



OFFICE OF THE CHIEF ECONOMIST



REVIEW OF COMPETITIVENESS STUDIES

December 2016

SUMMARY

The Office of the Chief Economist of Global Affairs Canada reviews on a bi-annual basis, international competitiveness studies that rank the overall investment climate of Canada vis-à-vis other countries. In general, these studies monitor assessments and perceptions of Canada’s investment climate in both quantitative and qualitative terms.

Canada’s overall ranking varies significantly from one study to another, depending on exactly what is being measured and how (data, methodology, countries included).

The rankings reviewed include the following:

**Widely recognized business competitiveness/
Investment climate studies:**

Canada’s Rank Among:

	All Countries	G7 Countries	G20 Countries(*)
Business Environment Ranking (EIU) – December 2016	5/82	2/7	2/19
World Competitiveness Ranking (IMD) – 2016	10/61	2/7	2/19
FDI Confidence Index (A.T. Kearney) -2016	3/25	2/7	3/19
Global Competitiveness Index (WEF) – 2016-2017	15/138	5/7	5/19

EIU = Economist Intelligence Unit
 IMD = International Institute of Management Development
 WEF = World Economic Forum
 (*) not including the EU

Other studies:

Canada’s Rank Among:

	All Countries	G7 Countries	G20 Countries(*)
Index of Economic Freedom (Heritage Foundation) – 2016	6/178	1/7	2/19
Globalization Index (KOF Swiss Economic Institute) – 2013	10/207	1/7	1/19
Competitive Alternatives (KPMG) – 2016	2/10	1/7	-----
Networked Readiness Index (WEF) – 2016	8/138	2/7	2/19
Ease of Doing Business Ranking (The World Bank Group) -2017	22/190	4/7	5/19

CBOC = Conference Board of Canada
 (*) not including the EU

BACKGROUND

1. In identifying the strengths and weaknesses of Canada's investment climate, the Office of the Chief Economist of Global Affairs Canada monitors key international studies that benchmark and track Canada's business climate performance against other major economies. The results of these studies are then used to enhance awareness of Canada's comparative advantages as an investment location through marketing and communication activities. This information is also of importance for preparing briefing reports on the state of foreign direct investment in context of the Department's mandate for attracting foreign direct investment and potential policy initiatives to strengthen Canada's investment climate.
2. While many of these studies highlight Canada's progress in improving its economic climate for business investment, analysis of benchmarking studies also provides insight into weaknesses and how they may be perceived by some foreign investors. This knowledge is useful for potentially conducting further research into perceived deficiencies, for addressing investor concerns and for potentially advocating for change in government policies.
3. The first section of the attached Review of Competitiveness Studies (see Annex) highlights the main results from four prominent competitiveness and FDI performance studies. The second section lists other important studies and outlines Canada's rank associated with them.

CONSIDERATIONS

4. All indices are the product of quantitative and/or qualitative data that are aggregated under the assumptions of a specific model in order to evaluate a particular aspect of economic performance. There are no consistent or commonly accepted ways to measure a country's investment climate or the competitiveness of its economy, and each organization develops and uses its own methodology using factors (and weights) in keeping with its objectives.
5. Caution must be exercised when interpreting the ranking results, as the gap between the first and the tenth position is often negligible in many of the global competitiveness and business environment rankings.
6. Although studies may point to a positive correlation between FDI flows and the quality of the overall business environment, it is acknowledged that investment decisions are based upon a broad variety of factors often specific to each country's characteristics, not just the business climate but also each firm's operational needs and international strategy.
7. In order to capture intangible factors that cannot be found in official statistics, many competitiveness indices include qualitative variables drawn from executive opinion surveys. Preliminary analysis indicates Canada's investment climate is consistently ranked lower in surveys of "investor perception" than in empirical assessments of economic characteristics.

Office of the Chief Economist (BED) Contact

Arif Mahmud

Tel: (343) 203-4122

Email: Arif.Mahmud@international.gc.ca

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ANNEX- December 2016

REVIEW OF COMPETITIVENESS STUDIES – DECEMBER 2016

The following review of international competitiveness studies is divided in two sections. The first section is a review of four prominent competitiveness studies, all of which attempt to measure the quality or attractiveness of the overall business environment. These studies are recognized as authoritative sources of information and receive important press coverage. They include the following:

1. Business Environment Ranking 2017-2021 (Economist Intelligence Unit)
2. World Competitiveness Ranking 2016 (International Institute for Management Development, 2016)
3. FDI Confidence Index 2016 (A.T. Kearney, 2016 annual report)
4. Global Competitiveness Index 2016-2017 (World Economic Forum)

The second section lists other important studies that also offer valuable insight but which do not receive as much press and public attention. These include the following:

1. Index of Economic Freedom 2016 (Heritage Foundation, 2016)
2. Globalization Index 2013 (KOF Swiss Economic Institute, 2016)
3. Competitive Alternatives 2016 (KPMG 2016)
4. Networked Readiness Index 2016 (World Economic Forum, 2016)
5. Ease of Doing Business Ranking 2017 (World Bank Group, 2016)

It is worth noting that in addition to the above, there is a range of other comparative ranking studies, some of which may be examined in future for their relevance to a country's investment climate, their soundness of methodology and their potential for supporting Canada's investment promotion and attraction activities.

PROMINENT COMPETITIVENESS STUDIES (Rankings for G7 Countries)

Country	Business Environment Ranking (82 countries) (2017-2021)	World Competitiveness Ranking (61 countries) (2016)	FDI Confidence Index (Top 25 countries) (2016)	Global Competitiveness Index (138 countries) (2016-2017)
United States	3	3	1	3
Canada	5	10	3	15
United Kingdom	18	18	5	7
France	14	32	8	21
Germany	9	12	4	5
Japan	25	26	6	8
Italy	39	35	16	44
Sources:	Economist Intelligence Unit "Business Environment Ranking – December 2016"	International Institute for Management Development, "The World Competitiveness Yearbook 2016"	A.T. Kearney, "FDI Confidence Index – April 2016"	World Economic Forum, "Global Competitiveness Report 2016-2017"

Business Environment Ranking 2017-2021

The Economist Intelligence Unit (EIU) updates its Business Environment Ranking on a monthly basis. The EIU business Rankings model measures the present and future attractiveness of the business environments in 82 countries using a standard analytical framework. The model examines ten separate categories.

According to the EIU, Canada ranks 5th behind Singapore, Hong Kong, the U.S. and Sweden as the best country in the world in which to conduct business over the next five years (2017-2021). This is better than its 7th place standing in the historical period (2012-2016). Among the top ten, Canada outpaces New Zealand (6th), Denmark (7th), Switzerland (8th), Germany (9th) and the Netherlands (10th). Canada also outranks major Economic powers such as France (14th), the U.K. (18th), Japan (24th), and Italy (39th).

Among the G7, Canada is ranked 2nd as the best place for doing business over the next five years.

World Competitiveness Ranking 2016

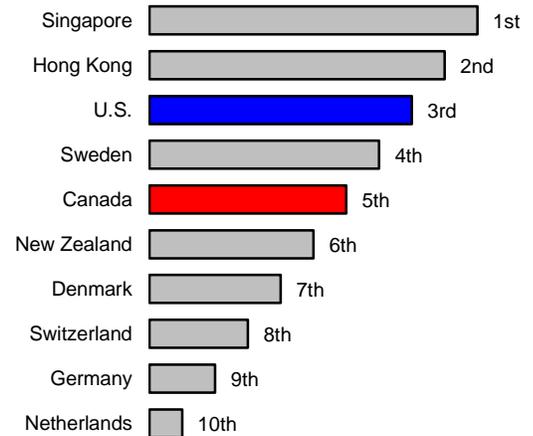
The World Competitiveness Yearbook has been produced annually since 1989 by the International Institute for Management Development (IMD). This publication compares and ranks the ability of nations to create and maintain an environment that sustains the competitiveness of enterprises.

The 2016 edition of the yearbook covers 61 countries and regional economies using 342 criteria grouped into four sub-indices: economic performance, government efficiency, business efficiency and infrastructure. The rankings show Hong Kong taking the lead from the U.S., rising from 2nd to 1st place, while the U.S. fell from its traditional 1st place position to 3rd. Switzerland rose from 4th place to 2nd, while Singapore dropped from 4th place to 3rd. Canada fell sharply to 10th place from 5th in 2015 but remains 2nd in the G7 behind the U.S. Among other large industrialized nations, Canada is ahead of Germany (12th), the U.K. (18th), Japan (26th), France (32nd) and Italy (35th).

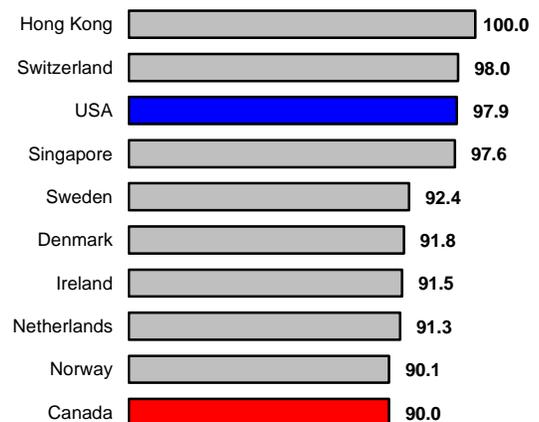
Among the G7, Canada outperformed all countries with the exception of the U.S. Canada reached 90% of Hong Kong (the highest ranking country in 2016) competitiveness levels. In contrast, Italy, as the last country among the G7, reached only 69% of Hong Kong competitiveness levels.

At the sub-index level, Canada declined from 13th place last year to 14th in economic performance due to weaknesses in the domestic economy and international investment which offset gains in employment and prices. In government efficiency, Canada fell from 8th place to 10th due to declines in fiscal policy and societal framework which offset a gain in business legislation. In business efficiency, Canada dropped sharply from 3rd place to 12th led by significant declines in productivity and efficiency and finance which offset a gain in the labour market.

Business Environment Ranking 2017-2021, Top 10 Countries



World Competitiveness Ranking 2016, Top 10 Countries



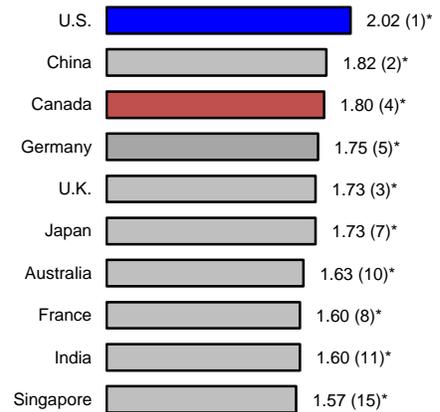
In infrastructure, Canada dropped from 6th place to 9th as a result of weaknesses in basic infrastructure, technological infrastructure, scientific infrastructure (14th to 16th) and education which offset a gain in health and environment.

FDI Confidence Index 2016

The annual A.T. Kearney, Canadian Foreign Direct Investment (FDI) Confidence Index survey studies the likelihood of direct investment in specific markets over the next one-to-three-year period. The index is compiled from a survey of executives from the world’s largest companies that are responsible for about 70% of global FDI flows and represents all major regions and sectors. This survey is based exclusively on perceptions and opinions of executives and not on any quantifiable criteria.

For 2016, the United States and China maintained their 1st and 2nd respective positions, while Canada moved up from 4th place to 3rd.

FDI Confidence Index 2016, Top 10 Countries



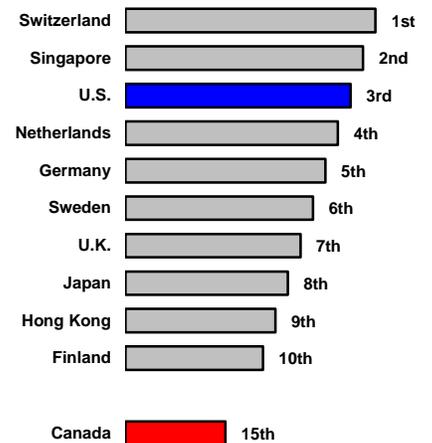
* figures in parenthesis refer to country rank on the FDI Confidence Index 2015.

Global Competitiveness Index 2016-2017

The Global Competitiveness Report is published annually by the World Economic Forum (WEF). The 2016-17 release focuses on the Global Competitiveness Index (GCI) to analyze competitiveness.

Global Competitiveness Index: This index is a holistic measure of the factors critical to driving productivity and competitiveness. The overall index is composed of 12 pillars organized into three sub-indices, each critical to a particular stage of development: a) the “basic requirements” sub-index groups pillars geared to countries in the factor-driven stage of development (institutions, infrastructure, macroeconomic stability, health & primary education); b) the “efficiency enhancers” sub-index includes pillars focused on those countries in the efficiency-driven stage of development (higher education & training, goods market efficiency, labour market efficiency, financial market sophistication, technological readiness, market size); c) the “innovation and sophistication factors” sub-index includes pillars critical to countries in the innovation-driven stage of development (business sophistication, innovation).

Global Competitive Index 2016-2017, Top 10 Countries



Canada ranked 15th overall among the 138 countries surveyed, two positions down from 13th among 140 countries surveyed last year. Like last year, in terms of the G7, Canada stood 5th behind the United States, Germany, the U.K. and Japan.

OTHER COMPETITIVENESS STUDIES (Rankings for G7 Countries)

The following are five other important competitiveness studies.

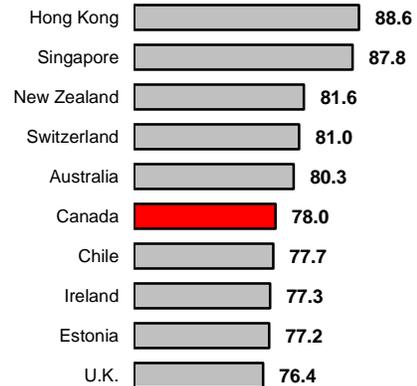
Country	Index of Economic Freedom (178 countries) (2016)	Globalization Index (207 countries) (2013)	Competitive Alternative Rankings (10 countries) (2016)	Networked Readiness Index (138 countries) (2016)	Ease of Doing Business Rankings (190 countries) (2017)
United States	11	34	7	5	8
Canada	6	10	1	8	22
United Kingdom	10	20	4	15	7
France	75	19	3	20	29
Germany	17	27	5	13	17
Japan	22	48	6	19	34
Italy	86	24	2	51	50
Sources:	The Heritage Foundation, February 2016	KOF, Swiss Economic Institute, March 2016	KPMG Competitive Alternatives, April 2016	World Economic Forum, January 2016.	Based on data from The World Bank Group "Doing Business in 2017"

Index of Economic Freedom 2016 (released 2016)

The Index of Economic Freedom is published annually by the Heritage Foundation and *The Wall Street Journal* and examines the factors that most directly contribute to economic freedom and prosperity. The study serves as a practical reference guide to the economies of 178 countries, with country-by-country assessments and up-to-date information on indicators such as foreign investment codes, fiscal burden of government, tariffs, banking regulations, monetary policy and black markets. Countries ranking high on the economic freedom scale also have higher rates of long-term economic growth and are more prosperous than are those with less economic freedom. The index is expressed in percentage terms with a 100% score signifying total freedom and a 0% score signifying total repression.

In the 2016 study, Hong Kong ranked highest with a score of 88.6%, followed by Singapore with 87.8% and New Zealand with 81.6%. Canada remained in 6th place this year with a score of 78.0% - a loss of 1.1 percentage points from 2015. Among the G7 countries, Canada stood first. The U.S. rose to 11th place this year from 12th last year with a score of 75.4 - a loss of 0.8 percentage points from 2015. It ranked 3rd in the G7.

Index of Economic Freedom (Heritage Foundation) 2016, Top 10 Countries



Globalization Index 2013 (released 2016)

The Globalization Index, an annual publication of the KOF Swiss Economic Institute, provides a comprehensive guide to globalization in 207 countries worldwide. A given annual release is based on data from three years before the publication. For example, the 2016 release is based on data from 2013. The index breaks down globalization into 5 sub-indices within three dimensions of globalization: economic, social and political.

In the latest rankings, Canada ranked 10th, up from 12th the previous year, while the United States held steady at 34th place. Among the G7, Canada remained at 1st place. Canada’s main area of strength originated from the social dimension where it ranked 8th overall and 1st in the G7. This dimension of globalization covers the sub-indices “data on personal contact” and “data on information flows”. The latter covers items such as international tourism and telephone traffic, while the former places emphasis on the number of internet users per capita and the number of television sets per capita. Canada’s main area of weakness was within the economic dimension, which combines data on international trade and FDI stocks and flows. In this category, Canada ranked 34th, which was far better than the U.S. ranking at 89th place.

2013 Ranking	Economic	Social	Political
1. Netherlands	4	5	9
2. Ireland	2	4	25
3. Belgium	9	6	3
4. Austria	13	1	4
5. Switzerland	27	3	10
6. Singapore	1	2	93
7. Denmark	20	10	17
8. Sweden	24	15	7
9. Hungary	7	23	23
10. Canada	34	8	11
19. France	63	11	2
20. U.K.	59	12	6
24. Italy	62	31	1
27. Germany	81	16	20
34. U.S.	89	28	16
48. Japan	124	53	30

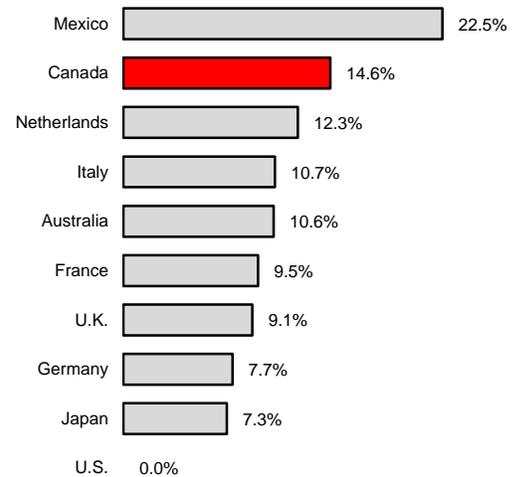
KPMG Competitive Alternatives 2016

KPMG’s Competitive Alternatives is a biennial guide comparing International business site locations in North America, Europe and Asia-Pacific. Its primary focus of the study is international business costs, specifically measuring the impact of significant costs that vary by location, as applied to different business operations.

First introduced in 1996, the 2016 edition compares costs of 19 business operations in 100 cities in 10 countries. National results are based on business costs for major cities in the country. Rankings are based on ascending business cost with the lowest cost country ranking first and are expressed in terms of percentage cost advantage relative to the US. Mexico is the lowest-cost country examined.

In 2016, Mexico’s business cost advantage over the U.S. stands at 22.5%, higher than at any point in this decade. Canada maintains its 2nd place ranking among the 10 countries, with business costs 14.6% lower than the U.S. Similarly, the Netherlands retains its 3rd place ranking, with a 12.3% cost advantage over the US. Italy and Australia move up in the rankings this year to 4th and 5th place with similar overall business costs. France ranks 6th and the UK 7th, with France moving ahead of the UK and both countries falling behind Italy. Germany and Japan rank 8th and 9th, with Germany regaining a lead over Japan as seen previously in 2010 and 2012. The U.S. completes the set of countries, in tenth place – the only time the U.S. has placed this low in Competitive Alternatives rankings.

Percentage Cost Advantage Relative to the US, 2016

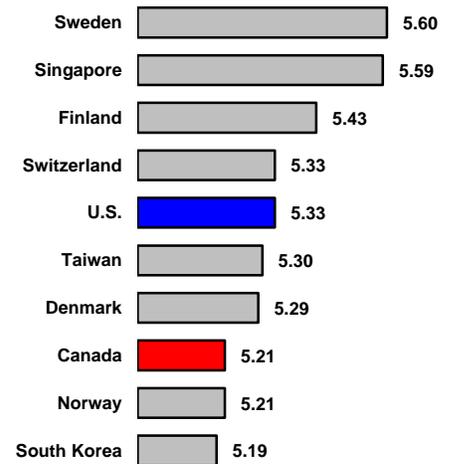


Networked Readiness Index 2016 (released 2016)

The Networked Readiness Index is published annually by the World Economic Forum. The index analyzes a total of 138 economies – 5 less than last year, to measure the degree of preparation of a nation or community to participate in and benefit from ICT developments. The index is composed of the following three sub-indices: (a) the environment for ICT offered by a country or community; (b) the readiness of the community's key stakeholders (individuals, business and governments); and (c) the usage of ICT among these stakeholders. In the Networked Readiness Index for 2016,

Canada rose from 11th place to 8th place and the U.S. rose from 7th place to 5th place. The top two rankings were secured by Sweden and Singapore respectively. In terms of the G7, Canada ranked 2nd behind the U.S.

Networked Readiness Index 2016, Top 10 Countries

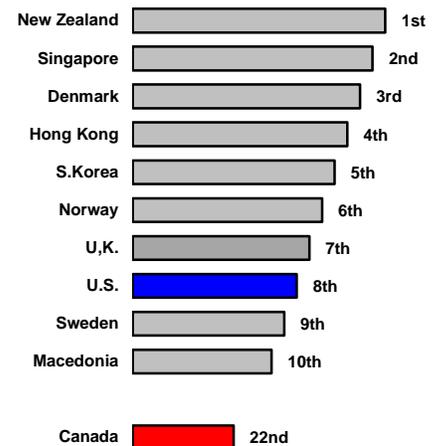


Ease of Doing Business Rankings For 2017

Every year "Doing Business" is published by the World Bank Group. It provides objective measures of business regulations and their enforcement. The 2017 edition, released in October 2016, consists of indicators comparable across 190 economies. The "Ease of Doing Business Rankings" serves as the aggregate measure of each country's overall result. There are nine sub-headings including the degree of investor protection, enforcing contracts, opening a business and registering property. Background reading material on each topic is also provided.

In the latest evaluation, Canada ranked 22nd out of 190 countries, down from 14th last year. Its main strengths were focused on starting a business, protecting investors, ease of getting credit and resolving insolvency. The U.S. declined to 8th place this year from 7th last year. Its strengths were geared towards getting credit, resolving insolvency and enforcing contracts. Among the top ten countries for 2017, only Denmark retained its 3rd place standing. Those in the top ten with improved ranks were: New Zealand (up from 2nd place to 1st); Hong Kong (up from 5th place to 4th) and Norway (up from 9th place to 6th). In addition to the U.S., those that declined in rank were: Singapore (down from 1st place to 2nd); South Korea (down from 4th place to 5th); the U.K. (down from 6th place to 7th); Sweden (down from 8th place to 9th) and Finland (down from 10th place to 12th). Macedonia assumed Finland's 10th place position, rising from 12th place last year. In terms of the G7, Canada ranked 4th behind the U.K., the U.S. and Germany.

Ease of Doing Business Ranking For 2017, Top 10 Countries



Office of the Chief Economist (BED) Contact

Arif Mahmud

Tel: (343) 203-4122

Email: Arif.Mahmud@international.gc.ca

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