

MARTIN
Prosperity*Institute*

Capitalizing on the Opportunity for Greater Economic Cooperation between Ontario and Quebec

Working Paper Series:
Ontario in the Creative Age

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Capitalizing on opportunities for greater economic cooperation between Ontario and Quebec

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Executive Summary

Ontario and Quebec form the economic engine of Canada and together we represent one of the most competitive and prosperous regions in North America and the world. Yet we have the opportunity to develop into an even stronger economic powerhouse.

This will require greater co-operation between our two provinces - to which both governments are committed. In November 2007, the two governments signed an agreement that set out their intent to “to prepare a modern, comprehensive economic and trade agreement that will build on existing bilateral procurement and construction labour mobility agreements and the two Provinces’ co-operation agreements. The agreement will focus on the specifics of bilateral trade between the two provinces and opportunities for improving economic activity on a day-to-day basis”

In September 2009, the two cabinets will meet again to identify areas of priority for co-operation between the two provinces.

In advance of this important meeting, the Martin Prosperity Institute identifies in this report the priority areas for collaboration between the provinces of Ontario and Quebec.

Our two provinces are significant economic entities, but we have the potential to do better. Within North America, we are the third largest region in population and fourth in economic value creation. We represent the second largest destination for immigrants from abroad, behind only California. We also have one of the largest high technology industries, as represented by employment, in either Canada or the United States. We have world-class centres of higher education and research.

Yet we lag other North American regions in GDP per capita despite our excellent endowment of resources, people, and industries. Our economies could operate at a higher level of sophistication thereby resulting in higher economic rewards for our workers and residents. We are home to a significant mega-region stretching from Quebec City through Montreal, Ottawa, Toronto, central Ontario, the Golden Horseshoe and including Upstate New York. And yet, we need to increase its density and linkages for maximum economic benefit.

Ontario and Quebec share strengths in some key industries. While each province has its own unique strengths, there are some significant common strengths across a good range of industries. Between us our two provinces have successful clusters of strength in knowledge and creative industries like education, entertainment, and financial services. We also have shared strengths in traditional industries, such as food processing and tourism – both of which are increasing their creative and knowledge content. And we have shared strengths in emerging industries like bio-technology, medical devices, and information and communications technology. This is a highly desirable portfolio of shared strengths; greater collaboration in these industries can make both provinces even more successful now and in the future.

A high speed rail link has the potential to strengthen our mega-region and the Windsor-Quebec City Corridor. Economic growth is increasingly concentrated in a series of major urban agglomerations, *mega-regions*, located across North America and the rest of the

world. Ontario and Quebec are home to the Montreal-Toronto mega-region which has a population of almost 19 million, and accounts for over \$850 billion in production. The long-term fortunes of our provinces – and of Canada - are inseparable from the strength of this mega-region.

While the overall strength of the mega-region is formidable – it is a primary destination for immigrants, has a substantial high-technology labour force, and significant intellectual assets – a key challenge will be to enhance regional density and connectivity. This is important to ensure that the economic gains made in the core areas of the region – Montreal, Toronto, and Ottawa – can extend to peripheral regions, particularly those hardest hit by current economic restructuring.

The strength of the mega-region is not vested in Montreal and Toronto alone. By linking in the tremendous and often dispersed assets of the regions more effectively, the global position of the mega-region can only improve.

This is the opportunity for high speed rail. By linking our centres of population and commerce from Quebec City to Windsor more directly and conveniently we can strengthen the already solid linkages between our provinces. This roughly linear area, referred to as the *Windsor-Quebec City corridor* extends across and captures much of the Montreal-Toronto mega-region with a few key exceptions. The corridor excludes the southern extents of the mega-region, including the Niagara region and Upstate New York, which have important economic linkages to the rest of Ontario and Quebec, but are not considered likely destinations in present discussions about high-speed rail. Windsor, given its strong ties to Detroit, is generally discussed in the context of the Midwestern United States mega-region ('Chi-Pitts') – but it is a likely southern terminus of a Ontario-Quebec high-speed rail line, and is thus considered as a part of the corridor in this analysis. (The metropolitan regions included in the Windsor-Quebec City corridor are highlighted later in Exhibit 11).

Based on the success in Europe and Japan, high speed rail has the potential to be an economic game changer for much of the mega-region. For this reason, the two provinces along with the federal government have begun assessing the feasibility of a high speed rail link along the Windsor-Quebec City corridor. This assessment is a high priority area for Ontario-Quebec co-operation.

We have identified priority actions for inter-provincial co-operation. We see two sets of co-operation opportunities.

The first set is aimed at strengthening linkages in industries that are already strong or have the potential for positive future development. These industries range from the large and established like financial services and food production to smaller, but with growth potential, like bio-pharma and information and communications technology. The two governments can work together to ensure policies and regulations are more consistent and better coordinated. We can increase collaboration between our universities, colleges and research organizations in areas of importance to specific industries – in areas such as training and research. We should consider joint marketing and branding on the international stage in certain areas.

The second set of opportunities is aimed at building capabilities across the regions and industries. High speed rail is the centerpiece of this set of recommendations. There are also significant opportunities in pursuing a collaborative skills development agenda and in working at removing barriers to inter-provincial commerce.

Ontario and Quebec are already world leaders in economic performance. We can perform even better if we are prepared to take bold actions that increase our level of collaboration and cooperation. The kinds of linkages and actions we discuss in this report will help our two provinces assure our continued prosperity.

I. The potential for greater collaboration between Ontario and Quebec

Ontario and Quebec are economic powerhouses in North America. Our provinces are home to a large population and sophisticated businesses. We benefit from high levels of diversity, and attract large numbers of immigrants from around the globe. We have innovative institutions and a highly skilled workforce.

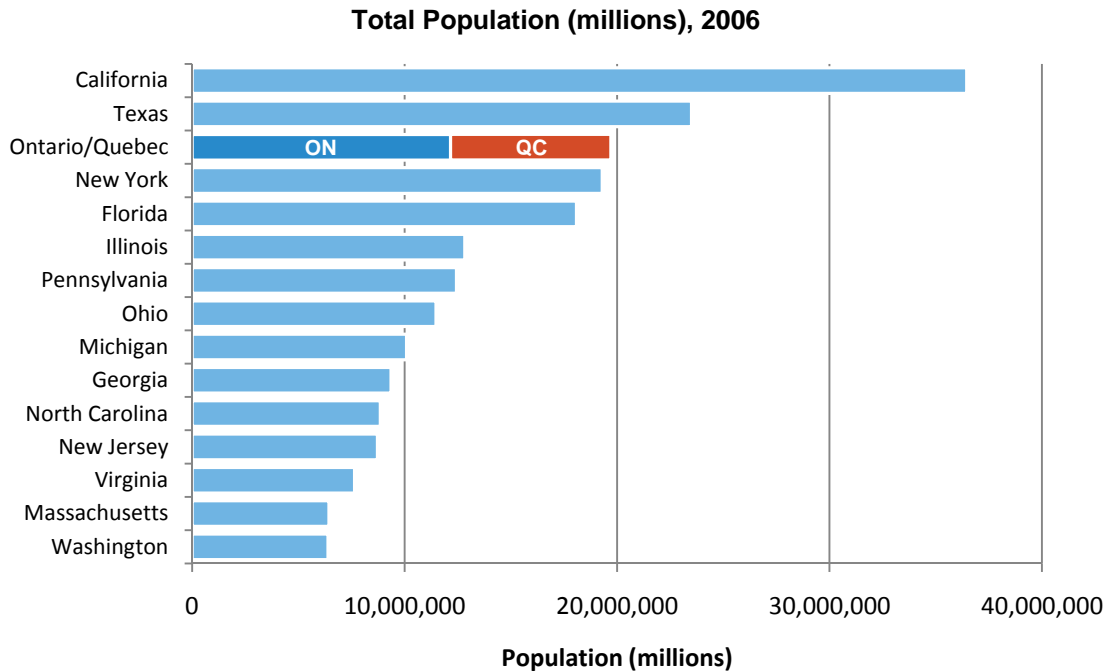
And yet collectively we are not living up to our full potential. We trail other large industrial North American jurisdictions in the productivity of our economy; and our Montreal-Toronto mega-region, the primary economic engine of the two provinces, lags behind comparable North American regions in economic output.

This report addresses opportunities for greater inter-provincial cooperation between Ontario and Quebec – cooperation that, in this period of real economic uncertainty and hardship, is of heightened importance. Since 2008, over 200,000 jobs have disappeared from the two provinces, resulting in the highest combined unemployment rate in over 10 years. Some industries, such as manufacturing, have been significantly affected, and workers with lower skills and educational attainment have been particularly hard hit with job losses and declining wages. And while the shifts in our employment and industry base have been most acutely felt during the present recession, they are actually a part of a more far-reaching economic transformation – for which our governments, businesses and labour force need to be fully prepared. As we consider ways for the two provinces to work together to ensure our collective prosperity in this emerging economic period – what we refer to as the “creative age” – we must capitalize on our shared assets, while also acknowledging and addressing the structural challenges in our economic system. We have considerable strength in working together.

Our two provinces have significant economic strength. Considered as one, Ontario and Quebec are among the largest economic regions in North America. We are the third largest region in population (Exhibit 1), with almost 20 million residents (slightly greater than New York), and fourth in economic activity as represented by total GDP, roughly equivalent to Florida (Exhibit 2). We represent the second largest destination for immigrants from abroad, behind only California. We also have one of the largest high technology industries, as represented by employment, in either Canada or the United States, ahead of both New York and Texas. Our two provinces are home to some of the most significant research universities.

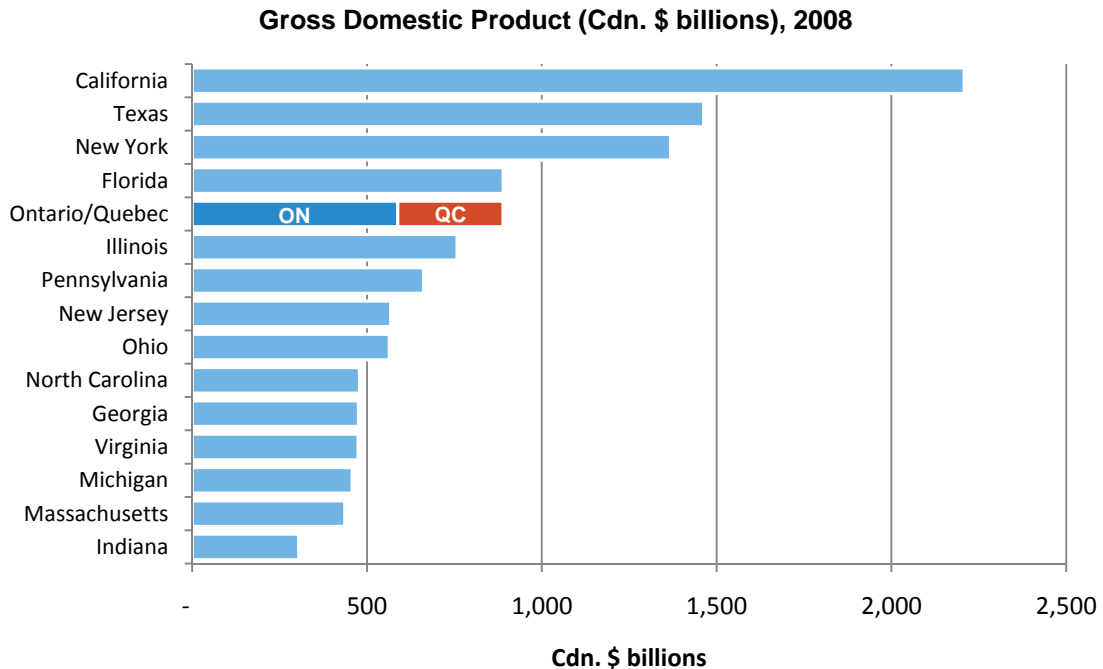
Our two provinces are rich in natural resources and home to some of the world’s most competitive industries. These industry strengths are seen in traditional manufacturing, such as automotive, forest products, and food processing, in traditional service industries such as hospitality, tourism, and entertainment, financial services and publishing, as well as the emerging knowledge-based industries like life sciences, education, and information and communications technologies. We are second to none in the world in the solid economic base from which we can develop and flourish in the future.

Exhibit 1 *Ontario and Quebec are the third most populous region in North America*



Source: Martin Prosperity Institute analysis based on data from Statistics Canada.

Exhibit 2 *Ontario and Quebec are North American leaders in economic activity*



Note: Currency converted at PPP

Source: Institute for Competitiveness & Prosperity and Martin Prosperity Institute analysis based on data from Statistics Canada; US Department of Commerce, Bureau of Economic Analysis.

But together we also face formidable challenges. Our overall levels of economic production are significant, but our competitiveness as measured by GDP per capita lags behind many of our peers. Together the two provinces rank last among the 15 most populous states and provinces in GDP per capita. This represents unmet economic potential in our provinces. It means that with much the same endowment of physical, natural, and human resources, we do not create the same level of economic prosperity as our North American peers.

This prosperity gap matters to Ontarians and Quebecers. If we were able to increase our competitiveness to the point where our GDP per capita matched the median result of these large peers, we could afford more expenditures on important consumer and investment goods. Our governments could invest more in health care and education as well as ensuring that our social safety net was more secure.

Governments and economic observers in both our provinces have concluded that our future success will be based on how effectively we compete in the emerging creative, knowledge-driven economy. While our economies currently reward the skills associated with creativity and knowledge, we under reward these important skills relative to our US counterparts.

In *Ontario in the Creative Age*, we identified three sets of skills that characterize all occupations, to varying degrees in today's economy. The first, *analytical skills* includes skills such as determining how a system works and how changes in conditions will affect the outcome, developing and using rules and methods to solve problems, and quickly and accurately comparing and contrasting patterns or sets of numbers. Occupations that require the highest level of analytical thinking skills include surgeons and biomedical engineers, while those that require the least include pile-driver operators and fashion models.

The second, *social intelligence skills*, comprises abilities in understanding, collaborating with, and managing other people. It includes the ability to assess the needs and perspectives of others to facilitate negotiation, selling, and teamwork. It also includes complex thinking skills that are essential for assessing fluid, ambiguous human situations – such as deductive reasoning, the ability to apply general rules to specific problems to produce answers that make sense, or judgment – and for decision making. And it includes oral and written communication skills. Not surprisingly, the leading occupations in this skill set include psychiatrists, chief executives, marketing managers, and lawyers.

The third, *physical skills*, are the primary skills needed for occupation types such as steel workers, fire fighters, and electricians. What do they have in common? Arm-hand steadiness, strength, coordination, dexterity, and other physical abilities are some examples.

In the past, the development of advanced physical skills, often learned through on-the-job apprenticeship and mastered through years of practice, was a path to securing a stable middle class income for much of the labour force. But as the presence of blue collar, physical-oriented jobs has diminished as a share of the total economy, so too has the income earning potential for those with the requisite skills for this type of work. In *Ontario in the Creative Age* we argued that for the province to maintain high levels of prosperity in an economy that is increasingly

dependent on non-physical skills – analytical skills and social intelligence skills – it is essential that we focus on how to move more workers into creativity-oriented occupations.

All occupations make use of these three skill sets to some degree; however, creativity-oriented occupations – such as scientists and technologists, lawyers, doctors and other professionals, teachers, artists and entertainers, and managers and analysts – are those that demand the most from workers in terms of social intelligence and analytical skills. The critical challenge for more routine-oriented occupations is to enhance their creative content, and thus the application of these more highly-valued skills.

Sophisticated, globally-competitive economic jurisdictions demand these skills in abundance, to some degree across *all* occupation and industry types. Such jurisdictions put emphasis on education and training (including early childhood education) as well as ensuring reasonable accreditation standards and the elimination of unnecessary barriers to entering professional occupations. They also encourage their businesses to recognize, encourage and properly value the creative input and capabilities of all employees as notable companies, such as Four Seasons Hotels, have done.

Such jurisdictions reward workers who acquire the analytical and social intelligence skills necessary for more creative work, and seek to enhance them over the course of their careers. This is a key challenge now facing both Ontario and Quebec.

Generally what we observe is that as we move from occupations with lower to higher analytical and social intelligence skill levels, wages increase, which is not the case with physical skills. More specifically, as occupations increase in their analytical skills content by two quartiles, from the 25th to 75th percentile, wages increase by an average of \$17,400 in Ontario and Quebec. For example, an Ontario physicist – near the top of analytically skilled occupations – earned on average \$67,500 in 2005, while occupations that typically utilize the fewest analytical skills offer wages that average below \$50,000 annually. Across all occupations, the higher an occupation's demand for analytical skills, the more it pays. For social intelligence skills, the premium for occupations with high content is even greater – a shift from the 25th to 75th percentile yields additional wages of \$23,500 in Ontario and Quebec.

But when we take physical skills, the reverse pattern is true. Wages do not rise with an increase in physical skills; it's just the reverse (see Exhibit 3). Moving from the bottom quarter to the top quarter in occupations with physical skills actually reduces earnings in Ontario and Quebec by \$7,200.

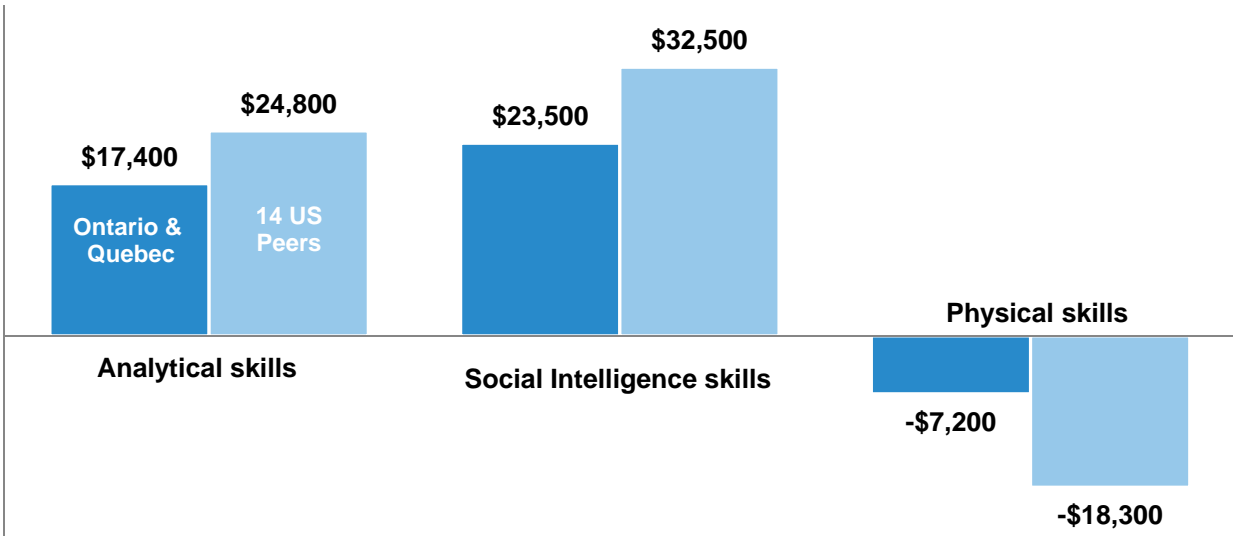
The challenge for both Ontario and Quebec comes when we are compared to a group of peer states – economies that resemble the two provinces and are our most significant trading partners. Our businesses do not value increases in the two sets of creative skills nearly as much as our peers. Both Ontario and Quebec pay relatively more for increased physical skills. This is a good thing for an industrial age economy, but does little to position us to compete in the creative economy.

This is a huge challenge for our provinces. Since Ontario and Quebec employers, compared to their US peers, value physical skills relatively more than they value analytical and social

intelligence skills, workers in Ontario have a greater incentive to develop physical skills. However, employment projections indicate that the economy will demand more social intelligence and analytical skills and relatively fewer physical skills. This cycle drives our economy to compete on yesterday's skills and industries, tuning our economy and our labour market in a way that will not achieve a distinctive advantage in the creative age.

Exhibit 3 Ontario and Quebec undervalue increases in analytical and social intelligence skills

**Impact on earnings as occupations move from 25th to 75th percentile in skill content
Quebec and Ontario vs 14 US peer states, 2005**



Note: Converted to Canadian dollars at purchasing power parity. 14 US peer states - most populous as defined by Institute for Competitiveness and Prosperity.

Source: Martin Prosperity Institute and Institute for Competitiveness & Prosperity analysis based on Statistics Canada 2006 Census (full-time workers, excluding self-employed); Bureau of Labor Statistics, Occupations Employment Statistics 2005 data; O*NET 12.0 database, skill and ability variables - developed for the US Department of Labor.

Our future economic strength will be driven by the Montreal-Toronto mega-region and its connection to the two provinces. Much of our strength is actually determined by a single, continuous region shared by the two provinces, which extends from the mouth of the St. Lawrence River, along the northern shore of Lake Ontario and down into parts of southern Ontario and the Niagara region. This largely unbroken urban area, referred to as the Montreal-Toronto *mega-region* has a population of over 18 million, and in addition to the two large metropolitan regions, includes Quebec City, Ottawa, Hamilton, Kitchener-Waterloo, and parts of upstate New York. As Richard Florida and others have argued, the world is increasingly becoming “spiky”, with a relatively small number of large urban agglomerations accounting for a disproportionate amount of economic production, innovation and growth. In this uneven global economic landscape, the collective attributes of our own mega-region will be a key source of strength for the two provinces (Exhibit 4). For example, the Montreal-Toronto mega-region has a very high concentration of industries and workers in creative-oriented occupations, the creative class (Exhibit 5).

Exhibit 4 North America is home to 13 significant Mega-Regions



Source: Adapted from *Who's Your City* (2008) by Richard Florida. Original map by Tim Gulden and Ryan Morris.

Exhibit 5 *Montreal-Toronto mega-region has strengths, but lags behind others in productivity*

Montreal-Toronto Mega-Region and North American Peers

Mega-Region	Population (millions)	Mega-Region	5-Year Population Growth
Bos-Wash	55.2	Dal-Austin	15.5%
Chi-Pitts	41.4	So-Flo	13.6%
So-Cal	21.1	Char-lanta	12.7%
Char-lanta	20.7	Cascadia	8.2%
Montreal-Toronto	18.7	So-Cal	7.8%
So-Flo	15.7	No-Cal	7.4%
No-Cal	14.1	Hou-Orleans	7.0%
Dal-Austin	10.6	Montreal-Toronto	5.3%
Hou-Orleans	9.9	Bos-Wash	3.9%
Cascadia	9.1	Chi-Pitts	2.9%

Mega-Region	Creative Class Share	Mega-Region	GDP, 2005 (Cdn. \$ billions)
Bos-Wash	34.8%	Bos-Wash	\$ 3,397
No-Cal	33.9%	Chi-Pitts	\$ 2,197
Montreal-Toronto	31.8%	So-Cal	\$ 1,120
Dal-Austin	31.8%	Char-lanta	\$ 1,049
Cascadia	31.6%	Montreal-Toronto	\$ 865
So-Cal	31.5%	No-Cal	\$ 792
Chi-Pitts	30.3%	So-Flo	\$ 725
Char-lanta	30.1%	Hou-Orleans	\$ 603
Hou-Orleans	29.8%	Dal-Austin	\$ 583
So-Flo	27.5%	Cascadia	\$ 492

Mega-Region	Bachelor's Degrees	Mega-Region	GDP per Capita
Cascadia	20.0%	Bos-Wash	\$ 62,000
No-Cal	19.8%	Hou-Orleans	\$ 61,000
Bos-Wash	19.8%	No-Cal	\$ 56,000
Dal-Austin	19.5%	Dal-Austin	\$ 55,000
So-Cal	18.2%	Cascadia	\$ 54,000
Char-lanta	18.0%	Chi-Pitts	\$ 53,000
Chi-Pitts	17.8%	So-Cal	\$ 53,000
So-Flo	16.9%	Char-lanta	\$ 51,000
Hou-Orleans	16.5%	So-Flo	\$ 46,000
Montreal-Toronto	14.9%	Montreal-Toronto	\$ 46,000

Mega-Region	Advanced Degrees	Mega-Region	Foreign-born Share
Bos-Wash	13.9%	So-Cal	29.8%
No-Cal	11.7%	No-Cal	24.7%
Cascadia	11.1%	Montreal-Toronto	22.1%
Chi-Pitts	10.2%	So-Flo	20.8%
Montreal-Toronto	9.8%	Cascadia	19.5%
So-Cal	9.7%	Bos-Wash	16.8%
Char-lanta	9.4%	Dal-Austin	15.0%
Dal-Austin	9.4%	Hou-Orleans	13.9%
So-Flo	9.1%	Chi-Pitts	8.3%
Hou-Orleans	8.4%	Char-lanta	7.4%

Source: Martin Prosperity Institute analysis based on data from Statistics Canada, Census 2006 and US Census, American Community Survey. All data are for 2006 unless otherwise indicated. Dollar amounts reported in Canadian Dollars.

In this report we identify where the high potential opportunities exist across industry sectors in the two provinces. This analysis acknowledges both existing significant contributors to inter-provincial prosperity and those with substantial promise for the future. A key to enhancing the competitiveness of these industries will be through enhanced trade, greater regulatory and other policy cooperation, and collaboration initiatives between our governments and institutions.

While there are many ways that these advancements will be made, a recurring theme is the need for greater connectivity across the provinces. To succeed we will need to achieve greater speed and velocity with which both people and ideas move across our provinces. A potentially important initiative, possibly a “game changer”, is a high speed rail connection through our economic corridor, from Windsor to Quebec City. An economically feasible plan for high speed rail could change the way we do business and open new economic opportunities.

II. Shared Industry Opportunities in Ontario and Quebec

When it comes to areas of mutual industrial strength, Ontario and Quebec have often viewed one another as direct competitors for firms, investment and talent. This is natural among two similarly large and sophisticated jurisdictions. However, we cannot ignore the incredibly promising opportunities for shared learning, collaboration and mutual strengthening and growth.

In the following analysis, we identify specific industries where greater collaborations would be beneficial. Our overall approach is to identify shared strengths across three elements:

- Existing trade patterns
- Size and provincial significance of clustered industries
- Creative content of clustered industries.

In assessing our shared and potential strengths across the two provinces, the following emerge as priority industries for greater inter-provincial collaboration:

- Professional, scientific, and business services
- Financial services
- Accommodation, tourism, and entertainment
- Processed food
- Life sciences, medical devices, analytical instruments
- Education and knowledge creation
- Information and communication technology.

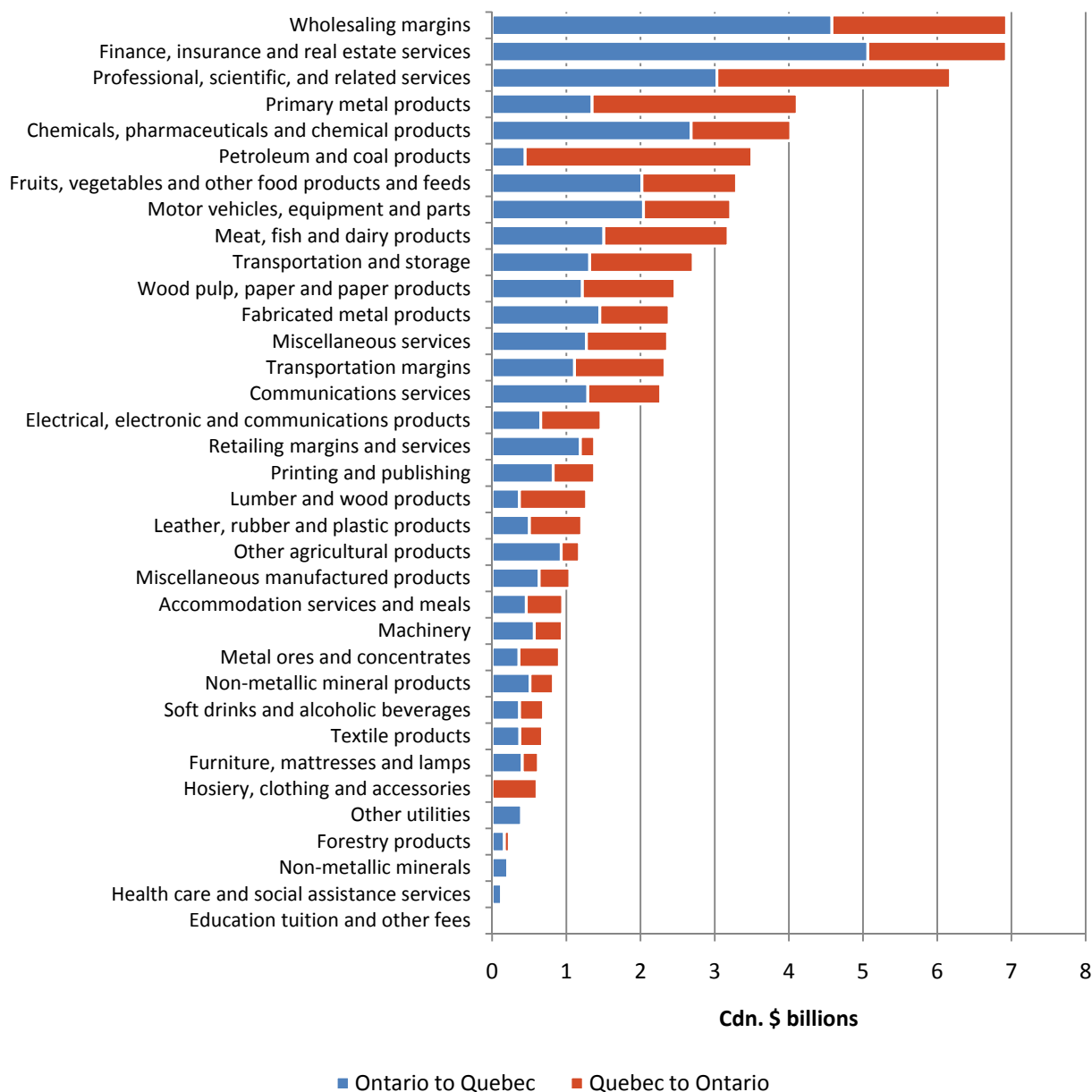
Some industries emerge across all three elements of analysis – professional, scientific, and business services as well as wholesale and retail trade and distribution. Others do not rank high in all three areas – processed food does not presently have a high share of its workers in the creative class and services related to education and knowledge creation are not highly traded between the two provinces. But the three criteria are useful screens for identifying present and future industry opportunities across Ontario and Quebec.

We review our findings in each of the three elements in turn.

Existing trade patterns. The first analysis we conducted was to examine trade patterns between the two provinces. This indicates where there is already a solid base of inter-connectedness between the two economies (Exhibit 6). In general, the two economies are quite inter-connected through trade. We are each other's largest trading partners within Canada. To the extent that Ontario and Quebec are already trading goods and services with each other, there may be significant opportunities to build even stronger linkages.

Exhibit 6 *Inter-provincial trade between Ontario and Quebec is significant in a broad range of sectors*

Total value of exports between Ontario and Quebec, 2005, \$ billions



Source: Statistics Canada, CANSIM Table 3860002 - Interprovincial and international trade flows at producer prices, annually (Dollars)

As with the rest of the Canadian economy, services are an increasingly important component of trade between Ontario and Quebec. Although goods still constitute the majority of interprovincial trade - 56 percent of the \$73 billion in total trade between the provinces in 2005 - the top three traded industries by value are services: wholesaling, financial services, and professional scientific and related services. Furthermore, overall trade in services (7 percent)

grew at roughly twice the annual average rate of trade in goods (3.5 percent) between 1997 and 2005. The growth in trade in services is a global phenomenon and will likely feature prominently in the talks on trade between Canada and the European Union.

Among **services**, the largest industries by Ontario-Quebec trade volume are:

- Wholesale services growing at 3.7 percent annually (1997 – 2005)
- Financial services growing at 8.5 percent annually
- Professional, scientific and related services growing at 12.1 percent.

The latter two are large and fast growing in inter-provincial trade. And as we shall see, they are important industries for both provinces and have significant creative content.

Inter-provincial trade in the hospitality industry, as represented by “Accommodation services and meals”, is growing much faster than average, at an annual rate of 8 percent; however the level of trade is near the bottom of industries.

Among **goods**, many of the leading industries are commodities – primary metal products, petroleum and coal products, and wood, pulp and paper products. Except for petroleum and coal products, growth in inter-provincial trade in these sectors tends to be below average.

Cluster analysis. Clustered industries have been shown by Michael Porter and others to drive regional prosperity and innovation. These are groups of related industries that sell goods or services to a market extending beyond the local region. Clustered industries include both goods producers – e.g., automotive products, metal manufacturing, and processed food; and service providers – e.g., financial services, business services, and hospitality and tourism. Because these industries tend to cluster together they develop regional linkages that support specialization, productivity, and innovation. Because clustered industries sell most of their output outside their region, they face higher levels of competition from firms across the country and around the world. This greater competition provides beneficial pressure to be innovative and productive. In fact, research by Porter and the Institute for Competitiveness & Prosperity in Canada demonstrates that clustered industries account for most patents in a region and pay significantly higher wages.

To the extent that Ontario and Quebec have collective strength in clustered industries, there may be opportunities for greater collaboration through a cooperative industrial policy between the two provincial governments.

We assessed cluster strength in two ways – “Are the clusters significant employers in both provinces?” and “Are the clusters of above average importance to the two?”

- *Employment strength.* In each of the two provinces, we ranked the 41 clustered industries by employment and placed them in one of three groups – employment greater than 100,000; employment between 50,000 and 100,000; and employment below 50,000 but above the provincial industry median. Two clustered industries were in the top ranking for both provinces – post-secondary education and

knowledge creation services and business services. Seven industries were in the second tier in both and eight were in the third tier in both provinces (Exhibit 7).

- *Provincial specialization.* We ranked the 41 clustered industries in each province by their North American Location Quotient (LQ) to measure their relative importance in terms of share of employment in the provincial economies, as compared to North America as a whole. An LQ for a clustered industry of 1.00 indicates that the industry employs people in the province at the same rate as the rest of North America – so even if it employs a large number of workers in a province, this is about what would be expected given the industries share of overall employment in the economy. An LQ of 1.50 indicates that a worker in the province is 50 percent more likely to be employed in that industry than the average worker across North America. As with employment strength, we set three benchmarks – industries where LQ exceeded 1.50 in both provinces (five industries met this criterion in both provinces); industries where LQ was between 1.25 and 1.50 in both provinces (three industries); and industries where LQ was between 1.00 and 1.25 (14 industries). The five industries with LQ greater than 1.50 in both provinces are building fixtures, equipment and services; communications equipment; jewelry and precious metals; power generation and transmission; and tobacco.

Exhibit 7 *Quebec and Ontario share strengths in some key clustered industries*

Performance in employment strength and provincial specialization (LQ), 2006

Traded Clusters	Employment strength	North American LQ strength
Aerospace Engines		
Aerospace Vehicles and Defense		
Agricultural Products		†
Analytical Instruments		
Apparel		†
Automotive	*	
Biopharmaceuticals		†
Building Fixtures, Equipment and Services	*	†††
Business Services	***	†
Chemical Products		†
Communications Equipment		†††
Construction Materials		†
Distribution Services	**	†
Education and Knowledge Creation	***	††
Entertainment	**	††
Financial Services	**	†
Fishing and Fishing Products		
Footwear		
Forest Products	*	†
Furniture		†
Heavy Construction Services	**	†
Heavy Machinery		†
Hospitality and Tourism	**	†
Information Technology	*	
Jewelry and Precious Metals		†††
Leather and Related Products		
Lighting and Electrical Equipment		
Medical Devices		
Metal Manufacturing	*	
Motor Driven Products		†
Oil and Gas Products and Services		
Plastics	*	
Power Generation and Transmission		†††
Prefabricated Enclosures		
Processed Food	**	††
Production Technology	*	
Publishing and Printing	*	††
Sporting, Recreational and Children's Goods		
Textiles		
Tobacco		†††
Transportation and Logistics	**	

* Employment in the traded cluster in Ontario and Quebec is greater than the median employment in each province.

** Employment in the traded cluster in Ontario and Quebec is greater than 50,000

*** Employment in the traded cluster in Ontario and Quebec is greater than 100,000

† North American location quotient for Quebec and Ontario is greater than 1

†† North American location quotient for Quebec and Ontario is greater than 1.25

††† North American location quotient for Quebec and Ontario is greater than 1.5

Source: Institute for Competitiveness & Prosperity and Martin Prosperity Institute analysis.

Using both employment strength and provincial specialization screens, we identify the clustered industries of significance to the two provinces.

Five clustered industries are significant in both employment and provincial importance:

- **Education and knowledge creation.** Quebec and Ontario are home to 13 of the world's leading research universities according to Shanghai Jiao Tong University. These, along with the many other education and research institutions in the two provinces are large employers and constitute a greater share of employment than observed in most other North American jurisdictions
- **Entertainment.** With significant entertainment venues in both provinces and leading edge technology players in video and other media, the provinces have above average employment and specialization in this cluster.
- **Business services.** With strengths in computer and on-line services, engineering services, and management consulting, the provinces have significant employment in this cluster and somewhat greater specialization than in other North American jurisdictions
- **Building fixtures, equipment, and services.** In both Ontario and Quebec, industries such as floor coverings and household furniture manufacturing are above average in terms of their share of employment as well as in employment strength
- **Processed food** with strengths in a variety of food types. According to work done by the Program on Globalization and Regional Innovation Systems (PROGRIS), food and wine form well developed clusters in the two provinces.

Six clustered industries are also significant in both factors, but less so:

- **Financial services** a significant employer in both provinces but only slightly above average in terms of provincial specialization in Quebec
- **Hospitality and tourism** from the excellent tourism venues and well developed accommodation services in the two provinces
- **Distribution services** based on the requirements to ship goods to large numbers of customers over long distances
- **Publishing and printing** especially paper products and printing services
- **Heavy construction** particularly construction services and materials
- **Forest products** especially paper mills

Finally, of interest are the **power generation and transmission and communications equipment** industries. They are relatively small employers in both provinces, but are over-represented as a share of provinces' combined industry labour force. Power generation and transmission is capital intensive and will be of growing significance to our economies in the future. Communications equipment will continue to be an important strategic industry to both provinces. According to work done by PROGRIS, digital media and information and communications technology (ICT) are well developed clusters in the two provinces.

Creative content of industries. Finally we reviewed the extent to which the 41 industry clusters draw on creativity-oriented occupations – the creative class. Industries with greater

creative content drive regional productivity and prosperity. These are the industries where workers are more likely to be “knowledge workers” and where analytical and social intelligence skills are most highly valued. To the extent that our two provinces have flourishing creative clustered industries, we will achieve greater levels of competitiveness and prosperity.

Both provinces are endowed with clustered industries with a significant proportion of their employees in the creative class (Exhibit 8).

Exhibit 8 *Ten industries are high in creative content in both Ontario and Quebec*

Clustered industries in Ontario and Quebec with more than 35 percent of employees in creativity-oriented occupations

Top 10 Traded Clusters by Share of Creative Workers	Ontario Creative Share	Quebec Creative Share
Education and Knowledge Creation	72%	72%
Business Services	68%	71%
Information Technology	62%	60%
Financial Services	60%	54%
Communications Equipment	52%	44%
Analytical Instruments	48%	45%
Entertainment	39%	49%
Medical Devices	46%	41%
Biopharmaceuticals	39%	35%
Aerospace Vehicles and Defense	38%	36%

Source: Institute for Competitiveness & Prosperity and Martin Prosperity Institute analysis based on Canadian Census Special Tabulation, 2006; Canadian Business Patterns, 2006.

Several of these industries have been identified through the other screens – important contributors to inter-provincial trade and significant employers. These are education and knowledge creation, business services, communications equipment, financial services, distribution services, and entertainment.

But three other industries are high in creative content:

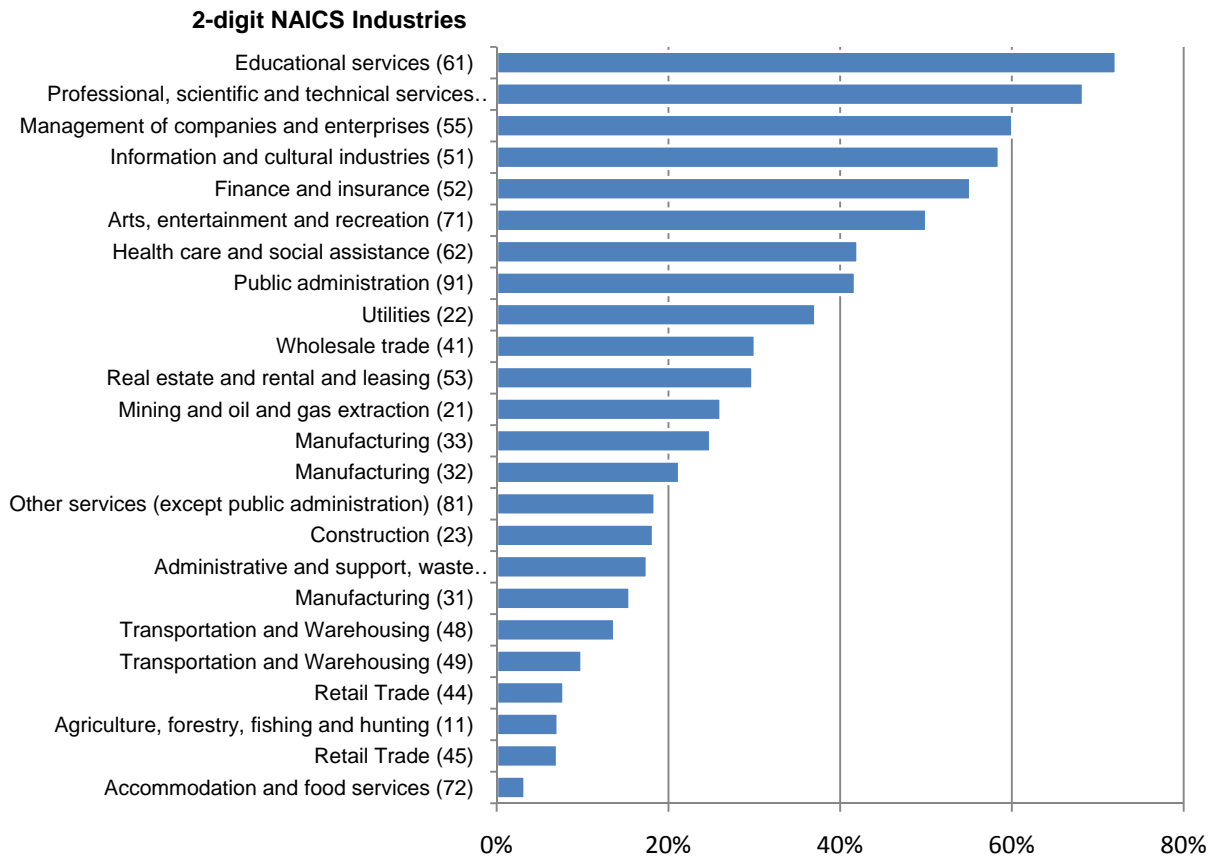
- **Information technology**
- **Analytical instruments**
- **Medical devices**

These are smaller industries in employment terms and are not of great employment significance in the two provinces. Yet they are important parts of the creative economy and may provide growth opportunities to Ontario and Quebec.

From the perspective of individual industries, as captured by NAICS classification, a similar set of sectors have higher than average creative content (Exhibit 9).

Exhibit 9 *Creative content is greatest among knowledge-intensive service sectors*

Share of Creative-oriented workers by Industry, for Ontario and Quebec, 2006



Source: Martin Prosperity Institute analysis based on data from Statistics Canada, Census 2006.

III. Increasing density and velocity between Ontario and Quebec

The Mega-Region

“Our future advantage in the creative age will be based on facilitating and encouraging the geographic clustering and concentration of industries and skills. The increasing spikiness of economic development puts a premium on density within our urban centres and on the velocity of connections across a mega-region and with outlying areas. Ontario’s challenge is to build the infrastructure that gains us the scale and the connectivity to ensure all regions of the province can achieve prosperity.” From *Ontario in the Creative Age*.

Economic growth is increasingly concentrated in a series of major urban agglomerations, *mega-regions*, located across North America and the rest of the world. This phenomenon was first observed for the urban centres of the northeastern United States, stretching from Washington D.C. through New York City up into Boston, which, over time developed into a functionally-integrated economy, with areas of specialization and significant cross-regional trade. This region is also currently serviced by the lone rail network that provides high-speed travel within North America.

While not yet at the scale of Bos-Wash, a similar mega-region is beginning to coalesce in the southern region of Quebec and Ontario and, as some evidence indicates, parts of Upstate New York as well. This region, which we have referred to as the Montreal-Toronto mega-region has a population of almost 19 million, and accounts for over \$850 billion in production. The mega-region is also one of North America’s key immigrant destinations, largely owing to the attractiveness of the Greater Toronto Area, with a foreign-born share of population that exceeds all other North American mega-regions, except for those in California. In many ways the long-term fortunes of Ontario and Quebec are inseparable from the strength of its urban regions. And while areas like Toronto and Montreal have significant assets that position those metros well to be globally competitive, a key will be ensuring that these centers are better linked into the rest of the mega-region, as well as more remote centres in order that we build geographic advantage for both provinces.

While the overall strength of the mega-region is formidable – it is a primary destination for immigrants, has a substantial high-technology labour force, and significant intellectual assets – a key challenge will be to enhance regional density and connectivity. This is important to ensure that the economic gains made in the core areas of the region – Montreal, Toronto, and Ottawa – can extend to peripheral regions, particularly those hardest hit by current economic restructuring. In part this requires greater attention to land use management at the regional level through limitations on new development and requirements for reuse of existing and infill property.

Smart land use policy creates the possibility for greater intensity of activity; however, it is through improved transportation infrastructure and management systems that we can establish and enhance productive linkages across the mega-region. The strength of the mega-region is not vested in Montreal and Toronto alone. By linking in the tremendous and often dispersed assets of the regions more effectively, the global position of the mega-region can only improve. For

example, some of Canada's largest and most successful companies were founded and continue to maintain significant operations outside the major urban centres of the mega-region – Research in Motion and Bombardier are but the most notable examples. Furthermore, new and innovative clusters are emerging outside of Montreal and Toronto such as Prince Edward County (the creative food economy), Guelph (bio-technology) and Quebec City (video gaming and photonics).

It is also critical to consider ways of linking regions both within and outside the mega-region with its core areas. We must develop strategies and invest in infrastructure that can better connect currently disconnected places and communities – older industrial centres, far flung and geographically dispersed rural communities with the mega-region. New investments in transportation infrastructure, such as high-speed rail and sufficient connecting linkages, may have benefits for the flow of capital, labour and ideas to and from these regions.

High-Speed Rail along the Windsor-Quebec City Corridor

The Ministries of Transportation in Ontario and Quebec, along with the Federal Government, are now undertaking a feasibility study of a potential high-speed rail line extending from Windsor to Quebec City. While this project is in the earliest conceptual stages it is worth considering in the context of the mega-region. What would the economy of an integrated rail corridor region look like? What would be the shared assets? How would the region, both its major urban centres and smaller cities benefit from increased linkages?

While a specific alignment has not yet been proposed for the high-speed rail corridor, most discussion has focused on the roughly 1,000 km stretch from Windsor, Ontario to Quebec City. In the following section, we assume a rail corridor that would connect most of the major urban centres of Southern Ontario and Quebec into the network, either directly or indirectly (Exhibit 10).

By linking the 12 metropolitan areas situated along the corridor between Windsor and Quebec City with a high-speed rail line, regional strengths would become more broadly shared between the two provinces. The costs and benefits of the high speed rail concept need to be assessed fully. No doubt the up-front costs are significant; but the long-term benefits will be harder to estimate and its potential for being a real economic “game changer” should not be discounted.

In brief, the social, economic and cultural attributes of a Windsor-Quebec City rail corridor are as follows:

Population. The corridor of interconnected metropolitan regions that would be created through a high-speed rail network would have a combined population of 13.3 million, accounting for almost 67% of the combined population of Quebec and Ontario (42% of Canada). The full-time labour force of the corridor is about 7.1 million strong.

Education and Knowledge Creation. The main campuses of many of Canada's largest and most prestigious universities would be linked together by high-speed rail (Exhibit 10).

Exhibit 10 *Many of Canada's largest and most prestigious universities operate in the corridor*

Major Universities in the Windsor-Quebec City Corridor, by full-time student enrollment, 2008

University	City	Enrollment (2008)
University of Toronto	Toronto	64,600
York University	Toronto	43,500
University of Montreal	Montreal	29,700
University of Western Ontario	London	29,500
University of Ottawa	Ottawa	29,300
McGill University	Montreal	26,200
Laval University	Quebec	25,200
McMaster University	Hamilton	23,400
University of Waterloo	Waterloo	22,500
University of Quebec at Montréal	Montreal	21,900
Concordia University	Montreal	21,400
Queen's University	Kingston	17,400
Carleton University	Ottawa	19,400
Ryerson University	Toronto	18,500
University of Windsor	Windsor	13,200
Wilfrid Laurier University	Waterloo	13,000

Source: Association of Universities and Colleges of Canada

Overall, more than 30 major universities and technical institutes, accounting for over 450,000 students, and 70 colleges and CEGEPs operate within the corridor. Furthermore, the corridor captures a significant majority of highly-educated workers in the provinces. Roughly 27% of the corridor's population aged 25 and over has attained a Bachelor's degree or above, compared to 21% in the provinces as a whole.

Occupation Classes. A third (33.1%) of the rail corridor region's workforce is employed in creative-oriented occupations, or about 2.2 million full-time workers, slightly greater than the overall share values in each of Ontario, 30.3%, and Quebec, 28.9%. The corridor accounts for 72% of the total creativity-oriented workforce in Ontario and Quebec combined. The remainder of the corridor labour force is engaged in routine-oriented physical occupations (19.5%, as compared to roughly 22% in each of the two provinces), routine-oriented service occupations (46.7% as compared to 47.1% and 45.9% in Quebec and Ontario, respectively), and a small share in routine-oriented resource occupations (0.6% compared to 2.0% and 1.7% in Quebec and Ontario, respectively).

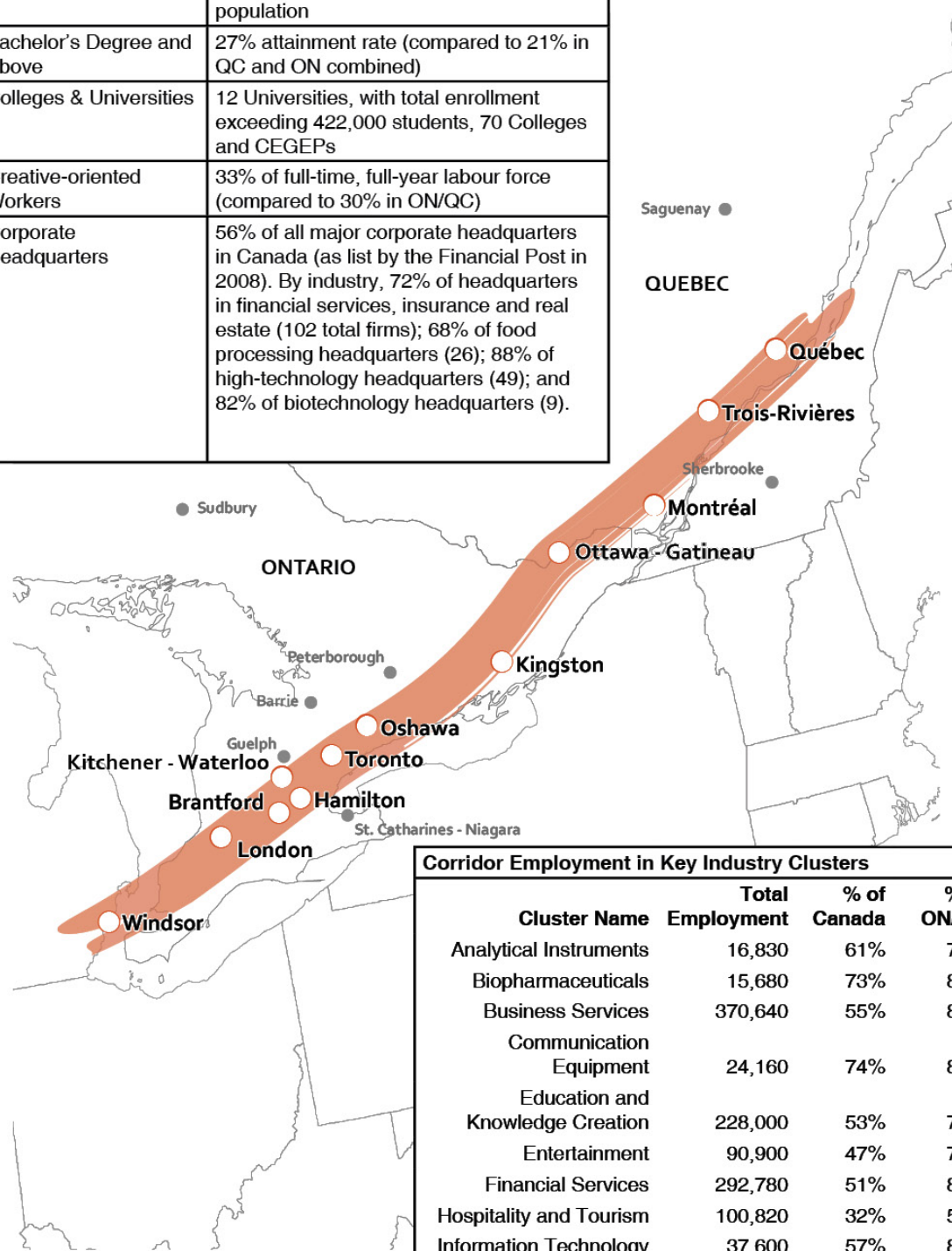
Corporate Headquarters. More than half (56%) of all major corporate headquarters in Canada (as defined in the 2008 Financial Post's list of the 800 largest Canadian corporations), would be linked into the region. By industry, the corridor captures 72% of headquarters in financial services, insurance and real estate (102 total firms); 68% of food processing headquarters (26); 88% of high-technology headquarters (49); and 82% biotechnology headquarters (9).

Industry Clusters. With the exception of Hospitality and Tourism, employment in the priority industry clusters identified earlier exceeds the corridor's share of overall national labour force; in some cases, such as biopharmaceuticals, by a notable margin (Exhibit 11). Our future provincial strength in these sectors will largely be determined by what happens in this corridor.

These industry clusters are not evenly distributed across the region. Both Toronto and Montreal drive the region's national dominance in biopharmaceuticals with more than twice the number of employment in this cluster than expected. Toronto, alone, commands in the financial services, Hamilton (along with Montreal) has a notable cluster in analytical instruments, and Windsor has roughly 3 times the number of employees in entertainment industries that would be expected for a city of its size (although a small number of local casinos likely account for a large share of that employment.)

Exhibit 11 Key industries are over-represented in the Windsor-Quebec City Corridor

Corridor Attributes	Corridor Values
Population (2006)	13.3 Million, 42% of the nation's total population
Bachelor's Degree and Above	27% attainment rate (compared to 21% in QC and ON combined)
Colleges & Universities	12 Universities, with total enrollment exceeding 422,000 students, 70 Colleges and CEGEPs
Creative-oriented Workers	33% of full-time, full-year labour force (compared to 30% in ON/QC)
Corporate Headquarters	56% of all major corporate headquarters in Canada (as list by the Financial Post in 2008). By industry, 72% of headquarters in financial services, insurance and real estate (102 total firms); 68% of food processing headquarters (26); 88% of high-technology headquarters (49); and 82% of biotechnology headquarters (9).



Corridor Employment in Key Industry Clusters			
Cluster Name	Total Employment	% of Canada	% of ON/QC
Analytical Instruments	16,830	61%	76%
Biopharmaceuticals	15,680	73%	80%
Business Services	370,640	55%	82%
Communication Equipment	24,160	74%	81%
Education and Knowledge Creation	228,000	53%	79%
Entertainment	90,900	47%	72%
Financial Services	292,780	51%	81%
Hospitality and Tourism	100,820	32%	59%
Information Technology	37,600	57%	86%
Medical Devices	17,500	56%	72%
Processed Food	85,100	50%	65%

Source: Martin Prosperity Institute and Institute for Competitiveness & Prosperity

IV. Priority Areas for Economic Cooperation

As we have seen, Ontario and Quebec have significant economic strengths and capabilities; combined the two provinces represent a truly remarkable region in North America. Yet there is unmet potential in our two provinces and we can collaborate for greater success. Our research indicates the following sets of collaboration opportunities across industries and in building capabilities that support all industries and economic activities.

We see three types of **industry opportunities**...

- Strengthening our position in well established industries already competing on the basis of knowledge and creativity
- Working to re-orient industries of strength to compete more successfully on the basis of creativity
- Ensuring that Ontario and Quebec establish sustainable competitive advantage in industries of the future

... and three types of **opportunities for building capabilities**

- Deepening our understanding of the costs and benefits of high speed rail and other transportation infrastructure
- Exploring opportunities for enhanced skills development in our two provinces
- Pursuing opportunities for the removal of barriers to greater economic activity between our two provinces.

Strengthening our position in well established industries already competing on the basis of creativity

Our two provinces have leading positions in financial services, business services, and education and knowledge creation.

Financial services represent a critical industry cluster for both provinces and for Canada. Among our banks, credit unions, insurance companies, pension funds, and brokerages we have established some global leaders. The industry draws on sophisticated business services, information services, and technology. It is an important contributor to the success of Canada in meeting the financial needs of our businesses, governments, and people. It is a key element in our global competitiveness.

Our two provinces have a shared interest in making Canada's financial services industry truly world class. To that end, Ontario and Quebec can collaborate in ensuring that tax policy in this important industry is working to maximize its competitiveness and job creation potential. There may also be opportunities to:

- Collaborate in the area of pension fund administration and management. Our two provinces have solid industry and academic strengths in this area and these have built our reputation in this area around the world. Given the challenges we face in pensions

with the current economic crisis, this presents an opportunity for our two provinces to join forces to develop creative solutions

- Collaborate in the area of risk management. Similarly we have expertise in risk management that is highly regarded around the world. Ontario and Quebec can work with the federal governments to develop our academic and industry expertise even further
- Deepen our two provinces' understanding of how to improve venture capital structures and performance. Our two provinces are the centre of Canada's venture capital industry; yet actual investment returns are still mediocre.
- Harmonize regulations in areas such as property & casualty insurance, and pensions to remove irritants that stand in the way of better performance of our financial services industries

Our financial services companies are typically concentrated in our larger cities and it is important that our urban agendas recognize this. Our provincial and municipal governments can share best practices and conduct new research into the factors that help financial services organizations and cities flourish together in a mutually supportive way. As part of this we can develop greater understanding of the unique infrastructure needs of financial services in our cities.

Taken together **business services** such as accounting firms, legal services, advertising and promotion agencies, and management consultancies, comprise an important source of creativity and knowledge that are key drivers of our provinces' competitiveness and prosperity. These services are essential to the success of all our businesses as they provide expertise and capabilities that allow firms to compete successfully in their own field of expertise.

Together, Ontario and Quebec can strengthen our business services by ensuring that our regulatory regimes are harmonized as much as possible. Governments and professional bodies can work together to ensure that barriers that restrict the flow of regulated professions are minimized. Businesses, governments, and people in both provinces should have the access to the best possible professional service available – even if they are located in the other province. Governments are major purchasers of business services and they can ensure that their procurement practices are as open as possible for business services from both provinces. This will ensure the provision of the best possible services to each government and provide a larger market base for our business service providers.

Finally our two provinces have achieved great success in their respective **education and knowledge creation** industries. As we have seen, our two provinces boast world class universities, colleges, and research institutes. Both provinces have ambitious research and innovation agendas and are committed to significant financial support for building the resources in education and knowledge creation.

Together, our two provinces can identify research initiatives in which we have common cause and capabilities. Our collaboration could include:

- joint funding of specific research programs carried out by institutions in both provinces,
- working with the federal government and its agencies to ensure that location and funding decisions fully recognize the size and quality of the research capacity in central Canada
- supporting opportunities for sharing of findings by researchers in our two provinces.

Working to re-orient industries of strength to compete more successfully on the basis of creativity

Ontario and Quebec have strengths in industries with the potential for greater creative content with the highest priorities in food processing and accommodation, tourism, entertainment clusters.

Both provinces have flourishing **agricultural and food processing** industries – and both have the potential for creating new niche opportunities that draw on creative new approaches to food. Our cities are home to a multicultural mosaic and this creates opportunities for fusion foods (e.g., Kosher Samosas and Kishki Halal Pizza) that have worldwide appeal. In both provinces, local producers are creating new artisan cheeses and other dairy products. Market trends here in North America and around the developed world are towards locally grown and organic foods. We have a solid base on which to build a food industry that competes on specialized knowledge, skills, and creativity.

Together our two provinces can develop joint expertise on how to enable the flourishing of these local initiatives – how to encourage their development without smothering them. Our two Ministries with responsibility for food can widen their current dialogue and share knowledge and results in creative food industries. We can work to determine if existing provincial and federal technical standards are appropriate for craft foods, functional foods, and nutraceuticals and identify harmonization opportunities. We have the opportunity to collaborate on regional economic development and joint governance structures for rural areas in our two provinces. One such area may be in developing infrastructure to support a regional food network in eastern Ontario/western Quebec. We can identify ways our provincial marketing boards can be fully supportive of these new food opportunities. The processed food industries share common challenges with respect to an aging work force, skills development, waste management/environmental issues, and productivity. Our two provinces may have opportunities to collaborate more closely on data collection and analysis and solution identification. Finally our provincial governments in concert with federal efforts can identify international marketing opportunities for our emerging food industries – possibly to include unified Ontario/Quebec branding.

Accommodation/tourism/entertainment clusters are significant in both provinces - from Ontario's wine cluster in Niagara to the emerging food and tourism cluster in Price Edward County to live performance and production in Montreal and Quebec City. Our large urban centres are global magnets for tourism and entertainment. These clusters face challenges in ensuring they continue to be globally competitive and that they are attracting skilled talent to them.

Together our two provinces can identify collaborative marketing efforts to increase interprovincial travel and tourism so that we continue to represent significant markets for each other. We can consider opportunities for joint branding which would include development of inter-provincial tourism packages that attract international audiences to our natural and man-made offerings. Finally, our two provinces can work together to develop a skills agenda in this cluster with a focus on determining how to increase the knowledge and autonomy content of many service occupations. If successful, our clusters will improve customer experience and raise employee satisfaction and compensation.

Both provinces have flourishing entertainment clusters and we can make them both stronger by collaborating more. Our film development agencies can explore opportunities for more film co-developments, and knowledge sharing mechanisms. We have world-class artistic institutions in our provinces, e.g., the Art Gallery of Ontario and the Musée des beaux arts – we should explore ways these institutions can collaborate further. As with food production there may be shared opportunities for international marketing and branding. As a first step, we can develop a joint catalogue of available film locations. Ontario and Quebec should determine whether or not they can develop joint policy positions in areas like copyright legislation for negotiation and updating co-production treaties with the federal government.

Ensuring that Ontario and Quebec establish sustainable competitive advantage in developing industries

Ontario and Quebec have the talent, the research infrastructure, and the commercial leadership to ensure that we stake out a leadership position in the emerging **life sciences** industries. Together the two provinces account for the dominant share of Canadian success in pharmaceuticals, biotechnology, medical devices, and analytical instruments. Public funding in both provinces has supported the development of world class research, promising startup companies, and skills and jobs in life sciences. Much more can be done. Specifically the two provinces can work together to improve priority regulatory and policy areas, examine ways to establish effective governance structures and processes for cross-provincial initiatives, establishing an ongoing inventory of capacities in the life sciences corridor, and enhancing access to venture capital and other sources of private investment funding.

The two provinces have developed strong initial positions in the area of **information and communications technology, photonics, and other high technology areas**. Our two provinces can explore opportunities for information sharing, greater collaboration between our colleges and universities for research and skills development, and we can identify regulatory and policy changes that would smooth the flow of ideas and people between the provinces for mutual advantage.

Deepening our understanding of the costs and benefits of high speed rail and other transportation infrastructure

The rail, road, water, and air corridor linking Ontario and Quebec has been an important contributor to our historical and current success; and it will play a critical role in our future social and economic success.

While the two provinces need to continue their collaboration on highway and seaway linkages, **high speed rail** is a promising infrastructure investment for Ontario and Quebec. As we have seen the mega-region is the economic engine for the two provinces representing the centre of gravity for our industries and skills. But we need to improve the velocity at which people and ideas can move along the corridor. Developing high speed rail is a costly venture and would represent a significant investment for our two provinces and the federal government. Yet it has the potential to be an economic game changer by linking more closely our areas of strength. The world is getting spikier, not flatter, and we have to ensure that our mega-region has the infrastructure necessary to link up people and industries inside the corridor and with the other parts of the two provinces.

Ontario and Quebec and the federal government are currently analyzing the costs and benefits of high speed rail – this assessment needs to be completed as a high priority.

The two provinces along with the federal government are already collaborating on the **Continental Gateway** which includes strategic ports, airports, intermodal facilities and border crossings as well as essential road, rail and marine infrastructure that ensures this transportation system's connection to, and seamless integration with, Canada's other gateways to Asia-Pacific and the Atlantic.

Exploring opportunities for enhanced skills development in our two provinces

As the Martin Prosperity Institute concluded earlier this year in *Ontario in the Creative Age*, “to prosper in the global economy, we must create new jobs in high-value industries and occupations, and shift our employment from routine-oriented to creativity-oriented occupations, while boosting the creative content of all work in all our industries.” A key element of this is the development of skills in demand for the creative age. We know that our economies reward advances in analytical and social intelligence skills. Yet we need to understand better how these skills are developed in our educational institutions and our workplaces.

A priority for collaboration between the two provinces ought to include a shared understanding of **skills development for the creative age**. This will require greater understanding of the skills needed in the creative age and how these are best developed. We have world leading research institutions and researchers in our provinces and we need to draw on this to strengthen our practical understanding of these skills and how we can develop them more deeply in our workforce. This will necessitate support for research, curriculum development, and shared understanding of skills development success in the workplace. In addition the two provinces will need to continue to collaborate on apprenticeship and skills certification.

Pursuing opportunities for the removal of barriers to greater economic activity between our two provinces

As former Quebec Minister of Economic Development, Innovation and Export Trade, Raymond Bachand said in June 2008 at the Canadian Club of Toronto, “If we break down the barriers that interfere with trade between our territories, we will reinforce our economies, our businesses, and will prosper together”. M. Bachand went on to identify some of the more egregious barriers in different regulations affecting truck transportation across provincial borders, dairy production, and financial institutions such as credit unions (where he argues that Quebec has more modern regulations) and insurance (where he sees Ontario’s regulations as being more up-to-date).

The two provinces have already established a negotiation process for dealing with these issues. James Peterson and Michel Audet have been appointed as negotiators and eight sectoral fora have been created.

Reduced inter-provincial barriers will strengthen the flow of goods and services to the advantage of both provinces. In addition, the two provinces can gain competitiveness and prosperity through increased trade between Canada and the European Union. For this reason the two provinces urged the federal government to pursue trade negotiations with the EU to achieve a closer economic relationship.

* * * * *

The current economic turmoil affecting our two provinces creates new challenges for all our people. Yet our economies remain highly linked and we can only benefit by strengthening these linkages. The economic upheaval presents opportunities for those jurisdictions that are prepared to take bold actions so that they are fundamentally stronger when economic growth resumes. The kinds of linkages and actions we discuss in this report will help our two provinces assure our continued prosperity.

Working Paper Series

This working paper is part of the *Ontario in the Creative Age* series, a project we are conducting for the Ontario Government. The project was first announced in the 2008 Ontario Budget Speech, and its purpose is to understand the changing composition of Ontario's economy and workforce, examine historical changes and projected future trends affecting Ontario, and provide recommendations to the Province for ensuring that Ontario's economy and people remain globally competitive and prosperous.

The purpose of the working papers in this series is to engage selected issues related to our report: *Ontario in the Creative Age*. The series will involve a number of releases over the course of the coming months. Each paper has been reviewed for content and edited for clarity by Martin Prosperity Institute staff and affiliates. As working papers, they have not undergone rigorous academic peer review.