

Competitiveness

Competitiveness

= ability of a country, region, city to support firm to **succeed in domestic and international markets while simultaneously improving the standards of living** of the people who live there = achievement of sustainable prosperity

Competitiveness links Business success to Social Outcomes

Two ways of competing

- o COST → low inputs
- o VALUE → creating better products

Competitiveness is Not

- cheap labour
- low wages
- weak currency
- natural resources alone
- exports alone
- jobs alone

A country may still remain poor if **production** is inefficient and **value creation** is low

Cheapness Is Not True Competitiveness

- **currency weakness** does not make firms more capable, innovative, or efficient
- **low wages often reflect low productivity**
(Competitiveness allows wages to rise because firms create more value per worker)

Jobs Alone Are Not Enough

- Relevant question = **how much value those jobs create?**

Productivity as the Foundation of Prosperity

- **productivity** = how efficiently firms use labour, capital, knowledge, technology, natural resources

Wealth is created, not simply inherited

- stronger firms
 - higher wages
 - higher profits
- = better living standards

Determinants of Competitiveness

1. **macro level** = conditions necessary but not sufficient
 - o political stability,
 - o institutions,
 - o education,
 - o health

firms cannot invest productively if the surrounding system is unstable or untrustworthy

2. **micro level** = where competitiveness is actually created
 1. **Sophistication of company operations and strategy**
 - o **Operational effectiveness** (improves efficiency) = Doing the same thing better
 - o **Strategic positioning** = Doing differently or a different mix (creates **sustainable competitive advantage**)
 2. **Quality of the business environment,**
 - o capable suppliers
 - o strong infrastructure
 - o skilled labour
 - o research institutions
 - o universities

3. **The intensity of local rivalry,**
 - Domestic Competition forces firms to:
 - reduce inefficiency,
 - improve quality,
 - innovate,
 - upgrade continuously

Strength of clusters

Firms do not compete in isolation.
Clusters makes innovation easier and upgrading more likely = Ecosystem effects

3. **endowments**
 - natural resources
 - geographical location
 - population and land area

The true basis of competitiveness is not a country's endowments alone

 - **but the efficient use of resources**

MACRO CONDITIONS SET THE STAGE

MICROECONOMIC QUALITY DETERMINES PERFORMANCE

- **long-run competitiveness depends on microeconomic upgrading.**

Economic Development = is a process of successive upgrading

- = shift toward higher-value activities (**innovation, specialization, stronger capabilities**)

Development is not simply growth in output;
is a movement toward higher-value forms of competition

Clusters and Competitiveness

Cluster = geographic concentration of interconnected firms and institutions in a particular field

- firms
- suppliers
- service providers
- finance
- universities
- research bodies
- infrastructure

Cluster Map → Shows who is involved and how strong the links are.

- The **relationships** among firms and institutions **create advantages** that isolated firms cannot easily achieve on their own
- **creation of synergies** → "the whole is better than the sum of the parts"

Cluster overlap → clusters can be linked to each other in order to achieve win-win strategies

Why clusters matter for competitiveness?

1. **Competitiveness depends on the local environment** (not only on individual firms)
2. Clusters create linkages, spillovers, and complementarities

Clusters enhance competitiveness in three main ways:

1. higher productivity

Clusters **improves firms access to specialized inputs and institutions**

- o skilled labour availability
- o stronger supplier networks
- o better business services and market information
- o shared infrastructure

Geographic proximity reduces transaction and coordination costs

2. stronger innovation

Because firms are close to suppliers, customers, universities, and research institutions

- **faster identification of new opportunities**
- **easier adaptation to technological change**

Knowledge circulates more rapidly through observation and collaboration

- easier experimentation
- faster diffusion of best practices

3. more new firm formation

Clusters make new business formation easier

easier access to:

- o skills
- o suppliers
- o finance
- o support services

- entrepreneurial opportunities are more visible
- lower barriers to entry

This encourages

- o more start-ups and spin-offs
- o expansion of related activities

Self-reinforcing growth process

over time, successful firms attract further suppliers, new entrants, and specialized institutions

Cluster evolution

Historically there was the belief that clusters could be created by Governments

- **Cluster activation theory** says it may not be possible to create clusters artificially.

Cluster activation beats cluster creation

Governments should strengthen the surrounding business environment with:

- infrastructure improvement
- skills and training support
- removal of barriers to competition
- cooperation among firms, institutions, and public actors

Cluster policy works best when based on real local strengths

Clusters can emerge from:

- Historical events
- Chance
- Acts of entrepreneurship
- Local demand conditions

Cluster decline

Caused by:

- change in needs
- technological discontinuity
- rising costs
- regulations
- lack of rivalry

Clusters in Developing Countries reduce fragmentation

- stronger local linkages
- deeper specialized capabilities

In developing countries

- firms often operate in isolation
- weak supplier networks
- underdeveloped supporting institutions
- difficulty achieving high productivity
- difficulty moving into sophisticated activities

Necessity to overcome the low-cost competition model

Goal

- sustained productivity
- income growth

How to analyze a cluster

1. Identify **large firms** or **concentration of firms**
2. Identify **vertical connections**
(upstream & downstream relationships)
3. Identify **institutions providing specialized inputs**
(skills, technology, capital)
4. Identify **government and regulatory bodies** influencing participants