

# **Porter's Cluster Strategy Versus Industrial Targeting**

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## **Chapter Outline**

### **1) Introduction**

- a) Michael Porter as the early 21<sup>st</sup> century's most prominent champion of economic development.
- b) Porter's central thesis was that the old model was wrong.
- c) New approach to economic development: placing higher productivity, innovation, and cluster development at the crux.
- d) Effects of globalization and industrial restructuring force new thinking
- e) Examples of Porter's strategy
  - i) Japan, Finland, Estonia, Portugal, Singapore, Costa Rica, Nicaragua, Mexico, and Rwanda.
  - ii) State and local level in the United States
- f) Policy implications and relationship to industrial targeting.
- g) Complement to industrial targeting.
- h) Connection to the rest of the book

### **2) Porter-Style Clusters: Theory and Practice**

- a) Review of the literature
- b) Inductive and deduction approaches in regional analysis
- c) Porter (1990) and (1998) on clusters and agglomeration
- d) Porter theory and comparative advantage (Heckscher-Ohlin) theory
  - i) "National prosperity is created, not inherited,"
- e) Innovative capacity and regional development
  - i) Silicon Valley in California as a cluster
  - ii) Beyond the Silicon Valley
  - iii) Cluster theory in urban and rural areas
  - iv) The innovative milieu and its limits in regions outside of the Silicon Valley
- f) Agglomeration and Porter Diamond Model
- g) Use of Porter diamond model in practice
  - i) Connecticut
  - ii) South Carolina

### 3) Clusters Versus Industrial Targeting

- a) Not *what* a country or region produces, but *how productively* that leads to growth and competitiveness.
  - i) Implies there is no need for industrial targeting.
- b) The problem is that policy analysts want to know which clusters matter, target high-tech industries, and generally believe what a region produces (not just how) is critical to strategic development policy.
- c) “Traded” (export-oriented, or economic base) clusters are more important than “non-traded” clusters.
- d) Cluster theory as an elaboration of regional economic theory
- e) Like industrial targeting, it seems to represent an attempt to think strategically about development.
- f) Cluster theory vs. industrial targeting: confusing policy implications.

### 4) Empirical Problems with Cluster Theory

- a) Similar empirical tools used in industrial targeting are employed in Porter’s cluster mapping
- b) Employment location quotients serve as a guide to policy, as the Harvard Cluster Mapping Project reveals.
- c) Critique of location quotients in the context of modern methods used to measure agglomeration and localization economies
  - i) Ellison-Glaeser indices
  - ii) Recent methods by Guimarães, Woodward et al.
  - iii) Relate findings to other chapter contributions

### 5) Conclusion

- a) Re-state essential point of this paper: Porter’s prescriptions depart sharply from the traditional policy of targeting in regional economic development
- b) Relation of chapter to other chapters in the book
- c) Direction for future research