

Regions, Competitiveness, and Clusters

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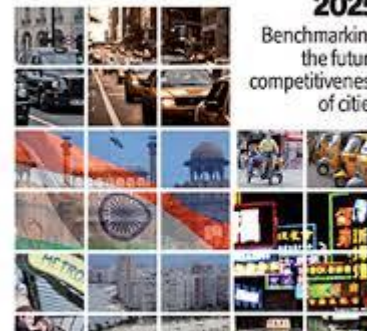
Insight Report
The Global Competitiveness Report
 2012–2013
 Klaus Schwab, World Economic Forum



European
 Competitiveness
 Report
2008



February 2012
COMPETITIVENESS AT A CROSSROADS
 Findings of Harvard Business School's 2012 Survey on U.S. Competitiveness
 Michael E. Porter
 Jan W. Stanek
 Elizabeth West Rankin



THE COMPETITIVE ADVANTAGE OF NATIONS
 with a new introduction
Michael E. Porter

MICHAEL J. ENRIGHT
 RICHARD PETTY
AUSTRALIA'S COMPETITIVENESS
 FROM LUCKY COUNTRY TO COMPETITIVE COUNTRY
 WILEY
 CPA

Orkestra
The Basque Country Competitiveness Report 2013
 Productive Transformation for Tomorrow

ADB
 Urban Development Series
Competitive Cities in the 21st Century
 Cluster-Based Local Economic Development
 Asian Development Bank
 Australian Government
 AusAID

Why the Traditional Focus on Central Government?

Nation = Laws

Nation = Money

Nation = Markets

Large Differences in Regions' Performance and Nature

**Productivity,
Labor Mobilization,
Innovation**

Prosperity

**Trade and
Investment**

**Geographic
Location**

Size

**Culture/
Social Capital**

**Business
Environment
Quality**

**Natural
Assets**

**Functional
Type/Density**

**Government
Capacity**

Cluster

Key Drivers of Regional Performance

What the Research Says

Neighbors matter but are who they are

Geographic Location

Social capital is key, directly and other assets

Size

Culture/
Social Capital

Skills matter (most), other dimensions often follow

Business Environment Quality

Natural Assets

Functional Type/Density

Government Capacity

Cluster

Urban economies have their own dynamics

Specialization patterns matter

Sectors, Clusters, and Economic Performance

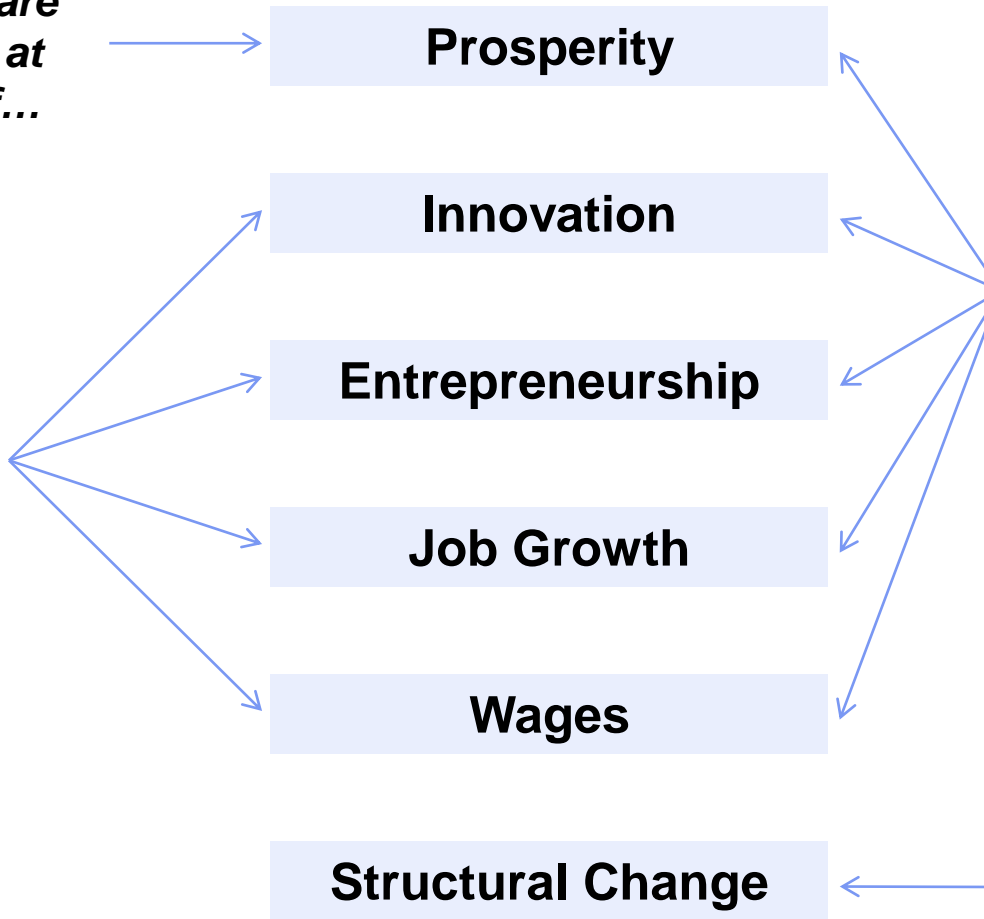
Recent Evidence

Sectors:

Narrow groups of industries

Certain sectors are more prevalent at higher levels of...

Sectors differ in...



Clusters:

Regional concentration of activities in related industries

The presence of strong clusters benefits...

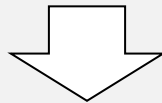
Cluster portfolio profiles drive the direction of ...

Sectoral Composition

“What you do”

“Structural Transformation”
(Lin)

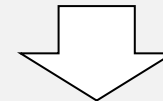
“Economic Complexity”
(Hausmann, Rodrik)



- **To get rich, do what rich countries do**

“How you do it”

Clusters
(Porter)



- **To get rich, do what you do best**
- **Moving to higher value activities is an outcome, not a tool**

Understanding the Nature of Structural Change

- Sectorial composition is **related** to the stage of economic development

BUT

is sectorial composition
a driver, a symptom, or an outcome?

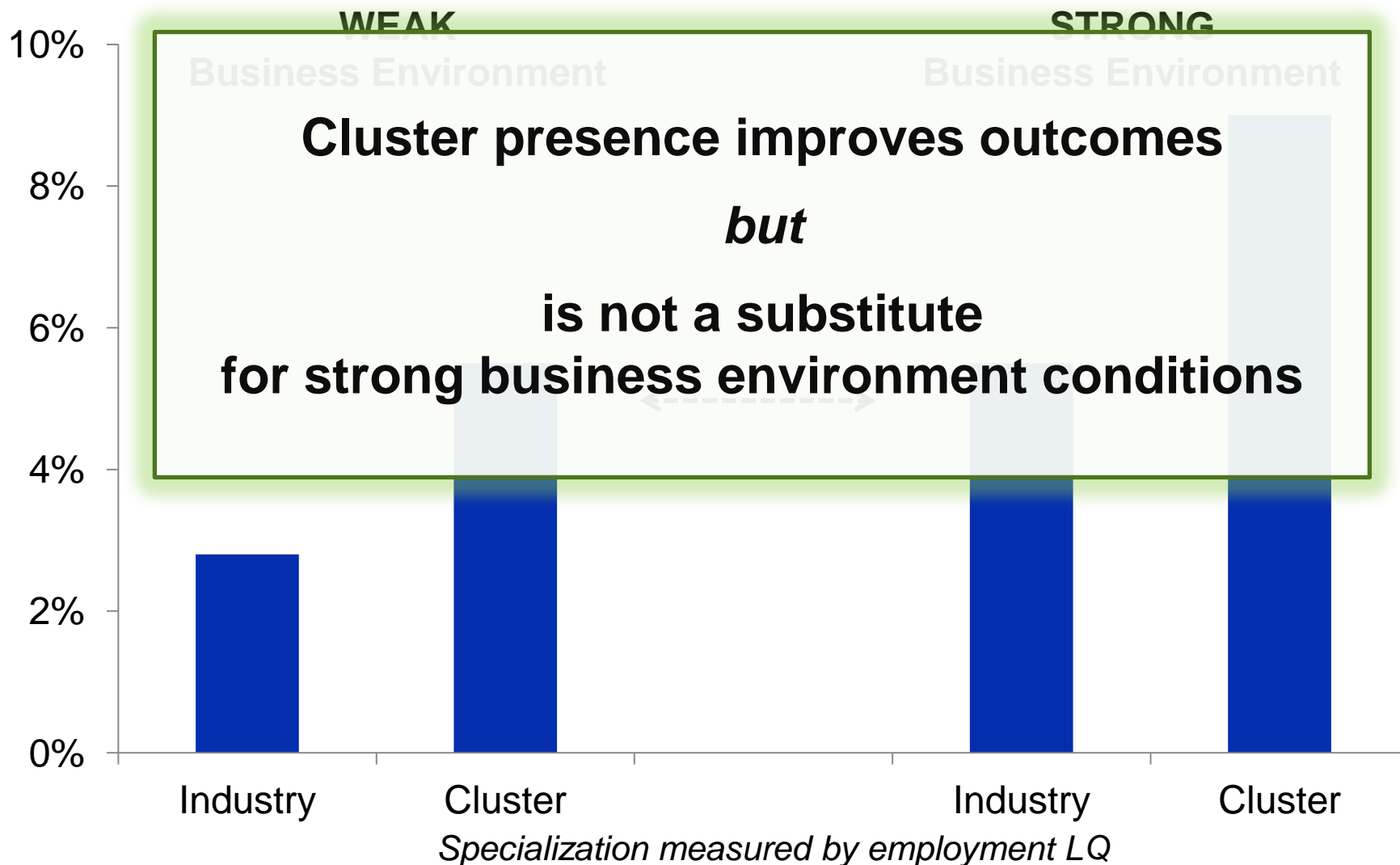
- Emerging evidence suggests that sectorial composition is largely **endogenous to business environment quality**



- Use data on sectorial composition as a **diagnostic** tool
- Upgrade business environments to **enable structural change**
- *But be careful about adopting sectorial composition as a **policy target***

Understanding the Dynamics of Clusters

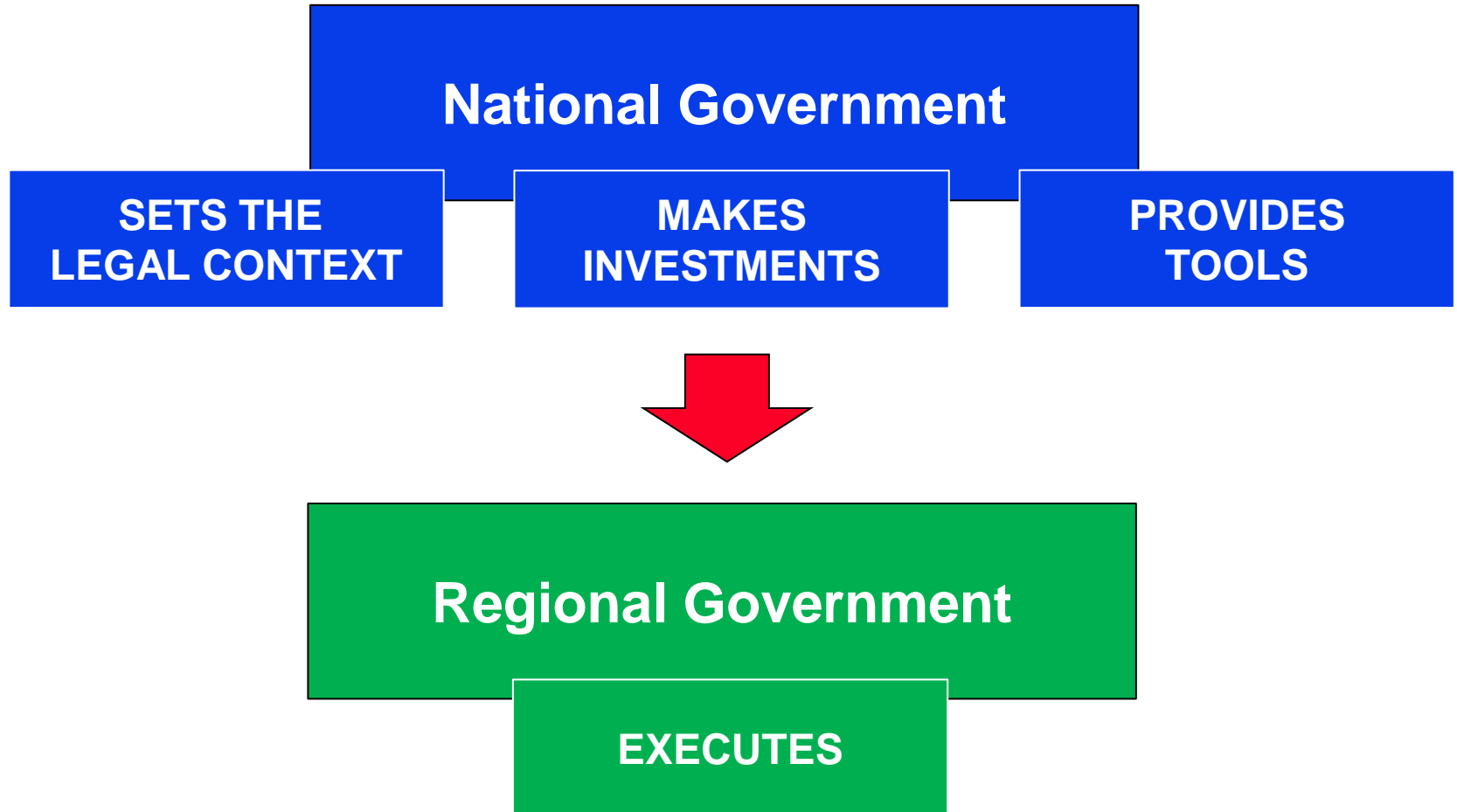
*Impact of higher
employment LQ
on wages*



In What Ways Can Regions Leverage Clusters?

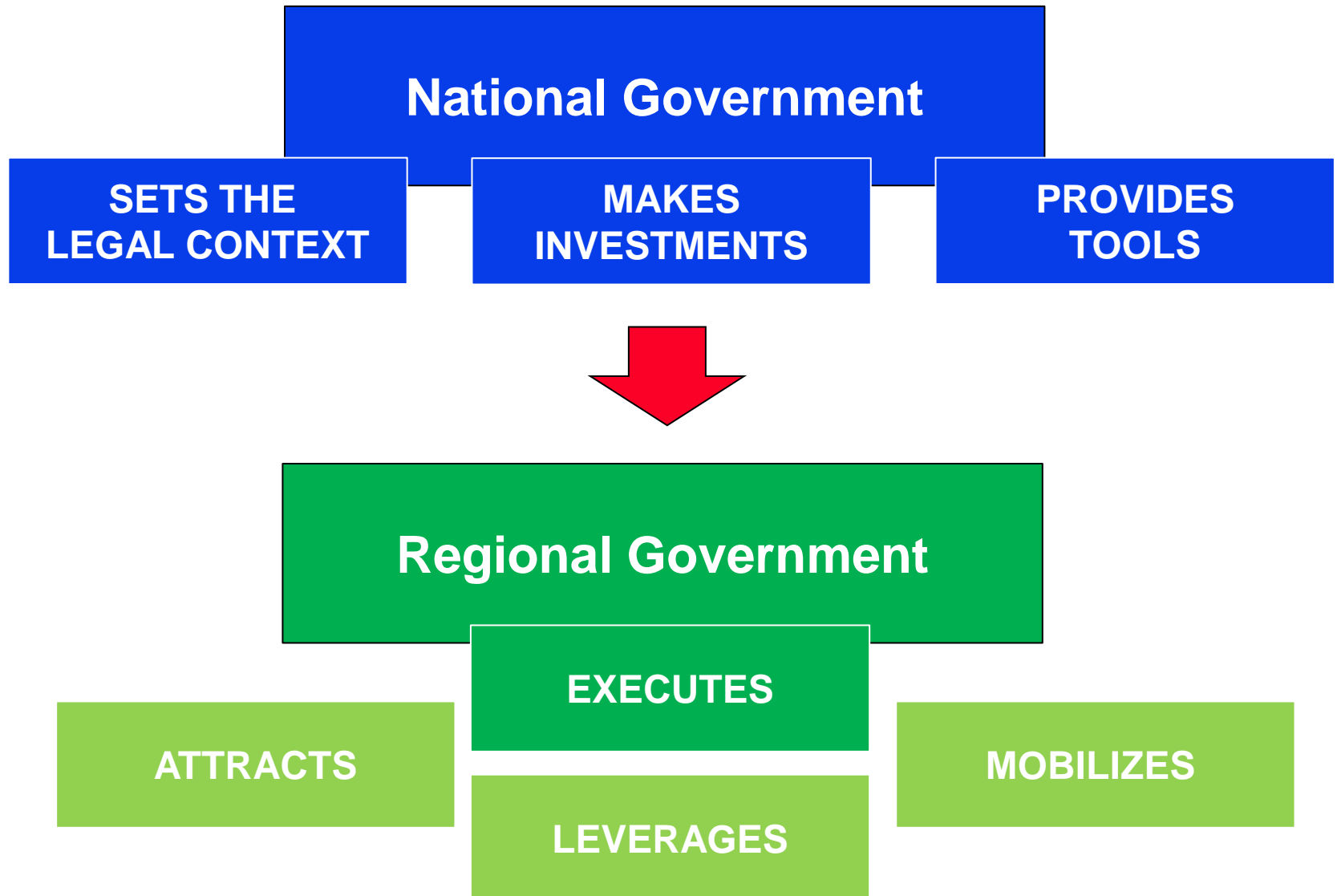
The Role of Different Levels of Government

The Old View



The Role of Different Levels of Government

The New View



How Regional Government Can Leverage Clusters

LEVERAGE

- *What dimensions of the business environment to strengthen?*
 - Use cluster data to identify critical mass
 - Use cluster groups to get insights

MOBILIZE

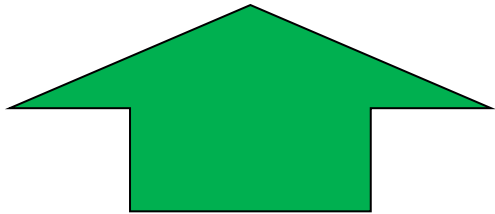
- *What networks to mobilize? How?*
 - Use cluster data to identify presence
 - Use clusters to define a scope that matters to companies

ATTRACT

- *What skills, firms, investors to attract? How?*
 - Use clusters to identify targets
 - Use clusters to sharpen the message

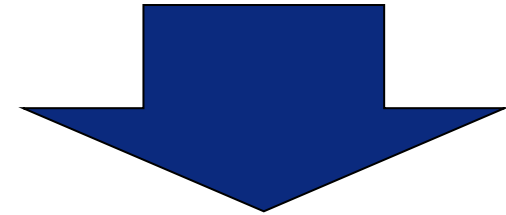
How Regional Government Can Leverage Clusters

Different Modes



Cluster Initiatives

- Mobilization of existing clusters of companies, research/educational organizations, and others
- Focus on networking, business environment upgrading, or enhancing company operations and strategies



Cluster-Specific Policies

- Concentration of government programs on selected industries and locations
- Focus on business environment upgrading and investment attraction

**Selection Challenge:
Government picks vs. Government responds**

How Regional Government Can Leverage Clusters

Cluster Initiatives

- Cluster initiatives are a critical instrument to **mobilize clusters**, and to engage the private sector in collective action
- The existing evidence suggests that cluster initiatives are **more effective** if
 - There is a meaningful underlying cluster
 - There are no limitations to membership in the organization
 - The private sector drives the selection of action priorities
 - There is a well-educated cluster manager driving the effort
 - There is professional secretariat with core funding
- Within these broad parameters, there are **many different structures** that can work, given local- and cluster-specific circumstances

Lessons

- **For national government**
- **For regional government**
- **For companies**
- **For cluster initiatives**

National Government: Align Cluster Policies With Regional Characteristics

Characteristics of the Region

Competitiveness

- Business environment quality
- Company Sophistication
- Cluster presence

Capacity

- Social capacity
- Technical skills of the public administration

Political power

- Size
- Legal competences

Profile

- Geographic location
- Sectoral specialization

Characteristics of the Cluster Policy

Select objectives

- Mobilize existing clusters
- Test potential of emerging clusters
- Channel to upgrade business environment/companies
- Strengthen trust

Create or use policies

- Design regional policies
- Draw on EU/national policies

Set the scope

- Set number of clusters
- Set financial budget

Cluster Policy Across Different Levels of Government

National Government

- *Pull*; react to market signals
- *Support* and help *coordinate* regional efforts

- *Push*; amplify weak market signals (and react to new signals)
- Apply strong *market discipline* to avoid rent capture

Established Clusters
with national importance,
often with presence in
multiple regions

Potential Industries
with limited current
presence and no clear
regional concentration

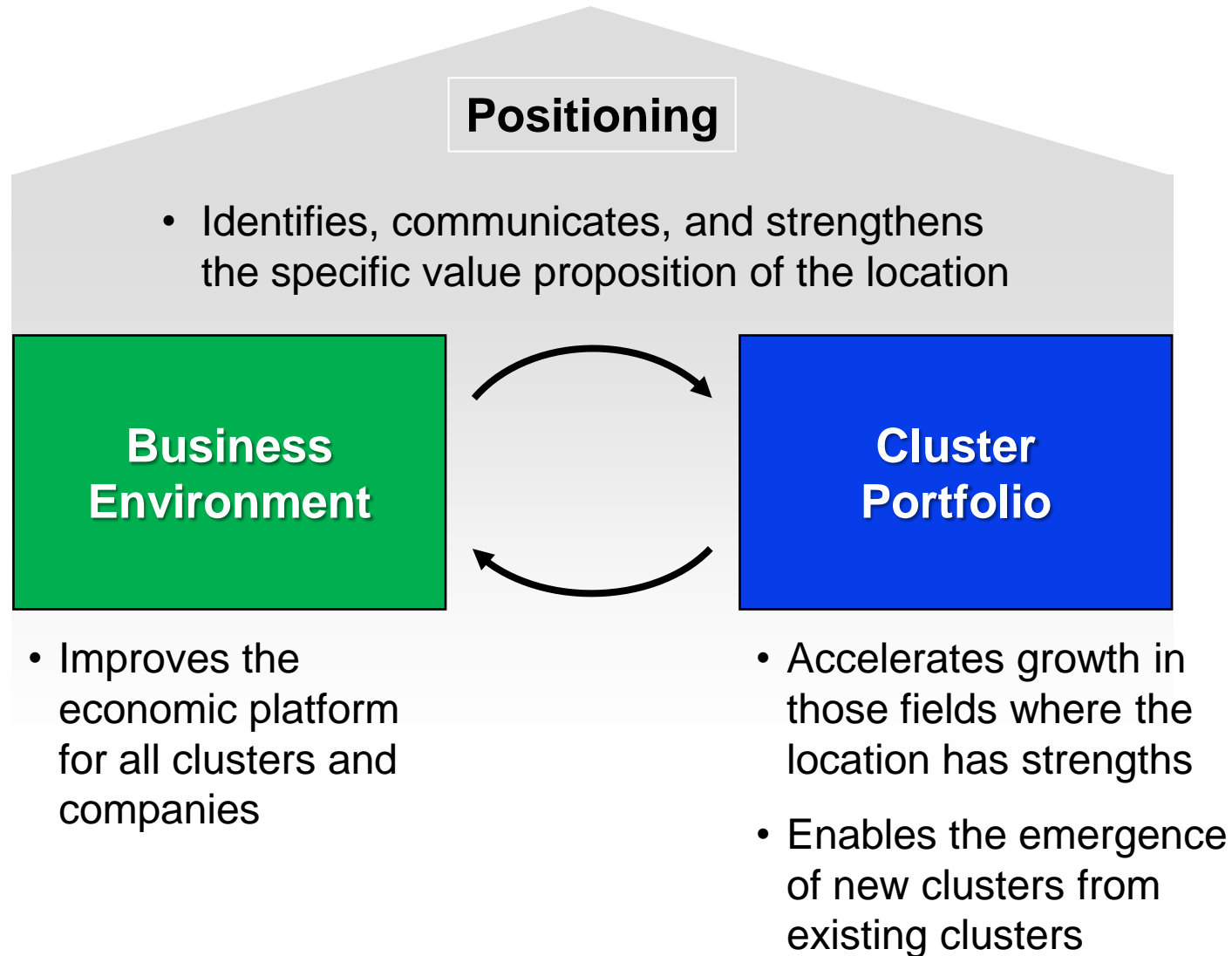
Established Clusters
with regional importance

- *Pull*; react to market signals
- Support all clusters with *critical mass*, *willingness to act*, and a *plausible strategy*

- *Pull*; react to policy signals
- Compete by providing *best bus. environment* for potential industries

Regional Governments

Regions: Integrate Clusters into a Broader Strategy



Companies: Drive Cluster Initiatives

Firms should

- **Propose relevant clusters**
- **Define cluster action priorities**
- **Drive activities**

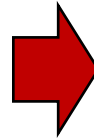
Government may

- **Initiate/ Convene**
- **Co-Finance**
- **Participate in activities**

Cluster Initiatives: Build the Platform for Joint Action within the Cluster

Old Model

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



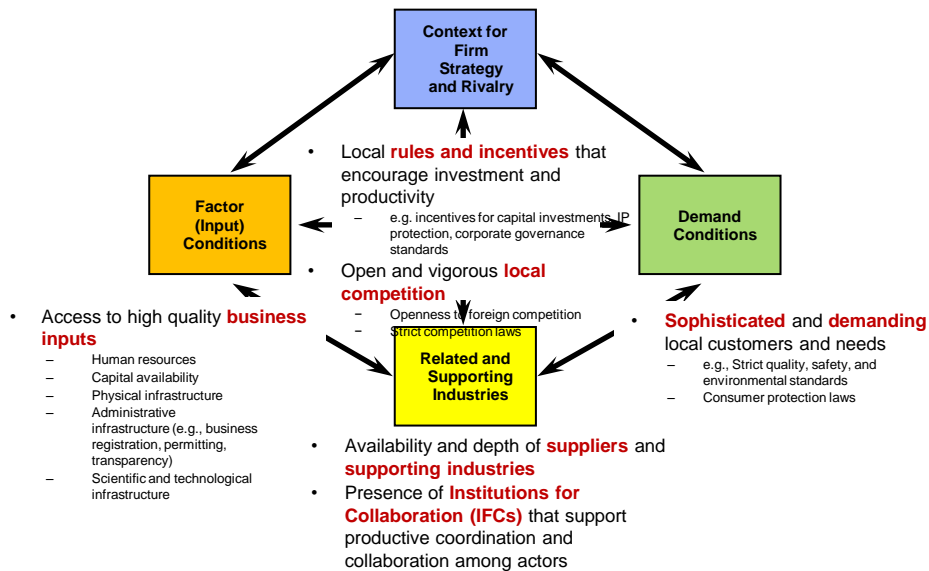
New Model

- Economic development is a **collaborative process** involving government at multiple levels, companies, teaching and research institutions, and private sector organizations

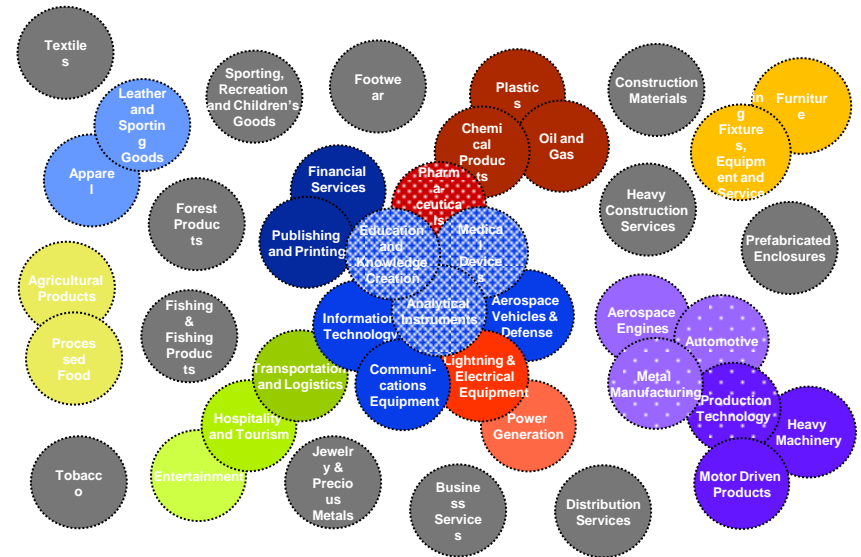
Trust
Shared Language
Common View of Reality
Joint Decision
Joint Action

Cluster Initiatives: See the Region Behind the Cluster

Business Environment Qualities



Regional Cluster Portfolio



- There is a **new role for regions** that gives them a central responsibility in upgrading competitiveness
- Clusters are a **critical tool** and **organizing principle** for regions to play this role
- National government, regional government, companies, and cluster initiatives have **key tasks** to make clusters work for regions

Back-Up