



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.”

Welch, J.F. Jr. “Evolving Industrial Alliances”, *The Bridge*, 1987, 17(4), p.10



Competitive Advantage is Local

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

- Michael Porter, *Harvard Business Review*, Nov-Dec 1998



Economic Geography

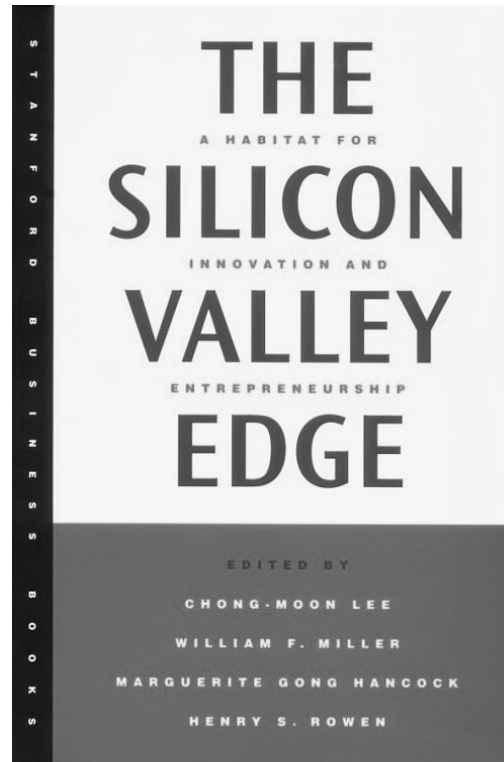
The Old Economic Geography

Natural resources—endowed assets

The New Economic Geography

Created assets-educated workforce ,research,
intellectual property,business infrastructure,
physical infrastructure

The Silicon Valley Edge: A Habitat for Innovation and Entrepreneurship



Edited by Chong-Moon Lee, William F. Miller, Marguerite Gong Hancock, and Henry S. Rowen. Paperback and cloth, Stanford University Press

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
*William F. Miller and Henry S. Rowen
Marguerite Hancock*

REGIONS
*William Miller, Henry Rowen,
Marguerite Hancock*

INDIA
Bangalore, Mumbai
Rafiq Dosanni, Stanford

KOREA
Teheran Valley / Daedok Valley
*Jong Gie Kim, Hoseo
Sam-Ock Park, Seung-Chul Lee*

SINGAPORE
Wong Poh Kam, NUS

TAIWAN
Hsinchu
Chintay Shih, ITRI

HSINCHU-SHANGHAI-SILICON VALLEY
Jason Hsu, ITRI

JAPAN
Sapporo, Sendai, Yonezawa,
Tokyo, Aichi, Kyoto,
Hiroshima, Tokushima,
Fukuoka
Yasuhisa Yamaguchi, DBJ

OTHERS to be added
**BEIJING, SHANGHAI,
SHENZHEN**

NATIONAL POLICY
*Henry Rowen, William Miller
Marguerite Hancock*

JAPAN
*Kenichi Imai, Toshihiko
Hayashi, Shin Yasunobe,
Ichiya Nakamura, SJC-R*

KOREA
Sang-Mok Suh, Stanford

OTHERS to be added
CHINA

INCUBATION
*William Miller, Chong-Moon
Lee, Marguerite Hancock*

KOREA
*Zong-Tae Bae, KAIST
Ji Soo Kim, KAIST*

SINGAPORE
Wong Poh Kam, NUS

TAIWAN
Sou Cheng Chiou, ITRI

JAPAN
*Toshihiro Nishiguchi,
Hitotsubashi*

NORWAY
Truls Erikson, NUST

OTHERS to be added
CHINA, ISRAEL

BENCHMARKS
*Marguerite Hancock, Mark
Granovetter, Henry Rowen,
William Miller*

SPRIE and Japan

*William F. Miller and Henry S. Rowen
Marguerite Hancock*

IIS

Maria Toyoda, Stanford

REGIONS

*William Miller, Henry Rowen,
Marguerite Hancock*

JAPAN

*Hiroshi Fujita, DBJ
Yasuhisa 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)*

NATIONAL POLICY

*Henry Rowen, William Miller
Marguerite Hancock*

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, ie new company formation, contributes significantly to growth in GDP, although the effects are long term



Boom – Bust - Build



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

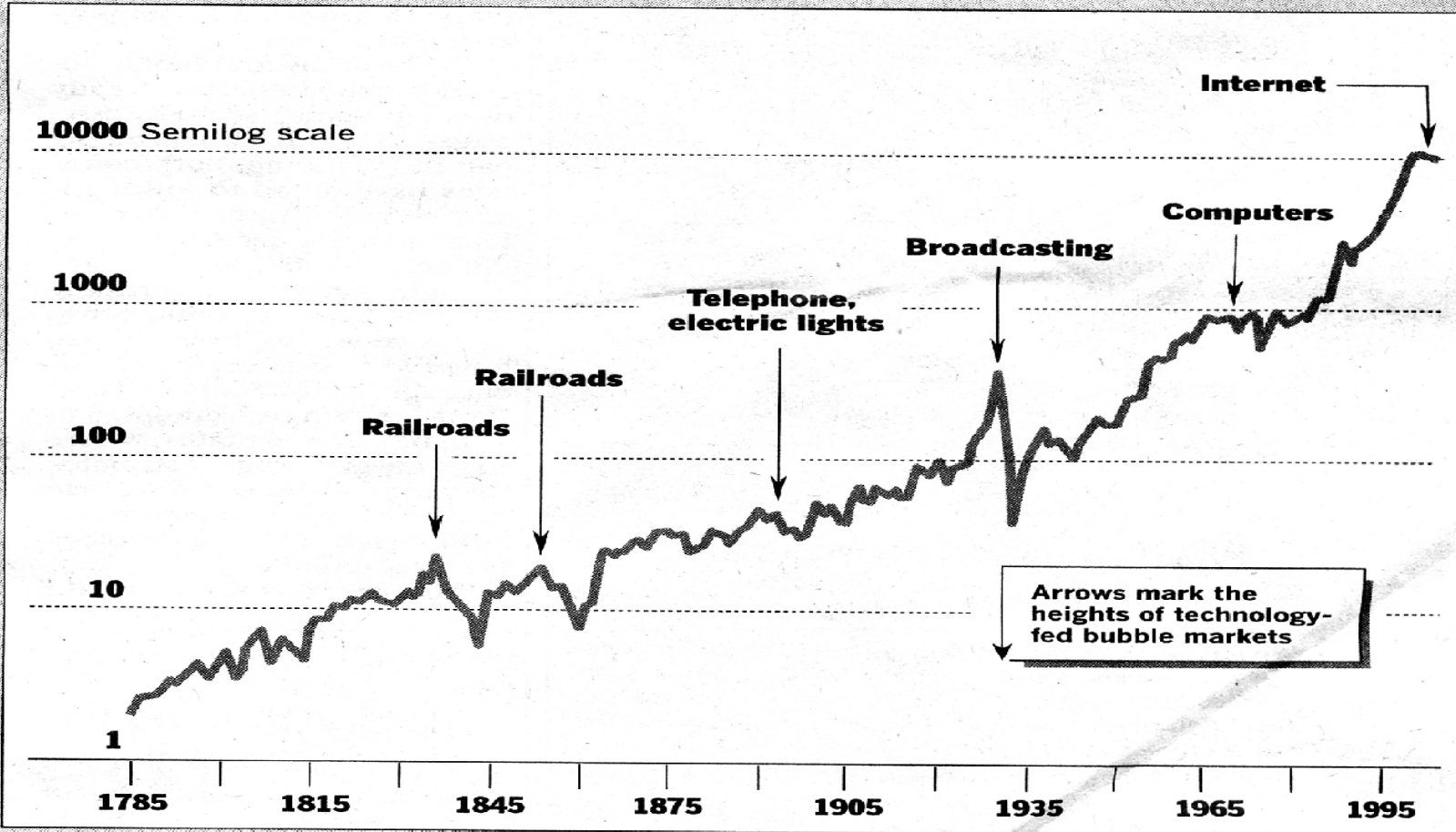


Technology bubbles are not new

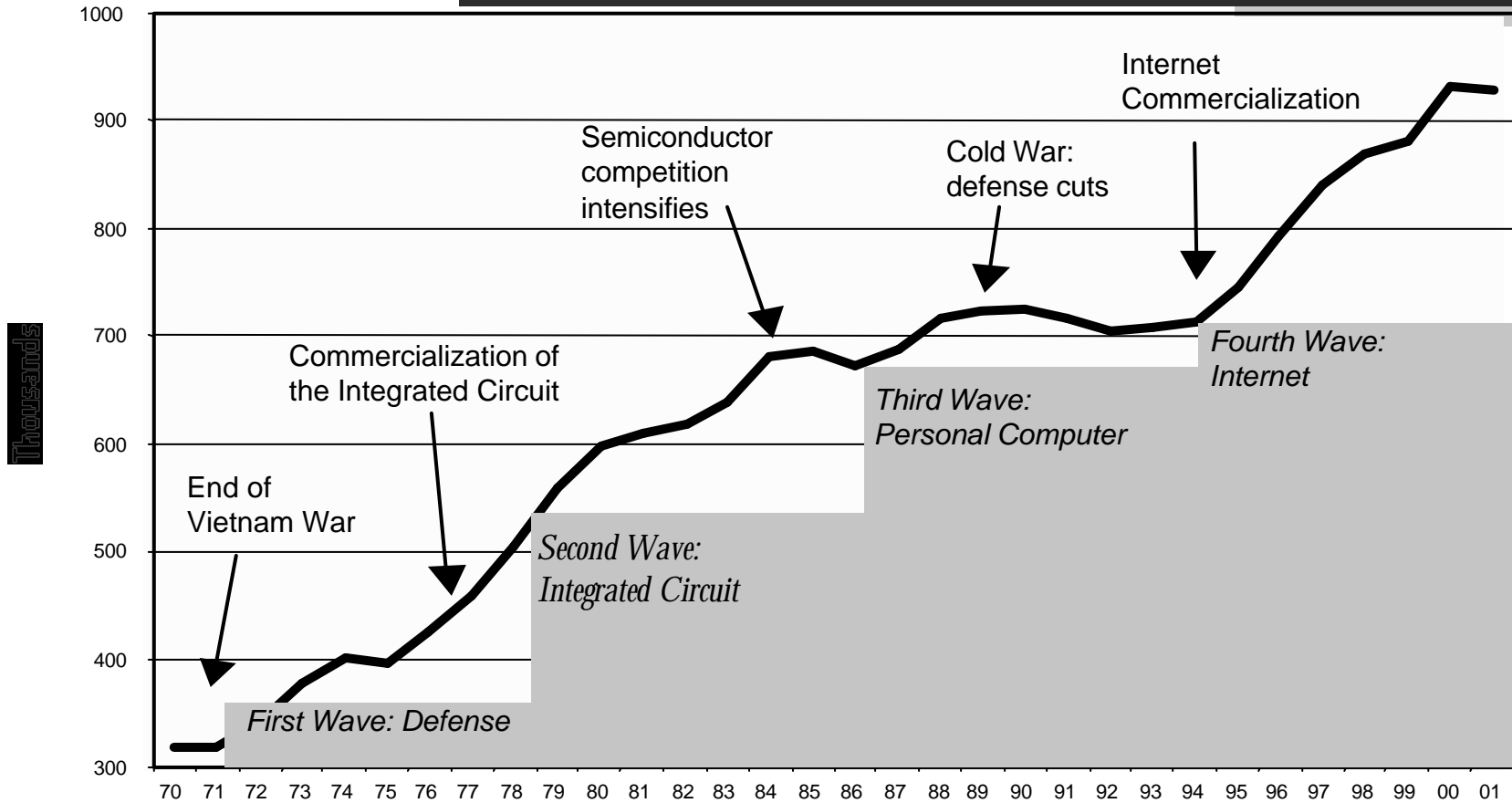
Technology Speculation

Speculation marches on

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



Recent Employment History as a Measure in Silicon Valley





Boom-Bust-Build (B³)



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 data.

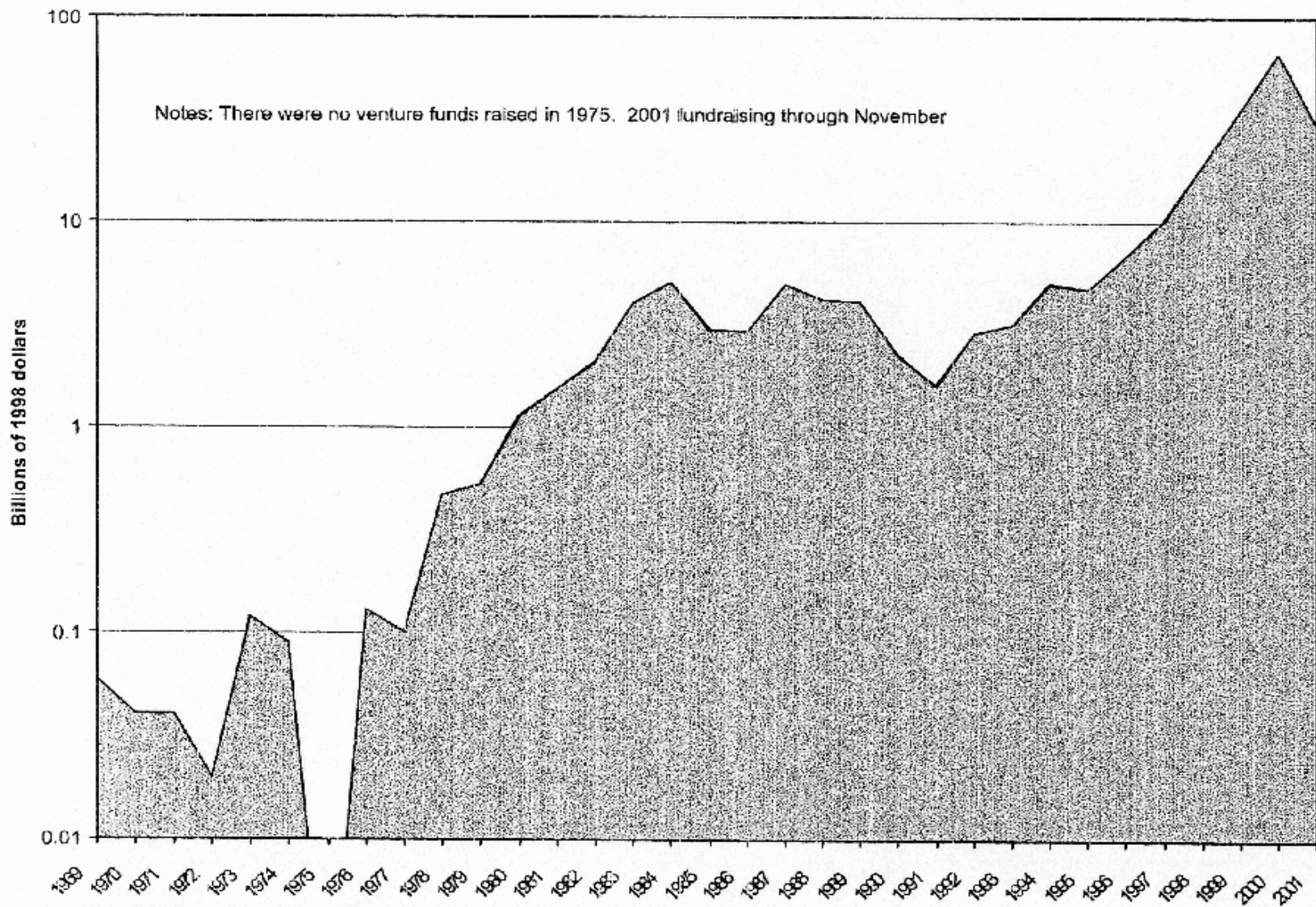
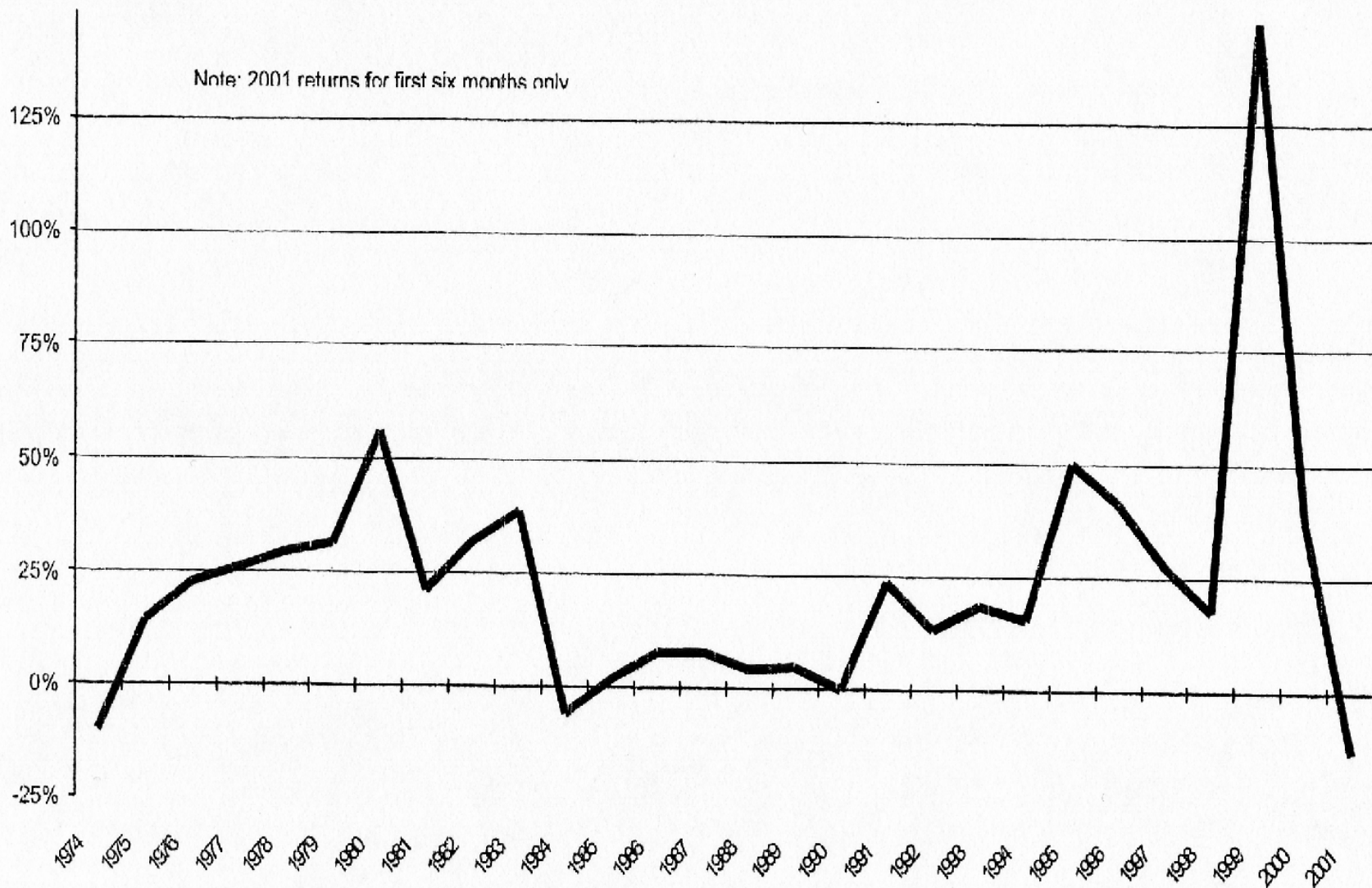


Figure 3: Returns to venture capital investments, 1974-2001. The figure is based on an unpublished Venture Economics database.



Venture Capital Investments

Venture Capital investments in US, \$ billions USD

Source: The Money Tree

	Q1	Q2	Q3	Q4
1998	3.0	3.8	3.9	4.1
1999	4.9	8.6	8.7	15.5
2000	18.4	18.0	16.1	13.1
2001	10.1	8.2	7.0	7.2
2002	6.2	5.7		



Conclusions from the SV Study



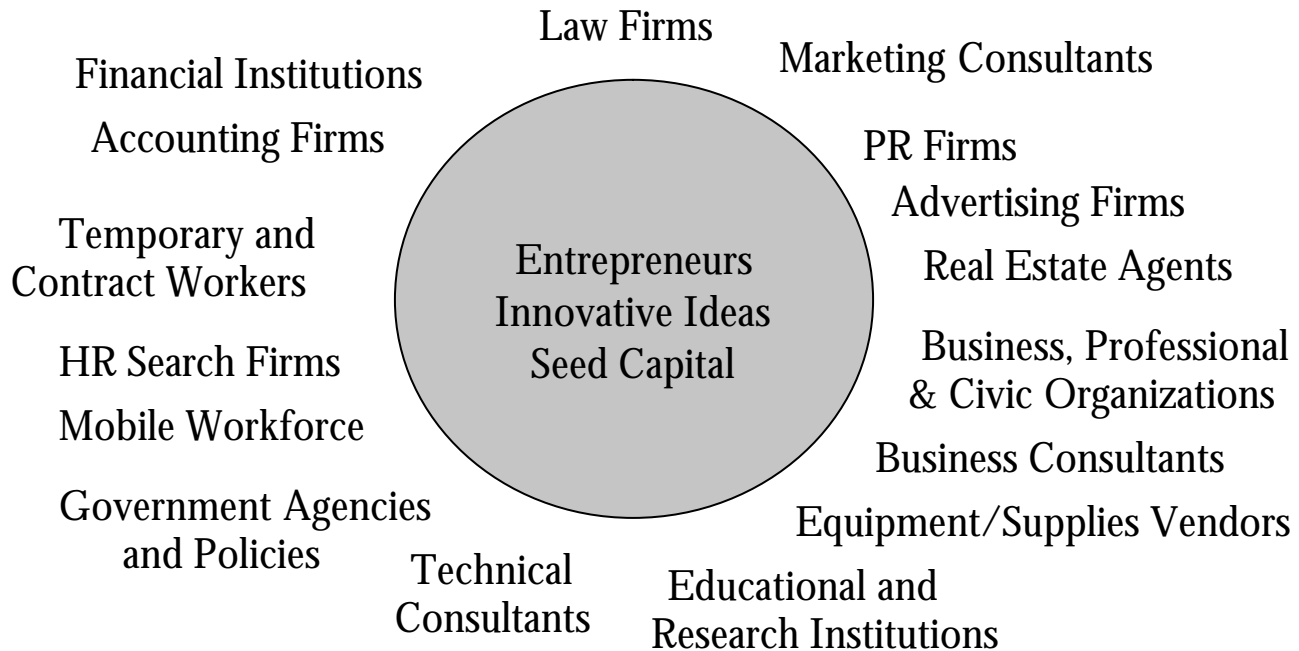
Summary of Key Features



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





New Opportunities for Silicon Valley

This Habitat is in position to capitalize on new opportunities.

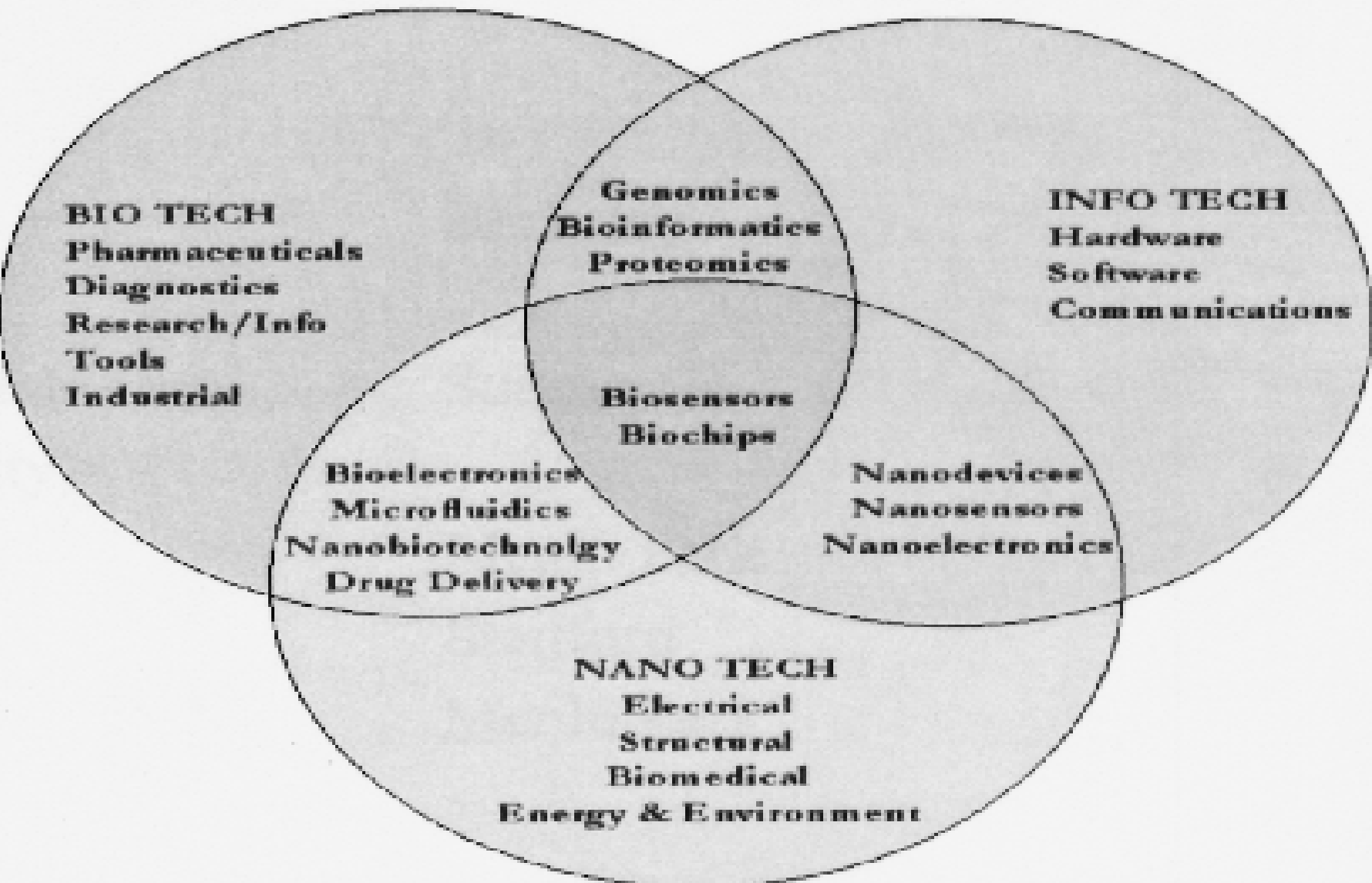
So, where are the new opportunities?



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





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