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Canadian Priorities Agenda

Time for Canada

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August 2011
IRPP/University of Toronto
Canadian Priorities Agenda
Award-winning Student Paper

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The IRPP's *Canadian Priorities Agenda* project is the inspiration for the capstone seminar in the Master's in Public Policy program of the School of Public Policy and Governance at the University of Toronto. Taught by Wendy Dobson and Carolyn Hughes Tuohy, two of the judges in the original IRPP project, and Mel Cappe, former president of the IRPP, the course is offered in an intensive format as a core requirement in the final semester of the two-year program. The volume *A Canadian Priorities Agenda: Policy Choices to Improve Economic and Social Well-Being* is the basic text for the course, supplemented by readings chosen by the instructors and guest presenters. The students take the role of judges, and the final assignment is the preparation of a 5,000-word paper, modelled on the judges' reports in the original project, making the case for an agenda comprising five policies selected from options presented in the course.

Time for Canada

Dylan Marando

"Canada has been modest in its history, although its history is heroic in many ways. But its history, in my estimation, is only commencing. It is commencing in this century. The 19th century was the century of the United States. I think we can claim that it is Canada that shall fill the 20th century*."*
– Prime Minister Wilfrid Laurier, Canadian Club of Ottawa, January 18, 1904

BOLDNESS IN THE BLOOD

Popular legend suggests that Canada is a country where people learn "to live without the bold accents of the natural ego-trippers of other lands."[1] Canadians are expected to and often do convey modesty when they speak. Some might go so far as to argue that part of our international esteem comes from our humility.

But, we should not forget that there have been a few courageous Canadians who have strayed from the path of humility and offered a framing of our nation that is not so understated. Boldness, grandness and vision are found throughout Canada's policy history. In the last century, a spirit of grandness was captured by our involvement in two world wars, steady economic growth through international trade, a championing of peacekeeping, significant cultural exportation, social policy leadership in the form of a formidable medicare system, the Charter of Rights and Freedoms, a tumultuous yet enriching relationship with multiculturalism and, more recently, the hosting of a memorable Olympic Games. These moments of confident international engagement are not random events. Rather, they come from somewhere deep within the Canadian consciousness. They come from a century of ambitious policy exploration that has had many architects.

Chief among our inspirational architects is Sir Wilfrid Laurier, who is famously credited with having claimed that the 20th century would belong to Canada. Laurier, more perhaps than any prime minister, argued that Canada could compete with the best and need not conceive of itself as a middle power. Laurier led the country on expeditions of fiscal responsibility – with controlled taxation, technological growth, and railway expansion. More ambitiously, he championed reconciliation between the French and the English, and

[1] McLuhan, Marshall, and Quentin Fiore. *The Medium is the Massage: An Inventory of Effects*. London: Penguin Books, 1967.

reciprocity between Canada and the US. Some expeditions failed, some flourished, but they were all made with conviction and aplomb.

It is time for Canada to regain its confidence, its international swagger, and claim ownership of the 21st century. It is time for Canada to acknowledge the challenge of a shifting global economic centre of gravity from west to east, the corresponding strain on the relationship between Canada and the United States, and the associated challenge of global climate change and energy supply. It is time for Canada – already an established beacon of multiculturalism, a trade giant, and an energy super power – to view these challenges as a moment to shine. It is time for Canada.

THE POLICY PATH AHEAD

Having acknowledged the challenge of a new economic paradigm and its potential to complicate Canada's place in the world, the country's journey toward 21st century ownership begins with a focusing of the mind around three clear policy criteria.

First, Canada needs to take an approach that demonstrates the sort of seriousness and conviction that is expected of an emerging power. This means that it must show thoughtfulness and coherence in its priorities, in order to send a strong message to its international partners — a story that lays out, for all to see, its attempt to elegantly weave together a series of measures all moving in the same direction. In other words, the criterion of linkage or deliberate policy integration needs to be foremost in our minds.

Second, we want to appreciate the uniqueness of our circumstances. We want to remind ourselves of how significantly the global market is changing as the result of the economic downturn, remind ourselves of the economic gravity shift that has occurred, and we want to remind ourselves of the implications of climate change for the goods and services of the future. This means keeping our heads up, looking for opportunities and seizing upon them in order to generate economic growth. In short, it means developing a policy basket that is ripe.

Third and finally, because we want to be unambiguous in our messaging and deliberate in our actions, we must not confuse ourselves with a litany of additional criteria that attempt to please all parties and straddle the economic, social and political. Rather, we want our approach to remain fixated on the economy. We want to ensure that our international gaze and actions result in greater trade and GDP growth, and that they increase the ability of Canadian firms to move up the value-chain while not costing the government too much money and weakening the economy through increased deficit, increased debt, and stresses on government revenues. We want our policies to stand up to the criterion of economic efficiency.

Together, these three policy criteria should form a chronological building block approach to increased international engagement,[2] which is framed by the themes of reconciliation and reciprocity. Under the theme of reconciliation, Canada needs to begin at home and plant one foot firmly in the ground of the western pole of our multipolar economy. Under the theme of reciprocity, Canada must use its position of strength, as well as its attitude of openness, to engage with emerging powers.

Specifically, Canada needs to expand its energy dialogue with the United States so as to establish a consensus on a price for carbon. Canada should then use this pricing regime as a mandate to implement its own carbon tax. Subsequently, and drawing on the revenue from a carbon tax, Canadian policy-makers need to facilitate the development of first-rate energy technologies by leveraging the untapped research capacities of our universities.

Once it has integrated itself into a North American union and compiled an arsenal of traditional and new forms of energy, Canada must subtly signal that it wishes to expand its population by improving foreign credential recognition. And finally, it must use this change of attitude as a point of entry into negotiations with India, which will ultimately result in a "closer economic partnership agreement," thus further opening up the Asian market to Canada. This is the linked, mature and economically efficient policy path ahead.

FRIENDS AND PARTNERS: EXPANDING THE ENERGY DIALOGUE

The first step toward ownership of the 21st century will be the unashamed recognition that the sun does not set on the United States or on Canada's relationship with it. There is no need to submit to the US declinism, last experienced in the 1980s with the rise of Japan.[3] It is true that, within the next 30 years, China and India will experience enormous growth in GDP – China's will exceed that of the US by 2042.[4] China and

[2] See the appendix.
[3] Dobson, Wendy, and Diana Kusmanovic. 2010. *Differentiating Canada: The Future of the Canada-US Relationship* SPP Research Papers Vol. 3, No. 7 (November) School of Public Policy, University of Calgary, pg. 2
[4] Dobson, Wendy, *Gravity Shift: How Asia's New Economic Powerhouses Will Shape the 21st Century* Toronto: University of Toronto Press, 2009. pg.8.

India will experience enormous growth in their middle classes – by 2025 they will be 15 and 8 times, respectively, larger than that of the US.[5] Moreover, policy-makers face the reality that the United States' share of Canada's trade declined from its peak of 87 percent in 2000[6] to 68 percent in 2008.[7]

What is equally true, however, is that the institutions of China and India are still raw. The rapid growth in those countries has contributed to income inequality, in the case of China, and an immature bureaucracy, in the case of India, and in the perennial challenge of keeping pace with massive growth, in both countries.[8] Furthermore, Canada and the US still have the world's largest trading relationship. More than two-thirds of Canada's exports still go to the US, Canadian merchandise trade with the US was $456 billion in 2009[9], 58.2 percent of Canada's foreign direct investment (FDI) comes from the US,[10] and there is still an obvious desire on the part of the United States to strengthen its relationship with Canada.

For his first international visit, President Barack Obama came to Canada to remind the two countries that Canada and the US were "friends and partners"; that the two countries wanted to "grow trade, not contract it"; and Canada and the US were called to "meet the common challenges of our time" and "renew and deepen our cooperation here in the 21st century."[11] In the same speech, President Obama also elaborated on the means of North American reinvigoration when he spoke of "a new initiative to make progress on one of the most pressing challenges of our time: the development and use of clean energy." Obama argued that "how we produce and use energy is fundamental to our economic recovery," and that we need to update "our collaboration on energy to meet the needs of the 21st century."[12]

Following this admittedly vague but certainly nontrivial comment, Canada could start an innovative dialogue within the comfortable and familiar space of US-Canada relations. More specifically, it has an opportunity to initiate negotiations on a best practice carbon-pricing regime with the United States. Such negotiations

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[5] Ibid, 131.
[6] Chen, Shenjie, and Emily Yu. *Export Dynamics in Canada: Market Diversification in a Changing International Economic Environment*. DFAIT: 2010. pg. 246.
[7] Dobson, Wendy. (Forthcoming) "Deeper Integration between Canada and India?" Sage Publications, pg. 2
[8] Dobson, Wendy, *Gravity Shift: How Asia's New Economic Powerhouses Will Shape the 21st Century* Toronto: University of Toronto Press, 2009. pg.96-97
[9] Dobson, Wendy. (Forthcoming) "Deeper Integration between Canada and India?" Sage Publications, pg. 2
[10] Ibid, 4.
[11] President Obama's speech during his inaugural visit to Ottawa on February 19, 2009 accessed at http://www.thestar.com/News/Canada/article/590305.
[12] Ibid.

would set the foundation for an effective and enforceable strategy to reduce carbon emissions and do away with the patchwork of efforts presently being undertaken by subnational actors. The negotiations would give the Canada-US relationship new international relevance and communicate the fact that trade and industrial leadership can still come from North America – this time with Canada as an equal partner.

A best-practice carbon-pricing regime that tackles climate change and encourages the growth of the clean-energy sector, which many have called for – from the Canadian Council of Chief Executives[13] to members of the academic community[14] – would place Canada at the frontier of public policy. It would also establish the signals and incentives necessary to keep pace with the massive investment being made in energy efficiency by countries such as China.[15] Currently, Canada is lagging in the clean energy market, ranking behind the UK, China, India, Germany, France, Spain, and Italy in terms market attractiveness for renewable energy firms.[16] A lack of coherence regarding the issue of climate change has kept Canada out of the renewable energy technology sector, which has become a $170 billion business globally.[17] Canada has to get into the game, and beginning negotiations with the US would be a very loud and potentially effective way of doing it.

Crucially, any form of dialogue on climate change and carbon pricing needs to be backed by action. The Canadian government should use the negotiations and the carbon price that comes out of them to select the specific policy instrument of a carbon tax, which would also apply at the wholesale import level and could remain a viable policy option even if negotiations with the United States broke down. While not totally embracing the "go-it-alone" strategy advocated by some,[18] a carbon tax, developed in the light of the negotiations with the US, would be a made-in-Canada, administratively efficient, transparent and revenue-generating pollution abatement measure that, while not providing the carbon emissions reductions that a cap-and-trade system would provide, would nevertheless provide some emissions and incentivize the development of energy saving technologies.

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[13] Canadian Council of Chief Executives. *Clean Growth 2.0: How Canada Can Be a Leader in Energy and Environmental Innovation.* Ottawa: November 2010.
[14] Dobson, Wendy, and Diana Kusmanovic. 2010. *Differentiating Canada: The Future of the Canada-US Relationship* SPP Research Papers Vol. 3, No. 7 (November) School of Public Policy, University of Calgary.
[15] Indeed, in 2009 China invested $34.6 billion in clean energy (Ernst & Young. *Renewable Energy Country Attractiveness Indices*. Issue 25. May, 2010 pg. 13-25).
[16] Ibid, pg. 1.
[17] Renewable Energy Policy Network. *Renewables 2010 Global Status Report*. Paris: REN 21 Secretariat, 2010 pg. 21.
[18] Sawyer, Dave and Carolyn Fischer. *Better Together? The Implications of Linking Canada-US Greenhouse Gas Policies*. In C.D. Howe Institute Commentary no. 307 August 2010 pg. 2.

A gradually-phased-in carbon tax starting at $25 a ton and moving to $75 a ton would generate $50 billion annually in revenue for the government by 2020.[19] The tax would formalize the very same incentives for energy innovations that the environmental negotiations would signal. Namely, the tax would increase the cost of using traditional sources of energy, thus rebalancing existing cost-benefit analyses around technological development and making it less difficult for energy efficient technologies to be marketable, in both the long and short terms.[20] These technologies would allow Canada to keep pace with countries like China, which has made alternative energy a centrepiece of its 12th five year plan.[21] Importantly, a carbon tax would communicate Canada's policy leadership on the issue of climate change, about which the international community has repeatedly expressed concerns. Moreover, a carbon tax would generate revenues that the government could use to invest in organizations involved in the development of energy efficient technologies, through targeted tax credits or subsidies.

Having said that, a major challenge standing in the way of the federal government implementing a national carbon tax is the need to persuade the provinces to give up their individual carbon taxes and permit schemes and allow large amounts of money to be moved to the federal government; possibly, in some cases, to the detriment of fossil fuel producing provinces in western Canada.[22] It is suggested, therefore, that the government recycle the revenue from the carbon tax back to the provinces, with the condition that a portion of those funds then be transferred to the incubators of innovation – the universities. In this way, universities and businesses can work better together, specifically around the development and commercialization of the energy efficient technologies now coveted by energy hungry countries in Asia.

Such a move would represent a refreshing divergence from the current underutilization of our universities, which are considered "essential contributors to technological innovation."[23] Although Canada ranks high with regard to funding university research, there appear to be significant challenges on the demand side of university research, which make it difficult for government to maximize its return on investment in

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[19] Jaccard, Mark. *Pricing Carbon: Saving Green*. Vancouver: David Suzuki Foundation, 2008 pg. 6-7.
[20] Dobson, Wendy, and Diana Kusmanovic. 2010. *Differentiating Canada: The Future of the Canada-US Relationship* SPP Research Papers Vol. 3, No. 7 (November) School of Public Policy, University of Calgary pg.16.
[21] Ibid, 17.
[22] Ibid.
[23] Niosi, Jorge. *Connecting the Dots between University Research and Industrial Innovation*. In *IRPP Choices* vol. 14 no.14 October 2008, pg. 3.

universities.[24] This is more than a minor disadvantage for Canada. A recent survey of technology licensing showed that 189 US universities had launched 628 start-ups in 2005, an average of 3.3 per university. A comparable Canadian survey showed that 34 universities reported a total of 36 start-up companies.[25] Additionally, Canada has a "surprisingly low" number of large high-technology and science-based companies, which may be the consequence of university researchers being unable to find vehicles to use their research to create high-tech start-ups; researchers in the United States have proven to be more successful at entering the commercial market.[26]

In the current system, the entire responsibility for locating a potential user for any given innovation falls upon researchers and university departments, which are generally poorly equipped to assess the commercial value of a technology and cannot easily access the networks needed to develop, finance, and market an innovation.[27] This is especially true in a sector as novel as renewable energy. Implementing a program that would provide funds to private sector firms for the purpose of exploring technologies produced in university laboratories would help take the pressure off academics, who now have to guess about market trends. Concurrently, more money for commercialization would ensure firms experience no added costs when exploring opportunities for innovation.

Furthermore, funds could be used to expand the existing Centres of Excellence for Commercialization and Research, which presently exist within institutions such as the University of Toronto, which is home to MaRs Innovation. Alternatively, a greater effort could be made to ensure that all the major universities engaged in energy research have a program like MaRs Innovation, which would greatly enhance the capacities of those poorly equipped university departments presently responsible for commercialization. The Canadian government's Networks for Centres of Excellence is capable of designing and administering such programs. Provincial bodies such as the Ontario Research Commercialization Program demonstrate such a capacity at the provincial level.

If any these organizations was explicitly linked to a very visible government "go green" strategy, which was accompanied by significant amounts of carbon tax revenue, then the programs would certainly act as an incentive for Canada's high-level researchers to direct their work toward the development of energy

[24] Ibid.
[25] Ibid, 4.
[26] Ibid, 8.
[27] Ibid, 11-12.

efficient technologies. With an increased potential to produce profitable, widely recognized and high-impact research, these researchers could thus lead Canada's entry into green markets. Properly funded energy-oriented centres of academic commercialization would serve both a practical and symbolic function and signal to our international partners that Canada was coming.

THE NEXT STEP

The next critical signal to our international partners would be to take a conscious step toward greater openness with foreign markets, or reciprocity, to use the language of Laurier. Returning to the key challenge of shifting centres of economic gravity, as well as the policy criteria of linkage, ripeness and economic efficiency, it is important to remember that further integrating with the United States, which would gain us strength in numbers; showing leadership on climate change, which would modernize our existing strength in the energy sector; and fostering energy innovation, so we could maximize the resources devoted to economic growth; would all be done to serve a wider effort to expand Canada's footprint in the international economy. Therefore, our next policy option needs to be one that allows us to strut our stuff internationally and move into emerging Asian markets.

Admittedly, Canada's historical presence in countries such as China and India, though not harmful, does not dispose it to being embraced. Thus it may be prudent for us to make the first step toward the east a cautious one, one built on a quasi-domestic policy. In particular, the government should introduce programs to improve credential recognition, specifically targeted at immigrants from potential trading partners, to make it easier for those individuals trained abroad to work in Canada. In addition to the obvious and immediate impact of allowing Canadian employers to benefit from underutilized human capital, improved foreign credential recognition would be a significant signal to our international partners that our conservative attitudes toward foreign goods and services are declining, and that this is being backed up with meaningful policy.

A foreign credential recognition program would have the immediate short-term effect of showing an awareness of the greying baby boom; the fact that 20 percent of the Canadian population will be 65 years or older by 2025. As a result, Canada will experience significant labour shortages, thus slowing growth in GDP per capita.[28] By improving foreign credential recognition and better employing more of our immigrant

[28] Conference Board of Canada. "Performance and Potential" Toronto: Conference Board of Canada 2004

population, which presently experiences a higher than average unemployment rate (11.4 percent in 2007), labour pressures would decrease and the blow of the aging baby boom would be cushioned.[29,30]

Currently, many immigrants are unable to work in their chosen occupations because licensing authorities do not recognize their foreign credentials.[31] Health care workers, engineers, teachers and skilled trades people often find it difficult to gain entry to their chosen occupation.[32] A Statistics Canada study showed that 90 percent of the Canadian-born population that studied medicine works as physicians, while only 55 percent of those trained internationally work as physicians. Similarly, only 26 percent of foreign trained engineers in Canada work as engineers; 35 percent work in unrelated professions.[33]

Crucially for Canada's international ambitions, not only does this underemployment of immigrants result in a $2 billion a year economic loss,[34] it also sends the wrong message to our international partners. It sends a message of intolerance, disrespect and nonconfidence in the suitability of foreign workers and foreign markets. It distances Canada from its potential allies.

It is recommended, therefore, that every occupational licensing authority in Canada be required to establish a procedure that allows immigrants to apply for certification through a "timely, well-defined procedure of appropriate testing to ensure that their qualifications meet the current standards of the occupation"[35] Furthermore, each licensing authority should establish apprenticeships and mentoring "through which

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pg. 88-96.

[29] Foot, David K. (2007). Some Economic and Social Consequences of Population Aging. In *A Canadian Priorities Agenda: Policy Choices to Improve Economic and Social Well-Being*, edited by J. Leonard, C. Ragan, and F. St-Hilaire. Montreal: Institute for Research on Public Policy pg. 199.

[30] Becklumb, Penny and Elgersma, Sandra. (October 8, 2008). *Recognition of Foreign Credentials of Immigrants*. Library of Parliament. pg. 2.

[31] Foot, David K. (2007). Some Economic and Social Consequences of Population Aging. In *A Canadian Priorities Agenda: Policy Choices to Improve Economic and Social Well-Being*, edited by J. Leonard, C. Ragan, and F. St-Hilaire. Montreal: Institute for Research on Public Policy pg. 199.

[32] Ibid.

[33] Boyd, Monica, and Schellenberg, Grant. (November 21, 2008). Re-accreditation and the occupation of immigrant doctors and engineers. *Statistics Canada*.

[34] Reitz, Jeffrey G. (2004). *The Institutional Context of Immigration Policy and Foreign Credential Recognition in Canada.* Montreal: Institute for Research on Public Policy (IRPP), March. pg. 4.

[35] Foot, David K. (2007). Some Economic and Social Consequences of Population Aging. In *A Canadian Priorities Agenda: Policy Choices to Improve Economic and Social Well-Being*, edited by J. Leonard, C. Ragan, and F. St-Hilaire. Montreal: Institute for Research on Public Policy pg. 200.

immigrants can obtain the necessary qualifications with minimum dislocation of their careers."[36] Canada should reach out to these populations and show openness to international engagement.

If such a gesture of openness is done correctly, then Canada will be better positioned for the last leg of its policy journey – the move into emerging markets. In particular, Canada would be better positioned to focus on developing a closer economic partnership agreement (CEPA) with India. Such an agreement would provide Canada with a market for its rich endowment of natural resources and energy expertise, as well as those goods and services that appeal to a growing Indian middle class. A CEPA would also give Canadian firms access to affordable Indian expertise such as information technology (admittedly in a smaller way), which would allow Canadian firms to move up the value chain. A bilateral trade agreement would mean that an more goods and services would flow through Canada, it would increase Canadian firms' competitiveness by reducing costs, or could simply put pressure on Canadian companies to improve their own goods and services, as India would act as a source of competition as well as a source of best practices, perhaps through the phenomenon of reverse innovation.[37]

In 2009, India was Canada's fifteenth largest trading partner.[38] Canada's merchandise trade with India totalled only about $4 billion in 2009, while its merchandise trade with the US was $456 billion.[39] Using gravity analysis to predict trade flows between India and Canada on the basis of each country's size, living standards, and geographic proximity, Wendy Dobson concludes, "Canada's bilateral trade with India is nearly 31 percent *less* than what the model would predict, suggesting unrealized potential in the relationship."[40] She says that FDI is also lacking, as Canada-India FDI flows "are modest and increasingly asymmetric." Canada's stock of FDI in India is about $601 million, compared with India's stock in Canada, which was closer to $3 billion. Comparing these FDI levels with those to the United States, we see that India's FDI stock is only 0.2 percent of Canada's total, while the US share is 58.2 percent.[41]

Presently, Canadians and Indians are failing to leverage each other's comparative advantages, in large part because of high Indian tariffs on Canadian goods and services – which are in some cases greater than 10

[36] Ibid.
[37] Dobson, Wendy. (Forthcoming) "Deeper Integration between Canada and India?" Sage Publications. pg. 14.
[38] Ibid, 4.
[39] Ibid, 2.
[40] Ibid, 3.
[41] Ibid, 4.

percent – and the not insignificant Canadian tariffs on Indian goods and services – which are currently 4 percent.[42] In India FDI is not permitted in key sectors such as agriculture, accountancy, legal services, and financial services.[43] Moreover, India's high-potential IT and pharmaceutical industries seem unable to move to the Canadian economy due, in part, to policy mechanisms, but also due to the generally conservative attitudes of governments and the business sector toward the use of foreign (i.e., non-North American or European) providers.[44]

In addition to being a wasted opportunity in itself, weak India-Canada relations also lead to a missed opportunity for Canadian firms to establish a footprint in Asia by using trade in India as a platform for increased trade throughout Asia.[45] The incrementalism of Canadian trade policy, as well as our historical preoccupation with the United States, make it difficult for us to engage with the Asian-region and enter into regional trade agreements.

Given the peaceful yet potentially rivalrous relationship emerging between China and the United States, Canada could be viewed by major Asian powers as an outsider that is not fully committed to a "Beijing consensus" or Asian interests, more broadly. Consequently, we should consider a relationship with India as an important substantial and symbolic first step that demonstrates to other emerging Asian powers that Canada is willing to enter into agreements based on mutual respect and interest. Given the natural bonds that exist between the two countries – the Indian Diaspora, the Commonwealth, language, and parliamentary democracy – it makes good sense for Canada to begin its Asian engagement with India.

A CEPA with India would also provide the Canadian government with the opportunity to pull a variety of policy levers in order to modernize Canada's trade relationships and make them more mature. Such an agreement could begin with clear leadership from Canada in the form of more liberal government procurement practices that would achieve cost savings in the provision of government services. The resulting funds could then be re-invested into lower taxes.[46] Additionally, government could use a trade agreement with India to achieve mutual recognition of professional qualifications, thus facilitating more exchange between service-oriented professional associations such as those in accountancy and legal

[42] Ibid, 4.
[43] Ibid, 5.
[44] Ibid, 8.
[45] Ibid, 7.
[46] Ibid, 14.

services.[47] Furthermore, Canada could at first adapt an Indian CEPA to include only services, and then re-enter into negotiations later to develop a comprehensive free trade agreement.[48] If the government was open to multiple courses of action, this would give it flexibility and show that Canada appreciates the immaturity of its knowledge of the highly complex and often cumbersome Indian business environment. Specifically, a targeted, service-oriented approach could act as litmus test for the Canadian public, while allowing us to target those Indian sectors, such as the energy sector, which seem most profitable.

Regardless of the method chosen, a CEPA with India "would send a powerful signal of commitment to greater openness, transparency, and non-discrimination."[49] An agreement could be a ground-breaking yet clearly calculated first step for the Canadian economy into what is a presently untapped, vast and dynamic market with enormous potential.

AMBITIOUS BUT NOT ADVENTUROUS

There is a temptation to argue that if there ever was a time for stereotypical Canadian modesty, it would be now. In 2010, the government recorded a budgetary deficit of $55.6 billion. The federal debt is $519.1 billion, and it is costing the government $29.4 billion in debt servicing expense annually. Unemployment remains above normal levels at 7.9 percent, and real GDP growth is slow-moving at 0.5 - 2.5 percent; it was 3.1 percent in each of the last three years. This suboptimal performance in a range of economic indicators gives way to the "steady as she goes" approach to policy.

What should not be lost, however, is that the economy is not yet significantly disadvantaged, as it boasted both the highest rate of real GDP growth among G7 countries between 1999 and 2009 (2.1 percent annually), and the lowest net debt-to-GDP ratio (29 percent) in the G7 in 2009 (the G7 average was 69.7 percent).[50] Furthermore, and perhaps more importantly, the various fractures that have emerged on the policy landscape, though threatening and frightening to some of Canada's allies, seem to be well-aligned to our country's natural strengths. Energy hungry emerging markets, a still innovative US seeking to build alliances and solidify its power, and an increasingly globalized world seeking a way to harmonize distinct

[47] Ibid, 10.
[48] Ibid, 14.
[49] Ibid, 11
[50] Lynch, Kevin and Karen Miske. "A Global Snapshot of Canada, 2010" in *Policy Options*. Montreal: Institute for Research on Public Policy, December 2010 pg. 17-19.

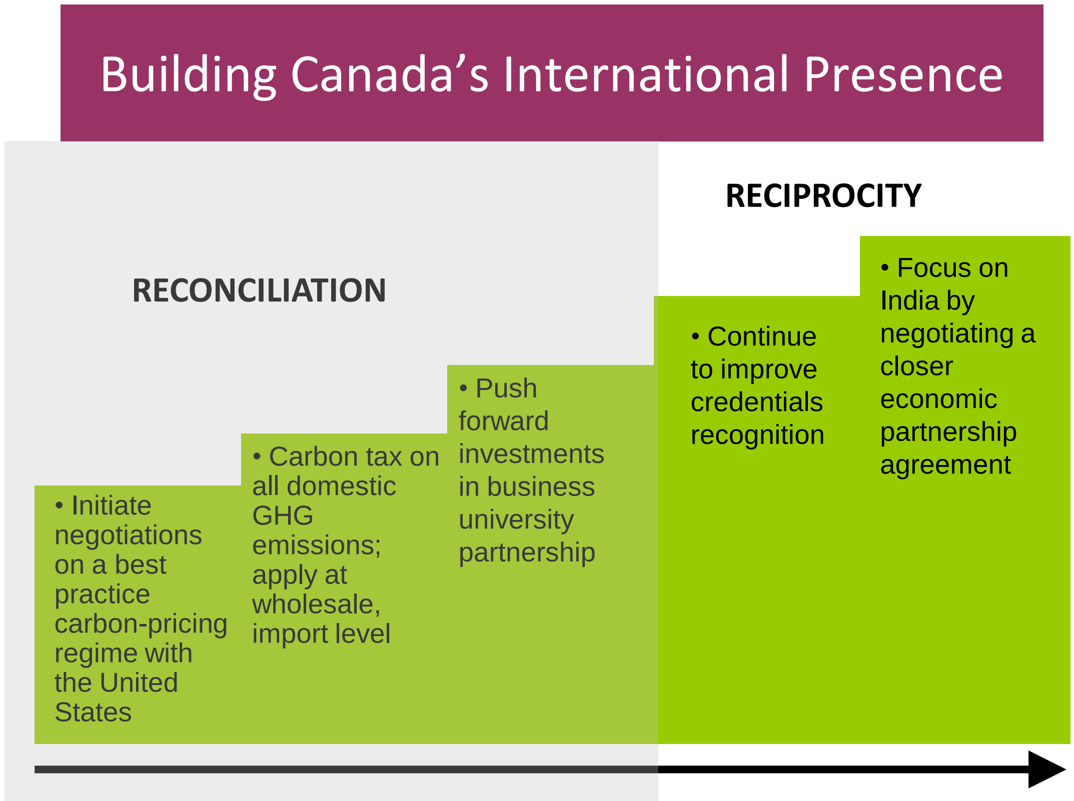
cultures, all fit within the identity of Canada. These phenomena certainly do not guarantee anything, but they do seem to bring Canada to that same "anything is possible" moment that it would have faced as a not yet fully formed country led by a wide-eyed Prime Minister Laurier.

Fortunately, this time Canada has 150 years of history on its side and a plethora of refined policy instruments. It now has a record, albeit episodic and sometimes unsuccessful, of confidently engaging with the international economy since Laurier made his famous declaration in 1904. Due to a combination of circumstance and policy, the promise of Laurier never materialized. But times have changed, the current circumstances are unique, and Laurier's idea might be one whose time has come.

Today, Laurier's grandness is just as ambitious as it was 100 years ago, but, importantly for Canadians, it is nowhere near as adventurous. Today, the policy path to greatness is within our grasp. It involves reinvigorating and leveraging existing partnerships, embracing our now well-developed role as an energy superpower, and using our reputation as a country of openness to look abroad. The policy path to greatness proposed is undeniably challenging, it is long term, but it is possible. It comes from unique circumstances that uniquely, and fortunately, align with Canadian interests. It comes when the challenges ahead of Canada are so large that some form of action, grand or not, is required. Now is not the time to retreat from our successes. Now is not the time for modesty. Now is the time for Canada.

Appendix

Figure 1: Five-Step Plan to the International Economic Modernization of Canada



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