

Regional Competitiveness: Creating an East African Economic Strategy

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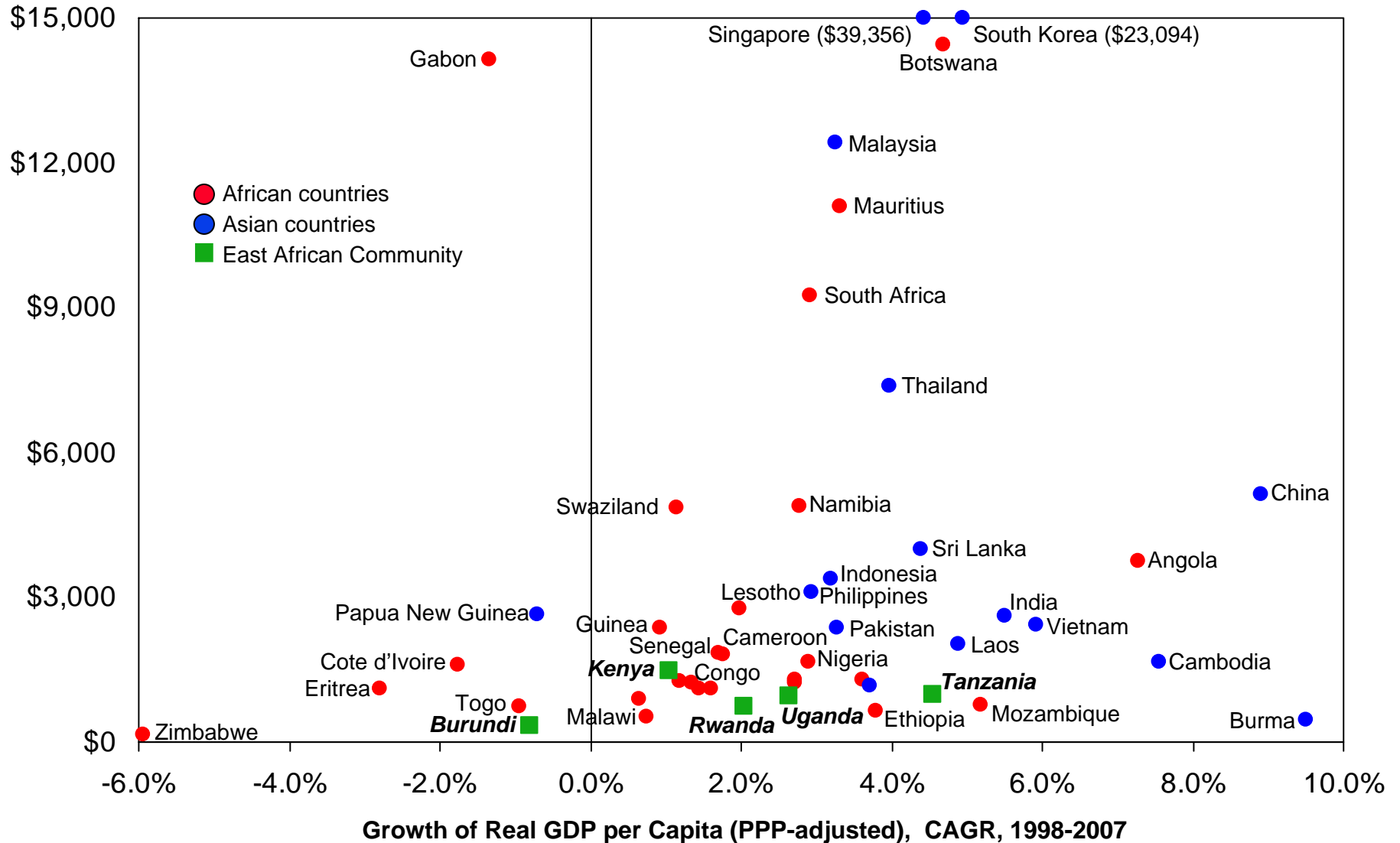
This presentation draws on ideas from Professor Porter's books and articles, in particular, "Building the Microeconomic Foundations of Prosperity," in *The Global Competitiveness Report 2005-06* (World Economic Forum, 2005); "Clusters and the New Competitive Agenda for Companies and Governments," in *On Competition* (Harvard Business School Press, 1998); *Clusters of Innovation Initiative* (www.compete.org), a joint effort of the Council on Competitiveness, Monitor Group, and ongoing research. 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 the author

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Prosperity Performance

East Africa versus Other Developing Countries

PPP-adjusted GDP per
Capita, 2007 (\$USD)



Note: highlighted countries are part of the East African Community (EAC). Source: EIU (2008), authors calculations

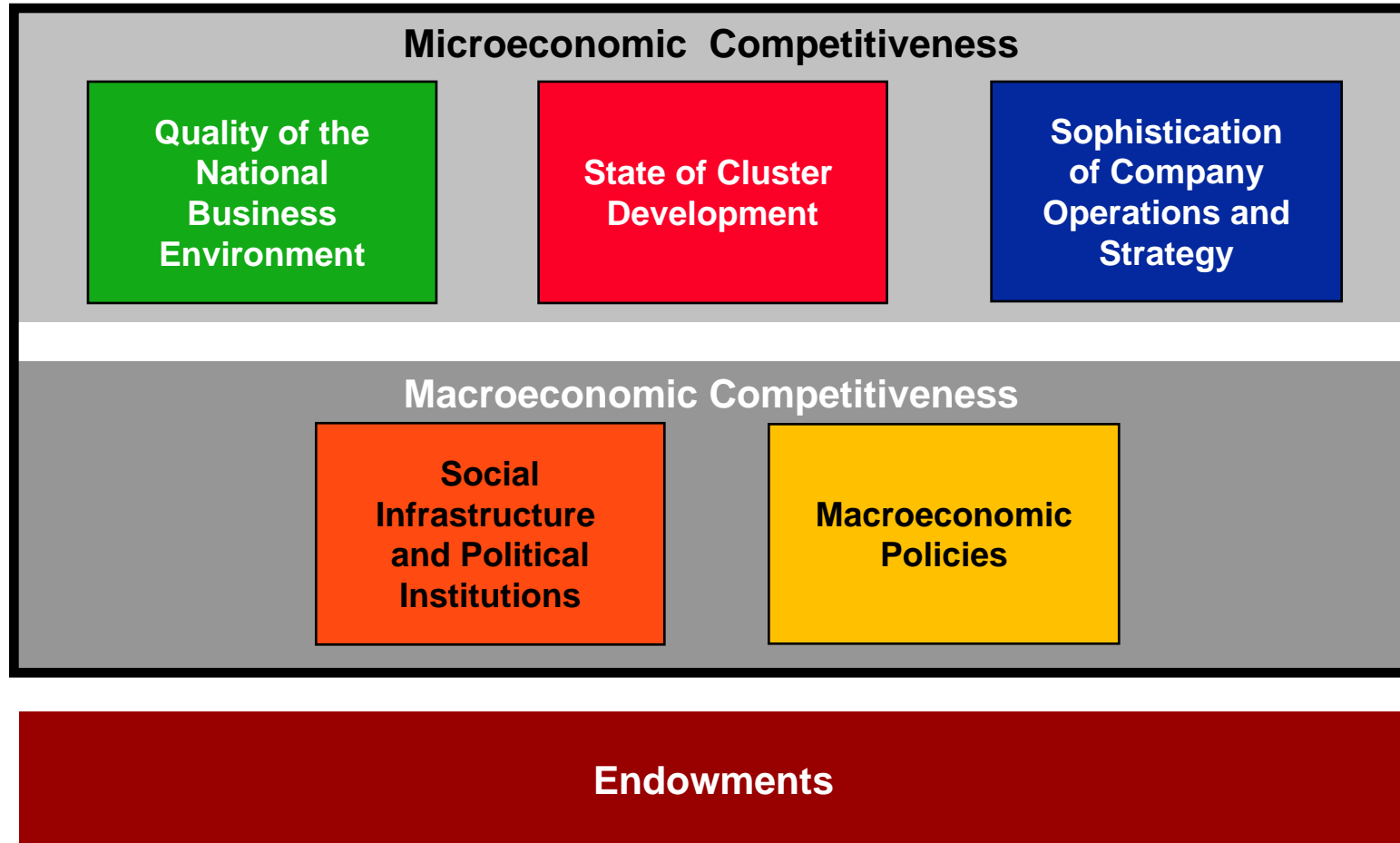
What is Competitiveness?

- 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) that a country can sustain
 - 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**
 - The productivity of **“local” or domestic industries** is fundamental to competitiveness, not just that of export industries



- 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

Determinants of Prosperity



- 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**

Macroeconomic Competitiveness

Social Infrastructure and Political Institutions

- **Basic human capacity**
- **Safety and security**
- **Political institutions**
- **Rule of law**

Macroeconomic Policies

- **Fiscal policy**
- **Monetary policy**
- **Economic openness**

Macroeconomic Competitiveness

Social Infrastructure and Political Institutions

- **Basic human capacity**
 - Basic education
 - Health system
- **Safety and security**
 - Reliability of police
 - Prevalence and costs of crime
- **Political institutions**
 - Political freedom
 - Voice and accountability
 - Political stability
 - Government effectiveness
 - Centralization of economic policymaking
- **Rule of law**
 - Judicial independence
 - Efficiency of legal framework
 - Business costs of corruption
 - Civil rights

Macroeconomic Policies

- **Fiscal policy**
 - Government surplus/deficit
 - Government debt
 - Savings / Investment rates
- **Monetary policy**
 - Inflation
 - Interest rate spread
- **Economic openness**
 - Average tariff rate
 - Exchange rate and capital controls

Prosperity and Human Development

Selected Countries

Country	GDP per Capita (PPP)	Rank		
		Human Development Index (HDI)	Life Expectancy Rank	Education Rank
Gabon	84	119	145	107
South Africa	56	121	157	105
Botswana	54	124	163	113
Namibia	78	125	154	111
Morocco	108	126	96	150
Ghana	126	135	137	147
Congo	153	139	149	126
Madagascar	167	143	139	134
Cameroon	130	144	160	137
Sudan	136	147	142	155
Kenya	155	148	152	131
Zimbabwe	140	151	175	118
Togo	149	152	141	152
Uganda	150	154	161	138
Senegal	145	156	132	170
Nigeria	160	158	165	140
Tanzania	171	159	156	142
Guinea	129	160	148	173
Rwanda	158	161	169	144
Angola	128	162	174	153
Benin	159	163	147	169
Malawi	174	164	166	141
Zambia	165	165	177	138
Côte d'Ivoire	147	166	164	164
Burundi	173	167	162	156
Congo (Dem. Rep.)	172	168	168	146
Ethiopia	162	169	153	172
Chad	151	170	158	174
Central African Republic	156	171	170	167
Mozambique	154	172	171	166
Mali	163	173	151	175
Niger	170	174	146	176
Burkina Faso	157	176	155	177

Note: Percentages are relative to best country in the world

Source: UNDP (2008)

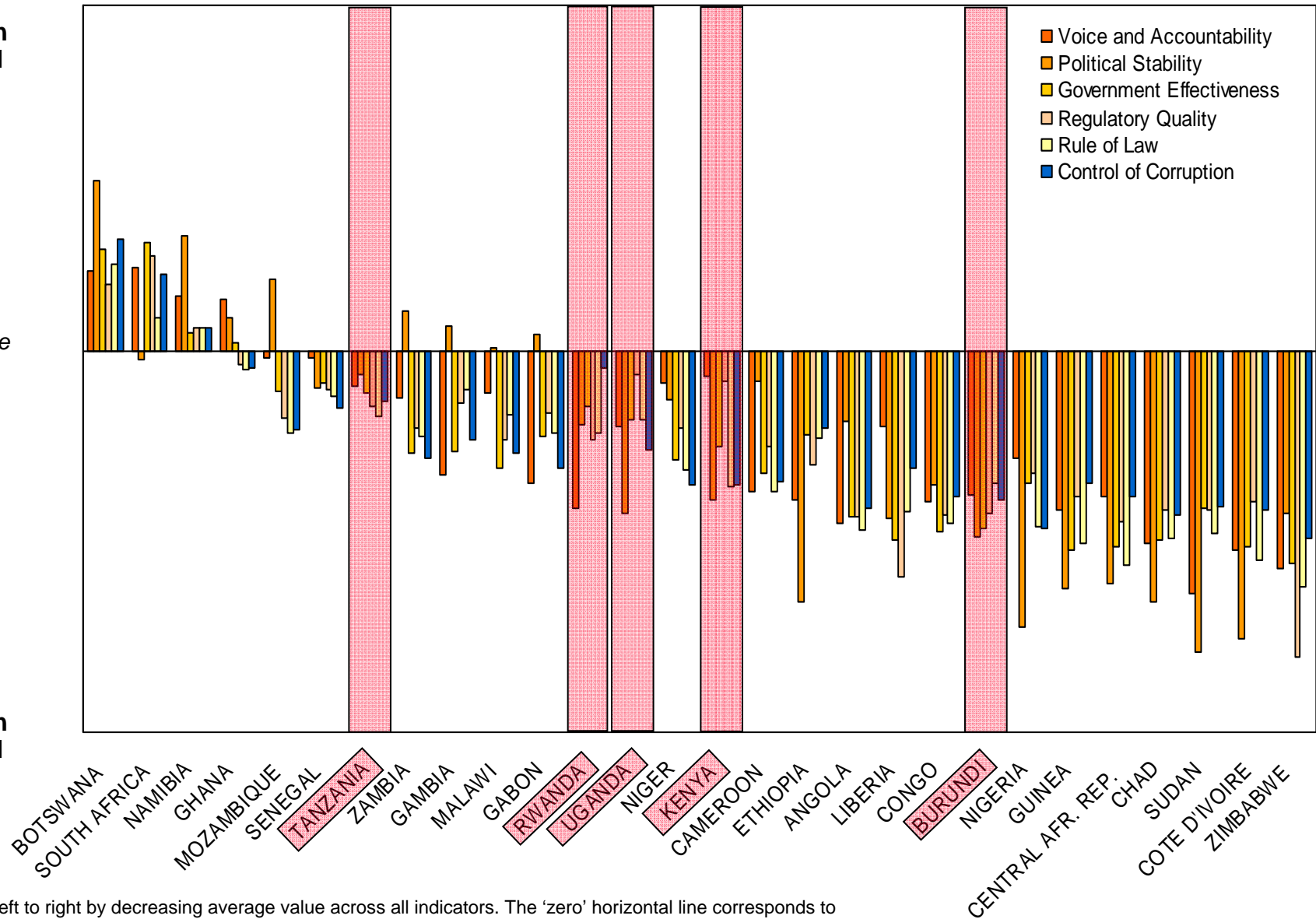
Political Institutions Indicators

Selected Countries

Best country in the world

Index of Governance Quality, 2006

Worst country in the world



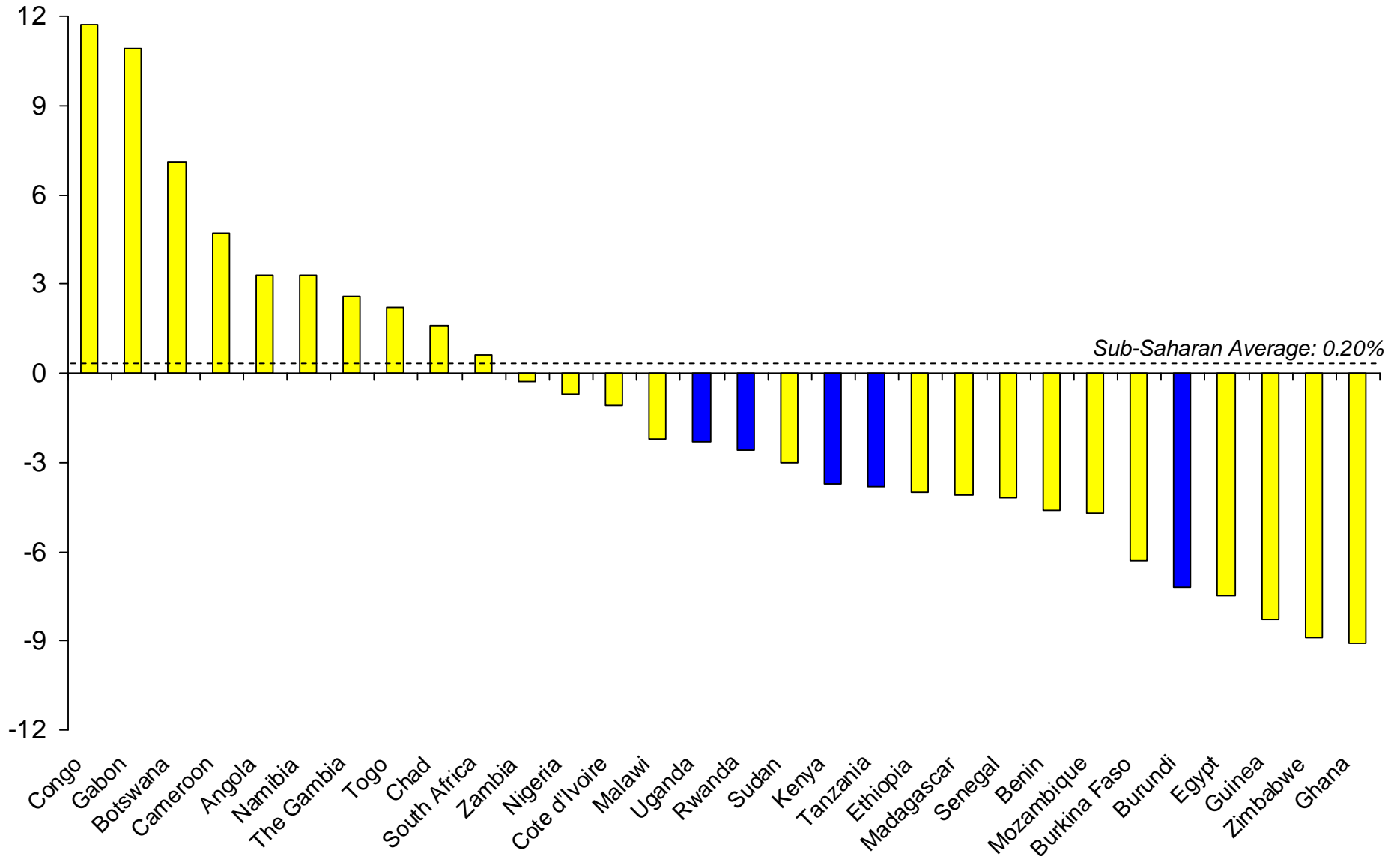
Note: Sorted left to right by decreasing average value across all indicators. The 'zero' horizontal line corresponds to the median country's average value across all indicators.

Source: World Bank (2008)

Balancing Budgets

Selected African Countries

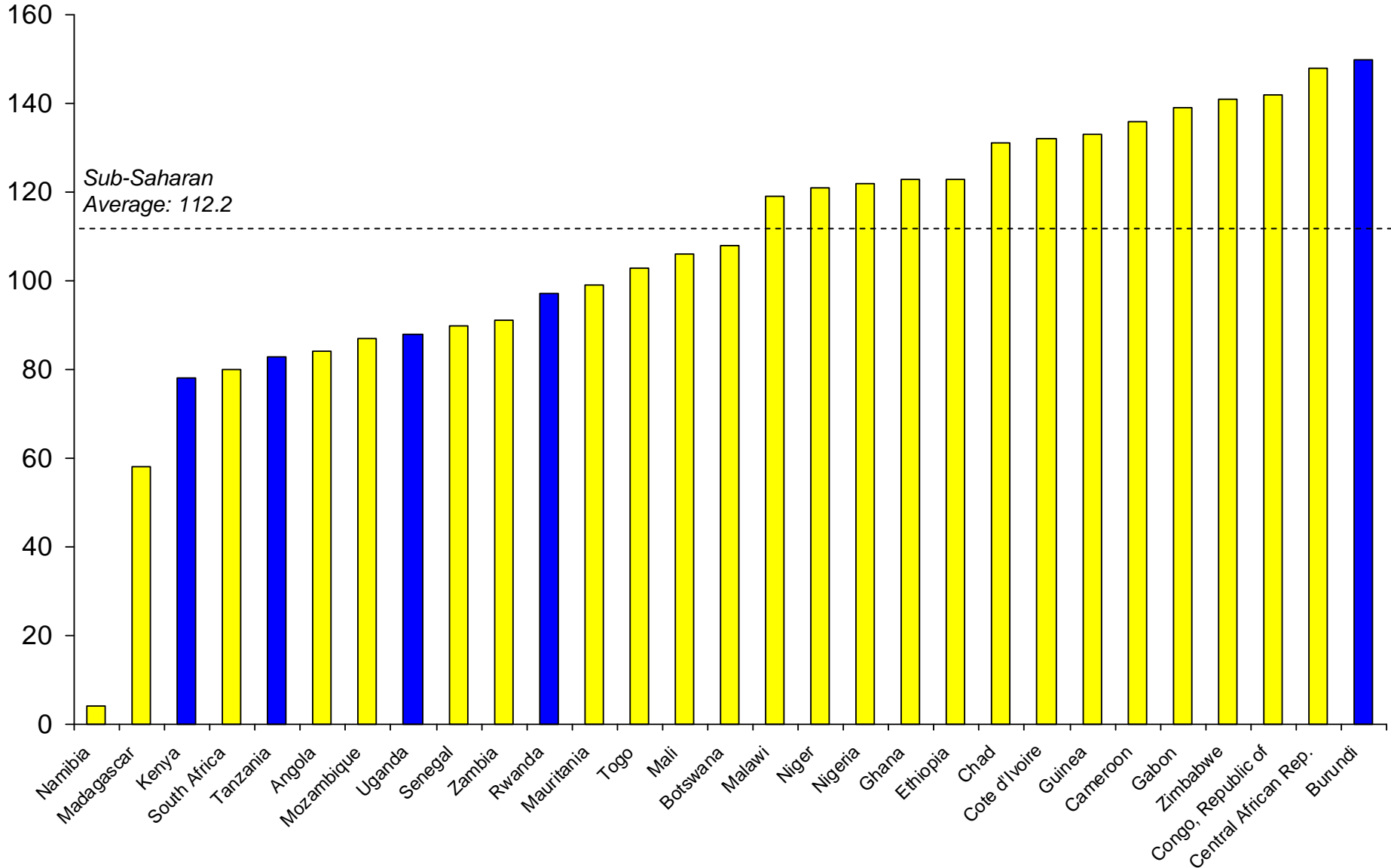
Budget balance (as % of GDP, 2007)



Openness to Trade

Selected African Countries, 2008

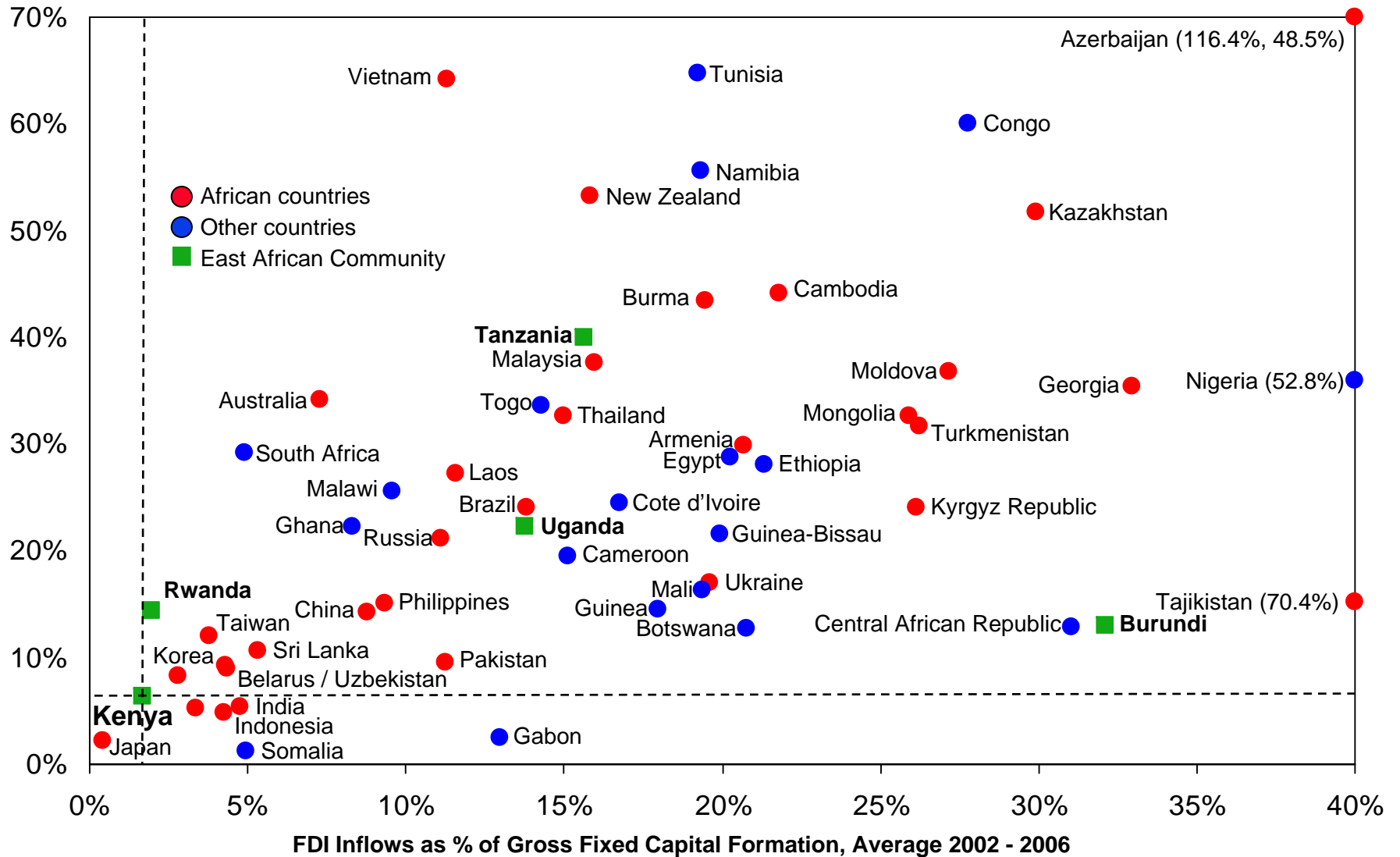
Rank (157 countries)



Inbound Foreign Investment Performance

Selected Countries

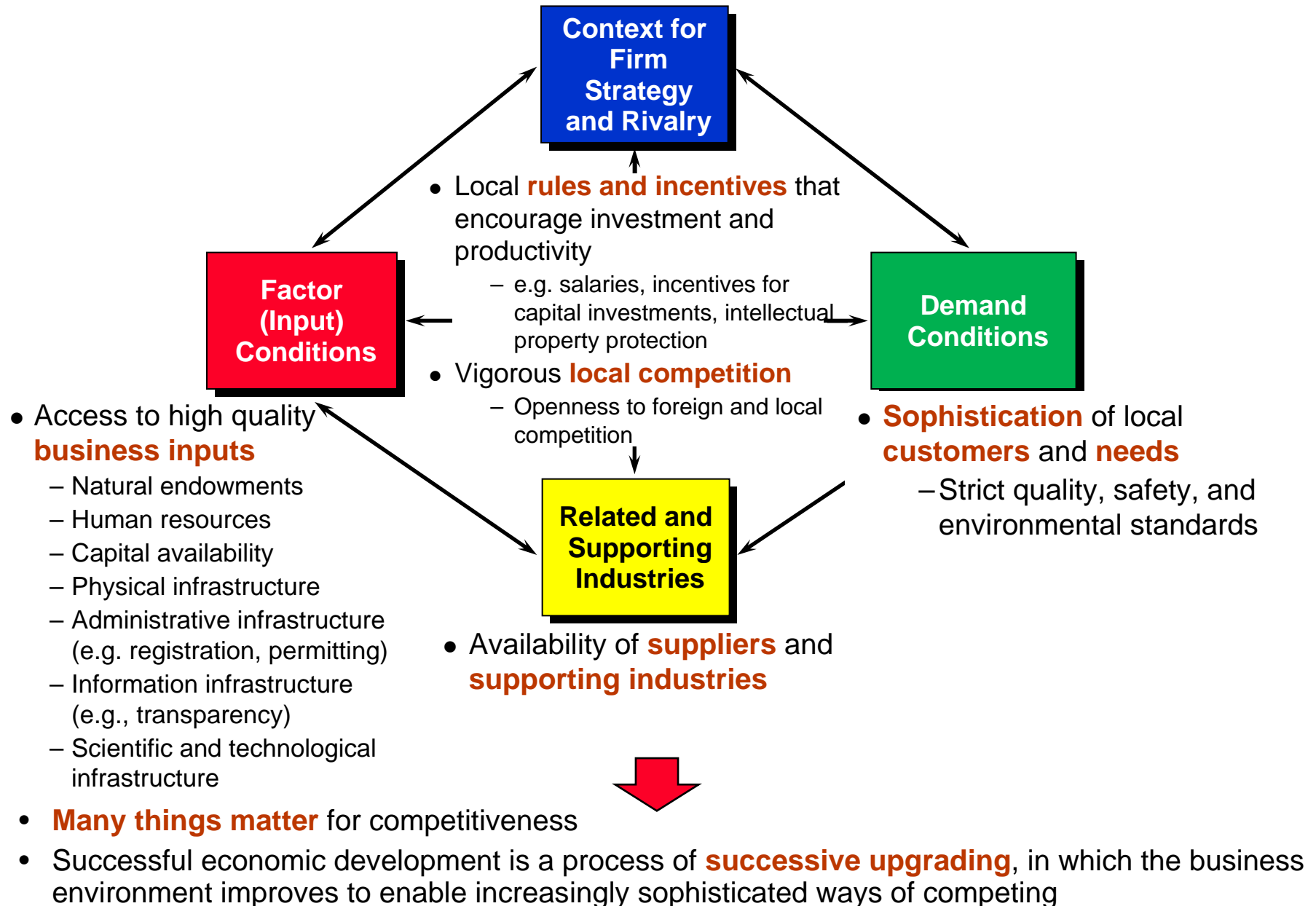
Inward FDI Stocks as % of GDP, Average 2002 - 2006



Source: UNCTAD, World Investment Report (2007)

East African Business Summit – final.ppt

Microeconomic Competitiveness: Quality of the Business Environment



Doing Business

Selected African Countries

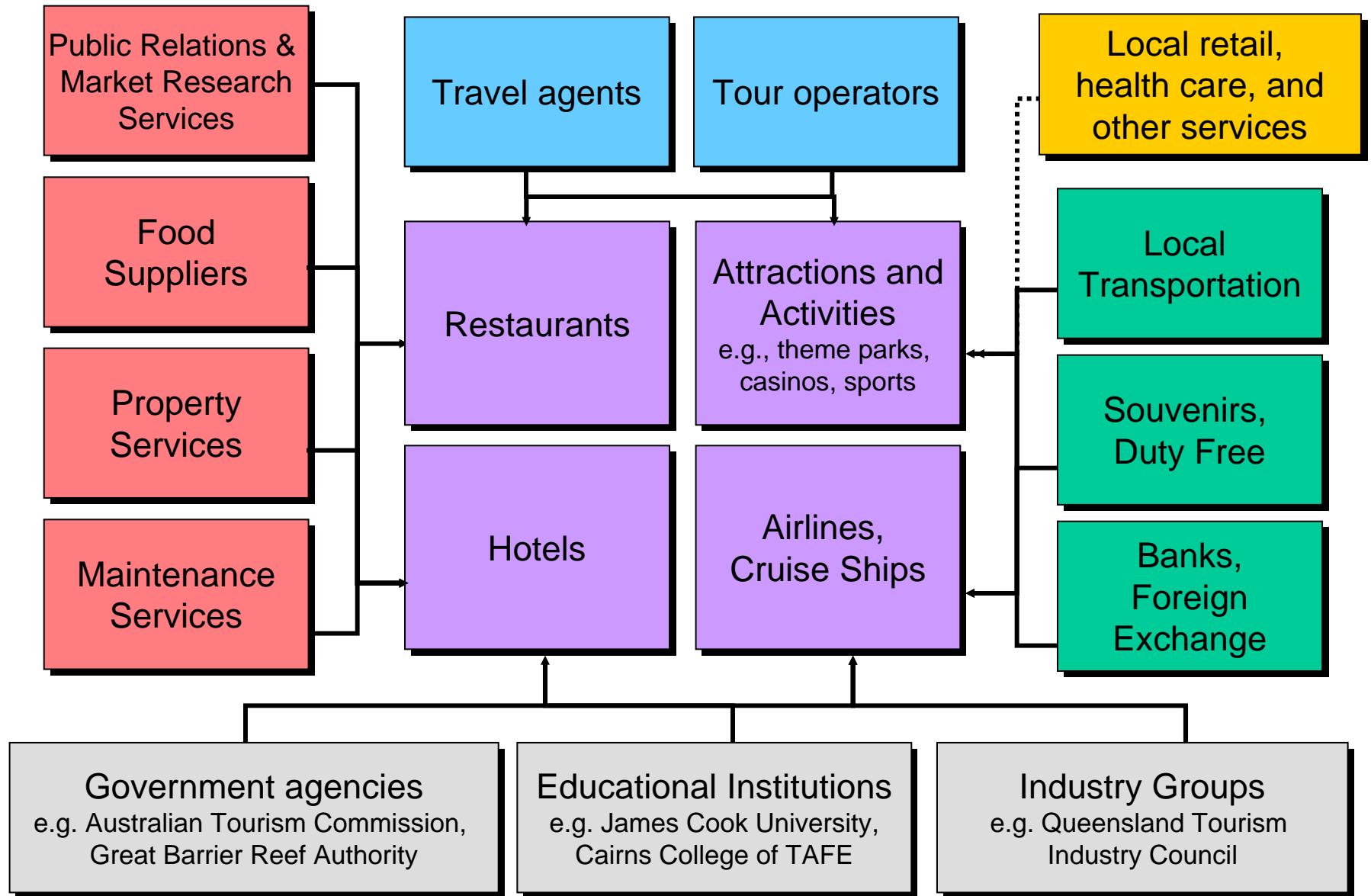
	Ease of Doing Business	Starting a Business	Dealing with Licenses	Employing Workers	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
South Africa	35	53	45	91	76	26	9	61	134	85	68
Namibia	43	101	31	33	128	36	64	48	144	33	47
Botswana	51	99	122	70	36	26	107	14	145	95	26
Kenya	72	112	9	66	114	13	83	154	148	107	76
Ghana	87	138	140	138	28	115	33	75	81	31	96
Ethiopia	102	106	58	89	147	97	107	29	150	77	70
Nigeria	108	80	161	30	173	84	51	107	138	93	89
Zambia	116	82	148	121	125	97	64	30	160	86	84
Uganda	118	114	81	11	163	158	122	55	141	119	48
Malawi	127	108	117	90	87	84	84	78	181	135	135
Tanzania	130	95	170	151	160	115	83	104	100	35	109
Gambia	131	94	70	29	133	135	165	173	73	61	116
Mozambique	134	125	147	162	126	97	33	72	140	138	134
Gabon	144	147	44	163	148	115	147	93	106	145	130
Madagascar	149	61	139	150	165	176	51	86	126	151	178
Rwanda	150	63	124	95	137	158	165	50	166	44	178
Benin	151	137	123	115	105	115	147	161	124	166	106
Zimbabwe	152	143	172	123	79	97	107	144	169	74	151
Cameroon	154	160	154	120	134	115	107	166	132	172	92
Togo	156	176	143	146	150	135	138	138	81	153	90
Mauritania	157	167	142	117	52	115	141	171	152	89	143
Mali	158	149	101	88	90	135	147	151	162	157	107
Burkina Faso	161	105	169	152	170	115	138	133	170	109	91
Senegal	162	159	64	160	155	135	158	164	136	148	73
Guinea	166	171	158	99	151	135	165	163	102	127	111
Angola	167	173	136	172	166	84	51	120	164	176	138
Niger	169	153	155	161	63	135	147	115	163	132	133
Chad	173	177	68	135	123	135	122	124	157	167	178
Burundi	174	124	171	99	122	170	147	109	167	148	178
Congo, Republic of	175	154	67	167	168	115	147	176	171	156	110
Central African Rep.	177	139	133	149	95	115	122	175	172	169	178
African Average	133.625	126.875	111.275	113.05	125.05	109.425	110.325	105.075	131.375	113	115.65

Rank out of 178 countries. East African countries highlighted.

Source: World Bank Doing Business (2008).

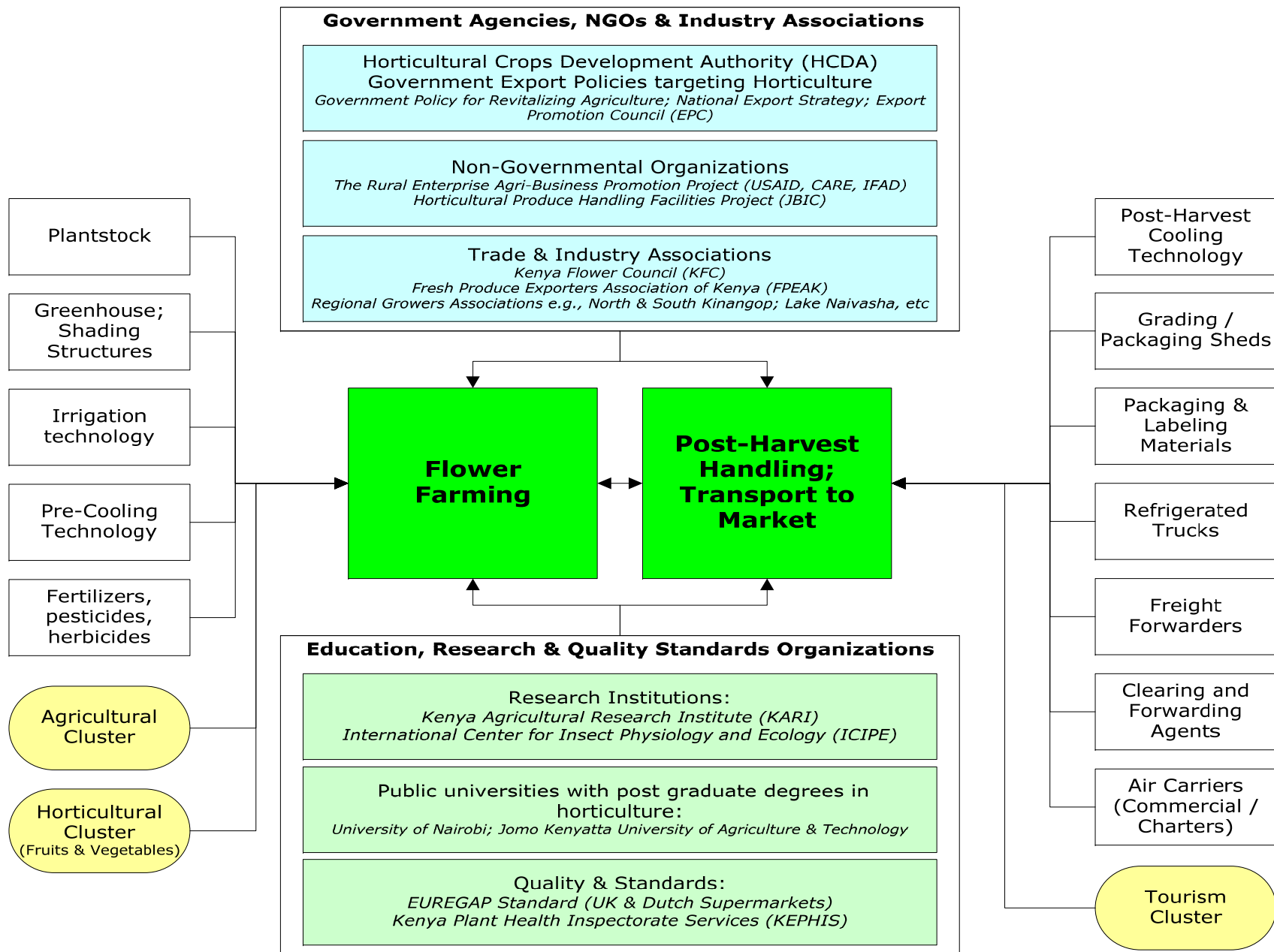
Microeconomic Competitiveness: State of Cluster Development

Tourism Cluster in Cairns, Australia



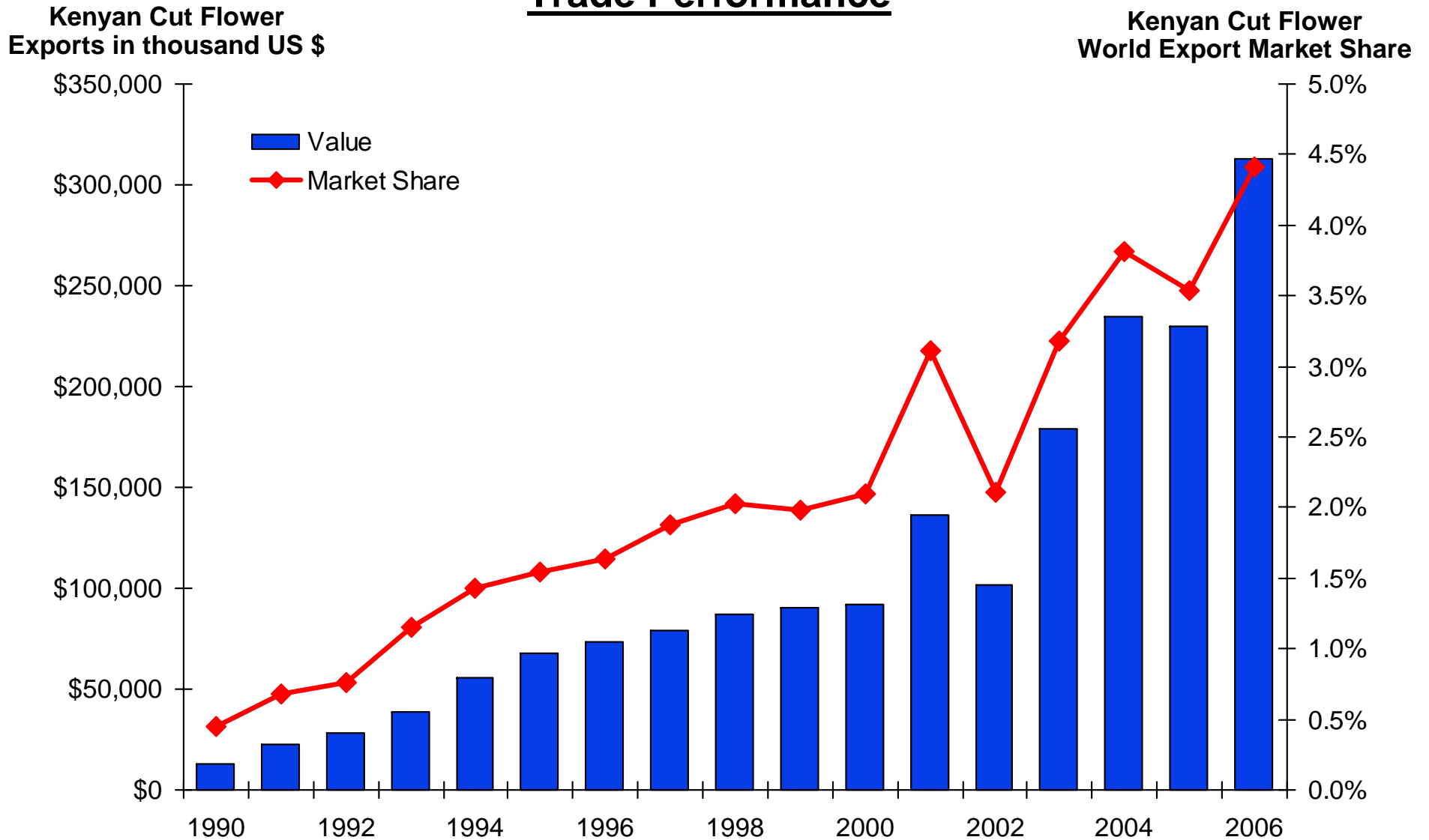
Sources: HBS student team research (2003) - Peter Tynan, Chai McConnell, Alexandra West, Jean Hayden

Kenya's Cut Flower Cluster



The Kenyan Cut Flower Cluster

Trade Performance



Source: International Cluster Competitiveness Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director.
Underlying data drawn from the UN Commodity Trade Statistics Database.

East African Community

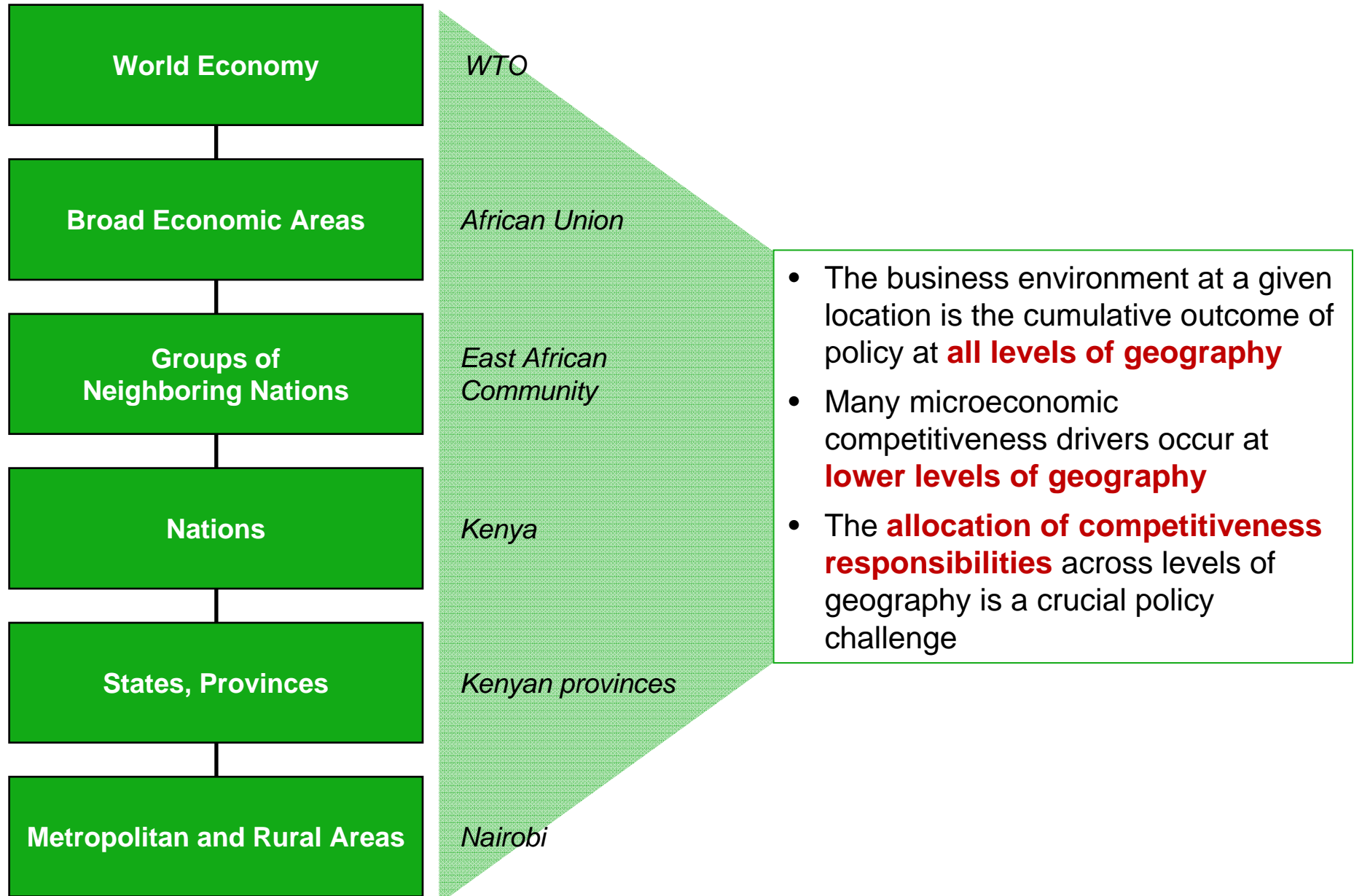
Top 5 Export Clusters by Value, 2006

	Cluster	Export Value (in \$thousands)	Export Growth (CAGR), 2001-2006	Top 5 Clusters Share of Total Exports
Burundi	Jewelry, Precious Metals and Collectibles	\$ 85,550	92.02%	96.8%
	Agricultural Products	\$ 41,938	9.20%	
	Business Services	\$ 3,398	51.97%	
	Metal Mining and Manufacturing	\$ 2,851	-6.25%	
	Hospitality and Tourism	\$ 1,311	29.24%	
Kenya	Agricultural Products	\$ 1,564,199	13.20%	73.3%
	Transportation and Logistics	\$ 1,021,590	22.04%	
	Hospitality and Tourism	\$ 688,223	22.18%	
	Communications Services	\$ 283,885	57.76%	
	Apparel	\$ 229,614	141.55%	
Rwanda	Agricultural Products	\$ 77,361	24.31%	94.6%
	Metal Mining and Manufacturing	\$ 38,958	16.70%	
	Hospitality and Tourism	\$ 31,702	6.42%	
	Transportation and Logistics	\$ 30,160	16.71%	
	Business Services	\$ 8,467	19.60%	
Tanzania	Jewelry, Precious Metals and Collectibles	\$ 807,812	28.29%	90.2%
	Agricultural Products	\$ 307,431	7.23%	
	Fishing and Fishing Products	\$ 188,628	17.84%	
	Textiles	\$ 112,680	20.44%	
	Tobacco	\$ 106,700	31.66%	
Uganda	Agricultural Products	\$ 375,402	16.53%	73.1%
	Hospitality and Tourism	\$ 354,854	21.02%	
	Fishing and Fishing Products	\$ 140,705	16.87%	
	Jewelry, Precious Metals and Collectibles	\$ 124,215	25.01%	
	Communications Equipment	\$ 54,464	140.27%	

	Represents Cluster with
	Strong Regional Strength

Source: Prof. Michael E. Porter, International Cluster Competitiveness Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director. Underlying data drawn from the UN Commodity Trade Statistics Database.

Geographic Levels and Competitiveness



The Process of Economic Development

Shifting Roles and Responsibilities

Old Model

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



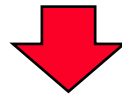
New Model

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

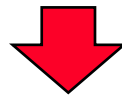
- Competitiveness must become a **bottom-up process** in which many individuals, companies, and institutions take responsibility
- **Every** community and cluster can take steps to enhance competitiveness
- The **private sector** must become more engaged in competitiveness to improve rapidly

Role of the Private Sector in Economic Development

- A company's competitive advantage depends partly on the **quality of the business environment**
- A company gains advantages from being part of a **cluster**
- Companies have a strong **role to play** in upgrading their business environment



- Take an **active role** in upgrading the local infrastructure
- Nurture **local suppliers** and attract foreign suppliers
- Work closely with local **educational and research institutions**, to upgrade their **quality and create specialized programs addressing the cluster's needs**
- Inform government on **regulatory issues and constraints** bearing on cluster development
- Focus **corporate philanthropy** on enhancing the local business environment



- An important role for **trade associations**
 - Greater influence if many companies are united
 - Cost sharing between members

The Neighborhood

East Africa



- Economic coordination among neighboring countries can significantly enhance competitiveness
- Integration with neighbors offers greater opportunities than participation in broader economic forums

Why the Neighborhood Matters

- A nation's most natural trading and investment partners are its **neighbors**
 - Trade and investment allow **specialization** that enhances productivity
 - **Proximity** and **similarity of needs** supports trade and investment in more parts of the economy
- A nation's economic growth and prosperity can be **greatly enhanced by a healthy neighborhood**
 - Larger, growing, and accessible **markets** for local firms (exports and foreign investment)
 - More opportunities for **specialization of the value chain**
 - Each nation becomes **more attractive as a place to invest** because investments can serve the region

Comparative Statistics

East African Community, 2006

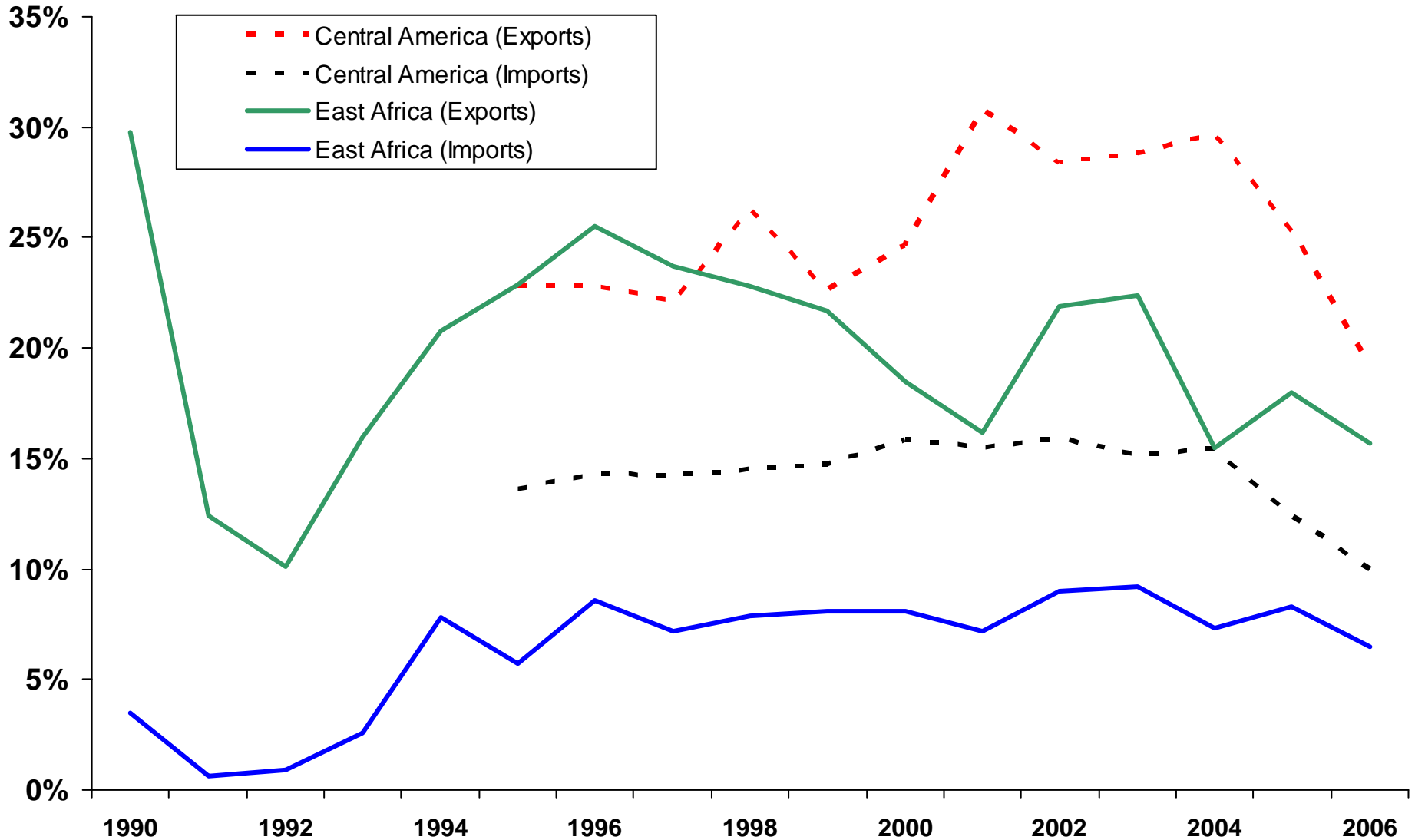
	Population (millions)	GDP (millions US\$)	Official Development Assistance & Aid (millions US\$)	Workers' Remittances (millions US\$)	FDI, Net Inflows (millions US\$)	Total Exports of Goods & Services (millions US\$)	Total Imports of Goods & Services (millions US\$)
Burundi	8.2	\$903	\$415	\$0.01	\$0.03	\$99	\$432
Kenya	36.6	\$22,779	\$943	\$570.5	\$51	\$5,963	\$8,200
Rwanda	9.5	\$2,494	\$585	\$17.2	\$11	\$291	\$786
Tanzania	39.5	\$12,784	\$1,825	\$8.5	\$474	\$3,106	\$3,941
Uganda	29.9	\$9,419	\$1,551	\$814.3	\$392	\$1,404	\$2,775
Total	123.5	\$48,379	\$5,319	\$1,410	\$928	\$10,864	\$16,132

Note: All dollar values are in current USD (2006). Source: World Development Indicators(2008)

Trade within the Region

East Africa vs. Central America

Regions Share of World Trade (%)



Regional Economic Strategy

- Regional collaboration and competitiveness
- Defining a strategic role for the region in the continent and the world economy
- Opening internal trade and investment
- Achieving synergies in enhancing the business environment
- Facilitating cross-border cluster development
- Enhancing company capabilities and non-traditional exports

But

- Cross-national collaboration is not a substitute for national microeconomic reforms
- Increasing the attractiveness of the region as a whole for foreign investment
- Winning greater support from the international community
- Spreading economic policy at the national level

Economic Coordination Among Neighbors

Harnessing Spillovers

Factor (Input) Conditions

- Improving regional **transportation infrastructure**
- Creating an efficient **energy** network
- Interconnecting regional **communications**
- Linking **financial markets**
- Opening the movement of students for **higher education**
- Harmonizing **regulatory requirements** for business

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

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

Related and Supporting Industries

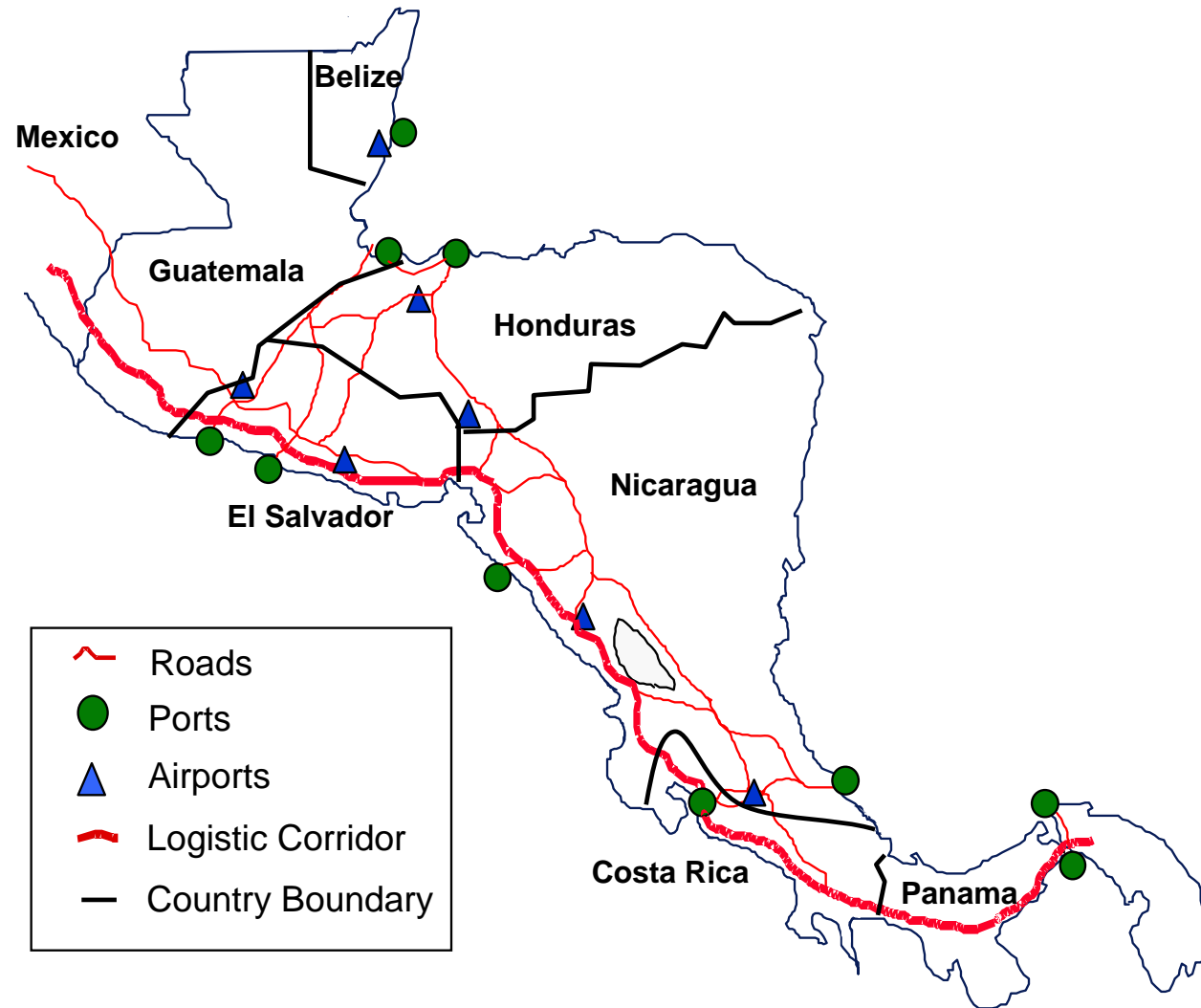
- Coordinating development of **cross-border clusters**, e.g.
 - Tourism
 - Agribusiness
 - Transport & Logistics
 - Business services

Regional & Institutional Governance

- Sharing **best practices** in government operations
- Creating regional **institutions**
 - Dispute resolution mechanisms
 - Regional development bank
- Developing a regional **marketing** strategy
- Coordinating programs to improve **public safety**
- Coordinating **macro-economic** policies

Strategy for Cross-National Regions

Central American Logistical Corridor



Challenges in Regional Coordination

- An overly broad set of countries
- An overly broad agenda
- Focus on politics versus economics
- Lack of a concrete decision-making and implementation structure
- Bureaucracy and complexity
- Neighbors are traditionally seen as **competitors**
- History of **conflicts**, in part because of the colonial legacy that defined borders cutting across ethnic and economic regions
- Weak political institutions at the **national level** pursue ambitious political integration that requires sophisticated governance structures
- **Foreign aid** traditionally organized by recipient country creating challenges for cross-national programs

Regional Economic Strategy Initiatives

Success Factors

- Common **understanding of competitiveness**
 - Focus on **specific projects** and initiatives, not just macro
 - Emphasis on the **microeconomic aspects** of competitiveness
 - Develop a **regional value proposition** = a strategy
 - Led by the **private sector** with the participation of all **regional actors** and representation from the **national governments**
 - Institutionalized through formal **enabling structures**
 - Measure and report **progress**
- 
- Bottoms up, win-win projects, rather than grand political and macroeconomic declarations

Progress of the East African Community

Institutions

- Summit
- Council of Ministers
- Coordinating and Sectoral Committees, Secretariat
- East African Legislative Assembly
- East African Court of Justice

Achievements

- Customs Union (initiated in 2005)
- Enlargement to Burundi and Rwanda (2007)

Ambitions

- Common Market (2010)
- Common Currency (2012)
- Political Federation (???)

East African Nations

Common Opportunities

- Building exports
- Attracting FDI
- Reducing the costs of doing business
- Human resource development
- Logistical efficiency
- Energy costs and availability

An Agenda for East Africa

- Launch an immediate action program to **simplify and speed up the flow of goods and capital** to improve regional trade
 - e.g., Border crossing hours,
 - customs paperwork
- Create an **East African Business Council** of private sector leaders to organize private sector initiatives and advise government leaders
- Organize **regional networks** in clusters with multiple country presence (i.e., tourism, cut flowers, coffee, IT, etc.) to encourage cross-border investments and projects
- Strengthen **ministerial groups for policy coordination** in key policy areas like infrastructure, logistics, workforce development, energy, etc.
- Encourage collaboration of neighboring **provinces across national borders**
- Jointly approach **foreign donors** to fund for cross-national activities
- Institutionalize the East African Community **governance process**