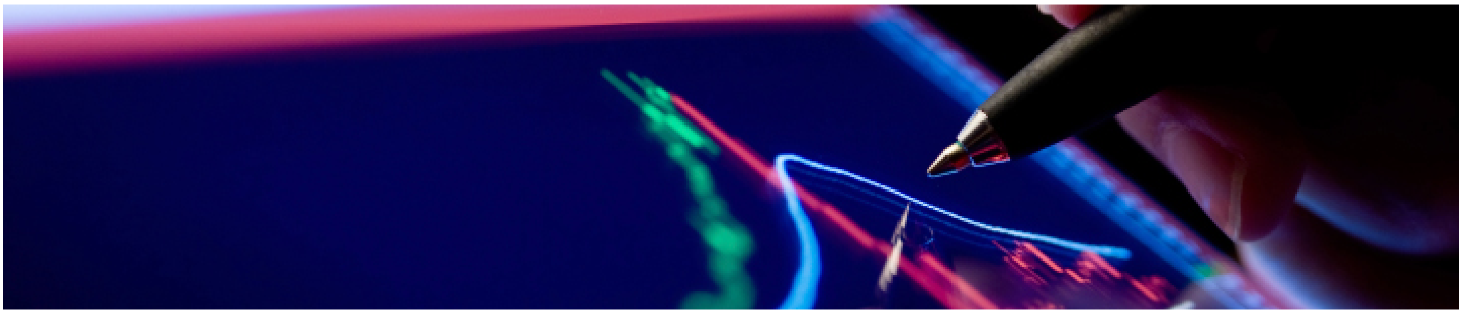
TOMORROW'S CHALLENGES



WHERE'S THE BEST COUNTRY TO START A COMPANY?

THE IMD WORLD COMPETITIVENESS CENTER'S TIPS ON WHERE TO DO BUSINESS

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Imagine that you could open a business anywhere in the world. Where would you choose? Before you decide, consider these facts: The BRICS have not lived up to their potential - the Shanghai stock market alone has lost 30% of its value since June 2015. Most of the world's 36 advanced economies grew less last year than they did in 2007, with the exception being the USA, Mexico and the UAE.

Currently, around 25% of all government bonds outstanding in the world have negative rates. And, at the same time, central banks everywhere are manipulating currency markets, which is unsustainable in the long term.

So where, then, should wise entrepreneurs set up shop? The answer is in competitive economies.

Whether or not a country is competitive is not determined by short-term growth, countries' own assessment of prosperity, or even competition. Rather, it is about the ability to generate sustainable long-term value. From an entrepreneur's point of view, another key factor identified by the IMD World Competitiveness Center is that a country that improves its competitiveness will see a subsequent improvement in GDP and stock market growth. This indicates that competitiveness is a key economic driver in a way that simple economic growth is not; past economic growth does not automatically lead to future stock market returns.

Manage drivers, not indicators

Competitiveness at the country level is about managing resources and competencies – the value drivers – to create an environment in which companies can maintain sustainable value creation. Doing this effectively requires the country to have the right value drivers in their economy and to manage them, as opposed to managing key performance indicators. For example, Mexico is focusing on value drivers to increase its competitiveness by improving its healthcare and educational systems and reducing its public sector; Chile's massive educational reform aimed at ensuring everyone has access to education means the country has fewer resources to develop its infrastructure, but education is an important tool to reduce income inequality, and therefore a driver of competitiveness.

Good government creates the right environment

The WCC's typical competitiveness model starts with the government. Good government entails good regulation, transparency (no corruption), and a focus on people. Although jobs are created by the private sector, governments need to develop a favorable environment for companies to be able to generate jobs. Singapore and the UAE are good examples of government models that have fostered such an environment.

Countries that fail to provide this are less likely to attract business investments. Many developing countries, including most of the BRICS, have poor infrastructure (among other things), which prevents many organizations from running their business there. Good regulation and infrastructure are essential elements for business creation.

Country competitiveness also requires development of the private sector to boost business and job creation. In this context good regulation, such as that seen in Switzerland, is essential to promote entrepreneurship and allow companies to attract capital.

Political leaders with vision

Another important characteristic of competitive countries is leadership. One promising example of this can be seen in is Mongolia, which recently discovered the largest copper reserves in the world – an amazing find for such a poor country. When the news was revealed, Tsakhiagiin Elbegdorj, the country's president, said that it was extremely important to ensure that the wealth generated helped the population of this historically poor country to improve their lives. This is a leader with a vision.

A strategy for the short and long term

A clear strategy is also an important aspect of competitive countries. Think about the strategies countries have been implementing to emerge from the crisis in Europe. Spain is working its way out of the crisis, but what exactly is its economic strategy?

It is frequently difficult to explain a country's economic policy, but one example of a country that has a clear strategy is Mexico. Its president, Enrique Peña Nieto, said: "Mexico urgently needs a series of structural reforms that will generate more public welfare."

Strategy should not only provide answers to short-term problems but also focus on long term issues, since one of the main drivers of competitiveness is a long-term orientation. However, the difficulty here is that most political systems hamper long-term vision because leaders tend to focus on quick wins in an effort to win the next election.

Don't copy your neighbors

Each country should develop a framework and strategy that is relevant to their own specific context. Learning from good practice is one thing but copying another country's competitiveness model is not a good idea because no two countries have the same context.

As Stéphane Garelli, former director of the IMD World Competitiveness Center, said: "It doesn't matter which country you go to, the salad is going to be different. It doesn't mean it is going to be better; it is just going to be different."

Finally, countries should focus on institutional reform rather than economic growth, since institutions – that is, an organization of people who share a clear goal – are a key driver of competitiveness.

So, back to our original question: where should you set up your new business? Our research suggests that you should choose a country that is determined to be competitive. Look for one with leadership; a long-term view; a clear, focused, and unique strategy; and development that supports both private enterprise and institutions.

Arturo Bris is Professor of Finance at IMD and directs the IMD World Competitiveness Center. He is a keynote speaker at IMD's Orchestrating Winning Performance program in Lausanne, which runs from June 27 - July 1, 2016.

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