

Simon Ghiotto: Hello, welcome to Itinera Talks, the podcast of the non-partisan policy think tank Itinera.

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I am Simon Ghiotto, fellow at the Itinera Institute and your host for this podcast. Joining me today is Arturo Bris, Professor of Finance at the IMD Business School and head of its IMD World Competitiveness Center. Prior to that, he directed the IMD Strategic Management program and taught at Yale School of Management.

We know you have a busy schedule so first of all, thank you for making the time. I think most of our listeners will be familiar with the IMD Competitiveness Index, but could you summarize what the index entails?

Arturo Bris: Of course. My Center has been pioneering the study of competitiveness for the last thirty years. We started several years ago, trying to understand the objectives of the governments and government policy and realizing that governments cannot go after economic growth or other types of objectives that are less measurable. That is why we embrace the idea of competitiveness defined as the ability of a nation to generate prosperity for its people as the natural objective of economic policy. And then what we do, is rank the ability of 63 countries in this case to generate that prosperity. It is a very difficult task, because it is not a clear metric, it is not like the quality of a football team or you know, the amount of money that a company makes. It is something that is very intangible, that what we call prosperity. How to measure that, is a big challenge.

Simon Ghiotto: I think the quality of a football team is a bit intangible as well. People would disagree on who's best, better or worst. But why did you choose those 63 countries?

Arturo Bris: For us, it is paramount that a country has available data. So some countries, for example some economies in Africa do not have good statistical services that provide data at a country level. The second criteria is that we need to have access to executives, because part of our indicators come from a survey that we conduct every year among executives in the country. And again, there are some countries like Belarus or Tanzania where we don't have access to such a class of executives.

Simon Ghiotto: You mentioned that the Competitiveness Index has been going on for a long time. Was it thirty years?

Arturo Bris: Exactly. We have celebrated our 30th anniversary this year.

Simon Ghiotto: Have you already done an ex-post analysis, going back to historical competitiveness indices to see how well they predicted the future growth, welfare and wellbeing?

Arturo Bris: That is a good question. In fact, we have done that. What we have realized, is that while competitiveness is not necessarily correlated with the economic growth of a country, it does predict growth in the future. Those countries whose competitiveness improves most, in a particular period of time, enjoy much higher rates of growth in the overall economy.

Simon Ghiotto: I'm sure you are all very glad to see that result coming out of the study?

Arturo Bris: Yes.

Simon Ghiotto: For the past two years, I have been compiling international indicators for Belgium. Of course not on the scale of IMD's Competitiveness Index, but I do include IMD's Competitiveness Index into a broader dashboard that shows how well we are regarded abroad. Belgium tends to consider itself a strong performer, but our results are unimpressive to say the least. Rather than heading the pack, we tend to mediocrity. How would you describe Belgium's position?

Arturo Bris: I would say average, rather than mediocre. It is true that within the overall samples of countries, out of 63, Belgium ranks in position number 27, but it is probably in the best half of the European countries. For example, while Belgium ranks below Switzerland or Denmark, it is more competitive than countries such as France, Italy or Spain. So it is already promising what the country is doing.

Simon Ghiotto: In your presentation earlier, you also mentioned that it is positive that Belgium cares about competitiveness. We might not improve, but at least we care about the fact that we are not improving.

Arturo Bris: That is true. For a country to improve, you need to recognize that some things do not go well. As I said earlier, it is very impressive when it comes to some countries, Belgium being one, that people, being politicians, but also representatives from the private sector, do care about being competitive. In contrast France or Germany, sometimes even my own country Spain, where not only people, but primarily politicians, couldn't care less about a longer term objective of policy such as competitiveness. They just care about winning the next election. I think that is a problem. Very often, if you win an election, you do it at the expense of the future pillars of people's prosperity.

If a country for example needs to invest in roads or in a big airport or in a power plant that will pay off only in twenty years, then many politicians will refuse to do that investment, because it doesn't help them win the next election. That is a big problem. You require people's vision, but also leadership to address competitiveness challenges.

Simon Ghiotto: In Belgium, there is a political catchphrase that has been going on for a while now, it took a life of its own. A politician once said every politician knows what needs to happen, but no one knows how to get reelected afterwards.

Arturo Bris: Correct. That is a problem as I always discuss with democracies today. Countries that have improved the most in the recent years, are not democratic regimes. They go from Hong Kong or Singapore to the United Arab Emirates, obviously China as well. It is very easy to build a common vision and a national strategy when you are the sole power of a country. That is very difficult in a democracy. I think we need to balance our democratic rights and the ability to find democracy with the ability of democratic systems to preserve prosperity of people in the long term.

Simon Ghiotto: Democracy is messy, but Winston Churchill did say that it is the worst one, besides from all the other ones that have been tried and failed.

You mentioned Belgium ranks 27th on the Competitiveness Index, but you don't only give a headline figure, you also describe four categories, totalling twenty subtotals and we can see Belgium fluctuating wildly with 8th and 5th place for international trade and education respectively. Yet 48th for international investment, 49th for employment, 49th for public finance and even 62nd, 2nd only to France for tax policy. The infrastructure subject is our best mark at 21st, but basic infrastructure lacks at 45th. Is such a varying performance something that you would expect from a country like Belgium?

Arturo Bris: Yes, I think that in certain pillars of its economic model, for example the quality of education, Belgium as a European country ranks relatively high. As a global economy as well, for example when you talk about the foreign trade, Belgium does extremely well as well. But there are certain pitfalls of the economy. You have mentioned two who are very important to me. One, tax policy, where Belgium ranks 62 out of 63 countries in tax efficiency. This is truly striking. And second, the attractiveness of the country to foreign investment. That is something that is worth mentioning. While Belgium is an international global country, it exports and imports a lot, it is a country that fails to attract for an investment into the country. This is driven much more by institutional considerations. All in all, you have indicators where the country ranks extremely well and indicators where the country is very poor. That I would say, is typical in a country in Europe.

Simon Ghiotto: And given that our overall mediocrity or, as you prefer, averageness, seems to stem from a handful of awful indicators, what would happen if we could improve these to an average level?

Arturo Bris: The problem is that some of these indicators cannot be improved from one day to the other. For example fiscal rules and the efficiency of the fiscal system at the end of the day in Belgium depends on the way how fiscal resources are utilized. Here taxes are high, which is not bad per se. But high taxes are bad if this doesn't result in good provision of public services, which is what happens in Belgium. Again, to change that, it takes a lot of time. Same thing happened when investing in infrastructure. This is a country that for the last few years has been lagging in infrastructure investment. That again requires some time to bring back. We need to increase our level of public and private investment in basic infrastructure like roads and airports. You cannot do it from one day to another without increasing the public deficit massively for example.

Simon Ghiotto: Another thing that struck me, are the key attractiveness indicators according to the executives you have surveyed, the vast majority point to our skilled workforce and high educational level, but in the last place a mere 3% of executives point to competent government. What does that imply according to you?

Arturo Bris: With respect to the skilled workforce, again it is not surprising given that Belgium is also one of the countries in the world that invests most in education. It is more than 6% of its GDP on an annual basis. Its educative investment per student is in the top twenty of the countries in the world. So as a result, there is a skilled workforce and the country is able to develop its own talent. Executives therefore highlight that as a key attractiveness indicator of

the economy. But, in contrast, and you mentioned that figure, only 3% of executives in Belgium perceive that the quality of the government is a key attractiveness indicator of the country, which is for world standards extremely low, but for European standards it is relatively low as well. I think that something that I have always perceived of Belgium, this is a country where people tend to speak bad about the government. Countries need an alignment between the public and the private sector, people somehow need to believe that the government is doing the right thing or is at least trying to do the right thing. That doesn't seem to happen in Belgium. The roots are not very clear to me. I guess it has to do with the political process, with the history of the country, with the quality of the politicians, but this figure of 3% is very surprising.

Simon Ghiotto: Itinera's usual mo combines academic research with comparative policy analysis, usually focusing on countries comparable to Belgium, such as Switzerland, Denmark and the Netherlands. Maybe I should say countries that we would like to compare Belgium to. Although we achieve a measly 27th place, those countries are consistently in the top 12. What distinguishes them from us? What is their recipe for success?

Arturo Bris: I would mention two things, one is that their public sector, their governments are more efficient. Meaning they are smaller, think about Switzerland, but they also operate more efficiently. There is less bureaucracy and there are less resources that get wasted in the process. Therefore the government can invest better in people. The second difference with these countries is that unlike Belgium, in those countries you have a clear national consensus on what the country strategies would be. I live in Switzerland. In Switzerland nobody will disagree that the future of the country's economy goes by industries such as pharma, capital goods, consumer goods. In Switzerland, you will not hear that they are going to build the economy of the future based on tourism, even though tourism is an important sector. That political consensus drives decisions and makes it possible to do any reform, be it a political reform, an economic reform or a reform of the educational system. Belgium needs a better national consensus.

Simon Ghiotto: What may be even more interesting, in this year's edition, we saw Ireland and Iceland climbing dramatically, as well as moderate gains for Switzerland and Finland, while France, Norway and Canada all dropped by three places. What lessons are there, both for countries in general and of course Belgium specifically?

Arturo Bris: That is an interesting example that you mention, because those countries have been competitive through specialization. In cases like Ireland for example or Switzerland, they started from very poor conditions. In the case of Switzerland thirty years ago, it was not one of the most developed countries in Europe. Ireland, as a result of the financial crisis in 2008 was also in dire straight. What these two countries did, is they specialized. They specialized through a very simple policy of attracting capital, where they said let's lower taxes, let's attract capital. If you look at what Ireland has done in the last four years, it has been truly impressive.

So I think that type of specialization may not necessarily result in better life conditions in the very short term, but it does in the long term. I say that because it is always a country's choice. If you are going to become a country that lowers taxes dramatically to attract capital, maybe you do that at the expense of health or education, but in the long term, once you get traction and once you become a richer country, then you can start developing your people. So in the

long term competitiveness works, it is not a short term race, it is something that will always happen in the long term.

Simon Ghiotto: Although IMD is best known for its World Competitiveness Index, you also published a Digital Competitiveness and a Talent Competitiveness Index, where you assess the capacity of the economy to adopt and explore digital technologies and the extent to what nations develop, attract and retain talent respectively. Where our digital competitiveness mirrors our general competitiveness at 25th place, we perform quite well on the talent ranking. How do you explain this?

Arturo Bris: In the case of digital competitiveness, there is something that is worth mentioning about Belgium. When we look at digital competitiveness, we assess the extent to which a country facilitates through policy, through investment, the digital transformation of companies. In Belgium, there is enough digital talent, provided by the education system, there is a relatively good level of investment in scientific and digital infrastructure. But companies lack business agility. It is one of the indicators where the country ranks lowest, which is the awareness of companies, not government, toward digital transformation and the willingness and ability of those companies to adapt to new technologies. That explains why Belgium does not rank better in digital competitiveness, because it could.

With respect to talent obviously, as I mentioned earlier, this country invests enough in education, it prepares good talent. The only pitfall in that ranking and a way how it could be much better, is if Belgian companies contribute much better to people's development. The 21st century education does not stop when you graduate from college. It continues throughout your lifetime. That is something that is the responsibility of Belgian businesses, to prepare their people as they grow within the organization.

Simon Ghiotto: I am currently working on a project on lifelong learning in Belgium, so I must say that I am very glad to hear you say that. You say that we invest a lot and by my knowledge, I don't think we have cut down in our expenditure in education, but in the last couple of years, we did fall from a third place between 2015 and 2017 to a fourteenth place at the moment. What happened to Belgium's talent management that explains this decline?

Arturo Bris: What happens with talent management, is that there is a lot of competition. What has happened in the last ten years, with millennials and the new generation, is that they are more movable than what my generation used to be. Because of language skills, because of cultural openness. Belgium in that context, faces a higher risk of losing its talent. That talent prefers to go to other countries or to other regions. While Belgium is still doing fine in its education system, in the investment in education and so forth, other countries are attracting better talent, because they have better quality of life, they have lower taxes, they offer all the opportunities for development. At the end of the day, a ranking is relative. In essence, Belgium has fallen at the expense or the benefit of other countries that have increased much more.

Simon Ghiotto: We didn't become worse, we just stopped improving?

Arturo Bris: Yes.

Simon Ghiotto: We have touched upon this throughout the podcast, but let's summarize for the newly appointed regional governments and incoming federal government, what are your main recommendations for Belgium?

Arturo Bris: I know that this sounds very philosophical, but first of all focus on the long term. I think we need to stop thinking about reforms that only bring us to the next year. But pension reform, educational reform, investment in infrastructure and improvement in the quality of the government should be reformed so that any government would implement for the sake of the long term of people. That requires a lot of political legacy. Right now the only objective of a newly appointed politician is to win the next election, then everything collapses. These objectives are never fulfilled. We need good political leaders that understand the reforms that are necessary, even at the expense of a significant personal cost of them losing their job.

Simon Ghiotto: A focus on the long term with quality of governance, pension reform, education reform, it seems that you have been reading Itinera's work?

Arturo Bris: Obviously. There is not much disagreement between what Itinera said and what we say. At the end of the day, I think that everybody agrees about what Belgium's problems are and there is a very little disagreement on the solutions. I think that it bows down to implementation.

Simon Ghiotto: Thank you for that. That is a very good note to finish on. Do you have a final message to our audience?

Arturo Bris: I think that we need to start realizing that putting prosperity at the centre of policies, also requires that we make political choices. At the end of the day, we individuals with our vote, chose the rules and the policy that will guide our future. We need to be very responsible. I think that personal responsibility is something that we cannot lose in Europe.

Simon Ghiotto: Thank you for this wonderful conversation and to our listeners to be with us again.

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