Czech Republic

Competitiveness and Growth: Key Challenges

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National Competitiveness

- **National competitiveness** is a popular term widely used by politicians, business leaders, scholars and ordinary people around the globe nowadays.
- Bill Clinton's analogy that each nation is like "a big corporation competing in the global marketplace" (Krugman, 1997).
- Annual publication of world competitiveness reports:
  - World Economic Forum
  - International Institute for Management Development
  - World Bank

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Competitiveness: A dangerous obsession?

- „Competitiveness is a meaningless concept when applied to national economies"(Krugman, 1994)
- Justifications:
- uncompetitive corporations may go out of business, countries do not have such a bottom line and therefore the concept of national competitiveness is elusive.
- countries do not compete with each other the way corporations do because international trade is not a zero-sum game, meaning one country's gain is not another's loss.

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Why a dangerous obsession?

- Competitiveness policies "lead, directly and indirectly, to bad economic policies on a wide range of issues, domestic and foreign, whether it be in health care or trade" (Krugman, 1994)

- Three reasons for a dangerous obsession:

  - it could result in misallocation of resources in pursuit of improving national competitiveness;

  - it could lead to protectionism and trade wars;

  - it could result in bad public policy on a spectrum of important issues.

Competitiveness Definitions

- Michael Porter (2004) "economic value is indirectly generated by nations through enterprises, therefore the role of the nations is to create an environment that promotes the activities of enterprises" and "the only meaningful concept of competitiveness at national level is national productivity".

- Garelli (IMD) "competitiveness is not an objective in itself but an economic tool. However a tool is linked and dependent on the objectives pursued by the various economic actors, which constitute a nation."

- WEF "competitiveness is the set of institutions, policies, and factors that make a nation remain productive over the longer term while ensuring social and environmental sustainability"

- OECD "competitiveness is the degree to which a nation can, under free trade and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its people over the longterm."

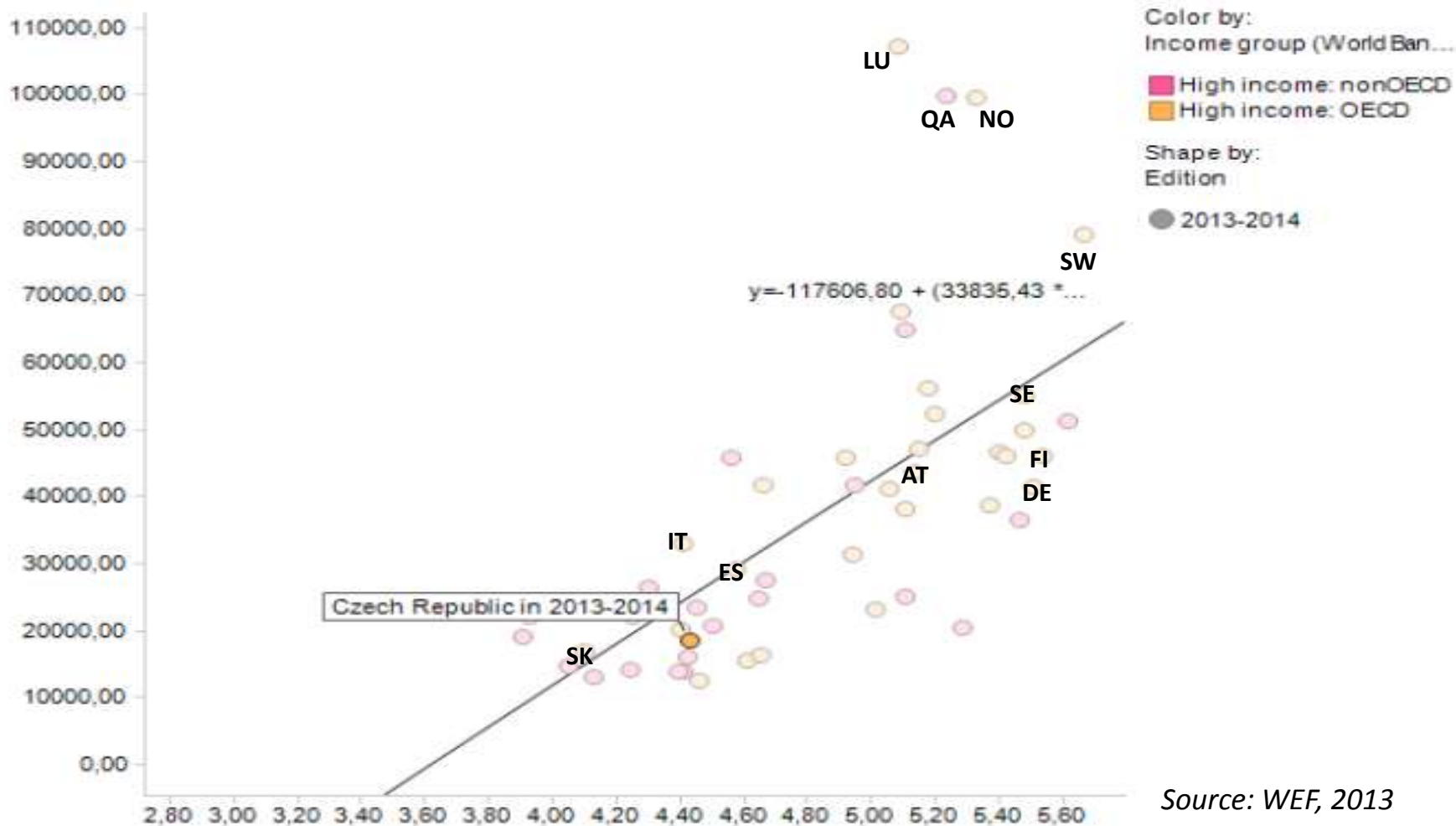Office of the Government of the Czech Republic

Competitiveness and Growth

- Competitiveness seen as ability to earn or the economy's overall results in macroeconomic terms (higher GDP or standard of living).

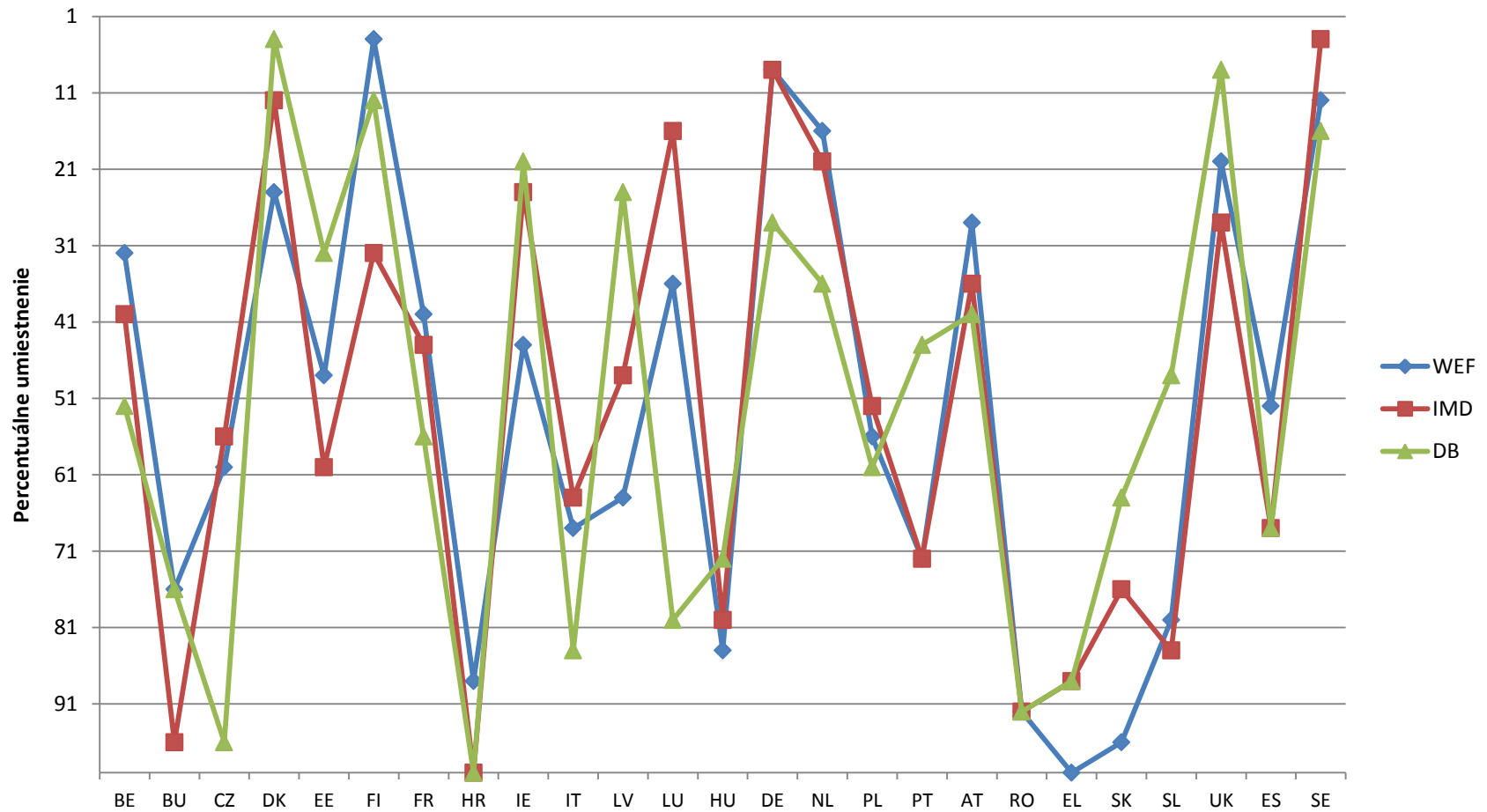- Source is seen in (or is even equivalent to) productivity (Porter, 1990)
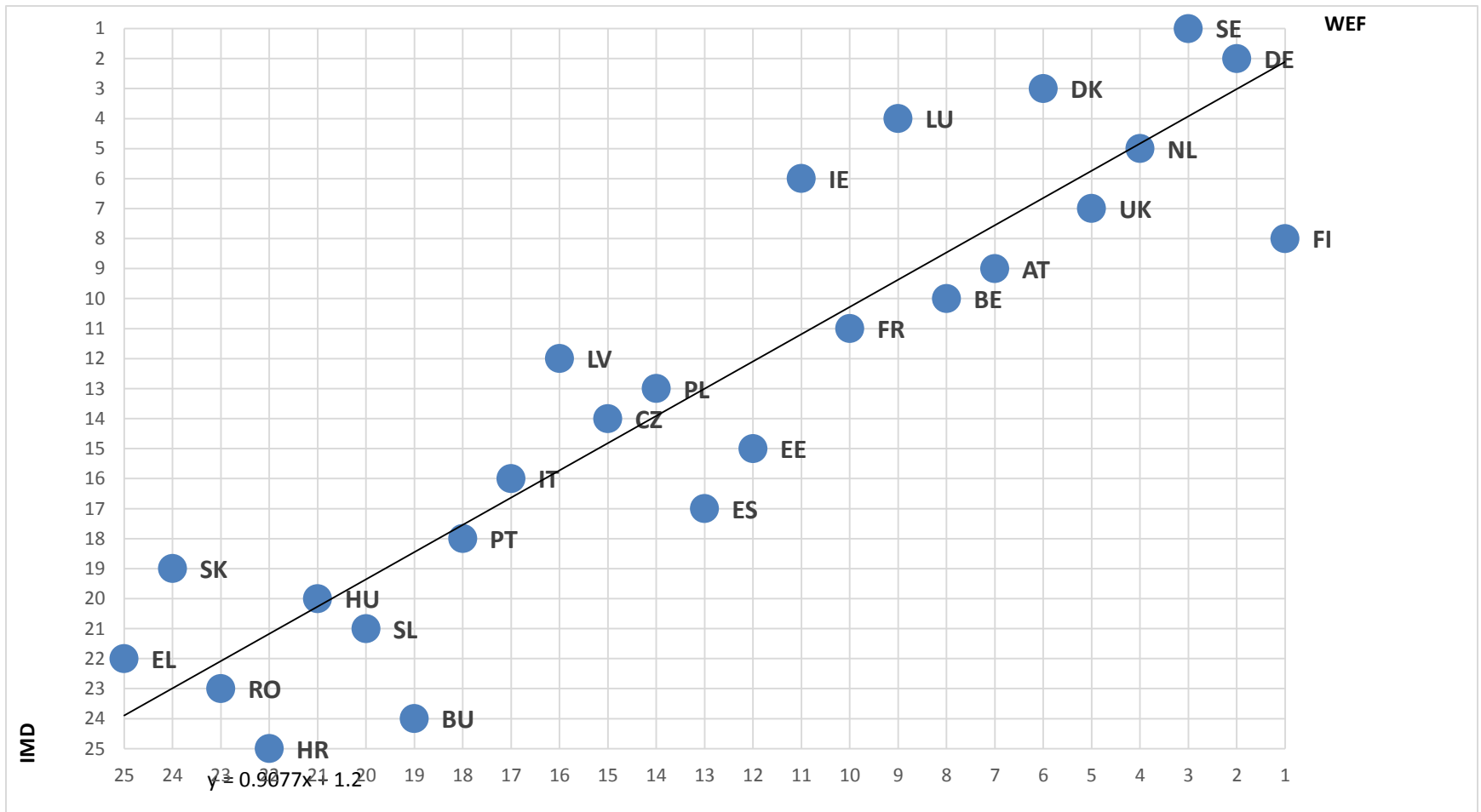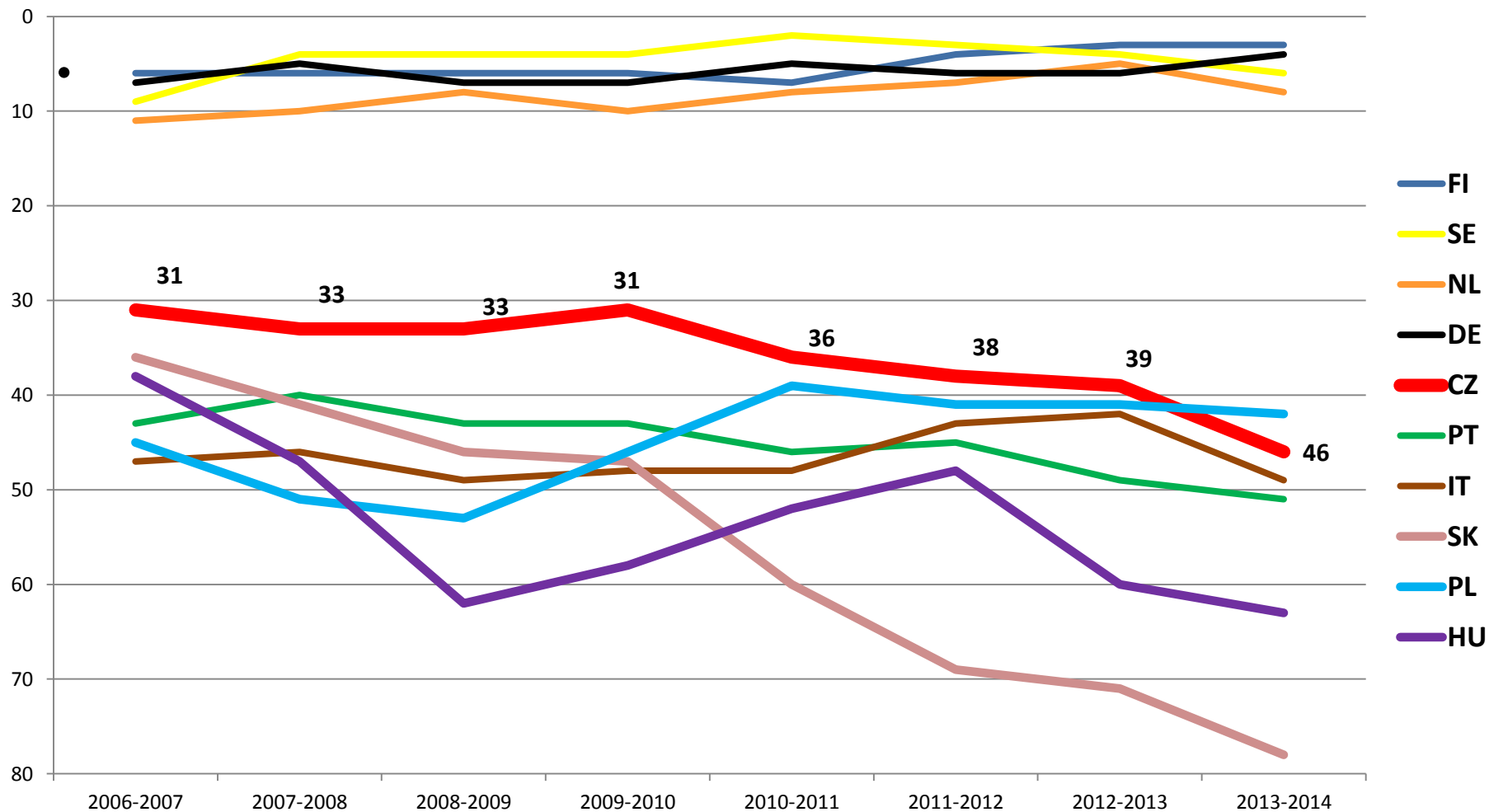
GDP per capita/GCI
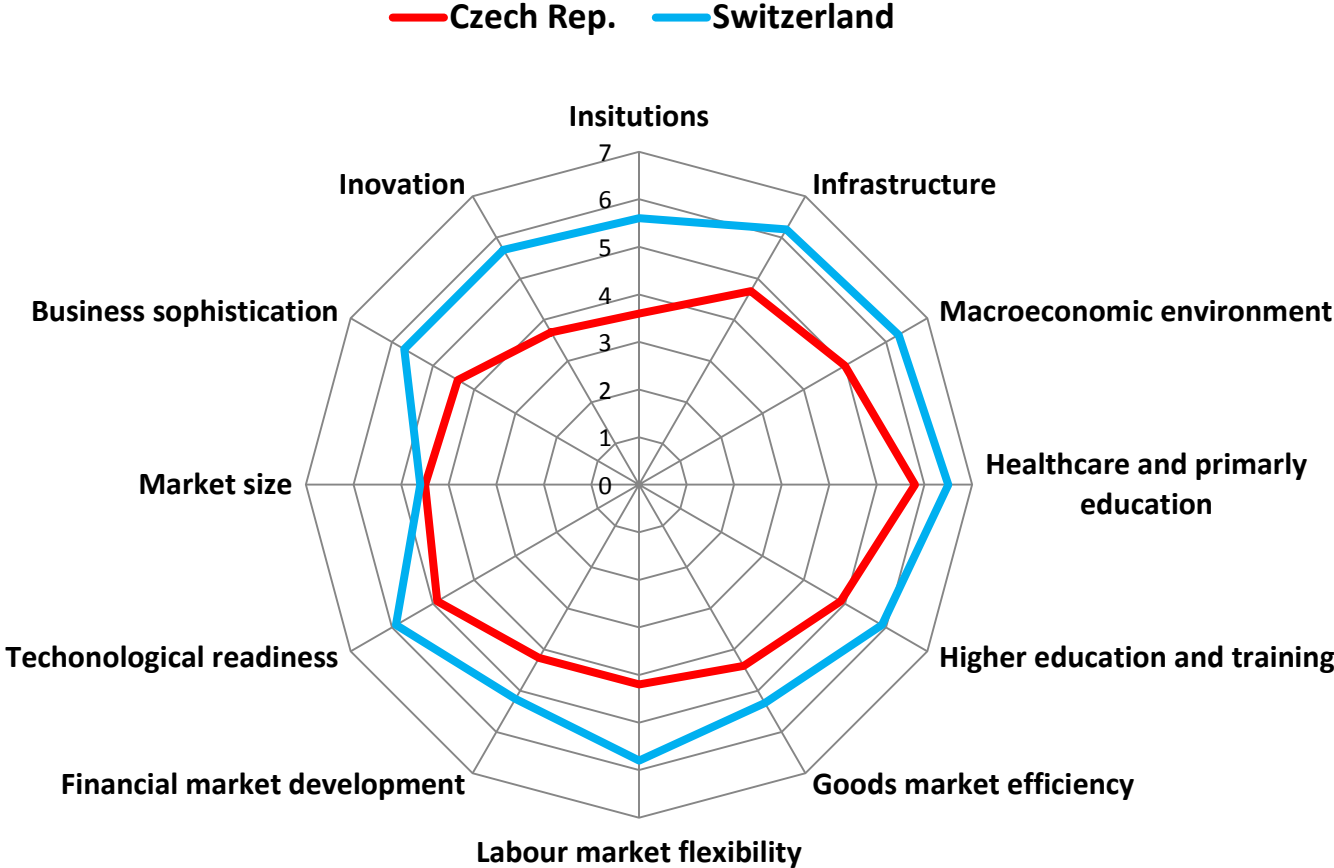

Source: WEF, 2013

Reports Rankings Comparasion

Sekce pro evropské záležitosti Úřadu vlády ČR

WEF vs. IMD

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Global Competitiveness 2007-2013

Sekce pro evropské záležitosti Úřadu vlády ČR
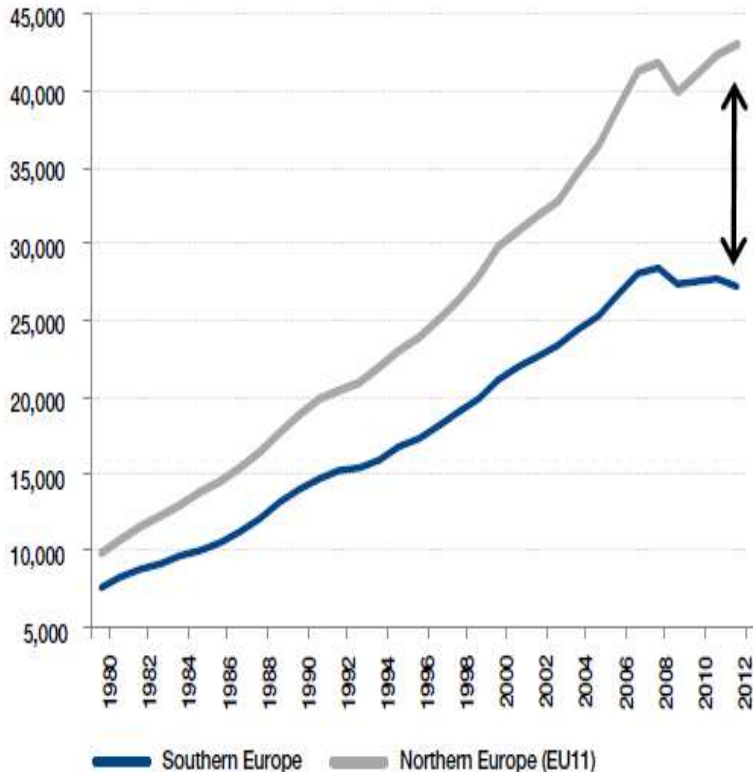
Source: WEF, 2013

Czech Republic vs. Switzerland (WEF)
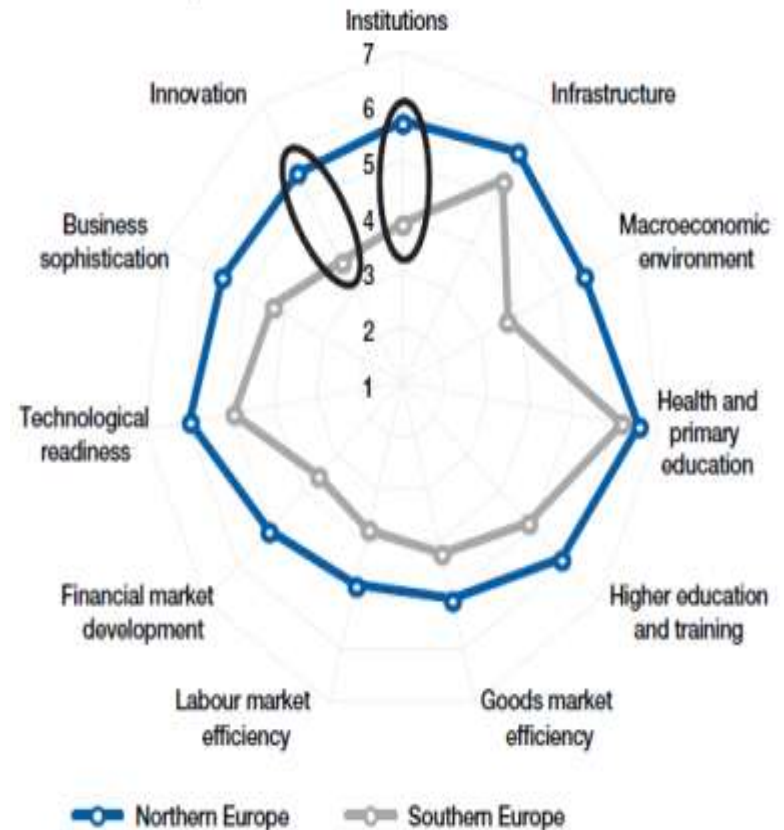
Southern Europe vs. Northern Europe

GDP per capita (PPP Int'l$)

Northern Europe: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Luxembourg, Netherlands, Sweden, United Kingdom

Southern Europe: Greece, Italy, Portugal, Spain

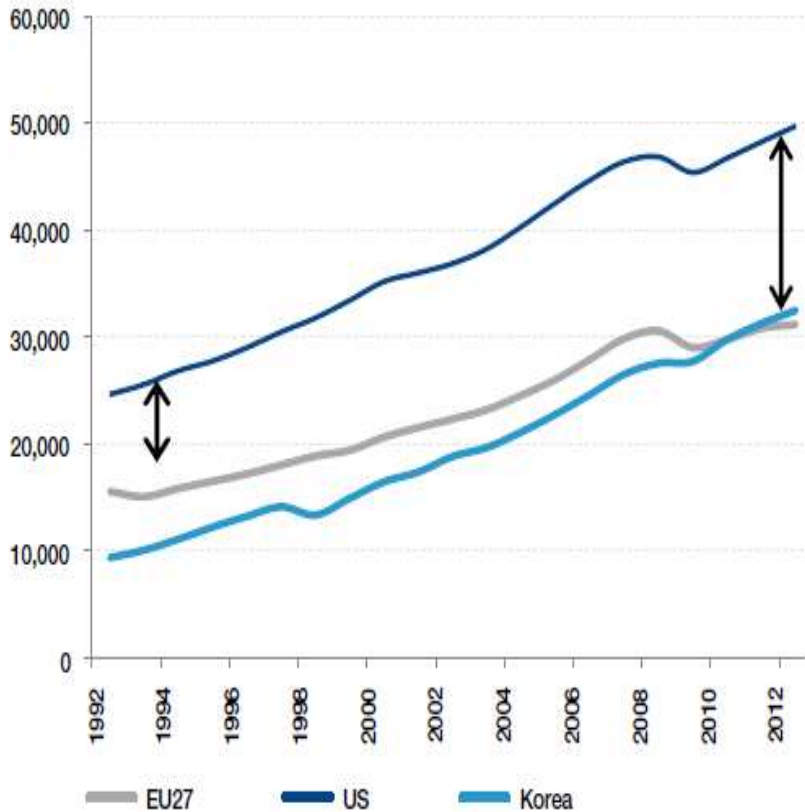Source: IMF World Economic Outlook, October 2012

Source: Global Competitiveness Index 2012-2013, World Economic Forum and authors calculations
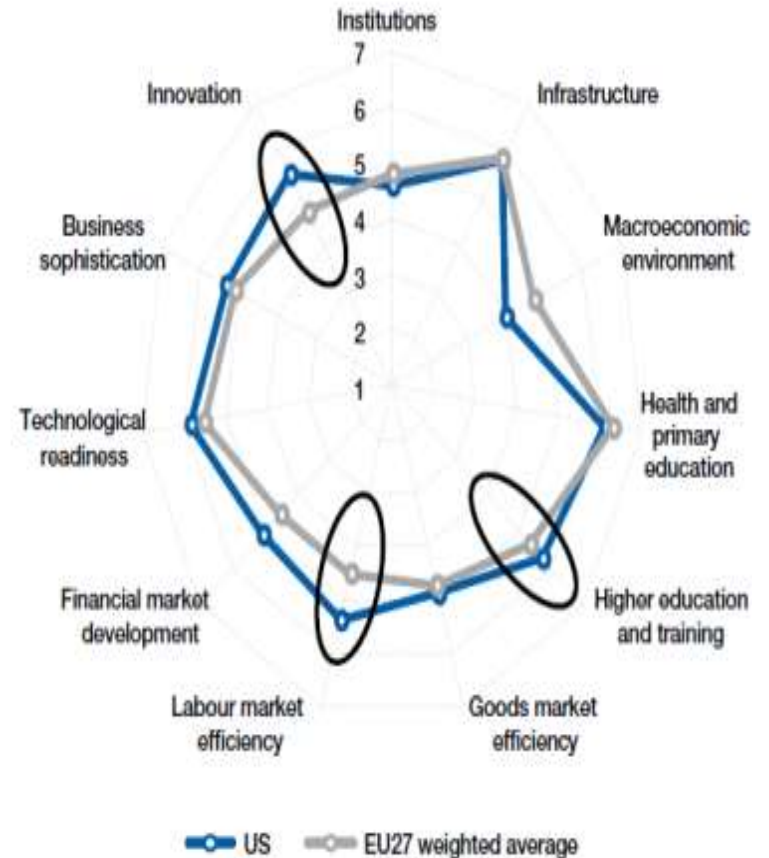Northern Europe: Finland, Germany, Netherlands, Sweden
Southern Europe: Greece, Italy, Portugal, Spain

EU 27 vs. USA

GDP per capita (PPP Int'l$)

Legend: EU27, US, Korea

Source: IMF, *World Economic Outlook*, October 2012 and authors' calculations

Radar chart axes: Institutions, Infrastructure, Macroeconomic environment, Health and primary education, Higher education and training, Goods market efficiency, Labour market efficiency, Financial market development, Technological readiness, Business sophistication, Innovation

Legend: US, EU27 weighted average

Note: The market size pillar (Pillar 10 in the GCI) is not shown in this graph

Source: *Global Competitiveness Index 2012-2013*, World Economic Forum and authors' calculations

Weaknesses identified by WEF and IMD

- Political instability
- Public institutions
- Corruption
- Pension system
- Education system
- Labor market flexibility
- Finding consensus on EU policies

Weaknesses identified by the WB

- Starting Business
- Paying taxes
- Enforcing contracts
- Dealing with construction permits
- Obtaining an electricity connection

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Weaknesses identified by the European Commission

- Increasing structural budget deficit
- Taxation of labour and discrepancies in the tax treatment of employees and the self-employed
- Efficiency of tax administration
- Long-term sustainability of public finance
- Child-care services
- Education system
- Efficiency of public administration and corruption
- Energy efficiency in the buildings and industry

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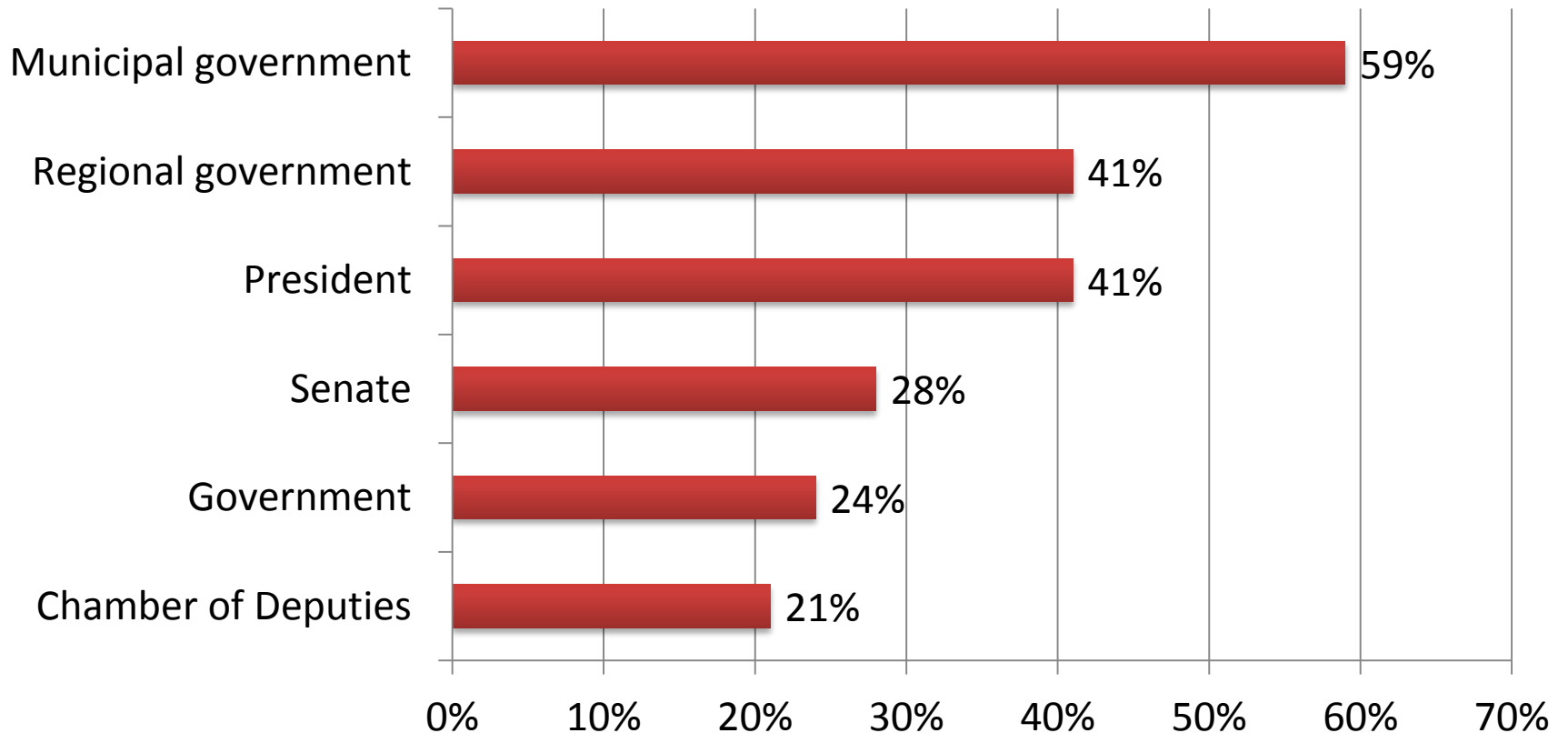
Challenges for the Czech Republic?

Challenges for the Czech Republic

- Stabilization and restoring trust in politics

Confidence in Government
(December 2013)

Institution	Confidence
Municipal government	59%
Regional government	41%
President	41%
Senate	28%
Government	24%
Chamber of Deputies	21%

0% 10% 20% 30% 40% 50% 60% 70%

December 2013, CVVM

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Corruption and Government
(Gallup Institute, 2013)

Highest and Lowest Perceptions of Government Corruption in Free Press Countries*

Is corruption widespread throughout the government in [country], or not?

	Corruption is widespread in government		Corruption is widespread in government
Czech Republic	94%	United Kingdom	43%
Lithuania	90%	Netherlands	33%
Ghana	89%	Australia	33%
Portugal	88%	Finland	30%
South Africa	88%	Luxembourg	26%
Italy	86%	Norway	25%
Costa Rica	82%	New Zealand	24%
South Korea	80%	Switzerland	23%
Hungary	79%	Denmark	15%
Cyprus	77%	Sweden	14%

*According to Freedom House 2013 Media Freedom Status
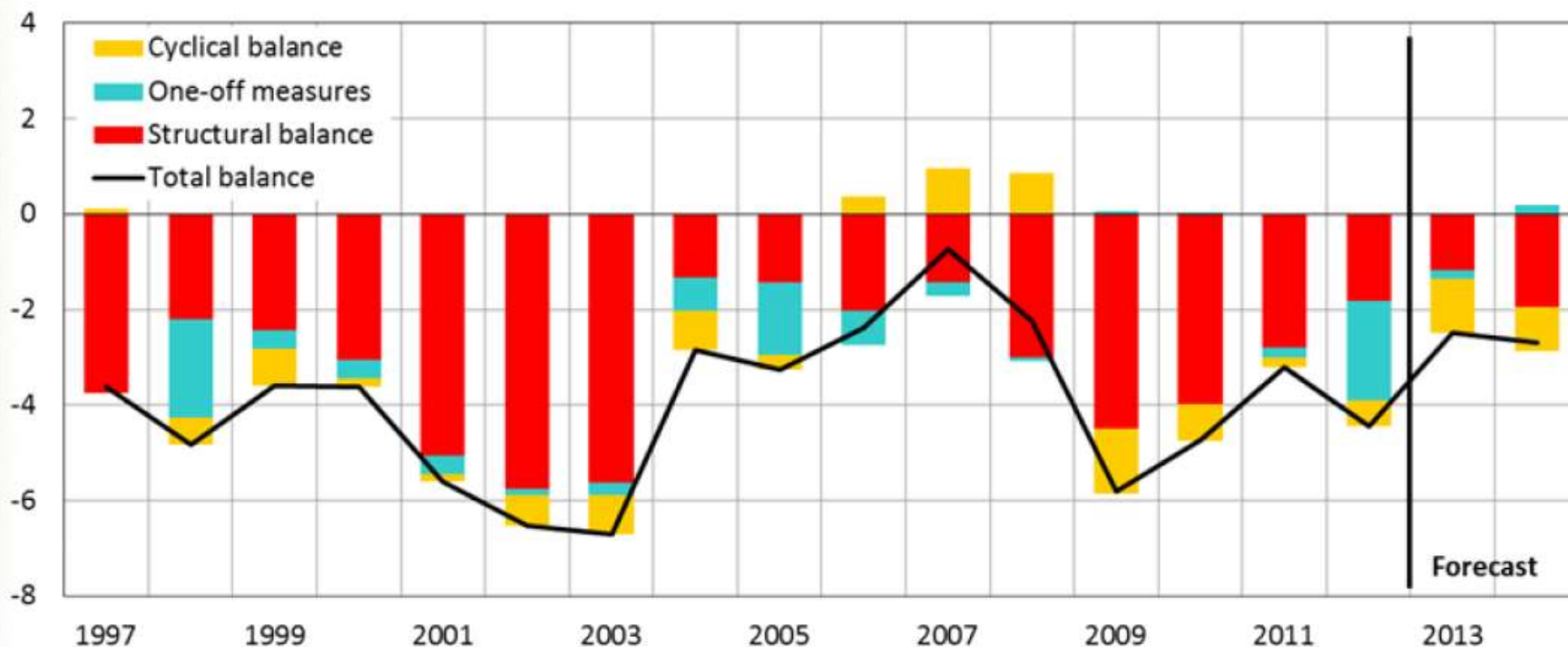
GALLUP

Gallup Institute, 2013

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Challenges for the Czech Republic

- Stabilization and restoring trust in politics
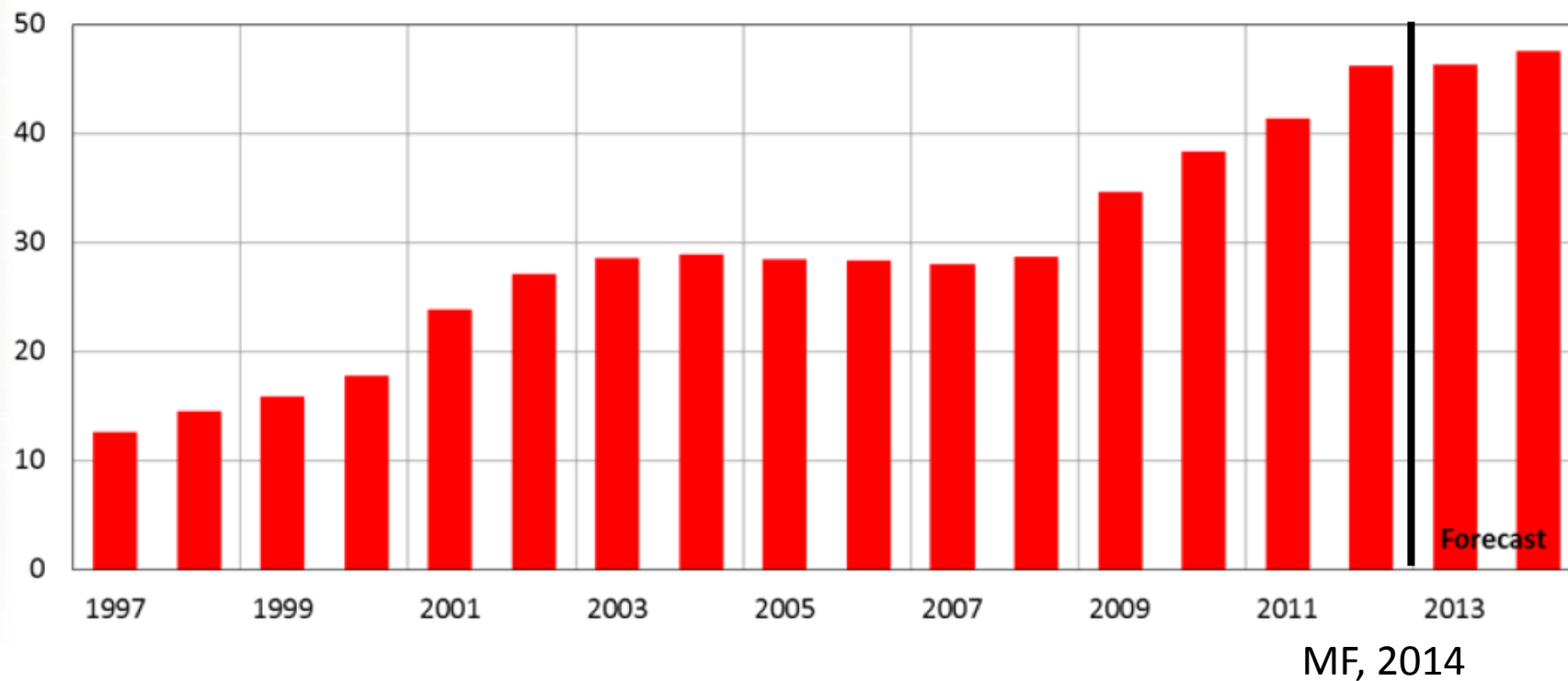- Stabilization of macroeconomic conditions

Government Deficit Outlook % GDP

Source: Ministry of Finance.

MF, 2014

Government Debt Outlook % GDP

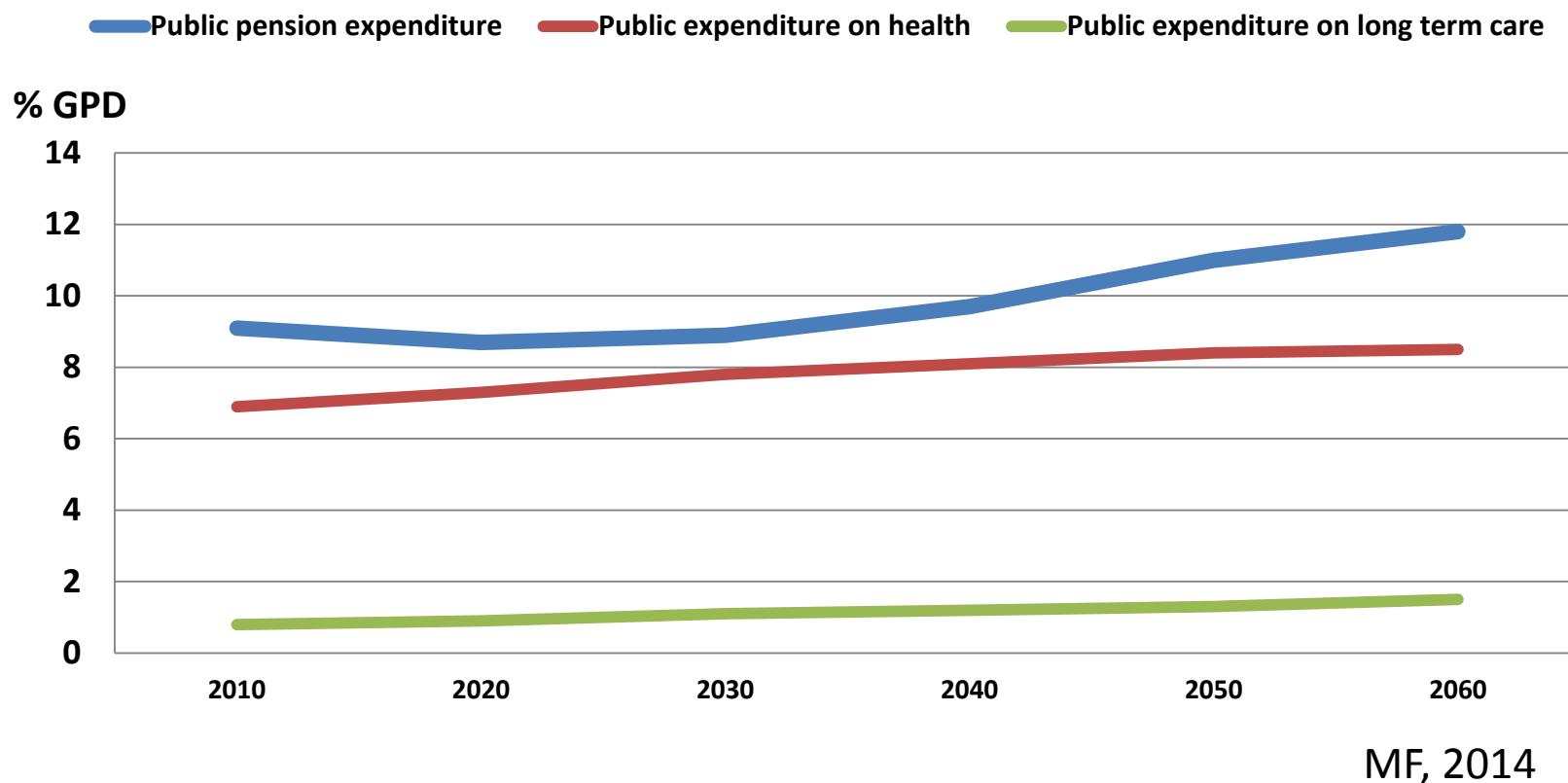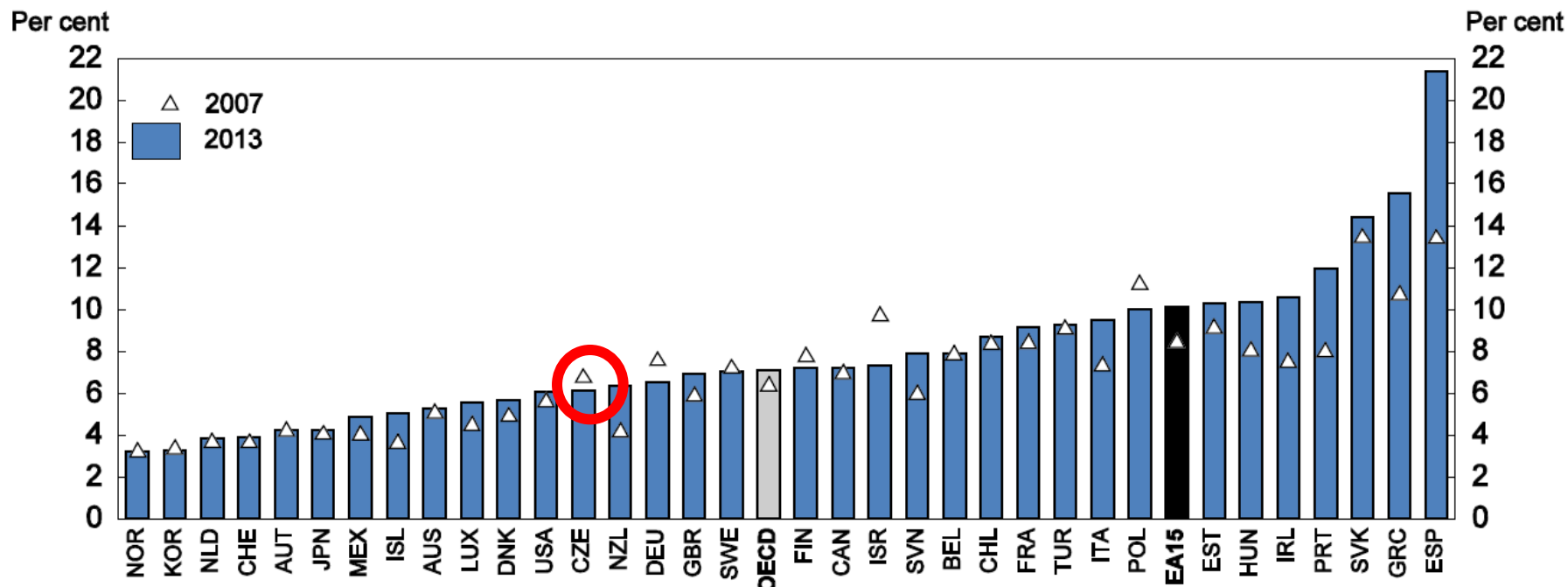MF, 2014

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Challenges for the Czech Republic

- Stabilization and restoring trust in politics (including fight against corruption)
- Stabilization of macroeconomic conditions
- Long-term sustainability of public finance

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Long-term sustainability

% GPD

Legend: Public pension expenditure · Public expenditure on health · Public expenditure on long term care

MF, 2014

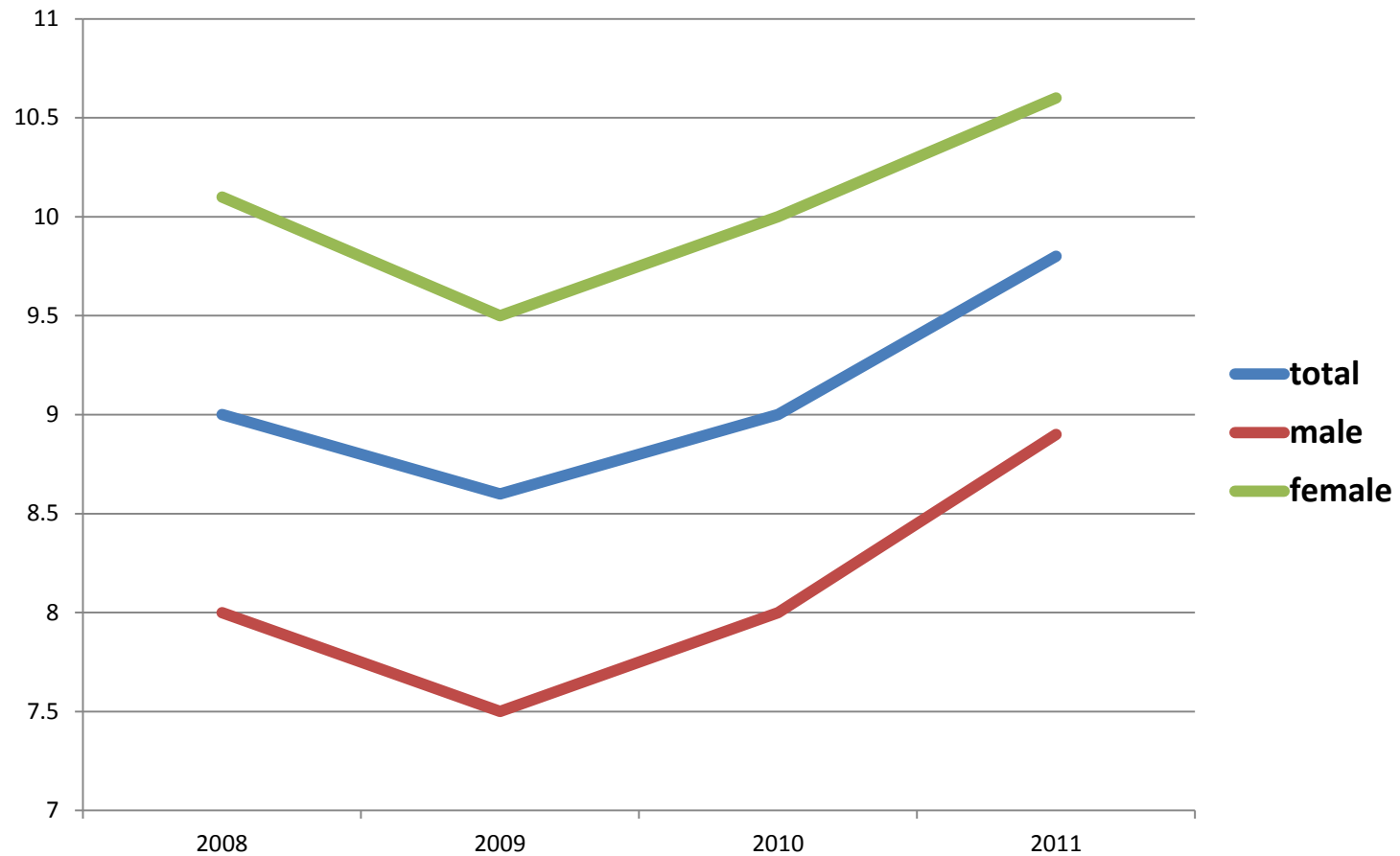Office of the Government of the Czech Republic

Challenges for the Czech Republic

- Stabilization and restoring trust in politics
- Stabilization of macroeconomic conditions
- Long-term sustainability of public finance
- Prevent cyclical unemployment

Structural unemployment rate

OECD, 2014

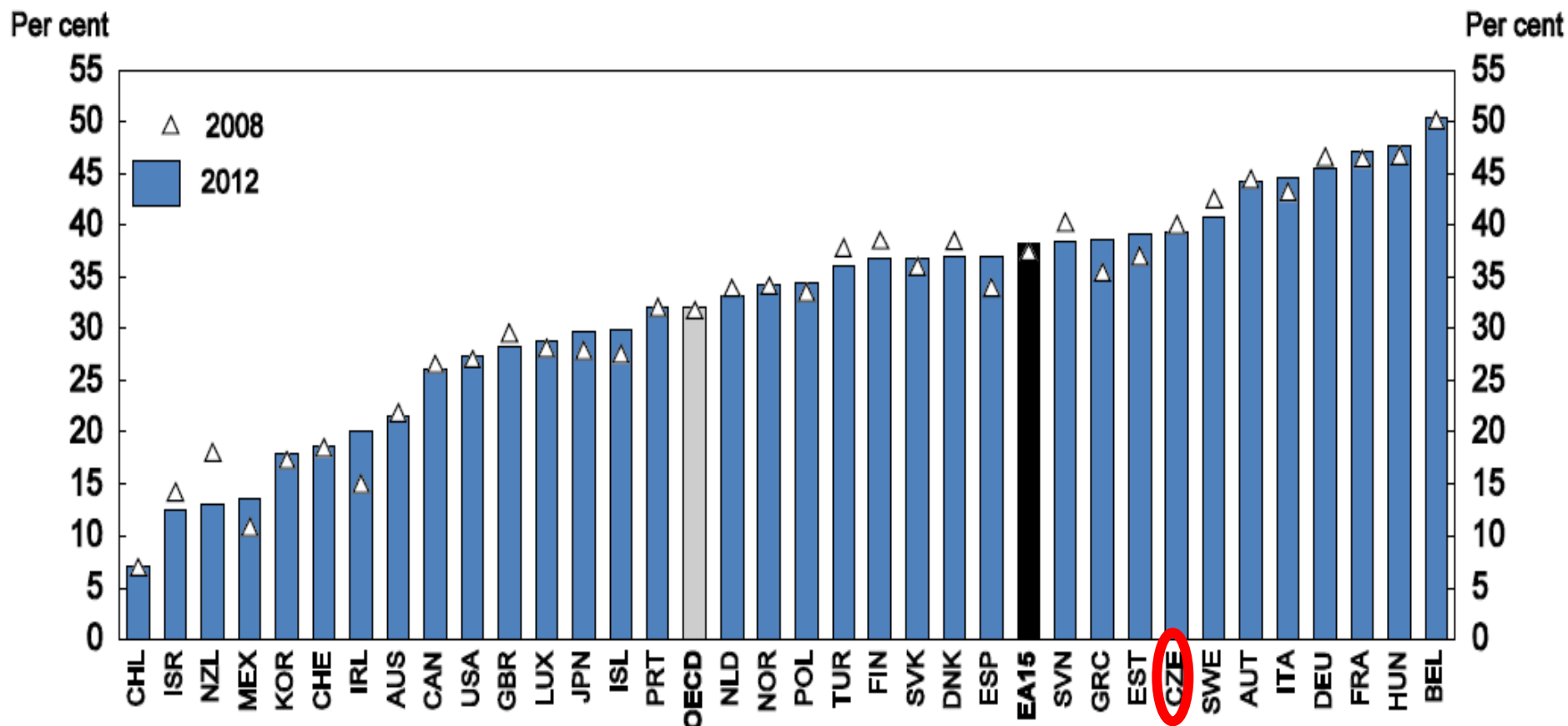Office of the Government of the Czech Republic

Challenges for the Czech Republic

- Stabilization and restoring trust in politics
- Stabilization of macroeconomic conditions
- Long-term sustainability of public finance
- Prevent cyclical unemployment
- Address social aspects of crisis

Risk of poverty (% of population)

vupsv, 2013

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Challenges for the Czech Republic

- Stabilization and restoring trust in politics
- Stabilization of macroeconomic conditions
- Long-term sustainability of public finance
- Prevent cyclical unemployment
- Address social aspects of crisis
- Improve labour productivity
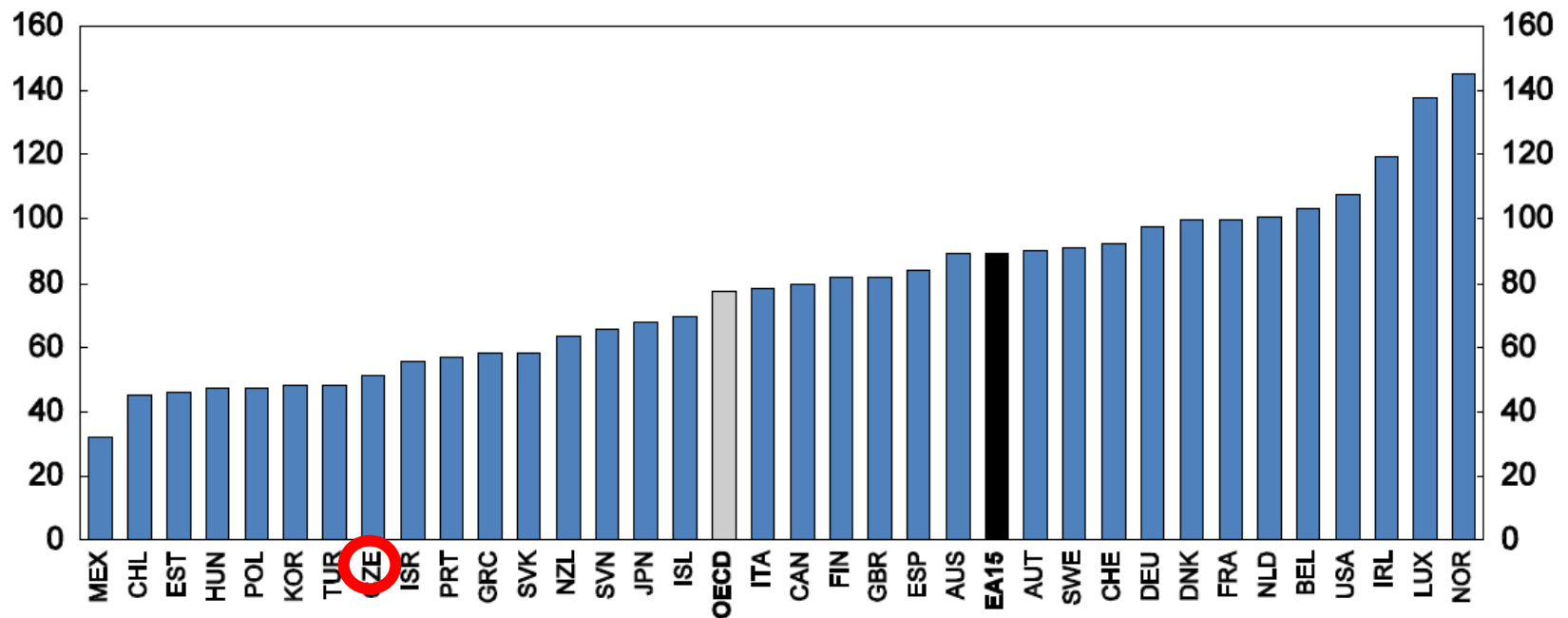
Average tax wedge on labour

OECD, 2014

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Hourly labour productivity levels

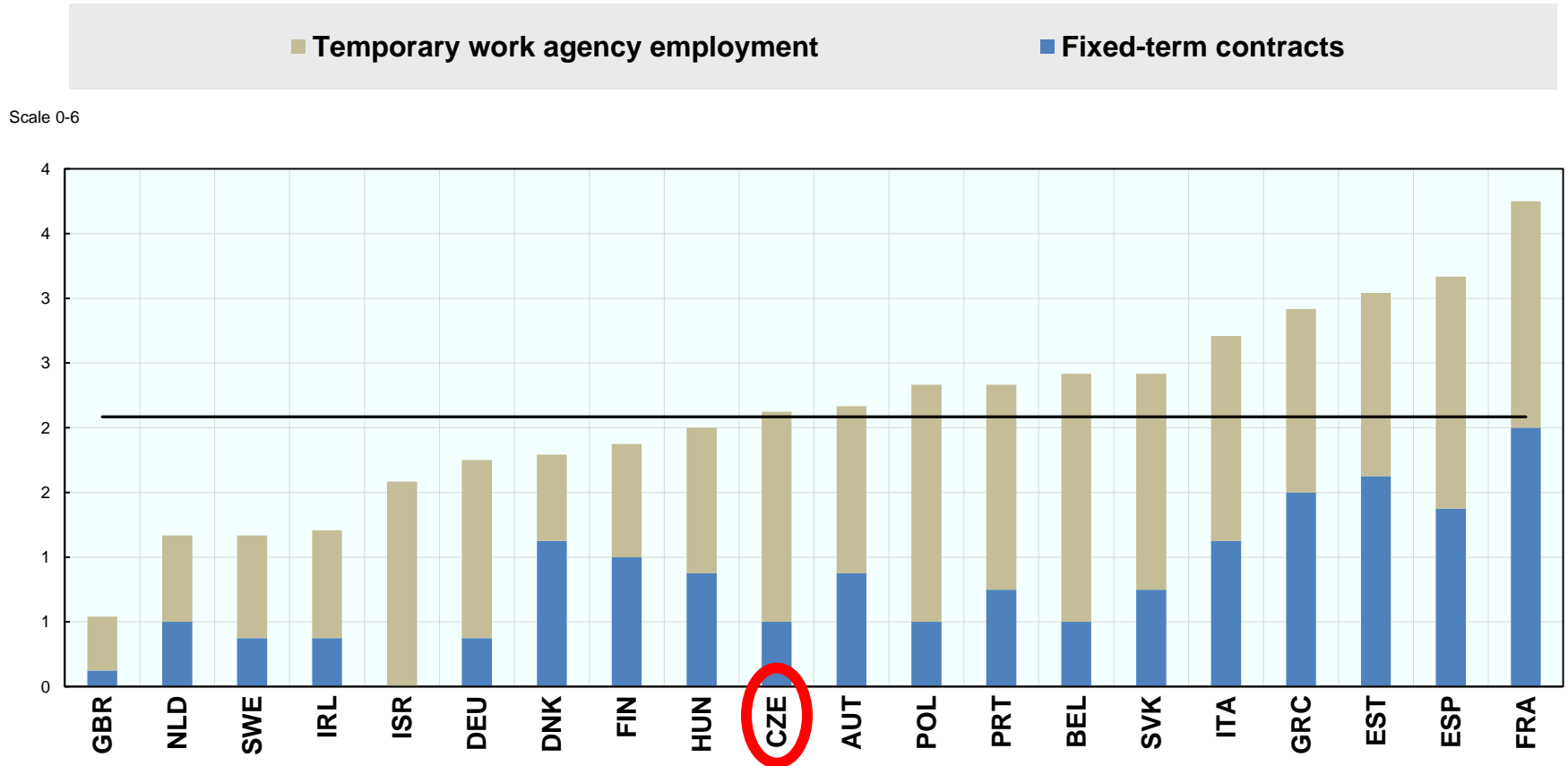Average of upper half of OECD countries = 100, 2012

1. Based on GDP per hour worked.

Source: OECD, *Productivity database.*

OECD, 2014

Regulation of temporary contracts

OECD, 2013

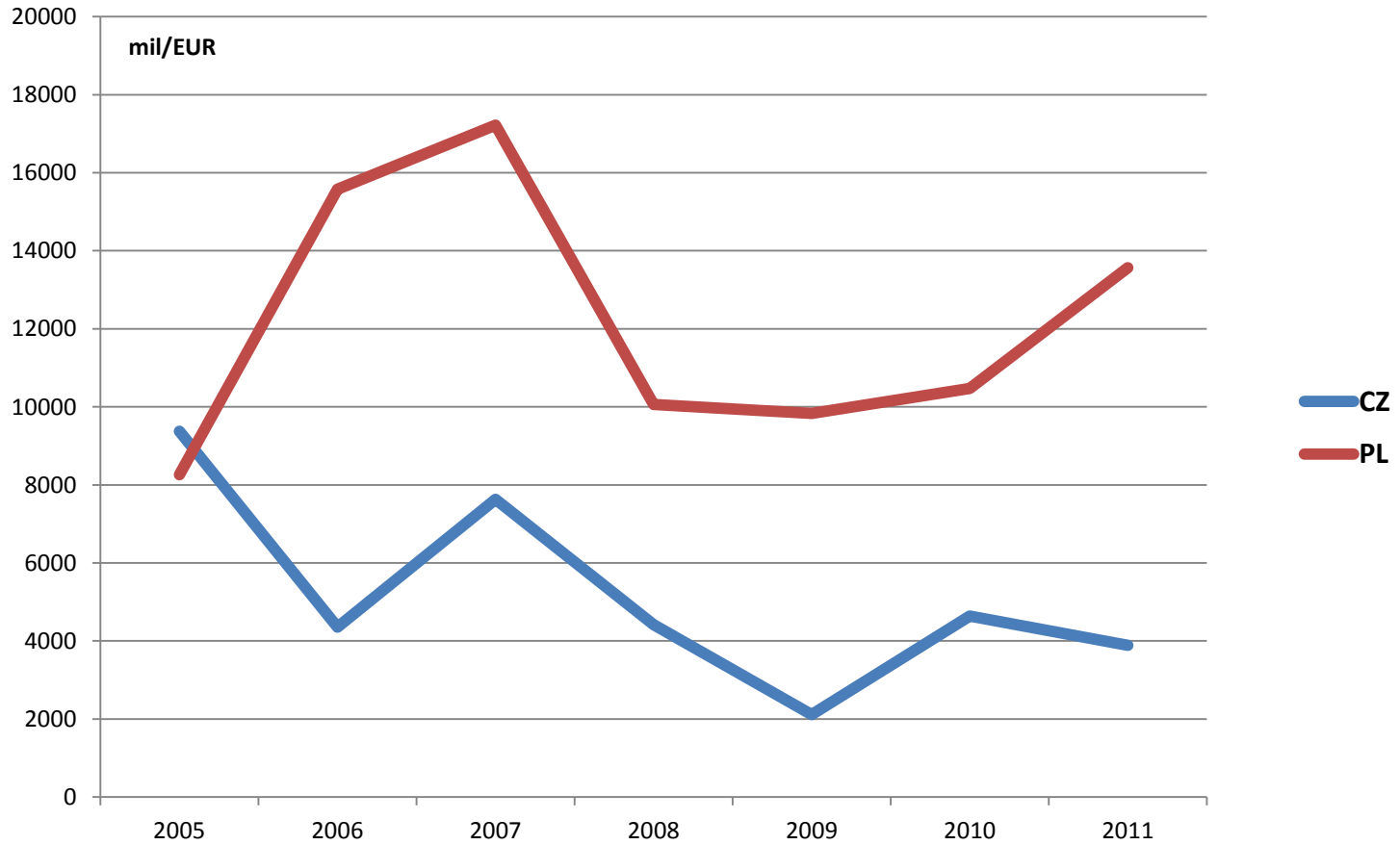Office of the Government of the Czech Republic

Challenges for the Czech Republic

- Stabilization and restoring trust in politics
- Stabilization of macroeconomic conditions
- Long-term sustainability of public finance
- Prevent cyclical unemployment
- Address social aspects of crisis
- Improve labour productivity
- Effective system of investment incentives

FDI STOCKS

ČNB, 2014

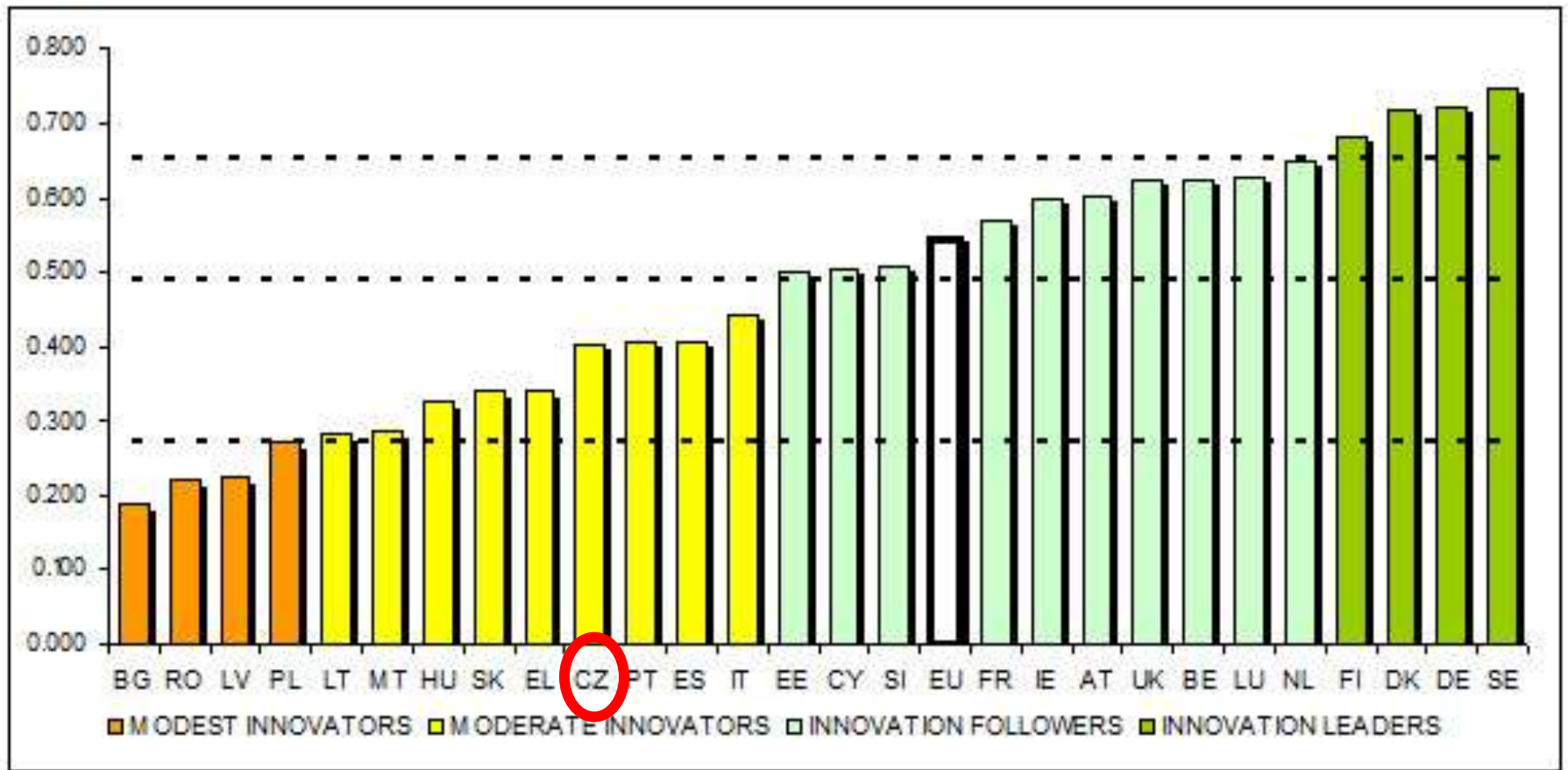Office of the Government of the Czech Republic

Challenges for the Czech Republic

- Stabilization and restoring trust in politics
- Stabilization of macroeconomic conditions
- Long-term sustainability of public finance
- Prevent cyclical unemployment
- Address social aspects of crisis
- Improve labour market flexibility
- Effective system of investment incentives
- Fostering innovative and dynamic entrepreneurship

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Innovation performance

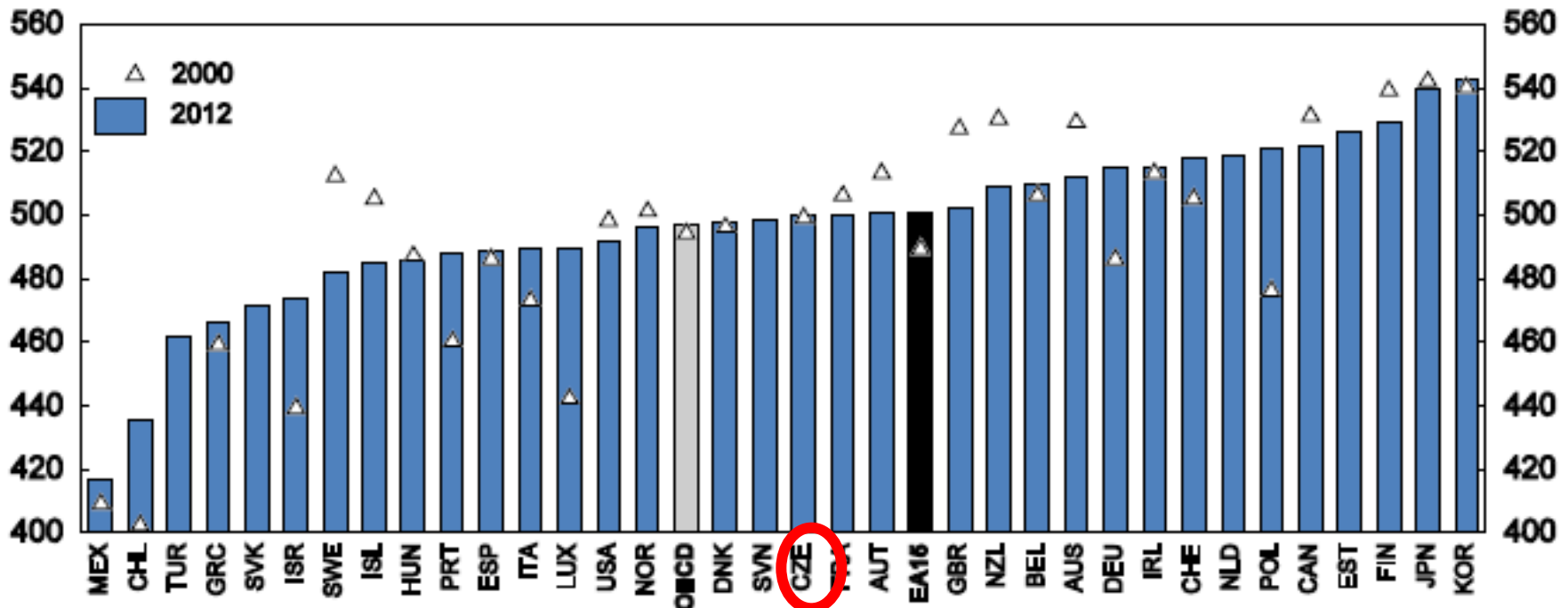Office of the Government of the Czech Republic

Challenges for the Czech Republic

- Stabilization and restoring trust in politics
- Stabilization of macroeconomic conditions
- Long-term sustainability of public finance
- Prevent cyclical unemployment
- Address social aspects of crisis
- Improve labour productivity
- Effective system of investment incentives
- Fostering innovative and dynamic entrepreneurship
- Enhancing education

Educational achievement

Average of PISA score in mathematics, reading and science

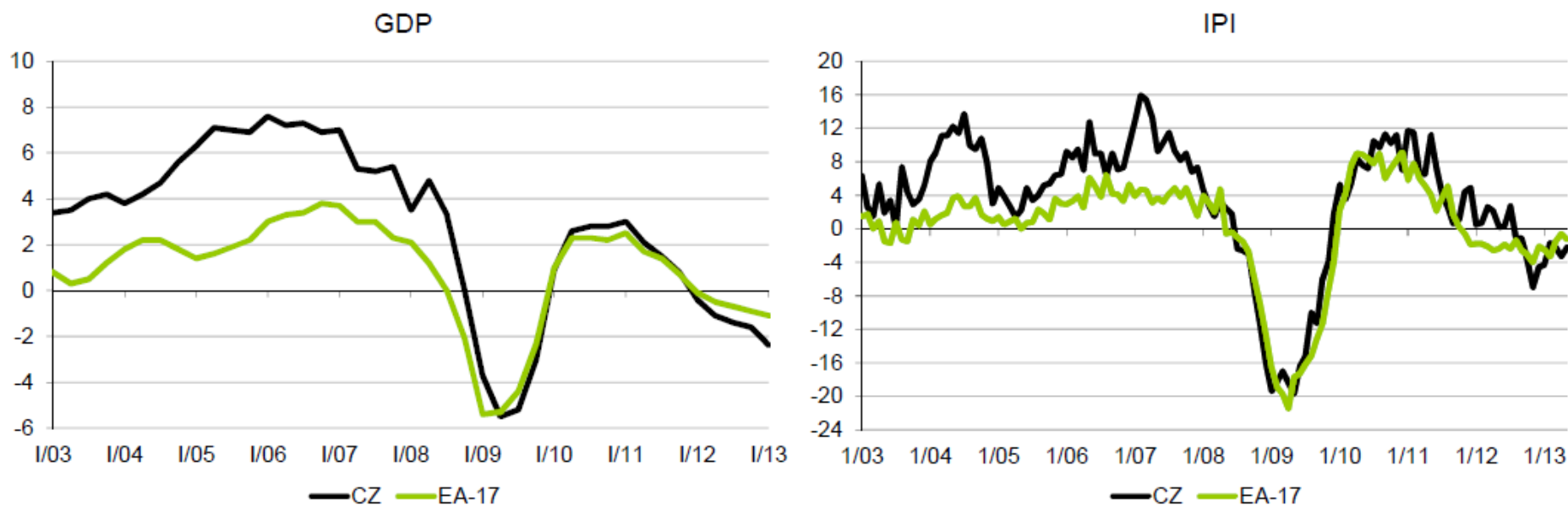Office of the Government of the Czech Republic

Challenges for the Czech Republic

- Stabilization and restoring trust in politics
- Stabilization of macroeconomic conditions
- Long-term sustainability of public finance
- Prevent cyclical unemployment
- Address social aspects of crisis
- Improve labor productivity
- Effective system of investment incentives
- Fostering innovative and dynamic entrepreneurship
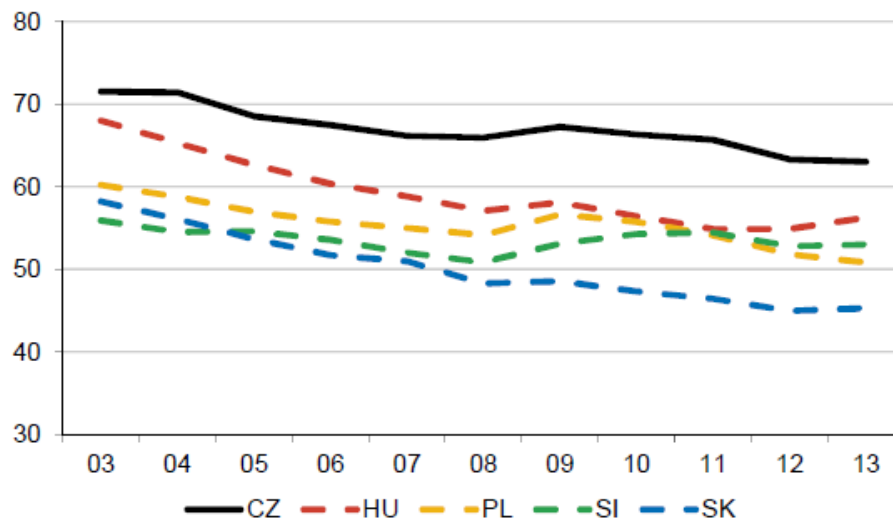- Enhancing education
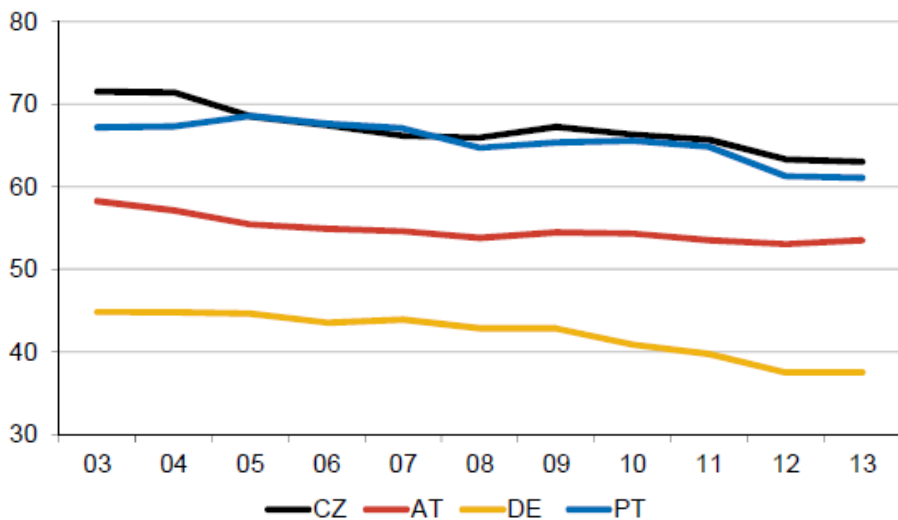- Economic dependency on the euro area

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Year-on-year changes in real GDP and in the industrial production index (%)

Source: Eurostat, CNB calculations.

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Shares of exports to the euro area in total exports (%)

Note: The preliminary value for 2013 was calculated from the data for the first seven months of 2013. Data are not available for Hungary and Poland for July 2013. The euro area is defined in its current composition (EA-17) over the entire period under review.

Source: Eurostat, CNB calculations.

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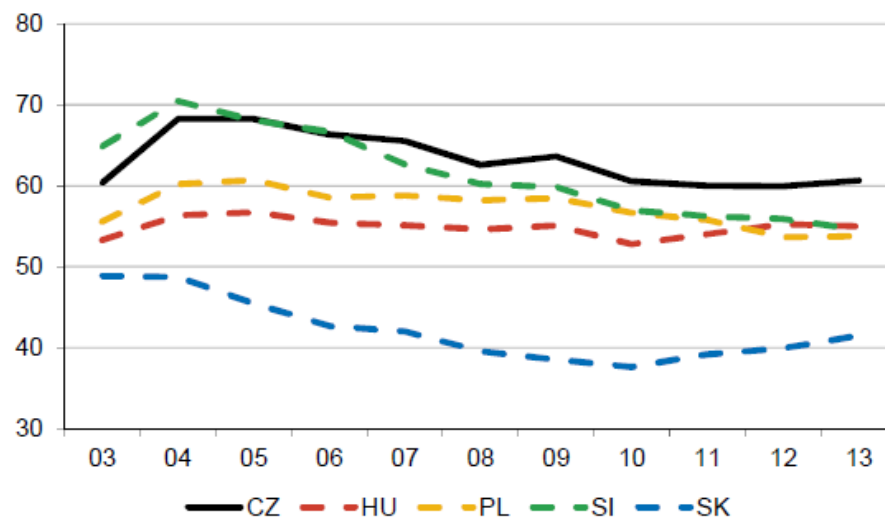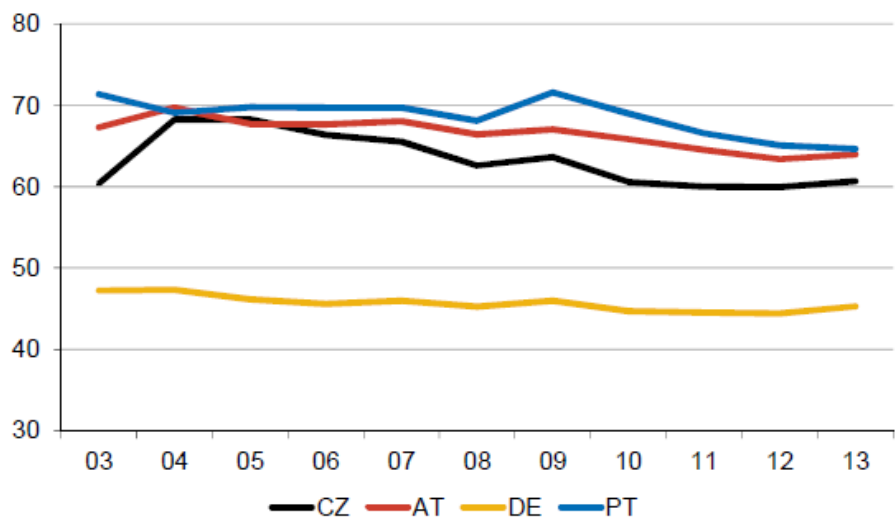# Shares of imports from the euro area in total imports (%)

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Source: Eurostat, CNB calculations.

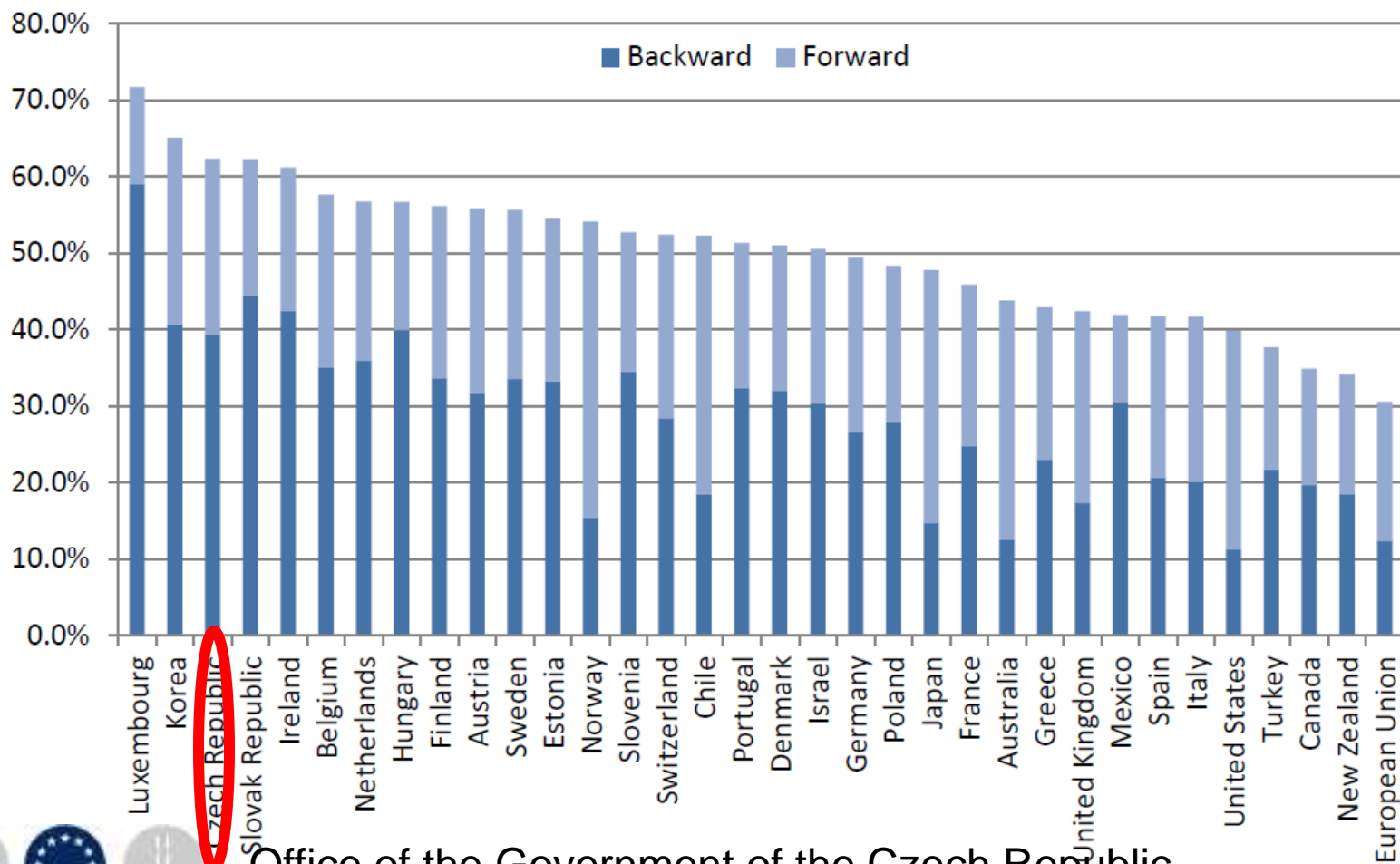Office of the Government of the Czech Republic

Challenges for the Czech Republic

- Stabilization and restoring trust in politics
- Stabilization of macroeconomic conditions
- Long-term sustainability of public finance
- Prevent cyclical unemployment
- Address social aspects of crisis
- Improve labor productivity
- Effective system of investment incentives
- Fostering innovative and dynamic entrepreneurship
- Enhancing education
- Economic dependency on the euro area
- Position in global economy

GVC participation index in OECD countries (2009)

Foreign inputs (backward participation) and domestically-produced inputs used in third countries' exports (forward participation), as a share of gross exports (%)


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Trade in Value Added

Total manufacturing
15T16: Food products, beverages and tobacco

17T19: Textiles, textile products, leather and footwear

20T22: Wood, paper, paper products, printing and publishing

23T26: Chemicals and non-metallic mineral products

27T28: Basic metals and fabricated metal products

29: Machinery and equipment, nec

30T33: Electrical and optical equipment

34T35: Transport equipment

36T37: Manufacturing nec; recycling

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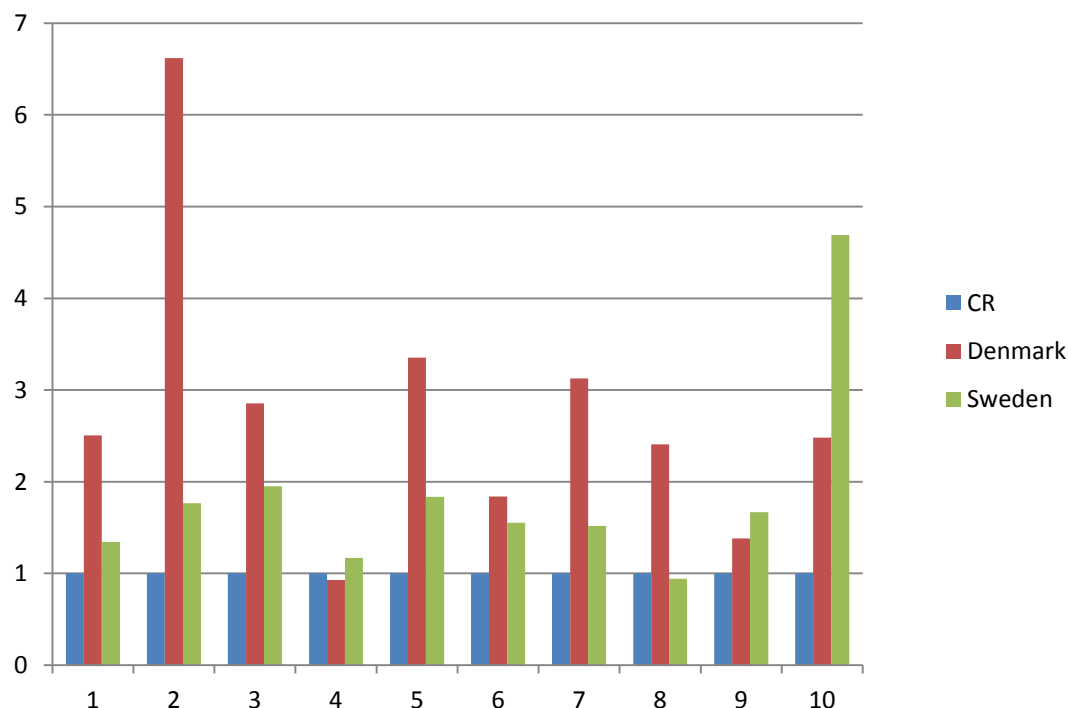
Strengthening growth in the long run?

What policy responses?

Trust building management

- Build mutual trust between the government and citizens; public administration and taxpayers
- Adopting Act on the Civil Service as the first step to improving **stability and effectiveness of public administration**
- Promote an active role of public administration: **prevent privatization of administration activities**
- Implementation of strict **anti-corruption measures** and prevent poor or illegitimate **public finance management**
- Improving **collection of taxes** and reducing tax evasion

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Vision and delivery

- Formulating a **long-term vision** of the Czech economic policy for turbulent times - address the necessary steps that can ensure the sustainable level of prosperity in years ahead.

- Avoid inefficient and short-term perception of the problems and look for **real and appropriate solutions**.

- Creating a central coordination body and establish system of **systematic implementations of reforms**.

- Play active role in European integration project. Become part of core of the EU and **support further integration of the internal market**.

Productivity

- Reduce unnecessary administrative burden. Simplify tax collection and ensure **stable and business friendly environment** (including infrastructure).

- Improve education system so that it will reflect the **needs of labor market**. Establish the funding system framework, which supports the **quality and relevance of education**.

- Enhance **cooperation of research institutions and private sector** by establishing a funding system reflecting needs of industry.

- Enhance programs improving **qualification of workers** according to the needs of labor market. Increase the capacity and competences of Labor Offices shifting towards active consultancy role.

- Reduce the poverty risks by improving **accessibility, quality and variability of social services**.

- Systematic approach to **investment** promotion system **that is more focused on value added and motivation for reinvestment**.

Thinking in global perspectives

- Link discussions about future of the Czech economy with analyses of global trends. This will lead to **systematic thinking and rational decision making in terms of economic heading** of the Czech Republic.

- Building a system and developing capabilities for **monitoring of world markets** and progress in the field of R&D and new high technologies.

- Identification of **key technology areas** for the future of the Czech Republic.

Foresight vs. Forecast
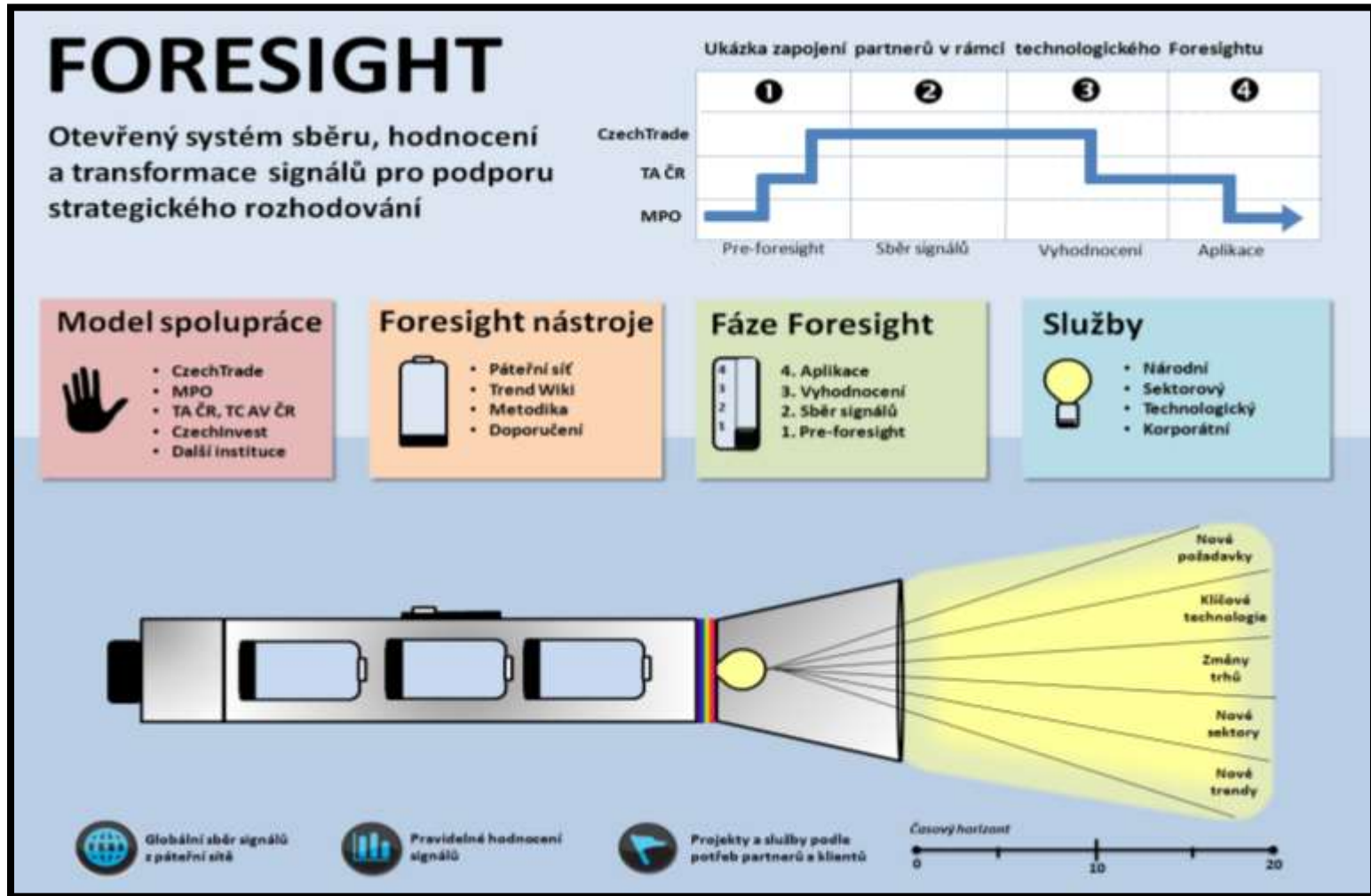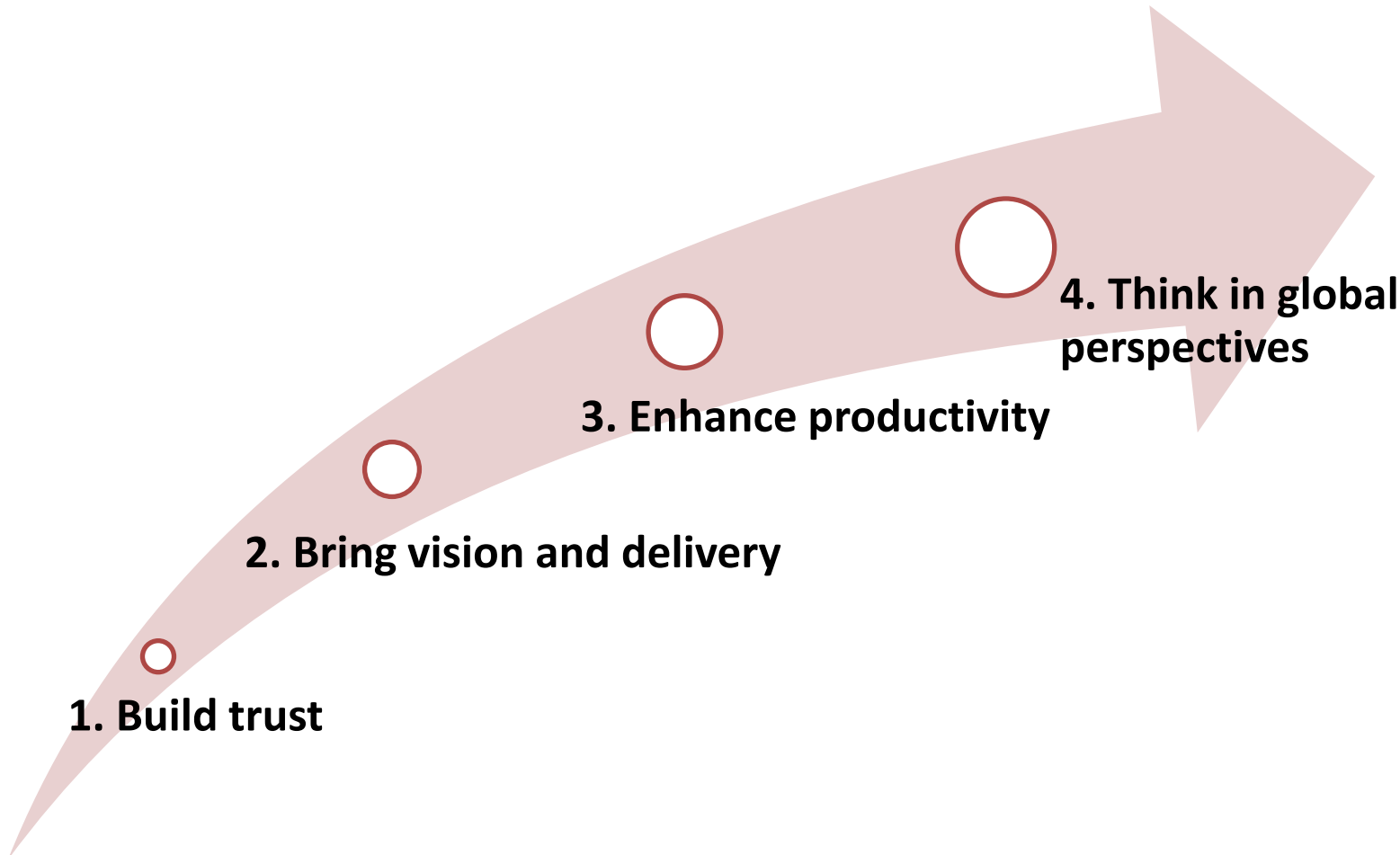
Towards new export policy
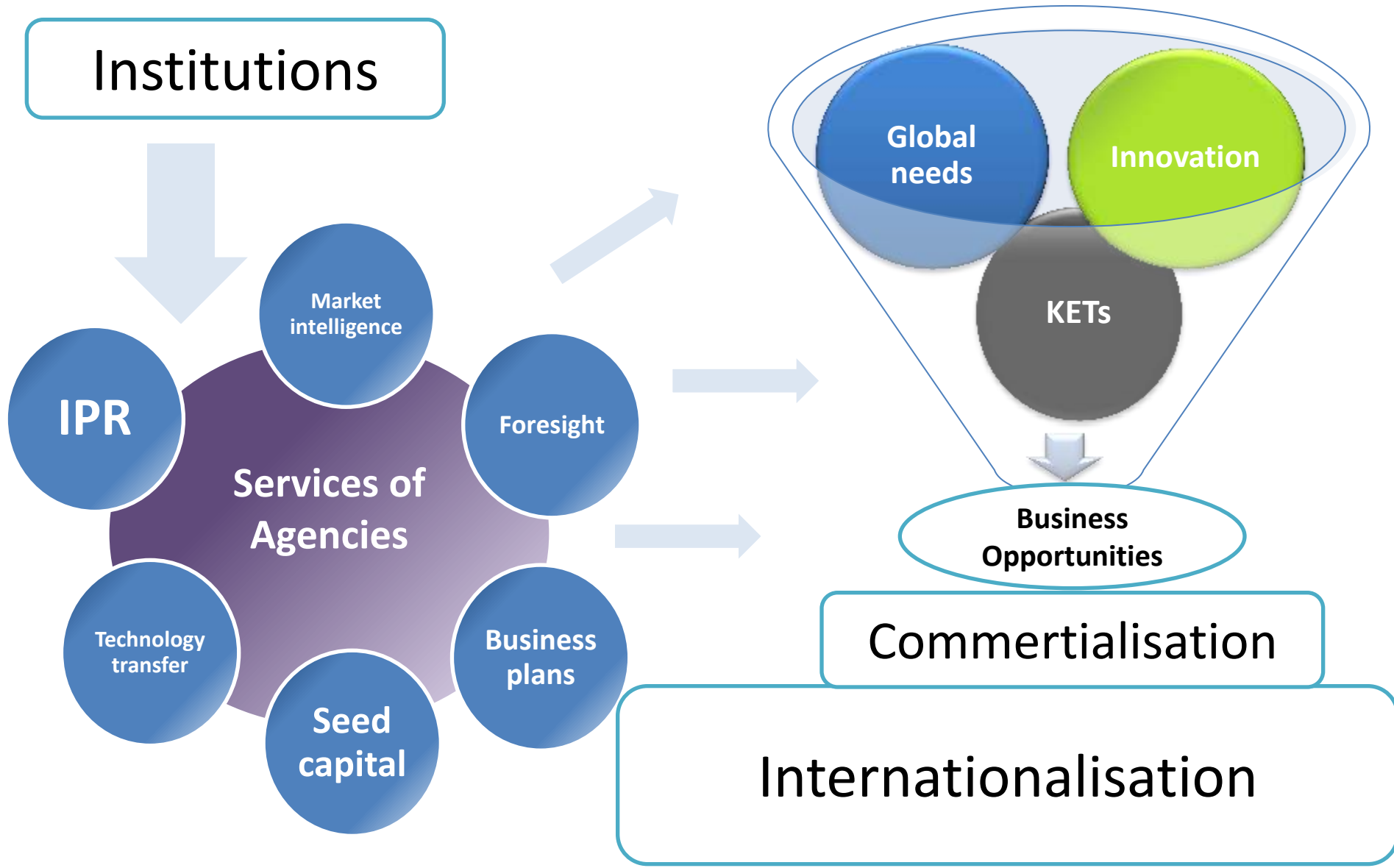
Foresight for growth

- **Foresight is the process of monitoring:**
  - global markets and
  - developments in R&D and technologies enabling the early identification of social, economic and technological trends.

- **Foresight services for public funding**
  - prioritizing public funding and support of innovation and R&D based on collected data.

- **Foresight services for exporters**
  - help domestic businesses identify perspective sectors for their activities in foreign markets;
  - enable companies to make better decisions regarding investment in innovation and respond to emerging opportunities;
  - strengthen their competitiveness and value added of their products and services.

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Policy Responses of the Czech Republic

1. Build trust

2. Bring vision and delivery

3. Enhance productivity

4. Think in global perspectives

Thank you for your attention!

Martin TLAPA

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