CivicAction
Greater Toronto CivicAction ● Alliance

Economic Cluster Strategy for the Toronto Region: Matching Capital to Innovation

The Challenge

Greater Toronto, especially the City of Toronto, has a diverse and modern economic base with great potential to lead in several growth sectors. The Toronto region is already a significant leader on the international stage in the following areas:

- **Financial Services:** Toronto is the third-largest financial services centre in North America, and the TSX is the seventh largest stock exchange in the world;
- **Digital Media:** among other strengths, Toronto is the third largest centre for film and television production in the world;
- **Advanced Technology:** Toronto is the third largest centre in North America for biotechnology as well as information and communications technology; and
- **Clean Technology:** the TSX is the leading stock exchange in the world for clean tech companies.

Growth strategies based on economic clusters were first championed by Michael Porter in the 1990s. They are recognized for their ability to strengthen regional industrial sectors by increasing productivity and efficiency, stimulating and enabling innovations, and attracting capital to facilitate commercialization. Greater Toronto does not currently have a comprehensive regional cluster-based approach to economic development. This fact may partially explain why our economic growth has fallen behind our global peers, particularly when compared to those with a strong regional growth strategy.

Current Situation

Currently, economic development strategies in the Toronto region promote some sectors effectively to global investors and markets, while others are slipping off the radar: our growth sectors are promoted in a piecemeal fashion nationally and internationally. Current initiatives tend to operate in isolation from a regional economic development effort that would account for and holistically promote our region's non-business features, such as its academic and infrastructure strengths.

As a result, the Toronto region fares particularly poorly on the key determinants of future prosperity: GDP growth and productivity growth. Other issues, such as our poor track record in commercializing cutting-edge research and ensuring access to seed capital for new innovative businesses, must also be addressed before Toronto's growth sectors can effectively compete with those in other leading metropolitan regions.

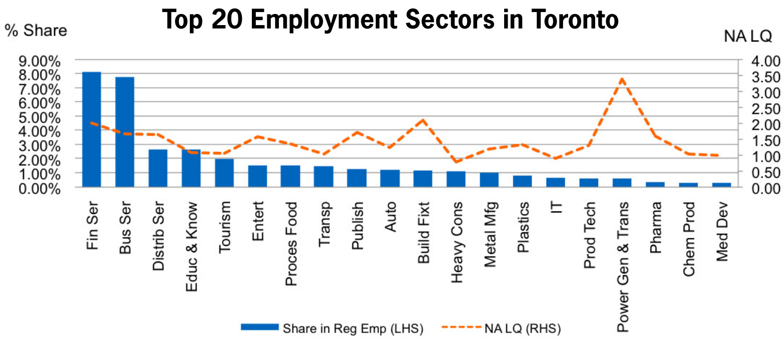
The table below shows the Toronto region's performance in the Toronto Board of Trade's 2010 *Scorecard on Prosperity*.[1] While we ranked a competitive fourth overall, the region ranked only 11th out of 24 global city-regions on economic performance. In terms of capital attractiveness, an important indicator of growth potential, the Toronto region ranked 19th.

	Economy			Labour Attractiveness			Capital Attractiveness		
Metro Area	Rank	Metro Area	Grade	Rank	Metro Area	Grade	Rank	Metro Area	Grade
Boston	1	Boston	A (0.66)	1	Barcelona	A (0.64)	1	Boston	A (0.70)
Dallas	2	San Francisco	A (0.62)	**2**	**Toronto**	**A (0.62)**	2	Hong Kong	A (0.65)
Barcelona	3	Seattle	A (0.56)	3	Paris	A (0.60)	3	San Francisco	A (0.64)
Toronto	4	Hong Kong	B (0.54)	4	Madrid	A (0.59)	4	Paris	B (0.60)
Calgary	5	Dallas	B (0.53)	5	Calgary	A (0.58)	5	Milan	B (0.59)
San Francisco	6	New York	B (0.52)	6	Dallas	A (0.58)	6	Dallas	B (0.56)
Paris	7	Calgary	B (0.51)	7	Vancouver	A (0.57)	7	Chicago	B (0.53)
Madrid	8	Sydney	B (0.49)	8	London	A (0.56)	8	Los Angeles	C (0.52)
Seattle	9	Los Angeles	B (0.48)	9	Montreal	B (0.54)	9	New York	C (0.51)
Hong Kong	10	Paris	B (0.48)	10	Sydney	B (0.51)	10	Barcelona	C (0.50)
Sydney	**11**	**Toronto**	B (0.47)	11	Halifax	B (0.50)	11	Madrid	C (0.49)
Vancouver	12	Madrid	B (0.47)	12	Chicago	B (0.50)	12	Berlin	C (0.49)
New York	13	Oslo	B (0.46)	13	Shanghai	B (0.49)	13	Stockholm	C (0.48)
London	14	Milan	B (0.45)	14	Boston	B (0.49)	14	Seattle	C (0.48)
Montreal	15	Barcelona	B (0.45)	15	Seattle	B (0.49)	15	Tokyo	C (0.48)
Chicago	16	Tokyo	B (0.45)	16	Hong Kong	C (0.48)	16	Oslo	C (0.48)
Los Angeles	17	Chicago	C (0.43)	17	New York	C (0.46)	17	Shanghai	C (0.47)
Tokyo	18	Vancouver	C (0.42)	18	San Francisco	C (0.46)	18	Sydney	C (0.46)
Shanghai	19	Stockholm	C (0.40)	19	Los Angeles	C (0.43)	**19**	**Toronto**	**D (0.43)**
Halifax	20	Montreal	C (0.40)	20	Tokyo	C (0.43)	20	London	D (0.40)
Stockholm	21	Shanghai	C (0.39)	21	Stockholm	C (0.42)	21	Montreal	D (0.39)
Oslo	22	London	C (0.38)	22	Berlin	C (0.42)	22	Vancouver	D (0.39)
Milan	23	Halifax	C (0.35)	23	Oslo	D (0.35)	23	Calgary	D (0.38)
Berlin	24	Berlin	C (0.23)	24	Milan	D (0.31)	24	Halifax	D (0.35)

In spite of these mixed results, the Toronto region is still well-positioned to take advantage of clustering as a growth strategy.

Toronto's Institute for Competitiveness & Prosperity collaborated with Michael Porter to measure clustering prospects in Canada's provinces and Census Metropolitan Areas (CMAs) in a manner consistent with the measurement of regional U.S. clusters. According to the Institute, there are 41 economic clusters in the Toronto CMA.

Other organizations, including the Toronto Region Research Alliance and the Milken Institute, have done studies examining key sectors where Toronto is leading other jurisdictions in North America. According to the Milken Institute's high-tech pole index, Toronto also emerged as Canada's highest-ranking technology centre, and ranked 15th out of nearly 400 jurisdictions in North America.



Note: NA LQ is North American Location Quotient
Source: The Institute for Competitiveness and Prosperity

The Institute for Competitiveness and Prosperity's data on economic clusters provides a snapshot of the Toronto CMA's Top 20 economic clusters by contribution to regional employment and sector share versus the North American average.

These 20 economic clusters are vital to Toronto's regional economy in terms of their contribution to employment and economic output. In addition, they provide the Toronto region with a competitive edge relative to North America overall and are well positioned to compete globally.

Promising New Developments

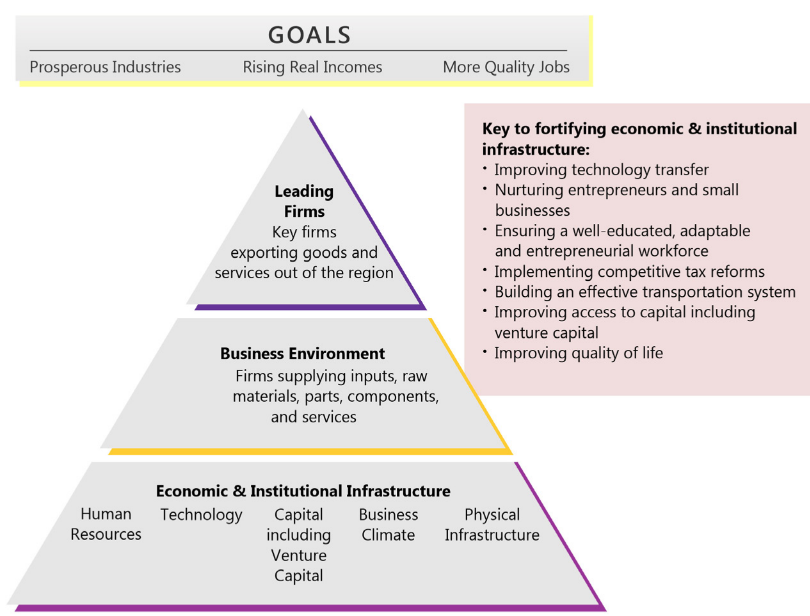
In late 2009, the Toronto Financial Services Alliance led a sectoral expansion and promotion strategy, *Mobilizing Toronto's Financial Sector for Global Advantage*. This strategy exemplifies what other sectors can do to advance their global position, generate jobs, drive innovation and improve productivity. One of the Alliance's first initiatives was launching the Global Risk Institute in Financial Services in September 2010, with support from all three levels of government and the private sector. This global centre of excellence will continue to raise the Toronto region's profile as a global financial centre, and to highlight this clear area of global expertise.

Chief Barriers to Progress

A regionally focused, cluster-based approach is still not sufficient to ensure robust economic growth. This strategy must be supported by a business environment that enhances overall competitive strengths. Through its Scorecard on Prosperity, the Toronto Board of Trade has shown that there are many factors – economic, social and environmental – that contribute to making a growth-oriented city-region. These include:

- a well-educated, adaptable and entrepreneurial workforce;
- an effective transportation system;
- sophisticated technology infrastructure; and
- a competitive tax system.

All of these factors are critical to economic health and competitive positioning globally.



Source: IHS Global Insight and the Toronto Board of Trade

One factor that deserves special attention is the Toronto region's ability to attract capital, which drives innovation and commercialization of its leading-edge research. As indicated earlier, Toronto was ranked 19th among 24 global cities in this area, revealing a key obstacle to economic development. Ready access to stable capital to fund business growth from early-stage financing through to initial public offerings, is a key driver of productivity and innovation. However, Ontario has an ever-decreasing amount of seed capital available for businesses, with approximately 40% of what was available in 2005.

There are many reasons for this current lack of available capital. Beyond the global financial crisis, the Ontario government decided to remove the generous tax incentives supporting retail venture capital programs. In 2003, these programs provided nearly two thirds of the total funding available for Canadian start-up companies.[2] Other government and private-sector capital is not able to compensate for this shortfall as quickly as was hoped, and institutional investors have remained largely absent from early-stage financing. The net result is a dramatic drop in venture capital funding to early and mid-stage companies, with many promising companies pursuing one of the following paths:

- ceasing operations;
- selling out to larger (and often foreign) purchasers; or
- re-locating their operations to competing jurisdictions that offer the capital they need (including Quebec, British Columbia or the United States).

In such an environment, it is increasingly difficult to promote the high-growth and world-leading companies that will drive Ontario's job creation. Imagine the impact on Ontario's economy if BlackBerry-maker Research in Motion – which came of age at a time when venture capital funds were more readily available – had been forced to re-locate its operations outside Ontario in order to develop its innovative products.

Opportunities for Action

The financial services sector serves as an example of one strong cluster supported by expertise, the support and participation of political decision makers and academic leaders, and a supply of skilled labour. However, other clusters in the Toronto region have already come together to mobilize key stakeholders in the private and public sectors to form coherent long-term sector strategies, helping address our economic development challenges. In preparation for CivicAction's Greater Toronto Summit 2011, consultations with regional economic leaders recommended expanding upon these efforts with an economic cluster strategy comprising the following initiatives:

1. **Regional Economic Cooperation Council**
   Launch a regional economic cooperation council to convene key regional stakeholders and decision makers from the public and private sectors on issues of regional economic development (the proposed council is discussed further in CivicAction's Summit backgrounder on regional economic cooperation). One role of the council could be to define an economic cluster vision and align on strategy, funding, and tactics to execute that vision. The council could also act as a forum for:
   a. *Building consensus on issues relating to tax and regulatory frameworks, infrastructure investments and land planning, workforce readiness programs, and public-private partnerships such as the Toronto Financial Services Alliance to enhance and promote the attractiveness of growth sectors.*

2. **Economic Cluster Strategy Framework**
   Develop an economic cluster strategy framework to be included in the policy and advocacy work of all key economic stakeholders, such as the Toronto Board of Trade's VoteOntario2011.

3. **Research on Potential of Clusters**
   Mobilize key stakeholders (particularly in communications technology, advanced manufacturing, food processing, and clean technology) to undertake an in-depth analysis to identify strengths, weaknesses and opportunities of these clusters.

Questions for Discussion

1. Is an economic cluster strategy an appropriate way for the Toronto region to boost economic development? Should the barriers to the venture capital industry be resolved before we launch an economic cluster strategy?

2. Have we identified the right mix of sectors on which to base a cluster strategy? Are there any sectors missing?

3. Who should champion this cluster strategy?

4. What role should the federal, provincial and municipal governments undertake to support an economic cluster strategy?

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[1] The Toronto Board of Trade. (30 March, 2010).*Toronto as a Global City: Scorecard on Prosperity* – 2010
[2] Industry Canada, various *Venture Capital Monitor* reports, based on data from Thomson Reuters.

This paper was prepared by the Toronto Board of Trade.