RIZALINO S. NAVARRO POLICY CENTER FOR COMPETITIVENESS

Policy Brief

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Tracking Philippine Competitiveness: The World Competitiveness Yearbook 2018

Philippine Competitiveness Ranking Drops Nine Places

The Philippines ranked 50th out of 63 countries in the 2018 World Competitiveness Yearbook (WCY), down nine notches from last year's 41st. Over the last half decade, the Philippines' ranking fluctuated in the low 40s, similarly placing 41st in 2015 and 42nd in 2014 and 2016. Among the 14 Asia-Pacific economies in WCY, the Philippines ranked 13th, down from 11th in 2017. The Philippines' nine-place decline is the largest drop among countries in the Asia and the Pacific region this year.

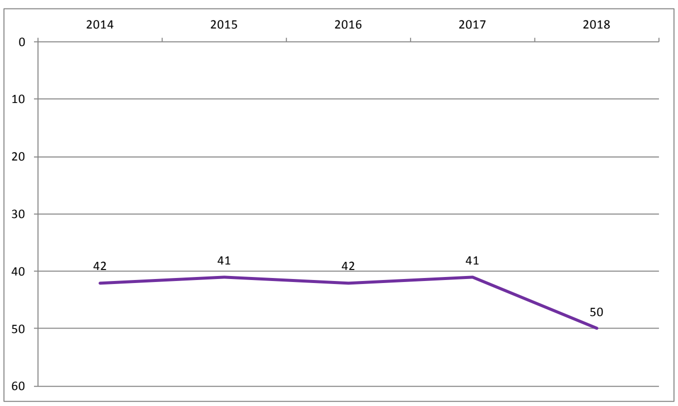
Overall, the United States was ranked as the most competitive country after placing fourth in 2017. Last year's most competitive country, Hong Kong, dropped to second in 2018. Singapore remains third, followed by Netherlands and Switzerland. Denmark, the United Arab Emirates, Norway, Sweden, and Canada round up the top ten in that order. At the other end of the list are countries experiencing economic distress and political instabilities. Venezuela remain in last place at 63rd, following Mongolia (62nd), Croatia (61st), Brazil (60th), and Ukraine (59th).

Among the Philippines' ASEAN neighbors (except Singapore), Malaysia leads at 22nd, followed by Thailand (30th) and Indonesia (43rd). The latter two countries also experienced decrease in rankings this year – Thailand by three notches and Indonesia by one – highlighting the vulnerabilities faced by Southeast Asian countries.

Now on its 30th year, the WCY is a publication of the International Institute for Management Development (IMD) with 55 partner institutions from 63 countries. IMD is one of the leading business schools in Europe based in Lausanne, Switzerland. The Asian Institute of Management R.S. Navarro Policy Center for Competitiveness (AIM RSN PCC) has been the Philippine partner institute of IMD in producing the WCY for more than two decades now.

The 2018 WCY measured the competitiveness of countries using 340 indicators, about two-thirds of which are based on data and statistics, while the remaining were based on perceptions using the WCY Executive Opinion Survey. This year, more than 6,300 respondents participated in the survey composed of middle and upper managers from corporations and institutions worldwide.

Figure 1. Philippine WCY Ranking, 2014 to 2018



Source: IMD. World Competitiveness Yearbook 2018

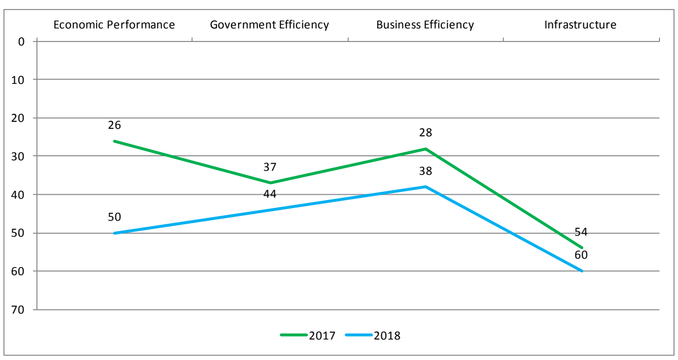
Factors of Competitiveness

The WCY uses four main factors in assessing competitiveness – Economic Performance, Government Efficiency, Business Efficiency, and Infrastructure. Each of these factors is further divided into sub-factors. Under Economic Performance are Domestic Economy, International Trade, International Investment, Employment, and Prices. The sub-factors under Government Efficiency are Public Finance, Tax Policy, Institutional Framework, Business Legislation, and Societal Framework; while Business Efficiency is composed of Productivity and Efficiency, Labor Market, Finance, Management Practices, and

Attitudes and Values. Finally, the sub-factors under Infrastructure are the following: Basic Infrastructure, Technological Infrastructure, Scientific Infrastructure, Health and Environment, and Education.

As seen in Figure 2, the Philippines dropped in rank across all four factors. The biggest fall was in Economic Performance, which dropped from 26th to 50th. From being the country's strongest factor in the previous year, its ranking this year is only higher than Infrastructure, a persistently weak factor for the Philippines. Infrastructure further declined from 54th to 60th. Business Efficiency (38th) and Government Efficiency (44th) dropped 10 and seven notches, respectively. The 20 sub-factors have wildly varying rankings ranging from 15th for Tax Policy and 19th for Labor Market to 61st for both Basic and Education Infrastructure and 60th for Business Legislation and Scientific Infrastructure (see Figure 3).

Figure 2. Philippine Rank Per Factor, WCY 2017 and 2018

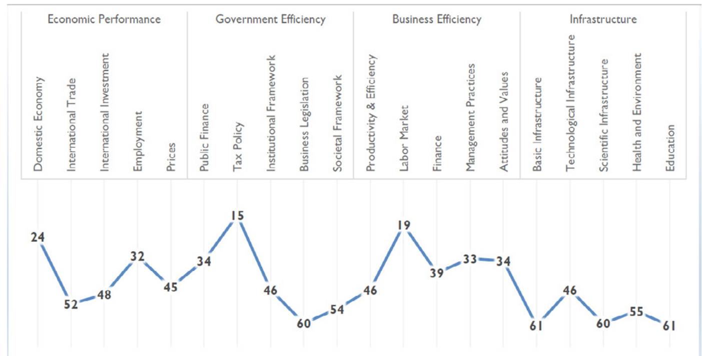


Source: IMD. World Competitiveness Yearbook 2018

Understanding the Results

Despite having the fifth strongest real GDP growth in 2017 at 6.7 percent, the Philippines' Economic Performance slumped due to several other macroeconomic variables. The economy's current account deficit – roughly the difference between imports and exports – more than doubled in 2017 compared to 2016[1]. Foreign Direct Investments (FDI) inflows posted record levels last year, but its rate of growth slowed down to only about half that of 2016[2]. In addition, the Philippine Peso substantially depreciated against most major currencies in 2017, even posting 11-year lows against the US Dollar in the middle of

Figure 3. Philippine Sub-Factor Rankings, WCY 2018



Source: IMD. World Competitiveness Yearbook 2018

the year[3]. The Philippines also continued to rank very low in GDP per capita and domestic savings rate. Inflation had also began to accelerate towards the end of the year. As a result, the Domestic Economy sub-factor declined from 12th to 24th, and International Trade from 44th to 52nd. The biggest drop in rankings was in Employment, where the Philippines declined from 4th to 32nd place.

This drop was due to a slight increase in unemployment rate and a slight decrease in the number of employed and the size of the active labor force[4] in the context of general improvements in other countries ranked. In addition to the doubling of the current account deficit, the decline in International Trade was also driven by low rankings in balance of trade and exports of goods per capita.

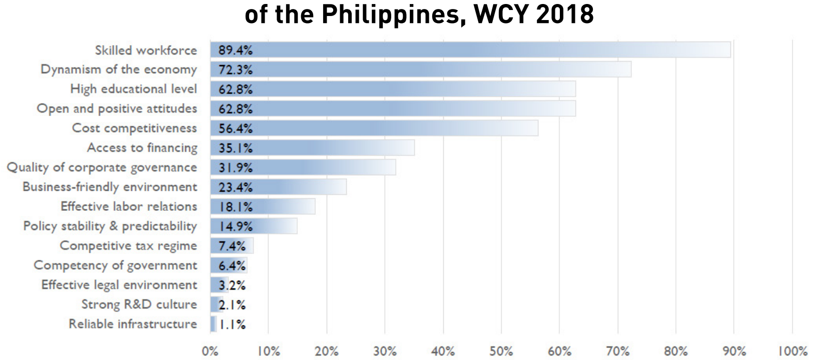
The factor with the second largest drop in rank was Business Efficiency. This was led by declines in the sub-factors Labor Market (5th to 19th), Finance (33rd to 39th), Management Practices (28th to 33rd), and Attitudes and Values (18th to 34th). The latter two sub-factors – and to a lesser extent, the Finance sub-factor – are composed almost entirely of perceptions-based indicators. This suggests that deteriorating perceptions also played a significant role in the Philippines' overall decline in ranking. The Productivity and Efficiency sub-factor improved from 52nd to 46th, but the Philippines is still ranked near the bottom (59th to 62nd) in overall productivity, labor productivity, and productivity of the three main sectors, Agriculture, Industry, and Services.

On a positive note, the Philippines ranked fourth in growth of overall productivity.

Government Efficiency experienced a seven-notch drop in ranking driven by declines in Public Finance (25th to 34th), Institutional Framework (41st to 46th), Business Legislation (58th to 60th), and Societal Framework (51st to 54th). The last three mentioned were dominated by perceptions-based indicators; while Public Finance, the sub-factor with the largest rank decline, mostly includes indicators of government deficit, debt, and spending. With plans to finance incoming infrastructure projects through government loans, this sub-factor could take a larger hit in the future. Nonetheless, although government debt is increasing, fiscal discipline has been achieved through reforms in the last ten or so years. A more relevant indicator, debt-to-GDP ratio, is in its lowest level in almost four decades[5].

Infrastructure remains the lowest-ranked factor for the Philippines as it has been for many years. The worst-ranked sub-factors are Basic Infrastructure (61st), Scientific Infrastructure (60th), and Education Infrastructure (61st). This reflects the need to address poor Infrastructure in the Philippines, not just physical infrastructure that the current administration's "Build, Build, Build Program" seeks to address, but also social infrastructure that promotes human capital formation such as education, and research and development. Good infrastructure promotes competitiveness by connecting markets and production sites, improving the flow of information

Figure 4. Key Attractiveness Indicators of the Philippines, WCY 2018



Source: IMD. World Competitiveness Yearbook 2018

and technology, and reducing the costs of production.

Poor infrastructure limits many economic possibilities in the Philippines. As an example, airport congestion, poor condition of roads, and inadequate public transportation prevents full maximization of the potential of Tourism. It also hinders businesses from reaching potential markets, and consumers from reaching all alternative suppliers of goods and services.

Key Attractiveness Indicators

The WCY Executive Opinion Survey asked the respondents to select five key attractiveness indicators of the country from a list of 15 factors. The most identified factor for the Philippines was Skilled Workforce, mentioned by 89 percent of respondents. It is followed by Dynamism of the Economy (72 percent), High Educational Level (63 percent), Open and Positive Attitudes (63 percent), and Cost Competitiveness (56 percent). At the other end, the least identified attractiveness indicators were Reliable Infrastructure (one percent), Strong R&D culture (two percent), Effective Legal Environment (three percent), and Competency of Government (six percent).

These responses suggest that that a key attractiveness indicator of the Philippines is the quality of labor and workers and lower costs. The responses also reinforce the findings of poor basic and technological infrastructure, as well as declines in rankings pertaining to government institutions. These findings can help policy makers design programs that promote Philippine competitiveness, particularly in targeting factors that need interventions to improve. Figure 4 identifies the key attractiveness indicators identified by survey respondents.

Challenges in 2018 and Beyond

This section identifies some of the most important obstacles that need to be overcome, and recommends priority areas for sustaining Philippine competitiveness.

Investing in Quality Infrastructure. This factor is one of the lingering weaknesses of Philippine competitiveness. Poor infrastructure increases the cost of production, restricts the flow of goods, stifles market expansion, and limits the mobility of the factors of production. Investments in information and communications technology (ICT) infrastructure must also be strengthened to sustain competitiveness not just in the information technology and business process outsourcing (IT-BPO) sectors, but also across all sectors that can benefit from greater ICT utilization.

Increasing Investment in Human Capital (Health and Education). Strong human capital is a fundamental to competitiveness. Investment in human capital improves labor productivity, currently a major weakness of the country. Investment in education and training provides better opportunities for higher-value employment. In the digital era, workers must learn how to learn fast. Lifelong learning must be founded on quality basic and secondary education. The role of technical and vocational training must be emphasized to enable workers to continuously upskill in response to rapidly changing employment needs.

Strengthening Institutions. Although improvements have been made in recent years, the Philippines still ranks lower than most of its competitor countries in terms of measures of governance and institutional quality. Indicators of ease and cost of doing business, quality of governance, implementation and enactment of laws, and corruption show plenty of room for improvement.

Increasing Digital Competitiveness. The Fourth Industrial Revolution is expected to radically impact the global economy. Many jobs are at high risk of automation, and yet many new opportunities for business and employment may also rise. New technology can increase productivity, speed up production and service delivery, and improve products and services. The country must prepare for the impacts of automation by increasing its absorptive capacity to maximize its potential benefits, while ensuring that sufficient safety nets are present for those who may be adversely affected.

Managing (Short Term) Inflation. The recent spike in inflation threatens recent strides made against poverty and strong economic growth. Many of the government's programs including the passing of the TRAIN Law and its "Build, Build, Build" program were anticipated to have inflationary effects. It is important for the monetary authorities to remain responsive to this threat.

ENDNOTES

[1]Philippine Star. "Philippine current account deficit swells to $2.52-B in 2017." Marc 16, 2018. <https://www.philstar.com/business/2018/03/16/1797396/philippine-current-account-deficit-swells-252-b-2017>

[2]Rappler. "Record high again for foreign investments in Philippines." March 12, 2018. <https://www.rappler.com/business/197962-philippines-foreign-direct-investments-2017>

[3]Philippine Daily Inquirer. "Peso ends 2017 at 49.93:$1." December 29, 2017. <http://business.inquirer.net/243242/peso-ends-2017-49-931-exchange-rate>

[4]Current Labor Statistics. <https://psa.gov.ph/sites/default/files/attachments/cls/Tab2_8.pdf>

[5]Philippine Daily Inquirer. "DOF: Despite record-high 2017 debt, its share to economy lowest since 1980.". January 30, 2018. < http://business.inquirer.net/245020/dof-despite-record-high-2017-debt-share-economy-lowest-since-1980>

The Asian Institute of Management Rizalino S. Navarro Policy Center for Competitiveness (AIM RSN PCC) has been the Philippine partner institute of the IMD in producing the WCY since 1997. The press release, overall competitiveness rankings, and summary of Philippine results may be downloaded at www.policy.aim.edu. The complete 2018 WCY results may be accessed through the IMD World Competitiveness Center website: www.imd.org/wcc. For more information, contact the AIM RSN PCC at policycenter@aim.edu or through (02) 892-4011 local 5105.