

# Regional Competitiveness in a Global Economy

Professor Michael E. Porter  
*Harvard Business School*

*The Summit for American Prosperity*  
*The Brookings Institution*  
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This presentation draws on ideas from Professor Porter's articles and books, in particular, The Competitive Advantage of Nations (The Free Press, 1990), "Building the Microeconomic Foundations of Competitiveness," in The Global Competitiveness Report 2007/08 (World Economic Forum, 2007), "Clusters and the New Competitive Agenda for Companies and Governments" in On Competition (Harvard Business School Press, 1998), and ongoing research on clusters and competitiveness. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means - electronic, mechanical, photocopying, recording, or otherwise - without the permission of Michael E. Porter. Further information on Professor Porter's work and the Institute for Strategy and Competitiveness is available at [www.isc.hbs.edu](http://www.isc.hbs.edu). Version: June 20, 2008 - 3pm

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# The Changing Nature of Domestic and International Competition

- **Falling barriers** to trade and investment
- Globalization of **markets**
- Globalization of company **value chains**
- Increasing **knowledge and skill intensity** of competition
- Value is increasingly concentrated in **service functions**, not manufacturing activities themselves
- Shift from vertical integration to relying on **outside suppliers, partners, and institutions**
- **Rising logistical costs** due to costs of energy and emissions
- Costs in **China** and **India** are rising rapidly

# What Determines Competitiveness?

- Competitiveness depends on the **productivity** with which a location 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

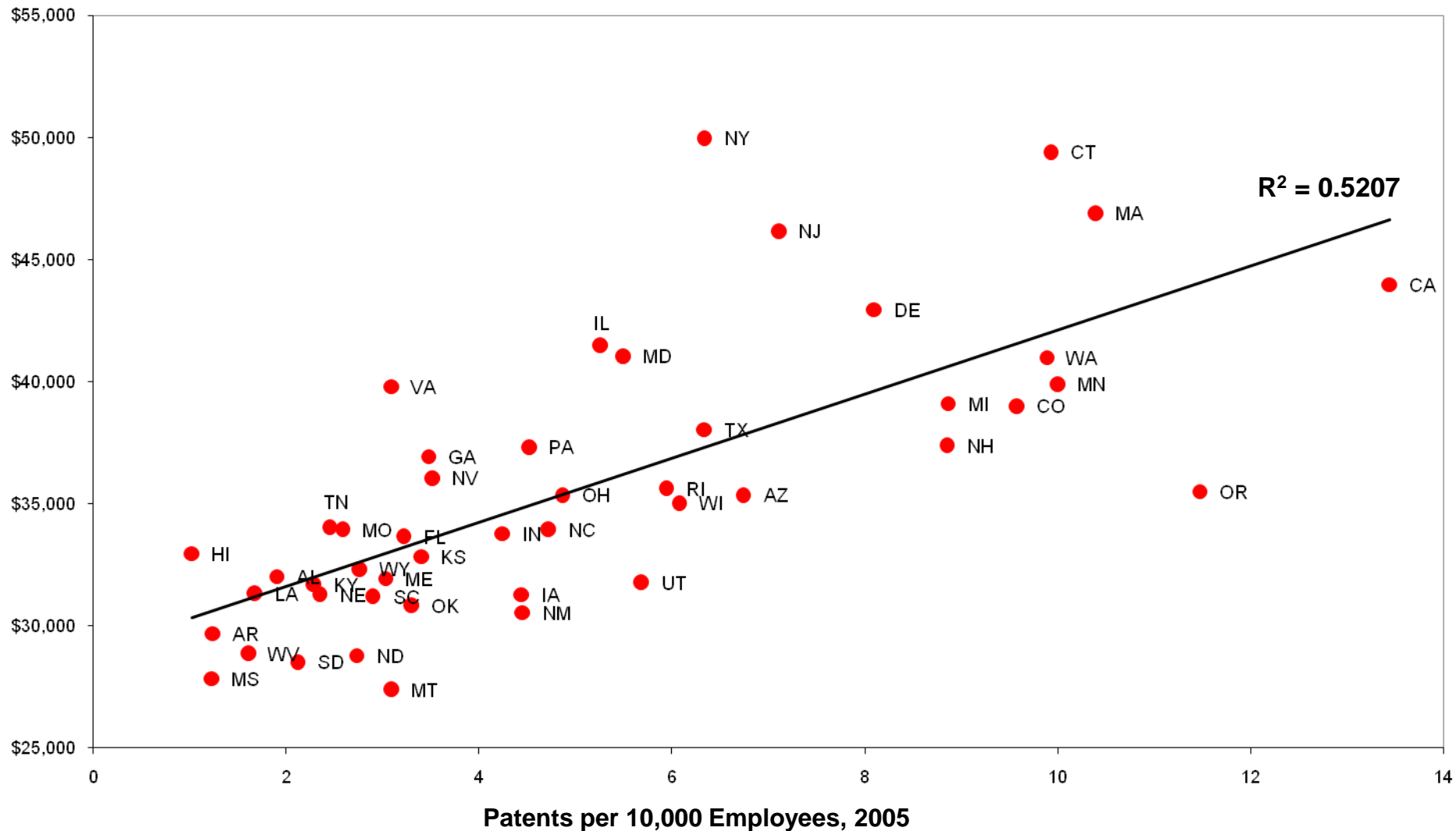


- Nations and regions compete to offer the **most productive environment for business**
- The public and private sectors play **different but interrelated roles** in creating a productive economy

# Innovation and Regional Performance

## U.S. States

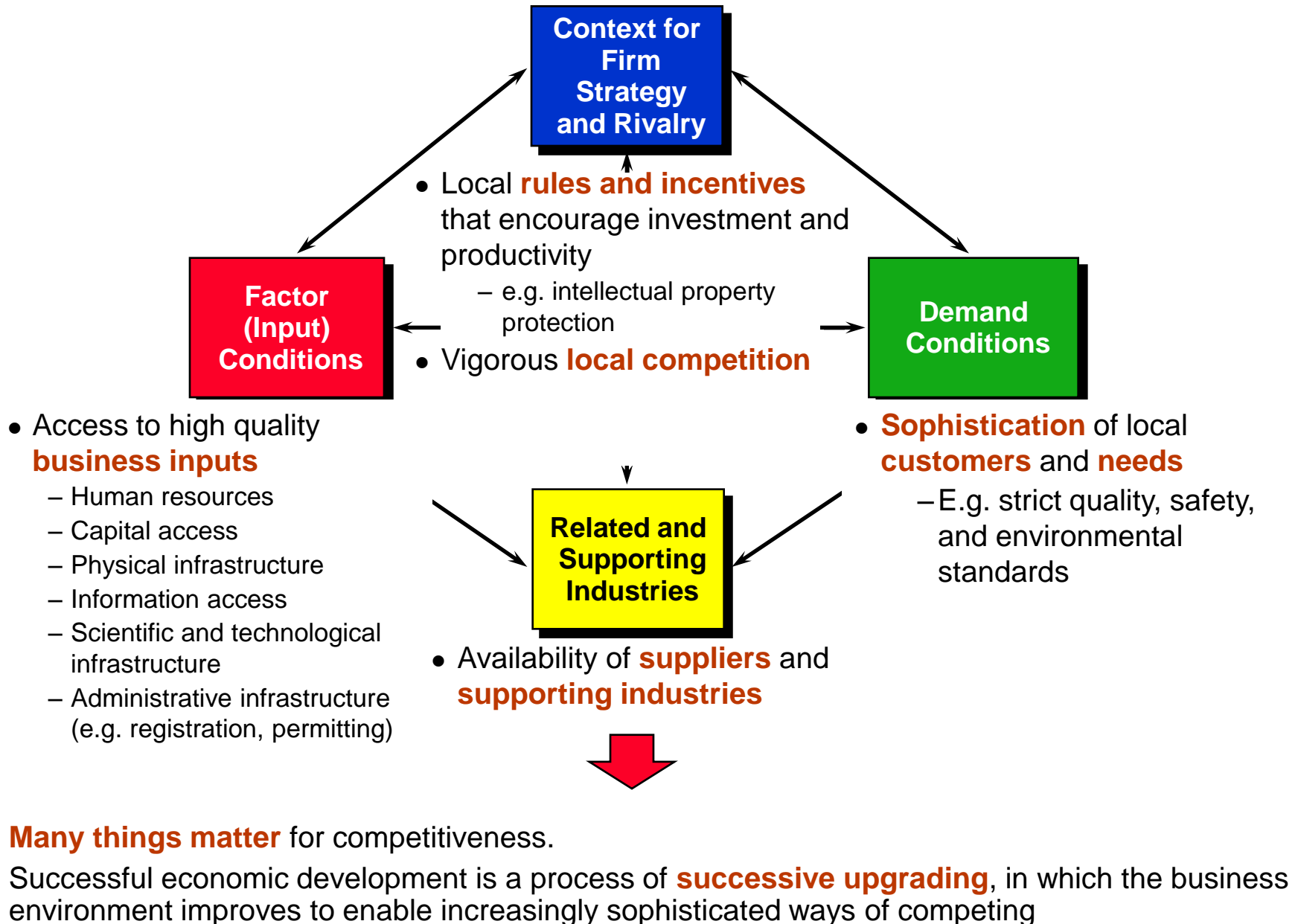
Average Wage, 2005



Note: Excludes three states (AK, ID, VT) where a single patentor accounts for more than 50% of patents and the top 5 patentors account for more than 80%.

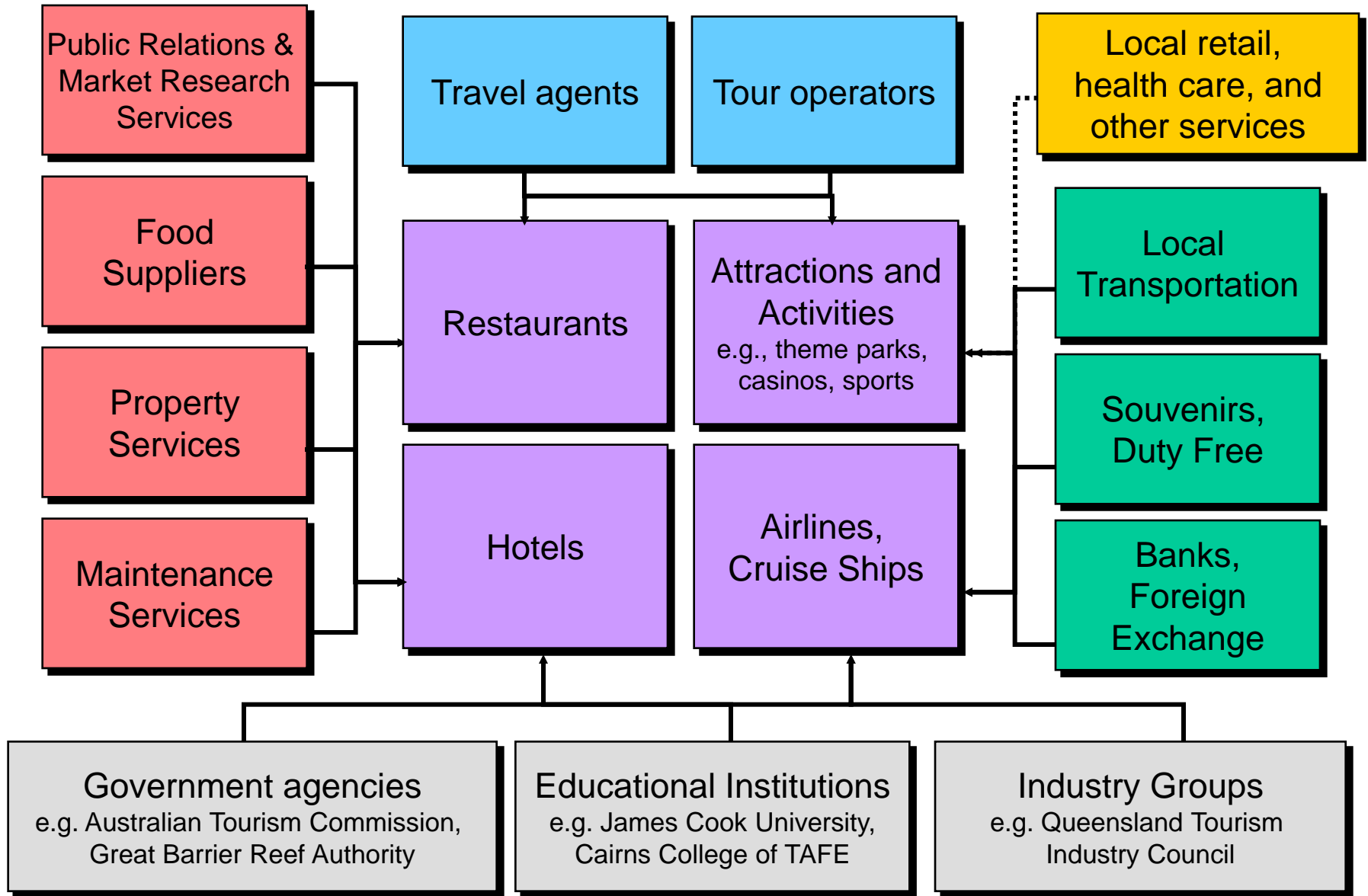
Source: U.S. Patent and Trademark Office; CHI Research; County Business Patterns; Michael E. Porter

# Productivity and the Business Environment



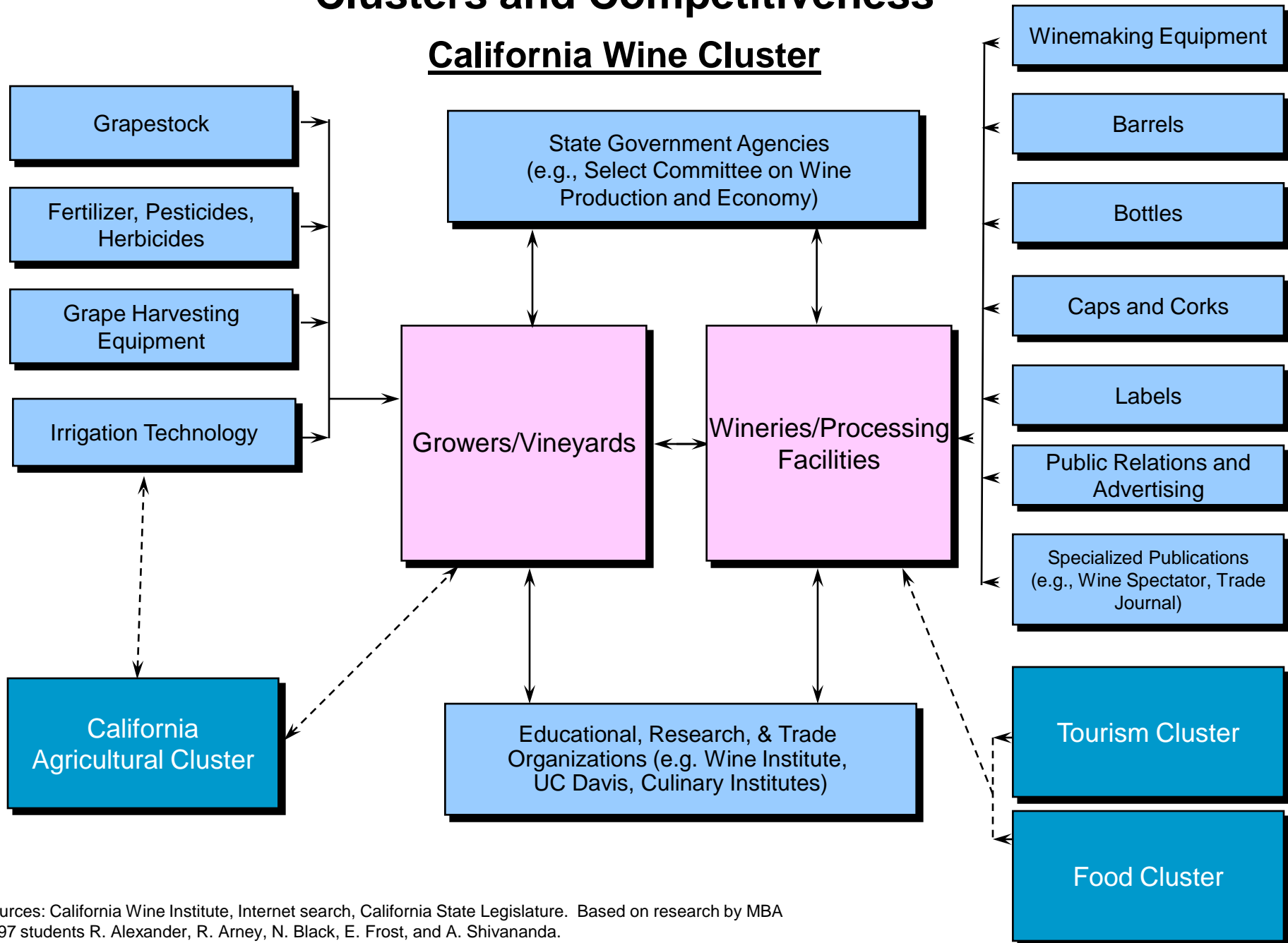
# Clusters and Competitiveness

## Tourism Cluster in Cairns, Australia



# Clusters and Competitiveness

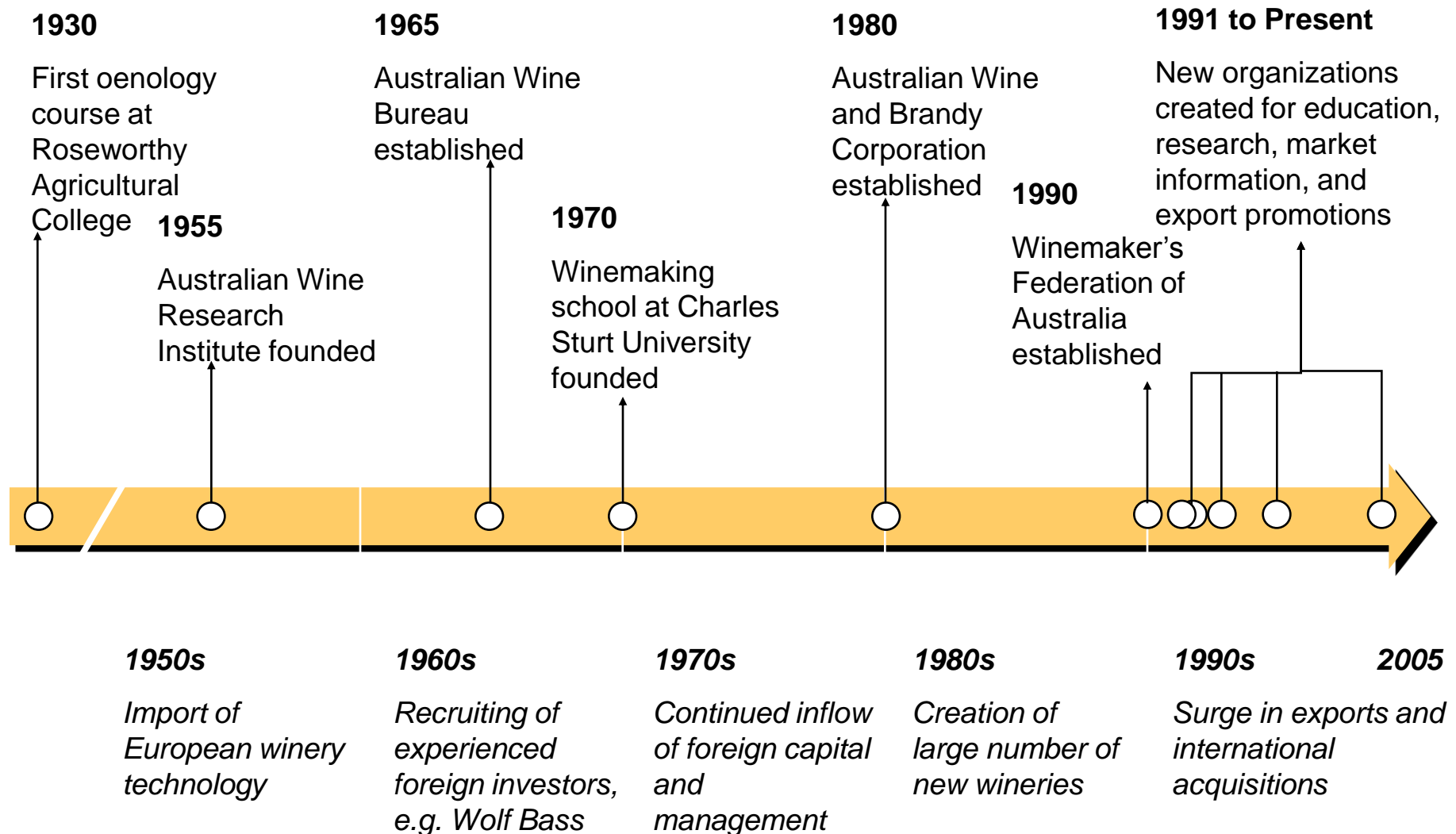
## California Wine Cluster



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.

# Process of Cluster Development

## The Australian Wine Cluster



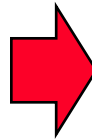


# The Process of Economic Development

## Shifting Roles and Responsibilities

### Old Model

- **Government** drives economic development through top down policy decisions and incentives



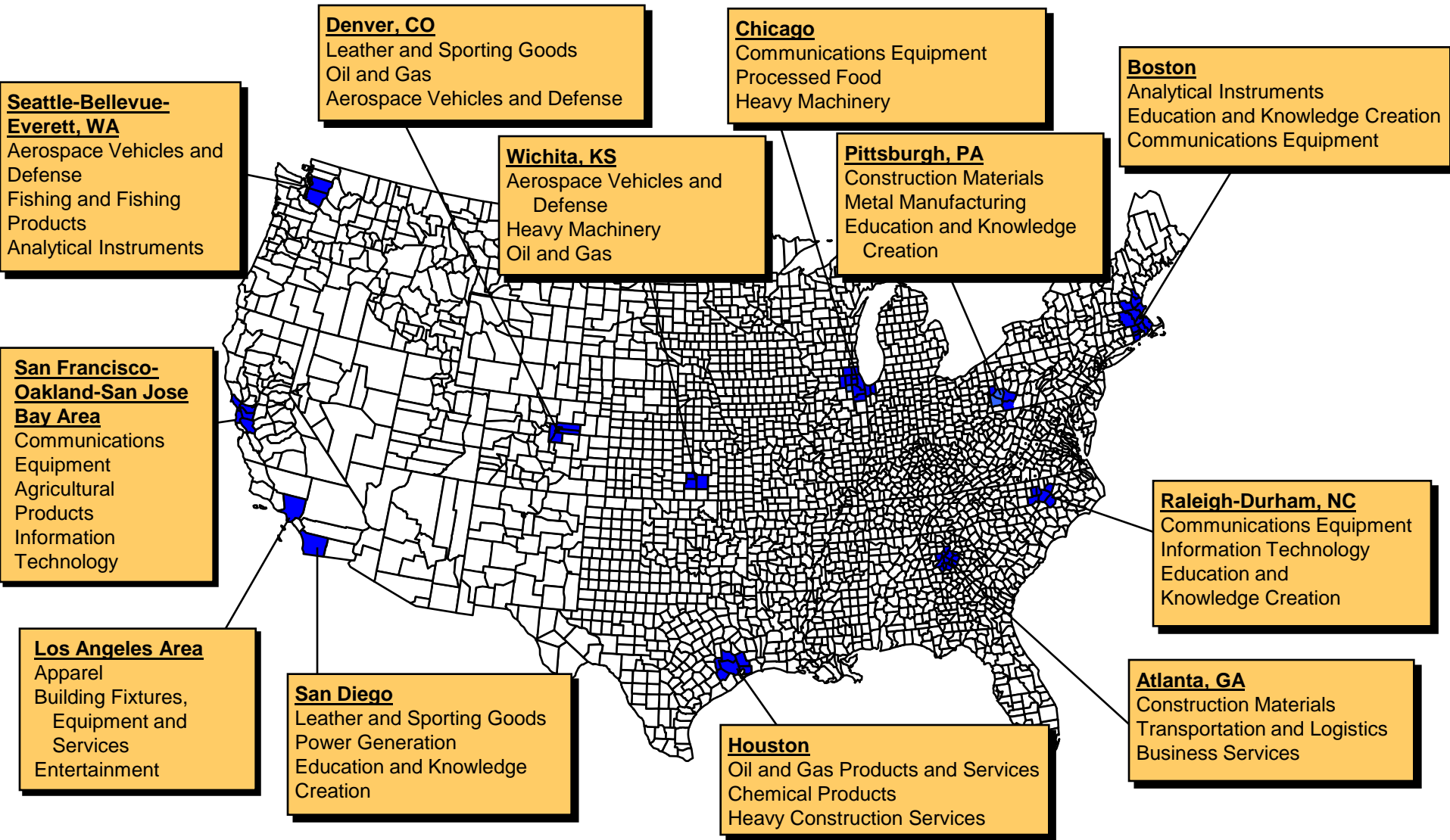
### New Model

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

- Competitiveness is fundamentally a **bottoms-up process** in which many individuals, companies, and institutions participate
- **Every** community and cluster can take steps to enhance competitiveness

# Specialization of Regional Economies

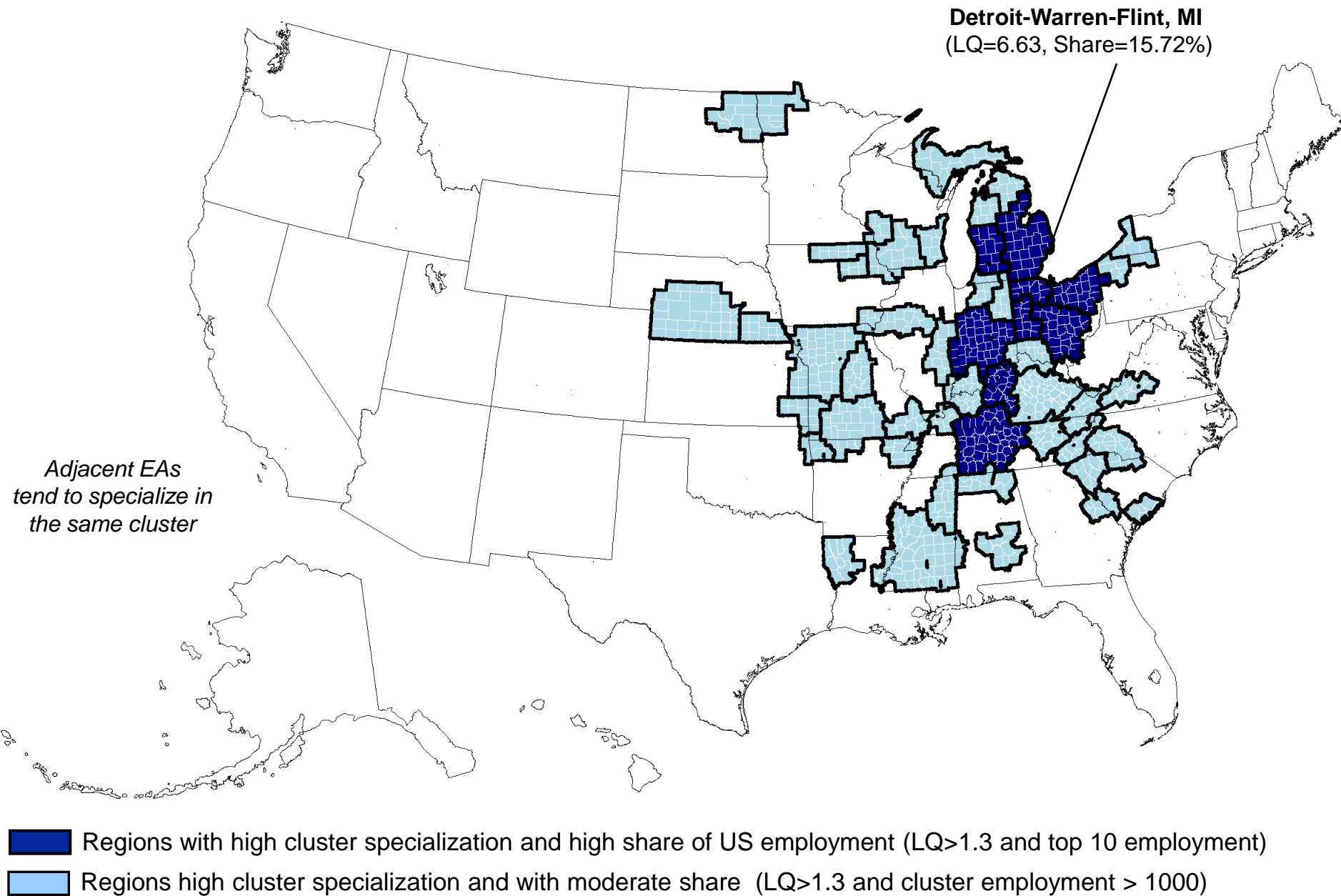
## Selected U.S. Geographic Areas



Note: Clusters listed are the three highest ranking clusters in terms of share of national employment.

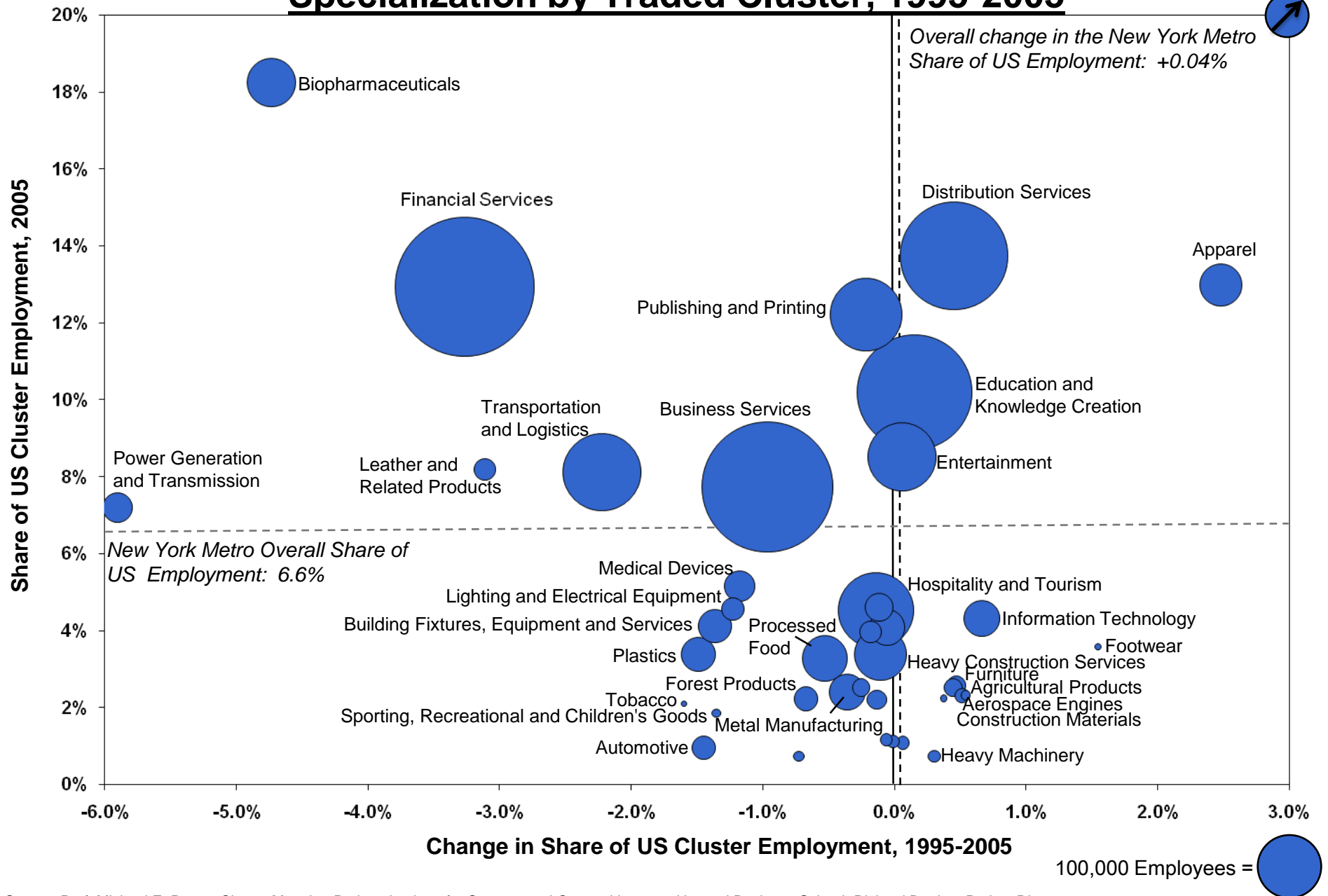
Source: Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School, 11/2006.

# Automotive Cluster Specialization by Economic Area, 2004



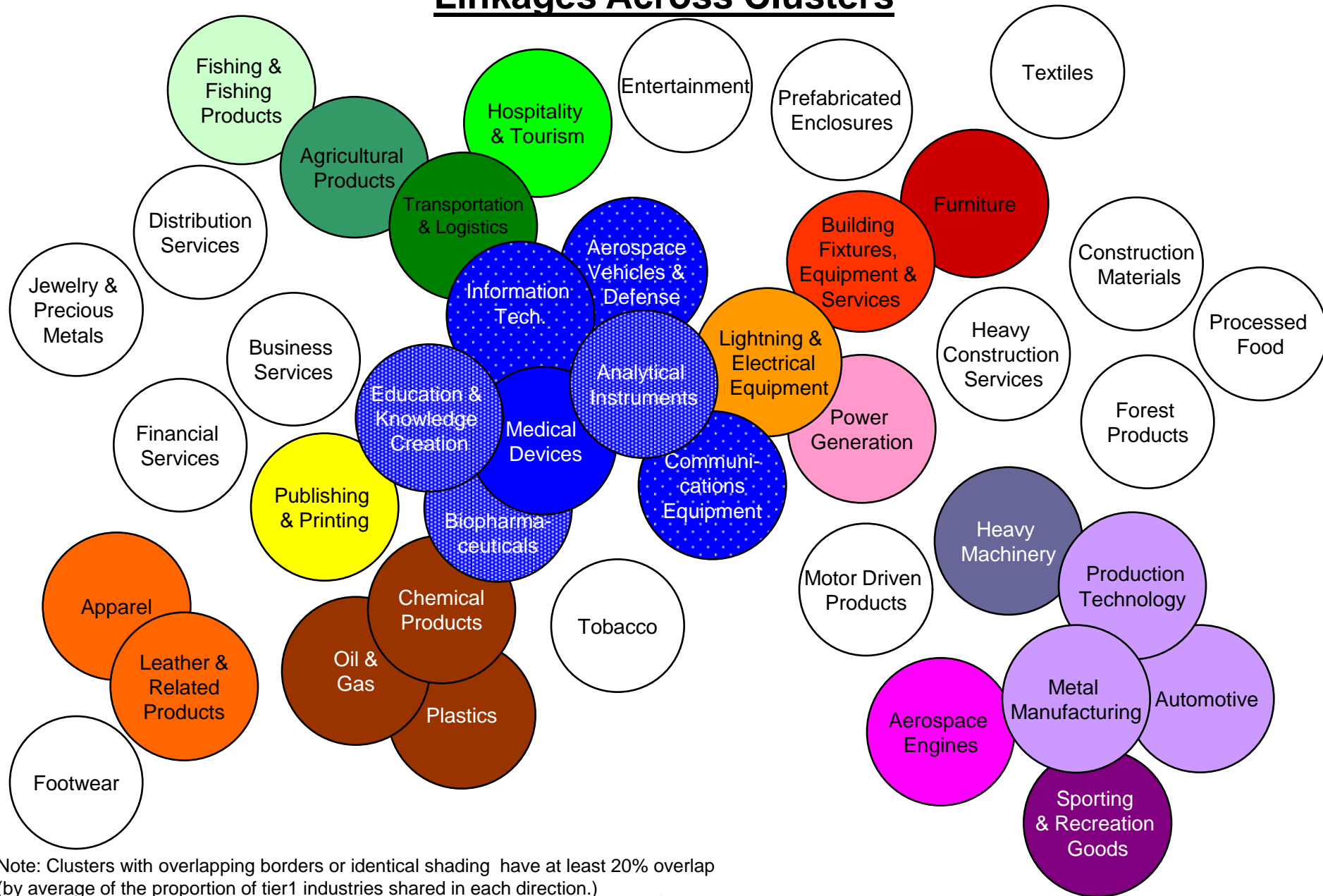
# New York Metropolitan Area Specialization by Traded Cluster, 1995-2005

Jewelry and Precious Metals  
(31.7%, +7.1%)



# Development of Regional Economies

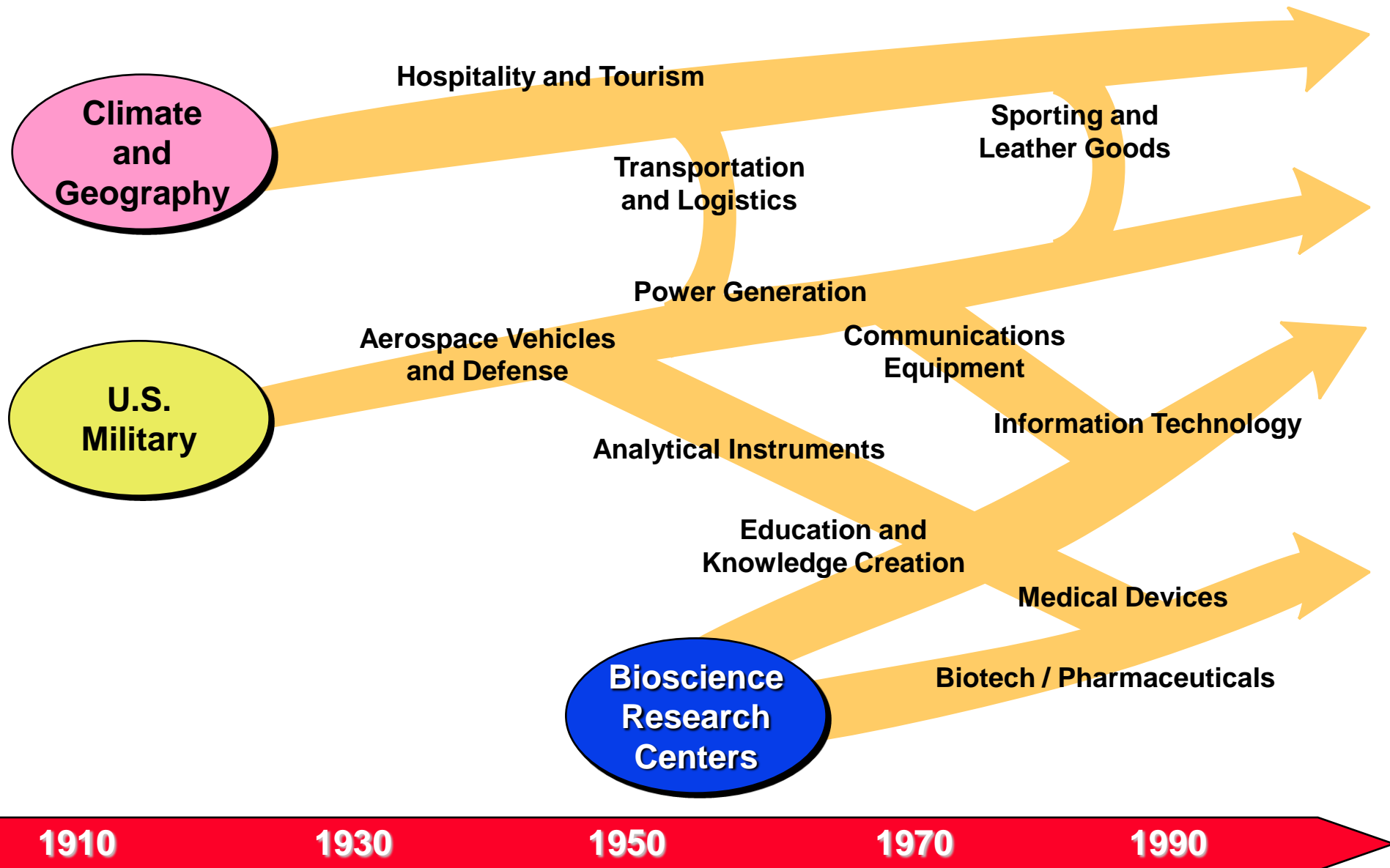
## Linkages Across Clusters



Note: Clusters with overlapping borders or identical shading have at least 20% overlap (by average of the proportion of tier1 industries shared in each direction.)

# The Evolution of Regional Economies

## San Diego



# Sources of Regional Prosperity

## Recent Statistical Findings

### Drivers of Regional Job Growth, Wages, and Patenting

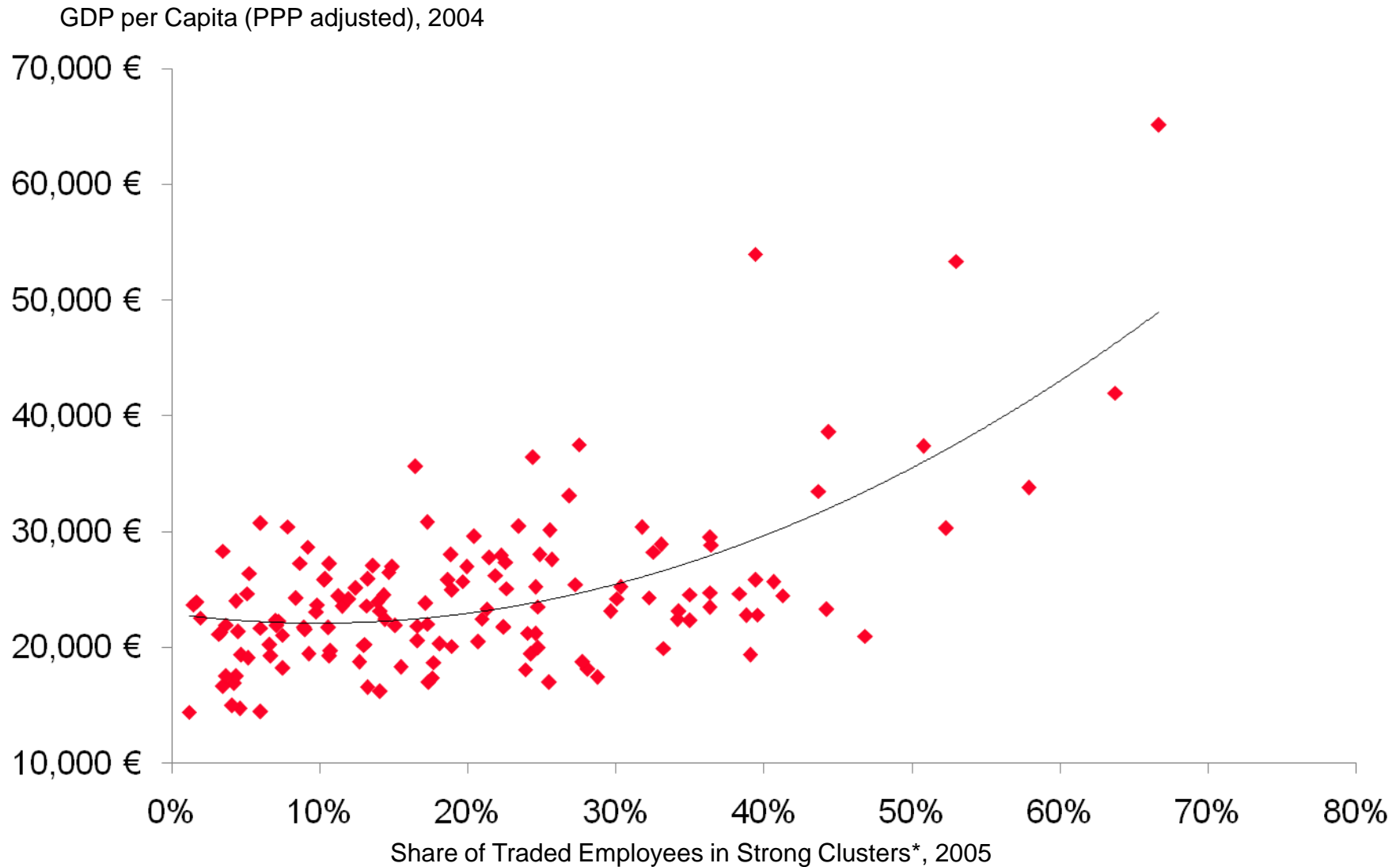
- Specialization in **strong clusters**
- **Breadth** of industries within each cluster
- Positions in **related clusters**
- Presence of the same cluster in **neighboring regions**

### Not significant

- Positions in High-Tech clusters versus other clusters

# Clusters and Regional Prosperity

## European Regions



Note: Strong clusters defined by LQ>2; NUTS Regions excluding Portugal and Greece.

Source: European Cluster Observatory. ISC/CSC cluster codes 1.0, dataset 20070510



# Globalization and U.S. Economic Performance

- The U.S. economy has registered **remarkable economic performance**  
BUT
- The value of education and skills have **risen dramatically**
- Less skilled Americans face **more competition for work** and **restraints on wages**
  - Exacerbated by low skilled immigration
- There is a high rate of **job churn**
  - High job creation but high job loss

# Strategic Position of the United States

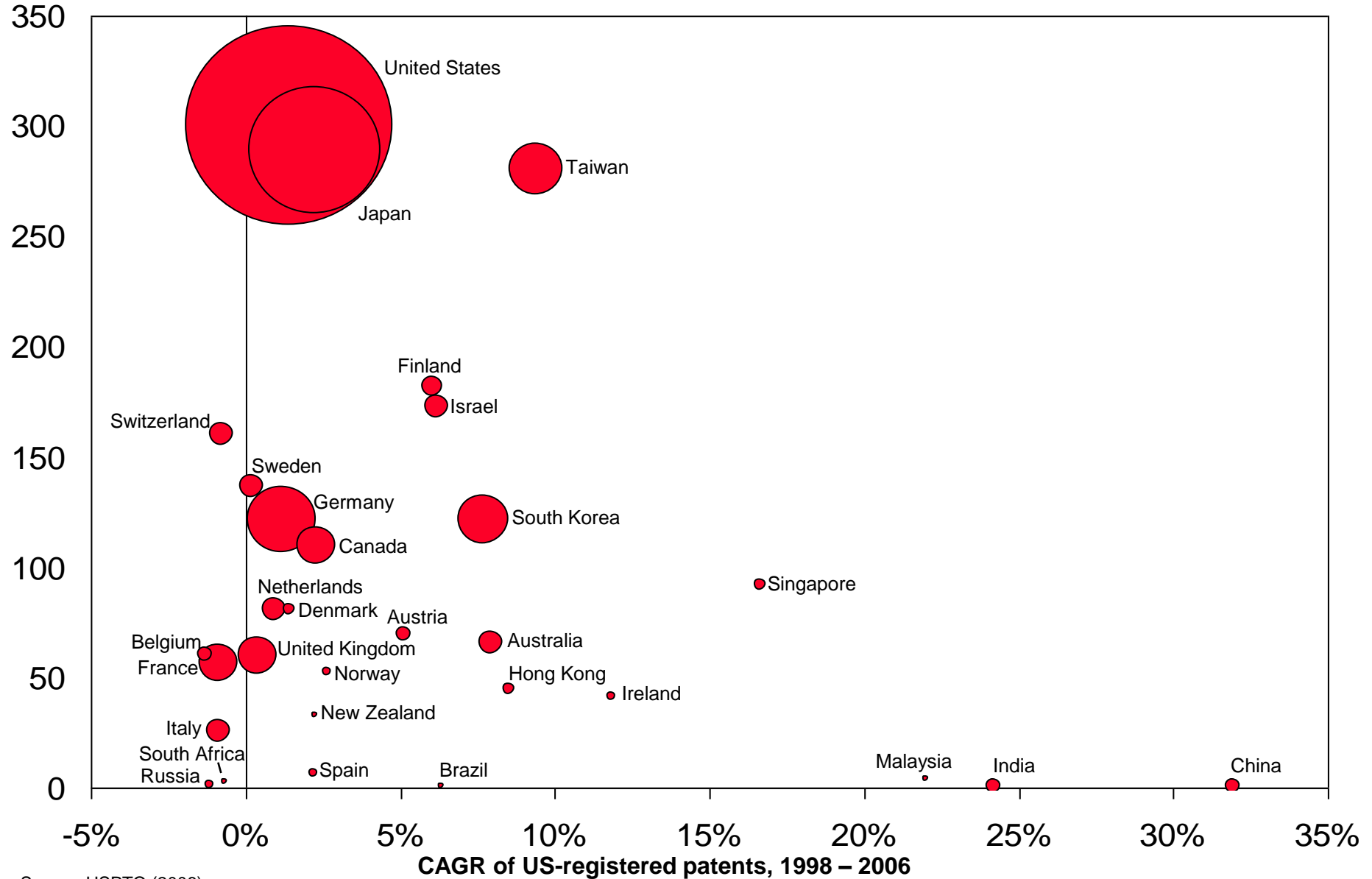
## Core Strengths

- Entrepreneurship
- Free and open competition
- Deep and efficient capital markets
- Innovation

# International Patenting Output

## Selected Countries

Annual U.S. patents per  
million population, 2006



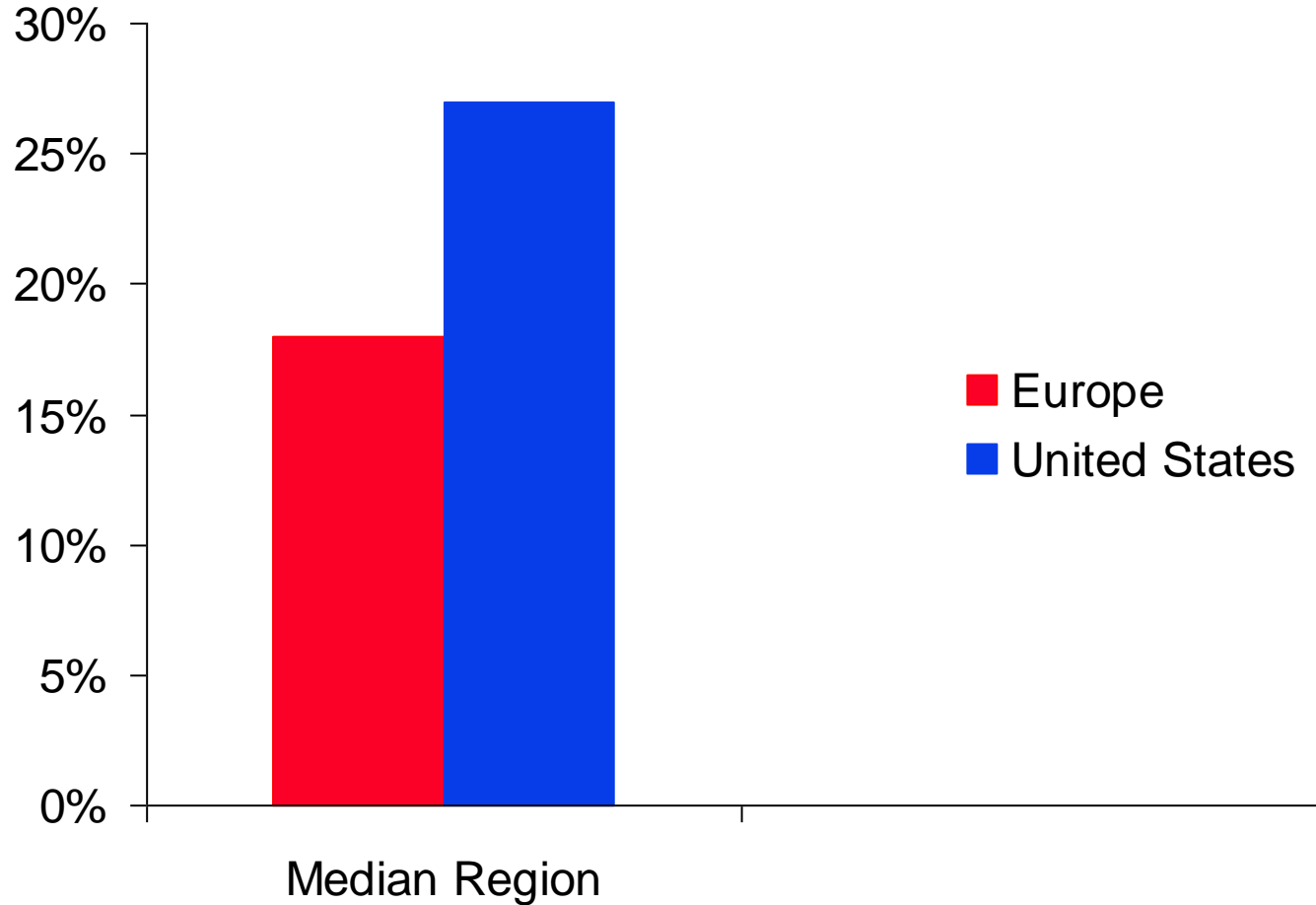
# Strategic Position of the United States

## Core Strengths

- Entrepreneurship
- Free and open competition
- Deep and efficient capital markets
- Innovation
- Economic decentralization

# Cluster Strength in Europe versus the United States

Share of Employment in  
Strong Clusters



# Strategic Position of the United States

## Core Strengths

- Entrepreneurship
- Free and open competition
- Deep and efficient capital markets
- Innovation
- Economic decentralization



- The U.S. needs to preserve , renew and reinvest in these strengths, especially in competition and trade policy, financial market regulation, and inputs to innovation.

# Strategic Position of the United States

## Core Strengths

- Entrepreneurship
- Free and open competition
- Deep and efficient capital markets
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- Economic decentralization

## Weaknesses

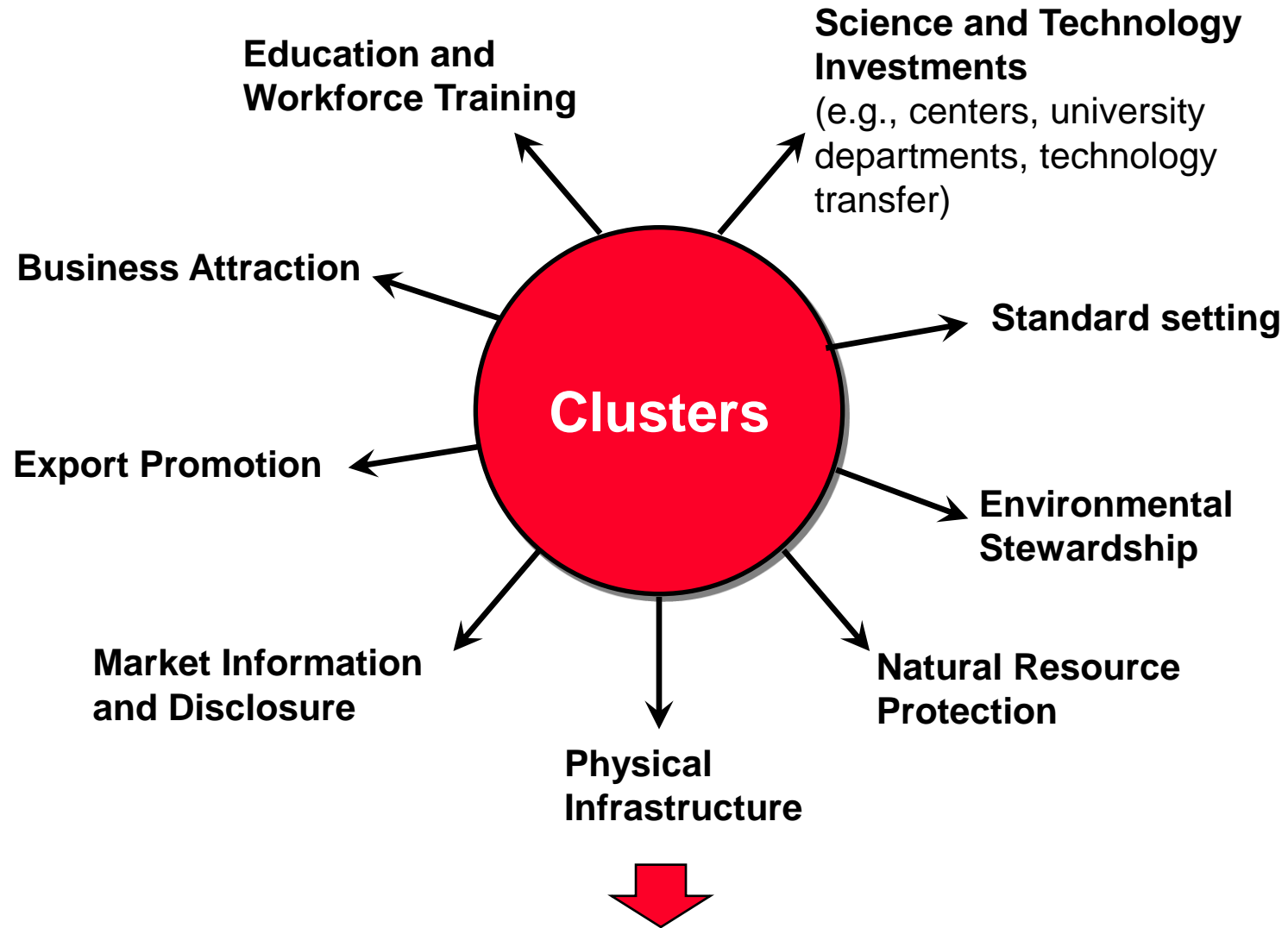
- Unnecessary costs of doing business
  - Regulation and litigation
  - Corporate tax rates/complexity
  - Energy and environmental inefficiency
  - Inadequate value from high health care spending
- Weak transitional security blanket
  - Retraining effectiveness
  - Health insurance access and mobility
  - Pension security
- Distortions in the international trading system
  - IP protection
  - Access to services markets in other countries
  - Distortions and subsidies
- Diminished U.S. leadership in international economic development
- Human resource challenges
  - Training Americans vs. low skilled immigration
  - K-12 ineffectiveness
  - Access to higher education

# Agenda for the United States

- Begin a **fact-based dialogue** on America's challenges
- Mount a U.S. competitiveness **strategy**
  - vs. quick fixes and false “solutions”
- Tackle America's **human resource weaknesses**
- Address weaknesses in the U.S. **business environment**
  - e.g., commit to open competition
  - Create an effective and efficient regulatory environment
- Renew America's **innovation infrastructure**
- Realign federal economic policy around **regions and cluster development**



# Clusters and Economic Policy



- Clusters provide a framework for **implementing public policy** and **organizing public-private collaboration** to enhance competitiveness

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