Globalism, Regionalism, and the New Economic Geography

William F. Miller
Herbert Hoover Professor of Public & Private Management Emeritus
Stanford University

President and CEO Emeritus
SRI International

Chairman of the Board
Borland Software Corporation
Three Forces Drive Economic Activities Worldwide

- Globalization of economic activity
- Increasing importance of regional/local processes as the source of innovation, new business ideas, and practices
- Advent of the knowledge-based economy
Globalism fosters Localism

Globalism is depends on comparative advantage and specialization

Specialization occurs at the local level in economic clusters

Specialization is fostered by a favorable local Habitat
The Welch Paradigm

In 1987, Jack Welch, Chairman of General Electric said:

“The winners in these global games will be those who can put together the world’s best in design, manufacturing, research, execution, and marketing on the largest scale. Rarely are all of these elements found in one country or on one continent.”

Competitive Advantage is Local

“...enduring competitive advantages in a global economy lie increasingly in local things - knowledge, relationships, motivation - that distant rivals cannot match.”

Economic Geography

The Old Economic Geography
Natural resources—endowed assets

The New Economic Geography
Created assets—educated workforce, research, intellectual property, business infrastructure, physical infrastructure
Stanford Project on Regions of Innovation and Entrepreneurship

Research Initiatives
- Regions
- National policy and institutions
- Incubation
- Benchmarks

Regions in these Countries
- United States
- China
- Taiwan
- Singapore
- Korea
- Japan
- India
SPRIE and Japan
William F. Miller and Henry S. Rowen
Marguerite Hancock

REGIONS
William Miller, Henry Rowen, Marguerite Hancock

NATIONAL POLICY
Henry Rowen, William Miller
Marguerite Hancock

JAPAN
Hiroshi Fujita, DBJ
Yasuhsa Yamaguchi, DBJ

• Toshihiro Kodama, RIETI
• Toru Tanigawa, Univ. of Kyushu

Research Teams
• Hokkaido (Sapporo)
• Tohoku (Sendai)
• Tokai
• Kansai (Kyoto)
• Chugoku
• Shikoku
• Kyushu (Fukuoka, N. Kyushu)

JAPAN
Ken-ichi Imai, Toshihiko Hayashi,
Shin Yasunobe, Ichiya Nakamura, SJC-R

• Masahiko Aoki, RIETI
• Yuko Harayama, Tohoku Univ./RIETI
• Toshihiko Hayashi, Univ. of the Air
• Takuo Imagawa, Osaka Univ.
• Ken-ichi Imai, SJC-R
• Noburu Maeda, Kochi Univ. of Tech.
• Ichiya Nakamura, SJC-R
• Toshio Okada, METI
• Atsushi Sunami, RIETI
• Shin Yasunobe, SJC-R
Three Ways to Get Growth

- Improving Factor Inputs
  Action: Increase amounts and quality of labor and capital
  Result: Improved productivity and increase in GDP

- Trade and Comparative Advantage
  Action: Reduce import substitution rules and increase exports
  Result: Increase of world market share of products and increase in GDP

- Innovation and Entrepreneurship
  Action: Create favorable Habitat for Innovation and Entrepreneurship
  Result: Increase in new business formation both within companies and of new companies
Entrepreneurship and Growth

Entrepreneurship, i.e., new company formation, contributes significantly to growth in GDP, although the effects are long term.
Entrepreneurial regions will be more subject to boom and bust cycles, but each new wave leads the region to higher levels than before the boom.
Technology Bubbles

Technology bubbles are not new
Technology Speculation

Speculation marches on

*Market peaks that coincided with technology breakthroughs.*
*Annual average prices for U.S. stocks, 1785-2002.*

**10000** Semilog scale

**1000**

**100**

**10**

1785 1815 1845 1875 1905 1935 1965 1995

Internet

Computers

Broadcasting

Telephone, electric lights

Railroads

Railroads

Arrows mark the heights of technology-fed bubble markets

SOURCES: Elliott Wave International; "Triumph of the Optimists: 101 Years of Global Investment Returns"
Recent Employment History as a Measure in Silicon Valley

- First Wave: Defense
- End of Vietnam War
- Second Wave: Integrated Circuit
- Commercialization of the Integrated Circuit
- Third Wave: Personal Computer
- Fourth Wave: Internet
- Cold War: defense cuts
- Internet Commercialization
- Semiconductor competition intensifies
Boom-Bust-Build ($B^3$)

Disruptive technologies or business models

Arbitraging the disrupted markets

Boom and Bust episodes are both inevitable and necessary
Historical Boom and Bust

- “The overshooting in the venture capital market in 1999-2000 is an all-too-familiar pattern.”

- “Each boom in fundraising sparks too-rapid growth and tempts investors to take extreme risks. Eventually returns suffer, which in turn triggers a decline in funds raised. Then the cycle begins all over again.”

Figure 2: Venture capital fundraising by year, 1969-2001. The figure is based on unpublished Asset Alternatives and Venture Economics databases.

Notes: There were no venture funds raised in 1975. 2001 fundraising through November.
Figure 3: Returns to venture capital investments, 1974-2001. The figure is based on an unpublished Venture Economics database.

Note: 2001 returns for first six months only.
## Venture Capital Investments

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Source: The Money Tree

Venture Capital investments in US, $ billions USD
Conclusions from the SV Study

Summary of Key Features
Features of an Entrepreneurial Habitat

- Favorable “Rules of the Game”
- Strong value-added business services
- Free flow of capital to most effective uses
- Free flow of people to best application of talent
- Free flow of ideas to enhance collective learning
- Global linkages to other industrial clusters
The High-Tech Habitat: Value-Added Support

Entrepreneurs
Innovative Ideas
Seed Capital

Law Firms
Marketing Consultants
PR Firms
Advertising Firms
Real Estate Agents
Business, Professional & Civic Organizations
Business Consultants
Equipment/Supplies Vendors

Financial Institutions
Accounting Firms
Temporary and Contract Workers
HR Search Firms
Mobile Workforce
Government Agencies and Policies
Technical Consultants

Educational and Research Institutions
New Opportunities for Silicon Valley

This Habitat is in position to capitalize on new opportunities.

So, where are the new opportunities?
New Waves of Innovation are Coming

- Deepening of information and communications technologies (mobile Internet, productivity tools, social applications)
- Convergence of biotechnology and information technologies (bioinformatics, biochips, biomaterials)
- Commercialization of nanotechnologies (nanochips, smart materials, micromachines)
Applications of Converging Technologies

BIO TECH
- Pharmaceuticals
- Diagnostics
- Research/Info Tools
- Industrial

INFO TECH
- Hardware
- Software
- Communications

Genomics
Bioinformatics
Proteomics

Biosensors
Biochips

Bioelectronics
Microfluidics
Nanobiotechnology
Drug Delivery

NANOTECH
- Electrical
- Structural
- Biomedical
- Energy & Environment

Nanodevices
Nanosensors
Nanoelectronics
Increased Pace of Technological Innovation

Patent applications have soared, by US inventors as well as by foreign inventors.

This suggests a fundamental shift in the pace of innovation.
The Asia Silicon Valley Connection

Global Networks
Transnational Companies
   The Israel connection
   The India-China connection
   Growing Korean connection
International Venture Capital