



## **The World Today**

### **What is Comparative Advantage?**

**Barry Anthony Ishmael**

Graduate, The UWI Graduate Institute of International Relations, The University of the West Indies, St Augustine Campus

Today while some among us are legitimately concerned with the issues of the rising cost of living and the increased socio-economic disparity between rich and poor, others are concerned with the sustained economic well being of our country as a whole. In order for Trinidad and Tobago to continue to develop and for our people to enjoy a rising standard of living we must earn an increasing income from economic activity. We must therefore, continue to sell more value to the external world than we buy. We must trade.

It is in this regard, that scholars, business leaders and government technocrats often talk interchangeably of 'competitiveness' and 'competitive advantage.'

A definition of competitive advantage very often depends on who is giving the definition. An economist may illustrate competitive advantage with reference to two countries with similar resource endowments competing in the global economy. These countries strive to produce the same products and the one that has the most favourable economies and efficiencies of scale will capture the greatest share of world trade. Economists usually refer to this as 'comparative advantage.'

For economists this comparative advantage is usually interpreted as 'competitive advantage.' The main interpretive premise in an economist's approach to 'competitive advantage' lies in the perceived purpose of engaging in competition. An economist makes the assumption that all states are competing to not only achieve the same socio-economic standards of living but that all states are competing to produce the same goods and services. They envision 'Head to Head' competition (states competing to produce similar products and services is an example of this) as opposed to 'Niche Competition,' (an area of market specialization in a particular type of product or service that previously has gone unnoticed in a sphere of economic activity).

By way of comparison, in the case of some of those who follow the approach of the Strategic Business School theorists, the concept of competitive advantage also incorporates to some degree an assumption of 'Head to Head' competition. However, for such theorists competition begins with the underlying premise that 'Firms Compete' not nations. From this perspective, the concept of competitive advantage starts with the firm's ability to adapt and exploit the inherent 'factors of production' present in the geographical environment of the firm. From there the firm via its internal processes; planning and strategizing, creates and innovates, penetrates markets, both locally and internationally and then through a prolonged process of continued innovation and re-tooling, disseminates this knowledge to surrounding firms creating 'clusters' (clusters are groupings of associated firms and institutions that provide support to sectors of industrial activity within a region/nation) and eventually competitive sectors. These sectors

compete in and among themselves domestically, when they perfect their strategies and technologies in their local markets, they then export and compete internationally.

This latter perspective is reflected in the developed country reality as documented by Michael E. Porter in his seminal work: 'The Competitive Advantage of Nations.' Porter's work brought to the fore, the concept of the 'cluster' as a critical component of creating and sustaining competitive advantage. Moreover, via his concept of the 'Diamond,' Porter was able to demonstrate that for those developed countries he surveyed the nation was still the main focal point of competition in international trade. The Diamond as a concept, is a mutually reinforcing system comprised of interactive components that are: internal to the firm; internal to the industry; impacted upon by factors of production; and market demand conditions.

His argument established that although the firm was the source of focus for innovation, this innovation did not take place in isolation. It depended on institutions, history and culture adapted from the society, developed in geographic isolation over a historically prolonged period and fine tuned by the creativity of firms via strategy. An important aspect of this competitiveness also came from other elements such as government policy which can facilitate or retard competitiveness.

In more recent times many persons in interpreting Porter's observations, have sought to adapt them to small developing countries. In the main one key concept which has become prevalent is the role of clusters in the creation of competitive advantage and in particular, the concept of the geographical specificity of these clusters.

In pursuing cluster policies based on geographic specificity, those who are formulating such policies as a mechanism for advancing competitive advantage are missing a most important lesson of Porter's work. That lesson is that Porter's historical references to the geographical isolation of industrial activity within states as well as the social origins of these activities and their eventual evolution into internationally competitive industries, has a wider historical context. That context is that those countries to which his observations apply were never colonized and as such were never historically open societies. For small developing countries the concept of clusters as geographically specific systems is therefore not applicable because of their historical openness.

This is a fact addressed more generally by Porter in his later work 'On Competition'. In this work he argued that in the more global economy of today, the concept of the cluster is that of a more transnational one as opposed to a geographically isolated one. What this alludes to is that for small countries like Trinidad and Tobago our historical reality of an open society may lend itself more towards a policy of trans-border clusters rather than to geographically isolated ones. *Dr. Barry Anthony Ishmael: is a graduate of the UWI Graduate Institute of International Relations of the University of the West Indies, St. Augustine, Trinidad. His area of Specialization was 'International Competitiveness in Small Developing Countries'. He is a former Foreign Service Officer of the Trinidad and Tobago Foreign Service. He is a former Research Specialist at the Ministry of Trade and Industry and he now works as an Investment Policy Analyst at the Ministry of Finance (Investments Division.)*