



EMERGING STRONGER

A Transformative Agenda for Ontario

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For more information, visit the Ontario Chamber of Commerce at www.occ.on.ca and the Mowat Centre at www.mowatcentre.ca. For more information on the survey results, visit Leger Marketing at www.legermarketing.com.

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Emerging Stronger

The global economic downturn has accelerated the need to identify a new economic path for the 21st century.

Many Ontarians are concerned about the future of their businesses, families, and livelihoods.

Canada and Ontario have weathered the recent economic downturn better than most, and as a result we stand on more solid ground than many of our competitors. But the high levels of government debt among many of our most important trading partners, a large provincial deficit, and high levels of North American household debt, present challenges for Ontario businesses. The Ontario Chamber of Commerce, the Mowat Centre, and Leger Marketing have partnered to initiate a discussion and identify a vision for our collective future.

The Ontario Economic Summit held on November 21-23, 2011, brought together hundreds of business, government, and civic leaders, and provided an opportune moment to initiate this discussion. This report is the result of consultation with Ontario's leaders and feedback received at the Summit.

Ontario is facing a major turning point in its economic history. The cyclical economic downturn is taking place against larger structural changes. In Ontario, we are transitioning away from many of the old industries that were the foundations of Ontario's prosperity for generations. Meanwhile, the global economy is

undergoing a geopolitical re-ordering with the emergence of previously less-developed economies and a relative decline in the economic strength of the United States.

The next five years are crucial for Ontario: we must embrace these changes, prepare for even greater competition from our international peers, deepen collaboration globally, and identify and invest in Ontario's competitive advantages.

Our bottom line is this: despite the Great Recession and its impact on Ontario, the province is well-positioned to emerge stronger during this period of transition. But two realities must be acknowledged and addressed: Ontario businesses, like those across the country, are not as productive as they could be; and many businesses are not sufficiently exposed to rapidly growing emerging markets.

This report sets out the strengths, weaknesses, and challenges that lie ahead for Ontario. It identifies an agenda that can best be pursued if the federal and provincial governments are working together, with the private sector, to achieve success.

Our recommendations are intended to provide a basis for discussion and debate. We hope that you will join us in discussing a transformative agenda so that Ontario can emerge stronger, more productive, and more globally connected in the future.

- Ontario Chamber of Commerce & Mowat Centre

A Transformative Agenda for Ontario

The purpose of this document is to summarize what we have heard from business and civic leaders, analyze Ontario's key assets and challenges, and propose some strategic priorities for the province.

The priorities identified include:

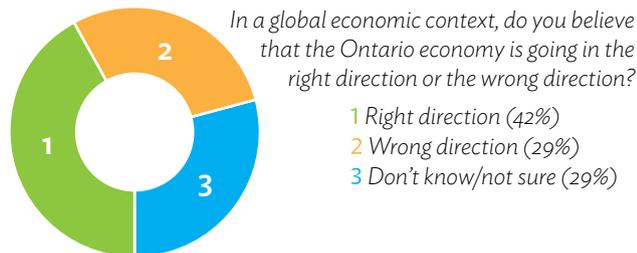
1. Fostering a culture of innovation and smart risk-taking in order to become a productivity leader.
2. Building a 21st century workforce through workplace training, utilizing newcomers' skills, and apprenticeship reform.
3. Restoring fiscal balance by improving the way government works.
4. Taking advantage of new opportunities in the global economy by enhancing linkages with the US, leveraging newcomers' networks, and trading more with the BIC and other emerging economies.
5. Identifying, championing, and strategically investing in our competitive advantages in the global economy.

These priorities form the basis for this economic vision. We believe that this will provide a blueprint for prosperity in Ontario.

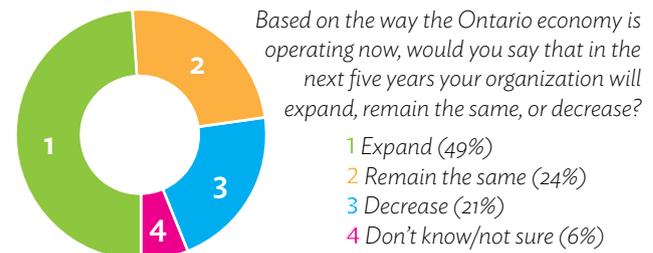
Opinion of Ontario's Business and Civic Leaders: A Fractured View of a Bright Future

Leger Marketing surveyed Ontario's business and civic leaders in late September 2011. According to the survey, Ontarians...

...are unsure about the direction of the provincial economy in the global economic context...



...but are more confident about their organizations' growth projections.



Respondents highlighted the following strategic priorities for the province:*



* Respondents were asked the following question: *The Ontario Chamber of Commerce is investigating which of the following should be the concern of Ontario's business, academic, First Nations, and government communities moving forward. What are your first, second, and third priorities moving forward?* As a result, percentages add up to more than 100 per cent.

1. FOSTERING A CULTURE OF INNOVATION & SMART RISK- TAKING IN ORDER TO BECOME A PRODUCTIVITY LEADER

Ontario's innovation gap is a major barrier to increasing productivity and prosperity. Firms need to unlock their innovative potential, but do not receive the right support from government to do so. The business and government sectors must work together to address current challenges and create a business environment that promotes innovation.

Supporting innovation is the top priority of Ontario's civic and business leaders (41 per cent). Ontario's world-leading research institutions help make the province the centre of Canadian R&D.

The Good News

Ontario's overall tax environment has improved over the last several years, thanks in part to the elimination of the capital tax and the adoption of the Harmonized Sales Tax (HST). These changes are helping Ontario become more competitive and productive.

Ontario attracted \$6.1 billion (USD) worth of foreign (capital) direct investment in 2010, second in North America.

Ontario has strong universities and research centres that excel in science and technology. The University of Waterloo, for example, has become recognized as a world leader in applied sciences and engineering and Ottawa is home to federal government research centres such as the National Research Council (NRC) and the Communications Research Council (CRC)—two direct innovation players.

The Challenges

Thirty-eight per cent of business and civic leaders feel the province is either *not that innovative* or *not innovative at all*.

Investment in Ontario's physical capital stock is weak. Ontario businesses continue to trail their US counterparts in investing in machinery, equipment, and software to make their workers more productive.

In 2009, the Ontario-US gap in information and communications technology (ICT) investment per worker was \$1,350 (32 per cent), while in other machinery and equipment the gap was \$600 (12 per cent).

Canadian businesses under-invest in R&D, spending only one per cent of GDP on R&D, compared to an OECD average of 1.7 per cent and two per cent in the US.

How do we foster a culture of innovation and smart risk-taking?

Clarify Canada's innovation policy space: The innovation policy landscape is cluttered with overlapping programs, confusing eligibility requirements, and time-consuming administrative hurdles. Provincial and federal governments should streamline their support programs.

Business needs to transition from R&D laggard to leader: Business needs to embrace a risk-taking culture, for example, by adopting new technologies and investing in human capital in order to prepare for intensifying global competition and falling barriers. The imperative is particularly strong in sectors that are sheltered. Openness to the world—and the capacity of Ontarians to navigate in a diverse world—will be crucial to Ontario's success.

Government needs to help bridge the commercialization gap: Ontario's universities are producing world leading research. But the province is struggling with turning this research into marketable products and business solutions. The commercialization gap needs filling with government supports that link business to academia—and vice versa.

Support business investment in R&D: Ontario's business community needs a supportive R&D investment environment. This means government investment supports that work for all businesses, regardless of size or sector. Support programs currently focus on small and medium-sized enterprises (SMEs) looking to break into the innovation game. These supports should be as flexible as possible instead of imposing burdensome restrictions on how resources can be spent.

Continue progress on tax reform: Ontario has taken important steps to modernize its tax system. Harmonizing the sales tax, eliminating the capital tax, and reducing corporate income tax rates have made Ontario's business environment globally competitive. The federal and provincial governments should regularly review the impact of taxation on business and on overall competitiveness relative to other jurisdictions.

2. BUILDING A 21ST CENTURY WORKFORCE THROUGH WORKPLACE TRAINING, UTILIZING NEWCOMERS' SKILLS, & APPRENTICESHIP REFORM

Ontario has a higher level of post-secondary credential attainment than any other OECD nation and attracts tens of thousands of skilled immigrants every year.

Ontario needs to build the skillsets necessary for the knowledge economy. Provincial education systems are strong, but there are numerous areas where skilled labour is in short supply despite high unemployment. Governments need to help ensure labour supply better matches demand.

The Good News

The province has a higher level of post-secondary credential attainment than any other OECD nation, 20 per cent higher than the US, and double that of the UK.

Ontario's robust post-secondary infrastructure includes 20 public universities and 24 colleges.

Total provincial post-secondary enrolment is at almost 600,000, including 66,000 international students who spend over \$2.1 billion annually in Ontario.

Skilled immigrants made up 84 per cent of Ontario's total landings in 2010.

The Challenges

There are not enough students entering the skilled trades to meet labour market demand.

Ontario's working-age population as a share of the population is expected to decline by almost 9 per cent by 2036. Meanwhile, the province's senior citizen population is expected to more than double, reaching over 23 per cent of the population by 2036. A labour deficit of more than one million workers across the country is expected by 2031.

Immigrant underemployment costs between \$3.4 - \$5 billion a year.

Canada's labour productivity rate is growing at 0.5 per cent annually compared to 2.1 per cent in the US.

How do we build a 21st century workforce?

Reform Employment Insurance (EI): Create a fair, nationally standardized EI system, as recommended by the Mowat Centre EI Task Force. Canada's EI system is an added barrier to life-long skills improvement. EI rules prohibit individuals from accessing retraining unless they are already unemployed. This means that under-employed Ontarians cannot benefit from government subsidized training programs to acquire new skills demanded by a changing labour market.

Improve workforce training: Ontario should adopt a comprehensive, streamlined, client-centred workforce training model to ensure that all Ontarians can acquire the skills they need to compete in a dynamic, knowledge-focused labour market. Ontario's workforce training strategy must provide workers with opportunities to upgrade their skills through all stages of their career.

Improve newcomers' employment prospects: Allow Ontario to develop an immigration selection strategy linked to economic and/or labour market objectives. Immigration is key to the long-term competitiveness of Ontario's labour force. Immigrants to Ontario increasingly arrive with the skills and education the province needs. However, we have been too slow in recognizing newcomers' credentials.

Bridge the increasing skilled trades gap: Objectively review journey person to apprentice ratios and bring them as close to 1:1 as possible.

Invest in transit: Improve transit and transportation infrastructure to attract the best talent and better connect people with jobs. A National Transit Framework would be an important step.

Respond to the needs of Ontario's urban Aboriginal population: Over the last 25 years, Canada's urban Aboriginal population has grown rapidly. In concert with the federal government and Aboriginal leadership, Ontario needs to create an integrated, stable, and adequately resourced framework for funding appropriate programs, services, and resources for this population.

Reform undergraduate education: Ontario's competitors are finding new and better ways to educate more students. As recommended in forthcoming Mowat Centre research, Ontario should pursue the creation of new undergraduate teaching universities and greater integration between the university and college sector to allow for simpler transfers and transitions between institutions.

3. RESTORING FISCAL BALANCE BY IMPROVING THE WAY GOVERNMENT WORKS

Innovation in healthcare delivery ranks in the top four priorities of Ontario's civic and business leaders (25 per cent). The significant cost-savings from new healthcare technologies can help the province achieve fiscal balance.

Ontario is facing the perfect storm of fiscal pressures. Deficit elimination is a top priority of survey respondents (35 per cent). Ontario's economic future depends on sound fiscal strategies. Without balanced budgets, reasonable tax levels, and efficient public services, Ontario will lag behind other jurisdictions.

Healthcare makes up the largest share of provincial budgets—over 40 per cent in Ontario—with no signs of slowing. Thus, reform is urgently required. Moreover, the province is disadvantaged by federal transfers and the equalization formula. Ontarians are not receiving adequate return on their disproportionate investment in the federal transfer system.

The Good News

Ontario and Canada have weathered the global economic downturn comparatively well—employment has returned to pre-recession levels.

The provincial government has recognized the need to reduce the deficit and has created the Commission on the Reform of Ontario's Public Services to advise on how best to save money.

The 2011 provincial budget identified \$1.5 billion in savings and pledged to reduce the overall size of the public service.

Corporate taxes have been lowered and taxes on capital eliminated.

The Challenges

Ontario has a \$16 billion deficit, some of which is structural. Ontario's proposal to balance the budget by 2017-18 is three years longer than most provinces'.

Healthcare costs comprise over 40 per cent of the provincial budget and are projected to increase.

Ontarians are disadvantaged by numerous federal spending programs, including equalization and funding for training.

Provincial debt is projected to reach \$285 billion over the next two years—approximately \$1,800 per capita.

How do we restore fiscal balance?

Share responsibility for public service delivery; make government smarter: Adopt creative approaches to government service provision, including partnerships with citizens, businesses, and the non-profit sector—the fiscal situation cannot be rectified by government alone. Sharing responsibility for public services could offer practical solutions to reducing costs and improving services.

Find healthcare efficiencies: Recover the cost savings from investments in new technology and delivery. The days of “one-stop-shop” hospitals are disappearing. Cataract surgery, joint replacements, and diagnostic imaging are just a few examples of healthcare services that have been made more efficient through technological advancement. Yet, the fee schedule for these procedures remains unchanged, leading the province to overpay for care that *actually* costs less.

Develop a long-term strategy for public sector compensation restraint: It is time to restrain growth in public sector wages. Escalating wages and benefits have created a huge liability for provincial taxpayers. Without some action to introduce comprehensive restraint, balancing the budget will remain difficult.

Improve results in the broader public sector: The Ontario government transfers billions of dollars to hospitals, universities, school boards, municipalities, and others to deliver public services. Revisiting these funding formulae to ensure results are being achieved in an efficient way is necessary.

Secure a better deal with the federal government: Federal fiscal arrangements with the provinces continue to undermine Ontario’s ability to succeed. Ontario has very low relative fiscal capacity after the federal government has undertaken its redistribution of wealth through fiscal transfers. Ontario should continue its pursuit of principled federal transfers and the federal government should correct those policies that weaken Ontario’s fiscal capacity.

4. TAKING ADVANTAGE OF NEW OPPORTUNITIES IN THE GLOBAL ECONOMY

Cross-border trade with the US is, and will always be, important for Ontario. The Great Lakes states were identified by 46 per cent of survey respondents as one of the most important future markets for the provincial economy. Benefits from this relationship need to be maximized. But Ontario must also ensure that it is prepared to take advantage of diverse opportunities across the globe.

Ontario's civic and business leaders believe China is the most important market for the future of the province (57 per cent). Ontario's immigrant communities offer significant cultural and economic linkages.

The Good News

Ontario's exports to the eight Great Lakes states totalled \$66 billion in 2010.

Over 105 million people live and work within the Great Lakes region, which would make it the 12th largest country in the world.

The Great Lakes region is home to 36 per cent of the population of both countries, who are concentrated in some of North America's largest urban centres, including Toronto, Montreal, New York City, Philadelphia, and Chicago. Their close proximity makes them easily accessible within a one day drive.

The Canada-EU Comprehensive Economic and Free Trade Agreement is expected to increase bilateral trade by 20 per cent (\$12 billion annually) and produce approximately 80,000 new Canadian jobs.

Linkages with emerging economic powers, including but not limited to Asia and Latin America, are deep and enduring. "Canada" is an attractive brand in most rapidly growing, emerging economies.

The Challenges

Seventy-eight per cent of Ontario's exports are destined for the US. America's economy faces slow growth prospects but remains Ontario's primary export market.

Survey respondents identified China (57 per cent), India (38 per cent), and Brazil (31 per cent) as some of the most important markets for the future of Ontario, but less than two per cent of Ontario's exports are currently destined for these countries. Ontario businesses are under-exposed to emerging, rapidly growing economies.

Delays at the Canada-US border cost Ontario between \$8 - \$15 billion per year.

There are currently over 400 separate regulations related to cross-border trade and an estimated 5,000 annual changes to these regulations, requiring businesses to constantly adapt.

Admissibility requirements routinely cause delays. A single car part, for example, can cross the border up to 6 times before the final car is complete, and be stopped for up to an hour each time.

How do we take advantage of new opportunities in the global economy?

Ensure export policy is focused and strategic: Key federal and provincial export facilitating organizations must ensure that their export growth strategies are aligned.

Build the Detroit River International Crossing (DRIC): Continue working to ensure that the DRIC is approved and built in order to accommodate the expected doubling of cross-border trade flows over the next 30 years.

Diversify trade partnerships: Pursue trade relationships with emerging economies in Asia and Latin America. Recently signed free trade agreements with Latin American countries, including Colombia, Peru, and Panama, are positive steps for Canada and Ontario. Survey respondents predict a notable increase in the importance of Latin American markets. These agreements allow Ontario's business community greater access to previously under-tapped economies. Both the federal and provincial governments need to facilitate the creation and expansion of trade partnerships to capture new markets for its evolving product mix. Regardless of the existence of trade agreements, Ontario businesses must diversify their trading relationships.

Invest in multi-modal transportation infrastructure: The provincial government must identify and invest accordingly in strategic transportation targets, such as the Niagara-to-GTA corridor, enhanced transit and transportation corridors to and within northern Ontario, and areas of growth in the 905 region. The federal government must become more engaged in transit and transportation spending, and in conjunction with the provincial government, must provide adequate and predictable funding to cities for their transportation infrastructure needs. The province can look to partner with the private sector to mitigate the cost of investments.

Leverage immigrant networks: Use the global cultural linkages of Ontario's immigrant communities to facilitate trade with emerging economies. Ontario's growing diversity is a bridge to new global trade and investment opportunities. The skills of new Ontarians are too often overlooked and underutilized. Federal immigration policy must be designed with Ontario's long-term economic interests in mind.

5. IDENTIFYING, CHAMPIONING, & STRATEGICALLY INVESTING IN OUR COMPETITIVE ADVANTAGES IN THE GLOBAL ECONOMY

Ontario's economy is undergoing rapid evolution. Old industries are dying while new ones are born. New growth sectors for the Ontario economy will be those where we have comparative advantages in the provision of goods and services to markets around the world. Our business models and public policies must adapt accordingly.

Civic and business leaders predict that Ontario's knowledge sector industries like healthcare (64 per cent), technology (57 per cent), and information and communications (50 per cent) will continue to grow. The University of Waterloo's Perimeter Institute is helping facilitate Ontario's knowledge economy evolution.

The Good News

Survey respondents identified healthcare (64 per cent), technology (57 per cent), and information and communications (50 per cent) as top growth sectors.

Ontario's automobile manufacturing sector never seemed as uncertain as it did in the aftermath of the 2008 global recession. But there is reason to be hopeful that its industrial infrastructure can be leveraged to take advantage of emerging opportunities in the green economy.

The last two decades have seen substantial growth in knowledge sector industries, including ICT and business and financial services. As of 2008, employment in these sectors has grown to over 5 and 15 per cent of the provincial labour force respectively.

Northern Ontario's Ring of Fire is hailed as the most promising mining opportunity in Canada in a century.

Ontario sits directly above 21 per cent of the world's fresh water stores. The "blue economy," defined as the technology and tools to conserve, treat, measure, monitor, and manage water, is a \$500 billion global industry.

The Challenges

Respondents expect the manufacturing (69 per cent) and automotive sectors (50 per cent) to decline.

Maximizing opportunities from the Ring of Fire will require consultation with Aboriginal peoples, and with a variety of stakeholders, as well as adequate infrastructure, energy supply, and environmental stewardship.

Ontario's education and training systems are not sufficiently targeted to address skills deficits or support emerging sectors of Ontario's economy. The workforce training system (and federal funding that helps support it) does not adequately address the needs of employers.

Ontario's emerging water technology companies require a coherent industry strategy to attract investors and expose their products to new clients.

How do we identify, champion, and invest in our competitive advantages?

Reorient public policy and public investment to promote strategic sectors: Federal and provincial public policy needs to emphasize promising sectors where Ontario could have a competitive advantage (e.g. food processing, water and environmental technology, energy technology, healthcare and health service exports, information and communications, financial services, biotechnology, and education services). This implies a shift in mentality to focused support for strategic sectors.

Maximize resource development: Ensure that investments in the Ring of Fire generate the greatest benefits for Ontario.

Facilitate sustainable development of natural resources: Economic transition to high tech, knowledge intensive industries does not mean traditional industries will disappear. Ontario's natural resources industry will benefit from the development of new technologies that facilitate sustainable extraction and development. However, this will require government support and buy-in from a number of stakeholders, including the Aboriginal community and environmental organizations.

Maximize the blue economy: The Great Lakes are truly North America's 4th coast and represent an enormous economic opportunity. Ontario must push the development of a global blue economy summit—a gathering place for established and emerging water technology firms to scope out a vision for the future of the industry. Ontario has the chance to be a leader in this fast growing 21st century business.

Conclusion

Our communities and our province are facing extraordinary challenges. Our economy is undergoing significant transformation, while at the same time the global economy is experiencing a once-in-a-lifetime reconfiguration. We are in constant competition for the best talent, investment, and market share with the rest of the world.

Neither consumers nor government spending can be counted on to sustain economic growth, and demand for many of the goods and services that Ontario sells is likely to be lower than in previous decades.

While we cannot control the global forces that impact our province, we do, collectively, have a responsibility to identify challenges, make adjustments, and lay the groundwork for our future prosperity.

An extraordinary economic future is available to Ontario if we realistically identify the challenges we face, question long-standing ways of doing business, and mobilize our enormous competitive advantages in the global economy. By acting on the principles outlined in this economic vision, the Ontario Chamber of Commerce

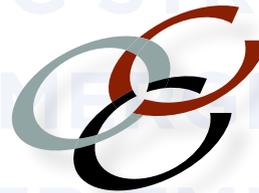
and the Mowat Centre believe that Ontario can:

- become an innovation and productivity leader;
- create a leading-edge workforce that utilizes newcomers' skills and facilitates the full participation of Aboriginal people in the labour market;
- reorient itself onto a path of fiscal sustainability;
- become a highly diversified global exporter, deeply embedded in global supply chains; and
- identify and leverage new and existing competitive advantages.

More than ever, we must now join together to identify a transformative agenda for our province—a strategic plan to ensure that Ontario can fulfill its potential. It is our hope that business, government, civic leaders, Aboriginal communities, labour, and all Ontarians will embrace a dialogue about how we can emerge stronger, more productive, and more global.



Sincere thanks to business, government and civic leaders, the Chamber Network and participants of the Ontario Economic Summit who lent their voice to the shaping of this economic vision for Ontario, *Emerging Stronger*.



**ONTARIO
CHAMBER of
COMMERCE**