Chapter 8
Rethinking Competitiveness: Is Central America Ready?

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ABSTRACT

The present chapter analyzes the different areas concerning competitiveness. This analysis is based on the two visions of competitiveness. The first vision establishes that the only form of competitiveness is to engage in lowering costs and therefore establishing a competitive advantage through costs. The second vision is a more integral one that sees a competitive advantage in the capacity of the workers in the specialization of labor. This second vision enforces the idea of investing in education and health to compete in more profitable markets. Based on these visions, the question to ask is: Is Central America ready?

1. INTRODUCTION

The present chapter aims to demonstrate the important of a new idea in competitiveness for Central America. The chapter challenges the idea of competitiveness centered in the lowering of costs and taxes to attract investments and instead centers in the importance of education and health to secure the future of the country.
The chapter engages in a discussion concerning two different theories of competitiveness to offer a new approach, an approach that is centered in the importance of investing in education and in health services. As a consequence the chapter evidences the different countries that have engaged in an investment focuses in education and health and that have augmented their economic growth. This is important because it established a different approach that differs greatly from the mercantilist approach of the economy. In this sense a view that creates a more integral conception of the market and how a small region can take advantage of two important factors that will lead into a comparative advantage by the use of competitiveness.

Finally the chapter presents the analysis applied to the Central American region to conclude if the region is taking into this vision of investing in education and health or if it is focusing on other factors.

2. DEFINING COMPETITIVENESS

Competitiveness is often defined by the productivity in the use of human, capital and natural resources. (Porter, 2005) The purpose of competitiveness is to reach prosperity for a country in the shortest time possible. To engage in the definition of competitiveness one must understand the definition of productivity. Productivity can be defined as the rate at which goods are produced and the work is completed. (Mirriam-Webster, 2014)

To sum up the definition of competitiveness, it is to produce more goods with the use of human, capital and natural resources. This idea of competitiveness is found in the works of Adam Smith, specifically in his book “The Wealth of the Nations”, and in the discussions of David Ricardo. Both authors were very critic to the idea of mercantilism, an economic model that focused on exporting goods to other countries with the exploitation of the markets. The main idea of the theory was based on the idea that the benefit for a country that is exporting to another is to have an absolute advantage. This absolute advantage refers to the concept of being able to create more products in less time, an idea that is similar to the definition of competitiveness. (Laguna, 2003)

Being in an absolute advantage will create a more competitive country. The country then will have certain dominance over its competitors based on its productivity. David Ricardo added that to engage in a higher productivity a country must have lower labor costs, a market structure and relative immobility of the factors. (Chacholiades, 1992) In this sense, David Ricardo added the importance of costs to the definition of Adam Smith. David Ricardo stated that is important to control the different factors, labor, capital and land, to be competitive. But these factors
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