

17 June 2021

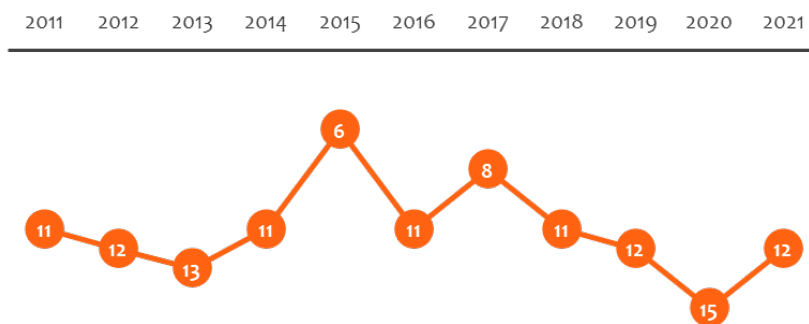
IMD World Competitiveness Yearbook 2021

Turning the crisis into an opportunity for competitiveness

In the wake of most European economies, Luxembourg has regained three places in the World Competitiveness Yearbook (WCY) of the Swiss institute IMD¹, to reach 12th place in 2021. This improvement is mainly due to the survey conducted among business leaders on the competitiveness of the Luxembourg economy. For just over a year, the crisis has revealed the capacity of economies to respond quickly to an extraordinary situation, both from the point of view of health and work organisation. This progression therefore reflects the good capacity of Luxembourg's economic and political actors to adapt to change and to maintain the country's competitiveness in such a context. The end of the crisis and economic recovery will require more than just reactivity, in particular the ability to develop the pillars of future competitiveness. The setback in areas such as international investment, productivity trends, and the terms of trade between Luxembourg and the rest of the world is a timely reminder to turn the crisis into an opportunity for competitiveness.

The Luxembourg economy is now facing recovery. This will involve consolidating the foundations of competitiveness, including policy stability and economic dynamism, Luxembourg's great strengths, and great daring when it comes to building new competitiveness factors. Luxembourg has already shown its capacity for daring greatly when, visionary, it developed a highly competitive finance centre in the 1980s. In 2021, the same ambition could apply to the development of the health industry, as well as an economy that leads in terms of the environment, transformation into a true startup nation, or a finance sector at the forefront of innovation. Each of these achievements would have a positive impact on its performance in the IMD rankings.

The evolution of the overall WCY ranking at a glance



Luxembourg is once again close to the top 10 most competitive countries. The strengths and weaknesses have changed little compared to last year, but in view of the current economic situation, they have a different

¹ Since 1989, the Swiss institute IMD (International Institute for Management Development) has been analysing the competitiveness of more than 60 countries. The ranking is based on statistical indicators (hard data) and on the opinion of economic decision-makers and business leaders. The Luxembourg part of the survey is coordinated by the Chamber of Commerce. The IMD survey is based on approximately 240 indicators grouped into four pillars: economic performance, government efficiency, business efficiency, and quality of infrastructure.

significance. The economic and demographic dynamics, the solidity of public finances, a world-class finance centre, and the strong integration of Luxembourg in international trade are all assets that have enabled the Luxembourg economy to limit the negative effects of the crisis over the last 12 months.

Even more welcome is some of the progress that has been made despite the economic downturn. Among the most notable: the increase in the percentage of female graduates, the rise in the number of patents, and the increased use of big data and analytical tools. The short-term challenges, however, should not obscure the country's key competitiveness issues. These issues can be summarised in a few questions. What economic diversification and new growth niches are needed when productivity has had no progress for years? What land-use planning and infrastructure should be built for the future Luxembourg of one million inhabitants? What will be Luxembourg's capacity to train, attract and retain talent in the coming years? What path should be adopted to reconcile international competitiveness and the environmental transition? These issues are at the heart of the recovery strategies that will enable Luxembourg to achieve real and sustainable gains in competitiveness.

The most competitive country in 2021 is Switzerland, ahead of Sweden and Denmark. The Netherlands and Singapore, 1st in 2020, complete the top 5. In contrast to Luxembourg, which saw its overall productivity decrease by 1.28%², in Switzerland it increased by 0.18%, in Sweden by 0.59%, and in Denmark by 1.16%. Despite the progress observed this year by the Luxembourg economy, these countries are also much more proficient when it comes to digital and technological tools.

The 5 challenges for Luxembourg's competitiveness in 2021

1. Mitigate the effects of the crisis on business profitability by ensuring the continuation of aid programmes for as long as necessary.
2. Consolidate the existing health system and develop a health industry ecosystem to further diversify the economy.
3. Transition to a data-driven economy by developing an adequate infrastructure that reinforces cybersecurity and promotes digital upskilling and retraining.
4. Promote a circular and sustainable economy based on green energy and ecological transitions.
5. Ensure robust growth based on productivity gains.

2021 will be a pivotal year, also for competitiveness

While the Luxembourg economy has withstood the crisis relatively better than others, earning it 10th place for the 'economic performance' pillar and 8th place for real GDP growth, the year 2021 is a period of uncertainty regarding the extent of the economic recovery, the consequences for businesses of the gradual withdrawal of aid and the situation within the major global economic blocs. Thus, certain economic indicators will be particularly important to monitor, such as inflation (Luxembourg is 18th on this indicator),

² This indicator is based on 2019 and not 2020. The effect of the crisis on productivity will therefore be included in the IMD ranking next year.

the unemployment rate (33rd) and the real growth of gross fixed capital formation (42nd). In terms of public finances, Luxembourg should keep its AAA rating (1st). International investments (23rd, -13 places) and the evolution of the stock markets, both national and international, indicators for which Luxembourg is poorly positioned, will be the subject of particular attention. This will also be the case for Luxembourg's tourism, which before the crisis represented almost 7% of its GDP (10th). Improvements in digital transformation (17th, +7 places) and the availability of skilled labour (48th, +5) will be confirmed. Progress is less visible for the time being with regard to the Sustainable Development Goals (39th, -8). Finally, the evolution of the ratio of doctors to inhabitants (33rd) could be a marker of the lessons learned during the health crisis.

Luxembourg has shown its strong capacity to adapt

Luxembourg owes its resilience in the context of the 2020 economy in part to its ability to adapt. Thus, business leaders ranked Luxembourg 5th internationally and 1st in Europe for Government adaptability. Their perception of the indicator 'understanding on the part of the government of the need for certain economic and social reforms' improves significantly (23rd, +6), even if this 23rd position does not make Luxembourg the best placed economy to be among the most ambitious countries in terms of economic reform at the time of recovery. The ability to adapt is also found among companies. The Luxembourg economy is ranked 11th for business agility (+10), 13th for the ability of economic actors to react to opportunities and threats (+6) and 16th for the level of knowledge of changing market conditions (+6). Business leaders also point to real progress in the implementation of digital transformation within companies (19th, +6). They also believe that economic players are more efficient by international comparison, both for SMEs (13th, +3) and large companies (12th, +16).

Little progress in science and technology

One of the reasons for the worrying evolution of Luxembourg's productivity could be its excessively weak technological specialisation. Indeed, high-tech sectors and innovation constitute for some economies real niches of productivity growth. In Luxembourg, the share of high-tech products among exports is only 6.6% (53rd place). Moreover, medium and high-tech activities represent only 19.9% of the value add produced by the manufacturing sector (56th). This low specialisation in high technology is confirmed by the percentage of ICT services among service exports (3.8%). Research and development (R&D) expenditure amounts to only 1.2% of GDP in the Grand Duchy, compared with an average of 1.5% for the 64 economies in the IMD ranking. Moreover, private R&D spending has fallen from 0.68% of the GDP to 0.60% in one year. Finally, Luxembourg is only 52nd for the percentage of science graduates among all graduates. There are, however, some grounds for satisfaction in the technological field. Business leaders ranked the Grand Duchy 21st for the use of big data and analysis tools, which shows that some Luxembourg companies are at the forefront in this area. In addition, R&D personnel rose from 9.34 per 1,000 inhabitants to 9.60 (5th place) between 2020 and 2021, just as the number of scientific articles published in Luxembourg increased from 814 to 869. Finally, Luxembourg is still as attractive as ever for patents. It is 2nd, behind Switzerland, for the number of patents held per 100,000 inhabitants.

The complete text of the analysis is available in French (see attached doc.).

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