Chapter 31

International Competitiveness

Key terms

1. International competitiveness: is the ability of a firm or a country to compete effectively in international markets.
2. Labour productivity : is output per hour worked. It is measured as real GDP per hour worked.
3. Multifactor productivity : is also used to measure international competitiveness. This measure considers both labour and capital productivity.
4. Non-price factors: factors other than price which influence a consumer's demand for a product.
5. Relative export prices : are the export prices of a country's goods and services compared to the export price of that country's main trading partners, expressed as an index.

1. Competitiveness

International competitiveness : is the ability of a firm or a country to compete effectively in international markets.

2. Measures of competitiveness

2.1 Relative productivity rates

- **Labour productivity** : is output per hour worker per day. It is measured as real GDP per hour worked.
- **Multifactor productivity** : is also used to measure international competitiveness. This measure considers both labour and capital productivity.
- A country with relatively high labor productivity will improve its international competitiveness.

2.2 Relative unit labour costs

- **Unit labour cost** : are total wages divided by real output, they are average cost of labour per unit of output produced.
- **Relative unit labour costs** : are unit labour costs compared to other countries.
- A country with relatively lower labor cost will become more international competitive.

2.3 Relative export prices

- **Relative export prices** : are the export prices of a country's goods and services compared to the export price of that country's main trading partners, expressed as an index.
- A country with relatively lower export prices will become more international competitive.

3. Factors influencing competitiveness

3.1 Productivity

- Rises in an economy's productivity, relative to its main trading partners, will increase that country's competitiveness.

3.2 Quality of human capital

- Human capital is the value of the productive potential of an individual or group of workers.
- Education and training will improve non price competitiveness.

3.3 Exchange rates

- A fall in exchange rate makes price of export become cheaper and makes price of import becomes more expensive. This can improve international competitiveness.

3.4 Wage and non-wage costs

- The cost of employing labour for a firm are the wages it pays, as well as non-wage costs paid by the employer. Both these will affect the average cost of labour per unit of output produced.
- A country with relatively lower wage and non-wage costs will become more international competitive.

3.5 Regulations

- A country with relatively lower regulation reduces cost to firms and also price of export. This improves international competitiveness.

3.6 Quality of infrastructure

- The quality of infrastructure in an economy will affect the cost of transporting goods and services. This improves international competitiveness.

3.7 Non-price factors

- Non-price factors, such as innovation and quality of products, are factors other than price which influence a consumer's demand for a product.

4. Measures to increase international competitiveness

4.1 Policies to improve education and training

=> to improve skills of workers

=> skilled labour can generate high quantity and quality of products.

4.2 Investment incentives

=> firms increase in investment in capital and technology to improve quality of export. (e.g. innovation) or reduce cost and price of exports

4.3 Privatisation and deregulation

=> Privatisation; sell state-owned enterprise to private sector and allow private firms to compute with each others.

=> Due to high competition and profit motive encourage firms to improve efficiency and become more competitive in the world market.

=> Deregulation reduces cost to forms and they are able to set low price

4.4 Measures to depreciate the exchange rate of a country

=> A fall in exchange rate/currency depreciation makes price of export become cheaper and makes price of import becomes more expensive. This can improve international competitiveness.

4.5 Trade liberalisation

=> this encourages trade fair rather than protectionism.

=> Trade liberalisation means no tariff, quota and embargo

4.6 Taxation

=> Lower tax reduces cost to firms, then they can set lower price of exports.

5. Benefits of being internationally competitive

International competition produces winners and losers among firms, industries and countries. The winners are likely to be those that are most efficient, Either their costs of production are lower (Productive efficiency) or they are producing goods that are more attractive to buy.

5.1 Current account surplus

=> The country with high international competitiveness are likely to run current account surplus.

5.2 Foreign currency

=> The country with high international competitiveness are likely to have a lot of foreign currency from selling goods and services to other countries.

5.3 Foreign direct investment inflows

=> The country with high international competitiveness are likely to attract FDI.

5.4 Employment

=> The country with high international competitiveness are likely to have high employment from higher production of exports.

5.5 Economic growth

=> The country with high international competitiveness are likely to have high economic growth from exports.

5.6 Wage growth

=> The country with high international competitiveness are likely to have high exports which increase demand for labour, resulting in higher wage rate.

5.7 Higher domestic purchasing power

=> The country with high international competitiveness are likely to have high income from exports.

6. Problems of sustaining international competitiveness

- The problems with being internationally competitive is that this competitiveness can be lost
- The wage rate and land prices may rise which reduces international competitiveness.
- Current account surplus can cause currency appreciation which reduces export price competitiveness.
- Less competitive countries may impose trade barriers.