

**CENTER FOR ECONOMIC STRATEGY**  
**HARVARD BUSINESS SCHOOL AFFILIATED**

**Microeconomics of Competitiveness Firms, Clusters and Economic Development Fall, 2018**

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## **The Course**

The Microeconomics of Competitiveness is a distinctive course platform developed at Harvard Business School by Professor Michael Porter and a team of colleagues from the Institute for Strategy and Competitiveness at Harvard Business School that is designed to be taught at selected universities around the world. This course on competitiveness and economic development addresses the subject from a bottom-up, microeconomic perspective missing in most traditional development courses. The course is not only an educational vehicle but also a tool to enable a university to influence and support economic development in its country and region. In addition to training future leaders of business and government in competitiveness concepts, the course can be adapted for executive programs. It can become a focal point for projects and initiatives that engage the university in economic policy and business development with government and the private sector. The ultimate vision of the course is to make a meaningful impact on the economic competitiveness and prosperity of the countries in which it is taught.

Sofia University – St. Kliment Ohridsky has joined the network of the MoC course developed at Harvard Business School and will be offering this course by matching the needs of firms, governmental and non-governmental institutes and organizations. The course is based exclusively on materials developed and used at Harvard Business School.

This course is part of a two course series in the certificate program affiliated with Harvard Business School. Each student who successfully completes both courses in this certificate program will receive a Graduate Certificate from the Harvard Affiliated Center for Economic Strategy. This course will follow the format, workload and ethics of Harvard Business School. It will be challenging academically, but extremely rewarding experience for the students that are able to complete the requirements of both courses. The Graduate Certificate from the Harvard Affiliated Center for Economic Strategy will provide an entrance to Dr. Michael Porter’s Microeconomics of Competitiveness Worldwide Network whose membership is lifelong.

**Pre-requisites:** Intermediate Microeconomics, Intermediate Macroeconomics, Multivariable Calculus, Econometrics

## Course Content

This course explores the determinants of national and regional competitiveness building from the perspective of firms, clusters, sub-national units, nations, and groups of neighboring countries. While sound macroeconomic policies, stable legal and political institutions, and improving social conditions create the potential for competitiveness, wealth is actually created at the microeconomic level. The sophistication and productivity of firms, the vitality of clusters, and the quality of the business environment in which competition takes place, are the ultimate determinants of a nation's or region's productivity. The MoC course focuses on the sources of national or regional productivity, which are rooted in the strategies and operating practices of locally based firms, the vitality of clusters, and the quality of the business environment in which competition takes place.

This course examines both advanced and developing economies and addresses competitiveness at multiple levels – nations, sub-national units such as states or provinces, particular clusters, and neighboring countries. The course is concerned not only with government policy but also with the roles that firms, industry associations, universities, and other institutions play in competitiveness. In modern competition, each of these institutions has an important and evolving role in economic development. Moreover, the process of creating and sustaining an economic strategy for a nation or region is a daunting challenge. The course explores not only theory and policy but also the organizational structures, institutional structures, and change processes required for sustained improvements in competitiveness.

The main topics of the MoC course are:

- Firms, Industries and Cross-Border Competition;
- Locations and Clusters;
- Policies for Nations and Regions;
- Advanced Topics: Attracting Foreign Investments;
- The Process of Economic Development;

## Teaching Method

The course is taught using the case method, together with readings and lectures. The case method requires extensive advance preparation by students for each class, and a significant part of the course grade is based on class participation.

A final team project is a significant part of the course and involves the competitive assessment of a particular country and cluster. Two sessions are devoted to presentations and discussions of the team projects.

The course requires extensive advance preparation by course participants for each class, which includes readings (cases and textbooks) and research for the final project.

## Course Policies

- **Attendance.** Given the importance of class participation to the effectiveness of the course, attendance is mandatory for all class meetings. Any missed class will be penalized by 5% decrease in your final grade. **You can miss two classes and after the third, you will receive a failing grade for the course.**

- **Don't change your seats** – on the second lecture you should choose a seat and stay there every time (We track attendance and you might be marked as absent if not in your place). You will be provided with name tags, please bring them to the lecture every time.
- When someone is speaking on a low voice and you can't hear, slightly "knock" on the desk, so he will know to raise his voice.
- **Assigned reading.** The articles assigned for each day should be read before class. We will typically provide you some pointers in the preceding class on what you should look out for and focus on. This is intended to help you in your time management when you tackle the reading, so that you know which articles you can skim through and which you should spend more time reading in detail.
- **General expectations.** Economists take a serious view about issues of intellectual honesty. Any data sources that you employ or ideas that you adopt from prior researchers should be referenced in your papers to give due attribution. We adopt a similarly serious view towards the originality of your work.

## **Grading:**

The course participants will be evaluated based on their participation and the quality of their project work.

- 1) **Group project - 50% of the grade**
- 2) **Class participation – 50% of the grade**

NO FINAL EXAM

## **SYLLABUS AND REQUIRED READING:**

### Section 1: What is a cluster

#### **October 9, 2018 (Tuesday)**

**TOPIC:** Competitiveness: Overall Framework

#### **CASES/READINGS:**

- Finland and Nokia: Creating the World's Most Competitive Economy, HBS Case Number: 9-702-427
- On Competition, read Chapters 2, 6 and 7

#### **ASSIGNMENTS:**

1. How was Finland as a nation able to move from a sleepy economy to one of the most competitive nations in the world by the end of the 1990s?
2. Why was Finland able to become a world-leading nation in the mobile communications cluster? Why did this cluster develop in Finland rather than others?
3. How did the Finnish firm Nokia become the world leader in mobile handsets? How did its home base in Finland influence Nokia's success?
4. What are the most important challenges for Finland in 2001? For participants in the Finnish mobile communications cluster? For Nokia?
5. What economic policy priorities would you recommend to the government? What steps should the private sector take?

#### **October 11, 2018 (Thursday)**

**TOPIC:** Clusters and Cluster Development: Advanced Economies

#### **CASES/READINGS:**

- The California Wine Cluster, HBS Case Number: 9-799-124.
- The Australian Wine Cluster: Supplementary Information, HBS Case Number: 9-703-492.
- On Competition, review Chapter 7.

#### **ASSIGNMENTS:**

1. Draw a cluster map of the California wine cluster.
2. Why has the cluster emerged as one of the world's leaders?
3. Why has France's wine cluster stagnated?

4. How has Australia emerged as a leading wine-exporting nation?
5. How important is government to wine cluster development?
6. What steps are necessary to sustain and enhance California's cluster as of 2000? By companies? Trade organizations? The California government? The Federal government?

### **October 16, 2018 (Tuesday)**

**TOPIC:** Internationalization of Clusters

**CASES/READINGS:**

- The Dutch Flower Cluster, HBS Case Number: 9-711-507

**ASSIGNMENTS:**

1. Draw a cluster map of the Dutch flower cluster including the relevant groups of firms, institutions, and other involved entities.
2. Why has the Netherlands built the most competitive cluster in the world in a country with a cold and cloudy climate?
3. How has the Dutch cluster sustained its leadership position for so long?
4. Why has flower production internationalized over the last few decades? How are the flower clusters in the various countries connected? How do they compete?
5. What are the challenges facing the Dutch cluster? What recommendations would you make to FloraHolland? To the Dutch government? To a major grower?

## **Section 2: Cluster Development Strategies**

### **October 18, 2018 (Thursday)**

**TOPIC:** The Diamond Model: Advanced Economies

**CASES/READINGS:**

- The Japanese Facsimile Industry in 1990, HBS Case Number: 9-391-209
- Can Japan Compete?, Read Chapter 2, pages 18-36 and Chapter 3, pages 69-82 (Skim the rest of these chapters if time permits)
- Facsimile machines are discussed briefly in the reading, and I expect your analysis to go well beyond this in terms of depth and sophistication.

## **ASSIGNMENTS:**

1. Why did companies based in Japan come to dominate the world facsimile machine industry, and sustain their leadership?
2. How did the business environment affect the strategies of companies? Why did industry leadership shift over time?
3. Why did U.S. firms, where the key technology was invented, lose out in this industry?
4. What threats lie ahead for Japan's leadership in facsimile machines in the new century? What should Japanese companies do? What should the Japanese government do?
5. How is the fax case similar to, and different from, the case of mobile communications in Finland? What are the lessons for government policy to enhance competitiveness? What works? What does not work?

### **October 23, 2018 (Tuesday)**

**TOPIC:** Competitiveness: Overall Framework (exercise)

#### **CASES/READINGS:**

- On Competition, read Chapters 2 and 7

### **October 25, 2018 (Thursday)**

**TOPIC:** Institutions for Collaboration

#### **CASES/READINGS:**

- Asociacion Colombiana de Industrias Plasticas (Acoplasticos), HBS Case Number: 9-703-437
- Centre Suisse d'Electronique et de Microtechnique (CSEM, HBS Case Number: 9-703-438
- Institutions for Collaboration: Overview, HBS Case Number: 9-703-436

## **ASSIGNMENTS:**

1. What roles has the Asociacion Colombiana de Industrias Plasticas (Acoplasticos) played in the competitiveness of the Colombian plastics and rubber cluster? How have the organization's roles changed since the early 1980s?
2. How would you measure the effectiveness of Acoplasticos? How could the organization be more effective?

3. What roles has the Centre Suisse d'Electronique et de Microtechnique (CSEM) played in the competitiveness of the affected Swiss industries? How have CSEM's roles evolved? Is it effective?
4. What strategic recommendations would you make to CSEM leadership in early 2002?
5. Why do institutions for collaboration exist in market economies? Why are their activities not performed by firms or government entities?
6. Why might the incidence and roles of institutions for collaboration differ in advanced economies versus developing economies?

### **October 30, 2018 (Tuesday)**

**TOPIC:** Institutions for Collaboration

**CASES/READINGS:**

- Germany – Cluster Mobilization

### **November 6, 2018 (Tuesday)**

**TOPIC:**

Clusters in Developing Countries

**CASES/READINGS:**

- Building a Cluster: Electronics and Information Technology in Costa Rica, HBS Case Number: 9-703-422

**ASSIGNMENTS:**

1. Why has President Figueres embarked on a new economic development strategy upon taking office? How does his thinking differ from past approaches? Is this new approach appropriate?
2. Does electronics and information technology represent a realistic potential cluster for Costa Rica? What conditions are necessary for a viable cluster?
3. Why was Intel interested in a Latin American plant as part of its global strategy?
4. Why would Intel choose Costa Rica?
5. Given Intel's decision, what steps should the Costa Rican government take to further develop the cluster?

### **November 8, 2018 (Thursday)**

**TOPIC:** Competition Across Locations & Global Strategy for MNCs

#### **CASES/READINGS:**

- Volvo Trucks (A): Penetrating the U.S. Market, HBS Case Number: 9-702-418
- On Competition, read Chapter 8

#### **ASSIGNMENTS:**

- Why has Volvo spread its value chain for heavy trucks around the world? How can you explain why which activities are performed in which locations? (You may want to begin with Exhibit 5).
- Why have European-based truck manufacturers become the global leaders?
- Why is Volvo (as well as other European countries) so committed to entering the U.S. market?
- What steps has Volvo taken towards establishing itself in the United States? Why has the company had so much difficulty?
- What should Volvo do in 2000?
- What are the implications of the Volvo case for the way countries should attract foreign investment?

## **Section 3: Government Role in Cluster Development**

### **November 13, 2018 (Tuesday)**

**TOPIC:** Economic Strategy: States and Sub-National Regions

#### **CASES/READINGS:**

- The State of Connecticut: Strategy for Economic Development, HBS Case Number: 9-703-426

**IMPORTANT NOTE:** Prepare the Executive Summary from Clusters of Innovation: Regional Foundations of U.S. Competitiveness, pages ix-xix. The balance of the report is optional reading.

#### **ASSIGNMENTS:**

1. Why was Connecticut able to become and remain the most prosperous U.S. state? What clusters have driven the state's economy?

2. Why did Connecticut get hit so hard by the 1989/1990 recession? Why were Connecticut leaders worried?
3. Why did the first economic development effort under Governor Weicker fail to take hold?
4. How was Governor Rowland's approach different? Why was it more successful?
5. Why did some clusters progress faster than others?
6. What are the issues facing Connecticut in 2000? What should the Governor and his team do next?

### **November 15, 2018 (Thursday)**

**TOPIC:** Economic Strategy: Advanced Economies

**CASES/READINGS:**

- Remaking Singapore

In order to provide a good foundation for our discussion, please identify the major policy choices, covering the areas in our framework, made by Singapore's leaders in aspects of competitiveness policy, during each chapter in the nation's economic history.

**ASSIGNMENTS:**

1. What was Singapore's economic strategy between independence and the late 1970s? Outline the critical policy choices to realize this strategy.
2. What caused Singapore to shift its strategy as it entered into the 1980s? Why was Singapore able to continue improving its prosperity?
3. Why did Prime Minister Goh put forward the Next Lap plan in 1991?
4. Why did the Economic Review Committee (ERC) modify the strategy in 2003?
5. What is Singapore's competitive position in 2009? What recommendations would you make to the new Economic Strategy Committee?

### **November 20, 2018 (Tuesday)**

**TOPIC:** The Diamond Model: Developing/Transition Economies

**CASES/READINGS:**

- Estonia in Transition, HBS Case Number: 9-702-436.

**ASSIGNMENTS:**

1. How has Estonia been able to achieve such competitive success compared to other transition countries? What were the key policy decisions?
2. How was Estonia able to make so many difficult changes and progress so rapidly?
3. What are the competitiveness issues facing Estonia in 2002?
4. What recommendations would you make to Estonia's leaders?

**November 22, 2018 (Thursday)**

**TOPIC:** Economic Strategy: Developing Countries

**CASES/READINGS:**

- Rwanda: National Economic Transformation, HBS Case Number: 9-706-4910

**ASSIGNMENTS:**

1. Assess Rwanda's national balance sheet (assets and liabilities) as of the end of the genocide in 1994/1995. What kind of economic system did the Government of National Unity inherit?
2. Identify the steps that the Government of National Unity took between 1994 and 2000 to restore the economy. How would you evaluate this initial economic development strategy?
3. Identify and evaluate President Kagame's economic strategy for the country from 2000 through the end of the case.
4. What are the issues facing the Rwandan economy in 2004?
5. What recommendations would you make to the President and his team? Be specific.
6. What roles have international aid organizations played in Rwanda, both positive and negative? How could foreign aid add more value in economic development?

**November 27, 2018 (Tuesday)**

**TOPIC:** European Integration

**CASES/READINGS:**

- European Integration: Meeting the Competitiveness Challenge, HBS Case Number: 9-708-421

**ASSIGNMENTS:**

1. What is the rationale guiding European integration? How does it differ from the approach in Central America? Why?
2. European integration has gone through a series of stages shown in the attached handout. What were the key policies in each stage? Why this progression of steps?
3. Why has Europe made little progress on the Lisbon Agenda?
4. Has European Integration been a success? What has it achieved? What are its limitations?

**What should the European Union do in 2004? What policies and institutions need to be modified? Added? Dropped? Should the EU expand further?**

**November 29, 2018 (Thursday)**

**TOPIC:** Economically Distressed Communities

**CASES/READINGS:**

- St. Louis: Inner City Economic Development, HBS Case Number: 9-704-492
- On Competition, Chapter 11

**ASSIGNMENTS:**

1. Should leaders in the St. Louis region be concerned about the health of the inner city economy? Why?
2. Why has the inner city St. Louis lost out to the suburbs in terms of business development?
3. What Why have past efforts at inner city revitalization in St. Louis failed?
4. What is the position of inner city St. Louis in 1999? What steps are needed to restore its competitiveness?
5. How are inner cities different from the other economic areas that we have been studying? How are they similar?

**RELATED REFERENCE**

Rural areas in many nations tend to have lower per capita incomes than urban areas. For students interested in rural development, see the paper entitled "Competitiveness in Rural U.S. Regions: Learning and Research Agenda." A copy can be downloaded [here](#).

## **December 4, 2018 (Tuesday)**

**TOPIC:** Economic Strategy: Cities

### **CASES/READINGS:**

- New York City: Bloomberg's Strategy for Economic Development, HBS Case Number: 9-709-427

### **ASSIGNMENTS:**

1. How did New York City become a leading metropolitan area in the U.S. and the world? What were the key enabling public policies?
2. How did New York's leading clusters emerge? How has the mix of clusters changed over time? Why?
3. Identify and evaluate the key elements of Mayor Bloomberg's strategy to date.
4. What is New York City's competitive position in 2008?
5. What recommendations would you make to the Mayor about the City's strategy?
6. How are cities different from a competitiveness and economic development standpoint?

## **Section 4: Creating Successful Companies**

## **December 6, 2018 (Thursday)**

**TOPIC:** The Corporate Role in Economic Development

### **CASES/READINGS:**

- De Beers: Addressing the New Competitiveness Challenges, HBS Case Number: 9-706-501

Note: In addition to preparing the De Beers case, you also need to read the following article: "Strategy & Society: The Link Between Competitive Advantage and Corporate Social Responsibility" (On Competition, Chapter 14, pages 479-503)

### **ASSIGNMENTS:**

1. How has De Beers been able to create so much economic value for the entire diamond industry despite the fact that diamonds have little intrinsic value?
2. How has De Beers contributed to or retarded the development of the countries in which it

operates? Why is the company involved in so many economic and social development initiatives?

3. Contrast the impact of De Beers in South Africa and Botswana. Why the difference?
4. What are the strategic issues facing De Beers in the late 1990s?
5. Evaluate the new De Beers strategy introduced in 2000. What is De Beers trying to accomplish?

**What recommendation would you make to De Beers' management in order to enhance its competitive position while benefiting the communities in which it operates?**

### **December 11, 2018 (Tuesday)**

**TOPIC:** Industry Competition, Strategy and Location

**CASES/READINGS:**

- Intel Corporation--1968-1997, HBS Case Number: 9-797-137
- On Competition, review Chapter 1
- On Competition, read Chapter 2 and Chapter 5

**ASSIGNMENTS:**

1. Why was Intel initially successful in DRAMs?
2. How did Japanese companies come to be the international leaders in this business? Why couldn't Intel (or other American companies) recover?
3. How did Intel build a competitive advantage in microprocessors? How has the company managed to sustain the advantage over time?
4. Why did U.S. companies dominate the microprocessor business from the beginning, with Japan unable to gain a major position?
5. What explains the different outcomes in the DRAM and microprocessor industries? What are the lessons for government economic policy?

### **December 13, 2018 (Thursday)**

**TOPIC:** Internationalization of Firms Based in Developing Countries

**CASES/READINGS:**

- Atlas Electrica: International Strategy, HBS Case Number: 9-704-435
- AFP Provida, HBS Case Number: 9-703-424

## **ASSIGNMENTS:**

1. How has Atlas been able to compete successfully in its region despite being a small player among global giants? What has changed from its initial efforts?
2. What are the strategic challenges facing Atlas in 2000? What should the company do? What could the Costa Rican government do to help?
3. What allowed Provida to become the leading competitor in Latin America in pension management?
4. What should Provida do in 1999? What could the Chilean government do to help?
5. Compare the internationalization approaches of the two companies. What are the lessons for companies based in developing countries?
6. What steps can governments take to foster the internationalization of local companies?

## **Section 5: Clusters in Bulgaria**

### **December 18, 2018 (Tuesday)**

TOPIC: Clusters in Bulgaria (exercise)

### **Student Presentations**

#### **January 15, 2019 (Tuesday)**

TOPIC: Students Presentations

#### **January 17, 2019 (Thursday)**

TOPIC: Students Presentations

#### **January 22, 2019 (Tuesday)**

TOPIC: Students Presentations

#### **January 24, 2019 (Thursday)**

TOPIC: Students Presentations