

4.1.9 International competitiveness

a) *Measures of international competitiveness*

- *Relative unit labour costs*
- *Relative export prices*

b) *Factors influencing international competitiveness*

c) *Significance of international competitiveness*

- Measures of international competitiveness:
 - Relative unit labour costs: they measure the cost of labour needed to generate output. They must be converted into the same currency
 - Relative productivity: increasing productivity reduces unit labour costs
 - Relative export prices: mainly determined by the exchange rate
 - Non-price factors: design, quality, reliability, availability
- Factors influencing international competitiveness:
 - Real exchange rates: the nominal exchange rate that is adjusted to take into account the price levels within the countries being compared. Real exchange rate = $\frac{\text{nominal exchange rate} \times \text{domestic price level}}{\text{foreign price level}}$
 - Productivity: this directly affects unit labour costs
 - Wage and non-wage costs
 - Labour market flexibility
 - Research and development
 - Regulation: can increase costs for firms
- Government policy to improve competitiveness:
 - Supply-side policies to improve productivity
 - Devaluation of the currency which leads to lower export prices
- Advantages of being internationally competitive:
 - Increased AD from an improvement in the balance of payments
- Disadvantages of being internationally competitive:
 - It could only make a surplus worse
 - May become over reliant on exports
 - Focusing on competitiveness can lead to other problems such as neglecting the environment