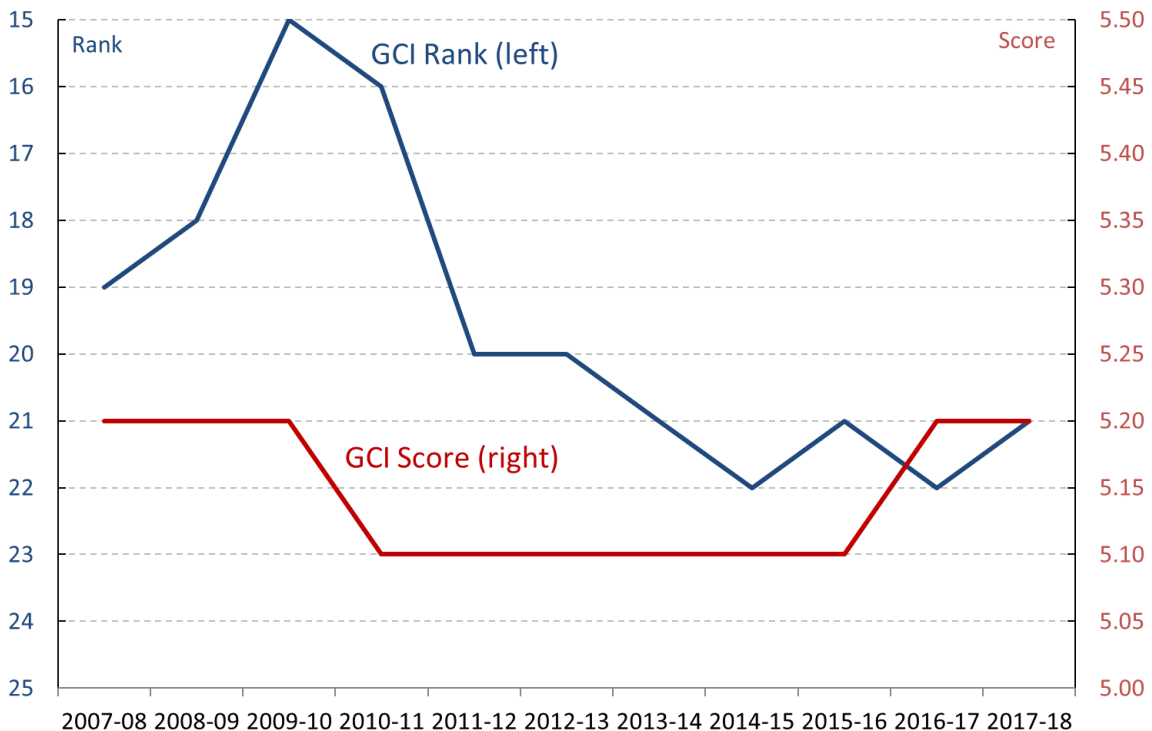


WEF GLOBAL COMPETITIVENESS REPORT 2017-18: SUMMARY OF AUSTRALIAN RESULTS. September 2017.

Key findings

- Australia ranked 21st most competitive business environment in 2017-18, up one place since 2016-17. Australia has ranked outside the top 20 countries since 2012-13 (see chart 1);
- Australia’s score and ranking for infrastructure and especially electricity and communications infrastructure deteriorated in 2017-18. Australia’s scores and rankings for several other key factors (including in the labour market and in supply chains) improved marginally;
- The most problematic factors for doing business in Australia in 2017-18 are still ‘restrictive labour regulations’ and ‘tax rates’. Concerns about the effects on business competitiveness arising from inadequate supply of infrastructure, policy instability and government instability became more pronounced in 2017-18 than they were one and two years ago.

Chart 1: Australia’s Global Competitiveness Index (GCI) score and ranking



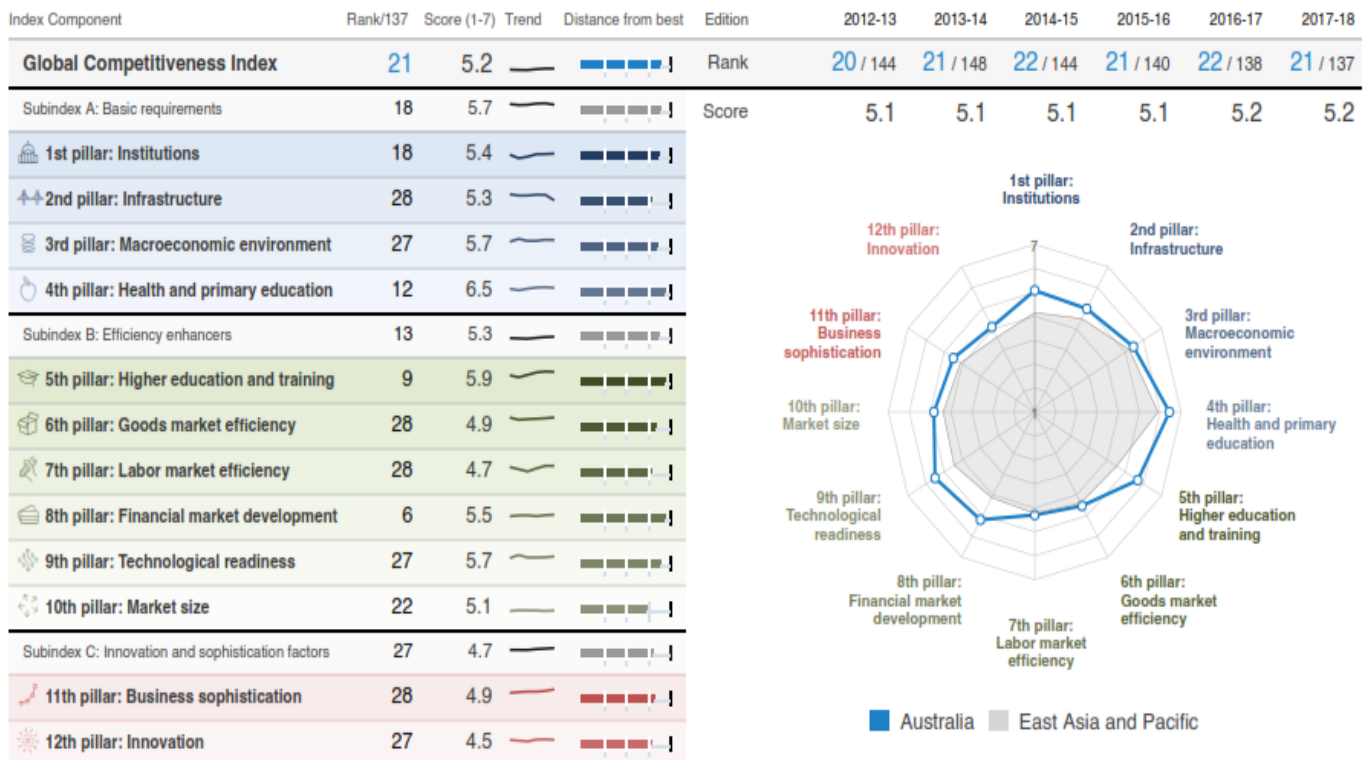
Australia’s competitiveness improves marginally in 2017-18

Australia’s ranking in the World Economic Forum’s (WEF) *Global Competitiveness Report* ticked up one place to 21st most competitive in 2017-18, out of 137 economies. Australia has ranked 21st or 22nd since 2013-14 and has ranked outside the top 20 countries since 2012-13 (chart 1).

Australia scored 5.2 points out of a possible 7 points in 2017-18, the same score as in 2016-17 and the same score as from 2007-8 to 2009-10. Australia scored 5.10 points from 2010-11 to 2015-16. This combination of a marginally better rank but a broadly stable score indicates Australia’s business environment is effectively standing still, while other nations improve (or deteriorate) around us.

Beneath this stable headline, this year’s WEF results indicate Australia’s performance deteriorated markedly in infrastructure (dropping from a score of 5.6 and a rank of 17th in 2016-17 to 5.3 to and 28th in 2017-18) due to worsening scores for communications infrastructure. This was balanced out by marginal improvements in a number of other key performance areas. Among the main ‘pillars’ in the WEF indexes, Australia continues to rank in the top 10 of global economies for only our financial markets (6th best) and higher education and training (9th best) (chart 2).

Chart 2: Australia’s GCI results 2017-18: the 3 sub-indexes and 12 ‘pillars’

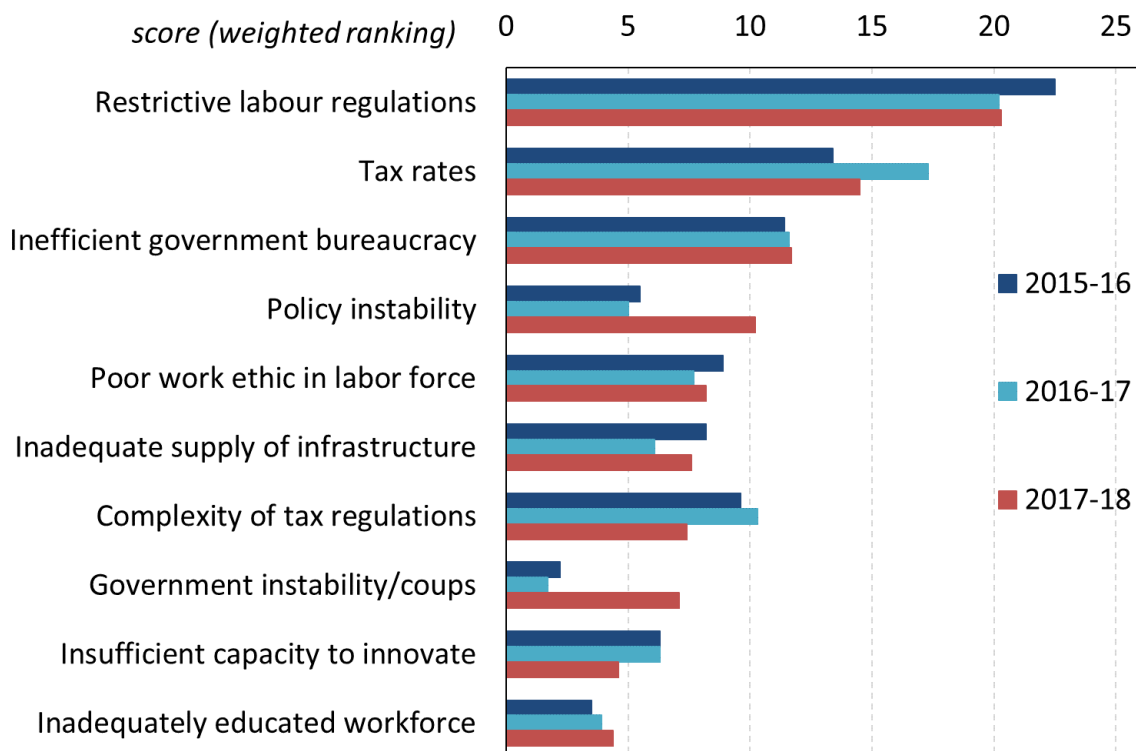


This year marked a significant shift in the factors identified as ‘problematic to doing business in Australia’. ‘Restrictive labour regulations’ and ‘tax rates’ were again identified as problems by more CEOs doing business in Australia than other factors, but there was a notable increase in concern about the impact of ‘inadequate supply of infrastructure’, ‘policy instability’ and ‘political instability’ on business competitiveness in 2017-18, compared to 2016-17 and previous years (chart 3).

Compared to earlier years, concerns have also become slightly more pronounced in 2017-18 (and in 2016-17) regarding problems of ‘poor work ethics’ and ‘inadequately educated workforce’, although these concerns still rank much lower than many other factors affecting competitiveness.

Concerns abated in 2017-18 regarding Australia’s ‘tax rates’ and the ‘complexity of tax regulations’. This might reflect the cut to the company tax rate for some (but not all) businesses in 2017 and reductions in payroll tax rates for some (but not all) businesses in some (but not) all states. Concerns about ‘insufficient capacity to innovate’ on the part of business and government also abated in 2017-18, relative to the previous two years.

Chart 3: Australia’s ‘most problematic factors for doing business’



* From this list of factors, respondents were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5 (least problematic). The score corresponds to the responses weighted according to their rankings.

The WEF role models: which countries are the most competitive in 2017-18?

Australia’s ranking of 21st most competitive economy in 2017-18 means we continue to lag behind most of our peers including Canada (14th), New Zealand (13th), Japan (9th), the UK (8th), the US (2nd) and Singapore (3rd). Australia’s largest trade partner, China, was ranked the 27th most competitive economy, up one place since 2016-17.

All of the countries in this year’s WEF top ten have been in the top ten for several years. The WEF’s Top Ten continues to be dominated by large highly advanced economies, including the US, Singapore the UK, Japan, Germany and Hong Kong, as well as smaller northern European economies such as Switzerland, The Netherlands, Finland and Sweden (see Table 1). These economies are not the cheapest locations of production globally. Instead, they share key competitive characteristics such as:

- very open and competitive trade access and facilities (including large and efficient ports);
- advanced manufacturing sectors and/or advanced manufacturing design and distribution;
- strong promotion of innovation, ICT, R&D and new technologies;
- very high education participation and quality standards; and
- strong and stable financial, legal and political systems.

Table 1: WEF Global Competitiveness Index (GCI) 2017-18: the Top 10

GCI Rank	Country	Basic requirements*	Efficiency enhancers **	Innovation and sophistication***
1	Switzerland	1	3	1
2	United States	25	1	2
3	Singapore	2	2	12
4	Netherlands	4	8	4
5	Germany	11	6	3
6	Hong Kong	3	4	18
7	Sweden	8	12	5
8	United Kingdom	23	5	9
9	Japan	21	10	6
10	Finland	9	11	8

* The ‘basic requirements’ sub-index (group of pillars and sub-indicators) is about institutions, infrastructure, macroeconomic environment, health and primary education.

** The ‘efficiency enhancers’ sub-index (group of pillars and sub-indicators) is about education, training, goods market efficiency, labour market efficiency, financial market development, technological readiness and market size.

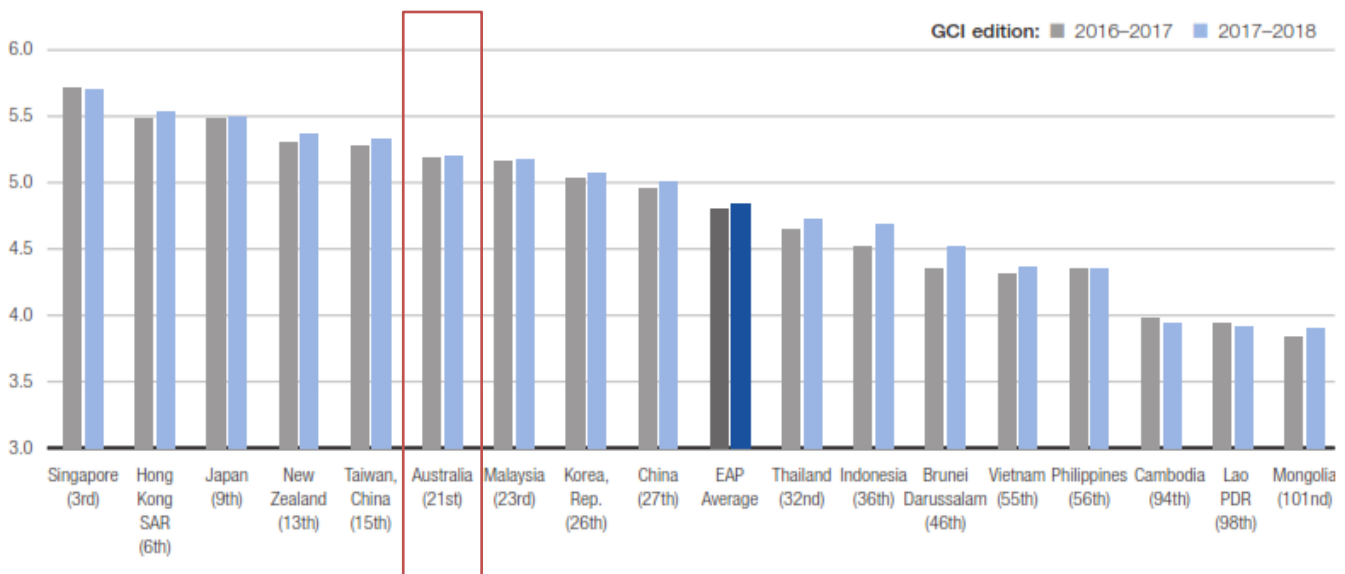
*** The ‘innovation and sophistication’ sub-index (group of pillars and sub-indicators) is about business sophistication and the ability of businesses and government to innovate.

See Appendix A and chart 5 below for structure and definitions of WEF GCI ‘pillars’, ‘sub-pillars’ and ‘sub-indexes’.

Also of note among the top economies, no single country has the highest score on every sub-index or even of every group of sub-indexes (called ‘pillars’ in the WEF reports). Instead, their relative scores and rankings indicate their respective areas of strengths and weaknesses. In 2017-18 for example, Switzerland ranks highest globally for its ability to innovate and the sophistication of its business environment, but the US is ranked highest for its ability to find and implement efficiency-enhancing measures for business. Singapore and Hong Kong score very highly on ‘basic requirements’ and ‘efficiency enhancers’ but are outside the top 10 with regard to innovation and business sophistication. In contrast, the US, the UK and Japan all score poorly on ‘basic requirements’ but are good at efficiency and innovation.

Within the East Asia and Pacific region in which Australia is physically located, Australia ranks above the average for this group of countries but lags behind five significant regional economies that are trade partners but also peers and competitors to Australia. Within this regional grouping, Australia’s total GCI score is a few notches below the regional leaders (Singapore, Hong Kong and Japan) and is on par with Malaysia (chart 4).

Chart 4: Global Competitiveness Index (GCI) scores for East Asia and Pacific economies, 2016-17 and 2017-18



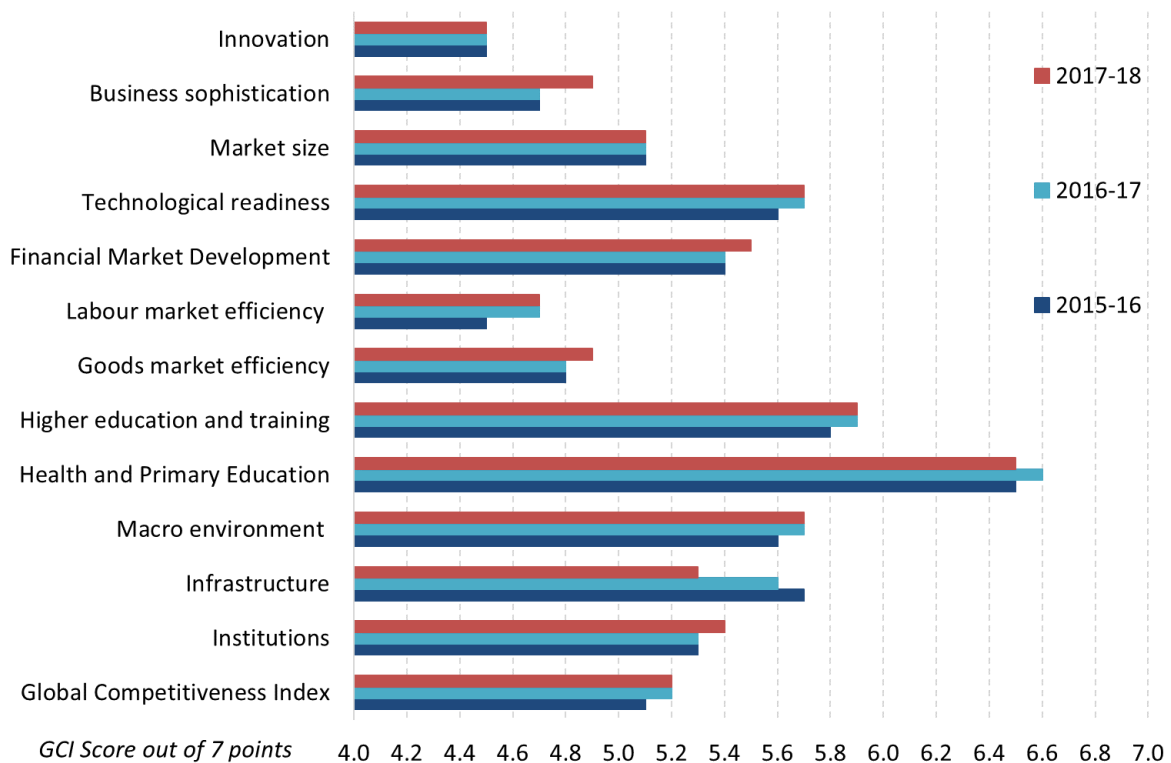
Australia’s competitive strengths and weaknesses

Each country’s score tends to provide a better indication of *absolute* performance over time than does the ranking, since the ranking is also affected by changes in the performance of other nations. The ranking provides a better indication of *relative* performance (see Appendix B below).

In 2017-18, Australia’s scores highest for ‘health and primary education’ (6.5 out of 7 points) followed by ‘higher education and training’ (5.9 out of 7 points) (see chart 5). In 2017-18 (as in previous years), Australia ranks in the top ten for only two of the twelve ‘pillars’ the WEF *Report*, higher education and training (9th) and financial market development (10th).

Australia scores lowest for ‘innovation’ (4.5 out of 7 points) and ‘labour market efficiency’ (4.7 out of 7 points), suggesting these are our areas of particular weakness. Australia ranks 27th or 28th for seven of the 12 pillars, indicating a broad range of areas of *relatively* poor performance. The more detailed sub-index scores and ranks shed light on how these poor scores could be improved.

Chart 5: Australia’s scores for the 12 GCI ‘pillars’, 2015-16 to 2017-18



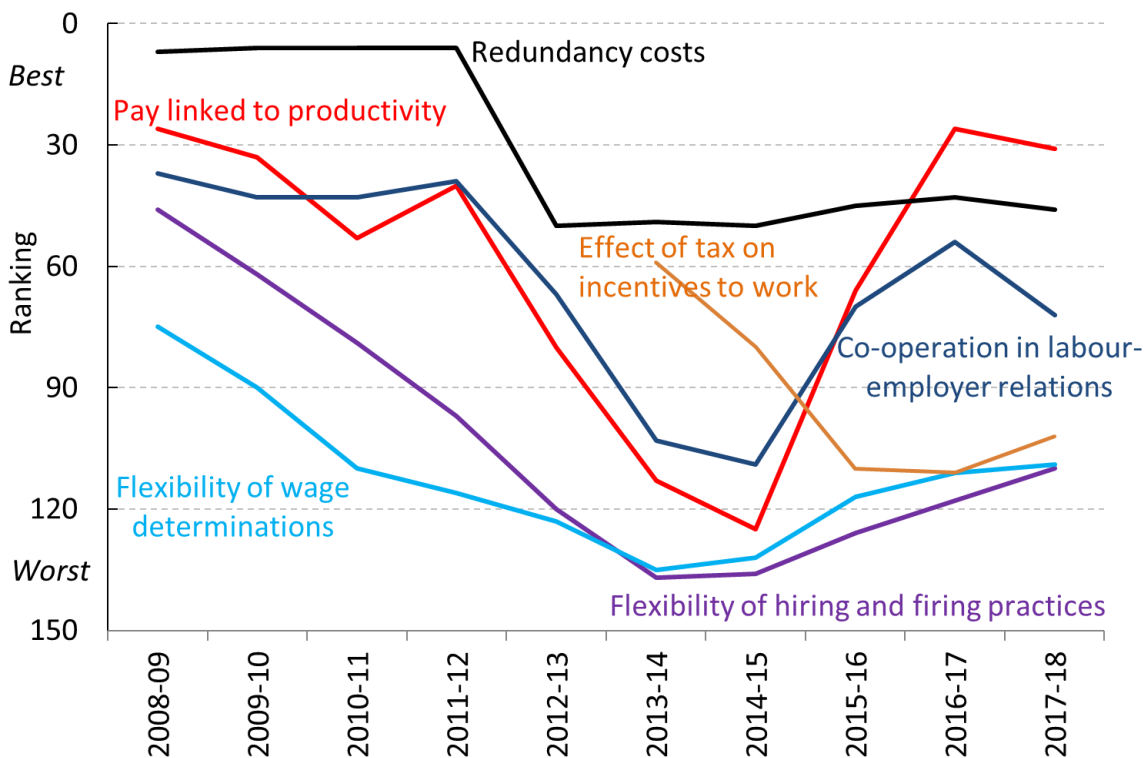
With regard to the ‘innovation’ pillar, Australia scores and ranks especially poorly for ‘government procurement of advanced technology products’ (a score of 3.3 out of 7 points and a rank of 71st) and ‘university-industry collaboration in R&D’ (a score of 4.3 points and a rank of 33rd). These scores were unchanged from 2016-17, indicating no improvement. The ranking for ‘government

procurement of advanced technology products slipped from 63rd to 71st however, indicating that other countries had improved on this index over the past year. Australia’s strengths with regard to ‘innovation’ are the ‘quality of scientific research institutions’ (a score of 5.7 out of 7 points and a rank of 10th) and the ‘availability of scientists and engineers’ (a score of 4.9 out of 7 points and a rank of 16th). This suggests governments and education institutions need to play a role in improving Australia’s innovation environment, as well as the business community.

With regard to the ‘labour market efficiency’ pillar, Australia continues to score and rank poorly in 2017-18 but is showing marginal improvement in three key sub-indexes (chart 6):

- the flexibility of ‘hiring and firing practices’ (a score of 3.2 out of 7 points and a rank of 110th, which was a small improvement from 3.1 points and 118th in 2016-17 and a second year of improvement),
- the ‘effect of taxation on incentives to work’ (a score of 3.4 out of 7 points and a rank of 102nd, up marginally from 3.2 points and 111th in 2016-17); and
- the ‘flexibility of wage determinations’ (a score of 4.4 out of 7 points and a rank of 109th, up marginally from 4.3 points and 111th in 2016-17), which reflects the strength of centralised wage setting versus decentralised workplace-based wage setting arrangements.

Chart 6: Australia’s ranking for labour market efficiency sub-indexes



The most noteworthy change in Australia's scores in 2017-18 was a deterioration in our 'infrastructure', with this pillar slipping markedly from a score of 5.6 out of 7 points a rank of 17th in 2016-17 to 5.3 points and 28th ranking in 2017-18 (chart 5).

This was due almost entirely to a deterioration in the score and ranking for Australia's 'quality of electricity supply', from 6.4 out of 7 points and a rank of 22nd in 2016-17 to 5.7 points and a rank of 44th in 2017-18. This electricity sub-index is calculated from International Energy Agency (IEA) data for electricity access and power transmission and distribution losses, as a share of the population and of total power output respectively. It does not reflect rising power prices in Australia over this period, which is a separate issue that is not captured in the WEF GCI sub-indexes.

There is also some slippage in the number of fixed telephone lines and mobile phone subscriptions per person in Australia in 2017-18. This might reflect migration to online communications services rather than an outright deterioration in services. Nevertheless, this reduction in both sub-indexes served to pull down Australia's 'infrastructure' score in 2017-18.

Australia's scores for some of the other 12 'pillars' indicate small but noteworthy changes in performance in 2017-18 (see chart 5). In 2017-18, the most notable changes were:

- an improvement in our 'institutions', due to small improvements across most sub-indexes. These indicated better performance in areas including IP protections, government efficiency and transparency, protections for boards, shareholders and investors. Australia already scored (and ranked) highly for the independence and efficacy of the judiciary and of boards;
- an improvement in our 'goods market efficiency', due to improvements in 'market dominance', 'anti-monopoly policy' and 'buyer sophistication';
- an improvement in our 'financial market development' due to improvements in access to local equity markets and the regulation of securities exchanges (already scored highly). Australia's weakness in financial markets remains access to venture capital (a score of 3.4 out of 7 points and a rank of 40th); and
- an improvement in our 'business sophistication' due to small improvements in 'cluster development' and 'value chain breadth', both of which indicate improved sophistication in the linkages and relationships between Australian businesses (within Australia and globally).

Appendix A: About the WEF *Global Competitiveness Report 2017-18*

The *Global Competitiveness Report 2017-18* is published by the World Economic Forum within the framework of the Global Competitiveness and Benchmarking Network. Research for the Report is conducted by the WEF and its network of over 160 Partner Institutes, which help administer the Executive Opinion Survey around the world. The Survey is used in conjunction with many other data sources in the production of this Report. Ai Group is the WEF's Partner Institute in Australia. Further information about the WEF, the *Global Competitiveness Report 2017-18* and the WEF's partner institutes is available at: www.weforum.org

Each country's productivity is the efficiency with which land, people, buildings and machines can be converted into goods and services. This is determined by a wide range of factors, such as the quality of a country's physical infrastructure, legal systems, education systems, business regulations and financial markets. Each country's competitiveness in the global arena is determined by its relative performance in each of these areas.

The World Economic Forum's (WEF) Global Competitiveness Report helps to quantify these factors that determine national productivity levels. It then benchmarks the relative competitiveness of countries around the world, based on these factors.

The 2017-18 WEF Global Competitiveness Report contains competitiveness indices for 137 countries (the number of countries included changes annually according to their status and data availability), made up of '12 pillars of productivity' (see Chart 7). These include:

- | | |
|----------------------------------|---------------------------------|
| 1. Institutions | 7. Labour market efficiency |
| 2. Infrastructure | 8. Financial market development |
| 3. Macroeconomic reform | 9. Technological readiness |
| 4. Health and primary education | 10. Market size |
| 5. Higher education and training | 11. Business sophistication |
| 6. Goods market efficiency | 12. Innovation |

The quality or scope of these 'pillars' is measured by indices that are constructed for each nation from a wide range of data sources. Data sources include the OECD, IMF and World Bank databases, national government data (such as the ABS in Australia) and private business surveys. All data sources are listed in the full report. The 'competitiveness' of each country is based partly on economic data and partly on the surveyed assessment of the global business community. It is not synonymous with a ranking of relative production costs or relative labour costs.

Many of the indicators included on the WEF Report also shed light on economic equality and inclusiveness (chart 8). Some suggested policy applications for the WEF data are listed below.

Chart 7: The WEF Global Competitiveness Index indicator framework

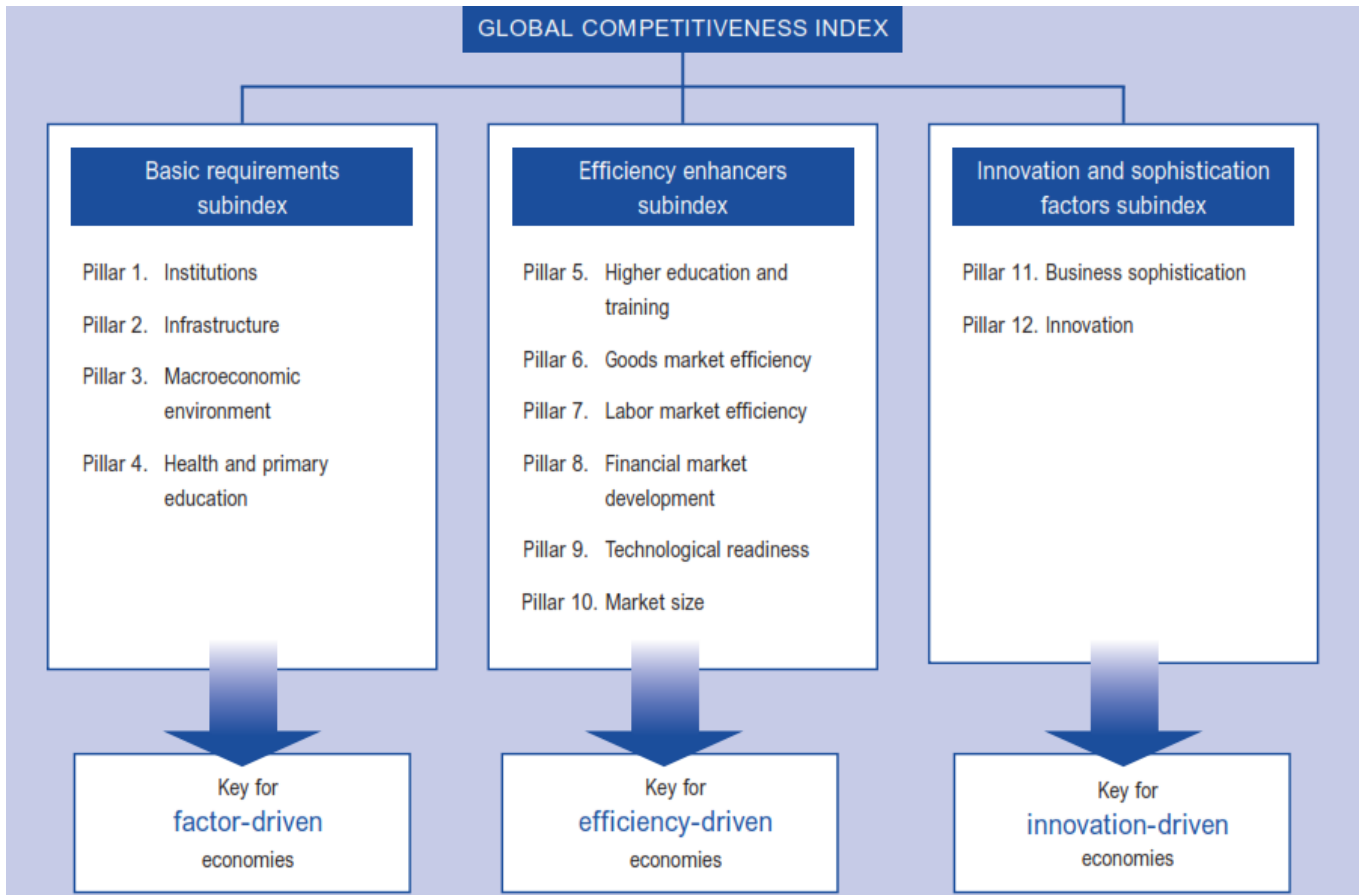
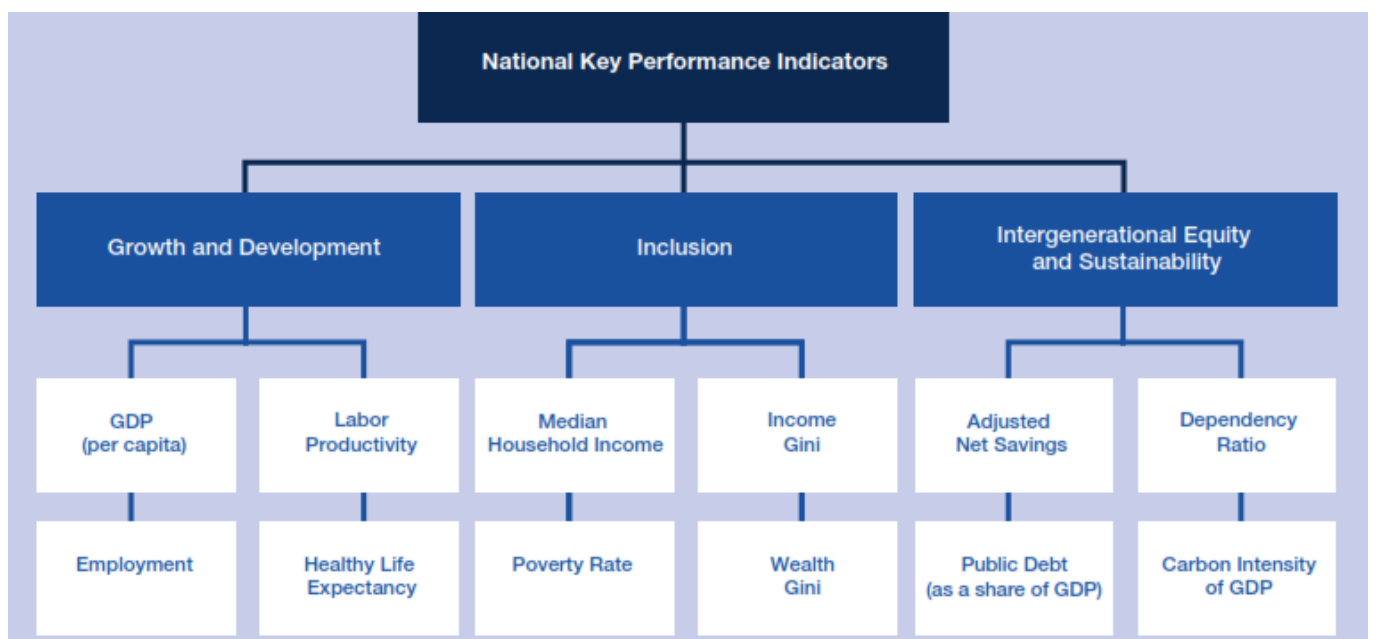


Chart 8: Key performance indicators for inclusive economic development



Appendix B: Using the WEF indicators to accelerate competitiveness policy

The Global Competitiveness Index (GCI) tracks over 100 indicators. By establishing a common framework and comparable data on an annual basis, the Report draws attention to the long-term determinants of productivity, growth, income levels, and well-being. The WEF recommends:

- **Look at scores not ranks.** The GCI measures all indicators on a 1–7 scale and aggregates. The ranking is useful to gauge relative performance, but the score is more informative for policy-making: is the economy improving? Are we making progress? The score is generally a better indication of the direction of change in an economy than its rank.
- **Target the aggregate pillars rather than individual indicators.** While individual indicators reflect important levers for boosting competitiveness, it is critical not to lose sight of the bigger picture as captured in the concepts that are defined in the pillars and subpillars. To make real progress, policies should target the aggregate concepts, subpillars, pillars, and subindexes.
- **Identify priorities.** An economy will make better progress if it advances simultaneously on all pillars. But governments and businesses have limited resources, so they must identify their priorities. The GCI helps to identify the most binding constraints, as a first step in the analysis.
- **Understand the drivers of competitiveness.** Detailed GCI scores can help policy-makers to identify the policies, actions, inactions, and external shocks that explain an economy's performance. These factors can be mapped to the GCI pillars, subpillars and subindexes to help evaluate and adjust the policies and programs that affect competitiveness.
- **Solve market failures.** The GCI can help to identify whether there is a role for government to enable the private sector to achieve an efficient outcome. Once the rationale for government action is identified—whether based on externalities, incomplete markets, information asymmetries, or coordination problems—the GCI can help to allocate scarce government resources toward the resolution of the market failure.
- **Public-private collaboration.** Market failures can be addressed more effectively if solutions emerge from an understanding between the public and the private sectors. The GCI can serve as a catalyst for collaboration by focusing on long-term objectives, which tend to highlight the potential gains for everyone rather than only short-term or sector-specific gains and costs.
- **Coordination.** Most policy areas require coordinated efforts between several government agencies as well as timely information and efforts on the part of the private sector. The GCI can be used to improve the coordination of information and achieve faster progress.
- **Institutional arrangements.** The GCI can be the starting point for a permanent institutional arrangement for identifying policy priorities, coordination, and action. National competitiveness systems with public and private participation have proved to be effective mechanisms to lead the design and implementation of competitiveness policy agendas.

Ai Group is the WEF's Partner Institute in Australia.

Further information about the WEF, the *Global Competitiveness Report 2017-18* and the WEF partner institutes is available at: www.weforum.org

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