The Competitive Advantage of Nations and Regions: Implications for the Caribbean

Professor Michael E. Porter
Harvard Business School

Distinguished Leadership and Innovation Conference
Trinidad and Tobago
March 25, 2011
The Caribbean Region in 2011

• The Caribbean nations are recovering from a sharp global crisis

• However, the region is not progressing rapidly enough in driving economic and prosperity growth

• Caribbean countries need strategies to improve competitiveness and drive fundamental economic reform
Differences in Prosperity Performance
Caribbean Countries

PPP-adjusted GDP per Capita, 2010 ($USD)

Growth of Real GDP per Capita (PPP-adjusted), CAGR, 2000-2010

Note: Aruba not included in average
Source: EIU (2011), authors calculations
Income Inequality
Selected Countries

Index of Inequality (2006)*

Note: * latest data available used (in some cases earlier years data used).
Source: World Bank, World Development Indicators, 2008, United Nations University (UNU-WIDER)
Sources of Prosperity

**Inherited Prosperity**
- Prosperity derived from *inherited natural resources*
  - Prosperity is *limited*

- Focus on *dividing* the pie
- **Government** becomes the central actor in the economy
- Resource revenues fuel corruption and allow *unproductive policies and practices to persist*

**Created Prosperity**
- Prosperity resulting from *productivity* in producing goods and services
  - Prosperity is *unlimited*

- Expands the pie
- **Companies** are the central actors in the economy
- Government’s role is to create the *enabling conditions for productivity* and foster private sector development
What is Competitiveness?

- Competitiveness is 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)
  - 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**

- Only **competitive businesses** can create wealth and jobs
- 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 Performance
Selected Latin American Countries, 2000 - 2010

Growth of real GDP per employee (PPP-adjusted), 2000 to 2010

<table>
<thead>
<tr>
<th>Country</th>
<th>Real GDP per employee (PPP-adjusted US$), 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trinidad &amp; Tobago</td>
<td>Note: Trinidad &amp; Tobago data is heavily biased due to natural gas exports and may overstate productivity</td>
</tr>
</tbody>
</table>

Source: authors calculation Groningen Growth and Development Centre (2011), EIU (2011)
What Determines Competitiveness?

- Endowments create a **foundation** for prosperity, but true prosperity is created by **productivity in the use of endowments**.
What Determines Competitiveness?

- Macroeconomic competitiveness sets the potential for high productivity, but is not sufficient.
- Endowments create a foundation for prosperity, but true prosperity is created by productivity in the use of endowments.
What Determines Competitiveness?

- Productivity ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local competition**
- Macroeconomic competitiveness sets the **potential** for high productivity, but is **not sufficient**
- Endowments create a **foundation** for prosperity, but true prosperity is created by **productivity in the use of endowments**
Macroeconomic Competitiveness

**Macroeconomic Policies**

- **Fiscal policy**
  - Government surplus/deficit
  - Government debt

- **Monetary policy**
  - Inflation
  - Business cycle management
  - Savings

**Social Infrastructure and Political Institutions**

- **Human development**
  - Basic education
  - Health

- **Political institutions**
  - Political freedom
  - Voice and accountability
  - Political stability
  - Government effectiveness
  - Decentralization of economic policymaking

- **Rule of law**
  - Security
  - Civil rights
  - Judicial independence
  - Efficiency of legal framework
  - Freedom from corruption
## Macroeconomic Competitiveness: Human Development

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP per capita rank</th>
<th>Human Development Rank</th>
<th>Life expectancy index</th>
<th>Education index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barbados</td>
<td>3</td>
<td></td>
<td>37</td>
<td>62</td>
</tr>
<tr>
<td>Bahamas</td>
<td>42</td>
<td></td>
<td>64</td>
<td>55</td>
</tr>
<tr>
<td>Panama</td>
<td>47</td>
<td></td>
<td>50</td>
<td>60</td>
</tr>
<tr>
<td>Suriname</td>
<td>53</td>
<td></td>
<td>108</td>
<td>106</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>58</td>
<td></td>
<td>106</td>
<td>83</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>69</td>
<td></td>
<td>83</td>
<td>108</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>72</td>
<td></td>
<td>30</td>
<td>95</td>
</tr>
<tr>
<td>Belize</td>
<td>82</td>
<td></td>
<td>42</td>
<td>74</td>
</tr>
<tr>
<td>Guatemala</td>
<td>85</td>
<td></td>
<td>104</td>
<td>133</td>
</tr>
<tr>
<td>El Salvador</td>
<td>89</td>
<td></td>
<td>97</td>
<td>100</td>
</tr>
<tr>
<td>Guyana</td>
<td>91</td>
<td></td>
<td>117</td>
<td>85</td>
</tr>
<tr>
<td>Jamaica</td>
<td>99</td>
<td></td>
<td>87</td>
<td>77</td>
</tr>
<tr>
<td>Honduras</td>
<td>106</td>
<td></td>
<td>84</td>
<td>111</td>
</tr>
</tbody>
</table>

Source: World Bank, Human Development Index 2011
Macroeconomic Competitiveness: Governance

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.
Source: World Bank (2011)
Macroeconomic Competitiveness: Corruption

Change in Rank, Global Corruption Report, 2003 to 2009

Source: Global Corruption Report, 2010
There is a strong connection between economic and social development.

Improving competitiveness and decreasing poverty requires improving the economic and social context simultaneously.
What Determines Competitiveness?

The external business environment conditions that enable company productivity and innovation

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

Macroeconomic Competitiveness
- Macroeconomic Policies
- Social Infrastructure and Political Institutions

Endowments
Quality of the National Business Environment

Context for Firm Strategy and Rivalry

• 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
  – Fair competition laws

Factor (Input) Conditions

• Access to high quality business inputs
  – Human resources
  – Capital availability
  – Physical infrastructure
  – Administrative infrastructure (e.g., permitting, land registration)
  – 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
Microeconomic Competitiveness: Ease of Doing Business
Trinidad and Tobago, 2011

Ranking, 2011 (vs. 183 countries)

Microeconomic Competitiveness: Ease of Doing Business
Suriname, 2011

-ranking, 2011 (vs. 183 countries)

Favorable

Unfavorable

Suriname’s per capita GDP rank: 57

Microeconomic Competitiveness: Ease of Doing Business
Caribbean Nations, 2011

The Business Environment in the Caribbean
Selected Issues

- Low skills
- Brain drain
- Bureaucracy and red tape
- Weak property and contractual rights
- Barriers to domestic and international competition, despite significant progress in removing barriers within the region
- High communication costs
- Limited sophistication of company strategies
- Low innovative capacity
What Determines Competitiveness?

A critical mass of firms and institutions in each field to harness efficiencies and externalities across related entities.

Endowments

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

Macroeconomic Competitiveness
- Macroeconomic Policies
- Social Infrastructure and Political Institutions
Sources: HBS student team research (2003) - Peter Tynan, Chai McConnell, Alexandra West, Jean Hayden
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 (IBIC)

- 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

- Education, Research & Quality Standards Organizations
  Research Institutions:
  Kenya Agricultural Research Institute (KARI)
  International Center for Insect Physiology and Ecology (ICIPE)
  Public universities with post graduate degrees in horticulture:
  University of Nairobi; Jomo Kenyatta University of Agriculture & Technology
  Quality & Standards:
  EUREGAP Standard (UK & Dutch Supermarkets)
  Kenya Plant Health Inspectorate Services (KEPHIS)

- 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: MOC student team research by Kusi Homberger, Nick Ndiritu, Lalo Ponce-Brito, Melesse Tashu, Tijan Watt, Harvard Business School, 2007
Assessing Cluster Strength
Dominican Republic Tourism Cluster

Context for Firm Strategy and Rivalry

+ Large, competitive but almost exclusively foreign-owned hotel industry
+ No visa required for residents of most major tourist nations
  - Focus on all-inclusive offerings with limited local spending
  - Local institutions discriminate against natives

Factor Conditions

- Long beaches, stable sunshine, and beautiful inland area with extensive Flora and Fauna
- Many cultural and historical heritage sites
- Good airport connectivity
- Definpro, Infratur units of Central Bank to finance tourism projects
- Special tourism police
  - Inadequate language skills of local employees
  - Limited local infrastructure

Demand Conditions

+ High-end demand in local pockets around Punta Cana
  - Lack of sophisticated local demand

Related and Supporting Industries

+ Significant presence of local suppliers (food, cleaning, gardening, etc.)
+ Existence of Asonahores hotel association
+ Some regional cooperation (e.g., marketing for Cricket World Cup)
  - Lack of complimentary industry like restaurants, shopping, events, etc.
  - Most travel agencies / tour bookers located outside region
  - Lack of coordination/strategy in Ministry of Tourism
  - No participation in regional IFCs (e.g., CTO)

Source: Based on research by HBS student team (Baruch Barrera, Penelopa Gjurcilova, Stacie Rabinowitz, Hiroki Suemori), 2007
Change in Jamaica’s world export market share, 1999 – 2009

Change in Jamaica’s average world export share: - 0.021%

- Rising Exports
- Declining Exports

Cluster Linkages and Economic Diversification

Note: Clusters with overlapping borders or identical shading have at least 20% overlap (by number of industries) in both directions.
LQ, or Location Quotient, measures the country’s share in cluster exports relative to its overall share of world exports. An LQ > 1 indicates an above average export share in a cluster.
The Evolution of Regional Economies
San Diego

- Climate and Geography
- U.S. Military
- Hospitality and Tourism
- Transportation and Logistics
- Power Generation
- Communications Equipment
- Information Technology
- Aerospace Vehicles and Defense
- Analytical Instruments
- Education and Knowledge Creation
- Medical Devices
- Bioscience Research Centers
- Biotech / Pharmaceuticals

Clusters and Economic Diversification

- Upgrade the sophistication of existing export products and services
- Attract multinationals to anchor new clusters
- Grow new industries within existing clusters
- Grow related clusters
What Determines Competitiveness?

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

- **Macroeconomic Competitiveness**
  - Macroeconomic Policies
  - Social Infrastructure and Political Institutions

- **Endowments**

The internal skills, capabilities, and management practices needed for companies to attain the highest level of productivity and innovation possible.
# Leading Companies with Cross-Regional Presence

<table>
<thead>
<tr>
<th>Company</th>
<th>Home Base</th>
<th>Other Regional Locations</th>
<th>Industry/Industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ansa McAl</td>
<td>Trinidad &amp; Tobago</td>
<td>7</td>
<td>Conglomerate (manufacturing, brewing, insurance, finance, real estate, media, shipping, trading/ distribution, automotive and industrial equipment retailing)</td>
</tr>
<tr>
<td>Banks Holdings</td>
<td>Barbados</td>
<td>3</td>
<td>Beverages</td>
</tr>
<tr>
<td>Caribbean Broilers</td>
<td>Jamaica</td>
<td>4</td>
<td>Poultry, feed milling, cattle rearing, beef production and fish farming with value-added processed food products</td>
</tr>
<tr>
<td>Cave Shepherd</td>
<td>Barbados</td>
<td>9</td>
<td>Retail (duty free), financial services, tourism (attractions, cruise terminal)</td>
</tr>
<tr>
<td>Goddard Enterprise</td>
<td>Barbados</td>
<td>8</td>
<td>Airline catering, industrial and restaurant catering, meat processing, bakery operations, automobile retail and automotive parts, real estate, the manufacture of aerosols and liquid detergents, investments, rum distilling, general trading, packaging, fish and shrimp processing, property rentals, general insurance, financing as well as shipping agents and stevedoring</td>
</tr>
<tr>
<td>Grace Kennedy and Co. Ltd.</td>
<td>Jamaica</td>
<td>7</td>
<td>Food processing/distribution, banking and finance, insurance and remittance services, building materials retailing</td>
</tr>
<tr>
<td>Harris Paints</td>
<td>Barbados</td>
<td>4</td>
<td>Paints, coatings, adhesives, sealants, roof sealers, caulks and solvents</td>
</tr>
<tr>
<td>GTM</td>
<td>Guyana</td>
<td>3</td>
<td>Insurance</td>
</tr>
<tr>
<td>Guardian Holdings</td>
<td>Trinidad &amp; Tobago</td>
<td>7</td>
<td>Life, health, property and casualty insurance; pensions and asset management</td>
</tr>
<tr>
<td>Neal and Massy</td>
<td>Trinidad &amp; Tobago</td>
<td>7</td>
<td>Auto and industrial equipment; energy and industrial gases; financial and real estate; food processing, distribution, and retailing; tourism and hospitality; IT, communications, and security</td>
</tr>
<tr>
<td>Republic Bank</td>
<td>Trinidad &amp; Tobago</td>
<td>4</td>
<td>Banking</td>
</tr>
<tr>
<td>S.M. Jaleel</td>
<td>Trinidad &amp; Tobago</td>
<td>5</td>
<td>Beverages</td>
</tr>
<tr>
<td>Sagicor</td>
<td>Barbados</td>
<td>11</td>
<td>Insurance, banking and investment management, farm capital</td>
</tr>
<tr>
<td>TCL</td>
<td>Trinidad &amp; Tobago</td>
<td>5</td>
<td>Cement and other ready-mix building materials</td>
</tr>
<tr>
<td>United Insurance</td>
<td>Barbados</td>
<td>10</td>
<td>Insurance</td>
</tr>
</tbody>
</table>

Source: CARICOM
Geographic Influences on Competitiveness

- Neighboring Countries
- Nation
- Regions and Cities
Competitiveness and the Neighborhood

• Opening trade and investment among neighbors
  – Expands the available market
  – A nation’s neighbors are its most natural trading and investment partners
  – The natural path of internationalization for local firms is the neighborhood
  – Open trade and investment make each country a more attractive location for investment

• Economic coordination to drive improvements in the business environment
  – Capture synergies in policy and infrastructure
  – Gain greater clout in international negotiations

• External agreements to help overcome domestic political and economic barriers to reform
## Competitiveness Upgrading Among Neighbors
### Capturing Synergies

<table>
<thead>
<tr>
<th>Business Environment</th>
<th>Macroeconomic Policy</th>
<th>Political Institutions and Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Factor Conditions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improving the efficiency and interconnectivity of transportation infrastructure</td>
<td>Coordinating macroeconomic policies</td>
<td>Sharing best practices in government operations</td>
</tr>
<tr>
<td>Enhancing regional communications</td>
<td>Coordinated financial market rules</td>
<td>Creating regional institutions</td>
</tr>
<tr>
<td>Creating an efficient energy network</td>
<td>Strong regional development bank</td>
<td>– e.g., disaster relief</td>
</tr>
<tr>
<td>Linking financial markets</td>
<td></td>
<td>– Dispute resolution mechanisms</td>
</tr>
<tr>
<td>Opening the movement of students for training or higher education</td>
<td></td>
<td>– Economic statistics</td>
</tr>
</tbody>
</table>

**Context for Strategy and Rivalry**
- Eliminating trade and investment barriers within the region
- Simplifying and harmonizing cross-border regulations, paperwork and visas
- Coordinating antitrust and competition policies

**Demand Conditions**
- Harmonizing environmental and energy standards
- Harmonizing product safety standards
- Establishing reciprocal consumer protection laws
- Opening government procurement within the region

**Related and Supporting Industries**
- Facilitating cross-border cluster upgrading
- Coordinating macroeconomic policies
- Coordinated financial market rules
- Strong regional development bank
- Sharing best practices in government operations
- Creating regional institutions
  - e.g., disaster relief
  - Dispute resolution mechanisms
  - Economic statistics
- Developing a regional approach with international organizations
The Context for Regional Collaboration in the Caribbean

• **Similarities** in natural conditions and historical legacies

• Significant **heterogeneity** in economic performance

• **Direct competition** within the region in, for example, tourism and finance

• An **overlapping system** of regional organizations and groupings

• Some **encouraging progress** has been made in regional collaboration in the last few years

• Overall, the Caribbean still **lacks effective mechanisms** for sustaining an integrated competitiveness agenda that will benefit participating countries
The Process of Economic Development
Shifting 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 is the result of both top-down and bottom-up processes in which many individuals, companies, and institutions take relevant decisions
The Need for an Economic Strategy

Policy Improvement

- Implementing **best practices** in each policy area
- There are a **huge number** of policy areas that matter
- No country can or should try to make **progress in all areas** simultaneously

Economic Strategy

- A prioritized agenda to create a **unique competitive position** for a country or region
Creating A National Economic Strategy

National Value Proposition

• The **distinctive competitive position** of the nation in its region and the world economy

Developing Unique Strengths

• **Unique strengths** relative to peers/neighbors
• Strong **existing** and **emerging** clusters to build upon

Addressing Crucial Constraints

• **Weaknesses** or **constraints** that must be addressed if the country is to move to the next level

• **Priorities** and **sequencing** are fundamental to successful economic development