LITTERATURE REVIEW OF THE EVOLUTION OF COMPETITIVENESS CONCEPT

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The concept of competitiveness can be reported – considering the level of disscution – to a product, firm, industry or sector, region, nation, commercial block or to a global aspect and there is a close connection or relationship between all these levels of competitiveness. Firstly, the quality of a certain product or service determines a firms possibilities to survive the competition. On the other hand, a firms economic performance is connected to the performance of a certain sector, region or nation in an international scale. Competitiveness is a concept that can be used in a comparative sense or analysis. Due to the globalization and liberalization process, the boundaries between the domestic and international markets fainted, conducting to disappearing of the distinction between national and international competitiveness Despite the complexity and notoriety surrounding the concept of competitiveness, this article is trying to gather as much information as possible regarding this notion, presenting it from different perspectives, at micro and macro level, reviewing the theoretical literature background: the classical, neoclassical, Keynesian theories, the development economics theory, the new growth theory, the new trade theory and all their implications on the evolution and development of the concept of competitiveness , but also the empirical literature such as IMD's World Competitiveness Index, WEF's Global Competitiveness Report, OCDE's New Economy Report and UK Government's Productivity and Competitiveness Indicators.

Key words: international competitiveness, national competitiveness, regional competitiveness, firm competitiveness, evolution of competitiveness

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Introduction

Lately, the concept of competitiveness has been oftenly used, and sometimes quite abusive. The rising questions and the derived concepts are essential, also being the central question of all researchers: a better understanding of the problems of wealth and its distribution. In the present context, of European integration process, the challenges faced by the member states are related to applying the Lisbon Agenda objectives and transforming the European Union in the most competitive and dynamic economy, based on knowledge, at international level, that should generate a sustainable economic growth, more jobs and social cohesion. That is why it is very important to understand the concept of competitiveness under all ita various forms, both at micro and macro level.

Stephane Garelli begins his latest work, *Top class competitors. How nations, firms and individuals succeed in the new world of competitiveness,* with a very interesting observation related to the notoriety and the excessive usage of this concept, stating that a simple Google search of the word competitiveness, generates more than 35 million entries (Stephane Garelli 2006:XV).

Although this concept is excessively used, its definition still remains ambiguous. That is why this article tries to cover as much as possible the economic literature. The competitiveness's main objective is represented by the growth of the prosperity level of a nation and of the individuals. At a national level, the source of competitiveness is represented by the firms operating on it's territory, stating that this is the place where the economic value added takes place. The role of state in this case, is to ensure a sustainable flow of economic wealth from firm to its citizens, meaning direct revenues or benefits resulted from the services offered by the state and the infrastructure. Overall, the nations prosperity level results from the interaction of three forces: the competitiveness of firms, the competitiveness of individual and the competitiveness of nation.

The micro and macro perspective of competitiveness

At micro level, the understanding of the concept of competitiveness refers to a firm's ability to compete, to grow and to be profitable. At this level, the competitiveness consists in a firms capacity to produce in a profitably manner goods that should correspond to an open market requirements.

Comparatively, at a macro level, the concept of competitiveness is more vaguely defined and much more controversed. Despite the fact that improving a nations competitiveness or a region's competitiveness is the central purpose of every economic policy, the lack of a clear unanimously accepted definition represents a source of constant controversy, the main argument being that it is quite dangerous to construct an economic policy around such an amorphous and interpretable concept.

Paul Krugman describes national competitiveness as being a "dangerous obsession", that rises three important issues: firstly, this concept is very confusing, and the analogy between the firm and the nation is incorrect. This point of view is accepted by the supporters of the concept of macroeconomic competitiveness, that could be illustrated by the following definitions: "A nation's competitiveness is represented by the degree to which into a free market economy this can produce goods and services that meet the requirements of the international market, simulating in the same time a real growth of the citizens incomes. At national level, competitiveness is based on economic performance and on a economy's ability to transform the results generated by the productive activities in raising the incomes. Competitiveness is oftenly associated to rising the living standards and rising the employment opportunities and also in a nation's ability to maintain its responsabilities at international level. It is not just a measure of a nation's ability to sell its goods at international level and to maintain a commercial equilibrium (The Report of the President's Commission on Competitiveness , 1984).

OECD defines competitiveness as being the degree to which a state may produce goods and services that should pass the test of international competition and in the same time to maintain and develop its incomes al national level, in the conditions of market liberalisation (*OECD Programme on technology and the Economy, 1992*).

In the European Competitiveness Report, an economy is competitive if its population can benefit over higher living standards and a better employment degree, in a sustainable perspective (European Competitiveness Report, 2000).

The above definitions have some common features regarding the macroeconomic perspective of competitiveness: the performance is expressed in improving the living standards and the real incomes; the liberalisation condition of markets for the goods and services produced by the nation in charge, and on short term, competitiveness dhould not generate imbalances.

In this context it is important to introduce the concept of regional competitiveness, a term that is not used that often and is defined less. Trying to define this concept, the European Commission states that this definition should encompass certain elements, despite the fact that there are competitive firms and less competitive firms at regional level, there are common features in these regions, that affect the competitiveness of the firms localised in these regions. So, for being competitive, a region must ensure the growth of incomes and of the living standards, the quantity and also the quality of jobs, in the terms of international competition.

In other words, regional competitiveness represents an economy's ability to optimize its local resources, to compete and prosper on international and national markets and to adapt to the changes present on these markets.

Theoretical background and the evolution of competitiveness

This section presents the theoretical aspects of economic literature and their implications on the evolution of the concept of competitiveness. Every one of the schools of thought had important effects on the notion of competitiveness, even if we refer to international, national, regional or firm competitiveness. This part of the article is concentrated on the economic doctrines, presenting the ideas of classical theory, neoclassical theory, Keynesian theory, development economics theories, new growth theory and new trade theory, from the perspective of the concept of competitiveness.

According to classical economic theory, the specialisation under the form of "work force division" developed by Adam Smith generates scale economies and differences of productivity between nations. For Adam Smith, the capital investments and trade ensures the specialisation and result in rising the productivity and the output. With respect to trade, Adam Smith demonstrated that the benefits of trade appear when the autarhic regime changes into free trade, and the nations involved have an absolute advantage in the production of some goods. So, trade means differences of productivity.

David Ricardo demonstrated that the benefits from trade result when the nations specialise in the production of goods for which they have a comparative advantage for. In the model developed by Ricardo, the production technology differences between industries and nation lead to employment productivity differences.

The implications of classical economic theories on the concept of competitiveness are the following:

- Every nation plays a certain role in the division of the work force based on the comparative advantage. If the technology and productivity are the same for each nation, the trade would be pointless.
- Even if a state is more productive than the other in producing a certain good, it could register a decline of this industry in the terms of free trade.

The neoclassical economic theory offers the conditions of a world based on perfect competition. The Hecksher – Ohlin model is based on the Ricardian model, comprising other two production factors, work and capital and it assumes that the technology is the same and the comparative advantages are due to the differences generated by the abundency of production factors.

The implications of neoclassical economic theories on the concept of competitiveness are the following:

- Every nation has its own role in the labour division, based on the relative proportions of the production factors. If the proportion is the same, then the trade would be useless;
- The equalisation of factor prices implies a certain degree of convergence of incomes derived from capital and labour;
- In the conditions of perfect competition, the competitiveness concept is not sustainable on long term.

While the classical economists considered capital and labour two independent production factors, the Keynesian theory states that they are complementary. The Keynesian theory is based on the dynamics of the demand and on the degree of employment, and it focuses on expectations because they influence investments and the consume behaviour. Even if Keynesian theory and policy are categorised as being part of the macroeconomic perspective, they have important repercussions on the regional analysis.

The implications of Keynesian theory on the concept of competitiveness are the following:

- The state may interfere successfully whenever;
- The imperfect markets allow the existence of regional disparities;
- The regional convergence may be acquired through economic policies,
- The intensity of capital leads to economic and productivity growth.

The development economics theories represented the subject of endless contradictory discussions. The most important subjects are the efficiency of state aids, the trade liberalisation, the foreign direct investments. Some of the concepts appeared from the development economics, some of them being very relevant for the regional competitiveness.

The implications of development economics theories on the concept of competitiveness are the following:

- Thye central regions that have a productive advantage will maintain their positions ahead of the peripheric regions;
- The economic policies should consider the state of development of every region,
- The economic policies should promote the 'multiplication effects' of FDI.

The main aspect developed by the endogenous growth theory is the fact that the accumulation of knowledge generates an increase of incomes. Knowledge and know – how are not disseminated instantly, they must be obtained.

The implications of endogenous growth theories on the concept of competitiveness are the following:

- The technological and human capital improvements represent the engines of growth;
- Free trade is a determinat of growth and technological development
- The R&D investments are very important.

The new theories of trade are based on the economies of scale and product differentiation, as being the most important explanations for the trade models between nations.

The implications of new trade theories on the concept of competitiveness are the following:

- The labour specialisation is necessary,
- The investments intensify the economies of scale.

For understanding the concept of competitiveness, there are necessary some insights developed from the urban theories, the new institutional theories and the Schumpeterian theory.

In the urban theory, Jane Jacobs considers that the cities are the main factors of wealth.

A different perspective is offered by the 'transaction cost" theory, that states that a firms dimension must be explained by the transaction costs.

The most important theory is the cluster theory developed by Michael Porter, and according to which to be competitive, a firm must constantly improve its operational efficiency and geographic clusters stimulate a firms necessity to be competitive.

The Scumpeterian theory states that the role of the entrepreneur is the most important on economic growth.

The empirical literature

In the research conducted on the concept of competitiveness, there were found certain difficulties like: the lineary and causal relations and the quality and quantity of the data available. This research lead to classifying the evaluation and measuring models of competitiveness in three categories:

- National competitiveness;
- Regional competitiveness
- Firm competitiveness.

From the national competitiveness point of view the most important sources of measurement are developed by:

- World Competitiveness Yearbook, IMD;
- Global Competitiveness Report, WEF;
- New Economy Report, OECD
- DTI competitiveness indicators.

From the regional competitiveness point of view the studies are focused on the following studies, developed by:

- Second Report on Economic and Social Cohesion, European Commission;
- Compeating with the world, Barclays Bank PLC;
- Regional Competitiveness Index, DTI of UK
- Regional Investment Climate Study, ECORYS-NEI

From the firm competitiveness point of view, the economic literature shows that the main determinat factors of competitiveness are the entrepreneurship and the investments.

Conclusions

Overall, the economic literature demonstrates that the competitiveness concept is very complex, difficult and amorpheous.

There is still not a common view with respect to the concept of competitiveness, the common features being the following: its deffinition must comprise the ability of selling on the international markets and the effective competition at a global level.

Despite the confusions surounding the deffinition of the competitiveness concept, the economic literature shows some of the important aspects:

- There is no theoretical perspective complex enough to define the term;
- Competitiveness means qualitative and quantitative factors and conditions;
- Competitiveness has several dimenssions: national, regional and local;
- Competitiveness is explained by composite factors.

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