THE CANADIAN CHAMBER OF COMMERCE
LA CHAMBRE DE COMMERCE DU CANADA

Regaining Competitiveness: Canada's Biggest Challenge

Canadian businesses struggle to compete

Powerful forces are changing the global economic landscape and challenging Canada's prospects in the world. As developing countries, such as China and India, continue to step up their economic activity and innovative capacity, Canada is increasingly at risk of being swept aside, its influence diminished and its ability to compete severely hampered. Canada and Canadian businesses must become more ambitious, aggressive and innovative to compete globally and profit from the enormous opportunities offered by the faster-growing regions of the world.

A country's competitiveness is defined by the efficiency with which it uses its human, capital and natural resources to generate wealth. True competitiveness is measured by productivity. Productivity allows a country to support high wages, attract investment and maintain a high standard of living.

While Canadians enjoy a high standard of living, Canada is struggling to remain competitive. In the last decade, Canada's business sector productivity growth has slowed and the cost to produce goods has gone up resulting in a loss of market shares. Canadian businesses today face intense and growing competition as economies in Asia and elsewhere move up the value chain, invest in science and innovation and maintain growth rates two or three times the size of ours.

The Expert Panel on Business Innovation stated: "Canadians should be concerned about the productivity of our export-oriented economy as competition from China and other emerging economies intensifies. Strong productivity growth is the way to remain internationally competitive with a rising standard of living."

The dramatic rise of the Canadian dollar has magnified Canada's loss in competitiveness. The Canadian dollar is likely to remain a competitive challenge, one we cannot control. In any case, counting on a much weaker dollar to regain business competitiveness is not a business strategy, it is a gamble.

Tracking our performance across a range of competitiveness measures

- Between 1987 and 2009, Canadian businesses invested 23% less per worker in machinery and equipment compared to their American counterparts; 41% less per worker in information and communication technologies. Canadian workers have fewer tools to do their jobs.
- Canadian exports as a share of real Gross Domestic Product (GDP) dropped from 45% in 2000 to 33% in 2010, and Canada's share of world exports fell from 4.3% to 2.5%.
- Since 2000, Canadian exporters have lost almost one-quarter of their market share in the United States (U.S.). From 2000 to 2010, China increased its share of the U.S. import market from 8% to 19%, surpassing Canada as the largest exporter to the U.S. Back in 1990, China held the eighth spot.

- Canada ranks a disappointing 17th among the Organisation for Economic Co-operation and Development (OECD) countries when it comes to business sector research and development (R&D) spending. When it comes to innovation, the World Economic Forum rates Canada in 19th place, far behind the U.S., Germany and Japan.
- Canada ranks 20th for international patent applications per million population.
- Canada ranks near the bottom among OECD countries in getting innovative products and services to the marketplace.
- Canada ranks 28th when it comes to the world's export share of high-tech products.
- In 2008-09, university per student funding for teaching and research averaged C$21,000 in Canada compared to C$29,000 in the U.S.
- Canada trails many other nations in the number of graduate degrees awarded, including the U.S. which awards almost twice as many master's degrees and one-third more PhDs per capita than does Canada.
- Canadian firms lag in the employment of post-graduates, including those with PhDs, especially in sciences, engineering, and business.
- The OECD has consistently ranked Canada as having among the most restrictive barriers to foreign direct investment among industrialized nations.

Regaining Competitiveness

With pressure from competitors intensifying, strategic investments and smart public policies have never been more urgent and essential to regaining Canada's competitiveness.

Building a more productive and, thus, a more internationally competitive economy is a shared undertaking. It is the responsibility of business, individual Canadians and government and requires greater investment in innovative practices and technologies, equipping Canadians with the rights skills and education, and positioning Canada as an attractive environment for investors and entrepreneurs. Canada is losing its place in the world economy, and we need to fight to reclaim our standing.

The Canadian business community would like to play a greater role in regaining Canada's competitiveness. The Canadian Chamber of Commerce and its network represent businesses of all sizes and sectors from across the country. Together, we will work to uncover the solutions to building a more productive and more competitive economy. We will determine what specific policies are currently acting as barriers to Canada' competitiveness and what should be done to change these policies to trigger better performance. We will also establish how much of the responsibility for action lies with governments and how much with business and labour.

The Canadian Chamber, along with the provincial/territorial/and regional chambers of commerce, has begun the process by identifying 10 barriers that impede our nation's ability to compete effectively in today's fast-moving, global economy. The next step in the process is to ask the local chambers of commerce to prioritize the issues to determine which barriers should be the initial focus of our initiative.

Suggested Top 10 Barriers to Canadian Competitiveness

1. **Getting qualified workers to meet the needs of employers**
   Canada trails many other nations in the number of graduate degrees awarded, and Canadian firms lag in the employment of post-graduates, including those with PhDs, especially in sciences, engineering, and business. Yet, investment in higher education has among the highest pay-off of any investment government can make. Post-secondary graduates are key in building a competitive economy—they provide talent, skills, knowledge and creativity. A highly educated labour force is more capable of producing and offering innovative products and services that support higher wages and contribute to an improved standard of living. A highly skilled and educated workforce is also crucial to attracting foreign direct investment. In addition, further investment in post-secondary education and in the capacity of post-secondary institutions and affiliate research organizations to turn their ideas and research into viable products demanded by the marketplace have the potential to boost our competitiveness on an ongoing basis. Finally, better alignment of skills training with employers' requirements as well as a more market-oriented approach to labour needs identification and recruitment will help better address the crisis faced by many Canadian employers.

2. **Designing better policies to help people find and keep jobs**
   To enhance Canada's competitiveness, it is imperative that we improve our labour market policies, particularly those that would help youths find their first job and the long-term unemployed re-enter the workforce. An assessment of minimum wage laws and employment insurance benefits is sorely needed. Additionally, we must undertake reforms to ensure Canada's labour market policies and programs provide Canadians with the incentive to work and help to reduce voluntary unemployment. Finally, we must ensure that government programs do not discourage the participation of older workers in Canada's labour force. Canada's minimum wage laws, Employment Insurance, the CPP and Canada's labour code regulations discourage the optimal utilization and allocation of labour and inhibit labour market flexibility.

3. **Delivering a better tax system**
   Most OECD countries rely less than Canada on income and profit taxes and more on less economically-damaging consumption taxes, like the GST. Canada's tax system over-relies on high-cost sources of tax revenue causing the Canadian economy to grow at a lower rate than might be possible with a more efficient tax system. Switching the tax mix towards consumption-based taxes would encourage both work and capital formation and, thus, stimulate productivity and economic growth.

4. **Abolishing interprovincial barriers**
   Interprovincial trade barriers discourage small businesses from operating across Canada and cost large companies time and money, hampering productivity and ultimately the competitiveness of the Canadian economy. In an era of increasing globalization, internal trade barriers artificially raise prices and significantly increase the cost of doing business, keeping firms from growing to a size large enough to compete effectively in foreign markets. In a world where capital is increasingly mobile, interprovincial trade barriers discourage investors from establishing their companies in Canada.

5. **Implementing regulations that make things easier for business**
   Although high regulatory standards, such as environmental policies or health and safety regulations, can enhance Canada's reputation globally, how they are applied and administered can be the difference between success and failure for business. If Canada's regulatory regime remains inefficient, it will undermine our international competitiveness as well as our attractiveness to entrepreneurs, knowledge workers and domestic and international investors. Overlap, duplication and fragmentation are time consuming and costly. Resources spent on unnecessary regulation cannot be invested to make businesses more efficient and competitive.

6. **Facilitating foreign investment in Canadian businesses**
   Canada can benefit greatly from openness to the world. Foreign direct investment can convey great advantages by bringing to Canada knowledge, technology, efficiencies and economies of scale, all of which are critical to competitiveness. As an enduring policy, Canada should embrace foreign direct investment and reduce barriers to it.

   Canada is one of only a few countries (Australia being another) with a formal investment review process for foreign acquisitions that exceed prescribed monetary thresholds. Updating Canada's foreign investment policies can make Canada more competitive.

7. **Stimulating the need for research, innovation and development of new products and tools**
   Innovation boosts productivity growth and is a competitive advantage for businesses. Yet, Canada ranks low among OECD countries when it comes to business sector R&D spending and innovation.

   R&D in Canada can be stimulated by adopting a strong intellectual property regime, fostering collaboration among educational institutions, developing robust innovation clusters and investing in the education and skills of our people.

   Whether it is imbedded in the technology of our research-based companies or in the skills of our engineers and scientists, Canada's economy benefits greatly from its intellectual property. As a result, Canada must strengthen its laws in protecting its intellectual assets. Strong copyright and patent laws would make Canada a safe location for entrepreneurs and innovators to create value.

8. **Encouraging investment in new technologies and equipment to boost productivity**
   Canadian businesses are well behind other countries, including the U.S., the UK and Germany, in investing in machinery and equipment, particularly in information and communication technologies (ICT). Between 1987 and 2009, Canadian businesses invested 23% less per worker in machinery and equipment compared to their American counterparts; 41% less per worker in information and communication technologies. Canadian workers have fewer tools to do their job. This is detrimental to the productivity of our workers, the innovative capacity of our businesses and the global competitiveness of our nation.

9. Investing made easier for the launch and growth of Canadian businesses

Venture capital is often associated with scientific research, innovation, entrepreneurial start-ups and successful technology companies. Yet, Canada's Venture Capital and Private Equity Association reports that "fundraising continues to be the major challenge facing the venture capital industry." New commitments to venture capital funds in Canada fell 24% in 2010 (year-over-year) to their lowest level in 16 years. The lack of availability of start-up capital in Canada has real repercussions for Canada's ability to develop global leading enterprises and competitive Canadian brands. More needs to be done to attract greater foreign investment into Canadian venture capital and to develop a strong and growing venture capital industry to maximize the overall competitiveness of Canada's economy.

10. Creating reliable funding for investment in infrastructure

Modernization and refurbishment of physical capital is a critical factor in broad economic competitiveness and is a goal that is shared across the economy. Canada has pursued an inconsistent approach to infrastructure financing over the last two decades, often allowing programs to wind down, only to be re-announced in a different form.

A more strategic approach to infrastructure investment that includes funding models that take into account the broad range of challenges and opportunities in communities across Canada is needed. A consistent and reliable funding mechanism will not only simplify the planning of federal, provincial and municipal investments, it will also leverage significant private sector investment and ensure Canada has a high-quality infrastructure to successfully compete.

In an environment of deficit reduction, governments will not always be able to provide sufficient funds to meet all infrastructure needs. As a result, governments must also create tools/foster the environment for bringing private sector and community partners together to fill infrastructure gaps when government dollars are not available.