# Analysis of Indicators which Evaluate National Competitiveness

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## Abstract

*The competitiveness of the national economy (national competitiveness) is considered complex economic category, which is determined by a number of microeconomic, macroeconomic, social, cultural factors and characteristics, therefore, to determine the country's success in international competition in the system of modern international economic relations, it is necessary to resort to interdisciplinary approach [1].*

***Key words:*** *national economy, World Economic Forum (WEF), financial resources, quality of life*

## INTRODUCTION

Competitiveness factors are complex of quantitative and qualitative indicators that determine the socio-economic development of the country and the potential for its further growth and improvement.

Despite the wide variety of methods for assessing competitiveness, the most demanded is considered integrated approach on the basis of comparing countries according to variety of criteria, aggregated into various ratings. The most famous and frequently cited indicators of the competitiveness of states are the ratings of such organizations as the World Economic Forum (WEF) and the International Institute for Management Development (IIMD).

Thus, national competitiveness is essential for any economy. Today, they attach great importance to the problem of increasing the competitiveness of the national economy in the context of aggravated competition in most countries of the world. This problem is especially relevant for developing countries, which tend to export less competitive and import more expensive products.

The concept of competitiveness has its own specifics. According to the opinion of Z.A Vasileva [2], the concept of "competitiveness of products" is basic, which can be considered for its various types in the hierarchy of concepts of competitiveness. Enterprises, industries, regions, states which enter into competition for consumers, markets, factors of production, and investments act as manufacturers of products.

The most famous concept of competitiveness is considered M. Porter's theory, within the framework of which the well-known "diamond" model of the "competitive diamond" [2] was developed, reflecting the scheme of national competitive advantages and their interaction.

The factors of country's competitiveness are grouped into four groups of determinants of national competitiveness:

1) factorial conditions:

- material (natural) resources;

- human resources (labor force);

- financial resources (capital);

- information resources;

- infrastructure;

- quality of life;

2) conditions of domestic demand: volume, quality and compliance with the trends in the development of demand in the world market;

3) related and service industries: spheres of receipt and use of raw materials, semi-finished products, equipment, use of technologies;

4) strategy and structure of firms and rivalry among firms: goals, strategies, methods of organization, management of firms, intra-industry competition.

Firstly, proposing to consider the "activity of multinational firms" as a separate determinant of competitiveness was J. Dunning, who proved its character different from the determinant "strategy, firm structure and rivalry". Dunning emphasized the important role of multinational companies in influencing both their competitiveness and the competitiveness of host countries through inbound and outbound investment flows. The external mobility of the company's assets reflects the firm's use of its competitive advantages outside the home country and the impact on the international economy outside the "national diamond", as a result, the analysis of the economic performance of multinational firm leads to the definition of not only its "domestic diamond", but several "competitiveness diamonds" which are reflecting all these transactions and interactions.

**Discussion.** The theory of national competitiveness was further developed in the nine-factor model of competitive advantages of the South Korean scientist D. Cho, in which the main "weak link" of the studies of competitive advantages, conducted earlier, and the insufficient substantiation of the theoretical base in relation to determining the significance of certain factors in the formation of international competitiveness were overcome. In order to overcome this limitation, a "human" dimension of competitiveness was introduced for the first time in the nine-factor model. The group of factors which form the human dimension - the cumulative human factor, include:
workers;

- politicians/officials;

- entrepreneurs;

- Specialists.

Physical factors include:

- endowment with resources;

- domestic demand;

- related and auxiliary industries;

- indicators of the business environment

It can be added the ninth - the cumulative "external factors" to these eight factors, it includes "random events", "chance" and "government" as exogenous variables. D. Cho's nine-factor model is based on as follows:

- the principle of relative competitive position in the international market of countries with a similar level of economic development;

- more fractional than in Porter's model, the subdivision of human, natural and financial factors of competitiveness;

- taking into account the differences in the influence of different types of human and physical factors on the country's competitiveness.

The Sustainable Competitiveness Index was developed in order to determine this ratio, it reflects the fact that some components of sustainable development are key to national productivity in the long term, but it is not so important in the short term [3]. The new SCI includes twelve competitiveness indicators that are included in the Global Competitiveness Index (GCI) and are grouped into five sub-indices:

- human capital;

- market conditions;

- technology and innovation;

- political environment and creation of favorable conditions for development;

- environment.

The GCI index which has been calculated annually by WEF experts, provides an idea of competitiveness and its determinants in the short and medium term, while SCI provides a deeper understanding of the determinants of long-term sustainable competitiveness in the 20-year perspective. This approach allows us to identify the relationship between competitiveness and sustainability, to compare the successes and failures of countries, not only in the short and medium term, but also in the long term.

The identified five sub-indices of sustainable competitiveness are determinants in the context of the globalization of the economy and the formation of the knowledge economy.

The Global Competitiveness Index is considered global study and its accompanying ranking of countries in the world in terms of economic competitiveness. It is calculated according to the World Economic Forum methodology, on the basis of combination of publicly available statistics and the results of the Global CEO Survey, extensive annual survey which is conducted by the WEF in conjunction with network of partner organizations - leading research institutions and organizations in the countries analyzed in the report. The study has been conducted since 2004 and at the moment, it represents the most complete set of indicators of the competitiveness of various countries of the world.

The World Economic Forum defines national competitiveness as the ability of country and its institutions to provide stable rates of economic growth that would be sustainable over the medium term. The authors of the study emphasize that countries with high indicators of national competitiveness, as a rule, provide a higher level of well-being for their citizens. It is intended that this Index should be used by countries seeking to remove obstacles to economic development and competitiveness as a tool to analyze problematic issues in their economic policies and develop strategies for achieving sustainable economic progress.

**Results**. In recent years, the United States of America has become the world leader in competitiveness. The main advantages of the US economy, according to the compilers of the rating, are economic resilience, an efficient labor market and dominance in the field of technology and

infrastructure.

Following the USA in the ranking are Switzerland and Singapore - in second and third places, respectively. The top ten most competitive economies also include: Hong Kong, Sweden, Germany, Canada, United Arab Emirates, Denmark and Norway. In general, there were almost no changes in the top ten leaders over the past year: some countries changed places, Denmark entered the top ten, and Qatar dropped out.

Competitiveness and integration are interrelated processes. When integrating a country into one or another regional grouping, the goal is considered to obtain a certain positive effect, which should increase the competitiveness of the national economy, its industries and enterprises. However, this goal can only be realized under certain conditions.

In general, the impact of integration on the competitiveness of the national economy can be expressed in the realization of comparative advantages, economic interests, reduction of production costs due to economies of scale of production, improvement of economic performance of enterprises and industries, mainly at the regional level [4].

However, economic integration affects the competitiveness of national economies in two ways: in the direction of dynamism and strengthening and in the direction of exacerbating contradictions and decreasing competitiveness.

A well-grounded theory of the impact of integration on national economies was created by the American scientist of Canadian origin J. Weiner. He identified two main types of effects arising from economic integration: the trade creation effect and the trade reorientation effect. The trade creation effect is considered the expansion of trade within the integration association.

At the same time, there is a scale effect: two or more countries together can form a sufficiently large market to ensure a reduction in unit costs of production. The effect of trade reorientation is such economic benefits when a partner country increases its exports of its goods to another country, although before the union, these goods were imported from third countries at lower costs. Thus, the reorientation effect contributes to the growth of production in the partner exporting country. However, J. Weiner notes that "As soon as the industry reaches such a scale, which can provide the optimal size and the optimal degree of specialization of production in its individual enterprises, further growth of this industry sets in the law of diminishing returns".

J. Mead believes that the positive effects of economic integration that increase economic well-being are possible if:

• the economies of the partner countries will actually be competitive or similar, but potentially complementary;

• initial import duties in partner countries will be quite high;

• each of the partner countries in relation to the other will act as the main supplier of the goods that it exports, and if the partner countries will act in relation to each other as the main market for the goods they import;

• the share of world production, consumption and trade is quite high;

• The level of import duties in the rest of the world will be low and there will be a large number of independent customs zones into which the rest of the world is divided, etc.

The economies of scale of production as a result of integration are noted by American scientists C.R. McConnell and S.L. Brew. Analyzing the process of integration within the EEC, they note that

"integration creates the mass markets that are so necessary for the industries of the countries of the "common market" to achieve economies of scale. More efficient production, characteristic of large-scale markets, enables industries in European countries to achieve lower costs that have historically been unattainable in narrow, isolated markets". At the same time, they note that the impact of integration on third countries seems less certain due to the increase in duties.

Developing the theory of J. Weiner and J. Mead, the Russian scientist P. Shimko also proposes to consider the country's entry into an integration union from the standpoint of static and dynamic analysis. Within the framework of static analysis, he identifies two options for the consequences of a country's entry into an integration trade and economic grouping:

• flow-forming effect (trade creation effect): switching the country's demand and, accordingly, consumption from domestic producer with higher costs to foreign producer with lower costs;

• flow diversion effect (trade diversion effect): switching the demand of the country and, accordingly, consumption from the producer outside the union, which has lower costs, to the manufacturer, which has higher costs, but is a member of the union.

In the first case, the removal of trade barriers provides opportunities for the development of greater specialization in accordance with the theory of comparative advantage. A country can import products from partners at lower prices, and use the released funds to develop industries and industries with comparative advantages. In the second case, imported products from country which is not a member of the association increases in price due to an increase in customs duties, and products of partner country become cheaper due to decrease or complete absence of customs duties. A production and consumer effect is formed.

Among the dynamic effects of trade and economic unions, P. Shimko singles out:

• the effect of increasing the scale of production;

• improving the production infrastructure of the participating countries;

• strengthening the position of each member country in comparison with the position of separate outsider country;

• increased competition, which creates a certain climate conducive to the diffusion of advanced technology;

• increasing investment volumes.


P. Shimko believes that in a common market "free movement of factors of production within a certain grouping of countries should contribute to a more rational use of aggregate resources, the development of division of labor and specialization of production. At the same time, the full implementation of this is hindered by differences in the economic policies pursued by the states that are part of the common market".

One of the most important indicators for determining the quality of business development institutions is the index of economic freedom. Economic freedom is understood as freedom of production, trade, protection of property rights, macroeconomic stability, low corruption and limited government spending.

The Index of Economic Freedom is considered combined indicator and an accompanying rating that assesses the level of economic freedom in countries around the world. It is defined by the American Research Center "Heritage Foundation" in conjunction with the newspaper "The Wall Street Journal". Fund experts define economic freedom as "the absence of government intervention or

obstruction of the production, distribution and consumption of goods and services, except for the protection and support of freedom necessary for citizens as such" [4]. The analysis of economic freedom has been carried out annually since 1995.

The index of economic freedom is calculated using the arithmetic mean of ten benchmarks:

1) property rights;

2) freedom from corruption;

3) fiscal freedom;

4) government participation;

5) freedom of entrepreneurship;

6) freedom of labor;

7) monetary freedom;

8) freedom of trade;

9) freedom of investment;

10) financial freedom.

**Conclusion.** The above mentioned factors should analyze one by one, it helps to grow the country's economy. If we give attention to the economy of EU countries, they achieve the greatest results. Also, we should emphasize that the EU is considered the best sample of integration processes. Integration helps to grow the country's economy. Many attempts have being carried out in Uzbekistan in order to increase national competitiveness of the Republic. The Republic of Uzbekistan included in the rating of the Competitive Industrial Performance Index (CIP) UNIDO.

The Competitive Industrial Performance Index (CIP index) is calculated by the United Nations industrial development Organization (UNIDO) starting in 2003. The frequency of publication of the index is every 2 years, with a delay of 2 years.

Uzbekistan ranked 92nd and was included for the first time in the CIP index, which currently measures the "Ability of countries to produce and export manufacturing goods at a competitive level" among 152 countries.

The 2018 CIP Index assesses and benchmarks the industrial competitiveness of 150 countries. Each country's outcome is a reflection of its performance across the three dimensions of the CIP Index: (1) The capacity to produce and export manufactured goods; (2) Technological deepening and upgrading, and (3) World impact. The CIP Index enables cross-country comparisons of industrial competitiveness.

**First**, the index allows countries to identify comparator countries. To provide a differentiated representation of competitiveness, the CIP report presents outcomes by different categories depending on the stage of industrialization, geographical region and indicator. Comparator countries can include neighbours, immediate competitors, potential competitors or role models. They may be comparable due to similarities in geography, availability of production factors, or types of goods produced.

**Second**, countries that perform best across the three dimensions of the CIP Index can serve as a benchmark for their comparators, given their specific circumstances. By highlighting areas in which other countries achieve higher CIP scores, the Index can support and guide policies for future industrial development. For example, the manufacturing sectors of countries that perform poorly in

the CIP Index are characterized by inefficiencies in the allocation of factors of production, such as labor and capital.

**Third**, the CIP Index serves as a guideline, with an intuitive starting point to more detailed analyses for identifying and tackling these inefficiencies, thereby contributing to widespread productivity growth and structural change by using feasible targets that depend on the countries' circumstances. As structural change is a long-term process, changes in the CIP Index are likely to be reflected several years after policies aimed at increasing competitiveness have been implemented [5].

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