



Economic Briefing To the Penang State Government

Global FDI Shifts to Services Sector

Introduction

In its recent flagship publication the United Nations Conference on Trade and Development (UNCTAD) identified the increasing importance of services in global flows of foreign direct investment (FDI). Indeed, this publication, bearing the title *World Investment Report 2004: The Shift Towards Services*, emphasizes the growing importance of services in FDI flows, whereby services, comprising only 25 per cent of the world FDI stock in the 1970s has grown drastically to make up over 60 per cent, or US\$4 trillion, of world FDI flows in 2002. In contrast, FDI in the primary and manufacturing industries both declined over the same period, from 9 per cent to 6 per cent, and 42 per cent to 34 per cent respectively.¹

Brief Trends & History

Indeed, this changing nature of FDI has also been highlighted recently by other reports from various sources ranging from government institutions including Bank Negara Malaysia (BNM), international consultants such as AT Kearney, and other respected financial media such as The Edge and The Economist.² Of these, however, perhaps the most interesting for Malaysia is the AT Kearney, which lists Malaysia third in its Offshore Location Attractiveness Index for 2004, surprising many observers and industrialists alike. Notes Paul Laudicina, vice-president and managing director of AT Kearney's Global Business Policy Council, "Malaysia rated 23rd in our FDI confidence index, which polled top global CEOs while objectively, AT Kearney rates Malaysia as the third most attractive location for outsourcing. This gap represents huge opportunities for Malaysia."³

In order to understand this shift towards services, a brief examination of recent events is helpful. One trend that has accounted for the growth of services has to do with the increasing liberalization of previously nationally controlled service industries in many developing countries, resulting in their transnationalization. Such services, being of the non-storable and non-tradable nature must be produced when and where they are consumed, such as water, electricity and telecommunication utilities for example. However, in Malaysia's case, the attraction of FDI into non-tradable services such as water, electricity and telecommunications are largely not applicable. While Malaysia has privatized and liberalized these services, it has done so largely 'in-house', keeping ownership of such services within the country.

A second set of services, however, have become increasingly tradable with the advent of ICT and other technological improvements in telecommunications, and forms the second aspect behind the growth and importance of the service sector. Including such services as education, health and social services, and some banking and financial services, the IT boom of the 1990s laid the groundwork for the increasing tradeability of a wide array of services and has, in turn, seen services overtake manufacturing as the majority component of world FDI flows.

¹ *World Investment Report 2004: The Shift Towards Services*, United Nations Conference on Trade and Development, (Switzerland: United Nations Publication).

² For example, see: Bank Negara Malaysia: Annual Report 2003; *The Economist*, 'Why Worry?', October 14, 2004; and Karamjit Singh and Risen Jayaseelan, 'The Outsourcing Challenge', *The Edge*, October 19, 2004.

³ Laudicina in Singh and Jayaseelan.

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Up till 1990, services FDI was concentrated largely in trade and finance, which accounted for 25% and 40% respectively of total inward FDI stock in services. Such services were not conducive to being traded, as 'regular' goods and commodities are, and instead had to be produced when and where consumed. One example of service FDI in the finance sector would be that of a foreign bank or financial institution entering a host country so as to support or complement the activities of its clients. With this change, services FDI is now increasingly done on the own accounts of companies with the purpose of finding new clients or exploiting ownership advantages. In non-tradable services, growth areas remain the principle location advantage for attracting FDI. But in tradable services, other factors have become the primary concern, such as: access to good ICT facilities and infrastructure, appropriate institutional and regulatory infrastructure, and the availability of productive and well-trained people.

Both these trends of the increasing importance of services can be seen in the data; the global stock of services FDI has more than quadrupled over the 1990-2002 period. Meanwhile, the share of manufacturing in FDI inflows in Asia fell from 57 per cent in 2002 to 53 per cent in 2003, and the share of services rose from 43 per cent in 1995 to 50 per cent in 2002, with both trends set to accelerate. ASEAN in particular saw a rise in services FDI from 30 per cent in 2002 to 48 per cent in 2003 alone, as East Asian economies become increasingly service-oriented in order to create more efficient infrastructure for finance, telecommunications and commerce.

What does this mean for the development prospects of host countries? FDI in services, as in manufacturing, has the potential to enhance, directly and indirectly, the efficiency, productivity and supply capacity of host-country industries, thereby benefiting the economy as a whole. But it can also entail risks and costs against which the benefits need to be weighed carefully.

The Nature and Impact of Services FDI

Having established the structural shift of the economy towards services, it becomes necessary to examine the nature of this shift should Malaysia seek to attract such investment in the future. Several motives behind this shift towards services can be identified. First, is the increasing number of investment projects motivated, at least in part, by desire to sell to host country and to produce locally. As an ever greater number of services become tradable, new markets and areas are now open to companies providing these services to expand their growth. Much like the expansion of manufacturing FDI in the latter part of the 20th century, services FDI is set to become a primary driver of global growth; indeed, as mentioned earlier, it has already overtaken manufacturing FDI as a percentage of global FDI flows.

Second, firms now able to trade their services seek to exploit their ownership advantages, investing increasingly on their own account, as they seek to serve new clients and exploit or augment their own unique competitive advantages. Such advantages take several forms. In producer services including banking, finance, and business and professional services, firms seek to establish global advantages based on possession or privileged access to proprietary information, tacit knowledge, skills, brand names, and learning. Banks fall into this category, with examples such as HSBC offering a wide array of financial and insurance services under its brand, and professing itself to be the 'world's local bank.'

Consumer services such as hotels, fast food, car rentals and retailing, also exploit ownership advantages through their strong brand names, as well as their capabilities to organize activities, acquire knowledge about their customers, network with other agents, and create strong brand names. Ownership advantages based on the possession of software and hardware skills and technologies are also exploited by services such as stock broking, foreign exchange and securities dealing, business consultancy, data processing, provision and transmission. Lastly, other service firms expand seeking economies of scale and scope, as well as access to global markets and supply capabilities. Examples include firms in insurance, trade, banking, professional business services and retailing.

Third, firms are also able to benefit from location-specific advantages. For non-tradable services such as utilities, the benefits are evident, as such services cannot be easily stored or traded away, and must instead be produced and consumed as and when needed. As previously mentioned, liberalization and market growth remain the key drivers in attracting FDI into non-tradable services, and are largely not applicable to Malaysia's situation. However, location advantages are also important for directly tradable services, particularly with regard to access to good information and communication infrastructures, well-developed institutions, and ample well-trained human resources available for employment at competitive costs. However, it is also evident that these factors that comprise the advantages are also the prerequisites for attracting FDI into the tradable service sector and tapping its growth potential.

Fourth and last, internalization advantages, where firms expand their range of activities under their own management, are another factor motivating FDI in the services sector. Firms most likely to be influenced by internalization advantages prefer internal expansion abroad rather than licensing or entering into other arrangements with local firms. Such factors are particularly important in:

- Safeguarding proprietary knowledge (banking and financial services, and most information-intensive and professional services)
- Ensuring product quality (advertising, market research, some consumer services)
- Protecting property rights
- Avoiding search and negotiation costs
- Tapping synergies from geographical diversification (financial services)
- Obtaining inputs or develop new markets (trading companies)

In these cases, quality control, performance commitments and the minimization of transaction costs can be embodied in management contracts or franchising agreements.

Benefits

The benefits of service FDI are, by and large, the same as the benefits brought about by manufacturing FDI, except that they would probably be more useful to Malaysia because of its knowledge intensive nature, Malaysia's push to develop as a k-economy and its desire to move up the value chain. Apart from the obvious generation of employment opportunities for Malaysians, local SMI/Es will also benefit from business brought about by these multinationals. These and other benefits such as efficiency gains comprise the multiplier effects brought about by service FDI are bound to stand Malaysia in good stead.

Concerns

Several risks and concerns with regard to the growth of the services sector exist, however, and may be broken down into four general issue areas, namely: national interests; development and exploitation; financial resources and balance of payments; and human resource and employment. As with such issues, much depends on the policies and regulatory frameworks of the host countries.

National and strategic interests

As the current boom in services FDI has been fueled in part by the liberalization of previously government-owned or heavily regulated sectors, such as utilities and telecommunications, there emerges a concern with regard to the monopolistic nature of these industries and the manner in which they are privatized. There have been some countries that have tried to circumvent this problem through strategies such as the breaking up of some of these sectors prior to privatization, so as to generate competition and encourage efficiency, however, there is no panacea to this problem, and such efforts need to be complemented by efficient and effective regulation.

Strategic and security concerns also arise due to the nature of some of these services, such as financial services, the provision of energy and water, and air transport; privatization of other services, such as the media carry various social implications that can cause concern for some countries. While such issues are rarely quantifiable, again, it remains incumbent on the governments to provide for an adequate regulatory framework that meets their specific needs and circumstances.

Development vs. exploitation

Concerns of whether firms entering through services FDI bring about development or exploitation also arise, although these are not specific to the service sector, being also present in the manufacturing and primary sector FDI. Indeed, developing countries are no stranger to the potential of exploitation by foreign firms, and Malaysia has implemented various measures such as equity and ownership requirements, as well as grants and incentives for foreign firms to implement 'developmental practices' to help combat exploitative practices over the past decades with regard to manufacturing services. Many of the same issues also arise with regard to the service industry, and governments should encourage foreign firms do their part in upgrading skills and facilities and the transfer of technology. Also, governments should ensure the competitiveness of its domestic suppliers, given the demand cre-

ated by the presence of the multinationals, and that the multinationals also choose domestic suppliers where possible.

Financial resources and balance of payments

In industries involving expensive & risky projects, FDI can significantly contribute to volume of services; however, these are dependent on government policy and the regulatory framework in place with regard to private monopolies. For example, banking might be made more efficient with the arrival of a large MNC who is able to provide a wide array of services at low cost due to their advantages of scale and information practices. However, these MNCs might crowd out local firms and begin to monopolize the market, or repatriate profits and not provide any benefits to the development of the host country. Thus, in the absence of an adequate regulatory framework and coherent government policy, domestic SMEs tend to lose out to the multinationals.

Human Resources and Employment

As with the primary and manufacturing sectors, services FDI also brings benefits for countries in the form of increased employment opportunities for its people. However, this can be a Janus-faced proposition, depending on the nature of such investment and the set of policies and regulations put in place by the government.

The knowledge-based nature of much of the emerging service industry makes it difficult for firms to stratify into low or high level positions as compared to primary and manufacturing industries. As such, there is a greater chance of locals employed in high positions. However, with the growth of IT and its increasing separation, a trend is discernable whereby info-intensive services are increasingly located in foreign affiliates, while 'manual-based' or menial IT jobs based in host countries.

As such, to avoid remaining a provider of low-wage unskilled labor, countries need to concentrate on encouraging and improving certain key areas such as education and domestic competition. Governments also need to take steps to encourage and ensure that multinationals adopt the proper policies with regard to training and personnel, and also encourage greater linkages between foreign affiliates and domestic service suppliers.

Growth Areas

According to a study by Henry Loewendahl, Director of OCO Consulting in his presentation entitled 'Export-oriented services: FDI in developing countries', the number of export-oriented projects in the services sector are increasing at almost 400 projects per quarter globally, with half of these projects, the job-creating ones in particular, going to developing countries.

The best opportunities are in research and development (R&D) activities, with global R&D projects on the rise, and developing countries again attracting the majority of such projects. Most projects are by US firms in the ICT sector, followed by electronics and life sciences; and China and India rank highest in terms of attractiveness, followed by Hungary, Czech Republic, Thailand, Philippines, Malaysia, Brazil and Russia.⁴ In order to attract R&D activities, developing countries need to demonstrate a skilled workforce, dynamic markets, cost advantages, and strong educational and technological capabilities such as universities.

Attracting regional headquarters (HQ) represent another opportunity for developing countries, particularly for the long-term. However, these are difficult to target as they come from a wide range of sectors, countries and companies. While arguably Singapore and Hong Kong are already well ahead of the pack, Lowendahl's data shows that emerging countries include China, UAE, Malaysia have a good track record, followed by Thailand, India and Brazil. With regard to attracting HQ activities, Lowendahl notes that supply side requirements are stringent, including dynamic markets, proximity to customers, skilled workforce, favorable regulations, competitive costs, and high quality infrastructure.

Growth Areas for Malaysia

As mentioned above, part of the growth of services FDI, particularly that of non-tradable services, is less applicable to Malaysia as privatization concessions of these utilities are largely awarded internally to local firms. How-

⁴ Henry Loewendahl, 'Export-oriented services: FDI in developing countries', presented at UN Commission, January 26, 2004.

ever, government emphasis and growth in the local ICT sector has set a base from which Malaysia can harness the increasing tradability of services and its subsequent offshoring. Services no longer need to be consumed 'on the spot' as before, and there exist several export-oriented services which are compatible with Malaysia's strengths and growth trajectory, including:

- Call/contact centers
- Shared service centers & business process outsourcing
- Regional headquarters
- Research and development centers
- Logistics and distribution
- Telecommunications represents a grey area, as Telekom holds a monopoly over telecom fixed line services, and much investment into fixed line infrastructure and services will largely be of the old 'on-the-spot' services FDI. Much of the scope for growth in the telecommunications area will lie in promoting areas of mobile telecom, telecom software, and provision of ISP services.

Other growth areas for Malaysia include areas in K-ICT, health care, air travel and tourism, areas also emphasized by the ASEAN Framework Agreement on Services. Penang has taken some steps towards the promotion of K-ICT, health care and tourism. However, more needs to be done if it wishes to jump on to the services FDI bandwagon. As an island state which prides itself as the electronic and electrical hub of Malaysia, it needs to be able to display a similar passion and drive to develop other aspects of its economy.

Malaysia: strengths and weaknesses (AT Kearney Report & EDS)

Weaknesses

Perhaps the greatest weaknesses of Malaysia lie in its population. With only 22 million people, Malaysia is unable to match the scale advantages of China & India, the two leaders of the pack who are far ahead of the next closest competitor (which, according to AT Kearney's report, is Malaysia), especially in terms of human resource training, availability, and potential local markets. However, due to the much smaller land area of Malaysia, and the need to ensure a ecologically sustainable population and proper standard of life, it is impractical for Malaysia to try and compete on the basis of population alone. It is to niche areas that Malaysia must look to excel and maintain its competitive advantages over the rest.

First, it has been noted by several leaders in the field that Malaysia is plagued by a slow and inefficient bureaucracy. This malaise is not limited to the services sector alone, but a more general problem that needs to be tackled head on. It is, however, positive that the government has recognized this and is taking steps to instill greater efficiency into the government bureaucracy. Additionally, there is a need for a further push to R&D activities for an even more skilled workforce at competitive wages. As mentioned above, tradable services are knowledge intensive and a major factor in attracting services FDI is a pool of skilled labor at competitive wages. Lastly, Malaysia is also hampered by the lack of an outsourcing culture among its local companies, which restricts opportunities for home-grown services outsourcing companies to win business from overseas as they are rendered less able to compete with firms specializing in outsourcing, such as those from India.

Strengths

Malaysia's competitive advantages in attracting services FDI lie in several areas. The first is that of low costs of entry and doing business, particularly for infrastructure. This has helped Malaysia become one of the most attractive business environments among emerging markets and an attractive host country for FDI. Additionally, high levels of global integration and current government promotion of IT and service sectors are likely to make Malaysia strong competitors in the next five years. Lastly, another great strength of Malaysia is in its language abilities, with its population able to converse in multiple languages, including English, Mandarin and other Chinese dialects, Malay, Tamil and Hindi, to name a few. This makes it an attractive location for regional call and service centers, as exemplified by Dell's presence in Penang, with its factories carrying out operations for the Asia-Pacific region.

Malaysia's Closest Competitors: strengths and weaknesses

COUNTRY	STRENGTHS	WEAKNESSES
<i>Malaysia</i>	<ul style="list-style-type: none"> • Infrastructure • Language skills • Business environment • Low political risk 	<ul style="list-style-type: none"> • Slow and inefficient bureaucracy • Insufficient R&D activities • Lack of an outsourcing culture • Small population in relation to India and China
India	<ul style="list-style-type: none"> • Population size • Economic potential • Technical and quantitative skills • English language proficiency 	<ul style="list-style-type: none"> • Poor infrastructure • Political risk
China	<ul style="list-style-type: none"> • Cheap and skilled labor • Huge domestic market • Proximity to North-East Asia 	<ul style="list-style-type: none"> • Poor intellectual property rights • Political risk • Poor language skills apart from Mandarin
Singapore	<ul style="list-style-type: none"> • Economic and political stability • Intellectual property security • Excellent Infrastructure and Education • Aggressive government commitment to FDI 	<ul style="list-style-type: none"> • High cost of labor • Small population size
Philippines	<ul style="list-style-type: none"> • Competitive cost structure • Promising human resource capacity in IT • American English 	<ul style="list-style-type: none"> • Political risk • Poor country image • Relatively poor business environment

Conclusion

A global shift towards services is taking place and Malaysia needs to be prepared for it. Malaysia has reacted intelligently in the past to world developments in its pursuit of development, as exemplified through its highly successful harnessing of manufacturing FDI. It can not, however, afford to grow complacent or become stuck in old mindsets and must continue to keep up with the changing world economy. In line with the government's efforts to diversify the Malaysian economy, promote the k-economy, and move up the value chain, the growth of the service sector and the increased opportunities of attracting service FDI stands Malaysia in good stead. In order to successfully harness the global growth of the service industry, however, Malaysia will have to address its weaknesses through improving the efficiency of the bureaucracy, supporting domestic service and outsourcing industries, and strengthening the country's educational and R&D capabilities. Additionally, further efforts must be made to further improve on its strengths, particularly in the further improvement of its telecommunications and IT infrastructure, given Malaysia's desire to become a knowledge-based economy. *§ Terence Too*

Global Competitiveness Benchmarking¹

The 2004-2005 Global Competitiveness Report, recently released on 14 October 2004, saw some interesting changes in the level of competitiveness of some of the major Asian economies. 2 major indexes are used in this Report, namely the Global Competitiveness Index (GCI) and the Business Competitiveness Index (BCI). The GCI rankings are based on the results of the Executive Opinion Survey, a widespread survey carried out by the World Economic Forum (WEF).

The GCI is reflected by *"the set of institutions and economic policies supportive of high rates of economic growth in the medium term"*. The top 3 positions in the Global Competitiveness Index (CGI) remain unchanged with Finland yet again reigning supreme among the 104 countries evaluated in the Report, followed by United States and Sweden. A minor shuffle was seen in the 4th and 5th positions whereby Taiwan, which was 5th last year, gained advantage over Denmark this year. Denmark has slid a rung off its 4th ranking in 2003 to settle at 5th place.

With respect to the Asian countries, the index shows a mixed performance among several of the major economies in Asia. As can be seen from Table 1, Taiwan leads the pack again for the 3rd consecutive year. It has steadily scaled up the rankings in recent years, from 10th place in 2000 to 7th place in 2001 and 6th place in the subsequent year. In 2003, it again moved up another notch to stand at 5th place and as mentioned above, it is securely positioned at the 4th place this year. But the same cannot be said about Singapore. The island republic has slipped a rung off its 2003 rank to settle in 7th place. Japan has progressively inched up the index to break into the top 10 this year (9th place). Hong Kong has also shown marked improvement, moving from 24th place in 2003 to the 21st place this year, surging ahead of Korea.

Table 1: Growth Competitiveness Index (GCI) rankings and 2003 comparisons

Country	GCI 2004 Rank	GCI 2003 Rank	Change
Taiwan	4	5	↑ 1
Singapore	7	6	↓ 1
Japan	9	11	↑ 2
Hong Kong SAR	21	24	↑ 3
Korea	29	18	↓ 11
Malaysia	31	29	↓ 2
Thailand	34	32	↓ 2
China	46	44	↓ 2
India	55	56	↑ 1
Indonesia	69	72	↑ 3
Philippines	76	66	↓ 10
Vietnam	77	60	↓ 17

Source: *Global Competitiveness Report, 2004-2005*

In the case of Malaysia, however, the nation has suffered a minor setback, as it has deteriorated by 2 ranks this year, dropping from 29th place to 31st place. Thailand and China have also slid down the index despite robust growth in both the countries. China, although doing relatively well in terms of its economic performance, have failed to capitalize on their strength but instead succumbed to *"weak institutional underpinnings"* such as bureaucracy and sub-standard accounting. Although Indonesia's 69th position is nothing to shout about, it should be given much credit for making a 3-rank surge from last year's 72nd place to the 69th place this year.

On the flipside, Korea, Philippines and Vietnam all displayed dismal performances in this year's rankings. Korea impressed last year after breaking into the top 20 through a remarkable 6-place advancement. But the tide seems to have turned against the republic this year as it plunges 11 places down to 29th place in the CGI. Philippines lost 10 places while Vietnam suffered the biggest drop among the major Asian economies by falling 17 rungs off its 60th place in 2003 to stand at a poor 77th place this year.

¹ The intelligence of this report is derived from the *Global Competitiveness Report, 2004-2005 by World Economic Forum*

The macroeconomic environment index, the public institution index and the technology index are the 3 main sub-indexes that determine and make up the overall GCI. Although Singapore's position in the CGI has deteriorated, the island republic still maintains its stronghold of having the most conducive macroeconomic environment for business. As can be seen in Table 2, Singapore remains at the top while Taiwan, although not performing as well in comparison with the former, has surged into the top 10 of the macroeconomic environment index. Taiwan has gained a lot of grounds in both the macroeconomic environment index and technology index. In terms of technology, it is 2nd behind the US but it has not done as well in the public institutions index. In fact, the rankings of all of the selected Asian countries except for Hong Kong, Japan, India and Indonesia have taken a major nose-dive. Korea's performance was a dismal one as it dropped from 23rd place last year to 35th place this year on the Macroeconomic Environment Index, thus affecting its overall GCI ranking.

Table 2: Growth Competitiveness Index Subcomponents, 2004

Macroeconomic Environment Index		Public Institutions Index		Technology Index	
Country	Rank	Country	Rank	Country	Rank
Singapore	1	Hong Kong SAR	9	Taiwan	2
Taiwan	9	Singapore	10	Japan	5
Hong Kong SAR	13	Japan	16	Korea	9
Malaysia	20	Taiwan	27	Singapore	11
Thailand	23	Malaysia	38	Malaysia	27
China	24	Korea	41	Hong Kong SAR	34
Japan	29	Thailand	45	Thailand	43
Korea	35	India	53	Philippines	61
India	52	China	55	China	62
Vietnam	58	Indonesia	68	India	63
Indonesia	63	Vietnam	82	Indonesia	73
Philippines	69	Philippines	99	Vietnam	92

Source: Global Competitiveness Report, 2004-2005

Malaysia, notable, gained 7 positions to join the ranks of the top 20 countries that are perceived to have a stable macroeconomic environment. Japan and Korea, who previously did better than Malaysia in the Macroeconomic Environment Index, deteriorated badly as they fell to 29th and 35th place respectively. While Japan's ranking on the Public Institutions Index has improved tremendously from 30th place to 16th place, Korea did not manage to secure a good ranking in the same index as it has further dropped from 36th place in 2003 to 41st place in 2004. Malaysia's 38th place in the public institutions index is also not something that we be proud of.

As expected, the 4 Asian Tigers were the forerunners in the Technology Index, with improvements in ranking for both Taiwan and Singapore but yet again a decline for Korea. Malaysia did relatively well in terms of the Government's success in promoting ICT, FDI and technology transfer; university / industry research collaboration and in terms of the prevalence of foreign licensing technology but even so, that could not help it from sliding 7 ranks down the Technology Index.

The BCI, on the other hand, is reflected by "the set of institutions, market structures and economic policies supportive of high current levels of prosperity". It takes into consideration the sophistication of the operations and strategies of companies and the quality of the national business environment in which the companies in a certain nation compete. The United States tops the BCI this year followed by last year's No. 1, Finland, whose overall BCI ranking had been badly affected by a poor 7th place in the company operations and strategy ranking. The European countries continue to dominate in this field as Germany, Sweden and Switzerland complete the top 5 positions, standing at 3rd, 4th and 5th respectively.

Table 3 shows the rankings of the selected Asian countries in the BCI. There was again mixed performance among the countries. Japan soars into 8th place, deposing Singapore from its position last year. Japan's rankings in both the company operations and strategy and the quality of national business environment has improved significantly while Singapore's ranking has plummeted. Hong Kong came in at 11th place, 8 ranks higher than in 2003. Taiwan did not manage to perform as well as it did in the CGI, coming in at a humble 17th place, no thanks to a miserable 20th place in

the quality of national business environment ranking.

Table 3: The Business Competitiveness Index

Country	BCI Ranking	Company operations and strategy ranking	Quality of the national business environment ranking
Japan	8	3	11
Singapore	10	13	8
Hong Kong SAR	11	15	10
Taiwan	17	12	20
Malaysia	23	28	23
Korea	24	21	28
India	30	30	32
Thailand	37	36	36
Indonesia	44	38	46
China	47	39	47
Philippines	70	50	77
Vietnam	79	81	79

Source: *Global Competitiveness Report, 2004-2005*

Indonesia yet again did very well by recording a significant leap from 60th place last year to 44th place this year. Vietnam did poorly as it fell from 50th place to a miserable 79th place this year. Malaysia was one of the select Asian countries that improved in its overall BCI rankings. It improved by 3 rankings to be at 23rd place this year. Malaysia did very well in terms of government procurement of advance technology products, prevalence of merger and acquisitions and intensity of local competition, putting the nation at No. 23 in the quality of national business environment ranking. But it has not done very well in terms of the sophistication of the operations and strategies of companies, dropping from 26th place to 28th place. The WEF Executive Opinion Survey highlights that among the most problematic factors in doing business in this country are: tax rates, access to financing, corruption, inefficient bureaucracy, foreign currency regulations, tax regulations, poor work ethic, inadequately educated workforce and restrictive labour regulations.²

The thrust to secure and maintain a competitive advantage over other nations is nothing new and the need to do so has become even more evident with the advent of the globalisation of the world economies. But how do these indexes gauge the real level of competitiveness of a nation? Perhaps it is pertinent to note that it is not all about scaling up or down the rankings of the competitiveness index. It is more about creating an environment that is conducive and suitable for people to live in and enterprises to operate in.

Aptly put by Mr. Augusto Lopez-Claros, Chief Economist and Director of the World Economic Forum's Global Competitiveness Programme: *enhanced competitiveness and boosting the capacity of economies to operate effectively in the global economy is a multifaceted challenge that requires concerted actions on a number of fronts.* Asia is now at the threshold of becoming a real world competitor and is progressively proving that it is a force to reckon with but its countries have a lot to learn and catch up on before they can truly live up to the billing of a real global competitor. Low occurrences of corruption and good macro and microeconomic management are but a few of the many things that need to be achieved before Asia can truly be at the forefront of the world. **§ Tan Yin Hooi**

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