Competitiveness: A New Economic Strategy for Peru

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Prosperity Performance
Selected Lower and Middle Income Countries

Growth of Real GDP per Capita (PPP-adjusted), CAGR, 2004 to 2008

Source: EIU (2009), authors calculations
Peru’s Prosperity Performance

GDP per Capita (in 1990 PPP US$)

CAGR: +2.07%

CAGR: -0.65%

CAGR: +5.19%

Note: PPP using Geary Khamis calculation methodology.
Source: Groningen Growth and Development Centre, Total Economy Database (June 2009)
Unemployment Performance
Selected Countries

Unemployment Rate, 2008

Change of Unemployment Rate in Percentage Points, 2004 to 2008

Source: EIU (2009)
Poverty Rates
Peru, 2001 to 2007

% of Population Under the Poverty Line

Source: Informacion Socio Demografica, from El Instituto Nacional de Estadistica e Informatica (INEI), 2009
Export Performance
Selected Countries

Exports of Goods and Services (% of GDP), 2008

Source: EIU (2008), authors’ analysis
Peru’s Exports By Type of Industry

World Export Market Share (current USD)

- Processed Goods
- Semi-processed Goods
- Unprocessed Goods
- Services
- TOTAL

Source: UNComTrade, WTO (2009)
Inbound Foreign Investment Performance
Stocks and Flows, Selected Countries

Inward FDI Stocks as % of GDP, Average 2003 - 2007

Innovative Capacity
Innovation Output of Selected Countries

Average U.S. patents per 1 million population, 2004-2008

Source: USPTO (2009), EIU (2009)
The Peruvian Economy in 2009

- Peru has had a long history of **instability**
- Since 2001, Peru has experienced **high rates of economic growth**
  - Recent surge in FDI and exports has been driven by commodities
- Implementation of **sound macroeconomic policies** has allowed Peru to weather the current global crisis
  - Peru’s economy has been one of the **most resilient** in Latin America

**BUT**

- Prosperity remains low and large segments of the population lack **access to basic needs**
- High **unemployment** and **inequality** persist
- Peru is overly dependent on **commodity** exports with limited potential to drive job growth and economic diversification

- Returning to 8 to 9% growth is possible only if Peru can substantially **improve competitiveness**
- Peru will need an **ambitious economic** and **social strategy**, building on the country’s unique competitive advantages
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)
  - 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

- 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
Comparative Labor Productivity
Selected Countries

Growth of real GDP per employee (PPP-adjusted), 1990 to 2008

Source: authors calculation Groningen Growth and Development Centre (2009), EIU (2009)
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.
Determinants of Competitiveness

- Fiscal policy: public spending aligned with revenues over time
- Monetary policy: low levels of inflation
- Macroeconomic management: avoiding structural imbalances and cyclical overheating
Determinants of Competitiveness

- **Social Infrastructure and Political Institutions**
  - **Human Development**: basic education and health care
  - **Rule of Law**: property rights and due process
  - **Political Institutions**: stable and effective political and governmental processes and organizations

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

### Microeconomic Competitiveness
- Social Infrastructure and Political Institutions
- Macroeconomic Policies

### Natural Endowments
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

Natural Endowments

- The internal company skills, capabilities, and management practices needed to attain the highest level of productivity and innovation possible
Determinants of Competitiveness

- The **external business environment conditions** that allow companies to reach high levels of productivity and innovation
Determinants of Competitiveness

• A critical mass of firms in particular fields, together with specialized skills, infrastructure, and supporting institutions, to support high productivity through efficiencies and synergies
• There is a strong connection between **economic** and **social** development
• Improving competitiveness and decreasing poverty requires improving the economic and social context **simultaneously**
Peru’s Competitiveness Profile, 2009
ISC Country Competitiveness Model

Macroeconomic Competitiveness (82)
- Social Infrastructure and Pol. Institutions (90)
- Macroeconomic Policy (69)

Microeconomic Competitiveness (73)
- Business Environment Quality (74)
- Company Sophistication (70)

Peru’s GDP per capita rank is 71st versus 133 countries

Note: Rank versus 133 countries; overall, Peru ranks 71st in 2008 PPP adjusted GDP per capita and 75th in 2009 Global Competitiveness
Source: Country Competitiveness Model (CCM), Institute for Strategy and Competitiveness, Harvard University (2009)
Peru’s Macroeconomic Competitiveness

Macroeconomic Policy

- Conservative fiscal policy
Government Budget Balances
Selected Countries

Budget Balance (% of GDP)


Ranked by Surplus, 2008

Chile
Peru
Argentina
Colombia
Mexico
Brazil

Source: EIU, 2009
Peru’s Macroeconomic Competitiveness

Macroeconomic Policy

• **Conservative** fiscal policy

• Sound **macroeconomic management**

• **Stabilization fund**

However

• Peru’s macroeconomic position remains **overly dependent** on commodities and commodity prices
Peru’s Macroeconomic Competitiveness

Macroeconomic Policy

• Conservative fiscal policy
• Sound macroeconomic management
• Stabilization fund

Social Infrastructure and Political Institutions

• Continued problems with corruption

However

• Peru’s macroeconomic position remains overly dependent on commodities and commodity prices
Corruption Perception Index, 2007

Note: Ranks only countries available in both years (91 countries total).
Source: Global Corruption Report, 2008
Peru’s Macroeconomic Competitiveness

Macroeconomic Policy

- Conservative fiscal policy
- Sound macroeconomic management
- Stabilization fund

However

- Peru’s macroeconomic position remains overly dependent on commodities and commodity prices

Social Infrastructure and Political Institutions

- Continued problems with corruption
- Sharp inequality between indigenous groups and other citizens
- Weak education system
- Inadequate health care system, despite some improvements
- Weak legal system and effectiveness of property rights
- Unstable political processes and institutions
- Government institutions are inefficient and held in low esteem by the public
Peru’s Macroeconomic Competitiveness

Action Priorities

**Macroeconomic Policy**

- Maintain *macroeconomic stability*
- Broaden the *tax base* and improve *collections*

**Social Infrastructure and Political Institutions**

- Modernize *political* and *governmental* institutions to improve policy formulation and execution
- Tackle *corruption* at every level of government
- Improve the effectiveness of the *legal system*
- Improve *property rights*
- Improve *human development*
  - Rapid improvements in *education, health, and nutrition* are needed
- Create *equal opportunity* for all groups
Microeconomic Competitiveness: Quality of the Business Environment

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

Factor (Input) Conditions
- Efficient access to high quality business inputs
  - Human resources
  - Capital availability
  - Physical infrastructure
  - Administrative infrastructure (e.g., registration, permitting, transparency)
  - Scientific and technological infrastructure
  - Efficient utilization of natural endowments

Demand Conditions
- Demanding and sophisticated local customers and needs
  - e.g., Strict quality, safety, and environmental standards
  - Consumer protection laws

Related and Supporting Industries
- Availability of suppliers, related industries, and supporting institutions

• 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
## Peru’s Business Environment

### Overall Strengths and Weaknesses

#### STRENGTHS

**Trade and Investment Liberalization**
- Openness to foreign investment
- Low restrictions on capital flows
- Simplification of custom procedures
- Low trade barriers
- Improvements in investor protections

**Improving Financial Markets**
- Soundness of banks
- Improving financial market

**IT Infrastructure**
- Good quality of telecom infrastructure
- Sound IT policies

**Other**
- Good management training
- Improving sophistication of local buyers
- Efforts to strengthen competition policy

#### WEAKNESSES

**Physical Infrastructure**
- Low quality of air, transport and port infrastructure
- Inadequate electricity supply

**Workforce Development and Training**
- Poor quality of the higher education system
- Low skill level of the labor force
- Limited availability of scientists and engineers

**Competitive Context**
- Low intensity of local competition
- Difficulty in business formation
- Burdensome government regulations
- Rigidity of employment
- Weak intellectual property protection
- High informality in the economy

**Innovation Infrastructure**
- Limited technological capacity
- Weak university-industry research collaboration
- Low patenting rates
Ease of Doing Business
Peru, 2009

Ranking, 2009 (of 183 countries)

**Favorable**

- Ease of Doing Business
- Getting Credit
- Protecting Investors
- Registering Property
- Paying Taxes
- Trading Across Borders
- Closing a Business
- Employing Workers
- Starting a Business
- Enforcing Contracts
- Dealing with Licenses

**Unfavorable**

Peru’s per capita GDP rank: 72

Peru’s Business Environment

Action Priorities

- Improve physical infrastructure
- Create an effective system for workforce training
- Upgrade higher education
- Encourage entrepreneurship and SME business formation
  - Simplify business formation
  - Reduce tax burden and labor market rigidities
  - Address other causes of informality
  - Strengthen financing for SMEs
- Improve environmental standards
- Develop innovation infrastructure
  - Upgrade technology standards in key clusters of the economy
Microeconomic Competitiveness: Cluster Development
Tourism Cluster in Cairns, Australia

- Public Relations & Market Research Services
- Food Suppliers
- Property Services
- Maintenance Services
- Travel agents
- Tour operators
- Restaurants
- Attractions and Activities (e.g., theme parks, casinos, sports)
- 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
Cluster in Developing Countries
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 (JIBC)

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

Plantstock

Greenhouse; Shading Structures

Irrigation technology

Pre-Cooling Technology

Fertilizers, pesticides, herbicides

Agricultural Cluster

Horticultural Cluster (Fruits & Vegetables)

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

History

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 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 Blass

1970s
Continued inflow of foreign capital and management

1980s
Creation of large number of new wineries

1990s
Surge in exports and international acquisitions

The Evolution of Regional Economies
San Diego

1910
1930
1950
1970
1990

- Climate and Geography
  - Hospitality and Tourism
  - Transportation and Logistics

- U.S. Military
  - Aerospace Vehicles and Defense
  - Power Generation
  - Communications Equipment
  - Analytical Instruments
  - Education and Knowledge Creation

- Bioscience Research Centers
  - Medical Devices
  - Biotech / Pharmaceuticals
  - Information Technology
  - Sporting Goods

- 1910
- 1930
- 1950
- 1970
- 1990
Clusters and Economic Diversification
Linkages Across Clusters

Note: Clusters with overlapping borders or identical shading have at least 20% overlap (by number of industries) in both directions.
Clusters as a Tool For Economic Policy

- A forum for **collaboration** between government, the private sector, trade associations, educational institutions, and research institutions
- Brings together **firms of all sizes**, including SME’s
- Creates a mechanism for **constructive business-government dialogue**
- A tool to identify **problems** and concrete **action recommendations**
- A vehicle for identifying investments that strengthen **multiple firms/institutions** simultaneously
- A framework for **implementing government polices** towards business

- Foster more sophisticated **competition** rather than distorting the market
Peru’s Export Portfolio
1997 to 2007

Change In Peru’s Overall World Export Share: +0.07%

Peru’s Average World Export Share: 0.20%

Exports of US$2.4 Billion =

Peru’s Export Portfolio
1997 to 2007

Change in Peru’s world export market share, 1997 to 2007

Malaysia’s Export Portfolio
1997 to 2007

Share of World Exports by Cluster
Peru, 2007

World Market Share
- 0.2% - 0.5%
- 0.5% - 1.0%
- > 1.0%

Note: Clusters with overlapping borders have at least 20% overlap (by number of industries) in both directions.
Note: Clusters with overlapping borders have at least 20% overlap (by number of industries) in both directions.
State of Cluster Development in Peru

• Peru has **strengths** in several clusters, including mining, fishing, agribusiness, tourism, jewelry and apparel

• Peru’s clusters are based heavily on **natural endowments**, with limited further upgrading

• Peru’s clusters are **shallow**, with weak supplier bases and supporting institutions

• The limited cluster development efforts underway in Peru suffer from **poor coordination** between the private and public sectors

• Clusters are so far an **unexploited dimension** of economic policy at the national and regional levels
Cluster Development in Peru
Action Priorities

• Adopt cluster development as a central tool for organizing business development and implementation of economic policies supporting businesses

• Use cluster development to encourage value-add upgrading within existing clusters
  – Promote spillovers and synergies to upgrade local economies

• Apply a cluster based approach to economic diversification
Clusters and Economic Diversification

1. Upgrade Existing Export Products and Services
2. Turn Products Into Clusters
   - Local firms
   - MNCs
3. Deepen Existing Clusters
4. Develop Related Clusters
Peru’s Agriculture Cluster, 1997 – 2007
Exports by Subcluster

Overall change in Subcluster World Export Share: -0.06%

Coffee, Tea, Cocoa and Spices
Meat and Related Products
Vegetables and Fruits
Subcluster Overall Export Share: 0.50%

Change in Subcluster’s share of World Exports, 1997 – 2007

Exports of US$200 million =

Peru’s Metal Mining and Manufacturing Cluster, 1997 – 2007

Exports by Subcluster

Change in Subcluster’s share of World Exports, 1997 – 2007

Overall change in Subcluster World Export Share: + 0.49%

Subcluster Overall Export Share: 1.13%

Exports of US$1.5 billion =

Cluster Development in Peru

Action Priorities

• Adopt cluster development as a central tool for organizing business development and implementation of economic policies supporting businesses

• Use cluster development to encourage value-add upgrading within existing clusters
  – Promote spillovers and synergies to upgrade local economies

• Apply a cluster based approach to economic diversification

• Leverage clusters to attract FDI and facilitate integration with the global economy

• Use cluster initiatives to engage the private sector in more effective collaboration with government at the national and regional levels
  – Cluster development is an effective approach to promote private sector-led growth
  – Create Institutions for Collaboration (e.g., trade associations) to organize cluster participants
Geographic Influences on Competitiveness

Nation

Regions and Cities
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
• Region’s specialize in different sets of clusters
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**
- Region’s **specialize** in different sets of clusters
- **Cluster strength** directly impacts regional performance
- Each region requires its own distinctive **competitiveness agenda**
- Improving competitiveness requires **effective policy collaboration** between regions and the national government

- **Decentralization** of economic policy is especially important in larger countries to foster regional specialization, internal competition, and greater government accountability
Competitiveness of Peru’s Regions

- **Strong disparities** exist across Peruvian regions in business environment, innovative capacity, and economic performance.
Prosperity Performance
Peru’s Regions

GDP per Capita, 2008 (1994 New Peruvian Soles)

Peru’s Weighted Average: 6,513

Growth in GDP per Capital (CAGR), 2001 to 2008

Peru’s Weighted Average: 6.0%

Source: Instituto Nacional de Estadística e Informatica - Dirección Nacional de Cuentas Nacionales
Competitiveness of Peru’s Regions

- **Strong disparities** exist across Peruvian regions in business environment, innovative capacity, and economic performance.

- **Decentralization** remains incomplete and has produced some social tension and unrest.

- There is weak **planning, design, and implementation capacity** at the local level.

- Sub-national governments are **highly dependent on transfers** from the central government.
Peru’s Regions

Action Priorities

• Continue *decentralization* of responsibilities and resources to sub-national governments
• Improve the *capacity of local governments* to plan, design and implement development policies
• Improve *national-regional collaboration* to implement regional programs
• Adopt specific steps to reduce *corruption* at the regional level
• Improve *physical connections* among regions to support economic and social integration
• Promote greater *linkages* between resource clusters and regional economies
• Address the underlying causes of *inequality* between the highland, coastal and Amazon regions
  – Strengthen human development in the poorer highland regions
Geographic Influences on Competitiveness

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

• Opening **trade and investment** among neighbors fuels growth and specialization
  – A country’s **neighbors** are its most natural trading and investment partners
  – The most natural path for **internationalization** by local firms is the neighborhood
  – Open trade and investment make each country a more attractive location for **foreign investment**

• Economic coordination with neighbors drives **improvements in the business environment**
  – Capturing **synergies** in policy and infrastructure
  – Gaining greater clout in **international negotiations**

• External agreements help **overcome domestic political barriers** to reform
Economic Integration Among Neighbors
Capturing Synergies

Factor Conditions
- Improving the efficiency of the regional transportation network
- Creating an efficient energy network
- Enhancing regional communications and connectivity
- Harmonizing administrative requirements for businesses
- Linking financial markets
- Facilitating the movement of students for higher education

Context for Strategy and Rivalry
- Eliminating trade and investment barriers within the region
- Simplifying and harmonizing cross-border regulations and paperwork
- Coordinating anti-monopoly and fair competition policies

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

Related and Supporting Industries
- Facilitating cross-border cluster development
  - e.g., Supplier networks
  - Transport & Logistics
  - Quality standards

Macroeconomic Competitiveness
- Coordinating macroeconomic policies
- Coordinating programs to improve security and public safety
Peru and the Neighborhood

Assessment
• Peru remains a relatively isolated country for geographic reasons
• Peru has weak relations with some of its neighbors
• Peru has taken some positive steps to improve relations with some neighbors
• Peru’s recent trade liberalization program, including with the U.S. and China, has created significant opportunities for new economic linkages with neighbors

Action Agenda
• Economic coordination with neighboring countries is an important tool in economic development
• Peru can take a proactive leadership role in promoting trade liberalization efforts with particular neighbors and the region
• Peru can be a platform for South American firms seeking to access the U.S. and Asian markets
• Leverage inbound and outbound FDI with neighbors to upgrade local competitiveness
The Need for an Economic Strategy

- 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
The Need for an Economic Strategy

National Value Proposition

- What are the **distinctive competitive assets** of the nation’s economy given its location, legacy, rate of progress, existing strengths, and potential strengths?
  - What unique value as a business location?
  - In what types of fields / clusters?
  - What roles with neighbors, the broader region, and the wider world?

Refining Unique Strengths

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

Addressing Crucial Constraints

- What are the crucial **weaknesses** and **constraints** that must be addressed to achieve parity with peer countries and allow the country to move to the next level?

- **Priorities** and **sequencing** are a necessity in economic development
Toward a Peruvian Economic Strategy

Unique Strengths

- Abundant natural endowments
- Vast biodiversity and ecosystems
- Central location in South America
- Young, hard working population
- Rich culture and history
- Legacy of domestic collaboration to overcome obstacles
- Open to FDI and capital flows
- Privileged access to major foreign markets (United States, China, etc.)

Implications

- Upgrade Ground, Air and Port Transportation Infrastructure to Connect Peruvian Regions with Neighbors and the World
- Foster Cluster Development Around Resource Strengths
- Reduce and Eliminate Corruption
- Create New, More Stable Effective Political Institutions
- Implement Next Stage Regulatory Reforms to Improve the Business Environment
- Improve the Quality of Education and Workforce Training

- Upgrade Peru’s competitive assets to achieve high rates of **sustainable economic growth** while improving **welfare** of the poor
Accelerating Poverty Reduction in Peru

Reduce Poverty

Increase Competitiveness
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 must be a *bottom-up process* in which many individuals, companies, and institutions take responsibility and act
Organizing for Competitiveness in Peru
Assessment

• Peru has weak coordination among government ministries and agencies responsible for improving competitiveness
  – Across different ministries to align policies
  – Across geographic levels of government

• The National Council on Competitiveness was created in 2002, a positive step, but it has had limited impact

• There are few competitiveness initiatives at the regional level to mobilize strategic thinking and drive action

• The private sector has limited engagement in competitiveness development
Revitalizing Peru’s Organization to Drive Competitiveness

Action Agenda

• Create an effective coordination structure within government across ministries and agencies

• Restart the National Council on Competitiveness to build consensus on an overall economic strategy and track implementation
  – The council will require strong private sector leadership

• Create Regional Competitiveness Councils to drive consensus on state plans and monitor implementation
  – Involve representatives from the private, public and academic sectors as well as federal government participation

• The private sector must assume a catalytic role in economic strategy formulation and implementation
• There is an **inevitable link** between business and society
• A **healthy business** depends on a **healthy community** to create demand for its products and provide a supportive business environment
• A **healthy society** depends on **competitive companies** that can create jobs, support high wages, build wealth, buy local goods, and pay taxes

• There is a long-term **synergy** between economic and social objectives
Competitiveness and Social Issues

- Worker Education and Skills
- Worker Safety
- Gender Equity
- Employee Health
- Water Use
- Energy Use
- Environmental Impact
- Poverty in the Company’s Communities

Company Productivity
Corporate Role in Competitiveness
The Concept of Shared Value

**Shared Value**: Policies and practices that **enhance the competitiveness** of a company while simultaneously **advancing** economic and social conditions in the communities in which it operates.

- Find the **points of convergence** between economic and social objectives, not assumed tradeoffs or the need for redistribution
  - These points of convergence are **growing**

- Achieving shared value requires **new thinking, new technologies, and new approaches to management**

- Shared value opportunities are **even greater** in developing countries

- Shared value thinking applies equally to **NGOs** and **governments**
Corporate Role in Competitiveness

Action Agenda

• **Organize** the private sector to have a collective voice in competitiveness

• **Participate actively** in national and regional competitiveness initiatives

• Inform government on **business needs** and **constraints** bearing on company and cluster development

• Nurture local **suppliers** and attract foreign suppliers

• Work closely with local **educational** and **research institutions** to improve their **quality** and create specialized programs addressing the cluster’s needs

• Collaborate with other companies to enhance competitiveness through **trade associations** and other mechanisms

• Focus **corporate social responsibility initiatives** on enhancing the business environment