ECONOMIC COMPETITIVENESS OF THE NORDIC COUNTRIES

Introduction

The changes occurring in a global economic hierarchy call for examining the process of selecting the model of governance. Among many concepts described in literature, there is concept of T. Casey based on capitalism index in which the main role is played by the following variables: the organization of labor, the organization of business, and the role of state in economy. This has provided the base for developing a North European model which describes the economies of Norway, Sweden, Denmark, Belgium, Austria, Finland, Holland and Germany. On the other hand, G. Golębiowski and P. Szczepanowski have managed to isolate a Nordic or Scandinavian model taken to be a sub-model of the Casey one.

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4 Other groups of countries: Southern Europe = Greece, Italy, Portugal, and Spain; Liberal = Canada, Ireland, Luxembourg, Switzerland, United Kingdom, and United States. Intermediate = Australia, France, Iceland, and New Zealand; Asian = Japan and South Korea.
The former has been of particular importance in a few past decades in view of the observed process of transforming the competitiveness of a national economy from the context of micro economy into the scale of macro economy. Hence a question arises: What features do actually determine competitiveness on an international scene? In answer to the question posed, the science of international relations have developed new tools allowing for the analysis of international entities, including such big polities as states or even groups of states. These categories list a group of economic indices which evaluate the state of economy of a given entity, such as Global Competitiveness Index, Index of Economic Freedom, Foreign Direct Investment Confidence Index, and others. These are accompanied by research tools which consider also other aspects which may influence substantially a global competitiveness of a given country, such as: Innovativeness Index, Ecological Development Index, and Human Development Index. Due to the lack of a uniform and commonly accepted definition of international competitiveness itself, there exists a range of different methods of examining the competitiveness of countries. Hence, various research approaches analyzing the competitiveness phenomena function simultaneously in the science of international relations.

Given that context, it is somewhat difficult to establish which country truly is the most competitive internationally. The undertaken analysis is an attempt to verify the hypothesis that the Nordic model might be the optimal one. In spite of the frequently advocated reservations linked to high taxation, high standard of services rendered by the state as an employer, or specific socio-cultural determinants, this model on a macro level might prove to be most effective. In order to present that, select rates of competitiveness have been quoted, which allow for comparing highly developed economies on the international market.

**Competitiveness of the Nordic Region Evaluated by the World Economic Forum**

Increased interest in competitiveness dates back to the 1960s and was brought about by the changes in the global economy of those years in which it gradually became more and more global and international. Such a transformation created a goal to be achieved by every country: “to stay/be competitive.” This tendency is clearly advocated by the European Union as evidenced through its actions. They resulted in the *Lisbon Strategy* which formulated a goal by 2010 “to become the most competitive and dynamic knowledge-based economy in the world, capable of

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7 M. E Porter understands the competitive edge as competitiveness between subjects on the national and international markets, and does not link this category with the figures of international trade. He claims that the only measure of competitiveness on the national level is its effectiveness. See: M. E. Porter, *The Competitive Advantage of Nations: with a new introduction*, MacMillan Press 1998, pp. 6-19.
sustainable economic growth with more and better jobs and greater social cohesion.\footnote{J. Szomburg, 

The phenomenon of economic competitiveness is also researched among others by the World Economic Forum which published the “Global Competitiveness Report”\footnote{http://www.weforum.org/issues/global-competitiveness, web. January 20 2013.} This document lists so-called Global Competitiveness Index which presents an average periodic competitiveness of the economy and is a combination of three determining components
- technology,
- public institutions
- macroeconomic environment.

For the sake of the analysis, all the countries are divided into so-called innovators (core-economies) and other countries (non-core economies) and the index is constructed differently depending on this division.

The latest “Global Competitiveness Report” dated to 2012-2013 appeared at the time of considerable slow-down in world economy. The Report assesses the competitiveness landscape of 144 economies, providing insight into the drivers of their productivity and prosperity. The Report series remains the most comprehensive assessment of national competitiveness worldwide (see chart below).


EU1 – average GCI for EU-27; EU2 – average GCI for EU without the Nordic countries (Denmark, Sweden, Finland).

According to the Global report, although the economic growth is on such low level for the second consecutive year it still pertains to the biggest and most
important world economies. Particularly visible is not a very optimistic tendency which characterizes some European countries (particularly alarming in the economy of South European countries: Greece, Portugal, Italy, and Spain), which definitely lower the level of economic development for the whole EU. While the Asian markets exhibit a solid growth rate in the few last years, the dynamics keeps growing in the Middle East, North Africa and Sub-Saharan Africa, and the market of the BRIC countries (Brazil, Russia, India, China) also keep growing though at an admittedly slower rate, the prognoses for Europe, and particularly for the European Union, are not quite favorable. As shown in the chart, the Nordic states occupy a leading position among EU countries: Finland enjoys the third place in the ranking, and Sweden is fourth. Denmark is in the 12th place and Norway 14th. Iceland, profoundly affected by the financial crisis, is the last of the Nordic states and it ranks as only the 30th. Nevertheless, it should be noted that such a distant ranking place of Iceland does not diverge much from the average for the EU= 27, and the GCI determinant for the EU=24 (without the Nordic countries) is higher in this country than the average for the Union. The Report shows that the Nordic states outdistance their fellow EU countries, and their competitiveness on the world arena is comparable to that of developing Asian countries (including those occupying positions in the first ten most competitive economies: Singapore, Hong-Kong SAR, Japan). The Nordic states are economically inferior only to a few countries in the world, including the ranking’s number one Switzerland and number two Singapore.10 Their strong and solid position is a result of the model of governance applied by the Nordics. Their competitive advantage is a result of high taxation, thanks to which the Nordic states may enjoy such a dynamic growth, according to J. Sachs, who says “they spend lavishly money on education” and research and development (R&D) due to the revolution in information and communications technology, with relatively low tax rates on capital.

Innovativeness as the Source of the Nordic Countries Competitiveness

The phenomenon of globalized economy, visible in trade liberalization, movement of capital, and technological development, exerts more pressure on several economic entities to accelerate growth. The afore-mentioned processes create a situation in which countries participate in a peculiar “race” of competitiveness. Therefore, an optimal criterion for a comprehensive assessment of a state may be competitiveness, understood as a feature which determines the ability of a given country to create growth on a continual basis, to increase productivity and to effectively develop markets for goods even though the competition offers constantly new, improved and less expensive goods and services. Innovativeness is therefore considered one of the major factors deciding about a competitive edge and a determinant of transformation processes of a given country, including economic and employment growth.

10 Ibidem.
Treating innovativeness as a source of competitiveness is vitally important in modern economy. It becomes a driving force which sets the course for progress and economic development. Since the time when M. Castells observed in 1996 “innovation creates innovation,” collecting information, its storing, processing and transmitting have become the very core of this process. The main tool characterizing development of a given country in terms of gathering and processing information (ICT) is the determinant called NRI (Network Readiness Index) which describes readiness to utilize online communication and information technologies. The index is a combination of a few dozen variables. Their selection was made on the basis of three planes:

- usage and level of development of technological (hardware) and program (software) infrastructure, number of ICT technology tools used in a business environment, legal regulations;
- level of readiness of three main environments utilizing ICT technologies: individuals, businesses, and governments;
- level of actual usage of ICT technologies by the above-mentioned three groups in the previous year.

As the ranking of NRI shows, Sweden occupies the leading position (no. 1). Finland and Denmark (occupying respectively positions 3 and 4) preserved and

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12 Information and Communications Technologies (ICT) are all actions connected with the production and application of unified communications and the integration of telecommunications (telephone lines and wireless signals), computers as well as necessary enterprise software, middleware, storage, and audio-visual systems, which enable users to access, store, transmit, and process information.
13 The variables can be divided into so-called hard data, obtained from organizations of a recognized social status, and the soft data, obtained through expert research.
strengthened their positions of global leaders, taking into consideration also previous years. Moreover, all five Nordic states found themselves among the top countries in terms of NRI. Even Iceland, which so acutely experienced the effects of the global financial crisis in the last few years, was ranked at position 15, thus leaving behind the highly developed countries of Central Europe such as for example Germany (position 16), France (position 23), and Luxemburg (position 21). It is also worth-noting that the EU average is dramatically lower which allows for the supposition that the Nordic states had adopted a much different course of action in order to achieve the goal of creating the knowledge-based economy. It is clearly visible that in this respect they are more competitive which in turn translates into trade and economic achievements.\(^{14}\) The Swiss and Americans, in spite their obvious high positions in the ranking, do not enjoy an innovative edge over the Nordic states, as was the case of international competitiveness. The Nordics also win in comparison with the Asian countries. Hence the observation that the Nordic states are world leaders today in utilizing ICT and they have managed to include ICT fully in their strategies of maintaining a competitive edge and stimulating innovativeness.

The above-mentioned conclusions are confirmed by the report dated to 2007 on “Identification of Spatially Relevant Aspects of the Information Society.”\(^{15}\) According to the Report, the development of Information Society is correlated with the overall level of development although in some cases access to the network (determining access of ITT – Information and Telecommunication Technologies) remains relatively independent of it, which may be the result of extensive public investment in less developed areas. However, the question of their correlation may be reasonable in the case of Finland which shows that IS development may be a driving force and not only a correlate of the overall development level.

Due to that ICT in the Nordic countries is ubiquitous in every field of social life, from education to health care. There exist multiple instances proving that the Governments of Nordic countries implement very effective innovation policies\(^ {16}\). The case in point is, for example, an initiative of a group of the Aalto University from Helsinki who came up with a unique business idea, namely a “summer of startups”. A business accelerator created by them, called Start-Up Sauna, widely covered by the global economic press\(^ {17}\), is located in a dilapidated warehouse next to the university. It is financed by the state, the university, and a private business,


and offers a variety of services, to mention only offering internships in well known companies, training for beginner entrepreneurs, field trips to the Silicon Valley and a wide range of opportunities for networking.

This revolution in the perception of innovativeness shows that the key to success today are newly established companies which understand that innovativeness is more than high tech and it is a combination of technology and design. As a result, in Finland, but also in other Nordic states, we can witness a peculiar innovativeness boom. Here are examples of some very successful companies:

- Microtask offers outsourcing of general business tasks,
- Zen Robotics specializes in automated recycling systems,
- Valkee manufactures a device which helps to overcome winter depression by shooting bright light into the ear canal.
- Blue Lagoon,
- Tomra.

Finland has also acquired the paraphernalia of a tech cluster, such as a celebratory blog Arctic Startup and a valley-related name (Arctic Valley). The new Finland is particularly proud of its booming video-games industry, including successful companies such as Rovio Entertainment, the producer of Angry Birds and a leading supporter of the Start-Up Sauna, and Supercell, the producer of Clash of Clan.

The changes occurring in the Nordic Region give every reason to suppose that Nordic lifestyle entrepreneurs have a chance of founding profitable companies because they are building up businesses as well as mastering technology. In the upcoming few years, they also have an excellent chance of maintaining the position of innovation leaders and thus contribute to a better competitive edge of their countries internationally.

### Sustainable Development as a New Tool for Measuring Competitiveness

To sum up, competitiveness of the Nordic Region is somewhat complemented by the issue of social justice. This matter is discussed by S. R. Shenoy in the article titled *Are High Taxes the Basis of Freedom and Prosperity?* in which he compares the concepts of two economists F.A. Hayek and J. Sachs. The former suggests that high taxation could be a threat to economic freedom itself. Conversely, J. Sachs refutes the theory of F.A. Hayek claiming that science provides a rich empirical record to prove otherwise. He claims that the evidence comes from comparing the Nordic social democracies with the Anglophone developed countries (Canada, the United States, Great Britain, Ireland, Australia, and New Zealand). According to him, the Nordics have met the challenge of sustainable development. But is that truly so? The debate on the best model of

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governance is still very much alive and there are no definitive answers yet as proven by the results of the research by Sachs and Hayek which contradict themselves.

When analyzing the Human Development Report, presenting the HDI (Human Development Index), which in a synthetized form describes the effects in socio-economic development of individual countries, it seems of merit to compare select states representing different governance models.\textsuperscript{19}

The index employs three determinants:
- GDP per capita expressed in purchasing power parity (international dollar terms)
- Average life expectancy
- Education
  - Gross schooling determinant for all levels of education
  - Literacy and writing competence determinant.

![Chart 3. Human Development Index in select countries (scale 1-7 points).](chart3.png)


\textsuperscript{19} The index was invented in 1990 by the Pakistani economist Mahbub ul Haq and since 1993 used in the annual reports by the United Nations Development Programme (UNDP).
The latest Human Development Report emphasizes that forecasts suggest that continuing failure to reduce the grave environmental impacts and deepening inequalities threaten to slow the decades of sustained progress by the world’s poor majority—and even to reverse the global convergence in human development. Progress in human development cannot continue without bold global steps to reduce both environmental risks and inequality. The Report also identifies pathways for people, local communities, countries and the international community to promote environmental sustainability and equity in mutually reinforcing ways.\(^{20}\)

A comparison of the data from in HDI of 2011 shows there exist no dramatic developmental differences between the two analyzed models of governance. Average HDI for the Nordic states and the developed Anglophone countries is nearly the same and stands at 0.904. The ranking neither proves nor disproves the superiority of the Nordic model over the liberal one. The arguments posed by Hayek and Sachs, respectively, contradict themselves while the analysis of the HDI does not allow for taking either side.

However, a high standard of social insurance exhibited by the Nordics supports the opinion of Sachs, namely that those countries reconciled “the power of markets with the reassurance and protection of (governmental) social insurance.” They also have succeeded in “combining the respect for market forces with anti-poverty programs.” And, as proven, “the results are astoundingly good” for households with the lowest income.

This theory is also supported by the French economist Claude Frédéric Bastiat who claims that “government is and ought to be nothing whatever but the united power of the people, organized, not to be an instrument of oppression and mutual plunder among citizens; but, on the contrary, to secure to everyone his own, and to cause justice and security to reign.”\(^{21}\) It should be noted that an important aspect of the Nordic model is a high level of employment, and female employment in particular. There is in place an extensive welfare system for children and the elderly which has made possible for women to enter working life. A larger workforce has in return created increased growth potential and a higher welfare level. It should be added that the Nordic societies represent a much higher degree of equality than most other countries. The Nordic countries have demonstrated a greater willingness to adjustment and reform than many other European states. This has facilitated high-tech adjustments.

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In the Nordic countries, the three-partite cooperation is vital. Dialogue between workers, employers and the state contributes to a healthy social climate and to security and flexibility, and labor conflicts are less frequent than in many other countries.

The Nordic model seems to have managed to successfully combine economic and social issues as evidenced by a high position enjoyed by the Nordic states in the GCI and HDI rankings. The advantage of the Nordic Region states is more clearly visible in economic rather than social indicators, which does not confirm the stereotypical approach presented by Hayek on the need of market liberalization in order to achieve the competitive edge on the global scene.

Therefore, we can talk here about the “Nordic paradox” mentioned by Jens Stoltenberg, Prime Minister of Norway, at the 40th World Economic Forum in Davos. “Better than many other countries we have managed to combine a just distribution and an efficient economy. These were long thought to be conflicting factors, but Norway’s economic development has proven it wrong.”22. The Nordic countries are marked by a relatively high taxation level, extensive welfare systems and large public sectors. At the same time, these countries are characterized by the high competitive edge of economy and efficient innovation governance.23

Most of the interest of researchers of international relations is focused on how social and economic security may be combined with an innovative business life and an adaptable economy. Hence a society where a just distribution is combined with dynamic business life becomes a reality.

Conclusion

The position of a given country in competitive edge in international rankings depends on the implemented economic policy which takes into consideration the need for sustainability, promotion of growth and development. It is thus geared not only towards economic results but also those of institutional and social nature.

In reference to the analysis of the competitive edge of the economies of the Nordic countries, it could be stated that the following factors, among others, determine international competitiveness:

− resources, mobility and effectiveness of the human capital,
− innovativeness of the economy,
− reserves and effectiveness of the real capital,
− technological level of the economy,
− efficacy of the competition mechanism,
− efficiency of economic and social policies.


23 See: GCI and NRI.
The combination of social insurance and flexibility allows the Nordic states to occupy high positions in international rankings which compare levels of prosperity and standard of living. Norway was one of the countries not dramatically affected by the financial crisis which is reflected by its high standing in all the analyzed rankings.

Positions occupied by the Nordic states in the rankings of innovativeness and social development allow for certain observations: as for NRI, the Nordic countries are decisively in the lead and in the ranking analyzing HDI they occupy high positions. In the latter case, however, there is a noted lack of advantage over liberal economies. Hence the observation that the current activity of the Nordic states concentrates mainly in the area of innovativeness and the Nordics are today more liberally than socially oriented.

It is impossible not to notice the “growing respect in Europe for the Nordic countries” evidenced by the shift in attitude by The Economist towards their social system. In the 1990s, it railed at the Swedish economy, and in 2003, quoting Shakespeare, it called its blend of prosperity and welfare a “Midsummer Night’s Dream”.

In conclusion, the Nordic Region is not an ideal but definitely an interesting model to follow. The Nordic countries enjoy high positions in the major rankings examining the competitive edge of economies. These countries are also leaders in innovativeness and not social policies in the world. Perhaps owing to that, they manage to avoid the problems typical of Central and South Europe, as well as inequalities found in America.

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Abstract

This analysis is to examine the Nordic model in terms of its competitiveness on the global arena. In spite of the frequently advocated reservations linked to high taxation, high standard of services rendered by the state as an employer, or specific socio-cultural determinants, this model in a macro scale proves to be most effective. In order to present that, select rates of competitiveness have been quoted, which allow for comparing highly developed economies on the international market.
Konkurencyjność ekonomiczna krajów nordyckich

Podjęta analiza ma na celu zbadanie modelu nordyckiego pod względem jej konkurencyjności na arenie międzynarodowej. Mimo często wspominanych w literaturze obaw związanych z wysokimi podatkami, wysokim poziomem usług powiązanych ze znaczeniem państwa jako pracodawcy, czy swoistymi uwarunkowaniami społeczno-kulturowymi model ten w skali makro okazuje się być najsłuteczniejszy. W tym celu posłużono się wybranymi wskaźnikami konkurencyjności, które pozwalają na porównanie najbardziej rozwiniętych gospodarek na rynku międzynarodowym.

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