

Building a Competitive Nigeria: The Role of the National Competitiveness Council of Nigeria

Professor Michael E. Porter
Harvard Business School

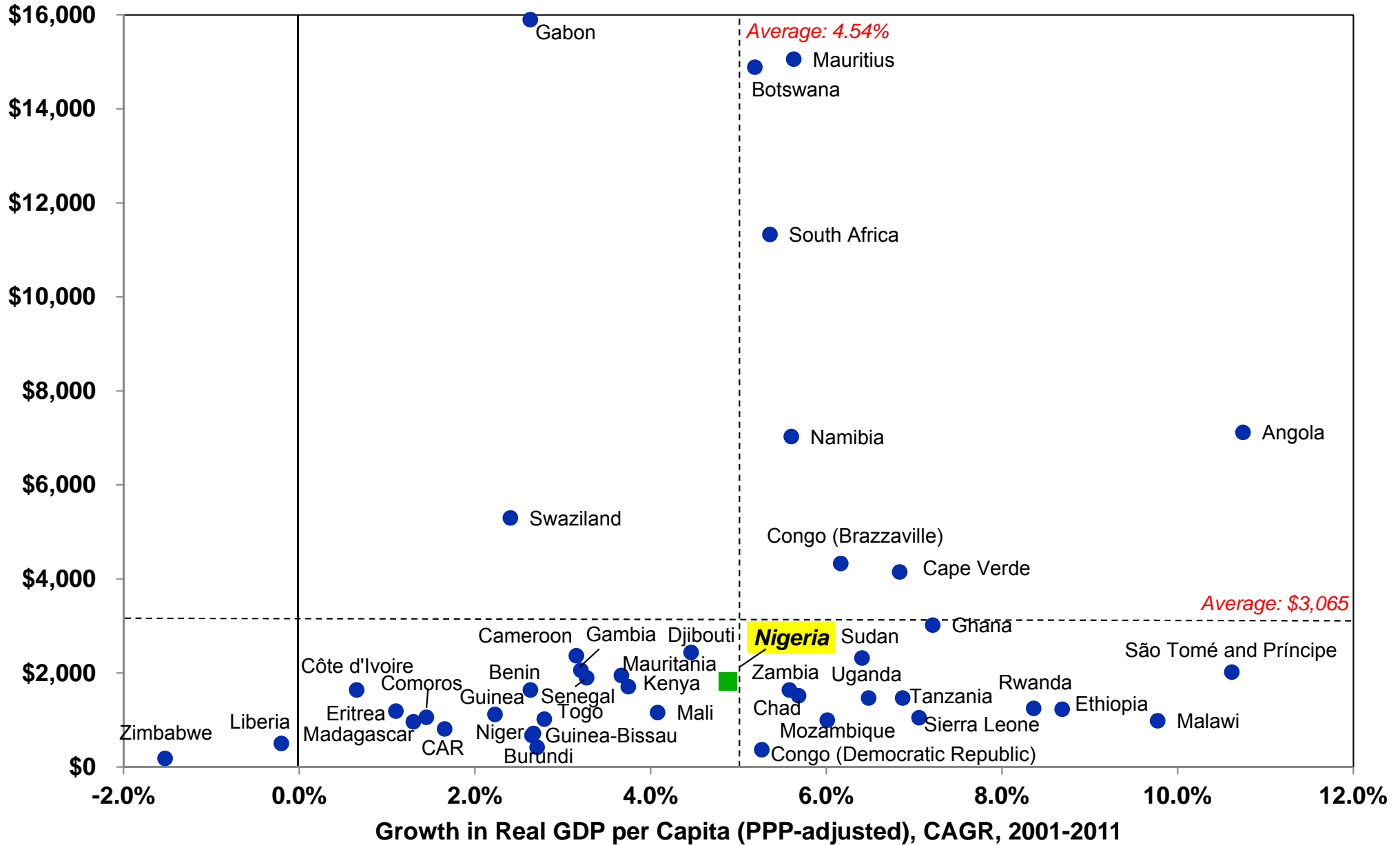
*National Competitiveness Council of Nigeria
Lagos, Nigeria
March 21, 2013*

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

Sub-Saharan Africa

PPP-Adjusted GDP per Capita, 2011 (\$USD)

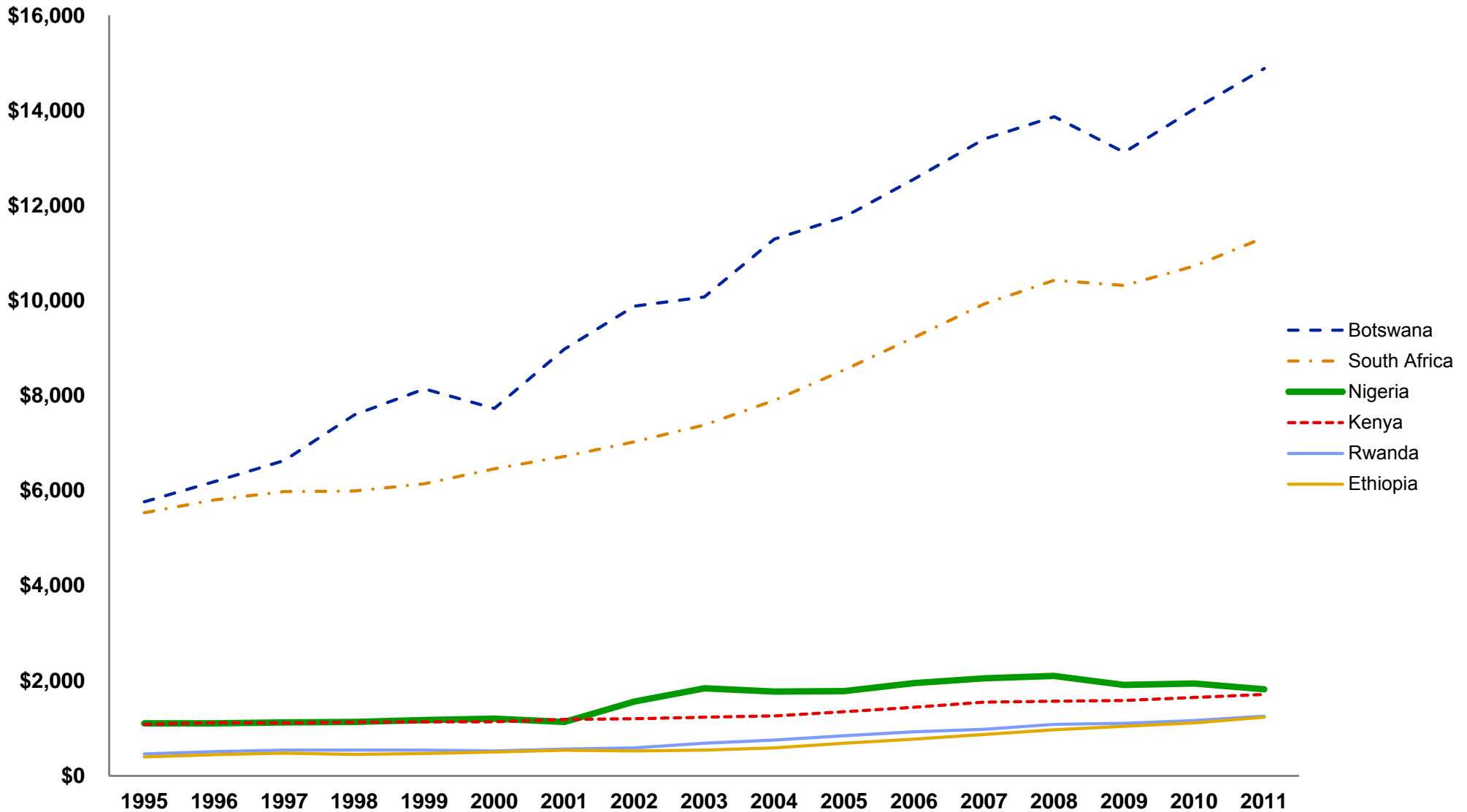


Source: EIU (2012); author's calculations

Prosperity Performance Trends

Nigeria and Selected Sub-Saharan African Countries

PPP-Adjusted GDP per
Capita, 2011 (\$USD)



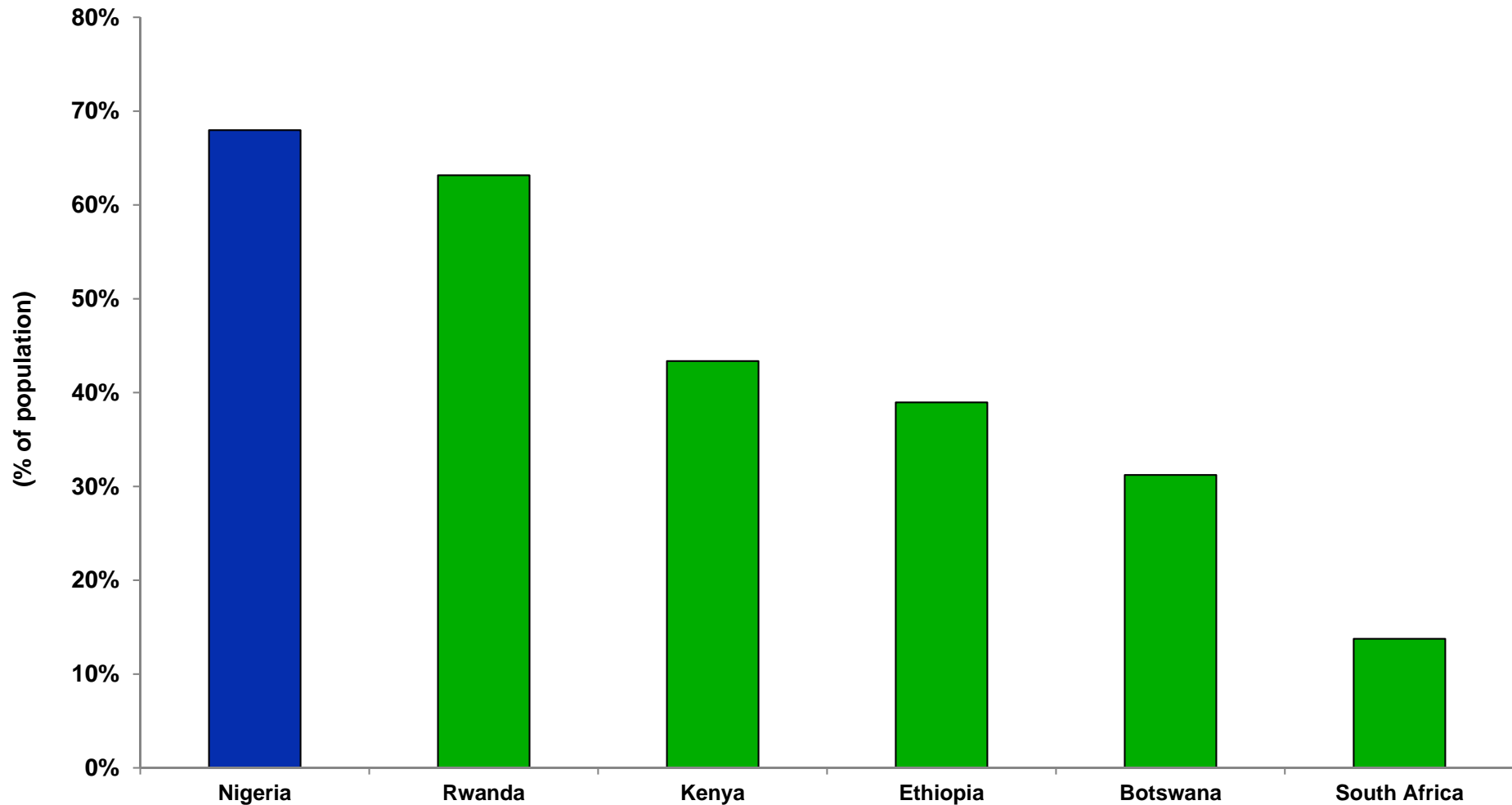
Source: EIU (2012); author's calculations

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Poverty Performance

Nigeria and Selected Sub-Saharan African Countries

Poverty Rate (\$1.25 a Day, PPP)

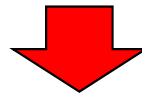


Source: World Bank (2013).

Note: Country comparison based on the most recent data available as of March 2013.

What Determines Success of Competitiveness Organizations?

- Co-led by or heavily involving the **private sector** with the participation of all actors. Representation from the national government as well as the state level
- **Direct involvement** by the President to build consensus and integration into the process of government
- Institutionalized in a **formal structure**, with a world-class secretariat



- Common **conceptual framework**
- Focus on the **microeconomic aspects** of competitiveness, not just macro
- Develop a **strategy**, not just discrete policy improvements
- Prioritized and sequenced **action plan**
- A clear mandate to measure and report **progress** and create **accountability** for implementing entities

Agenda

- **Defining Competitiveness and Prosperity**
- Indicators and Enablers of Competitiveness
- Drivers of Competitiveness
- Benchmarking Nigerian Competitiveness
- Geographic Areas and Competitiveness
- Economic Strategy
- Organizing for Competitiveness

What is Competitiveness?

A country or region is competitive to the extent that firms operating there are able to **compete successfully** in the global economy while supporting **high and rising wages and living standards** for the average citizen

- Competitiveness is the **long-run productivity** of a location as a place to do business
 - Productivity of existing firms and workers
 - Ability to achieve high participation of working age citizens in the workforce
- Competitiveness is **not**:
 - Low wages
 - A weak currency
 - Jobs per se

Two Sources of Prosperity

Inherited Prosperity

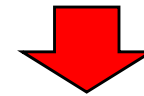
- Prosperity derived from **inherited natural resources / endowments**
 - Prosperity is **limited**



- **Dividing** the pie
- **Government** usually the central actor in the economy
- Revenue from resources allows **unproductive policies and practices to persist** and encourages **corruption**

Created Prosperity

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

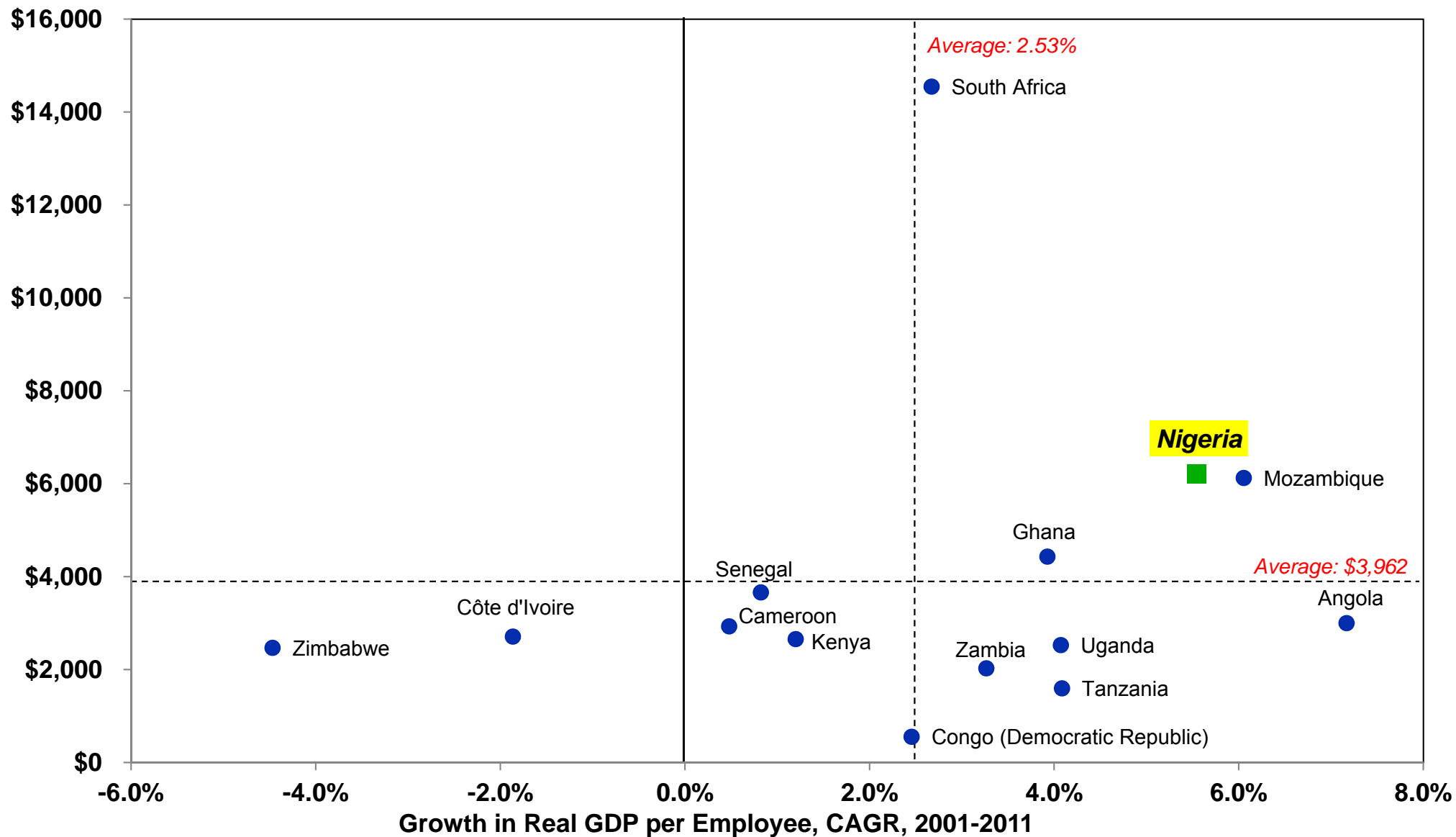


- **Expanding** the pie
- **Companies** are the central actors in the economy
- **Government's role** is to create the **enabling conditions for productivity** and foster private sector development

Labor Productivity Level and Growth

Sub-Saharan Africa

Real GDP per Employee (1990 GK\$), 2011



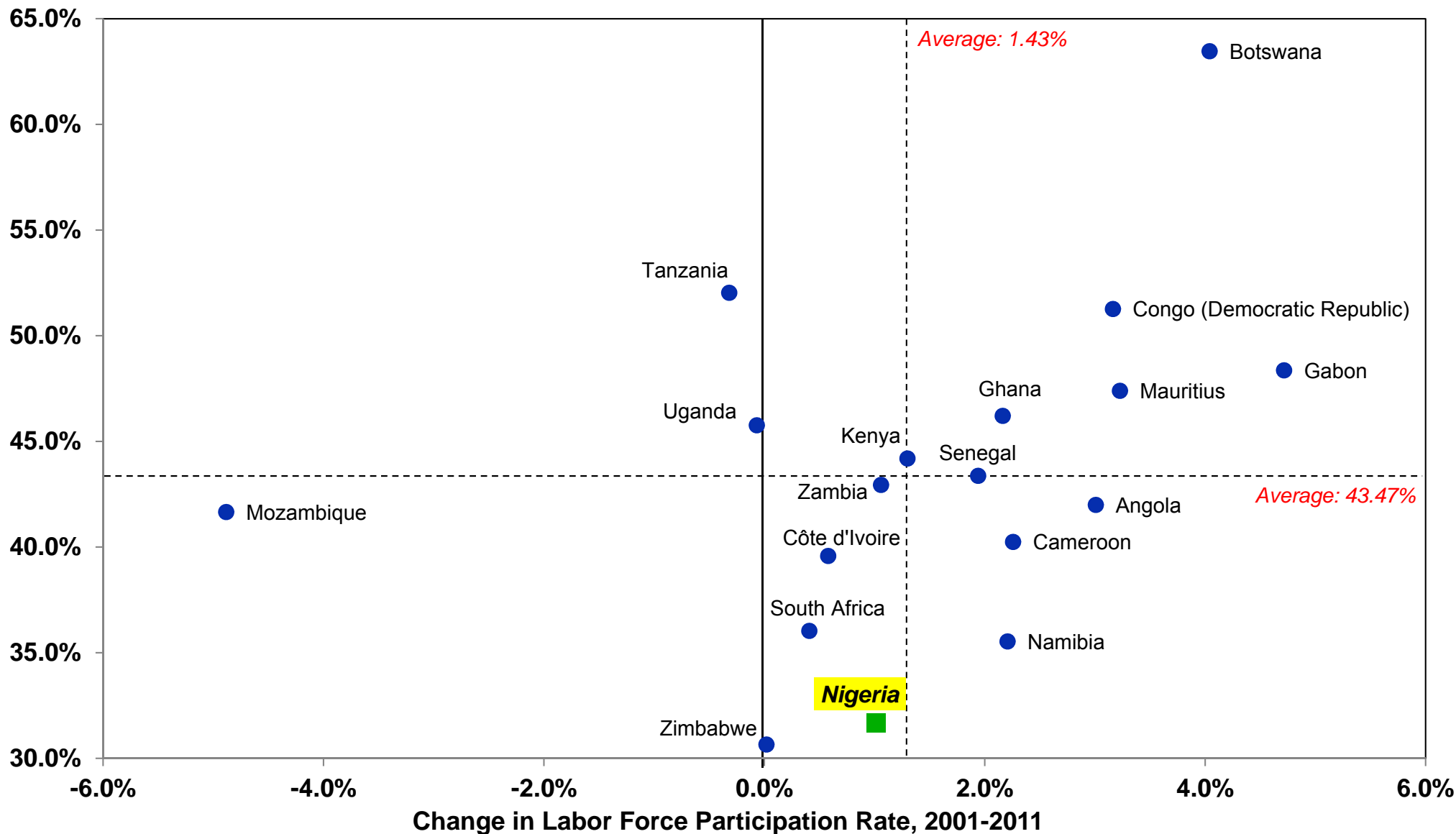
Note: Several countries are omitted due to lack of labor data.

Source: Groningen Growth and Development Centre, Total Economy Database (January 2012). GDP calculated using Geary Khamis calculation methodology.

Workforce Participation

Sub-Saharan Africa

Labor Force Participation (2011)



Note: Several countries are omitted due to lack of labor data.

Source: EIU (2012), author's calculations

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Agenda

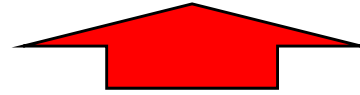
- Defining Competitiveness and Prosperity

- **Indicators and Enablers of Competitiveness**

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Indicators and Enablers of Competitiveness

Productivity Growth



Domestic investment

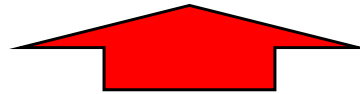
Exports

Imports

Domestic innovation

Inbound foreign direct investment

Outbound foreign direct investment

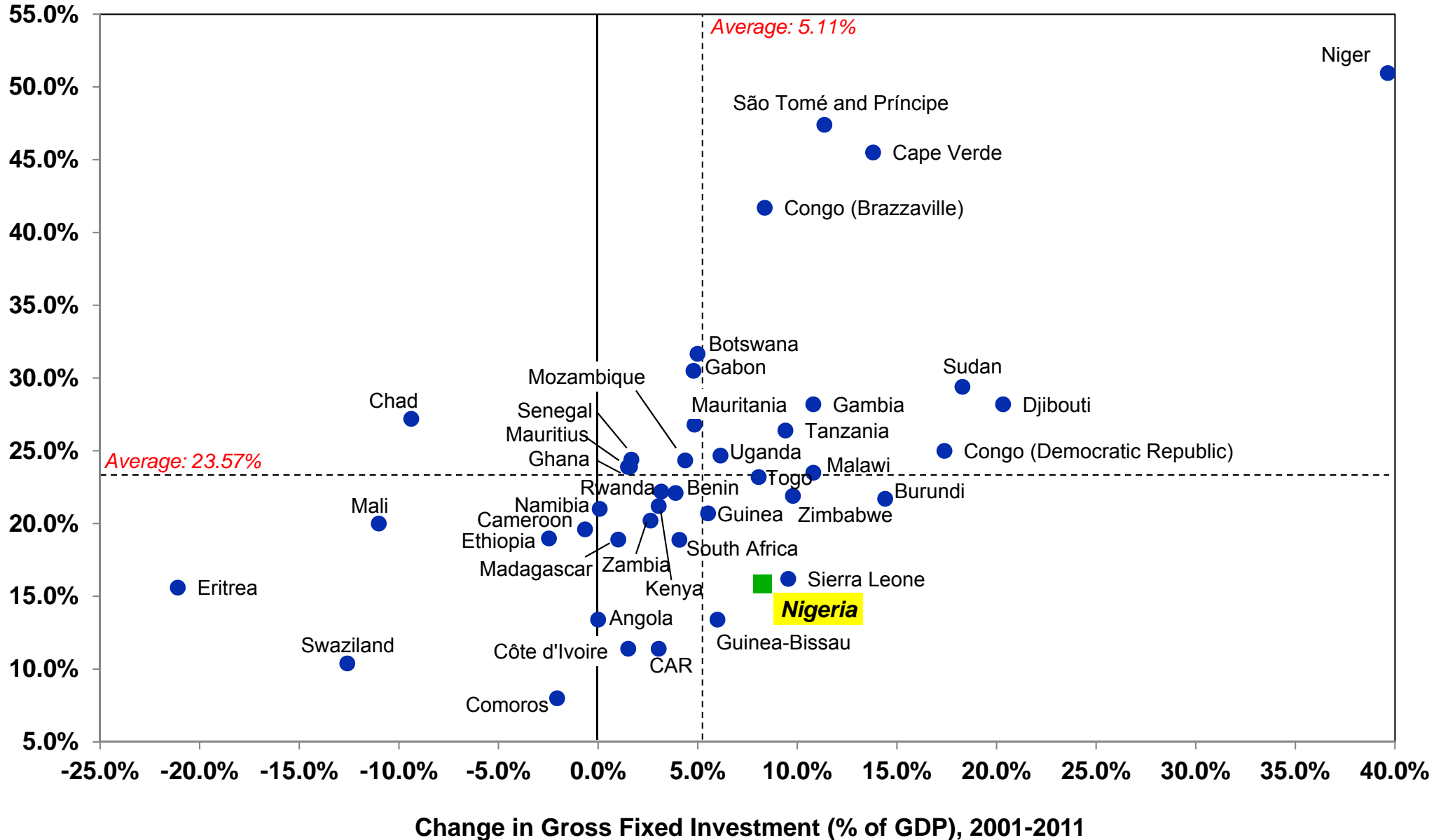


Country Competitive Environment

Domestic Investment Performance

Sub-Saharan Africa

Gross Fixed Investment (% of GDP), 2011



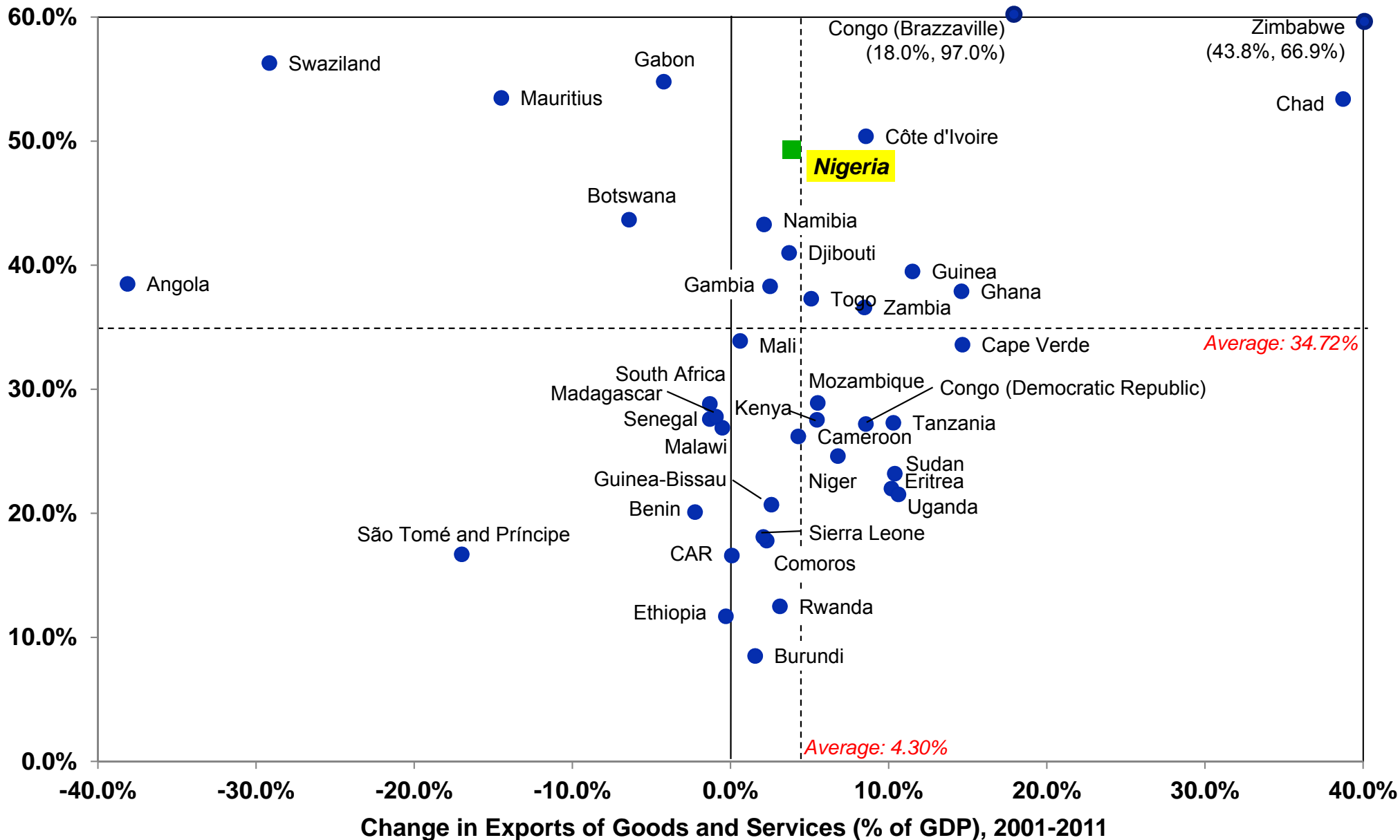
Note: Includes inbound FDI

Source: EIU (2012)

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Export Performance Sub-Saharan Africa

Exports of Goods and Services (% of GDP), 2011

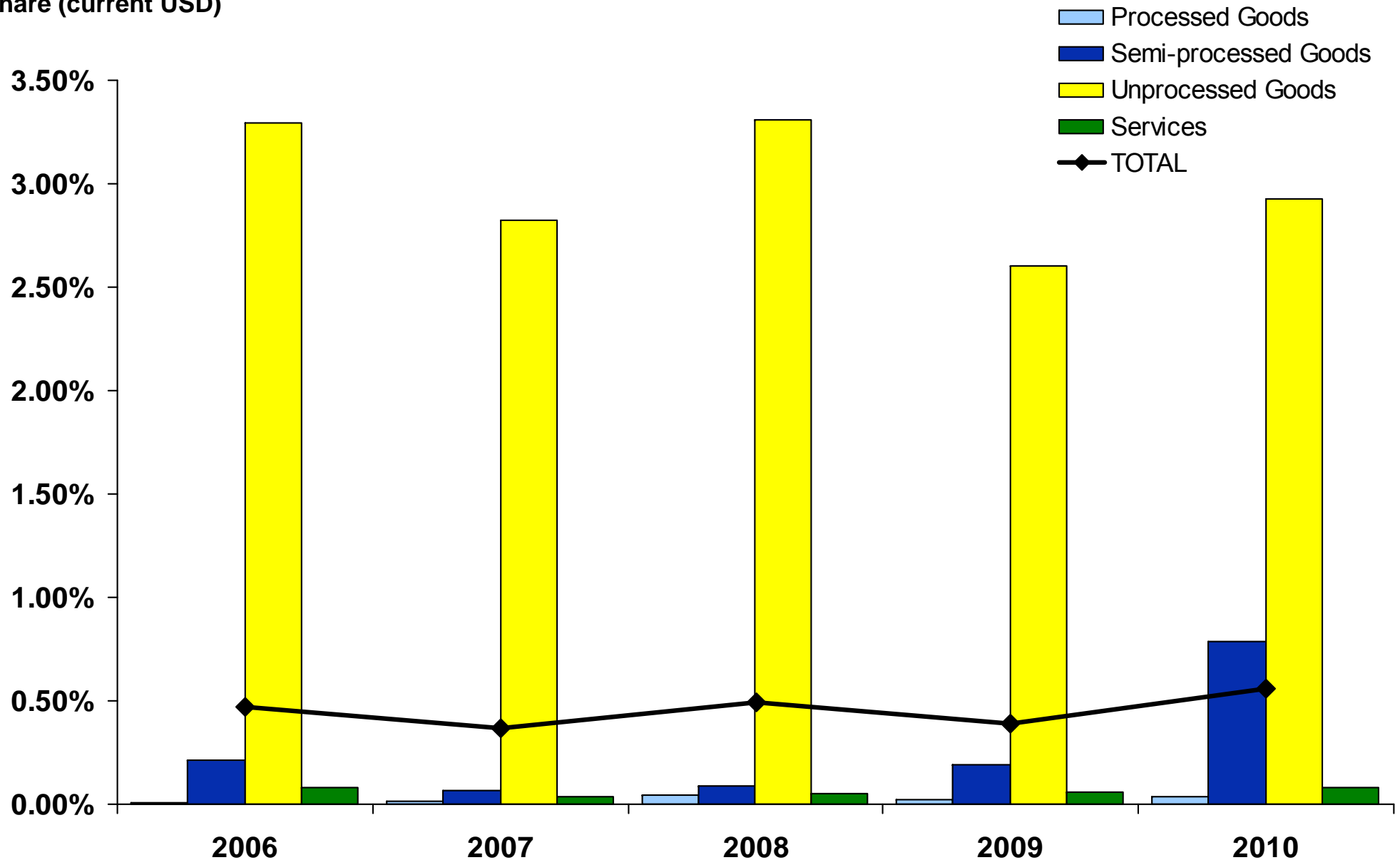


Source: EIU (2012), authors calculations

Composition of Exports

Nigeria's Exports By Type of Good

World Export Market Share (current USD)

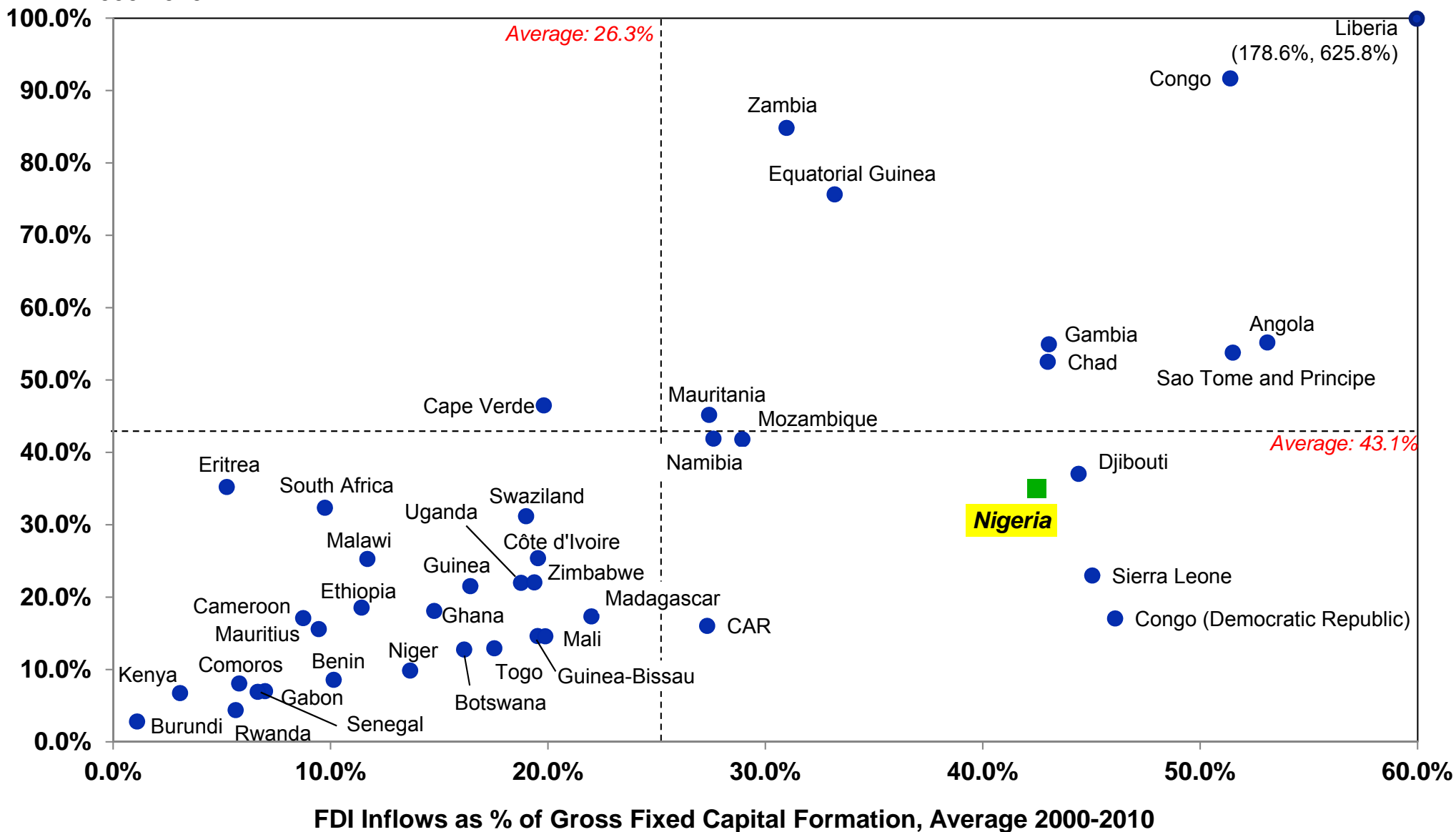


Source: Prof. Michael E. Porter, International Cluster Competitiveness Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director. Underlying data drawn from the UN Commodity Trade Statistics Database and the IMF BOP statistics.

Inbound Foreign Investment Performance

Stocks and Flows, Sub-Saharan Africa

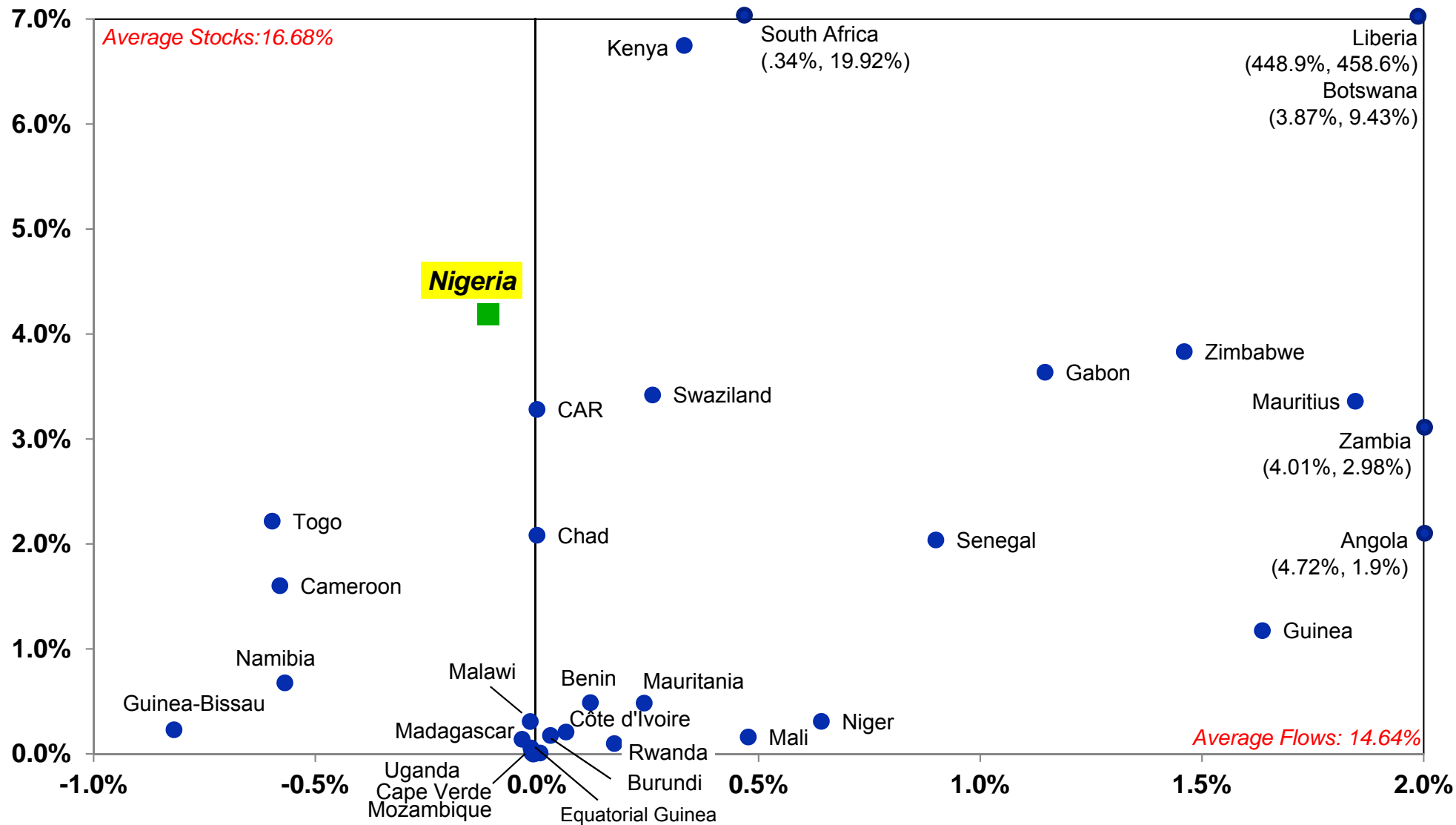
Inward FDI Stocks as % of GDP, Average 2000-2010



Outbound Foreign Investment Performance

Stock and Flows, Sub-Saharan Africa

Outward FDI Stocks
as % of GDP, Average
2000-2010



FDI Outflows as % of Gross Fixed Capital Formation, Average 2000-2010

Source: UNCTAD, World Investment Report (2011)

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- **Drivers of Competitiveness**

- Benchmarking Nigerian Competitiveness
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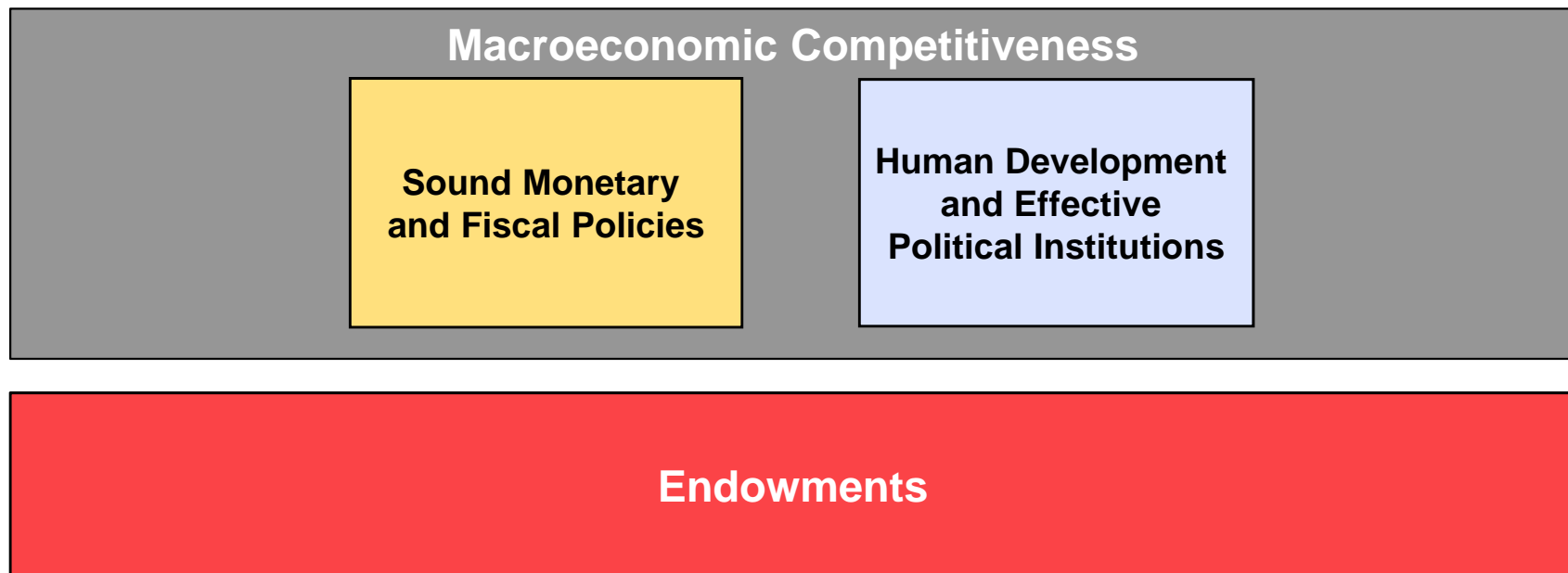
What Determines Competitiveness?



Endowments

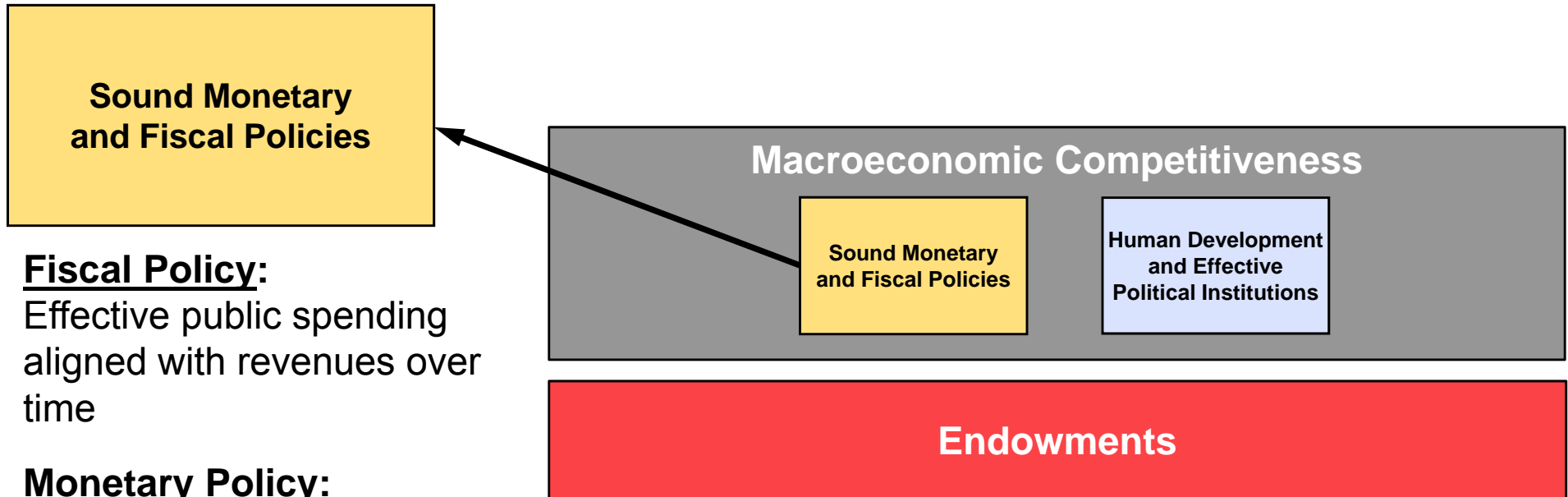
- Endowments, including **natural resources**, **geographical location**, **population**, and **country size**, create a **foundation** for prosperity, but true prosperity arises from **productivity in the use of endowments**

What Determines Competitiveness?



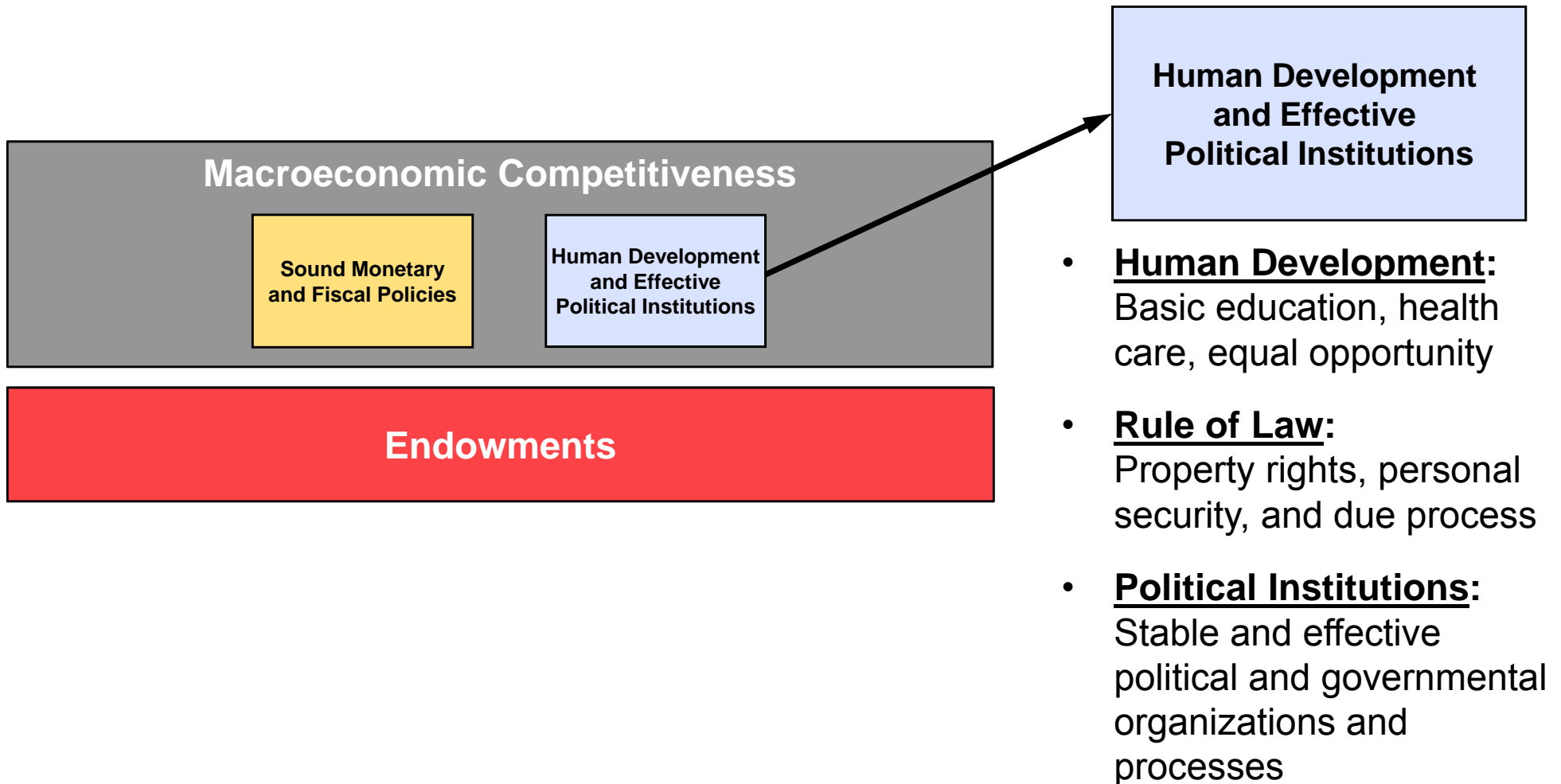
- Macroeconomic competitiveness sets the **economy-wide** context for productivity to emerge, but is **not sufficient** to ensure productivity
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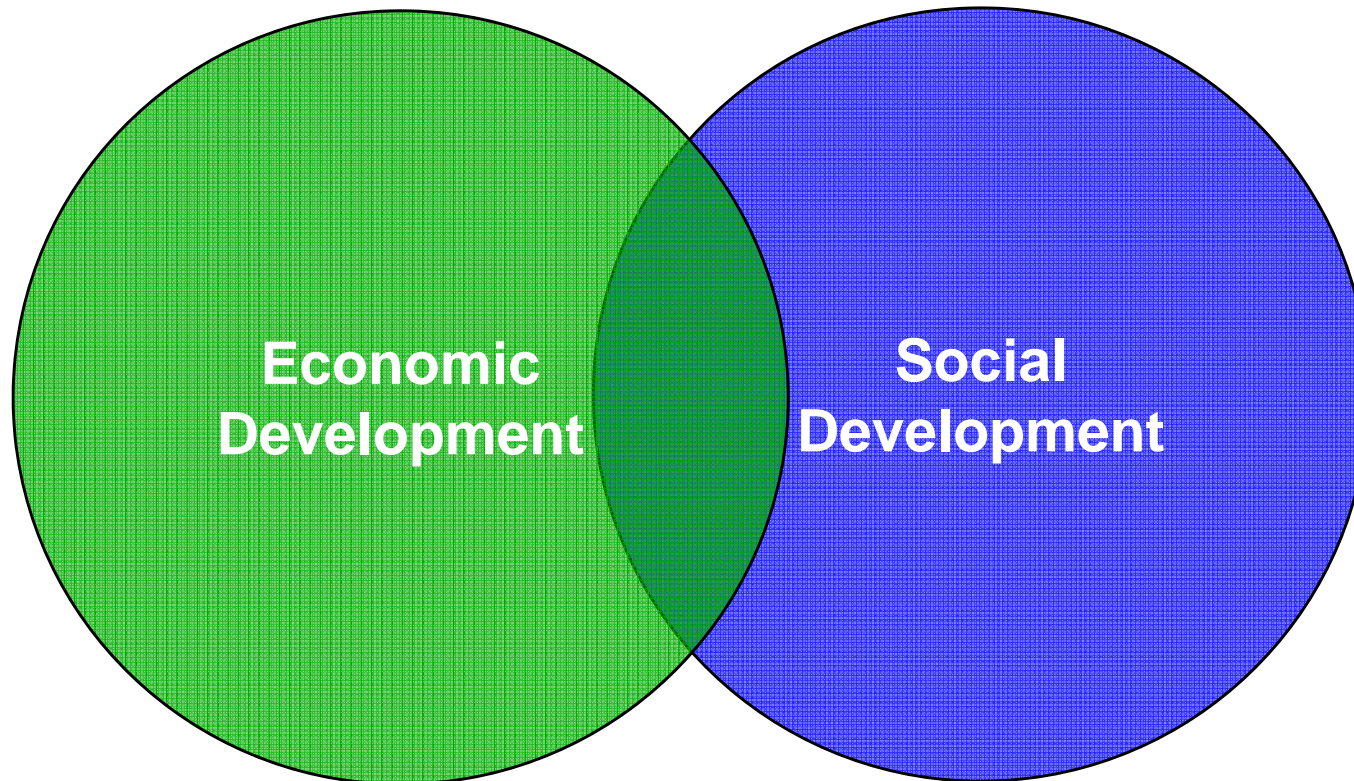


- **Fiscal Policy:**
Effective public spending aligned with revenues over time
- **Monetary Policy:**
Low levels of inflation
- **Economic Stabilization:**
Avoiding structural imbalances and cyclical overheating

What Determines Competitiveness?



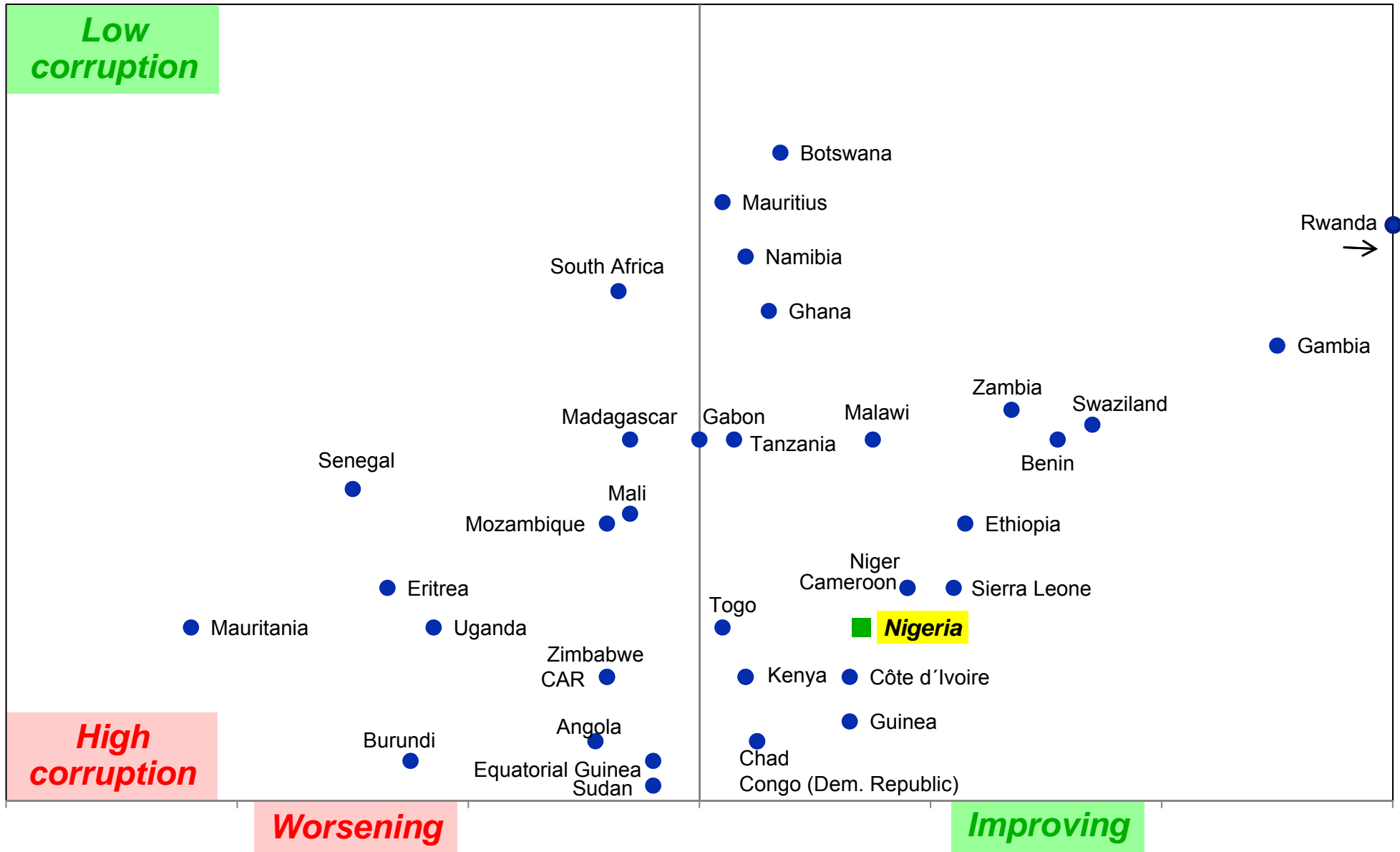
Competitiveness and Poverty Reduction



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

Corruption Perception Index, 2010

Rank in Global
Corruption Index, 2011



Change in Rank, Global Corruption Report, 2011 versus 2006

Note: Ranks only countries available in both years (160 countries total)

Source: Global Corruption Report, 2010

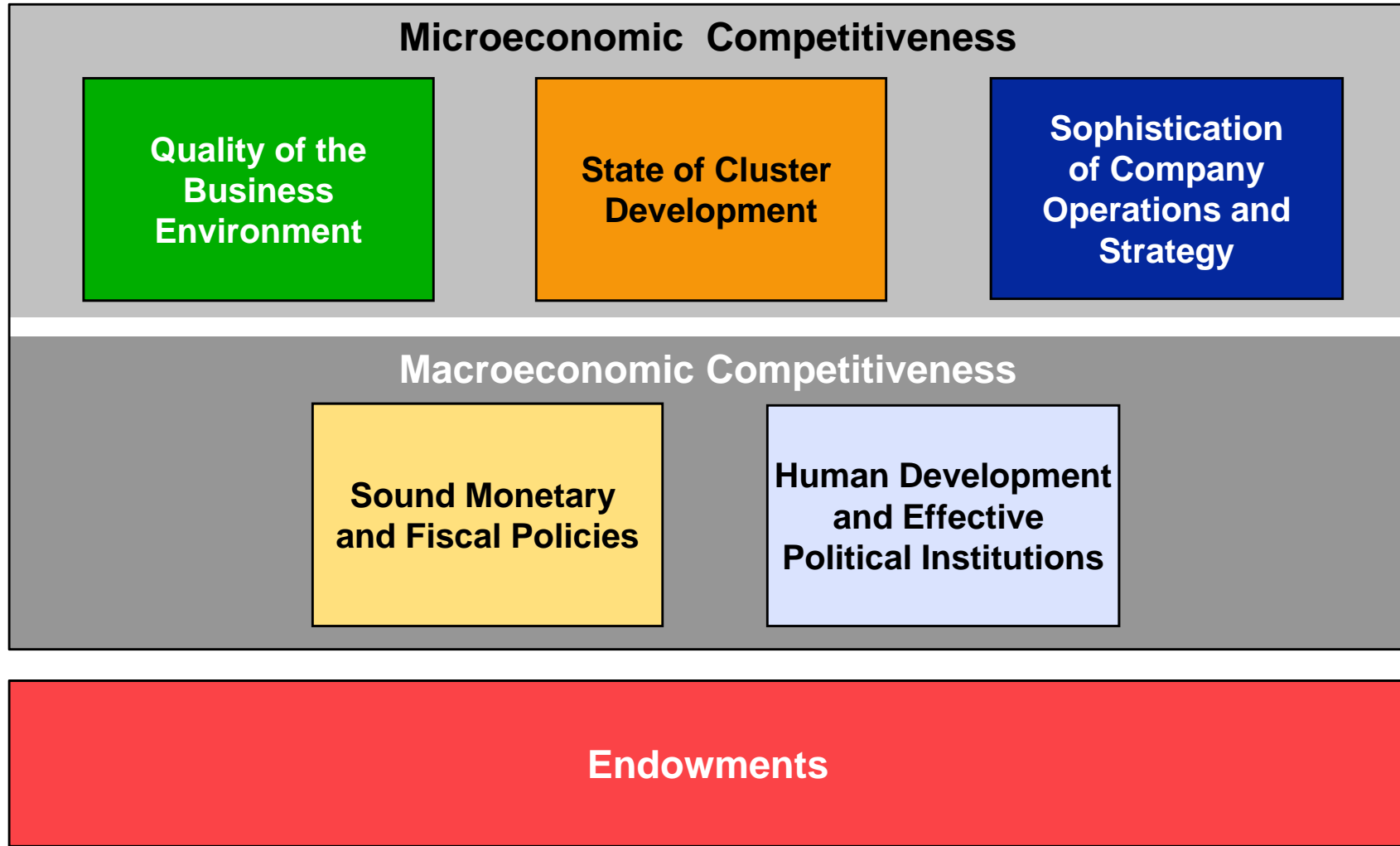
Human Development Performance

Nigeria vs. Selected Sub-Saharan African Countries

<i>(indicators as of 2010)</i>	Nigeria	South Africa	Kenya	Ethiopia	Rwanda	Botswana
Education Indicators						
Public spending on education, total (% of GDP)	NA	6.0%	6.7%	4.7%	5.0%	7.8%
School enrollment, primary (% gross)	83.3%	101.7%	113.3%	101.6%	142.6%	110.1%
School enrollment, secondary (% gross)	44.0%	93.8%	60.2%	35.7%	32.2%	81.7%
School enrollment, tertiary (% gross)	NA	NA	4.0%	7.3%	5.5%	7.4%
Literacy rate, adult total (% of people ages 15+)	61.3%	NA	87.4%	NA	71.1%	84.5%
Health Indicators						
Health expenditure per capita (current US\$)	\$62.8	\$648.7	\$36.8	\$15.7	\$55.5	\$614.6
Life expectancy at birth, total (years)	51.4	52.1	56.5	58.7	55.1	53.1
Mortality rate, infant (per 1,000 live births)	80.8	35.5	50.1	54	41.5	21.3
Prevalence of HIV, total (% of population ages 15-49)	3.7%	17.3%	6.2%	1.6%	3.0%	23.7%

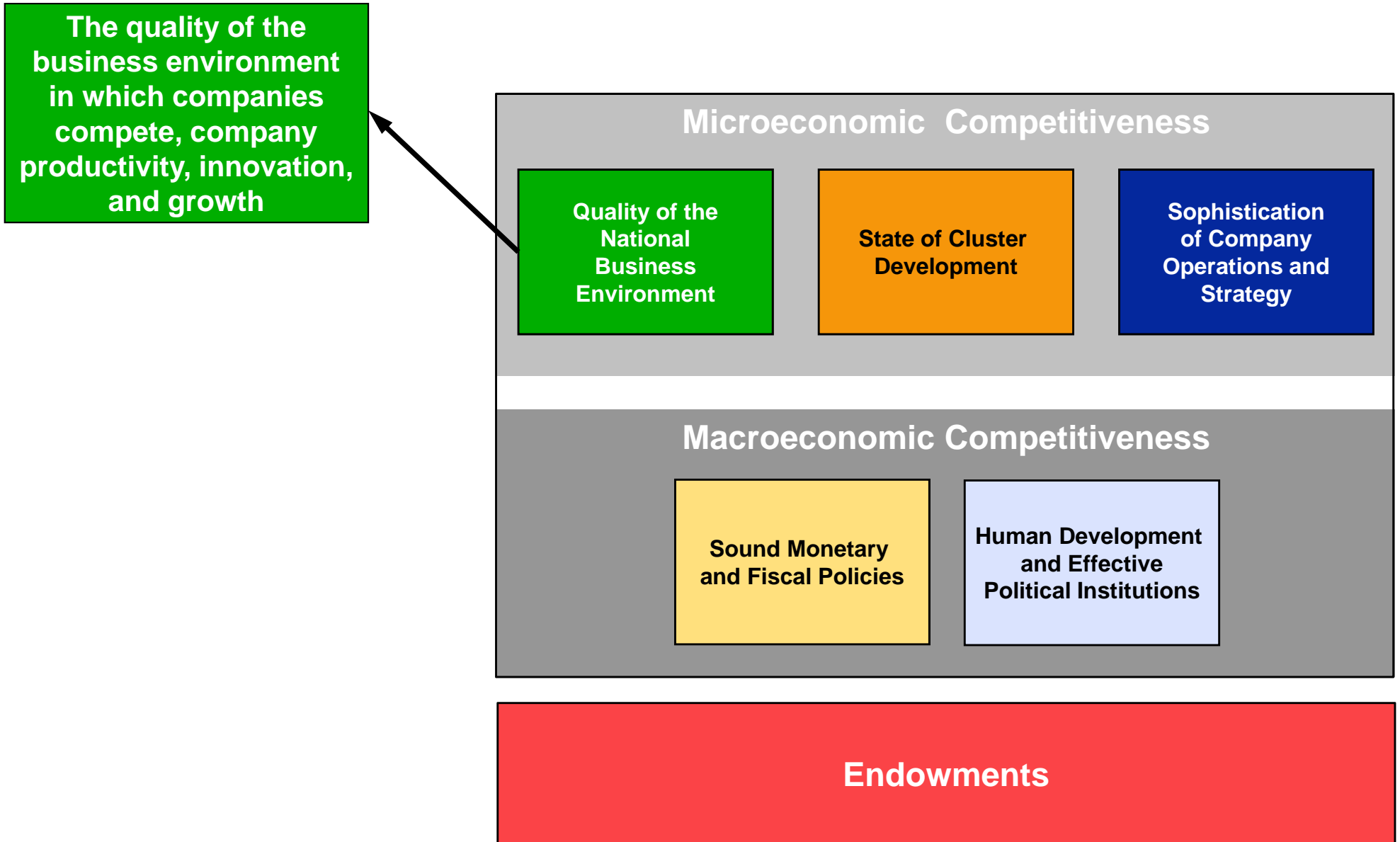
Source: World Bank (2013).

What Determines Competitiveness?



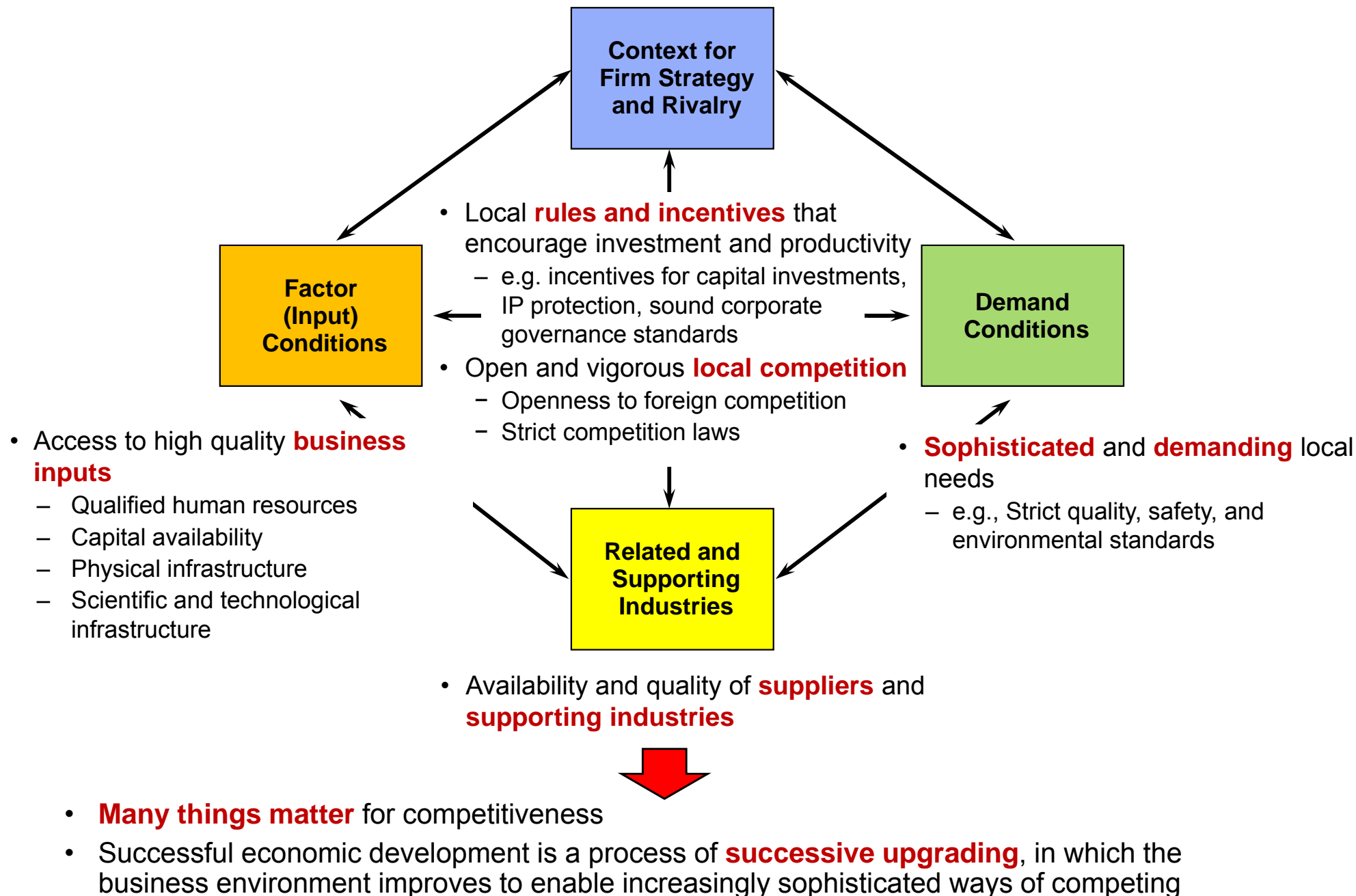
- Productivity ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local competition** revealed at the level of firms, clusters, and regions
- Macroeconomic competitiveness sets the **economy-wide** context for productivity to emerge, but is **not sufficient** to ensure productivity
- Endowments, including **natural resources**, **geographical location**, **population**, and **country size**, create a **foundation** for prosperity, but true prosperity arises from **productivity in the use of endowments**

What Determines Competitiveness?



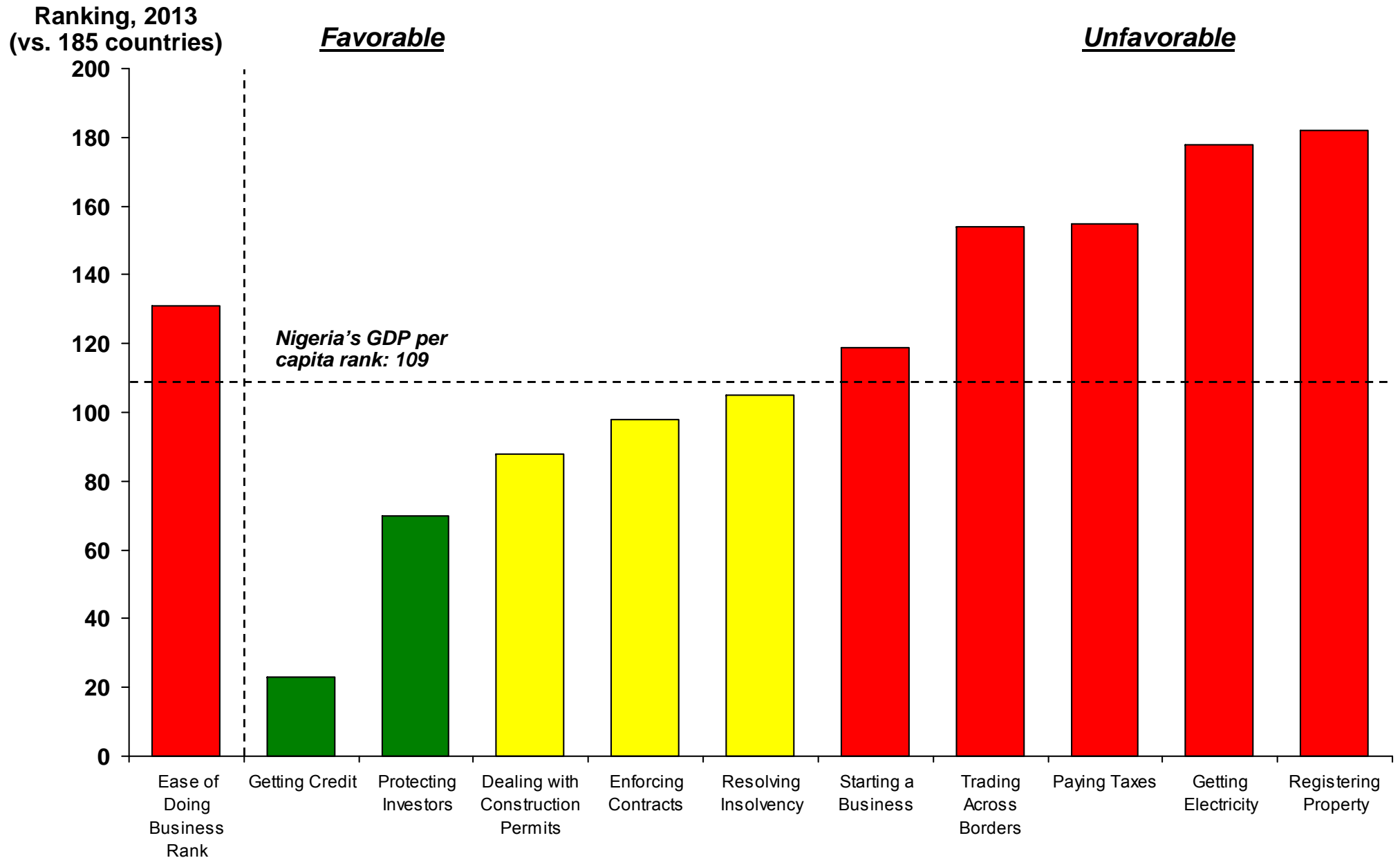
Quality of the Business Environment

The Diamond

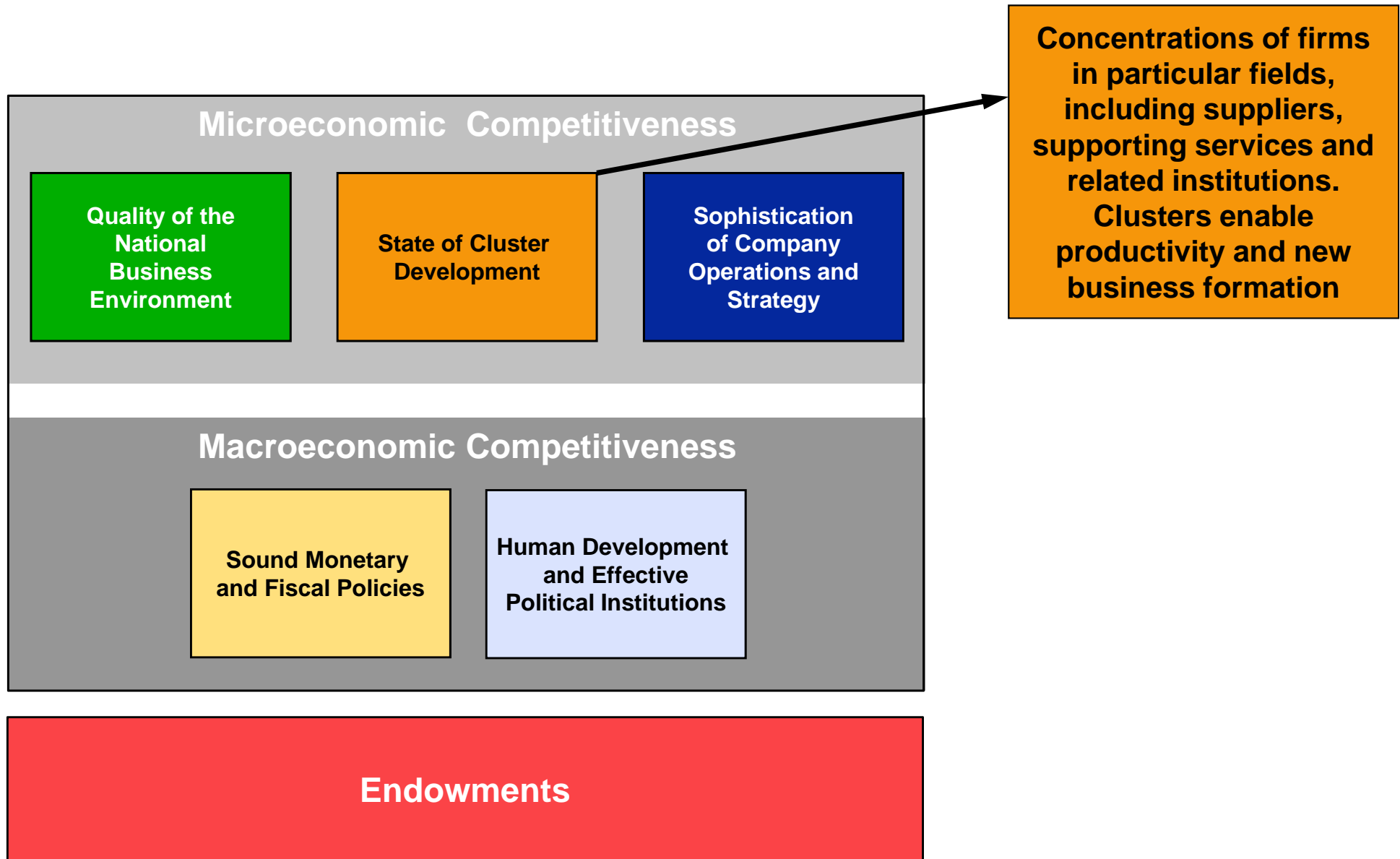


Quality of the Business Environment

Ease of Doing Business Indicators (Nigeria, 2013)

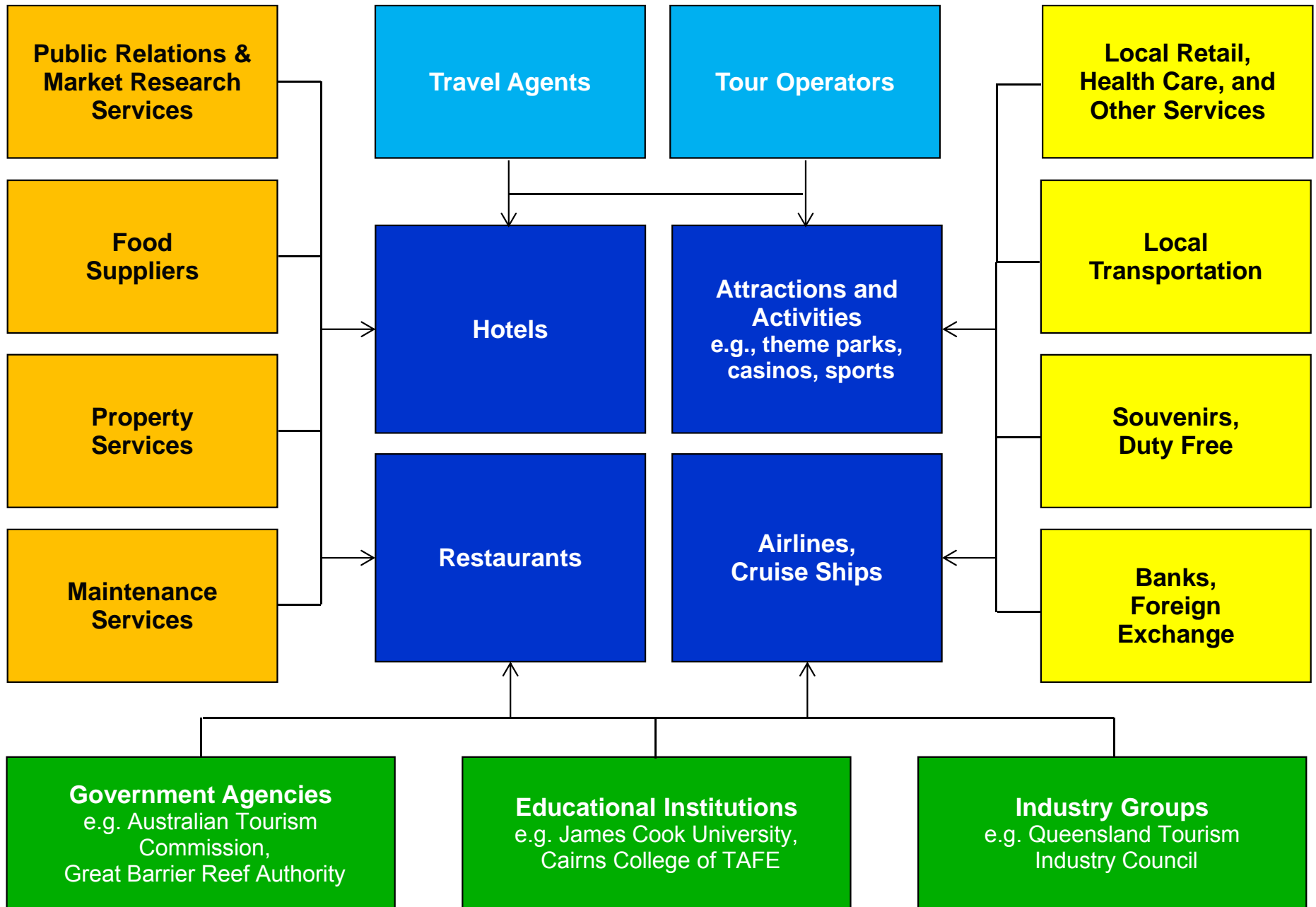


What Determines Competitiveness?



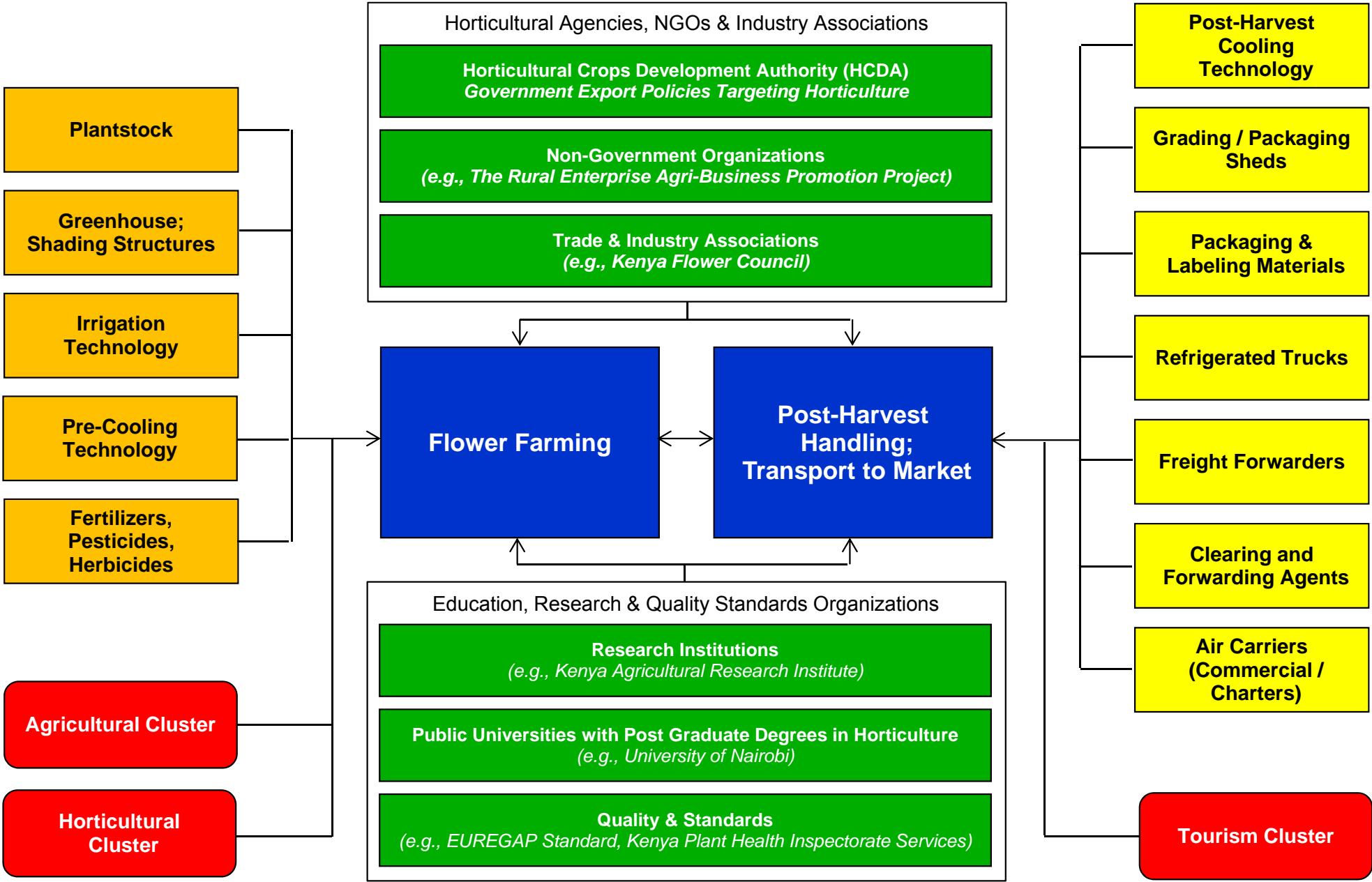
What Is a Cluster?

Tourism Cluster in Cairns, Australia



Clusters in Developing Countries

Cut Flower Cluster in Kenya



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

Why Clusters Matter?

- Clusters **increase productivity** and **operational efficiency**
- Clusters stimulate and enable **innovations**
- Clusters facilitate **commercialization** and **new business formation**

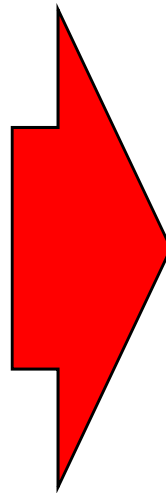


- Healthy clusters **drive competitiveness** and competitiveness **improvement**
- Clusters are **regional** and **local** in large countries

Evidence on the Impact of Clusters

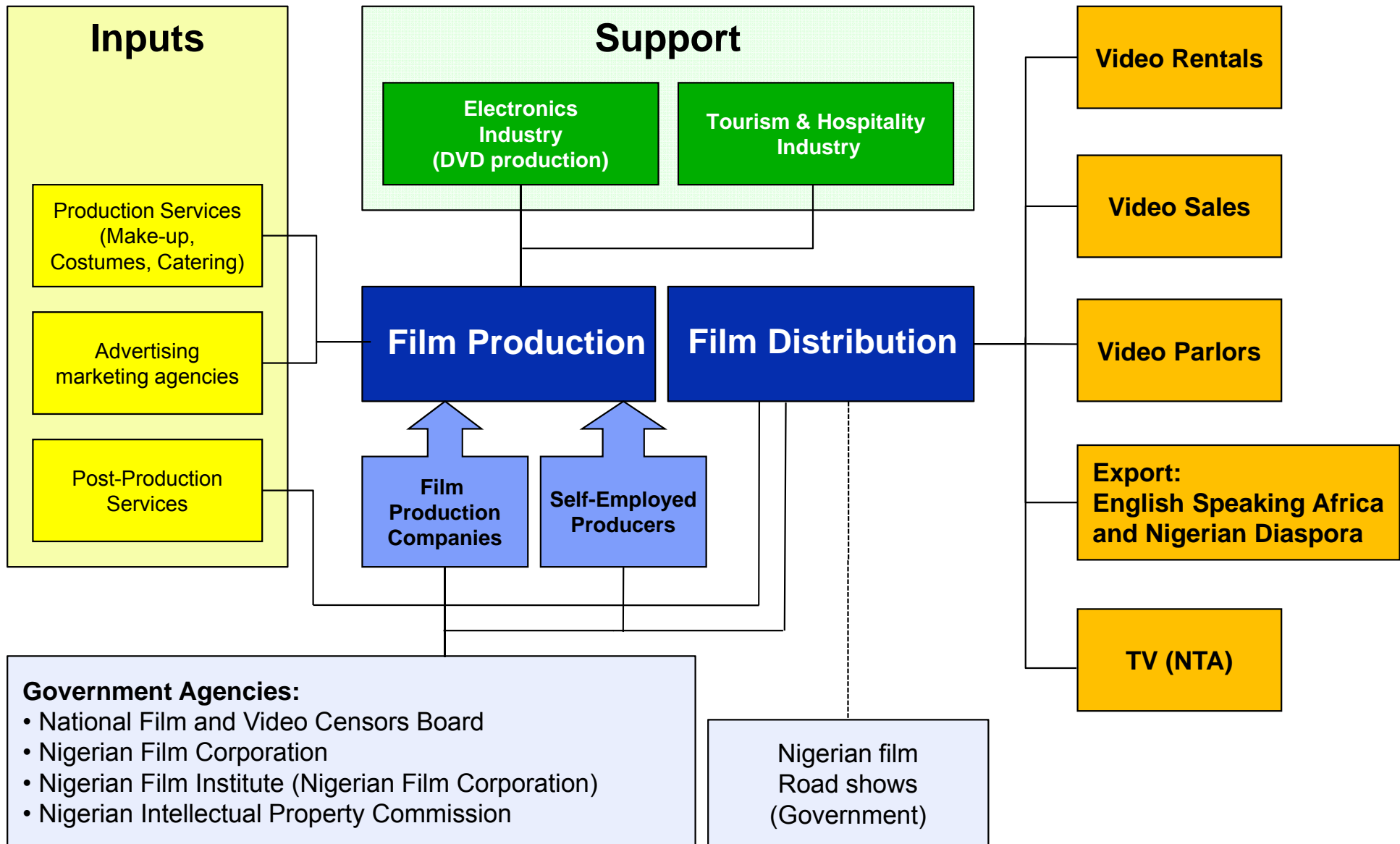
Strong Clusters Drive Regional Performance

- Existence of **strong clusters**
- **Breadth** of industries within each cluster
- Strength in **related clusters**
- Presence of a region's clusters in **neighboring regions**

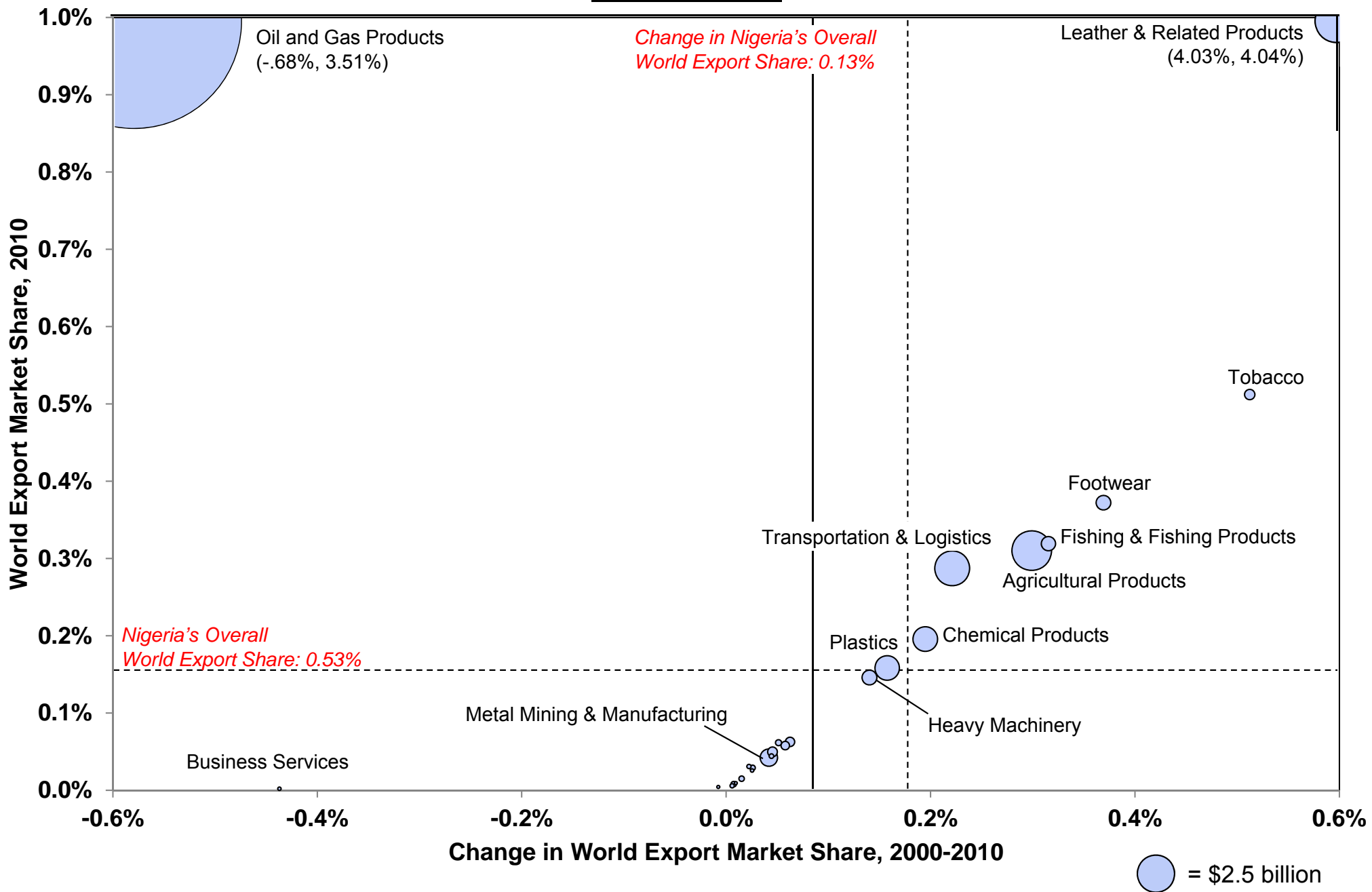


- **Job** growth
- Higher **wages**
- Higher **patenting** rates
- Greater **new business** formation, growth and survival

Nigeria's Film Cluster ("Nollywood")



Nigeria's National Cluster Export Portfolio 2000-2010



Clusters in an Economy Are Related

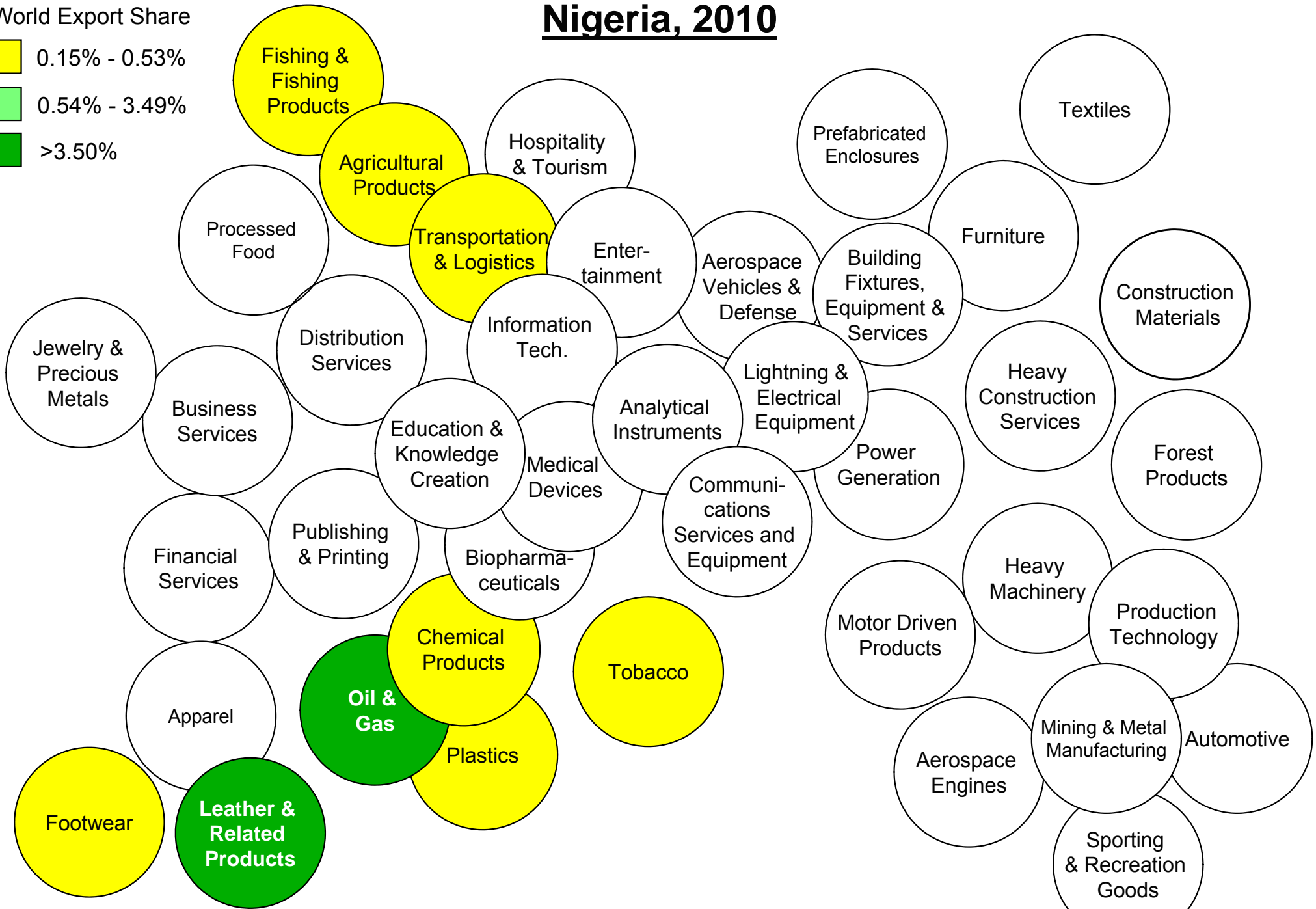
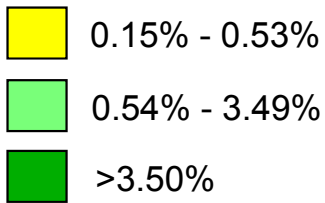


Note: Clusters with overlapping borders or identical shading have at least 20% overlap (by number of industries) in both directions.

Cluster Relatedness and Economic Diversification

Nigeria, 2010

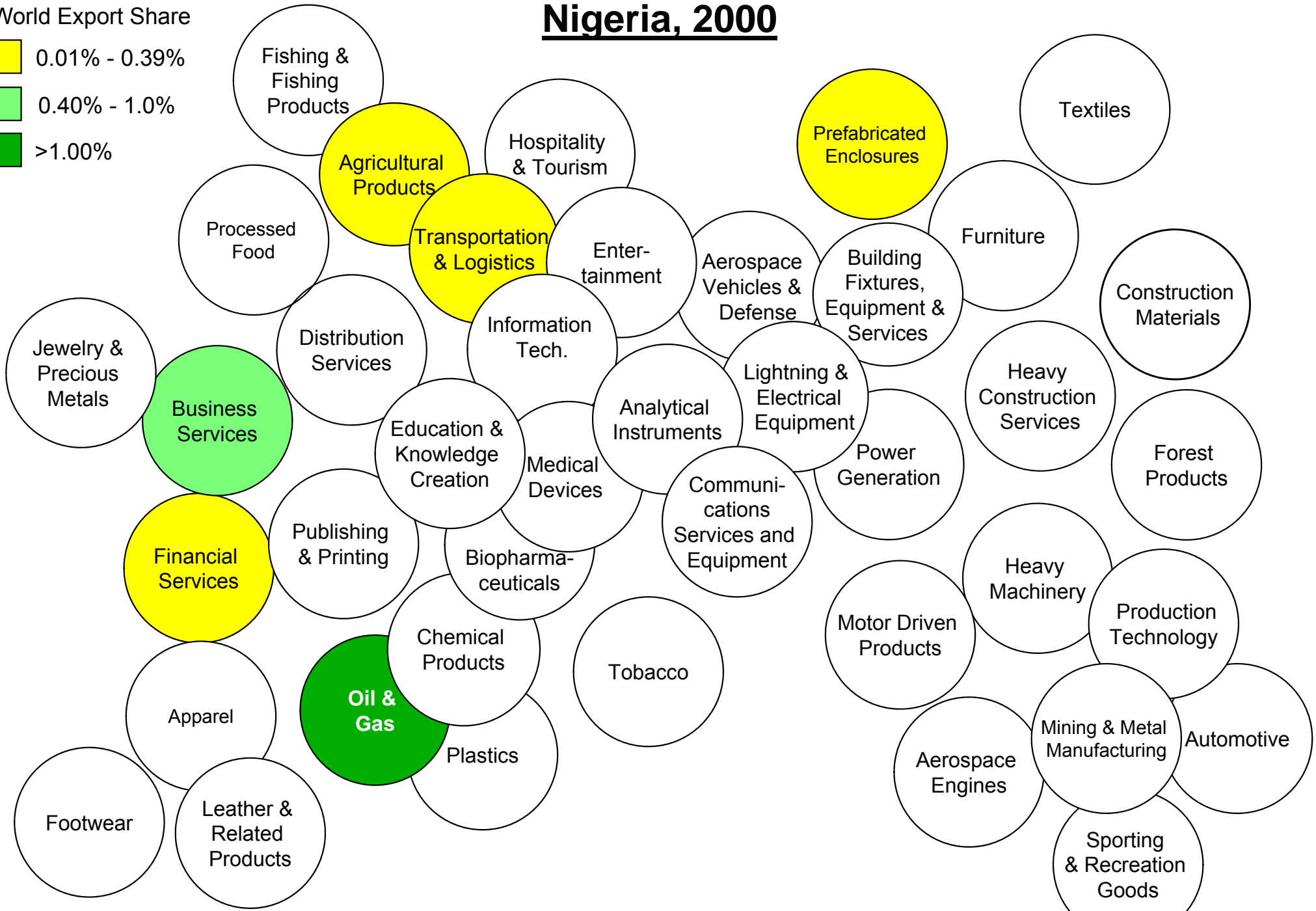
World Export Share



Cluster Relatedness and Economic Diversification

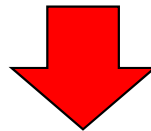
Nigeria, 2000

World Export Share



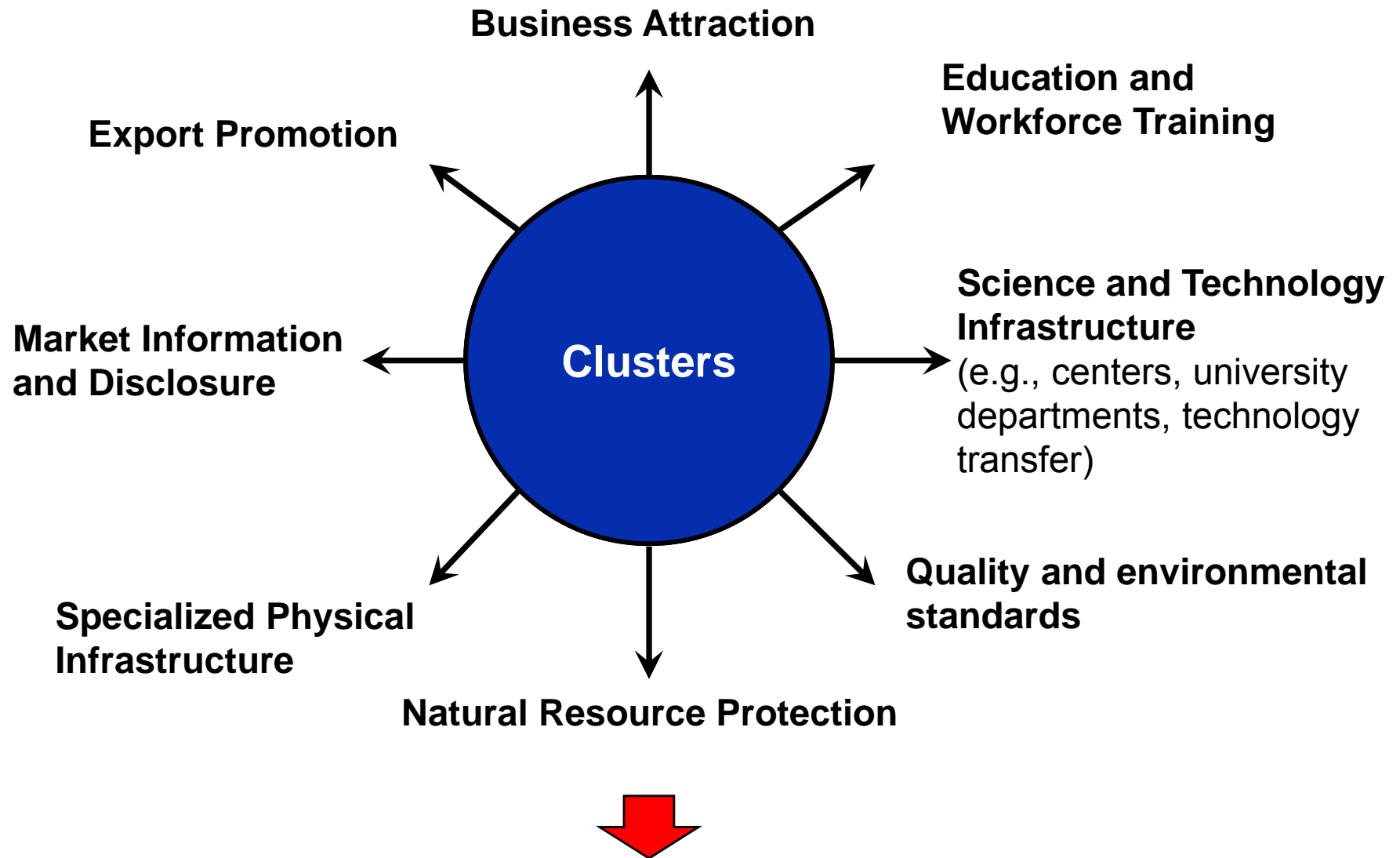
Clusters as a Tool For Economic Policy

- 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
- Enhances the efficiency and effectiveness of **traditional economic policy** areas, such as training, R&D, export promotion, FDI attraction, etc.



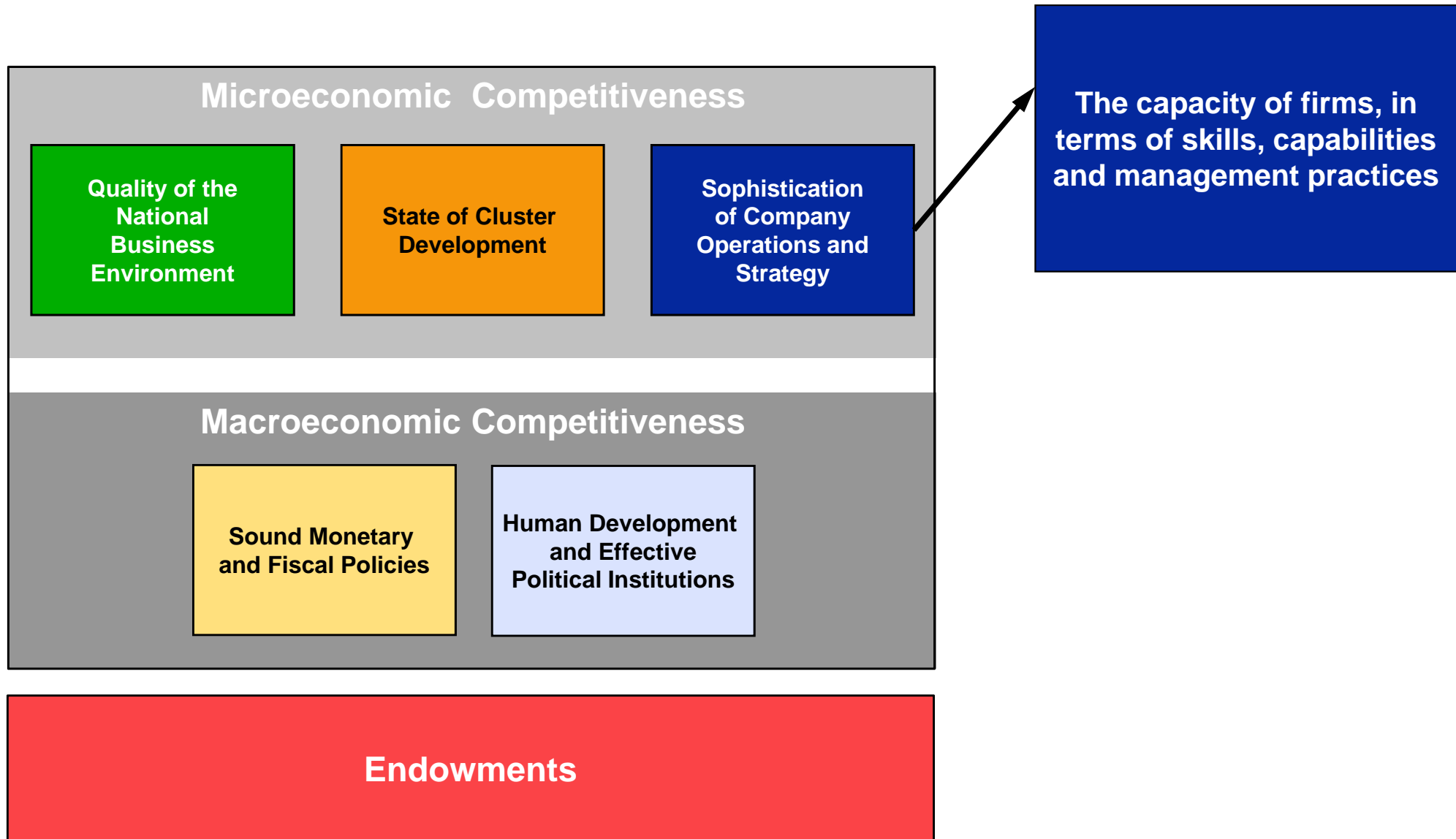
- Sound cluster policy addresses **all clusters**, and does not pick winners

Organize Public Policy around Clusters



- Clusters provide a framework for **organizing the implementation** of many public policies and public investments directed at economic development

What Determines Competitiveness?

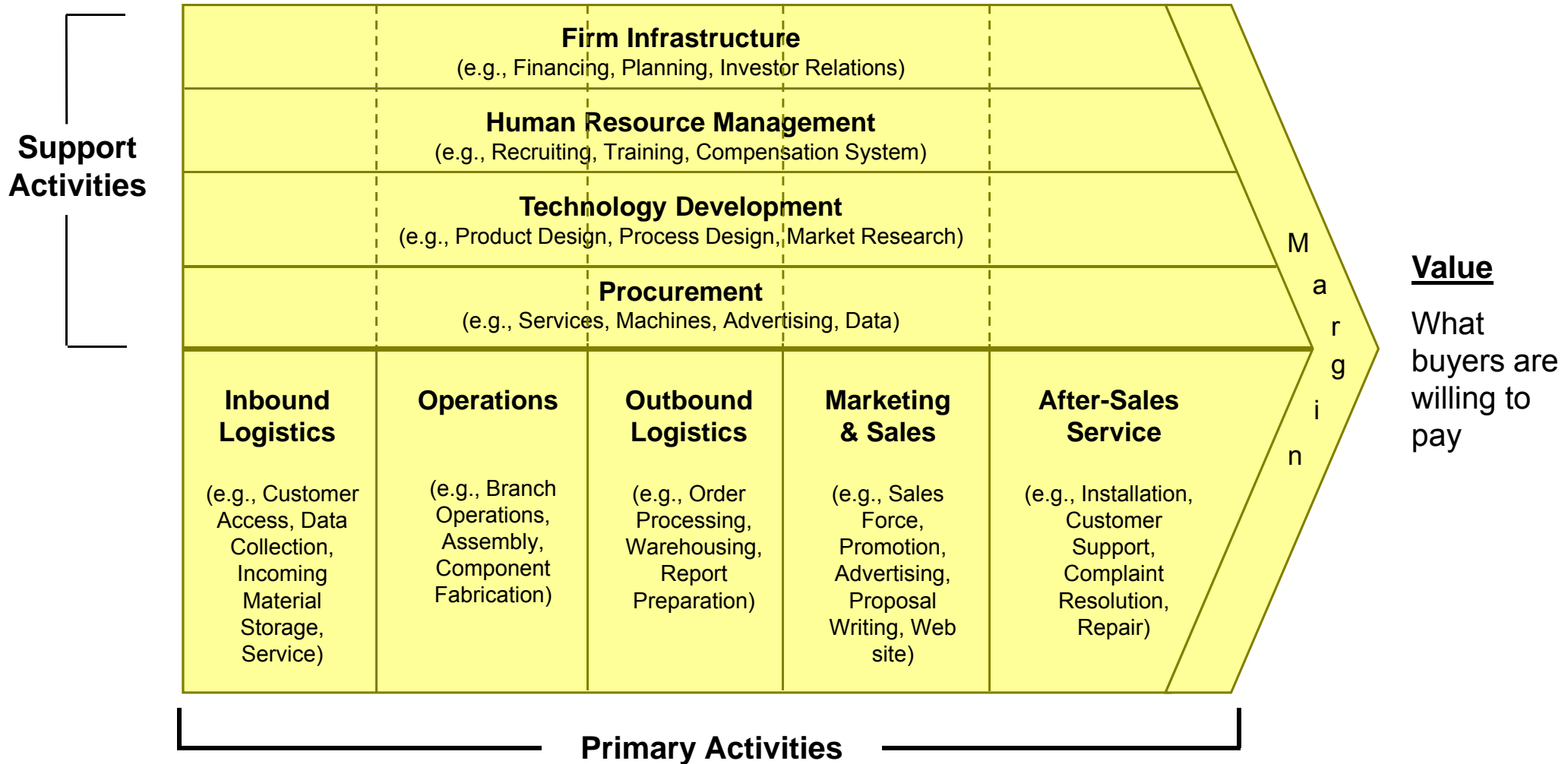


Sophistication of Firms

Sources of Competitive Advantage

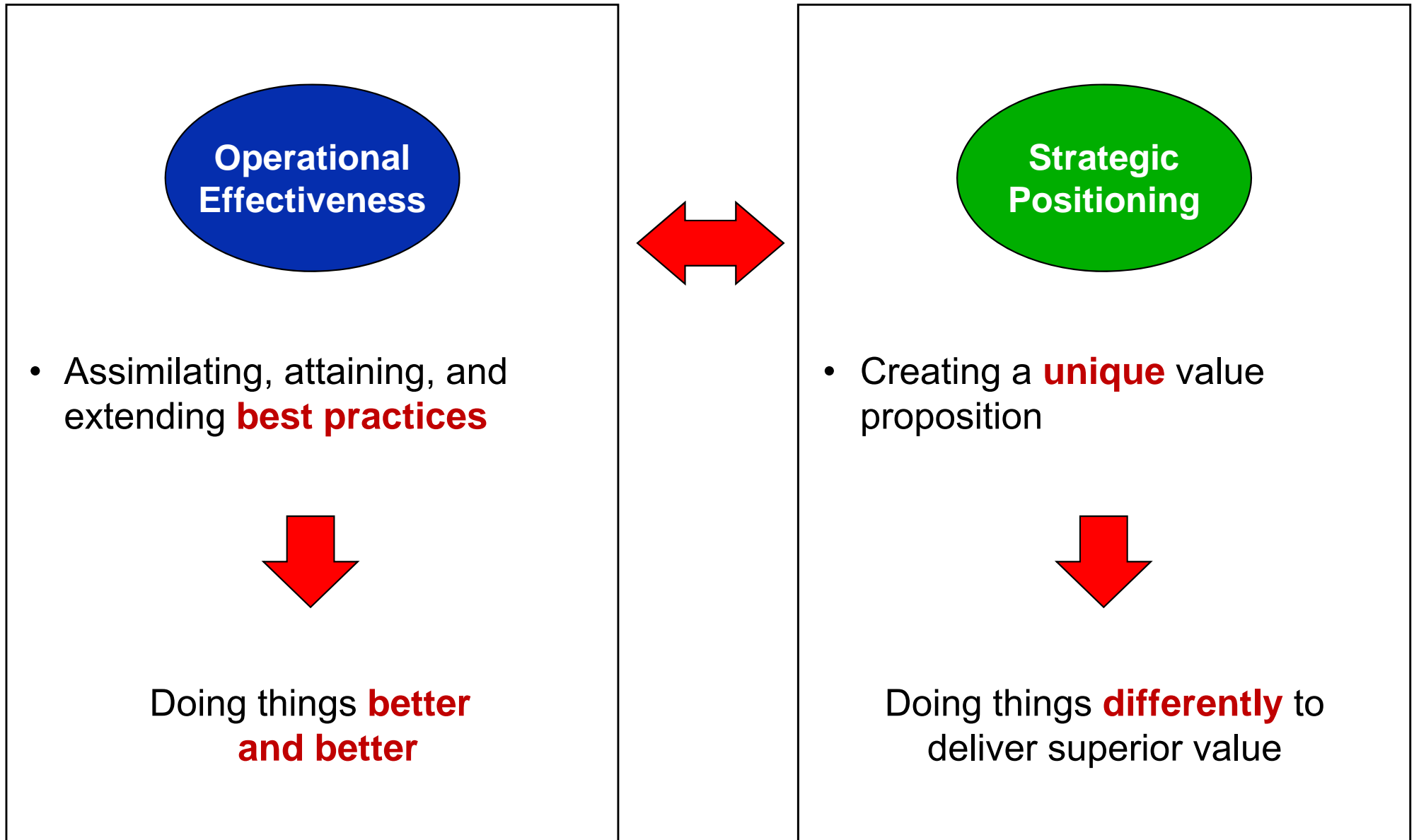


Competitive Advantage and the Value Chain



- The value chain is the **set of activities** involved in delivering value to customers
- All competitive advantage **resides** in the value chain. Strategy is manifested in **choices** about how activities in the value chain are configured and linked together

Operational Effectiveness Versus Strategy



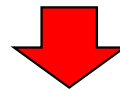
What Creates a Successful Strategy?

- A **unique value proposition** compared to competitors
- A **distinctive value chain** embodying choices about how the organization will **operate differently** to deliver on its value proposition
- Making clear tradeoffs, and choosing what **not to do**
- Integrating activities across the value chain to **fit together** and **reinforce each other**
- **Continuity** of strategic direction

Levels of Strategy

Competitive or Business Strategy

- How to compete in each **distinct business or industry**



Corporate Strategy

- What **set of businesses** to compete in
- Capturing **synergies** across business units

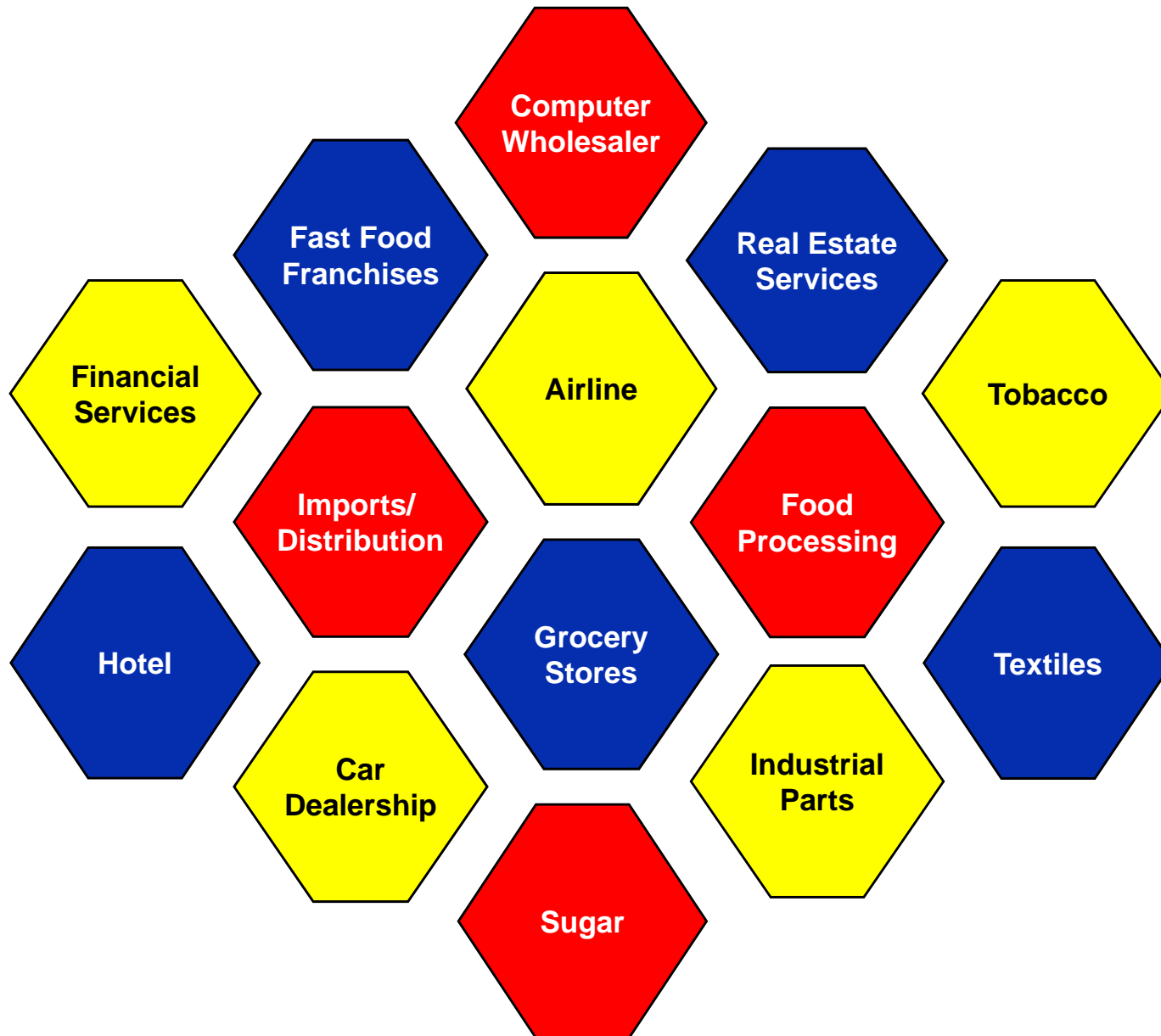
Corporate Strategy

The Walt Disney Company, 2010



Diversification in Emerging Economies

Typical Business Groups

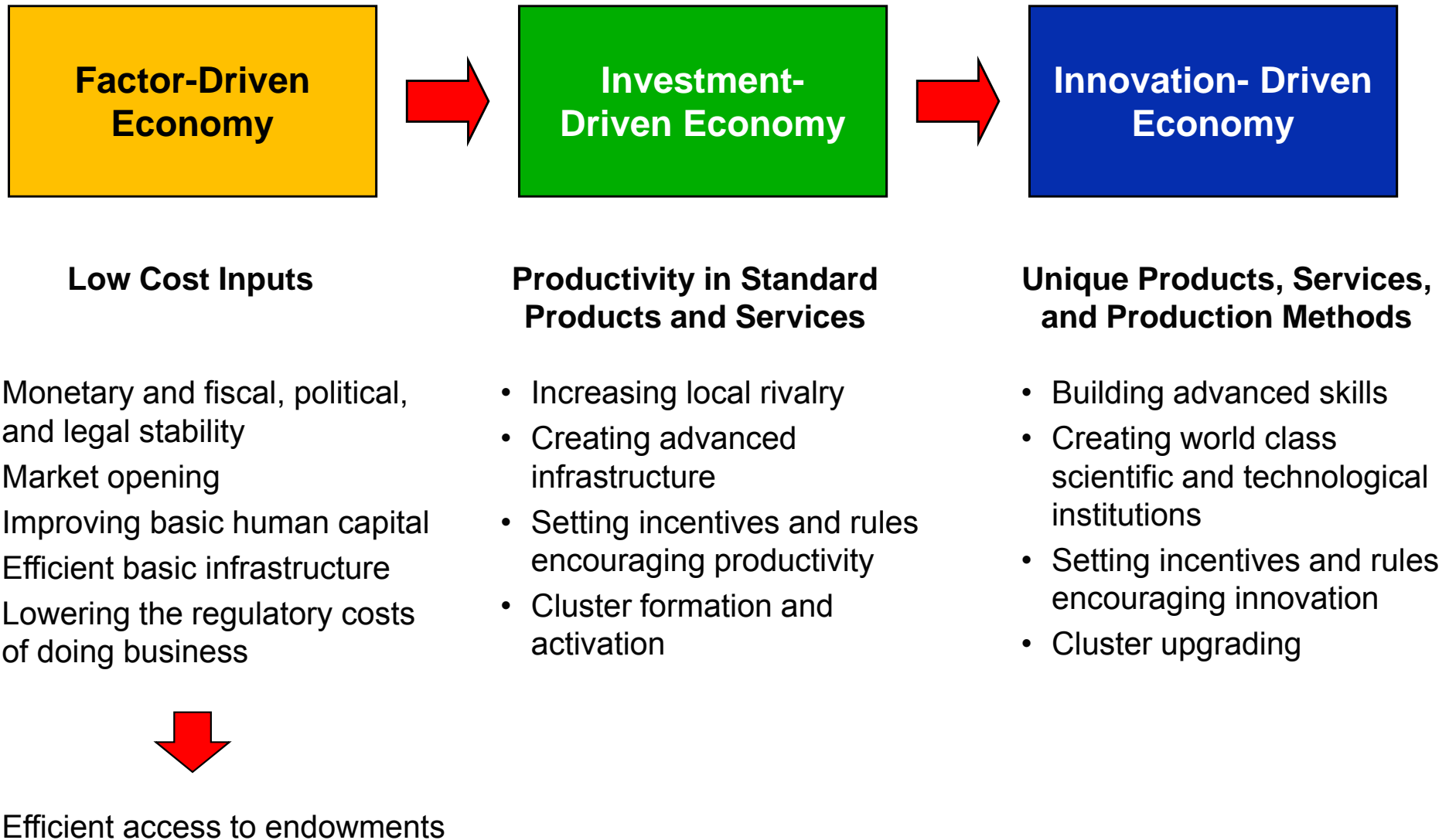


Improving Competitiveness Themes

- **Many things matter** for competitiveness
- Progress must be made simultaneously on **multiple fronts**
- The **weakest links** will constrain productivity and retard development
- **Foreign investment** will depend on the relationship between competitiveness and prevailing wages and taxes
- As economies develop, they face **transition points** that require many dimensions of competition to be transformed

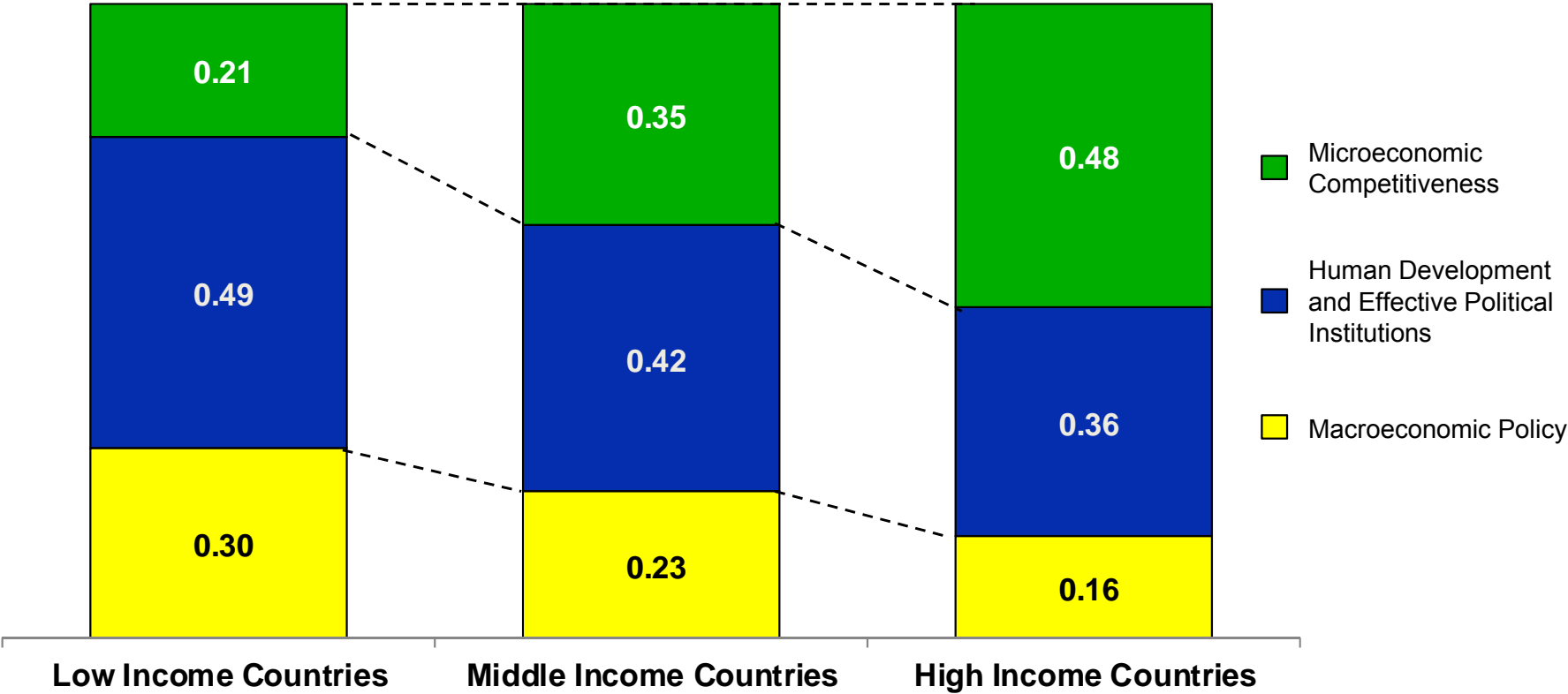
Stages of National Competitive Development

Shifting Policy Imperatives



Harvard Country Competitiveness Model

Subindex Impact Across Stages of Development



Notes: - Weights in a linear model across all economies: Micro: 0.31, SIPI: 0.41, Macro Policy: 0.28
 - Middle-stage weights are an average of Low- and High-stage weights.

Agenda

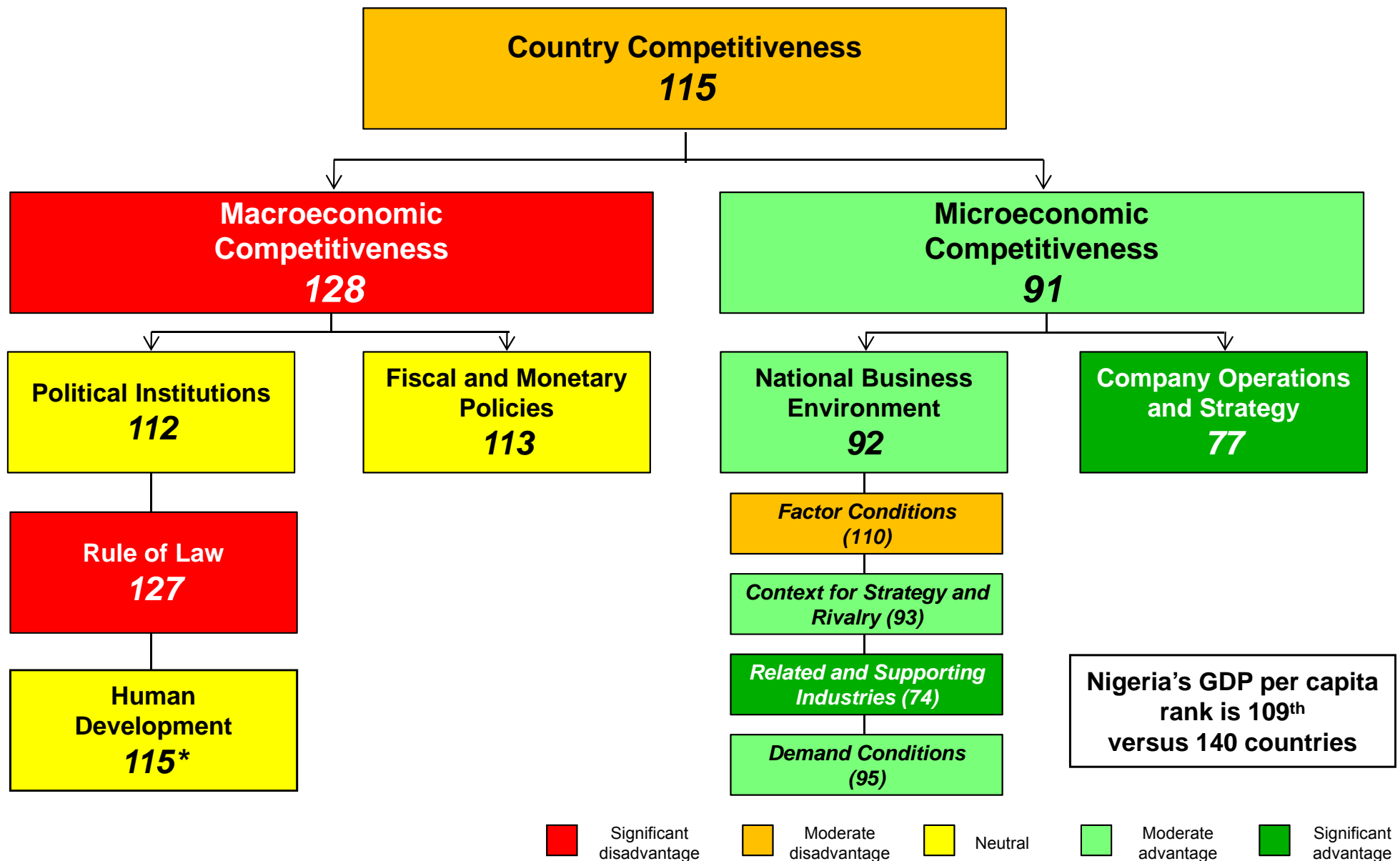
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ISC Competitiveness Model

Nigeria's Competitiveness Profile, 2012



Note: Rank versus 140 countries; Color coding based on comparison relative to income; *U.N. Gender Inequality Index data is unavailable for Nigeria. Nigeria's Basic Health and Education rank is reported as an average of ranks in reported data.

Source: Institute for Strategy and Competitiveness, Harvard University (2012), based in part on survey data from the World Economic Forum; analysis prepared based on research findings by Scott Stern, Mercedes Delgado, and Christian Ketels.

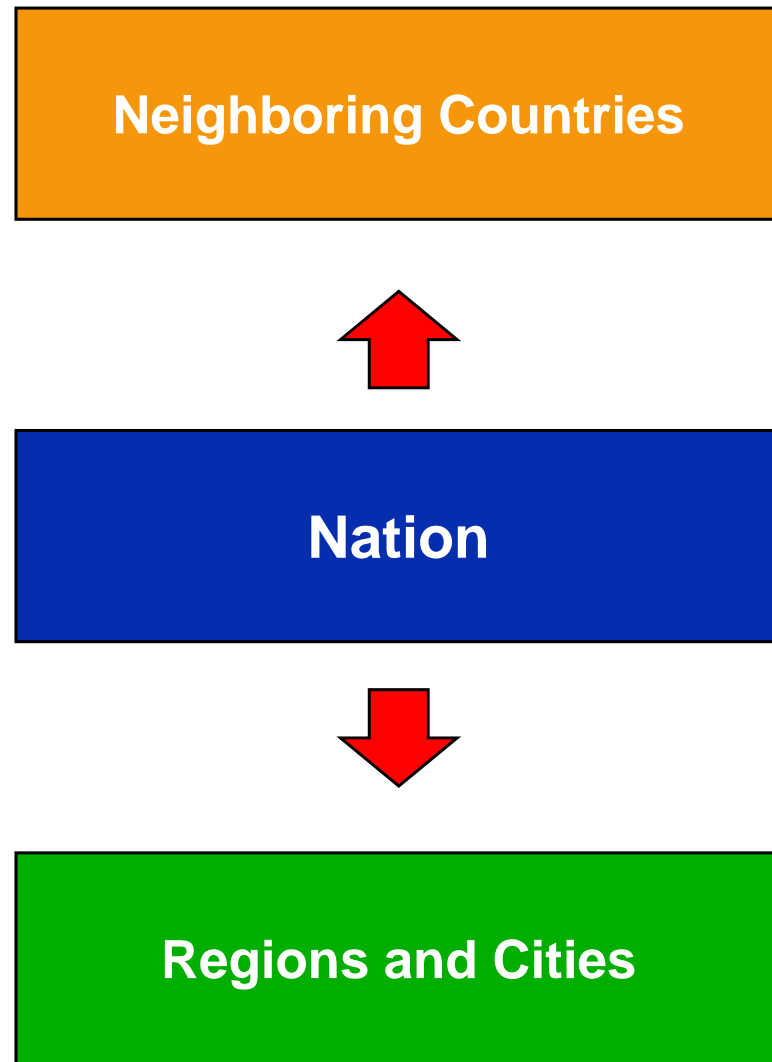
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- **Geographic Areas and Competitiveness**

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Geographic Influences on Competitiveness



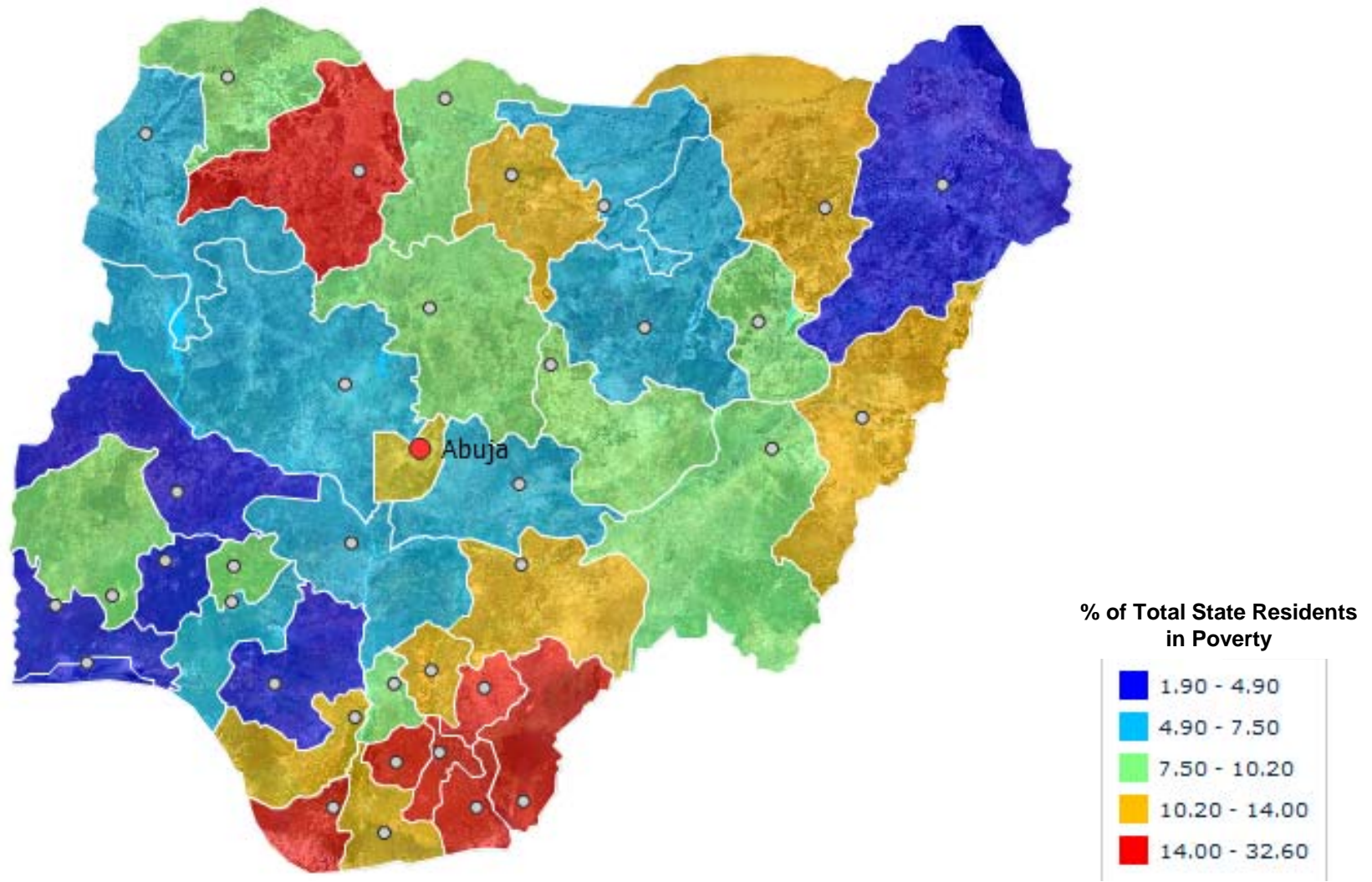
- Regions are the **most important economic unit for competitiveness** in larger countries, especially countries beyond subsistence development

Regions and Competitiveness

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

Regional Prosperity Performance in Nigeria

Percent of State Residents in Poverty



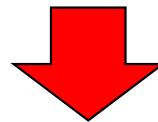
Source: Nigeria Statistical Data Portal (2013).
Note: Most recent data available is from 2009.

Regions and Competitiveness

- Economic performance **varies significantly** across sub-national regions (e.g., provinces, states, metropolitan areas)
- Many essential drivers of competitiveness reside at the **regional level**
- Regions **specialize** in different sets of clusters and **cluster strength** drives regional performance

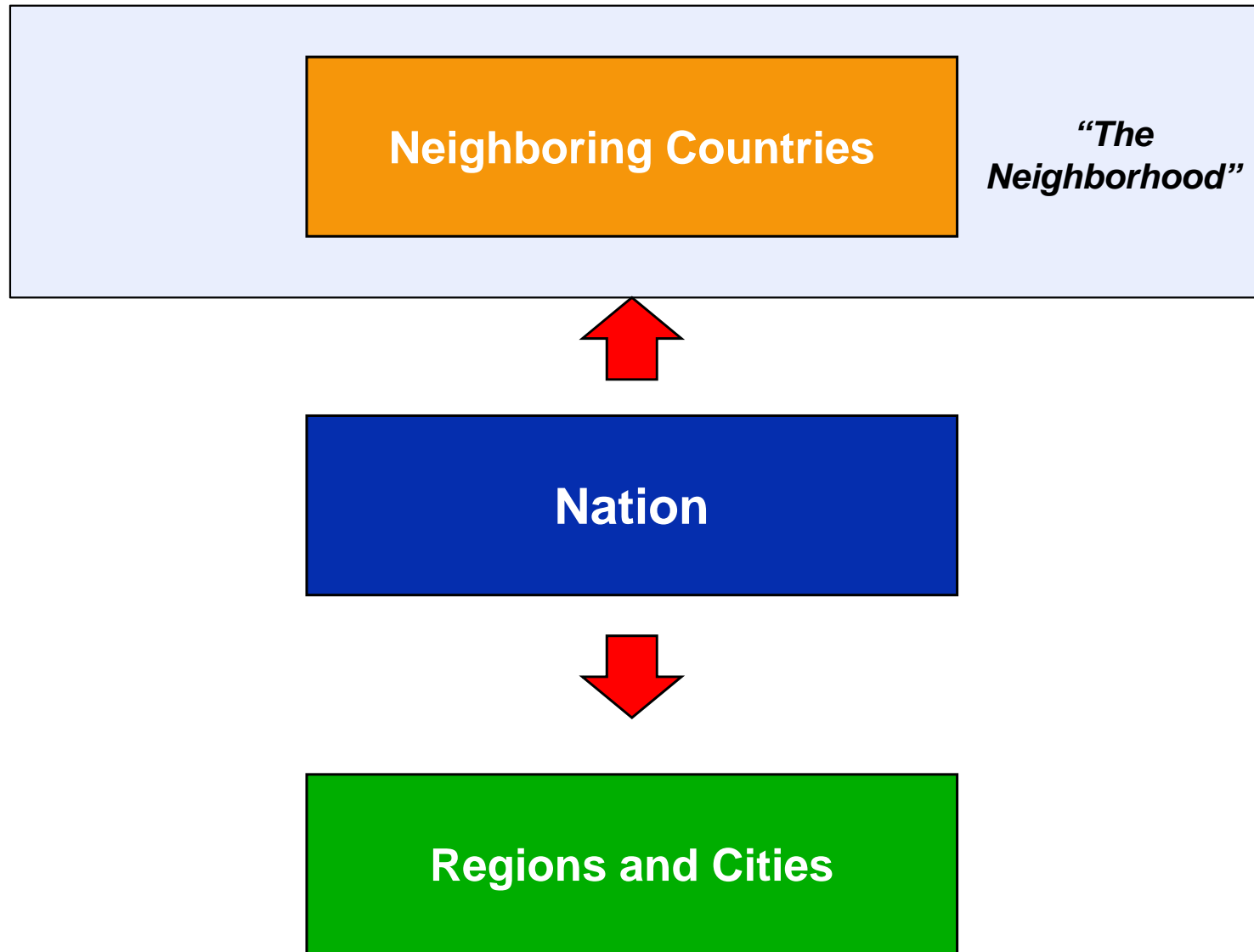
Regions and Competitiveness

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- Regions **specialize** in different sets of clusters and **cluster strength** drives regional performance



- Each region needs its own distinctive **competitiveness strategy and action agenda**
 - Business environment improvement
 - Cluster upgrading
 - Improving government effectiveness

Geographic Influences on Competitiveness



- Regions are the **most important economic unit for competitiveness** in larger countries, especially countries beyond subsistence development

Competitiveness and Integration with Neighboring Countries

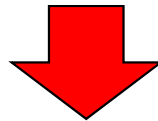
Nigeria's Neighborhood



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

Regional Economic Integration and Competitiveness

- Integration opens **trade** and **investment** among neighbors
 - Expands the **available** market for each country
 - A nation's **neighbors** are often its most natural trading and investment partners, especially in **non-resource** goods and services
 - The natural **path of internationalization** for local firms is the neighborhood
 - Open trade and investment make each **country** a more attractive location for investment
- Integration drives **improvements in the business environment**
 - Captures **synergies** in policy and infrastructure
- Integration harnesses improvements in **clusters** that cross borders
- Integration creates greater clout in **international negotiations**



- External commitments help **overcome domestic political and economic barriers** to reform

Economic Integration Among Neighbors

Capturing Synergies

Factor (Input) Conditions

- Improving the efficiency of the regional **transportation network**
- Creating an efficient **energy** network
- Enhancing regional **communications** and **connectivity**
- Harmonizing **administrative requirements** for businesses
- Linking **financial markets**
- Facilitating the movement of students for **higher education**

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**
- Harmonizing **IP protection**

Demand Conditions

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

Related and Supporting Industries

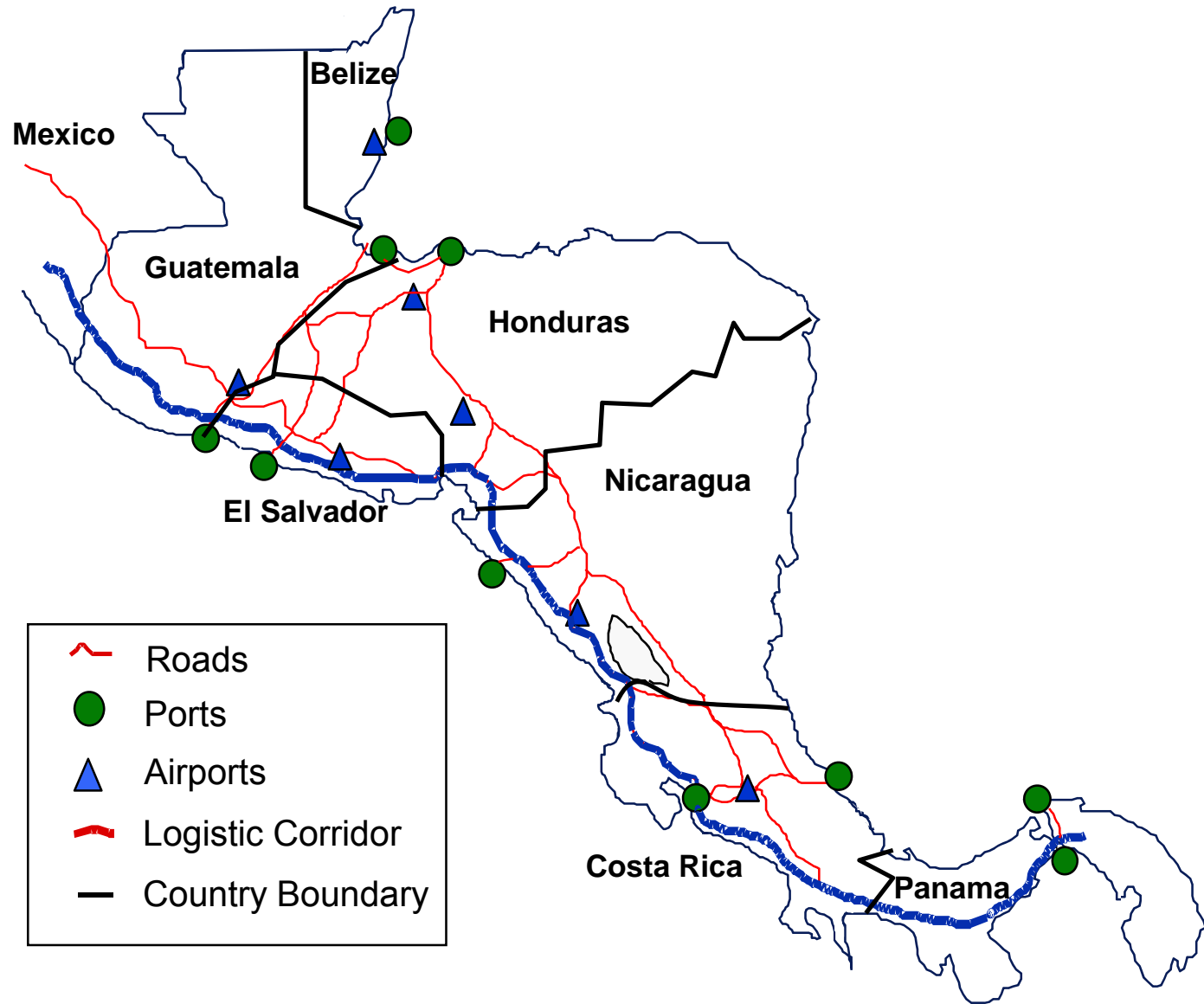
- Facilitating **cross-border cluster development**
 - e.g., Supplier networks
 - Efficient transport and logistics
 - Quality standards

Macroeconomic Competitiveness

- Coordinating **macroeconomic** policies
- Coordinating programs to improve **security** and **public safety**

Integration and Competitiveness

Central American Logistical Corridor



Agenda

- Defining Competitiveness and Prosperity
- Indicators and Enablers of Competitiveness
- Drivers of Competitiveness
- Benchmarking Nigerian Competitiveness
- Geographic Areas and Competitiveness
- **Economic Strategy**
- Organizing for Competitiveness

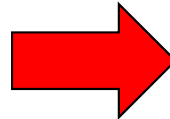
What Is an Economic Strategy?

Policy Improvement

- Implementing **best practices** in each policy area



- There are a **huge number** of policy areas that matter
- No country can (or should try to) make **progress in all areas** simultaneously



Economic Strategy

- An overall agenda for creating a **distinctive** and **more competitive position** for a country or region, based on its **particular circumstances**

Creating a National (or Regional) Economic Strategy

National Value Proposition

- What is the **distinctive competitive position** of the nation or region given its location, legacy, existing strengths, and potential strengths?
 - What unique strengths as a business location?
 - What roles in the broader neighborhood?
 - What types of activities and clusters?

Developing Unique Strengths

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

Achieving and Maintaining Parity with Peers

- What **weaknesses** must be addressed to remove key constraints and achieve parity with peer locations?

- **Priorities** and **sequencing** are essential to building competitiveness

Tests of an Economic Strategy

- Has the country or region articulated a **distinctive** position?
 - That will create a positive **identity**?
 - That will **inspire** citizens?
- Does the strategy build on existing or potential **strengths**?
 - Are the strengths **realistic** versus neighbors and other peer countries?
- Does the strategy **fit with trends** in the neighborhood and the world economy?
- Is the strategy realistic given the country's or region's **weaknesses**? Can weaknesses that retard the strategy be **neutralized**?
- Are **social** and **political** reforms integrated with **economic** reforms and pursued simultaneously?
- Do the **policy priorities** fit the strategy?
 - The **choice of policies**, and their design?
 - The **sequence** in which policies are implemented?

Tests of an Economic Strategy

Continued

- Is there the **political will** and the **political consensus** to implement the strategy?
- Has the strategy been **communicated clearly** to all stakeholders?
- Is the **private sector** engaged?
- Is **government organized** around the strategy?
- Is there an **overall coordinating structure** for economic development?
- Is the **quality** of governmental agencies and other institutions sufficient for effective implementation?
- Are there mechanisms to **measure progress** and **review / modify** the strategy as prosperity improves or conditions change?

Agenda

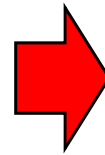
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- Economic Strategy
- **Organizing for Competitiveness**

The Process of Economic Development

Shifting Roles and Responsibilities

Old Model

- **Government** drives economic development through top down policy decisions 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 is the result of both **top-down** and **bottom-up processes** in which many companies and institutions take responsibility
- Translating policy into **action** is decisive in determining success

Government and the Process of Economic Development

- Competitiveness is affected by **numerous government entities** and **levels** of government
 - **Multiple agencies and departments** (e.g. finance, trade, science and technology, commerce, regional policy, energy, agriculture) have an influence on competitiveness
 - **“Economic”** agencies and **“social”** agencies
 - Multiple **levels** of government (nations, states, cities, etc.)
 - Intergovernmental relations with **neighboring countries**
- Competitiveness is **rarely the sole agenda** of a single government agency
- A **coordinating structure** is needed (e.g. “competitiveness policy council”) that brings together the ministers and department heads necessary to formulate and implement an economic strategy
- Competitiveness improvement requires sustained efforts across **multiple years and presidential administrations**
 - Mechanisms are needed to **improve the continuity of policy** over time

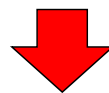
Failure of Traditional Economic Development Organizations

PUBLIC SECTOR

- **Separate** ministries with overlapping mandates
- Competition for **power** and **issue ownership**
- Ministries divided for **political reasons** which introduces ideology and single issue focus
- Organizations focus on a **single geographic level** (e.g., nation, state, or city)
- Lack of **coordination and integration** across different parts of government



- **Rarely strategic** but focus on discrete policy areas
- Rarely **prioritized** and **sequenced**
- No clear mechanisms and accountability for **implementation**



New organizational structures for competitiveness are needed

PRIVATE SECTOR

General

- Chambers of Commerce



- Traditional focus on **lobbying** for government support rather than enhancing competitiveness
- Limited effects on areas such as skills, infrastructure, exports, environmental improvement and quality certification where **collective action** most value enhancing
- **Poorly connected** to the government policy formulation process

Cluster-Specific

- Trade Associations



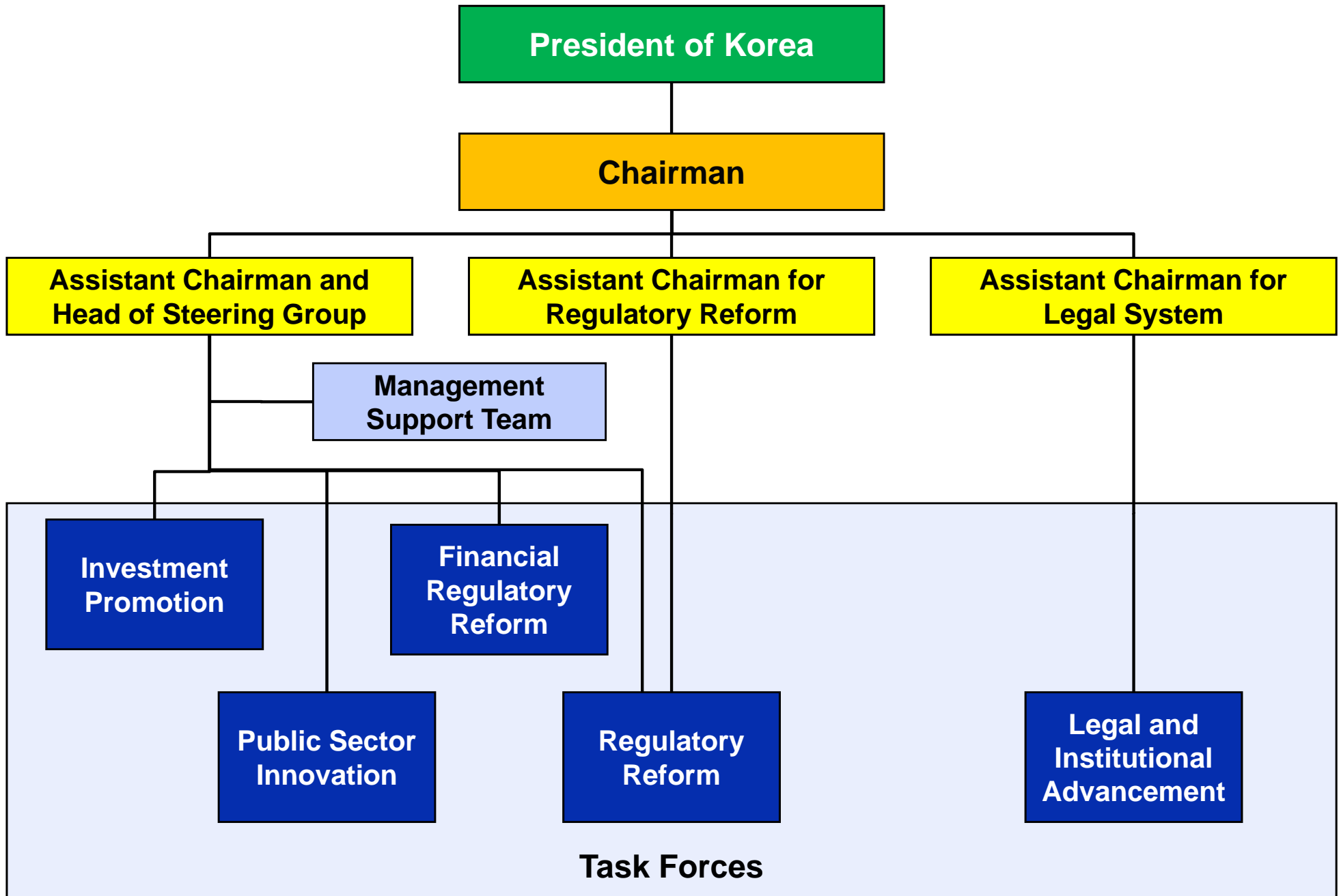
Organizations for Competitiveness are Needed at Multiple Geographic Levels

Examples



Organizing for Economic Development

Presidential Council on National Competitiveness (Korea)



Agenda for the Nigerian Competitiveness Council

- Benchmarking
 - Nigeria's competitiveness position
 - Nigerian states
- Identifying specific policy and implementation priorities
- Recommending a coherent and practical national strategy
- Fostering competitiveness improvement at the state level
- Integrating the Council's work into the government policy process
- Coordinating broad private sector commitment and collaboration
- Creating mechanisms and urgency for action