TORONTO REGION BOARD OF TRADE

2018 Federal Pre-Budget Submission

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Executive Summary

Founded in 1845, the Toronto Region Board of Trade is the chamber of commerce for Canada's largest urban centre, connecting more than 12,000 members, business professionals and influencers throughout the Toronto region. The Board fuels the economic, social and cultural vitality of the entire Toronto region by fostering powerful collaborations among business, government, thought leaders and community builders. The Toronto Region Board of Trade's vision is to make Toronto one of the most competitive and sought-after business regions in the world.

The Board is pleased to see the Finance Committee focus its pre-budget consultations on the topics of productivity and competitiveness. The private sector will be the driving force for rising productivity and competitive advantage in Canada, but effective government policies can provide support.

To aid this, the Board calls on the Federal Government to act in four key areas:

1. Trade

Canada must continue to work to expand trade opportunities through new agreements, especially with Asia, the region of greatest growth. At home, the government should do more to encourage SMEs to export which will bring significant benefits to the economy.

2. Infrastructure & Transportation

The government can enhance Canada's productivity and competitiveness by continuing to invest in infrastructure which reduces congestion and improves the movement of people and goods.

3. Economic Development & Talent

The Supercluster initiative is a positive new direction for the government's economic development policies. However, the government must combine this with training and talent policies that align with our growth sectors and provide better labour market data.

4. Competitiveness & Fiscal Management

Despite positive investments in infrastructure and economic development, Canada's long-term competitiveness requires the government to reduce red tape and present a credible plan to eliminate the deficit.

Introduction

The private sector will be the driving force for rising productivity and competitive advantage in Canada, but effective government policies can provide support. Federal policies that encourage increased trade among small and medium-sized enterprises (SMEs), infrastructure investments that reduce congestion and increase productivity and economic development strategies that focus on existing strengths (e.g. superclusters) will help our businesses succeed in creating prosperity for all Canadians.

The Board is pleased to see the Finance Committee focus its pre-budget consultations on the topics of productivity and competitiveness.

Trade

As a medium-sized economy with a relatively small population, Canada's continued prosperity is dependent upon our ability to export and compete in global markets. Trade focuses business on goods and services that are competitive in the global market and helps create good jobs: every $100 million in new export activity creates 1,000 jobs.

To achieve prosperity through trade, the government's first responsibility is to improve market access through trade deals. While the recent agreement with the European Union is positive, the government should not be complacent, particularly with NAFTA under threat. New agreements will increase opportunities for Canadian businesses and help to diversify trade, which still relies too much on the United States. The government should pursue a "TPP-light" deal that would include Asia-Pacific countries without the US, as well as look to other opportunities in East Asia and South America. The government should also quickly conclude the Comprehensive Economic Partnership Agreement with India as a precursor to a broader free trade agreement. Finally, we applaud the government for its efforts to defend and improve NAFTA and urge all Members and officials to work with local, state and Congressional partners in the US to preserve this critical agreement.

Opening new markets to Canadian firms is only the first step, however, as the federal government must do more to encourage SMEs to export. Canadian SMEs are not seizing this opportunity as only five per cent are currently exporting, with only 500 Canadian businesses accounting for 76 per cent of our international trade.

The government can do more to encourage trade through the following measures:

- Partner with the Board's World Trade Centre Toronto (WTC-T) to expand our trade education services nationally. WTC-T has already provided trade education to more than 130 SMEs through its Trade Accelerator Program (TAP). The federal government should work with WTC-T to expand TAP nationally to prepare more firms for international trade.

- Prepare businesses to take advantage of CETA. The trade agreement with the EU provides new opportunities to Canada's SMEs. Unfortunately, many businesses are not sufficiently informed or prepared to take advantage of the new markets opened up by CETA. The Board urges the federal government, in partnership with chambers of commerce and industry associations, to provide SMEs with the information and resources to fully engage with CETA. This will allow Canada to achieve balanced trade with the EU and not simply provide a new market for European firms.

Infrastructure & Transportation

The federal government's decision to commit $20 billion to public transit in Budget 2017 was a positive step towards getting people moving in Canada's largest urban centres. Basing the funding criteria on ridership and population will help to focus these funds on the areas that need it most, such as the Toronto region.

Congestion costs our economy billions every year in lost productivity (as much as $11 billion in Toronto alone, according to a 2013 estimate) and the government should ensure that projects that meet its criteria are quickly approved and construction is begun as soon as possible.

Addressing congestion is about more than just the movement of people, policies must also address the movement of goods. In the Toronto region alone, almost 40 per cent of all jobs are directly related to goods movement industries, including manufacturing, wholesale and retail, transportation and warehousing and primary industries. The Board has embarked on a multi-year study of freight and goods movement throughout the Toronto region and beyond (including Oshawa, Hamilton, Guelph and Kitchener-Waterloo-Cambridge, the Region we are calling the Toronto-Waterloo Innovation Corridor) to better identify the policies that are necessary to improve our economy. While we urge all levels of government to heed our forthcoming recommendations, federal authorities can act now to improve goods and people movement in the Region, improving our productivity and benefiting the national economy.

The government can do more to enhance the movement of people and goods through the following measures:

- Speed up improvements to border infrastructure at crossings and airports. The Board was pleased to see Budget 2017 make new investments in our border infrastructure at land crossings and airports, but more must be done. The border remains a major impediment to businesses such as auto & parts and food & beverage manufacturing that both rely on an integrated North American supply chain, increasing costs and decreasing productivity.

- Invest in improvements in airport connectivity for goods and people movement. The Toronto region hosts the first (Toronto Pearson) and third (Hamilton Munro) most important airports for handling cargo. Pearson also centres an employment area of more than 300,000 people, Canada's second largest (next to downtown Toronto). The federal government should work with the provinces, municipalities and airport authorities to improve infrastructure around these crucial transportation hubs.

- Implement a Regional Airport Strategy for southern Ontario. By 2030 Pearson, Canada's busiest airport, will be closing in on its passenger capacity limit. The federal government should work with the Greater Toronto Airport Authority, regional airports and other stakeholders to implement a Regional Airport Strategy that will accommodate the rapid growth at Pearson and other airports.

In addition to federal funding for infrastructure, the Board is also optimistic about the potential role of the Canadian Infrastructure Bank (CIB). Even with new investments from federal, provincial and municipal governments, there is still not enough funding for all of the infrastructure that Canada needs. Around the world, the private sector spends billions on public infrastructure projects and the CIB will provide the framework and expertise to bring some of these funds to Canada.

However, the private sector will not invest simply because the government asks for funds. A good governance model for the CIB is paramount to allow it to operate independently and only approve projects with a sound business case. This will instill confidence in private sector investors and differentiate it from existing federal funding programs which often prioritize factors such as regional balance.

Beyond the necessity of providing the Bank with strong, independent governance, the government must also invest resources to educate the public on the need for a role for the private sector in infrastructure. This new approach to infrastructure funding can be successful, but will benefit from public understanding and buy-in. Finally, to provide flexibility to investors and governments, municipalities should be allowed to package deals in order to bid for CIB funds.

Economic Development & Talent

The federal government's Innovation Supercluster initiative represents an encouraging new approach to economic development. Rather than sprinkle government money around the country, the supercluster plan acknowledges that Canada must focus on improving and scaling up existing areas of strength. The stipulation that the government will match funds from the private sector will further restrict the focus to clusters that are already achieving success.

The Board urges the government to award final supercluster funding to the areas that are the most developed and will generate the greatest economic return. Resist the usual urge to make funding equitable by region and instead use transfer programs such as equalization to address any regional disparities.

To truly build a competitive economy however, Canada's talent and training policies must be aligned with our growth sectors and economic development policies. The government has already making progress with its Global Skills Strategy. New work permit exemptions, a two-week processing time for certain high-skilled works and the creation of a Global Talent Stream will help our start-ups attract the world-leading talent they need.

More can still be done to align federal talent policies with economic development. The proposed Future Skills Lab (FSL) has the potential to improve our labour market data, an area where Canada needs to improve. However, the FSL must secure the full cooperation of the provinces and territories to avoid duplication and achieve the best results. By focusing on providing better training and employment data (broken down by sector and region), the FSL can help direct federal job grants towards areas of economic growth and align with provincial funding.

Finally, the Board commends the government on the introduction of a smart cities challenge and urges the government to release clear and transparent guidelines for this contest as soon as possible.

Competitiveness & Fiscal Management

Canada's long-term competitiveness relies upon confidence in the country's regulatory and fiscal management. Businesses are less likely to invest if they believe they will be choked by red tape or pay increased taxes to service persistent deficits.

From a regulatory perspective, the government should recommit to removing one regulation for every new one introduced. This should be only the first step of a more complete review of government regulations, potentially on a sector-by-sector base, to target ways to reduce inefficient or obsolete regulations that make doing business in Canada costlier.

Likewise, the government needs to release a plan to tackle its larger-than-expected deficits. As we noted in our report card on the 2017 Budget "deficits may be warranted in the short term, but a clear path back to balance is necessary to ensure business confidence." The size of the deficit is particularly hard to defend in a year where Canada is leading the G7 in growth.

While the Board supports many of the investments that the government is making, the fact that the deficits are much larger than the added infrastructure spending speaks to the need for greater fiscal discipline. Without such discipline, a higher debt risks diverting funds away from much needed investments such as infrastructure spending.