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Partnering to Compete: Strengthening Ontario's Economic Competitiveness

Working Paper of the Fiscal Architecture
and Economic Competitiveness Working Table

October 2008

Executive Summary

Economic development is by definition both global and local, and the global economy and Information Age have reinforced this essential duality. Globalization is as much about linkages between cities and communities in different countries and on different continents as it is about trade and investment flows between national economies.

Creating jobs and raising living standards, then is a matter of both establishing supportive frameworks at the senior levels of government (stable fiscal environment, competitive tax structure, support for education and training), and building on local strengths (industry clusters and centres of excellence, cultural activities and attributes, quality-of-life attractions to entrepreneurs and skilled personnel).

Ontario municipalities face a variety of challenges with regard to investment attraction, human capital development and furnishing the infrastructure and amenities that leverage economic growth. Some are more pronounced in different regions of the province (e.g. proximity to markets, structural changes in key economic sectors), or in large cities or rural communities.

In the course of Working Table discussions and analysis of literature relating to municipal economic development in Ontario, we have identified four principal drivers of economic competitiveness at the local level.

- Global Competitiveness (Ontario's and Canada)
- Economic Restructuring
- Investment Attraction, and
- Enhancing Regional Economic Development.

Under each of these categories, a number of key tactics were identified to guide all three orders of government in developing policies and programs that support the economic competitiveness of Ontario municipalities.

Global Competitiveness

The foundation of competitiveness for Ontario's municipalities is the creation of a favourable macroeconomic environment by the federal and provincial governments.

This includes:

- A competitive tax and regulatory regime, based on benchmarking against other industrialized jurisdictions;
- Trade strategies that concurrently focus on maintaining and enhancing Canada's largest single trading relationship, that with the United States, and developing new market opportunities overseas, especially in emerging markets;
- Effective human capital development strategies: expand funding and incentives for apprenticeship and retraining programs; fully utilize the skills and potential of women, immigrants, minorities and foreign students; and
- Invest in the infrastructure that supports Canada's trading relationships: international airports, border crossings and strategic goods to market transportation corridors.

Economic Restructuring

Ontario is the historic centre of manufacturing activity in Canada and is an integral part of a manufacturing cluster that encompasses the northeastern and midwestern United States. Freer global trade and automation has resulted in declining manufacturing employment relative to other sectors, and a rising employment share for service and knowledge industries.

Creating high value-added employment in these sectors requires a mix of policies involving collaboration between all three levels of government:

- Coordination and streamlining of labour market policies including apprenticeship programs;
- Increased post-secondary education funding for scientists and engineers;
- Support for business incubators, targeted incentive programs, market-driven research and development, and regional and sectoral innovation networks;
- Building industry-government education sector linkages to promote cluster development;
- Enhancing access to venture capital; and
- Taxation policies that provide incentives to invest in machinery, equipment and process improvements.

Investment Attraction

Critical issues include the business climate established by the federal and provincial governments, capacity-building for local and regional economic development, and the infrastructure deficit. Addressing these issues involves collaboration between all three levels of governments as well as key stakeholders. Specific key tactics would include:

- Enhancing macroeconomic competitiveness: i.e tax structure, regulatory reform (see global competitiveness);
- Educating Economic Development Officers on investor site selection criteria and identifying leading economic development opportunities;
- Improved investment marketing, including special events and online tools;
- Improving coordination of provincial and federal economic development programs and expanding municipal-level participation; and
- Partnerships involving municipal leaders within regions, clusters and provincial agencies to build bridges across traditional jurisdictional and organizational silos. The Ontario Chamber of Commerce (OCC), Association of Municipalities of Ontario (AMO) and and Economic Developers' Council of Ontario (EDCO) could serve as facilitators in this process.

Enhancing Regional Economic Development

Key issues identified include securing greater federal government involvement in and support for local and regional economic development in southern Ontario, regional-level cooperation, infrastructure investment and local entrepreneurship/building on local strengths. Addressing these issues involves collaboration between orders of government, in some cases all three orders. Key tactics would include:

- Consideration of federal economic development support programs for regions of Southern Ontario similar to FedNor and the Atlantic Canada Opportunities Agency;
- Greater inter-municipal and government-stakeholder collaboration on economic development at the regional level;
- Maintaining a competitive macroeconomic environment;
- Targeting infrastructure investments to improve goods-to-market access and service employment lands; and
- Promoting entrepreneurship and innovation based on local and regional strengths (this might include, for example, biofuels and biopharmaceuticals in rural agricultural communities, eco-tourism, mining and forestry technology in Northern Ontario), using business incubators as a tool.

Introduction

The purpose of this paper is to:

- identify economic competitiveness opportunities and challenges facing Ontario municipalities;
- discuss possible municipal, regional and provincial level strategies, as well as mechanisms for intergovernmental cooperation that could enhance the ability of local governments in Ontario to attract investment and create jobs; and
- provide a foundation for future collaboration and discussion.

This paper represents the collective input from provincial, municipal and regional partners participating in the Provincial-Municipal Fiscal and Service Delivery Review Fiscal Architecture and Economic Competitiveness Working Table. Work is supplemented with input from recent economic development studies, including:

- The Economic Developers' Council of Ontario (EDCO) Local Economies in Transition Initiative Final Report (March 2008)
- The Ontario Chamber of Commerce (OCC) report on Investment Ready Communities (March 2008)
- Reports of the Institute for Competitiveness and Prosperity and The Conference Board of Canada

An important role for government in economic development is to help sustain and enhance the economic competitiveness and growth of Ontario's businesses. Policies to stimulate the growth and competitiveness of Ontario firms will help to:

- support a high standard of living for Ontarians;
- generate government revenues that can be invested in priorities like health, education and infrastructure (investments that contribute to quality of life and attract investment); and
- maintain a positive business climate.

Fulfilling this role requires recognition that a number of building blocks of prosperity are found at the local level. This, in turn, involves fostering ongoing dialogue and cooperation between business, government, the educational sector and community groups within municipalities and regions, and the active involvement of all orders of government in building and sustaining prosperous communities.

1. Environmental Scan

1.1 The Evolving Global Economy

The international trade environment has evolved over decades from the widespread protectionism and pursuit of self-sufficiency of the pre-Second World War period

towards global and continental markets, increasingly sophisticated and discriminating consumers and, consequently, intensified competition between businesses on the basis of cost, innovation and quality improvement. This, in turn, has driven restructuring and consolidation in a number of business sectors, which have become increasingly dominated by large multinational players.

The institutional framework for the internationalization of business was created through progressive tariff reductions by trading nations by way of the General Agreement on Tariffs and Trade (GATT) and the development of regional trading blocs such as the European Union and the North American Free Trade Agreement (NAFTA). Advances in transportation and information technology have also contributed to the expansion of international trade in goods and services.

Globalization of business has a number of fundamental implications for Ontario communities and the policy priorities of the provincial and federal governments:

- As products mature and low-cost, high-quality competitors (operating, for example, in Mexico, China or India) emerge, communities reliant on affected industries become more vulnerable to competition. This effect is compounded by the multinational nature of corporations that requires communities to compete globally not only on the basis of quality and cost, but also within the corporation for investment and product mandates.
- The rising importance of knowledge-based sectors in developed countries is putting more emphasis on workforce skills and key linkages (e.g. industry clusters).
- There is a general trend towards concentration of economic activity in urban centres, creating special challenges for smaller cities and rural communities.

The impact on Ontario's manufacturing sector has been particularly profound. Fifty years ago, most consumer goods purchased by Canadians were produced in branch plants in Ontario and Québec dedicated to a tariff-protected Canadian market. The Auto Pact of 1965, the Canada-United States Free Trade Agreement of 1989 and NAFTA, signed in 1994, together with the rise of the Japanese automotive and electronics industries, promoted the rationalization of Ontario's manufacturing sector. Some branch plants expanded and modernized, acquiring North American and global mandates for a narrower range of products. Other items formerly produced for the Canadian market began to be sourced in the United States or offshore, and in certain cases branch plants were no longer economically feasible and were closed.

The emergence of new international economic powers such as China, India and Brazil has reinforced the competitive pressures facing Ontario industries and communities. There is, however, opportunity inherent in this competitive challenge, as rapid economic growth within these countries translates into expanded consumer spending power and business investment. This, in turn, creates new markets for Ontario consumer and industrial goods and business services.

Some observers have suggested that continental economic integration has led to an over-reliance on exports to the United States that undermines both economic stability (as per the potential impact of the current U.S. economic slowdown on the Canadian

economy) and national sovereignty. They argue that priority be placed on forging deeper economic ties with the emerging overseas economic powers to achieve trade diversification. A contrasting school of thought holds that Canada's comparative advantage in accessing the huge U.S. market is too valuable an economic asset to be discounted, and that the federal government should seek to build on NAFTA and negotiate a more seamless continental economic zone.

According to The Conference Board of Canada, "we need to wear bifocals: we need to look out to the world, without taking our eyes off the United States."¹ Under this view, Ontario, in cooperation with the federal government, will need to simultaneously work to maintain and possibly further expedite access to U.S. markets while encouraging Ontario businesses to diversify their export markets.

1.2 Ontario's Regional Economies

For the purposes of analysis we have divided Ontario into four broad economic regions: Central, Western, Eastern and Northern.

Each region encompasses communities and sectors that are leaders in output growth and job creation and others that lag in economic performance. The relative importance of certain sectors in particular regions (e.g. forest products in the Northern Region, automotive manufacturing in the Western Region) highlight particular economic challenges within these regions, as do urban growth pressures and challenges faced by rural communities in maintaining their population and employment base.

Urbanization is also an important driver of regional prosperity, and can be correlated to the much higher per capita income of the Central region compared to the other three regions (see table below). This reflects wage premiums for highly educated workers in cities. The urban-rural divide in per capita GDP, however, is not as pronounced in Ontario as the United States.² This may be seen as a consequence of a more supportive policy framework for rural communities, or, conversely, as the Institute for Competitiveness and Prosperity (ICP) maintains, a need to strengthen sources of competitive advantage in Ontario cities³ (see the discussion of the Toronto Census Metropolitan Area below, and Section 2.2, Partnering to Compete: Global Competitiveness).

Population and Per Capita GDP – Ontario's Four Economic Regions

	Central	Western	Eastern	Northern	Ontario
Population 2006 Census	6,035,679	3,429,900	1,908,376	786,238	12,160,282
Real GDP Per Capita 2005	\$47,902	\$32,862	\$30,253	\$33,953	\$38,869

¹ The Conference Board of Canada, *Mission Possible: Successful Canadian Cities*, 2007, p. v

² Institute for Competitiveness and Prosperity, Task Force on Competitiveness, Productivity and Economic Progress, *Path to the 2020 Prosperity Agenda*, p. 21

³ *Ibid.*, pp. 24-26

Central Region

This includes the City of Toronto, the Regional Municipalities of Halton, Peel, York and Durham, Simcoe County, and the District Municipality of Muskoka. It encompasses the Greater Toronto Area (GTA) and, with more than six million inhabitants (2006 Census), contains half of Ontario's total population.

Major cities, in addition to the City of Toronto with nearly 2.5 million inhabitants, include Mississauga, Brampton, Oakville, Burlington, Vaughan, Markham, Richmond Hill, Oshawa, and Barrie.

As might be expected, it has the highest GDP per capita of any region at \$47,902 compared to \$38,869 for Ontario as a whole (2005 figures). It has the highest concentration of employment in finance, insurance and real estate among the regions, reflecting the presence of the Toronto financial services cluster. It is the focus of a range of other knowledge-based industries within the province, including information and communications technology (ICT), biotechnology, electronic and digital media, design and education. Manufacturing is also important, with five automotive assembly plants and a strong Original Equipment automotive parts sector in the suburban GTA.

Toronto is Canada's centre (as well as a leading North American centre) for creative industries: performing arts, motion pictures, digital media, arts promotion, design, architecture, advertising, and broadcasting. Along with ICT and business services, the creative industries exhibited the fastest employment growth among sectors in the Toronto Census Metropolitan Area between 1991 and 2004.

Greater Toronto faces challenges, however, in raising its global economic profile. The ICP points out that the Toronto Census Metropolitan Area's per capita GDP ranks 36th out of the largest 78 global metropolitan areas, and behind all of the 23 largest U.S. metropolitan areas. The Institute attributes this lag to comparatively weak labour productivity, indicative in part of less developed cluster synergies than exist in the major American urban regions.⁴

Growth management is a key long-term economic challenge for the GTA. There is a need to provide sufficient employment lands, including greenfield industrial and business parks, and expanded highway capacity to transport goods to market. Concurrently, urban sprawl and traffic need to be managed through substantial investments in higher-order public transit and planning for transit-friendly residential, and (outside of industries such as automotive manufacturing where greenfield sites are considered an operational necessity), industrial and commercial development. Uncontrolled urban expansion, typically accompanied by automobile dependence and traffic congestion, also raises issues of greenhouse gas emissions, toxic air pollution, loss of productive farmland and natural habitats, and the health impacts of poor air quality and lack of exercise.

⁴ Ibid., pp. 25-26

Development and implementation of effective “smart growth” strategies to address these issues, however, presents opportunities for the GTA to establish leadership in addressing climate change and in “green” design (e.g. green roofs and energy-efficient buildings) and technology.

Infrastructure investment is closely tied to growth management. This is true of all Ontario regions but it is an especially critical issue in the Greater Toronto Area. Collaboration among all orders of government is required to support investments such as the transit projects envisioned by Metrolinx, and also to maintain and refurbish basic infrastructure such as water mains and sewers.

The GTA can be said to comprise three different but symbiotic parts, each with its own set of key economic development challenges:

- The suburban GTA 905 area code region including York, Durham, Peel and Halton regions:
 - Growth pressures
 - Strains on the transportation system
 - Restructuring of the manufacturing sector and a cyclical downturn in automotive manufacturing
- The older suburban areas within the current City of Toronto (the former Cities of York, North York, East York, Scarborough and Etobicoke):
 - Low incomes relative to the rest of the GTA (especially in those areas farther way from the subway corridors)
 - Labour force development and full integration of immigrants into the workforce
- The “old” City of Toronto (within the boundaries existing prior to amalgamation in 1998):
 - Maintaining its role and status as a major economic driver of Ontario, and in particular maintaining the competitiveness of the financial services cluster performance, and cultural and creative industries.

The Central Region also encompasses Simcoe County and the District Municipality of Muskoka. The southern half of Simcoe County has a significant urban component including the City of Barrie. There is a significant industrial base, including the Honda assembly plant at New Tecumseth (Alliston) and numerous automotive parts suppliers, but also a high percentage of “bedroom community” commuters who travel daily to jobs in the GTA. This area shares many economic and growth management challenges with the “905” area of the GTA. Northern Simcoe County has a more rural and agricultural character with resort and retirement communities along Georgian Bay. Muskoka is characterized by resort and retirement communities on the shores of Canadian Shield lakes. Historically, a large percentage of employment has been tourism-based – often seasonal and low-wage. With advances in communications technology there has been an influx of knowledge-intensive home-based industries and entrepreneurial urban professionals into Muskoka and the Georgian Bay shoreline communities of Simcoe County.

Western Region

Often referred to as Southwestern Ontario, this region comprises the Regional Municipality of Niagara, City of Hamilton, and Wellington, Dufferin and Grey Counties, west and south to Lake Huron, the Michigan border and Lake Erie. It includes the cities of Hamilton, London, Windsor, Kitchener and St. Catharines.

The Western Region is the most manufacturing-intensive section of the province, with 27.1% of the workforce engaged in manufacturing or construction. Automotive manufacturing is an important driver of the regional economy, with motor vehicle assembly plants in Windsor, Ingersoll and Cambridge, and a significant concentration of parts suppliers along the Highway 401 corridor and in Niagara Region. Hamilton is Canada's principal steel production centre.

The strong presence of the manufacturing sector has resulted in high average wages in the larger cities within the region, but is also giving rise to economic restructuring challenges driven by the high value of the Canadian dollar, competition from emerging industrial countries and the impact of high oil prices on new vehicle markets.

A significant ICT cluster has developed around the University of Waterloo, anchored by its internationally-renowned School of Computer Science and Faculty of Engineering. Research in Motion has emerged as the cluster's flagship firm.

Southwestern Ontario is also the province's most important agricultural region, encompassing vineyards, orchards and market gardens in the Niagara Peninsula and Essex County in the south of the region, significant dairy, poultry and livestock industries as well as grain production (corn and winter wheat). The region's temperate climate and fertile soils support some of the highest average farm incomes in Canada, nonetheless, Southwestern Ontario's agricultural sector along with rural municipalities whose economies are tied to farming, face a number of significant challenges:

- Automation and consolidation of farms is reducing the population and revenue base of many of the region's rural municipalities.
- Fluctuations in commodity prices: currently, demand for biofuels is boosting incomes of cash grain (especially corn) producers, but is raising costs for dairy, livestock and poultry farmers.
- Consolidation in the food processing industry has resulted in the closure of numerous smaller canneries and mills, creating challenges in marketing produce and grains.
- The federal government supply management system, backed by high tariffs, provides a measure of income stability for dairy, poultry and egg farmers. However, supply management has faced challenges under international trade rules and during trade negotiations. If Canada is compelled to phase out or dismantle the system, radical restructuring of these agricultural sectors is likely.

These challenges are accompanied, however, by significant growth opportunities: biofuels, biopharmaceutical crops, and the evolution of agriculture into a knowledge

industry. For example, about 40% of farm operators in Ontario have post-secondary degrees.⁵

Eastern Region

This includes those counties east of the Central Region and south of Algonquin Provincial Park. It had a population of 1.9 million at the time of the 2006 Census, with more than 40% concentrated in the City of Ottawa. Kingston and Peterborough are other large urban areas.

The Eastern Region has a diverse economy. Ottawa, in addition to being the National Capital with a large share of the workforce employed in public administration, is the site of a highly developed ICT cluster. Plastics and food processing are important manufacturing sectors, and biotechnology an emerging growth sector. There is intensive agriculture in the St. Lawrence and lower Ottawa valleys and in the southwestern sections of the region from Prince Edward County westward. The north-central sections of the regions lie within the Canadian Shield; here mining, forestry and tourism are important drivers of the economy.

Eastern Ontario faces some challenges in the form of industrial restructuring. Many older, smaller-scale manufacturing plants face competitiveness issues under globalization and North American economic integration. Some rural communities on the Shield and adjacent limestone plains are characterized by marginal agricultural land and/or isolation from markets, and, consequently, low average incomes.

The Northern Region

This extends from the Parry Sound and Nipissing Districts northward and westward to Hudson and James Bays and the Manitoba border.

The Northern Region is the most sparsely populated of the four regions. It comprises almost 90% of the Province's land area but accounts for only 6% of the population (786,000 inhabitants as of the 2006 Census). This population base encompasses two cities with populations over 100,000: Sudbury and Thunder Bay, as well as the cities of Sault Ste. Marie, North Bay and Timmins. The region lies within the Canadian Shield and the sub-arctic environment of the Hudson Bay Lowlands. Historically, there was agricultural settlement in only a few limited areas, and the economy has grown largely around forestry, mining, related services, transportation and government administration. Major secondary manufacturers include Essar Steel Algoma at Sault Ste. Marie and Bombardier (rail passenger cars) at Thunder Bay.

The mining and forestry industries offer high wages but dwindling employment opportunities, due to automation within the mines and cost pressures in the forest products sector, especially the high value of the Canadian dollar and higher electricity

⁵ Agricultural Adaptation Council and Agriculture Canada, www.growourfarms.ca

rates. Problems in the forest products sector have been compounded by a sharp correction in the U.S. housing market, which is a principal consumer of Northern Ontario lumber. On the other hand, rising commodity prices in recent years are resulting in some growth in mining sector employment.

Job losses, a lack of economic diversity, limited services and amenities (due to the sparse population base) and limited local markets have resulted in a high level of youth out-migration, especially among skilled, professional and entrepreneurial post-secondary graduates. As a result the population of the region has declined steadily since the early 1990s. However, the trend of declining population of the previous decade has been reversed since 2001 in the largest cities of Sudbury, Thunder Bay and Sault Ste. Marie. Mining technology and professional services, energy development, biotechnology and eco-tourism offer prospects for high-valued added employment and community revitalization.

1.3 The Local Dimension of Economic Development

The prosperity of communities and regions is a function of national competitiveness, but national competitiveness is also driven to a large extent by characteristics and initiatives within communities and regions.

According to the Conference Board of Canada:

With the disappearance of pre-NAFTA protectionism and the impact of globalization, Canada's major city-regions are no longer competing just against each other for economic success. Rather, they are in a race for investment and jobs with other city-regions from around the world.⁶

In order to successfully compete, these city-regions need to build and capitalize on regional strengths and to approach economic development on a regional basis. Porter's cluster model, first advanced in *The Competitive Advantage of Nations* in 1990, expands on this premise, defining clusters as geographic concentrations of interconnected businesses, suppliers, educational and government institutions and infrastructure in a particular sector.

Clusters are widely considered to stimulate innovation and productivity among constituent firms, and cluster development has become a key focus of government economic development policies and programs internationally. Within regions, local governments contribute to the maintenance and growth of clusters by creating supportive fiscal and regulatory environments and fostering linkages with the business community, the educational sector and senior levels of government.

Regions cannot compete on cost and location factors alone. The work of Richard Florida (*The Rise of the Creative Class, Cities and the Creative Class*) has highlighted the role of quality-of-life attributes of individual cities such as cultural amenities, recreational opportunities and cultural diversity/tolerance in driving economic development within those cities and adjacent regions. These attributes, Florida has

⁶ The Conference Board of Canada, *Mission Possible: Successful Canadian Cities*, February 2007, p. 13

argued, are central to attracting educated and creative professionals, knowledge workers and creative entrepreneurs who drive emerging industries and can establish knowledge-based clusters:

More and more businesses understand that ethos and are making the adaptations necessary to attract and retain creative class employees---everything from relaxed dress codes, flexible schedules, and new work rules in the office to hiring recruiters who throw Frisbees. Most civic leaders, however, have failed to understand that what is true for corporations is also true for cities and regions: Places that succeed in attracting and retaining creative class people prosper; those that fail don't.⁷

A study of smaller and medium-sized Canadian cities has found a correlation between overall economic health and diversity/tolerance, though it was less conclusive on the impact of other “quality-of-life” variables.⁸

Strong communities are a building block for provincial and national economic prosperity. Many factors play a role in the development of vibrant local economies; there is no simple formula but rather a “complex interweaving of relations of production, work, and social life in specific urban contexts.”⁹

1.4 The Role of Government in Economic Development

Key areas such as international trade, immigration and monetary policy are to a large extent the jurisdiction of the federal government. The tools the Province has at its disposal to stimulate economic development are limited, particularly within the national and global context.

The focus of the provincial government has been to make use of the tools at its disposal, and to focus on targeting areas within its control to optimize economic development efforts, forge partnerships and pursue policy alignment to generate economic performance.

The 2008 Provincial Budget included a Five-Point Plan for enhancing Ontario’s economic competitiveness. The five elements are listed below, along with related initiatives/policy areas identified during the PMFSDR consultations:

⁷ Richard Florida, “The Rise of the Creative Class” summary article in *Washington Monthly*, May 2002 <http://www.washingtonmonthly.com/features/2001/0205.florida.html>

⁸ Gary Sands and Laura A. Reese, “Cultivating the Creative Class: and What About Nanaimo?” in *Economic Development Quarterly*, vol 22, no. 1, February 2008, pp. 8-23

⁹ A.J. Scott, “Creative Cities: Conceptual Issues and Policy Questions” in *Journal of Urban Affairs*, 28, p. 15

Ontario Provincial Budget 2008 Five-Point Plan

Plan Element	Stakeholder Issues addressed
Investing in skills and knowledge	Supporting research and development
Investing in infrastructure for a stronger Ontario	State of repair of roads, water systems Goods-to-market transportation
Lowering business costs	Tax policy Regulatory framework Reducing interprovincial trade barriers
Strengthening the environment for innovation	Creating programs to enhance productivity/value added (e.g. encouraging take-up of new technologies, industrial/process redesign, etc.)
Forming key partnerships to strengthen Ontario	Targeted support to industry

Municipal governments have a role to play as well, reflecting the locally-driven dimensions of prosperity and competitiveness. Some examples of local government roles, contributions and responsibilities:

- Creating linkages with, and catalyzing linkages between the educational and business sectors within communities
- Contributing to physical infrastructure that supports clustering, such as the Waterloo Business Park
- Developing regional economic development strategies in cooperation with neighbouring municipalities
- Maintaining local investment readiness: an adequate supply of “shovel ready” industrial and commercial-zoned land, up-to-date and user-friendly economic development websites
- Developing a business-friendly image through customer service for investors and potential investors and proactive response to business timelines
- Accessing tools available to Ontario local governments under the revised *Municipal Act* and the *Stronger City of Toronto for a Stronger Ontario Act*: Municipal corporations, community improvement plans, small business incubation centres and business improvement areas.

There is an opportunity to align and integrate policy levers across government as part of an overarching strategy that can better guide and shape provincial economic development efforts with the government's environmental agenda, longer-term transportation and infrastructure investments, labour force development efforts, "Growth Plan," innovation strategy and fiscal plan.

One widely cited model within North America is the Metro regional government encompassing three counties in Greater Portland, Oregon. Metro established a regional transit system that has constructed light rail links from the city centre to the outer suburbs, is responsible for land use planning and maintaining the state-legislated urban growth boundary. Under Metro, Portland has become recognized as one of the most liveable cities in the United States and has been successful in attracting investment and skilled personnel in knowledge-based and creative industries.

Ontario has launched initiatives to establish mechanisms of regional cooperation, such as the Greater Toronto Transportation Authority/Metrolinx to coordinate public transit in the Greater Toronto Area and Hamilton.

Both the Economic Developers' Council of Ontario (EDCO) Final Report of the Local Economies in Transition Initiative and the Ontario Chamber of Commerce (OCC) report on Investment Ready Communities, released in early 2008, suggested that regional economic development bodies are not as well developed in Ontario as in the European Union and some areas of the United States. In particular:

- Municipalities within a region often compete with each other rather than share information and resources. Opportunities to foster collaboration between business, government, labour and the educational sector are lost.
- There is a need to develop responsive governance and provide regionally integrated economic development approaches and marketing tools.

Coordinated regional economic development strategies were suggested as a priority for both the Province and municipalities. In Ontario, the Province is seeking to catalyze regional cooperation in economic development in the counties east of the GTA by launching the Eastern Ontario Development Fund.

Creating and sustaining prosperity involves not only competitive business costs and physical infrastructure, but also quality-of-life attributes attractive to the "creative class" as defined by Richard Florida:

- Scientists and engineers leading innovation;
- Cultural and intellectual leaders;
- Professionals in knowledge-intensive industries.

All orders of government have a role to play in enhancing the cultural, aesthetic and public goods-related investment attractors as well as the "hard" quantitative indicators of competitiveness.

One linkage that is distinctly less developed in Canada compared to other industrialized countries is that between cities and the federal government. While municipalities have had access to federal infrastructure funding programs in recent years, Canada's constitution places municipal governance, service delivery and financing under the primary jurisdiction of provincial governments. The Conference Board of Canada has called for a fundamental break with the traditional framework, calling for "a new national strategy to prioritize investments in cities that is based on leveraging unique economic potential and contribution." This would reflect the reality that "Canada's sustainable prosperity depends on national investment and involvement in our major cities"¹⁰ and entail ongoing federal support for urban infrastructure renewal, transportation systems and strategic economic sector development.

A critical area for cooperation and coordination across all three levels of government that has been identified by municipal leaders is infrastructure investment. A large block of roads, water and wastewater systems and other basic infrastructure put in place during the initial surge of suburban expansion of the late 1940s and late 1950s is nearing the end of its useful life. In many cases, maintenance and repairs have been deferred due to tight municipal budgets. To this must be added investment in new infrastructure required to manage growth, meet environmental goals and attract investment: rail transit, highways, serviced industrial land and energy distribution. It is estimated that closing the "infrastructure gap" will cost nearly \$60 billion over the next 10 years¹¹, which will necessitate the ongoing financial support of the senior levels of government, including the federal government.

2. Future Competitive Advantage

2.1 Key Success Factors for Ontario Communities in the Global Economy

In 2007, Canadian Manufacturers and Exporters (CME) presented a list of key future success factors for Canadian companies. While this list is focused on firm-level competitiveness, it also presents an illustrative list of areas that the government could consider to promote.

Firm-level success factors:

- Focus on customer and supplier success (total supply chain management)
- Mastering global supply chains
- Knowledge management
- Specialized products and services
- Innovation – continuous commercialization of new and improved products and processes

¹⁰ The Conference Board, op. cit., p. 15

¹¹ Provincial-Municipal Fiscal and Service Delivery Review Infrastructure Working Table, Final Report, p.

- New technologies and automation systems
- New business models and global value networks
- New market opportunities
- Agility customization
- Customer value – design, engineering, service, financing
- Time – product development to customer response
- Lean – products, processes, enterprise, business networks
- Total delivered cost

Success factors driven by collaboration between sector leaders and government:

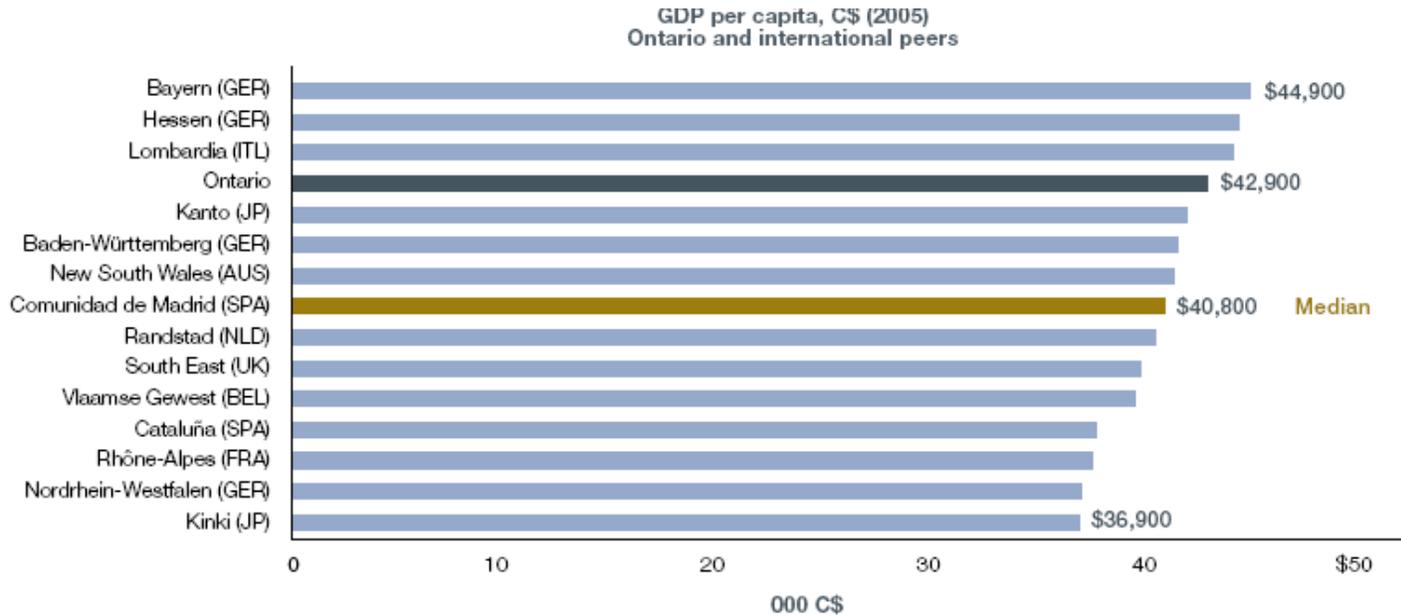
- Leadership and image of manufacturing
- Workforce capabilities
 - Availability of skilled personnel
 - Workforce mobilization
- Innovation and continuous improvement
- International business opportunities
- Competitive business services and financing
- Available and competitive infrastructure
 - Energy, transportation, communication
- Competitive business environment
 - Tax and regulatory environment

The traditional industrial mass production paradigm, which focused solely on economies of scale as a creator of value, was supplanted in the 1980s by the “lean manufacturing” paradigm, widely seen as the key to the global success of the Japanese automotive manufacturing sector. Lean manufacturing integrated production, inventory management, quality control, training, innovation and cost reduction, as opposed to treating these as separate and sometimes conflicting goals, through approaches such as quality circles and just-in-time delivery.

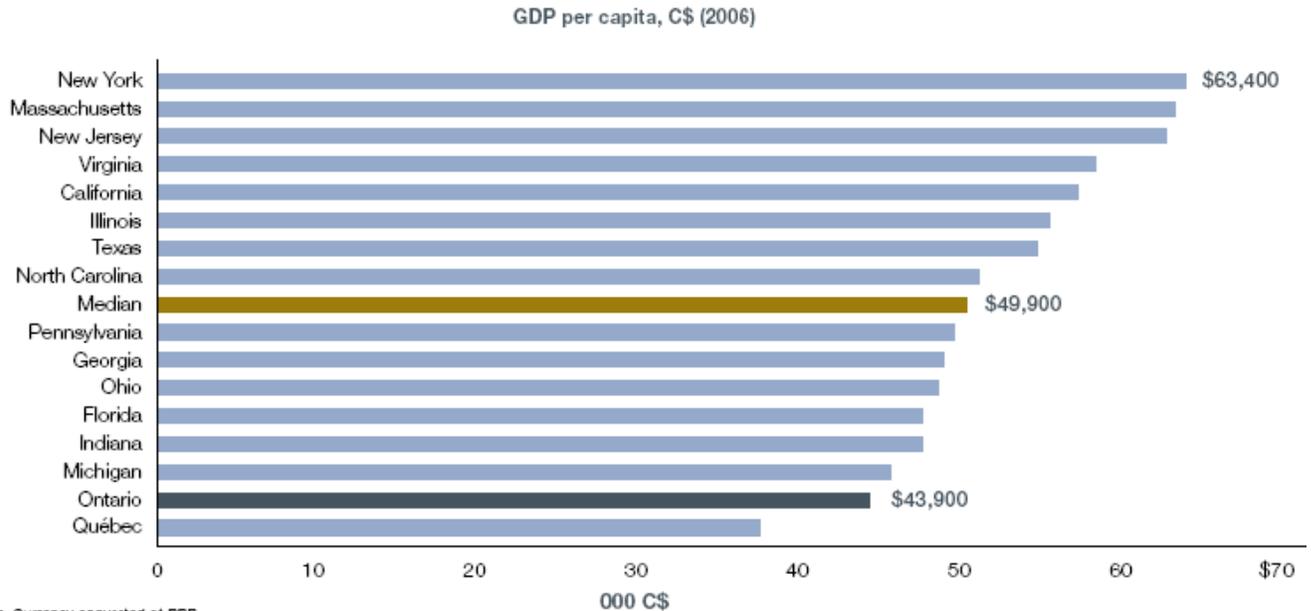
Over the past decade, lean manufacturing has been evolving further into agile manufacturing and integrative trade, placing greater emphasis on flexibility and specialization. According to Stephen Poloz, Chief Economist of Export Development Canada, large firms are moving toward vertical and geographic disintegration, accelerating the lean manufacturing trend toward outsourcing. This creates new opportunities for small, nimble, specialized competitors as individual links in a global supply chain.

2.2 Partnering to Compete

Figure 1:
Ontario GDP Per Capita vs. Selected Sub-national Jurisdictions
in Europe, Japan Australia and the United States



Note: Currency converted at PPP.
 Source: Institute for Competitiveness & Prosperity analysis based on data from Statistics Canada; Statistischen Ämter des Bundes und der Länder; Instituto Nacional de Estadística; Institut National de la Statistique et des Etudes; L'Istituto Nazionale di Statistica; Statistics Bureau of Japan; Statistics Belgium; UK Office for National Statistics; Australian Bureau of Statistics; Eurostat; OECD.



Note: Currency converted at PPP.
 Source: Institute for Competitiveness & Prosperity analysis based on data from Statistics Canada, Provincial Economic Accounts (CANSIM Table 384-0002); US Department of Commerce, Bureau of Economic Analysis, National Income and Product Accounts.

Source: Institute for Competitiveness and Prosperity

Global Competitiveness

One elementary indicator of the competitiveness of a jurisdiction is per capita Gross Domestic Product (GDP). Figure 1 shows Ontario's GDP per person (calculated at purchasing-power parity currency value) ranks high compared to sub-national jurisdictions in Europe and Japan, but lags all of the larger northeastern and midwestern U.S. states. In 2006, Ontario's per capita GDP was almost \$20,000 lower than that of New York state and \$6,000 below the median of industrialized North American jurisdictions. If this "prosperity gap" between Ontario and the North American median were closed, Ontario's average household income would increase an estimated \$8,600.¹² Weak productivity growth over the past three decades is widely seen as the principal cause of the prosperity gap.

Explanations for this weak productivity performance have included:

- Stagnant investment in education through the 1980s and 1990s
- Lagging investment in machinery and equipment (including information technology)
- Taxation policies that discourage investment and accumulation of personal wealth (this includes loss of social benefits to low-income workers moving up the economic ladder)
- Regulations that restrict foreign investment competition in certain sectors (e.g. financial services).¹³

This situation can give rise to challenges in attracting and retaining skilled personnel, including members of the creative class.

The rise in the value of the Canadian dollar against its U.S. counterpart increases the pressure on Ontario businesses to increase productivity and add value (though it also reduces the cost of importing leading-edge machinery and equipment that enables companies to boost productivity and quality). This pressure is intensified by the emergence of new industrial powers such as China, India and Brazil. These emerging industrial powers, however, are also emerging markets for Ontario exports. The softening of the U.S. economy, and post-9/11 security concerns that have "thickened" the Canada-U.S. border add increased importance for the need to diversify export markets.

Nonetheless, for reasons of geographic proximity and size, the importance of the U.S. market cannot be downplayed, and this focuses attention on managing border traffic flows, upgrading border infrastructure, and maintaining the institutional framework of bilateral trade. Some economists have argued that a more seamless free trade relationship with the United States (i.e. addressing non-tariff barriers) would help Ontario and Canadian firms build the critical mass required to compete successfully in global markets.

¹² Institute for Competitiveness and Prosperity, *Path to the 2020 Prosperity Agenda: Sixth Annual report*, November 2007, pp. 8-9

¹³ *Ibid.*, pp36-41, 45-49, 52, 55

Building global competitiveness ultimately extends beyond issues of business costs, productivity, investment in capital goods, and management of trading relationships. It embraces partnerships between jurisdictions, different orders of government (many of the key drivers of competitiveness involve all three orders of government to some degree – see table below) and stakeholders. These partnerships can create coordinated regional economic development strategies that build human capital, promote innovation and clustering, and effectively market a region to investors.

Marketing a location to site selectors can involve more than highlighting economic strengths; in the case of international business centres, a globally recognized “brand” can act as an important catalyst to attracting investment. City-regions brand provinces or states and countries, stimulating cluster formation, attracting creative class professionals, and enhancing productivity. It has been observed that the GTA faces challenges in establishing a globally recognized brand that could help grow its international profile in sectors such as financial services and ICT. Knowledge and creative industries play a key role in building a city-region’s brand, through cluster formation and regeneration of urban neighbourhoods. Strategic infrastructure, such as modern, efficient international airports, also contributes in an important way by facilitating international exposure and business linkages.

Improving Global Competitiveness – Key Tactics

Key Thrust	Description	Prov.	Mun.	Fed.
Benchmarking	Track relative cost-competitiveness of business locations in Ontario as compared to competing jurisdictions in the United States and elsewhere e.g. KPMG study, and formulate taxation and regulatory policies with regard to maintaining and enhancing Ontario's cost competitiveness.	✓	✓	
Competitive Tax Structure	Continually review Ontario's tax system for opportunities to enhance competitiveness, foster investment and innovation and to encourage skills training and labour force attachment. Continue with reduction of Ontario's business property taxes. Demonstrate value in services for level of taxation; match or beat public sector investments/incentives in other jurisdictions.	✓	✓	✓
Competitive Regulatory Climate	Continue to review, streamline regulations.	✓	✓	✓
Modern Pension Regulatory System	Review Ontario's pension system to reduce regulatory inefficiencies and enhance plan flexibility.	✓		
Trade Strategies	Develop international trade strategies that sustain and improve access to U.S. markets while opening new markets. Eliminate barriers to interprovincial trade.	✓		✓
Education, Training, Labour Force Mobilization	Expand funding, incentives for apprenticeship programs and worker retraining/skills enhancement. Activate underutilized labour market (e.g. youth, women, immigrants, aboriginals). Attract foreign students.	✓		✓
Regional Economic Development Strategies	Adopt a coordinated regional approach to economic development modelled on international best practice. Develop sector-specific targets.	✓	✓	✓
Optimize Infrastructure for Global Linkages	Make better use of Lester B. Pearson International Airport to increase flights to strategic destinations (emerging economic powers, knowledge industry cluster cities).			✓
Lever Diversity	Expedite recognition of immigrant professional credentials; encourage diversity in hiring.	✓	✓	✓

Economic Restructuring

Manufacturing has historically been a mainstay of the economies of Southern Ontario communities. The manufacturing sector's share of employment in Ontario has been in long-term decline due to automation, global competition and outsourcing of labour-intensive work to low-wage countries. Over the next several years, weak consumer demand in the United States and the restructuring of the automotive industry due to high oil prices may accelerate this trend. The share of the workforce engaged in service occupations, conversely, has been steadily growing.

Manufacturing will remain a sector of critical strategic importance to Ontario, but will need to become increasingly focused on high value-added products requiring a highly skilled and productive workforce.

Growing employment in high value-added, knowledge-based service industries (e.g. information technology, financial services, design and engineering), and advanced manufacturing (biotechnology, electronic products, advanced machinery) is widely seen as the key to future prosperity. Replacing lost manufacturing jobs with high value-added service sector jobs requires collaboration between industry, government and post secondary educational institutions. The accelerated restructuring of the coming years will increasingly highlight the need for education, training and innovation program partnerships between government, business and the educational sector to support modernization of local economies. Fostering the growth of creative industries, especially design clusters in urban settings, offers opportunities to enhance the productivity and value added of Ontario industries and provide new sources of competitive advantage to industries and communities facing economic restructuring.

Economic Restructuring - Key Tactics

Key Thrust	Description	Prov.	Mun.	Fed.
Skills and technology training and attraction	Provide more streamlined labour market resources; fewer, more coordinated points of contact. Coordinate training and attraction efforts on a regional level. Continue to provide incentives for apprenticeship training in areas where skills shortages are expected. Develop benchmark workforce/labour information.	✓	✓	✓
Develop more engineers, scientists, IT professionals	More post-secondary funding focused on sciences, applied sciences and technology. More business school graduates capable of commercializing innovation.	✓		✓
Commercialization of R&D	Business incubators, targeted incentive programs, support for company-led applied research, regional and sectoral innovation networks.	✓	✓	✓
Cluster Development	Promote industry-government-educational sector linkages, target economic development programs at regions/industries with clustering potential. Greater focus on green, creative and educational sectors.	✓	✓	✓
Innovation Research	Support science and technology education, university/college-business linkages; develop economic environment favourable to conducting R&D in Canada/Ontario.	✓	✓	✓
Access to Capital	Enhance access to capital and second-stage growth funds.	✓		✓
Capital Investment	Encourage investment in machinery and equipment and process reengineering to increase productivity.	✓		✓

Investment Attraction

According to the EDCO Local Economies in Transition study,¹⁴ many Ontario communities “can do much more to achieve their full potential for attracting either local or incoming investment.” Some of the issues identified by site selectors:

- Inability to demonstrate a supply of “shovel-ready” industrial sites or “ready to go” buildings
- Lack of awareness of competitiveness factors; no up-to-date economic development strategy
- Community profiles and websites missing critical information; websites not user-friendly or out of date
- Inability to demonstrate available workforce; weak linkages between economic development and labour force development activities
- Development charges and land prices seen as prohibitively expensive compared to competing jurisdictions
- Difficulty establishing a critical mass of sites, workforce, services due to lack of a regional approach to economic development.

Ontario’s infrastructure deficit has significant implications for investment attraction. The capacity and state of repair of highways and arterial roads has an impact on delivery times and employees’ travel times to workplaces. A municipality’s ability to provide serviced, or immediately serviceable industrial land is often a critical factor in the site selection decision. The state of repair of infrastructure affects the overall aesthetics and hence the image or “branding” of a community. An infrastructure deficit therefore has a negative impact on productivity, competitiveness, labour force mobility and image.

In the case of larger cities, the state and development of transit infrastructure has a significant impact on labour force mobility. In the Greater Toronto Area, for example, a lack of efficient transit linkages between suburban communities effectively limits employer access to GTA-wide labour pools, especially underutilized workers, many of whom do not own automobiles. Proximity to modern limited-access highways is a critical site selection criterion for manufacturing industries. However, over-reliance on the automobile within metropolitan areas has negative consequences for air quality, aesthetics (unsightly concrete expanses and linear commercial development). This, in turn, detracts from image, health (through respiratory disease, stress arising from traffic congestion, and lack of exercise from car dependence) and, ultimately, productivity.

The role of image in investment attraction also draws special attention to cultural and recreational amenities. These are significant site selection criteria to creative entrepreneurs in knowledge industries and key attractions to the creative class professionals who staff these sectors. The capacity of local governments to meet basic physical infrastructure needs and progress to focus attention of quality-of-life goals is essential to launching the virtuous circle that attracts and grows knowledge-based clusters.

¹⁴ Economic Developers’ Council of Ontario, *Final Report: Local Economies in Transition Initiative*, March 14, 2008, p. 10

Investment attraction is another aspect of economic competitiveness where important elements are locally-driven but collaboration between levels of government is key to overall success.

Investment Attraction – Key Tactics

Key Thrust	Description	Prov.	Mun.	Fed.
Education and awareness campaign (EDCO)	Encourage awareness of all factors influencing site selection decision-making, relative strengths and weaknesses of various regions of the province and opportunities for improvement. Consider Community Investment Readiness Certificate. Expand the education and awareness component of Communities in Transition to include seminars, workshops and self-assessment tools for municipal economic developers.		✓ (With EDCO)	
Healthy business climate (EDCO)	Improve the cost-competitiveness of Ontario communities compared to other jurisdictions, especially the U.S.	✓	✓	✓
Coordinate municipal, provincial and federal programs	Reduce overlap in federal and provincial economic development programs by examining opportunities to enhance coordination of programs and policies with federal government. Expand to include municipalities where possible e.g. TIEGS, environmental legislation. Reduce/streamline regulatory burden. Coordinate federal, provincial and municipal trade missions.	✓	✓	✓
Collaborative approach (OCC, EDCO, AMO)	Partner with regional leaders, clusters and provincial agencies to build bridges across traditional jurisdictional and organizational silos. Use regional collaboration tables (e.g. GTA roundtable) to advance regional economic development efforts. Continue to gather municipal feedback on Site Selector Survey (EDCO). Encourage shared risk and reward.	✓	✓	
Access to provincial investment programs	Appoint a Community Investment Officer to improve municipal access to provincial investment programs.	✓		
Strategic infrastructure investments	Goods-to-market transportation, public transit, broadband, border crossings.	✓	✓	✓
Raise profile among investors	Establish an effective internet presence and coordinate online and conventional-source information. Develop an integrated search engine to provide one-window access to community information relevant to site selectors.	✓	✓	
International events	Develop provincial Major International Event Hosting Policy including investment and revenue sharing strategy. Leverage culture, events and tourism opportunities.	✓	✓	✓
Align growth objectives & investments	Articulate government economic development objectives. Align infrastructure investments, growth plan objectives and economic development needs.	✓	✓	✓
Sector-specific economic development targets	Base on analysis of local economy – strengths and opportunities.		✓	
Regulatory transparency	Planning approvals; expedite service delivery.		✓	
Affordable housing and health care	Ensure ready access to basic and specialized health care services and a housing supply that keeps costs at affordable levels; this can be a significant factor in attracting skilled workers and investors who employ them.	✓	✓	✓

Enhancing Regional Economic Development

Particular economic development challenges faced by different regions of Ontario were discussed in Section 1.2.

Access to federal government regional economic development support was identified as an important tool, enabling Ontario to compete with Quebec and other provinces that currently have access to federal funds through such programs as the Western Diversification Fund.

Regional economic development cooperation is key to both developing and implementing an economic development strategy. These partnered strategies need to address the region’s global brand, identification of target investment sectors, cluster development and labour attraction needs and infrastructure investment priorities.

In regions distant from major markets, local entrepreneurship and specialization based on local strengths offer the greatest potential for job creation and increased household incomes.

Enhancing Regional Economic Development

Key Thrust	Description	Prov.	Mun.	Fed.
Federal economic development support	Consider federal economic development support for Ontario regional economic development, at levels proportionate to support flowed through FedNor or Atlantic Canada Opportunities agency.			✓
Regional cooperation	Promote greater inter-municipal and stakeholder collaboration on economic development at the regional level (EDCO, AMO).	✓	✓	
Cost competitiveness	Monitor business costs and benchmark against competing jurisdictions, especially U.S. (EDCO). Continue to examine role of incentives.	✓	✓	✓
Infrastructure	Target infrastructure investments to improve goods-to-market access and service employment lands.	✓	✓	✓
Build on local strengths	Promote entrepreneurship and innovation based on local and regional strengths (biofuels, biopharmaceuticals, eco-tourism, mining and forestry technology, energy and environment, food production) e.g. business incubators.	✓	✓	✓

APPENDIX: BUILDING BLOCKS OF MUNICIPAL ECONOMIC COMPETITIVENESS

The following tables provide an illustrative list of existing federal, provincial and municipal programs and tools that contribute to, or can be leveraged to, promote investment, innovation and/or economic development collaboration at the local level. These are arranged under the same headings as the discussion in Section 2.2:

- Global Competitiveness
- Economic Restructuring
- Investment Attraction
- Enhancing Regional Economic Development

Global Competitiveness:

Provincial	Municipal	Federal
Five-Point Plan in 2008 budget: <ul style="list-style-type: none"> • Investing in skills and knowledge • Investing in infrastructure • Lowering business costs • Strengthening environment for innovation • Forming key partnerships \$540 million cut to high business education (BET) rates over seven years. Accelerated plan for BET reductions in northern Ontario.	Regional alliances: e.g. Communitech, Toronto Region Research Alliance, Ontario East Economic Development Commission, Southwestern Ontario Marketing Alliance, Greater Toronto Marketing Alliance BR + E Programs AMO's Economic Development Task Force <u>Tools under revised <i>Municipal Act</i>:</u> Municipal Corporations Community Improvement Plans Small Business Incubation Centres Business Improvement Areas	Industrial Research Assistance Program (IRAP) Scientific Research and Development Tax Credit (SR & ED) Business Development Bank of Canada Export Development Canada Manufacturing 20/20 FedNor Proposed <i>Immigration Act</i> reforms: expedite processing of immigrants with in-demand skills.
Matches federal SR & ED Increased education funding Next Generation of Jobs Fund (MED/MRI) - \$1.15 billion Ontario Research Fund (MRI) 20% refundable Ontario Business-Research Institute Tax Credit. Ontario Innovation Tax Credit for SMEs Proposed Eastern Ontario Development Fund, Regulatory Modernization Initiative (MEDT) Northern Ontario Heritage Fund Northern Growth Plan (MNDM) Rural Economic Development Program (OMAFRA) Adjustment Advisory Program Apprenticeship Training Tax Credit (MoF) Apprenticeship Innovation Fund (MTCU) ReNew Ontario infrastructure investment plan (MEI)		

Economic Restructuring

Provincial	Municipal	Federal
Next Generation of Jobs Fund (MED/MRI) - \$1.15 billion	Sector development (e.g. TBI, DIAC)	Broadband for Rural and Northern Development Pilot Program
Innovation Demonstration Fund (MRI)	Investment in research and innovation facilities (e.g. Waterloo Research Park)	Communications Research Centre
Early Researcher Award (MRI)	Small Business Incubation Centres	\$1.2 billion commitment to skills training in Ontario (Feb. 2008)
Health Technology Exchange (MRI)	Regional Alliances: TRRA, Communitech, Toronto Financial Services Alliance	
Rural Connections broadband access (OMAFRA)		
Communities in Transition		
Skills to Jobs Action Plan: \$1.5 billion (TCU)		
Support for Toronto Region Research Alliance (MED)		
Ontario Tax Exemption for Commercialization (2008 Budget)		

Investment Attraction

Provincial	Municipal	Federal
Next Generation of Jobs Fund	Municipal Corporations	Industry Canada/FedNor
Advanced Manufacturing Investment Strategy (MED)	Community Improvement Plans	Community Investment Support Program (CISP – DFAIT)
Ontario Investment and Trade Centre (Communities in Transition GIS mapping International Marketing Reps. Investment offices) www.2ontario.com (MEDT/MITI)	Business improvement Areas	
Northern Ontario Heritage Fund	Regional alliances: e.g. Communitech, Toronto Region Research Alliance, Southwestern Ontario Marketing Alliance, Ontario East Economic Development Corporation	
Ontario Mineral Development Strategy		
Ontario Mining Cluster strategy		
Northern Growth Plan (MNDM)		
Rural Economic Development Program (OMAFRA)	AMO's Economic Development Task Force	
Small Business Enterprise Centres	Community Improvement Plans	
Regulatory Registry (MSBCS)		
Growth Plan for the Greater Golden Horseshoe		
Employment Lands Review (MEI)		

Enhancing Regional Economic Development

Provincial	Federal	Municipal
Northern Ontario Heritage Fund (MNDM)	FedNor	Regional marketing and innovation alliances
Rural Economic Development (RED) Program (OMAFRA)	Eastern Ontario Economic Development Fund	Municipal economic development tools: BIAs, CIPs
Eastern Ontario Development Fund (MED)		
Communities in Transition (MED)		

