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Intelligence MEMOS

January 29, 2026

From: Peter Howitt

To: Concerned Canadians

Re: Creative Destruction and Canada's Strategic Imperative: Openness Over Isolation

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Artificial intelligence, rising protectionism, and uncertainty in Canada's most important bilateral relationship have converged to test the country's resilience.

While some interpret these developments as a call for renewed self sufficiency, a more historically grounded reading suggests the opposite. Periods of rapid technological change reward economies that remain open, adaptive, and competitive. Canada is no exception.

Artificial intelligence represents one of the rare general purpose technologies that can alter economic structure as profoundly as the personal computer, electrification, or the automobile. These technologies tend to follow a recognizable pattern: Initial disruption, prolonged adjustment, and eventual productivity gains that diffuse across sectors.

Early effects can appear destabilizing as firms run legacy and emerging tools in parallel, workers devote time to skills acquisition, and productivity statistics lag the technological excitement.

This mirrors the early days of the personal computer. In the 1980s and 1990s, typists, travel agents, and a range of clerical occupations experienced displacement as firms reconfigured workflows to take advantage of digital tools.

For a time, computers seemed to increase costs rather than lower them. Only later, as organizations redesigned their processes and skills, did the productivity impact fully materialize, as, in one small example, we learned to live without physical printouts.

AI appears poised to follow a faster version of this trajectory. Early reports of layoffs among programmers and other skilled workers reflect not only disruption but also rapid adoption. Market valuations for AI adjacent firms may moderate, and a shakeout is likely. Yet such volatility does not undermine the underlying technological potential. Rather, it reflects the competitive process of creative destruction, in which many entrants fail but a few fundamentally reshape the economy.

For Canada, the question is not whether these technological forces can be halted – they cannot – but how national strategy can harness them.

Openness remains a foundational requirement.

Competitive pressure, access to global markets, and exposure to international best practices are central drivers of innovation. Entrepreneurs undertaking costly R&D need market scale to have a realistic prospect of earning returns. A domestic market constrained by interprovincial barriers or limited entirely to Canadian consumers cannot provide that. Nor can an inward looking trade posture generate the competitive discipline on which productivity growth depends.

This argument gains significance against the backdrop of rising US protectionism. With approximately three quarters of Canada's exports destined for the United States, tariff shocks can have disproportionately large effects on Canadian producers. The instinct to respond in kind is understandable but often counterproductive. For a small open economy, retaliatory tariffs raise input costs and shrink export markets without materially influencing the behaviour of larger trading partners. Diversification, not retaliation, is more effective.

This does not require abandoning the United States, which is still our neighbour and with whom we have decades of integration. Rather, it entails broadening the base of international engagement so that Canada is less vulnerable to political or policy swings in any single market.

Importantly, diversification also includes strengthening the internal Canadian market. Eliminating barriers to interprovincial trade would, in effect, create a larger domestic market that approximates the scale needed for innovation intensive industries.

Complementing market reforms, Canada must reinforce the institutions and capabilities that generate and spread innovation. Universities are central to this ecosystem. Historically, Canadian institutions have grown stronger by attracting world class researchers, including many from the United States. The current US academic environment presents another opportunity for recruitment, particularly for scholars seeking stable funding systems, transparent governance, and academic freedom protections. Enhanced research capacity can, in turn, support industry partnerships, commercialization pathways, and the co development of technologies relevant to both civilian and defence applications.

On defence procurement, similar principles apply. The strategic imperative is not autarky but resilience. Canada's objective should be stable access to high quality equipment from a diversified set of suppliers, along with participation in value added segments of global aerospace and defence supply chains. Producing certain components domestically, or assembling platforms in partnership with trusted allies, can strengthen industrial capacity without necessitating a commitment to fully domestic production at any cost. Competitive procurement processes should weigh capability, interoperability, supply chain reliability, and industrial benefits – not solely national origin.

The broader lesson is that Canada cannot fully eliminate uncertainty arising from technological change or geopolitical turbulence. What it can do is reduce structural vulnerabilities by expanding markets, accelerating innovation diffusion, and strengthening institutions. In this environment, self sufficiency is not a realistic or desirable objective. Resilience comes from integration and diversification, not isolation.

Creative destruction rewards economies that remain outward looking, competitive, and adaptive. A strategy built on diversified openness offers the clearest path to long term resilience and growth.

Peter Howitt, winner of the 2025 Nobel Memorial Prize in Economics, is the Lyn Crost Professor of Social Sciences Emeritus at Brown University.

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