

“Competitive features of country associations based on the Global Competitiveness Index: the case of the United States – Mexico – Canada Agreement”

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COMPETITIVE FEATURES OF COUNTRY ASSOCIATIONS BASED ON THE GLOBAL COMPETITIVENESS INDEX: THE CASE OF THE UNITED STATES – MEXICO – CANADA AGREEMENT

Abstract

Modern architecture of the world economy is determined not only by the indicators of development of individual national economies and not only by their individual efforts, but also by coordinated efforts of several countries, such as trade agreements. One of such agreements that should lead to freer market relations, fairer trade and sustainable economic growth in the region, better resolution of international disputes, environmental protection, intellectual property protection, etc., is the United States – Mexico – Canada Agreement (USMCA). The aim of this paper is an attempt to analyze the level of global competitiveness of intergovernmental associations (agreements) as influential participants in the international market. To do this, the concepts of “competitive power of the country” and “competitive power of international integration groups” are compared with the concept of firm competitiveness. The competitiveness of the country association was analyzed through the example of the USMCA based on The Global Competitiveness Report 2019 and The Global Competitiveness Index 4.0. used in it. The paper also examines the global challenges and obstacles affecting the level of competitiveness and competitive advantage that each country receives when participating in an international integration agreement. This analysis helps explain real competitive processes in the global economy.

Keywords

competitiveness, global economy, macro-economic stability, community policy, USMCA

JEL Classification

F15, F63

INTRODUCTION

The paradigmatic structure of the global economy development determines the relationship between the competitiveness of individual countries and the competitive power of interstate associations (agreements), which nowadays are the main subjects of global development. Interstate associations were mainly created at the initiative of the most powerful countries in the world with the aim of increasing their competitiveness in the global economy.

One of the most important alliances in the world is the agreement between the United States, Mexico and Canada. In 2019, these countries reached an agreement to modernize the 25-year-old NAFTA. The new United States – Mexico – Canada Agreement (USMCA) should support mutually beneficial trade leading to freer markets, fairer trade and sustainable economic growth, and its sections include Intellectual Property, Digital Trade, De minimis, Financial Services, and Environment.

Having a theoretical solution to the essence of the competitive power concept, indicators and criteria of international associations, many countries could decide for themselves and determine priority directions of movement in the processes of international economic integration and disintegration, convergence and divergence.

Despite a fairly complete theoretical and methodological basis for studying the competitiveness of the national economy, an independent criterion and indicator of the competitive strength of interstate integration associations, as well as the calculation of the global competitive power index are undeservedly ignored by economists. Meanwhile, they are extremely important in the context of modern manifestations of globalization changes in competitive relations.

1. LITERATURE REVIEW

There is no universal definition of a country's competitiveness in the international professional academic literature. And there is a heated scientific debate on this issue.

Porter (1990), Krugman (1996), Reinert (1994), Hellwig (2019), Wolf (2004), and others criticize the concept of competitiveness of the national economy, so the scientific debate continues nowadays. Some researchers and experts argue that the term "competitiveness" should only be applied to a company, firm or industry, since no country can be competitive in all industries; this paper completely agrees with this statement.

Porter (1990) stimulated discussion of the concept of a country's competitiveness. He argued that the concept of "competitive country" as a scientific term was of great importance for economic prosperity. But it is not still complex. He noted that competitiveness at the country level was the productivity of resource use, and at the same time, there is no commonly accepted definition of competitiveness in relation to nations. The concept of competitiveness of a firm or industry can be understood, but national competitiveness is understandable (Porter, 1990, pp. 76-77).

Krugman's (1994) criticism of the term "competitiveness" is well known. He argues why the term "national competitiveness" is used incorrectly: nations do not compete as well as companies. Firms that do not succeed leave the market irrevocably, but such a concept cannot be applied to nations; national competitiveness is not "a zero game". When companies are competing for a place in the market, the success of one company will be at the

expense of the failure of others. However, the success of one country does not make impossible the success of other countries. Krugman points out that the rate of improvement in living standards can be nearly equal to the rate of growth of national productivity (rather than productivity versus competition) (Krugman, 1994, p. 34).

Krugman also notes that economists do not use the term "competitiveness" at all. None of the textbooks on international economics that he has on his shelves contain this word. It is believed that when famous intellectuals and influential politicians talk about "competitiveness," they mean something meaningful (Krugman, 1996, p. 24).

The competitiveness of a country is not similar to the competitiveness of a firm or industry; unlike the competitiveness of an enterprise, the concept of the competitiveness of a national economy does not exist in reality, it is theoretically meaningless. The concept of competitiveness is important when it is applied to a firm and wrong and meaningless when it is applied to a country.

Reinert (1994) writes in his article "Competitiveness and its predecessors – a 500-year cross-national perspective" that the term "competitiveness" is often misused, although it should indeed characterize an important feature of the world economy (Reinert, 1994, p. 3).

Hellwig (2019) argues that competition is usually a lucrative business, but this does not applied to "competition between countries". So he acts as a consistent and uncompromising supporter of D. Ricardo. He emphasizes that there is no competition between countries, it would be possible if we meant war or some opportunity to attract attention.

But it is difficult to imagine that there is competition for products between countries. There is competition between goods and even between enterprises: firms may face tough or easy competition in the marketplace, but this depends not only on how effective they are, but also on state regulation, legal systems and other factors (Hellwig, 2019).

Wolf (2004), chief financial advisor to the Financial Times, states that “the notion of the competitiveness of countries, on the model of the competitiveness of companies, is nonsense.” Based on a detailed study of Ricardo’s theory of competitive advantage, Wolf notes that the concept that countries compete directly with each other in the same way as companies is nonsense. This is nonsense, because the most important source of wealth and competitive advantage, especially people, is extremely immobile. The country cannot lose its competitiveness. Its competitive advantage may change. Such changes can sometimes even be undesirable. But in any case, the country should have a competitive advantage in something (Wolf, 2004).

Although at this stage among the representatives of the scientific community there is still no specific definition of competitive power, determining the essence of competitiveness and studying factors that form a country’s competitiveness are quite relevant. Porter’s approach to building competitiveness is still relevant. Its reform in modern conditions is caused by the existence of several new challenges and threats, conditions for the turbulent development of the world economy. Thus, Vlados attempts to integrate a set of evolutionary socioeconomic dimensions into the “diamond’s” analytical perspective, resulting in a conceptual model of the “competitiveness web”. The author talks about the usefulness of analyzing competitiveness in the context of globalization. This could be an effective method for a uniform understanding of competitiveness: from the macro to the micro level of competitiveness through the meso-environment, which has a steadily evolutionary and historical perspective (Vlados, 2019). But this still does not concern the question of the competitive power of the respective country or integration union.

Obviously, there is not only a clear definition of the category of competitive power, but also suffi-

cient attention to the study of this phenomenon. Nevertheless, the competitiveness of a country, methods of its definition and its connection with the dynamics of growth were in the focus of attention of economists and government officials, since the quality of assessments and the degree of their correspondence to the modern realities of competitive relations in the world economy significantly influence the strategic decisions of any country.

When it comes to a company’s competitiveness, one can refer to the huge number of scientific works of both the classics of management and marketing, and ordinary researchers who have studied local problems in this area. Thus, Suknunan and Maharaj (2019) study the competitiveness of universities in the region through knowledge management; Kharashvili et al. (2018) analyze the competitiveness of companies in the fruit and vegetable market of a particular country; and Menrad (2020) explores the competitiveness of banking institutions based on digital innovation and investment to stay competitive and meet customer requirements, etc.

The competitiveness of a country, as opposed to the competitiveness of a firm or company, goes beyond supply and demand and is not limited to profits, sets rules for governments and affects the standard of living of the population.

Global competition between countries should not be characterized by the term “competitiveness”, since this term only refers to competition between enterprises in the market and narrows the understanding of these processes for the country and even more so for regional integration associations.

This can be explained as follows: a non-competitive product or industry can be displaced from the market by competition; for the national economy, the use of the term “non-competitive country” is not scientifically incorrect, because even if the country is the in the last place in the competitiveness rating, it cannot leave the international arena and no competitive country can oust it. This qualitative difference between the competitiveness of an enterprise and the country’s flexible competitiveness indicates that the introduction of a clearer definition of a country’s competitive power is a requirement of modern development of the global

economy. Thus, a country's competitive power is a more complex category to evaluate than a firm's competitiveness, which is characterized by many determinants that are difficult to classify.

The country's competitive power is a core key category in the study of the dynamics of global competition, which is an integrative scientific category that covers and considers quantitative and qualitative indicators of attractiveness of the national economy. These indicators determine the country's competitive development, the potential for future economic growth and improvement, which in the future increase the real income of citizens. That is, the competitive power of the national economy is a value that indicates that in one country there is a real provision of society and business with higher benefits than in all others.

The study of the competitive strength of only one country in the global economy does not correspond to its current development. Therefore, it is necessary to evaluate the competitive strength of international integration unions, since international economic integration has historically helped countries in achieving common goals. That is, due to the competition of countries, the degree of integration of their own economies increases and their competitive power in the global economy changes. Today, a number of countries are perceived as outsiders, underdeveloped and uncertain about the processes of regional economic integration or disintegration. Others doubt whether the national economy can meet the goals of sustainable economic development of interstate integration associations.

The number of entities influencing the distribution of competitive power in the global economy is increasing, and areas of economic competition or cooperation are expanding to enhance competitiveness. Undoubtedly, there is a significant impact of international integration on the country's sustainable economic development. Therefore, it was concluded that understanding the role of an interstate, regional integration union in compe-

tion in the international market will be equally valuable both for the member state of that union and for formulating the competition policy of the relevant union as a whole, since this would determine how competitive the international association is been created.

As for the existing practices of assessing the countries' competitiveness, the most famous and recognized practice is that of The World Economic Forum (WEF) in Davos. WEF annually analyzes the prospects for the development of the world economy and annually publishes the ranking of countries according to the Global Competitiveness Index, the first report of which was published in 1979 (Fendel & Frenkel, 2005, pp. 29-35). Since 2004, the Global Competitiveness Report has ranked countries based on the Global Competitiveness Index.

WEF President Borge Brende writes in his article "Shaping a Multiconceptual World 2020": "At a time when power dynamics are in constant flux, it is likely that stakeholders will decide to shape geopolitics by a cooperative rather than a competitive tool" (World Economic Forum, 2020).

Economists at the World Economic Forum define competitiveness as "a set of institutions, policies and factors that determine a country's level of productivity" (Cann, 2016).

The World Economic Forum report, starting in 2018, uses a new methodology that takes full account of the impact of the Fourth Industrial Revolution on the development of the world. The updated index estimates the world economy by 98 indicators, which are divided into 12 groups of indicators or drivers of productivity (see Table 1) (Schwab, 2018).

For each indicator, a scale from 0 to 100 is used to indicate how close or far the economy of a particular country is from its ideal state or is on the verge of global competitive power.

Table 1. Criteria for assessing the global competitiveness of countries

Enabling environment	Markets	Human capital	Innovation ecosystem
Institutions	Product market	Health	Business dynamics
Infrastructure	Labor market	Skills	Innovation capability
IICT adoption	Financial system		
Macroeconomic stability	Market size		

The Global Competitiveness Report 2019 evaluates the competitiveness of 141 countries based on open information and the opinions of several thousand experts from over 100 countries. The Competitiveness Index measures the ability of countries to provide a high standard of living for their citizens.

At that moment, USA, Mexico and Canada have agreed to modernize the agreement. The new Agreement between US, Mexico and Canada (USMCA) will support mutually beneficial trade, leading to free markets, fairer trade and sustainable economic growth in North America. This agreement is one of the largest free trade areas in the world, with a population of 489.1 million as of 2019 and a GDP per capita of USD 39,558 (calculated based on data from The World Competitiveness Report (Schwab, 2019)).

In January 2020, while signing a USMCA agreement, Trump said, “Today we are finally ending the NAFTA nightmare” and called the new trade deal a “colossal victory” for farmers, factory workers and other countries. The new US – Mexico – Canada Agreement simply updates the North American Free Trade Agreement, but the 2082-page pact also includes major chang-

es in several key areas, including incentives for North American car production and opening Canadian markets for American dairy farmers (Swanson, 2020).

The USMCA requires 75% of auto parts to be manufactured in the USA, Canada, and Mexico to avoid tariffs, and 40-45% of auto parts must be produced by workers whose wage per hour will be at least USD 16 by 2023 (Lawrence & Garber, 2019).

2. GENERALIZATION OF THE MAIN STATEMENTS

Even a simple comparison shows that USMCA member countries differ significantly in their global competitiveness. It should be noted that the best competitiveness results of all three countries are represented by the criterion of macroeconomic stability. According to this indicator, their scores are practically indistinguishable and are closest to the maximum of all competitiveness criteria.

Table 2 provides data on the Global Competitiveness Index for USMCA member countries.

Table 2. USMCA member states in The Global Competitiveness Report 2019

Source: Schwab (2019).

USMCA member states	USA		Canada		Mexico	
	Rank 2019	Points	Rank 2019	Points	Rank 2019	Points
Enabling environment						
Institutions	20	71	13	74	98	48
Infrastructure	13	88	26	81	54	72
ICT adoption	27	74	35	70	74	55
Macroeconomic stability	37	100	1	100	41	98
Human capital						
Health	55	83	14	95	60	82
Skills	9	82	12	81	89	58
Markets						
Product market	8	69	24	64	53	58
Labor market	4	78	8	75	96	56
Financial system	3	91	9	87	64	62
Market size	2	100	16	77	11	81
Innovation ecosystem						
Business dynamism	1	84	12	77	41	66
Innovation capability	2	84	16	74	52	44
Global competitiveness index 2019						
2019	2	84	14	80	48	65

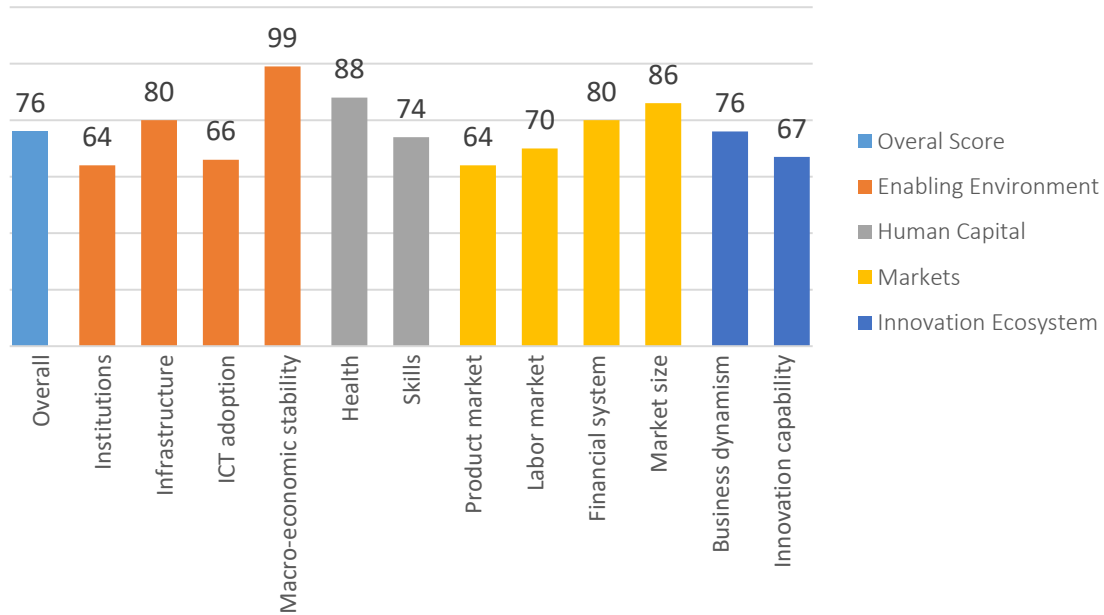


Figure 1. Average Global Competitiveness Index for USMCA (2019)

In general terms, the USMCA’s Global Competitiveness Index is as follows: the USA ranks 2nd out of 141 countries, Canada ranks 14th, and Mexico ranks 48th, which means that this agreement unites countries with significantly different levels of competitive power.

The USA, one of the members of this international integration group, is the world leader. In 2018, USA was at the top of this ranking of global economies. It should be noted that the difference between the United States and Singapore is very small: Singapore – 84.8 and the US – 83.7 points; in 2018 the US (85.6) ranked 1st among 140 countries, and Singapore (83.5) ranked 2nd (Schwab, 2018).

Being a leader in both international economic relations and integration processes, the US ensures, despite certain destructive processes, the USMCA moves forward and, if necessary, can provide immediate assistance to partners with less competitive power.

However, in terms of institution and health status, Canada scores better than the United States and Mexico, while Mexico does not score top on any of the 12 competitiveness criteria. Undoubtedly, the creation of this Free Trade Area influenced the competitiveness of all USMCA member countries. The USMCA integration demonstrates the clear

benefits of liberalizing trade relations between member countries. The agreement made a significant contribution to economic growth and improving living standards. In the process of deepening the country’s integration, joint ventures were set up to produce goods and services, which allowed Mexican, Canadian and American firms to simplify access to technology, reduce production costs, and activate cooperation to strengthen their competitive positions in the international arena. Therefore, each member state receives its economic effect, which may have a greater or lesser impact on the competitive power of the merging partner country. The combination and synergy of these effects testifies the development of an integrated global competitive force of unification.

Competition between countries within the framework of integration unions contributes to the differentiation of the competitive power of member states, which is clearly seen on the example of the USMCA. Here one can calculate the average value of the individual scores of the participating countries (see Figure 1).

The results of the comprehensive assessment of the competitiveness of the three USMCA member countries indicate a high overall competitive strength index of this union. This indicates the significant impact of the USMCA on the global

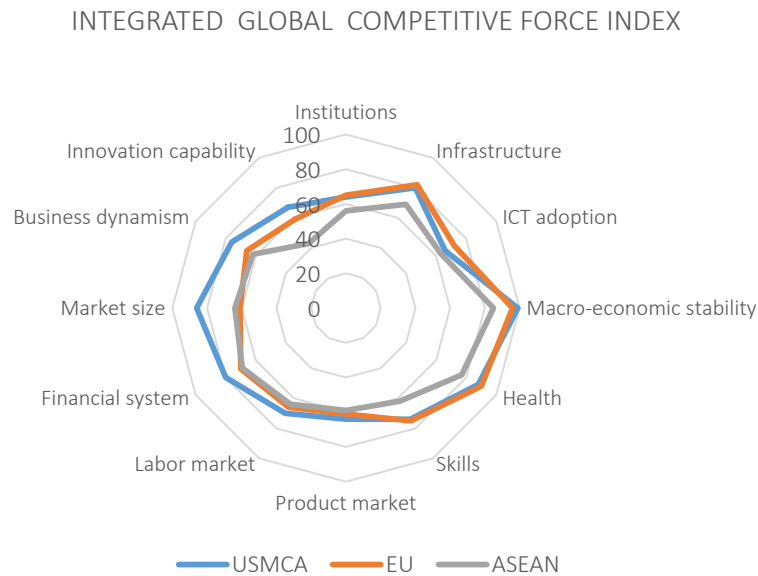


Figure 2. Average Global Competitiveness Index for USMCA, EU and ASEAN

competitive space. When studying the integrated indices of global competitiveness of the three largest integration associations – USMCA, EU and ASEAN – it should be determined that the USMCA ranks first and, in accordance with its competitiveness, is the most powerful integration association. The European Union and the Association of Southeast Asian Nations came in second and third, respectively (see Figure 2).

Figure 2 compares all 12 criteria for the competitiveness of interstate integration associations. On three sub-indices and eight criteria, the USMCA has the highest scores compared to the EU and ASEAN, but the EU institutions, infrastructure and healthcare have the highest scores. As the figure shows, the USMCA is primarily assessed on competitiveness criteria such as market size, financial system, business dynamism and innovation.

3. DISCUSSION

The unification of countries in international integration unions is carried out to improve the living standards of their population. The member states of international integration unions unite and form a single competition policy in order to compete in an increasingly rigid and turbulent world market for the distribution of competitive power.

Therefore, nowadays, determining the competitive strength of international integration associations and their annual assessment are important components of the development of global economy.

Economic globalization, as an objective and contradictory process, encompasses all national economies and integration groups. Not only individual countries, but also their regional associations (EU, NAFTA, ASEAN, etc.) play a leading role in the development of globalization processes. This is due to the fact that the globalization of economic activity requires the minimization or elimination of restrictions in the international trade, foreign investment, and international financial transactions. The competitive positions of international integration associations have grown relatively recently, but today they are not only mediators in relations between countries, but also act as the governing link in interstate relations. They have become full-fledged actors in shaping the global economy.

This paper focuses on the competitive power of the most advanced international integration alliances, as they bring countries together, share the competing forces of member states and play a leading role in shaping the global economy and international competition. They also actively influence the development of world economic relations both

between member states of international integration associations and between associations in general and non-international integration alliances.

The increase in the number of regional trade blocks in the form of agreements is one of the leading trends in the development of international relations over the past 5-7 years. Currently, almost every country is included in at least one such group. Over the past 10 years, one can notice qualitative changes in the nature of regional integration agreements (Schiff & Winters, 2003, p. 13). The main driving force is the search for new sources of economic growth, obtaining a synergistic effect from the coordination of national regulatory actions and removing barriers to the free movement of factors of production (Panteleev, 2019, p. 6).

Free trade agreements, which are the first stage of international economic integration, lead to a

reformatting of trade relations between member states and between other countries of the world. This leads to a change in the country's competitive status in the global economy, that is, even the simplest form of integration testifies to the qualitative competitive impact of joining any international integration union. Therefore, it is appropriate to single out the competitive power of interstate integration associations in a separate level and competitiveness index, since it plays a significant role in shaping global competitive relations.

The paper proposes to inform the world scientific community about the competitive strength ratings of international integration associations in the global economy, so that any country that chooses an integration vector of its development has specific statistics on increasing or decreasing the competitive power of one or another regional association.

CONCLUSION

The purpose of this paper was to compare the concept of competitiveness of countries and their associations with the concept of competitiveness of a firm and to consider the competitiveness of a group of countries using the USMCA as an example. For this, data from The Global Competitiveness Report 2019 was used.

The results of the comprehensive assessment of the USMCA competitiveness show the competitive power of this US integration, as well as the USMCA's impact on global economic processes taking place in a global competitive environment. Each member state has its own economic impact and the combination and synergy of these effects indicate the development of an integrated global competitive force of the association. The assessment of the integrated competitive power of an international integration association is of real practical importance for analyzing the current globalization shifts in competitive relations. Both national economies and interstate integration associations are levers of influence on the distribution of competitive power in international economic relations. In the context of modern development of the world economy, the study of the competitive force of international integration associations has both theoretical and practical importance.

AUTHOR CONTRIBUTIONS

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Formal analysis: Volodymyr Verhun, Olena Pryiatelchuk.

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Project administration: Olena Pryiatelchuk, Olena Zayats.

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Software: Olena Pryiatelchuk, Olena Zayats.

Supervision: Volodymyr Verhun.

Validation: Volodymyr Verhun, Olena Pryiatelchuk.

Visualization: Olena Pryiatelchuk, Olena Zayats.

Writing – original draft: Olena Pryiatelchuk, Olena Zayats.

Writing – review & editing: Volodymyr Verhun, Olena Pryiatelchuk, Olena Zayats.

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