IDEAS INTO ACTION:
A REVIEW OF PROGRESS MADE ON THE RECOMMENDATIONS OF THE ADVISORY COUNCIL ON ECONOMIC GROWTH

ADVISORY COUNCIL ON ECONOMIC GROWTH

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In early 2016, we embarked on our task with a few principles in mind. We sought to develop a small number (fewer than 12) of high-impact initiatives that will stimulate economic growth in Canada and raise median pre-tax household income by 2030 by $15,000 above current projections. We wanted to learn from others and draw inspiration from global best practices and case studies. We have tried to be bold and focus on implementation and impact. We aimed to release our recommendations in waves to fit the evolving priorities and focus areas of the federal government. And working iteratively with stakeholders and the public sector was important to us—in particular, we worked interactively with the Department of Finance Canada and other departments to help build support and prepare the ground for implementation.

With this in mind, in this memo we review the two previous rounds of recommendations, provide an update on their implementation, and highlight the next steps required to realize their full potential.

OUR FIRST WAVE OF RECOMMENDATIONS

In October 2016, we offered three recommendations, on infrastructure, foreign investment into Canada, and immigration.

1. Unleashing productivity through infrastructure

Investment in productivity-enhancing infrastructure—such as improving transportation of people, goods, energy, and data, or improving the urban environment—is a key enabler of economic growth. Each dollar of such investment brings 60 cents worth of additional economic activity in the short term and has a 20 to 50 percent return on investment in the long term. It is also an important driver of skilled and unskilled job creation; 15 jobs are created for every $1 million invested. Equally important, Canada faces a major infrastructure gap—anywhere from as "low" as $150 billion to as high as $1 trillion—that needs to be addressed.

We recommended developing a focused federal infrastructure strategy in line with the economic growth agenda of the Government of Canada (referred to as "the government" hereafter), and creating a Canadian Infrastructure Development Bank to leverage institutional capital and deliver over $200 billion worth of productivity-enhancing infrastructure projects over 10 years. Finally, we recommended that the government create a "flywheel" for reinvestment by catalyzing the participation of institutional capital in existing assets, and using this capital to multiply investment into new infrastructure.

Legislation to establish the Canada Infrastructure Bank received Royal Assent in June 2017, and the Bank is on its way to making $35 billion in infrastructure project investments. The government has moved quickly to recruit the Bank's leadership, appointing Jim Leech as a special advisor, Janice Fukakusa as the Bank's first chair, and 10 other members of the Board of Directors. The Bank is expected to be operational by the end of 2017.

Going forward, we believe that the government should focus on the principles that we laid out in the Canada Infrastructure Bank Implementation Memo. More specifically, we would emphasize the importance of three specific considerations as the bank is launched:

- Strive to keep the investment decision process independent from short-term political priorities;
- Seek out and not compromise on attracting top talent, especially for its executive ranks, and compensate them at competitive market rates;
- Focus on infrastructure projects that will enhance the productivity of the economy and drive growth. Examples include toll highways and bridges, high-speed rail, port and airport expansions, smart city infrastructure, national broadband infrastructure, power transmission, and natural resource infrastructure.

Beyond these considerations, the bank's first area of focus should be to build a pipeline of productivity-enhancing projects that have a strong potential of attracting private capital, move quickly to generate "quick wins," and educate other stakeholders (including provincial and municipal governments, and the financial and infrastructure-development sectors) on how to work with the Bank.

2. Bringing foreign investment to Canada

Our second recommendation was based on the conviction that foreign direct investment (FDI) is critical for driving growth, creating jobs, and integrating Canadian companies into global markets—but Canada is falling behind here. While OECD countries expanded their inbound FDI an average of seven percent annually since 2005, Canada's has grown only two percent a year—in 2016, Canada ranked 33rd out of 40 countries for FDI restrictiveness. We recommended a national FDI strategy and a world-class FDI agency to enable Canada to take a concerted approach to investment attraction—one that helps stimulate broad sectors of the economy and attracts the best investors available, those with both capital and knowledge.

Here too, Government moved quickly to establish a new federal body—the Invest in Canada Hub—and committing $218 million over five years to run it. The process of selecting a CEO is already underway and the Hub is expected to be operational by the end of 2017.

Going forward, we believe that the success of this new institution will depend on a number of success factors, and we would highlight three for consideration:

- Develop a clear strategic focus: the organization cannot be active in all sectors and should develop a clear strategy to promote those with greatest potential;
- Adopt a "customer experience" mentality: the Hub should operate a "concierge" service for investors, using personalized approaches;
- Invest in a coordinated approach with institutions at other levels of government: it should not act in isolation—it should coordinate with provincial and local development agencies and work with other federal departments.

We also encourage the government to educate the public on the potential benefits of the Hub, which include a short-term stimulus to GDP of over $40 billion and the longer-run effect of integrating more Canadian companies into global supply chains.

3. Attracting the talent Canada needs through immigration

Our third recommendation, on immigration, flowed from three deep beliefs. More than anything else, skilled and talented people are the critical driver of inclusive economic growth. Diversity and the ability to integrate skilled immigrants are rare and highly valuable Canadian attributes. And the strain of an aging population will soon create a need for more people to balance our "population pyramid" and maintain a high quality of life.

We recommended four specific actions to attract top talent through immigration and provide sufficient resources to integrate them into Canadian society:

- Gradually increase annual immigration from about 270,000 in 2016 to 450,000 over five years, with the objective of bringing in an additional 75,000 additional economic immigrants annually by 2021;
- Facilitate entry for senior and specialized talent by streamlining permanent and temporary entry programs to help high-growth and innovative companies get access to the managerial capacity and skills they need to scale and be globally competitive;
- Qualify more international students for permanent residency in order to tap into an already-integrated pool of young, educated talent;
- Improve national accreditation standards to help skilled immigrants access suitable productive employment opportunities.

On October 31, 2016, the government released the *2017 Immigration Levels Plan* which reaffirmed Canada's strong commitment to immigration by setting a target of 300,000 new permanent residents in 2017. This included a target to admit 172,500 economic immigrants per year, up from the 2016 level of 160,600, representing an increase of 7.4 per cent. The recently announced plan for 2018-2020 will gradually raise immigration levels from 300,000 in 2017 to 340,000 in 2020. While this is short of our recommendation, it is a step in the right direction. The plan calls for economic immigrants to form the bulk of the increase—such new Canadians are an important driver of growth.

A recent Conference Board report also concludes that increasing annual immigration levels would lead to faster GDP growth than current projections (2.05 percent versus 1.85 percent annually), as well as a better support ratio (number of working age adults per person aged 65 or more). However, it warns that to bear the fruits of a significant increase in immigration levels, Canada needs to address "long-standing labour market integration challenges that immigrants face" and actively build public support for immigration.

We encourage the government to take the necessary measures for bolstering the Canada's system for social and labour market integration and consider raising immigration levels further in subsequent years.

The government has taken action on the second recommendation by reforming the Express Entry points system and implementing a Global Skills Strategy in June 2017, which makes it easier for global talent to immigrate by setting a two-week standard for the issuance of visas and work permits. In response to our fourth recommendation, the government has adopted a Targeted Employment Strategy for Newcomers.

OUR SECOND WAVE OF RECOMMENDATIONS

In February 2017, we added five more recommendations to drive inclusive growth, by scaling innovation, unleashing the growth potential of six to eight high-potential sectors, developing skills for the future economy, boosting workforce participation, and positioning Canada as a global trade hub.

4. Unlocking innovation to drive scale and growth

Innovation is absolutely critical to Canada's future economic success. We found that Canadian companies are highly innovative but struggle to scale and commercialize these innovations, largely due insufficient access to talent and growth capital.

Our report in February 2017 included five specific ideas for Canada to help more companies scale up:

- "Double down" on a few innovation marketplaces where Canada has already developed organic traction;
- Create additional pools of growth capital, including a private-sector-led growth fund to support established high-impact firms and a matching fund to stimulate capital raising;
- Leverage government procurement to accelerate innovative companies by shifting from a requirements-focused to a value-based procurement system, thus transforming the government into a first customer for Canadian innovative solutions;
- Conduct a full review and rationalization of innovation-focused government programming;
- Increase companies' access to talent through targeted immigration policies (discussed in the previous section).

Below we expound on progress on our first four ideas below. With respect our last idea, the government has implemented a two-week fast-track visa program that aims to increase access to talent.

Catalyze the formation of business-led "innovation marketplaces"

Our first recommendation called for the government to catalyze the formation of business-led innovation marketplaces in areas where Canada has momentum and market participants need new solutions. It flowed from a belief that commercial innovation happens when innovators work alongside corporate customers to generate solutions to real commercial problems.

The government's Innovation Superclusters Initiative has the potential to catalyze innovation through a similar approach. The federal budget allocated $950 million in 2016 to fund up to five superclusters that the government will select by March 2018. Out of 50 applications, the government has so far selected nine finalists focused on the following fields: ocean economy in Atlantic Canada; artificial intelligence in Quebec;

mining and cleantech in Ontario; advanced manufacturing in Ontario; plant-based protein in Saskatchewan; digital technology in British Columbia; next-generation mobility systems and technologies in Quebec, Ontario, British Columbia and Atlantic Canada; smart agri-food in Alberta; and smart, sustainable, and resilient infrastructure in Alberta.

To get the most out of this investment, we encourage the government to incorporate three of the core tenets of our original proposal:

- Use a stage-gated funding approach and scale up clusters that demonstrate performance.
- Ensure significant private-sector leadership, investment and involvement;
- Use a data-driven and results-oriented selection and monitoring process.

Create additional pools of growth capital

Similarly, we were happy to see the private sector create the Canadian Business Growth Fund that will provide capital and support, including mentorship, to help Canadian start-ups reach scale. The Business Growth Fund was established by a consortium of Canada banks and insurance companies, which appointed Dale Ponder as independent chair and George Rossolatos as chief executive officer in October 2017. Above all, we would encourage the Growth Fund to remain true to two design principles that were proposed in our original recommendation:

- Remain focused on high impact firms in Canada in need of growth capital (do not be tempted to allocate capital toward lower-risk, more traditional sectors and companies);
- Offer support beyond capital, including value-added advice and networking opportunities.

The government's proposed Venture Capital Catalyst Initiative (VCCI) has the potential to improve the sustainability of the Canadian venture capital ecosystem and spur private sector investment. To do so, it would need to have access to a deep pool of experienced venture capital fund managers and establish a mentorship program for investee companies. The government has recently concluded a consultation with the wider investor community on the design of the initiative and we look forward to the announcement of the detailed implementation plan.

We would also strongly encourage some of the capital of VCCI to be allocated to the Council's recommendation of a matching fund, rather than be fully allocated through a fund of funds model.

Modify government procurement policy to incorporate strategic procurement

We have seen progress on strategic procurement as well. The government's 2017 budget allocated up to $50 million to launch a new procurement program, Innovative Solutions Canada, modelled on the U.S. Small Business Innovation Research program, which has proven results. In the Canadian program, federal departments and agencies will allocate a defined share of their spending on R&D, late-stage prototypes and other goods and services to Canadian innovators and entrepreneurs. For its part, the government will enjoy the latest, most innovative products and services—"a true win-win for citizens and the businesses that employ them," the budget states.

The Council encourages all federal departments and agencies to commit a portion of their procurement budget to the program and looks forward to the announcement of the department-specific targets. We also believe that it is critical that the government publicly report on the results of the program, not only to ensure transparency, but also to build public awareness about this new opportunity. Finally, we continue to believe that Canada should use strategic procurement to drive inclusive economic growth by ensuring that businesses owned by underrepresented groups, such as Aboriginal-identified small businesses, are on a level playing field when it comes to accessing government contracts.

Review and rationalize government innovation programs

Our fourth innovation-related recommendation called for the optimization of Canada's many innovation programs to both improve access to support and achieve a better return on government investment. In May 2017, the Treasury Board Secretariat (TBS) launched the Horizontal Business Innovation and Clean Technology Review with the objective of simplifying programming and better aligning resources to improve the effectiveness of innovation programs. While the review relies on a rigorous methodology and is bringing much-needed transparency into the suite of existing programs, we note that it is conducted by the TBS, rather than a board chaired by an external expert, as we originally recommended.

The Council emphasizes the importance of acting on the takeaways from the review during the 2018 Federal Budget cycle. All government departments overseeing innovation programs should use its findings to focus their funds and efforts on a few larger "platform" programs with proven effectiveness. We also encourage the government to perform ongoing horizontal evaluations of its programming, and use a decision-making approach akin to that of a portfolio investor who allocates capital based on a target risk-return profile.

5. Building a highly skilled and resilient Canadian workforce through the FutureSkills Lab

Our overarching priority as a Council is to create opportunities for all Canadians to participate in an open and well-functioning economy. Our fifth recommendation, for a skills organization we called FutureSkills Lab, grew from two findings. Many Canadians currently lack the technical and other skills needed for the future economy, and technology is advancing so rapidly that these skills are sure to change. We concluded that more agility must be built into the system.

Rather than propose specific skills or endorse a particular course of training, the FutureSkills Lab is designed as an agile "test lab" that will discover and develop innovative training models over time, adding elements of flexibility and resiliency to Canada's complex education system.

We suggested three roles the Lab could play in enabling an agile skilling system:

- Find and finance innovative upskilling and reskilling pilot programs;
- Identify new sources of skills information (working with large private sector organizations, for example);
- Define skills and educational objectives in collaboration with governments and educational institutions.

We acknowledge the progress on these recommendations. Specifically, the government has allocated $225 million over four years to launch a new skills organization in 2018. It has issued a discussion paper to consult stakeholders on the mandate, functions, and governance of the new organization. We encourage the government to make the proposed organization a genuine innovation lab for new approaches to skills development that is nimble and agile in the face of the major changes underway in the labour market. In addition, the organization should serve as a centre of excellence with clearly defined channels for influencing skills development strategy and programming, while still sitting at an arm's length from existing government institutions and relying on an independent governance structure.

6. Unleashing the growth potential of key sectors

Our recommendation here evolved from Canada's need to focus its energies on areas where it has the right ingredients to be a global leader. To that end, we suggested that Canada identify six to eight high-potential sectors and move assertively to remove barriers, bring together the capabilities and resources available across the country, and unlock private sector growth. The idea is not to pick winners, but rather to raise our collective ambitions as other countries do the same.

With its 2017 budget, the government formed six Economic Strategy Tables, including advanced manufacturing, agri-food, clean technology, digital industries, health/bio-sciences, and clean resources. We broadly agree with these choices, and believe that the roundtables' focus on innovation, health, and sustainability will help drive long-term inclusive growth. As of November 2017, four of the tables' chairs have been appointed and two of the tables have already held their first meetings. All tables are expected to begin their work by the end of 2017.

To ensure success, each sector table should take several steps:

- Set a bold ambition and find ways to track progress;
- Draw inspiration from global case studies and success stories;
- Identify barriers to growth for each specific sector, as well as those that affect all sectors;
- Align on a few specific and ambitious initiatives to unlock growth in the sector.

The government has a critical role to play as well, by working collaboratively with the tables, moving quickly on recommendations, and using its full weight to support and champion the sectors (for example, through trade missions, regulatory changes, support services, and so on). The government should also act as a check and balance to ensure these sectors are in fact creating high-quality jobs and driving inclusive growth.

7. Tapping economic potential through broader workforce participation

Canada's economic-growth challenges are largely due to an aging population, which will be acutely felt given the country's historical reliance on an expanding workforce to drive GDP growth. In a "do nothing" scenario, Canada's GDP growth rate could fall to just 1.5 percent annually for the next 50 years.

With that context, we identified barriers that are slowing or stopping Canadians who want to work from fully participating. Four groups in particular require policy intervention to "level the playing field" and ensure they have the right incentives to work: women with children, older workers, lower-income and lower-skilled Canadians, and Indigenous people. Getting more people in these groups into work represents a huge growth opportunity for Canada. If the country could match the workforce participation rates achieved by leading countries, GDP per capita would rise by up to six percent.

The government has taken important steps to unlock growth for these groups. It has allocated new funding to support workforce participation by vulnerable groups (through steps such as reforms to the Labour Market Development Agreements, Workforce Development Agreements, Canada Student Loans and Grants, Canada Learning Bonds, and Employment Insurance). The government budgeted nearly $200 million in 2017 for Indigenous people to develop skills and enter the workforce, through initiatives such as the Post-Secondary Student Support Program and the Aboriginal Skills and Employment Training Strategy. It has made a significant investment in women and families, including $7.5 billion for childcare and support for women entrepreneurs; further, 2017 was the first year the federal budget included a gender-based analysis of budgetary measures. The government has expanded eligibility for student grants and loans to support lifelong learning by students who support families, as well as adults returning to school.

8. Positioning Canada as a global trading hub

Recent trade discussions highlight the importance of strong and diverse trade flows. We recognize that trade is both an imperative and an opportunity for Canada, given our history as a trading nation, our enviable geographic position, and our diverse population.

Our final recommendation in February 2017 entailed ways to better position Canada as a global trading hub in the context of rising waves of protectionism and shifting dynamics of global trade—a context that has become even more precarious in the intervening months, as NAFTA renegotiations have proved difficult and anxiety has risen about outsourcing and job dislocation. We suggested four steps for government to consider:

- Develop better and deeper trade links with large and fast-growing economies, particularly in Asia (China, India, Japan);
- Nurture and improve the North America trading relationship;

- Invest in trade infrastructure to improve access to global markets;
- Address disruptions from future trade flows, for example by helping workers to upgrade their skills.

We acknowledge the government's efforts to preserve and modernize NAFTA. However, given the unpredictability of these negotiations, we encourage it to also focus on building stronger links with other markets, in particular building on the relationships developed during the negotiations for the Trans-Pacific Partnership (TPP). We note that the government has been working closely with remaining TPP partners to conclude a new free-trade agreement. We encourage it to also double down on its efforts to negotiate free-trade agreements with other major Asian economies like China, India, and Japan.

Increased international trade will require new and improved trade infrastructure, for example on the West Coast. We see the Canada Infrastructure Bank, discussed above, as a critical enabler of new transportation facilities.

Finally, with respect to job loss and dislocation, we do not believe that trade and inclusive growth are inconsistent. In fact, we believe that trade is necessary for sustainable economic growth for all income quintiles. However, Canadian workers need support and training to become resilient to natural evolutions in a trade-based economy. We believe Canada can be a model for a highly open, yet supportive economy, and take on this challenge in our latest set of recommendations, "Learning Nation: Equipping Canada's Workforce with Skills for the Future." ■