

Lithuania in the World: Competitive or Outcompeted?

Vilnius, June 11, 2008

LITHUANIA IN WORLD COMPETITIVENESS TODAY: CHALLENGES & OPPORTUNITIES



WHAT ARE IMD AND THE WCC?



The International Institute for Management Development (IMD)
is an independent not-for-profit foundation located in Lausanne,
Switzerland, offering programs on executive education.
For over 50 years it has trained managers of leading
international companies.



IMD'S WORLD COMPETITIVENESS CENTER

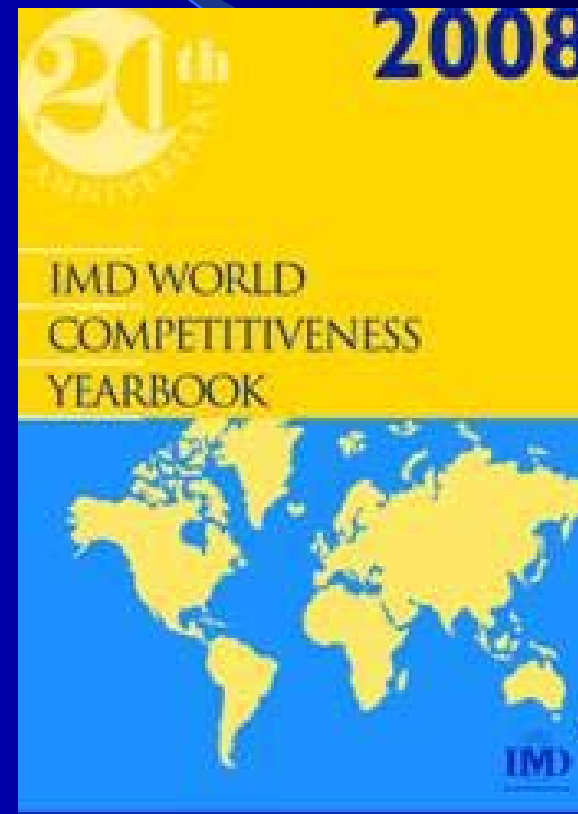




**55
ECONOMIES**

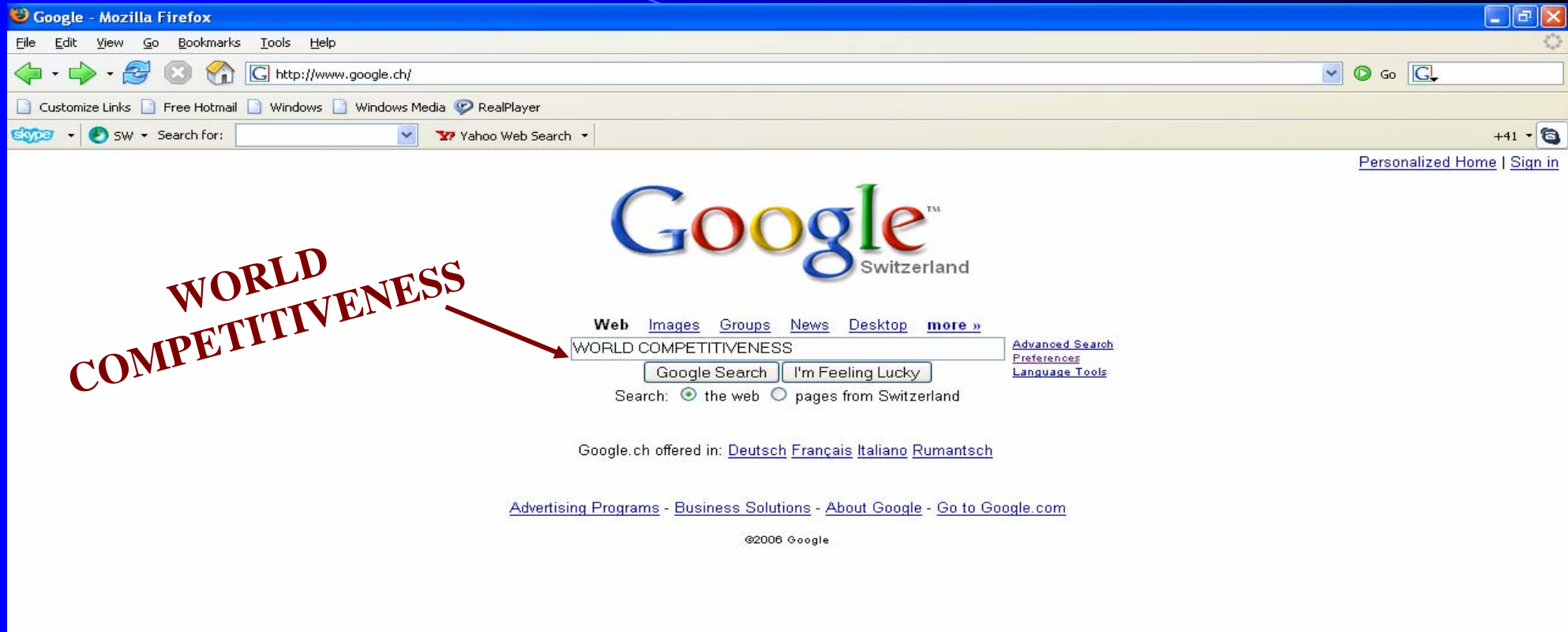
331 INDICATORS

**52 PARTNER
INSTITUTES**



**WORLD
COMPETITIVENESS**

30 YEARS AGO: NOTHING...



10 MILLION RESULTS!

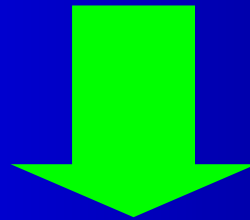
WHAT IS COMPETITIVENESS OF NATIONS?

- Not price competition / competitiveness of firms
- Not win/lose contest (Coca-Cola vs Pepsi)
- Not only about exchange rates
- More than just growth or productivity

HOW TO MANAGE THE LONG-TERM PATH TO PROSPERITY?

WHY ARE COMPETITIVE ENVIRONMENTS IMPORTANT?

- CREATE MORE ADDED VALUE FOR ENTERPRISES
- CREATE JOBS
- ATTRACT INVESTMENTS & TALENTS
- CREATE REVENUES FOR THE STATE



PROSPERITY FOR PEOPLE



WCY DEFINITION

COMPETITIVENESS

ANALYSES

HOW NATIONS AND
ENTERPRISES

MANAGE THE

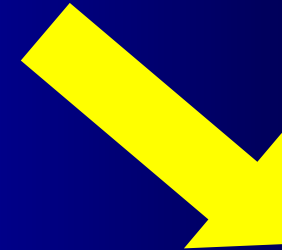
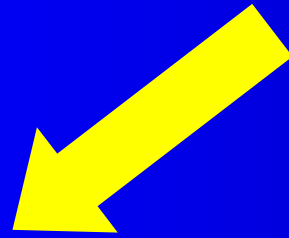
TOTALITY OF THEIR
COMPETENCIES

TO ACHIEVE

LONG-TERM PROSPERITY



COMPETITIVENESS



COMPETENCIES

MINDSET

❖ NATURAL ENDOWMENTS & GEOGRAPHY

❖ DRIVERS OF GROWTH

- SKILLS & TALENTS
- INFRASTRUCTURE
- FINANCIAL SYSTEM
- INNOVATION, ETC....

❖ ATTITUDES & VALUES

- GOVERNMENTS
- BUSINESSES
- PEOPLE

COMPETITIVENESS MINDSET



OVERALL RANKING 2008

(1) USA 1
(2) SINGAPORE 2
(3) HONG KONG 3
(6) SWITZERLAND 4
(4) LUXEMBOURG 5
(5) DENMARK 6
(12) AUSTRALIA 7
(10) CANADA 8
(9) SWEDEN 9
(8) NETHERLANDS 10
(13) NORWAY 11
(14) IRELAND 12
(18) TAIWAN 13
(11) AUSTRIA 14
(17) FINLAND 15
(16) GERMANY 16
(15) CHINA MAINLAND 17
(19) NEW ZEALAND 18
(23) MALAYSIA 19
(21) ISRAEL 20
(20) UNITED KINGDOM 21
(24) JAPAN 22
(22) ESTONIA 23
(25) BELGIUM 24
(28) FRANCE 25
(26) CHILE 26
(33) THAILAND 27

(32) CZECH REPUBLIC 28
(27) INDIA 29
(34) SLOVAK REPUBLIC 30
(29) KOREA 31
(40) SLOVENIA 32
(30) SPAIN 33
(37) JORDAN 34
PERU 35
(31) LITHUANIA 36
(39) PORTUGAL 37
(35) HUNGARY 38
(41) BULGARIA 39
(45) PHILIPPINES 40
(38) COLOMBIA 41
(36) GREECE 42
(49) BRAZIL 43
(52) POLAND 44
(44) ROMANIA 45
(42) ITALY 46
(43) RUSSIA 47
(48) TURKEY 48
(53) CROATIA 49
(47) MEXICO 50
(54) INDONESIA 51
(51) ARGENTINA 52
(50) SOUTH AFRICA 53
(46) UKRAINE 54
(55) VENEZUELA 55

(1) USA 1
(2) SINGAPORE 2

INDIA = 29TH → (27) INDIA 29

LITHUANIA = 36TH → (31) LITHUANIA 36

← GERMANY = 16TH

← CHINA = 17TH

← BRAZIL = 43RD

← ESTONIA = 23RD

← RUSSIA = 47TH

← FRANCE = 25TH



WHY ARE RANKINGS USEFUL?

- **Benchmark globally!**
- **Highlight competitive strengths & target weaknesses**
- **Set goals and targets**
- **Promote the country / Attract investments**
- **Determine outward investment strategy**
- **Promote international standing**
- **Learn from others...**



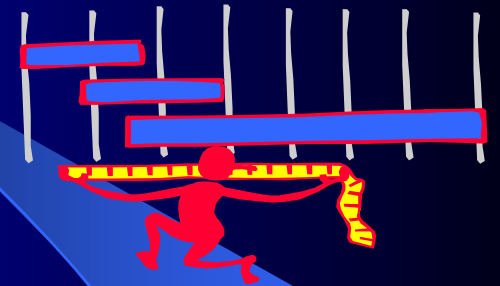
331 CRITERIA

2/3 Hard data

- International and national organizations

1/3 Survey data

- Over 3,900 respondents to our Executive Opinion Survey



OVERALL RANKING



Economic Performance

Domestic Economy

International Trade

International Investment

Employment

Prices



Government Efficiency

Public Finance

Fiscal Policy

Institutional Framework

Business Legislation

Societal Framework



Business Efficiency

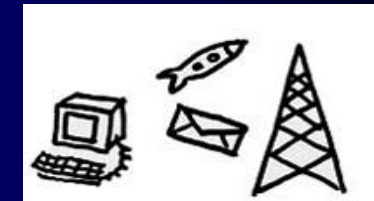
Productivity

Labor Market

Finance

Management Practices

Attitudes and Values



Infrastructure

Basic

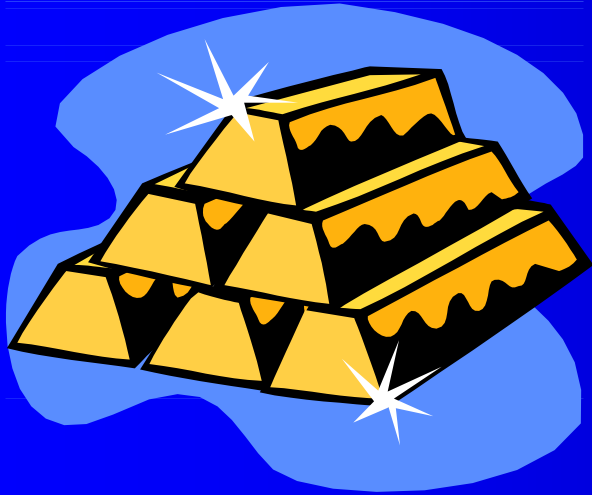
Technological

Scientific

Health & Environment

Education

WORLD COMPETITIVENESS IS NOT...



... only about Wealth

Nations can be Wealthy but not
(yet) Competitive!

Wealth is based on:

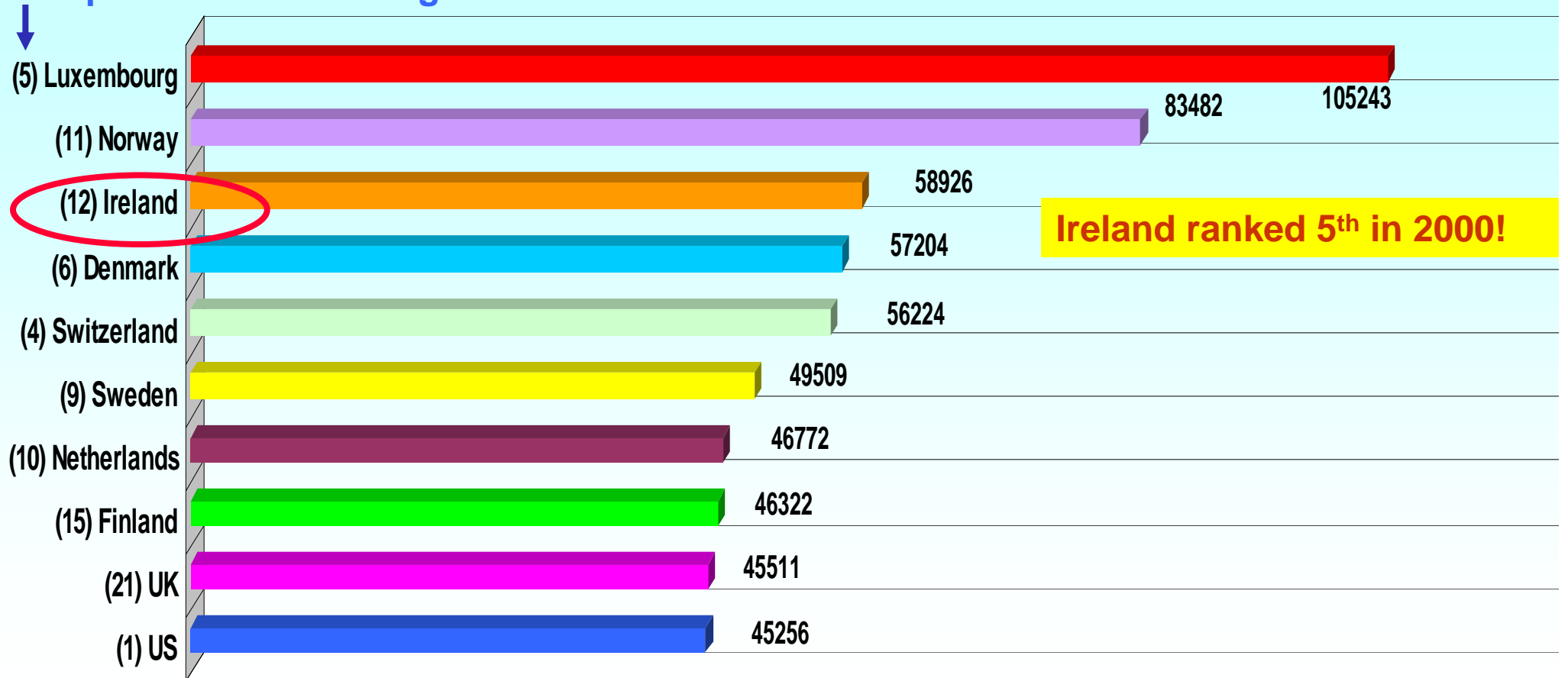
... past competitiveness

... natural endowments

Wealth

TEN "WEALTHIEST NATIONS"

Competitiveness ranking

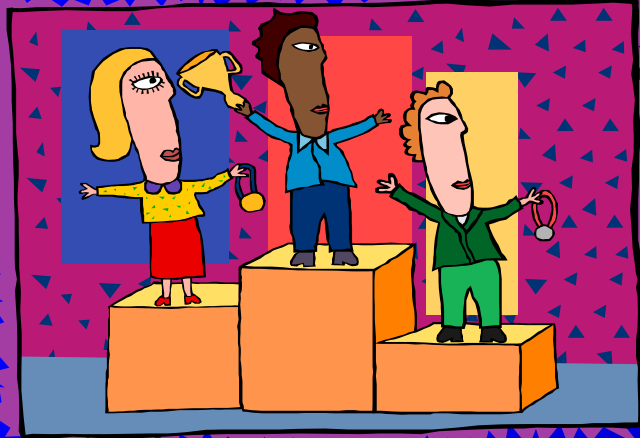


Ireland ranked 5th in 2000!

GDP PER CAPITA 2007 (\$)

Source: World Competitiveness Yearbook 2008

WORLD COMPETITIVENESS IS NOT...



... only about Economic Power!

...combining wealth & size

...aggressiveness in foreign markets

Economic Power

WORLD COMPETITIVENESS IS NOT...



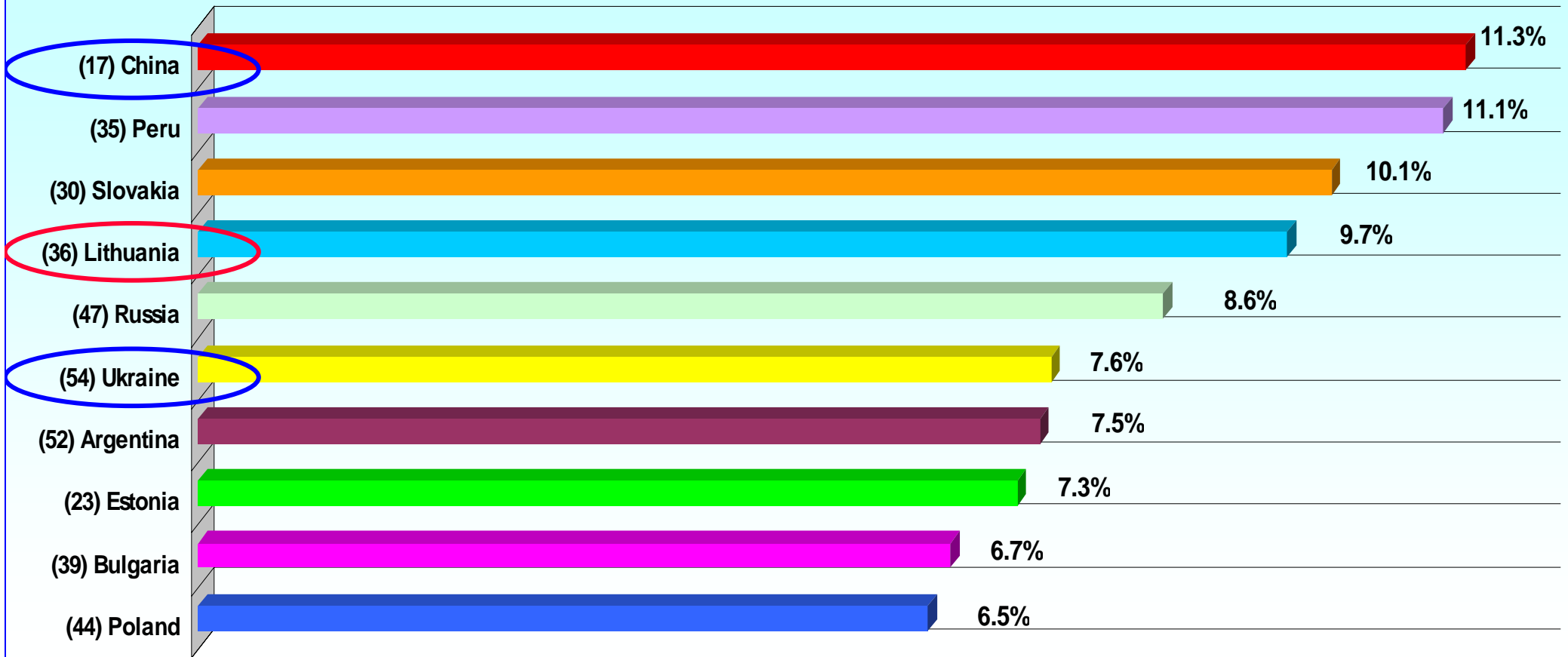
... only a measurement of Economic Performance

GDP does not take into account:

- ... environmental concerns
- ... economic volatility
- ... sustainability of growth
- ... intangibles

Economic Performance

10 HIGH GROWTH ECONOMIES



REAL GDP GROWTH 2007

Source: World Competitiveness Yearbook 2008

LITHUANIA'S COMPETITIVENESS

A: Strengths: What can be capitalized on?

B: What has improved?

C: Weaknesses: What can be targeted?

D: Challenges: What's the next step?

OVERALL & FACTOR BENCHMARKING (OUT OF 55 ECONOMIES)

	LITHUANIA	ESTONIA	SLOVAKIA	SLOVENIA
Overall	36	23	30	32
Economic Performance	28	23	32	25
Government Efficiency	36	10	31	43
Business Efficiency	41	27	26	32
Infrastructure	32	26	36	29

COMPETITIVENESS PROFILE

OVERALL PERFORMANCE

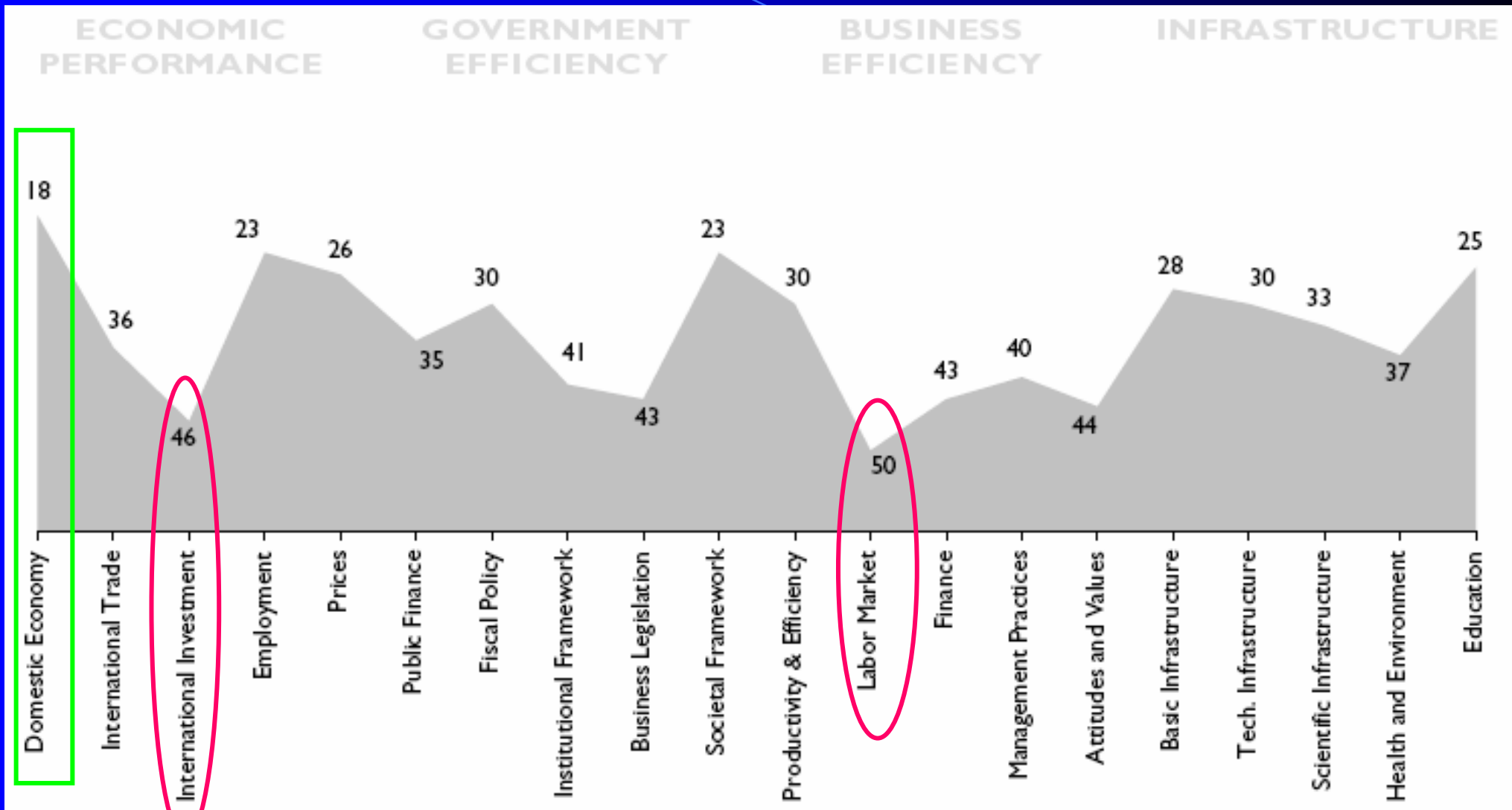


**OVERALL RANKING –
55 COUNTRIES**

COMPETITIVENESS FACTOR	2007	2008
ECONOMIC PERFORMANCE	37	28
GOVERNMENT EFFICIENCY	26	36
BUSINESS EFFICIENCY	29	41
INFRASTRUCTURE	30	32



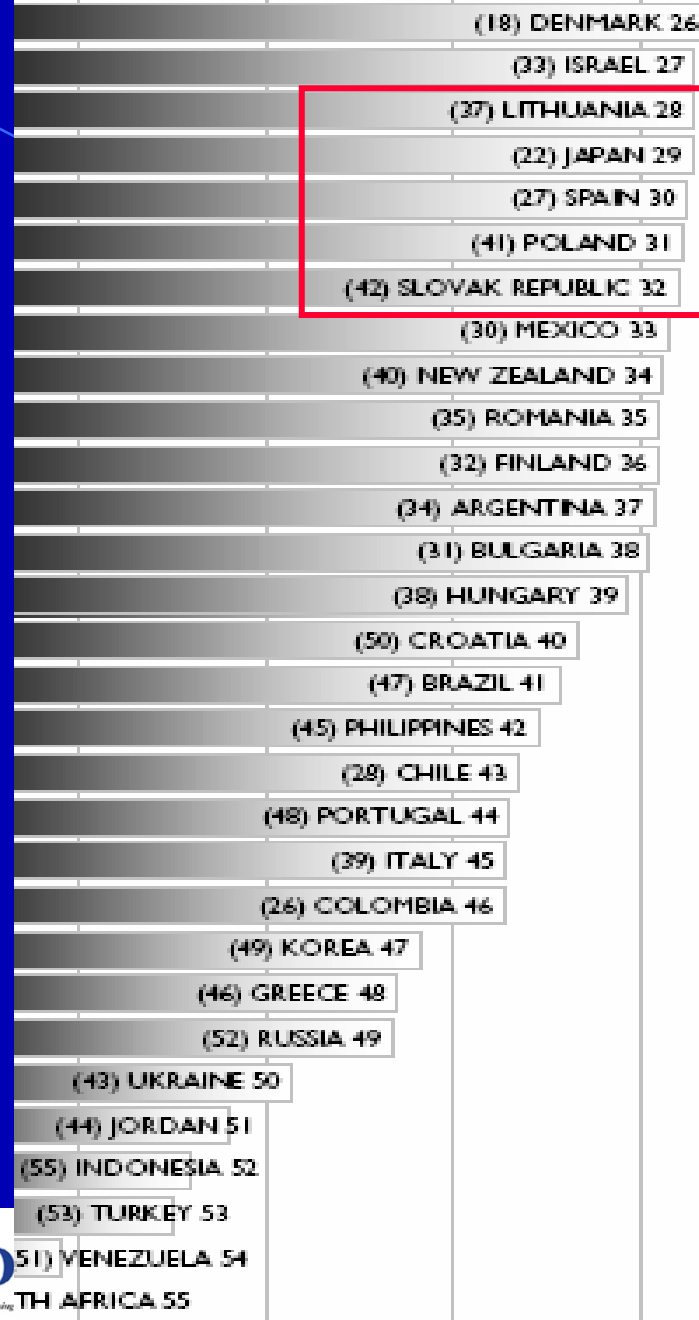
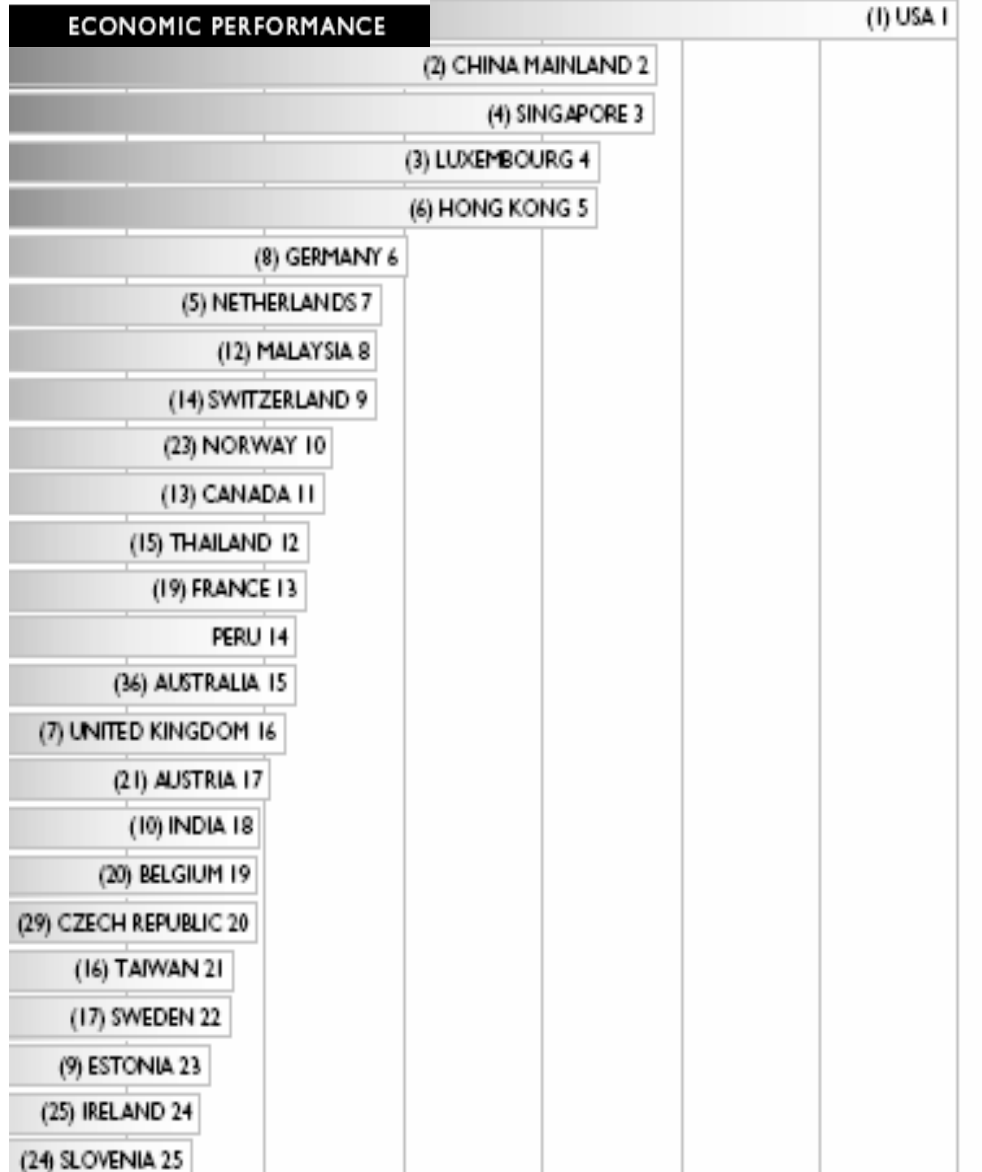
COMPETITIVENESS LANDSCAPE



ECONOMIC PERFORMANCE 2008



70 80 90 100



LITHUANIA 28TH



STRENGTHS:

- ❖ Real GDP growth 8.8% (ave. 5.2%)
- ❖ Rising GDP per capita (4th)
- ❖ Low unemployment (4.3%)
- ❖ Cost-of-living (13th)



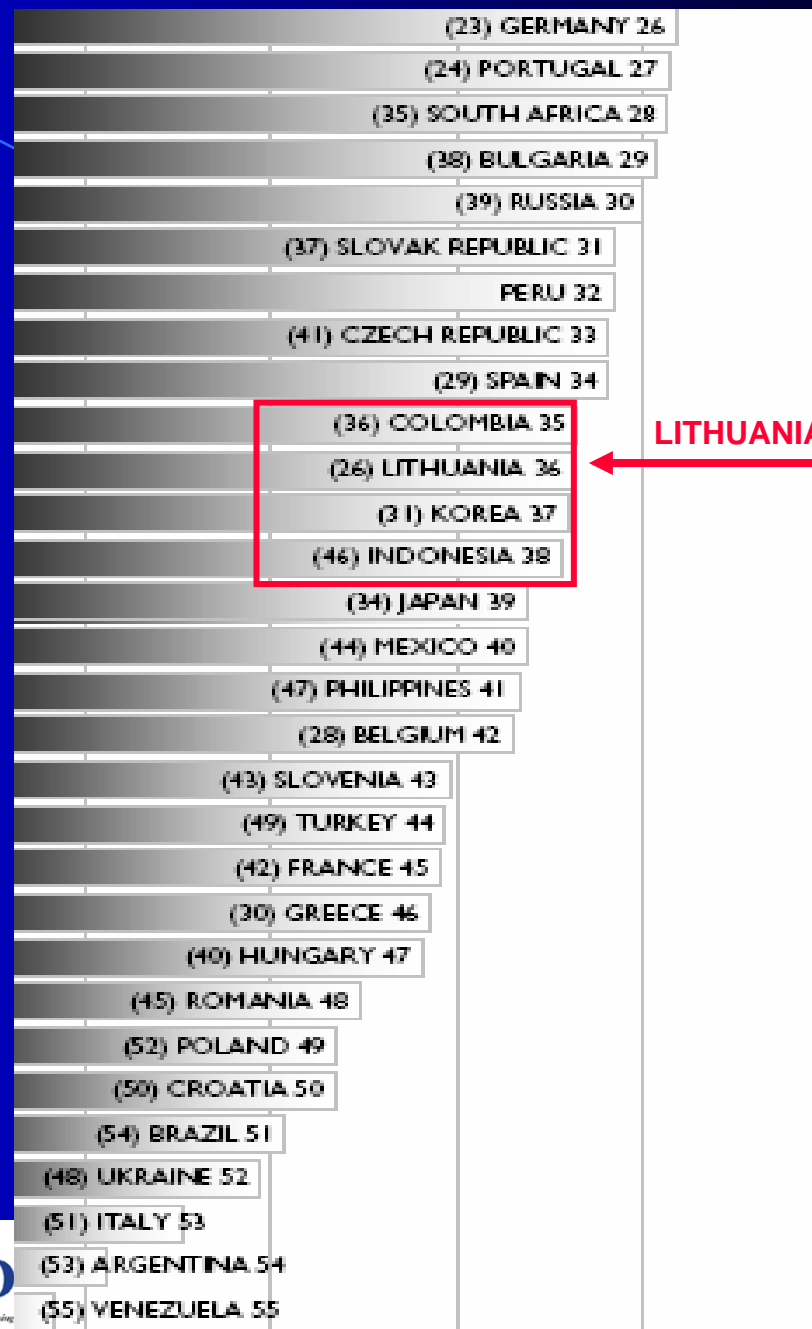
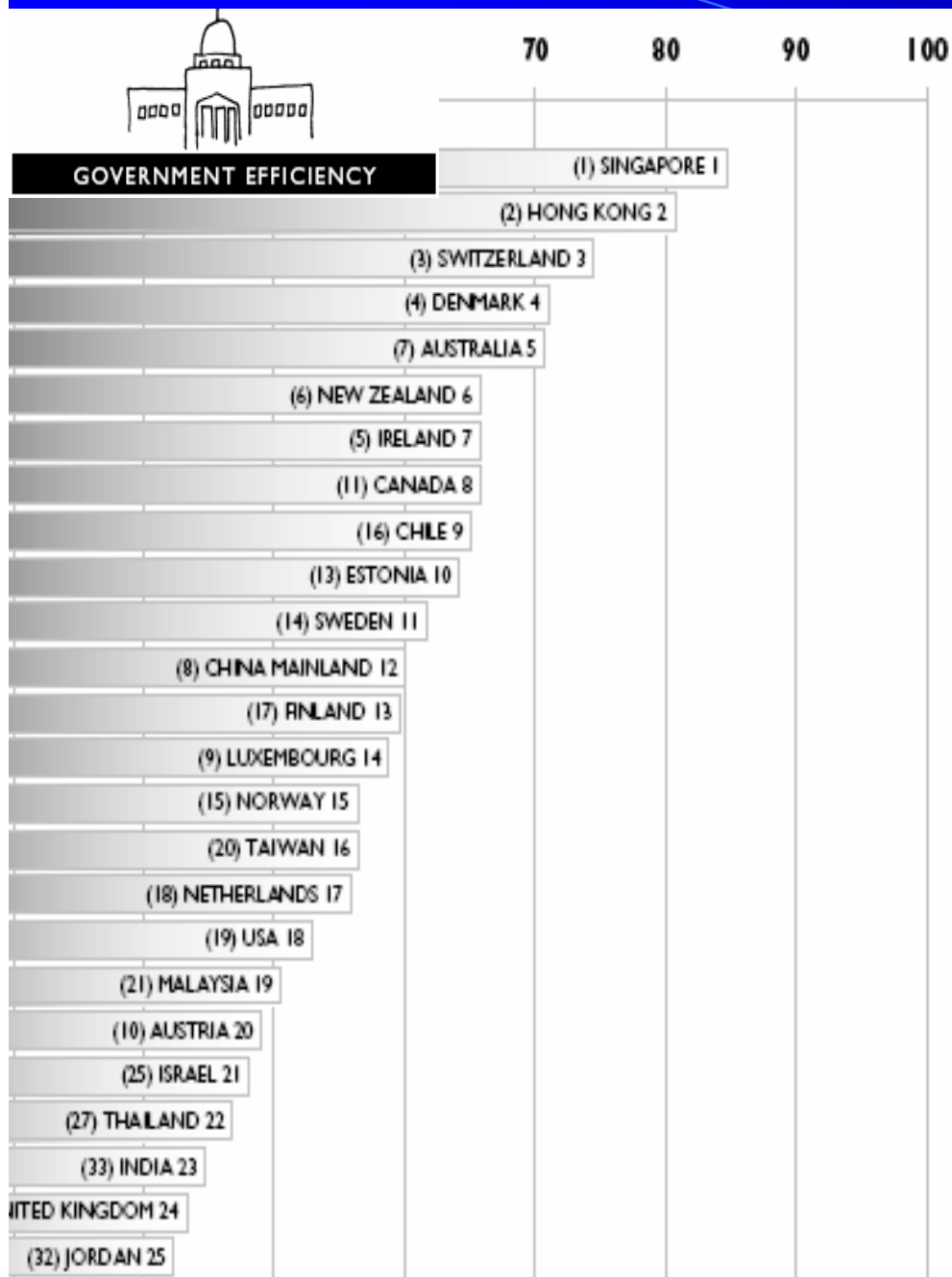
WEAKNESSES:

- ❖ Current Account deficit (10% GDP, ranking 49th)
- ❖ Rising inflation (43rd)
- ❖ Risk of overheating?
- ❖ Low resilience of the economy (47th)
- ❖ Increasing fears of relocation

MAJOR CHALLENGES

- **Improve productivity and move up the value chain**
- **Bring inflation under control**
- **Need for further investment in exporting industries**
- **More emphasis on R&D and innovation**
- **Close the gap between wage rises and productivity gains**

GOVERNMENT EFFICIENCY 2008



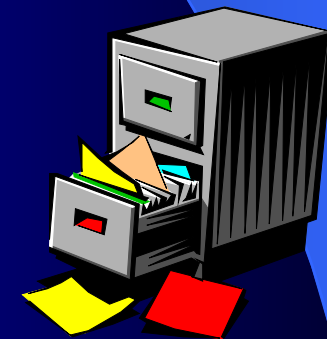
LITHUANIA 36TH

STRENGTHS:

- ❖ Low corporate tax rates (3rd)
- ❖ Low public debt and interest rates
- ❖ Resilience to global financial crisis
- ❖ Gender income ratio (7th)

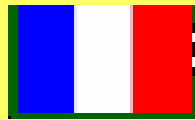
WEAKNESSES:

- ❖ Management of public finances (50th)
- ❖ Negotiation of international transactions (54th)
- ❖ Government subsidies (53rd)
- ❖ Transparency (50th)



CORPORATE TAX

FRANCE



33.3 %

GERMANY



32.8 %

SPAIN



30 %

UK



28 %

IRELAND



12.5 %



10 %



15 %



16 %



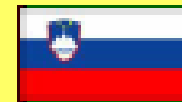
19 %



21 %



21 %



22 %

BULGARIA

LITHUANIA

HUNGARY

POLAND

CZECH REPUBLIC

ESTONIA

SLOVENIA

NUMBER OF START-UP DAYS

	2007
1 Belgium	4.00
2 Denmark	6.00
2 Turkey	6.00
4 Estonia	7.00
4 France	7.00
4 Portugal	7.00
7 Netherlands	10.00
7 Norway	10.00
9 United Kingdom	13.00
9 Ireland	13.00
9 Italy	13.00
12 Finland	14.00
12 Jordan	14.00
12 Romania	14.00
15 Sweden	15.00
16 Hungary	16.00
17 Czech Republic	17.00
18 Germany	18.00
19 Switzerland	20.00
20 Slovak Republic	25.00
21 Lithuania	26.00
21 Luxembourg	26.00
23 Ukraine	27.00
24 Austria	28.00
25 Russia	29.00
26 Poland	31.00
26 South Africa	31.00
28 Bulgaria	32.00
29 Israel	34.00
30 Greece	38.00
31 Croatia	40.00
32 Spain	47.00
33 Slovenia	60.00

OVERALL EASE OF DOING BUSINESS = 32ND



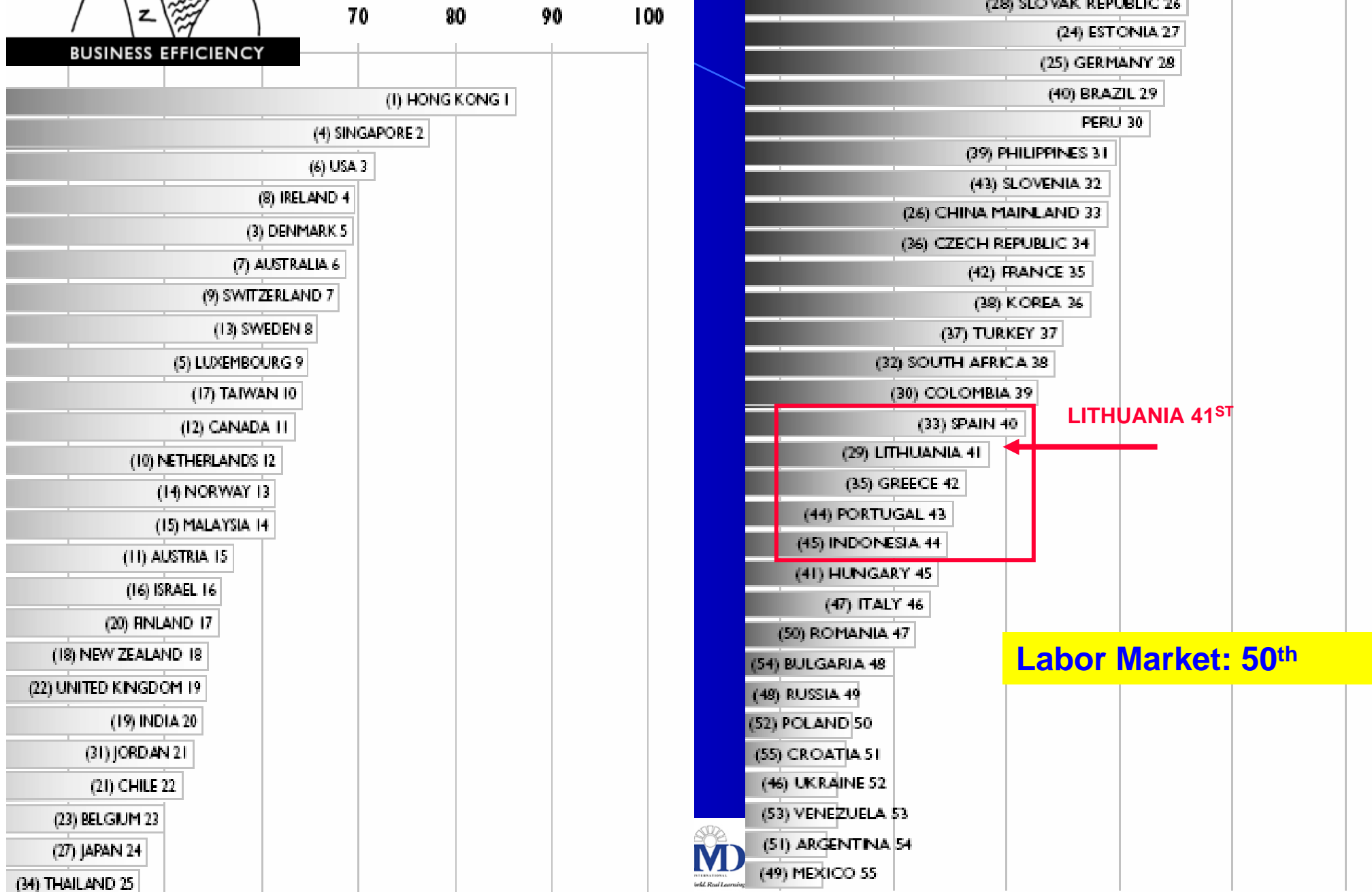
The "Name of the Game" is now LOCATION!

Companies will focus on taking advantage of the huge differences in operating costs offered by various countries and regions of the world.





BUSINESS EFFICIENCY 2008



LITHUANIA 41ST

Labor Market: 50th



STRENGTHS:

- ❖ Female labour force (3rd)
- ❖ Low-cost compensation levels
- ❖ Competency of managers (13th)
- ❖ Entrepreneurship (17th)



WEAKNESSES:

- ❖ Brain drain (54th)
- ❖ Lack of international experience (54th)
- ❖ Ability to attract foreign high-skilled workers (54th)
- ❖ Ethical practices (53rd)

EUROPE ACCESSES A LOW COST AREA

HOURLY COMPENSATION

GERMANY



\$ 34.16

NETHERLANDS



\$ 32.29

UK



\$ 27.05

FRANCE



\$ 24.87



\$ 1.28



\$ 3.54



\$ 4.07



\$ 4.34



\$ 4.99



\$ 6.29



\$ 10.20

BULGARIA

SLOVAKIA

LITHUANIA

ESTONIA

POLAND

HUNGARY

SLOVENIA

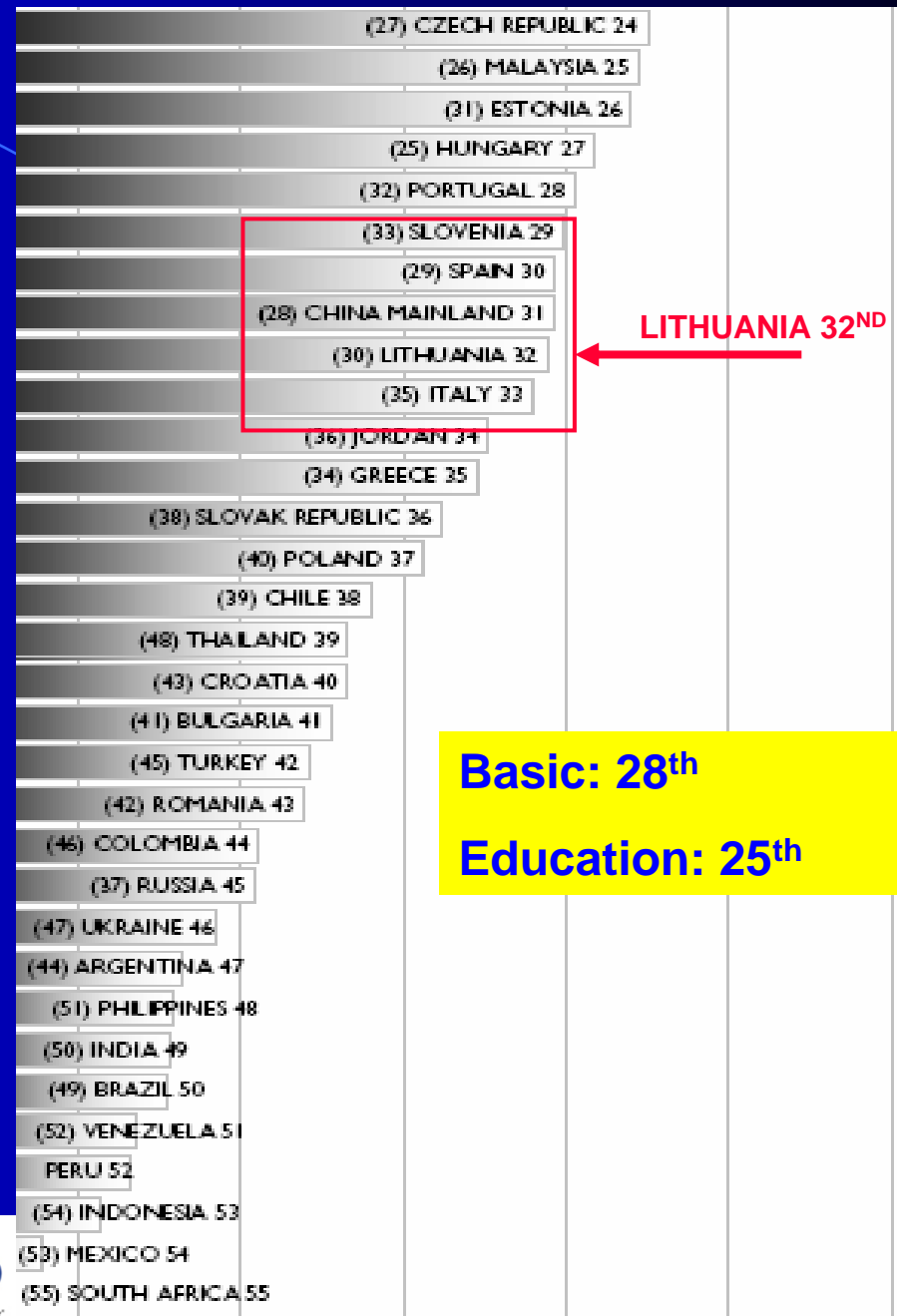
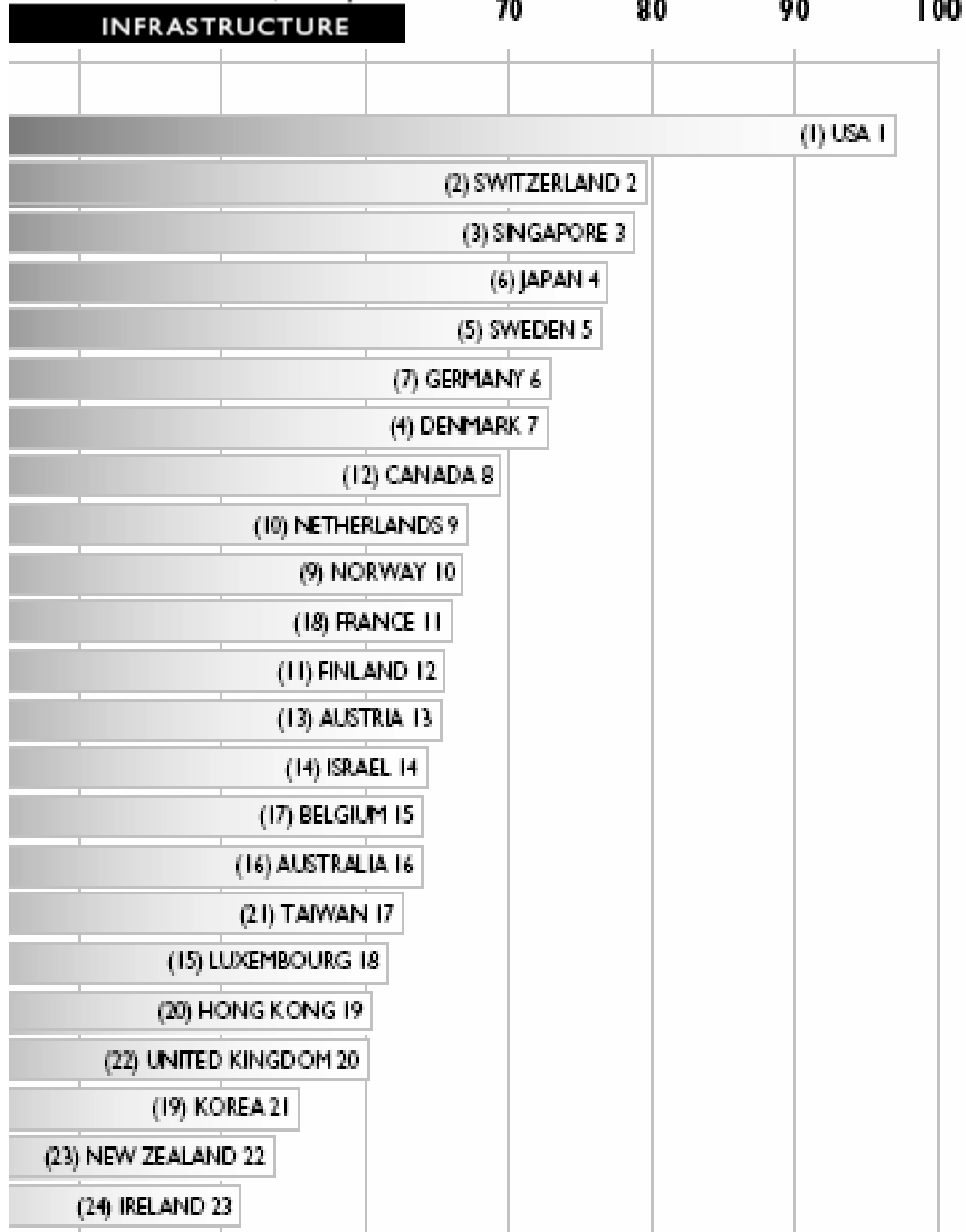
Attractiveness of new EU member countries:

- ✓ Availability of skills (engineers, IT, english-speaking)
- ✓ Lower cost structure
- ✓ Open and attractive to foreign direct investment
- ✓ Availability of investment protection schemes
- ✓ Attractive investment incentives
- ✓ Lower tax burden





INFRASTRUCTURE 2008



Basic: 28th
Education: 25th

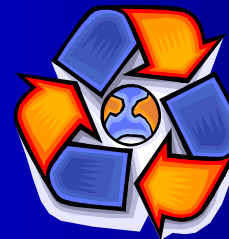
STRENGTHS:

- ❖ Transport and logistics hub linking East to West
- ❖ 2nd for number of Mobile Telephone Subscribers (per 1000 people)
- ❖ Low Internet costs (3rd)
- ❖ Secondary school pupil-teacher ratio (7th)
- ❖ Secondary school enrollment (11th)



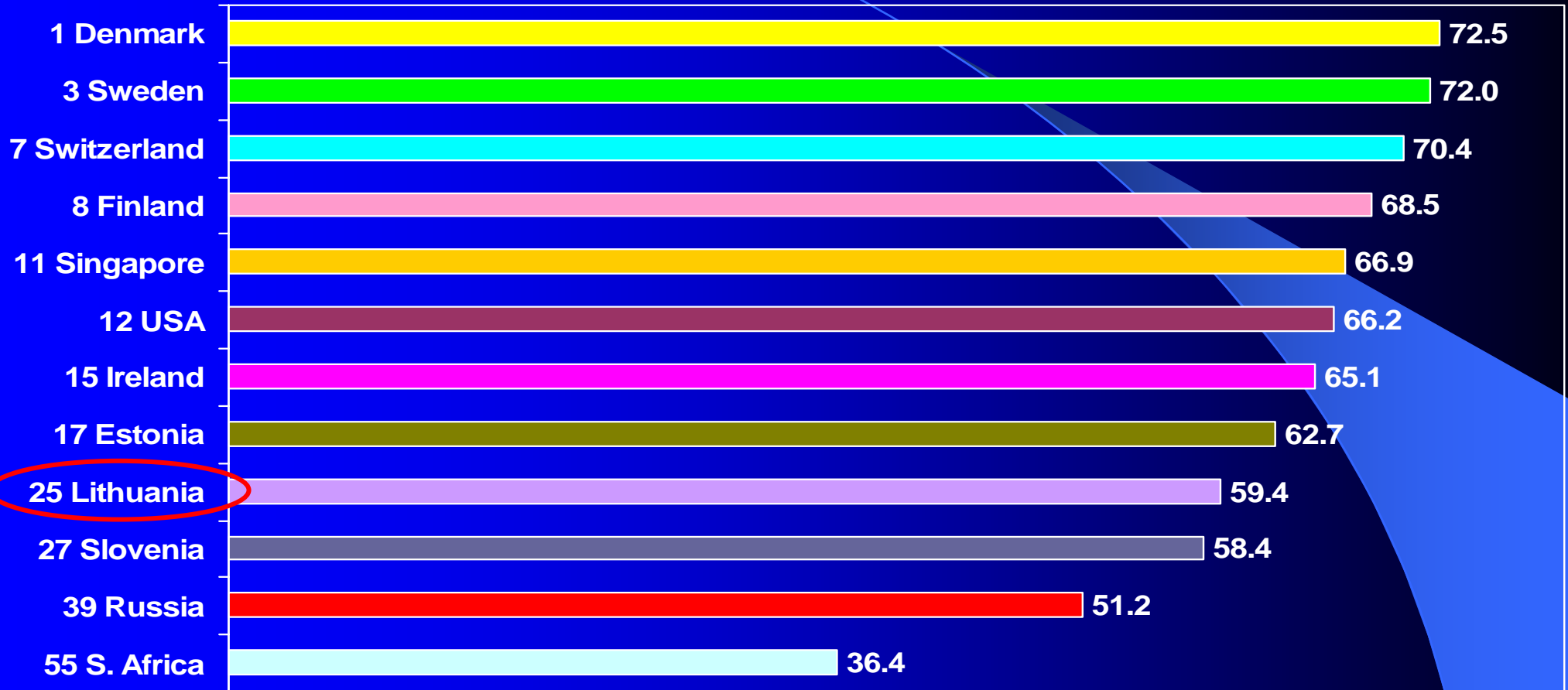
WEAKNESSES:

- ❖ Health problems in workplace (54th)
- ❖ Life expectancy (46th)
- ❖ Health expenditure (43rd)
- ❖ Future energy supply (48th)



EDUCATION

2008 Overall assessment of Educational System



© IMD World Competitiveness Yearbook 2008

D: Challenges: What's the next step?

- ❑ Improve the investment environment by implementing the Investment Promotion Plan**
- ❑ Balance the budget and contain inflation through the Fiscal Discipline Law and other anti-inflationary measures**
- ❑ Encourage private R&D reduction of taxed profit for companies that have invested in R&D**
- ❑ Increase labour productivity by supporting investments in new equipment, technologies and advanced management methods**
- ❑ Reduce negative consequences of emigration via the Economic Migration Regulation Strategy**

Source: Lithuanian Development Agency



PREDICTABILITY

- ❖ DEFINE A STRATEGY
- ❖ MAKE A BLUEPRINT
- ❖ THEN STICK TO IT!

THE RULES OF THE GAME!

