

I GLOBAL COMPETITIVENESS REPORT 2007-2008

PHILIPPINES ADVANCES TO 71ST SPOT





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GLOBAL COMPETITIVENESS REPORT 2007-2008

PHILIPPINES ADVANCES TO 71ST SPOT

The Philippines continues to climb up the international competitiveness ladder at an accelerated pace in the last three years. A feat not to be dismissed considering that its GDP per capita in purchasing power parity dollars has fallen below average for the East Asia and Pacific region since 2001¹.

Competitiveness, as defined by the World Economic Forum (WEF), refers to the set of institutions, policies and factors that determine the level of productivity of a country, which in turn determines the sustainable level of prosperity that can be earned by an economy.

According to Forum's *Global Competitiveness Report 2007-2008*, the Philippines gained four steps, ascending to no. 71 out of 131 countries from no. 75 out of 122 countries in terms of the Global Competitiveness Index (GCI). Excluding the new countries participating in this year's survey, the Philippines actually rose eight steps up to No. 67. (see Table 1)

Here's how the WEF report assesses the country's prospects for sustained economic growth and long-term prosperity (see Table 4): "The Philippines, at 71st place, derives competitive advantage from its market size, where it ranks 24th in domestic market size and 25th in foreign market size. Compared with last year, the Philippines rose four places in the rankings (eight in a constant sample), driven largely by gains in the macroeconomic stability pillar, with a measured decrease in the inflation rate and interest rate spread, and lower government deficit and debt. But its overall competitive performance is dragged lower by its position in four key pillars: labor market efficiency, institutions, infrastructure, and health and primary education. On labor markets, the country is ranked 100th, with a severe brain drain problem, little flexibility for firms in wage determination, and excessively high firing costs, reducing the incentive for hiring. The country also receives poor assessments on the quality of its public and private institutions (ranked 95th), with high business costs of terrorism, low public trust of politicians, excessive red tape, and concerns related to the diversion of public funds and the wastefulness of government spending. The

quality of infrastructure is another major source of disadvantage, as the country receives poor marks for its transportation and communication infrastructure. Finally, the country's competitiveness would be enhanced by improving the health of the workforce, now ranked 95th, due to its poor performance on health indicators."

The report is based on both available quantitative statistics from international agencies and institutions as well as on qualitative data from an Executive Opinion Survey carried out among 11,000 business leaders from 131 participating countries.

Across the region, however, the GCI rank of other countries deteriorated. Thailand and Indonesia remained unchanged at no. 28 and 54, respectively. Taiwan fell one rank to no. 14. Hong Kong SAR and Malaysia both descended two ranks to no. 12 and no. 21, respectively. Vietnam and Cambodia also tumbled down four steps to no. 68 and no. 110, respectively. Timor-Leste descended seven rungs to no. 127. On the other hand, Singapore ascended one rank to no. 7. Korea remarkably jumped 12 places up to no. 11.

Table 1

GLOBAL COMPETITIVENESS INDEX RANKINGS

Selected Asian economies

	Out of 122* 2006	Out of 122 2007	Out of 131 2007	Change 2006-2007
Philippines	75	67	71	4
Taiwan	13	14	14	(1)
Singapore	8	7	7	1
Korea	23	11	11	12
Hong Kong SAR	10	12	12	(2)
Malaysia	19	21	21	(2)
Thailand	28	28	28	0
Vietnam	64	64	68	(4)
Indonesia	54	51	54	0
Cambodia	106	101	110	(4)
Timor Leste	120	118	127	(7)

Source: *The Global Competitiveness Report 2007-2008*, MBC Research
*based on revised methodology

TABLE 2

BUSINESS COMPETITIVENESS INDEX RANKINGS

Selected Asian economies

	Out of 111 2006	Out of 111 2007	Out of 127 2007	Change 2006-2007
Philippines	68	63	66	2
Taiwan	19	23	23	(4)
Singapore	10	9	9	1
Korea	24	19	19	5
Hong Kong SAR	12	12	12	0
Malaysia	23	21	21	2
Thailand	35	37	37	(2)
Vietnam	80	72	76	4
Indonesia	42	36	36	6

Source: The Global Competitiveness Report 2007-2008, MBC Research
* based on revised methodology

RACE SCORECARD

Introduced by Columbia University Professor Xavier Sala-i-Martin in 2004, the Global Competitiveness Index is composed of twelve pillars divided into three subindexes. The Basic Requirements Subindex covers four pillars: institutions, infrastructure, macroeconomic stability, as well as health and primary education. The Efficiency Enhancers Subindex is composed of the higher education and training, goods market, labor market, financial market sophistication, and market size pillars, and technological readiness. The Innovation Factors Subindex is comprised of business sophistication and innovation pillars.

For countries in the factor-driven stage of economic development² (with per capita GDP of below US\$2,000) such as the Philippines, the Basic Requirements Subindex carries a weight of 60% of GCI; Efficiency Enhancers, 35%; and Innovation Subindex, 5%. Other neighboring economies belonging to the same category, and having below regional aver-

age GDP per capita in purchasing power parity dollars are Indonesia, Cambodia, and Timor-Leste. Based on a scale of 1 to 7, where 1 represents the worst possible condition and 7 the best possible condition, the Philippines scored above average among factor driven-economies in almost all of the twelve pillars of competitiveness, except for institutions and labor market efficiency, where the country slightly performed below par.

Compared to the previous year, the Philippine overall GCI score went up 0.01 index points to 3.99 from 3.98. (see Table 4) Philippine scores also went up in nine pillars: institutions, infrastructure, macroeconomic stability, higher education and training, labor market efficiency, financial market sophistication, technological readiness, business sophistication, and innovation. The country's scores dropped in three pillars: health and primary education, goods market efficiency, and market size. Among the three GCI subindices, the Philippine scores rose in Efficiency Enhancers and Innovation Factors, but deteriorated in Basic Requirements, owing to the drop in score in health and primary education.

Country scores are ranked from the highest to the lowest. Compared to the previous year, the Philippine rank dropped in six pillars of competitiveness, rose in five pillars, and remained in one pillar. In the Basic Requirements Subindex, the Philippine rank went down six places to no. 93, on account of lower rankings in institutions and infrastructure. On the other hand, the Philippine rank remained at no. 60 in terms of the Efficiency Enhancers Subindex as drops in goods market

TABLE 3

BUSINESS COMPETITIVENESS INDEX RANKINGS

Philippines

	Out of 111 2006	Out of 111 2007	Out of 127 2007	Change 2006-2007
Business Competitiveness Index	68	63	66	2
Quality of the national business environment	74	69	73	1
Company operations and strategy	44	45	46	(2)

Sources: The Global Competitiveness Report 2007-2008; MBC Research

efficiency, technological readiness, and market size cancelled out the gains posted in higher education and training and financial market sophistication. With respect to the Innovation Factors Subindex, the Philippines gave up three ranks, landing at no. 65 since the losses in rank in business sophistication outweighed the gains in rank in innovation.

AN EVOLVING MEASURE

Comparing the 2007 ranking of GCI indicators with the results published in 2006 could mislead those who keep tabs on each country's competitiveness on account of changes in GCI methodology.

First, the twelve pillars of competitiveness are restored, splitting last year's market efficiency enhancers into the goods market efficiency, labor market efficiency, financial market sophistication, as well as market size pillars. Second, new indicators are introduced under GCI, such as expenditure on education as a percentage of Gross National Income, while certain indicators were dropped, in the recent survey such as the real effective exchange rate (RER). An undervalued exchange rate, though it benefits exports, hurts imports of capital goods, as well as competitiveness.

Third, the WEF now uses weighted moving averages for country scores based on Executive Opinion Survey data. For the Philippines, 2006 results have a weight of 49%, while 2007 results have a weight of 51%. Fourth, the weight of subindices for countries at the factor-driven stage of economic development is now heavily skewed towards Basic Requirements, to 60% from 50%. Efficiency Enhancers, weigh lighter at 35% from 40%. Innovation Factors contribute the least to GCI, down to 5% from 10%.

PORTER'S METRIC

One other measure presented by the WEF concerns the microeconomic foundations of productivity. Devel-

oped by Harvard University Professor Michael E. Porter, the Business Competitiveness Index (BCI) is based on 58 indicators strongly related to GDP per capita. BCI reflects the quality of the national business environment, the sophistication of operations of companies (both local and subsidiaries of multinationals), and the strength of clusters of related and supporting industries. These are all found in Porter's classic diamond framework of factor conditions, demand conditions, context for firm and rivalry, and supporting and related industries.

Out of 127 countries, the Philippines moved up two steps in terms of the BCI at no. 66 in 2007 from no. 68 out of 111 economies in 2006. Using the constant country sample for 2006, the Philippines even gained five ranks at no. 63. In terms of the National Business Environment Subindex, the Philippines stepped up to no. 73 from no. 74, and even up five places to no. 69 in a constant country sample. In terms of the Company Operations and Strategy Subindex, the Philippines dropped two places to no. 46 and just one rank to no. 45 in a constant county sample. (see Table 3)

Porter and two other Harvard economists, Christian Ketels and Mercedes Delgado also point out that governments have to refocus economic policies to microeconomic competitiveness, involving effective collaboration across agencies and with other companies and institutions through persuasion, incentives, and leadership. Since competitiveness is not a sprint but a marathon, long-term policy changes are needed to make a country prosperous.

Low-income countries at the factor-driven stage of development are challenged to move beyond competing solely on cheap labor/natural resources. Company attributes such as production process sophistication, extent of marketing, broad presence in the value chain, and reliance on professional management drive productivity.

Further, the Philippines is counted along with Indonesia, Argentina, Brazil, Nigeria, Venezuela, Korea, Italy,

TABLE 4

GLOBAL COMPETITIVENESS INDEX INDICATORS

	Weighted Moving Averages*				Change	
	2005-2006 (42% - 58%)		2006-2007 (49% - 51%)		2005-2007	
	Score/ Hard data	Rank/ 122 countries	Score/ Hard data	Rank/ 131 countries	Score/ Hard data	Rank
GLOBAL COMPETITIVENESS INDEX: Philippines	3.98	75	3.99	71	0.01	4.0
BASIC REQUIREMENTS (60%)	4.03	87	3.99	93	(0.04)	(6.0)
1st Pillar: Institutions (15.0%)	3.31	89	3.42	95	0.11	(6.0)
A. Public institutions (11.25%)						
1. Property rights (2.25%)						
1.01 Property rights (1.125%)	4.3	67	4.3	75	0.0	(8.0)
1.02 Intellectual property protection (1.125%) ^{1/2}	2.9	85	3.1	90	0.2	(5.0)
2. Ethics and corruption (2.25%)						
1.03 Diversion of public funds (1.125%)	2.3	112	2.5	116	0.2	(4.0)
1.04 Public trust of politicians (1.125%)	1.6	111	1.7	119	0.1	(8.0)
3. Undue influence (2.25%)						
1.05 Judicial independence (1.125%)	3.1	78	3.3	85	0.2	(7.0)
1.06 Favoritism in decisions of government officials (1.125%)	2.5	97	2.6	100	0.1	(3.0)
4. Government inefficiency (2.25%)						
1.07 Wastefulness of government spending (0.5625%)	2.4	107	2.6	109	0.2	(2.0)
1.08 Burden of government regulation (0.5625%)	2.4	106	2.5	117	0.1	(11.0)
1.09 Efficiency of legal framework (0.5625%)	3.0	87	3.1	94	0.1	(7.0)
1.10 Transparency of government policymaking (0.5625%) - new	3.8	74	4.0	69	0.2	5.0
5. Security (2.25%)						
1.11 Business costs of terrorism (0.5625%)	3.3	118	3.7	127	0.4	(9)
1.12 Business costs of crime and violence (0.5625%)	4.1	67	4.2	84	0.1	(17)
1.13 Organized crime (0.5625%)	4.1	84	4.3	95	0.2	(11)
1.14 Reliability of police services (0.5625%)	3.3	88	3.5	98	0.2	(10)
B. Private institutions (3.75%)						
1. Corporate ethics (1.875%)						
1.15 Ethical behavior of firms (1.875%)	3.6	90	3.5	109	(0.1)	(19)
2. Accountability (1.875%)						
1.16 Strength of auditing and reporting standards (0.625%)	4.9	55	5.0	58	0.1	(3)
1.17 Efficacy of corporate boards (0.625%)	4.4	69	4.7	57	0.3	12
1.18 Protection of minority shareholders' interests (0.625%)	4.6	52	4.7	51	0.1	1

	Weighted Moving Averages*				Change	
	2005-2006 (42% - 58%)		2006-2007 (49% - 51%)		2005-2007	
2nd Pillar: Infrastructure (15.0%)	2.64	88	2.70	94	0.06	(6)
A. General infrastructure (7.5%)						
2.01 Quality of overall infrastructure (7.5%)	2.6	89	2.6	101	0.0	(12)
B. Specific infrastructure (7.5%)						
2.02 Quality of roads (1.07%) - new	2.6	85	2.7	91	0.1	(6)
2.03 Quality of railroad infrastructure (1.07%)	2.6	93	1.7	90	(0.9)	3
2.04 Quality of port infrastructure (1.07%)	2.8	87	2.8	102	0.0	(15)
2.05 Quality of air transport infrastructure (1.07%)	4.1	76	4.1	82	0.0	(6)
2.06 Available seat kilometers (hard data) (1.07%) - new	n.a.	n.a.	593.6	30	n.a.	n.a.
2.07 Quality of electricity supply (1.07%)	3.9	80	4.1	80	0.2	0
2.08 Telephone lines (hard data) (1.07%)	4.2	97	4.0	104	(0.2)	(7)
3rd Pillar: Macroeconomic stability (15.0%)	4.62	81	4.70	77	0.12	4
3.01 Government surplus/deficit (hard data) (3.0%)	(1.9)	63	(1.0)	67	0.9	(4)
3.02 National savings rate (hard data) (3.0%)	18.7	71	9.5	79	(9.2)	(8)
3.03 Inflation (hard data) (3.0%)	7.6	89	6.2	83	(1.4)	6
3.04 Interest rate spread (hard data) (3.0%)	4.6	49	4.5	52	(0.1)	(3)
3.05 Government debt/GDP ratio (hard data) (2.083%)	66.9	76	64.2	95	(2.7)	(19)
4th Pillar: Health and primary education (15.0%)	5.57	90	5.16	86	(0.41)	4
A. Health (7.5%)						
4.01 Business impact of malaria (0.9375%)	5.6	83	5.7	85	0.1	(2)
4.02 Malaria incidence (hard data) (0.9375%)	54.6	83	54.6	91	0.0	(8)
4.03 Business impact of tuberculosis (0.9375%)	4.8	93	4.9	95	0.1	(2)
4.04 Tuberculosis incidence (hard data) (0.9375%)	463.3	104	291.2	116	172.1	(12)
4.05 Business impact of HIV/AIDS (0.9375%)	4.9	74	5.1	74	0.2	0
4.06 HIV prevalence (hard data) (0.9375%)	0.1	1	0.1	1	0.0	0
4.07 Infant mortality (hard data) (0.9375%)	26.0	75	26.0	81	0.0	(6)
4.08 Life expectancy at birth (hard data) (0.9375%)	68.0	78	68.0	85	0.0	(7)
B. Primary education (7.5%)						
4.09 Quality of primary education (3.125%) - new	2.4	98	3.1	84	0.7	14
4.10 Primary enrolment (hard data) (3.125%)	94	52	94	56	0.0	(4)
4.11 Education expenditure (hard data) ^{1/2} (1.25%) - new	n.a.	n.a.	2.8	96	n.a.	n.a.
EFFICIENCY ENHANCERS (35%)	3.94	60	4.03	60	0.09	0
5th Pillar: Higher education and training (5.83%)	3.86	65	4.02	62	0.25	3
A. Quantity of education (1.944%)						
5.01 Secondary enrollment ratio (hard data) (0.81%)	85.9	60	85.9	69	0.0	(9)

	Weighted Moving Averages*				Change	
	2005-2006 (42% - 58%)		2006-2007 (49% - 51%)		2005-2007	
5.02 Tertiary enrollment ratio (hard data) (0.81%)	29.0	60	28.8	63	(0.2)	(3)
4.11 Education expenditure (hard data) ^{1/2} (0.324%) - new	n.a.	n.a.	2.8	96	n.a.	n.a.
B. Quality of education (1.944%)						
5.03 Quality of the educational system (0.4861%)	3.4	66	3.8	54	0.4	12
5.04 Quality of math and science education (0.4861%)	2.6	111	2.9	109	0.3	2
5.05 Quality of management schools (0.4861%)	4.7	37	4.7	35	0.0	2
5.06 Internet access in schools (0.4861%)	3.6	61	3.5	58	(0.1)	3
C. On-the-job training (1.944%)						
5.07 Local availability of specialized research and training services (0.972%)	3.5	77	3.9	64	0.4	13
5.08 Extent of staff training (0.972%)	4.2	36	4.6	31	0.4	5
6th Pillar: Goods market efficiency (5.83%)	4.24	57	4.19	64	(0.05)	(7)
A. Competition (3.887%)						
1. Domestic competition (2.923%)						
6.01 Intensity of local competition (0.4872%)	5.0	50	5.0	57	0.0	(7)
6.02 Extent of market dominance (0.4872%) - new	3.2	n.a.	3.0	107	(0.2)	n.a.
6.03 Effectiveness of anti-monopoly policy (0.4872%)	3.5	78	3.6	78	0.1	0
6.04 Extent and effect of taxation (0.2436%) ^{1/2}	3.7	35	3.6	57	(0.1)	(22)
6.05 Total tax rate (0.2436%) (hard data) ^{1/2} - new	46.4	n.a.	53.0	88	n.a.	n.a.
6.06 Number of procedures required to (hard data) start a business (0.2436%)	11.0	70	11.0	85	0.0	(15)
6.07 Time required to start a business (0.2436%) (hard data)	48.0	80	48.0	95	0.0	(15)
6.08 Agricultural policy costs (0.4872%)	3.8	46	4.0	48	0.2	2
2. Foreign competition (0.964%)						
6.09 Prevalence of trade barriers (0.1607%)	4.7	48	4.6	63	(0.1)	(15)
6.10 Trade-weighted tariff rate (0.1607%) (hard data) - new	n.a.	n.a.	4.0	48	n.a.	n.a.
6.11 Prevalence of foreign ownership (0.1607%) - new	4.3	100	4.5	99	0.2	1
6.12 Business impact of rules on FDI (0.1607%) - new	4.8	77	4.7	92	(0.1)	(15)
6.13 Burden of customs procedures (0.1607%) - new	n.a.	n.a.	3.1	98	n.a.	n.a.
10.04 Imports as a percentage of GDP (hard data) (0.1607%)	47.1	54	48.3	57	1.2	(3)
B. Quality of demand conditions (1.943%)						
6.14 Degree of customer orientation (0.9715%)	4.8	43	4.9	51	0.1	(8)
6.15 Buyer sophistication (0.9715%)	4.4	46	4.1	52	(0.3)	(6)
7th Pillar: Labor market efficiency (5.83%)	3.85	100	4.05	100	0.20	0
A. Flexibility (2.915%)						
7.01 Cooperation in labor-employer relations (0.4164%)	4.1	86	4.5	69	0.4	17
7.02 Flexibility of wage determination (0.4164%)	4.3	99	4.2	109	(0.1)	(10)

	Weighted Moving Averages*				Change	
	2005-2006 (42% - 58%)		2006-2007 (49% - 51%)		2005-2007	
7.03 Non-wage labor costs (hard data) (0.4164%) - new	9.0	n.a.	8.5	25	(0.5)	n.a.
7.04 Rigidity of employment (hard data) (0.4164%) - new	45.0	n.a.	39.0	68	(6.0)	n.a.
7.05 Hiring and firing practices (0.4164%)	3.2	95	3.5	84	0.3	11
6.04 Extent and effect of taxation (0.2082%) ^{1/2}	3.7	35	3.6	57	(0.1)	(22)
6.05 Total tax rate (hard data) ^{1/2} (0.2082) - new	46.4	n.a.	53.0	88	6.6	n.a.
7.06 Firing costs (hard data) (0.4164%) - new	90.0	n.a.	91.0	107	1.0	n.a.
B. Efficient use of talent (2.915%)						
7.07 Pay and productivity (0.8501%)	3.9	63	4.6	39	0.7	24
7.08 Reliance on professional management (0.3643%) ^{1/2}	4.7	44	5.1	37	0.4	7
7.09 Brain drain (0.8501%)	2.2	111	2.3	118	0.1	(7)
7.10 Female participation in labor force (hard data) (0.8501%) - new	n.a.	n.a.	0.7	88	n.a.	n.a.
8th Pillar: Financial market sophistication (5.83%)	3.73	82	4.06	77	0.33	5
A. Efficiency (2.915%)						
8.01 Financial market sophistication (0.48583%)	4.0	60	4.2	63	0.2	(3)
8.02 Financing through local equity market (0.48583%)	5.7	37	5.2	43	(0.5)	(6)
8.03 Ease of access to loans (0.48583%)	2.8	72	2.9	81	0.1	(9)
8.04 Venture capital availability (0.48583%)	2.8	79	2.9	80	0.1	(1)
8.05 Restriction on capital flows (0.48583%) - new	n.a.	n.a.	4.6	77	n.a.	n.a.
8.06 Strength of investor protection (hard data) (0.48583%) - new	n.a.	n.a.	3.3	109	n.a.	n.a.
B. Trustworthiness and confidence (2.915%)						
8.07 Soundness of banks (0.9717%)	5.1	78	5.3	77	0.2	1
8.08 Regulation of securities exchanges (0.9717%) - new	n.a.	n.a.	4.8	58	n.a.	n.a.
8.09 Legal rights index (hard data) (0.9717%) new	n.a.	n.a.	3.0	94	n.a.	n.a.
9th Pillar: Technological Readiness (5.83%)	2.97	63	3.07	69	0.10	(6)
9.01 Availability of latest technologies (0.729%) - new	3.5	70	4.3	58	0.8	12
9.02 Firm-level technology absorption (0.729%)	4.7	53	4.9	52	0.2	1
9.03 Laws relating to ICT (0.729%)	4.0	49	3.9	56	(0.1)	(7)
9.04 FDI and technology transfer (0.729%)	5.1	42	5.0	57	(0.1)	(15)
9.05 Mobile telephone subscribers (hard data) (0.729%)	39.9	58	41.3	73	1.4	(15)
9.06 Internet users (hard data) (0.729%)	5.3	83	5.3	98	0.0	(15)
9.07 Personal computers (hard data) (0.729%)	4.5	77	4.5	82	0.0	(5)
9.08 Broadband internet users (hard data) (0.729%) - new	n.a.	n.a.	0.4	72	n.a.	n.a.
10th Pillar: Market size (5.83%)	4.99	23	4.77	24	(0.22)	(1)
A. Domestic market size index (4.3725%)						
10.01 Domestic market size index (hard data) - new	n.a.	n.a.	4.70	24	n.a.	n.a.
B. Foreign market size index (1.4575%)						
10.02 Foreign market size index (hard data) - new	n.a.	n.a.	5.10	25	n.a.	n.a.

	Weighted Moving Averages*				Change	
	2005-2006 (42% - 58%)		2006-2007 (49% - 51%)		2005-2007	
INNOVATION FACTORS (5%)	3.55	62	3.61	65	0.06	(3)
11th Pillar: Business Sophistication (2.5%)	4.14	50	4.20	55	0.06	(5)
A. Networks and supporting industries (1.25%)						
11.01 Local supplier quantity (0.4166%)	4.9	48	4.8	60	(0.1)	(12)
11.02 Local supplier quality (0.4166%)	4.4	56	4.5	60	0.1	(4)
11.03 State of cluster development (0.4166%) - restored	3.6	47	3.7	52	0.1	(5)
B. Sophistication of firms' operations and strategy (1.25%)						
11.04 Nature of competitive advantage (0.1934%)	3.0	86	3.2	82	0.2	4
11.05 Value-chain breadth (0.1934%)	4.2	36	4.1	39	(0.1)	(3)
11.06 Control of international distribution (0.1934%)	4.1	52	4.0	70	(0.1)	(18)
11.07 Production process sophistication (0.1934%)	3.1	82	3.2	82	0.1	0
11.08 Extent of marketing (0.1934%)	4.8	42	5.0	38	0.2	4
11.09 Willingness to delegate authority (0.1934%)	4.2	32	4.4	34	0.2	(2)
7.08 Reliance on professional management (0.0893%) ^{1/2}	4.7	44	5.1	37	0.4	7
12th Pillar: Innovation (2.5%)	2.97	83	3.03	79	0.06	4
12.01 Capacity for innovation (0.3348%)	3.1	67	3.1	60	0.0	7
12.02 Quality of scientific research institutions (0.3348%)	3.4	79	3.5	85	0.1	(6)
12.03 Company spending on research and development (0.3348%)	3.1	57	3.4	53	0.3	4
12.04 University-industry research collaboration (0.3348%)	2.9	73	3.1	67	0.2	6
12.05 Government procurement of advanced technology products (0.3348%)	3.4	90	3.2	100	(0.2)	(10)
12.06 Availability of scientists and engineers (0.3348%)	4.0	83	3.9	95	(0.1)	(12)
12.07 Utility patents (hard data) (0.3348%)	0.2	63	0.4	64	0.2	(1)
1.02 Intellectual property protection (0.1562%) ^{1/2}	2.9	85	3.1	90	0.2	(5)

Note: Scores are based on a 7-point scale; Weights of scores are inside parentheses.
Sources: World Economic Forum; World Bank-International Finance Corporation; Makati Business Club Research
*except for hard data

and Japan, where the business environments are rated worse than expected given the sophistication of their companies.

Although the wage gap in the country remains stable over time, it is considered higher than justified by competitiveness. The Philippines is also grouped with Denmark, Netherlands, Singapore, the United Kingdom, Hong Kong, Costa, Rica, Panama, and Croatia in terms of locations that benefit most from access to global waterways.

DULL EDGES

For five straight years in a row, corruption has remained the top problem for doing business in the Philippines. It is also the biggest obstacle in doing business currently faced by senior business executives in Vietnam and Cambodia according to senior business executives in the two countries.

A Corruption Subindex ranking generated by MBC Research using weighted moving average data from the World Economic Forum's Executive Opinion Survey

from 2005 to 2007, shows that, for the past two years, the Philippines actually scores and ranks higher than Vietnam, Timor Leste, Indonesia, and Cambodia in terms of combined business perception on irregular payments on imports and exports, public utilities, and tax collection. This is despite our country's two step drop to 111 out of 131 countries in 2007 from 109 out of 130 countries in 2006. Counting from the bottom, the Philippines even improved its standing in the list of the most corrupt countries to 22nd place from 17th place. As a component of the Growth Competitiveness Index phased out last year, WEF's Corruption Subindex was also used by Transparency International as one of its bases in deriving the composite Corruption Perception Index for the Philippines from 2001 to 2006.

WEF's recent report also identifies the other top problematic factors in doing business in the Philippines in the past two years, as follows: inadequate supply of infrastructure, policy instability, inefficient government bureaucracy, and government instability/coups. These problems echo the need to address competitive disadvantages in the country's institutions and infrastructure pillars, which belong to the Basic Requirements Subindex under the flagship Global Competitiveness Index.

For the country to significantly raise its standing in the race and attract foreign direct investments, prompt measures must be taken up by the joint public-private sector National Competitiveness Council, particularly in four of its eight working groups, namely, on Seamless Infrastructure Network, Energy Cost Competitiveness and Sufficiency, Ombudsman/Judiciary, and Legislature.

WEF AND MBC

The Geneva-based World Economic Forum is an independent non-stock, non-profit, non-partisan international organization incorporated in 1971, committed to improving the state of the world by engaging leaders in partnerships to shape global, regional, and industry agendas. The WEF has pioneered ranking on international competitiveness since 1979. Its Global Competitive-

ness Network publications include the flagship *Global Competitiveness Report*, *Global IT Report*, *Travel and Tourism Competitiveness Report*, and *Global Gender Gap Report*. Its *Capital Market Competitiveness Report* will be launched in 2008.

The *Global Competitiveness Report* is widely recognized as the world's leading cross-country comparison of factors affecting economic competitiveness and growth. It is a unique benchmarking tool for businesses in developing business strategies and guiding business decisions, for governments in identifying obstacles to economic growth and assisting in the design of better economic policies, for the academe in analyzing an economy's current business environment and comparing against other economies, and for civil society organizations in learning more about how their country's competitiveness condition fares against that of others.

WEF included the Philippines in its international competitiveness scoreboard since 1994 with the Makati Business Club as its partner institute for the Philippines. MBC has administered the conduct of the annual WEF Executive Opinion Survey and has provided hard data on the country that are not available from international agencies and institutions. MBC Research analyzes the annual results of WEF rankings on the Philippines in the *MBC Research Report*.

NOTES

¹ Porter, M.E., X. Sala-I-Martin, and K Schwab, *The Global Competitiveness Report 2007-2008*, Geneva: Palgrave MacMillan. 286.

² According to Michael Porter, countries in the first stage of economic development compete based on their factor endowments, primarily unskilled labor and natural resources. Furthermore, companies also compete on the basis of price and sell basic products or commodities, with their low productivity reflected in low wages. Competitiveness is maintained through well-functioning public and private institutions, appropriate infrastructure, a stable macroeconomic framework, and a healthy and literate workforce.

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