

National Competitiveness in Economics: An Outsider Concept?

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Abstract

Background/Objectives: "Competitiveness is a multi-faceted concept. It tends to be broken down at various levels: The Product, the firm, the industry and the country". Its definition at the later has gotten numerous pundits from market analysts as Professor Krugman. The aim of the study is to present the theoretical foundations of the national competitiveness concept as an economic approach of living standards. **Methods/Statistical Analysis:** In this manner, the national competitiveness is commonly a linkage between "competitive power" of a country and the living standards of its population. This connection is regularly taken by the competitiveness' authors as "granted". **Findings:** We present the theoretical foundations of the national competitiveness concept as an economic approach of living standards. When applied to the industry or the product level, the competitiveness sounds reasonable. However, its transposition into the national level has converted it to a controversial concept. Despite its complexity, the national competitiveness has become a widely used approach to analyze the economic performance of nations and to make cross national comparisons using several perspectives. **Improvements/Applications:** In this framework, this paper tries to present the national competitiveness as a complex and multi-approaches concept of economic and social performance of nations.

Keywords: Competitiveness Perspectives, Economic Performance, Living Standards, National Competitiveness

1. Introduction

Under market globalization, competitiveness seems to become a central objective of the strategies of nations. In this framework, the question is defining which competitiveness strategies to adopt in order to enhance the national competitive power. The multiple approaches of competitiveness give us many drivers to achieve it, as productivity, innovation and institutions.

Competitiveness is a multi-approaches concept. We can distinguish four competitiveness' perspectives: The economic perspective, the institutional perspective, the strategic perspective and the innovation perspective.

Each of these approaches tries to explain the competitiveness by its own variables, even if it is not an easy task to put clear limits between them.

Thus, we first present the competitiveness concept and its levels of analysis (Section 2). The approaches of competitiveness are then discussed in Section 3. Section 4 presents the main measures of competitiveness. Finally; Section 5 stresses the criticism to the national competitiveness concept and provides the conclusions to the article.

2. Competitiveness in Economics: An Outsider Concept?

Given the high frequency of the use of the competitiveness concept in the political and the academic spectrums, one may be surprised by the absence of a universal definition, one common definition of this concept. This weakness has placed the competitiveness in the zoom scope of many

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economists, as¹ who claims that this concept is elusive one and an outsider concept in economics. However, the researchers and global organizations continue to use it in every possible occasion. So, it is important to ask two fundamental questions: is competitiveness an economic concept? If yes, how is has been used by in economics?

The answer to this question is fair to be a simple task. In² previous studies, we have shown that the use of the concept of competitiveness has been used implicitly in economics since the economic classical theories. With the same ink, the competitiveness has been found to be a very old concept in the public policy³.

To asset the theoretical foundations of the competitiveness concept, it is essential to put it in the framework in which it has evolved. This framework is nothing else than the international trade and the main objective is to asset the trade performance and its implications for the living standards of nations.

The explicit use of competitiveness in economics has begun in the early 1960s to mean the simple export performance of the national firms or industries. For instance, ⁴has used the competitiveness concept to analyze the spectacular export performance of the Japanese firms between 1954 and 1957. Thus, he distinguished the usual price and non-price competitiveness as measures of the later.

Two years later, ⁵gave, according to our research, the first explicit definition to the competitiveness concept. Thus, for a firm, an industry or a country, to competitiveness means the enhancement of the ability to sell in the domestic and the international market. The national level, Balassa linked the competitiveness to the exchange change regime.

With the same ink⁶ has defined the competitiveness by the ability to increase the national exports share of the global exports, excluding the variations in the structure and the destination of the national exports. To enhance the competitiveness⁶ has stressed the productivity as the main driver of the competitive power of nations.

In a macroeconomic approach⁷ has used the competitiveness concept to describe the exports performance and its positive impacts on the growth and the employment. In⁸ the late 1980s and from Kaldor's vision on competitiveness has emerged a new approach of competitiveness: The national competitiveness. In an economy, this approach links the competitiveness to living standards. Thus, in the framework of the trade deficit of the

United States in the 1980s has explained the declining U.S. living standards by the loss of competitiveness measured by the erosion of US shares in world exports markets. Accordingly, she defined the national competitiveness as the ability to compete effectively in world markets while simultaneously raising real incomes. In addition, she defined later the national competitiveness as the ability of a nation to produce goods and services that meet the test of international markets while the citizens in this nation enjoy a living standard that is both rising and sustainable⁸.

It is this link between the trade performance and living standards that has put competitiveness under criticism as being an elusive concept¹. For instance, ⁹have stressed the weakness of link between the trade surplus and enhancement of living standards of a country: Trade imbalance can be achieved simultaneously with increasing living standards. Thus, the latter is driven by the orthodox economic drivers as enhancing productivity through saving and innovation.

Every year, many articles are published in this field, including this one. However, recognizing the weakness of its theoretical and empirical foundations, competitiveness chameleon has changed the color from a doubtful concept to reasonable one. Thus, the national competitiveness is defined by international institutions, as the World Economic Forum, as the set of institutions, policies, and factors that determine the level of productivity of a country¹⁰. This complexity of the national competitiveness concept can be translated to several perspectives.

3. Competitiveness: A Multiperspective Concept

Competitiveness can be analyzed through several perspectives. In¹¹ has distinguished three perspectives of competitiveness and thus without defining it per se: The macroeconomic competitiveness, the business strategy perspective and the technology and innovation perspective. This trilogy is fare to be complete and ignores the political and the institutional ingredients of national competitiveness. Thus, in this paper, I distinguish six perspectives of national competitiveness can be distinguished: The macroeconomic perspective, the microeconomic perspective, the institutional perspective, the systemic perspective, the national strategy perspective and the innovation perspective.

The macroeconomic approach of competitiveness analyses the competitive power of countries through macroeconomic variables as the exchange rate^{1,12,13}, the balance of payments conditions¹⁴, prices, innovation and capacity¹⁵.

The microeconomic perspective of competitiveness seeks the drivers of the competitive advantage¹⁶ in the microenvironment of firms. Thus, competitiveness is explained by microeconomic conditions associated with the learning process and firm's organization and management^{17,18} and the access to financial resources^{19,20}.

The institutional approach explains the differences in competitiveness across countries by the institutional ones. Thus, for a nation, national competitiveness has been defined in an institutional framework as its capacity to achieve socioeconomic success through an institutional adaptation²¹. Thus, differences in productivity among countries are explained by institutions and government policies^{22,23}.

The systemic perspective of competitiveness put the later in an integrated framework. The main ambassador of this perspective is Michael Porter. By defining the competitive advantage of a nation as its decisive characteristics that enable its firms to create a sustainable competitive advantage in particular industries, he links the creation and the development of the competitive advantage as a dynamic of four attributes: Factors conditions, demand conditions, related and supporting industries; and firm's strategy, structure and rivalry. These elements are supported by two other attributes: The public policy and some exogenous historical elements²⁴. From this ground, ²⁵ have placed the competitiveness in an integrated framework to combine microeconomic variables, macroeconomic variables and endowments. Thus, they defined the foundational competitiveness as the expected level of output per working-age individual given the overall quality of a country as a place to do business²⁵. Hence, the competitiveness is a result of a macro-micro synergy, conditioned by the institutional conditions.

The national strategy perspective stresses the role of the public policy in the competitiveness inquiry. In²⁶ have distinguished two competitiveness strategies: Development-oriented strategies and distribution oriented strategies. The first ones are aimed to enhance the productivity through investment and saving. The second ones are oriented to promote equity through income

distribution and redistribution and to promote Short-term Consumer Benefits. For the authors, the declining competitiveness of the U.S. economy is explained by adopting the distribution-oriented strategies rather than the distribution oriented strategies adopted by other nations as Japan and the Newly Industrialized Countries (NICs) of South East Asia. In the same perspective, Tyson's contributions the competitiveness analysis have put the public strategy as the key element of the national competitiveness objective. Thus, this strategy can stimulate the development of the national competitive advantage, by adopting policies aimed to enhance the productivity and the innovation⁸.

Finally, the innovation approach of competitiveness stresses the importance of the National System of Innovation (NSI) as the main environment of the national competitive advantage. Inspired by the doctrine of Friedrich List, the authors of the NSI emphasize the process of innovation and its supporting institutions. Thus, the NSI is defined as a system of interacting private and public firms, universities and government laboratories, aiming at the production and use of science and technology within national borders²⁷.

4. Measures of Competitiveness: A Complexity

The complexity of the competitiveness concept has impacted its measure indicators. Thus, competitiveness can be measured by an array of indicators and this measure can be applied in different levels of analysis as the product, the firm, the industry and the nation²⁸. Thus, measures of competitiveness can be categorized into three groups: Competitive potential, competitive performance and management process. Potential performance is measured by variables as the revealed competitive advantage, costs of productions, prices, exchange rates indexes and the R and D expenditures. Competitive performance is measured by variables as national export market share, exports growth and balance of trade. Finally, the competitive process can be analyzed through the quality of government policies, education and training and the quality of firm's management.

However, the complexity of competitiveness concept was 'reduced' by the publication of many composite measures of competitiveness. For instance, the Global Competitiveness Index, published by the World Economic Forum,

measures the national competitiveness through 12 pillars: Institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication and innovation¹⁰.

5. Conclusion

Competitiveness is a multi-faceted concept. It can be analyzed at different levels: The product, the firm, the industry and the nation. Its definition at the later has received many critics from economists as Professor Krugman. Thus, the national competitiveness is generally a linkage between the trade performance or the economic performance and the living standards. This link is often taken by the competitiveness' authors as granted and sometimes conditioned by institutional framework. In the present study, we have distinguished six perspectives of national competitiveness: The macroeconomic perspective, the microeconomic perspective, the institutional perspective, the systemic perspective, the national strategy perspective and the innovation perspective. Finally, the complexity of the competitiveness concept explains the wide range of its measures.

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