Concept, Measurement, and Ideology of "National Competitiveness"

Tamás Szentes

The concept of "national competitiveness" is mostly confused with that of development of countries, often reduced to their economic growth only, and with that of competitiveness of enterprises of the latter, too. Its measurement by some composite indexes, particularly by the single "Global Competitiveness Index" in the annual reports of the World Economic Forum is not only biased by the neo-liberal perception of "national competitiveness" but due to several over-simplifications also makes the list ranking the countries accordingly very doubtful. The involved ideology serves for justifying anti-social economic policies and inducing or compelling the governments to implement restrictive measures. The market-oriented approach embraces the assumption of a zero-sum-game, i.e. to win at the expense of other countries, which suggests a "bellum omnia contra omnes" instead of international cooperation.

Keywords: competitiveness, development, world economic position, interdependencies, socio-economic integration, composite indexes, restrictive economic policy

1. Ambiguity and various interpretations of "national competitiveness"

While the competitiveness of *products and services* has a quite unambiguous meaning, and that of *enterprises, firms* (despite its complexity) is also well-defined enough, the term "national competitiveness" is very ambiguous.

As regards *products and services* set up for sale, their competitiveness – as well-known - is basically determined by (a) their *quality* and (b) their *price*. There are, of course, some other criteria of competitiveness, such as (c) *information* on them, (d) *availability*, i.e. access to their supply, and (e) *commercial advertisement and marketing activity.*

The *competitiveness of firms* can be defined, in general, as their ability to produce competitive products and/or services in such a way as thereby ensuring for themselves a "normal" (i.e. not less than the average) level of an aggregate rate[1] of net profit, and also a preserved or growing share in the given market.

The ambiguity of the term *"national competitiveness"* is manifested in the following:

(a) Despite the attribute "national" it actually refers to countries rather than nations, which are not always the same.

(b) While nations or countries may compete *in various ways and many fields*, this concept is about *economic competition only*. (Even if, and insofar as, it involves non-economic factors, too, the latter are considered merely from economic points of view.)

(c) Due to a strongly *market-oriented perception* of competitiveness, and to the focus on those circumstances within the countries' economy that matter for their enterprises' successful operation and competitiveness in the market, this concept involves *confusion between competitiveness of countries and that of their enterprises*. Although it is about the performance of countries, the literature focuses on those of the *enterprises in markets* and the conditions for the latter.

(d) In the related international literature the concept of "national competitiveness" is mostly *mixed up with that of development* of countries, while development is still *often confused with economic growth*.

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[1] Since nowadays the most typical form of enterprises is the joint stock company which may have, and in the case of multinational firms certainly do have, several affiliates, subsidiary firms with their various rate of profit, what matters for the company as a whole is, indeed, their summarised, i.e. the aggregate rate of profit.

Nations or countries may compete, indeed, *in quite many fields*, not only in the economy. Such as in various specific spheres of education, science, arts, culture, and sport, also in space research, in regard to environment protection, social welfare, life security, political regime, level of democracy, prestige and influence, etc., and unfortunately also in armament, in acquisition of scarce resources and power (moreover, earlier, particularly during the time of colonialism in territorial conquest, too). In general, they compete *in the process of development* for achieving better or keeping favourable *position in the world economy and international relations*.

The confusion of "national competitiveness" with the development or economic growth of countries and with the competitiveness of their enterprises may stem from the *market*-oriented, i.e. very economic perception of competitiveness, and also from the fact that *Michael Porter* (1990) actually identified the "competitive advantages of nations" (which the concept of "national competitiveness" originated from) with those of their *firms*. Thus he considered competitiveness as a basically micro-economic issue.

The *business approach* to the issues of national development and competitiveness may, of course, induce focussing on the micro- and macro-economic conditions which heavily influence the operation, efficiency and profitability of enterprises. Nevertheless, this can justify neither the oversimplified perception of countries' development as reduced to their economic growth, nor the confusion of "national competitiveness" with the latter and with the competitiveness of enterprises!

Such *confusions*, however, clearly appear in annual reports of the *World Economic Forum* (WEF).[2] Its former reports defined "national competitiveness as the ability of a country to achieve sustained high rates of growth in gross domestic product (GDP) per capita"[3]. In its 2010-2011 report *Klaus Schwab*, the editor noted (p. xi): "The Report contributes to the understanding of the key factors determining economic growth, helps to explain why some countries are more successful than others in raising income levels and opportunities for their respective populations", i.e. in the very process of development.

The confusions mentioned above, while causing ambiguities in perceptions as well as biases in measurement, may be easily understandable, even if hardly acceptable, in the light of the *interconnections*, moreover interactions between development and competitiveness of countries and that of their enterprises (which are also pointed out in WEF's reports). There are also some *common determinants* of the latter, such as primarily the available quantity and quality of *human resources*, the extent of their employment, the level of *productivity* of the actually employed labour power, the applied *technologies*, the type of division of labour and specialisation, the *organizational patterns and management*, etc., as well as *natural resources and environment*. The formation and the changes in all of these determinants (whether they are favourable or unfavourable for "national" and/or enterprises' competitiveness) are to a great extent influenced by the *role of the State*, the government policy as well as the *culture, moral* and *socio-psychological attitude of the people*, and last but not least by *"external" factors*,[4] too, including the activities of foreign companies, effects of globalisation and regionalisation, the international environment in general, the global crises and natural disasters, the demonstration effects of other countries, the actual changes in the world economy and international politics, etc..

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[2] In an earlier report of WEF *Jeffrey D. Sachs* as one of the main contributors stated that "competitive countries are those that have the underlying *economic* conditions to achieve rapid *economic* growth for a number of years, taking into account their starting level of incomes." - Quoted by *Schuelke, R. W.,* (2000), p. 1.

[3] Quoted by *Martin, J. R.* (2007), p.1.

[4] In the light of globalisation most of those factors and effects called *„external"* have to be qualified as also „internal" in the contemporary world economy. This point is almost completely ignored when references are made to international environment, globalisation, or effects of global crises, in the literature of „national competitiveness", including the reports of WEF.

It appears also as a *common feature* that neither the competitiveness of countries, nor of their enterprises is independent of their *sizes*. The same applies to their development potential and position in the world economy. This is not only an important issue of economies of scale but also an issue of bargaining power and influence on partners, competitors and market processes, too.

In addition, neither in the case of „national" nor in that of enterprises' competitiveness the *geographical position,* the location closer or more remote to the „geographical centre of the world economy", and the *effects of climatic changes*, *natural catastrophes* and the ability to manage them, should be left out of consideration.

Despite such obvious interconnections and common features, the confusions of the concepts in question are obviously misleading.

Whatever our opinion about the concept of "national competitiveness" can be, for a clearer viewpoint of analysis it seems reasonable to distinguish at least between

- competitiveness of countries in the process of *development* in general (which refers to development of society as a whole, not only to economy[5]) involving their ability to reach or keep favourable *position in the world economy* (i.e. to remain in the developed centre or to catch up with the more developed countries) *as well as in international relations* (in terms of influence and bargaining power), and
- competitiveness *in the world market*, involving the ability, mainly by means of the *activity of their enterprises*, to gain bigger share in the partial markets of non-renewable resources, products, services and factors of production.

For the sake of simplicity they may be called: (1) *"world economic competitiveness"* and (2) *"world market competitiveness"*.

While studies on the former include, besides many issues of international economics, also issues from development studies, those on the latter involve issues of the economics of enterprises.

Since the *"world economic competitiveness"* of countries refers to their ability to gain or keep *favourable position in the world economy,* it is also related to the development of *dynamic sectors or activities in the national economy* and to the ability of getting access to *external development resources*, such as manifested in foreign direct investments (FDIs), expertise, know how, research results, foreign loans, etc. All of these components of the "world economic competitiveness" of countries involve also the ability to attract the inflow of transnational companies (TNCs) and/or to develop such companies within the national economy concerned. Despite the justifiable criticism of the TNCs' activities, practically each government intends to invite and keep their foreign direct investments, and to provide a *"home base"* for them.

It seems strange enough, moreover contradictory, that although *Porter*'s concept of "national competitiveness" and his "national diamond" defining the favourable conditions for FDIs are basically TNC-oriented, the WEF's global competitiveness reports, inspired by him, almost completely disregard how the business policy of TNCs affects changes in the ranking list of countries. The effects of outward FDIs on "national competitiveness", by which ownership and control positions can be gained inside foreign economies, and not only trade relations but also the economic policy in the host countries can be influenced, are also left out of account.

The international literature on "national competitiveness" hardly pays attention to such effects of the business policy of TNCs as often proved to be detrimental to the competitiveness of numerous countries. At the same time it attributes great importance to

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[5] This point has been stressed in development studies for a long time, justifying the very distinction between the latter and „development economics", and inducing the application of non-economic indicators as well, in measuring the level of development.

favourable business environment, hospitable investment climate among the determinants of "national competitiveness"

The "world economic competitiveness" of countries in terms of their *development and world economic position is* mainly shaped by longer-run effects and alterations of domestic and international circumstances, while the *market competitiveness* of their enterprises depends rather on contemporary or shorter-term ones. However, their *interrelationship* manifests itself not only in a positive sense, i.e. when reinforcing, promoting the improvement of each other, but also in a negative sense, in weakening, worsening each other, moreover, in such trade-offs, too, as appearing when improvement of one causes detriment to the other.

It hardly needs proofs that certain policies aimed at improving the world economic position of a country by the increased rate of its economic growth, particularly by promoting the development of human capital, are contributing also to the improvement of the market competitiveness of products, services, factors supplied by its enterprises. It is not less obvious that the more the competitiveness of those products and services produced by its enterprises improve, and the more the efficiency of these enterprises increase, the more its national economy can grow, and its world economic position also improves.

However, the same time some counteracting effects, opposite to each other, and *trade-offs* must also be taken into account – not only between, on the one hand, those factors, conditions and changing circumstances shaping the world economic position of a country, and, on the other, those determining the world market competitiveness of the products and services of its enterprises, but also separately, in both cases.

When, for example, a restrictive, "belt-tightening" policy is applied in order to improve "national competitiveness" and/or to reduce economic or financial disequilibria, particularly external indebtedness, it usually acts to the detriment of social and welfare expenditures as well as the wage level. Thus it worsens the conditions of human resources on which the social productivity level, i.e. the primary determinant of competitiveness basically depends. A trade-off appears also between measures increasing the aggregate demand to stimulate economic growth, on the one hand, and those restricting ones, on the other, aimed at economic equilibrium or reduction of budget gaps. Similarly, the application of economic policy measures aimed at attracting the investments of foreign firms, particularly TNCs, and thereby increasing the domestic production capacities, may have a contrary effect on the position of the domestic small and medium firms and may also worsen the central budget.

Although such and similar contradictions and trade-offs are numerous, indeed, and may be very intensive (forcing the government of quite many countries to face very serious economic policy dilemmas or even insolvable problems), they gain very little attention (if any) in the literature of „national competitiveness" and the international reports concerned.

The question of the *world economic position* of a country i.e. whether it belongs to the developed centre or the under-developed periphery of the world economy, cannot merely be reduced to that of the level of its development and even less to its per capita GDP.

The world economic position of countries can only be evaluated in the context of all the main interdependencies which have developed in various spheres of international economic relations, i.e. as different variants, mostly with an asymmetrical pattern, of *interdependencies between unequal partners*, bringing about relative advantages or disadvantages, respectively, for those countries on the dominant, less vulnerable, more influential, initiating, and favourable side or on the subordinated, vulnerable, guided and unfavourable side.

In the contemporary world economy the *main variants of the non-symmetrical interdependencies* are manifested:

- in the unequal pattern of *international division of labour* and types of specialisation, i.e. in the disequalising distribution of the various roles in production and service activities, which partly appears
- in the biased commodity and geographical pattern of *international trade,* i.e. in the disproportionate export and import compositions and directions,
- in the asymmetrical pattern of international flows of investment capital and unequal distribution of stocks of foreign capital assets, resulting inequality in *international ownership and control relations*, which intensively shape trade patterns and affect other fields of international relations, too,
- in the unequal *international financial relations*, namely between creditors and debtors as well as those providing and those receiving international financial assistance, which stem from international flows of loans, bonds, various securities, speculative "hot money", etc. and from international financial assistance, appear in stock of net debt, and tend to result a growing, cumulative indebtedness of a number of countries, making them subject to the control or influence of the creditors and donors,
- in the hierarchic order of *international monetary relations*, appearing in a pyramidal structure of monetary system with large-scale differences in the international role, relative position, value, reserve base, and stability of national currencies, as well as their supply and demand conditions, and their relationship, exchange rate changes, etc., and involving a few leading and also reserve currencies on the top, many convertible but weaker currencies in the middle and numerous "soft", non-convertible or not fully convertible currencies on the bottom,
- in the asymmetrical pattern of *international flows, transfers of technology, intellectual property rights, soft-wares* and the concomitant technological relations, namely between those developing, producing, selling or transferring modern technologies, and those receiving or buying and adopting only the technologies developed by others, which results from and also tends to reproduce the very unequal distribution of research and development capacities and technology production among countries, even if no country can do without imported technologies today,
- in the unequal direction and composition of *international migration of manpower* (however limited, often administratively restricted it is), which, besides a less significant two-ways flow, is mostly characterised by the regular outflow of unskilled or semi-skilled cheap labour from the less developed regions, seeking for employment in more developed countries, and by the immigration of the most qualified, highly educated manpower, particularly scholars, scientists and artists into the most developed countries, i.e. brain drain, which represents the greatest loss for the source countries and the greatest benefit for the recipients, and last but not least
- in the radial structure of *information flows*, namely from a few most developed countries producing, providing, selling, disseminating, spreading information towards those receiving or buying them, which cause great many disadvantages for the latter not only in cost and time but also in reliability and cultural effects. [6]

Unfortunately, the international literature on „national competitiveness" pays no, or (if at all) very little attention to the role and changes of the above mentioned asymmetrical interdependencies and their interrelations with the internal economic and social structure of countries. In the *World Economic Forum*'s global competitiveness reports we can find only recently and still very sporadically some indicators related to one or another manifestation of them, with mostly one-sided interpretation. (Such as concerning FDI, but only its inward flow

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[6] For a detailed investigation of the asymmetrical interdependencies in the world economy and how to evaluate them see *Szentes, T.* (2003).

which is supposed to bring always benefits only for the recipient.) Although „market imperfections" and the problem of unequal information received by actors of the market are recognised by the "main stream" of economics, their effects on „national competitiveness" of the various countries are neglected in the reports on the latter. As a consequence, those *demonstration effects* manifested in consumption pattern and life-style which (and also those diffusing them) bear responsibility for the heavy and often cumulative indebtedness of masses of consumers and numerous States, are hardly mentioned. Moreover, the higher level of the propensity to consume of the population is mostly taken only as an incentive for economic growth and technological development[7], without pointing to its unfavourable effects, particularly in the case of luxurious expenditures, on economic equilibrium and natural environment.

There is *another aspect* of the world economic position and national development of countries, in general, that is also neglected in the literature of "national competitiveness". Namely the *degree of integration or disintegration in their economic and social structure*, i.e. to what extent the various parts, sectors and actors of the economy are interlinked or isolated as enclaves, and to what extent cohesion or segregation prevails among social classes and strata. This issue is closely interrelated with that of the external factors, particularly the above-mentioned interdependencies in the world economy.

The *internal integration of the economy* is determined by the development, extension and deepening of *input-output linkages* among the actors. It is not only the size of the domestic market and its growth but also the market's structure and quality that depend on these (forward and backward) linkages, and the spread in the national economy of research results, technological innovations, skills and experiences, too. They play an important role in broadening employment facilities and should be taken into account in the selection of dynamic, "pulling" industries as well as in the evaluation of the overall effects of FDIs and TNCs' activities.

The *integration* or disintegration *of society* depends on the size and decrease of inequalities between social strata, in terms of income gap, wealth distribution, life style and unequal opportunities, as well as on the self-organisation of the civil society and its spirit of solidarity and cooperation. The decrease in social inequalities has become not only an accepted criterion of national development and its sustainability, but it is an obvious precondition to avoid marginalisation, segregation, and xenophobia versus immigrants, racism and the separation of narrow elite from the masses. All these require, of course, *democracy* which in real terms can hardly unfold without the appropriate strength and activity of the *civil society* controlling both the State and the market.[8]

In order to promote development and improve competitiveness of a less developed country and its position in the world economy, a purposeful national policy is required which aims at making less asymmetrical the existing interdependencies with other (more developed) countries along with efforts to reduce or avoid disintegration within economy and society.

In the light of the interrelationship between asymmetrical international interdependencies and internal socio-economic disintegration[9] a special attention should be paid to the *interactions*, in general, *between the external and internal determinants* of both

[7] In the 2011 report of *WEF* we can read: "For cultural or historical reasons, customers may be more demanding in some countries than in others. This can create an important competitive advantage, as it forces companies to be more innovative and customer oriented and thus imposes the discipline necessary for efficiency to be achieved in the market." (p. 7)

[8] As *Marc Nerfin* concluded in his enlightening article (1987), neither the State nor the Market should be the main governing force, but the *Civil Society*[8] with its social organisations if being independent from the state and market interest.

[9] For more detailed explanation see *Szentes, T.* (1971), and (2003).

national development and competitiveness in the contemporary world. Unfortunately, such interactions are rather neglected in most of the international literature and reports on "national competitiveness".

Not less neglected is the issue of how the very *nature of the leading sectors* or branches of economy, and the *"physical" character of their products and services* affect the development potential and competitiveness of countries Despite the fact that even apart from the changes in terms of trade and the momentary comparative advantages, the various economic branches and activities very unequally require or stimulate the development of human and especially intellectual capital, technological progress, infrastructural development, and may generate also unequally input-output linkages in the economy and bring about different effects on social relations. Over and beyond the above, differences also appear among them in regard to the opportunities they can provide for economies of scale, product differentiation and economies of scope.

What follows from all the above (mostly neglected) points on the importance of reducing the asymmetry in external interdependencies and prevent or decrease internal socio-economic disintegration and also selecting and promoting the appropriate dynamic sectors of the national economy, is the great *responsibility of the State* for the promotion of development of the country and improvement of its position in the world economy.

2. Measurement of "national competitiveness" by composite indexes

While competitiveness in concrete fields and terms can be measured fairly well, serious, well-founded doubts can be raised, indeed, in regard to the very *measurability* of such a compound, complicated and changing phenomenon as the *general* competitiveness of countries by means of any composite index.

In the related international literature[10] and reports we can find a great number and variety of indicators applied to measure and compare "national competitiveness" of countries, some of them originate, as a matter of fact, from *development economics*, while others refer to the efficiency of enterprises and those circumstances influencing the latter.

In the early period of what had been named (in a misleading way) "development economics" a single index, namely the per capita GDP or GNP was used to measure the level of development of countries, and their ranking list was constructed accordingly. However, it has become obvious since long time ago (and not only recently when this issue came up again[11]) that development, particularly in a sustainable sense, can by no means be reduced to economic growth; consequently its level cannot be measured by one index only. Therefore, in evaluation of the development level of countries and its changes, as compared to others, and in their ranking list as well, *several other indexes* are also applied, such as *related to non-economic aspects* (level of education, culture, public health, social inequalities, security, environment protection, etc.)

The Global Competitiveness Reports of the *World Economic Forum* (WEF) take also certain non-economic factors into account, and thus apply not only economic indicators. (The same is true in the case of the reports of IMD, too.) Nevertheless, *WEF* produces the ranking list of countries on the basis of one or two composite indexes only (while IMD makes use of four[12]).

In the earlier reports of WEF two were applied for a long time, namely the *"Growth Competitiveness Index"* to express those factors and circumstances that are shaping the medium

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[10] As regards the related Hungarian literature, a short (and critical) survey on the various concepts and measuring methods on „national competitiveness" can be read in *Szentes, T. et alia* (2005).

[11] See *Stiglitz, J. A. – Fituossi, J. P.* (2009).

[12] *IMD* in the measurement of national competitiveness applies four sets of characteristics, namely those on economic performance, government efficiency, business efficiency and infrastructure in broad sense On the basis of these composite characteristics it presents an „Overall Competitiveness Scoreboard".

and long-term growth of the economy and the "*Business Competitiveness Index*" (formerly called as "Current", later as "Microeconomic Competitiveness Index") to show the micro-economic conditions and evaluate such special fields of business environment as the sophistication of enterprises' operation and strategy, and the quality of micro-economic business environment.

These two composite indexes still more or less reflected in a way the distinction between "world economic" competitiveness of countries and the "market competitiveness" of their enterprises, in general, but the 2004 report of WEF has introduced a new, single aggregate measure called „*Global Competitiveness Index*" (GCI) which merges in a multiple combination both the former GCI and BCI.

This new GCI creates the impression, moreover *misbelieve* that whatever is favourable for the enterprises and improves their market competitiveness, is necessarily favourable also for the country concerned as promoting its development and helping it to reach better position in the world economy. It is contrary to such experiences as pointing to cases when certain arrangements or economic policy measures that favoured the enterprises turned to be unfavourable for social development and world economic position. This new composite index is also mixing up the long-term determinants of the development of countries with those rather short- or medium-term factors determining the competitiveness of their enterprises.

The new "global" competitiveness index is based upon three fundamentals, basic principles: (1) "Productivity is complex: 12 pillars of competitiveness", (2) "Stages of development", and (3) "Transitions". These principles seem to reinforce the *confusion* between development and competitiveness.

As regards the *first principle,* the various indexes and sub-indexes belonging to the individual pillars seem to reflect, on the one hand, the still influential neo-liberal views and, on the other, the endeavour to overcome its oversimplifying economic approach to reality. They also reflect the enterprise-oriented perception of "national competitiveness", on the one hand, and its interpretation in the context of socio-economic development of countries, on the other. While economic openness, participation in international trade and capital flows are taken into account as always favourable conditions for "national competitiveness", hardly any unfavourable effects of them are counted in spite of general notes on global crises and uncertainties in the world economy.

The *second principle* is about the assumed universal and successive stages of development in one or another of which each country is classified on the basis of its per capita GDP level. Accordingly, in the 1st stage, which is called *"factor-driven"*, economic development is basically promoted by primary factors; in the 2nd stage, called *"efficiency-driven",* it is promoted by increasing efficiency; and in the 3rd stage, called *"innovation-driven",* by research and innovations. The authors of the report assume that for countries in different stage of development the various pillars and sub-pillars are not equally important, which makes necessary to take the related indexes or sub-indexes into account with different weights. It is also assumed, consequently, that the up-grading of countries, i.e. moving from a lower to a higher stage, implies the need for them to concentrate in their competitiveness-improving strategy on factors and conditions other than before.

The *third principle* simply concerns those countries being in a "transition" between two of the stages of development mentioned above.

The second and third principles clearly manifest a new variant of the *conventional theory of the stages of economic growth* and the concept of a unilinear process of development. The authors of the report themselves refer to the theory of *W. W. Rostow* (1960). But even apart from the wide criticism of Rostow's and others' stage theory, it is to be noted again that the classification of countries on the basis of their per capita GDP has been criticised in development studies for a long time as an insufficient and not always reliable indicator. As regards the distinction of the three stages, it may make sense only in a very relative sense, namely in terms of proportions only. The basic factors of production hardly loose their importance in the 2nd and 3rd stages, as the role of human labour (its highly educated and qualified variant) is the most substantial determinant of both efficiency and innovations. Innovations (even if primitive ones) had always played an important role in progress, already in the earliest historical stages of human societies.

However numerous[13], important and relevant are the data collected by and with the assistance of the partner institutions in almost two hundred countries and from international organisations; however appealing is the classification of countries on the basis of numerical values and according to distinguished stages of development; however sophisticated, regularly controlled and completed is the mathematical apparatus which is used in the construction of composite indexes and in computation of countries' scores and rank; and however useful the information provided thereby to governments all over the world, the *major shortcomings* of the *WEF'*s reports can hardly be disregarded. Such as the following:

- *Most of the data* received are *"soft"* in the sense that they originate from completed questionnaires and personal interviews, in the case of which the answers, moreover some of the questions themselves *reflect subjective opinion*[14] or prejudicial expectation.
- Although the so-called *"hard" data* are collected from official institutions of the countries concerned (such as their statistical bureaus) and international organisations, in some cases and respects their *reliability or appropriateness can be questioned*.
- The *12 pillars* of competitiveness and their components are defined in a rather *discretionary* way, some of which are overlapping or heterogeneous, and the *choice of weights* applied in different sub-indexes and in different stages quite *arbitrary*.
- The same is true regarding the *second and third principles*, which reflect, as already noted, the unhistorical concept of unilinear process of development and the widely criticised Rostowian "stage"-theory.
- Despite the great number of data and variables expressed in sub-indexes, there are only *very few* among them which are related to *external, international determinants* of competitiveness, and even such sporadic variables are mostly evaluated one-sidedly contrary to their double-face.
- The reports completely *miss* any information and evaluation on *the global context of "national competitiveness"*, i.e. on such important issues as
    - interdependencies between unequal partners and the concomitant unequal effects on each other,
    - differences in the position of countries within global networks of TNCs,
    - role of the demonstration effects of conspicuous consumption radiating from the wealthiest countries, in the indebtedness and budget deficits of many countries,
    - differences in development opportunities resulting from the various type of specialisation and the shifts in the pattern of international trade as well as in the gravitation centre of the world economy, etc.
- In the reports such an important domestic aspect is also neglected as the different effects of the type of specialisation and leading industry on the internal socio-economic integration or disintegration of countries. And so on.

What follows from all the above critical notes on the prevailing practice of measuring "national competitiveness" is that very *well-founded doubts* can be raised regarding the *ranking*

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[13] For the 2011 report of WEF approximately 20 thousand data were processed.

[14] In the 2011 report of WEF, out of the 20 thousand data about 12 thousand came from questionnaires or interviews.

list of countries – not only concerning the actual level, tempo and direction of their development, but even the market competitiveness in a narrow sense.

The expression of the level of "national competitiveness" of countries and their ranking accordingly by *one single composite index*, such as GCI, is itself an extreme over-simplification, even if its components are clearly defined, and the ranking lists are presented also in view of them separately. Since countries may compete *in many fields*, even in regard to the economy, their "competitiveness" cannot be measured by one or two indicators only. Just like the competitiveness in sport can by no means be determined in general, that is without specifying in which type of sport it is to be measured, since different sports have obviously different criteria and requirements for competitiveness.

3. The misleading ideology of "national competitiveness"

Nobody can doubt that the reports of WEF and other institutions (such as IMD) on the competitiveness and ranks of countries are very instructive, rich in useful information.[15] Nor can it be doubted that the introduction of newer and newer variables, the completion of earlier indexes by new indexes or sub-indexes, particularly those reflecting an increased attention to *sustainability* of development and competitiveness, its both ecological and social conditions, improve the content and scope of applicability of such reports.

The competitiveness reports, however, can be criticised not only for the ambiguous interpretation of "national competitiveness" (i.e. its confusion with development and enterprises' competitiveness) and for the method of measuring it, but also because of predominance of the *conventional approach of neo-liberal economics* in them. The resulting over-simplifications provide a favourable soil and wide opportunities for *political manipulations*. It is perhaps not an over-exaggeration to say that they implicitly (willy-nilly) embrace and represent an *ideology* which corresponds to a (new) *neo-liberal "counter-revolution" in development studies*.[16]

As regards the already mentioned return to the conventional conception of *a unilinear process of development* with the same successive *stages*, and to theories explaining both the success and failure of countries by their internal conditions only, which by taking "the intellectual question out of its historical context"[17] completely neglected the role of international effects, the reports of WEF seem to go even further than such conventional views. Namely in the sense, that WEF's reports do not only place all the responsibility on the individual countries themselves (surprisingly enough: in the era of accelerating globalisation, transnational companies' activities and worldwide information services), but also encourage intellectually and politically, moreover, prescribe as an almost compulsory requirement for governments, to accept those *principles of economic policy* rooted in the conventional dogmas of the "main-stream" economics which has been heavily criticised even by very moderate and objective scholars.[18]

Most of those *data* received from questionnaires or interviews reflect not only subjective but – due to the formulation of questions and expected answers – often *ideological* assumptions

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[15] In the case of Hungary the 2011 report of *WEF* called very realistically attention to such primary shortcomings from the point of view of business competitiveness as the level of tax rates, frequent changes in tax regulations, insufficient financial resources, corruption and uncertainties in economic policy.

[16] While the conventional theories of development economics explained the level of development of countries simply by their internal conditions, a sort of "revolution" in development studies put the emphasis on the role of colonialism, foreign companies and the resulting dependence, and called for state interventions and self-reliance. A "counter-revolution" in the early 1980s was manifested in the neo-liberal attack on both the "school of dependence" and the Keynesian type State interventions called "dirigisme". - For more details and criticism on both see *Szentes, T.* (2002).

[17] Quotation from *Leibenstein, H.* (1957), p. 3.

[18] Just to mention three distinguished scholars' view, see the writings of *Stiglitz, J. E.* (1989), (2010), *Krugman, R. P.* (2009), and also of a Hungarian one, *Csaba, L.* (2009a), (2009b).

and *prejudices*, too. The viewpoints of their evaluation mostly correspond to an excessive neo-liberal conception (which is quite different from the original idea of liberalism[19]) on the *role of the State* which, accordingly, must be restricted to serve the interests of capitalist enterprises by ensuring defence, security and order, by protecting private properties and undertaking only uneconomic investments in infrastructure, public health and education, etc., i.e. to create and maintain favourable conditions for their successful operation both within and outside the national economy. Government interventions in the economy are basically qualified as unfavourable, worsening the competitiveness of the country, too, and accordingly taxation, agricultural policy, customs procedures etc. represent "business burdens".

Although the reports of WEF refer also to social cohesion and environment protection among the criteria of "national competitiveness", in the evaluations, however, they neglect rather than reveal the very contradictions and trade-off between market spontaneity and social cohesion, the profit interests of companies and environment protection, etc. They also miss to point to the trade-off, in general, between the idealised principles (involved in the former "Washington consensus") of privatisation, liberalisation and deregulation, on the one hand, and national development in a real sense of the word, on the other. No attention is paid to the harmful effects, as experienced in quite many cases, of the "structural adjustment" programs (prescribed particularly by IMF) and the concomitant *restrictive measures* involving drastic reduction of budget expenditures, etc. on development as well as social cohesion and environment protection. Nor is it paid to the consequences of the *demonstration effects* of conspicuous consumption which is stimulated also by commercial propaganda and advertisements in TV, and to the effects of the related *irresponsible credit policy* of commercial banks on indebtedness, "bubbles" in financial markets and mortgage crises, thereby deteriorating the competitiveness of many countries.

The *measurement of "national competitiveness" by a single composite index* such as GCI, and the ranking of countries accordingly, represent a method which, however sophisticated mathematical apparatus is involved, cannot be taken seriously. It may be compared to such an obviously ridiculous, fortunately non-existing experiment in medical science as (let's assume) the ranking of the patients in the list of healthiness or living potential on the basis of a single index composed by all medical examinations, such as blood pressure, Spiro-scope result, age, weight and height, all laboratory findings, audiometric, sight-testing, chest and cardiac examinations, X-ray pictures, urological, rheumatologic, MR and CT investigations, etc.

One could raise the question: How and why can such a method be considered as well-founded, indeed, and gain even scientific acknowledgement, instead of taken at best as serving a rough approximation only with more or less reliable and partly relevant information?! A few decades ago a similar question could have been raised (and de facto had been posed by some scholars) in regard to the that time famous concept of "vicious circle" of underdevelopment and poverty which was expressed in short by *Ragnar Nurske* (1958) as follows: "A country is poor because it is poor" (p.256**)**. The *non-sense* involved in this old concept was not less obvious than in the case of the single GCI index measuring numerous different qualities, criteria and conditions of "national competitiveness". Such non-senses can hardly appear in medical science. (We may imagine what a patient would say if the doctor summarised the diagnosis by stating: You are sick because you are sick.")

In social sciences, however, such non-senses may sometimes gain ground because and insofar they express ideological views and serve political and/or economic interests. This is one of the reasons why a "New Enlightenment" should come which, besides other effects, would "free all social science theories from ideological (mis)interpretation, from their apologetic misuse

[19] On this difference see *Szentes, T.* (2002), Chs. III/2 and 4..

and manipulative distortion for legitimising political interests and practices, and put an end to the 'religious' belief in any of them as a single 'vehicle of Truth'.".(*Szentes, T*, 2003, p. 385.)

As a result of the great and worldwide effects of WEF's reports, the improvement of "national competitiveness" in accordance with the views still prevailing in them has become a *general requirement* so much that even those governments trying to preserve what remained (mostly in ruins only) of the "social market economy" and "Welfare State", can hardly escape from the related recipe of economic policy. A severe *obedience* is expected and experienced even more from the governments of countries in "transition" between the former communist system of "centrally planned economy" (in fact: war economy) and a market economy. Moreover, the European Union which according to the original ideas was established to promote the economic integration of countries along with increasing social cohesion and welfare, nowadays also seems to give priority to the improvement of competitiveness at the expense of social welfare.

By alleging the necessity to improve competitiveness as a reason, governments (not only those led by conservative, nationalist or liberal political parties but also those calling themselves socialist, democratic or popular) may feel themselves authorised to implement *restrictive anti-social measures* and forget their welfare tasks. As more and more governments act accordingly (whether voluntarily or being compelled), *social unrest, demonstrations, strikes, revolts* are the consequences. While most of the data collected for the reports are based upon the opinion of enterprise leaders concerning business conditions, no information coming from public opinion poll or research on the *views of the masses* about their life conditions is used. The quality of life hardly matters, anyway, in the evaluation of "national competitiveness".

Our criticism concerning the concept of "national competitiveness" and the reports on that of countries was aimed *by no means* at questioning (what is so obvious, namely) that the development and welfare of society necessarily require economic growth coupled with a dynamic equilibrium, and so does the growth of the economy an efficient, profitable operation of its enterprises, for which favourable business environment is needed. What we intended to question and criticise is but the *order of priority* which seems to be turned upside down by the "official" or at least fashionable interpretation of "national competitiveness" and its measurement.

The ideological message, the *misleading interpretation of national development* as confused with market competitiveness, the presented *guidance for politics*, and last but not least the implicit acceptance of the prevailing but obviously unsustainable pattern of development of the economically successful countries as models to be followed by others, cannot be accepted. .

Nor such a perception of the *improvement* of competitiveness can be accepted that explicitly or implicitly involves the intention *to triumph over others.* It follows from the *market- and enterprise-oriented perception* of competitiveness which implies such a rivalry as manifested in a *struggle for bigger share in the market.*

While development in order to improve living conditions and well-being is a rather general aim of human societies all over the world, and comparisons of their progress and achieved level are naturally motivated by intentions to learn from each other, the economic competition of countries and their aim to improve their competitiveness appear as an explicit or implicit intention *to win against each other.* Consequently the related efforts appear as a *bellum omnia contra omnes,* and the reports presenting the ranking lists of countries are similar (at least for political leaders) to war bulletins.

Peter Dicken (1998) points to that "nations are forced to *compete* with one another in a struggle … States compete to enhance their international trading position and to capture as large a share as possible of the gains from trade. They compete to attract productive investment to build up their national production base which, in turn, enhances their international competitive position. (p. 86) However, *James R. Martin* (2007) correctly stresses: „Part of the controversy related to the *competitiveness* reports is the term '*competitiveness'* .As many economists have pointed out, countries do not compete the way companies compete." (p. 7) As one of the latter *Paul Krugman* (1994) flatly denies that countries or states (like firms) are competing with each other and gaining benefits at the expense of others in international trade.

The implicit ideology in the perception of "national competitiveness" seems to assume a "zero-sum-game" in the world economy, which, however, in fact turns to be a "negative-sum-game" causing losses for all partners. It obviously contradicts the imperative need for international cooperation, the increasingly urgent task to seek together and make common efforts to find (in accordance with the original meaning of "con-petere") solutions on the aggravating global problems and to ensure a real opportunity of sustainable development for all the people in the world.

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