Dal vantaggio comparato al vantaggio competitivo

Introduction

Competitiveness is a highly utilized term for defining the economic status of a country:

thousand of time in the last 8 years we have read that EU countries are lagging behind the US, that they lack competitiveness.

What does it mean?

Introduction

- Defining “competitiveness” at the country level
- The principle of comparative advantage
- Determinants of competitiveness

Competitiveness: definition

For a **firm**, competitiveness usually refers to a zero sum game with competitors.

The environment in which this competition takes place is local, regional, national, international.

Competition among firms can be for market shares: Coke can only gain mkt share at the expenses of Pepsi.

A firm can go bankrupt.

Competitiveness: definition

Has it the same meaning for **countries**?

First, here the environment is only international.

Second, do countries compete on international mkts?
No! This is a typical Mercantilist misunderstanding.
Paul Krugman and many others have criticized this approach.
At the country level what matters is the concept of comparative advantage (see later).

Competitiveness: definition

If Italian firms in the textile and clothing business are loosing out to Chinese, Indian firms this means that Italy is loosing its comparative advantage in this sector.
Italian economy doesn’t go bankrupt (even if some Italian firms will), but the Italian economy undergoes an industrial restructuring and will move resources in to new sectors of comparative advantage.
During last century the United Kingdom has been a clear example of this restructuring (textile- coal- steel- financial services…).

Competitiveness: definition

Many commentators, especially during the 90’s have nonetheless adopted the Mercantilist approach and have described international competition as an head to head match (cfr. much of the debate in the US during the ’80s wrt the Japanese success; now similar attitude is adopted for Chinese and Indian competition).
One policy corollary of this approach is the use of protectionist measures.

Competitiveness: definition

Should we throw away this concept when referred to a country?   This should be the logical consequence.

However, it is still commonly utilized. Two approaches:

- The mercantilist one (see above)
- The “acceptable” one

Competitiveness: definition

Various authors (Porter etc.) / institutions (EU Commission, OECD Secretariat, WEF, IMD etc.) have adopted a different and acceptable definition

- “Competitiveness is understood to mean high and rising standards of living of a nation with lowest possible level involuntary unemployment, on a sustainable basis”. (European Commission)

Competitiveness: definition

• The similar OECD definition: it refers to the ability of a country to “produce goods which meet the test of international mkts while simultaneously maintaining and expanding the real income of its people over the long term”.

• Another: our main definition of *competitiveness* has been “the set of institutions and economic policies supportive of high rates of economic growth in the medium term.” (Porter, Sachs and Warner, 2001, for the WEF Report)

Competitiveness: definition

The focal point of these definitions is the **absolute economic growth of a country** (not economic growth of a country relative to another one).
So whenever you will find the term “country competitiveness” read “country economic growth”.
As a consequence one of the most important determinants of country competitiveness (read: “real per capita income growth”) is the evolution of its **absolute productivity**.

Competitiveness: definition

International trade doesn’t have necessarily anything to do with it.
If one country manage to obtain high productivity in autarky (because of the past investment in human capital, the existence of the appropriate incentive system in the economy etc.) this country will have high standard of living (this obviously doesn’t mean that trade is not important in increasing domestic productivity……).

Competitiveness: definition

Competitiveness at the country level doesn’t imply rivalry among country as it is the case at the firm level.

“In defining competitiveness we are not claiming that one country’s competitiveness means another country lack of competitiveness” (Jeffrey Sachs 2001, when he collaborated with WEF).

Competitiveness: definition

One easy way to understand the difference between the direct determinants of trade and those of per capita income is to introduce the concept of **comparative advantage** via the simplest model of international trade:

the Ricardian trade model.

The Ricardian trade model

For our purposes the major messages arising from this model are:

-Trade is determined by comparative advantages and it is a positive sum game from the countries' point of view

-Per capita income is determined by absolute advantages (labour productivity in this model)

Competitiveness: from Ricardo to Porter

Another trade model by Hecksher and Ohlin (H-O) is structured around the comparative advantage set up, but with a richer set of elements describing the economy than the Ricardian one.

In this model, comparative advantages are generated by the interplay of country relative factor abundances and industry factor intensities.

Factor endowments play a role also in the Porter’s Diamond. This is a much less rigorous, but much richer model than the HO one.

Competitiveness: Porter’s Diamond