

## **ECONOMIC COMMISSION FOR EUROPE**

Fifty-ninth session, 24-26 February 2004  
(Provisional agenda item 3)

### **BACKGROUND PAPER ON COMPETITIVENESS AND GROWTH IN THE UNECE REGION**

Note by the secretariat

#### **A. BACKGROUND**

1. Every country in the UNECE region shares the same goal – finding a way to create good jobs, increase wages, and improve the standard of living for its citizens. Some countries are more successful than others. In order to explain the crucial factors behind such differences one has to look at the competitiveness of countries and how competitiveness can promote economic growth.

2. From a macroeconomic perspective, competitiveness can be broadly defined as the ability of a country to achieve sustained rates of economic growth, which are broadly in line with those of major trading partners. It is an inherent element of the market economies and measures the efficiency of individual countries with which they are involved in the global division of labour.

#### **B. EVIDENCE FROM THE UNECE COUNTRIES**

3. In investigating why some countries consistently outperform others, studies conducted at the UNECE emphasize the role played by four different aspects of competitiveness: technology, capacity, costs, and demand for products. Empirical evidence from countries in the UNECE region demonstrates the relevance of both technology and capacity competitiveness while costs and demand for products turn out to be less important. Deteriorating competitiveness in generating capacity has been one of the main factors hampering the countries in eastern and central Europe in exploiting the potential for catching up in technology and income. As for technology competitiveness, there is a clear divide between the advanced EU member countries and the EU-acceding countries as well as the countries in southeast Europe and the CIS.

4. This difference is not so much rooted in increases in Research and Development (R&D) expenditures as in growing innovation (measured by patents) and the development of the scientific infrastructure. A divide of a different type is visible along the capacity of factors of production. In this case, there is catching up along one dimension, human capital, particularly by the new EU members. This, however, is more than counterbalanced by an increasing

digital divide caused by much higher investments in Information and communication technology (ICTs) in the advanced EU member countries.

5. These trends point to the possibility of continuing divergence among the UNECE member countries. However, at any time some countries manage to defy the trend. In the UNECE region, it is the acceding countries that appear to have the best chance in that respect. These favourable prospects contrast with those of a number of other formerly centrally planned economies, which appear to witness deteriorating competitiveness in all the four dimensions mentioned earlier. Clearly, if these countries are going to catch up, they will have to find ways to break this vicious cycle. One way would be to exploit the comparative advantage of these countries by concentrating on low cost strategy for improving competitiveness. But countries may soon face constraints due to lagging technology and capacity competitiveness.

6. At present there are also considerable within-country regional economic disparities, even in the industrialized UNECE economies. The east European and CIS economies, which are aiming to catch up with their western neighbours, also tend to be affected by the divergent development within different regions in the same country. These disparities reflect, *inter alia*, large differences in the competitiveness of the regions and localities and their different capacity to attract and efficiently absorb production factors.

### C. FACTORS TO IMPROVE COMPETITIVENESS

7. Enhanced competitiveness requires

- the creation by governments of environments that promote cost and qualitative competitiveness e.g., human and capital resources; and physical, administrative, information and scientific and technological infrastructure;
- investments by firms and/or clusters of firms that implement strategies to achieve these goals;

### D. REALIZATION OF THESE FACTORS

8. Realization of these factors require attention *inter alia* to the following cross-cutting issues that drive competitiveness, namely

- (i) technical skills, research, and innovation;
- (ii) entrepreneurship and management skills;
- (iii) publicly financed social protection;
- (iv) infrastructure modernization and integration.

9. Although the government plays a critical role in setting the overarching legal, fiscal and regulatory environment for economic growth and development, success or failure often depends on what happens locally. The ability of regions to leverage local talent and resources to support robust innovation is the key, though often under-appreciated, driver of economic growth.

## F. ROLE OF THE GOVERNMENT

10. The most important role that government can play in improving competitiveness is to create the conditions for rapid and sustainable growth by maintaining a stable economic environment in the country. This requires the adoption of necessary reforms for improving the underlying structure of the economy as well as continuing with the process of structural adjustment in order to make it more flexible and adaptable to changes. However, competition involves more than just macroeconomic issues such as stability, growth, etc. Addressing these is necessary, but not sufficient. The long term determinant of competitiveness and productivity is rooted in microeconomic conditions in the country. This requires partnership between the private and the government sector.

11. An effective business-government collaborative mechanism for ongoing consultative dialogue on competitiveness and the constraints to productivity is thus necessary. The government can initiate such dialogue by creating, for example, public-private competitive institutions. Moreover, social and economic policies must be integrated rather than being seen as separate. Educated, safe and healthy citizens are required for a productive economy. The government must establish a policy mix to ensure that these areas – which need to be in alignment – are complementary and interdependent.

## F. ROLE OF THE UNECE

12. In order to enhance its role in further stimulating competitiveness, the UNECE will:

- analyse the best practices and policies that have been successful in fostering competitiveness and growth in individual countries in the UNECE region. Share the lessons learned from such experience with other countries in the region.
- emphasize the need for initiatives at the regional and sub-regional level in order to enhance competitiveness and economic growth by promoting dialogue and interaction among the major stake holders.
- assist in meeting the new challenges posed by the advance of the knowledge-driven economy by arranging to provide necessary support to different sectors in a country's economy in order to meet the new needs.
- identify some of the main tasks and responsibilities of governments in the UNECE region in order to foster the competitiveness and growth of their economies by highlighting targeted policies in
  - (i) promoting R&D, innovation and technological transfer, competition policy and labour market policy;
  - (ii) creating supportive public institutions;
  - (iii) establishing a transparent regulatory framework; and
  - (iv) emphasizing the role of public and private partnership in infrastructural investment for competitiveness and growth; and the role of public policy and institutional factors in stimulating regional development.