IMD RELEASES ITS 2016 WORLD COMPETITIVENESS RANKINGS

IMD, a top-ranked global business school in Switzerland and Singapore, today announced its annual world competitiveness ranking. As part of its **ranking of 61 economies** for 2016, the IMD World Competitiveness Center looks at several aspects of each country as a place to conduct business since 1989. The IMD World Competitiveness Yearbook, which will be published at the end of June, measures how well countries manage all their resources and competencies to facilitate long-term value creation. The rankings are **entirely relative to other economies**. The overall ranking released today reflects **more than 340 criteria**, approximately two-thirds of which are based on **statistical indicators** and one-third on an exclusive IMD **survey of 5,480 international executives**.

IMD WCY uses the criteria to calculate the Sub-Factor scores and rankings. The Sub-Factor scores are then used to create both the four Factor rankings (economic performance; government efficiency; business efficiency; and infrastructure) and the Overall ranking. **Improvement/decline of a country does not happen in isolation, the relative movements of others play a great role in it**. Small changes across many Sub-Factor rankings can sometimes be cancelled out by other economies having substantial changes in a small number of aspects.

HIGHLIGHTS OF THE 2016 RANKING

The **USA** has surrendered its status as the world's most competitive economy after being overtaken by **China Hong Kong** and **Switzerland**.

The sheer power of the economy of the USA is no longer sufficient to keep it at the top of the prestigious World Competitiveness Ranking, which it has led for the past three years. "*There is no nailed-it for ever status of competitiveness, economies must pursue continuous improvements being able to initiate structural change in the spirit of sustainable development*", said Dr. Olivér Kovács, Research Fellow at ICEG European Center, which is the Hungarian partner institute of IMD.

The 2016 edition ranks **China Hong Kong** first, **Switzerland** second and the **USA** third, with **Singapore**, **Sweden**, **Denmark**, **Ireland**, **the Netherlands**, **Norway** and **Canada** completing the top 10.

Professor Arturo Bris, Director of the IMD World Competitiveness Center, said a consistent commitment to a favourable business environment was central to China Hong Kong's rise and that Switzerland's small size and its emphasis on a commitment to quality have allowed it to react quickly to keep its economy on top.

"*The USA still boasts the best economic performance in the world, but there are many other factors that we take into account when assessing competitiveness*," he said.

GLOBAL PERSPECTIVE

A leading banking and financial center, **China Hong Kong** encourages innovation through low and simple taxation and imposes no restrictions on capital flows into or out of the territory. It also offers a gateway for foreign direct investment in **China Mainland**, the world's newest economic superpower, and enables businesses there to access global capital markets.

China Hong Kong and **Singapore** aside, however, the research suggests Asia's competitiveness has declined markedly overall since the publication of last year's ranking. **Taiwan, Malaysia, Korea Republic,** and **Indonesia** have all suffered significant falls from their 2015 positions, while **China Mainland** declined only narrowly retaining its place in the top 25.

Meanwhile, 36th-placed **Chile** is the sole Latin American nation outside the bottom 20, while **Argentina**, in 55th, is the only country in the region to have improved on its 2015 position.

Professor Bris said: "*One important fact that the ranking makes clear year after year is that current economic growth is by no means a guarantee of future competitiveness*. *Nations as different as **China Mainland** and **Qatar** fare very well in terms of economic performance, but they remain weak in other pillars such as government efficiency and infrastructure*."

Data gathered since the first ranking was published more than 25 years ago also lend weight to fears that the rich are getting richer and the poor poorer, said Professor Bris. "*Since 1995 the world has become increasingly unequal in terms of income differences among countries, although the rate of increase is now slowing*," he said. The wealth of the richest countries has grown every year except for the past two, while the poorer countries have seen some improvement in living conditions since the millennium. Unfortunately, the problem for many countries is that wealth accumulation by the rich doesn't yield any benefits for the poor in the absence of proper social safety nets. "*Innovation-driven economic growth in poorer countries improves competitiveness, but it also increases inequality. This is obviously an issue that demands long-term attention*."

CENTRAL AND EASTERN EUROPEAN PERSPECTIVE

The study reveals some of the most impressive strides in Europe have been made by countries in the East, chief among them **Latvia**, the **Slovak Republic** and **Slovenia**. They are among the fastest-improving in the world. Each has bettered its 2015 position by six places – a rise beaten only by Ireland and the Netherlands – with Latvia moving to 37th, the Slovak Republic to 40th and Slovenia to 43rd.

The common pattern among all of the countries in the top 20 is their focus on business-friendly regulation, physical and intangible infrastructure and inclusive institutions. These are qualities that many Eastern European economies are increasingly recognising and embracing, and a breakthrough into the top 20 might not be too far away. The **Czech Republic**, in 27th place, currently ranks as the most competitive economy in Eastern Europe, followed by **Lithuania** (30th), **Estonia** (31st) and **Poland** (33rd). By way of context, France occupies 32nd position, Spain 34th and Italy 35th.

Hungary and **Bulgaria**, in 46th and 50th respectively out of 61, also improved on their 2015 standings.

Table 1. The ranking of the IMD World Competitiveness Yearbook 2016

WCY 2016	Country	WCY 2015	Change
1	China Hong Kong	2	+1
2	Switzerland	4	+2
3	USA	1	-2
4	Singapore	3	-1
5	Sweden	9	+4
6	Denmark	8	+2
7	Ireland	16	+9
8	Netherlands	15	+7
9	Norway	7	-2
10	Canada	5	-5
11	Luxembourg	6	-5
12	Germany	10	-2
13	Qatar	13	-
14	Taiwan	11	-3
15	UAE	12	-3
16	New Zealand	17	+1
17	Australia	18	+1
18	United Kingdom	19	+1
19	Malaysia	14	-5
20	Finland	20	-
21	Israel	21	-
22	Belgium	23	+1
23	Iceland	24	+1
24	Austria	26	+2
25	China Mainland	22	-3
26	Japan	27	+1
27	Czech Republic	29	+2
28	Thailand	30	+2
29	Korea Rep.	25	-4
30	Lithuania	28	-2
31	Estonia	31	-
32	France	32	-
33	Poland	33	-
34	Spain	37	+3
35	Italy	38	+3
36	Chile	35	-1
37	Latvia	43	+6
38	Turkey	40	+2
39	Portugal	36	-3
40	Slovak Republic	46	+6
41	India	44	+3
42	Philippines	41	-1
43	Slovenia	49	+6
44	Russia	45	+1
45	Mexico	39	-6
46	Hungary	48	+2
47	Kazakhstan	34	-13
48	Indonesia	42	-6
49	Romania	47	-2
50	Bulgaria	55	+5
51	Colombia	51	-
52	South Africa	53	+1
53	Jordan	52	-1
54	Peru	54	-
55	Argentina	59	+4
56	Greece	50	-6
57	Brazil	56	-1
58	Croatia	58	-
59	Ukraine	60	+1
60	Mongolia	57	-3
61	Venezuela	61	-

Source: IMD WCY 2016

THE COMPETITIVENESS OF HUNGARY

Since 2008, ICEG European Center has been the Hungarian partner institute of IMD.

Out of the 61 countries analysed, in the 2016 edition of the World Competitiveness Yearbook, the **Hungarian** competitiveness shows a certain sign of slight relative improvement by reaching the **46th** position compared to the 48th of the ranking of 2015. The closest neighbouring countries in the ranking are **Mexico** (45th) and **Kazakhstan** (47th).

Comparing to the so-called **Visegrád Group**, Hungary has been undergoing a more sluggish improvement (50 of 2013; 48 of 2014 and 2015), while **Czechia** continued its stable amelioration trend (29 to 27) and the **Slovak Republic** improved with the fastest pace (46 to 40). By this time, **Poland** was not able to significantly move up, it remained at the place of 33.

Despite the considerable downturn in the economic performance dimension of Hungary (17 to 26), the Hungarian competitiveness has improved moderately partly due to the reinvigorating business efficiency, and in particular due to the big relative ups and downs in its ranking neighbourhood that exerted a counterbalancing effect.

As emphasised earlier, improvements/declines do not happen in isolation, relative movements play a great role. A country may improve in all competitiveness factors (economic performance; government efficiency; business efficiency; and infrastructure), yet still loose position in competitiveness Overall Ranking if others have improved at an even higher pace. Similarly, while one may decline in more or all competitiveness factors, it is possible to step up on the ranking if others experience a more critical competitiveness loss. In case of Hungary, while we see a decline or no significant change in each of the competitiveness factors compared to 2015, there is a slight increase in the Overall ranking.

Accordingly, there were complex and big ups and downs in the whole ranking, especially in the neighbourhood of Hungary (10-10 countries before and after Hungary) by making possible to reach the 46th relative place. In case of the countries before Hungary, Latvia (+6) and the Slovak Republic (+6) registered the biggest improvements, while Mexico (-6) and Indonesia (-6) suffered from the biggest declines in terms of competitiveness. The circle of 10 countries after Hungary has also changed. Kazakhstan (-13) with its substantially decelerating economy and the recuperating Argentina (+4) appeared in the circle, while Greece (-6) and Bulgaria (+5) also took relatively big steps and Slovenia (43), all the more, overtook Hungary by three places.

As far as the changes in the dimensions of economic performance, government efficiency, business efficiency and infrastructure are concerned, the following observations can be made:

i. *The most substantial decline was observable in terms of **economic performance** since its **17th** position was followed by **26th** in 2016.* This was mainly due to the conspicuous weakening of the general domestic economy in the ranking (40 to 44), the deteriorating international trade (6 to 11) as well as international investment positions (20 to 34). Compared to 2015, the main differences are in investments, both abroad and inward, that are significantly lower than last year. Export of goods growth is clearly negative (-10.9%). As well "relocation threat" seems to be a concern (survey on this topic are lower). Furthermore, the seemingly regenerating employability capacity of the country, reported in the 2015 edition, started to lose grounds (39 to 41). These dynamics imply that something deeper may amiss and the 2016 edition also reflects upon the potential knot of obstacles to the healthy economic performance (e.g. high-dependency on EU-funds; extensive reliance on automotive industry – the diversity of the economy has been ranked 51st, while the resilience of the economy has also got relevant shortcomings (50)).[1]

ii. *As far as the **government efficiency** is concerned, it has remained unchanged at the position of **54th**.* Albeit the spheres of public finance, fiscal policy and institutional framework have remained relatively stable (50, 57, 43, respectively); the lack of improvements signals that the stabilisation policy of the government so far has been mainly inefficient. Additionally, the factor of business

[1] The economic performance, of course, is heavily affected by the general trust infrastructure of the country which has been significantly dismantled by additionally injected uncertainties by the national governance into the Hungarian innovation ecosystem since 2010. See: Kovács, O. (2016): The Hungarian Agony over Eurozone Accession. In: Magone, J. M. – Laffan, B. – Schweiger, C. (eds.) (2016): Core-periphery Relations in the European Union – Power and Conflict in a Dualist Political Economy. Routledge, Taylor and Francis Group, Chapter 16. pp. 231-250.

legislation has declined from the 37th to 42nd position. Unsurprisingly, in the IMD Executive Opinion Survey the companies' executives expressed their concerns not only over the sustainability of the achievements the government made, but also over other qualitative factors of government efficiency (e.g. the factor of ageing of the society was ranked 61st, the efficiency of the bureaucracy was ranked 57th; state ownership of enterprises is widely considered more like a threat to business activities (54th position); and competition legislation is reported to be rather inefficient in preventing unfair competition (59th position)). Hungary ranks high in the new criterion on "Disposable Income" female/male ratio (5th) and it seems that there is less risk of political instability (survey).

iii. *In terms of* ***business efficiency****, its 57th position of 2015 has barely bettered to the* ***56th*** *place in the 2016 ranking.* The primary sources of such slight improvement were the perceived amelioration trend in the following fields: productivity and efficiency (48 to 45), finance (57 to 52), management practices (59 to 55). Nevertheless, concerns over the labour market are in order (52 to 57 because of phenomena such as brain drain (60), the negative attitude towards globalisation (61)). What is more, only 8.7% of the respondents of the Executive Opinion Survey considered Hungary as a country having a business-friendly environment when they had to name the five most attractive factors of the country.

iv. *In case of* ***infrastructure****, Hungary seems to have reached a plateau since it remained at the* ***39th*** *position in the 2016 ranking.* Problematic sustainable development (54), the pent up progress in fields like green technological solutions (56) complemented with the weak innovation capacity (54), troublesome language skills of the society (58), and the poor health infrastructure (55) being unable to dampen the serious health problems of the society (57) made the place of 39th still realistic. The Executive Opinion Survey reflected that improvements were perceived in fields like "funding of technological development", "public-private partnership", "technological regulation", while the "health problems", "environmental laws", "educational system" and "Scientific research" are reported to be declining. Infrastructure dimension also embraces the education-related categories in which Hungary is ranked relatively well (e.g. pupil-teacher ratio in primary education (5), pupil-teacher ratio in secondary education (21)). Albeit Hungary outdid among others Israel (26), Sweden (29), Finland (30), Germany (39), Singapore (35), and the Netherlands (49) in terms of pupil-teacher ratio in secondary education; the fact that Kazakhstan (6) or Russia (7) are ahead of Hungary implies that ending at the top in terms of this indicator does not necessarily mean that the education system is a fertile ground for talent. The optimal rate of pupil-teacher at secondary education depends not only on the nature of education, but also on the versatility of institutions as well as on their size.

Overall, IMD WCY 2016 suggests that the slight improvement of the Hungarian competitiveness does not inevitably bear the stamp of a consistent and intentionally designed policymaking geared towards competitiveness. For Hungary, the task of increasing competitiveness has still many loose ends.

ICEG European Center

ICEG European Center is an independent economic research institute based in Budapest, Hungary. The institute focuses its activities on research, macroeconomic and sectoral analyses and forecasts, policy advice and the dissemination of its research output through conferences and publications. For a full picture about the institute, please, visit our website: http://icegec.org

IMD World Competitiveness Center

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