



# Competitiveness Of The National Economies

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Lecture № 1

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# **Introduction to the theory of competitiveness**

# Outline

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**1. Introduction**

**2. Definition**

**3. Theoretical Perspectives and Controversies of the Competitive Environment**

## *Goal of this lecture:*

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- Giving a clear view to the definition of the competitiveness
- Defining the evolution of the meaning *competitiveness*
- Analyzing the concept of a competitive environment
- Analyzing the theoretical approach of the competitive environment

# Economic Development depends on Competitiveness

## What is Competitiveness?

A country or state is competitive to the extent that firms operating there are able to **compete successfully** in the regional and global economy while supporting **high and rising wages and living standards** for the average citizen

- Competitiveness depends on the **long-run productivity** of a location as a place to do business
  - Productivity of existing firms and workers
  - Ability to achieve high participation of working age citizens in the workforce
- Competitiveness is **not**:
  - Low wages
  - A weak currency
  - Jobs per se

# 1. Introduction

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The term of “*competitiveness*” is one of the most commonly used concepts in economics but it is not precise enough, what means that there is no generally accepted definition of competitiveness.

The term originated from the Classical Latin word “petere” meaning: to seek, attack, aim at, desire; and the Latin prefix “con-” meaning together.

At present, it is often used in different contexts, meaning dissimilar things to different researchers.

The phrase was coined in the 70s of the twentieth century. It was then that American economists, under the evidence of severe trade battle between American and Japanese companies, undertook the first attempts to determine the degree of competitiveness between the rival economies [Wziątek-Kubiak 2003]. In line with other research sources, the oil crisis and the associated loss of comparative advantage by some industries in the developed countries triggered attention in this economic category [Lech 2001]. Although research on competitiveness has been popular for forty years, in recent time it appears to be flourishing as many economic phenomena are assessed according to whether they are competitive or non-competitive. Despite the fact that the competitiveness is an ubiquitous term in economic research, including agribusiness research, that is analyzed at different (macro- and micro-) levels, there are still troubles with understanding its meaning as well as with its measurement. Another research problem concerns the large variations in the competitiveness determinants over space and time. According to Porter and Rivkin [2012], the wide misunderstanding of the concept of competitiveness has dangerous consequences for political discourse as well as policy and corporate choices that are all also evident today.



## 2. Definition

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Ability of a firm or a nation to offer products and services that meet the quality standards of the local and world markets at prices that are competitive and provide adequate returns on the resources employed or consumed in producing them

Table 1. Definitions of competitiveness according to various authors (presented in alphabetical order)

Author [year]	Definition
Adamkiewicz-Drwiłło [2002]	The competitiveness of a company means adapting its products to the market and competition requirements, particularly in terms of product range, quality, price as well as optimal sales channels and methods of promotion
Altomonte et al. [2012]	External or international competitiveness is the ability to exchange the goods and services that are abundant in home country for the goods and services that are scarce in this country

<b>Author [year]</b>	<b>Definition</b>
Ajitabh, Momaya [2004]	Competitiveness of a firm is its share in the competitive market
Barker, Köhler [1998]	Country's competitiveness is the degree to which it can, under free and fair market conditions, produce goods or services meeting the test of international markets, while simultaneously maintaining and expanding the real incomes of its population over the longer term
Bobba et al. [1971]	Competitiveness is the ability of nations, regions and companies to generate wealth being the precondition for high wages
Chao-Hung, Li-Chang [2010]	A firm's competitiveness is its economic strength against its rivals in the global marketplace where products, services, people and innovations move freely despite the geographical boundaries

<b>Author [year]</b>	<b>Definition</b>
Buckley et al. [1988]	<p>A firm's competitiveness means its ability to produce and sell products and services of superior quality and lower costs than its domestic and international competitors.</p> <p>Competitiveness is a firm's long-run profit performance and its ability to compensate its employees and provide superior returns to its owners</p>
European Commission [2001]	<p>Competitiveness of a nation is the ability of an economy to provide its population with high and rising standards of living and high rates of employment on a sustainable basis</p>
Flejterski [1984]	<p>Competitiveness is the capacity of the sector, industry or branch to design and sell its goods at prices, quality and other features that are more attractive than the parallel characteristics of the goods offered by the competitors</p>

Author [year]	Definition
Krugman [1990, 1994]	If competitiveness has any meaning, it is simply just another way to express productivity. The ability of a country to improve its living standard depends almost entirely on its ability to raise its productivity. Competitiveness is meaningless word when applied to national economies
Porter [1990]	The only meaningful concept of competitiveness at the national level is national productivity. Competitiveness is an ability of an economy to provide its residents with a rising standard of living and a high employment on a sustainable basis
Porter et al. [2008]	The most intuitive definition of competitiveness is a country's share of world markets for its products. This makes competitiveness a zero-sum game, because one country's gain comes at the expense of others

<b>Author [year]</b>	<b>Definition</b>
Scott, Lodge [1985]	National competitiveness is a country's ability to create, produce, distribute, and/or service products in international trade while earning rising returns on its resources
Tyson D'Andrea [1992]	Competitiveness is our ability to produce goods and services that meet the test of international competition while our citizens enjoy a standard of living that is both rising and sustainable
WEF [Schwab, Sala-i-Martin 2013]	Competitiveness is the set of institutions, policies, and factors that determine the level of productivity of a country
World Economic Forum – WEF [1996]	Competitiveness is the ability of a country to achieve sustained high rates of growth in GDP per capita

# Competitiveness: definition

- Differential productivity, value-added – wealth creation, relative to other economic units (firms, regions, nations...)
- Can be achieved through
  - Business policies
  - Government (competition, industrial and competitiveness) policies

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## MICROECONOMICS COMPETITIVENESS

QUALITY OF THE  
BUSINESS  
ENVIRONMENT

STATE OF CLUSTER  
DEVELOPMENT

SOPHISTICATION OF  
COMPANY OPERATIONS  
& STRATEGY

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## MACROECONOMICS COMPETITIVENESS

SOUND MONETARY &  
FISCAL POLICIES

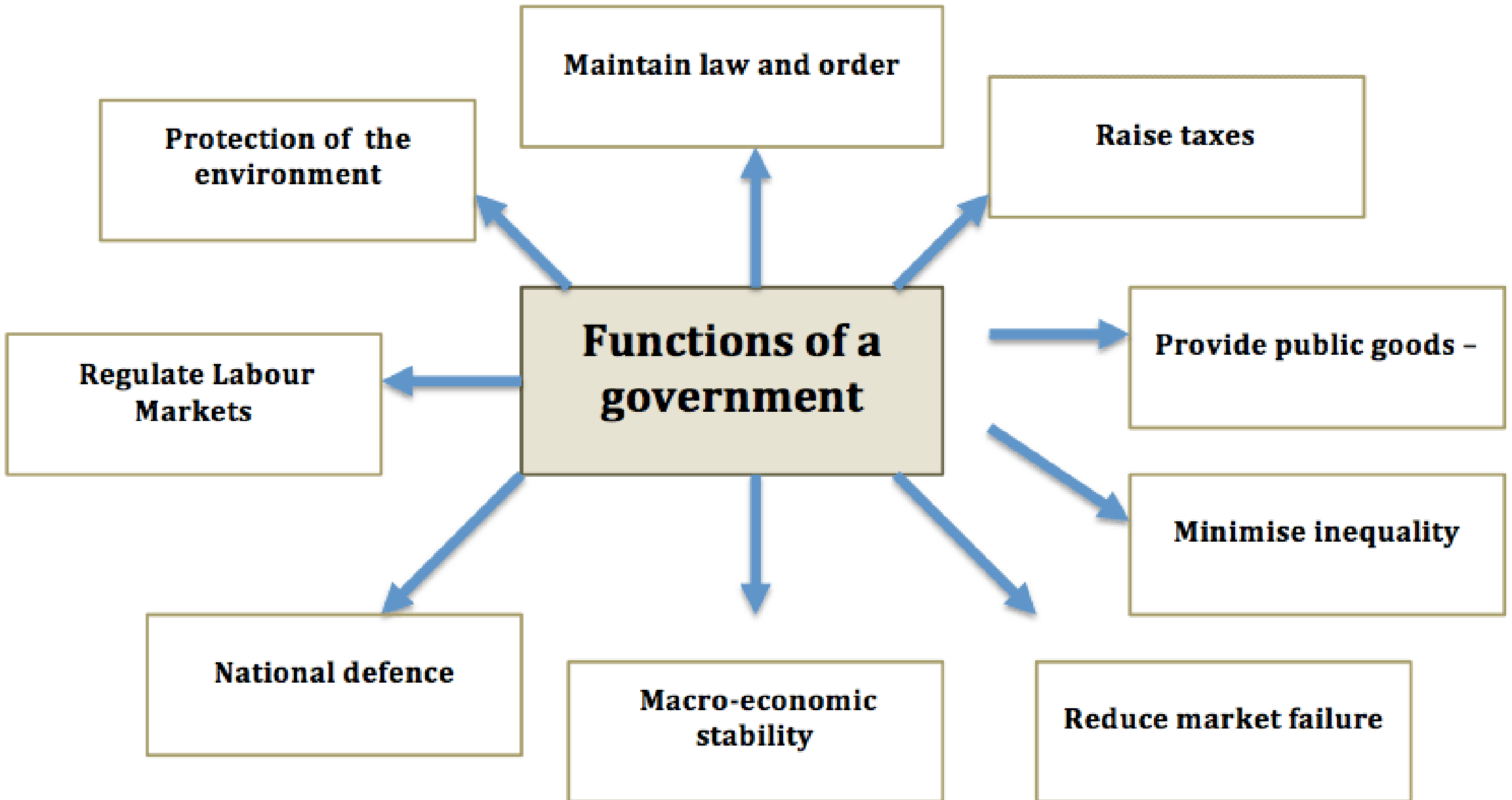
HUMAN DEVELOPMENT  
& EFFECTIVE POLITICAL  
INSTITUTIONS

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ENDOWMENTS

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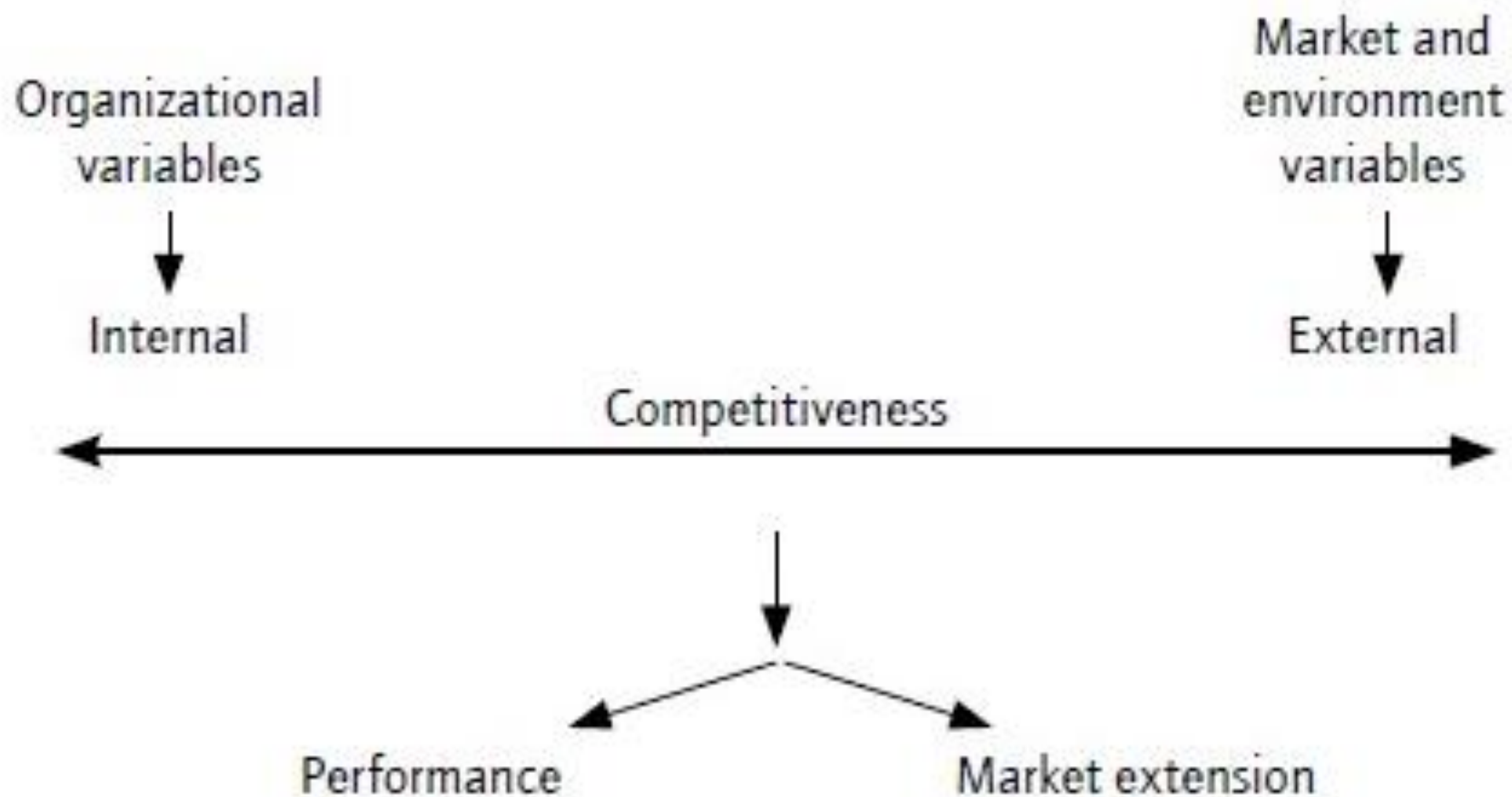




# Productivity

- A special measure of efficiency defined as output per worker-hour.
- This definition of productivity is actually what is known as a *partial factor* measure of productivity, in the sense that it considers only worker-hours as the productive factor.
- For a society to increase its standard of living, it must first increase its productivity.
- Be careful, however, not to focus solely on productivity as the problem, but rather, to consider overall competitive ability.

FIGURE 2. Continuum of Competitiveness Definition



## Key Terms: International (External) Competitiveness

External competitiveness is the **sustained ability** to sell goods and services **profitably** at **competitive prices** in a foreign country

- **Cost (price) competitiveness**
  - Key metric: Differences in relative unit labour costs (ULCs)
- **Non-price competitiveness**
  - Product quality, design, reliability and performance, choice, after-sales services, marketing, branding and the availability and cost of replacement parts
- **Non-wage costs:**
  - Environmental taxes e.g. minimum prices on carbon emissions
  - Employment protection laws & health and safety regulations
  - Statutory requirements for employee pensions
  - Employment taxes e.g. employers' national insurance costs

## Academic definition of competitiveness

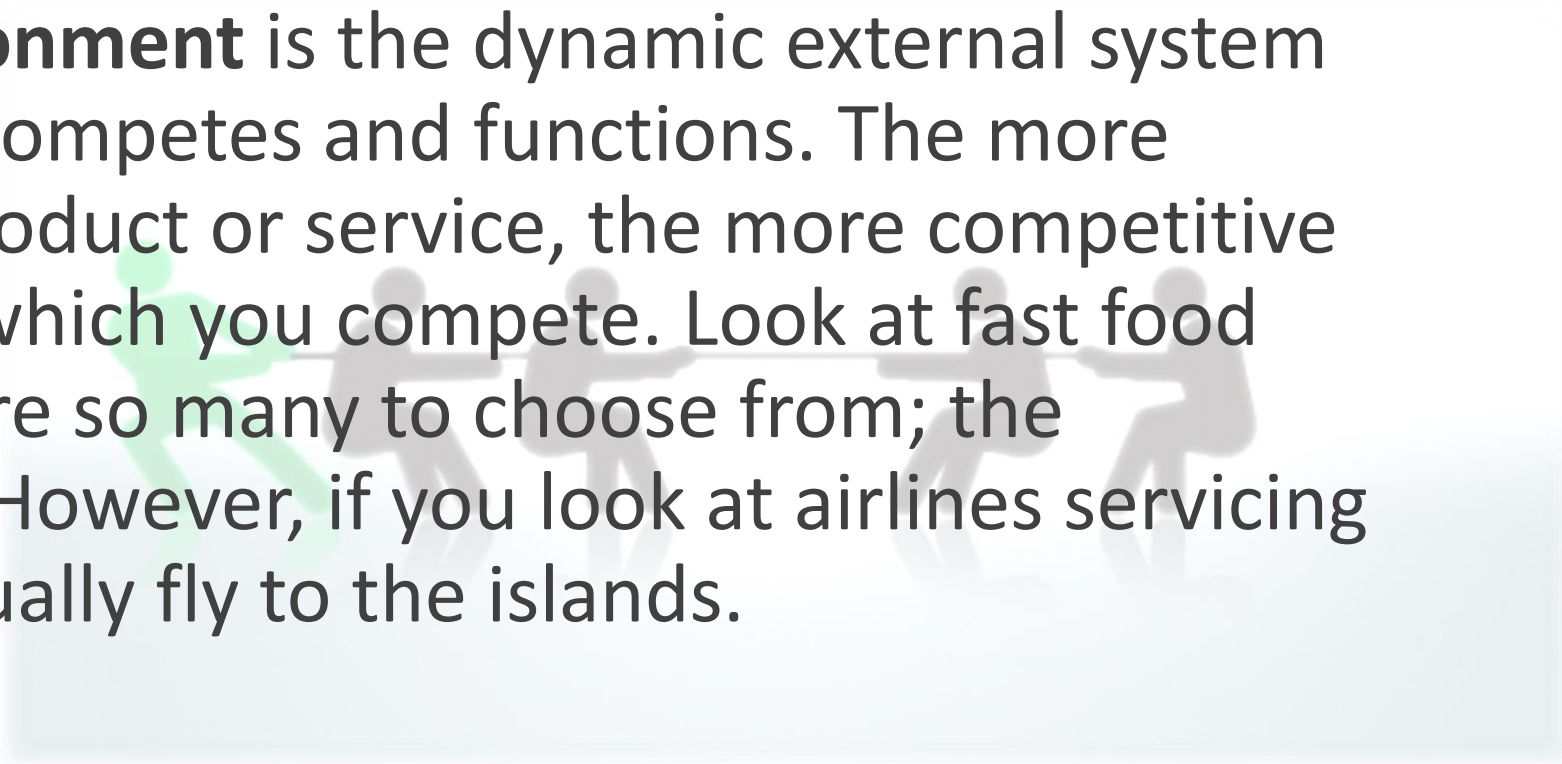
- A field of Economic knowledge
- Analyzes the facts and policies that shape the ability of a nation
- Create and maintain an environment that sustains more value creation for its enterprises and more prosperity for its people



### 3. Theoretical Perspectives and Controversies of the Competitive Environment

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A **competitive environment** is the dynamic external system in which a business competes and functions. The more sellers of a similar product or service, the more competitive the environment in which you compete. Look at fast food restaurants - there are so many to choose from; the competition is high. However, if you look at airlines servicing Hawaii, very few actually fly to the islands.



# COMPETITIVE ENVIRONMENT

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## MEANING?

Means the immediate competitive factors in which an organisation conducts its activities.

### LEVELS OF COMPETITION:

- ▶ Among all organizations
- ▶ Among product classes
- ▶ Among product categories
- ▶ Among Brands

## Types of COMPETITION

- ▶ Pure competition: This type of competition is characterized by many firms all selling identical products, and no one firm is powerful (ex. FMCG sector).
- ▶ Monopolistic competition: This is characterized by a large number of firms selling slightly differentiated products (restaurants).
- ▶ Oligopoly: This has a small number of firms selling that can act collusively (ex. long distance telephone providers).
- ▶ Monopoly: This is a single firm selling in the market for which there is no close substitute (ex. railways).

### Threat of New Entry

- Time and cost of entry
- Specialist knowledge
- Economies of scale
- Cost advantages
- Technology protection
- Barriers to entry

Threat of  
New Entry

### Competitive Rivalry

- Number of competitors
- Quality differences
- Other differences
- Switching costs
- Customer loyalty

Supplier  
Power

Competitive  
Rivalry

Buyer  
Power

### Supplier Power

- Number of suppliers
- Size of suppliers
- Uniqueness of service
- Your ability to substitute
- Cost of changing

### Threat of Substitution

- Substitute performance
- Cost of change

Threat of  
Substitution

### Buyer Power

- Number of customers
- Size of each order
- Differences between competitors
- Price sensitivity
- Ability to substitute
- Cost of changing



## The 12 Pillars of Competitiveness\*

### Basic Requirements

- Institutions
- Infrastructure
- Macroeconomic environment
- Health and primary education

Key for  
**factor-driven**  
economies

### Efficiency enhancers

- Higher education and training
- Goods market efficiency
- Labor market efficiency
- Financial market development
- Technological readiness
- Market size

Key for  
**efficiency-driven**  
economies

### Innovation and sophistication factors

- Business sophistication
- Innovation

Key for  
**innovation-driven**  
economies

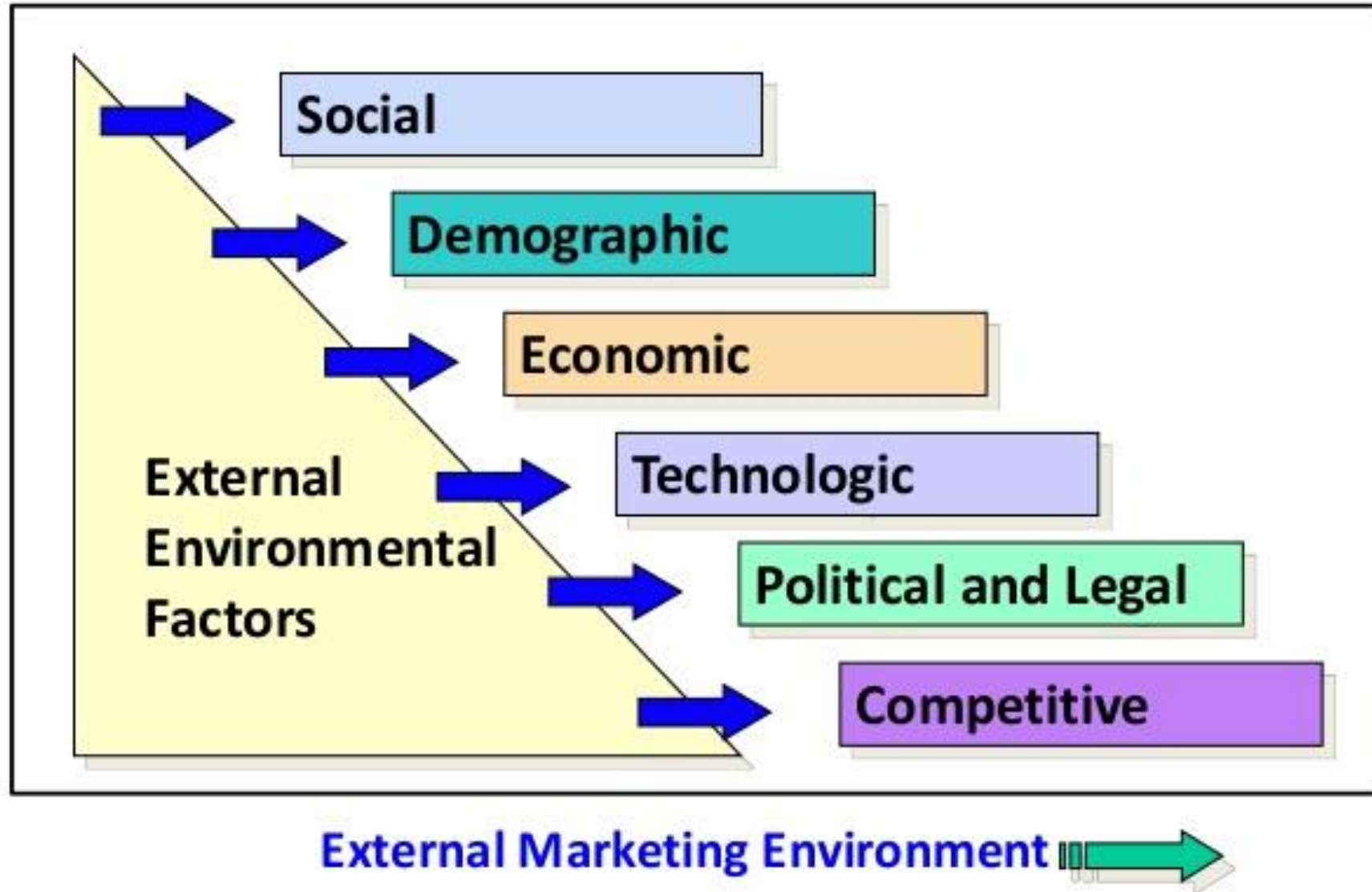
# Types of the competitors

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**Direct competitors** are businesses that are selling the same type of product or service as you. For example, McDonalds is a direct competitor with Burger King.

**Indirect competitors** are businesses that still compete even though they sell a different service or product. The products or services offered by indirect competitors tend to be those that can be substituted for one another. Again, considering travel, you have the option to travel by plane, train, or car. Therefore, airlines are also competing with train lines and buses (assuming the travel does not go overseas).

# Business Competitive Environment



Thank  
you



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