



TALKING ABOUT COMPETITIVENESS

Who are the winners, who are the losers?

By Stéphane Garelli - June, 2009

IMD

Chemin de Bellerive 23
PO Box 915,
CH-1001 Lausanne
Switzerland

Tel: +41 21 618 01 11
Fax: +41 21 618 07 07
info@imd.ch
<http://www.imd.ch>

The United States is still the most competitive economy in the world, Denmark is the country best equipped to deal with the current world economic crisis, and the economic crisis has undoubtedly taken its toll on certain countries, including Ireland and Taiwan, both of which are dropping in competitiveness.

These are some of the results of IMD's 2009 World Competitiveness Rankings - the world's most renowned, comprehensive Annual Report on the competitiveness of nations - which sets out to rank and analyze how a nation's environment creates and sustains the competitiveness of enterprises.

Who are the winners, who are the losers and what does this mean moving forward in these turbulent times? Despite our economic doldrums, many rankings remain the same as their 2008 counterparts, reflecting a situation that is not all doom and gloom.

“Stress Test” Analysis

This year's World Competitiveness ranking includes a new feature in the form of a “Stress Test” - designed to provide a measure for how countries are likely to perform through the current recession as well as to gauge which will be the most resilient in the aftermath.

As a general rule, those most likely to bounce back quickly will be smaller nations that have already implemented a certain number of reforms, such as Denmark (top of this category), Finland (which has jumped from 15 to 9 in the WCY) and Sweden. Larger nations, such as Britain, France and Germany, are likely to experience more difficulty.

Less performing in this “Stress Test” category is the USA in 28th position - which looks set for a longer recovery period. Despite this, there is no doubt, however, that the real signal that we are getting out of the recession will come from the USA. Until the USA shows some good signs of recovery, nobody will really believe that the crisis is over.

Nations whose success has traditionally been due to their export focus and which have slower, more sustainable growth rates (Japan, Germany and Switzerland), are suffering today from the fact that exports naturally decrease in periods of recession and are likely to be slower in recovery.

Short term prognosis

What does the short term hold? The combination of the “Stress Test” and the WCY report on competitiveness provide a good indicator of how equipped the various countries are to confront the future. The general consensus on what that future will hold seems to be “wait and see” until the summer - after which things will pick up.

Certain countries (such as Spain and Great Britain), like certain industries (such as the automobile sector) will undoubtedly go into deflation for a limited period of time. This is likely to be followed by a period of inflation due in part to too much liquidity on the market and in part to high Chinese and Indian demand for raw materials and commodities coming from the emerging economies. In 12 to 18 months from now, the real issue is going to be firstly inflation and secondly, unemployment.

Diversity rules

Much of the secret to successful competitiveness lies in hedging bets in the shape of a diversified economy and the USA remains in the number one position, thanks to its own very diversified economy which came into play with the 300 criteria used in the World Competitiveness Ranking. Generally speaking, more diversified economies were seen to be withstanding the shock of the current world economic crisis better than others, such as Ireland which has relied too heavily on the real estate market, and Singapore, which is witnessing a more than 10% drop in GDP through overdependence on export and one or two other sectors.

For the BRIC countries (Brazil, Russia, India, China), learnings from the World Competitiveness Yearbook (WCY) have been firstly to develop less reliance on exports and to increase focus on developing their domestic markets, and secondly to rely less on commodity prices. Equally important for BRIC economic stability will be the development of a layer of small- and medium-sized technology-oriented enterprises that will complement existing large companies that are highly competitive globally. At the end of the day, competitiveness for the BRIC countries, just as for Ireland, is a matter of sustainability and balance.

Still a dollars' world

How various countries and companies deal with these issues will differ. Some countries are already putting stimulus packages in place, while mergers and acquisitions are set to become very fashionable again for companies. The largest companies in the world will use the 600 billion dollars in free cash-flow currently available to buy back shares, to avoid being bought by someone bigger. In emerging economies, sovereign funds are going to become the real investment bankers of the world - used to buy companies or finance local brands in the emerging nations and providing a major revolution in the economic environment.

The flow low of capital - always an important sign for renewed confidence in the Stock Market - is already starting to reappear in the USA. And at the end of the day, the Stock Market has historically made an upturn about six months before the economy itself, indicating that there could well be some light at the end of this tunnel.

And despite massive dollar debt (which will be paid for through inflation and taxation) and the enormous pressure under which the dollar finds itself, more than 60 percent of the currency holdings around the world are still in dollars today, and a bit more than 30 percent in euros, proving to all that it is still, irrefutably, a dollars' world.

Professor Stéphane Garelli is Director of IMD's World Competitiveness Center. He also teaches, among other programs, Breakthrough Program for Senior Executives (BPSE) and Orchestrating Winning Performance (OWP).

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