OECD FORUM 2006
BALANCING GLOBALISATION
22-23 May 2006, Paris

Innovation and Economic Growth

Remarks by **Grey F. Warner**, Senior Vice President: Latin America Human Health; Merck & Co., Inc.

I am pleased to be here in Paris, on this panel to discuss Innovation and Economic growth. From Pascal's mechanical calculator, to Rene Laennec's invention of the Stethoscope to Louis Pasteur, whose work has saved millions of lives, France can proudly boast of being a country that has produced some really important innovations throughout the ages.

While no single innovation is capable of creating and sustaining economic growth wholly on its own, no economy can compete and grow without innovation. And we know that economic growth is not enough in and of itself - it must be translated into economic development that delivers on the promise of prosperity for all people, not just a relative few.

Coming from a pharmaceutical company whose very existence depends on our ability to discover and develop innovative medicines and vaccines, I want to talk to you today about why we think innovation is an essential ingredient to economic development. And I want to explain why we think that the public, private and academic sectors all have a role to play in stimulating and sustaining innovation. Finally, as the head of Merck's business in Latin America, I want to emphasize that developing countries are no less capable of wringing economic value from their intellectual assets. Indeed, their very ability to bridge the gap between the haves and have-nots over time and in a sustainable way depends on it.

My firm belief that innovation is an essential component of economic development stems from much of the research around "Clusters of Innovation" as conceived by Michael Porter and put into practice by the US-based Council on Competitiveness. Economic development in various regions of the US was studied to see what could be learned from experiences in places like San Diego, Atlanta, Wichita, Pittsburgh, and the Raleigh/Durham area of North Carolina -- the Research Triangle. These regions were chosen not only because they are successful, but also because they are very different in terms of the kinds of industry that are present.

The first insight is the fact that, while it's important at the national level to have in place the right fiscal and monetary policy as well as an overall environment which promotes innovation, economic development actually occurs at a regional or local level. And the sum total of what happens in anyone country is the result of what happens at the regional or local level.

A second insight is that most successful regions or clusters also had the most well-established institutions of collaboration that helped build and reinforce relationships among the private sector, government and the research universities.

The third insight was to recognize the importance of innovation as an ingredient for economic development - and that there were big differences in terms of prosperity among regions depending upon how they chose to compete. Those regions choosing to compete on the basis of low wages and/or on the basis of tax breaks or tax incentives were experiencing growth, but not necessarily increases in prosperity or standard of living. Whereas those regions that had the key ingredient of innovation had a much better track record of creating growth and prosperity.

For such clusters to thrive, certain preconditions are necessary: the rule of law, respect for intellectual property, an efficient and science-based regulatory system, free and open markets and investment in health, education, infrastructure, innovation, and research.

Finally, it's important to note that innovation does not necessarily mean information technology or biotechnology or bioscience. Innovation spans all industries. There are no low-tech or low innovation industries. There are only low-tech companies. What is most important in all this is that innovation acts as the key and common ingredient in the process.

These insights are being taken up very quickly in various parts of the world.

In Europe, there are prominent examples of clusters such as information and communications technology clusters in Ireland; 6 major industrial clusters at the Grenoble Institute of Technology in France... even a Ceramics cluster in Italy that goes back to 1874!

In Asia, Singapore has moved very quickly to create what is being called a biosciences ecosystem, in which the government, private sector and academia have consciously set about to build, in effect, a cluster of innovation. The government took the lead to assemble the private sector, and also research universities and institutes to create an innovation-based economy around biosciences as a response to competition from low wage countries in the Asia/Pacific region.

And, as you are no doubt well aware, China and India are also in the process of reforming their economies to focus on innovation.

For effective collaboration between the government, the private sector and universities or research institutions to take place, the private sector must do more than just sit at the table as a willing investor. It must also take on an expanded role as a strong advocate for creating a favorable climate for innovation by lobbying at the national level while also forging relationships at the local level between governments, the private sector and universities.

I think this is a leadership role for which the private sector is well suited. The development of a regional economy - or clusters of innovation in the case of the U.S. experience - is at least a decade-long process, and very often longer than that to get all these institutions into place. Therefore it requires staying power, and the longer view that we in the private sector are able to have, as opposed to government, which is going to be much more subject to the influences of short-term political considerations.

Finally, it is not only a role that we're well suited for - it's a role that is appropriate. In our experience in health, but also in our activity in innovation, we find that the private sector is much more welcome in terms of getting engaged in types of activities that were considered to be part of government industrial policy.

How has this changed what we do at Merck?

First of all, we invest in existing clusters of innovation. For example, in 2004, we opened a new research facility in Boston to take advantage of a favorable local environment that includes a thriving academic and medical community, supportive local government and a private sector focused on innovative industries, including the life sciences. We're also engaged in building clusters of innovation in Pennsylvania, and in my company's home state of New Jersey.

In my own region, Latin America, we have established a strong partnership with the Council on Competitiveness and its sister organizations in Mexico and Brazil to help improve the institutional environment by encouraging of innovation. Our efforts will encompass much of Latin America but initially we have focused on Mexico and Brazil as these two countries have enormous potential to incubate clusters. We anticipate that the life sciences in particular will hold a predominant position in innovation initiatives.

In the case of Mexico, our preliminary assessment of the life science sector in three different geographical areas demonstrated great potential and some significant challenges as well. We found that a lack of interaction between academia and industry, lack of risk capital for early stage ventures and inadequate enforcement of patent legislation was hindering Mexico's ability to become a global life sciences leader. But with the right actions - such as the establishment of networking organizations to promote academia/local government/private sector dialogue; national policies to initiate and accelerate innovation; and improved alignment of research funding with the real health challenges faced by the Mexican population - we believe that Mexico can move forward. We've had the honor of sharing these findings and recommendations with President Fox, as well as Minister of Health Julio Frenk, a frequent and deservedly well respected visitor here at the OECD, and I believe that we now have a shared vision.

In Brazil, we are currently working with Movimento Brazil Competitivo (MBC) and the University of Brasilia on an assessment of the existing technological parks to determine core competencies and competitive advantages for innovation in the life sciences. The Brazilian government has been taking steps to promote technology innovation and commercialization by encouraging public/private partnerships and providing venture capital to promising initiatives. The best example that comes to mind is the Brazilian company EMBRAER a formidable global player in the aeronautics industry. However, much more needs to be done especially in intellectual property enforcement if Brazil wants to unleash its full innovation capacity.

Finally, you may ask yourselves why is Merck engaged in these initiatives and my response is very simple. Because it is a sensible, collaborative approach that is good for our business. Let me explain:

A more healthy, prosperous and competitive region is good for the citizenry and countries in Latin America as well as for business. Over time, a higher standard of living and

increased purchasing power resulting from innovation will help transform the population into more informed patients who will increase their demand for the best health services and most innovative products, products like our new vaccine Gardasil that has the potential to eradicate Cervical cancer from our world.

We truly believe that Latin America has the potential to discover breakthrough compounds. We've seen it when we've partnered with scientists and doctors throughout the region to complete clinical testing on our new HPV and Rotavirus vaccines, and we see no reason why the next vaccine, or even a cure for diseases like colon cancer or Alzheimer's disease, cannot be discovered in the region. Merck can then serve as a partner in transforming novel compounds into medicines and vaccines that can be available to the population in the global marketplace.

I hope you'll agree with me that innovation is crucial to achieving the OECD's very mission of working together to address the economic, social and governance challenges and opportunities of globalization. And I believe that partnership between private sector, government and educational institutions will help us deliver on one of the OECD's key objectives - to help create economic value from intellectual assets.

And finally I want to leave you with a challenge: I hope that you will not only disseminate this message beyond the OECD's 30 member countries, but that you will work to make it a reality in developing countries around the world. As noted by Hernando de 80to, wealth exists in many poor and developing countries, but it is frozen in the informal sector. The absence of personal property rights prevents people from unleashing that frozen capital and moving into the formal sector. I agree and would go one step further: that there is much to gain from also unleashing the potential of human capital in those countries. And so I ask you to leave here thinking about what we in the OECD can do to take the lessons we've learned and help other countries apply them to deliver on the promise of prosperity for all.

Thank you.