European Competitiveness in the Context of Globalization

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Abstract

The competitiveness is defined as a „set of institutions, policies and factors which determine a country’s level of productivity”. On its turn, the level of productivity establishes a lasting level of prosperity which can be reached by an economy. In other words, the competitive economies tend to be able to produce a higher level of income for their citizens. The level of productivity determines as well the rates of profitability obtained by investments (physical, human and technological), in an economy. Because the rates of profitability are fundamental factors of the economic increase rates, a competitive economy is that which increases faster on long term.

The World Economic Forum has founded the analysis of the competitiveness based on the Global Competitiveness index (GCI) since 2005, an extremely comprehensive index for the measuring of national competitiveness, which includes the microeconomic and macroeconomic aspects of the national competitiveness.

The competitiveness is almost always restricted to the international price competitiveness, measured by indicators of the exchange, deflated in many ways. Such an analysis focuses only on the results of the exports.

Europe has learned many lessons from the recent financial and economic crisis. It is very clear now that in a very well integrated Union, and much more in a monetary union, the economies and successes of the member states are interconnected.

Key words: Globalization, global competitiveness, good governance, technologic innovation, tax competition, global efficiency.

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As a result of the increase of the competence and other structural modifications involved in the globalization, the maintenance and the increase of economy competitiveness have become primary concerns in all the countries in the world.

Basically, the globalization may be defined as an increased interdependence of the world economies manifested by border transactions. This process has modified the competitive environment that the companies all over the world and not just those in the EU deal with, thus putting to the test the adapting abilities of the economies of all the industrialized countries in the world.

The advantages the countries carrying out an activity within the EU benefit from are those offered by the new opportunities of globalization, these being however simultaneously subjected to the competitive pressure of the newcomers from developing countries, mainly because some of these countries have reached a fairly high level as share in the world economy (as in the case of China). The corporations, as well as the public authorities are making efforts to modify the adopted policies and strategies, thus trying to obtain higher benefits from globalization and to absorb the additional costs of these structural adjustments. The pressure is felt already, being manifested by a decrease of the
share of exports in the Euro area on the global markets. From other competitors with an advanced economy, the Euro area still remains relatively specialized in categories of merchandise intensely in labor.

There is no definition with an acceptable degree of accuracy of the competitiveness under the conditions of globalization. Most often, when defining it, the aspects of competitiveness regarding price, respectively the costs are taken into consideration, aspects such as productivity, the technological level, the research – development, the quality of the legislative or institutional frame, the infrastructure being ignored.

In order to determine the global competitiveness of the countries in the EU, respectively of those in the Euro area, besides the price, other essential factors must be taken into consideration: the accessibility on the market, the size of the market, the place in the technological ranking of the companies and the quality of the institutional environment.¹ Seen like this, the European competitiveness strongly claims for the necessity of continuing the efforts for integration of the single market and of making the European competitive environment stronger, as main means of improvement of the allocation and sustainable use of the resources and of adapting to the conditions of globalization.

In order to create a relatively comprehensive image of the abilities of a country to be globally competitive, the productivity performances which must be studied up to a microeconomic level must be taken into consideration. Taking into consideration the interaction of many factors specific for each country, as well as the access on the markets and the institutional barriers or the productivity on microeconomic level, a clear and more complete perception of the competitiveness may be created, being created as well the possibility of discovering new indicators to measure it accurately. Most international forums use an elliptical definition of it, respectively: „the competitiveness includes all those factors which have an impact over an economy in its competition with the international markets”.²

Within the EU, the presence of the foreign competitors, the widening of the internal market, the faster technological advancement of the resident companies, the increase of the quality within the political and legislative frame lead to a higher degree of internal competence. Besides, the efficient relocation of the resources between the companies, the increase of the level of productivity to a micro level leads to the increase of the productivity of the respective country. The ability of the legislative frame of a country to distinguish between the impact of the accessibility on the market and the size of the market, on one hand, and the technological improvement and the quality of the institutions on the other, allows a correct organization into a hierarchy of the countries from the point of view of their competitiveness and the evaluation of some alternatives of new policies and community strategies.

The competitiveness is almost always restricted to the international price competitiveness, measured by indicators of the exchange, deflated in many ways. Such an analysis focuses only on the results of the exports. This mainly ignores the degree of competitiveness the internal market deals with before the invasion of the imports, for example those from China, not only under the aspect of the prices, but also under the aspect

of the technological level, of the productivity, of the specialization. In a similar way, there is the question of the organization of the internal EU consumption market into a hierarchy, in the confrontation with the highest technology imports coming from the USA. Although the prices, the costs, the wages or the exchange continue to be important factors for the determination of the companies’ ability to compete with the international markets, especially on short term, the way in which the companies and implicitly their countries manage to successfully adapt to the major modifications involved in globalization depends as well on other factors.

On of these is the ability of the countries to adapt the specialization of the exports to the comparative advantages when the world trade involves as well low costs and systemic importance. Europe’s international competitiveness is especially determined by the productivity performances of its companies. On its turn, this productivity depends on the specific factors of each country as well as the infrastructure, the level of the research – development and the professional training, the legislative frame, the quality of the tax regime. Thus, competitiveness can be defined as being as well the totality of the factors with impact on the ability of an economy to compete with international markets. An economy may compete with foreigners, both within the country as well as abroad.

The competitiveness seen only from a point of view of the price is defined by two categories of indicators. The first category includes a wide range of real rate of the exchange based on different indicators of costs and prices (consumption prices, production prices, labor costs and the deflator (PIB). The second category of indicators is based on relative export prices. Such an indicator includes strategies of the companies practicing the prices on the market, such as, the way in which the companies replace the exchange rate movements by adjusting their profit margin, instead of including them immediately and every time within the price requested from the clients abroad. Such an indicator reflects with a higher accuracy the ability of a country to compete on the export markets and offers a much more correct prediction of the export performances.

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The concept of competitiveness involves fixed and dynamic elements; even if the productivity of a country clearly determines its ability of maintaining an increased level of the incomes, is one of the determining factors of returning to investments, one of the key factors explaining the an economy’s increasing potential.

These aspects are included in ICG, each measuring a different aspect of the competitiveness. These components are grouped in pillars of competitiveness, respectively:

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The institutional environment. Pillar 1. It is determined by the legal and administrative frame in which the individuals, the companies and the governments interact in order to generate incomes and wealth in the economy. The importance of a healthy and reasonable institutional environment has become more evident during the economic crisis, taking into consideration the more and more direct role played by the state in the economy of many countries. Also, the institutional quality influences the investment, production organization decisions and plays an important role in distributing the benefits and bearing the costs of the development strategies and policies. An adequate management of the public finances is also critical in order to ensure the trust within the national business environment. Although the economic literature has mainly focused its attention on the public institutions, the private institutions are also an important element in the process of creating welfare. The recent global financial crisis, together with the numerous corporation scandals has emphasized the importance of the accounting and reporting standards and the transparency for the prevention of frauds and the poor administration, the ensuring of a well governing and the maintenance of the investors and the consumers’ trust.

The infrastructure. Pillar 2. An extended and efficient infrastructure is essential in order to ensure the economy’s efficient functioning, since it is an important factor determining the location of the economic activities and the types of activities or sectors which may develop within an economy. A well developed infrastructure reduces the distance effect between the regions, the integration on the national market and its connection to the low cost levels for the markets in other countries and regions. The quality and scale of the networks of infrastructure have a significant impact on the economic increase and affects the irregularities between the incomes and the poverty in different ways.4

The macroeconomic environment. Pillar 3. Establishing the macroeconomic environment is important for the business environment, and as a result, it is important for the global competitiveness of a country. It is important to notice that this pillar assesses the stability of the macroeconomic environment; therefore it does not take into consideration the way in which the public costs are managed by the government.

The health and education. Pillar 4. A healthy labor force is vital for the competitiveness and productivity of a country. The lack of health leads to significant costs for the companies, such as those caused by the absence of sick employees or by the decreased efficiency the sick employees work with. The investments in supplying health services are, therefore critical, clear and moral from economic reasons. This pillar takes into consideration the primary education. The basic education increases the efficiency of each worker. The employees who have received little primary education may carry out only simple manual work and find it difficult to adapt to the production processes and more advanced techniques.

The higher education and professional training. Pillar 5. The higher education and the professional training are essential for the economies wishing to move the chain of value beyond the simple production processes. This pillar measures the rates of enrollment in secondary and higher education, as well as the quality of the education evaluated by the business community.

Goods market efficiency. Pillar 6. The countries with efficient markets of goods are well placed in order to obtain the corresponding mix of goods and services requested by the specific conditions of the demand and offer, as well as to make sure that these goods

can be efficiently traded. From cultural, historical or educational reasons, the clients may be more demanding in some countries than in others. This may represent an important competitive advantage because the companies are forced to be more innovating and more oriented towards the client, thus being imposed the necessary discipline to carry out the efficiency to be applied on the market.

Labor market efficiency. Pillar 7. The efficiency and flexibility of the labor force market is critical in order to ensure the allotment of the workers in locations with the most efficient use in economy and the prevention of incentives in order to offer the best efforts at the place of work. The labor force markets must therefore, have an increased flexibility in order to quickly transfer the workers from one economic activity to another and to reduced costs and in order to allow wage fluctuations without too many social disruptions.

Development of the financial market. Pillar 8. The recent financial crisis has evidenced the central role of a healthy financial sector and its well functioning for the economic activities. An efficient financial sector allocates the resources saved by the citizens of a nation, as well as those entering in the economy from abroad, offering them the most productive use. The business investments are essential for the productivity. Therefore, the economies need sophisticated financial markets which can create available share capital for investments in the private sector from resources such as the credits in the banking sector regulated accordingly, thus taking the form of securities, venture capital, as well as other financial products.

Technological training. Pillar 9. In today’s globalization context the technology has become a more and more important element for the companies which want to compete and prosper. This pillar measures the ability with which an economy adopts existent technologies in order to increase the productivity of its industry, with a special accent on its ability to fully influence the information and communication technologies (ICT) in daily activities and in production processes for the increase of efficiency and competitiveness.

Market size. Pillar 10. The size of the market affects the productivity because the big markets allow the companies to exploit the scale economies. In the globalization era, the international markets have become a substitute for the internal markets, especially for the small countries. There is empirical proof showing that the commercial opening is positively associated with the increase.

Sophistication degree of the business environment. Pillar 11. The business sophistication leads to a higher efficiency in the goods and services production. On its turn, this leads to the increase of the productivity, thus increasing the competitiveness of a nation. Generally this pillar refers to the quality of a country’s business network as well as to the quality of the operations and strategies of individual companies.

Technologic innovation. Pillar 12. Although the substantial earnings may be obtained by the improvement of the institutions, the formation of the infrastructure, the reduction of the macroeconomic instability or the improvement of the human capital, all these factors seem to eventually lead to diminished results. On long term, the life standards can be improved only by technological innovation. The innovation is very important for the economies so that they approach the frontiers of knowledge and the possibility of integrating exogenous technologies.

While the results of the 12 pillars of competitiveness are reported separately, it is important to be taken into consideration that these are not independent – they tend to consolidate each other and a weakness in one field has often a negative impact on the
domain. For example, the innovation (pillar 12) will be very difficult to achieve without a well educated and trained labor force (pillars 4 and 5), which is the point of absorbing new technologies (pillar 9), and without sufficient financing resources (pillar 8) for research – development or an efficient goods market to make the creation of new market innovations possible (pillar 6). While the pillars are included in a unique index, the analyses are reported separately for 12 values because these details offer a specific image for certain areas in which a country needs to improve.

The adjustment of the European policies to the actual global economy modifications

Europe has learned many lessons from the recent financial and economic crisis. It is very clear now that in a very well integrated Union, and much more in a monetary union, the economies and successes of the member states are interconnected. Although the EU is provided with a series of tools for the coordination of the economic policy, the crisis has proved that these have not been fully used and that there are gaps in the actual governing system. There is a wide political consensus that this must change and that the EU must be equipped with a wider and more efficient set of policy tools in order to ensure the future prosperity and life standards.

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