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**KEY ISSUES IN DEFINING  
AND ANALYSING THE  
COMPETITIVENESS OF A  
COUNTRY**

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# **KEY ISSUES IN DEFINING AND ANALYSING THE COMPETITIVENESS OF A COUNTRY**

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## **Abstract**

In outline, the present working paper aims at presenting, analysing and systematising key issues of the complex analysis on a country's competitiveness. Competitiveness is a multidimensional feature of an economic entity operating in a market economy. Therefore different aspects of competitiveness are explored. The meaning of competitiveness for different economic entities is determined and a thorough discussion is given on national competitiveness. The major stages of development of competitiveness concepts are presented. The manageability and features of factors forming national competitiveness are analysed. Finally, the problem of choosing national competitive strategy is addressed.

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## **1.1. Object, aim and tasks**

The concept of competitiveness has always been subject to a great interest for both researchers and people involved in practical business. In the course of the recent years it has become widely used term in economic literature. However, wide and frequent usage of the term is not always based on the clearly defined contents of the word, and this causes a lot of misunderstandings and contradiction based on terminological non-exactitude.

The necessity of gaining competitiveness, its maintenance and relevant problems are being intensively discussed in both economic theories and in practical life. Market economy is the competitive economy and therefore different theories consider competition to be an important part of economic activity. Increasing importance of competitiveness can be explained by continuous economic integration and globalisation, that requires also a constant growth of competitive strength. Development can be achieved only through the strengthening of competitiveness of all social institutions, particularly of enterprises and governmental offices, as well as various public organisations representing different interest groups.

Competitiveness can not be seen as a new phenomena and its analysis should not be examined as a new managerial task. The economic analysis has always been looking for the opportunities of increasing the efficiency of an entity's economic activities, although not mentioning the concept of competitiveness. Comparison of the performance of various economic entities is a specific type of traditional economic analysis. However, the importance and opportunities of this type of analysis have probably been underestimated in practical management.

Therefore, competitiveness analysis emphasises constantly the method of comparison for making management decisions and

estimating the performance. However, it does not mean that other methods are ignored, because in order to compare competitive strength it is necessary first to analyse separately the activities of an economic entity. It should be mentioned that, at the same time there is a tendency to apply under the name “competitiveness research” tasks of economic analysis, which ignore the usage of comparative methods.

The present discussion paper explores various studies examining national competitiveness and changes taken place in the research of competitiveness. The aim of the research is to present and systematise key issues of the complex analysis on competitiveness of a country.

Competitiveness is a multidimensional feature of an economic entity that operates in a market economy describing its economic performance. In order to achieve the stated aim of the study, at first it is necessary to focus on various aspects of competitiveness. Accordingly the tasks have been set up, also forming a structure of the paper as follows:

- determine the meaning of competitiveness;
- determine competing economic entities and analyse competitiveness by them;
- determine the meaning of national competitiveness;
- emphasise major stages of development of competitiveness concept;
- analyse the issue of manageability of the factors that influence competitiveness;
- analyse the complex of factors that influence the competitiveness level of a country;
- examine the problem of choosing national competitive strategy.

These issues form theoretical basis for theoretical and empirical analysis of economic policies that establish national competitiveness. Moreover, it is the basis for systematic modelling and analysis of indicators that describe competitiveness, and the



linkages between the factors that influence the level of these indicators.

## **1.2. General definition of competitiveness**

Competitiveness seems to be like any other human quality that everybody strives for, but what is difficult to define and even more difficult to achieve, unless one has it inborn. (Kitzmantel 1995, p. 106).

In papers concerning competitiveness of a country, it is not often clearly determined what is the goal and what are the means of achieving it. There is no agreed definition of competitiveness, and the term seems to mean different things to different researchers — some may stress a country's low costs or the level of its exchange rate, others a country's technological leadership or its growth rate (Boltho 1996, p. 2; Fröhlich 1989, p. 22). This refers to the typical treatment of the issue, meaning that instead of defining competitiveness of a country various factors that influence competitiveness are explored.

Most of the studies mentioning competitiveness of a country present the factors used to measure the competitiveness, however, the concept itself is not defined. It is impossible to carry out correct measurement and interpret the results adequately when the goal is not defined. On the basis of such papers it is hard to derive theoretically proven and practically applicable proposals.

Evaluation of competitiveness involves various traditional elements of economic analysis. It can cause the misinterpretation of terminology as well as mistakes in the usage of traditional analyses and methods. The position that "competitiveness is a meaningless word when applied to national economies and therefore its practical usage is not justified" is recognised by many researchers. The most well known advocate of this statement is the US economist Paul Krugman (Krugman 1990, 1994, 1996).

Confusion in terminology and problems with defining competitiveness are not reasons for eliminating the term at all or ignoring practical analyses and forecasts of competitiveness of different economic entities (enterprises, states).

In regard to competition (contradicting interests of economic entities), competitiveness reflects a position of one economic entity (country, industry, enterprise, household) in relation to other economic entities by comparing the qualities or results of activities reflecting superiority or inferiority. Competitiveness can be defined both in a more narrow and in a broader sense:

- in a narrow approach competitiveness is explored in conditions where entities' interests are contradictory (achievement of the aim by one entity would make it impossible for another entity to execute its interests);
- a broader approach to the concept encompasses also the indirect and potential competition between entities, analysing the areas where entities' direct interests are not contrary.

Broader approach makes competitiveness analysis similar to the comparative analysis in its most general meaning. Positive feature of such a general approach would be emphasising the importance of method of comparison in evaluating entity's qualities and activities. Any quality or performance can be thoroughly evaluated only in comparison with similar entities. However, too general competitiveness analysis would leave the establishment and execution of concrete managerial tasks obscure.

More specific competitiveness analysis (narrow approach) would determine the confrontation of interests and thereby find the solutions to overcome contradictions. In operative management emphasis is put on direct conflicts on markets and use of operative means to win the competition. Strategic management encompasses also the analysis of indirect and potential controversies that are likely to occur in the future and the ways to solve them.

The principal feature of competition is conflict of interests between entities generally, expressed by their desire to be more successful than the others. Thereby, competitiveness is an ability to co-exist with the other institutions in the conditions of conflict of interests. This type of coexistence (competitiveness) can be characterised by several levels:

- ability to survive - the lowest level of competitiveness, refers to the ability to adapt passively to the competitive environment without significantly changing or developing itself
- ability to develop - the medium level of competitiveness, refers to the ability to respond actively to the changes in competitive environment and thereby improve its own qualities and make its activities more efficient
- superiority- the highest level of competitiveness, refers to the ability to influence competitive environment through more efficient operation, quicker development or better qualities than competitors.

Economic entity's ability to survive through passive adaptation in a constantly changing environment is possible only in a well-protected niche (meaning lack of competition or its exclusion), or in a continuous process of giving up market positions (meaning retreat to less attractive areas, that is avoiding competition). Both above-described ways are unstable and there is a constant danger of being excluded from competition in case the protection becomes weaker or recession possibilities are run out.

Ability to develop means that an entity makes systematic efforts to improve its qualities and performance in order to improve its competitive position. The result of its activities depends to a great extent on the other entities' performance and on the impact of objective factors that determine competitive environment. As a rule in long perspective the institutions able to develop are more competitive than those that rely on passive adaptation.

Superiority means that the leader's activity has impact on the other entities' positions. The leader will be in the centre of

attention, which means that competitors with developmental abilities apply measures in order to catch up with the leader and overtake its position. Achieving advantage requires innovation, however it is easy to lose it, as soon as the competitor starts to copy leader's activities.

Therefore, having an advantage can be only an unstable quality that secures competitive position only in the short run. Long-term superiority can be achieved by having a constant leading position over competitors, prerequisite of which is innovation that increases competitiveness.

General definition of competitiveness concept involves also defining its range, which can be reviewed in three major groups:

- local (regional) competition - range of suppliers of a product or a service is limited to the closest surroundings (often characteristic to the market of services);
- internal (national) competition - domestic companies supply a product or a service (characteristic to the internal market protected by foreign trade restrictions);
- international (global) competition - suppliers of a product or a service might come from all over the world. The term "international competitiveness" refers to the fact that in reality the stage of competitiveness is tested only on the world market. (Garelli 1997, p.1).

The wider range of competition usually means stronger competition. The scope of analysis of competition should correspond to the range of competition, so that it analyses all potential competitors but is not diffusive.

### **1.3. Competing economic entities and their competitiveness**

Competitiveness as a quality is always associated with a certain economic entity. Economic entities vary by their nature, they develop different relations between each other and the environ-

ment. Thereby, their competitiveness is revealed in different ways. Meanwhile, there are also common features characterising economic entities' competitiveness.

First of all, competitiveness is an economic entity's ability to be aware of its position and either improve that or at least keep it stable. Previous studies have presented this aspect rather vaguely. Traditional competitiveness analysis emphasises three levels — country, industry and enterprise. (Porter 1990; Heitger 1992). More recently competitiveness analysis has also been extended to sub-regions and supranational organisations (Hatzichronoglou 1996).

In regard to the levels, product (service) should be also examined, because it is exactly products (services) that are in direct competition in the market and their competitiveness determines the competitiveness on the higher levels. However, it should be noted that through goods the real competitors are their suppliers (enterprises). Through enterprises different interest groups compete on the markets: owners and employees, whose interests coincide only partly.

Analysing different levels of competitiveness also creates problems. A country and a company are clearly determined institutions. However, industry is often considered as a statistical unit encompassing companies with similar activity or in other words competitors. Industries can be seen as independent entities only if the companies belonging to the same industry have been organised and behave as a monopoly in questions concerning the competitiveness of an industry (education, professional training, determining R&D policies, relations with other countries' similar industries).

Cartel agreements on quantities and price have negative influence on competition. Such an industry can often appear as a political force, for example, attempting to gain more favourable competitive position through influencing government (tax benefits, direct and indirect state subsidies etc.). Cartel agreements together with economic and political advantages are factors that

harm and distort competition. The role and opportunities of industries (competitive entities) should be restricted by the state, so that they could not distort competitive environment.

The nature of competitiveness and the basis for estimating this phenomena depends on a specific economic entity. Discussion of competitiveness and its increase in general terms is useless. Each entity's competitiveness should be examined according to the factors most vital to the survival of the entity in its specific competitive environment.

A company's long term ability to produce and sell certain goods could be considered as a proof of its competitiveness. Market value of a company's shares together with market share and profitability are the ultimate indicators of its competitiveness.

Competitiveness of an industry, formed by the set of enterprises with similar activities could be to a certain extent (value and profitability of a whole set of enterprises) similar to that of enterprise's competitiveness. Meanwhile, the industry is competing with other industries in terms of internal economy (its part in forming country's GDP should be considered in evaluation). In terms of international economy, industry is competing with similar foreign industries in other countries (the ratio of exports and imports of an industry should be observed).

Competitiveness of an industry is to a great extent determined by the economic and political framework. There are several factors that contribute to the growth of a certain industry's competitiveness: tax system, direct and indirect subsidies, imports and exports terms in different countries. The overall research of economic and political benefits or restrictions and their impact allows to evaluate whether the industry operates efficiently or just relies on benefits.

When it comes to competitiveness of a country there is a lot of confusion about defining it. In fact, the meaning of the term is not clear yet, as well as what are the relevant indicators and how to measure it. The idea that a country's economic success depends on its international competitiveness became popular in

the late 1970's. For the great majority of those who use the term, it means exactly what it seems to mean: it is the view that nations compete for world markets in the same way that corporations do. A nation which fails to match other nations in productivity or technology will face the same kind of crisis as a company that cannot match the costs or products of its rivals. This is the view expressed, for example, in Lester Thurow's 1992 book, *Head to Head*. 20th century niche-oriented competition, changes to "head to head" competition in the 21st century, meaning that "win-lose" type competition or zero-sum game, takes over "win-win" type competition. (Thurow 1992, p. 30). In our opinion it would still be misleading to approach competitiveness of a country with the same principle.

Consequently we can say that different economic entities experience different types of competition. Therefore, the definitions of competitiveness of those entities are also different. Most of the papers have examined company's competitiveness and they have approached a country as an entity determining the competitive environment of companies. The present work examines country as an integral and independent competitive entity.

## **1.4. Competitiveness of a country**

### **1.4.1. Economic competitiveness**

Several definitions have been given to the economic competitiveness of a country. The most systematic work has been done by Trabold, who highlighted four important aspects of competitiveness (Trabold 1995 p.169):

- ability to sell (export ability);
- ability to attract (location);
- ability to adjust;
- ability to earn.

These aspects form an hierarchic system, whereas "ability to earn" rests on the three other aspects (Figure 1). This approach

sees ability to earn (level of earnings) as the most general indicator of country's competitiveness, whereas ability to export, attractiveness (location) and ability to adjust are seen as factors. At the same time, in regard to (foreign) investment, ability to export and attractiveness function as sophisticated phenomena, that are independent indicators of competitiveness of a country. Their level and dynamics is determined by the wider complex of factors with complicated internal structure.



Figure 1. Hierarchy of national competitiveness (Trabold 1995, p. 182).

Ability to adjust refers to enterprise's ability to adjust quickly to the changes on market and to the opportunities, that can be provided by new technology. Governmental policy favouring investments can facilitate this process. Some authors claim that ability to adjust can not be seen as a quality of a nation (Trabold 1995, p.178). However, current research proposes that while developing infrastructure, reorganising public sector institutions



and conducting economic policy, the state adapts itself to the changing competitive conditions in the world economy.

The most general indicator of national competitiveness - ability to earn, can be related to the GDP per capita.

Comparing the level of income of different countries has always been a central issue for analysts. The same indicators of different countries are regularly published by the IMF, the EBRD and the OECD. If evaluation of competitiveness involved only the comparison of average level of income per capita, it would simply be reduced to the problem of modelling and of comparative analysis of growth.

Ability to create wealth is more important than the wealth itself, because it guarantees the substitution in case the wealth is lost (Trabold 1995, p.179). Hence the importance of technology and knowledge accumulated in human capital. Thereby, the important aspects that should be evaluated to forecast country's competitiveness are: investments in technology and education. According to R. Reich national competitiveness depends less on citizens' savings and investments (they flow to the most efficient place) and more on the ideas and skills people can offer to the world economy (Reich 1997, p. 142).

Hierarchical structure of national competitiveness is also presented in J. Fagerberg's works (Fagerberg 1985, p. 2):

- resources, industrial, technological and institutional structure, foreign trade;
- country's economic policy and its aims; for example economic growth and decrease unemployment rate decrease;
- comparison with other countries, also of their tendencies in aggregate demand and supply.

K. Aiginger also sees welfare, ability to earn and ability to sell as an integral unit determining competitiveness of a country. He considers a nation competitive if (Aiginger 1996, p. 125):

- sale of products and services is sufficient;

- profits gained from factors of production correspond to the efforts made or are similar to these of other countries with similar aspirations;
- citizens are satisfied with macro-economic conditions.

Many economists mean by competitiveness the achievement of various macroeconomic objectives. Competitiveness is seen as “general welfare”; all other interpretations, including trade issues, are seen as major factors of competitiveness (Kitzmantel 1995, p. 106). In terms of macroeconomic competitiveness of a country is described by welfare of people and by economic growth. According to Fagerberg competitiveness reflects the ability of a country to secure a high standard of living for its citizens relative to the citizens of other countries, now and in the future (Fagerberg 1996, p. 48). Landau’s approach emphasises the growth of the living standard of the population together with relatively equal distribution of wealth, providing jobs to everyone who is able and willing to work; and doing it without harming the living standard of the next generation (Landau 1992, p. 299). Growing standard of living and general welfare are considered to be final objectives of competitiveness (Teollisuuden Keskusliitto 1986, p. 3). Success in foreign trade and foreign investments inflow can be seen as factors that promote competitiveness (growth of welfare).

However, the growth rate of GDP is not a perfect indicator of competitiveness of a country. In the case of competitiveness, GDP indicator fails to take into account the following aspects (Garelli 1997, p. 1):

- part of the revenues are received from non-renewable natural resources;
- part of the revenues are received from the exploitation of assets accumulated by the past generations;
- value added created by households in doing housework;
- shadow economy.

Hence the distortions in evaluation of revenues received from the “real” value added creation process. In addition to GDP

(aggregate level of peoples' income), a country's economic development is greatly influenced by the allocation of GDP: between factors of production (labour and capital); between consumption and saving; between short-term and long-term investments, etc.

Using GDP as an indicator of a country's economic success (competitiveness) in comparative evaluation creates a problem of commensurability, because GDP is measured in different currencies. Exchange rates do not reflect adequately ratios between price levels in relevant countries, but depend on supply and demand on foreign exchange market (floating exchange rate) or on governmental institutions' intervention (pegged and fixed exchange rate). Therefore GDP should be adjusted by purchasing power.

In order to simplify the analysis, shortcomings of GDP are generally ignored. The goal of analysis is to find out the ways how to increase GDP through international labour specialisation (foreign trade) and by increasing investments (foreign investments).

Importance of exports in increasing competitiveness is emphasised by many economists.

Rise in the living standards can be achieved only through the growth of gross production, which in its turn requires growth of exports (Klemetti 1989 p. 59). Competitiveness of a country can be defined as an ability to compete for export markets; to maintain economic growth and employment rates (Klemetti 1989, p. 60).

In the view of several economists competitiveness of a country is based on the competitiveness of various industries and/or enterprises (Porter 1990, p. 33). Competitiveness of a country depends on the competitiveness of enterprises and their products (Peura 1979, p. 15). This approach encompasses foreign trade indicators, such as exports to GDP ratio and foreign trade balance to GDP ratio. Competitiveness is defined as the ability of a country to acquire and maintain a market share in interna-

tional markets (Figueroa 1998, p. 392). Competitiveness of a country depends on the growth of gross production and the latter becomes possible only if the foreign trade (export) is increased. (Koskivaara 1989 p. 45).

Many economists identify competitiveness with ability to or in a broader sense with successful foreign trade (Fagerberg 1996, p. 40). According to Fleming-Tsiang theory competitiveness of a country will increase if its exports in the world market compared to other countries increases (Tsiang 1958).

OECD emphasises the relation between exports and standard of living. Competitiveness is a country's ability to produce goods and services, which meet the test of foreign competition while simultaneously maintaining and expanding the real income of its people (OECD 1992, p. 237). However, Corden's concern is that such approach would set a target rate of growth of real wages and then interpreted the competitiveness problem to be a productivity problem—a problem of getting the rate of productivity to be sufficient to sustain the target rate of growth of real wages at full (or high) employment. Hence, there could be a productivity problem even if international trade did not enter the story. The popular link between international competitiveness and adequate productivity growth is in reality rather misleading (Corden 1994, p. 280).

Dollar and Wolff interpret competitiveness as following: the competitive country is successful in international trade with high technology and quality and at the same time maintains high incomes and high wages. This way a country can compete internationally with both high wages and high profitability (Dollar *et al* 1993, p. 3).

Hughes also interprets competitiveness connected with productivity and foreign trade. His view is that competitiveness concept can be divided into two groups, which at times coincide (Hughes 1993, p. 1): first, problems concerning relative efficiency of production (static and dynamic aspect); second, problem of international trade.

Surplus of trade balance often results in the net capital export created by overseas investments or lending. This shows that investments are not made locally and the reason for this might be that a country is not attractive enough for production activities. At the same time, great overseas investments might reflect a company's ability to extend production capacities on international market. Low exports compared to imports can reflect on one hand a country's disability to be competitive on the international market, or on the other hand unbalanced trade flows caused by great inflow of investments obtained due to a country's attractiveness. Thus, a country's economic competitiveness cannot be judged based only on its trade balance (Kantzenbach 1993, p. 626).

Another aspect, warning us not to overestimate the importance of ability to export is the fact, that increase of surplus of trade balance has its limits and exceeding these limits creates conflicts with trade-partners. In the short run demand on the world market is to a greater or smaller extent limited, and high exports of one country is either directly or indirectly related to high imports of some other country. This might lead the government to apply countermeasures (Kantzenbach 1993, p. 627).

Considering competitiveness of a country to be identical to a country's ability to export is definitely too limited approach to the issue. National economy is a sophisticated conglomerate of micro-economic decisions, meso-economic structures and political-economic interests. Estimation of national competitiveness should reflect all aspects mentioned above (Straubhaar 1994, p.35). If the business loses its ability to be competitive and sell its products, it will go bankrupt. National economy cannot go to bankrupt like this, because production factors that are not utilised become interesting for other producers outside the country as they become relatively cheap.

Foreign trade is not the final goal in itself and it is not so important whether a company is creating income to its employees by producing for foreign or domestic market. A country becomes more or less competitive if its ability to sell on inter-

national and domestic market will improve or decline. This is mainly based on cost and price development (Fröhlich 1989, p. 22). Non-price factors, like technological innovation and quality can be as important or even more important but deserve less attention in analyses as they are difficult to measure and compare quantitatively (Durand 1998, p. 4).

Therefore, a country's economic competitiveness is often studied as a complex issue of business environment expressed first of all by the inflow and outflow of foreign direct investments compared to GDP. Business location aspect is more efficient indicator of the competitiveness of a country than foreign trade. In regards to business environment a country is not competing only with other countries, but there is also a competition between the different regions in the same country.

International competitiveness refers to the country's ability to offer attractive framework conditions based on dynamic cost advantage (Straubhaar 1994, p. 37). Some researchers consider attractiveness to be synonymous to competitiveness, other researchers emphasise business location theory (Standortstheorie) (Trabold 1995, p. 175)

Ability to export (to sell) and to be attractive for FDI are two aspects of competitiveness of a country that have been stressed by many researchers. H. Trabold calls those two components: "ability to sell" and "ability to attract" (Trabold 1995, p. 182). T. Straubhaar points attention to the micro- and macroeconomic levels of national competitiveness. On microeconomic level success is guaranteed by company's ability to break through which can be supported by governmental structural policy. Macroeconomic level refers to a country's attractiveness as a business location (Straubhaar 1994, p. 38). The same idea is expressed by I. Gough. He differentiates between performing competitiveness (refers to a company's ability to sell in international markets) and underlying or structural competitiveness (a country's ability to secure high and rising incomes for its people, while its companies being exposed to foreign competition) (Gough 1995, p. 14).

An important precondition of competitiveness is profitability, however, it is difficult to define and measure it (Corden 1994, p. 267). It might not be possible to compare gains from capital, as capital-intensity of production might vary by states (Agenor 1995, p. 6), and in addition, tax systems cause great differences. Comparing profit before taxes becomes problematic because of the lack of data.

Generalising different interpretations of competitiveness, authors present the relationship between the competitiveness of different economic entities (see Figure 2). The competitiveness of an individual (who is an employee of a company) is formed mainly by his education, abilities and motivation. The company uses training programs and motivation systems to enhance the competitiveness of its employee and thus the whole company (taking the abilities and skills of an employee as given). Combining these elements each company develops the appropriate quality to price ratio that keeps the company competitive. From the standpoint of an industry, besides the competitiveness arising directly from companies' rationality of expenditures (price to quality ratio) also other factors become important. Namely, the overall technical and technological development in the industry as well as political-economic conditions the industry enjoys (depends on its political power and lobby). Competitiveness of an industry is both determined by and also revealed in the level of development of production in this industry. This in turn is part of the competitiveness of the whole country, together with the economic and political position of the country in the world economy and its infrastructural development.

However, economic success of a country forms only the material basis for successful development of the whole society and for raising the living standard of individual people. Besides economic dimension, great importance has been attributed to social dimension.

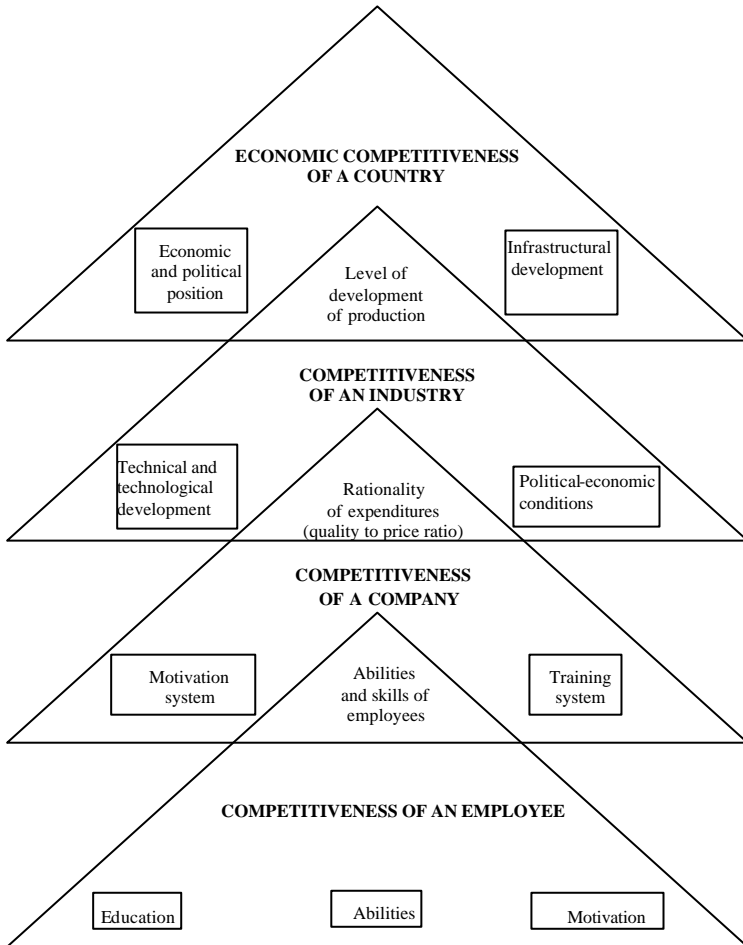


Figure 2. Links between economic competitiveness of entities on different levels.



### **1.4.2. Socio-economic competitiveness**

Attempt to define competitiveness of a country only on the ground of economic factors would be too limited and one-sided approach. Country's competitiveness is often to a great extent influenced by its political power (military power included). Indirectly and potentially nations are competing with each other from the aspect of human development, including besides economic welfare also peoples' level of education and state of national health conditions, as well as equal rights and democracy (UNDP Human Development Reports 1991-1998).

Concept of competitiveness becomes senseless if it is not defined as a country's ability to realise its social and political goals. The latter are mostly related to the increase of earnings and employment. International competitiveness theory should form links between growth and open economy and factors that influence this process (Fagerberg 1986, p. 4).

In the context of the competitiveness of a country particular attention should be paid on the issue of employment. A job guarantees every member of the society a certain position, related to its abilities and work contribution. Unemployment may increase peoples' motivation to work and confine demands of the labour force for higher wages, which may have a positive impact on the economic competitiveness. On the other side, unemployment as a social issue has such a negative impact on a country's development, that it should be included in the socio-economic evaluation of competitiveness as a separate component. The situation when a country is disable and unwilling to guarantee employment to its qualified and motivated people refers to a country's careless attitude towards its citizens. This makes citizens distant from their government.

Competitiveness depends much upon the ability of a nation to create an environment that favours sustained value added creation. The term "sustain" emphasises the long-term dimension of competitiveness. This is reflected in the importance of such issues as education, value systems, or motivation of individuals,

which strongly influence the formation of national competitiveness (Garelli 1997, p. 2).

As mentioned above, a country's ability to adjust is the fundamental level of competitiveness and it depends on economic environment. According to H. Trabold "ability to adjust" is equally important to other components of competitiveness like "ability to sell" and ability to attract" (Trabold 1995, p. 182). The importance of economic environment in fostering economic growth (one of the general indicators of competitiveness), especially in the situation of transition economy, has been also pointed out by R. Hagelberg (Hagelberg 1997, p. 39).

Competitiveness is a nation's relative ability to make the best use of its resources in order to achieve overall welfare. In the process of finding the ways of how to use resources efficiently the problem of productivity will emerge. It would be a delusion to consider that it is possible to achieve competitiveness in the conditions of low productivity. Developing countries have internationally competitive industries because the cost of low productivity is borne in the form of lower real wages (Corden 1994, p. 273). Productivity growth accompanies two positive effects: rise in real incomes and also the sustainability of this rise (Haque 1995, p. 23).

It would be wrong to consider a nation to be competitive if it is gained on the ground of low labour cost, decreasing wages and irrelevant working conditions. It rather refers to low level of competitiveness of a country, because it is not able to guarantee higher income to its citizens (Mosley 1993, p. 205).

Researchers who emphasise low labour cost as a factor of competitiveness adjust restricted concept of competitiveness of a company to competitiveness of a country. Low income (cheap labour force) is definitely a feature of nation's low competitiveness, however, at the same time its enterprises might be successful in trading on the international market and in earning profit. It should be still mentioned that, any civilised and democratic nation has an objective to improve its citizens' level

of income, education and health care (human development), but not to sell products on the account of a low living standard. Competitiveness of a country means that economic system of a country enables to optimise business and institutional efficiency with the help of technical and institutional advancements (Straubhaar 1994, p. 43).

Balanced trade is not a separate objective, it should be achieved in conditions of high incomes and productivity, high standards of quality and innovation, whereas public services and the government policy have also a significant role to play (Pfaller et al, 1989; Mosley 1993, p. 205). Growth means that the trade balance should not be formed by devaluation or decrease of wages, because those low cost strategies draw us aside from the final objective — the achievement of welfare.

The World Economic Forum defined competitiveness as “the ability of a nation’s economy to make rapid and sustained gains in living standards”, and the so-called Delors White Paper embeds a similar notion (Commission of European Communities, 1993). The Competitiveness Advisory Group emphasises three elements: productivity, efficiency and profitability (European Commission 1996, p. 6).

Competition between nations can be seen from different aspects: competition for market share, competition for increasing foreign investments, competition for political power. The main objective of any civilized and democratic nation is to increase general welfare of its citizens. It could be achieved by various ways: raise production efficiency, promote exports, attract foreign investments, extend the activities of efficient industries in foreign countries, improve environmental protection, increase social security and stability, increase freedom of choice (democracy development) and possibilities of self-development (social justice). In case a state is able to offer its citizens a possibility to get a job (high income) and social benefits (democracy and social justice, education and health care), it can be said that a country is competitive. Guaranteeing welfare to its citizens is the major socio-economic objective of a coun-

try and the level of achieving this compared to other countries becomes indicator of competitiveness.

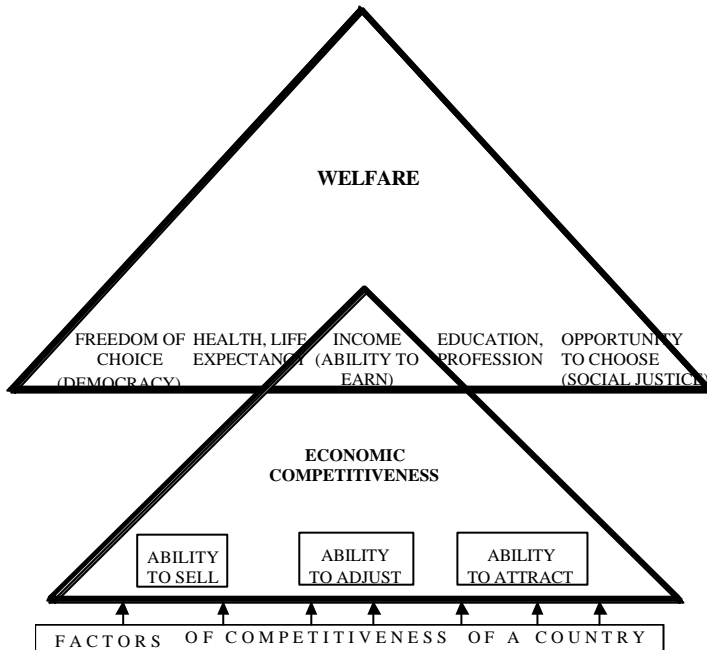


Figure 3. Hierarchical system of the formation of socio-economic competitiveness of a country.

Considering above-stated, authors present the hierarchical system of socio-economic competitiveness of a nation. Economic competitiveness forms only one, however, very important part of the competitiveness of a country in this framework (see Figure 3). The figure clearly distinguishes the components and factors of competitiveness. Economic competitiveness can be characterised with the help of Trabold, where ability to earn rests on other three aspects – ability to sell, ability to adjust and ability to attract. They are in turn influenced by several factors not specified in this figure. As the figure demonstrates, eco-

conomic competitiveness in only one part in socio-economic competitiveness of a country. Freedom of choice as well as ability to choose (meaning that besides rights an individual should also have opportunities created by the state), health and education conditions are equally important components besides economic competitiveness. As the figure states, the ultimate goal is the welfare of the nation and the level of accomplishing this goal is the best measure of competitiveness relative to other countries.

### **1.4.3. Criticism of the studies about national competitiveness**

The lack of consensus in defining competitiveness explains why some economists criticise the concept of competitiveness of a country. Competitiveness of a country is not analogous to the competitiveness of companies. According to P. Krugman, professional economists know very well that countries' competitiveness is a metaphor—a poetic way of meaning productivity, and has nothing to do with any actual conflict between countries (Krugman 1996, p. 18).

The first objection to the usage of the term of competitiveness is that there is no analogy between competition among countries and competition among companies. Countries do not go bankrupt and they cannot be liquidated. If the corporation cannot afford to pay its workers, suppliers, and bondholders, it will go out of business. Countries do not go out of business. They may be happy or unhappy with their economic performance, but they have no well-defined bottom line (Krugman 1994, p. 31).

H.Trabold's point of view is that countries do not go to bankrupt but they might face serious short-term liquidity problems. In that case IMF should execute the role of a bankruptcy registrar. Consequently, the difference between a country and a corporation is in the method chosen to solve the liquidity problem (Trabold 1995, p.181).

Krugman claims that countries do not have uniquely defined bottom line. Actually the bottom line for countries is the demand for higher living standards. Higher living standard depends on productivity and the latter is determined by investments made in technology, research and development, as well as development of infrastructure (Thurow 1994, p. 189).

The second objective to the usage of the competitiveness concept is related to international trade which is not a zero-sum game. Countries are nothing at all like corporations and therefore tapping about countries the term “competitiveness” cannot be used in the same meaning (Krugman 1994, p. 34). It is feared that productivity growth in low-wage countries must always come at the expense of jobs elsewhere (Krugman 1996, p. 21). The advocate of this statement is L.Thurow with his before-mentioned “head-to-head” argument. This opinion is supported by Hatzichronoglou who states that no country can win new market shares without another country suffering a corresponding loss (Hatzichronoglou 1996, p. 29). Therefore short-term international trade can be seen as a zero-sum game. However, zero-sum game is not a necessary consequence of international competition. The most efficient way to enhance competitiveness is to support innovation and diffusion of technology, that may actually lead to higher growth worldwide, and higher welfare all around (Fagerberg 1996, p. 49).

In international trade, there are no winners and losers as long as the traded goods are not produced in a partner’s country. If the successful exports of one country can be dangerous for another country’s sales, it will generate conflict of interests and one country’s success on international market means decrease in the sales and loss of welfare for another country (Prestowitz 1994, p. 187). The result depends on circumstances, whether countries’ interests contradict or lead to mutually beneficial co-operation.

The third objection to the usage of the term of competitiveness is related to the idea that countries unlike companies do not prevent each other in achieving their goals. This is so because

countries are not as that interdependent as the companies are. Countries do not gain economic success at the expense of each other (Krugman 1994, p. 34). For an economy with very little international trade the ability to balance its trade is mostly a matter of getting the exchange rate right and it has a minor influence on the standard of living (Krugman 1994, p. 32). So in an economy with very little international trade, the growth in living standards—and thus “competitiveness” would be determined almost entirely by domestic factors, primarily the rate of productivity growth. That is domestic productivity growth—not productivity growth relative to other countries (Krugman 1994, p. 32; Corden 1994, p. 280).

Proponents of the term of competitiveness have not denied the importance of domestic economic performance. International trade is considered to be more as a symptom than a cause of competitiveness (Prestowitz 1994, p. 187). Krugman’s argument that one country’s high economic growth rate does not reduce the living standard of other countries is true only in short-term. In the long-term domestic productivity may suffer from the invasion of foreign goods (Prestowitz 1994, p.188).

Trabold is convinced that in the world economy all countries are interdependent and therefore the behaviour of at least bigger countries affects the others. Smaller countries have to take into account the policies of economically more powerful countries. One country may have monopoly status over others in trade. Moreover, an economy can be considered to be successful only in comparison with the other countries (Trabold 1995, p. 181).

According to Kaldor (1966, 1967, 1981) and Thirwall (1979) economic growth in the open economy depends mostly on two factors (Fagerberg 1986, p.7):

- growth of world demand;
- ability of a country’s producers to compete with other countries (measured by income elasticity of exports and imports).

The fourth objection to the usage of the term of competitiveness has to do with the idea that national economy is a heterogene-

ous conglomerate formed by single groups, which all follow their interests in order to earn profit (Straubhaar 1994, p. 34). As not all economic entities represent the same interests, so the treatment of competitiveness can be based on a company and an individual only.

This statement can be interpreted already as a denial of a national economy. In fact, a company is also a conglomerate of different interests: management, employees, owners. However, they might also share some common interests, for example, increase of market share. The same principle is valid also while tapping about a country—different interests coincide partly (Trabold 1995, p. 181).

The fifth objection to the usage of the term of competitiveness emphasises the usage of the term in political dispute (Trabold 1995, p. 182). International competitiveness is an economic political, not economic term only (Straubhaar 1994, p. 37).

Politicians use the term of competitiveness in order to determine a country's position in the system of international relations. The system views competitiveness position as an ability to gain main goals of a country: security, welfare and sovereignty (Rapkin 1995, p. 6).

Certain indefiniteness and ambiguity of the concept of competitiveness in international comparisons of the countries cannot be the reason to reject the term at all. One positive tendency is that the application of competitiveness aspect enables to examine and interpret many macro-economical processes and relations between countries from a new angle. For success it is not enough to improve socio-economic conditions of the country or to increase investments and innovation, it is more important to implement all above-mentioned better, faster and more efficiently than other countries.

Competitiveness is a reconsideration of a broad set of indicators that together provide a highly legitimate focus (Cohen 1994, p. 197). Competitiveness concept is being used as a broader



approach to economy because single indicators cannot present a complete picture.

### **1.5. The development of the concept of competitiveness**

Different goals and social values have been stressed at different stages of development of economic thought and by different schools of thought, therefore the methods and means proposed for achieving high level of competitiveness have been also different. It explains also the difference by schools to the definition of competitiveness and its formation.

Representatives of the Mercantilist view do not consider the concept of competitiveness to be ambiguous. It seems obvious to them that countries compete with each other in the same way as corporations do. To a Mercantilist competitiveness means country's ability to export as much as possible and the "winner" is the one whose export volume exceeds import. Anyone who writes about trade as a global war ; anyone who compares countries to corporations; anyone who says that trade policy is about creating jobs; anyone who taps about "high value" sectors; all of these people reveal themselves to be Mercantilists (Krugman 1996, p.18).

The classical model considers imports to be the purpose of trade. Exports are a cost to the country — produced but not consumed. Or to put it differently, exports is an indirect way to produce imports, because it is more efficient than producing imported goods itself (Krugman 1996 p. 19).

Representatives of the classical school have expressed in several theories the importance of achieving cost advantage. A. Smith states in his theory of absolute advantage that the one who is able to produce with the lowest cost in the world has the absolute advantage and thereby it determines basis of competitiveness.

D. Ricardo expressed a little milder standpoint in his theory of relative advantage. According to his theory specialised production and international trade are worth implementing also if ratios of production cost by countries are different. This means that basis of exports can be only a relative advantage. Ricardo's view is that international trade is created by the difference of labour productivity in countries. Nowadays the basis for relative advantage might be the difference in technology.

Keynesians want the government to stand behind domestic firms wherever there seems to be a winner-takes-all competition for future monopoly profits. A theory known as the "new trade theory" was put together, however many of the theorists themselves have become skeptical about the government activism in promoting industries that seem to pay exceptionally high wages (Krugman 1996, p. 19). Competitiveness of nations, as well as corporations is determined by the efficiency of governmental economic policy. Both Europe and Japan consider governmental policy to be an effective factor of economic growth. (Thurow 1992, p. 35). It is believed that the role of the government is to provide necessary conditions so that everyone can enter the market (Thurow 1992, p. 36).

The Neoclassical school understands the limits of both the Classical and the Mercantilist position. They find the arguments for governmental intervention in economical processes unimpressive: while markets are indeed imperfect, the potential gains from trying to correct those imperfections are, he believes, essentially a small change. Representative of the Neoclassical school is cynical about the likelihood that subtle arguments for intervention can be translated into productive policies in the real world (Krugman 1996, p. 20).

Different factors influencing competitiveness of a country have been stressed according to different levels of development of production processes and economic thought. In the past individuals, companies and countries achieved success with the existence of natural resources, more modern technology or greater capital and skills that made them wealthier than their

competitors. Optimum combination of these four factors was of cardinal importance when defining the level of competitiveness. At the present day the quality of labour, its education and skills have become an essential key for success (Thurow 1992, p. 39). This is also explained by the growth of the share of services in both domestic and foreign trade.

Heckscher-Ohlin's neoclassical theory of relative advantage recommends that a region should specialise according to resource-endowments. It means that a region should specialise in products which production costs are relatively low because the factors of production are abundant (Best 1993, p. 188).

Different interpretation of theories has led to discrepancy of opinions and widespread myths. The following are the most widely spread opinions (Krugman 1996, p. 20):

- the growth of new economies in Asia necessarily comes at the expense of the West;
- if our foreign rivals become more productive than we are, we will have nothing that we can produce competitively, and our standard of living will deteriorate;
- as modern technology diffuses globally, the real incomes of advanced nations will be driven down towards Third World levels;
- intensified competition between nations will lead to a simultaneous decline in everyone's incomes.

It is thought that productivity growth in one country must always come at the expense of other country. However, the one who understands the model of comparative advantage, has a picture of a world in which wages, prices, the pattern of specialisation and production, and the size of the world market are all simultaneously and mutually determined; in which productivity growth will lower labour expenses (Krugman 1996, p. 21).

Production based on criteria: "the lower the cost, the bigger the market and the more successful the business" may lead to competitive reduction of prices with an aim to gain bigger market

share. Attempt to reduce nominal wages in a country will raise unemployment without an improvement in competitiveness (Boltho 1996, p. 5). At the present time the cost/price competition has become weaker and it is dominant only in sectors which require more natural resources and low-skilled labour.

Such “beggar-thy-neighbour” policies have well-known costs vividly illustrated by the experience of the 1930s. Potential losers started protecting their market from foreign intervention. Trade protectionism was gradually whittled away in the 1950s and 1960s and, despite some resurgence between the mid-1970s and the mid-1980s, has retreated even more rapidly (Boltho 1996, p. 13). In actual life the trade barriers have become better hidden and therefore it is difficult to estimate their influence.

Formal technology approving models began to emerge in the 1970s. In these models two countries are observed; one country is more innovative than the other (and consequently has a technological lead), while the other (the technological laggard) relies more on imitation. New technologies emerge in the leading country, which for a period enjoys a temporary monopoly. However, in the course of time, the technological laggard will learn to copy these technologies, and competition will arise. These models — often called north-south models envisaged an innovative north, paying high wages, and an imitating south, exploiting cost advantages (low wages). The wage gap between north and south derives from the different costs arising from innovation and imitation (Fagerberg 1996, p. 46).

The term ‘new competition’ is used for strategic behaviour which aims at shaping the market, not responding to it. New competition is not based on minimising costs and unlike old type competition it does not force to implement cost-reducing means to soften competition pressure.

Development of concepts of competitiveness can be divided into several stages (Sturges 1997, p.1):

- Competitive advantage is based on natural resources. Foreign investments are directed to the exploitation of natural resources and thus allocated in the primary sector.
- Share of investments increases remarkably; their share in GDP increases from 5-8% to 15-20% of GDP (World Bank 1991). Countries on this developmental stage increase expenditures on education (labour force) to meet the requirements of industry, public sector, transport and communication.
- At the innovation-oriented stage a country is becoming an internationally acceptable trade partner. Typical features of the stage are growth of urbanisation and high innovation costs. Achieving higher living standards, consumers start to prefer higher quality and differentiated products. Competitiveness is rather based on the quality of managerial skills than on the existence of natural resources.
- High level of information processing. Only a few countries have achieved this level: USA, Japan, Norway and Germany. These countries apply a great share of their resources to the research and development (R&D) in order to develop new products and processes. Government should play an important role in this process. The most important task of the government is to intervene in case of imperfect competition (market failures).

This section illustrated the changes that have taken place in the evolution of concepts of competitiveness. The different approaches to competitiveness have been generalised and combined in figures presented earlier.

### **1.6. Controllability of factors of competitiveness as a key aspect in analysing competitiveness**

Previous sections of the present paper explain the competitiveness of different economic entities (enterprise, industry, gov-

ernment). The present section focuses on the factors forming competitiveness.

The existence of various economic entities, their development and success; in a word their competitiveness depends on the impact of several direct and indirect factors. These factors vary for different economic entities.

Factors that influence competitiveness can be classified as controllable and uncontrollable. An economic entity can influence controllable factors itself and thus have an impact on the development of its competitiveness. From the point of view of the economic entity, uncontrollable factors are considered as exogenous conditions which determine the level of its potential competitiveness (independent of the entity). By means of controllable factors an institution can only correct the potential level. Consequently, because of the impact of uncontrollable factors economic entities differ already by their potential competitiveness.

The importance of such classification lies in the fact that it enables to evaluate separately objective opportunities and subjective contribution of an economic entity. When the objective conditions compared to others tend to be unfavourable great efforts have to be made in order to be competitive. These efforts might not pay off. In that case an institution should consider moving to an activity with better exogenous conditions. When the conditions are favourable, an institution can stay competitive without making great efforts. In that case, an economic entity does not use its whole potential of development. Modest performance in favourable external conditions should make an institution to analyse the use of its internal resources.

Uncontrollability of a certain factor from the view of an economic entity does not always mean that the factor is uncontrollable for all economic entities. Controllability of certain factors is different on different levels: the government can apply legislation and economic policies in order to change many conditions which are considered to be uncontrollable by industries

and enterprises. Competitiveness of countries is influenced by international organizations (e.g. WTO, IMF, EU etc.).

Controllability of factors is also different in time. Factors, which can be described as fixed in short-term context (e.g. road network and other elements of infrastructure etc.), become variable in long-term. Therefore competitiveness analysis should combine operative and strategic approaches in order to avoid inaccurate decisions.

Accordingly, factors of competitiveness can be classified as follows:

- absolutely uncontrollable factors (geographical conditions, etc.), which determine the “core” of competitiveness (objectively determined potential level);
- in short-run uncontrollable factors (level of education, R&D, infrastructure, etc.), which are considered absolutely uncontrollable in a short period and become controllable in the long run;
- factors controlled by a institution of higher level (governmental social and economic policy from the point of view of a company, etc.); level of controllability depends on the support of policymakers and “lobby work”;
- directly controllable factors (resources and means available for an economic entity), the efficiency of employing them shows an entity’s contribution to the formation of its competitiveness;

Determining the controllability of factors enables to assess the objective initial position of an economic entity in competition. Controllable factors allow to improve the position by implementing different strategies.

## **1.7. Socio-economic factors of competitiveness of a country**

Hierarchical structure of competitiveness of a country is highly complicated and so is the set of factors which determine com-

petitiveness of a country. The present paper does not examine the development of particular factors related to level of democracy and social justice. This part focuses primarily on socio-economic factors of competitiveness a country.

Different factors of competitiveness have been presented by different authors according to their main field of research. Such analyses are valuable sources of information in determining the general set of factors. However, examining each factor separately does not give complete picture of the competitiveness. Factors of competitiveness of a country are in close interrelation, thereby a positive move of one factor can induce a negative move of another.

Long-term success (competitiveness) is characteristic to the countries which have high level of savings and high investment rate. In some cases it is even more than 20% of GDP (Best 1993, p. 3). Actually, it is not enough to determine competitiveness of a country considering the level of savings only. It is also important how the savings are used.

The aims of macroeconomic policy are usually described as the achievement of simultaneous internal and external balance in the short run and rapid growth of living standards in the long run. Thus, the lack of competitiveness would mean that a country, at full employment was running a persistent current-account deficit which would in due course require adjustment, usually via a mixture of deflation and depreciation (Corden 1994).

The desirable degree of international competitiveness in this context could be defined as the level of the real exchange rate which, in conjunction with appropriate domestic policies, ensured internal and (broadly defined) external balance (Boltho 1996, p. 2).

Much more frequently mentioned factor of competitiveness of a country is the ability to sell (Trabold, 1995, p. 167), in other words ability to export (Hughes 1993, p. 134). The widespread assumption is that increasing living standard can be achieved by



the growth of gross production only. This would certainly require growth of exports (Klemetti 1989, p. 59).

In regard to exports, a country may establish various goals: increase of exports, increase of both exports and imports, achievement of trade balance, increase of regional market shares (Aiginger 1996, p.126).

Exports and imports indicators should be analysed carefully: low imports ratio might not always mean that the country has established import restrictions, it could also be the result of high productivity and low prices on domestic market. High imports ratio may show that a country has been able to integrate well with the world economy, rapid growth of domestic demand or currency devaluation in the countries supplying imports (HatziChronoglou 1996, p. 33).

Many countries have tried to increase artificially their exports with non-market forces. One important interpretation of competitiveness derives from the post-war Bretton Woods era of fixed exchange rates. In the short term, the only quantitatively important way in which a country could sharply improve its international competitiveness was by devaluing its currency; competitiveness policy and exchange rate policy were largely. An improvement in competitiveness thus involves declines in the real exchange rate which makes labour relatively cheap (Boltho 1996, p. 13).

There are several doubts about the effectiveness of devaluation in restoring international competitiveness (Boltho 1996, p. 7):

- low price elasticities in world trade;
- inability to affect the real exchange rate;
- unpredictability of side-effects of devaluation;
- perverse longer-run impact on non-price competitiveness.

The oldest criticism of devaluation goes under the well-known name of “elasticity pessimism”. If the price elasticities of demand for imports and exports are low and the Marshall-Lerner conditions for a successful devaluation is not fulfilled, the exchange-rate instrument behaves perversely — a deficit

leads to devaluation, which leads to a further deficit, which fuels further devaluation, etc. (Boltho 1996, p. 7).

Additionally it is important to note that possible positive results from currency devaluation have a temporary nature. Disadvantage is that devaluation might be seen as the sign of the weakness of economy (Fröhlich 1989, p. 27).

The estimation of competitiveness of a country assumes producing and competing on a global market. Imports and exports as indicators of competitiveness have been used already for a long time. Today, the importance of investments is emerging. The reason is that goods are produced in a country that receives investments and this has an impact on both exports and imports (Sturges 1997, p. 1).

The size of the domestic market is also considered as an important factor of competitiveness. Large domestic market enables the producer to gain economies of scale and it is also important in regards to product life cycle (Krugman 1996, p. 17). It is because of the protectionism governing the world trade that the large internal market has become an important issue of competitiveness. In the free trade conditions economies of scale could be achieved through exports.

It is important to involve new resources, which can be done in the conditions of comparative advantage (Hauser, Segmüller 1997, p. 56). The neoclassical foreign trade theory (Heckscher-Ohlin, Samuelson) does not fully cover the issues of comparative advantage. This is in large amount created and changed by an individual (governmental economic policy). A country's economic system and its functioning principles can be seen as a comparative advantage.

Competitiveness is a relative ability to employ all existing resources in the best possible way. Such approach generates a question whether a country could be more successful if it has more favourable production conditions although the other country's performance is more efficient. Greater efficiency of one country might not always make up for the objective advan-

tage the other country has. Existing resources form a good starting position for attractiveness. Their optimal usage and development improve country's competitiveness (Hauser, Segmüller 1997, p. 59).

Quality of economic environment as a factor of competitiveness can not be estimated considering only the level of wages and taxes, unemployment rate, etc. Difference is made between strong (taxes, wages) and mild (work relations, education, health service, social liberty) factors of environment (Trabold 1995, p. 175). Before foreign investment decisions are made a country is estimated from the point of labour cost, productivity, technology and market size (Yamawki 1993, p. 20).

The low level of production costs indicates the efficiency of using resources. Measurement of production costs as a factor of competitiveness is based on:

- nominal wages;
- value of national currency (exchange rate);
- productivity growth, reducing unit labour costs;
- material and energy costs per unit.

Country with a low competitiveness should consider measures to improve these factors (Fröhlich 1989, p. 24).

Access to international markets is a precondition of attractiveness. It makes it possible for the new resources to enter the country. There is an indirect positive effect, that tighter competition in local market with foreign companies makes local companies to make greater efforts and become more competitive (Hauser, Segmüller 1997, p. 66). Access to international market is very important for the small countries because of small domestic markets.

The role of taxes is also important in forming attractiveness of a country (Hauser, Segmüller 1997, p. 61; Scharping 1994, p. 193). Higher taxes might also have a positive impact if tax revenues are used for the modernisation of infrastructure and investments in human capital (Trabold 1995, p. 175; Kantzenbach 1993, p. 630). If the established taxes cause distortion of

market processes, the attractiveness will fall in the eyes of the investors.

Different authors have different standpoints whether a positive net balance of direct investments is good or bad in regards to attractiveness. Great direct investments inflow reflects country's attractiveness. It means that it is beneficial to invest in this country. On the other side, outside investment orientation indicates the surplus in the balance of payments that means the country is successful and can afford outside allocation of capital. (Trabold 1995, p.177).

In the course of the recent years, attention is paid to relationships between competitiveness and technology that is oriented to reducing costs on labour and material. The results of the studies generally confirm the importance of technological development, while the impact of cost factors is found to be relatively marginal. The idea that in capitalist economies it is technological, rather than price, competition that matters most, is not a new one. This thesis had been argued by Schumpeter (1934, 1939, 1943) and also by Marx before him (Fagerberg 1996, p. 43).

According to the view of some economists, the basis of competitiveness is certain macroeconomic factors — exchange rate, interest rate, balance of payments, technology. However, M. Porter pointed out that the assessment of a competitiveness based on separate factors is not always true; competitiveness is a complex phenomena. Despite direct negative impact of some factors the countries could still be competitive (Porter 1990, p. 3). The formation of competitiveness is a complex process involving numerous factors and chains of direct and indirect links. The negative impact of some factors is compensated by the positive impact of the others. Indirect positive effects might level direct negative impact.

The World Competitiveness Yearbook presents complex national competitiveness profiles. A synthetic complex indicator showing country's economic structure and ability to support

economic growth is constructed. This competitiveness indicator is derived from the characteristics of economic environment. Economic environment is characterised by eight aspects (domestic economy, internationalisation, governmental policies, financial environment, infrastructure, management, science and technology, people) using 250 criteria (The World Competitiveness Yearbook 1997, p. 1). In addition to the tangible side of competitiveness (GDP, inflation, number of patents etc.) the intangible aspects are also given (education, value systems, attitudes, etc.).

The traditional neoclassical theory sees technology as a public good that is equally available for everyone. This conception assumes that technology cannot cause differences in incomes and productivity. The school of evolution is on opposite opinion that knowledge and new technology are necessary for the achievement of labour efficiency, higher wages and income (Trabold 1995, p. 180).

The quality or in other words competitiveness of a business environment in economically and politically stable countries (regions) is usually analysed from the aspect of infrastructure (Hoffmeyer 1990, pp. 95 - 178; Heitger 1992). By assessing economic environment in transition countries, the process of transformation is analysed (Laaser 1994, pp. 21-124; Schrader 1994). Transformation of domestic political relations within the region as well as good international relations with other countries are very important for the Baltics and other countries that have restored their independence (former Soviet and Yugoslavian countries).

The factors determining national (regional) competitiveness or business environment (ability to attract) and exports (ability to sell) could be classified as follows:

#### **A. General factors determining competitiveness environment**

- country's (region's) openness to the world economy;
- world economy's openness to the region;

- political stability of a region and its surroundings;
- country's (region's) economic-geographical position;
- "soft" factors characterising business environment (living conditions, cultural environment);
- climatic conditions and natural resources;
- demographic situation and the structure of human resources.

### **B. Basic characteristics and mechanisms of a market economy (economic policy)**

- general attitude towards foreign investments and market economy;
- level of governmental bureaucracy;
- price stability (low inflation policy);
- taxes, subsidies and credit aid;
- pricing and its regulation (monopolies);
- ownership; corporate governance;
- regulation of foreign economy relations, trade policy, exchange rate policy;

### **C. Competitiveness of business infrastructure factors**

- level of wages, ratio of wages and labour productivity;
- quality of labour, job motivation and attitudes;
- land, energy and ecological environment;
- stability of supplies of raw materials and energy;
- existence of land suitable for business activities;
- transport and communication;
- research and technology infrastructure.

Above listed factors (groups of factors) are to a certain extent autonomous because within particular limits they could be shaped (developed) independently. However, they should be still studied as a complex and not hope for the magic effect of the preferential development of one or another factor (group of factors). All economic-political, socio-economic and infrastructural factors form an integral system and attention needs to be paid to all these factors by multiplying them, not simply summing up. Therefore the weakness in developing one sphere (e.g. in crime restriction) has negative influence on the whole

system because the business environment is assessed as a complex issue.

## **1.8. National competitiveness strategies**

This section combines the objective and subjective approach to competitiveness. Economic agents do not regard competitiveness as a solely objective notion. On the contrary, they evaluate their chances of gaining competitiveness based on their own interests, risk aversity and other psychological features. Different economic agents evaluate differently the objective state of competitiveness and make different choices in the same situation.

The amount of factors that form national competitiveness, their diversity and complicated structure of interrelations clearly reveal the problems associated with forming a strategy of increasing competitiveness of a country. The contradictory impact on competitiveness arising from changes in different factors assures that the “uniquely right” strategy does not exist. In order to find an optimal strategy which could increase competitiveness, it is necessary to balance all below listed developmental aspects and interests of various institutions :

- general speed of development (growth rate) — fast and unstable (with crises and setbacks) or moderate and stable development;
- society — establishing priority criteria for a certain area or applying equal opportunities principle;
- industries — preferential development of a particular industry or creating equal opportunities;
- regions — preferential development of a particular region or creating equal opportunities for all regions;
- developmental basis — focusing on a particular group of factors or applying balanced development of the complex set of factors.

It is evident that designing developmental strategy requires that the relations between the aspects should be taken into account.

Deviation from balance of some aspect usually involves unbalanced development of another aspect(s). The choice of strategy depends on historic experience, cultural context, psychological atmosphere, social-political forces, foreign influence and on many other circumstances.

Contradictions between various competitiveness strategies have been examined in many studies. For example, in regards to national competitiveness two strategies of growth have been contrasted: attractiveness and aggressiveness. A country can achieve success on foreign markets by being aggressive and/or increasing its attractiveness (foreign investment) (World Competitiveness Yearbook 1998, p. 3).

Competitiveness growth can be also achieved by applying contradictory strategies or their complexes. Four forces at work in the competitiveness environment are described by extremes (Garelli 1997, p. 3):

- proximity and/or globality,
- attractiveness and/or aggressiveness,
- assets and/or processes,
- individual risk taking and/or social cohesiveness.

### **1. Proximity and/or globality**

Proximity strategy takes the value creation process close to the end user. It is generally protective, built up on domestic production (produced by the people who consume it) and protected by the government against users of global strategies (exporters from other countries). In applying this strategy, a country's goal is to guarantee jobs to its people and stabilize their income making the best use of capacities of a domestic market.

Globality strategy suggests that all activities should be oriented to the international markets. It assumes that production must not be close to the final user, and it benefits from the relative cost advantages of countries world-wide. This strategy is generally cost efficient. The proportion between these two strategies in national prosperity vary by the size and the economic development of a country.



## **2. Attractiveness and/or aggressiveness**

Aggressiveness creates revenues in the home country, but not necessarily jobs. Attractiveness creates jobs in the host countries, but can be short on revenues for the state because of tax incentives, etc. This means that even wealthy nations, some of which are very aggressive on world markets, can not ignore the importance of attractiveness, especially because of its impact on employment and the economy of proximity. Both strategies of competitiveness should therefore be balanced (Garelli 1997, p. 3).

## **3. Assets and/or processes**

Nations manage their competitive environment by relying more heavily either on assets or on processes. Some nations can be rich in assets — land, people, natural resources, etc., but are not necessarily competitive (e.g. Brazil, India, Russia). Other nations are poor in resources and have relied essentially on well developed processes (production technology, marketing, management etc.). In general, the latter nations are more competitive than former (Garelli 1997, p. 4).

## **4. Individual risk taking and/or social cohesiveness**

The so-called Anglo-Saxon model is characterised by emphasis on risk, deregulation, privatisation and individual responsibility. In contrast, the so-called Continental European model relies heavily on social consensus, a more egalitarian approach to responsibilities and an extensive welfare system. Both models have competed for many years. It seems, however, that today the Anglo-Saxon model is prevailing. The European Union legislation has also moved towards deregulation and privatisation (Garelli 1997, p. 4). However, it should be noted that a necessity for an optimal balance between these models has occurred. The move of the European Union to a higher level of individual responsibility can be explained by the distorted balance. Social responsibility started to a great extent prevent initiative and motivation.

Analysis and synthesis of various strategies and models enables to develop complex competitiveness strategy consistent with

specific historical, social, psychological and other factors characteristic to the particular nation. Estonia has practically not started the development of this strategy. In fact, the facets of strategies are being contradicted instead of combining and balancing them.

## Conclusions

Throughout years competitiveness has deserved the attention of researchers that try to explain the economic success of various countries. The present paper examines the ways of determining competitiveness in a broader and more narrow context from the aspect of comparison or confrontation of various economic entities. Despite contradicting interests, the entities (especially nations) have to co-exist and on this ground, competitiveness, as an ability to co-exist in the conditions of an interest conflict, is determined in the present paper. The paper determines three stages of competitiveness — ability to survive, ability to develop and superiority.

Competitiveness is a quality of an economic entity. Economic studies consider a company, an industry and a country as different levels of competitiveness analysis. This means that only one single economic entity— company — and competitiveness of it are researched. The present research determines clearly major economic entities subject to competitiveness problems — company, industry, country — and provides the concept and specifies the scale of their competitiveness (local, international, regional).

A brief historic survey of the concept of competitiveness gives evidence of the contradictions in approaching this phenomena. Despite controversial positions competitiveness remains definitely a central issue of economic policy.

The difference of economic-political interests is also the reason for controversial concepts of competitiveness. However the growth of interactions and strengthened relations between economic entities in the world economy lead to the overall mutual dependence. Thereby a harmonised and balanced concept of competitiveness that would be one of the preconditions guaranteeing social and economic stability is required.

Competitiveness of any economic entity comprises two components which have not been clearly defined in the concept of competitiveness:

- a) objective potential level of competitiveness determined by the uncontrollable factors of a particular economic entity (historical, cultural, geographical, demographic conditions);
- b) subjective contribution (positive or negative deviation from the potential level) determined by the means the institution has (controllable factors) and the scope and intensity of their application. Both components of competitiveness have different role in finding optimal developmental strategies. This should be considered when going into more profound analysis and drawing economic political conclusions from it.

The concept of competitiveness of a country needs to take into account a diversity of factors important to the formation of the level and dynamics of competitiveness. Generalising the historical development of the concepts of competitiveness and different interpretations provided by different researchers, the authors presented in the paper a complex of factors necessary for the assessment of attractiveness of a country (“ability to attract”), as well as export ability of companies (“ability to sell”). It discussed general factors influencing competitive environment competitiveness, that is fundamentals and mechanisms of a market economy (economic policy) as well as infrastructural factors.

Complex strategy of enhancing competitiveness that considers the needs of a nation is developed on the basis of a country’s competitiveness position, social-political relations and the nature and power of political forces. However, as far as the present day, Estonia’s developmental strategies have been studied trivially and one-sidedly, pointing out extremes. In order to achieve economic and social stability as an essential condition of joining the European Union it is necessary to develop and apply a reasonably balanced complex strategy.

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## KOKKUVÕTE

Käesoleva uurimuse eesmärgiks on esitada süstematiseeritud riigi konkurentsivõime kompleksanalüüsi peamised probleemid. Kuna konkurentsivõime on majandussubjekti iseloomustav väga mitmetahuline nähtus, siis on vajalik analüüsida konkurentsivõime kujunemise ja avaldumise erinevaid aspekte. Esmalt on selles uurimuses käsitletud erinevaid konkurentsivõime määratlusi ja konkurentsivõime kontseptsioonide aja loolist arengut, pöörates põhitähelepanu riigi konkurentsivõime käsitlustele. Konkurentsivõime määratletakse selles uurimuses võimena huvide konflikti tingimustes edukalt tegutseda. Eristatakse kolme konkurentsivõime staadiumi: ellujäämisvõime, arenguvõime ja paremus/ülemuslikkus. Kolm peamist konkurentsivõime subjekti on ettevõtte, majandusharu ja riik ning võib eristada kohalikku, regionaalset ja rahvusvahelist konkurentsivõime avaldumise tasandit.

Erinevate konkurentsivõime subjektide konkurentsivõime taseme vahel on tihe seos. Kuna rahvusvahelised sidemed riikide vahel on tugevnenud ning vastastikune sõltuvus suurenenud, siis peab ka riigi konkurentsivõime kontseptsioon olema tasakaalustatud ja harmooniline, et tagada sotsiaalne ja majanduslik stabiilsus. Riigi konkurentsivõimet ei saa vaadata kui kitsalt majanduslikku nähtust, kuna lõppeesmärgiks on rahva heaolu. Heaolu seisukohalt on majanduslikud tegurid ainult ühed paljude seast.

Uurimuses käsitletakse konkurentsivõimet kujundavate tegurite juhitavuse ja kontrollitavuse probleemi. Iga majandusagendi konkurentsivõimes võib eristada kaht komponenti:

- objektiivne potentsiaalne tase, mille määravad selle agendi seisukohalt mittekontrollitavad tegurid (ajaloolised, kultuurilised, geograafilised ja demograafilised tingimused)

- subjektiivne panus (potentsiaalse taseme suhtes kas suurem või väiksem), mille määravad vastava majandusagendi käsutuses olevad vahendid ja nende rakendamise intensiivsus ja tulemuslikkus.

Mõlemal komponendil on erinev roll optimaalse arengustrateegia leidmisel, mida tuleb majanduspoliitiliste järelduste tegemisel ka arvestada. Uurimuses määratletakse olulisemad konkurentsivõimet kujundavad tegurid ning analüüsitakse nende mõju. Tegurite kompleks on vajalik riigi hindamiseks atraktiivsuse seisukohalt (“ligimeelitamisvõime”), aga ka riigi ettevõtete ekspordivõime seisukohalt (“müümisvõime”).

Lõpuks uuritakse sobiva konkurentsivõime strateegia valiku probleeme. Riigi vajadusi arvestav konkurentsivõime strateegia võtab arvesse riigi reaalsel konkurentsipositsiooni, sotsiaalmajanduslikke suhteid ja poliitiliste jõudude olemust ning mõjuvõimu. Eesti seniseid võimalikke strateegiaid on käsitletud ühekülgset, tuues välja ekstreemsed variandid. Euroopa Liiduga ühinemise seisukohalt on vajalik töötada välja ja viia ellu mõistlikult tasakaalustatud riigi konkurentsivõime tõstmise kompleksstrateegia.