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THE INTERNATIONAL COMPETITIVENESS AND ECONOMIC INTEGRATION *

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Abstract. *The paper deals with two important issues for Serbia: first, international competitiveness, and second, the impact of competitiveness on economic integration and vice versa. The European integration process has intensified the problem of competitiveness of the national economy by the following: first, by the reduction of protection measures, and second, by the liberalization of regional trade. It has been a good way to upgrade and strengthen competitiveness of the national economy. Regional economic integration is a supporting means for a gradual increase of competitiveness of a small open economy in transition. Full membership in the European Union involves strong competitive pressure on new member countries, on one hand, and a certain degree of collective protection, on the other.*

Key Words: *European Union, competitiveness, productivity*

1. INTRODUCTION

The issue of international competitiveness of the national economy and its improvement has presented a part of development policies for decades. It has been intensified on international level by multilateral trade liberalization, steady growth of international trade, acceleration of technical progress, and by the progress of new industrialized countries. The intensification of international competition should increase its importance.

The international competitiveness can be defined as "a country's capability for most rational use of resources in accord to the international specialization and trade in such way that results, as a final goal, in growth of living standard and domestic product (so that growth should be founded on real basis but not on external indebtedness). A competitiveness comprises the capability for achieving high level of productivity on national level, upgrading of human capital, effective use of capital and other factors of produc-

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tion."[1] Theoretically, a concept of competitiveness is usually linked to the theory of comparative advantage, from early models to new ones. However, the former theories could not explain new phenomena and patterns in international trade and new theories have been developed.[2] Depending on a region or country, an importance of individual factors of production has been also changed. At the beginning of 1990s, Michael Porter (1990) has explained new view related on competitiveness of the national economy emphasizing the productivity as the most important factor. Some times before and after that, a number of models for measurement of individual elements of competitiveness have been developed.

Simultaneously with the spreading of globalization of world economy, the regionalism has intensified, and the solution was found in WTO rules: that regional economic integrations are not in colision with multilateral trade liberalization if they are established in accord with WTO rules. Obviously, the international legislation has been harmonized with practice. If we remember that every integration is basicaly preferential trade agreement, which by definition and in certain degree discriminates third countries, it suggests that integrations: first, mean certain distortion of free international market; and second, in that way modify the conditions of competition in an internal market. In such way, two groups of forces affect a competitiveness development in integrated market: the firsf one has a protective nature related to the foreign competitors, and the second one has the stimulative nature by spreading internal market. The character of their effect depends on the level of protectionism, and common policy of protection and competitiveness upgrading in an internal market.

2. The Factors and Forms of International Competitiveness

A level and quality of international competitiveness of the national economy are determined by its whole economic and social performances. The main factors which influence a formation, state, and development of international competitiveness in one country can be divided in four groups: systemic, marketing, external, and internal.

The systemic factors determine the general scope for business activities, and consist of political, legal and economic systems of a country, and their stability. From the aspect of competitiveness development, they determine whether the national market is supporting business environment or not, and to what extent. A state, level of organization, and development level of: banking system, financial markets, distributive and infrastructure networks etc, should essentially affect general business activities in a country, business efficiency of enterprises and their competitiveness.

The marketing factors lie in the base of competitiveness development of enterprises, because they can essentially influence its direction. The free market is the necessary condition, and in spite of that, it goes without saying, its imperfections are involved too. A

[1] Jovičić, M., ed. (2002), *Merenje komparativnih prednosti i strategija unapređenja spoljnotrgovinske razmene Srbije*, Beograd: Ekonomski fakultet, p. 15.

[2] Among other things, a number of developed countries which international competitiveness can not be explained neither comparative advantage nor leter factor proportions theory (Heckscher-Ohlin-Samuelson model). See: Antevski, M. (2008), *Regionalna ekonomska integracija u Evropi*, Beograd: M. Antevski

competitive capability of enterprises on the national and international markets should depend on their types and strenght. There are good reasons to attach importance to an effective working of the market, reduction and supression of distortions on it in the whole world.[3] The organization and maintaining of a functional national market require stable long-term policies, which affect all economic subjects under clear regulations in a long-term period.

The external factors have a special place in the competition development in the open economies, which are the majority in the world, and particularly in the cases of the small open economies highly dependant on foreign trade. Their effect can be of different nature and strenght, sometimes of decisive character. The customs and rules of the world economy and international trade are of obligatory nature for companies and states, because they are organized systems (by: international legislation, customs and business practice; the rules of the international organizations and cooperations; internal rules of regional economic integrations, and bilateral and multilateral agreements). An entire regulation of international business activities has generally a supportive effect on the competitiveness improvement, because it has been created with the aim of facilitation of business activities under equal conditions.

The internal factors which influence a competitive capability of enterprises are of crucial importance, because an individual enterprise is the place of its creation and improvement, and therefore, the national competitiveness is the only collective expression of the capability of its economic units. With capital equipment, technological base, and financial power, human capital is particularly important, because it moves and organizes all things. However, "human capital formation is a typical long run phenomena related to the social and political development of a country."[4]

A competitiveness can be analysed on different levels: national economy, sectors, and individual enterprise. The national competitiveness is a collective indicator, whose total effect shows the variations in the balance of payment in the long run. Porter (1990) has significantly contributed to a better defining of sectorial competitiveness, or a business environment in which the enterprises establish, work, and compete. His well known "national diamond" represents a complex system of interdependant components of competitive advantage, in which the upgrade of one element influences the upgrade of another one or more elements, which together increases the competitiveness of an economy. The four basic components of "national diamond" are the following: *the production factors* - their abundance means only the possibility of its advancement; *the demand factors* - higly requested and sophisticated internal demand can generate a competitive advantage; *the linked industries* - which comprise a competent production and supply links and networks, which stimulate and support a competent production (which is the basis for creation and success of clusters); and *strategy, strusture, and rivalry of enterprises* - a competition stimulates the creation of innovation and their competitiveness.

Taking into consideration the importance of all influential factors, the competitiveness of an individual enterprise is the basis for development of all its higher forms, and

[3] There is a certain duality in the national governments treatment of the market distortions in a national and international levels, particularly in the case of powerful and developed countries. Some undesirable distortions in domestic market, like monopols and oligopols, can be supported in their foreign business activities and expansion.

[4] Mencinger, J. (2003), "Does Foreign Direct Investment Always Enhance Economic Growth?", *Kyklos* 56(4), p. 505.

necessary condition for their building. The competitiveness of an enterprise can be defined as its ability to create, innovate, produce and sell the goods and services on internal and foreign markets, maintain existing or enlarge its share on a markets. Some different elements can determine the position of an enterprise, but its essential characteristic is that an enterprise successfully survives and grows on the market.

Many models, more or less precise, have been developed in the theory to the purpose of empirical calculation of individual elements of the competitiveness, geographic distribution of trade flows, and defining of its patterns. It is possible to calculate: revealed comparative advantage (RCA), index of specialisation and export concentration (calculated by corrected Grubel-Lloyd index) and many other important indicators. They are important for calculation of state and trends, and as the guides and directives for governments as to in what direction a competitive capability can be improved. The governments can directly influence individual sectors' positions in internal and foreign markets by economic policies, but they also can upgrade a market functionality and its competition in the long run, by leaving a market forces to carry out the selection of better ones. It is true that markets are imperfect, "but overlooked government failure–the fact that the imperfections of governmental decisions are probably at least as serious as those of the market mechanism".[5] It has been found that successful governments are those which are able to determine the proper extent and dynamics of interventions on the market.[6]

An international competitiveness is usually divided on: price competitiveness, measured by unit work costs (ratio between total work costs and work productivity), and non-price competitiveness, in which the basis is a quality, product cycle etc, and such division does not give us sufficient information related to an individual economy. Much the same can be concluded for the elements of competitiveness. If we compare, for example, estimated elements of competitive advantage of an individual economy to the types of forein direct investment inflows, on one hand, and to location decisions criteria of investors, on the other, the conclusion can be made that all traditional and newest elements which can make an economy or sector attractive, exist simultaneously. It is particularly evident in case of China, India, and Russia, big countries abundant in natural resources, cheap labour, investment capital, human capital, and newest world class technologies. Not even the USA produce and export only higly sophisticated products althouh the USA is abundant in qualified labour and is the leading producer in high technologies. It is obvious that the international competitiveness of a national economy has synthetic and dynamic character.

3. THE COMPETITIVENESS AND REGIONAL ECONOMIC INTEGRATION

The international trade generally stimulates a growth of productivity by enabling the exchange of capital goods, diffusion of technology and other knowledge, copying etc. Regional integrations modify to some extent the effects of international trade on an inter-

[5] Baumol, W.J. (2000), "What Marshall didn't know: On the Twentieth Century's Contributions to Economics", *Quarterly Journal of Economics* 115(1), p. 16.

[6] Among the member states of the European Union, the economies of the United Kingdom and Ireland showed the best performances in last decade. An importance of free market, business philosophy, secure post, and generally the issue of social state, in these two countries are more similar to the USA than the continental European countries.

nal market; they have certain restrictive effect on the free flows of goods and ideas from third countries, on one hand, and reinforce wellknown effects of home market on enlarged internal market. According to this simplified explanation, it should be expected that regional integrations, particularly the more solid and developed ones, are the best environment for development of high productivity. In that case, for example, the European Union should be the world leader in many sectors. However, it is not the rule, and that suggests that the advantage provided by regional integrations is not sufficient condition for achieving the highest level of productivity. One part of explanation we can find in Porter's explanation: "Modern competition depends on productivity, not on access to inputs or the scale of individual enterprises. Productivity rests on *how* companies compete, not on the particular fields they compete in. Companies can be highly productive in any industry–shoes, agriculture, or semiconductors–if they employ sophisticated methods, use advanced technology, and offer unique products and services. All industries can employ advanced technology; all industries can be knowledge intensive."[7]

The previous development of the European Union, and its position in regard to the comparable regions and countries, shows the following: first, that all member countries have importantly improved their economic performances; second, the industries exposed to a stronger international pressure have succeeded in maintenance or improvement of their competitive capabilities (for example, motor vehicle industry); third, the international competitiveness has dynamic nature, and states, industries, and companies can acquire, maintain, or lose it (a typical example is the present world domination of China and India in textile and clothing industry); and so forth, European industries and sectors, which have enjoyed the longest protection against foreign competitors and received most of the subvention, have reached the poorest results in competitiveness development and never became world leaders (for example, agriculture). The last is a good example which suggests that a protection of infant industry, or generally protection, makes sense and bears desirable effects if it is limited on a definite period of time and enjoys balanced support by subventions. Otherwise it became only a redistribution of the budgetary funds between different social and business groups.

Without an analysis of different integration experiences in the world in this occasion, it seems as most useful to discuss the influence of European integration process on competitiveness development of the natioanal economy. First of all, the European Union is most developed and most important integration in the world, and Serbia is in the stage of association. Since the beginning of 1990s, when the European Union has involved most of the transition countries in the integration process, one of most important requests placed on them has been the establishment of effective free market economy, able to carry out the pressure of competition on the internal market. From that time, the European Union has made a number of concessions and offered important support to them in the aim of reaching such a goal. In addition to grants and technical help, the support to the transition countries for competitiveness development has been carried out on two levels; first were the stabilisation and association agreements, by which a gradual liberalization of mutual trade should be realized, with applied positive discrimination principle in favour of candidate countries. The European Union, as the rule and with the exception of the

[7] Porter, M.E. (1998), "Clusters and the New Economics of Competition", *Harvard Business Review* 76(6), p. 80.

sensitive sectors, has almost completely opened the access to its internal market for those countries. A second level of support has been realised through a different free trade agreements, which were the means for liberalization of regional trade between transition countries. They were: BAFTA, CEFTA, and recent network of free trade agreements between countries of Southeast Europe. Some researches found that these agreements, with their main goals and results, are contributed to mitigation of the hub-and-spoke pattern creation between the European Union and the candidate countries and their regions.

Based on the experiences of new member states of the European Union, this approach can be evaluated as the successful one, and it should be expected that the other countries involved in the accession process can reach similar results. The main characteristics of these two parallel channels of competitiveness development are as follows: first, an enabling and facilitating access to the (relatively protected) internal and more competitive market for enterprises from transition countries; and second, the volume growth of a regional trade between transition countries and between enterprises of similar competitive capabilities. It has been the way for diversion of a ruin and disappearance of a still prospective business and enterprises, which coud not withstand a sudden and strong pressure of competition in the European Union market. In addition, the regional trade liberalization has enabled the spreading of business activities, links, networks, and stronger competition between companies in a wider market than the national one. These processes could be generally defined as the liberalization and intensification of positive market forces.

The accession to the European Union, among other things, requests from the candidate countries the establishment and development of an institutional mechanism for protection and improvement of competition. After the accession, they should be involved in the common system of European institutions and legislation. This machanism, as a rule, works poorer as the country is further from the finishing of transition and of integration in the full membership. Besides not yet built institutions and the shortage in high quality human resources, the strongest reason for such state are the interests and pressures of business groups. The reasons are simple: a non organized market enables the aquisition of monopolistic and oligopolistic profits and the creation of non market structures (monopols, oligopols, cartels), which should provide to their owners a stable position in the time of accession to the European Union. There are no national differences in this issue: such structures are equally attractive for home and foreign companies, most of them are from the European Union. In that way they operate on the internal market under more strict conditions and on the transition markets under relatively non organized rules. If such state is good, or the best one for competitiveness development, it is likely that the European Union, USA, and other most developed countries should introduce it in their markets. Obviously that is the price which must be paid in the transition period.

The certainty of accession to the European Union for the candidate countries, and obvious advantage in it, justify necessary losses and costs which must be paid. They can not include some profits acquired by certain business groups and damages caused by them to the competitiveness development on the national markets. It does not seem useful to take as the desirable and accessible standard the level of competitiveness of European companies and sectors. They are the world class in a certain sectors, but in a number of industries they are lagging behind the world leaders. From the standpoint of transition countries, new member states of the Union and those which tend to be the same, the reaching of European average indicators seems like a hard work. However, the experience of successful companies which are expanding on the European market suggests that the high productivity is not a privilege of European origin, and that standards for imitation and copying should be discovered on a wider area than Europe. An additional reason for such approach is a diversification of trade flows, with the aim to provide their stability, in spite of the fact that European Union is the most important Serbian trading partner.

4. CONCLUSIONS

A discussion of the competitiveness issue, on the individual enterprise level and on the national level, as an collective indicator, suggests the following basic conclusions. The first one is that the competitive capability of an individual enterprise is the basis of all higher forms of competitiveness. Second, the competitiveness of an enterprise on national and foreign markets is determined by its productivity. Third, the development of sectorial and national productivity determines the way in which enterprises carry out their business activities and compete, that is a level of the use of positive market forces. Fourth, no existing and potential comparative advantage of a country is either sufficient by itself or of irrelevant importance. "In fact, there is no such thing as a low-tech industry. There are only low-tech companies–that is, companies that fail to use world-class technology and practices to enhance productivity and innovation."[8]

The regional economic integration gives the suportive conditions for development of the national economy competitiveness on three following levels: first, in the accession proces, by a facilitated acces to the integrated market and through regional trade liberalization; second, after the full membership integration, the carrying out of business activities in the wider integrated market under common conditions; and third, a certain level of common protection against the competitors from third countries. The integration process should be advisably understood as the spreading of a country's own perspectives for dynamic development of the national enterprises competitiveness.

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[8] Ibid., p. 86.

MEĐUNARODNA KONKURENTNOST I EKONOMSKA INTEGRACIJA

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Proces evropske integracije intenzivira problem konkurentnosti nacionalne privrede: prvo, postepenim smanjivanjem i ukidanjem zaštitnih instrumenata tokom perioda pridruživanja, i drugo, liberalizacijom regionalne trgovine sa zemljama u fazi pridruživanja Evropskoj uniji. Dosadašnje integraciono iskustvo je pokazalo da je to dobar način unapređenja i jačanja međunarodne konkurentnosti nacionalne privrede, koja postaje sposobna da se nosi sa oštrom konkurencijom na internom tržištu Evropske unije. Prijem u punopravno članstvo pruža nacionalnoj privredi određenu zaštitu u odnosu na treće zemlje.

Problem međunarodne konkurentnosti otvorene nacionalne privrede je od primarne važnosti i bez perspektiva evropske integracije. Liberalizaciju regionalne trgovine i period pridruživanja treba iskoristiti za razvoj konkurentnosti u manje oštrom okruženju. Pri tome treba imati u vidu da ne konkurišu države međusobno, nego da se na tržištu sučeljavaju različito konkurentne firme. Stoga je primarni cilj u razvoju nacionalne konkurentnosti permanentno unapređenje dugoročno održivog rasta produktivnosti firmi. Država, sa svoje strane, treba da obezbedi zdravo poslovno okruženje i vladavinu prava.

Ključne reči: *integracija, Evropska unija, konkurentnost, produktivnost.*