TORONTO REGION BOARD OF TRADE

COMPLACENCY TO COMPETITIVENESS:

A Blueprint for Canada's Economic Future

Contents

Canada has historically depended on its proximity to the U.S. and abundant natural resources to drive economic prosperity and growth. Today, Canada is among the most prosperous countries in the world, with the tenth largest economy[1] and a high standard of living. The Toronto region is Canada's largest regional economy — accounting for 24% of national GDP — and among the largest economic hubs in the world. However, our natural advantages have also bred complacency. Despite persistent challenges facing our economy — from lagging productivity and innovation to a lack of large-scale global companies — Canadian leaders have often avoided meaningful action, preferring to rely on incumbent advantages rather than face difficult policy decisions and tradeoffs.

There is no more room for complacency. The tariff threats emerging from south of the border must serve as a wake-up call. It is time to move beyond discussions and take decisive steps to build a stronger regional and Canadian economy—and both businesses and governments have a role to play.

As the Board, we recognize that the future of our regional economy is intimately connected with Canada's economic success (and vice-versa). A prosperous future requires us to build the right conditions for growth across the country.

Canada's Economic Landscape Today

Canada's economy has been experiencing a marked slowdown. Between 2014 and 2022, Canada had the third-lowest growth rate in GDP per capita among thirty OECD countries.[2] In recent years, its performance has been particularly poor, with GDP per capita declining for the last six consecutive quarters and currently near 2018 levels.[3] A key driver of this stagnation is weak productivity growth. In 2022, Canada ranked 18th among all OECD countries in labour productivity.[4] Business sector productivity increased at an adequate rate of 1.2% annually in the decade leading up to the pandemic but has since effectively stalled.[5] The Board's research has found that GDP per worker in the Toronto region is now $99,000 less than in peer North American cities.[6]

There is no one driver of Canada's economic ails, but rather an interplay of structural challenges. Stagnating business investments, an overabundance of smaller companies and lack of large domestic anchor companies, low levels of technology adoption, limited access to capital—these factors are both cause and symptom of an ongoing economic malaise.

Actions and threats by the new Trump administration present further challenges to Canada's economic well-being. President Trump has shown a penchant for tariffs, and this threat looms over the Canadian economy and investment climate. With over 75% of Canadian merchandise exports destined to the U.S.[7], trade disruptions pose serious threats and risks to the Canadian economy.

The Trump administration is also expected to introduce tax measures that will make competing for investment in Canada even more difficult. It may build on the 2017 Tax Cuts and Jobs Act (TCJA), proposing to extend many of its provisions indefinitely, including maintaining lower individual income tax rates. Trump had already reduced the corporate tax rate from 35% to 21% and has proposed further reductions to 20%, with proposed rates as low as 15% for domestic manufacturers. With the anticipated changes in corporate taxation, the disparity between Canada and the U.S. in tax competitiveness is projected to widen. Plans to reinstate and make permanent the 100% bonus depreciation for businesses on eligible capital investments are also under consideration.

These threats could hardly come at a worse time, with Canada's economy already lagging. Canadian leaders and policymakers must act. Unfortunately, there is no silver bullet to curing our economic woes. Instead, there is a basket of policy solutions that can help build a more competitive economy, unlock investment, and spur economic growth. Many of these ideas have been discussed and debated for years but have been avoided because they often require difficult tradeoffs. This is the complacency Canada can no longer afford.

Canadian business leaders can and should also lean in. They can play a prominent role in helping craft good policy, championing action, and empowering the broader business community to thrive.

We advocate for decisive and ambitious action across three key areas of economic policy. While not comprehensive, these priorities represent a vital set of levers to steer Canada's economy back on course:

1. **Creating the Conditions for Productivity and Growth**
2. **Competing in the 21st Century Economy**
3. **Nation Building for the Future**

Creating the Conditions for Productivity and Growth

Economic growth is contingent on favourable conditions that incentivize companies to invest and grow. On many fronts, businesses have found it increasingly difficult to do business or grow in Canada. In 2024, Canada ranked 19th in the International Institute for Management Development's (IMD) competitiveness ranking — a composite ranking reflecting key factors that impact a country's economic potential — down from 8th in 2020.[8]

Regulations, tax, and trade are policy levers which together lay the foundations for a productive economy. In all policy areas — but particularly these three — it is crucial that all levels of governments apply a growth and productivity lens to existing and new policies to guide decision-making.

Regulatory Reform

Canada's regulatory environment is a drag on growth and a competitive disadvantage. Canada has fallen from 4th in World Bank's Ease of Doing Business ranking in 2006 to 23rd in 2020.[9] Regulatory considerations range from trade and investment restrictions to compliance costs such as the time to obtain permits. For instance, in Toronto it takes 249 days on average to complete all the required procedures to build a warehouse, versus an average of 152 days across OECD high income countries.[10] Similarly, Canada ranks poorly among OECD countries in terms of FDI regulatory restrictiveness, holding the 4th worst position—a factor that diminishes Canada's appeal as a destination for foreign direct investment.[11] A commitment to well-designed regulations and a nimble regulatory approach could be a competitive advantage for Canada. Regulatory reform is the one of the most cost-effective ways that Canada can improve its competitive positioning globally.

PUBLIC POLICY APPROACH

While well-intentioned, current red tape reduction and regulatory initiatives fall short of addressing the broader challenges within the regulatory landscape. Too often they become checkbox exercises, where the regulations targeted are chosen based on what is easiest to eliminate, rather than what would have the greatest impact. An ideal solution would be a comprehensive regulatory overhaul across all levels of government to streamline regulations, address duplication, and eliminate inconsistencies. As a first step, a targeted approach would prioritize 5-7 regulations that result in the most significant costs to do business.

ROLE FOR BUSINESSES

Canadian businesses can be proactive in helping identify specific and tangible examples of red tape and regulations that most impact their operations. By collaborating with their peers and regulators, businesses can also help develop solutions that address the underlying needs driving regulatory action. The Board, through the Business Council of Toronto (BCT), will be launching a framework for regulatory harmonization and a red tape challenge in targeted sectors to address regulatory challenges.

Tax Competitiveness

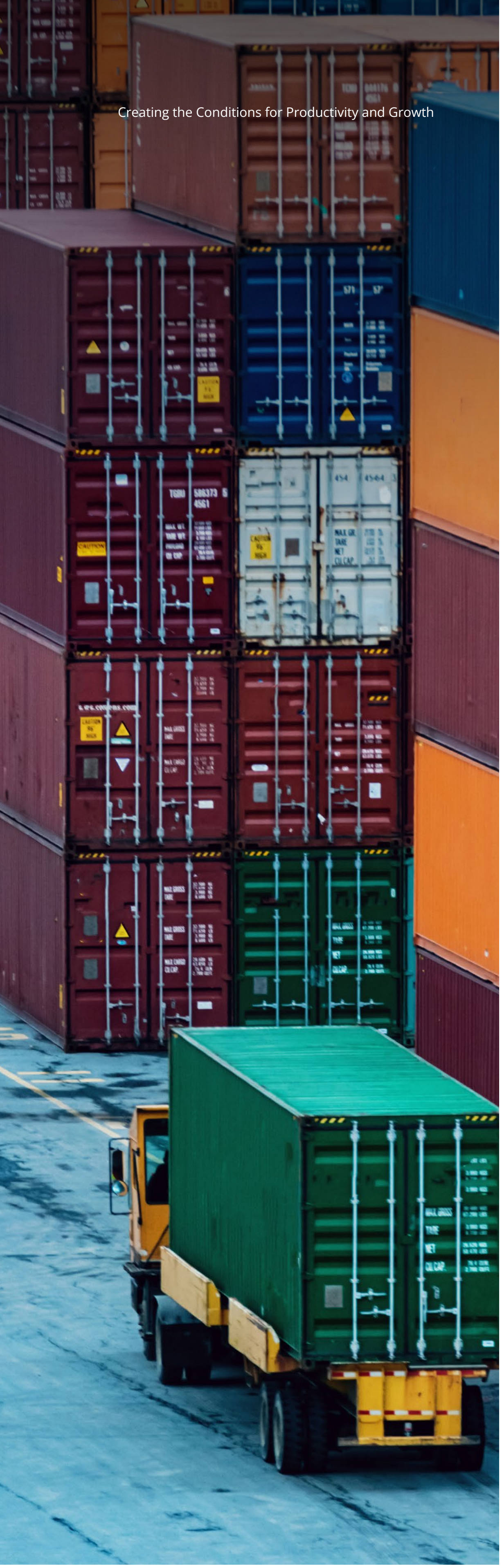
Canada has not conducted a comprehensive review of the federal tax system in decades. This means the foundation of our system remains designed around an era that precedes the digital economy, globalization, and the modern competition for capital. Our declining growth and productivity can in part be attributed to a tax environment that fails to adequately incentivize risk-taking and business investments. In particular, a high incidence of corporate and income tax harms Canada's attractiveness. Talent and capital are mobile and our current tax system disincentives work and investments. At an estimated combined corporate tax rate of 26.2 percent, Canada ranks 26th out of the 38 countries assessed by the Tax Foundation. On individual income taxes, it ranks 31st.[12] Additionally, a proposed increase to the capital gains inclusion rate (now deferred to 2026) and expected policy changes in the U.S. will further weaken Canada's position.

PUBLIC POLICY APPROACH

A pro-growth tax reform would lower both personal and corporate income tax which impact the incentives for work and business investment. One specific policy recommendation made by leading economists, based on Estonia's approach to taxation, is to apply corporate taxes only when profits are distributed, not if they are reinvested in the business.[13] Additionally, the tax burden could be shifted away from income and corporate tax towards consumption tax by raising RRSP and TFSA contribution limits.[14] Concerns that this would make our tax system more regressive could be addressed through targeted tax credits and rebates. Ideas such as these should play centre-stage in a comprehensive, expedited tax review focused on aligning our tax system with a pro-growth productivity agenda.

ROLE FOR BUSINESSES

Businesses, as key stakeholders impacted by tax changes, can help identify barriers to investment and inform policy decisions by providing feedback on the available options. In this process, businesses must balance the needs of the business community with fiscal requirements and the political considerations that shape these decisions. The BCT is already engaging government on options to address this balance.



Trade Diversification

Canada's trade relationship with the U.S. is essential for our prosperity. $3.6 billion of trade flows through the Canada-U.S. border daily, supporting 2.3 million Canadian jobs.[15] Still, the recent threats from the U.S. emphasize the need for Canada to diversify its sources of trade—and fast. More than 75% of Canada's goods exports (81% for Ontario) go to the U.S., leaving the Canadian economy heavily reliant on a single market.[16] Despite the federal government's goal to grow exports to overseas (non-U.S.) markets by 50% by 2025, our share of exports going to the U.S. remains substantial.

PUBLIC POLICY APPROACH

Canada is the only G7 nation with trade agreements with all other G7 partners. Yet, our trade flows show that businesses, for a myriad of reasons, are not capitalizing on this trade access. In recent years, Canada has signed two significant trade deals: the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Canada-EU Comprehensive Economic and Trade Agreement (CETA). To diversify trade, we need to enable export growth through these agreements. With the two agreements, Canada's trade agreement network accounts for more than 60% of the global economy and gives our companies preferential access to nearly 90% of existing export markets.[17] However, this hasn't yet translated into meaningful trade with these markets. More must be done to help companies expand their export reach by addressing structural barriers for SMEs (including export planning, advisory services, and awareness campaigns), improving market entry support, and addressing digital trade challenges.

ROLE FOR BUSINESSES

Canadian businesses — particularly small and medium-sized enterprises (SMEs) — need support taking advantage of existing trade agreements. Larger, more established businesses can help facilitate connections and provide mentorship and guidance to enable entry into new markets. Sharing best practices in terms of business processes and know-how for technology adoption can also help SMEs become export ready. At the Board, the World Trade Centre – Toronto provides training and executive certifications to SMEs seeking to grow their exports or reach new markets.

Competing in the 21st Century Economy

The global economy is undergoing a fundamental transformation. Today, the countries that lead in technological innovation and cultivate robust ecosystems for emerging industries hold the key to global competitiveness. For Canada, this means fostering comparative advantages in innovation-driven industries like artificial intelligence, life sciences, cleantech, and advanced manufacturing.

Access to Capital

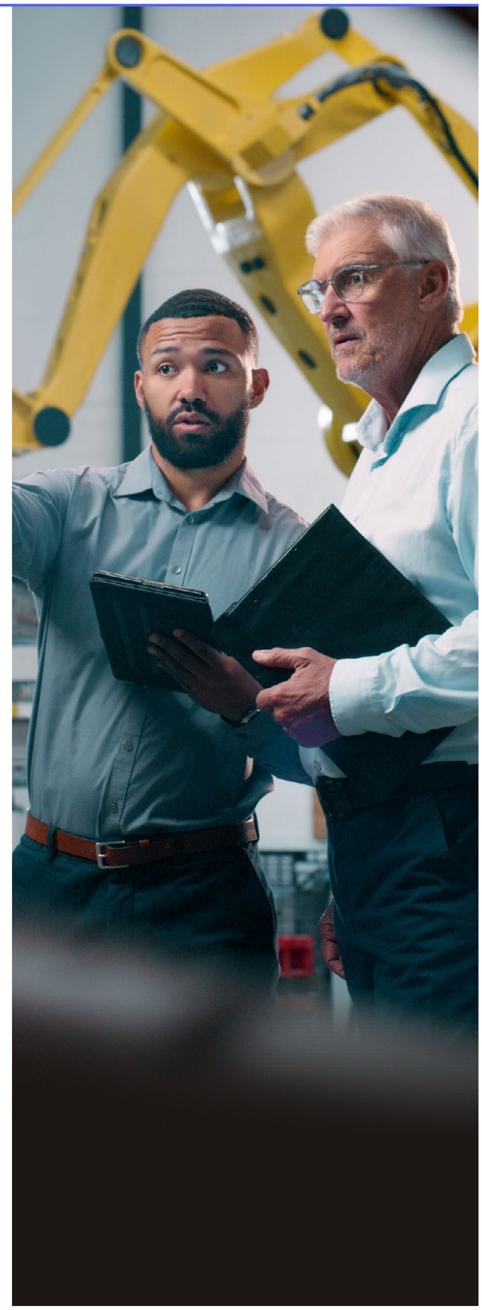
Access to capital, specifically growth or risk capital, is a fundamental ingredient for nurturing local champions in Canada. In an interview with the New York Times, Jeff Bezos identified risk capital as the driving force behind the U.S.'s venture and entrepreneurial success. In essence, companies can raise more capital in the U.S. versus other countries in the world. In 2022, close to 46 percent of global VC investments went to U.S.-based companies.[18]

PUBLIC POLICY APPROACH

To enable access to capital, government should strengthen and expand existing successful programs. Expanding the Venture Capital Catalyst Initiative (VCCI), a fund-of-funds program targeting both risk and growth capital, could help give the ecosystem the jolt it needs to attract more private sector investment. Through this approach, capital is pooled in a large fund which in turn invests in several venture capital funds. According to the 2024 Fall Economic Statement, a fourth round of VCCI is expected to be launched with $1 billion in funding, with additional terms to entice pension funds and institutional investors.[19] Regardless of which government comes into power following the next election, continuing to expand VCCI would be a prudent step to boost access to capital in Canada.

ROLE FOR BUSINESSES

Our financial institutions, including banks and pension funds, have a unique role to play to improve access to capital. Supported and enabled by government, there is an opportunity for Canadian financial institutions to create collective funds that foster the growth of homegrown champions. Many are already engaged or exploring potential opportunities, and a coordinated approach can streamline and accelerate this process.



Renewed Industrial Policy

A modern industrial strategy must enable applied R&D with industrial application. While Canada has demonstrable strengths in basic research, we do not currently have the right mechanisms and institutions in place to translate that into commercial products. Indeed, business R&D as a share of GDP in Canada continues to lag peer jurisdictions. A renewed industrial strategy should foster an environment where researchers work alongside frontier firms — those at the cutting edge of productivity and technology — to produce large-scale innovation with commercial potential.

PUBLIC POLICY APPROACH

To enable R&D with commercial potential, government must fund the appropriate physical infrastructure and programming. One example is the Fraunhofer Society (Fraunhofer-Gesellschaft) in Germany—widely recognized as one of the most successful networks of applied research institutes in the world. Formalized in the 1970s, the current Fraunhofer model consists of 76 institutes and research institutes that prioritize research in key future technologies, with a focus on conversion into commercial application.[20] The establishment of a network of applied research institutes, blending applied research with industrial application, can help strengthen Canada's innovation ecosystem.

ROLE FOR BUSINESSES

Business leaders at the forefront of their industries can spearhead the creation of institutes and hubs that facilitate applied research and technology adoption. By identifying fields with high-growth potential and bringing together key participants, the private sector can catalyze action. For example, the BCT is exploring the launch of a new manufacturing hub in the region to de-risk investment and accelerate technology adoption.

Nation Building for the Future

Canada, once celebrated for its visionary nation-building through forward-thinking policies like ambitious infrastructure investments, welcoming immigrants and refugees, and forging a cohesive national identity, now faces significant challenges on all three fronts. To prosper and grow, Canada must seize the existential crisis it faces today as an opportunity to rekindle its commitment to nation-building. This requires renewed investment in ambitious infrastructure projects, strengthening the link between immigration and productivity, and crafting a cohesive economic union.

Immigration Policy

Our welcoming immigration policies and ability to attract the best and brightest have long been one of Canada's competitive advantages. Businesses frequently cite talent as a key reason for locating and expanding in economic centres like the Toronto region. However, Canada's lagging productivity and meagre spending on investments and training highlights the need to examine the relationship between our reliance on labour and the slow pace of technology adoption and innovation. Recent events have also underscored the limits of how many people Canada can accommodate without adequate planning and infrastructure, such as housing, to support new residents.

PUBLIC POLICY APPROACH

Canada's immigration policy and approach to supporting immigrants must change.

Firstly, policymakers should acknowledge that immigration alone cannot fully solve Canada's demographic and labour challenges. Instead, economic immigration policies are better positioned to improve our standard of living by prioritizing human capital and focusing on highly skilled immigrants. This includes refining and re-emphasizing the Express Entry System and the use of the Comprehensive Ranking System.

Given the high incidence of underemployment and overqualification of immigrants in Canada, there is an immediate need to better integrate and utilize immigrant talent. Policies that help address harmful HR practices, eliminate licensing and credentialling barriers, improve foreign credential and work experience recognition, and enhance access to mentorship and language training programs can help address this challenge.

ROLE FOR BUSINESSES

Businesses should actively look to adopt technological solutions to their challenges where possible, as opposed to relying on a larger labour pool. Canadian businesses can also actively improve their hiring practices to focus on skills-based hiring instead of a focus on credentials such as degrees or certifications. Greater investments towards training and use of work-integrated-learning programs such an internships and co-ops can also help build a stronger workforce in Canada. The Board is helping organizations build capacity for skills-based hiring through World Trade Centre programs.

Infrastructure Investments

Nation building requires big, bold infrastructure investments. Canada's history is rich with transformative nation-building projects, such as the construction of the east-west railway, which united the country strategically. Canada must continue this legacy of ambitious infrastructure development to build for the future.

PUBLIC POLICY APPROACH

A commitment to nation-building requires prioritizing productivity-enhancing infrastructure that lays the foundations for growth. These include housing to address affordability and talent attraction, transit projects that address congestion and improve connectivity, ports and roads that enable the movement of goods, and investments in energy generation, transmission, and distribution. Canada also needs to improve at delivering projects on time and on budget, building momentum for future projects. This means supporting productivity improvements in our construction sector and reducing the red tape that stalls projects, among other actions.

ROLE FOR BUSINESSES

To facilitate these projects, businesses must continue to collaborate with government to improve project delivery. By contributing to productivity improvements, advocating for streamlined processes and regulations, the private sector can help ensure timely, and cost-effective infrastructure development. Moreover, businesses themselves must continue to have a relentless focus on delivery.

Interprovincial Barriers

One of Canada's greatest strengths has been its decentralized federation that accommodates strong regional differences but keeps the country united. Still, widespread and persistent interprovincial trade barriers are holding us back, limiting Canada to an incomplete economic union.[21]

The spectre of potential U.S. tariffs has galvanized premiers to work together and provides the opportunity to complete this nation building project—unlocking free internal trade across the country to boost growth and productivity. According to an IMF study, internal trade liberation is estimated to increase GDP per capita in Canada by as much as 4%.[22]

PUBLIC POLICY APPROACH

Approaches to dismantle interprovincial barriers must consider the vast web of regulatory bodies and standards that currently exist and the inherent coordination failure that prevents collective action. Mutual recognition — the acceptance of the standards in another province or territory — circumvents the need to require harmonization or changes to the regulatory approach in any given jurisdiction. It is also already being piloted in the trucking sector and can be built on and scaled to other areas going forward.

Another simple, yet potentially effective proposal to reduce internal trade barriers is financial inducements from the federal government.[23] Similar to the approach advocated by many related to housing, it would require the federal government to provide financial incentives conditional on the removal of trade barriers. The inducements would in theory be financed by an increase in the federal government's tax base as a result of the economic gains.

ROLE FOR BUSINESSES

Part of the challenge in addressing internal trade barriers is identifying what they are. Businesses can help inform these directly and work in collaboration with government and technological tools like AI to better understand the overlay and disconnect of rules and regulations across different provinces.

The Board is committed to working with business leaders and policymakers to improve productivity and build a stronger economy. To learn more, visit **www.bot.com**.

Endnotes

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TORONTO
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The Toronto Region Board of Trade is one of the largest and most influential chambers of commerce in North America and is a catalyst for the region's economic growth agenda. Backed by more than 11,500 members, we pursue policy change to drive the growth and competitiveness of the Toronto region, and facilitate market opportunities with programs, partnerships and connections to help our members succeed – domestically and internationally.

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