Competitiveness: Creating a Rwandan Economic Strategy

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This presentation draws on ideas from Professor Porter’s articles and books, in particular, The Competitive Advantage of Nations (The Free Press, 1990), “Building the Microeconomic Foundations of Competitiveness,” in The Global Competitiveness Report 2006 (World Economic Forum, 2006), “Clusters and the New Competitive Agenda for Companies and Governments” in On Competition (Harvard Business School Press, 1998), and ongoing research on clusters and competitiveness. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means - electronic, mechanical, photocopying, recording, or otherwise - without the permission of Michael E. Porter. Further information on Professor Porter’s work and the Institute for Strategy and Competitiveness is available at www.isc.hbs.edu

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Prosperity Performance
East Africa versus Other Developing Countries

PPP-adjusted GDP per Capita, 2007 ($USD)

Note: highlighted countries are part of the East African Community (EAC). Source: EIU (2008), authors calculations
Comparative Economic Performance
Real GDP Growth Rates

Source: EIU (2007)
Competitiveness Master - 2008-05-22.ppt

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Rwanda Competitiveness in 2008

• Rwanda continues to be on a **positive track** for continuing growth and improvements in prosperity levels

• The economic gains are a reflection of the **policy reforms** undertaken as well as the bouncing back from low current levels of GDP

• Rwanda has also **weathered** the impact of political disturbances in Kenya, a weakening global economy, and continued political tensions with individual European countries

• Despite these achievements, Rwanda will **need further efforts** to realize the ambitious goals of its longer-term economic strategy

• **Key areas for action** are
  – Better alignment of government and donor activities with core competitiveness needs of the Rwandan economy
  – Better coordination across different areas of policy
  – Stronger focus on the barriers for private sector development in physical infrastructure and government rules and regulations
What is Competitiveness?

• Competitiveness depends on the **productivity** with which a nation uses its human, capital, and natural resources.
  – Productivity **sets the sustainable standard of living** (wages, returns on capital, returns on natural resources) that a country can sustain
  – It is not **what** industries a nation competes in that matters for prosperity, but **how productively** it competes in those industries
  – Productivity in a national economy arises from a **combination of domestic and foreign firms**
  – The productivity of **“local” or domestic industries** is fundamental to competitiveness, not just that of export industries

• Nations compete to offer the **most productive environment for business**
• The public and private sectors play **different but interrelated roles** in creating a productive economy
## Sources of Prosperity

### Inherited Prosperity
- Prosperity is derived from selling or exploiting **inherited natural resources**
- Prosperity is **constrained**
- **Government** is the central actor in the economy as the owner and distributor of resource wealth
  - Resource revenues allow **unproductive policies and practices to persist**
- **Government’s role** gravitates towards the **distribution of wealth** as interest groups seek a bigger share of the pie

### Created Prosperity
- Prosperity is derived from **creating more and more valuable products and services with rising efficiency**
- Prosperity is **unlimited**
- **Companies** are the central actors in the economy
  - Prosperity can only be created by **firms**
- **Government’s role** is to create the **enabling conditions for productivity** and foster private sector development
Decomposing Prosperity

- Standard of living
- Inequality

Prosperity

- Domestic Purchasing Power
  - Local prices
    - Efficiency of local industries
    - Level of local market competition
  - Consumption taxes

Per Capita Income

- Labor Productivity
  - Skills
  - Capital stock
  - Total factor productivity

- Labor Utilization
  - Workforce participation rate
    - Population age profile
  - Unemployment
  - Working hours

Domestic Purchasing Power
GDP per person employed (constant 1990 PPP $)

Labor Productivity
Selected Countries

Decomposition of Rwandan Prosperity Growth

Rwandan Export Share Trends

Source: UNComtrade (2008)
Export Shares
Selected Countries

Exports as Share of GDP (in %, 2007)

Source: UN Comtrade (2007), authors’ analysis
Inbound Foreign Investment Performance
Selected Countries

Inward FDI Stocks as % of GDP, Average 2002 - 2006

FDI Inflows as % of Gross Fixed Capital Formation, Average 2002 - 2006

Inward Foreign Investment Flows
Rwanda, 1970 - 2006

Note: Data not available for 1994.
Source: UNCTAD (2007)
Gross Fixed Investment as % of GDP (2006)


CAGR Gross Fixed Investment (as % of GDP), 2001 - 2006

Selected Countries:
- Equatorial Guinea
- Nigeria
- Zambia
- Ethiopia
- Tanzania
- Morocco
- Gambia
- Sudan
- Benin
- Gabon
- Ethiopia
- Chad
- Libya
- Guinea
- Côte d’Ivoire
- Malawi
- South Africa
- Botswana
- Cameroon
- Chad
- Libya
- Guinea
- Côte d’Ivoire
- Malawi
- South Africa
- Botswana
- Cameroon
- Chad
- Libya
- Guinea
- Côte d’Ivoire
- Malawi
- South Africa
- Botswana
- Cameroon
International Aid and Assistance Flows
East African Community, 2002 - 2006

Aid as % Gross Capital Formation

Source: World Development Indicators (2008)
• Macroeconomic competitiveness creates the potential for high productivity, but is **not sufficient**
• Productivity ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local competition**
Macroeconomic Competitiveness

Social Infrastructure and Political Institutions

- Basic human capacity
  - Education
  - Health
- Safety and security
- Political institutions
- Rule of law

Macroeconomic Policies

- Fiscal policy
- Monetary policy
- Economic openness
Note: Sorted left to right by decreasing average value across all indicators. The ‘zero’ horizontal line corresponds to the median country’s average value across all indicators.

Corruption Perception Index, 2007

Change in Rank, Global Corruption Report, 2007 versus 2005

Note: Ranks only countries available in both years (158 countries total)
Source: Global Corruption Report, 2007
Corruption Perception Index
East African Countries

Ranking (constant sample, 158 countries)

- 2005 CPI Rank
- 2006 CPI Rank
- 2007 CPI Rank

Note: Ranks only available starting in 2005 for all 5 countries
Source: Global Corruption Report, 2007
Openness to Trade
Selected African Countries, 2008

Rank (157 countries)

Source: Index of Economic Freedom (2008), Heritage Foundation

Sub-Saharan Average: 112.2
Microeconomic Competitiveness: Quality of the Business Environment

Factor (Input) Conditions
- Access to high quality business inputs
  - Natural endowments
  - Human resources
  - Capital availability
  - Physical infrastructure
  - Administrative infrastructure (e.g., registration, permitting)
  - Information infrastructure (e.g., transparency)
  - Scientific and technological infrastructure

Demand Conditions
- Sophistication of local customers and needs
  - Strict quality, safety, and environmental standards

Related and Supporting Industries
- Availability of suppliers and supporting industries

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
- Vigorous local competition
  - Openness to foreign and local competition

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.
# Doing Business

## Selected African Countries

<table>
<thead>
<tr>
<th>Ease of Doing Business</th>
<th>Starting a Business</th>
<th>Dealing with Licenses</th>
<th>Employing Workers</th>
<th>Registering Property</th>
<th>Getting Credit</th>
<th>Protecting Investors</th>
<th>Paying Taxes</th>
<th>Trading Across Borders</th>
<th>Enforcing Contracts</th>
<th>Closing a Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>35</td>
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<td>Namibia</td>
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<td>Uganda</td>
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<tr>
<td>Malawi</td>
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<tr>
<td>Tanzania</td>
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<tr>
<td>Mozambique</td>
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<tr>
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<td>115</td>
<td>147</td>
<td>93</td>
<td>106</td>
<td>145</td>
</tr>
<tr>
<td>Madagascar</td>
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<td>61</td>
<td>139</td>
<td>150</td>
<td>165</td>
<td>176</td>
<td>51</td>
<td>86</td>
<td>126</td>
<td>151</td>
</tr>
</tbody>
</table>

**Rwanda**

- Rank out of 178 countries. East African countries highlighted.
Microeconomic Competitiveness: State of Cluster Development
Tourism Cluster in Cairns, Australia

Sources: HBS student team research (2003) - Peter Tynan, Chai McConnell, Alexandra West, Jean Hayden

Public Relations & Market Research Services
Food Suppliers
Property Services
Maintenance Services
Travel agents
Tour operators
Hotels
Attractions and Activities e.g., theme parks, casinos, sports
Restaurants
Airlines, Cruise Ships

Local retail, health care, and other services
Local Transportation
Souvenirs, Duty Free
Banks, Foreign Exchange

Government agencies e.g. Australian Tourism Commission, Great Barrier Reef Authority
Educational Institutions e.g. James Cook University, Cairns College of TAFE
Industry Groups e.g. Queensland Tourism Industry Council
## Institutions for Collaboration

### Selected Massachusetts Organizations, Life Sciences

<table>
<thead>
<tr>
<th>Industry / Cluster Associations</th>
<th>University – Company Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Massachusetts Biotechnology Council</td>
<td>- Harvard Biomedical Community</td>
</tr>
<tr>
<td>- Massachusetts Medical Device Industry Council</td>
<td>- MIT Enterprise Forum</td>
</tr>
<tr>
<td>- Massachusetts Hospital Association</td>
<td>- Biotech Club at Harvard Medical School</td>
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<td></td>
<td>- Technology Transfer offices</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Broader Business Associations</th>
<th>Informal networks</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Associated Industries of Massachusetts</td>
<td>- Company alumni groups</td>
</tr>
<tr>
<td>- Greater Boston Chamber of Commerce</td>
<td>- Venture capital community</td>
</tr>
<tr>
<td>- High Tech Council of Massachusetts</td>
<td>- University alumni groups</td>
</tr>
</tbody>
</table>

### Joint Research Initiatives

- New England Healthcare Institute
- Whitehead Institute For Biomedical Research
- Center for Integration of Medicine and Innovative Technology (CIMIT)
Kenya’s Cut Flower Cluster

Government Agencies, NGOs & Industry Associations

Horticultural Crops Development Authority (HCDA)
Government Export Policies targeting Horticulture
Government Policy for Revitalizing Agriculture; National Export Strategy; Export Promotion Council (EPC)

Non-Governmental Organizations
The Rural Enterprise Agri-Business Promotion Project (USAID, CARE, IFAD)
Horticultural Produce Handling Facilities Project (JBIC)

Trade & Industry Associations
Kenya Flower Council (KFC)
Fresh Produce Exporters Association of Kenya (FPEAK)
Regional Growers Associations e.g., North & South Kinangop; Lake Naivasha, etc

Post-Harvest Cooling Technology
Grading / Packaging Sheds
Packaging & Labeling Materials
Refrigerated Trucks
Freight Forwarders
Clearing and Forwarding Agents
Air Carriers (Commercial / Charters)
Tourism Cluster

Sources: Student team research by Kusi Hornberger, Nick Ndiritu, Lalo Ponce-Brito, Melesse Tashu, and Tijan Watt,
Microeconomics of Competitiveness Course, 2007

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The Kenyan Cut Flower Cluster
Trade Performance

Kenyan Cut Flower Exports in thousand US $

- Value
- Market Share

Kenyan Cut Flower World Export Market Share

Source: International Cluster Competitiveness Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director. Underlying data drawn from the UN Commodity Trade Statistics Database.
Competitiveness requires that local companies upgrade the quality of the value chain.
Company Sophistication: Measures from the Global Competitiveness Report

Strategy and operational effectiveness

- Nature of competitive **advantage**
- **Production process** sophistication
- Degree of **customer** orientation
- Extent of **marketing**
- Value chain **breadth**
- Company spending on **research and development**
- Capacity for **innovation**

Internationalization of Firms

- Extent of **regional** sales
- **Breadth** of international markets
- Control of international **distribution**
- Prevalence of foreign **technology licensing**

Organizational Practices

- Reliance on **professional** management
- Willingness to **delegate** authority
- Extent of staff **training**
- Performance-based **compensation**
## The Process of Economic Development
### Shifting Roles and Responsibilities

<table>
<thead>
<tr>
<th>Old Model</th>
<th>New Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>• <strong>Government</strong> drives economic development through policy decisions and incentives</td>
<td>• Economic development is a <strong>collaborative process</strong> involving government at multiple levels, companies, teaching and research institutions, and private sector organizations</td>
</tr>
</tbody>
</table>

- Competitiveness must become a **bottom-up process** in which many individuals, companies, and institutions take responsibility
- **Every** community and cluster can take steps to enhance competitiveness
- The **private sector** must become more engaged in competitiveness to improve rapidly
Clusters and Economic Policy

- Clusters provide a framework for **implementing public policy** and **organizing public-private collaboration** to enhance competitiveness.
Role of the Private Sector in Economic Development

- A company’s competitive advantage depends partly on the **quality of the business environment**
- A company gains advantages from being part of a **cluster**
- Companies have a strong **role to play** in upgrading their business environment

- Take an **active role** in upgrading the local infrastructure
- Nurture **local suppliers** and attract foreign suppliers
- Work closely with local **educational and research institutions**, to upgrade their **quality and create specialized programs addressing the cluster’s needs**
- Inform government on **regulatory issues and constraints** bearing on cluster development
- Focus **corporate philanthropy** on enhancing the local business environment

- An important role for **trade associations**
  - Greater influence if many companies are united
  - Cost sharing between members
Geographic Influences on Competitiveness

- World Economy
- Broad Economic Areas
- Groups of Neighboring Nations
- Nation
- States, Provinces
- Metropolitan Areas
- Rural Areas

Sub-National Economies
Regional Economic Performance
U.S. States

Real Gross State Product per Capita, 2006

$60,000
$55,000
$50,000
$45,000
$40,000
$35,000
$30,000
$25,000
$20,000

0.0% 0.5% 1.0% 1.5% 2.0% 2.5% 3.0% 3.5%

Change in Real Gross State Product per Capita, CAGR, 1997-2006

Note: Southern states as defined by the U.S. census highlighted in blue. All figures in chained 2000 dollars.

Source: BEA, 2007

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Rwandan Provinces
Specialization of Regional Economies
Selected U.S. Geographic Areas

- **Seattle-Bellevue-Everett, WA**
  - Aerospace Vehicles and Defense
  - Fishing and Fishing Products
  - Analytical Instruments

- **San Francisco-Oakland-San Jose Bay Area**
  - Communications Equipment
  - Agricultural Products
  - Information Technology

- **Los Angeles Area**
  - Apparel
  - Building Fixtures, Equipment and Services
  - Entertainment

- **San Diego**
  - Leather and Sporting Goods
  - Power Generation
  - Education and Knowledge Creation

- **Wichita, KS**
  - Aerospace Vehicles and Defense
  - Heavy Machinery

- **Chicago**
  - Communications Equipment
  - Processed Food
  - Heavy Machinery

- **Pittsburgh, PA**
  - Construction Materials
  - Metal Manufacturing
  - Education and Knowledge Creation

- **Boston**
  - Analytical Instruments
  - Education and Knowledge Creation
  - Communications Equipment

- **Houston**
  - Oil and Gas Products and Services
  - Chemical Products
  - Heavy Construction Services

- **Raleigh-Durham, NC**
  - Communications Equipment
  - Information Technology
  - Education and Knowledge Creation

- **Atlanta, GA**
  - Construction Materials
  - Transportation and Logistics
  - Business Services

- **Denver, CO**
  - Leather and Sporting Goods
  - Oil and Gas
  - Aerospace Vehicles and Defense

Note: Clusters listed are the three highest ranking clusters in terms of share of national employment.
Geographic Influences on Competitiveness

- World Economy
- Broad Economic Areas
- Groups of Neighboring Nations
- The Neighborhood
  - Nation
  - States, Provinces
  - Metropolitan Areas
  - Rural Areas
• Economic coordination among neighboring countries can significantly enhance competitiveness
• Integration with neighbors offers greater opportunities than participation in broader economic forums

Source: Google Maps
Regional Economic Strategy

- Defining a strategic role for the region in the continent and the world economy
- Opening internal trade and investment
- Achieving synergies in enhancing the business environment
- Facilitating cross-border cluster development
- Enhancing company capabilities and non-traditional exports
- Raising productivity
- Increasing the attractiveness of the region as a whole for foreign investment
- Winning greater support from the international community
- Accelerating economic policy at the national level

But

- Cross-national collaboration is not a substitute for national microeconomic reforms
## Economic Coordination Among Neighbors
### Capturing Synergies

<table>
<thead>
<tr>
<th>Factor (Input) Conditions</th>
<th>Context for Strategy and Rivalry</th>
<th>Demand Conditions</th>
<th>Related and Supporting Industries</th>
<th>Macroeconomic Competitiveness</th>
<th>Regional Strategy &amp; Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Improving regional transportation infrastructure</td>
<td>• Eliminating trade and investment barriers within the region</td>
<td>• Harmonizing environmental standards</td>
<td>• Facilitating cross-border cluster upgrading, e.g.</td>
<td>• Coordinating programs to improve public safety</td>
<td>• Creating a regional strategy and marketing program</td>
</tr>
<tr>
<td>• Creating an efficient energy network</td>
<td>• Simplifying and harmonizing cross-border regulations and paperwork</td>
<td>• Harmonizing product safety standards</td>
<td>– Tourism</td>
<td>• Coordinating macro-economic policies</td>
<td>• Sharing best practices in government operations</td>
</tr>
<tr>
<td>• Enhancing regional communications and connectivity</td>
<td>• Coordinating anti-monopoly and fair competition policies</td>
<td>• Establishing reciprocal consumer protection laws</td>
<td>– Agribusiness</td>
<td></td>
<td>• Creating regional institutions</td>
</tr>
<tr>
<td>• Linking financial markets</td>
<td>• Opening government procurement within the region</td>
<td>• Opening government procurement within the region</td>
<td>– Transport &amp; Logistics</td>
<td></td>
<td>– Dispute resolution mechanisms</td>
</tr>
<tr>
<td>• Opening the movement of students for higher education</td>
<td></td>
<td></td>
<td>– Business services</td>
<td></td>
<td>– Regional development bank</td>
</tr>
<tr>
<td>• Harmonizing administrative requirements for businesses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Developing a regional position with international organizations</td>
</tr>
</tbody>
</table>
Strategy for Cross-National Regions
Central American Logistical Corridor

- Roads
- Ports
- Airports
- Logistic Corridor
- Country Boundary

Mexico
Belize
Guatemala
Honduras
El Salvador
Nicaragua
Costa Rica
Panama
Regional Economic Strategy Initiatives
Success Factors

• Common understanding of competitiveness

• Develop a regional value proposition = a strategy

• Emphasis microeconomic aspects of competitiveness, not just macro

• Focus on specific projects and initiatives

• Led by the private sector with the participation of all regional actors and representation from the national governments

• Institutionalized through formal enabling structures

• Measure and report progress

• Bottoms up, win-win projects, rather than grand political and macroeconomic declarations
Defining an Economic Strategy

National Value Proposition

• What is the unique competitive position of the nation or region given its location, legacy, and existing and potential strengths?
  – What roles with neighbors, the region, and the broader world?
  – What unique value as a business location?
  – For what types of activities and clusters?

Developing Unique Strengths

• What elements of macroeconomic competitiveness and the business environment are crucial priorities?
• What existing and emerging clusters should be developed first?

Achieving and Maintaining Parity with Peers

• What weaknesses must be addressed to achieve parity with peer countries?

• Priorities and sequencing are necessity in economic development
Some Implications

- Rwanda must maintain stability, safety, orderliness, and lack of corruption at all costs
- Rwanda must accelerate improvement of skills and business infrastructure, managerial skills, ease of doing business
- Kigali must become a vibrant capital city
- Rwanda should seize the opportunity to transform agriculture
- Rwanda is unlikely to be competitive in exporting bulky goods with low value-to-weight
- Rwanda should develop air freightable goods and services exports to nullify its logistical disadvantages
  - eg, silk, flowers
- Rwanda in inextricably linked with its neighbors

A new model of African development
Rwanda’s Competitiveness Agenda

Business Environment

- Land use
- Physical infrastructure
  - Airport / air service
  - Connectivity
  - Economic zones
- Energy
  - Renewable
- Skills development
- Build towns and increase urbanization outside of Kigali
- Institutional capacity building
- Improve government efficiency and cross agency coordination

Cluster Development

- Activate a formal cluster development program led by the private sector
- Established clusters
  - Tea
  - Coffee
  - Tourism
  - Mining
- Emerging clusters
  - Logistics and transport
  - Construction and real estate
  - ICT services
  - Specialty agriculture (e.g., silk, flowers)
  - Health and other social services
  - Arts and culture (Hillywood)

Private Sector

- Upgrade private sector capabilities
- Engage the private sector in economic development
- Support cooperative private investment funds to jumpstart the private equity market

Neighborhood

- Lead economic integration with neighboring countries
  - e.g., Road transportation efficiency
  - Railway development
  - Energy grid