

Conceptual Basis of Policy of Competitiveness under the Conditions of the Slovak Economics

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The paper is devoted to justification of legitimacy of creation and application of policy of competitiveness in comparison with industrial policy and taking the real key factors of competitiveness, preferences and instruments of competitiveness policy into account it defines the conceptual basis of policy of competitiveness appropriate to the conditions of the Slovak economics.

Introduction

The problems of competitiveness are a multidimensional phenomenon, highlighting the importance of mechanism of application of a product on global market and, at the same time, the necessity of improvement of offer side of economics [4]. If we define the competitiveness as the ability of economics to export goods and services with the aim to ensure external economic balance at concurrent ensuring of continuous growth of per capita income, sufficient rate of utilization of production factors while respecting social and environmental aims, or the ability of the country (or undertakings operating within) to produce relatively more wealth than competitors on world markets, always the same conclusion will result from these definitions [7]. There is a need to assign a decisive task not only to business undertaking level in generation of competitive advantage [2], but also to active macro policy in creation of macro-environment stimulating an increase of effectiveness of relevant real sources of competitiveness.

The economic policy in economically advanced economics focuses predominantly to stabilization of macroeconomic development as one from necessary conditions of growth of competitiveness of economics [8]. The other sphere of its influence is common liberalization, which determines especially relative reduction of costs as one of the preferences of competitiveness under the conditions of standard acting market mechanism. The concept of policy of competitiveness in these economics accents the increasing of efficiency of offer side of economics under new conditions of globalization [9] and usefulness of meaningful visions about efficient utilization of nationally oriented sources [5].

The aim of the paper is to justify the legitimacy of creation and application of policy of competitiveness with emphasis on theoretical definition of factors of competitiveness, preferences and instrument provision of policy of competitiveness and based on the given knowledge to define the conceptual basis of policy of competitiveness for conditions in the Slovak economics. This

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1. Legitimacy of policy of competitiveness

Transforming economics of Central and East Europe have worked out a concept of industrial policy in the effort to overcome low competitiveness in comparison with advanced countries [7]. The concept of industrial policy elaborated in the period of time of decline of conversion of many industrial branches, was not only new concept of policy of competitiveness, but it was significantly specified policy type. The industrial policy in transforming economics was drawn on branch or business undertaking principle of determination of structural modifications on one hand, but on the other hand, as a separated part of economic policy it was insufficiently connected with currency and financial policy. If the functions of economic policy are taken by various special interest group representing usually short-term partial aims of representatives of the major industrial groups, the industrial policy could not even be the real component part of economic policy.

The industrial policy interpreted in this way, elaborated as a branch type of specific policies may interfere with the principles of market system acting along with broadly operating policies and thus result in non-optimal allocation of sources from the long-term point of view [8]. On the other hand, an unbalance of economic policy in connection with increase of competitiveness of economics is shown in its orientation only to creation of stable macroeconomic development as one of the conditions of competitiveness of economics without more broadly applied ambition to stimulate qualitative parameters of economic development and improvement of competitiveness. It results from abovementioned that the concept of policy of competitiveness (diagram 1) is more adequate at ensuring of the increase of competitiveness of economics in comparison with the concept of industrial policy.

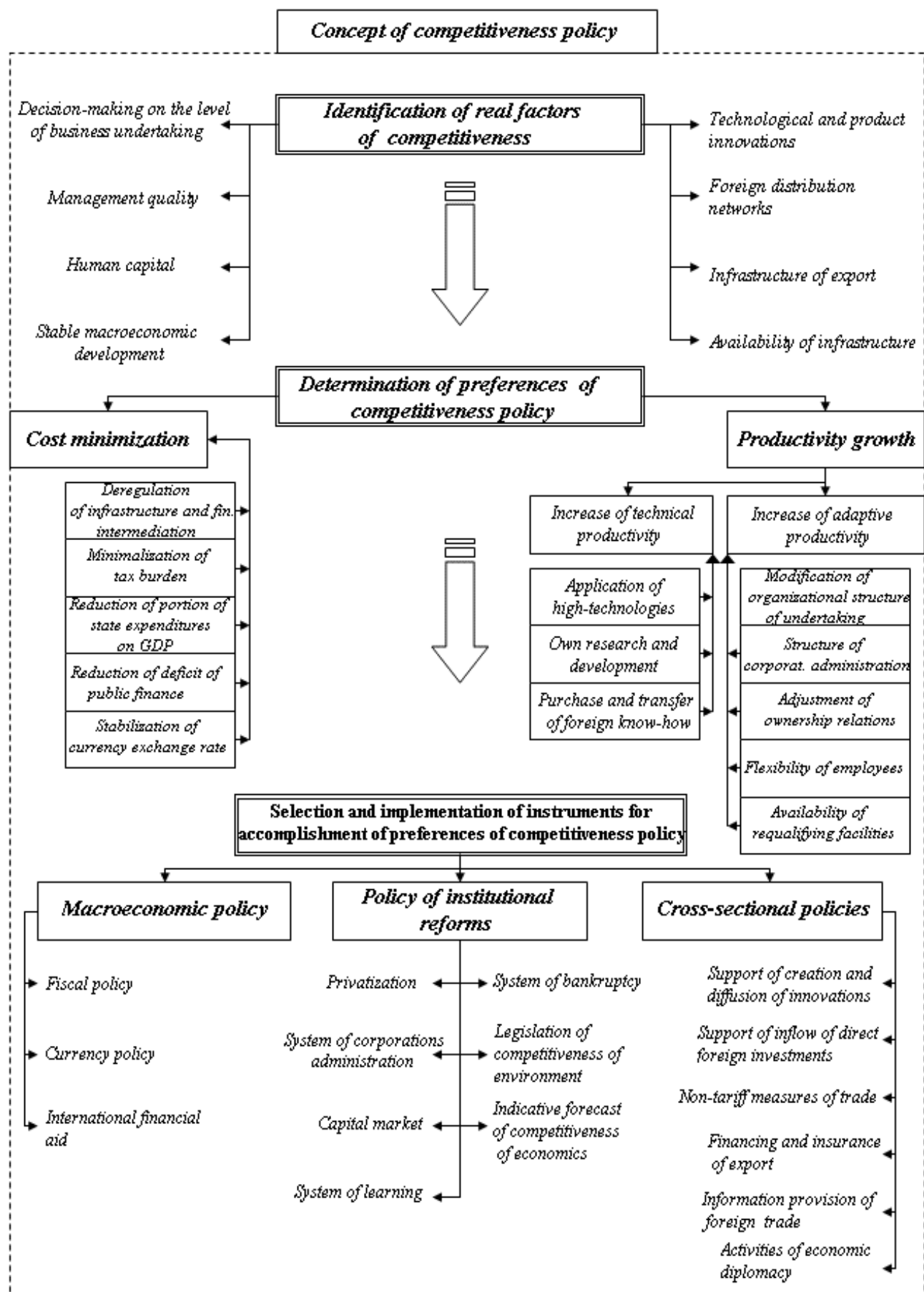


Diagram 1. A draft of policy of competitiveness

Source: Own diagram

Total draft of policy of competitiveness has to identify, analyze and indicate possible or required development of key factors and main indicators of competitiveness in the economy as a whole and at the same time it has to define a setting of relevant sources of policy of competitiveness in mutual interconnection.

2. Policy of competitiveness under the conditions of the Slovak economics

Improvement of economical and political approach for support of competitiveness of the Slovak economics requires broader understanding of the problem of support of competitiveness improvement. It is needed to understand the problems of central government support of competitiveness as a support of total increase of economics [1] and based on this, it is necessary to interconnect particular policies within macroeconomic policies, as well as within cross-sectional (specific) policies from the position of preferences of competitiveness improvement. Anyway, an accomplishment through branch approach does not enable needed interaction of aggregate and relevant cross-sectional and structural views on improvement of competitiveness of economics and its improvement as a whole, especially in the case when the result of interaction is limited to the balance of state budget on the level of relevant chapters. By this reason, the National strategic reference framework of SR as a draft document for policy strategy of competitiveness of economics of SR has been worked out, approved by the Government of the Slovak Republic on December 21, 2006 and officially adopted by the European Commission on August 17, 2007, which document enables the interconnection of the given policies and instruments including a creation of balanced economic legislation (in accordance with the EU legislation) on one hand, and on the other hand, it represents the basic strategic document of SR for utilization of means from funds of the European Union in 2007-2013.

The problems of competitiveness of economics has all-economics nature, while an unsubstitutable place of macro policies included within results from the fact that it is possible to express the comparable level of competitiveness of the given economics in an aggregate by the difference of price levels or by Exchange Rate Deviation Index (ERDI). It applies in general that the increase of price level and the reduction of its difference against advanced economics causes the improvement of economic level of the country what results in ERDI decrease and economics competitiveness improvement at the same time. The increase of price level for the interest of its approaching to the price level of advanced countries is usually connected with inflation increase the control of which is the domain of currency policy. The approaching of price levels is usually carried out by real

appreciation of currency, i.e. faster increase of inflation than devaluation rate. However, the problem consists in the fact that really appreciation of currency may not correspond in general with really improved economics performance. The currency may be overestimated due to various non-economic and speculative factors, what will cause that real effective currency exchange rate are not reliable indicator for currency policy. It results from the abovementioned that it is needed to monitor continuously the development of real effective exchange rate and confront it with real increase of labour productivity, reported based on indicators characterizing the level of technologies, product differentiation, development of exchange relations, and so on.

The currency should be retained in a tendency of real appreciation in the case if this appreciation corresponds with real growth of labour productivity. Devaluation of currency does not stimulate entrepreneurial sphere to a growth of quality competitiveness due to expectation of occurrence of a trade gap, rather on the contrary, it causes to slowing-down of reforms, innovation processes and maintaining on policy of low wages.

From the point of view of improvement of competitiveness of economics, the expenditures of state budget and tax burden of entrepreneurial subjects would be gradually decreasing within the framework of fiscal policy. The maintaining of a deficit of the state budget on relatively low level is of the same importance, what subsequently results in lower level of interest rates and expanding space for provision of loans to entrepreneurial sector for loan portfolios of commercial banks.

An application of specific instruments at support of improvement of competitiveness must have cross-sectional nature, but only in accordance with market conformity it is needed the selection criteria of support of certain segments of economics to have also a horizontal nature. Proceeding from the production priority contributing to quality aspects of economic growth, and after all to total gain of economics, it would be appropriate to concentrate to such segments of economics, which have relatively high dynamics of trading on world markets (more than 5% annually), which are characteristic by high level of processing (higher rate of value added, relatively higher price per kilogram and export prices) and which would contribute significantly to improvement of the balance of trade by replacement of import and increase of export.

The key place within specific policies of support of competitiveness improvement would be taken by policy of support of creation, diffusion and subsequent implementation of technologies and innovations, so called *technological and innovation policy* [3]. In contrast to industrial policy, the technological and innovation poli-

cy does not concentrate on support of economically more favourable structure of branches, or departments, but on quality and products and services competitiveness by innovations. Under the influence of innovation, especially radical ones, a whole series of new branches (information technologies, biotechnologies, nanotechnologies and so on) is establishing. The branches which will go beyond traditional branches in their competitiveness are taking the growth potential and become the significant factors of structural changes and modernization of economics. The existence of technological and innovation policy is more pressing as the competition pressures on international market become more intense, a period of time of innovation cycles becomes shorter and demands on timeliness of innovations become higher.

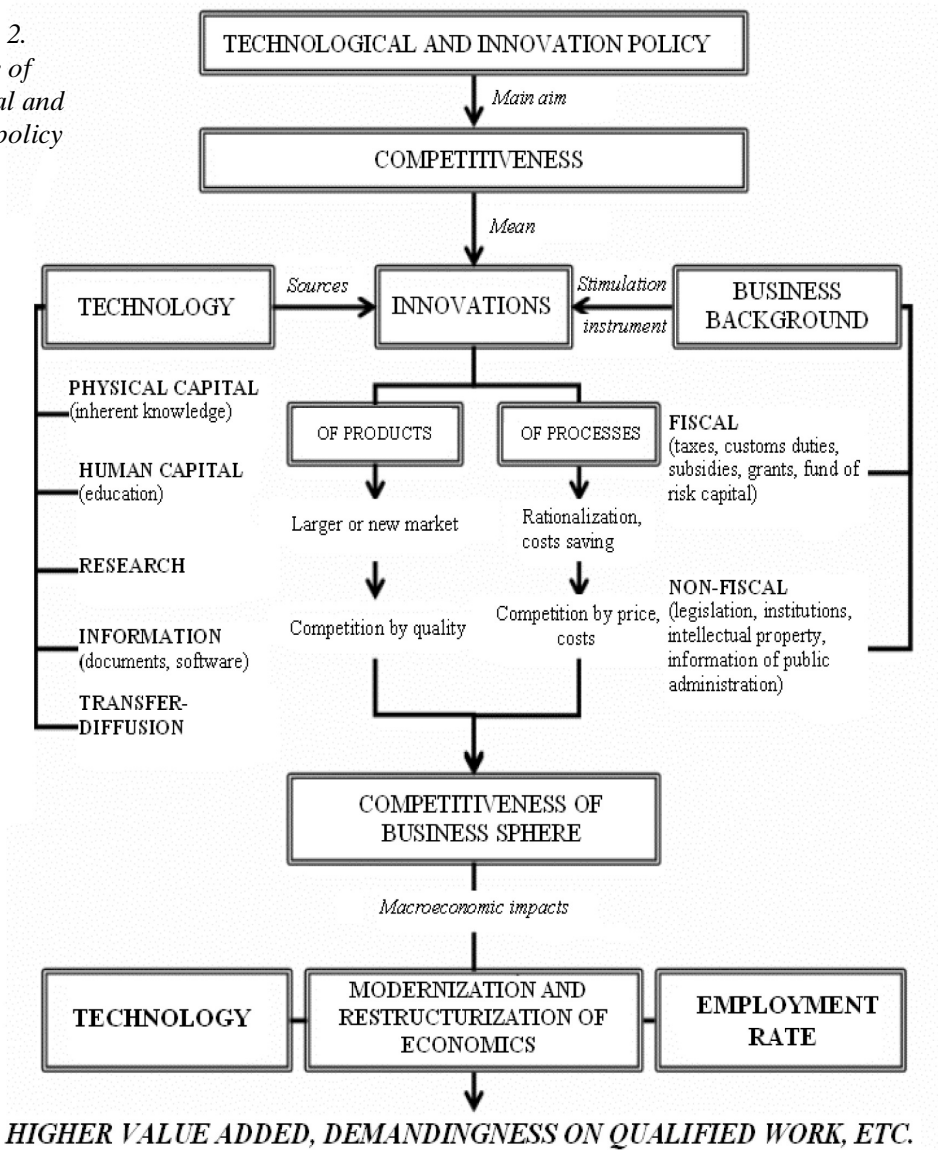
Technological and innovation policy represents now the comprehensive system taking long-term of society and impacts on its future development into account, as well as the systematic analysis and development assess-

ment. It includes the measures supporting *the offer side*, i.e. penetration of innovation into market, as well as *development of pro-innovation business environment*.

Efficiency of technological and innovation policy as a mean of improvement of economics competitiveness depends on *sources*, representing knowledge and research potential, including the channels of transfer and diffusion of technological progress on one hand, and on *instruments* stimulating the willingness of business sphere to undergo increased risk connected with innovation activities, on the other hand. Also balance in orientation of innovations to product- and process ones is of the same importance, what determines the way of achievement of competitive advantage (by qualitatively new utility parameters of products or by rationalization by lower production costs influencing the price of products).

Diagram 2 shows the structure of technological and innovation policy.

Diagram 2.
Structure of
technological and
innovation policy



Source: [6, p. 175]

Under the conditions of the Slovak economics, similarly as for other transforming economics, technological and innovation policy is not accomplished thoroughly by then. It is necessary to identify directions of industrial research and development by a program, which could be used in the process of product differentiation, within a common tendency of support of creation, diffusion and implementation of technologies and innovations (enforcing in economically advanced economics). According to our opinion, the program contents of industrial research and development would be focused to three main areas [4], [8] as it follows:

1) Research and development focused to achievement of high value added

The aim of the given group of industrial research and development will be to contribute to the increase of value added of industrial production in SR. It is desirable to utilize the intensifying factors including research and development in the long-term horizon, so that the portion of value added on gross production in processing industry to increase by 2020 to the level of 35%.

2) Research and development ensuring standard innovation development

The aim of the given group of industrial research and development will be to ensure an increase of competitiveness of domestic production within opened internal market of the European Union. In the long-term horizon, it would be reflected by an increase of coverage of domestic consumption by domestic production, especially in the furniture industry, paper industry, pharmaceutical industry, footwear industry and textile industry by 15-20%, what means that the level of domestic coverage in light industry (including pharmacy) would attain 60-65%. At the same time, it is desirable to increase competitiveness of standard commodities of processing industry by innovation process, especially of machinery industry, electro-technical industry and chemical industry so that this increase of value could be shown in long-term horizon up to the adjustment of foreign-trade balance of Slovakia.

3) Research and development supporting global problems handling

The aim of this given group of industrial research and development shall be to join to handling of global problems, especially in the sphere of protection of living en-

vironment, health of population and ensuring of fulfillment of indicators of sustainable development.

In the long-term horizon, it means to increase total expenditures to research and development gradually, so that we could attain the level of economically comparable countries of the EU. It is expected that the indicator of total expenditures for research and development could be on the level of 1,5% GDP by 2020. However, it requires to increase dynamically the portion of expenditures for research and development especially from the part of entrepreneurial sphere.

The indivisible part of technological and innovation policy is a stimulation of development of entrepreneurial environment. The entrepreneurial environment creating the framework of financial, tax, legal and other control instruments influences the side of offer as well as the side of demand. It principally influences the behaviour of entrepreneurs, their willingness to undergo needed risk and thus at the same time determines the space of occasions for utilization of benefits of innovation activities.

Main instruments of creation of favourable entrepreneurial environment include tax measures, patent protection, and legal regulations facilitating the execution of all the transactions connected with entrepreneurial activity. Innovation business making is, based on experiences, limited mostly by inappropriate regulations, directives and insufficient flexibility of legislation. It prevents to use new possibilities of scientific and technical progress, especially in the first phases of development of innovation, when the uncertainty of penetration into market is the highest.

Creation of appropriate business environment requires the application of governmental coordination function. It results from abovementioned that technological and innovation policy and support of scientific and technical progress is effective only if it is based on consensus of government, commercial sphere, research and educational institutions, independent experts and representatives of employees organizations.

The important motivation factor for business sphere in the area of fulfillment of aims of technological and innovation policy is to be an application of *Operational program Competitiveness and economic growth*¹, which has earmarked EUR 772 millions for this area.

¹Operational program Competitiveness and economic growth (OP C&EG) is based on the National strategical reference framework of SR (NSRF of SR) for 2007-2013, including all basic policies of the European Community for economic, social and territorial cohesion (Strategic general principles of Community for cohesion; Strategy of competitiveness of Slovakia up to 2010, Lisbon's strategy for SR and connected set of „integrated principles“ for 2005 – 2008 approved by the Commission in the area of support of economic growth and labour occasions in Europe; industrial and energy policy of the EU as well as the strategy of the EU for provision of sustainable development). The priority lines of OP C&ED with focus to support of innovations and new technologies are to fulfill long-term vision of economic and strategic development of the country, which NSRF defines as General convergency of economics of SR to the average of the EU 15 by sustainable development. The strategy of fulfillment of outlined vision results from this, defined as Considerable improvement of competitiveness and performance of regions and Slovak economics while respecting sustainable development up to 2013. OP C&ED works out the specific priority of NSRF „Support of competitiveness of business undertakings and services especially through innovations“ through priority line 1 „Innovation and growth of competitiveness“, priority line 2 „Power engineering“ and priority line 3 „Tourism“, which are classified within NSRF hierarchically as a specific priority under the strategic priority 2. „Knowledge economics“.

In our opinion, developing of technological ability is needed to understand as an institutional process of learning, which must be undergone by entrepreneurial subjects in order to have an overview about the offer of technologies, be able to assess it, evaluate, select, use, adjust, improve and develop it independently. This process would lead gradually to creation of national innovation system, what represents, in principle, long-term goal of strategy of technological catching up.

The support of this process requires, of course, a whole complex of measures the frame characteristic of which is included in the draft strategy of technological catching up. The key importance belongs especially to development of education, research and development as well as knowledge diffusion. In our opinion, it is possible to implement the program of support of implementation of strategy, technological catching up by the following specific measures given in Table 1.

Table 1: Draft measures and forms of execution of strategy of technological catching up.

Measures	Execution form
<i>Measures for creation of market-conforming incentives</i>	Deregulation and liberalization of market environment
	Application of selection process of entry into market and exiting it
<i>Measures in the area of tax policy</i>	Application of transparency of tax system
	Option of deduction of expenses for research from legal corporate income tax basis
	Selective application of tax allowances of PZI inflow with emphasis on support of long-term oriented investments generating additional investments
<i>Measures in the area of improvement of material infrastructure</i>	Completion of transport, logistic and telecommunication network
<i>Measures in the area of technological infrastructure</i>	Completion of technologic networks
	Support of technologic institutions, state research and development capacities
	Establishing of technological centers
	Creation of information channels
	Support of international exchange of scientific knowledge
	Development of customer electronic commercial modules for MSP
<i>Measures in the area of development of human capital</i>	Support of business-making and innovation within the framework of education and trainings system
	Continuous improvement of quality of common and university education
	Support of university education from the point of view of creation of a basis of research activities
	Interconnection of qualification basis and activities of state education system with the needs of private sector
<i>Measures in the area of financial infrastructure</i>	System recovery of financial flows in the entire economics with direct connection to legislation
	Availability of short-term loans for financing of contracted production and investment loads for implementation of investment projects
	Selective subsidizing of loans at possibly successful technologically-oriented investments
	Establishment of technological loan funds
	Preparation of implementation of programs of financial support of technologically oriented MSP

Source: [3, p. 94]

Based on complexity of draft measures, it results that implementing innovation of approach to conceptual basis of technological and innovation policy would be a multidimensional process. In this relation, it is necessary to reassess the role of state based on really applied proposals in the most successful economics in the European Union with a special attention paid to pro-innovation adaptation of state functions under the conditions of technological manner of production, exchange and information communication.

2. Conclusion

The conceptual basis of competitiveness policy is oriented firstly to harmonization of competitive background of the Slovak economics with conditions for support of compatibility on the European market.

Long-term absence of effective policy of competitiveness combined with broader transformation problems has caused considerable and increasingly dangerous gap in structural and innovation adaptation of the Slovak economics and thus a lagging of its competitiveness. This trend can be reversible only under the assumption that determining factors of modern development such as science and research, learning and creative productivity of human factor, as well as effective infrastructure for diffusion of inventions and innovations will move from a periphery into the center of attention and become a centre of policy of competitiveness. Its specific aims, content and instrumentary have, at the same time, be responsive sensitively and soberly to real power, strategy and specific activities of determining subjects in the process of globalization, especially of transnational corporations. In other words, globalization and integration dimensions are to be incorporated into conceptual basis of policy of competitiveness of SR, appropriate to conditions of the 21st century. Thus, the following can be considered to be its determinants:

- continuous developing and expanding of investment background of economics based on purposeful combination of transfer of knowledge from abroad and universally supported development of science, research and development in Slovakia,
- permanent development of learning of population reflecting the dynamic needs of new technological manner of production, exchange and information communication,
- systematic building of technological and information infrastructure enabling and supporting the diffusion of new knowledge and innovations from domestic and foreign sources,
- implementation of economic policy which supports the creation of necessary space for continuous enhancement of economics structure by new elements through its instruments based on implementation of innovations and establishing of new, innovations-oriented companies,

- systematic survey of „possible futures“ in the form of visions, prognoses, strategies, plans and programs enabling to identify possible trends of varying reality in due time and to response to them in a certain advance,
- application of principle of participation based in which all the relevant structures and interest groups – representatives of science and research, business sphere, employees, regional self-government participate along with government – as necessary assumption of objectification of development goals, as well as of harmonization of interests and motivation of the subjects participating in their implementation.

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