

COMPETITIVENESS AND ITS DEVELOPMENT PROBLEMS: A THEORETICAL REVIEW

1. Introduction

Currently economists have use the term “competitiveness” in different meanings and aspects. On one hand, at the macro level, analysts consider the lack of power of competitiveness is due to problem of determining the real exchange rate. In this sense, competitiveness is measured by the price indices or relative costs. Also, it is assumed that the main structural elements are fixed, and are focused only on the short-term macroeconomic policies that affect the relative prices of goods and services compared to other countries. In contrast, many analysts use a broader concept of competitiveness that in this sense, the main focus is on the structural factors that affect the long-term economic performance, and much of their attention has been focused on issues such as productivity, skills and innovation. In addition to these two views, we can be referred to the third glance, in this perspective; the concept of competitiveness is analyzed based on both sets of short-term non-structural variables and long-term structural variables. The recent view is closer to the reality of the external sector, analysts believe that there's a relationship and interaction between economic factors -structural and non-structural variables both over the short-and long-run, so the debate about competitiveness is related to problems to be considered as a function of both structural and non-structural factors and to achieve greater competitive power that requires attention to all of the variables over time.

On the other hand, researchers have used the term “competitiveness” at the micro and macro level. At the micro level, firms compete with each other over resources to produce goods and allocate a portion of their goods to the market. In this view, competitiveness is calculated by the respective market share, innovation and growth. Firms are trying to improve their overall performance in the market by using competitive strategies. The situation is similar at the national level and countries that are competing in foreign markets can easily measure their level of competitiveness and plan to increase it. Although the concept of competitiveness is important in all meanings and aspects, but today the role of competitiveness is more important than other dimensions and meanings at the macro-level (national competition), with regard to issues such as intensive privatization, the high rate of technical and technological changes, increase in production and reproduction of knowledge, market penetration and the phenomenon of globalization. Therefore, economic policy makers in different countries are trying to provide framework to increase the efficiency of markets, improve the business environment, enhance the capabilities to increase competitiveness of produced products in their countries and help to maintain or increase their share on the international markets by changes in relative prices, structural and technological changes; promote the production and spread of knowledge; use creativity and innovation in productive activities, to diversify production and exports, modify and facilitate rules and regulations to increase production and facilitate trade. Therefore, understanding the factors influencing the competitiveness of national economies to achieve sustained and stable growth is an undeniable necessity.

History to investigate the factors affecting the competitiveness goes back to the periods of classical theories on trade and competition. According to Adam Smith's theory on absolute advantage, division of labor increases the economic scale and thus leads to increase in productivity. Hence, the countries with free trade can achieve greater benefits. Ricardo argued that the technological differences between industries and different countries increases labor productivity. Hence, the country's labor force has greater efficiency in the production of both goods,

if the country is specialized in the production of a product and regardless of other goods produced, it will have a more advantage. According to the neoclassical theory (trade is based on the Heckscher-Ohlin model and labor and capital as production factors), constant returns to scale and divisible production factors provide areas for perfect competition.

For this purpose, this article attempts to introduce the most important negative affecting the competitiveness, that economic policy makers can identify and remove those obstacles, move more quickly in a way of the development of competitiveness.

2. Competitiveness

From the 16th century onwards, the concept of competitiveness has changed. There are three views of the competitiveness in three different periods.¹

- In the 16-18 centuries competitiveness of countries was associated with the balance of trade. At that time mercantilism theory was popular.² In this period, gold, silver, and trade value were known as the main capital of a nation. The country was competitive if national gold storage was growing. According to this view there were barriers to foreign trade in order to encourage exports and discourage imports of good, in order to keep growing gold reserves. But as soon as, this was considered inefficient and nation needed a different perspective of national competitiveness that help to find the cause roots of prosperity.
- In the 18-20 centuries national competitiveness was introduced as lower production costs. At that time this opinion was dominated by classical economists. Classical economy was associated with the idea that free markets could regulate themselves. Nation, which could produce goods with lower costs and sell in the international market, got competitive advantage over other the nations. From classical economics perspective national competitiveness meant the ability to produce goods and services at lower price than the price of foreign goods is and the quality is at least at the same level.³ To evaluate the national competitiveness, it is important to measure business productivity and efficiency. However, explaining global economy by traditional theories is too complex.
- With the beginning of the 20th century, there was a disagreement on the low production costs theory. Keynesian economics determined national competitiveness by new factors and argue that governments' economic policy is the factor influencing national competitiveness⁴. Also, Vernon (1966) states that production life cycle and innovation are key factors in competitiveness⁵. J. Schumpeter (1942) also emphasizes the role of innovation and entrepreneurship competition. He argues that only the entrepreneurship and innovation are growth factors⁶. So, innovation has become the key factor of competitiveness. The modern view of economics, knowledge is the key factor of competitiveness⁷. Innovation is extremely important because it leads to knowledge and knowledge results in increase in competitiveness. Porter merged together all theories and introduced the Diamond model where four broad factors of competitiveness and their relations were included: factor conditions, demand conditions, relating and supporting industries, and company strategy, structure and rivalry which create the environment in companies which are born and learn how

¹ Staskeviciute I., Tamosiuniene, R., (2010), "The Competitiveness of a Country: Evolution of a Concept", Business theory and practice, 11 (2), p.160.

² Humphrey, Thomas M. (1999), "Mercantilists and Classical: Insights from Doctrinal History", Federal Reserve Bank of Richmond Economic Quarterly, p.62.

³ Nurmukhanova, G., (2008), "Competitiveness of National Economy: Problems of Regulation", E+M Ekonomie a Management, Technical University of Liberec, p.12.

⁴ Thurow, L., (1992) "Head to head, the coming economic battle among Japan, Europe, and America", New York: Time Warner, p.23.

⁵ Staskeviciute I., Tamosiuniene, R., (2010), "The Competitiveness of a Country: Evolution of a Concept", Business theory and practice, 11 (2), p.161.

⁶ Dabic, M.; Ortiz- Deurbina Criado, Marta; Romero Martnez Ana M., (2011) "Human resource management in entrepreneurial firms: a literature review", International Journal of Manpower, Emerald, 32,1, p.17.

⁷ Staskeviciute I., Tamosiuniene, R., (2010), "The Competitiveness of a Country: Evolution of a Concept", Business theory and practice, 11 (2), p.161.

to compete.¹ From this perspective, national competitiveness is defined as the nation's ability to create environment which helps enterprises innovate faster than foreign competitors do. Porter emphasizes productivity growth as the focus for national strategies. At the end of the 20th century competitive nation should ensure high quality of life and social welfare: high living standards, quality education, social security, freedom of choice, and etc.² High employment rate is also a feature of national competitiveness.

Competition includes a struggle between individuals, groups, nations or companies at the national or international level that may be the incentive for correction, improvement of quality of activities or an increase in sales of goods and services or achieve the desired objectives.

Competition force business firms produce new goods and services to offer to the market, access to new technologies, gain broader markets and provide the opportunity to consumers have more choice, have access to more favorable quality products and more suitable prices.

Obviously, in the situations when there is a monopoly or the level of competition is limited or negligible, consumer welfare may not be increased by improving the quality of goods and services at their reasonable prices. If competition is not a constructor and is not useful, it may cause the waste of resources, increase costs and reduce job opportunities.

Countries pursue different policies with regard to competition. Some of them limit space for competition for foreign firms through the support of the competition in the domestic arena and the units of production. The term "competitiveness" is one of the powerful expressions that are used by economists, politicians, and business people in different contexts. Competitiveness is defined at the level of nations, industries or individual companies. There are different definitions of competitiveness particularly at the national level, therefore it is necessary to express a clear concept of what is measured and is described³. Scott (1985) defines national competitiveness as "the ability of a country to create, manufacture, distribution and monitoring of goods in international trade along with the increased efficiency of its resources."⁴

Buckley (1988) argues that "the competitiveness is included effectiveness (achievement of targets with the minimum cost) and the ability (having correct goals) and selecting appropriate goals which are of particular importance in this context. That competitiveness includes both goals and the equipment to achieve the goals"⁵.

According to Hitt (1995), national competitiveness is production of goods and services that able to enter the world markets by a country while at the same time, increase the real incomes of its citizens, or at least prevent its loss.⁶

3. Issues on Increasing Competitiveness

Anti-competitive activity refers to methods or activities that are used by companies, manufacturers, or governments to reduce or prevent competition in the market. The most important anti-competitive activities include:

3-1-Dumping

Dumping in international trade is the sale of goods in a foreign market at prices that is less than the cost of production or manufacture of goods in the exporting country. So, dumping is a kind of predatory pricing, in the international trade context. According to the Anti-Dumping and

¹ Subarna, K. S., Rajib, N. S., (2010), "National Competitiveness and Perception of Corruption", *Advances in Competitiveness Research*, 18 (1/2), p.94.

² Aiginger, K., (1998) "A framework for evaluating the dynamic competitiveness of countries", *Structural Change and Economic Dynamics*, vol. 9, no. 2, p.163.

³ Blattner, N., Maurer, M., Weber, M., (1987), "Voraussetzungen der schweizerischen Wettbewerbsfähigkeit", Verlag Paul Haupt, Bern und Stuttgart, p.432.

⁴ Scott, B. R. and Lodge, G. C., (1985), "US Competitiveness in the World Economy", Boston: Harvard Business School Press, p.11.

⁵ Buckley, P.J., Pass, C.L. & Prescott, K., (1988) "Measures of International Competitiveness: A Critical Survey", *Journal of Marketing Management*, Vol. 4, No.2, p.192.

⁶ Hitt, W.D., (1995), "the Learning Organization: Some Reflections on Organizational Renewal", *Leadership & Organization Development Journal*, Vol. 16, no. 8, p.19.

Countervailing Measures Agreement of the World Trade Organization (WTO), dumping is an anti-competitive and an illegal action, and if proven, the importer of the goods is allowed resort to reprisals, and negates the effects of dumping through additional tariff. The dumping is divided into three types, which include:

- **Continued dumping:** Continued dumping can be the result of a domestic monopoly that desires to maximize its profits by sale of goods at a higher price in the domestic market that doesn't make trade restrictions or transportation costs are low and sells it at the lower prices in foreign markets which is influenced by powerful foreign competitors.
- **Destructive dumping:** It is the temporary sale of goods in a foreign market at the price lower than domestic price is or even by selling it at lower price than the cost of production is, to drive out competitors or destroy a country's domestic industry. After the disappearance of competitors in mentioned commodity market, the price rises for the profits of monopoly power.
- **Random dumping:** Random dumping is the random sale of a commodity in foreign market at the price lower than the domestic market price is to eliminate unanticipated surplus of goods because this surplus doesn't reduce the price in the domestic market. Dumping will stop when the oversupply is sold out.

3-2-Exclusive Dealing

According to this approach, retailer or wholesaler is obliged by contracts to purchase the desired goods exclusively from a producer or supplier. Creating a monopoly is the counterpoint of competition. Existence of monopoly in the market is one of the main obstacles for the development and competitiveness.

3-3-Barriers to Entry to an Industry

The purpose of adopting this approach is creating a barrier to new entry to the market, an industry and limit competition. This event shows the strengthening of monopoly. As the economic literature has shown, the free entry and exit to the industry is one of the most important characteristics of the competitive market and breach of this condition leads to loss of competitiveness.

3-4-Price Fixing

In this method, a number of companies those are active in a particular field are fixed their prices through collusion with each other, and eliminate competition between themselves. Agreement on price fixing may be done in various ways;

- Companies agree to buy their needs for raw materials, parts or equipment at a fixed price only from one supplier
- Companies agree to produce goods with certain standards or limit the amount of granted credit to purchasers
- Competitors agree that their prices increase at a certain date to the specified value.
- Competing firms reduce their production to a certain scale by colluding each other or refuse the supply of products to the market at certain time periods to raising prices.

3-5-Refusal to Deal

This is like the previous case; In this case, two or more companies agree together to purchase from a particular seller or manufacturer. That is an agreement between suppliers: any complicity in economy leads to the decrease in competitiveness.

3-6-Dividing Territories or Markets

Some large companies have chosen a monopolistic policy in international arena and divide markets among themselves. In these markets, any company that sells products at prices that they has set for themselves without facing the competition.

3-7-Tie-In-Sales (Tying)

In this way, seller is willing to sell the commodity that customers need it, provided that the customers purchase other commodities that they may not need. In most cases, the second product which isn't customer's requirement could be purchased at the cheaper price or of better quality in

other stores. It violates the most basic rights of consumers that are the freedom of choice of goods in a competitive market.

3-8-Resale Price Maintenance

In this way, manufacturer or first seller determines the selling price of the goods to the buyer, thus the second seller cannot determine the goods price. These people should supply the goods at the price approved by factories or companies which product has been purchased from them.

3-9-Coercive Monopoly

By adopting this method, all potential competitors are excluded from entering to the market. In this way, government grants the point of specific activity to a specific individual or company. In some cases, governments exclusively produce or provide goods and services, and the other persons or companies cannot carry out in this field.

3-10-Absorption of a Competitor

In some cases, a large and powerful company by buying shares of a competitor or technology that is available to competitor provides lead to remove, and etc. to establish for them a monopoly position.

3-11- Government Subsidies

Subsidies that government grants to some companies or production units provides these institutions some certain benefits than other competitors have and they continue their activities without improving their management manners, productivity and are profitable, and even eliminate competitors.

3-12- Restrictive Regulations

Regulations that some government agencies have imposed in some cases, leads to a prolongation of the process. Carrying out these provisions imposes heavy costs on companies. So that small companies or institutions that are weak in terms of financing and capital, become unable to bear these costs, and etc.

3-13- Protectionism

Supporting policies (Imposed heavy tariffs, quotas, requirement to obtaining the import or export certificate, prohibition, etc.) are anticompetitive activities, because in most cases, they support an inefficient production and the price or quality of their goods are not suitable so they continue their activities without facing foreign competitors.

3-14- Patent or Copyright Misuse

In this case, a company or a unit of production signing a contract may to gain the rating of a product from a foreign institution and supply under the license products to the other markets that are not in the range of the contract (non-compliance with copyright or criteria that are in this context). In addition to being is an immoral act; it also violates the principles of fair competition. It is unfair competition with companies that respect the copyrights.

3-15- Cartel

Cartel is a formal or implicit agreement that arise between a company and institution that are active in a specific field or produce the homogeneous or heterogeneous products, in a way that creates harmony between production and price.

In the international arena, usually industrial or monopolies cartels are created between producers or suppliers of products. Forming members of the cartel to protect their interests:

- Stabilize the prices
- Agree on the amount of the total production.
- Determine each member's share of production or market
- Form a common company together with investor for sale
- Set specific quotas for customers.

The main purpose of the cartel is collusion to reduce competition and achieve maximum profits. In competition legislations of many countries cartels are prohibited, and breaking their

strength is one of the most important policies in competing national councils and organizations, but it's not an easy fight against major cartels in a global economy and often many of their activities has informal nature, and is not reflected in the media or their annual reports.¹

3-18- Oligopoly

Oligopoly occurs when a small number of sellers or manufacturers have dominated on a market or an industry. Market actors (monopolists) are well aware of each other's performance and any decision to be taken by one of them affects the others' decision or action. Few companies which are dominant on the market consider the reactions of other market forces in its strategic planning. In oligopoly, dominant companies on market or industry mainly use the restrictive trade procedures and increase prices by restricting member's production quotas or failure to supply the goods on time. In oligopoly usually one of companies or production units which has a leading position, lead the other members and determines the amount of production quotas or ceiling price and most of members obey it.

4. Conclusion

Analysis of competitiveness indicators in countries and comparison of the annual ranking of competitiveness among countries reveals the capacity, potential and strengths of each country. Also, it shows the challenges and weaknesses in different parts of the country. In addition to strengthening the positive factors in the development of competitiveness, to achieve high levels of competitiveness, it preventing and negative factors must also be identified. In other words, equally positive factors that can increase their competitiveness, the controlling and elimination of barriers can increase national competitiveness indicator.

This paper shows that doing the followings are necessary in the development of national competitiveness:

- Prevention of monopoly on the supply or demand side and remove causes of monopolies.
- Encourage and help to create the competitive markets
- Remove the government subsidies and access to the real price
- Increase the efficiency and effectiveness of government, improving regulation and removing waste regulations.

¹ Levenstein, Margaret C. and Valerie Y. Suslow (2005), "The Changing International Status of Export Cartel Exemptions", American University International Law Review 20, p. 803.

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*ԵՊՀ տնտեսագիտության & կառավարման ֆակուլտետի,
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Համառոտագիր

Վերջին տարիներին մրցունակության հիմնախնդիրը այն թեմաներից է համարվում, որին բավականին շատ են անդրադառնում տնտեսագիտության բնագավառի գիտնականները: Այսօր աշխարհում գլոբալիզացիայի տարածմանը գուզընթաց երկրները հնարավորինս ջանքերն են գործադրում և օգտագործում են առկա բոլոր միջոցները օտարերկրա շուկաներում իրենց դիրքն ամրապնդելու համար՝ իրենց մրցունակությունը բարձրացնելու ճանապարհով: Մրցունակության մակարդակի ավելի արագ բարձրացման համար խոչընդոտների բացահայտումը և դրանց վերացումը նույնքան կարևոր է, որքան այն գործոնների բացահայտումը, որոնք դրական ազդեցություն են թողնում մրցունակության վրա: Հաշվի առնելով այս խնդրի կարևորությունը, հոդվածագիր փորձել է ներկայացնել այն գլխավոր խոչընդոտները, որոնք հնարավորություն չեն տալիս մրցունակության ավելի բարձր մակարդակի ավելի արագ հասնել և որոնք էլ պետք է վերացվեն տնտեսական քաղաքականություն մշակողների և իրականացնողների կողմից:

Բանալի բառեր մրցունակություն, մրցունակության խոչընդոտները, մրցունակության պատմություն, մրցակցություն, գնագցում, մենաշնորհ, օլիգոպոլիս, կարտել:

ПРОБЛЕМЫ КОНКУРЕНТНОСТИ И ЕЕ ПОВЫШЕНИЯ: ТЕОРЕТИЧЕСКИЙ ОЧЕРК

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Аннотация

Проблема конкурентоспособности в последние годы относится к той тематике, к которой довольно часто обращаются ученые – экономисты. Сегодня в мире, в связи с углублением глобализации, страны прилагают возможные усилия и используют все имеющиеся средства для укрепления своих позиций на международных рынках через повышение своей конкурентоспособности. Выявление препятствий для более заметного роста уровня конкурентоспособности и их устранение так же важно, как и выявление тех факторов, которые оказывают положительное воздействие на конкурентоспособность. Учитывая важность этого вопроса, в статье сделана попытка представить те главные препятствия, которые тормозят возможности быстрого достижения более высокого уровня конкурентоспособности и которые должны быть устранены со стороны разработчиков и проводников экономической политики.

Ключевые слова: конкурентность, конкурентные препятствия, история конкурентности, конкуренция, обесценивание, монополия, олигополия, картель.

COMPETITIVENESS AND ITS DEVELOPMENT PROBLEMS: A THEORETICAL REVIEW

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Abstract

In recent years, issue of competitiveness is one of those topics that are highly regarded by economic researchers. Today with the spread of globalization, countries employ all their efforts and use all their capacities to obtain more contributions to international markets by improving their capabilities of competitiveness. In order to achieve a faster development of competitiveness, Identifying and removing barriers is as important as identify the positive affecting factors on competitiveness. Given the importance of this issue, this article has attempted to introduce the most important obstacles on development of competitiveness, to assist economic policy makers to identify and remove those obstacles, move more quickly in a way of development and competitiveness.

Keywords: Competitiveness, competitiveness obstacles, the history of competitiveness, competition, dumping, monopoly, oligopoly, cartel.