

# 4. Global Competitiveness

## WHAT ARE THE KEY DRIVERS TO COMPETITIVENESS?

### Expanding the Competitiveness Conceptual Framework

As described more fully in Salinger (2001), the term “competitiveness” is used in different ways by different writers. It is sometimes used interchangeably with the economic notion of comparative advantage, referring to the economic cost of production of a good relative to an international reference price (and may be referred to as “cost competitiveness”), or it may be used in an even narrower sense to evaluate the financial performance of firms (Cockburn et al. 1996; Siggel 2003). It may also be used interchangeably with technical efficiency or productivity (Biggs and Raturi 1997). Some researchers have used it to measure the economic performance of industries and firms within countries (Wangwe 1995), localities (Kanter 1995), or countries (World Economic Forum (WEF) *various*).

In the management and business literature, the term competitiveness is a private sector development concept, referring to the ability of firms to master a range of qualitative management concepts within the industry or broader cluster in which they operate or at the national level (Porter 1990; Fairbanks and Lindsay 1997; Salinger 2003).

**Comparative advantage, or cost competitiveness**, is particularly important to producers and traders of non-differentiated commodities. However, even in supposedly “non-differentiated” commodity markets, where one might think that cost competitiveness dominates over qualitative variables, technical, management, and cluster collaboration issues come into play. Costs are a function of productivity (and thus *inter alia* of research and development, innovation, technology, and management skill in combining inputs and factors of production as efficiently as possible), and sales depend on the efficiency with which commodities are financed, marketed, and transported to their ultimate consumers. As products and services become increasingly heterogeneous, these qualitative dimensions of competitiveness become increasingly more important.

Porter’s familiar competitiveness diamond depicts the competitiveness conditions required for clusters (core firms and supporting industries) to be successful. With regard to the *context for firm strategy and rivalry*, there must be a local context and rules that encourage research and development investment, innovation, and sustained upgrading (e.g., intellectual property protection). Open and vigorous competition among locally-based rivals is essential. High quality, specialized *factors and inputs* – e.g., human resources, capital resources, physical infrastructure, administrative infrastructure, information infrastructure, scientific and technological infrastructure, natural resources – should be available to firms. Optimal *demand conditions* include a core of sophisticated and demanding local customers, local customer needs that anticipate those elsewhere, and unusual local demand in specialized segments that can be served nationally and globally. These conditions are reinforced through the presence of capable, locally-based *related and supporting industries*, which collaborate with key firms as part of clusters, instead of operating independently as isolated industries.

**Broader qualitative factors** are also important in the competitiveness equation. Examples of factors that enter the competitiveness equation include understanding the size, degree of capitalization, extent of outreach, and product mix of firms; position of firms within the cluster; access to/use of various capital and inputs; access to financing and foreign exchange; degree of infrastructure development; export and marketing strategies; strategies for workforce development; innovations with respect to product development, manufacturing, and marketing processes; and cluster-level behavior with respect to policy makers (Salinger 2003).

For example, in deciding where to invest overseas and/or with whom to enter into commercial relationships, American electronics and textile firms evaluate national factors to narrow down the number of eligible country platforms, before pursuing individual firms with which they might do business (McMillan, Pandolfi, and Salinger 1999). Electronics firms report that cheap labor is no longer sufficient to attract FDI. As workforces become increasingly sophisticated around the world, new opportunities for developing countries are not in traditional, labor-intensive manufacturing for export opportunities, but rather in a host of new engineering and manufacturing opportunities, as manufacturing becomes increasingly distinct from innovation and market intelligence activities. Textile firms report that in addition to costs and taxes, other factors that determine their selection of developing country partners are local labor and management skills, production and marketing infrastructure, the regulatory and business environment, U.S. trade relations with the country under consideration, and the reputation of the country and local partner firms for labor conditions.

In addition, experience in successful economies suggests that **effective workforce development systems** (WFD) are also needed to support competitive cluster growth (Aring 2002; Aring, Belghazi, Bouzri, Salinger 2003). Only when a thriving workforce development system – connecting education and training institutions, employers, government policy makers, and workers – is in place can clusters hope to maximize their competitiveness. In recognition of this dynamic, Aring’s workforce development diamond adapts Porter’s competitiveness diamond to include education and training institutions as one of the four points, in addition to market conditions and the policy environment, workforce supply, and employers. Workforce development strategies may include strengthening linkages among these actors, working with employers to develop skills certification for specific clusters, developing lifelong learning systems, encouraging productivity and quality through industry-university R&D partnerships, extending competitiveness services through agricultural and industrial extension outreach by technical colleges and training institutes, fostering cluster growth, addressing youth employment challenges, or building entrepreneurship programs.<sup>8</sup>

For developing country businesses to understand how to strategize for global competitiveness, they need an **understanding of global value-chains** and how they are structured in their particular industries or clusters.<sup>9</sup> The global value-chain approach (sometimes

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<sup>8</sup> For further information on workforce development-related activities, see USAID’s Global Workforce in Transition (GWIT) project website, [www.gwit.us/overview.asp](http://www.gwit.us/overview.asp).

<sup>9</sup> The term “cluster” and the notion of “sector” both imply a web of related enterprises, encompassing input suppliers, skills providers, financial institutions, producers, marketing agents, processors, advertising firms, professional associations, distributors, government agencies, research institutions, consulting firms, public relations/marketing companies, wholesalers, retailers, and so forth, all working on a related set of products and services. The difference between “cluster” and “sector” is one of location (clusters are usually geographically proximate) as well as function. Businesses organized in clusters tend to exhibit collaborative behaviors within the commodity chain – resulting *inter alia* in lower input costs, better qualified and educated workers, and improved

referred to as *analyse de filière* in French, or as subsector analysis) analyzes the structure and behavior of the entire chain including factor/input procurement, production, collection, processing, marketing, and wholesale and retail distribution. Most importantly, value-chain analysis identifies the pivotal power points in the chain that maximize control over profits.<sup>10</sup> Knowing how global value-chains are structured and operate gives developing country enterprises insights into how the local or regional cluster can strategize to attract the attention of global value-chain clusters, seek to become integrated with them, or even how to compete with them.

A useful distinction is made between two types of value-chains (Gereffi and Korzeniewicz 1994; Campbell and Parisotto 1995). In some industries, “producer-driven” value-chains are dominated by capital-intensive product research and design and manufacture. For example, in the electronics and automobile industries, the manufacturer plays the pivotal role in establishing the terms and conditions of production in components and supply industries, as well as final distribution. In other industries, “buyer-driven” value-chains are characterized by low barriers to entry in manufacture, but high barriers to entry in managing market relationships relating to sourcing and distribution. In the clothing and footwear industries, for example, it is thus the distribution channel – the creator of the branded products (e.g., Nike, The Gap) or the department stores (e.g., Federated Department Stores, Marks and Spencer, Wal-Mart) – that drive production.

### Drivers of Competitiveness in SADC

This chapter is concerned with southern African firms’ abilities to become increasingly integrated with regional and global markets. Consequently, it focuses on potential areas of intervention by USAID that will ultimately lead to 1) the creation by governments of environments that promote cost and qualitative competitiveness and 2) investments by firms and/or clusters of firms that implement strategies to achieve these goals.

Realization of these objectives requires attention *inter alia* to the following cross-cutting issues that drive competitiveness, namely

- technical skills, research, and innovation;
- entrepreneurship and management skills;
- institutional depth and publicly financed social protection;
- infrastructure modernization and integration; and
- institutions of trade facilitation.

**Technical skills** are essential. Whether the objective is to improve the productivity of Tanzanian cotton to be used as an input in South Africa’s textile milling sector or to improve the quality of Mozambican specialty horticulture to be processed for regional and global export, SADC industries need advanced training to adapt or introduce new products, production methods, processing techniques, manufacturing systems, packaging technologies, information and communication networks, and so forth. Education and training institutions need to be

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logistical efficiency (Fairbanks and Lindsay, 1997) – and vis-à-vis other stakeholders in the competitiveness diamond.

<sup>10</sup> As discussed in Sturgeon (2000), Gereffi et al. (2002), and Kaplinsky and Morris (2003).

communicating with professional associations in order to understand what employers need for a competitive workforce. In Morocco, a recent workforce assessment found many donors supporting increased professional training activities on the supply side, with only a few professional associations involved to any degree with the articulation of technical, management, and language skills requirements (Salinger, Aring, Belghazi, Bouzri 2003).

**Entrepreneurship and management skills** are also vitally important. Salinger and Barry (1996) found that while a long tradition of skilled trading has existed in West Africa, whereby business men and women take advantage of spatial, temporal, and policy-induced *arbitrage opportunities*, far fewer business men and women understand how to assess *market opportunities for manufacturing new products* and grow companies to take advantage of them. In Africa, local markets may offer more profitable arbitrage or rent-seeking opportunities for generating wealth than do opportunities available via export-oriented manufacturing. How local economic actors respond to economic incentives is also fashioned by the sociology of the business culture in which they operate. There may be something about “African” culture that helps to explain Africa’s weak economic performance with respect to private sector development, trade, and investment.<sup>11</sup>

Part of the explanation lies in the lack of business or entrepreneurship training available. Private sectors in many developing countries are typically characterized by a plethora of informal, micro-enterprises and a handful of large, formal firms (often state-owned or privatized only in the last ten years), and very little in between. Yet the small business sector can be a significant generator of employment. In Zambia, for example, approximately 18 percent of the workforce is employed in the micro/small business sector, of which half is women and just over half are based in rural areas (Parker 1996). In a study of the “missing middle” of small/medium-sized enterprises (SMEs) in developing countries, UNCTAD (2001) suggests that attention needs to be paid to micro-level approaches, coupled with increased public-private sector dialogue, to facilitate the development of SMEs and help them navigate the transition to new market conditions.

Another part of the explanation lies with **weak institutions**. Collier and Gunning (1999) review the growth literature related to Africa and highlight a number of possible explanations for why African countries grow more slowly than others. These include a lack of “social capital” (by which is meant the web of institutions and associations which connect households and firms and promote growth), lack of openness to trade, geography and risk factors, deficient public services (civil service, education, infrastructure), lack of financial depth, and high dependency on aid transfers. Nevertheless, even after accounting for these factors, the African dummy variable on certain slopes and the intercept remains significant, indicating that other factors must also be at work.

Linked to weak institutions are **inadequacies in African financial markets**. Inadequate access to credit is a proverbial problem in developing countries. As a consequence, the family (and by extension, the ethnic clan) becomes the primary means for securing and allocating savings and investment. Even where micro-finance programs provide capital for start-up of

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<sup>11</sup> It is recognized that treating all of sub-Saharan Africa as if it shared one “mega-culture” verges on the absurd. Across the continent, different ethnic backgrounds, different climatic and geographical endowments, and different colonial histories with respect to both politics and religion, have yielded different regional, national, and sub-national cultures. Yet whether speaking of “East Asian miracles” (World Bank 1993) or “socio-cultural fitness” (Wilhelms 1998), regional dummy variables are often either implicitly or explicitly incorporated into our searches for explanations.

micro-enterprises, credit for expansion into formal small- or medium-sized enterprises is often unavailable. The **inadequacy of social protection institutions** to help families manage the risks of market uncertainty, health, climate, old age, etc. means that private capital must first be shared among family/clan members before it can be allocated to external productive purposes. In order to improve incentives for private investment and entrepreneurship, new systems of social protection will have to be introduced to help families manage risk (Salinger 2001; Klein 2003). De Soto argues, in addition, that mechanisms need to be found to allow the assets of the poor – which he claims are not insubstantial – to be collateralized (Woodruff 2001).<sup>12</sup>

Little of the present literature on African economic growth potential and constraints acknowledges that Africa's high-risk natural environment has led to the evolution of cultural practices and institutions that constrain African businesses from functioning efficiently along the lines of western-managed firms. Sachs (1999) talks about the effect of Africa's climate and geography risks on its (lack of) agricultural progress. However, there is also a link between **risk, culture, and business entrepreneurship** in Africa. Recognizing the social challenges facing African entrepreneurs today may help to identify areas that need strengthening in order to favor African participation in globalization. This opens up a huge area for research. Greater emphasis must be paid in microeconomic case study work to understanding the socio-cultural factors which have helped to change the attitudes of those African business men and women who are moving beyond personal networks into global markets, increasing their market outreach by relying on depersonalized markets of suppliers and clients.

The **physical infrastructure** requirements for global competitiveness are well known. They include access to low-cost and reliable transportation networks (by land, air, sea), telecommunications (cellular and land communications networks for telephone and data transmission), energy, water, and waste treatment operations. However, physical infrastructure can only work effectively if skilled and non-corrupt operators are available to maintain these networks. In both southern and West Africa, for example, as an accompaniment to investments in regional distribution lines of gas and electricity, regional electricity power pool engineers and local policy makers have participated in a training exercise, funded through USAID cooperative agreements. The exercise has involved data collection, participation in the construction of a comprehensive forecasting model, and application of the model to operational issues (Plunkett 2001). Such technical assistance has developed local capacity to consider issues such as the structure of the pools, pricing policies, national autonomy requirements for both generation and reserves, and data reporting requirements. Issues specific to West Africa include identification of the hourly demand function for each country, the effects of seasonality on hydroelectric power availability, and ensuring sufficient integration with the operating systems of the regional gas pipeline. These models also highlight the benefits from increased electricity trade, power pooling, and collective regional approaches to new generation and transmission projects, which amount to billions of dollars in savings over many years.

Similarly, global (and regional) trade integration requires not only that tariffs be lowered and harmonized and roads/rails exist to carry goods across borders, but also that **trade facilitation systems and personnel** (e.g., customs, transportation, clearing/forwarding agents) are available

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<sup>12</sup> While the focus of de Soto's book is on land titling, Woodruff points out that titling by itself is unlikely to be effective. Improving the efficiency of judicial systems, re-writing bankruptcy codes, restructuring financial market regulations, and similar reforms – albeit much more challenging politically – will be needed to stimulate viable financial markets for the poor.

to ensure efficient border crossings.<sup>13</sup> As noted in a trade needs assessment for Mozambique in the context of AGOA and preferential access to the U.S. market, "... high transport costs, slow customs processing times on crucial inputs, and delays in loading and unloading ships in port can quickly erode the advantage of a 20 percent tariff preference by increasing an export's final price" (Nathan Associates Inc. 2002, 5).

## WHAT ARE CURRENT COMPETITIVENESS ACTIVITIES?

### Current Competitiveness Activities in SADC

Understanding what competitiveness is begs the question of what to do about it. While many of these issues are *not* specific to a particular cluster or industry, implementation of specific activities to further their realization is usually done within specific clusters or industries. Development donors may provide technical assistance to broad private sector or employers' associations or industry-specific associations. Rarely is competitiveness assistance delivered by public development agencies to individual firms, as this would certainly distort markets.

In addition to RCSA, USAID has bilateral missions in nine SADC member countries (Angola, the Democratic Republic of the Congo, Malawi, Namibia, South Africa, Tanzania, Zambia, and Zimbabwe). Competitiveness-related activities in each of these missions are summarized in Table 6 below. Outside of missions currently experiencing extreme civil conflict (Angola, DRC, Zimbabwe), the focus in these largely agricultural economies is understandably on improving rural incomes through credit, entrepreneurship, productivity, and market linkages support. Broader private sector development assistance is also offered, beyond the rural sector, in Mozambique, Namibia, South Africa, and Tanzania. Several missions (Mozambique, South Africa, Zambia) have made global and regional trade integration a focus. Skills training activities are included under economic growth objectives only in South Africa and Namibia. Labor laws are only mentioned in Mozambique. Rural infrastructure issues are addressed in Tanzania and Zambia.

**Table 6: USAID-Sponsored Activities Related to Competitiveness in SADC Member Countries**

Bilateral Mission	Annual Report/R4 Program Objective*	Competitiveness-Related Strategic Objectives (Activities)
Angola	Wartime recovery	None found
D.R. Congo	Promote health, food security, transition to peace	Lines of credit to promote economic opportunities for small/medium enterprises
Malawi		Increased agricultural incomes through improved market linkages Sustainable increases in rural incomes
Mozambique	Poverty reduction through economic growth via private investment & trade	Increased rural household incomes through crop diversification, increased market options Improved enabling environment (trade policy, private sector capacity to engage in policy dialogue, tax reform, alternative dispute resolution, telecommunications sector deregulation, labor law reform)

<sup>13</sup> This issue is highlighted in three recent trade needs assessments (Mali, Morocco, and Mozambique) conducted by USAID's Trade Capacity Building project, [www.tcb-project.com](http://www.tcb-project.com).

Namibia	Economic, social, political empowerment of historically disadvantaged Namibians	Accelerated private sector growth (entrepreneurial, management, technical skills; business development services for small/medium enterprises; new business links and markets)
South Africa	Economic & democratic transformation to reduce disparities faced by historically disadvantaged populations	Skills training (in addition to basic, higher education programs) Improved capacity to formulate economic policies (training black economists, policy analyses including of AIDS impact, public-private partnerships, tax policy) Job creation through small business growth
Tanzania		Increased economic participation of micro/small enterprises (public-private business dialogue, business environment reform, rural roads & bridges investments, enterprise trust fund)
Zambia		Increased rural income (rural entrepreneurship, improved trade & investment climate at global, regional, preferential levels, participation in PRSP/Integrated Framework to include trade issues, electricity sector reform)
Zimbabwe	Crisis mitigation	Increased economic opportunity for disadvantaged groups (given present circumstances, mostly social safety nets for rural/urban poor, HIV/AIDS attention, microfinance)

Source: [www.usaid.gov](http://www.usaid.gov), Africa region, country pages (accessed May 25, 2003)

Note: \* Not always specified

For non-USAID donor-sponsored activities, the Nathan RCSA team drafted an inventory in each of the RCSA strategic themes, including global competitiveness and regional integration, displayed in Donor-led, regional, and national level competitiveness-related activities are presented below. A matrix of additional activities is presented in Table 8.

### Donor-led Activities

[http://www.afdb.org/projects/projects\\_country.htm](http://www.afdb.org/projects/projects_country.htm)

**African Development Bank Group** activities in SADC-member countries related to competitiveness include: physical infrastructure development projects and rural income enhancement projects.

<http://www.idrc.ca/library/world/idrcproj.html>

[http://network.idrc.ca/ev.php?URL\\_ID=5895&URL\\_DO=DO\\_TOPIC&URL\\_SECTION=201](http://network.idrc.ca/ev.php?URL_ID=5895&URL_DO=DO_TOPIC&URL_SECTION=201)

The **International Development Research Centre** is a public corporation created by the Canadian government to help communities in the developing world find solutions to social, economic, and environmental problems through research.

The Acacia initiative is an international program to empower sub-Saharan communities with the ability to apply information and communication technologies (ICTs) to their own social and economic development. This initiative is designed as an integrated program of research and development and demonstration projects to address issues of applications, technology, infrastructure, policy and governance. Partners include science, technology, and telecommunications organizations in South Africa, Tanzania, as well as elsewhere throughout Africa. Conceived and led by the International Development Research Centre (IDRC), Acacia supports Canada's contribution to the African Information Society Initiative (AISII) which was

endorsed by African governments as an action framework to build Africa's information and communication infrastructure.

<http://www.unido.org/en/doc/3704>

The **U.N. Industrial Development Organization's** (UNIDO) major initiatives in Africa include a plan of action to address capacity-building, including strategies, policies and institutional support for industrial competitiveness; linking industry and agriculture to enhance productivity and competitiveness; promoting growth in small and medium enterprises (SMEs), including rural development and the informal sector; promoting private investment and technology; environmental management and cleaner production; and private sector development, productivity and the application of standards for international competitiveness.

### **World Bank-led activities**

<http://www4.worldbank.org/sprojects>

<http://www.ifc.org/johannesburg/docs/Projects.doc>

IFC projects in Southern Africa include:

- Mozambique aluminum smelter project to outsource non-core operations to local small and medium enterprises;
- assistance to Kruger National Park, South Africa, to privatize/outsource many tourism services;
- assistance to develop linkages between a South African winery estate and local agricultural and service providers;
- support to Eskom, South Africa, to develop commercial markets for energy-efficient lighting technologies;
- the Africa Project Development Facility (APDF) is a multi-donor initiative, managed by IFC, that seeks to strengthen African small and medium enterprises through the provision of business advisory services, enterprise support services; and skills development.

[http://apdf.ifc.org/annual\\_message\\_from\\_management.htm](http://apdf.ifc.org/annual_message_from_management.htm)

The Africa Project Development Facility (APDF) has been a vital part of efforts to promote private sector development in Africa. Critical new roles, these include building capacity in local consulting companies, business associations and African financial institutions, and helping SMEs to benefit from business opportunities with big corporations and investment projects.

Building on its expertise in business plan development and raising finance, APDF has broadened its services to include enterprise support services. This mainly involves assistance in strategic planning, organizational development, market planning and strategies, production process and accounting systems improvements. These services are needed and are in high demand, and clients have been willing to pay for them.

APDF has started working on business clusters and linkages programs, aimed at growing and strengthening business between African SMEs and large corporations and investment projects. These initiatives are underway in Nigeria, Chad, South Africa, and Zambia. Alongside these innovations, APDF is continuing its efforts at developing support programs and initiatives that will involve women entrepreneurs. Specific programs are underway in Nigeria and South Africa.



<http://www1.worldbank.org/wbiiep/trade/Standards/africa.htm>

Issues related to trade standards and technical regulations are becoming of increasing importance to the least developed countries as they seek to strengthen industrial performance, increase agricultural productivity and competitiveness, and expand access to international markets. The World Bank International Trade Team, through the Africa Trade Standards Project (ATSP), is helping to bridge the gaps in capacity, and to promote concrete and deeper understanding of the role, impact, and opportunities for improving of the standards and regulatory framework in Africa. Mozambique and South Africa are two SADC member countries involved with the Bank via the ATSP.

Among the country level, World Bank-led, competitiveness-related projects in SADC member countries are the following:

**TANZANIA:** Implementation of small agricultural development sub-projects planned and managed by community members and farmers groups.

This objective will be achieved by:

- empowering self-selected rural communities and farmers' groups to make decisions regarding choice of sustainable and remunerative productive technology;
- sharing of costs by the public sector and participants, and hence sharing the risk of adoption of improved technologies, again for self-selected participants;
- enhancing demand for products and services provided by the private sector in rural areas by increasing the purchasing power of participating groups and encouraging the growth of savings;
- promoting improved land and crop husbandry practices by participants;
- supporting the ongoing decentralization process at the district level;
- partially financing maintenance and/or construction of roads, bridges, and other small sub-projects to improve access to markets.

**TANZANIA:** The development objective of the project is to provide a reliable, affordable and sustainable water supply service and improve the sewerage and sanitation services in area served by the Dar es Salaam Water and Sewerage Authority (DAWASA) that includes Dar es Salaam and part of the Coast region . This will help improve public health and well being in a city prone to cholera outbreaks or other water borne diseases and support productive activities of the country's main economic center.

**ANGOLA:** The objective of the Economic Management Technical Assistance project is to strengthen the ability of the key economic ministries to implement institutional and policy reforms that create an enabling environment for the private sector to flourish, building on reforms already under way as agreed with the International Monetary Fund. The project will support implementation of a Poverty Reduction Strategy Paper, which is being prepared.

**LESOTHO:** The objective of the Water Sector Improvement project is to support the Government to secure sustainable, adequate and clean water supply and appropriate wastewater services for consumers living in the Lowland areas.

**MALAWI:** The objective of the Financial Management Transparency and Accountability project is to promote effective and accountable use of public resources through improved budget implementation and increased transparency of government institutions. The project will focus on expenditure accountability by (a) improving management systems and information flows, (b) promoting compliance and oversight, (c) strengthening performance monitoring, and (d) developing skills and capacity.

**MOZAMBIQUE:** The objective of the Energy Reform and Access program is to expand access to electricity in rural and peri-rural areas. Components will include technical assistance, capacity building, investments in low-cost main grid extensions to rural areas, setting up isolated mini-grids where main grid extension is not economical or feasible in a timely manner and photovoltaic lighting systems for institutions and households in underserved areas. The program is expected to reduce barriers that impede development of renewable energy and to facilitate energy sector reforms including restructuring/privatization of public energy enterprises.

**SOUTH AFRICA:** The primary objective of the Industrial Competitiveness and Job Creation Project is to support sustainable economic growth and job creation needs by enhancing industrial competitiveness of South African firms, particularly small, medium, micro- and medium-sized enterprises, thereby accelerating their supply response. The project has three components: (1) A Competitiveness Fund to enhance competitiveness and stimulate the market for business development services through cost-sharing grants; (2) A Sector Partnership Fund to support initiatives to foster information-sharing and networking among groups through cost-sharing grants; and (3) A Short-Term Export Finance Guarantee Facility to reduce the perceived risk associated with export financing.

**ZAMBIA:** The Support to Economic Expansion and Diversification (SEED) Tourism project seeks to support the Government's efforts to stimulate diversified economic growth and private sector investment, using tourism as an entry point. This is to be achieved through public/private partnership for building an enabling environment conducive to private sector growth and community-based development, and by preserving Zambia's extensive cultural, natural and wildlife assets. Appraisal mission was scheduled for late May 2003.

**ZIMBABWE:** The Railways Restructuring project will include staff retrenchment and rationalization, infrastructure rehabilitation, studies and technical assistance, training and counseling and assistance to retrenched staff. Project preparation is on hold due to the country situation.

#### **Southern Africa regional activities**

<http://www.asareca.org/about/about.htm>

**The Association for Strengthening Agricultural Research in Eastern and Central Africa (ASARECA)** is a non-political organization of the National Agricultural Research Institutes (NARIs) of ten countries: Burundi, D. R. Congo, Eritrea, Ethiopia, Kenya, Madagascar, Rwanda, Sudan, Tanzania and Uganda. It aims at increasing the efficiency of agricultural research in the

region so as to facilitate economic growth, food security and export competitiveness through productive and sustainable agriculture.

<http://www.jitap.org/country.htm>

<http://www.jitap.org/URT.htm> (Tanzania)

**Joint Integrated Technical Assistance program (Trade development in Africa):** JITAP, jointly funded by the International Trade Centre, the World Trade Organization, and UNCTAD enhances development opportunities of African country partners, through their more effective participation in the Multilateral Trading System (MTS). Its activities aim to meet the most pressing needs of eight countries, one of which is Tanzania. JITAP's three objectives are to build national capacity to understand the evolving MTS and its implications for external trade; adapt the national trading system to the obligations and disciplines of the new MTS; and seek maximum advantage from the new MTS by enhancing the readiness of exporters. In Tanzania, JITAP's Inter-Institutional Technical Committee (IITC), has played an active role in assisting the preparations of the Tanzanian position in different important meetings, organizing a workshop on WTO issues, and holding national seminars on Post-Doha results and services/ tourism trade in Tanzania.

<http://www.saen.info/saenframeset.htm>

The **Southern African Enterprise Network (SAEN)**, officially launched in September 1998 and encompassing Angola, Botswana, Namibia, Lesotho, Madagascar, Malawi, Mozambique, South Africa, Swaziland, Zambia, and Zimbabwe, is part of a pan-African association that brings together new generation African entrepreneurs who seek to improve the business climate in their home countries and to foster regional trade and investment in their geographic sub-regions.

<http://www.sdi.org.za/>

The **Spatial Development Initiative (SDI)** program, launched in 1996/7, is modeled on the successful Maputo Development Corridor sponsored by South Africa's national Departments of Transport and Trade and Industry. SDI activity focused on preparations to facilitate investment-led growth, as well as to pilot some institutional models to support joint planning and integrated development while newly created or changing institutions 'jelled' in the shifting socio-political environment of that period. SDI is a program of the Department of Trade and Industry (DTI) located at the Development Bank of SA (DBSA). The rationale behind physically locating SDI in the DBSA was mutually acknowledged synergies between DBSA's infrastructure investment programs and the objectives of SDIs to bring new fixed investment into high potential areas, and the role of DBSA specialists in SDI technical task teams.

## **National Activities**

### **Mozambique**

[http://cyber.law.harvard.edu/itg/projects/past\\_projects.html](http://cyber.law.harvard.edu/itg/projects/past_projects.html)

**Networked Readiness of Mozambique:** The Center for International Development selected Mozambique as the first country in Africa to collaborate with on ICT policy development. Mozambique, a country that is one of the fastest growing countries of the world, and one of the poorest, is eager to enter the information age. The Information Technologies Group worked

closely with the ICT Policy Commission, headed by Prime Minister Mocumbi, to make this happen. The ITG conducted an initial Networked Readiness Assessment of Mozambique as part of its efforts to provide assistance to the government.

### **Namibia**

<http://www.mti.gov.na/>

Namibia's Ministry of Trade and Industry website, with links to international trade, investment, and SME development activities.

### **South Africa**

<http://www.naci.org.za/a06.cfm>

**National Advisory Council on Innovation:** The National Advisory Council on Innovation (NACI) is appointed by the Minister of Science and Technology to advise him (and through him, the Ministers Committee and the Cabinet) on the role and contribution of innovation (including science and technology) in promoting and achieving national objectives, including to strengthen the country's competitiveness in the international sphere. The membership of NACI is broadly representative of all sectors and is constituted in a manner that ensures a spread of expertise and experience regarding: national and provincial interests; scientific and technological disciplines innovation the needs and opportunities in different socio-economic fields; and research and development in all sectors. Current projects include the development of a national competitiveness strategy for South Africa. This will be done by focussing on human capital, technical progress / infrastructure indicators, business performance, R & D / innovation generation, absorption and diffusion, and the technology balance of trade.

<http://www.africacncl.org/Linkages/saibl.asp>

The **South African International Business Linkages Program** (SAIBL) builds the capacity and international competitiveness of historically disadvantaged, small and medium South African businesses through trade and investment partnerships with U.S. companies. SAIBL, a cooperative agreement between USAID and the Corporate Council on Africa, offers South African and U.S. companies an opportunity to be a part of expanding business opportunities in South Africa.

<http://www.tips.org.za/>

<http://www.tips.org.za/satrn>

The online resource centre for trade and industrial policy research in South Africa. TIPS is also institutional home to the Southern Africa Trade Research Network (SATRN).

<http://www.naci.org.za/home1.cfm>

The **National Advisory Council on Innovation** (NACI) is appointed by the Minister of Science and Technology to advise him (and through him, the Ministers Committee and the Cabinet) on the role and contribution of innovation (including science and technology) in promoting and achieving national objectives. including to strengthen the country's competitiveness in the international sphere.

<http://www.nrf.ac.za/profile/>

South Africa's **National Research Foundation** (NRF) is the government's national agency responsible for promoting and supporting basic and applied research as well as innovation.

<http://www.csir.co.za>

**CSIR** is South Africa's premier Science Council, created to bridge market-oriented research contracts. CSIR is committed to supporting innovation in South Africa to improve national competitiveness in the global economy. Technology services and solutions are provided in support of various stakeholders, and opportunities are identified where new technologies can be further developed and exploited in the private and public sector.

<http://www.productdevelopment.co.za/Index.asp>

**Productdevelopment.co.za:** Example of a skills and product development company, based in South Africa, funded by the Department of Science and Technology. Special funds available for innovation, technology and human resources, small and medium enterprise development, and competitiveness research.

### **Tanzania**

<http://www.sdi.org.za/members/iii/sdi.nsf/d2f50fb68d1b021142256c3f00611326/1669c0b1c232272542256c4400486d60!OpenDocument>

Determined to capitalize on an encouraging flow of foreign investment, Tanzania is stepping up its program to attract more investors by opening and promoting opportunities in special export-driven development corridors in partnership with neighboring countries.



Table 8 in Appendix C. While this matrix may not be exhaustive, it is indicative of the kinds of donor-financed activities being supported currently:

- **Infrastructure development:** Support to the southern African power market for regional electricity generation and trade (World Bank, also USAID in the past); regional development corridors, including ports (European Community); road and rail transportation restructuring in the region (World Bank, EU);
- **Industrial competitiveness:** Support for job creation in small/medium enterprises (World Bank); economic management and private sector adjustment in Mozambique (World Bank);
- **Regional trade facilitation:** Support for trade finance via insurance (World Bank);
- **Policy coordination:** Support for the Trade and Industrial Policy Secretariat (TIPS), which examines issues from national (South Africa) and regional (SADC) perspectives (CIDA); SADC Regional Integration and Capacity Building Program (EU).

Noticeably absent from this broader donor list are regional cluster promotion activities. There does not appear to be any private sector development effort at a regional level, i.e. the promotion of communication and regional collaboration among related and supporting firms within industries or cluster groupings. It is not clear how well such regional private sector consultations are already working within SADC's Directorate of Trade, Industry, Finance, and Investment.

Another noticeable omission is support for activities that promote a flexible, qualified, and mobile workforce. USAID considers this a key element of trade capacity building (USAID 2003, 14). In South Africa, workforce competitiveness is being addressed through a National Skills Development Strategy, launched with some assistance from USAID/South Africa. Skills training is supplied through more than 25 Sector Education and Training Authorities (SETA). Financed through the collection of skills development levies that are collected from employers, the employer groups have direct input into the kinds of training delivered to their potential employees.<sup>14</sup>

## USAID Promotion of Competitiveness Around the World

In addition to USAID mission-specific detail on on-going competitiveness activities being undertaken in other SADC member countries, a list of competitiveness programs sponsored by USAID elsewhere around the world is provided in Table 7.

Cluster-specific activities being funded include the promotion of competitiveness in specific clusters; promotion of competitive workforce skills in specific clusters; promotion of exports, global market development for specific clusters; and promotion of competitiveness business roundtables to promote communication and collaboration among members of specific clusters. In addition, cross-cutting competitiveness activities include promotion of policies that support a competitive business environment; promotion of trade capacity building; and promotion of regional participation in global trade fora.

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<sup>14</sup> Information available from [www.labour.gov.za/docs/legislation/skills/index.html](http://www.labour.gov.za/docs/legislation/skills/index.html).

## WHAT SHOULD BE DONE ABOUT SELECTING PROMOTING CLUSTERS?

### Choosing Clusters

Further detail on competitiveness initiatives undertaken by PriceWaterhouseCoopers (PWC) and SRI International for USAID is available in a self-evaluation (PWC 2001). PWC suggests that a number of general constraints can affect the success of competitiveness projects. A lack of collaboration within the private sector or between the private and public sectors is one risk. Some clusters may be less cohesive or too diffuse to work with successfully. It may be difficult to identify effective and committed cluster champions. Or the public sector may not be sufficiently motivated to address cross-cutting issues (e.g., infrastructure, workforce development, policy reform). More specific to USAID-funded projects, their report suggests that risks include inadequate and uneven funding commitments from USAID, a perception from local stakeholders that USAID support may be intended to benefit the U.S. rather than the host country/ region, inadequately mobilized local business sector support, and misallocation of attention to quantitative results rather than the qualitative benefits of cluster processes.



**Table 7: Global USAID Competitiveness Activities**

Mission	Program	Strategic Objective	Technical Assistance Areas	Specific Focus
Africa Regional (East, West, Southern)	TRADE competitiveness hubs		Promote U.S.-African business linkages; enhance competitiveness of African products and services; expand role of trade in African poverty reduction strategies; Improve delivery of public services supporting trade; build African capacity for trade policy formulation and implementation; strengthen enabling environment for African businesses.	Particular support for textile/ clothing and other industries, per AGOA
Bulgaria	183-0100	Improved Business Climate in the Bulgarian Economy	Export growth & competitiveness of target industry sectors (e.g., agriculture, light manufacturing, info technologies, tourism)	Quality standards, marketing, export product development, production efficiency, access to credit, export promotion, facilitation of joint ventures
Caribbean Regional	538-004	Increased Employment & Diversification in Select Non-Traditional Activities	Extension of international best business practices	Product quality, IPR, financial management, professional & business services, investment policies
Central American Regional	596-005	Increased Central American Competitiveness in Global Markets	Promote readiness to participate in subregional, hemispheric, global markets; regional involvement in trade regimes; enlarge internal market of the region; strengthen economic & trade infrastructure	Trade openness, adoption of IPR laws, protection of workers' rights, advances in energy & telecomm
Croatia	160-0130	Growth of a Dynamic, Competitive Private Sector	Improving overall environment for private sector development; stimulating growth of SMEs	Develop markets for business development services, improving competitiveness of agribusiness/agro-industry
Dominican Republic	517-007	Policies for Good Governance for Sustainable Economic Growth	Policy reform to enhance economic competitiveness, quality basic education, sustainable NRM, rural electrification	Cluster focus (envir sustainable tourism, high-value tree crops & vegetables)
Egypt	263-017	Skills for Competitiveness Developed	Management, IT skills development	Establishment of private Technical University focusing on IT education
Eurasia Regional	110-0130	Accelerated Development and Growth of Private Enterprises	Technical advice in micro, small, medium enterprise development; regional guidance re harmonization of commercial law reform; promotion of regional approach to competition	Enhancement of entrepreneurial skills, strengthened business/trade associations, improved land registration/titling and development of land markets, modern standards & quality control procedures

policies & regulatory frameworks; encouragement of regional food industry cluster formation

Macedonia	165-0130	Economic Growth - Private Sector Competitiveness	Development of cluster strategies for modern product development, export promotion	Cluster focus (2-3, to be identified)
Sri Lanka	383-004	Increased Sri Lankan Competitiveness in Global Marketplace	Promote appropriate policy, institutional and industry-level initiatives aimed at private sector growth within global competitive market environment	Analyze SL industries relative to global competitors, prepare competitiveness strategies for 8 clusters, reduce operational & policy barriers, training of government policy makers

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Source: Search of USAID website, [www.usaid.gov](http://www.usaid.gov), for "competitiveness program data" (May 15, 2003)

There is a good deal of consternation among economists that “picking winners” is an inappropriate pastime for government officials and development donor professionals alike. Golub and Edwards (2003) analyzed the cost competitiveness of 24 manufacturing sectors in South Africa by looking at wages, productivity, and unit labor costs. They compare South Africa’s relative costs to a sample of developed and developing countries and observe significant variability in South Africa’s rankings over time. Their conclusion is that “there is no easy way to pick winners based on industry characteristics and [...] the government should not attempt to favor some sectors over others.” Instead, they suggest, the focus should be on a general policy environment that is propitious to productivity growth and wage moderation, including a competitive exchange rate. After that, market forces will determine cluster success.

Nevertheless because of the practical difficulty of implementing cross-cutting policy, institutions, and productivity-enhancing reforms *without* going through existing organizations, many of USAID’s portfolios focus on specific clusters for implementation. Winkler (2003) suggests several criteria for choosing clusters. His selection criteria include 1) *special advantages*, such as initial factor endowments; 2) *competitive potential*, demonstrated through existing firms and profitable activity; 3) *industry leadership*, demonstrated through the existence of a trade association or other leadership group.

Maasdorp (2000) indicates that a series of regional industrial location studies has been prepared on a country-by-country basis for the SADC region in order to identify those products and sectors in which each country enjoys a comparative (competitive?) advantage. Opportunities for investment were identified in a broad range of industries. There is, however, a notable absence of the SACU countries from the list. The methodology for identifying “comparative advantage” is not specified. Maasdorp indicates that some of the studies were based on in-depth interviews with firms, while others were based on analysis of official documents and statistics.