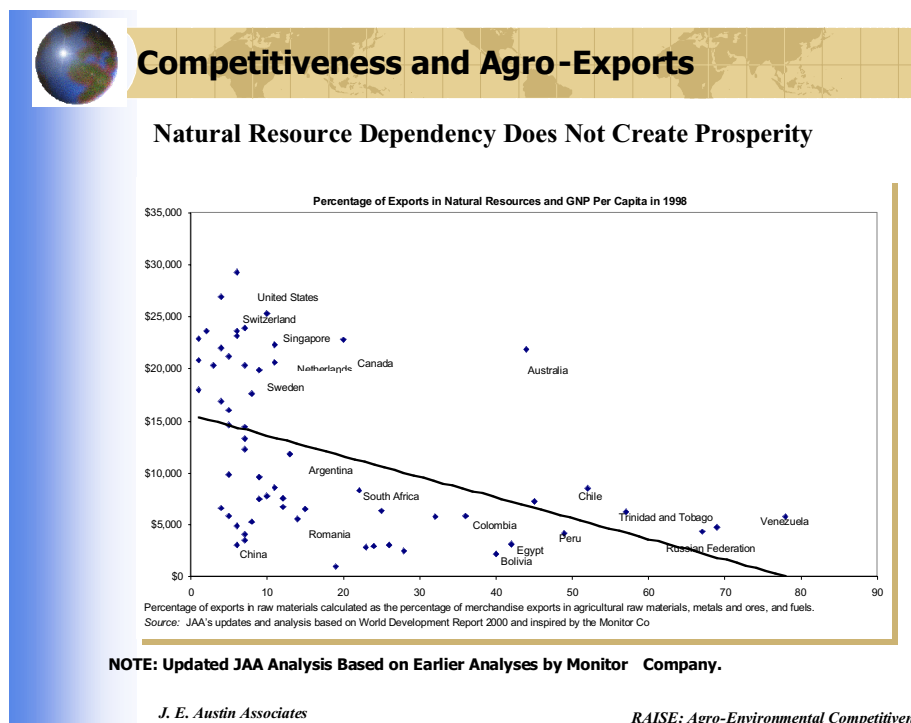


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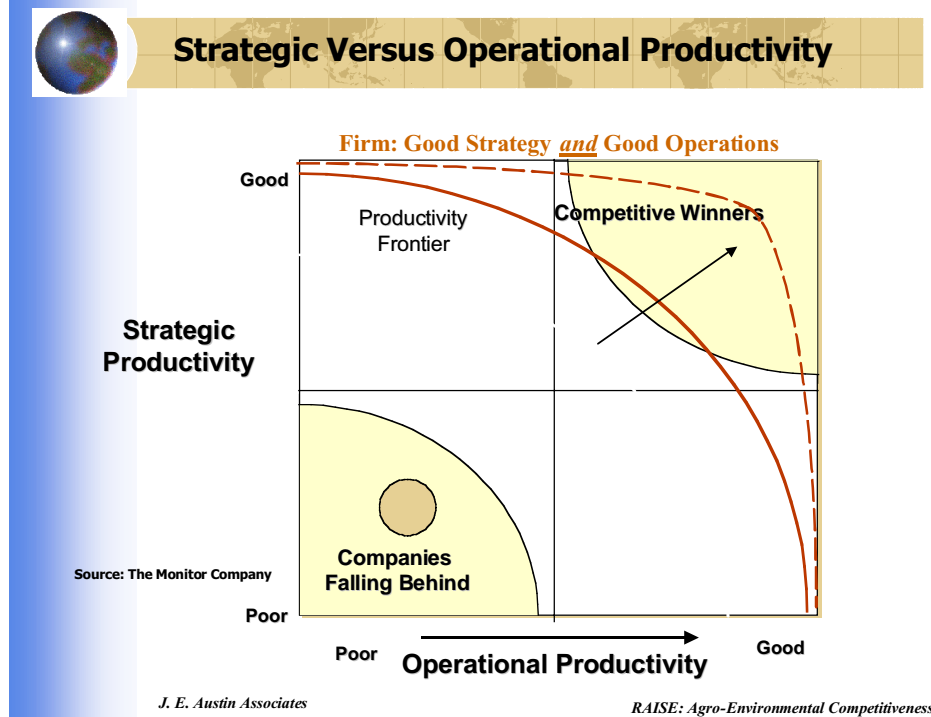
Recently, USAID has begun to support competitiveness initiatives in many countries, often at the request of the host country. USAID has been conducting competitiveness initiatives short or long term in over 15 countries. Long-term initiatives are underway in at least 6 countries. These have typically included agribusiness clusters. Competitiveness initiatives focus on market-driven approaches that reposition industries to take greater advantages of globalization and new free trade agreements. They focus not on one segment alone but on bringing together the entire industry cluster from input providers, producers, traders, manufacturers, exporters and related services. The competitiveness initiatives consciously avoid the over-emphasis on production by focusing not only on the entire value chain but also on related and supporting industries.



Competitiveness initiatives improve the country's strategic positioning and foster cluster development in the industries they analyze. In order to form a self-sustaining mechanism for raising the level of country competitiveness, the initiative establishes public-private dialogue. In some instances, the partnership facilitates the development of a competitiveness council. Such initiatives have already proven to be successful in Croatia and Sri Lanka, where competitiveness councils have already been formed.

Industry clusters can improve their productivity by focusing on operational improvements and should do so. However, they can also add value to the country by improving their capacity to choose *where and how* to compete. They can migrate to higher value products. They can innovate. They can introduce service components into their products. For example, J.E. Austin Associates has worked with two fish exporting clusters. One group has exported Nile Perch and Tilapia out of Lake Victoria, receiving on average \$6

per fish. The other group repositioned itself and identified tropical ornamental fish as a better market. They were receiving \$2,000 per fish on average at the time of the consultant visit. This also translates into improved productivity (output per worker). However, it is different from just doing things better. It is about doing better things.



The second misconception about competitiveness is that it is based on cheaper prices and lower wages. But competitive countries are those that are characterized by higher real wages over time. Exploitation of the environment is often another factor in this race for competitiveness. Another misconception is that competitiveness is related mainly to investment. But investment levels are not highly correlated with GDP growth. The *quality of investment* has proven to be just as important as the quantity of investment as illustrated in the following exhibit. High levels of investment, but low levels of economic growth characterized much of Eastern Europe and the former Soviet Union. Investment quality was poor.

The U.S. Competitiveness Policy Council, set up by Congress and functioning from 1991-1997, defined competitiveness as the economy's ability to produce goods and services that meet the test of international markets while its citizens earn a standard of living that is both rising and sustainable over the long run.

Michael Porter, a noted expert on competitiveness, defines it as increased productivity that results in improvements in living standards for the average person.

The Inter-American Development Bank, which devoted its annual report to the theme of competitiveness, defines it as the quality of the environment for investment and for increasing productivity in a climate of macroeconomic stability and integration into the international economy.