

# The Competitive Advantage of Nations and Regions: Implications for the Caribbean

Professor Michael E. Porter  
*Harvard Business School*

*Distinguished Leadership  
and Innovation Conference  
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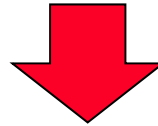
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This presentation draws on ideas from Professor Porter's articles and books, in particular, *The Competitive Advantage of Nations* (The Free Press, 1990), "Building the Microeconomic Foundations of Competitiveness," in *The Global Competitiveness Report* (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](http://www.isc.hbs.edu)

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# The Caribbean Region in 2011

- The Caribbean nations are recovering from a sharp global crisis
- However, the region is not progressing rapidly enough in driving economic and prosperity growth

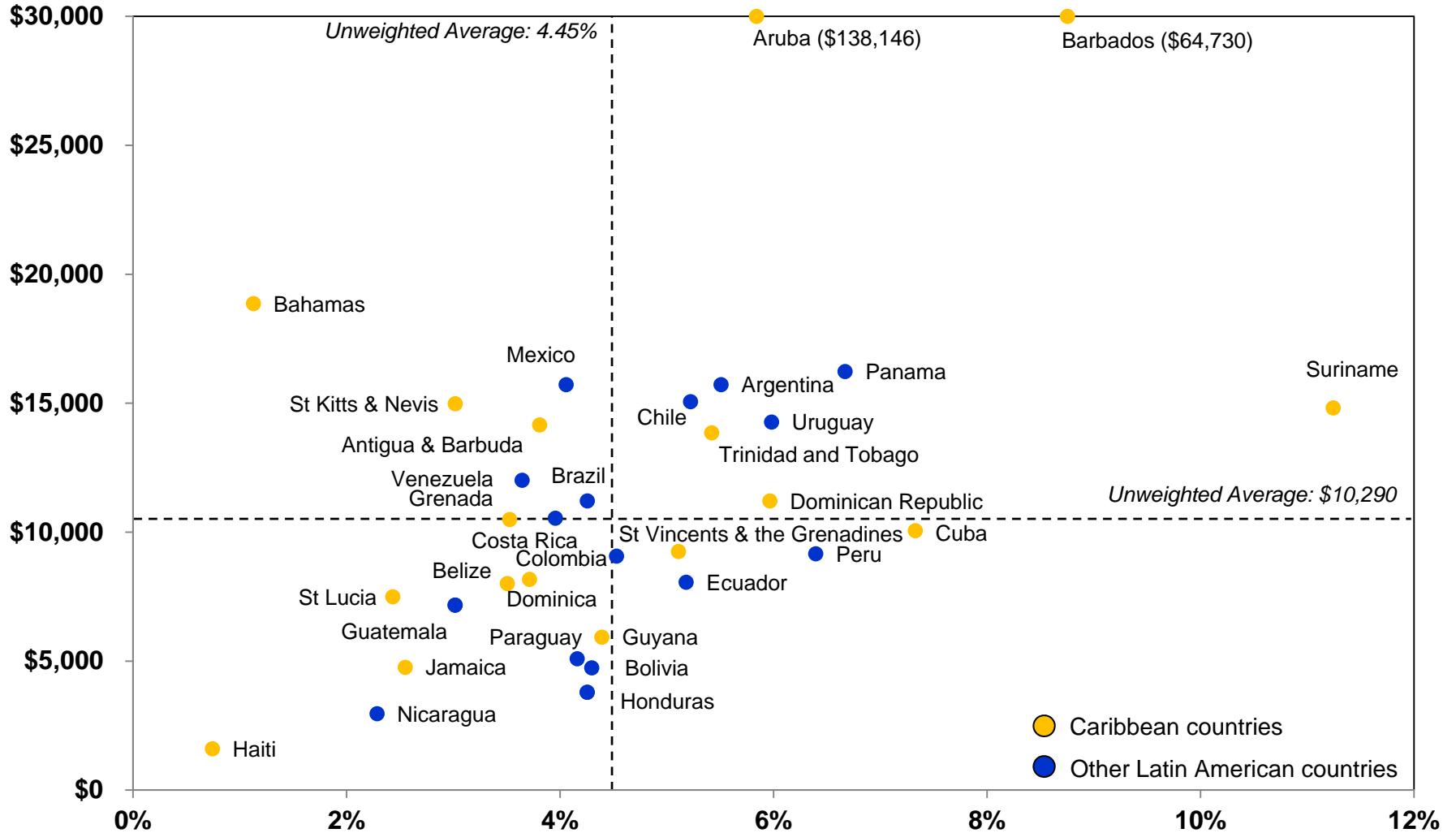


- Caribbean countries need strategies to improve **competitiveness** and drive fundamental economic reform

# Differences in Prosperity Performance

## Caribbean Countries

PPP-adjusted GDP per Capita, 2010 (\$USD)



Growth of Real GDP per Capita (PPP-adjusted), CAGR, 2000-2010

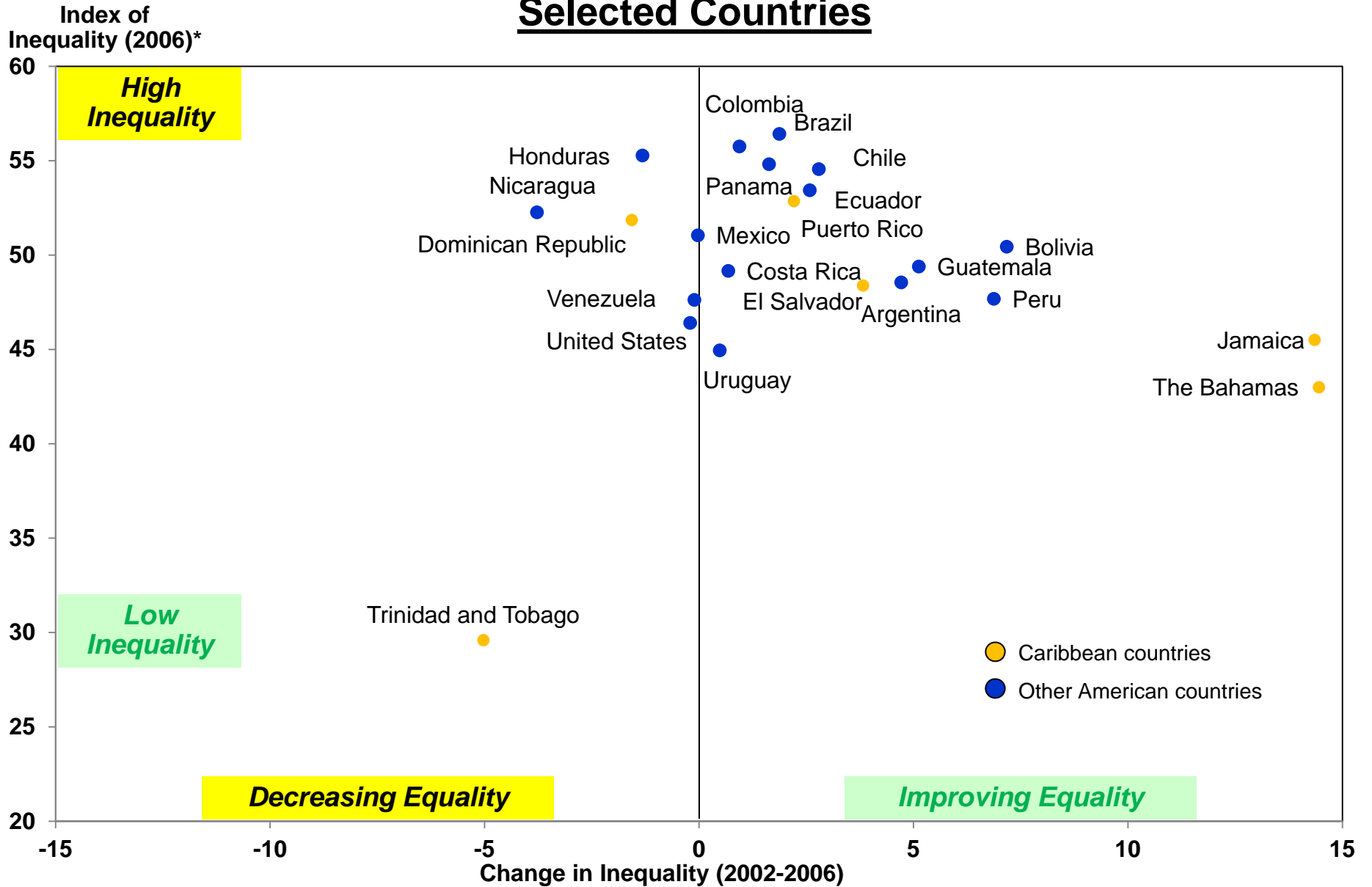
Note: Aruba not included in average

Source: EIU (2011), authors calculations

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# Income Inequality

## Selected Countries



Note: \* latest data available used (in some cases earlier years data used).

Source: World Bank, World Development Indicators, 2008, United Nations University (UNU-WIDER)

# Sources of Prosperity

## Inherited Prosperity

- Prosperity derived from **inherited natural resources**
  - Prosperity is **limited**



- Focus **on dividing** the pie
- **Government** becomes the central actor in the economy
- Resource revenues fuel corruption and allow **unproductive policies and practices to persist**

## Created Prosperity

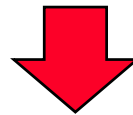
- Prosperity resulting from **productivity** in producing goods and services
  - Prosperity is **unlimited**



- **Expands** the pie
- **Companies** are the central actors in the economy
- Government's role is to create the **enabling conditions for productivity** and foster private sector development

# What is Competitiveness?

- Competitiveness is 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)
  - It is not **what** industries a nation competes in that matters for prosperity, but **how productively** it competes in those industries
  - Productivity in a national economy arises from a **combination of domestic and foreign firms**

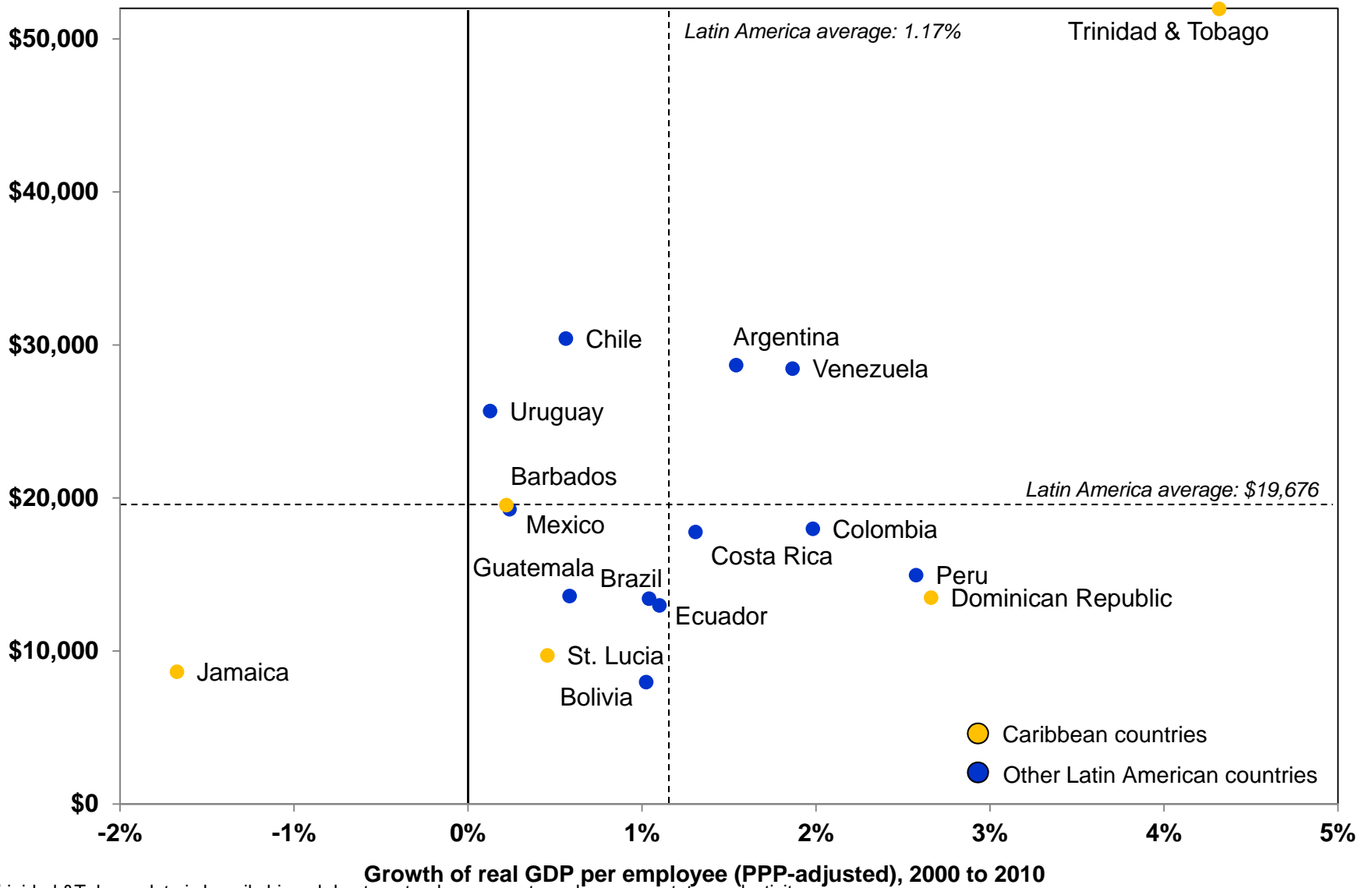


- Only **competitive businesses** can create wealth and jobs
- Nations compete to offer the **most productive environment for business**
- The public and private sectors play **different but interrelated roles** in creating a productive economy

# Labor Productivity Performance

## Selected Latin American Countries, 2000 - 2010

Real GDP per employee (PPP adjusted US\$), 2010

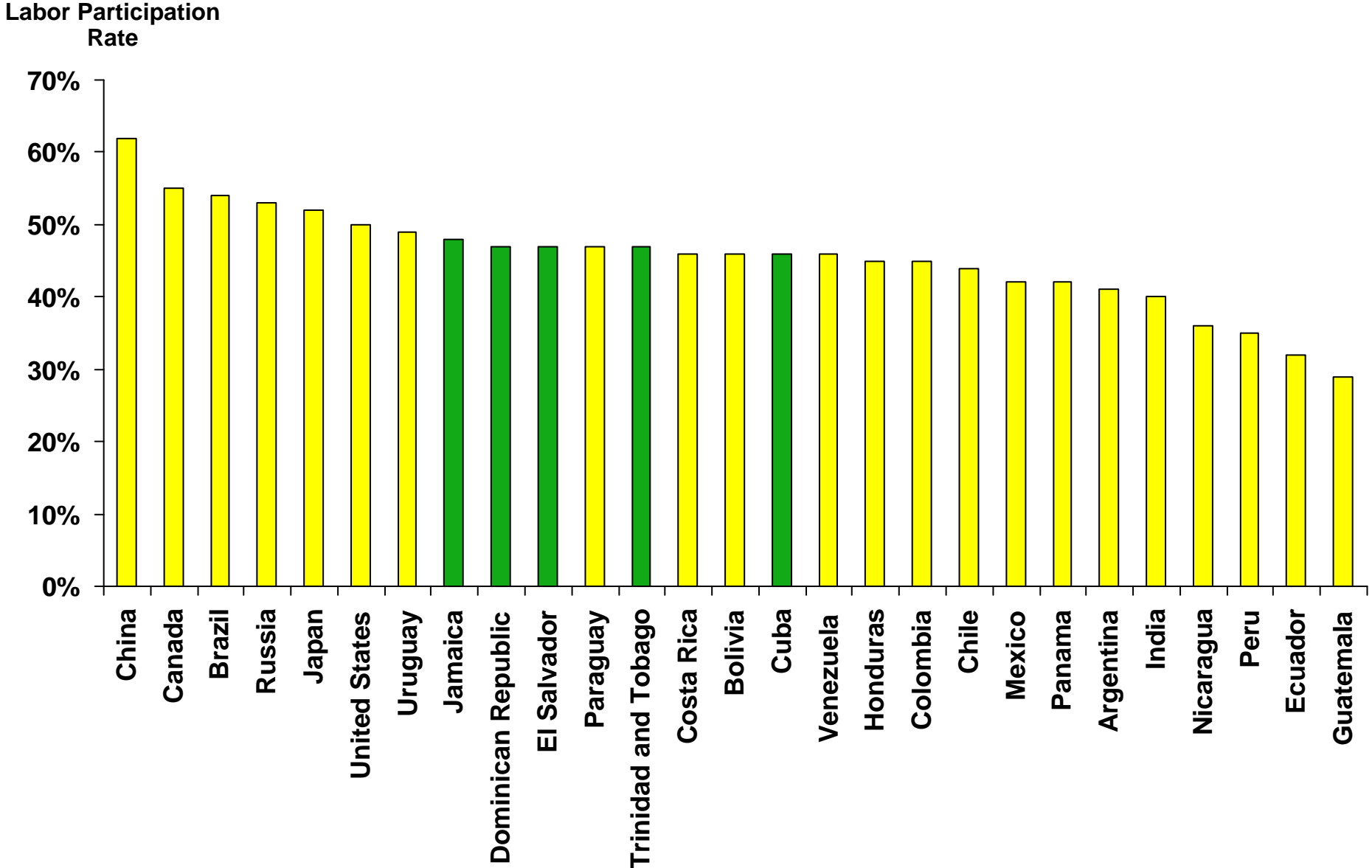


Note: Trinidad & Tobago data is heavily biased due to natural gas exports and may overstate productivity

Source: authors calculation Groningen Growth and Development Centre (2011), EIU (2011)

# Labor Participation Rate

## Selected Countries



Source: EIU (2011)  
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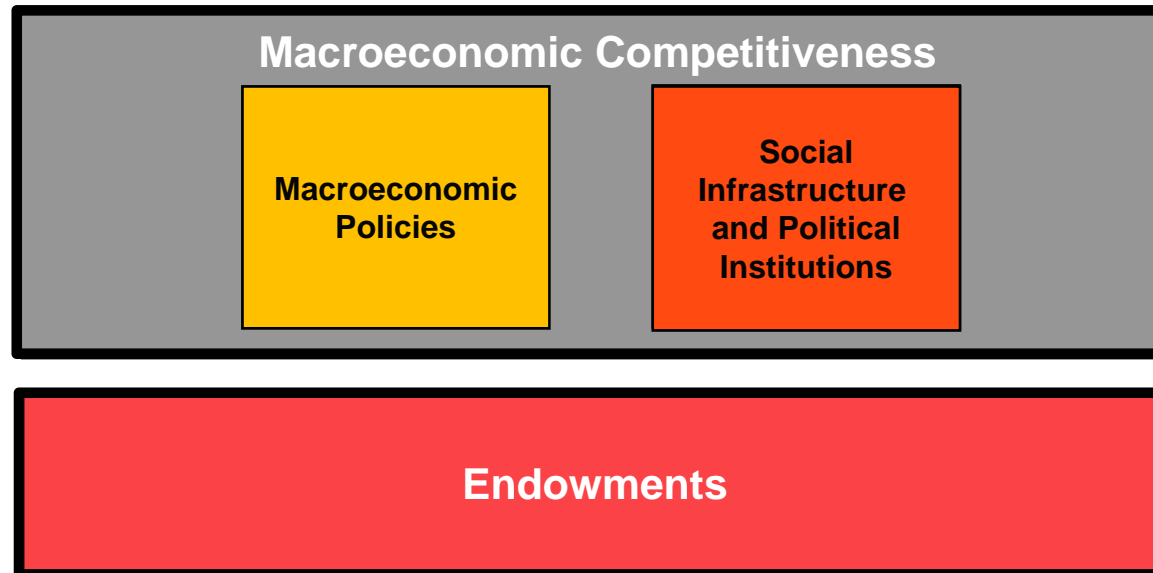
# What Determines Competitiveness?



Endowments

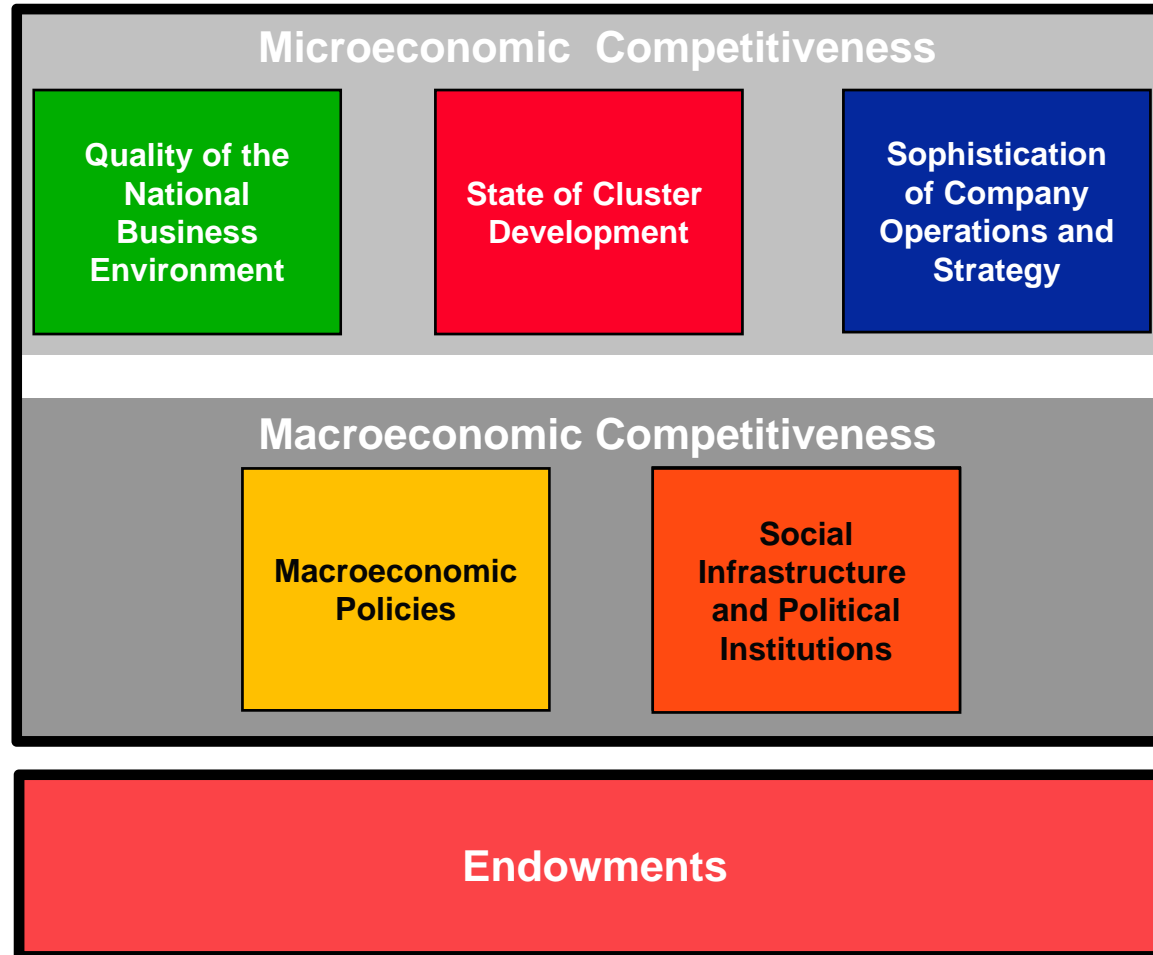
- Endowments create a **foundation** for prosperity, but true prosperity is created by **productivity in the use of endowments**

# What Determines Competitiveness?



- Macroeconomic competitiveness sets the **potential** for high productivity, but is **not sufficient**
- Endowments create a **foundation** for prosperity, but true prosperity is created by **productivity in the use of endowments**

# What Determines Competitiveness?



- Productivity ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local competition**
- Macroeconomic competitiveness sets the **potential** for high productivity, but is **not sufficient**
- Endowments create a **foundation** for prosperity, but true prosperity is created by **productivity in the use of endowments**

# Macroeconomic Competitiveness

## Macroeconomic Policies

- **Fiscal policy**
  - Government surplus/deficit
  - Government debt
- **Monetary policy**
  - Inflation
  - Business cycle management
  - Savings

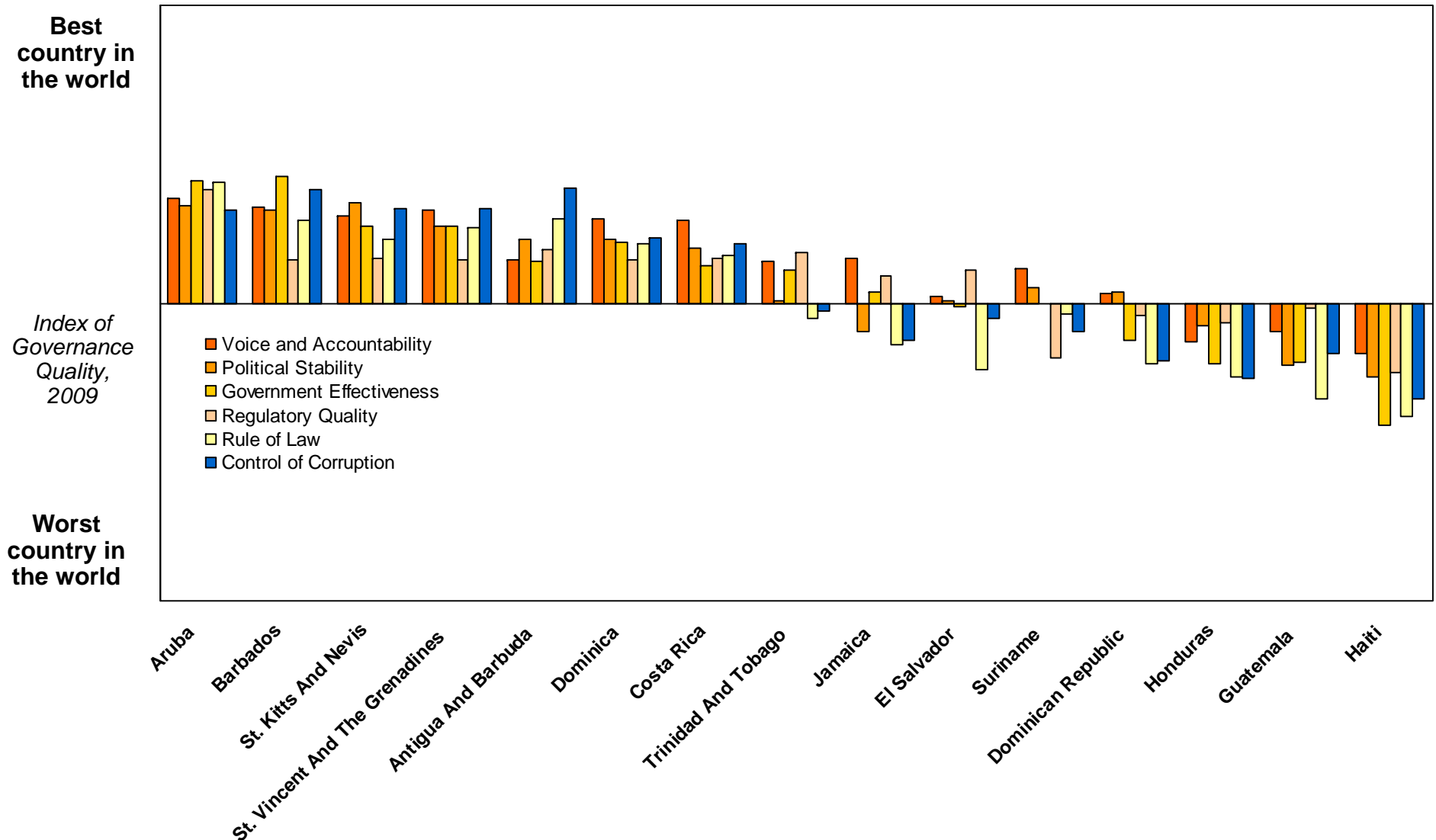
## Social Infrastructure and Political Institutions

- **Human development**
  - Basic education
  - Health
- **Political institutions**
  - Political freedom
  - Voice and accountability
  - Political stability
  - Government effectiveness
  - Decentralization of economic policymaking
- **Rule of law**
  - Security
  - Civil rights
  - Judicial independence
  - Efficiency of legal framework
  - Freedom from corruption

# Macroeconomic Competitiveness: Human Development

Country	GDP per capita rank	Human Development Rank	
		Life expectancy index	Education index
Barbados	3	37	62
Bahamas	42	64	55
Panama	47	50	60
Suriname	53	108	106
Trinidad and Tobago	58	106	83
Dominican Republic	69	83	108
Costa Rica	72	30	95
Belize	82	42	74
Guatemala	85	104	133
El Salvador	89	97	100
Guyana	91	117	85
Jamaica	99	87	77
Honduras	106	84	111

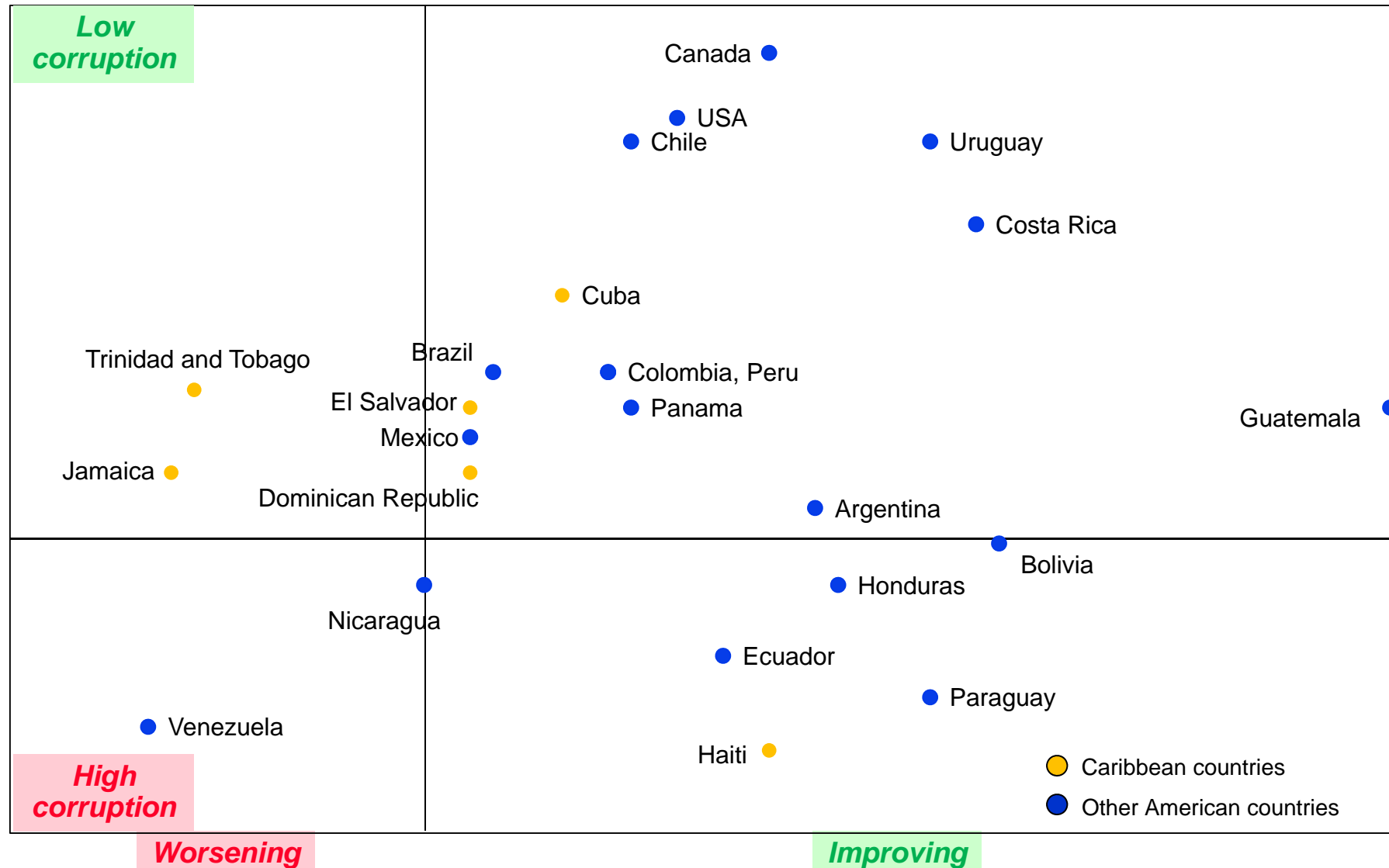
# Macroeconomic Competitiveness: Governance



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 (2011)

# Macroeconomic Competitiveness: Corruption

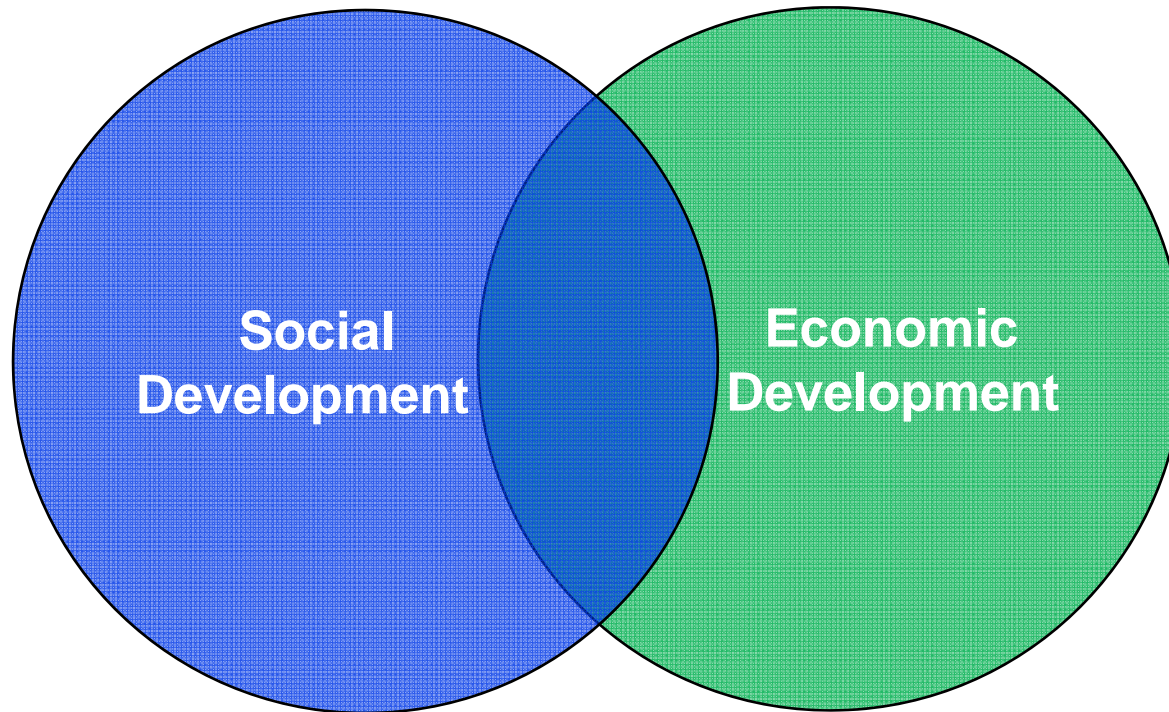
Rank in Global Corruption Index, 2009



Change in Rank, Global Corruption Report, 2003 to 2009

Source: Global Corruption Report, 2010

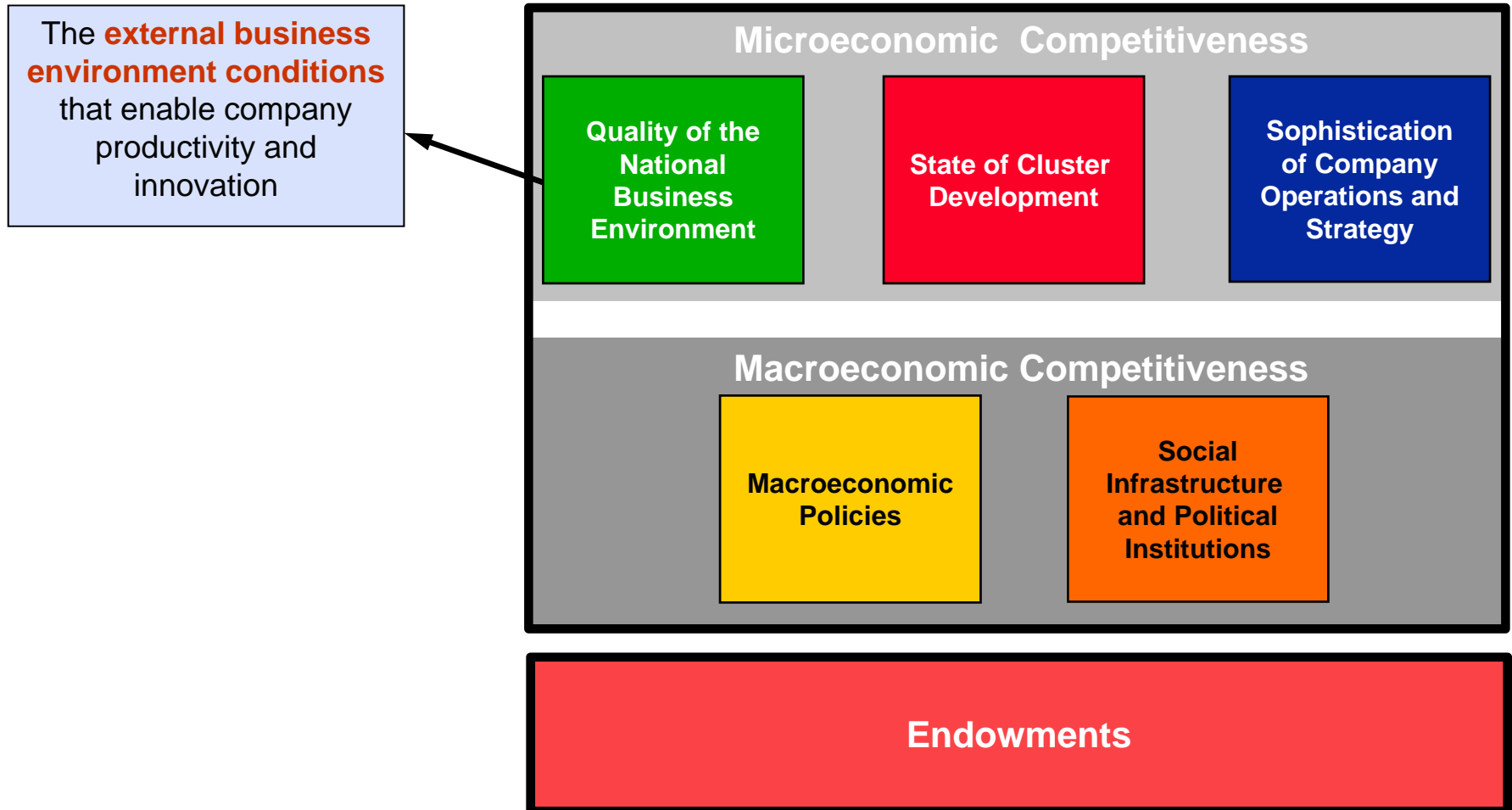
# Competitiveness and Poverty Reduction



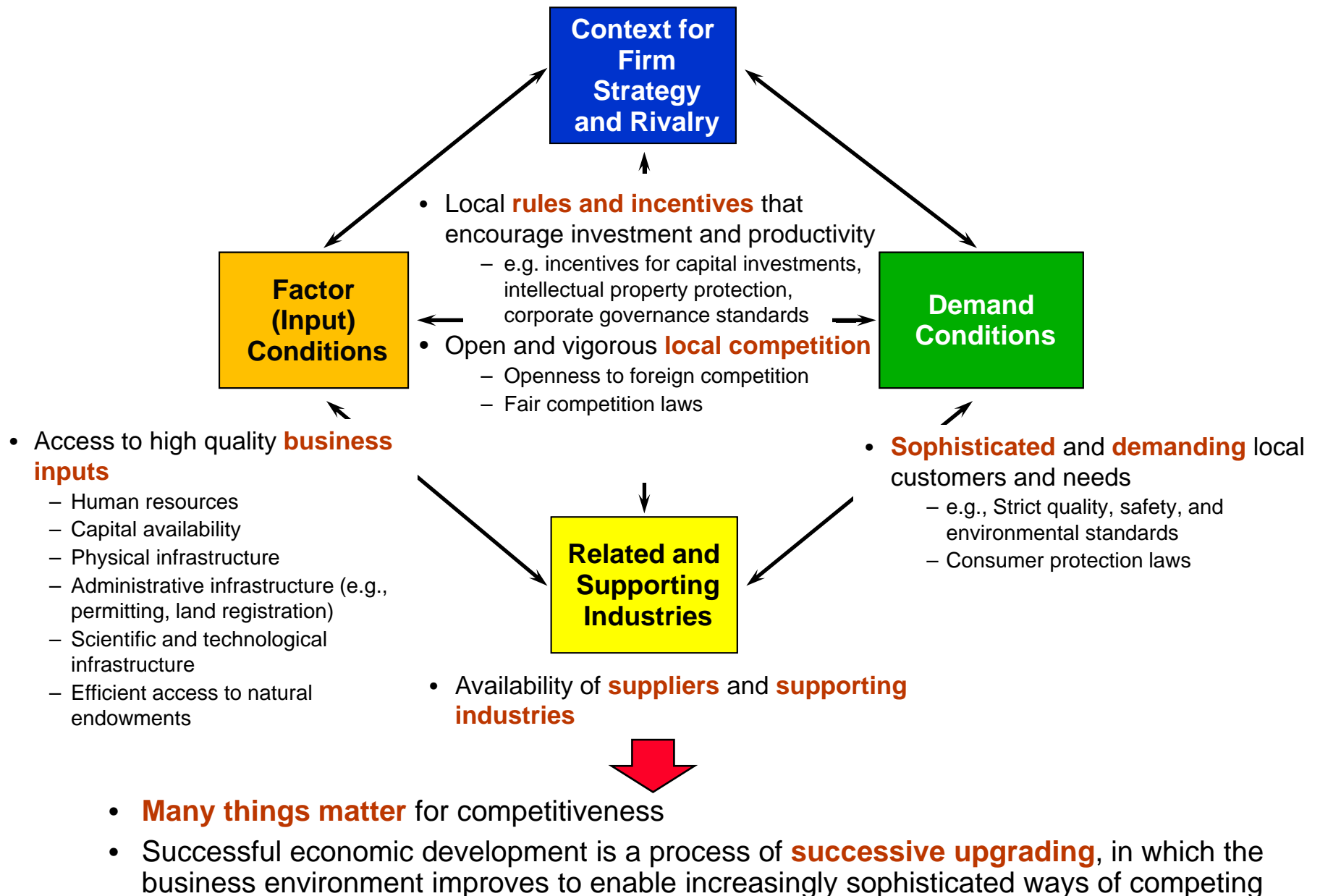
- There is a strong connection between **economic** and **social** development
- Improving competitiveness and decreasing poverty requires improving the economic and social context **simultaneously**



# What Determines Competitiveness?



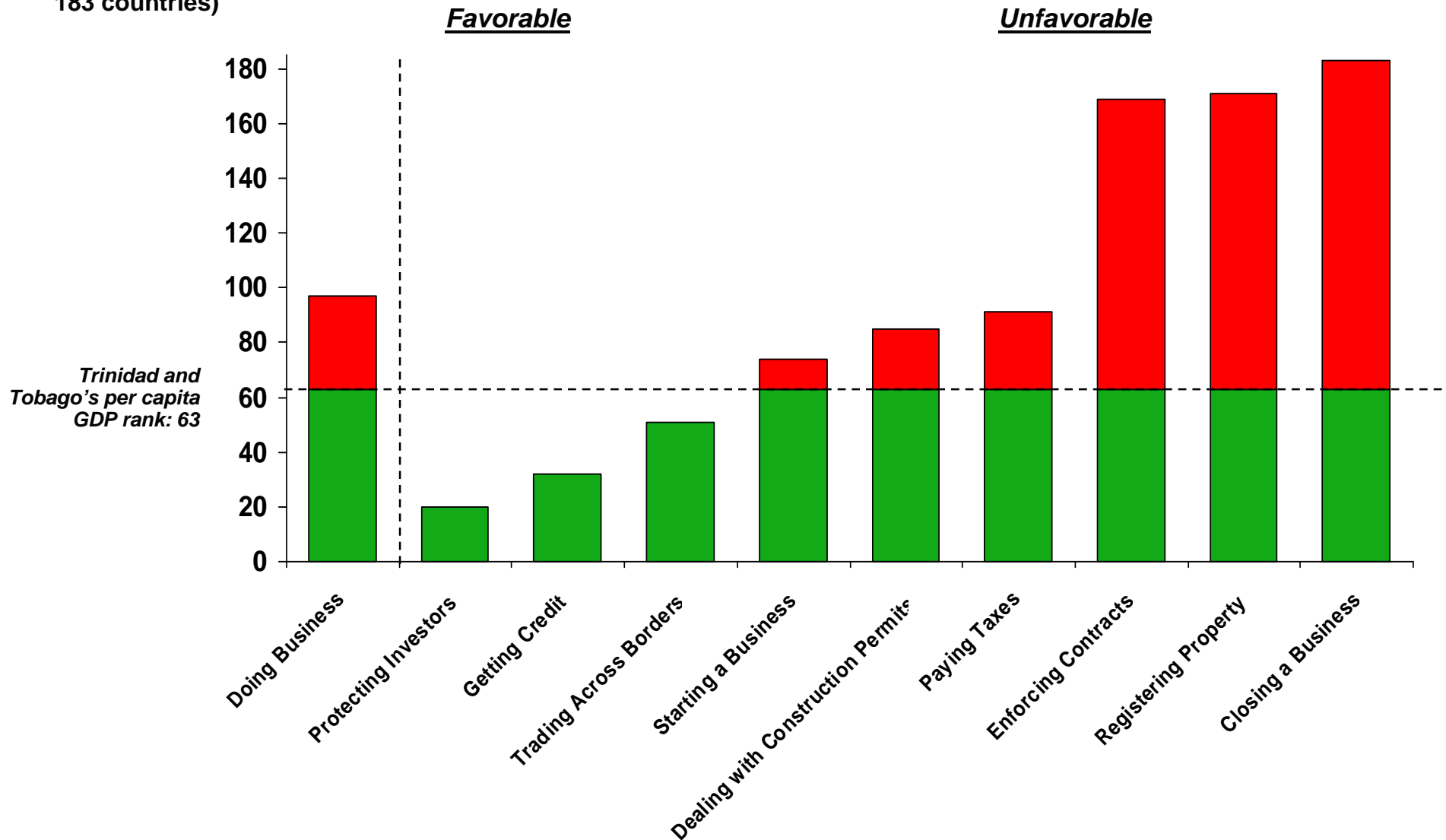
# Quality of the National Business Environment



# Microeconomic Competitiveness: Ease of Doing Business

## Trinidad and Tobago, 2011

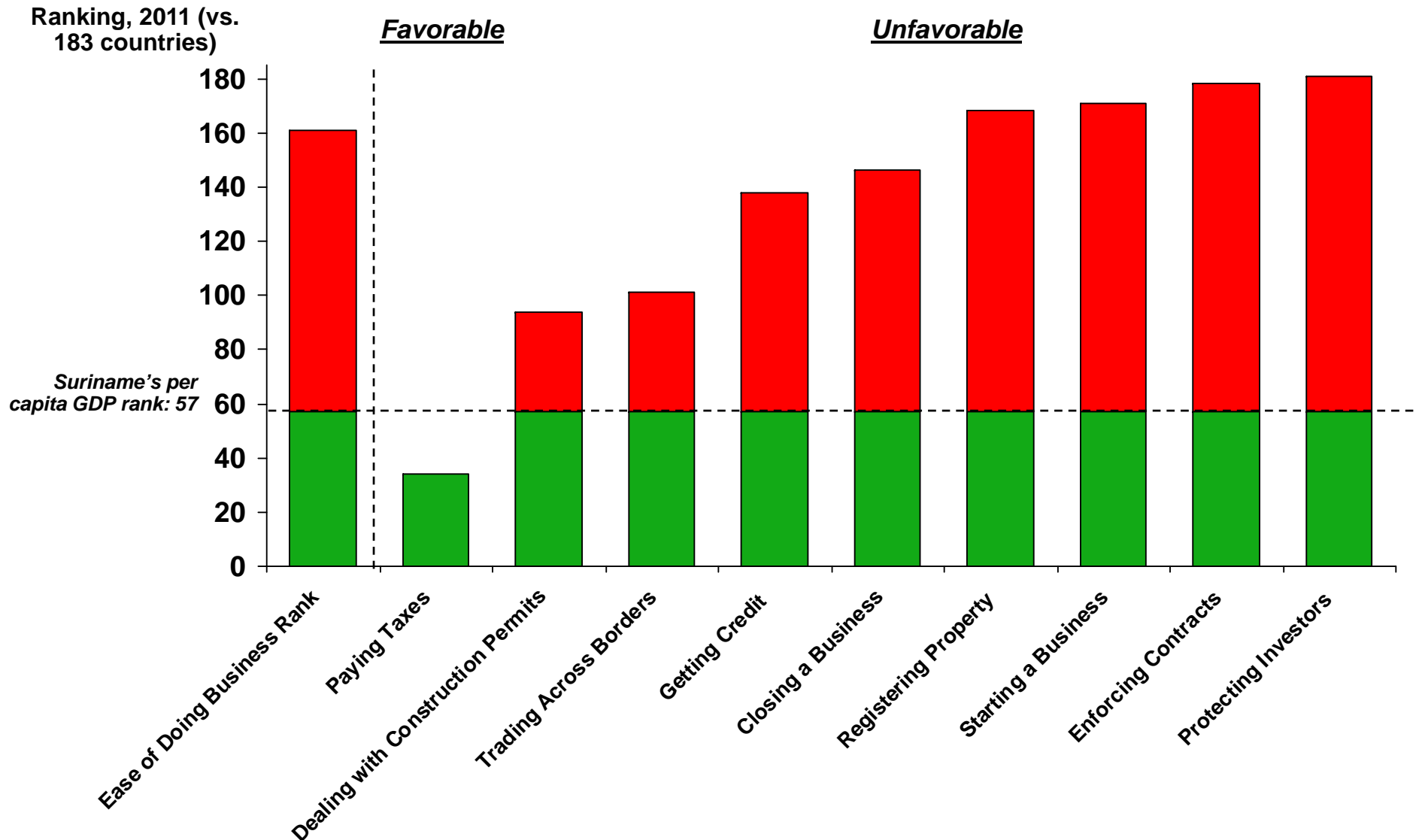
Ranking, 2011 (vs. 183 countries)



Source: World Bank Report, Doing Business (2011).

# Microeconomic Competitiveness: Ease of Doing Business

## Suriname, 2011



Source: World Bank Report, Doing Business (2011).

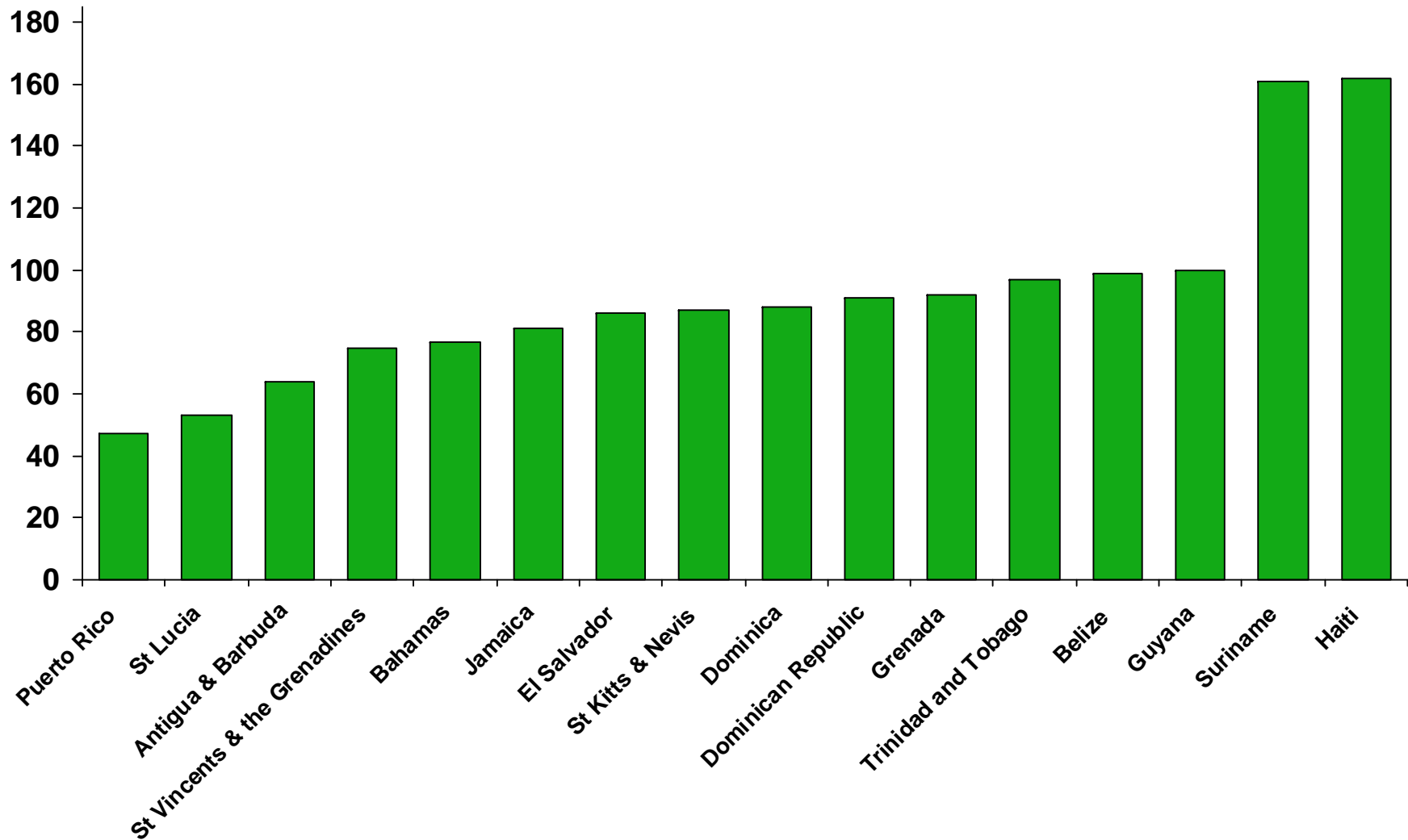
# Microeconomic Competitiveness: Ease of Doing Business

## Caribbean Nations, 2011

Ranking, 2011 (vs. 183 countries)

Favorable

Unfavorable



Source: World Bank Report, Doing Business (2011).

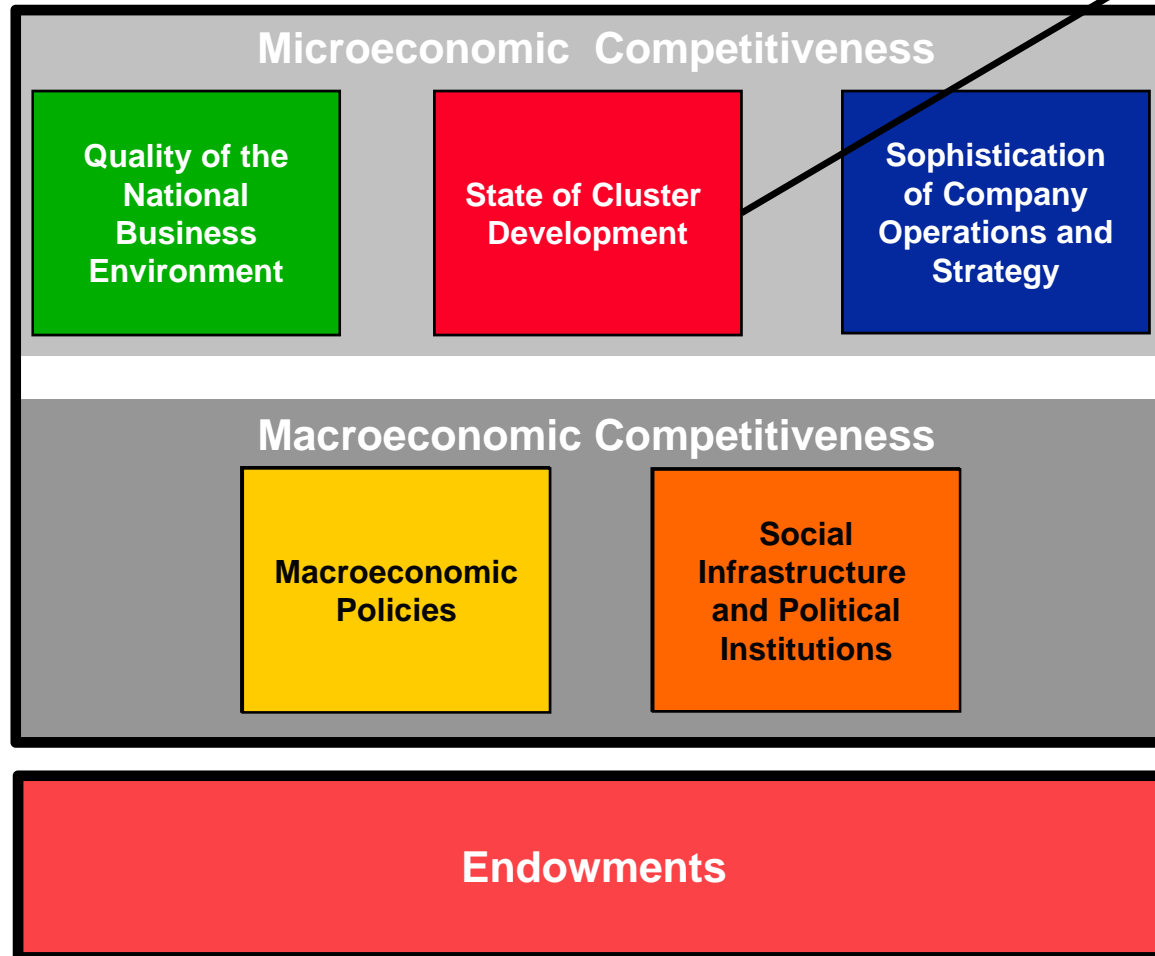
# The Business Environment in the Caribbean

## Selected Issues

- Low skills
- Brain drain
- Bureaucracy and red tape
- Weak property and contractual rights
- Barriers to domestic and international competition, despite significant progress in removing barriers within the region
- High communication costs
- Limited sophistication of company strategies
- Low innovative capacity

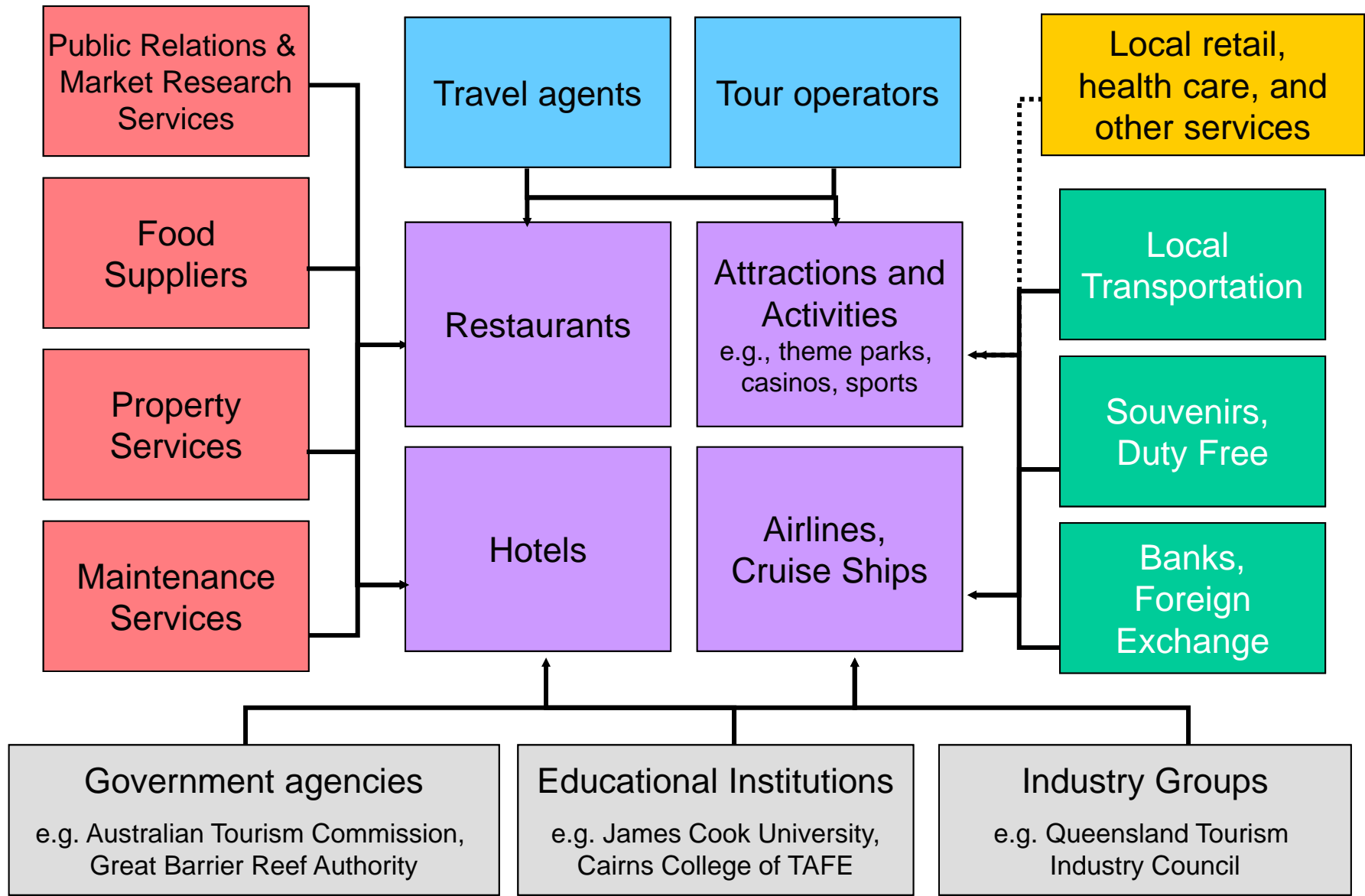
# What Determines Competitiveness?

**A critical mass** of firms and institutions in each field to harness efficiencies and externalities across related entities



# State of Cluster Development

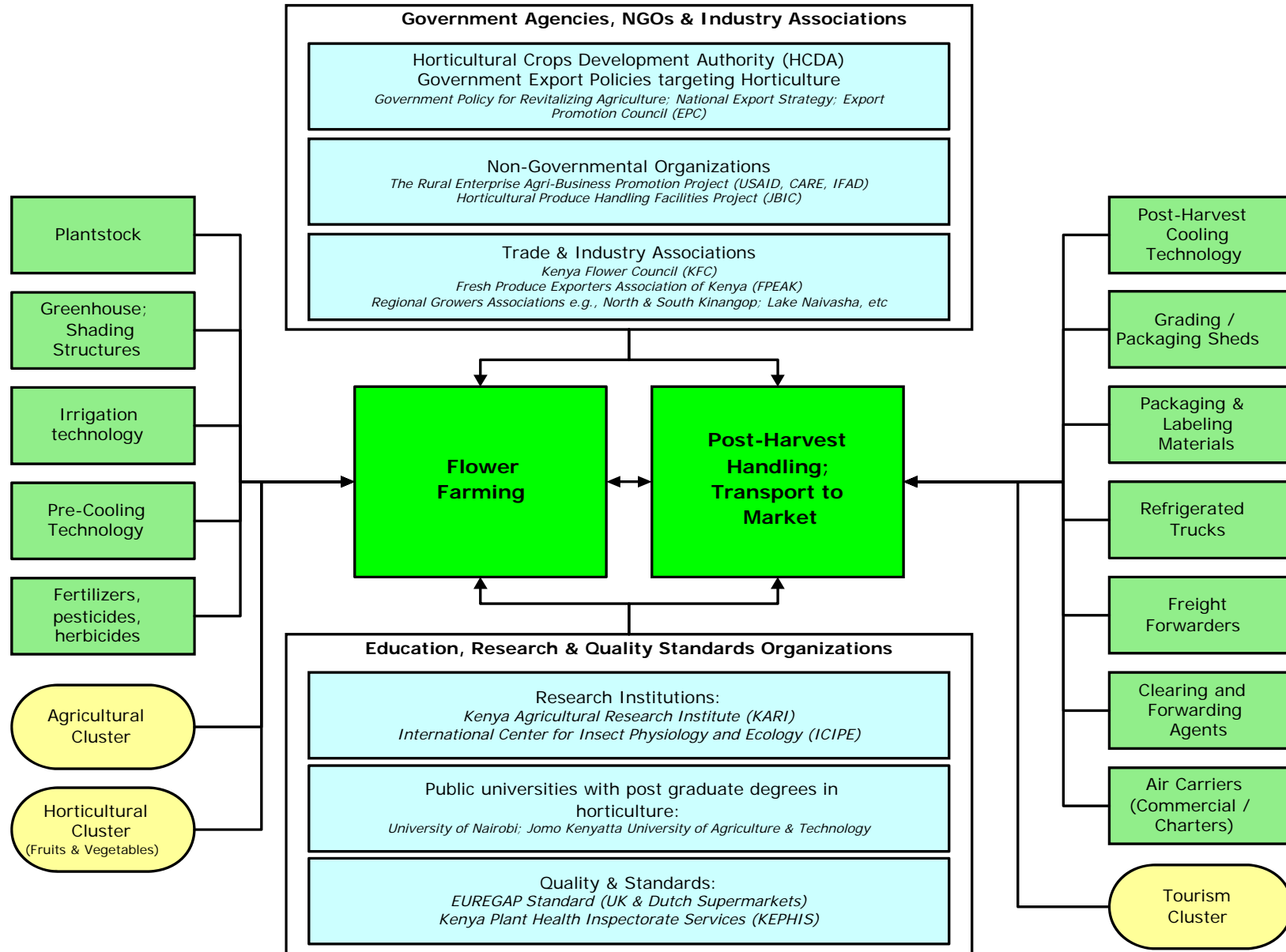
## Tourism Cluster in Cairns, Australia



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



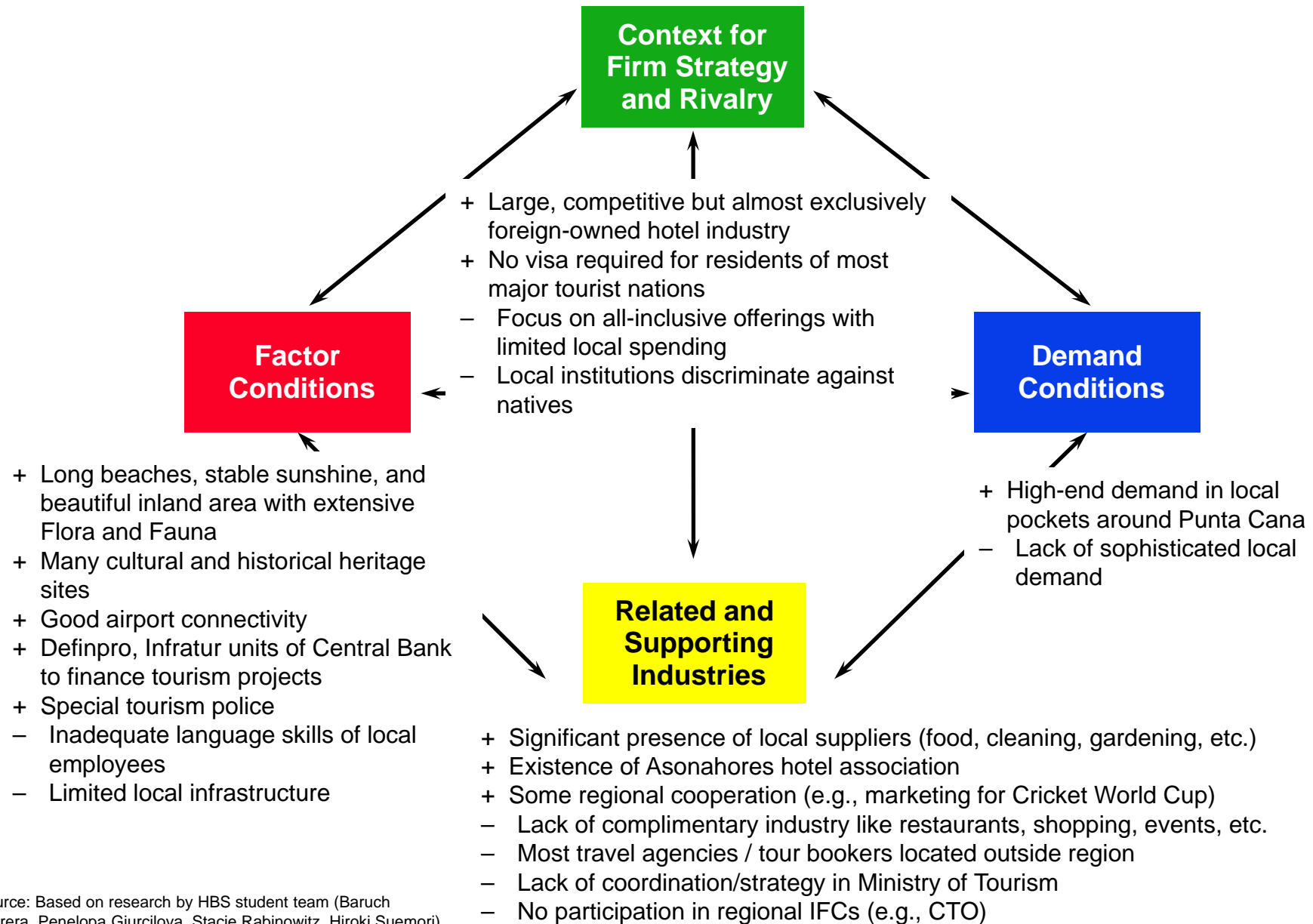
# Kenya's Cut Flower Cluster



Sources: MOC student team research by Kusi Hornberger, Nick Ndiritu, Lalo Ponce-Brito, Melesse Tashu, Tijan Watt, Harvard Business School, 2007

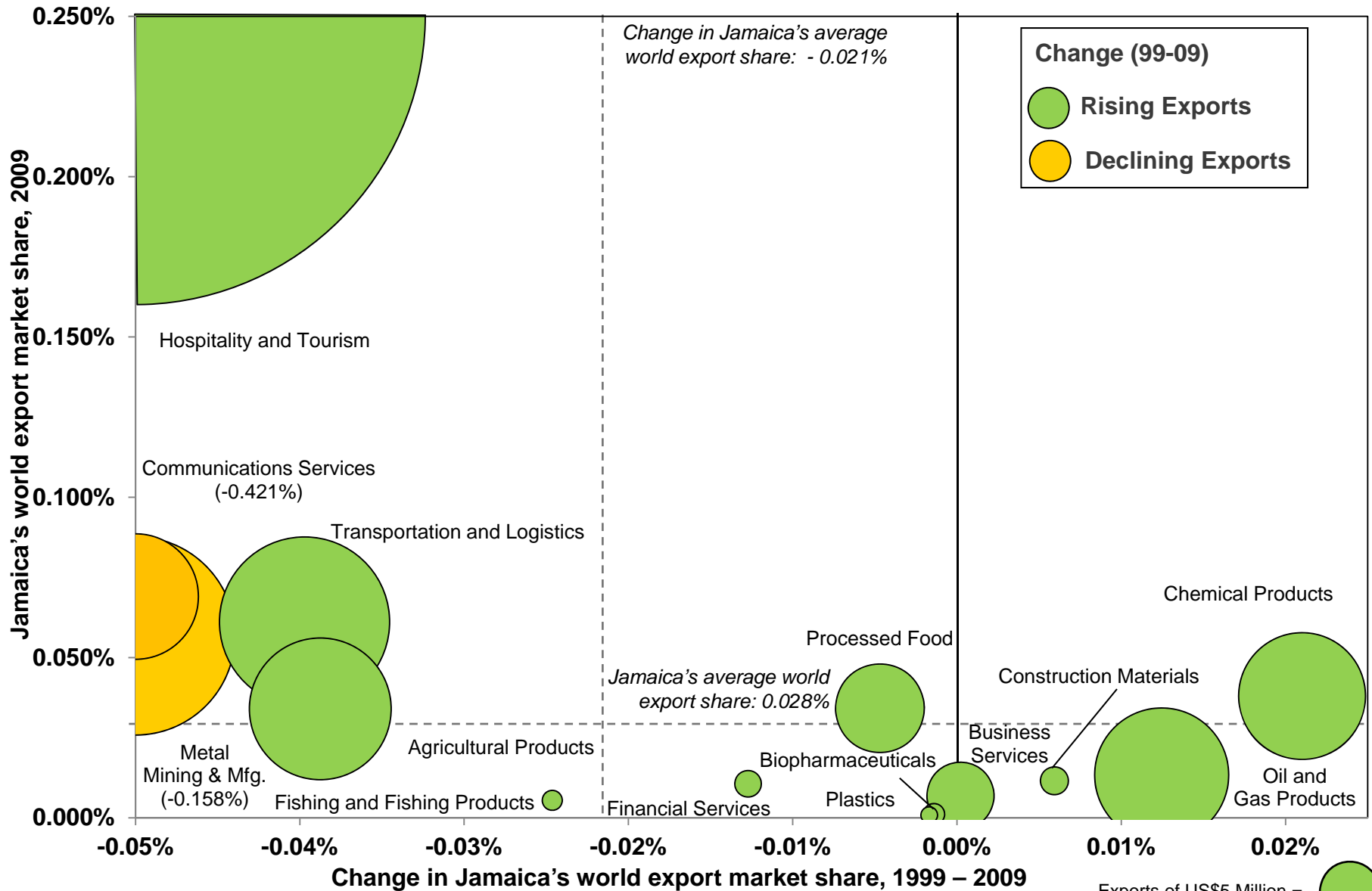
# Assessing Cluster Strength

## Dominican Republic Tourism Cluster



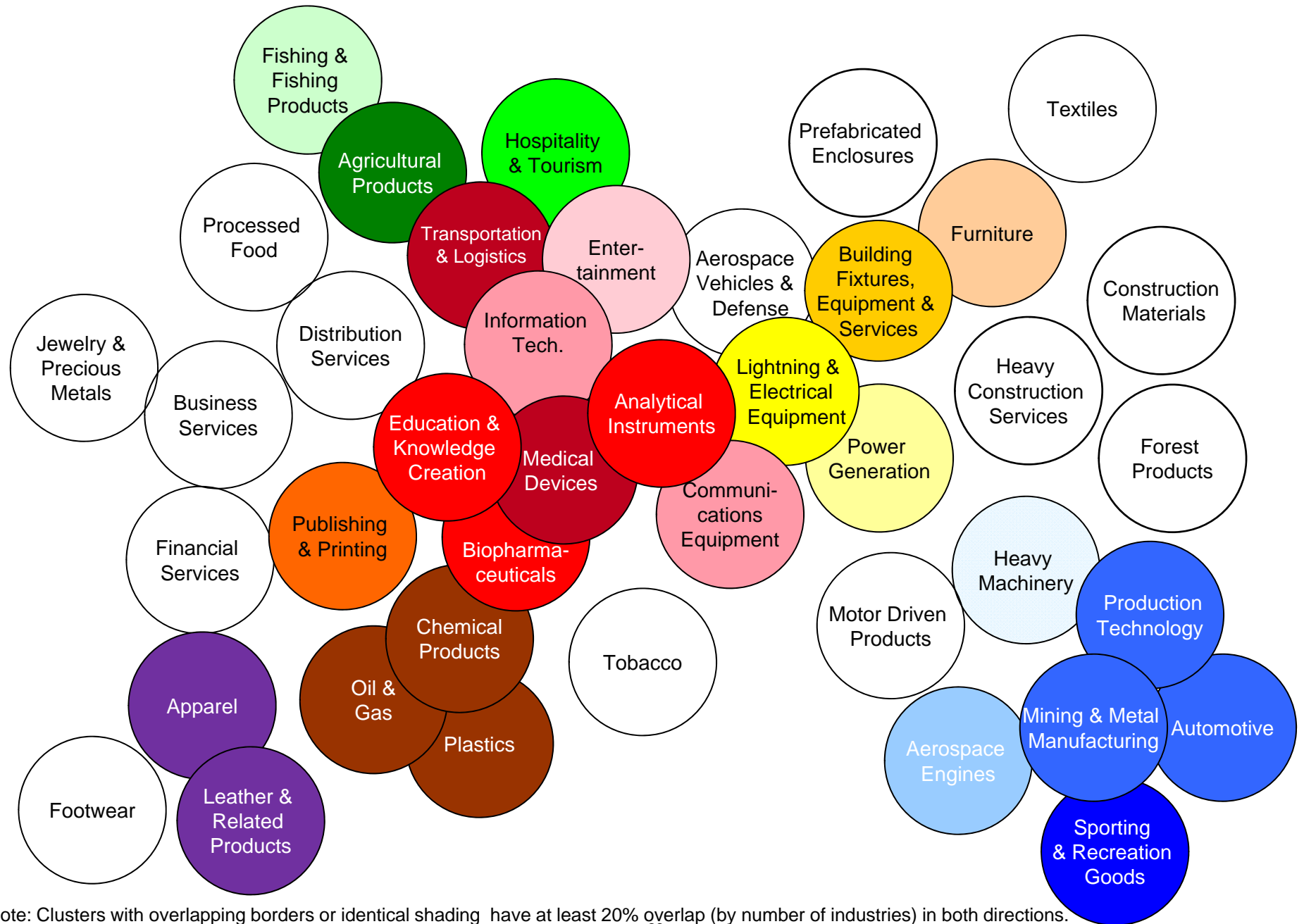
# National Cluster Export Portfolio

## Jamaica, 1999-2009



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. 20110325 – Trinidad and Tobago – FINAL – post-event edits - prepared by RA Stacie Rabinowitz

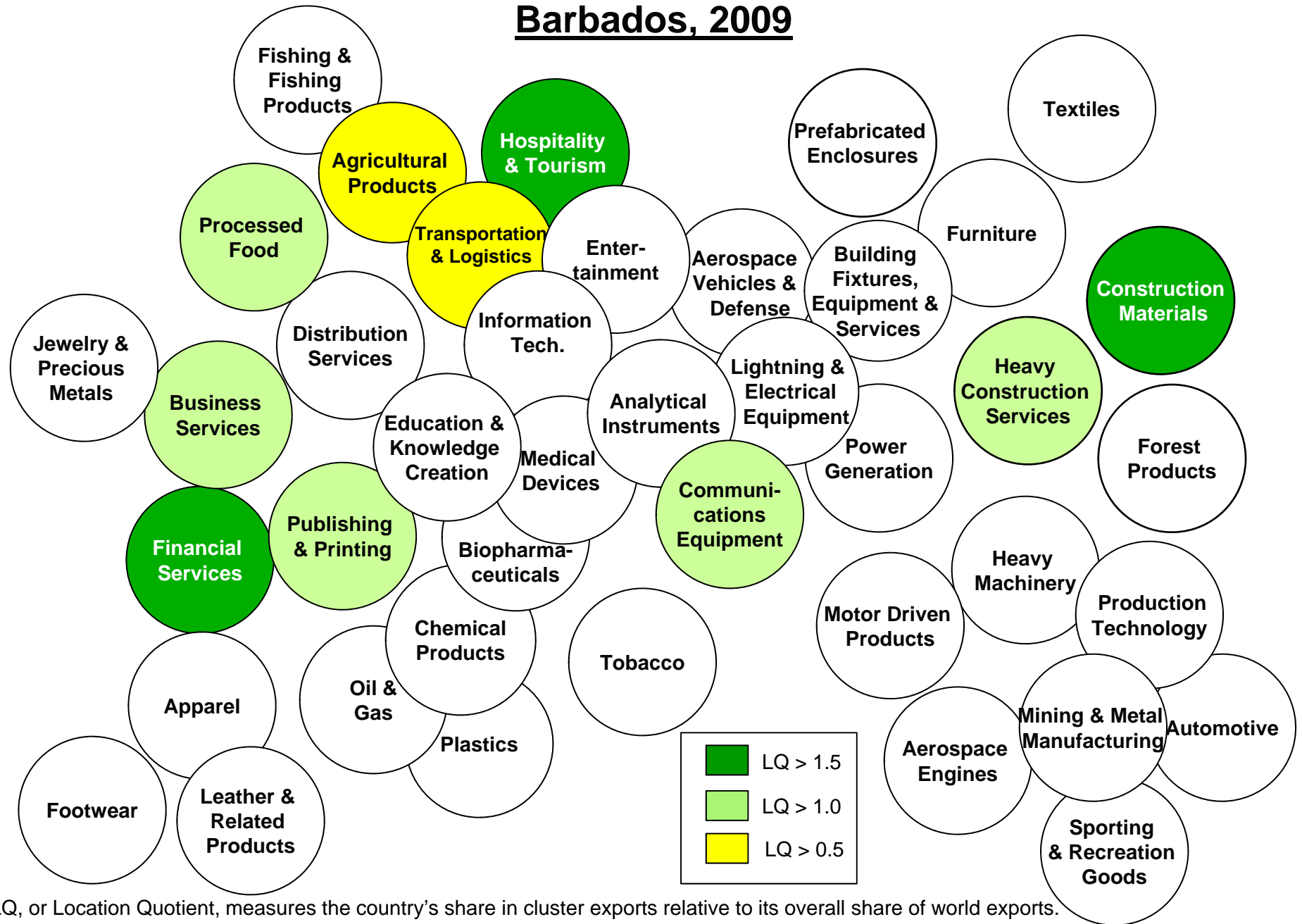
# Cluster Linkages and Economic Diversification



Note: Clusters with overlapping borders or identical shading have at least 20% overlap (by number of industries) in both directions.

# Cluster Linkages and Economic Diversification

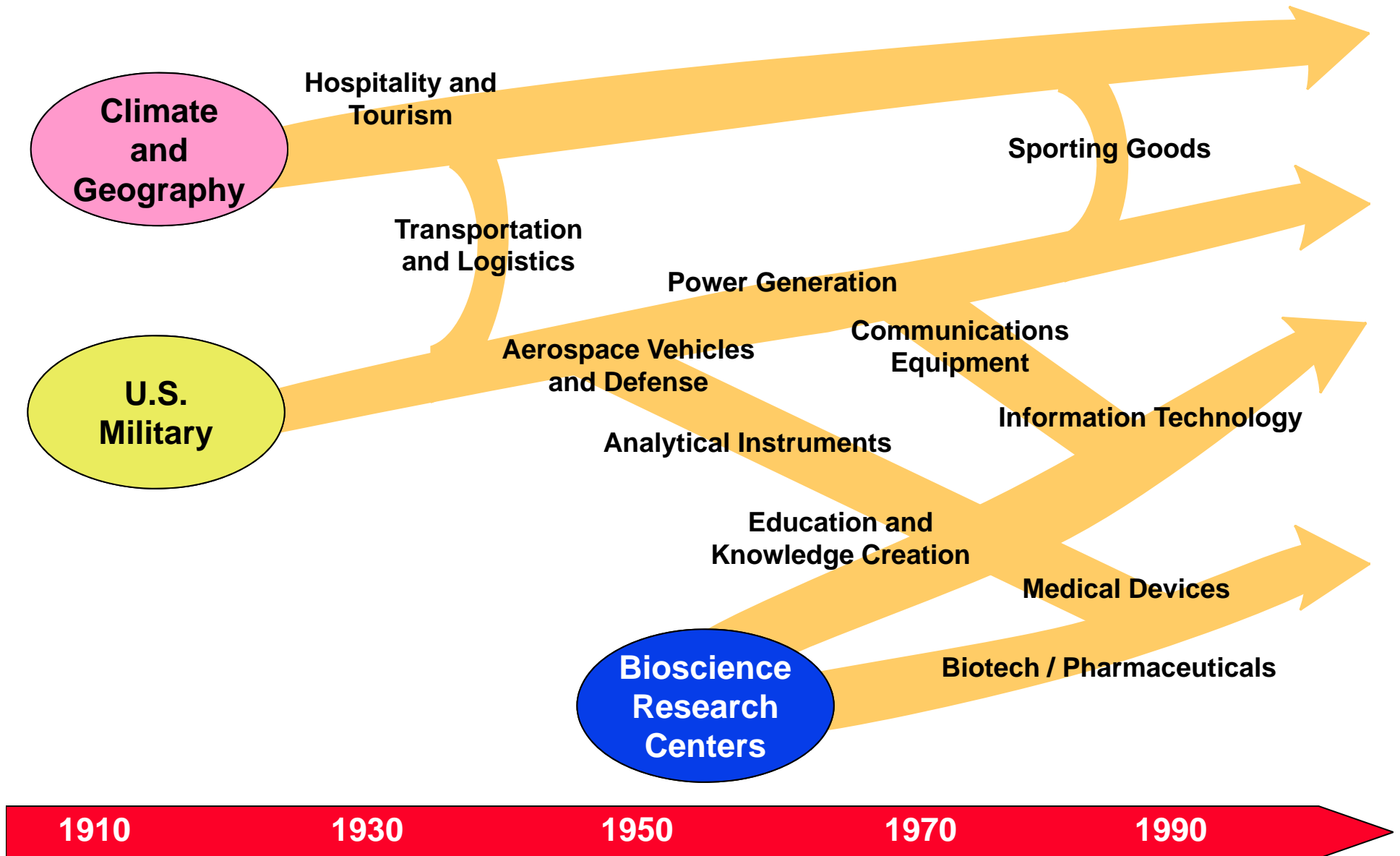
## Barbados, 2009



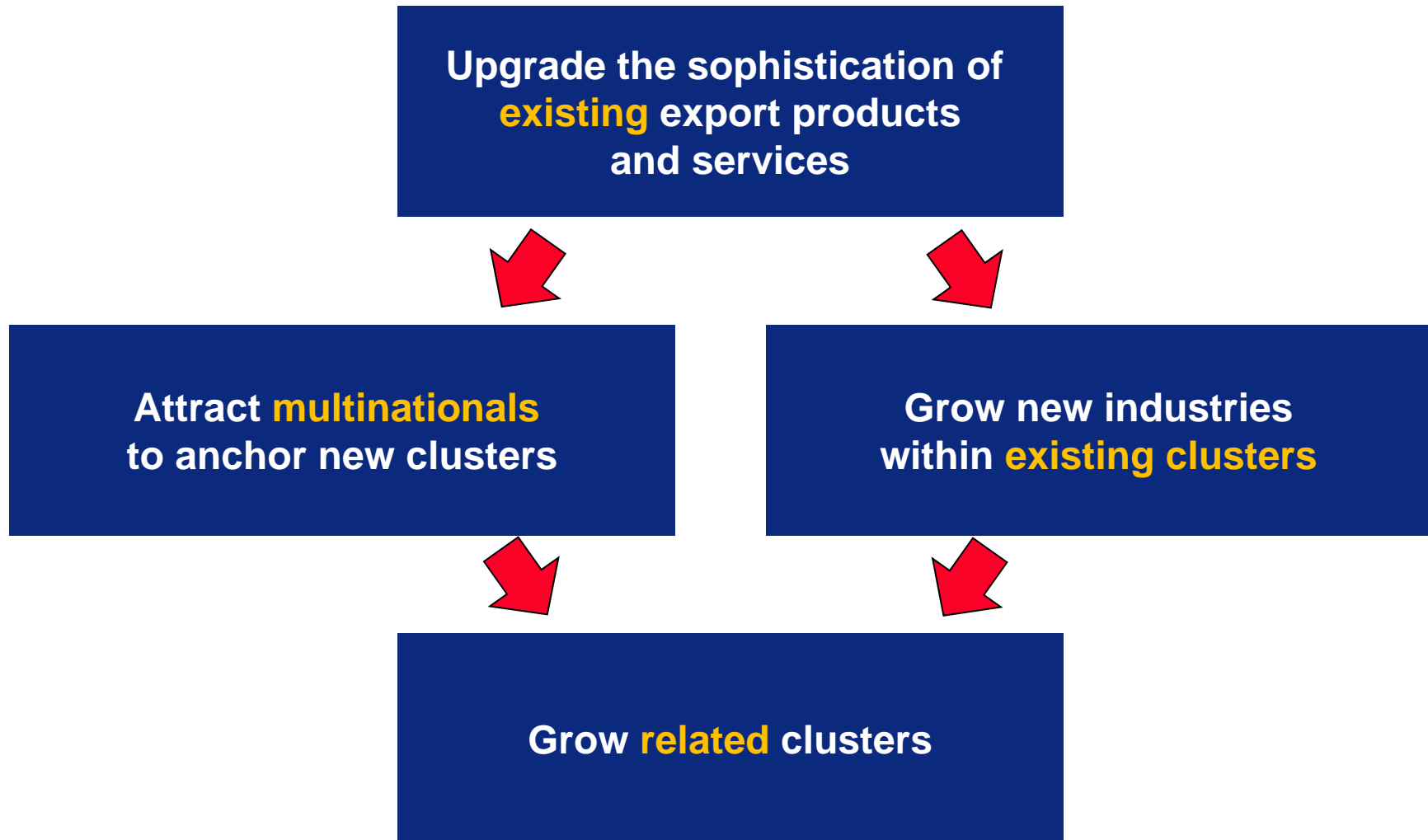
LQ, or Location Quotient, measures the country's share in cluster exports relative to its overall share of world exports. An LQ > 1 indicates an above average export share in a cluster.

# The Evolution of Regional Economies

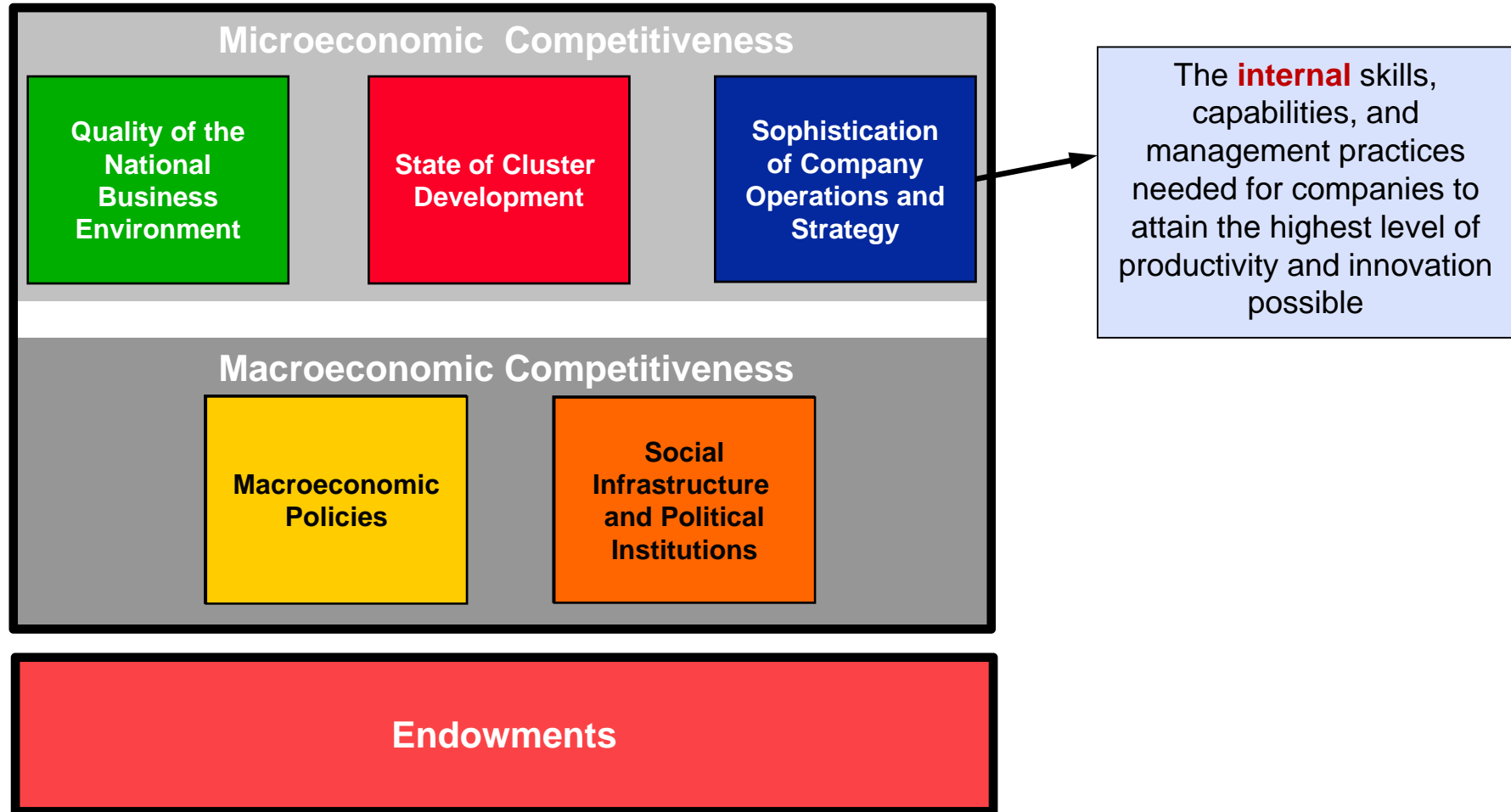
## San Diego



# Clusters and Economic Diversification



# What Determines Competitiveness?

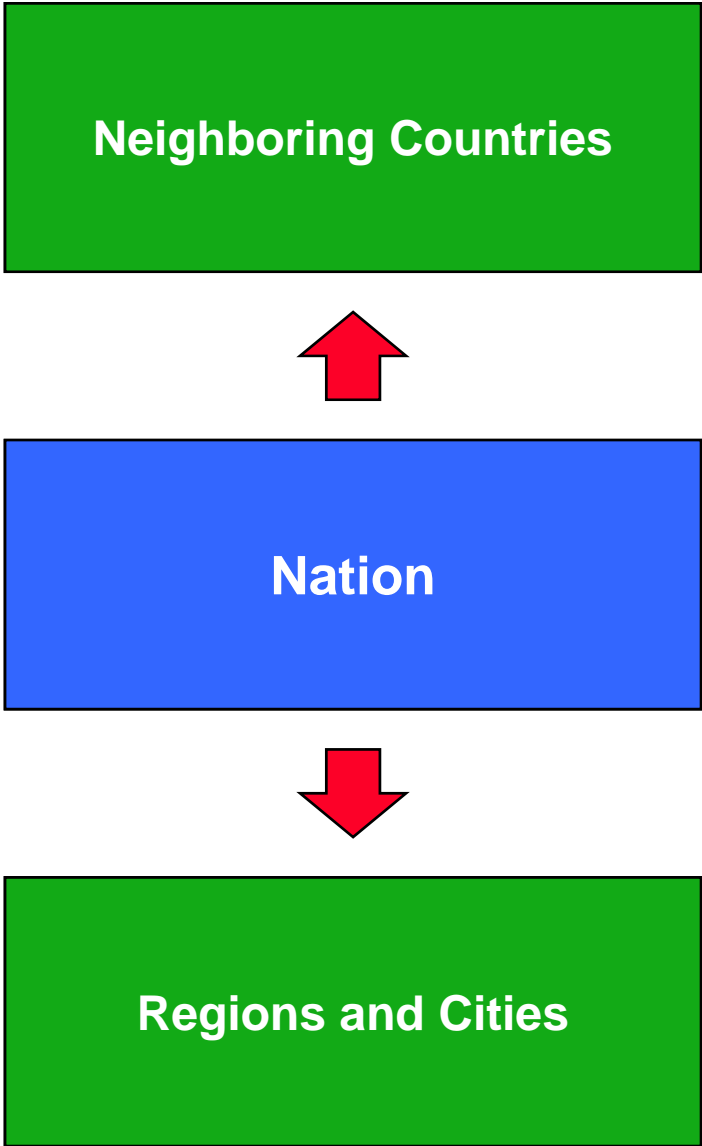




# Leading Companies with Cross-Regional Presence

Company	Home Base	Other Regional Locations	Industry/Industries
Ansa McAl	Trinidad & Tobago	7	Conglomerate (manufacturing, brewing, insurance, finance, real estate, media, shipping, trading/ distribution, automotive and industrial equipment retailing)
Banks Holdings	Barbados	3	Beverages
Caribbean Broilers	Jamaica	4	Poultry, feed milling, cattle rearing, beef production and fish farming with value-added processed food products
Cave Shepherd	Barbados	9	Retail (duty free), financial services, tourism (attractions, cruise terminal)
Goddard Enterprise	Barbados	8	Airline catering, industrial and restaurant catering, meat processing, bakery operations, automobile retail and automotive parts, real estate, the manufacture of aerosols and liquid detergents, investments, rum distilling, general trading, packaging, fish and shrimp processing, property rentals, general insurance, financing as well as shipping agents and stevedoring
Grace Kennedy and Co. Ltd.	Jamaica	7	Food processing/distribution, banking and finance, insurance and remittance services, building materials retailing
Harris Paints	Barbados	4	Paints, coatings, adhesives, sealants, roof sealers, caulks and solvents
GTM	Guyana	3	Insurance
Guardian Holdings	Trinidad & Tobago	7	Life, health, property and casualty insurance; pensions and asset management
Neal and Massy	Trinidad & Tobago	7	Auto and industrial equipment; energy and industrial gases; financial and real estate; food processing, distribution, and retailing; tourism and hospitality; IT, communications, and security
Republic Bank	Trinidad & Tobago	4	Banking
S.M. Jaleel	Trinidad & Tobago	5	Beverages
Sagikor	Barbados	11	Insurance, banking and investment management, farm capital
TCL	Trinidad & Tobago	5	Cement and other ready-mix building materials
United Insurance	Barbados	10	Insurance

# Geographic Influences on Competitiveness



# Competitiveness and the Neighborhood

- Opening **trade and investment** among neighbors
  - Expands the **available** market
  - 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 **country** a more attractive location for investment
- Economic coordination to drive **improvements in the business environment**
  - Capture **synergies** in policy and infrastructure
  - Gain 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 Conditions

- Improving the 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

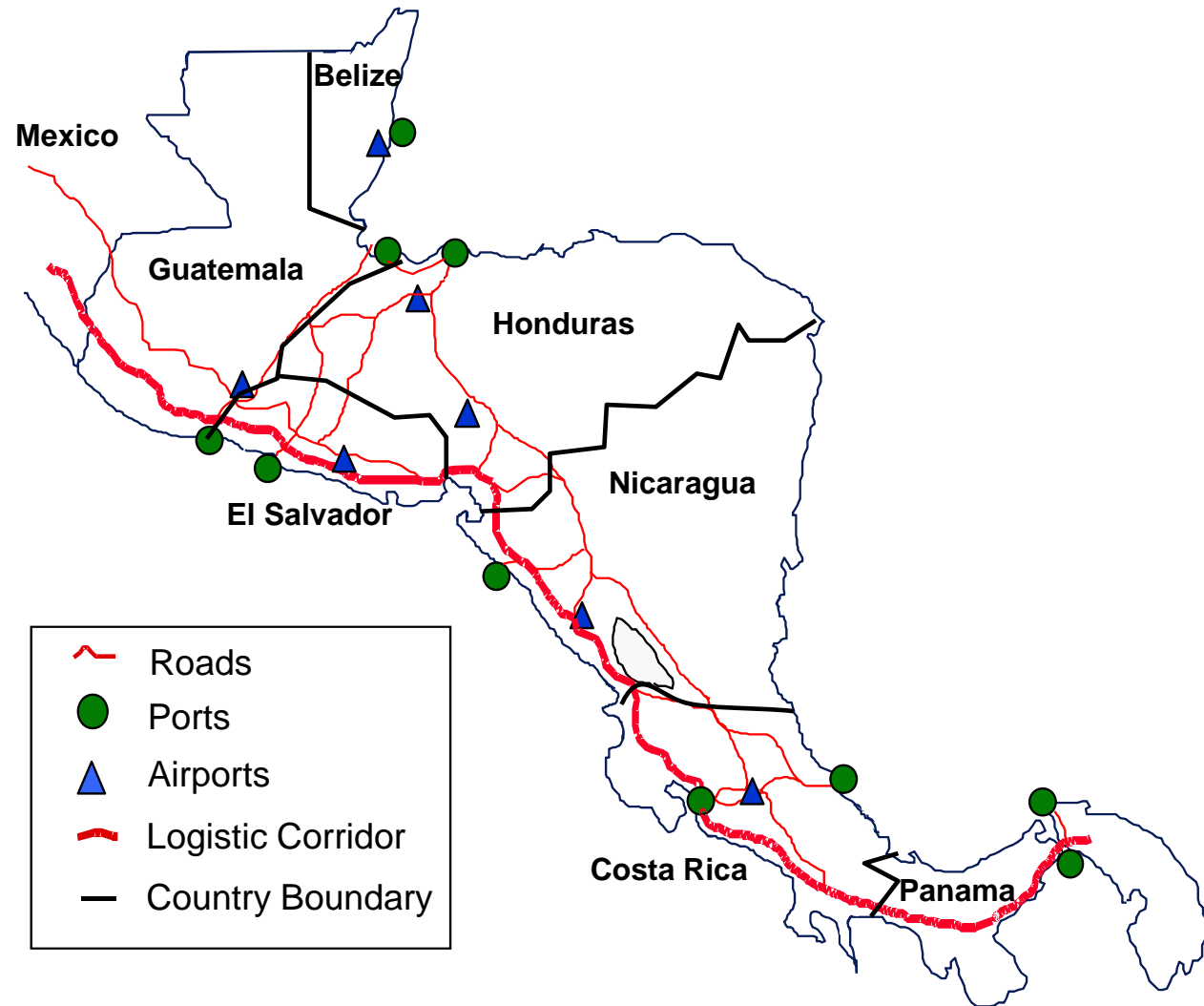
- Coordinating **macroeconomic** policies
- Coordinated **financial market rules**
- Strong regional **development bank**

### Political Institutions and Governance

- Sharing **best practices** in government operations
- Creating regional **institutions**
  - e.g., disaster relief
  - Dispute resolution mechanisms
  - Economic statistics
- Developing a regional approach with **international organizations**

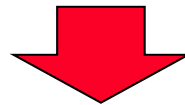
# Strategy for Cross-National Regions

## Central American Logistical Corridor



# The Context for Regional Collaboration in the Caribbean

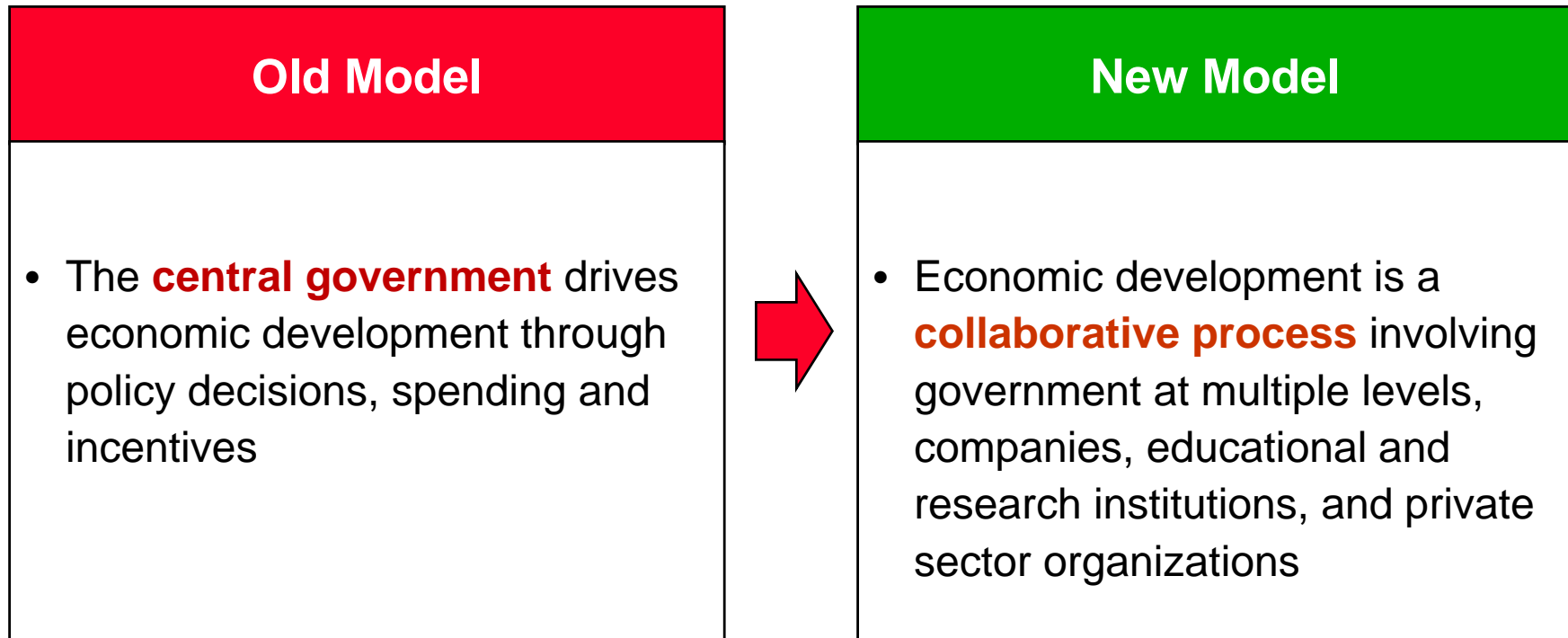
- **Similarities** in natural conditions and historical legacies
- Significant **heterogeneity** in economic performance
- **Direct competition** within the region in, for example, tourism and finance
- An **overlapping system** of regional organizations and groupings



- Some **encouraging progress** has been made in regional collaboration in the last few years
- Overall, the Caribbean still **lacks effective mechanisms** for sustaining an integrated competitiveness agenda that will benefit participating countries

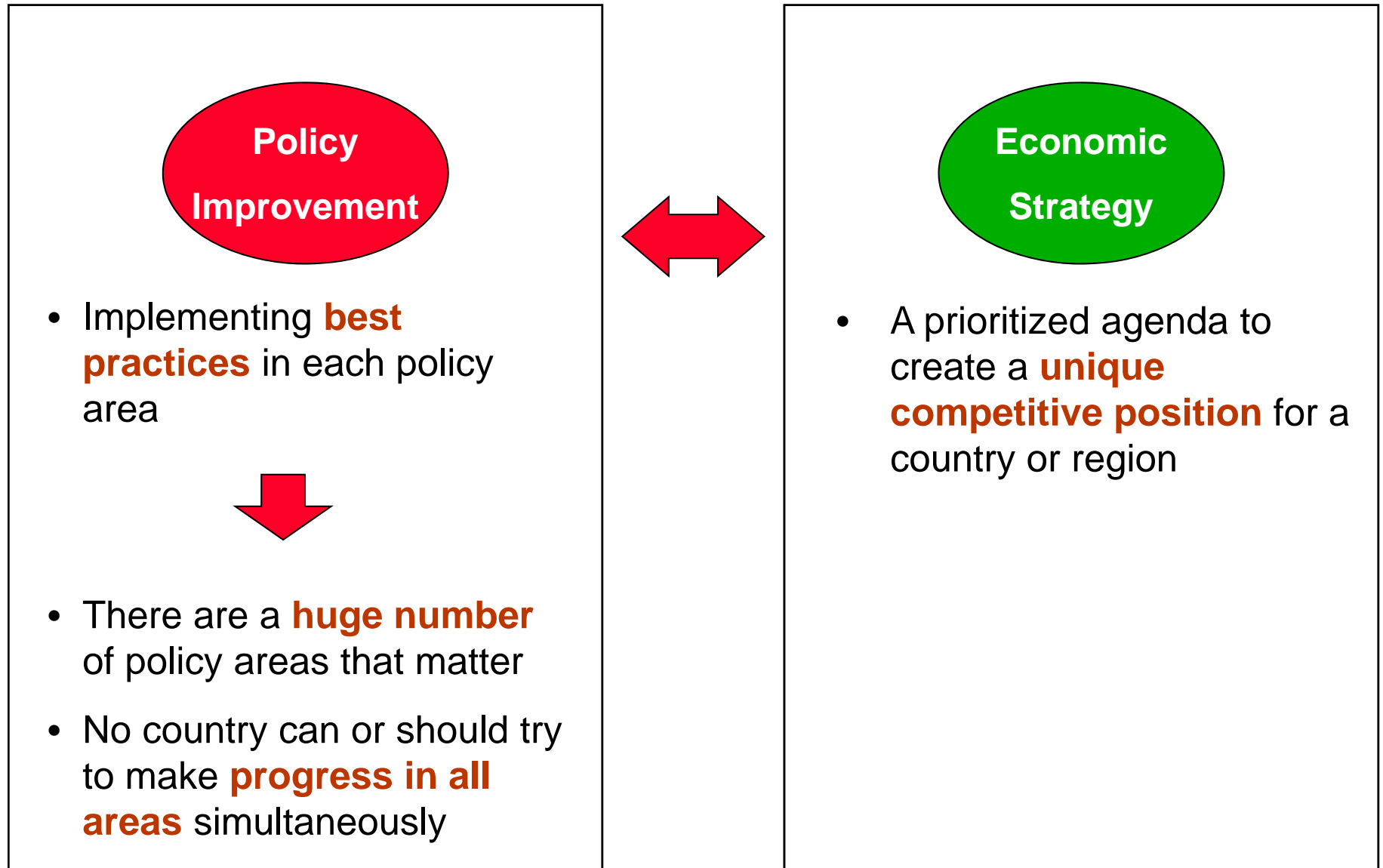
# The Process of Economic Development

## Shifting Roles and Responsibilities



- Competitiveness is the result of both **top-down** and **bottom-up processes** in which many individuals, companies, and institutions take relevant decisions

# The Need for an Economic Strategy

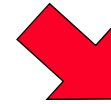




# Creating A National Economic Strategy

## National Value Proposition

- The **distinctive competitive position** of the nation in its region and the world economy



## Developing Unique Strengths

- **Unique strengths** relative to peers/neighbors
- Strong **existing** and **emerging** clusters to build upon

## Addressing Crucial Constraints

- **Weaknesses** or **constraints** that must be addressed if the country is to move to the next level



- **Priorities** and **sequencing** are fundamental to successful economic development