**Portugal; A perspective on innovation**

**Trying to make some sense of the WEF’s[[1]](#footnote-1) global competitive index vis a vis innovativeness in Portugal**

**What do rankings mean in terms of public/private sector action?**

Each year the World Economic Forum publishes its ranking of the Global Competitiveness of most countries around the globe. The report for 2016-2017 covers 138 countries. The purpose of the report is to provide ‘insight into the drivers of their productivity and prosperity’.

**Synopsis**

* Portugal suffers economically from a shortage of people trained in science, engineering and business.
* Canada’s innovation is strongly influenced by its close cultural and economic relationship with the U.S. Does Portugal have a similar potential relationship with the EU/Spain/Brazil?
* Many of the ‘competitiveness factors’ making up the rankings seem irrelevant to helping determine the direction of change or action and are ‘problematic’!

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To quote from the report;

*This year’s edition highlights that declining openness is threatening growth and prosperity. It also highlights that monetary stimulus measures such as quantitative easing is not enough to sustain growth and must be accompanied by competitiveness reforms. Final key finding points to the fact that updated business practices and investment in innovation are now as important as infrastructure, skills and efficient markets.*

*Switzerland, Singapore and the United States remain the three world’s most competitive economies.*

*“Declining openness in the global economy is harming competitiveness and making it harder for leaders to drive sustainable, inclusive growth,” said Klaus Schwab, Founder and Executive Chairman, World Economic Forum.*

*The Report series remains the most comprehensive assessment of national competitiveness worldwide.*

This paper looks at Portugal and Canada and, for comparison purposes, notes innovativeness in Spain and the U.S.

**Portugal compared to Canada**

Canada’s overall ranking has fallen in the last ten years and is now rated 15th on the Global Competitive Index but 24th for the 12th pillar which focusses on innovation. The U.S. remains solidly in 3rd position overall and 4th for the 12th innovation pillar. There is no doubt that Canada benefits from its juxtaposition with the U.S. Common language and culture make for a large interchange of information, people, thus contributing to the cross flow of ideas, new products and basic understandings. The NAFTA agreement which includes Mexico has contributed significantly to the smoothing of cross-border issues.

Portugal is ranked 46th on the Global Competitiveness Index and 34th for the innovation pillar. While trade arrangements in the EU open the markets for Portuguese-based organizations, there is not the same flow of information due to language and cultural differences as there is in North America. Spain, one of the large economic presences on Portugal’s border ranks similarly to Portugal on the overall index at 32nd thus ahead of Portugal, but 38th in the 12th pillar; less than Portugal’s ranking at 34th.

Delving further into the 12th innovation pillar reveals several differences and similarities between Portugal and Canada.

* The quality of scientific research institutions is ranked as 17th for Canada and 25th for Portugal.
* Company spending on R&D, an area where Canada has always been rated at a low level when measured as a percent of GDP, is echoed in Portugal’s ranking at 41st. Canada is 29th.
* ‘University-industry collaboration in R&D’ ratings parallel the ratings for ‘quality of scientific research institutions.
* Both Portugal and Canada have a very low ranking for ‘Government procurement of advanced tech. products’.
* Canada has a high ‘availability of scientists and engineers’ – ranking at 6th, thus punching well above its overall global ranking and its ranking in the 12th pillar. Canada does have a well-respected education program for engineers and scientists and this may be the result of this long-term emphasis. The ranking for Portugal, however, suggest that this is a major problem for the country.

If there is some message to be extracted from these comparisons, it is that;

* company spending on R&D is directly correlated with the location of head offices for major companies; in Canada HQ’s are typically located in the U.S. and for Portugal probably in the EU,
* government initiatives for ‘tech. products’ is significantly lacking in Canada and Portugal,
* engineers and scientists are desperately needed in Portugal and this detracts significantly from the innovativeness of the economy.

Further over-arching comments which relate to the climate and/or capacity for innovation are set out in the ‘Competitiveness Report’ under the heading of the ‘most problematic[[2]](#footnote-2) factors for doing business’. These include, ranked from the highest concern to the lowest, are as follows.

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| --- | --- |
| **Portugal** | **Canada** |
| * Tax rates18.2
* Inefficient government bureaucracy15.3
* Policy instability14.3
* Restrictive labor regulations13.3
* Tax regulations11.1
* Access to financing9.7
* Inadequately educated workforce5.5
* Insufficient capacity to innovate4.1
* Corruption4.0
* Government instability1.6
* Inadequate supply of infrastructure1.1
* Poor work ethic in national labor force1.1
* Inflation0.4
* Poor public health0.3
* Foreign currency regulations0.0
* Crime and theft0.0
 | * Insufficient capacity to innovate15.8
* Inefficient government bureaucracy15.7
* Access to financing15.3
* Tax rates14.8
* Tax regulations10.8
* Inadequate supply of infrastructure7.9
* Inadequately educated workforce5.1
* Policy instability5.0
* Restrictive labor regulations4.9
* Poor work ethic in national labor force2.8
* Inflation0.6
* Foreign currency regulations0.6
* Government instability0.3
* Crime and theft0.2
 |
| ***Note:****From the list of factors, respondents to the World Economic Forum's Executive Opinion Survey were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.* |

For Portugal, the comment on ‘insufficient capacity of innovate’ related to the 12th pillar emerges as a major issue to be addressed but is not as important as the seven other comments ranked above. Portugal’s top five ‘problematic’ factors are directly influenced by political ideologies and the economy.

For Canada, the comments appear to be quite different but may be, as the report admits, ‘problematic’. Canada’s tax rates for corporations are relatively low and regulations are not seen to be burdensome. Noting ‘an inefficient bureaucracy’ is questionable. While access to financing is a major problem and dramatically different than in the U.S., the other ‘most ‘problematic’ factors for doing business’ in Canada seem inconsistent with ‘local’ perception and may not, be problems which inhibit innovation.

**Comparisons with neighbouring economic blocs**

Portugal, like Canada, has a large economy on its borders. For Canada, it is the U.S. and for Portugal there is not only Spain but other members of the EU block.

Canada’s neighbour is the U.S. Almost ten times larger in population terms than Canada, the U.S. ranks 3rd in overall global competitiveness and 4th in the innovation pillar. GDP per capita in the U.S is higher than Canada’s by almost 30% indicating a much more productive economy. Canada’s labour productivity has been declining for some years and is a major concern. The U.S. is the worlds largest country with this ranking.

Portugal’s immediate neighbour is Spain with a population four and one-half times larger. GDP per capita is 35% higher in Spain. Spain’s rankings for its capacity for innovation are ranked 51st compared to Portugal’s 37th position. Similarly, Spain’s rankings for the quality of scientific institutions, company spending on R&D, University-industry collaboration and government procurement of tech. products all rank below Portugal’s.

While Canada’s neighbor has been and still contributes in many ways to the country’s competitiveness, Portugal has not had the same advantage.

Portugal, surrounded by higher-ranked countries within the EU, ranks lowest of the ‘Western European’ countries (versus former ‘Eastern European’ countries such as the Czech Republic and Hungary). Switzerland (not a member of the EU) ranks number 1, Israel – 2, Finland – 3, Germany- 5, Sweden -6, etc. France ranks 17th.

**Lessons from the U.S.**

Neither Canada nor Portugal rate a ‘Performance Review’, i.e. an overview of the country’s performance and prospects in this latest report. It is however, instructive to note the reports’ comments on the U.S. situation.

*Performance Overview (for the U.S.)*

*The United States remains stable overall in 3rd position, showing improvement in areas including macroeconomic stability, the result of a declining budget deficit. Non-tariff barriers appear less burdensome than in the past. However, stagnating productivity has called for a downward revision of growth prospects, highlighting the need for a renewed competitiveness agenda even in the top-ranking economies. Despite being in the top 10 best-ranked economies and recent positive news from the Current Population Report 2016 showing recovering income growth across all income groups, the United States does not rank in the top 10 on any of the basic requirements pillars (institutions, infrastructure, macroeconomic environment, health and primary education). On the efficiency enhancers sub index, it is not within the top 10 on goods market efficiency or technological adoption. The position of the United States is driven by innovation, business sophistication, market size, financial market development, labor market efficiency, and higher education and training. These findings highlight important challenges if the country is to remain in the top 10 over the long term, and possible bottlenecks indicating the supply-side constraints that are holding back progress and reducing the effectiveness of monetary policy for jump-starting growth.*

It is especially noteworthy that the U.S. does not rank high in several basic pillars but ranks very high in several key factors relating to innovation; i.e. the U.S. ‘is driven by innovation, business sophistication, market size, financial market development, labor market efficiency, and higher education and training’. If one wishes to emulate the U.S. rankings, the following comments might apply.

* The quest for success (measured mostly by financial gain over the short term with emphasis on quarterly results) at the individual and corporate level drives innovation.
* Business sophistication has, for years, been buttressed by vast numbers graduating in business courses at the undergraduate and graduate level. The U.S was the first to introduce business education and offer an M.B.A. eventually adding doctoral programs.
* The U.S. market is large and opportunity is not constrained by the size of buying power of the ‘local’ population.
* Sophisticated financial mechanisms, some of which turn out the be counter productive, are prompted by the growing use of new approaches to the development of financial transactions. Competition amongst thousands of financial institutions including banks drives much of this innovation This sector has undergone some consolidation over the last decades but competition remains severe.
* Labor market efficiency in the main refers to mobility either forced through changing economic circumstances or through policies which make getting into and out of business relatively easy. U.S. labour regulations favor businesses more than in most countries.
* Education and training for business affairs has been outstanding for decades and only recently emulated by other competing countries.

These outstanding characteristics do not always correlate with quality of life factors or other measures one might choose to recognize as part of any comparison. Few U.S. cities are chosen as the top five best cities to work and live in. In this measure Canada, has most recently, two of the top five slots; Vancouver and Toronto.

**Actions?**

* Portugal could well take steps to encourage the training and education of scientists and engineers as this is an area where Portugal’s rankings are well below par.
* As in Canada, government support for industry in the procurement of ‘high tech.’ products is not part of the public agenda.
* Portugal’s government – both political and bureaucracies – seems unsupportive of industry and innovation. Tax rates are high, bureaucracy is ‘heavy’, labour regulations impact the mobility of labour, tax regulations are overly complex and policy instability impacts investment decisions which, as one knows, requires a more stable longer-term horizon.
* Is there an opportunity to develop closer relations with Brazil once the country settles down politically and economically? Brazil was once part of the emerging BRIC group, touted as being a key to development globally. Brazil’s ‘Performance Review’, however, is currently far from encouraging.

*Performance Overview*

*In the context of negative terms of trade shocks and political turmoil, Brazil falls six positions to 81st. This is driven mainly by deteriorating goods, labor, and financial markets. On the institutional side, security has deteriorated and also the perception of the quality of public-sector administration. However, Brazil has improved in areas such as protection of property rights and measures of undue influence, and the country’s bounce back after a sharp drop last year probably reflects the fight against corruption and for judicial independence. The political uncertainty and the government’s sinking finances are still impediments to consolidating a pro-growth competitiveness agenda in the largest economy in Latin America and the Caribbean. Brazil is currently going through a deep recession. The country's growth rate has decelerated steadily, from an average annual growth rate of 4.5 percent between 2006 and 2010 to 2.1 percent between 2011 and 2014, according to the World Bank, and negative growth projected for 2015 and 2016. Addressing the macroeconomic imbalances facing the country, including large current account and government deficits and increasing inflation, requires improving productivity, starting with the macroeconomic environment and addressing the market distortions affecting how markets work.*Brazil’s rankings are under the 12th pillar are all well below any of the rankings presented for Canada, Spain, Portugal and the U.S.; seriously low for a country of its size and resources.

* The level of business sophistication could be enhanced with the expansion of business training at undergraduate, graduate and professional levels.
1. World Economic Forum. Global Competitiveness Report; 2016-2017 [↑](#footnote-ref-1)
2. Posing a problem, difficult to solve. Open to doubt, debatable. [↑](#footnote-ref-2)