

Porter's Cluster Strategy Versus Industrial Targeting

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Michael Porter has become the early 21st century's most prominent champion of regional development, arguing that clusters should be central to any economic competitiveness agenda. Essentially, the cluster theory is designed to provide a policy basis for competitive microeconomic (firm-level) development. Porter contends that microfoundations for development have been largely ignored and that the previous development theory accepted the economy as "factor- and investment-driven." In the past, policy makers have used targeted incentives to support traded (export-oriented) industries. Yet according to Porter, fostering an *innovative-driven* economy should be the focus of development policy, where continual innovation drives firm productivity, which is the most significant determinant of regional living standards.

This chapter provides a critique of Porter's cluster theory, including a thorough discussion of the pertinent empirical issues and policy implications. Porter argues that it is not *what* a region produces, but *how productively*. In this theory, it is not the industry mix that is crucial, for firms in any industry can develop competitive clusters if they continuously upgrade productivity. Porter stresses that "there are no low-tech industries, only low-tech firms." If so, it would appear that there is no need for industrial targeting.

Nevertheless, it is the search for promising targets that is the rationale used by many state and local policy makers in their embrace of the cluster framework.

This paper critically reviews the cluster theory as a new development paradigm, contrasting the Porter conceptual framework with traditional theory and practice. In particular, there is considerable confusion about Porter's policy prescriptions; typically, they are seen as compatible with industrial targeting. In fact, most policy makers view cluster strategy and industrial targeting as identical.

While Porter contends that all clusters matter, some seem to matter more than others—notably, traded clusters. To identify traded clusters, Porter and associates have engaged in a comprehensive regional mapping project, which covers most regions of the United States. The exercise is not meant to pinpoint the clusters that can develop in particular areas; it only suggests where existing regional strengths may lie. The empirical identification is done through a modified location quotient approach familiar to regional analysts and highlighted in this book. Yet it is argued in this chapter that the state of empirical work on both clusters and industrial targeting is still sketchy. This is unfortunate, given the significant interest and potential policy implications of cluster theory.