IMD RELEASES ITS 2015 WORLD COMPETITIVENESS RANKINGS

Back to normalcy?

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 2015, the IMD World Competitiveness Center looks at several aspects of each country as a place to conduct business. 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 overall ranking released today reflects more than 300 criteria, approximately two-thirds of which are based on statistical indicators and one-third on an exclusive IMD survey of 6,234 international executives.

"A general analysis of the 2015 ranking shows that top countries are going back to the basics," said Professor Arturo Bris, Director of the IMD World Competitiveness Center. "Productivity and efficiency are in the driver's seat of the competitiveness wagon. Companies in those countries are increasing their efforts to minimize their environmental impact and provide a strong organizational structure for workforces to thrive."

Highlights of the 2015 ranking

The **USA** remains at the top of the ranking due to its strong business efficiency and financial sector, its innovation drive and the effectiveness of its infrastructure. **Hong Kong** (2) and **Singapore** (3) move up overtaking **Switzerland**, which drops to fourth place. **Canada** (5), **Norway** (7), **Denmark** (8), **Sweden** (9) and **Germany** (10) remain in the top 10. Luxembourg moves to the top (6) from 11th place in 2014.

Results for Asia are mixed. **Malaysia** (12 to 14), **Japan** (21 to 27), **Thailand** (29 to 30) and **Indonesia** (37 to 42) move down. **Taiwan** (13 to 11), **Republic of Korea** (26 to 25) and **the Philippines** (42 to 41) slightly rise in the ranking. Most Asian economies in decline have seen a drop in their domestic economies and are impacted by weakening/aging infrastructure.

Eastern Europe experiences a mixture of results as well. **Poland** (36 to 33), the **Czech Republic** (33 to 29) and **Slovenia** (55 to 49) move up in the ranking. In the Baltic States, **Estonia** (30 to 31) and **Latvia** (35 to 43) rank lower than last year; although, **Lithuania** gains in the ranking (34 to 28). Elsewhere in the region, current events in **Russia** (38 to 45) and **Ukraine** (49 to 60) highlight the negative impact that armed conflict and the accompanying higher market volatility have on competitiveness in an increasingly interconnected international economy.

A pattern of decline is observed in Latin America. **Chile** moves from 31 to 35, **Peru** from 50 to 54, **Argentina** from 58 to 59 and **Venezuela** remains at the bottom of the table. **Colombia** stays at 51.

Among large emerging economies, **Brazil** (54 to 56) and **South Africa** (52 to 53) slightly drop, **China** (23 to 22) and **Mexico** (41 to 39) experience improvements while **India** remains at the same spot (44). This trend shows the difficulty in grouping emerging markets in one category, as the issues impacting their competitiveness differ. China's slight increase stems from improvements in education and public expenditure, whereas Brazil suffers from a drop in domestic economy and less optimistic executive opinions.

A question of business efficiency

The ranking highlights one particular commonality among the best ranking countries. Nine countries from the top 10 are also listed in the top 10 of the business efficiency factor.

Business efficiency focuses on the extent to which the national environment encourages enterprises to perform in an innovative, profitable and responsible manner. It is assessed through indicators related to productivity such as the labor market, finance, management practices and the attitudes and values that characterize the business environment.

"Simply put, business efficiency requires greater productivity and the competitiveness of countries is greatly linked to the ability of enterprises to remain profitable over time," said Professor Bris. "Increasing productivity remains a fundamental challenge for all countries."

Long-term business profitability and productivity are difficult to achieve because they are largely underpinned by the strategic efforts of companies striving to maximize positive externalities that originate in economic activities.

Impact of business efficiency

Luxembourg experiences one of the largest gains in this factor (14 to 4) which greatly contributes to its ascendency in the ranking. **Qatar**'s improvement (19 to 13) in the ranking largely reflects its recovering in terms of the business efficiency factor (24 to 11) due to increases in its overall productivity. **Greece**'s recovery (57 to 50) also comes on a strong performance in business efficiency in which it increases from 54 to 43. The **UAE**'s drop (8 to 12) in the ranking is partly the result of lower scores (15 to 18) in the business factor. Similarly, **Germany**'s retreat (6 to 10) is a reflection of its fall in business efficiency (9 to 16). Likewise **Indonesia**'s decline in the ranking is accompanied by a steep drop in the business efficiency factor (22 to 34).

An expanded ranking

Mongolia is a new addition to the competitiveness ranking in 2015. Mongolia is a fast-growing country (11.6% GDP growth, 2013). Although, growth slowed to 5.3% in 2014 (data for the first half of the year), the country's economic performance remained strong. Growth is driven by mining and natural resources, domestic consumption growth, levels of employment, an education system that promotes talent, and a favourable fiscal environment for enterprises. During the 2013-2014 period, however, Mongolia experienced a 74% decline in foreign direct investment which may reflect investor perceptions of the country's political and financial stability, its adherence to rule of law, the soundness of its corporate governance practices and imbalance risk-return trade-offs.

The competitiveness of Hungary:

The Hungarian competitiveness position remained at **48th** in the ranking of 2015. In its vicinity, one can find Romania (47) and Slovenia (49). Among the Visegrad countries, the biggest improvement was booked in the Czech Republic (33 to 29). Poland (36 to 33) was also able to significantly move up by the 2015 ranking, while the Slovak Republic (46) lost one position.

The 48th place can be interpreted from at least two aspects. First, it implies that Hungary has not improved, but seemingly stabilised its competitiveness. Second, there were also complex and big ups and downs in the whole ranking, especially in the neighbourhood of Hungary by making possible to preserve the 48th relative place. The latter may remember us the old saying that many things must change to let certain things unchanged.

Importantly, complex processes shaped the ranking positions of the countries: (i) The effect of the 2008 financial and economic crisis and that of the Eurozone crisis; (ii) the impact of the crisis management at national and international levels; and (iii) local and regional conflicts exerted influence on the competitiveness positions of the analysed countries. All of these complex processes affected the countries' position. If one looks at the ten countries ranked before and after Hungary, it can be shown that two circles of countries are albeit still the same, there were big ups and downs within them. For example, on the one hand, the Portuguese and Spanish economies could improve their positions considerably (+7, +2, respectively) thanks to those crisis management measures that contributed to their rehabilitation. Additionally, it seems that not only macroeconomic data of Italy, but also the attitudes towards the Eurozone's third-largest economy and the world's third-largest sovereign-debt market have been ameliorated (i.e. international investment position fuelled the improvement by reaching the 17th position from 53rd). Italy moved up from 46th place of 2014 to 38th of 2015. On the other hand, Latvia suffered from a huge competitiveness loss (-8) mainly due to the dispiriting deterioration of its economic performance, governance as well as business efficiency. The Russian and Ukrainian conflict resulted in a huge decline (49 to 60) in the Ukrainian competitiveness by leaving the group of ten countries behind Hungary.

In case of Hungary, although the economic performance has greatly improved at the level of statistics, the dimensions of governance efficiency, business efficiency and that of the infrastructure are facing serious challenges.

i. One of the most substantial improvements was observable in terms of **economic performance** since its 32nd position was followed by **17th** in 2015. This was mainly due to the conspicuous amelioration of the general domestic economy (48 to 40), the international investment position (32 to 20) and the regenerating employability capacity of the country (49 to 39). The fact that this salient improvement was not enough to prop up the entire ranking position of the country implies that something deeper may amiss.
ii. As far as the **government efficiency** is concerned, it has slightly changed from 56th position of the 2014 edition to **57th** in the 2015 issue. Albeit public finance and fiscal spheres have remained relatively stable (49, 56, respectively) and the institutional framework has also shown the sign of significant improvement (50 to 43); the slight negative change can be mainly attributed, on the one hand, to the deteriorating transparency reported by the IMD

Executive Opinion Survey; on the other hand, it is also the result of the challenging societal ageing phenomenon. The companies' executives expressed their concerns over the sustainability of the achievements.

iii. In terms of **business efficiency**, its 56th position of 2014 has declined to **57th** by 2015. Behind the curtain of this trajectory were first and foremost the worsening: productivity and efficiency (44 to 48), management practices (52 to 59), attitudes and values (56 to 60) as well as the brain drain (plus emigration).

iv. In case of **infrastructure**, problematic sustainable development, the pent up progress in fields like green technological solutions, complemented with the weak innovation performance (e.g. Hungary is ranked at the 40th position in terms of R&D spending), troublesome language skills of the society (58) made it possible that the Hungarian infrastructure position has also been deteriorated from 37th to the **39th** position by 2015.

IMD World Competitiveness Yearbook 2015 – Ranking (61 countries)

WCY 2015	Country	WCY 2014	Change
1	USA	1	-
2	China Hong Kong	4	+2
3	Singapore	3	-
4	Switzerland	2	-2
5	Canada	7	+2
6	Luxembourg	11	+5
7	Norway	10	+3
8	Denmark	9	+1
9	Sweden	5	-4
10	Germany	6	-4
11	Taiwan	13	+2
12	UAE	8	-4
13	Qatar	19	+6
14	Malaysia	12	-2
15	Netherlands	14	-1
16	Ireland	15	-1
17	New Zealand	20	+3
18	Australia	17	-1
19	United Kingdom	16	-3
20	Finland	18	-2
21	Israel	24	+3
22	China Mainland	23	+1
23	Belgium	28	+5
24	Iceland	25	+1
25	Korea Rep.	26	+1
26	Austria	22	-4
27	Japan	21	-6
28	Lithuania	34	+6
29	Czech Republic	33	+4
30	Thailand	29	-1
31	Estonia	30	-1
32	France	27	-5
33	Poland	36	+3
34	Kazakhstan	32	-2
35	Chile	31	-4
36	Portugal	43	+7
37	Spain	39	+2
38	Italy	46	+8
39	Mexico	41	+2
40	Turkey	40	-
41	Philippines	42	+1
42	Indonesia	37	-5
43	Latvia	35	-8
44	India	44	-
45	Russia	38	-7
46	Slovak Republic	45	-1
47	Romania	47	-
48	Hungary	48	-
49	Slovenia	55	+6
50	Greece	57	+7
51	Colombia	51	-
52	Jordan	53	+1
53	South Africa	52	-1
54	Peru	50	-4
55	Bulgaria	56	+1
56	Brazil	54	-2
57	Mongolia	N/A	
58	Croatia	59	+1
59	Argentina	58	-1
60	Ukraine	49	-11
61	Venezuela	60	-1

Indicates a rise in the ranking compared to 2014.
Indicates a fall in the ranking.
Indicates no change in the ranking.

ICEG European Center

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IMD World Competitiveness Center

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