

The Competitive Advantage of Nations: Implications for Rwanda

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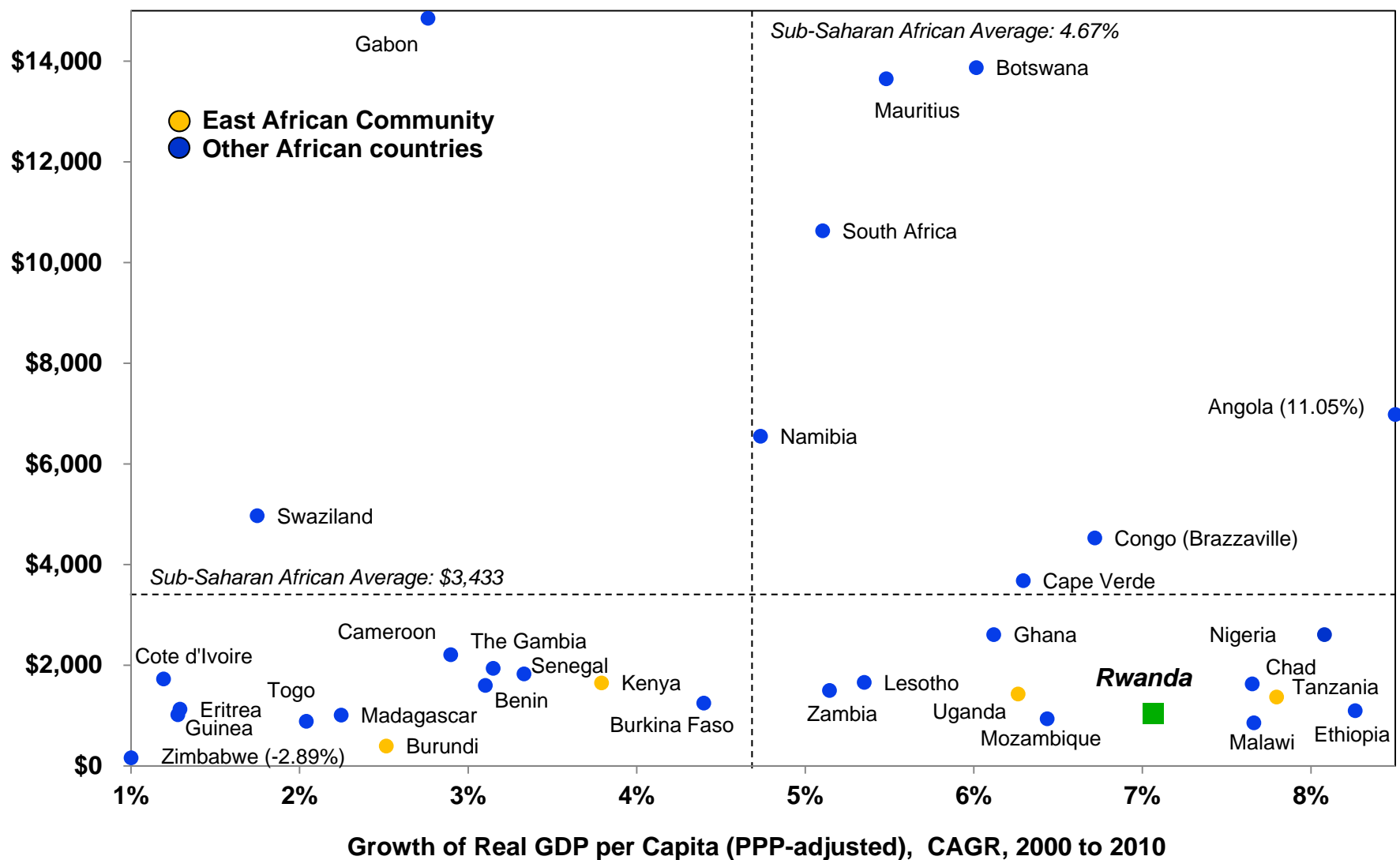
Kigali, Rwanda
August 9, 2011

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* (World Economic Forum), "Clusters and the New Competitive Agenda for Companies and Governments" in *On Competition* (Harvard Business School Press, 2008), 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

Prosperity Performance

Sub-Saharan African Countries, 2000 - 2010

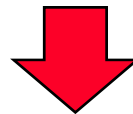
PPP-adjusted GDP per Capita, 2010 (\$USD)



Source: EIU (2011), authors calculations

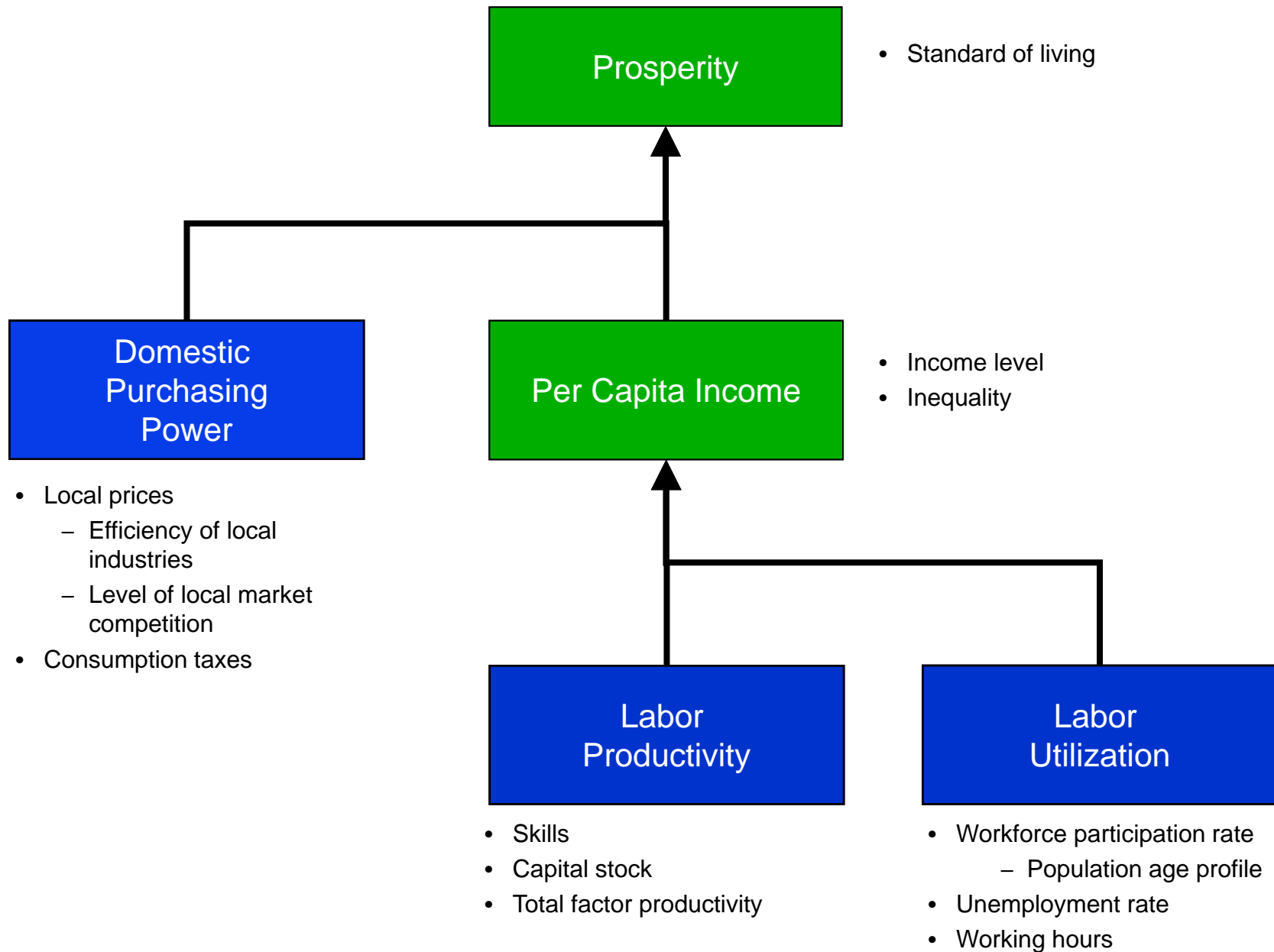
What is Competitiveness?

- Competitiveness is the **productivity** with which a nation uses its human, capital, and natural resources.
 - Productivity **sets the sustainable standard of living** (wages, returns on capital, returns on natural resources)
 - It is not **what** industries a nation competes in that matters for prosperity, but **how** it competes in those industries
 - Productivity in a national economy arises from a **combination of domestic and foreign firms**



- Only business can create **wealth**
- Nations compete to offer the **most productive environment for business**
- The public and private sectors play **different but interrelated roles** in creating a productive economy

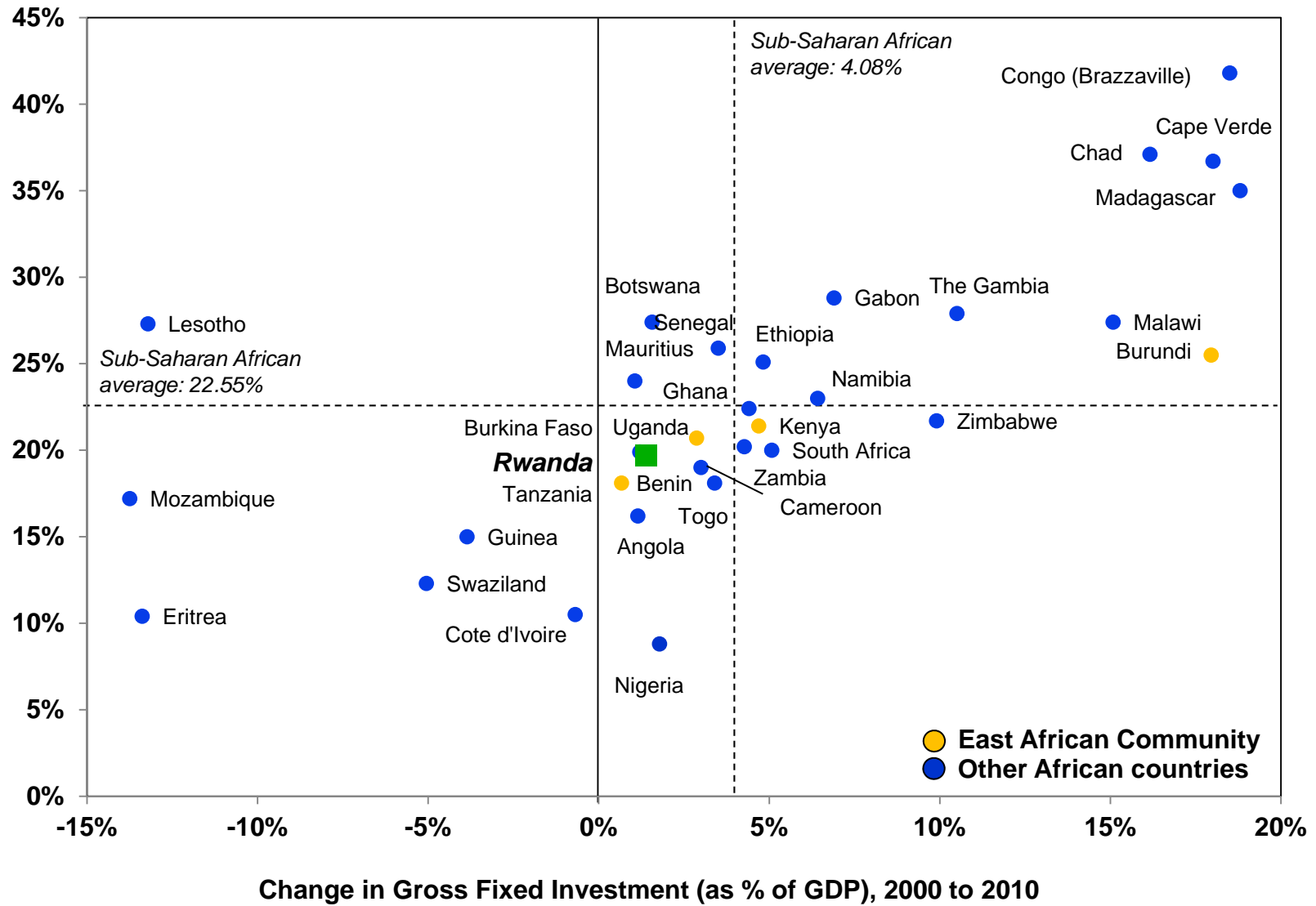
Decomposing Prosperity



Domestic Investment Performance

Selected Countries, 2000 - 2010

Gross Fixed Investment
as % of GDP, 2010



Note: Includes inbound FDI.

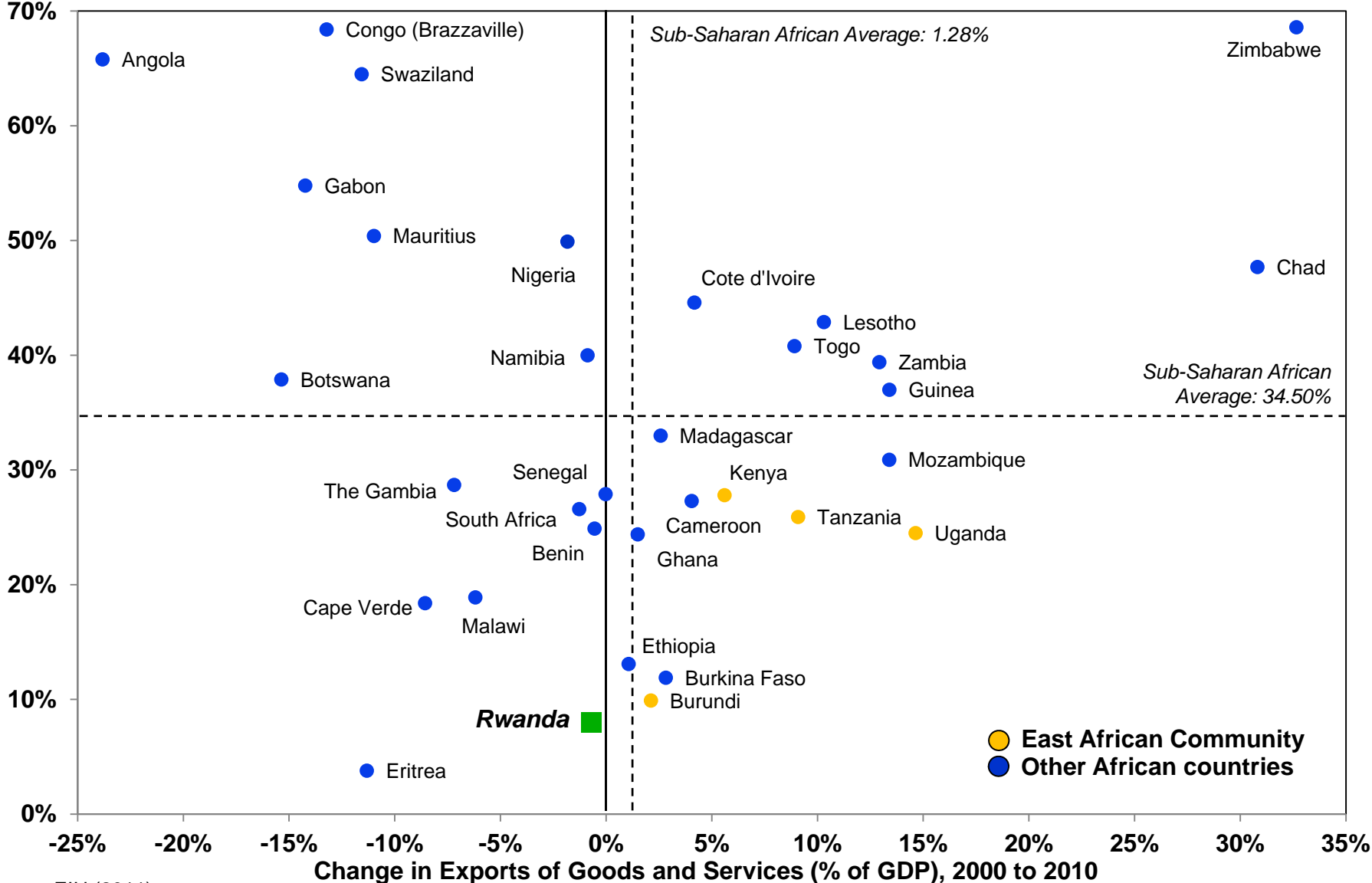
Source: EIU (2011)

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Export Performance

Selected Countries, 2000 - 2010

Exports of Goods and Services (% of GDP), 2010

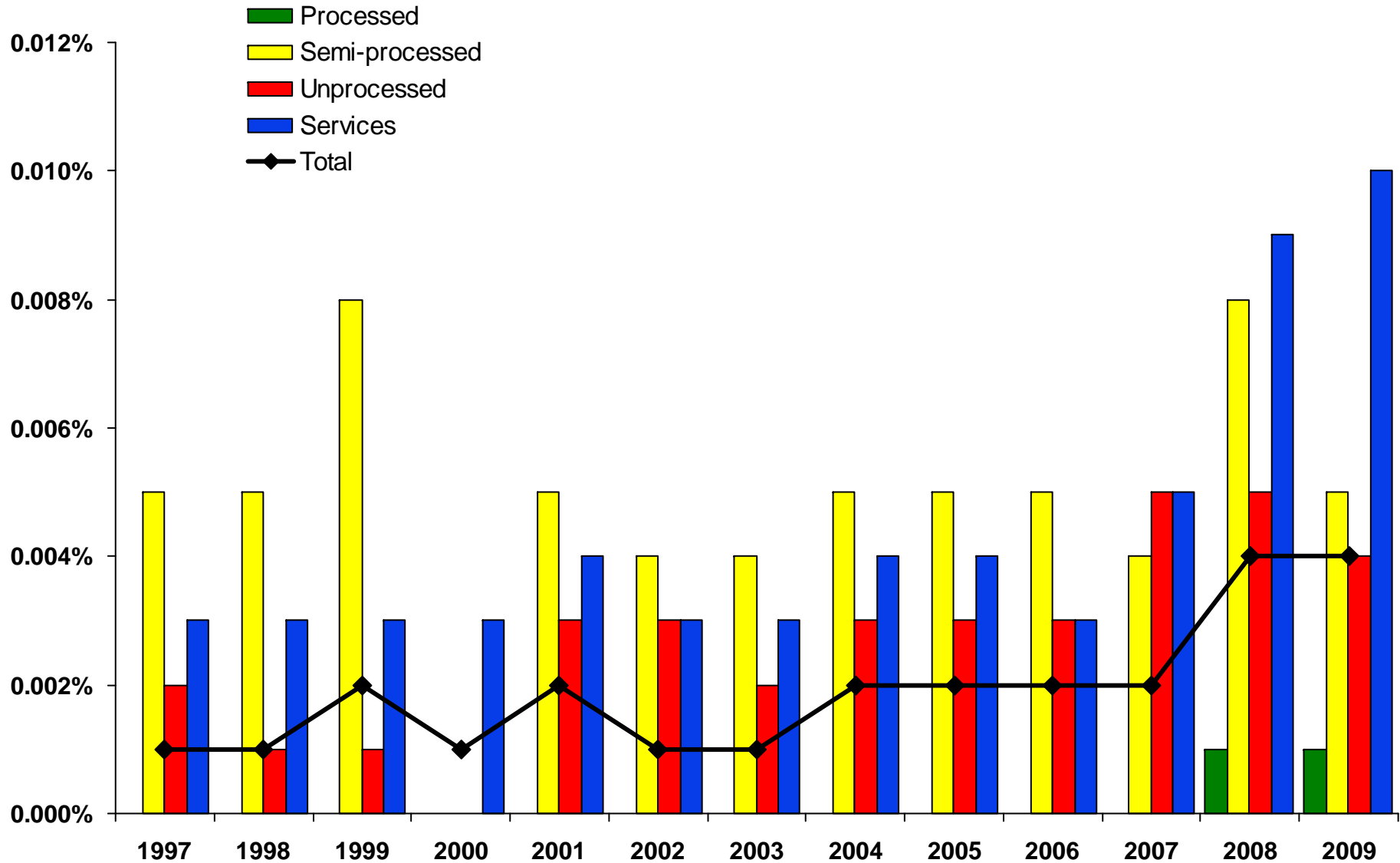


Source: EIU (2011), authors calculations

Composition of Exports

Rwanda's Exports By Type of Industry

World Export
Market Share

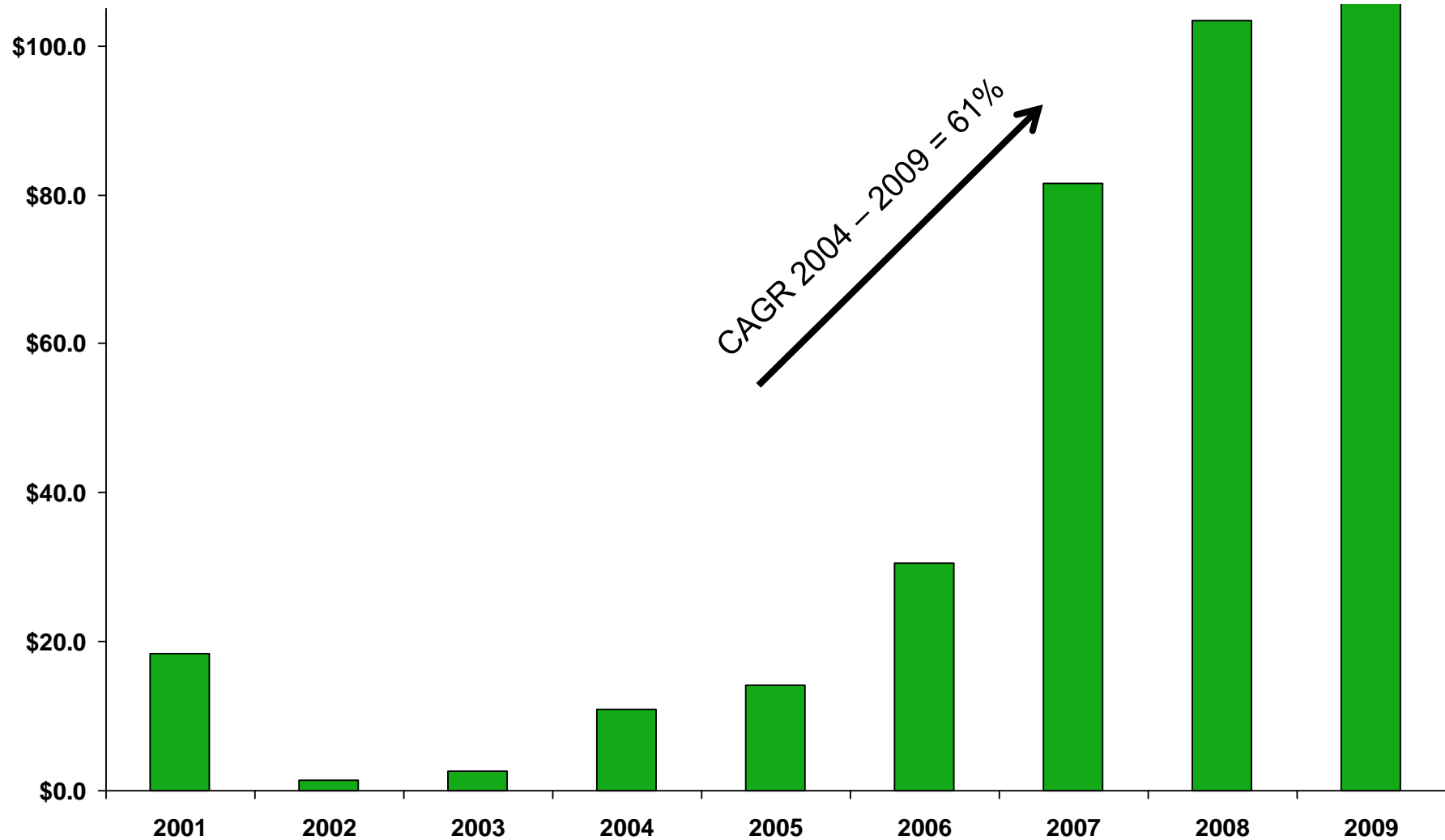


Source: Prof. Michael E. Porter, International Cluster Competitiveness Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director. Underlying data drawn from the UN Commodity Trade Statistics Database and the IMF BOP statistics.

Inward Foreign Investment Flows

Rwanda, 2001 - 2010

Inward FDI (USD,
millions)



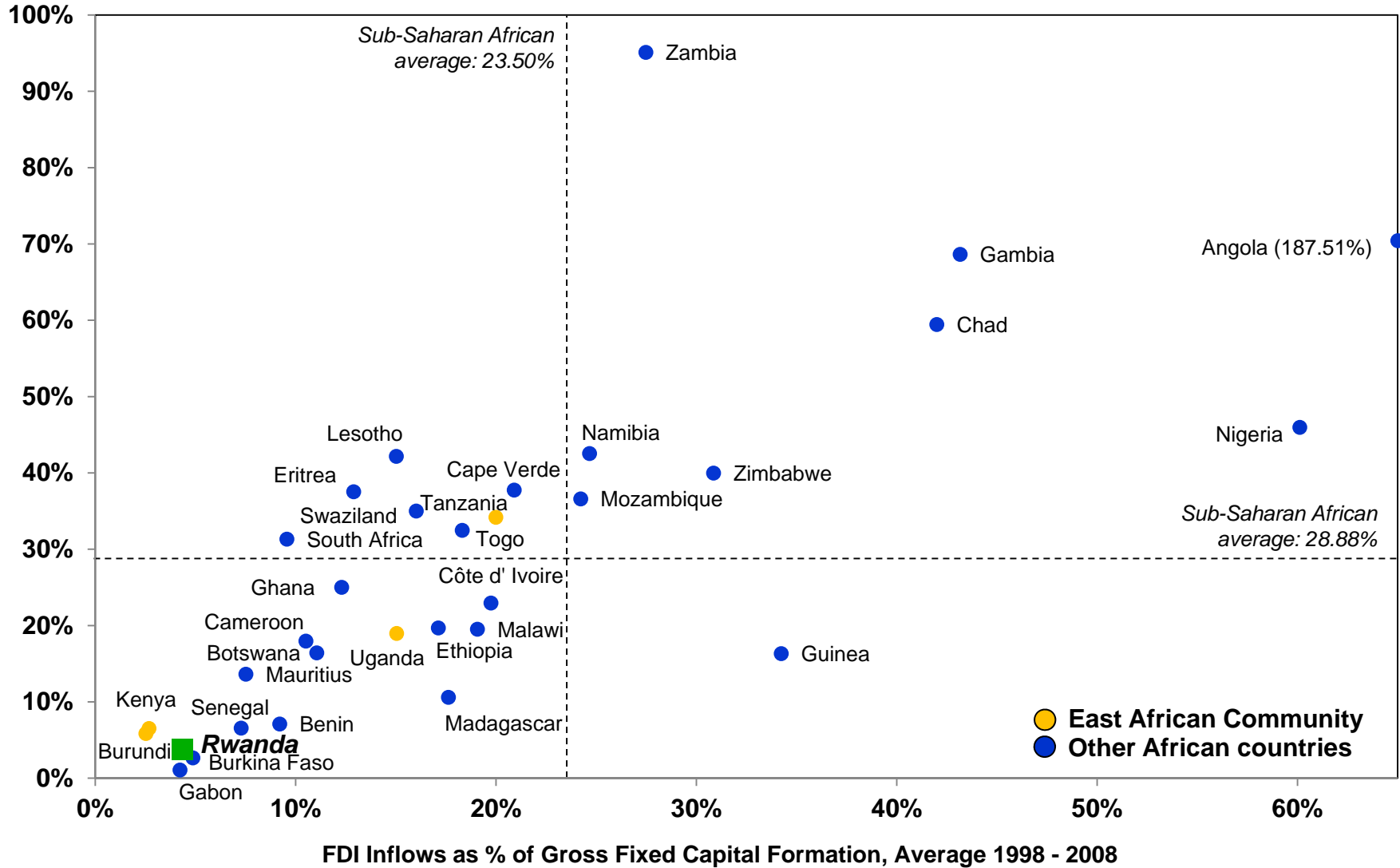
Source: National Bank of Rwanda

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Inbound Foreign Investment Performance

Stocks and Flows, Selected Countries

Inward FDI Stocks as % of GDP, Average 1998 - 2008



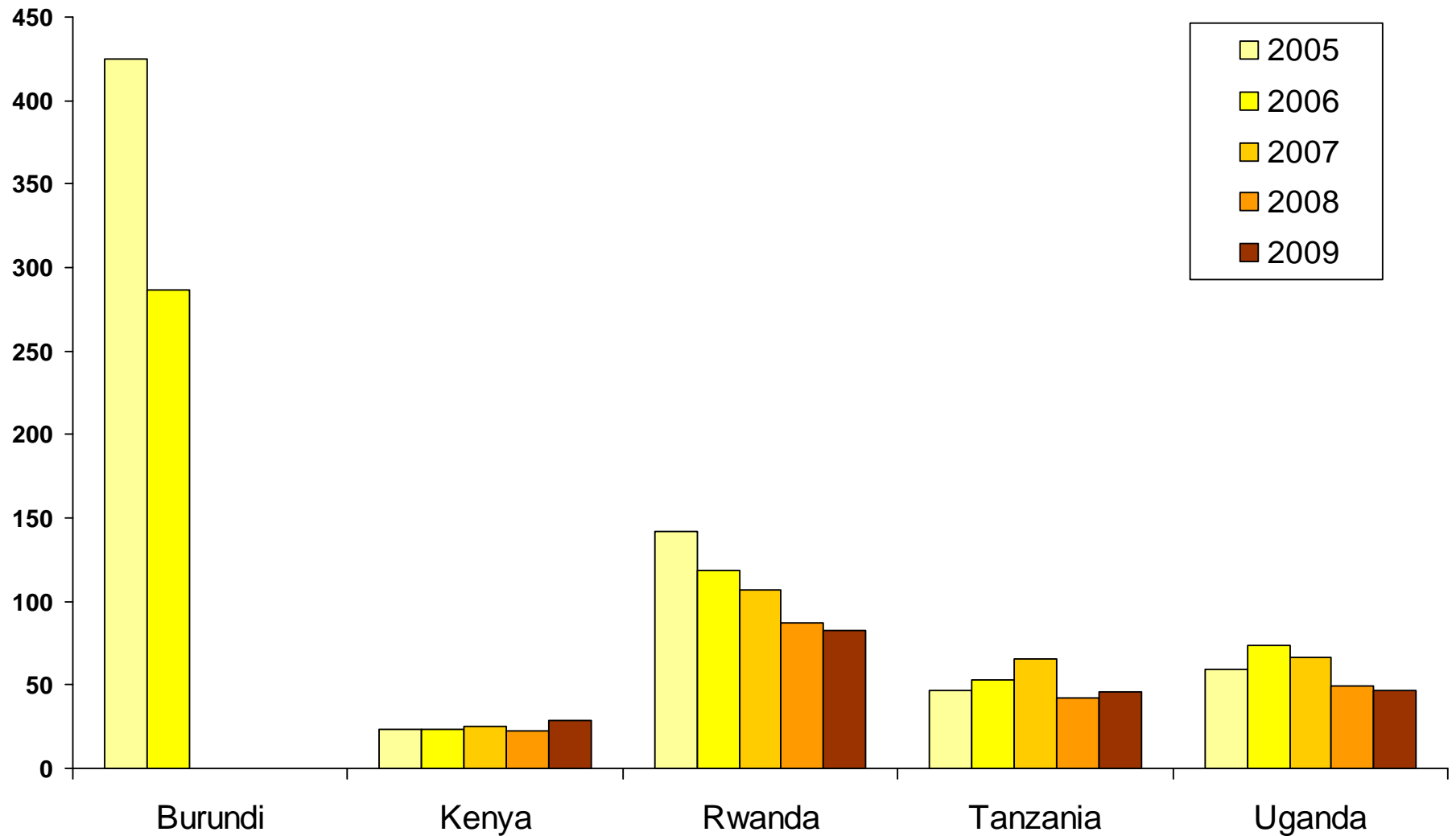
Source: UNCTAD, World Investment Report (2011)

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International Aid and Assistance Flows

East African Community, 2005 - 2009

Aid as % Gross
Capital
Formation



Source: World Development Indicators (2011)

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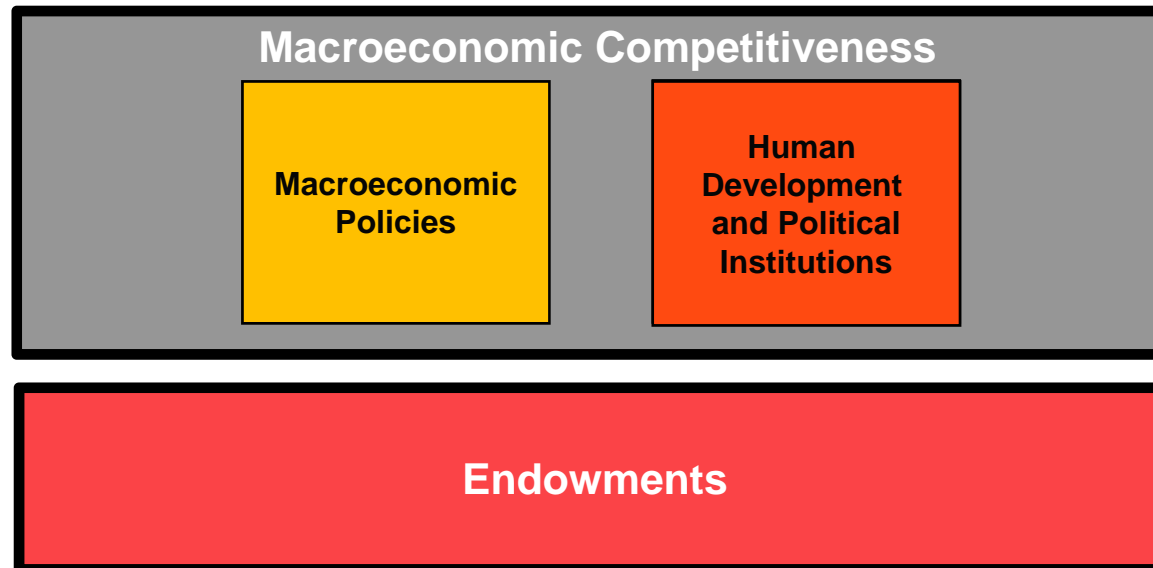
What Determines Competitiveness?



Endowments

- Endowments create a **foundation** for prosperity, but true prosperity is created by **productivity in the use of endowments**

What Determines Competitiveness?



- Macroeconomic competitiveness sets the **potential** for high productivity, but is **not sufficient**
- Endowments create a **foundation** for prosperity, but true prosperity is created by **productivity in the use of endowments**

Macroeconomic Competitiveness

Macroeconomic Policies

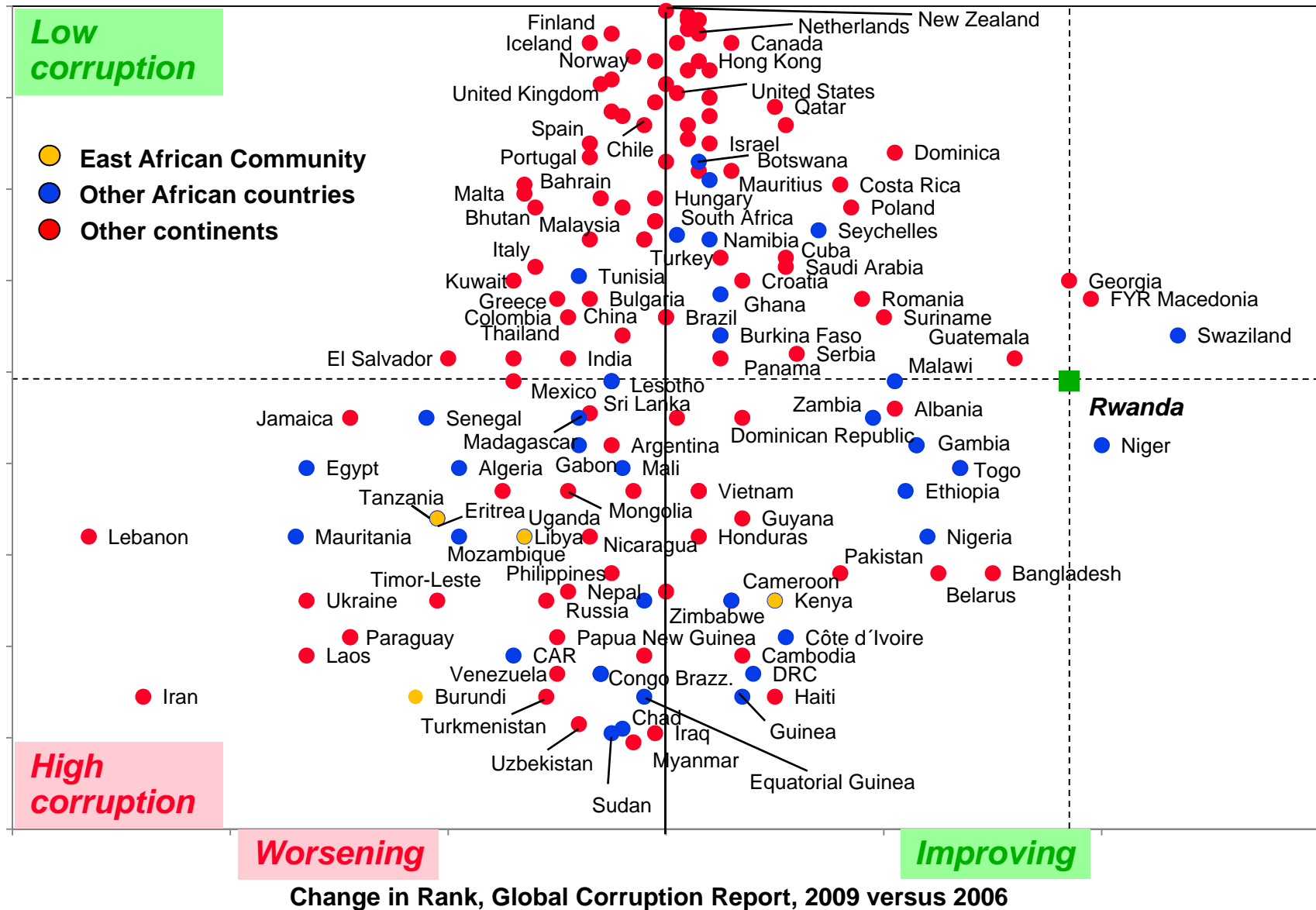
- **Fiscal policy**
 - Government surplus/deficit
 - Government debt
- **Monetary policy**
 - Inflation
 - Business cycle management
 - Savings

Social Infrastructure and Political Institutions

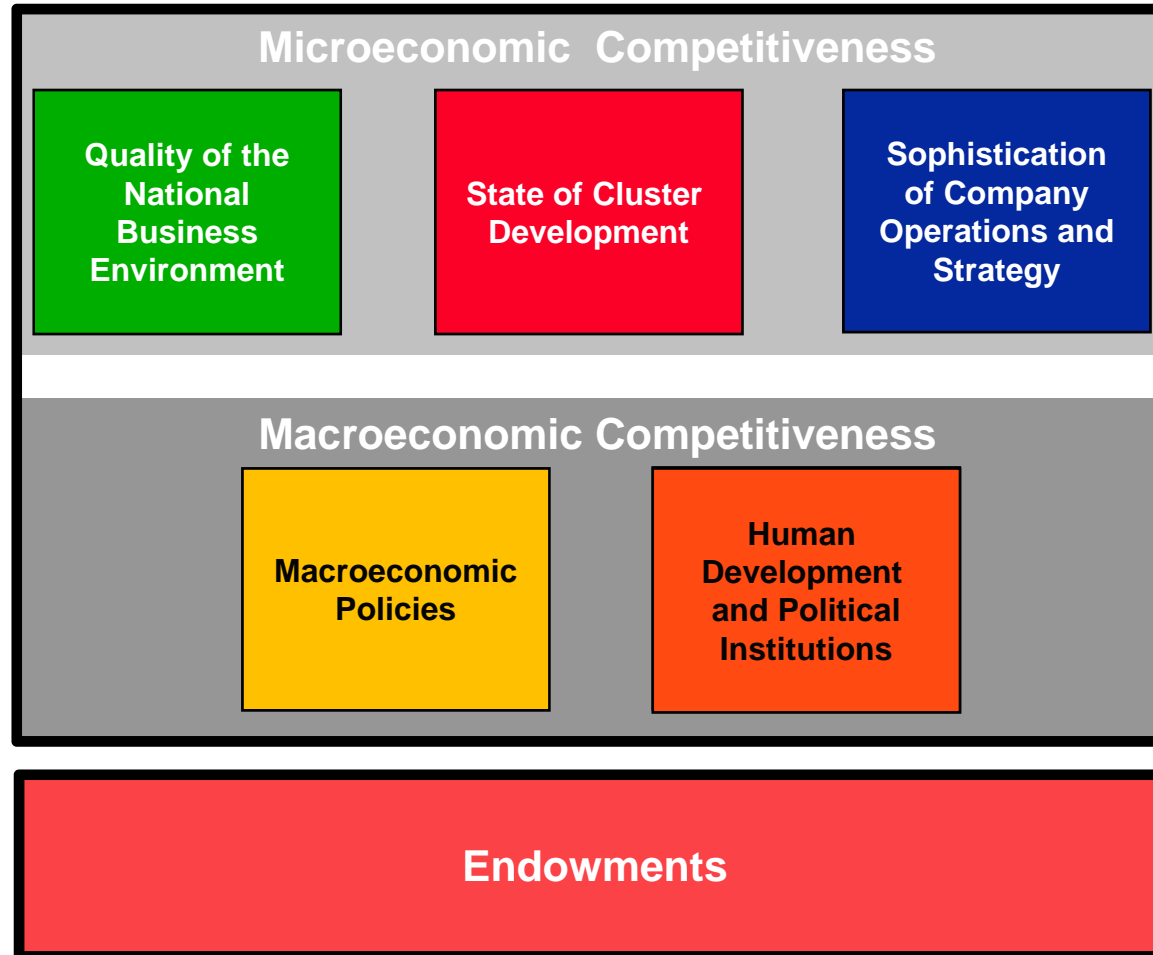
- **Human development**
 - Basic education
 - Health
- **Political institutions**
 - Political freedom
 - Voice and accountability
 - Political stability
 - Government effectiveness
 - Decentralization of economic policymaking
- **Rule of law**
 - Security
 - Civil rights
 - Judicial independence
 - Efficiency of legal framework
 - Freedom from corruption

Rank in Global
Corruption Index,
2009

Corruption Perception Index, 2009

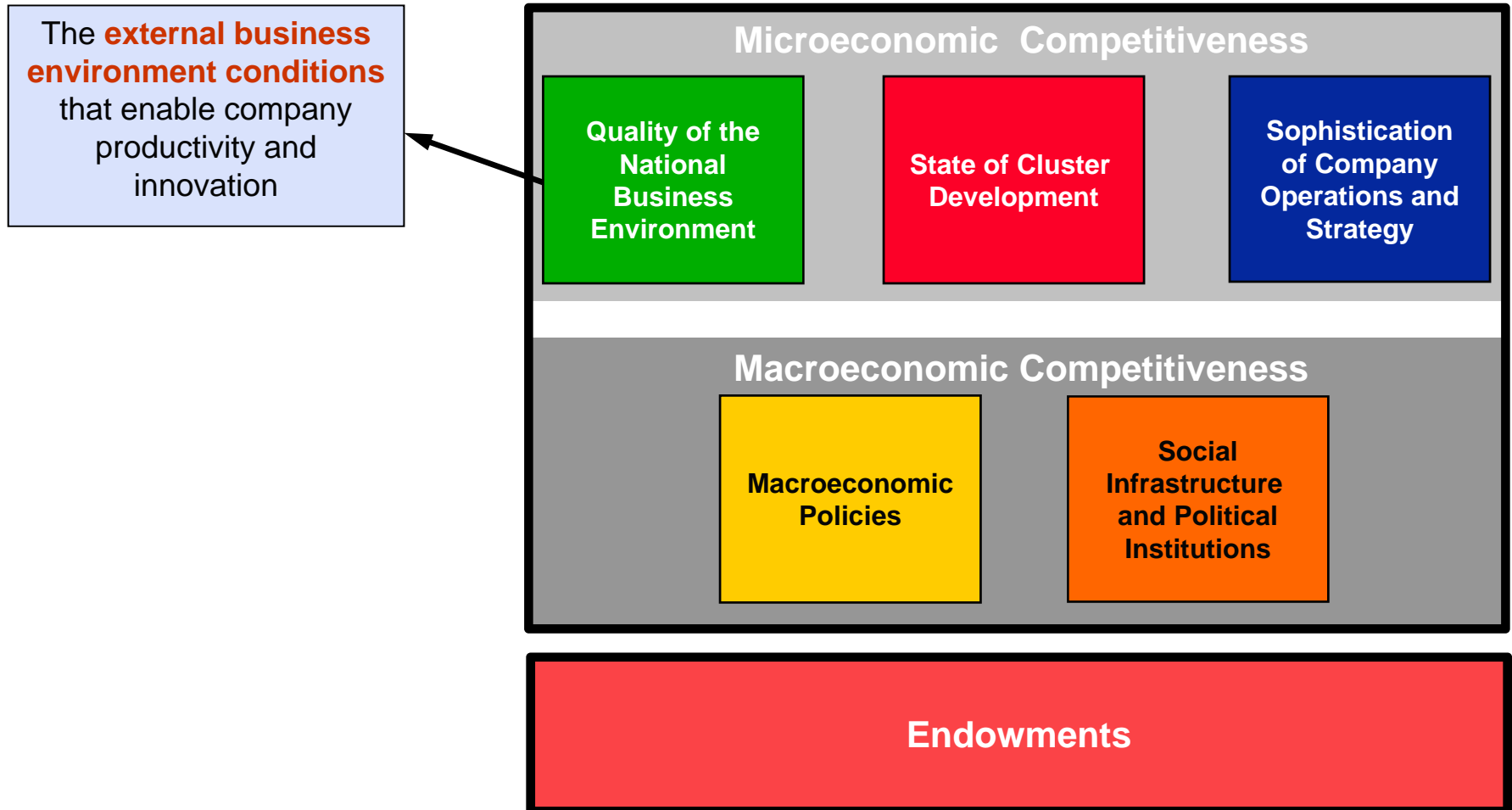


What Determines Competitiveness?

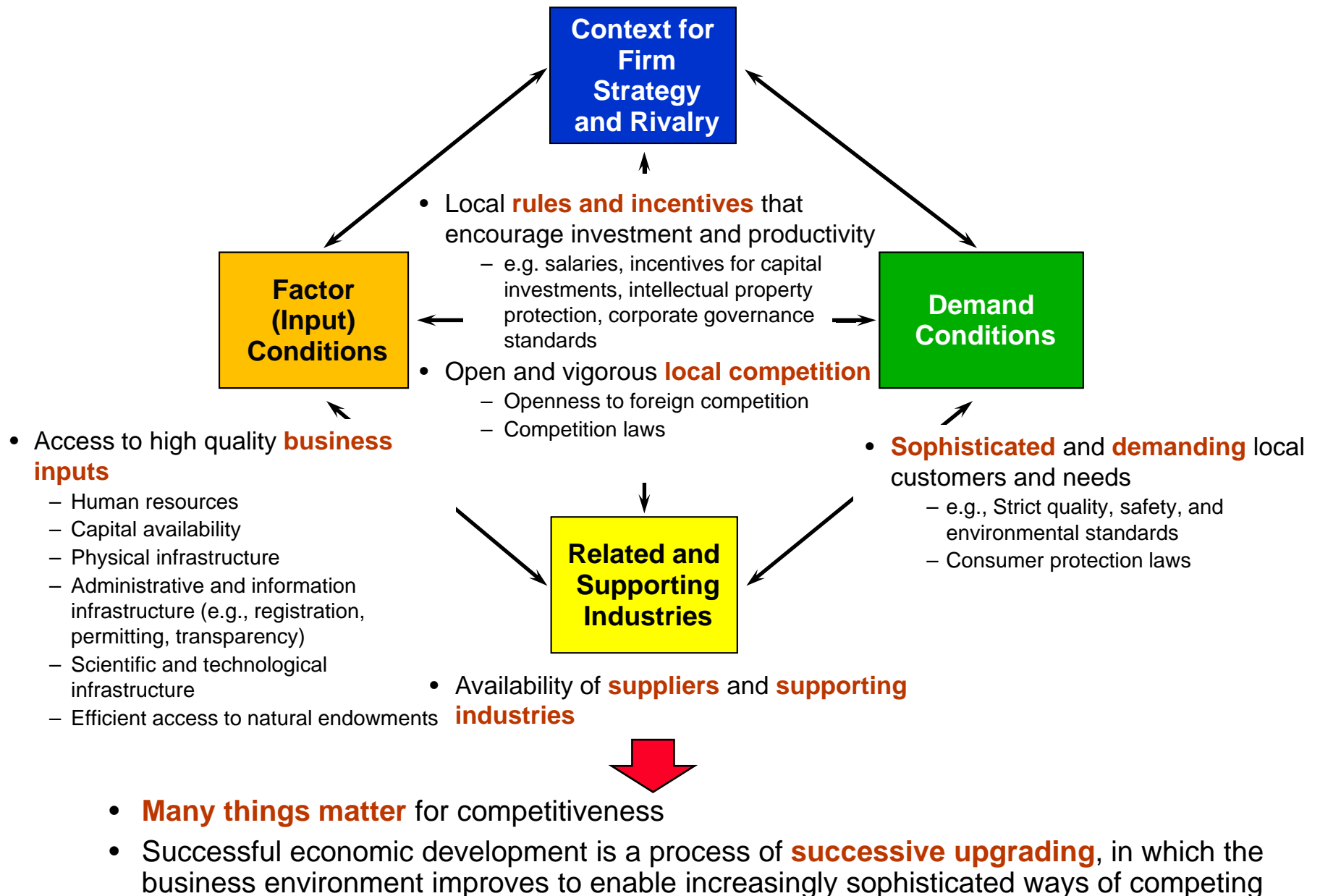


- Productivity ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local competition**
- Macroeconomic competitiveness sets the **potential** for high productivity, but is **not sufficient**
- Endowments create a **foundation** for prosperity, but true prosperity is created by **productivity in the use of endowments**

What Determines Competitiveness?

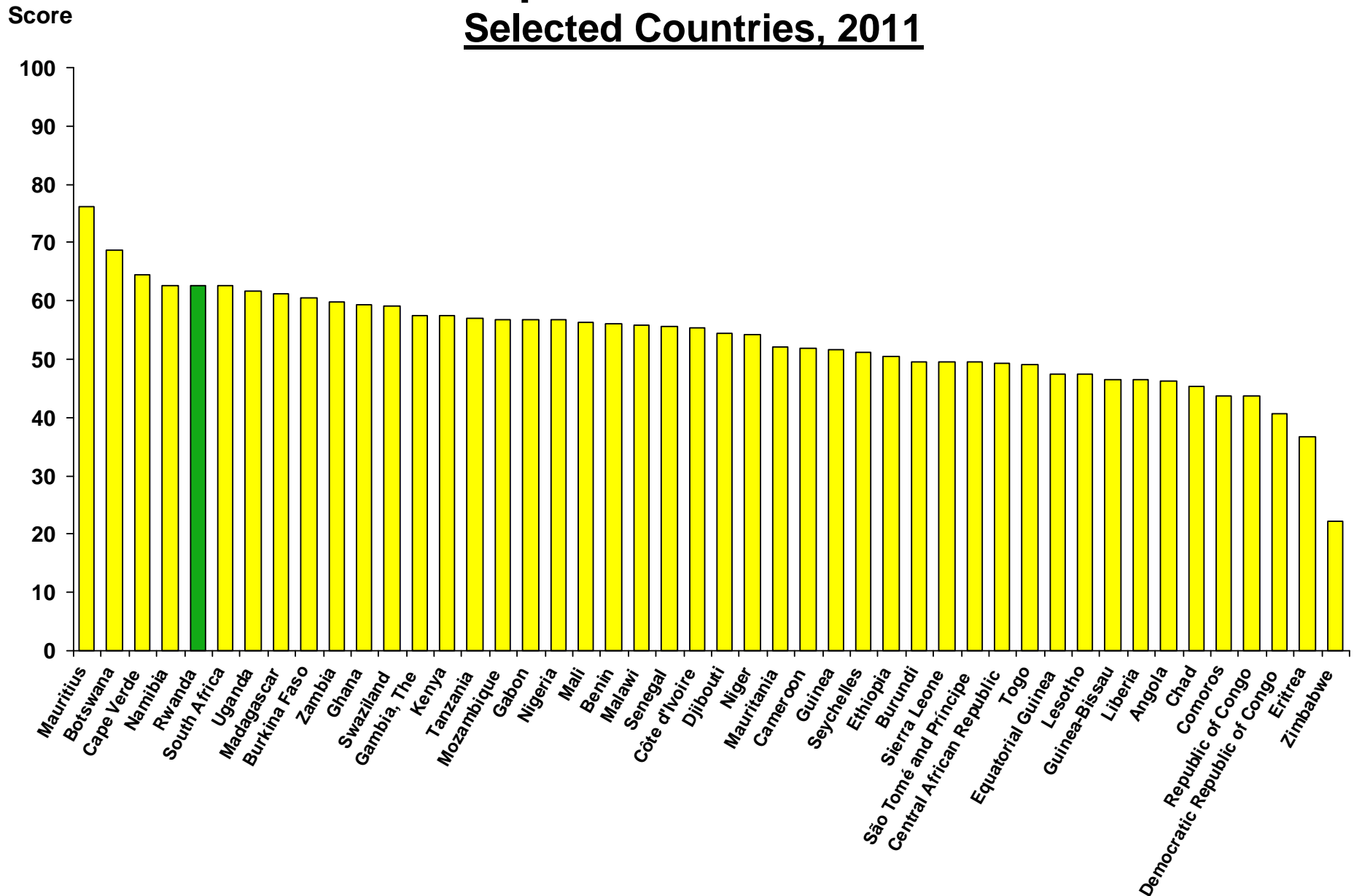


Quality of the National Business Environment



Openness to Trade

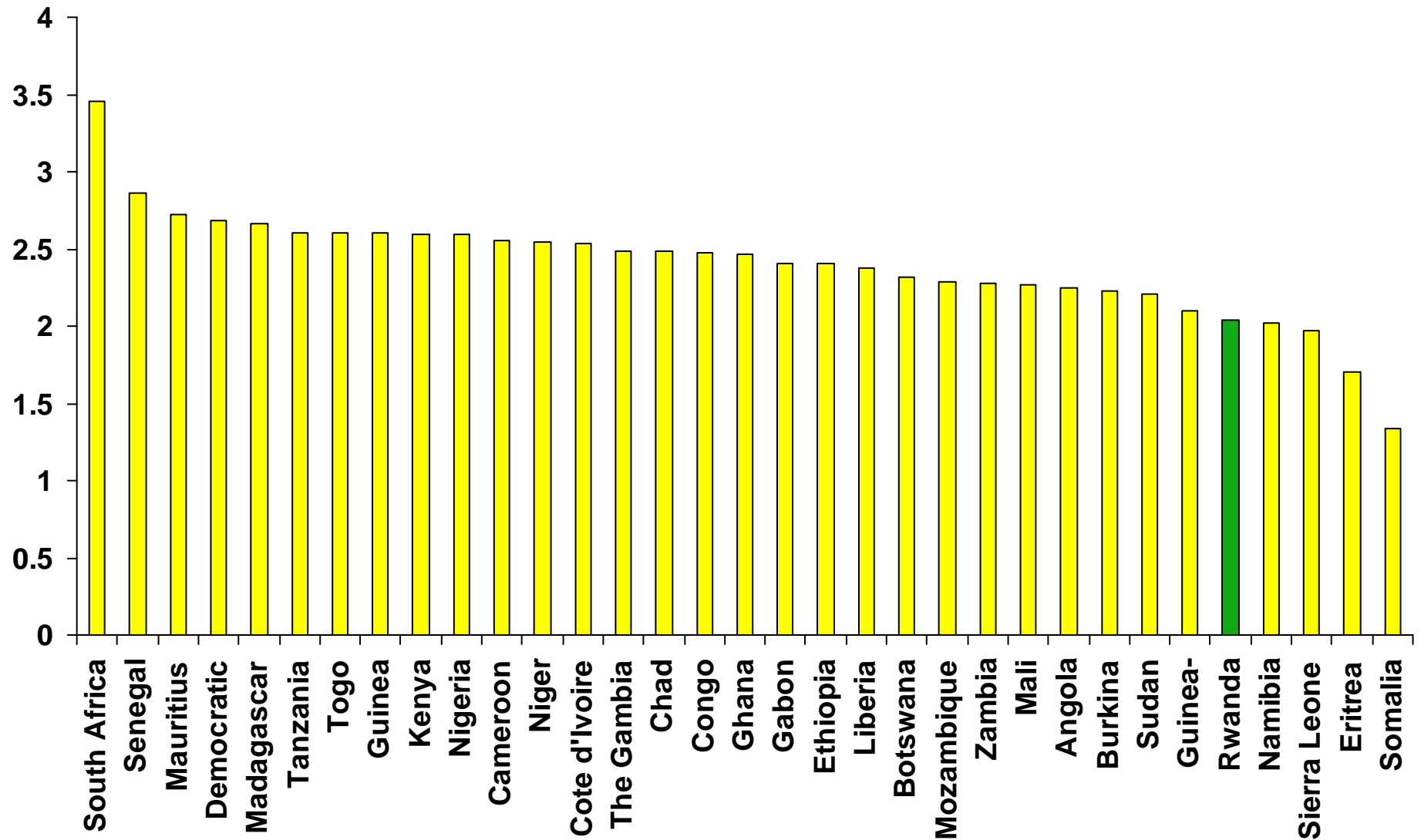
Selected Countries, 2011



Source: Index of Economic Freedom (2011), Heritage Foundation

Logistical Performance

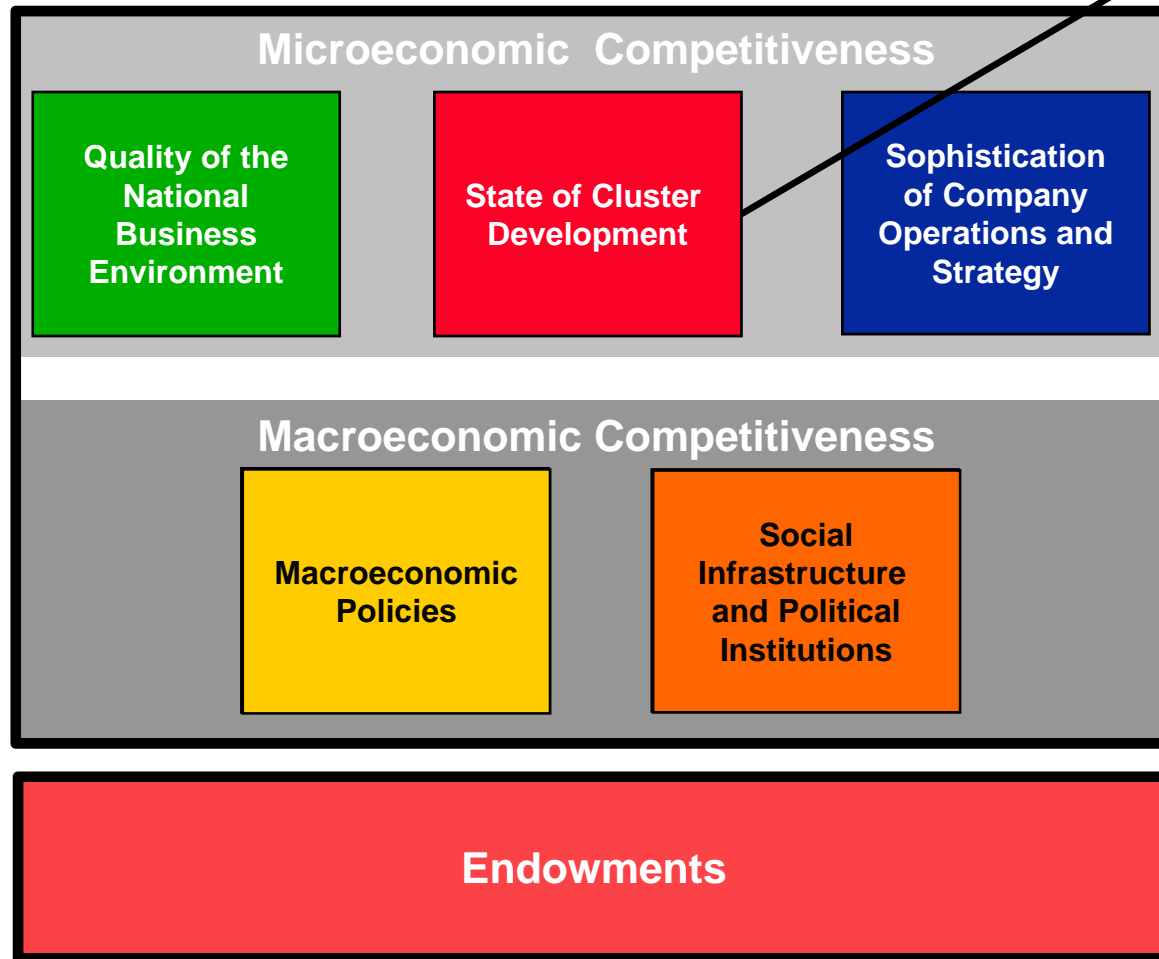
Selected Countries, 2009



Source: World Bank Logistical Performance Index (2010)

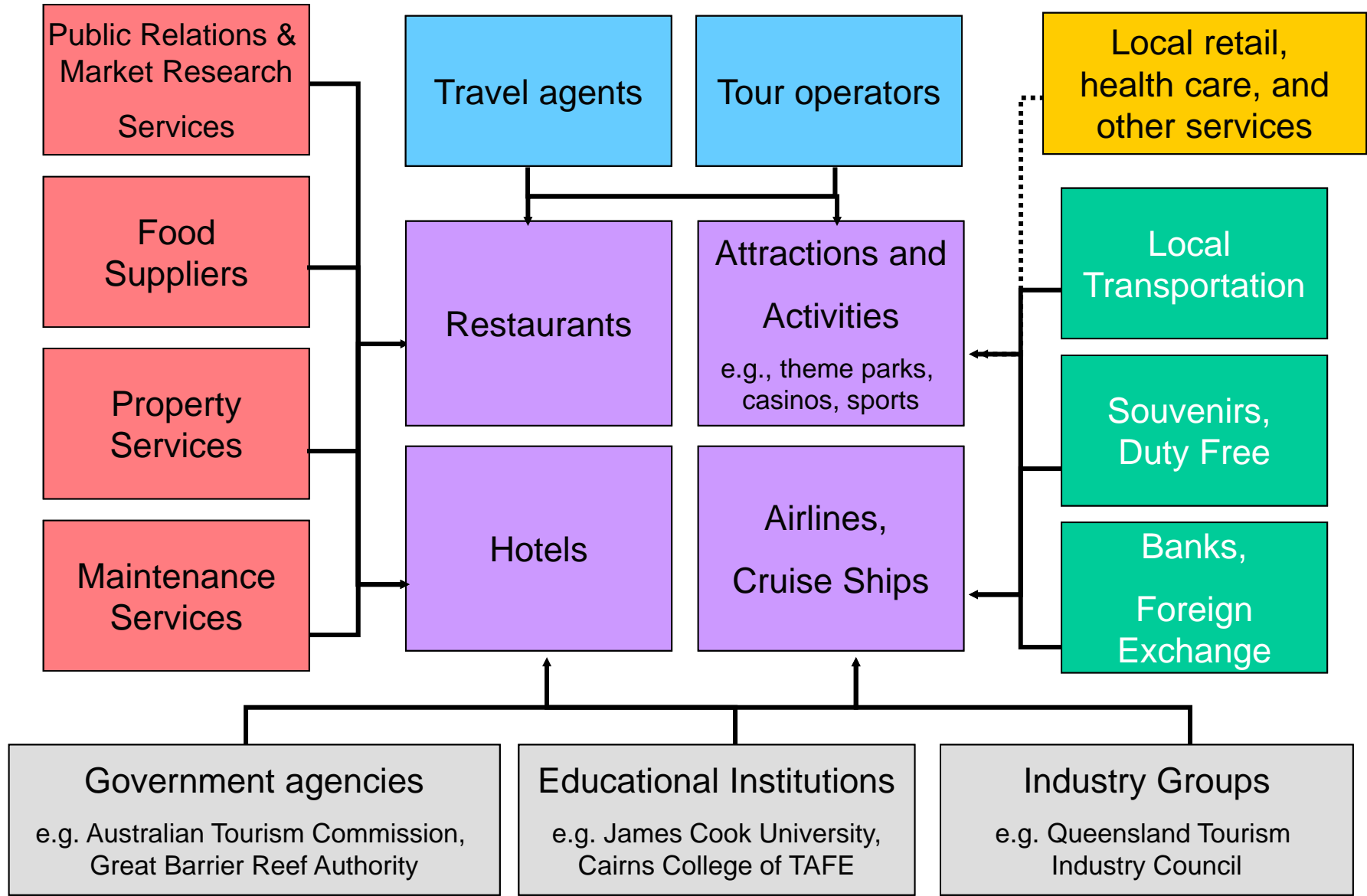
What Determines Competitiveness?

A critical mass of firms and institutions in each field to harness efficiencies and externalities across related entities



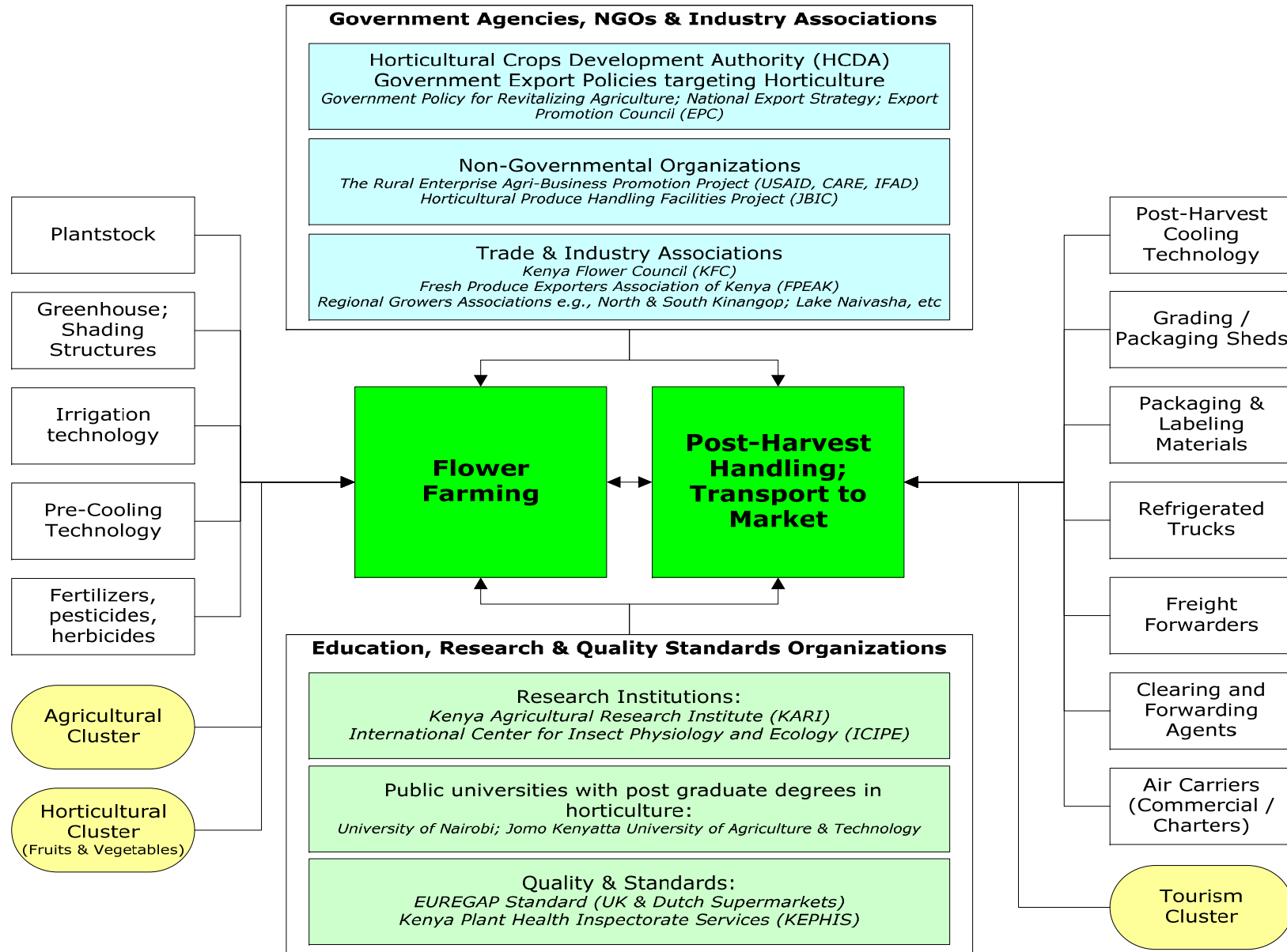
State of Cluster Development

Tourism Cluster in Cairns, Australia



Sources: HBS student team research (2003) - Peter Tynan, Chai McConnell, Alexandra West, Jean Hayden

Kenya's Cut Flower Cluster

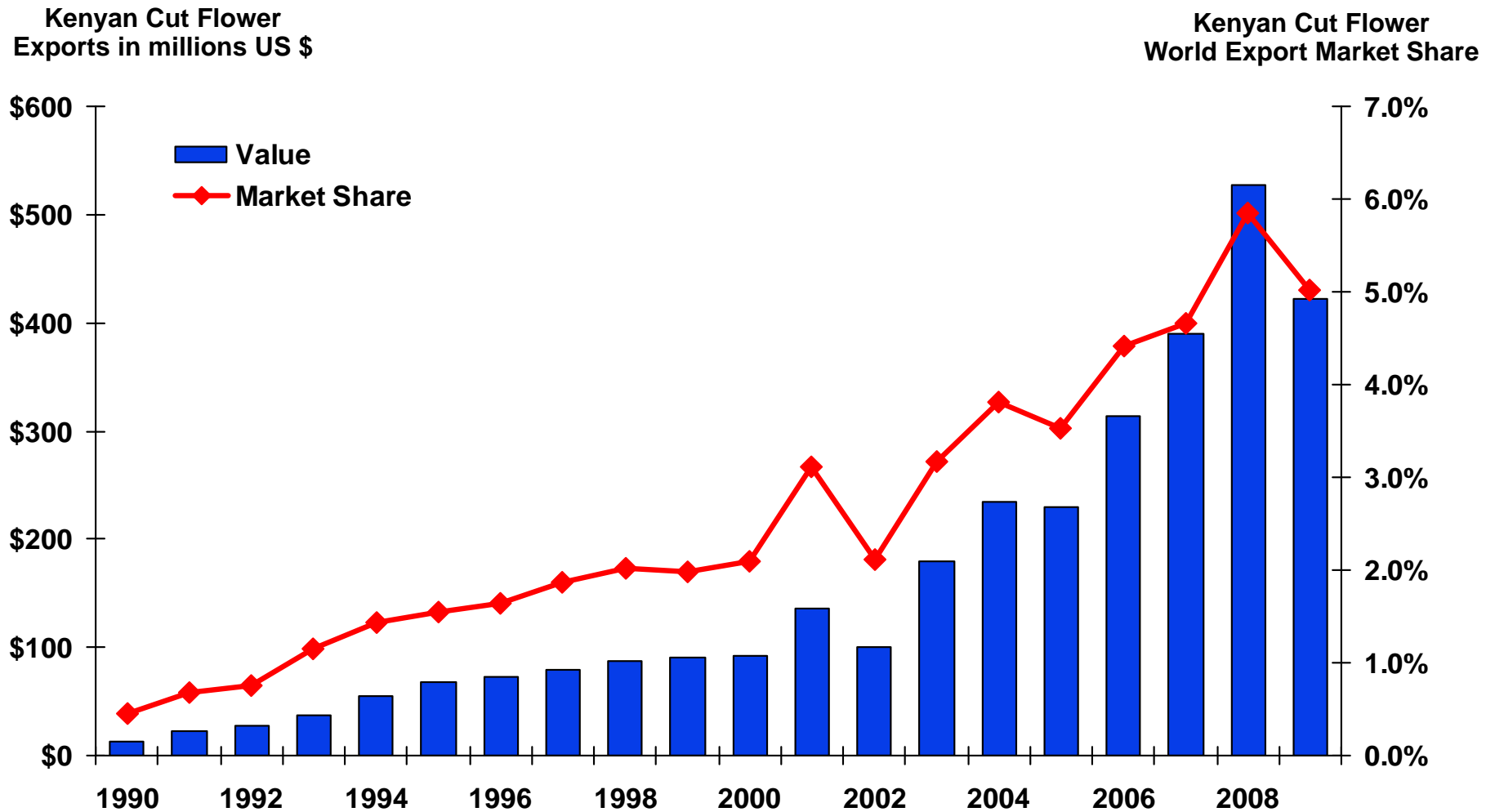


Sources: MOC student team research by Kusi Hornberger, Nick Ndiritu, Lalo Ponce-Brito, Melesse Tashu, Tijan Watt, Harvard Business School, 2007

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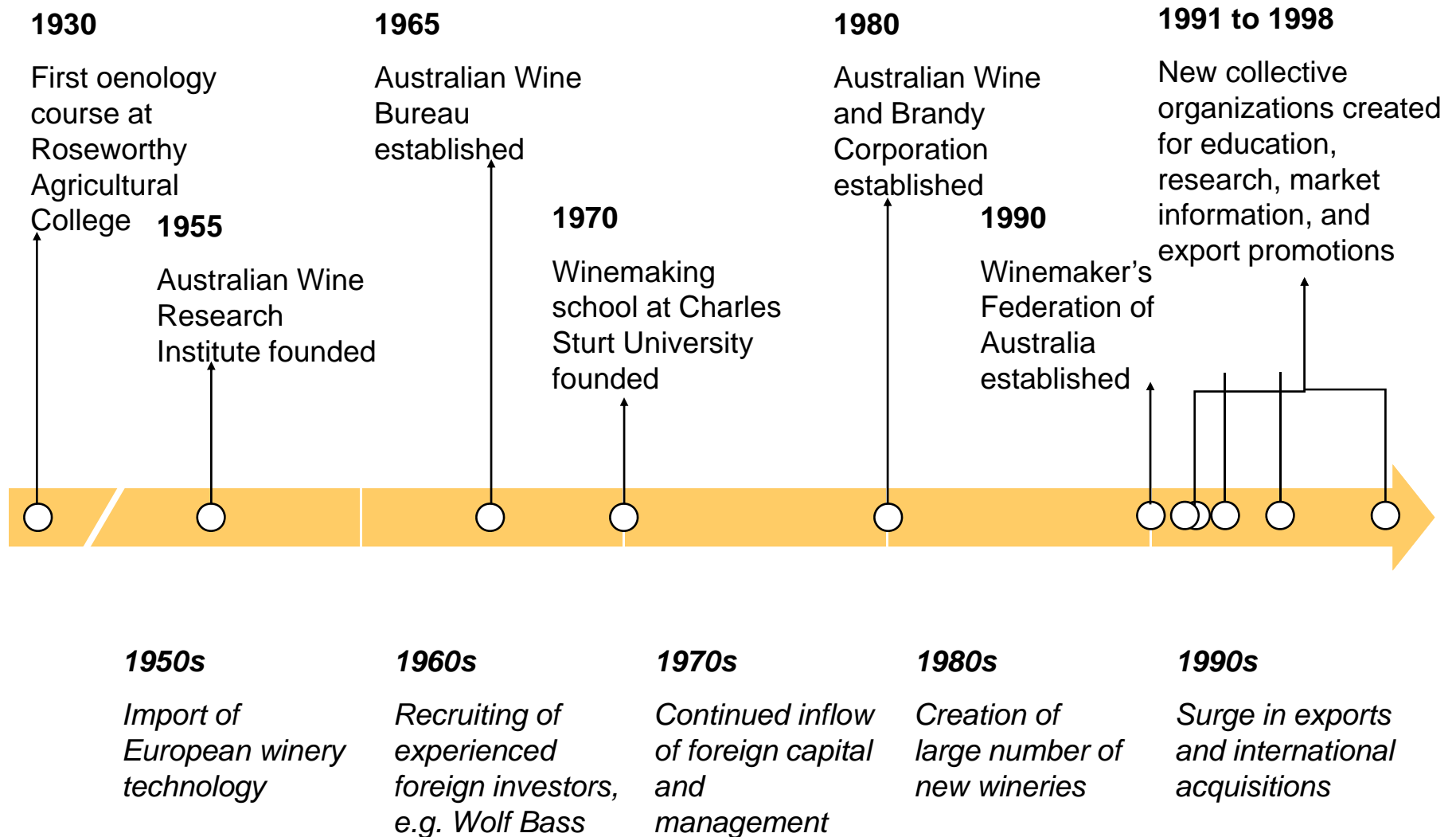
The Kenyan Cut Flower Cluster

Trade Performance



Source: International Cluster Competitiveness Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director.
Underlying data drawn from the UN Commodity Trade Statistics Database.

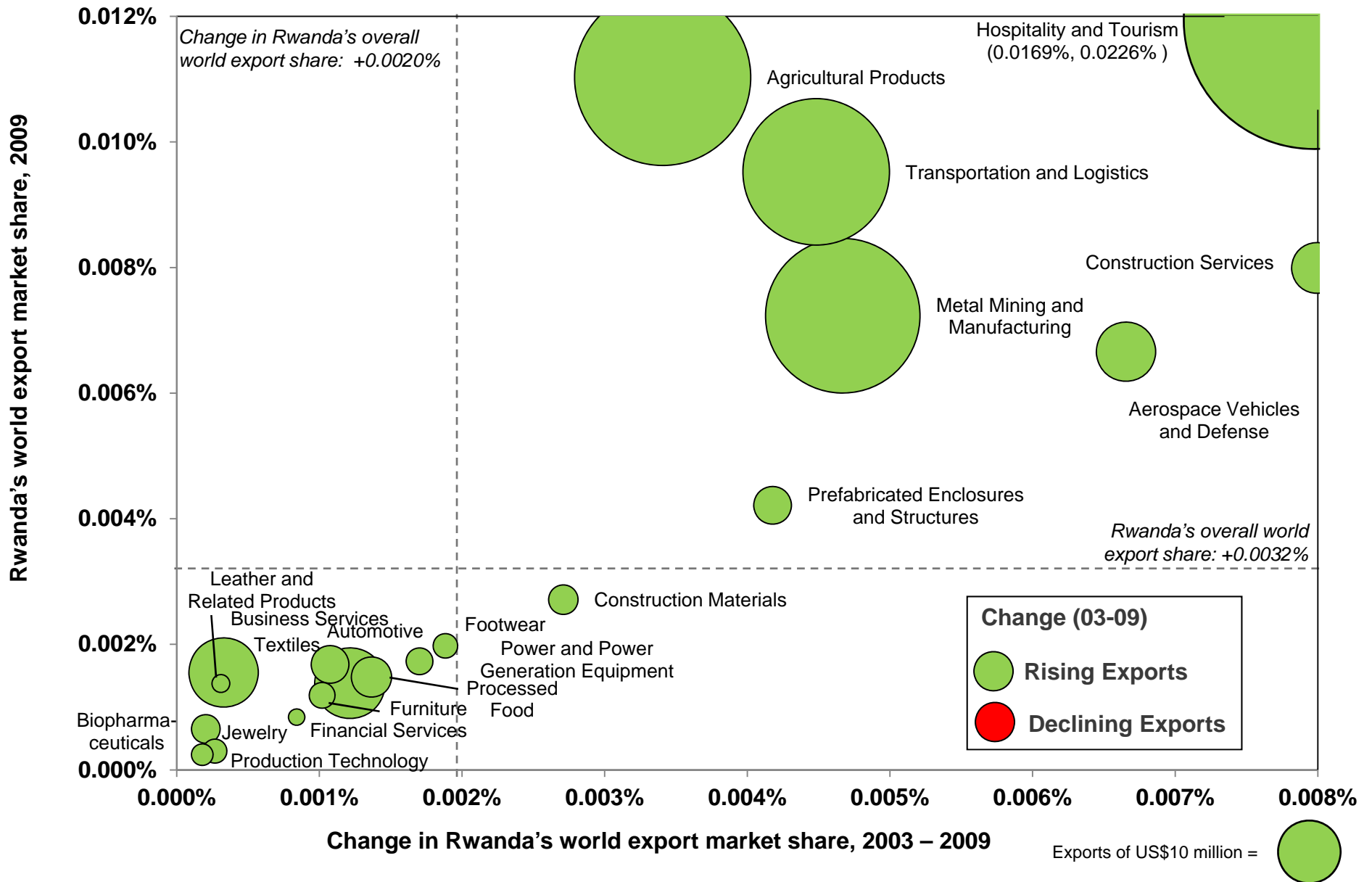
Development of the Australian Wine Cluster



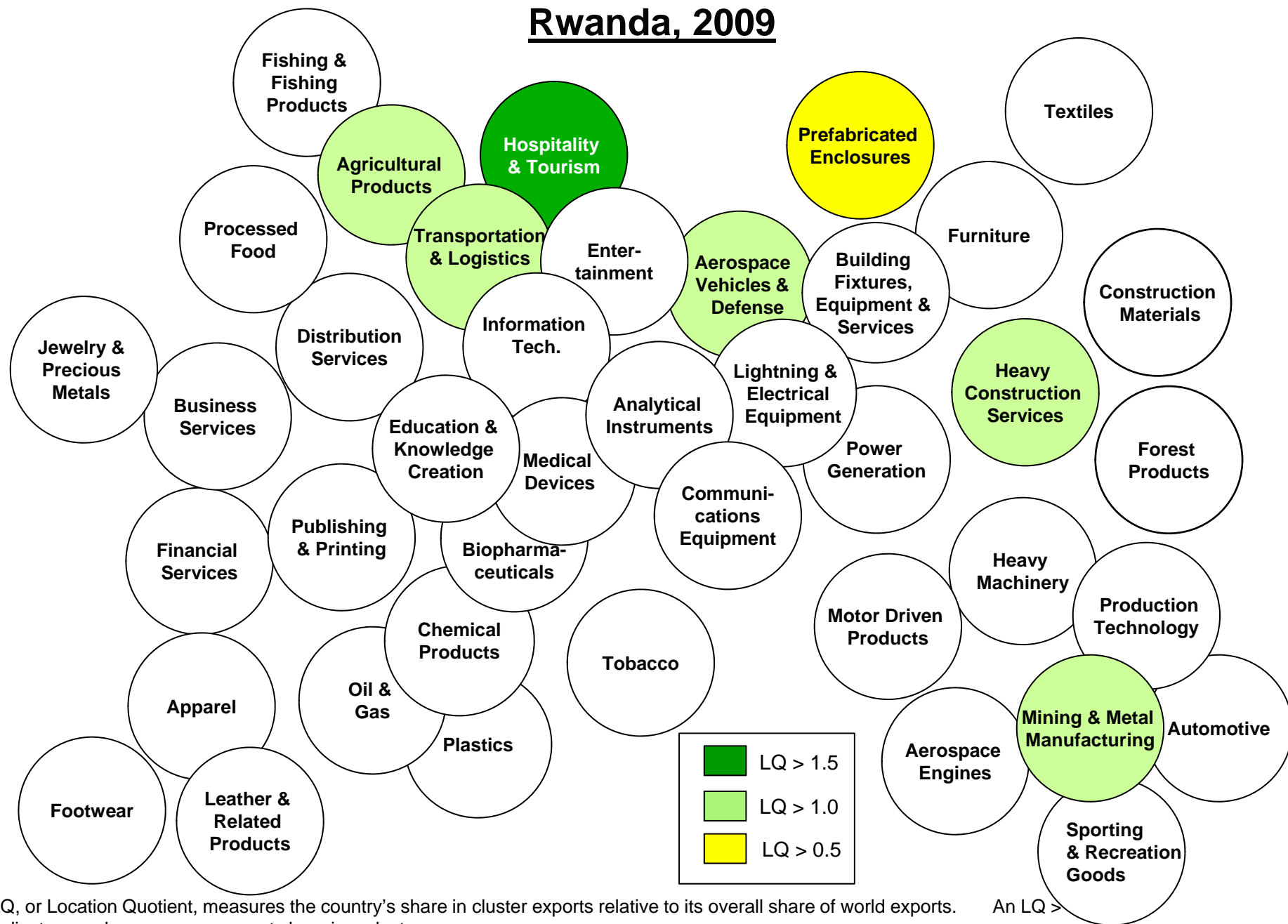
Source: Michael E. Porter and Örjan Sölvell, The Australian Wine Cluster – Supplement, Harvard Business School Case Study, 2002

National Cluster Export Portfolio

Rwanda, 2003-2009



Cluster Linkages and Economic Diversification Rwanda, 2009



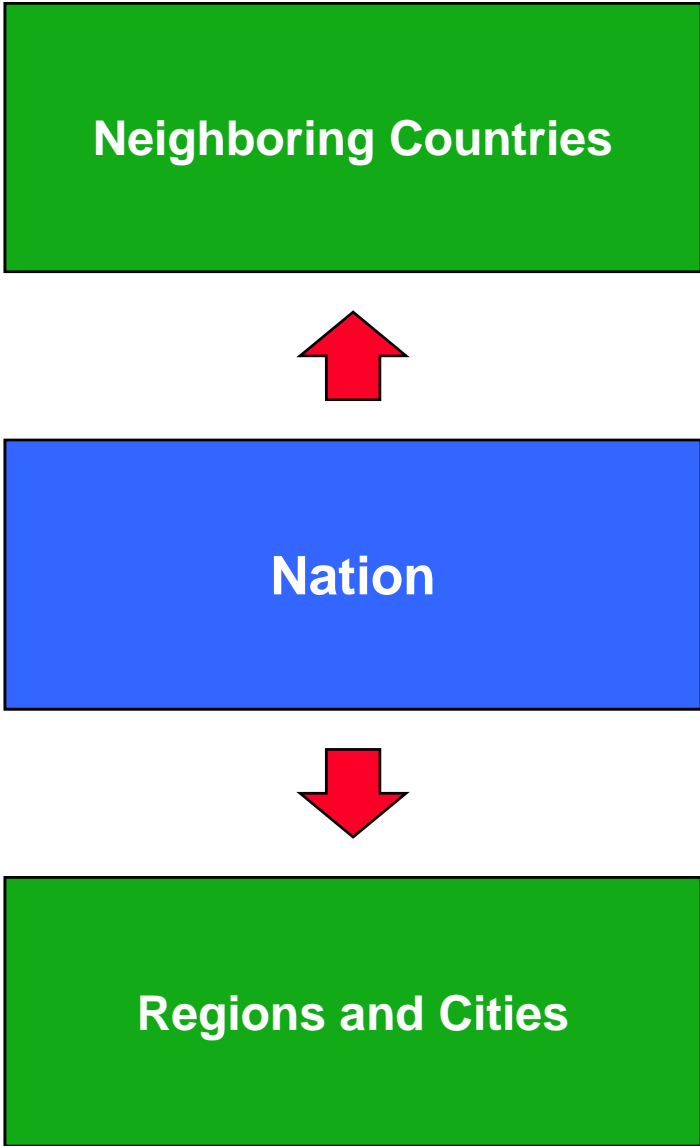
LQ, or Location Quotient, measures the country's share in cluster exports relative to its overall share of world exports. An LQ > 1.0 indicates an above average export share in a cluster.

An LQ >

Clusters as a Tool For Economic Policy

- A forum for **collaboration** between the private sector, trade associations, government, educational, and research institutions
- Brings together **firms of all sizes**, including SME's
- Creates a **mechanism** for **constructive** business-government dialog
- A tool to identify **problems** and **action recommendations**
- A vehicle for investments that strengthen **multiple firms/institutions** simultaneously
- Fosters **greater competition** rather than distorting the market

Geographic Influences on Competitiveness

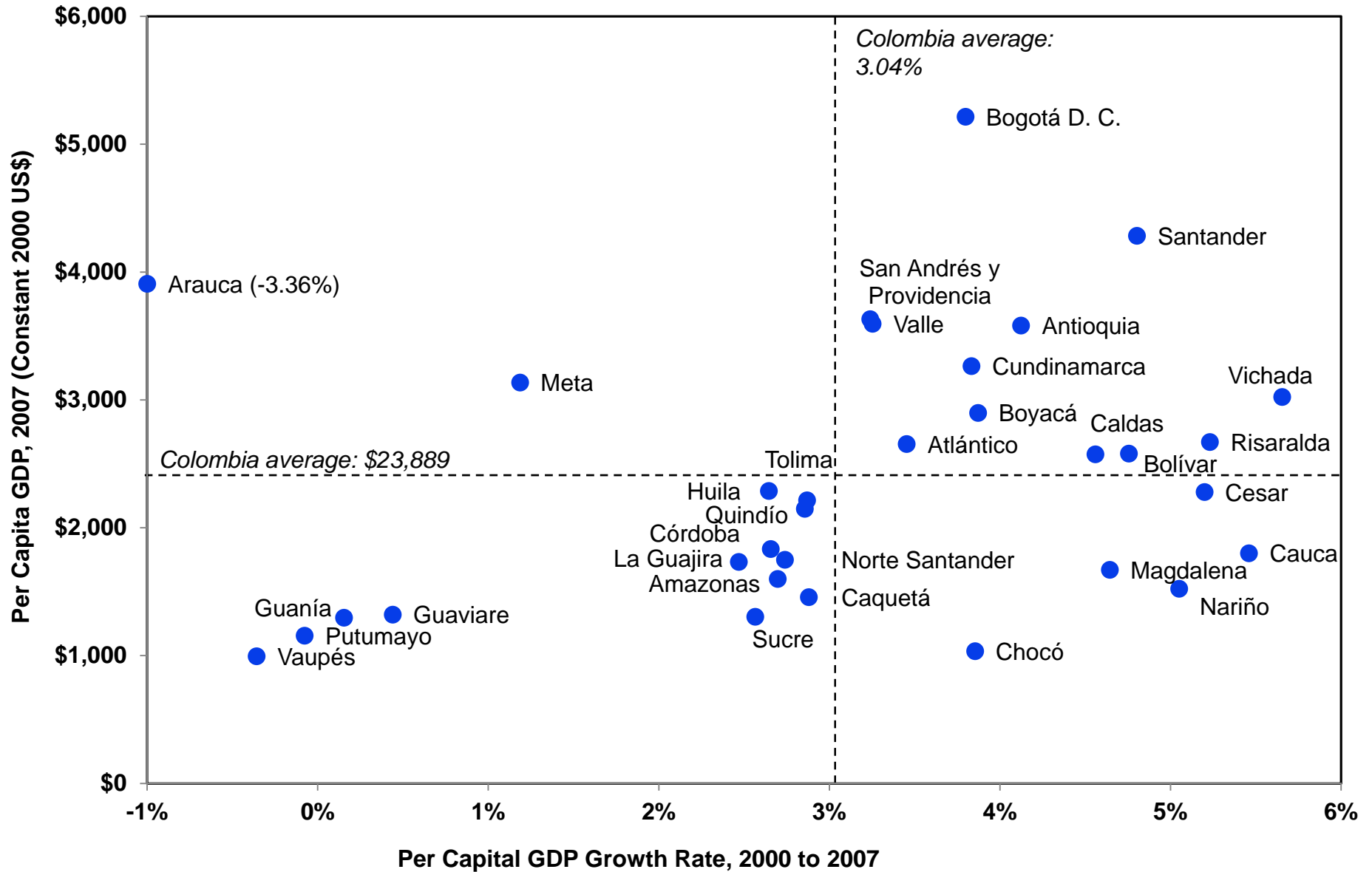


Regions and Competitiveness

- Economic performance **varies significantly** across sub-national regions (e.g., provinces, states, metropolitan areas)

Prosperity Performance

Colombian Departments, 2007



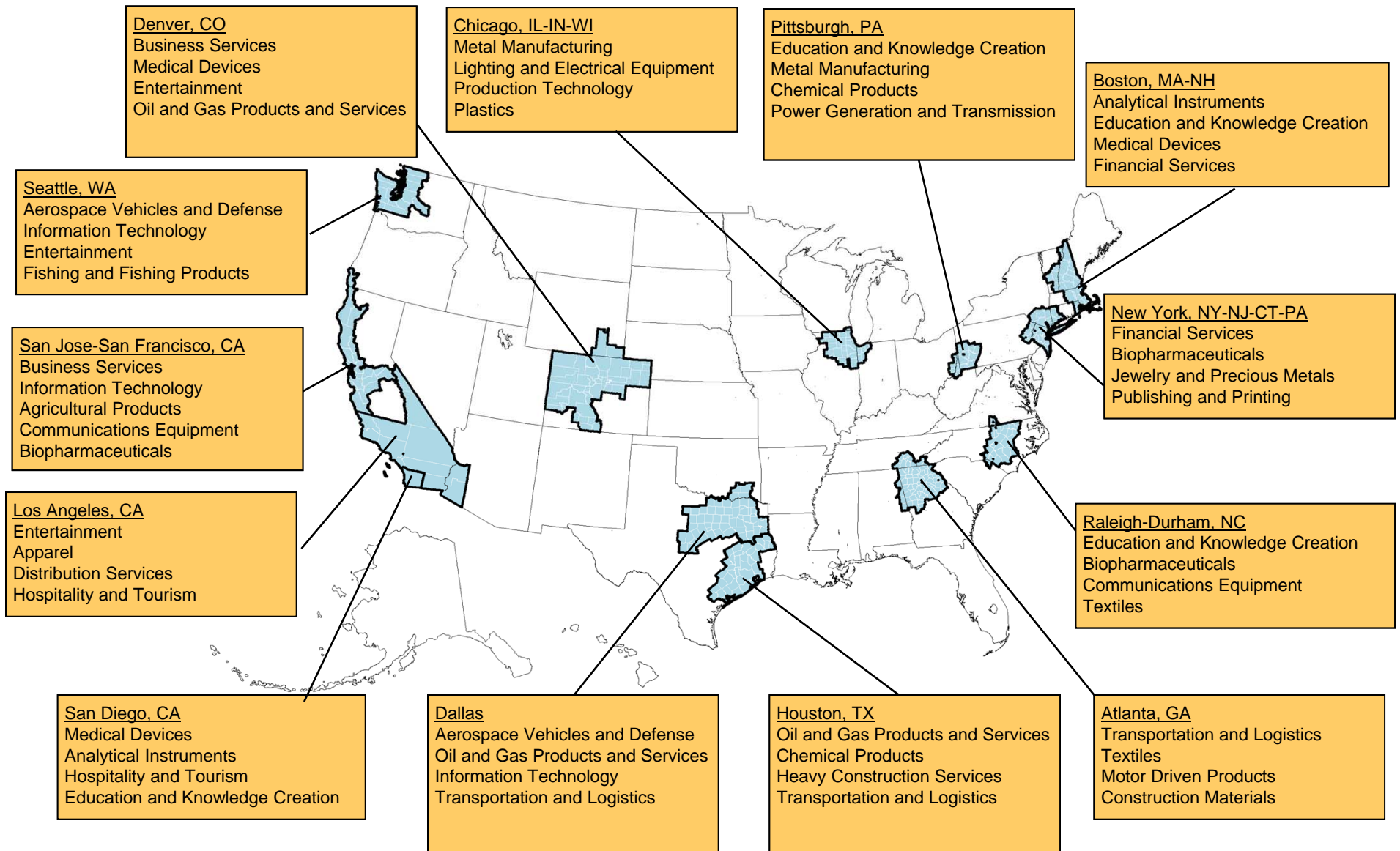
Source:

Regions and Competitiveness

- Economic performance **varies significantly** across sub-national regions (e.g., provinces, states, metropolitan areas)
- Many essential levers of competitiveness reside at the **regional level**
- Regions **specialize** in different sets of clusters

Specialization of Regional Economies

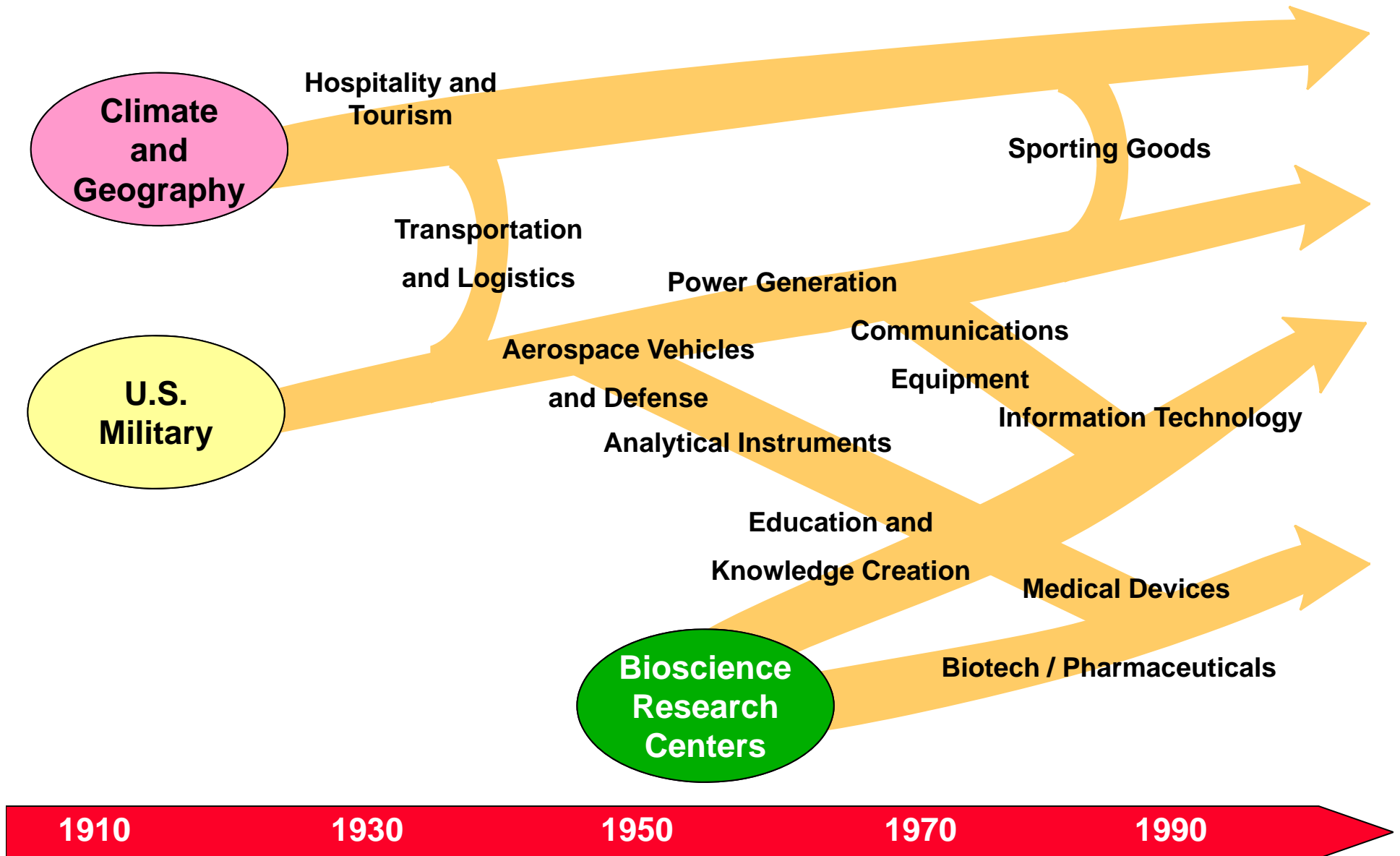
Leading Clusters by U.S. Economic Area, 2008



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

The Evolution of Regional Economies

San Diego



Regions and Competitiveness

- Economic performance **varies significantly** across sub-national regions (e.g., provinces, states, metropolitan areas)
- Many essential levers of competitiveness reside at the **regional level**
- Regions **specialize** in different sets of clusters
- **Cluster strength** directly impacts regional performance
- Each region needs its own distinctive **competitiveness strategy and action agenda**
- Improving competitiveness requires **effective policy collaboration** between regions and the national government



- **Decentralization** is important to foster regional specialization, internal competition, and greater government accountability
- Effective decentralization requires clarity on roles and responsibilities, and sufficient administrative **capacity at local and regional level**

Competitiveness and Integration with Neighboring Countries

East African Community



- Rwanda is a small country surrounded by larger neighbors
- Rwanda is landlocked but neighbors have access to ocean and major rivers
- Civil war in surrounding nations

Source: World Bank

Competitiveness and the Neighborhood

- Opening **trade and investment** among neighbors
 - Expands the **available** market
 - A nation's **neighbors** are its most natural trading and investment partners
 - The natural **path of internationalization** for local firms is the neighborhood
 - Open trade and investment make each **country** a more attractive location for investment
- Economic coordination to drive **improvements in the business environment**
 - Capture **synergies** in policy and infrastructure
 - Gain greater clout in **international negotiations**
- External agreements to help **overcome domestic political and economic barriers** to reform

Competitiveness Upgrading Among Neighbors

Capturing Synergies

Business Environment

Factor Conditions

- Improving the efficiency and interconnectivity of **transportation infrastructure**
- Enhancing regional **communications**
- Creating an efficient **energy** network
- Linking **financial markets**
- Opening the movement of students for **training** or **higher education**

Context for Strategy and Rivalry

- Eliminating **trade and investment barriers** within the region
- Simplifying and harmonizing **cross-border** regulations, paperwork and visas
- Coordinating **antitrust** and **competition policies**

Demand Conditions

- Harmonizing **environmental** and **energy standards**
- Harmonizing product **safety standards**
- Establishing reciprocal **consumer protection laws**
- Opening **government procurement** within the region

Related and Supporting Industries

- Facilitating cross-border **cluster upgrading**

Macroeconomic Policy

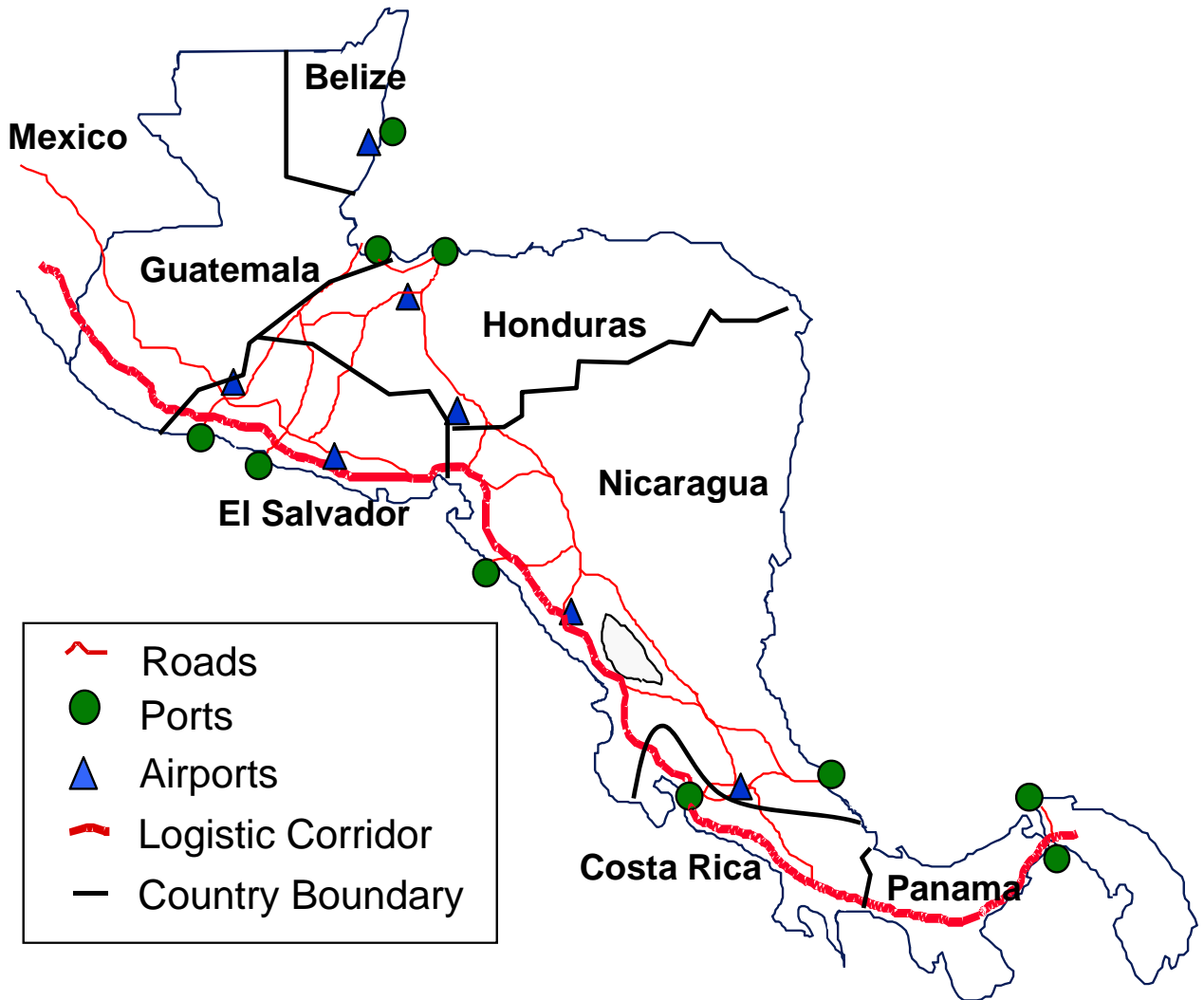
- Coordinating **macroeconomic** policies
- Coordinated **financial market rules**
- Strong regional **development bank**

Political Institutions and Governance

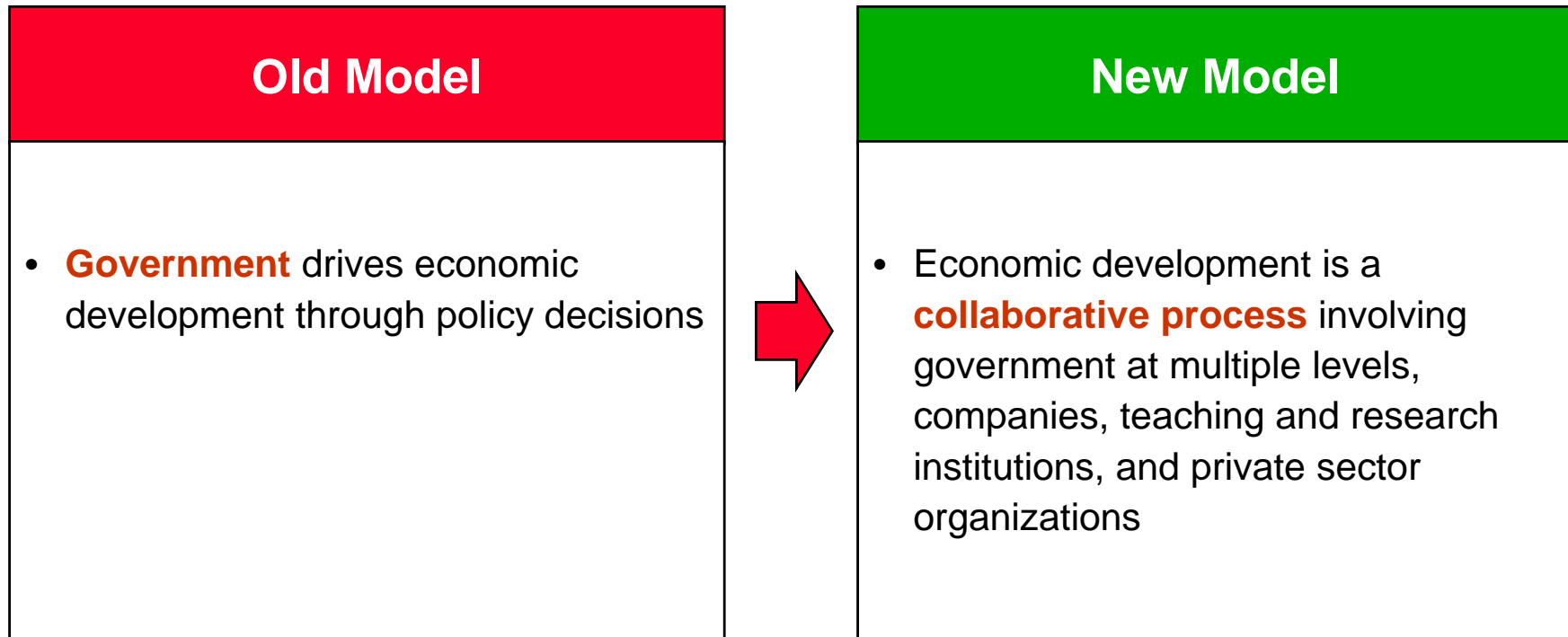
- Sharing **best practices** in government operations
- Creating regional **institutions**
 - e.g., disaster relief
 - Dispute resolution mechanisms
 - Economic statistics
- Developing a regional approach with **international organizations**

Strategy for Cross-National Regions

Central American Logistical Corridor



The Shifting Process of Economic Development



Creating a National Economic Strategy

National Value Proposition

- What is the **distinctive competitive position** of a nation given its location, legacy, existing strengths, and potential strengths?
 - What unique value as a business location?
 - For what types of activities and clusters?
 - And what roles with neighbors, the region, and the broader world?

Developing Unique Strengths

- What **elements of the business environment** can be unique strengths relative to peers/neighbors?
- What **existing** and **emerging clusters** represent local strengths?

Achieving and Maintaining Parity with Peers

- What **weaknesses** must be addressed to remove key constraints and achieve parity with peer countries?

- **Priorities** and **sequencing** are necessity in economic development

Strategic Issues for Rwanda

- Relatively small home market
- Landlocked with high logistical costs
- Shortages and high cost of energy
- Limited private sector and agricultural development
- Low urbanization and fragmentation of land use
- Lingering image problems
- Shortage of trained professionals in the workforce
- Continued instability in neighboring DRC

What is Unique About Rwanda?

- Established positions in tea, coffee, tourism with unique positions
- Favorable climate and growing conditions
- Central location on the African continent
- Stable oasis among a neighborhood of 290 million people
- Low corruption
- Stable, secure, and safe
- Environmental preservation
- Responsive government
- Streamlined business processes
- Social innovator in health, education, reconciliation, gender equality, and other areas
- Opportunity to lead the region in many services
- Disproportionate external interest in the country

Towards a Rwandan Strategic Positioning

- Safe, stable, transparent, and efficient hub for the region
- Among the easiest places to do business in Africa
- Kigali as a vibrant capital city with a high quality of life and cultural attractions
- Move to self-sufficiency in products involving high logistical costs to import
- High-value positions in specialty agricultural products and processing
- An increasingly diversified services economy including ICT
- A leader in social services and social entrepreneurship
- A catalyst for driving advancement in the East African Community

Rwanda's Competitiveness Agenda

Business Environment

Address critical constraints in the business environment

- Logistical infrastructure
- Energy cost and access
- Training and skills development
- Land property rights
- Urban centers outside of Kigali
- Management capacity
- Access to risk capital
- Effectiveness in attracting foreign investment

Cluster Development

Continue aggressive investment in public/private cluster development program to accelerate the growth and upgrading of Rwandan business

Established clusters

- Specialty Agriculture
- Tourism

Emerging clusters

- Food processing
- Logistics and Transport
- Construction
- ICT services
- Business services
- Health and other social services
- Arts and Culture

Private Sector

Upgrade private sector capabilities in strategic planning, operations, finance, and technology

Neighborhood

Lead economic coordination and integration with neighboring countries to address crucial weaknesses while maintaining Rwandan competitiveness