



Defining Competitiveness in the Globalized World:  
Building on Competitive Advantage, Comparative Advantage and New Growth Theories

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In the late 1970s, intellectual leaders, including scholars and politicians, began to emphasize the concept of competitiveness in the race to achieve a country's economic success in the globalized world (Krugman, 1996). In 1990, Michael E. Porter published his influential book, *Competitive Advantage of Nations*, which spread the term globally and ubiquitously. The versatility of the term, however, has generated some ambiguity. No consensual meaning of the term has emerged to date even though scholars have been striving to develop and agree on one definition of national competitiveness (Krugman, 1994). This study was an attempt to clarify what national competitiveness means in the globalized world. To address the purpose, a social science theory building process (Silver, 1983) was used to analyze existing definitions of national competitiveness and formulate a comprehensive definition of the construct based on extant research and, specifically, competitive advantage theory (Porter, 1990), comparative advantage theory (Krugman & Obstfeld, 1999), and new growth theory (Romer, 1986).

The process of developing a definition of national competitiveness utilized the content analysis method by Elo and Kyngas (2007) to: (1) systematically analyze definitions of national competitiveness in extant research to extract key concepts; (2) derive interrelations between the extracted concepts; and (3) formulate a comprehensive definition of the construct. In this study, the Porter's (1990) national competitiveness theory was chosen as a guideline for inductive content analysis because it has greatly influenced national competitiveness discussions and research.

Based on Porter's (1990) competitive advantage theory, six concepts that define competitiveness construct were extracted: competition; high and growing standard of living; national per capita income; principle goal of a nation; productivity; and sophisticated industry. Next, these six concepts were grouped into three higher-order factors—principle goal, method, and background—to create a focused, but comprehensive categorization matrix of concepts that make up the competitiveness construct. Following that, the authors deductively identified and refined each factor in the categorization matrix by drawing on ten definitions of national competitiveness available in the literature (Elo & Kyngas, 2007). The principle goal factor was conceptualized as an increasingly high standard of living and was operationalized as income per capita growth, employment growth, and income distribution equity (Aiginger, 2006; Kohler, 2006). The method factor of achieving competitiveness, or a high standard of living, was conceptualized as productivity growth based on comparative advantage theory (Krugman & Obstfeld, 1999). Based on new growth theory (Romer, 1986), the background factor was conceptualized as the new competitive environment, where industries and economies not only

compete on traditional input factors (labor and capital) but also on a new input factor, knowledge. In the new competitive environment, knowledge, or the way inputs are converted into outputs, becomes a very important factor that determines productivity of domestic industries which, in turn, affects countries and industries' principle goal of competitiveness (Krugman, 1994). Based on the three developed and defined factors, the following definition of national competitiveness was proposed: *In the new global environment where knowledge plays a critical role, national competitiveness is a country's ability to achieve an increasingly high standard of living for its citizens through productivity growth.*

Based on competitive advantage theory, comparative advantage theory, and new growth theory and extant research, this study clarified and refined the meaning of national competitiveness construct in the current globalized world. Theoretically, this research bridges the gap and brings together perspectives of competitive advantage theory (Porter, 1990), an international trade economics research stream based on comparative advantage theory (Krugman, 1994) and a growth economics research stream based on new growth theory (Romer, 1986). Governments interested in increasing national competitiveness can use the results of this research as a basis to formulate policies to increase economic and industrial growth. The clarified definition can be used to create guidelines for measuring the effectiveness of competitiveness policies, initiating industry specific policies to increase productivity and assessing the current status of the competitiveness' background factor.

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