

Competitiveness in the Post Crisis Era: The Strategic Agenda for the UK

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Dr. Christian Ketels helped prepare this presentation. It 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 2006](#) (World Economic Forum, 2006), "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

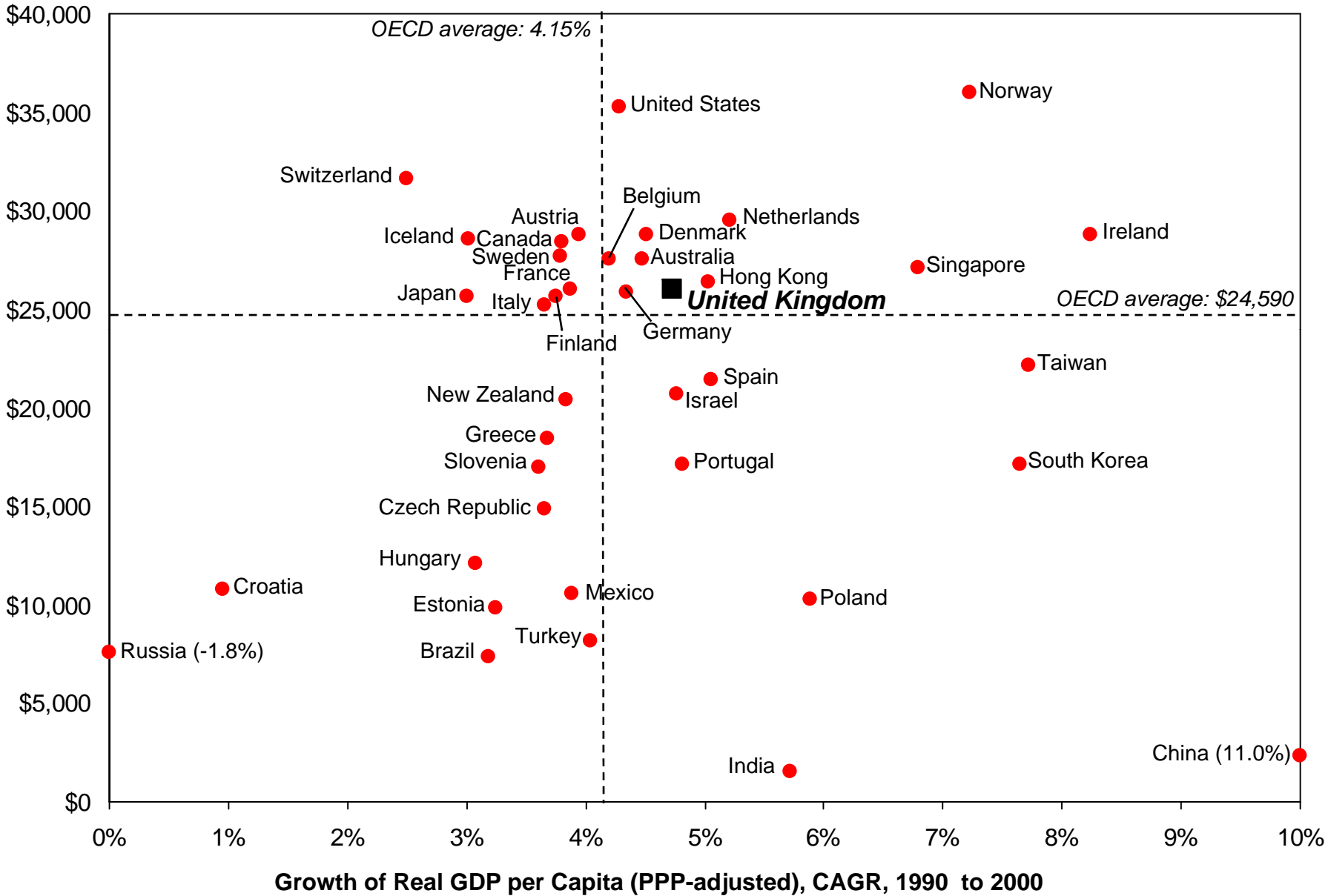
The Global Economic Context in 2010

- The global economy is slowly recovering from a **deep recession**, with significant risks remaining
- Countries are looking for ways to achieve **sustainable economic growth** and **job creation**
- Competitiveness has become **more important than ever**
 - Globalization will **continue** and strong international competitors are emerging
 - Companies are **reexamining everything** in terms of how and where they operate
- The UK has achieved a long-term **competitive transformation**, but the next stage of development will be **slower** and **more challenging**

Prosperity

Selected Countries, 1990 to 2000

PPP-adjusted GDP per Capita, 2000 (\$USD)

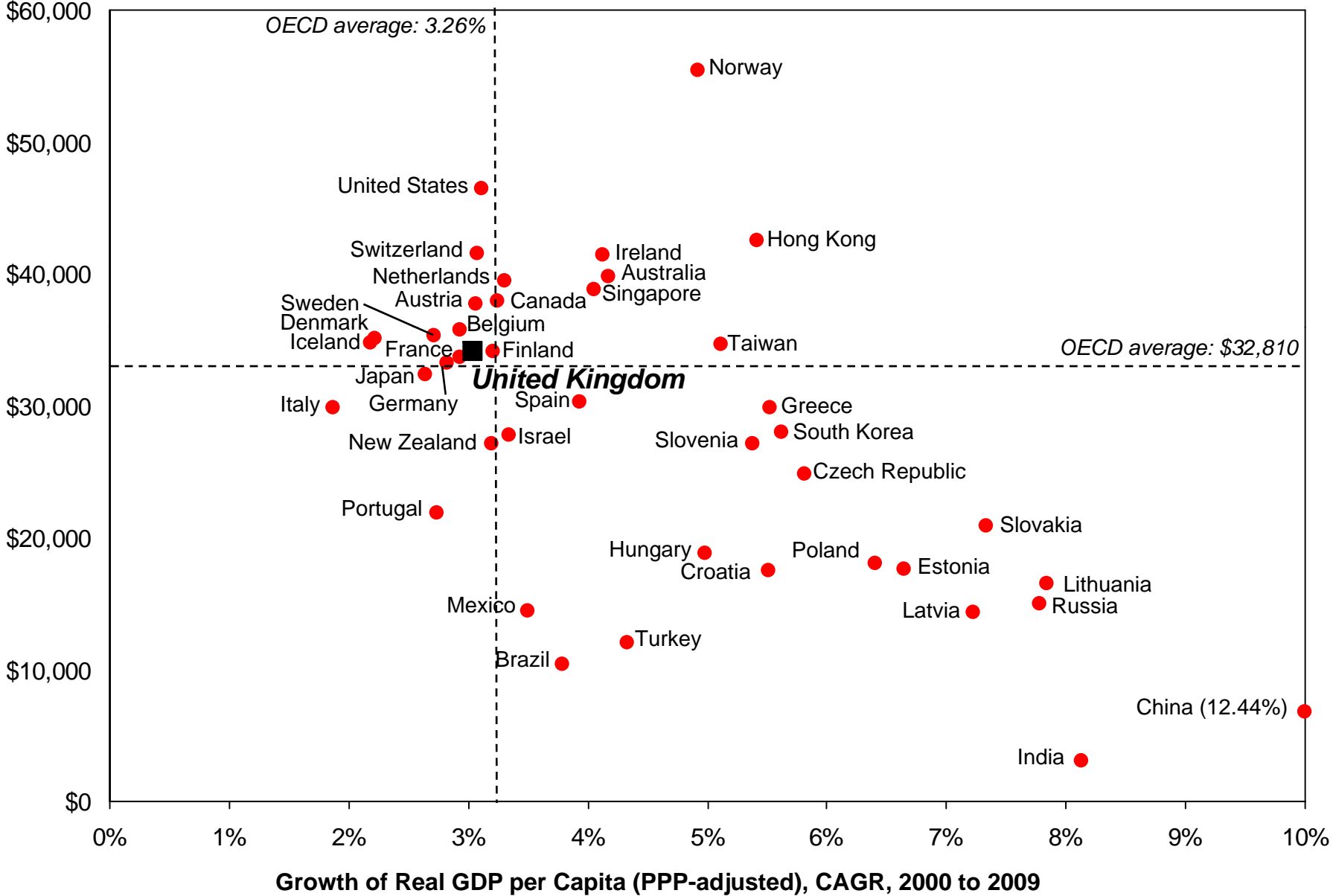


Source: EIU (2010), authors calculations

Prosperity

Selected Countries, 2000 to 2009

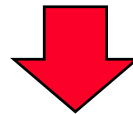
PPP-adjusted GDP per Capita, 2009 (\$USD)



Source: EIU (2010), authors calculations

What is Competitiveness?

- Competitiveness is the **productivity** with which a nation uses its human, capital, and natural resources
 - Productivity **sets the standard of living**
 - Productivity growth drives **sustainable economic growth**
- Productivity and prosperity depends on **how** a nation competes, not what industries it competes in
 - Productivity in the modern global economy arises from a **combination of domestic and foreign firms**
- Relentless **commercialization of innovation** in technology, products, and organizational methods is necessary to drive **productivity growth** and enable the standard of living to rise

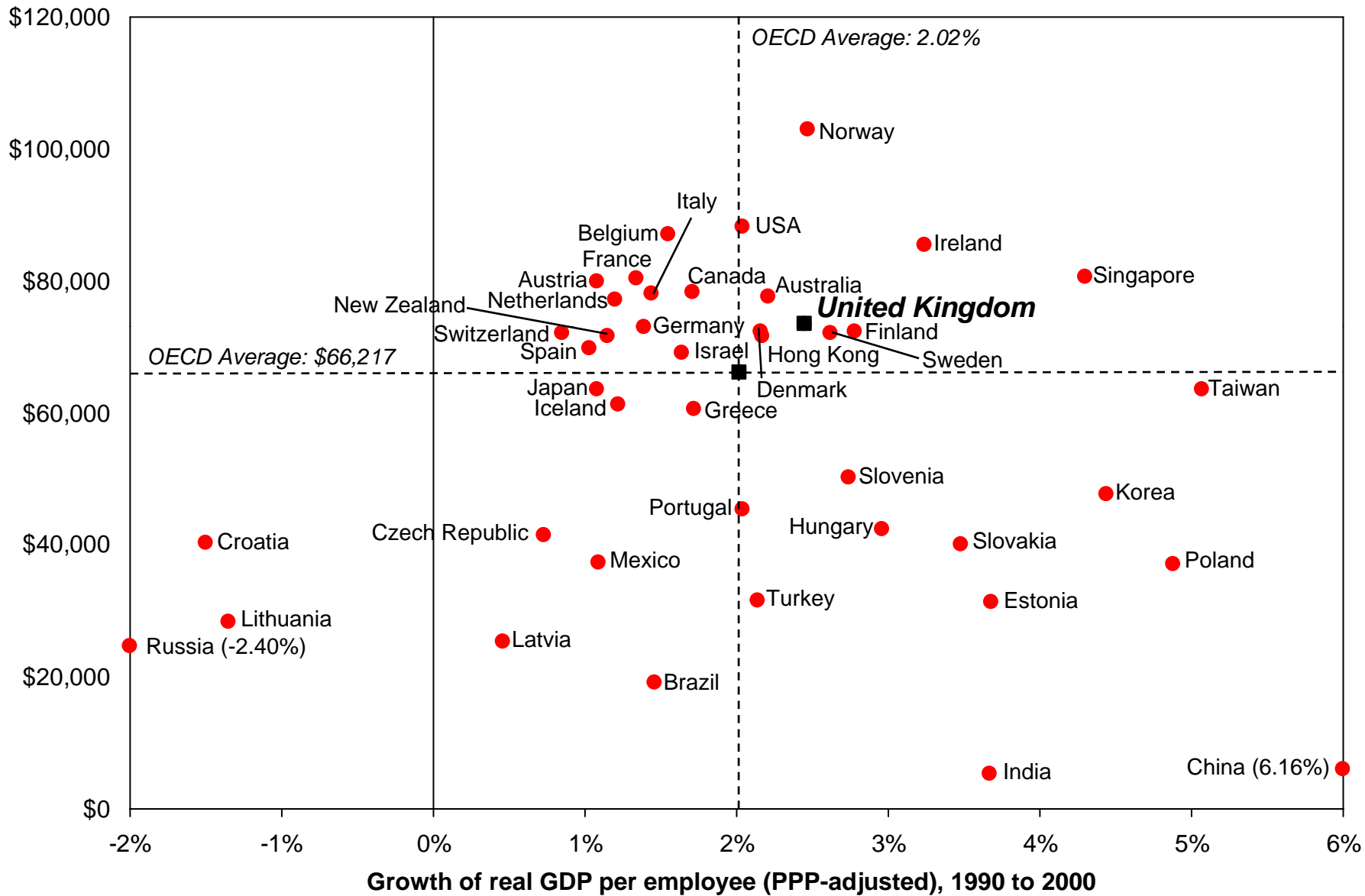


- Nations compete to offer the **most productive environment for business**
- The public and private sectors play **different but interrelated roles** in creating a productive economy

Labor Productivity

Selected Countries, 1990 to 2000

Real GDP per employee
(PPP adjusted US\$), 2000

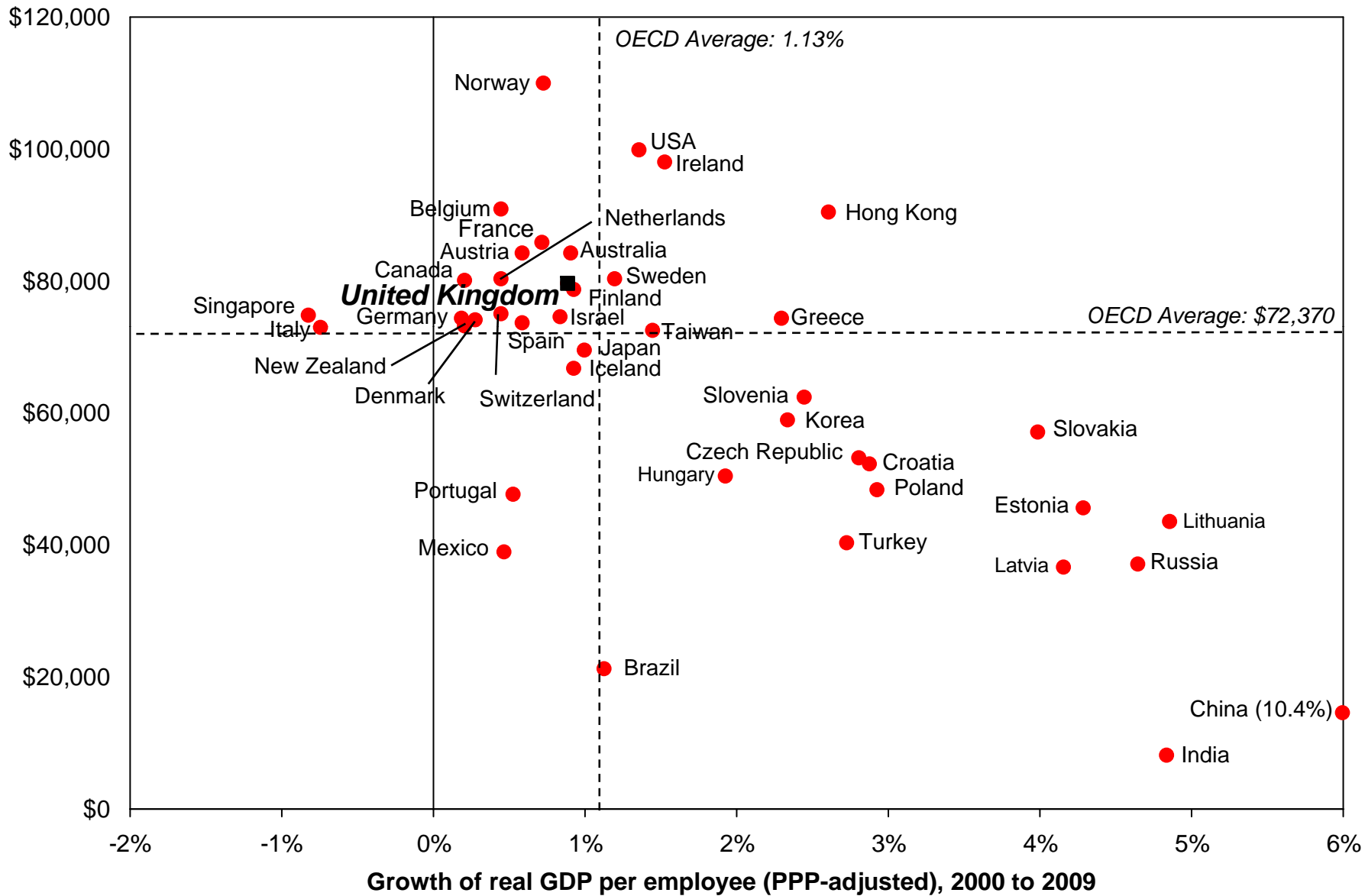


Source: authors calculation Groningen Growth and Development Centre (2010)
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Labor Productivity

Selected Countries, 2000 to 2009

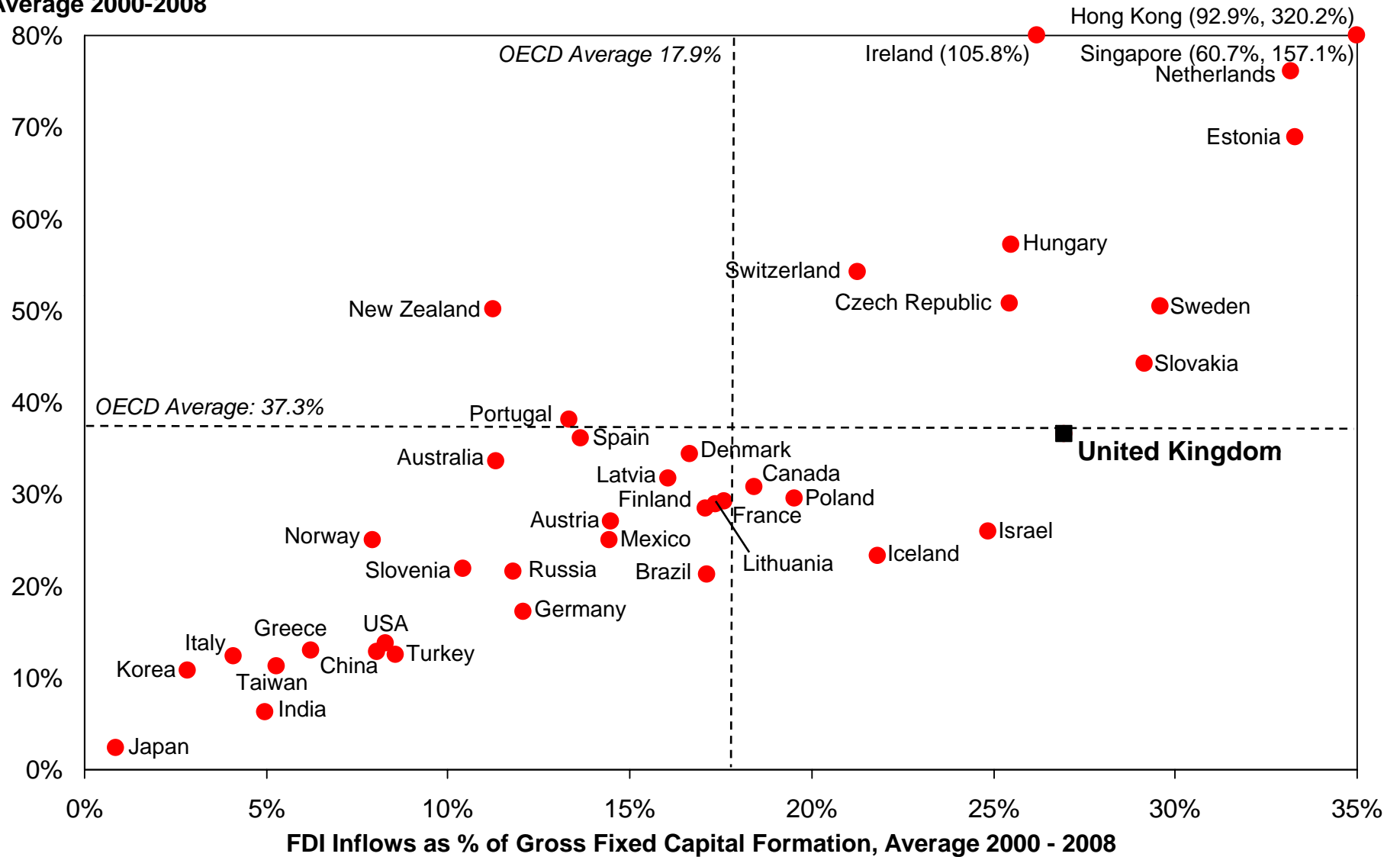
Real GDP per employee
(PPP adjusted US\$), 2009



Source: authors calculation Groningen Growth and Development Centre (2010)
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Inbound Foreign Investment Stocks and Flows, Selected Countries

**Inward FDI Stocks
as % of GDP,
Average 2000-2008**

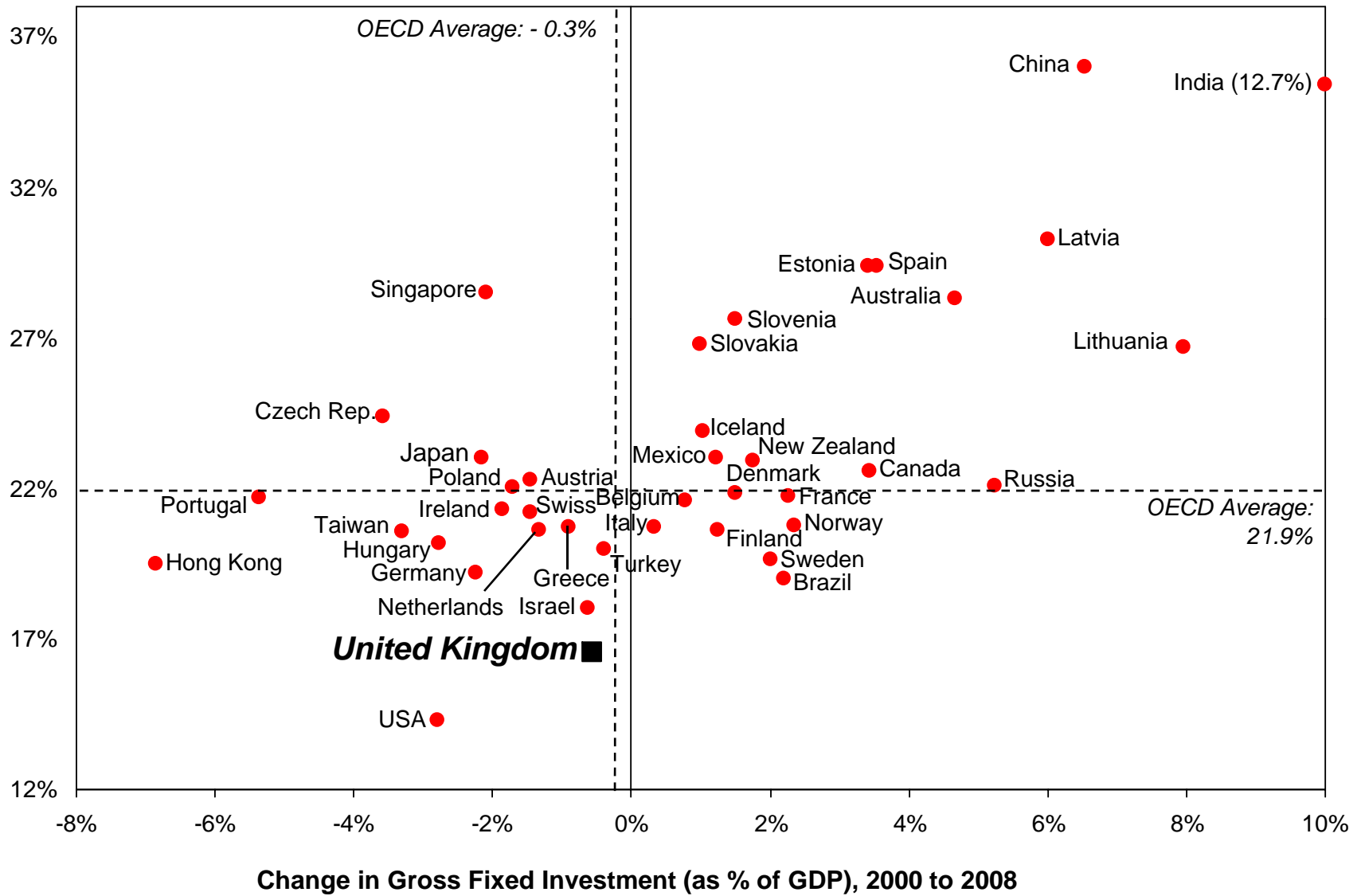


Source: UNCTAD, World Investment Report (2009). OECD Average does not include Luxembourg.

Domestic Fixed Investment Rates

Selected Countries

Gross Fixed Investment
as % of GDP, 2008

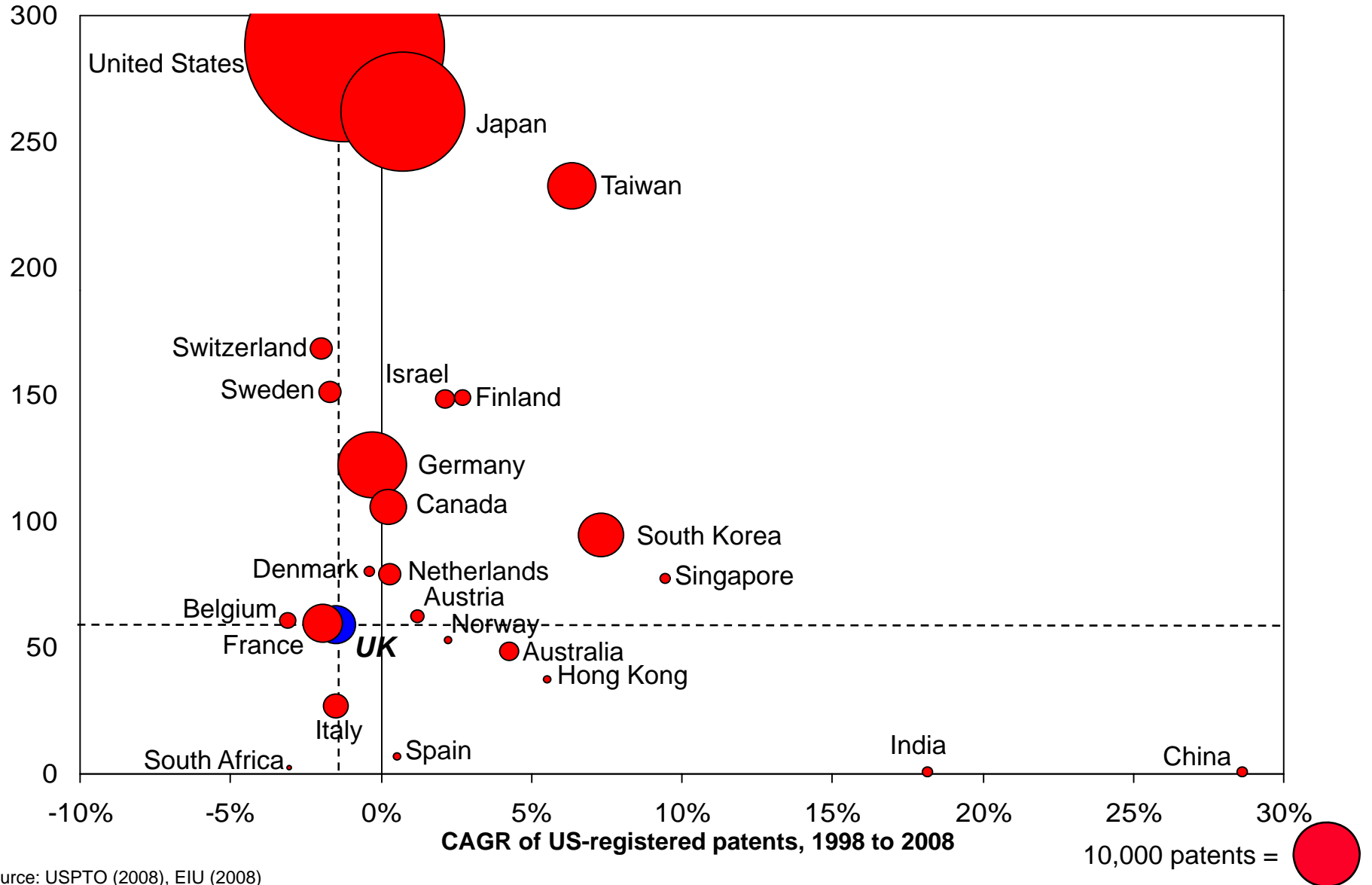


Note: Includes inbound FDI
Source: EIU, 2009
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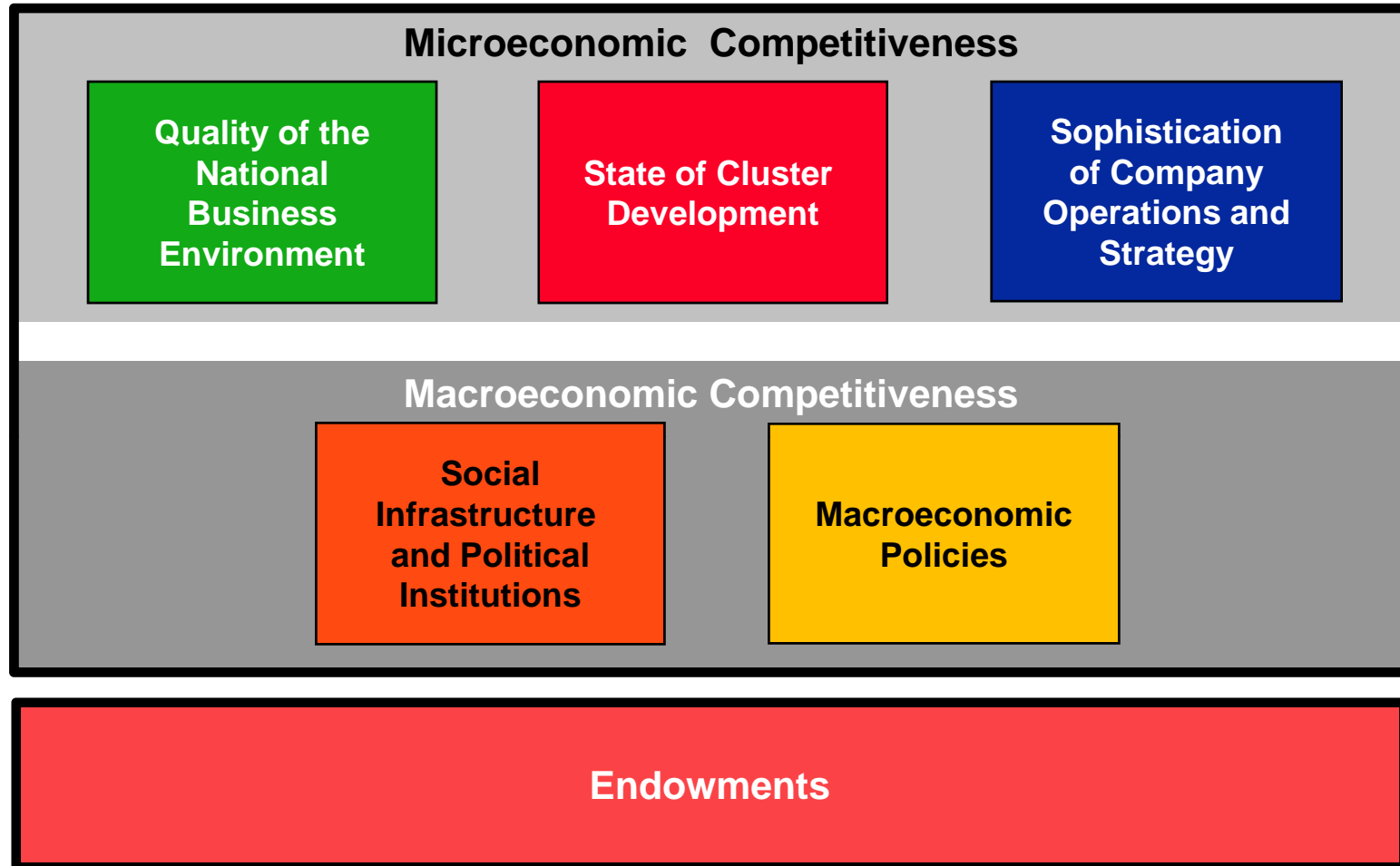
Innovative Output

Selected Countries, 1998 to 2008

Average U.S. patents per 1 million population, 1998-2008

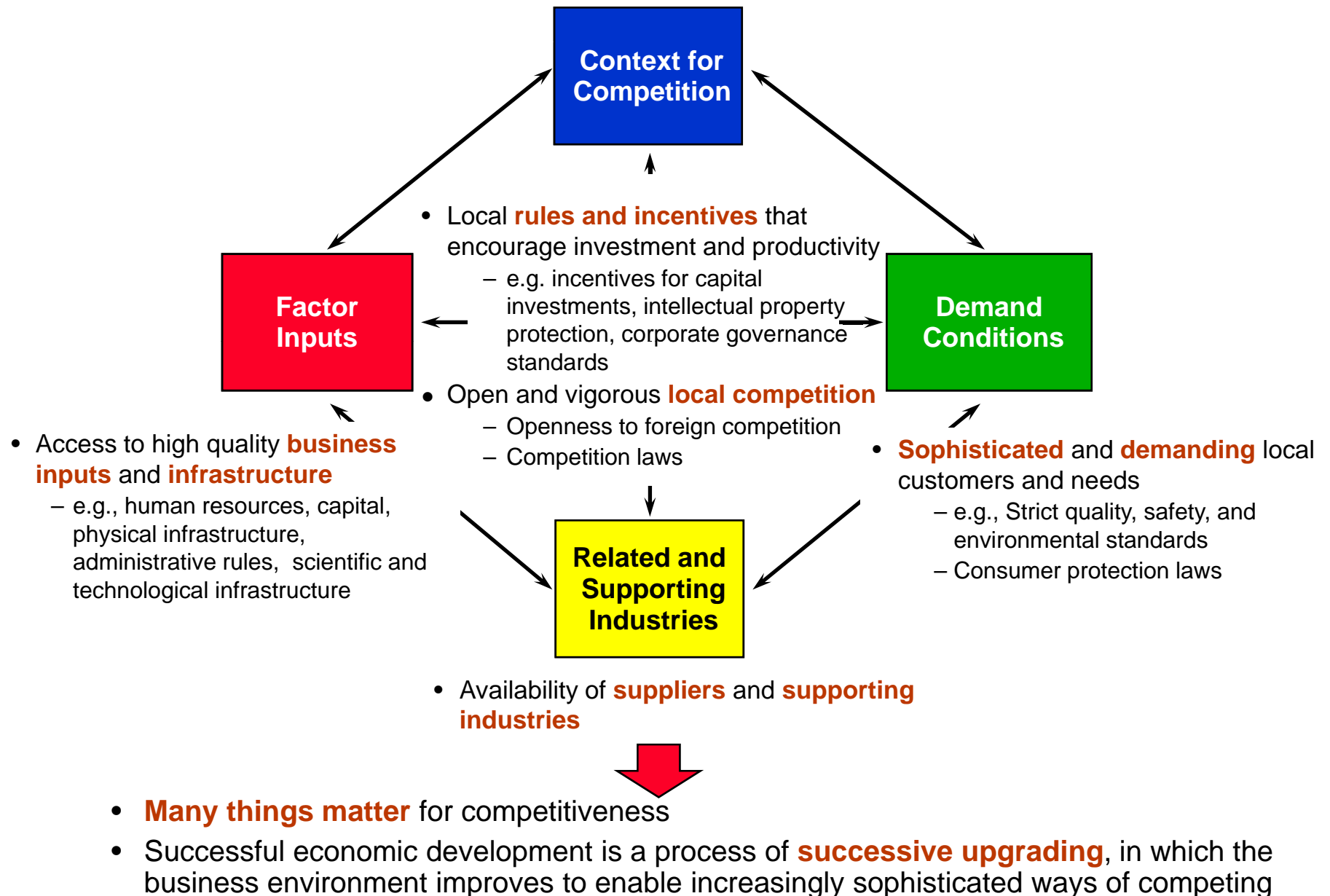


Determinants of Competitiveness



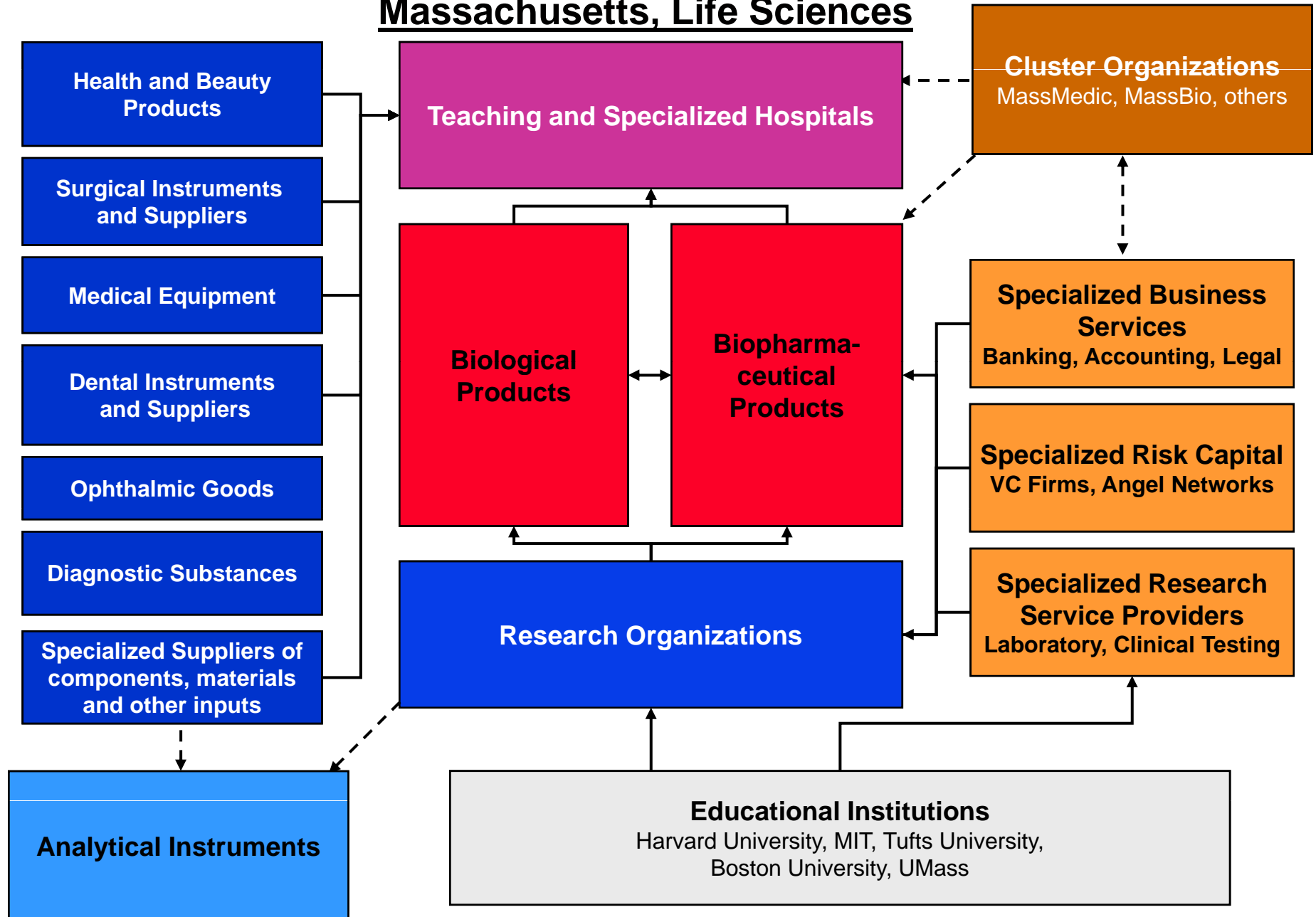
- Macroeconomic competitiveness creates the potential for high productivity, but is **not sufficient**
- Productivity ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local competition**

Microeconomic Competitiveness: The Business Environment

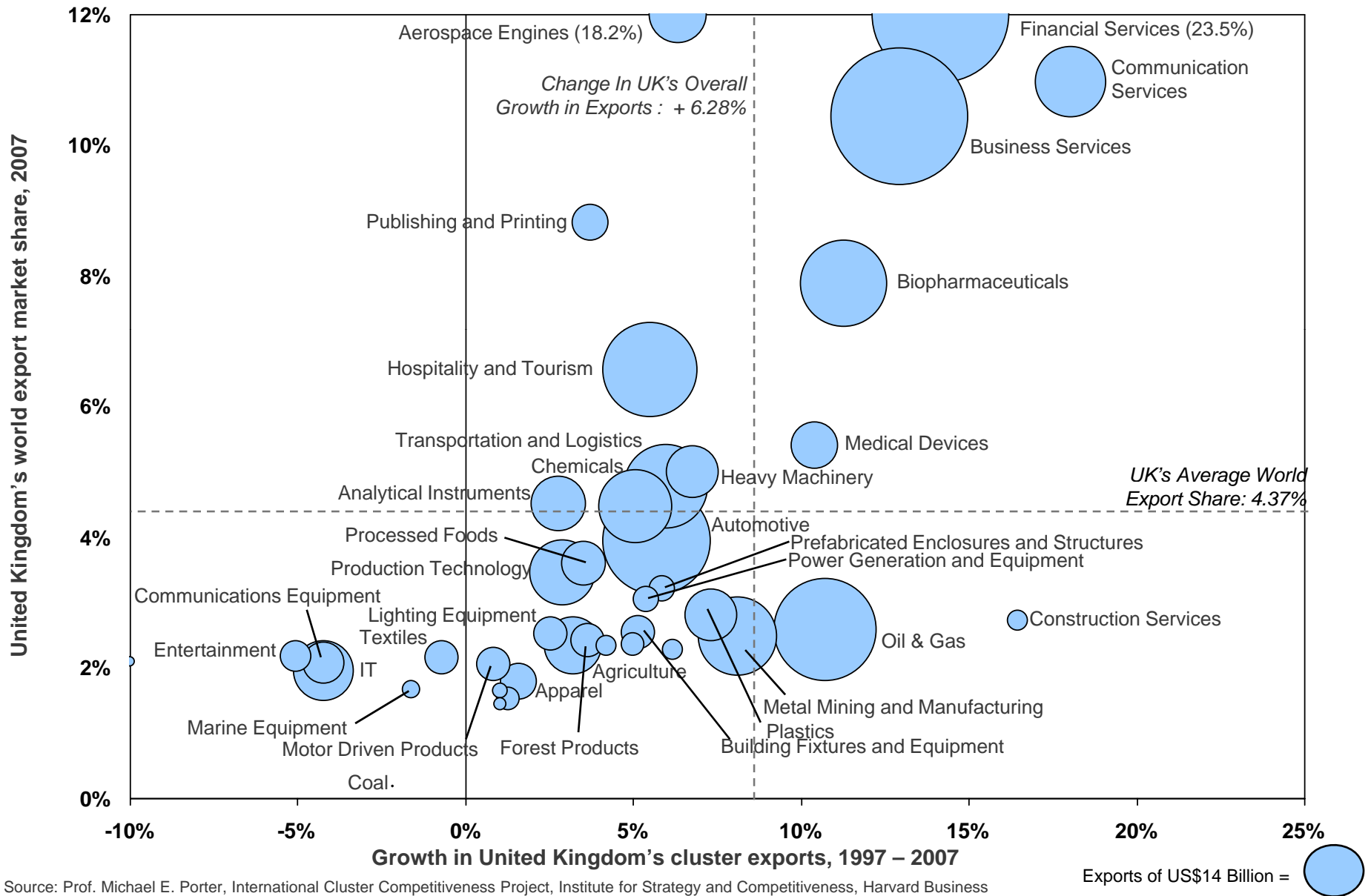


Cluster Development

Massachusetts, Life Sciences

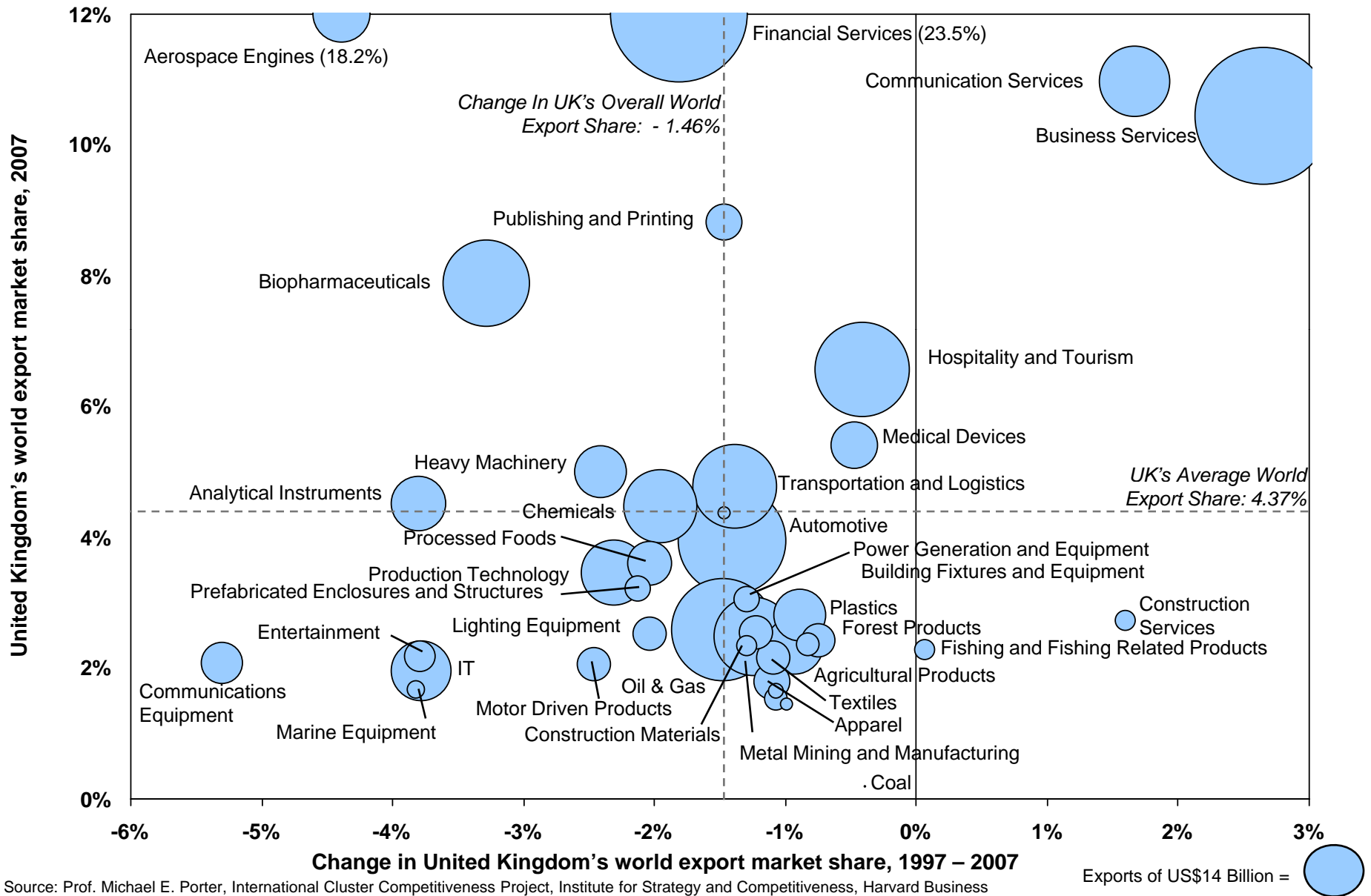


UK Cluster Export Growth, 1997-2007



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 and the IMF BOP statistics.
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UK Cluster Export Share Performance, 1997-2007



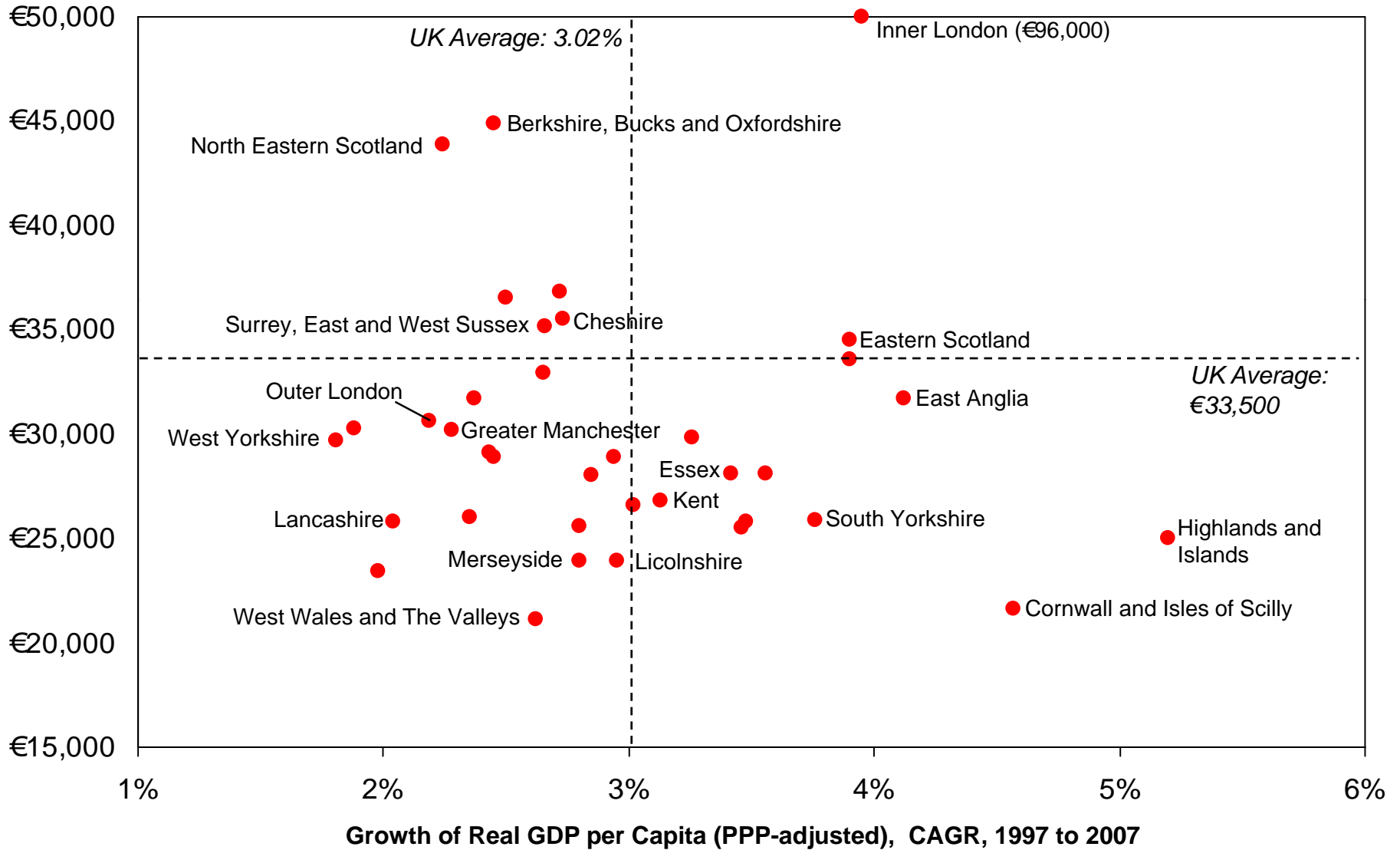
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Regions and Competitiveness

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

UK Regional Economic Performance

GDP per Capita,
Euros, 2007



Note: Gross domestic product (GDP) at current market prices at NUTS level 2

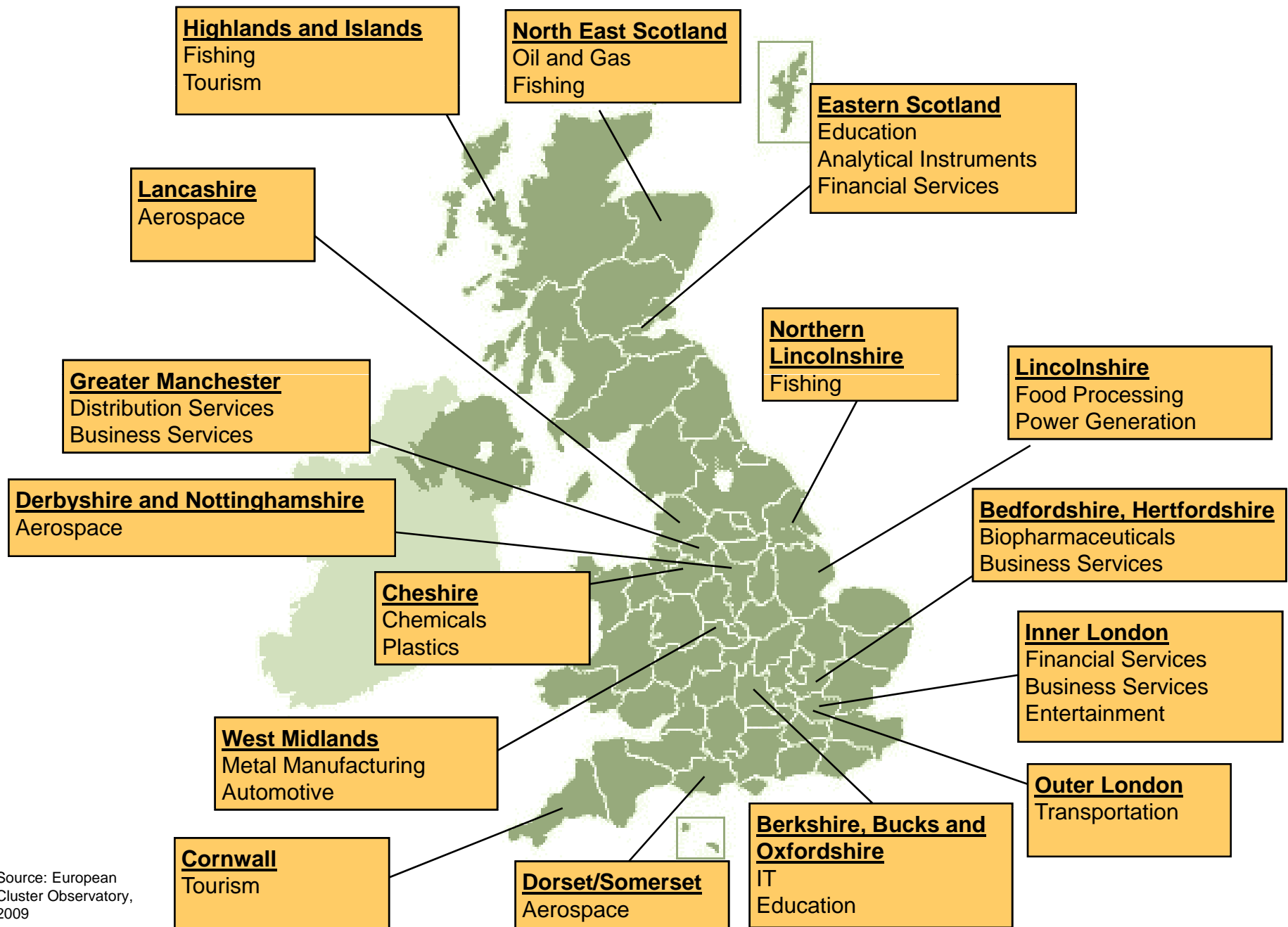
Source: EUROSTAT, 2010

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Regions and Competitiveness

- Economic performance **varies significantly** among sub-national regions (e.g., provinces, states, metropolitan areas)
- Many of the essential levers of competitiveness **reside at the regional level**
- Region's **specialize** in different sets of clusters
 - **Cluster strength** drives regional performance

UK Cluster Specialization For Selected Regions, 2007



Source: European Cluster Observatory, 2009

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Regions and Competitiveness

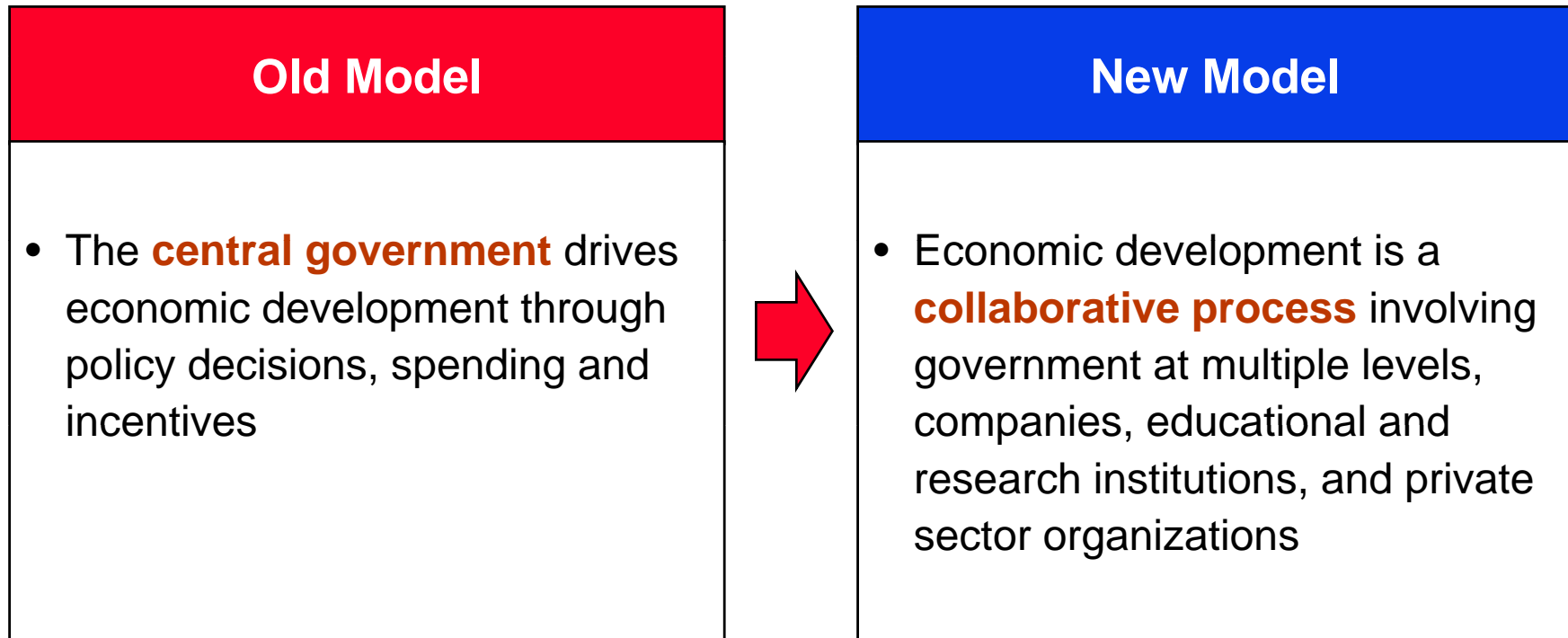
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- **Decentralization** of economic policy is especially important in larger countries to foster regional specialization, internal competition, and local accountability
- Each region needs a distinct **competitiveness agenda**
- Competitiveness improvements requires **effective policy collaboration** between regions and the national government

The Process of Economic Development

Roles and Responsibilities



- Competitiveness must move towards a **bottom-up process** in which many individuals, companies, and institutions take responsibility and act

Competitiveness Agenda for the UK

- **Much progress** has been made in enhancing UK competitiveness
- The UK should **continue the long-term investments** that will be needed to drive future competitiveness
 - Innovation infrastructure and incentives
 - Education and training
 - Physical infrastructure
 - Administrative and regulatory simplification
 - SME development, including the supply of risk capital
- To further enhance innovation, **demand side policies** should complement supply side policies
 - e.g. regulatory quality, government procurement
- Policies to improve the business environment would benefit from more **continuity** and greater **strategic focus**
- It is essential that future **fiscal policy** is aligned with improving competitiveness

Competitiveness Agenda for the UK (Continued)

- A broad-based, market driven **cluster development strategy** is a crucial tool to drive further productivity and innovation
- Greater **decentralization of economic policy** to the regional level is a fundamental step forward, but implementation needs continued improvement
- The **private sector** must become a **much stronger partner** in competitiveness
- A deeper challenge will be to better align **financial market competition** with competitiveness in the **real economy**