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Trade in AI

Digital Trade Rules for the AI Era
in the Indo-Pacific

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Key Takeaways

- Canada's AI-intensive services face high barriers in certain Indo-Pacific markets, especially China, India, Indonesia, the Philippines, South Korea, and Thailand. These countries have high multilateral restrictions — meaning Canadian AI-intensive services cannot rely on existing General Agreement on Trade in Services (GATS) commitments to ensure market access. These countries are also not subject to the liberalization commitments of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Even where applied barriers are somewhat lower, Canadian firms still face challenges, such as data transfer limitations. Liberalization in Southeast Asia could be deepened through Canada's forthcoming trade agreements with Indonesia and the Association of Southeast Asian Nations (ASEAN).
- Canadian AI-intensive firms have better access to Australia, Japan, New Zealand, and Singapore, thanks to the CPTPP and these economies' overall moderate applied services restrictions. To be sure, there are some sectoral limitations, and the four economies' bound multilateral commitments are still significantly higher than CPTPP commitments or applied practices. In addition, targeted measures such as procurement preferences, data governance requirements, and platform regulations can affect specific AI-related services.
- Across all Indo-Pacific markets, the least liberalized AI-related services sectors include legal services, broader professional services, and financial services. For example, in financial services, there are data processing restrictions, licensing requirements, and the need for regulatory approvals that may affect fintech and AI-enabled financial applications. In computer and related services, the most liberalized AI-relevant sector, restrictions vary significantly by market: China, Indonesia, and Vietnam maintain particularly high bound and applied restrictions related to data localization, cloud licensing, and foreign participation.

I. Introduction

AI is emerging in Canada not only as a means to promote innovation and productivity, but also as a tradable asset. The [previous paper](#) in this series showed that over the past decade, Canadian exports of AI-intensive services (information services, computer services, research and development, financial services, and professional services) have grown substantially faster than Canada's traditional exports — manufacturing, mining, and agricultural products. While the U.S. is the primary market for Canada's AI-intensive services, Indo-Pacific markets are also important and, thanks to their rapid digital transformation, poised to grow in importance for Canada's AI-intensive firms.

In addition, the urgency of deepening market access and fair treatment for Canadian AI-intensive firms in the Indo-Pacific has increased in the past few weeks: at the joint review of the Canada-United States-Mexico Agreement (CUSMA) on July 1, 2026, the U.S. [declined to extend the Agreement to 2042](#). CUSMA remains in force until 2036, but it now enters a [cycle of annual reviews](#). Ensuring access to Indo-Pacific markets for Canada's AI-intensive services is an important hedge against developments in the Americas. Engaging now is also timely for Canada to shape Indo-Pacific AI governance frameworks: the region's markets are developing their AI governance frameworks and fashioning AI-related provisions in their various trade agreements.

The purpose of this paper is to review the baseline trade policy landscape facing Canadian AI-intensive firms in the Indo-Pacific, including Indo-Pacific countries' liberalization commitments in various specific services sectors and cross-sectoral digital trade commitments.

The second section develops the analytical framework and examines Indo-Pacific trading partners' multilateral commitments under the GATS and preferential liberalization especially under the CPTPP, for which services liberalization data is readily available. The third section reviews current applied restrictions across key Indo-Pacific markets and sectors, complemented by detailed evidence on regulatory and operational barriers, and discusses emerging AI laws in the region and their implications. The fourth section synthesizes the findings.





II. What are current multilateral, plurilateral, and regional restrictions facing Canada's AI-intensive services in the Indo-Pacific?

What is the trade policy landscape facing Canada's AI-intensive services in the Indo-Pacific? To answer this question, it is important to identify Indo-Pacific trading partners' commitments in the multilateral and plurilateral frameworks such as the GATS and Government Procurement Agreement (GPA), as well as through service chapters of preferential trade agreements (PTAs).

A. HOW ARE AI-INTENSIVE SERVICES LIBERALIZED AND HOW CAN LIBERALIZATION BE MEASURED?

Services trade liberalization is defined around the four modes of supply defined in GATS:

- **Mode 1 (Cross-border supply):** The service is delivered remotely across borders without movement of people or firms. Constraints can include administrative procedures, regulatory designs, transparency-related measures, and licensing and qualification requirements.

- **Mode 2 (Consumption abroad):** The consumer travels to the supplier's country to use the service. This mode is typically open and lightly regulated; constraints may arise indirectly through data transfer or financial regulations.
- **Mode 3 (Commercial presence):** The firm establishes a local subsidiary or branch in the foreign market to provide services. Constraints can relate to firm conduct (such as local content or performance requirements), broader regulatory environment and administrative procedures, restrictions on foreign entry, and licensing. Mode 3 is often used if Mode 1 is restricted, which may increase businesses' fixed costs.
- **Mode 4 (Movement of natural persons):** Individual service providers temporarily move abroad to deliver services; this could include, for example, engineers or data scientists deploying AI systems. Barriers are most prevalent in regulatory procedures, entry conditions, and licensing and qualification requirements.

In addition, digital trade agreements and chapters such as the CPTPP ecommerce chapter and the Canada-United States-Mexico Agreement (CUSMA) digital trade chapter — both among the most forward-looking digital trade commitments — facilitate the export of AI-intensive services by enabling cross-border data transfers, protecting businesses' source code in foreign markets, and ensuring the parties have robust consumer and cybersecurity protections, among other measures.

There are three databases that quantify the liberalization commitments and effective liberalization for Canadian AI-intensive services in Indo-Pacific markets:



- The [Services Trade Restrictions Index \(STRI\)](#) provides data on actual applied barriers across 22 major services sectors and 51 countries.
- The World Bank-WTO [Bound Services Trade Restrictions Index \(BSTRI\)](#) measures the maximum degree of restrictiveness permitted (but typically not applied) under GATS. The BSTRI takes the STRI as a basis and replaces the STRI's restrictions with those that WTO Members have in their GATS schedules, as maximum allowed rates.
- The World Bank-WTO [Preferential Services Trade Restrictions Index \(PSTRI\)](#) measures the maximum restrictions permitted in commitments under PTAs for the services trade policies embedded in the STRI.

[As previously shown](#), the most AI-intensive sectors (sectors where a substantial share of Canadian companies use AI) as expressed in the North American Industry Classification System

(NAICS) include computer, information, research and development, financial and insurance, and professional and management consulting services.

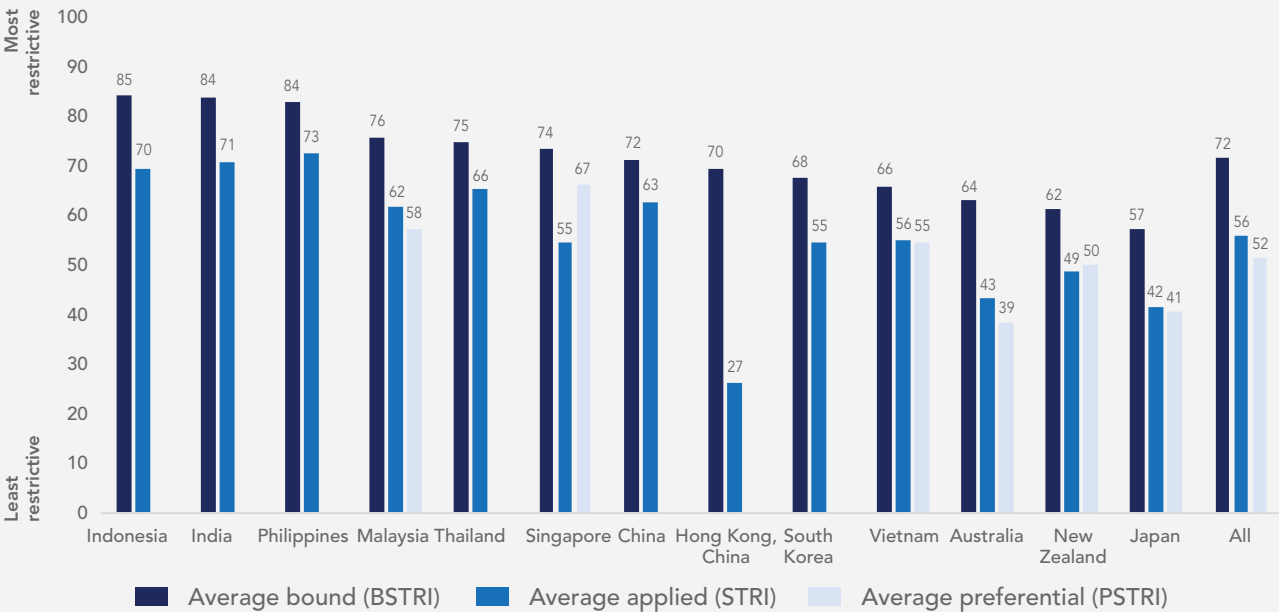
In trade agreements and the above databases, liberalization commitments are expressed in the United Nations Central Product Classification (CPC), which corresponds to NAICS to an extent. The CPC sectors for which there exist data in the above databases and that are most applicable to the AI-intensive sectors identified in the first paper include computer services, financial services (here, “commercial banking” is used as a proxy), insurance services, and a range of professional services (e.g. legal, architectural services, engineering).

What, then, are the barriers faced by Canadian firms in these different services and modes in Indo-Pacific markets? The following section explores these barriers by examining Canadian trading partners’ bound multilateral, regional (especially CPTPP), and applied commitments.

B. MULTILATERAL COMMITMENTS PER GATS

There are three notable variations at the sectoral level. First, bound commitments remain restrictive across all sectors, with an average BSTRI of 74 and particularly elevated levels in legal services (89) and professional services (78) (Figure 2). Financial,

FIGURE 1
Bound, applied, and preferential barriers to Canada’s AI-intensive services in Indo-Pacific markets, by country (all modes)



Sources: World Bank-WTO [Bound Services Trade Restrictions Index](#) and [Preferential Services Trade Restrictions Index](#), and [Services Trade Restrictions Database](#).

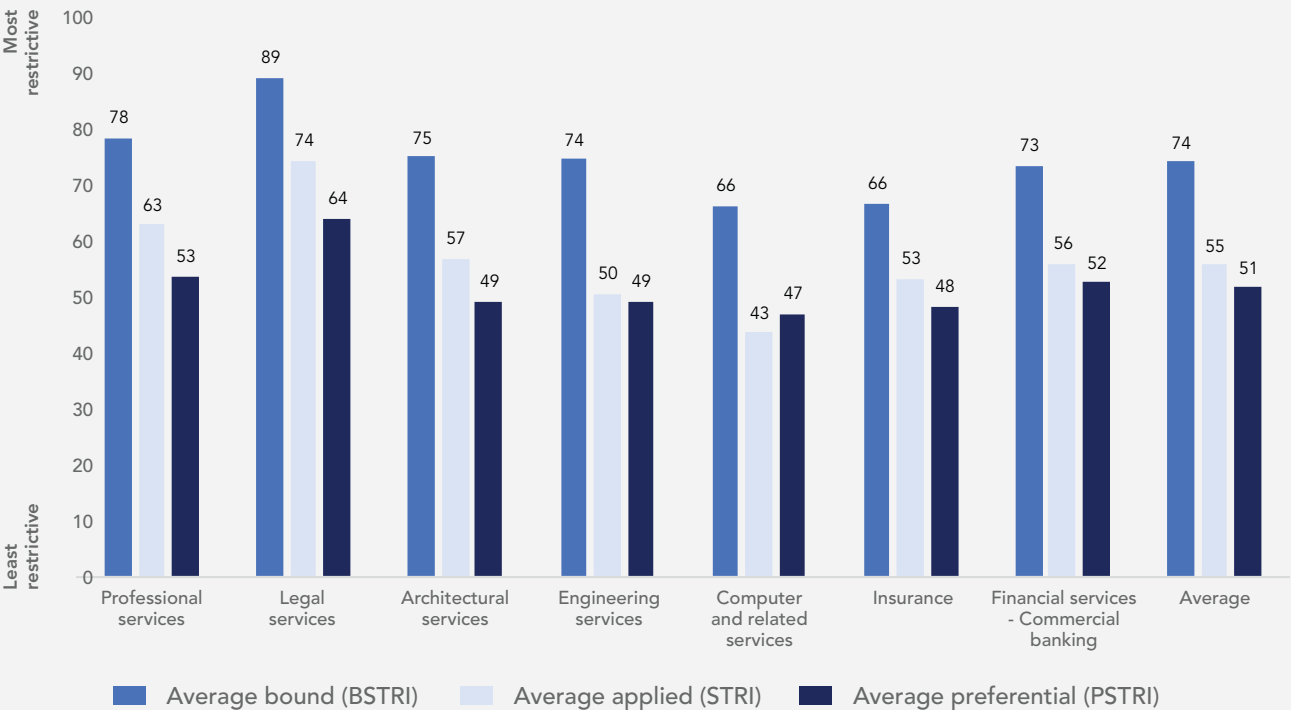
architectural, and engineering services also have high bound rates. Even in relatively more liberal sectors, such as computer and related services, bound rates remain far above applied rates.

Second, applied restrictiveness measured by STRI is consistently lower than bound levels, but high in legal services (74) and professional services (63), followed by financial services (56), and architectural services (57). By contrast, computer and related services are the least restrictive (43), especially important for many AI-intensive digital services. The gap between bound and applied regimes perpetuates regulatory uncertainty.

Third, CPTPP commitments pertinent to Australia, Japan, Malaysia, New Zealand, and Vietnam reduce restrictiveness across all sectors. The largest gaps between BSTRI and PSTRI are in professional and financial services. However, legal services remain comparatively restrictive even under CPTPP. Computer services are also more liberalized under CPTPP than in the BSTRI.

To detail sectoral liberalization further by country, bound rates are especially elevated in legal and financial services across countries, and professional services face restrictions in China and Hong Kong (Figure 3). The Philippines has both market access

FIGURE 2
Bound, applied, and preferential barriers to Canada’s AI-intensive services in Indo-Pacific markets, by sector (all modes)



Sources: World Bank-WTO [Bound Services Trade Restrictions Index](#) and [Preferential Services Trade Restrictions Index](#), and [Services Trade Restrictions Database](#).

FIGURE 3

BSTRI by sector and market



Source: World Bank-WTO [Bound Services Trade Restrictions Index](#).

restrictions, requiring, for example, executives of companies to be citizens, and limitations on national treatment, requiring a certain debt-to-equity ratio. Computer and related services and insurance services are liberalized in Hong Kong, Japan, and Singapore, and to an extent Vietnam, too, has relatively open treatment in core computer and related services, while Indonesia and Thailand are more restrictive.

In addition, rules around government procurement may impact the access of Canada's AI-intensive firms to government contracts. China, India, Indonesia, Malaysia, Thailand, and Vietnam are all observers and not members of the plurilateral WTO Government Procurement Agreement (GPA) that levels the playing field between domestic and foreign vendors in public procurement. Thus, they are not bound by the [GPA's rights or obligations](#). Granted, Malaysia and Vietnam

are party to the CPTPP's government procurement rules, which require that foreign suppliers from CPTPP countries be treated no less favourably than domestic suppliers for covered procurement.

C. BARRIERS IN THE CPTPP

CPTPP's services chapter removes some of the bound restrictions facing Canadian AI-intensive firms, with notable liberalization in Australia and Japan. However, legal services are still restricted especially in Malaysia, [Singapore](#), and [Vietnam](#) (Figure 4). For example, Vietnam has specific non-conforming measures in legal services, barring foreign lawyers from participating in legal proceedings in the capacity of defenders or representatives of their clients; participating in legal documentation and certification services; advising

FIGURE 4

Barriers by sector and market in the CPTPP



Source: World Bank-WTO [Preferential Services Trade Restrictions Index](#).

on Vietnamese law unless they have graduated from a Vietnamese law college; or defending or representing clients before the courts of Vietnam. Singapore and Vietnam also limit financial services through non-conforming national treatment measures — Singapore, for example, has restrictions on non-resident financial institutions to borrow in Singapore dollars while Vietnam limits foreign investors from establishing a commercial presence “in the form of a branch.”

CPTPP’s ecommerce chapter includes “gold-standard” digital trade provisions that are also very useful for AI firms, such as rules to facilitate cross-border data flows, ban server localization, protect source code, and promote data privacy

and consumer protection. There are only a few reviews of economies’ *implementation* of the CPTPP e-commerce chapter or other digital trade agreement commitments.

A [recent review](#) of the CPTPP’s implementation found that implementation remains uneven and incomplete in some economies, especially Vietnam, around cross-border data flows, prohibitions on data localization, source code protection, cybersecurity frameworks, and paperless trade. A report published by the Asia Pacific Foundation of Canada [has identified AI governance, cross border data transfer, and cybersecurity co-operation](#) as a key area for future CPTPP cooperation.

The future Canada-Indonesia Comprehensive Economic Partnership Agreement (signed in September 2025) and Canada-Association of Southeast Asian Nations (ASEAN) Free Trade Agreement (set to be finalized by the end of 2026) could promote similar CPTPP-level liberalization among ASEAN economies. ASEAN markets for Canada’s AI-intensive services could also be opened by way of eventual CPTPP accessions of some ASEAN economies that have expressed interest in applying for the CPTPP, such as Indonesia, the Philippines, and Thailand.



FIGURE 5
Applied barriers by sector and market (STRI, 2022)



Sources: World Bank-WTO [Services Trade Restrictions Database](#).

III. Applied restrictions facing Canadian AI-intensive companies

STRI data, based on values from 2022, reveal a gap between bound and applied regimes, particularly in more open economies such as Australia, Japan, and South Korea, where applied barriers are significantly below bound commitments (Figure 5). Applied barriers are highest in the same sectors as bound rates: legal services (especially elevated in Indonesia, the Philippines, and South Korea) and financial services (India and the Philippines). There are fewer restrictions in computer and related services and engineering services. Mode 1 (cross-border supply) is most restrictive, while commercial presence (Mode 3) is much more open (Figure 6).

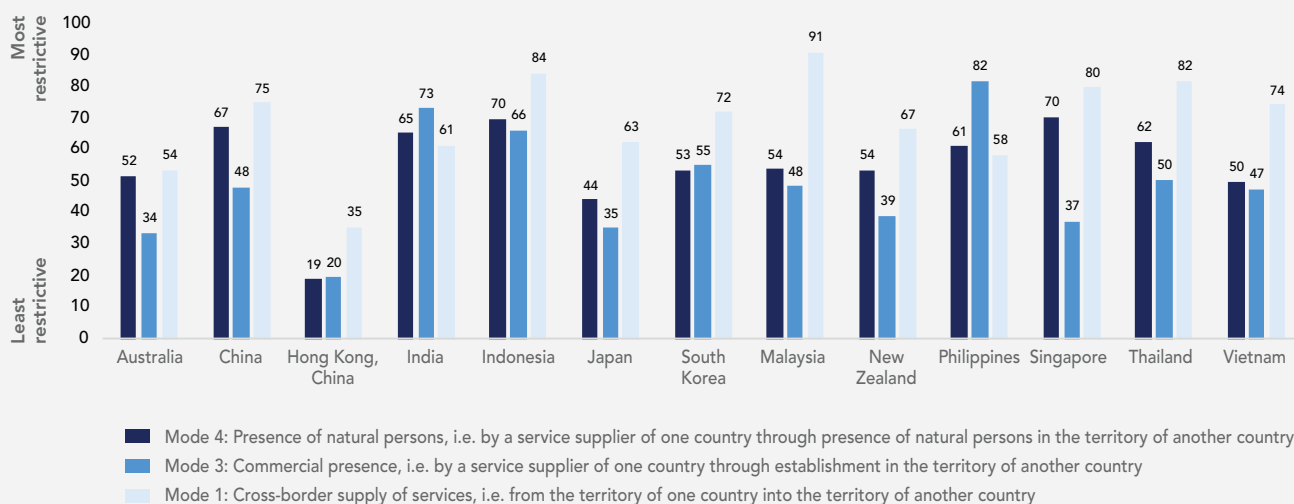
A. RECENT REPORTED BARRIERS

Recent industry analyses and reports such as the [2026 National Trade Estimate \(NTE\) Report of the U.S. Trade Representative](#) identify various further, cross-sectoral applied barriers across Indo-Pacific markets that can affect Canadian AI firms — such as data localization and transfer restrictions, intellectual property and source code disclosure risks, and licensing schemes. Selected specific barriers include the following.

- In China, the Data Security Law and the Personal Information Protection Law limit cross-border transfers of “important data” and personal information, [requiring local data storage](#). Foreign cloud-service providers cannot operate independently and must partner with

FIGURE 6

Applied barriers by modes and markets (STRI)



Sources: World Bank-WTO [Services Trade Restrictions Database](#).

domestic firms, [effectively licensing their technology](#). Cybersecurity and “secure and controllable” information and communications technology policies may create risks of source code or intellectual property disclosure.¹ State financing for domestic AI sectors further distorts competition against foreign entrants.

- In Vietnam, AI firms encounter multiple overlapping constraints under the Law on Data (2025) and the Law on Personal Data Protection (2026), which require government [approvals for transferring “core” and “important” data abroad](#) and may mandate local storage. Decree 71 (2022) [requires foreign digital service providers to establish a local presence or joint venture](#), which may increase market entry costs. The 2026 AI Law adopts a four-tier risk classification system similar to the European Union’s Artificial Intelligence Act, but introduces various national security and sociocultural considerations as well. There are [mandates for entities providing services over telecommunications networks, the internet, or cyberspace-related platforms](#) to store data locally.
- South Korea combines openness with targeted restrictions, including the Cloud Security Assurance Program (CSAP), [which requires localization of cloud infrastructure and local personnel for public sector services](#), limiting foreign participation. Government procurement policies have favoured domestic firms in high-performance computing and graphics processing unit acquisitions. [Additional constraints](#) include restrictions on foreign cloud use in national core technologies, limitations on exporting geospatial

data, and requirements to adopt domestic encryption standards.

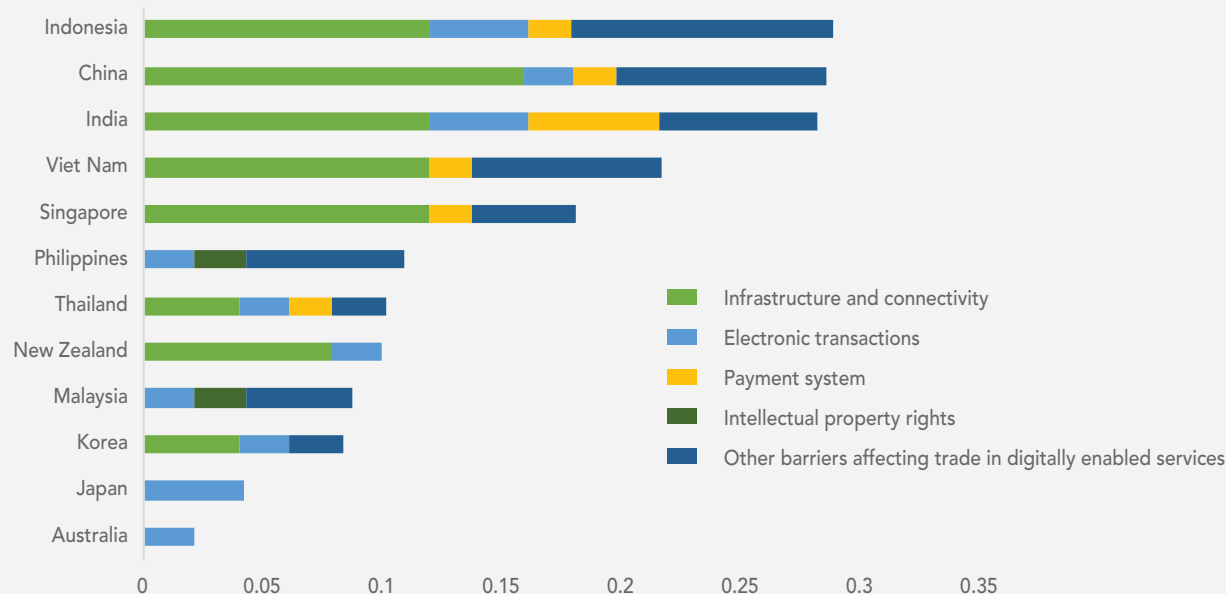
- The Reserve Bank of India [requires all payment system data to be stored domestically](#). Telecommunications and security certification regimes [require in-country testing and compliance](#). There are also [risks of source code disclosure](#).
- Indonesian Government Regulation No. 71 of 2019 requires electronic system operators to [store certain data locally](#) and provide access to authorities upon request.
- Thailand maintains several pertinent barriers, including restrictions on foreign ownership under the [Foreign Business Act](#), which limits majority foreign participation in key sectors. The Personal Data Protection Act requires that cross-border data transfers be made only to jurisdictions deemed “adequate,” but [no such determinations have been issued](#), forcing firms to rely on complex safeguards.
- Malaysia has moderate regulatory barriers; [regulatory uncertainty affecting submarine cable infrastructure](#) may introduce risks for cloud-dependent AI services.
- Hong Kong remains relatively open, but the Protection of Critical Infrastructure (Computer Systems) Ordinance (in force in 2026) [requires designated operators to establish a local office](#) and maintain a cybersecurity management function.

The OECD’s [Digital Services Trade Restrictiveness Index](#) provides a means to summarize many of these barriers. It shows that Canadian AI firms face uneven digital trade conditions across Indo-Pacific markets. The highest barriers are in China, India, Indonesia, and Vietnam (Figure 7). For Canadian AI exporters, their barriers can make it harder to deliver cloud-based AI tools, process data across borders, integrate with local platforms, receive digital payments, and

¹ See, for example, <https://carnegieendowment.org/research/2025/01/managing-the-risks-of-chinas-access-to-us-data-and-control-of-software-and-connected-technology>

FIGURE 7

Selected Indo-Pacific countries' Digital Services Trade Restrictiveness Index, 2025 (1 = maximum restrictiveness)



Source: OECD [Digital Services Trade Restrictiveness Index](#).

Philippines, South Korea, and Thailand are comparatively more open — making these markets more natural entry points for Canadian AI firms expanding into the Indo-Pacific (figure 7).

B. AI LAWS IN THE INDO-PACIFIC

In addition to digital economy rules, the Indo-Pacific region's evolving AI regulatory landscape presents a fragmented picture for Canadian AI companies:

- Japan has a flexible, innovation-oriented regime anchored in the Japan AI Promotion Act, where compliance is largely principles-based and implemented through guidance rather than binding *ex-ante* controls.
- India's 2025 AI framework is centered on the AI Governance Guidelines issued by the Ministry of Electronics and Information Technology of India (MeitY) in November 2025, which [offers](#)

[a light-touch governance model](#) that prioritizes innovation, scalability, and inclusion over prescriptive regulation.

- Australia continues to rely on guidelines layered over existing legal regimes, such as the Australia AI Ethics Principles, emphasizing accountability and safety while avoiding a standalone AI statute.
- In contrast to these flexible models, Vietnam's 2026 AI law imposes system categorization, transparency, and reporting requirements, alongside sensitivities around data governance and national security.
- Singapore offers another model built around governance frameworks, notably the Model AI Governance Framework, sector-specific guidelines and rules, and sandboxes that enable firms to test and deploy AI solutions with regulatory clarity but without rigid statutory burdens.

IV. Conclusion

The paper has analyzed Indo-Pacific trade policy frameworks, including multilateral (e.g. GATS), preferential (e.g. CPTPP) liberalization, and applied regulations to understand regulatory barriers shaping Canada's AI-intensive service exports. There are four key results.

First, at the multilateral level, GATS commitments provide only limited liberalization for Canadian AI exporters. Bound levels remain high across key Indo-Pacific partners, allowing governments to preserve significant policy space in areas central to AI trade, including data governance, licensing, and foreign entry. This reduces predictability for Canadian firms seeking to scale AI and cloud services in the region. Government procurement regimes can further constrain access to public sector contracts, for example in data analytics or digital infrastructure.

Second, preferential liberalization under the CPTPP improves market access and legal certainty for Canada in several key Indo-Pacific markets, most notably Australia, Japan, New Zealand, and Singapore. The agreement delivers meaningful gains in computer services and establishes important digital trade disciplines, including prohibitions on data localization and protections for source code. However, liberalization under the CPTPP remains incomplete. Legal and financial services continue

to face restrictions; exemptions in areas such as local presence, ownership, and regulatory approvals limit the scalability of Canadian AI solutions.

Third, applied policies across the region are generally more open than both bound and preferential commitments, but still impose significant operational constraints on Canadian firms. In Mode 4, visa regimes, licensing requirements, and recognition of qualifications complicate the movement of Canadian AI talent. At the same time, reliance on Mode 3 (commercial presence) often requires partnerships with local firms, local staffing and infrastructure investments, or compliance with local content rules, increasing fixed costs and reducing the efficiency of serving Indo-Pacific markets from Canada.

Fourth, Canadian AI firms face uneven digital trade restrictions across Indo-Pacific markets. The highest barriers are in China, India, Indonesia, and Vietnam, while Australia, Japan, Malaysia, New Zealand, the Philippines, South Korea, and Thailand are comparatively more open. In the former set of markets, digital trade barriers can make it harder to deliver cloud-based AI tools, process data across borders, integrate with local platforms, receive digital payments, and scale a common product across multiple markets.

To be sure, the sheer divergence in national digital and AI regulations in the Indo-Pacific may still mean that Canadian AI firms seeking to scale across the Indo-Pacific market may need to tailor AI systems (e.g., explainability, risk controls, documentation) to jurisdiction-specific expectations.

In sum, while opportunities for Canadian AI exports in the Indo-Pacific are growing on the back of the region's growth and digitization, the region's current trade frameworks do not fully support scalable, cross-border AI business models. What, then, should Canada do to

promote AI-enabled exports to the Indo-Pacific? The third paper in this series will discuss new and adapted trade provisions that could be required to support the growth of Canada's AI-intensive exports to Indo-Pacific markets.

It should be noted that this look at barriers to Canada's AI-intensive services in the Indo-Pacific region has been quite aggregate. A more detailed classification of AI-intensive services and use cases into more specific CPC services categories would enable a more precise assessment of market access and other barriers; so far, such analysis has not been completed.



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The John H. McArthur Research Fellowship, established by the Asia Pacific Foundation of Canada in 2021, 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. Since its launch, the Fellowship has supported mid-career scholars conducting original, policy-relevant research to deepen Canada’s understanding of the Indo-Pacific region.

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