Institute for
COMPETITIVENESS & PROSPERITY

Press release – June 29, 2016

Clusters in Ontario – Creating an Ecosystem for Prosperity

Toronto - A new working paper from the Institute for Competitiveness and Prosperity suggests that the province of Ontario could increase its prosperity through the growth of clusters and makes recommendations on how to improve the ecosystem that fosters successful clusters including the loosening of foreign direct investment restrictions and reducing government involvement in venture capital markets.

As of 2015, the prosperity gap, measured by Gross Domestic Product (GDP), between Ontario and its North American peers stood at $12,500 per capita. This prosperity gap reflects lagging productivity. It means that the average worker in Ontario produces less output (such as goods or services) than his or her North American counterparts. If Ontario wants to close its prosperity gap and become more competitive, it must address its greatest challenge: increasing productivity.

"Strengthening clusters can lead to increased productivity, economic growth, and prosperity because clusters foster interactions that can energize the regional economy," says Tiff Macklem, Chair of Ontario's Panel on Economic Growth & Prosperity, who is also the Dean of the University of Toronto's Rotman School of Management.

The working paper highlights five areas where there has been successful clusters with a strong economic impact, including the financial services in Toronto and Ottawa and automotive in Windsor, Guelph, and Kitchener-Cambridge-Waterloo.

The Institute recommends that the Ontario government facilitate the growth of strong clusters - rather than replicate them - through investment in the foundational elements that form a healthy cluster. Therefore, the following recommendations not only help the strong clusters in the province grow, they also create a healthy ecosystem for all clusters to thrive.

- Develop a comprehensive cluster strategy that leverages improved regional data collection. Additional regional data supports business and cluster decision making.

- Invest in inputs of production. Human and physical capital are key elements to all cluster environments. Skilled human capital should continue to be trained in order to produce a talent pool from which firms can draw. Advanced degree holders drive innovation and productivity within their firm but also command higher wages, giving them more sophisticated consumer demands. Sophisticated consumer demands provides the impetus for higher quality products that will be desirable in global markets. Investments in productivity-enhancing physical capital such as health care facilities, communications engineering, and marine infrastructure will provide the necessary framework for firms to operate within.

- Government should reconsider its heavy involvement in venture capital markets. Business outcomes are improved when government backed investments are involved but the effect is declining as the portion of public to private funding increases. The Ontario government may be overcommitting to the VC space and the business environment might benefit from a more optimal VC allocation.

- The entrepreneurial culture of the province should be improved. Greater emphasis on entrepreneurism could be implemented in the education and skills retraining systems.

- Encourage further interactions and collaboration within clusters to spur development and innovation. Government can bring cluster actors together through conferences, cluster associations, and industry leaders. By employing these cluster vehicles, relevant actors are expected to increase their interactions and partnerships with one another.

- Expand trade for clusters by using the low cost Trade Commissioner Service. These commissioners work directly with companies to break into international markets.

- Look at macro-regions such as the Great Lakes or the Kitchener-Cambridge-Waterloo-Toronto corridor for supercluster opportunities. Related clusters which span across these larger geographic areas have the ability to feed into one another and the spillover effects can elevate the region above other strong clusters.

- Loosen foreign direct investment restriction. If FDI restrictions were loosened to the OECD average it is suspected that Ontario's economy would grow by $4.5 billion or $648 per worker.

About the Institute: The Institute for Competitiveness & Prosperity is an independent, not-for-profit organization that deepens public understanding of macro and microeconomic factors behind Ontario's economic progress. The Institute is supported by the Ontario Ministry of Economic Development and Growth.

Download the report: www.bit.ly/WP26_Cluster

For more information contact: Jamison Steeve**,** Executive Director
j.steeve@competeprosper.ca
416.946.7585