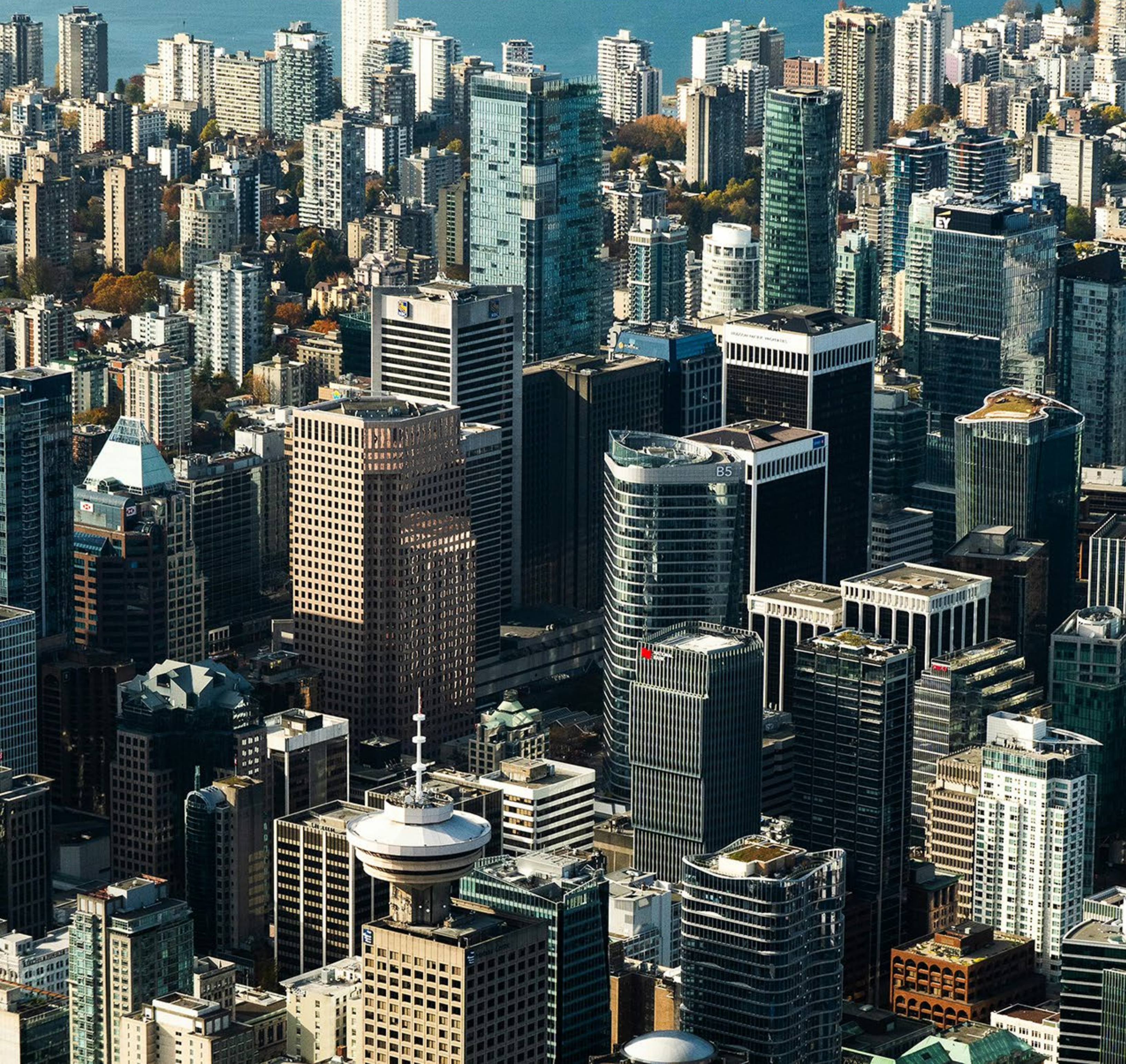
SUMMARY REPORT

ASIA BUSINESS LEADERS ADVISORY COUNCIL

CONSEIL CONSULTATIF DES CHEFS D’ENTREPRISE SUR L’ASIE

2024



Business Resilience and Partnerships in an Increasingly Turbulent World

PRESENTING PARTNERS

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EXECUTIVE SUMMARY

The Asia Business Leaders Advisory Council (ABLAC) held its seventh annual meeting on March 25-26, 2024, in Vancouver, the Asia Pacific Foundation of Canada's (APF Canada) home city and Canada's Gateway to the Pacific. This was the first in-person meeting held in Canada since 2018. With the Government of Canada almost two years into the implementation of its Indo-Pacific Strategy at the time of this meeting, and amid a backdrop of increasing geopolitical uncertainty, targeted and strategic business engagement with the Indo-Pacific region is more important than ever. The 2024 meeting offered an opportunity for ABLAC to recommend specific next steps for the further strengthening of Canada-Asia business engagement and build on the successful 2023 convening of the Council on the margins of the first Canada-in-Asia Conference in Singapore.

The theme for this year's Council meeting was *Adapting to Uncertainty: Business Resilience and Partnerships in an Increasingly Turbulent World*, reflecting the changing nature of business risk both from rising global geopolitical tensions and sectoral trends in areas such as artificial intelligence. ABLAC members and special guests were invited to participate in discussions addressing the challenges and opportunities for Canada's engagement in the region.

The meeting's first session, *Navigating Rough Waters: Geopolitical Shifts in the Indo-Pacific and North America*, explored the trends and possible hazards resulting from an increasingly competitive and multipolar world, which is felt acutely in the Indo-Pacific. With economic considerations increasingly viewed through the lens of national security, there is an increasing likelihood of a resurgence in protectionist measures, economic siloing, and outright conflict. The second session, *The Sustainability Imperative: Consumer Demands, Regulatory Pressures, and Economic Realities*, examined the generational investment opportunities emanating from sustainability and the energy transition in the Indo-Pacific, while also recognizing that this is a highly competitive space requiring fast and flexible business engagement and government policy support. Canada is well positioned to partner with Asia in supplying solutions, assuming businesses and policymakers properly identify the demand signals coming from the region, while also benefiting from the import of technology from the region to accelerate Canada's own transition. The third session, *Charting the Future: Business Strategies for Harnessing AI and Addressing the Governance Gap*, delved into the disruptions and opportunities of AI for business and society and Canada's position as a global leader in talent concentration, research and adoption of AI technologies. The three sessions together generated several recommendations detailed in this summary report.

> **". . . Canada must engage the Indo-Pacific with a renewed sense of pragmatism and realism, which has too often come into conflict with cumbersome policy and regulatory hurdles."**

A key takeaway repeated throughout the meeting, held under Chatham House Rule, was that Canada must engage the Indo-Pacific with a renewed sense of pragmatism and realism, which has too often come into conflict with cumbersome policy and regulatory hurdles. The Council sounded a warning over Canada's lagging growth and productivity — according to the OECD, Canada is expected to be the worst-performing economy among its 38 members in GDP growth per capita over the next 40 years. The members used Canada's approach to liquefied natural gas (LNG) to epitomize this problem, though the sentiment around pragmatism was repeated in reference to several other policy areas during all three sessions.

The Opening Plenary Session included an address from The Hon. Jagrup Brar, British Columbia's Minister of State for Trade at the time of the meeting, along with a recorded message from British Columbia Premier David Eby and a welcome on behalf of the federal government from Member of Parliament Francesco Sorbara. Minister Brar spoke of how the government of British Columbia is fully aligned with the priorities of the federal government's Indo-Pacific Strategy, having released its own B.C. Trade Diversification Strategy in March 2023, opening two more representative offices in Vietnam and Taiwan for a total of 15 offices across the Asia Pacific, and sending trade missions to Japan, South Korea, Singapore, and Vietnam over the past year. B.C.'s strategy is focused on two objectives: creating trade and investment opportunities in new and existing markets and increasing the number of people participating in the export market.

ABLAC Members and guests were also invited to a luncheon panel conversation between Sukesh Kumar, Board Chair of the Canada-India Business Council, and John Harriss, Professor Emeritus at Simon Fraser University, on India's current political and economic climate. The panel, moderated by APF Canada's Vice-President Research & Strategy, Vina Nadjibulla, discussed the Indian election taking place between April and June 2024, the implications of a third Modi term versus a change in government, India's commercial potential and its role as an alternative to China, and the future of Canada-India relations.

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OVERVIEW OF THEMATIC SESSIONS & RECOMMENDATIONS

SESSION 1

NAVIGATING ROUGH WATERS: GEOPOLITICAL SHIFTS IN THE INDO-PACIFIC AND NORTH AMERICA

This session focused on the most pressing current geopolitical considerations in the Indo-Pacific and their impacts as geopolitical turbulence amplifies political and business uncertainty. Three features were highlighted: the rise in geopolitical competition and the growing trend toward multipolarity, the resurgence of national security concerns in trade and economics, and the rise of populism, discontent, and distrust within many states around the world, including former champions of free and open trade. These developments are helping to usher in a new wave of protectionism, industrial policy revival, and trade fragmentation, ostensibly to protect vulnerable supply chains and important national industries and interests. While there are risks for Canadian businesses in this environment, there are also opportunities created by 'de-risking' and 'friendshoring' trends, which could herald profound growth for the North American regional market. To take full advantage of this, Canada must address its productivity decline, improve Canadian attractiveness for foreign investors, and engage partners in the Indo-Pacific with a renewed sense of pragmatism.

Recent geopolitical trends are affecting the business environment

The Council discussed several significant geopolitical shifts affecting the Indo-Pacific and their impact on the business environment. Adding complexity to the ongoing competition between the U.S. and China is the rise of regional powers, such as India, Brazil, Turkey, and Indonesia, that are increasingly influential and often act as geopolitical 'swing states.' These 'swing states' tend not to be aligned with any single traditional power bloc but rather seek to maximize agency and strategic autonomy, resulting in a geopolitical environment still dominated by U.S.-China competition, but with an emerging, though uneven, multipolarity where material resources, wealth, and influence are increasingly dispersed among states. The subsequent uncertainty created by these changing global power dynamics has been particularly acute in the Indo-Pacific and is contributing greatly to the revival of national security considerations as a central feature within the economic sphere. States increasingly view supply chains, trade, and business through the lens of security and national interest, which is supplanting the previous paradigm built around globalization and greater regionalization in trade. Meanwhile, these external factors are coinciding with the growing ascendancy of populism and discontent in countries traditionally supportive of freer trade to compound the shift towards greater state intervention and protectionism in support of domestic considerations.

> **". . . 81 per cent of respondents said geopolitically-charged government policies had hurt their business and 65 per cent of respondents said export controls and sanctions were disrupting supply chains."**

Businesses in Canada and Asia are feeling the pressure of these developments. A 2024 Reuters report on market trends in select Asian markets (China, Taiwan, Japan, and Southeast Asia) found that 81 per cent of respondents said geopolitically-charged government policies had hurt their business, and 65 per cent of respondents said export controls and sanctions were disrupting supply chains. This trend is likely to continue, and businesses may be confronted with tariff and non-tariff trade barriers, as countries attempt to favour their domestic companies in selected industries over foreign competitors on national resilience or security grounds. For example, under the Biden administration, the U.S. announced an increase in tariffs on several Chinese imports, including semiconductors, and steel products, and a 100 per cent tariff on electric vehicles (EVs). U.S. President-elect Donald Trump has also spoken about an across-the-board tariff of 10 per cent on all goods entering the U.S., ostensibly to protect American jobs. The resurgence in security concerns, protectionist industrial and trade policies, and trade fragmentation is translating into business concerns around supply chain resilience, de-risking, export and import controls, market access, and more.

Actions by the U.S. and China to reduce their economic interdependence are of particular concern for Canadian and Asian businesses that are rightly worried about being caught in the 'policy crossfire,' or pressured to take sides in any sectoral 'decoupling' processes. Limits in access to either of these two lucrative markets for businesses will undoubtedly impact revenue and growth. For example, with Trump's re-election, the scheduled review of the Canada-United States-Mexico Agreement (CUSMA) in 2026 is in renewed focus. Problems in addressing issues such as the trans-shipment of Chinese goods — particularly from the auto sector — through Mexico meant to bypass tariffs imposed by the U.S. and Canada could complicate North American trade relations for Canada. Canada could also be affected by retaliatory Chinese measures against the U.S. by virtue of China's integration into the North American market.

Members nonetheless affirmed their belief in maintaining a pragmatic and balanced approach towards the two large and influential economies with which Canada has strained relations (China and India), one that accounts for Canada's national interests and security but also seeks to encourage a productive and mutually beneficial economic relationship. In the case of China, ABLAC Members agreed that labelling that country as an "enemy" or "adversary" is unproductive and sends the wrong signal to both Canadian and Chinese businesses about the commercial relationship Canada wants to pursue. Members agreed that the Canadian business community has deep and longtime roots in China that it should not abandon. Participants also noted that the business environment in China is improving and that despite slowing growth and foreign direct investment being at an ebb, there are still tremendous business opportunities. China's GDP is still forecast to increase by 5 per cent in 2024 and 4.5 per cent in 2025, a considerable expansion given the size of the Chinese economy. India, meanwhile, was the second-largest recipient of Canadian foreign direct investment into the Indo-Pacific between 2019-23 and continues to have productive commercial relations with Canadian businesses despite the current political tensions. Canadian pension funds have been particularly eager investors in the country and have significantly increased their portfolio share in India, which now accounts for 25 per cent of all flows into the region. India remains an attractive market due to its long-term growth forecast and domestic policies meant to attract investment in infrastructure and renewable energy projects — key investment sectors for Canada's pension funds.

Nonetheless, the precarious relationships with China and India should serve to elevate the importance of Southeast Asia and the Association of Southeast Asian Nations (ASEAN) for Canadian business and provide a reminder to continue nurturing existing successful economic relations with the mature economies of Japan and South Korea. With a relatively youthful and growing population of more than 650 million people and a combined GDP of US$3.5 trillion, ASEAN represents one of the fastest-growing regions in the world, with the Asian Development Bank forecasting 4.6 per cent growth in 2024 and 4.7 per cent in 2025. Its location at the strategic crossroads of the Indo-Pacific adds another dimension of interest for Canadian policymakers. Canadian government engagement with ASEAN has enjoyed a resurgence over the past several years, punctuated by the release of Canada's Indo-Pacific Strategy in 2022. In 2021, Canada launched negotiations on a free trade agreement (FTA) with ASEAN, and in 2023, the two sides upgraded ties by establishing the ASEAN-Canada Strategic Partnership. In 2024, Canada also concluded successful negotiations for a Comprehensive Economic Partnership Agreement (CEPA) with Indonesia, ASEAN's largest economy. Business engagement has also seen a significant boost, with merchandise trade increasing from C$25.1 billion in 2018 to C$40.7 billion in 2022.

The link to North America

The deteriorating geopolitical environment, and events such as the COVID-19 pandemic, the U.S.-China trade war, and maritime insecurity in the Red Sea, have exposed the fragility of many globally distributed critical supply chains. The Council spoke of the resulting opportunities for Canada to benefit from de-risking trends and to be a supplier of choice for energy and resources for Asian partners like Japan and South Korea. On the North American continent, members discussed the prospects of integrating Canada into supply chains for critical industries as friendshoring takes place, and the possibility of capitalizing on improved sentiment and increased investment into North American industry that could herald profound growth for the continent. The U.S. and Canada have recently begun co-investing in critical mineral projects in Canada, a sector with considerable potential to attract capital. Meanwhile, the U.S. Infrastructure Investment and Jobs Act (IIJA), Inflation Reduction Act (IRA), and the CHIPS and Science Act have resulted in the highest investment in U.S. manufacturing facilities since the 1950s, while factory construction spending doubled from US$90 billion in June 2022 to US$190 billion in April 2023. Factoring in other elements, such as a shrinking labour cost advantage for China (Mexican manufacturing labour is now often cheaper), there are considerable tailwinds for investment into North American industry.

ABLAC Members issued a stark warning over Canada's slowing competitiveness and productivity at home, which ties directly into our ability to attract investment from the Indo-Pacific and be seen as a trusted trade partner. Members spoke of the challenges emanating from an uncompetitive, complex regulatory environment that ignores the time-value of money, fails to deliver certainty and timeliness in permitting processes for critical infrastructure and large projects, and takes a punitive approach to regulation generally. For example, the OECD's FDI Regulatory Restrictiveness Index ranked Canada last among the G7 in restrictiveness. Furthermore, completed major projects in the energy and resource sector were down 37 per cent between 2015 (88 projects) and 2023 (56 projects), and Canada produces fewer critical minerals than it did in 2018, while the interval from discovery to production for new mines now sits at 18 years. Even the federal government's Electricity Advisory Council sounded the alarm that Canada may jeopardize its net-zero goals and fail to meet the domestic demand for clean electricity in a timely manner "without systemic reform of the tangle of current approval processes." Other issues, such as interprovincial trade barriers and chokepoints at Canada's ports, are also delaying trade. Canada is now ranked 103rd out of 113 countries tracked by the World Bank in 2023 on turnaround time for ships at port. Improving competitiveness and reducing the regulatory burden are crucial steps to attract global capital and position Canada as a secure and trusted trading partner for the Indo-Pacific.

The Council also noted the resurgence in industrial policies among major economies as geopolitical competition has increased. Members discussed the role of industrial policy within Canada, especially in nurturing technologically advanced and strategically important industries where a 'free market' dynamic may not effectively address national security, resilience, or technological primacy imperatives. China's early implementation of the Made in China 2025 plan and its activist industrial policy have been very effective in building a dominant EV sector, for example. The more recent U.S. IRA, CHIPS and Science Act, and the European Union's "European Green Deal" are not only responses to China's policies but an acknowledgement that EU economies intend to leverage state power and resources to ensure a dominant position in industries of the future, such as semiconductors or cleantech, and tackle challenges like climate change. Economies in the Indo-Pacific have also been motivated in this direction. Indonesia is using industrial policy to become a global leader up and down the nickel value chain, and Malaysia recently introduced its New Industrial Master Plan (NIMP) 2030 to boost manufacturing and "high-value innovation-driven" activities. There may be lessons Canada can take from examples abroad, but several members warned against the federal government's poor track record in picking winners and losers and the need to leave room for the market to determine that organically. Members agreed that any use of industrial policy should be targeted and have clear objectives.

Taking action:

1. **Maintaining a balanced approach to China and India**

   Despite the troubles in the bilateral relationships, China and India remain important markets with considerable opportunities that businesses should not discount. Canada should seek to engage both economies in a way that accounts for Canada's national interests and security while continuing a productive and mutually beneficial economic relationship.

2. **Strong national focus on improving Canadian competitiveness and productivity**

   Addressing Canada's productivity decline and improving competitiveness are fundamental to attracting investment into Canada from domestic and foreign companies. Onerous regulation, permit-issuing time and costs for large infrastructure projects, interprovincial trade barriers, and other issues are major drags on productivity that need to be addressed.

3. **Capitalize on near-shoring and friendshoring trends to integrate Canada into critical supply chains**

   Canada's integration into CUSMA and the North American market presents opportunities to benefit from 'friendshoring,' supply chain de-risking, and investment in production within the continent. In areas such as the sourcing of critical minerals or production of domestic EVs, Canada is already benefiting from these trends. Meanwhile, partners in Asia, such as Japan and South Korea, have shown renewed interest in Canada in order to de-risk their material, energy, or production supply chains.

4. **Determine if, and where, there is a role for targeted industrial policy within the Canadian economy**

   Members spoke of the resurgence of industrial policies in many major economies and whether Canada should take lessons from this trend. Industrial policy could be deployed to nurture or drive scale in strategic industries where free market dynamics may not effectively address national security, resilience, or technological primacy imperatives. Industrial policy should be targeted, have clear objectives, aim to enhance productivity in the overall economy, and avoid picking winners and losers.

SESSION 2

THE SUSTAINABILITY IMPERATIVE: CONSUMER DEMANDS, REGULATORY PRESSURES, AND ECONOMIC REALITIES

This session's objective was to discuss the sustainability factor in Canada's economic engagement in Asia. ABLAC Members exchanged their views and discussed the opportunities and challenges that focusing on sustainability presents for businesses in the Indo-Pacific region.

Sustainability is an opportunity to be seized

ABLAC Members agreed that sustainability and the energy transition represent the biggest economic opportunity in a generation. Focusing on sustainability as a major economic pillar in Canada's relations with the Indo-Pacific is not only important for ensuring long-term business success, protecting the environment, and achieving global emissions reduction targets, but it is also an issue that states around the world can co-operate on amid a background of increased geopolitical tensions. The Indo-Pacific is home to some of the world's largest and fastest-growing markets and their transition to lower-carbon economies will unlock substantial economic opportunities in which Canadian and Asian businesses are well placed to collaborate. Whether through the provision of transitional fuels, the development and deployment of clean technologies, or adherence to high economic, social, and governance (ESG) standards, Canada possesses a distinct advantage in offering solutions to sustainability and climate challenges in Asia.

> **"The Indo-Pacific is home to some of the world's largest and fastest-growing markets and their transition to lower-carbon economies will unlock substantial economic opportunities . . . "**

Challenges and Opportunities

Sustainability is increasingly a factor in consumer decision-making across economies in the Indo-Pacific, though there remains a high degree of variability in buy-in among economies depending on their level of development and consequent priorities. Council Members in the retail and food sector highlighted that in much of the region there is still a stronger focus on product quality or food safety, compared to sustainability, which is more typical of consumer preferences in North America or Europe. However, at a corporate level, ESG standards are gradually becoming a condition of participation for businesses wishing to operate in the Indo-Pacific. In jurisdictions as varied as China, India, Singapore, and Japan, there have been significant efforts by regulators to enhance the adoption of global ESG standards through mandatory disclosure, especially for larger commercial entities. Canada's early adoption of domestic standards for transparency, accountability, and adherence to ESG requirements means Canadian businesses are well positioned for any further tightening of regulations in the Indo-Pacific. Canadian businesses could also enjoy a relative advantage from any future pressure from consumers or regulators in the Indo-Pacific to prioritize sustainability in product packaging, production, or transportation.

Opportunities for Canada also exist in the deployment of clean technologies, which remain one of the most important levers to decarbonize, transition away from fossil fuels, and develop new green businesses. Members spoke of promising domestic clean technology across the mining, forestry, and energy sectors but bemoaned the slow regulatory grind within Canada and a preference for policy incrementalism over dynamism that hinders the quick adoption of new technologies. The business environment in Asia around sustainability is increasingly competitive and complex, and Canadian companies, especially SMEs, need to be adequately supported if they are to succeed in the Indo-Pacific. ABLAC Members explained, for example, that the difficulties faced by companies in the renewables sector could be alleviated by a more co-ordinated and targeted industrial policy towards renewables with clearly identified goals and matching public investment to bring the vision to reality. Canada's 2023 budget, “A Made-In-Canada Plan,” included elements of industrial policy for the renewables sector but lacked the comprehensiveness of the U.S. Inflation Reduction Act or the EU’s Green Deal.

Council Members emphasized that harnessing expertise and applying cutting-edge clean technology should be viewed as a reciprocal opportunity — not only for Canada to export to the Indo-Pacific, but also for Canada to adopt from the region. Members noted, for example, the quality of solar panels and EV battery technology from companies such as LONGi and CATL, or the expertise among companies such as Tianqi Lithium or Ganfeng Lithium in the processing of lithium, a key material in the clean energy transition and an industry that the Canadian government is looking to develop further, according to its Critical Minerals Strategy. In 2023, Asia accounted for about half of global CO2 emissions but also 69 per cent of global renewable deployment, with China accounting for 63 per cent due to the increasing competitiveness of solar and wind compared to traditional power generation from coal and gas. A pragmatic approach by Canada would acknowledge the economic and innovative benefits of commercial partnerships to bring technology and expertise from the region back to Canada while balancing Canada’s national security and interests.

The message of pragmatism extended to LNG as a transitional fuel, where the Council reminded Canada of the need to listen to regional interests and demand signals in an unbiased manner. LNG is needed in various countries in the region to help them de-risk their energy supply or transition away from coal for energy production. As LNG produces fewer greenhouse gas emissions compared to traditional fossil fuels such as coal, using LNG can help countries reduce their carbon footprint and meet emission reduction targets. While moving towards fully renewable energy production remains the long-term goal, green technology cannot yet be fully deployed at scale or cover the energy needs of many developing economies. Helping countries in the Indo-Pacific to transition out of burning coal would have a significant impact on carbon emissions reduction. For example, the Indian government recently announced plans to double its coal production by 2030 to meet future energy needs. A report released by the National Bank of Canada found that if India’s increase in coal production was replaced with Canadian LNG, it would “prevent a cumulative 2.5 billion tonnes of CO2 from being released into the atmosphere by 2030, more than 3.5 times Canada’s total 2021 GHG emissions profile of 0.7 billion tonnes.”

The Council highlighted two other areas for improvement domestically. The first was further investigation into how best to develop Canada’s mid-stream processing capacities for critical minerals needed in the clean energy transition. This is a portion of the supply chain that, for many materials, is dominated by countries in Asia, particularly China, and is vulnerable to disruption.

The second was enhancing Canada’s carbon offset markets, at the national and subnational levels, to help decarbonize heavy industries. The current system is siloed by province and does not allow for credits generated in one jurisdiction to be traded in others — a feature that ultimately hinders decarbonization efforts and may discourage business investment in Canada. A company with operations in two provinces should ideally be able to use its credits from British Columbia to offset emissions and remain compliant in Quebec, for example. Fixing this flaw would help strengthen the utility and reputation of Canada’s domestic carbon credit system.

Taking action:

1. **Encourage business partnerships that deploy cutting-edge technology from Asia in Canada**

   The opportunity for technological exchange in sustainability is a two-way street. Innovations in solar panels, EVs, lithium mining, and a host of other technologies are being developed in many economies in Asia. A pragmatic approach by Canada would acknowledge the economic and innovative benefits of commercial partnerships to bring technology and expertise from the region back to Canada while balancing Canada's national security and interests.

2. **Promote Canadian LNG as a secure transitional energy supply for Indo-Pacific partners**

   Canadian LNG can help various states in the Indo-Pacific de-risk their energy supply and transition away from dirtier fossil fuels. Canada must take a pragmatic approach to supplying LNG to the Indo-Pacific, recognizing the significant transitional role that LNG can play in the region's energy mix and emissions reduction goals, and the fact that Canadian partners in the region are actively seeking a greater role for Canadian LNG to meet their energy security needs.

3. **Increase processing and refining capacity of critical minerals in Canada**

   Currently, refining capacity is dominated by China and presents a significant point of potential future disruption. Canada should determine the best way to increase processing and refining capacity domestically especially for minerals critical for the energy transition, such as rare earth elements, lithium, cobalt, nickel, and others.

4. **Address inefficiencies in the Canadian carbon credit system**

   Canada's carbon credit system must address inefficiencies to make it more user-friendly to businesses. Siloed provincial carbon credit markets and the inability to offset carbon credits across different provinces are hindrances to business efficiency and to the carbon credit systems' objective of reducing emissions.

SESSION 3

CHARTING THE FUTURE: BUSINESS STRATEGIES FOR HARNESSING AI AND ADDRESSING THE GOVERNANCE GAP

Artificial intelligence (AI) holds the prospect of generating a new wave of innovation and productivity if it can be properly utilized by the private and public sectors. While Canada is currently a leader in AI research and development, the Council agreed it is somewhat of a laggard in adoption and deployment. Canadian businesses have struggled to reap the full benefits of the technology, especially those of generative AI, to boost their productivity and growth. ABLAC Members discussed the importance of companies integrating AI in their activities, engaging in AI governance and regulatory issues, and anticipating the disruptions the technology will bring to the business world.

Retaining Canada's AI Advantage in Research and Development

ABLAC Members discussed how Canada has thus far enjoyed material advantages in research and development of AI against competitors, stemming from a relatively deep pool of talent, a healthy and comprehensive ecosystem of private and public capacity-building supports, and a considerable concentration of top researchers, especially within Canada's National AI Institutes — Mila in Quebec, the Vector Institute in Ontario, and Amii in Alberta. According to the Canadian Institute for Advanced Research (CIFAR), Canada hosts 10 per cent of the world's most elite (top 0.5 per cent) researchers in the industry, and led the G7 in the number of AI research publications per capita in 2022-23. The country also boasts the world's first national AI strategy — the Pan-Canadian Artificial Intelligence Strategy — and two technology superclusters, Scale AI and DIGITAL, that offer funding and support to promising AI projects. Canada is home to several prominent individuals and pioneers in the space, including Yoshua Bengio, one of Canada's "Godfathers of AI," who is currently leading the development of the International AI Safety Report. Canada's reputation as a hub of talent and high-quality research is itself a reinforcing mechanism to attract others, but the global competition for talent is fierce, and Canada's position should not be taken for granted.

To retain its top researchers, the public and private sectors need to continue investing to support their work. Two crucial components are 'compute power' and access to large quantities of data, which researchers require to develop and train large language models used in AI. ABLAC members worry that failure to keep up with other countries in these domains will erode Canada's position in the international "AI race."

On compute infrastructure, Canada faces a significant deficit and lags all our G7 peers. Per capita, the U.S. has 11 times more compute power than Canada, Japan has eight times more, and Italy has six times more. Adjusting for economic size produces the same disproportionate results. ABLAC Members called on federal and provincial governments to invest significantly to make sure that companies and research centres have the compute power needed to stay at the forefront of global research and training on AI. [Note: It was timely and welcome news when, just two weeks after ABLAC 2024, the federal government announced C$2.4 billion in measures to 'secure Canada's AI advantage,' with C$2 billion earmarked for improving computing capabilities and the technological infrastructure gap. This is a significant step towards addressing the issue and must be part of a long-term strategy to continuously expand and improve this infrastructure.] The need for advanced computing power will only grow as AI scientists develop more powerful AI systems, and it is imperative that Canada can compete with other jurisdictions looking to attract AI talent.

Data is the other crucial element of the AI economy. In today's world, large amounts of data can travel around the globe almost instantaneously, at virtually no cost, and would otherwise flow across borders freely, barring any government restrictions. This free flow of data across borders is crucial for AI researchers for the development and testing of large-scale AI systems. Some of Canada's most recent trade deals, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Canada-United States-Mexico Agreement (CUSMA), both include provisions for the free flow of data. However, the United States withdrew digital trade demands at the WTO in 2023 that would guard against any prohibition on cross-border data flows and data localization rules. This may signal a shift in future policy that could differ from what is currently contained in CUSMA. With a growing number of countries restricting cross-border data flows or enacting 'data-localization' policies, it is important that Canada remain a defender of the free flow of data whenever possible, while addressing legitimate data-related concerns around privacy or cybersecurity.

Embracing AI to Drive Productivity and Innovation

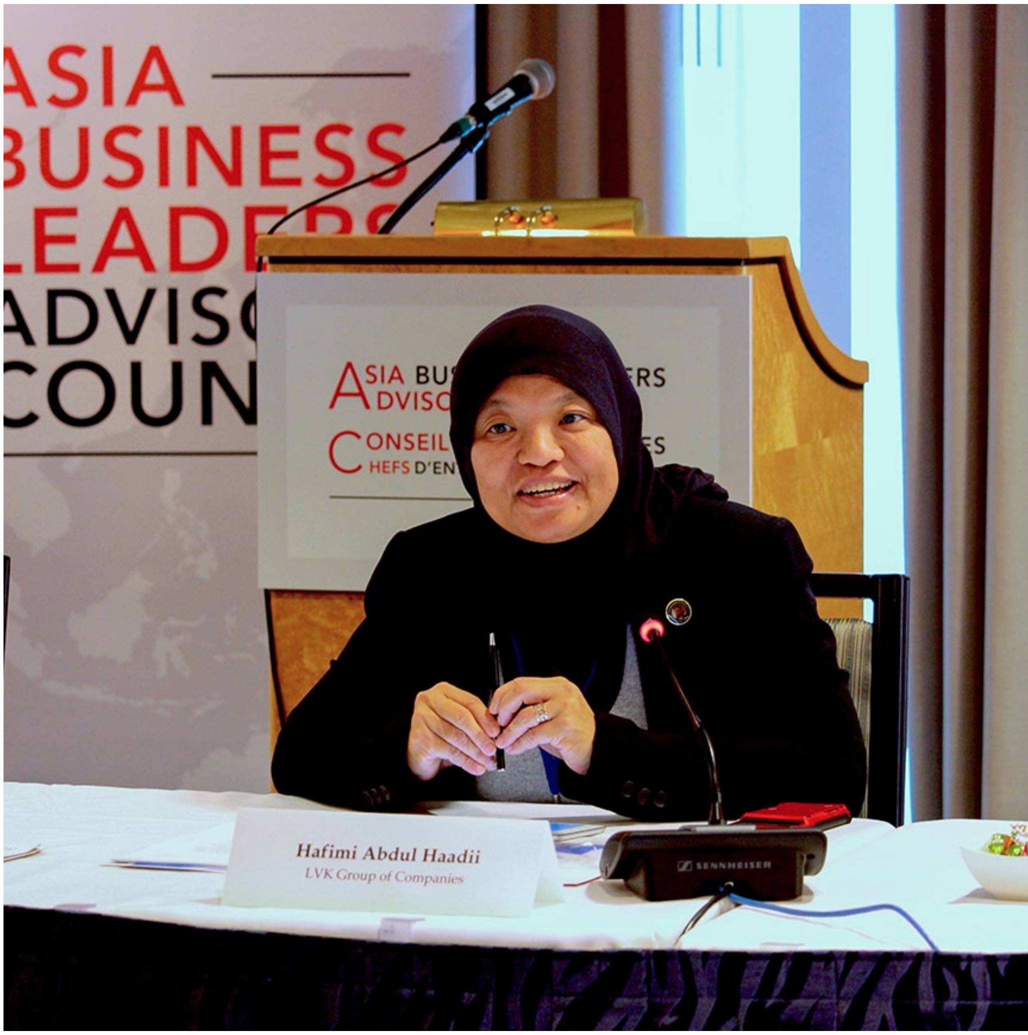
AI technologies, including generative AI, can significantly increase economic productivity once deployed and adopted at scale. A 2023 Boston Consulting Group study found that employees using generative AI were significantly more productive (completing 12.2 per cent more tasks on average, and completing tasks 25.1 per cent faster) and produced 40 per cent higher-quality results compared to those who did not. ABLAC Members cautioned that the cost of not adopting AI will be huge and that over the long term, the productivity gap between businesses that adopt AI technologies and those that are slow in adopting them will widen considerably. This is particularly important given Canada's slowing productivity against its peers in the G7 and OECD.

> "... employees using generative AI were significantly more productive (completing 12.2 per cent more tasks on average, and completing tasks 25.1 per cent faster) and produced 40 per cent higher-quality results compared to those who did not."

Unfortunately, despite Canada's vibrant research and development ecosystem around AI, Canadian businesses have been slow to integrate AI, generative AI, and their associated tools, into their operations. ABLAC Members pointed to a recent KPMG report that showed only 35 per cent of Canadian businesses say they are currently using AI versus 72 per cent in the U.S., and only 37 per cent of businesses in Canada are looking at how to leverage new generative AI technology in their businesses, compared to 65 per cent in the U.S. Meanwhile Statistics Canada reported that only one in seven Canadian businesses was already using or had plans to use generative AI. Comparing Canada with other members of the Asia-Pacific Economic Cooperation (APEC) grouping on AI readiness, Canada is ranked in the middle of the pack.

The Council noted that the major barriers to increased business adoption of AI are trust, cost, familiarity, and training — a sentiment echoed by the Canadian Chamber of Commerce. ABLAC Members agreed that every Canadian business should proactively plan for how to experiment with, and incorporate, AI in their operations. AI pilot projects, employee upskilling and resources, and talent acquisition were common recommendations for addressing the familiarity and training gaps within businesses. Businesses will also have a role in cultivating trust as one of the primary roadblocks to familiarity and training with AI tools is public concern over the responsible and safe use of the technology.

Cost and capacity issues of incorporating AI into operations will vary by sector and business size, though they are challenges more commonly faced by SMEs. Smaller businesses, however, could benefit from generative AI, a tool that is quite accessible and where the barriers to entry are low. Meanwhile, larger Canadian corporate players in professional and financial services, manufacturing, and primary industries possess an incredible amount of legacy institutional or proprietary data that could be leveraged to build and train tailored AI systems for smaller partners in the AI value chain. Canada also has a strong foundation from which to further leverage AI in a number of traditional and emerging industries, including customer support services, humanoid robotics, and health data. For example, Canada's comprehensive health data sets coupled with a diverse population presents Canada with a unique opportunity to create high-quality, large-scale health genomic resources for research. AI tools can supercharge the analysis of these genomic data sets for improved health outcomes for Canadians and others around the world.



The public sector, which employs one-fifth of all Canadians, would also benefit tremendously from AI adoption, including in health care and public education, which are 50 per cent and 70 per cent less productive than in the U.S., respectively. The Royal Bank of Canada puts government adoption at 0.3 per cent.

ABLAC Members discussed how significant growth capital and public investment will be needed to help companies continue innovating and growing in place in Canada and to allow them to reach markets around the world. They also agreed on the massive productivity and innovative benefits of AI, and that many companies and sectors do not yet realize its transformative potential and the speed at which it will permeate the economy. The impetus now is to clearly demonstrate its benefits and urge governments and businesses to start experimenting with AI as soon as possible.

Taking Action:

1. **Canadian businesses should experiment with AI pilot programs and invest in training to boost AI adoption and deployment**

   Training and education will familiarize people with AI and increase its adoption speed, which is critical to increasing productivity and profit. Businesses and government can experiment with AI pilot programs and provide information and resources to help Canadians navigate the social changes brought by AI, reduce the fear of new technology, and increase open-mindedness about the new types of jobs and opportunities.

2. **Canada should resist trade barriers to cross-border data flows**

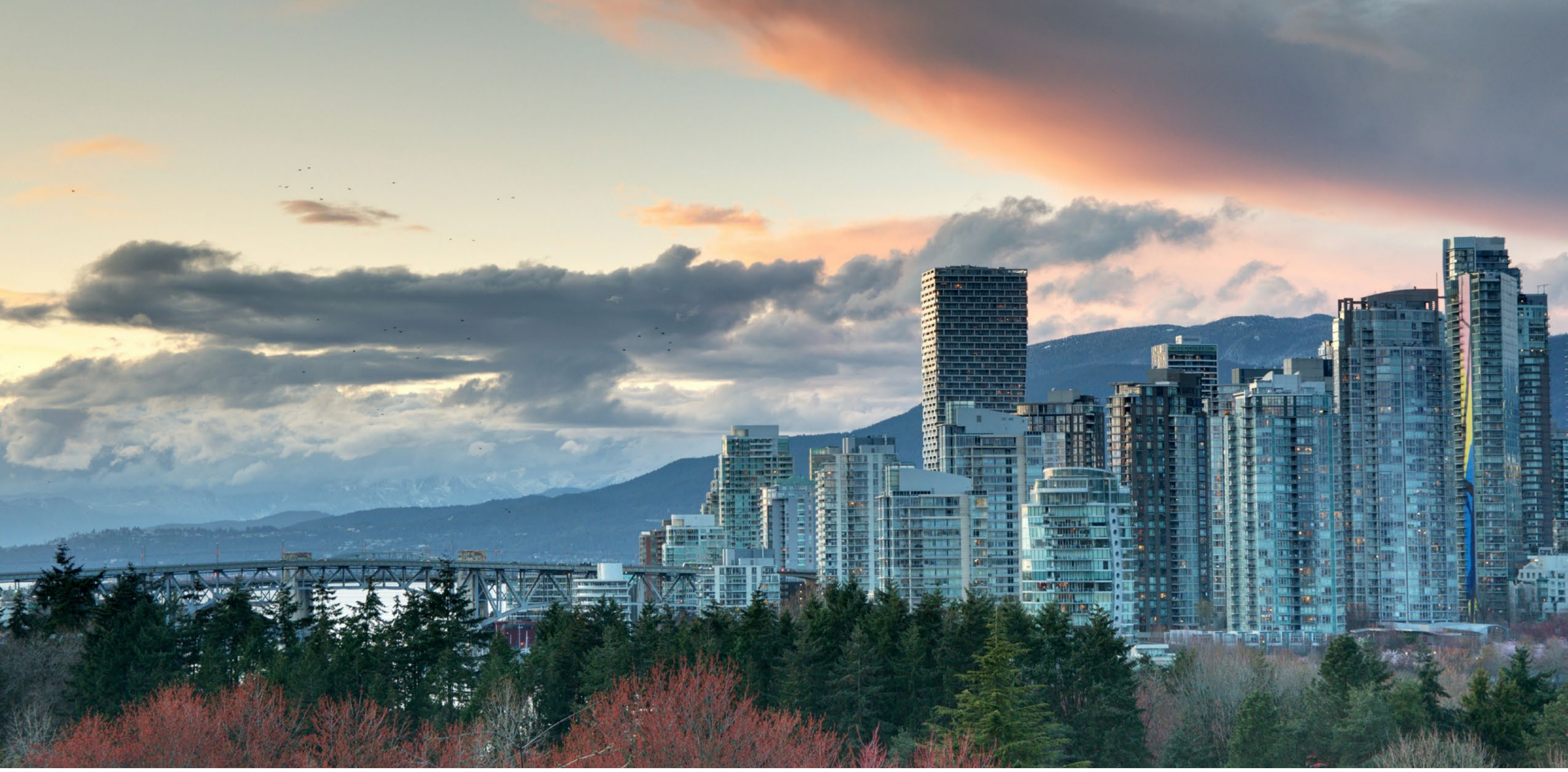
   Cross-border data flows allow Canada to access a larger critical mass of data sets that would otherwise be difficult to reproduce in less populous countries like Canada. Access to data is crucial for research and development in AI. Canada must continue to be a defender of open and responsible cross-border data flows and resist attempts by partner countries to institute onerous data-localization laws.

3. **Continue investments in computing capabilities and infrastructure to support the Canadian AI ecosystem**

   Large amounts of compute power are critical for research and development of AI systems. Canada's compute infrastructure lags its peers in the G7, many of whom are direct competitors for global AI talent. To remain at the cutting edge of research and development in AI, and to retain and attract global talent, Canada must employ a long-term strategy, with the requisite investment, to close this infrastructure gap and remain competitive.

4. **Leverage AI in areas of Canadian strength, such as health data**

   Canada should leverage AI in areas where it has a strong foundation for further innovation. For example, Canada has one of the best health-system databases, with a diverse population and genomic data that could benefit immensely from the application of AI analysis to improve global health outcomes.



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