

Crystal Ball Report

The **Accelerating**
Pace of Change:

Economic, Business and Policy Outlook for 2019



Canadian
Chamber of
Commerce

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The Accelerating Pace of Change: Technology, Uncertainty and the Opportunities Ahead in 2019

Every year, the Canadian Chamber of Commerce's *Crystal Ball Report* provides business leaders and policy-makers with a look at the year ahead.

It identifies the economic, political and technological issues that will have a significant impact on business, investment and the economy in the coming year and highlights the implications for decision- and policy-makers. The report's insights reflect the input of chambers of commerce and businesses of every size, from every sector and region of the country. Over the last year, we hosted CEO dinners and roundtable discussions that brought together Canadian businesses and senior public servants to talk about the big issues—competitiveness, tax and the fiscal framework, regulations, energy and commodity prices, the digital economy, international trade, skills and immigration, among others—and their priorities for the year ahead.

"The report's insights reflect the input of chambers of commerce and businesses of every size, from every sector and region of the country."

What we heard comes as no surprise. The business community is facing uncertainty as the global economy undergoes a fundamental transformation. Businesses are concerned about the fragility of the Canadian economy and our ability to respond to a downturn. The risk of ongoing or escalating trade tensions challenges our assumptions about the support of free trade at home and abroad. In a related vein, we are seeing long-standing economic institutions, the rule of law and historical trading alliances questioned or, worse, undermined, while extraordinary advances in technology and the opportunities they present are disrupting entire industries and their workforces. From economic uncertainty to technological advances, Canadian businesses are grappling with an almost unprecedented amount of change, requiring decision-makers in industry, as well as in government, to focus their energies on the policies that will help Canada become more competitive and secure prosperity.

In the following pages, we lay out what we heard over the course of the last year about the environment businesses expect to be operating in throughout 2019 and the implications that has for policy-makers and business leaders. The insights we have gleaned from these in-depth consultations and discussions will also form our *2019 Federal Election Platform*. Whatever the future holds, it is clear that now more than ever, business and government must work closely together to respond to the challenges and seize the opportunities the road ahead presents.





Growing Economic Divide

Canadian businesses are having to now contend with heightened economic competition between countries and greater geopolitical risk in a zero-sum environment.

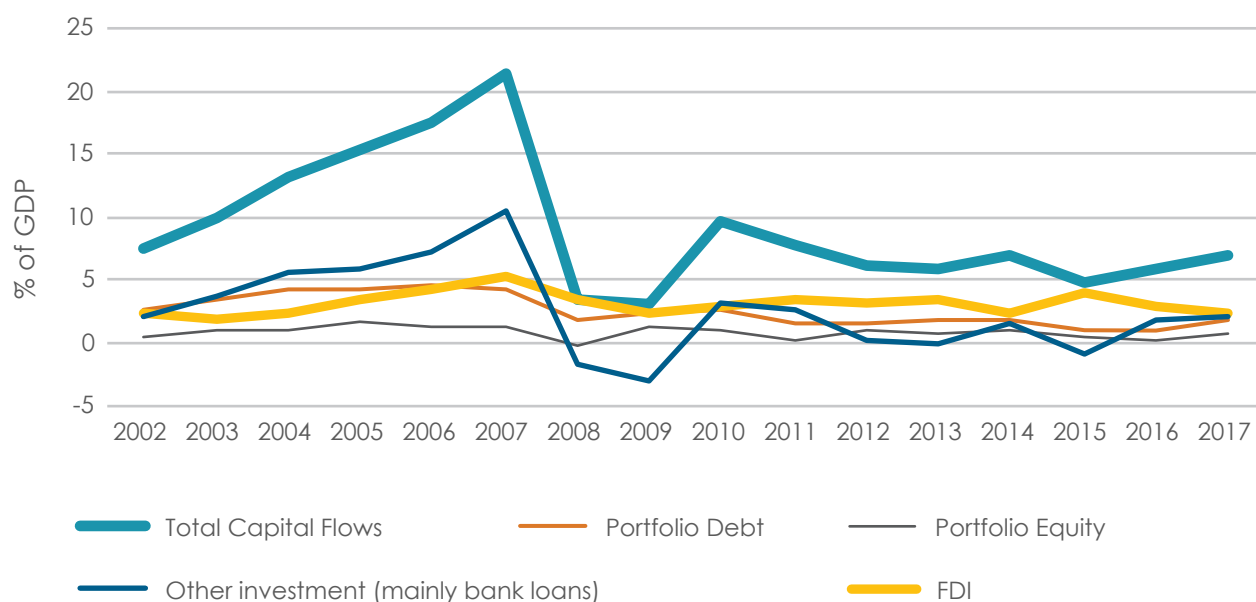
Over the past few years, the long-term trend toward global economic connectivity appears to be stagnating, if not reversing. This phenomenon is clear in renegotiated trade agreements, such as USMCA, which is driven by the U.S. Administration's bold "America First!" approach to trade relations, ongoing Brexit negotiations, increasing tariffs and the threat of a trade war between the United States and China. The implications for Canadian business are profound as they contribute to economic uncertainty and have the potential to disrupt global supply chains, capital markets and labour mobility over the long run.

Businesses also have to manage the political implications of heightened economic competition at the individual level in a winner-take-all economic system. A growing divide between the haves and have nots has contributed to amplified global political risk. The political environment is typified by greater distrust of institutions, particularly international trade and financial institutions, and the businesses and global economic system that underpin them. The rise of populism, in part, has also contributed to shaping the political views and decisions of new and prospective governments around the world. The rise in populism and protectionism may be indicative of a more grassroots concern citizens have for their economic futures. In 2019, decision-makers in Canada will have to demonstrate they recognize those concerns as legitimate and take concrete steps to address them. In part, that means creating the conditions for businesses to

invest, create jobs and spur sustainable economic growth. We are no longer in the days of “nice to have” policy-making. Decision-makers must focus on the essentials and focus energy on those things within our control. We can no longer function with a business as usual mentality.

Traditional metrics of global economic integration are indicative of these changes. Global capital flows as a percentage of GDP have dropped precipitously since the financial crisis and have not returned to pre-crisis levels. Total capital flows declined from 21.4% of GDP in 2007 to 6.9% of GDP in 2017.¹ The growth of trade compared with the growth of GDP slowed in 2018 and is projected to continue to decline next year. These trends have negatively affected the ability of Canadian businesses to grow internationally by expanding into new markets, sourcing from other countries and seeking global investors.

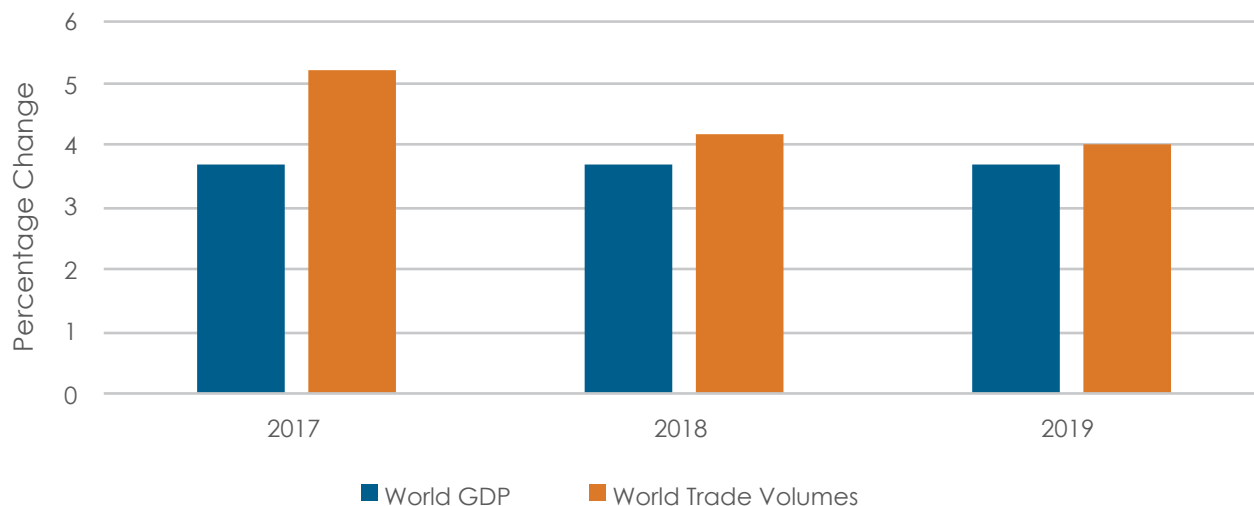
Global Capital Flows



Source: UNCTAD

¹ UNCTAD, World Investment Report 2018: Investment and New Industrial Policies, 2018.

Projected Growth in the World Economy and Trade Flows



Source: IMF

Canadian businesses also face the challenge of determining which international markets hold the most promise in a fast changing economic environment. The pace of expansion in some economies appears to have peaked after two years of cyclical upswing in the global economy. Growth has become less synchronized across both advanced and emerging economies. Growth divergences between the United States, on one side, and Europe and Japan, on the other, are widening. Rising oil prices, high U.S. yields, escalating trade tensions and political uncertainty have resulted in uneven growth among emerging and developing economies. This divergence is indicative of a changing global economic structure, where the fundamentals of advanced and emerging markets are adapting to a new environment. Across Canada, our members expressed difficulties navigating an environment where economic ties, trade routes and growth rates are constantly in flux.

“Across Canada, our members expressed difficulties navigating an environment where economic ties, trade routes and growth rates are constantly in flux.”

| Global Outlook for Economic Growth | | | |
|---|----------------------|------------------------|------------------------|
| | 2017 (Actual) | 2018 (Forecast) | 2019 (Forecast) |
| World Output | 3.7% | 3.7% | 3.7% |
| Canada | 3.0% | 2.1% | 2.0% |
| United States | 2.2% | 2.9% | 2.5% |
| Euro Area | 2.4% | 2.0% | 1.9% |
| United Kingdom | 1.7% | 1.4% | 1.5% |
| Germany | 2.5% | 1.9% | 1.9% |
| France | 2.3% | 1.6% | 1.6% |
| Japan | 1.7% | 1.1% | 0.9% |
| China | 6.9% | 6.6% | 6.2% |
| India | 6.7% | 7.3% | 7.4% |
| Southeast Asia | 5.3% | 5.3% | 5.2% |
| Brazil | 1.0% | 1.4% | 2.4% |
| Mexico | 2.0% | 2.2% | 2.5% |
| Middle East & North Africa | 2.2% | 2.4% | 2.7% |
| Sub-Saharan Africa | 2.7% | 3.1% | 3.8% |

Source: IMF

Throughout our consultations, Canadian businesses have suggested that the balance of risks in the global economy has shifted further to the downside. Tariff increases by the United States and retaliatory measures by trading partners have increased the likelihood of escalating and lasting trade actions. The uncertainty created by these measures not only affects investor sentiment but can upset economic recovery and depress growth prospects through a direct impact on productivity and efficiency. The risk of an external event derailing global growth remains on the minds of many business leaders.

Countries with higher political risks and weaker fundamentals have experienced capital inflow reductions, higher financing costs and exchange rate pressures in this competitive economic climate. Advanced economies still enjoy accommodative financial market conditions, but this could change rapidly. Many advanced economies need to rebuild buffers to create fiscal room for higher market volatility and the next downturn. Overall, our members intimated that their business and investment decisions were influenced by the amount of risk in an uncertain global economy.

The impact of economic and geopolitical tensions within the internet and technology spaces will play an important role for Canadian businesses as they continue to digitize in 2019. One of the most pressing questions for all businesses is whether the heightened competition and erection of protectionist barriers that characterize this era will also apply to technology.

In fact, a race for breakthrough technology may already be underway between the U.S. and China. Tech sector competitors in both countries are racing to master artificial intelligence (AI), supercomputing and next-generation technologies. Dividing lines are being drawn and growing sharper. Both countries are competing for market dominance in third-party countries and regions, such as Africa, India, and Brazil. This struggle is akin to a global tech Cold War, where satellite states will have to decide whose products and standards to embrace. This competition is playing out in civilian infrastructure (from fibre-optic cabling to cloud storage), consumer goods (next generation smartphones), government procurement and cybersecurity equipment. Canadian firms will have to carefully weigh the benefits and costs of tying their prospects to each of these technology superpowers.

This rivalry has resulted in the fragmentation of the global tech commons. The days of unified standards and free-flowing data across borders may be waning. China's 700 million-plus internet users remain behind the government's firewall. Russia has successfully developed its own internet with RuNet. Many countries want control over the flow of information and are implementing strict cybersecurity laws. Governments endeavouring to create their own distinct national technological spaces have significant implications for global trade and international capital flows in an increasingly data-centric economy. Through the roundtables we hosted, we heard that Canadian businesses are increasingly facing a trade-off between freedom to operate and increasing pressure to regulate the collection, use and disclosure of data.

The effects of a growing economic divide on Canadian business are clear. Businesses will need to make quick decisions with important implications in an uncertain global economic environment. As economies diverge, Canadian firms will have to navigate an international regulatory regime where harmonization will become less common. Businesses will also have to manage the loss of any allocative efficiencies enjoyed in a highly integrated global economy, which may increase the cost of doing business. As new people and things around the world connect to networks, businesses will find new opportunities and risks in the increased dissemination of technological accessibility. Within these broad trends, businesses will need to enhance their flexibility and precision to cater to changing local and bespoke customer demands. Our members have consistently pointed to the speed of change as a challenge, and this, particularly, applies to the changing structure of the global economy.





Late-cycle Growth in Canada

“With unemployment rates at close to a four-decade low and the Bank of Canada gradually raising interest rates, it appears likely the Canadian economy is poised for late-cycle growth in 2019 and beyond.”

The Canadian economy has entered the late stage of the business cycle.

Economic expansion has absorbed the slack that was created during the previous downturn, and Canadian businesses are producing at near peak capacity. With unemployment rates at close to a four-decade low and the Bank of Canada gradually raising interest rates, it appears likely the Canadian economy is poised for late-cycle growth in 2019 and beyond. Canadian businesses should take note as this will have important implications for growth prospects, employment costs, debt servicing and investment decisions.

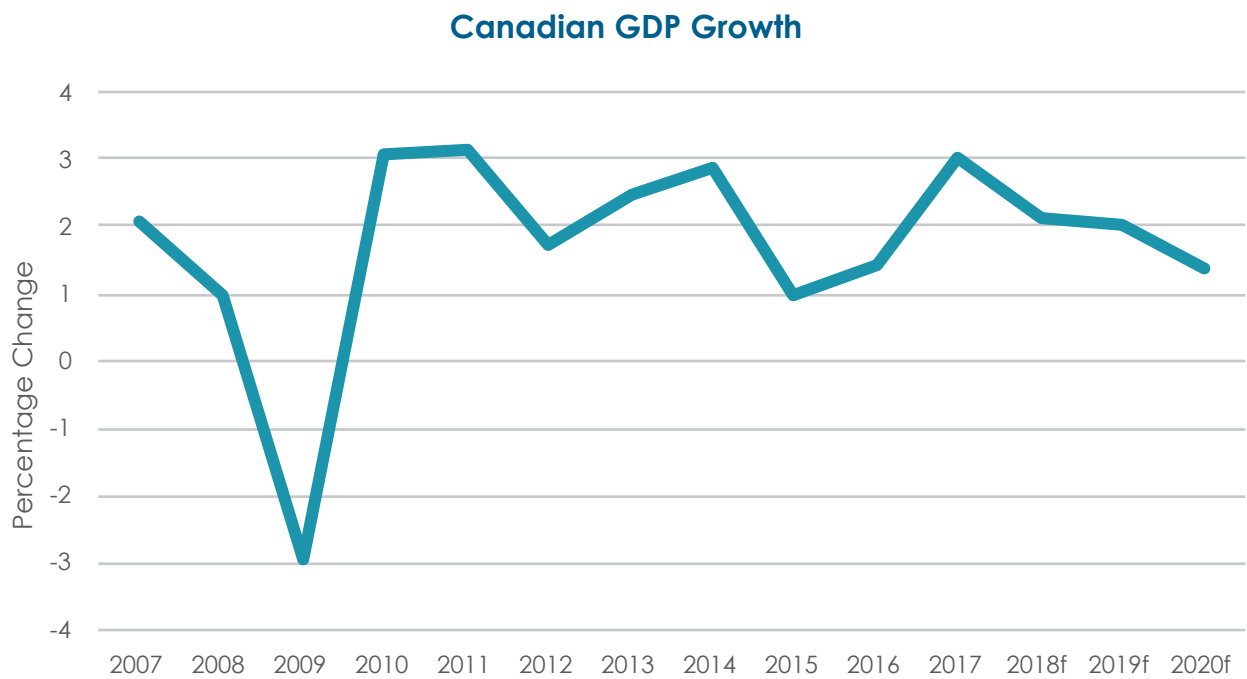
At the same time, the Canadian economy is in the process of a lagging structural transition from growth driven by consumption and housing activity to export-led growth and business investment. Households are now heavily indebted, real estate affordability has deteriorated in Canada's largest urban centres, consumer spending has moderated and real estate activity has declined. The transition away from consumption and housing has gained momentum.

While exports and business investment increased their contribution to growth in 2018, the transition toward these economic drivers is less certain. Dampening the outlook for export-led growth is the uncertainty related to U.S. protectionism, concerns about slowing U.S. demand, loss of market shares in major export markets and difficulties capitalizing on Canada's new trade agreements. Throughout our consultations with business leaders from across the country, a recurring theme was that Canadian businesses must be able to take full advantage of every opportunity that potential and existing trade agreements offer.

After two consecutive declines, the Bank of Canada's Autumn Business Outlook demonstrates an uptick in planned machinery and equipment

(M&E) investment over the next year—33% of firms are reporting higher spending plans.² Considering the late stage of the business cycle, there is plenty of evidence that our members, after under-investing for a long period, are now running up against capacity constraints and are forced into capital spending in spite of headwinds. Specifically, Canadian businesses indicated at our roundtables and CEO dinners that competitiveness issues, such as tax and regulations, as well as trade uncertainty are resulting in business caution when it comes to major capital outlays.

Overall, IMF anticipates Canadian economic growth will hover around 2.1% in 2018 and 2.0% in 2019.³ Deloitte projects a decline to 1.4% growth in 2020.



Source: World Bank, IMF, Deloitte

² Bank of Canada, Business Outlook Survey – Autumn 2018, Vol. 15.3, October 15, 2018.

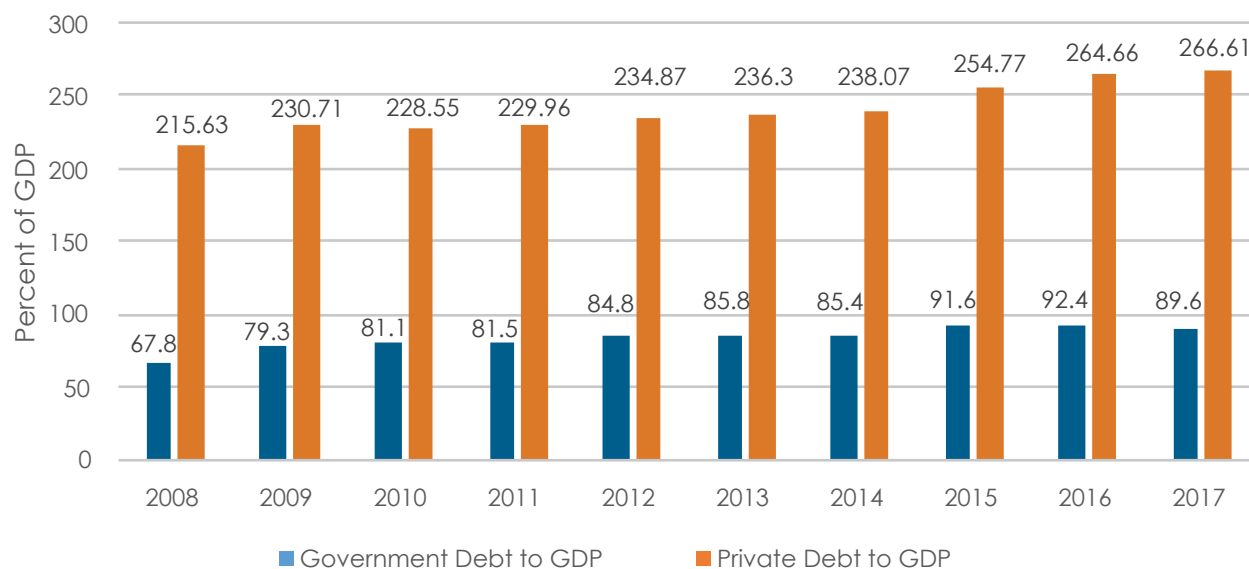
³ IMF, World Economic Outlook: Challenges to Steady Growth, October 2018.

The Bank of Canada has already begun increasing short-term interest rates and tightening credit conditions in the Canadian economy. Low levels of capital investment by business and the ensuing slowdown in productivity growth that has occurred since 2009 have limited the capacity of the Canadian business to expand in the face of low rates of unemployment. Economists are concerned tight labour market conditions will drive up wage rates for businesses and lead to the return of high levels of inflation. In spite of the Bank of Canada exploring the stress-testing of inflation targeting, most economists expect more rate hikes in 2019.

Monetary tightening will place added pressure on Canadian households and businesses to meet their debt payments. The previous period of loose monetary conditions and low interest rates has

resulted in record debt levels in Canada. Household credit market debt, which includes consumer credit, and mortgage and non-mortgage loans, totals over \$2.16 trillion, and Canadians owe \$1.69 in credit market debt for every dollar of disposable income they earn.⁴ While household debt tends to get most of the attention, average non-financial corporate debt has increased 9% since the financial crisis, which is three percentage points higher than the growth of average household debt.⁵ While transitioning economic growth away from housing activity, rising interest rates will expose those Canadian households and corporations that overindulged on debt under loose monetary conditions. We heard from our business members that they are not only concerned about their own debt servicing but are also nervous about the impact on consumer demand of rising interest rates.

Canada's Debt Burden



Source: OECD, Department of Finance Canada

⁴ Statistics Canada, National balance sheet and financial flow accounts, second quarter 2018, September 14, 2018.

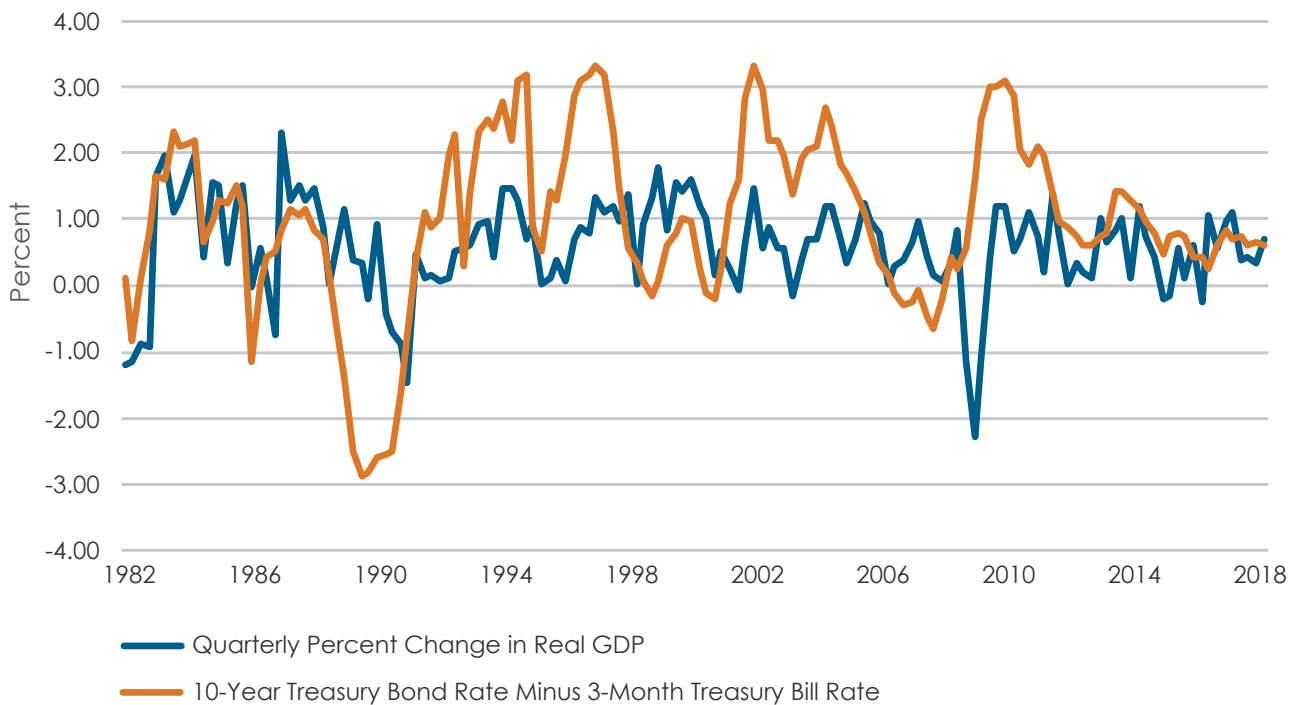
⁵ C.D. Howe Institute, Corporate Debt: The Next Financial Crisis Coming to Canada?, May 22, 2018.

During a healthy economy, longer-term bonds command higher yields as investors demand extra compensation from borrowers in exchange for locking up their money for longer periods of time. By contrast, an inverted yield curve (which happens when short-term lending rates exceed long-term borrowing rates) is invariably a precursor to an economic slowdown and, frequently, to recession.

In 2018, the yield curve in the United States was at its closest point to inversion since the last recession. The Canadian yield curve is not far behind. In spite of this trend, central banks will continue to increase short-term interest rates as they are more concerned with the risks of inflation than the business community's concern for the risk of weak economic growth. Considering this gradual flattening trend and the late stage of

the business cycle, our members agree the federal government should assess its debt, deficits and fiscal ability to engage in countercyclical spending in the event of a potential slowdown or recession. Despite the federal government's assurances about the flexibility in Canada's fiscal position, the Canadian business community is disappointed a detailed plan to balance the books has not yet been provided. With prospective headwinds on the economic horizon, now is the time for the federal government to outline its fiscal strategy. Failure to bring the government's books into balance will mean that business tax dollars will go toward servicing debt for years to come instead of creating a more competitive tax and business environment for Canadian firms.

The Yield Curve and Economic Growth in Canada



Source: Federal Reserve Economic Data

“Though the diversity of Canada’s workforce is ranked best in the world, at our roundtables, our members discussed the number of areas in which women entrepreneurs can be better supported.

It is estimated that advancing women’s equality can add 0.6% to Canada’s annual GDP growth.”

Overall, the preparedness of the Canadian economy for future innovation and the pace of technological change is mixed. In many ways, economic competitiveness will be based on aspects in which Canada is strong, such as the talent, knowledge and skills of its labour force.

Though the diversity of Canada's workforce is ranked best in the world, at our roundtables, our members discussed the number of areas in which women entrepreneurs can be better supported. Women continue to grapple with the barriers to growth embedded in the start-up ecosystem. Federal and provincial programs should support women entrepreneurs at the earliest stage possible to see more girls and women in science, technology, engineering and mathematics (STEM) roles. Challenges also remain for women entrepreneurs in knowing how to scale up by accessing more capital. It is estimated that advancing women's equality can add 0.6% to Canada's annual GDP growth.⁶

Speed and efficiency are closely related to productivity, an area in which Canada has been lagging. Canadian productivity has only been growing at an average annual rate of 0.4% since 2011, and Canadian businesses tend to invest less capital per worker than their international peers.⁷ Canadian businesses will invest about \$13,900 per worker in 2018, while in the United States, the commensurate figure is \$23,200.⁸ The Canadian economy is also particularly weak in ICT adoption, business dynamism and regulatory efficiency—crucial indicators for Canadian businesses to keep up with the pace of change.

⁶ McKinsey & Company, *The Power of Parity: Advancing Women's Equality in Canada*, June 2017.

⁷ Desjardins, *The Causes and Consequences of Low Wage Growth in Canada*, October 27, 2017.

⁸ C.D. Howe Institute, *Tooling Up: Canada Needs More Robust Capital Investment*, September 2018.

| Canadian Competitiveness Rankings | |
|--|---|
| Competitive Strengths (global ranking) | Competitive Weaknesses (global ranking) |
| National culture (1) | Enforcing contracts (114) |
| Diversity of workforce (1) | Mobile-cellular telephone subscriptions (114) |
| Starting a business (2) | Getting electricity (105) |
| Social responsibility (2) | Ease of hiring foreign labour (81) |
| Image abroad or branding (2) | Mobile-broadband subscriptions (63) |
| Attracting and retaining talents (3) | Dealing with construction permits (54) |
| Credit (3) | Labour tax rate % (50) |
| Ethical practices (3) | Trading across borders (46) |
| Foreign highly-skilled personnel (4) | Insolvency regulatory framework (46) |
| Banking and financial services (4) | Fibre Internet subscriptions (41) |
| Scientific publications (4) | Trademark applications (39) |
| Credibility of managers (4) | Attitudes toward entrepreneurial risk (31) |
| | Internal labour mobility (29) |
| | Companies embracing disruptive ideas (28) |
| | R&D expenditures (23) |

Source: World Economic Forum, OECD

The implications for Canadian business are significant. Business innovation and the pace of change require regular and consistent investments in technologies and skills to keep up and compete. We heard that faster product cycles and market adoption are becoming the new norm. Canadian businesses are bullish on the exponential growth potential of combinatorial technologies and platforms, factoring these elements into business planning. The rapid implementation of innovations, which is transforming traditional industries and creating new sectors, is affecting all of our members.

Canada's macroeconomic situation is misaligned with the investments needed to compete in this changing environment. Corporate debt levels are high, there is an upward pressure on wages, productivity is flagging and interest rates are rising, which can dissuade necessary investments going forward. Within this context, the business community is looking for action to improve Canadian competitiveness to spur investment in the technologies and skills needed to win in the economy of the future. Similarly, the business community is looking to the federal government to be in a fiscal position to kick-start investment should the Canadian economy experience a downturn.



Implications for Business

"Canadian businesses will have to accelerate their execution speed (e.g. time to market) and the corresponding rate of change to compete."

Based on the changing global economic structure and the world of technology changing fast, the Canadian business community indicated that strategies would increasingly need to take into account the speed of change to position companies for success.

During the course of our cross-country consultations, our members identified the following implications of the accelerating pace of change for Canadian business:

- **Clock Speed:** Canadian businesses will have to accelerate their execution speed (e.g. time to market) and the corresponding rate of change to compete. Change cycles and product cycles have been compressed, creating an operating environment driven by new technologies and competition. With the internet of things, software as a service, big data, social, mobile, cloud and application programming interfaces, businesses have more innovation opportunities, more new product ideas and more new channels they can leverage. These technology drivers are forcing a dramatic acceleration in what businesses can and should do to remain competitive and relevant. Competition is coming from everywhere—from

traditional competitors and new entrants seemingly coming out of nowhere. Not only is the speed of change getting faster, markets are able to adopt new technologies faster. New products can achieve millions of users in just months. As new technologies are created at an increasingly faster pace and as they are adopted at record speeds by markets, our members believe a first-mover advantage will be amplified as change continues to come at a breakneck speed.

- **Trade Uncertainty:** Canadian businesses will likely have to increasingly manage trade risks and opportunities as new trade blocs, changing free trade agreements and the rise of protectionist trade policies continue. Businesses that foresee risks and capitalize on opportunities will be able to create and maintain an advantage over their competition. New and potential future tariffs may require businesses to consider alternative materials or sources as part of their strategies. Recent and prospective anti-dumping and countervailing duties may significantly influence business models and profit margins in a number of industries. New agreements are dramatically altering the global trade landscape, including opportunities to access new markets, alter supply chains and diversify exports. At the same time, an automated commercial environment and single-window initiatives offer the possibility of reducing administrative costs, eliminating redundancies and reducing clearance times. Overall, we heard Canadian businesses would have to make crucial strategic decisions on capital expenditures and investments by attempting to navigate a rather uncertain terrain.

- **Disparate Regulatory Regimes:** The Canadian business community is concerned that rising protectionism and economic nationalism will create increasing misalignment between countries' regulatory regimes. Businesses are preparing for the disintegration of unified regulatory standards across jurisdictions. For highly regulated

industries, this will likely mean adherence to multiple separate regulatory regimes, which will increase costs and time to market for our firms. Incongruent entry processes will force Canadian businesses to reconfigure their supply chains across different regulatory regimes. This will also affect businesses' ability to transfer and transit goods to other jurisdictions. Our members indicated new regulatory regimes would also need to be created for new industries—block chain, for example, may not be harmonized at the international level.

- **Cost of Doing Business:** Our members believe the cost of doing business in Canada is relatively high and is likely to increase. Canadian businesses stated they were skeptical about the accuracy of the federal government's climate plan cost estimates for both businesses and consumers. Our members also mentioned low unemployment and new provincial minimum wage thresholds as factors that continue to increase the cost of labour. In addition, Canada's regulatory compliance costs continue to place a large burden on businesses compared to other OECD countries. Similarly, Canadian businesses are concerned about Canada's tax competitiveness as other countries pursue large-scale tax reform. High inflation has also raised the cost inputs of goods and services for businesses, which is exacerbated by tariffs on steel and aluminum. We heard the Canadian business community will have to be inventive and innovative to reduce costs and improve efficiency to compete in a changing economy.

- **Convergence:** Increased computing power is the basis for a myriad of technological advances, which themselves are converging in ways Canadian businesses could not have imagined a couple decades ago. As new technologies advance, the interactions between various subsets of those technologies have created new opportunities for business that accelerate the

pace of change much more than any single technology can on its own. Our members told us that, long term, the convergence of AI, big data, sensors and ultra-fast networks is the game changer. As our cars, homes, factories, devices and public infrastructure begin to generate mountains of data and as connectivity morphs into augmented reality, a new generation of humans and things will be “on the grid” around the clock, with important implications for business and society. Canadian businesses stated they are not simply being transformed by a few technologies but rather are experiencing a combinatorial technology revolution. Along with this, the terms of competition are changing. The business community is experiencing an ecosystem revolution as interconnected networks of partners, platforms, customers and suppliers become more important.

- **Cross-sectoral Innovation:** We heard from our members that technology is not an economic sector in itself; it is a tool that affects all business sectors. Canada's traditional competitive advantages, such as energy, agriculture, forestry, mining and manufacturing, are being transformed through new technological developments. The business community told us that much of the innovation in this country is taking place in the exact same sectors in which we have historically been strong. At roundtables across the country, Canadian businesses shared with us how sensor technology on pipelines, the internet of things in mining, and smart agriculture are examples of innovations that will produce priceless data to help Canada better power and feed the world. Our members believe advances in analytics and automation, along with innovations in areas such as materials science, are already showing great promise at optimizing environmental sustainability and innovating the natural resource sector.

- **Accessibility and Adoption:** Canadian companies are excited about the number of new people, things and minds that will be coming online over the next few years with profound implications for business strategy. Accessibility to the digital revolution is decreasingly limited by location and technical know-how as new interfaces and platforms improve user-friendliness. Individuals no longer need to be scientists or coders to make their own web page or sell online. New interfaces are now opening up in areas like robotics and 3D printing that will make these technologies more accessible to everyone. In many ways, this is a novel experiment—placing a smartphone in the hands of every young person and budding entrepreneur to see what they can create. Our members told us this creates opportunities to reach new markets, new customers and potential talent as well as leverage the reams of data that will be created to improve performance.

- **Local Capability:** As Canadian businesses grapple with the complexities of a changing global economy, the importance of competing with local precision at international scale continues to grow. Many companies we spoke to are trying to compete with the rising number of world-class local players by carefully recognizing subtle differences in local taste and custom. Multinational companies told us they increasingly need a local capability inside a global footprint. There is a renewed recognition of pronounced differences in local tastes, which are making it costly and complicated to for Canadian companies to compete globally against nimble local competition. We heard notions of value delivery are changing, and customers are reaping some of the rewards as personalization and variety become market constants.



Implications for Policy-makers

Given what we heard from business leaders across Canada, governments themselves will have to transform the policy tools at their disposal.

We have compiled what policy-makers will need to be concerned with to help Canadian businesses survive and thrive in an environment of rapid change. Specific policy recommendations will be outlined in our election platform document, which will be available in early 2019.

○ **Fiscal Sustainability:** Businesses need policy-makers to be in a fiscal position to implement the most effective competitiveness solutions and to be prepared to kick-start growth in the event of a slowdown. The confluence of accumulating public and private debt levels, repeated deficits and rising interest rates raise questions about the fiscal sustainability of the federal government. Though Canada's debt-to-GDP ratio is reasonable, the federal government should start taking into account the possibility of headwinds as the economy enters the late stage of the business cycle. Slower growth, a potential recession and higher overnight rates can all negatively influence debt servicing, let alone in combination. At the same time, Canada's current fiscal position may hamstring the government's ability to pursue the tax competitiveness measures other countries are implementing to stimulate growth. A close examination of where efficiencies can be found in the public sector and policy solutions to accelerate economic growth are needed.

○ **Digital Government:** The business community is looking to government to find new tools to innovate public sector service delivery and reduce government expenses. The expectations of citizens continue to increase and shift as digital and social channels transform communications, interactions and the delivery of services. Digital government initiatives can transform citizen experiences with digital capabilities that improve engagement and make governments more efficient and less costly.

Citizens want to use their mobile devices to access services on the go, from submitting applications to accessing information. By enhancing multi-channel capabilities, governments can provide services through various channels, including mobile, website, branch, phone and even watches. Governments can use AI to analyze customer data and public service metrics so they can make better decisions and focus on delivering the right services to the right people at the right time. Citizens are demanding to stay informed about the performance of government services and they want to know the status of their personal applications and permits on the go. Protecting data and reassuring citizens that data is secure is critical in enhancing trust across the network.

○ **Agile Regulation:** Canadian businesses are looking to governments to move quickly to clarify the rules in new and emerging industries and create legal frameworks that make it easier for entrepreneurs to develop, test and market new ideas. Technological progress has steadily increased to the point where it often far outpaces the speed of regulation. Regulators need to start reconceptualizing how they conduct their craft as well as their wider role in the policy process. Regulatory frameworks must be sufficiently adaptive to changes over time to successfully enable the benefits of technological progress, rather than be challenged by them. Agile regulatory frameworks will continue to ensure citizens' safety, market fairness, environmental sustainability and financial stability. They will also have a greater focus on encouraging the business behaviour needed to thrive in an era of rapid change.

○ **Getting Resources to Market:** The business community needs an increased capacity to get Canadian natural resources to world markets. Canadian grain farmers recently experienced this situation when harvest outstripped the capacity of Canada's rail transportation infrastructure. Canadian oil companies are currently experiencing this situation as production gains have not been matched by pipeline capacity gains. Canadian oil now trades at a significant discount compared to the United States due, in part, to a lack of access to world markets. Considering trade uncertainty with the United States and an increased focus on trade diversification, the federal government will need to invest in transportation infrastructure, specifically trade-enabling infrastructure, for Canada to capitalize on its competitive advantage in natural resources in a global economic environment that rewards competitiveness.

○ **Trade Policy 3.0:** Canadian businesses are intrigued by the potential of automated trade rules and legislation to reduce the administrative burden and enhance the inclusiveness of cross-border commerce. Rules from "trade policy 1.0" that govern commercial interactions across borders are largely codified in natural languages (i.e., human language as opposed to computer code) via trade agreements, national laws, standards and ad hoc policy documentation and forms. The WTO's agenda recently moved closer to achieving "trade policy 2.0" via computer-assisted forms to achieve the simplification, modernization and harmonization of export/import processes and non-binding obligations for member nation adoption of single window systems.

New and disruptive technologies (private e-commerce platforms and marketplaces, APIs, block chains and smart contracts) are signalling "trade policy 3.0" in the form of more functional versions of rules: algorithmic law and automation-friendly legislation. The distinctive character of trade policy 3.0 is that countries will be able to publish both natural language and digitally executable language versions of laws and regulations. It is possible trade agreements will be born digital. Private rules (between banks for example) can also be published securely online to work in concert with digitally expressed regulations.

○ **Innovation Boxes:** The business community is looking for governments to aggressively compete to have the world's top entrepreneurs, technologies and innovations based in Canada. Countries around the world are looking at adopting incentive regimes to encourage companies to exploit and commercialize intellectual property in their jurisdictions. A number of countries have adopted a "patent box" tax approach that sharply reduces the normal corporate tax rate on income derived from the exploitation of patents. This policy has been widened to an "innovation box" to encompass a broader class of intellectual property. It promotes and enhances the innovation capacity of sectors that leverage science and provides a greater incentive to adopt, commercialize or otherwise exploit the output of the R&D process. The use of innovative tax-based financing incentives, such as flow-through shares, can be used to promote R&D exploration across economic sectors.

○ **Skills and Education:** Our members are interested in new educational models that suit the skills needs of business in a time of rapid change. The rapid pace of change will make re-skilling and upskilling a constant in the education system. Education will transition to lifelong learning, where students will demand the opportunity to upgrade their skills at regular intervals as the speed of change shortens the time it takes for their expertise to become outdated. Experiential education will also be required to ensure the skills gained in the classroom are aligned with the needs and skills gaps of employers. This will entail close collaboration between education, government and private sector stakeholders, where training, including work-integrated learning and research, is developed in synergy for economic growth and development. Campuses can be viewed as de facto economic development hubs that provide a job pipeline to local businesses and research spinoffs that can become the growth engines and innovations for future economic development.

○ **Inclusive Growth:** The business community believes that fully capitalizing on the diversity and talent of Canada's workforce requires inclusive growth that enables all Canadians to equally participate in markets as entrepreneurs, workers and consumers. Inclusive growth can also help mitigate the negative effect of a growing economic divide between individuals. As a large underrepresented group in the economy, the economic inclusion of women, in particular, can have a significant impact on Canada's economic prospects. This will require that policy-makers build the right skills at a young age for women to thrive in male-dominated industries and ensure women entrepreneurs have equal access to capital and networks. Doing so, will guarantee that all Canadians advance in careers, build wealth, invest in the future and drive economic growth.





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