Chapter 91
Drivers of Global Competitiveness and Economic Growth

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ABSTRACT

This chapter focuses on the issue of global competitiveness of the economies, based on the dimensions analyzed by the World Economic Forum in assessing the economic competitiveness of a large sample of countries. From the different stages of development of the countries, the study aims to help us to understand what pillars contribute most to the global competitiveness. Results based on structural equation model show what dimensions within each economic development stage best explain the competitiveness, helping us to realize even the performance achieved by the most advanced economies. Understanding the association of factor groups, pillars and related items, and levels of competitiveness may help academics to conduct new studies, as well as politicians in the definition of intervention priorities.

INTRODUCTION

In the last decade a lot of ink has been spilled on paper, the result of numerous studies conducted on competitiveness and growth of economies. Porter (1990) presents his conceptual framework of competitiveness first in The Competitive Advantage of Nations. Stajano (2006) argues that the prosperity of an economy stems from its ability to compete in the global market. The ability of businesses to survive and compete in increasingly global and sophisticated markets depends on a wide range of aspects such as the efficiency of public institutions, the excellence of infrastructure, health and quality of education as well as political and economic stability of their countries of origin (Önsel et al., 2008).

Innovation is massively defended as the key element for the creation of wealth from the countries (Gibson & Naquin, 2011). Porter & Stern (2001, p. 28) argue that "Innovation has become the defining challenge for global competitiveness". The increasing globalization of markets and the resulting increase in competition associated with increased technological complexity, make innovation a key aspect of the competitiveness of companies, economies and regions hosting them (Álvarez, Marin, & Fonfría, 2009). A growing interest has been shown by governments to maintain the competitiveness of their economies through the use of policies to stimulate advances in science and technology (Clark & Guy, 2010). In industrialized countries, the promotion of networking among small manufacturers has resulted in enhancing the competitiveness of firms and economies, fostering new standards of business sophistication (Kingsley & Malecki, 2004).

About drivers of competiveness, Porter (2004) distinguished two broad categories: macro and microeconomic dimensions. Microeconomic foundations, identified as traditionally neglected by policy makers assume the foundations of macroeconomic reforms to achieve sustainable prosperity of economies. Published Annually since 1979 by the World Economic Forum (WEF), the Global Competitiveness Report (GCR), portrays the comparative strengths and Weaknesses of countries (Fendel & Frenkel, 2005). The GCR analyses today the relative competitiveness of economies across a broad range of microeconomic and macroeconomic indicators. The drivers of competitiveness are many and complex. The GCR groups them into 12 pillars of competitiveness: (1) institutions, (2) infrastructure, (3) macroeconomic stability, (4) health and primary education, (5) higher education and training, (6) goods markets efficiency, (7) labour market efficiency, (8) financial market sophistication, (9) technical readiness, (10) market size, (11) business sophistication and (12) innovation (Schwab, 2013). The WEF gathers its data from two sources: international sources of hard drive data and the Executive Opinion Survey. Research to capture the perception of business executives about the environment in which they operate (Rosenbaum, 2011; Schwab, 2013).

This study aims to clarify which macro and microeconomic variables that contribute most to the explanation of the global competitiveness of nations, irrespective of their stage of development.

We structure the chapter into five sections: Introduction; Theoretical background; Methodology; Empirical results and discussion; and Conclusions and further research.

THEORETICAL BACKGROUND

The countries' prosperity is based on its capacity to compete in the global market. For this reason it is crucial to analyze its position in terms of competitiveness (Ketels, 2006; Porter, 1990; Stajano, 2009).

Competitiveness is not an end in itself, but an indication of a way to go, a set of dynamics to follow in pursuit of socio-economic success of a city, country or region (Turok, 2004). Competitiveness can be understood as a set of institutions, policies and factors, embedded in networks of innovation and entrepreneurship, able to determine the level of productivity of an economy, wealth creation, job creation, capture and return of investment, with the ultimate goal of ensuring economic growth and social welfare (Farinha, Ferreira, & Gouveia, 2014; Farinha & Ferreira, 2013; Schwab, 2013).

Porter (1990) frames the competitive positioning of countries from their grouping into three stages: (1) factor-driven, (2) efficiency-driven, and (3) innovation-driven; and two transitions between stages. Schwab (2013) in GCR reinforces the need to incorporate countries in their different stages of develop-

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