

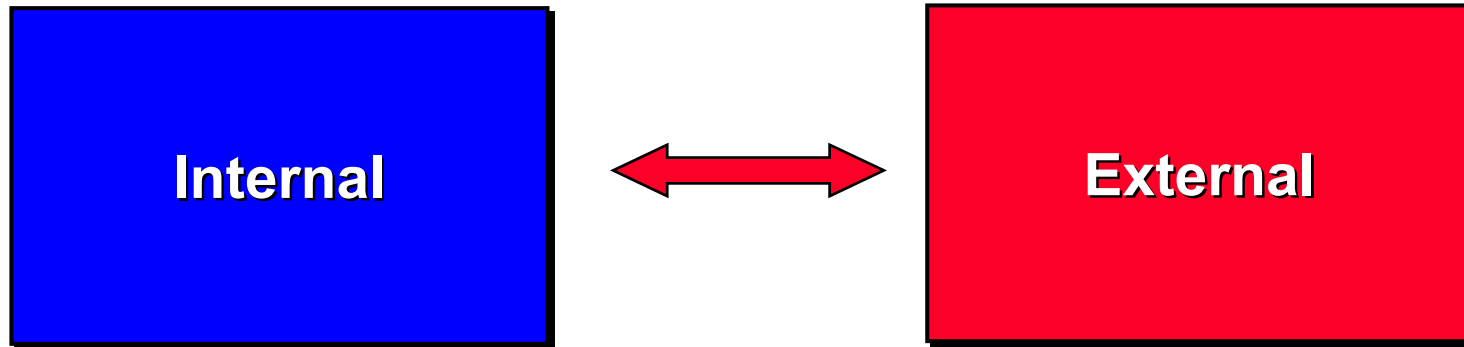
The Competitive Advantage of South Africa

Professor Michael E. Porter
Institute for Strategy and Competitiveness
Harvard Business School

Johannesburg, South Africa
June 9, 2003

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 2002*, (World Economic Forum, 2002), "Clusters and the New Competitive Agenda for Companies and Governments" in *On Competition* (Harvard Business School Press, 1998), 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

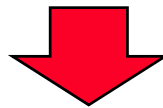
Perspectives on Firm Success



- Competitive advantage resides solely **inside** a company or in its industry
- Competitive success depends primarily on **company choices**
- Competitive advantage (or disadvantage) resides partly in the **locations** at which a company's business units are based
- **Cluster participation** is an important contributor to competitiveness

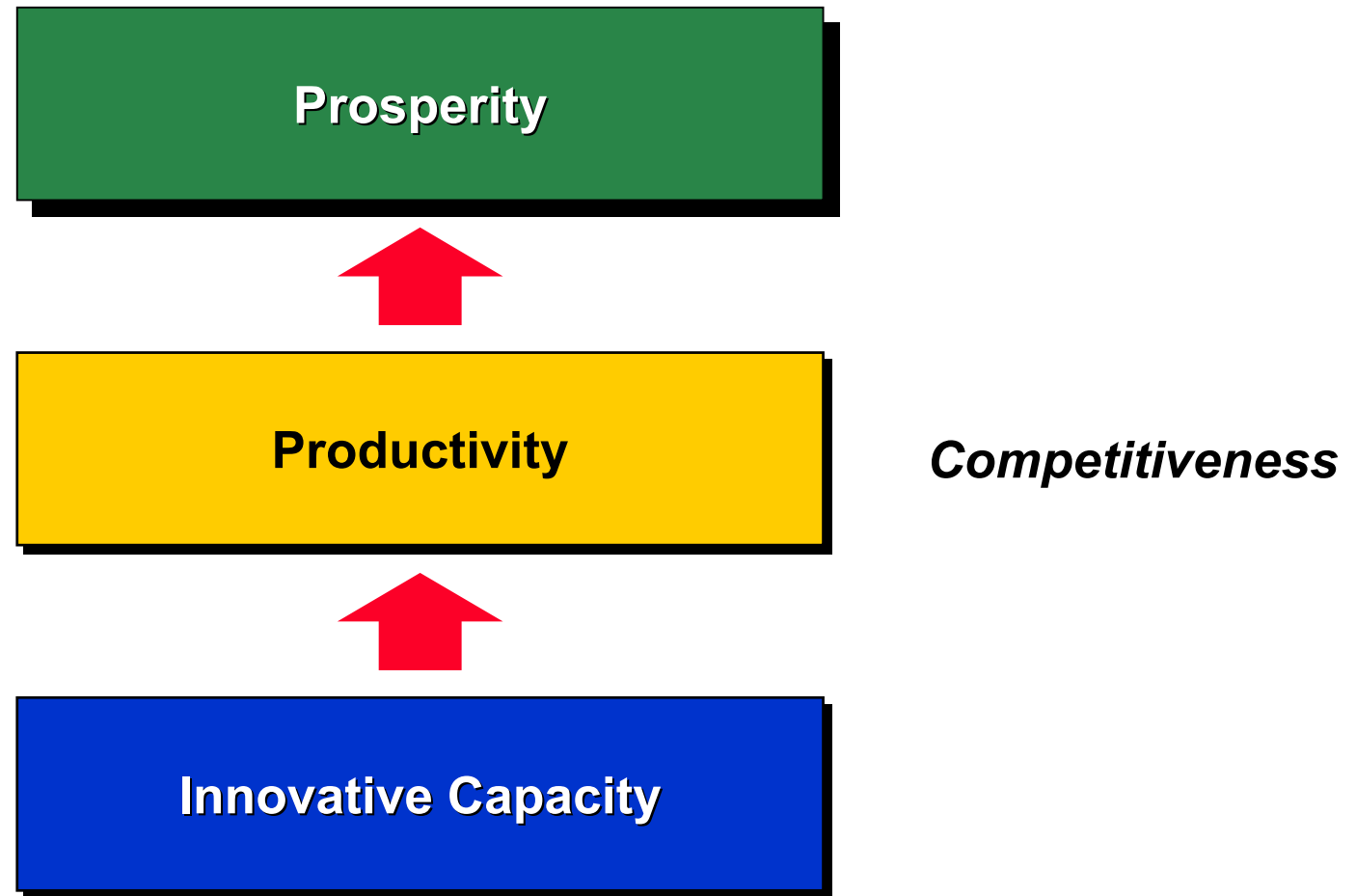
What is Competitiveness?

- Competitiveness is determined by the **productivity** with which a nation uses its human, capital, and natural resources. Productivity sets a nation's or region's standard of living (wages, returns to capital, returns to natural resource endowments)
 - 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



- 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

Innovation and Competitiveness



- Innovation is **more than just scientific discovery**
- There are **no low-tech industries**, only low-tech firms

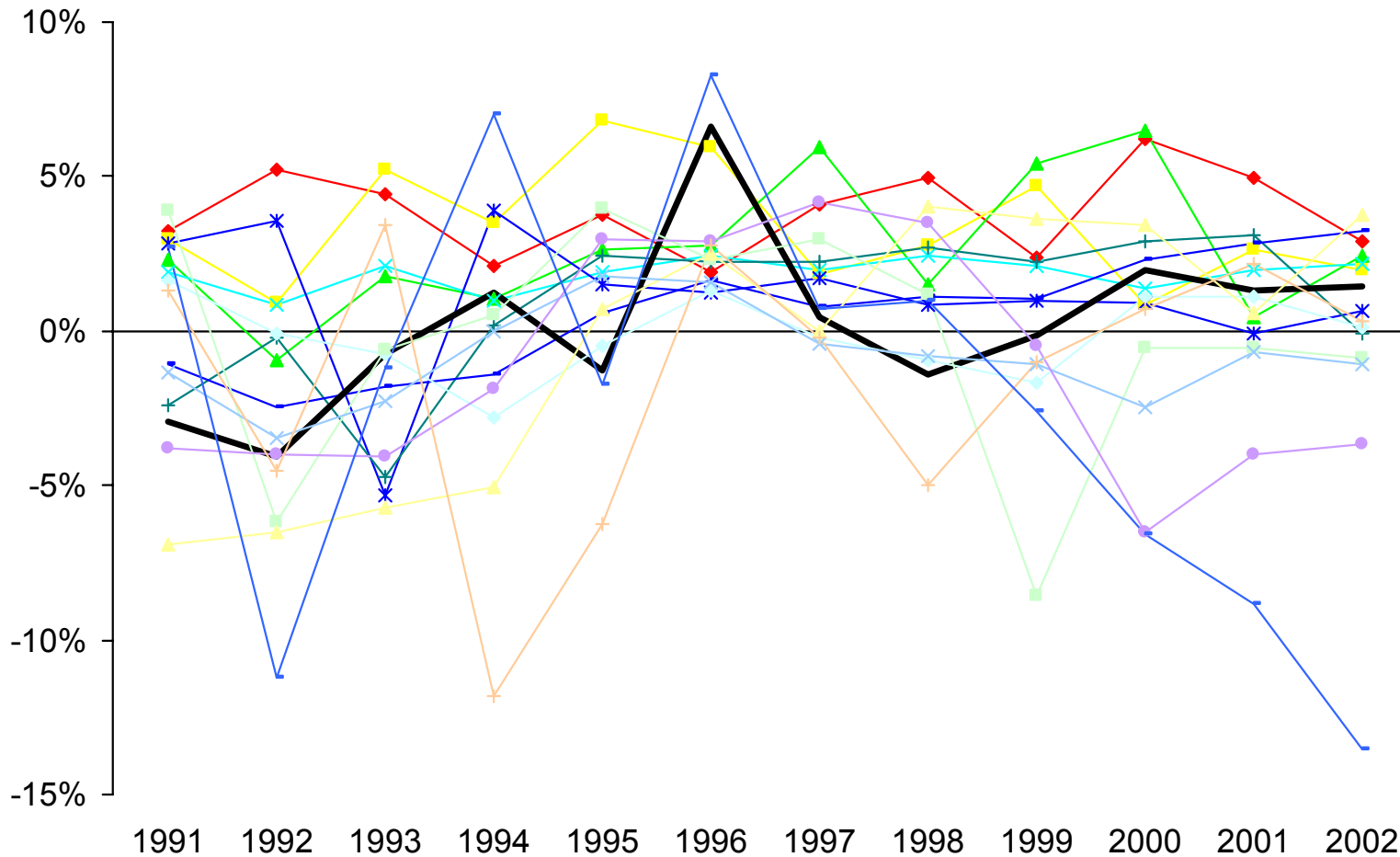
South African Competitiveness 2003

- **Economic growth** has been sluggish since the late 1990s; registered employment has fallen since 1990
- **GDP per capita growth** is lagging other middle and low income countries
- Government is increasingly recognizing the **need for microeconomic reform** and a greater focus on business development
- Internationally, **trade agreements** with African neighbors, the United States, and the European Union create new opportunities

Comparative Economic Performance

Selected Sub-Saharan African Economies over Time

Growth Rate of Real GDP per Capita (PPP)



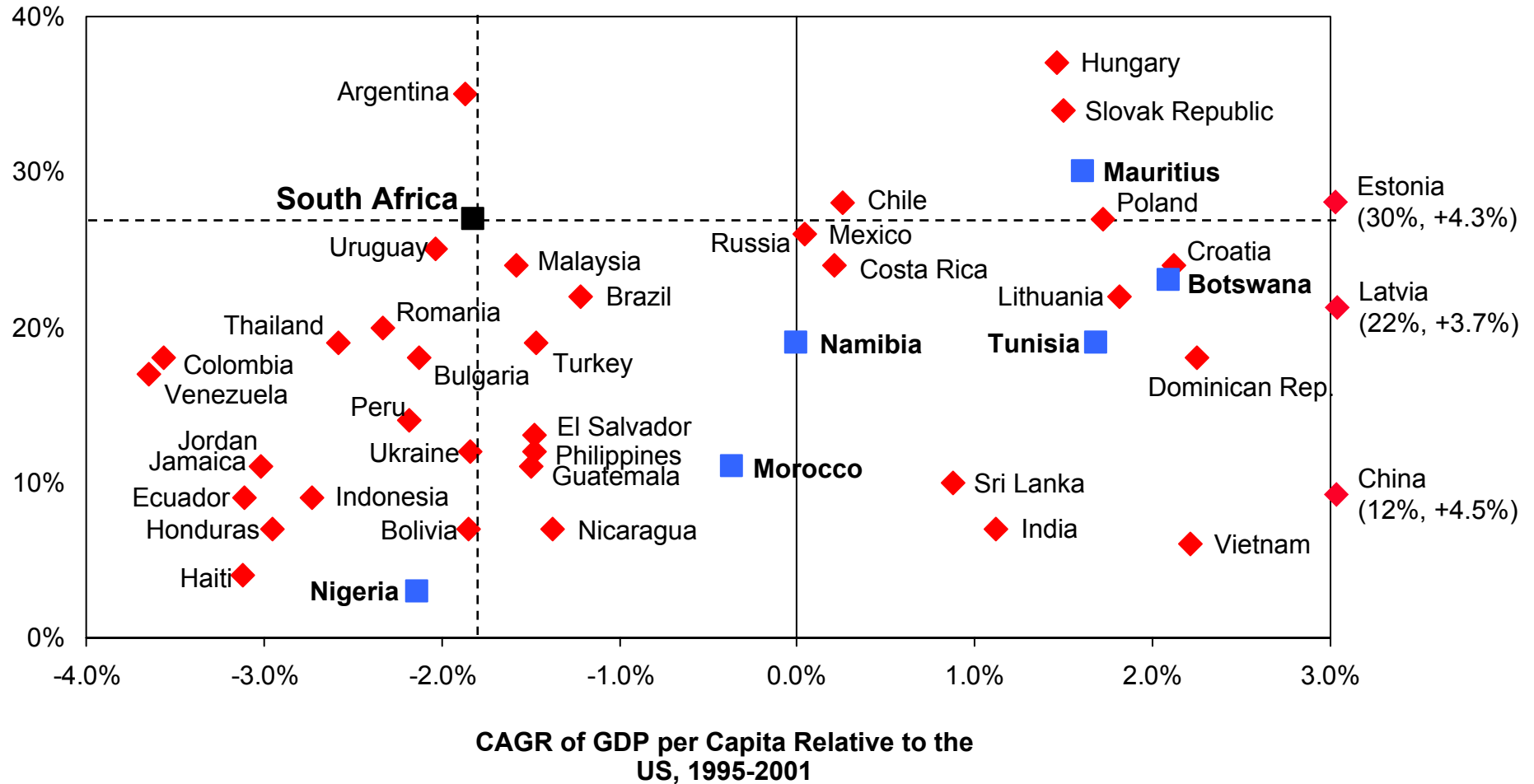
Countries sorted by 1990 – 2002 CAGR of Real GDP per Capita:

- ◆— Mauritius
- Uganda
- ▲— Botswana
- ×— Ghana
- *— Namibia
- +— Senegal
- Tanzania
- █— South Africa
- ◇— Nigeria
- Gabon
- ▲— Cameroon
- ×— Kenya
- Cote d'Ivoire
- +— Zambia
- Zimbabwe

Comparative Economic Performance

Selected Middle- and Lower-Income Economies

GDP per Capita,
2001, US=100



South African Microeconomic Performance

- South Africa has one of the highest levels of **prosperity** (GDP per capita) and **labor productivity** in Africa

However

- South Africa's competitive position is clearly **eroding**
- South Africa has registered only slow **labor productivity growth** in the last few years, falling behind many other African economies
- South Africa's **world export market share** has been flat over the last decade despite the devaluation of the Rand
- South Africa has low **domestic investment** and low inflows of **foreign direct investment**

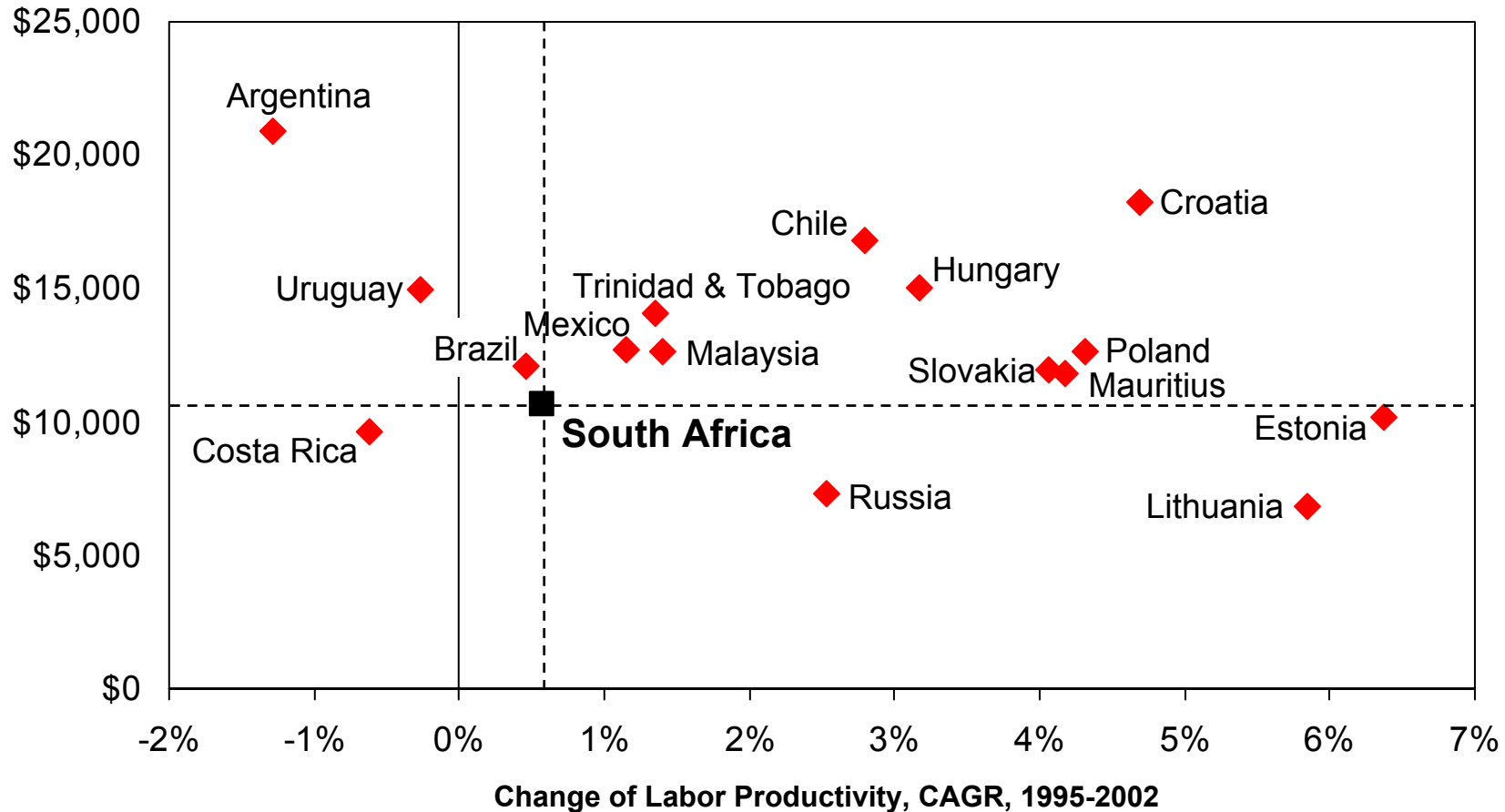


- A **new approach** to economic development will be necessary

Comparative Labor Productivity Performance

Selected Middle Income Economies

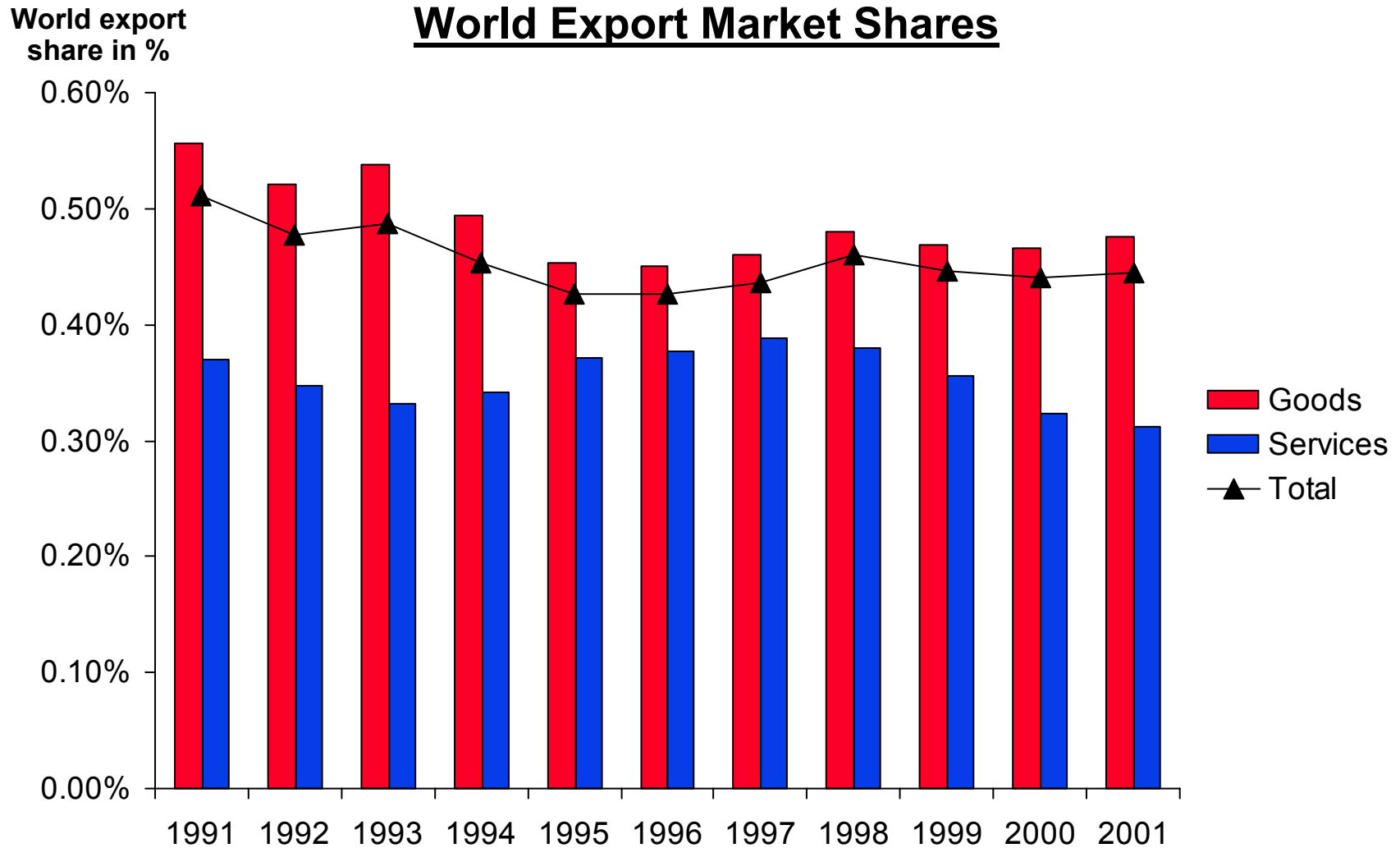
Labor Productivity
(Real GDP per Employee),
2002



- South Africa's labor productivity growth has been low and lagged all but the South American economies in its income group

South African Export Performance

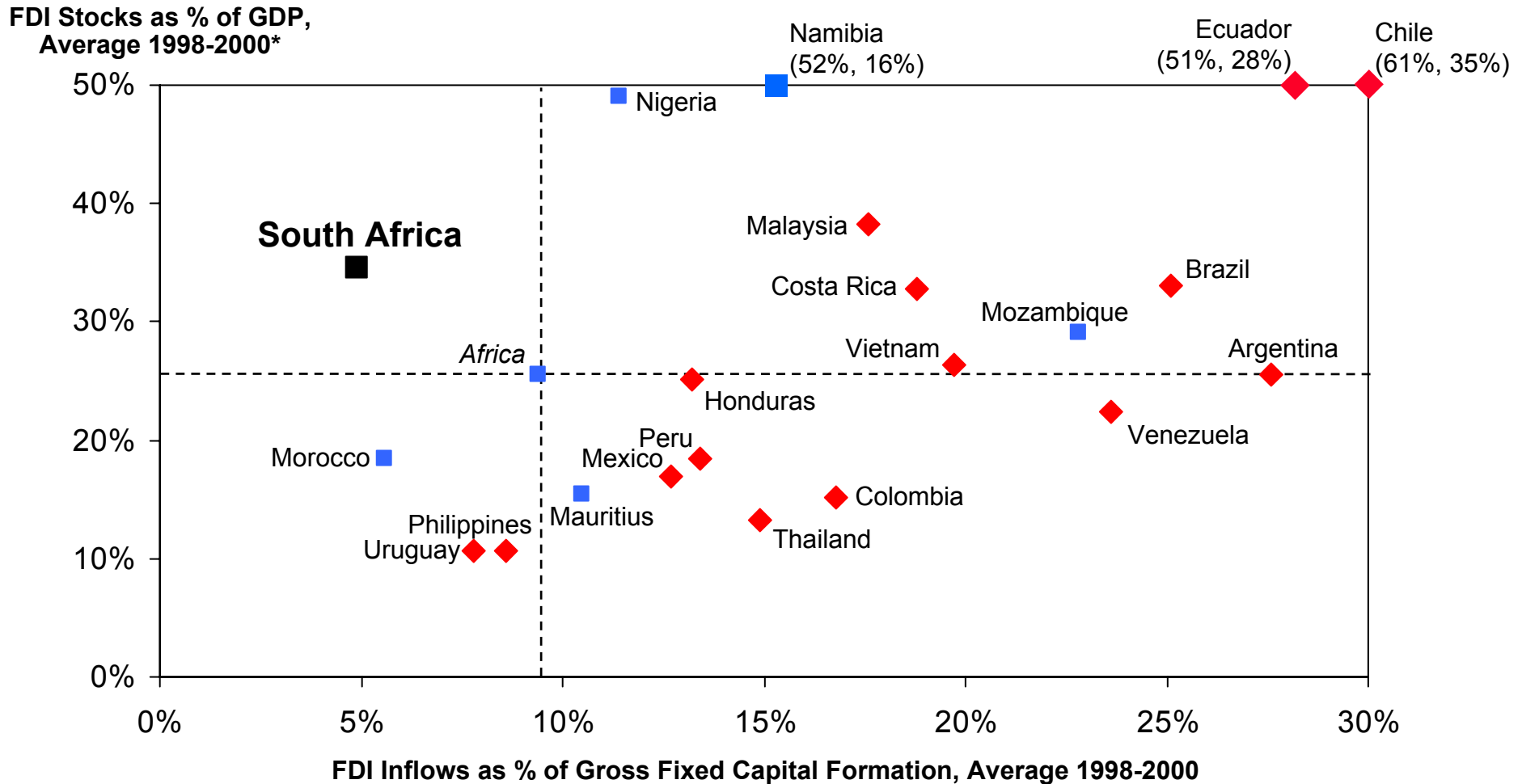
World Export Market Shares



- South Africa's world market share has been flat over the last decade. Export growth has been driven by growing world trade volumes and long-term devaluation

Comparative Inward Foreign Investment

Selected Middle-Income Economies



- South Africa has a relatively high stock of foreign direct investment, but inflows have been small in recent years

Note: For African countries only 2000 data available

Source: World Investment Report 2002

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Determinants of Productivity and Productivity Growth

**Macroeconomic, Political, Legal, and Social
Context for Development**

Microeconomic Foundations of Development

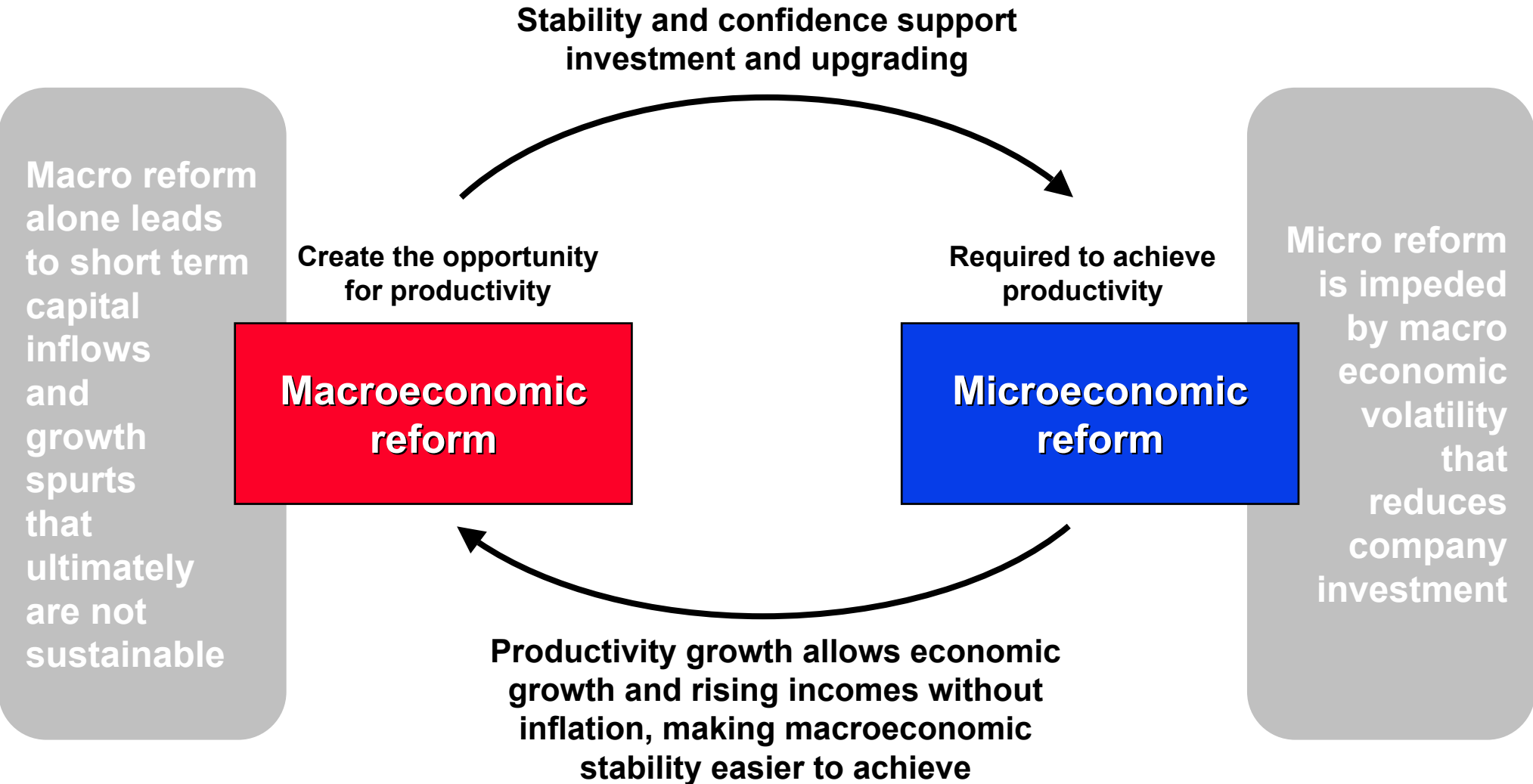
**Sophistication
of Company
Operations and
Strategy**



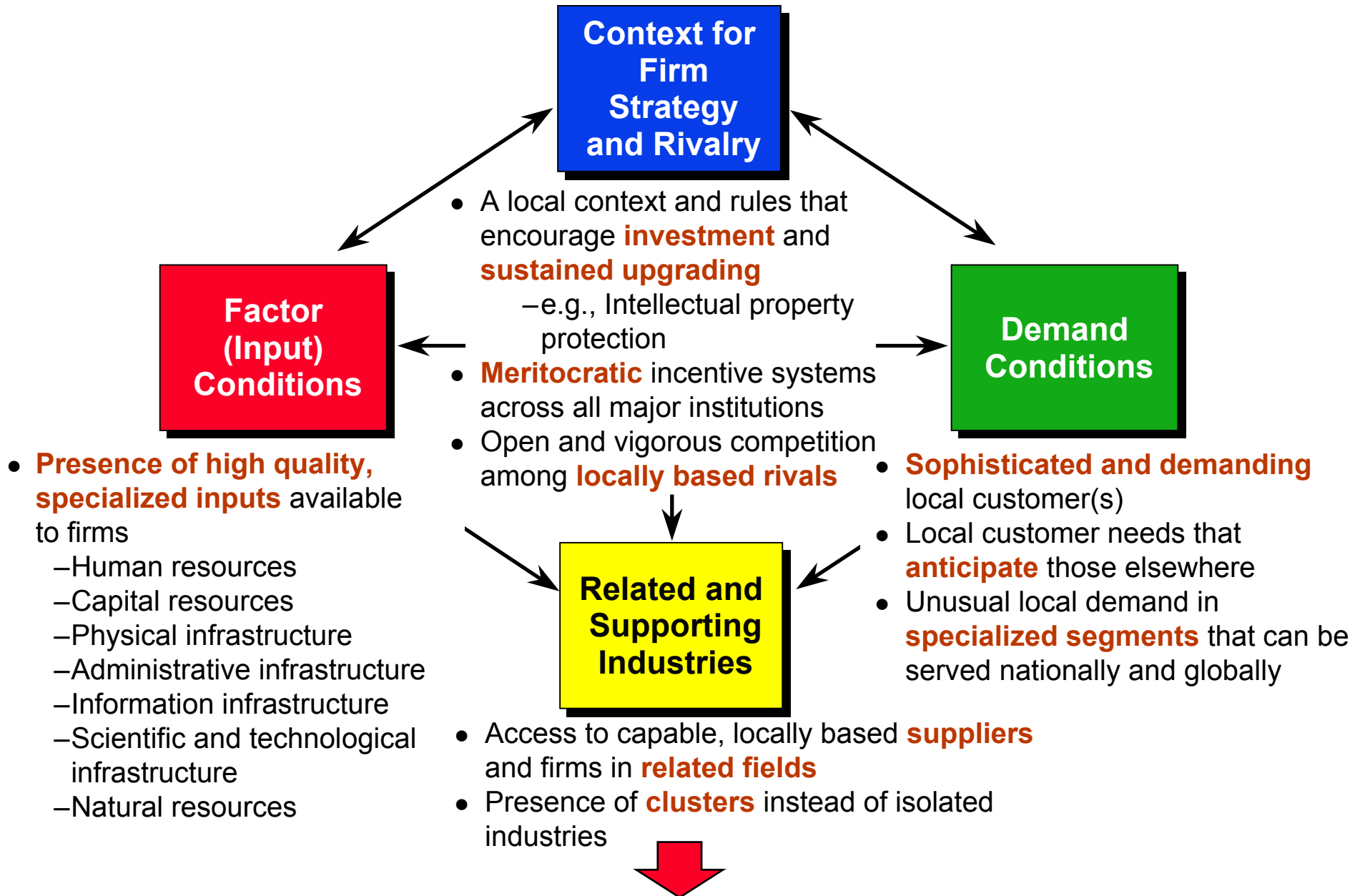
**Quality of the
Microeconomic
Business
Environment**

- A sound macroeconomic, political, legal, and social context creates the potential for competitiveness, **but is not sufficient**
- Competitiveness ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local companies and local competition**

Integration of Macro- and Microeconomic Reforms

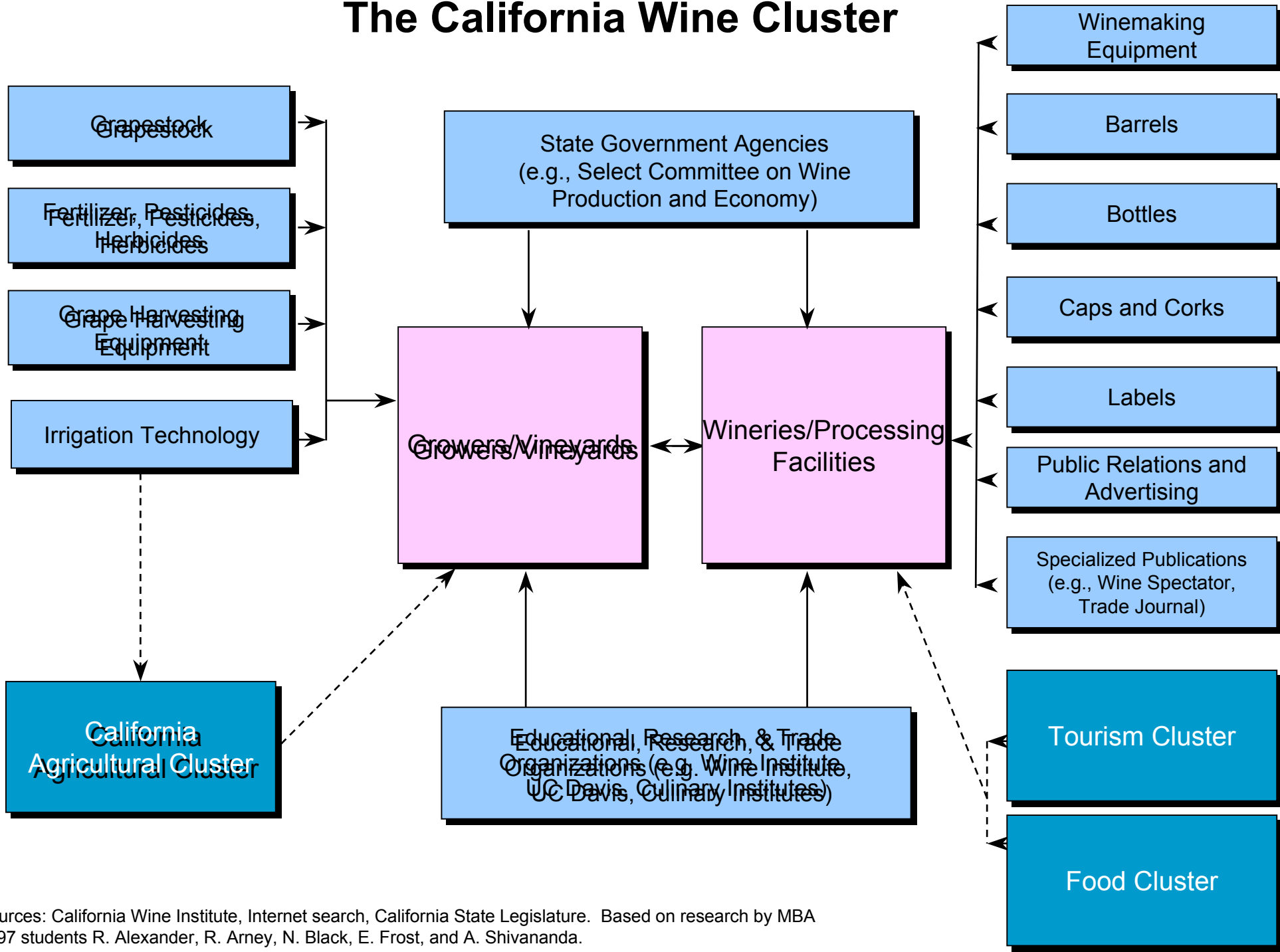


Productivity and the Business Environment



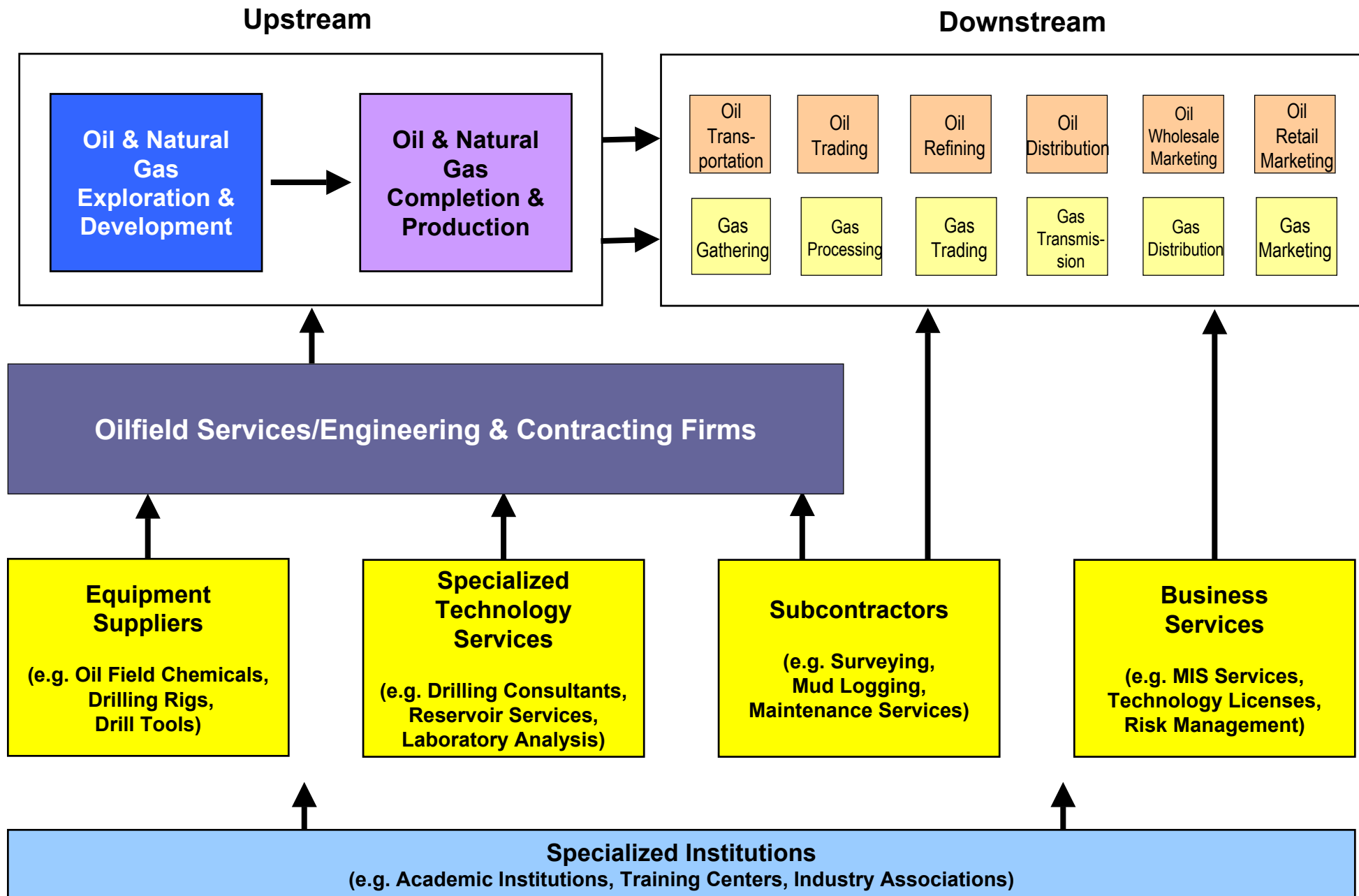
- Successful economic development is a process of **successive economic upgrading**, in which the business environment in a nation evolves to support and encourage increasingly sophisticated ways of competing

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 Houston Oil and Gas Cluster



Clusters and Competitiveness

Clusters increase productivity and efficiency

- Efficient **access** to specialized inputs, services, employees, information, institutions, and “public goods” (e.g. training programs)
- Ease of **coordination** and transactions across firms
- Rapid **diffusion** of best practices
- Ongoing, visible **performance comparisons** and strong incentives to improve vs. local rivals

Clusters stimulate and enable innovation

- Enhanced ability to **perceive innovation opportunities**
- Presence of multiple suppliers and institutions to assist in **knowledge creation**
- Ease of **experimentation** given locally available resources

Clusters facilitate commercialization

- Opportunities for **new companies** and **new lines of established business** are more apparent
- **Commercializing** new products and starting new companies is easier because of available skills, suppliers, etc.



Clusters reflect the fundamental influence of **externalities / linkages** across firms and associated institutions in competition

Levels of Clusters

- There is often an **array of clusters** in a given field in different locations, each with different levels of specialization and sophistication
- Global **innovation centers**, such as Silicon Valley in semiconductors, are few in number. If there are multiple innovation centers, they normally **specialize** in different market segments
- Other clusters focus on **manufacturing**, outsourced **service functions**, or play the role of **regional** production, assembly or service centers
- Firms based in the most advanced clusters often **seed or enhance clusters** in other locations in order to reduce the risk of a single site, access lower cost inputs, or better serve particular regional markets
- The challenge for an economy is to move from **isolated firms** to an array of **clusters**, enhance **interaction** within clusters, and then to **upgrade the breadth and sophistication** of clusters to more advanced activities

Leading Footwear Clusters

Portugal

- Production
- Focus on short-production runs in the medium price range

Romania

- Production subsidiaries of Italian companies
- Focus on lower to medium price range

Italy

- Design, marketing, and production of premium shoes
- Export widely to the world market

United States

- Design and marketing
- Focus on specific market segments like sport and recreational shoes and boots
- Manufacturing only in selected lines such as hand-sewn casual shoes and boots

China

- OEM Production
- Focus on low cost segment mainly for the US market

Vietnam/Indonesia

- OEM Production
- Focus on the low cost segment mainly for the European market

Institutions for Collaboration

General

- Chambers of Commerce
- Professional associations
- School networks
- University partner groups
- Religious networks
- Joint private/public advisory councils
- Competitiveness councils

Cluster-specific

- Industry associations
- Specialized professional associations and societies
- Alumni groups of core cluster companies
- Incubators

- Institutions for collaboration (IFC) are **formal and informal organizations** that
 - facilitate the exchange of information and technology
 - conduct joint activities
 - foster coordination among firms
- IFCs can improve the business environment by
 - creating **relationships** and level of trust that make them more effective
 - defining of **common standards**
 - conducting or facilitating the organization of **collective action** in areas such as procurement, information gathering, or international marketing
 - defining and communicating common **beliefs and attitudes**
 - providing mechanisms to develop a common economic or **cluster agenda**

Stages Of Competitive Development



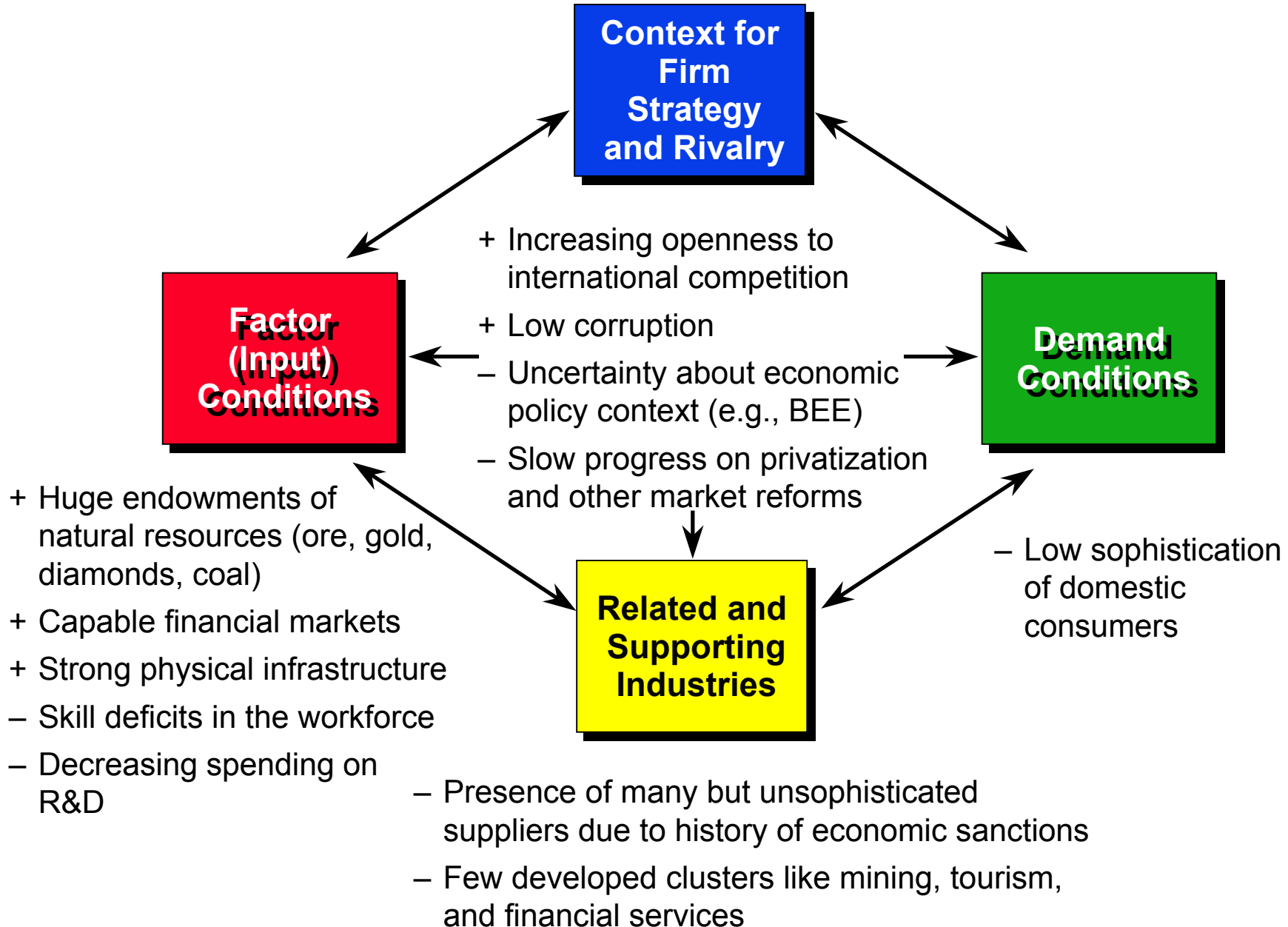
Source: Porter, Michael E., *The Competitive Advantage of Nations*,
The Free Press: New York (1990)

South Africa's Competitiveness Agenda 2003

- **Upgrade the business environment**
 - Foster cluster development
 - Shift the roles of government and business in economic development
 - Integrate social and economic policies
 - Create economic strategies at the provincial level
 - Lead a cross-national economic strategy for Southern Africa

The South African Business Environment

Selected Observations



Factor (Input) Conditions

South Africa's Relative Position





Competitive Advantages Relative to GDP per Capita

Country Ranking, Arrows
indicate a change of 5 or more
ranks since 1998

Financial Market Sophistication	13
Local Equity Market Access	16
Adequacy of Public Sector Legal Recourse	17
University/Industry Research Collaboration	18
Intellectual Property Protection	19 
Judicial Independence	20
Quality of Management Schools	20 
Air Transport Infrastructure Quality	21
Quality of Scientific Research Institutions	21 
Overall Infrastructure Quality	24
Railroad Infrastructure Quality	25 

Competitive Disadvantages Relative to GDP per Capita

Country Ranking, Arrows
indicate a change of 5 or more
ranks since 1998

Quality of Math and Science Education	71
Availability of Scientists and Engineers	65
Police Protection of Businesses	59 
Telephone/Fax Infrastructure Quality	58 
Extent of Bureaucratic Red Tape	53
Quality of Public Schools	50 
Cell phones per 100 people (2001)	44
Internet users per 100 people (2001)	44
Ease of Access to Loans	34
Port Infrastructure Quality	31 

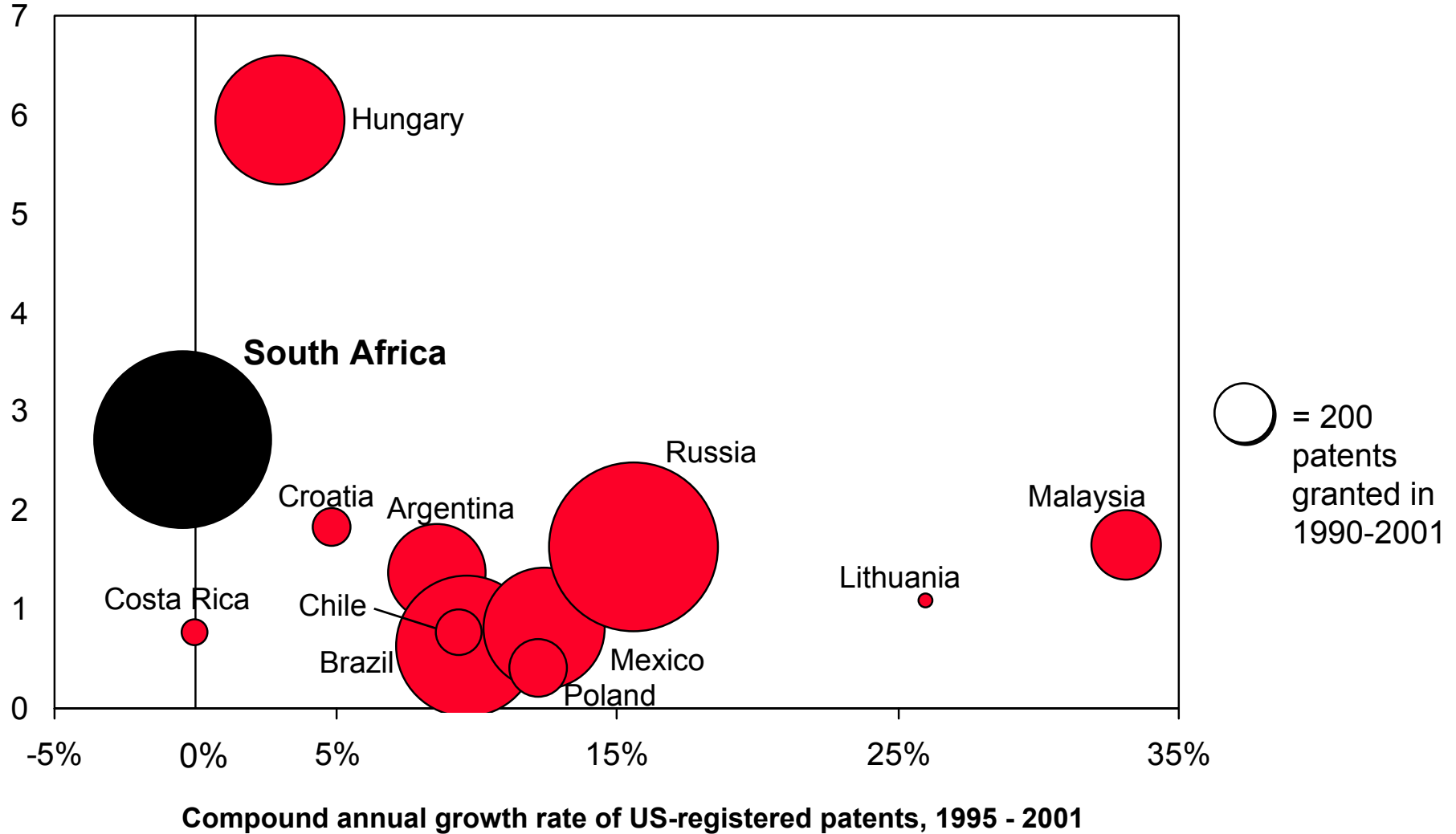
Note: Rank by countries; overall South Africa ranks 29 out of 80 countries (33 on National Business Environment, 37 on GDP pc 2001)

Source: Global Competitiveness Report 2002

**Factor
(Input)
Conditions**

International Patenting Output Selected Middle Income Countries

Annual U.S. patents
per 1 million
population, 2001



U.S. Patenting by South African Institutions

	Organization	Patents Issued from 1996 to 2001
1	DENEL (PROPRIETARY) LIMITED	11
2	SASOL TECHNOLOGY (PROPRIETARY) LIMITED	10
3	WATER RESEARCH COMMISSION	9
3	CIRCUIT BREAKER INDUSTRIES LIMITED	9
3	ATOMIC ENERGY CORPORATION OF SOUTH AFRICA	9
6	IMPLICO B.V.	8
6	CSIR	8
8	ESKOM	7
8	BRITISH TECHNOLOGY GROUP LIMITED	7
10	FARMARC NEDERLAND B.V.	5
10	AE + CI LIMITED	5
12	IPCOR NV	4
12	MICROCHIP TECHNOLOGY INCORPORATED	4
12	WINDSOR TECHNOLOGIES LIMITED	4
12	MINTEK	4
12	BILLITON SA LIMITED	4
12	SCORPIO CONVEYOR PRODUCTS LIMITED	4
12	SLIC TRADING COMPANY LIMITED	4
12	ELECTRO CHEMICAL HOLDINGS SOCIETE ANONYME	4
12	UNIVERSITY OF PRETORIA	4
12	H L & H TIMBER PRODUCTS (PROPRIETARY) LIMITED	4
22	EUROPEAN SPORTS MERCHANDISING BV	3
22	L'AIR LIQUIDE	3
22	AECI EXPLOSIVES LIMITED	3
22	PRESS ENGINEERING PTY. LTD.	3

Note: Shading indicates universities, research institutions, and other government agencies. Nine more institutions with three patents are not listed.

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

Context for Firm Strategy and Rivalry

South Africa's Relative Position

Competitive Advantages Relative to GDP per Capita

Country Ranking, Arrows
indicate a change of 5 or more
ranks since 1998

Extent of Distortive Government Subsidies	9	↑
Efficacy of Corporate Boards	12	
Effectiveness of Anti-Trust Policy	22	↑
Extent of Locally Based Competitors	23	↓
Costs of Other Firms' Illegal/ Unfair Activities	25	
Intensity of Local Competition	25	↑

Competitive Disadvantages Relative to GDP per Capita

Country Ranking, Arrows
indicate a change of 5 or more
ranks since 1998

Cooperation in Labor-Employer Relations	70	
Decentralization of Corporate Activity	47	
Favoritism in Decisions of Government Officials	39	
Tariff Liberalization	35	↑

Note: Rank by countries; overall South Africa ranks 29 out of 80 countries (33 on National Business Environment, 37 on GDP pc 2001)
Source: Global Competitiveness Report 2002

Demand Conditions

South Africa's Relative Position

Competitive Advantages Relative to GDP per Capita

Country Ranking, Arrows
indicate a change of 5 or more
ranks since 1998

Competitive Disadvantages Relative to GDP per Capita

Country Ranking, Arrows
indicate a change of 5 or more
ranks since 1998

Consumer Adoption of Latest Products	48
Government Procurement of Advanced Technology Products	41
Laws Relating to Information Technology	39
Buyer Sophistication	38
Stringency of Environmental Regulations	37
Presence of Demanding Regulatory Standards	34

Related and Supporting Industries

South Africa's Relative Position

Competitive Advantages Relative to GDP per Capita

Country Ranking, Arrows indicate a change of 5 or more ranks since 1998

Local Availability of Components and Parts	13
Extent of Product and Process Collaboration	27
Local Supplier Quantity	28

Competitive Disadvantages Relative to GDP per Capita

Country Ranking, Arrows indicate a change of 5 or more ranks since 1998

Local Availability of Specialized Research and Training Services	44
State of Cluster Development	35
Local Availability of Process Machinery	33
Local Supplier Quality	30



- South Africa needed to produce many supplies domestically to overcome **trade sanctions** but did not develop deep clusters

Note: Rank by countries; overall South Africa ranks 29 out of 80 countries (33 on National Business Environment, 37 on GDP pc 2001)

Source: Global Competitiveness Report 2002

Company Operations and Strategy

South Africa's Relative Position 2002

Competitive Advantages Relative to GDP per Capita

Country Ranking, Arrows
indicate a change of 5 or more
ranks since 1998

Prevalence of Foreign Technology Licensing	6	
Reliance on Professional Management	13	
Extent of Incentive Compensation	15	
Extent of Marketing	18	
Willingness to Delegate Authority	23	
Company Spending on R&D	27	
Extent of Regional Sales	28	↑
Extent of Staff Training	28	↑

Competitive Disadvantages Relative to GDP per Capita

Country Ranking, Arrows
indicate a change of 5 or more
ranks since 1998

Nature of Competitive Advantage	68	↓
Value Chain Presence	65	↓
Degree of Customer Orientation	61	
Extent of Branding	51	↓
Capacity for Innovation	43	↓
Production Process Sophistication	38	
Control of International Distribution	36	↑
Breadth of International Markets	31	↑

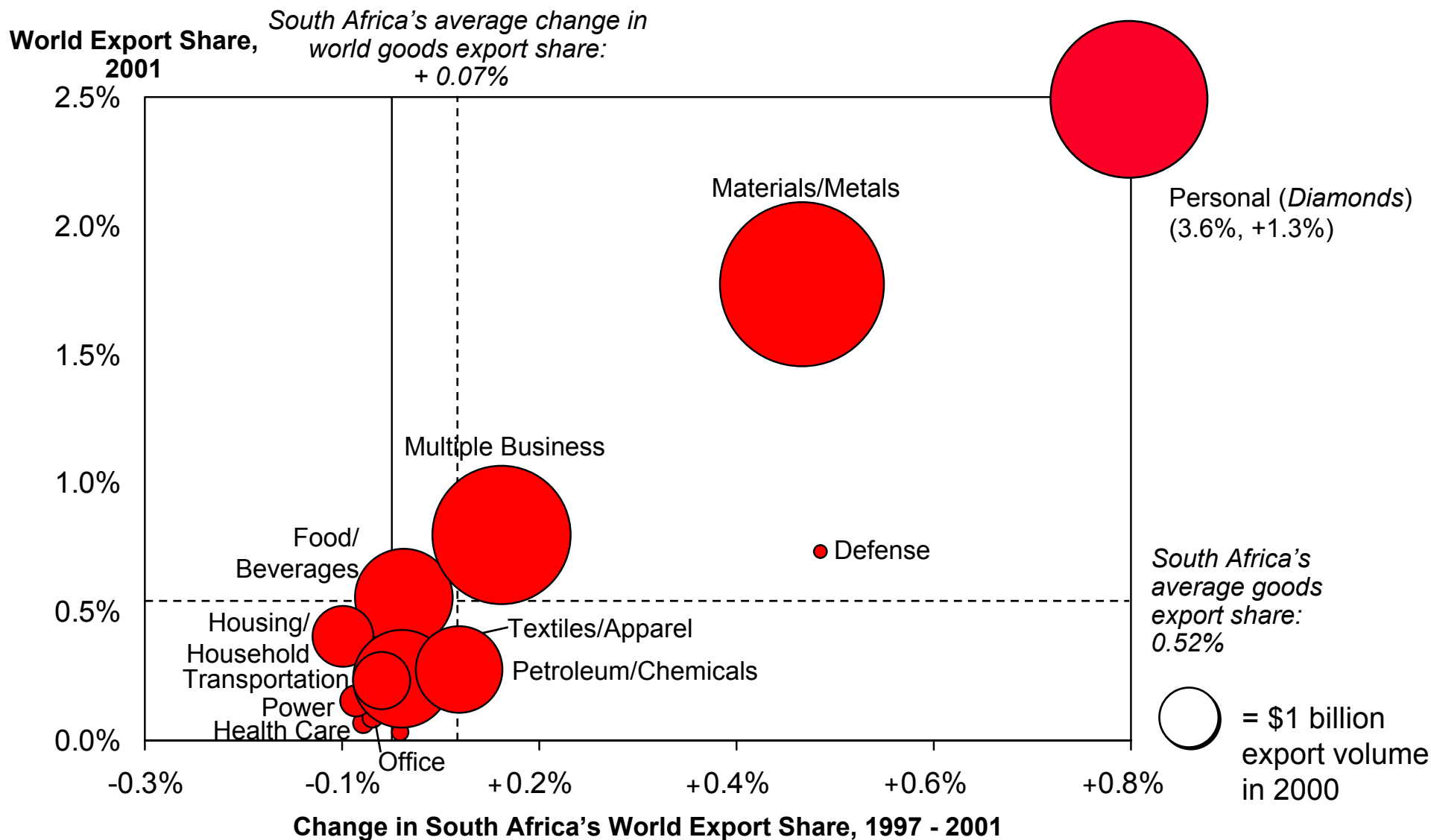
Note: Rank by countries; overall the South Africa ranks 29 out of 80 countries (31 on Company Operations and Strategy, 37 on GDP pc 2001)

Source: Global Competitiveness Report 2002

South Africa's Competitiveness Agenda 2003

- Upgrade the business environment
- **Foster cluster development**
- Shift the roles of government and business in economic development
- Integrate social and economic policies
- Create economic strategies at the provincial level
- Lead a cross-national economic strategy for Southern Africa

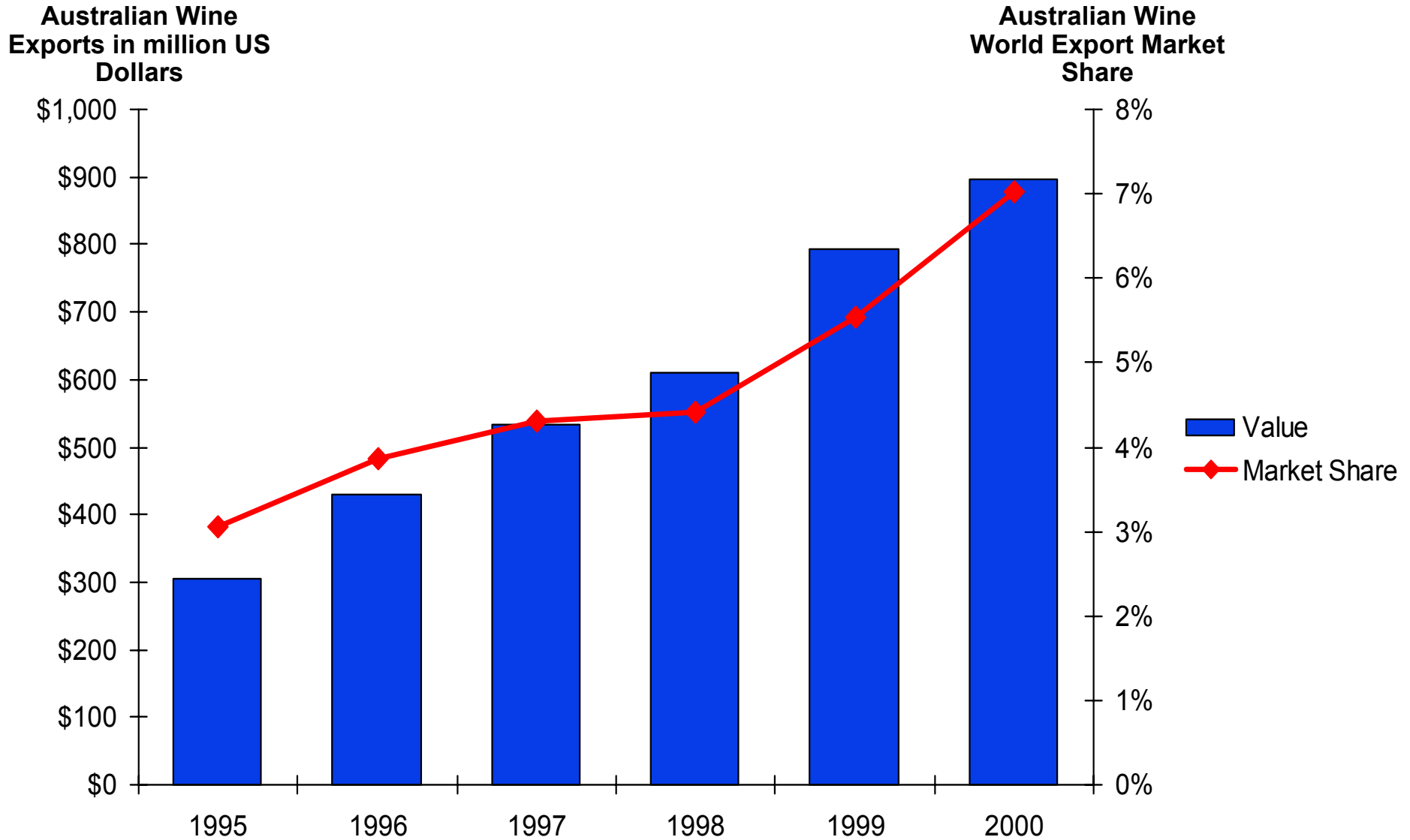
South Africa's Export Performance By Broad Sector 1997-2001



• South Africa's exports continue to be dominated by natural resource-intensive products

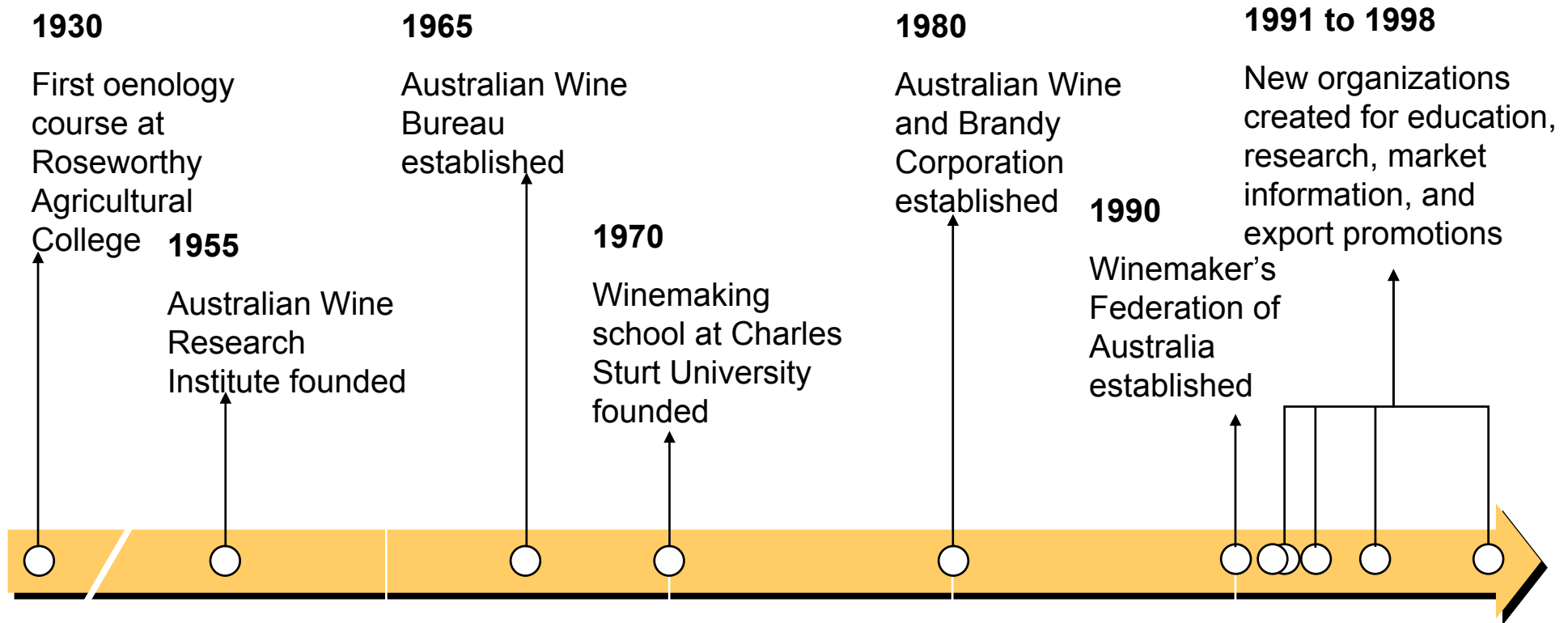
The Australian Wine Cluster

Trade Performance



Source: UN Trade Statistics

The Australian Wine Cluster History



1950s

Import of European winery technology

1960s

Recruiting of experienced foreign investors, e.g. Wolf Bass

1970s

Continued inflow of foreign capital and management

1980s

Creation of large number of new wineries

1990s

Surge in exports and international acquisitions

The Australian Wine Cluster

Recently founded Institutions for Collaboration

Winemakers' Federation of Australia

- Established in 1990
- Focus: Public policy representation of companies in the wine cluster
- Funding: Member companies

Cooperative Centre for Viticulture

- Established in 1991
- Focus: Coordination of research and education policy in viticulture
- Funding: other cluster organizations

Australian Wine Export Council

- Established in 1992
- Focus: Wine export promotion through international offices in London and San Francisco
- Funding: Government; cluster organizations

Grape and Wine R&D Corporation

- Established in 1991 as statutory body
- Focus: Funding of research and development activities
- Funding: Government; statutory levy

Wine Industry Information Service

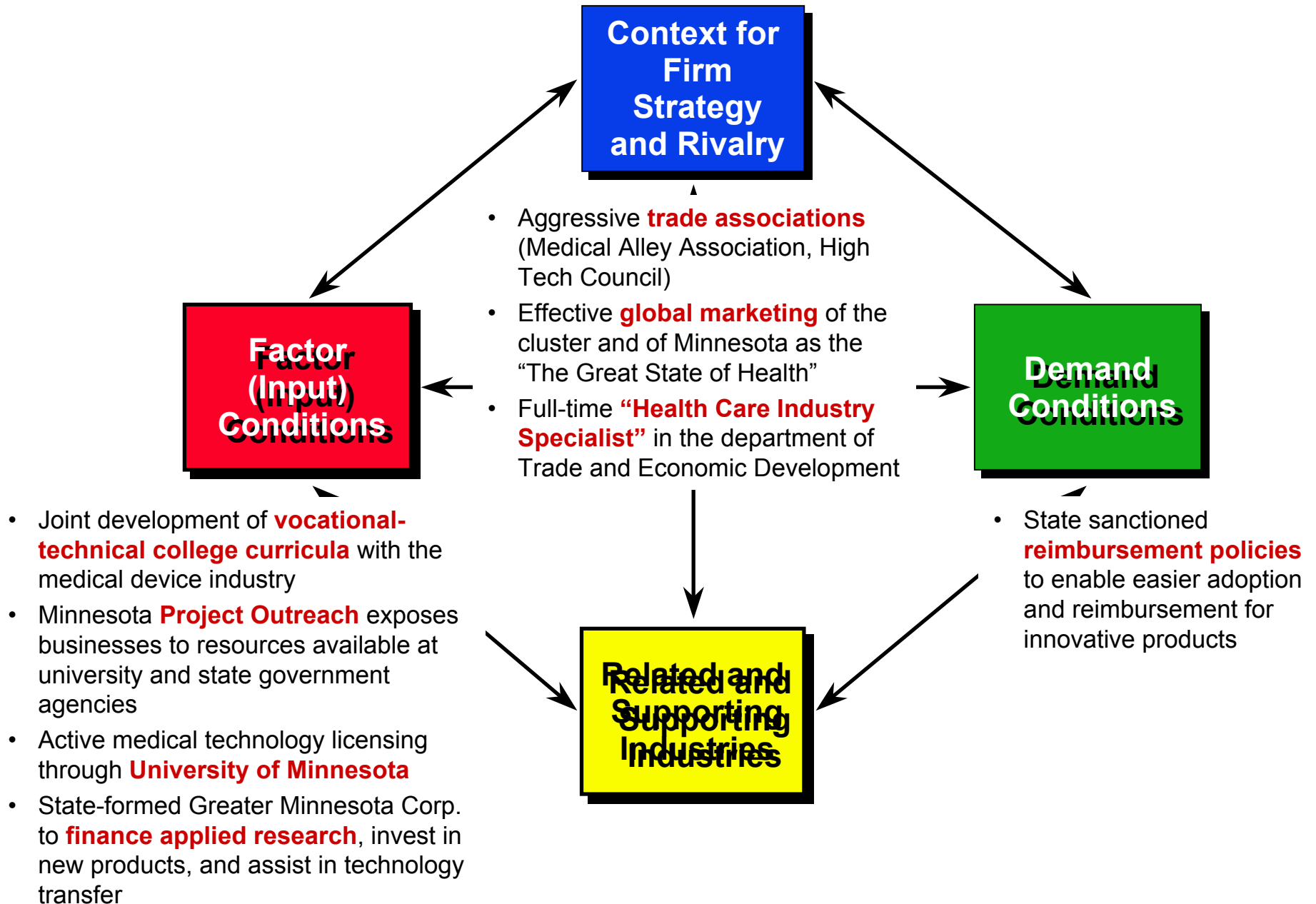
- Established in 1998
- Focus: Information collection, organization, and dissemination
- Funding: Cluster organizations

Wine Industry National Education and Training Council

- Established in 1995
- Focus: Coordination, integration, and standard maintenance for vocational training and education
- Funding: Government; other cluster organizations

Public / Private Cooperation in Cluster Upgrading

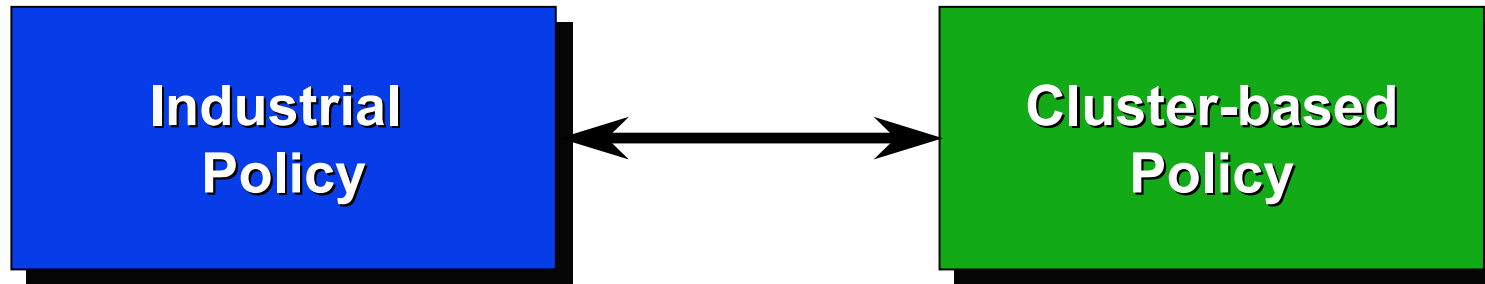
Minnesota's Medical Device Cluster



Appropriate Roles of Government in Cluster Development

- A successful cluster policy builds on **sound overall economic policies** and improvements in the **general business environment**
- Government, in cooperation with the private sector, must identify all **existing** and **emerging** clusters
- To **qualify** as an emerging cluster there must be
 - Some viable companies present
 - A core of cluster-specific advantages in the diamond
- Government policy should **reinforce established and emerging clusters** rather than attempt to create entirely new ones
- Government should support the development of **all clusters**, not choose among them
- Government's role in cluster initiatives is as **facilitator** and **participant**. The most successful cluster initiatives are a public-private partnership

Cluster Policy versus Industrial Policy



- Target **desirable** industries / sectors
- Focus on domestic companies
- Intervene in competition (e.g., protection, industry promotion, subsidies)
- Centralizes decisions at the national level



Distort competition

- **All** clusters can contribute to prosperity
- Domestic and foreign companies both enhance productivity
- Relax impediments and constraints to productivity
- Emphasize cross-industry linkages / complementarities
- Encourage initiative at the state and local level



Enhance competition

South Africa's Competitiveness Agenda 2003

- Upgrade the business environment
- Foster cluster development
- **Shift the roles of government and business in economic development**
- Integrate social and economic policies
- Create economic strategies at the provincial level
- Lead a cross-national economic strategy for Southern Africa

Shifting Responsibilities for Economic Development

Old Model

- **Government** drives economic development through policy decisions and incentives



New Model

- Economic development is a **collaborative process** involving government at multiple levels, companies, teaching and research institutions, and institutions for collaboration

Roles of Government in Economic Development

- **Improve the macroeconomic, political, legal, and social context**
 - Establish a **stable and predictable** macroeconomic, legal, and political environment
 - Improve the **social conditions** of citizens
- **Upgrade the general microeconomic business environment**
 - Improve the availability, quality, and efficiency of **cross-cutting or general purpose inputs, infrastructure, and institutions**
 - Set **overall rules and incentives** governing competition that encourage productivity growth
- **Facilitate cluster formation and upgrading**
 - Identify **existing and emerging clusters**
 - Convene and participate in the identification of **cluster constraints** and **action plans** to address them
- **Lead a collaborative process of economic change**
 - Create institutions and **processes for upgrading competitiveness** that inform citizens and mobilize the private sector, government at all levels, educational and other institutions, and civil society to take action

Role of the Private Sector in Economic Development

- A company's competitive advantage is partly the result of the **local environment**
- Company membership in a cluster offers **collective benefits**
- Private investment in **“public goods”** is justified



- Take an **active role** in upgrading the local infrastructure
- Nurture **local suppliers** and attract new supplier investments
- Work closely with local **educational and research institutions** to upgrade **quality and create specialized programs addressing cluster needs**
- Provide government with **information** and **substantive input** on regulatory issues and constraints bearing on cluster development
- Focus **corporate philanthropy** on enhancing the local business environment



- An important role for **trade associations**
 - Greater influence
 - Cost sharing

South Africa's Competitiveness Agenda 2003

- Upgrade the business environment
- Foster cluster development
- Shift the roles of government and business in economic development
- **Integrate social and economic policies**
- Create economic strategies at the provincial level
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Human Development Index 2002

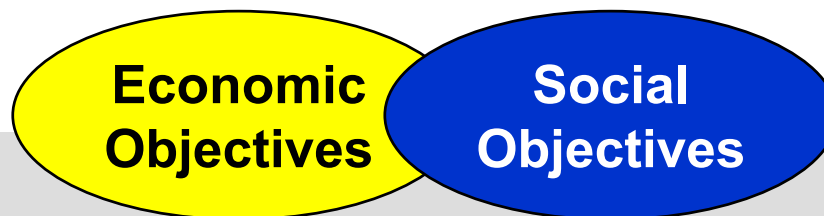
Country	HDI Rank	Distance to GDP Rank	Health	Education	Income
Libya	64	-2	0.76	0.84	0.72
Mauritius	67	-18	0.77	0.77	0.77
Tunisia	97	-26	0.75	0.72	0.69
Algeria	106	-22	0.74	0.69	0.66
South Africa	107	-56	0.45	0.88	0.76
Egypt	115	-10	0.70	0.62	0.60
Namibia	122	-54	0.33	0.81	0.69
Morocco	123	-16	0.71	0.50	0.60
Swaziland	125	-33	0.32	0.77	0.64
Botswana	126	-62	0.25	0.75	0.71
Zimbabwe	128	-12	0.30	0.81	0.55
Ghana	129	1	0.53	0.62	0.50
Lesotho	132	-5	0.34	0.76	0.50
Kenya	134	19	0.43	0.72	0.39
Cameroon	135	0	0.42	0.65	0.47
Congo	136	27	0.44	0.75	0.35

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

Integrating Economic and Social Policy

- In the new thinking on competition, there is **not an inherent conflict** between economic and social objectives, but a long term synergy



- The **competitiveness of companies** depends heavily on
 - Rising skill levels
 - Safe working conditions
 - A sense of equal opportunity
 - Low levels of pollution (pollution is a sign of unproductive use of physical resources)
- However, efforts to meet “social” objectives must be **aligned with productivity** and prepare and motivate individuals to **succeed in the market system**
- Efforts to meet “economic” objectives must include explicit programs to **raise human capability**, improve the lives and **sense of opportunity** for individuals, and enhance the broader business environment

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 requirement; secure property rights to residents

Health Care

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

Social Security

- Create incentives for saving; encourage a private pension system that agglomerates investment capital

Environmental Quality

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

Towards Sustainable Black Economic Empowerment

Selected Policies

- Improve **social conditions**
- Improve and extend **public education**
- Invest aggressively in **managerial training** for black citizens
- Create incentives and support the hiring and promotion of black employees into **low- and middle-management** positions in white-owned local companies as well as multinationals
- Focus on upgrading **indigenous local businesses**, including in agriculture, local services, and manufacturing businesses serving local needs
- Place early attention to **clusters** involving small- and medium size enterprises
- Create incentives for **risk capital investments** in business with significant (>10%) black ownership. Avoid programs that apply only to majority black-owned businesses, especially when other owners are passive investors or private equity firms



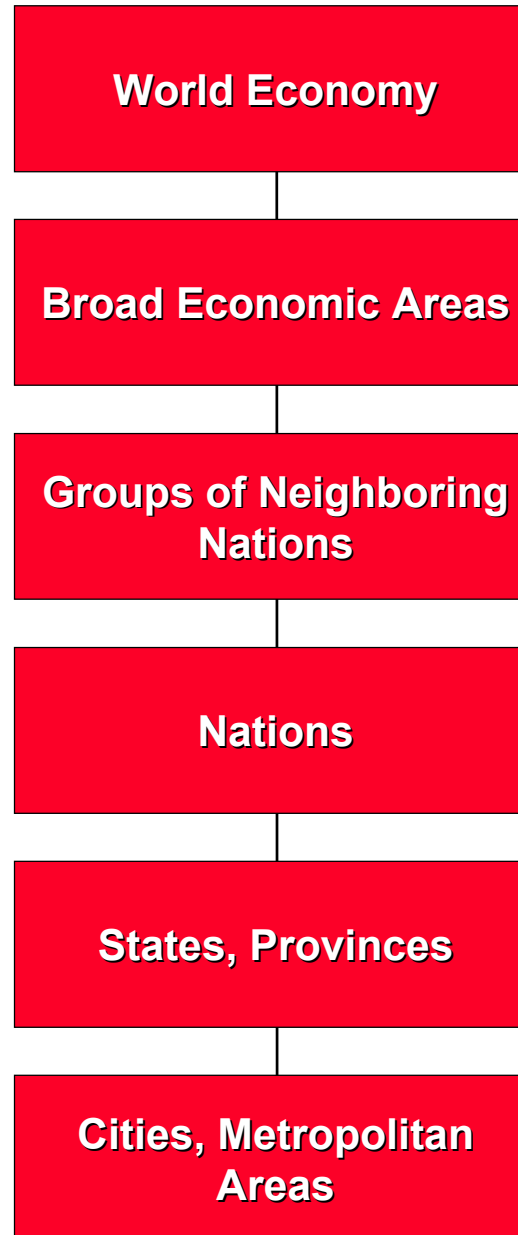
- There a **no short cuts** for addressing this long-term challenge

South Africa's Competitiveness Agenda 2003

- Upgrade the business environment
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- Integrate social and economic policies
- **Create economic strategies at the provincial level**
- Lead a cross-national economic strategy for Southern Africa

Influences on Competitiveness

Multiple Geographic Levels



Regional Performance

Per Capita Income and Employment Growth by UK Region

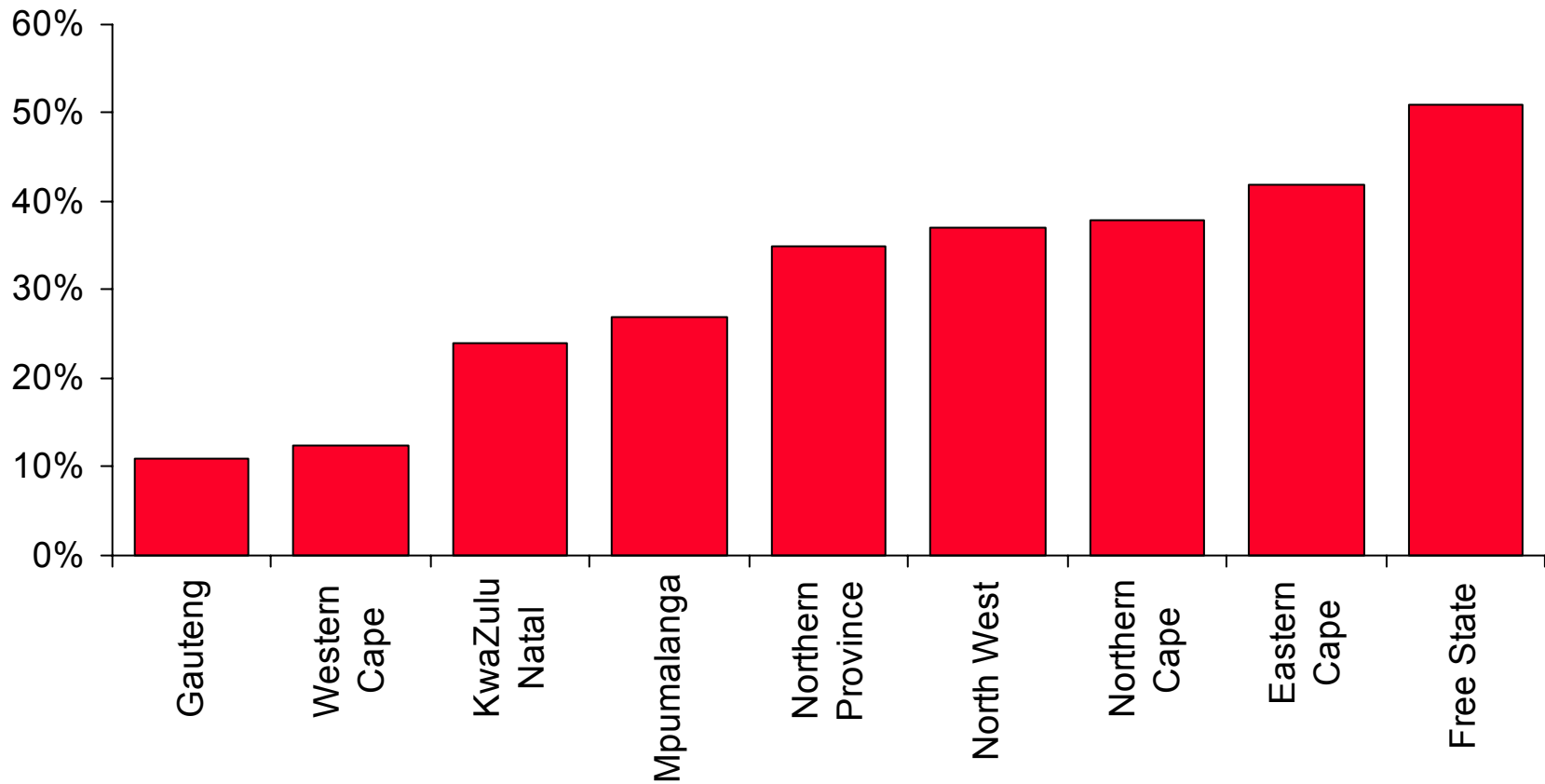


Source: Office for National Statistics

Regional Performance

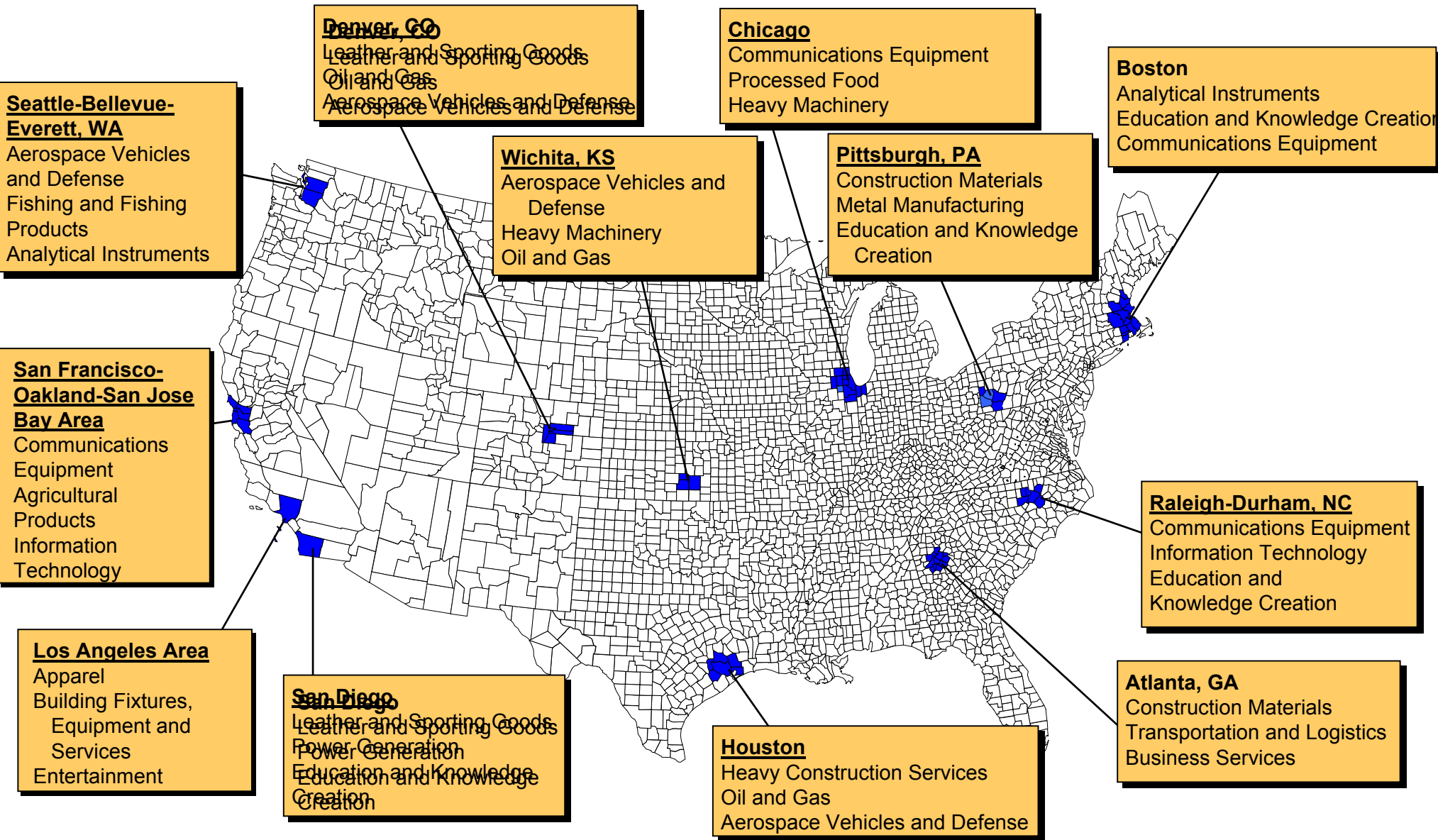
Poverty Levels by South African Provinces

Share of households
living in poverty,
1996



Specialization of Regional Economies

Select U.S. Geographic Areas



Note: Clusters listed are the three highest ranking clusters in terms of share of national employment

Source: Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School

Principles of Provincial Economic Development

- Delegate **authority and accountability** for economic policy to the provincial level
- Improve the **provincial business environment** rather than attempting to distort location decisions with subsidies or mandates
- Identify and enhance **existing and emerging local clusters**. Clusters may trade either internationally or primarily with other provinces
- Efforts to attract investment should capitalize on the **uniqueness** of the provinces and build on **clusters** rather than across-the-board promotional schemes

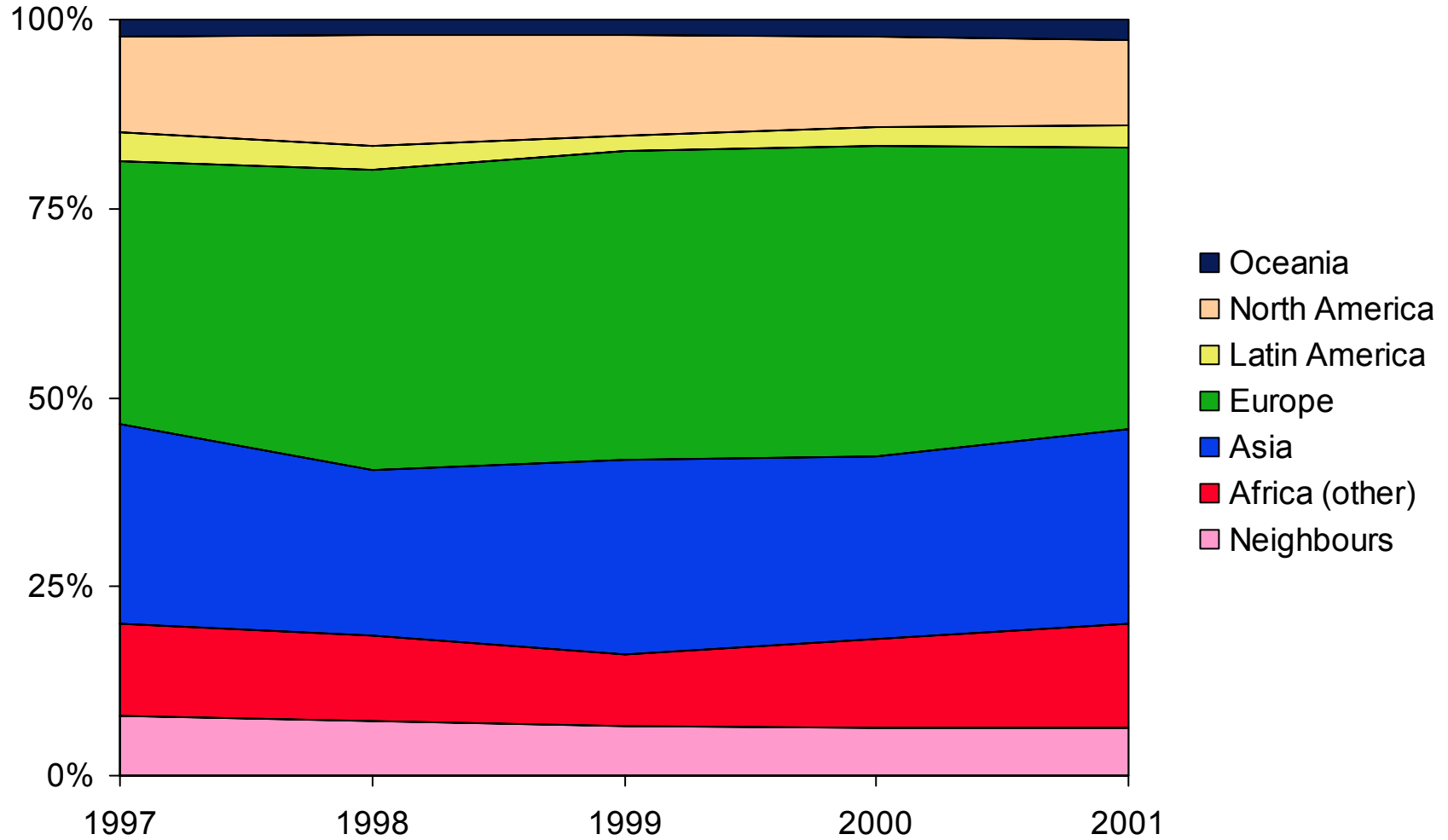
Export Processing Zones and Competitiveness

- Export processing zones are more successful if they are targeted around the needs of specific **clusters**
 - Use a cluster-based approach to FDI promotion
 - Involve companies already present in the zone to attract further specialized suppliers and service providers
- Export processing zones can improve a country's or province's competitiveness if they **trigger broader changes** in the business environment
 - Creation of specialized input factors, such as specialized suppliers and research facilities
 - Upgrading of rules and regulations, for example in the labor market
 - Improvement of government services, for example in customs services

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South Africa's Export Destinations 1997-2001



Note: Excludes exports to unspecified destinations (2001: 28%)

Source: UNCTAD Trade Data. Author's analysis.

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The Importance of Regional Trade for Developing Economies

Trade Solely with Advanced Nations

- Exports based on **inherited** comparative advantages
 - Natural resources
 - Cheap labor
- Can lead to narrow export base and limited local company presence in the value chain
- Inbound FDI can focus heavily on accessing resources versus more productive activities
- Vulnerable to exchange rate swings and macroeconomic shocks



- Can create a **dead-end strategy** leading to domestic pressure for intervention
- Policies must focus on upgrading local capabilities and improving a nation's value proposition for more advanced activities

Trade with Developing Nations/Neighbors

- Exports can be based on **created** competitive advantages
 - Industries where a country has achieved greater productivity than neighbors
 - Differentiated products that meet regional needs
 - More efficient production processes given factor costs
- Broadening export base
- Widening skills in the value chain
- Outbound not just inbound FDI



- Boosts **productivity** across many parts of the national economy
- Stimulates the improvement of skills by local firms and provides a **stepping stone** for wider internationalization

Cross-National Regions and Economic Strategy

Traditional Views

- Regions as **free trade zones**; regions as **economic unions** (e.g., United States, European Union)

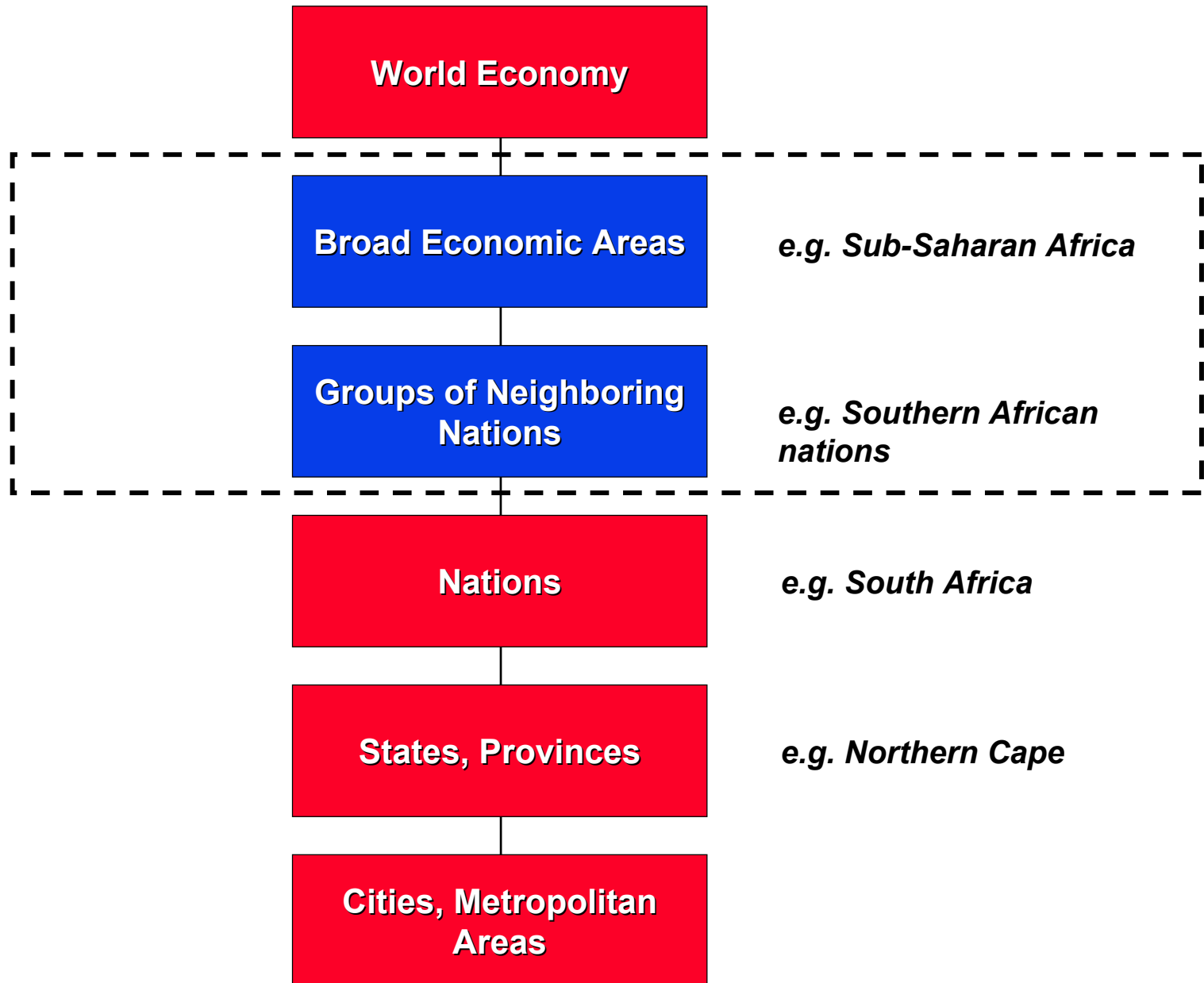


New View

- A regional strategy as a powerful tool to enhance **competitiveness** in autonomous countries
 - Internal trade and investment
 - Gains from internal trade and investment
 - AND
 - Company operations and strategy
 - Enhancing the **competitive capability** of firms
 - Expanding trade in **non-traditional** export industries
 - Business environment
 - Mutual benefits to the **productivity of the business environment** through policy coordination that captures **external economies** and the benefits of **specialization** in institutions and infrastructure across borders
 - Cluster development
 - **Cross-border cluster** specialization and integration
 - Foreign investment
 - Enhancing interest and investment in the region by the **international community**
 - Economic policy process
 - Improving economic policy formulation and implementation **at the national level**

Cross-National Economic Coordination

Alternate Geographic Levels



Cross-National Economic Coordination

Illustrative Policy Areas

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 business and financial **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
- Coordinated **competition policy**

Demand Conditions

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

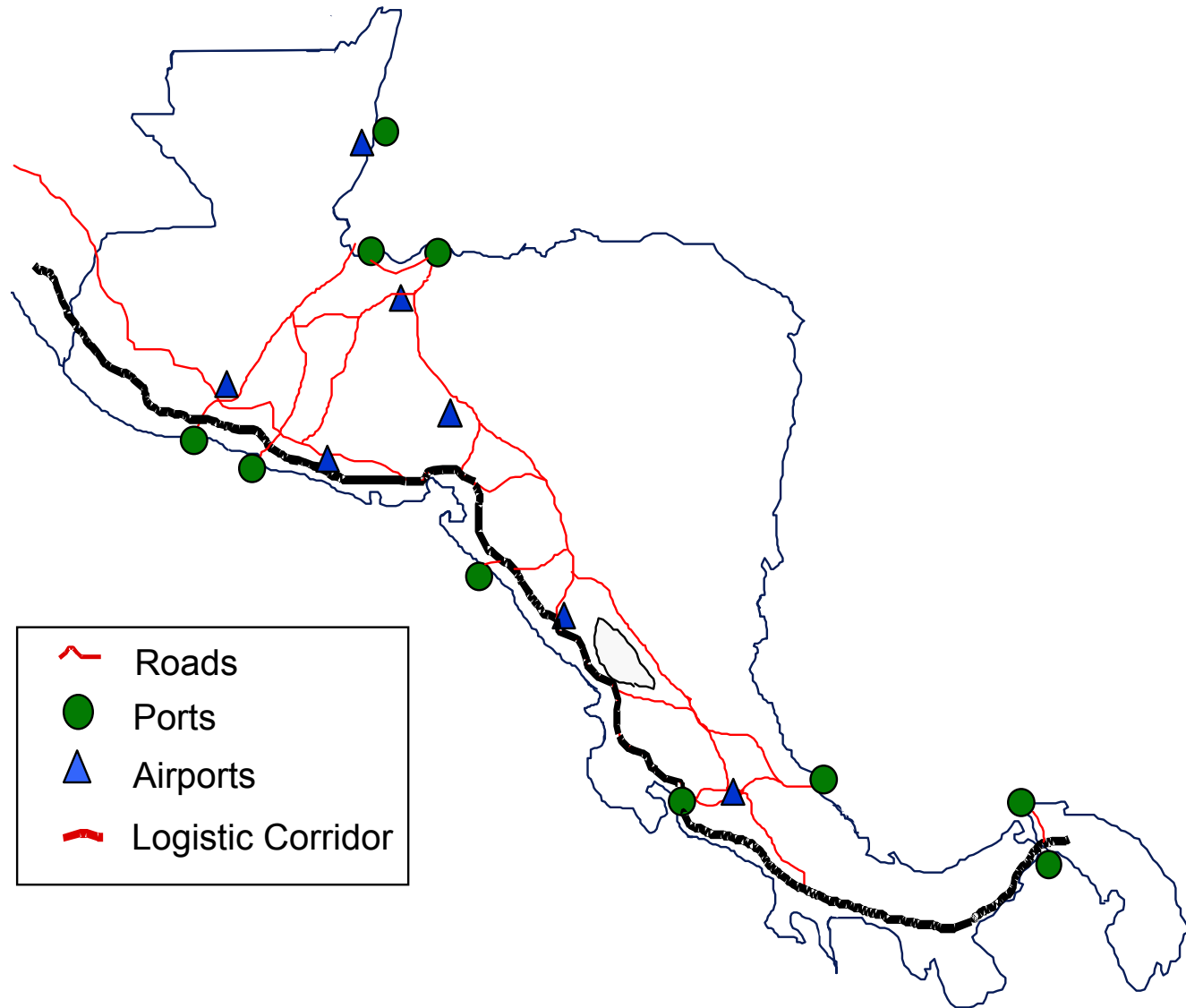
Related and Supporting Industries

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

Regional Governance

- Share **best practices** in government operations
- Improve regional **institutions**
 - Regional development bank
 - Dispute resolution mechanisms
 - Policy coordination body
- Develop a regional **marketing strategy**

Central American Logistical Corridor



South Africa's Competitiveness Agenda 2003

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- **Foster cluster development**
- **Shift the roles of government and business in economic development**
- **Integrate social and economic policies**
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- **Lead a cross-national economic strategy for Southern Africa**

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- “Clusters and the New Competitive Agenda for Companies and Governments” in On Competition, Boston: Harvard Business School Press, 1998
- “The Microeconomic Foundations of Economic Development,” in The Global Competitiveness Report 1998-99, (World Economic Forum, 1998)
- “The Current Competitiveness Index: Measuring the Microeconomic Foundations of Prosperity” in The Global Competitiveness Report 2000-01, New York: Oxford University Press, 2000
- “Enhancing the Microeconomic Foundations of Prosperity: The Current Competitiveness Index” in The Global Competitiveness Report 2001-02, New York: Oxford University Press, 2001
- “Building the Microeconomic Foundations of Prosperity: Findings from the Microeconomic Competitiveness Index” in The Global Competitiveness Report 2002-03, New York: Oxford University Press, forthcoming 2002
- “Location, Competition, and Economic Development: Local Clusters in a Global Economy,” (Economic Development Quarterly, February 2000, 15-34)
- “Locations, Clusters, and Company Strategy” in The Oxford Handbook of Economic Geography, (G. L. Clark, M.P. Feldman, and M.S. Gertler, eds.), New York: Oxford University Press, 2000
- “Attitudes, Values, Beliefs and the Microeconomics of Prosperity,” in Culture Matters: How Values Shape Human Progress, (L.E. Harrison, S.P. Huntington, eds.), New York: Basic Books, 2000

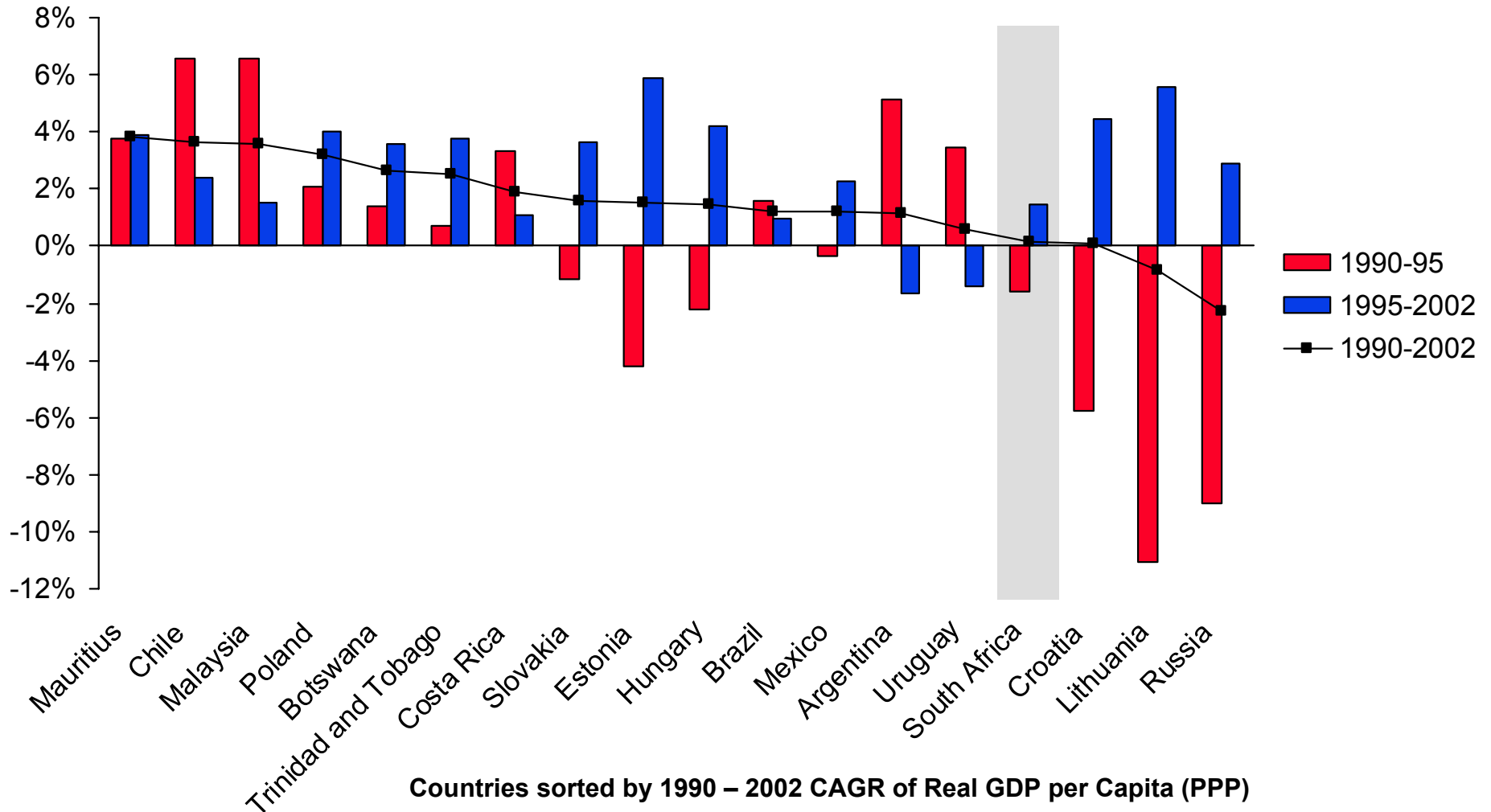
Web resources

- Institute for Strategy and Competitiveness www.isc.hbs.edu
- ISC Cluster Mapping Data (US) data.isc.hbs.edu/isc/index.jsp
- *Cluster of Innovation Initiative*
 - Council on Competitiveness www.compete.org
 - Monitor Company www.monitor.com

Comparative Economic Performance

Selected Middle Income Economies over Time

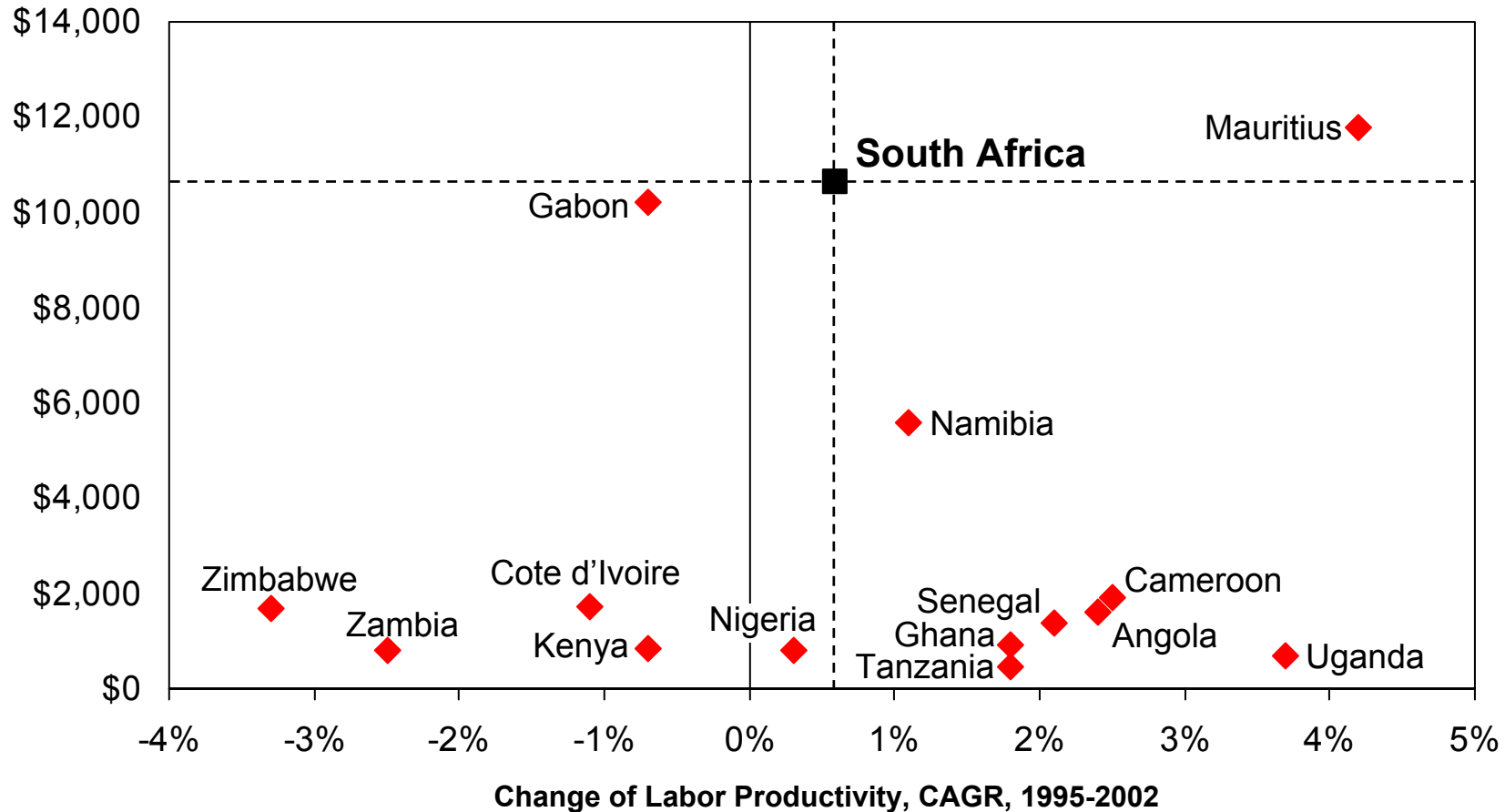
Growth Rate of Real GDP (PPP) per Capita



Comparative Labor Productivity Performance

Selected Sub-Saharan African Economies

Labor Productivity
(Real GDP per Employee),
2002



- South Africa's labor productivity is high relative to other African economies, but its growth has been only average over recent years

Top 10 Listed South African Companies

By Market Capitalization

Company	Sector	Market Capitalization (US\$m, 12/2002)
Anglo American	Mining Finance	21,751
BHP Billiton	Mining	12,996
C. Financiere Richemont	Appliances	9,736
Sasol	Oil & Gas	8,101
Anglo American Platinum	Mining	7,860
SAB Miller	Breweries	6,994
Gold Fields	Mining	6,523
Old Mutual	Insurance	5,273
Standard Bank Group	Banking	4,631
Firststrand	Banking	4,610

Top 30 South Africa's Export Industries by Export Value, 2000

No.	Industry	Cluster	Sub-cluster
1	Diamonds unset,rough,unsort	Personal	Precious,Semi-P Stones
2	Special Transactions	Multiple Business	Misc Multi Business Gds
3	Oth Coal, not agglomerated	Materials/Metals	Coal,Lignite,Peat,Briquets,Coke
4	Pass Motor Veh exc busses	Transportation	Passenger Motor Vehicles
5	Gas,Liquid Filters etc	Multiple Business	Laboratory Equipment
6	Aluminium,Alloys,onwrght	Materials/Metals	Aluminum, Processed
7	Other Ferro-Alloys	Materials/Metals	Pig Iron,Stl Powders,Shot,Alloy
8	Dmnds nnind,unset,cut not set	Personal	Precious,Semi-P Stones
9	Iron Ore Agglomerates	Materials/Metals	Concentrated Mtl Ores
10	Other Motor Vehcl Parts	Transportation	Vehicle Body Parts
11	Gas Oils	Petroleum/Chemicals	Petroleum Products
12	Molybd, niobium etc ores	Materials/Metals	Base Metal Concentrts,Ores
13	Pts nes of Chairs etc	Housing/Household	Commercial Furniture
14	Raw Beet and Cane Sugar	Food/Beverages	Sugar
15	Wine of Fresh Grapes	Food/Beverages	Wine
16	Chem Wood Pulp Dissolving	Forest Products	Wood Pulp
17	Prec Metal Scrap, waste	Materials/Metals	Precious Metal Concentrts,Ores
18	Iron,Simple Steel coils	Materials/Metals	Steel Coil,Rod,Bars
19	Stnless Steel etc coils	Materials/Metals	Steel Coil,Rod,Bars
20	Ferro-Manganese	Materials/Metals	Pig Iron,Stl Powders,Shot,Alloy
21	Other Paper etc, bulk nes	Forest Products	Other Paper
22	Lorries,Trucks	Transportation	Trucks, Road Vehicles
23	Pulpwood Chips. particles	Forest Products	Wood Fiber
24	Motor,Aviation Spirit	Petroleum/Chemicals	Petroleum Products
25	Grapes fresh	Food/Beverages	Other Fruits
26	Oranges,fresh or dried	Food/Beverages	Citrus Fruits, Fresh or Dried
27	Titanium Oxides	Materials/Metals	Inorganic Chemicals,Oxides
28	Alumnm Plate, sheet strip	Materials/Metals	Aluminum, Processed
29	Oth Irn,Stl Plt,Sht-Irn or Smp	Materials/Metals	Plate Sheet, Flat Rolled
30	Oth Acyclic Hydrocarbons	Petroleum/Chemicals	Other Hydrocarbons

Source: UNCTAD Trade Data. Author's analysis.