Competitiveness in a resource-constrained world: A call to action for governments

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What is at stake?

We are entering a new era. In contrast to the end of the 20th century, resource costs are now rapidly becoming an ever more significant economic factor for most countries. The economic significance of resources can only grow as resource use continues to soar. In fact, resource demand is now so high that resource assets are being overexploited, not just locally but often at the planetary scale – as is becoming obvious through the water–energy–food nexus. If these physical trends continue, resource constraints will most likely become a leading factor determining economic success – or crisis – in the 21st century.

These physical resource trends are slow-shifting and hard to reverse. Like with super-tankers, course corrections need to be taken early and affirmatively to avoid disaster, but such course corrections are still possible. Economic decisions must better recognise all the key economic drivers of success. Without reversing trends, the impacts of this growing resource pressure might rise substantially, and may become increasingly non-linear and volatile.

Recognising these new dynamics offers a number of opportunities. First, it helps to reveal that proactively addressing resource constraints is in the direct self-interest of nations. Most benefits generated by adjusting to this new reality will accrue to the nations that take action. It reduces their risk and opens new opportunities as they limit their resource dependence. In contrast, those who fail to act will lose their competitive advantage as volatile and potentially rapidly growing resource costs eat up ever bigger portions of a resource-dependent nation's income. While resource constraints are global, the risks and opportunities created by these constraints are largely local. To succeed, we are proposing an updated competitiveness framework: Competitiveness 2.0.

Where we come from: increased global integration

Over recent decades, the world has become increasingly interconnected. Globalisation has permeated all aspects of our lives. Now, for companies to succeed, they have to stay ahead of their global competition, not just their local neighbours. Hence, world-class performance has been key to their success. Against this backdrop, the theory of competitive advantage emerges (Michael Porter, 1985, *Competitive Advantage*, Free Press, New York). This competitiveness 1.0 suggests that states should, as a focus of their national strategies, pursue policies that allow their businesses to create high-quality goods to sell at high prices and embrace productivity growth. This competitiveness approach is based on the assumption that the well-being of a country, measured by its GDP, would be improved through creating the most beneficial national and global regulatory frameworks for business growth. It would be a win–win–win for businesses, governments and their citizens, as such an approach would increase revenues of companies and increase salaries, which in return would boost tax income. Therefore, a country's competitive advantage enables it to invest in its social structures and build its social capital.

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Competitive advantage, as applied to countries, has led to three major developments:

a. The acceptance of the competitive advantage framework as the engine for progress. States and companies consider it as the gateway to increase their GDP and hence ultimately increase their citizens' income. In turn, income is seen as a core contribution to improving citizens' well-being (the main indicator of progress is therefore GDP);
b. The implementation of competitive advantage strategies by governments through internal regulations and external trade agreements that foster the growth of companies operating in the country;
c. The emergence of measures of the competitive advantage of countries. They include rankings used as a benchmark. These measures also become pressure points for countries: they have led to changes in their regulatory frameworks as they attempt to improve their competitive advantage.

In many countries, multi-stakeholder groups have been created to strengthen their understanding of competitiveness and to support actions to improve the competitive positioning. This competitiveness 1.0 approach was believed to be a guarantee of effective and widely supported solutions that would boost the country's competitive advantage and create a business-friendly environment.

Where we are today: Facing planetary boundaries

Economic success in past decades has translated into higher resource consumption levels that are no longer sustainable. As a result, countries' efforts to drive their competitive advantage could lead to a race to disaster as they maintain their income (or GDP levels) by liquidating their assets. Liquidating their assets can come in the form of, for instance, running fiscal deficits or overusing their biophysical resource stocks. Also, countries have tried to maintain the benefits of their past competitive advantage without maintaining their competitive positioning. This discrepancy has led to increasing levels of financial debt.

These high levels of debt and inability to repay have started to erode the ability of countries to deal with their national challenges. In addition, the growing resource risks, accentuated by the global race to competitive advantage, are starting to undermine not only their own ecological and economic health, but also the prospects for humanity.

In essence, classical competitive advantage strategies are leading to overuse of our natural resources such as overshoot of biocapacity, overuse of freshwater and soils, and the depletion of fossil energy and mineral assets. (Lester Brown, 2011, *World on the Edge*, Norton, Washington, DC or http://www.footprintnetwork.org).

The fundamental reasons for this race to disaster are as follows:

- All life requires ecological resources, including water and biomass, for its survival. Most industrial societies are still highly dependent on easily accessible fossil energy resources. Increased pressures on these resources can lead to non-linear effects, including price volatility or supply disruption, with potentially severe shocks for all participants in the global economy.
- Current metrics for competitiveness and economic performance largely ignore the resource dimension and its potentially non-linear dynamic ignited by supply gaps. While the global market will be able to smooth over local supply gaps initially through trade, all the participants in the global market will be exposed to global shortages simultaneously. Such potential system shocks may be accelerated, since many nations with critical resources will be focused on securing domestic demand before serving the global market.

In the face of this "race to disaster" dynamic, there is a profound and urgent need to find answers to the following questions:

- What does it take for governments to appreciate the economic significance of their resource dependence in the context of the current dynamic?
- Considering the pressure of the resource dependence on countries' competitiveness and social stability, and the potential endangerment of the country's survival, what are the opportunities for governments to aggressively manage their resource dependence?
- What competitiveness plans do countries have in place to succeed in a resource-constrained world?

The way forward: Competitiveness 2.0

The new resource context calls for an upgrade of the classical model of competitive advantage. It requires a model that addresses the rapidly shifting resource dynamics. Besides the main components of such resources, which are crucial to the creation of sustainable well-being (e.g. biocapacity, water, fossil energies, minerals), the following elements should be included in the next generation of competitiveness models:

- The fact that without an adequate and secured supply of resources, a state will be unable to offer any lasting basis for operating. Resource shocks will come as surprising disruptions (in the absence of a well-functioning market) or volatile, upward-shooting price increases, eating up countries' economic progress. Such a scenario can easily reduce – if not annihilate – the competitive positioning of a country, and can in the extreme case lead to the situation of a failed state.

- In the case of ex-territorial resource dependence, countries need to find ways to procure missing resources. They will only be able to do so if the country has sufficient financial means. This financial capacity is also shaped by the wealth or debt situation of such a country. As a national debt becomes too large compared to the country's GDP, a country will lose its ability to address resource deficits. Not only the country's debt, but also its sovereign savings, its government's budget balance and its import–export balance will become a more and more important determinant of a country's "licence to operate." Hence we use this term in our new competitiveness model as shorthand for a country's financial health and ability to cope with rising resource costs.

- The need to revisit the concept of well-being beyond GDP. GDP is blind to many aspects, such as inequalities and limited access to health services and education. Such inequalities and limitations can lead to social tensions and unrest. To keep track of social stability and human progress, many other aspects beyond GDP need to be considered, including public health and life expectancy, access to education, wealth creation, and a sense of fairness and equality. The Human Development Index (HDI), for instance, points in this direction. We label this important element "added value to citizens," i.e. benefits that governments demonstrably deliver to their populations.

- Finally, the recognition that resource constraints are not primarily a problem of the global commons, but that they hit every nation differently depending on how well the country is prepared or how significantly it is exposed to resource dependencies. In essence: wait for

global consensus and risk the future of your country. This is an issue that needs a bold response from each country and cannot simply be solved by a global consensus.

An updated model of competitiveness that is fit for the emerging future needs to embrace the nexus of resources and sovereign debt as key factors for national progress (see figure below). Strategies need to include aggressive resource policies in order to succeed in the emerging rapids of global overshoot. While many factors of classical competitiveness still hold, ignoring the emerging factors of resource access and debt containment could erode every progress achieved through the classical factors. In summary, we need a Competitiveness 2.0 approach with three updated key ingredients, as depicted below.

The idea is simple. In a time of growing resource constraints, we need to update national competitiveness strategies. While the elements of traditional competitiveness still hold, it has become clear to many that one key element, national debt, is starting to overshadow other components and needs far more attention. We call this realisation Competitiveness 1.5. But the debt crisis is merely a symptom of a larger structural problem: the fact that resource dependencies and associated costs and disruptions are becoming one of the key drivers of economic success, while in the past it was rational to ignore it, since it was a declining cost factor.

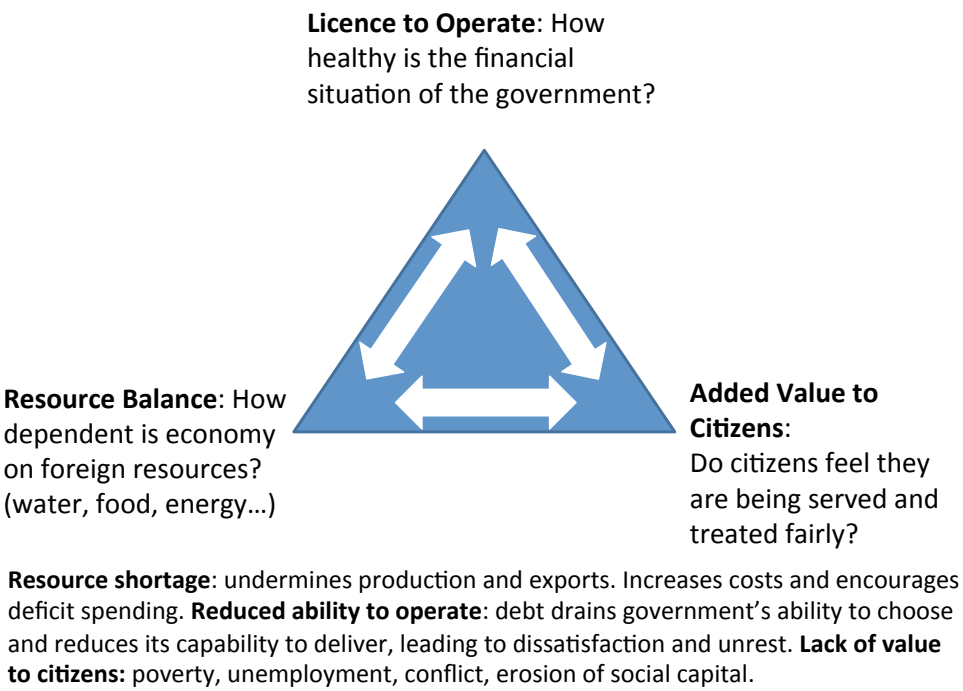

Figure 1: The Competitiveness 2.0 Triangle: *The economic success of nations in a resource-constrained world is increasingly determined by their ability to deal with their debt situation and their access to natural resources. Also, if they continue to manage for GDP rather than for a broader understanding of wealth, they may undermine their country's ability to perform.*

This calls for Competitiveness 2.0, which highlights three key elements of the puzzle:

1. **Licence to Operate:** Competitiveness 1.5 recognises that without a healthy financial situation, countries lose their "licence to operate." As debts get high, particularly in the prospect of low-growth futures, the debt dynamics may shift, leading potentially to runaway debts and countries that are insolvent. Therefore, to succeed economically, we

need to focus more attention on the question: How healthy is the financial situation of the government?

2. **Resource Balance:** One of the Competitiveness 2.0 elements is the insight that without adequate access to resources, economies will be stifled if not strangled. These resource costs have the potential to grow exponentially and shave off the potential for economic growth. One key question becomes: How dependent is the economy on foreign resources (including water, food, energy, minerals…)? How much do they use compared with what they have themselves, and how big are the resource costs compared to their GDP?

3. **Added Value to Citizens:** The second key insight of Competitiveness 2.0 is that what ultimately matters to a country's stability and success is not GDP, but the overall improvement that the economy generates. This could be measured as increase in per-capita wealth (across all capitals) or a broader sense of change in human well-being. The UNDP's Human Development Index is an attempt to quantify such well-being. The key question in this domain becomes: Do citizens feel they are being served and treated fairly?

Without attending to these new Competitiveness 2.0 principles, it is unlikely that countries will succeed. These principles define the solution space and strategies for the competitiveness strategy for the new era.