

H. Chernova,  
Donetsk National Technical University,  
Ukraine

## THEORETICAL BASIS FOR EVALUATION OF NATIONAL ECONOMIC COMPETITIVENESS

### PART I

**Statement of problem.** The continuing growth of interdependence and interconnection of national economies during the distributing processes of economic globalization makes issues more pressing to ensure their competitiveness as a prerequisite for sustainable economic development. This requires a comprehensive analysis of Ukraine's economic competitiveness and development of integrated strategy to increase national economic competitiveness. In the world there are many generally accepted methods of evaluation of country's international competitiveness, but as international experience has shown, it is important that the system of indicators of national competitiveness not simply duplicate foreign benchmarks, and takes into account the internal peculiarities of economic development. Thus, systematic study of methodological approaches to assess the international competitiveness of countries in terms of global structural transformations is very important both in theoretical and practical aspects.

**Analysis of research and publications.** Current research and approaches of defining the essence of national economic competitiveness, development of methodologies to assess the country's competitiveness and its directions are in the works of A.A. Cherniavsky, A. Brandenburger, M. Porter, S. Kindelberg, J. Tobin. Scientists S. Haminin and Y. Kindzersky focused their attention on assessing the competitiveness of Ukraine's economy and national economic competitive priorities of Ukraine, and in studies of Kostusev the basic objectives of competition policy in the modern period are defined. Above-mentioned information indicates the growing importance of evaluating of national economic competitiveness in terms of market relations in our country.

**Purpose of the article.** The main objectives of this article are to examine factors which affect national competitiveness of country and analysis of existing methods of competitiveness assessment of country's economy.

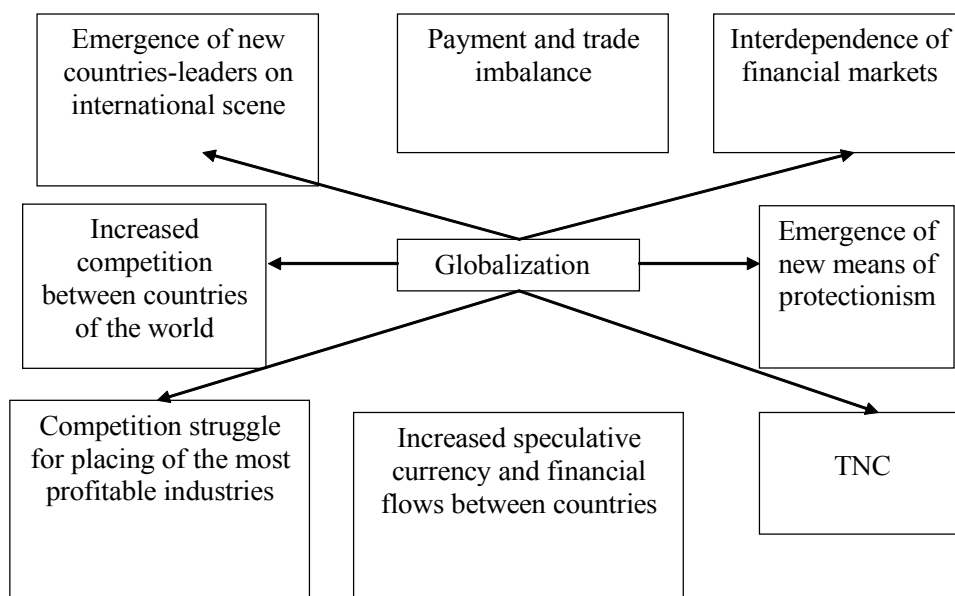
**Description of main material.** At the turn of the millenniums world distribution of political and economic forces has essential structural changes. There is a dynamic capacity accumulation of individual countries, which is capable to affect powerfully the strength of force centers on the map of international political co-existence in political and, first of all, economic spheres.

Characteristic features of the current period of globalization are:

- increased competition among countries for sources of production factors (capital, labor, resources, technology);
- increased competition between the centers of economic power (NAFTA, EU, Southeast Asia) for the distribution of global markets and spread of their influence on other countries;
- creation of new regional leaders and expansion of their influence in the region (China, India, Poland, Uzbekistan, etc.);
- more intensive trade and payments imbalances, increased economic differentiation of the world;
- more intensive fight for placing in the territories of countries with the most profitable industries according to modern technologies;
- increased interdependence of national financial markets, increased speculative currency and financial flows between countries;
- strengthening and implementation of more refined methods of protectionism in response to attempts to align international economic and legal environment and expand regional and world leaders;
- expanded practice application of economic impact to address the political goals;
- increased intervention of international organizations in regulating global goods and resources flows;
- increased weight of transnational corporations, increased monopolization of world commodity markets, increased influence of pressure groups on government by the representatives of multinational corporate interests.

Schematically the main features of contemporary economic globalization can be written as follows (figure 1.1).

The competitiveness of national economy, as one of the basic economic categories, is a subject of numerous professional and public debate, often it appears in scientific and publicistic literature as characteristic of the country's ability to survive and develop in a "hostile environment" of global economy. Formation of a competitive economy is always mentioned among priority tasks of socio-economic policy of a country, repeatedly fixed by Addresses of President of Ukraine, government programs, and other high-level documents. Affirmation of Ukraine as competitive high-tech state is defined by Strategy of economic and social development of Ukraine (2004-2015 years) "By way of European integration" by fundamental principle of strategic course [1, p. 8].



**Fig. 1. Signs of modern economic globalization**

Meanwhile, despite the wide currency of this notion, in research studies there is still no uniform definition of national economic competitiveness. Ukrainian and foreign authors emphasize different components of this multidimensional category, presenting them as the main criteria. Thus, a spectrum of definitions is ranging from purely technical, arising from extended treatment of the competitiveness of company, to extensive socio-economic ones, which consider competitiveness to be generalized indicator of sustainability of socio-economic system.

Categorial variations lead to the erosion of target policy priorities of ensuring national economic competitiveness. In the western economic literature there is a common “universal” interpretation of competitiveness as the ability of country or company to design and produce goods and services or of high quality, or at prices which are significantly lower as compared with competitors [2, p. 20]. This approach is presented in detailed form in the studies of the World economic forum.

According to the World economic Forum, a competitiveness is determined by real and potential opportunities for firms to design in existing for them conditions, to produce and sell goods that according to price and quality characteristics are more attractive for consumers than competing products are [3, p. 129].

A logical development of this approach is the interpretation of national economic competitiveness as characteristic of its commodity producer’s position in the world market. In particular, Ukrainian researcher B. Gubskiy considers competitiveness as caused by economic, social and political factors, steady state of the country’s domestic and foreign markets, the ability of party of competition fight to resist international competition in the domestic market as well as foreign markets [4, p. 41].

Meanwhile, a change of competitive party from a particular firm to the national economy causes a change in number of authors’ understanding of competitive object and corresponding primary criterion. Thus, in broader interpretation a competitiveness is perceived as the ability of economy to balance its external proportions and avoid the restrictions that are caused by external economic sphere, and as the country’s ability to reproduce by itself the improvement of its world economic links [5, p. 72]. Important in this context is the awareness of secondary characteristic of specific substantial content of competition process. The subject of competition, then, is not directly the product, but the viability of economy. In the best way it corresponds to essence of concept of competitiveness at the national economy level. In the implementation of specific products in one segment of the world market, competitiveness can not be regarded as a sign of national economic competitiveness and vice versa: the loss of certain markets should not be construed as a loss of competitiveness level by national economy (Fig. 1).

The need to ensure a high-level competitiveness of national economy as a means of improving the society’s welfare was emphasized by one of the leading researchers in modern problems of competitiveness in the world — M. Porter, who said that competitiveness was not an end in itself. “The main purpose of the state — he wrote — to provide rather high and rising standard of living for their citizens. The capacity of the state to do it depends not on some amorphous term “competitiveness”, but on the fact how efficiently the national resources are used — labor and capital “[6, p. 18].

Today more and more obvious becomes the impact of globalization in all spheres of human activity, whether political, economic, cultural or other processes. The

evidence of it can be increased flows of information, goods, capital, services, which are acquiring global scale. The world changes and develops, being in constant development and improvement, and rate of growth of world markets often takes the lead over development rate of institutions, that have to manage economic and social spheres of the country, which ensure participation in globalization. World practice shows that the world economy is adequate to those countries, the institutions of which are effectively integrated into world financial, production and social structures. But those countries that did not rebuilt in proper time the system of social and economic relations will fall out of the globalization process and ultimately may find themselves in the periphery of the world economy. In this respect Ukraine faces a difficult task, solving of which determines, particularly, whether it will enter in the world community as a full party or remain only an rich in raw materials area.

Currently, gaining a large scale, there is a general level of competition. In these circumstances the degree of activity and the country's participation in global processes are determined, above all, by the competitiveness of its economy, that is by the ability to produce goods that meet international standards and, therefore, that are in demand in world markets. To be successful in this regard, the countries should position themselves as the interesting trade partners, supplying high-tech and even unique production that meet the requirements and interests of world consumers [7, p. 14].

From an economic point of view, a competitiveness means the country's ability to achieve high economic growth. One of the important indicators in this context is, particularly, the level of its citizens' welfare, the main parameter of which is the continuous increase of average GDP and increased level and quality of population life. Creating and maintaining the environment, ensuring the competitiveness of its economic entities, the state provides the high competitiveness of the nation as a whole.

The increased competition problems were the subject of scientists' research at various stages of market economy development. Many aspects of this scientific problem remains unsolved and ungrounded. In studying the genesis of the competition, its driving forces, we can conclude that the notion of "competition" is ambiguous. Its character and shape are different in different markets and in different market situations. Theoretical foundation for studying of the phenomenon of competition became the studies of A. Smith, who was one among the first developers of absolute advantage theory. The main idea of this theory is the productive efficiency of some countries with other ones. Scientists proved that in the absence of restrictions on trade, the countries specialize in manufacture of production, that has competitive advantages. Specialization of the countries in the production of competitive products in the market

promotes productivity growth of labor and requires increased skill level of labor force and reduced time for switching from one activity to another.

A significant contribution to scientists' theoretical explorations of those times was made by D. Ricardo, who put forward the theory of comparative advantage. One of the main conditions for effective economic development he saw free competition. The scientist concluded, that only under free market "country, especially if it allows free import of products, can accumulate capital in sufficient quantities without significant increases of land rent" [6, p. 45]. International competitive advantages, in his opinion, may result from technological differences, which provide advantages in cost.

According to other authors, E. Heckscher, B. Ohlin and L. Kravis [8, p. 118], this concept raises doubts about the possibility of its practical use. In this regard, it is recommended to consider within a unified theory of production factors.

In the theory of production factors a special place occupies a human capital. According to this theory, the international trade is examined in terms of quantitative differences in the intensity of such production factors as labor and capital. Heckscher-Ohlin' theorem is a reflection of main ideas and statements of this theory. Its point is that the countries export those goods, for the production of which they have excess production factors [8, p. 120].

Thus, L. Kravis noted that manufacturers, who focus on exports, offer higher wage than those who compete with imports. He stressed that the difference in wage reflects the different qualifications and skills level, and direction of trade is due to different systems of education and further education.

A special attention to the characteristics of country's competitiveness was paid by M. Porter. He noted that some economists understand this term as a macroeconomic phenomenon, which is determined by such variables, as exchange rates, interest rates and budget deficits. However, many countries managed to raise rapidly living standards despite budget deficits (Japan, Italy), the fall of the domestic currency (Germany, Switzerland) and high interest rates (Italy and Korea). He also stressed the importance of human capital in creating competitive relationships. M. Porter pointed to the important role of high-level education in the international competitiveness development [9].

Along with the above-mentioned factors J. Vanek [10] and L. Kravis [11, p. 64] consider natural resources as an important factor in international trade activation.

It should be noted that the classical concepts of competitiveness, that examine conditions of its achievement in stable market environment, often can not respond to what actions should be taken by its business entities to preserve and improve it in the modern business environment. And the speed of these processes practically

has not leave time to implement adequate regulation. In event of crisis, the methods of reducing crisis were developed at the national level, sometimes the countries united their efforts. However, thoroughly the causes of the crisis were not examined, the anti-crisis measures are unable to eliminate real reasons, which were formed as a result of economic system disparity. At the present stage, when negative consequences become apparent, in particular in highly-developed countries (non-payments for granted loans, overproduction, increased migration to these countries, financial crisis, etc.), more often there are questions about the necessity of regulation and increasing of the state's role in maintaining competitiveness, that undergoes emergency strikes from mentioned effects [12, p. 28].

Therefore, in the late XX c., when competitive conditions were much complicated, the scientists-economists developed a range of new concepts, aimed at effective competition in the domestic and international markets. They were also characteristic for individual market segments, or individual forms of management [12, p. 25].

The next theory — the theory of technological space examines competitive advantage, due to international differences in the technologies. According to M. Posner, export provides for orientation on output that is either new or competitive with analogues [13]. According to the mentioned theory, goods are exported from the country, which is a technology leader and offers higher wages.

The founders of the theory "Training in international trade" were M. Posner and C. Erou. This theory is based on the assertion that technology of individual country is determined by the total number of manufactured products. That is a country with higher volumes of production due to learning curve effect achieves lower costs, that is creates the best technology and has better opportunities for exports than a country with a low volume of manufactured products.

Further research in the theory of competition are associated with the explanation of competitive advantage, oriented to account of not only changes of international trade specifics, but also of the peculiarities of the domestic market development. The first group of theories includes: the theory of internal sector trade (T. Levitt); a theory of excess technology (M. Perlits); theory of internationalization (R. Coase, P. Barkli, M. Kesson, J. Tees); concept of international strategy formation — model of globalization (M. Porter); eclectic theory (J. Dunning).

Competitive advantages in the domestic market are discovered in the theory of monopolies (S. Hammer, S. Kydleberher, H Johnson, R. Kraws). In the mentioned theory the direct investments are suggested to consider as a controlling motive of competitive relations. Monopoly theory of direct foreign investments is based on the fact that foreign entities try to implement quasi-monopoly profits which can be

obtained by advantages in technologies, better access to capital and product diversification. In this theory special attention is given to the effect of economies of scale. This group of theories should include also a search theory of competitive advantages in the context of globalization (H. Azov, A. Cherenkov). Scientists do not only focus on competitive advantages of firms, but, in general, on condition and trends in the competitive environment development.

The problems of non-price competition, cooperation and interaction of domestic producers to gain new geographic outlets are highlighted by representatives of scientific centers of Japan (H. Takeuchi, H. Koboyasi, M. Tsuchiya, T. Noguchi) [14, p. 21].

The idea of combining cooperation and competition was developed in the theory of "joint-competition" (A. M. Brandenburher, B. J. Neylbaffer). According to this theory in competitive fight not one, but all members can get the advantages [15, p. 29].

The formation of network economy, the fundamental elements of functioning of which is the dominance of advanced computer and information technologies, communications, etc., has influenced the behavior of economic entities, the nature of their interaction, processes of creation and distribution of added value, standardization and product diversification, interconnection of macro-and microeconomics [15, p. 35]. It is accordingly affected competition, thus having changed both the meaning of concept "competition" and a sources of competitive advantage formation.

Conducted generalizations make it possible to determine the competitiveness of national economy in globalization process as an economic category, which characterizes social relations in the state to ensure environment of a stable national production growth, adapted to changes of world state of business and domestic demand on the basis of national competitive advantages and achievement of better socio-economic parameters in comparison with the competitors. The proposed definition focuses on the conditions of economic environment formation of competitiveness and allows to treat national economic competitiveness as the ability of the economic system to ensure socio-economic optimality under any influence of internal and external factors.

In an economic literature the questions about composition and content of the factors which shape and form the level of country's competitiveness, has controversial nature. Just complete factor classification, influencing the level of competitiveness is presented in the work of I. Makasyuk — "State Regulation of Economy", based on so-called conjuncture-forming factors [16, p. 125]. However, it is very generalized approach. The same trend is observed in the works of A. V. Pykulkyn and W. Tsybulkin — "The system of government" [16, p. 37]. Various competition-forming factors much differently affect the country's competitiveness. There are

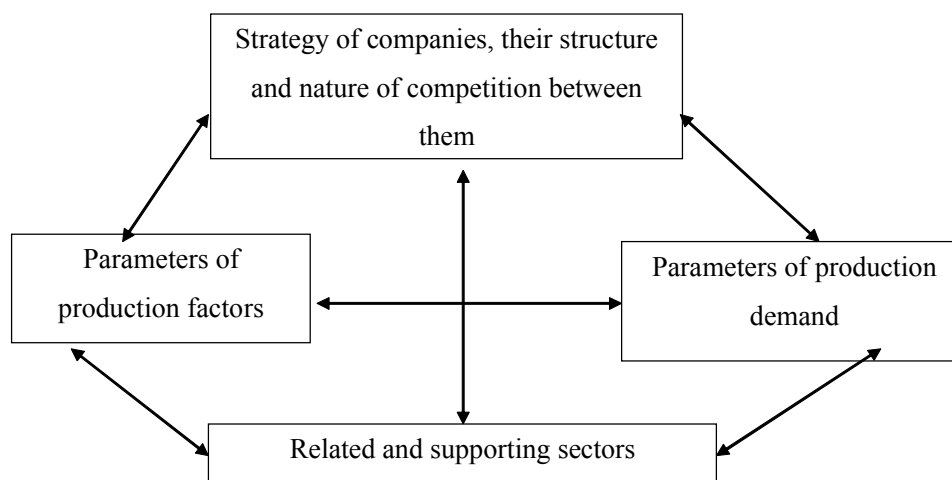


Fig. 2. Determinants of competitiveness ("National diamond") [10, p. 56]

many approaches to select factors that affect competitiveness, so you need to consider several approaches to determine factors, affecting the competitiveness of the country, namely: M. Porter's theory, methods of Worldwide Economic Forum, the methods of the International Institution of Management Development and Methods of Worldwide Bank.

Highly-productive economic territories — are the territories with a close connection between industrial sectors and enterprises. These relationships is that characterizes industrial clusters. Porter explains industrial clusters as "quadrilateral benefits" (Fig. 2).

According to Porter's theory, there is a quadrangle of interacting factors that result in rapid growth of productivity. These four factors are:

a) Parameters of production factors:

1) number, skills and personnel costs;

2) quantity, quality, availability and cost of the natural resources of the country, such as land, water resources, mineral deposits, timber, hydropower, fish lands;

3) knowledge resources which exist in the country, including scientific, technical and marketing knowledge that affect the quantity and quality of goods and services;

4) volume and cost of capital available to finance economic activities;

5) type of quality and spending on infrastructure for user, including transportation of the country, system of communication, health and other factors that directly affect the quality of life in the country [10, p. 89].

б) Parameters of production demand:

1) composition of demand in domestic market, expressed in various existing market niches, customer demands and how well the needs of buyers in the domestic market provide for needs in other markets;

2) volume and rate of domestic demand growth;

3) ways of internationalization of domestic demand and country's production and services output to foreign markets.

в) Related and supporting sectors:

1) availability of internationally competitive industries-suppliers that create these benefits of the next sectors in the manufacturing chain through effective, early or easy access to their cost-effective contribution;

2) competitive internationally linked productions, which can coordinate and implement activities together in a chain of additional cost, or producers of complementary products.

г) strategy of companies, their structure and nature of competition between them:

1) ways, by which a company is managed and its competition;

2) goals, which companies seek to achieve, motivation of their employees and managers;

3) volume of internal competition of creation and sustaining competitive advantage in respective sector [10, p. 91].

Systemic nature of this quadrangle favours formation of clustering. Porter found that this interaction is enhanced and expanded under geographical concentration of leading competitors within the same industry.

(To be continued in № 4 of 2011)

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#### **Chernova H. Theoretical basis for evaluation of national economic competitiveness**

In this article, under review there are the methodological problems of definition of competitiveness, factors that influence the formation of national economic competitiveness, their modification under economic globalization, and also existing methods of evaluation of country's competitiveness level of economy are examined.

*Key words:* competition, estimation, national economy.

#### **Чернова О. Теоретична основа для оцінки національної економічної конкурентоспроможності**

У статті розглядаються методологічні проблеми визначення поняття конкурентноздатності, чинники, що впливають на формування конкурентноздатності національної економіки, їхньої модифікації в умовах економічної глобалізації, а також аналізуються існуючі методики оцінки рівня конкурентоспроможності економіки країни.

*Ключові слова:* конкуренція, оцінка, національна економіка.

#### **Чернова Е. Теоретическая основа для оценки национальной экономической конкурентоспособности**

В статье рассматриваются методологические проблемы определения понятия конкурентоспособности, факторы, которые оказывают влияние на формирование конкурентоспособности национальной экономики, их модификации в условиях экономической интеграции, а также анализируются существующие методики оценки уровня конкурентоспособности экономики страны.

*Ключевые слова:* конкуренция, оценка, национальная экономика.

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