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Ontario

Strategic Regional Development Overview

Ontario



Government
of Canada

Gouvernement
du Canada

Regional
Economic
Expansion

Expansion
Économique
Régionale

PIERRE DE BANÉ
MINISTER



STRATEGIC REGIONAL DEVELOPMENT OVERVIEW
ONTARIO

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DEPARTMENT OF REGIONAL ECONOMIC EXPANSION]

INTRODUCTION

1. The purpose of this paper is to outline a development framework for Ontario over the medium term, taking into account the current fiscal environment nationally and provincially, and the changing directions of provincial government strategies in Ontario. The intention is to provide a framework within which the government can take, or test, decisions from the point of view of Ontario's economic development. This document is not a blueprint for specific action nor is it a detailed development strategy.

BACKGROUND

2. A key federal agent for economic development in Ontario is the Department of Regional Economic Expansion with its GDA and RDIA programs. It has the mechanism for formulating and implementing development strategies. However, it should be emphasized that development programming by DREE in Ontario is currently largely confined to the northern and eastern parts of the province which have been identified as disadvantaged areas. Consequently, the department's influence on economic and social development throughout Ontario is restricted.
3. Nevertheless, since DREE has a potentially strong advocacy and coordinating role on the federal economic development team in Ontario, this paper will discuss factors, which impact on the Ontario economy, that go well beyond specific DREE program mandates. No attempt has been made in this document to describe the impact of the activities of other federal departments on the economy of the province. This is primarily a paper which signals areas for development activity over the medium term, only some of which may be of direct relevance to DREE's program activity in Ontario, but about which DREE could consider taking an active role.

FACTORS

Trends in Economic Circumstances

4. Due to its central location and its concentration of population, markets and manufacturing activity, Ontario has traditionally been a major strength of the Canadian economy. Ontario also has substantial natural resources. However, Ontario's proportional share of national real domestic product has dropped from 41.6 per cent in 1974 to the present 40.3 per cent; the former year marking the end of Ontario's long-standing growth era. The outlook for the province over the next two years is for slower growth, continuing high unemployment and inflation, labour difficulties and slow consumer demand.
5. Ontario's population growth has slowed over the past four years because of continuing low birth rates and decreasing immigration to the province. Recently there has been a net out-migration of population. Despite this the province has experienced rapid growth in the labour force because of the maturing of the 'baby boom' generation and increasing female participation. However, employment growth has not matched increases in the size of the labour force. The result has been a rising provincial unemployment rate.
6. Agriculture had strong years in both 1978 and 1979, after three consecutive years of little or no growth. The forestry sector has continued to perform well and record prices are expected for newsprint in the coming year, giving the pulp and paper industry a strong incentive to carry out capital investment for the improvement and expansion of facilities. The lumber industry, however, is expecting slower growth in 1980. Ontario was the second largest mineral producer in 1979, although it is rapidly losing ground to both British Columbia and Quebec. One area of particular difficulty was iron ore which saw a major drop in production capacity during 1979 due to the depletion of ore deposits and the closing of Steep Rock Iron Mines.
7. Ontario's manufacturing sector accounts for some 30 per cent of its real domestic product and 25

per cent of total employment. Increases in capacity utilization, productivity and employment paralleled increased production in this sector over the past two years. This growth, while strong, was still below the national average. Industries of particular strength include textiles, pulp and paper, primary metals, machinery, electrical products, petroleum and chemical products. The outlook for 1980, in keeping with the general economic slow-down, is for more modest growth in this sector.

8. The tertiary sector is of increasing importance to the Ontario economy on the basis of employment; the proportion of Ontario's labour force in this sector has expanded from 60 per cent in 1970 to 64 per cent in 1979. Transportation, communications and utilities continue to be the strongest growth areas within the service industry. The finance, insurance and real estate section, which has also traditionally displayed strong growth, has performed only modestly lately, due to increasing competition from western Canada.
9. Ontario continues to be marked with sub-provincial disparities. Northern Ontario, which accounts for about 10 per cent of Ontario's population, is a remote, frontier-type economy, largely oriented to resource development with its attendant social problems, cyclical economic climate, single-industry towns, large distances between communities, relatively unstable labour forces and the economic and social difficulties of the native people, who have a high level of unemployment and correspondingly low levels of income. Mining and forestry are two of northern Ontario's traditional strengths, but the lack of new mining activity, because of market conditions and a poor investment climate, has resulted in a relatively disappointing performance by the mining sector. However, forestry continues to perform well in the north and will provide a particularly strong element to the northern economy over the medium term, although the maintenance of a high sustainable yield of timber is of increasing concern.
10. Eastern Ontario is characterized as a slower growth and lagging economy. Despite the region's relatively strong location between Toronto and Montreal, eastern Ontario has not shared in the

growth of southern Ontario. The region has been mainly dependent on employment in the public sector and in labour-intensive problem industries such as textiles, which have been faced with increasing competition from Third World countries. It is largely a region of small towns based on small-scale manufacturing, agriculture, forestry and tourism. The industrial adjustment needs associated with the GATT negotiations will be of particular significance to this part of Ontario.

11. In contrast to northern and eastern Ontario, the industrial agglomeration and the significant size of service sector employment around the 'Golden Horseshoe' have given southern Ontario much of its strength. Even within this region, however, there are noted areas of slower economic growth, such as Peterborough and southern Georgian Bay. Recent layoffs in the automobile sector have further clouded the economic strength of southern Ontario.

Economic Themes

12. There are five dominant economic themes which should be taken into account in establishing an Ontario development framework for the medium term: the shifting orientation of the national economy towards energy; the economic realignment of the provinces; the changing trade patterns; the restructuring of the Ontario economy; and the continuing regional and sub-provincial economic disparities.

The Energy Economy

13. Canada's quest for energy self-sufficiency has spurred major private and public sector efforts to develop new energy sources. Capital investment in fuel and power development, as a percentage of all business and social capital expenditures in Canada, has grown from 15.1 per cent in 1974, to 20.1 per cent by 1979. The mammoth scale of investment planned in the resource development field during the medium term will absorb an increasing amount of the economy's capacity. This will result in a major shift in the orientation of the national economy, both sectorally and spatially. Accordingly, it is probable that energy rather than manufacturing will be the major engine of the national economy of the 1980s.

14. The implications of these energy developments for Ontario are particularly important given the province's poor supply of oil and natural gas and its exposure, as an importer of these items, to increasing prices. Western and eastern Canadian energy development will offer increasing opportunities for Ontario manufacturing industries to supply associated equipment and plants. However, the absorption of increasing amounts of capital by the energy sector may risk reducing the supply of capital for manufacturing investment expansion. Furthermore, the accumulation of large revenues by the producing provinces through resource taxation will correspondingly reduce investment revenue for the user provinces. In this context, it is important that the supply of 'petro dollars' within the Canadian economy be constantly recycled between energy producers and energy users. In addition, because increased offshore borrowing tends to raise the value of the dollar, and hence reduce the competitive advantage of the manufacturing sector, an additional premium is placed on the urgency for encouraging the modernization and rationalization of the manufacturing industry.

Economic Realignment of
Provinces in the National Economy

15. The 1970s were a watershed decade for many of the provinces in terms of economic performance. An examination of a broad spectrum of economic indicators during the past decade consistently indicates a general weakening and relative decline of central Canada. It is expected that the present trends in relative performance will continue into the 1980s. The primary impetus for this ongoing realignment within the national economy may be attributed to resource development and the generally poor international economic environment, which together have frustrated industrial growth. Central Canada, which has had very little resource growth and whose large manufacturing base has suffered disproportionately from the stagflation of the present period, has the most to lose under these conditions. The implications of these developments are that Ontario may well join the ranks of the slower growth areas within the country over at least the medium term. It is interesting to note in this

regard that Ontario has recently become a region of net population out-migration and a net beneficiary in the current equalization payment formula.

Changing Patterns in Foreign Trade

16. During the 1970s, world trade expanded significantly, not only among the traditional trading nations, but also as a result of increased activity by the Third World. The latter nations have shown substantial growth in resource and labour-intensive industries and have forced many comparable industries in the economically advanced countries out of business. This competitive strength is due to the poorer countries' lower labour costs and their willingness to accept a lower return on investment in the interest of overall economic development. These developments have forced the more advanced countries to adjust their trading patterns in favour of higher technology production, an area of relatively lower demand and consequently one of greater competition. Consequently, the most adaptable and aggressive have usually benefited from these structural adjustments which are expected to continue, fed by the stimulus of tariff reductions induced by the latest GATT negotiations.

17. Along with general international trends, Ontario's export trade has more than tripled during the past decade, although even this was surpassed by the performance of the country as a whole. The province's development is therefore increasingly tied to foreign markets and relies less and less on those within the country. Ontario's trading patterns are also varying, with faster trade growth being experienced with the non-aligned countries and those of the European Economic Community as opposed to more traditional partners such as the United States and Japan. The composition of what is being traded, given the changing world markets and producers, is also experiencing shifts. Less-crude materials are being exported from Ontario, as a result of the increased activity by the Third World in this area, in favour of more fabricated materials and end products. The opposite is occurring with respect to imports. Overall, trade developments in Ontario during the past decade suggest changing opportunities and constant need for adjustment.

Structural Changes in Ontario's Economy

18. Partly as a result of the changing economic conditions during the 1970s, which saw growing energy costs, increasing imports of manufactured goods, and the strong growth of tertiary industries, the economic structure of Ontario has been changing. Among the most important developments have been the relative decline of the goods sector in favour of the rising service sector, significant de-emphasis of such traditional industries as mining, manufacturing and public administration and the move, in many cases, into lower labour productivity areas associated with the service sector.

The Continuation of Sub-Provincial Disparities

19. While the sub-provincial disparities often take on the usual characteristics of dichotomies such as urban versus rural, resource endowment versus little natural advantage, and central versus remote, it is possible to generalize some sub-provincial areas as being less developed and diversified, and accordingly, more economically vulnerable to fluctuations and shifts in demand. Two such areas are the northern and eastern parts of the province (see the map at the end of the paper). In these areas, economic instability may be translated into a number of weaknesses, such as seasonal employment and lower per capita incomes, which often require some form of public sector adjustments. While these efforts may be oriented to the large sub-provincial areas or tailored for isolated trouble-spots that exist throughout the province, the problems of disparate opportunity and varying living standards is unlikely to disappear in the medium term. Ongoing planning initiatives, therefore, should always be cognizant of these factors which are of particular relevance to DREE in Ontario.

Economic Development Issues,
Advantages and Opportunities

20. Within the context of the economic circumstances and economic themes discussed above, the following discussion provides an outline of specific development issues, Ontario's comparative advantages for development and its outstanding growth opportunities.* All of these factors should be taken into account in formulating a development framework.

Development Issues

21. The economic development issues in Ontario may be subdivided into two broad types: factors likely to restrict economic growth and those which could restrict the maintenance of the provincial economic base.
22. Issues which are likely to impede economic growth in Ontario over the medium term include:
- (i) availability of adequate skilled labour;
 - (ii) increasing price of energy;
 - (iii) availability of sufficient investment capital for the manufacturing industry;
 - (iv) upward pressure on the dollar from offshore borrowing which will erode the competitive edge of the manufacturing sector;
 - (v) poor international business environment which has clouded export opportunities;
 - (vi) insufficient aggressive management and marketing skills within Ontario's entrepreneurial group; and
 - (vii) insufficient industrial research and development expenditures.

* A more detailed treatment of these elements is contained in Economic Development Prospects in Ontario, published by the Department of Regional Economic Expansion in December 1979.

23. Issues which could restrict the maintenance of the provincial economic base during the medium term include:
- (i) westward shift of economic activity within Canada, including people, business and capital;
 - (ii) the limited tax base of Ontario vis-à-vis those of the major energy-producing provinces;
 - (iii) international competition which has been eroding Ontario's industrial base and which has forced the need to maintain it as technologically advanced and competitive as possible;
 - (iv) adjustment to changed tariff structures; and
 - (v) increased cost of the factors of production -- energy, transportation, raw materials and wage costs -- which increase faster than productivity.

Comparative Advantages

24. Ontario's strengths must be taken into account in the formulation of an economic development framework. The province possesses five major comparative advantages: location, a diverse industrial structure, natural resources, a well-developed tertiary sector and the presence of a large near-by market.
25. Ontario's prime locational advantage is its central position within the North American continent. This has allowed Ontario ready access to the resources and markets of both the rest of Canada and the United States, conditions which have combined to help the province achieve its high degree of development. This is reinforced by the availability of a highly developed transportation system.
26. The province's natural resource endowment is made up of minerals and forests in northern Ontario, good agricultural land in the south and both

forest and agricultural land in the east. Although the mining industry is notoriously volatile, the abundance of minerals in the Canadian Shield area is to Ontario's long-term benefit. The renewable resource of forestry represents a major sector of continued strength in the provincial economy, with direct benefits for northern Ontario and spinoff opportunities for the southern part of the province.

27. The industrial structure, developed from the province's favourable location and resource endowment, has resulted in a concentration of manufacturing industry in southern Ontario with its attendant advantages of industrial linkages and agglomeration effects. This industrial base is large and diverse, characteristics which make it less vulnerable to economic disruptions. Furthermore, the availability of high-quality labour skills and accessibility to educational facilities provide an important associated advantage.
28. A strong and developed tertiary sector, often oriented to the national markets, ensures the availability of a wide range of professional facilities. This represents an important support to the primary and manufacturing sectors.
29. Ontario has the advantages of a central location, superior transportation connections and an historically well-developed industrial base. It is therefore extremely competitive in a wide-ranging market. Because of these conditions, it has been able to generate a significant local population concentration which provides a strong and supportive local domestic market.
30. While the above comparative advantages are clearly to Ontario's benefit, they do not apply uniformly to all regions of the province. Accordingly, any development framework will have to take account of such geographical differences.

Opportunities

31. Economic development opportunities in Ontario during the 1980s can be identified in several industrial sectors and in various sub-regions of the province. The greatest opportunities stemming

from Ontario's comparative advantages, are expected to occur in the forestry, manufacturing, utilities and recreation sectors.

Sectoral Opportunities:

Forestry

32. The forestry sector offers particular opportunities for Ontario because it is a renewable resource and because the demand for forestry products is expected to remain high. Furthermore, significant investment by pulp and paper companies in northern and eastern Ontario, through joint federal and provincial assistance under the Canada-Ontario General Development Agreement (GDA), is aimed at ensuring the modernization, increased productivity and improved environmental standards are obtained. These measures will help the industry to obtain a stronger position in the market and take further advantage of growing opportunities. Similarly, GDA programming is also being used to assist in the improvement of forest management in Ontario, as well as to develop faster maturing species of trees, both of which are critical requirements for the long-term health of the industry. Indeed, the availability of a sustained yield of forest resources over the long term is crucial.

Manufacturing

33. Since Ontario accounts for 51 per cent of Canada's manufacturing activity and since manufacturing comprises 29 per cent of the province's economy, the future strength of this sector is an important aspect of Ontario's long-term growth. While anticipated opportunities within the sector are not overwhelming, some particularly promising sub-sectors are primary metals, transportation industries, machinery and metal fabricating, energy-related production and electronics.
34. The outlook for the primary metals industry, as represented by the province's steel mills, is very strong. All three major Ontario steel producers are undertaking capital investment plans which total more than \$2 billion. In addition,

expansion of uranium refining and copper smelting and refining is under way and appears to offer promising opportunities.

35. The transportation equipment manufacturing industry is strongly represented in Ontario in auto assembly and parts activity and in the higher technology aerospace industry. Both activities have strong linkages with other manufacturing industries, particularly primary metals, machinery, metal fabricating and plastics. The expected development of the transportation equipment industry will, therefore, have major repercussions for these other industries in Ontario. Capital investment in the auto industry will be strong over the next few years because of the necessary re-tooling and new equipment needed for more fuel-efficient cars. Nevertheless, the current employment difficulties in the automobile sector are of concern within Ontario and renegotiation of the auto pact may eventually be necessary. Increasing energy costs are also likely to accelerate demand for investment in public transportation and this could lead to significant new investment opportunities and production in Ontario. The aerospace industry in the province is also slated to share in major new investments associated with the production of new civil and military aircraft.
36. Machinery and metal fabricating industries in Ontario are likely to offer continuing development opportunities because they provide necessary production for some of the other growth industries in North America. For example, the re-tooling required in the auto industry, the development of new aircraft in the 1980s, the continued demand for oil and gas drilling equipment and other energy-related requirements in western and eastern Canada and long-term capital spending plans of manufacturing industries are all signs of a promising outlook for these industrial sectors, both in the domestic and import markets. The strength of this industry in Ontario is particularly reinforced by the concentration of industrial activity and skilled labour in southern Ontario. The former is important because of associated linkages.

37. Major energy-related investment in western Canada, and potentially Atlantic Canada, is expected to result in a general demand for a range of products from Ontario's manufacturing industry. The production of steel pipe and mechanical equipment related to the tar sands, heavy oil, coal and hydro-electric production projects are examples. The potential for Canadian manufacturers, given the capital goods required, is enormous. Since many of the industry's present suppliers are located in Ontario, the development opportunities for the province would appear to be particularly strong.
38. The fast-growing electronics industry in Ontario is competitive, technologically sophisticated: in short, it is the kind of high-technology industry which offers particularly good future development opportunities. The federal government's national development policy for the electronics industry, announced in 1979, will help continue expansion in an increasingly competitive international environment featuring rapid technological change and extensive support of foreign competitors by their respective governments.

Utilities

39. The availability of an economical energy supply is crucial to Ontario. The advantage of comparatively cheap electricity has been identified as one of the keys to future growth by the province. This has resulted in the heavy emphasis being placed on the province's nuclear programs. Consequently, the construction of power facilities by Ontario Hydro continues to be an important source of public sector investment within the region. This substantial investment has important spinoff benefits for the construction industry and equipment suppliers, and applies to a number of diverse locations, including many of the slower growth areas of the province. Aside from the important infrastructure investment, there have been financial moves to increase the share of the province's energy needs from renewable resources. The Ontario government has recently committed \$2 billion to support renewable energy projects, anticipating this will stimulate private sector investment of some \$14 billion.

Recreation

40. Expansion of recreation activity, and associated investment in Ontario, is anticipated by the expectation of greater international tourism assisted by a lower value Canadian dollar, the needs of the large domestic recreation market in southern Ontario, the aging population, with its associated greater leisure time, and rising disposable incomes. Aside from these expected catalysts, Ontario's location in relation to the recreation markets of central Canada and the northeastern United States can be considered a further advantage.

Other Opportunities

41. Two other areas of opportunity which may strengthen over the medium term are mining and service activities. If there is continuing improvement in the market demand for minerals and in the availability of venture capital for mining exploration and development, the opportunity for greater mining activity in northern Ontario, within a few years, is apparent. The service sector, which is the dominant sector in Ontario, continues to offer some scope for further growth, particularly in southern Ontario.

Geographical Location of Development Opportunities

42. Development opportunities are unlikely to be uniform in all areas of the province. The majority of the capital investment during the 1980s will be located in southern Ontario. The concentration of markets, population, labour force, manufacturing activity and transportation facilities in this part of the province constitutes an advantage for development. The existence and the degree of development of the tertiary sector will be a further factor in the size and range of development opportunities. While opportunities in the manufacturing, utilities and recreation sectors detailed above will be concentrated in southern Ontario, the benefits will not necessarily be available uniformly throughout that area.

43. In eastern Ontario, there continues to be a generally lower level of investment activity than might be expected, despite the region's locational advantage and its agricultural and forest resource potential. The electronics industry, however, is of increasing note in the region and, together with forestry, agriculture, tourism and small processing plants, offers the best long-term development opportunity. Recent GDA programming in the area is designed to encourage the latter activities. Some limited opportunities may also be available in the textile industry.
44. Development opportunities in northern Ontario are largely associated with the primary sector, particularly forestry. While mining-oriented opportunities currently appear to be limited for mainly economic and market reasons, the development of lignite deposits for energy generation in Onakawana and of gold mining in Kirkland Lake represent localized opportunities for northeastern Ontario. Development of tourism and recreation opportunities may also be possible together with selective manufacturing activity aimed at achieving diversification in the single-industry communities. Economic development projects involving native people may present some further small-scale potential in more isolated areas.

Government Development Policies

45. Ontario's self-sustaining growth has traditionally maintained government intervention in the economy, particularly by the provincial government, at a relatively low level of activity. However, changing economic circumstances, the greater vulnerability of the Ontario economy to foreign competition, and increased energy prices have encouraged a more active development stance by the province. The relative decline of manufacturing activity in the mid-70s, the implications of tariff changes following the GATT negotiations, the need to capitalize on the low value of the dollar and the general question of industrial adjustment to the changing economic environment were issues of concern to Ontario in determining that a more direct approach to development would be necessary. Concern with the long-term needs of the forestry industry and with encouraging new higher technology industries are additional issues

which both the Ontario and federal governments have perceived as requiring more direct developmental assistance. Continuing sub-regional differences within the province have been another factor determining the need for government intervention.

46. Numerous federal programs which are relevant to economic development exist in Ontario. The departments of Industry, Trade and Commerce; Labour; Finance; and Regional Economic Expansion; the Canada Employment and Immigration Commission, the Federal Business Development Bank, and the Export Development Corporation all provide incentives which are aimed at assisting the development of individual enterprises and/or the ability of people to take advantage of new employment opportunities. Departments such as Indian Affairs and Northern Development, Agriculture, Transport, and Energy, Mines and Resources also operate diverse programs of particular relevance to northern and primary sector development in Ontario.
47. DREE's involvement in social and economic development is mainly through the federal-provincial General Development Agreement, discussed below. However, the department's Regional Development Incentives Act (RDIA) program, which has particular relevance to the need to assist manufacturing industry opportunities in the slow-growth areas of Ontario, is currently employed in northern Ontario and in the Renfrew-Prembroke area.
48. Despite the federal government's involvement in economic and regional development in Ontario through several departmental programs, further interdepartmental coordination, within Ontario, in order to ensure increased utilization and reinforcement of programs, should be attempted.
49. Ontario's approach to regional development was originally based on a strategic planning approach, "Design for Development". In the last few years, however, a more pragmatic program has been the "Regional Priority Budget" which is designed to provide financial assistance to specific development projects which might not have been funded under the conventional programs of line departments.

50. Changing economic circumstances, however, have necessitated greater interest by the province in attracting new growth to Ontario, wherever the growth is located. Private sector initiative and investment have been emphasized as the vehicle of growth and development of the manufacturing sector: the key to the industrial health of the province and a major basis for Ontario's contribution to the national economy. In this connection, the provincial government introduced a \$200-million Employment Development Fund in 1979. Its objective is to encourage projects that make a long-term contribution to employment; foster the development of needed job skills; have potential for significant export development or import replacement; involve the development of new products and processes through Canadian-based innovation; and stimulate key industries and regional development.
51. The primary federal-provincial instrument for encouraging development is the Canada-Ontario General Development Agreement and its associated subsidiary agreements. The program was to have been within the framework of the provincial Design for Development policy. The first agreements (including those for Cornwall, northwestern Ontario and Dryden) were project-specific and largely oriented to the provision of basic infrastructure. Since then, the nature of subsidiary agreements negotiated under the GDA has evolved towards thematic agreements such as the single-industry resource community and the community and rural resource development agreements and, more recently, to sectoral agreements such as forest management, pulp and paper, and a specific mineral development amendment. The recent eastern Ontario agreement, however, provides a comprehensive range of assistance for a defined geographical area.
52. Because of changing economic conditions, there have been increasing pressures for extended DREE assistance to Ontario. With the exception of the Pulp and Paper Industry Facilities Improvement Subsidiary Agreement, DREE has generally resisted the inclusion of programming into the central and southwestern parts of the province. Given the general utility and flexibility of the GDA as a joint, cost-sharing mechanism for development, and the increasing importance being assigned to

sector approaches to growth, there could be increasing pressure to utilize the GDA mechanism for various development activities throughout the province, even though DREE may not necessarily be involved in a direct funding capacity.

Developing the Future

53. Within the context of the above discussion, the following is a review of some possible economic development approaches in Ontario. The implications are also examined.

Components of a Development Framework

54. The main thrusts of a development framework for Ontario are centred around the need to:

- (i) stimulate and support private sector investment;
- (ii) strengthen and develop Ontario's manufacturing industry; and
- (iii) reinforce sub-regional development.

These approaches are associated with the changing energy situation, the need to increase foreign trade in an effort to improve the national trade balance, the need for higher skill training, the advantages of encouraging higher technology activities, the re-orientation of the economy to take advantage of anticipated opportunities and the reduction of regional disparities. The framework embraces activities involving energy, recreation, trade, product specialization, technology improvement, skill upgrading and sub-regional development.

Energy

55. The changing energy situation represents an important issue to Ontario because the province is a net energy importer. However, energy must also be regarded as an opportunity and the implications for development are therefore two-fold. First, Ontario needs to develop the maximum degree of energy self-sufficiency possible, and second,

efforts should be made to take advantage of energy developments elsewhere in the country by capturing as much of their associated industrial support function as possible. To accomplish this, government support would have to consider investment in local energy projects, assistance to develop a strong energy-related support industry and the promotion of regional energy-equipment suppliers. Similarly, encouragement to western and eastern energy developers to place orders for related equipment with central Canadian producers is necessary. This will assist in the recycling of 'petro dollars' among the regions of Canada. Encouragement to export surplus Ontario electric power would be an additional area of activity.

Recreation

56. With the post-war "baby boom" generation moving into the 20- to 35-year age-range, a new phase of this group's spending pattern will soon commence. It is expected that consumer demands during the 1980s will increasingly shift in favour of the service industries, and particularly leisure-time pursuits. A worthwhile development approach for Ontario would therefore be to develop stronger recreation and tourist industries in order to capture as much of this anticipated consumer spending as possible and avoid its loss to the foreign market. This would also serve to attract foreign tourists into the region. Such results would be of considerable assistance to Canada's balance of trade problems. Implementation of such a development strategy might take the shape of direct incentives to the private sector to develop large, comprehensive tourist facilities and attractions, assistance to the industry to develop marketing programs and the continued development of year-round public recreational areas.

Trade

57. One strong development option for Ontario would be to build on its significant foreign-trade sector. Efforts could be directed to expanding the quantity and quality of the province's foreign exports. Conversely, benefits could be obtained from a reduction in imports, thereby favourably

affecting the nations's balance of trade. Such approaches would encourage the growth and diversification of exports, ideally in areas of relatively secure long-term advantage, and in new, high-technology industries. This could be complemented by import substitution. Possible contributions of the public sector in achieving such a trade strategy would entail: expanded research of market conditions; more aggressive marketing and promotion of regional goods; industrial adjustment assistance in response to changing economic conditions such as the GATT negotiations; improved government procurement policies; improved dialogue with, and incentives for, the private sector to encourage it take advantage of opportunities; encouragement of increased value-added before export; and vigorous promotion of export markets.

Product Specialization

58. A hybrid approach to developing more foreign trade, which is being promoted by the Ontario government, is the strategy of production specialization on a world scale. This involves the identification of a limited number of opportunities within the goods-producing sector, which have the maximum comparative advantage for Ontario, and concentrating on their production. The objective is to become as specialized and technologically advanced in these activities as possible, with the intention of being able to successfully compete at a world scale and dominate the respective product markets. In this way, local production would not be tied to small domestic markets, but would be able to take advantage of economies of scale. The danger of this development approach is that a region relying on this method becomes extremely vulnerable to sudden shifts or fluctuations in the market place. Accordingly, it is suggested that this strategy be applied on a limited basis. Possible candidates for specialization in Ontario would be the transportation and primary metals industries.

Upgrading of the Industrial Base

59. The idea of strengthening and expanding the provincial economic base through improved trade

patterns may be extended to all aspects of economic activity. In particular, development efforts could be directed to maintaining the industrial base in an advanced state, producing products that will have the best economic return, maximizing Ontario input and assuring that production is competitively priced. These development efforts should be oriented primarily at the manufacturing sector within the Ontario economy because of its size, relative importance and the economic problems with which it is currently faced. In implementing such a development approach, government will have to be prepared to: carry out industrial adjustment policies; utilize their current development programs in a more active, yet discretionary manner; expand research of market conditions and production efficiency; pursue a goal of maximizing local input; and expand liaison and cooperation with the private sector. While this development strategy, along with many of the implementing procedures, is implicit in present public sector activities, there is scope to sharpen and extend such policies.

Technology Improvement

60. One aspect of the industrial efficiency approach for Ontario is the technology factor. (This also has connotations of shifting production into higher value-added activity.) A development strategy based on improving Ontario's technology would yield efficiency benefits, maximize returns on inputs and give certain competitive advantages. It is an attractive goal, particularly because of Ontario's international trade situation and because trade is an increasingly important factor in the province's economy. Policies to increase research and development spending, assist in the modernization and/or conversion to new production techniques and programs to provide technical information to private-sector entrepreneurs are important.

Labour Skill Upgrading

61. Given that Ontario must direct greater effort into more technically advanced fields, it is important

that the skill capability of its work force be upgraded. There are many serious skill shortages within the province and these are expected to be aggravated even further in the short run. Upgrading efforts should not only be directed towards the operation of sophisticated machinery and the undertaking of technically complex processes, but should also be extended to the sphere of conceptualization and design of such equipment and industrial procedures. It is therefore in the best interests of Ontario, in attempting to complement the province's technological needs, to pursue programs of higher skill training and more specialized education. These programs should be oriented to the needs of the medium term.

Management Skill Upgrading

62. Contrasting with the quality of labour supply is the quality of management skills. The importance of seizing opportunities, producing efficiently and marketing aggressively have been noted previously. While the private sector must assume the primary responsibility for the development of these skills, the public sector might consider ways in which it could augment this process. Some possibilities could include intensified efforts in the field of publications, fairs and missions of a technical and trade nature, and promotion of Ontario products and marketing assistance. The generation of a more aggressive attitude by Ontario business would benefit the whole province. This is particularly important within the slow-growth regions of northern and eastern Ontario.

Sub-Regional Development

63. There are significant regional disparities, especially in northern and eastern Ontario, in addition to a number of individual local trouble-spots, that remain to be addressed. Specific development initiatives can be introduced to deal with these either on a temporary or long-term basis. They should be designed to build on the comparative strengths of the areas with an expectation of encouraging economic growth over the medium term. For example, stimulation of mineral development and stabilization of the

forestry base are two initiatives that would build on regional strengths. Initiatives aimed at reducing regional disparities should also be directed at removing or lessening impediments to growth such as remoteness or overdependence on one industry. Many of these regional and local problems can be considerably improved with a reasonable amount of effort and financial input. Although geographically balanced development involves a different type of commitment, it should be included as part of a development framework for Ontario. This inclusion, however, does create some difficulty since equality, efficiency and growth objectives often conflict. It is understood, for instance, that a primary objective of maximizing growth in Ontario will lead to disproportionate benefits to the southern part of the province. How such competing policies can be resolved in a development context will have to be determined almost on a case-by-case basis.

Implications for Future Policy Directions

64. The implications of several of the proposed development approaches will have impacts beyond Ontario's boundaries because the province generates a large proportion of the Canadian economy. Similarly, federal government involvement in influencing economic development will be spread between several government departments and the contents of this paper will have implications for many of them. Accordingly, because DREE's programming activity has traditionally been limited to the northern and eastern parts of the province, many of the opportunities in Ontario will not be within the immediate scope of the department's program activities. It will therefore be important that some agreement exist as to the kinds of development approaches that may be collectively used by DREE and other departments in relating proposed development initiatives to the wider needs and priorities of Ontario. Beyond the acceptance of such a framework, however, there will be an additional need for close liaison and coordination between the various relevant departments and governments in the ongoing implementation of development policy.

65. One important conclusion is that the province has had a relatively poor economic performance during the past decade and a performance below the national average is anticipated over the medium term. In an economy which has traditionally been regarded as a main engine of national growth, this is an adjustment in perception which is very difficult to make. Only by pursuing positive development policies over the decade may some of the anticipated economic problems be alleviated. This suggests a shift in policy insofar as there is a need to consider the allocation of more development efforts and funds to Ontario in the future.
66. Some of the approaches contained in the framework may conflict from time to time. For example, the need to encourage specialization, in the interests of industrial efficiency, may not always square with the need to overcome regional disparities or to encourage import substitution. While this is to be expected, given the relative complexity of the Ontario economy, it does underline the requirement for a flexible development framework which can accommodate such trade-offs between the various economic sectors. The contribution of this paper is to provide the ingredients for such a framework by suggesting a number of realistic approaches that could deal with specific Ontario development concerns and objectives. How these issues and opportunities should be ranked and prioritized in terms of national and provincial goals is beyond the scope of this paper.
67. Nonetheless, the establishment of a more detailed development framework is important, especially because of the growing influence of the energy sector, the industrial requirements following the GATT negotiations and the shift in the relative importance of Ontario in the national economy.
68. Within the context of a coordinated approach and the pursuit of equitable development, DREE has a special role to play in the determination and implementation of development policies. Because of the department's particular requirement to reduce regional disparities, it is concerned with fostering some balance in regional development opportunities across the country. Accordingly, DREE in Ontario, with the GDA and RDIA programs,

is currently addressing specific development problems in northern and eastern Ontario. In attempting to redress disparities in these two sub-regions, the department's approach is to continue to identify and build on potential strengths which are seen as contributing positively to economic growth.

69. Specific development opportunities in the lagging areas in Ontario, which appear to offer particular scope within the context of this development framework, and which DREE has been exploring, include programs to encourage northern rural development and northern agriculture. Assistance with geoscientific mineral surveys is seen as a necessary small stimulus to the northern mining industry. A local economic development initiative which could stimulate investment and economic activity in areas where development potential is evident, may also be of value. A tourism initiative would encourage private sector investment in major international-scale tourist complexes in northern Ontario. Furthermore, the possibility of a northlands-style program, heavily oriented toward assisting native people, would be seen as essential in addressing some of northern Ontario's social development issues.
70. The basic strategy behind these initiatives would be to use the GDA mechanism to build upon the local strengths of eastern and northern Ontario in an attempt to bring stability to some of the more remote communities, to diversify the sub-regional economies away from over-dependence on a few resource sectors and to stimulate some long-term growth opportunities. The associated use of RDIA programming would also complement these initiatives, particularly in striving for the goal of diversification and in providing a mechanism to assist in associated manufacturing activity.
71. It is necessary to ensure that development approaches among regions of the country are complementary and therefore reinforce national economic growth. Nevertheless, future policies might be considered whereby regional programming tools would have wider application in order to deal with the disparity and slow-growth problems in southern Ontario (such as industrial adjustment resulting from the GATT negotiations), and to

provide an umbrella mechanism under which all departments' development programming of a redistributive nature could be coordinated.

72. The question of timing represents a further policy implication. The need to undertake longer term development planning in Ontario is becoming increasingly apparent. Because of the increasing sophistication of the economy, the scale of investment required and the lead time needed to assemble the relevant factors of production, development requires a long-term perspective. This implies greater forward development planning.

Recapitulation

73. The intent of this paper is to outline a development framework for Ontario over the medium term. It examines the prospects for development within Ontario for the 1980s and provides a framework through which government will be able to make and assess policy decisions relative to the achievement of these prospects. It should be stressed, however, that this document is not a blueprint for specific action nor is it a detailed development strategy.
74. Ontario has entered the 1980s facing a number of difficult economic problems which are expected to influence the rate and pattern of provincial economic development. These concerns are: the influence of rising energy costs; the economic realignment in favour of peripheral regions of Canada; the increasing impact of international trade; structural changes in the Ontario economy; and a continuation of sub-regional disparities. Ontario's proportional share of real domestic product has been declining and there is some concern about the future strength of its manufacturing sector. Several development issues which are hindering economic growth, such as the weak business environment and the growing shortage of skilled workers, are identified. Issues which have eroded maintenance of the provincial economic base, such as the migration of jobs and capital westwards, are also noted.
75. Against this background, Ontario's major comparative advantages and development opportunities are

analyzed. Major advantages include location, diverse industrial structure, natural resource endowment, well-developed tertiary sector and the presence of a large, local and near-by market. The province's greatest development opportunities for the 1980s appear to be in the forestry, manufacturing, utilities and recreation sectors. Within manufacturing, primary metals, transportation industries, machinery and metal fabricating, energy-related production and electronics are expected to be the strongest performers. In southern Ontario, development opportunities associated with manufacturing, utilities and recreation appear most positive, whereas eastern Ontario continues to have generally lower investment activity, although electronics and small-scale processing and manufacturing activities show some promise. In northern Ontario, forestry offers the greatest development opportunity.

76. On the basis of these growth prospects, the paper examines a number of possible growth approaches to take advantage of Ontario's opportunities. The discussion touches on the need to encourage the maximum degree of energy self-sufficiency possible, while trying to capitalize on the energy-related support production needed by producing provinces. The desirability of increasing foreign trade (particularly through product specialization at the world scale, while encouraging import substitution) is also discussed. Other possible approaches considered include: taking advantage of changing consumer patterns; higher technology production; the upgrading of labour and entrepreneurial skills; and the reduction of regional disparities. These possible development approaches, when put in perspective with current federal and provincial government policy, permit some conclusions to be drawn in regard to future policy direction vis-à-vis Ontario. The primary implication is that there should be greater efforts and funds directed at the development of the province, not only from the point of view of realizing its opportunities, but also to cushion its relative decline. Other policy implications include: the need to stimulate development through the private sector and, primarily, through the manufacturing sector; the need to have a longer term perspective

on planning development; the desirability of having a more detailed development framework produced in collaboration with all development-oriented agencies; and the need to make certain trade-off decisions between the different development objectives of growth, efficiency and equitable distribution. The paper also concludes that DREE has a leading role to play in Ontario's development, particularly from the viewpoint of ensuring equitable growth throughout the province. Specific regional development initiatives in northern and eastern Ontario are listed. The programming tools of RDIA and GDA are seen as important vehicles for complementing and coordinating the various development initiatives being undertaken by other groups within the public sector, and the paper suggests that these programs might be considered for wider application within the Ontario context. Whatever the role of an individual department, however, the paper concludes that all interested parties in Ontario's development should agree to some broad common objectives.

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