Intelligence MEMOS

From: Paul Jenkins

To: Economic Policymakers

Date: February 7, 2025

Re: **Where The Puck Is Going**

Many believe we are living through one of the most revolutionary ages in history.

The world has lived through many revolutions: the scientific revolution, the age of enlightenment; the French Revolution, and of course the industrial revolution – all accompanied by dramatic economic, political and social change.

A driving force in virtually all these revolutions has been technology.

But it was also the case that it took time for these new technologies to be harnessed and for workers to share in the rising prosperity.

Today, two powerful forces are transforming what the future of the global economy will look like: A changing world economic order and the digital revolution.

Like those of the past, these transformations have enormous implications for economic productivity, patterns of economic growth, the nature of work, supply chain configurations, and much, much more.

In Canada, we need to up our game and ensure we are skating hard, with stick in hand, to where these two transformations are taking the world.

In the aftermath of the Second World War, the Bretton Woods institutions were put in place to manage and govern the global economy, largely from the perspective of the western world – the so-called liberal world order.

Throughout the postwar period, however, tensions inherent between the sovereign state and the need for collective global governance increasingly challenged the liberal order.

Effectively, a new world order began to unfold, driven largely up until now by the rise of China.

Today, rather than China, what is on every Canadian's mind is our neighbour to the south and the policies of the Trump presidency – mass deportation, massive tax cuts (or tax cut extensions) and, of course, a mercantilist, protectionist mindset.

Pursuing New Opportunities for Canadian Businesses

While there are currently deep-seated feelings of antipathy towards the United States, a strong, focused approach to negotiations with the Trump administration is needed, as well as one with an eye to the transformational forces shaping our world.

What this points to is the importance of Canada participating in the creation of new space for an open global economy. What happens next to the world trading system and globalization does not depend on the Trump Administration alone.

The global economy has become multipolar. Other countries are stepping into the game. These countries trade with each other and beyond.

This is where initiatives like the Comprehensive and Progressive Trans-Pacific Partnership fit in. The CPTPP and the Indo-Pacific region generally offer an important pathway in providing opportunities for Canadian businesses of all sizes to grow and prosper through access to large, open markets and, concomitantly, in offering both the means and incentive for our businesses to scale up, including our digital economy.

The Digital Revolution

The digital revolution has been both faster and more widespread than the industrial revolution, taking place largely as an information revolution.

Recent data put the US digital economy at around 15 percent of GDP – the fastest growing sector of the US economy and the primary driver of productivity.

Canada, however, lags far behind with the digital economy, which was estimated by the Bank of Canada to account for only 5.5 percent of GDP.

Moreover, research shows that Canada faces serious digital skill shortages – shortages that are affecting labour supply, businesses and constraining economic growth overall.

Policies are needed that support the adoption of digital technologies, including, of course, AI, to enable Canadian businesses to reskill and upskill their workforce and to develop new products and services – that is, new business models to transform efficiency and productivity.

Caroline Mulroney, President of the Treasury Board of Ontario, has recently spoken forcefully about the adoption of AI in the Ontario public service as a leader in the digital revolution. Equally important, she also emphasizes the role AI can play in driving economic growth overall.

And now, the game-changing development of China's DeepSeek means everyone can access state-of-the-art AI at little or no cost. Its decision to pursue an open-source AI model means it can be tailored to local needs. One analyst compares it to Toyota reshaping the US car industry by making reliable cars at lower costs – setting new standards for precision and efficiency.

But so far, the digital economy has also resulted in an unequal distribution of wealth. This year's Economic Nobel Laureates, Damon Acemoglu and Simon Johnson, argue we need a more inclusive digital revolution.

Here, too, DeepSeek would seem to be an equalizer (or what some call 'democratization') through competition with the big tech US players and through enabling the development of new, broad-based AI applications.

Canada needs to get back into the pro-growth game if the puck is going to end up on our stick. We need policies that promote internal and external market openness, diversification of our markets, scaling of our digital economy, and unleashing a renewed spirit of entrepreneurship to seize the opportunities of this changing world.

Paul Jenkins is a former senior deputy governor of the Bank of Canada and a senior fellow at the C.D. Howe Institute.

To send a comment or leave feedback, email us at blog@cdhowe.org.