Building a Competitive Argentina:
Towards a National Agenda

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Competitive Advantage Seminar
Hilton Hotel
Buenos Aires, Argentina
November 7, 2001

Building a Competitive Argentina: Towards a National Agenda


Part II: Building a Competitive Argentina: Challenges and Opportunities
Sources of Rising Prosperity

A nation’s competitiveness and standard of living (wealth) is determined by the **productivity** with which it uses its human, capital, and natural resources. The appropriate definition of competitiveness is productivity.

- Productivity depends both on the **value** of products and services (e.g. uniqueness, quality) as well as the **efficiency** with which they are produced.
- It is not **what** industries a nation competes in that matters for prosperity, but **how** firms compete in those industries.
- Productivity in a nation is a reflection of what both domestic and foreign firms **choose to do in that location**. The location of ownership is secondary for national prosperity.
- The productivity of “**local**” industries is of fundamental importance to competitiveness, not just that of traded industries.
- Devaluation does not make a country more “competitive” but reveals a **lack of fundamental competitiveness**.

- Nations compete in offering the **most productive environment** for business
- The public and private sectors play **different but interrelated roles** in creating a productive economy.
Determinants of Productivity and Productivity Growth

Macroeconomic, Political, and Legal Context

Microeconomic Foundations of Competitiveness

- Sophistication of Company Operations and Strategy
- Quality of the Microeconomic Business Environment

• Sound macroeconomic policies and a stable political/legal context are **necessary** to ensure a prosperous economy, **but not sufficient**
• Competitiveness ultimately depends on improving the **microeconomic foundations** of competition
Global Competitiveness Report 2001
The Relationship Between Microeconomic Competitiveness and GDP Per Capita

Source: Global Competitiveness Report 2001
Productivity and the Microeconomic Business Environment

Context for Firm Strategy and Rivalry

- A local context that encourages investment and sustained upgrading
- Open and vigorous competition among locally based rivals

Factor (Input) Conditions

- High quality, specialized inputs available to firms:
  - human resources
  - capital resources
  - physical infrastructure
  - administrative infrastructure
  - information infrastructure
  - scientific and technological infrastructure
  - natural resources

Demand Conditions

- Sophisticated and demanding local customer(s)
- Unusual local demand in specialized segments that can be served globally
- Customer needs that anticipate those elsewhere

Related and Supporting Industries

- Presence of capable, locally-based suppliers and firms in related fields
- Presence of clusters instead of isolated industries
The California Wine Cluster

Sources: California Wine Institute, Internet search, California State Legislature. Based on research by MBA 1997 students R. Alexander, R. Arney, N. Black, E. Frost, and A. Shivananda.
The Costa Rica Information Technology Cluster

State Government Agencies
(e.g., export and investments promotion agencies: Cinde and Procomer)

Electronic Assembly

Semiconductors

Passive electronic components
(e.g., inductors, transistors)

Other electronic components
(e.g., circuitboards)

Specialized academic and training institutions
(e.g., Instituto Tecnológico de Costa Rica, Instituto Nacional de Aprendizaje)

Specialized Packaging
(e.g., plastics, corrugated materials)

Specialized chemicals

Computer Software
(e.g., ArtinSoft)

Venture capital firms

Source: Niels Ketelhohn research for Professor Michael E. Porter
Geographic Levels and Competitiveness

- **Broad Economic Areas**
  - e.g., Latin America

- **Groups of Neighboring Nations**
  - e.g., Mercosur

- **Nations**
  - e.g., Argentina

- **States, Provinces,**
  - e.g., Salta, Santa Cruz

- **Cities, Metropolitan Areas**
  - e.g., Villa María, Buenos Aires
Appropriate Roles of Government in Economic Development

1. Establish a **stable and predictable** macroeconomic and political environment

2. Improve the availability, quality, and efficiency of **general purpose inputs, infrastructure and institutions**

3. Establish overall **rules and incentives** governing competition that encourage productivity growth

4. Facilitate **cluster development and upgrading**

5. Convene and actively support a long-term **process for economic upgrading** which informs and mobilizes government at all levels, the private sector, educational and other institutions, and civil society.
Environmental Regulation and Competitiveness

- Competing based on weak environmental standards perpetuates low incomes
- Corporate pollution is a sign of inefficiency: resources have been used unproductively
  - Wasteful land use
  - Inefficient extraction of resources
  - Incomplete material utilization
  - Unnecessary waste
  - Unnecessary energy use

- The need to control or treat pollution causes companies to perform activities that add cost but create no customer value
  - e.g., handling, storage, processing, disposal
- Pollution is a reflection of unsophisticated technology and weak management

- Strict environmental regulation stimulates the upgrading necessary to achieve advanced economic development
Public / Private Cooperation in Cluster Upgrading
Minnesota’s Medical Device Cluster

Context for Firm Strategy and Rivalry

- Aggressive trade associations (Medical Alley Association, High Tech Council)
- Effective global marketing of the cluster and of Minnesota as the “The Great State of Health”
- Full-time “Health Care Industry Specialist” in the department of Trade and Economic Development

Factor (Input) Conditions

- Joint development of vocational-technical college curricula with the medical device industry
- Minnesota Project Outreach exposes businesses to resources available at university and state government agencies
- Active medical technology licensing through University of Minnesota
- State-formed Greater Minnesota Corp. to finance applied research, invest in new products, and assist in technology transfer

Demand Conditions

- State sanctioned reimbursement policies to enable easier adoption and reimbursement for innovative products

Related and Supporting Industries
Role of Government
Government Policy Towards Clusters

• A successful cluster policy builds on **sound overall economic policies**

• Government should support the upgrading of **all** clusters, not choose among them
  – Productivity depends on **how** firms compete not **what** industries they compete in
  – One cluster often affects the productivity of **other** clusters

• Government should reinforce **established** and **emerging clusters** rather than attempt to create **entirely new** ones
  – Build on strengths / apply a market test
  – New industries emerge from established ones

• Cluster upgrading involves **removing obstacles**, **relaxing constraints**, and **eliminating inefficiencies** that impede productivity and innovation
The Costa Rica Information Technology Cluster

Context for Firm Strategy and Rivalry

- Open trade and FDI policies that encourage **intense local competition**
- Export Processing Law that supports the IT Cluster through easing the establishment of new operations

Demand Conditions

- **Universal computer training** and internet access in schools
- Broad and growing base of local information technology users

Factor (Input) Conditions

- Proximate location to US market
- Well educated labor force
- Widespread knowledge of English
- High computer literacy
- Ready supply of engineers and technicians
- Flexible immigration policies for executives and technical staff
- Open skies airline policy
- Modern communications system
- Strong local universities
- Network of science and technology research centers

Related and Supporting Industries

- Numerous **multinationals** and **local firms** with electronics production in Costa Rica
- Development of **local suppliers**
- Explicit **cluster development program**

Indicates government influence
Integrating Economic and Social Policy

• In the new thinking on competitiveness, there is **no inherent conflict** between economic and social policy

• A **productive and growing economy** requires:
  – Rising skill levels
  – Safe working conditions
  – Healthy workers who live in decent housing in safe neighborhoods
  – A sense of equal opportunity
  – Assimilation of underemployed citizens into the productive workforce
  – Low levels of pollution (pollution is a sign of unproductive use of physical resources)

• “Social” policies must be **aligned with productivity** in the economy and prepare and motivate citizens to **succeed in the market system**
Integrating Economic and Social Policy

Examples

Training

• Organize training investments around clusters

Housing

• Create mechanisms to encourage home ownership; provide incentives for new company formation in the construction cluster; reduce unnecessary costs of housing construction due to regulatory and approval delays; secure property rights to residents

Health Care

• Create incentives for private insurance; open health care delivery to competition

Environmental Quality

• Institute a regulatory regime that encourages movement to more environmental friendly methods; invest in technical assistance in eco-efficient processes and practices

Social Security

• Establish a private pension system. Integrate welfare payments with training and incentives to return to the workforce
Causes of Economic Inequality

• Inadequate education and skill development
• Monopolies and restraints to competition
• Discrimination
• Faulty incentives for disadvantaged groups
• Command and control regulation
• Managerial ignorance
Building a Competitive Argentina:
Towards a National Agenda


Part II: Building a Competitive Argentina: Challenges and Opportunities
Argentine Trade, 1992 - 1997
Percent of Total Country Exports By Natural Resource Intensity

U.S.-Registered Patent Intensity and Patent Growth
International Comparison, Latin America and
Selected Middle-Income Countries

Source: US Patent and Trademark Office (www.uspto.gov); Author’s analysis
Global Competitiveness Report 2001
The Relationship Between Microeconomic Competitiveness and GDP Per Capita
Macroeconomic, Political, and Legal Context
Argentinas’s Progress and Challenges

Macroeconomic Progress

– Instituted far-reaching **structural reforms** and a radical exchange-rate **stabilization plan** during the 1990s
  • Adoption of a **currency board**. Since 1996 inflation has been lower than 1 percent per year
  • 3.47 percent real annual **growth in GDP** per-capita between 1990 and 1999
  • **Financial and trade liberalization**, with regional integration through Mercosur
  • **Deregulation** of most commercial activities
  • **Privatization** of significant portions of the economy
Macroeconomic, Political, and Legal Context
Argentinas’s Progress and Challenges

Macroeconomic Challenges

- **Inefficient public sector** administration
- Worsening **fiscal position** since the mid-1990s led to July 2001 crisis and implementation of zero deficit policy
  - government spending (federal/provincial/municipal) increased from $41 billion to $91 billion between 1991 and 2001
  - significant tax evasion, extensive use of tax amnesties
- Privatization and trade liberalization led to a rise in **unemployment** from 6.9 percent in 1991 to 16.4 percent in 2000, as microeconomic weaknesses became apparent
- Fixed exchange rate vis-à-vis the appreciating U.S. Dollar caused **revaluation of the Argentine peso** versus the Euro and the Yen during the 1990s
- **Lack of policy maneuver** possible given the currency board makes economic activity heavily dependent on capital inflows from abroad
- **Unstable growth** pattern during the 1990s, economy in **recession** since late 1998
Political and Legal Challenges

• Deteriorating economic situation has deepened *divisions within the ruling Alianza* coalition
• Recent congressional elections results confirm *voters’ dissatisfaction with politicians* who have failed to deliver on their promises
• Financial crises cause protest in the *provinces*
• *Income distribution* has worsened during the last decade
• Lack of political will to confront problems of *corruption*
• The *judiciary’s independence and credibility* is undermined by the power of the executive

• The focus of government continues to be on short-term *macroeconomic stability* instead of long-term improvements in the microeconomic business environment
Process of Economic Reform
The Reinforcement of Macro and Micro Reforms

Stability and confidence support investment and upgrading

Create opportunity for productivity

Required to achieve productivity

Macroeconomic reform

Microeconomic reform

Productivity growth allows economic growth without inflation, making macroeconomic stability easier to achieve
The Process of Economic Reform

**Macroeconomic Reform**

- Stabilizing public sector finances, inflation and the exchange rate
- Privatizing government-owned companies and abolishing monopolies
- Opening the economy to international competition and investment
- Reducing discretionary government intervention in the economy

**Microeconomic Reform**

- Upgrading the microeconomic business and innovation environment
- Developing clusters

- Decisions are centrally controlled and administratively easy to implement
- Reforms inflict short-term costs on citizens, and are vulnerable to external shocks

- Decisions involve multiple actors and the breadth of action steps makes implementation complex
- Reforms often yield immediate, visible benefits for citizens, and are less dependent on external conditions
Process of Economic Reform
Why Macroeconomic Reform by Itself is not Enough

- The effect of macroeconomic reforms is often enhanced by parallel implementation of microeconomic reforms:
  - improvements in education and training boost job creation derived from increased investment
  - cluster development helps attract foreign investment following the opening of the economy

- The fragility of macroeconomic reform often results from microeconomic weakness, for example:
  - the failure to create competitive new jobs creates unemployment costs that destabilize public sector finances
  - the inability to improve companies’ productivity levels reduces export revenues resulting in trade imbalances that undermine trust in the exchange rate stability

- Micro and macro reform are mutually reinforcing
## Factor (Input) Conditions
### Argentina's Relative Position

**Competitive Advantages Relative to GDP per Capita**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Relative to GDP per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical Infrastructure</td>
<td></td>
</tr>
<tr>
<td>Telephone/Fax Infrastructure</td>
<td>19</td>
</tr>
<tr>
<td>Quality</td>
<td></td>
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<tr>
<td>Road Infrastructure Quality</td>
<td>22</td>
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**Competitive Disadvantages Relative to GDP per Capita**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Absolute Country Ranking (n = 75)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative Infrastructure</td>
<td></td>
</tr>
<tr>
<td>Judicial Independence</td>
<td>65</td>
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<tr>
<td>Police Protection of Businesses</td>
<td>57</td>
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<tr>
<td>Adequacy of Public Sector Legal Recourse</td>
<td>56</td>
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<tr>
<td>Admin. Burden for Start-Ups</td>
<td>56</td>
</tr>
<tr>
<td>Physical Infrastructure</td>
<td></td>
</tr>
<tr>
<td>Air Transport Infrastructure</td>
<td>49</td>
</tr>
<tr>
<td>Quality</td>
<td></td>
</tr>
<tr>
<td>Overall Infrastructure Quality</td>
<td>45</td>
</tr>
<tr>
<td>Railroad Infrastructure Quality</td>
<td>42</td>
</tr>
<tr>
<td>Speed and Cost of Internet Access</td>
<td>39</td>
</tr>
<tr>
<td>Port Infrastructure Quality</td>
<td>39</td>
</tr>
<tr>
<td>Availability &amp; Cost of Cell Phones</td>
<td>35</td>
</tr>
</tbody>
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## Factor (Input) Conditions
### Argentina's Relative Position

### Competitive Advantages Relative to GDP per Capita

### Competitive Disadvantages Relative to GDP per Capita

<table>
<thead>
<tr>
<th>Human Resources</th>
<th>Absolute Country Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of Public Schools</td>
<td>55</td>
</tr>
<tr>
<td>Quality of Math and Science Education</td>
<td>54</td>
</tr>
<tr>
<td>Availability of Scientists and Engineers</td>
<td>45</td>
</tr>
<tr>
<td>Quality of Management Schools</td>
<td>41</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital Markets</th>
<th>Absolute Country Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venture Capital Availability</td>
<td>66</td>
</tr>
<tr>
<td>Local Equity Market Access</td>
<td>66</td>
</tr>
<tr>
<td>Ease of Access to Loans</td>
<td>56</td>
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## Factor (Input) Conditions

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<td>Absolute Country Ranking (n = 75)</td>
</tr>
<tr>
<td>Innovation</td>
<td></td>
</tr>
<tr>
<td>Quality of Scientific Research Institutions</td>
<td>68</td>
</tr>
<tr>
<td>University/Industry Research Collaboration</td>
<td>59</td>
</tr>
<tr>
<td>Patents Per Capita (2000)</td>
<td>34</td>
</tr>
</tbody>
</table>

Argentine Diagnosis

• Argentina is rich in natural resources (e.g., agricultural, fishing, forest, and mineral resources; natural gas reserves)

Progress
• Privatization, deregulation, and decentralization improved transport and communications
• The system of banking regulation and supervision has improved significantly
• A more demanding labor market has resulted in an expansion of postgraduate educational offerings, though of uneven quality

Source: Country Profile 2000 (Economist Intelligence Unit)
Argentine Diagnosis (continued)

Challenges

- **Privatization** took place without creating effective competition
- Infrastructure modernization left behind many provinces, where infrastructure has continued to deteriorate
- The quality of **public education** has worsened
- The national **public university system** faces financial constraints and has scaled down its research activities
- There are no government-sponsored **re-training programs**
- **Long-term capital** is scarce and expensive except for the largest domestic and foreign firms
- Local **interest rates for SMEs are high**, even controlling for country risk
- **Venture capital** is limited

Source: Country Profile 2000 (Economist Intelligence Unit)
Context for Firm Strategy and Rivalry
Argentina’s Relative Position

Competitive Advantages
Relative to GDP per Capita

Competitive Disadvantages
Relative to GDP per Capita

Context for Firm Strategy and Rivalry

Argentina’s Relative Position

Competitive Advantages
Relative to GDP per Capita

Competitive Disadvantages
Relative to GDP per Capita

Incentives
- Extent of Irregular Payments: 60
- Favoritism in Decisions of Government Officials: 58
- Intellectual Property Protection: 52
- Cooperation in Labor-Employer Relations: 52
- Extent of Distortive Government Subsidies: 37

Absolute Country Ranking (n = 75)

Argentine Diagnosis

Progress

• Opening to trade has forced firms to rationalize and increase productivity
• Inward FDI has driven the modernization of a number of industries (e.g., foods and beverages, chemicals)
• Modern management techniques have been introduced in a number of industries, often as a result of foreign competitors
• Internationalization by Argentine firms has increased in some industries (e.g., automobile, agro-industries)
• Outward foreign investment by home-based firms has increased rapidly from a low base (e.g., steel, construction, and food-processing industries)

Challenges

• Industry concentration has increased and local rivalry is absent in many industries
• Government-induced barriers to entry and new business formation deter domestic and foreign investors
• Intellectual property legislation is outdated and not properly enforced

Source: Country Profile 2000 (Economist Intelligence Unit)
Demand Conditions
Argentina’s Relative Position

Competitive Advantages
Relative to GDP per Capita

Competitive Disadvantages
Relative to GDP per Capita

Argentine Diagnosis

**Progress**
- Product regulatory **standards** have become more stringent
- The demand for **quality** products has increased
- The **upper income segment** of the population represents a demanding market but its size is small and shrinking

**Challenges**
- A worsening **distribution of income** limits the quality of the domestic market
- Consumers often prefer **imported** over domestic products given a historical legacy of poor quality
- **Enforcement** of product and regulatory standards needs improvement
## Environmental Regulatory Quality
### Middle Income Countries

**Table: Environmental Regulatory Regime Index Relative to Expected Results Given GDP per capita**

<table>
<thead>
<tr>
<th>Rank</th>
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<tbody>
<tr>
<td>1</td>
<td>Singapore</td>
<td>14</td>
<td>Mauritius</td>
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<tr>
<td>2</td>
<td>Estonia</td>
<td>15</td>
<td>Czech Republic</td>
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<tr>
<td>3</td>
<td>New Zealand</td>
<td>16</td>
<td>Slovak Republic</td>
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<tr>
<td>4</td>
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<td>South Africa</td>
<td>24</td>
<td>Argentina</td>
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<td>12</td>
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<td>25</td>
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### Competitive Advantages Relative to GDP per Capita

- Extent of Product and Process Collaboration
- Local Supplier Quality
- Local Availability of Process Machinery
- Local Availability of Specialized Research and Training Services
- State of Cluster Development
- Local Supplier Quantity
- Local Availability of Components and Parts
- Local Availability of Information

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<td>Local Availability of Information</td>
<td>38</td>
</tr>
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</table>

Argentine Diagnosis

Progress

• The **quantity** of suppliers has increased in some fields as a result of the inflow of foreign direct investment
• The **quality** of domestic suppliers has improved due to the higher standards of companies who now have the choice to import
• The phasing out of regional industrial promotion programs has caused companies to make **location decisions** based on market circumstances

Challenges

• The **quality** of domestic suppliers remains low by international standards
• **Small- and medium-sized suppliers** are facing financial and competitive challenges
• There are few, if any, **real clusters**
• There is still limited awareness of the **benefits of clusters** and **no formal cluster development initiatives**
Cluster Upgrading
The Cuyo Wine Cluster

Context for Firm Strategy and Rivalry

+ Some new entrants in high-quality segments
+ Investment in winery and agricultural technology
  – Traditionally, little rivalry among quality producers
  – Most companies still run as family businesses

Demand Conditions

+ Argentine consumers are receptive to new products
  – Local customers adapt to foreign tastes and preferences

Factor (Input) Conditions

+ Good quality grapes available locally
+ Local suppliers of labels and other materials
+ Local specialized enology department
  – Reliance on imported technology (e.g., irrigation systems and pneumatic presses)
  – Limited venture capital
  – No research conducted locally

Related and Supporting Industries

+ Locally-based suppliers are relatively sophisticated (e.g., bottles)
+ National Institute of Viticulture promotes and develops the cluster
  – Machinery suppliers not locally available

+ Argentine consumers are receptive to new products
  – Local customers adapt to foreign tastes and preferences
Geographic Levels and Competitiveness

- **Broad Economic Areas**
  - e.g., Latin America

- **Groups of Neighboring Nations**
  - e.g., Mercosur

- **Nations**
  - e.g., Argentina

- **States, Provinces,**
  - e.g., Salta, Santa Cruz

- **Cities, Metropolitan Areas**
  - e.g., Villa María, Buenos Aires
Regional Strategy and Competitiveness

Traditional View
• Regions as **free trade zones**

New View
• A regional strategy can be a powerful tool to enhance **competitiveness** in each of the countries
  - Gains from internal trade and investment
  
  and

  - Policy coordination to create **mutual benefits to productivity** in all countries through specialization and capturing externalities and spillover effects across borders
  - A powerful lever for speeding up the **process** of economic upgrading at the **national** level
  - A lever for promoting interest and investment in the region by the **international community**
Regional Strategy in Argentina
Mercosur

• Argentina **intellectually understands** the need for a regional strategy embodied in Mercosur
• However, it has often **negotiated exceptions** arguing special circumstances in particular fields (e.g., automotive regime, sugar)
• The **Brazilian devaluation** in early 1999 did not help

• There are costs involved in pursuing a regional strategy but the **benefits outweigh the costs**
The Mutual Dependence of Nations and Regions

• Argentina’s economic growth and prosperity can be greatly enhanced by a healthy regional economy
  – Large, accessible markets for exports and foreign investment
  – Argentina becomes a far more attractive as a place to invest
  – Argentina can focus on its unique strengths

• Argentina will inevitably suffer if it is isolated or an island amid countries that are not prospering

• Argentina’s productivity can be greatly enhanced by regional coordination versus unilateral action
Regional Economic Coordination
Illustrative Policy Levers

Factor (Input) Conditions
- Improve regional transportation infrastructure
- Create an efficient energy network
- Upgrade/link regional communications
- Upgrade/link financial markets
- Upgrade higher education through facilitating specialization and student exchanges
- Expand cross-border information access and sharing
- Coordinate activities to ensure personal safety

Context for Strategy and Rivalry
- Coordinate macroeconomic policies
- Eliminate trade and investment barriers within the region
- Simplify cross-border regulations and paperwork
- Guarantee minimum basic investor protections
- Agree on foreign investment promotion guidelines to limit forms of investment promotion that do not enhance productivity
- Develop a regional marketing strategy
- Preserve and increase internal competition in the region

Demand Conditions
- Set minimum environmental standards
- Set minimum safety standards
- Establish reciprocal consumer protection

Related and Supporting Industries
- Establish ongoing upgrading process in clusters that cross national borders, e.g.
  - Tourism
  - Agribusiness
  - Textiles and Apparel
  - Electronic assembly and software

Regional Governance
- Share best practices in government operations
- Improve regional institutions
  - an overall strategy for the regional development bank
  - dispute resolution
- Develop a regional communication strategy

Regional Economic Coordination

Illustrative Policy Levers
The Process of Microeconomic Reform

<table>
<thead>
<tr>
<th>Actors</th>
<th>Elements</th>
<th>Character</th>
</tr>
</thead>
</table>
| • Governments  
  - National  
  - Local  
• Public institutions  
  - e.g. universities  
• Private institutions  
  - e.g., trade associations  
• Companies | • Improving the diamond  
• Upgrading clusters | • Long term perspective required  
  – conflicts with political cycle  
• Many changes need to take place simultaneously  
  – Individual changes are reinforcing, i.e. individual measures gain impact through being part of a concerted effort |

Governments tend to focus on quick fixes, e.g., trade liberalization
Organizing for Competitiveness
Commonwealth of Massachusetts

Governor’s Council on Economic Growth and Technology

Functional Task Forces
- International Trade
- Marketing Massachusetts
- Tax Policy and Capital Formation
- Technology Policy and Defense Conversion

Issue Groups
- Cost of Doing Business
- Financing of Emerging Companies
- Health Care Restructuring
- Revitalizing Western Massachusetts

Industry Cluster Working Groups
- Advanced Materials
- Biotechnology and Pharmaceuticals
- Defense
- Marine Science and Technology
- Medical Devices
- Software
- Telecommunications
- Textiles
An Agenda for Argentina

Macroeconomic Reform

• Improve the efficiency of the public sector:
  – limit bureaucracy
  – rationalize government spending (e.g., provinces more financially independent)
  – spread tax burden fairly
• Increase labor market flexibility
• Address corruption and the effectiveness of the legal system

Microeconomic Reform

• Promote access to good quality, basic education to fight against poverty and the unequal distribution of income
• Foster entrepreneurship:
  – reduce the administrative burden of starting new ventures
  – increase capital availability for SMEs
• Open market structures after privatization
• Anti-trust legislation
• Intellectual property rights
• Environmental regulations

Change Process

• Develop a National Competitiveness Initiative
• Initiate pilot cluster development programs (e.g., leather and software)
Selected References


Selected References (continued)


BACKUP SLIDES
## Government Policies and Economic Development

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<td>- Policies (including taxation) that influence patterns of consumption</td>
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<td>- Education and training</td>
<td>- Policies affecting investment (e.g. tax, investment incentives, financial markets)</td>
<td>- Policy towards trade and FDI</td>
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<tr>
<td>- Infrastructure development, regulation, and pricing</td>
<td>- Policy toward trade and FDI</td>
<td>- Product quality, health, safety, and environmental regulations</td>
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<td>- Science and technology policy</td>
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</table>
Illustrative Government Policies for Cluster Development

**Context for Firm Strategy and Rivalry**
- Eliminate barriers to local competition
- Focus efforts to attract foreign investment around clusters
- Focus export promotion around clusters
- Organize relevant government departments around clusters

**Factor (Input) Conditions**
- Create specialized education and training programs
- Establish local university research efforts in cluster-related technologies
- Support cluster-specific information gathering and compilation
- Improve specialized transportation, communications, and other infrastructure required by cluster

**Demand Conditions**
- Create streamlined, pro-innovation regulatory standards affecting the cluster to
  - reduce regulatory uncertainty
  - stimulate early adoption
  - encourage innovation or new products and processes
- Sponsor independent testing, product certification, and rating services for cluster products/services
- Act as sophisticated buyer of the cluster’s products/services

**Related and Supporting Industries**
- Sponsor forums to bring together cluster participants
- Cluster-specific efforts to attract suppliers and service providers from other locations
- Establish cluster-oriented free trade zones, industrial parks, or supplier parks
Argentine GDP Per Capita Growth, 1986 - 2005e

- Hyperinflation
- Menem elected President
- 1990-91 Convertibility Plan and Mercosur launched
- 1994-95 Mexican Financial Crisis
- 1998-99 Asian Crisis, Russian Debt Default, President De La Rua Inaugurated

Source: EIU Data, Author’s analysis.
Argentine Innovation

U.S. Patents Per One Million People, 1986 - 1999

Source: US Patent and Trademark Office, Author’s analysis.
Argentine Innovation

U.S. Patents Per One Million People, 1986 - 1999

Argentine Innovation

Growth in U.S. Patents Per One Million People, 1986 - 1999

Source: US Patent and Trademark Office, Author’s analysis.
Argentine Trade By Trading Partner, 1999

South American Trade

Rest of the World

1999 Total Exports = $22.8 Bil.
1999 Total Imports = $25.5 Bil.

Source: IMF Direction of Trade Statistics. Author’s analysis.
Argentine Trade, 1992 - 1997
Percent of Total Country Exports By Broad Cluster

Argentine Trade, 1985 - 2005e

- 1982 Falkland Island War
- 1983 Democracy restored after years of military rule
- 1986 Bilateral economic cooperation agreement with Brazil
- 1989 Carlos Menem elected President
- 1989-90 Hyperinflation
- 1990-91 Convertibility Plan and Mercosur launched
- 1994 Carlos Menem re-elected
- 1994-95 Mexican Financial Crisis
- 1998-99 Asian Crisis, Russian Debt Default, President De La Rua Inaugurated

Source: EIU Data, Author’s analysis.
Argentine Output

By Sector

Agriculture

Industry

Manufacturing

Services

Source: World Development Indicators, 2001 (World Bank)
The Benefits of Entrepreneurship

• Entrepreneurship plays a key role in facilitating an economy’s capacity to innovate and adjust

• Entrepreneurship is fundamental to net job creation as larger firms downsize and outsource

• In many fields, clusters of small- and medium-sized companies are replacing large, vertically integrated companies

• Entrepreneurship is fundamental to economic growth and rising prosperity
Clusters and Entrepreneurship

• New businesses often form **within existing clusters** rather than at isolated locations:
  – **lower barriers to entry** than elsewhere (e.g., assets, skills, inputs, and staff, specialized financial institutions and investors)
  – inducement to entry through **better information about opportunities** (e.g., gaps in products, services, or suppliers)
  – **lower risk** (e.g., resale markets for assets, reduced need for specialized investment)

• Healthy entrepreneurship is **essential** to cluster formation and development

• The greatest entrepreneurial opportunities often **occur within clusters**
Political and Legal Challenges

• Deteriorating economic situation has deepened divisions within the ruling Alianza coalition

• Recent congressional elections results confirm voters’ dissatisfaction with politicians who have failed to deliver on their promises

• Financial crises cause protest in the provinces

• Income distribution has worsened during the last decade

• Lack of political will to confront problems of corruption

• The judiciary’s independence and credibility is undermined by the executive’s powerful influence

• The focus of government continues to be on short-term macroeconomic stability instead of long-term improvements in the microeconomic business environment