The New Carolina Initiative

For further material on regional competitiveness and clusters: www.isc.hbs.edu/econ-clusters.htm
For state economic profiles: www.isc.hbs.edu/econ-statesregions.htm
What is State Competitiveness?

• Competitiveness is the **productivity** with which a state utilizes its human, capital, and natural endowments to create value

• Productivity determines **wages**, **jobs**, and the **standard of living**

• It is not **what** fields a state competes in that determines its prosperity, but **how productively** it competes
What Drives State Productivity?

1. Quality of the Overall State Business Environment
2. Cluster Development
3. Close collaboration among Government and the Private Sector
Quality of the State Business Environment

**Context for Firm Strategy and Rivalry**

- Local **rules and incentives** that encourage investment and productivity
  - e.g., salaries, incentives for capital investments, intellectual property protection, corporate governance standards
- Open and vigorous **local competition**
  - Openness to foreign competition
  - Competition laws

**Factor (Input) Conditions**

- **Access to high quality business inputs**
  - Human resources
  - Capital availability
  - Physical infrastructure
  - Administrative and information infrastructure (e.g., registration, permitting, transparency)
  - Scientific and technological infrastructure
  - Efficient access to natural endowments

**Demand Conditions**

- **Sophisticated and demanding** local customers and needs
  - e.g., Strict quality, safety, and environmental standards
  - Consumer protection laws

**Related and Supporting Industries**

- **Availability of suppliers and supporting industries**

**Many things matter** for competitiveness

Successful economic development is a process of **successive upgrading**, in which the business environment improves to enable increasingly sophisticated ways of competing.
South Carolina’s Business Environment: Assessment

Context for Firm Strategy and Rivalry
- Difficult environment for start-ups
- Few local headquarters or core operations
- Limited local competition

Factor (Input) Conditions
- Low cost of doing business: wages, taxes, rents, utilities
- Flexible hard working labor force
- Good logistics infrastructure
- High quality technical colleges
- Weak K-12 and higher educational system
- Low skill levels in the labor force, mismatch with demand
- Relatively few advance degree holders: notably scientists and engineers
- Limited coordination between universities and companies
- Limited air access

Demand Conditions
- Pockets of sophisticated industrial demand
- Consumer demand not as sophisticated or trend-setting

Related and Supporting Industries
- Many institutions for collaboration
- Few high quality, specialized suppliers
- Limited interaction with local suppliers on product and process development

Based on “South Carolina Competitiveness Initiative: A Strategic Plan for South Carolina”. Monitor and Michael E. Porter, 2005
What Drives State Productivity?

1. Quality of the Overall State Business Environment

2. Cluster Development

3. Close collaboration among Government and the Private Sector
What is a Cluster?

A geographically concentrated group of interconnected companies and associated institutions in a particular field

**Traded Clusters**
- Can locate anywhere
- Compete to serve national and international markets
- 30% of employment
- Drive long term economic growth

**Local Clusters**
- Serve almost exclusively the local market
- Not directly exposed to cross-regional competition
- 70% of employment
- Affect state productivity
Example: Massachusetts Life Sciences Cluster

- Health and Beauty Products
- Surgical Instruments and Suppliers
- Medical Equipment
- Dental Instruments and Suppliers
- Ophthalmic Goods
- Diagnostic Substances
- Containers

Teaching and Specialized Hospitals

Biological Products

Biopharmaceutical Products

Research Organizations

Cluster Organizations
- MassMedic, MassBio, others

Specialized Business Services
- Banking, Accounting, Legal

Specialized Risk Capital
- VC Firms, Angel Networks

Specialized Research Service Providers
- Laboratory, Clinical Testing

Educational Institutions
- Harvard, MIT, Tufts, Boston University, UMass

Analytical Instruments Cluster
Clusters Develop Over Time
The Australian Wine Cluster

1930
First oenology course at Roseworthy Agricultural College

1955
Australian Wine Research Institute founded

1965
Australian Wine Bureau established

1970
Winemaking school at Charles Sturt University founded

1980
Australian Wine and Brandy Corporation established

1990
Winemaker’s Federation of Australia established

1991 to 1998
New organizations created for education, research, market information, and export promotions

1950s
Import of European winery technology

1960s
Recruiting of experienced foreign investors, e.g. Wolf Bass

1970s
Continued inflow of foreign capital and management

1980s
Creation of large number of new wineries

1990s
Surge in exports and international acquisitions

Evidence on the Impact of Clusters

Cluster Development
- Specialization in strong clusters
- Breadth of industries within each cluster
- Strength in related clusters
- Clusters with presence in neighboring regions and states

Regional Performance
- Faster Job growth
- Higher wages
- Higher patenting rates
- Faster new business formation, growth and survival

On average, cluster strength is much more important (78.1%) than cluster mix (21.9%) in driving regional performance in the U.S.

Clusters as a Tool For Economic Policy

• A forum for pre-competitive **collaboration** between the private sector, trade associations, government, educational, and research institutions
  – Brings together **firms of all sizes**, including SME’s

• Creates a mechanism for **constructive business-government dialogue**

• A tool to identify **opportunities, problems** and develop a **concerted strategy** as well as **action recommendations**

• A way to **organize the implementation** of economic policies

• A vehicle for making public and private investments that strengthen **multiple firms/institutions** simultaneously

• An approach that fosters **greater and more sophisticated competition** rather than distorting the market
South Carolina Traded Cluster Portfolio, 2009

Overall change in the South Carolina Share of US Traded Employment: -0.29%

South Carolina Overall Share of US Traded Employment: 1.37%

Change in South Carolina share of National Employment, 1998 to 2009

Employees 4,600 =
South Carolina Wages in Traded Clusters vs. National Benchmarks

South Carolina average traded wage: $40,142
U.S. average traded wage: $56,906

LQ, or Location Quotient, measures the state’s share in cluster employment relative to its overall share of U.S. employment. An LQ > 1 indicates an above average employment share in a cluster.
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Harnessing the New Process of Economic Development

Competitiveness is the result of both **top-down** and **bottom-up processes** in which many companies and institutions take responsibility.

### Old Model
- **Government** drives economic development through policy decisions and incentives

### New Model
- Economic development is a **collaborative process** involving government at multiple levels, companies, teaching and research institutions, and private sector organizations
The New Carolina Initiative

Cluster Development

Business Environment

"Connecting the Dots"
The Eight Competitiveness Recommendations from 2003 Continue to be Relevant

1. Activate and upgrade clusters
2. Continue to enhance education and workforce
3. Invest in research and the university system
4. Launch internal and external marketing campaigns
5. Create an explicit economic development program for distressed areas
6. Increase support for startups and local firms
7. Create new institutions for economic development
8. Measure progress in raising prosperity
New Carolina Initiative’s Accomplishments

• Created 15 *cluster committees*
  – Nearly 1,000 volunteers are involved with these groups
  – Studies, strategic plans, forums and conferences
Traded Cluster Composition of the South Carolina Economy

New Carolina Initiatives

Overall change in the South Carolina Share of US Traded Employment: -0.29%


Employees 4,600 =
New Carolina Initiative’s Accomplishments

- Created 15 \textbf{cluster committees}
  - Nearly 1,000 volunteers are involved with these groups
  - Studies, strategic plans, forums and conferences

- Major success in \textbf{recruiting companies} and \textbf{suppliers} to the state in many clusters

- Built an effective \textbf{Taskforce on Education and Workforce}

- Won three \textbf{federal grants} in 2010, from the Economic Development Administration and the Small Business Administration

- Initiated a system of \textbf{statewide business incubators}

- Developed a \textbf{strategic plan} for rural and urban \textbf{distressed areas}
Next Steps for the New Carolina Initiative

• Continue a cluster-centric economic development vision
How Should States Compete for Investment?

**Tactical (Zero Sum Competition)**

- Focus on attracting **new** investments
- Compete for **every** plant
- Offer **generalized** tax breaks
- Provide **subsidies** to lower / offset business costs
- Every city and sub-region **for itself**
- **Government** drives investment attraction

**Strategic (Positive Sum Competition)**

- Also support greater local investment by **existing** companies
- Reinforce areas of **specialization** and emerging cluster strength
- Provide state support for training, infrastructure, and institutions with **enduring benefits**
- Improve the **efficiency of doing business**
- Harness efficiencies and coordination **across jurisdictions**, especially with neighbors
- **Government** and the private sector **collaborate** to build cluster strength
Next Steps for the New Carolina Initiative

• Continue a cluster-centric economic development vision

• Identifying South Carolina’s distinctive competitiveness position through collaboration with government and other stakeholders
Positioning the State

• What is the **distinctive competitive position** of South Carolina given its location, legacy, existing strengths, and potential strengths?
  – What unique value as a business location?
  – For what types of activities and clusters?

**Define the Value Proposition**

**Develop Unique Strengths**

• What **elements of the business environment** can be unique strengths relative to peers/neighbors?
• What **existing and emerging clusters** represent local strengths?

**Achieve and Maintain Parity with Peers**

• What **weaknesses** must be addressed to remove key constraints and achieve parity with peer locations?

• Economic strategy requires **setting priorities** and **moving beyond** long lists of separate recommendations.
Next Steps for the New Carolina Initiative

• Continue a *cluster-centric economic development vision*

• Identify South Carolina’s *distinctive competitiveness position* through collaboration with government and other stakeholders

• Engage the *state government* more effectively in improving the *business environment*
The Role of Government in Cluster Initiatives

**Government should**
- Support *all* existing and emerging clusters
- Participate
- Enable data collection and dissemination at the cluster level
- Be ready to implement recommendations

**Government may**
- Initiate/Convene
- Finance Public Investments to Improve the Business Environment

**Government should not**
- Pick favored clusters
- Pick favored companies
- Subsidize or distort competition
- Define cluster action priorities
Aligning Economic Policy and Clusters

- Business Attraction
- Education and Workforce Training
- Export Promotion
- Science and Technology Investments (e.g., centers, university departments)
- Natural Resource Protection
- Standard Setting / Certification Organizations
- Specialized Physical Infrastructure
- Environmental Improvement

- Clusters provide a framework for organizing the implementation of many public policies and public investments to achieve greater effectiveness.
Next Steps for the New Carolina Initiative

• Continue a **cluster-centric economic development vision**

• Identify South Carolina’s **distinctive competitiveness position** through collaboration with government and other stakeholders
  - Sequence and prioritize action items

• Engage the **state government** more effectively in improving the **business environment**
  - Encourage membership and participation in New Carolina by the state and city governments

• Strengthen New Carolina’s **organizational capacity**
  – Moderately expand New Carolina’s resources and staff

• Developing **stronger metrics** for assessing and reporting progress
Summary

• The goal of economic strategy is to enhance the state’s productivity. This is the only way to create jobs, high income, and wealth in the long run.

• Improving productivity does not require new public resources, but using existing resources better.

• Economic strategy is non-partisan and about getting results.

• Improving productivity demands that the private sector engage government and vice versa.

• Improvements in competitiveness take time to produce results.

• New Carolina is making significant progress towards a more prosperous South Carolina’s economy and a better society.