THE ROLE OF THE INTERNATIONAL ECONOMIC ORGANIZATIONS AND THE PUBLIC SECTOR IN CREATING AND SUSTAINING INTERNATIONAL COMPETITIVENESS

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Abstract: *By analyzing the global economy, one can easily notice that states that record economic growth are competitive, and that the competitive ones collect revenues of billions of dollars from trade, outsourcing and meeting the needs of their citizens. The role of private sector in creating and sustaining competitiveness it is well known. But what actions are undertaken by the international organizations and the public sector in this direction? The scope of this article is to offer a brief description of the role played by these actors taking into account that they must create the fundamental condition for competitiveness: macroeconomic stability.*

Keywords: public sector; international organizations; international competitiveness.
JEL Classification: F00; E00.

INTRODUCTION

With the intensification of international competition, the results of assuming broad responsibilities by the state in economy became obvious. Fiscal deficits, bureaucracy, governmental dependency of individuals, privileges granted through protectionism to national firms have become embarrassing restrictions for growth. A compromise between free market and dirigisme - probably the only way to ensure efficiency and equality - has not yet succeeded anywhere in the world (Beacon Hill Institute, 2011). State involvement in education, health, regulation of social, economic life aims to create the favorable conditions for the development of a competitive environment, requiring high standards, creating the premises for competitiveness.

Sustainable economic growth and the improvement of living standard of the population are determined by the development of economic competitiveness in the context of global challenges: economic globalization, opening of international markets, rapid technological change. These challenges do not mean that states are likely to disappear or that the role of government decreases in the era of the globalized economy. On the contrary, if the economic decisions were left to the market forces alone, the likely result would be some kind of economic crisis, or stagnation. So far "…the markets have not demonstrated that they are sufficiently sophisticated and function sufficiently smoothly to discriminate between good and bad policy objectives." (Ruggie, 1997). With increasing

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economic openness and with the pressures of international production and financial globalization, it is very hard to overestimate the central role of the state in providing a buffer between the clashing interests of its citizens' welfare and the effects of the global economy.

If governments cannot react to the fast changing international economic environment, they lose. After the first painful experiences, they must learn to navigate in the dangerous waters of the globalized economy. This does not apply to developing countries and transition economies alone, but to every open economy in the world. The difficult part under the new rules of the global economy is to know when the government should intervene. The best alternative for governments here would be to see what policies have worked and which have worldwide failed.

1. CONTRIBUTION OF INTERNATIONAL ECONOMIC ORGANIZATIONS TO THE IMPROVEMENT OF ECONOMIC POLICIES AND INSTITUTIONAL REFORMS

The issue of international economic competitiveness has come into notice in recent years, not only in literature. In times of economic globalization, open economies are concerned with a possible loss of competitiveness. In addition, international organizations and forums, such as the World Trade Organization (WTO), United Nations Industrial Development Organization (UNIDO), the Organization for Economic Cooperation and Development (OECD), International Monetary Fund (IMF), UNCTAD and the World Economic Forum are interested in the international competitiveness of nations, industries and financial markets. The European Commission publishes annually The Report on European Competitiveness, containing an analysis of recent developments in the global competitiveness performance of the EU and the impact of economic reforms on productivity. The OECD studies the impact of policies on labor productivity and use in member countries in the annual publication Going for Growth. The IMF regularly examines the competitiveness development processes in member countries as part of its surveillance exercise specified in Article IV, while the World Bank, the World Economic Forum and the International Institute for Management Development (IMD) have developed international rankings of countries, rankings using competitiveness indicators, focusing on the microeconomic level (Leichter et al., 2010).

For more than three decades, the Global Competitiveness Reports of the World Economic Forum have studied and evaluated many factors underpinning national competitiveness. The purpose of this paper was to provide an insight and to stimulate discussion among all interested parties on the best strategies and policies that would help countries overcome obstacles in order to improve competitiveness. Reports contribute to understanding the key factors determining economic growth, help to explain the phenomenon that some countries are more successful than others in rising income levels and providing opportunities for the public, and offer policymakers and business leaders an important instrument for shaping economic policies and improved institutional reforms. In the current economic environment, this information and guidance effort stress out the importance of structural economic fundamentals for sustained economic growth (Schwab, 2012).

The activity of the IMD World Competitiveness Center results in a series of yearbooks and workshops. The IMD Yearbooks, published since 1989, have been an excellent source of information and inspiration to investigate the competitiveness degree of a country, the main reasons underlying this competitiveness and to develop new ways to improve competitiveness. They also allow cross-country comparisons on a regional and global level, provide insights that may underlie the decision-making process, help to establish priorities and policies and are used to promote investment in a country, state or region. The workshops on competitiveness are usually organized to complete a special report. Within these workshops, results are disseminated, the facets of competitiveness are explained, the challenges and opportunities facing the economy are analyzed, the success factors found in the most competitive environments are highlighted, the best practices to enhance competitiveness are discussed, the results and priorities for a country are examined. These workshops can be organized independently of the reports (IMD World Competitiveness Center, 2012).

The mission of the Organization for Economic Cooperation and Development is to promote policies that improve economic and social welfare of individuals around the world. OECD provides a forum for governments that facilitates the sharing of experiences and finding of solutions to common problems. The organization works with governments to explain and understand what determines the economic, social and environmental changes, measures productivity and global flows of trade and investment, analyzes and compares data to predict future trends and international proposes international standards for a wide range of fields, from agriculture and taxes, to the safety of chemicals (About the OECD, 2013).

World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its base lie trade agreements, negotiated and signed by most of the nations that are part of foreign trade processes and ratified in their Parliaments. The goal is to help producers of goods and services, exporters and importers run their business. WTO is an organization that supports trade liberalization, is a forum for governments to negotiate trade agreements and a place for solving commercial disputes that operates a system of trade rules. Essentially, WTO is a place where member governments are trying to solve professional problems which they face (What is the WTO?, 2013).

UNCTAD promotes the amicable integration of emerging countries in the global economy. UNCTAD aims to help shape current policy debates on development, with a particular focus on ensuring that domestic and international policies support each other in achieving sustainable development. The organization has three key functions: it functions as a forum for intergovernmental deliberations, manifested in the form of discussions with experts and exchanges of experience, aimed at consensus building; it engages in research, in strategic analysis and data collection for the debates of government representatives and experts and provides technical assistance tailored to the specific needs of emerging countries, with particular attention to the least developed countries and economies in transition (About UNCTAD, 2013).

These organizations try to assess national economies in order to prevent fundamental issues that can affect the growth and stability of the world economy, to support the integration of emerging countries in world trade and to forecast future developments in global markets (Mitschke, 2008).

2. THE ROLE OF THE STATE IN CREATING AND STRENGTHENING THE COMPETITIVE ADVANTAGES

In the endless debate on the competitiveness of nations, no subject causes more controversy than the role of the state. Many see the government as an important supporter of the industry, promoting a series of policies that directly contribute to the strategic industries competitive performance. Others accept the principle of laissez-faire, the economy better functioning under the action of the invisible hand (Cho, Moon, 2000).

Both views are incorrect. On the one hand, government intervention requires policies that, in the long term, affect companies, creating a constant need for help. On the other hand, the role of the state in providing context and institutional infrastructure in which businesses operate and in creating the environment that stimulates firms to gain competitive advantages is not recognized.

Governments must play a crucial role in ensuring macroeconomic stability and providing stable political, legal and social institutions. However, given these prerequisites for prosperity, the microeconomic level, firm sophistication and quality of their environment should be examined (Snowdon, Stonehouse, 2006).

The proper role of government is catalyst and competitor; to this regard, the government should encourage - or even push - companies to exceed their aspirations and achieve higher levels of competitive performance, even if the process is unpleasant and difficult. The government cannot create competitive industries, this is the responsibility of companies. The role of government is partial, guaranteeing success only in connection with the factors of diamond. Yet the government's contribution in the transmission and amplification of the diamond forces is very high. Of the government policies, successful are those that form an environment in which companies gain competitive advantages, not those that involve direct government intervention in the process, except for countries in the lower stages of development (Magnusson, Ottoson, 2001).

It is not difficult to understand why many governments consistently make the same mistakes: the competitive time of firms do not coincide with the political time of governments. It takes little more than a decade for an industry to become competitive; the process involves prolonged upgrading of labor, investment in products and processes, building clusters and entering foreign markets. In politics, a decade implies an eternity. Consequently, most governments prefer policies that provide short-term benefits, such as subsidies, protection and arranged mergers - policies that slow down innovation. Policies that make the difference are often too slow and require much patience, or are accompanied by short-term suffering (Tiemstra, 1994). For example, the deregulation of protected industries will cause short-term failures, but in the long term, companies will become stronger and more competitive.

One can mention a number of simple fundamental principles that governments can apply in their role of supporting national competitiveness: to encourage change, to promote domestic competition, to stimulate innovation. Some of the approaches necessary to support nations to gain competitive advantages include:

Attention granted to specialized factor creation. The government is responsible for the primary and secondary education systems, the national infrastructure and the main areas of national interest, such as health. These basic factors rarely lead to the acquisition of competitive advantages. Advanced specialization programs, university research efforts in collaboration with trade and industry associations and, most importantly, private firms investment will generate, ultimately, competitive advantages (Soubbotina, Sheram, 2000).

Avoiding intervention on the foreign exchange market and on the production factors market. Government seeks to intervene in input markets and foreign exchange to reduce input costs and to influence the exchange rate in order to support firms in competing more efficient in international markets. But the reality has shown that these policies are often counterproductive. They operate against industrial modernization and the search for sustainable competitive advantages (Dublin National Competitiveness Council, 2008).

Implementation of safety and environmental standards. Strict government regulations can promote competitive advantages by stimulating and upgrading the domestic demand. Rigorous standards regarding product performance, its safety and environmental impact forces companies to improve the quality, to upgrade technology and to provide features that meet the needs of society and consumers (European Commission, 2010).

Strict regulations that anticipate standards that will spread internationally offer firms a promising start in developing products and services that will be required anywhere. However, strict standards must be accompanied by a legal process which prevents the absorption of resources or delays.

Strong limitation of direct cooperation between competing industries. The most generalized global policy mentioned in the discussion about competitiveness is the appeal to industrial consortia and a more cooperative research. Governments submit firms the idea of closer collaboration, as individual research is duplicative and wasteful, group efforts determine economies of scale, and in companies there is a risk of low investments in research and development that prevents them from obtaining a number of benefits. But companies rarely bring their best scientists and engineers in joint projects and, most often, allocate more resources to individual research (Schwab, 2011).

In certain circumstances, collaborative research may be beneficial. Projects should target products and processes research, not those areas which represent the sources of advantages for companies. They must own only a small part of the entire research program of the company, regardless of the field. Collaborative research should be indirect, carried out by independent organizations at which the majority of industrial participants have access. Organizational structures, such as university laboratories and centers of excellence, reduce management problems and minimize the risk of competition. Finally, the most successful joint projects often target areas that concern most of the industrial sectors and that require a substantial amount of investment in research and development.

Promoting objectives that lead to sustainable investment. Government plays an important role in shaping the objectives of investors, managers and employees through the set of adopted policies. For instance, the degree of regulation of capital markets influences investors decisions, so the behavior of firms. Government must encourage investment in labor, in innovation and in physical assets (Salvatore, 2010).

Deregulation of competition. Regulating competition through public policies such as maintaining public monopoly, controlling inputs in industry or fixing prices implies two negative consequences: mitigates competition and innovation as companies become concerned with compliance with these regulations and with the protection of what they have and transforms the industry in a supplier or client less dynamic and less appropriate. Deregulation and privatization are not successful unless accompanied by fierce domestic competition and strong antitrust policy (Magnusson, Ottosson, 2000).

The adoption of strong national antitrust policy. An antitrust policy - especially for horizontal mergers, alliances and unfair behavior - is fundamental to innovation. As a result of globalization and the formation of national champions, multiple mergers and alliances occur, thereby undermining the creation of competitive advantages. Keeping national competitiveness implies governments to prohibit mergers, acquisitions and alliances involving industry leaders. In addition, mergers and alliances standards should apply to both domestic and foreign firms. Also, government policy should favor entry, both national and international, to the detriment of acquisitions (Grybaite, Tvaronaviciene, 2008). However, companies should be allowed to take small firms in related industries considering that this acquisition promotes the transfer of skills and helps create competitive advantages.

Quitting trade control. Controlled trade is a dangerous and growing trend. Methodical marketing agreements, voluntary austerity agreements or other practices adopted to achieve quantitative targets in order to divide markets are risky, inefficient and costly for consumers (Schwab, Brende, 2012). Promoting industrial innovation is displaced with a guaranteed market for inefficient companies.

The trade policy established by the government must pursue opening outwards. To be effective, it should be an active tool; it should not be limited only to respond to complaints or to work in favor of those industries that have political influence. Trade policy should open those markets where the nation has competitive advantages and to meet emerging industries and problems in the early stages.

CONCLUSIONS

Innovation, competition and cooperation can positively influence all drivers of value creation. All the improvements of productivity can create advantages that can be used to limit competition. The need for competition and cooperation policies results from the necessity of not counteract the beneficial effects of cooperation on productivity and value creation. Industrial and competition policy should be consistent with other macroeconomic policies (such as education and health), but must be supported by a facilitator institutional context.

Many researchers emphasized the importance of institutions and institutional changes in reducing transaction and transformation costs and in supporting productivity and growth. Governments can be a powerful catalyst in institutional changes, holding the monopoly of power and the ability to legislate and regulate. Designing a facilitating framework is part of industrial policy and competition. The neoclassical theory of "market failure" implies that institutional context is given. The possibility of it to vary involves a more proactive role for the state. In this situation, the state should only intervene when markets fail. The proactive action of legislating and regulating is preferable, so that markets, firms and the state itself fail less and contribute to value creation. Importantly, governments should contribute to the development of markets (Olsen, 2000), but also to their creation, as do firms (Pitelis, Teece, 2009).

Industrial and competition policy should be seen in the broader context of global sustainable growth of value creation. Competition policy should aim at maximizing the net benefits of cooperation. The road to sustainable value creation is not just in one direction. Countries should exploit the informational benefits due to the existence of a plurality of institutional and organizational forms.

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