THE RELATIONSHIP BETWEEN INTERNATIONAL TRADE AND NATIONAL COMPETITIVENESS

Dr. BERNA TANER
Associate Professor at Dokuz Eylül University
Dokuz Eylül University
Faculty of Economics and Business Administration
İzmir-Turkey

Dr. SEMRA ÖNCÜ
Proffesor at Celal Bayar University
Celal Bayar University
Faculty of Economics and Business Administration
Manisa-Turkey

EMİN ÇİVİ
Ph. D Student at Celal Bayar University
Celal Bayar University
Faculty of Economics and Business Administration
Manisa-Turkey
e-mail: *emincivi@hotmail.com*

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Abstract

National governments' principal goal is to establish an environment that fosters a high standard of living for its citizens by addressing health, safety, laws, and environmental issues. This goal can be achieved, in part, through effective management and allocation of resources. Therefore, it becomes imperative that governments coordinate a comprehensive approach towards trade and investment that incorporates a competition orientation (Feketekuty, 1996). International competitiveness in the macro sense owes its origin to the theory of comparative advantage and subsequent theories.

Early empirical studies in the area of comparative advantage and price competitiveness primarily dealt with two commodities, two countries, and two factors in explaining trade. Some studies went beyond the two-factor analysis to incorporate labor productivity, capital output ratio, differences in human capital (Baldwin, 1971), real wages of labor (Hufbauer, 1970), and R&D expenditure (Branson and Junz, 1971) to explain trade flows.

This paper's basic premise is that the performance of countries' trade performance to the world's trade activity, can provide an indication of the (nation's) international competitiveness. And result of researches in this area and different competitiveness rankings will be inspected and will show the relationship between international trade and national competitiveness.

Introduction

Economic liberalization, rapid technological change and aggressive competition continue to alter the environment in which industries operate. The relentless global pressure has produced some interesting changes in the development and structure of nations' respective industrial sectors. The gradual globalization process has emphasized the traditional notion that domestic policies, which once were oriented toward increasing local industrial and economic advantages, have become less effective (UNCTAD 1999). Indeed, governments and industries consistently may view these types of domestic policies as isolationist and limited approaches to economic efficiency. Some of the evidence of these changes includes some countries' implementation of economic policies that are designed to attract global industrial investment, the prominent role of cross-border mergers and alliances, and the cooperation among national and sub-national governments. These features of the globalization process point to the need to examine the growing importance of a nation's competitiveness by investigating the combination of industry-specific competitive advantages as well as a nation's comparative advantages (which is reflected in its ability to create an environment conducive for trade and development).

Within the globalization context, the developing or emerging nations seem to be the ones that should take advantage or capture as much as possible of the potential gains in expanding trade and investments. Because globalization is taking place in a competitive environment, losses and gains are evident. This background raises interesting questions about the competitiveness of emerging nations and their ability to compete in the global economy. On one hand, the emerging economies have begun to challenge the developed economies in many different markets. On the other hand, the Asian economies enjoyed unprecedented growth prior to the financial crisis in mid-1997, output in Latin America is growing, yet there has been little evidence of improvement in the basic infrastructure (e.g., employment, financial structure, technical skills) that would support long-term improvements and many parts of Africa still remain unattractive to foreign investments (Hansenne 1999).

Consequently, studying the nature of a nation's competitiveness leads to the investigation of how the combination of comparative and industry-specific advantages contributes to that competitiveness. This paper's objective is to examine competitiveness in the context nations by investigating trade and its contribution to these nations' competitiveness.

I. Globalization and International Trade

Globalization generally refers to a process of broadening and deepening of inter-relationships in international trade, foreign investment and portfolio flows. The outcome is the creation of a global marketplace for goods and services that is largely indifferent to national borders and governmental influence. Globalization since the 1960s have altered the production, export and employment structure of the world economy but many barriers to full integration still remained. Although analysts seem to differ on the policy implications of globalization, most would concur that the post-1980s episode is likely to herald more rapid international economic integration than previous episodes. Rapid technological change (particularly the revolution in computing and communications technologies) coupled with falls in barriers to international trade (through the implementation of the Uruguay Round Agreements and economic liberalization in developing countries), have driven it. Also, other The World Trade Organization (WTO) agreements and regional treaties forced domestic markets to open up (telecommunications, transport).

The contemporary era of global economies has five central characteristics (Prokopenko, 2000):

- intensified global competition and the emergence of new centers of production;
- an exceptionally innovative technological environment;
- the proliferation, spread, and restructuring of transnational corporations (TNCs);
- a diversified global financial system; and
- important changes in the state's role in domestic and global economic affairs.
- Export-oriented industrialization has become more and more diversified and sophisticated.

Among the most important channels of global integration are international trade and capital flows. The movement of goods and services across borders has grown tremendously in recent years accounting for over 45 per cent of world GDP in 1990 - up from 25 per cent in 1970. There was also a rapid shift to higher value-added activities: the export share of manufactures in developing countries tripled between 1970 and 1990 from 20 to 60 per cent (World Bank, 1995, 75).

World trade expanded nearly thirty-fold in three decades since 1960. Manufactured goods as a percentage of total world exports increased from 55 per cent in 1980 to 75 per cent in 1990. The share of the newly industrialized countries (NICs) manufactured exports that can be classified as "high tech" soared from 2 per cent in 1964 to 25 per cent in 1985. Export accounted for 22 per cent of GDP in East and Southeast Asia, 11 per cent for South Asia and 10 per cent for Latin America (The Economist, 1995).

Strong cross-border capital flows have been a major phenomenon in the new global economy as more and more countries embrace free markets and undertake trade and investment liberalization. Foreign direct investment (FDI) has strengthened the integration of individual national markets and has been a driving force in world trade and economic growth.

Today the most modern and dynamic industries are transnational in scope since they are the result of an integrated system of global trade and production. Therefore, the development options for many developing countries depend, to a significant degree, on the kind of export roles they assume in the global economy and their ability to proceed to more sophisticated, high-value industrial niches.

II. Competitiveness

The current wave of globalization of the economy has generated widespread interest among countries and within countries in the development and upgrading of national competitiveness. Globalization and national competitiveness are popular issues in economic policy debates. Economic theory suggests that globalization will lead to greater convergence in economic performance (including competitiveness performance) between open economies. However, empirical studies highlight growing gaps in medium-term performance between different developing economies in the 1980s and 1990s.

Competitiveness is one of the most misunderstood concepts of the 1990s. It has drawn substantial attention from the government and business communities during the last 25 years. Waheeduzzaman and Ryans (1996) noted that between 1983 and 1987, the term competitiveness appeared more than 5700 times in the titles of newspapers and magazine articles.

The concept of international competitiveness of nations makes sense only within a national economic context. Nations adopt economic and trade policies that directly affect the ability of enterprises and industries engage in international trade and investment. In his book, The Competitive Advantage of Nations, Porter (1990) observes that national competitiveness is measured by two sets of indicators: "(1) the presence of substantial and sustained exports to a wide array of other nations, and/or (2) significant outbound foreign investment based on skills and assets created in the home country" (p. 19). He notes that the competitive advantage of nations is determined by the strength of their factor endowments; their demand conditions; the competitiveness of firm strategies, structures, and rivalries in major industries; and the strength and diversity of related and supporting industries.

In order to understand what is the competitiveness in a national perspective, It is best way to look at definition given by the President's Commission on Industrial Competitiveness (1985):

Competitiveness is the degree to which a nation can, under free and fair market conditions, produce goods and services that meet the test of international markets while simultaneously maintaining or expanding the real incomes of its citizens.

This is the most quoted definition in this area, and defines competitiveness from a macro perspective. Many writers (Starr and Ullmann, 1988; Tyson, 1988; Krugman, 1994) have also referred to this definition of competitiveness of nations. The definition points out that the ultimate goal of competitiveness is to maintain and increase the real income of its citizens, usually reflected in the standard of living of the country. From this perspective, the competitiveness of a nation is not an end but a means to an end; its ultimate goal is to increase the standard of living of a nation under free and fair market conditions (through foreign trade, production, and investment). It "refers to a country's ability to create, produce, distribute, and/or service products in international trade while earning rising returns on its resources" (Scott and Lodge, 1985, p. 3).

Arguably, national governments' principal goal is to establish an environment that fosters a high standard of living for its citizens by addressing health, safety, laws, and environmental issues. This goal can be achieved, in part, through effective management and allocation of resources. Therefore, it becomes imperative that governments coordinate a comprehensive approach towards trade and investment that incorporates a competition orientation (Feketekuty, 1996). Indeed, many nations are very cognizant of the fact that internal growth depends upon their ability to sustain trade and attract foreign investment. For example, in 1995 developing countries attracted $90 billion in foreign direct investment or 39% of total capital inflows compared with approximately 25% in 1990 (World Bank study 1996). One very interesting point to consider is that almost 80% of 1995 foreign investment went to just 12 countries—mostly emerging economies. China attracted fully 45% of that $90 billion in 1995 (World Bank 1996). The East Asian Newly Industrialized Countries (NICs), or the "Tiger economies" have been able to raise their per capita incomes at least six times since 1965 (Ezeala-Harrison, 1999). Yet, these same nations also were vulnerable to the economic crisis resulting from their relatively weak capital market structures. In spite of their fantastic success, are these emerging economies truly able to compete with the developed nations? Are they competitive with other emerging economies? What are the factors that contribute to their ability to compete.

In the literature, there are a lot of competitiveness indexes, done by different private and international organizations. There exist numerous indicators, which could be transformed into competitiveness indexes. The advantage of indexes is that they are summary measures, capturing more than one aspect of economic and/or social prosperity. One of them is held by World Economic Forum and called The World Competitiveness Report. The primary

objective of the WCR is to evaluate "how national environments are conducive and detrimental to the domestic and global competitiveness of enterprises operating in these countries" (WEF&IMD, 1990, p. 8). The WCR produces eight factors-of competitiveness indexes plus an overall competitiveness measure.

1. **Domestic economy:** The more competition there is in the domestic economy, the more productive and competitive the domestic firms are likely to be abroad and the higher value-added productivity and country prosperity.
2. **Internationalization:** Openness for international economic activities increases a country's economic performance. Export-led competitiveness is often associated with growth-orientation in the domestic economy. Higher integration with the international economy results in more productive resource allocation and higher living standards.
3. **Government:** Direct state interventions in business activities are minimized. Government policies concentrate on creating a competitive environment for enterprises and on providing macro-economic and social conditions that are predictable and thus minimizing the external risks for economic activities. It is flexible in adapting its economic policies to a changing international environment.
4. **Finance:** A well-developed, internationally integrated financial sector in a country supports its international competitiveness. The efficiency of the financial sector is best measured by the narrowness of the "spread" between the rate of interest that borrowers pay, and the rate those depositors receive.
5. **Infrastructure:** A well-developed infrastructure supports economic activity. It includes the availability of natural resources and functional business systems, information technology, transport, communication and education, and an efficient protection of the environment.
6. **Management:** A competitive product and service reflects managerial ability, its long-term orientation, ability to adapt to changes in the competitive environment, a level of entrepreneurship and skill for integration and differentiation of business activities.
7. **Science and technology:** Competitive advantage can be built on efficient and innovative application of existing technologies. Investment in research and innovative activities creating new knowledge is crucial for a country in a more mature stage of economic development.
8. **Quality of people:** A skilled labor force with a positive attitude increases a country's productivity and competitiveness. Education, the technical ability of labor, the quality of management and efficiency all contribute to competitiveness. All this means that to pursue a competitive strategy many coordinated changes in human resource development are simultaneously needed rather than a few high profile initiatives in one or two areas.

It should be emphasized here that openness to global markets and the internationalization of economies play an increasing role in productivity and competitiveness enhancement.

III. International Competitiveness: Comparative and Competitive Dimensions

International competitiveness in the macro sense owes its origin to the theory of comparative advantage and following theories. The theory of comparative advantage was an antithesis to the perspective of the mercantilists who believed in exports and recommended strict government control of all economic activity with economic nationalistic ideas.

In contrast, the basic contention of Ricardo's theory of comparative advantage and Heckscher-Ohlin's factor abundance theory is that countries will produce and export those goods and services in which they have a comparative advantage in price or factor cost. The comparative advantage in relative prices and factor inputs was the raison d'être for trade. Early empirical studies in the area of comparative advantage and price competitiveness primarily dealt with two commodities, two countries, and two factors in explaining trade. Some studies went beyond the two-factor analysis to incorporate labor productivity, capital output ratio, differences in human capital (Baldwin 1971), real wages of labor (Hufbauer 1970), and R & D expenditure (Branson and Junz 1971) to explain trade flows.

Studies that view competitiveness as an extension of the theory of comparative advantage (e.g., Bank of England 1982, Durand and Giorno 1987, Anderton and Dunnett 1987, Fagerberg 1988) maintain that the competitiveness of a nation depends on its advantage in the price of goods and services in the international marketplace. Although the role of price in determining competitiveness has been well documented by economists, problems have arisen in measuring price competitiveness.

Bank of England (1982) suggested that competitiveness, especially within the manufacturing sector, should be measured in terms of relative export prices, relative export productivity, and relative unit labor cost. Among the three measures mentioned, the relative unit labor cost was found to be the most popular (Fagerberg 1988, Anderton and Dunnett 1987). It was simple, widely available and internationally comparable. Using a slightly different approach, the Economics and Statistics Department of Organization for Economic Cooperation and Development (OECD) measured the overall competitiveness of a nation as a summation of its export and import competitiveness, where import competitiveness was estimated by the ratio of actual market price to producer's market price. Export competitiveness was calculated by taking both the home-country market price and the import price in the concerned market (i.e., the supply price of other competitors Durand and Giorno 1987). Some of these studies incorporated the fluctuations in the foreign exchange market to measure price competitiveness.

Kogut (1993) posits that overall institutional support affects country capabilities and technology diffusion. He points out that the evolution of institutional environments is path-dependent and that technology and knowledge diffusion tends to remain within national borders. In a previous study, Kogut (1991) also argued that country competitiveness might explain differences in country capabilities in terms of technology and organization principles. He claims that technology and organization principles diffuse more slowly across rather than within national and regional borders. Kogut's belief is that the study of international competition is, in large part, the study of comparative management and societal institutions among countries. While viewing the minor role of government as a contributor to country competitiveness, Kogut recognizes that trade patterns among countries reflect the sectors favored by a country's organization and technological capabilities. From Kogut's perspective, these patterns promote further expansion and investment in these capabilities.

To answer the question of why a nation achieves international success in a particular industry, Porter (1990) proposes the diamond model of country competitiveness. His model, popularly known as the "dynamic diamond", consists of four major factors, which he suggests promotes or impedes the competitive advantage of the firms operating in a nation (Porter 1990, 71). The model includes factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry. According to Porter, "the diamond is a mutually reinforcing systém". The effect of one determinant is contingent on the state of others (Porter 1990, 72). He indicates that the interplay of advantage among the determinants that yields self-reinforcing benefits (that are difficult for foreign rivals to nullify or replicate) ultimately determines the competitiveness of nations (Porter 1990, 73). Additionally, two

factors outside the "diamond" chance (including major breakthroughs, innovations, wars, and political developments) and government policy, also affect the competitiveness of nations. Governmental intervention may bring forth what many (e.g., Scott and Lodge 1985) suggest as the "dynamic comparative advantage" of nations.

Dunning (1990) points out that Porter's model does not consider the relationship between multinational enterprises (MNEs) and the nation's diamond. As Dunning (1993) notes, the diamond underestimates "the increasing interaction between the cross-border value added activities by multinational enterprises, which directly, or indirectly, impinge upon each of the components of the diamond of national competitive advantage". Therefore, Dunning suggests the introduction of multinational business activity into Porter's diamond. Researchers refer to this as the Porter-Dunning model. Following Dunning (1993), Rugman and D'Cruz's (1993) "double diamond", Cartwright's (1993) "multiple linked diamonds" also revises Porter's diamond while recognizing the critical role of foreign direct investment and multinational business activity's affect on a country's international competitiveness.

Finally, Ezeala-Harrison (1999) condenses these views into micro and macro-level approaches; the productivity-based index (micro level) and the trade performance-real income (macro-level). These classifications describe various parameters that determine the state of a country's international competitiveness at the micro level, parameters at the firm or industry, and macro; parameters that determine competitiveness at the national level.

Briefly, a country is competitive if its industries can produce at an average level that is at least equal to or above that of its foreign competitors. This describes the productivity measure because it indicates that the country is able to use its resources and produce efficiently. Just as important, the country should be assessed at the macro level for overall competitiveness. This level addresses the existence of an adequate infrastructure that can support industries. It includes the political and ideological policies that the country adopts in order to compete globally.

In summary, scholars have viewed international competitiveness from two different perspectives: the micro (firm) perspective and the macro (nation) perspective. The micro perspective of competitiveness refers to competition among the firms and how this competition within a nation ultimately affects international markets. Contrarily, the macro perspective concerns competition among nations (Scott and Lodge 1985, Porter 1990). Competitiveness from a national perspective can be understood from the following definition of the President's Commission on Industrial Competitiveness (1985). This view implies that the competitiveness of a nation is not an end but a means to an end; its ultimate goal is to increase the standard of living of a nation under free and fair market conditions through trade, production, and investment. However, this definition also suggests that nations compete with each other over scarce resources in order to provide for its citizens. Similar to industry or firm competition, national competition becomes survival of the fittest. Adhering to the view of nations that compete as industries or firms is misleading due to the many factors that influence the "competitiveness" of nations (Krugman, 1994). Industries' basic goals are distinct from national goals in that industries must have *economic* performance in order to survive. How, then, does one determine a country's international success in a particular industry? What are the key factors that contribute to or determine country competitiveness? The possible causes discussed in previous studies include factors at the macro and micro levels: macro-environment, government policies, industry structure, and firm activities. While Porter (1990) and Kogut (1991, 1993) study the factors that are appear to be bounded by national borders, Dunning (1990, 1993), Rugman and D'Cruz (1993), and Cartwright (1993) argue that multinational business activities need to be included in the analysis of country competitiveness.

Taking this perspective, Ezeala-Harrison (1999, 57) develops a definition of competitiveness, which incorporates the micro and macro notions "the relative ability of a country's firms to produce and market products of standard or superior quality at lower prices". In general, organizations have recognized different criteria or standards by which competitiveness has been measured. Four different competitive paradigms have been identified. Each paradigm has four elements: (1) the agenda to be accomplished, (2) how the agenda provides a competitive edge, (3) what key characteristic is used as the standard of competitiveness, and (4) the necessary ingredient used to achieve competitiveness (Pace and Stephan, 1996).

These conceptual definitions and arguments of international competitiveness incorporate many complicated facets of the trade phenomenon, yet they all acknowledge that international trade is more than the mere transfer of products across borders. While following many of the definitions outlined earlier, we contribute to previous conceptualizations of international competitiveness by providing implications to the fundamental proposition: a component of international competitiveness can be assessed by measuring industrial output (industrial growth) and comparing it to the world's industrial output (or industrial growth). For example, if a nation's industry is performing better than world averages, then that industry has discovered a way to effectively utilize its resources. Arguably, an industry that performs better than the world implies that its use of national resources is efficient, which ultimately leads to a higher degree of international competitiveness.

IV. Impact of total competitiveness in total trade.

Technological changes and the continuous fall in communication and transport costs have been a major factor behind global integration, and most countries are reversing import-substitution policies designed to prevent the need for trade. Governments are increasingly seeking to improve the international competitiveness of their economy rather than shield it behind protective walls. Developing countries have made tremendous progress in education and steady improvements in physical capital and infrastructure, thus boosting their productive capacity and enabling them to compete in world markets. This shift in development strategy has been reinforced by communication technologies, which have made the world easier to navigate. Goods, capital, people and ideas travel faster and cheaper today then ever before.

International trade has come to occupy the center stage in the economic activity, growth, and development processes of most modern societies. Today's world economic order (disorder) has simply rendered almost every modern economy to be heavily dependent on its foreign trade sector. And in no aspect is this trend more remarkable than the aspect of international competitiveness and the immense importance it now holds for the prospects of survival or failure of nations in their ability to obtain the maximum economic potentials from international trade. It can be stated that where international trade may be an engine that drives economic growth of nations, international competitiveness represents the fuel that empowers that engine (Ezeala-Harrison, 1999, 3).

International competitiveness may be regarded as the "fuel" for the engine of growth because it is the instrument that empowers the engine. It is the competitiveness of exports and import-competing products that cause them to command greater market shares sustain the levels of revenue, incomes, and employment created in the various sectors of the economy. The needed level of competitiveness must be maintained in order to ensure that the market shares and their accompanying economic spinnoffs (revenues, incomes, and employment) are retained. In this way, competitiveness acts as an empowering fueling mechanism required keeping operational the growth engine that is international trade.

Nations do not compete as enterprises do. Rather, nations compete in creating the conditions that attract and encourage investors - foreign and domestic alike - to invest in productive and competitive enterprises within their borders (or even for local enterprise to invest in other countries, if such investments will contribute to enhancing international presence and market proximity and responsiveness). Nations compete in creating the policy, structural and institutional framework that encourages and enables enterprises to constantly upgrade themselves and keep on improving productivity and competitiveness. A nation competes through putting in place programs and incentive systems that help and enable its enterprises to develop competitive advantages and pursue competitive strategies for successful participation in international and domestic markets.

The importance of international trade in economic growth and development has been recognized as early as the mercantilist area of economic thought. This doctrine emphasizes the importance of international trade, and pioneered the accounting notion of the balance of payments between a nation and the rest of the world. This mercantilist trade theory was based on the idea that a county might have absolute advantage over the other product. So, this country would export its more competitive products and take advantages of markets of its trading partners.

The theory of comparative advantage and its variants has served as the dominant explanation of trade patterns. Most economists would probably agree with the following view that "competition in the market for tradable takes place by and large between individual agents and corporate bodies. The terms on which they compete are fashioned by the drivers of comparative advantage - factor endowments, factor productivity, technology – and industrial competitiveness. These terms can also of course be influenced by government policy – tariffs, subsidies, quotas and so on can impact on the competitiveness of individual firms and sectors." (Greenaway, 1997, p. 1484). With notable exceptions, international trade theory has emphasized free trade and non-intervention as the optimal policies for economies.

Traditional trade theory in a Heckscher-Ohlin setting predicts that countries will tend to specialize in the export of goods whose production is intensive in factors with which they are abundantly endowed. According to the new trade theories which explain trade in terms of technology, technology diffusion/adjustment lags and continuous innovation processes, less developed countries will specialize in the export of old, mature goods where production processes become routine and less skilled labor has to play a greater role. As the export structure of countries changes from resource intensive and labor intensive industries to human capital intensive, technology intensive industries we would interpret this as an improvement in the structure and quality composition of exports. If countries compete successfully in high-tech industries and focus on markets in which quality and know-how are more important than low-price strategies we speak about technological competitiveness, one aspect of qualitative competitiveness[1].

On the other hand, the theories of comparative advantage are not able to explain intra-industry trade (IIT) that is an exchange of differentiated goods that fall into the same product category. The bulk of IIT takes place among industrial countries sharing similar factor endowments and production technologies. Basically, economies of scale (specialization advantages) and preference diversity creating the potential for product differentiation is taken to be necessary and sufficient conditions for the generation of intra-industry trade.

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[1] If enterprises compete successfully by quality or in high tech industries we speak about technological competitiveness. Since the competitive edge is defined by many other factors than technology, some authors speak about "the non price components of competitiveness". We want to combine all non-price issues under the term "qualitative competitiveness".

There has been academic interest in competitiveness issues, particularly among economists and economic historians interested in technical change and its effects on growth and exports. Technological change is widely observed to be the dominant force behind rapid industrial growth, exports and rising living standards. Economists typically view a country's competitiveness in terms of changes in real effective exchange rates or real wages relative to competitors. Thus, a depreciation in a country real effective exchange rate or a fall in real wages are both regarded as an improvement in national competitiveness.

The difficulty with these approaches is that they generally assume away industrial learning costs associated with the absorption of imported technology by taking technology as being freely available to all countries and to all firms within them. However, empirical studies indicate that technological and productivity factors are often the most important determinants of competitiveness. (See Boltho 1996, Fagerberg 1996 and Lall 1997).

Competitiveness and a change in competitiveness, is associated with trade performance (Cas, 1988), for if a country loses export share (in a particular item or sector) or gets increased import penetration (in a particular commodity or sector), it is said to have become less competitive (Rugman and D'Cruz, 1989).

The connection between trade performance and competitiveness should not be made, especially as the two are also equated at the level of an entire country. As Markusen (1987) showed, this misconception resulted in large current account deficits in the U.S. during the 1980's being interpreted as a loss of U.S. competitiveness, which it was not. In fact, a notion of competitiveness based on the trade performance definition may generate results that are virtually opposite to the results produced by the productivity definition (Ezeala-Harrison, 1995).

On a theoretical plain, Markusen (1987) suggests three reasons why a definition of industry competitiveness centered on trade performance will conflict with one centered on productivity. The first is technologically related: technological progress which transfers factors of production out of a sector X into another sector Y, will result in shrinking trade performance in sector X (increasing imports or decreasing exports) even though there has been no decreased productivity in the X industry. The second reason is externally related: a decrease in the world price of some commodity X (due to, say, more supply from new countries entering the world market, or deteriorating world market demand) will lower trade performance in X, even though productivity does not deteriorate relative to other producers. The third reason is political: domestic import barriers or export subsidies may improve trade performance in a sector, but generally they do not increase productivity.

There is little doubt that international trade is vital to a nation's wealth. Trade increases access to global resources and extends market reach. Certainly, one of international trade's fundamental principles is that cross-border trade enables global trade efficiency. The argument that is generally presented is that individual countries are able to maximize their potential for growth because they are able to trade particular export commodities in which they have a comparative advantage. At the same time, the country will import those commodities in which they do not have comparative advantages. This situation creates an ideal balance of freer world trade that ultimately contributes to global efficiencies through specialization. Under these considerations, it becomes apparent that countries may not have a choice but to adopt and implement policies that are designed to employ national resources efficiently. Otherwise, countries may end up squandering their resources on unproductive commodities.

Fagerberg (1988) gave one of the most elaborate models explaining a country's competitiveness. In an econometric model he conceptualized that the international competitiveness of a nation depends on a country's ability to compete in price, technology,

and delivery (capacity). To show good indicators of competitiveness, Karunaratne (1988) regressed terms of trade, real interest rate, growth retardation effect, real exchange rate, government expenditure, and the size of external reserve with current account balance in an Australian model. Among these, only terms of trade and government expenditure were found to be significant.

Conclusion

The position in world trade, based upon the trade sector, is a large and increasingly important portion of the economies of all nations. Of particular importance to emerging nations, the trade sector can provide a certain degree of leverage for economic growth since international trade can release domestic industries from being restricted to only small local markets. Indeed, international competition has had an increasing impact on the national economy of most nations. Consequently, international competitiveness has become an important socio-political issue in virtually every nation.

The notion of the competitiveness of nations is a controversial and complex issue. There are some authors who deny the importance of this concept especially in a world of flexible currency regimes, others decry the importance of the concept in analysis and policy. Even if it is considered as important, the concept of competitiveness lacks an universally accepted definition as well as a broad consensus on the appropriate empirical measures. International competitiveness generally refers to the ability of a country to expand its shares in domestic and world markets. Some definitions focus predominantly on external balances, implicitly assuming that exports and imports will not be balanced even in the long run by flexible currencies.

No single indicator can adequately measure country competitive standing in world markets. However, Ezeala-Harrison (1999) describes different factors on the micro and macro-levels that contribute to trade as the "economic engine of growth": 1) availability of market, 2) capital acquisition, 3) technical acquisition and benefits, 4) skilled labor and high-tech specialists. On the macro level, such factors include: openness, government, financial, infrastructure, technology, labor and institutions, all of which reflect a national policy to promote a desirable investment (WEF, 1996). These measures come closest to reflecting a nation's ability to meet the challenges of international markets while increasing the real income of its citizens.

All definitions and their elaboration suggest that the increase (or maintenance) of real income or standard of living is the ultimate goal of competitiveness. And, international trade performance has traditionally been used as the key measure for international competitiveness. However, such a measure has some limitations. A relatively less economically developed nation may also have a high positive trade balance (e.g. OPEC countries in the 1970s), while on the other hand, countries with negative trade balances may show high economic growth (e.g., United States in the 1980s). In addition, the trade balance, various other measures and indicators were suggested to define the international competitiveness of nations in different disciplines.

Although international trade performance does not necessarily mean the assessment of trade balance, trade balance has traditionally been used as a key measure for international competitiveness. In addition, economists have suggested that trade balance, along with various other measures and indicators, be used to define the international competitiveness of nations in different disciplines.

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