

TO IMPROVE WEF'S ESTIMATING ASIAN NATIONS' COMPETITIVENESS

by MEcon. CHU VĂN HIẾN

Vietnam is implementing its commitments to the ASEAN Free Trade Area (AFTA) and prepared for joining WTO. When its market is open to foreign companies, competitive capability is the only determinant to the success of enterprises and nations in the global business and production. As a result, to evaluate competitiveness of countries is an extremely important task.

The World Economic Forum (WEF) makes annual overall competitiveness rankings for countries over the world. In 2002, Vietnam ranked 65th among 80 countries. Countries in the WEF's global competitive report are ranked by the Growth Competitiveness Index (GCI) and the Microeconomic Competitiveness Index (MCI) which encapsulate the relative strengths and weaknesses of growth within each economy.

The Growth Competitiveness Index: It is based on three broad categories of variables that are found to drive economic growth in the medium and long term: technology, public institutions, and the macroeconomic environment. These drivers play a critical role at all stages of economic development. Without technological progress, countries may achieve a higher standard of living, for example, through a higher rate of capital accumulation, but they will not be able to enjoy continuously high economic growth. Institutions are crucial for their role in ensuring the protection of

property rights, the objective resolution of contract and other legal disputes, efficiency of government spending, and transparency in all levels of government. In the absence of

good governance, the division of labor is likely to be impeded and the allocation of resources inefficient. Monetary and fiscal policies, and the stability of financial institutions,

have important effects on short-term economic dynamics as well as on the long-term capacity to grow.

The Microeconomic Competitiveness Index:

Table 1: The GCI of selected Asian nations from 1998 to 2002

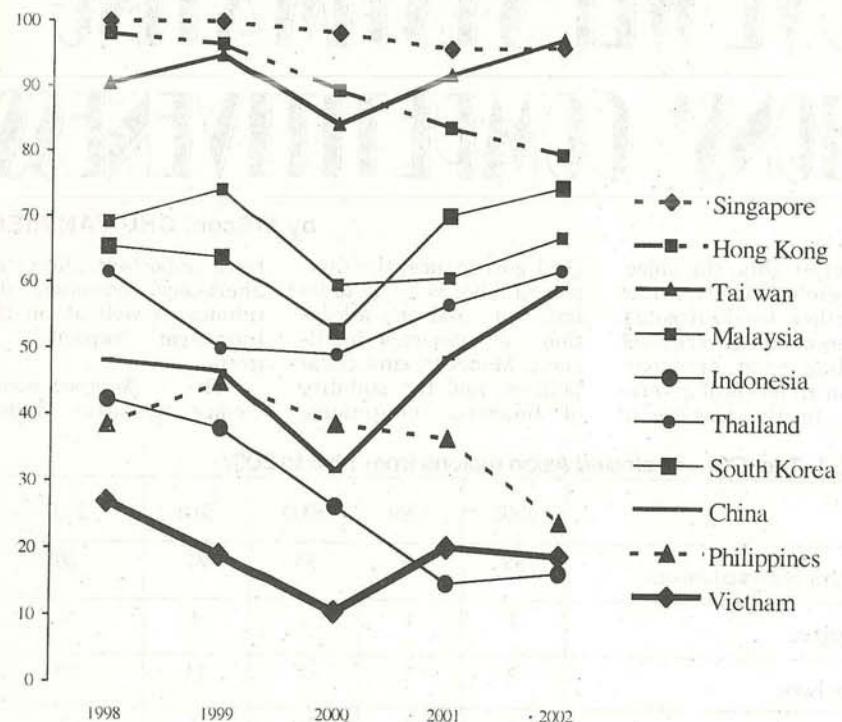
Year	1998	1999	2000	2001	2002
Number of ranked nations	53	59	58	75	80
Singapore	1	1	2	4	4
Hong Kong	2	3	7	13	17
Taiwan	6	4	10	7	3
Malaysia	17	16	24	30	27
Indonesia	31	37	43	64	67
Thailand	21	30	30	33	31
South Korea	19	22	28	23	21
China	28	32	40	39	33
Philippines	33	33	36	48	61
Vietnam	39	48	52	60	65

Source : <http://www.worldeconomicforum.org>

We change this table to the same frame of reference:

Year	1998	1999	2000	2001	2002
Singapore	100	100	98	96	96
Hong Kong	98	97	89	84	80
Taiwan	90	95	84	92	97
Malaysia	69	74	60	61	67
Indonesia	42	38	26	15	16
Thailand	62	50	49	57	62
South Korea	65	64	53	70	75
China	48	47	32	49	59
Philippines	38	45	39	36	24
Vietnam	27	19	11	20	19

Figure 1: The competitiveness of selected Asian nations from 1998 to 2002



Whereas the GCI strives to estimate the underlying conditions for growth over the medium term, the Microeconomic Competitiveness Index (MICI) examines the underlying conditions defining the sustainable level of produc-

tivity in each of the 80 countries covered in the report. Productivity and the creation of wealth are rooted in the sophistication of companies and operating practices as well as in the quality of the microeconomic business environment in which a na-

tion's firms compete. Accordingly, the MICI is composed of two subindexes: one that reflects the degree of company sophistication and another that mirrors the quality of national business environment.

These are two indicators determining the capacity of an enterprise in particular and each economy on the whole. However, the number of nations covered in the rankings is different over years. The determination whether a nation's competitiveness is higher or lower as compared to the previous year is thus not simple. For example, Vietnam's GCI was 60 among 75 nations covered in the report in 2001 and 65/80 in 2002, the concept of absolute and relative position is used to say that Vietnam is staying at the same position. Even the WEF uses the concept "ranking nations which were covered in the previous year's lists" to determine a nation's progressing or lagging. This method can make comparison in only two consecutive years but face difficulty in comparison for many years.

In order to estimate the competitiveness of nations in different periods and make direct comparison between nations' competitiveness, we use an approach which is easier to understand. It is to change the competitive indexes to the same frame of reference as follows:

- The frame of reference is the benchmark of 100

- A nation which ranks first will gain 100 marks and the lowest nation 0 mark.

The changing formula is:

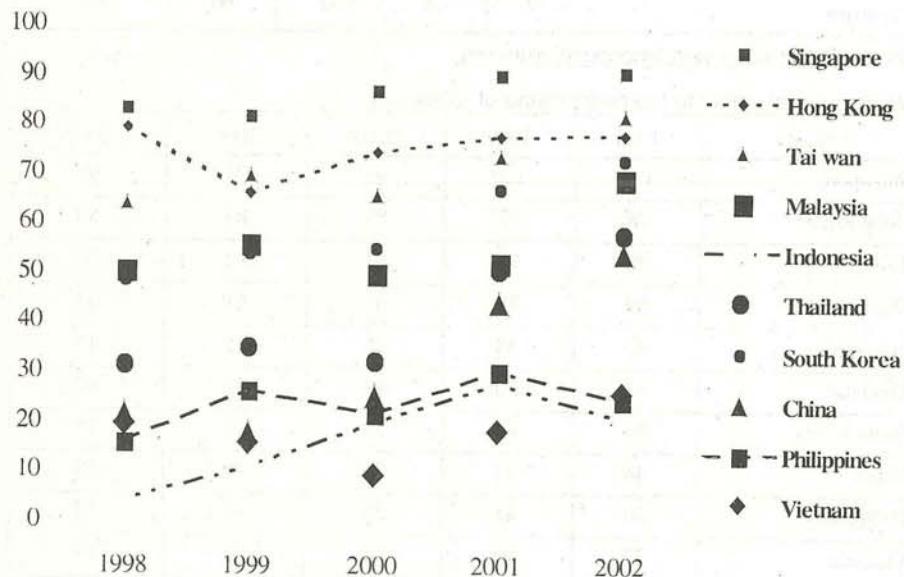
The gained mark = $[1 - (t-1)/(N-1)] * 100$ (this number is rounded)

Where t: the WEF's rank

N: total nations annually covered by WEF

The table shows China is growing very fast and Vietnam is lagging in comparison with the peak of 1998. In 2002 alone, Vietnam lagged slightly (lost one mark) and it did not change its position as concluded by using the relative analysis (increasing

Figure 2: Microeconomic competitiveness of selected Asian nations from 1998 to 2002



by 5 nations and dropping by 5 ranks, that is no change). This can be directly seen via the following figure:

The above figure indicates six nations on the rise of competitiveness include Taiwan, South Korea, Malaysia, Thailand, China and Vietnam. Among these countries, Vietnam stands at the lowest position and shows the trend of slowdown in the 2001-2002 period. In addition to Singapore which is competing with the U.S. for the top rank and other nations, three nations lagging dramatically include Hong Kong, Philippines, and Indonesia. They are also nations facing politi-

cal volatility which badly affect business environment.

We see Vietnam has increased its microeconomic competitiveness rather strongly and surpassed the peak of 1998. In 2002 it exceeded Indonesia and Philippines (although there is one more mark). This proves Vietnam's capability to escape the bottom rank.

The above figure reveals that most of nations have boosted their microeconomic competitiveness except Philippines, Indonesia and Hong Kong. The Microeconomic Competitive Index of Vietnam saw significant improvements from 2000, surpassing its



peak of 1998 and indexes of Indonesia and Philippines in 2002. However

the growth rate remained lower than that of China, Thailand, Malaysia...and the rank is much lower.

The WEF's annual competitive indexes can compare competitiveness between nations in the same period but cannot compare competitiveness of each nation and many nations in different periods and cannot display the rankings by charts.

Our method is to change absolute competitiveness indexes into relative ones in the same frame of reference. This method allows indicating relative competitiveness indexes on the same chart to make easier comparisons. This method can be also expanded to other cases of comparison.

In individual analysis, Vietnam's competitiveness is now improved though slowly. However in relation to other countries in the region, the country is lagging behind. This is an actual alarm to the Government and local businesses in the trend of global integration and competition. ■

REFERENCE:

1. www.worldeconomicforum.org
2. MEcon. Hồ Việt Tiến, "To Estimate Vietnam's Competitiveness in 2002," *Phát Triển Kinh Tế*, January 2003.

Table 2: Microeconomic competitiveness of selected Asian nations from 1998 to 2002

Year	1998	1999	2000	2001	2002
Number of ranked nations	53	59	58	75	80
Singapore	10	12	9	9	9
Hong Kong	12	21	16	18	19
Taiwan	20	19	21	21	16
Malaysia	27	27	30	37	26
Indonesia	51	53	47	55	64
Thailand	37	39	40	38	35
South Korea	28	28	27	26	23
China	42	49	44	43	38
Philippines	45	44	46	53	61
Vietnam	43	50	53	62	60

Source : <http://www.worldeconomicforum.org>

We change the above table to the same frame of reference as follows:

Year	1998	1999	2000	2001	2002
Singapore	83	81	86	89	90
Hong Kong	79	66	74	77	77
Taiwan	63	69	65	73	81
Malaysia	50	55	49	51	68
Indonesia	4	10	19	27	20
Thailand	31	34	32	50	57
South Korea	48	53	54	66	72
China	21	17	25	43	53
Philippines	15	26	21	30	24
Vietnam	19	16	9	18	25