



WEALTH MANAGEMENT INTERNATIONAL, LTD.

Proactive Investment Management & Financial Planning

Global Perspectives, February 2018: The World's Most Competitive Countries

Here at WMI, we take a very broad approach to investment strategy. We scan the globe and look at all major types of investments in order to increase our chance of finding the best opportunities and avoiding big risks. Over the years, we've found that one good way to start our global scan is to use global economic databases, such as the "World Economic Outlook" database from the International Monetary Fund (IMF). A key benefit of that approach is that the figures in such databases are usually based on a consistent methodology and are scrubbed for reliability, so comparisons between countries can be more meaningful. Another global database that we like is the "Global Competitiveness Index" (GCI), published by the World Economic Forum. Rather than focusing on current economic growth data, the GCI aims to measure a country's relative economic competitiveness, which affects its ability to grow and produce wealth in the future. We therefore think the GCI can be useful in gauging which countries might be best to invest in.

Design of the GCI

For more than 40 years, the World Economic Forum has been calculating and publishing the GCI as a way to consistently measure countries' competitiveness and highlight the policy changes that might make each country stronger. The Forum defines competitiveness as "***the set of institutions, policies, and factors that determine the level of productivity of an economy.***" In other words, the GCI assumes that a country's competitiveness consists of all those things that determine how productive the country's workers are. Each country will likely be strong in some of those factors but relatively weaker in others. Two countries that have the same level of overall competitiveness might get there in different ways.

The GCI encompasses 114 different indicators, including hard statistics (such as the share of a country's children enrolled in primary school) as well as survey responses (such as business executives' scoring of business process sophistication in a country). All of the indicators touch on factors that are considered important for the country's worker productivity, return on investment, sustainable growth rates, and long-term prosperity. The indicators are grouped into three subindexes, each with its own

weight in calculating the overall index (with the weight varying based on the country's stage of development). The indicators are further grouped into 12 "pillars" of competitiveness, as follows:

Basic Requirements. Designed to show whether a country has the most basic, fundamental requirements for worker productivity and a high return on investment, the GCI's subindex on "Basic Requirements" consists of the following four pillars:

- ***Institutions.*** This pillar encompasses the public and private rules, processes, and attitudes that encourage investment and help determine the distribution of the benefits of production. It includes indicators touching on factors such as the country's private property rights, judicial independence, burden of regulation, auditing and reporting standards, and protections for minority shareholders.
- ***Infrastructure.*** This pillar encompasses various measures of the quantity and quality of transportation, energy, and communications infrastructure. Indicators in this pillar touch on factors such as the country's airline seat capacity, number of mobile telephone subscriptions, and business executives' opinions regarding the quality of the country's roads and highways.
- ***Macroeconomic Environment.*** This pillar touches on the stability of the macroeconomic environment. It includes many of the classic economic indicators that we regularly monitor and write about, such as inflation rates and the government budget balance.
- ***Health and Primary Education.*** This pillar addresses whether the country's workers have the good health and basic education necessary to come to work regularly and do a good job. It includes indicators such as infant mortality rates, the incidence of tuberculosis, and the primary education enrollment rate.

Efficiency Enhancers. This subindex aims to capture the various factors that allow a country to excel in the creation of value, i.e., to create highly valuable goods

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and services at minimal cost. The subindex consists of the following six pillars:

- **Higher Education and Training.** This pillar touches on the country's ability to produce advanced "human capital," including factors such as the rate of enrollment in secondary and tertiary education, internet access in schools, the quality of math and science instruction, and the extent of staff training in businesses.
- **Goods Market Efficiency.** This pillar addresses whether the country's market system encourages the production of sophisticated, highly desired goods and services at the lowest cost. It includes indicators touching on the intensity of local competition, the effectiveness of anti-monopoly policies, the time required to start a new business, the level of import tariffs, and imports as a share of gross domestic product (GDP).
- **Labor Market Efficiency.** This pillar expresses how efficient and flexible the country's labor market is, which touches on whether workers are channeled to their most productive use and have the incentives to do their best effort. The pillar includes indicators relating to such factors as the flexibility of wage rates, the cost of layoffs, and female participation in the labor force.
- **Financial Market Development.** This pillar focuses on the country's financial markets and how efficiently those markets channel capital from savers to profitable investments. It includes indicators such as the soundness of the nation's banks, executive opinions on whether the financial system is meeting business needs, and the availability of venture capital.
- **Technological Readiness.** This part of the GCI addresses the ease with which the economy adopts existing technologies to boost productivity, though it concentrates on the adoption of information technology. It includes indicators such as the extent of foreign investment in the country, the number of internet users, and available internet bandwidth.
- **Market Size.** Large markets allow firms to capture economies of scale, i.e., lower average costs per unit of production. Large markets can therefore be an important way for a country to become more efficient. This pillar therefore includes indicators on the size of both the domestic market and the foreign markets available to the country.

Innovation and Sophistication Factors. This subindex focuses on the ability of the country's workers to be among the most innovative and sophisticated in the world. The focus here is on whether the country's workers and their companies are truly "cutting edge" and at the forefront of new industries and new types of value creation. The subindex consists of the following two pillars:

- **Business Sophistication.** This pillar addresses the extent to which a country's companies and industries are organizing themselves to supercharge their growth, especially by making full use of the division of labor and maintaining powerful networks that allow for the sharing and cross-fertilization of ideas. The pillar includes indicators touching on such factors as the quantity and quality of local suppliers, production process sophistication, and value chain breadth.
- **R&D Innovation.** The last of the GCI's twelve pillars focuses squarely on whether the country's workers and companies have the capacity to design and develop cutting-edge products and processes that boost value creation, rather than merely integrating and adapting externally-developed technologies. The pillar includes indicators such as the quality of scientific research institutions, company spending on research and development (R&D), government procurement of advanced technology products, and patent applications.

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Findings

Since the GCI covers 114 different indicators for more than 130 different countries, it would be much too unwieldy to show all the data in one table. However, we do think it's instructive to show the overall index and the key subindexes for a wide range of countries. On the following page, Table 1 shows the key figures for all of the GCI's top scorers and most of the largest and richest countries on earth. We think the table provides a rough sense of what countries are most competitive, and why.

In spite of the anxiety that many people feel regarding the U.S. economy these days, the United States has long been among the most competitive countries in the GCI, and it remains so today. In the GCI for 2017-2018, the United States ranks as the world's second-most competitive country, trailing only Switzerland (#1) and beating such competitive stand-outs as Germany (#5), Hong Kong (#6), and Japan (#9). The U.S. ranking this year is up from third place in the GCI for 2016-2017. In our view, the strong U.S. ranking provides a reassuring confirmation that the country's deep, long-established strengths remain in place and promise continued growth

and prosperity well into the future. We believe that's the case even though the country faces challenges ranging from population aging and the rise of new geopolitical and economic competitors like China and Russia. However, there are some threats that bear watching. According to the GCI, the weakest pillar under the U.S. economy is its macroeconomic environment, mostly

reflecting its enormous government debt, big budget deficits, and low national savings rate. The United States also ranks relatively poorly in terms of health and primary education, reflecting such issues as a below-par rate of primary education enrollment and negative business impacts from certain chronic diseases.

Table 1.
The Global Competitiveness Index (GCI), 2017-2018
Selected Countries

Source: World Economic Forum

Country	Total GCI	Rank	Basic Requirements				Efficiency Enhancers						Innovation & Sophistication Enhancers	
			Institut.	Infrastr.	Macro Environ.	Health & Primary Education	Higher Education & Training	Goods Market Efficiency	Labor Market Efficiency	Financial Market Dev.	Tech. Readiness	Market Size	Business Sophist.	Innov.
Switzerland	5.86	1	5.93	6.26	6.57	6.78	6.07	5.50	5.94	5.29	6.39	4.69	5.89	5.82
USA	5.85	2	5.33	6.01	4.51	6.33	6.12	5.47	5.64	5.73	6.23	6.86	5.77	5.82
Singapore	5.71	3	6.08	6.54	5.98	6.76	6.27	5.76	5.79	5.66	6.09	4.78	5.22	5.28
Netherlands	5.66	4	5.76	6.44	6.08	6.69	6.09	5.50	5.07	4.63	6.34	5.10	5.69	5.55
Germany	5.65	5	5.30	5.96	6.10	6.52	5.70	5.27	5.03	5.03	6.17	6.00	5.65	5.65
Hong Kong	5.53	6	5.69	6.70	6.28	6.38	5.70	5.74	5.59	5.51	6.17	4.80	5.38	4.53
Sweden	5.52	7	5.59	5.56	6.44	6.41	5.59	5.23	4.87	5.13	6.30	4.66	5.63	5.50
UK	5.51	8	5.52	5.96	4.65	6.47	5.48	5.29	5.44	5.03	6.33	5.75	5.58	5.09
Japan	5.49	9	5.41	6.34	4.30	6.60	5.38	5.24	4.78	4.89	6.01	6.07	5.73	5.37
Finland	5.49	10	6.16	5.39	5.49	6.90	6.18	5.15	4.78	5.54	5.98	4.16	5.26	5.69
Norway	5.40	11	5.82	5.04	6.64	6.59	5.88	4.98	5.11	5.19	6.12	4.43	5.37	5.01
Denmark	5.39	12	5.46	5.51	6.22	6.41	5.97	5.11	5.19	4.87	6.09	4.29	5.42	5.13
New Zealand	5.37	13	6.07	5.45	6.06	6.62	5.97	5.30	5.47	5.81	6.09	3.94	4.93	4.69
Canada	5.35	14	5.43	5.70	5.13	6.60	5.77	5.15	5.43	5.44	5.88	5.44	4.98	4.67
Taiwan	5.33	15	4.85	5.71	6.33	6.48	5.63	5.26	4.73	4.90	5.74	5.22	5.13	5.11
Israel	5.31	16	4.94	5.40	5.24	6.34	5.44	4.82	4.90	5.07	6.17	4.29	5.26	5.80
Austria	5.25	18	5.15	5.73	5.52	6.40	5.68	4.89	4.49	4.58	5.97	4.59	5.58	5.03
Luxembourg	5.23	19	5.74	5.68	6.27	6.21	4.75	5.52	5.01	4.97	6.46	3.34	5.23	4.99
Belgium	5.23	20	5.02	5.42	4.87	6.63	5.82	5.18	4.47	4.68	5.94	4.79	5.42	4.95
Australia	5.19	21	5.35	5.27	5.67	6.52	5.88	4.88	4.68	5.45	5.72	5.13	4.85	4.52
France	5.18	22	4.84	6.10	4.82	6.39	5.41	4.68	4.35	4.53	5.90	5.75	5.25	4.89
Malaysia	5.17	23	4.98	5.46	5.44	6.32	4.87	5.11	4.72	4.96	4.90	5.09	5.15	4.67
Ireland	5.16	24	5.35	5.11	5.77	6.48	5.85	5.35	4.87	3.99	5.97	4.50	5.16	4.70
South Korea	5.07	26	4.04	6.08	6.63	6.34	5.34	4.97	4.18	3.90	5.65	5.53	4.91	4.78
China	5.00	27	4.42	4.66	6.00	6.21	4.78	4.55	4.55	4.23	4.18	7.00	4.51	4.14
Indonesia	4.68	36	4.27	4.52	5.72	5.43	4.52	4.59	3.91	4.50	3.86	5.73	4.56	4.02
Russia	4.64	38	3.75	4.93	5.03	6.00	5.12	4.21	4.33	3.45	4.55	5.90	3.97	3.55
India	4.59	40	4.44	4.22	4.54	5.50	4.31	4.47	4.15	4.37	3.12	6.43	4.49	4.09
Italy	4.54	43	3.50	5.37	4.24	6.39	4.96	4.41	3.67	3.05	5.09	5.59	4.92	3.98
Mexico	4.44	51	3.20	4.30	5.17	5.69	4.11	4.32	3.77	4.51	4.21	5.67	4.27	3.41
Philippines	4.35	56	3.51	3.43	5.82	5.63	4.59	4.03	4.02	4.19	3.80	4.97	4.10	3.35
Brazil	4.14	80	3.35	4.11	3.44	5.41	4.21	3.79	3.68	3.70	4.57	5.69	4.12	3.21
Bangladesh	3.91	99	3.39	2.92	4.90	5.22	3.10	4.11	3.60	3.60	2.76	4.72	3.70	2.85
Nigeria	3.30	125	3.17	2.04	3.51	3.00	3.10	4.07	4.60	3.70	2.98	4.98	3.68	2.85

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Table 1 also illustrates several interesting patterns among the most competitive foreign economies. For example, we think it's notable that so many of the top-ranked countries have relatively small, open economies that rely

heavily on international trade (this group includes countries such as Switzerland, Singapore, the Netherlands, and Hong Kong). Because these countries are relatively small, they have to look abroad in order to

enjoy the benefits of big markets, but that implies keeping themselves open to competition from abroad, which seems to sharpen their domestic companies. Another lesson is the extent to which Northern European countries such as Sweden, Finland, and Norway have transformed themselves over the last few decades. In the late 20th century, many of those countries had the reputation of being rigid, highly-taxed laggards, but they have now become efficient, well-run, tech-savvy winners. Finally, it is notable that several countries that account for much of the U.S. trade deficit aren't necessarily the most competitive. The prime examples are China and Mexico. Although those countries have been improving their competitiveness, we think their ability to export more to the United States stems mostly from their relatively low labor costs. The good news is that the United States and other developed countries are likely to retain their ability to compete with those countries if they focus more on highly sophisticated, innovative, higher-value products and services.

Conclusion and Implications

Our analysis points to a strong positive relationship between a country's GCI score and its wealth (as defined by its GDP per capita, after adjusting for relative purchasing power in the country). In Figure 1, we plot that relationship for all of those countries included in Table 1. The chart clearly shows that countries with a higher GCI score tend to be richer and more productive. In fact, the chart suggests that for every improvement of 1.00 in its GCI, a country's annual GDP per capita increases by \$29,310. The chart also suggests that the

GCI score can explain about 51.7% of the variation in a country's GDP per capita. We therefore think higher GCI scores would also help explain differences in indicators such as stock market valuations.

Over time, if a country's GCI score or ranking is on the upswing, we suspect it may be a harbinger of stronger economic growth, increased profits, and higher stock prices in the future. In contrast, when a country is suffering an apparently temporary political or economic crisis, we may be encouraged to overlook those problems if its GCI score or ranking holds steady or improves.

Naturally, the GCI can't be our sole basis for selecting international investments. There are many other economic and financial market indicators that we need to take into account. Nevertheless, the GCI does appear to be a useful indicator of economic strengths and weaknesses. Combined with the full range of analytical tools that we use to evaluate global investment opportunities, we think the GCI can point us toward interesting new situations or developing risks, and we have used it to assess many of the international investments that we currently hold in our various strategies (such as exchange-traded funds that invest in Germany, France, Hong Kong, and Taiwan). Going forward, we will continue to monitor the GCI and other indicators in a regular, consistent way in order to keep making the best possible allocation to international investments.

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Figure 1.

