



How to compete and grow: A sector guide to policy

McKinsey Global Institute

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To provide a fact base, our research sought to answer two questions



How do sectors differ in what matters for competitiveness?

How do government policies impact sector competitiveness and growth?

Summary



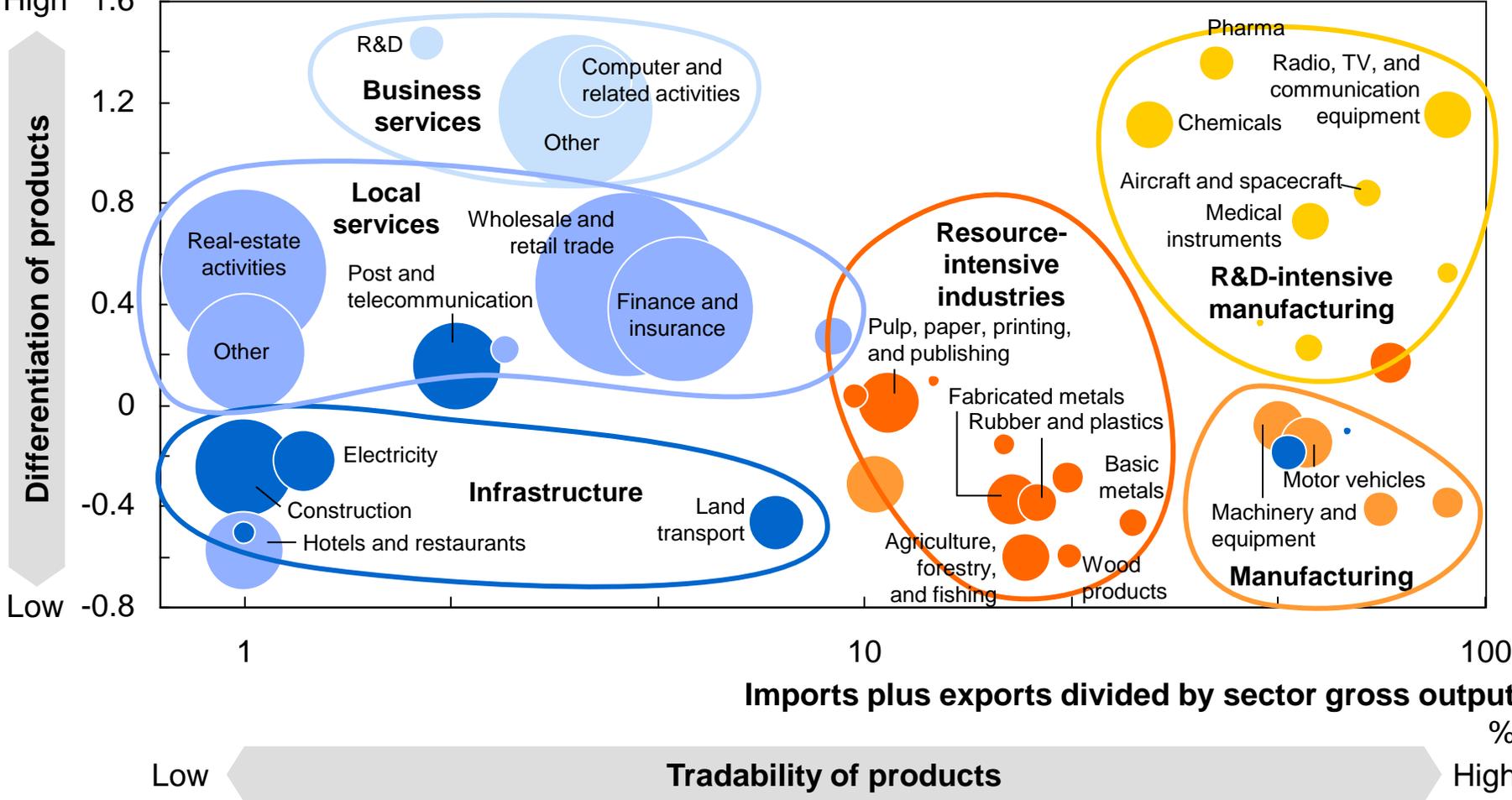
- **Our sector approach – and why it matters**
- Patterns in sector contributions to growth
- How can governments tailor policies to each sector

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

Differentiation index

0 = average
High 1.6

○ Size of circle = relative amount of sector value added in 2005



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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

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)

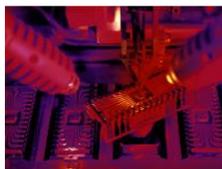
100% = 130 million

New innovative sectors

Biotech



Semi-conductor



Cleantech



Existing large employment sectors

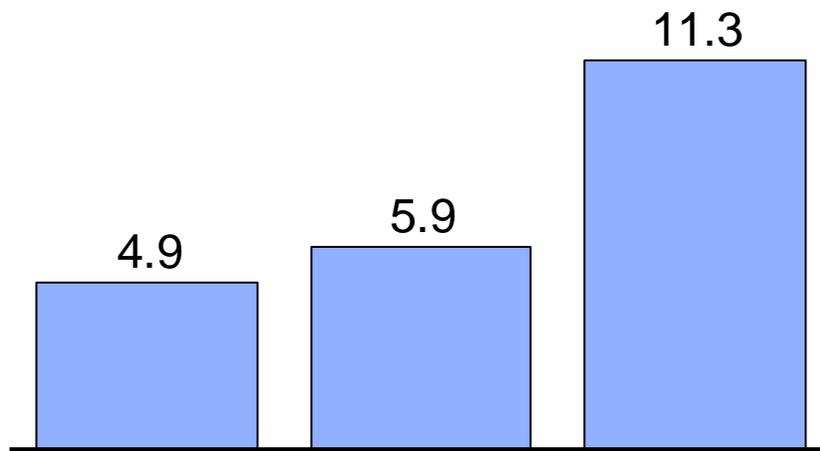
Construction



Financial activities



Retail trade



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LESSON 2

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



LESSON 3

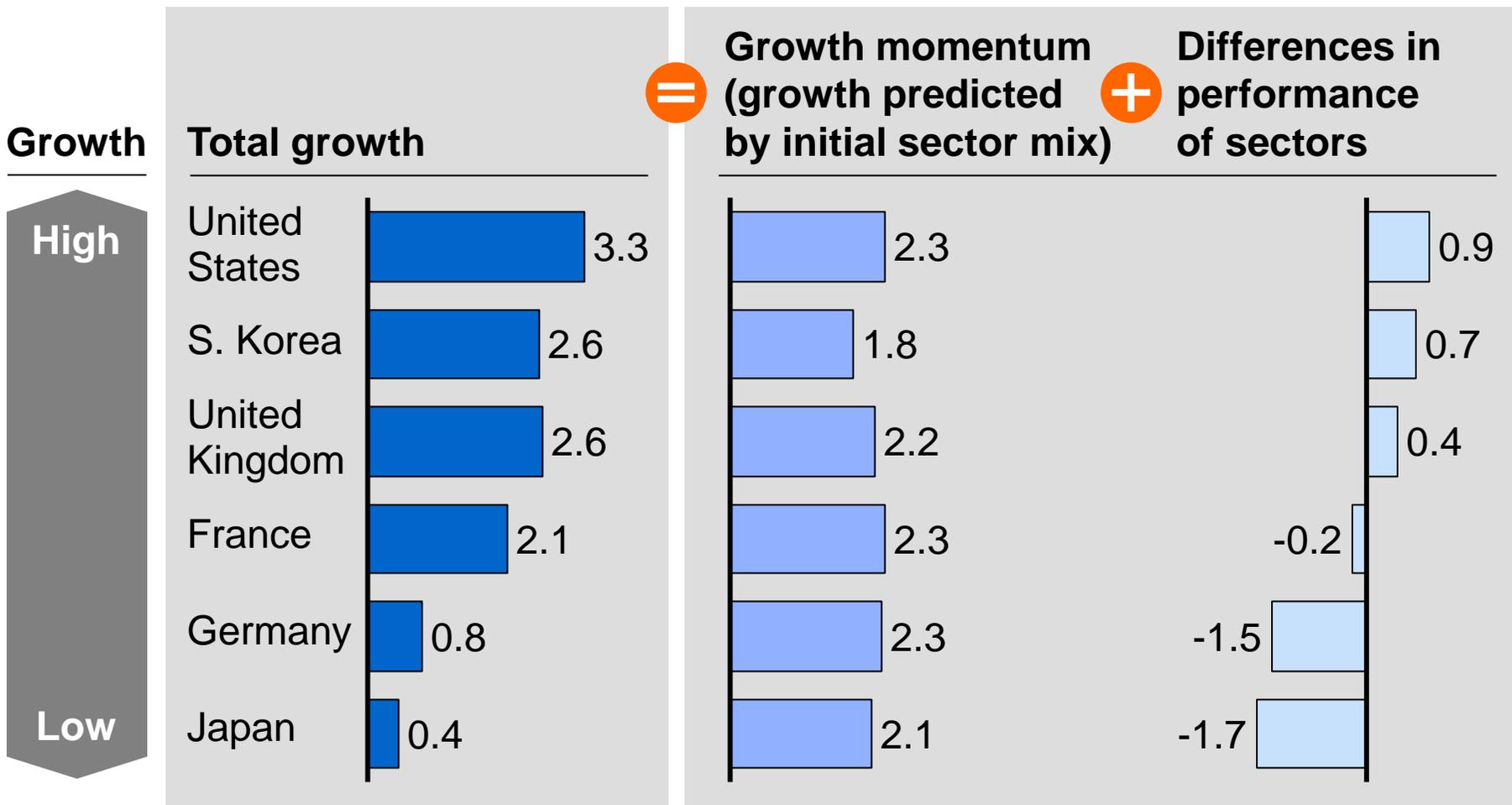
Service sector growth is critical – and particularly so for job growth

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, %



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



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

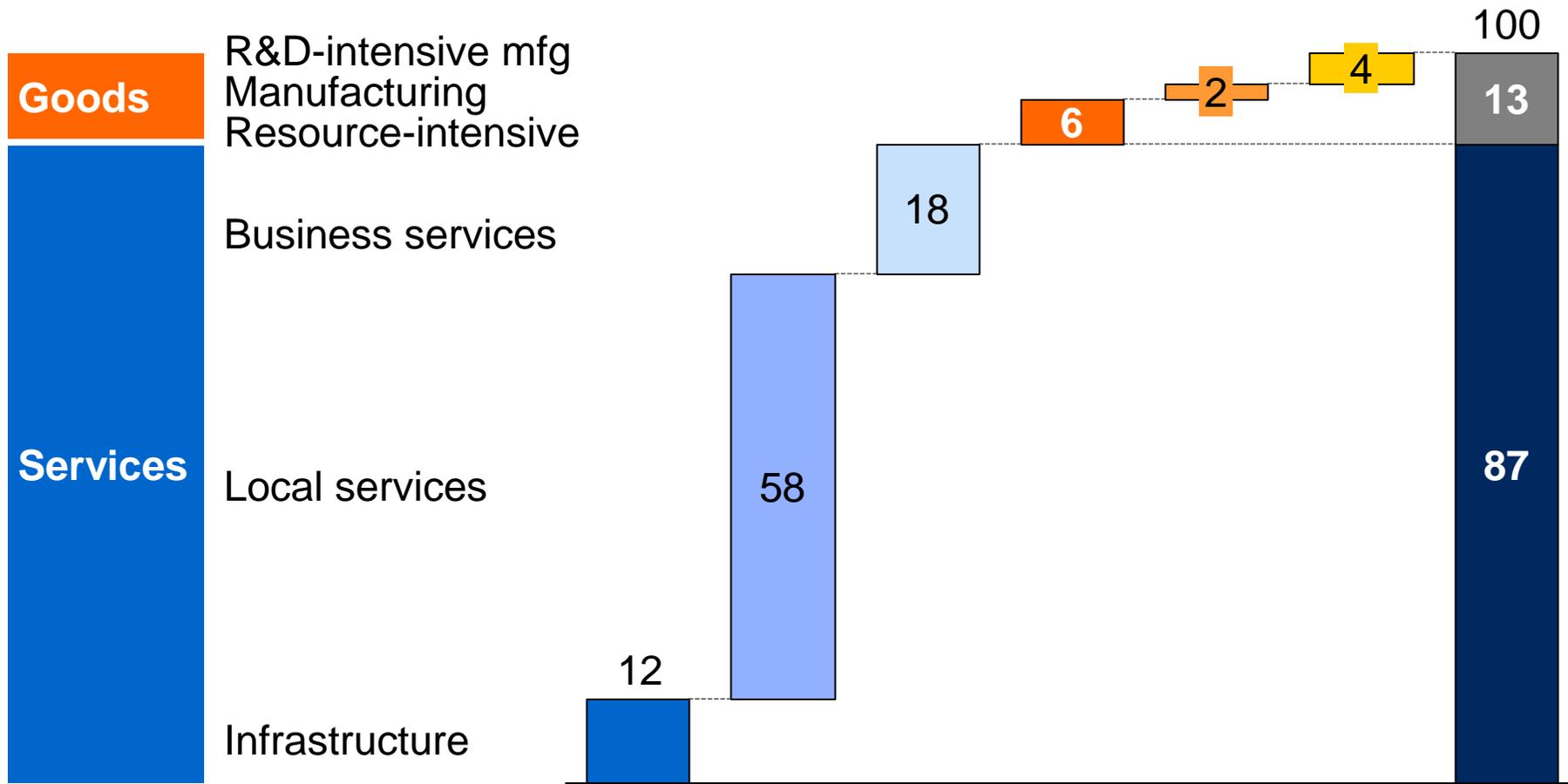
Service sector growth is critical – and particularly so for job growth

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

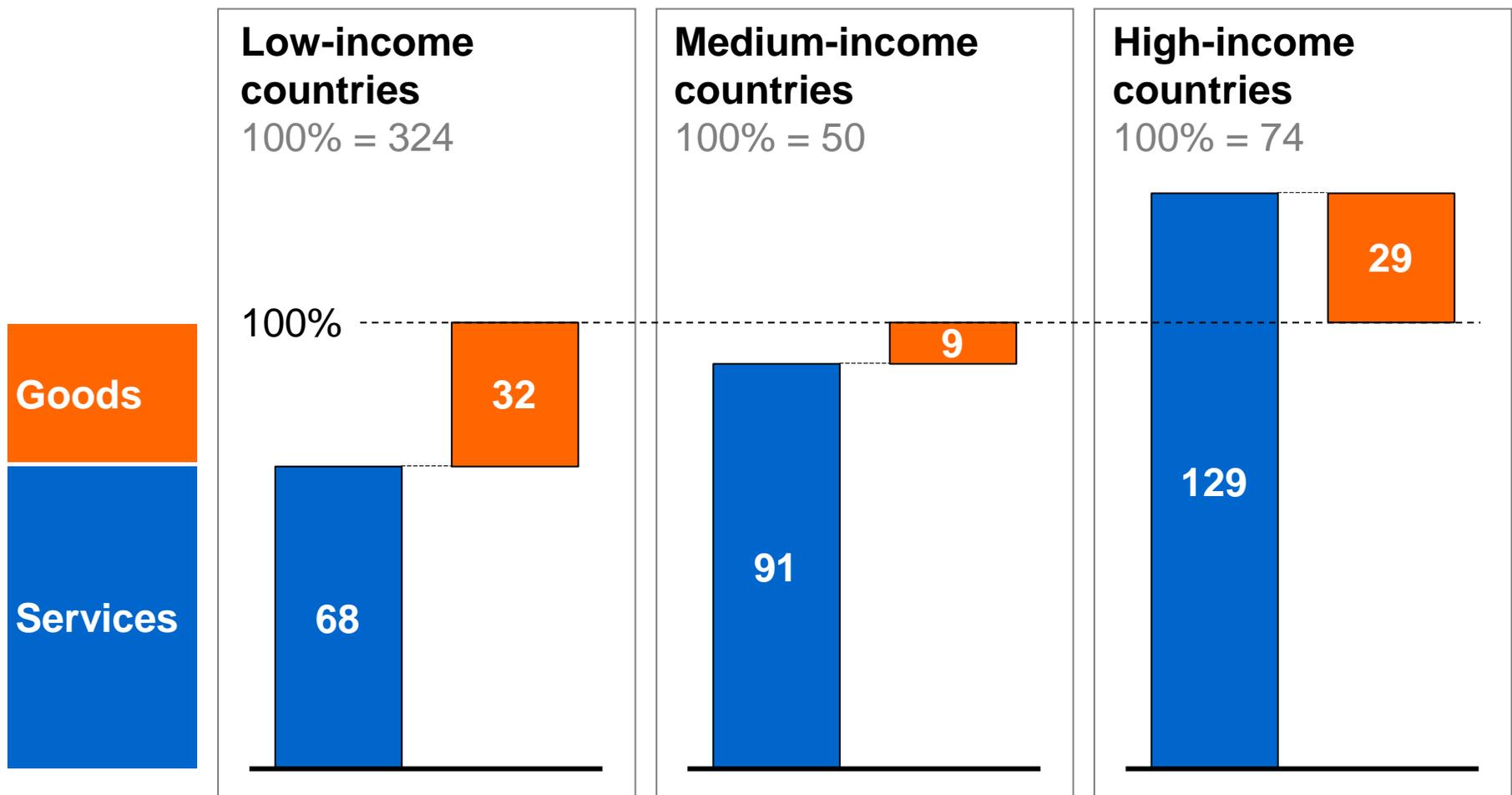
100% = \$10.4 trillion



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



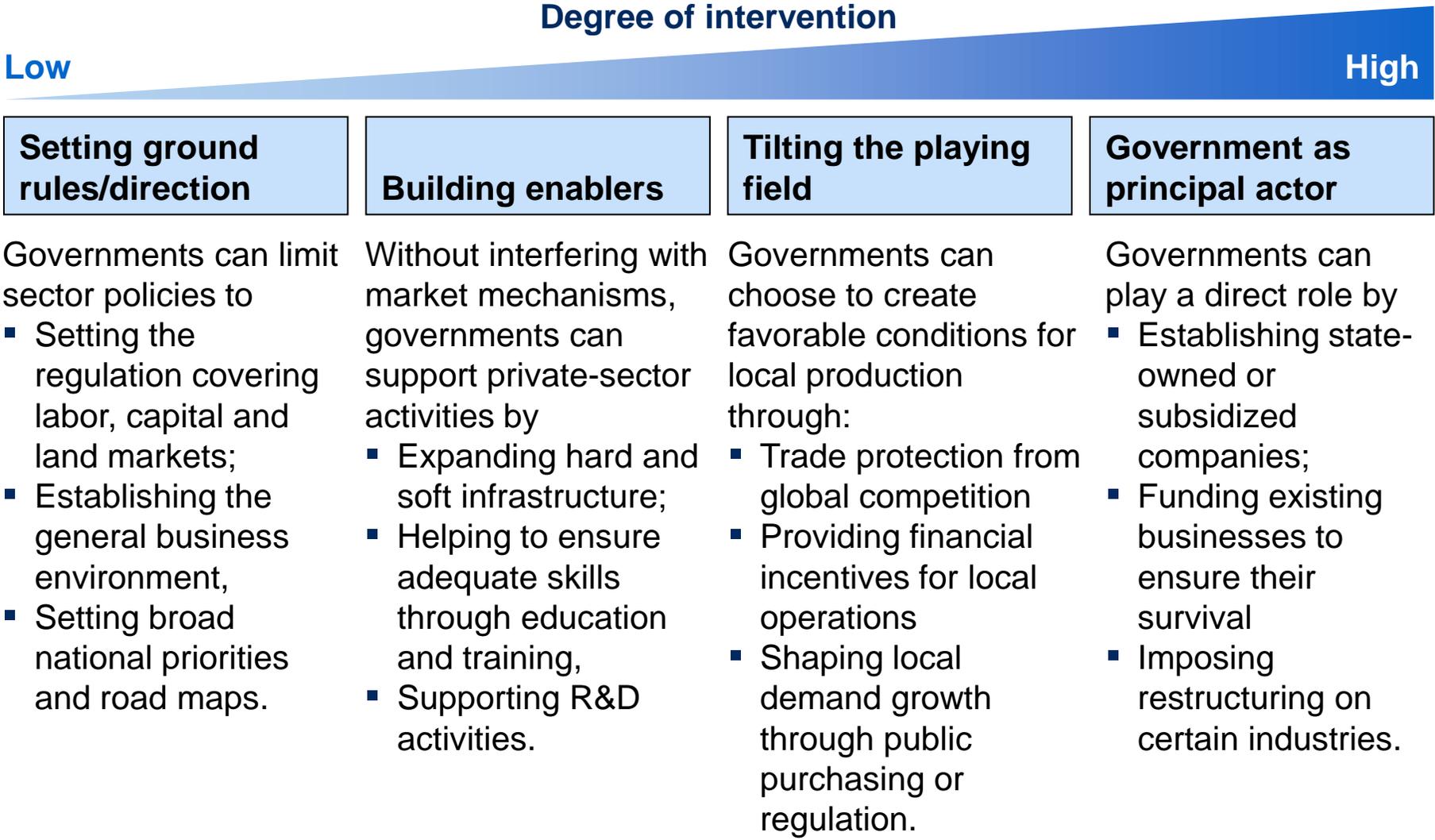
Summary

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

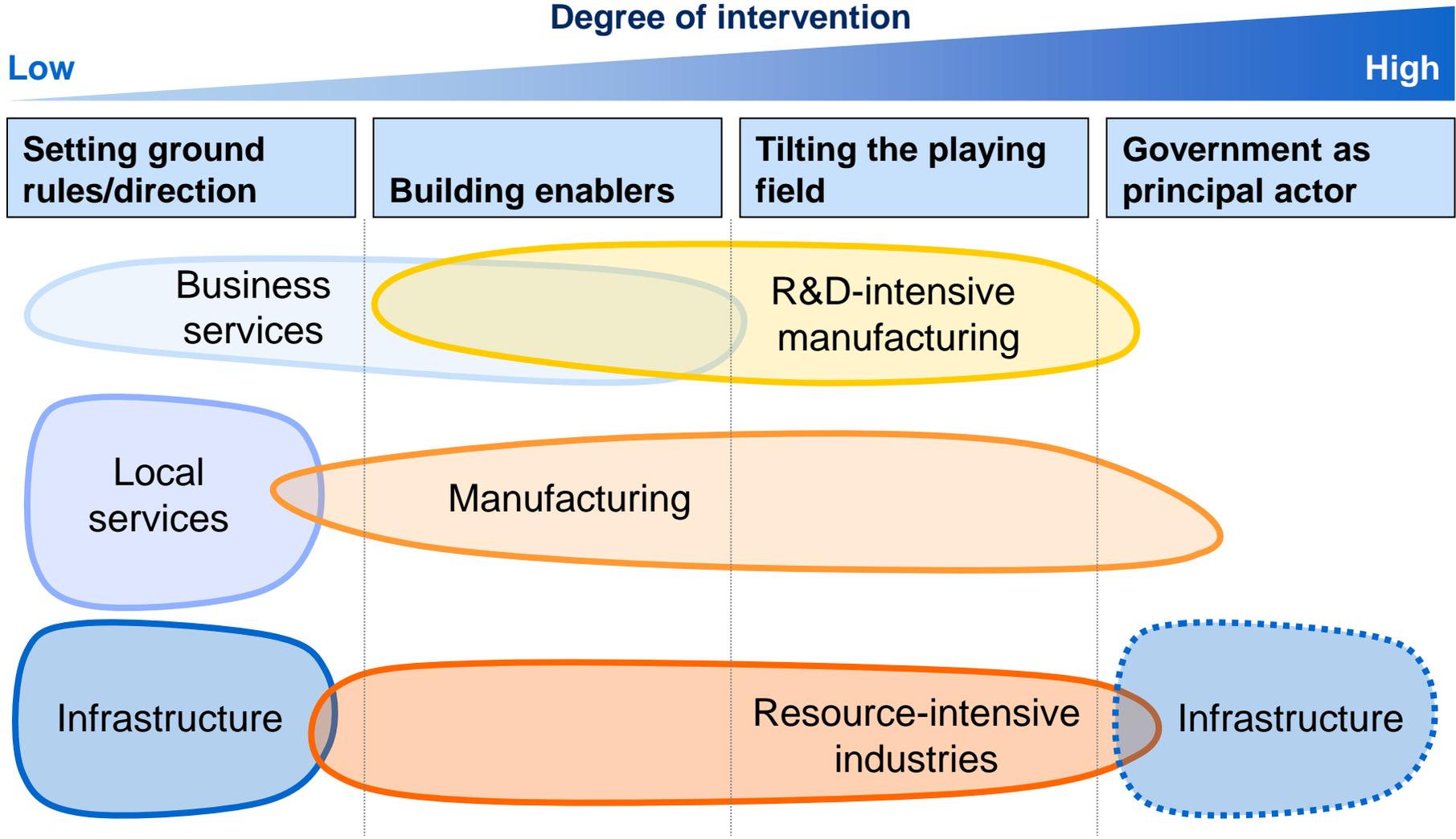


Our policy approach – framework

Differentiating sector-level policies by the degree of intervention



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

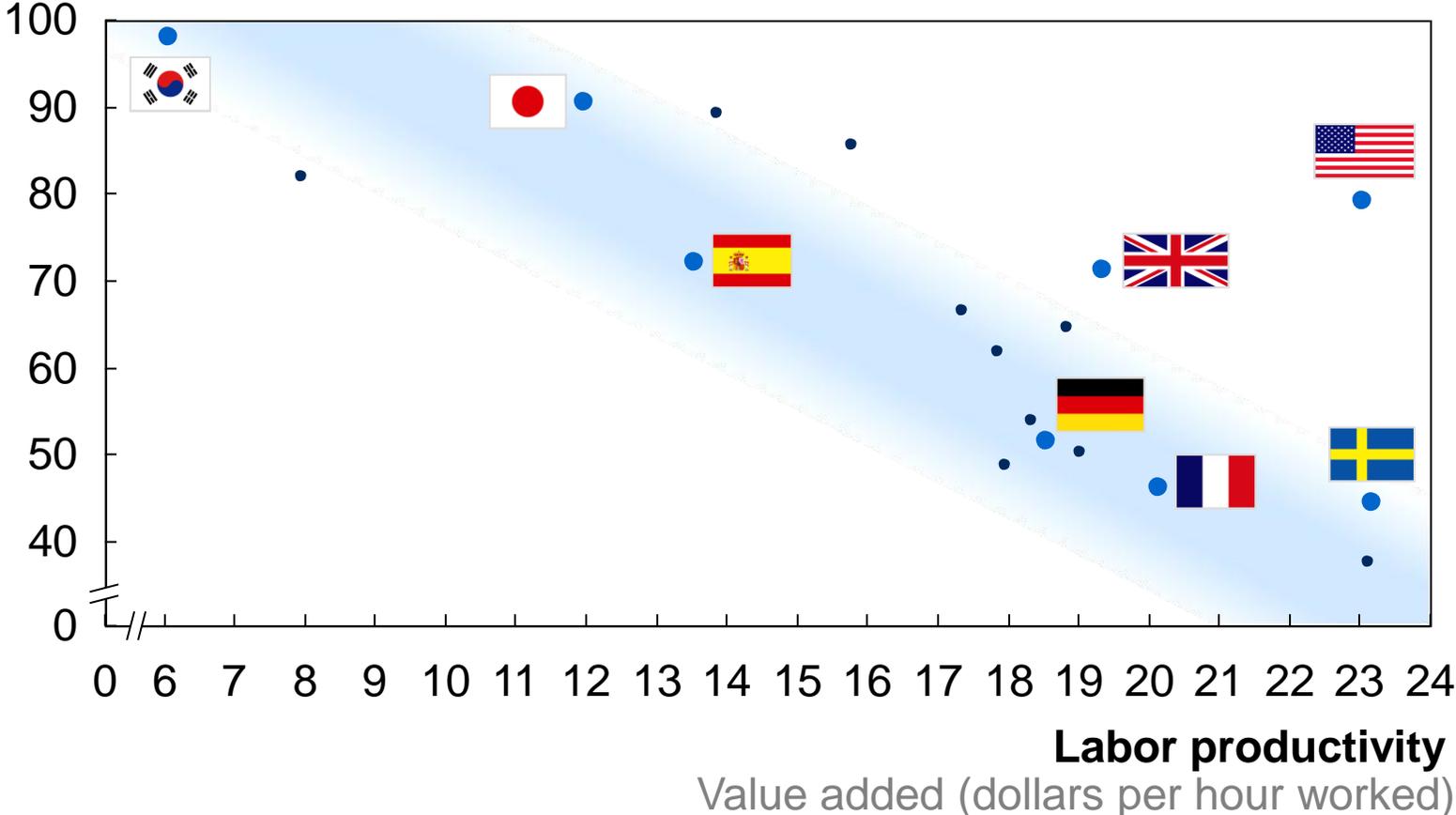


Policy can determine domestic sector performance – retail sector performance varies widely around the world

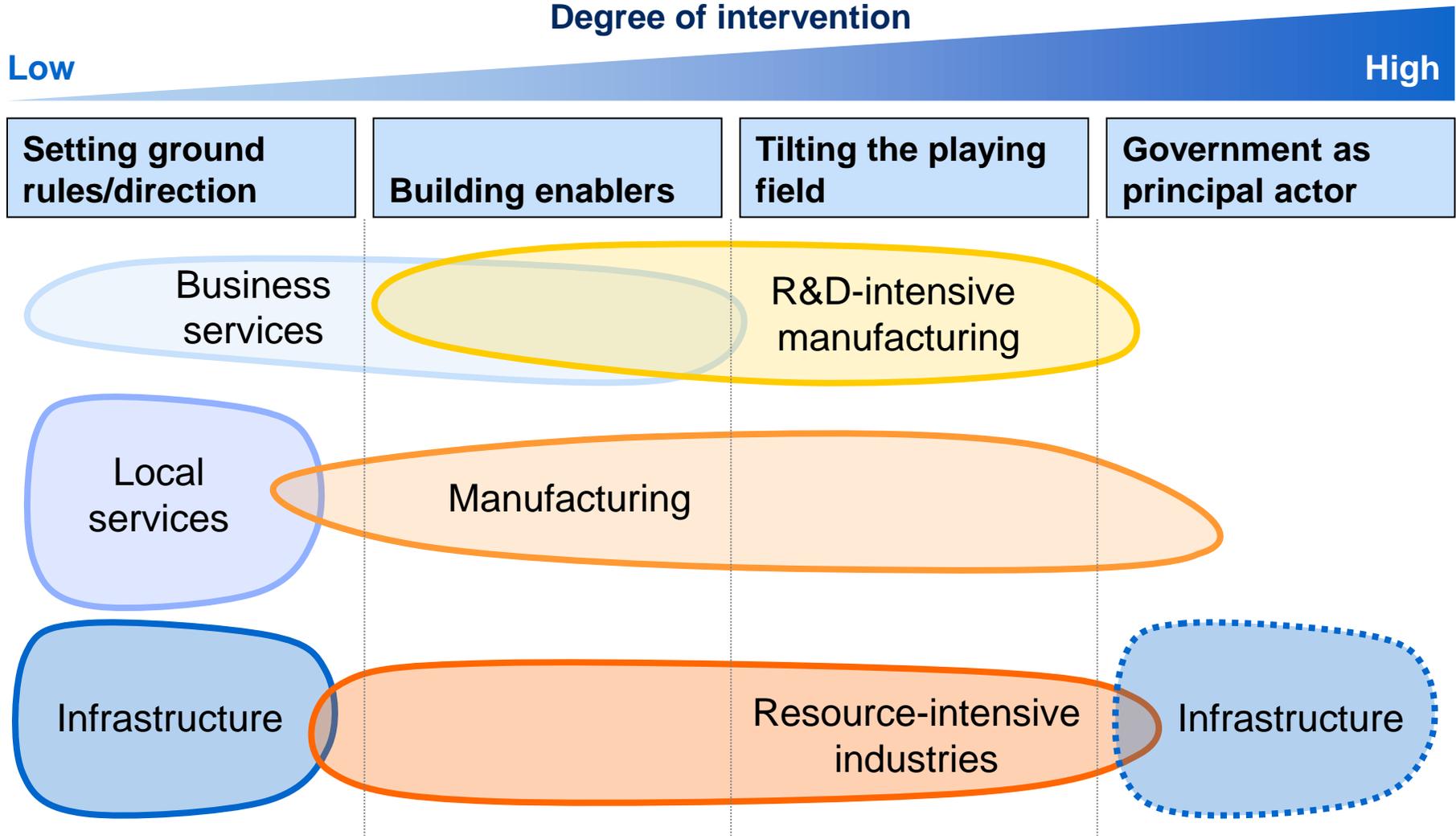
Retail sector performance in developed countries, 2005

Employment

Hours worked per capita



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



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

ROUGH ESTIMATES

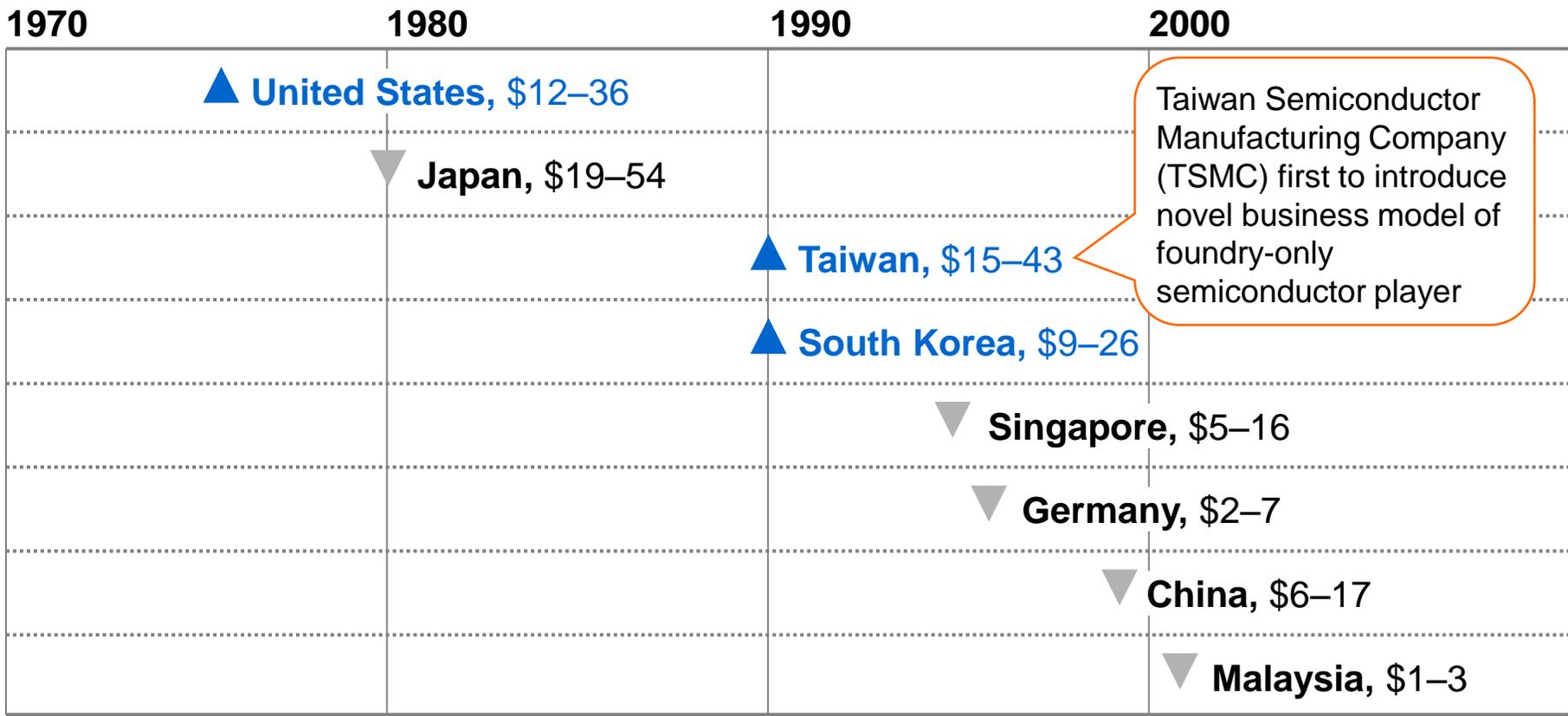
\$ Estimated cumulative country-wide government incentives (USD billion)

Successes and failures of semiconductor clusters

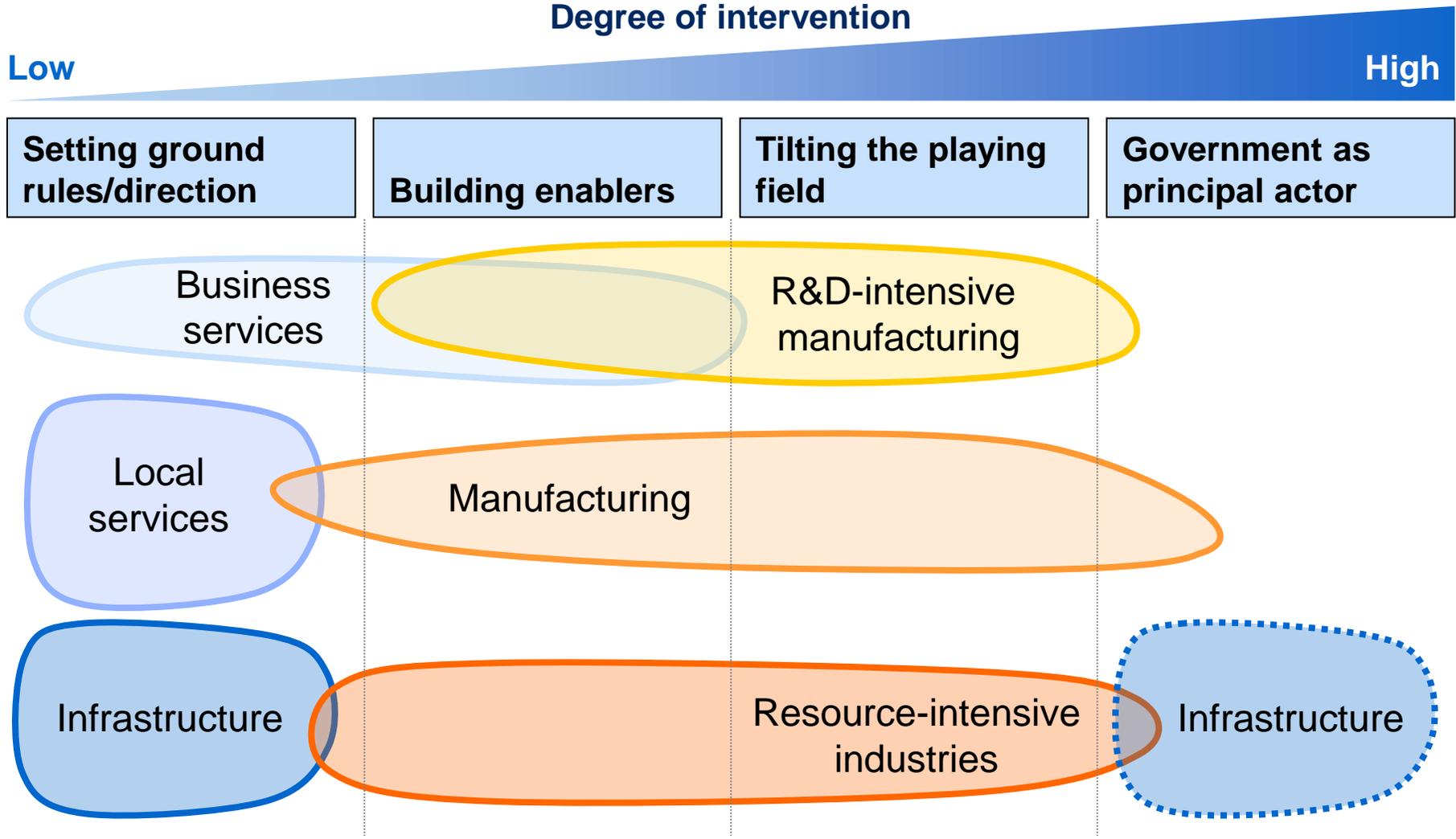
Sustainable competitive edge

- ▲ Present
- ▼ Currently not present

Estimated date of industry reaching significant size



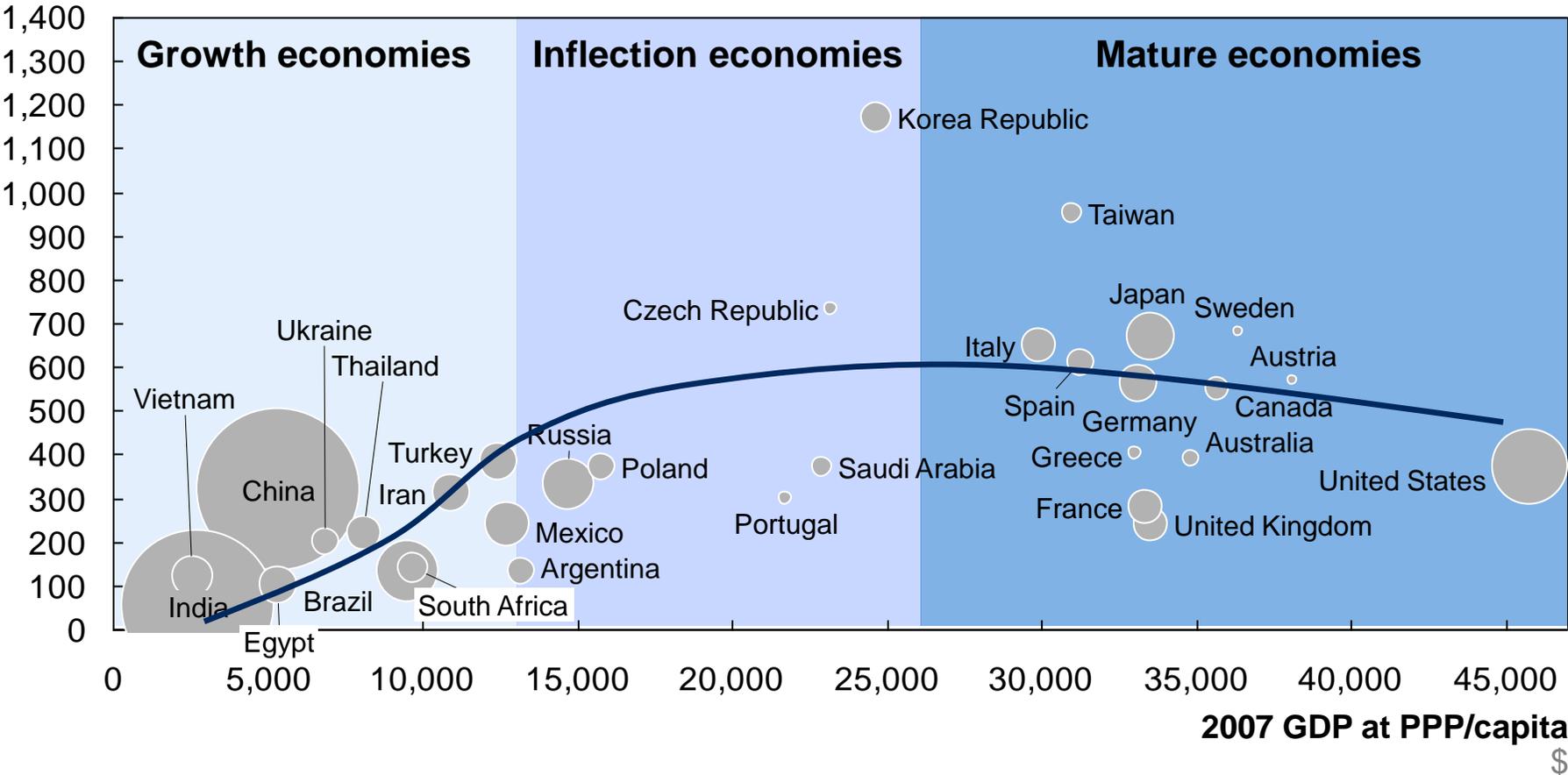
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Steel demand is strongly dependent on growth in per capita GDP

- Country population
- Observed historical consumption curve

2007 steel consumption Kg/capita



1 General steel intensity curve based on findings by Louis Schorsch. See for example Schorsch and Ueyama, "New game, new rules," *McKinsey Quarterly*, May 1993.

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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