By Caroline Martin
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BRAZIL SUFFERS ITS FIFTH CONSECUTIVE DROP IN THE WORLD COMPETITIVENESS RANKING AND REACHES ITS WORST POSITION

The 2015 World Competitiveness Yearbook (WCY), published in May by the International Institute for Management Development (IMD) and Fundação Dom Cabral, pointed a drop for the fifth consecutive year in Brazil's positioning in the international scenario. The country is now #56 in the overall ranking, having fallen two positions in relation to 2014. The result shows that Brazil is only ahead of Mongolia, Croatia, Argentina, Ukraine and Venezuela, its worst position in the history of the ranking.

United States remained at the top of the ranking, followed by Hong Kong in second, Singapore in third and Switzerland in forth. Canada (5th), Luxembourg (6th), Norway (7th), Denmark (8th), Sweden (9th) and Germany (10th) are the other leading countries in the latest edition of the ranking that comprises a total of 61 nations. The participating countries are assessed by more than 300 criteria, based on domestic and international statistical data and a comprehensive opinion survey conducted with 6,000 executives.

"The overall analysis of the 2015 ranking shows that stronger countries are going back to basics," says professor Arturo Bris, director of the IMD World Competitiveness Center. "Productivity and efficiency are driving competitiveness. Companies in these countries are boosting their efforts to minimize environmental impacts and provide a strong organizational structure for their workforce to prosper". In this month's *Interview*, Bris provides other aspects that stand out among the most competitive countries, and also analyzes errors committed by those that seek forms to strengthen their own competitiveness and provides a diagnosis of the situation that causes Brazil to continuously fall in the ranking.

O Papel **–** What are the main factors that comprise the competitiveness of a country? In other words, what are the indispensable characteristics for a country that strives to be competitive?

Arturo Bris, director of the IMD World Competitiveness Center – It is difficult to provide a definitive list of characteristics because each country has different strengths and weaknesses. However, it is important to point out that the analytical framework that defines the Global Competitiveness Index provides a concrete idea of aspects prioritized by countries that aim to boost their competitiveness. This means that competitive economies focus on four fundamental factors: economic performance, government efficiency, business efficiency, and infrastructure. In terms of economic performance, countries concentrate on macroeconomic aspects of their performance by strengthening their domestic economy, international trade, foreign investments, unemployment rates and prices. In terms of government efficiency, the objective is to establish government policies that favor competitiveness. For such, public finances, fiscal policy, institutional framework, business legislation and social framework are prioritized. With regards to business efficiency, countries concentrate on how the national environment encourages companies to do business in an innovative, profitable, and responsible setting. In this respect, competitive countries advance in aspects related to productivity and efficiency, labor market, finances, management practices, attitudes and values that sustain competitiveness. Lastly, countries with high levels of competitiveness develop their infrastructure in basic terms, such as highway network, transport quality and access to water; technology, which includes investment in telecommunications and connectivity; scientific matters, such as greater investment in research and development, and efficiency of the healthcare system and environmental protection, as well as education quality and efficiency. The ultimate objective of all this is to satisfy needs of companies.

O Papel **–** Based on these aspects, where do you see Brazil's greatest weaknesses? For what reasons is the country posting consecutive drops in the world competitiveness ranking?

Bris – Competitiveness is dynamic. As such, every year, the variables that limit a country's advancement change. In Brazil's case, the main results that stood out this year were:

- decline in the economy's performance, which resulted from a slowdown in the domestic economy, which can be seen, for example, in the real growth of GDP and international trade. Additionally, the employment subfactor fell, as a reflex of the drop in level of jobs created;
- in terms of government efficiency, Brazil worsened in the public finances subfactor, as a result of the government debt and budget deficit. This factor also leads to less optimistic results in the executive survey in various aspects, including adaptability of government policy, incentives to investment and impact of the informal economy in economic development;
- similar trends with regards to optimistic opinions of executives affect the efficiency factor of companies. Some of the indicators that worsen this factor include labor relations, employee motivation, industrial disputes, internships and amount of qualified labor available to satisfy market demands. Additionally, the same pessimistic standard is observed in the management practices and finances subfactor, particularly in bank financing and regulations, and financial risks;
- the infrastructure factor remains relatively stable, undergoing significant improvements in terms of total investment in education

and cost of electricity for industrial consumers. In terms of basic infrastructure, healthcare and environment, several indicators suffered drops: access to water, supply of energy in the future, availability of medical healthcare and concern about CO2 emissions. In the technological subfactor, we see a decline in financing for technological development and high-technology exports.

O Papel – Are the reasons that cause other Latin American countries to register consecutive competitiveness losses the same? Or are there particular aspects that stand out in each country?

Bris – Every country has different strengths and weaknesses. Therefore, the results in Latin America vary. It is worth looking at a few examples. Argentina dropped in the ranking mainly on account of the decline in economic performance and low business efficiency. In the economy's performance, it is important to underscore the slowdown in its domestic economy. Additionally, international investment dropped significantly, especially in terms of foreign direct investment, with the biggest drop seen in reallocation of production, installations and research and development services. Employment growth and unemployment also did poorly. The country's business efficiency stagnated as a result of the financial decline. Mexico, in turn, improved in the ranking this year, partly as a result of increased productivity and efficiency. Even though there are significant drops in certain subfactors evaluated, the main one was the decline in international trade. In terms of international investment, Mexico is undergoing significant drops in foreign direct investment and in its portfolio of assets. In terms of government efficiency, it is important to point out that Mexico worsened in terms of fiscal policy and institutional framework. The decline in the latter item stems from the less optimistic perception of executives regarding the government policy's adaptation capacity, transparency and the existence of practices related to bribery and corruption. However, it is possible to say regionwide that global productivity had a significant impact on the efficiency of companies in 2015. And they all posted a decline in international trade and investment.

O Papel – Which aspects seen in top-ranked countries in the global competitiveness ranking can serve as good practical examples for Brazil?

Bris – The more competitive countries strive to define an environment that allows companies to create value in a sustainable manner, that is, the capacity to generate value in the long term, minimizing negative aspects, environmental included, and maximizing positive externalities from their day-to-day activities, such as improving the well-being of their workforce.

O Papel – In view of the current scenario surrounding Brazil, including the many difficulties resulting from economic slowdown, are there any short-term measures that could have a positive effect in strengthening the country's competitiveness?

Bris – Yes, several short-term measures are capable of achieving positive results. The study shows, for example, a decline in the perception of executives regarding employee motivation. To turn this trend around in the short term, personal development programs, such as those that allow employees to expand their skills and competencies, could improve workforce well-being and, consequently, boost motivation. Ultimately, boosting employee motivation will have positive impacts on productivity and business efficiency also. It is important to point out, however, that short-term measures are possible and impacting on a micro level. On a structural level, such corrections tend to have a limited effect.

O Papel – What are the biggest challenges involved in the continuous pursuit of a country seeking to increase competitiveness?

Bris – It is difficult to present a general "formula" for boosting competitiveness. In Brazil's case, improvements are essential in all indicators related to competitiveness. Such indicators include:

- economic performance: trade in relation to GDP, exports of goods, tourism revenues and exports of commercial services;
- government efficiency: tariff barriers, real enterprise taxes, bureaucracy, bribery and corruption;
- business efficiency: workforce productivity (is it competitive for international standards?), small and medium enterprises (are they efficient for international standards?), qualified labor (is it readily available?) and financial skills;
- infrastructure: logistics management, access to water, environmental laws, studying of science in schools and educational system as a whole.

O Papel – And what tends to be the most common errors committed in this evolution process?

Bris – The main error is to adopt competitiveness policies that were successful in other countries or regions, which do not necessarily reflect the reality and peculiarities of the receiving nation. Competitiveness needs to be built from the inside, taking into consideration the resources and competencies available in each economy. The objective is to seek a balance between a country's strengths and weaknesses. In other words, the challenge resides in reinforcing the strengths of the country, while advancing in aspects that demonstrate a certain degree of weakness.

O Papel – Thinking more long-term, are the ways for maintaining a country competitive tend to become more challenging? What trends are expected over the next years in terms of competitiveness?

Bris – Future competitiveness trends may evolve through an effort of countries to facilitate the creation of sustainable value. Companies will strive to maximize positive externalities that stem from their day-to-day activities, helping improve the well-being of employees through a balance between work and family life. With this, governments will seek to increase social aspects that contribute to workforce well-being by increasing education quality and promoting quality of health. Additionally, the pursuit of creating sustainable value will lead governments and companies to foster business practices that innovate, minimizing negative externalities, like measures that aim to reduce energy consumption and CO_2 emissions. ■