

International Competitiveness

International competitiveness is the ability of a country to sell its goods and services successfully in international markets.

A country becomes more competitive when its firms can produce goods at a lower cost, lower price or higher quality relative to firms in other countries.

Measuring International Competitiveness

Relative Unit Labour Costs

Unit labour cost is the labour cost required to produce one unit of output.

Unit labour cost = Total labour costs ÷ Total output

Lower unit labour costs relative to other countries → lower costs of production → firms can charge lower prices → exports become more price competitive → international competitiveness ↑.

Higher labour productivity can therefore improve competitiveness because workers produce more output from the same labour input, reducing the labour cost per unit.

For example average UK manufacturing labor costs £25/hour far exceed China's £5/hour, giving Chinese factories significantly lower unit labor costs and cheaper export prices .

Relative Export Prices

Relative export prices compare the price of one country's exports with those of its competitors.

UK export prices fall relative to other countries → UK exports become relatively cheaper → demand for UK exports ↑ → international competitiveness ↑.

Factors Influencing International Competitiveness

Relative Productivity

Higher productivity means workers produce more output from a given amount of labour.

Productivity ↑ → unit labour costs ↓ → average costs ↓ → firms can lower export prices → exports become more price competitive → international competitiveness ↑.

Higher productivity can also shift LRAS right → price level ↓ relative to other countries → exports become more competitive.

For example the UK ranks 2nd worst in the G7 food labour productivity severely limiting its ability to lower unit labor costs relative to major trading partners.

Relative Inflation

Lower inflation relative to other countries means domestic prices rise more slowly.

UK inflation < competitors' inflation → UK goods become relatively cheaper → export demand ↑ → international competitiveness ↑.

If UK inflation is higher than competitors, UK exports become relatively more expensive → export demand ↓ → international competitiveness ↓.

For example the UK suffered the highest relative inflation rate in the G7 peaking at 11.1% post pandemic .

Quality of Exports

International competitiveness is not only determined by price.

Export quality ↑ → foreign consumers gain greater utility from the product → demand for exports ↑ → international competitiveness ↑.

This explains why a country can remain internationally competitive even when its exports are relatively expensive. Measures such as relative export prices and unit labour costs may therefore underestimate **non-price competitiveness**.

For example

- **UK Financial & Legal Services:** The UK is the world's second largest exporter of financial services (£100 billion+), with global firms willing to pay premium London fees.
- **German Automobiles:** Germany's automotive industry generates over €400 billion because global consumers prioritize German engineering, brand prestige, and build quality over low prices.

Policies to Increase International Competitiveness

Supply-Side Policies

Governments can use supply-side policies such as:

- Lower corporation taxes
- Investment in infrastructure

Successful supply-side policies → productivity ↑ → LRAS shifts right → unit costs and price level ↓ → exports become relatively cheaper → international competitiveness ↑.

Written by [udoecon.com](https://www.udoecon.com)

Consequences of International Competitiveness

Current Account

Greater international competitiveness $\rightarrow$ export demand $\uparrow \rightarrow$ value of net exports $\uparrow \rightarrow$ current account deficit falls / current account surplus may increase.

Economic Growth

Exports $\uparrow \rightarrow$ net exports $\uparrow \rightarrow$ AD $\uparrow \rightarrow$ real GDP $\uparrow \rightarrow$ economic growth $\uparrow$.

International competitiveness can therefore generate **export-led economic growth**.

For example around 20% of Chinas GDP is made up of exports of goods and services .

Employment

Export demand $\uparrow \rightarrow$ firms increase production $\rightarrow$ derived demand for labour $\uparrow \rightarrow$ employment $\uparrow \rightarrow$ unemployment $\downarrow$.

Foreign Direct Investment

Internationally competitive countries may attract greater FDI because multinational firms can produce at relatively low costs and use the country as a base from which to export.

FDI $\uparrow \rightarrow$ investment $\uparrow \rightarrow$ productive capacity $\uparrow \rightarrow$ potential economic growth $\uparrow$.

Living Standards

Greater competitiveness $\rightarrow$ exports and economic growth $\uparrow \rightarrow$ employment and incomes $\uparrow \rightarrow$ household purchasing power $\uparrow \rightarrow$ material living standards may improve.

Households may therefore be able to consume a greater quantity and variety of goods and services.

Being Internationally Uncompetitive

The opposite effects can occur when a country loses international competitiveness.

Export demand $\downarrow \rightarrow$ net exports $\downarrow \rightarrow$ AD $\downarrow \rightarrow$ economic growth slows $\rightarrow$ derived demand for labour $\downarrow \rightarrow$ unemployment may rise, particularly in export dependent industries.

Persistent losses of competitiveness can also contribute to **deindustrialisation** if domestic manufacturing firms lose market share to overseas competitors.

For example the UK has **deindustrialised faster than any other G7 economy**, with manufacturing making up under **8% of UK GDP** compared to **20% in Germany**.