IMD World Competitiveness Yearbook 2014 – Main Results[1]

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Improvement in the developed world – Heightening challenges in emerging countries

IMD, a top-ranked global business school based in Switzerland, announced its annual world competitiveness ranking (World Competitiveness Yearbook 2014, WCY 2014) which was prepared in close cooperation with national partner institutes, such as the ICEG European Center.

The WCY 2014, which will be published at the end of June, measures how well countries manage all their resources and competencies to increase their prosperity. The overall ranking reflects more than 300 criteria, two-thirds of which are based on statistical indicators and one-third on an exclusive IMD survey of 4,300 international executives.

"The overall competitiveness story for 2014 is one of continued success in the US, partial recovery in Europe, and struggles for some large emerging markets," said Professor Arturo Bris, Director of the IMD World Competitiveness Center. "There is no single recipe for a country to climb the competitiveness rankings, and much depends on the local context."

Table 1 shows the ranking. The US retains the No. 1 spot in 2014, reflecting the resilience of its economy, better employment numbers, and its dominance in technology and infrastructure. There are no big changes among the top ten. Small economies such as Switzerland (2), Singapore (3) and Hong Kong (4) continue to prosper thanks to exports, business efficiency and innovation.

Europe fares better than last year, thanks to its gradual economic recovery. Denmark (9) enters the top ten, joining Switzerland, Sweden (5), Germany (6) and Norway (10). Among Europe's peripheral economies, Ireland (15), Spain (39) and Portugal (43) all rise, while Italy (46) and Greece (57) fall.

Japan (21) continues to climb in the rankings, helped by a weaker currency that has improved its competitiveness abroad. Elsewhere in Asia, both Malaysia (12) and Indonesia (37) make gains, while Thailand (29) falls amid political uncertainty.

Most big emerging markets slide in the rankings as economic growth and foreign investment slow down and infrastructure remains inadequate. China (23) falls, partly owing to concerns about its

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business environment, while India (44) and Brazil (54) suffer from inefficient labour markets and ineffective business management. Turkey (40), Mexico (41), the Philippines (42) and Peru (50) also fall.

Table 1. IMD World Competitiveness Yearbook 2014 – Ranking (60 countries)

country	ranking		country	ranking	
	2014	2013		**2014**	2013
USA	**1**	1	**Chile**	**31**	30
Switzerland	**2**	2	**Kazakhstan**	**32**	34
Singapore	**3**	5	**Czech Republic**	**33**	35
Hong Kong	**4**	3	**Lithuania**	**34**	31
Sweden	**5**	4	**Latvia**	**35**	41
Germany	**6**	9	**Poland**	**36**	33
Canada	**7**	7	**Indonesia**	**37**	39
UAE	**8**	8	**Russia**	**38**	42
Denmark	**9**	12	**Spain**	**39**	45
Norway	**10**	6	**Turkey**	**40**	37
Luxembourg	**11**	13	**Mexico**	**41**	32
Malaysia	**12**	15	**Philippines**	**42**	38
Taiwan	**13**	11	**Portugal**	**43**	46
Netherlands	**14**	14	**India**	**44**	40
Ireland	**15**	17	**Slovak Republic**	**45**	47
United Kingdom	**16**	18	**Italy**	**46**	44
Australia	**17**	16	**Romania**	**47**	55
Finland	**18**	20	**Hungary**	**48**	50
Qatar	**19**	10	**Ukraine**	**49**	49
New Zealand	**20**	25	**Peru**	**50**	43
Japan	**21**	24	**Colombia**	**51**	48
Austria	**22**	23	**South Africa**	**52**	53
China Mainland	**23**	21	**Jordan**	**53**	56
Israel	**24**	19	**Brazil**	**54**	51
Iceland	**25**	29	**Slovenia**	**55**	52
Korea	**26**	22	**Bulgaria**	**56**	57
France	**27**	28	**Greece**	**57**	54
Belgium	**28**	26	**Argentina**	**58**	59
Thailand	**29**	27	**Croatia**	**59**	58
Estonia	**30**	36	**Venezuela**	**60**	60

Note: Countries that rose in the 2013 rankings are in green. Those that fell are in pink. Nations with a "blank" are those that did not change.
Source: IMD WCY 2014

Hungary's competitiveness in the 2013 ranking

Hungary's competitiveness has improved in the WCY 2014 since it rose from its 50th position of 2013 to 48th in the WCY 2014. In its vicinity, one can find Ukraine (49) and Romania (47). Among the Visegrád countries, Slovakia (45) and the Czech Republic (33) increase their competitiveness with 2-2 places. Slovenia (55) continued its declining trend by falling back 3 places, while Poland (36) was not able to maintain their position either and seems to be losing grounds in terms of international competitiveness.

In case of Hungary, improvements were observable in two important dimensions, such as economic performance, and infrastructure; while slight declines were experienced in the dimensions of government efficiency and business efficiency.

i. One of the most substantial improvements was documented in terms of **economic performance** since its 44th position was followed by 32nd in 2014. This was mainly due to the the surplus in international trade, ameliorating FDI trends, and the dampening costs of living.
ii. As for the **government efficiency**, it has slightly changed from 52nd position that of the 2013 edition to 53rd in the 2014 issue. As a consequence, it has remained relatively stable because of the fiscal prudency (i.e. fiscal indicators have gone through an amelioration in numerical terms). Still, the 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 via one-off measures like crisis taxes.
iii. As far as the **business efficiency** is concerned, its 55th position of 2013 has slightly declined to 56th by 2014. Behind this trajectory were first and foremost the worsening productivity and investment activity as well as the brain drain (young people who emigrate). Additionally, the opinion survey confirmed that many enterprises and individuals are concerned about the critical approach of the government regarding globalisation.
iv. In case of **infrastructure**, as a result of the fact that fostering sustainable development is rather problematic as well as the pent up progress in fields like green technological solutions, the Hungarian position changes rather slowly. It has improved to 37th position (from 38 of 2013). This was mainly due to high-tech exports (as part of technological infrastructure, a perceptible improvement was recognised in terms manufactured exports).

Hungary seems to have the potential to overcome its fiscal sustainability issues, however, as we indicated in our paper (Kovács, 2014), the way it is managed can be regarded as a Pyrrhic victory, merely. At least five considerations are worth taking into account when it comes to judging the international competitiveness of the country together with its perspective towards the Eurozone.[2]

First, the Hungarian catching up has been being based mainly on unsustainable fiscal governance coupled with external imbalances. Second, pro-cyclical fiscal adjustment is not conducive to economic growth. Fiscal consolidations invoked to fend off excessive deficits proved to be futile undertakings if we look at the catching up (lagging behind) process, which was transformed into a „getting stuck" phenomena (zero-close potential economic growth). Meeting deficit target *via* one-off measures can be regarded as Pyrrhic victory, which does not drive Hungary sufficiently towards euro-adoption. Third, although external imbalance was reversed, it was predominantly determined by lowering and lowering real investments. Fourth, there is no stipulated target date for euro adoption pursued by the government which undermines the commitment towards the European Monetary Union. And last but not least, a *more systemic approach* would be essential in targeting euro adoption meaningfully that enshrines the concept of *cultivating good and more effective national governance*.

[2] See: Kovács, O. (2014): Hungary and the Eurozone – the Need for a More Systemic Approach. Perspectives on European Politics and Society, Taylor&Francis, Routledge, 1 May 2014