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ASIA PACIFIC
FOUNDATION
OF CANADA

FONDATION
ASIE PACIFIQUE
DU CANADA



BUILDING BLOCKS FOR A CANADA-ASIA STRATEGY

PREPARED BY THE ASIA PACIFIC FOUNDATION OF CANADA



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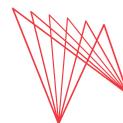


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ABOUT THE ASIA PACIFIC FOUNDATION OF CANADA

Established by an act of Parliament in 1984, the Asia Pacific Foundation of Canada (APF Canada) is a not-for-profit organization focused on Canada's relations with Asia. Our mission is to be Canada's catalyst for engagement with Asia and Asia's bridge to Canada. APF Canada supports the building of Asia-competency and promotes knowledge and understanding of developments in Asia. Its research and policy work focuses on trade, investment, innovation, energy, and the environment.

A leader in research and analysis on Canada-Asia relations for over 30 years, APF Canada partners with government, business leaders, academics, and opinion makers in Canada and across the Asia Pacific region to offer clear, specific, and actionable policy advice.

MESSAGE FROM THE BOARD OF THE ASIA PACIFIC FOUNDATION OF CANADA

Canada's economic prosperity and security are inextricably linked with Asia. This has become clear as Asia's transformation—the resurgence of China, the growth of India, the maturation of Japan and Korea, and developments within the Association of South East Asian Nations (ASEAN) region—provides new opportunities as well as challenges for its people and for the rest of the world.

Canada is ideally placed to not only benefit from the Asian transformation, but also to serve as a bridge linking this dynamic region to the rest of the world. The Board of the Asia Pacific Foundation of Canada firmly believes it is of utmost importance for the Government of Canada to strengthen its partnerships and deepen its engagement with Asia. We strongly encourage Prime Minister Trudeau and his government to develop a constructive and sustainable Asia strategy—one that takes into account the diversity of the region and is able to accommodate a degree of uncertainty and short-term volatility associated with emerging economies and changing polities.

This is an important and exciting time for Canada and Asia, and much is at stake. The Foundation itself has a vital role to play in supporting the government in this regard. The Board is therefore delighted to support and present *Building Blocks for a Canada-Asia Strategy*, a document that proposes a series of recommendations that can serve as the foundation for the government's elaboration of a Canada-Asia strategy.

Asia Pacific Foundation of Canada's Board Members:

David L. Emerson, Marie-Lucie Morin, Dominic Barton, Stewart Beck, Jean Charest, Colin Dodds, Kevin Falcon, Blaine Favel, George Heller, Murad Al-Katib, Vikram Khurana, Paul Lee, Kevin Lynch, Sandra Papatello, Evaleen Jaeger Roy, Indira Samarasekera, Graham Shantz.

MESSAGE FROM THE PRESIDENT AND CEO OF THE ASIA PACIFIC FOUNDATION OF CANADA

For over 30 years, the Asia Pacific Foundation of Canada has been contributing to the dialogue on Canada's engagement with Asia, a region of the world critical to our country's future. During this time, we have witnessed the strengthening of the ties between Canada and Asia. However, today, as Asia stands on the cusp of a new stage of dynamic development and growth, there is an opportunity for us to take our relationships with countries in the region to a new level where we will be better placed to take advantage of the changes underway.

This document outlines a series of recommendations for the Canadian government to consider as it articulates its response to the rise of Asia as a global economic power and political force. We have sought to address Asia as a whole and would recommend that our work be considered in tandem with other recent country-specific studies.¹

Prioritizing is always difficult, but I would like to draw the government's attention to three recommendations that call for immediate action:

- The Government of Canada should work with Parliament to ratify the Trans-Pacific Partnership, and accelerate negotiations on a Canada-China free trade agreement and the Canada-Japan Economic Partnership Agreement.
- The Government of Canada should develop a new generation of innovative trade promotion strategies and mechanisms targeting Asia that take into account the specific challenges faced by micro, small and medium-sized enterprises in the region. Such initiatives should target a few core, promising sectors including agriculture and agricultural logistics, clean technologies, and digital media.

- The Government of Canada should spearhead and support initiatives that help Canadians become more Asia-competent (i.e., have Asia-related skills and knowledge). This includes familiarity with the diversity of Asian cultures; knowledge about the region's economies, societies, and political systems; and the ability to speak Asian languages.

This is a pivotal time for Canada and for Canadians—a time to decide how to navigate through the ebb and flow of Asia's rise. A concerted and strategic approach to Asia is necessary to ensure appropriate engagement over the long term.

I would like to thank David Emerson, Marie-Lucie Morin, Dominic Barton, Don Campbell, Kevin Lynch, Pitman Potter, Hugh Stephens, and Michael Goldberg for their input, and members of APF Canada's Board for their support and guidance. I would also like to thank Eva Busza, Chantale Walker, and Valentine Ostaszewski for their hard work in drafting the paper.



A handwritten signature in black ink, appearing to read 'Stewart Beck' in a cursive style.

Stewart Beck,
President and CEO, Asia Pacific Foundation of Canada

INTRODUCTION

The economic and political rise of Asia marks one of the defining shifts of the 21st century. In an increasingly globalized and competitive world, how Canada responds and positions itself to take advantage of this transformation will shape its future. Canada has been fortunate to have traditional partners, such as the United States and Europe, as sources of growth and stability, and these partnerships must be maintained. However, the growing significance of Asia has demonstrated the need for Canada to strategically deepen and diversify its existing partnerships in the region.

Some progress has already been made on this front; yet, Canada continues to face major hurdles to demonstrating its relevance, importance and commitment to Asia. Despite being a “Pacific nation” with approximately 60 per cent of all new immigration originating in Asia, Canada remains marginalized in many of its relationships with Asian countries and, to date, has limited ability to affect or benefit from developments in the region. Addressing this shortcoming is growing increasingly urgent, as a number of Canada’s friendly competitors have taken important steps to improve their own strategic and economic positioning within the region.

The Government of Canada has an opportunity to articulate a more targeted and strategic approach to Asia that both advances Canadian national interests and contributes to the sustainable development and growth of the region.

The key to leveraging Canada’s strengths is not to establish a “one-size-fits-all” approach to the region. An effective Asia strategy will require consideration of the sheer size, vastness, and diversity of the Asian region. It will require the co-ordination of a range of tactics, tools, and players. Most importantly, an effective Asia strategy of the Government of Canada will require strategic flexibility to engage in an agile and responsive manner with a region that is likely to experience periods of short-term volatility.

An effective, forward-looking Canada-Asia strategy will need to achieve four key objectives: 1) position Canada as a relevant and important partner to Asia; 2) ensure that Canada benefits from Asia’s development and growth through improving market access and trade opportunities in competitive sectors; 3) leverage Canada’s strengths to support a secure and sustainable Asian region; and 4) build Canada’s Asia competence by improving Canadians’ related skills and knowledge.

To achieve these objectives, we offer the following recommendations to the Government of Canada for its consideration:

- 1. Foster greater political engagement.** Political engagement with Asian countries and the region must be made a priority so as to strengthen Canada-Asia relations. Engagement should begin at the federal level with a committee co-ordinating policy engagement with Asia. From there, active participation in regional institutions and conferences will help Canada become a relevant player in Asia.
- 2. Engage Asia on good governance and human rights.** Promoting good governance and human rights in the Asian region will help sustain Canada's political engagement. Canada could offer to lead an international advisory group that could serve as a resource on governance issues like anti-corruption, anti-bribery, transparency, accountability, legal frameworks, and human rights. Further, Canada could work with Asian partners to address social and economic inclusion challenges.
- 3. Work with Parliament to ratify the Trans-Pacific Partnership, and accelerate negotiations on a Canada-China free trade agreement and the Canada-Japan Economic Partnership Agreement.** Trade linkages between Canada and Asia have the potential to grow exponentially, but mechanisms to facilitate trade like free trade agreements and foreign investment promotion and protection agreements in the region are lacking.
- 4. Develop a new generation of innovative trade promotion strategies and mechanisms targeting Asia** that take into account the specific challenges faced by micro, small and medium-sized enterprises in the region. Such initiatives should target a few core, promising sectors including agriculture and agricultural logistics, clean technologies, and digital media.
- 5. Build cross-border partnerships to promote entrepreneurship and innovation.** With entrepreneurship and innovation essential to strengthening Canada's economy, more Canada-Asia cross-border partnerships to encourage entrepreneurship and innovation should be cultivated. Some examples of possible bilateral partnerships include collaborations between universities and incubators/accelerators; mentorships; international fellowships and internships; and, field visits.
- 6. Become a hub for international talent.** Strategically positioned to connect Asia, the Americas, and Europe, Canada should be promoted as a hub, not only for trade and investment but also for international talent. Two-way talent flows can be encouraged through visa agreements and enhanced international mobility agreements.
- 7. Build Asia's capacity to respond to global challenges.** Over the coming years, Asia will face a range of non-traditional security challenges: climate change; water, food, and energy security; and health challenges. Canada, with its expertise, research, and technologies, can capitalize on this opportunity to help Asia prepare and respond to these challenges.

8. Enhance Canada’s conflict and disaster prevention and recovery assistance to countries throughout the region, either through bilateral agreements or through existing regional and multilateral mechanisms.

9. Support social and economic inclusion as well as peace and security in Asia through skills development and training for young people. Canada can help address the shortage of skilled workers in South Asia and parts of Southeast Asia while also helping governments address the potential risks associated with large, unemployed youth populations. This can be done by supporting partnerships to develop educational programs and training in Asia, and facilitating the exchange of best practices to address labour needs.

10. Spearhead and support initiatives that help Canadians become more Asia-competent. Canada must build its Asia competence so as to deepen its relations with Asia. A broader foundation of knowledge and understanding about Asia should be developed, especially among public servants and students through interactive course models and scholarships to study or work in Asia. The Government of Canada should encourage Canadians to take advantage of the Asian language skills of recent immigrants, as well as encourage the provinces to promote Asian language acquisition and development among young Canadians. The government can further build Canada’s Asia competence by advancing a domestic strategy to achieve increased transparency of foreign direct investment rules, including promoting knowledge of Canadian investment rules and practices. This will help build Canadians’ trust in the process and recognition of the economic benefits of foreign investment.

Implementing these recommendations will require a careful allocation of assets, sustained political engagement, and a willingness to be a committed and constructive partner to the region where Canada and Asia share common interests and objectives.

The Government of Canada has the opportunity to strengthen its position as a credible and reliable collaborator and partner in Asia. An engagement that respects Canadians’ core beliefs—yet is open to the traditions, interests, and values of the region—will help build enduring relationships and understanding that will strengthen the fabric of Canada as a whole.

DRIVERS OF CHANGE IN ASIA

The Asian region will see considerable change over the next half-century as it gains a more dominant and influential role in the world's economy. Change will be led by drivers in the following five main categories: politics and security; economics; global challenges; technology and innovation; and, demographics. In crafting a constructive and sustainable strategy for Asia, the Government of Canada's policies and practices will need to take these dynamics into account.

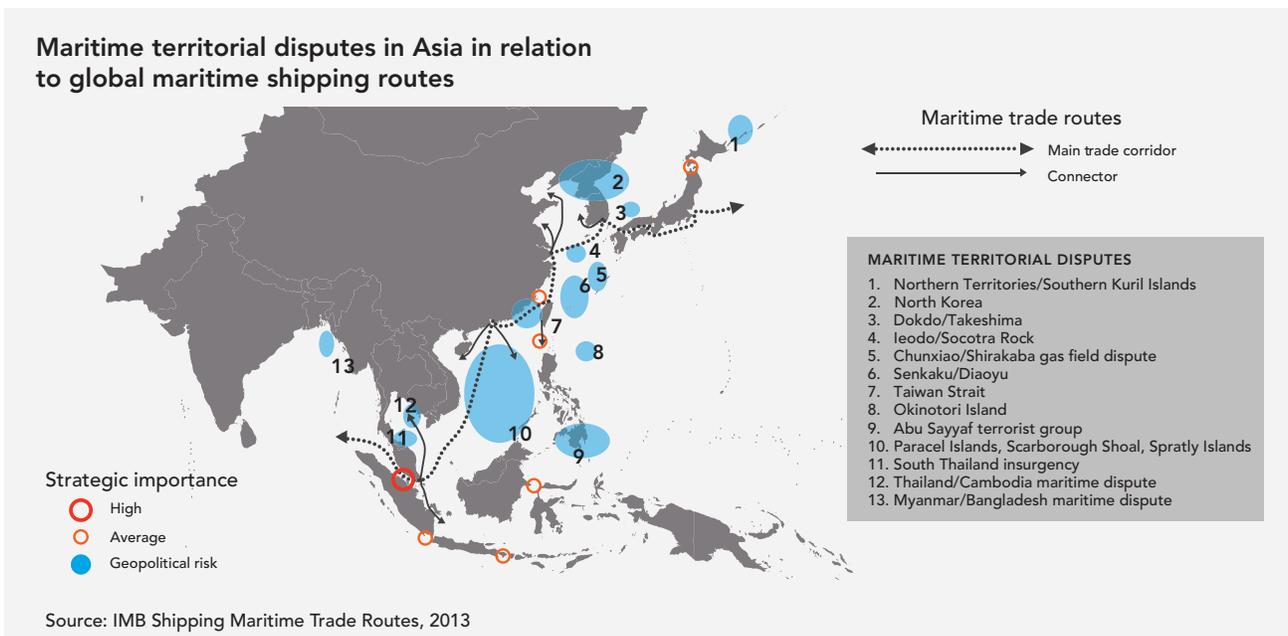
DRIVER 1: POLITICS AND SECURITY



Asia's complexity arises from not only its economic diversity but also its political diversity. The region is home to various political regimes ranging from multi-party to single-party systems and from authoritarian to emerging to mature democracies. The scope and strength of governance capacities and structures also varies significantly throughout the region. These elements will play an important role in determining how stable and predictable political trajectories and policy directions are likely to be in specific countries over the next decade.

Competition over territory, trade routes, regional power, and resources will also play an important role in shaping politics in Asia. This competition will be reflected in defence spending. Asia’s defence spending is projected to represent half of the total expected growth in global defence spending by 2020.² China will be the leader of this spending and is forecasted to double its defence spending in the next five years.³ As China pursues a role of leadership in Asia through a more assertive foreign policy, its rising military strength will shape politics and security in the region.

The rise of China as a military power will intensify tensions in the region. The character of the emerging relationship between the United States and China will be of particular importance. The end of 2014 showed the possibility of co-operation between the two countries as the presidents made progress on trade and security issues, and announced U.S.-China climate change targets. Even so, a number of matters remain unsolved, such as maritime territorial disputes in the East and South China seas, China’s military modernization, U.S. arms sales to Taiwan, China’s holdings of U.S. treasuries, and China’s environmental and human rights issues.



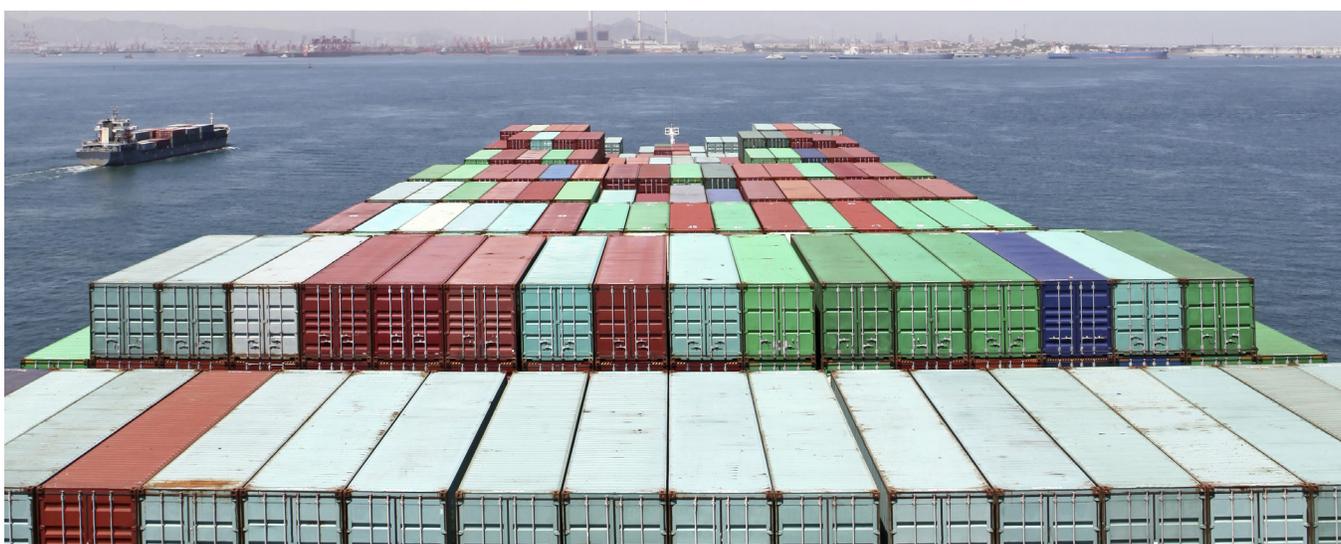
Further east, tensions are heightening as Japan’s passage of a series of security-related bills in 2015 created new strains with China and South Korea, and as the unresolved tensions on the South Korea/North Korea peninsula intensified. Unpredictable North Korean behaviour, as witnessed with the alleged testing of an H-bomb in early January 2016, presents dangers for the stability of East Asia in particular. Where Chinese tactics and policies go—continuing to support the North Korean regime or not—holds great importance for the future of the Korean peninsula.

In South and Southeast Asia in particular, although political conflicts are present, piracy, terrorism, and trafficking are more common security challenges. From 2007 to 2014, there were 1,007 instances

of piracy, with most occurring in the waters off Indonesia, Bangladesh, and Malaysia.⁴ In South Asia, terrorist incidents and insurgencies continue in countries such as Pakistan, Sri Lanka, and Bangladesh, yet they have dropped from 29,638 incidents in 2009 to 6,668 in 2013.⁵ Tensions between Pakistan and India seem to have decreased in the last year, especially after the agreement of both countries to engage in diplomatic discussions, but the risk of conflict re-emerging remains high.

Lastly, the digital age has called upon Asia to invest more in cyber security. By 2020, 35 per cent of the global cyber security market will be held by the region,⁶ with spending amounting to US\$22B.⁷ China, Japan, and South Korea allocate the most money towards their cyber security systems compared with other countries in the region. Countries with the lowest national engagement in cyber security are Laos, the Maldives, Nepal, Bhutan, Pakistan, and Afghanistan. Notwithstanding investments in cyber security, cyber threats are likely to continue to disrupt peace and security in the region. Of particular concern is the possibility that alleged incidents of state-sponsored cyber spying will lead to escalating conflict, particularly between China and the United States.

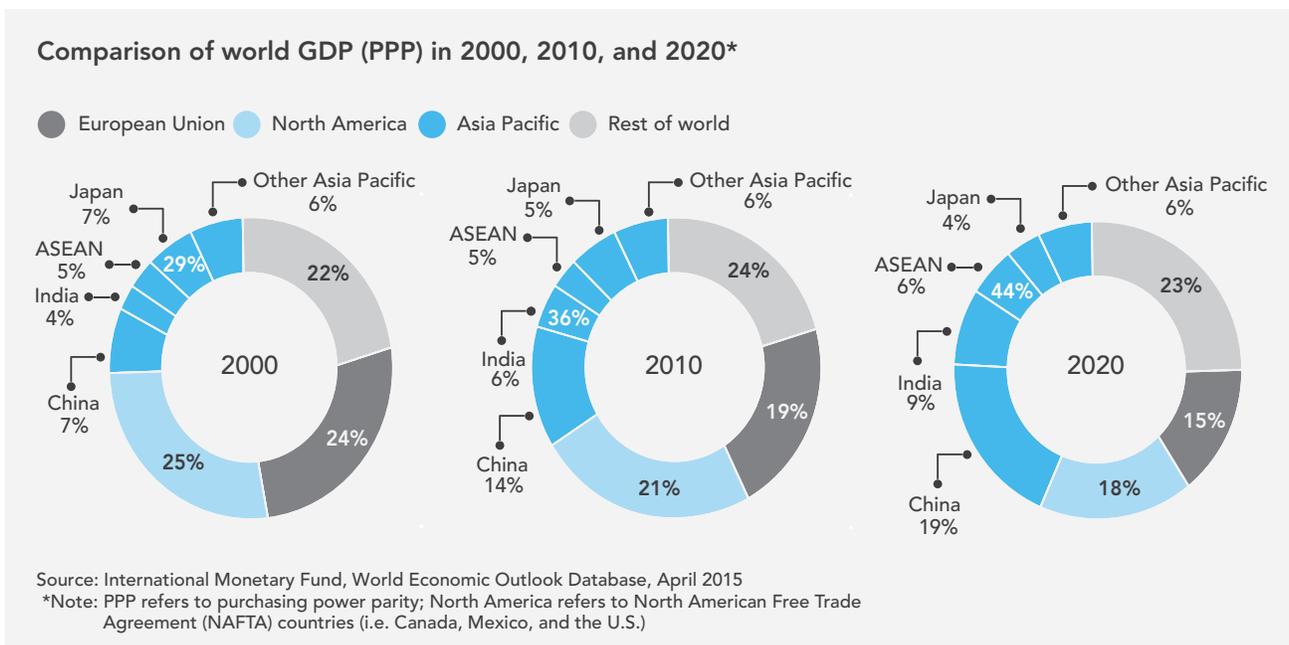
DRIVER 2: ECONOMICS



In 2015, the International Monetary Fund projected that Asia, led by economic development in China and India, would account for close to 45 per cent of the world's GDP by 2020.⁸ With recent indications of strains in the Chinese economy (e.g., reduced growth rates, volatility of the stock market, and an increasing budget deficit) and identification of future challenges (e.g., an aging population, increased income expectations, and environmental challenges), debate has re-emerged regarding China's future. While Asian economic power may grow more or less quickly, and specific countries may experience setbacks and economic turbulence, the region over the long term is on track to becoming a global powerhouse due in part to one billion new middle-class consumers, major infrastructure investments, growth in established and emerging economies, and greater regional economic integration.

China’s recent attempts to shift towards a more consumption-based economy and its increasing investment in Asia, Europe, Latin America, and Africa are leading to the expansion of its regional and global influence. As China funds national and regional infrastructure investment needs of up to US\$776B per year through contributions towards the New Development Bank (US\$100B), the Silk Road Fund (US\$40B), and the Asian Infrastructure Investment Bank (US\$50B), China’s economic and social influence is likely to continue to grow.⁹

Following China’s earlier path, India is now pushing for export-led growth, positioning itself as the world’s next factory. With a projected GDP of US\$9.6T by 2020, India is expected to overtake Japan as the world’s third-largest economy.



Although large, fast-growing markets like China and India are currently the dominant players in shaping the economic landscape in Asia, other countries in the region are also likely to play an important role like Japan, Korea, Indonesia, the Philippines, and Vietnam. ASEAN is poised to play a larger role in global value chains. The ASEAN Economic Community integration plan, which aims to create a single market of 600 million consumers, is designed to help establish a stronger ASEAN presence in the region and the world. It is expected to create between US\$280B and US\$615B in annual economic value by 2030.¹⁰ Within ASEAN, the Philippines could surpass Malaysia and Singapore as the second-biggest economy in the region by 2020 and, a decade later, Indonesia is projected to become the world’s seventh-largest economy.

The economic growth of Asia is likely to translate into higher income gains and growth of the middle class, turning the region into a “consumer powerhouse.” By 2020, 1.7 billion people in Asia, or 54 per cent of the world’s middle class, are projected to spend close to US\$15B annually, or 42 per cent of the world’s total consumption.¹¹ China is expected to be at the forefront of this consumption with its middle class representing more than half of China’s urban population.¹² From 2007 to 2025, India is projected to increase its aggregate consumption from C\$364B to C\$728B and, by 2030, could even surpass China and the United States as the world’s largest middle class consumer market.¹³ ASEAN is also on the path to double its number of affluent households to 125 million between 2014 and 2025.¹⁴

A more macroeconomic picture of the region reveals that regional economic integration is likely to intensify if Asian countries are successful in expanding and solidifying trade relations in the region. Three of the most noteworthy initiatives are the Regional Comprehensive Economic Partnership (RCEP), the Trans-Pacific Partnership (TPP), and the Free Trade Area of the Asia-Pacific (FTAAP). If RCEP is put into force, income gains could reach US\$644B by 2025.¹⁵ Its future, however, is uncertain as negotiations may stall due to already established free trade agreements between some RCEP members, differences in members’ economic structures and development stages, and members’ participation in other regional integration agendas. The TPP, which was concluded at the beginning of October 2015, could boost global income by US\$295B per year.¹⁶ The FTAAP is still in the midst of talks but, if put into play, could increase the region’s agricultural trade by 65 per cent (US\$260B) and trade in manufactured goods by roughly 85 per cent (US\$5.2T).¹⁷

Over the past decade and a half, Asia has looked not only inward, but outward, as can be seen through the considerable amount of interest Asian governments and businesses have expressed in Latin America. From 2000 to 2014, Latin America’s trade with Asia grew from eight per cent to almost 25 per cent,¹⁸ and by 2020 trade is expected to reach US\$750B.¹⁹ China is the biggest Asian investor in Latin America and, in the next 10 years, China is planning to invest US\$250B in Latin America and the Caribbean, and to double its trade to US\$500B.²⁰ The Pacific Alliance, established in 2012, is considered a gateway to both regions’ economies that promotes investment, trade flows, and the integration of value chains.

DRIVER 3: GLOBAL CHALLENGES



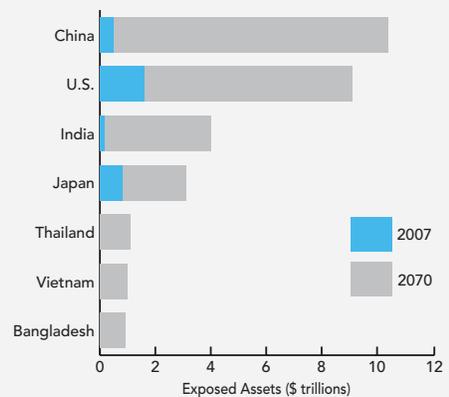
In Asia, as elsewhere, a number of global challenges will need to be addressed. Climate change is top of the list in terms of global threats. Climate change has the potential to drastically change Asian species and ecosystems, affect the region’s water and food resources, threaten health, and destroy the livelihoods and homes of millions of people in the region.

Its impact is already being strongly felt throughout the region. For example, in the case of water resources, already 380 million people in the region have no access to safe drinking water.²¹ In China, a

Asian port cities with the highest climate risk*



Top countries (by assets) exposed to climate change in 2007 and 2070



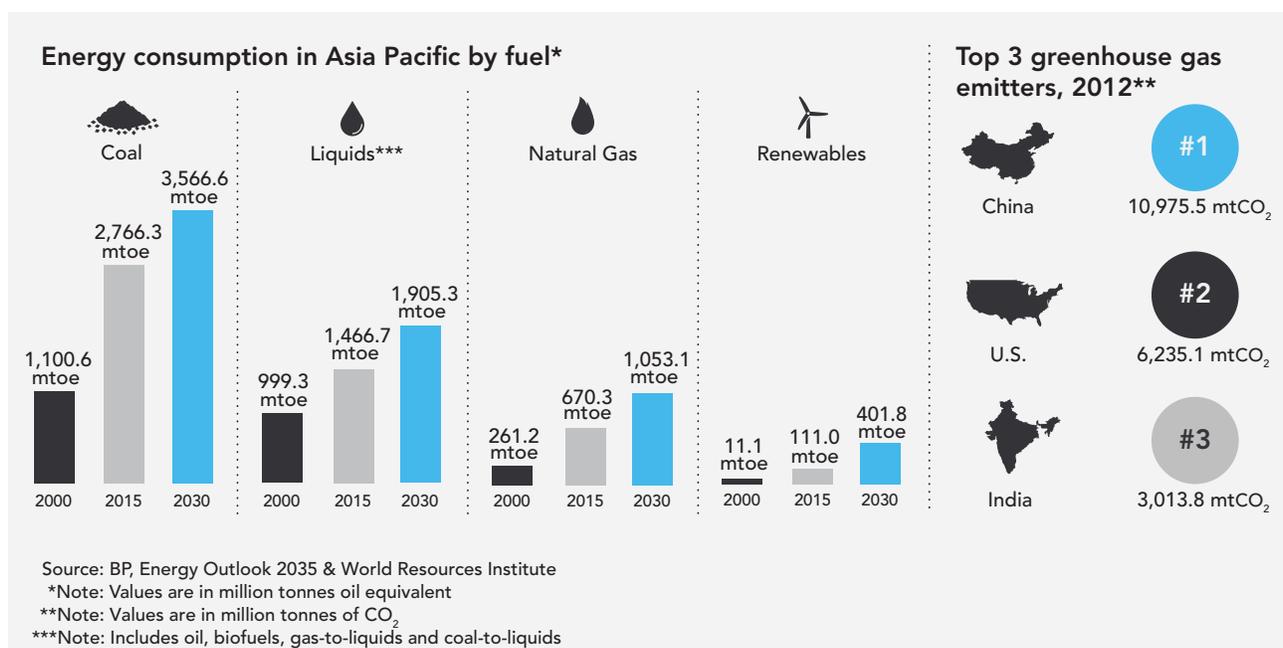
Source: Accumulation of Bloomberg Business, National Geographic, and Architecture 2030

*Note: Values are losses in billions in 2050 if an extreme weather event overwhelmed sea-level-rise defences of urban areas

total of 660 cities currently do not have enough water to meet the demand of their inhabitants.²² India will be considered a water-scarce country as early as 2020. The gap between supply and demand in 2030 is projected to be severe (20 to 80 per cent) in India and moderate (zero to 20 per cent) to severe in China.²³ Both water scarcity and contamination will cause an increase in prices, soil degradation, deforestation, and trans-boundary environmental issues.

Water-related disasters will also affect the Asian region over the coming years. In 2013 alone, the region lost US\$51.5B and over 17,000 people to water-related disasters.²⁴ As the effects of climate change intensify, millions of people in the region will have to be relocated because of rising sea levels, an increase in natural disasters, and intensified storms. With the Philippines, Pakistan, Myanmar, Vietnam, and Bangladesh considered the most vulnerable to water-related disasters, 410 million urban Asians are projected to be at risk of coastal flooding by 2025.²⁵

Along with water supply challenges, food security will continue to be high on the Asian agenda. Although the number of food-insecure people is expected to decline to 320 million in 2020, 113 million less than in 2010, Asian food security will be threatened predominantly by deforestation and desertification.²⁶ More than one-third of the arable land in Asia is already at risk. More Asian countries will become dependent on food imports to meet food demand.



Asian countries are increasingly dependent on energy suppliers outside the region to power their economies. By 2035, the region will be consuming more than half of the world's energy.²⁷ To meet this growing need, Asian countries will continue using coal, with a total increase of 47 per cent in the coming years.²⁸ Even so, this will not meet demand as some countries in South and Southeast Asia are expected to continue experiencing energy shortages as energy needs and prices rise.

Some important new developments may help Asia address its energy deficit and reduce its emission of greenhouse gases. Asia is slowly shifting towards more environmentally friendly sources of energy. As one of the biggest investors in renewable energy in the world, China is expected by 2020 to use renewable energy for 15 per cent of its total energy consumption,²⁹ and by 2025, Indonesia intends to increase its usage of renewable energy by 17 per cent.³⁰ The solar panel industry is also forecasted to grow to US\$37.8B by 2020 thanks to huge investments by India, Japan, China, and Indonesia.³¹ Hydropower will present economic opportunities in Bhutan, Laos, Nepal, China, India, and Thailand, while biofuels will become increasingly recognized, with China intending to produce 12 million metric tonnes of it by 2020.³²

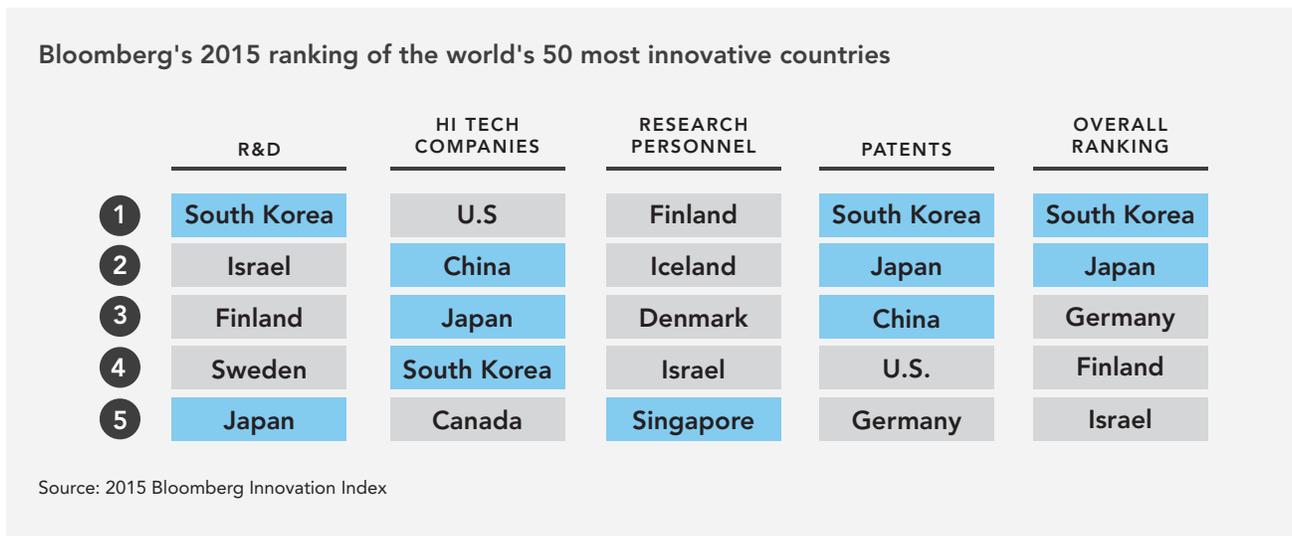
Finally, health will also be a major challenge in the region, accelerated primarily by rapid urbanization. Already, air pollution in Asia caused by industrialization, as well as forest-fire-induced haze, and dust and sand storms, contributes to half a million deaths per year. Malnutrition and contaminated water, especially in developing countries, will also affect the health of children and adults. There are around 537 million undernourished people in Asia, with 299 million of them in South Asia alone.³³

DRIVER 4: TECHNOLOGY AND INNOVATION



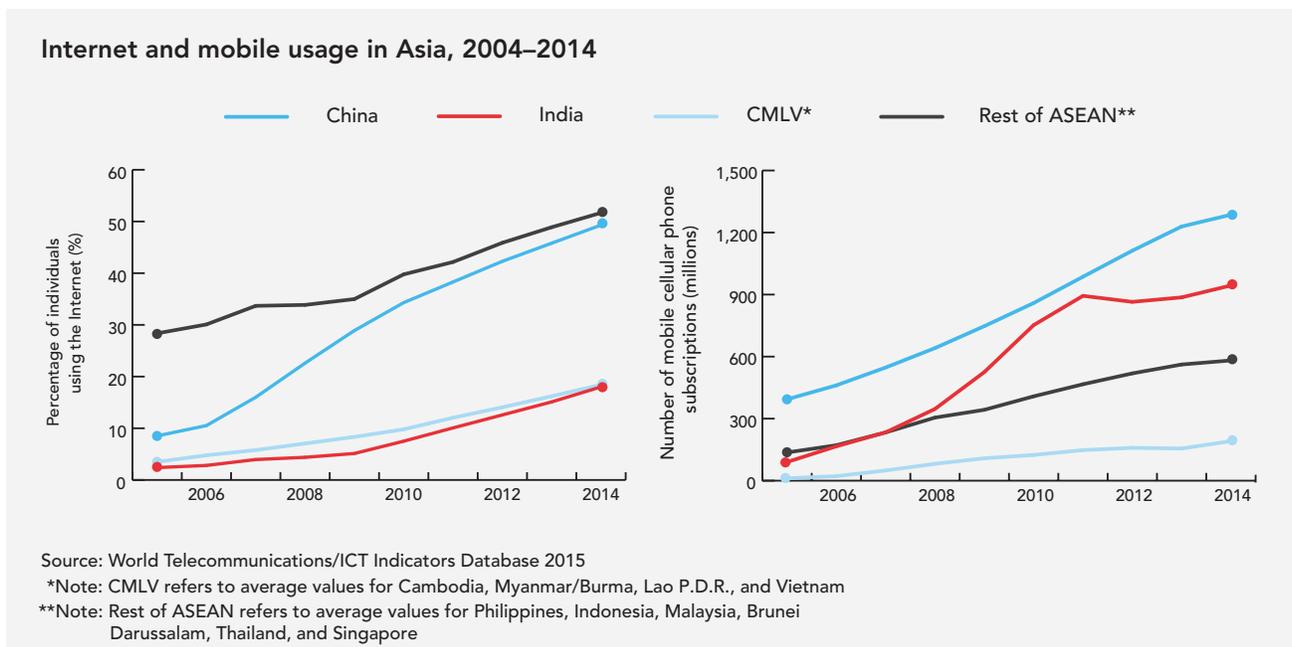
Asia is at the forefront of modern technology and innovation as countries in the region scramble to be the most innovative in the world. In 2015, the Bloomberg Innovation Index ranked nine Asian countries or economies among the top 50 of the most innovative countries in the world, with South Korea coming first, followed by Japan second, Singapore eighth, and China 22nd.

This growth of innovation has changed the digital scene in the Asian region. India and China are currently the leading Internet users in the world with more than 100 million³⁴ and 600 million users,³⁵ respectively. The increase in Internet usage will transform domestic and traditional market economies



into global and digital ones, as can already be seen by a recent upsurge in e-commerce sales. From 2013 to 2018, Asia’s e-commerce sales are expected to double to US\$854B.³⁶ China, as the world’s top e-commerce market, was expected to spend US\$540B on e-commerce transactions in 2015.³⁷

M-commerce, or e-commerce conducted on mobile phones, is also becoming increasingly popular in the region. By 2020, half of the population in Asia will have mobile Internet access.³⁸ India will be one of the fastest growers in e- and m-commerce, and, by 2021, its market will amount to an estimated US\$90B.³⁹ Although Southeast Asia currently does not have mobile phone penetration rates as high as East Asia, the six largest Southeast Asian e-commerce markets (Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam) are expected to reach US\$34.5B by 2018.⁴⁰



DRIVER 5: DEMOGRAPHICS



The demographic landscape of the Asian region will be entirely redefined in the coming years. This change will come about as a result of three major demographic trends: urbanization, aging populations, and “youth bulge” populations. Urbanization will affect all of Asia as masses of rural residents move to urban areas. By 2020, the urban population is expected to reach 2.46 billion people, 70 times more than the population of Canada.⁴¹ The largest surge will occur in medium- to small-sized cities, or so-called “Tier 2” and “Tier 3” cities.

While urbanization will affect Asia as a whole, individual countries will fit into one of the following three demographic groups: aging populations, “youth bulge” populations, or a mix of both. In the developed countries of the Asian region, elderly populations will dominate as the number of people aged over 65 substantially increases. From 2013 to 2020, the number of elderly people in Singapore will increase by 41.3 per cent, followed by Hong Kong (39.2 per cent), Taiwan (34.2 per cent), South Korea (31.7 per cent), and Japan (20.25 per cent).⁴² Investment boosts in national pensions, health care, and research in medical technology have already started as governments prepare for the unique demands of the elderly. By 2020, the Japanese government plans to increase its share of GDP allocated to its health-care systems to almost 10 per cent,⁴³ while the South Korean government intends to have more than C\$900B in reserves in its national pension system by 2020.⁴⁴

On the other hand, developing countries in South and Southeast Asia will see a “bulge” in the number of young people. Almost half of Southeast Asia’s population will be under 30 years of age by 2020, providing a number of countries in the region (the Philippines, Laos, Malaysia, Cambodia, Indonesia, and Myanmar) with more than 10 per cent of labour force growth.⁴⁵ In the same year, India is projected to become the world’s youngest country, with 64 per cent of its population in the working age group.⁴⁶

China, Thailand, and Vietnam are special cases in that they are beginning to see demographic trends consistent with aging populations, yet still have a relatively strong labour force. This will change, though, as the countries’ demographics move towards more aging societies, as is expected to occur in China by 2050 when it will face the same situation Japan is experiencing now, with 26 per cent of its population over the age of 65.⁴⁷

CANADA AND THE DRIVERS OF CHANGE IN ASIA

The emergence of Asia as a political, economic, and socio-cultural force will have major implications on future international systems, institutions, and norms. Asia's growing importance has already been recognized by many of our international partners who are vying to secure prosperous relations with the emerging economies of Asia.

Canada flourished in the post-Second World War period, establishing itself as the 11th-largest economy in the world, a G7 and G20 member, and a leading "middle power." However, in an increasingly competitive and dynamic world, Canada's position is in no way guaranteed. Canada needs to be proactively promoting its ideas, its goods, and its talents—particularly in Asia, a future centre of gravity for global economic and political decision-making and action.

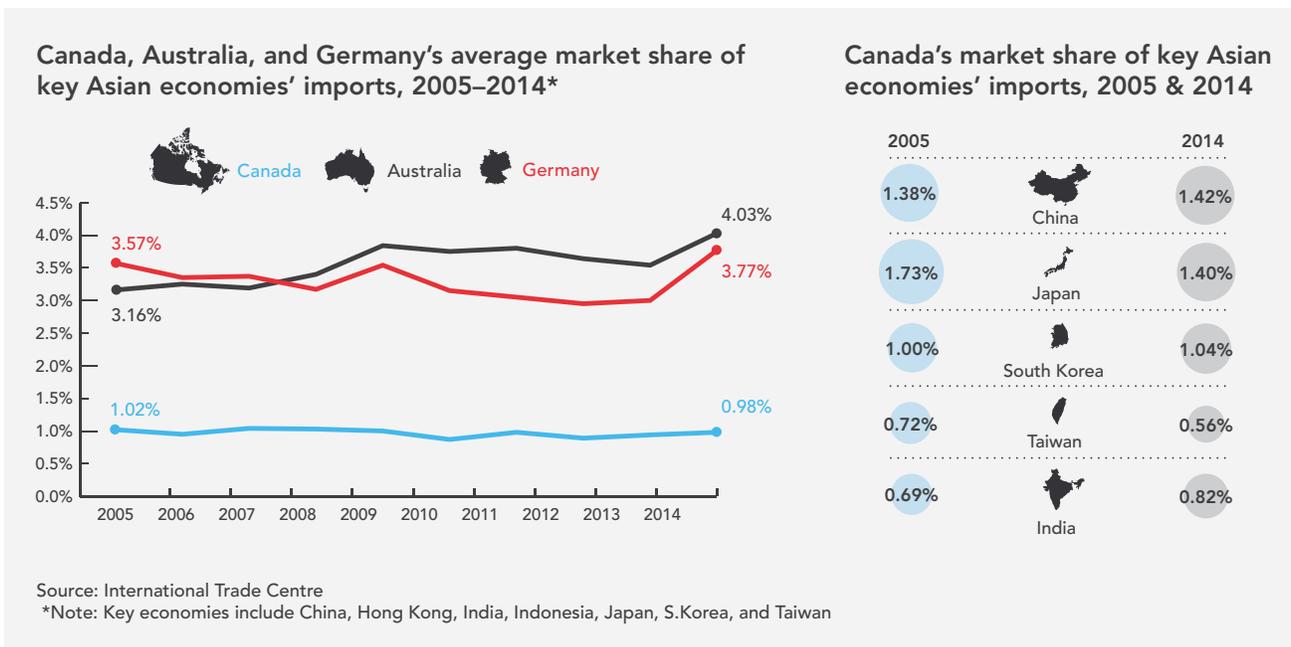
As discussed, the future of Asia will be shaped by developments in regional politics and security; economics; emerging global issues; technology and innovation; and, demographics. Drivers of change in these five categories will also have an important impact on Canada, its relationship to Asia, and its global positioning more broadly.

Relations between Canada and Asia are vulnerable to the increasing and varying political and security challenges in the region previously described, including territorial disputes, growing military expenditures, piracy, terrorism, trafficking of people and goods, and cyber attacks.

Canada has collaborated with Asian nations, especially ones in the ASEAN region, through high-level meetings and bilateral agreements and dialogues where Canada has been able to make available its governance and security expertise and technical assistance to its Asian partners. In addition to its bilateral relationships, Canada has also participated in regional security forums and dialogues to develop potential responses to regional defence and security issues. Canada's historical contribution to peacekeeping operations and its role in helping countries prevent and recover from conflict and disasters contributed to establishing Canada as a reliable collaborator and partner. These contributions further elevated Canada's relevance and status in the region, providing us with leverage to promote issues linked to our national interest. With our reduced contribution and involvement in these issues, our perceived relevance declined.

The current and future political and security environment in Asia provides a golden opportunity for Canada to reposition itself as a relevant player by exercising middle power diplomacy and working with partners in the region to defuse conflict and build consensus. Canada can also show its commitment and value to the region by offering to share the policies and practices of its world-renowned public service model in areas like good governance and the promotion and protection of human rights, including women’s rights.

Canada’s economy is heavily dependent on trade, and maintaining and improving our standard of living rests in our ability to secure and expand our markets. While Canada has been increasing its volume of trade with Asia, our average share of key Asian economies’ imports (i.e., China, Hong Kong, India, Indonesia, Japan, South Korea, and Taiwan) has remained surprisingly low and static. Future projections estimate that, by 2030, China and India combined will represent 39 per cent of the global GDP and their middle class will rise to an estimated 1.5 billion consumers. If the Canadian economy is to flourish, we must increase our access to these markets and become one of the favoured suppliers to their consumers.



Negotiating bilateral free trade agreements (FTAs), economic partnership agreements (EPAs), and foreign investment promotion and protection agreements (FIPAs) can play a crucial role in strengthening Canada’s trade and investment relations with Asia. Currently, Canada only has one ratified FTA in Asia (with South Korea). Negotiations on an EPA with Japan and India have been put on hold. In the investment arena, Canada holds three FIPAs with Asian economies (Thailand, the Philippines, and China). The new government now faces the decision whether or not to ratify the Trans-Pacific Partnership, which represents 37 per cent of the world’s GDP and would give Canada preferential access to member signatories in the region. Growing competition from other countries (such as Australia, which currently

holds eight ratified FTAs and 11 FIPAs in Asia) indicates how essential it is for Canada to strengthen its trade and investment relations with Asia in order to catch up with other players in the region.

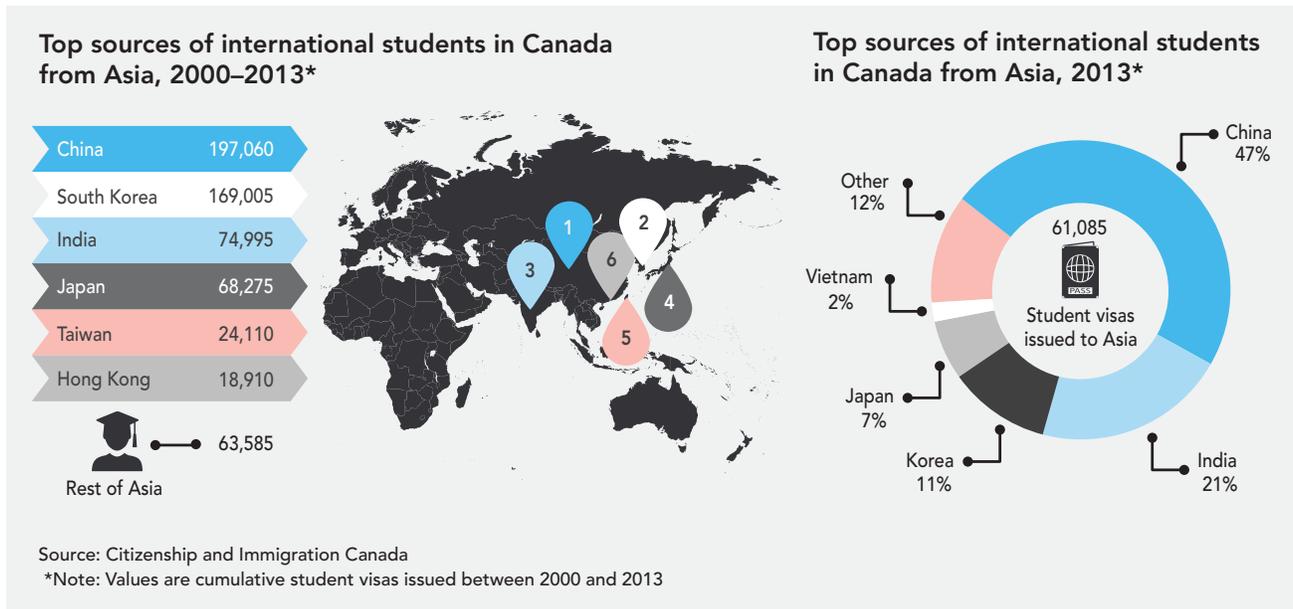
While trade agreements are an important tool for facilitating greater economic exchange, they enable but do not guarantee business engagement. Canada's future prosperity will also depend to a large degree on the ability of our micro, small and medium-sized enterprises (MSMEs) to make inroads into Asian markets. Our friendly competitors have been working hard to develop a new generation of innovative trade promotion strategies and mechanisms that take into account the particular challenges faced by MSMEs in going to Asia and are designed to help ensure that their economies benefit from Asian growth and development. Canada's challenge is to do the same.

Asia is at the vortex of a host of emerging global challenges that threaten its security and sustainability. Asia's policies and actions will be central in determining how and whether resulting threats will be addressed. Canada, with its wide-ranging expertise and ability to provide innovative technical solutions, is an ideal partner that can collaborate with Asian counterparts to help them achieve a safe and sustainable future. Any part that Canada can play in this endeavour will directly benefit us, because Canada, like all nations in the world, has a vested interest in promoting a healthy and secure planet. Further, our ability to work with Asian partners to address problems of extreme importance to them will increase our relevance in the region. Finally, Canadian experts and businesses that specialize in providing solutions to these problems can benefit from the new market opportunities associated with addressing these emerging global issues.

Asia is rapidly becoming a global hub for technology and innovation. Incubators and accelerators are proliferating, and fledgling "Silicon Valleys" are emerging. Asian technologies are poised to have a tremendous impact on defining our tastes, our consumer habits, and the structural infrastructure underpinning global exchange and commerce—the Internet of things. Notwithstanding these developments, many Asian businesses and governments are looking for opportunities to learn from other countries like Canada how to establish healthy innovation ecosystems and how to catalyze entrepreneurship. They are also interested in collaborative partnerships where expertise from different countries can be brought together. Canadian business and research institutions are ideally situated to take advantage of these opportunities, which will not only increase our relevance in the region but will ensure that we benefit from the economic growth there. Collaboration with Asian partners will further drive forward our own technological progress and innovative capacities.

Demographic shifts accompanied by middle class growth and urbanization in Asia create a further set of opportunities and challenges for Canada. First, rising incomes across Asia are allowing more businesses and middle class households in the region to purchase consumer durables, while higher-earning households are spending greater amounts on luxury items, many imported from abroad. Second, the expansion of the middle class in Asia has meant a fairly widespread shift from a primarily grain-based diet to a more meat-based diet, resulting in a rising demand for food products imported from trusted source countries. Third, the demand for international travel is growing, with the global number of international tourist arrivals expected to reach 1.8 billion by 2030, up from 940 million in 2010. Almost half of this global traffic will be within Asian countries or from the region to the rest of the world.⁴⁸

Fourth, more families expect their children to get the type of higher education that will lead to white-collar jobs, in turn securing their status and incomes well into the future. However, in many Asian countries—such as China, India, and Indonesia—demand for higher education has vastly outpaced supply of education, including high-quality instruction and education that responds to changing labour market demands.⁴⁹ Because of this widening demand-supply gap, more and more Asian parents are sending their children overseas for higher education, primarily to English-speaking Western countries like Canada.



Canada has an opportunity to benefit from these new demands. However, this will require much more aggressive efforts to promote our products and services in Asia, and this, in turn, requires the synchronization of government policies, business initiatives, and public support. The latter two rely heavily on the existence of an Asia-competent Canadian public.

The research and surveys conducted by the Asia Pacific Foundation of Canada over the past 10 years indicate that there is a lack of knowledge among Canadians regarding countries in Asia, and that few Canadians have been to Asia or have been exposed to Asian business culture. This knowledge gap has three detrimental impacts: first, it prevents Canadians from recognizing and pursuing the tremendous opportunities that exist in building ties with Asia; second, it reduces Canadians’ abilities to provide informed input into Canada’s policies and strategies towards Asia; and third, it reduces our economic competitiveness – businesses operating in Asia report that they find it difficult to find Canadians to fill Asia-related jobs. Without a concerted effort to build Canadian capacities and skills related to Asia, this problem will grow in severity. Canada’s young people, in particular, will be at an extreme disadvantage compared to their counterparts from Australia, New Zealand, and the United States who are currently benefiting from well-resourced and well-coordinated, national-scale initiatives that provide them with study, research, and work experience in Asia.

In short, in order to respond to the drivers of change in Asia and ensure that their impact promotes Canadian interests and improves economic opportunity and security for Canadians, in crafting its Asia strategy the Government of Canada should consider shaping its policies and programs to achieve four core objectives:

- Position Canada as a relevant and important partner to Asia;
- Ensure that Canada benefits from Asia's development and growth through improving market access and trade opportunities in competitive sectors;
- Leverage Canada's strengths to support a secure and sustainable Asia; and,
- Build Canada's Asia competence by improving Canadians' related skills and knowledge.

RECOMMENDATIONS FOR THE GOVERNMENT OF CANADA

Position Canada as a relevant and important partner to Asia

1. Foster greater political engagement.

1.1 Reinvigorate the Senate Standing Committee on Foreign Affairs and International Trade, making Canada's strategic engagement with Asia a key priority of its deliberations. This would assist in co-ordinating policy engagement with Asia and foster a harmonized/comprehensive understanding of Asia at the federal level and across federal government departments. This Committee could be supported by a "Canada-Asia Consultative Council," chaired by the Prime Minister, bringing together a small group of eminent Canadian and Asian business leaders to provide policy advice and expertise.

1.2 Leverage Canada's participation and capacity in regional institutions to increase Canada's relevance in Asia. In the case of fora with business side events, make a focused effort to encourage greater business leader participation. Two immediate steps to be taken are: 1) advocate for Canada's inclusion in the East Asia Summit, taking concrete measures that demonstrate Canada's ability to contribute to peace and security in the region; and 2) assert Canada's credentials as a serious and committed member of APEC

by supporting and hosting an APEC Business Advisory Council (ABAC) meeting in 2017 and taking leadership to host an upcoming APEC leaders' meeting (next available slot in 2023/2024) focusing on topics relevant to Canada's prosperity.

1.3 Institutionalize an annual Canada-Asia conference to facilitate an in-depth exchange of information on Canadian objectives and actions in Asia between senior federal and provincial government officials, industry and business associations and business leaders, diaspora groups (within Canada and in Asia), non-government organizations (NGOs), academics, policy specialists, and researchers. This conference could convene leading global experts with first-hand knowledge of and experience in Asia to develop actions and strategies for long-term, strategic success for federal and provincial governments, business, and civil society in their engagement with Asia.

1.4 Strengthen already significant people-to-people relations between Canada and Asia by increasing Canadian cultural advocacy and programming in Asian countries, showcasing the next generation of Canadian talent in digital and performing arts and virtual technologies.

2. Engage Asia on good governance and human rights.

2.1 Promote a good governance and human rights agenda through sustained support on key initiatives that target capacity-building in the region. This includes: 1) offering policy guidance on anti-corruption, anti-bribery, transparency, and accountability measures; 2) providing capacity-building to local NGOs and communities in Asia to facilitate their engagement with public authorities and investors in the host country in discussions on revenue-sharing agreements; social, economic, and human rights impact agreements; and, the application of principles related to “free, prior, and informed consent” concerning resource development projects; 3) providing C\$20M to establish international partnerships with Canada’s priority developing countries to strengthen judiciary institutions through training programs for judges and lawyers; and, 4) supporting law reform efforts to boost local capacity in Asia for the promotion and protection of universal human rights.

2.2 Drawing on Canadian practice and expertise, promote good governance tools and frameworks to help address social and economic inclusion challenges in Asia’s emerging economies. Bring together a small group of high-level, retired public service professionals, academics, and NGO workers to build an international advisory group that could work with interested Asian partners on public service modernization, exporting the Canadian public service model in areas such as developing fiscal frameworks, accountable and fair tax structures, financial regulatory systems, public health-care systems, corporate social responsibility policies, education systems and policies, pensions administration, regional development programs, and sustainable social and welfare programs.

Ensure that Canada benefits from Asia’s development and growth through improving market access and trade opportunities in competitive sectors

3. Work with Parliament to ratify the Trans-Pacific Partnership, and accelerate negotiations on a Canada-China free trade agreement and the Canada-Japan Economic Partnership Agreement.

3.1 These actions can be accompanied by accelerating current negotiations of a bilateral free trade agreement with India, launching similar talks with ASEAN, and concluding negotiations of foreign investment promotion and protection agreements (FIPAs) with Vietnam and Indonesia. Explore ways to promote FIPAs already in force with China and the Philippines as an educational tool to both attract inward investment and encourage Canadian outward investment in other countries, building on work being done by the Asia Pacific Foundation of Canada on Asia literacy and competencies.

4. Develop a new generation of innovative trade promotion strategies and mechanisms targeting Asia that take into account the specific challenges faced by micro, small and medium-sized enterprises (MSMEs) in the region. Such initiatives should target a few core, promising sectors including agriculture and agricultural logistics, clean technologies, and digital media.

4.1 Support Canadian MSMEs wishing to enter Asian markets by: 1) strategically deploying funds from the Export Market Development Program to support the establishment, with the involvement of Export Development Canada and the Canadian Commercial Corporation, of a consortium to help Canadian MSMEs build scale in exporting to Asia; 2) supporting the development of a Council of Asian Export Champions comprising successful Canadian exporters to Asia of diverse sizes and

sectors to serve as mentors for Canadian MSMEs entering Asian markets (look to build on existing mentorship models such as Aéro Montréal's MACH Initiative or the Trade Accelerator Program of the Toronto Region Board of Trade (TAP GTA); 3) encouraging consolidation and expansion of online resources for MSMEs across Canada looking to export to Asia, building on the work the Asia Pacific Foundation of Canada is undertaking with the Government of British Columbia to ascertain and address Canadian MSME Asian business literacy needs; and, 4) supporting Canadian MSME participation in the expanding Asian digital economy through training on market opportunities, access to financing, ICT infrastructure, and digital security.

4.2 Promote innovative services and technology-intensive goods in education, life sciences, architecture and engineering, health care, transportation, and environment by Canadian companies in Asia. Establish the Development Finance Initiative (DFI), as forecasted in the 2015 Federal Budget, and strategically deploy DFI funds to assist Canada's private sector in delivering high-tech and innovative solutions to Asia's developing economies, building Canada's reputation as a high-tech leader.

4.3 Build collaborative relationships between the federal government and Canadian provinces, territories, and municipalities to co-ordinate the promotion of Canada as an ideal destination for Asian trade and investment. Model initiatives upon which to build include BC's Asia-Pacific Initiative at the provincial level and the Consider Canada City Alliance at the municipal level. Continue holding regular meetings at both deputy minister and assistant deputy minister levels with provincial ministers responsible for trade on how to further co-ordinate efforts in Asia, including trade promotion programs.

5. Build cross-border partnerships to promote entrepreneurship and innovation.

5.1 Create stronger linkages between the Canadian and Asian innovation ecosystem by: 1) encouraging Canadian incubators/accelerators to partner with universities or incubators/accelerators in Asia; 2) encouraging Canadian and Asian startups to enter Asian and Canadian markets, respectively, through mentorships; 3) offering international fellowships and internships for Asian startups seeking mentorship from Canadian incubators/accelerators and vice versa; and, 4) creating exchange mechanisms to allow Asian innovation practitioners and policy-makers to make field visits to Canada.

5.2 Allocate C\$50M to the Canadian International Innovation Program to help formalize more bilateral science and technology partnerships with established markets in the Asia Pacific region, such as Japan, South Korea, Australia, New Zealand, Hong Kong, Taiwan, and Singapore.

6. Become a hub for international talent.

6.1 Promote policies that encourage two-way talent flows through visa agreements and enhanced international mobility agreements. A particular emphasis should be placed on building on successful youth mobility agreements already in place with Australia, New Zealand, and other priority and emerging markets in Asia to foster more on-the-ground experience for young Canadians looking to gain work experience abroad through youth exchanges, co-op placements and volunteer programs, training and networking events, and job shadowing. This could include expanding the list of countries from Asia who have a working holiday agreement with Canada to be part of the Canadian Working Holiday Program (currently, only Hong Kong, Japan, South Korea, Taiwan, and Thailand have such agreements).

6.2 Review the Temporary Foreign Worker Program and adopt recommendations as outlined by the Panel on Employment Challenges of New Canadians (2015), thereby facilitating the integration of new skilled immigrants into the Canadian workforce and addressing key challenges of foreign credential recognition and lack of Canadian experience.

Leverage Canada's strengths to support a secure and sustainable Asia

7. Build Asia's capacity to respond to global challenges.

7.1 Propose policies, share technologies, and partner on new initiatives that will help Asia prepare for and respond to intertwined and intensifying non-traditional security concerns that affect the environment, economic development, and security of the region. Canada's relevant federal departments – Natural Resources Canada, Global Affairs Canada, Agriculture and Agri-Food Canada, Health Canada, and Fisheries and Oceans Canada – should collaborate to formulate an action plan that will help Canada mobilize its expertise, research, and technology to help policy-makers from the region address pressing challenges in the areas of climate change mitigation and adaptation; food, water, and energy security; as well as health. This could include convening a biannual, high-level conference on global issues where best practices and promising technologies can be shared by practitioners and policy-makers (e.g., the monitoring and management of groundwater and aquifers).

7.2 Promote and leverage Canadian expertise in areas such as urban planning, water management, disaster risk management, and waste management to assist local governments in Asia to build capacity, adopt technologies, and develop capital investment programs to build smart and resilient cities. A Smart and Resilient Cities fund of C\$100M could be set up in partnership with private-sector partners to support capacity-building in developing countries in the Asian region with the most vulnerable cities. This fund could support innovative proposals by Canadian cities and developing Asian cities to collaborate on knowledge and technology exchanges between urban planners and decision-makers, as well as support research and training on resilient cities by Canadian institutions and private-sector partners. Canada's largest pension funds could also play a role here with their global reach and expertise in urban infrastructure development.

8. Enhance Canada's conflict and disaster prevention and recovery assistance to countries throughout the region, either through bilateral agreements or through existing regional and multilateral mechanisms.

8.1 This should include investing in services in which Canadians are considered to excel (e.g., delivering mobile medical teams, providing engineering support to aircraft, providing mediation, and supplying well-trained crisis management professionals to assist in the context of international disaster relief or peace operations).

9. Support social and economic inclusion as well as peace and security in Asia through skills development and training for young people.

9.1 Canada can help address the shortage of skilled workers in South Asia and parts of Southeast Asia while also helping governments address the potential risks associated with large, unemployed youth populations. This can be achieved through supporting provincial authorities in encouraging Canadian vocational colleges and institutions to develop programs and training in Asia. In particular, the federal government should support national institutions like Colleges and Institutes Canada and private sector companies in developing innovative education public-private partnerships with local institutions in South and Southeast Asia. These collaborations could facilitate offshore delivery of vocational training and the exchange of best practices to address labour needs.

Build Canada's Asia competence by improving Canadians' related skills and knowledge

10. Spearhead and support initiatives that help Canadians become more Asia-competent.

10.1 Foster deeper understanding and knowledge of Asia among public servants in a range of federal government departments, including Global Affairs Canada. Support the development of a course model in the Canadian School of Public Service to help train new recruits to gain comprehensive and department-relevant knowledge about Asia to help them foster relationships and build programs effectively as they relate to the region. Explore opportunities for interested new recruits to spend a portion of their careers in Asia.

10.2 In consultation with provincial ministries of education, support the Asia Pacific Foundation of Canada's work to create "Learning Asia" classroom packets, instructional materials to give students in grades 9 to 12 across Canada a foundation of knowledge about the histories, societies, economies, and political issues in Canada's priority Asian markets. The classroom packets will include basic reading and/or viewing material, as well as supplemental activities that connect learners with related real-world issues in Asia or Canada-Asia relations.

10.3 Establish funding for 1,000 Canada's Asia Challenge scholarships (C\$3,000 to C\$5,000 each) to support post-secondary learning and work experience in Asia. These scholarships, which could be combined with other sources of financial support from the private sector or the students' education institutions, should be awarded on a competitive basis to different categories of post-secondary students, and could be scaled nationally from the pilot program that the Asia Pacific Foundation of Canada is developing in BC.

10.4 Leverage the Asian language skills of recent immigrants to create Asian-language opportunities from kindergarten through post-secondary learning, and provide small grants to education institutions and community-based organizations to help start or sustain programs in strategically important Asian languages (e.g., Mandarin, Korean, Japanese, Bahasa Indonesia, Vietnamese). These programs should focus on building linguistic and cultural fluency for non-heritage learners, and professional-level language skills for heritage learners. Language buddy systems could be created at virtually all levels of the educational system to promote language acquisition and development.

10.5 Advance a domestic strategy to achieve increased transparency of foreign direct investment rules, including promoting knowledge of Canadian investment rules and practices, in order to build Canadians' trust in the process and recognition of the economic benefits of foreign investment. Findings from the Asia Pacific Foundation of Canada's 2015 National Opinion Poll, for instance, indicate that Canadians with higher levels of knowledge about federal foreign investment rules are more likely to support foreign investment by Chinese state-owned enterprises. Trust in transparent Canadian rules and practices can help address Canadians' anxieties about economic engagement with emerging Asian partners.

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