

## Book Review

# Boosting Competitiveness Learnings from a European Perspective



**Mohamed Buheji**

Email: [buhejim@gmail.com](mailto:buhejim@gmail.com)

Founder of the International Inspiration Economy Project – Bahrain

**Abstract** This paper critically reviews the challenges and the opportunities towards boosting competitiveness in the current and foresighted environment, using the basis of Belka et al. (2016) as the main reference. The conditions of the competitiveness when a crisis erupts and how it deals with the recession, including managing the current complication of the economic and monetary infrastructure are taken into consideration. The review focus on closing ‘competitiveness gap’ through boosting techniques that ensure international and regional sustainable growth. Therefore, ‘diverging economic development’ and the ‘unbalanced growth models’ are explored to enhance the tolerance capacity of any boosted economy. This work is compared to concepts of resilience economy developed by the author. The preventive and corrective mechanisms of the ‘unbalanced growth models’ are proposed as a conclusion for this study.

**Keywords** Competitiveness, Boosting Competitiveness, European Union, Resilience Economy, Socio-Economic Issues

## 1. Introduction

This paper is extracted based on the selective review of the work of Belka et al. (2016), which focus on studying the challenges of competitiveness and the integrated production chains in the global economy today.

Competitiveness comes only through a set of sustained reforms and evolution of institutions, policies and factors that determine the level of productivity that lead to immediate and future prosperity of the communities and then the country. Despite more than five decades have passed on the subject of competitiveness, in literature and through major institutions, as in the World Bank, United Nations, and the World Economic Forums; still, many countries suffer the absence of improvements in the core conditions for competitiveness. Benzaquen et al. (2011).

This paper focuses on boosting the competitiveness of countries to enhance their capacity for being more resilient economies. Studies show that competitiveness gaps are one of the leading causes for a strain socio-economy, Buheji (2018).

As life and products become more technically sophisticated and complexity become the trend that eliminates any complication of life quality, customer orientation and participation in production networks become more important than costs and prices competitive advantage as Porter (1985) model focused on.

The research emphasised the importance of boosting first tolerance and establishment of resilient based innovation and production strategies in order to mitigate the risks of global competitive pressures, Buheji (2018).

In this paper, we use and review the work of Belka et al. (2016) as the primary reference for boosting competitiveness, despite it focused on Central, Eastern and Southeastern European countries only. The book of Belka et al. (2016) is an excellent reference for a world full of interconnectedness and global production value chain networks as the one we live in today.

## 2. Critical Literature Review

### 2.1. Review of a Country Competitiveness

Porter (1985) defined that competition determines the appropriateness of a country’s activity and contribute to its performance, such as innovations, a cohesive culture, or proper implementation. Competitiveness help countries to establish

sustainable position. Competitiveness improves the attractiveness of the industry and its local and international position. Benzaquen et al. (2011).

Countries competitiveness has become a central theme for both developed and developing nations. A country's competitiveness has been generally linked to a set of dynamical changes or transformations in institutions, policies, and factors that determine the level of productivity of a country, or a government taking into account its level of development. Buheji (2016).

International competitiveness, on the other hand, has also been used as a measure of the country's relative cost of goods/services compared to the world productivity index. Therefore, the international competitiveness of countries focused on the production of quality goods and services of global demand with cost differentiation. Buheji (2012).

A country's competitiveness is also influenced by its competitive advantage (CA). CA is measured based on the current market prices of the country products or service. If a country wants to sustain its differentiation, it should also work on its comparative advantage, which requires an equilibrium of the hidden prices. Benzaquen et al. (2011).

Resilient economy countries would be having policies and practices that not only make them competitive and with comparative advantages, but would be more tolerant to a crisis, Buheji (2019). The capacity of the country to boost competitiveness due to the capability of seeing recession it what make individual economies like Germany to have sustainable growth.

## **2.2. Studying the EU Competitiveness Model**

### **2.2.1. Capitalising on European Value Chain**

Belka et al. (2016) believe that one of the most challenging competitive imbalance in the European Union (EU) today is the diverging economic developments, and unbalanced growth models that keep repeating themselves. Thus Belka and his team see that boosting European competitiveness involves different aspects of economics, besides capital markets approaches. Most of the European approaches have been focused on robust preventive and corrective mechanisms in response to unbalanced growth models.

The challenge for many European companies and countries is how to benefit from the EU value chain, where European producers benefit from integrated production chains. This highly beneficial in a fast-developing inter-connected world where the more there is participation in the chain among the region countries, the more it would increase their total competitiveness.

### **2.2.2. The Challenge of EU Competitiveness in the Globalised Economy**

Despite the macroeconomic imbalances accumulated in the Eurozone and the imperfect organisational construction of the European economic and monetary union, EU still being considered the best continent that optimised the collaboration based economic model.

However, the dangers of global wage increases in relevance to production are increasing the risk of many EU countries, including western European countries. Many of these EU countries are confronted today with unpredictable exchange rate movements and sudden stops with possibly currency fluctuation.

### **2.2.3. Sustaining EU Countries Economic Growth**

Many EU governments want to restart economic growth by focusing more on Foreign Direct Investment (FDI). This is due FDI found to be highly related to boosting the competitiveness of research and development activities by bringing in knowledge and know-how that are produced from different places around a specific cluster or defined growth.

The latest studies even emphasis that the contribution of FDI to economic growth can be further enhanced by the quality of the human capital that possesses ownership advantage. This ownership advantage can come in the form of new technologies, patents, more goodwill as brand name and management know-how. Jelinek and Kogut (1995).

## **2.3. Understanding of Non-Price Competitiveness**

The attributes of any products do not depend on its price, but on its quality, taste and preferences, it provides to the individual customer. This is what drive products and sectors of the market. Part of non-price competitiveness is to find the best way to deliver innovation and its ways of diffusion.

In order to avoid any waste in competitiveness boosting, country leaders need to study and eliminate any cluster or factors that cause slow innovation and diffusion of knowledge and technology. Any slowness in the diffusion of these mentioned factors causes further deterioration for non-price competitiveness.

## **2.4. Type of Technical Advancement that would help to Boost Competitiveness**

With the increase in the technical sophistication of products, countries need to be selective on what type of technical advancement need to be attained. Studies show now the quality, and customer orientation, besides what could bring cost and

price differentiation are the main boosters of competitiveness. The capacity of competitiveness is highly related to the capacity for adapting production for changing demands. Jelinek and Kogut (1995).

In order to bring in more differentiated, innovative products and processes, more foreign acquisitions are encouraged. More adoption of foreign technologies is found to be happening in foreign acquired industries. In the meanwhile, domestic industries found to benefit a lot from the interaction with international organisations.

Belka et al. (2016) mentioned about how technological advancement helped to boost a country's competitiveness is the Malaysian Textile Industry. The Malaysians managed to utilise the intra-industry spill-over in collaboration with the garment producers and their international suppliers.

## **2.5. Boosting Competitiveness in a Knowledge and Resilient Economy**

Correcting external imbalances in the European economy improves the EU countries realisation of the causes of the competitiveness imbalances before and after the crisis. The balancing of the competitiveness between different western EU countries, for example, increases the possibilities for their financial integration and decline their borrowing cost.

In knowledge economy creating synergy among countries help to enable their development and improve the resilience of their competitive production and services (Buheji, 2012).

Competitiveness is no longer rooted in physical assets and financial capital, but in the effective channelling of successful growth and longevity in a business where human capital pushes the country towards the higher capacity to learn (Buheji et al., 2014). To be competitive means that organisations must have a unique and sustainable set of values that deliver both tangible and intangible assets that reflect into valuable, rare and very difficult to imitate processes and routines. Competitive countries must have the ability to shift from tangible to value-based measures meaning that organisational performance capabilities would be based more on the internal organisational resources.

## **2.6. Creative Industry as a Source of Competitiveness**

Belka et al. (2016) fail to address one of the most essential sources today in a knowledge economy, that is the creative industry. Cultural and creative industries are becoming one of the most important competitive edge components as they are found to bring in good cash flow to many countries through what is called the creative economy (CE). The creative economy is knowledge-intensive, based on individual creativity and talent, they generate enormous economic wealth and preserve European identity, culture and values.

CCIs include several subsectors, such as architecture, archives and libraries, artistic crafts, cultural heritage, design, fashion, film, high, end, music, performing and virtual arts, publishing, radio, television and video-games. CCIs are an essential contributor to the economy, with 5.3% of the total EU GVA and further 4% of nominal EU GDP generated by the high-end industries.

## **2.7. Adjusting Structural Competitiveness Imbalance**

One of the most critical risks for any structural balance is the real effective exchange rates (REER) which are thought to be the source of external competitiveness imbalance due to its role in creating a loss in cost competitiveness. REER does not take into account the country's structural changes which include an account for industrial and product compositions.

The other problem of REER is that it does not take into account even the improvement of production quality, nor does it differentiate between sales of different products to the international market.

In order to adjust the external structural competitiveness imbalance, we need to assess the assets that the country has; whether they are tradable or non-tradable. Tradable products or items would include financial services and other tradable products; while non-tradable would include, for example, the retail industry.

The persistence weakness of the tradable sector of any country leads to the accumulation of its external debt. Countries as Greece in EU and Bahrain in the Arab Gulf Countries are good examples of this. Such countries would not only be failing to bring industrial value-added products, but would be even entrenched by the steady inflow of capital invested in the non-tradable sector via real exchange rate revaluations.

## **2.8. Austria as an Example for Re-Structuring Competitiveness Balance**

Austria is one of the small countries in the EU, with a population of 8.5 million. In order to comparatively understand the importance of re-structuring of competitiveness imbalance, this country would be a great example. The re-structuring went across goods, services, sectors and government and industrial organisations. For example, the country taken measures worked in adjusting non-price factors in their products across all the mentioned fields. Thus, quality and taste were established as part of the uniqueness of the Austrian products and services to make the competitiveness balance and differentiation.

In the last two decades, Austria has been amongst the top countries in the world of the highest income per capita and always amongst the top 5 in the EU. Since the last decade also Austria is amongst the top four of EU in purchasing power parity (PPP).

Since Austria have a small domestic market, it started to use other comparative advantages includes the location. Being in the middle of Europe, Austria started to use this market to bring in its new innovative products and services. This opened Austria to the international market and made more than half of its products and services sold internationally. In the meanwhile, Austria continued to market itself as a unique tourist destination.

Austria also followed a different policy where half of the international products are to be sold in the competitive market of EU, which made its GDP stable with the Euro, i.e. not influenced by the Euro fluctuation. In a nutshell, Austria optimised its possibility of being integrated with the value chain of EU. The country is a good example and reference for many countries for non-price competitiveness. Today Austria not on produce high-quality products and services, but gone further for customer-tailored products.

## 2.9. Learning from Slow Competitive Countries

Many countries in Africa, specifically the Sub-Saharan countries, suffer from stagnating levels of competitiveness. Clearly, such underdeveloped and developing economies in the African content are not managing to create enough jobs for the youth of the country. Latest reports from World Bank say that if current policies remain unchanged in Africa, only one-quarter of the 450 million new jobs needed in the next two decades could be available. World Bank (2017).

Many countries with abundant natural resources, as African countries are failing to meet the changing demographics and the change of development and technology. Practically these countries do not have enough policy and pragmatic reforms to improve the quality of their institutions, infrastructure, skills and adoption of new technology. If these countries are to meet the demand of its high growing population, which the majority are youth, then urgent reforms to boost productivity and competitiveness is highly required now.

World Bank studies show that Africa competitiveness could be boosted through first taking care of its human capital, specifically youth. Then from reforming labour-intensive sectors as agriculture. However, in order for such approaches to be of the returned value, Africa needs to develop better value chain that would encourage economic diversification across the content. World Bank (2017).

## 3. Discussion and Concluding Remarks

This paper focused on the comprehensive review of boosting competitiveness through the work of Belka et al. (2016). The paper study how European value chain helps many EU countries build and boost their competitiveness in a more globalised economy, besides it helped to sustain their economic growth.

Integrating the work of Belka and his team with other work on competitiveness brought more realisation to the importance of non-price competitiveness, technical advancement that would help to boost competitiveness. The paper carries clear implication for practitioners and researchers that are working to boost their country competitiveness in a knowledge, creative and resilient economy.

The two extreme examples of Austria and Africa regarding both Re-Structuring Competitiveness Balance and learning from slow competitive are very illustrative for students who want to experience the meaning of competitiveness and the adjustment of its structural imbalance.

The paper is a good start for those interested in dissecting the complexity of national or regional competitiveness. This research also set a guide for many slow developing countries and unstable economies of how to bring the different dimensions of competitiveness and take the challenge to boost it to create sustainable growth and more resilient socio-economy.

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