

# **Microeconomic Aspects of Competitiveness: Lessons for Post-Crisis Growth Policies**

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# Policy Priorities after the Crisis

**Acute crisis response**



**Exit from emergency measures**



**The quest for growth**

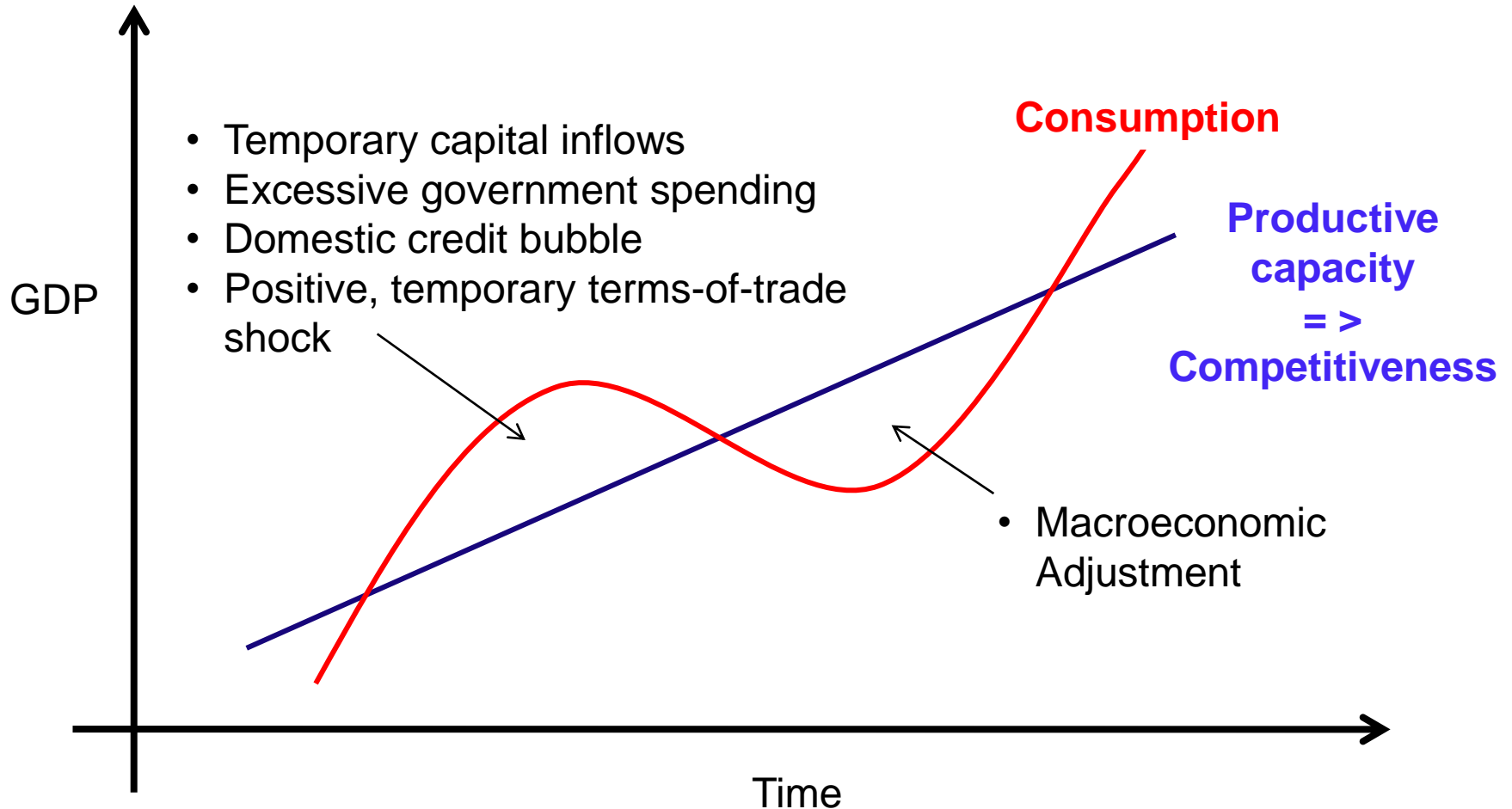
# Empirical Observations

- Many countries have achieved **high growth** for some periods of time
- Few countries have been able to sustain high levels of growth; high growth episodes are often followed by **dramatic slow-downs**
- Episodes of high growth are often preceded by **macroeconomic stabilization and (international) market opening**



- What policies can support **sustained growth**?

# Growth spurts and competitiveness



# Perspectives on Economic Growth Strategies

	Pro-competition policies	Sector-specific policies	Country-specific policies
Framework Conditions	Yes	No	No



- **Necessary but often not sufficient, at least in the short- to medium-term**

# Perspectives on Economic Growth Strategies

	Pro-competition policies	Sector-specific policies	Country-specific policies
Framework Conditions	Yes	No	No
Industrial Policy	No	Yes	No



- **Impact often short-lived and almost always negative in the long-term**

# Perspectives on Economic Growth Strategies

	Pro-competition policies	Sector-specific policies	Country-specific policies
Framework Conditions	Yes	No	No
<b>Competitiveness Policy</b>	Yes	Yes	Yes
Industrial Policy	No	Yes	No

# Dimensions of Competitiveness

## Microeconomic Competitiveness (MICRO)

**Sophistication  
of Company  
Operations and  
Strategy**

**State of Cluster  
Development**

**Quality of the  
National  
Business  
Environment**

## Macroeconomic Competitiveness

**Social  
Infrastructure  
and Political  
Institutions (SIPI)**

**Quality of  
Macroeconomic  
Policy (MP)**

## Endowments

**Natural  
Resources**

**Geographic  
Location**

**Size**



# An Empirical Approach

$$\log \text{GDPpc}_{c,t} = \alpha_0 + \beta_{\text{MICRO}}^{\text{STAGE}} \text{MICRO}_{c,t-1} + \beta_{\text{SIPI}}^{\text{STAGE}} \text{SIPI}_{c,t-1} + \beta_{\text{MP}}^{\text{STAGE}} \text{MP}_{c,t-1} + \\ \alpha_{\text{END}}^{\text{STAGE}} \text{ENDOWMENTS}_{c,t-1} + \\ \alpha_t^{\text{STAGE}} \text{year}_t + \delta_{\text{STAGE}} \text{STAGE}_c + \varepsilon_{c,t}$$

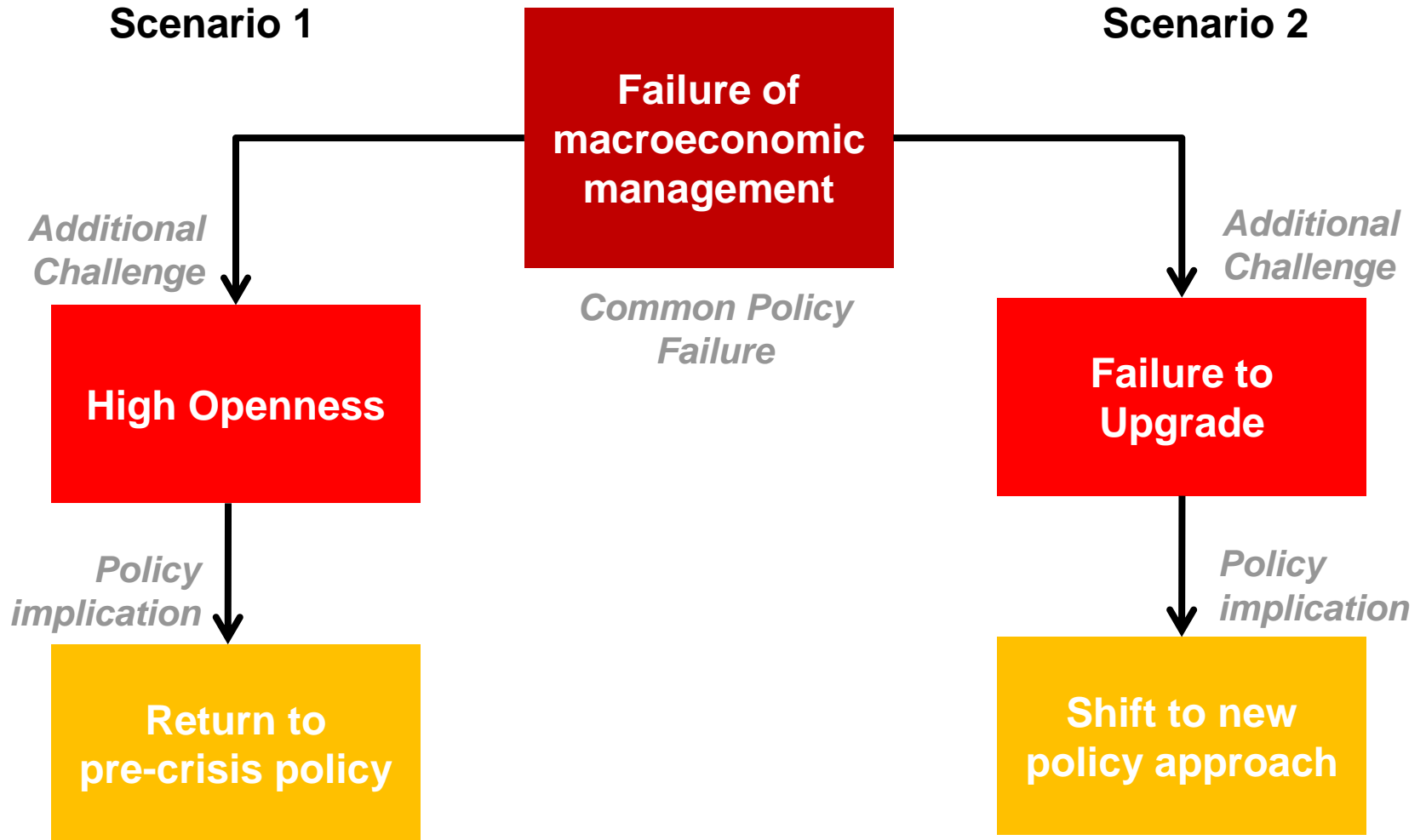
- Data
  - Broad set of data sources covering all dimensions of the framework
  - Unit of observation is the average response per indicator, country, and year
  - Data set is a panel across more than 130 countries and up to 8 years, using the World Economic Forum's Global Executive Survey
- Approach
  - Step 1: Conduct separate principal components analyses for MICRO, SIPI, to derive their averages per country-year (Simple average for MP)
  - Step 2: Comprehensive regression of MICRO, SIPI and MP on log GDP per capita with endowment controls and year dummies.
    - The model allows the coefficients to vary by the stage of development:

# Selected Findings

- The linear model explains **83% of the variation of GDP per capita** across countries
- The linear model reveals that **each broad competitiveness category matters**, even when controlling for the others and for endowments
  - In contrast, past literature has tended to focus on one dimension and on very long time frames
- **Weights change** by stage of development

	Linear model All Economies	High Stage	Middle/Low Stage
MICRO	<b>0.35</b>	<b>0.51</b>	0.15
SIPI	<b>0.53</b>	<b>0.47</b>	<b>0.69</b>
Macro Policy	<b>0.12</b>	0.02	<b>0.16</b>
	1.00	1.00	1.00

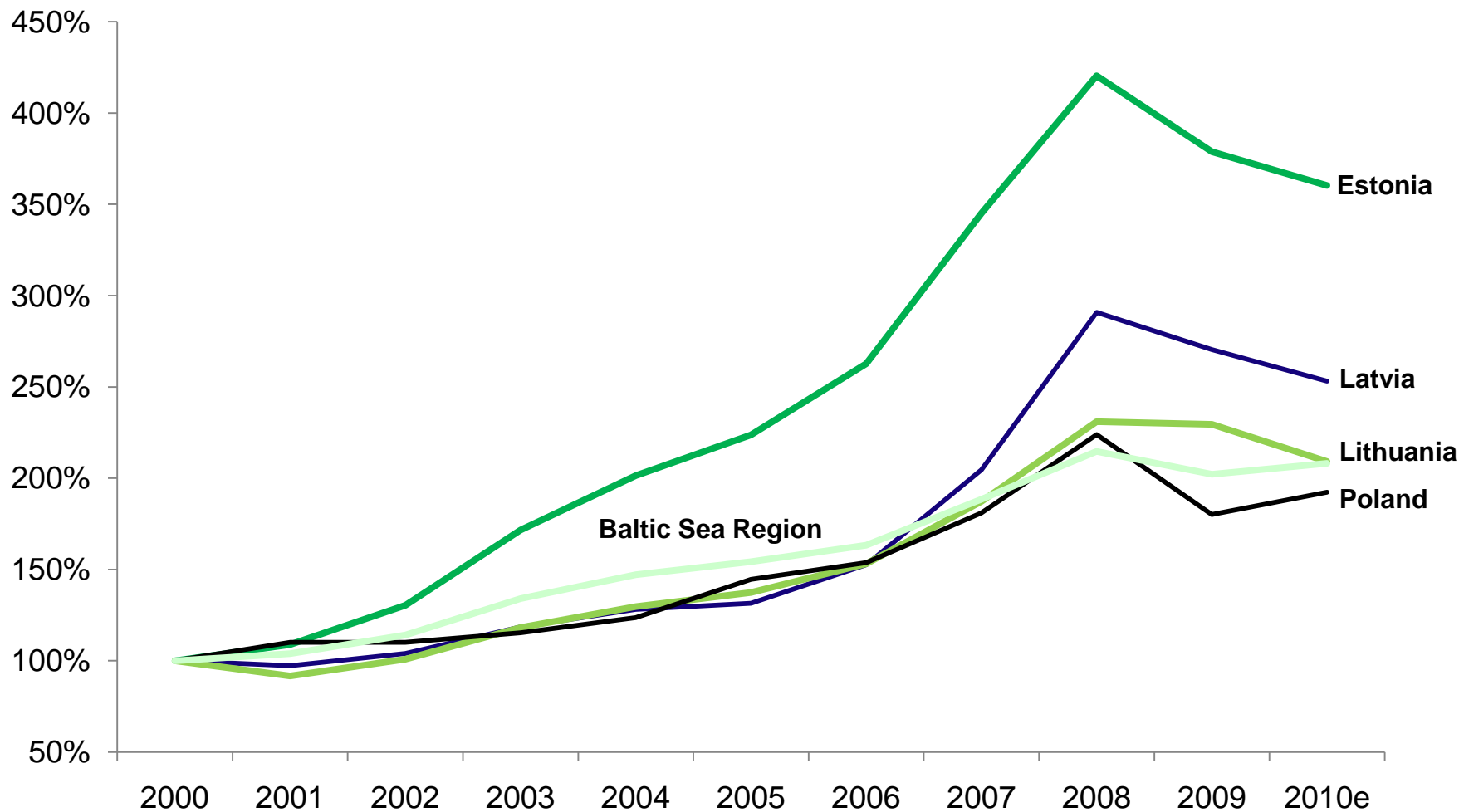
# The Baltic Countries in the Global Crisis



# Overheating

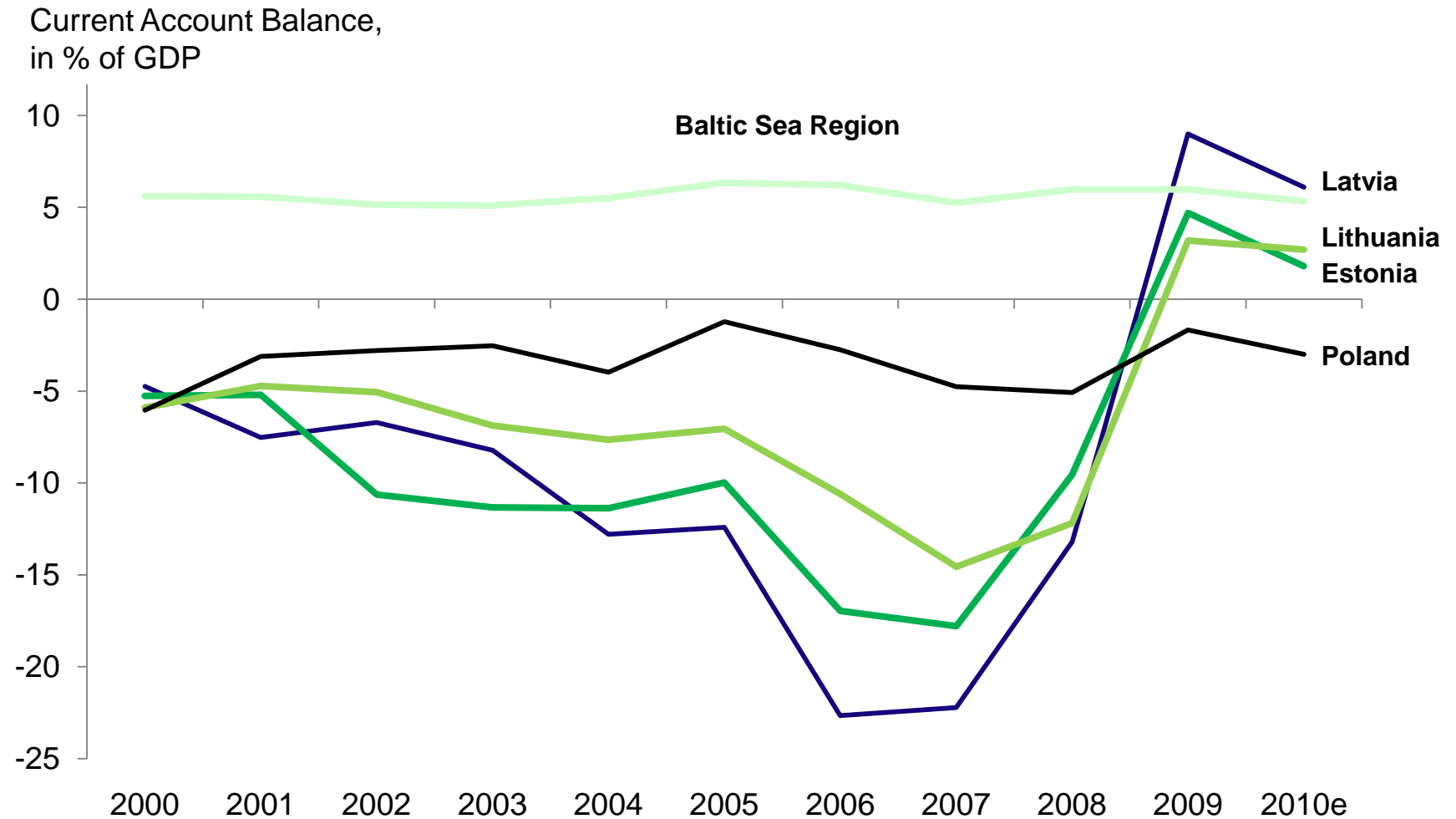
## Unit Labor Costs, Baltic Countries and Poland, 2000 – 2010e

2000 = 100%



# Reversal

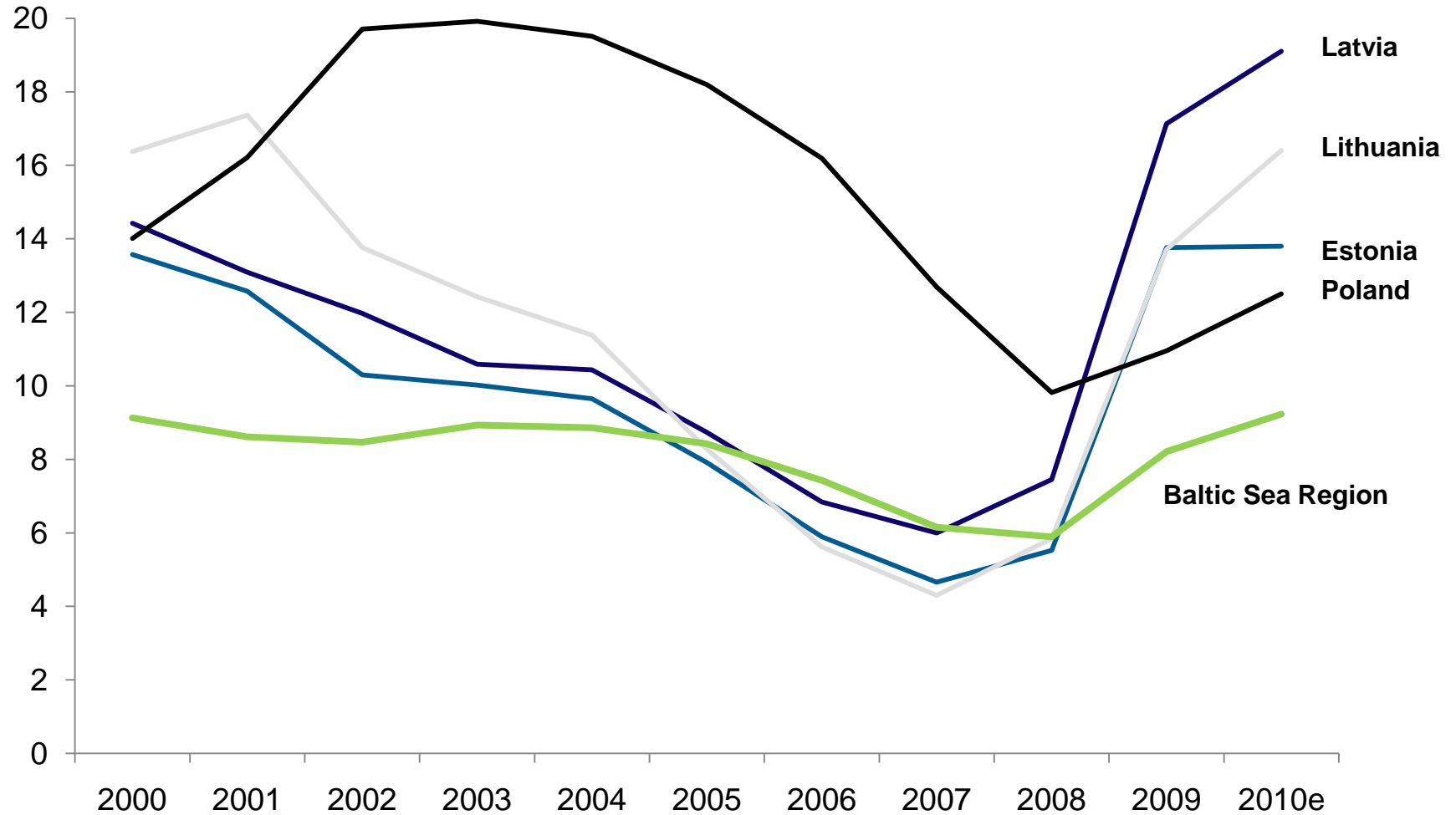
## Current Account Balance, Baltic Countries and Poland, 2000 – 2010e



# Impact

## Unemployment, Baltic Countries and Poland, 2000 – 2010e

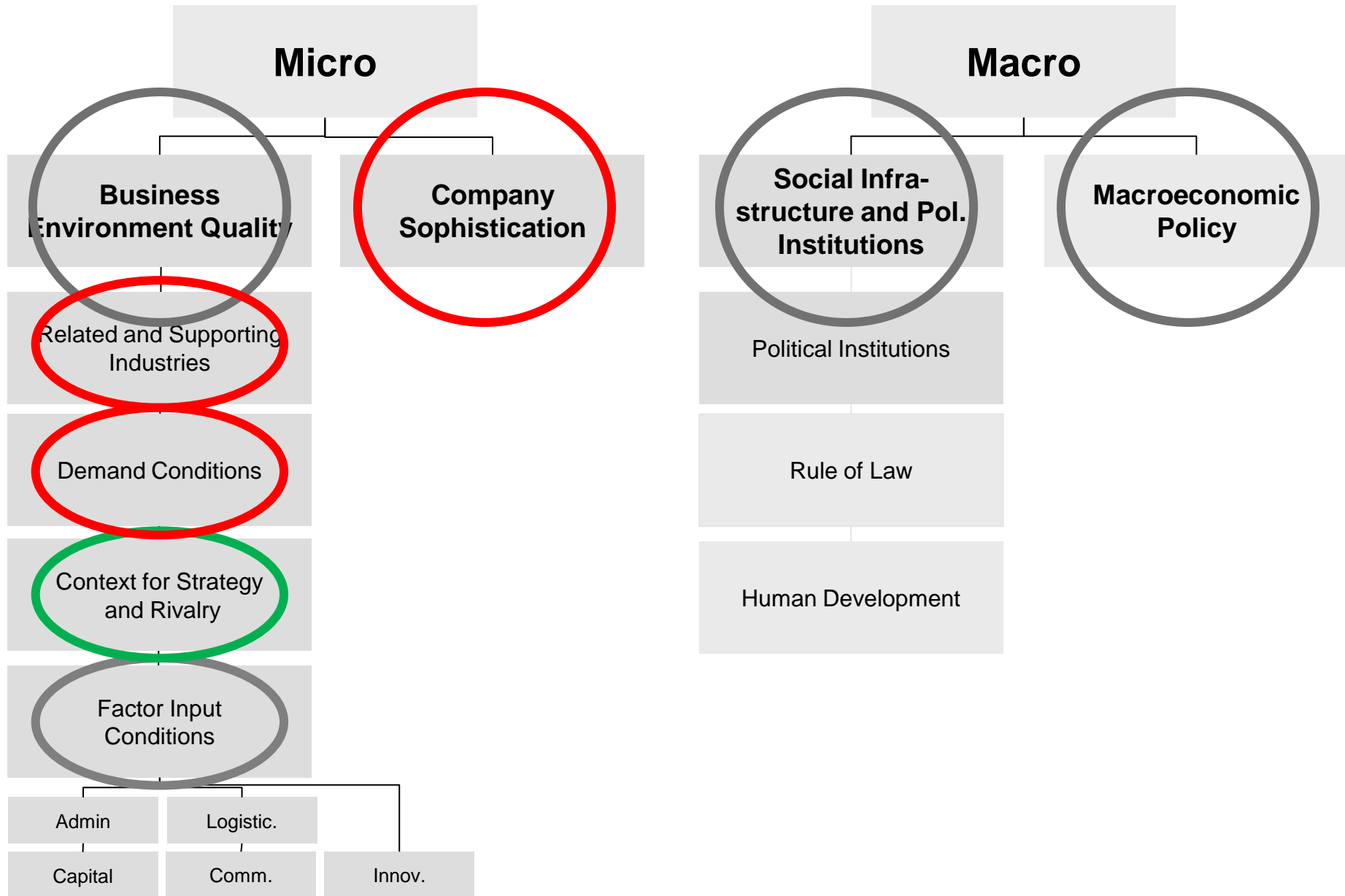
Recorded unemployment  
rate, %



# Putting the Current Crisis in Perspective

- A decade of **significant achievements**, even taking the painful current losses into account
- Clear **policy mistakes** made in the run-up to the crisis in not avoiding the overheating
- Remarkably **solid policy response** to the crisis

# The Profile of Past Policy Reforms





# The Role of the EU

## Macroeconomic policy

- Euro zone conditions
- Stability and Growth Pact

## Microeconomic policy

- Acquis Communautaire
- Common Trade, Competition, and Agricultural Policy
- Structural Funds, Framework Programs, CIP
- Lisbon Agenda

### **PROVIDED**

- Minimum standards
- Reducing weaknesses
- Generic policy targets

### **LACKED**

- Strategic priorities
- Creating strengths
- Unique objectives

# Implications

- Sustainable growth depends on a **solid mix** of micro- and macroeconomic policies
- Growth-oriented policies need to contribute to the emergence of **competitive advantages** and engage the **private sector**

## Positioning

### *Developing a national economic strategy*

- What unique advantages does the location offer as a place to do business; for what activities?
- How do policy priorities support the strategy?

## Private Sector Development

### *Developing the capacity of local companies*

- How do policies facilitate the spreading of best practices across companies?
- How do policies support the upgrading of companies' competitive advantages?