

Building a Competitive Argentina: Towards a National Agenda

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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), "The Microeconomic Foundations of Economic Development," in The Global Competitiveness Report 1998, (World Economic Forum, 1998), "Clusters and the New Competitive Agenda for Companies and Governments" in On Competition (Harvard Business School Press, 1998) and ongoing statistical study of clusters, Competing for Prosperity: The Microeconomic Foundations of Development, forthcoming, and "What is Strategy?" (Harvard Business Review, Nov/Dec 1996). 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.

Building a Competitive Argentina: Towards a National Agenda

Part I: The Foundations of National Competitiveness: The New Learning

Part II: Building a Competitive Argentina: Challenges and Opportunities

Sources of Rising Prosperity

- A nation's competitiveness and standard of living (wealth) is determined by the **productivity** with which it uses its human, capital, and natural resources. The appropriate definition of competitiveness is productivity.
 - Productivity depends both on the **value** of products and services (e.g. uniqueness, quality) as well as the **efficiency** with which they are produced.
 - It is not **what** industries a nation competes in that matters for prosperity, but **how** firms compete in those industries
 - Productivity in a nation is a reflection of what both domestic and foreign firms **choose to do in that location**. The location of ownership is secondary for national prosperity.
 - The productivity of **“local”** industries is of fundamental importance to competitiveness, not just that of traded industries
 - Devaluation does not make a country more “competitive” but reveals a **lack of fundamental competitiveness**



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

Determinants of Productivity and Productivity Growth

Macroeconomic, Political, and Legal Context

Microeconomic Foundations of Competitiveness

Sophistication
of Company
Operations and
Strategy

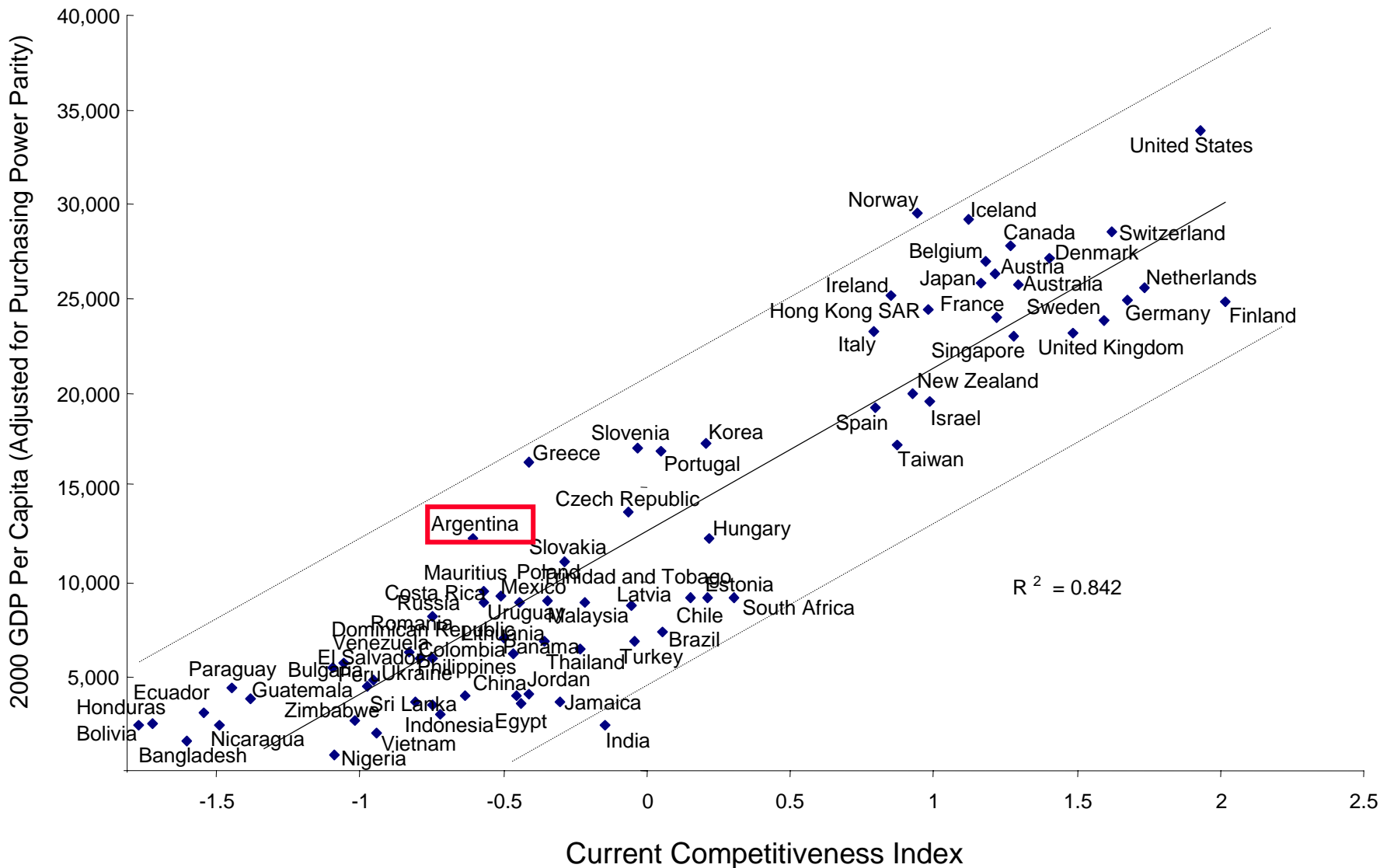


Quality of the
Microeconomic
Business
Environment

- Sound macroeconomic policies and a stable political / legal context are **necessary** to ensure a prosperous economy, **but not sufficient**
- Competitiveness ultimately depends on improving the **microeconomic foundations** of competition

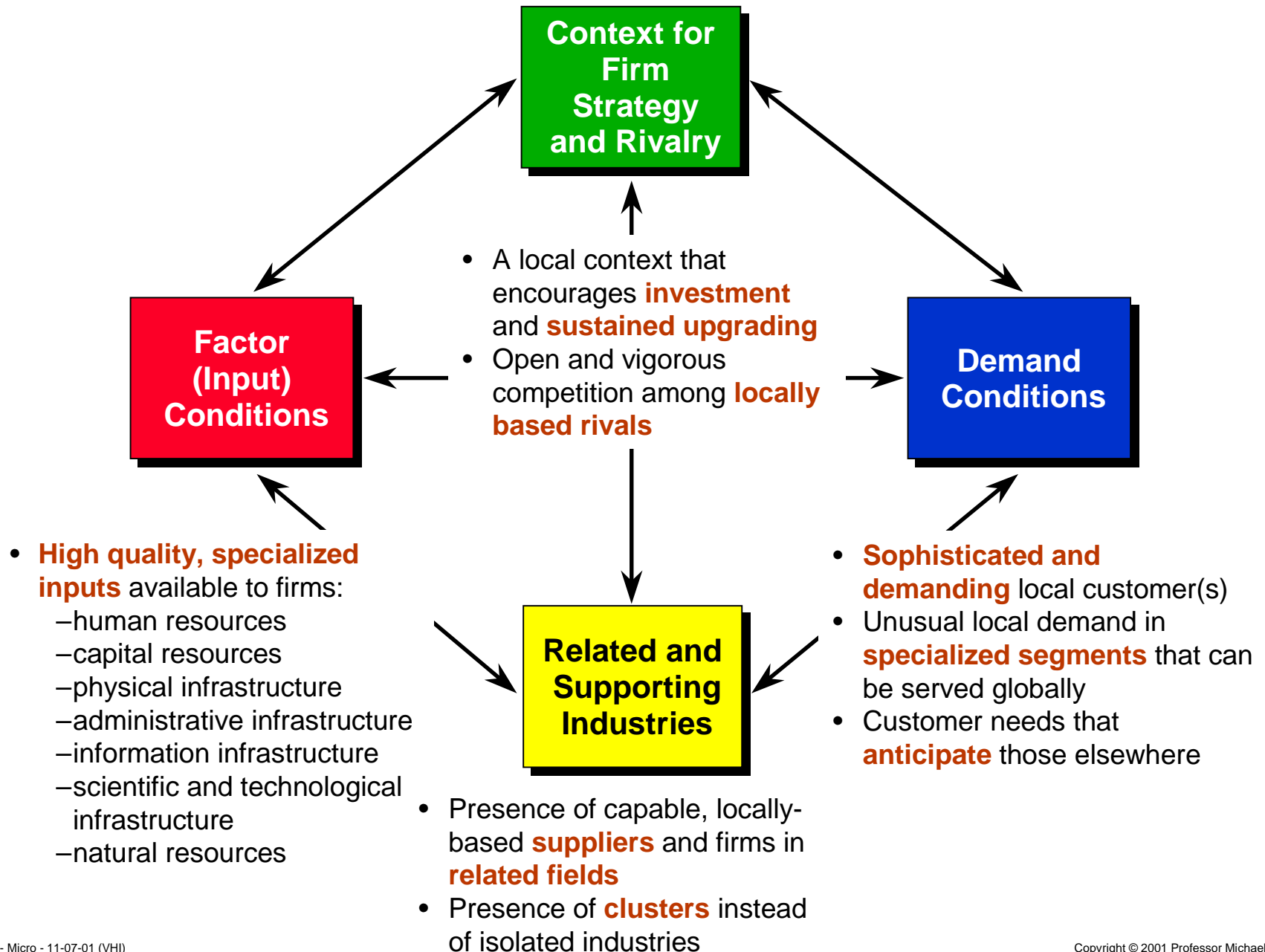
Global Competitiveness Report 2001

The Relationship Between Microeconomic Competitiveness and GDP Per Capita

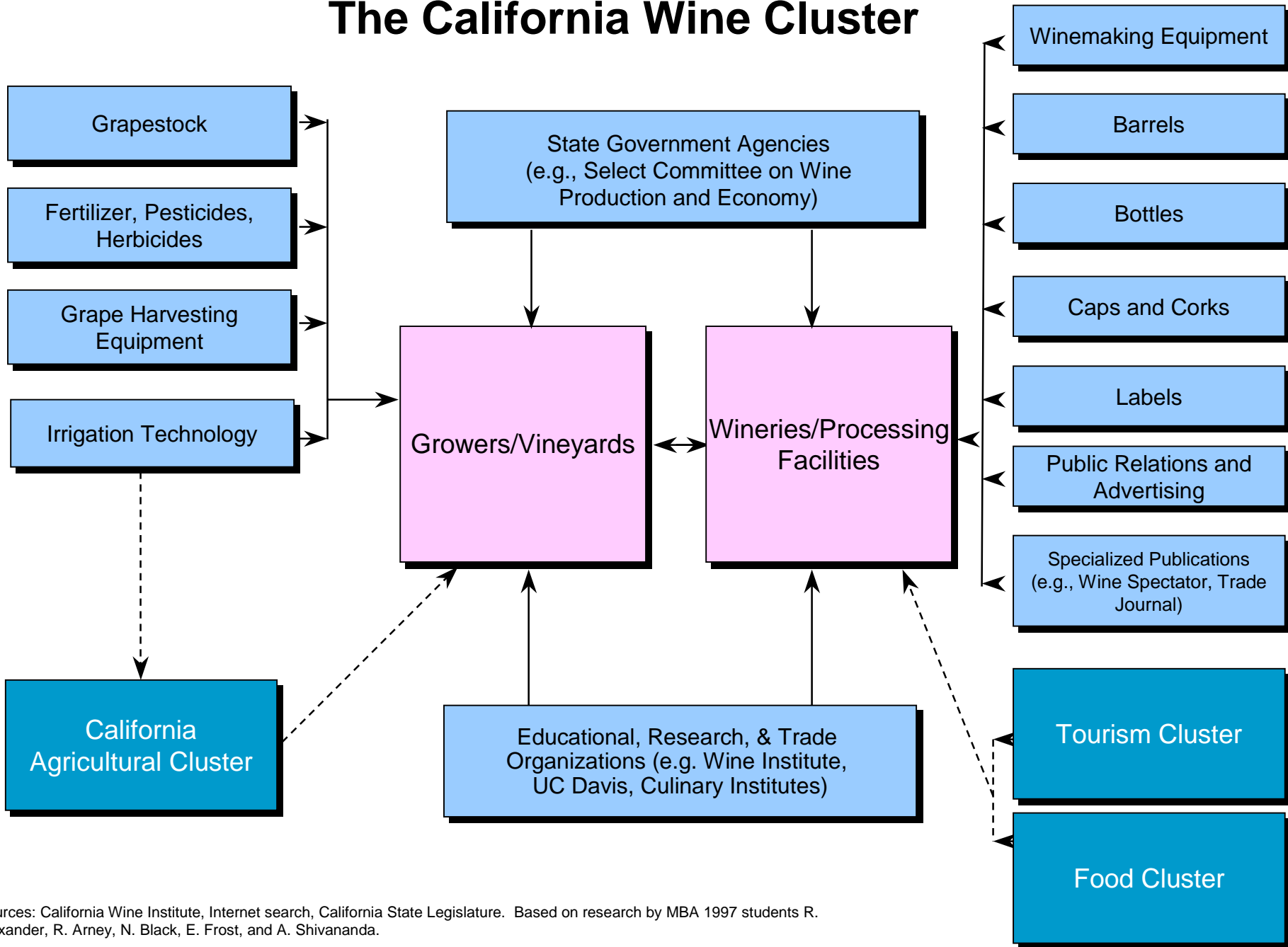


Source: Global Competitiveness Report 2001

Productivity and the Microeconomic Business Environment

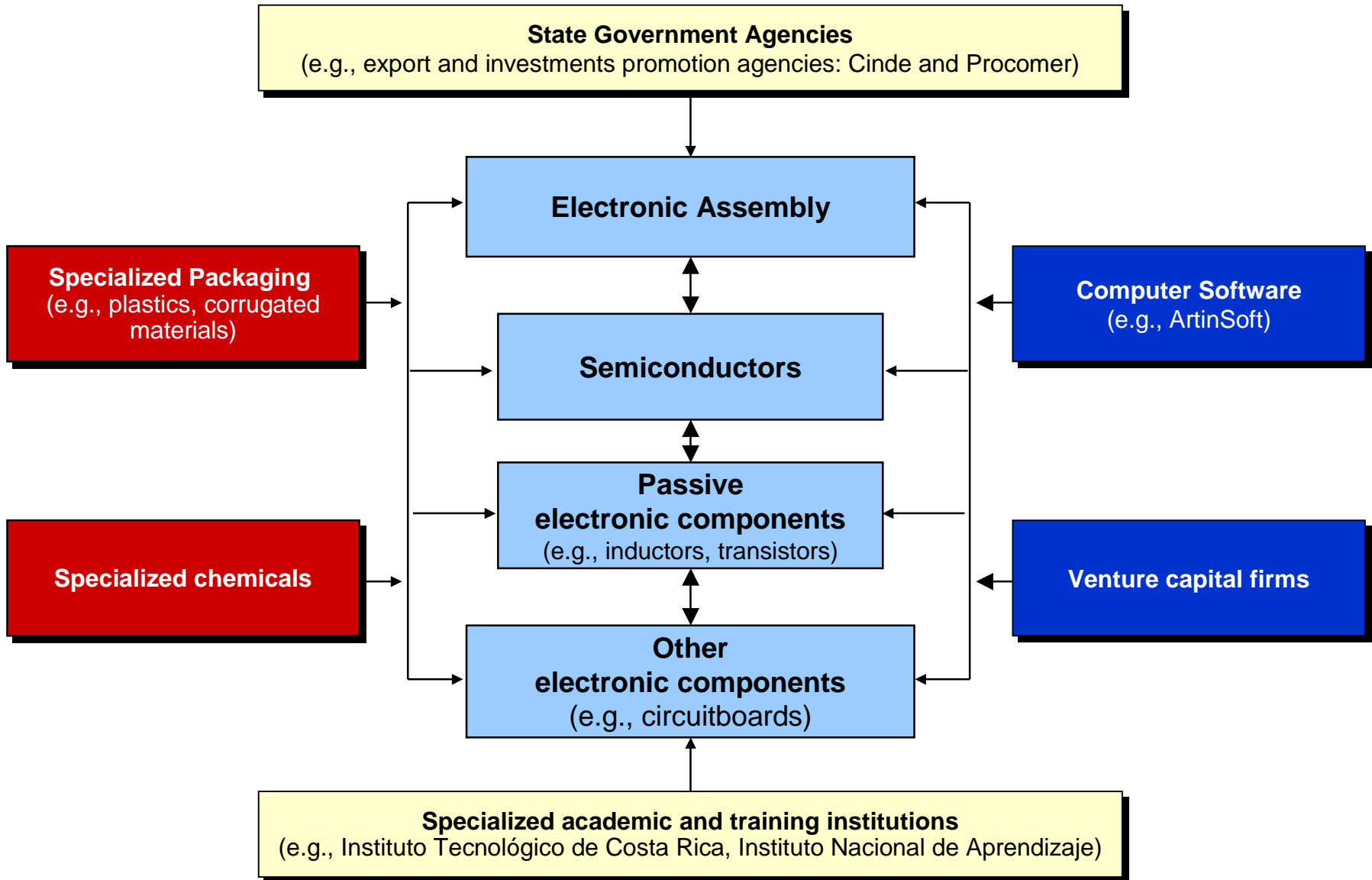


The California Wine Cluster



Sources: California Wine Institute, Internet search, California State Legislature. Based on research by MBA 1997 students R. Alexander, R. Arney, N. Black, E. Frost, and A. Shivananda.

The Costa Rica Information Technology Cluster

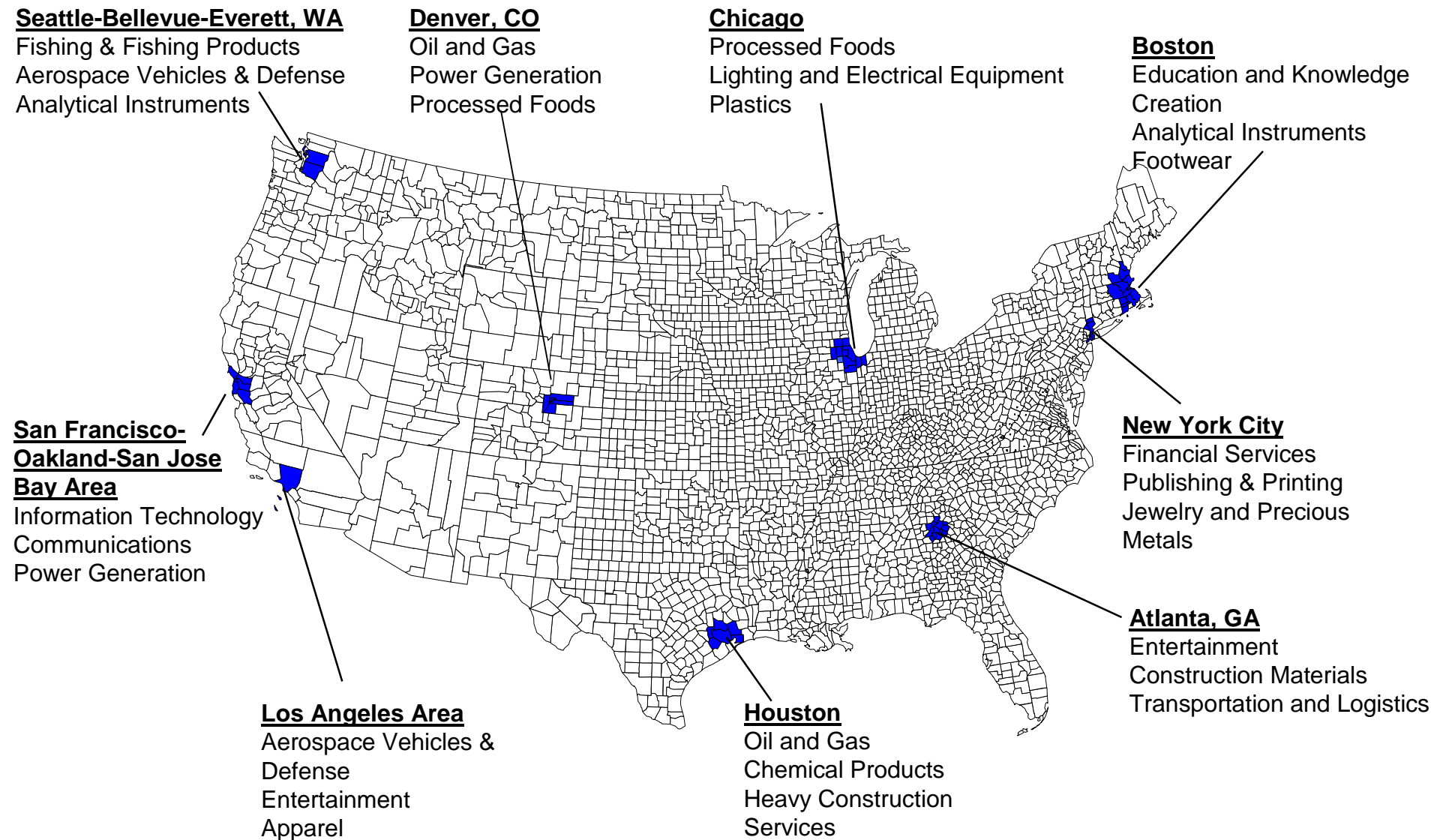


Geographic Levels and Competitiveness



Top Three Clusters by National Rank

Selected Metropolitan Areas



Appropriate Roles of Government in Economic Development

1. Establish a **stable and predictable** macroeconomic and political environment
2. Improve the availability, quality, and efficiency of **general purpose inputs, infrastructure and institutions**
3. Establish overall **rules and incentives** governing competition that encourage productivity growth
4. Facilitate **cluster development and upgrading**
5. Convene and actively support a long-term **process for economic upgrading** which informs and mobilizes government at all levels, the private sector, educational and other institutions, and civil society.

Environmental Regulation and Competitiveness

- Competing based on weak environmental standards **perpetuates low incomes**
- Corporate pollution is a sign of **inefficiency**: resources have been used unproductively

Firm

- Wasteful land use
- Inefficient extraction of resources
- Incomplete material utilization
- Unnecessary waste
- Unnecessary energy use

Customer

- Discarded packaging
- Usable materials discarded in products
- Products that waste energy

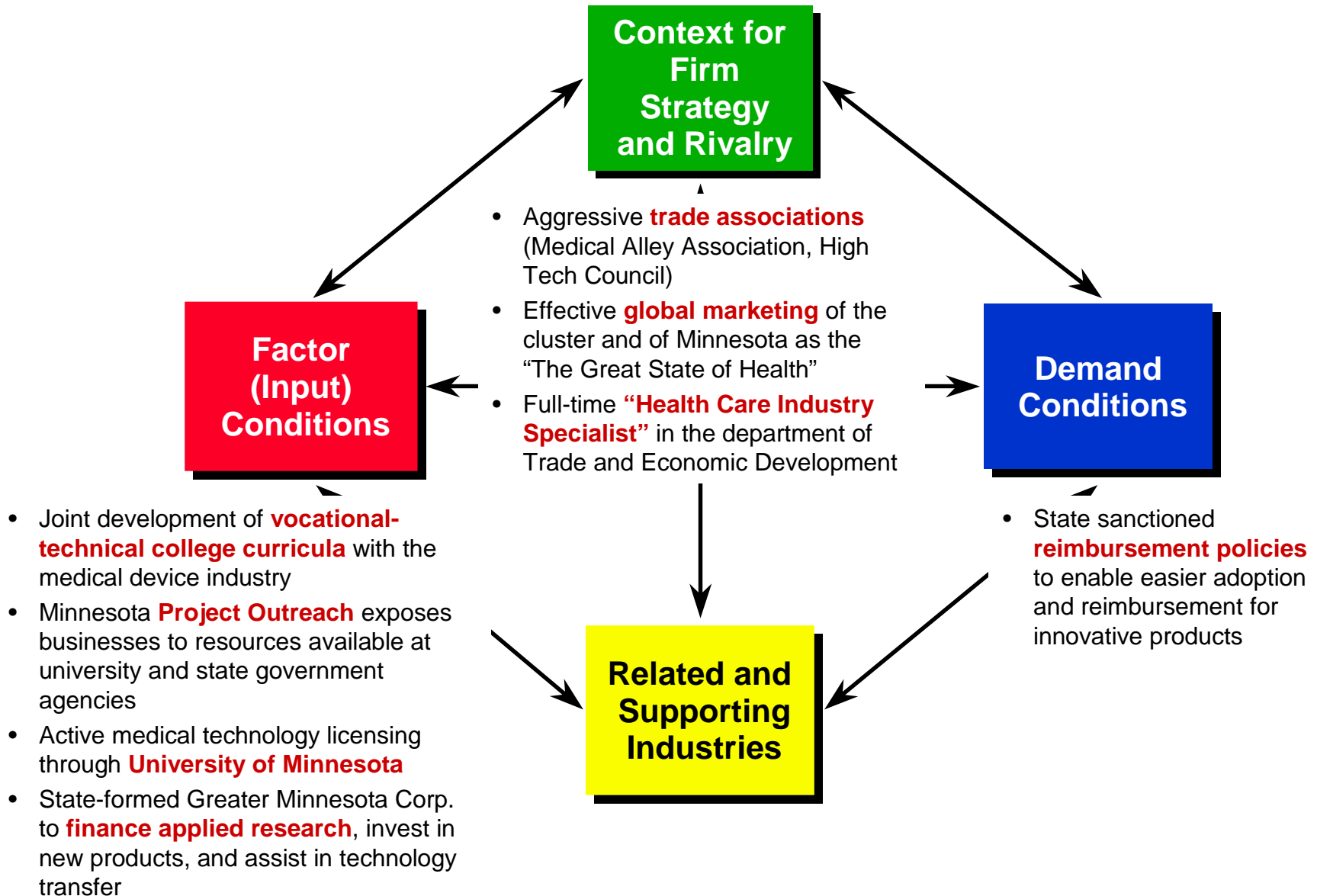
- The need to control or treat pollution causes companies to perform activities that add cost but create **no customer value**
 - e.g., handling, storage, processing, disposal
- Pollution is a reflection of **unsophisticated technology** and **weak management**



- **Strict environmental regulation** stimulates the upgrading necessary to achieve advanced economic development

Public / Private Cooperation in Cluster Upgrading

Minnesota's Medical Device Cluster

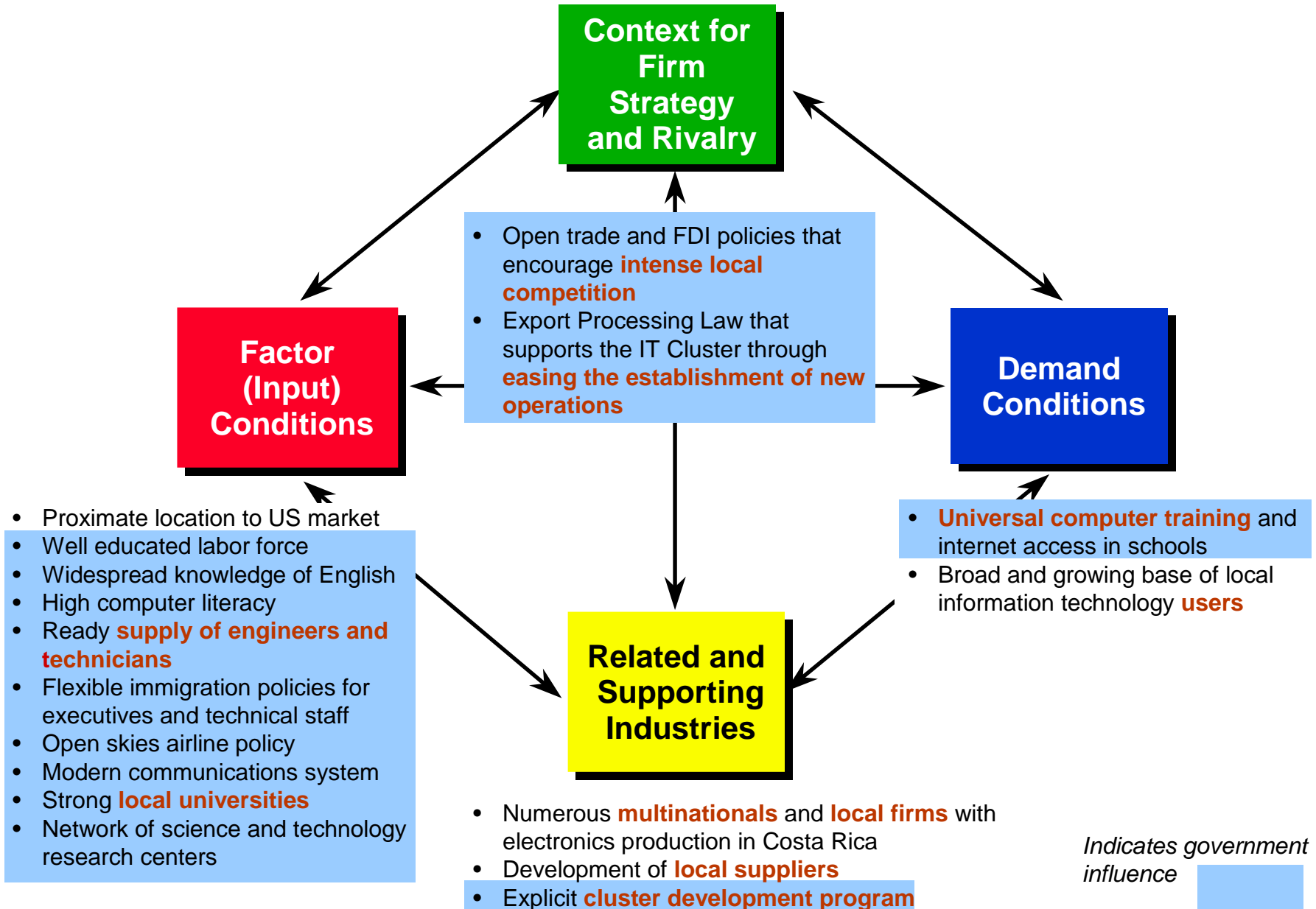


Role of Government

Government Policy Towards Clusters

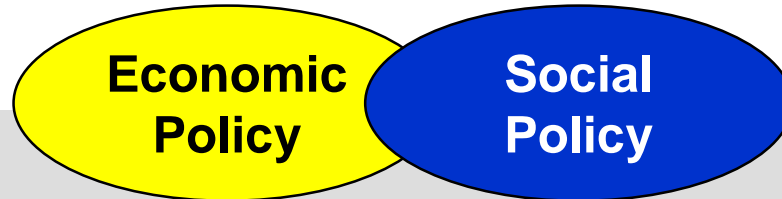
- A successful cluster policy builds on **sound overall economic policies**
- Government should support the upgrading of **all** clusters, not choose among them
 - Productivity depends on **how** firms compete not **what** industries they compete in
 - One cluster often affects the productivity of **other** clusters
- Government should reinforce **established** and **emerging clusters** rather than attempt to create **entirely new** ones
 - Build on strengths / apply a market test
 - New industries emerge from established ones
- Cluster upgrading involves **removing obstacles**, **relaxing constraints**, and **eliminating inefficiencies** that impede productivity and innovation

The Costa Rica Information Technology Cluster



Integrating Economic and Social Policy

- In the new thinking on competitiveness, there is **no inherent conflict** between economic and social policy



- A **productive and growing economy** requires:
 - Rising skill levels
 - Safe working conditions
 - Healthy workers who live in decent housing in safe neighborhoods
 - A sense of equal opportunity
 - Assimilation of underemployed citizens into the productive workforce
 - Low levels of pollution (pollution is a sign of unproductive use of physical resources)
- “Social” policies must be **aligned with productivity** in the economy and prepare and motivate citizens to **succeed in the market system**

Integrating Economic and Social Policy

Examples

Training

- Organize training investments around clusters

Housing

- Create mechanisms to encourage home ownership; provide incentives for new company formation in the construction cluster; reduce unnecessary costs of housing construction due to regulatory and approval delays; secure property rights to residents

Health Care

- Create incentives for private insurance; open health care delivery to competition

Environmental Quality

- Institute a regulatory regime that encourages movement to more environmental friendly methods; invest in technical assistance in eco-efficient processes and practices

Social Security

- Establish a private pension system. Integrate welfare payments with training and incentives to return to the workforce

Causes of Economic Inequality

- Inadequate **education** and **skill development**
- Monopolies and restraints to **competition**
- **Discrimination**
- Faulty **incentives** for disadvantaged groups
- Command and control **regulation**
- **Managerial** ignorance

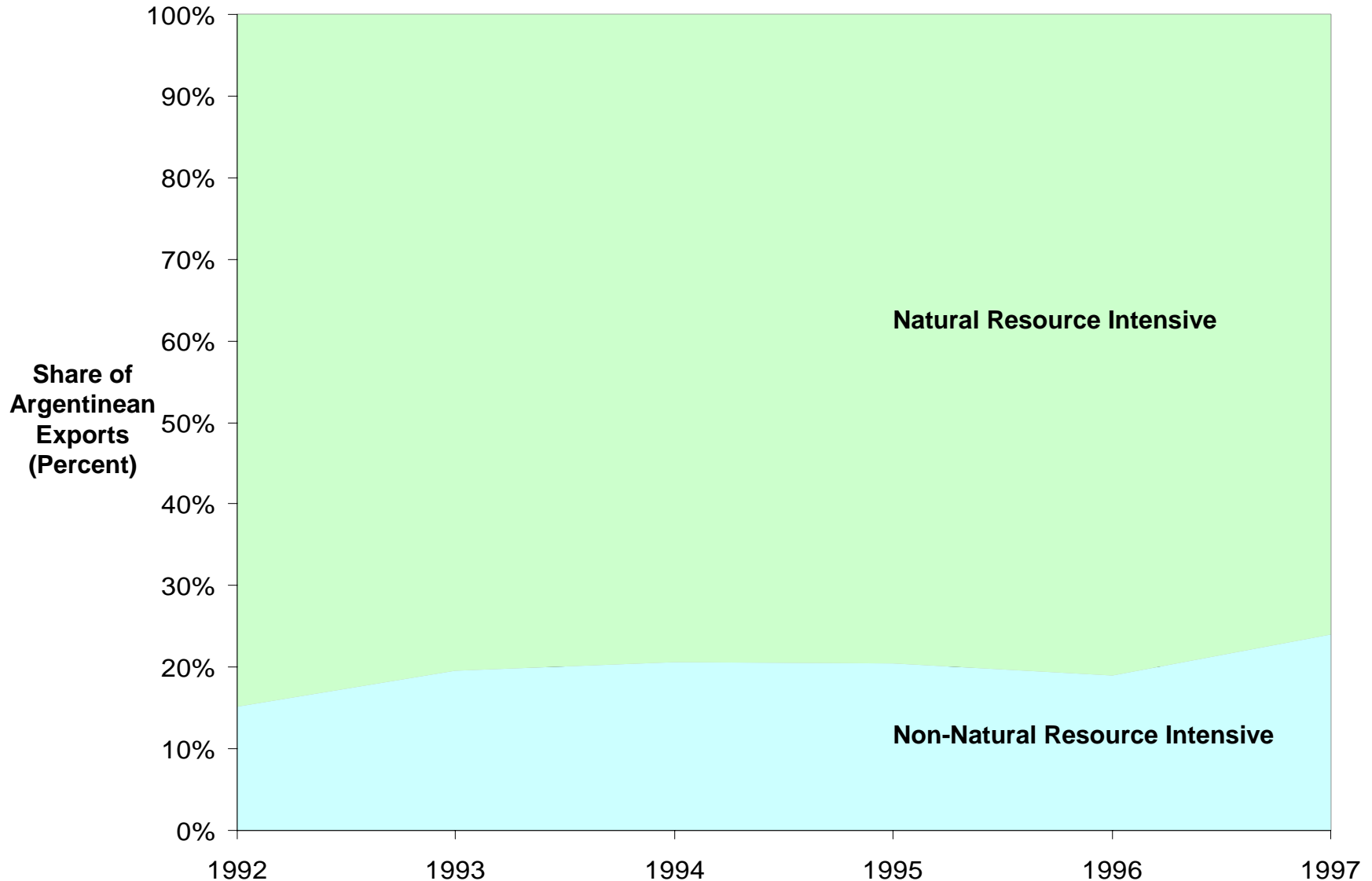
Building a Competitive Argentina: Towards a National Agenda

Part I: The Foundations of National Competitiveness: The New Learning

Part II: Building a Competitive Argentina: Challenges and Opportunities

Argentine Trade, 1992 - 1997

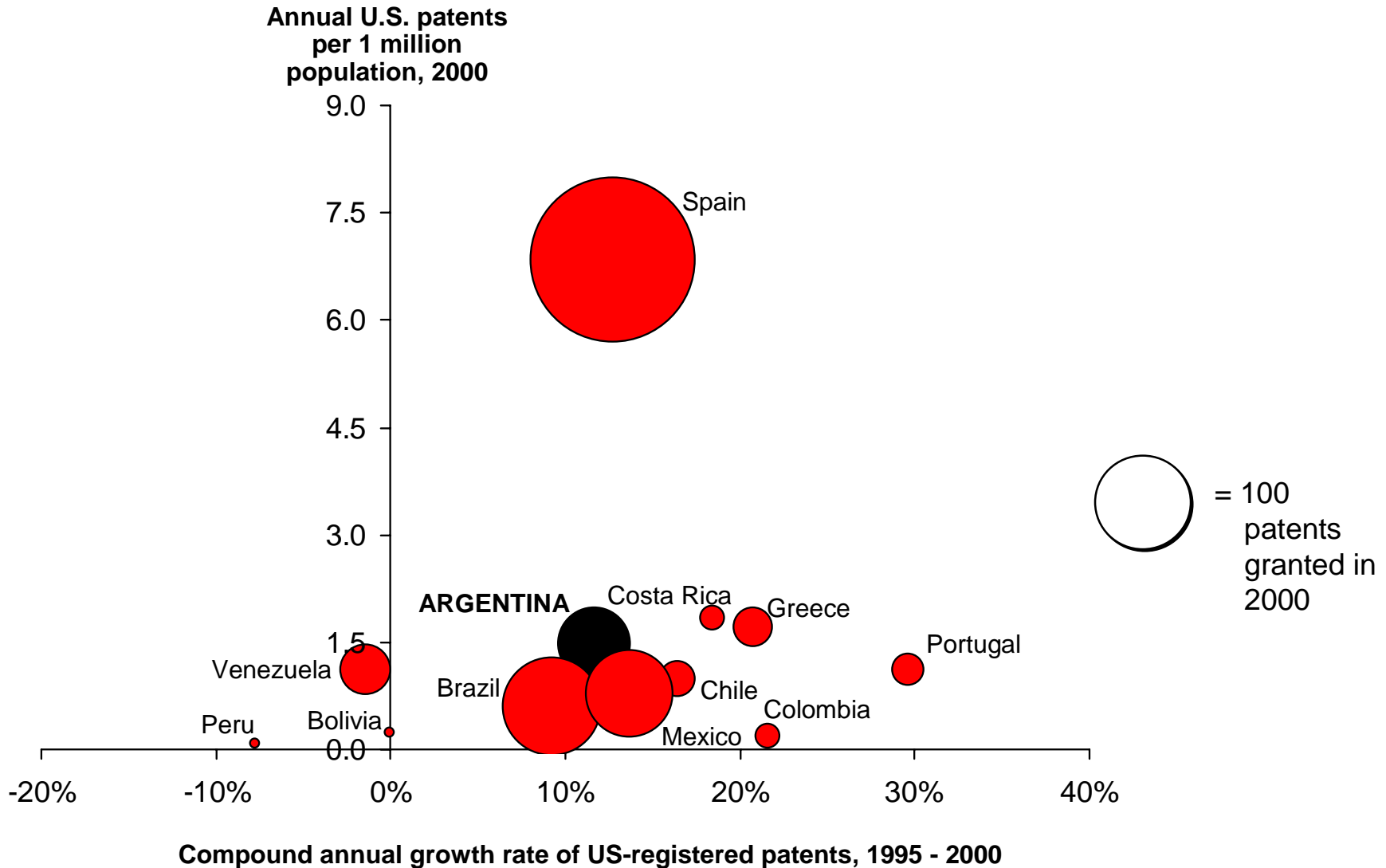
Percent of Total Country Exports By Natural Resource Intensity



Source: UN Trade Statistics (Rev 2), Cluster Mapping Project at Institute for Strategy and Competitiveness, Harvard Business School.

U.S.-Registered Patent Intensity and Patent Growth

International Comparison, Latin America and Selected Middle-Income Countries



Source: US Patent and Trademark Office (www.uspto.gov); Author's analysis

Macroeconomic, Political, and Legal Context

Argentinas's Progress and Challenges

Macroeconomic Progress

- Instituted far-reaching **structural reforms** and a radical exchange-rate **stabilization plan** during the 1990s
 - Adoption of a **currency board**. Since 1996 inflation has been lower than 1 percent per year
 - 3.47 percent real annual **growth in GDP** per-capita between 1990 and 1999
 - **Financial and trade liberalization**, with regional integration through Mercosur
 - **Deregulation** of most commercial activities
 - **Privatization** of significant portions of the economy

Macroeconomic, Political, and Legal Context

Argentinas's Progress and Challenges

Macroeconomic Challenges

- **Inefficient public sector** administration
 - Worsening **fiscal position** since the mid-1990s led to July 2001 crisis and implementation of zero deficit policy
 - government spending (federal/provincial/municipal) increased from \$41 billion to \$91 billion between 1991 and 2001
 - significant tax evasion, extensive use of tax amnesties
 - Privatization and trade liberalization led to a rise in **unemployment** from 6.9 percent in 1991 to 16.4 percent in 2000, as microeconomic weaknesses became apparent
 - Fixed exchange rate vis-à-vis the appreciating U.S. Dollar caused **reevaluation of the Argentine peso** versus the Euro and the Yen during the 1990s
 - **Lack of policy maneuver** possible given the currency board makes economic activity heavily dependent on capital inflows from abroad
- 
- **Unstable growth** pattern during the 1990s, economy in **recession** since late 1998

Macroeconomic, Political, and Legal Context

Argentina's Progress and Challenges

Political and Legal Challenges

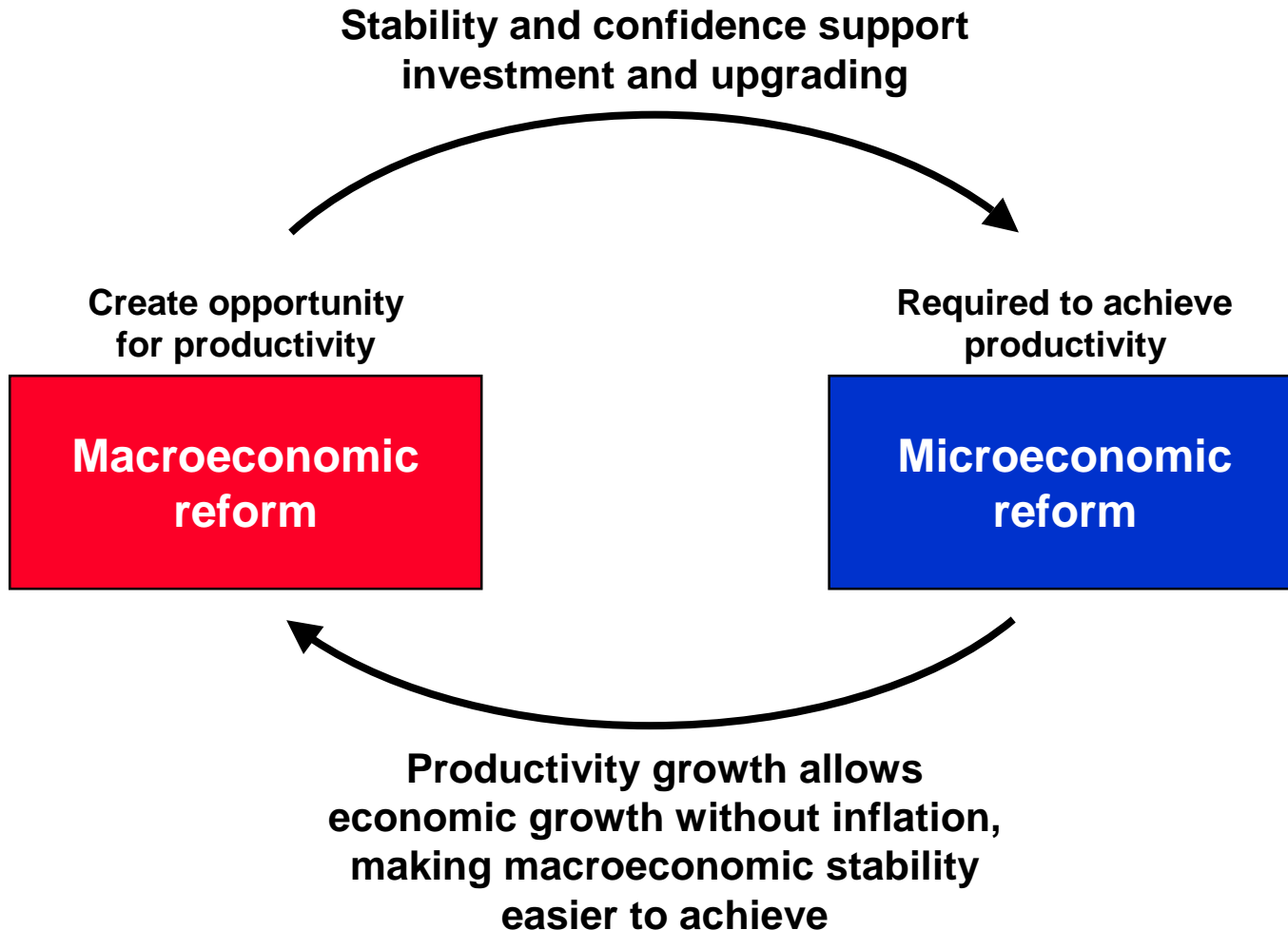
- Deteriorating economic situation has deepened **divisions within the ruling Alianza** coalition
- Recent congressional elections results confirm **voters' dissatisfaction with politicians** who have failed to deliver on their promises
- Financial crises cause protest in the **provinces**
- **Income distribution** has worsened during the last decade
- Lack of political will to confront problems of **corruption**
- The **judiciary's independence and credibility** is undermined by the power of the executive



- The focus of government continues to be on short-term **macroeconomic stability** instead of long-term improvements in the microeconomic business environment

Process of Economic Reform

The Reinforcement of Macro and Micro Reforms



The Process of Economic Reform

Macroeconomic Reform

- Stabilizing public sector finances, inflation and the exchange rate
- Privatizing government-owned companies and abolishing monopolies
- Opening the economy to international competition and investment
- Reducing discretionary government intervention in the economy



- **Decisions are centrally controlled and administratively easy to implement**
- **Reforms inflict short-term costs on citizens, and are vulnerable to external shocks**

Microeconomic Reform

- Upgrading the microeconomic business and innovation environment
- Developing clusters

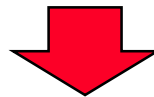


- **Decisions involve multiple actors and the breadth of action steps makes implementation complex**
- **Reforms often yield immediate, visible benefits for citizens, and are less dependent on external conditions**

Process of Economic Reform

Why Macroeconomic Reform by Itself is not Enough

- The effect of macroeconomic reforms is often **enhanced** by parallel implementation of microeconomic reforms:
 - improvements in education and training boost job creation derived from increased investment
 - cluster development helps attract foreign investment following the opening of the economy
- The **fragility** of macroeconomic reform often results from microeconomic weakness, for example:
 - the failure to create competitive new jobs creates unemployment costs that destabilize public sector finances
 - the inability to improve companies' productivity levels reduces export revenues resulting in trade imbalances that undermine trust in the exchange rate stability



- Micro and macro reform are **mutually reinforcing**

Factor (Input) Conditions

Argentina's Relative Position

Competitive Advantages Relative to GDP per Capita

	Absolute Country Ranking (n = 75)
<u>Physical Infrastructure</u>	
Telephone/Fax Infrastructure Quality	19
Road Infrastructure Quality	22

Competitive Disadvantages Relative to GDP per Capita

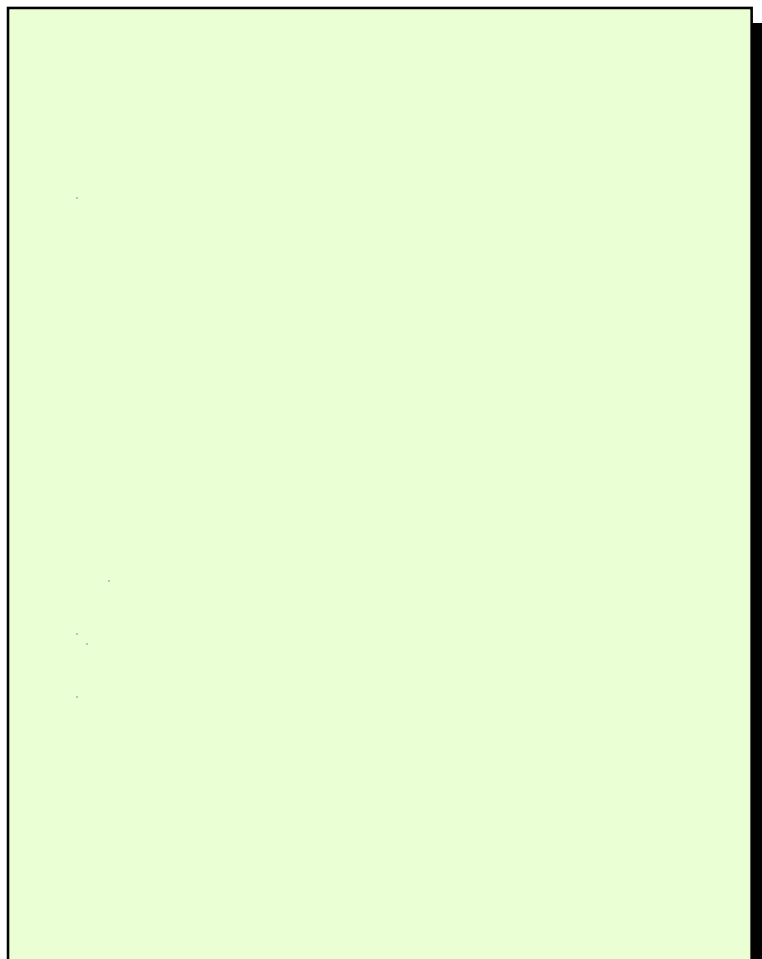
	Absolute Country Ranking (n = 75)
<u>Administrative Infrastructure</u>	
Judicial Independence	65
Police Protection of Businesses	57
Adequacy of Public Sector Legal Recourse	56
Admin. Burden for Start-Ups	56
<u>Physical Infrastructure</u>	
Air Transport Infrastructure Quality	49
Overall Infrastructure Quality	45
Railroad Infrastructure Quality	42
Speed and Cost of Internet Access	39
Port Infrastructure Quality	39
Availability & Cost of Cell Phones	35

Source: World Economic Forum, Institute for Strategy and Competitiveness, and Center for International Development. "The Global Competitiveness Report 2001" (forthcoming), New York: Oxford University Press, 2001.

Factor (Input) Conditions

Argentina's Relative Position

Competitive Advantages Relative to GDP per Capita



Competitive Disadvantages Relative to GDP per Capita

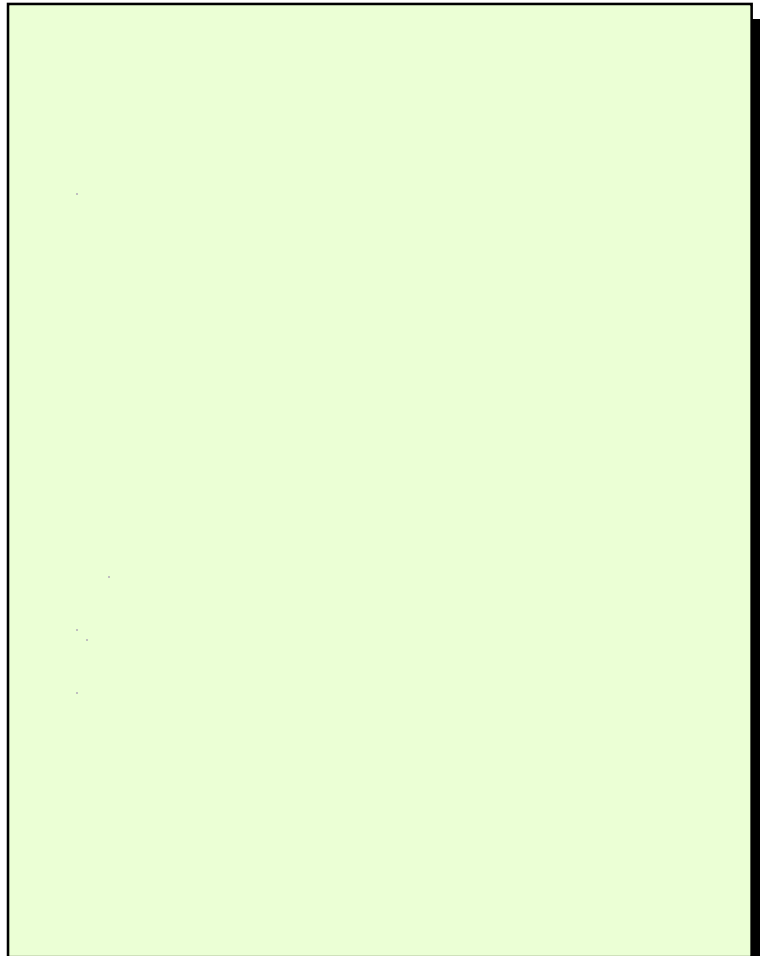
	Absolute Country Ranking (n = 75)
<u>Human Resources</u>	
Quality of Public Schools	55
Quality of Math and Science Education	54
Availability of Scientists and Engineers	45
Quality of Management Schools	41
<u>Capital Markets</u>	
Venture Capital Availability	66
Local Equity Market Access	66
Ease of Access to Loans	56

Source: World Economic Forum, Institute for Strategy and Competitiveness, and Center for International Development. "The Global Competitiveness Report 2001" (forthcoming), New York: Oxford University Press, 2001.

Factor (Input) Conditions

Argentina's Relative Position

Competitive Advantages Relative to GDP per Capita



Competitive Disadvantages Relative to GDP per Capita

	Absolute Country Ranking (n = 75)
<u>Innovation</u>	
Quality of Scientific Research Institutions	68
University/Industry Research Collaboration	59
Patents Per Capita (2000)	34

Source: World Economic Forum, Institute for Strategy and Competitiveness, and Center for International Development. "The Global Competitiveness Report 2001" (forthcoming), New York: Oxford University Press, 2001.

Argentine Diagnosis

- Argentina is rich in **natural resources** (e.g., agricultural, fishing, forest, and mineral resources; natural gas reserves)

Progress

- Privatization, deregulation, and decentralization **improved transport and communications**
- The system of **banking regulation and supervision** has improved significantly
- A more demanding labor market has resulted in an expansion of **postgraduate educational offerings**, though of uneven quality

Argentine Diagnosis (continued)

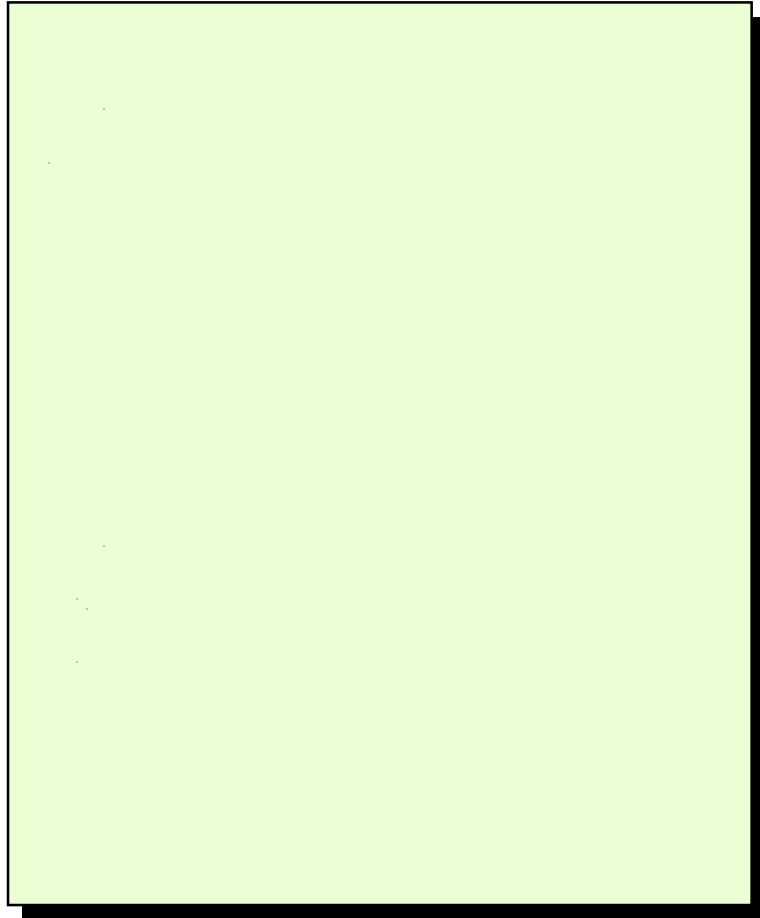
Challenges

- **Privatization** took place without creating effective competition
- Infrastructure modernization **left behind many provinces**, where infrastructure has continued to deteriorate
- The quality of **public education** has worsened
- The national **public university system** faces financial constraints and has scaled down its research activities
- There are no government-sponsored **re-training programs**
- **Long-term capital** is scarce and expensive except for the largest domestic and foreign firms
- Local **interest rates for SMEs are high**, even controlling for country risk
- **Venture capital** is limited

Context for Firm Strategy and Rivalry

Argentina's Relative Position

Competitive Advantages Relative to GDP per Capita



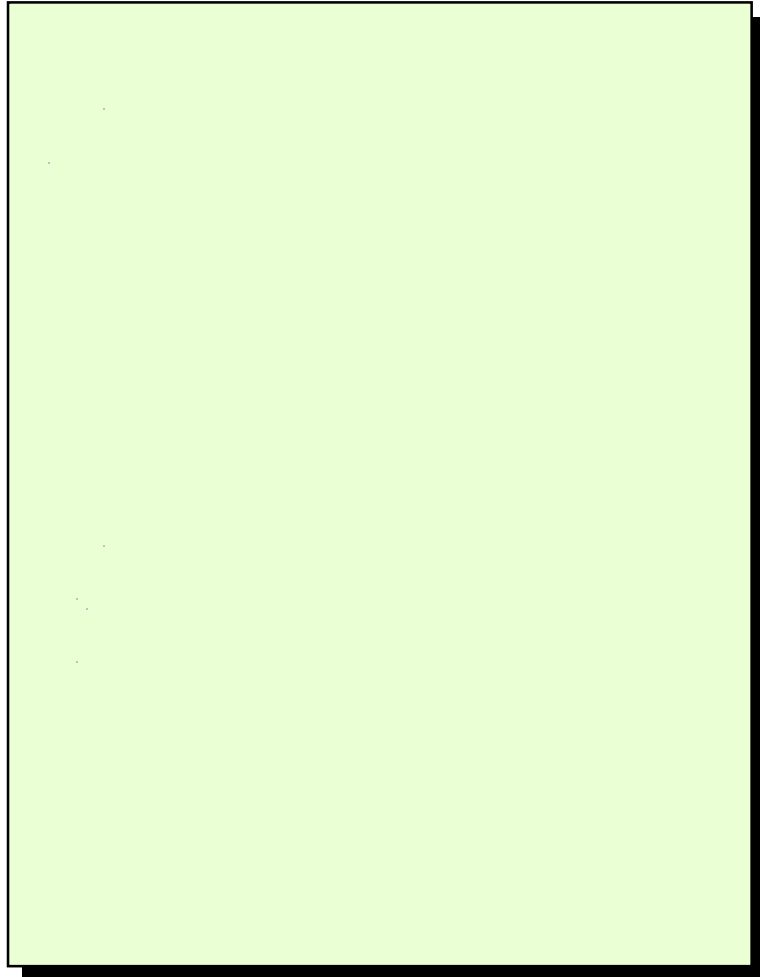
Competitive Disadvantages Relative to GDP per Capita

	Absolute Country Ranking (n = 75)
<u>Competition</u>	
Decentralization of Corporate Activity	64
Intensity of Local Competition	43
Effectiveness of Anti-Trust Policy	42
Efficacy of Corporate Boards	36
<u>Openness</u>	
Tariff Liberalization	61
Hidden Trade Barrier Liberalization	40

Context for Firm Strategy and Rivalry

Argentina's Relative Position

Competitive Advantages Relative to GDP per Capita



Competitive Disadvantages Relative to GDP per Capita

Absolute Country Ranking (n = 75)	
<u>Incentives</u>	
Extent of Irregular Payments	60
Favoritism in Decisions of Government Officials	58
Intellectual Property Protection	52
Cooperation in Labor-Employer Relations	52
Extent of Distortive Government Subsidies	37

Source: World Economic Forum, Institute for Strategy and Competitiveness, and Center for International Development. "The Global Competitiveness Report 2001" (forthcoming), New York: Oxford University Press, 2001.

Argentine Diagnosis

Progress

- Opening to trade has forced firms to **rationalize and increase productivity**
- **Inward FDI** has driven the modernization of a number of industries (e.g., foods and beverages, chemicals)
- Modern **management techniques** have been introduced in a number of industries, often as a result of foreign competitors
- **Internationalization** by Argentine firms has increased in some industries (e.g., automobile, agro-industries)
- **Outward foreign investment by home-based firms** has increased rapidly from a low base (e.g., steel, construction, and food-processing industries)

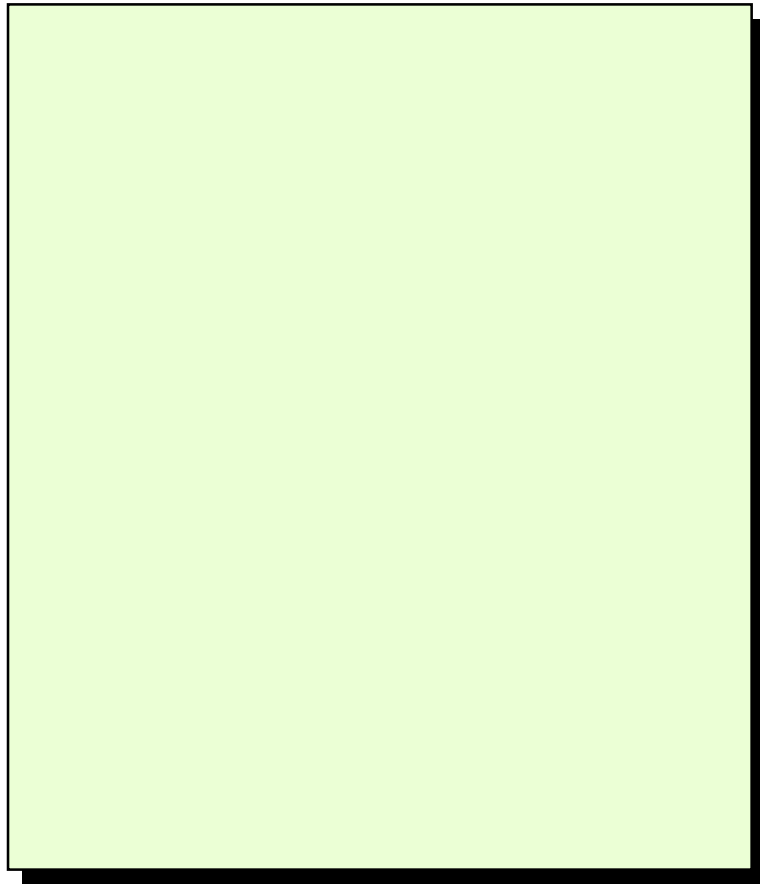
Challenges

- **Industry concentration** has increased and **local rivalry** is absent in many industries
- Government-induced **barriers to entry and new business formation** deter domestic and foreign investors
- **Intellectual property** legislation is outdated and not properly enforced

Demand Conditions

Argentina's Relative Position

Competitive Advantages Relative to GDP per Capita



Competitive Disadvantages Relative to GDP per Capita

	Absolute Country Ranking (n = 75)
<u>Buyer Behavior</u>	
Government Procurement of Advanced Technology Products	69
Consumer Adoption of Latest Products	50
Buyer Sophistication	40
<u>Regulatory Standards</u>	
Laws Relating to Information Technology	70
Presence of Demanding Regulatory Standards	59
Stringency of Environmental Regulations	59

Source: World Economic Forum, Institute for Strategy and Competitiveness, and Center for International Development. "The Global Competitiveness Report 2001" (forthcoming), New York: Oxford University Press, 2001.

Argentine Diagnosis

Progress

- Product regulatory **standards** have become more stringent
- The demand for **quality** products has increased
- The **upper income segment** of the population represents a demanding market but its size is small and shrinking

Challenges

- A worsening **distribution of income** limits the quality of the domestic market
- Consumers often prefer **imported** over domestic products given a historical legacy of poor quality
- **Enforcement** of product and regulatory standards needs improvement

Environmental Regulatory Quality

Middle Income Countries

Table: Environmental Regulatory Regime Index Relative to Expected Results Given GDP per capita

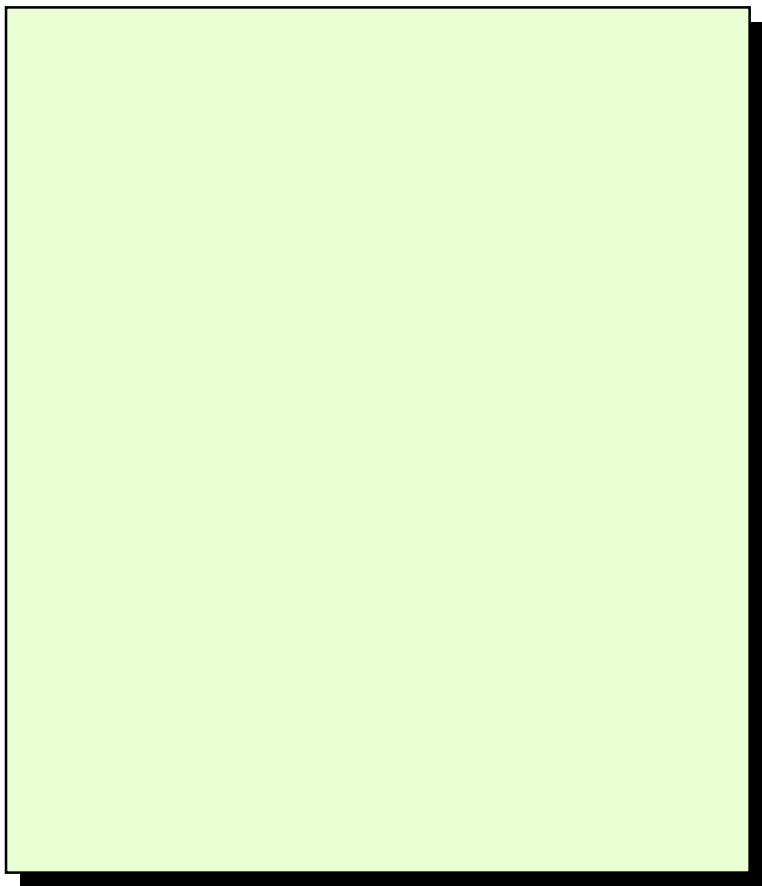
Rank	Country	Rank	Country
1	Singapore	14	Mauritius
2	Estonia	15	Czech Republic
3	New Zealand	16	Slovak Republic
4	Latvia	17	Spain
5	Chile	18	Slovenia
6	Brazil	19	Mexico
7	Uruguay	20	Portugal
8	Lithuania	21	Russia
9	Poland	22	Korea
10	Hungary	23	Israel
11	South Africa	24	Argentina
12	Costa Rica	25	Greece
13	Malaysia		

Source: D. Esty and M. Porter. "Ranking National Environmental Regulation and Performance: A Leading Indicator of Future Competitiveness?", " forthcoming in The Global Competitiveness Report 2001-2002. New York: Oxford University Press, 2001

Related and Supporting Industries

Argentina's Relative Position

Competitive Advantages Relative to GDP per Capita



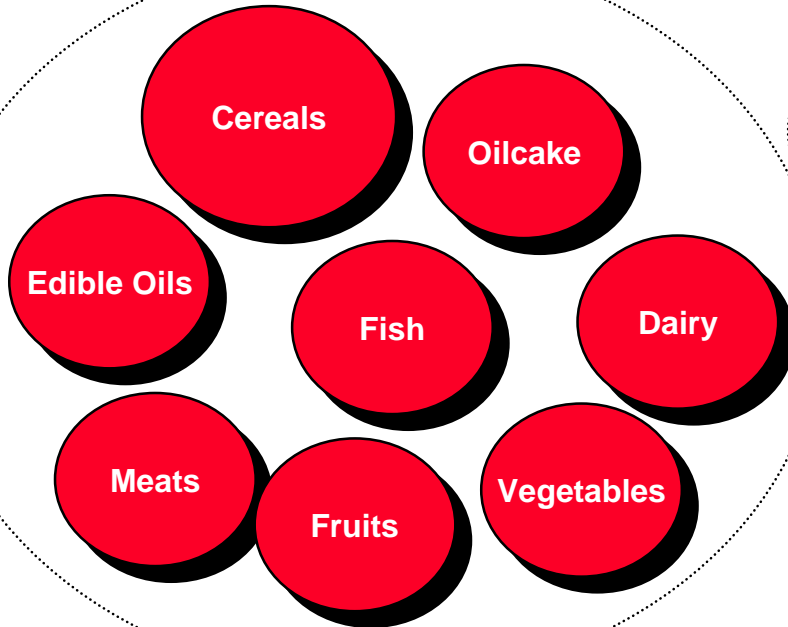
Competitive Disadvantages Relative to GDP per Capita

	Absolute Country Ranking (n = 75)
Extent of Product and Process Collaboration	62
Local Supplier Quality	58
Local Availability of Process Machinery	54
Local Availability of Specialized Research and Training Services	50
State of Cluster Development	49
Local Supplier Quantity	47
Local Availability of Components and Parts	41
Local Availability of Information	38

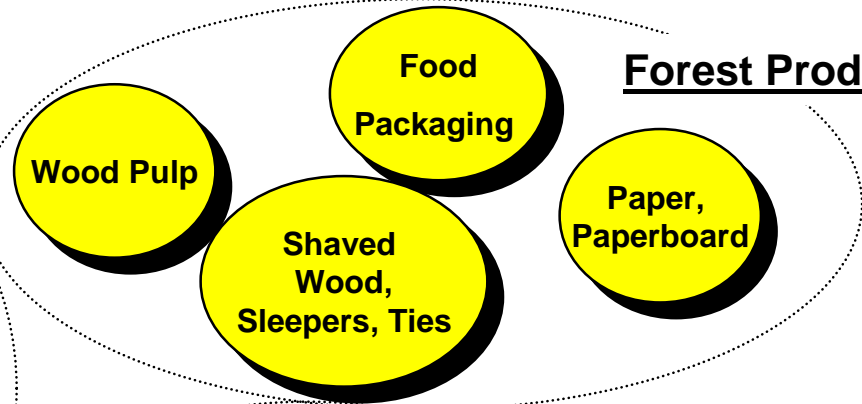
Source: World Economic Forum, Institute for Strategy and Competitiveness, and Center for International Development. "The Global Competitiveness Report 2001" (forthcoming), New York: Oxford University Press, 2001.

Argentine Clusters

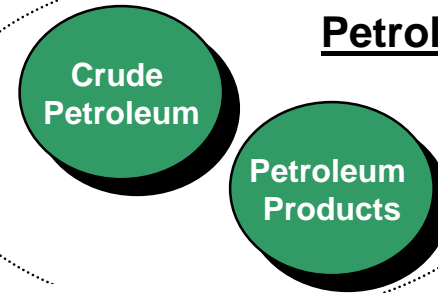
Food and Beverages



Forest Products



Petroleum / Chemicals

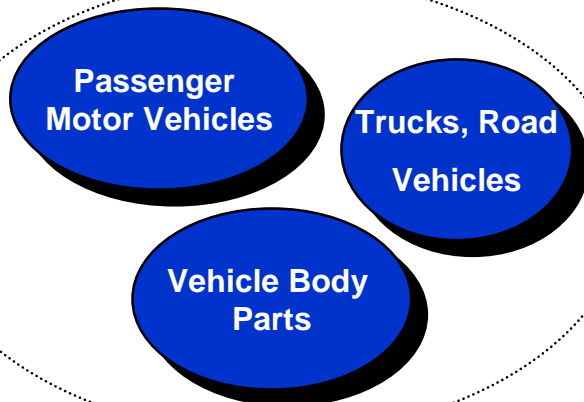


Iron/Steel Tubes

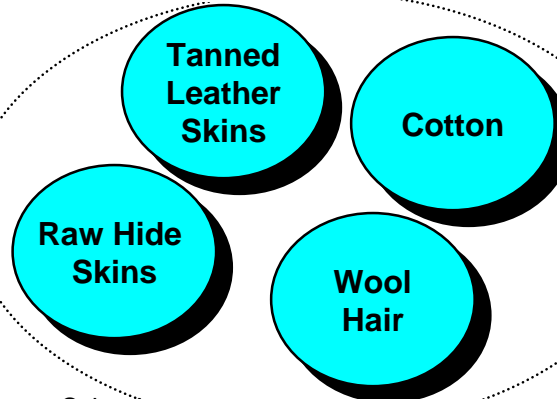
Processed Aluminum

Materials / Metals

Transportation



Textiles / Apparel



Argentine Diagnosis

Progress

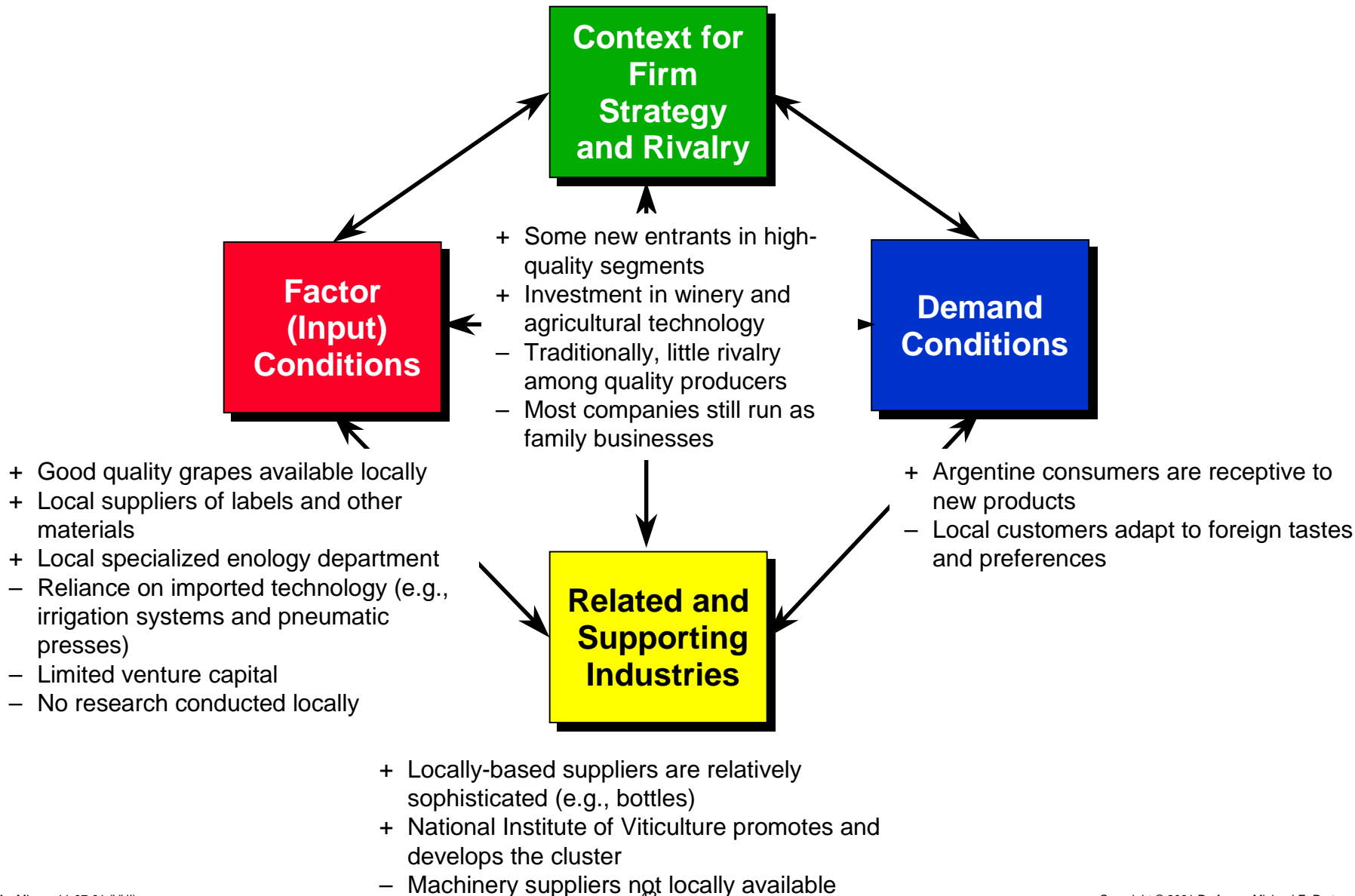
- The **quantity** of suppliers has increased in some fields as a result of the inflow of foreign direct investment
- The **quality** of domestic suppliers has improved due to the higher standards of companies who now have the choice to import
- The phasing out of regional industrial promotion programs has caused companies to make **location decisions** based on market circumstances

Challenges

- The **quality** of domestic suppliers remains low by international standards
- **Small- and medium-sized suppliers** are facing financial and competitive challenges
- There are few, if any, **real clusters**
- There is still limited awareness of the **benefits of clusters** and **no formal cluster development initiatives**

Cluster Upgrading

The Cuyo Wine Cluster



Geographic Levels and Competitiveness



Regional Strategy and Competitiveness

Traditional View

- Regions as **free trade zones**



New View

- A regional strategy can be a powerful tool to enhance **competitiveness** in each of the countries
 - Gains from internal trade and investment
- and**
- Policy coordination to create **mutual benefits to productivity** in all countries through specialization and capturing externalities and spillover effects across borders
 - A powerful lever for speeding up the **process** of economic upgrading at the **national** level
 - A lever for promoting interest and investment in the region by the **international community**

Regional Strategy in Argentina

Mercosur

- Argentina **intellectually understands** the need for a regional strategy embodied in Mercosur
- However, it has often **negotiated exceptions** arguing special circumstances in particular fields (e.g., automotive regime, sugar)
- The **Brazilian devaluation** in early 1999 did not help



- There are costs involved in pursuing a regional strategy but the **benefits outweigh the costs**

The Mutual Dependence of Nations and Regions

- Argentina's economic growth and prosperity can be **greatly enhanced by a healthy regional economy**
 - Large, accessible markets for exports and foreign investment
 - Argentina becomes a far more attractive as a place to invest
 - Argentina can focus on its unique strengths
- Argentina will **inevitably suffer** if it is isolated or an island amid countries that are not prospering
- Argentina's productivity can be **greatly enhanced by regional coordination versus unilateral action**

Regional Economic Coordination

Illustrative Policy Levers

Factor (Input) Conditions

- Improve regional **transportation infrastructure**
- Create an efficient **energy** network
- Upgrade/link regional **communications**
- Upgrade/link **financial markets**
- Upgrade **higher education** through facilitating specialization and student exchanges
- Expand cross-border **information access and sharing**
- Coordinate activities to ensure **personal safety**

Context for Strategy and Rivalry

- Coordinate **macroeconomic** policies
- Eliminate **trade and investment barriers** within the region
- Simplify **cross-border** regulations and paperwork
- Guarantee minimum basic **investor protections**
- Agree on foreign **investment promotion guidelines** to limit forms of investment promotion that do not enhance productivity
- Develop a regional **marketing** strategy
- Preserve and increase **internal competition** in the region

Demand Conditions

- Set minimum **environmental standards**
- Set minimum **safety standards**
- Establish reciprocal **consumer protection**

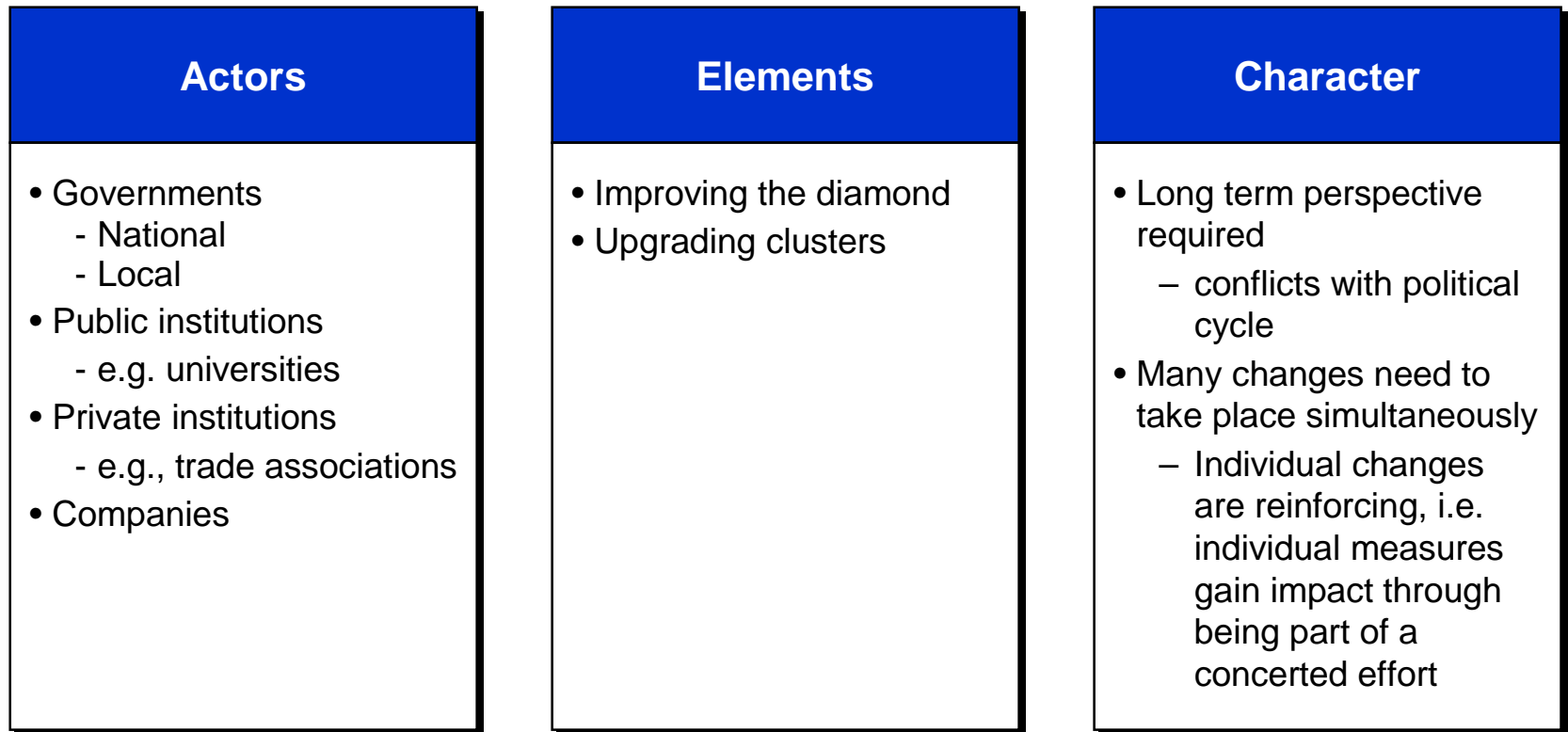
Related and Supporting Industries

- Establish ongoing upgrading process in **clusters that cross national borders**, e.g.
 - Tourism
 - Agribusiness
 - Textiles and Apparel
 - Electronic assembly and software

Regional Governance

- Share **best practices** in government operations
- Improve regional **institutions**
 - an overall strategy for the regional development bank
 - dispute resolution
- Develop a regional **communication** strategy

The Process of Microeconomic Reform



Governments tend to focus on quick fixes, e.g., trade liberalization

Organizing for Competitiveness

Commonwealth of Massachusetts

Governor's Council on Economic Growth and Technology

Functional Task Forces

- International Trade
- Marketing Massachusetts
- Tax Policy and Capital Formation
- Technology Policy and Defense Conversion

Issue Groups

- Cost of Doing Business
- Financing of Emerging Companies
- Health Care Restructuring
- Revitalizing Western Massachusetts

Industry Cluster Working Groups

- Advanced Materials
- Biotechnology and Pharmaceuticals
- Defense
- Marine Science and Technology
- Medical Devices
- Software
- Telecommunications
- Textiles

An Agenda for Argentina

Macroeconomic Reform

- Improve the **efficiency of the public sector**:
 - limit bureaucracy
 - rationalize government spending (e.g., provinces more financially independent)
 - spread tax burden fairly
- Increase **labor market** flexibility
- Address **corruption** and the effectiveness of the **legal system**

Microeconomic Reform

- Promote access to **good quality, basic education** to fight against poverty and the unequal distribution of income
- Foster **entrepreneurship**:
 - reduce the administrative burden of starting new ventures
 - increase capital availability for SMEs
- Open **market structures** after privatization
- **Anti-trust** legislation
- **Intellectual property** rights
- **Environmental** regulations

Change Process

- Develop a **National Competitiveness Initiative**
- Initiate **pilot cluster development programs** (e.g., leather and software)

Selected References

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- “Location, Competition, and Economic Development: Local Clusters in a Global Economy,” (Economic Development Quarterly, February 2000, 15-34)
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BACKUP SLIDES

Government Policies and Economic Development

Factor (Input) Conditions

- Natural resource regulation, pricing, and conservation
- Education and training
- Infrastructure development, regulation, and pricing
- Corporation law and legal system
- Collection and dissemination of information
- Policy affecting savings
- Capital market regulation
- Science and technology policy

Context for Firm Strategy and Rivalry

- Labor laws
- Policies affecting investment (e.g. tax, investment incentives, financial markets)
- Policy toward trade and FDI
- Antitrust policy
- Regulation of pricing, markets, capacity, and entry
- Policies toward state ownership
- Intellectual property laws

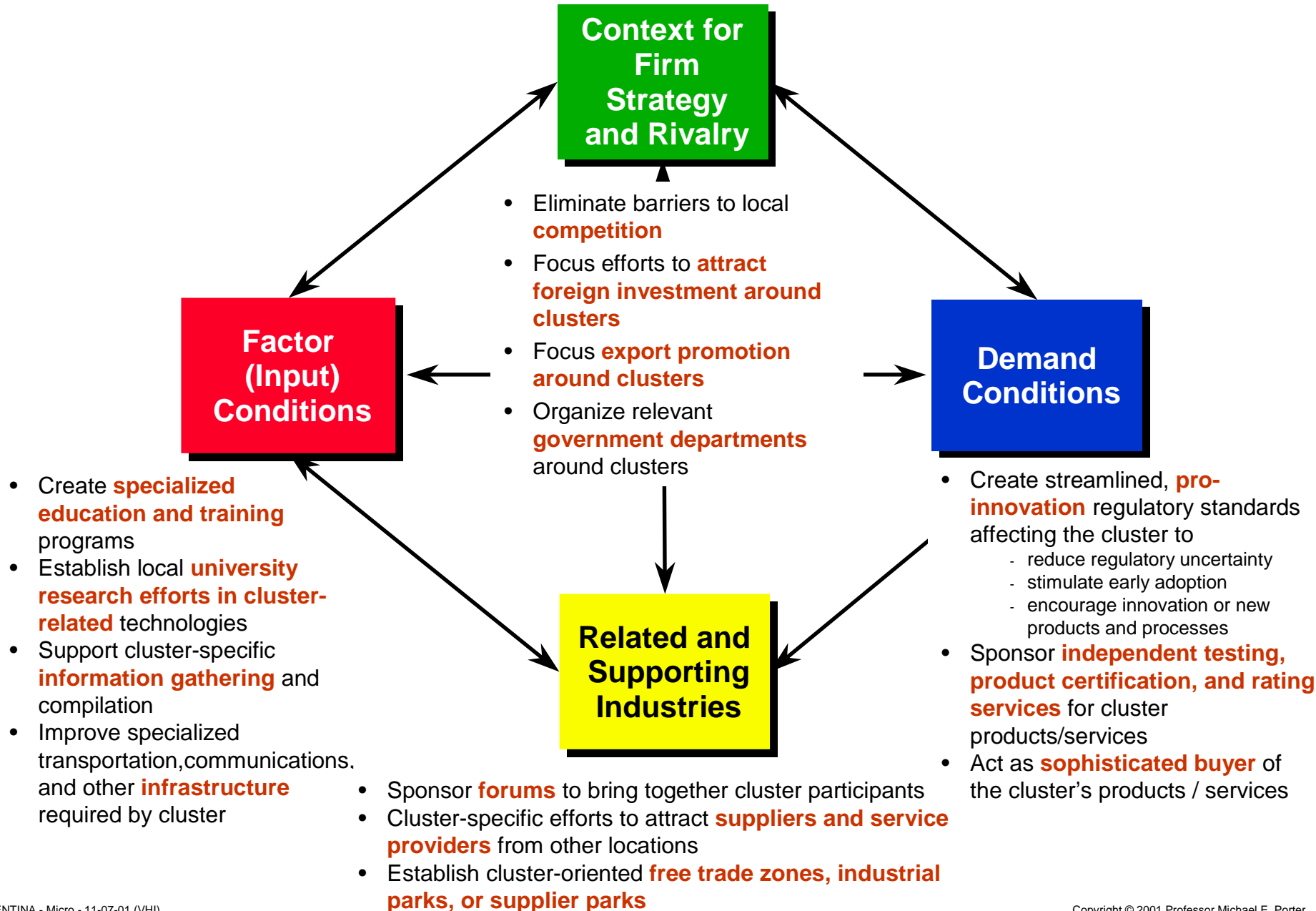
Demand Conditions

- Policies (including taxation) that influence patterns of consumption
- Policy towards trade and FDI
- Product quality, health, safety, and environmental regulations
- Consumer / product information
- Government procurement

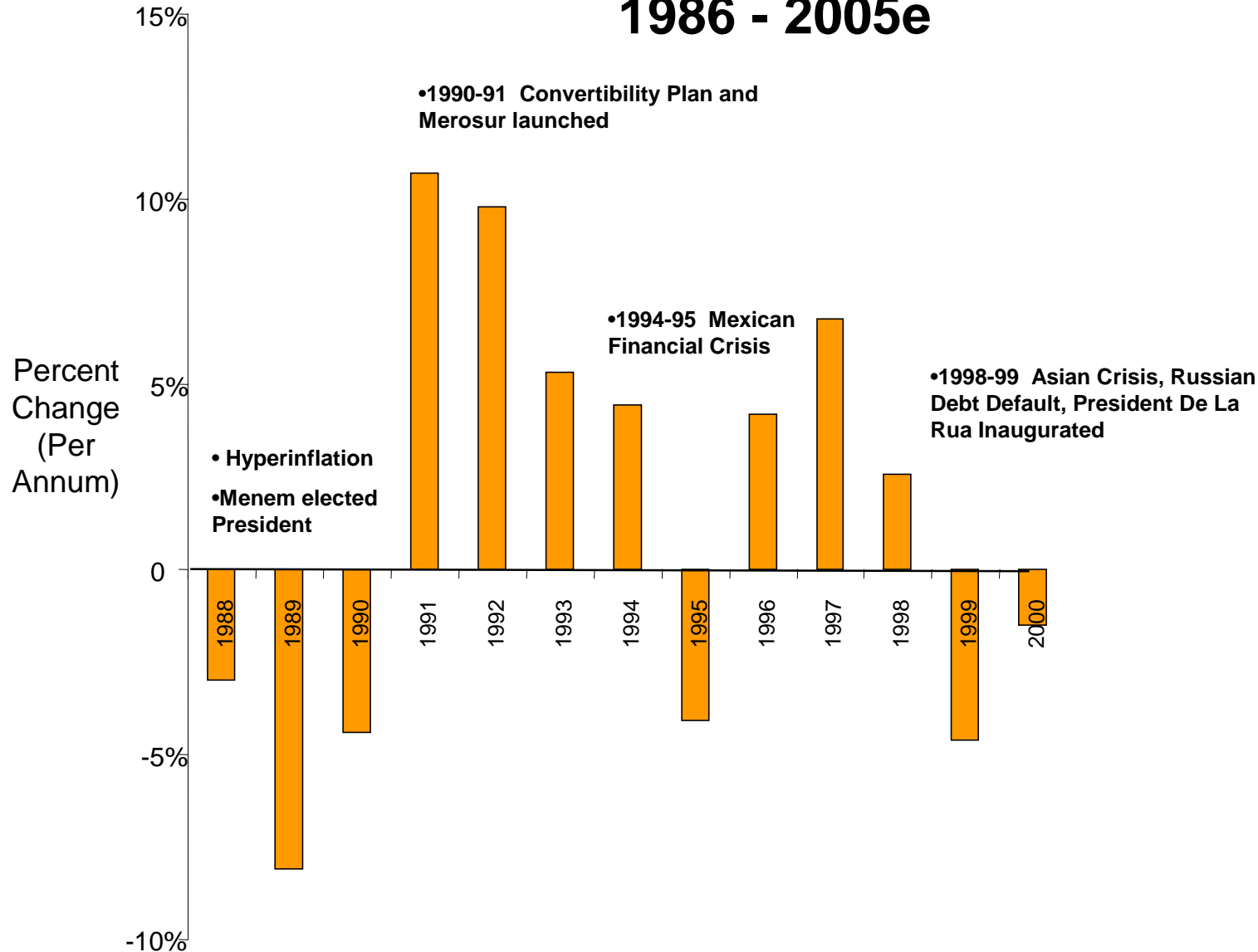
Related and Supporting Industries

- Free trade zones / industrial parks
- Policy towards trade and FDI
- Licensing, pricing, distribution, and tax controls on supplier industries
- Policies toward state ownership
- Policies for regional development and the revitalization of backward areas

Illustrative Government Policies for Cluster Development



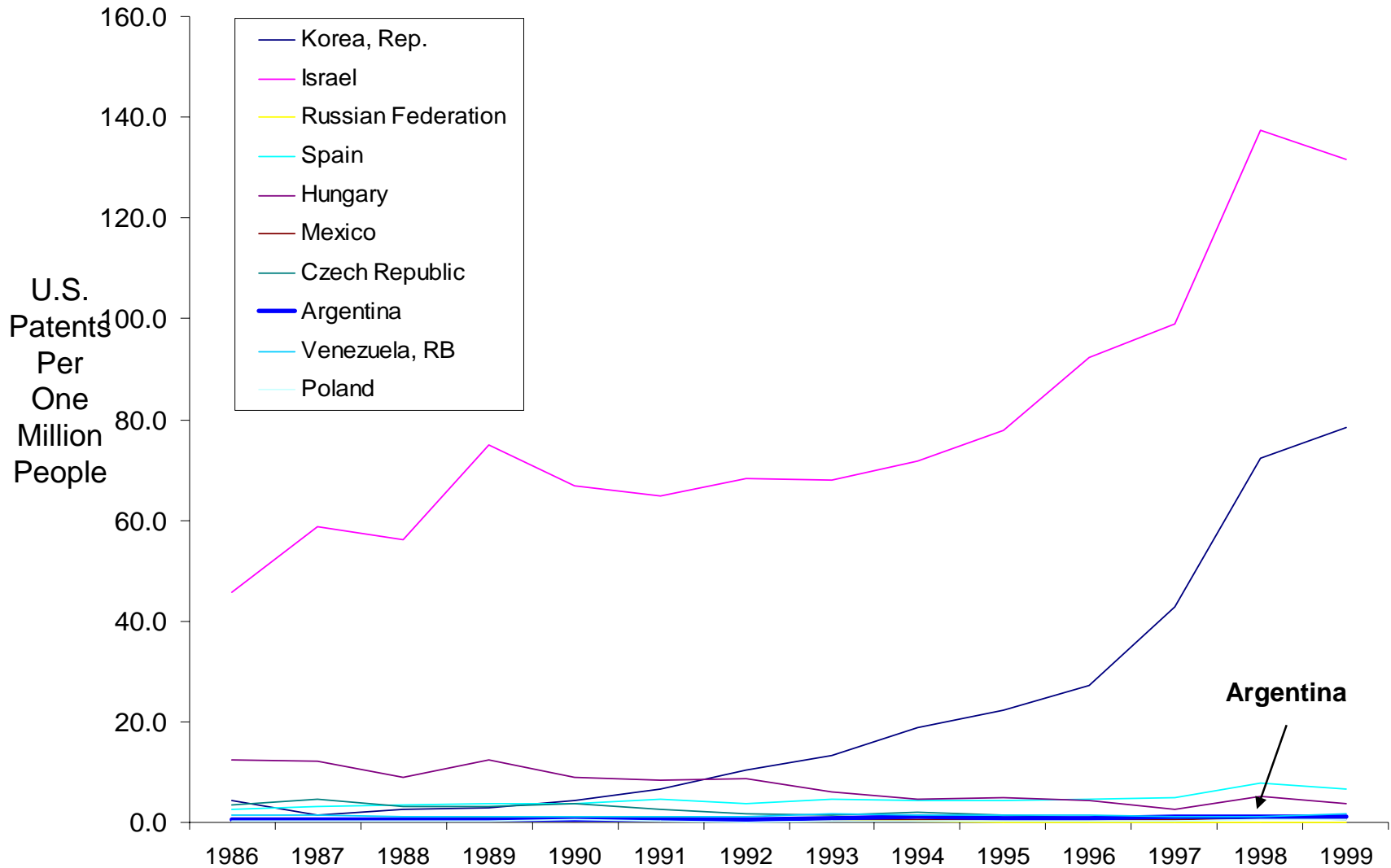
Argentine GDP Per Capita Growth, 1986 - 2005e



Source: EIU Data, Author's analysis.

Argentine Innovation

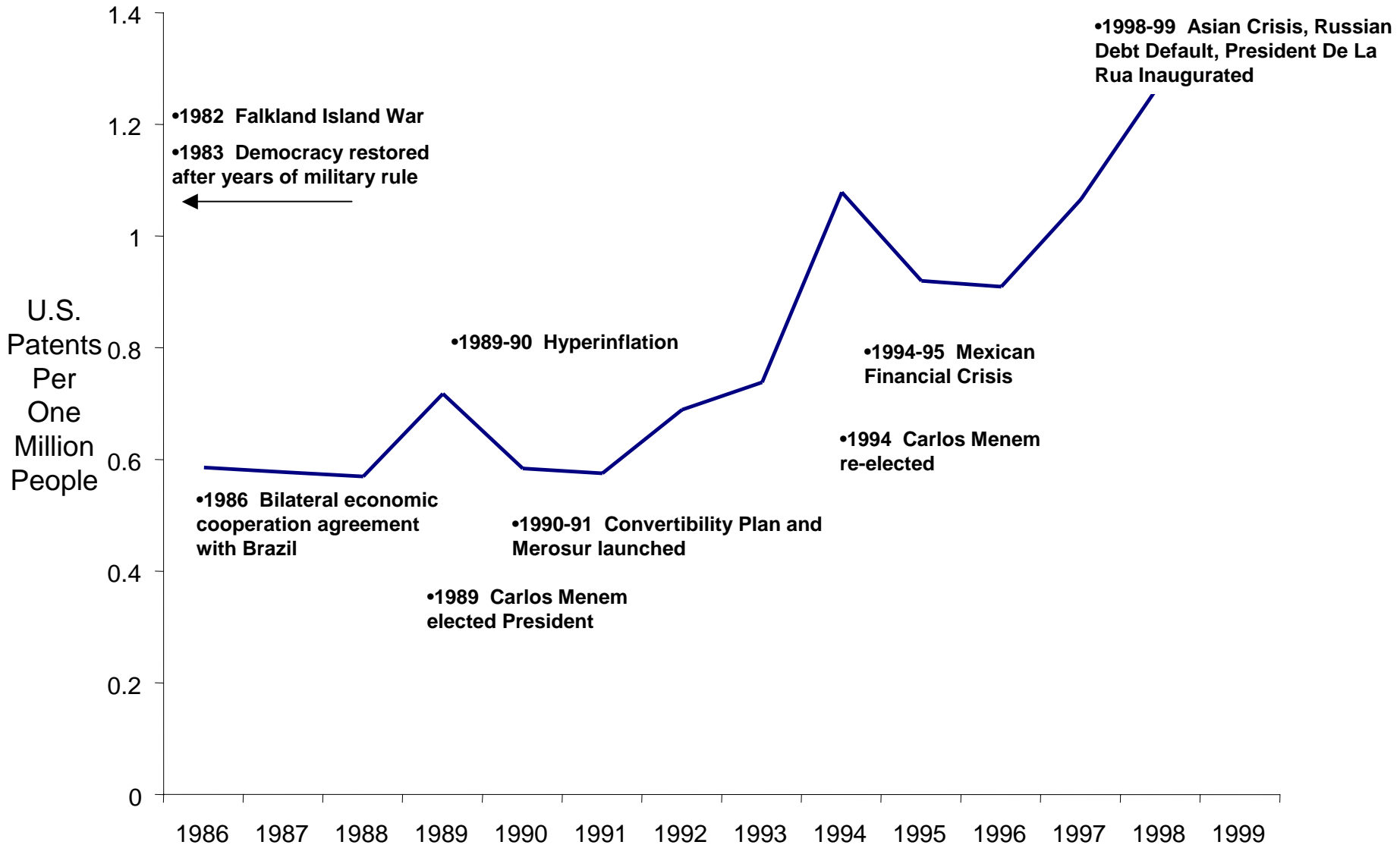
U.S. Patents Per One Million People, 1986 - 1999



Source: US Patent and Trademark Office, Author's analysis.

Argentine Innovation

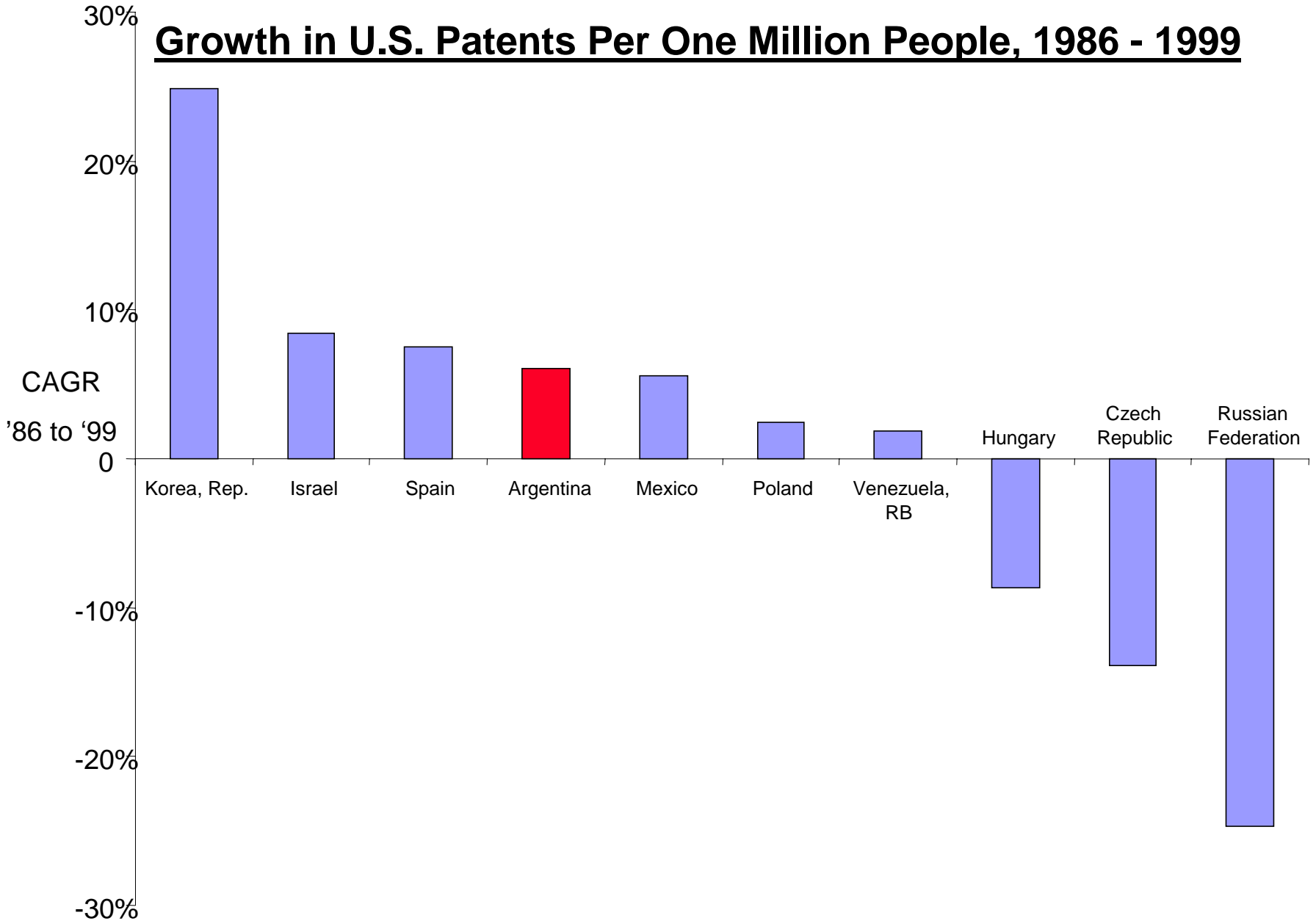
U.S. Patents Per One Million People, 1986 - 1999



Source: US Patent and Trademark Office, Author's analysis.

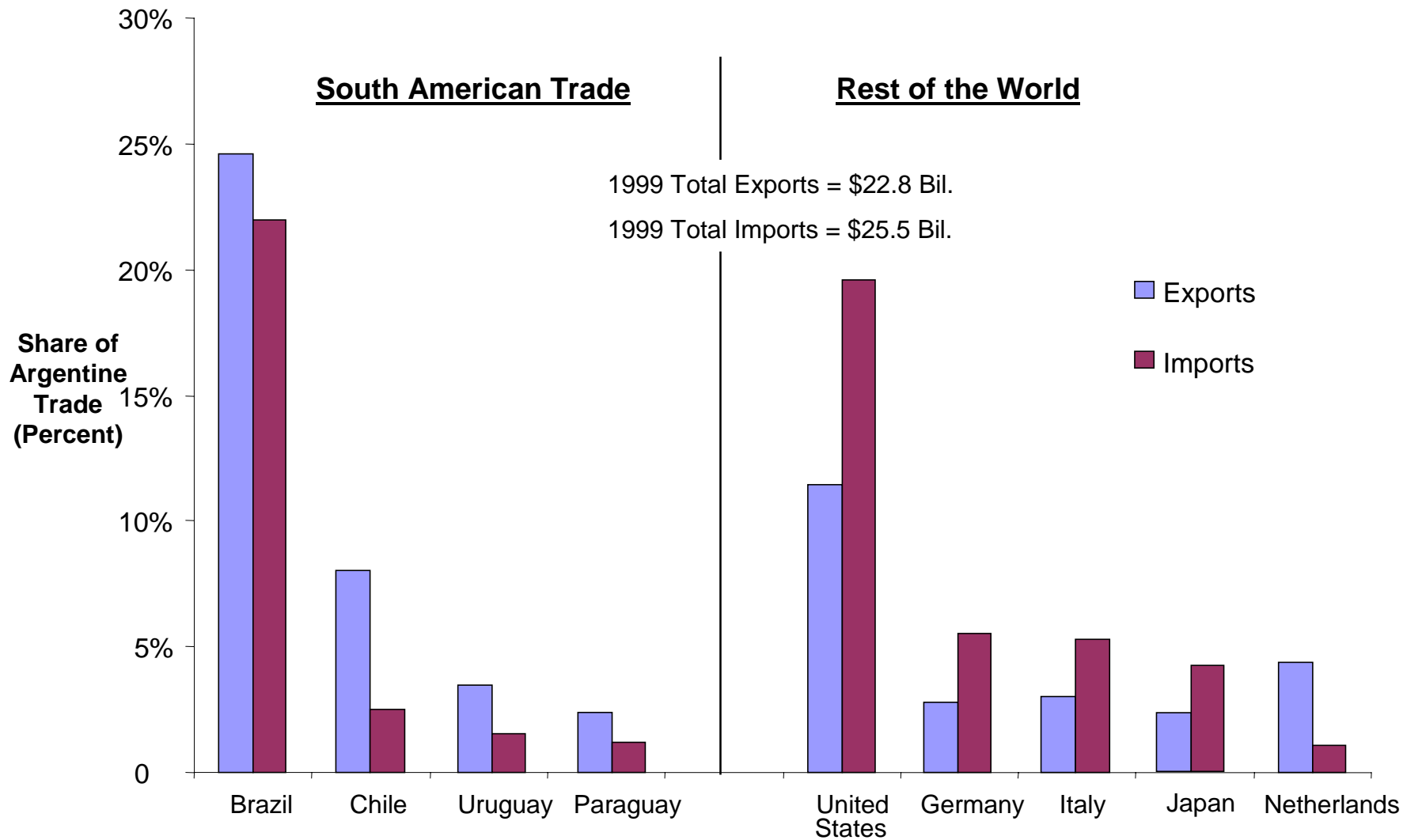
Argentine Innovation

Growth in U.S. Patents Per One Million People, 1986 - 1999



Source: US Patent and Trademark Office, Author's analysis.

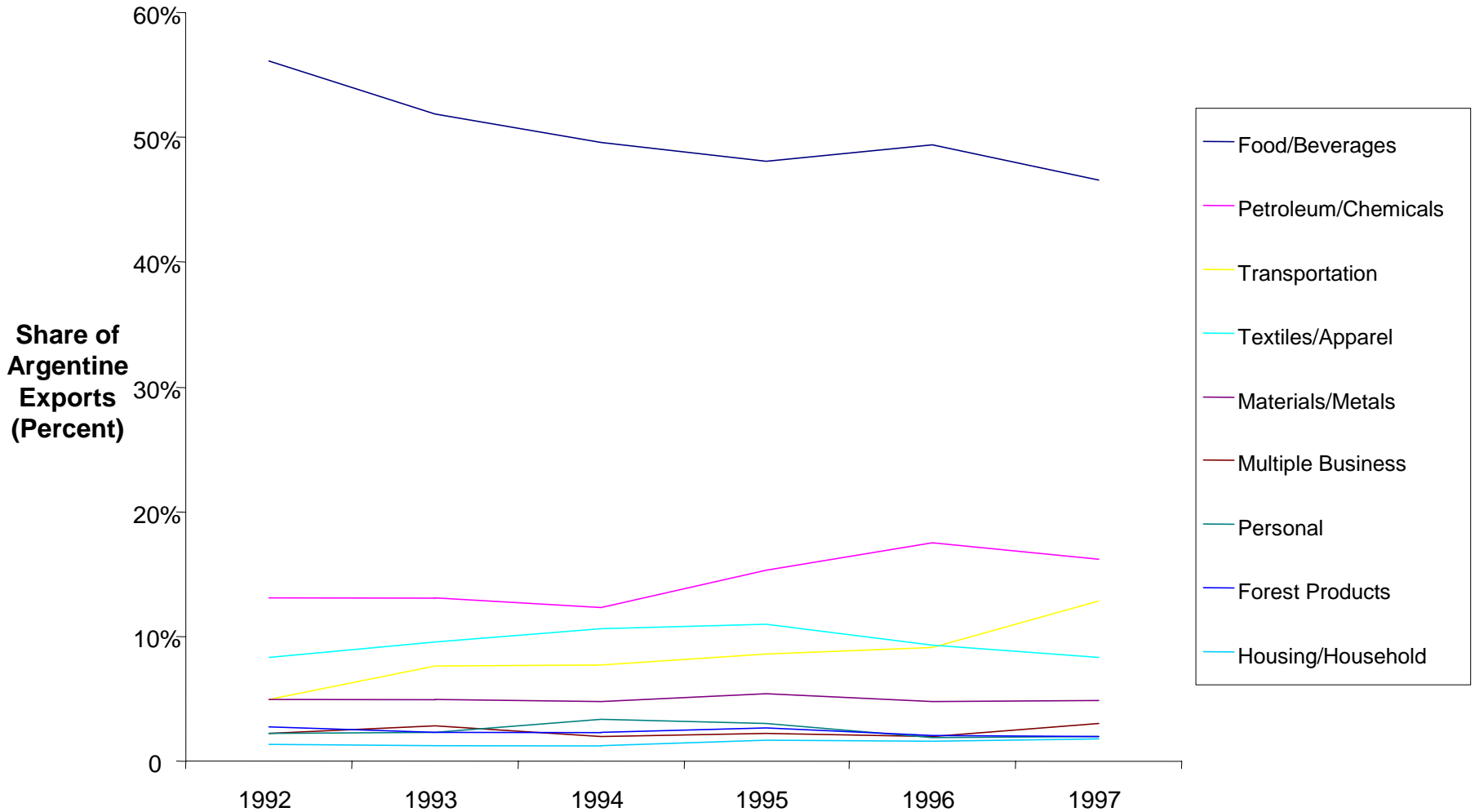
Argentine Trade By Trading Partner, 1999



Source: IMF Direction of Trade Statistics. Author's analysis.

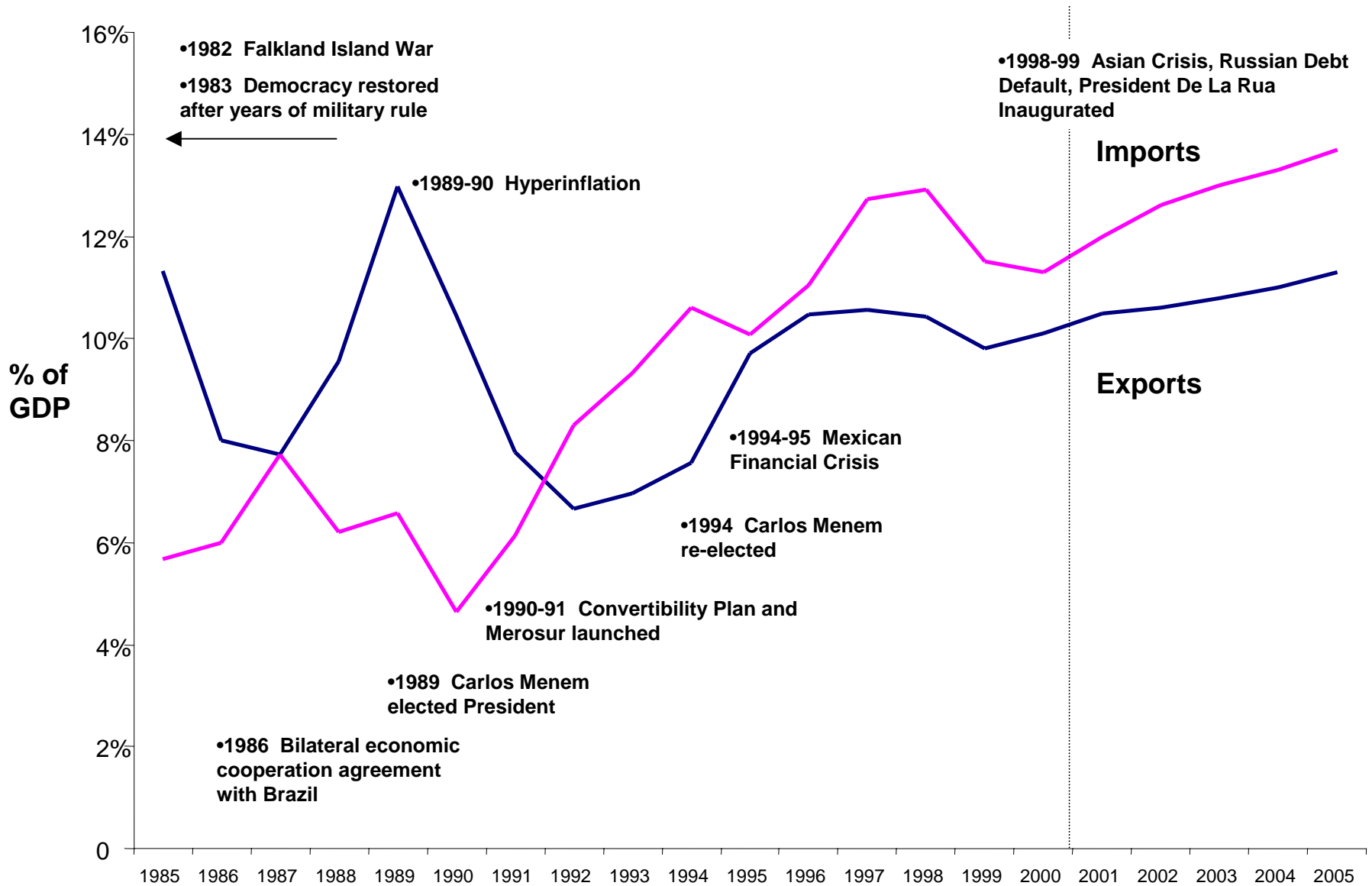
Argentine Trade, 1992 - 1997

Percent of Total Country Exports By Broad Cluster



Source: UN Trade Statistics (Rev 2), Cluster Mapping Project at the Institute for Strategy and Competitiveness, Harvard Business School.

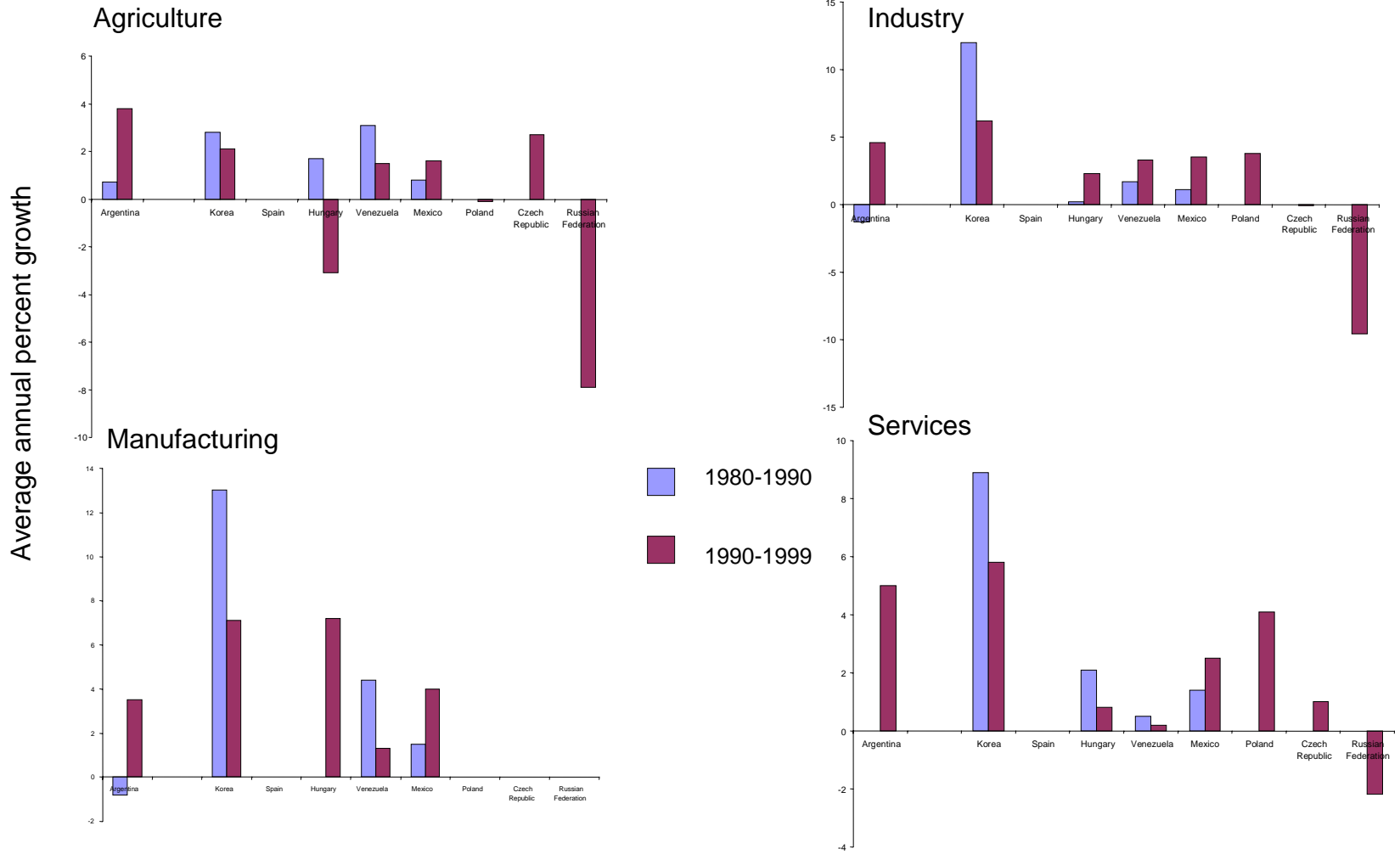
Argentine Trade, 1985 - 2005e



Source: EIU Data, Author's analysis.

Argentine Output

By Sector



Source: World Development Indicators, 2001 (World Bank)

The Benefits of Entrepreneurship

- Entrepreneurship plays a key role in facilitating an economy's **capacity to innovate and adjust**
- Entrepreneurship is fundamental to **net job creation** as larger firms downsize and outsource
- In many fields, **clusters of small- and medium-sized companies** are replacing large, vertically integrated companies



- Entrepreneurship is fundamental to **economic growth** and **rising prosperity**

Clusters and Entrepreneurship

- New businesses often form **within existing clusters** rather than at isolated locations:
 - **lower barriers to entry** than elsewhere (e.g., assets, skills, inputs, and staff, specialized financial institutions and investors)
 - inducement to entry through **better information about opportunities** (e.g., gaps in products, services, or suppliers)
 - **lower risk** (e.g., resale markets for assets, reduced need for specialized investment)
- Healthy entrepreneurship is **essential** to cluster formation and development
- The greatest entrepreneurial opportunities often **occur within clusters**

Macroeconomic, Political, and Legal Context

Argentina's Progress and Challenges

Political and Legal Challenges

- Deteriorating economic situation has deepened **divisions within the ruling Alianza** coalition
- Recent congressional elections results confirm **voters' dissatisfaction with politicians** who have failed to deliver on their promises
- Financial crises cause protest in the **provinces**
- **Income distribution** has worsened during the last decade
- Lack of political will to confront problems of **corruption**
- The **judiciary's independence and credibility** is undermined by the executive's powerful influence



- The focus of government continues to be on short-term **macroeconomic stability** instead of long-term improvements in the microeconomic business environment