International competitiveness essay

A country's " international competitiveness" refers to its ability to sell its goods and services in domestic and international market at a price and quality that is attractive in those markets. The UK fell from 9th to 12th place in The Global Competitiveness Index between 2007 and 2008. The factors causing the decrease can be divided into price and non-price factors. In order to improve the international competitiveness the firm can raise productivity and the government can imply a variety of supply-side policies.

Competitiveness is determined by a variety of factors but one of the most important is a country's real exchange rate, which is nominal exchange rate adjusted for changes in price levels between economics. Real exchange rate= nominal exchange rate domestic price level/foreign price level. There will be a depreciation in the real exchange rate if the nominal exchange rate falls or if the prices of goods abroad rise relative to prices in this country. Therefore, a fall in the real exchange rate will cause an increase in the competitiveness of a country's goods. In contrast, the real exchange rate will increase if the nominal exchange rate rises or if the UK price level rises relative to the foreign price level. Consequently, an appreciation of the real exchange rate is associated with a fall in the country's competitiveness.

Another important price factor affecting the international competitiveness is unit labour costs. To be specific, if wages are higher in the UK than in China, it is likely that the prices of the goods in the UK will be higher than those of China if productivity is ignored. Additionally, non-wages costs are also significant for international competitiveness, such as the national insurance contributions paid by employees, health and safety regulations and environmental regulations. The non-wages costs are always much higher in developed countries than developing countries so they reduce the international competitiveness of goods and services from developed countries.

The non-price factors also have a significant effect on the international competitiveness. They include quality, innovation, design, reputation. The quality of products is quiet a important one. For two products of the same price, the one with the better quality of products is definitely popular. Therefore there is a high demand for this product of this brand and the international competitiveness for this brand will increase. For example Topshop clothes competes well in the clothing market because of its excellent quality of clothes and design. Unfortunately the UK performs poorly on this measure. Perhaps part of the reason for this is that the UK tends to export products that use lower technology.

However, it is always difficult to quantify the quality of products. Perhaps each consumer has different definitions of quality, some may think the quality of this product is good while other may feel the other product is better. But one way of doing it is to measure value per ton of exports in the car market. For a given weight of cars, if the quality of the exported cars is high then the value will be high relative to the weight of the exports.

Moreover, when the exporters cut profit margins, a rise in exchange rate might not decrease the competitiveness. The country can cut their export prices when selling in overseas markets and therefore accept lower profit margins in order to maintain competitiveness and market share.

Now we will attempt to evaluate the strategies that can be employed by both governments and firms to improve a country's international competitiveness.

Firms can improve the competitiveness of their products by investing in new technology with the aim of raising productivity. The quality of products will increase by the investment of new technology and therefore increase the demand of products. In addition, investing new technology can also improve the efficiency of productivity and reduce the costs of labour, therefore the price of products will be decreased and then lead to the increase in the international competitiveness.

Furthermore, firms can also do some research and development which will result in improved designs or new products. It is beneficial for firms to research and develop new designs and products which are special and different from any other products of the same type. As a result, more consumers will be attracted to this product and then the products will compete well in the market. The reputation of the company will also be improved.

Government can try to improve international competitiveness through a variety of supply-side policies. One of them is privatisation, privatisation is the key to generate investment and improve competitiveness. Private market factors can more efficiently deliver many goods and services than governments due to free market competition. Over time this tends to lead to lower prices, improved quality, more choices, less corruption, less red tape and quicker delivery.

The increase in the international competitiveness can also be achieved by using government expenditure to improve infrastructure. Infrastructure is basic physical and organizational structures needed for the operation of a society or enterprise, or the services and facilities necessary for an economy to function. For example, transport infrastructure like highway construction and airports is critical to the competitiveness of the country. Hence, upgrading the infrastructure will improve the international competitiveness of a country so it is essential for governments to spend some of government expenditure on the infrastructure.

In evaluation, the companies improve competitiveness by investing new technology but at the same time it may result in unemployment. Some employees will be replaced by the machine because of the new technology. Hence if the losses in unemployment outweigh the gains in the investment of new technology, then the benefits will be cut.

In addition, the policies still have a time frame. Some measures could take a considerable time to have a impact. For example, it takes a long time for the related departments to upgrade the infrastructure in the country after the government implies this measure. As a result, this benefit can just be achieved in the long run economy.

Finally, whether the polices can result in a good effect also depends on the economy status of the country. Specifically, the government is unable to spend expenditure on the infrastructure if the fiscal deficit is raising in the country. In this condition if the government still spends expenditure on the policy of upgrading infrastructure, there will be a economic crisis in this country. So the goal of increasing international competitiveness will not be achieved.