SUMMARY REPORT

Economic Security: The Future of Canadian Trade and Investment with Asia

ASIA PACIFIC FOUNDATION OF CANADA
FONDATION ASIE PACIFIQUE DU CANADA

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Key Takeaways

1 The world has entered a fundamentally different era

The assumptions that underpinned Canada's prosperity for decades – open globalization, efficiency-driven trade, and market-led supply chains – no longer fully apply. The global economy is moving toward a more fragmented, strategically managed system in which geopolitics, industrial policy, and economic security are deeply intertwined. This is not a temporary disruption but a structural shift that demands a fundamental rethinking of Canada's foreign and domestic policies.

2 China is reshaping globalization around itself, not retreating from it

China is remaking itself into an integrated technological and industrial system designed to reduce its own dependencies while increasing others' dependence on it, embedding itself across batteries, critical minerals, semiconductors, and pharmaceuticals supply chains in ways that make de-risking or decoupling far harder than most Western governments assumed. Yet China also has real vulnerabilities, depending heavily on imported raw materials and on global export markets, that are also often overlooked by Western policymakers.

3 AI is restructuring trade as profoundly as it is restructuring everything else

Trade is no longer primarily about physical goods. The fastest-growing segment of global trade is digital and AI-enabled services, and this shift is accelerating. Smaller Canadian firms can now become "micro-multinationals," exporting data, algorithms, and AI services globally at near-zero marginal cost, creating real opportunities to diversify beyond the U.S. market in ways that geography previously made impossible.

4 Canada has consistently underperformed during technological transitions

Canada lost ground during the data economy by failing to retain and scale its most innovative firms, hollowing out Canada's high-growth firm base and deepening its productivity crisis. The age of machine knowledge capital presents both a renewed threat and a genuine opportunity, but only if Canada develops the industrial strategy, state capacity, and firm retention mechanisms it has previously lacked.

5 Industrial policy is no longer optional, but must be undertaken strategically

All major powers are now intervening strategically in AI, semiconductors, critical minerals, batteries, and advanced manufacturing. Canada can no longer stand apart. However, industrial policy done poorly risks undermining economic competitiveness and allied co-operation. The lesson from South Korea's Hynix versus Canada's Nortel, and from Japan's patient investment in Lynas, is that effective industrial policy requires long time horizons, disciplined focus, public-private co-ordination, and allied collaboration, not reactive subsidy competition.

6 Economic security requires strategic prioritization, not blanket protection

Canada cannot protect or subsidize everything simultaneously. Economic security risks are concentrated in a handful of genuinely strategic sectors, including semiconductors, critical minerals, defence, advanced batteries, and AI infrastructure, but these sectors still benefit from more trade and investment, not less. Canada needs to identify its real vulnerabilities, its own points of leverage, and the right partners, then focus its resources accordingly.

Recommendations

1 Develop a genuinely independent and sophisticated China strategy

Canada needs its own made-in-Canada approach to China built on granular, sector-by-sector analysis, distinguishing where engagement with China remains beneficial from where dependencies create unacceptable risks. This means resisting both reflexive securitization and naive engagement, investing seriously in China expertise, and moving beyond binary frameworks like "engage vs. disengage."

2 Build an integrated economic security architecture

Canada currently has an AI strategy but no data strategy, a defence industrial strategy but no overarching national security strategy, and no National Security Council or equivalent co-ordinating structure. It needs a coherent, interlocking system, or a "sovereign digital spine," integrating AI, data, and digital infrastructure strategies while supporting the growth and retention of domestic technology firms.

3 Move beyond resource extraction toward high-value industrial participation

Canada's critical mineral wealth is a genuine strategic asset, but only if Canada captures more of the value chain beyond raw material exports. This requires sustained investment in domestic refining, processing, and battery manufacturing capacity and a more nuanced approach to foreign investment that regulates rather than selectively bans Chinese participation.

4 Modernize trade policy and support systems for the AI era

Canada's trade institutions and trade agreements were built for a different economic era. Canada needs better digital trade frameworks, stronger AI startup support, updated trade intelligence systems, and a much more active CPTPP agenda on data flows and digital services, while pursuing smaller, more targeted trade agreements focused on specific strategic chokepoints.

5 Invest in patient, allied industrial co-operation, and learn from Japan

No country can build economic security alone. Canada needs to commit to sustained, patient capital alongside allied partners, following models like Japan's 20-year investment in Lynas that combines public financing, arm's-length professional management, and deep R&D collaboration, particularly in critical minerals and AI, to build partnerships.

6 Play an active role in defusing U.S.-China escalation dynamics

The mutual weaponization of economic relationships between the U.S. and China is creating a self-reinforcing security dilemma that middle powers cannot afford to watch from the sidelines. Canada has both an interest and an opportunity to build coalitions and shared frameworks that reduce escalatory dynamics, positioning itself as a rule-maker and convener among like-minded middle powers on critical minerals governance and AI regulation to digital trade rules.

Introduction

On May 6, 2026, the Asia Pacific Foundation of Canada convened its inaugural John H. McArthur Research Fellows Symposium, bringing together APF Canada's 2025-2026 John H. McArthur Research Fellows — **Danielle Goldfarb**, **Kati Suominen**, **Ari Van Assche**, and **Pascale Massot** — along with leading policy experts, scholars, and practitioners, including **Jeff Nankivell**, **Vina Nadjibulla**, **Phillip Lipscy**, **Dan Ciuriak**, **Constantine Karayannopoulos**, and **Ann Fitz-Gerald**, for a focused discussion on the risks and opportunities shaping the future of trade and investment between Canada and the Indo-Pacific.

The Symposium featured a keynote address and moderated discussion with **Dr. Lizzi C. Lee**, Fellow on the Chinese Economy at the Asia Society Policy Institute's Center for China Analysis, followed by two panel discussions exploring how Canada can strengthen its economic resilience, competitiveness, and national security in response to shifting geopolitical dynamics, technological disruption, and supply-chain vulnerabilities in the Indo-Pacific.

JOHN H. MCARTHUR RESEARCH FELLOWSHIP:

The John H. McArthur Research Fellowship, established by the Asia Pacific Foundation of Canada in 2021, supports mid-career scholars conducting original, policy-relevant research to deepen Canada's understanding of the Indo-Pacific region with the aim of strengthening policy-relevant scholarship on Canada's Indo-Pacific engagement.

The Fellowship honours the legacy of the late **Dr. John H. McArthur** — a distinguished Canadian, former Chair of APF Canada's Board of Directors, and Dean Emeritus of Harvard Business School – and is financed by a fund established in Dr. McArthur's memory.

China's Economic and Technological Strategy: Implications for Global Supply Chains and Middle Powers

The keynote discussion focused on China's evolving economic and technological strategy and its implications for Canada and the broader global economy. As **Lizzi C. Lee** argued, China is undergoing a broader structural transformation driven both by external and internal pressures, including strategic competition and technological restrictions, and by Beijing's own ambitions for technological self-reliance and industrial leadership. This transformation is unfolding at a moment when the international system itself is becoming more fragmented, contested, and geopolitically driven.

China is undergoing a major structural transformation

Rather than simply remaining "the world's factory," China is remaking itself into an integrated technological and industrial system designed to reduce its dependencies while increasing global dependence on China. She identified three major shifts driving this transformation.

1 Technological self-reliance

China is pursuing an all-out drive for technological independence across AI, semiconductors, batteries, robotics, clean energy, and advanced manufacturing, partly in response to U.S. export controls, but also due to Beijing's ambition to dominate frontier technologies. She argued that what makes China's approach distinctive is its combination of strong state support alongside a highly competitive private sector: industrial policy seeds new industries and helps domestic firms scale, then intense market competition drives efficiency and quality. State-led initiatives alone have not been sufficient, China's most impressive recent innovators, such as DeepSeek and Unitree, have emerged from vibrant private entrepreneurial ecosystems. This model is poised to accelerate China's emergence as a leading power in frontier technologies and reshape global economic and technological competition.

2 Reconfiguration of global supply chains

China is not retreating from, but rather reshaping globalization around itself. By embedding itself in critical sectors such as batteries, electric vehicles, critical minerals, and pharmaceuticals across Southeast Asia and the Global South, Beijing has positioned itself at the centre of overlapping global supply-chain networks, making disentanglement increasingly difficult. For countries like Canada, this demands a fundamental shift in how policymakers think about supply chains — not merely as economic infrastructure, but as instruments of geopolitical strategy. Full decoupling is not realistic nor desirable, but engagement must become far more strategic and clear-eyed.

3 Strategic use of economic interdependence

Beijing increasingly treats economic relationships as geopolitical tools, deliberately embedding itself in industries that others cannot easily function without — rare earths, semiconductor inputs, and batteries — to cultivate leverage that can be weaponized when strategic interests demand it.

Challenges to China's state-led industrial model

1 Overcapacity

China's industrial policy model is remarkably effective at scaling industries but structurally ill-equipped to reduce excess capacity. Local governments chase GDP growth, banks sustain zombie firms, and private entrepreneurs pile into the same state-favoured sectors—triggering chronic overproduction in EVs, batteries, robotics, and semiconductors that spills into global export markets. This is not a temporary imbalance, but a structural feature of China's political-economic system unlikely to self-correct.

2 Innovation, AI, and the private sector

China's state-led model is effective at driving applied AI deployment and scaling but faces significant headwinds in generating breakthrough frontier-level innovation. Beijing is caught in what Lee called the "golden goose paradox": China needs private-sector innovation to remain competitive with the United States, yet the Communist Party is equally unwilling to relinquish political control over the firms driving it. U.S.-China competition is forcing a recalibration, seen most visibly in the re-embrace of firms like Alibaba, driven by necessity rather than ideological conviction. Whether Beijing can sustain this delicate balance may be one of the most consequential questions shaping the future of global technological competition.

What does that mean for Canada?

Lizzi C. Lee argued that the era of outsourcing a China strategy to Washington is over. Canada needs its own approach, one that moves beyond binaries like "engage versus disengage" and instead is granular, encompassing sector-by-sector analysis that distinguishes where engagement remains beneficial from where dependencies create unacceptable vulnerabilities. Equally important is preserving deep China expertise and language skills, sectoral expertise, and subnational knowledge. Her closing argument was that a good China policy is not simply a matter of strategic resolve, it demands sophistication, nuance, and a clear-eyed understanding of China's internal dynamics that cannot be replaced by geopolitical instinct alone.

Canada's Economic Resilience and Competitiveness in a Changing Indo-Pacific

The first panel examined how Canada can enhance its economic resilience and competitiveness in response to evolving geopolitical, technological, and regulatory dynamics in the Indo-Pacific. As argued during the panel, the world economy has entered a fundamentally different era in which traditional assumptions about globalization, trade liberalization, and comparative advantage no longer fully apply.

AI is fundamentally reshaping global trade

Trade is no longer primarily about physical goods, but increasingly about digital services, data, AI-enabled products, and algorithmic services. **Danielle Goldfarb** illustrated this shift through her own experience at a small, 10-person company that sold real-time data feeds to clients from Washington to Hong Kong at zero marginal cost, a "micro-multinational" scaling globally without traditional infrastructure.

Panellists built on this theme through the concept of an expanding "menu of tradables," from physical goods, to AI-enabled services that continuously learn and adapt and entirely new services that only exist because AI exists. AI-intensive services are already growing at 10-15 per cent annually, far outpacing traditional exports like mining and manufacturing, and now make up roughly 10 per cent of Canada's exports. Barriers remain, however: data localization requirements in Vietnam and Indonesia, and emerging EU-style AI laws in Vietnam and South Korea, raise the cost of market entry for Canadian companies.

Economic security and industrial policy

Economic security now requires governments to think far more strategically about which industries matter and where vulnerabilities exist. Industrial policy is now unavoidable, given that all major powers are intervening strategically in AI, semiconductors, batteries, cleantech, and critical minerals. However, the panel warned that industrial policy can distort markets and undermine allied co-operation if pursued too aggressively.

Dan Ciuriak also flagged the "uncertainty bomb" as the most immediate economic threat: geopolitical instability is keeping private capital on the sidelines, and crown corporations may need to step in to de-risk investment.

Canada Risks Falling Behind in the 'Machine Knowledge Capital' Era

Dan Ciuriak further argued that the global economy is entering a new era of "machine knowledge capital," a structural transformation as consequential as the Industrial Revolution. Canada has consistently underperformed during successive technological transitions, allowing its most innovative firms to be acquired abroad, citing examples such as DNN Research

(Google), Maluuba (Microsoft), and Darwin AI (Apple). The comparison between South Korea's state-supported Hynix and Canada's failed Nortel, illustrated his central argument: industrial policy is no longer optional in the AI era.

Canada needs to rethink trade diversification strategy

Canada's traditional understanding of diversification, exporting more physical goods to more countries outside the U.S., is outdated. In an AI-driven economy, geography matters less and new categories of tradable products and services are emerging. However, the window is closing fast as concentration in AI value chains accelerates.

1 Trade policy and trade-support systems are outdated

Canada's trade institutions were built for an older economy. Danielle Goldfarb noted that when she sought Trade Commissioner Service support for her data company, there was no category for that type of work. The panel suggested Canada needs:

- Better digital trade frameworks
- Stronger AI startup support and venture capital
- Updated trade intelligence systems
- Greater focus on AI adoption throughout the broader economy

2 Canada still needs multilateral cooperation

Kati Suominen argued that the CPTPP is increasingly important for Canadian AI-enabled exports, lowering restrictions on digital services and cross-border data flows in markets like Indonesia, India, and the Philippines. Future trade competitiveness, she said, will depend on digital rules and AI regulation compatibility, not just tariffs.

3 Trade diversification requires strategic prioritization

Ari Van Assche offered an organizing framework for rethinking Canada's economic security strategy, which he called the 'Five Ps':

- **Pursue** free trade: most sectors have no security concerns and benefit from more openness; economic security risks are concentrated in a handful of industries like semiconductors, critical minerals, and biotech
- **Protect** against chokepoints: use targeted industrial policy for genuinely strategic sectors where one country holds a quasi-monopoly over a critical node
- **Promote** strong points: Canada holds its own leverage in critical minerals, AI, and pharmaceuticals that can be used strategically to attract partners
- **Partner** internationally: economic security cannot be built alone; collaboration with like-minded countries is essential
- **Pinpoint** emerging risks: build early warning systems through collaboration between universities, Statistics Canada, and other institutions to identify tomorrow's chokepoints before they materialize

Van Assche argued that Canada should shift its focus from broad comprehensive trade agreements to pursuing smaller, more targeted agreements tied to specific chokepoints in specific industries. He also warned that industrial policy, if applied to favour domestic firms over allied ones, risks undermining the very partnerships Canada needs, and that some multilateral framework for co-ordinating security-guided industrial policy among allies remains essential.

Shifting Security Dynamics and Supply Chain Risks

The second panel examined how shifting security dynamics, supply-chain vulnerabilities, and emerging strategic dependencies in the Indo-Pacific are reshaping Canada's economic and geopolitical positioning. The discussion emphasized that economic security, industrial strategy, and geopolitical competition are now deeply interconnected, with access to critical mineral supply chains becoming central to both economic competitiveness and national security.

Critical minerals are central to economic security

A central argument was that critical minerals are no longer simply commodities, but strategic assets increasingly tied to geopolitical leverage, industrial policy, and national resilience. Achieving energy-transition goals and advancing AI infrastructure, semiconductors, EVs, and defence technologies will depend heavily on secure access to critical minerals and resilient supply chains, making supply-chain reliability as important as cost efficiency.

1 Canada must move beyond extraction

Canada risks remaining primarily a supplier of raw materials rather than becoming a full participant in higher-value downstream supply chains. The panel argued Canada needs stronger domestic capabilities in refining, processing, advanced materials, battery components, and a more integrated industrial strategy tied to economic resilience, rather than a traditional resource-export model.

2 China dominates but has its own vulnerabilities

China's dominance exists not at the mining stage itself but at the processing, refining, and technological integration stages, making disentanglement far more difficult than many governments initially assumed. However, **Pascale Massot** highlighted that China imports almost 100 per cent of its cobalt needs, and more than 70 per cent of its lithium, copper, manganese, nickel, iron ore, and chromium. At the other end of the supply chain, China is deeply dependent on global export markets to absorb its manufacturing output. A smart strategy would leverage these vulnerabilities rather than simply playing defence. **Constantine Karayannopoulos** reinforced this point: the 2010 rare earth embargo against Japan ultimately hurt China more than Japan, as Japanese manufacturers stopped shipping critical components back to Chinese assembly plants, a lesson that China learned.

Strategic partnerships and 'friendshoring'

The panel identified Japan, South Korea, Australia, the European Union, and the United States as especially important partners for strategic co-ordination in areas such as critical minerals, battery supply chains, and advanced manufacturing. Panellists cautioned, however, that allied countries are themselves competing aggressively for subsidies, creating tensions even among close partners.

Japan as a model for economic security strategy

Phillip Lipscy argued that Japan offers an important example of how countries are adapting to a world in which economic interdependence can increasingly be weaponized. Following the 2010 Senkaku/Diaoyu dispute, Japan developed a comprehensive all-of-government economic security framework, including a cabinet-level Minister for Economic Security, the *2022 Economic Security Promotion Act*, tighter foreign investment screening and the "K Program" to rebuild domestic capacity in strategic sectors including AI, semiconductors, and batteries. He cautioned that industrial policy carries real risks, including regulatory capture and inefficient investments and stressed that Canada should develop stronger economic-security co-ordination while avoiding overly securitized or discriminatory approaches toward foreign engagement.

Strategic autonomy requires stronger state capacity

A final key takeaway was that economic security cannot be achieved through markets alone. Governments must play a more active role in identifying strategic sectors, reducing vulnerabilities, and co-ordinating industrial development while balancing economic openness with resilience, a challenge that will remain central for middle powers like Canada.

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