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The Youth of Today - The Generation of the Global Development

International Economic Competitiveness
The Case of Romania

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Abstract: The present paper brings forth the concept of economic competitiveness, which is similar or even mistaken for productivity, profitability, or the trade balance. This study emphasizes the position Romania holds, compared to Switzerland the most "powerful" country in this field.

Keywords: economic competitiveness; ability to innovate; global competitiveness index

JEL Classification: D63; F02; M21

1. Introduction

Competitiveness, a concept often approached and developed in various papers, is very complex, and, as any other modern economic phenomenon, it is constantly improving in order to enunciate the factors that determine it, the indicators that measure it and the method to increase it.

"*The basis of the external balance is the competitiveness of the productive sector. In this respect it is necessary to have enterprises that are profitable and enough economic initiative to invest"* Michel Didier. (1998)

The term competitiveness is often found in economic concepts such as: productivity, profitability, trade balance, investments, exchange rate. To have a full view of the concept, a few of the many existent definitions and approaches are relevant:

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The source	Definition of competitiveness
IMD World Competitiveness Report (2013)	*The ability of nations to create and maintain an environment in which enterprises can compete. The ability of an economy to manage all the resources and skills to increase the prosperity of its population.*
Michel Didier (1998)	*A nation's competitiveness = managers' initiatives and strictness + administration efficiency + workers' discipline.*
Rapkin, David P.; Avery, William P. (1995)	*A political and economic concept that affects the military, political and scientifical potential of a country and which is an essential factor of a country's relative position in the international economic policy.*
Krugman, P. (1995)	*Productivity correspondent. But scientists claim that competitiveness is "wrongly defined" if it is applied internationally.*
Competitiveness Innovation Union report - European Commission 2014	*Competitive economy is the one with a steady degree of productivity growth. Competitiveness depends on the performance of SMEs economic industry. In order to be competitive, UE must outgrow the performances of the competition regarding research and innovation, information and communication technology, entrepreneurship, competition, education and professional training.*
Michael E. Porter *et al*. (2000)	*It deals with the national policy and institutions which promote a long term growth. "National competitiveness" fits the state's structures and institutions for economic growth in the structure of global economy.*
The Global Competitiveness Report 2017-2018 | World Economic Forum	*The ability to maintain a constant range of real income growth per capita, measured according to the growth rhythm of the gross domestic product (GDP) conveyed in stable prices.*
Kulikov G. (2000)	*There is real and nominal competitiveness. Real competitiveness is based on markets openness and fairness, on the quality and innovation of products and services from the country of origin and constant growth of its citizens' standard of living. As a result, the real degree of competitiveness is a possibility for national industries to have a free and balanced market of goods and services which meet the demands of internal and external markets and the simultaneous growth of real income. Nominal competitiveness can be reached by a special governmental policy, by creating a macroeconomic environment for local producers through direct public subsidies. Thus, real competitiveness is possible only if national companies are able to create, produce goods which are to be sold at good prices and which meet the quality standards to satisfy external and internal customers' demands – without direct subsidies, wage and unemployment rate control.*
Business Dictionary	*Ability of a firm or nation to offer products or 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*

. Manoilescu Mihail	*Industrial productivity is above the agricultural one by a ratio of four to one as the value of the capital per worker in industry is much higher than for an agricultural worker. In this case, industrial countries with a superior national productivity earn more from their international trade relations with agrarian countries due to the low productivity of their work. That is why it is necessary to develop the agrarian countries industrially by a protection policy of their own stocks in the international trade.*

2. National Competitiveness

Competitiveness is "*the ability of firms, sectors, regions in international competition to constantly ensure a relatively high income from the capitalization of the production factors as well as a high income from capitalizing the workforce*" (OECD).[1]

However, when talking about a nations' competitiveness that represents „*the level at which a country can produce, on a free and fair market, goods and services which meet the requirements of an international market which, at the same time, maintains and increases the real income of the population in the long term.*" (Pricewaterhouse Coopers Développement)

The main reason of the existence of the multiple definitions of national competitiveness is the complexity of the term, its composite character. Competitiveness is a complex multidimensional concept. This reflects the favorable position of national economy, especially regarding international trade and, at the same time, its ability to reinforce its position. On the other hand, national economy competitiveness is a concentrated expression of the economic, scientific, technological, organizational, managerial, marketing and other types of capacities which are implemented in goods and services, successfully ensuring their foreign competing goods and services and external markets.

National competitiveness is a state's ability to reach high degrees of economic growth, to ensure a steady rise of real wages, to promote national firms on the international market represented by high – performing clusters which improve the quality of goods and services that allow the creation of new workplaces in the future. This competitive ability to adapt to the changes on the international market is based on the following economic factors, such as the extent of investments, innovation capacity, and production facilities and so on. Despite all these, their performances must be combined with political and social factors which also affect the functioning of the national economy on the international market.

The analysis of economic development of states around the world through the criteria of national competitiveness allows the building of the next consolidation models of national competitiveness.

[1] Organisation for Economic Co-operation and Development.

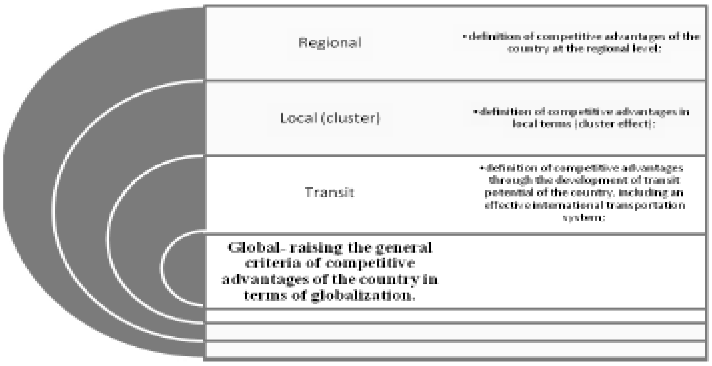


Figure 1. Models of increasing national competitiveness

Source: Adapted by author from (Ganna Kharlamova, Olga Vertelieva 2013)

Despite the numerous ways of approaching this concept and irrespective of the level of the analysis – firm, sector or the entire notion, they can not be treated independently since they are interdependent. "*It is thus important to understand its complex character and all the links at this level. Nevertheless, irrespective of the level of the concept, different measuring indicators will be used, as well as different instruments to manage competitiveness.*" (Stratan & contributors, 2011)

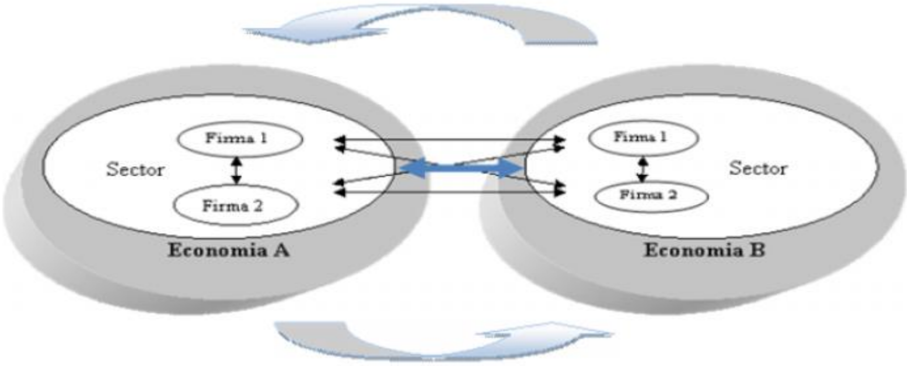


Figure 2. Levels of approaching competitiveness

Source: (Alexandru Stratan and contributors 2011)

According to the diagram, all these levels intertwine and influence one another. A nation's competitiveness depends on the presence of competitive sectors which depend on the activity of the firms.

Thereby, the same steps could be used to examine and assess the national competitiveness of each country: from the so-called national (like the investment field etc) to the distribution of cluster through the export-import analysis. The top according to this statement is the assessment of national competitiveness as a place in the global competitiveness classification. Apart from the standard factors which can affect the level of national competitiveness by using an appropriate formula like the model below, we can use the materialization of Porter model. (figure 2):

Figure 3. Factors that can support national competitiveness growth

Source: (Ganna Kharlamova, Olga Vertelieva 2013)

National level of competitiveness

In the diagram above we have embodied Porter's ideas (Porter, 1998), "*that there are three steps of economic development, characterized by different criteria in competitions, levels of productivity and income, respectively, the economy dependent on investments and innovation"*. Taking into account M. Porter's ideas, the International economic Forum has assigned five steps of economic competitiveness (including two transitory steps), and the annual report on global competitiveness has distributed countries into five groups according to these steps.

Considering the aforementioned ideas, we can generalize the fact that a country's competitiveness is defined by the instruments of forming the conditions and resources present which contribute to the settlement of national security issues, economic development and improvement of people's lives. Having noneconomic institutions as effective as the economic ones such the political and cultural institutions (taking into account its impact on the economic processes in a country), the State can be seen as competitive and it has a potential not only for the competitive advantage on the international market, but also the benefits associated to the distinct functioning of the political, cultural, and social systems.

At present, Romania holds the most adequate resources in the group of countries competing on the international market according to the production factors on hand:

- natural resources;
- relatively cheap labor force.

The main objective being to obtain the price advantages and trading products with a high added value, the emphasis must be mainly placed on:

1. "Quality of the institutional system – legal and administrative environment where individuals, firms and governments interact;

2. Infrastructure development – quality of transportation: road transport, aerial, railroad and maritime, as well as the communication infrastructure;

3. Macroeconomic stability – stability of the main macroeconomic indicators: national economies, national debt, inflation;

4. Health and the education level of the workforce – level of the population's health and the quality of primary education system". (http://www.asm.md/administrator/fisiere/cadru/f232.pdf)

3. The case of Romania

GCI (Global Competitiveness Index) is the most complex computing methodology of national competitiveness of the world countries which tried to encompass most of the factors (economic, political, social) that define the performance of the business environment. It was drawn up by the International Economic Forum in Global Competitiveness Report. This index "evaluated the competitiveness of the studied economies considering a variety of competitiveness factors (110 indicators), placed in 12 categories – also called "competitiveness pillars", four of which are basic, six are related to the growth of efficiency and two are innovational". (Global Competitiveness Report 2011-2012) (according to the figure)

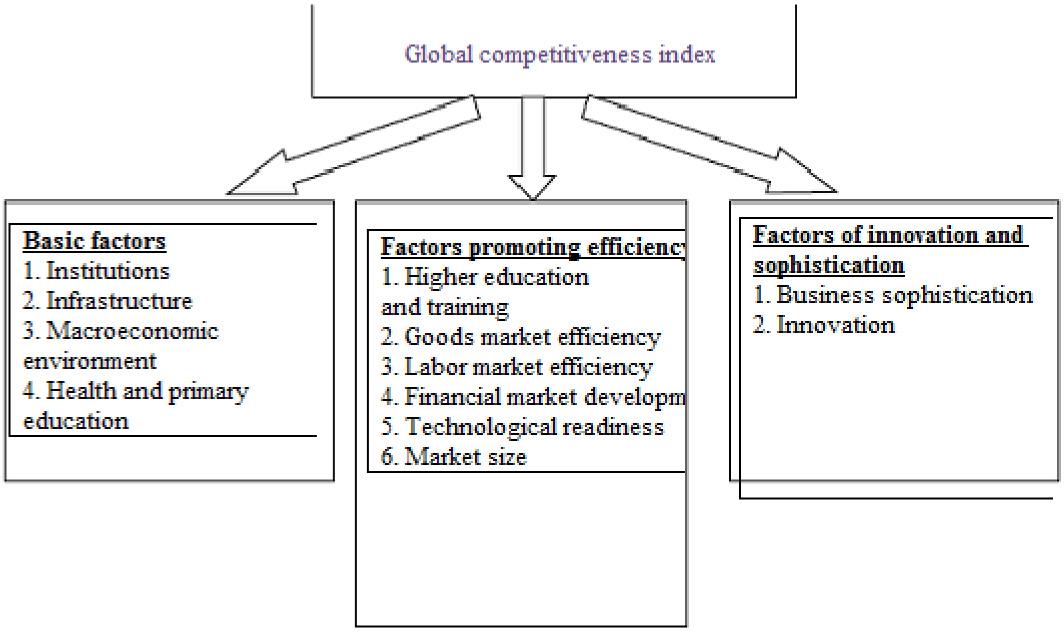


Figura 4. Structure of Global Competitiveness Index (GCI)

Source: Global Competitiveness Report 2011-2012

These pillars represent the basis of the development of any economy, but they have different roles at different moments in its development. For instance, the instruments used to increase competitiveness in a developed country will be different from those used in a poor country. As well, the tools used to increase the efficiency of external trade, of the labor market, of the financial market, of investments will not have the expected results as long as there is no good functioning of the institutional system, a developed infrastructure, the basic conditions for meeting a satisfying level of health and of the population's primary training.

In order to see Romania's position in the international classification of GCI, we should analyze the data in table 1.

Table 1. Romania's position in the international classification of Global Competitiveness Index according to the factors that can support national competitiveness growth

Pillar	Global Competitiveness Index (GCI)						
	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
GCI	77	78	76	59	53	62	68
Basic factors	89	90	87	77	70	72	72
1. Institutions	99	116	114	88	86	92	86
2. Infrastructure	95	97	100	85	86	88	83
3. Macroeconomic environment	87	58	47	46	34	28	38
4. Health and primary education	66	83	84	88	83	88	92
Efficiency factors	62	64	63	50	44	55	58
5. Higher education and training	55	59	59	58	59	67	70
6. Goods market efficiency	96	113	117	89	73	80	92
7. Labor market efficiency	92	104	110	90	78	88	89
8. Financial market development	84	77	72	64	55	86	88
9. Technological readiness	60	59	54	47	46	48	51
10. Market size	44	43	46	45	43	42	41
Innovation and sophistication factors	98	106	103	78	84	100	107
11. Business sophistication	102	110	101	90	88	104	116
11. Innovation	95	102	97	66	75	93	96

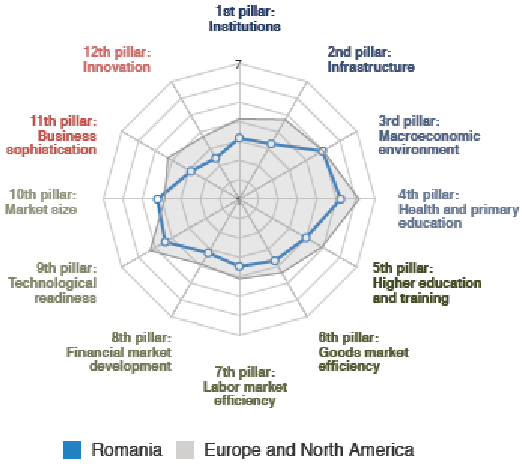
Source: Global Competitiveness Report 2011-2018

According to the data presented we may conclude that in the international classification Romania has moderate success related to the quality of these pillars.

Thereby, in the international classification of Global Competitiveness Index Romania held the best position in 2015, respectively 53 with positive and negative variations after that year.

As a consequence, Romania's position between 2012-2017 is shown in the figure below, compared to the level of the European countries and the ones in North America. Romania is placed somewhere in the middle of the circle, with only one of the target indicators, even surpassing the level of the European Union.

Edition	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Rank	78 / 144	76 / 148	59 / 144	53 / 140	62 / 138	68 / 137
Score	4.1	4.1	4.3	4.3	4.3	4.3



Edition	20				16-17	2017-18
Rank	1 / 144	1 / 148	1 / 144	1 / 140	1 / 138	1 / 137
Score	5.7	5.7	5.7	5.8	5.8	5.9

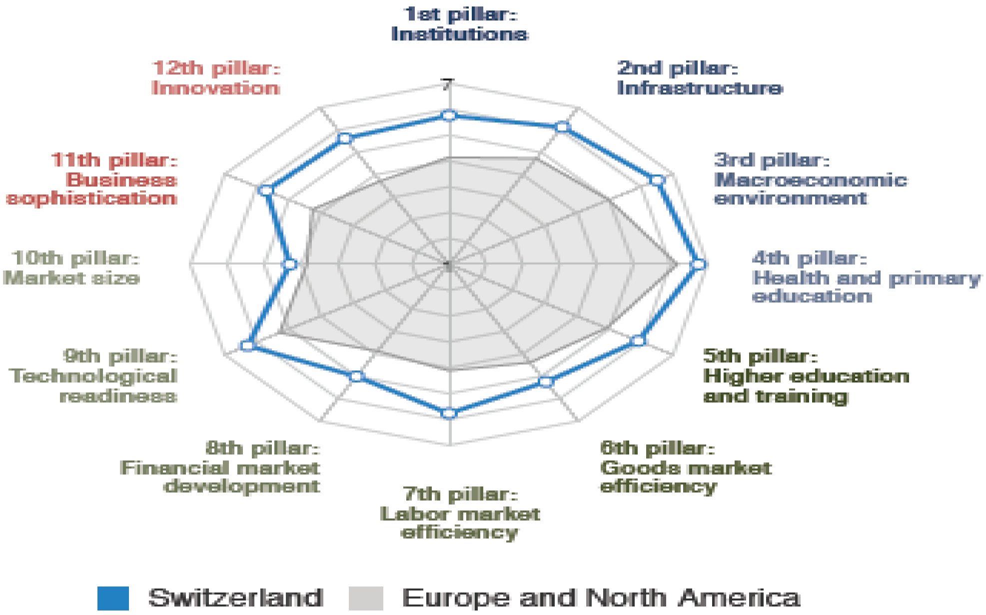


Chart 1. Position of Romania compared to the one Switzerland holds in the international classification of Global Competitiveness Index according to the factors which can support national competitiveness growth in 2017

Source: Global Competitiveness Report 2017-2018

Switzerland (holding the first position) continues to be at the top of the global classifications, with strongly balanced results between the different components of competitiveness. Economic performance benefits from extremely strong bases such as: public health, primary education and a relatively strong macroeconomic environment.

The economy has a high level of flexibility and the labor market functions the best globally. The absorption capacity of the new technologies is high and it is at the top of the international classification regarding citizens' technical training and enterprise development. Switzerland keeps improving its scores for the business sector and for the innovation environment, thereby protecting its top position in the international classification for these two important pillars.

For Romania, the following chart emphasizes the most serious problems that lead to the continuous decay of the business environment.

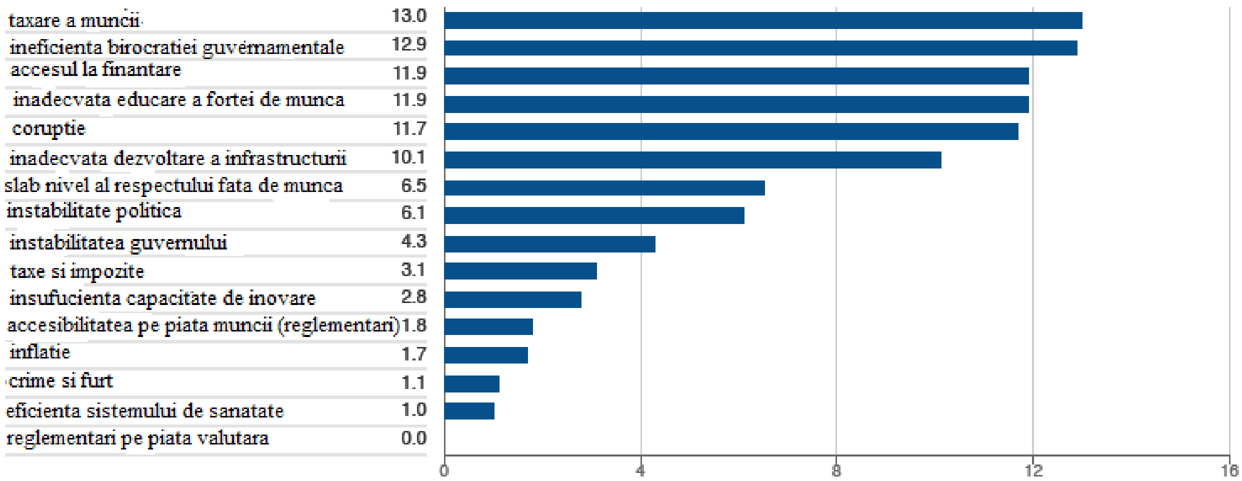


Chart 2. The most troublesome factors for the business environment

Source: World Economic Forum, Executive Opinion Survey 2017

4. Conclusions

In conclusion, we can state that Romania remains a country with a medium to low competitiveness in the international arena compared to the neighboring states. However, as any economic actor, it has development possibilities. Therefore, in order to increase competitiveness and national economic growth we highlight a few aspects which need to be fixed:

- Genuine implementation of structural reforms (respecting the right to property, decreasing the degree of corruption, simplifying the regulatory system of entrepreneurship, improving the regulations of some sectors, protecting free competition, justice independence, etc.) which would allow us to keep up at least with the countries in the region that develop faster;

- Developing national infrastructure – a very important factor in developing business and attracting DFI[1] and which would allow businesses to take place all over the country, not only in the big cities as it happens at present;

- Increasing foreign trade performances and orienting it to the export of added value products, which would lead to a positive trade balance;

- Ensuring macroeconomic stability (maintaining prices stability, avoiding inflation and exchange rate fluctuation, reducing unemployment levels in the departments in the east and south of Romania;

[1] Direct foreign investments.

- Reinforcing the consistency of governmental measures related to direct investments.

- Training a labor force at a relevant level for the work force market.

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