

IMD WORLD COMPETITIVENESS YEARBOOK 2019

Economists regard competitiveness as vital for the long-term health of a country's economy as it empowers businesses to achieve sustainable growth, generate jobs and, ultimately, enhance the welfare of citizens.

The IMD World Competitiveness Rankings, established in 1989, incorporate 235 indicators from each of the 63 ranked economies. The ranking takes into account a wide range of "hard" statistics such as unemployment, GDP and government spending on health and education, as well as "soft" data from an Executive Opinion Survey covering topics such as social cohesion, globalization and corruption.

This information feeds into four categories – economic performance, infrastructure, government efficiency and business efficiency – to give a final score for each country (See the final rankings of 2019 in the *Annex 1*). There is no one-size-fits-all solution for competitiveness, but the best performing countries tend to score well across all four categories.

KEY MESSAGES

- Singapore topples the United States as world's most competitive economy;
- Hong Kong remains 2nd, UAE enters top five for the first time;
- Global factors: political and economic uncertainty;
- Regional watch: Europe softens, Southern Asia/Pacific outperforms;

A DETAILED LOOK

Singapore has ranked as the world's most competitive economy for the first time since 2010, according to the [IMD World Competitiveness Rankings](#), as the United States slipped from the top spot, while economic uncertainty took its toll on conditions in Europe.

Singapore's rise to the top was driven by its advanced technological infrastructure, the availability of skilled labour, favourable immigration laws, and efficient ways to set up new businesses. Hong Kong SAR held on to second place, helped by a benign tax and business policy environment and access to business finance.

The initial boost to confidence from President Donald Trump's first wave of tax policies appears to have faded in the United States, according to the ranking. While still setting the pace globally for levels of infrastructure and economic performance, the competitiveness of the world's biggest economy was hit by higher fuel prices, weaker hi-tech exports and fluctuations in the value of the dollar.

"In a year of high uncertainty in global markets due to rapid changes in the international political landscape as well as trade relations, the quality of institutions seem to be the unifying element for increasing prosperity. A strong institutional framework provides the stability for business to invest and innovate, ensuring a higher quality of life for citizens," said [Arturo Bris](#), IMD Professor and Director of [IMD World Competitiveness Center](#), the research center which compiles the ranking.

Switzerland climbed to fourth place from fifth, helped by economic growth, the stability of the Swiss franc and high-quality infrastructure. The Alpine economy ranked top for university and management education, health services and quality of life.

The effects of rising fuel prices influenced the ranking, with inflation reducing competitiveness in some countries. Stronger trade revenues helped oil and gas producers such as this year's biggest climber Saudi Arabia, which jumped 13 places to 26th, and Qatar, which entered the top 10 for the first time since 2013.

The United Arab Emirates – ranked 15th as recently as 2016 – entered the top five for the first time. The UAE now ranks first globally for business efficiency, outshining other economies in areas such as productivity, digital transformation and entrepreneurship.

Venezuela remains anchored to the bottom of the ranking, hit by inflation, poor access to credit and a weak economy. The South American economy ranks the lowest for three out of four of the main criteria groups – economic performance, government efficiency and infrastructure.

REGIONAL PERSPECTIVE

Asia

The Asia-Pacific region emerged as a beacon for competitiveness, with 11 out of 14 economies either improving or holding their ground, led by Singapore and Hong Kong SAR at top of the global chart.

Indonesia leapt eleven places to 32nd, enjoying the region's biggest improvement, thanks to increased efficiency in the government sector as well as improvement in infrastructure and business conditions. The southern Asian country is characterized by the lowest cost for labour across the 63 economies studied. Thailand, driven by an increase in foreign direct investments and productivity, advanced five places to 25th position in 2019. Japan fell five places to 30th hampered by a sluggish economy, government debt and a weakening business environment.

Middle East

A story of two halves in the region, as fossil fuel producers such as UAE, Qatar and Saudi Arabia climbed the rankings, while inflation had a negative impact on Turkey (51st) and Jordan (57th). Israel (24th) declined mainly because of a negative performance across different government efficiency indicators, such as its budget deficit. Saudi Arabia achieved the biggest climb in the global rankings, up 13 places to 26th, despite a fall in its overall economic performance score. It registered the highest global ranking for investment in education and fared well in public and business finance.

Latin America

Latin American countries continue to fare poorly on the ranking. Venezuela was cemented at the bottom of the ranking for yet another year as the political and economic crisis continues to take its toll. The highest ranked country from this region, Chile, suffered the largest drop this year, down 7 places to 42, while Brazil and Argentina also ranked in the bottom five. Brazil ranked the lowest among the 63 countries studied for the cost of credit, making it the most expensive country for businesses to borrow, and for language skills.

South Africa

An inferior score for infrastructure – especially in health, education and energy – wiped out improvements in the business landscape as South Africa dipped to 56th from 53rd.

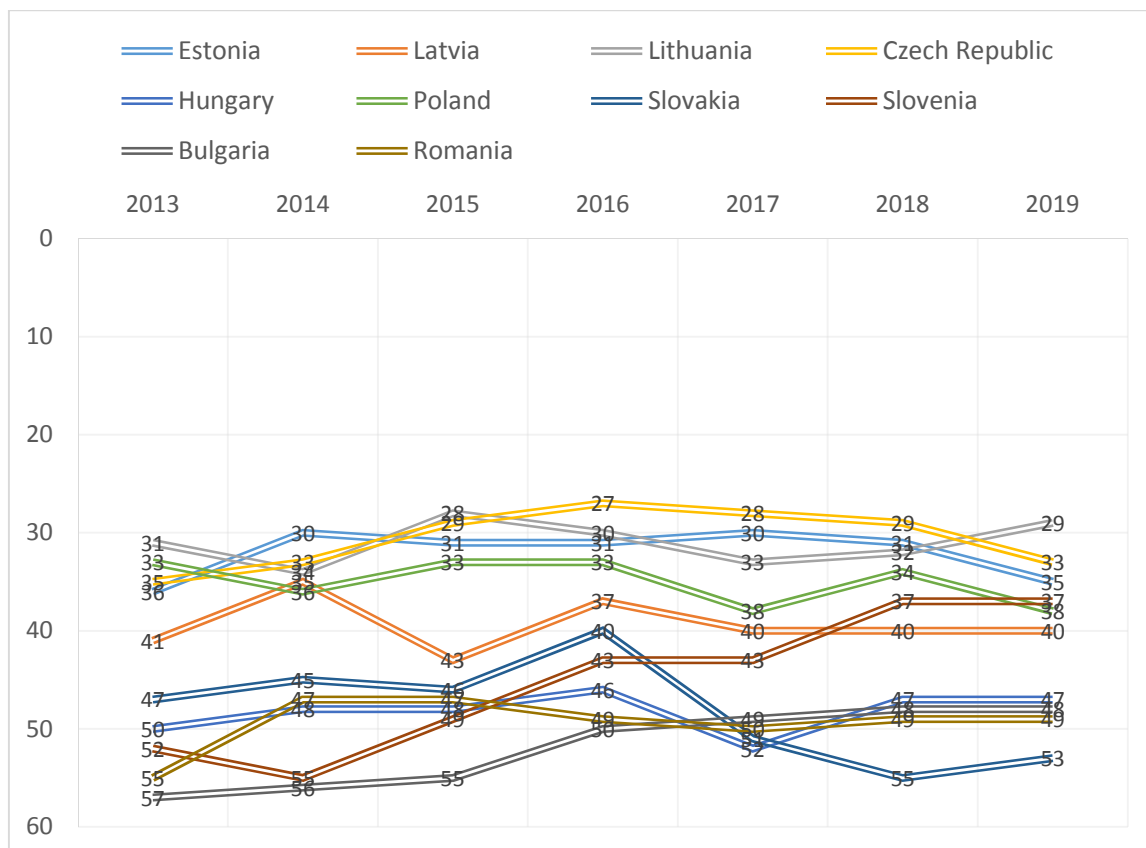
Europe

Competitiveness across Europe has struggled to gain ground with most economies on the decline or standing still. The Nordics, traditionally a powerhouse region for competitiveness, have failed to make significant progress this year, while ongoing uncertainty over Brexit has seen the United Kingdom fall from 20th to 23rd.

The biggest climber for the region, Ireland, rose five places to 7th as business conditions improved alongside a strengthening economy. According to the data, Ireland leads the way globally for investment incentives, the handling of public sector contracts and areas such as image, branding and talent management. Portugal posted the biggest fall in the region, down six places to 39th – a reversal from gains made in the previous year.

In Eastern Europe, several countries improve or remain stable (See *Figure 1*). Lithuania, the highest ranking Eastern European economy, moves up from 32nd to 29th. Slovak Republic improves from 55th to 53rd as does Ukraine (59th to 54th) and Croatia (61st to 60th). Slovenia (37th), Latvia (40th), Hungary (47th), Bulgaria (48th) and Romania (49th) remain stable. The Czech Republic (29th to 33rd), Estonia (31st to 35th) and Poland (34th to 38th) experience a decline.

Figure 1. Development of CEE competitiveness (2013-2019, ranking positions out of 63)



Source: IMD WCY 2019, ICEG European Center.

HUNGARY

In the Central and Eastern European context, (and also by comparing to the typical peers of Hungary, to the so-called Visegrád countries, Czech Republic, Poland and Slovakia), *Hungary (47th) has been going through merely a slight improvement in its international competitiveness*. In the period 2013-2019, Hungary has improved only by 3 places, while Slovenia, Bulgaria and Romania have been showing a relatively skyrocketing amelioration in terms of international competitiveness.

Although holding the 47th position might be considered itself as an achievement in the era of global uncertainties and the weakened technological competitiveness of Europe compared to its big competitors, it can also be interpreted as a 'getting stuck' phenomena implying structurally weak performance of the Hungarian socio-economic innovation ecosystem.

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) **economic performance:** Hungary shows a perceptible decline in this pillar (it fell from its 39th position of 2018 to the ranking position of 46th by 2019). It is hardly by chance that the Hungarian economic performance has been deteriorating very much in the last five years (from the 17th position of 2015 to the 46th by 2019). This trend was mainly driven by the followings: a worsening international investment position (e.g. Hungary has been ranked as 63rd in terms of direct investment flows inward and abroad), unsustainable employment growth (i.e. the big share of public workers, the increasing brain drain¹, the shortage of qualified labour force by questioning the sustainability of the labour market tendencies, hence productivity and growth prospect² etc.), and a heightening inflationary pressure. This is why relocation threats of business are on the rise (54).
- (ii) **government efficiency:** this is the pillar that showed the biggest improvements compared to the other pillars of the international competitiveness (54th position of 2015 has been replaced by a position of 48th in 2018 and a ranking place of 45th by 2019). The main contributors are as follows: disciplined public finances (public finance (45th), incentive regime through tax policy (corporate tax rate on profit, 1st place), relatively low interest rate spread (9th position). While there are still areas requiring further and conceptional economic governance (social cohesion (50), parallel economy (53), increasing centralisation in a form of intensifying state ownership of enterprises (54), consumption tax rate (62) etc.). For instance, according to OECD statistics, income and wealth inequalities in Hungary tend to be large. Moreover, now, it takes 7 generations for a child born in a poor family to get into the middle class.³ Unsurprisingly, Hungary suffers from a comparatively surpassing share of well-being deprivations, with 12 out of 18 deprivation indicators ranked in the bottom (most deprived) third of OECD countries.⁴

¹ Hungary was considered a net exporter of talents according to IMD World Talent Ranking 2017. It performed much worse than the Visegrád group (Czech Republic, Poland, and Slovakia).

² The Hungarian trajectory in terms of labour productivity (measured in GDP per hour worked, 2010 = 100) has been by far the worst amongst Visegrád countries since 2010 (See: OECD Productivity Statistics: GDP per capita and productivity growth).

³ See: OECD (2018): A Broken Social Elevator? How to Promote Social Mobility. Available: <http://www.oecd.org/fr/social/broken-elevator-how-to-promote-social-mobility-9789264301085-en.htm> Accessed on: 28.05.2019

⁴ See: OECD (2017): How's Life in Hungary? OECD Better Life Initiative, November. Available: <https://www.oecd.org/statistics/Better-Life-Initiative-country-note-Hungary.pdf> Accessed on: 28.05.2019

- (iii) **business efficiency:** a small improvement took place over the last one year (58th position of 2018 has improved to 56th in the 2019 edition of IMD WCY). Hungary has been incapable of further improving a fertile business environment since its position has been mainly stagnating since 2015 (57th position in 2015, while Hungary was ranked at 56th position by 2019). The main forces acting behind such getting stuck phase are as follows: intensifying lack of skilled workforce (61), excessive nationalism reflected in attitudes toward globalisation (61), the great backlog in terms of using digital technologies (61), the increasing inequality between various enterprises (between larger ones and small and medium sized enterprises, the opportunities of the latter has been declining (58)).
- (iv) **infrastructure:** stagnation is in order since Hungary has been ranked at the place of 39th as it was in 2015 as well. The main explanatory factors behind that trend are as follows: digital/technological skills (61), missing qualified engineers (59), linguistic skills showing many shortcomings (57), education and health system performances being not adequate to a real socio-economic development.

All in all, the Hungarian economic governance has been seemingly able to maintain the country's international competitiveness, it is however undoubted that the country's reliance on external growth-conducive sources (e.g. EU funds) has been being significant by obviating the need for real structural reforms and the cultivation of good governance. With the growing uncertainties around global growth (even in the European context) and with the perspective of further EU governance reforms, that Hungarian way of governance has to change course sooner or later in avoiding a fossilised and innovation-weak socio-economic system.

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://iceg.org>

IMD World Competitiveness Center

IMD is a world pioneer in executive education. More than a business school, we collaborate with individuals, teams and organizations to resolve real business issues, build capabilities and prepare for the future. We do so through a unique Real World, Real Learning approach, which stems from our ongoing partnerships with leading international companies (<http://www.imd.org>). Published since 1989, the World Competitiveness Yearbook is recognized as the leading annual report on the competitiveness of nations.

Annex 1. WCY 2019 – Ranking positions (2018, 2019)

	2019	2018
Singapore	1	3
Hong Kong SAR	2	2
USA	3	1
Switzerland	4	5
UAE	5	7
Netherlands	6	4
Ireland	7	12
Denmark	8	6
Sweden	9	9
Qatar	10	14
Norway	11	8
Luxembourg	12	11
Canada	13	10
China	14	13
Finland	15	16
Taiwan, China	16	17
Germany	17	15
Australia	18	19
Austria	19	18
Iceland	20	24
New Zealand	21	23
Malaysia	22	22
United Kingdom	23	20
Israel	24	21
Thailand	25	30
Saudi Arabia	26	39
Belgium	27	26
Korea Rep.	28	27
Lithuania	29	32
Japan	30	25
France	31	28
Indonesia	32	43

	2019	2018
Czech Republic	33	29
Kazakhstan	34	38
Estonia	35	31
Spain	36	36
Slovenia	37	37
Poland	38	34
Portugal	39	33
Latvia	40	40
Cyprus	41	41
Chile	42	35
India	43	44
Italy	44	42
Russia	45	45
Philippines	46	50
Hungary	47	47
Bulgaria	48	48
Romania	49	49
Mexico	50	51
Turkey	51	46
Colombia	52	58
Slovak Republic	53	55
Ukraine	54	59
Peru	55	54
South Africa	56	53
Jordan	57	52
Greece	58	57
Brazil	59	60
Croatia	60	61
Argentina	61	56
Mongolia	62	62
Venezuela	63	63

Note: green=improvement, red=decline, black=remaining position.

Source: IMD WCY 2019.