Why Are Some Countries More Successful in International Commerce?

Some countries' industries continue to be successful even when factors such as labor costs, available resources, and so on, worked against them. Porter (1990) identified four major determinants of international competitiveness:

- Factor endowments, whether basic (natural resources, labor, etc.) or advanced (labor skills, technical knowledge, infrastructure). Basic factors can give a country a competitive edge in the production of certain goods; it is the availability of the advanced variety that maintains and enhances it.
- The size and composition of the domestic market relative to foreign demand, specifically the demands placed on local firms by domestic consumers relating to the quality and upgrading of their products. If the home market is demanding, firms are often better prepared to sell in international markets.
- The existence of internationally competitive support industries: banking, transportation, communications, information.
- Domestic industrial rivalry which forces firms to adopt innovative organizational structures and managerial strategies. Firms in sleepy, protected industries are unlikely to be international competitors.

These four aspects are mutually reinforcing. A nation's competitiveness in a particular area can be achieved and enhanced if favorable demand conditions coexist with plentiful factor endowments, successful and competitive support industries, and a group of producers whose rivalry encouraged them to make full use of the other conditions and to continually upgrade and improve their products. Governments' attitudes toward education, R & D, and the provision of advanced communication and infrastructure could affect factor conditions. Their industrial and competitiveness policies, along with taxes and interest rates, can influence firms' strategies, structures, and security, as well as those of support industries.