

The Competitive Advantage of Nations: Implications for Rwanda

Professor Michael E. Porter
Harvard Business School

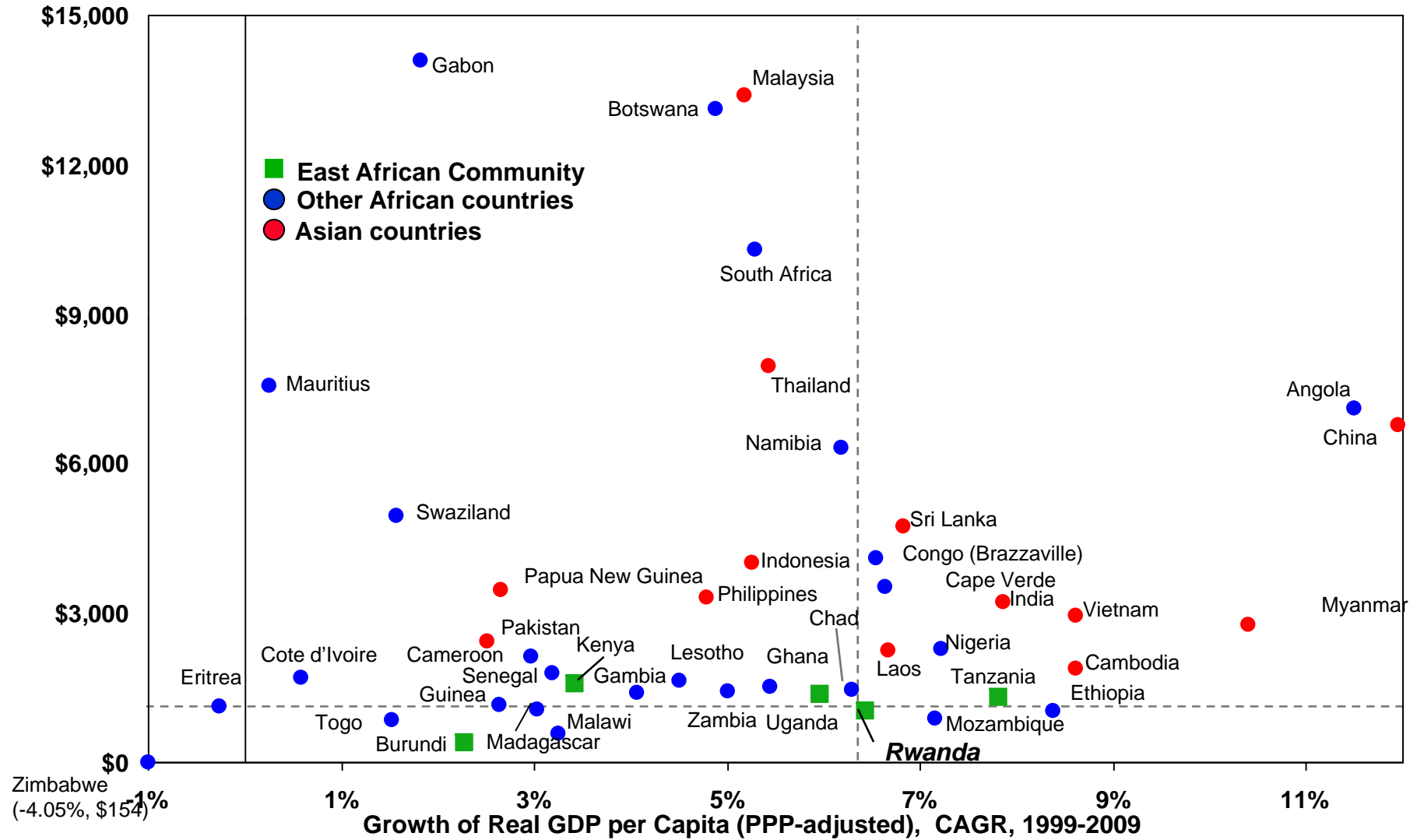
Kigali, Rwanda
July 22, 2010

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* (World Economic Forum), "Clusters and the New Competitive Agenda for Companies and Governments" in *On Competition* (Harvard Business School Press, 2008), 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

Prosperity Performance

East African versus Other Developing Countries

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

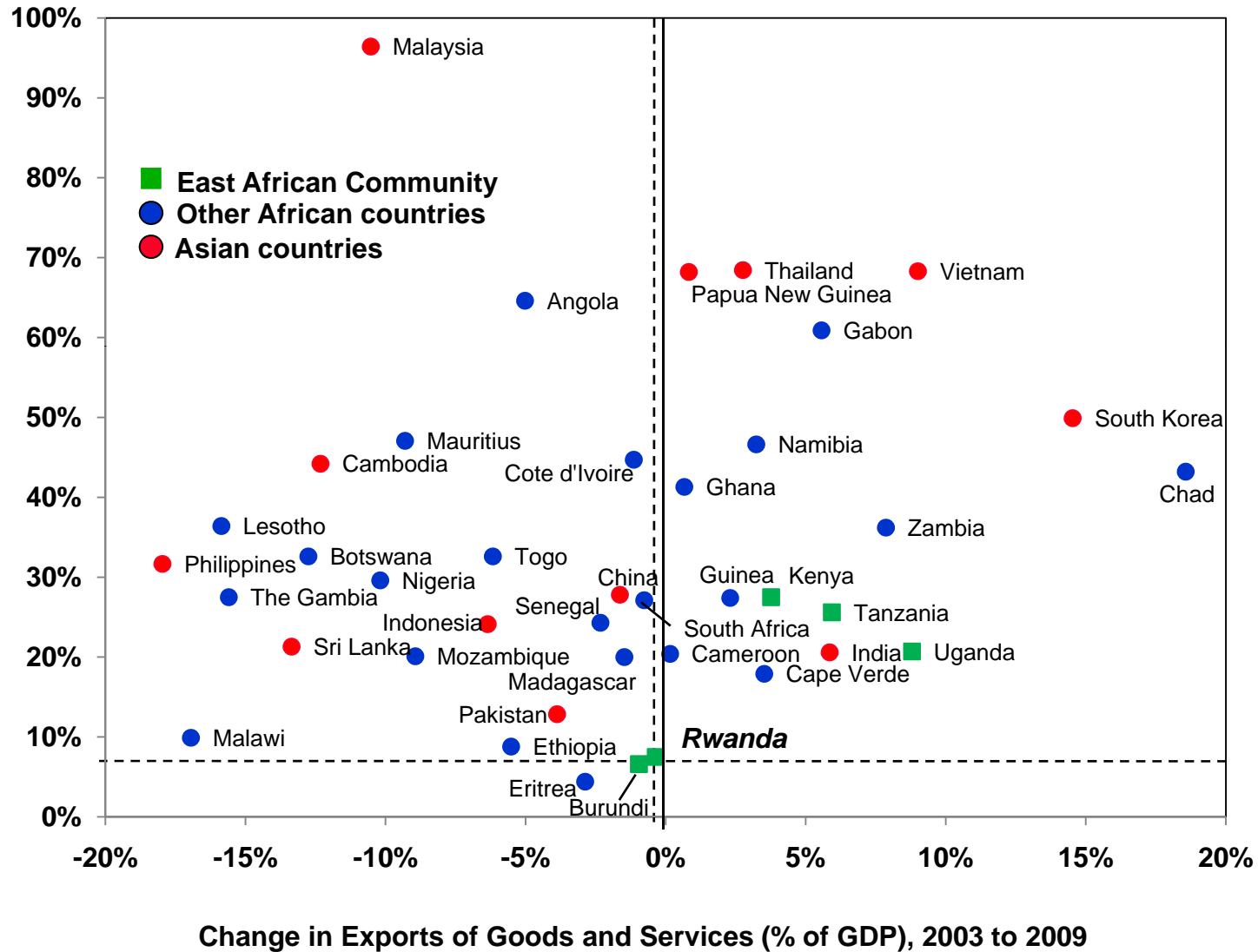


In 2009, Rwanda's real GDP per capita grew 6.4%

Export Performance

Selected Countries

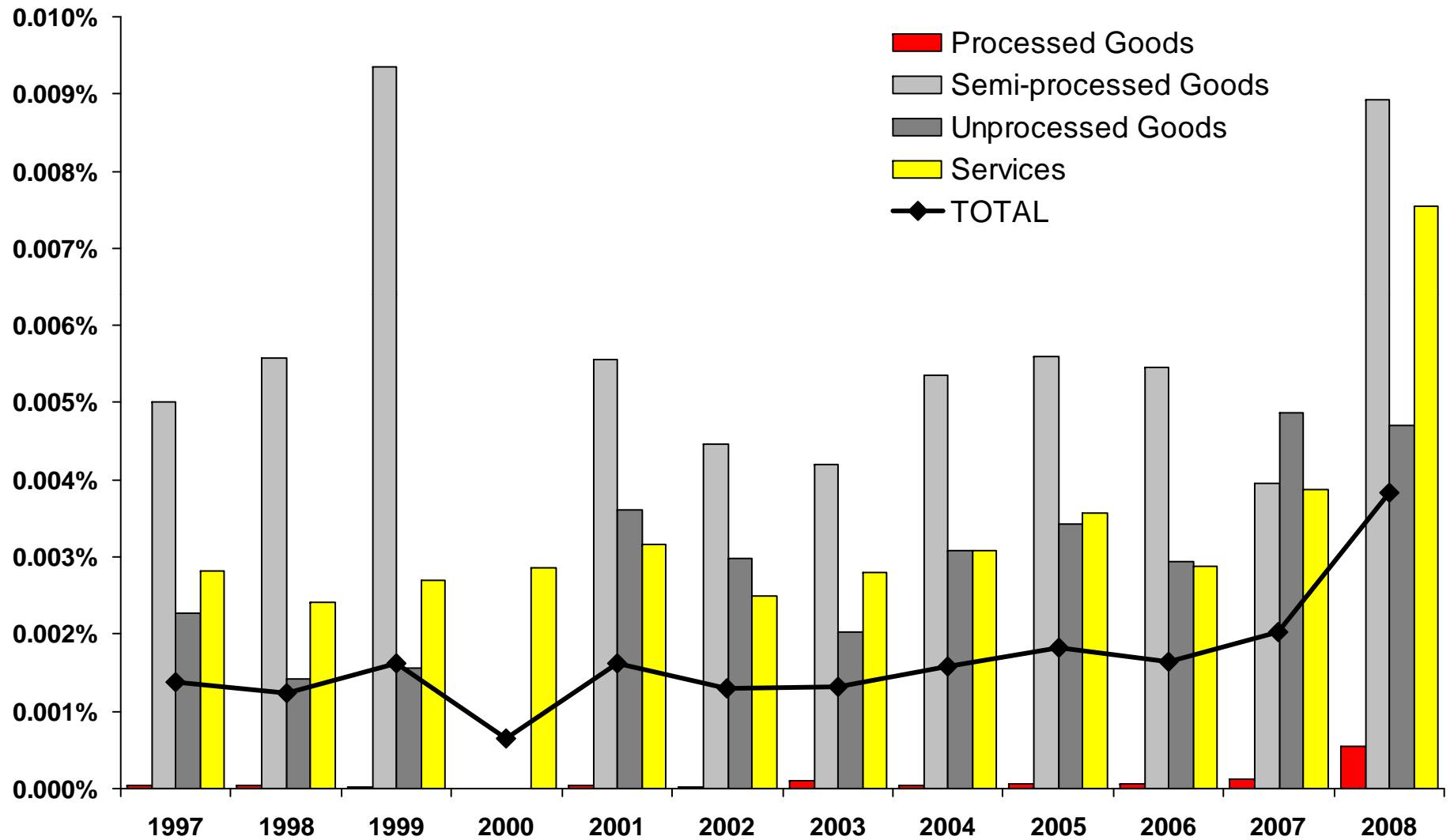
Exports of Goods and Services (% of GDP), 2009



Source: EIU (2010), authors' analysis

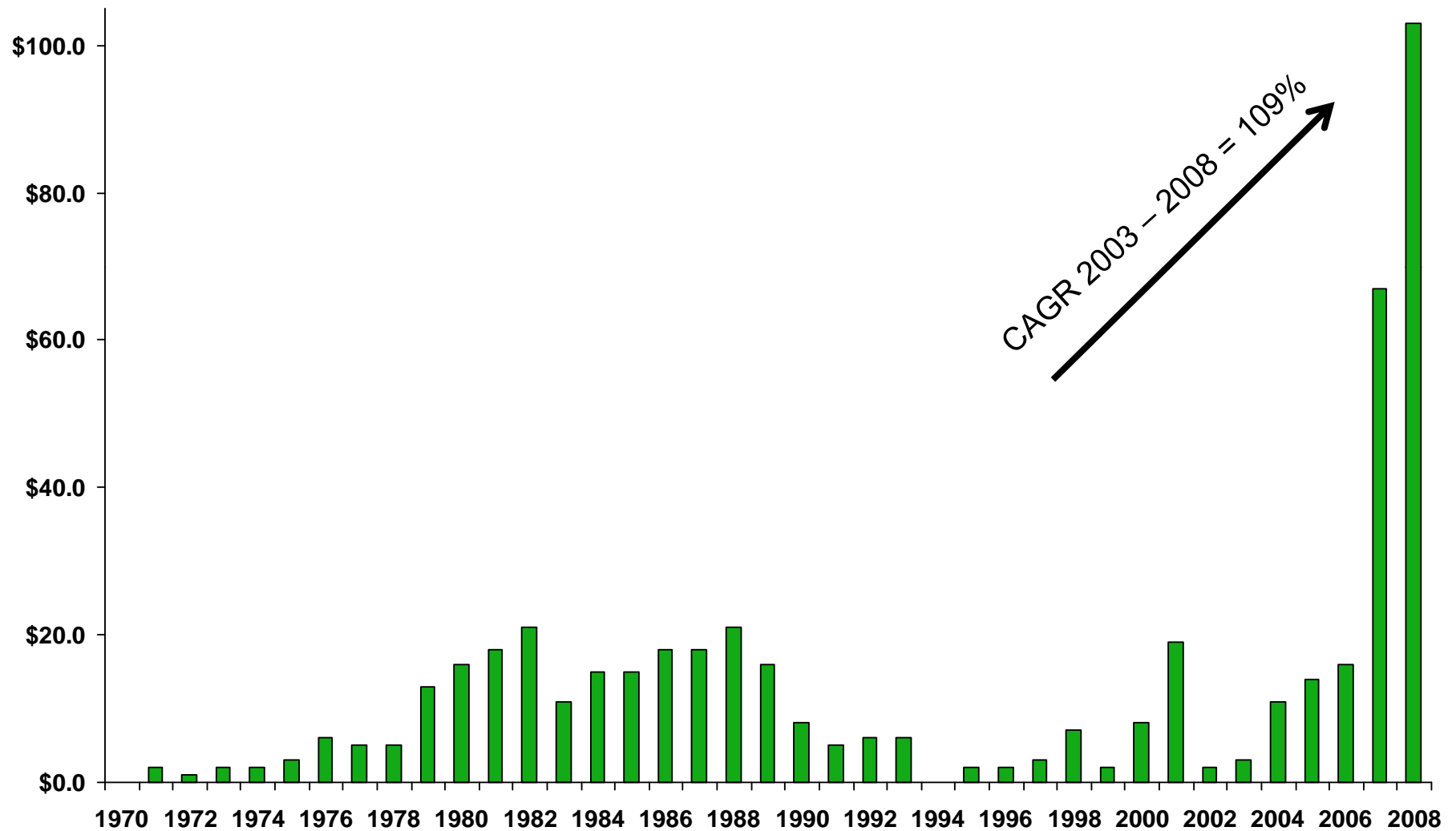
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Rwandan Export Share Trends



Inward Foreign Investment Flows

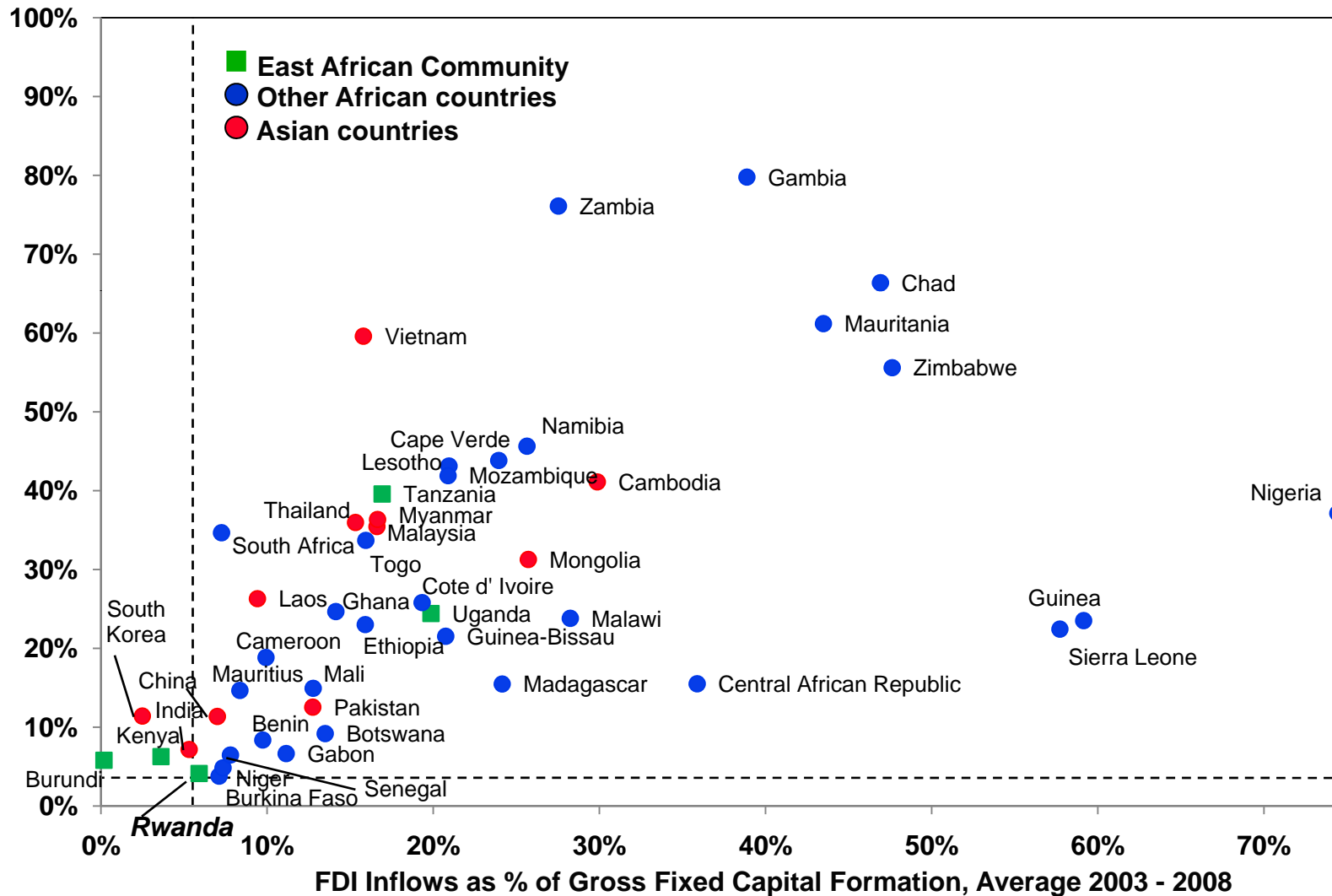
Rwanda, 1970 - 2008



Inbound Foreign Investment Performance

Stocks and Flows, Selected Countries

Inward FDI Stocks as % of GDP, Average 2003 - 2008



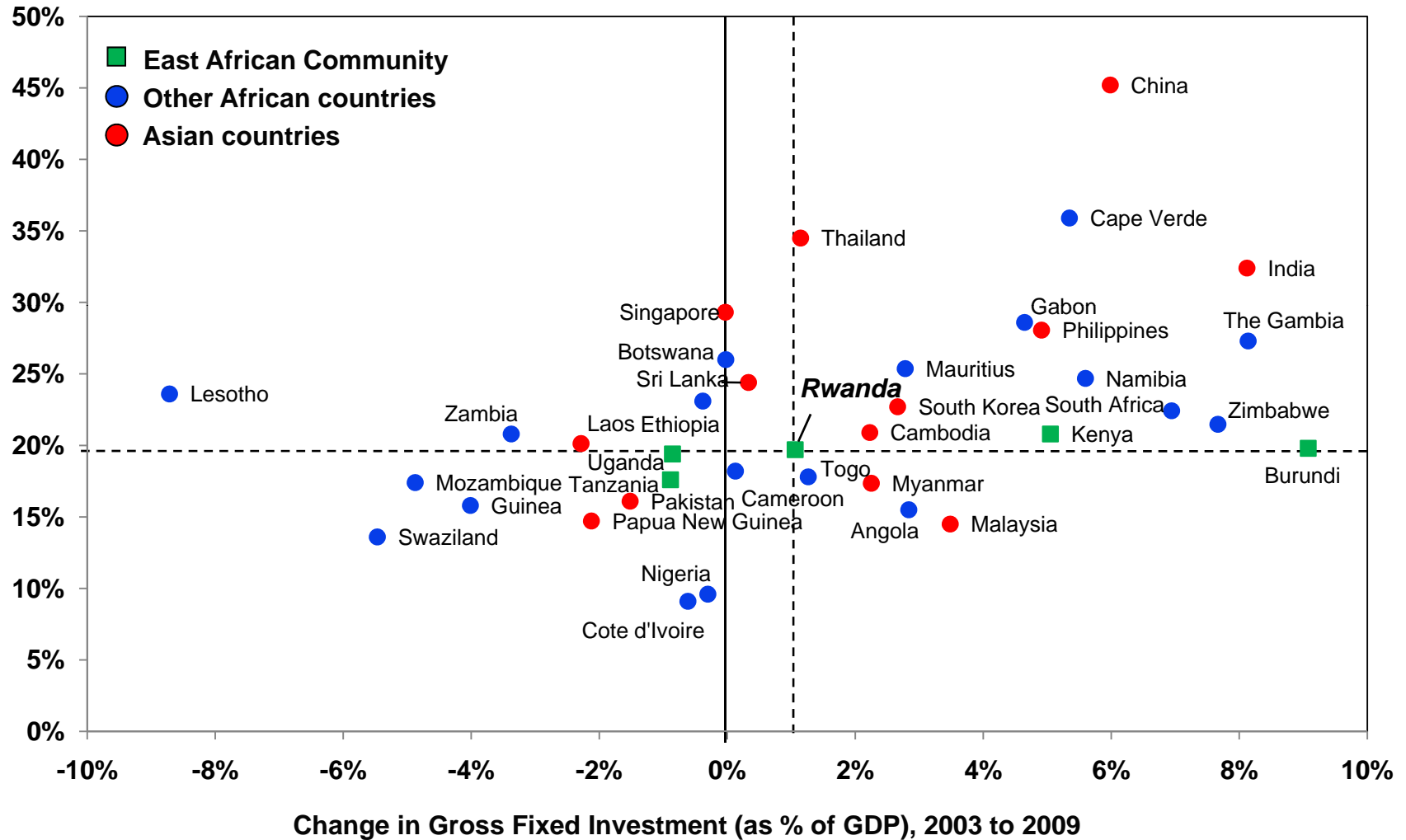
Note: Data unavailable for GDP for Gabon in 2003, GFCF for Burundi (2003), Chad (2005)

Source: UNCTAD, World Investment Report (2009)

Domestic Fixed Investment Rates

Selected Countries

Gross Fixed Investment
as % of GDP, 2009

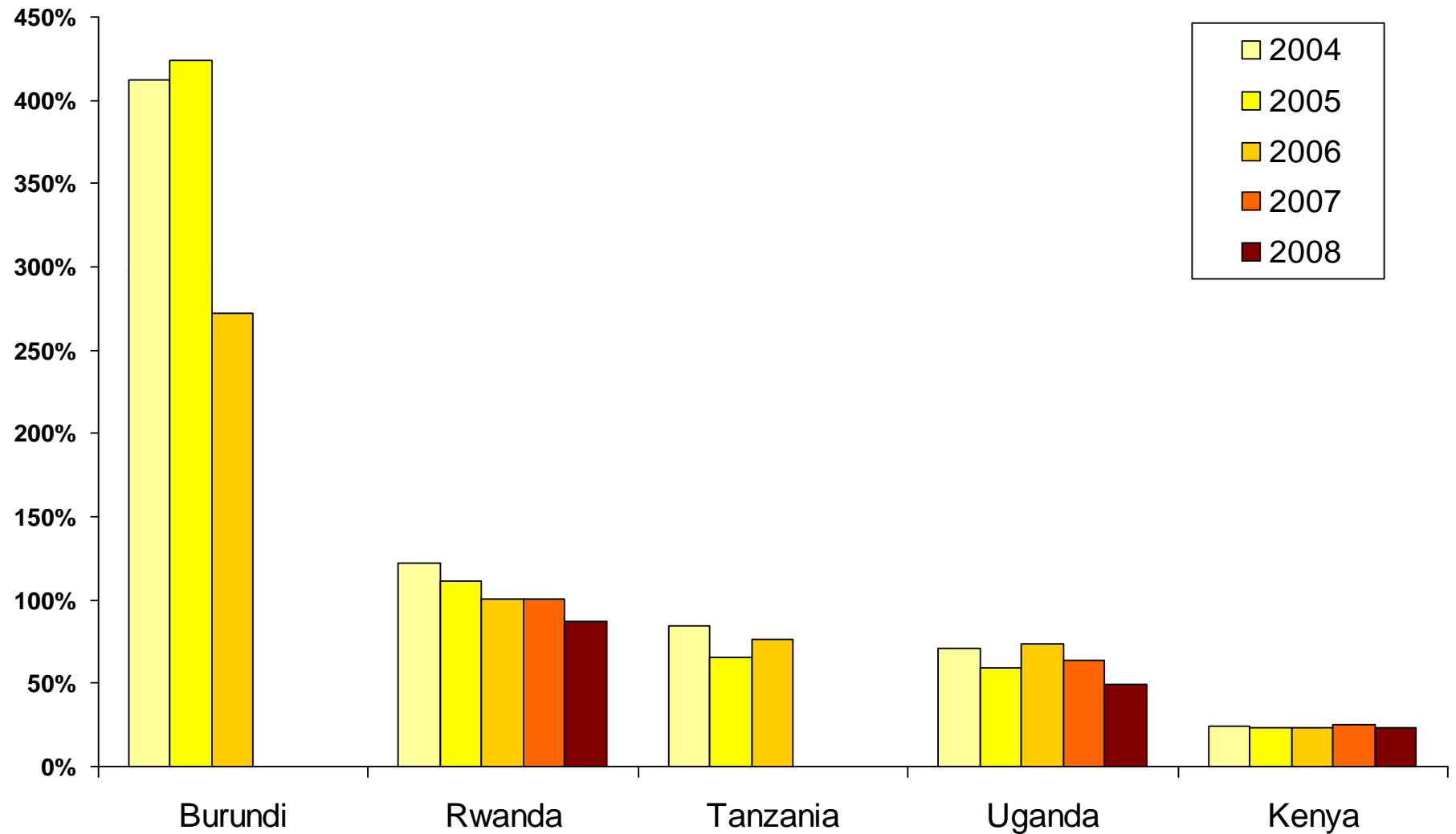


Note: Includes inbound FDI
Source: EIU, 2010
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International Aid and Assistance Flows

East African Community, 2004 - 2008

Aid as % Gross
Capital
Formation



Source: World Development Indicators (2010)

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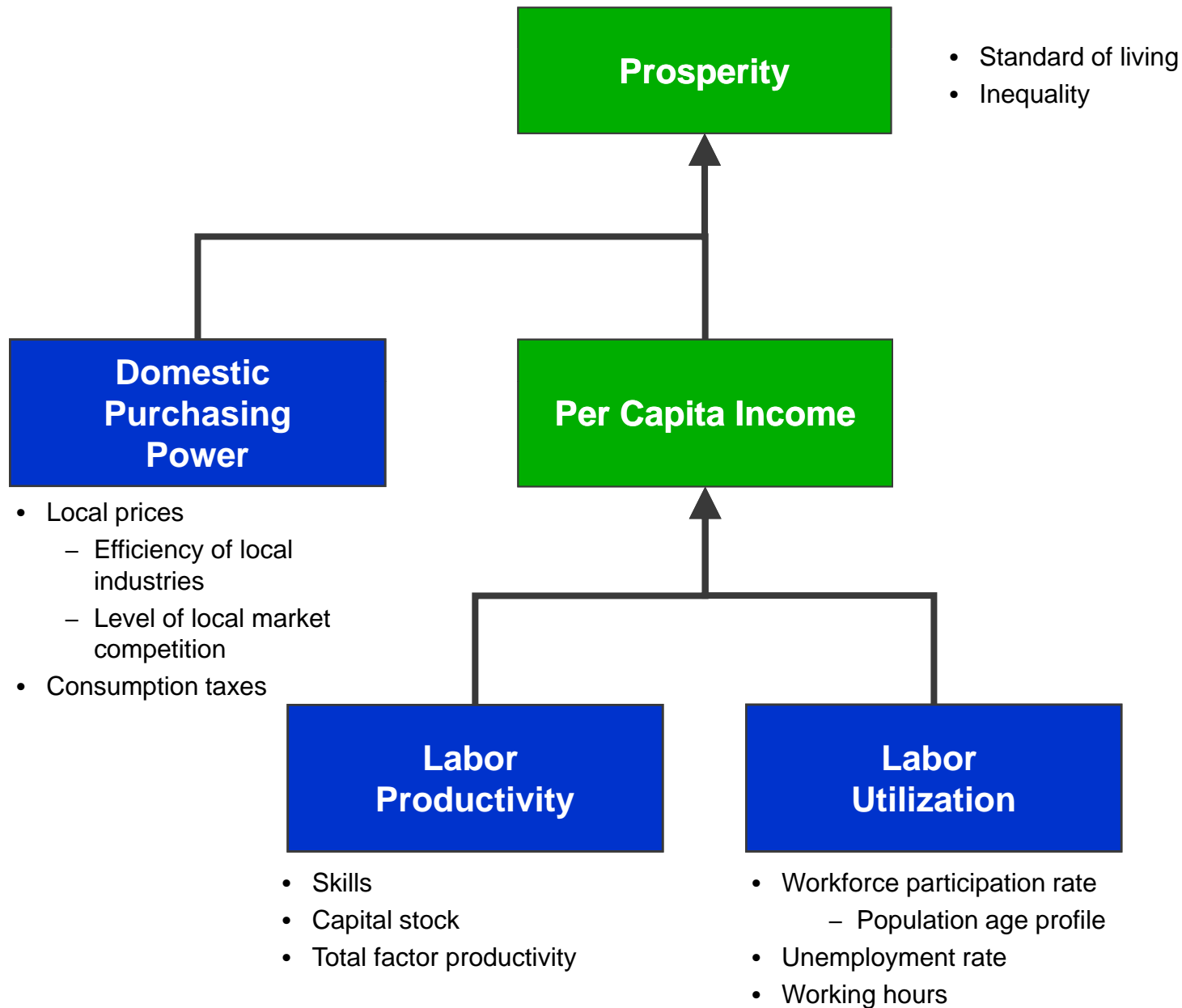
What is Competitiveness?

- Competitiveness is the **productivity** with which a nation uses its human, capital, and natural resources
 - Productivity **sets the standard of living**
 - Productivity growth determines **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 upgrading and innovation** is necessary to drive **productivity growth** and enable the standard of living to rise
 - Technology, skills, products, and organizational methods



- 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

Decomposing Prosperity

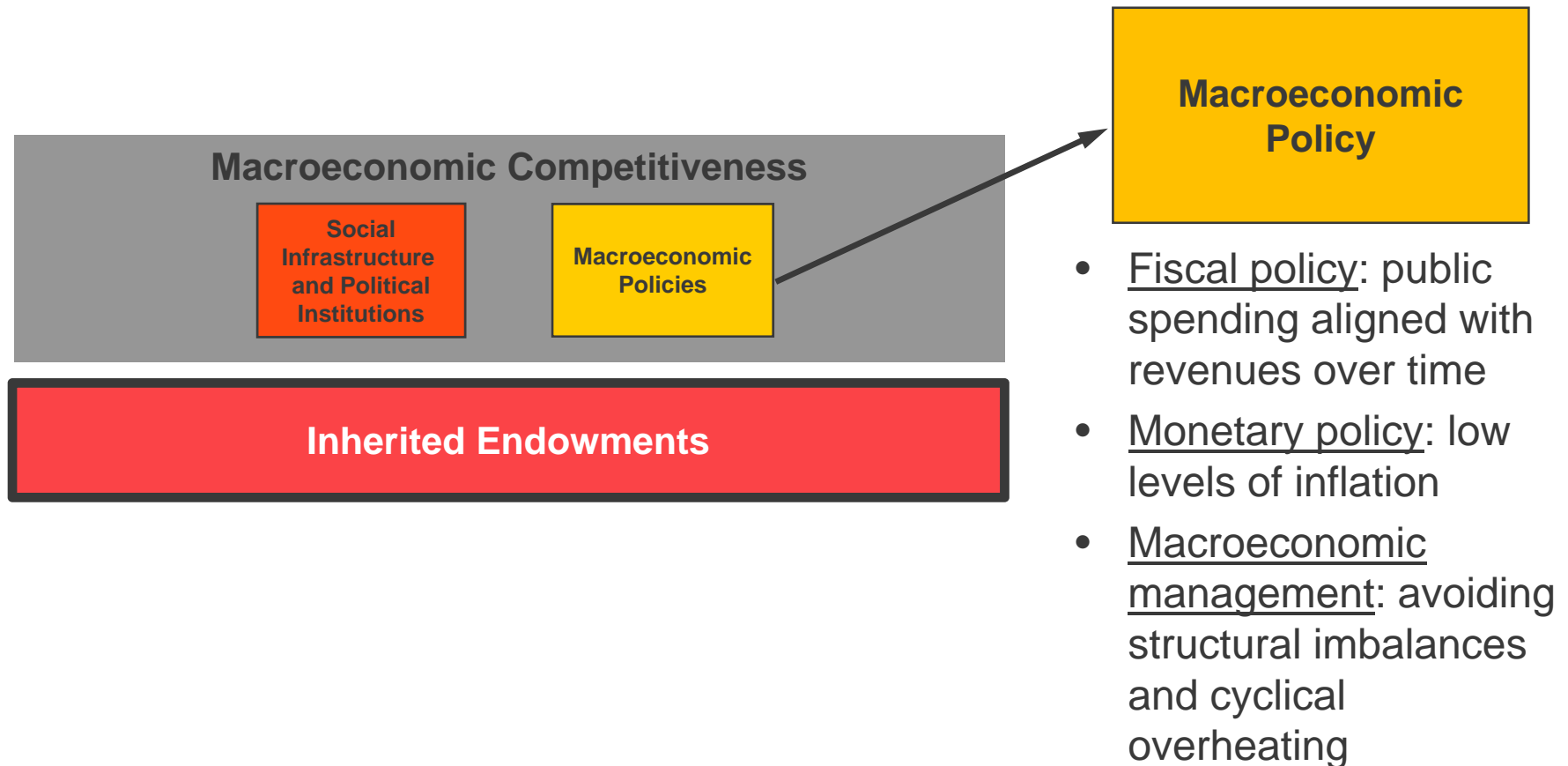


Determinants of Competitiveness

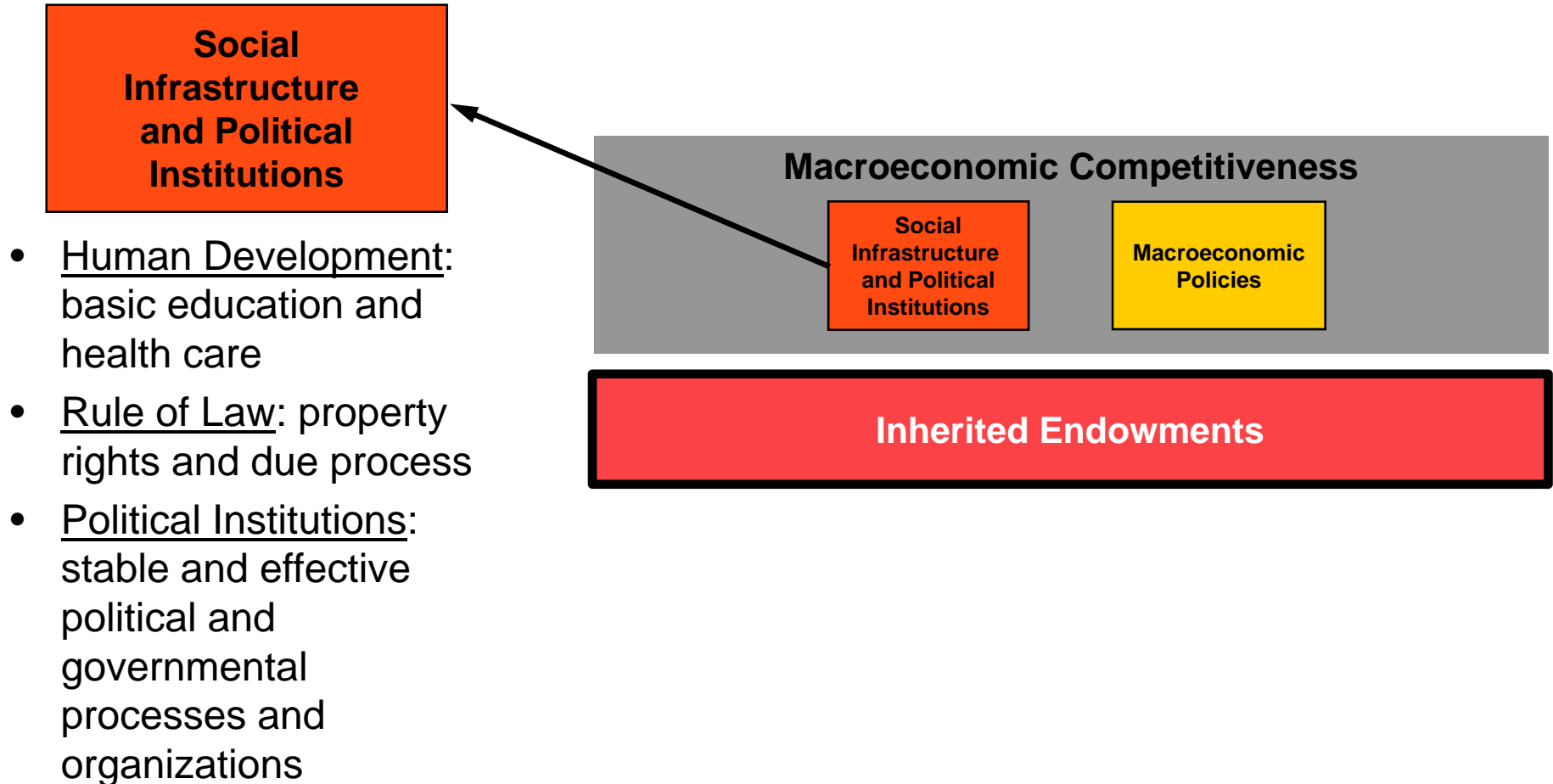


Inherited Endowments

Determinants of Competitiveness

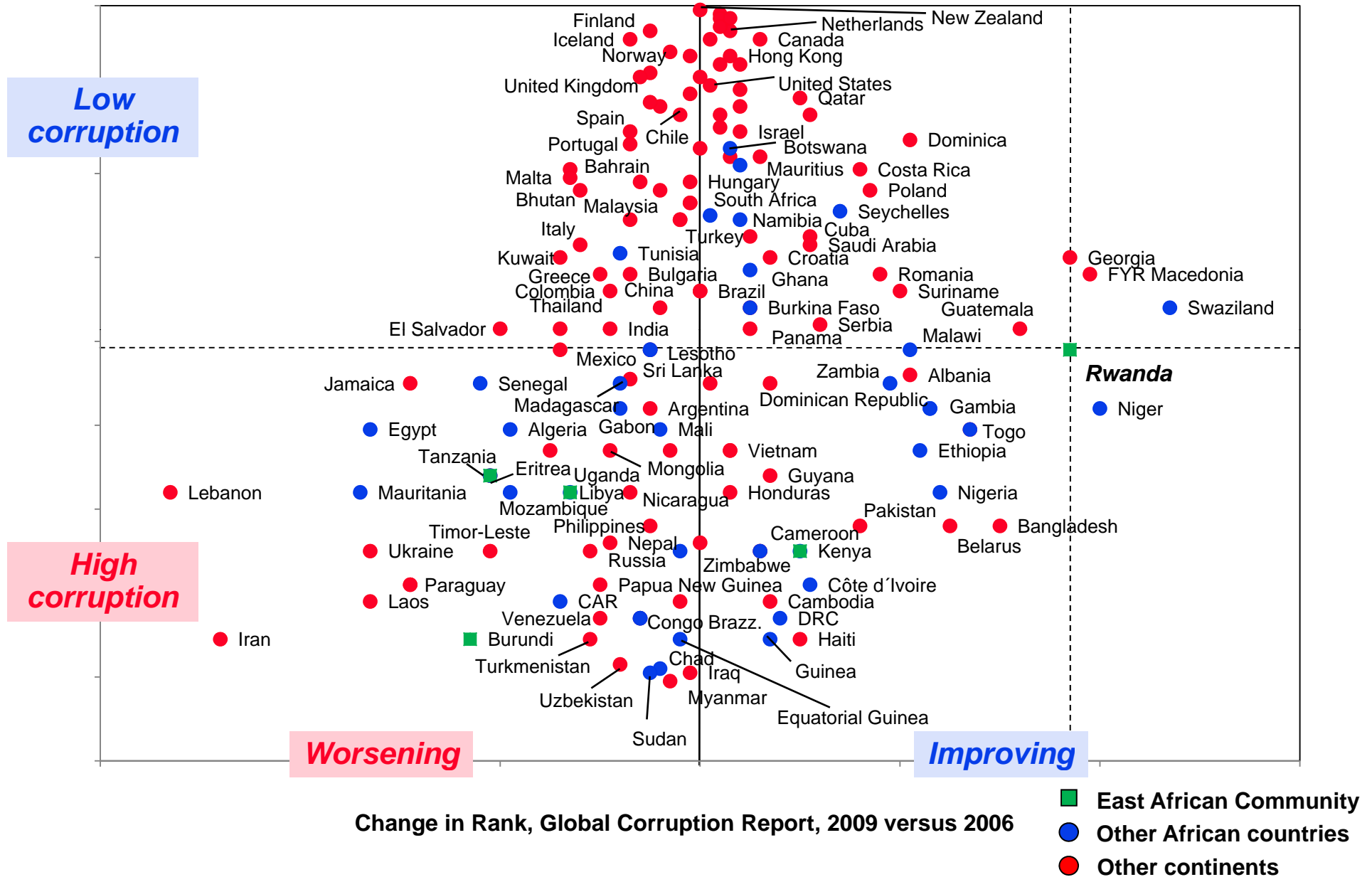


Determinants of Competitiveness

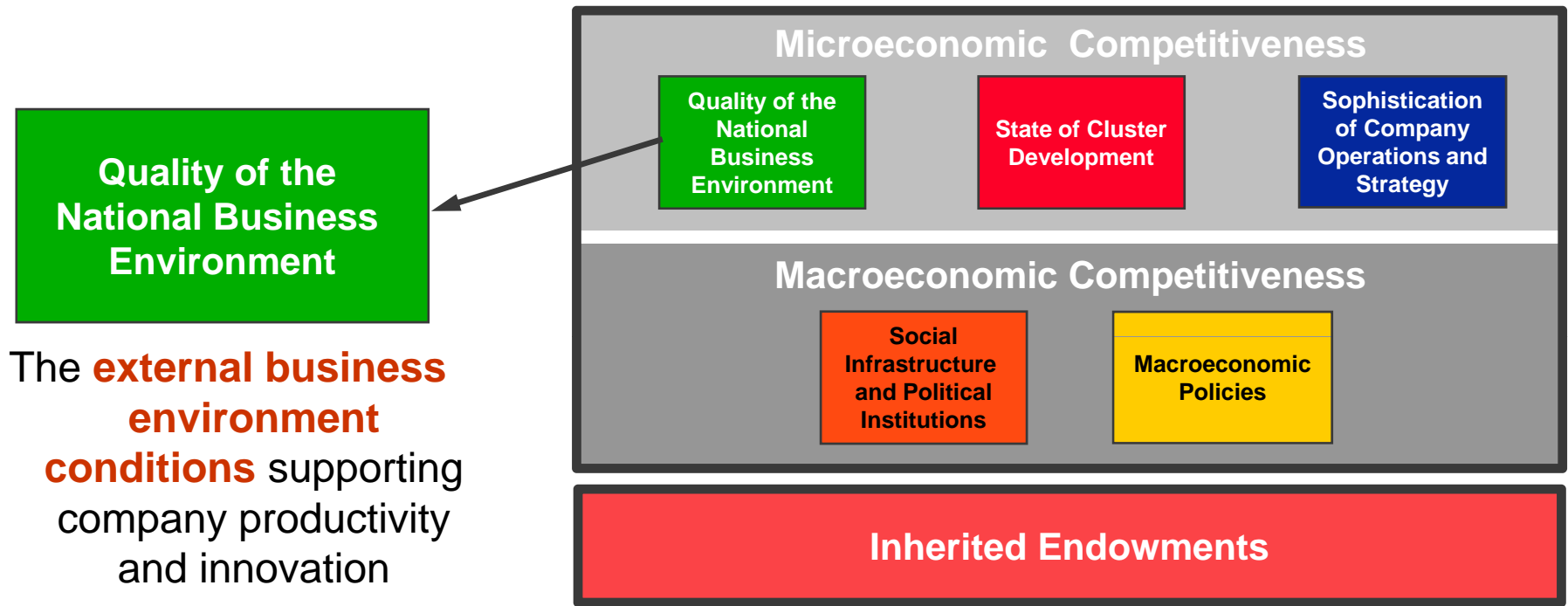


Rank in Global
Corruption Index,
2009

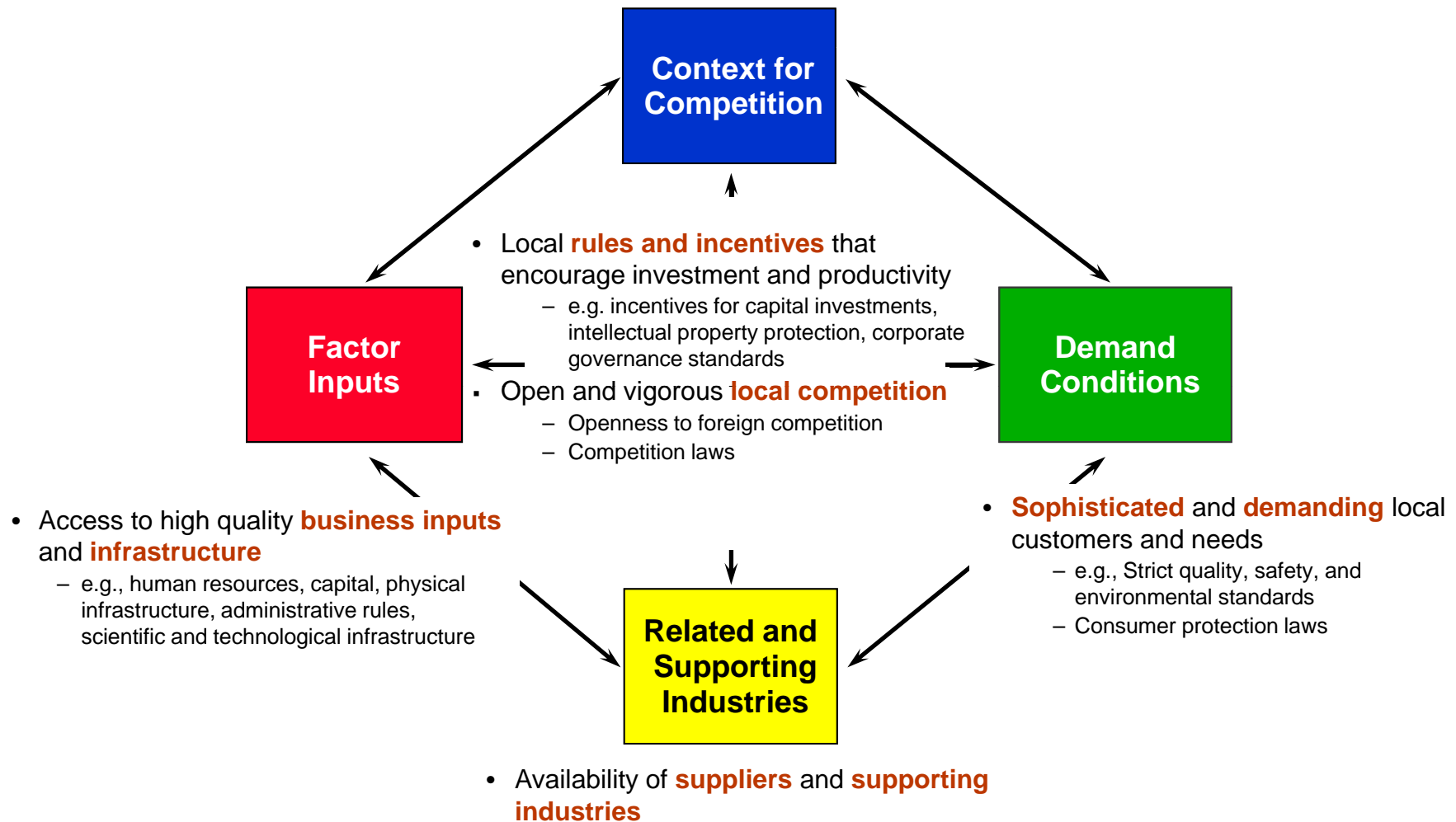
Corruption Perception Index, 2009



Determinants of Competitiveness



Quality of the Business Environment

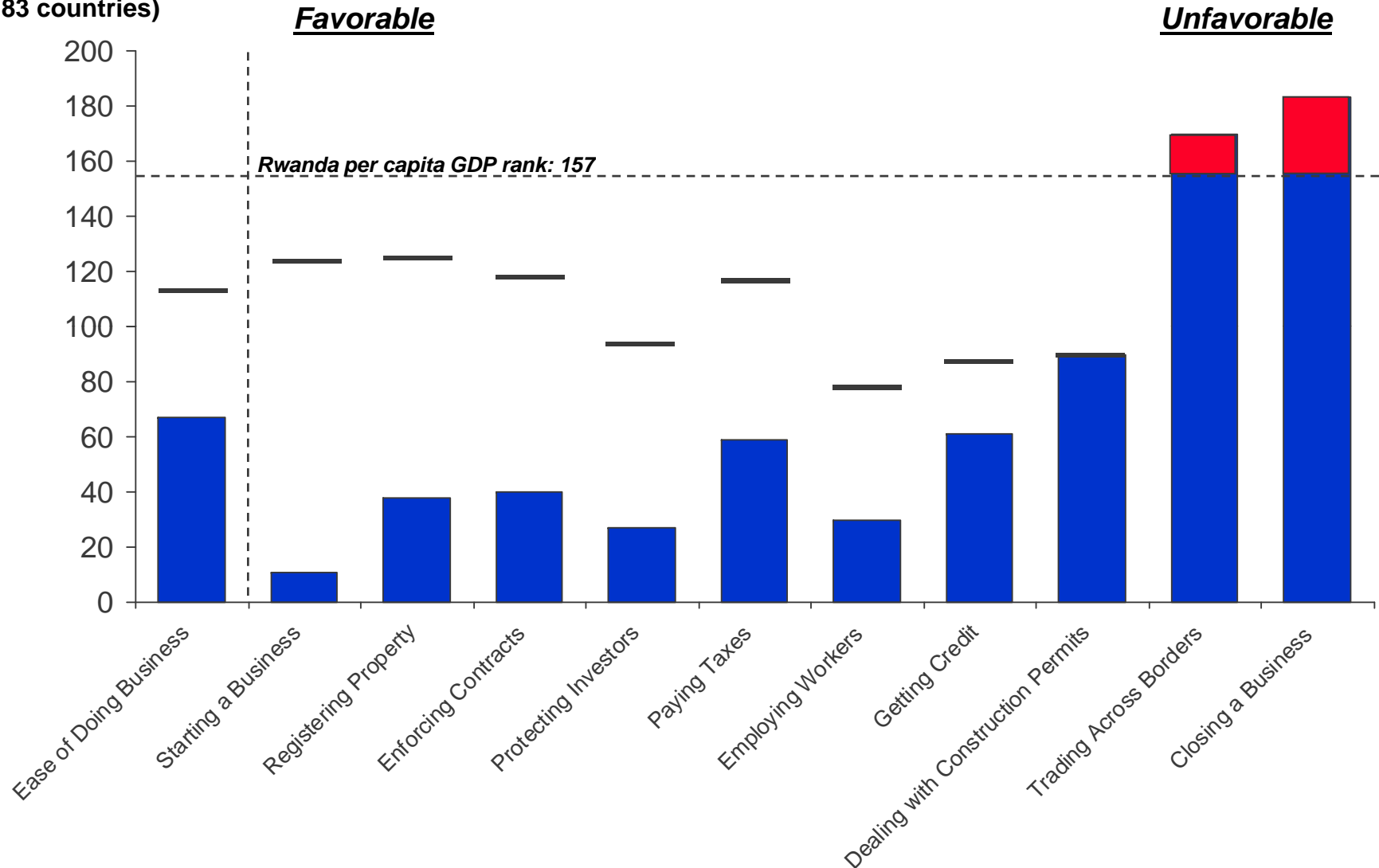


- **Many things matter** for competitiveness
- Successful economic development is a process of **successive upgrading**, in which the business environment improves to enable increasingly sophisticated ways of competing

Ease of Doing Business

Rwanda, 2010

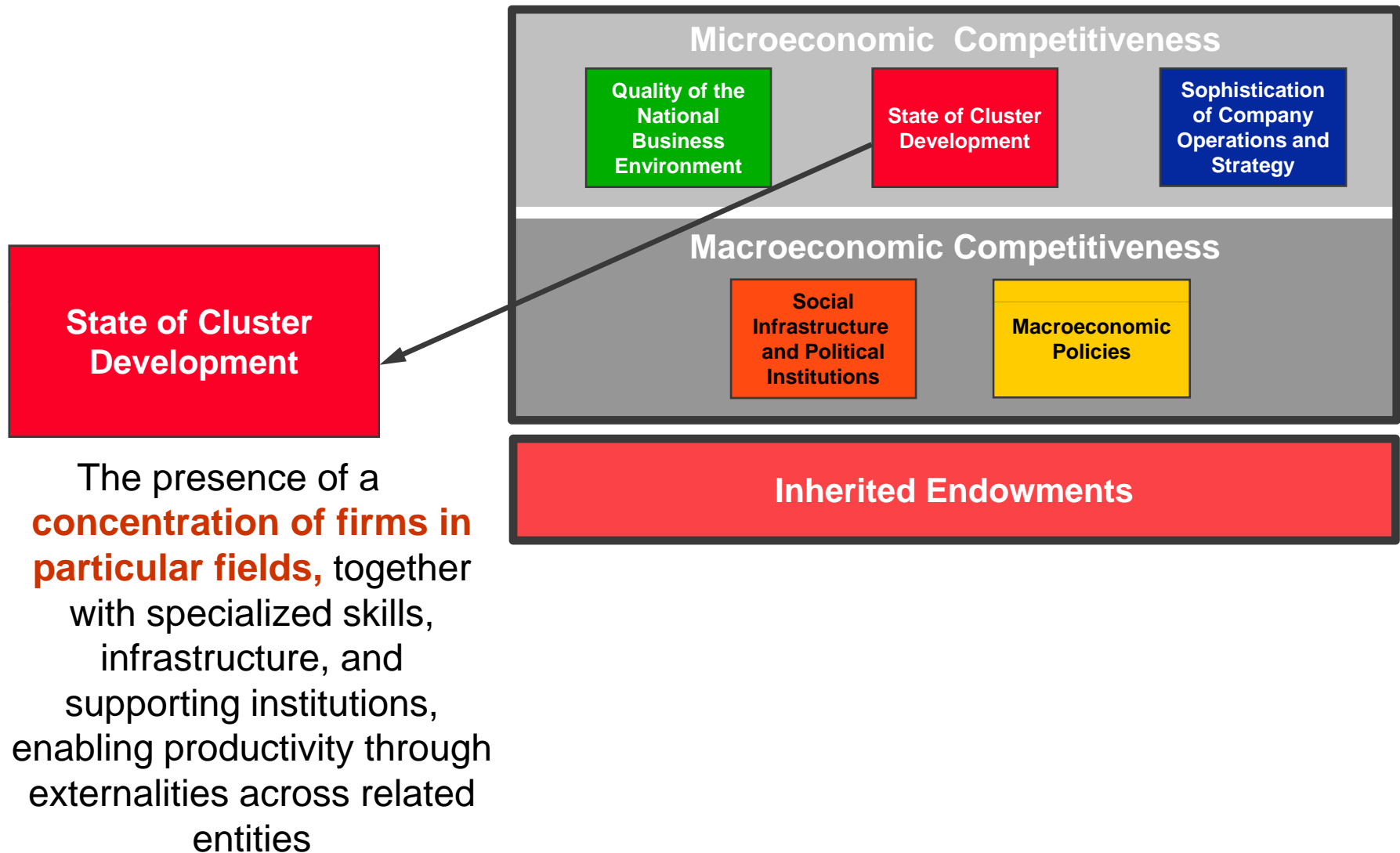
Ranking, 2010 (of 183 countries)



Note: GDP per capita only available for 170 countries in sample
 Source: World Bank Report, Doing Business (2010)

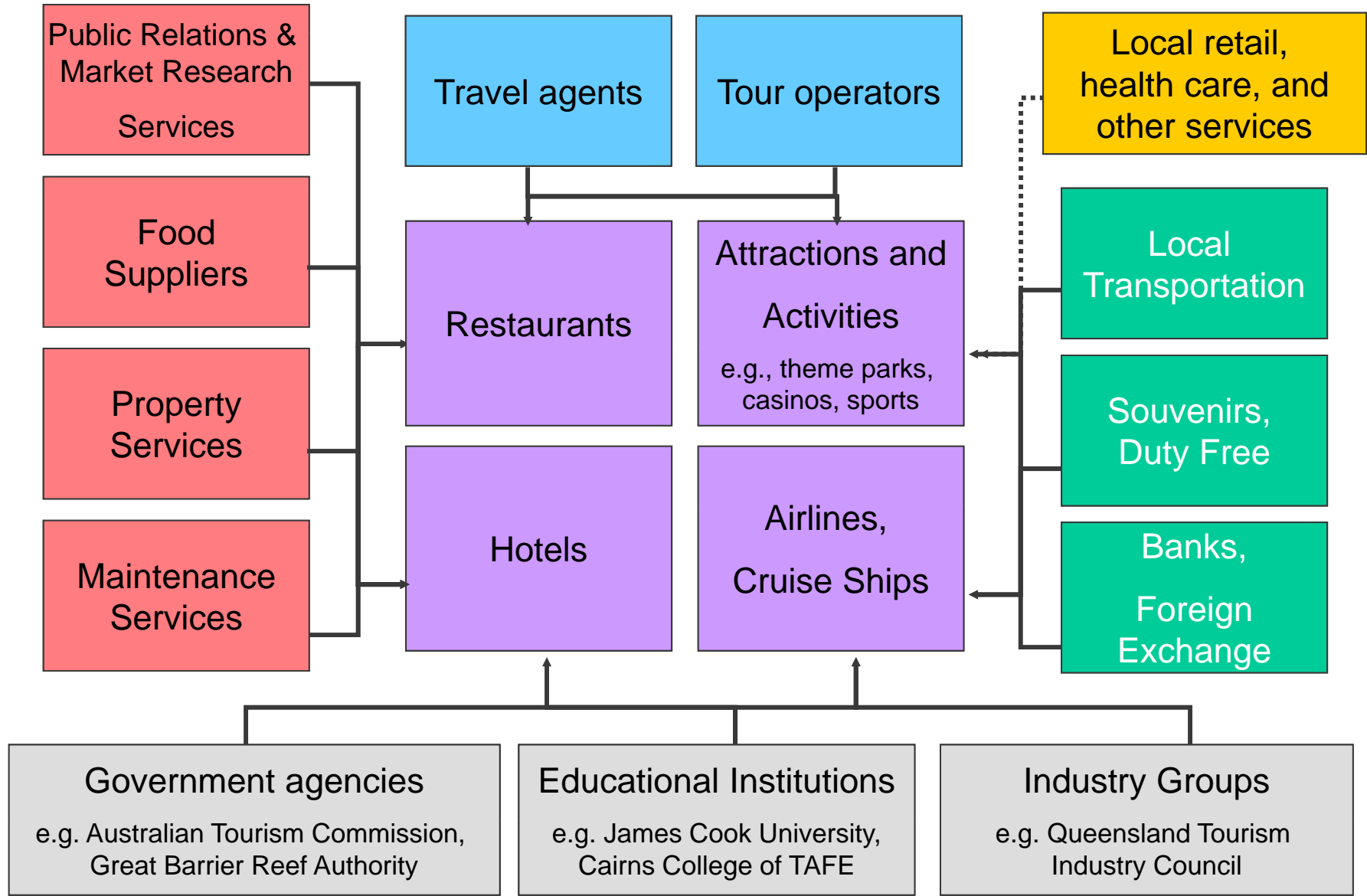
— Median Ranking, EAC

Determinants of Competitiveness

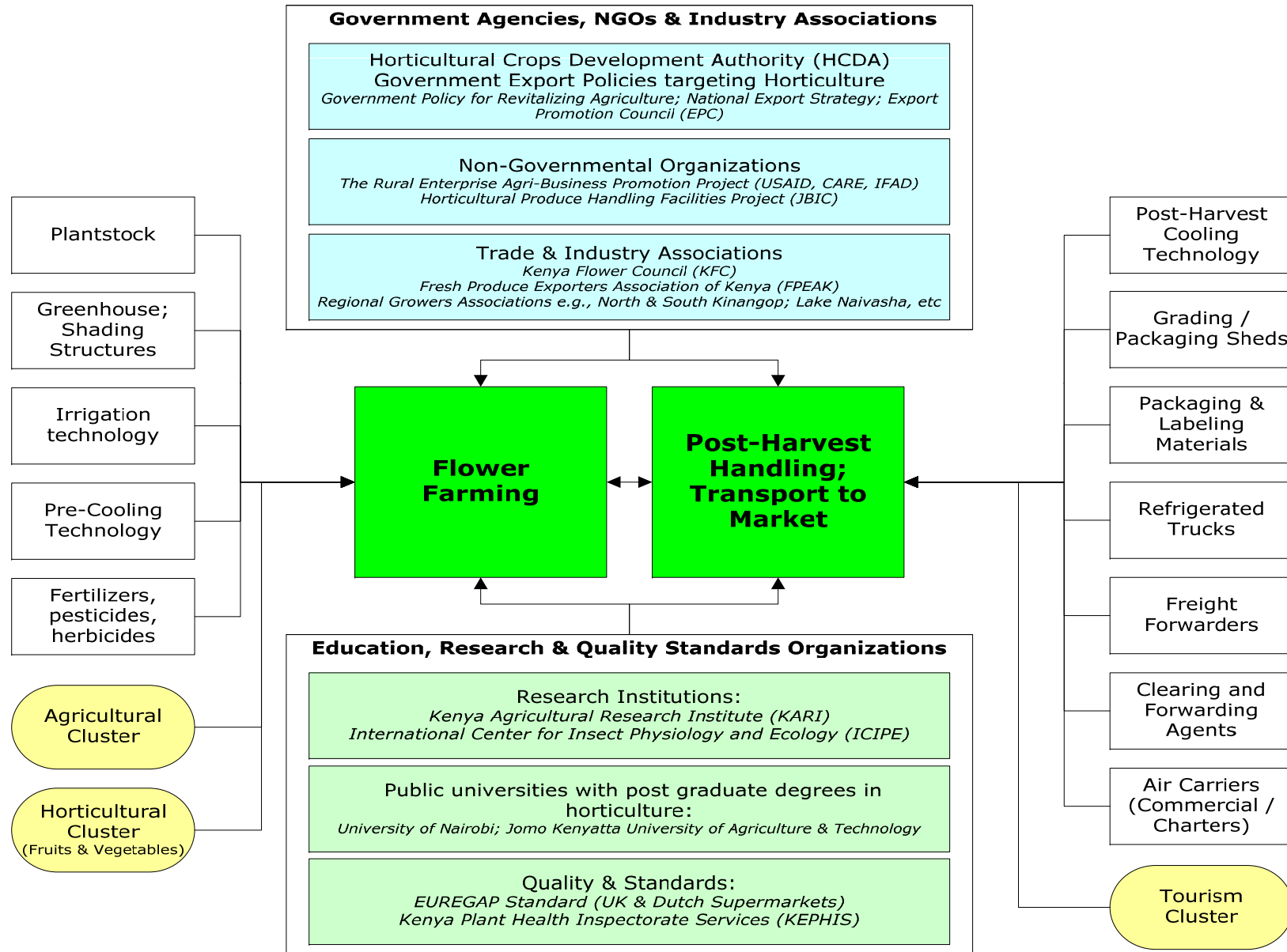


State of Cluster Development

Tourism Cluster in Cairns, Australia



Kenya's Cut Flower Cluster

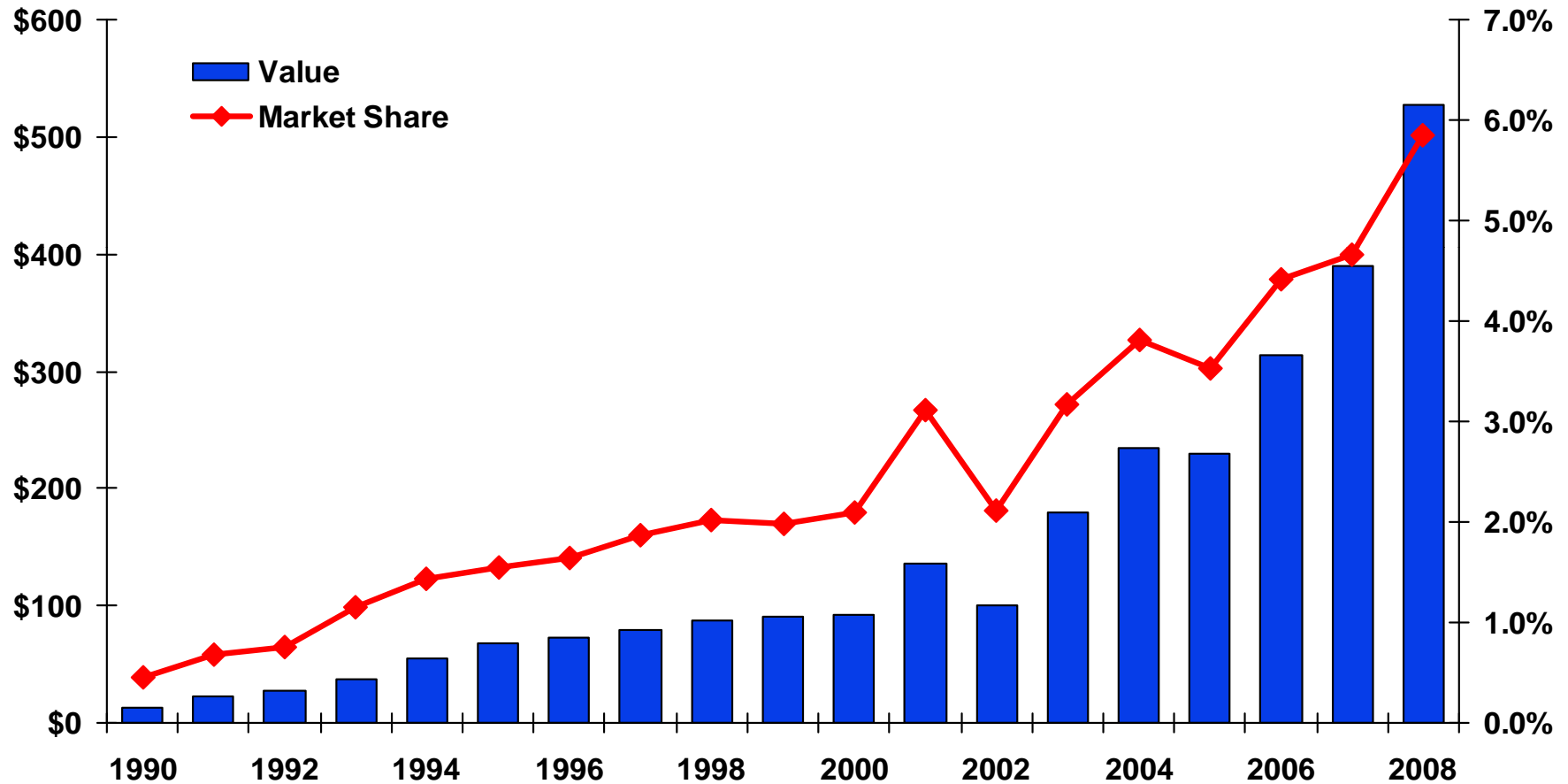


The Kenyan Cut Flower Cluster

Trade Performance

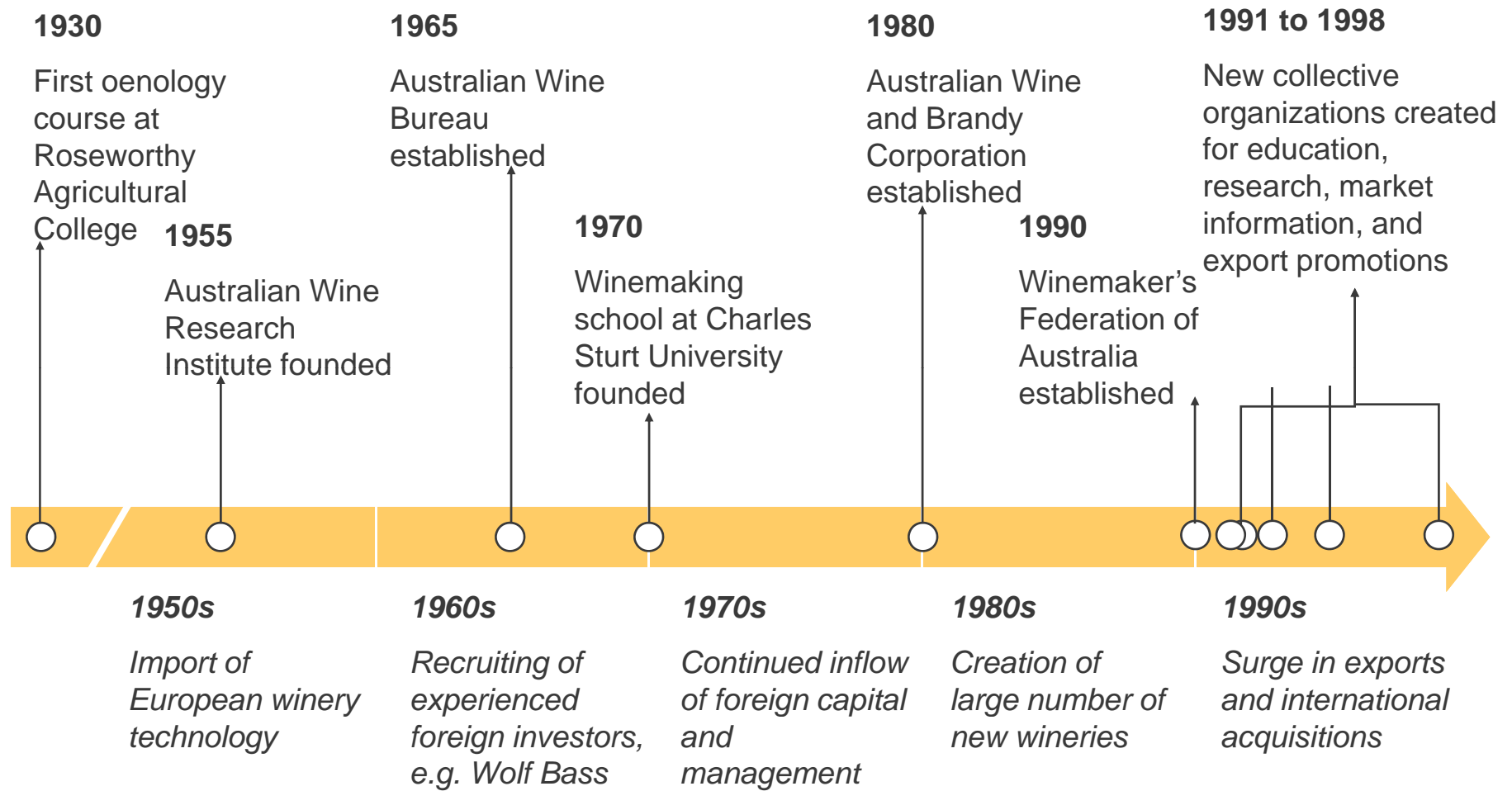
Kenyan Cut Flower Exports in millions US \$

Kenyan Cut Flower World Export Market Share



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.

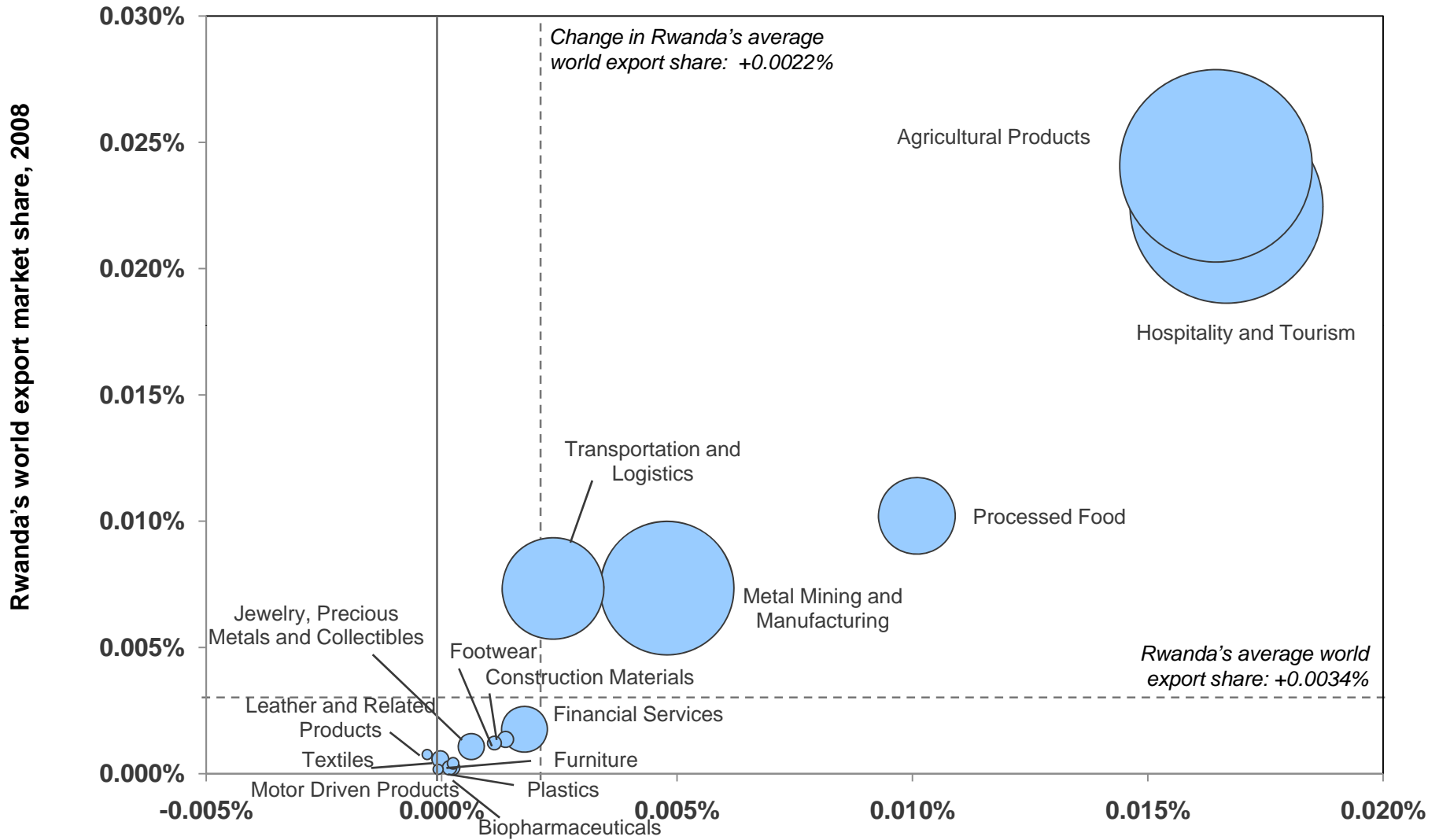
Development of the Australian Wine Cluster




- Cluster development is a long-term process in which a location accumulates skills, technology, and a critical mass of firms and supporting institutions

Source: Michael E. Porter and Örjan Sölvell, The Australian Wine Cluster – Supplement, Harvard Business School Case Study, 2002

National Cluster Export Portfolio Rwanda, 2003-2008



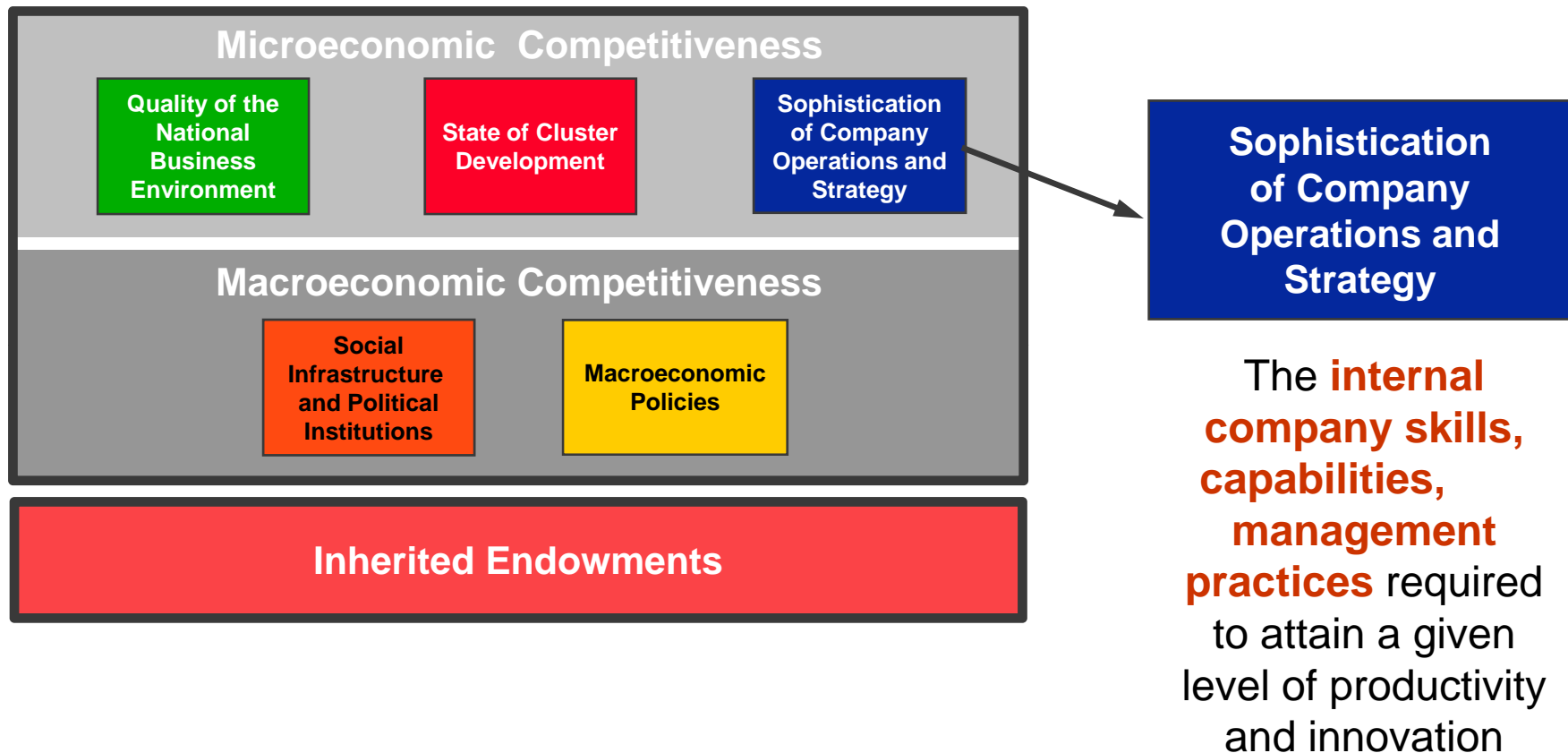
Change in Rwanda's world export market share, 2003-2008

Exports of US \$11 million = 

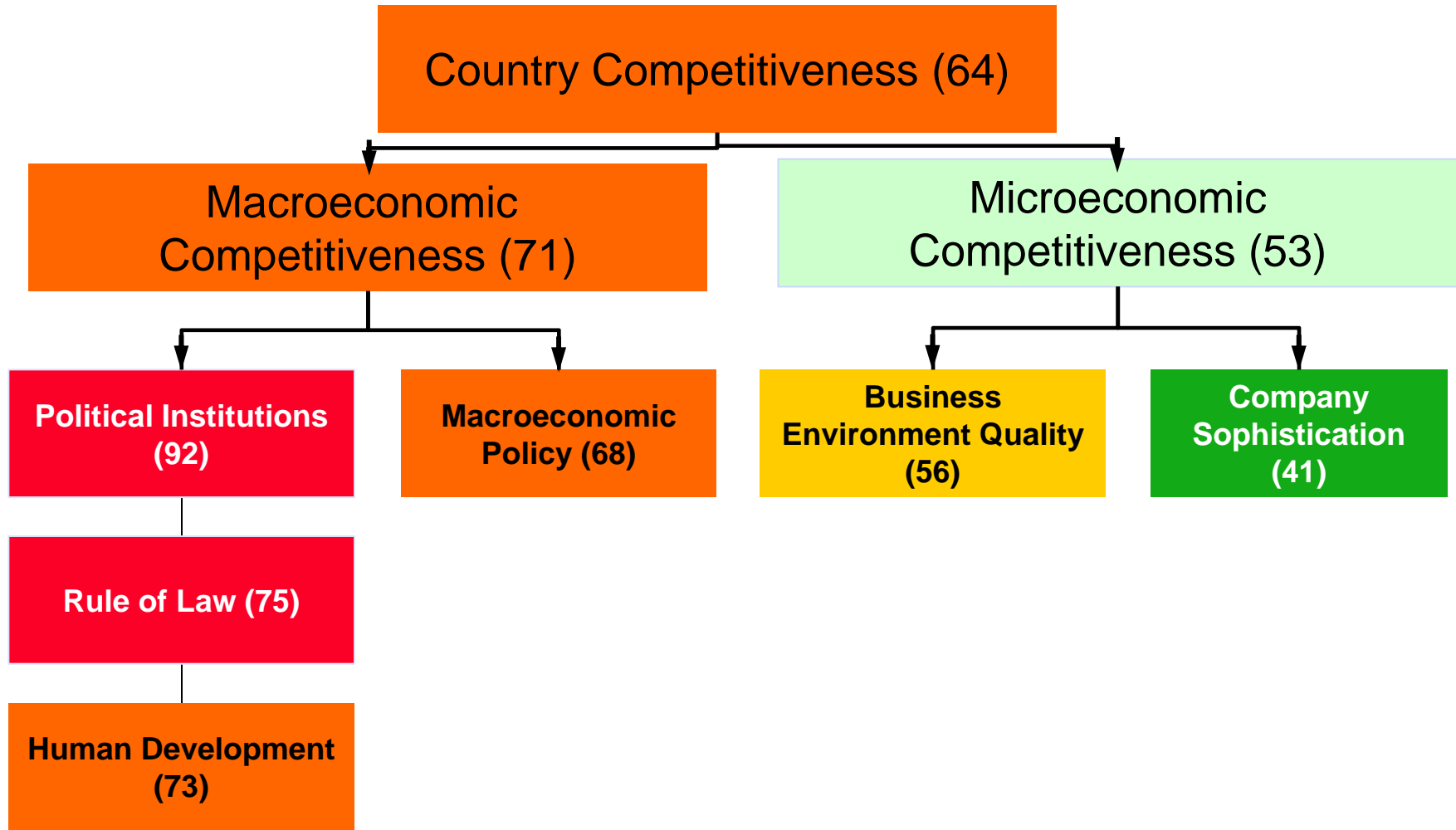
Clusters as a Tool For Economic Policy

- A forum for **collaboration** between the private sector, trade associations, government, educational, and research institutions
- Brings together **firms of all sizes**, including SME's
- Creates a **mechanism** for **constructive** business-government dialog
- A tool to identify **problems** and **action recommendations**
- A vehicle for investments that strengthen **multiple firms/institutions** simultaneously
- Fosters **greater competition** rather than distorting the market

Determinants of Competitiveness



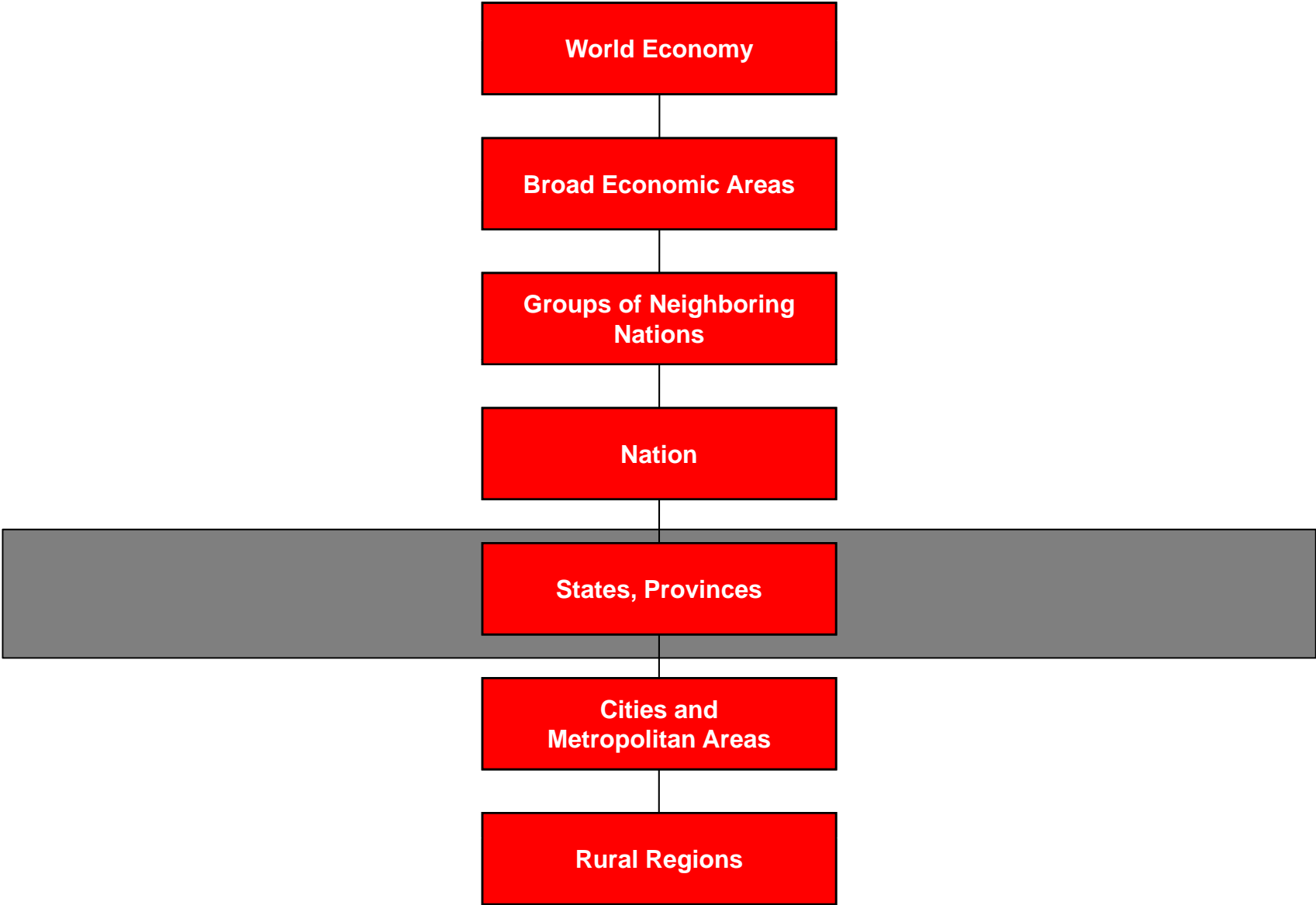
Turkey's Competitiveness Profile, 2009



Note: Rank versus 128 countries; overall, Turkey ranks 57th in 2008 PPP adjusted GDP per capita and 64th in Global Competitiveness

Source: World Economic Forum and Institute for Strategy and Competitiveness, Harvard University (2009)

Geographic Influences on Competitiveness



Sub-National Regions and Competitiveness

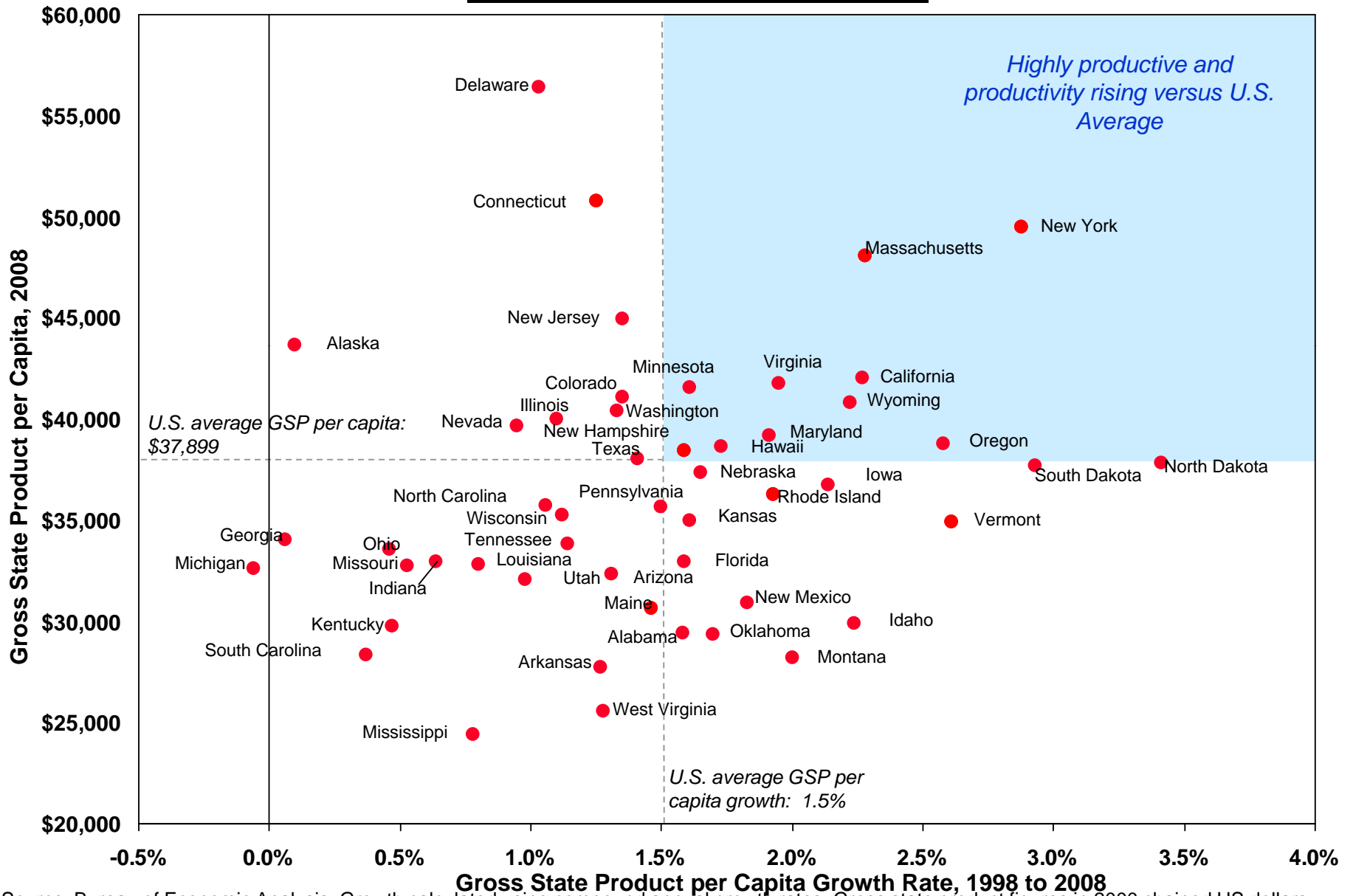
- Economic performance **varies significantly** across sub-national regions (e.g., provinces, states, metropolitan areas)
- Many essential levers of competitiveness reside at the **regional level**
- Region's **specialize** in different sets of clusters / activities
- **Cluster strength** directly impacts regional performance
- Each region needs its own distinctive **competitiveness agenda**
- Competitiveness requires **effective policy collaboration** between regions and the national government



- **Decentralization** of economic policy is especially important in large countries to foster regional specialization, internal competition, and accountability

State Prosperity

U.S. States, 1998 to 2008

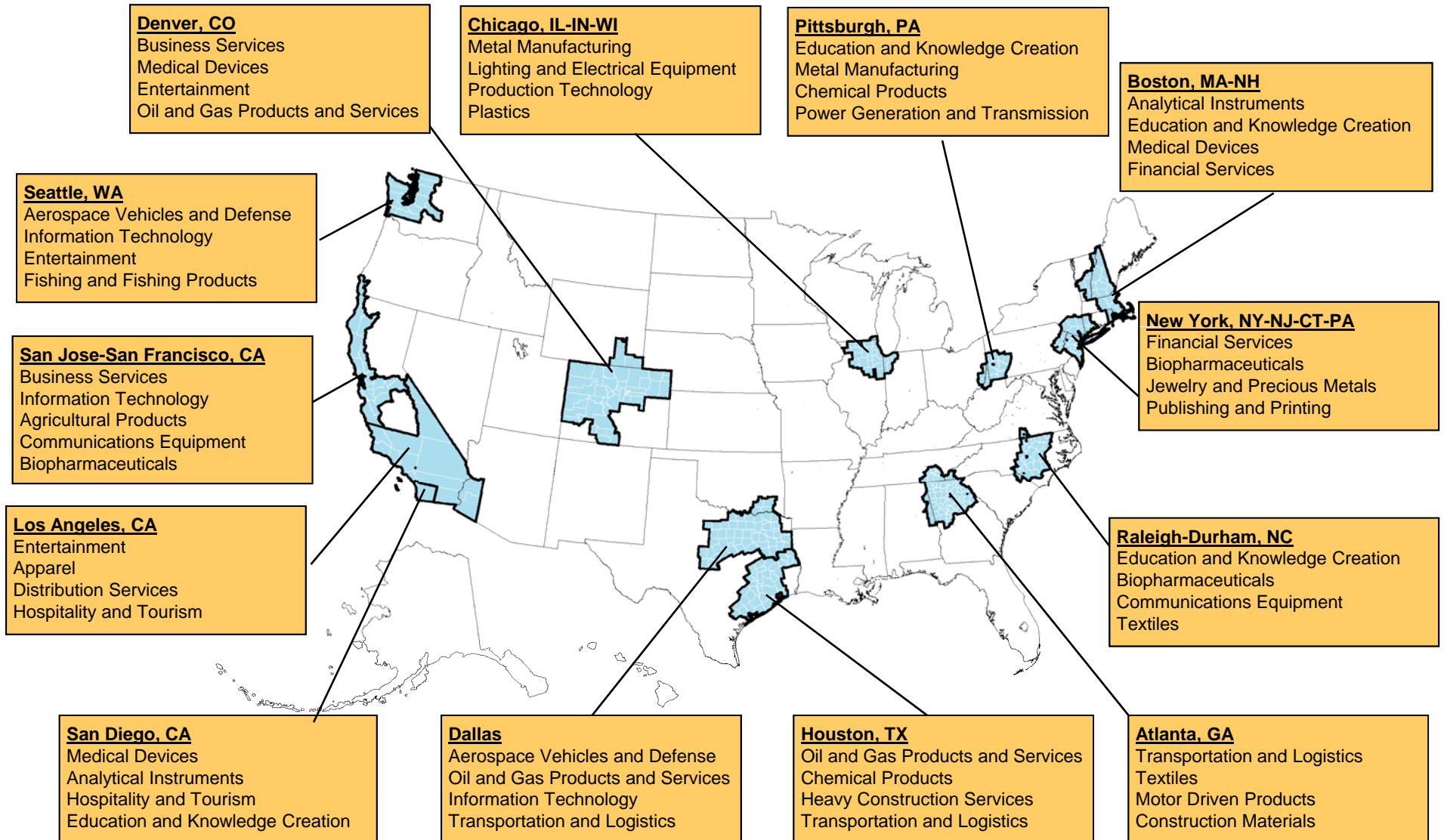


Source: Bureau of Economic Analysis. Growth calculated using compound annual growth rates. Gross state product figures in 2000 chained US dollars.

Notes: District of Columbia: \$126,407, 2.63%. Growth rate calculated as compound annual growth rate (CAGR).

Specialization of Regional Economies

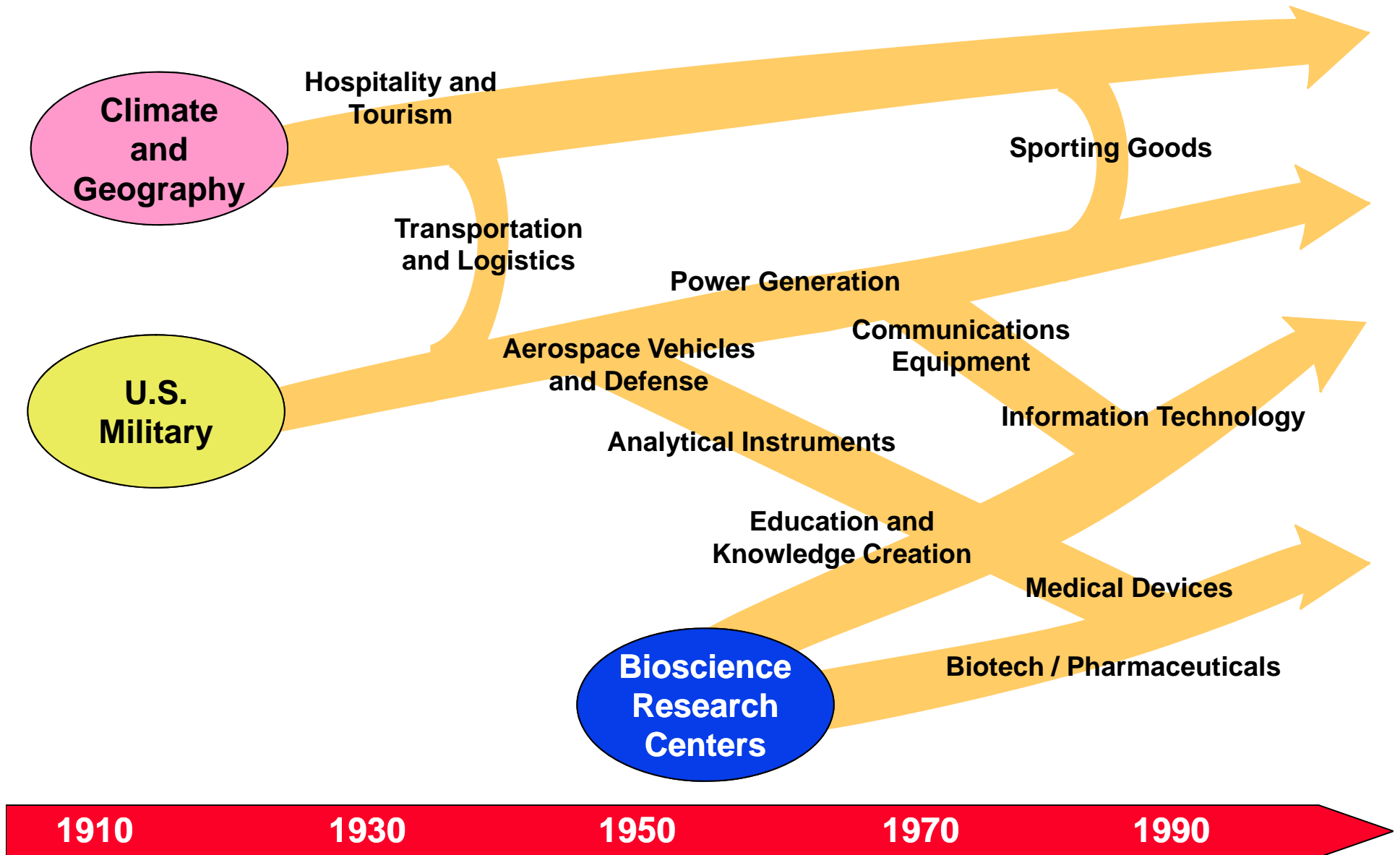
Leading Clusters by U.S. Economic Area, 2007



Source: Prof. Michael E. Porter, Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director.

The Evolution of Regional Economies

San Diego



Economic Integration Among Neighboring Countries

Turkey's Neighborhood



- Turkey sits at the crossroad between Europe and the Middle East
- Economic coordination among neighboring countries can significantly enhance competitiveness
- Integration offers greater opportunities than participation in broader economic forums (e.g., EU)

Competitiveness and the Neighborhood

- Opening **trade and investment** among neighbors
 - A nation's **neighbors** are its most natural trading and investment partners
 - The natural path of **internationalization** for local firms is the neighborhood
 - Open trade and investment make each a more attractive location for **investment**
- Economic coordination to drive **improvements in the business environment**
 - Capturing **synergies** in policy and infrastructure
 - Gaining greater clout in **international negotiations**
- External agreements to help **overcome domestic political and economic barriers** to reform

Competitiveness Upgrading Among Neighbors

Capturing Synergies

Business Environment

Factor (Input) Conditions

- Improving efficiency and interconnectivity of **transportation infrastructure**
- Enhancing regional **communications**
- Creating an efficient **energy** network
- Linking **financial markets**
- Opening the movement of students for **training** or **higher education**

Context for Strategy and Rivalry

- Eliminating **trade and investment barriers** within the region
- Simplifying and harmonizing **cross-border** regulations, paperwork and visas
- Coordinating **antitrust** and **competition policies**

Demand Conditions

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

Related and Supporting Industries

- Facilitating cross-border **cluster upgrading**

Macroeconomic Policy

- Coordinating **macroeconomic** policies
- Regional **development bank**
- Coordinated **capital requirements**

Political Institutions and Governance

- Sharing **best practices** in government operations
- Creating regional **institutions**
 - Dispute resolution mechanisms
 - Harmonizing economic statistics
- Developing a regional position with **international organizations**

Strategy for Cross-National Regions

Central American Logistical Corridor

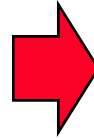


The Process of Economic Development

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

Role of the Private Sector in Economic Development

- The competitive advantage of companies depends partly on the **quality of the business environment** at the national and regional level
- A company gains advantages from being part of a strong **cluster**

Corporate role in competitiveness

- 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
- **Participate actively** in national and regional competitiveness initiatives
- Focus **corporate social responsibility initiatives** on enhancing the business environment

Defining a National Economic Strategy

National Value Proposition

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

Developing Unique Strengths

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

Addressing Crucial Constraints

- What are the crucial **weaknesses 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

Rwanda's Challenges

- Relatively small home market
- Landlocked with high logistical costs
- Skill and capacity shortages
- Limited private sector and agricultural development

What is Unique About Rwanda?

- Established positions in tea, coffee, and tourism
- Unique climate and growing conditions for a range of products
- Central location on the African continent and a stable oasis among a neighborhood of 290 million people
- Low corruption
- Stable, secure, and safe
- Tidy and orderly
- Responsive government
- Streamlined business processes
- Opportunity to lead the region in many services
- Social innovator in health, education, reconciliation, gender equality, and other areas
- Disproportionate external interest in the country

Towards a Rwandan Strategic Positioning

- A safe, stable, transparent, and efficient **hub for the region**
- Among the **easiest places to do business** in Africa
- Kigali as a **vibrant capital city** with a high quality of life
- **High-value positions** in specialty agricultural products and processing
- An increasingly diversified **services** economy
- A leader in **social services** and **social entrepreneurship**
- Growing self-sufficiency in the manufacture of **logistically sensitive products**
- A catalyst for driving advancement in the **East African Community**

Rwanda's Competitiveness Agenda, 2010

Business Environment

Address critical constraints in the business environment

- Logistical infrastructure
- Energy cost and access
- Training and skills development
- Land property rights
- Management capacity
- Access to risk capital
- Effectiveness in attracting foreign investment
- Urban centers outside of Kigali

Cluster Development

Activate an aggressive public/private cluster development program to accelerate the growth and upgrading of Rwandan business

Established clusters

- Specialty Agriculture
- Tourism

Emerging clusters

- Food processing
- Logistics and Transport
- Construction
- ICT services
- Business services
- Health and other social services
- Arts and Culture

Private Sector

Upgrade private sector capabilities in planning, operations, finance, and technology

Neighborhood

Lead economic coordination and integration with neighboring countries to address crucial weaknesses while maintaining Rwandan competitiveness