

# Building A Competitive Economy: Implications for Iceland

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

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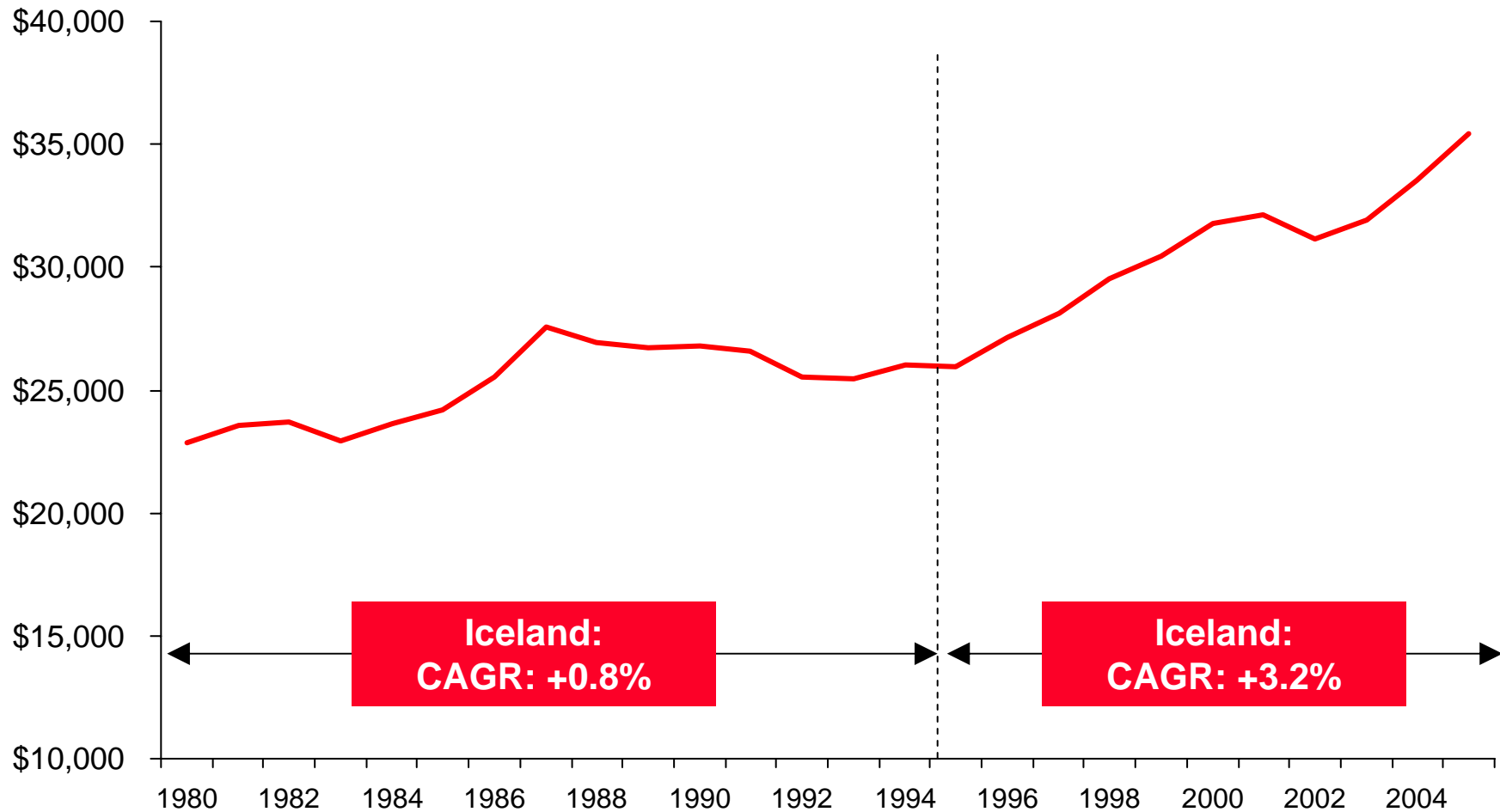
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This presentation draws on ideas from Professor Porter's articles and books, in particular, [The Competitive Advantage of Nations](#) (The Free Press, 1990), "Building the Microeconomic Foundations of Competitiveness," in [The Global Competitiveness Report 2006](#) (World Economic Forum, 2006), "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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# Iceland's Long Term Economic Performance

GDP per capita  
(PPP adjusted) in US-\$



Source: Groningen Growth and Development Centre and The Conference Board (2006), authors' calculations

# Iceland's Economic Legacy

- Geographic location
- Natural resources
- Small population

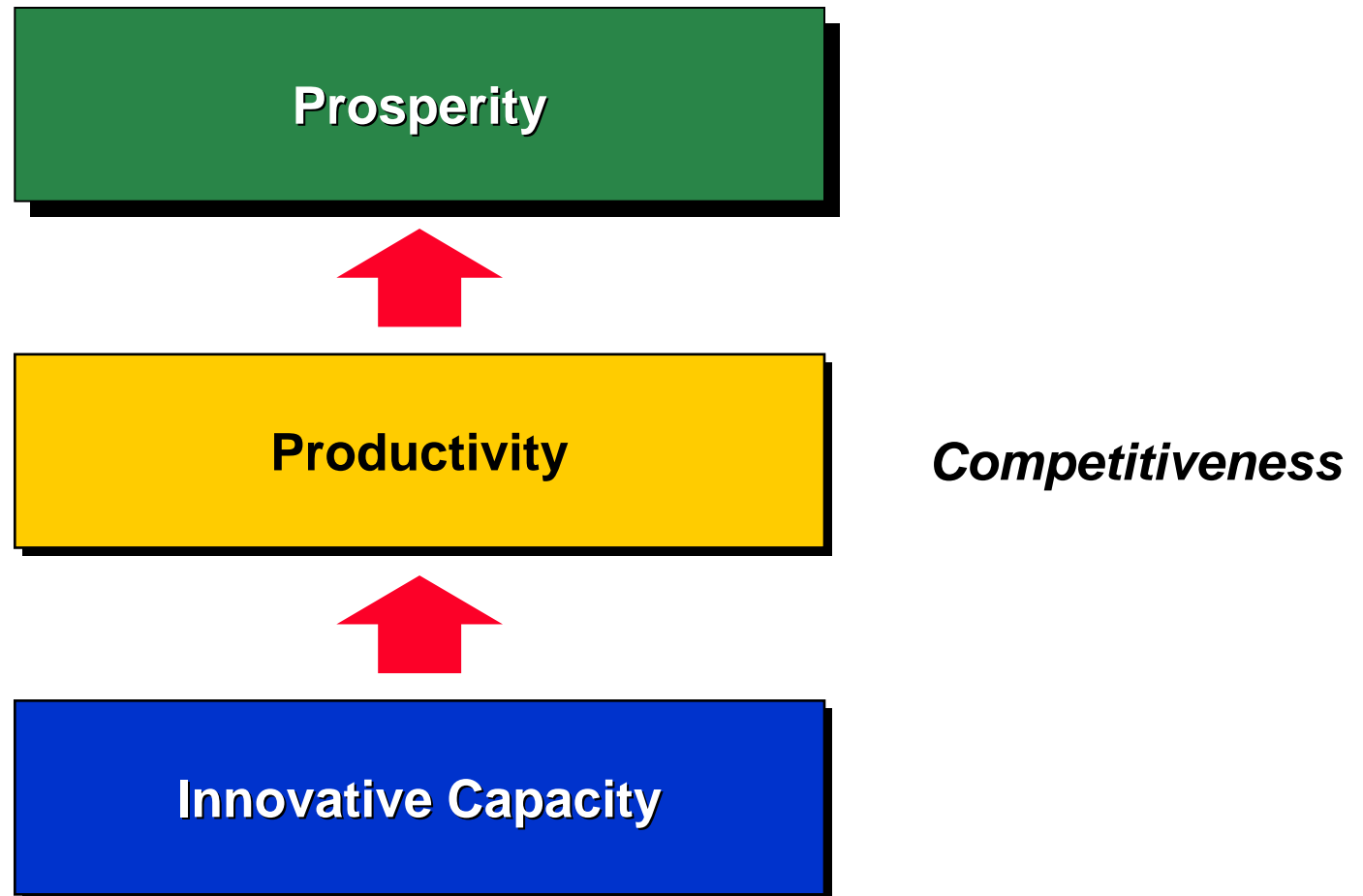
# What is Competitiveness?

- Competitiveness is the **productivity** (value per unit of input) with which a nation, region, or cluster uses its human, capital, and natural resources. Productivity sets a nation's or region's standard of living (wages, returns on capital, returns on natural resources)
  - 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 or region competes in that matters for prosperity, but **how** firms compete in those industries
  - Productivity in a nation or region 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 and revaluation do **not** make a country more or less “competitive”



- Nations or regions compete in offering the **most productive environment** for business

# Drivers of Sustainable Prosperity



# Determinants of Productivity and Productivity Growth

Macroeconomic, Political, Legal, and Social Context

## Microeconomic Capabilities

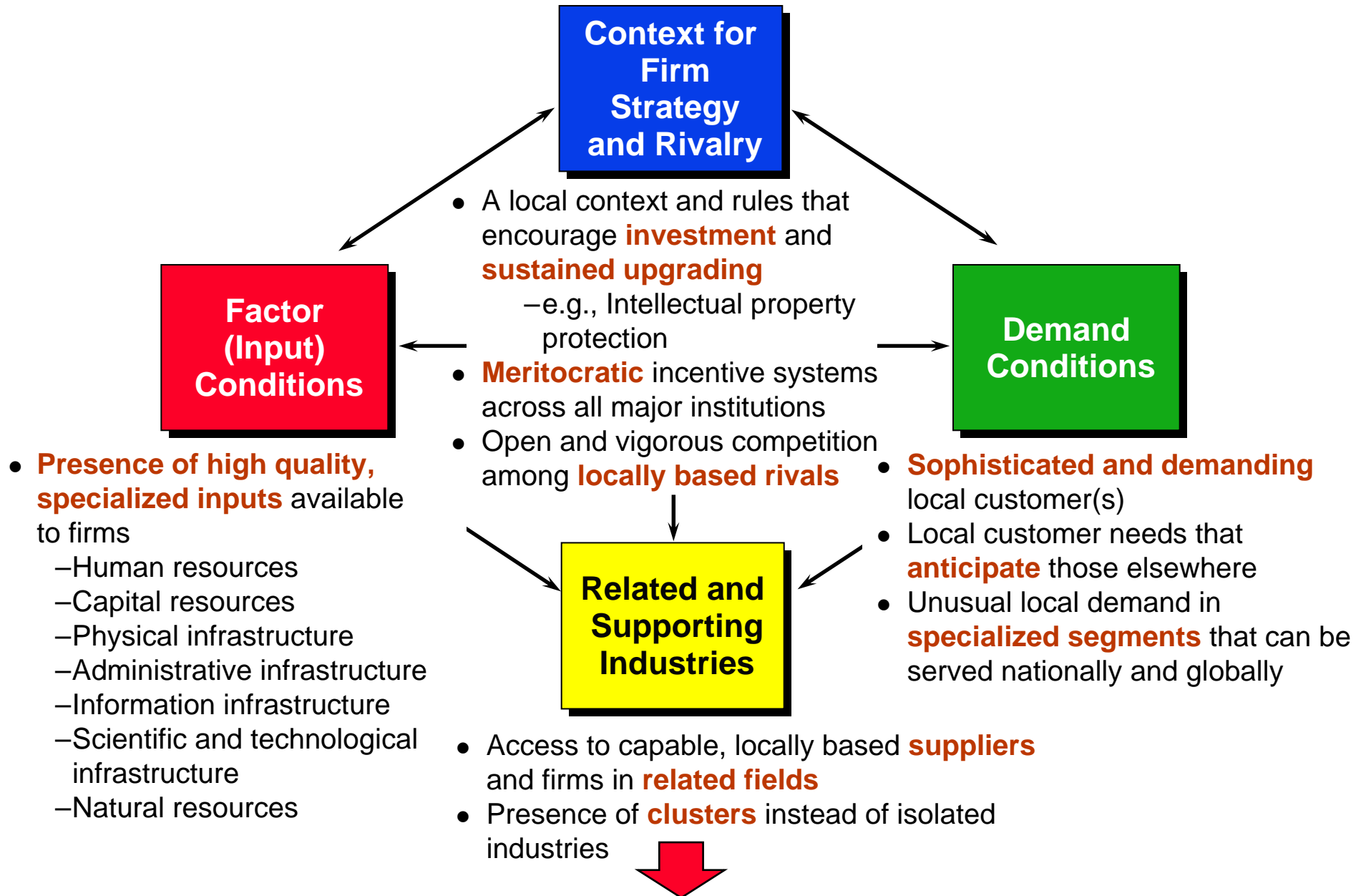
Sophistication  
of Company  
Operations and  
Strategy



Quality of the  
Business  
Environment

- A sound 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**

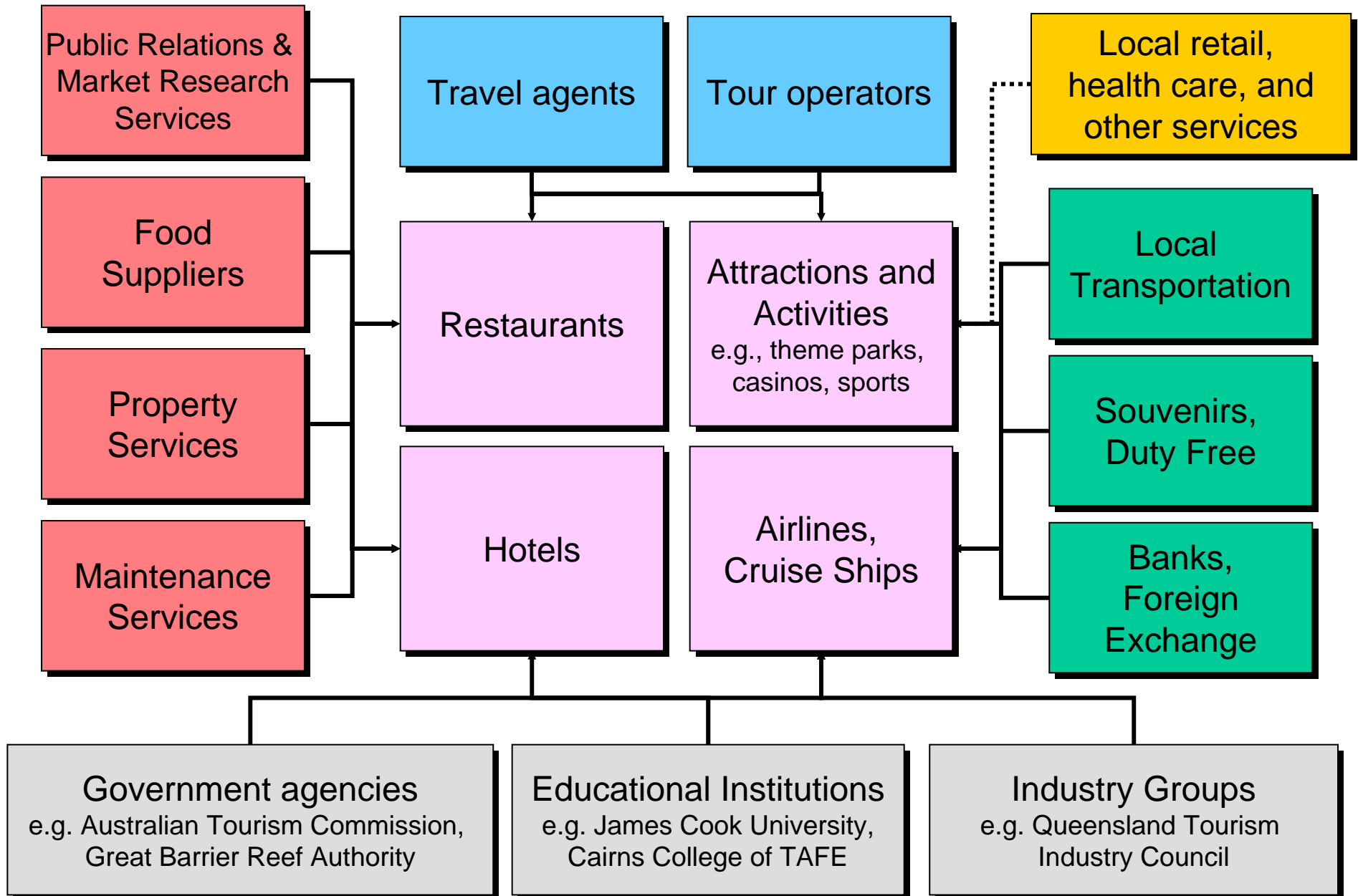
# Enhancing Competitiveness: Improving the Business Environment



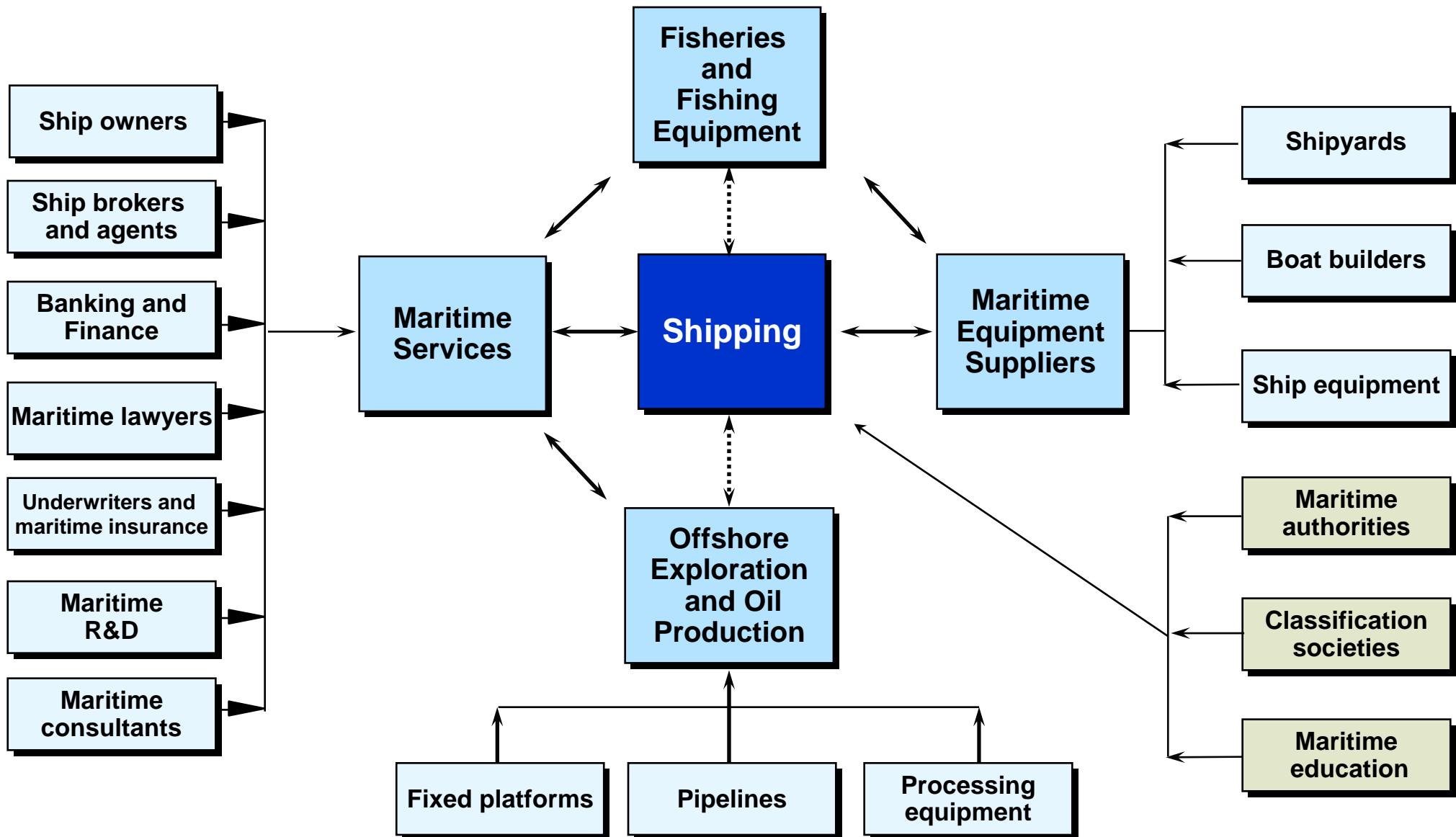
- Successful economic development is a process of **successive economic upgrading**, in which the business environment in a nation evolves to support and encourage increasingly sophisticated ways of competing

# Enhancing Competitiveness: Cluster Development

## Cairns (Australia), Tourism



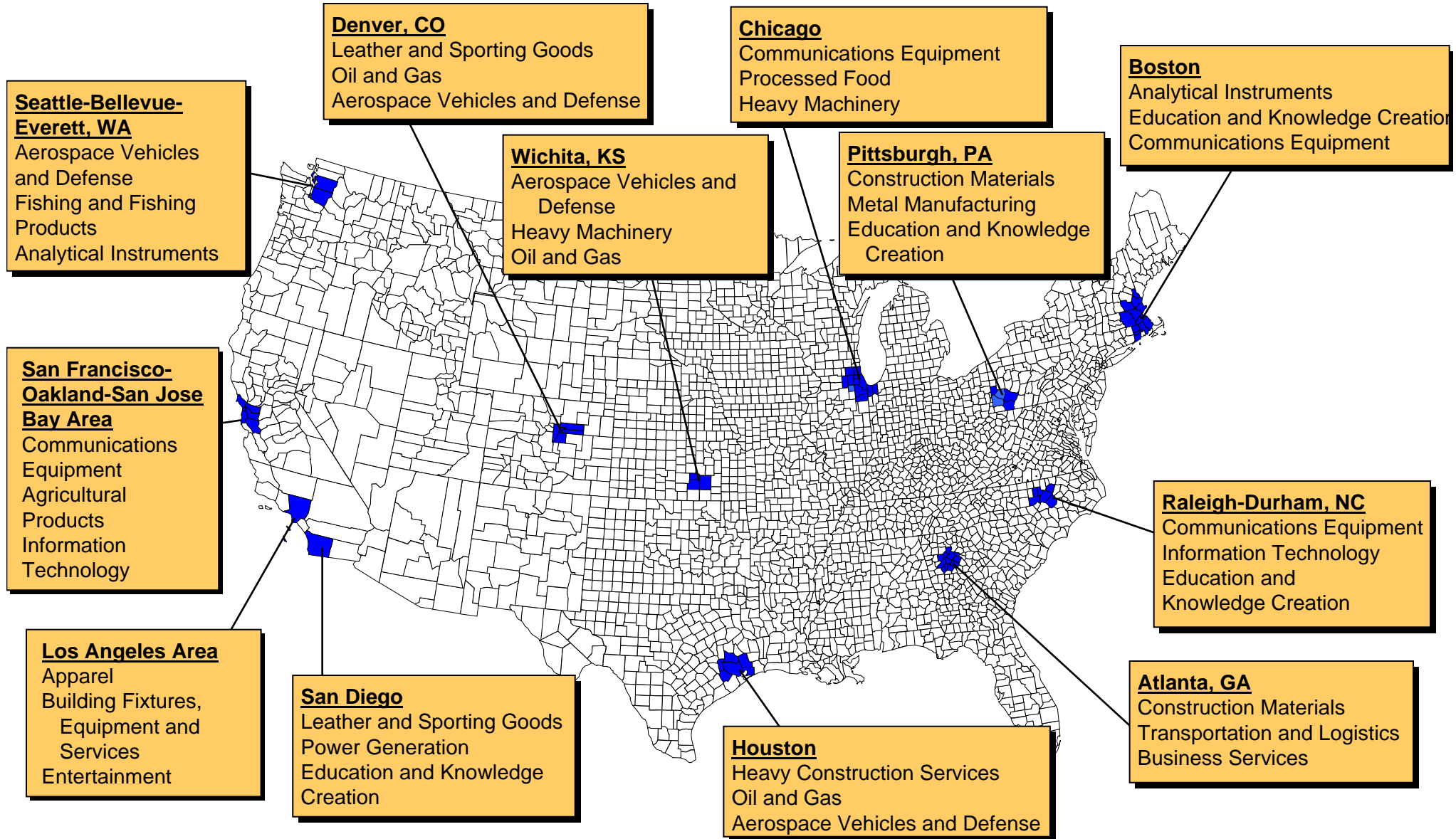
# Norwegian Maritime Cluster



Norway has 0.1% of the world's population, represents 1.0% of the world's economy, yet accounts for 10% of world seaborne transportation

# 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

# The Composition of Regional Economies

## United States, 2004

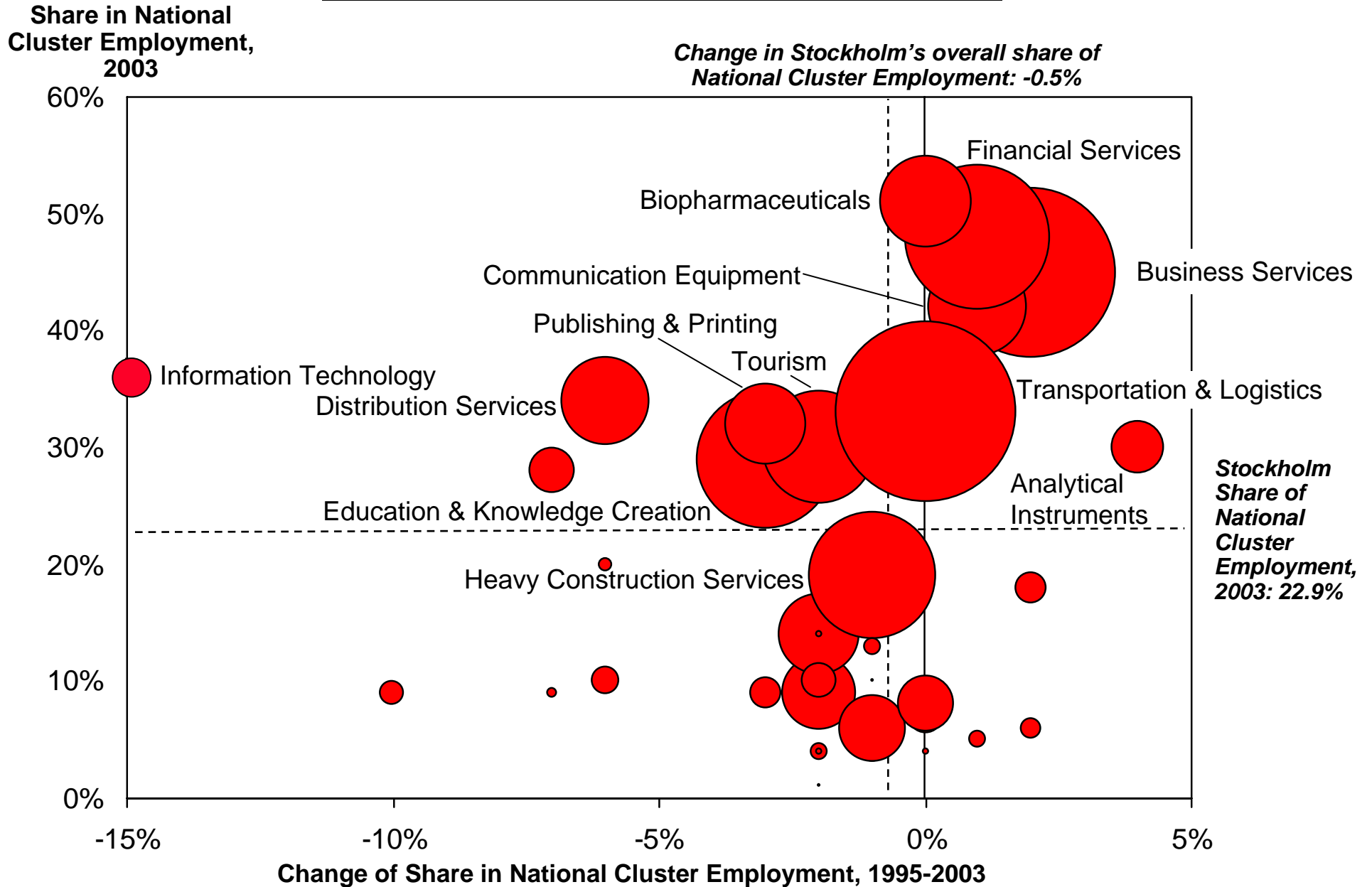
	Traded	Local	Natural Resource-Driven
Share of Employment	29.3%	70.0%	0.7%
Employment Growth Rate, 1990 to 2004	0.7%	2.4%	-1.2%
Average Wage	\$49,367	\$30,416	\$35,815
Relative Wage	137.2%	84.5	99.5
Wage Growth	4.2%	3.4%	2.1%
Relative Productivity	144.1	79.3	140.1
Patents per 10,000 Employees	23.0	0.4	3.3
Number of SIC Industries	590	241	48

Note: 2004 data, except relative productivity which uses 1997 data.

Source: Prof. Michael E. Porter, Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School

# Composition of the Traded Economy

## Stockholm (Sweden) Cluster Portfolio

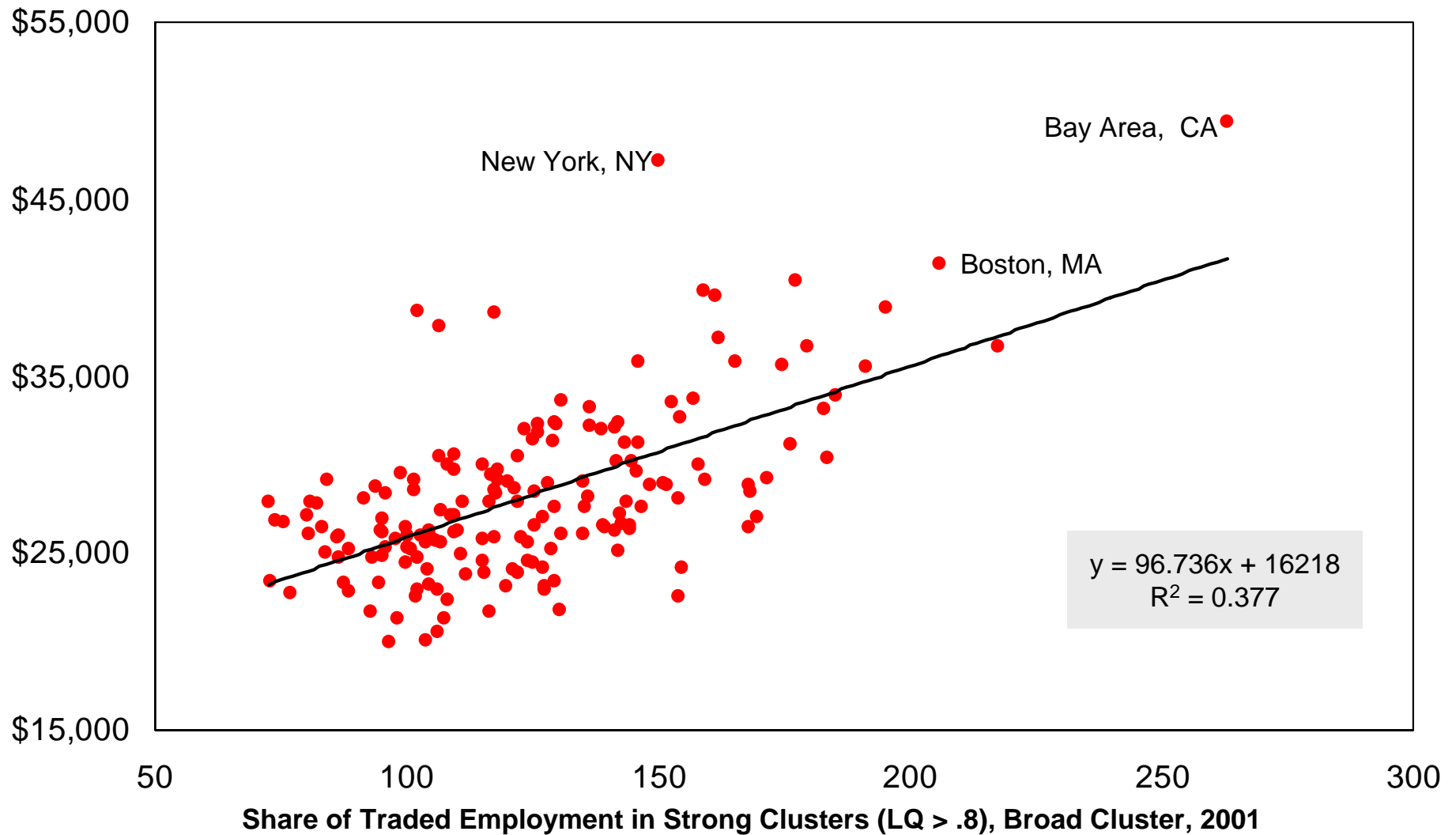


Note: Bubble size is proportional to employment levels  
 Source: Statistics Sweden (2005), author's calculations  
 Iceland Competitiveness DRAFT 09-14-06 CK

# Determinants of Regional Prosperity

## Cluster Strength and Wage Levels, U.S. Regions

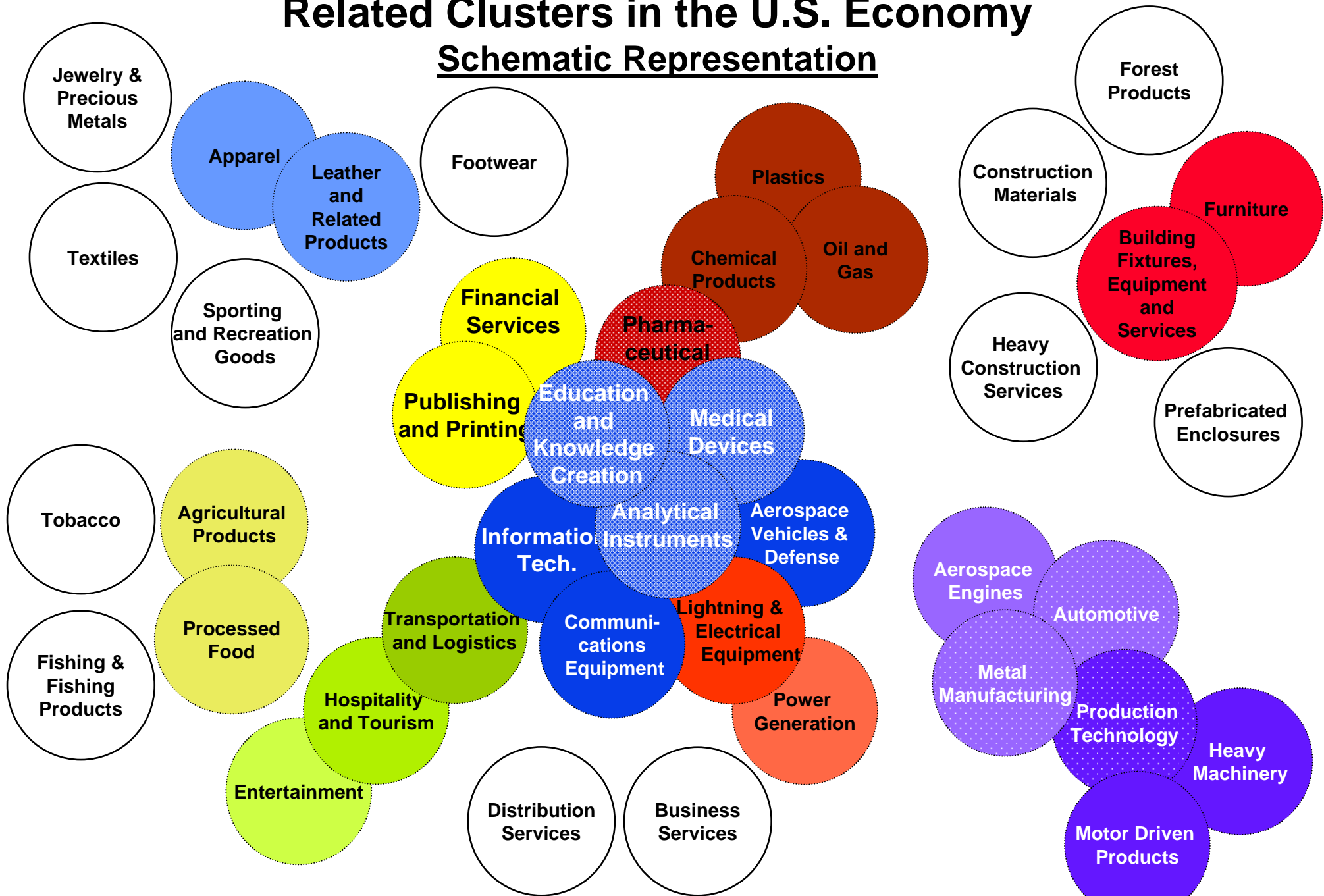
Average Regional  
Wage, 2001



Source: County Business Patterns; Michael E. Porter, "The Economic Performance of Regions", *Regional Studies*, Vol. 37, 2003

# Related Clusters in the U.S. Economy

## Schematic Representation



Note: Clusters with overlapping borders or identical shading have at least 20% overlap (by number of industries) in both directions

# Cluster Specialization

## 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

### China

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

### Italy

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

### United States

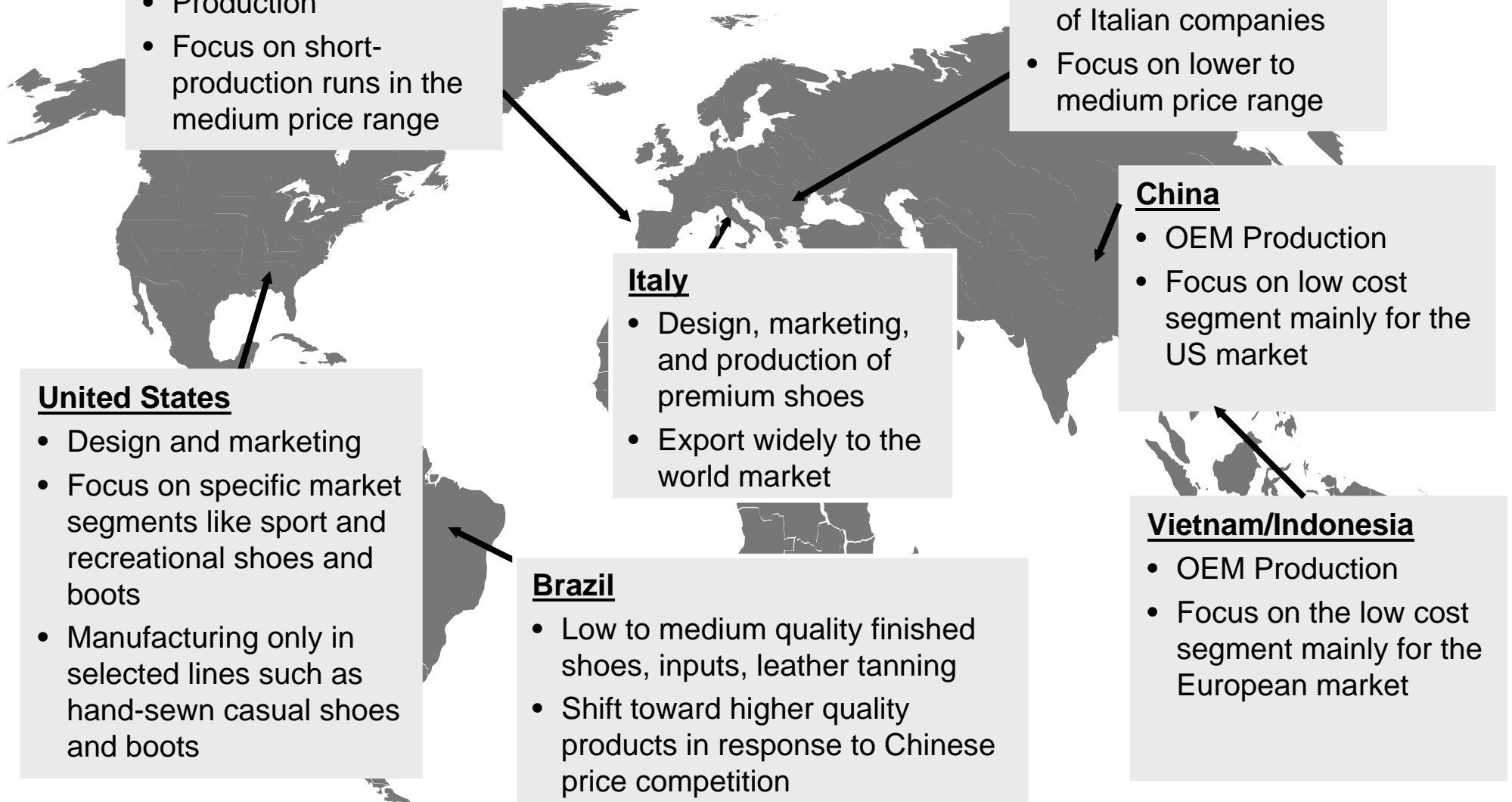
- Design and marketing
- Focus on specific market segments like sport and recreational shoes and boots
- Manufacturing only in selected lines such as hand-sewn casual shoes and boots

### Brazil

- Low to medium quality finished shoes, inputs, leather tanning
- Shift toward higher quality products in response to Chinese price competition

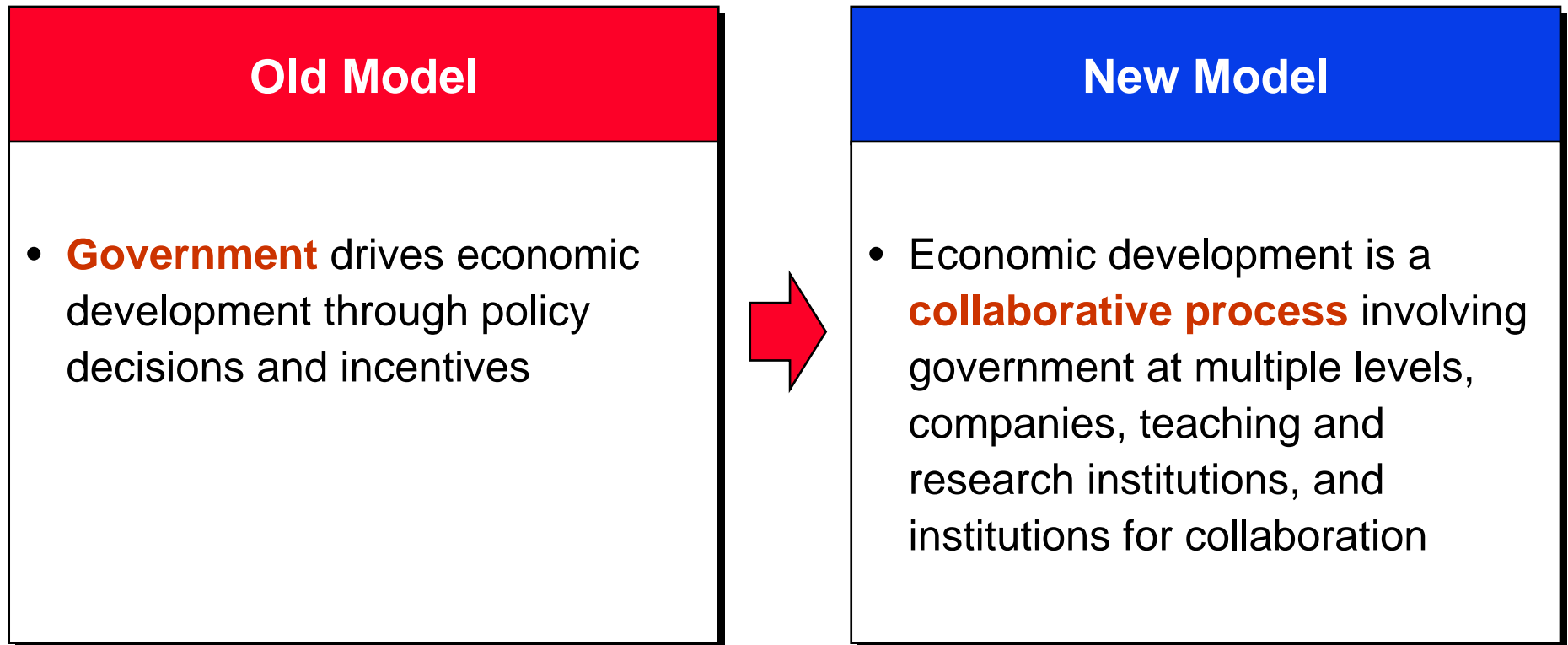
### Vietnam/Indonesia

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



# The Process of Economic Development

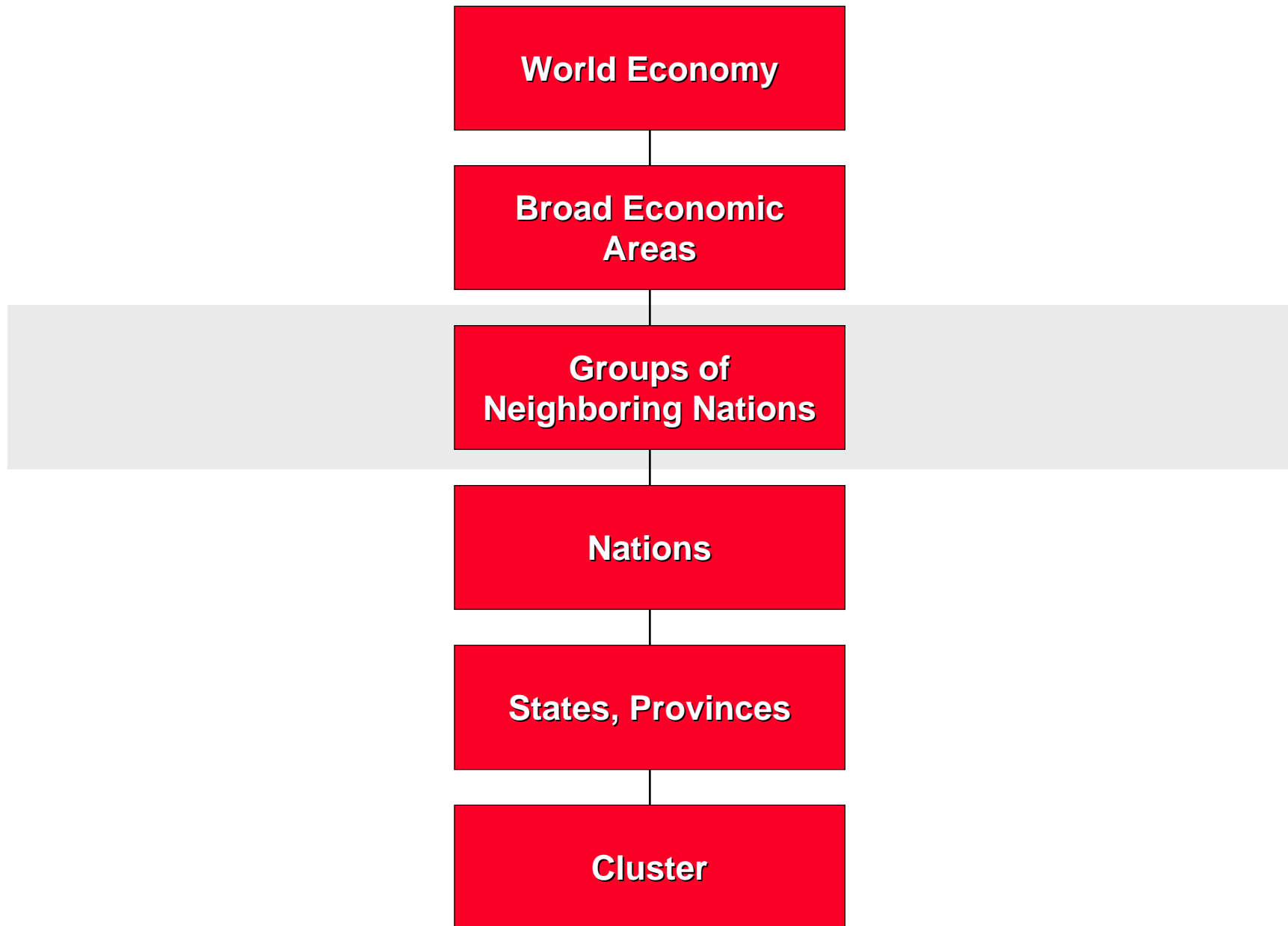
## Shifting Roles and Responsibilities



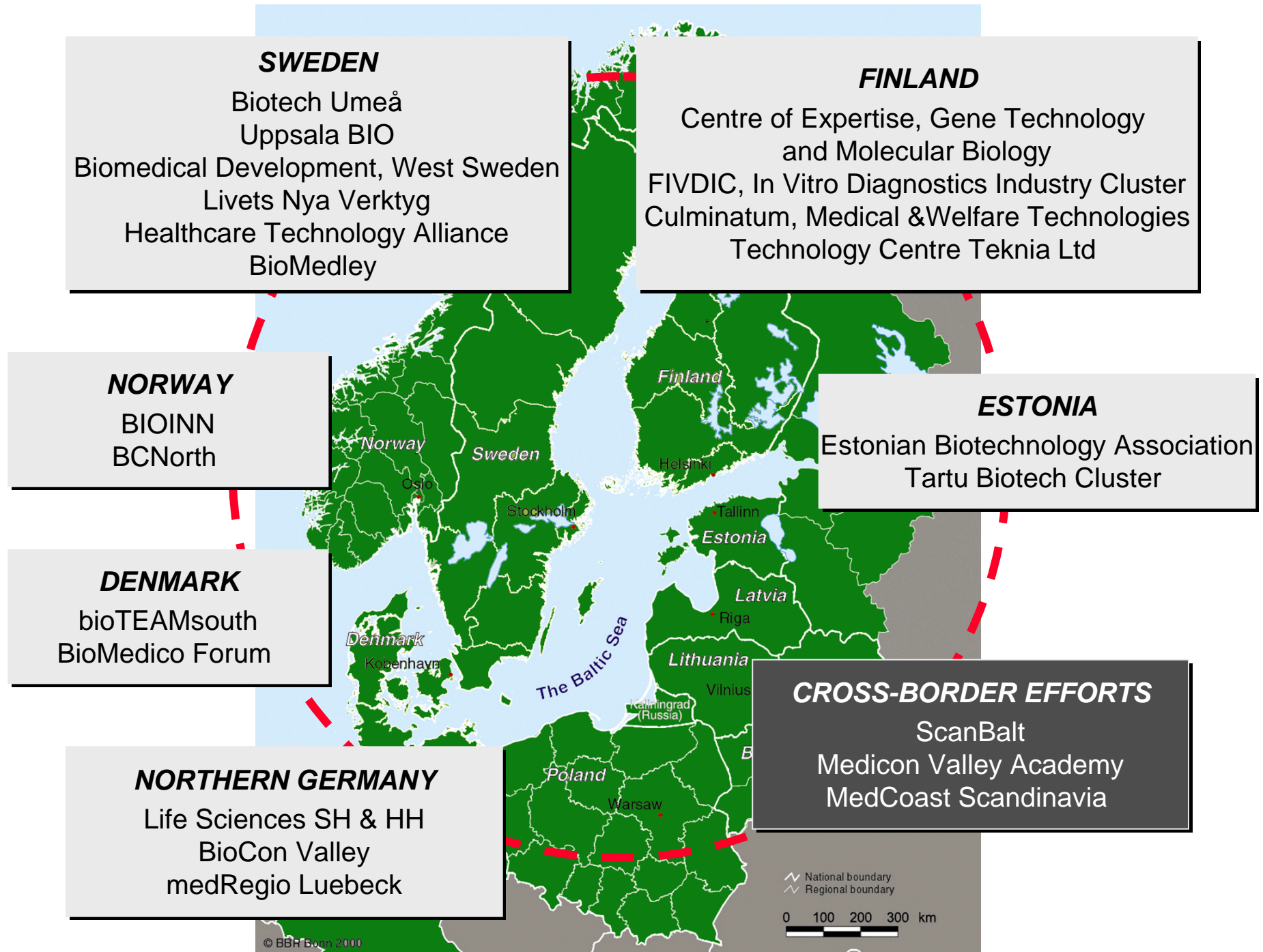
- Competitiveness must become a **bottom-up process** in which many individuals, companies, clusters, and institutions take responsibility
- **Every** region and cluster can take steps to enhance competitiveness

# Influences on Competitiveness

## Multiple Geographic Levels



# Cross-National Collaboration of Cluster Initiatives

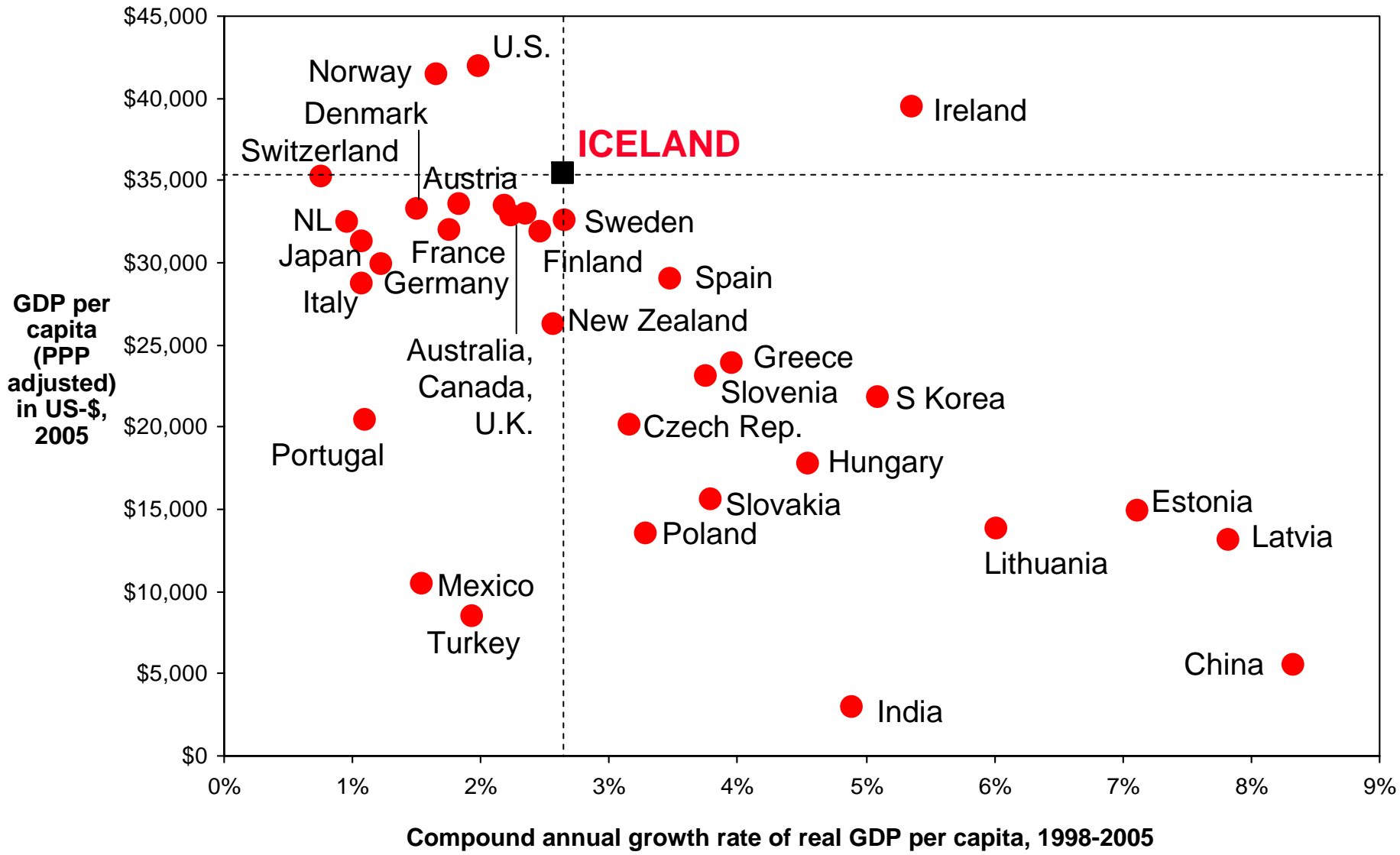


# Building A Competitive Economy: Implications for Iceland

- Principles of Competitiveness
- **Iceland's Competitive Position**
- Strategic Issues for Iceland's Future

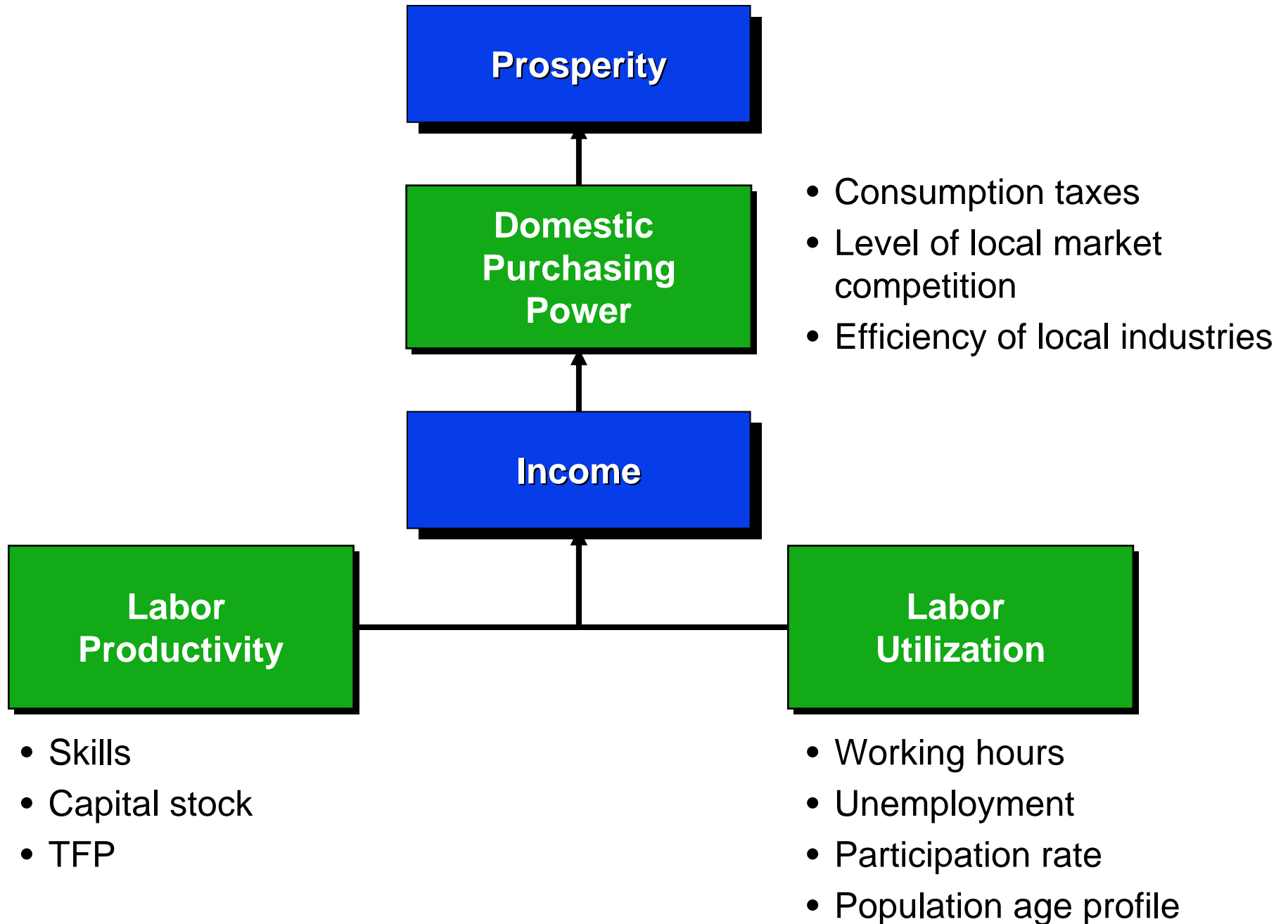
# Comparative Economic Performance

## Selected Countries



Source: Groningen Growth and Development Centre and The Conference Board (2006), authors' calculations

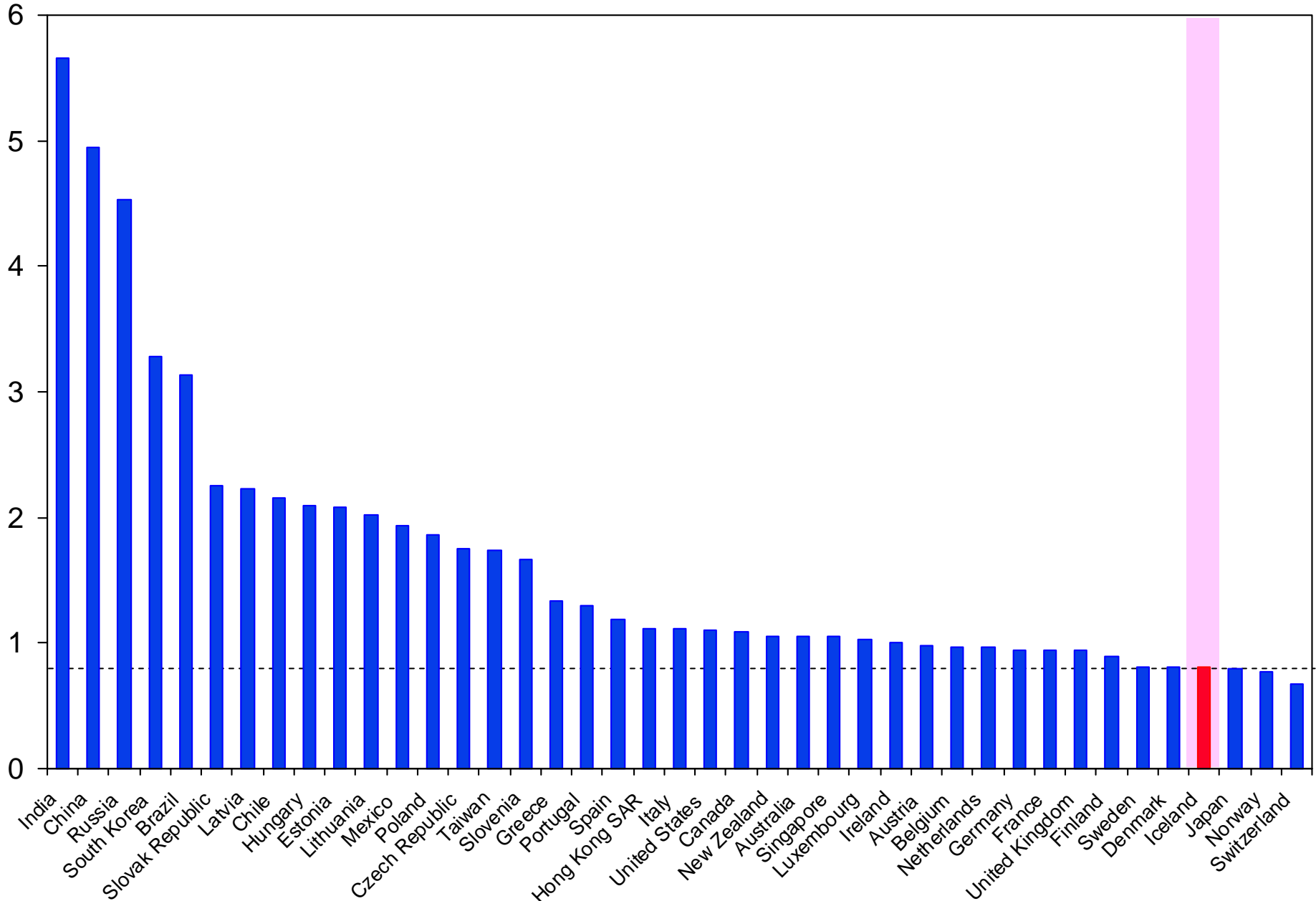
# Decomposing Created Prosperity



# Domestic Purchasing Power

Purchasing Power Factor, 2005

## Normalized Purchasing Power Across Countries

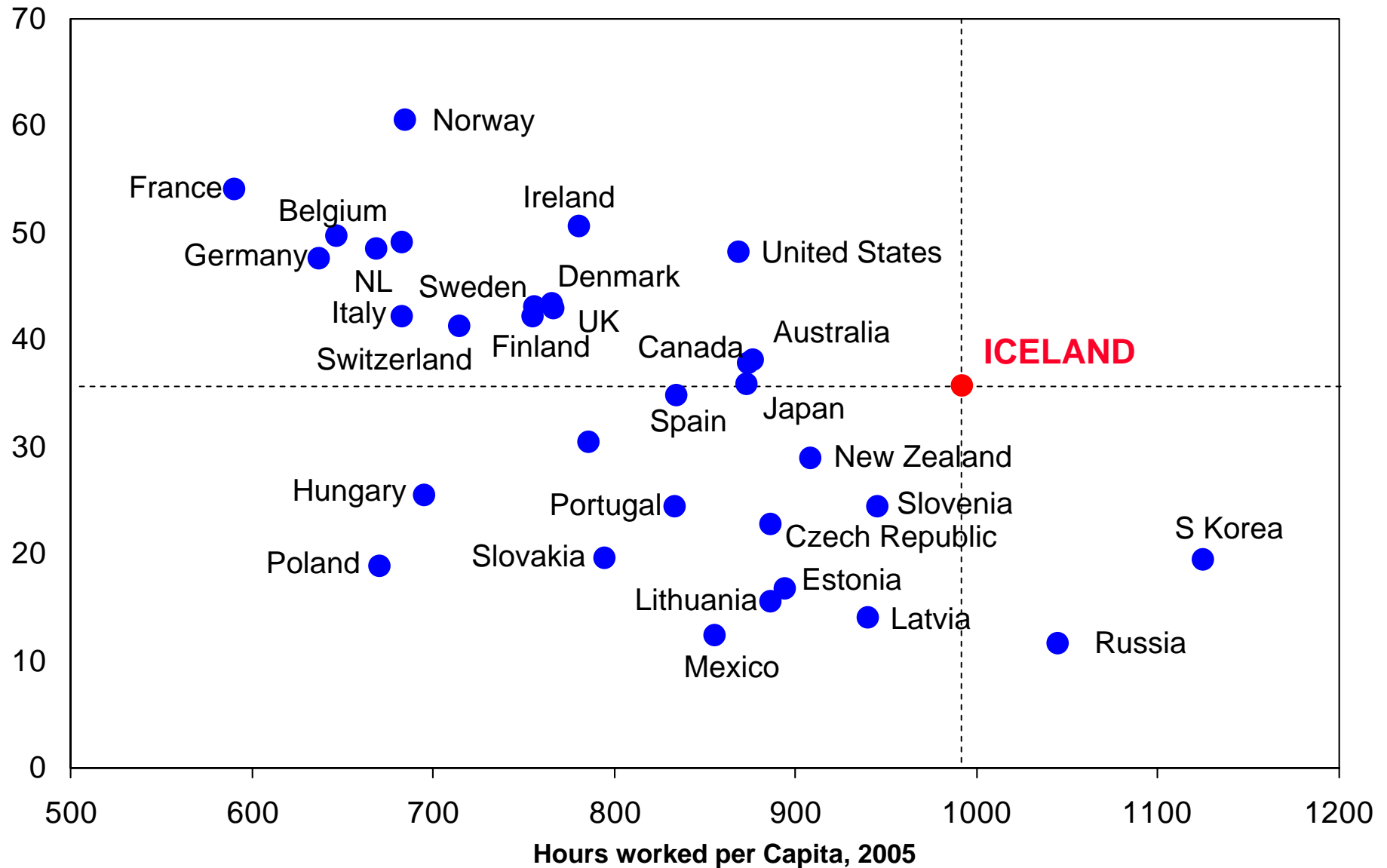


Source: IMF (2006), authors' calculations

# Productivity versus Working Hours

## Selected Countries

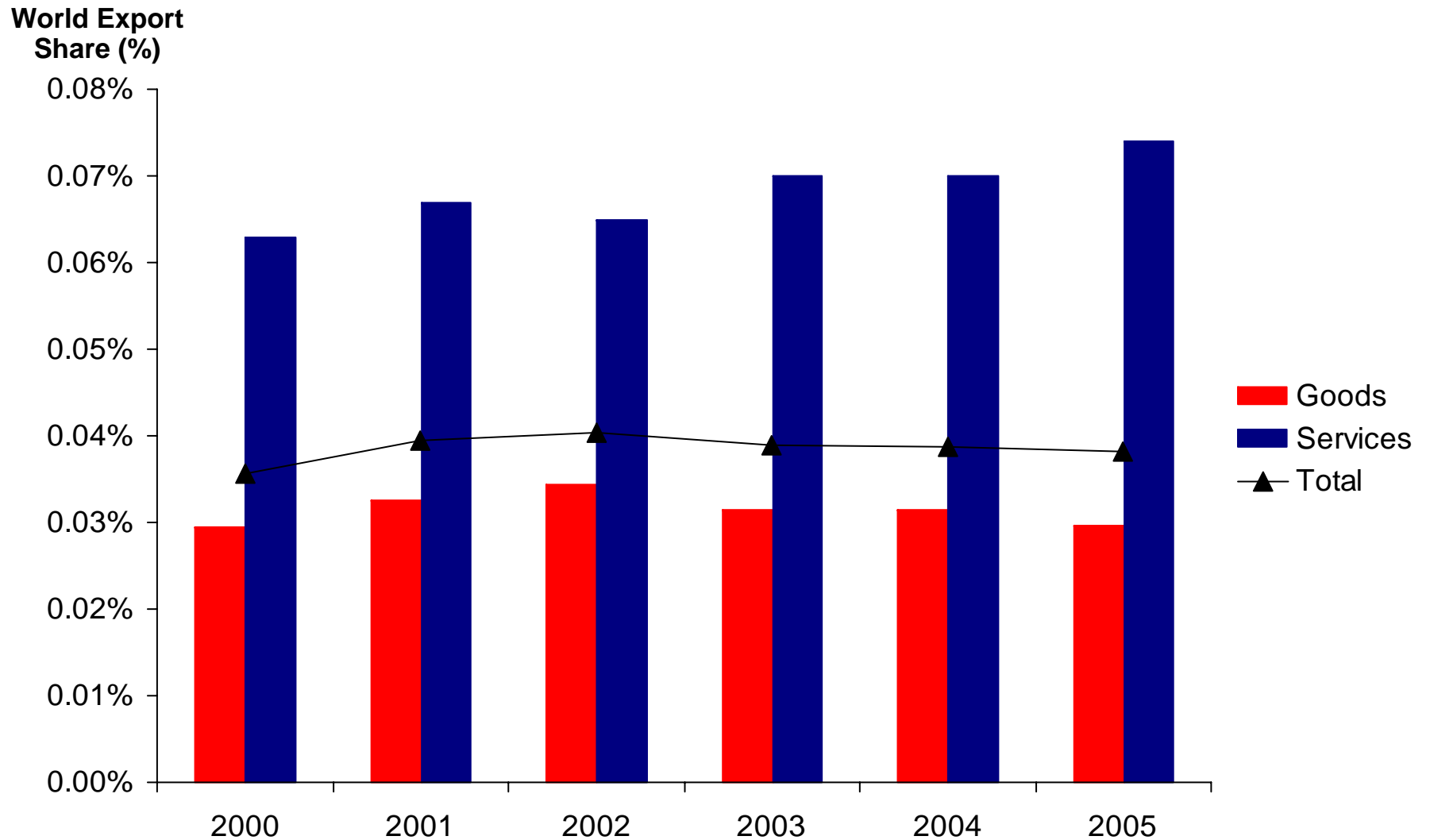
Real GDP per Hour Worked, PPP adjusted, 2005



Source: Groningen Growth and Development Centre and The Conference Board (2006), authors' calculations

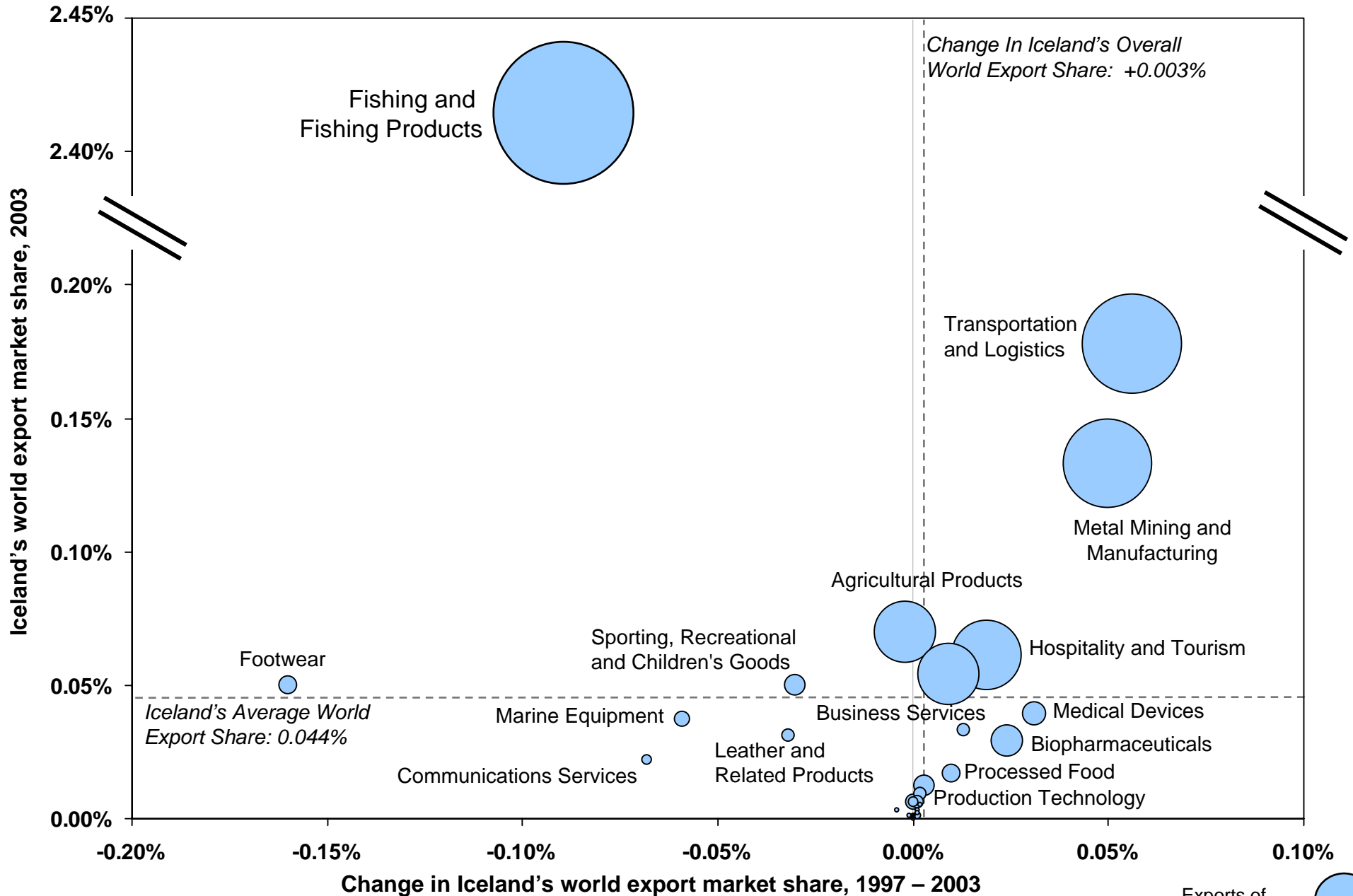
# Iceland's Export Performance

## World Export Market Shares



# Iceland

## Cluster Export Portfolio, 1997-2003



Exports of \$250million =

Source: Prof. Michael E. Porter, International Cluster Competitiveness Project, Institute for Strategy and Competitiveness, Harvard Business School; Research by Dr. Robert R. Schoonhoven, Project Director. Underlying data drawn from the UN Commodity Trade Statistics Database and the IMF BOP statistics.

# Iceland

## Top 50 Goods Export Industries, 2003

	Industry	Cluster	World Export Share	Change in Share, 1997-2003	Export Value (in \$1,000)
1	Fish, fresh, chilled, or frozen	Fishing and Fishing Products	3.30%	-2.00%	\$781,531
2	Aluminum and aluminum alloys, unwrought	Metal Mining and Manufacturing	1.94%	0.67%	\$446,594
3	Fish, dried, salted, or smoked	Fishing and Fishing Products	11.23%	1.25%	\$303,741
4	Miscellaneous prepared or preserved fish, crustaceans and the like	Fishing and Fishing Products	1.49%	1.06%	\$164,554
5	Flours, meals of meat, fish or aquatic invertebrates for animal feeds	Agricultural Products	6.57%	2.43%	\$155,568
6	Pig iron, spiegeleisen, sponge iron or steel granules	Metal Mining and Manufacturing	0.74%	0.04%	\$78,541
7	Animal oils and fats	Agricultural Products	3.67%	1.81%	\$74,261
8	Miscellaneous medicaments	Biopharmaceuticals	0.05%	0.05%	\$66,754
9	Artificial aids, disabled	Medical Devices	0.19%	0.12%	\$31,083
10	Weighing machinery, weights, and parts	Production Technology	1.60%	1.20%	\$30,363
11	Crustaceans, mollusks, and aquatic invertebrates	Fishing and Fishing Products	0.18%	-1.24%	\$27,292
12	Ships, boats and other vessels	Marine Equipment	0.05%	0.01%	\$20,165
13	Other food-processing machinery and parts	Processed Food	0.26%	0.20%	\$17,063
14	Other animal materials	Agricultural Products	0.38%	0.31%	\$13,223
15	Twine, cordage, rope and cables	Textiles	0.74%	0.52%	\$12,691
16	Electro-medical equipment	Medical Devices	0.12%	0.12%	\$11,476
17	Other meat, meat offal	Agricultural Products	0.04%	0.01%	\$10,086
18	Activated natural minerals	Chemical Products	2.53%	2.53%	\$8,429
19	Fur skins, tanned or dressed	Leather and Related Products	0.80%	-0.61%	\$8,258
20	Other plastic containers	Plastics	0.05%	0.01%	\$7,758
21	Petroleum bitumen, coke, bituminous mixtures	Oil and Gas Products	0.11%	0.05%	\$4,749
22	Fur skins, raw	Leather and Related Products	0.34%	-0.03%	\$4,639
23	Other ferrous waste and scrap	Metal Mining and Manufacturing	0.05%	0.05%	\$4,530
24	Live animals	Agricultural Products	0.04%	0.01%	\$4,310
25	Containers, cartons, bags and cases of paper, paperboard	Processed Food	0.04%	0.02%	\$4,200

# Iceland

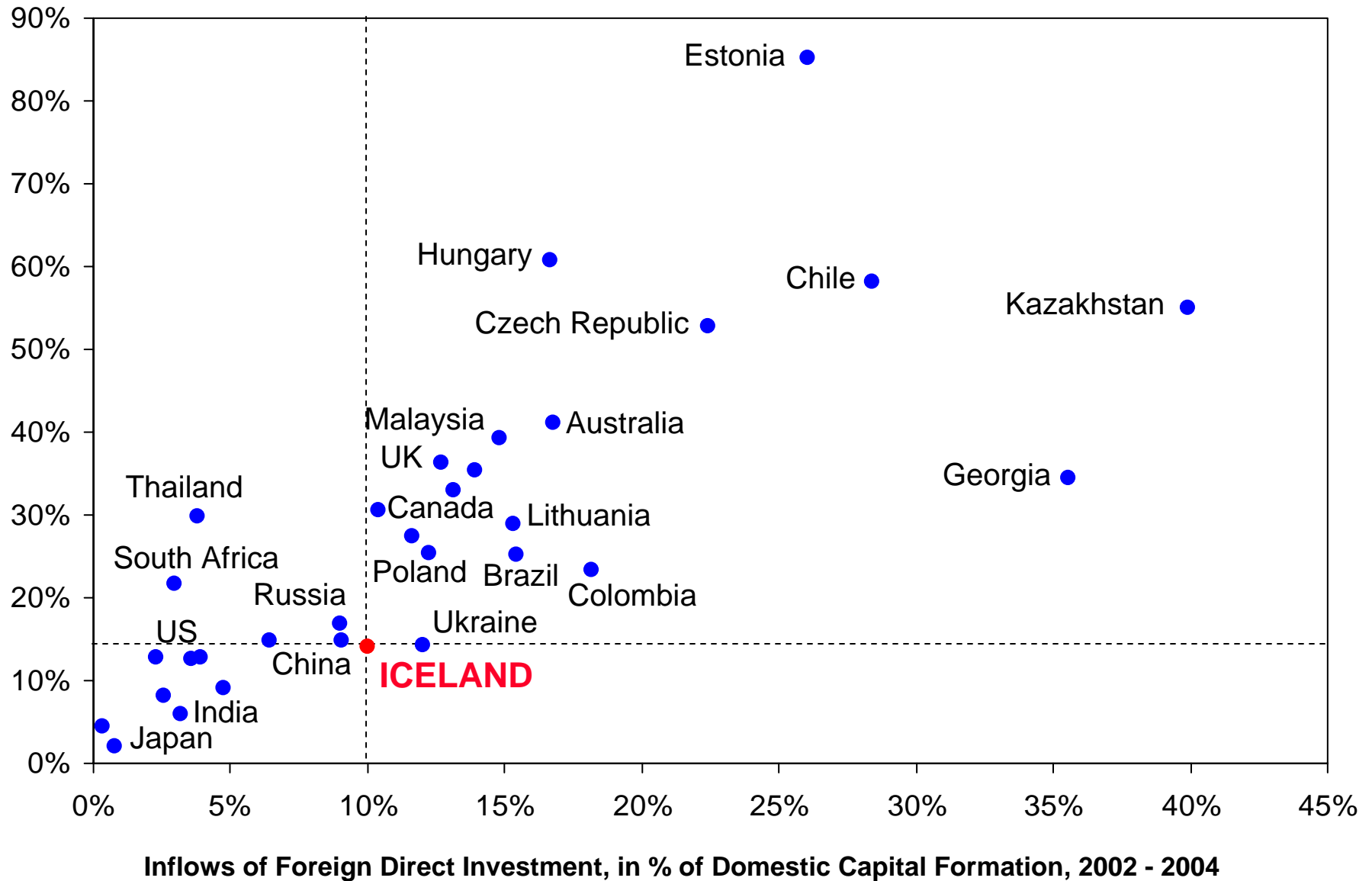
## Top 50 Goods Export Industries, 2003 (continued)

	Industry	Cluster	World Export Share	Change in Share, 1997-2003	Export Value (in \$,000)
26	Other non-ferrous metal waste	Metal Mining and Manufacturing	0.04%	0.02%	\$3,282
27	Miscellaneous articles of iron or steel	Metal Mining and Manufacturing	0.01%	-0.01%	\$2,653
28	Other plastics in primary forms	Plastics	0.01%	0.01%	\$2,630
29	Prepared additives for cements, mortars or concretes	Chemical Products	0.51%	0.32%	\$2,400
30	Miscellaneous tables, kitchen or other household articles	Furniture	0.04%	-0.14%	\$2,292
31	Seaweeds and other algae	Fishing and Fishing Products	0.54%	0.54%	\$1,924
32	Self-propelled mechanical shovel, excavators and loaders	Heavy Machinery	0.01%	0.01%	\$1,809
33	Wool, other animal hair	Textiles	0.04%	0.02%	\$1,752
34	Miscellaneous mineral insulating products	Chemical Products	0.10%	-0.02%	\$1,739
35	Miscellaneous natural abrasives	Production Technology	0.43%	0.13%	\$1,638
36	Printed books, maps, globes	Publishing and Printing	0.01%	0.01%	\$1,617
37	Stamps for philately	Jewelry, Precious Metals and Collectibles	0.55%	-0.14%	\$1,387
38	Electronic microcircuits	Information Technology	0.00%	0.00%	\$1,342
39	Miscellaneous prepared cereal grains	Processed Food	0.04%	0.04%	\$1,305
40	Miscellaneous goods vehicles	Automotive	0.00%	0.00%	\$1,234
41	Compasses, surveying instruments	Analytical Instruments	0.01%	0.01%	\$1,070
42	Other chemical products and preparations	Chemical Products	0.01%	0.01%	\$1,064
43	Jerseys, pullovers, cardigans, waistcoats, knitted	Apparel	0.00%	-0.02%	\$1,062
44	Yarn of wool or animal hair	Textiles	0.04%	-0.01%	\$1,043
45	Miscellaneous non-alcohol beverage	Processed Food	0.01%	-0.11%	\$934
46	Other plastic articles	Plastics	0.00%	0.00%	\$909
47	Sauce, seasoning, condiment	Processed Food	0.02%	0.02%	\$863
48	Miscellaneous crude minerals	Chemical Products	0.05%	-0.45%	\$838
49	Petroleum Oils	Oil and Gas Products	0.00%	0.00%	\$835
50	Commercial refrigerating equipment and parts	Motor Driven Products	0.01%	0.01%	\$833

**Top 50 Industries as % of Iceland's total goods exports: 98.7%%**

# Inbound Foreign Direct Investment Selected Countries

Stock of Foreign  
Direct Investment, in  
% of GDP, 2004

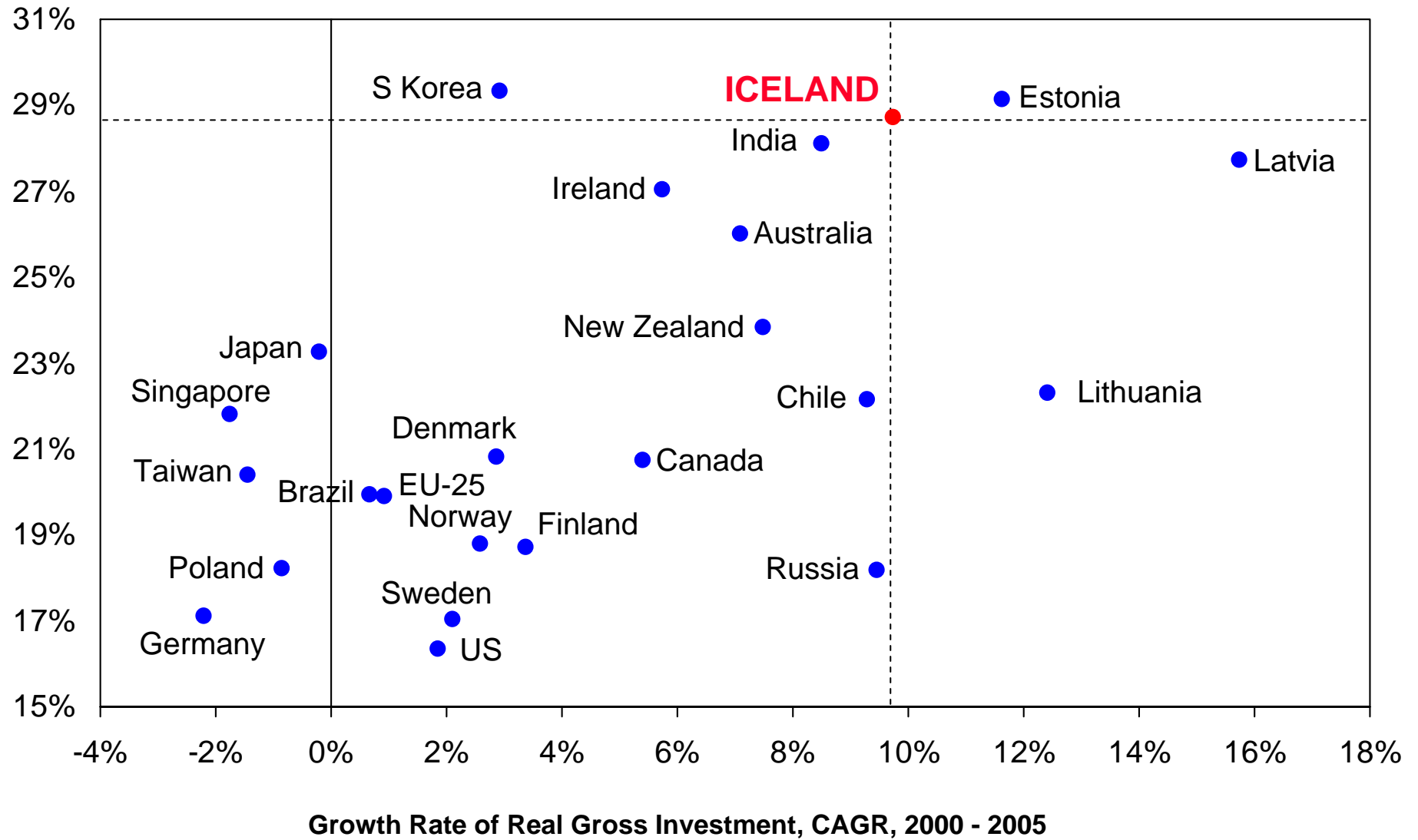


Source: UNCTAD (2006), author's analysis.

# Capital Investment Intensity

## Selected Countries

Gross Investment  
in % of GDP, 2005

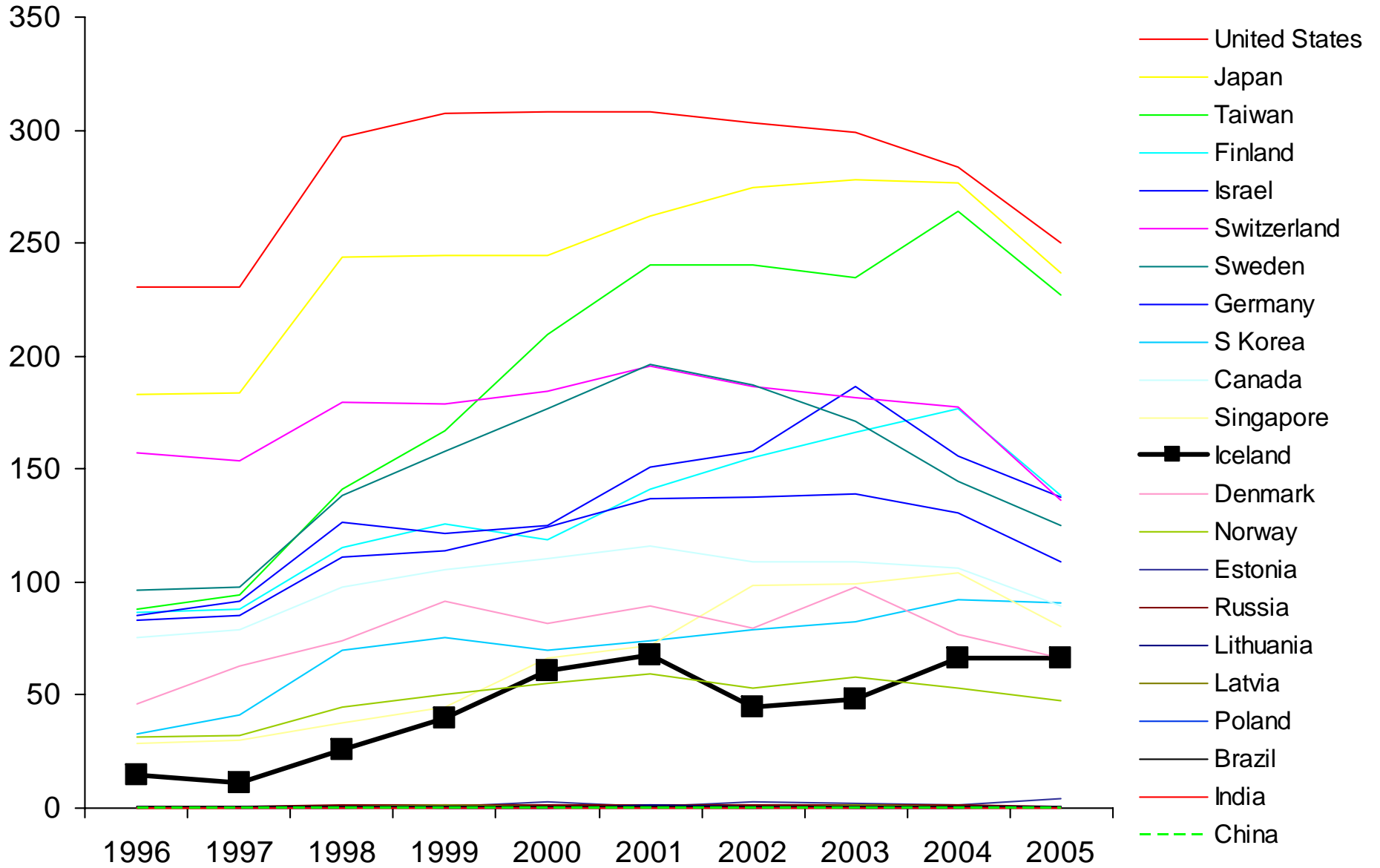


Source: EIU (2006), author's analysis.

# Patenting Intensity: 1996 – 2005

## Selected Countries

U.S. Patents per  
1000 Capita



Source: USPTO (2006), author's analysis.

# U.S. Patents by Iceland-based Institutions

Patentor	Number of patents, 2000-04
CONEXANT SYSTEMS, INC.	22
OSSUR HF	7
MAREL H.F.	6
DECODE GENETICS EHF.	5
FLAGA HF	2
STYLE - R.M. MAGNUSSON	2
ARTLITE LIMITED	2
PROKARIA LTD.	2
INTEL CORPORATION	1
TELEFONAKTIEBOLAGET LM ERICSSON	1
TEXAS INSTRUMENTS, INCORPORATED	1
3COM CORPORATION	1
PHARMACIA & UPJOHN COMPANY	1
PC-TEL, INC.	1
NORSK HYDRO ASA	1
Twelve additional institutions with 1 patent	

# Iceland's Competitive Position

## Overview

### Economic performance

- Strong prosperity growth has turned Iceland into one of the world's **most prosperous** economies
- **High labor participation** in the economy together with solid productivity performance has driven prosperity
- **High local prices** reduce the effective standard of living

### Trade, Investment, and Innovation

- **Stable** export position
- Foreign direct investment has been moderate, but the **ALCOA investment** will push up the numbers
- Domestic investment is **very high** for the country's stage of development
- Patenting rates, measured by U.S. patents, are **rising**, against the global trend

# Business Competitiveness Index, 2006

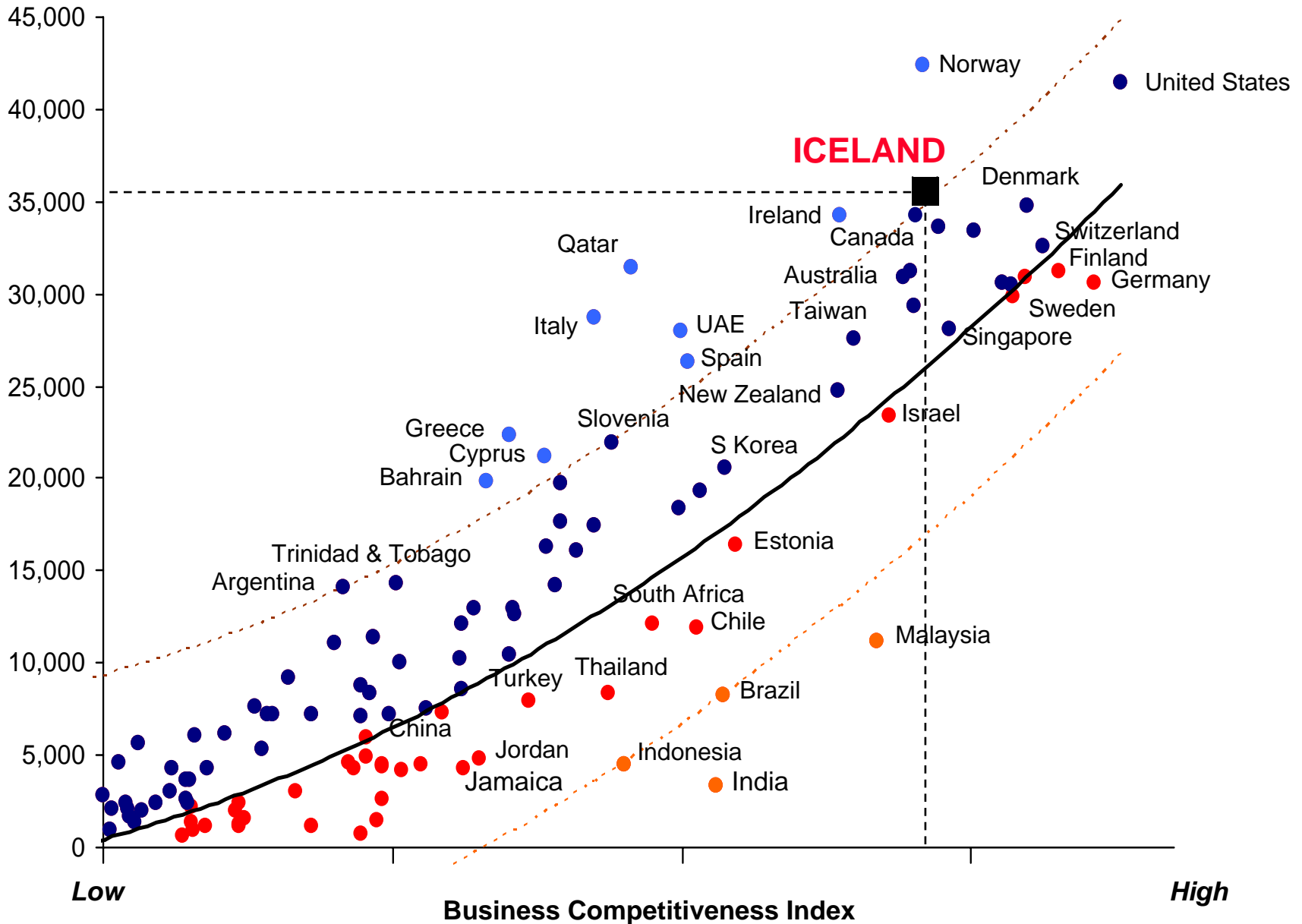
Top 25	Country	Change
1	United States	0
2	Germany	0
3	Finland	0
4	Switzerland	+4
5	Denmark	-1
6	Netherlands	+1
7	Sweden	+4
8	United Kingdom	-3
9	Japan	0
10	Hong Kong SAR	+7
11	Singapore	-5
12	Austria	0
13	<b>ICELAND</b>	+3
14	Norway	+5
15	Canada	-1
16	France	-6
17	Belgium	+1
18	Australia	-5
19	Israel	+3
20	Malaysia	+3
21	Taiwan	-6
22	Ireland	-1
23	New Zealand	-3
24	Estonia	+3
25	Korea, Rep.	-1

Note: Constant sample of countries  
Iceland Competitiveness DRAFT 09-14-06 CK

# Business Competitiveness Index, 2006

## Relationship with GDP Per Capita

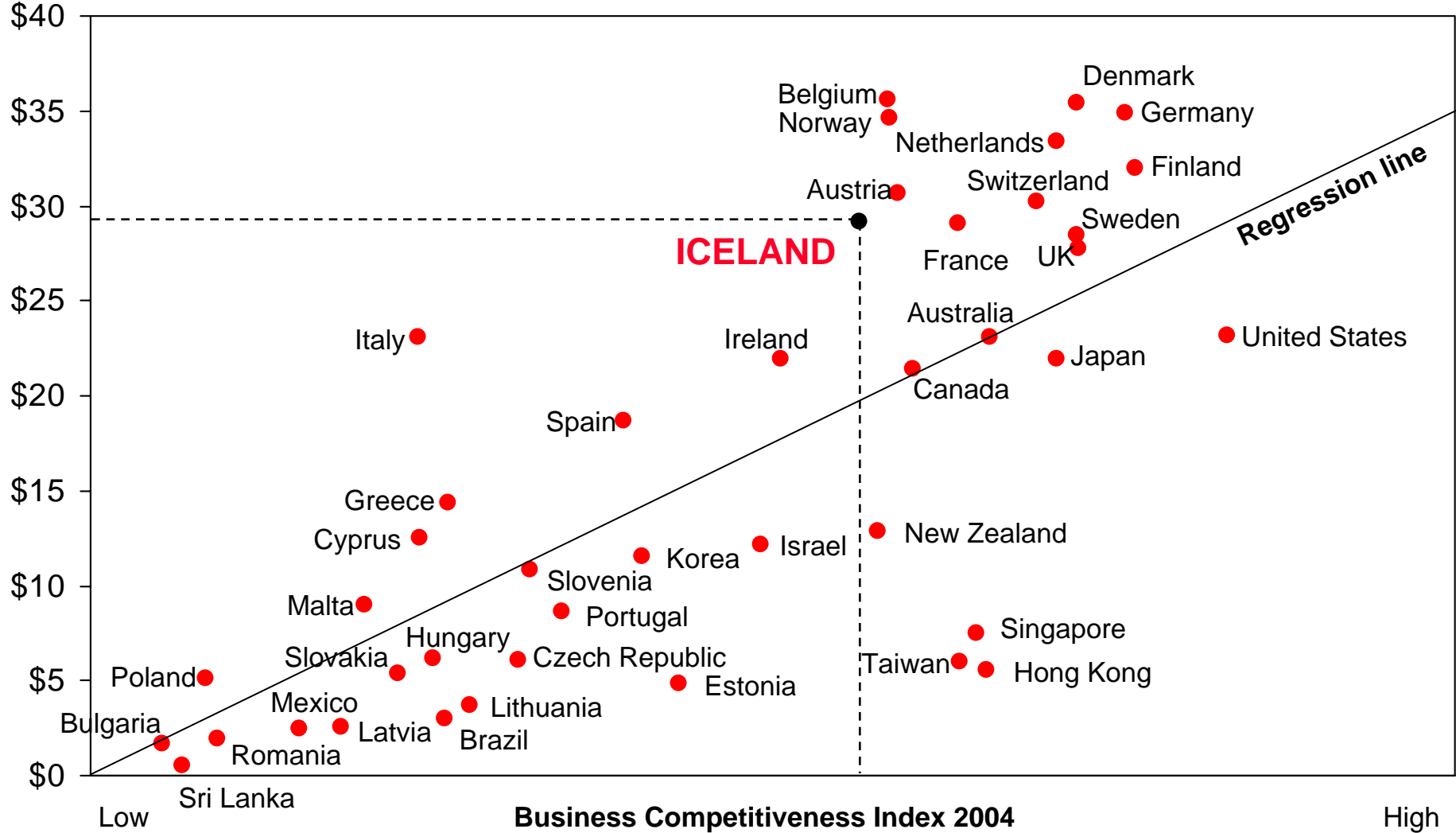
2005 GDP per Capita  
(Purchasing Power Adjusted)



Source: Global Competitiveness Report 2006

# Competitiveness and Wages

Hourly Wage in Manufacturing, 2004



Source: Global Competitiveness Report 2006, Eurostat, and Bureau of Labor Statistics

# Factor (Input) Conditions

## Iceland's Relative Position 2006

### Competitive Advantages Relative to GDP per Capita

Country Ranking, Arrows  
indicate a change of 5 or more  
ranks since 2001

Telephone/fax infrastructure quality	1	↑
Quality of electricity supply	1	↑
Efficiency of legal framework	2	
Quality of public schools	5	↑
Reliability of police services	8	↓
Ease of access to loans	8	

### Competitive Disadvantages Relative to GDP per Capita

Country Ranking, Arrows  
indicate a change of 5 or more  
ranks since 2001

Quality of math and science education	32	
Quality of scientific research institutions	31	↓
University/industry research collaboration	19	
Air transport infrastructure quality	16	
Local equity market access	15	↓
Availability of scientists and engineers	15	↓
Financial market sophistication	14	↑
Judicial independence	10	
Port infrastructure quality	13	
Quality of management schools	11	↑
Venture capital availability	10	
Overall infrastructure quality	10	

Note: Rank versus 121 countries; overall, Iceland ranks 3<sup>rd</sup> in 2005 PPP adjusted GDP per capita and 13<sup>th</sup> in Business Competitiveness  
Source: Global Competitiveness Report 2006-2007.

# Doing Business 2006 Ranking

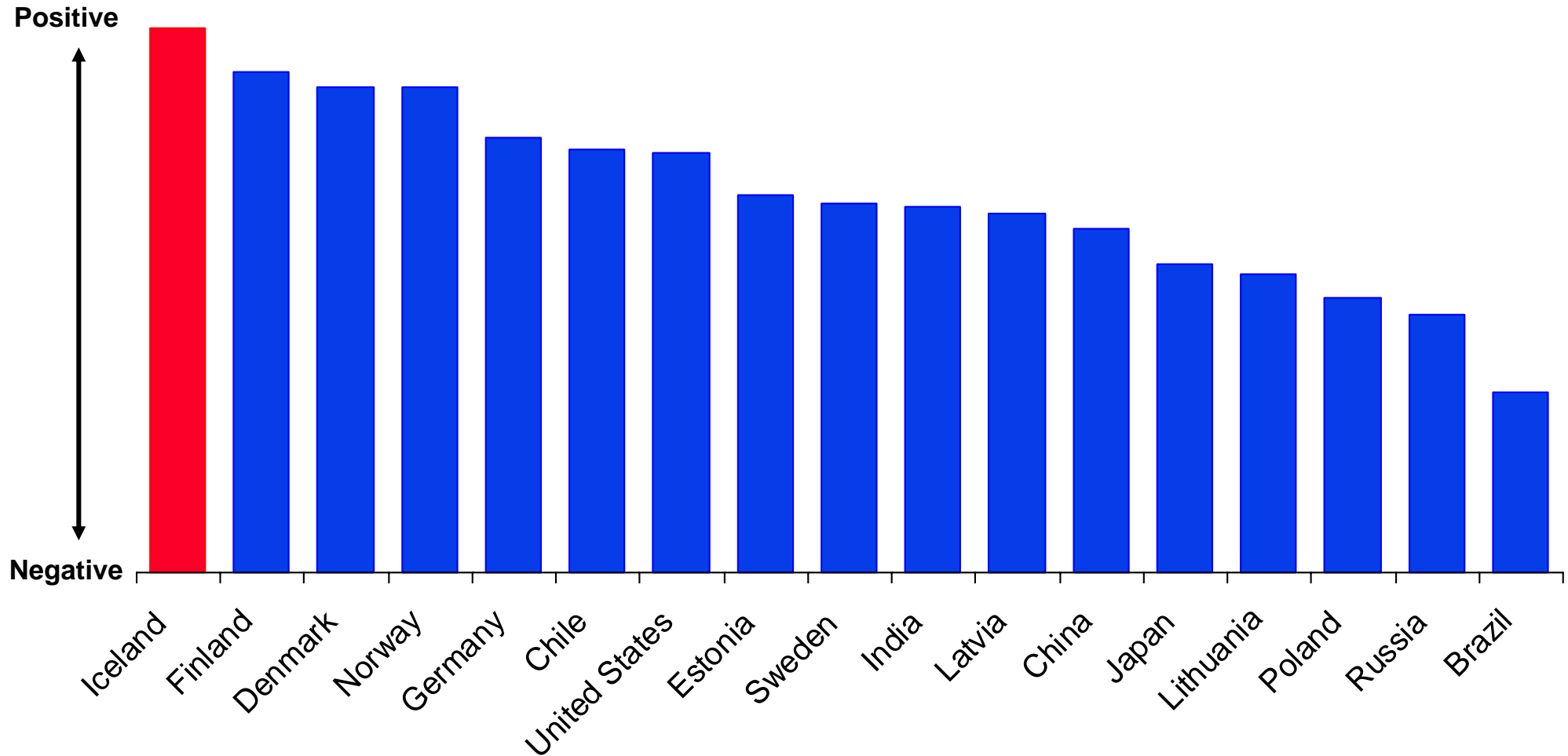
## Iceland

Category	Rank
Registering Property	8
Enforcing Contracts	8
<b>OVERALL</b>	<b>12</b>
Closing a Business	13
Getting Credit	13
Paying Taxes	13
Starting a Business	16
Trading Across Borders	18
Dealing with Licenses	30
Employing Workers	42
Protecting Investors	83

Note: Iceland's overall Doing Business rank is 12 out of 175 countries.  
Source: World Bank – Doing Business (2007), author's analysis.

# Effectiveness of Public Spending

## Selected Countries

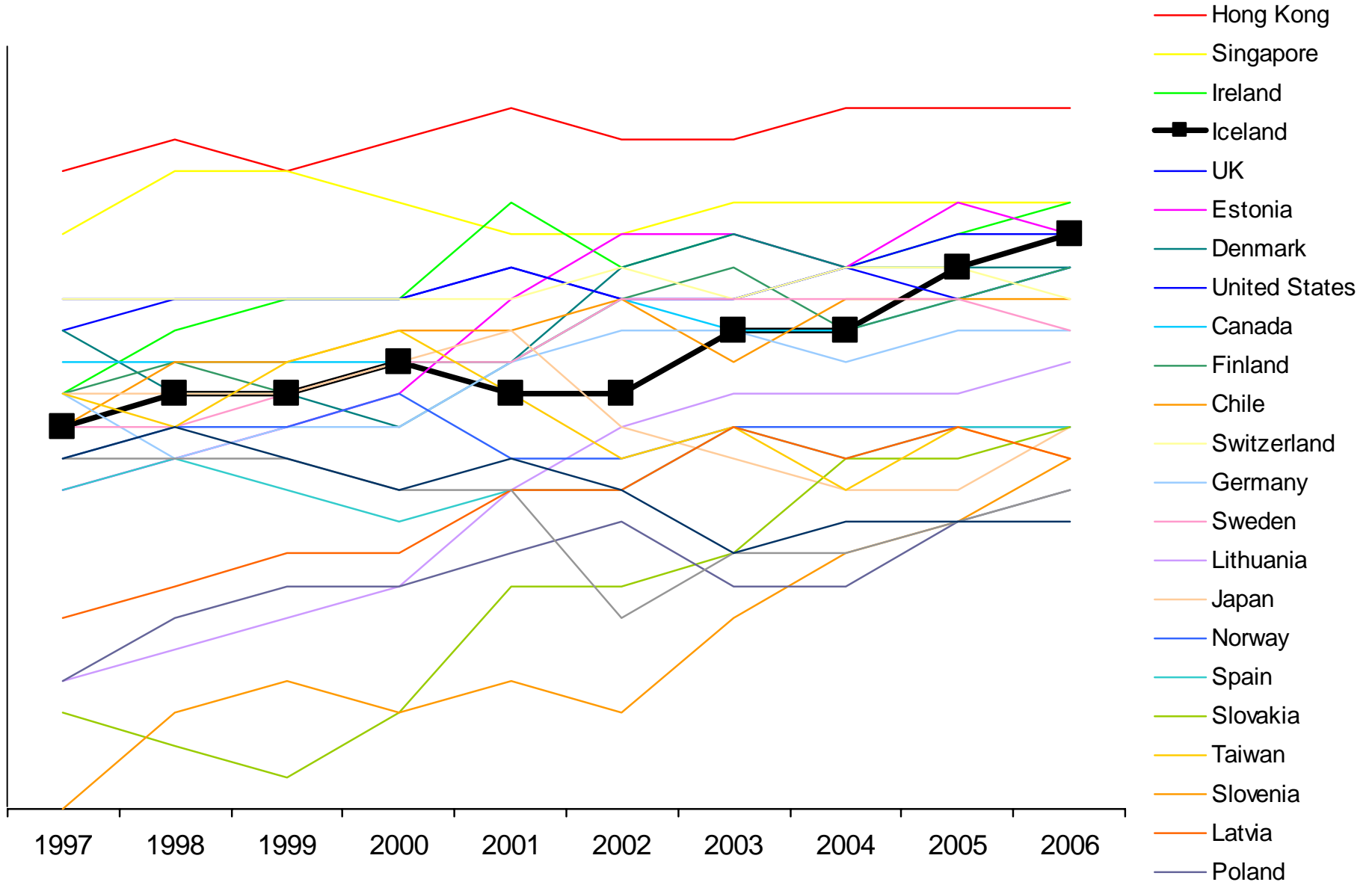


Note: Number refers to rank among 124 countries

Source: Global Competitiveness Report (2006), author's analysis.

# Index of Economic Freedom 1996 - 2005

Free



Source: Index of Economic Freedom (2006), author's analysis.

# Context for Strategy and Rivalry

## Iceland's Relative Position 2006

### Competitive Advantages Relative to GDP per Capita

Country Ranking, Arrows  
indicate a change of 5 or more  
ranks since 2001

Low costs of corruption	1	
Efficacy of corporate boards	5	↑
Cooperation in labor-employer relations	6	↑
Decentralization of economic policymaking	6	
Intellectual property protection	9	↑

### Competitive Disadvantages Relative to GDP per Capita

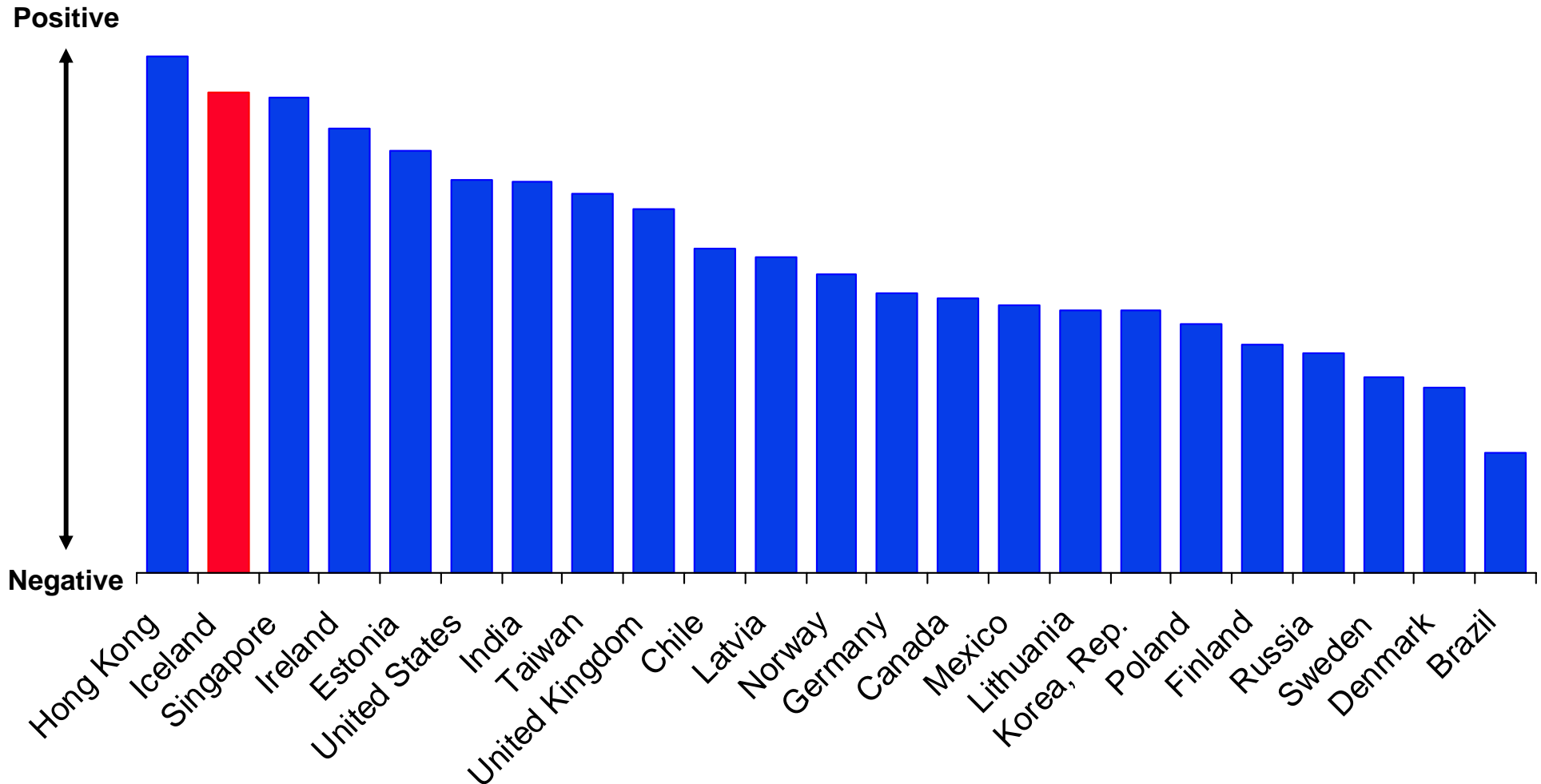
Country Ranking, Arrows  
indicate a change of 5 or more  
ranks since 2001

Prevalence of trade barriers	54	↑
Decentralization of corporate activity	49	↓
Intensity of local competition	18	↑
Effectiveness of antitrust policy	13	
Favoritism in decisions of government officials	10	

Note: Rank versus 121 countries; overall, Iceland ranks 3<sup>rd</sup> in 2005 PPP adjusted GDP per capita and 13<sup>th</sup> in Business Competitiveness  
Source: Global Competitiveness Report 2006-2007.

# Incentive Effect of Taxation

## Selected Countries



Source: Global Competitiveness Report (2006), author's analysis.

# Related and Supporting Industries

## Iceland's Relative Position 2006

### Competitive Advantages Relative to GDP per Capita

### Competitive Disadvantages Relative to GDP per Capita

Country Ranking, Arrows indicate a change of 5 or more ranks since 2001

Local availability of process machinery	44	↑
Local supplier quantity	31	↓
Local supplier quality	23	↓
Local availability of specialized research and training services	20	

Note: Rank versus 121 countries; overall, Iceland ranks 3<sup>rd</sup> in 2005 PPP adjusted GDP per capita and 13<sup>th</sup> in Business Competitiveness  
Source: Global Competitiveness Report 2006-2007.

# Demand Conditions

## Iceland's Relative Position 2006

### Competitive Advantages Relative to GDP per Capita

Country Ranking, Arrows  
indicate a change of 5 or more  
ranks since 2001

Presence of demanding regulatory standards	9
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### Competitive Disadvantages Relative to GDP per Capita

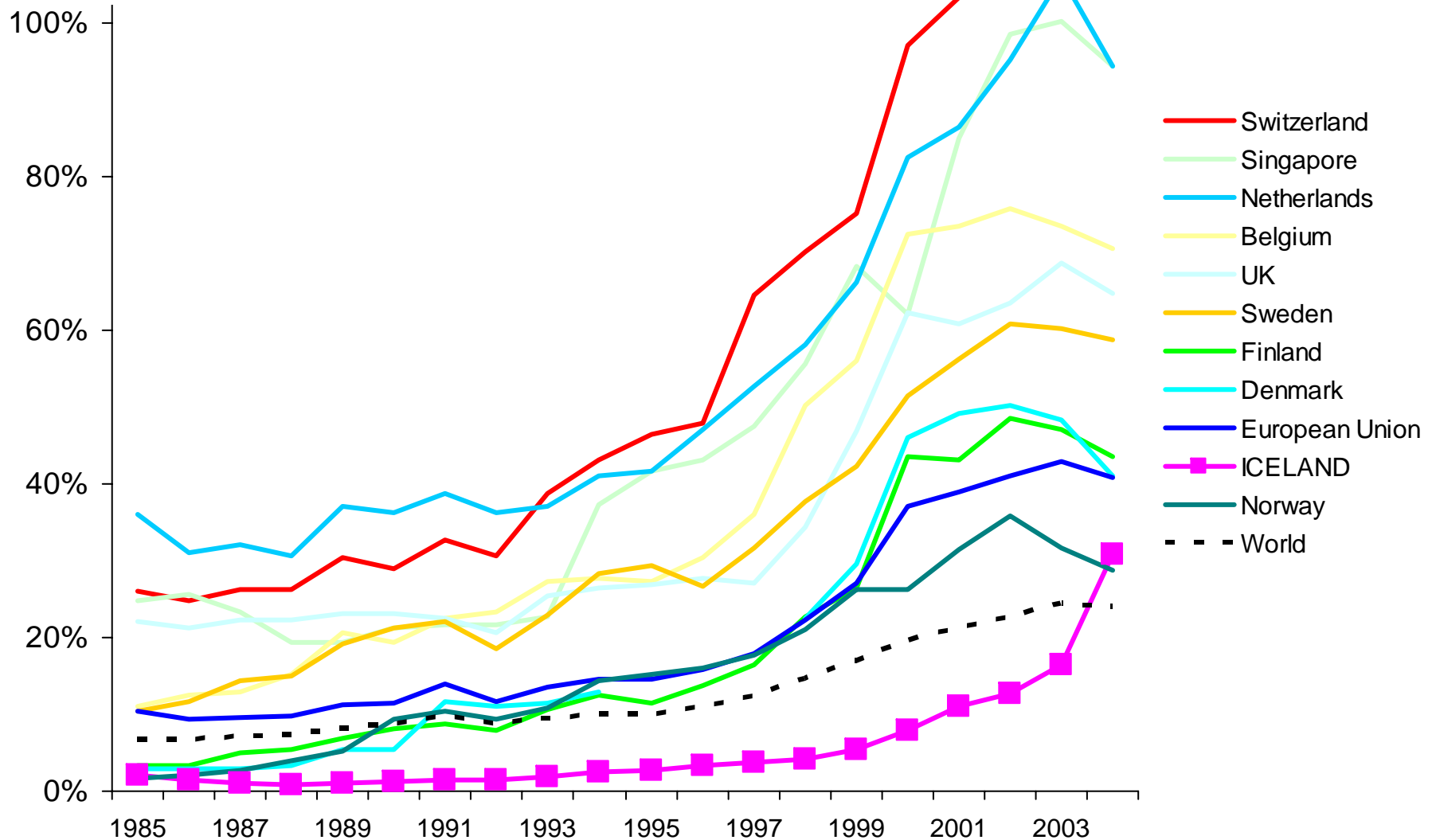
Country Ranking, Arrows  
indicate a change of 5 or more  
ranks since 2001

Government procurement advanced technology products	58 ↓
Buyer sophistication	27 ↓
Laws relating to ICT	16 ↓
Stringency of environmental regulations	15 ↓

Note: Rank versus 121 countries; overall, Iceland ranks 3<sup>rd</sup> in 2005 PPP adjusted GDP per capita and 13<sup>th</sup> in Business Competitiveness  
Source: Global Competitiveness Report 2006-2007.

# Outbound Foreign Direct Investments Selected Countries

Stock of Foreign Direct Investment Abroad, in % of Domestic GDP



Source: UNCTAD (2006), author's analysis.

# Outbound Foreign Direct Investments

- A number of Icelandic groups have recently made **major acquisitions** in the UK and the Nordic countries, concentrating on finance, retail, and food products enabled by the **availability of investment capital** after the opening of the Icelandic economy
- If Icelandic companies can **leverage experiences** made on the competitive domestic markets, they are in a strong position to succeed abroad
- The positions on foreign markets can be a platform to further **upgrade domestic operations**, through the adoption of new practices and the use of new linkages with foreign clusters and markets

# Drivers of Iceland's Competitiveness

## Overview

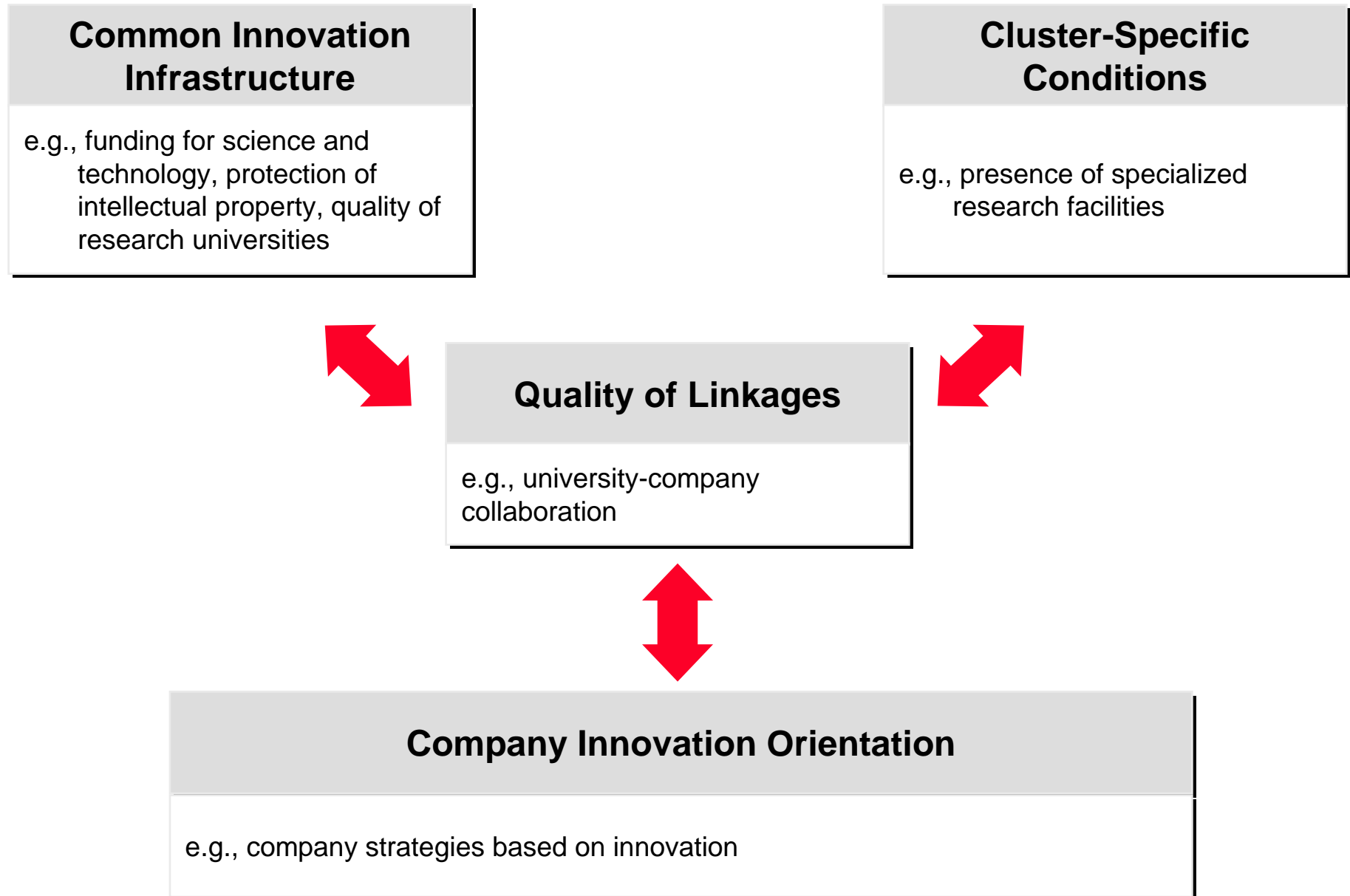
- Overall **strong context** conditions provide opportunities
- Wages are relatively high after recent growth ahead of competitiveness improvements, a sign of the **overheating economy**
- Iceland's prosperity is ahead of its competitiveness, supported by a strong context and clear cluster-focus
- Improving microeconomic fundamentals
  - Key strengths in infrastructure, basic skills, administrative capacity, and openness to competition
  - Key weaknesses in the innovation environment, depth of clusters, and demand conditions
- Iceland has developed a **focused portfolio of traded clusters**

<u>Established</u>	<u>Emerging</u>
<ul style="list-style-type: none"><li>• Fishing products</li><li>• Energy-intensive metal production</li></ul>	<ul style="list-style-type: none"><li>• Financial services</li><li>• Life Sciences</li><li>• Specialty food</li><li>• Specialty apparel</li></ul>
- Icelandic companies are **internationalizing**

# Strategic Issues for Iceland

- **Continue to upgrade the business environment**
- **Strengthen the capacity for innovation**
- **Deepen clusters and foster related cluster development**
- **Address macroeconomic volatility**
- **Coalesce a national economic strategy**

# National Innovative Capacity Framework



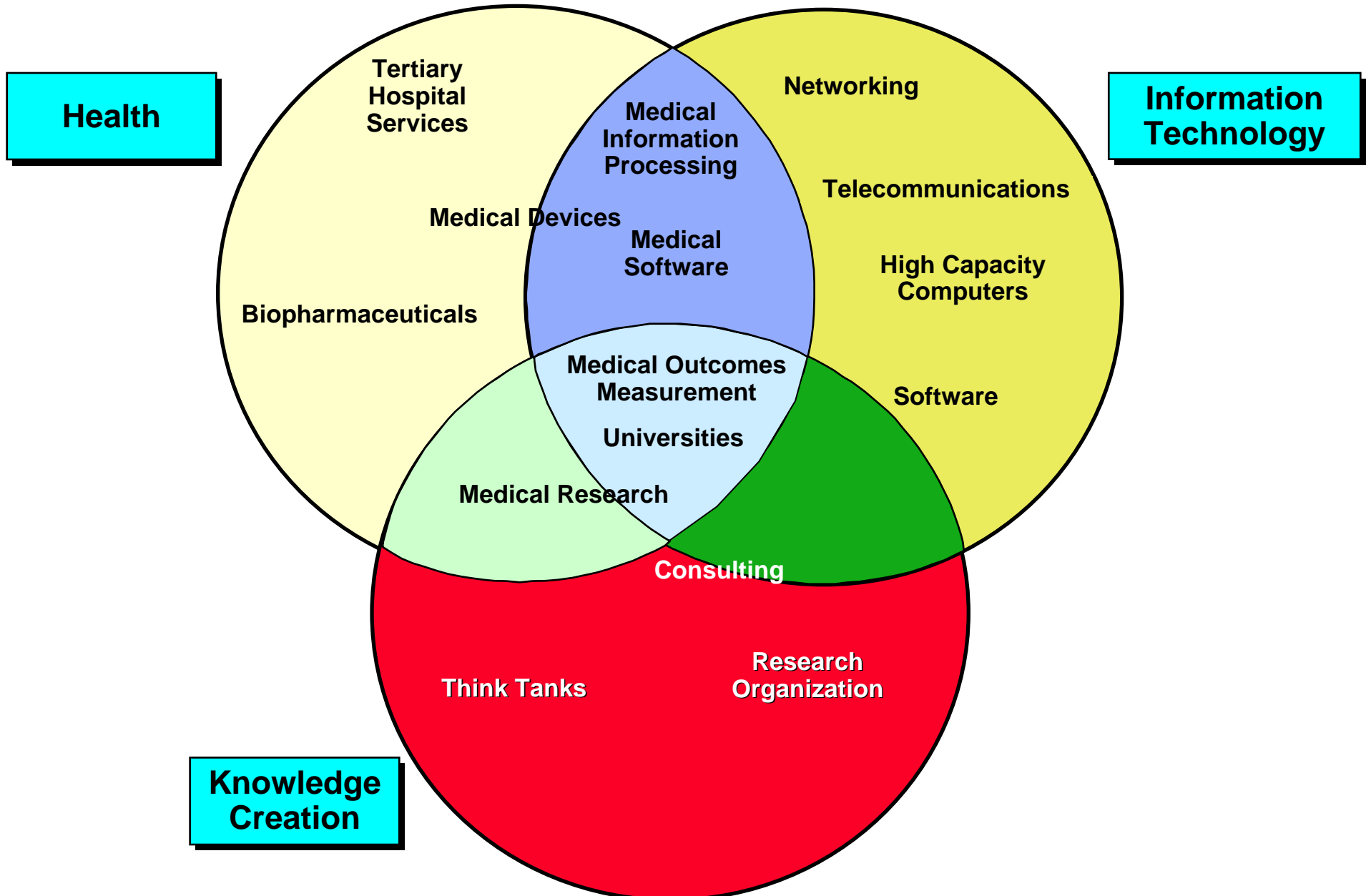
# Iceland's Innovative Capacity

- A clear science, technology, and innovation agenda is essential to overcome the challenges of the country's small size
- Leverage unique national conditions (homogeneity of population's gene-pool, geothermal energy, climate)
- Focus innovative investments around clusters
- Create linkages into innovation networks in neighboring regions (US, Baltic Sea Region)

# Strategic Issues for Iceland

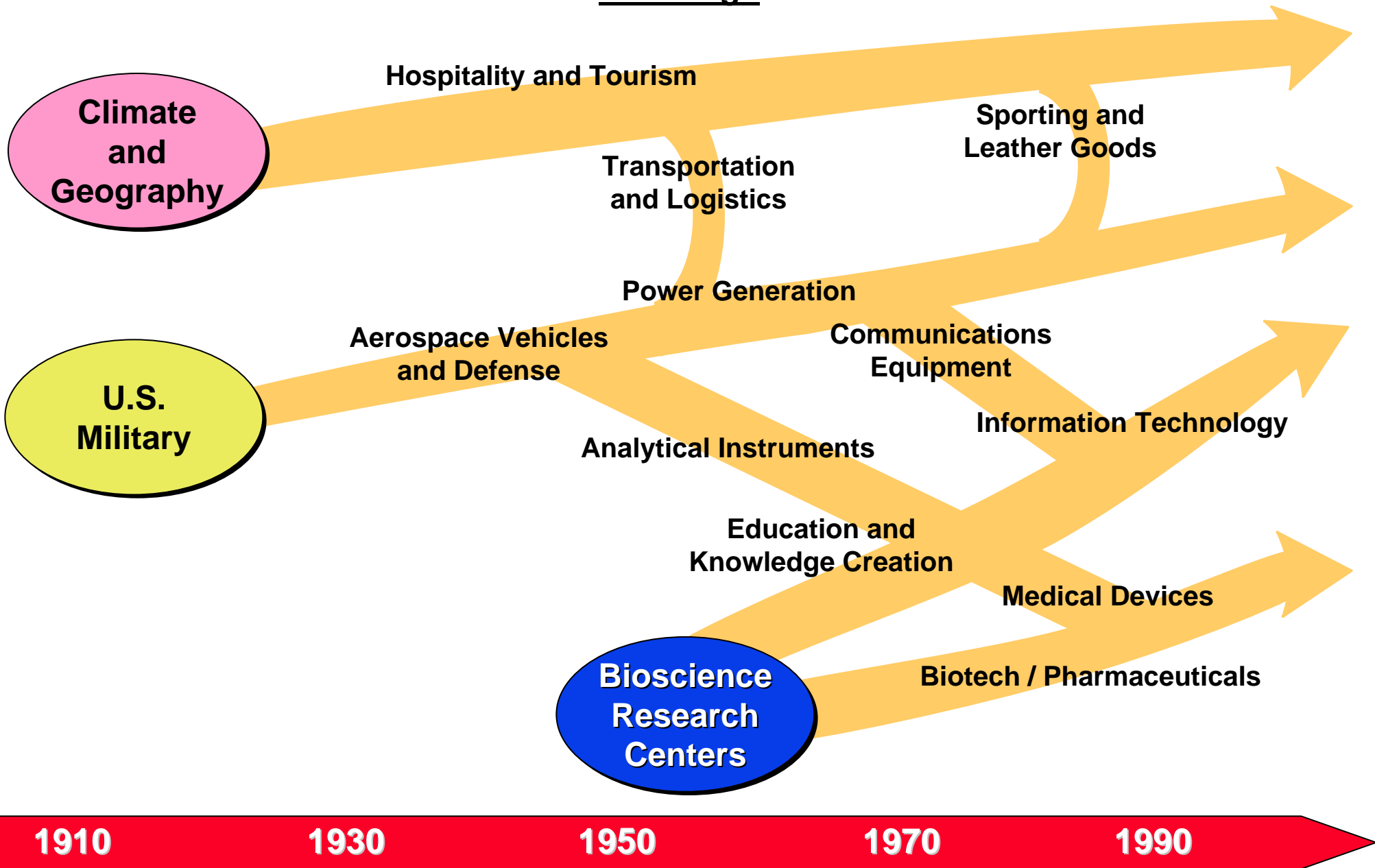
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# Cluster Development in Massachusetts



# The Evolution of Regional Economies

## San Diego



# Cluster-Based Economic Policies

## Three Key Dimensions

### Develop Clusters

- Aims to increase the positive economic effects of clusters
- Based on the hypothesis that cluster development can be supported

### Guide Existing Economic Policies

- Aims to increase the efficiency of existing economic policies
- Based on the hypothesis that impact of policies can be strengthened if clusters are available as multipliers

### Organize Public-Private Policy Dialogue

- Aims to improve the efficiency of public-private co-operation in economic policy design and implementation
- Based on the hypothesis, that discussions on the cluster-level can be more issue-driven and less politically loaded

- While the three dimensions often overlap in practice, it is important for cluster-based policies to be based on a clear understanding of their specific aims

# Structuring Cluster Initiatives

- Activities need to be based on a consistent **conceptual framework** of the drivers of the cluster's performance, shared across the cluster
- A cluster strategy needs to build on the **unique** circumstances of Iceland's clusters rather than copying successful clusters based elsewhere
- Cluster development requires an enduring **organizational framework** with sufficient resources for at least 3-5 years
  - Eventually institutionalized in the private sector
- **Data** creation and analysis needs to be a central focus in developing the cluster action agenda and measuring progress

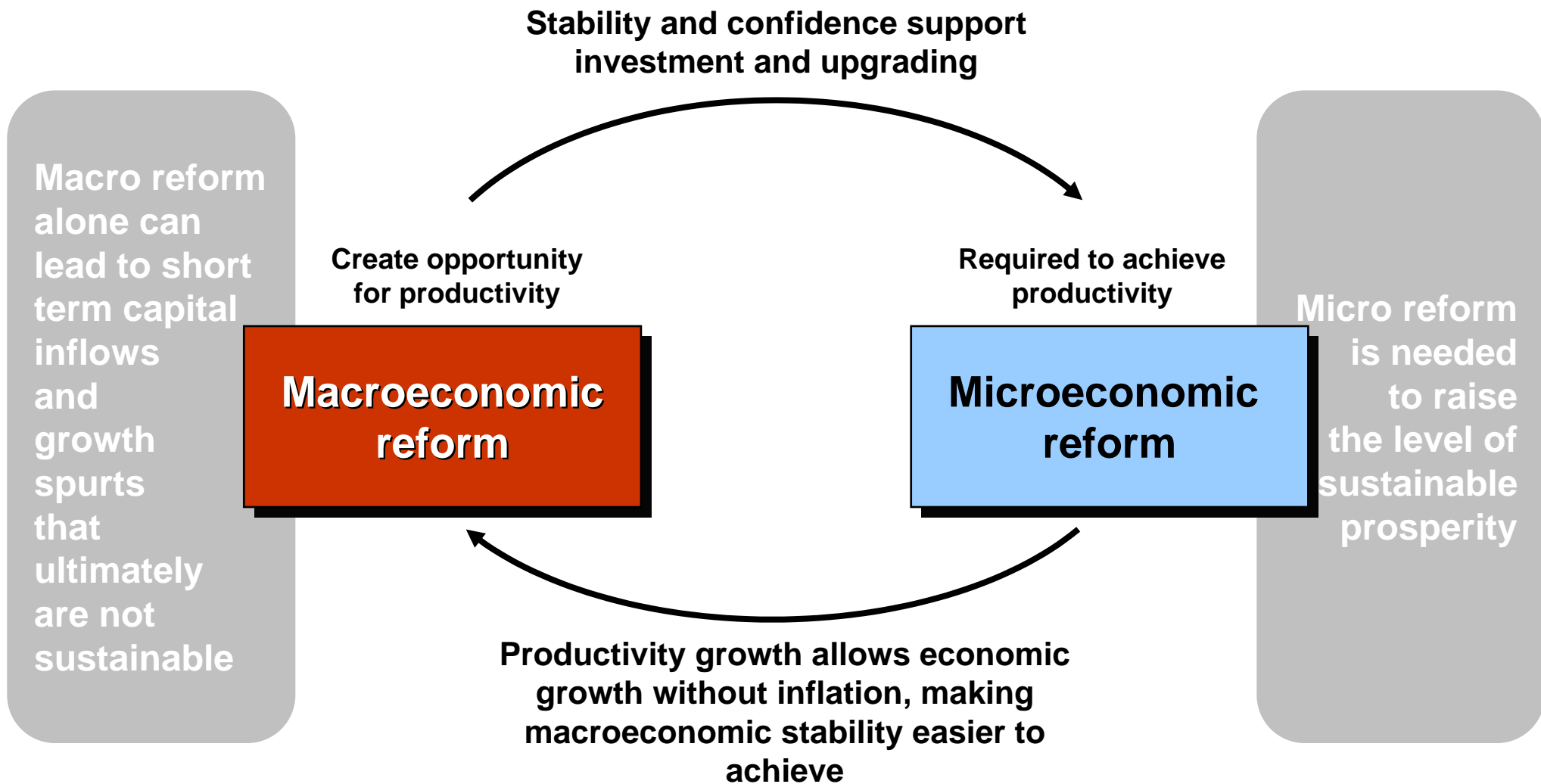
# Cluster Development in Iceland

- Iceland has launched a number of **regional competitiveness efforts** around the mobilization of clusters
- For these efforts to reach full effect, it is critical to:
  - Consider their nature as **local or traded clusters**
  - Get clarity on whether network building, economic growth, or higher efficiency of policy is the **overriding objective**
  - Develop an understanding of each cluster's **strategic positioning**
  - Institutionalize **impact control**
- An overarching **cluster portfolio strategy** should leverage linkages between clusters in the traded sector
  - Increase resilience of cluster portfolio to external shocks
  - Leverage existing strengths

# Strategic Issues for Iceland

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# Macroeconomic Context and Competitiveness



# Icelandic Macroeconomic Context

- Recent exchange rate fluctuations are **not** a sign of weakening competitiveness
- The overheating of the economy is a **concern**, but not a competitiveness problem

## HOWEVER

- Volatility drives investors to demand a **risk premium**, leading to higher financing costs for Iceland companies and consumers
- Volatility **distorts** company decision making, especially on longer-term investments



- Efforts to **manage** the volatility of the economy are important
- The arguments for tying the Icelandic currency to an **external anchor** are gaining weight

# Strategic Issues for Iceland

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# A Changing Global Competitive Environment

## Driver

- Fewer barriers to trade and investment
- Rapidly increasing stock and diffusion of knowledge
- Competitiveness upgrading in many countries

## Market reaction

- Globalization of markets
- Globalization of value chains
- Internationalization of capital, especially portfolio investment
- Increasing knowledge and skill intensity of competition
- Value increasingly in the service component of activities



## Implications

- **Productivity** increasingly determines success
- Competition among nations need **not** be zero-sum
- Economic success depends on providing **unique value**, not just meeting best practice benchmarks

# National Economic Strategy

## National Economic Strategy

- What is a **unique competitive position** for the country?
  - What roles has it in the world and the regional economy?
  - What is the country's unique value proposition as a business location?
  - For what range or types of businesses can the country be competitive?



### Developing Unique Strengths

- What **elements of the business environment** are essential to the national value proposition?
- What **existing and emerging clusters** must be mobilized?

### Achieving and Maintaining Parity with Peer Countries

- What **macroeconomic, political, legal and social improvements** are necessary to maintain parity with peer countries?
- What areas of the **general business environment** must improve to maintain parity with peer countries?

# National Economic Strategy

## Issues for Iceland

- **Market niches** tied to Iceland's unique geography, skills, culture, and values
- **Reinforcing positions** in related clusters as a growth vehicle
  - Ecology as an overriding theme