

Benefits of Broadening the Analysis of International Competitiveness: The Case of CEE Countries

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Introduction

Improving our understanding of country-level international competitiveness, in either regional or global studies, requires analyses that go beyond aggregated comparisons of Gross Domestic Product (GDP). This article discusses results from a broad analysis of the international competitiveness of Central and Eastern Europe (CEE) countries to make this argument. After illustrating what a narrow analysis of just aggregated, top-line GDP numbers comparison would indicate, data on CEE countries' position in the global marketplace, investment attractiveness, and capital flows are provided and discussed to demonstrate benefits of utilizing a broader set of analyses. The basic finding from these analyses are that persistent competitiveness gaps between CEE economies and Western European countries have been diminishing in the last decade. In particular, almost all CEE countries experienced higher growth of the share of export in GDP than the averages for the EU and Eurozone. It reflects the growing CEE position in the global marketplace and increasing openness to international trade. When it comes to investment competitiveness, data on the inward stock of FDI's show that CEE countries have been becoming increasingly more popular destination for foreign capital in comparison with the whole European and world economy. Moreover, CEE economies play an increasing role as the source of FDI outflow, and this process confirms that this region is moving forward the stages of internationalization.

Dimensions of economic competitiveness

Although "competitiveness" is one of the most widely used terms in modern economics, there is a significant lack of consensus on what it really means. This is why Ketels (2015) called

for a shared definition of this term to make it a useful category for the policy dialogue, proposing the adoption of Aiginger et al.'s (2015) definition of competitiveness as the "ability of a country (region, location) to deliver the beyond-GDP goals for its citizens." This definition reflects the comprehensive nature of the concept of economic competitiveness, which refers not only to income levels, but also other economic categories related to trade or investments. This article follows the methodology applied in the World Economy Research Institute at the Warsaw School of Economics' annual competitiveness reports (e.g., Weresa, 2016), where competitiveness is understood as an economy's ability to achieve:

1. a sustainable increase in the standard of living (income competitiveness),
2. an improvement in country's position in the global marketplace (trade competitiveness),
3. enhanced investment attractiveness, mostly for foreign capital (investment competitiveness).

With respect to the level of aggregation or geographical dimension, competitiveness may be analysed at different system levels:

1. microeconomic competitiveness (single company level),
2. mesoeconomic competitiveness (regional or sectoral perspective),
3. macroeconomic competitiveness (country level),
4. mega-economic competitiveness (the group of countries perspective),
5. meta-economic competitiveness (competition between different models of capitalism).

A study on international competitiveness of the CEE economy falls, therefore, into the category of mega-level analysis, as it focuses on the group of countries sharing similar characteristics.

However, it should be noted that all above-mentioned levels are strongly interconnected, as these are the successes of single companies that determine the prosperity of local regions, which subsequently contribute to the development of particular countries forming CEE.

Income Competitiveness of the CEE Countries

The basic measure of income competitiveness of an economy is the value of GDP per capita in purchasing power standards (PPS), which, despite all its shortcomings, is still the most common indicator of economic performance used in macroeconomic analyses. The volume index of GDP per capita in PPS is expressed in relation to the EU-28 average (set to equal 100), allowing a brief assessment of CEE economic position in the European Union (EU), as presented in Table 1. It starts from 2004, i.e., the EU enlargement with 10 new member states, out of which 8 (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia) are from CEE.

As presented in Table 1, all CEE countries experienced lower levels of GDP per capita in the analyzed period in comparison with the EU average. However, the process of convergence is observable; in almost all countries (except Slovenia) the income gap with the EU has been reduced. The statistical data on the economic growth (measured by real GDP growth rates) in individual CEE countries, the whole EU, and Eurozone is presented in Table 2.

Table 2 shows that after EU enlargement in 2004, most CEE countries experienced higher average annual real GDP growth rates than the EU average, and the countries forming Eurozone. In this period, the fastest economic growth took place in Slovakia (4.01% annual average) and Poland (3.93%). An interesting observation may be made for the Baltic States, which experienced very high economic growth before economic crisis and negative real GDP growth rates after 2007. This reflects the typical impact of financial crisis on small economies, which are characterised by high openness to international trade and capital flows (a similar scenario was followed by, e.g., Iceland or Ireland [Kowalski, 2014]).

Trade Competitiveness of the CEE Countries

One of the main economic dimensions of international competitiveness is competitive advantages in foreign trade, which determine an economy's position in the global marketplace. Basic indicators of trade competitiveness are connected with different aspects of export (e.g., the composition, orientation, growth, diversification across products and markets, the level of sophistication). These measures reflect the ability to sell goods and services to foreign markets. Data on the share of exports of goods and services in the gross domestic product (GDP), which reflects the openness of the economy to international trade, are presented in Table 3.

Table 1: GDP per capita in PPS, Index (EU28 = 100), 2004–2015

geo\time	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Change, p.p., 2004-2015
Bulgaria	35	37	38	42	45	46	45	45	46	46	47	46	11
Czech Republic	79	80	81	83	81	83	81	83	82	83	84	85	6
Estonia	55	59	64	68	68	62	63	69	74	75	76	74	19
Croatia	57	58	58	61	63	61	59	59	60	59	59	58	1
Latvia	47	51	55	60	60	52	52	56	60	62	64	64	17
Lithuania	50	53	56	60	63	56	60	65	70	73	75	74	24
Hungary	62	62	62	61	63	64	65	65	65	66	68	68	6
Poland	49	50	50	53	54	59	62	64	66	67	68	69	20
Romania	34	34	38	41	48	49	50	51	54	54	55	57	23
Slovenia	85	86	86	87	89	85	83	82	81	80	82	83	-2
Slovakia	56	59	62	67	71	71	73	73	74	76	77	77	21
Euro area (19 countries)	109	108	108	108	108	108	108	108	107	107	107	106	-3

Source: Eurostat, Code: tec00114 [date of extraction: 28 July 2016].

Table 2: Real GDP growth rate (percentage change on previous year), 2004–2015

geo\time	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2004-2014 average
EU 28 countries	2.5	2.1	3.3	3.1	0.5	-4.4	2.1	1.8	-0.5	0.2	1.4	2	1.18
Euro area (19)	2.3	1.7	3.2	3.1	0.5	-4.5	2.1	1.6	-0.9	-0.3	0.9	1.7	0.95
Bulgaria	6.6	7.2	6.8	7.7	5.6	-4.2	0.1	1.6	0.2	1.3	1.5	3	3.12
Czech Republic	4.9	6.4	6.9	5.5	2.7	-4.8	2.3	2	-0.8	-0.5	2.7	4.5	2.65
Estonia	6.3	9.4	10.3	7.7	-5.4	-14.7	2.5	7.6	5.2	1.6	2.9	1.1	2.88
Croatia	4.1	4.2	4.8	5.2	2.1	-7.4	-1.7	-0.3	-2.2	-1.1	-0.4	1.6	0.74
Latvia	8.3	10.7	11.9	10	-3.6	-14.3	-3.8	6.2	4	3	2.4	2.7	3.13
Lithuania	6.6	7.7	7.4	11.1	2.6	-14.8	1.6	6	3.8	3.5	3	1.6	3.34
Hungary	4.9	4.4	3.8	0.4	0.8	-6.6	0.7	1.8	-1.7	1.9	3.7	2.9	1.42
Poland	5.1	3.5	6.2	7	4.2	2.8	3.6	5	1.6	1.3	3.3	3.6	3.93
Romania	8.4	4.2	8.1	6.9	8.5	-7.1	-0.8	1.1	0.6	3.5	3	3.8	3.35
Slovenia	4.4	4	5.7	6.9	3.3	-7.8	1.2	0.6	-2.7	-1.1	3	2.9	1.70
Slovakia	5.3	6.4	8.5	10.8	5.7	-5.5	5.1	2.8	1.5	1.4	2.5	3.6	4.01

Source: Eurostat, Code: tec00115 [date of extraction: 28 July 2016]

Table 3 shows that almost all CEE countries experienced higher growth of the share of export in GDP than the averages for the EU and Eurozone. It reflects the growing CEE position in the global marketplace and increasing openness to international trade. There is a clear pattern that small countries are characterised by higher dependence on foreign trade, as the value of

their exports of goods and services represents a significant part of their GDP. Slovakia with exports equal to 93.8% of GDP in 2015, followed by Hungary (92.1%), are notable exceptions.

Table 3: Exports of goods and services in % of GDP, 2004–2015

geo\time	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Change, p.p., 2004-2015
EU 28	34	35.4	37.5	38.1	39.1	34.9	38.6	41.4	42.6	42.9	43.1	43.6	9.6
Euro area (19)	34.9	36.2	38.3	39.5	39.9	34.9	39	41.9	43.7	44	44.7	45.8	10.9
Bulgaria	41.1	42.6	47.1	52	52.3	42.4	53.7	62.3	63.4	67	65.1	66.5	25.4
Czech Republic	57.4	62.3	65.3	66.6	63.4	58.8	66.2	71.3	76.2	76.9	82.5	83	25.6
Estonia	61.5	65.9	63.5	63.2	66.8	60.8	75.1	86.5	86.6	86.8	83.9	79.8	18.3
Croatia	39.5	39.3	39.7	39	38.5	34.5	37.7	40.4	41.6	43	46.3	49.4	9.9
Latvia	39.1	43.2	40	38.5	39.6	42.6	53.7	58	61.5	60.4	59.5	58.8	19.7
Lithuania	47.4	53.9	55.7	50.4	57.1	51.9	65.3	75	81.7	84.1	81.2	76.5	29.1
Hungary	59.7	62.8	74.3	78.3	79.7	74.8	82.3	87.2	86.8	88	89.3	92.1	32.4
Poland	34.3	34.6	37.9	38.6	37.9	37.2	40	42.5	44.4	46.3	47.5	49.4	15.1
Romania	35.6	32.9	32.1	29.1	26.9	27.4	32.3	36.8	37.5	39.7	41.2	41.1	5.5
Slovenia	55	59.6	64.7	67.6	66.1	57.2	64.3	70.4	73.3	75.2	76.5	77.8	22.8
Slovakia	68.7	72.3	81.3	83.5	80.2	67.8	76.6	85.3	91.8	93.8	91.9	93.8	25.1

Source: Eurostat, Code: tet00003 [date of extraction: 28 July 2016]

Table 4: Foreign direct investment: inward stock, annual, 2004–2014
(USD at current prices and current exchange rates, in millions)

GEO/ TIME	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CEE	301,383	323,501	453,676	623,480	597,723	658,771	662,817	631,625	714,525	802,620	730,598
CEE/ UE28	7.57%	7.61%	8.40%	9.08%	9.31%	9.21%	9.32%	8.52%	9.57%	9.64%	9.42%
CEE/ World	2.96%	2.94%	3.34%	3.64%	3.99%	3.74%	3.38%	3.09%	3.24%	3.28%	2.97%

Source: UNCTAD Statistics [date of extraction: 07 December 2015]

Investment Attractiveness of CEE Countries

In response to the political changes and economic transition initiated in 1989, foreign direct investments (FDIs) started to flow rapidly into the CEE countries. As the economies from this region lack capital, they are dependent on Western investors, which have been attracted by the excellent geographic location, privatisation process, new opening markets (and consumers), cheap but well-educated labour force, different investment incentives, and accession to the EU. Data on the inward stock of FDIs in CEE countries are presented in Table 4.

Table 4 shows that CEE countries have improved their investment competitiveness, as they were becoming an increasingly more popular destination for foreign capital, both in absolute terms (an increase of FDIs inward stock from 301,383 million USD in 2004 to 730,598 million USD in 2014), as well as a share in total world (small increase by 0.01 p.p.) and especially the whole EU (increase by 1.85 p.p. in an analyzed period). Analyzing this indicator from the perspective of the world economy, CEE economies experienced a parabola-like share of inward FDIs, with the peak equal to 3.99% in 2008. It means that the global economic crisis had stronger negative effects on inward foreign direct investment in CEE in comparison to the total world, but weaker than in old EU member states.

In the context of international capital flows, CEE is traditionally treated as a recipient region. However, the question arises if we can perceive this region as a location offering favourable conditions for companies eager to internationalise their economic activity not only through export but also foreign direct investments. The second type of foreign market entry mode is more challenging as it calls for more resources and bear higher risk. Table 5 presents data on the value of annual outward FDI (OFDI) stock from CEE, both in absolute terms and in relation to the whole EU and total world.

Table 5 confirms that in recent years we observe relatively small, but dynamically growing foreign investments made by companies located in CEE. For many years, CEE OFDI was almost negligible and limited to trade-supporting activities in key export markets. Since the EU enlargement in 2004, we observe fast increase of CEE OFDI, from 0.42% of the whole EU to 1.65% in 2014 (and from 0.19% of the total world to 0.62%). This pattern confirms that CEE economies are moving forward the stages of internationalization, which result in the growing value of OFDI, as provided by the Investment Development Path (IDP) hypothesis, first formulated by Dunning (1981).

Conclusions

Although recent approaches to economic competitiveness have begun to focus on a broad range of aspects going beyond

Table 5: Foreign direct investment: outward stock, annual, 2004–2014
(USD at current prices and current exchange rates, in millions)

GEO/ TIME	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CEE	20,145	25,083	43,668	66,666	78,311	88,176	88,277	95,063	115,009	160,329	151,574
CEE/ UE28	0.42%	0.49%	0.68%	0.84%	0.99%	1.01%	0.99%	1.03%	1.26%	1.67%	1.65%
CEE/ World	0.19%	0.21%	0.30%	0.37%	0.49%	0.47%	0.43%	0.45%	0.51%	0.65%	0.62%

Source: UNCTAD Statistics [date of extraction: 09 Dec 2015]

income levels, like involvement in international trade or investment attractiveness, GDP per capita still remains the most popular measure in this area. From this perspective, after 2004 there have been persistent income gaps between CEE countries and the EU average, but they are progressively diminishing. However, analyses going beyond simple evaluation of levels of GDP allow for more in-depth cross-country comparisons of different aspects of international competitiveness and its determinants. Hence, broader analyses reveals that the process of income convergence in Europe was accompanied by increasing (faster than EU average) share of CEE exports of goods and services in GDP, indicating a growing trade competitiveness. Progressive internationalisation of CEE countries was also manifested by augmenting flows of inward FDI (which demonstrate an improvement of investment competitiveness), and dynamically growing (however still relatively small) outward FDI, proving the Investment Development Path hypothesis. Thus, the CEE countries experience relatively fast rates of economic growth, as their international competitiveness in terms of income levels, position in the global marketplace, and investment attractiveness have all been improving in the last decade; however, the convergence toward Western Europe will be a long-term process. Multidimensional character of international competitiveness means that its analysis must move beyond a simple comparison of GDP, and this is the case for all regional and not just CEE countries.

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