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TRANSPORT POLICY CRUCIAL FACTOR FOR EUROPEAN BUSINESS COMPETITIVNESS: EFFECTS AND CONSEQUENCES

Abstract

No country in the world has grown on a sustained basis in recent times without successfully integrating into global markets. Globalization has melted national borders, free trade has enhanced economic integration and the information and communications technology has made geography and time irrelevant, boosted by transport ability.

More efficient transport infrastructures enable a better mobility for people and goods as well as a better connection between regions. Transport infrastructure influences both the economic growth and the social cohesion. Road transport is characterised by the capillarity of its infrastructure system, able to conjugate urban and extra-urban mobility in a continuous flow based on individual planning. A region cannot be competitive without an efficient transport network.

Competitiveness itself has been a central preoccupation of the policy of EU. It is obvious that stronger role and bigger contribution of the transport sector in the improvement of European economic growth and competitiveness are highly expected. Transport was seen as a crucial element in the establishment of the Common Market, whose rules, especially those governing international transport, made possible the free trade of goods and the free movement of persons. Effective and efficient transportation systems are vital to the prosperity of regions because they link residents with employment, public services, shopping and social networks, and businesses to labor, consumer, buyer, and supplier markets. Because transportation facilities extend beyond local jurisdictions, it is essential to include them in regional development strategies.

To enforce global competition EU must investigate on research and innovative transport development. Innovative solutions, comprising innovative technologies, suitable infrastructures and organizational improvements, are one important means in implementing these goals.

Key words: transport policy, globalization, competitiveness, innovation, business facility, economic growth

1. Introduction

Globalization processes are a vital component of the contemporary world economy, determining the modality of approaching social and human resource. Globalization is reflected through the increasing interdependence of national economies with the world economy and the growing interdependence of any national science with world achievements. Countries are interconnected in a multinational network of economic, scientific, technological, social and political ties. Achievements in information technology have made it possible to overcome the geographical

areas, rapid flow of goods, capital and people, and impose new technological standards and values. The changes that occur are not connected to any specific point on the planet but affect and reflect on each point individually. We live in a world of great changes, changes that affect everything we do and fulfill our everyday life. *[Temjanovski, 2016]*

Transport infrastructure is the main artery serving the global economic organism, allowing its functioning and development. It is widely acknowledged that transport plays a crucial role in economic development of each country. The transport sector is a vital component of economy impacting on the development and welfare of populations. When transport systems are efficient, they provide economic and social opportunities and benefit that impact throughout economy. When transport systems are deficient, they can have an economic cost in terms of reduced or missed opportunities. More specifically, it has been recognized that the provision of a high-quality transport system is a necessary precondition for the full participation of remote communities in the benefits of national development: adequate, reliable and economic transport is essential, although not in itself sufficient, for the social and economic development of rural areas in developing countries (ST/ESCAP/2017 1999). *[Mačiulis A., Vasiliauskas A.V., Jakubauskas G, 2009]* [2]

The axiom of the new economy is trade liberalization. Transport is directly related to trade liberalization. The prevailing philosophy in favour of trade liberalization is based on the export led growth model which espouses the economic benefits of exports to the national economy in the form of employment creation, income generation, and as a contributor to economic growth. Indeed, the concept of trade as an engine for growth has been an economic paradigm that has been passed down from the trade theorems of the nineteenth century. Openness of a country's goods markets enables growth, facilitating technology transfer, increasing competition and benefiting consumers. Transport shapes society, economy and market quality in myriad practical ways. Yet society also shapes transportation in ways that are critical to the ordering of space, place, and people. Transportation is a social construct that is broadly and deeply intertwined with the fabric of daily life across the globe. *[Lyons, 2004]*

In the era of global competition, spatial economics also includes a paradox. Developed economies that have fast transport and communications, as well as easy access to global markets, remain critical to competition and remain the location of industries or companies. It was thought that with the changes in technology and competition, the traditional role of the site would be significantly reduced. The supply of global resources and communications reduces deficiencies but does not create an advantage. Supplying from global sources is usually not the first, but the second-best solution compared to the approach of a competitive local cluster and in terms of productivity and innovation. *[Porter, 2008]*

Krugman gave transport costs a central role in determining the configuration of the economy through the influence on workers and firm's location decisions, trade flows and regional incomes. Some recent papers have used these theoretical developments, usually dubbed as new economic geography (NEG), to construct and calibrate models addressing the economy-wide benefits arising from improvements in transport infrastructure, to compare them later with benefit estimations arising from a conventional CBA exercise. *[Purwanto, 2016]*

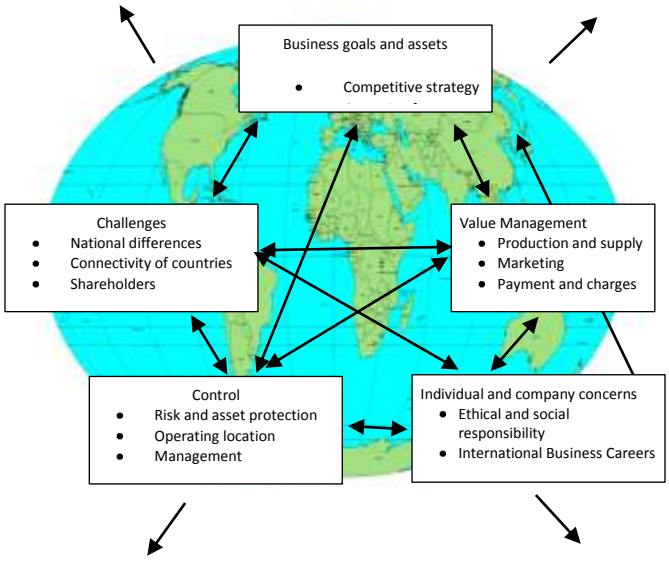

Figure 1 Business practices and the globalization movement

Companies that compete in international markets tend to evelop an optimal system

Figure 1 Business practices and the globalization movement

Companies that compete in international markets tend to develop an optimal system in the supply chain, that is, the connectivity of the supplier and / or transport networks that are the most profitable (or least expensive). Expanding these models with international locations and suppliers creates additional challenges, as certain negative changes in exchange rates and price increases are being transferred to production costs, and thus, transport links become more complex and costlier. Labor costs in certain regions of the world are often so low that they can outweigh large transport costs with another location where most technologically oriented processes will finalize production. *[Temjanovski, Marjanova Jovanov, 2017]*

2. Transport and competitiveness in the contemporary business world

The competition is an important instrument against the monopoly. When the monopoly replaces competition, the consumer is left to the mercy of the monopoly. The monopoly can determine a very high price, keep technological development, exclude competition, or otherwise abuse its power.

At the heart of competitiveness is the level of productivity of an economy. As such, competitive economies are those that are able to provide high and rising living standards, allowing all members of a society to contribute to and benefit from these levels of prosperity. In addition, competitive economies also have to be sustainable – meeting the needs of the present generation while not compromising the ability of future generations to meet their needs. *[WEF, 2014]*

Deeper relationships and the expansion of interconnectedness between individuals, companies, institutions and countries are accelerating due to technological advances, higher incomes, the reduction of trade barriers and the improvement of transport facilities. Consumers need a greater variety of products and services at a lower cost. Such dynamic processes imply business reacts and accelerates the process of globalization.

In the contemporary business word, often ask question related about competitiveness. Competition is a significant incentive and condition for successful development of the transport sector. There are various ways to interpret the concept of city competitiveness. A broad definition of competitiveness can be used to encompass economic aspects including employment levels, job opportunities, investment and output measurements like productivity and social aspects, such as the attractiveness of location, quality of life, and the social structure. Many economists, starting with Adam Smith, promoted the value as a result of the competitive struggle as an important segment for

an economic contest. In the competitive game, companies are motivated to behave in a socially desirable and economically cost-effective manner. On the whole, they are forced by the laws of the market. In terms of supply and demand to secure its own interest, the transporter must find a way for the efficient use of capital. In any case, it must be rational and deal with the competitive pressure that occurs on the global market.

According to Storper, *[Storper, 1998]* competitiveness reflects an economy's ability to attract and retain companies with stable or growing activity levels while maintaining or raising the quality of life of those who participate in the economy. Scott and Lodge [1985] viewed national competitiveness as "a country's ability to create, produce, distribute, and service products in international trade while earning rising returns on its resources". They also noted that this ability "is more and more a matter of strategies, and less and less a product of natural endowments". The Organization for Economic Cooperation & Development (OECD) (The World Competitiveness Report, 1994) defines competitiveness as "the ability of a country or company to, proportionally, generates more wealth than its competitors in world markets". Competitiveness is viewed as combining both assets and processes where assets are inherited (e.g., natural resources) or created (e.g., infrastructure) and processes transform assets into economic results (e.g., manufacturing).

Stigler (1988) defines "competition is a rivalry between individuals (or groups or nations), and it arises whenever two or more parties strive for something that all cannot obtain" is used as a starting point. While Stigler clearly speaks in his broad definition about the real world, the economics definition of (perfect) competition is focused on the model world – the most important and defining features of the "competition" seem to be the objectives of the competition, the objectives of the analysis and the dimensions of the competition. *[Listra, 2015]*

Porter claims that a locations competitiveness is associated with the relative strength in their field, of clusters defined as geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions. Significantly Porter argues that governments have a role in providing a physical and regulatory environment in which firms can improve their competiveness, and so can act as a catalyst, helping companies to improve their competitive position (Snowdon and Stonehouse 2006, p. 165). Conversely Krugman (1996), who accepts that there are cases in which clusters can bring economic benefits of improved productivity, maintains the impact is not nearly so comprehensive as others have argued. He claims that while there might be a reason to favors government intervention to provide supply side conditions to support development of clusters, in practice such attempts are rarely effective. *[Mullen, Marsden, 2015]*

Competition and the global market represent an inseparable part of the transport sector optimization system in all its phases. Competition fosters perfect forms of self-certification, development and efficient functioning through the forced selection that is played on the market. Often, small transport companies are an alternative to large enterprises in various business areas and are a barrier to monopolism. A large number of small businesses can appear in certain areas as protection from the great power of large companies. Their massiveness is forcing large enterprises of great efficiency and with its massive offer of goods, with favorable prices, protects consumers. It finally fosters competition from which certain benefits for the clientele on the market are derived

In global selection, as in Darwin's theory of evolution, in the market competition, remain the most efficient and best enterprises, while weak and non-competitive enterprises are often exposed to bankruptcy. This game of the business and the market cannot be considered inhuman, given the many factors in mind, from those who give everyone a chance to get into work, to those who are thus ingraining the efficient use of capital and consumers protects the monopoly of inefficient and incompetent enterprises. This model has a great

connection with the philosophy of economic liberalism. Namely, during the XIX and the first half of the 20th century, the principles of economic liberalism were increasingly adopted, and more economic policies became more liberal. Liberalism reached the highest point in the second half of the 19th century. Then he found a new theoretical justification that supplemented the former philosophical principle of the natural course of things. Namely, Darwinism developed at that time, which proved that evolution in the flora and fauna is done with constant struggle between the species and among the individuals, and from that struggle there is selection and improvement, because the strongest always win. This theory was transmitted by English philosopher Herbert Spencer in the observation of social phenomena, proving that human struggle is not only a normal phenomenon, but also a beneficial one in human society. Thus, the so-called social Darwinism that had the greatest influence in the global business world.

3. Transport infrastructure as a booster of growth the economy

The transport sector plays a significant role in economic growth at the sub-national, national, regional and global levels. High transport costs magnify the impact of distance and reduce trading opportunities, while good freight services can make traded goods more affordable and help developing countries to build more complex supply chains that facilitate trade. The endeavours of each country are focused on the reduction of transport costs for traded goods allows producers to increase their disposable income.

Faced with increased constraints in financing transport infrastructure, Governments, especially in developing countries "starving" for investment. Many countries are keen to allocate their resources in a way that maximises their net return to society. To facilitate such allocation, all of the wide-ranging impacts of investment in transport infrastructure should be fully understood.

The idea that transportation infrastructure is a type of capital investment distinct from other forms of capital is an accepted part of the fields of economic development, location theory, urban and regional economics and, of course, transport economics. In his classic treatise, Albert O. Hirschman (1958) classifies transport infrastructure systems as "social overhead capital (SOC)", to distinguish it from the type of capital that is used directly by industry to produce their goods and services (e.g. plant and equipment), which he calls "directly productive assets (DPA)"[Hirschman, 1958]. Hirschman points to four characteristics that distinguish SOC from DPA:

1) SOC is basic to (and facilitates) a great variety of economic activities;

2) it is typically provided by the public sector or by regulated private agencies;

3) it cannot be imported; and

4) it is "lumpy" in the sense of technical indivisibilities.

He also argues that the function of SOC investment is to "ignite" DPA, and that "*investment in SOC is advocated not because of its direct effect on final output, but because it permits and, in fact, invites DPA to come in.*

A more modern statement of these issues would perhaps modify these ideas, but not entirely reject them. The first two characteristics, for example, would now be framed in terms of spill over externalities and the economic theory of partial public goods, or "clubs". Roads and highways, for example, are joint-use facilities with many different simultaneous users and uses. Unlike "private good" DPA investments, the conditions for optimal provision involve the summation of benefits across the different users ("members of the club"), adjusted for congestion effects. Sorting out the complex structure of benefits involved in a club good is notoriously difficult, all the more so because of the "igniting" effect such a good has on the evolution of the economy. The example in the US of the intercontinental railroads, which opened up the western regions of the country in the middle of the 19th century, is a case in point: how can one

assess the value of a project that shaped the history and evolution of the country? *[OECD, 2007]*

The Hulten-Schwab approach to isolating externalities follows the general approach of Meade (1952) in assuming that the effects of infrastructure capital operate through two different channels in manufacturing industries. In the first channel, the benefits to manufacturing industries from infrastructure investments are received *indirectly* in the form of inputs purchased from those sectors involved in the production of infrastructure services (for manufacturing, this is mainly transportation and various utilities).

Transport infrastructure investment and road infrastructure investment in particular are seen, by a major part of the general public and by many political decision-makers, as a central instrument for promoting regional or national economic growth. Large-scale investment in the road network formed part of long-term growth policies in the US under the Dwight D. Eisenhower System of Interstate and Defence Highways, which was launched in 1956 and led to the creation of over 80 000 miles of highways by 1980 (Federal Highway Administration, 1976). In 1998, the Transportation Equity Act was signed, assigning US$203 billion to the improvement of the national highway infrastructure. Of this amount, US$176 billion were allocated for highway construction. *[Kopp, 2007]*

The main direct user benefits identified in traditional CBA (cost-benefit analysis) are travel time, vehicle operating costs and safety. Travel time savings are usually regarded as the largest economic benefits of transport infrastructure investment, although the extent and value of the benefits are open to debate.

The improvement of travel conditions resulting from transport infrastructure investment may have wider impacts on the network by inducing and affecting demand on a cross-modal basis as well as improving reliability and quality of transport service.

The impacts of construction, operation and maintenance of transport infrastructure on employment include both created and relocated jobs. The impacts of construction could be assessed by methods which allow the direct, indirect and induced employment impacts of transport infrastructure projects to be assessed. Direct and indirect employment linked to the operation and maintenance of transport infrastructure are largely related to the level of traffic, which can also be assessed.

Transport improvements have impacts on the productive sector through the product and labor markets. With regard to the product market, transport improvements impact on firms not only through transport cost reductions but also through the scope for cost reductions throughout the logistics chain. Changes to the logistics chain mean that the reliability of transport networks is important as well as the speeds that they offer. Because of significant spillover effects, transport improvements have potential impacts on the economy in excess of the benefits to individual firms. The extent of these spillover benefits is determined by the structure of the economy. Where competition is imperfect, and economies of scale exist, spillovers will be high.

Transportation plays a central role in seamless supply chain operations, moving inbound materials from supply sites to manufacturing facilities, repositioning inventory among different plants and distribution centers, and delivering finished products to customers. Benefits that should result from world-class operations at the points of supply, production, and customer locations will never be realized without the accompaniment of excellent transportation planning and execution.

McKinnon (1995) suggests that there is a complex relationship between transport improvements and business costs, which should be considered at a number of levels. There are four main levels are as follows*:[GEC, 2003]*

- Restructuring of logistical systems;
- Realignment of supply chains;
- Rescheduling of product flow; and,
- Management of transport resources.

Consideration of these factors has given rise to just-in-time, outsourcing and centralized distribution strategies, which have reinforced the need for high quality transport services. In

implementing these strategies, reliability of transport networks as well as their speed becomes important. The producer requires that transport networks are sufficiently reliable to ensure just-in-time delivery.

Planning, building and maintaining a road infrastructure which meets the needs of the consumer, in fact, represents the key step leading to important socio-economic improvements. Europe cannot miss on this occasion to take the lead in a sector which has already proved it can multiply the effects of every Euro invested and yield benefits to society as a whole.

Conclusion

Transport infrastructure is an indispensable factor of growth. It has a multiplier effect and serves broader goals of stimulating economic activity and facilitating social development. Transport is a sector supporting other sectors, such as trade, agriculture, energy, industry, health and education. Undoubtedly, without well-organized and developed transportation systems, any market economy could bring its advantages into full play. A good transport system in logistics activities, especially for landlocked countries could provide better logistics efficiency, reduce operation cost, and promote service quality. The improvement of transportation systems needs the effort from both public and private sectors. A well-operated logistics system could increase both the competitiveness of the government and enterprises.

Transport also contributes to faster economic growth, higher employment rates through job creation and more dynamic economic activities. Accordingly, a large number of direct (freight, managers, forwarders) and indirect (insurance, finance, packaging, handling, travel agents, transit operators) are related to transport. Producers and consumers make economic decisions about products, markets, costs, location, prices that are based on transport services, their availability, costs and capacity.

Transportation plays a central role in seamless supply chain operations, moving inbound materials from supply sites to manufacturing facilities, repositioning inventory among different plants and distribution centers, and delivering finished products to customers. Benefits that should result from world-class operations at the points of supply, production, and customer locations will never be realized without the accompaniment of excellent transportation planning and execution. Planning, building and maintaining a road infrastructure which meets the needs of the consumer, in fact, represents the key step leading to important socio-economic improvements. Europe cannot miss on this occasion to take the lead in a sector which has already proved it can multiply the effects of every Euro invested and yield benefits to society as a whole.

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