

CANADIAN COMPETITIVENESS FOR INFRASTRUCTURE INVESTMENT

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EXECUTIVE SUMMARY

This paper provides a broad overview of the infrastructure investment landscape in Canada and our reputation as a competitive destination for such investment. We compare the Canadian infrastructure investment environment and recent outcomes with those of a set of peer nations (G7 countries plus Australia).

Canada has serious reputational issues relative to our peer group when it comes to attracting investment in infrastructure, and these issues correspond to declining rates of foreign direct investment inflows. Federal government spending on infrastructure is also declining, implying an overall lack of investment in infrastructure. This lack of investment is, in turn, manifesting as an increase in Canada's infrastructure deficit and an overall decline in the reputation of the quality of existing infrastructure. Estimates of Canada's infrastructure deficit range up to \$600 billion, and the investment shortfalls contributing to this deficit are particularly apparent in transportation and trade infrastructure. Canada has fallen sharply to last place relative to the G7 and Australia in terms of infrastructure and logistics quality.

The most prominent issues driving Canada's declining reputation as a destination for investment include a sharp slide in the ease of doing business, which, in turn, is caused by perceived regulatory and bureaucratic delays (including the time required for construction permits).

An inconsistency in federal infrastructure funding programs and policies (tied to federal election cycles) is similarly problematic. While most of Canada's public infrastructure investment is made by provincial and municipal governments, their smaller and more variable shares of tax revenues do not ensure stable and sufficient levels of infrastructure investment in many regions. This pattern also serves to promote regional inequality, since regions suffering from poor infrastructure may not have the resources required to overcome local infrastructure deficits.

Reliance on PPPs (public-private partnerships) to bolster infrastructure investment may well prove fruitless given the negative experiences Canada's peers have had with PPPs and the already evident frustrations with Canada's existing pursuits in this area. Falling tax rates have failed to attract foreign direct investment flows into Canada, suggesting that tax competitiveness is not a sufficient incentive to overcome the reputational issues associated with inconsistent federal investment policies and growing regulatory and bureaucratic delays.

Addressing these issues will require a stable and long-term strategy (one not subject to Canada's federal electoral cycles) and a serious look at the timeframes and delays for regulatory and bureaucratic processes.

We suggest the federal government place a higher priority on infrastructure investments in critical areas such as trade and transportation infrastructure. These types of infrastructure play an outsized role in supporting national productivity and income. Further, attracting significant levels of private investment will likely benefit from a consistent and predictable trade and transportation infrastructure strategy. Canada requires an integrated and strategic national approach to infrastructure policy and investment. This approach must be based around a long-term focus and will require coordination among federal, provincial, municipal and First Nations governments and the private sector (including coordination with Canada's large pension funds, which represent a significant untapped source of financial capital).

Provincial governments have already expressed an interest and willingness to collaborate on a national infrastructure strategy based on the corridor concept, and the Senate Standing Committee on Banking, Trade and Commerce has similarly acknowledged the potential merits of applying the corridor concept. Given these endorsements and the evidence presented above, it is incumbent on the federal and other governments to act on formulating a stable, long-term and strategic national infrastructure strategy that pairs government investment and policies to attract private sector investment in all kinds of infrastructure, but most notably in transportation, warehousing and logistics infrastructure.

As part of this, it is critical that Canada address its serious issue of regulatory and policy uncertainty, delays and burdens as these appear to be the most critical aspects of our declining reputation and the most pernicious impediments to achieving infrastructure investment goals and priorities.