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The Determinants of National Competitiveness

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Abstract

We define foundational competitiveness as the expected level of output per working-age individual that is supported by the overall quality of a country as a place to do business. The focus on output per potential worker, a broader measure of national productivity than output per current worker, reflects the dual role of workforce participation and output per worker in determining a nation's standard of living. Our framework highlights three broad and interrelated drivers of foundational competitiveness: social infrastructure and political institutions, monetary and fiscal policy, and the microeconomic environment. We estimate this framework using multiple data sets covering more than 130 countries over the 2001–2008 period. We find a positive and separate influence of each driver on output per potential worker. The microeconomic environment has a positive effect on output per potential worker even after controlling for historical legacies. Using our framework we define a new concept, global investment attractiveness, which is the cost of factor inputs relative to a country's competitiveness. This analysis reveals important insight into the economic trajectory of individual countries. Our framework also offers a novel methodology for the estimation of a theoretically grounded and empirically validated measure of national competitiveness.

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