

Smart Growth Backgrounder: Canada's Place in the World

ABOUT THIS SERIES

Canada is undergoing significant demographic change. Our population is ageing, the balance between working-age Canadians and retirees is shifting, and communities across the country are experiencing these changes in very different ways. At the same time, Canada faces growing demands on its housing, infrastructure, public services and workforce, alongside new economic and geopolitical challenges.

These pressures require more than short-term adjustments to immigration levels. They call for a long-term approach to population planning that considers demographic trends, workforce participation, skills development, productivity, immigration and the capacity of communities to accommodate change.

Century Initiative has long advocated for smart growth: an approach that aligns population change with the investments, policies and infrastructure needed to support Canada's long-term prosperity and well-being.

This series explores five dimensions of smart growth and the implications of demographic change for Canada's future:

- Canada's place in the world
- Rural communities and economies
- Health care
- Housing
- Post-secondary education and training

Each backgrounder examines the demographic pressures affecting these areas and the choices Canada faces in planning for a prosperous, resilient future.

The smart growth imperative – Canada's place in the world

Canada is navigating a period of fundamental change in global economic, diplomatic, and security relationships. At Davos, Prime Minister Carney called on middle powers to respond to this reality

with economic diversification and new alliances. Since that time, Canada has been actively pursuing new partnerships in security (such as the [Joint Expeditionary Force](#)), geopolitical ties (such as a new [relationship with the EU](#)), trade, and investment. The Canadian Shield Institute has [tracked](#) 99 agreements with 36 countries signed between March 2025 and October 2026. As part of this changing world, Canada has [committed](#) alongside NATO partners to increase defence-related spending to 5% of GDP by 2035.

Canada's place in the world depends in part on the people and productive capacity needed to sustain its ambitions. Long-term demographic planning matters because it shapes:

- **Economic strength:** the size and productivity of Canada's workforce and domestic market.
- **Workforce capacity:** the skills, training and participation needed to build and sustain strategic industries.
- **Fiscal capacity:** the tax base available to support defence, public services and an ageing population.
- **International influence:** the ability to sustain partnerships, protect its interests and act independently.

Population growth by itself guarantees none of these outcomes. This backgrounder examines four connected dimensions of smart growth:

- 1 The defence industrial opportunity
- 2 Global political and economic influence
- 3 Workforce to build Canadian sovereignty
- 4 Fiscal capacity and security commitments

1 The defence industrial opportunity

Planning well around defence spending will be a defining economic decision of the next decade.

If we don't build up our defence industrial capacity and workforce, we will have to rely on products and services sourced from abroad, including the US, weakening our sovereignty and losing the economic upside. The [Defence Industrial Strategy](#), launched in early 2026, aims for 70% of defence acquisitions to be awarded to Canadian firms, up from 43% today. But Canada can't leverage investment commitments from international acquisitions like submarines and fighter jets if we don't have the defence-related workforce and industrial capacity to participate.

Canada's defence industrial opportunity is not just about capturing a greater share of domestic spending; it is also tied closely to our international relationships. Canada is diversifying its defence supply chains and seeking to be a trusted part of other nations' defence build-ups. For example, in February 2026, Canada joined the EU's [Security Action for Europe \(SAFE\)](#), a €150-billion program to finance joint defence procurement. Canada is also leading the creation of the multilateral [Defence](#),

Security and Resilience Bank (DSRB), aiming to mobilize up to \$133 billion in low-cost financing for defence production.

- **Canadians strongly agree on the need for domestic capacity:** 88% of the population thinks our defence industry should be independent from the US's, and 91% think the government should prioritize domestic production in defence acquisitions.
- **Defence-related R&D has a track record of spillover effects** to higher private-sector innovation. A long-run **study of France** found that a 10% increase in defence-related R&D “crowded in” a 5-6% increase in private R&D and in turn led to productivity gains. Meanwhile, an **IMF study** of NATO members in the last 25 years found clear positive multiplier effects of defence R&D, and they were higher in Europe than the US.
- **The scale of these benefits is closely related to whether there is defence industrial capability.** The kind of spending that is focused on salaries and imports has **limited benefits** for innovation, productivity, and economic growth. Most NATO members currently **rely heavily on imports from the US**. This presents a significant domestic and export opportunity for Canada as other nations also look to diversify defence supply chains. Denmark recently purchased a **€7.8 billion air defence system** from European suppliers instead of US suppliers, while Italy has chosen **European Airbus planes** over ones from Boeing. If we step up to the plate, we can position Canadian firms as a preferred option.
- **In 2024, Canada's 500+ defence industry firms contributed \$11.1 billion to GDP.** The changing nature of defence and the connection to other technology and infrastructure areas mean this goes well beyond the defence industry. Current defence-related investments include dual-use airport runways, R&D in nuclear energy, aerospace and communications.

2 Global political and economic influence

Canada's influence in the world depends on the size and strength of its economy – and that depends on people. Workers and consumers make up the economy, and taxpayers are central to what countries are capable of. People are core to Canada's ability to protect its interests, hold a seat at the table, and act independently of larger powers. Without privileged US access to offer, Canada needs its own economic power and productive capacity to open doors for relationships and strengthen influence. GDP per capita is an important indicator of prosperity, but Luxembourg and Liechtenstein do not drive global economic and security relations; scale matters.

- **Standing still means losing ground to faster-growing countries.** **PwC projects** Canada sliding from 17th to 22nd in the world by 2050 not because Canada's economy shrinks, but because faster-growing populations elsewhere expand past it; influence is relative.
- **A bigger domestic market is leverage:** it makes access to Canada worth something to negotiating partners. Canada is renegotiating its most important trading relationship with an economy **more than ten times larger**.
- **Canada's North needs more resources and protection,** and shows how population and security connect.

- Canada's North accounts for 39% of the country's land mass, but its 136,000 people account for just 0.3% of the population. This makes it difficult to defend against emerging threats, particularly as climate change opens up Arctic waters, and Russia and China seek to push their control over the Arctic.
- The CAF only has approximately 300 full-time military personnel in the North. Canada's Arctic is heavily dependent on the 1st Canadian Ranger Patrol Group, part-time members drawn from Northern communities with heavy Indigenous participation.
- Demand for public administration and defence roles in Nunavut is expected to increase by 30% between 2024 and 2045.

3 The workforce to build Canadian sovereignty

Canada lacks the skilled workforce to fully seize the opportunity. Without addressing workforce needs, Canada will be less secure and will send more of our growing defence spending out of the country. This isn't just about Canadian Armed Forces recruitment but about the broader security needs and the defence supply chain.

Meeting these needs requires an integrated workforce strategy, not a single solution. Canada will need stronger training capacity, better recruitment and retention of workers already here, higher workforce participation, productivity gains and strategic immigration, planned together over the long term. With an ageing population and growing regional workforce pressures, significant reductions in immigration without a clear understanding of their implications for Canada's broader economic and workforce needs risk undermining our ability to deliver on our defence, security and industrial ambitions.

- **Demographic changes are causing real pressure.** In 1971 there were roughly eight working-age Canadians for every senior; today there are about three. This is expected to drop to 2.6 by 2032.
 - At the same time, about 25,000 workers retire each month in Canada – compared to just 14,000 per month 20 years ago.
- **Our workforce scale is a barrier to growth.** In a survey of national defence and resilience stakeholders, 45.8% expressed "clear concern" about workforce capacity needed for effective scale-up of Canada's defence industry.
- **Defence and security work depends on high-value skills that can take years to build.** Immigrants disproportionately bring those skills: they already represent 26% of the Canadian workforce but 37% of R&D workers, 35% of computer programmers, and 43% of engineers.
 - This is especially important given that Canada's defence industry is three times as R&D intensive as the overall manufacturing industry.
 - Building this workforce is both a security imperative and an opportunity to create high-wage export-ready jobs. Canada's tech workforce is approximately 6.4% of the total workforce, while Israel's high-tech workforce is 11.4% of its total workforce.

- Canada’s ability to protect critical infrastructure, cyber systems, and the North depends on skills we cannot train quickly: many technical roles require a minimum of four years of education, in addition to on-the-job experience.
- **Canada's defence industry employs 37,700 people directly and supports 82,000 jobs in total, and the sectors that would have to scale are already short. Current and projected labour force gaps include:**
 - 25,000 cybersecurity workers today, projected to reach 100,000 by 2035
 - 70,000 to 130,000 transportation workers by 2035
 - 600,000 manufacturing workers by 2030
 - 30,400 non-residential construction workers by 2035
 - 8,300 more marine workers by 2029 (representing nearly 30% of the current marine workforce)
 - ESDC estimates that by 2033, 28 construction and transportation related occupations will face at least moderate shortage risks. This includes openings for 25,600 welders; 21,800 civil engineers; 14,300 industrial electricians; and 9,500 aircraft mechanics and inspectors.

4 Fiscal capacity and security commitments

Canada recently committed to the largest defence investment in generations and has not said how it will pay for it. Canada has committed to spend **5% of GDP on defence by 2035** (3.5% on core defence spending and an additional 1.5% of GDP on defence and security-related investments). This is a generational investment that could build Canadian industries, create jobs and make Canada less dependent on other countries. But a commitment measured as a share of GDP is only as large as the economy behind it, and it must be funded by a working-age population that is also paying for core responsibilities like health care and Old Age Security.

- **The Parliamentary Budget Officer estimates that Canada will need to increase defence-related spending to \$227 billion by 2035**—nearly four times current spending.
 - \$227 billion is **more than the federal government spends** on Old Age Security, Employment Insurance, the Canada Child Benefit, health care and child care funding combined today.
- **Without changing course, this spending would widen the federal deficit by \$63 billion in 2035-36.** If we want to ensure that a higher share of defence spending is in Canada, that means more than quadrupling our defence industrial capacity.
- Canada’s NATO commitment is a share of GDP, not a dollar figure. This means our security capacity scales with our fiscal capacity. That same 3.5% of a larger economy buys more ships, more domain surveillance, and more capacity to act on multiple fronts simultaneously.

A smart growth plan and demographic strategy supports the fiscal capacity for our security commitments. The money must come from somewhere, and the demographics are working against us. C.D. Howe notes that Canada faces weak productivity, slow growth, an ageing population and high debt. This limits Canada's ability to absorb its NATO commitment without broader fiscal change: *some combination of tax increases, spending cuts, or more debt* is required.

- **Growth alone cannot enable Canada to meet its NATO commitment** — offsetting the cost through growth would take *more than 6% annual economic growth for a decade*, something Canada has not sustained in more than sixty years.
- **Defence spending is competing with other needs** — health care and Old Age Security (OAS) costs are already growing faster than revenue. OAS spending is projected to rise from \$77.8 billion in 2023 to *\$136.6 billion in 2035*, while seniors account for less than 20% of the population but *nearly half of health spending*.
- **The tax base depends on the size of the working age population.** Economic migrants can play an important role in this: they have been shown to *pay more in taxes than they receive in benefits* — in other words, they're net contributors. Among all immigrants, the *incidence of social assistance is 6%*, below the Canadian average of 8%.

Conclusion

The question is not simply whether Canada should grow. It is how Canada plans for demographic change: what capabilities we need, who will build them, and what kind of country we intend to be in a world where other powers are expanding their economic and strategic reach.

Canada needs both per capita prosperity *and* scale. A larger population does not automatically make Canadians better off. Canada's GDP per person is falling further below the G7 average, *from 98% of the average in 2014 to 92% in 2024* — now second-lowest in the G7. Population grew while investment, housing and infrastructure did not keep pace, so we added people faster than we added the things that make people productive. But aggregate scale matters too: it influences fiscal capacity, market leverage, the ability to sustain an industrial base, and whether Canada can get a seat at the table. A country can be prosperous per person and still be too small to shape the rules it lives under. Canada needs to be both, yet today it is planning seriously for neither.

This issue is one example of a much bigger challenge. Population change differs across Canada. Long-term planning that connects demographic change with skills, productivity, infrastructure and community capacity is essential to meeting our national ambitions.