Theories and measures of national competitiveness economics essay

INTRODUCTION

Competitiveness in lay man terms can be defined as the relative strength which one needs to win in competition against his competitors (Dong-Sung, 1993). Competitiveness is a concept born of business school literature, where it forms a basis for a great deal of strategic analysis (Lall, 2001), though in recent times competitiveness has begun to be seen in a macro-economic view, in the sense of countries competing amongst themselves in the global market. This in turn has created somewhat a battle of ideologies between economists attempting to safeguard the old economic paradigm of comparative advantage and business oriented thinkers who feel the need for a new ideology that better explains the patterns of international trade, as Porter (1990) implied when he stated that comparative advantage based on factors of production is not sufficient enough to explain patterns of trade. The concept of national competitiveness has been a contested one since its conception, despite being used in a various amounts of articles and journals; the concept still has no generally accepted definition. As the notion of a competitive company is known and understood that of a competitive nation is not (Porter, 1990). Numerous authors and writers from both economic and business backgrounds have attempted to define national competitiveness based on their understanding of the concept, according to Scott and Lodge (1985) national competitiveness is defined as a country's ability to create, produce, distribute and/or service products in international trade while earning rising returns on its resources, Fagerberg (1988) on the other hand, says it is the ability of a country to realise central economic policy goals, especially growth in income and employment, without running into balance of payment difficulties and Orlowski (1982) defines it simply as a nations ability to sell. Stephane Garelli (2004) defines competitiveness under two headings, " competitiveness of nations is a field of economic knowledge which analyses the facts and policies which shape the ability of a nation to create and maintain an environment that sustains more value creation for its enterprises and more prosperity for its people", this definition falls under the academic heading, and a business oriented definition which says " Competitiveness of nations looks at how nations create and maintain an environment which sustains the competitiveness of its enterprises". The best known interpretation of competitiveness on a macro-economic level was proposed by Michael Porter and World Economic Forum (Marginean, 2006), they define national competitiveness as a set of factors, policies and institutions that determine the level of the productivity of a country (Global Competitiveness Report, 2006/2007). The conceptual framework introduced by Michael Porter in 1990 remains exceptionally influential, but there are economists, such as Krugman who consider the concept of national competitiveness as irrelevant or ambiguous (Marginean, 2006). Krugman (1994) argues that competitiveness though understandable in terms of corporations seeking to attain suitable market position, is not applicable when referring to countries; hence he terms national competitiveness " elusive".

Despite the contested nature of national competitiveness there has been a gradual but large acceptance of the concept in recent times by most developed and some developing countries and certain economic bodies who now base numerous national decisions on the basis of their competitiveness.

In light of all this, this paper will in turn attempt to explore the nature and dynamics of the macro-economics of competitiveness, pinpoint its constituents and locate their effects (if any do exist) on the development of a country's economy.

National Competitiveness: Theories and Measures

With the growing acceptance of national competitiveness, attempts are continuously been made to find a definite relationship between the macro-economic view of competitiveness and other macro-economic concepts, this in turn has led to the emergence of numerous other questions. Such questions include, what makes a competitive nation in the first place? Is a competitive nation one where every firm or industry operating in it is competitive? (Porter, 1990) Why do some countries grow so much faster and have much better trade performance than other countries? What are the crucial factors behind such differences? Which policies can governments pursue to improve the relative performance of their economies (and welfare of their citizens)? In general, what makes certain nations developed in comparison to some others? Questions such as these motivate a concern for the competitiveness of countries (Fagerberg, Srholec & Knell, 2007).

Michael Porter (1990), stated that when studying competitiveness on a national level, the only important factor to take into consideration is productivity, in light of this statement Porter drew a relationship between the productivity of a nation and its competitiveness, indirectly saying that the higher the productivity of a nation the more competitive that nation is. Porter & Ketels (2003) also argue that in order to understand competitiveness, " the starting point must be the sources of a nation's prosperity, a nation's standard of living is determined by the productivity of its economy, which is measured by the value of its goods and services produced per unit of the nation's human, capital and natural resources. True competitiveness, then, is measured by productivity". Economic development seeks to achieve long-term sustainable development in a nation's standard of living…Standard of living is determined by the productivity of a nation's economy, productivity, then, defines competitiveness. The concept of productivity must encompass both the value (prices) that a nation's products command in the marketplace and the efficiency with which standard units are produced (Porter, 2000), productivity also allows a nation to support high wages, a strong currency and attractive returns to capital, and with them a high standard of living (Porter & Ketels, 2003). This argument creates some common ground in some of the ideologies of macro competitiveness, at least between Michael Porter and Karl Aiginger who defines competitiveness as the ability of a country or location to create welfare (2006) although Aiginger does not fail to point out that productivity, though a very important element of competitiveness, it is not the sole source for a nation's competitiveness (2006). Porter (1990) relates the economic progress of a country to competitiveness by stating that countries progress by upgrading their competitive position, through achieving high-order competitive advantages in existing industries and developing the capability to compete successfully in new, high productivity segments and industries. By economic progress, we assume that Porter here refers to a positive change in a country's economy, brought about by a growth in the ability and an increase in the efficiency of the industries operating within the nation.

In today’s world with the continuously globalizing economy, there is a mega competition not only for market share, but also for capital, investment and production bases (Smadja, 1996), this statement gives an insight into the proposed ideology of macro competitiveness put forward by Porter that “ firms and industries and not nations compete in the global market”(1990). Wealth is actually created at the micro-economic level; in the ability of firms to create valuable goods and services using efficient methods. Only in this way can a nation support high wages and the attractive returns to capital necessary to support sustained investment (Potter & Ketel, 2003). Stephane Garelli (2000) argues that as businesses and enterprises grow they start to enjoy and benefit from an enormous choice in selecting their business location due to this, nations now find themselves competing among themselves in order to attract or retain enterprises. All these statements point towards the notion that for a country to achieve increased productivity which in turn will bring about a higher standard of living for its populace, they would have to compete amongst each other in order to attract firms to set up operations within their country while working to increase the efficiency of the firms and industries already operating there by making their business environment more conducive. Schwab (2004) goes further to say that in today’s global economy which is characterised by the increasing global perspective, countries now find themselves having to be increasingly creative in other to maintain a competitive edge, Potter and Ketel (2003) in turn then point out that sound macro-economic policies and stable political, legal, and social institutions create the potential for improving national prosperity. Drawing a relationship from both these statements, one can easily conclude the “ competitive edge” which Schwab speaks about refers to a country creating and sustaining these so called “ sound macro-economic policies” along with the stable socio-political institutions. If this is the case, we could once again look to developed or 1st world countries and compare the nature of their socio-political infrastructure, business environment and see glaring contrast when compared with the underdeveloped or developing nations of the world. Is this to say that nations become more competitive as a result of more efficient and better working environment for its industries? And this brings about their economic development, if that is the case, how do we measure a nations level of competitiveness? And does this measure give a similar story when measuring its level of development?

The question of what the perfect measure of a country’s competitiveness tends to arise with the increasing intensity and spread of competitiveness, which can be said to be a response to globalisation, rapid technological change (innovation), shrinking economic distance and sweeping liberalization (Lall, 2001). Buckley, Pass and Prescott (1988) say national competitiveness can best be measured in relation to the stages of the competitive process of the particular country in question, they go further to categorize these stages into the 3 P’s, competitive potential, competitive performance and management process. The best known measure spawned out by the one of the most recognised proponents national competitiveness is the competitiveness index, a composite indicator ranking countries according to selected criteria and measures of national competitive prowess (Lall, 2001). The competitiveness index is of micro economics origin but it provides a conceptual framework and data rich approach to measuring and analysing the fundamental competitiveness of a large number of countries in a comparative context (Porter, 2004). The global competitiveness report is the brain child of the world economic forum (WEF), it is a yearly report that provides an assessment of the strengths and weaknesses of nations in relation to national competitiveness utilizing the global competitiveness index as its main method of analysis (Global Competitiveness Report, 2010/2011). The global competitiveness index is calculated with the use over 113 variables which are different based on the level of economic development of the country being analysed, these variables are labelled under 12 headings which are believed to be important determinants of competitiveness, these headings include (World Economic Forum, http://www. weforum. org)

*Institution

*Infrastructure

*Macroeconomic stability

*Health and Primary education

*Higher education and training

*Goods market efficiency

*Labour market efficiency

*Financial market sophistication

*Technological readiness

*Market size

*Business sophistication

*Innovation

The world economic forum indirectly define the determinants of economic competitiveness as any national activity that fall under these headings or has an effect on them. Another important characteristic of the GCI is that

it explicitly takes into account the fact that countries around the world are at different levels of economic development. What is important for improving the

competitiveness of a country at a particular stage of development will not necessarily be the same for a country in another stage: what presently drives productivity improvements in Japan or France is different from what drives them in Algeria or Uganda. In other words, economic development progresses in stages (African Competitiveness Report, 2009). In relation to the idea that economic development is broken into stages, Porter (1990) coined the term competitive development when he stated that national economies exhibit a number of stages of competitive development reflecting the characteristic sources of advantage of the nation's firms and highlight those attributes of a nation's industry most important to rising economic prosperity. Measuring competitiveness in terms of national needs is clearly a difficult task as it requires a careful clarification of the national needs to be analysed separately (Buckley, Pass & Prescott, 1988). Porter being a very influential writer on competitiveness has remained adamant that productivity is and will remain the most suitable measure of national competitiveness (Gardiner, Martin & Tyler, 2004). Despite being widely accepted and utilized, the global competitiveness index just like national competitiveness has been criticized by some writers. Sanjaya Lall (2001) in her paper " Comparing National Competitive Performance: An Economic Analysis of World Economic Forum's Competitiveness Index", openly criticized the index saying that " the WEF definitions are too broad, the approach biased, the methodology flawed and inconsistent, and many measures vague, redundant or wrongly calculated. It concludes that competitiveness indices have weak theoretical and empirical foundations and may be misleading for analytical and policy purposes."

Dong Sung (1993) proposes that national competitiveness can measured for any entity with different domains be it a firm, industry, nation, bloc or globe, he goes further to say that sources of competitiveness are identical for all entities, the distinguishing feature in these sources is the roles they play in determining levels of competitiveness, Dong Sung attempts to draw us back to the idea that macro competitiveness is built on micro economic activities, ideologies and concepts.

Economic Development: Nature and Measures

Economic development in context is a broad and multi-faceted concept; Jhingan (1997) says it is a concept concerning the problems of developing or underdeveloped nations; Maddison (1970) describes economic development as a rise in the income levels of underdeveloped nations and G. M. Meier (2000) defines economic development as the process whereby the real capita income of a country increases over a long period of time- subject to stipulations that the number of people under the absolute poverty line does not increase, and the distribution of income does not become unequal. Joseph Schumpeter has been credited with coming up with one of the most accepted definitions of economic development (Jhingan, 1997), he defines it as a discontinuous and spontaneous change in the stationary state which forever alters and displaces the equilibrium state previously existing (Schumpeter, 1934). The terms " underdeveloped" and " undeveloped" though used as synonyms are easily distinguishable, a country termed undeveloped is one which no prospects of development while an underdeveloped country generally refers to one which has no potentialities of development (Jhingan, 1997). The general assumption that economic development is a problem developing countries drew the need for the separation of these terms, as some nations or regions are generally incapable of development while some due to their backward nature and being financially incapable cant develop beyond the level they are in. As pointed out Mrs U. Hicks (1957), the problem with underdeveloped countries has to do with with the development of unused resources, even though their uses are well known, while most advanced nations having known the uses of their resources, have utilized them efficiently and developed to a considerable extent. Following these definitions of economic development, various questions do arise, such as, Why are some countries poor while others are rich? What explains the success stories of economic development, and how can we learn from the failures? How do we make sense of the enormous inequalities that we see, both within and across questions? These, among others, are the " big questions" of economic development (Ray. D, 2007). Peter Dicken (2007) states that using broad terms like third world or developing countries implies a degree of homogeneity, which simply does not exist within this group of countries. In this respect, the World Bank makes a useful distinction between groups of developing countries based on per capita income level: upper-middle income, lower-middle income, and low- income countries. These upper-middle income countries in context of the Paris Club, are countries which receive non-concessional rescheduling terms, originally with flat repayment schedules, the upper-middle income countries are those with GNP per capita income of between $2, 996 and $9, 265, and classifies lower-middle income as those countries with GNP per capita income of between $756 and $2, 995 and the low- income countries are those countries with GNP per capita income of $755 or less (IMF, 2003).

Determining a nation's level of economic development is a major task as a result of numerous differing methods of analysis and measurements, the purpose of this paper we are going to look at only three measures in detail. The Gross National Product of a country has long been recognised as one of the most prominent statistic to analyse when seeking to measure economic development since the post world war 2 period. It gives a quantitative measure of a nation's total economic activity and its economic health and can be generally assessed yearly or quarterly (Craven, 1984, Thurow & Heilbroner, 1987). Another notable measure of economic development is the present state of welfare in a particular nation, following Okun and Richardson's definition which states that economic development is a sustained, secular improvement in material well-being which we consider to be reflected in in an increasing flow of of goods and services (1961). From this we can assume that an increase in the flow of goods and services in a country is as a result of increased consumption by the nations populace (Jhingan, 1997) and an increase in the amount of goods being consumed in a country can only be brought about by an increase in the populations capacity to pay for these goods. So in this sense an increase in the ability of a nation to purchase more goods and services signifies an increase in the development of that nations economy. Every nation's populace is entitled to basic social amenities within their country, but this is not the case, as most countries which have been termed developing lack these amenities, certain economists have begun to utilize these social indicators as measures of economic development. Jhingan (1997) explains the basis behind social indicators as its concern with human development and economic development being a means to achieving it, he goes on to explain further that an analysis of these indicators shows how nation allocate their finances among these amenities. Hicks and Streeten (1979) consider the following six social indicators as the most important for development:

Health- With life expectancy at birth

Education- Primary school enrolment as a percentage of population

Food- Calorie per head

Water supply- Percentage of population with access to potable water

Sanitation- Infant mortality

Housing- None

The use of social indicators as a measure of economic development led to the creation of the Human Development Indices. The most popular of these indices are the Physical Quality of Life Index (PQLI) created by M. D. Morris and the Human Development Index (HDI) (Jhingan, 1997).

Does Competitiveness drive Economic Development?

National competitiveness and economic development can be comfortably said to be two related and intertwined concepts which complement each other. Following the ideologies and measures that both concept are based on we can draw a cyclical relationship in which we could either say a nation is more competitive as a result of its increased economic development or vice versa.

Looking at the various definitions and ideas behind national competitiveness, such as Porter's idea of productivity being the relevant measure of national competitiveness. A country's level of productivity can be measured by its Gross National Product, which is a macro-economic measure of the total productivity of a nation's permanent residents (Ryan, 2010). The gross national product is also an accepted measure of economic development. Porter also argues that an increase in the productivity of a nation will result in an increase in the welfare of the nation's populace (1990), in light of this argument we go back to Aiginger's (2006) definition of competitiveness as a nation's ability to create welfare. The use of social indicators as a measure of economic development shows another relationship between competitiveness and the development of nations, as an analysis of certain social amenities shows how a nation allocates its GNP among alternative uses (Jhingan, 1997) and looking at the four basic requirements included in the twelve pillars of competitiveness by the WEF (infrastructure, health and primary education, institutions and macro-economic environment), we can clearly identify that these are simply basic social amenities. From all this we can deduce that countries that are not highly productive will not be in the most suitable financial position to provide the necessary social necessities for their populace hence they would find themselves in an uncompetitive position and with a low productivity and little to no basic amenities such a country can be termed underdeveloped.

CONCLUSION

National competitiveness is a concept that despite its controversial existence can not be ignored anymore. The wide spread acceptance of this concept has created the need to find its true meaning and how it relates to other accepted macro-economic theories and concepts. Competitiveness as an ideology has been accepted on a micro-economic level concerning firms and industries operating within a country and with the recognition of clusters, meso competitiveness arose, as it relates to regions and blocs which are still created and operate within countries. With the presence and acceptance of the micro and meso-economic views of competitiveness, both of which are experienced within countries, it is hard to understand why idea the of the activities which bring about these concepts have no effect on the economic and social nature of the nations which they occur. The numerous outlooks and lack of an accepted definition of national competitiveness create a great problem, but casting a look towards the proposed definitions given by prominent authors such as Porter and Aiginger and also the World Economic Forum, and relating them individually to other economic concepts, it is hard not to find some similar facts. In this case, economic development was the chosen concept for comparison. The top five countries listed in the global competitiveness report include Switzerland, Sweden, Singapore, United States and Germany (The Global Competitiveness Report 2010-2011) in that order. Switzerland boasts of one of the worlds best education system (Ambuhler, 2008) and as of 2006 life expectancy was 79 years for men and 84 years for women due to large amount of funds dedicated to health care, second only to the United States (OECD Health Data, 2006). As of 2009 the United States had domestic production worth about fourteen trillion dollars and in 2010 the infant mortality rate of Sweden, Switzerland and the United States was recorded at 6. 2% at most (The World Factbook, 2010). Everyone of these countries rank high in terms welfare provision, productivity and are top countries on the global competitiveness report. All these cant be a coincidence and in turn point to an obvious relationship between both macro-economic concepts.