

## Linah K Mohohlo: The World Economic Forum 2011/12 Global Competitiveness Report

Remarks by Ms Linah K Mohohlo, Governor of the Bank of Botswana, at the National Launch of the World Economic Forum 2011/12 Global Competitiveness Report, Gaborone, 7 September 2011.

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It is an honour and privilege for me to be an integral part of the launch of the *Global Competitiveness Report* for the period 2011/12, as compiled by the World Economic Forum (WEF), in cooperation with national stakeholders. For Botswana, the launch is spearheaded by the Botswana National Productivity Centre (BNPC), which has the responsibility not only for conducting the Executive Opinion Survey that provides much of the data, but also for organising the national launch, more or less in tandem with global launches. I would like to take this opportunity to commend the BNPC, for successfully hosting this annual event for several years. As a matter of fact, on this occasion, BNPC has broadened the scope of activities by convening a workshop.

Distinguished Ladies and Gentlemen: You will know that Botswana is cited as one of the most competitive economies in Africa, but, as I will outline shortly, this year's Report makes sobering reading, given the worrying indications that previous advantages continue to be eroded as we are failing to make headway in key areas on which future economic development will increasingly depend.

The theme for this year's Global Competitiveness Report is "*Setting the Foundation for Strong Productivity*". I consider this is a timely theme at a time when future prospects for the world economy appear increasingly uncertain. This is reflected in major challenges facing policy makers, as economic conditions have deteriorated in recent months. Although these conditions differ widely across regional and national economies as circumstances vary, I believe the Report is right to stress the need for policy makers not to lose sight of the long-term fundamentals that underpin successful economic development, even in the face of a myriad of shorter term political pressures. For this reason, the emphasis on productivity, as the foundation of sustainable economic growth prosperity, is to be welcomed.

The World Economic Forum can itself be regarded as a case study of the benefits of productivity, not measured merely in terms of effort and hard work, but also in terms of its effective deployment of resources to meet the ever changing requirements of its growing number of clients.

The Forum is of special professional interest to me, as I have been privileged to work closely with it for a good number of years, including presiding over some of its major proceedings. I can, therefore, attest to its evolution; and here follows a snapshot of it. The World Economic Forum was established in 1971 in Switzerland. It initially focused on the needs of European business leaders, but it now has a truly global outreach, encompassing both the private and public sectors in more than 140 countries. The Forum has encouraged pursuit of appropriate economic, fiscal, trade and social policies by bringing together major corporate and political leaders, NGOs, multilateral financial institutions and social observers. The Forum's annual meeting, that takes place in Davos (Switzerland) is, of course, the most well-known and well attended gathering; the regional meetings also have increasingly high profiles.

Furthermore, the Forum facilitates policy discussions through a wide-ranging research programme that includes reports and surveys covering a variety of topical issues such as economic growth, environment, finance, technology, health and social development. Among these, the *Global Competitiveness Report* is the best known, having been first published in 1979, at which time there was a coverage of only 16 countries. This has successfully given birth to a growing family of related reports that focus on specific regions, sectors and issues.

The objective of these reports is to provide a benchmarking tool for policy-makers and business leaders, and the principal means of doing this is through rankings of participating countries according to a range of relevant criteria, which are aggregated into an overall index. In this case, the *Global Competitive Index (GCI)* looks at a wide range of factors that contribute to performance of key pillars. The pillars are institutional effectiveness, infrastructure, macroeconomic environment, health and education, markets for goods, services and labour, financial development, technology, as well as innovation. Information from the Executive Opinion Survey is supplemented with a range of measurable factors.

Similar methodologies are employed in other rankings such as the World Bank's *Ease of Doing Business* and in *Transparency International's* reports on corruption. There are also similarities with the *Human Development Index* of the United Nations Development Programme (UNDP). I hasten to stress that these various products, which often overlap in their coverage, should be seen as complementing, rather than competing with, each other. Indeed, in calculating its rankings, the World Economic Forum makes significant use of data collected by the World Bank.

I now turn to the overall results of this year's Report as drawn from the information contained therein. As I highlight my impressions of the main issues, I know you will appreciate that my condensed remarks should not be taken as a substitute for a thorough review of the Report. I, therefore, commend it to you.

The Report began to include an Index in 2006, at which point it covered 122 countries, out of which Botswana was ranked 57th. For my purposes this morning, I will use, as my base, the 2008 rankings, when Botswana attained a modest improvement of 56 out of 134 countries. Since then, the story has been one of overall decline, to the extent that, out of 142 countries covered in the 2011/12 Report, Botswana is ranked 80th. Clearly this is not good news, and it is incumbent on all of us to arrest the situation before it degenerates.

It is disappointing that we also show signs of slippage among a group of middle income economies that are classified by the World Economic Forum as making transition from resource dependency towards development that is based more on factors related to efficiency and productivity. Due to their similarities, these economies are close competitors in the global export market and in attracting foreign direct investment. They face similar global challenges, and have a similar set of policy tools for addressing economic stabilisation and structural reforms on their path to the next level of development. In this group of 24 countries, Botswana features in the top 10 in less than half of the major categories. I need not remind you that Botswana is currently emerging from an economic downturn that has underscored the need to diversify the economy away from the dominant mining sector. The fact is that we cannot afford any more economic performance slippages.

Let me highlight some of the key features of the country's performance. My first observation is that, despite the dramatic headline fall, it is remarkable that little has changed in the period under review. For half of the 12 pillars covered by the index, movement is less than five positions in either direction in the three-year period to 2011/12, which is of relatively little importance when considering a cumulative fall of 24 places; this is the difference between the 2008/09 overall ranking of 56 and that of 2011/12 (rank 80).

We can, however, derive confidence in the strength of Botswana's "*public institutions*" and "*relative sophistication of the financial sector*", both of which remain ranked in the top 50. At the same time, it is a matter of concern that the country continues to make only slow progress in areas such as "*innovation*" and "*business sophistication*", both of which are expected to be key to meeting future developmental objectives.

Furthermore, it should be acknowledged that, even when the changes have been significant, they are not all negative. In particular, it is encouraging that there is significant progress in the "*goods market efficiency*" category, where the rank has improved markedly, from position 93 in 2008 to 68, although it is a deterioration from last year's rank of 58. This can be seen as a reflection of the early gains from recent initiatives to improve the business climate. Since

these reforms remain work-in-progress, we should be able to maintain momentum so that further advances can be anticipated with some degree of confidence.

The Report further indicates that the decline in the overall ranking is concentrated in five areas. These are: infrastructure, macroeconomic environment, health and primary education, labour market efficiency, and technological readiness. I have decided to focus on only three of these pillars, in part because the lacklustre rankings are glaring for the three-year period to-date.

First, “*infrastructure*”: the steep decline from 52 in 2008/09 to 92 is worrying, especially at a time when government spending in this particular area has been so extensive. Hopefully, this investment will soon bear fruit when the beneficial externalities of upgraded roads and improved electricity supply unfold. Nevertheless, this serves as a timely reminder of the importance of both investment and adequate provision for maintenance. This includes a contribution by both the public and private sectors, and is especially important if we are to overcome the constraints associated with land-locked economies.

Second, “*macroeconomic environment*”: the decline in the ranking is even more pronounced than that of “*infrastructure*”, from 22 in 2008/09 to 82. I would, however, suggest that this probably exaggerates any underlying deterioration. I have reason to believe that this assessment is driven largely, if not entirely, by recent trends in the fiscal budget which, as you very well know, has registered substantial deficits in recent years, and this is coupled with an accumulation of public debt. We can take comfort in the fact that the Government has initiated a medium-term programme of fiscal consolidation which, all things equal, should help reverse the deficit. Indeed the relatively small decline from last year’s ranking of 74 indicates that this may already be taking effect.

It might further be suggested that the way the index is constructed, using annual data rather than period averages, may make it overly sensitive to short term volatility, which is not, in itself, necessarily a sign of deterioration. However, the 2008/09 high ranking of 22 is unlikely to be regained while significant public debt remains outstanding. Indeed the country’s sovereign credit ratings have been experiencing downward pressure for more or less similar reasons, as they can no longer rely on the strength of the government balance sheet.

Third, “*technological readiness*”: the current ranking of 101 compares with 89 of three years ago, which was itself a deterioration from the 2007/08 rank of 71. The slower rate of decline from last year’s 99 (to 101) is clearly related to the importance of internet access and usage, where the country has been lagging behind. The importance of usage cannot be overemphasized; after all, the Government has recently made a significant investment in improving available internet bandwidth, but this has yet to be translated into widespread uptake, especially among households. Finding ways to effectively bridge the digital divide is increasingly recognised as having potential for improving opportunities for low income households. In addition, this is an area which is extremely dynamic and improved rankings can only be maintained by a business environment that facilitates continuous improvement.

The rest of the decline in the country’s overall competitiveness is accounted for by the very low and deteriorating rankings in “*health and education*”, at 112 in 2008/09 and now 120. I will not comment further on this aspect of the rankings, not because I do not attach importance to these issues, but because they are so important as to merit a separate analysis.

Distinguished guests: As I approach the end of my remarks, I submit that, overall, the World Economic Forum’s 2011/12 *Global Competitiveness Report* features large movements in a few categories, and these movements can be associated with specific circumstances at a given point in time and, in some instances, there may already be indications of future improvements. To this end, the headline movement of the overall index could be seen as exaggerated. But I should stress that this should not be taken as an excuse for continued complacency. As it will become clear in the more detailed presentations, the overall assessment portrays a situation characterised by drift and little change.

Similar sentiments have emerged from other reports, such as those of the World Bank and more detailed sectoral reviews undertaken by the World Economic Forum. A case can be made that Botswana's policy tools have become either blunt or outdated or both, compared to those of other countries in its league. For an open economy such as that of Botswana, benchmarking performance against peer countries is an unavoidable imperative. Indeed it must be recognised that increased dynamism of many of these peer countries risks leaving Botswana behind as it may not be easy to catch up.

It is, therefore, encouraging that several initiatives are in place to improve the country's competitiveness going forward. The implementation of the Competition Law that was passed in 2009 and the formation of the Competition Commission will discourage complacency in the private sector. There are also complementary efforts of the Human Resource Development Council and the Labour Market Observatory in improving labour skills. For its part, the Bank of Botswana is reviewing a recent study which proposed further reforms to enhance the efficiency and broaden activities of the financial sector. It is also hoped that the more open and consultative approach, such as that of "*Pitso*" will result in improvements to respective policies.

These developments provide cautious grounds for optimism. But more remains to be done, and this may require the Government to take tough decisions in order to make Botswana genuinely business-friendly.

The Global Competitiveness Report also contains a ranking of factors that businesses in each country perceive as most problematic. I have yet to see what this year's Report has to say on this, but I do not expect any surprises. There is also the question of attitudes, which I have deliberately left unexplored. What I know is that for the last four years at least, the most common concern among Botswana businesses was "*poor work ethic in the national labour force*", closely followed, in some cases, by "*an inadequately educated workforce*". So it is not hard to see where the main problems lie. But this is not just a matter that affects workers, the education system and policymakers; it is as much a responsibility of supervisors, managers and, ultimately, chief executive officers and corporate boards, to accept that there is a problem, and then set out to redress it. You will readily agree that Government policy can only do so much in such crucial areas. More broadly, I wish to add that a lingering culture of entitlement among businesses, and to some extent individuals too, can further undermine progress. Surely, we can all earn our keep.

Directors of Ceremonies, Distinguished Ladies and Gentlemen: This concludes my remarks. It is now my privilege to declare the World Economic Forum's *2011/12 Global Competitiveness Report* duly launched.

I wish you fruitful deliberations at the workshop, and thank you most sincerely for your attention.