

OVERVIEW ON TERRITORIAL COMPETITIVENESS: FROM HOS THEORY TO CONTEMPORARY APPROACHES

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Abstract:

The concept of competitiveness has been extremely influential in recent years, and today is a dominant discourse among all economists and policymakers worldwide. From its entry on the market, a company competes not only nationally but also internationally. To meet this increasing competition, the company will have to develop those creative-productive capabilities so as to secure its future in a highly competitive market. To discuss about the competitive advantages, the paper will analyze first in a brief overview, the evolution of economic thought, starting from the absolute and comparative advantages, and end with the competitive advantages. The paper will start with the classical theory. An extremely important step towards sustainable development economic thought was moving from an autarkic thinking toward a more liberal thinking, focused on commerce and encouraging trade flows, manifested by the mercantilists. The classical economic thinking is completed by another work, which encourages the production and trade creation effect achieved by specialization and comparative advantages effects. Then, the paper continues with the HOS model designed by the Scandinavian economists, which emphasis on the correlation between the abundance of natural resources and the production of those goods based on those resources. The comparative advantage effect is studied also by other economists that focus on comparing the industrial production results. Such comparison is made between the heavily industrialized countries, and those countries which emphasize on the primary sector production. Further, other economists allocate plenty of time to research the correlation between research and development activities with education investment process. Their results and recommendations will be presented in this paper. The final chapter will look at the passing from a comparative to a competitive advantage. The leading author in this domain will correlate all the theories mentioned. This embeddedness is possible through a complex diamond shaped figure which gives a logical and rational explanation.

Keywords: Competitiveness, advantages, development, economic model, education

JEL classification: B10, B20

1. Introduction

According to Fagerberg (1988) the term competitiveness refers to "the ability of a country to achieve economic objectives, especially income and employment, without any difficulty in the balance of payments" (Fagerberg, 1988).

The Organization for Economic Cooperation and Development (OECD), in an annual report classifies competitiveness as "the degree to which, in an open market, a country can produce goods and services that meet the test of foreign competition while maintaining and expanding domestic real income" (OECD, 1992).

The European Commission, in a report addressed to the regions, defines competitiveness as "The ability to produce goods and services that meet international markets requirements, while maintaining high levels and sustainable earnings or, more generally, the ability to generate, when exposed to foreign competition, high rates of income and employment".

2. A shift from the comparative and absolute advantage to the competitive advantage

To discuss about the competitive advantages, the paper will analyze first in a brief overview, the evolution of economic thought, starting from the comparative advantages, and end with the competitive advantages.

2.1 The comparative advantage through the HOS theory

The basis of the theory of Bertil Ohlin and Eli Heckscher starts as follows: factors - land, labor, capital varies from country to country; natural resources vary from country to country.

This belief will give all countries a comparative advantage in the production process of goods and services.

This foundation will give all countries a comparative advantage in the production process of goods and services. If a country is endowed with fertile arable land, in the sense of two economists, it must target the production of agricultural goods. If the country is mostly covered by forests such as the Scandinavian states, it must focus on the production of wood and furniture. The two countries have to exercise trade between them, process that will lead to an equalization of input prices

As criticism of this theory, I insist that the production of goods and services only from abundant factors, limits the growth and development of a nation. Focusing on the production of goods and services from available production factors, will stop that nation from investing in research and development processes. If a country does not invest in research and development processes, it will never be able to create goods and services that incorporate high technology.

There are many international examples of countries that do not have significant natural resources, yet they register a comparative advantage in international trade, strictly because of investment in research and development. The primary sector only needs to provide raw materials and should not be in the long-term the main development factor. If this phenomenon occurs, and the primary sector is the main factor of development, then that nation will never make the transition from an underdeveloped to an developing economy.

2.2 Competitive advantage achieved by national labor exploitation

Manoilescu notes that the production of goods in industrialized countries offer higher income than the production of goods in countries with a predominantly primary sector.

Industry and development, particularly technology-intensive areas, augmented labor productivity are primary elements conferring any country's comparative advantages in trade and upon which it can build a sustainable economic development.

The idea of the Romanian author can be translated like this: industrial sector can achieve a result which involves using few resources, and the comparative advantages obtained in that area may give a chance for sustainable economic growth, with a positive impact on the terms of trade.

Spiral development of comparative advantages imagined by the Romanian economist provides the development of new industries, leading to an increase in industrial production.

Facing the idea of the two Scandinavian economists, the Romanian economist believes that trade flows do not confer a win for both sides. Manoilescu believes that only the industrialized countries with high labor productivity will record considerable gains from the international flows.

2.3 Neofactors and the comparative advantage

The proponents of this movement are Posner (1961), Vernon (1966) and Krugman (1979). The authors place a great emphasis on comparative advantages derived from investments in education, research and development.

In chronological order, the theorist who emphasized the necessity of neofactors is Posner (1961). The economist noted the close link between the level of education and industrial production results.

The second economist that encourages neofactors incorporation in the production process is Vernon (1966). He develops the idea that comparative advantage is obtained from a technological gap.

The first stage captures creating goods in developed countries, because in these countries there are considerable investments amounts necessary in research and development projects. Also, in these countries there is the market segment of consumers who can afford to buy the new goods.

The second stage made certain changes in the sense that the produced goods become standardized, and the practiced previously prohibitive price turns into an affordable one for most consumers. Due to this phenomenon, a good part of that production is outsourced to manufacturers in developing countries.

The third stage surprises the relocation of production from developed countries to developing countries and underdeveloped ones, because the price of the product becomes affordable for all consumers. In contrast, developed countries resume the cycle due to investment in research and development of a new product.

And Krugman (1979) comes to reinforce this neofactors theory arguing that only continuous investment in education, research and development may confer comparative advantage.

2.4 The competitive Advantage

Based on the theories advanced in the previous sections, it can be concluded that the economists focused on: production factors, natural resources, labor, neofactors.

Based on them, the American economist Porter (1985) conducted a convergence of all, into the so-called "Porter's diamond" structure that leads to a national competitive advantage. The economist takes into account several attributes, and through their convergence creates competitive advantages.

The first attribute, factor conditions, refers to the existence of an educational and transport infrastructure.

The second attribute targets strategy, structure and competition between firms nationwide.

The third attribute emphasis on demand. Consumers represent an important pillar in the diamond structure, as they can exert pressure on companies.

The fourth attribute refers to the structure of industries, where the focus is on the upstream and downstream related industries and the cooperation between them.

The last two factors enunciated by Porter (1985) refer to chance and state intervention. Chance typically gives a company special attribute like technological discoveries of deposits of rare resources. In addition, government intervention can help develop industries or finance certain research programs.

The "Diamond" is not the only way to determine competitiveness. The American economist designed a pyramid structure, but in reverse, pointing to the base. He believes that everything starts with production factors, consumer market size, geography, territorial mass.

On this foundation we can build competitiveness based on macroeconomic policy and human resources and public institutions to design and implement sustainable fiscal and monetary policies. The results of macroeconomic competitiveness will, in return, have an impact on the micro level competitiveness.

Porter believes that the micro level should be composed of three elements:

- The quality of the business environment. A combination of public policies designed to encourage companies fair competition, productivity and research and development.
- The development of clusters. The more companies in the same field are located in a small geographic area, the more they will get an increased productivity. I do not think we should focus attention only to one sector, because in times of economic crisis, once the demand for goods and services for that particular sector reduces, the entire community will lose. I believe that any economic sector should not hold a majority in the percentage of total production in the territory under review.
- The sophistication of operations and corporate strategies. Know-how and operational management can be a competitive advantage in the globalized economic environment.

Garelli (2006) is another author who focuses on the competitive advantages of nations. One of the key contributions to classical economic theories is that competitiveness encompasses the economic conceptualization of non-economic issues, such as education, science, political stability or value system.

Garelli (2006) emphasizes on four factors that defines competitiveness creators in general, the national environment of a country. Such factors include: economic performance; government effectiveness; business efficiency; infrastructure.

Economic performance aims the following issues: economic prosperity; competition between firms in the market; results achieved by the country in international trade, reflecting its domestic companies' competitiveness; openness of the economy to foreign companies, measured by the investments made by foreigners.

Government efficiency aims the following issues: minimum interference in the economy or dedicated only to apply competition rules; implementation and enforcement measures for predictable economic environment; flexibility in adapting economic policies due to changes in the international environment.

Business efficiency address aspects related to: the ability of companies to adapt to changes in the competitive environment; adequate financing schemes from an internationally integrated financial sector; an emphasis on entrepreneurship and is considered essential to economic activity.

Infrastructure address aspects related to: the impact that a developed infrastructure has on the business environment; inclusion of information technology infrastructure and effective environmental protection; investments in basic research and innovation activities in the long term, that can lead to increased competitiveness; adequate and accessible educational resources anyone can contribute to the development of a knowledge-based economy.

3. Competitiveness measurements

World Economic Forum (WEF) identifies 12 categories, each with their own subcategories, by which it provides a clearer picture regarding the degree of national competitiveness.

These 12 pillars are: institutions; infrastructure; macroeconomic environment, health and primary education; higher education and training; goods market efficiency; labor market efficiency; financial market development; technological readiness; market size; business sophistication; innovation.

The institutional pillar refers to the government openness towards proposed or implemented policies regarding investors. Predictability regarding fiscal policies, strict attitude regarding competition, protection of private property and intellectual rights,

measures taken against corruption and traffic of interest, all these measures offer a positive image among international investors.

Pillar involving the infrastructure puts great emphasis on reducing the time in logistical processes, the production and its location. Investments in roads, railways, airports, ports results in job creations. Also, in addition, access to electricity and modern telecommunications infrastructure can provide many pluses in front of corporate decision makers.

The third pillar refers to the macroeconomic environment. All macroeconomic indicators indicate to potential investors sustainability and predictability. A deviation, such as a budget deficit increase creates both a domestic problem, because a future debt has to be paid, and an external one, from the investors perspective.

Health and primary education form the fourth pillar in the World Economic Forum account. Its meaning is as follows: if the inhabitants of a country are sick, their efficiency is lower in the economy. Therefore the health of the inhabitants of a country is paramount when corporations want to invest in the area. Also, an educated workforce provides increased yields compared to people with gaps in education.

The fifth pillar aims at higher education and continuous training of residents. All developed countries base their economic growth on research and development. Higher university education can provide skilled labor for research and development, to the detriment of primary education. For countries to rank better in this respect, they must invest in higher education, to have the chance to improve their economic performance.

Goods market efficiency as the sixth pillar attach great importance on the supply and demand price establishing conditions, eliminating any discriminatory measures on FDI or those limiting access of foreign goods and services on the domestic market.

Pillar seven, one related to labor market efficiency, allows a more efficient allocation of the labor force towards economic sectors with the greatest demand. It also emphasizes the rapid reorientation of labor and low costs to other economic sectors, when the national economy requires. Meritocracy and equity at the workplace should be key pillars for any company that operates nationwide.

Financial market development, as the eighth pillar in the index devised by the World Economic Forum, is necessary because of the demand for funds from the private sector. Efficient allocation of funds to a gainful economy may confer competitive advantages needed on the regional and international level.

The productivity of the industrial sectors is measured using technological readiness. The ninth pillar is stating that any company can benefit from the footsteps of technological progress, even if it produces or not within the territorial borders.

Market size as the tenth pillar is emphasizing the importance of scale economies achieved by investors. Although in the past it was referring strictly to national markets, today the regional markets are the main attraction. This attraction is due to investors who locate their production facilities so as to deliver goods and services at regional level.

The eleventh pillar refers to business sophistication. Here there are two important subjects: operations or strategies implemented by firms that are facing in the market and the nature of relationships between companies. The nature of relations today concerns the number of suppliers in that market. The more and more, the economy shows greater interest. The presence of industrial clusters can give a plus when deciding a possible investment.

The last pillar refers to innovation. On the long term, the standard of living can be improved largely through technological innovation. Continued investment in research and development confer a superior position to the countries and companies in the international market.

The Global Competitiveness Index ranks countries according to: factor driven economies: institutions, infrastructure, macroeconomic environment, health and primary education; efficiency driven economies: higher education and training, goods market efficiency,

labor market efficiency, financial market development, technological readiness, market size; innovation-driven economy: business sophistication, innovation.

The Global Competitiveness Index ranks 144 countries, each falling under the three previously mentioned types, but this paper will mention only Romania's position regarding territorial competitiveness.

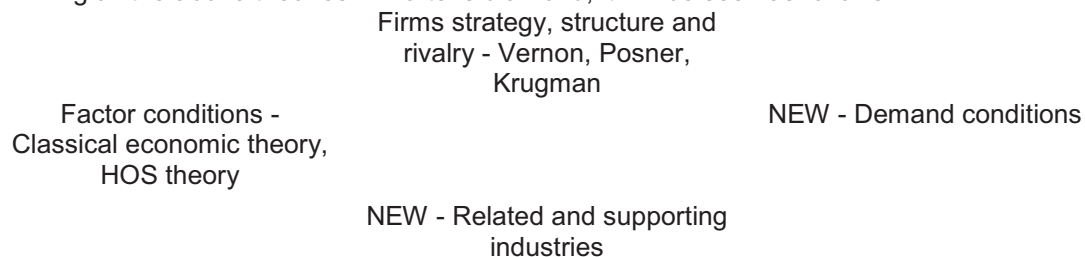
Romania is situated at the efficiency driven economies. This level states that the Romanian economy has a long road to go in order to become an innovation driven economy.

Conclusions

Based on the literature review a country cannot achieve a global competitive position if it relies only on some comparative attributes such as labor or resources. Countries need to adopt a mixed policy suited for their special conditions. If they want to encourage the development of a specific industrial area of the economy, that implies a series of policies in order to achieve a regional competitive advantage.

Following the incipient classical theories that focus only on labor productivity to a more modern approach focused on resources, education, research and development, the paper suggests that Michael Porter's theory is better suited for a modern economic improvement.

Mixing all the above theories in Porter's diamond, it will be seen as follows:



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