

# National and Regional Competitiveness: The Agenda for Libya

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

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# Libya's Strategic Challenge

- Libya's economy has been **isolated** from the world economy for several decades
- Libya seeks to **transform** itself into a vibrant market economy
- Libya possesses a number of **key strengths**, including its oil and gas reserves, accumulated capital reserves, attractive location, and a strategic role with its neighbors
- As it has opened, Libya is attracting the interest of numerous international companies. Libya needs a strategy to seize this opportunity and harness the power of **inward FDI** for economic change
- However, Libya faces numerous **challenges** in upgrading and modernizing its economy and society to enable success in a new economic structure
- Libya also must begin **creating jobs** for its young and growing populations, starting from a position of high unemployment



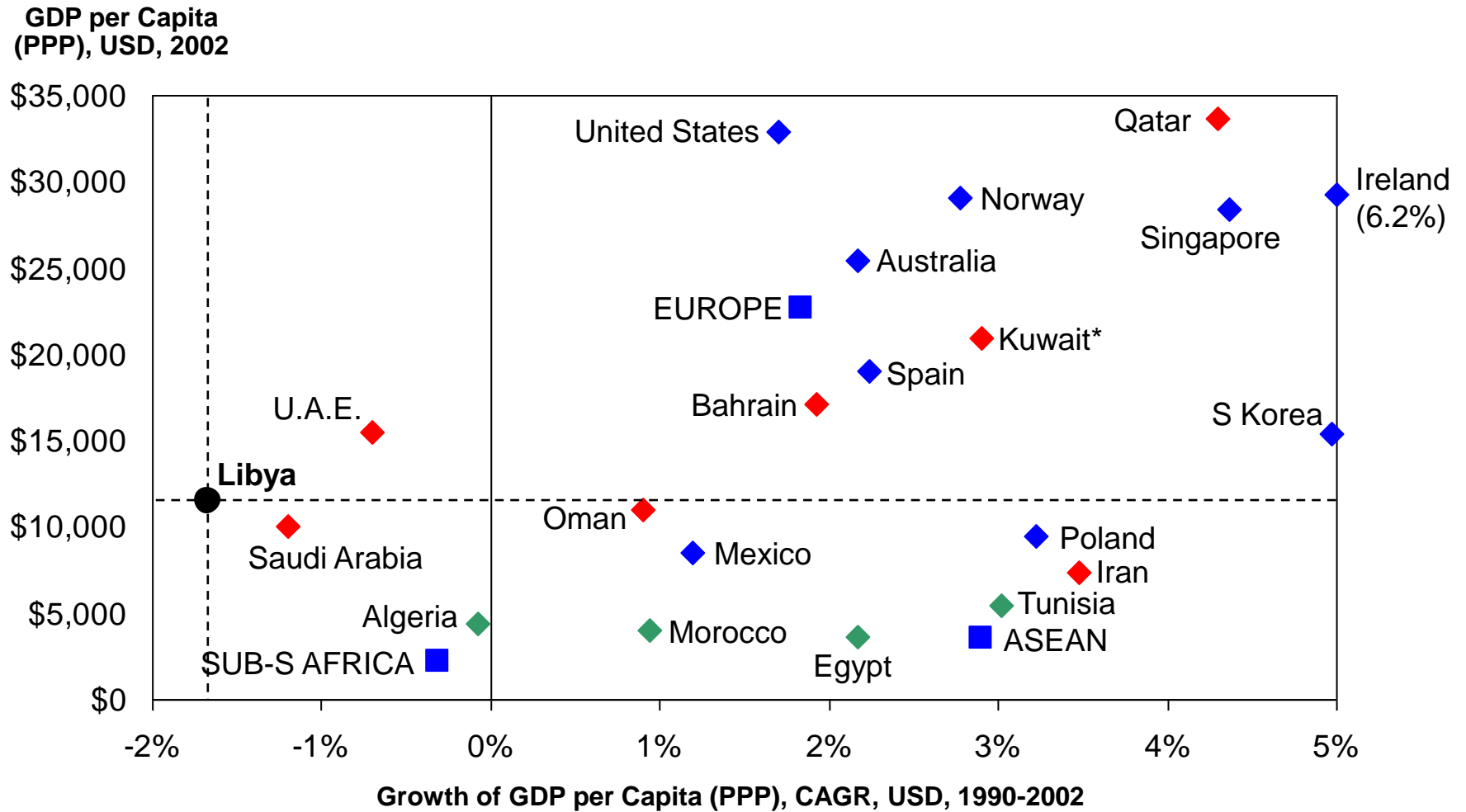
- Libya seeks to develop an Economic Master Plan to:
  - Articulate and chart a **long-term vision for the Libyan economy**
  - **Guide the myriad of individual policy choices** in important areas of economic and social policy
  - Ensure that short-term activities and decisions are **consistent with a long-term framework**
  - **Shape** Libya's future rather than be driven by outside forces and reacting to opportunities

# Libyan Competitiveness 2004

- + Prosperity is among the **highest** in the region
- + Opportunity of fast **reintegration** into the international community
- + High levels of **formal** education
  
- Growth has been the **lowest** in the region over the last decade
- Growth is **volatile** and driven by world oil prices
- High **unemployment** and private sector job creation far below the 4% annual increase in labor force
- Oil exports below potential because of **low foreign investment**
- Dominance of the **public sector** in the oil and non-oil economy
- High **deficit** in the non-oil government budget
- Significant **tariffs and trade barriers**
- Serious underinvestment in transportation and communication **infrastructure**
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- Widespread government **intervention** and complex regulations

# Comparative GDP per Capita Performance

## Selected Developing and OECD Countries

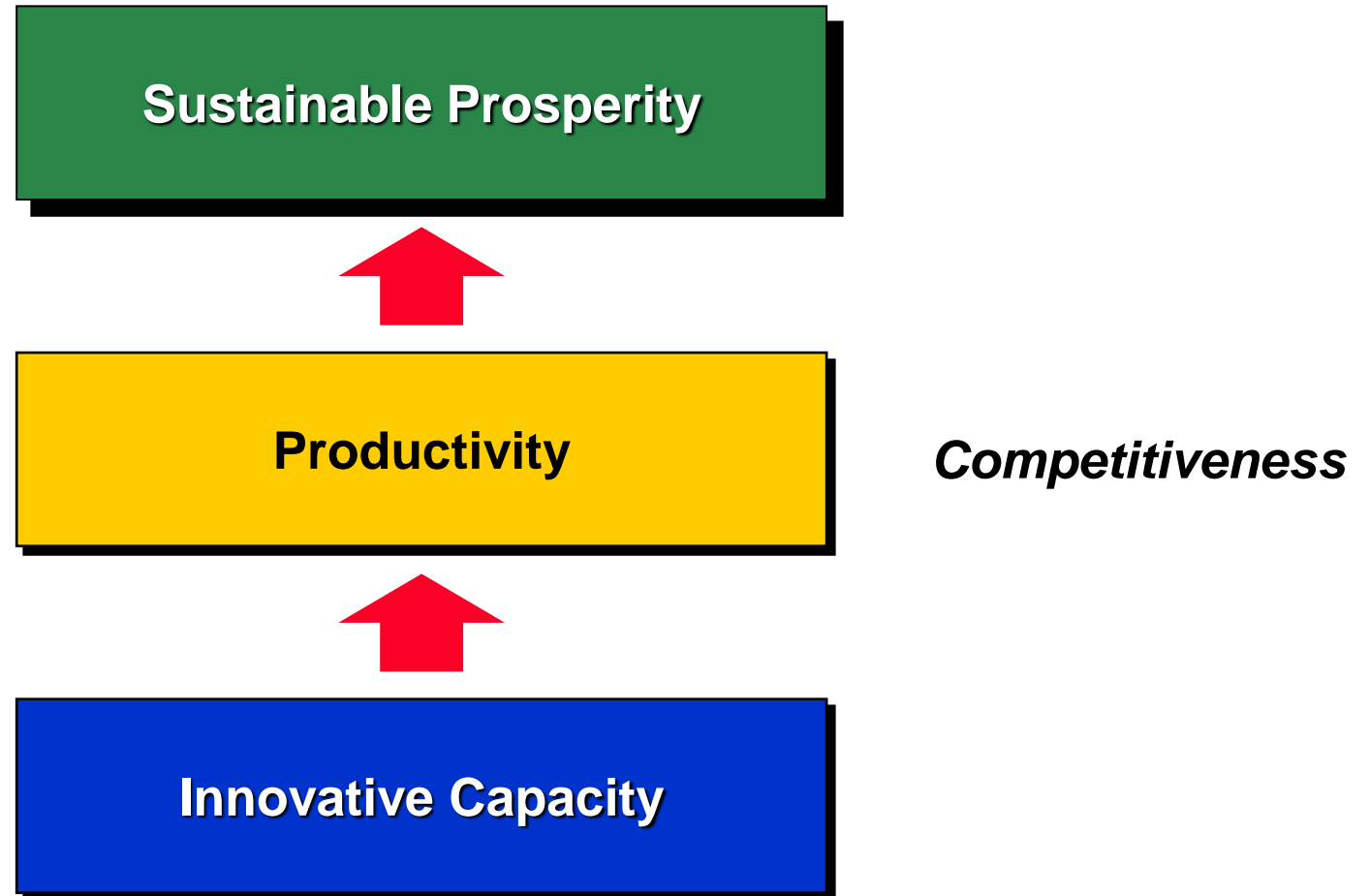


Note: Kuwait had artificially high growth rates in the aftermath of the first Gulf war, OPEC members in red, North African countries in green

Source: EIU (2003)

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# Foundations of Sustainable Prosperity



# 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

# Sources of Prosperity

## Inherited Prosperity

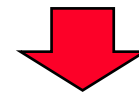
- Prosperity is derived from **selling inherited natural resources** or **real estate**
- Prosperity is **limited** by the amount of natural resources available, and ultimately **temporary**
- Focus gravitates towards the **distribution** of wealth as interest groups seek a bigger share



- **Government** is the central actor in the economy as the owner and distributor of wealth
- Productivity growth is **arrested**

## Created Prosperity

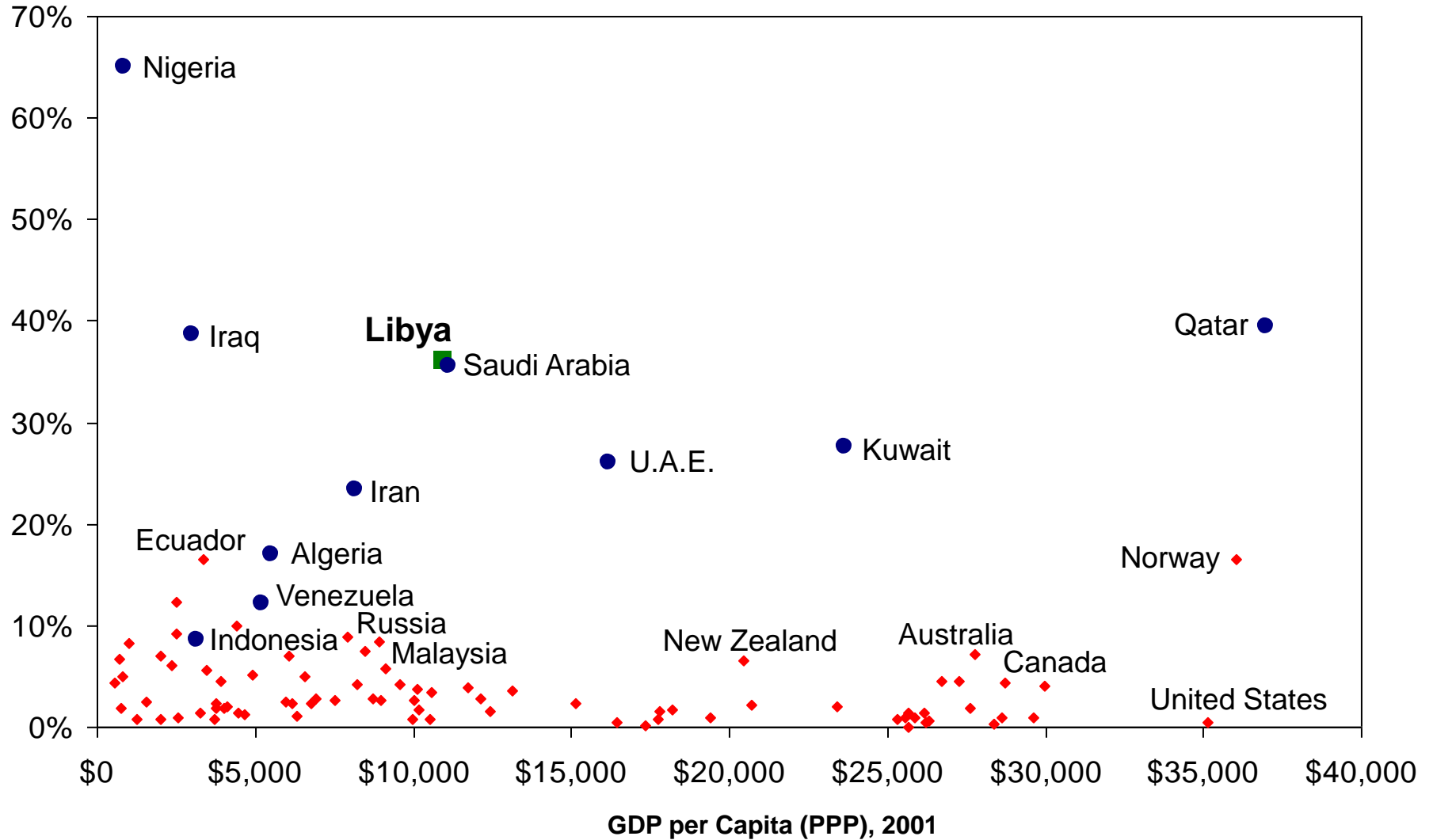
- Prosperity is derived from **creating valuable products and services**
- Prosperity is created by **firms**
- Prosperity is **unlimited**, based only by the innovativeness and productivity of companies in the economy
- Creating the **conditions** for productivity and innovation are the central policy question



- **Companies** are the central actors in the economy
- The **government's** role is to create the enabling conditions

# Natural Resource Exports and Prosperity

Natural Resource Exports as Share of GDP, 2001



Note: OPEC countries in blue  
 Source: UN (2002), author's calculations



# Oil Endowments and Competitiveness

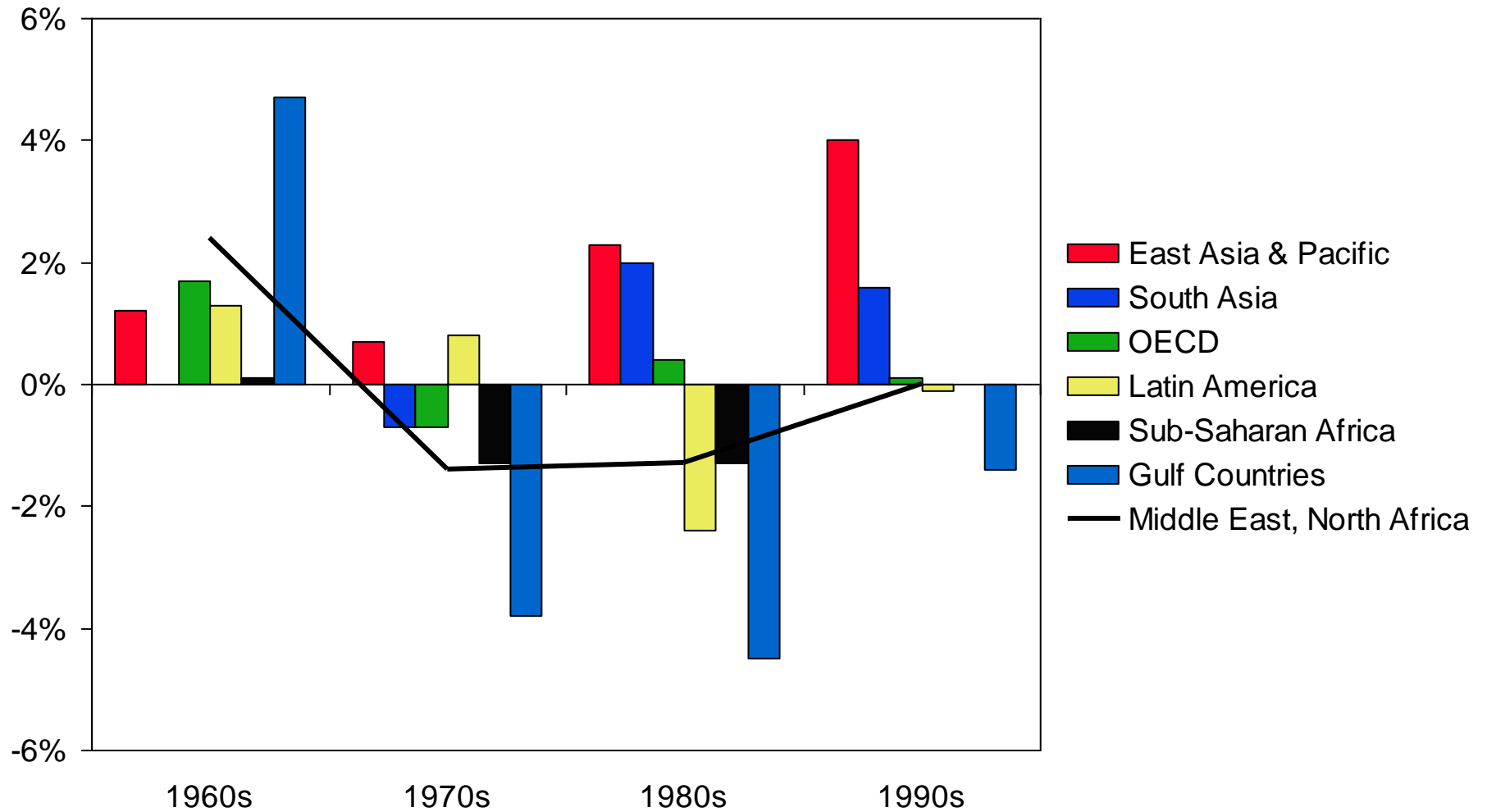
- Export revenues from oil endowments have a **positive direct effect** on prosperity and provide investment capital for infrastructure and other projects

## However

- Oil endowments tend to have a **negative effect** on the underlying sources of competitiveness
  - Empirically, the presence of high natural resource-exports, including oil is associated with **declining competitiveness over time**
    - Incentives
    - Volatility
    - Mindset and attitudes
  - Natural resource endowments, oil resources in particular, reduce prosperity growth over time through their effect on **institutional quality**
  - **Companies** tend to have a narrow in the value-chain, neglect nearby markets, rely on external partners, and compete exclusively in commodity markets

# Total Factor Productivity Growth by Region

## Ten Year Averages



# Determinants of Productivity and Productivity Growth

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

## **Microeconomic Foundations of Development**

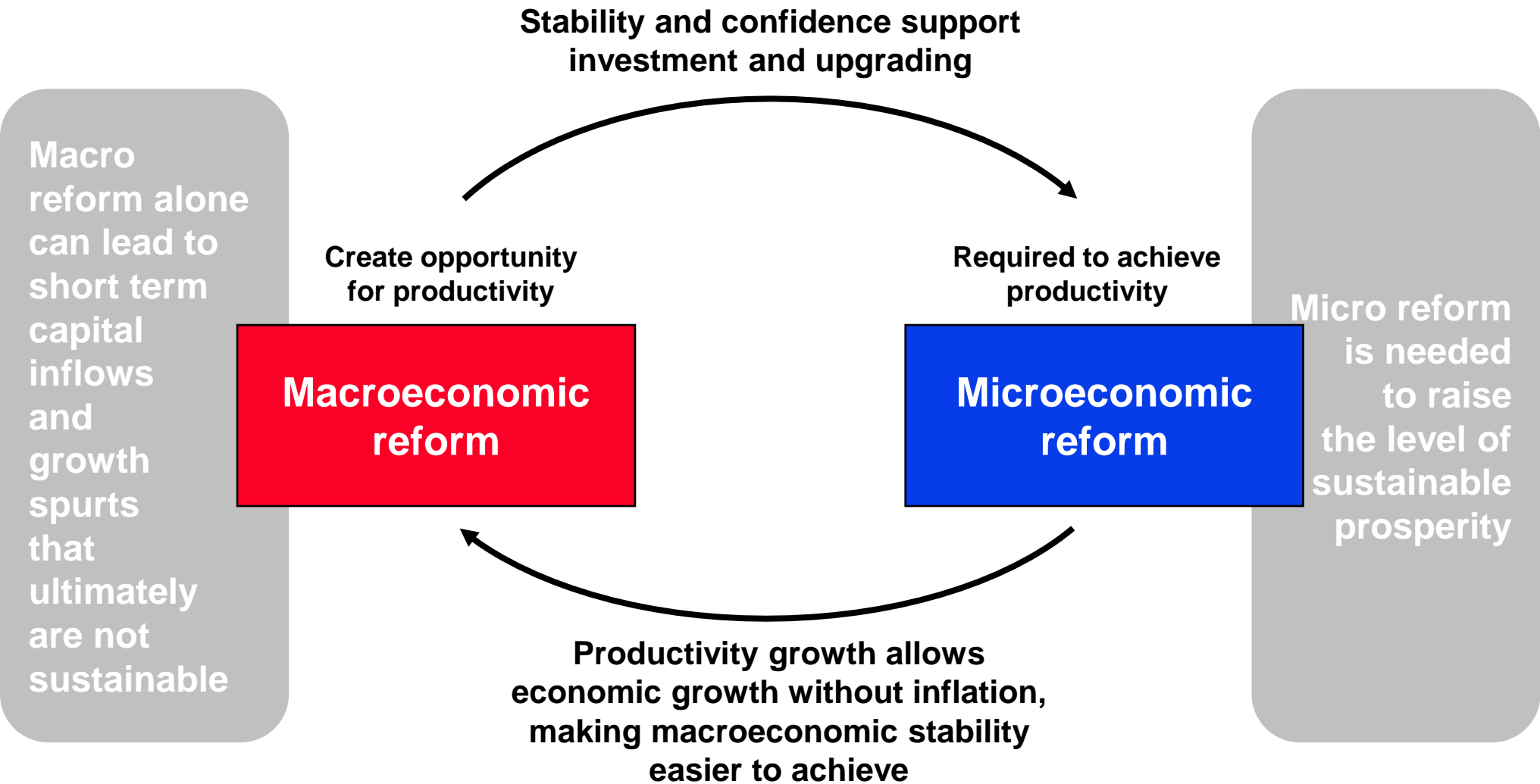
**Sophistication  
of Company  
Operations and  
Strategy**



**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

## Context for Firm Strategy and Rivalry

## Factor (Input) Conditions

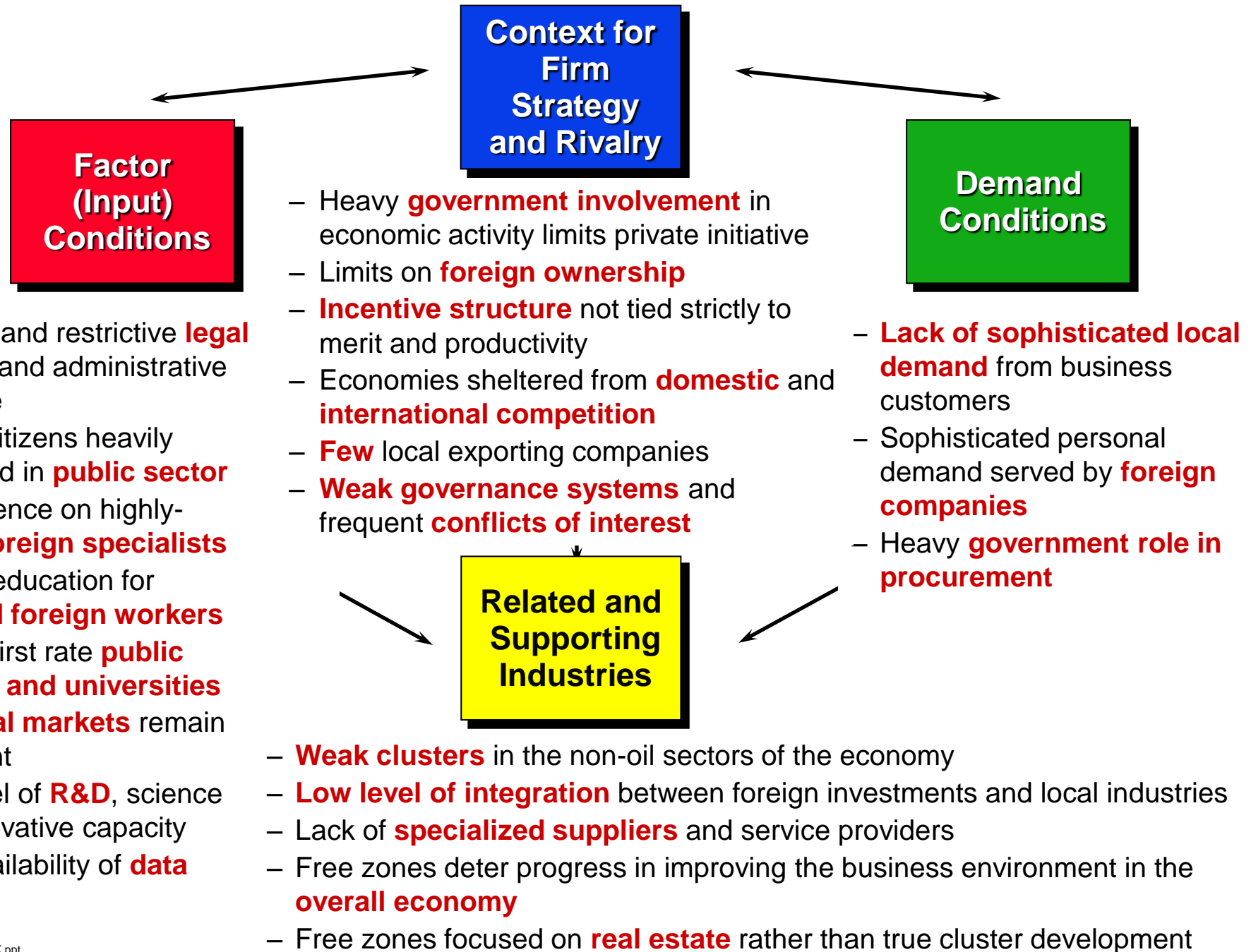
## Demand Conditions

## Related and Supporting Industries

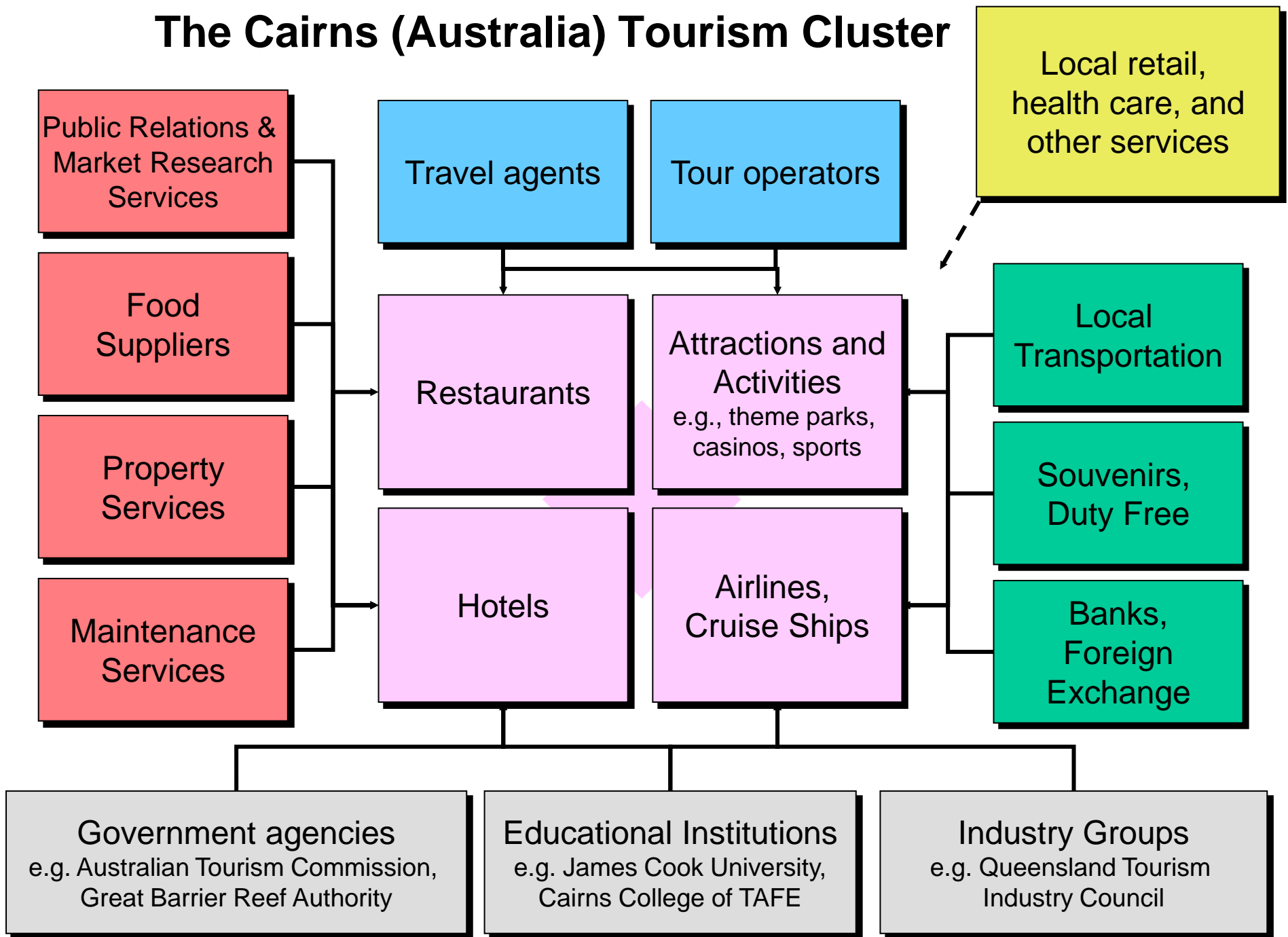
- A local context and rules that encourage **investment** and **sustained upgrading**
    - e.g., Intellectual property protection
  - **Meritocratic** incentive system across institutions
  - Open and vigorous competition among **locally based rivals**
  - **Sophisticated and demanding** local customer(s)
  - Local customer needs that **anticipate** those elsewhere
  - Unusual local demand in **specialized segments** that can be served regionally and globally
  - Access to capable, locally based **suppliers** and firms in **related fields**
  - Presence of **clusters** instead of isolated industries
- **Presence of high quality, specialized inputs** available to firms
- Human resources
  - Capital resources
  - Physical infrastructure
  - Administrative infrastructure
  - Information infrastructure
  - Scientific and technological infrastructure
  - Natural resources
- 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

# Business Environment Quality in Oil-Rich Economies

## Selected Observations

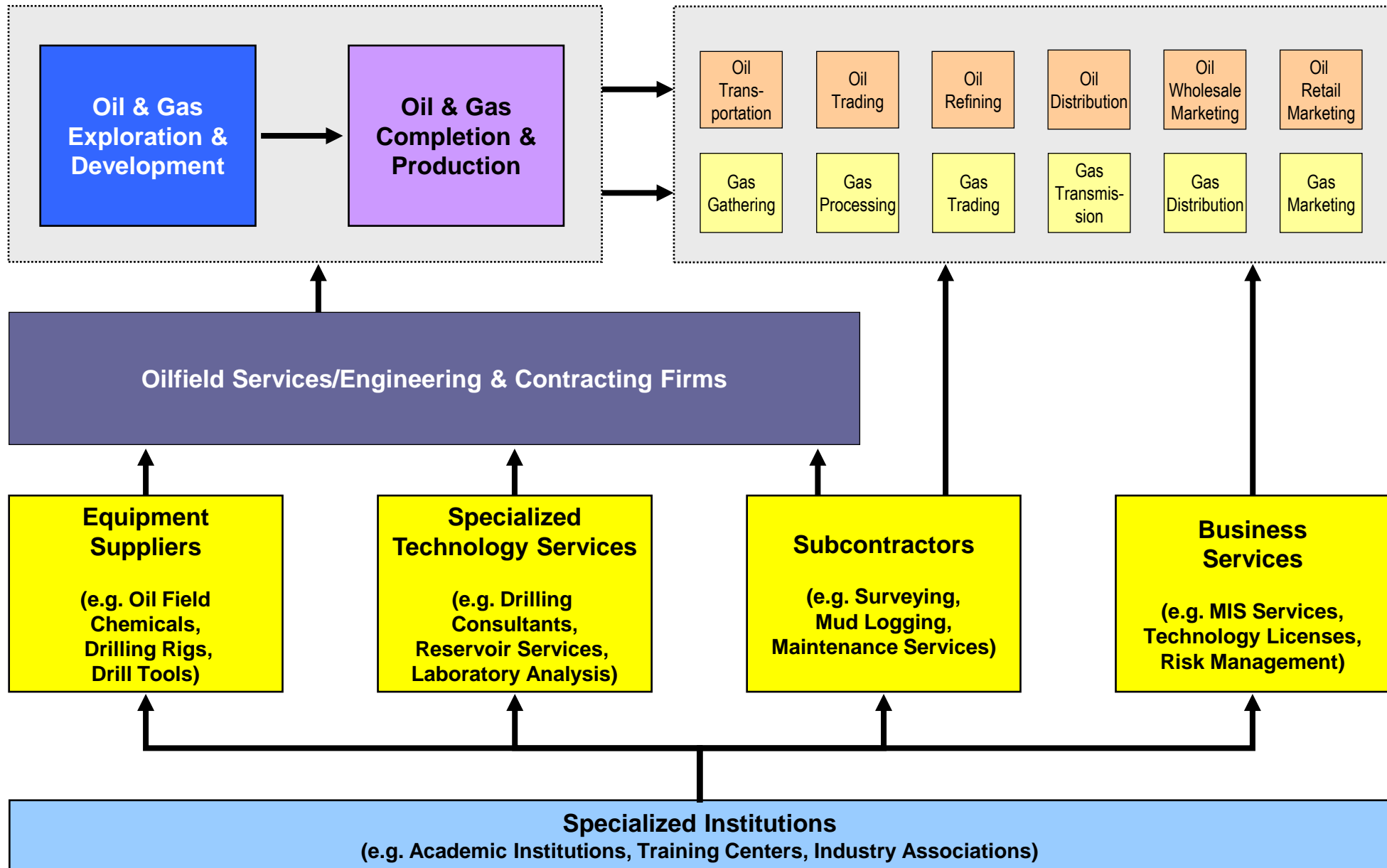


# The Cairns (Australia) Tourism Cluster



# Clusters and Competitiveness

## Houston Oil and Gas Products and Services Cluster





# 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

# Examples of Clusters in an Oil-Rich Economy

## U.A.E.

- Petrochemicals
- Energy
- Tourism
- Logistics and distribution
- Business services

- 
- Information technology
  - Financial services
  - Media
  - Health
  - Agriculture

# Institutions for Collaboration

## The Australian Wine Cluster

### 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

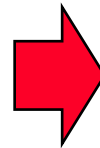
### Wine Industry National Education and Training Council

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

# 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 in Economic Development

## Challenges for Oil-Dependent Economies

### Public Sector-Driven

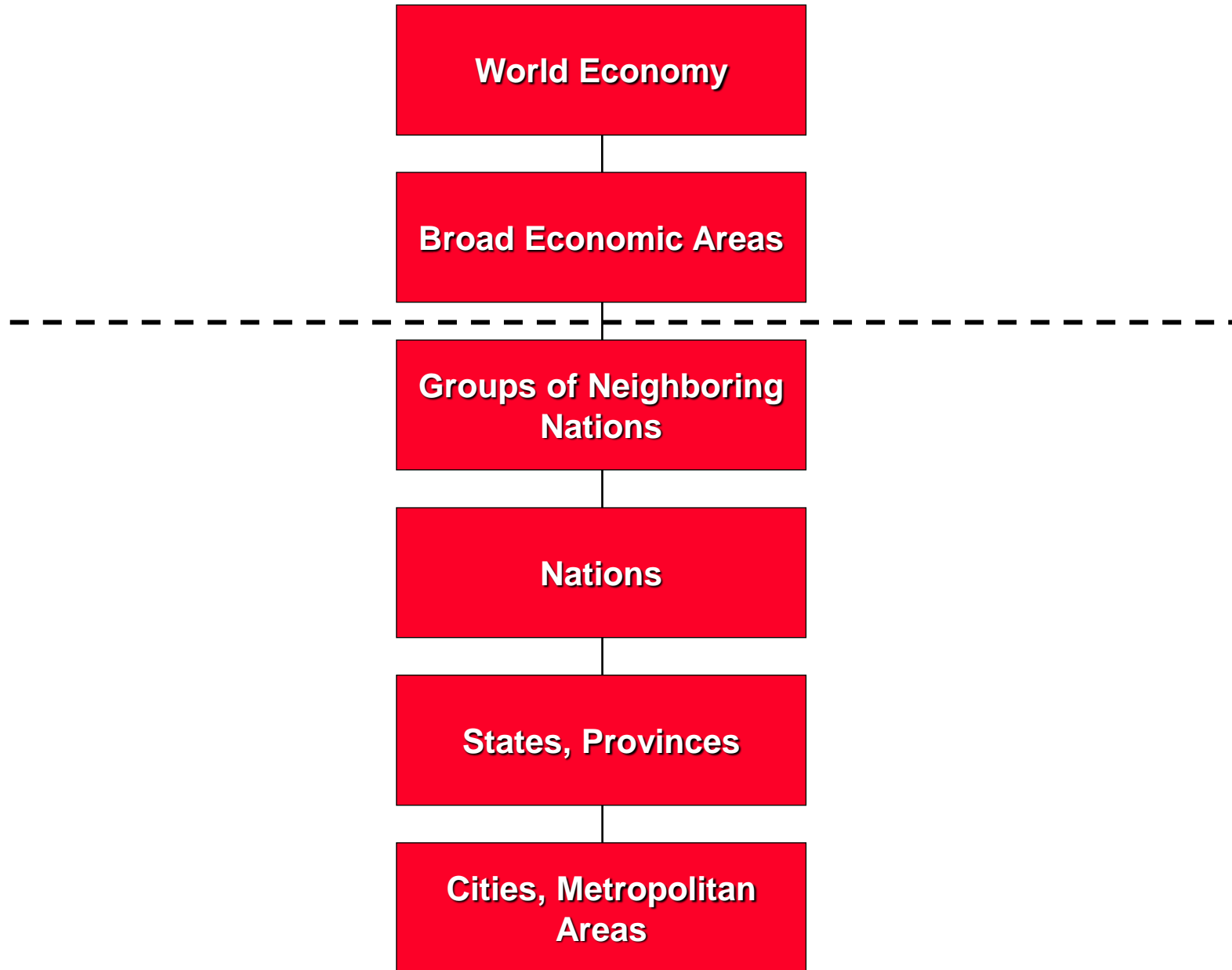
- All sources of wealth **are controlled by the public sector**
- The public sector develops and **distributes** wealth. Government operates companies or is a dominant buyer
- Citizens are **entitled** to public goods to which they do not contribute
- Private wealth is related to power in **intermediating** with the public sector

### Private Sector-Driven

- All wealth is ultimately created in **companies**
- Private wealth is related to **productivity** and the ability to **create value**
- Citizens pay taxes on their wealth or **contribute** to the cost of public services
- The public sector shapes the **business environment**

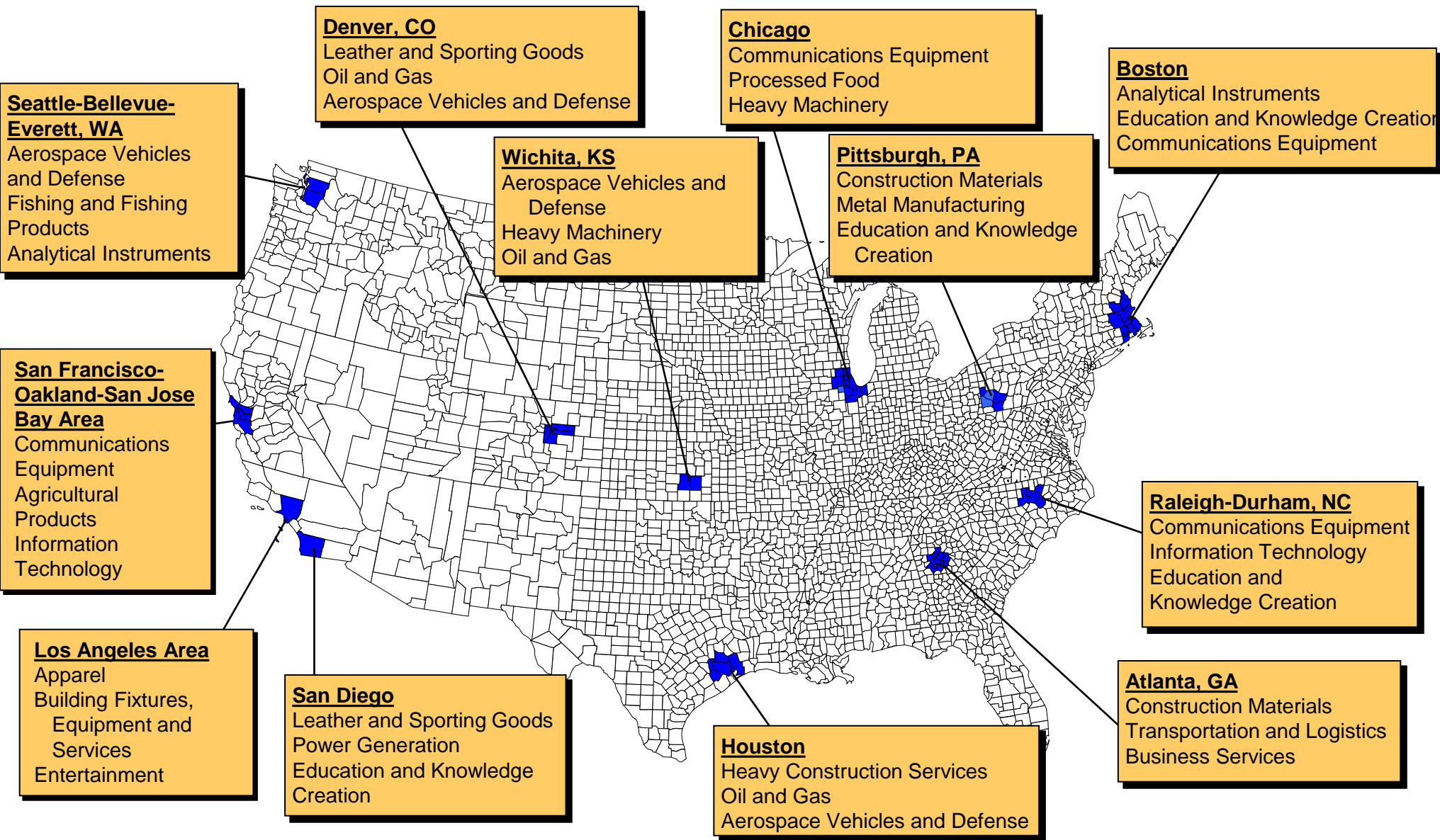
# Influences on Competitiveness

## Multiple Geographic Levels



# 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

# Cross-National Regions and Economic Strategy

## Traditional Views

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

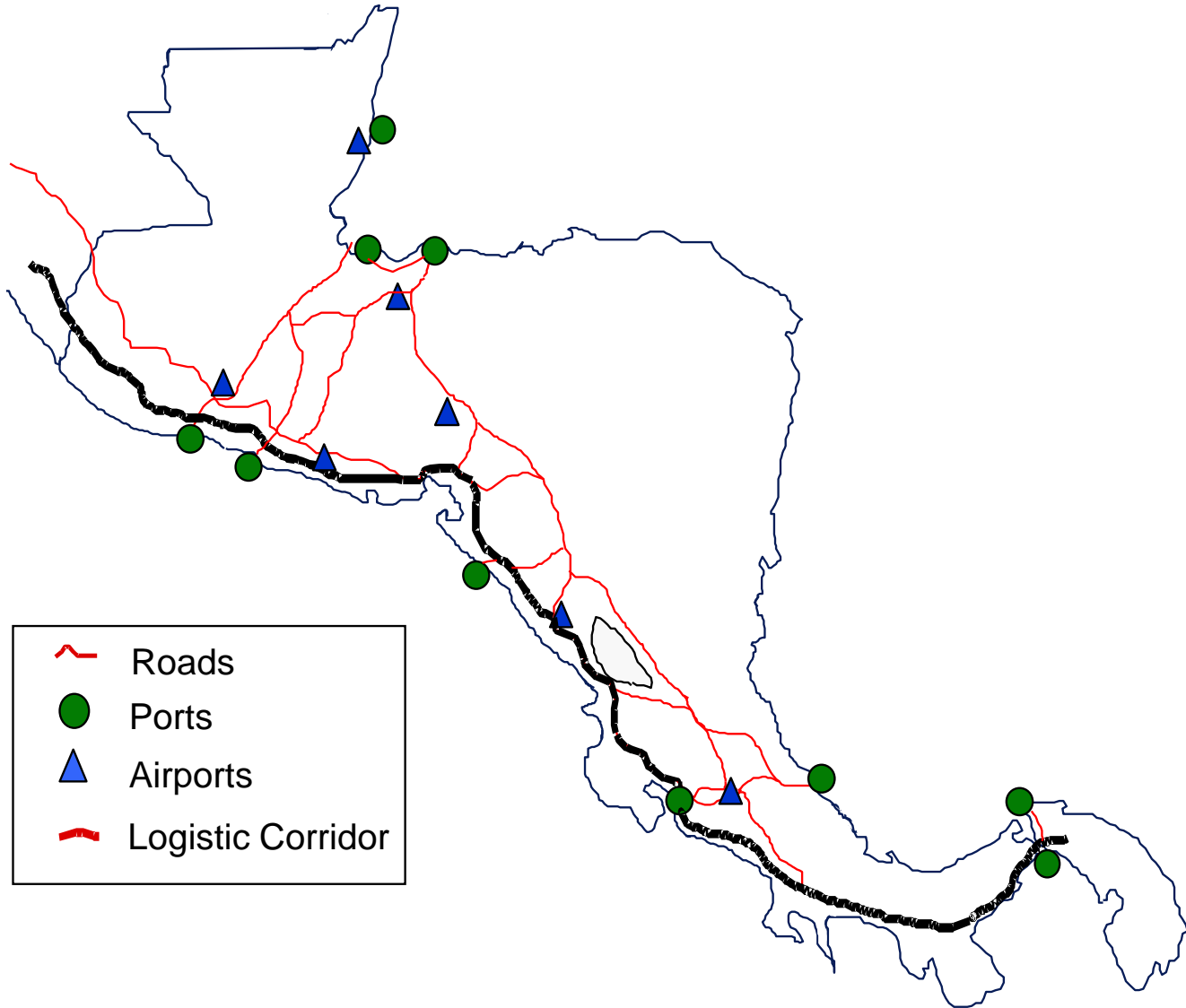


## New View

- A regional strategy as a powerful tool to enhance **competitiveness** in autonomous countries
  1. Increase internal trade and investment  
AND
  2. Upgrade company operations and strategy
    - Enhancing the **competitive capability** of firms
    - Expanding trade in **non-traditional** export industries
  3. Enhance 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
  4. Encourage cluster development
    - **Cross-border cluster** specialization and integration
  5. Increase inward foreign investment
    - Enhancing interest and investment in the region by the **international community**
  6. Improve the economic policy process
    - Improving economic policy formulation and implementation **at the national level**



# Central American Logistical Corridor



# 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

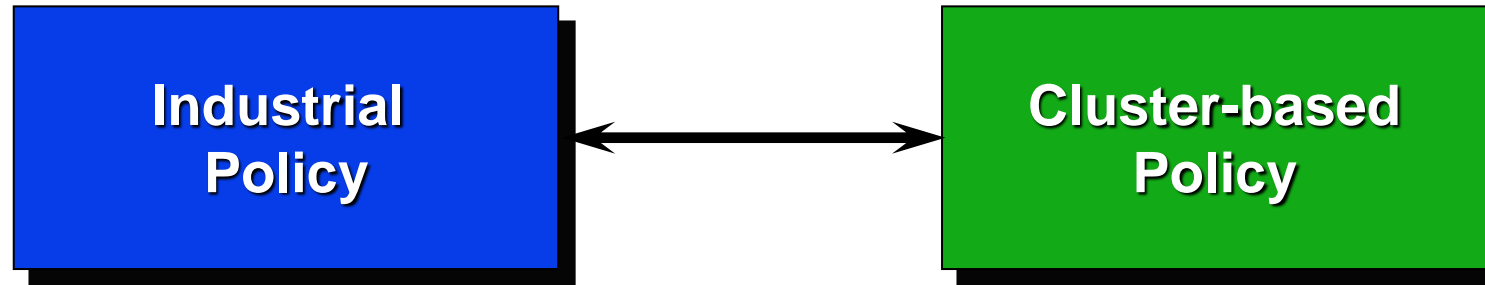
### Regional Governance

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

# Roles of Government in Economic Development

- **Macroeconomic, political, legal, and social context**
  - Establish a **stable and predictable** macroeconomic, legal, and political environment
  - Improve the **social conditions** of citizens
- **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
- **Clusters**
  - Facilitate **cluster development and upgrading**
- **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

# 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**

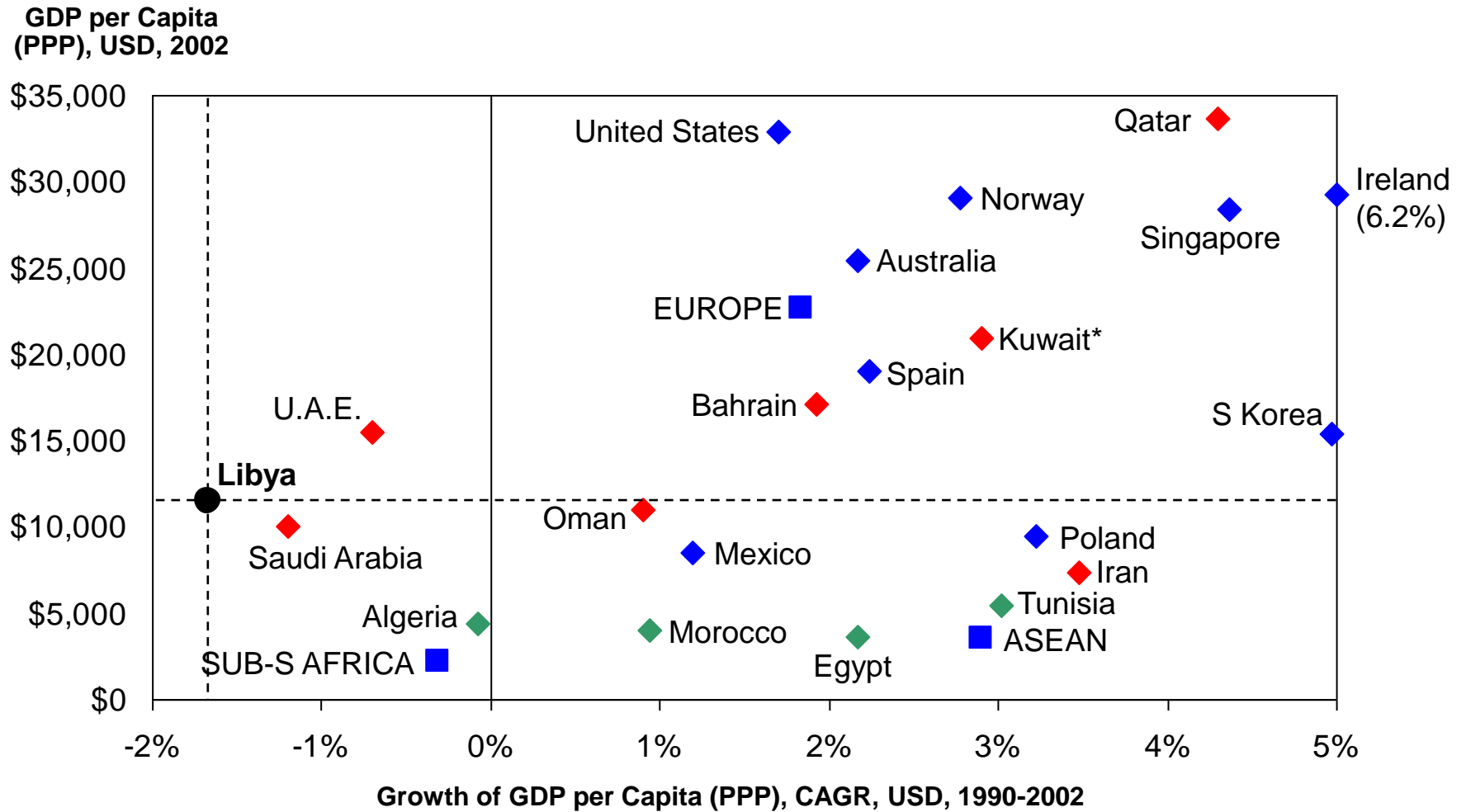
- **All** clusters can contribute to prosperity
- Domestic and foreign companies both enhance productivity
- Relax impediments and constraints to productivity
- Emphasize cross-industry linkages / complementarities
- Encourage initiative at the state and local level



**Enhance competition**

# Comparative GDP per Capita Performance

## Selected Developing and OECD Countries



Note: Kuwait had artificially high growth rates in the aftermath of the first Gulf war, OPEC members in red, North African countries in green

Source: EIU (2003)

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# Libya Top 30 Goods Export Industries

## By Export Value

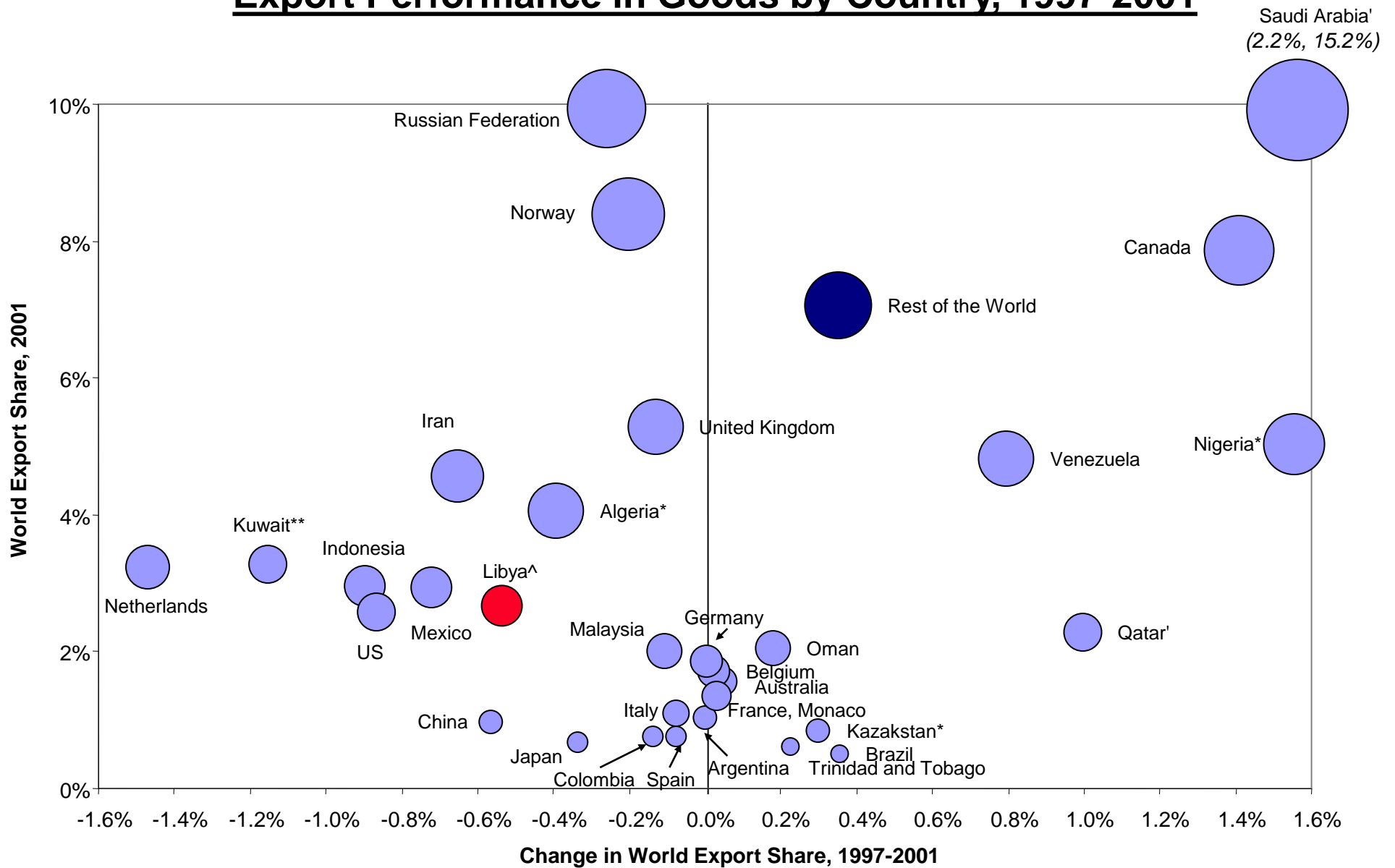
	Industry	Cluster	World Export Share	Point Change in Share 1997-2001	Export Value (in \$1,000)
1	Crude petroleum oils	Oil and Gas Products	4.04%	-1.06%	\$9,963,482
2	Miscellaneous fuel oils	Oil and Gas Products	3.42%	-1.29%	\$624,545
3	Motor gasoline and other light oils	Oil and Gas Products	1.43%	-0.43%	\$424,747
4	Kerosene and other medium oils	Oil and Gas Products	1.95%	-0.34%	\$144,533
5	Acyclic hydrocarbons	Chemical Products	2.58%	-0.06%	\$127,522
6	Gas oils	Oil and Gas Products	0.65%	-0.05%	\$119,300
7	Natural gas	Oil and Gas Products	0.18%	-0.08%	\$115,493
8	Acyclic monohydric alcohols	Chemical Products	1.70%	-0.45%	\$97,962
9	Liquefied propane and butane	Oil and Gas Products	0.87%	0.12%	\$63,586
10	Fertilizer, except crude (group272)	Agricultural Products	0.47%	-0.20%	\$58,015
11	Flat-rolled iron, not clad, plated or coated	Metal Manufacturing	0.22%	0.02%	\$46,272
12	Mineral tars and products	Oil and Gas Products	1.32%	0.56%	\$44,235
13	Miscellaneous petroleum gases	Oil and Gas Products	0.83%	-0.26%	\$41,316
14	Polymers of ethylene	Plastics	0.16%	0.15%	\$27,589
15	Pig iron, spiegeleisen, sponge iron or steel granules	Metal Manufacturing	0.37%	0.31%	\$24,243
16	Other inorganic bases and metallic oxides	Chemical Products	0.34%	-0.30%	\$18,703
17	Iron or steel bars, rods, angles, shapes and sections	Metal Manufacturing	0.05%	-0.13%	\$10,449
18	Hides, skins (excluding furs), raw	Agricultural Products	0.19%	-0.18%	\$9,767
19	Ingots and other primary forms of iron or steel	Metal Manufacturing	0.07%	-0.04%	\$6,370
20	Lubricants	Oil and Gas Products	0.04%	0.03%	\$5,257
21	Fish, fresh, chilled, or frozen	Fishing and Fishing Products	0.03%	0.02%	\$5,083
22	Other non-ferrous metal waste	Metal Manufacturing	0.07%	0.05%	\$4,510
23	Polymers of vinyl chloride	Plastics	0.05%	-0.16%	\$3,931
24	Other ferrous waste and scrap	Metal Manufacturing	0.07%	0.07%	\$3,179
25	Other animal materials	Agricultural Products	0.08%	0.03%	\$2,238
26	Parts of jet, gas turbine engines	Aerospace Engines	0.01%	-0.01%	\$1,645
27	Parts for air pumps, compressors, fans and hoods	Production Technology	0.02%	0.00%	\$1,068
28	Aluminum and aluminum alloys, unwrought	Metal Manufacturing	0.00%	0.00%	\$804
29	Other electric transformers	Lighting and Electrical Equipment	0.02%	0.02%	\$740
30	Pile-drivers, pile-extractors	Heavy Machinery	0.56%	0.56%	\$723

Note: Export data are extracted from trading partner's import data. Import values are usually higher than export values.

Source: UNCTAD Trade Data. Author's analysis.

# Oil and Gas Products Cluster

## Export Performance in Goods by Country, 1997-2001



\*Change in Share 1997-2000; \*\*Change in Share 1997-1999;

' Beginning year is not 1997; ^ Export data are extracted from trading partner's import data. Import values are usually higher than export values.

Note: Size Proportional to Export Value.

# Libyan Competitiveness 2004

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# Libyan Competitiveness Agenda

## Key Dimensions

- Upgrading the **business environment**
- Identifying opportunities in developing existing and emerging Libyan **clusters**
- Establish **public and private institutions** for economic development
- Develop regional economic plans in **Libyan regions**
- Develop a plan for economic cooperation in the **North African region**



- Define Libya's **unique position** in the world economy