2011 Know Your Region Webinar Series

Part 7: Global Trends in Competitiveness and Productivity Growth

Webinar | April 7, 2011

How to compete and grow: A sector guide to policy

McKinsey Global Institute

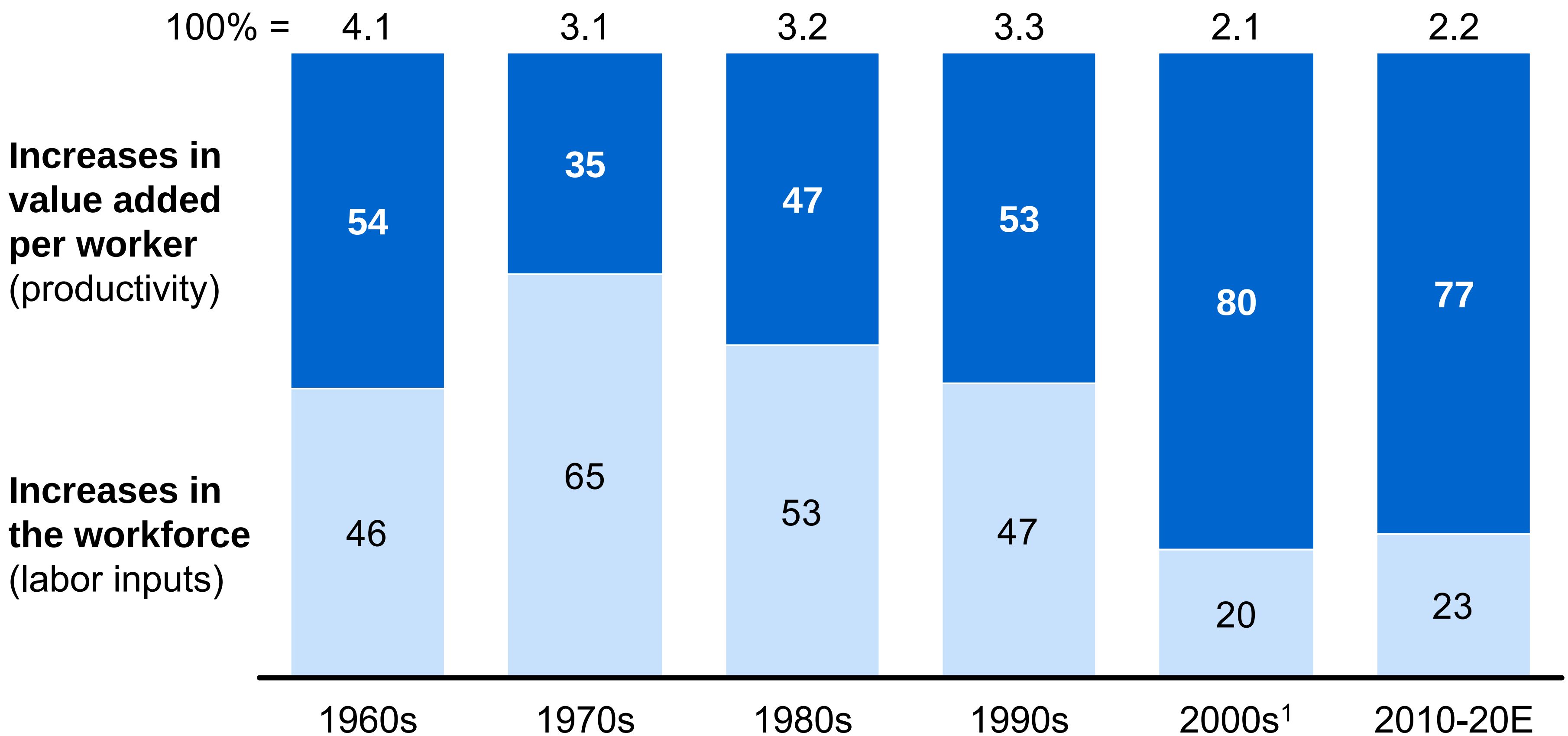
May 5, 2010

McKinsey&Company

More than ever before, the U.S. now relies on productivity gains for GDP growth

Contributions to growth in real U.S. GDP, overall economy

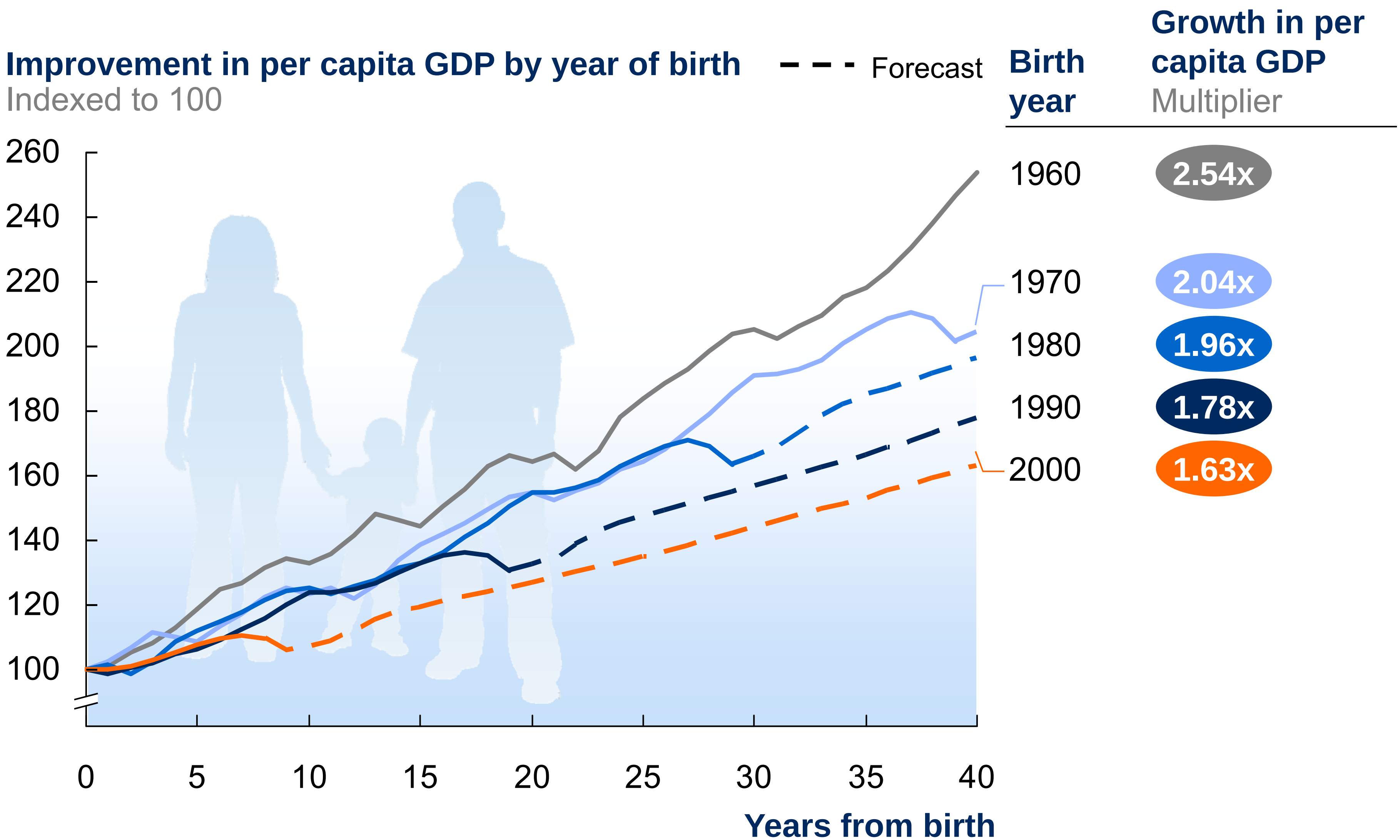
Share of compound annual growth rate, 1960-2008, %



1 2000-08 data used for 2000s

SOURCE: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; McKinsey Global Institute analysis

Without a productivity boost, younger generations will experience slower increases in their standard of living

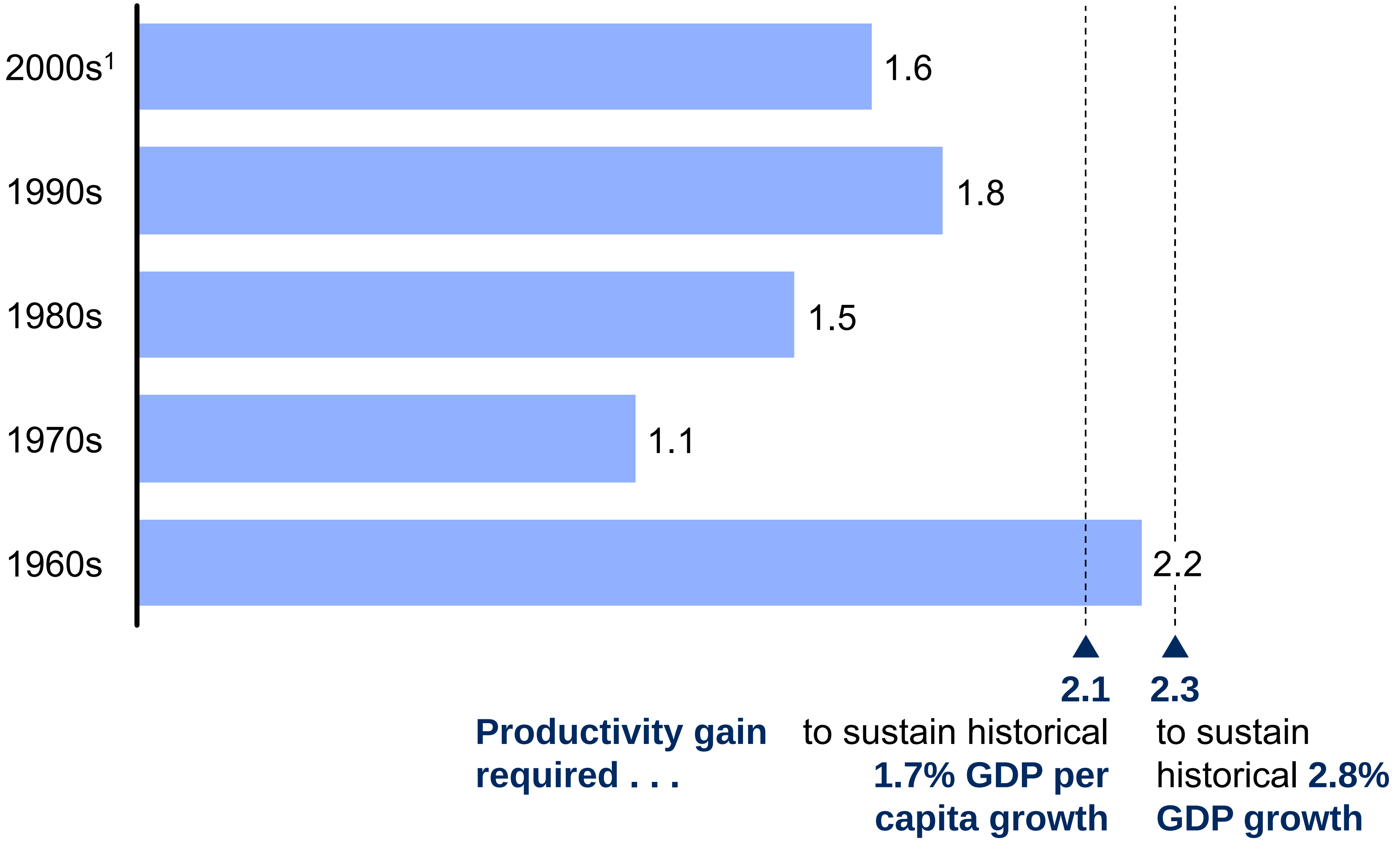


SOURCE: U.S. Bureau of Economic Analysis; U.S. Census Bureau; Moody's Economy.com; McKinsey analysis

The productivity gains needed to sustain historic GDP growth rates are ambitious

Productivity growth rates

Compound annual growth rate, %

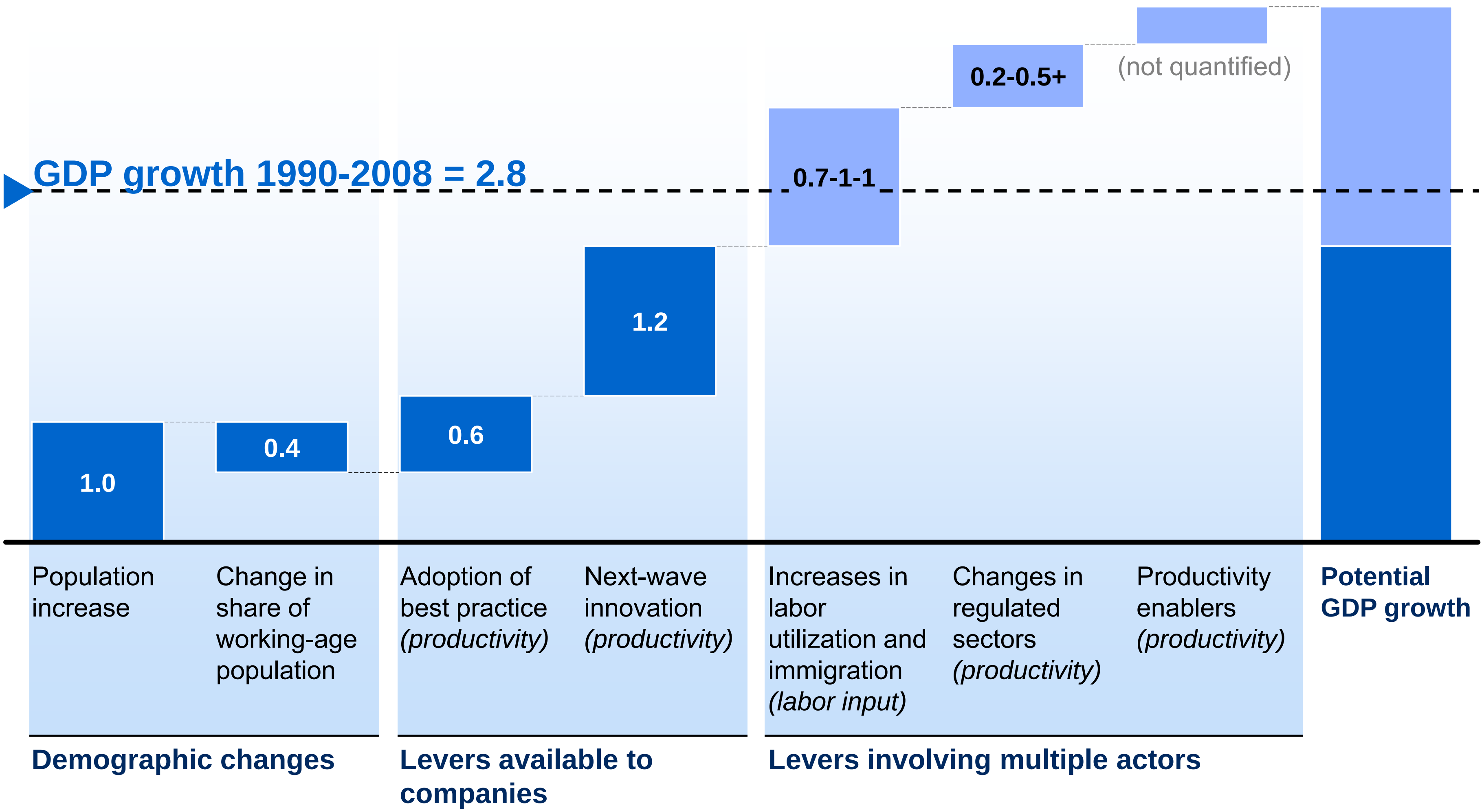


1 Includes 2000-08

SOURCE: U.S. Bureau of Economic Analysis; Census 2009 population estimates; McKinsey Global Institute analysis

The U.S. can achieve historic levels of GDP growth, or better

Potential GDP growth
Compound annual growth rate, 2010-20, %

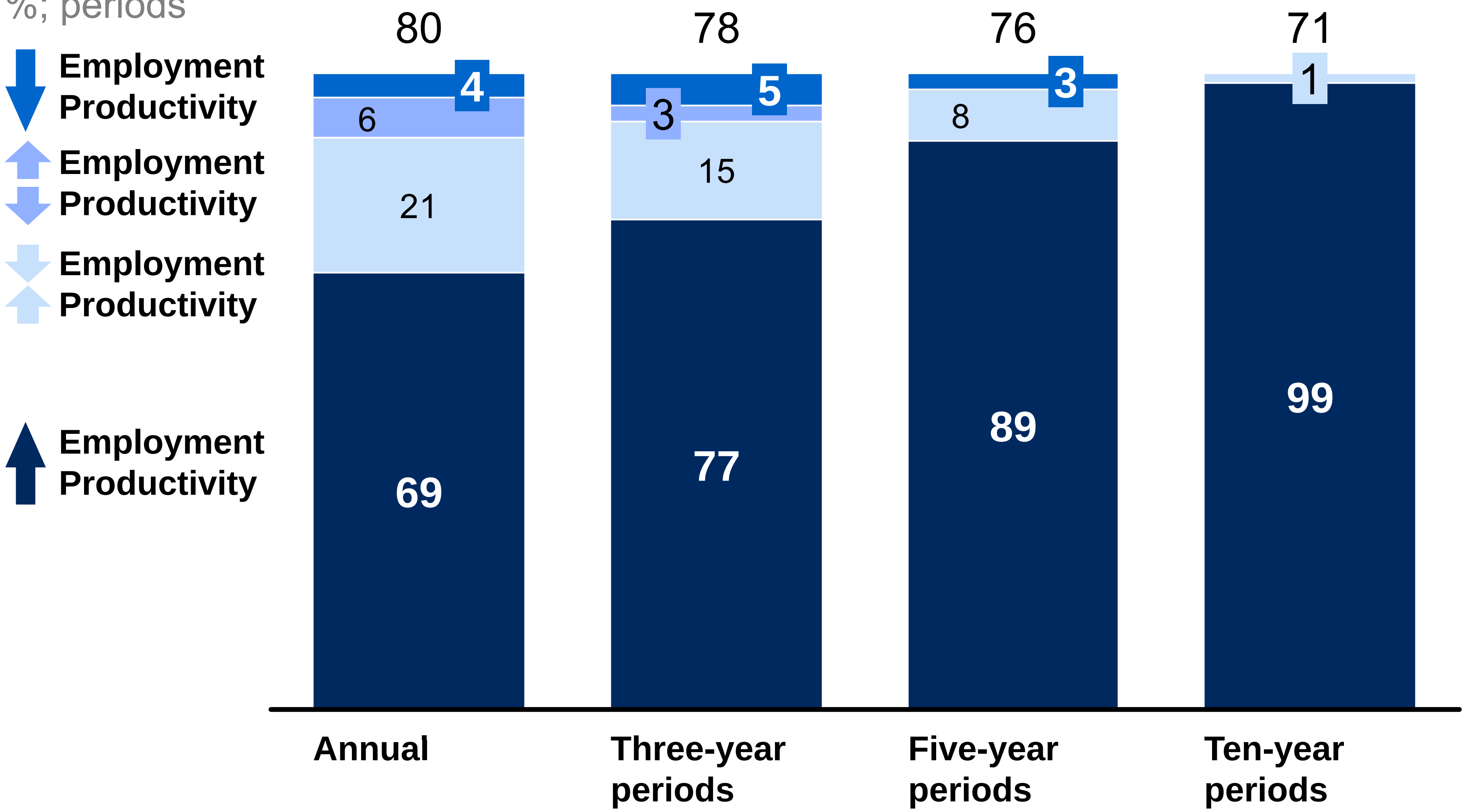


SOURCE: Organisation for Economic Co-operation and Development; Central Intelligence Agency; World Bank; McKinsey Global Institute analysis

At the national level, the “trade-off” between aggregate employment and productivity levels is at best short-term

Rolling periods of employment and productivity change, 1929-2009

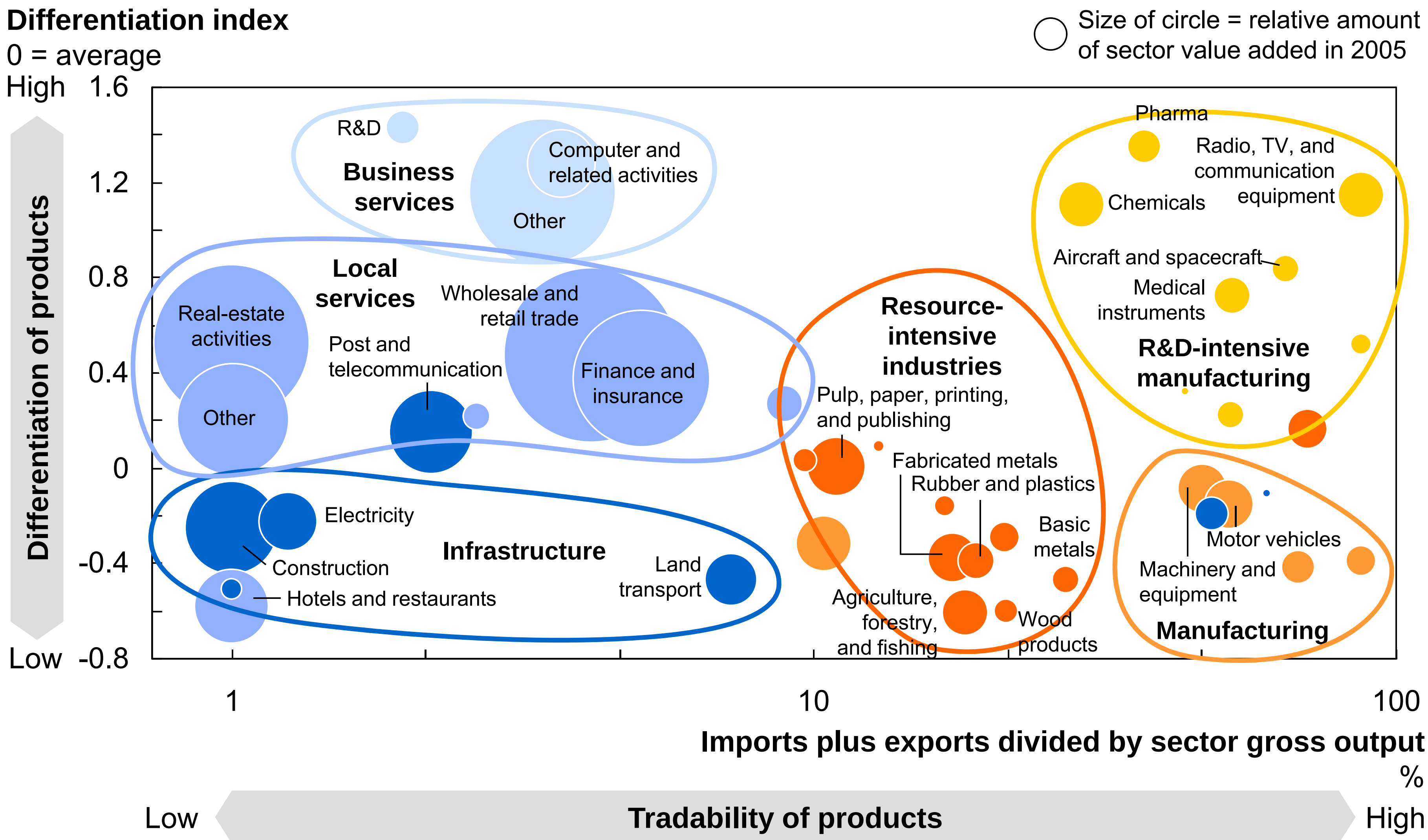
%; periods

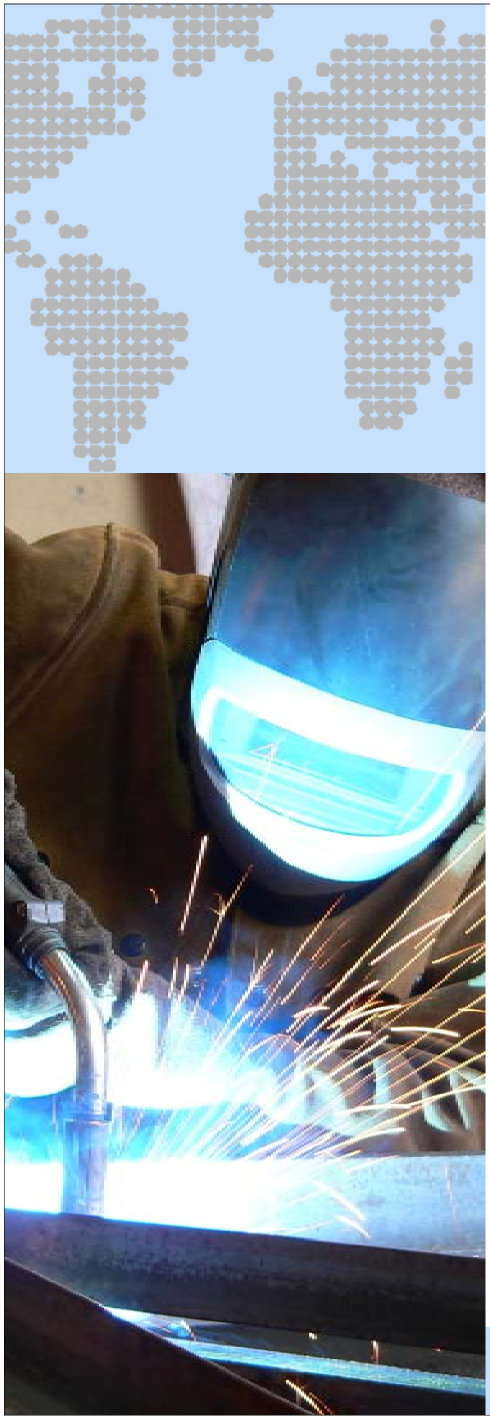


Summary

- **Our sector approach – and why it matters**
- Patterns in sector contributions to growth
- How can governments tailor policies to each sector

MGI categorizes sectors into six groups according to degrees of differentiation and tradability





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- Our sector approach – and why it matters
- **Patterns in sector contributions to growth**
- How can governments tailor policies to each sector

Three lessons learned for governments to keep in mind as they seek to enable growth

LESSON 1
Success in emerging, innovative sectors alone is not enough to sustain growth

LESSON 2
The mix of sectors in an economy is less important than the competitiveness of sectors

LESSON 3
Service sector growth is critical – and particularly so for job growth

SOURCE: McKinsey Global Institute analysis

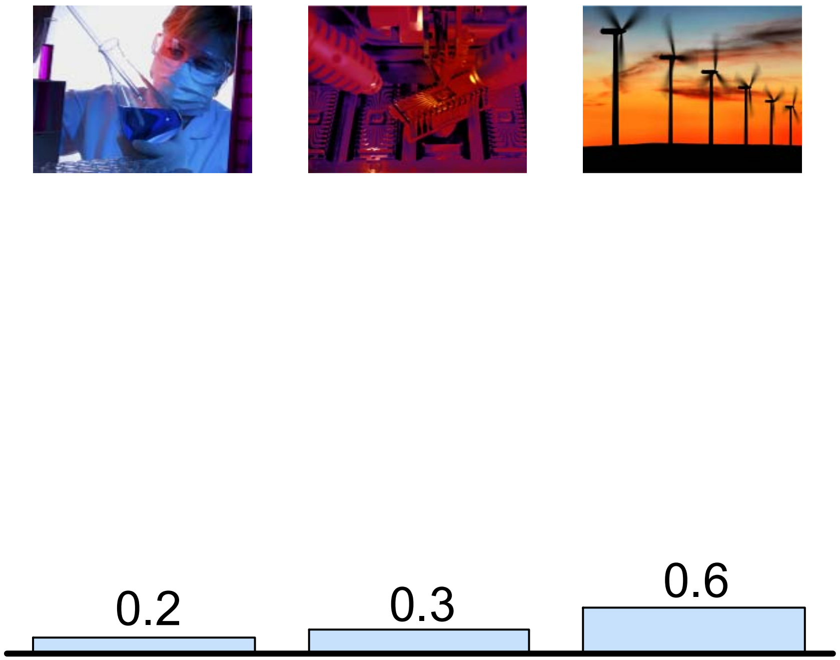
Competitiveness in new innovative sectors is not enough

Even in the United States, innovative new sectors make a small direct economic contribution

Share of US employment, August 2009 (percent of nonfarm employment)
100% = 130 million

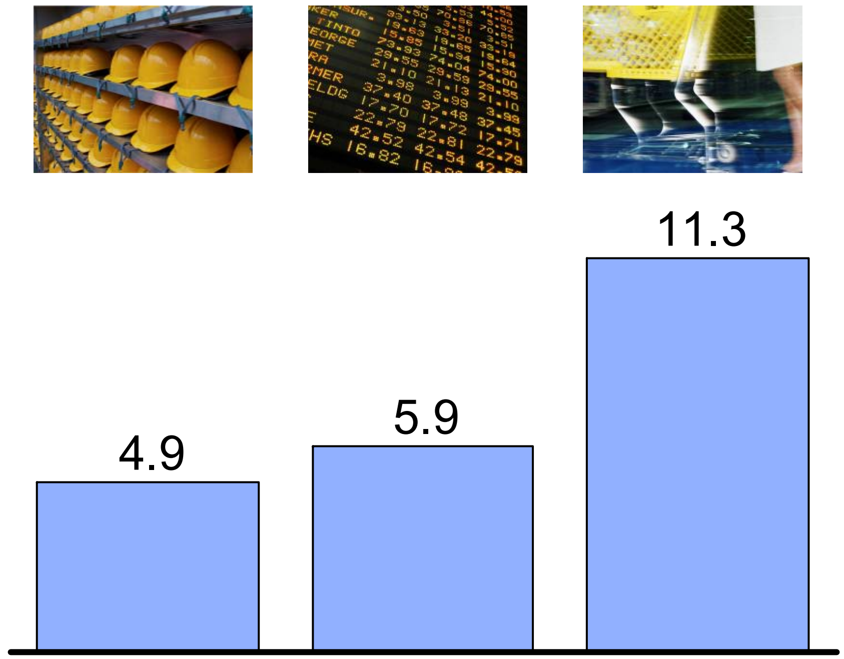
New innovative sectors

Biotech | Semi-conductor | Cleantech



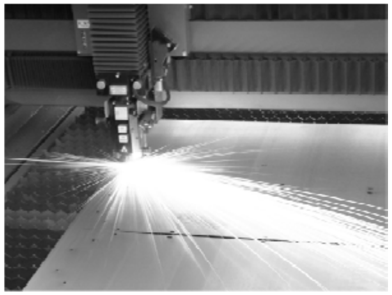
Existing large employment sectors

Construc-tion | Financial activities | Retail trade



SOURCE: The Clean Energy Economy, PEW, 2009; Bureau of Labor Statistics; Haver analytics

Three lessons learned for governments to keep in mind as they seek to enable growth



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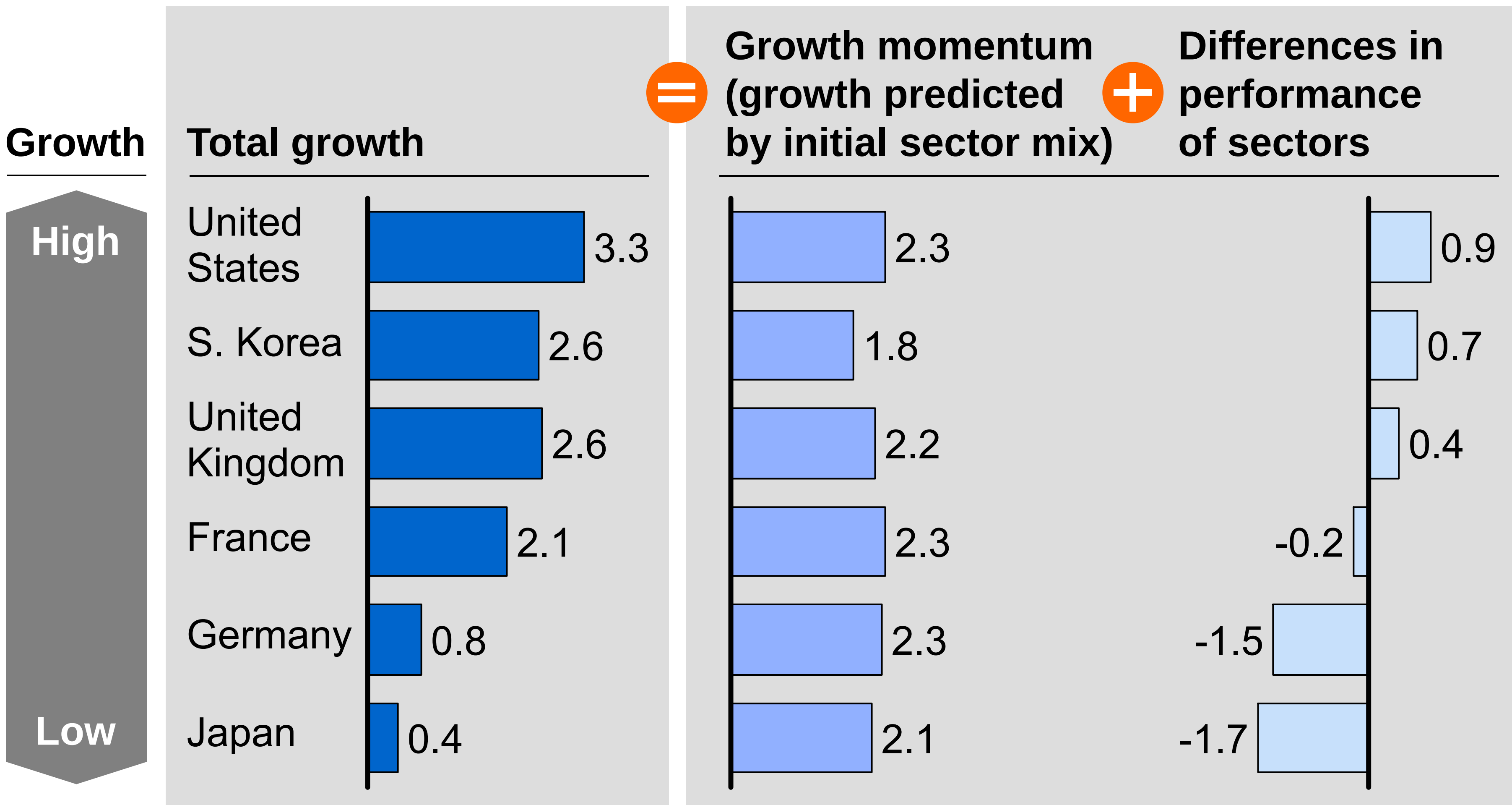
SOURCE: McKinsey Global Institute analysis

Sector competitiveness matters more than sector mix

Sector performance has mattered more than the mix of sectors for overall GDP growth in developed countries

Contribution to total value added, 1995–2005

Compound annual growth rate, %



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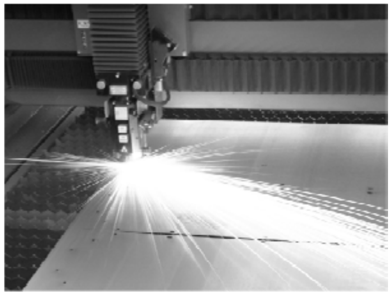


LESSON 1
Success in emerging, innovative sectors is not enough to sustain growth; existing sectors need attention, too

LESSON 2
The mix of sectors in an economy is less important than the competitiveness of sectors

LESSON 3
Service sector growth is critical – and particularly so for job growth

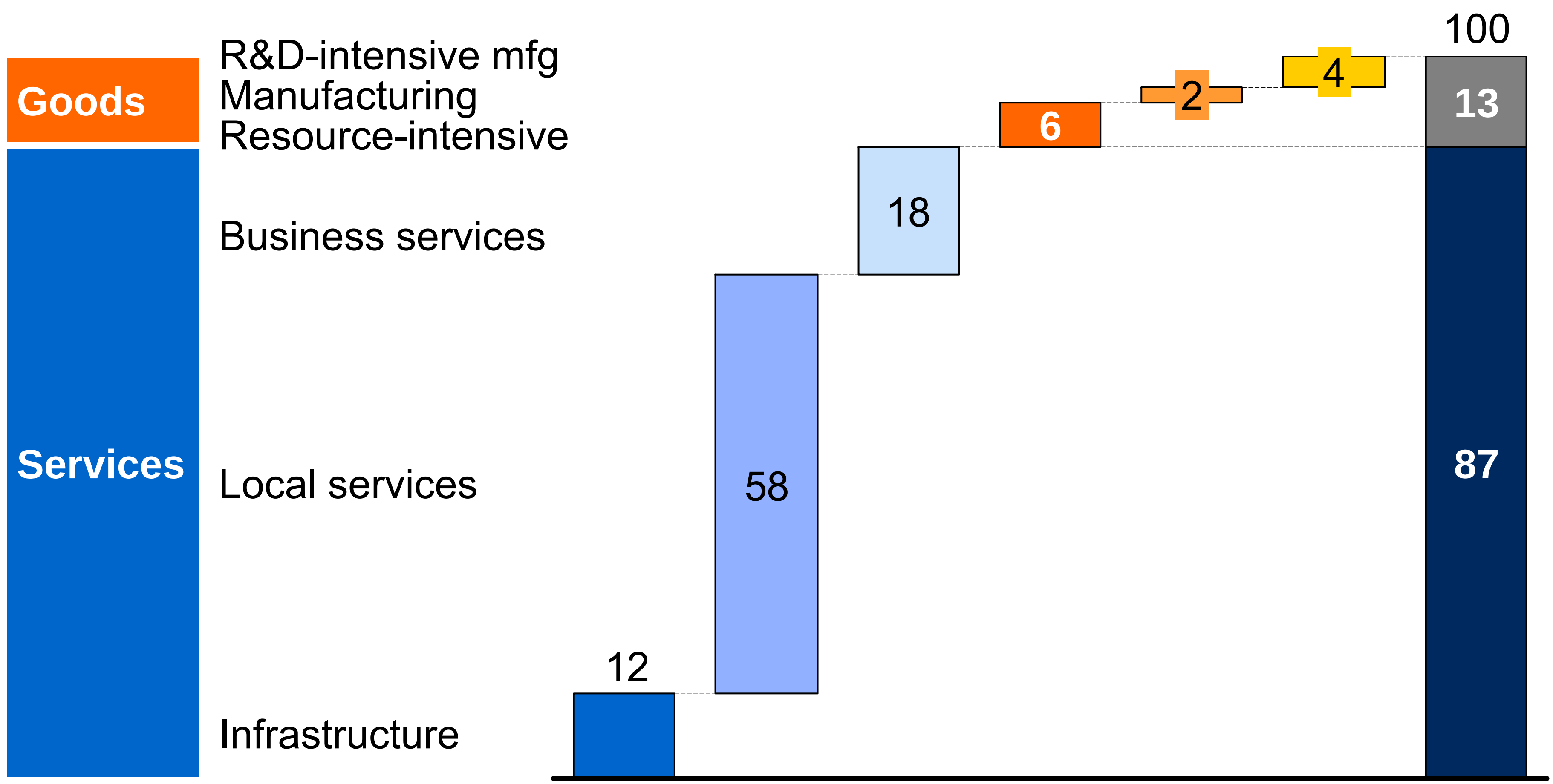
SOURCE: McKinsey Global Institute analysis

For jobs, service sector competitiveness is key

Services have contributed 87 percent of GDP growth in high-income countries in the last decades

Sector contribution to growth of value added in high-income countries, 1985–2005

100% = $10.4 trillion



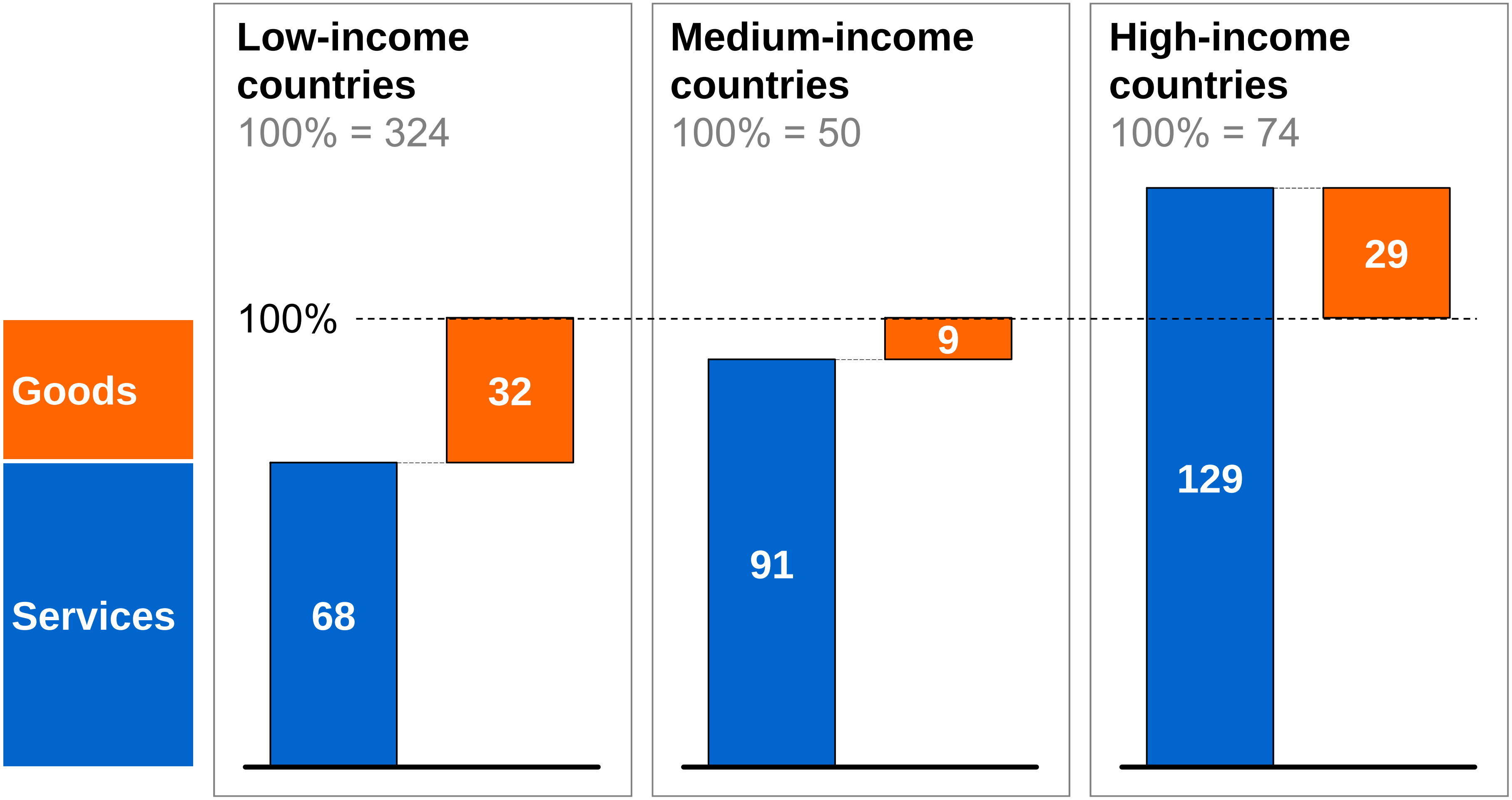
SOURCE: Global Insight; International Labor Organization; National Statistics; McKinsey Global Institute analysis

For jobs, service sector competitiveness is key

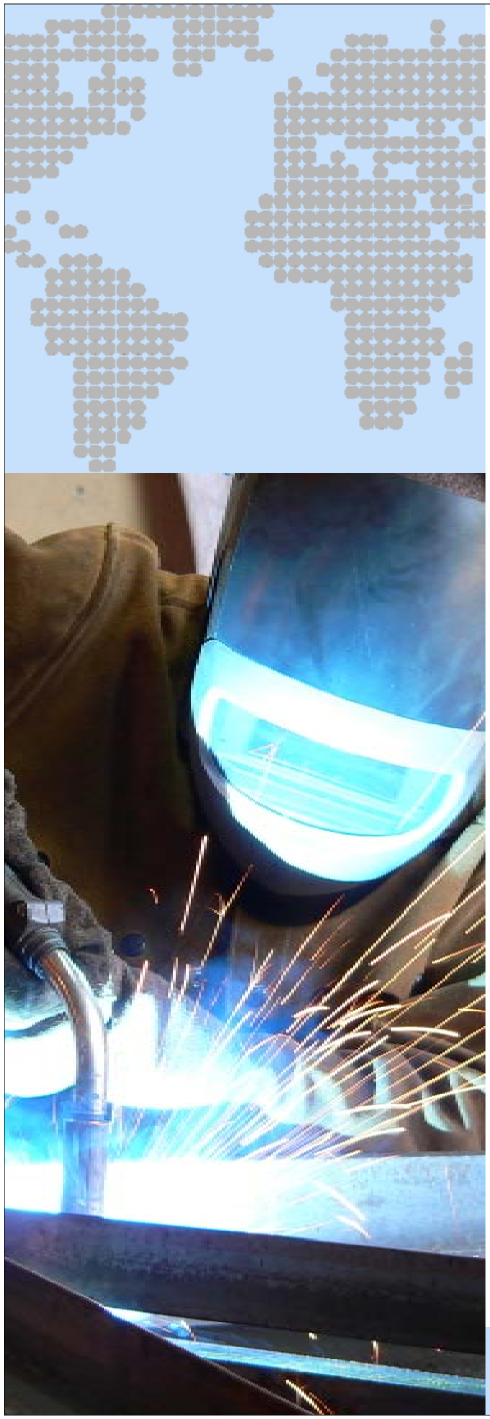
Service sectors generate most net new jobs across all income groups – and over 100% in high income countries

Sector contribution to a country's net growth of employment, 1985–2005

%, million employees



SOURCE: International Labor Organization; National Statistics; McKinsey Global Institute analysis



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- Patterns in sector contributions to growth
- **How can governments tailor policies to each sector**

Our policy approach – framework

Differentiating sector-level policies by the degree of intervention

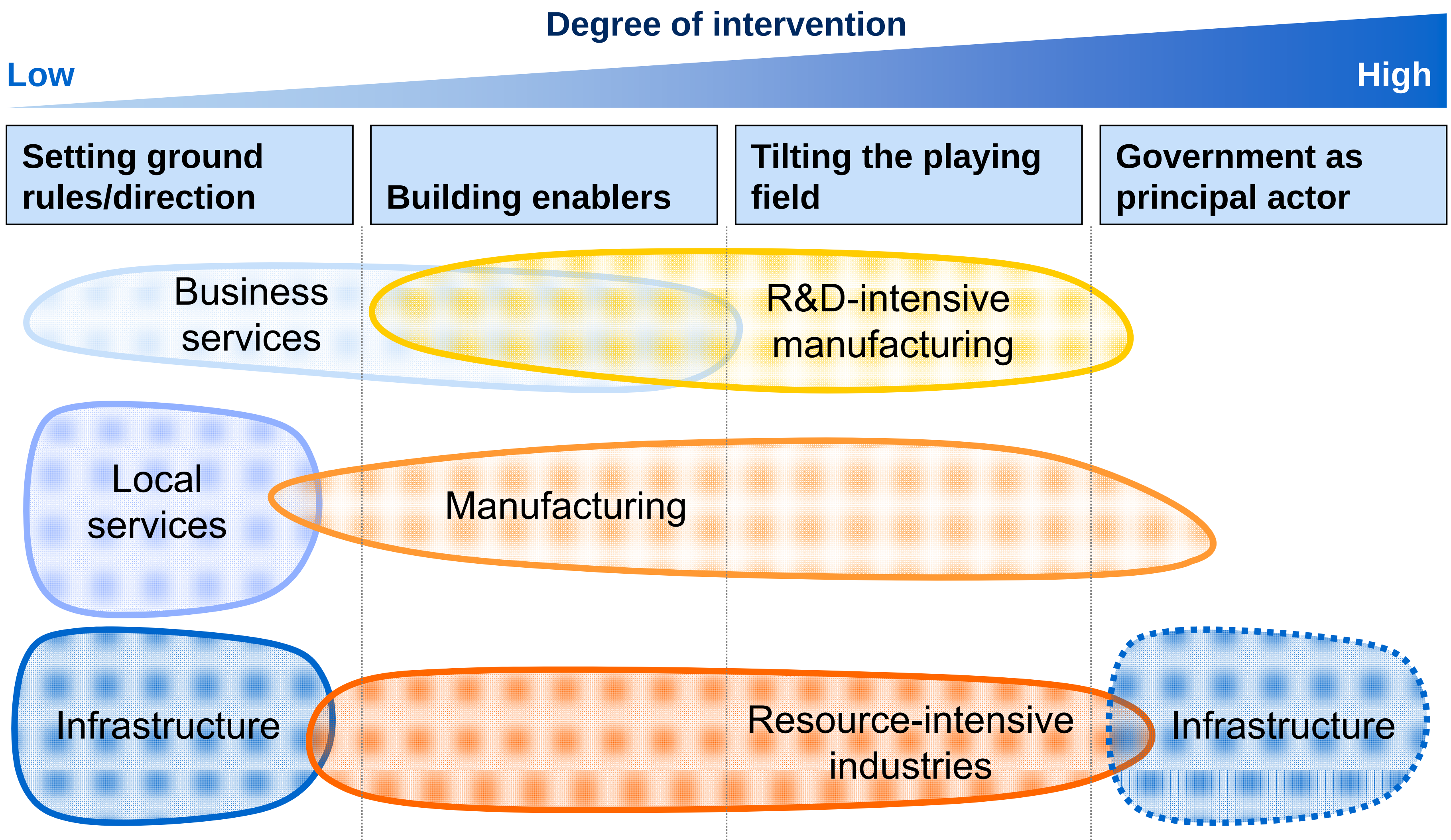
Degree of intervention

Low → **High**

Setting ground rules/direction	Building enablers	Tilting the playing field	Government as principal actor
Governments can limit sector policies to ▪ Setting the regulation covering labor, capital and land markets; ▪ Establishing the general business environment, ▪ Setting broad national priorities and road maps.	Without interfering with market mechanisms, governments can support private-sector activities by ▪ Expanding hard and soft infrastructure; ▪ Helping to ensure adequate skills through education and training, ▪ Supporting R&D activities.	Governments can choose to create favorable conditions for local production through: ▪ Trade protection from global competition ▪ Providing financial incentives for local operations ▪ Shaping local demand growth through public purchasing or regulation.	Governments can play a direct role by ▪ Establishing state-owned or subsidized companies; ▪ Funding existing businesses to ensure their survival ▪ Imposing restructuring on certain industries.

SOURCE: MGI/PSO Sector Competitiveness Project

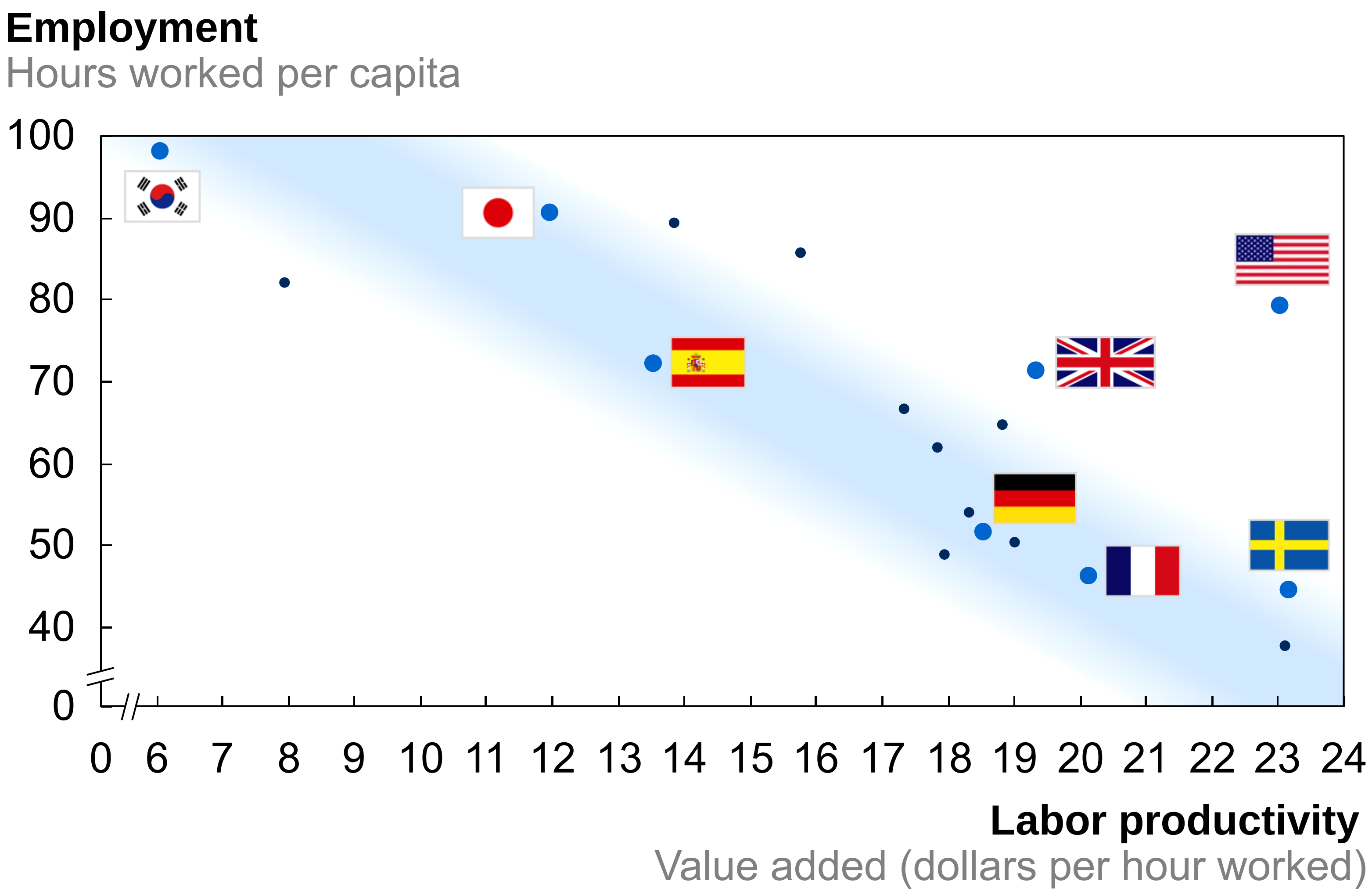
To be effective, policy tools need to be tailored to sector characteristics



SOURCE: McKinsey Global Institute/Public Sector Office Sector Competitiveness Project

Policy can determine domestic sector performance – retail sector performance varies widely around the world

Retail sector performance in developed countries, 2005



SOURCE: EU KLEMS; McKinsey Global Institute analysis

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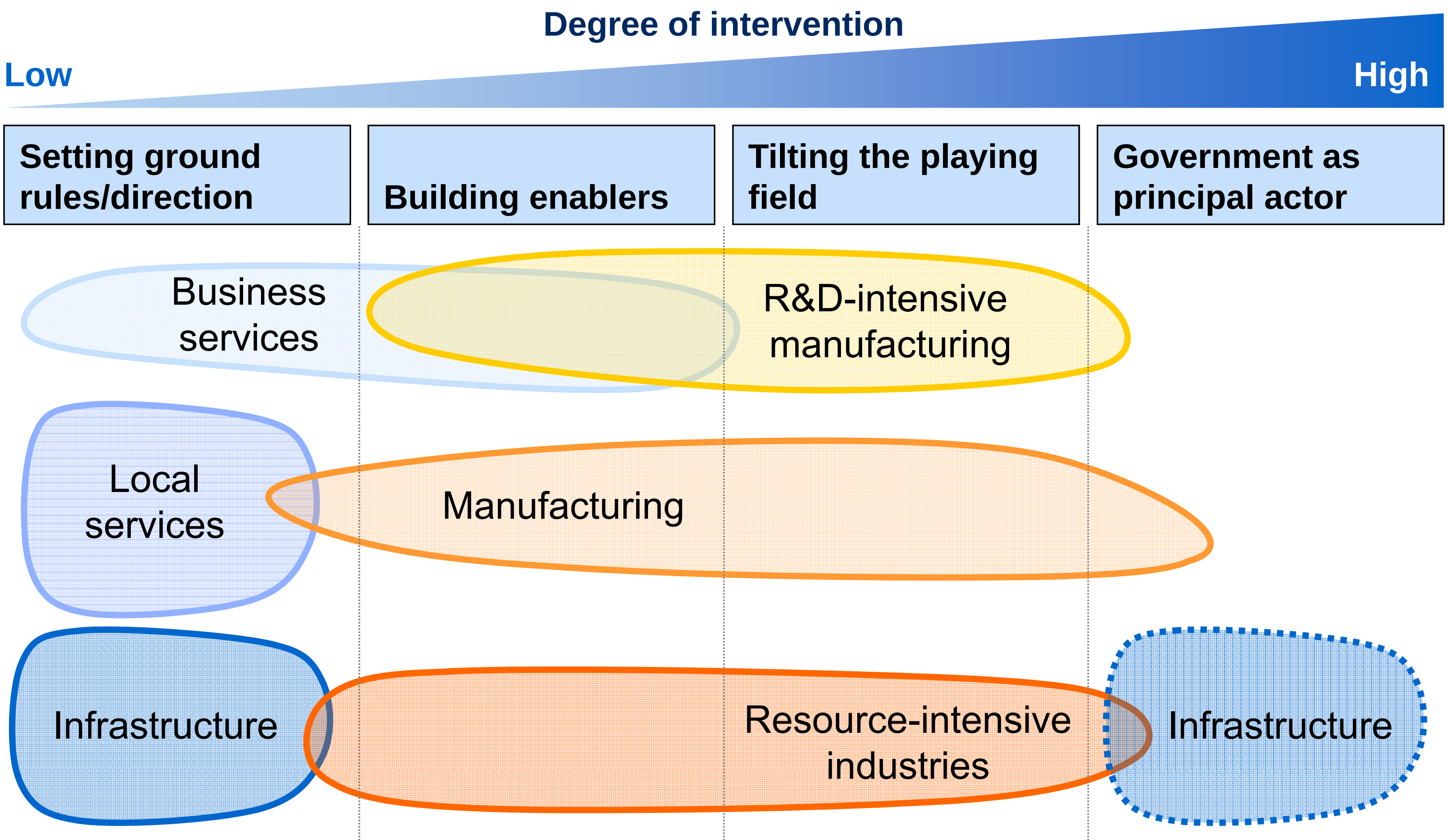


SOURCE: McKinsey Global Institute/Public Sector Office Sector Competitiveness Project

The majority of recent attempts to establish local semiconductor industries or clusters have failed

Successes and failures of semiconductor clusters

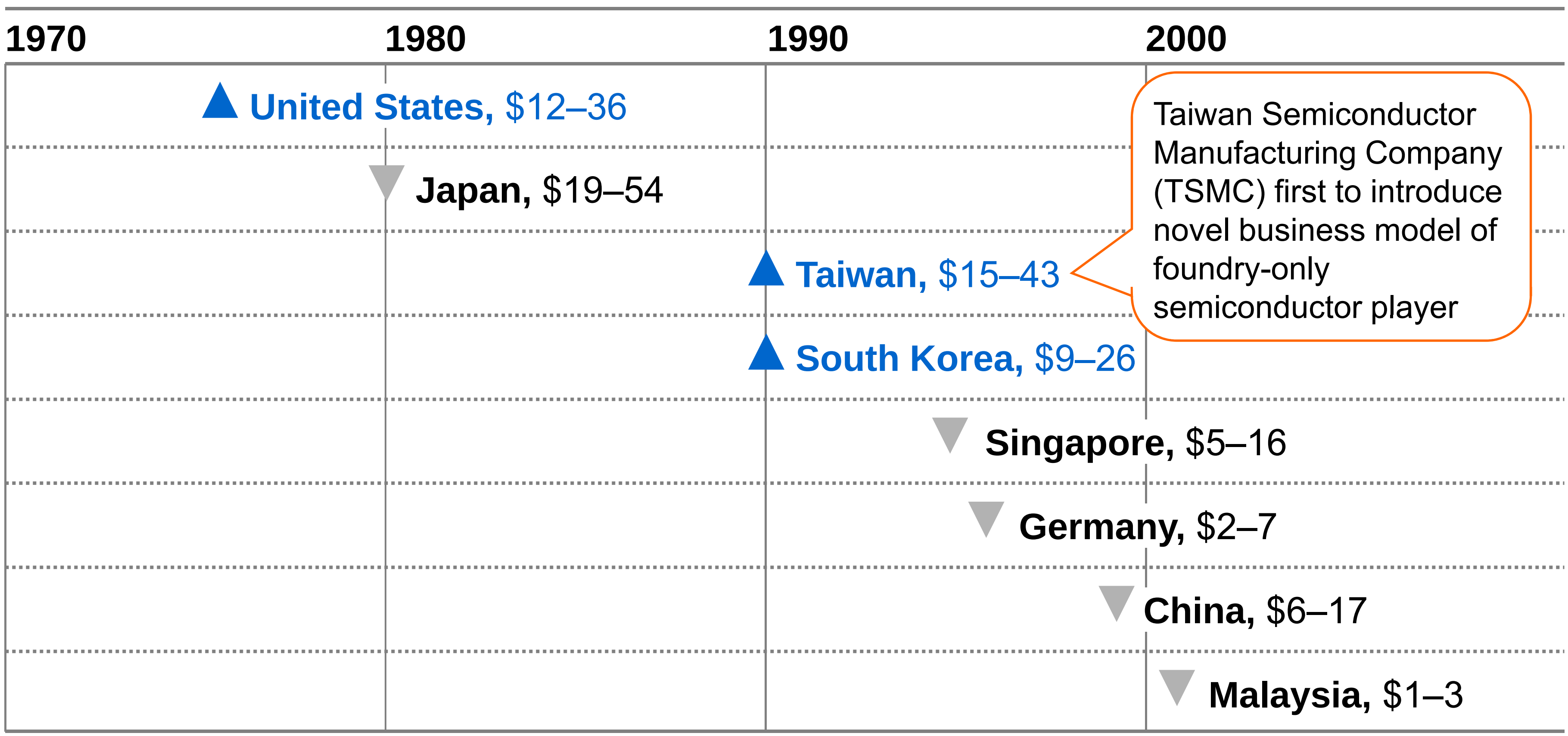
ROUGH ESTIMATES

$ Estimated cumulative country-wide government incentives (USD billion)

Sustainable competitive edge

- ▲ Present
- ▼ Currently not present

Estimated date of industry reaching significant size



SOURCE: *SEMI World Fab Watch*; expert estimates; McKinsey Global Institute analysis

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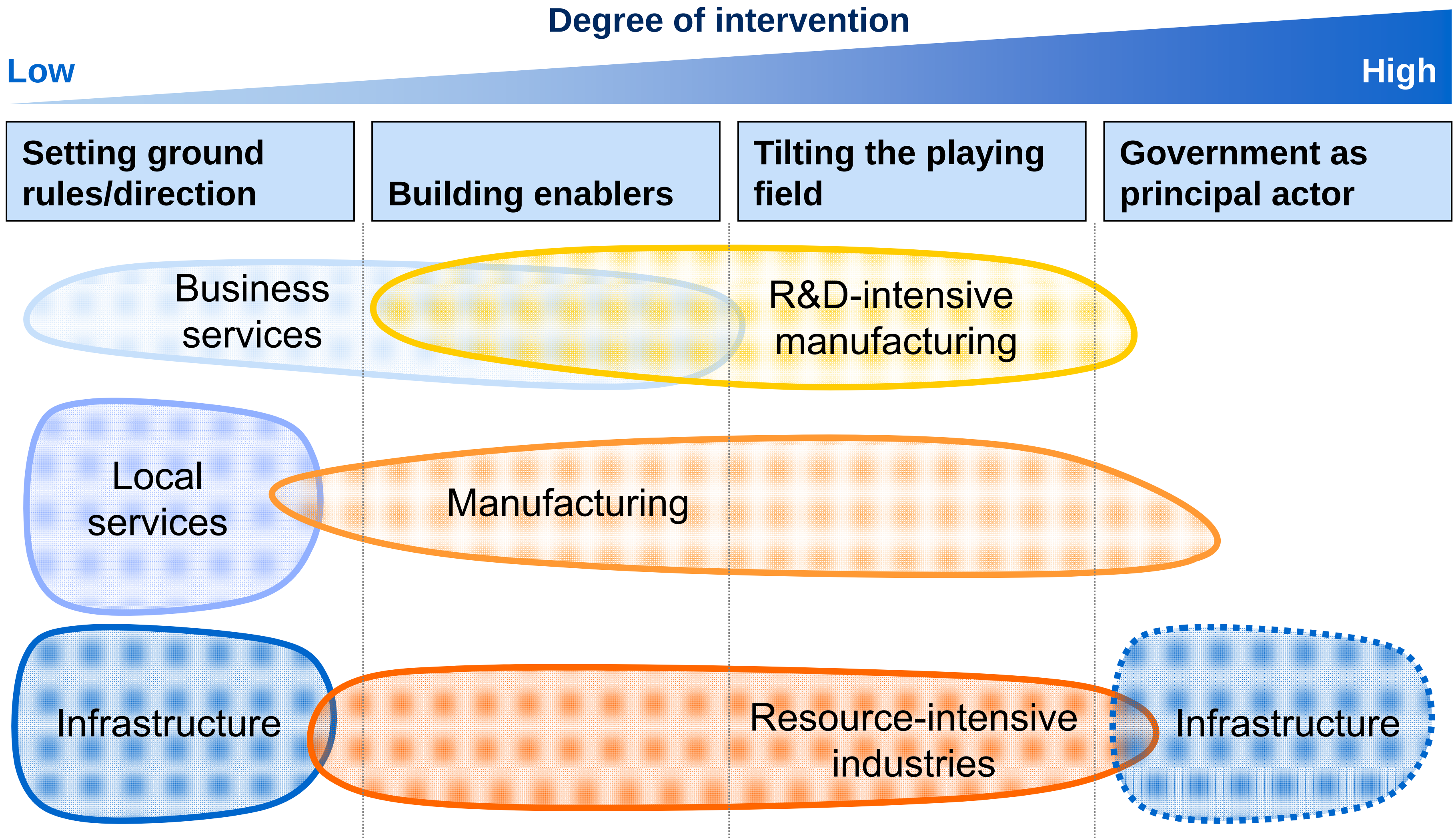

SOURCE: McKinsey Global Institute/Public Sector Office Sector Competitiveness Project

A sector perspective on competitiveness and growth

- Growth aspirations need to be grounded on a realistic view of sector contributions to growth
  – Success in emerging, innovative sectors is not enough
  – The mix of sectors matters less than their competitiveness
  – Service sector growth is critical – particularly for job growth

- Effective growth policies are tailored to the levers that matter in each sector, yet odds of success vary
  – Policy can determine sector performance in local sectors…
  – … but cannot guarantee success in globally traded industries

- In tradable sectors, odds improve if policies target economic activities with a strong business case for local production; and are executed in collaboration with the private sector

Thank you

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