strong FIPAs, transparent contracting, Environmental, Social, and Governance (ESG) standards, and smart, calibrated human rights diplomacy. The most consequential breakthrough in November 2025 was the United Arab Emirates' commitment to invest CAD 70 billion in Canada over the coming years. Canada welcomes the "UAE's historic decision" to invest $70 billion (US$50 billion) in Canada,[40] widely interpreted as a strong vote of confidence in the Canadian economy. While full details of this financial

[40] https://www.pm.gc.ca/en/news/news-releases/2025/11/21/prime-minister-carney-secures-new-agreements-united-arab-emirates#:~:text=The%20world%20is%20more%20dangerous,massive%20pools%20of%20foreign%20capital (17,12,2025)

commitment have yet to be publicly disclosed, it is highly likely that the investment will concentrate in the following areas:

- Canadian energy, including LNG and hydrogen projects;
- Critical minerals;
- Ports and transportation infrastructure; and
- Emerging technologies, such as artificial intelligence, fintech, and other advanced sectors.

An investment injection of this magnitude could be transformational, creating jobs, financing major national projects, and helping Canada diversify its export routes. For example, it could enable infrastructure that facilitates energy exports to Asia, thereby reducing Canada's historic dependence on the U.S. market. More broadly, this scale of financial engagement would deepen economic interdependence between Canada and the Gulf states, anchoring the second-circle strategy in durable, long-term interests.

Re-engaging with Saudi Arabia

Almost concurrently, Canada took concrete steps to restore economic and diplomatic engagement with Saudi Arabia. On 6 November 2025, Maninder Sidhu, Canada's Minister of International Trade, met in Ottawa with Saudi Arabia's Minister of Investment, Khalid Al-Falih, and jointly announced the launch of negotiations toward a Foreign Investment Promotion and Protection Agreement (FIPA) between the two countries, alongside the reactivation of the High-Level Joint Economic Commission. In parallel, Export Development Canada (EDC) signed a memorandum of understanding with Saudi EXIM Bank to expand bilateral trade finance facilities.[41]

This ministerial-level visit and the accompanying agreements signaled that the diplomatic freeze following the 2018 crisis had effectively thawed, giving way to a pragmatic, interest-based approach. As Canada's Minister of International Trade, Maninder Sidhu, noted, *"Saudi Arabia is an important market for Canada … we are committed to strengthening economic cooperation and mutually beneficial investment"*.[42]

Moreover, Global Affairs Canada, in its *Quick Facts* section, underscored that Saudi Arabia was Canada's largest trading partner in the Middle East in 2024, emphasizing that deeper

[41] https://www.canada.ca/en/global-affairs/news/2025/11/minister-sidhu-strengthens-canadas-economic-relationship-with-saudi-arabia.html?utm (7,11,2025)
[42] Ibid

engagement could *"increase commercial opportunities and open new pathways for exports and investment"*.[43]

Taken together, these developments indicate a strategic reset in Canada–Saudi relations, one that prioritizes economic engagement, institutionalized investment frameworks, and long-term mutual benefit, while managing political sensitivities through calibrated diplomacy.

Opportunities and Key Sectors for Cooperation with the Gulf States

As Canada expands its engagement with the Gulf states, it can pursue a range of win–win opportunities across several strategic sectors:

1. Energy Cooperation and the Strengthening of Energy Security

The Gulf states are global energy superpowers. Canada, for its part, is a major producer of oil, natural gas, and uranium; yet nearly all of its energy exports are directed to the United States, largely due to geographic and infrastructure constraints.

Deeper engagement with Gulf partners could enable Canada to access global energy markets through several pathways, including:

- attracting Gulf investment for the construction of LNG terminals on Canada's Atlantic and Pacific coasts;
- developing petrochemical facilities and energy infrastructure in partnership with Saudi Arabia or the United Arab Emirates;
- creating new export corridors that reduce Canada's single-destination dependence on the U.S. market.

Beyond fossil fuels, Gulf countries are investing heavily in the energy transition, including solar and wind power, green and blue hydrogen, and carbon capture, utilization, and storage (CCUS).[44] In these areas, Canadian clean-technology firms can find investors, partners, and clients across the Gulf. Moreover, Canada's strengths in engineering and project

[43] Ibid

[44] Robin M. Mills (2025), Energy Transitions in the Gulf: Realities, Risks, and the Road Ahead (Policy Paper), Available at: https://orfme.org/research/energy-transitions-in-the-gulf-realities-risks-and-the-road-ahead/?utm (18,12,2025)
Also see: https://sustaingulf.org/green-hydrogen-in-the-gcc/?utm (18,12,2025)

management can be leveraged in large-scale projects such as solar farms, smart cities, and advanced power grids in Saudi Arabia and the UAE.

2. Major Infrastructure Projects *(Ports, Airports, Rail, Real Estate)*

Gulf sovereign wealth funds are among the world's most active investors in ports and logistics hubs, airports, real estate, and large-scale transport projects.[45] By contrast, Canada faces significant and underfunded infrastructure needs, including:

- expansion of ports on the Atlantic and Pacific coasts;
- development of Northern Canada;
- high-speed rail corridors;
- digital and data infrastructure.

Capital from Saudi Arabia, the UAE, Qatar, Kuwait, Bahrain, and Oman could help close these investment gaps while offering stable, long-term returns to Gulf investors. As part of the November 2025 agreements, the UAE explicitly signaled interest in Canadian ports, data infrastructure, and collaboration with Canada's Major Projects Office on LNG and critical minerals projects.[46]

Similarly, Saudi Vision 2030 encompasses large-scale urban developments such as NEOM, creating concrete opportunities for Canadian firms in:

- construction contracting;
- architecture and urban design;
- advanced engineering and project management.

Active and coordinated Canadian economic diplomacy can play a decisive role in helping Canadian companies secure major contracts in Saudi-led projects, translating strategic engagement into tangible commercial outcomes. Energy and infrastructure cooperation with the Gulf states offers Canada a pathway not only to attract capital, but also to reconfigure its export geography, strengthen long-term energy security, and embed itself more deeply in global value chains, key objectives of the second-circle strategy.

[45] https://gccbusinesswatch.com/news/gulf-investors-emerge-as-key-drivers-in-ai-and-private-market-growth-says-standard-chartered-report/?utm (26,12,2025)
[46] Prerna Sharma (2025), "Canada's trade-enabling infrastructure under strain," Available at: https://www.edc.ca/en/article/trade-enabling-infrastructure-gaps.html?utm (23,12,2025)

3. Agriculture and Food Security

The Gulf states possess very limited arable land and are therefore highly dependent on food imports. By contrast, Canada is among the world's largest exporters of agricultural products.[47] This structural complementarity enables Canada to:

- position itself as a reliable supplier of wheat, pulses, canola, beef, and protein products;
- respond directly to a strategic Gulf concern regarding the diversification of food security;
- conclude long-term supply contracts.

An even greater opportunity lies in the potential for Gulf investment in Canada's agricultural infrastructure, for example through:

- participation in grain transportation and processing companies;
- investment in plant-based protein production facilities;
- development of cold-chain supply systems for food exports.

Such investments have precedents in Africa and Asia; however, Canada, owing to its strong rule of law, investment security, and advanced agricultural sector, can represent an even more attractive destination. Canada should actively promote these capacities within its public diplomacy.

4. Investment in Innovation and the Knowledge-Based Economy

The Gulf states are seeking to move beyond exclusive dependence on oil and transition toward knowledge-based economies. In this process, Canada's technology sector and universities can benefit significantly from research and development (R&D) financing supported by Gulf capital. A concrete and highly significant example is the partnership between the Mila Artificial Intelligence Institute in Montreal and the UAE's Technology Innovation Institute (TII) on Nov. 21, 2025, announced during Prime Minister Mark Carney's visit.[48] This collaboration in joint AI research illustrates how Canada's scientific expertise can attract Gulf investment and technological cooperation, thereby accelerating innovation.

A concrete policy recommendation for Canada is to expand this pathway, for example by:

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[47] https://agriculture.canada.ca/en/sector/overview (23,12,2025)

[48] https://mila.quebec/en/news/mila-expands-global-network-through-strategic-partnership-with-uaes-technology-innovation (14,9,2025)

- inviting Gulf investors to participate in Canadian innovation hubs and venture capital funds;
- encouraging Gulf sovereign wealth funds to invest in advanced technology sectors in Canada;
- establishing joint research platforms in areas such as artificial intelligence, biotechnology, cybersecurity, and clean energy.

Security or intellectual property (IP) risks are manageable, as Canada applies robust national security review mechanisms under the Investment Canada Act (ICA) to all sensitive foreign investments, including those originating from the Gulf states, ensuring a high level of scrutiny and protection.

5. Defence and Aerospace Exports

Although domestically controversial in Canada, the reality is that the Gulf states are among the largest purchasers of defence and aerospace equipment globally.[49] Canadian companies, particularly in armoured vehicles, aerospace, and advanced components, have previously secured major contracts in the region. A prominent example is General Dynamics Land Systems–Canada, which has supplied light armoured vehicles to Saudi Arabia.

Accordingly, a stable and predictable diplomatic relationship largely ensures that such contracts are respected and, under appropriate conditions, may even be renewed or expanded (subject to human rights requirements).

Therefore, while every defence contract must be assessed with ethical and human rights due diligence, they should not be categorically abandoned. Doing so would merely cede market share to competitors, without producing any tangible gains for Canada's values.

Challenges and Risks: Managing the Values–Interests Dilemma

Engagement with the Gulf states inevitably raises serious values-based questions. These countries are governed by authoritarian systems, and their human rights records, regarding freedom of expression, gender equality, migrant workers' rights, and arbitrary detention, rightly generate concern in Canada. The appropriate response, however, is not complete disengagement, but rather principled pragmatism.

[49] Zain Hussain and Alaa Tartir (2025), "Recent trends in international arms transfers in the Middle East and North Africa," Available at: https://www.sipri.org/commentary/topical-backgrounder/2025/recent-trends-international-arms-transfers-middle-east-and-north-africa (15,12,2025)

Proposed Policy Framework

1. Engagement with Values Articulation
    - Canada should continue to raise human rights reform through quiet, constructive diplomatic channels.
2. No Formal Retraction of Past Positions
    - In the 2025 normalization process, Canada did not issue an apology or retract its 2018 position; instead, it allowed relations to gradually return to cooperation.
3. Smart Economic Engagement = Real Leverage
    - The greater the volume of trade and investment, the stronger Canada's capacity becomes to raise difficult issues credibly.
4. Alignment with Allies' Approaches
    - European countries and the United States also manage value-based disagreements while maintaining trade with the Gulf.
    - Their experience demonstrates that isolation does not lead to human rights improvements.
5. Entering the Second Circle with Eyes Open
    - Secure economic interests and conclude contracts, while remaining faithful to core principles over the long term and continuing dialogue on freedoms and Canadian values.

Table 6: Values–Interests Trade-off Matrix for Canada's Engagement with the Gulf States (GCC)

Policy Dimension	Canada's National Interests (Interests)	Canada's Core Values (Values)	Potential Tensions / Conflicts	Proposed Solutions (Principled Pragmatism Tools)
Trade & Investment	Access to Gulf sovereign wealth funds; increased exports; attracting capital for	Economic transparency; anti-corruption safeguards; ensuring fair	Concerns regarding the activities of foreign firms and ownership of	Use of FIPAs; strengthened ICA screening; ESG conditionality; participation in joint

Policy Dimension	Canada's National Interests (Interests)	Canada's Core Values (Values)	Potential Tensions / Conflicts	Proposed Solutions (Principled Pragmatism Tools)
	infrastructure, energy, and technology	treatment of workers	assets or projects	projects with shared governance
Energy & Green Transition	Expansion of LNG and hydrogen; attracting clean-energy investment; access to global markets	Decarbonization commitments; environmental protection	Gulf investment in projects with environmental externalities	Joint CCUS frameworks; shared environmental standards; conditioning investment on climate objectives
Defence & Security	Preserving jobs in defence and aerospace industries; cooperation on counterterrorism and regional stability	Non-complicity in human rights abuses; adherence to arms export control laws	Defence contracts may become controversial domestically	Case-by-case ethical assessment; transparent reporting; targeted restrictions; emphasis on non-offensive defence technologies
Research & Development (R&D)	Attracting investment for AI, biotech, and advanced technologies; strengthening academic cooperation	Protection of IP; cybersecurity; preventing dual-use exploitation	Potential misuse of technology or IP-related risks	ICA national security screening; clear IP clauses; limited data-sharing frameworks; monitored cooperation mechanisms
Foreign Policy & Geopolitics	Increased Canadian influence in the Middle East; reducing dependence on the U.S.; building a partner network for economic diversification	Support for freedom of expression; gender equality; rule of law	Accusations of proximity to authoritarian regimes	Quiet diplomacy; bilateral human rights dialogues; linking cooperation to gradual progress on governance indicators
Food Security & Agriculture	Securing stable export markets for wheat, canola, and beef; long-term contracts	Food safety standards; protection of agricultural workers' rights	Pressure to dilute standards or adjust domestic regulations	Long-term procurement agreements while maintaining Canadian standards; supply-chain partnership models
Society & Public Opinion	Job creation, economic growth, strengthened innovation ecosystems	Citizens' concerns regarding human rights and GCC domestic policies	Friction between economic interests and ethical sensitivities	Public transparency; annual impact reporting; civil society participation in evaluation processes

Conclusion:

Proposed Model for Canada's Policy: "Principled Pragmatism"

This approach enables the Government of Canada to expand economic revenues and opportunities while preserving its value-based identity, and to build relationships that are both beneficial to Canada and capable of exerting a positive influence on internal reforms in partner countries. An additional risk should be considered: The Middle East's persistent instability, marked by Saudi–Iranian tensions, proxy conflicts, and ideological rivalries, creates a risk that expanded Canadian economic engagement, or limited security cooperation, could inadvertently draw Canada into regional disputes. Canada's approach should therefore be tightly calibrated: prioritize economic and diplomatic engagement; avoid partisan alignment in regional rivalries unrelated to core Canadian interests; and consistently support stability, international law, and dialogue. Given the United States' role as the primary security guarantor in the Persian Gulf, Canada's most effective contribution is political-diplomatic facilitating dialogue, humanitarian support, and governance capacity-building, rather than assuming a frontline security role.

Likely U.S. Reaction

A key point is that Canada's proposed approach toward the Gulf states will likely be met with U.S. acceptance, or at minimum, positive neutrality.

- The United States regards Saudi Arabia, the United Arab Emirates, and Qatar as strategic partners, notwithstanding periodic tensions.
- If Canada deepens economic ties and stability-oriented partnerships with these countries, such engagement does not conflict with U.S. geopolitical objectives.
- The entry of Canadian firms can provide Western-aligned alternatives to Gulf investment, an outcome Washington generally welcomes, particularly as a means of limiting China's influence.

The principal U.S. red line, and the only scenario in which Washington might express dissatisfaction, would arise if Canada were to pursue an independent course directly at odds with U.S. policy, such as excessive rapprochement with Iran or the undermining of U.S. sanctions regimes against certain regional actors. None of the recommendations advanced here imply such a direction. All second-circle partners, including those in the GCC and ASEAN, are countries with which the United States itself actively engages.

As long as Canada's diversification strategy does not undermine U.S. security interests, which cooperation with Gulf partners does not, U.S. reactions can be expected to range from positive neutrality to informal support.

2- East Asia (ASEAN + 3): Leveraging the Growth of Emerging Economies

If the Gulf provides capital and financial resources, East Asia (the Association of Southeast Asian Nations (ASEAN) plus Korea, Taiwan, and Hong Kong) offers growth and markets for Canada. The ten member states of ASEAN, together with these three economies, constitute one of the fastest-growing regions in the world. ASEAN, with a collective population exceeding 650 million and a multitrillion-dollar economy, is recognised as one of the fastest-growing markets globally, and when considered alongside dynamic East Asian economies such as South Korea, Taiwan and Hong Kong, the region offers substantial growth opportunities and market potential for Canadian trade and investment.[50] ASEAN encompasses economies such as Indonesia (a G20 member with a population of about 280 million), Vietnam (around 100 million people and one of Asia's fastest-growing economies), Malaysia, Thailand, the Philippines, and the city-state of Singapore.[51] Although these countries are at different stages of development, they are all on a clear upward growth trajectory.

By 2030, Asia, including East Asia, is projected to be home to the majority of the world's middle-class population, with estimates indicating that around two-thirds of global middle-class households will reside in the region by then.[52] This implies a massive expansion in consumer demand. For Canada, deepening engagement with ASEAN + 3 represents both a diversification strategy and a growth strategy. Exports to these markets can help offset potential losses resulting from U.S. tariffs and position Canadian firms at the center of global economic dynamism.

Current Situation: ASEAN as a Trading Partner

At present, ASEAN as a bloc is Canada's fourth-largest merchandise trading partner, after the United States, the European Union, and China. In 2024, two-way Canada–ASEAN merchandise trade reached a record CAD 42.3 billion, representing an increase of nearly 9 percent over the previous year.[53] For comparison, this figure accounts for roughly 7 percent of Canada's total merchandise trade. In other words, ASEAN is already significant, and

[50] https://asean.org/wp-content/uploads/2022/12/investment-report-2023.pdf (22,7,2025)

[51] https://data.worldbank.org/?locations=TH-MY-ID-SG-PH-VN (22,7,2025)

[52] https://www.weforum.org/stories/2020/07/the-rise-of-the-asian-middle-class/ (15,11,2025)

[53] https://www.pm.gc.ca/en/news/news-releases/2025/10/27/prime-minister-carney-advances-new-trade-economic-and (12,12,2025)

although its share remains far smaller than that of the U.S. market, it possesses substantial potential for expansion.

The composition of this trade is relatively diversified:

- Canadian exports to ASEAN include wheat, fertilizers, metals, and wood pulp;
- Services exports (education and financial services) are also notable, particularly to countries such as Malaysia and Singapore;
- Canadian imports from ASEAN largely consist of machinery, electronic equipment, and consumer goods. Vietnam, in recent years, has become a major source of electronics and apparel.[54]

In the area of investment, linkages remain relatively shallow but increasingly promising:

- Singaporean investment in Canada is significant, with Singaporean sovereign funds holding stakes in Canadian real estate and infrastructure;
- Canadian pension funds are likewise showing growing interest in identifying projects across ASEAN.

Policy Framework: From FTA Negotiations to Results-Oriented Diplomacy

Recognizing the importance of Association of Southeast Asian Nations (ASEAN), Canada has in recent years elevated the level of engagement. In 2021, Canada and ASEAN agreed to launch negotiations toward a Canada–ASEAN Free Trade Agreement (FTA).[55] Several negotiating rounds have since been held, and this file has become one of Canada's flagship initiatives in trade diversification. In 2023, ASEAN-Canada relations took an important step forward with the launch of the ASEAN-Canada Strategic Partnership, an important signal of Canada's growing relationship with ASEAN and presence in the Indo-Pacific region.[56] Through this Strategic Partnership, Canada is deepening its relationship with ASEAN, including through cooperation in three main areas: political-security, economic, and socio-cultural.

A Canada–ASEAN FTA could reduce tariffs and improve market access for Canadian goods in ASEAN markets (many ASEAN members still apply higher tariffs than Canada's existing partners), while also providing greater certainty for services trade and investment. It is worth

[54] https://www.vietnam.vn/en/xuat-khau-sang-canada-tang-truong-an-tuong (3,12,2025)

[55] https://www.canada.ca/en/global-affairs/news/2021/11/canada-and-asean-proceed-with-free-trade-agreement-negotiations.html (7,8,2025)

[56] https://www.international.gc.ca/world-monde/international_relations-relations_internationales/asean/index.aspx?lang=eng (4,9,2025)

noting that some ASEAN members already have FTA linkages with Canada through other pathways: Vietnam, Malaysia, Singapore, and Brunei are all members of the CPTPP; under this framework, Canada already maintains de facto free trade relations with Vietnam and Singapore.

However, a comprehensive agreement at the ASEAN-wide level would bring large economies outside the CPTPP into a preferential framework, most notably Indonesia, the Philippines, and Thailand. Among these, Indonesia is of particular importance: given its vast population and large economy, it could become a central pillar of Canada's Asia strategy. Canada and Indonesia launched negotiations toward a Comprehensive Economic Partnership Agreement (CEPA) on June 20, 2021, and held multiple negotiation rounds through 2022 as part of ongoing efforts to deepen bilateral trade ties.[57] Progress on this track has recently slowed due to certain tensions and Indonesia's domestic electoral cycle, but political will to advance the agreement remains.

Canada has also pursued closer political relations with ASEAN. In 2022, Canada was designated an ASEAN Strategic Partner, a diplomatic status signaling high-level and long-term commitment to cooperation with the bloc.[58] In addition, Canada participates as an observer in the ASEAN Defence Ministers' Meeting-Plus (ADMM-Plus) working groups on Humanitarian Assistance and Disaster Relief and Maritime Security, reflecting its engagement in regional defence and security cooperation under the ASEAN framework and provides development assistance across the region.[59] This includes initiatives in global health security, women's economic and social empowerment, and governance capacity-building, all of which are identified in Canada's Indo-Pacific Strategy.[60]

Taken together, these measures demonstrate that Canada has adopted an integrated approach toward ASEAN, one in which diplomacy + development + trade function as mutually reinforcing pillars. This approach is strategically sound, as political engagement and capacity-building help pave the way for deeper trade access and more sustainable economic cooperation. The Indo-Pacific Strategy allocates approximately CAD 2.3 billion in

[57] https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/indonesia-indonesie/cepa-apeg/background-contexte.aspx?lang=eng (25,11,2025)
[58] https://www.pm.gc.ca/en/news/news-releases/2022/11/13/prime-minister-strengthens-ties-asean-and-expands-partnerships-indo (13,10,202)
[59] https://www.canada.ca/en/department-national-defence/news/2025/08/canada-signs-a-military-cooperation-memorandum-of-understanding-with-indonesias-armed-forces.html (15,10,2025)
[60] https://www.international.gc.ca/transparency-transparence/indo-pacific-indo-pacifique/2022-2023.aspx?lang=eng (13,9,2025)

five-year funding for regional initiatives, a significant share of which is directed toward ASEAN countries, including:

- Infrastructure investment through Canadian climate finance mechanisms;
- Enhanced security and maritime cooperation;
- Development and capacity-building projects in governance and human rights.[61]

Risk–Reward Matrix (Illustrative) for Three Key ASEAN Partners

1. Indonesia

Indonesia represents a high-reward but medium–high-risk partner for Canada in Southeast Asia. With a population of approximately 280 million people, Indonesia is the largest economy in ASEAN and a member of the G20, positioning it as an emerging regional power and a central Asian market.[62] The country shows strong demand for infrastructure, energy, fertilizers, wheat, timber, and clean technologies, alongside extensive opportunities for Canadian investment in mining (notably nickel), renewable energy, and associated value chains.[63] These prospects are reinforced by ongoing Canada–Indonesia negotiations toward a Comprehensive Economic Partnership Agreement (CEPA), which could enable preferential market access and improved investment certainty.[64] At the same time, investors face complex bureaucracy, regulatory volatility, weak contract enforcement, and domestic sensitivities toward foreign investment, particularly in the mining sector.[65] Persistent rule-of-law and corruption risks, as well as periodic political tensions, including those surrounding the 2024–2025 electoral cycle, can further slow policy implementation and economic decision-making.[66] Overall, Indonesia can function as a central pillar of Canada's Asia strategy, provided that regulatory and political risks are actively managed.

Rewards

- Very large market: approximately 280 million people; the largest economy in ASEAN.

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[61] https://www.canada.ca/en/global-affairs/news/2022/11/canada-launches-indo-pacific-strategy-to-support-long-term-growth-prosperity-and-security-for-canadians.html (20,10,2025)

[62] https://www.worldbank.org/ext/en/country/indonesia (20,10,2025)

[63] https://asean.org/our-communities/economic-community/ (11,1,2026)

[64] https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/indonesia-indonesie/cepa-apeg/background-contexte.aspx?lang=eng (14,1,2025)

[65] https://www.worldbank.org/ext/en/country/indonesia (15,1,2025)

[66] https://www.transparency.org/en/cpi/2024 (5,1, 2025)

- G20 member and an emerging regional power.
- Strong demand for infrastructure, energy, fertilizers, wheat, timber, and clean technologies.
- Extensive opportunities for Canadian investment projects (mining, nickel, renewable energy).
- Ongoing Canada–Indonesia CEPA negotiations, which could create preferential market access.

Risks

- Complex bureaucracy, regulatory volatility, and weak contract enforcement.
- Domestic sensitivity toward foreign investment, particularly in the mining sector.
- Rule-of-law and corruption risks.
- Periodic political tensions (e.g., the 2024–2025 electoral cycle) that slow economic decision-making.

Overall Assessment: High Reward / Medium–High Risk
Indonesia can serve as the central pillar of Canada's Asia strategy, provided regulatory and political risks are effectively managed.

2. Vietnam

Rewards

- One of Asia's fastest-growing economies; population of roughly 100 million.
- CPTPP partner of Canada, providing preferential market access.
- Manufacturing hub for electronics, textiles, and industrial components; an attractive destination for supply-chain diversification.
- Rapidly expanding middle class, driving demand for quality food, education, and financial services.
- Strong government support for foreign direct investment (FDI).

Risks

- Single-party governance with human rights constraints and limited transparency.
- Logistics infrastructure still requires significant development.
- High dependence on trade with the United States and China, creating vulnerability to geopolitical tensions.
- Labour-related risks (standards and industrial disputes).

Overall Assessment: High Reward / Medium Risk
Vietnam is an ideal destination for Canada's supply-chain diversification and for expanding agricultural and industrial exports.

3. Singapore

Rewards

- Most stable and advanced economy in ASEAN; a major international financial centre.
- CPTPP partner and a long-standing Canadian partner in services, education, and finance.
- Key destination for Canadian corporate and institutional investment.
- Highly transparent, simple, and secure business environment.
- Gateway for Canadian firms entering the broader ASEAN region.
- Extensive cooperation in technology, digital services, artificial intelligence, cybersecurity, and clean energy.

Risks

- Intense competition from U.S., European, and Asian firms.
- Small domestic market (approximately 6 million people), limiting consumer-scale opportunities.
- High business costs (rent, labour).
- Dense financial regulation, requiring advanced compliance capabilities.

Overall Assessment: Medium Reward / Low Risk
Singapore is a low-risk regional hub that facilitates Canadian entry into ASEAN markets.

4. Malaysia

Malaysia represents a high-reward and relatively manageable-risk partner for Canada in Southeast Asia. It is one of Canada's largest bilateral merchandise trading partners in the region, with two-way merchandise trade increasing from CAD 3.8 billion in 2020 to CAD 6.1 billion in 2025. Malaysia's membership in the CPTPP already provides Canada with a rules-based trade platform, while its advanced manufacturing base, electronics sector, and National Semiconductor[67] Strategy create opportunities for Canadian firms in semiconductors, artificial intelligence, cybersecurity, clean technology, agricultural inputs, education, and professional services. Malaysia is especially important because it sits between the advanced-service model of Singapore and the manufacturing-diversification

[67] Existing draft section on ASEAN risk–reward structure and policy framing. Association of Southeast Asian Nations, "Forging a New Era: Timor-Leste Admitted into ASEAN," October 26, 2025.

model of Vietnam. For Canada, this makes Malaysia a practical partner for moving beyond commodity exports and toward higher-value industrial and technology cooperation.

Rewards

- CPTPP partner, providing Canada with preferential market access and a stronger legal framework for trade and investment.
- One of Canada's largest ASEAN trading partners, with strong demand for Canadian fertilizers, mineral ores, cereals, energy, machinery, and agricultural inputs.
- Advanced manufacturing and electronics base, especially in semiconductors, integrated circuit design, advanced packaging, and high-end manufacturing equipment.
- Strong potential for cooperation in halal food exports, Islamic finance, education, professional services, clean technology, and digital governance.
- Useful diplomatic platform through ASEAN, APEC, the Commonwealth, and WTO channels.
- Potential bridge to Muslim-majority Southeast Asian markets, particularly for Canadian agri-food, halal-certified products, and education services.

Risks

- Domestic political shifts and coalition instability can affect regulatory predictability.
- Local-content expectations, procurement preferences, and Bumiputera-related policy considerations may complicate market entry.
- Intense competition from U.S., Chinese, Japanese, South Korean, Taiwanese, and European firms in semiconductors and infrastructure.
- Labour-standard and supply-chain due-diligence issues in some manufacturing sectors.
- Environmental and social concerns around energy, mining, infrastructure, and industrial expansion.

Overall Assessment: High Reward / Low–Medium Risk

Malaysia should be treated as a priority CPTPP-enabled partner for Canada's advanced manufacturing, semiconductor, clean-technology, and agri-food strategy in Southeast Asia. It is not as low-risk as Singapore, but it offers a broader industrial base and greater scope for supply-chain cooperation.

5. Thailand

Thailand is a high-reward but medium-risk partner for Canada. It is Canada's second-largest overall trading partner in ASEAN, with bilateral merchandise trade reaching CAD 7.4 billion in 2025. Unlike Malaysia, Vietnam, Singapore, and Brunei, Thailand is not yet linked to Canada through the CPTPP, which makes the launch of Canada–Thailand FTA negotiations strategically significant. A successful bilateral FTA would bring one of mainland Southeast Asia's most important industrial economies into a preferential framework with Canada.[68]

Thailand's economic value lies in its automotive, electric-vehicle, electronics, food-processing, medical-device, logistics, and infrastructure sectors. The Eastern Economic Corridor, with its focus on high-technology development, one-stop investment facilitation, infrastructure, next-generation automotive, digital industries, and medical services, provides a useful entry point for Canadian firms in engineering, transport, clean technology, energy systems, and advanced manufacturing.[69]

Rewards

- Canada's second-largest ASEAN trading partner, with a large and diversified commercial relationship.
- Ongoing Canada–Thailand FTA negotiations could reduce tariffs, improve services access, and strengthen Canadian access to Thai supply chains.
- Strong industrial base in automotive, electric vehicles, electronics, food processing, aerospace-related services, medical technologies, and logistics.
- Major infrastructure opportunities, including transport corridors, ports, airports, rail systems, and urban development.
- Significant potential for Canadian agri-food exports, fertilizers, food-security cooperation, clean technology, and professional services.
- Strategic location in mainland Southeast Asia, linking maritime Southeast Asia with the Mekong subregion.

Risks

- Periodic political instability and civil–military tensions can create uncertainty for investors.

[68] Government of Canada, "Canada–Thailand Relations," modified March 24, 2026; Government of Canada, "Canada's Objectives for Negotiations for a Canada–Thailand Free Trade Agreement," February 13, 2026.
[69] Eastern Economic Corridor Office of Thailand, "Home — EECO," accessed July 4, 2026.

- Regulatory complexity and procurement opacity may raise entry costs for Canadian firms.
- Strong incumbent competition from Japanese, Chinese, South Korean, and European companies.
- Environmental and community opposition can affect large infrastructure and corridor projects.
- Slower demographic growth and household-debt pressures may constrain long-term domestic demand.

Overall Assessment: High Reward / Medium Risk

Thailand should be treated as a priority bilateral FTA partner and a key platform for Canadian engagement in industrial supply chains, electric vehicles, infrastructure, agri-food, and clean technology. Its risk profile is higher than Malaysia's but lower than that of more fragile mainland Southeast Asian markets.

6. The Philippines

The Philippines represents a very high-reward and medium-risk partner for Canada. It combines a large consumer market, a population of approximately 114 million, strong English-language capacity, a major services economy, a large diaspora connection with Canada, and growing geopolitical importance in the Indo-Pacific. In 2025, Canada–Philippines merchandise trade reached CAD 3.4 billion, while bilateral services trade reached CAD 3.2 billion in 2024. Canada and the Philippines are currently negotiating a bilateral FTA, and in July 2026 the two countries announced a new Strategic Partnership covering trade, energy, defence, and tourism. The Canadian government has identified conclusion of the Canada–Philippines FTA by the end of 2026 as a priority, with the agreement expected to create new opportunities particularly in agriculture and forest products.[70]

The Philippines also has major strategic value beyond trade. It links Canada's Indo-Pacific economic strategy with maritime security, labour mobility, critical minerals, energy transition, disaster resilience, and people-to-people diplomacy. The presence of more than

[70] Government of Canada, "Canada–Philippines Relations," modified June 23, 2026; Prime Minister of Canada, "Prime Minister Carney Announces New Partnerships with the Philippines in Trade, Energy, Defence, and Tourism," July 2, 2026. Available at: https://www.international.gc.ca/country-pays/philippines/relations.aspx?lang=eng

one million Filipino Canadians gives this relationship a social and political depth that is not present in many other ASEAN partnerships.[71]

Rewards

- Large and fast-growing consumer market with strong English-language capacity.
- Major services opportunity, including education, financial services, ICT, business-process services, health services, and professional training.
- Bilateral FTA negotiations and a new Canada–Philippines Strategic Partnership create political momentum for deeper economic cooperation.
- Strong opportunities in agriculture and agri-food, forest products, energy, nuclear cooperation, mining, critical minerals, clean technology, ICT, and education.
- Major infrastructure opportunities through public-private partnership projects in transport, water, health, energy, and digital systems.[72]
- Strategic cooperation in maritime security, defence, disaster response, and regional stability.
- Large Filipino-Canadian community provides a durable people-to-people foundation for trade, tourism, labour mobility, and educational exchange.

Risks

- Infrastructure bottlenecks and energy costs may slow industrial expansion.
- Procurement, corruption, and regulatory-capacity challenges can increase project risk.
- High exposure to natural disasters and climate shocks creates additional resilience costs.
- South China Sea tensions increase geopolitical and maritime-security risks.
- Fragility in parts of Mindanao, including the Bangsamoro region, requires careful risk assessment.
- Labour-mobility cooperation must be tied to ethical recruitment, credential recognition, and worker protection.

[71] Prime Minister of Canada, "Prime Minister Carney Announces New Partnerships with the Philippines in Trade, Energy, Defence, and Tourism," July 2, 2026. Available at: Prime Minister Carney announces new partnerships with the Philippines in trade, energy, defence, and tourism | Prime Minister of Canada

[72] Public-Private Partnership Center of the Philippines, "PPP Projects Rack up P2.81-Trillion Pipeline," January 15, 2026. Available at: https://ppp.gov.ph/in_the_news/ppp-projects-rack-up-p2-81-trillion-pipeline/

Overall Assessment: Very High Reward / Medium Risk

The Philippines should be treated as one of Canada's most multidimensional ASEAN partners. It is not only a trade market; it is also a strategic partner in maritime security, labour mobility, energy transition, agriculture, critical minerals, and diaspora diplomacy.

7. Brunei Darussalam

Brunei is a low-to-medium-reward and low-to-medium-risk partner for Canada. Its domestic market is small, but it is wealthy, stable, and strategically useful. Brunei ratified the CPTPP in July 2023, giving Canada another rules-based channel for commercial engagement in ASEAN. Canada–Brunei merchandise trade remains modest, at CAD 8.5 million in 2024, but the relationship has niche potential in oil and gas services, carbon capture, clean technology, AI/ICT, green construction, maritime surveillance, cybersecurity, education, aerospace and flight simulation, halal food, agriculture, and investment.[73]

Brunei should not be treated as a mass-market opportunity. Its value lies in specialized sectors, sovereign-capital links, energy-transition cooperation, and defence/security engagement. For Canada, Brunei can serve as a small but useful partner in connecting the Indo-Pacific Strategy to energy security, climate transition, and maritime-domain awareness.

Rewards

- CPTPP partner, offering a rules-based trade framework.
- High-income economy with stable institutions and relatively low commercial-security risk.
- Opportunities in oil and gas services, CCUS, methane reduction, clean technology, and energy transition.
- Demand for Canadian education, aerospace simulation, ICT, cybersecurity, maritime surveillance, halal food, and agri-food.
- Potential niche partner for defence and security cooperation in maritime Southeast Asia.

Risks

- Very small domestic market limits scale.

[73] Government of Canada, "Canada–Brunei Darussalam Relations," modified October 16, 2025. Available at: https://www.international.gc.ca/country-pays/brunei_darussalam/relations.aspx?lang=eng

- Heavy dependence on hydrocarbons creates exposure to energy-transition risks.
- State-centric procurement and relationship-based business practices can limit market access.
- Absolute-monarchy governance and human-rights concerns may create reputational constraints.
- Trade volumes are currently too small to justify a broad commercial strategy.

Overall Assessment: Low–Medium Reward / Low–Medium Risk

Brunei should be approached as a niche CPTPP partner rather than a major growth market. Canada's best opportunities are in energy transition, education, halal agri-food, maritime security, cybersecurity, and specialized professional services.

8. Cambodia

Cambodia is a medium-reward but medium–high-risk partner for Canada. Canada is one of Cambodia's top export destinations, and bilateral merchandise trade reached CAD 2.4 billion in 2024, largely driven by Canadian imports of Cambodian apparel, footwear, and textiles. Cambodia benefits from Canada's Market Access Initiative for least-developed countries, which provides quota-free and duty-free access for qualifying products. Canada also upgraded its mission in Phnom Penh to a full embassy in March 2025 as part of the Indo-Pacific Strategy, signalling a stronger political commitment to the relationship.[74]

Cambodia's commercial potential is linked to responsible supply chains, light manufacturing, agriculture, food security, skills development, infrastructure, and development-linked trade. However, risks are significant. Canada's policy must therefore combine market access with labour standards, anti-corruption measures, human rights, and responsible sourcing. Cambodia should not be approached simply as a low-cost manufacturing base; it should be treated as a development-linked trade partner where Canadian engagement can help raise standards while expanding commercial opportunity.

Rewards

- Canada is already a major destination for Cambodian exports, especially apparel, footwear, and textiles.

[74] Government of Canada, "Canada–Cambodia Relations," modified October 15, 2025. Available at: https://www.international.gc.ca/country-pays/cambodia-cambodge/relations.aspx?lang=eng

- Duty-free and quota-free access under Canada's Market Access Initiative supports trade growth.
- Scope for responsible supply-chain partnerships in garments, footwear, light manufacturing, and consumer goods.
- Opportunities for Canadian firms in agri-food, food safety, cold-chain logistics, education, skills development, infrastructure, and environmental services.
- Canada's upgraded embassy in Phnom Penh strengthens diplomatic and commercial capacity.
- Cooperation on mine action, border management, document fraud, and human security aligns with Canada's foreign-policy values.

Risks

- Rule-of-law, corruption, press-freedom, and human-rights concerns remain significant.
- Labour-rights risks in export manufacturing require strong due diligence.
- Low domestic purchasing power limits immediate consumer-market opportunities.
- Heavy reliance on garment exports increases vulnerability to external demand shocks.
- Strong Chinese influence in infrastructure and finance may limit Canadian commercial space.
- Governance and regulatory-capacity constraints can complicate project implementation.

Overall Assessment: Medium Reward / Medium–High Risk

Cambodia should be treated as a responsible supply-chain and development-linked trade partner. Canada should use trade access, embassy capacity, and development programming to promote higher labour, governance, and environmental standards while expanding selective commercial engagement.

9. Laos

Laos is a low-to-medium-reward and high-risk partner for Canada. Its market is small, landlocked, and constrained by high public debt, inflation, limited infrastructure, and governance-capacity challenges. Bilateral trade with Canada was only CAD 46.9 million in 2024, although Canadian firms are already active in extractive industries, manufacturing, and services. Canada's opportunities are strongest in clean technology, ICT, infrastructure,

agriculture, education, environmental consulting, renewable energy, Mekong water governance, and development cooperation.[75]

Laos matters more as a development, climate, and Mekong-governance partner than as a major commercial market. Canada's work with the Asian Development Bank on the Monsoon Wind Power Project and Canada's role as a development partner of the Mekong River Commission create a useful platform for linking climate finance, water security, renewable energy, and regional diplomacy. However, Laos's high debt burden and persistent macroeconomic volatility require a cautious approach.[76]

Rewards

- Opportunities in clean technology, renewable energy, ICT, agriculture, environmental consulting, and infrastructure.
- Canadian firms already have some presence in extractive, manufacturing, and service sectors.
- Canada's development cooperation can support gender equality, human rights, UXO clearance, border management, and private-sector development.
- Renewable-energy cooperation, especially wind and hydropower-related governance, can align with Canada's climate-finance agenda.
- Mekong River Commission engagement gives Canada a platform for water diplomacy and regional environmental governance.
- Diaspora and education links provide a modest but useful people-to-people foundation.

Risks

- Very small market and limited consumer purchasing power.
- Landlocked geography increases logistics costs.
- High public debt, inflation, currency weakness, and limited fiscal space create macroeconomic risk.
- Governance and transparency concerns may affect investment certainty.
- Hydropower and infrastructure projects can carry environmental and social risks.

[75] Government of Canada, "Canada–Laos Relations," modified January 21, 2026. Available at: https://www.international.gc.ca/country-pays/laos/relations.aspx?lang=eng
[76] World Bank, "Lao PDR," accessed July 4, 2026. Available at: https://www.worldbank.org/ext/en/country/lao

- Heavy economic dependence on neighbouring countries, particularly China, Thailand, and Vietnam, limits strategic flexibility.

Overall Assessment: Low–Medium Reward / High Risk

Laos should not be treated as a major commercial priority. It is better understood as a climate, development, renewable-energy, and Mekong-governance partner where Canadian engagement can produce strategic value through targeted, well-managed projects.

10. Myanmar

Myanmar is a very-low-near-term-reward and very-high-risk partner for Canada. The 2021 military coup, ongoing armed conflict, human-rights abuses, humanitarian crisis, and Canadian sanctions make normal commercial engagement inappropriate. Canada has condemned the coup, supported ASEAN and UN efforts, called for the implementation of ASEAN's Five-Point Consensus, and channelled assistance through civil society, UN agencies, and non-governmental organizations without direct or indirect support to the military regime.[77]

For Canada, Myanmar should be addressed primarily through a values-based foreign-policy framework: humanitarian assistance, sanctions enforcement, support for democratic actors, protection of civilians, Rohingya crisis response, and coordination with ASEAN, the UN, G7 partners, and like-minded states. Commercial opportunities should be treated as long-term and conditional on political change, sanctions compliance, and credible conflict resolution.[78]

Rewards

- No significant near-term commercial reward under current political conditions.
- Long-term conditional opportunities could emerge in reconstruction, agriculture, health systems, education, infrastructure, renewable energy, telecoms, and governance capacity if democratic transition resumes.

[77] Government of Canada, "Canada–Myanmar Relations," modified October 17, 2025. Available at: https://www.international.gc.ca/country-pays/myanmar/relations.aspx?lang=eng
[78] Government of Canada, "Canadian Sanctions Related to Myanmar," modified October 2, 2025. Available at: https://www.international.gc.ca/world-monde/international_relations-relations_internationales/sanctions/myanmar.aspx?lang=eng

- Humanitarian and civil-society support allows Canada to maintain principled engagement without legitimizing the military regime.
- Coordination with ASEAN on Myanmar supports Canada's broader commitment to regional stability and ASEAN centrality. Support for Rohingya and crisis-affected communities aligns with Canada's human-rights and humanitarian objectives.

Risks

- Military rule, civil conflict, and severe instability create extreme political and security risk.
- Canadian sanctions impose major legal and compliance constraints on business activity.
- High reputational risk for any commercial engagement linked directly or indirectly to the military regime.
- Weak financial, banking, legal, and regulatory systems.
- Human-rights, forced-labour, and conflict-financing risks in supply chains.
- Humanitarian access remains restricted and politically sensitive.

Overall Assessment: Very Low Near-Term Reward / Very High Risk

Myanmar should not be treated as a commercial priority in Canada's ASEAN strategy. Canada's role should remain focused on sanctions, humanitarian assistance, support for democratic governance, Rohingya response, and coordination with ASEAN and international partners.

11. Timor-Leste

Timor-Leste should now be included in Canada's ASEAN strategy as ASEAN's newest member. Its commercial scale is small, but its diplomatic significance is rising. Canada–Timor-Leste merchandise trade remains very limited, at CAD 3.3 million in 2023, with Canadian imports led by coffee, tea, maté, and spices. Canada's relationship has historically focused on democratic development, public administration, rule of law, peacebuilding, development programming, women's empowerment, climate resilience, child nutrition, youth development, and security training.[79]

[79] Government of Canada, "Canada–Timor-Leste Relations," modified November 7, 2025. Available at: https://www.international.gc.ca/country-pays/timor_leste/relations.aspx?lang=eng

Timor-Leste's admission to ASEAN gives Canada a new opportunity to engage early with a young democracy at the moment of its regional integration. The country faces serious fiscal and structural challenges, including the end of major offshore oil production and dependence on Petroleum Fund withdrawals. The World Bank argues that ASEAN membership can serve as a reform platform for Timor-Leste's shift from oil dependence toward productive firms, exports, skills, tourism, agriculture, and private-sector development.[80] For Canada, the opportunity is not immediate large-scale trade; it is early institutional partnership, development diplomacy, climate resilience, education, public-sector capacity-building, and niche agricultural and blue-economy engagement.

Rewards

- New ASEAN member, giving Canada an opportunity to build influence early in Timor-Leste's regional integration process.
- Young democracy with demand for governance, public administration, rule-of-law, education, and institutional-capacity support.
- Niche commercial opportunities in coffee, agri-food, fisheries, tourism, aviation services, digital public infrastructure, and climate resilience.
- Potential for Canadian support in customs modernization, trade facilitation, standards, public finance, and private-sector development.
- Cooperation in women's empowerment, youth development, nutrition, and climate resilience aligns with Canada's development priorities.
- Security and police training cooperation can support stability and state capacity.

Risks

- Very small market and limited current trade volume.
- Heavy dependence on petroleum-related fiscal resources and long-term fiscal-sustainability concerns.
- Weak infrastructure and limited administrative capacity may slow implementation.
- Private-sector base remains underdeveloped.
- Geographic distance and limited connectivity increase transaction costs.
- Development needs are substantial, while immediate commercial returns are modest.

[80] World Bank, "Timor-Leste Economic Report: Leveling Up — How ASEAN Membership Can Support Timor-Leste's Economic Transformation," April 15, 2026; World Bank, "Timor-Leste Economic Report, September 2025." Available at: https://openknowledge.worldbank.org/entities/publication/7be3be45-007c-40cf-b865-babda5356956

Overall Assessment: Low Near-Term Reward / Medium Risk

Timor-Leste should be treated as an early-stage strategic and development partner rather than a near-term commercial market. Canada can gain long-term diplomatic value by supporting its ASEAN integration, institution-building, climate resilience, education, and sustainable private-sector development.

Table 7: Strategic Summary for Canada

Country	Reward	Risk	Proposed Role in Canada's Policy
Indonesia	Very High	Medium–High	Core pillar of Asia strategy; focus on CEPA and energy/mining
Vietnam	High	Medium	Key destination for supply-chain diversification and agricultural exports
Malaysia	High	Low–Medium	CPTPP-enabled partner for semiconductors, advanced manufacturing, agri-food, education, and clean technology
Thailand	High	Medium	Priority bilateral FTA partner; focus on EVs, automotive, infrastructure, food processing, and industrial supply chains
Philippines	Very High	Medium	Multidimensional strategic partner for trade, security, diaspora diplomacy, labour mobility, agriculture, energy, and critical minerals
Brunei	Low–Medium	Low–Medium	Niche CPTPP partner for energy transition, CCUS, halal food, education, maritime surveillance, and cybersecurity
Cambodia	Medium	Medium–High	Responsible supply-chain and development-linked trade partner; focus on garments, labour standards, agri-food, skills, and infrastructure
Laos	Low–Medium	High	Climate, renewable-energy, Mekong-governance, UXO, and development partner rather than major commercial market
Myanmar	Very Low Near-Term	Very High	Values-based policy file: sanctions, humanitarian assistance, democracy support, Rohingya response, and ASEAN coordination
Timor-Leste	Low Near-Term	Medium	Early-stage ASEAN integration partner; focus on governance, climate resilience, education, public administration, and niche agri-food
Singapore	Medium	Low	Regional hub for investment, finance, and technology

Opportunities in ASEAN: A Broad Set of Capacities for Canadian Businesses

1. Rapidly Expanding Consumer Markets

As household incomes rise across Southeast Asia, demand is increasing for a wide range of Canadian goods and services, including:

- High-quality food products: notably seafood, beef, high-value fruits, and other products for which Canada can guarantee premium quality.
- International education: prior to the COVID-19 pandemic, tens of thousands of students from ASEAN countries were enrolled in Canadian universities. Expanding educational cooperation and establishing Canadian university branches in the region could accelerate this trend.
- Financial services: Canadian insurance companies and banks are expanding their presence in the region. Manulife's operations in Vietnam and Singapore represent a prominent example.

In this context, a Canada–ASEAN Free Trade Agreement (FTA) could reduce trade barriers and ensure that Canadian service providers compete on an equal footing with Australian, European, and Asian rivals.

2. Supply Chain Diversification "China + 1"

Many Western companies are adopting a China + 1 strategy, maintaining part of their production in China while relocating another portion to ASEAN countries in order to reduce geopolitical and tariff-related risks.[81]

- Vietnam, in particular, has emerged as a major manufacturing hub for electronics, apparel, and industrial components.
- Canadian firms can strengthen their regional presence through joint ventures or by sourcing inputs from these countries.

[81] https://www.mckinsey.com/capabilities/operations/our-insights/risk-resilience-and-rebalancing-in-global-value-chains (5,10,2025)

Key opportunities include:

- Establishing critical minerals processing facilities in Thailand or Indonesia;
- Canadian participation in pharmaceutical supply chains and the production of active pharmaceutical ingredients (APIs);
- Government of Canada support for industrial matchmaking, linking ASEAN firms with Canadian companies.

Together, these opportunities position ASEAN as a central pillar in Canada's strategy for resilient supply chains and long-term growth diversification.

3. Infrastructure and Urban Development

Many ASEAN countries are implementing large-scale infrastructure programs, including new airports, smart cities, metro systems, and modern transportation networks. Canadian companies such as SNC-Lavalin, WSP Global, Alstom, and Bombardier Transportation are well positioned to compete for these contracts, particularly when supported by Canadian export financing through Export Development Canada (EDC). There are also successful historical precedents in this area: prior to the sale of its rail division, Bombardier secured major contracts to supply metro rolling stock to Malaysia and Thailand.[82]

Accordingly, a Canada–ASEAN Free Trade Agreement that includes government procurement access provisions could generate extensive opportunities for Canadian engineering and construction firms.

4. Digital Economy and Innovation

ASEAN's digital economy is expanding rapidly, driven by the growth of ride-hailing and super-app platforms such as Grab and Gojek, alongside rapid expansion in fintech, digital banking, e-commerce, digital payments, and online education.[83] The region's digital economy is projected to exceed USD 300–360 billion by 2025, making it one of the fastest-growing digital markets globally.[84] This transformation creates significant opportunities for Canada, particularly in fintech, education technology, cybersecurity, and data governance. Singapore functions as the primary regional gateway for digital and financial services,

[82] https://www.globenewswire.com/news-release/2016/12/29/1506328/0/en/Bombardier-s-INNOVIA-Metro-300-Enters-Service-in-Kuala-Lumpur.html (21,1,2026)
[83] https://www.bain.com/insights/e-conomy-sea-2023/ (4,12,2025)
[84] https://seads.adb.org/news/aseans-digital-economy-top-300-billion (23,11,2025)

offering a stable regulatory environment and serving as a launchpad for foreign start-ups, including fintech firms from Ontario and the Waterloo ecosystem, seeking access to ASEAN markets.[85] At the same time, Canadian educational technology providers can serve ASEAN's large, young, and digitally connected population, while cooperation in cybersecurity, cloud services, and digital governance aligns closely with ASEAN's Digital Masterplan 2025 and Canada's Indo-Pacific priorities.[86] However, this cooperation faces challenges, particularly divergent data regulations and digital laws across the region. A modern FTA could therefore ensure cross-border data flows, recognition of digital signatures, and predictable privacy regulations, developments that would strongly benefit Canada's technology sector.

5. Green Economy and Climate Cooperation

Southeast Asia faces serious climate challenges, including rising sea levels, the need for renewable energy, deforestation, waste management, and biodiversity loss. These challenges create the following opportunities for Canada:

- exporting clean energy technologies (wind, solar, energy storage, grid-management software);
- providing carbon capture, utilization, and storage (CCUS) solutions;
- participating in climate projects financed through Canadian climate finance mechanisms;
- leveraging Canada's experience in sustainable forest and fisheries management, which can be particularly valuable for countries such as Indonesia and the Philippines.

6. An Illustrative Win–Win Project:

If a Canadian company supplies solar technology for a project in Indonesia, and that project is financed through Canadian climate finance funds, the outcome simultaneously advances ASEAN's climate objectives and Canada's commercial interests.

[85] https://www.mas.gov.sg/development/fintech (23,1,2026)

[86] https://asean.org/book/asean-digital-masterplan-2025/ (23,12,2025)

Table 8: Canada–ASEAN Policy Matrix

Policy Area	Strategic Objectives for Canada	Proposed Tools and Actions (Policy Tools)	Risks & Constraints
Trade & Market Access	Expand Canadian exports and services; reduce dependence on the U.S. market	- Finalize the Canada–ASEAN Free Trade Agreement (FTA) - Facilitate market access for agriculture, financial services, and education - Support Canadian SMEs entering ASEAN markets	High tariffs in some countries; intense competition from Australia/Europe; local bureaucracy
Investment & Supply Chains	Create "China + One" pathways and attract reciprocal investment	- Launch industrial matchmaking programs - EDC support for joint ventures - Attract Singaporean and Malaysian capital into Canadian infrastructure	Political risk in Indonesia/Vietnam; regulatory volatility; foreign ownership restrictions
Digital, Innovation & Knowledge-Based Services	Make digital engagement a core pillar of economic relations	- Include digital trade provisions in the FTA - Establish a Canada–Singapore joint accelerator - Cooperate on AI and cybersecurity with Vietnam and Singapore	Divergent data regulations; cybersecurity risks; IP protection
Infrastructure & Major Projects	Secure a share of ASEAN's USD 2 trillion infrastructure market	- Leverage EDC and CIB financing capacity - Participate via JICA, ADB, or multilateral formats - Negotiate government procurement access in the FTA	Competition from China/Japan/Korea; corruption; complex tenders; domestic sensitivity regarding AIIB
Education, Migration & People-to-People	Build long-term ties through students, education, and skills-based migration	- Expand Canadian university branches in ASEAN - Increase quotas for ASEAN students - Joint internship programs with Indonesia, Singapore, and the Philippines	Competition from Europe/Australia; visa constraints; capacity pressures on Canadian universities
Climate, Clean Energy & Environment	Position Canada as a leading partner in ASEAN's energy transition	- Allocate a share of the CAD 2.3 billion Indo-Pacific Strategy budget to clean projects - Export wind/solar/CCUS technologies - Forestry cooperation with Indonesia and the Philippines	High financial costs; project implementation risks; strong European competition
Diplomacy & Regional Governance	Consolidate Canada's role as a reliable Indo-Pacific actor	- Activate Strategic Partner status with Association of Southeast Asian Nations (ASEAN) - Participate in ADMM-Plus, ARF, and EAS (as guest/observer) - Support capacity-building in governance, human rights, and health	Political instability; sensitivities around perceptions of external interference

Policy Synthesis

This matrix demonstrates that Canada's policy toward ASEAN should rest on three core pillars:

1. **Economy + Industrial Planning**: an FTA with a strong emphasis on supply chains, digital trade, and infrastructure;
2. **Diplomacy + Capacity-Building**: active presence in ASEAN institutions and sustained development diplomacy;
3. **Climate + Clean Technology**: alignment of climate finance with clean-technology exports.

This model integrates all three domains as secure pathways toward a stable, balanced, and future-oriented relationship with ASEAN.

Challenges in Engaging ASEAN

Unlike Japan and Australia, ASEAN countries exhibit highly diverse political systems, ranging from Indonesia's democracy to Vietnam's single-party communist system and Brunei's absolute monarchy. Many of these states differ from Canada in terms of values and governance standards. Nevertheless, Canada has a long record of engaging constructively with a wide spectrum of regimes. In practice, Canada's principal challenges in ASEAN often relate less to human rights (though such issues do exist, for example, Myanmar under military rule remains a serious concern, and Canada, alongside others, has largely sanctioned the country) and more to local business environments and regional competition.

Corruption and lack of transparency in procurement processes can also pose obstacles in some ASEAN countries. Canadian firms may require government support to compete with Chinese or Korean companies that benefit from strong local networks or state backing. This underscores the fundamental importance of government-to-government engagement in creating a level playing field for Canadian enterprises. Canada's presence at negotiating tables, such as FTA talks or high-level bilateral meetings, enables advocacy for fair procedures and access to market intelligence, both of which are essential for Canadian business success.

Another challenge concerns distance and engagement thresholds. Canadian small and medium-sized enterprises (SMEs) may find ASEAN markets difficult to enter due to geographic distance, cultural differences, and complex distribution networks. This highlights the need for trade promotion institutions, including the Trade Commissioner

Service (TCS) and Export Development Canada (EDC), to strengthen their regional presence while simultaneously raising awareness among Canadian firms.

That said, despite these challenges, there are encouraging signs for Canada–ASEAN engagement. Canada maintains trade offices in all ten ASEAN countries through the Trade Commissioner Service, ensuring on-the-ground commercial support across Southeast Asia, and the Canada–ASEAN Business Council has recently been formally recognized by ASEAN,[87] expanding Canada's access and opportunities. These are positive steps toward on-the-ground support for Canadian companies. Canada should build on this momentum, including by establishing "Canadian hubs" in locations such as Singapore or Jakarta to support the establishment and scaling of Canadian start-ups in Asia.

South Korea

South Korea represents Canada's most important and stable option for deepening economic and commercial engagement in East Asia (outside China and Japan). It is an advanced industrial economy, a major technology exporter, and deeply integrated into global value chains. The existence of the Canada–Korea Free Trade Agreement (CKFTA) since 2015 constitutes a key institutional advantage, one that Canada lacks in its relations with many other Asian economies.[88]

Core areas of cooperation include automotive and auto parts, advanced batteries, semiconductors, hydrogen and clean energy, and critical minerals. From a foreign-policy perspective, South Korea is closely aligned with the United States and the liberal international order. Consequently, expanding relations with South Korea entails no significant geopolitical sensitivity and would be viewed positively in Washington. In sum, South Korea is a low-risk partner with high strategic returns for Canada.

Taiwan

From an economic and technological standpoint, Taiwan is another highly critical potential partner for Canada in East Asia, although it is also the most politically sensitive option. Taiwan plays a central role in global semiconductor supply chains, advanced electronics, and digital technologies, and has become increasingly important for the economic security

[87] https://www.international.gc.ca/world-monde/international_relations-relations_internationales/asean/index.aspx?lang=eng (6,11,2025)
[88] https://www.worldbank.org/ext/en/country/korea (3,11,2025)

of Western countries.[89] Taiwan was Canada's 15th-largest merchandise trading partner in 2024 with $6 billion in goods exchanged.[90]

For Canada, engagement with Taiwan is particularly attractive in advanced technologies, artificial intelligence, supply-chain security, and technology-oriented investment. The principal constraint, however, is pressure and sensitivity from China, which requires that engagement with Taiwan be designed in a non-official, technical, and non-political format. In other words, Taiwan is an economically highly valuable partner for Canada, but only insofar as cooperation is pursued under a framework of "non-flagged engagement" and in coordination with Western allies.

Hong Kong

Historically, Hong Kong was one of East Asia's most important financial and commercial hubs and a principal gateway to the Chinese market. However, recent political developments and the erosion of its autonomy have significantly weakened its position for Canada. Canada has suspended certain bilateral arrangements with Hong Kong, and the political risk associated with engagement has increased.[91]

Nonetheless, Hong Kong continues to retain capacity in areas such as financial services, logistics, regional trade, and private investment, and therefore should not be excluded from Canada's evolving foreign-policy considerations. From a policy perspective, however, Hong Kong cannot be treated as an independent strategic partner. Rather, it constitutes a limited, conditional, and high-risk option, where engagement, given its residual financial role in East Asia, must be conducted with caution and continuous assessment of political developments.

Analytical Synthesis

Overall, outside China, Japan, and ASEAN, Canada's capacity for economic and commercial engagement in East Asia is concentrated in a limited number of countries rather than a broad regional bloc. South Korea constitutes the core, low-risk pillar of this strategy; Taiwan is a critical partner in advanced technology and economic security, albeit with high geopolitical sensitivity; and Hong Kong represents a declining and high-risk, yet still partially

[89] https://www.oecd.org/en/topics/sub-issues/digital-security-risk-management.html (15,12,2025)

[90] https://financialpost.com/news/china-not-answer-canadas-trade-troubles (21,1,2026)

[91] https://data360.worldbank.org/en/economy/HKG (5,12,2025)

valuable, option. This configuration underscores that a successful Canadian strategy in East Asia must be targeted, differentiated, and grounded in the specific institutional and political characteristics of each country, rather than based on a uniform regional approach.

Likely US Reaction

The United States is likely to be neutral with Canada's deeper engagement with Southeast Asia. The logic is straightforward: the region is a central arena of strategic competition between the United States and China, and Washington, together with its allies, seeks to provide credible alternatives to Chinese influence. Canada's active engagement with ASEAN complements initiatives such as the Indo-Pacific Economic Framework (IPEF) and contributes to strengthening its presence in the region. That said, Canada must manage its involvement carefully so as not to trigger excessive Chinese sensitivity, given that China constitutes a key element of the proposed "third circle" in this policy paper's foreign-policy framework.

Moreover, enhanced Canadian engagement with ASEAN would be interpreted as a reduction in overdependence on China, fully aligned with U.S. objectives related to friendshoring and the construction of supply chains among like-minded partners. From Washington's perspective, there is little downside, unless Canada was to adopt positions explicitly contrary to U.S. interests, which is highly unlikely. ASEAN itself generally pursues a balancing strategy between the United States and China and is not anti-American.

Indeed, through multilateral platforms such as Asia-Pacific Economic Cooperation (APEC) and the Group of Twenty (G20), the United States frequently works alongside partners to support ASEAN's development. Should Canada succeed in concluding a Canada–ASEAN Free Trade Agreement in 2026,[92] this arrangement could later generate synergies with a potential U.S.–ASEAN trade framework, subject to U.S. domestic political developments and policy alignment with Canada. In the interim, a Canada–ASEAN FTA would help anchor ASEAN economies more firmly in open and rules-based trade.

Strategic Implications for Canada

In sum, Canada's engagement with second-circle partners, notably the Gulf states and ASEAN+3, offers a substantial opportunity for trade and investment diversification. The Gulf

[92] https://www.pm.gc.ca/en/news/news-releases/2025/10/27/prime-minister-carney-advances-new-trade-economic-and (3,11,2025)

states provide capital and new markets for high-value Canadian exports (energy, defence industries, advanced services), while ASEAN+3 offers production platforms, alternative supply chains, rapidly growing consumer markets, and financial opportunities. These partnerships are undeniably more complex, involving value differences and the need for calibrated diplomacy, yet Canada has already demonstrated its capacity to manage such complexity, illustrated by the re-engagement with Saudi Arabia and the pursuit of a Canada–ASEAN FTA.

The strategic benefits of this approach are significant:

- Expanded options for Canadian exporters.
- More diversified sources for critical imports, reducing overreliance on the United States.
- A stronger Canadian presence in regions that will shape global economic growth in the twenty-first century.

At the same time, Canada must approach the second circle with a clear strategy, adequate diplomatic and economic resources, and a balanced posture, one that continues to reflect Canadian values even as the scope of cooperation broadens. Ultimately, the second circle is about opening new opportunities without abandoning existing partners, adding new links to Canada's chain of resilience and prosperity, so that this chain is never dependent on a single vulnerable point.

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