

# Malaysia's Competitiveness: Moving to the Next Stage

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

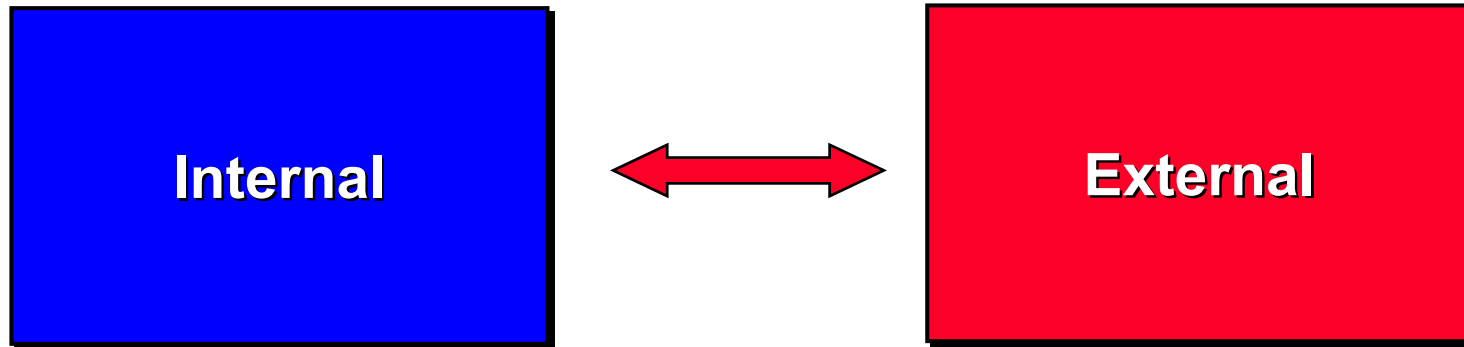
*Kuala Lumpur, Malaysia*  
6 May, 2003

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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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# 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

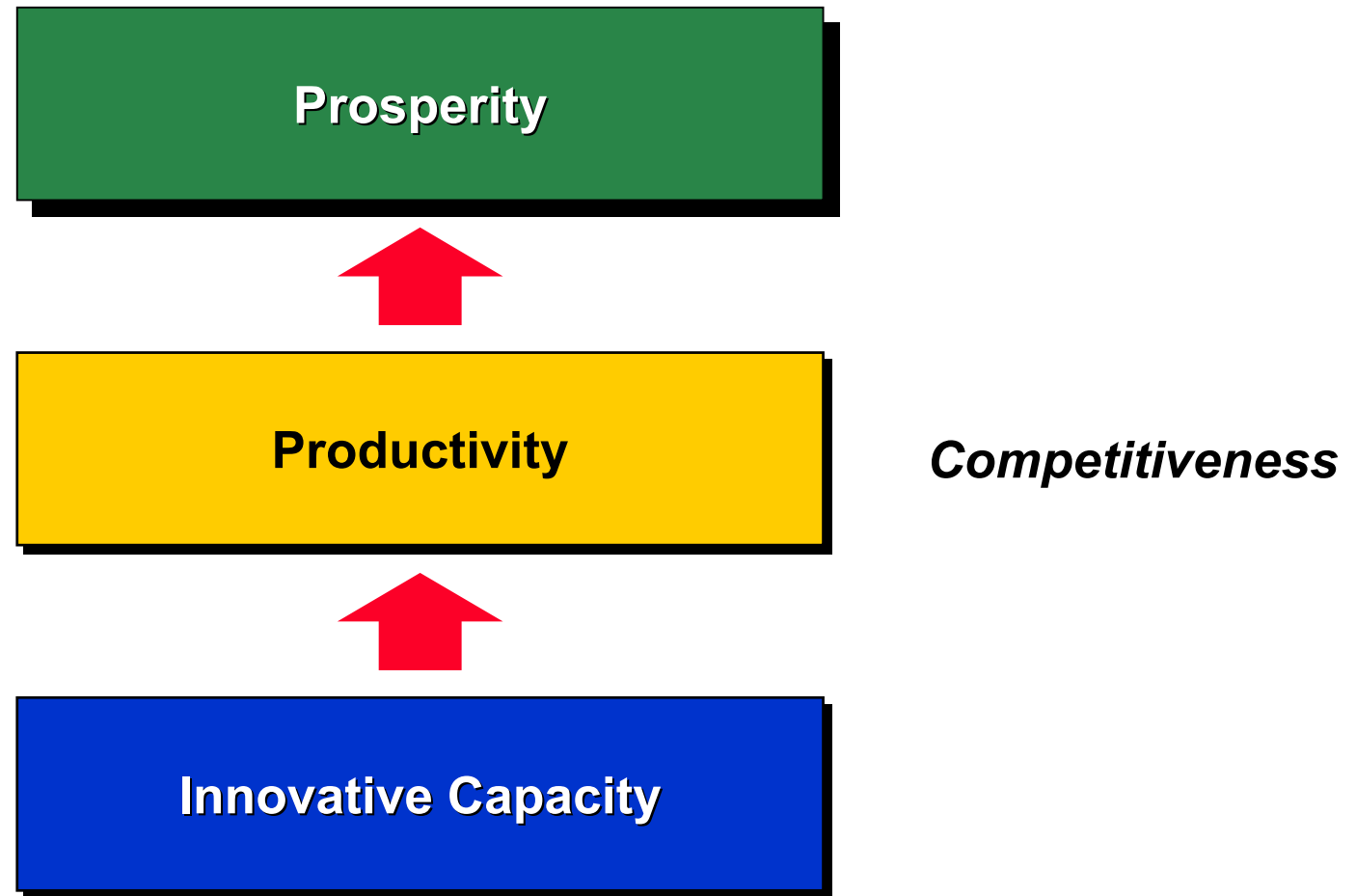
# What is Competitiveness?

- 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

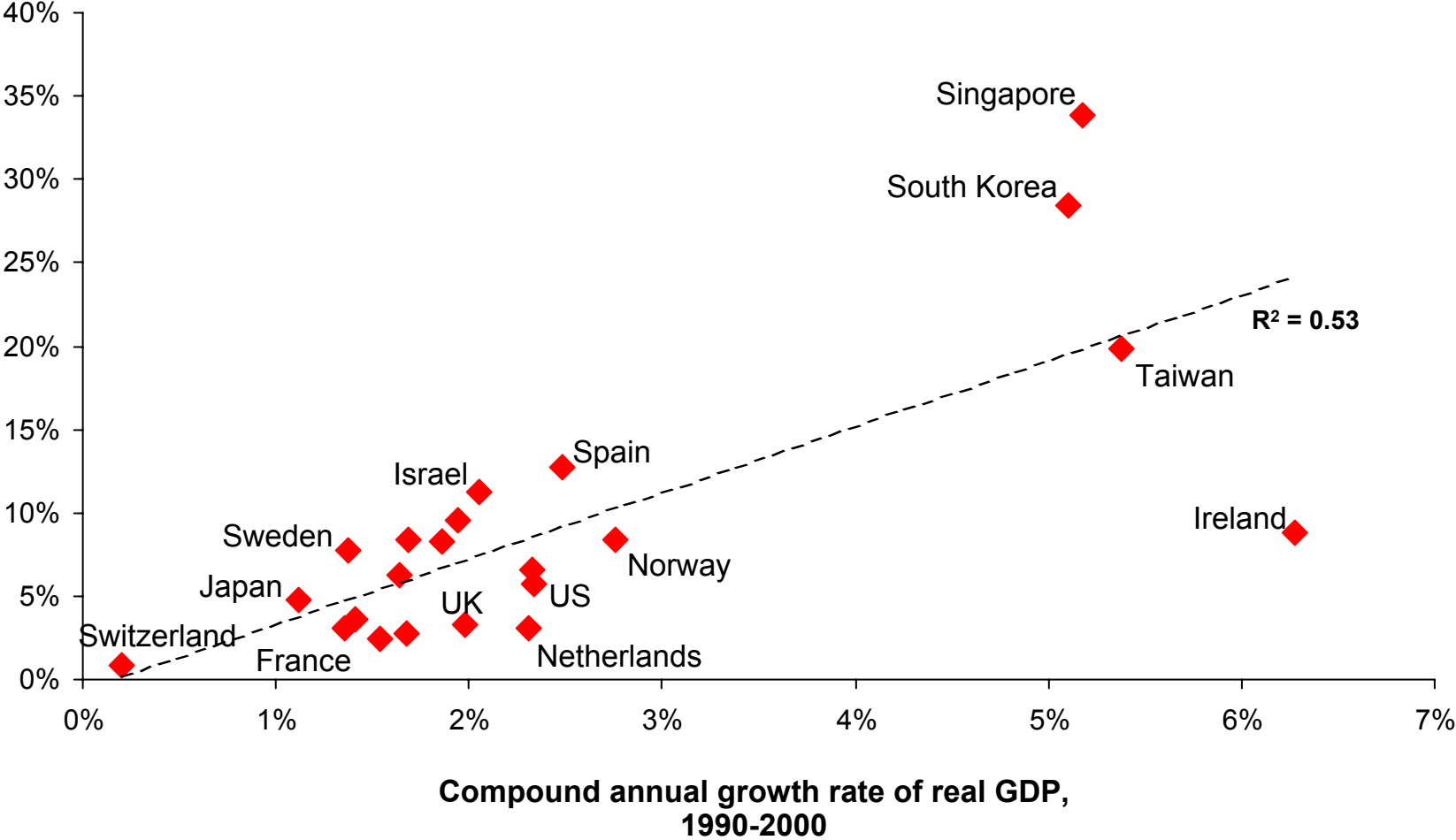


- Innovation is **more than just scientific discovery**
- There are **no low-tech industries**, only low-tech firms

# Patenting Growth and Prosperity Growth

## Selected OECD Countries

**Compound annual growth rate of US-registered patents, 1990 - 2001**



Source: IMF (2001), US Patent and Trademark Office (2002)

# Malaysia's Economic Situation 2003

- Malaysia has achieved strong progress in the last several decades, and has weathered the **Asian Crisis** better than many of its regional neighbors
- Currently, however, the slowdown in the world economy and especially in **IT/electronics** is having a strong impact on Malaysian exports and revealing challenges in Malaysian competitiveness

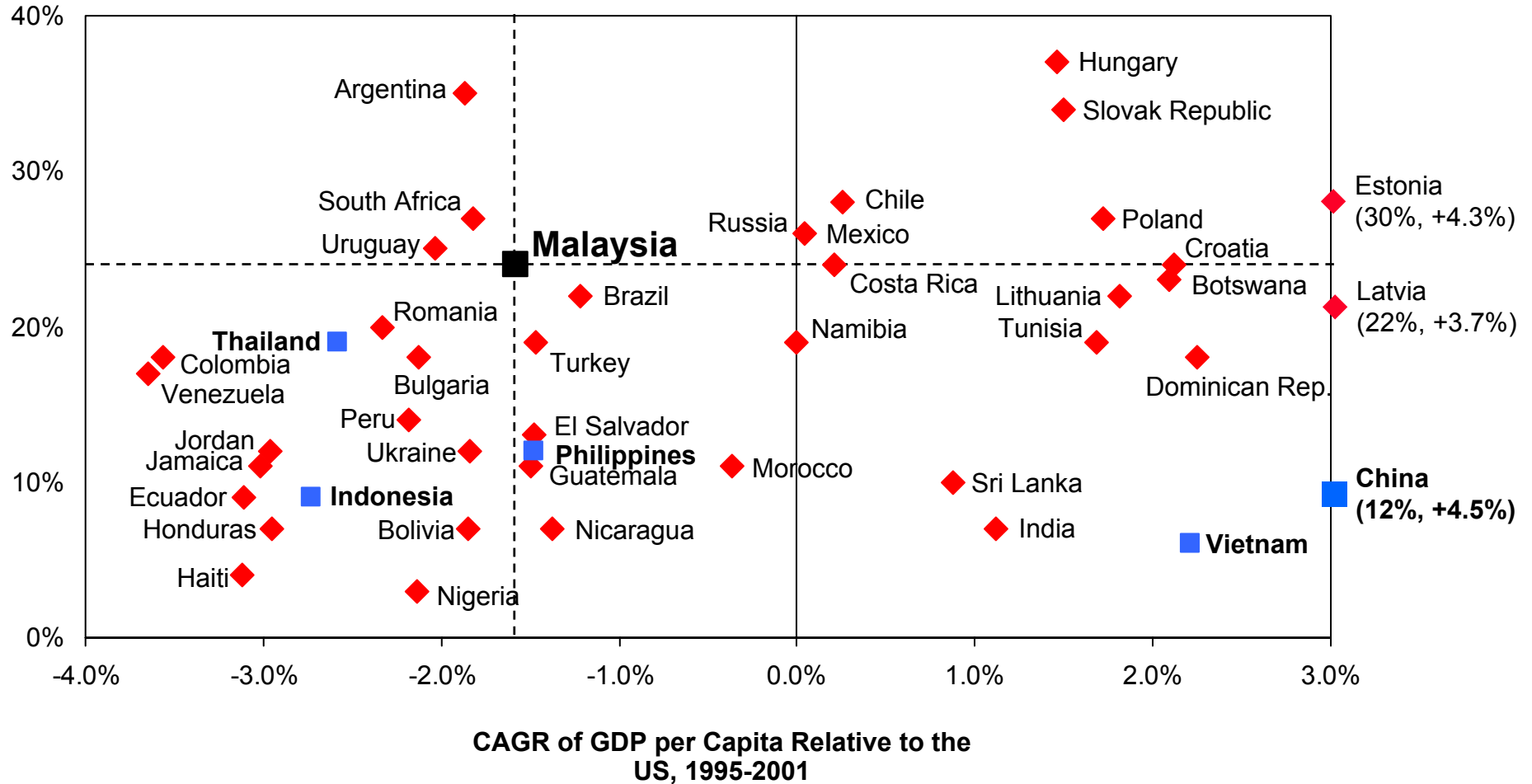


- Malaysia will need a new strategy to move the economy to the next level

# Comparative Economic Performance

## Selected Middle- and Lower-Income Economies

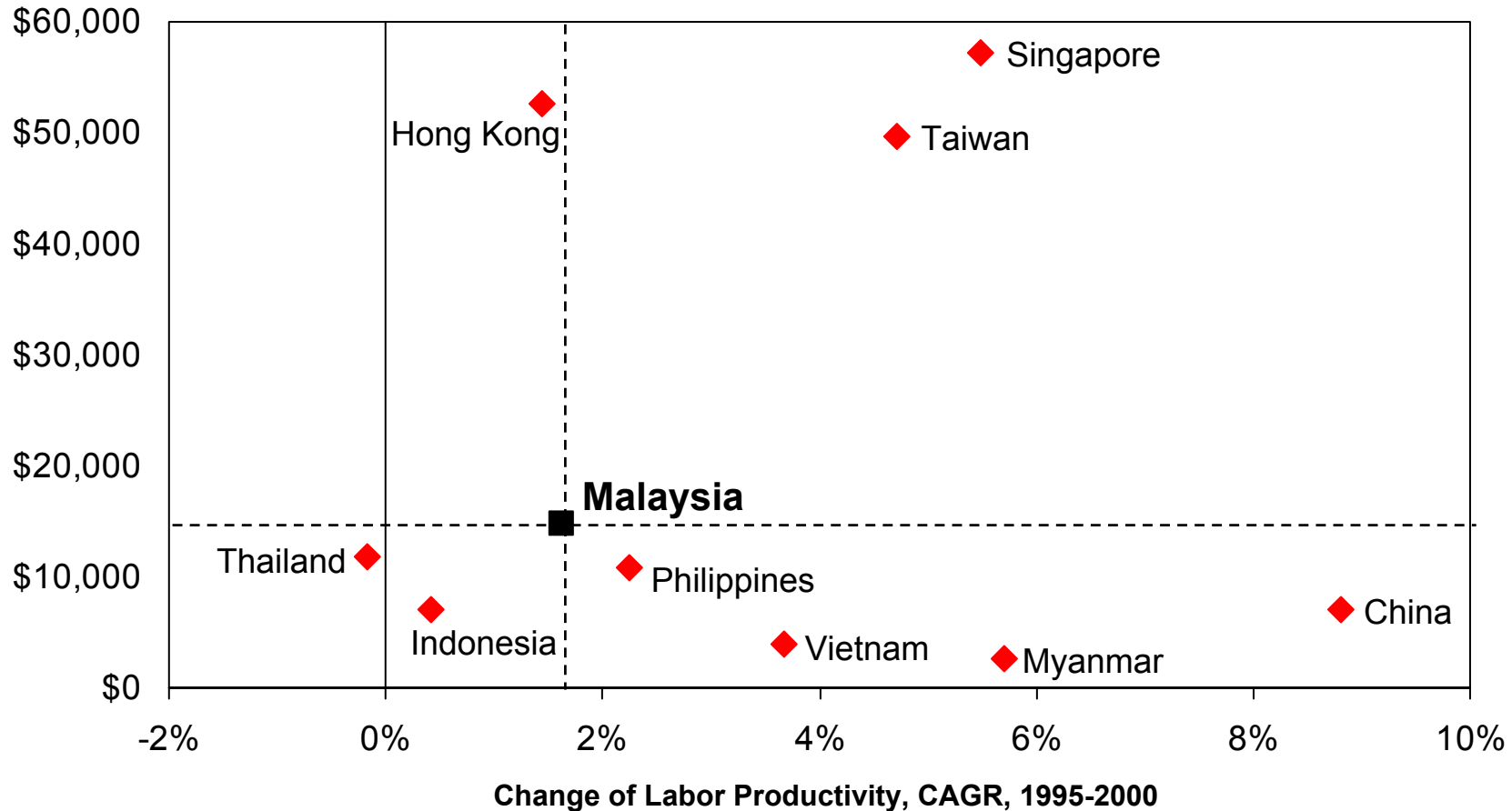
GDP per Capita,  
2001, US=100



# Comparative Labor Productivity Performance

## Selected Asian Economies

Labor Productivity  
(GDP per Employee), 2000

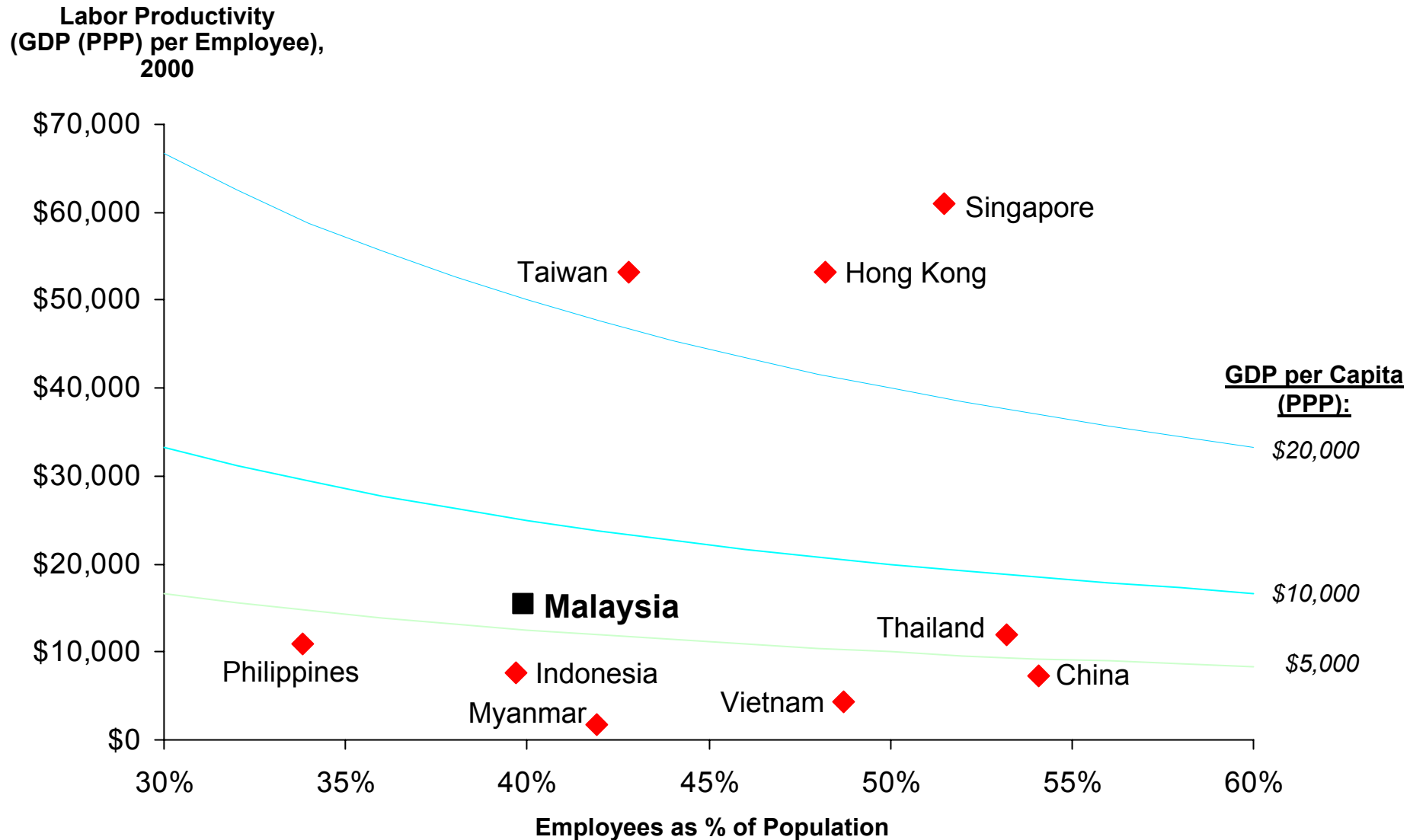


- Malaysia's labor **productivity growth** is average among Asian economies, lagging the more dynamic economies



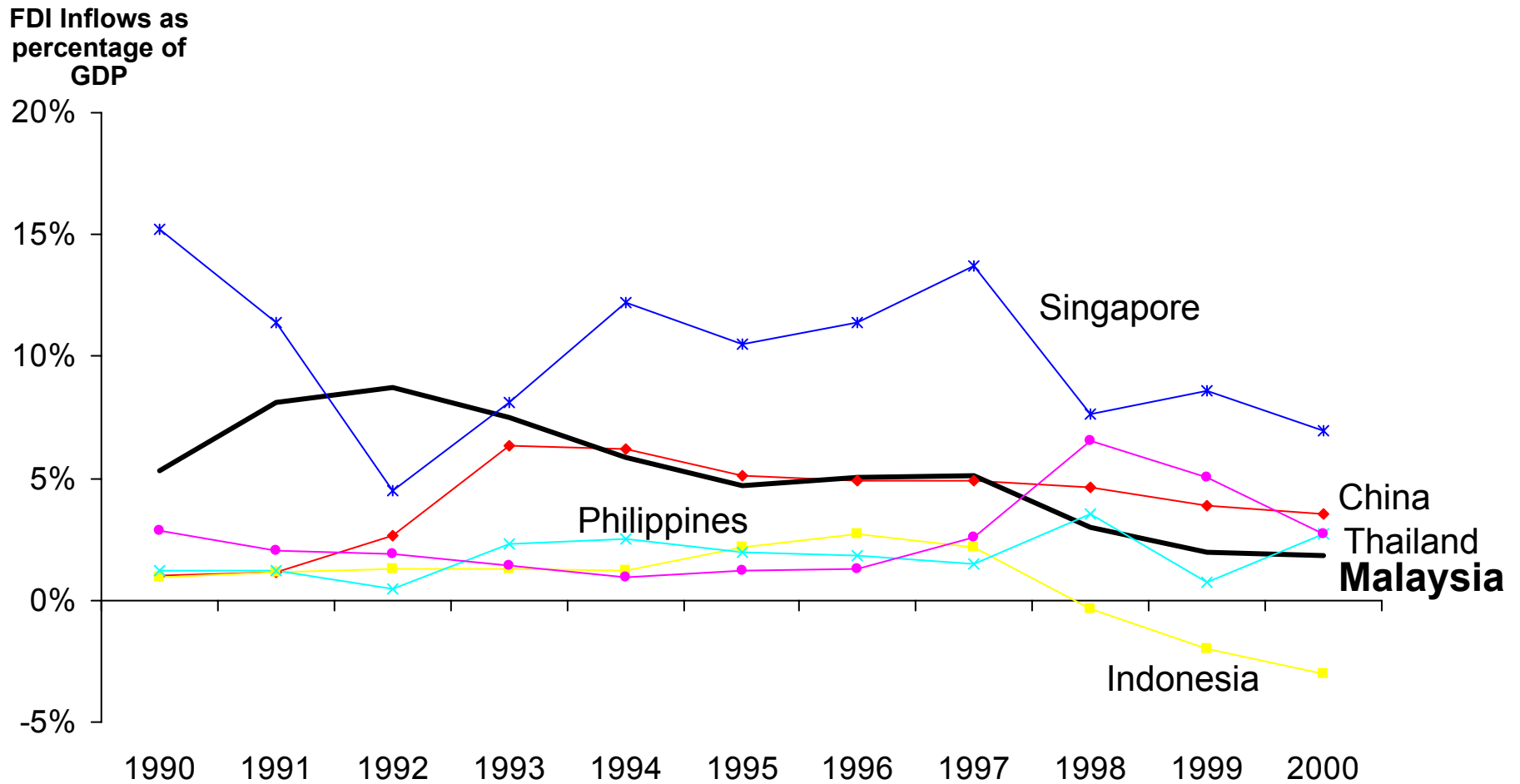
# Prosperity and Productivity Performance

## Selected Asian Economies



# Comparative Inward Foreign Investment Flows

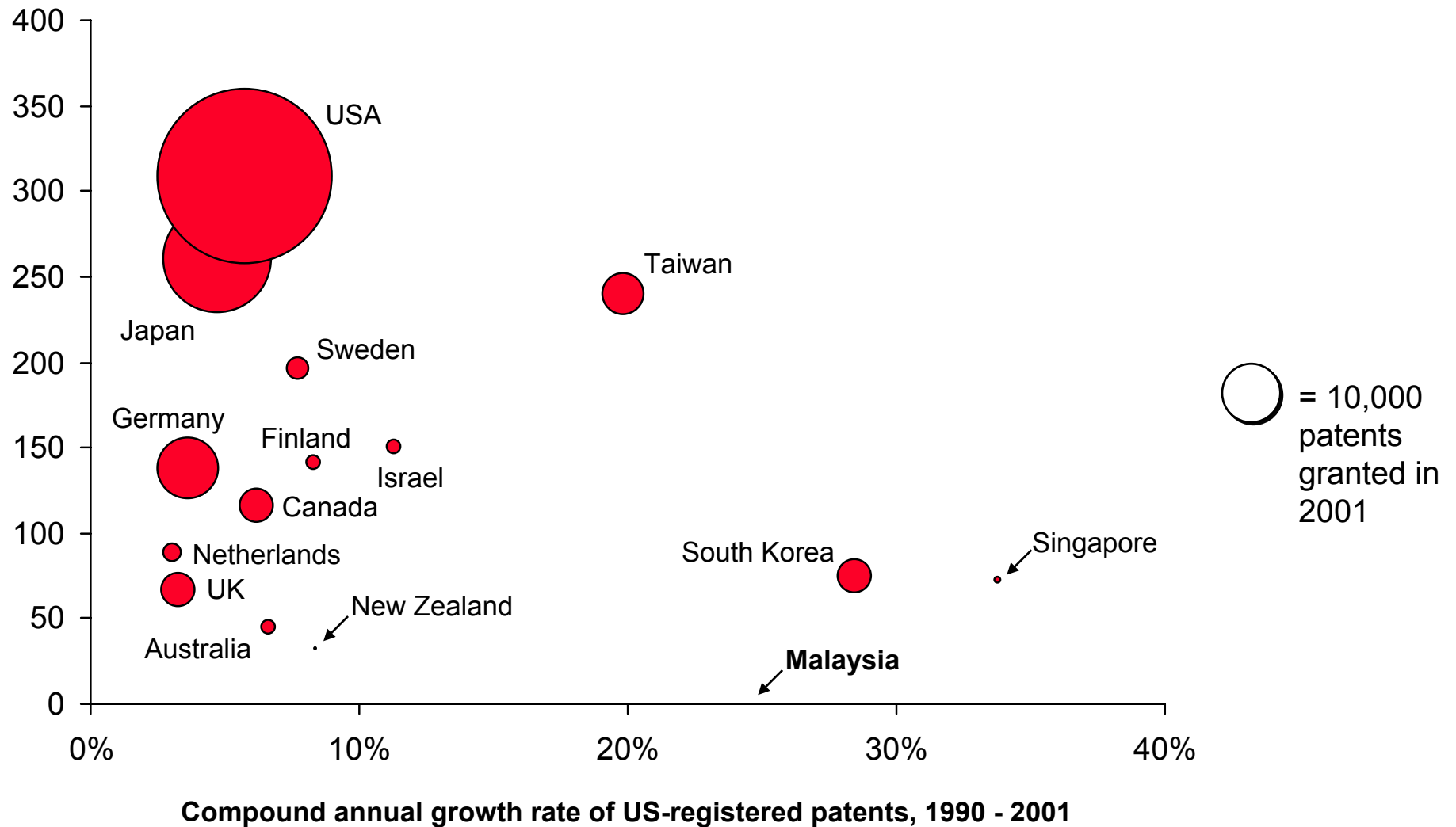
## Selected Asian Economies



- Malaysia has **recently received relatively less foreign direct investment** than many of its neighboring countries, after high inflow before the Asian Crisis

# International Patenting Output

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



# Determinants of Productivity and Productivity Growth

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

## **Microeconomic Foundations of Development**

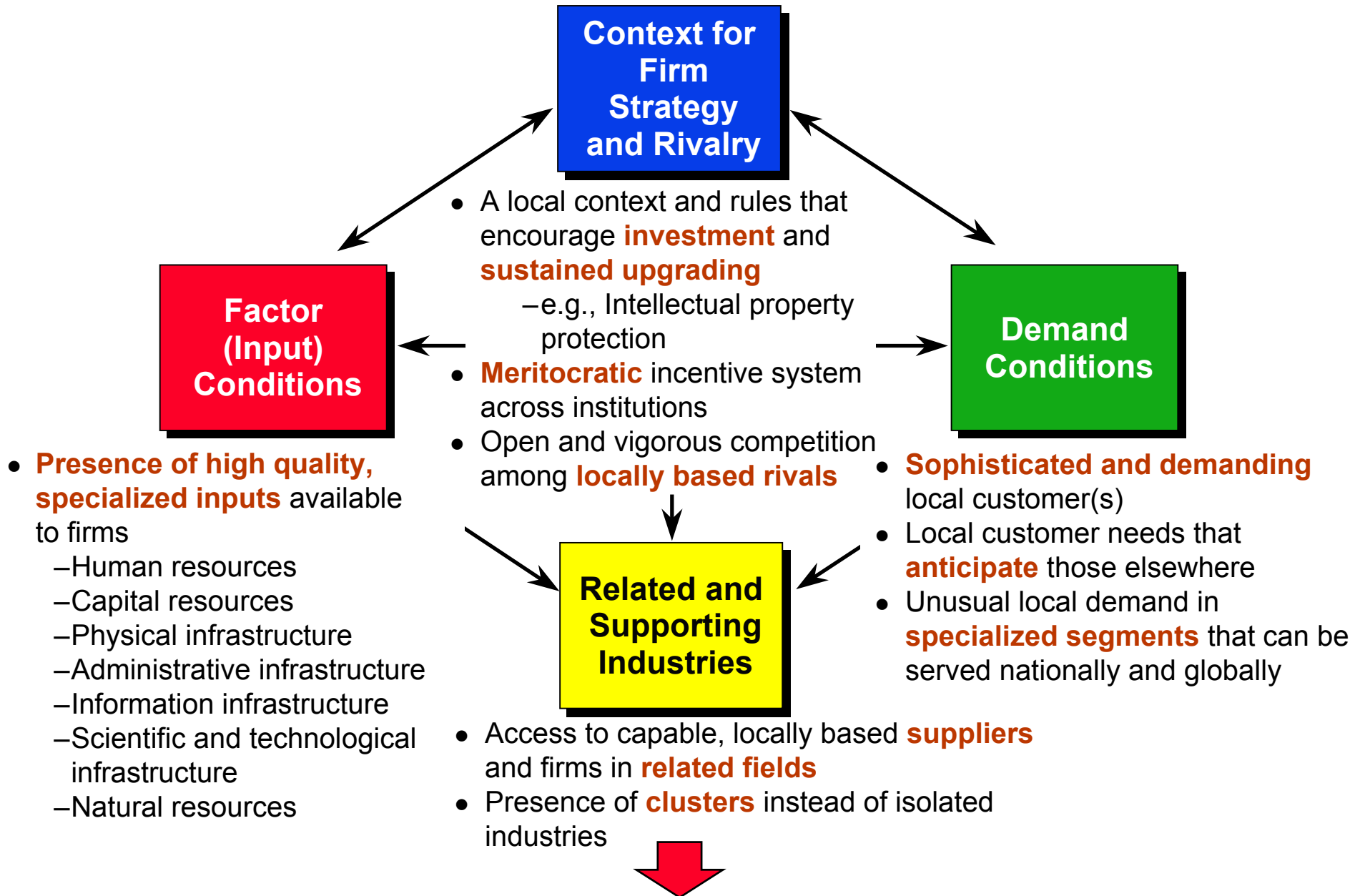
**Sophistication  
of Company  
Operations and  
Strategy**



**Quality of the  
Microeconomic  
Business  
Environment**

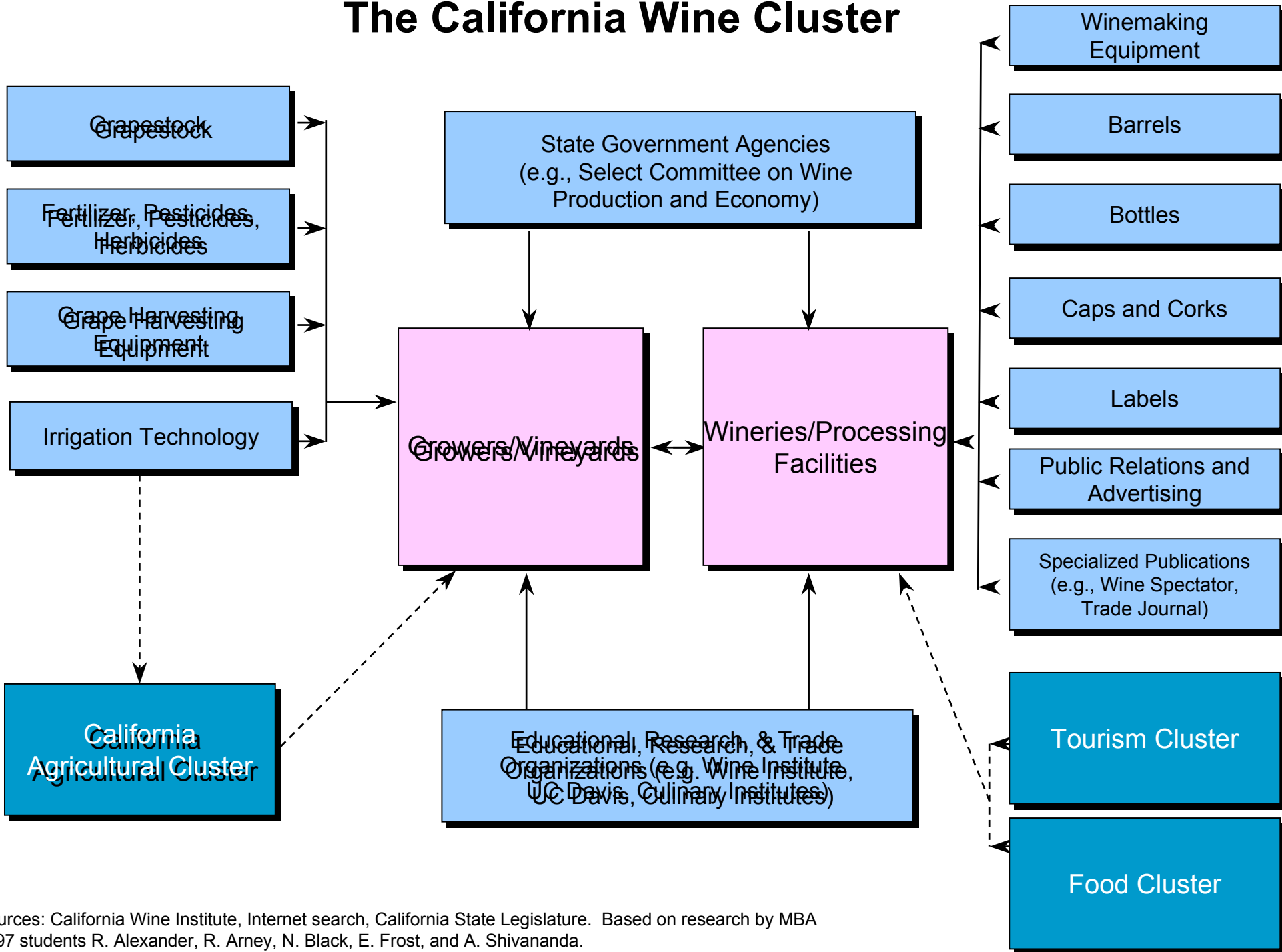
- A sound macroeconomic, political, legal, and social context creates the potential for competitiveness, **but is not sufficient**
- Competitiveness ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local companies and local competition**

# Productivity, Innovation, 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.

# 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** 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**, 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**

# Institutions for Collaboration

## Selected Institutions for Collaboration, San Diego

### General

- San Diego Chamber of Commerce
- San Diego MIT Enterprise Forum
- Corporate Director's Forum
- San Diego Dialogue
- Service Corps of Retired Executives, San Diego
- San Diego Regional Economic Development Corporation
- Center for Applied Competitive Technologies
- San Diego World Trade Center
- UCSD Alumni
- San Diego Regional Technology Alliance
- San Diego Science and Technology Council
- Office of Trade and Business Development

### Cluster-Specific

#### Telecommunication

- Linkabit Alumni

#### Biotech

- Hybritech Alumni
- Scripps Research Institute Alumni
- BIOCOMM
- UCSD Connect

# Stages Of Competitive Development



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

# Malaysia's Competitiveness Agenda 2003

- **Prepare the business environment for the next stage of economic development**
- Engage in cluster development
- Strengthen regional and cross-border initiatives for competitiveness
- Redefine the roles of government and the private sector in economic development

# Factor (Input) Conditions

## Malaysia's Relative Position

### Competitive Advantages Relative to GDP per Capita

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

Administrative Burden for Start-Ups	11
Air Transport Infrastructure Quality	14 ↑
Overall Infrastructure Quality	16
Port Infrastructure Quality	16 ↑
Railroad Infrastructure Quality	17 ↑
Local Equity Market Access	23
Adequacy of Public Sector Legal Recourse	23 ↑
Quality of Public Schools	24 ↑

### Competitive Disadvantages Relative to GDP per Capita

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

Availability of Scientists and Engineers	52
Quality of Management Schools	48 ↑
Judicial Independence	44
Ease of Access to Loans	43
Telephone/Fax Infrastructure Quality	39
Extent of Bureaucratic Red Tape	37 ↓
Venture Capital Availability	37
Cell phones per 100 people (2001)	36 ↓
Quality of Math and Science Education	35
Intellectual Property Protection	33 ↓
Patents per Capita (2001)	33
Electricity Supply Quality	29

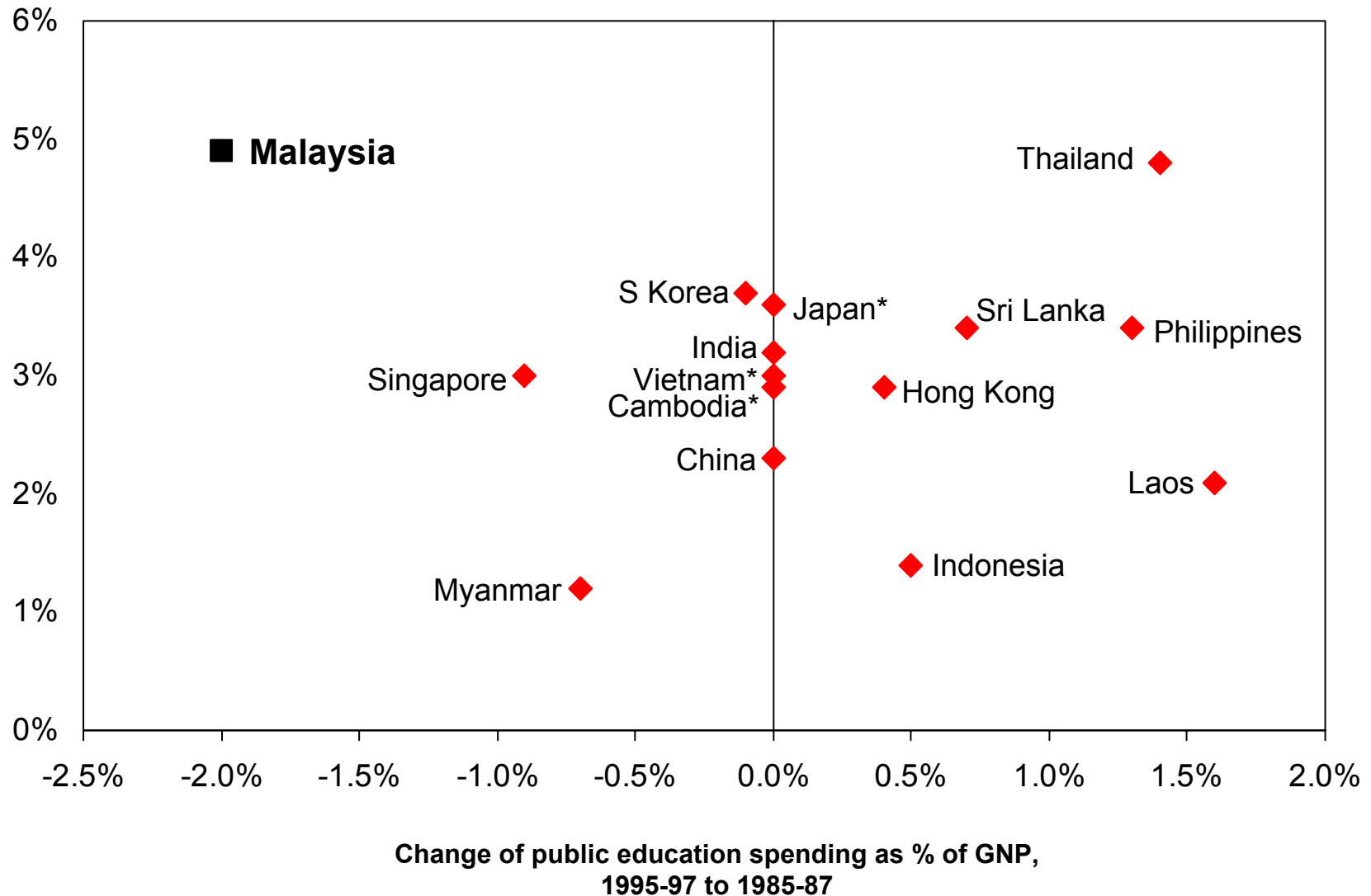
Note: Rank by countries; overall Malaysia ranks 26 out of 80 countries (26 on National Business Environment, 43 on GDP pc 2001)

Source: Global Competitiveness Report 2002

# Public Spending on Education

## Selected Asian Countries

Public expenditure on education, Share of GNP, 1995-97



\*No growth rate data available

Source: UN – Human Development Indicators

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# U.S. Patenting by Malaysian Institutions

	Organization	U.S. Patents Issued from 1996 to 2000
1	MOTOROLA, INC.	37
2	CERAM OPTEC INDUSTRIES, INC.	27
3	INTEL CORPORATION	11
4	SUNG LING GOLF & CASTING CO., LTD.	4
<b>4</b>	<b>BRANDEIS UNIVERSITY</b>	<b>4</b>
5	IRIS CORPORATION BERHAD	3
6	MOTOROLA MALAYSIA SDN BHD	2
6	OTIS ELEVATOR COMPANY	2
6	SHIN-ETSU HANDOTAI CO., LTD.	2
6	ADVANCED MICRO DEVICES, INC.	2
7	ALDES AERAULIQUE	1
7	ARTWRIGHT TECHNOLOGY SDN BHD	1
7	AUTOLIV DEVELOPMENT AB	1
7	CHARTERED SEMICONDUCTOR MANUF. PTE LTD	1
7	COLLINS INTERNATIONAL CO., LTD.	1
7	ELITE FURNITURE, INC.	1
7	GLOBAL PALM PRODUCTS SDN. BHD.	1
7	HALLIBURTON ENERGY SERVICES	1
7	IMPACT SURGE SDN. BHD.	1
7	INTEGRATED DEVICE TECHNOLOGY, INC.	1
7	INVETECH OPERATIONS PTY. LTD.	1
7	JOHNSON & JOHNSON MFG SN BHD	1
7	MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.	1
7	MAXHILL TOY INDUSTRIES SDN. BHD.	1
7	NATIONAL SEMICONDUCTOR CORPORATION	1
7	NOVAL CONTROLS SDN BHD	1
7	NOVO NORDISK A/S	1
7	PALM OIL RESEARCH & DEVELOPMENT BOARD	1
7	PETRONAS RESEARCH & SCIENTIFIC SERVICES	1

Note: Shading indicates universities, research institutions, and other government agencies

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



# Patents by Organization

## Commonwealth of Massachusetts

	Organization	Patents Issued from 1997 to 2001
1	<b>MASSACHUSETTS INSTITUTE OF TECHNOLOGY</b>	<b>518</b>
2	<b>GENERAL HOSPITAL CORPORATION</b>	<b>296</b>
3	EMC CORPORATION	269
4	DIGITAL EQUIPMENT CORPORATION	261
5	POLAROID CORPORATION	213
6	ANALOG DEVICES, INC.	167
7	MILLENNIUM PHARMACEUTICALS, INC.	165
8	<b>HARVARD UNIVERSITY</b>	<b>150</b>
9	COMPAQ COMPUTER CORPORATION, INC.	147
10	SUN MICROSYSTEMS, INC.	143
11	BOSTON SCIENTIFIC CORPORATION	135
12	ACUSHNET COMPANY	130
13	GENETICS INSTITUTE, INC.	127
14	GILLETTE COMPANY	112
15	<b>BRIGHAM AND WOMEN'S HOSPITAL</b>	<b>107</b>
16	RAYTHEON COMPANY	101
17	GENERAL ELECTRIC COMPANY	99
18	HEWLETT-PACKARD COMPANY	96
19	<b>CHILDREN'S MEDICAL CENTER CORPORATION</b>	<b>93</b>
20	QUANTUM CORP. (CA)	93
21	COGNEX CORPORATION	90
22	<b>DANA-FARBER CANCER INSTITUTE</b>	<b>90</b>
23	JOHNSON & JOHNSON PROFESSIONAL INC.	90
24	<b>BOSTON UNIVERSITY</b>	<b>84</b>
25	SEPRACOR INC.	84

Note: Shading indicates universities, research institutions, and other government agencies

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

# Context for Firm Strategy and Rivalry

## Malaysia'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	19
Cooperation in Labor-Employer Relations	19
Decentralization of Corporate Activity	19
Extent of Locally Based Competitors	24 ↓

### Competitive Disadvantages Relative to GDP per Capita

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

Efficacy of Corporate Boards	44 ↓
Costs of Other Firms' Illegal/Unfair Activities	39
Hidden Trade Barrier Liberalization	39 ↓
Favoritism in Decisions of Government Officials	38
Tariff Liberalization	34 ↑
Effectiveness of Anti-Trust Policy	33
Intensity of Local Competition	28 ↑

Note: Rank by countries; overall Malaysia ranks 26 out of 80 countries (26 on National Business Environment, 43 on GDP pc 2001)

Source: Global Competitiveness Report 2002

# Corruption Ranking

## Selected Asian Countries

<u>Rank 2002</u>	<u>Country</u>	<u>Change in Rank since 1998</u>
4.	Singapore	+3
14.	Hong Kong	+2
27.	Taiwan	+2
<b>36.</b>	<b>Malaysia</b>	<b>-5</b>
42.	South Korea	+4
57.	China	-1
61.	Thailand	+4
65.	Philippines	-4
75.	Vietnam	+7
88.	Indonesia	+1

- Malaysia scores better on corruption than many competing Asian countries, but has lost some ground recently

Note: Rank out of 91 countries, change in rank calculated for constant sample of countries

Source: Transparency International, author's calculations, Corruption in Thailand Report - Office of Civil Service Commission, 2001

# Demand Conditions

## Malaysia's Relative Position

### Competitive Advantages Relative to GDP per Capita

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

Government Procurement of Advanced Technology Products	7
Laws Relating to Information Technology	16

### Competitive Disadvantages Relative to GDP per Capita

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

Stringency of Environmental Regulations	31
Presence of Demanding Regulatory Standards	30
Consumer Adoption of Latest Products	29

Note: Rank by countries; overall Malaysia ranks 26 out of 80 countries (26 on National Business Environment, 43 on GDP pc 2001)

Source: Global Competitiveness Report 2002

# Related and Supporting Industries

## Malaysia's Relative Position

### Competitive Advantages Relative to GDP per Capita

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

Local Supplier Quantity	19	↑
Local Availability of Components and Parts	20	
Local Availability of Process Machinery	25	

### Competitive Disadvantages Relative to GDP per Capita

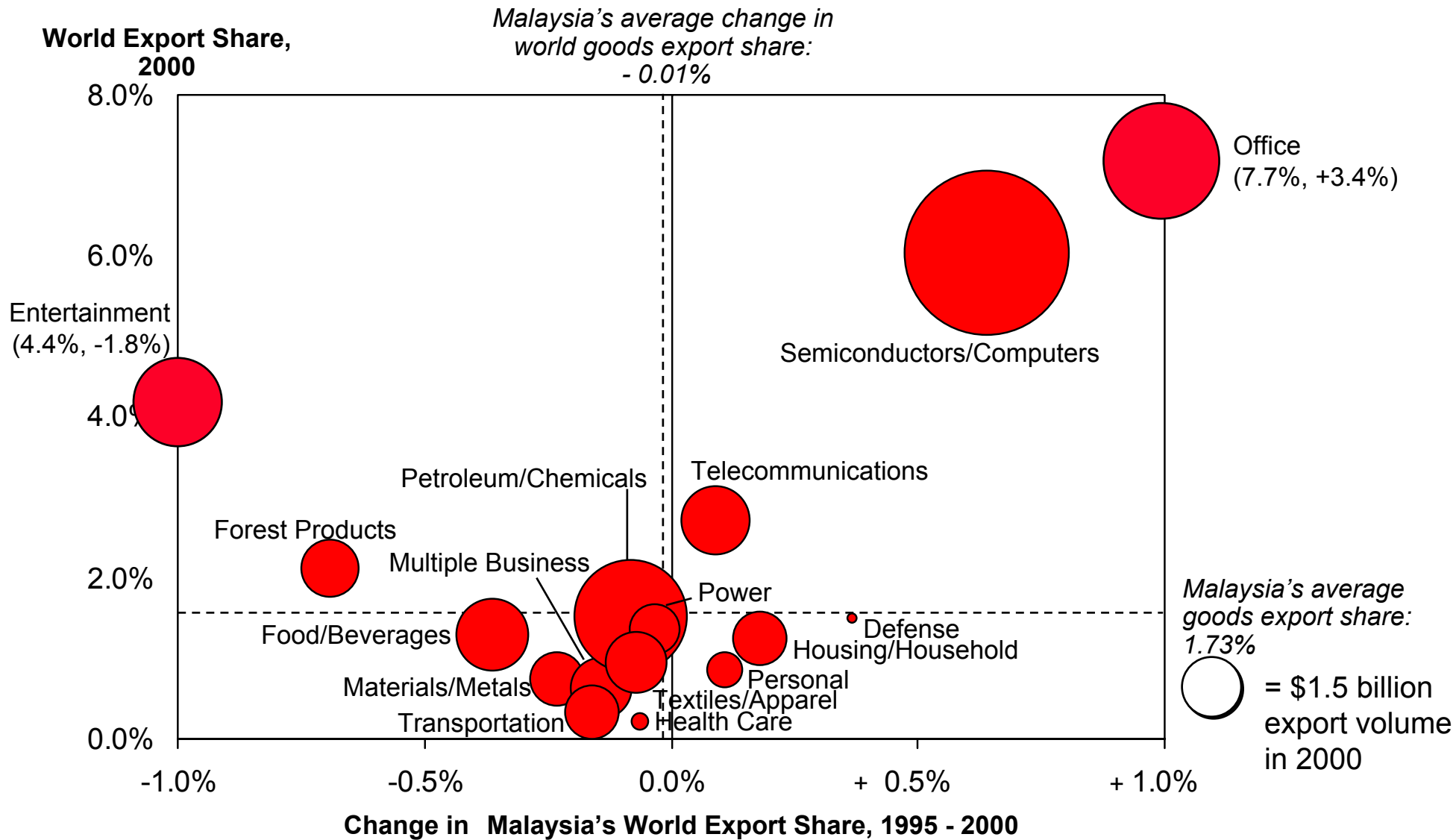
Country Ranking,  
Arrows indicate a  
change of 5 or more  
ranks since 1998

Local Availability of Specialized Research and Training Services	34
Extent of Product and Process Collaboration	31
Local Supplier Quality	31
State of Cluster Development	28

Note: Rank by countries; overall Malaysia ranks 26 out of 80 countries (26 on National Business Environment, 43 on GDP pc 2001)

Source: Global Competitiveness Report 2002

# Malaysia's Export Performance By Broad Sector 1995-2000



- Malaysia is strengthening its position in key export industries

# Company Operations and Strategy

## Malaysia'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	5	↑
Willingness to Delegate Authority	22	
Breadth of International Markets	23	
Company Spending on R&D	23	

### Competitive Disadvantages Relative to GDP per Capita

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

Nature of Competitive Advantage	41	
Control of International Distribution	37	
Capacity for Innovation	36	↑
Extent of Marketing	36	
Extent of Incentive Compensation	33	
Reliance on Professional Management	33	
Extent of Branding	32	↑
Production Process Sophistication	30	
Degree of Customer Orientation	29	

Note: Rank by countries; overall Malaysia ranks 26 out of 80 countries (27 on Company Operations and Strategy, 43 on GDP pc 2001)

Source: Global Competitiveness Report 2002

# Malaysia's Competitiveness Agenda 2003

- Prepare the business environment for the next stage of economic development

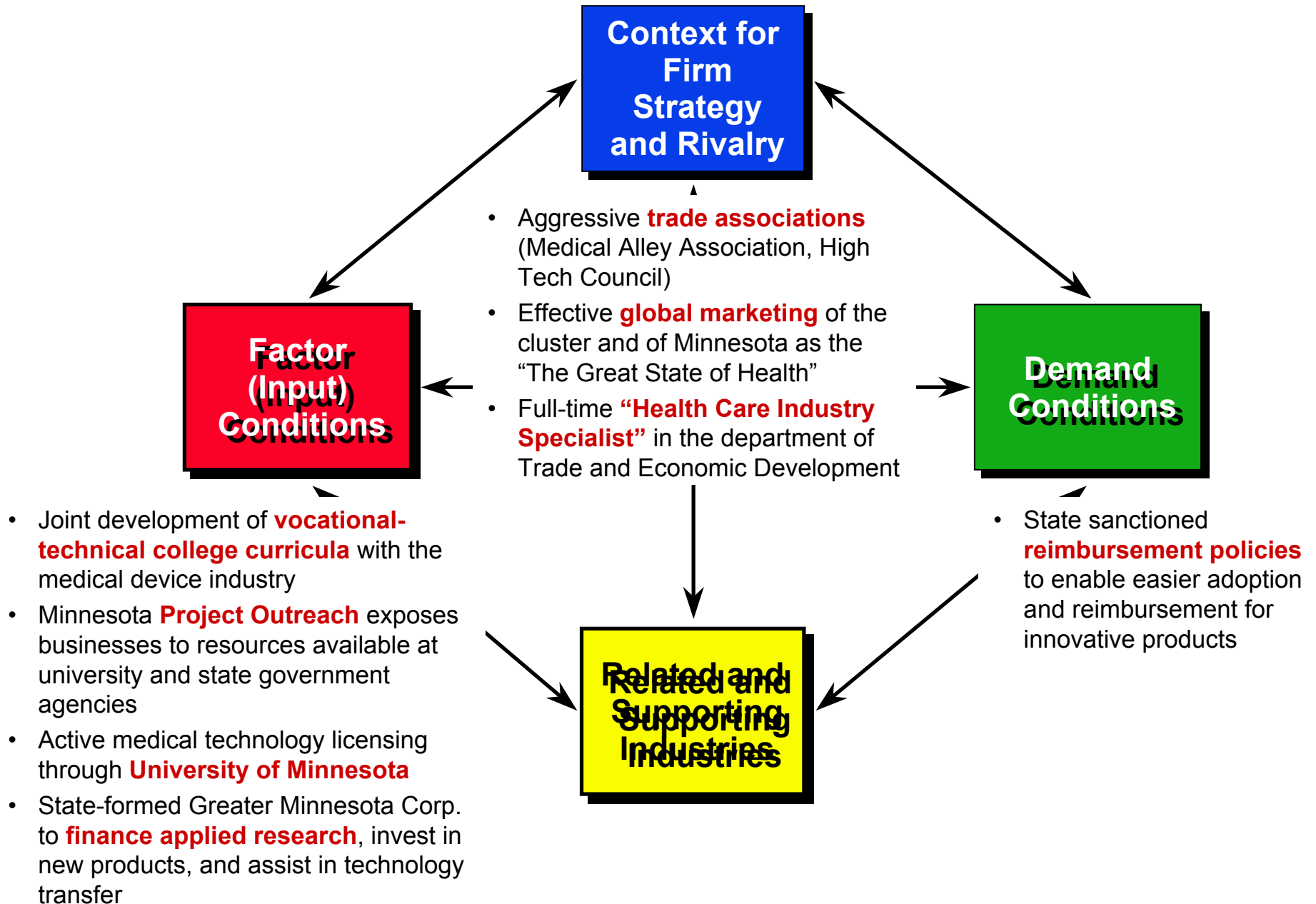
- **Engage in cluster development**

- Strengthen regional and cross-border initiatives for competitiveness
- Redefine the roles of government and the private sector in economic development



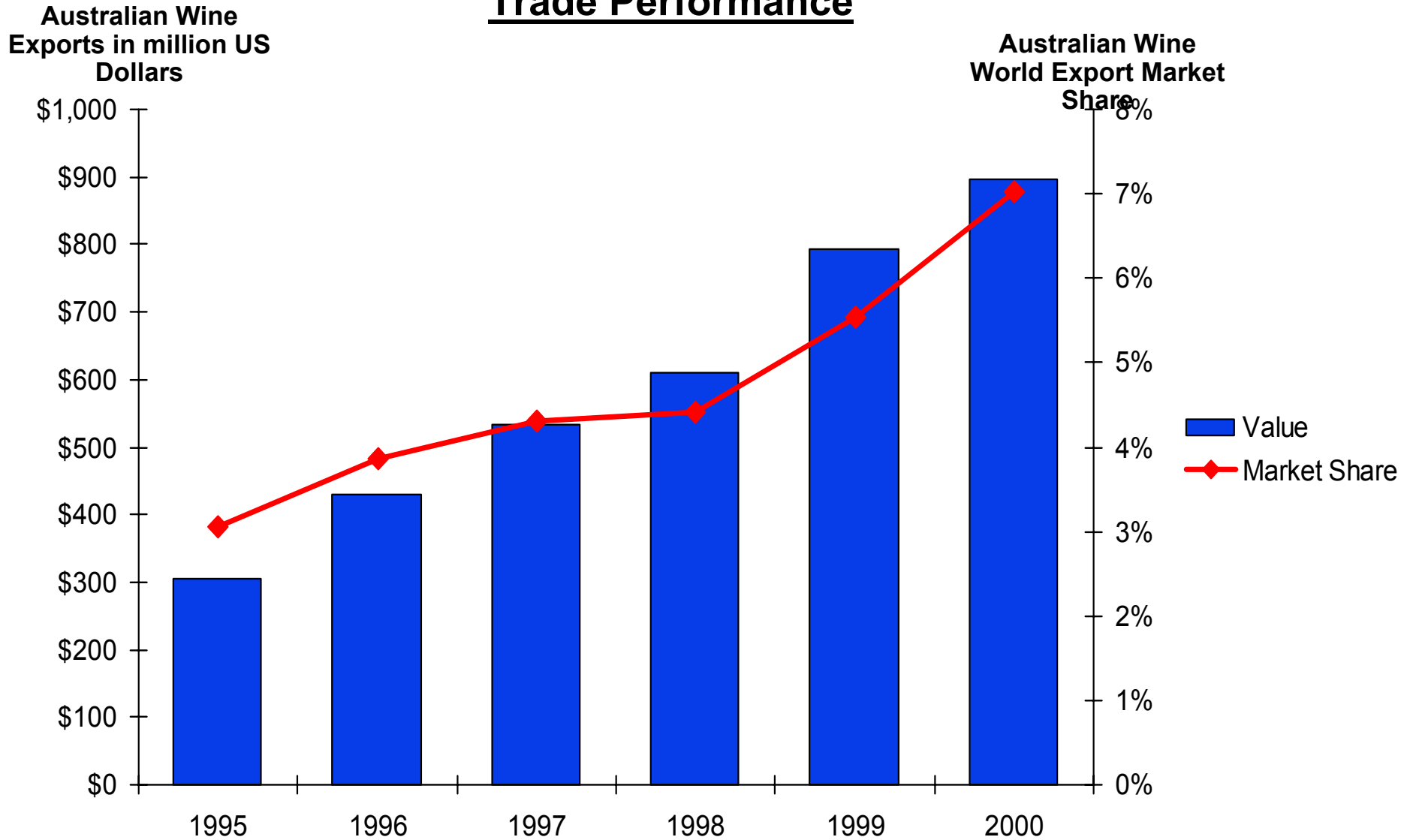
# Public / Private Cooperation in Cluster Upgrading

## Minnesota's Medical Device Cluster



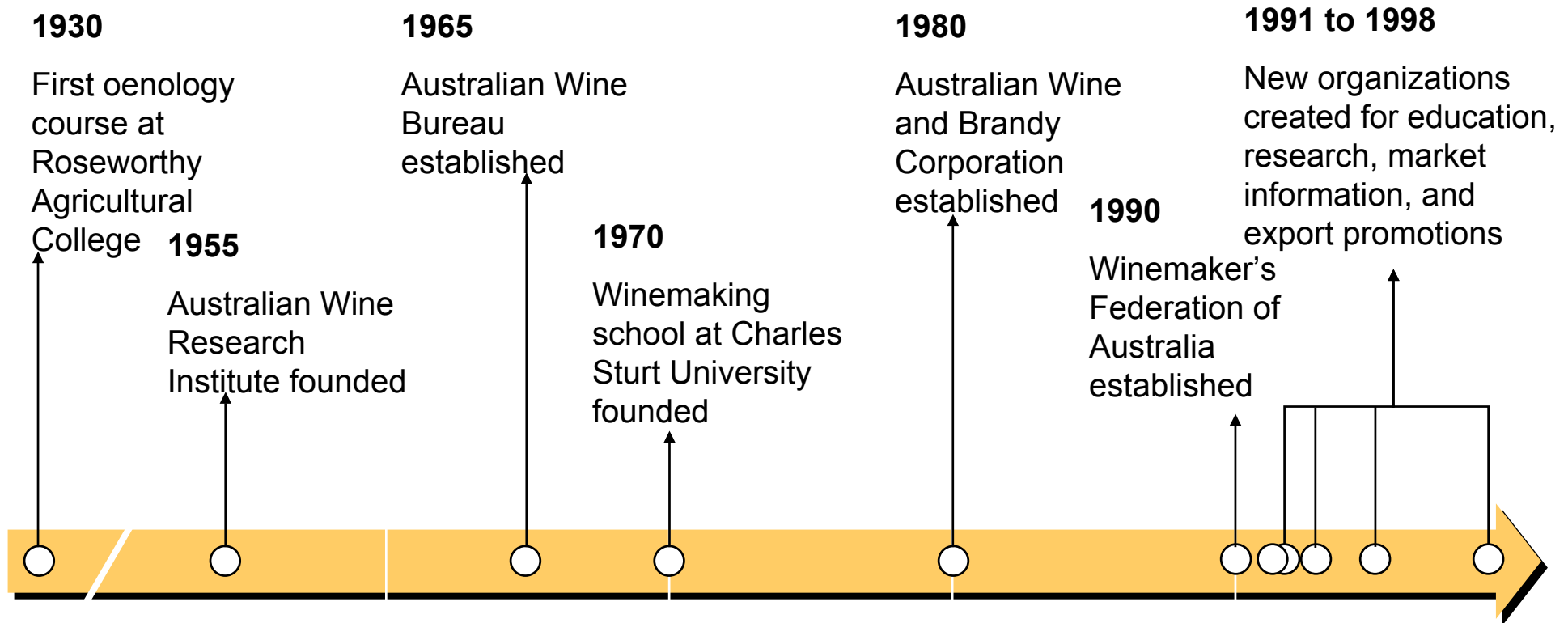
# The Australian Wine Cluster

## 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

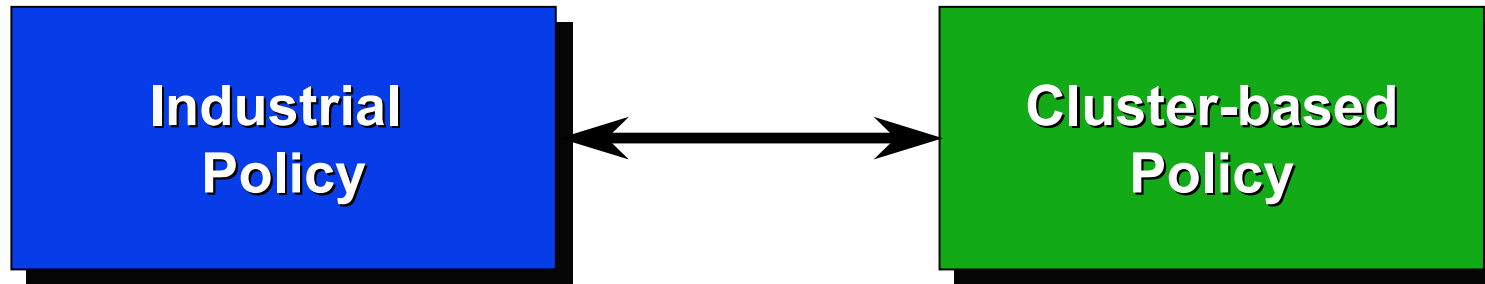
### Wine Industry National Education and Training Council

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

# Appropriate Roles of Government in Cluster Development

- A successful cluster policy builds on **sound overall economic policies**
- Government should support the development of **all clusters**, not choose among them
- Government policy should **reinforce established and emerging clusters** rather than attempt to create entirely new ones
- 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



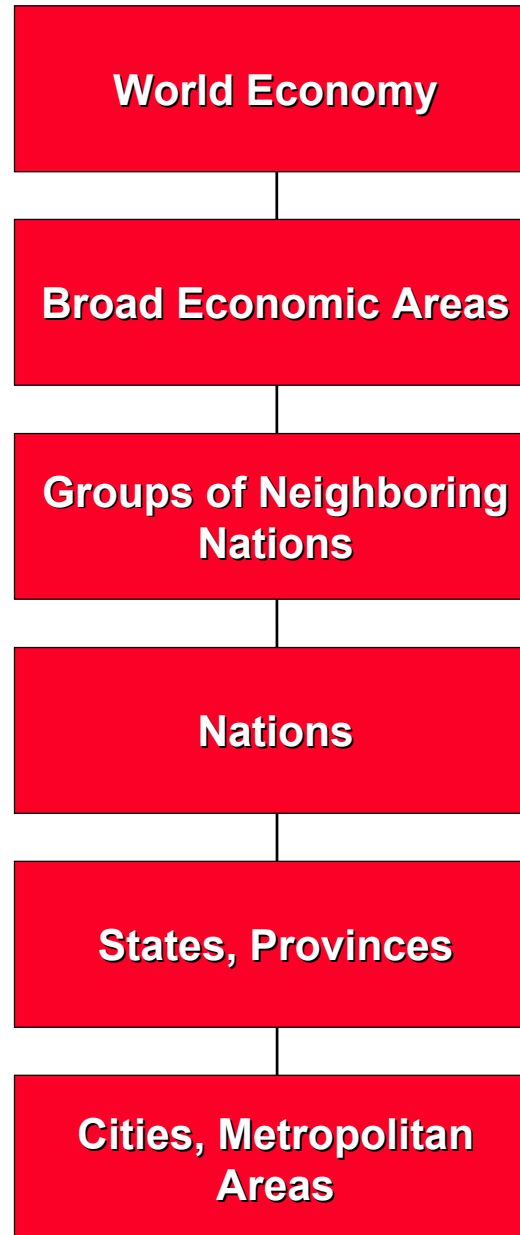
**Enhance competition**

# Malaysia's Competitiveness Agenda 2003

- Prepare the business environment for the next stage of economic development
- Engage in cluster development
- **Strengthen regional and cross-border initiatives for competitiveness**
- Redefine the roles of government and the private sector in economic development

# Influences on Competitiveness

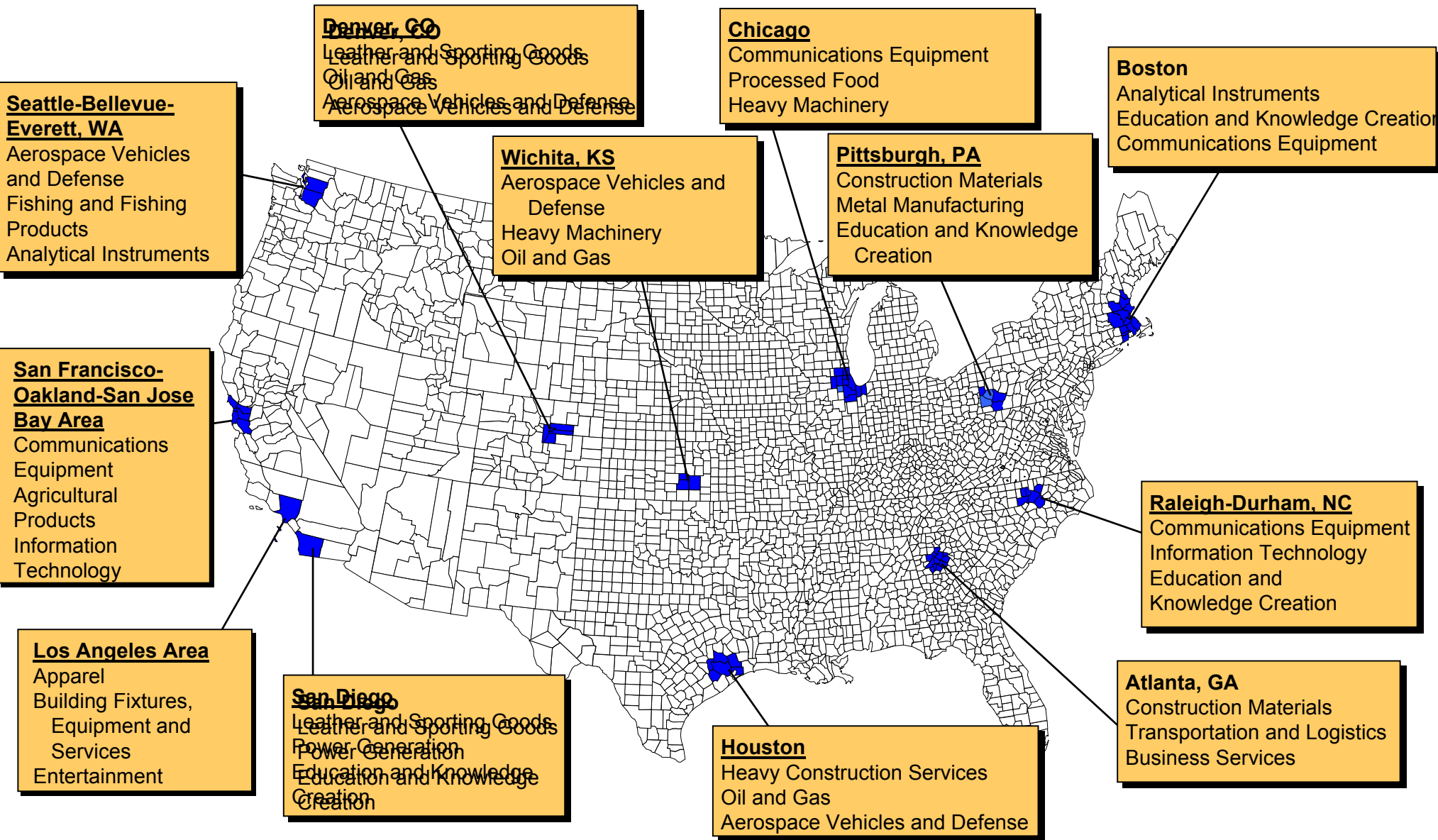
## Multiple Geographic Levels





# 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)

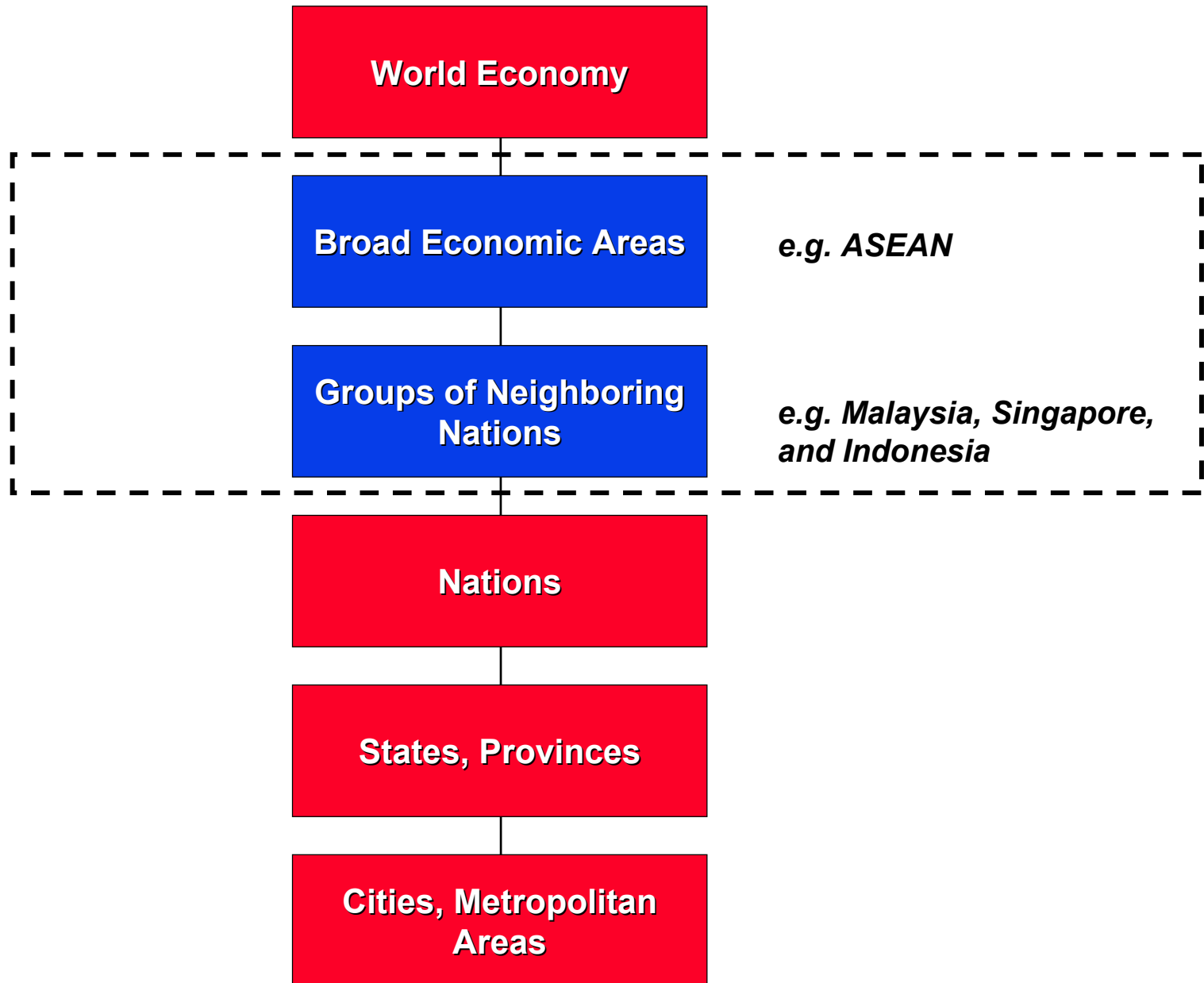


## New View

- A regional strategy as a powerful tool to enhance **competitiveness** in autonomous countries
- 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**

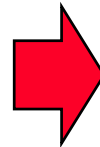
# Malaysia's Competitiveness Agenda 2003

- Prepare the business environment for the next stage of economic development
- Engage in cluster development
- Strengthen regional and cross-border initiatives for competitiveness
- **Redefine the roles of government and the private sector in economic development**

# 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

- **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

# 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



# Selected References

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- “The Current Competitiveness Index: Measuring the Microeconomic Foundations of Prosperity” in The Global Competitiveness Report 2000-01, New York: Oxford University Press, 2000
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- “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
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- “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](http://www.isc.hbs.edu)
- ISC Cluster Mapping Data (US) [data.isc.hbs.edu/isc/index.jsp](http://data.isc.hbs.edu/isc/index.jsp)
- *Cluster of Innovation Initiative*
  - Council on Competitiveness [www.compete.org](http://www.compete.org)
  - Monitor Company [www.monitor.com](http://www.monitor.com)