

Establishing a Foothold in Southeast Asia: Export Development Canada's Experience

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Canada is a trading nation. Rich in natural resources, innovation, and entrepreneurial spirit, Canada has always had a lot to offer the world, and Canada's economy has come to depend on what it gets in return – economic growth, wealth, investment opportunities, and jobs. For much of our history, these trading relations have been focused to the south and east, to the United States and Europe. Though this remains largely the case today, there are signs of change as new markets and significant opportunities for Canada emerge around the world.

Today, structural and sustainable growth is rooted in Asia and other emerging markets. Southeast Asia is a particularly attractive destination for Canada considering their mutual dependence on trade. The economic integration supporting the free flow of goods, services, and investment among member states of the Association of Southeast Asian Nations (ASEAN) has led to the emergence of a dynamic region with some of the fastest growing economies in the world. In 2016, four Southeast Asian countries, namely Laos, Cambodia, Myanmar, and Vietnam, were in the top 10 for economic growth.⁶⁶ In 2012, bilateral trade between Canada and ASEAN was valued at 15.8 billion. Five years later, in 2016, it reached 21.6 billion⁶⁷. Canadians are clearly recognizing the importance of closer economic relations with Asia in creating opportunities for business today and in the future.

Export Development Canada⁶⁸ (EDC), the country's export credit agency, has identified Southeast Asia as a high-priority strategic region. With rich natural resources and ASEAN's ongoing economic integration, the region's wealth of markets and opportunities are especially attractive for Canadian direct investment and trade in infrastructure, energy and clean tech, oil and gas, information and communications technology, and transportation.

EDC's approach within "Team Canada"

Canada's business community consists mostly of small-to-medium enterprises (SMEs). They comprise about 99% of Canadian businesses, account for 40% of GDP, and 55% of all jobs. Yet, of the nearly one million companies in this segment, it is estimated that only 7% tap into the potential offered by engaging with international customers and global supply chains. There are many reasons why more SMEs have not taken the step, and the top ones include: (1) lack of local knowledge, such as cultural and business practices; (2)

⁶⁶ "GDP Forecasts: The fastest shrinking and growing economies in 2016," *The Economist* (2 January 2016), <http://www.economist.com/news/economic-and-financial-indicators/21684788-fastest-shrinking-and-growing-economies-2016-gdp-forecasts>. Accessed 11 August 2017.

⁶⁷ *Trade Data Online*, Government of Canada, <http://www.ic.gc.ca/eic/site/tdo-dcd.nsf/eng/Home>.

⁶⁸ Export Development Canada, <http://www.edc.ca/en/Pages/default.aspx>.

not knowing where or how to access financing; and (3) the absence of business networks to prospect for new business, especially in emerging markets. In fact, according to EDC research, approximately 56,000 companies would go global if there was an expert advising and helping them overcome the various barriers to exporting abroad. EDC calls these “NEXTporters”. Another near 34,000 companies are “Ready to Export,” meaning that they do not currently export but plan to in the next 1-2 years.

This situation is inadequate for a trading nation trying to further diversify its markets. Canada must make it easier for companies to go abroad. According to EDC’s research, companies that export create more jobs, grow faster, are more resilient against risk, more innovative, and more sustainable than companies that do not export.⁶⁹ Most importantly, exporting companies create more jobs here at home. Therefore, it is crucial that Canada takes its international trade game to the next level in Asia, and enables more companies to go, grow, and succeed abroad. Doing that is EDC’s core mission. Doing that in Southeast Asia, a market with a population of more than 625 million people, is also EDC’s priority.

Canadian companies may have success with a handful of one-off international sales, but the real opportunities lie in the supply-chains of large multinationals. EDC helps make these connections through the number of financial relationships it has developed with international buyers over the decades. Taking the time to learn about their supply-chain needs has allowed us to develop relevant trade creation tools, which can help direct their attention towards Canadian procurement. These tools, which are called “pull transactions” and “matchmaking,” are designed to assist Canadian companies overcome the common barriers to international trade. The following sections describe the role of these two tools in helping more Canadian companies go, grow, and succeed in the region.

Creating opportunities

Just like a traditional export credit agency, EDC provides financial solutions to Canadian exporters looking to do business abroad or financing to foreign buyers of Canadian goods and services. Where EDC differs from a traditional ECA is that it finances trade creation, rather than a single finite contract.

When providing forward-looking financing, or “pull financing,” EDC looks to find an international buyer with needs that match Canadian capabilities. Once the financing is disbursed, EDC then helps set up future procurement for the foreign buyer which guarantees incremental trade flow between the two companies. In Southeast Asia, in particular, where state-owned enterprises are prominent, the role of EDC as an intermediary between a Canadian SME and the foreign buyer is even more crucial. It can be challenging for SMEs to get the kind of exposure they need to introduce their products to these large companies.

In 2016, EDC closed 12 new financing transactions with large companies in the entire region. One example is a 50-100 million loan it provided to PT Pertamina, an oil and gas

⁶⁹ “Investing Abroad to Find Global Customers,” Export Development Agency (15 August 2016), <https://edc.trade/ga-p2w1-international-operations-e/>. Accessed 11 August 2017.

company in Indonesia. Following the loan, the Trade Commissioner Service (TCS) and EDC collaboratively identified over 100 Canadian exporters that could fit into Pertamina's offshore procurement needs and a further 60 Canadian exporters in the downstream value chain. By financing a company with needs that perfectly matched Canadian companies' capabilities, the possibility of future and ongoing procurement was created. The transaction is a great example of the support provided by EDC and the Government of Canada for Canadian oil and gas companies that introduce Canadian technology and makes a foreign corporation more competitive in a truly emerging market. By 2020, the goal is to double the number of such relationships.

Leveraging EDC's financing reach

Facilitating these connections, or "matchmaking," between Canadian and Southeast Asian companies is a crucial component of EDC's role in enhancing Canadian trade and investment in Asia. In 2016, EDC created a team of 50 professionals with expertise in matchmaking, Canadian supply capabilities, and global value chains to deliver on EDC's trade creation initiatives. In collaboration with Global Affairs Canada and the Trade Commissioner Service, EDC helps corporations in ASEAN member states to reduce costs, increase efficiency, and innovate by introducing them to Canadian companies with the exact capabilities that the corporation needs or wants in a mutually beneficial partnership.

The companies are introduced during matchmaking events and missions with the goal of finding a successful match, consequently facilitating business between Southeast Asian and Canadian companies. As an example, EDC will be providing matchmaking services in four of these events across Southeast Asia in 2017. Noteworthy events are CommunicAsia 2017 in Singapore, the largest information and communications technology (ICT) show of its kind, and Offshore Technology Conference Asia, the largest oil and gas event with over 240 exhibitors. These connections, no matter how small they may seem, are enormously critical. Time and time again, these introductions have proven to be the foot in the door to a much larger opportunity between two foreign companies.

EDC's growing footprint in Southeast Asia

There is much opportunity for Canada in Southeast Asia due to their similarities. Both have an abundance of natural resources and a variety of terrains spread out over a large geographical area. Both operate in key sectors including infrastructure, energy and clean tech, oil and gas, information and communications technology, and transportation. Canada has the capabilities to provide the goods and services that are critical to Asia's needs. EDC recognizes the imperative to take advantage of this fact by expanding its footprint to enhance trade and investment in the region. It is necessary to build on-the-ground knowledge to better understand the needs of local buyers and to help identify opportunities for Canadian businesses.

EDC opened its first representation in the region in Kuala Lumpur, Malaysia in 2004. In 2007, the representation was moved to Singapore to be used as a hub to access the nine

other markets in ASEAN member states. Since then, Canadian exports facilitated by EDC have increased from CA\$888 million to CA\$2.97 billion, a 234.9% increase over 12 years. The year of 2016 marked a milestone year in EDC's history in the region and the beginning of stronger trade relations between Canada and countries in Southeast Asia.

EDC also later opened its first foreign representation in Jakarta, Indonesia, and replaced its foreign representation in Singapore with EDC's first global financing branch outside of Canada in a standalone office situated outside of the Canadian High-Commission. This wholly-owned branch allows EDC to be fully operational in business transactions in Asia, whereas foreign representations were solely used for prospecting and relationship management.

EDC's branch in Singapore: Giving Canadian companies a leg up

EDC's new presence in Singapore, a logistics and financial hub for China, India, Japan ASEAN member states, and Australia now enables EDC to conduct its business development and underwriting operations locally, bringing it closer to the foreign buyers of Canadian goods and services and Canadian exporters across all of Asia.

In the past, EDC's representatives identified potential business opportunities for Canadian exporters and transferred them to the financing team in Ottawa to underwrite the deals. This translated into slower turnaround time in processing transactions and less impactful engagement with Canadian exporters and their foreign buyers. Now, with minor time differences or travel constraints, EDC can facilitate more business for Canadian and Southeast Asian companies, and take the time to better leverage promising markets in the region. Essentially, EDC has created a beachhead for Canadian companies looking to expand to Asia, provided that they are willing to leverage the existing and future opportunities this development represents.

The new Singapore branch is expected to play an important role in doubling EDC's financing by 2021, when it hopes to be providing over US\$4 billion in new commercial financing annually. Essentially, EDC's new office in Singapore allows Asian and Canadian companies to do business their way, in their currency, in their time zone. This provides Canada with a new tool to lever access to Asian markets for Canadian suppliers and investors, particularly SMEs.

Implications for Canada

With a complex and constantly changing trade environment, EDC has an important role to play in enhancing Canada trade and investment in Southeast Asia. Through increasing targets for trade creation, matchmaking events as well as the opening of a new standalone financing branch in Singapore, EDC has proven its commitment to advancing the Government of Canada's objective to strengthen its trade relations with Asia. Indeed, in 2016, EDC supported 52.4% of all Canadian exports to Southeast Asia. By virtue of its increased presence and capabilities in the region, EDC is in an even better position to keep

creating new business opportunities for these trading nations going forward.

Of course, Canada's success as a trading nation has never relied solely on EDC. The dynamism of Canadian companies, the risk appetite of Canadian banks and insurers, federal and provincial regulations and tax regimes, all have an impact on Canada's appetite and ability to trade. With this in mind, ensuring Canada's continued success on the world stage for the next 150 years will naturally take more than just EDC's efforts. It will take a combined effort of government, industry associations, banks, lawyers, and many others. It will require companies to come together, share ideas and experiences, and find common ground and opportunities to cooperate. In other words, it will take a "Team Canada" approach, with all players working together to create the dynamic energy on which success is built.