Roadmap to Recovery:
Charting a Course for Economic Renewal

March 2010
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Summary

The recent financial meltdown led to the deepest global economic recession since the 1930s. Significant risks remain in financial markets. However, after more than a year of economic recession, demand is beginning to pick up – largely fueled by government fiscal and monetary stimulus. At the same time, Canadian businesses face significant challenges that will constrain their ability to take advantage of rising demand and slow Canada’s economic rebound.

Canada’s economic recovery will be slow and uncertain. It will bring structural changes that will reshape market conditions in Canada and around the world – and new challenges and opportunities for Canadian businesses.

New strategies are required on the part of business leaders and public policy makers alike to ensure business success, enhanced productivity, and economic growth. They need to focus on what it takes for businesses to maximize value in global supply chains, improve manufacturing competitiveness, encourage investment and innovation, and take advantage of new opportunities in domestic and international markets.

Warning Signs

The past decade has not been kind to the Canadian economy. It ended last year with the most severe recession since the 1930s. But, even before the economic downturn, the Canadian economy was showing signs of slowing down.

Economic value is measured in terms of Real Gross Domestic Product (GDP) – the value generated by economic activity minus the cost of goods and services involved, all discounted for price changes. Real GDP in Canada grew at an average annual rate of 2.9 percent throughout the 1990s. Economic growth slowed to 2.3 percent between 2000 and 2008. The economy contracted by 2.6 percent in 2009.

When changes in population are taken into account, economic growth rates are even weaker. Per capita economic growth averaged 1.9 percent throughout the 1990s before slowing to 1.3 percent between 2000 and 2008. Real per capita GDP fell 3.8 percent in 2009, leaving individual Canadians only slightly better off today than they were ten years ago.
The Drivers of Economic Growth: Average Annual Growth Rates

<table>
<thead>
<tr>
<th></th>
<th>Real GDP</th>
<th>Real Per Capita GDP</th>
<th>Manufacturing Production</th>
<th>Export Volume</th>
<th>Domestic Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-2000</td>
<td>2.9%</td>
<td>1.9%</td>
<td>4.4%</td>
<td>8.4%</td>
<td>2.2%</td>
</tr>
<tr>
<td>2000-2008</td>
<td>2.3%</td>
<td>1.3%</td>
<td>-1.4%</td>
<td>0.0%</td>
<td>3.7%</td>
</tr>
<tr>
<td>2008-2009</td>
<td>-2.6%</td>
<td>-3.8%</td>
<td>-14.4%</td>
<td>-14.6%</td>
<td>-1.7%</td>
</tr>
<tr>
<td>2000-2009</td>
<td>1.8%</td>
<td>0.7%</td>
<td>-2.6%</td>
<td>-1.6%</td>
<td>3.0%</td>
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</table>

Manufacturing and exports led the Canadian economy in the 1990s. Between 1990 and 2000, manufacturing production grew at an average annual rate of 4.4 percent. After discounting for price changes, Canadian goods and services exports increased at an average yearly rate of 8.4 percent over the same period. Demand within the Canadian market, on the other hand, grew by only 2.2 percent annually.

Economic conditions in the 1990s encouraged manufacturing and exporting growth. A depreciating Canadian dollar, falling inflation and declining interest rates, low commodity costs, booming demand in the United States, and the emergence of new markets in Asia and Latin America set the stage for the strongest decade of manufacturing and export growth in Canadian history.

There were definite benefits for the Canadian economy as a whole. Total employment increased at an average yearly rate of 1.2 percent and labour productivity (output per person employed) rose on average by 1.7 percent annually between 1990 and 2000. These productivity improvements in turn helped to pay for the 2.6 percent average annual increase in the personal incomes of individual Canadians.

Employment, Income, and Productivity: Average Annual Growth Rates

<table>
<thead>
<tr>
<th></th>
<th>Employment</th>
<th>Labour Productivity (Real GDP per Worker)</th>
<th>Per Capita Personal Income (Current Dollars)</th>
<th>Per Capita Personal Income (After Inflation)</th>
<th>Per Capita Personal Income (After Inflation &amp; Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-2000</td>
<td>1.2%</td>
<td>1.7%</td>
<td>2.6%</td>
<td>0.6%</td>
<td>0.4%</td>
</tr>
<tr>
<td>2000-2008</td>
<td>1.9%</td>
<td>0.4%</td>
<td>3.8%</td>
<td>2.1%</td>
<td>2.3%</td>
</tr>
<tr>
<td>2008-2009</td>
<td>-1.2%</td>
<td>-1.0%</td>
<td>-0.7%</td>
<td>-1.0%</td>
<td>0.3%</td>
</tr>
<tr>
<td>2000-2009</td>
<td>1.5%</td>
<td>0.3%</td>
<td>3.2%</td>
<td>1.7%</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

From the perspective of individual Canadians, the decade from 2000 on was an improvement on the 1990s, even when taking account of the recent recession. Employment growth has been stronger. So too has the growth rate in per capita personal incomes. Low inflation and lower personal tax rates combined to boost the real disposable income of individual Canadians by an average annual rate of 2.3 percent between 2000 and 2008. Lower taxes were instrumental in maintaining disposable income growth throughout the recession as well.
However, the stronger employment and income trends of the past decade mask some disturbing signs of weakening economic performance. While domestic spending (consumer spending, government expenditures, and business investment) accelerated to an average annual rate of 3.7 percent between 2000 and 2008, growth in real economic output (GDP) was a much slower 2.3 percent. Improvements in labour productivity averaged only 0.4 percent annually over the same period of time. In short, since 2000, the Canadian economy has not been able to generate wealth at the same pace as we have been extracting it in the form of personal incomes. We have been living beyond our means.

The most important factor lying behind the slower economic growth rates of the past decade has been the dramatic weakening that has occurred in Canada’s manufacturing and export sectors. Between 2000 and 2008, manufacturing production declined at an average annual rate of 1.4 percent while export volumes remained flat. In contrast to the 1990s, Canadian manufacturers and exporters were hit by a volatile and rapidly appreciating dollar, high energy and commodity costs, and a slowing US economy. The globalization of supply chains and industrial markets, the rapid industrialization of China, Brazil, Mexico, and India, production overcapacity, and the accelerated pace of technological change (particularly in information and communication technologies) have compounded the competitive pressures facing Canada’s manufacturers and exporters since 2000.

Even before recession hit, Canada’s manufacturers and exporters were responding to daunting economic challenges. Many businesses have not survived the past decade. For the companies that have, it is clear that business as usual is no longer an option. Their future success will depend on their ability to withstand the downturn, overcome competitive pressures, and transform their businesses to compete and grow in new domestic and international markets. So too will the future of the Canada’s economy and the living standards of all Canadians.

**Recession**

The Canadian economy contracted by 2.6 percent in 2009. Real per capita GDP fell 3.8 percent while per capita personal incomes declined by 1.0 percent after inflation. It was lower personal taxes collected by governments that put more money into the pockets of individual Canadians last year. Likewise, government spending financed by record deficits was the only factor that contributed to economic growth in 2009.

The recession hit manufacturers and exporters more harshly than any other sectors of the Canadian economy. In 2009, manufacturing production fell 14.4 percent and export volumes declined by 14.6 percent. Over 180,000 jobs were lost in Canada’s manufacturing sector last year. (Manufacturing employment has fallen by 420,000 or approximately 20% since 2005).
The Canadian Economy in 2009

<table>
<thead>
<tr>
<th></th>
<th>Percent Change in 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Spending</td>
<td>0.2%</td>
</tr>
<tr>
<td>plus Government Spending</td>
<td>3.0%</td>
</tr>
<tr>
<td>plus Government Investment</td>
<td>12.9%</td>
</tr>
<tr>
<td>plus Investment in Housing</td>
<td>-7.4%</td>
</tr>
<tr>
<td>plus Business Investment in Non-Residential Buildings</td>
<td>-15.6%</td>
</tr>
<tr>
<td>plus Business Investment in Machinery &amp; Equipment</td>
<td>-19.2%</td>
</tr>
<tr>
<td>equals Domestic Demand</td>
<td>-1.7%</td>
</tr>
<tr>
<td>plus Exports of Goods &amp; Services</td>
<td>-14.0%</td>
</tr>
<tr>
<td>minus Imports of Goods &amp; Services</td>
<td>-13.4%</td>
</tr>
<tr>
<td>equals Gross Domestic Product</td>
<td>-2.6%</td>
</tr>
</tbody>
</table>

While markets around the world fell into recession in 2008, the downturn in the US market was the most severe and the most challenging for Canadian business. The United States remains Canada’s primary export market. In fact, about half of what is manufactured in Canada is sold into or through the United States. Meanwhile, with exports depressed, relatively stronger domestic demand within Canada has sustained demand for imports. The net result has been an evaporation of Canada’s merchandise trade surplus. We are now borrowing from the rest of the world in order to sustain economic growth.
For manufacturers and exporters, the recession actually hit between August 2008 and August 2009. During that twelve month period Canada’s export sales fell by 32 percent, manufacturing sales fell by 20 percent, and manufacturing production declined by 17 percent.

Canadian manufacturers worked down their inventories and backlog of orders throughout the recession. Unfilled orders decreased by 26 percent. More worrying, however, is that new orders for manufactured goods plummeted 31 percent as the recession began.
Recovery

If 2009 was the year of recession, then 2010 should be a year of recovery. But, it will be a treacherous road ahead for the Canadian economy. Significant risks remain that may jeopardize and will certainly slow down the pace of economic growth this year.

i. Financial Risks

First of all, Canada is counting on the world economy to navigate its way around some substantial risks that remain in financial markets:

- Asset bubbles. Central banks moved quickly to inject liquidity into financial markets and reflate economies as the recession began. Asset prices have rebounded in most capital and property markets. However, in some markets, asset prices have increased far more rapidly than justified by real supply and demand. The danger is that financial inflation may create new asset bubbles that if burst would cause more financial turmoil and constrict the availability of capital even further, sending the real economy of consumer, business, and government spending once more into recession.

- Debt default by governments or financial institutions. Burgeoning public deficits have stretched the capacity of some governments to service their existing debt obligations. Countries like Greece are struggling to control public finances and limit deficit growth. The default of any government would push public borrowing costs higher for all. It would certainly increase levels of uncertainty across financial markets and might spark another round of credit defaults on the part of major lending institutions. For their part, banks and investors around the world are now subject to more stringent capital and lending constraints; but, a new implosion of asset values or serious default on the part of a major borrower are still threats that could ignite a chain reaction of defaults and once more severely limit the credit required to sustain economic recovery.

- Bond market and currency volatility. When the financial crisis hit in 2008 and early 2009, investors around the world turned to safer havens for their investments, including government bond markets. They especially favoured US Treasuries, the safest and most liquid money market of all, at least on a short-term basis. The US dollar appreciated rapidly as capital poured into the American bond market. And, bond yields fell, helping the US Government finance its record US$1.6 trillion deficit. However, as capital markets recover, there are better returns to be made than in the US Treasury or in other government bond markets. The US dollar began to depreciate against other major currencies in April 2009, sending the Canadian dollar, which had fallen to US$0.78 in March, soaring back up to US$0.95 by September. Bond and currency markets now face two significant risks, apart from the dangers of asset deflation and credit default. The first is the risk of inflation and currency devaluation that may be generated if governments print money to pay down their debts. The second is the risk that the major foreign investors in the US Treasury market – the central banks of
China, Japan, Singapore, and Taiwan – may find a different place to invest their foreign reserves. The second risk is compounded by the first. Both would send long-term bond rates up, and along with them mortgage and borrowing rates for North American consumers and businesses alike – again, acting as a break and perhaps a sudden stop to recovery.

ii. Unwinding Government Stimulus

As we try to avoid the financial risks surrounding economic recovery, a second set of challenges will come in the form of the transitional risks involved in unwinding government stimulus measures. Canada’s short-term economic prospects, like that of other countries, depend on how successfully we navigate away from public sector stimulus and toward private sector consumer spending, business investment, and exports as the primary drivers of economic growth.

Lower taxes and higher rates of deficit-financed government spending were instrumental in supporting economic activity in Canada last year. However, they cannot sustain economic recovery on their own. Stimulative fiscal and monetary policies act as short-term place holders. They take up slack in the economy and help to reboot consumer spending and business activity. But, governments cannot continue to borrow forever. They need to pay back the credit they have raised – with interest. And we know that interest rates will rise as inflationary pressures return.

Canada’s federal and provincial governments are now focusing on what it will take to reduce and eventually eliminate their borrowing requirements. However, it will prove much more difficult to govern in a year of recovery than in a year of recession. Now, governments need to make some tough but very important decisions as they balance deficit reduction against economic growth.

Our governments need to boost tax revenues and restrain spending without jeopardizing recovery. Their timing has to be almost perfect. Tax increases, higher interest rates, and public spending cuts will all diminish private sector demand. So there need to be clear signs of a strong rebound in consumer and business activity before deficits can be reduced. At the end of 2009, there was little indication that consumer spending, business investment, and exports alone would be able to sustain economic recovery without government stimulus.

Canada is not alone in its dependence on government stimulus to boost economic activity. Our largest trading partner, the United States, is now considering a fifth stimulus package on top of the Economic Stimulus Act of 2008, the Emergency Economic Stabilization Act of 2008, the Troubled Assets Relief Program, and the $787 billion in federal monies that the Obama administration committed in the American Recovery and Reinvestment Act of 2009. China achieved an economic growth rate of 9 percent in 2009, all of which was based on stimulus measures put in place by the Chinese government. Other countries around the world have implemented measures to reflate their economies, mostly funded through government deficits, and all are in the same predicament as Canada: How to unravel public sector stimulus without sending their economies back into recession. Their decisions will affect
Canada both through the medium of financial markets and the impact they will have on demand for Canadian exports.

iii. Obstacles to Recovery

There is another, third set of hurdles facing the Canadian economy on our road to recovery. As customer demand begins to rebound in Canada and around the world, there are a number of obstacles that limit the opportunities available to Canadian businesses:

- The volatility and rapid appreciation of the Canadian dollar. Volatile exchange rates make it extremely difficult for exporters and importers to manage pricing for their products or for the goods and services that they purchase from other countries. A sharp revaluation of currency rates may eliminate any margin that companies build into sales or supply contracts if they are not well hedged. Smaller businesses are particularly vulnerable.

  At the same time, the US dollar continues to depreciate against other freely traded currencies like the Canadian dollar. This will continue to make Canadian products more expensive in relation to goods and services from the United States or other countries whose currencies are tied to the US dollar. For Canadian companies pricing their products in American or other foreign currencies, the appreciation of the Canadian dollar acts like a price cut on their export sales, diminishing profits, cash flow, investment, and employment opportunities. The outlook is for further appreciation of the Canadian dollar in 2010.

- Overcapacity in many industrial markets. Although companies around the world have been cutting inventories in the face of recession, overcapacity remains in many key industrial markets. Some countries like China have been building up industrial capacity and stockpiling supplies of materials as a result of their economic stimulus measures. As a result, the rebound in demand for industrial goods will be slow to translate into new production, investment, and jobs growth. At the same time, competitive pressures remain intense. There is little pricing leverage available for businesses anywhere if they are competing in markets where supply continues to overwhelm demand.

- Unfair trading practices. Industrial overcapacity encourages unfair trading practices and elevates the risk that Canada may be sideswiped by retaliatory trade measures implemented by other countries, particularly the United States. Canadian businesses are hurt when products are dumped in Canada at prices below cost, or when counterfeit or fraudulently marked products enter the Canadian market. And, as other countries takes steps to penalize or restrict the entry of unfairly traded products, there is a danger that Canadian exports will be affected, especially if those unfairly traded goods are being transshipped through Canada.

- Restrictions in export markets. For all countries, economic recovery depends on developing new business opportunities. In turn, that rides on the ability of businesses to access markets around the
world. Yet, many governments, in spite of commitments not to do so, have imposed restrictions on imports of goods and services from other countries in order to protect domestic producers.

For Canada, the Buy American restrictions imposed by the US Government on procurement projects funded under the American Recovery and Reinvestment Act are the most serious example. Similar Buy American provisions have also been introduced in other bills before Congress. These restrictions have barred Canadian manufacturers from servicing state and municipal procurement markets and have forced many companies to relocate production from Canada to the United States. Even if they are not caught under Buy American rules, many Canadian exporters have found themselves excluded from the US market because their customers or distributors do not want to hold two separate sets of inventory. Moreover, the uncertainty as to how Buy American provisions should be applied has delayed US infrastructure spending and slowed recovery in our major export market.

The recent procurement agreement signed between Canada and the United States will strengthen Canada’s ability to fight Buy American restrictions in the future, but it offers no guarantee that Canadian manufacturers will be immune from similar restrictions in future legislation. And, while the agreement covers our most important external market, Canadian exporters are finding it difficult to access procurement markets in Europe, China, Japan, Korea, Australia, and Brazil, where new domestic procurement preferences are now also being applied.

More complex regulatory requirements are being imposed by governments as well, often making it more difficult for exporters from other countries to access external markets. Canadian and American companies are experiencing more difficulties at the Canada-US border where increasingly complicated information and regulatory compliance requirements are slowing down and increasing the costs of trans-border traffic. New food and product safety rules, product standards, customs, energy, and environmental regulations now being considered or imposed by American or other national governments all pose a serious threat to Canadian exporters if compliance costs and regulatory requirements overwhelm the opportunities that international markets have to offer.

- Mounting costs of regulatory compliance. Canadian businesses are facing an array of new domestic rules and regulations as well, ranging from new accounting standards and financial rules introduced in response to economic crisis to new regulations affecting food safety, product performance, energy use, greenhouse gas emissions, environmental management, labour practices, workplace health and safety, transportation, communication, customs, and security.

An already complicated matrix of compliance requirements, technical standards, and regulatory interpretations is becoming even more complex, especially when different regulatory approaches are taken by federal and provincial governments. Regulatory processes are becoming more complicated within governments and other rule-setting bodies as well. Testing, auditing, inspection, and approval times are lengthening, causing delays for businesses and frequently leading to missed economic opportunities. From a business perspective, mandatory overheads – the costs involved in
paying regulatory fees, meeting compliance requirements, and acquiring approvals – are mounting, just at the time when companies are focusing on ways to reduce unnecessary waste in their own operations in order to trim costs and improve competitiveness.

Efficient regulations are also the most effective regulations. It is just easier to comply when rules are clearly defined, simple to follow, low cost to apply, uniformly enforced, and adjudicated in a fair and timely way. On the other hand, when regulatory compliance is complex, costly, and subject to delay, regulations are less effective in meeting their goals, business opportunities are lost, and productivity and economic growth suffer as a result. Regulatory complexity acts today as an obstacle to economic recovery.

• The availability of financing. In the face of recession, Canadian businesses worked down their orders, reduced their inventories, and used more of their credit lines in order to survive the downturn in market demand. Financing became more difficult and costly to obtain, particularly for companies looking for asset-backed credit or venture capital. Now, as customer orders begin to return, costs of production are increasing faster than revenues. Many companies are experiencing shortages of the working capital they need to take advantage of strengthening market conditions.

Reset: Future Challenges and Opportunities

Canada's economic future will not be a repeat of the past. In this recovery, we will not see a cyclical rebound in economic growth, consumer demand, or job creation.

Structural changes are reshaping the nature of economic activity in Canada and around the world. Many of these changes have been accentuated and accelerated by recession. They bring with them new economic and social challenges for Canada, and new challenges and opportunities for Canadian business.

Our economic recovery will be shaped by many of the structural changes that are already evident in domestic and international markets:

• Changing consumer expectations. Consumers are more cautious. They are saving more and spending less. They are focusing on price competitiveness, but also now more on quality, safety, brand promises, local production, and more specialized immediate solutions.

• A shift in market power and economic growth potential away from the developed markets of North America, Europe, and Japan, to the emerging markets of China, India, Southeast Asia, and Latin America.

• Corporate consolidation and the restructuring of supply chains in response to shifting patterns of industrial production and trade around the world. Over the past four years, Canada has lost
production and product mandates as the result of the consolidation of multinational enterprises and a transfer of manufacturing activity out of Canada. In the process, many smaller Canadian suppliers that have relied on their larger customers to integrate their products and services into multinational supply chains have now lost their access to global markets.

- An aging population. By 2012 more Canadians will be leaving employment than entering the workforce. An older population will increase demand for health care and social services and place further strains on government finances. More seniors will be turning to personal savings, pensions, or public income support programs at a time when fewer people will be employed and investing in property and financial assets. An aging population threatens to bring with it shortages of capital and skilled labour. It will shift the onus to the fewer people in the workforce to boost productivity and create the income required to sustain the needs of an older generation.

- Energy constraints and environmental priorities. How we respond to the challenges of climate change will fundamentally reshape economic activity in Canada and around the world. Energy is consumed in everything that humans do. If we are to maintain economic growth and improve living standards in developed and developing countries alike, then the only way to reduce greenhouse gas emissions is to accelerate technological progress. Investment and innovation will be crucial in developing and adopting the technological solutions we need to increase energy efficiency, replace industrial processes, and transition to alternative energy or less carbon intensive fuels.

**Innovation, International Business, Manufacturing**

Our capacity as Canadians to meet the challenges and take advantage of the opportunities that will be generated as a result of these fundamental economic and social changes rests on three critical factors:

1. Innovation – our ability to develop and bring commercially competitive technological solutions to market;

2. International business – our ability to access customers, build business partnerships, and acquire the best in skills, knowledge, technologies, goods and services around the world; and,

3. Manufacturing – our ability to boost productivity by increasing the value we add to our knowledge, skills, and natural resources through goods production, and thereby increase demand for high-value, high-paying jobs in the services sector.

Manufacturing will play a critical role in improving productivity and bringing to market the technological solutions required to respond to structural change, sustain economic growth, and create high quality jobs. Manufacturing is still Canada's largest single business sector, directly employing 1.8 million Canadians. But, every dollar of manufacturing output creates more than three dollars in total economic activity, leveraging primary industries, utilities, construction, and business
services including research, design, engineering, software and technical services, transportation, warehousing, distribution, information and communication services, as well as administrative, business management, and financial services. Manufacturers account for two-thirds of Canada’s goods and services exports, 70 percent of business sector research and development, and 85 percent of all new technologies brought to market in Canada. They pay 30 percent of all business taxes in the country.

![Jobs Depend on Manufacturing](chart)

Business as Usual is Not an Option

The recession has taught Canadian manufacturers and exporters that business as usual cannot be an option for companies that are aiming to compete and grow in domestic or global markets. If companies are doing business today the same way they were five years ago, they are very likely facing severe financial difficulties. At the same time, no business is likely to prosper if it does not take the new challenges and opportunities that recovery will bring over the next five years into account, and adjust its competitive strategy accordingly.

No one should assume that the Canadian economy will revert back to the circumstances of the 1990s or the past decade. The recovery will bring with it a new economic reality – a business environment characterized by new challenges and opportunities in domestic and international markets, a strong Canadian dollar, intense competition, high energy costs, and greater capital and regulatory constraints. That is the environment in which Canadian businesses must now operate.
In order to succeed, Canadian business leaders cannot think of what their companies do as simply getting product out the door. Instead, they have to see that they are in the business of providing solutions for customers through the capabilities that their companies have to offer. In order to compete and grow, their businesses need to differentiate themselves from the competition. They need to:

- Ensure that their employees have the skill sets and competencies required for business success;
- Improve operating efficiencies and lower costs by focusing on the value that customers will pay for and eliminating wasteful non value-adding activities throughout their enterprise;
- Adopt new, more productive, safer, and more environmentally friendly production, information, and communication technologies;
- Find new customers, business partners, and distribution channels in markets around the world;
- Improve existing products through more customized design and services;
- Develop and bring to market new and more specialized products and technologies;
- Work with suppliers to lower costs, develop new materials, components, and services, and speed up and improve the reliability of supply; and,
- Manage logistics systems to ensure rapid and reliable delivery of products and services to customers.

**Economic Policy Priorities**

One of the most important lessons of the recession is that economic wealth is not generated by spinning other people’s debt around and around, but ultimately by producing the goods and services that customers want to buy.

It is up to individual businesses to make the decisions and take the steps that are required to compete and grow. Together, their success will determine the future of the Canadian economy, our ability to generate the wealth, the investments, and the jobs necessary to ensure long-term economic growth, and our capacity to sustain the living standards of all Canadians.

Our governments also have an important role to play in shaping Canada's economic future. Governments secure business activity through laws that recognize property rights, provide for the enforcement of contracts, and enforce fair commercial practices. Their regulations define the market and shape business behavior. Governments are major customers and investors in their own right. And,
they provide the means for redistributing wealth through our tax system as well as our income support and social programs.

But, governments do not create jobs. Customers do. It is the role of government to help sustain customer demand and ensure a supportive environment that encourages and enables Canadian businesses to compete successfully, and to invest, employ, and grow.

Business as usual is no longer an option for governments either. New policy priorities and strategies are required for new economic circumstances. They need to address the challenges and leverage the opportunities of economic recovery. Above all, they need to facilitate the transformation that Canada’s business sector must now make in order to succeed in domestic and international markets.

Canada’s public policy priorities should be redefined in light of the risks and structural changes reshaping the Canadian economy in recovery and beyond. In order to sustain economic prosperity, Canada needs to take the lead along with other countries in restoring certainty and maintaining sound regulations in financial markets. Moreover, federal, provincial, territorial, and municipal governments need to:

1. Develop a concerted policy approach focused on enhancing Canada’s innovation, productivity, manufacturing, and international business performance;

2. Continue to lower tax rates on business investment and adopt specific tax measures that leave more money in the hands of companies that are investing in new, more productive and environmentally friendlier production technologies, new process and product innovations, new workplace skills, and the development of new markets in Canada and around the world;

3. Harmonize regulatory requirements, improve regulatory certainty, increase the efficiency of regulatory processes, and eliminate unnecessary regulatory costs;

4. Facilitate improvements in environmental, health and safety performance on the part of business;

5. Continue to invest in and improve Canada’s skills and research base;

6. Encourage the entry of immigrants and non-traditional sources of labour within Canada into our skilled workforce;

7. Invest in the energy and logistics infrastructure that Canadian businesses will require to compete in global markets;

8. Leverage public procurement opportunities to maximize investment opportunities and economic benefits for Canadian businesses;
9. Counter protectionism, secure more open access to markets around the world, and effectively enforce Canada's trade rules; and,

10. Strengthen government initiatives that provide financial and business support to companies that are developing new markets.

Policy Recommendations

In line with these economic priorities, Canadian Manufacturers & Exporters makes the following specific policy recommendations:

i. To develop a more concerted strategy for innovation, manufacturing, and international business development:
   • Improve the coordination among departments and across governments of economic, industrial, trade, regulatory, and foreign policies to achieve a well-established set of national policy objectives.

ii. To encourage investment in productive assets:
   • Extend the period during which companies can take advantage of the two-year write-off for investments in manufacturing and processing machinery and equipment for at least another five years beyond 2011;
   • Make Canada's Scientific Research and Experimental Development tax credit refundable;
   • Provide a tax credit for workplace training to offset increases in Employment Insurance premiums;
   • Provide a tax credit to partially offset the costs of new market development.

iii. To encourage innovation, the adoption of new technologies, and the commercialization of new products and technologies:
   • Maintain direct financial support for companies undertaking productivity, energy efficiency, and information technology improvements;
   • Increase financial support for the National Research Council's Industrial Research Assistance Program (IRAP);
   • Maintain financial support for research undertaken by Canadian universities and colleges but tie more funding to collaborative research and development with industry; and,
   • Strengthen technology transfer mechanisms between academic and government research centres and industry.
iv. To improve the ability of businesses to develop and take advantage of international opportunities:

- Continue to counter protectionism and negotiate meaningful market access, investment protection, and tax agreements with other countries, and particularly with Europe, India, and Latin America;
- Develop and pursue a clear and coherent strategy to improve business relations with China;
- Streamline regulatory requirements at the Canada-US border;
- Strengthen anti-dumping and anti-counterfeit enforcement;
- Encourage connections between Canadian businesses and larger multinational supply chains;
- Improve the services of the trade commissioner service in markets that are critical for Canadian business;
- Improve the risk appetite and competitiveness of services provided by Export Development Canada;
- Establish a Canadian Development Financing Fund that can take long-term equity positions in international infrastructure projects; and,
- Improve the availability of market and business intelligence provided by organizations like the Department of Foreign Affairs and International Trade, the Canadian International Development Agency, Canadian Commercial Corporation, Export Development Canada, other departments within federal and provincial governments, the Forum for International Trade Training, trade associations, and other trade promotion agencies.

v. To improve the quality and availability of workforce skills:

- Focus on developing essential workplace skills such as business and supervisory leadership, problem solving, oral communication, reading comprehension, mathematical skills, and the ability to working in teams;
- Increase support for applied skills, trades, and technology programs in Canada’s school and college systems;
- Make it easier for business visitors and skilled immigrants to enter, work, and stay in Canada;
- Encourage the development of nationally and internationally recognized skills accreditation across industry; and,
- Help identify and communicate best practices in workplace skills development, workforce mobilization, and human resources management.

vi. To improve access to financing for competitive, creditworthy businesses:

- Improve credit support programs introduced by Export Development Canada and the Business Development Bank of Canada;
- Strengthen government-backed guarantees for bank lending to companies that require additional working capital to improve productivity and take advantage of new business opportunities;
• Allow financial institutions to lend against accumulated R&D tax credits;
• Encourage banks to expand their international connections; and,
• Simplify and expedite approvals for government funding programs.

vii. To strengthen Canada’s energy and logistics infrastructure:

• Expedite project approvals;
• Ensure that Canadian companies have access to energy distribution systems;
• Continue to upgrade border transportation, security, and customs infrastructure;
• Support the development of the Atlantic Canadian and Continental (Ontario/Quebec) Gateways in addition to the Pacific Gateway; and,
• Develop a national transportation policy involving a clear reduction in red tape and in regulations that impede interprovincial and trans-border transport.

viii. To improve regulatory efficiency:

• Review and modernize legislation;
• Eliminate unnecessary regulatory requirements;
• Harmonize rules and procedures as much as possible within Canada and with other jurisdictions; and,
• Improve the management of government to encourage more efficient and effective regulatory processes.