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GLOBAL COMPETITIVENESS INDEXES AND DEVELOPMENT DISPROPORTION

Abstract

The impact of the current global economic imbalances to the countries' position in competitiveness ratings, primarily by changing the components assessment which are characterized by their functioning macroeconomics parameters and financial market state are under the consideration in their article.

Key words:

Global economy, global economy disproportions, indicators of economic disproportions, indexes of competitiveness of national economies.

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Today's global imbalances rhetoric often concerns public debts distribution in the global economy, current accounts deficits and government deficits. In macroeconomics the last two types of deficits are called «twin deficits».

Problems of globalization processes in society, their socio-economic consequences for world economic development and identification of world economy disproportionality were studied by a number of foreign and domestic scientists such as: D. Bell, V. Heyets, L. Grigoriev, P. Drucker, V. Kremin, F. Lukyanov, U. Martin, I. Masuda, F. Mahlupa, L. Melnyk, A. Mokiya, N. Porat, R. Robertson, T. Stouner, A. Tolstouhov, A. Toffler, A. Touraine, Y. Hayashi, AChukhno, L. Shinkaruk, etc.

Thus, in the World Economic Forum (WEF) Global Competitiveness Report 2010–2011 the assessment of group of countries to the ration of public debt value to the GDP has been made [1]. In the countries of Group of Seven (G-7) this ration on average exceeded 100%. The authors of the Report pay attention on the nature of fiscal and monetary policy in times of economic expansion in recent decades. Active use of government spending debts financing and practice of large-scale lending on the security of revalued assets during the period of growth has led to the fact that, under the conditions of decline further debt financing had become unavailable. The level of debt increases because major developed economies are too burdened by social burden by which economists and politicians of these countries were proud.

However, despite the obvious achievements of modern scientific thought, a number of problems connected with Global Competitiveness Indexes and world economics disproportionality are not fully explored. This direction determines the relevance of our research, and therefore the suspense of the problem to which this article is devoted.

Nowadays we can confidently say that the biggest national economy of the world (USA one) since 1976 is net capital importer. In the early 1990s the country from the largest lender in the world has become the largest debtor in the world economy. One of the sources of capital raising has become an active issue of obligations. During the crisis a lot of internal factors of capital debt increasing jointed to a passive current account. As a result, in May 2011 USA public debt exceeded legally established maximum of $14.3 trillion and approached to the level of annual nominal GDP. Paying attention to the scale of the economy, the absolute amount of the accumulated debt reaches record of historical value. The major creditors of USA economy are China, Japan, oil exporting countries, Hong Kong, Switzerland. Active current account is typical for these countries. In fact, USA economic growth is because of the expenses of domestic demand, while countries with foreign trade surpluses like China and Germany are growing through exports [1].

These disparities of world economy development pushes national governments to the sharp disputes between major world's economies and are called «currency wars». USA government in numerous appeals urged China doesn't resort to artificial containment of the exchange rate and allow yean rate to set free. The national currencies devaluation in order to improve export competitiveness in one way or another was applied by Japan, Brazil, Colombia, and Peru. Economists around the world have warned about the risk of mass exchange rate devaluation in times of active phase of the crisis. Low rate of national currency can devalue some debts and also stimulates exports. Negative effects of national currency devaluation in this case seem reasonable for the debtor countries.

The existence of decision making consequences spillovers between countries in today's global economy contributed to the understanding of common economic problems. International organizations and governments in numerous documents declare the need for further monetary policy reformation, establishment the mechanism of fiscal policy coordination in inter-country cooperation, increasing the stability of international banking system through the global reform «Basel-3» implementation, creation system for monitoring the prices for raw products, and the need to solve food problem.

World economy is marked by a new level of national economies interdependence. Return to tighten monetary policy in developed economies will lead to the reversal of capital flows worldwide. Decisions on exchange rate policy and capital flows regulatory measures in developing countries affect developed economies and other developing countries.

In April 2011 the International monetary Fund economists have noted a rapid return level of production in developing countries to the pre-crisis level. It is expected that in coming years in countries with emerging and developing economies economic growth will significantly outpace GDP growth in countries with developed economies (table 1) [2]. However, the «overheating» due to growing inflationary pressure and possible credit boom threatens to particular developing countries.

The difference between economic growth of global economy traditional leaders (G-7) and developing economies is a special feature of contemporary global economy development and one of the world economy imbalances.

Traditional approach to world economic history has all chances to be revised. Today history interpretation by Andre Gunder Frank looks more reasonable from the position of China, as the center of the world economy, which for centuries was simply not fully included to the processes of capitalistic capital accumulation but is fully included in it now [3].

Table 1.

Actual and prognosis macroeconomic indexes of the developed countries and developing countries (IMF)

Years	2001–2008	2009	2010	2011	2012	2009–2012	2013–2016
Annual rates of increase of the real GDP,%							
World	4.0	–0.5	5.0	4.4	4.5	3.3	4.6
Developed countries	2.1	–3.4	3.0	2.4	2.6	1.1	2.4
Developing countries	6.6	2.7	7.3	6.5	6.5	5.7	6.7
Annual rates of growth of consumer prices,%							
Developed countries	2.2	0.1	1.6	2.2	1.7	1.4	1.8
Developing countries	6.8	5.2	6.2	6.9	5.3	5.9	4.0
Balance of checking account in % to GDP							
Developed countries	–0.9	–0.3	–0.2	–0.3	–0.2	–0.2	–0.4
Developing countries	2.9	1.8	1.8	2.6	2.3	2.1	2.2

Attention that researches in the last decade pay to the successful development of the countries that are outside the historic borders of Western civilization is explained not only by rapid economic growth, but also by the scale of their economies. The trajectory of some countries development has become a real threat to the economic dominance of traditional leaders in the capitalistic world. Thus, the disparities that define modern global economy determine not only the condition of individual national economies environment, but also contribute to the changing of geo-economics map of the world.

There are a lot of reasons of world economy development negative impact shock vibrations upon Ukraine. In order to carry out an effective economic policy it is important to correctly identify a list of the most acute economic problems associated with the influence of global economic imbalances.

In February–April 2011 ministers of finance and heads of central banks of G-20 adopted indicators of economic disparities. The system of indicators includes: state debt and country deficit; ration of private savings and population debts; external imbalance defined as trade balance state, net investment incomes and transfers, taking into account the impact of exchange rate, fiscal, monetary and other policies.

According to the representatives of European Commission and EU governments «an effective supervisory mechanism» is intended for the prevention and correction of macroeconomic imbalances will detect the loss region economies competitiveness. Each of the selected indicators of economic imbalance affects world economic development separately and in combination with other factors. Their choice is caused by 2008–2009 crisis peculiarities, when problems of national and private debts, budget deficit and deficiencies in world trade regulation mechanism have become the most difficult challenges to governments of most countries.

Such «an effective supervisory mechanism» is needed for the government of each country and its aim is steady increase of welfare. Comparing specific parameters of national economics functioning we can detect the emergence and influence increasing on national economy these negative characteristics of national economy development. Comparative analysis of national economics functioning is held today by many international organizations. The most detailed and developed are the indexes of national economies competitiveness.

The most respecting competitiveness ratings of national economy today are Rating of World Economic Forum (WEF) (Davos, Switzerland) and the international Institute of Management Development (IIMD) (Lausanne, Switzerland). The paradigm of national economy competitiveness which emerged in the last decade of XX century covers a wide range of issues some of which are beyond the substantive scope of traditional economics. Mentioned international institutions compare countries according to the set of criteria that characterize economic, social and political sphere. Nowadays, one of the main functions of indicators of national economics competitiveness is to identify common trends in national economics functioning which allow drawing conclusions about the existence of disparities in the development of modern global economy.

The above-mentioned current global economic imbalances affect countries position in competitiveness ratings, primarily by changing the components assessment that characterized macroeconomic parameters, their functioning and state of financial markets. This assumption is confirmed by further data analysis used for the calculation of competitiveness indexes in Ukraine. World Economic Forum calculates the index of global competitiveness on the basis of more than 100 criteria, obtained as statistical data and poll data of participating countries. These criteria form 12 components (pillars) of national economy competitiveness. According to the above assumption, the biggest change in components evaluation is concerned with such components as: «Macroeconomic stability» and «The level of financial market development» (table 2). As illustrated, according to the «Macroeconomic stability» Ukraine lost for the past 3 years 41 points in the rating,; and according to «The level of financial market development» – 34 points. Only 5 new countries were added to the list during these years [4].

Table 2.

Ukraine in rating of WEF after 12 by the constituents of competitiveness

Year	2008–2009	2009–2010	2010–2011
A place of Ukraine is in rating	72 from 134 countries	82 from 133 countries	89 from 139 countries
State and private institutes	115	120	134
Infrastructure	79	78	68
Macroeconomic stability	91	106	132
Health protection and primary education	60	68	66
Higher education and professional preparation	43	46	46
Efficiency of market of commodities	103	109	129
Efficiency of labour-market	54	49	54
Level of financial market development	85	106	119
Rigging the newest technologies	65	80	83
Market size	31	29	38
Level of development of business	80	91	100
Innovations	52	62	63

More detailed criteria examination indicates that the most negative impact on the national economy competitiveness had those problem criteria which are now inherent in many other countries. Modification of these criteria is the cause of active discussion of global economy imbalances (table 3) [4].

Negative impact of world economic imbalances to the economy of Ukraine increased by the influence of internal factors as reflected by other elements and criteria, but this crisis and declining of competitiveness level is due to the external shock. Reducing of average assessment of these elements for all participating countries in the rating is predictable effect of global economic imbalances influence. However, lower estimate of this component for Ukraine was more significant than in other countries. Just how national production recession deep has exceeded world one, the gap between the assessments of above mentioned elements for Ukraine and the average estimates for other participating countries has also increased (fig. 1) [4].

Table 3.

Criteria of constituents «Macroeconomic stability» and «Level of financial market development» in Reports from the global competitiveness of WEF for Ukraine

Year	2008–2009 91 place is among 134 countries (4.60 points)	2009–2010 106 among 133 countries (3.96)	2010–2011 132 places are among 139 countries (3.20)
Deficit (surplus) of the state budget	78 place (–1.3% GDP)	68 place (–1.5% GDP)	134 place (–11.4% GDP)
Level of national economies	85 (18.8% GDP)	72 (20.4% GDP)	96 (15.6% GDP)
National debt	18 (13.4%)	27 (19.9% GDP)	52 (31.3% GDP)
Level of financial market development	91 (*)	100 (*)	108 (*)
Financing is through a local fund market	92 (*)	107 (*)	120 (*)
Availability of loans	66 (*)	87 (*)	130 (*)
Presence of venture capital	58 (*)	91 (*)	121 (*)
Firmness of banks	112 (*)	133 (*)	138 (*)
Adjusting of fund market	120 (*)	127 (*)	127 (*)

* – an estimation is on results questioning

Institute of Management Development in 2011 used to determine competitiveness level of the countries wider range of parameters: 248 parameters, 132 of which are statistical data and 116 are survey among high and middle level of management. Another 83 criteria are published as supplementary information. According to the methodology of IIMD these criteria are grouped into four pillars of competitiveness. We are interested here in «Macroeconomic environment» according to our research. IIMD Global Competitiveness Yearbook is published in May, so Yearbook 2011 has already reflected data for 2010 which show particular recovery of national economies after the crisis, including Ukraine's economy. Despite the fact that the average values of certain macroeconomic criteria varied according to the stages of the crisis, Ukraine's position in the overall IIMD rating is virtually unchanged. It is so because of the lower rating representativeness compared with WEF rating and because of the fact that the country is an outsider in the rating and in 2008–2010 outstripped only Venezuela. In 2011 Ukraine outstripped Croatia.

Figure 1.

A value of constituent is the «Macroeconomic environment» in rating of the World Economic Forum

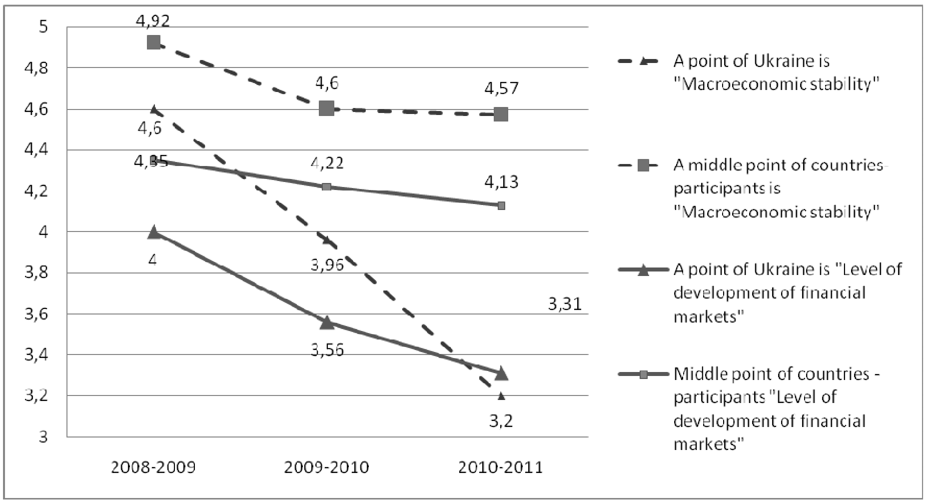


Table 4.

Ukraine in rating of International Institute of Development of Management after 4 constituents of competitiveness

Year	2008	2009	2010	2011
A place of Ukraine is in rating	54 from 55 countries	56 from 57 countries	57 from 58 countries	57 from 59 countries
Macroeconomic indexes	**50**	**55**	**55**	**45**
Efficiency of government	52	56	56	58
Business efficiency	52	53	54	55
Infrastructure	46	48	41	48

However, some changes occur at the level of index components (table 4) [5].

Analysis of the category that form «Macroeconomic environment» element indicates that the improving of the position of Ukraine according to this component in 2011 is driven primarily by external circumstances which confirms the statement about great dependence of the level of national economy competitiveness from the state of the environment (table 5) [5].

Table 5.

Category of the component «Macroeconomic environment» in Annual of International Institute of Development of Management 2010–2011

Years	2010	2011
	from 58 countries	from 59 countries
Internal economy	57	49
Foreign trade	50	24
International investments	46	45
Employment	38	32
Prices	52	48

Factors improving the countries' position according to this component were terms of trade improving, growth in foreign direct investment, exports of commercial services, receipts from tourism, increase of long-term employment. The authors of the Yearbook highlighted that the negative feature of the Ukrainian economy is its resilience to external stresses and the level of economic diversification.

Unlike the WEF, IIMD includes balance of payment criteria to the criteria of competitiveness indexes. The increase in the deficit balance of current payments from 1.4% to 2.09% to GDP became 1 of the 15 marked deterioration indicators for Ukraine.

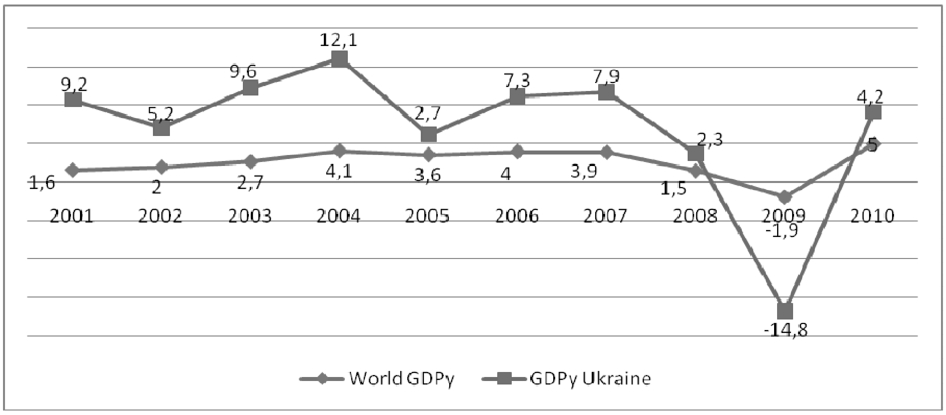
Disadvantages of integrated competitiveness indexes are of the same nature as shortcomings of any integral index. Competitiveness indexes have conditional content; they are limited in time and place where they can reflect true state of affairs. Competitiveness index is an aggregate number of individual criteria, where the number and composition properties which are combined (synthesized) into an integral indicator is largely caused by subjective factors.

In fact, the integral indexes are kind of an example of specialists' arrangement in macroeconomics inter-country analysis about recognition both the existence of different integrated indicators and their measurement capabilities for a single country.

After a sharp global economic downturn 2008–2009 economists' efforts around the world are directed to the search of effective detection mechanisms and prevention of macroeconomic imbalances. Imbalances which threaten the stability of economic growth and development have been formed as at the level of individual national economies, as on the global level. The problem of global imbalances arises before the economy of Ukraine as it arises before any other country integrated into the global economy. Excessive dependence on external factors can have devastating impact on the national economy, exemplified by catastrophic decline of real GNP of Ukraine in 2009 – fold to that of the recession of world production (fig. 2) [6].

Figure 2.

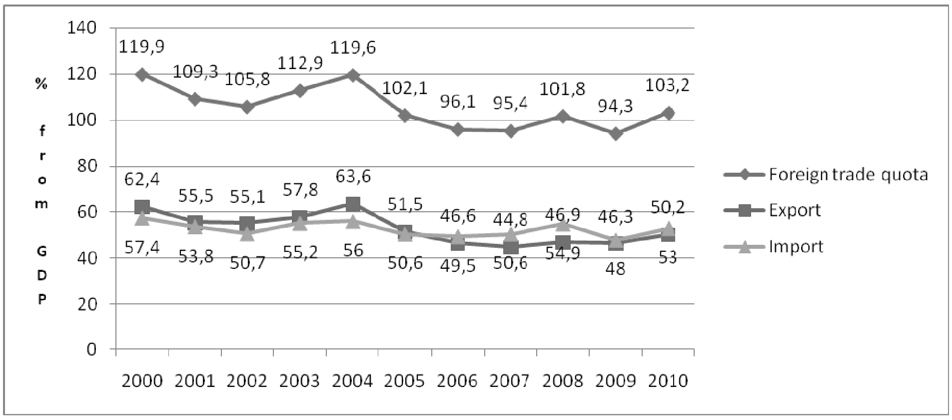
Rates of increase of the real world GDP and GDP of Ukraine (at % to previous year)



Large-scale recession of national production, in fact, was predictable according to the «quality» of economic growth in 2000–2008. Indicators of export and import quotas and foreign quota indicate on the great dependence of the national economy from the participation in the international division of labor (fig. 3) [6].

Figure 3.

A share of export and import is in GDP of Ukraine in 2000–2010, % GDP



High values of these indicators in combination with low geographic and commodity export diversification causes high sensitivity of national economy to changes in global demand in several product groups. The fall of global investment demand during the crisis led to lower prices and volumes of demand for basic compound of Ukrainian export – ferrous metals (in 2001–2009 their share in national export was 31.6%), the demand for chemical products has also significantly reduced (in 2001–2009 – 8.1% in the structure of export). Terms of trade worsened in 2009 to 11% , while during 2001–2008 they became better (in total for 50%) [7].

Sensitivity parameters of national economy to external influences determine the need to clarify the nature and trends of global economic imbalances development.

Thus, the macroeconomic parameters of national economy functioning improved in 2010 increasing the competitiveness level of the country. However, the reasons that led to the high vulnerability of Ukraine's economy to changes in external conditions, including the impact of global economic imbalances, are not eliminated. Therefore, it is necessary to monitor, predict indexes of global competitiveness and disproportionality of the world economy development, because, as we see, these processes have direct impact on the rate of growth or decline of the economy of Ukraine.

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