

# Competitiveness through an industry lens

Washington DC, 22 January 2008

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# Why export competitiveness is so important

- Best way to get the \$ necessary to import the goods and machines (Japanese waves)
- To benefit from and be exposed to global progress and competition
- Performance is easy to assess
- Political economy is easier (the country against the rest of the world)
- Spillovers/linkages into the rest of the economy
- Great wedge into tricky domestic policy issues (e.g. labor, land and electricity)

# Practical definition of export competitiveness

Competitiveness = **productivity**/costs

and by the way:

GDP = **productivity** X inputs

**Productivity** = value added/inputs

(productivity captures quality and innovation)

# Analyzing competitiveness...

- ...in existing products/services
  - Benchmark productivity and key costs along main steps of value chain
  - Explain reasons for differences through analysis of incentive framework (e.g. competition) and factor markets (e.g. labor, capital and land)
- ...in potentially new products/services
  - Understand market requirements in detail
  - Consider proactive role of government if big information gaps and coordination issues

# Traditional tools useful but insufficient

## Traditional tools and what they offer:

- **Incentive framework** analysis (e.g. inflation, interest rates, trade policies, restrictions to FDI, taxes, government ownership): extent to which economy is liberalized and privatized **<critical first step that we miss or do poorly>**
- **Financial market** analysis (FSAP): extent and effectiveness of intermediation
- **Labor market** analysis: skills, wages, mobility, regulations
- **Gender growth assessments**: women labor can be a key source of competitiveness
- **Enterprise Surveys**: costs of electricity, corruption, crime, transportation, info on wages and productivity (beware of perception results – e.g. WEF)
- **Doing Business**: direct costs of specific cross-cutting policy issues
- **Trade Logistic Surveys**: issues with backbone services
- **Rodrik/Hausmann binding constraints to growth** methodology: useful to rank macro/mezo constraints but not micro (industry specific ones)

## What they do not offer:

- Main reasons for **productivity differentials** (specific to each industry/location)
- Understanding of **product market** policy issues (industry specific)
- Understanding of **land market** policy issues
- Reasons for **differences in savings** (retained earnings)
- Reasons for **wage differentials** (e.g. China vs Africa)
- The main potential **sources of growth** in the economy (industries/locations)
- What it takes to **get an industry off the ground** from not much (minimum integrated export platform – smart proactive government actions)

# Explaining productivity differences

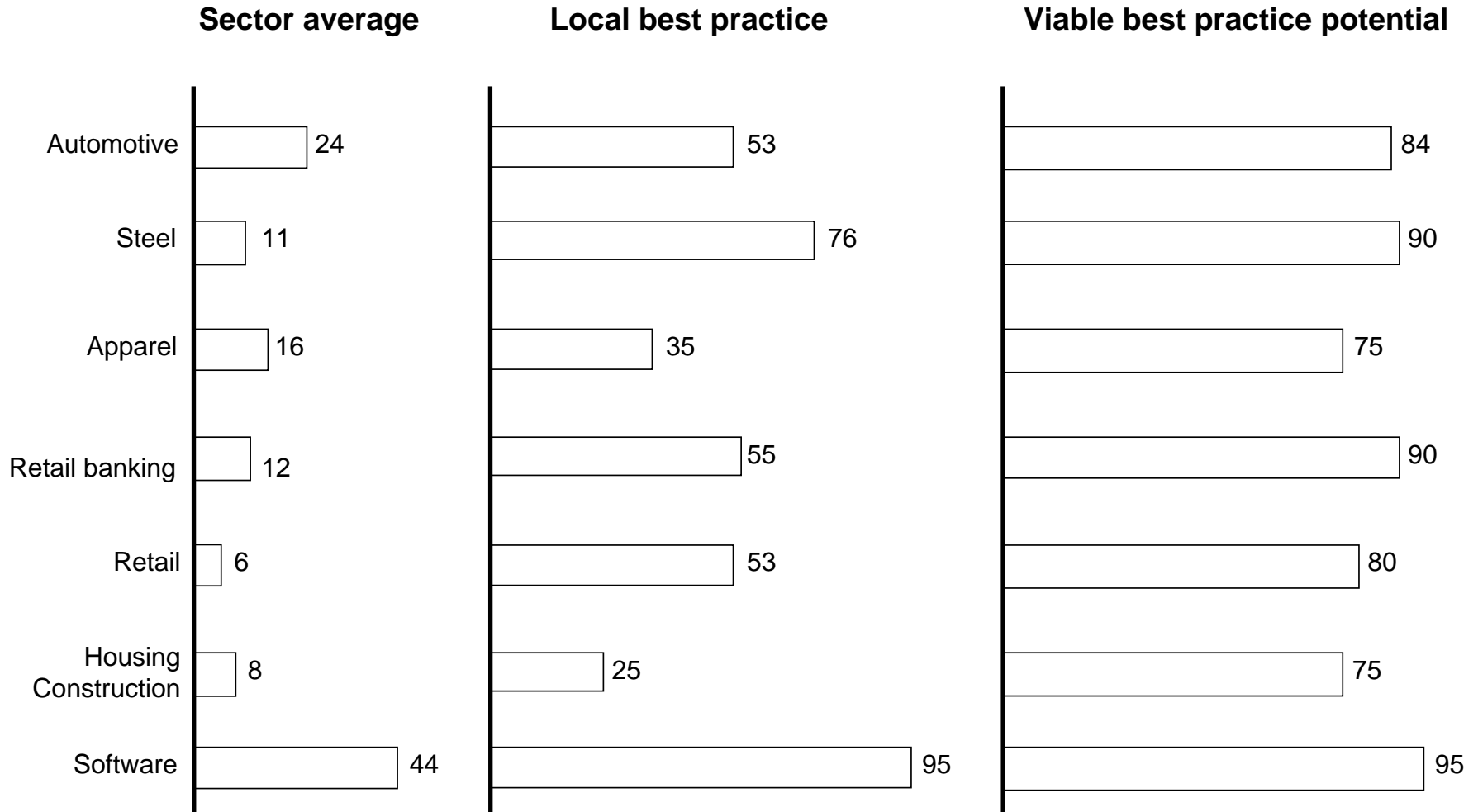
- **Step 1:** benchmarking productivity by industry - enterprise surveys have improving productivity data (apparel, food processing and retail)
- **Step 2:** understanding the productivity gaps at the operational level (e.g. scale, organization) – adjusting for differences in relative costs of labor and capital
- **Step 3:** understanding why managers do not improve operations – lack of skills?, lack of motivation?, direct impediments? + understanding why leading investors are not investing
- **Step 4:** understanding what in the external environment does not lead to bad managers going bankrupt or being replaced, and what prevent good managers from improving and expanding operations

# Framework to analyze productivity gaps at operational level

- **Scale**
- **Capital intensity**
- **Technology**
- **Capacity utilization**
- **Energy efficiency**
- **Waste levels**
- **Excess workers**
- **Organization of functions and tasks**
- **Labor skills**
- **Supplier relations**
- **Marketing/pricing**
- **Quality**

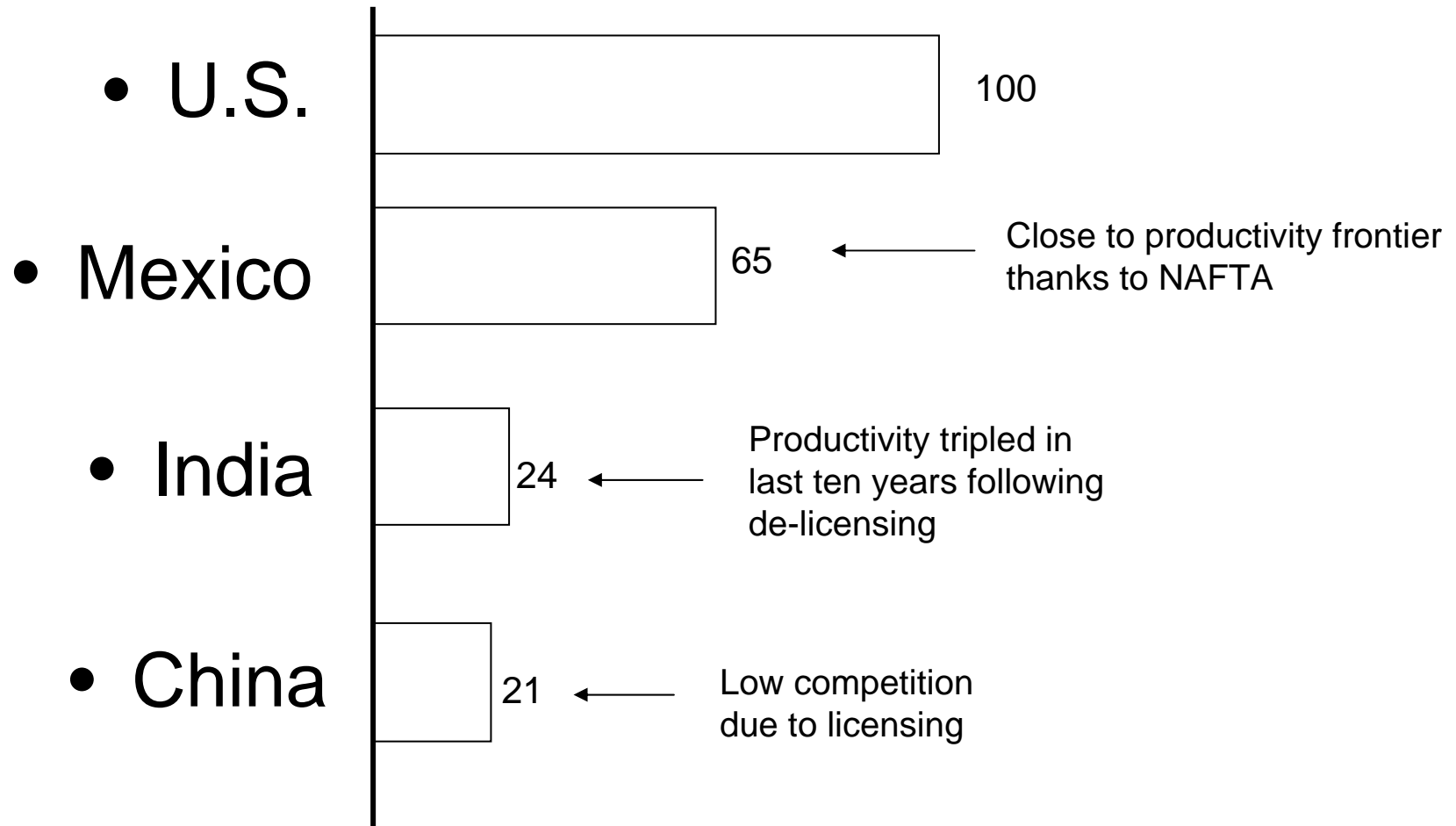
**<by type of players – e.g. large formal vs small informal firms>**

# BIG DIFFERENCES IN RELATIVE SECTOR PRODUCTIVITIES - INDIA



# LABOR PRODUCTIVITY IN THE AUTO SECTOR

Indexed to U.S. productivity = 100

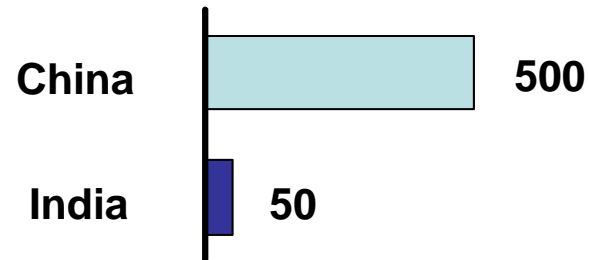


# Apparel

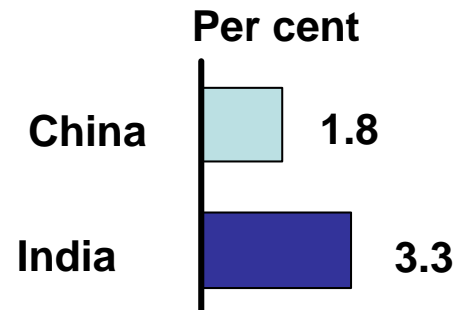
- **Market share guaranteed by quotas**
- **Small-scale industry reservation**
- **Non-level excise duties**



**Low scale machines per factory**



**Average rejection level**



# Findings from recent WBG industry work

- Export subsidies combined with import tariffs in Nigeria's apparel value chain
- Mining rights in Pakistan - pink roads
- Fishing rights in Senegal
- Certification process for Benin's shrimp
- Restrictions on olive imports in Tunisia
- Price regulations on Tunisian tomatoes

# The main drivers of productivity differences are competition related and industry specific

## Industry specific policy issues

- Trade barriers (quotas and tariffs)
- Non tariff trade barriers (customs, standards)
- Licensing restrictions – e.g. to FDI
- Restrictions on prices
- Restrictions on products and services
- Inadequate standards (health, CSR)
- Government subsidies
- Government procurements
- Intellectual property rights
- Concession rights for secured and sustainable exploitation of natural resources (mining, forestry, fishing)

## Enforcement issues

- Unequal enforcement of industry specific policies
- Unequal enforcement of taxes
- Unequal enforcement of labor regulations
- Unequal access to (government) land
- Unequal access to loans from state-owned banks
- Unequal access to public infrastructure
- Unequal access to government provided energy
- Unequal access to and treatment by judiciary

# Why competition is so important

- 90% of managers are not profit (meaning productivity) maximizers
- Fair and intense competition with the best leaves them the choice between catching up or giving up
- Product market competition is the main mechanism by which capital is re-allocated from low productivity to high productivity companies (e.g. retained earnings) – competition in banking also key (e.g. CIGAP findings)
- Competition is the main driver of innovation
- Competition pushes businesses to push for reforms
- Competition between countries also works...
- McKinsey results on competition confirmed by OECD and Enterprise Survey analysis
- Competition and free trade are fully consistent with the poverty reduction/equal opportunity agenda and the best way to attack rents and corruption

**Competition issues can only be analyzed at the industry level**

# Huge and growing opportunity

**Labor productivity**  
Percent of U.S.

50

45

40

35

30

25

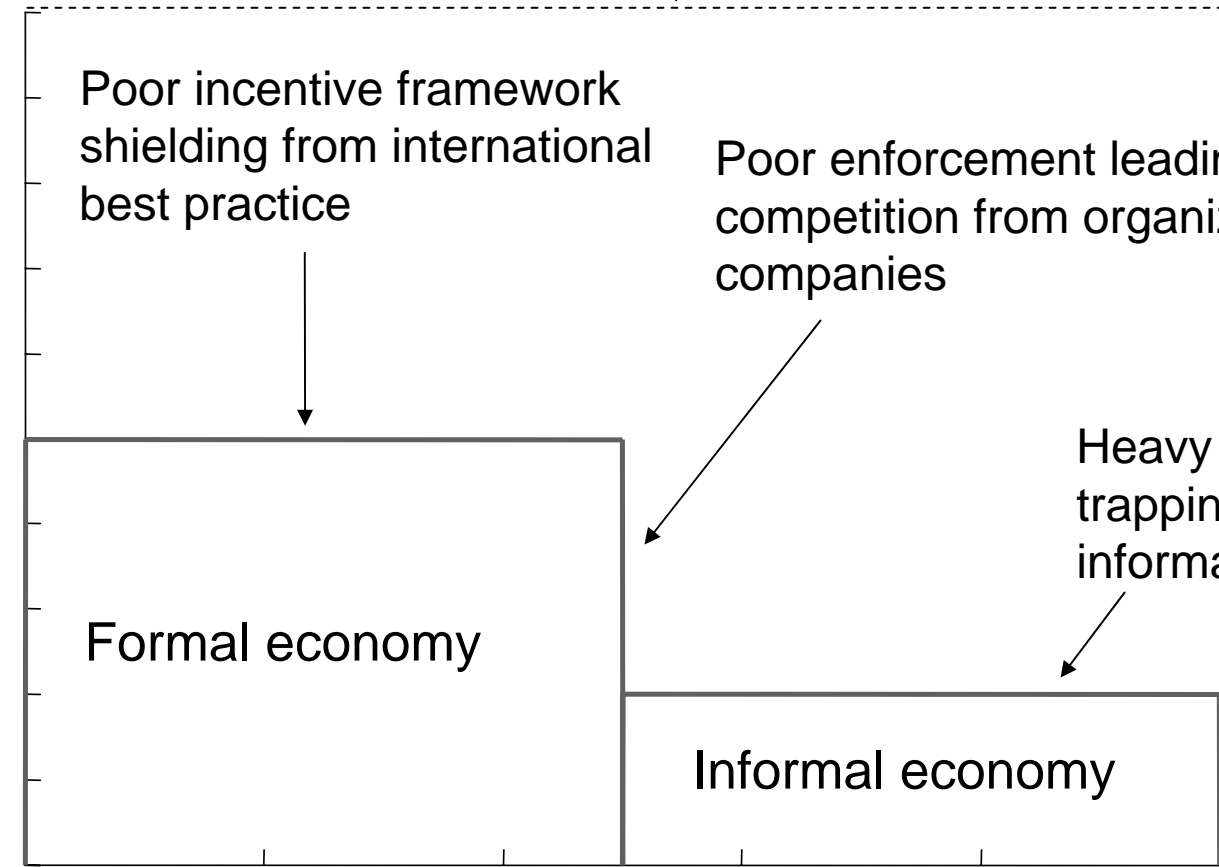
20

15

10

5

0



20 40 60 80 100  
**Employment share**  
Percent

Percent

Source: McKinsey Global Institute

# Which industries to analyze

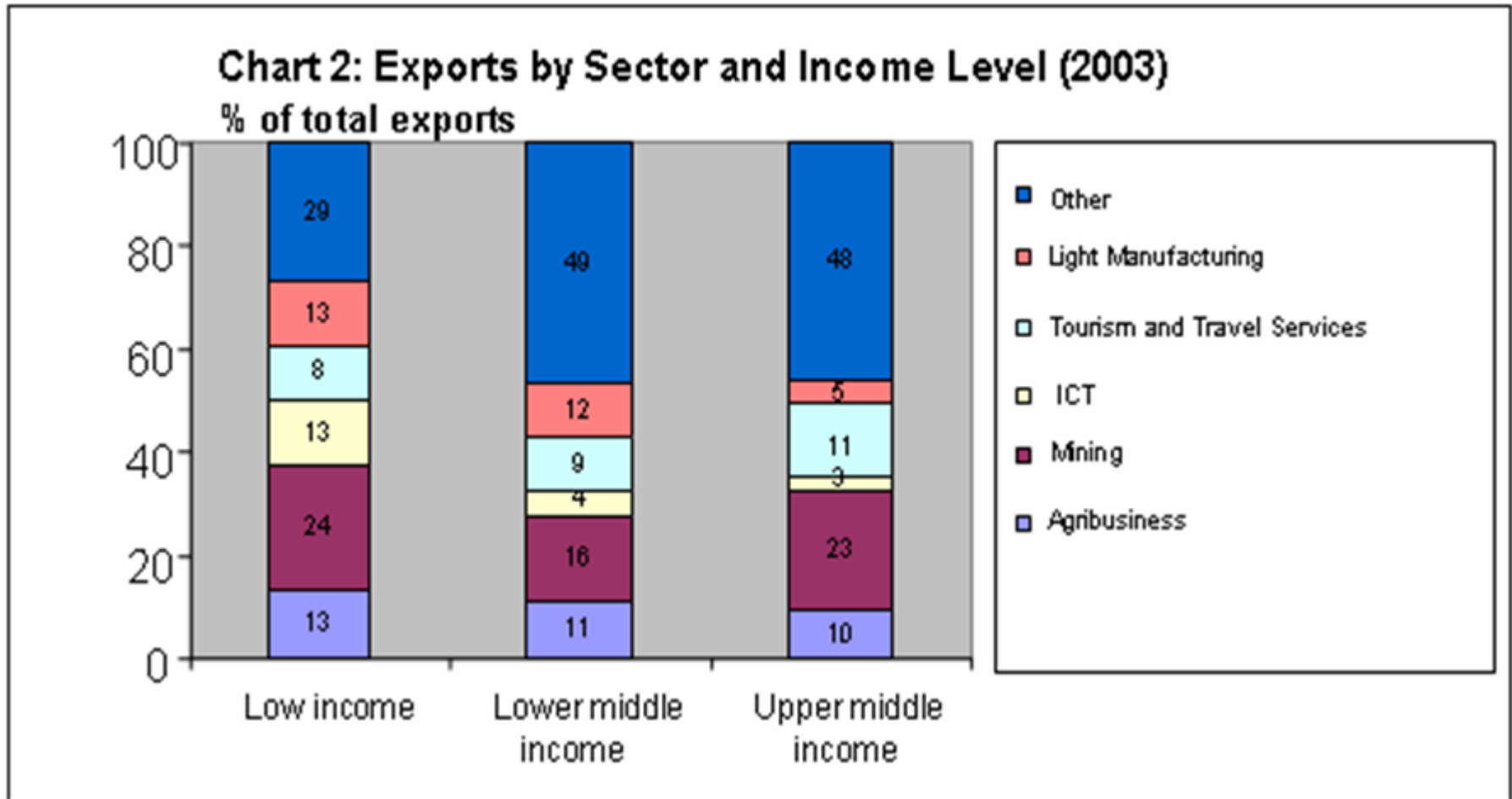
## **Main export industry groups** to kickstart least developed countries

- Natural resources (incl. forests and fishing)
- Agrobusiness (incl. aquaculture and biofuels)
- Light manufacturing (incl. apparel and electronics)
- Tourism
- Remote services

## **Main enablers/domestic industries**

- Energy
- Water
- Telecom
- Transportation
- Banking
- Construction
- Construction materials
- Retail/wholesale
- Agriculture
- Professional services
- Education
- Healthcare

# Main export industry groups



Source: World Bank: UN COMTRADE and FIAS staff calculations

# Key success factors and typical issues – natural resources

- Survey of natural resources
- Secured property rights ensuring sustainable exploitation
- Fair and stable contractual arrangements
- Transparency of negotiation process and accountability
- Good governance around fiscal revenues and expenditures
- Product standards (regulation and enforcement)
- Control over smuggling
- Logistics and costs of importing equipment
- Linkages (infrastructure, suppliers)
- Co-existence with artisanal mining
- Local community development
- Environment protection

# Key success factors and typical issues – agrobusiness

- Access to market (trade agreements, standards)
- Trade facilitation (transport, customs)
- No restrictions on prices and FDI
- R&D – Intellectual Property Rights - PPPs
- Competitive input markets (fertilizers, seeds)
- Extension services
- Contract farming
- Governance of farmers' associations
- Infrastructure (access roads, irrigation)
- Land markets (e.g. pluri annual crops)

# Key success factors and typical issues – light manufacturing

- Access to market (trade agreements, standards)
- Flexible labor markets
- No restrictions on FDI
- Efficient trade logistics (transport, customs)
- Low cost of utilities
- Competitive tax regime
- Low admin costs
- Corporate Social Responsibility

# Key success factors and typical issues – remote services

- Telecom infrastructure and policies
- Access to “intelligent” buildings
- Education – e.g. IT and language skills
- Flexible labor markets
- Intellectual Property Rights

# Key success factors and typical issues – tourism

- Emigration policies
  - Transportation infrastructure and policies
  - Security
  - Health
  - Site management
  - Competitive hotels – e.g. internet connections, efficient construction
  - Competitive retail
  - Access to land
- + KSF for new tourism segments – ecotourism, business, health, culture, education, retirement..

# Tackling tricky domestic issues in the name of competitiveness

- India reforming utilities as a result of pressure from manufacturers following the lowering of import tariffs
- Morocco modernizing its education system to catch up with Tunisia in remote services
- Rwanda reforming its land markets for tourism
- China using export oriented special economic zones to test new domestic policies (e.g. land)

# Being proactive

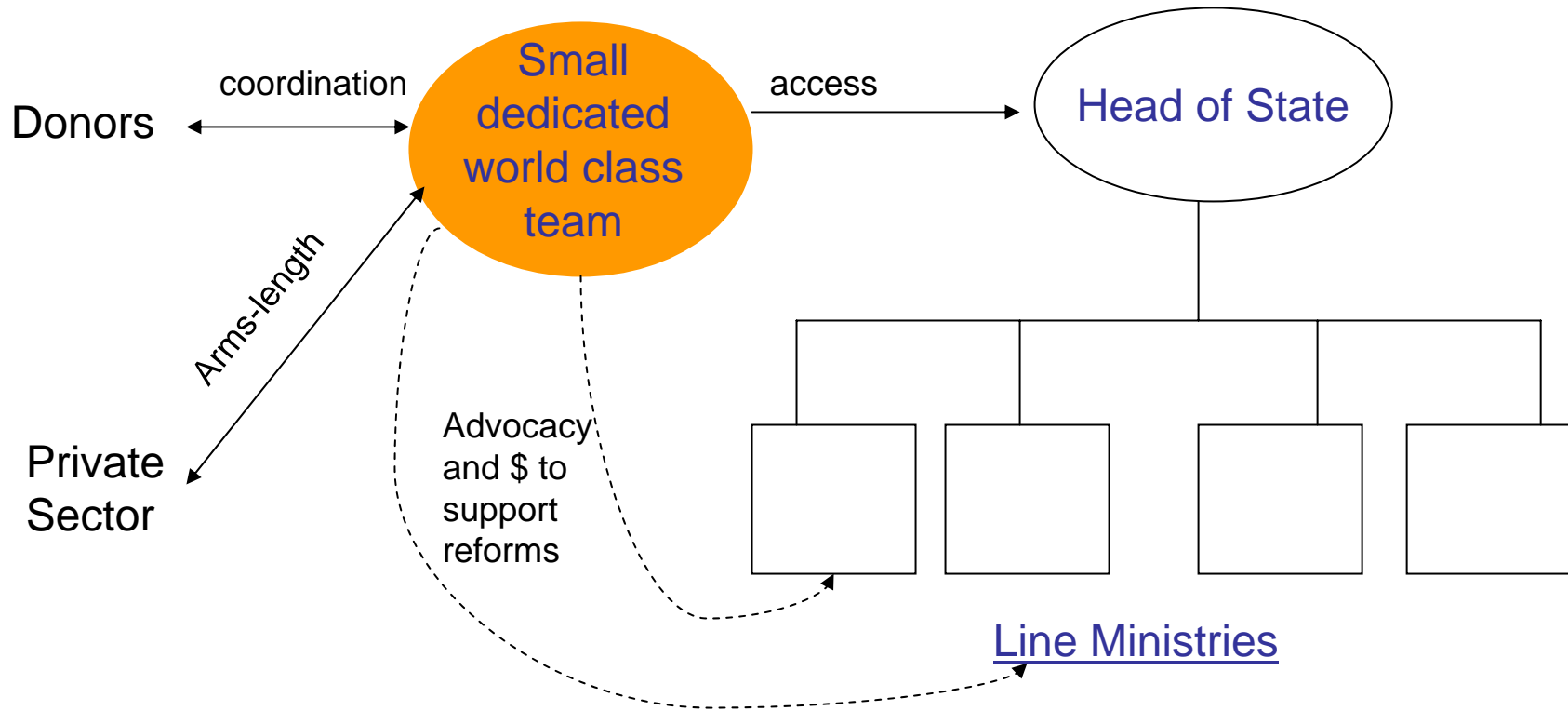
- Identifying the key sources of growth (industries/locations) – not rocket science for least developed countries
- Understanding the key success factors and issues for each (including in related industries) – starting with analyzing the incentive frameworks
- Targeting leading international investors (incl. diaspora and South-South) – e.g. Dubai developers
- A smart little push may be required...Minimum Integrated Trade Platform for least developed countries...but let's not treat government/incentive framework failures as market failures (e.g. Tunisia tomatoes)

# Getting organized internally

- Reaching out to Bank industry groups – mining, ICT, agriculture, transportation, infrastructure, energy, finance, education and health
- Filling the gaps – tourism, agrobusiness, light manufacturing, construction, retail and professional services (IFC can help)
- For each industry:
  - checklist of key success factors and policy issues
  - benchmarks on productivity, costs and prices
  - case studies on industries and policies
  - rosters of leading experts and investors
  - model consultant TORs

**<Export competitiveness thematic group is a great start>**

# Helping our clients getting organized – top level reform teams



Cape Verde, Botswana, Mauritius, Singapore, Taiwan, Malaysia (1964 WB project)