



International Trade Centre

Executive Forum



Managing Competitive Advantage

Southern Africa Trade Week

Mozambique team paper

**Session 1:
Moving from Comparative to Competitive Advantage**

**Session 4:
Competitive Advantage and Value Chain**

Session 1: Moving from Comparative to Competitive Advantage

The use of Competitive advantage in the formulation of national export strategies is not only important for African countries, but it is also a need. The long-term sustainability of the Comparative Advantages is questionable when faced with the global free trade, the technological development as well as the dynamics of the consumer markets.

To concentrate on traditional export sectors may result expensive if environmental factors do deeply change the situation in the target markets. On the other hand, the change to learn within highly competitive markets is lost. Comparative Advantage should be seen, as a reference point is the search for Competitive Advantage.

The unbalanced status of the technology levels between the productive systems of the different countries in the World make it a tiring task the identification of key factors where the Competitive Advantage strategy should be based upon. Even if these factors are known, there is the problem of availability of capital for the required investments, both for the public and private sectors. Let us consider, i.e., the issue concerning the transportation infrastructures, its precarious state contributes to the high cost of this commodity. One other problem is its position: within the global market African countries are less known outside the traditional sectors (where these have some Comparative Advantage, in general) in which they have been dealing with since the colonisation era, the reason why it is much simpler to follow the Comparative Advantage strategy rather than challenge new sectors where the need to create a new position is required, having to surpass, first, technical and commercial, tariffs and non-tariffs barriers in order to build and sustain a Competitive Advantage, and it should be added to that, the problems concerning the access to markets and the constraints related to supply.

Notwithstanding the complexity regarding the formulation and the functions based upon the Competitive Advantage, this is the way forward.

The adoption of Competitive Advantage in some countries will imply the following:

- ✓ The need for institutional capacity building for strategy design and monitor the environment as to identifying the needs of strategy adaptation;
- ✓ The reinforcement of the inter-institutional interaction to coordinate actions;
- ✓ A change regarding the design of the public and private sector relationships so that the latter may perform an active role in the development of the strategy;
- ✓ The introduction of a sector strategy in way to value specific factors;
- ✓ The market-oriented spectrum having as focus the analysis of the existing opportunities rather than resources;
- ✓ The mobilisation of human, material and financial resources.

Experience shows that the strategies whose formulation processes involve all interested parties have large possibilities of succeeding. By extending the basis on which the strategy is designed, the advantage of having available *inputs* of several nature that allow for a better perception of the reality in order to outline credible sceneries is attained. The involvement of economic and social operators, who will later participate in the concretisation of the objectives, gives the strategy a practical feature and builds up motivation for its performance. Within our reality this is a new approach in which the institutions lack experience in the establishment of work relationships and exchange of information with the private sector.

The constraints in the formulation and use of the strategy shall be surpassed during the learning process, which will be characterised, by trials and errors. The dynamic feature of the strategy based upon Competitive Advantage requires a permanent participation because there are neither competitive advantages that will last forever, nor solutions for all the circumstances, above all, due to the dynamics of the market and those of competitiveness. The most important issue is the empowerment of the respective institutions.

One other important aspect in the design and use of the strategies is continuity. In some countries, the strategy formulation process is financed with external aid that generally ends soon after completion. After that there are no funds to proceed. This fact may generate little interest from the private sector, which does not find any justification to its efforts. This fact suggests the need for a durable sustainability regarding the aid from external sources.

Regional integration should constitute an opportunity for the strategy makers of the countries in the region to develop competencies in the formulation of export development strategies, given the affinity of the problems that their productive systems are faced with. The formulation of national strategies should have regional support so that the synergies resulting from economic integration could be exploited effectively, i.e. within the development of inter-regional trade.

Session 4: Competitive Advantage and Value Chain

The fact that some countries still concentrate themselves on traditional export commodities, which are generally of low added value and its marketing does not face difficulties, provides a picture whereby these countries are seeming to follow the right path. An analysis into the Value Chain could reveal subsequent benefits, even from such traditional exports; for example, the promotion of a subsequent phase of transformation of an export commodity may aggregate value without compromising its absorption into the external market.

A Mozambican case: within the timber sector, the country has decided to limit exports of timber logs, a commodity of easy collocation into the market but of low added value. This measure will allow for the development of the industry, valuing in this way subsequent phases of timber processing that, in one way, will help increase the exports of commodities of high added value for the country. Yet, the measure has its implications regarding the strategies to be applied: it is necessary to adopt new options concerning commodities-markets, as follows;

- ✓ Analyse markets to identify the opportunity for new commodities the tendencies of such commodities that are already being marketed and the requirements;
- ✓ Analyse the general environment;
- ✓ Analyse the value chain of the sector and identify critical factors.

The difficulties arise due to the fact that the timber industry sector is characterised by the presence of operators that vertically concentrated (those who have exportation features) that occupy all the value chain. This structure may allow for compensations between the *performance* levels along the chain, not facilitating though for the identification of the critical phases for the creation of a competitive advantage. Given that this type of structure does not allow for the possibility of external intervention in the different manufacturing stages of the commodity (the internal relations are not intermediated by the market), inefficiencies that can affect its competitiveness may be generated. Whenever there is less concentration along the chain, links regulated by the market and more spaces for action by the external strategy do appear, however, all the other aspects connected with the commodity will depend upon the operator's attitude.

The consideration given to the value chain in the analysis and formulation of strategies requires a sector's approach, thus implying the use of more resources. A simple market-commodity consideration is less complex, but does not exploit in an integral way the potentialities that may come to be revealed by the analysis on the Value Chain.

The main link device between the competitive approach and the Value Chain analysis is that the latter reveals the advantages sources. The Value Chain approach may indicate the linking options between market and commodity, starting from the optimum localisation of the industry, better economic scales, and improved trade circuits and marketing strategies. This system is less utilised because it requires the use of resources and know-how in order to guarantee its applicability in an international market with adverse mutations.