

Press Release

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20th Year Anniversary Release!

IMD WORLD COMPETITIVENESS YEARBOOK 2008 (and looking back at 1989...)

Again this year, the United States is first in the rankings of the 2008 IMD World Competitiveness Yearbook, a pioneer in ranking and analyzing how nations compete and manage their path to prosperity.

But will the United States' run continue? In 1989, Japan seemed firmly in the number one position with the US in third. By 1994, however, the US took over leadership, a position it has held ever since. The downfall of Japan in competitiveness bears some similarities with the present situation. Will the US follow the same path?

THE TOP 20 IN 2008 (OUT OF 55)			
Score 2008	Country	Rank 2008	Rank 2007
100.0	USA	1	1
99.3	Singapore	2	2
95.0	Hong Kong	3	3
89.7	Switzerland	4	6
84.4	Luxembourg	5	4
83.9	Denmark	6	5
83.5	Australia	7	12
82.9	Canada	8	10
82.5	Sweden	9	9
80.5	Netherlands	10	8
79.5	Norway	11	13
77.6	Ireland	12	14
77.4	Taiwan	13	18
75.0	Austria	14	11
75.0	Finland	15	17
74.7	Germany	16	16
73.8	China Mainland	17	15
73.4	New Zealand	18	19
73.2	Malaysia	19	23
72.4	Israel	20	21

20 YEARS AGO IN 1989!		
OECD Countries	Rank 1989	Score 1989
Japan	1	100.0
Switzerland	2	98.5
USA	3	92.7
Canada	4	87.3
Germany (FRG)	5	85.0
Finland	6	81.5
Netherlands	7	81.2
Sweden	8	80.5
Norway	9	79.2
Australia	10	77.7
NON-OECD Countries	Rank 1989	Score 1989
Singapore	1	100.0
Hong Kong	2	91.5
Taiwan	3	90.0
S. Korea	4	75.7
Malaysia	5	73.5
Thailand	6	63.9
India	7	55.3
Brazil	8	52.6

(NB: The Scores are actually indices - 0 to 100 - generated for the unique purpose of constructing charts and graphics)

The rankings for 2008 are not comparable to those of 1989 because nations were then split into industrialized and emerging economies.

All articles should refer to the official IMD site: www.imd.ch/wcc

In our 20th Anniversary edition this year, we may be seeing the US in the number one position for the last time! Singapore is closing the gap (score of 99.3) with the US and 2008 might be the turning point where the US falls from its leadership of top competitors. Will the country rebound and regain its famous competitive advantages? Looking back over the 20-year history of competitiveness, we may learn some lessons from another leading country's experience – Japan (see the article on the following page).

Towards a US remake of the Japanese tragedy?

(All quotes can be attributed to Professor Stéphane Garelli, IMD)

"In 1989, when we first published our ranking on competitiveness, Japan was firmly in the number one position, while the US was third. Japan's competitiveness seemed unassailable, with a strong domination in economic dynamism, industrial efficiency and innovation. Then all hell broke loose: the stock market went into reverse in 1989, land prices collapsed in 1992, credit cooperatives and regional banks came under attack in 1994, large banks teetered on the edge of bankruptcy in 1997 and a major credit crunch occurred in 1998. Does this ring a bell?

The past crisis in Japan bears some resemblance with the present turmoil in the US. It followed a period of economic boom, real estate price follies and exuberant assets expansion. In addition, the liberalization of financial instruments took place without the appropriate regulatory environment; corporate governance was inadequate with little accountability and transparency; and the government was quickly overwhelmed by the magnitude of the crisis.

The price? The crisis in Japan spread from the stock market to real estate and then developed into a credit crunch and finally into a major crisis of the financial system. As a consequence, no bank was too big to fail! The resulting cost of bailing out the financial system was huge: 15% to 20% of GDP over a 10-year period. Deflation spiralled down and interest rates dropped all the way to zero. The Japanese economy stagnated for a decade. Frightening... Will this happen to the US? Once it starts, the logic of a financial crisis seems hardly stoppable.

On the other hand, the differences between the two economic societies are quite large. Apart from a few notable successes (Canon, Toyota, etc.), by the 1990s, much of Japanese industry was in a paralyzed state. The Japanese never practiced "creative destruction". The US, because of its openness, resilience and entrepreneurship, always seems to find the means to reinvent itself in ways that Japan (and much of Europe) often lacks.

In addition, the US has a few trumps in hand: the Japanese breakdown of the 1990s provides some forewarning. The Federal Reserve and the Treasury were thus quick to realize the magnitude of the risk, and will continue to take drastic action. Central banks are supplying massive liquidities to financial markets and act as lenders of last resort (e.g. in swapping mortgage-backed assets); emerging sovereign wealth funds seem to be willing to recapitalize financial institutions (such as CITI, Merrill Lynch or UBS); and the global economy is still buoyant (110 countries grew over five percent in 2007).

Will it be enough? The structural deficits in the US (balance of trade, budget and, as a consequence, national debt) have ultimately to be addressed otherwise the dollar will remain weak. A recession in the US is a strong possibility. Will it last and will it spread? In both cases the answer is yes... The financial sector represents 40% of US corporate profits. In addition, the IMF reckons that a 1% fall in US growth cuts European growth by 0.5%. Furthermore, high raw material and food prices trigger imported inflation at a time of low interest rates – pretty nasty... 2008 will be rough.

In the 20 years that we have ranked and analyzed competitiveness, we have learned one thing: no nation, however competitive, is immune to a breakdown, especially when it stems from the financial sector. In the words of Benjamin Franklin: "even a small hole can sink a big ship..."

WHAT IS THE IMD WORLD COMPETITIVENESS YEARBOOK?

The IMD World Competitiveness Yearbook is the most reputable and comprehensive report on the competitiveness of nations published since 1989. It provides several customized rankings, whether by size, by wealth, by regions, etc. as well as country competitiveness profiles and analysis. The Overall Competitiveness Scoreboard is calculated by combining four factors of competitiveness: Economic Performance, Government Efficiency, Business Efficiency and Infrastructure.

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| <ul style="list-style-type: none">• Competitiveness of 55 economies, based on 331 criteria• Focuses primarily on Hard data (2/3 from international, regional and national sources)• Survey data (1/3) – from our annual WCY Executive Opinion Survey 2008 | <ul style="list-style-type: none">• Published annually since 1989 and updated on a regular basis on-line• Worldwide reference point with objective benchmarking• Reliable and up-to-date data with unique network of 52 Partner Institutes worldwide |
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WHAT IS IMD?

IMD, a business school in Lausanne, Switzerland, is recognized as one of the world leaders in executive education. For over 60 years IMD has worked with leading global companies to develop and retain management talent. IMD is the "global meeting place": the most international of business schools worldwide. (www.imd.ch)

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