"Competitiveness and its Essential Components"

Sherry Stephenson
Department of Trade, Tourism and Competitiveness
Organization of American States
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Most people approach the issue of competitiveness by attempting to define what it is or what it should be. However, it is also interesting to approach the matter from a different angle by examining what factors are not essential in establishing a country's competitiveness on world markets. While certain factors are certainly helpful for promoting competitiveness, they nonetheless should not be considered essential for a country to demonstrate competitiveness on world markets. Focusing on these factors can help explain what lies behind success in the globalized economy. Thus competitiveness is not dependent upon:

Location. Countries do not need to be close to major centers of production to be active competitors in the global economy.

Let us consider some examples that might prove this assertion. Taking Chile to begin with, for example, is a good way to demonstrate the fact that geography is not essential to advance a country's insertion in the globalized economy. Chile is a very long country at the extreme southern end of South America. It is very far from major markets and its location might have pushed it to marginalization if location were essential for competitiveness. Yet Chile is ranked number 27 in the World Economic Forum's Competitiveness Index for 2006-07 and has clearly used other factors to promote its productivity and increase its share of international markets.

Barbados is a second example of a country whose location would not be considered as necessarily favoring its competitiveness. Lying at the eastern edge of the Caribbean Basin, Barbados is farther from its main markets, the U.S. and Canada, than its neighbors, and yet Barbados has very successfully managed to compete and thrive in the global economy, reaching the second highest rank of 31 in the World Economic Forum Competitiveness Index., among developing countries in the Western Hemisphere.

Finally, South Africa, alone at the southern tip of its massive continent, has managed to create the strongest competitive environment in Sub-Saharan Africa. Like Barbados and Chile, South Africa is very distant from the major consumption centers of Europe and the US, yet it manages to attract business and to compete successfully with other, better-situated countries.

Natural Resources. Successful states do not always have large, healthy deposits of natural resources at their disposal for productive purposes.

The People's Republic of China, ranked number 54 by the World Economic Forum, has access to a healthy range of natural resources thanks to its great size. None of these resources, however, is sufficient to satisfy the needs of its huge population. China has had to balance between energy creation and environmental degradation to feed its people. Despite these obstacles, China is largely considered one of the development success stories of the 21st century. The government has expanded its markets and addressed the labor needs of the workers. Several factors contribute to China's competitiveness, and its lack of natural resources appears not to have hindered it in an important way.

Taiwan has thrown its state mechanisms into the privatization and competition process. Coming in at number 13 in the WEF index, it has a recent history of very strong exports and high human capital growth. Taiwan is an island and is therefore necessarily limited in the amount of land it has to use. Natural resources are scarce, but that has not slowed down development.

India enjoys large deposits of coal (the fourth largest deposits in the world), but its recent strong development has come more from other sources. In the past few years, India has liberalized some sectors of its economy, opening them to foreign investment. The liberalization process remains unfinished, but India's economy is of sufficient size that any opening allows considerable foreign inflows. India's efforts have earned it position number 43 on the World Economic Forum's list.

Size. Large states do have some natural advantages when it comes to competing, but many small states have shown that they compete very well despite their small size.

Perhaps even thanks to its small size, Singapore, number 5 on the World Economic Forum's list, has a very open and very successful export-oriented economy. Hong Kong, number 11 on the list, has created a niche market, capitalizing on its proximity to mainland China. Iceland, number 14, has adapted to its environment and concentrated its energies on fishing. Its Scandinavian culture has led to extraordinarily equitable distribution of income, and recently, amid fears of depleting fish stocks, the country has expanded into more technology-based industries. Luxembourg enjoys the world's highest per capita GDP of $65,900 (2005). It is ranked number 22 on the list, and its main industries are banking and family farm agriculture. Luxembourg opened to foreign influence initially with steel and has maintained its openness with the financial sector.

The United Arab Emirates, number 32 in the competitiveness index, changed its economic structure dramatically 30 years ago when oil was discovered. In order to keep the country open and competitive while expanding job creation internally leaders are looking to promote other sectors such as banking. Qatar, like the UAE, has grown rich in recent years thanks to oil discoveries. At number 38, it opened to heavy foreign investment for the development of its oil; it soon hopes to become the world's first exporter of liquefied natural gas.

At number 39, Malta is a Mediterranean shipping and transport hub. Malta's competitiveness is heavily linked to its neighbors for business. Cyprus, number 46, has an economy based on its services sector: 76% of GDP comes from services. Cyprus, like several other small countries, has tourism and financial services as the core of its economic activity.

Model Laws. Excellent laws on paper do not translate into business opportunities.

Many countries in Africa and Latin America have open FDI regimes and laws, but still fail to compete with less legally attractive peers. Competitiveness is more about what happens on a day-to-day basis than about constructing the ideal situation on paper.

So what makes a country competitive?

Having established above that many of the typical definitions of competitiveness cannot be taken literally, it is important to enumerate some factors that, together, relate to competitiveness and affect a country's standing in the global economy. However, it is also critical to understand that competitiveness is derived not from not one source but many.

The World Economic Forum defines competitiveness as a "set of factors, policies, and institutions that determine the level of productivity of a country" and allow it to compete effectively in world markets.[1] Competitive advantage has replaced comparative advantage in the new economic outlook as essential to success as countries vie for the attention of international investors. The best way to gain a competitive edge is to ensure that a country is raising its productivity levels. Countries that successfully compete need to align their factors of production, their resources, and their policies to reach the most efficient and effective outcome.

Factors and policies

There is no single best way to be competitive, but most agree that a successful policy on competitiveness will contain some combination of the components listed below.

Good Institutions. Successfully competitive countries have a solid and predictable system of rules that allows them to create incentives that favor competition: openness, transparency, and accountability are key among those rules. Furthermore, competitive countries manage public resources well and fight corruption. William Easterly has written extensively on the subject and believes strongly in the importance of good institutions as more important to competitiveness than physical location and geographical benefits.[2]

Infrastructure. Physical infrastructure in a country is fundamental to healthy development of economic health. Investors are attracted to places they can easily reach, and infrastructure provides a level of security in a country. The three most important aspects of physical infrastructure are energy, transportation, and telecommunications.

Education and Training. The depth and adaptability of the work force is crucial to competing for investment from abroad. Workers need to have not just the basic skills necessary to perform a given task; they must also be able to adapt to new tasks, especially as jobs become increasingly high-tech. Moreover,, lack of basic skills locks workers, and indeed an entire workforce, into a low-skilled, low-wage world. High enrollment rates for schools are not enough; school quality must improve dramatically as well.

Macroeconomic Stability. Stability of the economy has long been recognized as central to sustaining long-term growth, and a push to competitiveness must not overlook it. Furthermore, macro level stability contributes to the creation of a stable and reliable business climate.

Technological readiness and innovation. This ties to the education and training component above and demonstrates the significance of human capital in creating a competitive environment. Information and communications technology (ICT) are increasingly critical components in attracting high-wage investors and in competing with other countries. There is a demonstrated strong correlation between the World Economic Forum's competitiveness ranking and the acceptance of technology in a country. In terms of research and development, a lot can be gained from a solid research and development (R & D) climate and the support of small and medium innovators.

These five factors, together, serve as the main components of a strong policy on competitiveness. The most successful economies have undertaken steady and concerted efforts to create a network of good policies in a comprehensive way.

Success Stories

Now I turn to success stories and creative initiatives aimed at enhancing competitiveness in the Western Hemisphere.

Caribbean

In the Caribbean I will highlight the cases of countries with strong services sectors. These countries have developed a strong competitive edge, and they are now reaping the benefits of their investment in human capital. Caribbean states enjoy a strong, educated work force that is able to work in high tech fields.

Among these cases are.

1. The successful establishment of call centers in Jamaica.

2. Investment in adventure tourism in Jamaica resulted in a tourist niche market in high-end adventure nature tourism that is, so far, unique to this country. To launch this program, a group of 100 small hoteliers collaborated to establish a cost-effective marketing program.

3. St Lucia has created the St Lucia Jazz Festival to draw tourists during the low season.

4. Trinidad and Tobago has enhanced its Carnival festivities to revitalize the tourism industry and to showcase the country's musical and dancing talents.

5. Based on the concept of off-shore education, Grenada's St George's University and Dominica's Ross University School of Medicine have established themselves as excellent centers of advanced medical education. Their graduates are filling hospitals in the US as the doctor shortage becomes more acute. These two medical schools account for approximately 70% of the international medical graduates entering the US each year in this field.

6. St Kitts and Nevis is home to a renowned veterinary school, and St Lucia is developing a nursing school to that will focus on training and nurses for employment abroad.

7. Under the idea of "Freestay Caribbean," several groups interested in advancing tourism in the Caribbean have come together in a program called "Tropical Shipping" in which cruise passengers can return as overstay guests in a number of countries redeeming coins distributed by participating restaurants, gift shops, and cruise lines to win free things. This is an innovative, region-wide approach to boosting tourism and creating loyal customers.

These successful ventures can provide a starting point for future policies and can serve as guidelines for targeting sectors with potential to succeed. Countries need to enhance their natural strengths to compete most efficiently, and these stories are definitely good examples.

Several Caribbean states already have export competition strategies, and more are developing strategies as a high priority. Belize, St Lucia, St Vincent and the Grenadines, Grenada, and Jamaica have functioning export strategies designed to enhance their overall competitiveness. Trinidad and Tobago is developing a new long-term strategy with a stated goal of becoming a developed country by 2020.

These countries now face the challenge of expanding their strategies to incorporate more than their export sectors. As a region, the Caribbean still faces significant challenges to increase awareness of the potential to compete in other services sectors. Services coalitions would be an important and significant step towards forming the kind of national comprehensive strategy described above. There are various national coalitions in existence, but they are typically under-funded and under-appreciated. Top priorities for these coalitions would include improving price and quality and reducing the cost of doing business in the region. The Barbados Coalition of Services Industries is the only functioning Coalition at the moment. The Trinidad Coalition was launched in September 2006. The St Lucia and Guyana coalitions need funding from their governments to launch and begin providing services. Five other coalitions are in their second phase of planning and, depending on their organizational skills and their will, could be launched in the near future.

Latin America

In Latin America, there is a clear need to improve competitiveness. A recent study by Jerry Haar and John White called *Can Latin America Compete* highlights several of the shortcomings existing in the region. For example, with respect to infrastructure, in Latin America, only about 14% of roads are paved and 5% of those roads are in Brazil. In contrast, 98% of the roads in Barbados are paved. Customs systems are outdated and need restructuring. The port facilities are not what they need to be, and in telecommunications, in spite of the expanded coverage of cellular phone technology, the region lags behind judged against other parts of the world. Internet access is still low around the region and in several countries there is no independent regulatory body, separated from the political process, in the telecom sector. Even though political leaders, lenders and donor institutions have emphasized actions related to governance and institution-building, reforms in Latin America are proceeding more slowly compared to the rest of the developing world. This is also the case in the areas of education and labor training.

Despite this gloomy status report, Latin America boasts some success stories from different regions:

1. In Guatemala, policy makers have streamlined the investment process considerably: interested parties can now start a business in just 34 hours. Additionally, customs has been improved so that packages now clear in less than 1.5 hours.

2. Argentina has seen considerable investment in improvements in its shipping facilities. Three of its ocean ports and no fewer than 17 of its airports will be modernized and improved in the near future. In addition to promoting the modernization of its airports, Argentina has also established a series of agencies designed to work cooperatively to improve the competitiveness of key sectors. They coordinate with other government agencies, regional chambers of commerce and other entities of the private sector. These agencies and their partnerships function as drivers of competitiveness in multiple sectors of Argentina's economy.

3. Brazil launched its "Brazil Plan 2004-2007" in March of 2004 with several objectives directly related to the enhancement of competitiveness for Brazilian businesses. The plan calls for an improved technological base, encourages both public and private investment, coordinates federal actions with state and municipal actions, generates employment and income, and polishes Brazil's international investment image with foreign investors. Outside the Brazil Plan, other ministries have launched their own competitiveness-boosting initiatives. For instance, the Ministry of Science and Technology is supporting scientific development programs and is cooperating with the Ministry of Mining and Energy. Brazil's private sector is responding to these changes by creating business opportunities for organized Brazilian businesses.

4. Chile, the flagship of economic reforms in Latin America, is also working on strengthening its competitiveness reforms. Chile refined its already strong position on competitiveness by creating a National Council on Innovation for Competitiveness to unify the efforts already underway in various ministries. Chile's private sector is also highly involved in improving competitiveness in several sectors ranging from agribusiness to human capital to marine resources.

In closing, I would like to re-emphasize that a pro-competitive environment is the result of several factors.

Business competitiveness is an attitude as much as anything else. In the United States this is seen as a normal and healthy part of the social infrastructure and culture seems to play an important role. The formation of an entrepreneurial culture must start in the schools and vocational training courses. With a solid base in entrepreneurial spirit, workers will start strong and continue to adapt throughout their careers. Competition is seeping into even the traditionally protected sectors, and workers find themselves competing to retain their jobs.

To become more competitive, people and their countries need to be less adverse to risk and more willing to accept changes to their ways of life. A willingness to accept risk comes with knowledge about alternatives, and risk acceptance usually pairs with enhanced competitiveness.

Education is a key for competitiveness, and should not stop at the end of secondary school. Life-long learning is a way of life, and people in developing countries must adapt with the changing world. Moreover, training programs are a necessary complement to traditional and formal education. Education and skills training opens significant opportunities for public-private partnerships that should be explored and implemented.

Our office is supporting the organization of the IV OAS Private Sector Forum in the context of the upcoming OAS General Assembly in June 2007, in Panama City, Panama. This forum offers a unique opportunity for companies, chambers of commerce and private sector organizations from the Western Hemisphere to voice their recommendations on public-private work to promote competitiveness in the region. This project is being undertaken in coordination with the organization Private Sector of the Americas, a group of business associations and companies active in the promotion of public-private dialogue to promote development and economic growth. The next forum will be held in Panama on 31 May and 1 June 2007. This year the Forum will focus its discussion on the topic of “Energy for Development in the Americas.”

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[1] World Economic Forum. *The Global Competitiveness Report 2006-2007,* released by the World Economic Forum on 26 September 2006, available in http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20 Report/index.htm

[2] See for example William Easterly and Ross Levine. Tropics, Germs, and Crops: How Endowments Influence Economic Development. Draft March 2002.