The Competitive Advantage of Nations, States and Regions

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Prosperity Performance
OECD Countries

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

OECD Average: 3.68%
OECD Average: $30,592

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

Note: Luxembourg Excluded
Source: EIU (2011), authors calculations
Prosperity Performance
Lower and Middle Income Countries

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

Sample Average: 5.67%

Sample Average: $6,720

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

Source: EIU (2011), authors calculations

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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** it competes in those industries
  - Productivity in a national economy arises from a **combination of domestic and foreign firms**

- Only business can create **wealth**
- 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
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.
### 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
**Corruption Perception Index, 2009**

**Note:** Ranks only countries available in both years (161 countries total)

Source: Global Corruption Report, 2010

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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**
## 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

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The **external business environment conditions** that enable company productivity and innovation.
Quality of the National Business Environment

Context for Firm Strategy and Rivalry

Factor (Input) Conditions

- 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

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

- 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

- 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
What Determines Competitiveness?

Endowments

Macroeconomic Competitiveness
- Macroeconomic Policies
- Social Infrastructure and Political Institutions

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

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

Macroeconomic Policies

Social Infrastructure and Political Institutions

Endowments
State of Cluster Development
Tourism Cluster in Cairns, Australia

- Public Relations & Market Research Services
- Food Suppliers
- Property Services
- Maintenance Services

- Travel agents
- Tour operators
- Attractions and Activities e.g., theme parks, casinos, sports
- Restaurants
- Hotels
- 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

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 (HCDAA)
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

Post-Harvest Handling; Transport to Market

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)

Sources: MOC student team research by Kusi Homberger, Nick Ndiritu, Lalo Ponce-Brito, Melesse Tashu, Tijan Watt, Harvard Business School, 2007
Development of 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 collective 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

National Cluster Export Portfolio
Malaysia, 1999-2009

Change in Malaysia’s world export market share, 1999 – 2009


Change (99-09)
- Rising Exports
- Declining Exports

Malaysia’s average world export share: - 0.16%

Change In Malaysia’s average world export share: (6.24%)

Change in Malaysia’s world export market share, 1999 – 2009

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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.
Geographic Influences on Competitiveness

- Neighboring Countries
- Nation
- Regions and Cities
Prosperity Performance
U.S. States, 1999 to 2009

Gross Domestic Product per Capita Real Growth Rate, 1999 to 2009

Notes: Real GDP figures in 2005 chained US dollars from the Bureau of Economic Analysis. Growth rate is calculated as compound annual growth rate. D.C. excluded.
Regions and Competitiveness

- Economic performance **varies significantly** across sub-national regions (e.g., provinces, states, metropolitan areas)
- Many essential levers of competitiveness reside at the **regional level**
- Regions **specialize** in different sets of clusters
- **Cluster strength** directly impacts regional performance
Specialization of Regional Economies
Leading Clusters by U.S. Economic Area, 2008

- **Boston, MA-NH**: Analytical Instruments, Education and Knowledge Creation, Medical Devices, Financial Services
- **Chicago, IL-IN-WI**: Metal Manufacturing, Lighting and Electrical Equipment, Production Technology, Plastics
- **Denver, CO**: Business Services, Medical Devices, Entertainment, Oil and Gas Products and Services
- **Los Angeles, CA**: Entertainment, Apparel, Distribution Services, Hospitality and Tourism
- **San Diego, CA**: Medical Devices, Analytical Instruments, Hospitality and Tourism, Education and Knowledge Creation
- **San Jose-San Francisco, CA**: Business Services, Information Technology, Agricultural Products, Communications Equipment, Biopharmaceuticals
- **Seattle, WA**: Aerospace Vehicles and Defense, Information Technology, Entertainment, Fishing and Fishing Products
- **New York, NY-NJ-CT-PA**: Financial Services, Biopharmaceuticals, Jewelry and Precious Metals, Publishing and Printing
- **Raleigh-Durham, NC**: Education and Knowledge Creation, Biopharmaceuticals, Communications Equipment, Textiles
- **Atlanta, GA**: Transportation and Logistics, Textiles, Motor Driven Products, Construction Materials
- **Dallas**: Aerospace Vehicles and Defense, Oil and Gas Products and Services, Information Technology, Transportation and Logistics
- **Houston, TX**: Oil and Gas Products and Services, Chemical Products, Heavy Construction Services, Transportation and Logistics
- **Pittsburgh, PA**: Education and Knowledge Creation, Metal Manufacturing, Chemical Products, Power Generation and Transmission

Regions and Competitiveness

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

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

• Regions *specialize* in different sets of clusters

• *Cluster strength* directly impacts regional performance

• Each region needs its own distinctive *competitiveness strategy and action agenda*

• Improving competitiveness requires *effective policy collaboration* between regions and the national government

• **Decentralization** is important to foster regional specialization, internal competition, and greater government accountability

• Effective decentralization requires clarity on roles and responsibilities, and sufficient administrative *capacity at local and regional level*
Competitiveness and Integration with Neighboring Countries

Turkey’s Neighborhood

- Turkey sits at the crossroad between Europe and the Middle East
- Economic coordination among neighboring countries can significantly enhance competitiveness
- Integration offers greater opportunities than participation in broader economic forums (e.g., EU)
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 and Integration with Neighboring Countries
Central American Logistical Corridor

- Mexico
- Belize
- Guatemala
- Honduras
- El Salvador
- Nicaragua
- Costa Rica
- Panama

Legend:
- Roads
- Ports
- Airports
- Logistic Corridor
- Country Boundary
The Shifting Process of Economic Development

**Old Model**
- **Government** drives economic development through policy decisions

**New Model**
- Economic development is a **collaborative process** involving government at multiple levels, companies, teaching and research institutions, and private sector organizations
Creating a National Economic Strategy

National Value Proposition

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

Developing Unique Strengths

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

Achieving and Maintaining Parity with Peers

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

- **Priorities and sequencing** are necessity in economic development
Universities’ Role in Competitiveness

Business Environment Quality

- **Educate** future managers, researchers, and employees
- **Transfer of technology** and knowledge
- **Adapt** global knowledge to local circumstances
- Act as a **launching pad** for new companies and clusters
- Create **networks** of alumni and other partners to enable collaboration
- Collect and provide **data** on all aspects of the economy
- Create **new knowledge**
- Raise **visibility** and provide profile to the region and its economy

Competitiveness Efforts

- Generate specific data and **analysis on competitiveness**
- **Educate** public and private leaders about competitiveness
- Provide a **platform** for public-private action
- **Initiate and lead** competitiveness efforts

- Competition in the global economy is increasingly **knowledge-driven**, putting universities at the very heart of the competitiveness agenda
Universities and Cluster Development

- Universities should **identify** and **reach out** to local clusters

- Universities should focus on clusters where they have a material **impact** on cluster performance

- Universities should consider **specializing** in areas in which the local economy has an established position

- Universities should, alone or with others, get involved in upgrading the cluster-specific cluster environment
  - Conduct **joint R&D** programs with companies
  - Develop **training programs** with the cluster
  - Participate in the **attraction of companies and research centers** important for the development of the cluster