Competitiveness in the Post Crisis Era: The Strategic Agenda for the UK

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The Global Economic Context in 2010

• The global economy is slowly recovering from a deep recession, with significant risks remaining

• Countries are looking for ways to achieve sustainable economic growth and job creation

• Competitiveness has become more important than ever
  – Globalization will continue and strong international competitors are emerging
  – Companies are reexamining everything in terms of how and where they operate

• The UK has achieved a long-term competitive transformation, but the next stage of development will be slower and more challenging
Prosperity
Selected Countries, 1990 to 2000

PPP-adjusted GDP per Capita, 2000 ($USD)

OECD average: 4.15%

$40,000
$35,000
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
$0

0% 1% 2% 3% 4% 5% 6% 7% 8% 9% 10%

Growth of Real GDP per Capita (PPP-adjusted), CAGR, 1990 to 2000

Source: EIU (2010), authors calculations
Prosperity
Selected Countries, 2000 to 2009

PPP-adjusted GDP per Capita, 2009 ($USD)

OECD average: 3.26%

Norway
United States
Switzerland
Netherlands
Ireland
Austria
Canada
Belgium
Finland
Taiwan
Hong Kong

OECD average: $32,810

Source: EIU (2010), authors calculations
What is Competitiveness?

- Competitiveness is the **productivity** with which a nation uses its human, capital, and natural resources
  - Productivity **sets the standard of living**
  - Productivity growth drives **sustainable economic growth**
- Productivity and prosperity depend on **how** a nation competes, not what industries it competes in
  - Productivity in the modern global economy arises from a **combination of domestic and foreign firms**
- Relentless **commercialization of innovation** in technology, products, and organizational methods is necessary to drive **productivity growth** and enable the standard of living to rise

- 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
**Labor Productivity**

Selected Countries, 1990 to 2000

Real GDP per employee (PPP adjusted US$), 2000

OECD Average: $66,217

OECD Average: 2.02%

Source: authors calculation Groningen Growth and Development Centre (2010)
Labor Productivity
Selected Countries, 2000 to 2009

Real GDP per employee (PPP adjusted US$), 2009

Growth of real GDP per employee (PPP-adjusted), 2000 to 2009

Source: authors calculation Groningen Growth and Development Centre (2010)
Inbound Foreign Investment
Stocks and Flows, Selected Countries

Inward FDI Stocks as % of GDP, Average 2000-2008

OECD Average 17.9%

Ireland (105.8%)

Singapore (60.7%, 157.1%)

Netherlands

OECD Average: 37.3%

New Zealand

FDI Inflows as % of Gross Fixed Capital Formation, Average 2000 - 2008

Innovative Output
Selected Countries, 1998 to 2008

Average U.S. patents per 1 million population, 1998-2008


10,000 patents =
Determinants of Competitiveness

Microeconomic Competitiveness

- Quality of the National Business Environment
- State of Cluster Development
- Sophistication of Company Operations and Strategy

Macroeconomic Competitiveness

- Social Infrastructure and Political Institutions
- Macroeconomic Policies

Endowments

- 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.
Microeconomic Competitiveness: The Business Environment

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

Factor Inputs
- Access to high quality business inputs and infrastructure
  - e.g., human resources, capital, physical infrastructure, administrative rules, scientific and technological infrastructure

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

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Cluster Development
Massachusetts, Life Sciences

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

Teaching and Specialized Hospitals

Biological Products

Biopharmaceutical Products

Research Organizations

Health and Beauty Products

Surgical Instruments and Suppliers

Medical Equipment

Dental Instruments and Suppliers

Ophthalmic Goods

Diagnostic Substances

Specialized Suppliers of components, materials and other inputs

Analytical Instruments

Educational Institutions
Harvard University, MIT, Tufts University, Boston University, UMass
UK Cluster Export Growth, 1997-2007

Change in UK’s Overall Growth in Exports: + 6.28%

UK Cluster Export Share Performance, 1997-2007

Change in United Kingdom’s world export market share, 1997 – 2007

Exports of US$14 Billion =

Regions and Competitiveness

- Economic performance *varies significantly* among sub-national regions (e.g., provinces, states, metropolitan areas)
UK Regional Economic Performance

GDP per Capita, Euros, 2007

Note: Gross domestic product (GDP) at current market prices at NUTS level 2
Source: EUROSTAT, 2010
Regions and Competitiveness

• Economic performance **varies significantly** among sub-national regions (e.g., provinces, states, metropolitan areas)

• Many of the essential levers of competitiveness **reside at the regional level**

• Region’s **specialize** in different sets of clusters
  – **Cluster strength** drives regional performance
UK Cluster Specialization For Selected Regions, 2007

Highlands and Islands
- Fishing
- Tourism

North East Scotland
- Oil and Gas
- Fishing

Eastern Scotland
- Education
- Analytical Instruments
- Financial Services

Lancashire
- Aerospace

Greater Manchester
- Distribution Services
- Business Services

Derbyshire and Nottinghamshire
- Aerospace

Cheshire
- Chemicals
- Plastics

West Midlands
- Metal Manufacturing
- Automotive

Cornwall
- Tourism

Dorset/Somerset
- Aerospace

Berkshire, Bucks and Oxfordshire
- IT
- Education

Lincolnshire
- Food Processing
- Power Generation

Bedfordshire, Hertfordshire
- Biopharmaceuticals
- Business Services

Inner London
- Financial Services
- Business Services
- Entertainment

Outer London
- Transportation

Source: European Cluster Observatory, 2009
Regions and Competitiveness

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• Many of the essential levers of competitiveness **reside at the regional level**

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• **Decentralization** of economic policy is especially important in larger countries to foster regional specialization, internal competition, and local accountability

• Each region needs a distinct **competitiveness agenda**

• Competitiveness improvements requires **effective policy collaboration** between regions and the national government
The Process of Economic Development
Roles and Responsibilities

**Old Model**

- The **central government** drives economic development through policy decisions, spending and incentives

**New Model**

- Economic development is a **collaborative process** involving government at multiple levels, companies, educational and research institutions, and private sector organizations

- Competitiveness must move towards a **bottom-up process** in which many individuals, companies, and institutions take responsibility and act
Competitiveness Agenda for the UK

• **Much progress** has been made in enhancing UK competitiveness

• The UK should **continue the long-term investments** that will be needed to drive future competitiveness
  – Innovation infrastructure and incentives
  – Education and training
  – Physical infrastructure
  – Administrative and regulatory simplification
  – SME development, including the supply of risk capital

• To further enhance innovation, **demand side policies** should complement supply side policies
  – e.g. regulatory quality, government procurement

• Policies to improve the business environment would benefit from more **continuity** and greater **strategic focus**

• It is essential that future **fiscal policy** is aligned with improving competitiveness
Competitiveness Agenda for the UK (Continued)

- A broad-based, market driven *cluster development strategy* is a crucial tool to drive further productivity and innovation.

- Greater *decentralization of economic policy* to the regional level is a fundamental step forward, but implementation needs continued improvement.

- The *private sector* must become a *much stronger partner* in competitiveness.

- A deeper challenge will be to better align *financial market competition* with competitiveness in the *real economy*. 