

POSSIBILITY OF IMPROVING NATIONAL COMPETITIVENESS

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The importance of national competitiveness

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Since the 1990's, the nature of competition has changed due to globalization. Especially after the launch of the WTO, with opening of the world market, the world economy rushed into borderless and boundless competition. This globalization of competition requires higher competitiveness not just from companies, but also at the national level. A nation's competitiveness is very important because it helps establish optimal conditions for value creation and economic activity by companies and individuals.

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Evaluations of national competitiveness help a country discover its strengths and weaknesses by comparison with advanced or competing countries. As a result, each country can draw up a plan to deal with its strengths and weaknesses. This is the significance of national competitiveness evaluations.

The definition of "national competitiveness" varies with each evaluator. The International Institute for Management Development (IMD) defines national competitiveness as the ability to accumulate a store of wealth in the world. Management professor Michael Porter regards national competitiveness as the ability to acquire competitive advantage in higher value-added industries. The US Council on Competitiveness defines it as a nation's ability to produce, distribute, and service goods in the international economy in competition with goods and services produced in other countries, and to do so in a way that earns a rising standard of living. The different definitions by each institute led each evaluator to have different standards for gauging competitiveness, so their results did not correspond.

Korea's low competitiveness rating

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Taiwan, and Japan.

By the IMD¹⁾ analysis, Korea placed 28th this year, behind Singapore, Hong Kong, Taiwan, and Japan. Korea was ranked 26th in 1995, but fell to 41st in 1999 due to the financial crisis. Although Korea's ranking improved since then, it has not exceeded 20th in the world.

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The Japan Center for Economic Research (JCER) analysed Potential Economic Competitiveness²⁾, and the latest period's (1995 to 1998) index showed that Korea ranked 23rd. Korea ranked 22nd according to the UNDP's Human Development Index.

Domestic institutions also gave Korea similar competitiveness rankings. The Institute of Industrial Policy Studies (IPS)³⁾ ranked Korea 22nd out of 64 countries,

< Table 1. Country Competitiveness Rankings (in 2000) >

	IMD ¹⁾	JCER ²⁾	IPS ³⁾	UNDP ⁴⁾		MSU-CIBER ⁵⁾
				HDI	TAI	
Singapore	2	2	2	26	10	1
Hong Kong	6	5	3	24	24	3
Taiwan	18	19	15	-	-	-
Japan	26	16	7	9	4	-
Korea	28	23	22	27	5	2
Malaysia	29	26	32	56	30	15
China	33	27	45	87	45	6

Note: 1) IMD, 2001 *The World Competitiveness Yearbook*, 2001.6.

2) Japan Center for Economic Research, *Potential Economic Competitiveness Ranking*, 2001.2.

3) IPS, 2001 *National Competitiveness Report*, 2001.

4) UNDP, *Human Development Report 2001*, 2001.7.

5) Michigan University, *Market Potential Indicators for Emerging Markets-2000*, 2001.3.

1) The ranking of national competitiveness by the IMD covered 49 countries. It divided 286 criteria into four categories: economic performance, government efficiency, business efficiency and infrastructure.

2) JCER ranked the potential economic competitiveness of 31 nations and the index was made for three periods of time: 1980, 1990, and 1995-1998. The potential economic competitiveness index was made by using "principal components analysis" of eight categories: (1) international finance and trade, (2) corporate activities (3) education (4) domestic finance (5) government (6) science and technology (7) social infrastructure (8) information technology as a factor to decide economic competitiveness. (JCER, *Potential Economic Competitiveness Ranking*" Feb. 2001)

behind competitors such as Singapore, Hong Kong, Japan, and Taiwan.

High physical performance but low efficiency

Korea's relatively low competitiveness was due to discrepancies between the different categories that comprise national competitiveness.

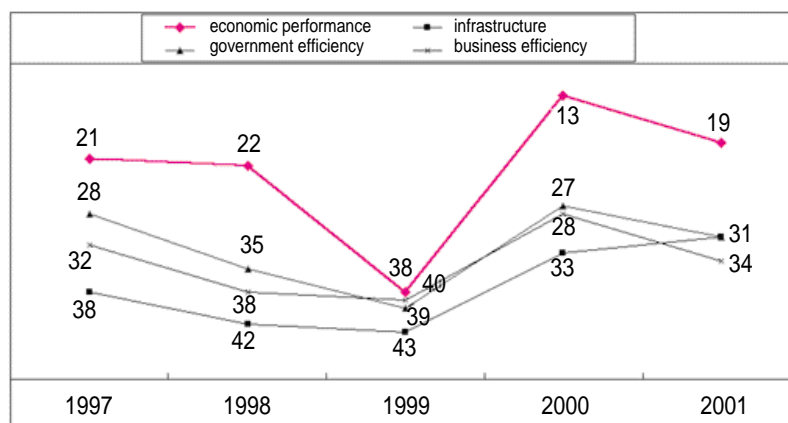
Korea's relatively low competitiveness was due to discrepancies between the different categories that comprise national competitiveness. In the IMD analysis, Korea had high economic performance, but poor infrastructure and government/corporate efficiency. National competitiveness depends not only on the effort of individuals or groups, but also efficient economic, social and political systems. In this regard, the lack of infrastructure and government and business efficiency are hindering the advance of Korea's competitiveness.

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These weakness were also apparent in a survey of domestic professionals. The obstacles to Korea's competitiveness included the government, national morality, and social welfare. This reflected the respondents' opinion that irrational mentality as reflected in government-led policy drives, collective opportunism, and low social welfare will have a negative effect on national competitiveness.

In the course of the world economy's globalization, each country

Figure 1. Korea's IMD Rankings by Category



Source: IMD, 2001 *The World Competitiveness Yearbook*, 2001.

3) IPS emphasized different groups of human factors and different types of physical factors in explaining a nation's competitiveness. Human factors include workers, politicians and bureaucrats, entrepreneurs, and professionals. Physical factors include endowed resources, demand conditions, related and supporting industries, and business context.

innovated the function of its government. This included deregulation as well as creating a framework for business activity. For example, the UK has no trade barriers, investment regulations, or limits to capital transfer. Korea needs to benchmark advanced countries for its reforms efforts oriented to small government.

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Korea can improve its competitiveness

Many evaluations stated that Korea has low competitiveness and discrepancy between categories. However, Korea has the potential to improve its competitiveness. The key words for national competitiveness in the 21st century are digitalization and globalization. Adoption of global standards and the creation of an attractive market economy will help improve the country's efficiency.

Digitalization will become a source of growth in Korea, along with the existing manufacturing sector. The digitalization of traditional manufacturing will help upgrades through cost reduction and productivity growth. The emergence of creative digital industries will help form a new growth base.

The possibility for a country's development through globalization can be seen by looking at factors such as economic freedom and access to emerging markets. The Center for International Business Education and Research at Michigan State University (MSU-CIBER) analyses "Market Potential Indicators for Emerging Markets" every year. MSU-CIBER stated that Korea has a very high future growth potential. A recent analysis in June showed that Korea ranked second following Singapore.

Of course, improving national competitiveness requires more than just digitalization and globalization. A market economy system which is suited to globalization and digitalization is also needed. To achieve such a system, the Korean government is promoting policies for market competition and labor flexibility. In addition, deregulation and incentive policies for domestic and foreign companies are also progressing. Investment is growing in national strategic industries in the digital age such as semiconductors, digital electricity, telecommunication, electronic commerce and biotechnology. These factors will determine the future improvement of Korea's national competitiveness. **VIP**

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