Excerpt from / Fragmento del

GLOBAL COMPETITIVENESS REPORT 2006/2007

By / Por

World Economic Forum

in collaboration with / con la colaboración de

IESE Business School and the support of / y el apoyo de Anselmo Rubiralta Center for Globalization and Business Strategy

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Executive Summary

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The global economy has been transformed in recent years by the fall of international barriers to the flow of goods, services, capital and labor, and a marked acceleration in the pace of technological and scientific progress. Technological advances have created new opportunities for businesses against the background of an increasingly complex global economy, while reductions in the cost of transport and communication are making location less important, spurring companies to move operations to lower cost environments. This, in turn, has made governments far more sensitive to the need to create a friendly business climate, supportive of private sector activity.

Against this backdrop of rapid systemic change in the key parameters that underpin the evolution of the global economy, we have seen shifts in the relative importance of those critical factors which determine the evolution of productivity, and hence, growth. At the World Economic Forum, we understand national competitiveness as that set of factors, policies, and institutions which determine the level of productivity of a country. Raising productivity—i.e., making better use of available factors and resources—is the driving force behind the rates of return on investment which, in turn, determine the aggregate growth rates of an economy. Thus, a more competitive economy will be one which will likely grow faster in the medium and long term. Identifying those factors which help to explain the differences in the evolution of per capita income in countries such as Finland, Russia, and Chile is very much at the center of the work we do.

It is clear that the factors determining the underlying competitiveness of nations are as diverse as they are numerous. For example, there is a broad body of theoretical work and empirical evidence highlighting the importance of a sound macroeconomic environment for growth. Mismanagement of the public finances and high inflation, one of its frequent by-products, greatly complicates the business environment, undermining incentives for investment based on long-term planning. But the presence of macroeconomic stability is not enough to increase productivity. Also important is the institutional environment within which economic actors operate, including the protection of property rights, the quality of the judicial system, even-handedness in the political process, and the reining in of corruption.

As well as institutional factors, many others are also known to play a role in enhancing productivity. Education and training have emerged as key drivers of competitiveness, ensuring that the labor force has access to new knowledge and is trained in new processes and the latest technologies.

As numerous as these factors may be, they will matter differently for different countries, depending on their particular starting conditions or stage of development. Curtailing the appetite of the state for private savings by implementing more cautious fiscal policies may be important everywhere for creating the conditions for productivity growth, but it is relatively less important in countries with a well established track record of responsible fiscal management than in countries with long histories of budgetary instability, where the move to address these problems is likely to benefit growth.

It is also clear that the factors that are critical for improving competitiveness will themselves evolve over time, given the rapid pace of change in the global economy alluded to above. For example, today we focus on the growing importance of the latest technologies in enhancing productivity growth through improved processes and management practices, in contrast to past decades when the expansion of resource endowments was still sufficient to drive world economic growth.

Over the years, the World Economic Forum has continually updated its methodology for measuring competitiveness to keep pace with the changing international environment. For the past five years, we used the Growth Competitiveness Index developed by Jeffrey Sachs and John McArthur to assess the competitiveness of nations. Although it was cutting edge at the time it was developed, more recent advances in economic research and the rising importance of the international dimension, as well as the increasing diversity of countries covered by the *Report*, call for an adjustment in methodology. With the aim of incorporating many factors driving productivity into a broader measure of competitiveness, we will now be using an index developed for the World Economic Forum by Professor Xavier Sala-i-Martin, a leading expert on growth and economic development. The new Index — representing nearly two years of collaboration with him and involving dozens of presentations by Forum staff aimed at eliciting feedback from a broad set of users—extends and deepens the concepts and ideas underpinning the earlier Sachs-McArthur index. With this year's *Report*, we have moved to the Global Competitiveness Index (GCI) as the main competitiveness indicator to be used by the World Economic Forum. The results are presented in Chapter 1.1. For reference and the sake of historical continuity we also present the rankings associated with the Growth Competitiveness Index in the back of this *Report*.

Professor Michael Porter's Business Competitiveness Index, presented in Chapter 1.2 in this volume, highlights in detail the microeconomic underpinnings of competitiveness, with its special emphasis on a range of company-specific factors conducive to improved economic efficiency and productivity.

The Global Competitiveness Index

The GCI, albeit simple in structure, provides a holistic overview of factors that are critical to driving productivity and competitiveness, and groups them into nine pillars:

Institutions
Infrastructure
Macroeconomy
Health and primary education
Higher education and training
Market efficiency
Technological readiness
Business sophistication
Innovation

The selection of these pillars and the factors underlying them is based on the latest theoretical and empirical research. It is important to note that none of these factors *alone* can ensure competitiveness. The value of increased spending on education will be undermined if rigidities in the labor market and other institutional weaknesses make it difficult for new graduates to gain access to suitable employment opportunities. Attempts to improve the macroeconomic environment—e.g., bringing public finances under control—are more likely to be successful and receive public support in countries where there is reasonable transparency in the management of public resources, as opposed to widespread corruption and abuse. Innovation or the adoption of new technologies or upgrading management practices will most likely not receive broad-based support in the business community if protection of the domestic market ensures that the returns on rent-seeking are higher than those for new investments. Therefore, the most competitive economies in the world will typically be those where concerted efforts have been made to frame policies in a comprehensive way, that is, those which recognize the importance of a broad array of factors, their interconnection, and the need to address the underlying weaknesses they reveal in a proactive way.

Beyond these pillars, which capture a more comprehensive set of growth factors, the GCI has a number of other important distinguishing features. One is the formal incorporation of the notion that countries around the world are functioning at different stages of economic development. The relative importance of particular factors for improving the competitiveness of a country will be a function of the starting conditions, that is, those institutional and structural features which characterize a country in comparison with others in terms of development, as measured by per capita income. For example, what presently drives productivity in Sweden is necessarily different from what drives it in Ghana. Thus, the GCI separates countries into three specific stages: factor-driven, efficiency-driven, and innovation-driven, each implying a growing degree of complexity in the operation of the economy.

The pillars are organized into three subindexes, each critical to a particular stage of development: a) the *basic requirements* subindex groups those pillars most critical for countries in the factor-driven stage (institutions, infrastructure, macroeconomy, health and primary education); b) the *efficiency enhancers* subindex includes those pillars critical for countries in the efficiency-driven stage (higher education and training, market efficiency, technological readiness); c) the *innovation and sophistication factors* subindex includes all pillars critical to countries in the innovation-driven stage (business sophistication, innovation). The exact methodology underlying the construction of the GCI is described in Chapter 1.1.

The Competitiveness Rankings for 2006

The rankings from the GCI for the 125 countries covered in this year's *Report* are presented in Table 1, with comparisons to the results for those countries covered last year. Tables 2, 3, and 4 show the rankings within each subindex and individual pillar.

Switzerland takes the leading position as the world's most competitive economy in 2006–2007, overtaking Finland and Sweden, and replacing the United States, which dropped to sixth position. Switzerland's top ranking reflects a combination of a world class capacity for innovation and the presence of a highly sophisticated business culture. The country has a well developed infrastructure for scientific research, with close collaboration between the leading research centers and industry. Companies spend generously on research and development. Intellectual property protection is strong and this has helped spur high levels of technological innovation, as measured by per capita patents registration, for which the country is ranked sixth in the world. Business activity in the country benefits from a well-developed institutional framework, characterized by respect for the rule of law, an efficiently working judicial system, and high levels of transparency and accountability within public institutions. Flexible labor markets and excellent infrastructure facilities are two healthy features of the business environment.

The Scandinavian countries remain among the top performers, with Finland, Sweden, and Denmark occupying second, third and fourth places, respectively. They share with Switzerland a broadly similar institutional and structural profile. The Nordic countries have better ranks on the macroeconomy pillar of the GCI, since they are all running budget surpluses and have lower levels of public indebtedness than Switzerland and, indeed, much of the rest of Europe. Finland and Sweden have the best institutions in the world (ranked 1 and 2, respectively) and occupy places in the top ten ranks in health and primary education. These three Nordic countries also occupy the top three positions in education and training, where Finland's rank of 1 is remarkable for its durability over time. They lag behind Switzerland in the areas of labor market flexibility and, to a lesser extent, in indicators of business sophistication. The Nordic countries show that transparent institutions and excellent macroeconomic management, coupled with world class educational attainment and a focus on technology and innovation are a successful strategy for maintaining competitiveness in small, highly developed economies.

The United States is ranked sixth this year. It remains a world leader in a number of key categories assessed by the GCI, such as market efficiency, innovation, higher education and training, and business sophistication. However, growing imbalances have dented a number of macroeconomic indicators, and the levels of efficiency and transparency underpinning its public institutions do not match those of the most developed industrial countries.

Overall, the picture in the other European Union countries remains relatively stable, with only a few countries registering significant moves in the rankings. Germany and the United Kingdom continue to hold privileged positions, ranked eighth and tenth, respectively. There are interesting contrasts in the performance of both economies from the perspective of the GCI pillars. Both countries have excellent institutional underpinnings, and in some areas namely, the property rights environment and quality of the judicial system, Germany is second to none. The United Kingdom excels in market efficiency indicators, with the most efficient financial markets in the world. The flexibility of the UK labor market and its low levels of unemployment stand in sharp contrast to that of Germany, where the business community is saddled with cumbersome labor regulations. But Germany does somewhat better than the United Kingdom in innovation indicators and the sophistication of its business community, which are among the best in the world.

Italy's competitive position has continued the downward trend observed over the past few years, and the country dropped four places in this year's *Report*. The list of problems is long, beginning with the poor underlying macroeconomic environment. Italy has been running budget deficits without interruption for the past 20 years. The fiscal situation has deteriorated significantly since 2000, with Italy's public debt well over 100 percent of GDP, among the highest in the world. The poor state of Italy's public finances may itself reflect more deep-seated institutional problems, which are reflected in low rankings for such variables as the efficiency of government spending, the burden of government regulation, and, more generally, the quality of public sector institutions. The market efficiency pillar does not deliver very good results either, with particular weaknesses in the areas of labor market flexibility and financial market sophistication and openness.

As in previous years, Poland remains the worst performer among the EU countries, with a rank of 48, right behind Greece (47) and well behind Estonia (25), the Czech Republic (29), and Slovenia (33), Central and Eastern Europe's top performers. Particular weaknesses in Poland stem from the highly protected and rigid labor markets, particularly harmful in a country where unemployment is close to 18 percent. Deeper institutional reforms will be necessary if Poland is to increase productivity and stay competitive in the face of rising labor costs.

Asia is home to some of the most, as well as some of the least competitive economies in our rankings. Singapore leads the pack, ranked fifth overall, followed by Japan in seventh place, with Hong Kong in 11th and Taiwan in 13th place, respectively. These economies all have high-quality infrastructure, flexible and efficient markets, and healthy, well-educated workforces. They are also operating on the outer boundaries of the technology frontier, both at the firm and consumer level.

In Japan, economic recovery has begun with deflation on the wane, yet a number of challenges remain, mainly in management of the public finances and market efficiency. Nevertheless, private sector commitment to R&D, sophisticated production processes, and a highly educated labor force contribute to deliver one of the most innovative economies in the world.

India's overall rank of 43 demonstrates remarkably high scores in capacity for innovation and sophistication of firm operations. This is especially true of the quality of scientific research and the number of scientists and engineers, which are increasingly supplying highly skilled professionals to the private sector. Firm use of technology and rates of technology transfer are high, although penetration rates of the latest technologies are still quite low by international standards, reflecting India's still low levels of per capita income and high incidence of poverty. However, weaknesses in the coverage of educational opportunities and poor-quality infrastructure limit the more equitable distribution of the benefits of India's high growth rates.

China's ranking has fallen from 48 to 54. Consistent with the cautious macro-economic management of its authorities, the macroeconomy pillar of the GCI shows a very high rank, sixth overall in the world. This reflects China's low inflation, one of the highest savings rates in the world, and manageable levels of public debt. Like India, China has low penetration rates for the latest technologies and because these are expanding more quickly in other countries, China's ranks in these indicators are actually falling behind. Secondary and tertiary school enrolment rates are better than they are in India, but still low by international standards. Further progress is needed in improving various components of the institutional environment, including reducing the burden of government regulation, improving the climate for the protection of property rights, as well as safeguarding the independence of the judiciary.

Once again, at 27th and unchanged with respect to 2005, Chile has the highest ranking overall in Latin America and the Caribbean. Chile's competitiveness position reflects not only solid institutions—already operating at levels of transparency and openness above the average for the EU—but also the presence of efficient markets, relatively free of distortions. The state has played a supportive role in the creation of a credible, stable regulatory regime. Competent macroeconomic management has been a critical element in creating the conditions for rapid growth and sustained efforts to reduce poverty.

Continuing reductions in public debt levels, supported by a fiscal policy that targets an overall government budget surplus have also played a pivotal role in buttressing the credibility of government policy. Given Chile's strong competitive position, the authorities will have to focus attention on upgrading the capacities of the labor force, with a view to rapidly narrowing the skills gap with respect to Finland, Ireland and New Zealand, the relevant comparator group for Chile.

Brazil's ranking, 66th overall, but down from 57th last year, reflects a particularly poor position in the macroeconomy pillar of the GCI (114th as compared to 91st in 2005). This is the result of a large budget deficit in relation to that of other countries, if not to Brazil's poor historical performance. High levels of government debt and a wide interest rate spread indicate the heavy intermediation costs in the Brazilian banking sector, which negatively affect private sector investment and contribute to lower economic growth. Mexico's ranking has remained broadly stable, moving up one place to 58. The country shows a somewhat uneven performance over the various pillars of the GCI, with relatively good scores on health and primary education, goods market efficiency, and selected components of technological readiness, e.g., FDI and technology transfer, no doubt reflecting the close links of the Mexican market to the United States in the context of NAFTA. However, this is offset by the same institutional weaknesses prevalent in the rest of Latin America.

A lack of sound and credible institutions remains a significant stumbling block in many Latin American countries. Bolivia (97), Ecuador (90), Guyana (111), Honduras (93), Nicaragua (95), Paraguay (106), and Venezuela (88) achieve low overall rankings and are among the worst performers in the GCR sample for the absence of the basic elements of good governance, including reasonably transparent and open institutions. All these countries suffer from poorly defined property rights, undue influence in decision making, inefficient government operations, as well as unstable business environments, making it difficult for the business community to compete effectively, either within the region or in the world.

Table 1: Global Competitiveness Index rankings and 2005 comparisons

Country/Economy	GCI 2006 Rank	GCI 2006 Score	GCI 2005 Rank
Switzerland	1	5.81	4
Finland	2	5.76	2
Sweden	3	5.74	7
Denmark	4	5.70	3
Singapore	5	5.63	5
United States	6	5.61	1
Japan	7	5.60	10
Germany	8	5.58	6
Netherlands	9	5.56	11
United Kingdom	10	5.54	9
Hong Kong SAR	11	5.46	14
Norway	12	5.42	17
Taiwan, China	13	5.41	8
Iceland	14	5.40	16
Israel	15	5.38	23
Canada	16	5.37	13
Austria	17	5.32	15
France	18	5.31	12
Australia	19	5.29	18
Belgium	20	5.27	20
Ireland	21	5.21	21
Luxembourg	22	5.16	24
New Zealand	23	5.15	22
Korea, Rep.	24	5.13	19
Estonia	25	5.12	26
Malaysia	26	5.11	25
Chile	27	4.85	27
Spain	28	4.77	28
Czech Republic	29	4.74	29
Tunisia	30	4.71	37
Barbados	31	4.70	—
United Arab Emirates	32	4.66	32
Slovenia	33	4.64	30
Portugal	34	4.60	31
Thailand	35	4.58	33
Latvia	36	4.57	39
Slovak Republic	37	4.55	36
Qatar	38	4.55	46
Malta	39	4.54	44
Lithuania	40	4.53	34
Hungary	41	4.52	35
Italy	42	4.46	38
India	43	4.44	45
Kuwait	44	4.41	49
South Africa	45	4.36	40
Cyprus	46	4.36	41
Greece	47	4.33	47
Poland	48	4.30	43
Bahrain	49	4.28	50
Indonesia	50	4.26	69
Croatia	51	4.26	64
Jordan	52	4.25	42
Costa Rica	53	4.25	56
China	54	4.24	48
Mauritius	55	4.20	55
Kazakhstan	56	4.19	51
Panama	57	4.18	65
Mexico	58	4.18	59
Turkey	59	4.14	71
Jamaica	60	4.10	63
El Salvador	61	4.09	60
Russian Federation	62	4.08	53
Egypt	63	4.07	52

(cont'd.)

Country/Economy	GCI 2006 Rank	GCI 2006 Score	GCI 2005 Rank
Azerbaijan	64	4.06	62
Colombia	65	4.04	58
Brazil	66	4.03	57
Trinidad and Tobago	67	4.03	66
Romania	68	4.02	67
Argentina	69	4.01	54
Morocco	70	4.01	76
Philippines	71	4.00	73
Bulgaria	72	3.96	61
Uruguay	73	3.96	70
Peru	74	3.94	77
Guatemala	75	3.91	95
Algeria	76	3.90	82
Vietnam	77	3.89	74
Ukraine	78	3.89	68
Sri Lanka	79	3.87	80
Macedonia, FYR	80	3.86	75
Botswana	81	3.79	72
Armenia	82	3.75	81
Dominican Republic	83	3.75	91
Namibia	84	3.74	79
Georgia	85	3.73	86
Moldova	86	3.71	89
Serbia and Montenegro	87	3.69	85
Venezuela	88	3.69	84
Bosnia and Herzegovina	89	3.67	88
Ecuador	90	3.67	87
Pakistan	91	3.66	94
Mongolia	92	3.60	90
Honduras	93	3.58	97
Kenya	94	3.57	93
Nicaragua	95	3.52	96
Tajikistan	96	3.50	92
Bolivia	97	3.46	101
Albania	98	3.46	100
Bangladesh	99	3.46	98
Suriname	100	3.45	—
Nigeria	101	3.45	83
Gambia	102	3.43	109
Cambodia	103	3.39	111
Tanzania	104	3.39	105
Benin	105	3.37	106
Paraguay	106	3.33	102
Kyrgyz Republic	107	3.31	104
Cameroon	108	3.30	99
Madagascar	109	3.27	107
Nepal	110	3.26	—
Guyana	111	3.24	108
Lesotho	112	3.22	—
Uganda	113	3.19	103
Mauritania	114	3.17	—
Zambia	115	3.16	—
Burkina Faso	116	3.07	—
Malawi	117	3.07	114
Mali	118	3.02	115
Zimbabwe	119	3.01	110
Ethiopia	120	2.99	116
Mozambique	121	2.94	112
Timor-Leste	122	2.90	113
Chad	123	2.61	117
Burundi	124	2.59	—
Angola	125	2.50	—

Table 2: Global Competitiveness Index: Basic requirements

	Basic requirements		1st pillar: Institutions		2nd pillar: Infrastructure		3rd pillar: Macroeconomy		4th pillar: Health and primary education	
Country/Economy	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Albania	92	3.98	108	3.09	121	1.92	83	4.21	34	6.68
Algeria	43	4.88	58	3.87	78	2.91	1	6.19	45	6.56
Angola	125	2.48	111	3.02	113	2.07	123	2.40	125	2.45
Argentina	67	4.42	112	2.98	72	3.26	51	4.64	23	6.78
Armenia	81	4.21	84	3.44	92	2.66	71	4.33	62	6.40
Australia	11	5.72	11	5.51	18	5.42	23	5.15	21	6.79
Austria	18	5.58	13	5.45	17	5.43	36	4.91	49	6.52
Azerbaijan	56	4.59	72	3.63	56	3.67	17	5.30	96	5.76
Bahrain	35	5.18	45	4.21	40	4.26	11	5.55	30	6.72
Bangladesh	96	3.92	121	2.88	117	2.03	47	4.72	90	6.04
Barbados	32	5.24	23	4.94	28	4.85	61	4.45	28	6.74
Belgium	17	5.59	26	4.85	11	5.85	44	4.76	15	6.89
Benin	104	3.68	90	3.32	114	2.06	92	4.03	101	5.29
Bolivia	98	3.89	118	2.90	107	2.22	77	4.25	81	6.20
Bosnia and Herzegovina	78	4.24	106	3.10	96	2.50	45	4.75	38	6.63
Botswana	77	4.27	37	4.46	66	3.37	39	4.85	112	4.42
Brazil	87	4.14	91	3.29	71	3.29	114	3.42	47	6.54
Bulgaria	62	4.50	109	3.07	65	3.41	35	4.92	39	6.61
Burkina Faso	121	3.13	62	3.78	110	2.14	116	3.37	124	3.24
Burundi	124	2.68	113	2.97	123	1.71	122	2.51	120	3.50
Cambodia	100	3.83	95	3.26	97	2.48	101	3.87	98	5.71
Cameroon	105	3.66	117	2.91	120	1.93	40	4.83	104	4.96
Canada	13	5.68	21	5.01	13	5.81	32	4.96	2	6.95
Chad	123	2.84	124	2.44	125	1.43	107	3.76	119	3.74
Chile	28	5.35	25	4.88	35	4.41	7	5.70	57	6.43
China	44	4.80	80	3.51	60	3.54	6	5.72	55	6.44
Colombia	73	4.34	68	3.70	75	3.15	65	4.43	88	6.07
Costa Rica	64	4.48	55	3.97	73	3.22	81	4.23	52	6.49
Croatia	55	4.60	66	3.72	51	3.98	73	4.30	67	6.38
Cyprus	37	5.03	35	4.52	34	4.47	72	4.33	22	6.79
Czech Republic	42	4.89	60	3.84	33	4.50	42	4.81	58	6.42
Denmark	1	6.15	2	5.98	5	6.24	14	5.44	4	6.94
Dominican Republic	89	4.09	93	3.26	80	2.86	85	4.20	89	6.04
Ecuador	74	4.34	116	2.92	94	2.65	21	5.18	41	6.59
Egypt	59	4.52	48	4.12	55	3.72	108	3.75	50	6.51
El Salvador	54	4.60	61	3.80	54	3.75	64	4.44	60	6.41
Estonia	30	5.31	30	4.70	30	4.66	16	5.31	43	6.58
Ethiopia	115	3.29	83	3.45	102	2.34	95	3.98	121	3.39
Finland	3	6.10	1	6.05	10	5.91	12	5.50	7	6.93
France	15	5.66	24	4.91	4	6.25	56	4.55	12	6.92
Gambia	101	3.82	54	4.02	95	2.62	105	3.77	107	4.85
Georgia	82	4.20	78	3.51	79	2.87	93	4.02	61	6.40
Germany	9	5.75	7	5.69	1	6.51	63	4.44	71	6.37
Greece	40	4.96	41	4.36	29	4.71	102	3.86	11	6.92
Guatemala	75	4.32	81	3.49	74	3.20	79	4.24	73	6.34
Guyana	108	3.58	115	2.93	104	2.27	121	2.81	75	6.31
Honduras	90	4.07	110	3.03	81	2.86	87	4.18	80	6.22
Hong Kong SAR	4	6.04	10	5.54	3	6.29	9	5.65	35	6.67
Hungary	52	4.64	46	4.18	48	4.05	98	3.94	66	6.39
Iceland	12	5.70	3	5.98	20	5.39	58	4.51	3	6.95
India	60	4.51	34	4.55	62	3.50	88	4.12	93	5.90
Indonesia	68	4.41	52	4.04	89	2.72	57	4.52	72	6.35
Ireland	23	5.46	17	5.15	31	4.61	20	5.27	24	6.78
Israel	29	5.34	29	4.77	24	5.06	50	4.65	17	6.86
Italy	48	4.70	71	3.66	50	4.00	84	4.21	8	6.93
Jamaica	79	4.24	76	3.58	53	3.75	118	3.21	65	6.39
Japan	19	5.53	22	4.97	7	6.11	91	4.05	1	6.98
Jordan	50	4.66	33	4.55	52	3.85	103	3.84	63	6.40
Kazakhstan	51	4.64	75	3.59	68	3.33	10	5.57	86	6.08
Kenya	107	3.62	98	3.22	86	2.75	99	3.91	110	4.59
Korea, Rep.	22	5.47	47	4.18	21	5.38	13	5.48	18	6.85
Kuwait	33	5.24	38	4.39	45	4.12	2	6.13	76	6.30
Kyrgyz Republic	109	3.56	123	2.66	103	2.30	117	3.27	91	6.02

(cont'd.)

Table 2: Global Competitiveness Index: Basic requirements *(cont'd.)*

	Basic requirements		1st pillar: Institutions		2nd pillar: Infrastructure		3rd pillar: Macroeconomy		4th pillar: Health and primary education	
Country/Economy	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Latvia	41	4.90	50	4.07	39	4.33	34	4.93	79	6.27
Lesotho	103	3.68	86	3.40	119	1.99	52	4.64	109	4.69
Lithuania	45	4.80	59	3.86	44	4.14	41	4.82	70	6.37
Luxembourg	10	5.73	14	5.45	15	5.63	19	5.28	46	6.56
Macedonia, FYR	70	4.37	103	3.15	82	2.83	30	5.03	54	6.47
Madagascar	110	3.56	92	3.28	116	2.03	115	3.39	100	5.53
Malawi	117	3.26	63	3.78	115	2.06	124	2.31	106	4.89
Malaysia	24	5.44	18	5.12	23	5.09	31	4.97	42	6.58
Mali	120	3.14	70	3.66	112	2.09	113	3.48	122	3.34
Malta	39	4.98	31	4.59	37	4.37	76	4.26	32	6.69
Mauritania	114	3.40	64	3.77	111	2.09	120	2.82	105	4.91
Mauritius	49	4.70	44	4.26	42	4.17	104	3.79	44	6.58
Mexico	53	4.61	69	3.68	64	3.41	54	4.63	31	6.71
Moldova	88	4.09	101	3.18	85	2.77	67	4.41	92	6.01
Mongolia	97	3.91	105	3.13	106	2.24	60	4.46	95	5.82
Morocco	65	4.44	57	3.87	59	3.57	78	4.24	87	6.07
Mozambique	119	3.21	107	3.09	99	2.41	112	3.50	117	3.85
Namibia	69	4.40	49	4.07	43	4.15	43	4.79	111	4.58
Nepal	106	3.65	99	3.20	122	1.83	59	4.47	102	5.09
Netherlands	8	5.94	9	5.60	8	6.09	22	5.16	13	6.90
New Zealand	16	5.65	8	5.65	27	4.88	25	5.12	6	6.93
Nicaragua	95	3.93	102	3.15	101	2.34	89	4.07	83	6.16
Nigeria	112	3.53	94	3.26	105	2.26	55	4.62	116	3.98
Norway	6	5.96	6	5.71	19	5.41	5	5.80	10	6.93
Pakistan	93	3.96	79	3.51	67	3.36	86	4.19	108	4.79
Panama	46	4.72	65	3.77	46	4.10	75	4.27	27	6.76
Paraguay	102	3.81	122	2.66	109	2.15	90	4.07	68	6.38
Peru	76	4.28	96	3.25	91	2.69	49	4.66	48	6.53
Philippines	84	4.19	88	3.38	88	2.73	62	4.45	82	6.20
Poland	57	4.59	73	3.62	57	3.64	70	4.34	26	6.76
Portugal	34	5.22	28	4.83	26	4.93	80	4.23	16	6.88
Qatar	20	5.51	16	5.16	41	4.22	3	6.03	37	6.64
Romania	83	4.19	87	3.40	77	3.05	97	3.94	69	6.38
Russian Federation	66	4.43	114	2.97	61	3.52	33	4.95	77	6.29
Serbia and Montenegro	99	3.87	97	3.24	90	2.72	106	3.76	97	5.74
Singapore	2	6.13	4	5.90	6	6.16	8	5.67	20	6.81
Slovak Republic	47	4.70	53	4.03	47	4.08	68	4.37	74	6.31
Slovenia	36	5.17	43	4.27	32	4.51	29	5.08	19	6.83
South Africa	58	4.58	36	4.49	49	4.04	46	4.74	103	5.07
Spain	25	5.42	39	4.37	22	5.22	24	5.13	5	6.94
Sri Lanka	80	4.22	82	3.48	76	3.07	110	3.66	36	6.66
Suriname	91	4.06	89	3.37	100	2.36	94	4.01	51	6.50
Sweden	7	5.95	12	5.51	9	5.97	15	5.40	9	6.93
Switzerland	5	6.02	5	5.73	2	6.34	18	5.28	29	6.72
Taiwan, China	21	5.50	32	4.56	16	5.58	27	5.10	25	6.77
Tajikistan	94	3.94	77	3.53	108	2.20	96	3.94	85	6.09
Tanzania	111	3.54	56	3.88	93	2.65	100	3.88	118	3.76
Thailand	38	4.98	40	4.37	38	4.36	28	5.10	84	6.09
Timor-Leste	116	3.27	119	2.90	124	1.66	82	4.22	114	4.31
Trinidad and Tobago	63	4.49	85	3.41	70	3.29	38	4.88	64	6.39
Tunisia	31	5.27	19	5.09	36	4.39	37	4.91	33	6.69
Turkey	72	4.34	51	4.05	63	3.46	111	3.58	78	6.28
Uganda	118	3.22	100	3.18	118	1.99	66	4.42	123	3.29
Ukraine	86	4.15	104	3.14	69	3.30	74	4.27	94	5.88
United Arab Emirates	26	5.41	20	5.05	25	4.99	4	5.92	99	5.67
United Kingdom	14	5.67	15	5.38	14	5.74	48	4.67	14	6.89
United States	27	5.41	27	4.84	12	5.82	69	4.37	40	6.60
Uruguay	61	4.51	42	4.29	58	3.59	109	3.73	59	6.41
Venezuela	85	4.19	125	2.38	84	2.78	26	5.11	53	6.48
Vietnam	71	4.37	74	3.62	83	2.79	53	4.63	56	6.43
Zambia	113	3.43	67	3.72	87	2.75	119	3.07	115	4.17
Zimbabwe	122	2.96	120	2.88	98	2.44	125	2.20	113	4.32

Table 3: Global Competitiveness Index: Efficiency enhancers

Country/Economy	Efficiency enhancers Rank	Efficiency enhancers Score	5th pillar: Higher education and training Rank	5th pillar: Higher education and training Score	6th pillar: Market efficiency Rank	6th pillar: Market efficiency Score	7th pillar: Technological readiness Rank	7th pillar: Technological readiness Score
Albania	99	3.12	92	3.24	109	3.55	104	2.56
Algeria	92	3.24	84	3.46	96	3.67	100	2.58
Angola	123	2.51	125	1.92	120	3.35	120	2.26
Argentina	66	3.79	39	4.51	94	3.68	70	3.19
Armenia	88	3.33	80	3.58	104	3.60	86	2.81
Australia	10	5.43	14	5.56	11	5.23	7	5.50
Austria	20	5.16	19	5.39	26	4.94	21	5.15
Azerbaijan	78	3.52	82	3.56	81	3.96	76	3.03
Bahrain	49	4.15	64	3.97	39	4.47	41	4.01
Bangladesh	108	3.01	108	2.68	83	3.93	114	2.41
Barbados	29	4.60	24	5.23	49	4.33	34	4.23
Belgium	23	5.07	4	5.83	32	4.69	27	4.68
Benin	105	3.02	101	2.96	95	3.67	112	2.42
Bolivia	97	3.13	89	3.40	111	3.53	111	2.46
Bosnia and Herzegovina	93	3.22	86	3.44	93	3.69	108	2.52
Botswana	77	3.52	87	3.41	59	4.20	80	2.95
Brazil	57	3.94	60	4.10	58	4.21	57	3.50
Bulgaria	70	3.67	62	4.05	90	3.75	68	3.21
Burkina Faso	109	2.95	116	2.51	87	3.78	103	2.56
Burundi	124	2.46	123	2.16	123	3.28	125	1.96
Cambodia	110	2.94	110	2.63	99	3.63	105	2.56
Cameroon	113	2.90	103	2.85	115	3.45	113	2.41
Canada	15	5.35	17	5.51	7	5.26	17	5.28
Chad	125	2.35	124	1.99	124	3.07	124	1.99
Chile	31	4.58	40	4.48	24	5.04	35	4.22
China	71	3.66	77	3.68	56	4.22	75	3.07
Colombia	65	3.82	69	3.89	51	4.32	65	3.24
Costa Rica	51	4.08	52	4.26	52	4.25	44	3.74
Croatia	52	4.07	44	4.43	68	4.11	47	3.68
Cyprus	44	4.27	41	4.48	55	4.22	38	4.10
Czech Republic	27	4.73	27	5.04	41	4.43	26	4.74
Denmark	6	5.59	2	5.91	6	5.40	10	5.46
Dominican Republic	76	3.58	91	3.36	82	3.95	58	3.42
Ecuador	96	3.13	97	3.09	112	3.51	88	2.79
Egypt	74	3.61	75	3.73	65	4.14	79	2.97
El Salvador	68	3.70	83	3.51	50	4.32	64	3.27
Estonia	19	5.18	23	5.26	25	4.98	16	5.29
Ethiopia	120	2.68	120	2.39	118	3.40	121	2.26
Finland	4	5.60	1	6.23	17	5.13	12	5.44
France	22	5.07	12	5.57	28	4.83	25	4.81
Gambia	101	3.09	106	2.81	89	3.77	92	2.69
Georgia	87	3.36	76	3.69	86	3.86	106	2.54
Germany	17	5.22	18	5.42	20	5.09	20	5.16
Greece	47	4.18	34	4.78	62	4.17	50	3.58
Guatemala	82	3.46	94	3.19	77	4.03	71	3.17
Guyana	114	2.89	114	2.54	106	3.56	101	2.57
Honduras	100	3.10	95	3.11	107	3.56	95	2.63
Hong Kong SAR	11	5.40	25	5.08	1	5.69	13	5.44
Hungary	32	4.57	30	4.93	37	4.61	36	4.18
Iceland	8	5.47	13	5.57	8	5.25	4	5.60
India	41	4.32	49	4.35	21	5.07	55	3.52
Indonesia	50	4.12	53	4.25	27	4.93	72	3.17
Ireland	18	5.21	16	5.52	13	5.22	24	4.89
Israel	12	5.40	20	5.39	14	5.17	3	5.65
Italy	40	4.41	35	4.77	78	4.02	32	4.43
Jamaica	53	4.06	67	3.94	61	4.19	40	4.04
Japan	16	5.33	15	5.54	10	5.23	19	5.21
Jordan	58	3.92	54	4.22	53	4.25	62	3.30
Kazakhstan	56	3.97	51	4.28	44	4.39	66	3.23
Kenya	81	3.47	88	3.41	72	4.10	81	2.91
Korea, Rep.	25	5.00	21	5.38	43	4.39	18	5.22
Kuwait	45	4.20	59	4.11	29	4.80	46	3.70
Kyrgyz Republic	102	3.08	79	3.60	114	3.48	122	2.16

(cont'd.)

Table 3: Global Competitiveness Index: Efficiency enhancers *(cont'd.)*

Country/Economy	Efficiency enhancers		5th pillar: Higher education and training		6th pillar: Market efficiency		7th pillar: Technological readiness	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Latvia	36	4.48	28	5.01	40	4.44	43	3.98
Lesotho	119	2.80	115	2.52	119	3.40	110	2.48
Lithuania	38	4.44	29	4.97	45	4.35	42	3.99
Luxembourg	24	5.00	45	4.42	18	5.11	9	5.47
Macedonia, FYR	80	3.47	66	3.96	91	3.74	91	2.71
Madagascar	112	2.92	113	2.55	103	3.62	99	2.58
Malawi	116	2.87	119	2.46	88	3.77	118	2.37
Malaysia	26	4.89	32	4.80	9	5.24	28	4.64
Mali	118	2.83	118	2.48	102	3.62	117	2.38
Malta	33	4.57	47	4.36	46	4.35	22	5.00
Mauritania	111	2.94	121	2.33	101	3.62	84	2.86
Mauritius	61	3.86	68	3.94	67	4.11	54	3.55
Mexico	59	3.91	71	3.88	48	4.35	56	3.51
Moldova	85	3.38	73	3.78	92	3.73	96	2.62
Mongolia	86	3.37	70	3.89	100	3.62	97	2.60
Morocco	75	3.58	85	3.45	74	4.08	67	3.22
Mozambique	121	2.62	122	2.30	122	3.29	119	2.27
Namibia	90	3.28	105	2.82	79	4.00	78	3.00
Nepal	117	2.87	109	2.63	105	3.58	116	2.39
Netherlands	9	5.45	8	5.67	12	5.23	11	5.45
New Zealand	21	5.15	22	5.33	15	5.17	23	4.94
Nicaragua	95	3.15	93	3.23	98	3.65	98	2.59
Nigeria	89	3.31	100	3.04	70	4.10	87	2.79
Norway	13	5.38	9	5.64	16	5.16	15	5.32
Pakistan	91	3.27	104	2.82	54	4.23	89	2.77
Panama	62	3.86	74	3.75	42	4.41	59	3.41
Paraguay	115	2.89	102	2.93	121	3.33	115	2.40
Peru	67	3.70	72	3.79	66	4.12	69	3.21
Philippines	63	3.85	63	4.02	57	4.21	61	3.32
Poland	48	4.17	33	4.79	64	4.16	51	3.56
Portugal	37	4.47	37	4.63	38	4.61	37	4.18
Qatar	39	4.41	46	4.36	30	4.77	39	4.10
Romania	55	3.99	50	4.34	76	4.03	49	3.59
Russian Federation	60	3.91	43	4.44	60	4.20	74	3.10
Serbia and Montenegro	72	3.63	61	4.09	97	3.66	73	3.16
Singapore	3	5.63	10	5.59	4	5.62	2	5.69
Slovak Republic	34	4.56	38	4.52	34	4.66	30	4.50
Slovenia	30	4.58	26	5.07	63	4.17	29	4.51
South Africa	46	4.19	56	4.17	33	4.67	45	3.72
Spain	28	4.62	31	4.86	36	4.63	33	4.38
Sri Lanka	79	3.51	81	3.56	71	4.10	83	2.87
Suriname	107	3.01	99	3.08	117	3.41	107	2.53
Sweden	2	5.65	3	5.85	19	5.11	1	6.01
Switzerland	5	5.59	6	5.77	5	5.44	5	5.57
Taiwan, China	14	5.36	7	5.67	22	5.07	14	5.32
Tajikistan	103	3.07	98	3.09	108	3.56	102	2.57
Tanzania	94	3.16	112	2.56	75	4.07	82	2.87
Thailand	43	4.29	42	4.44	31	4.76	48	3.67
Timor-Leste	122	2.57	111	2.62	125	2.95	123	2.15
Trinidad and Tobago	64	3.82	65	3.97	69	4.11	60	3.40
Tunisia	42	4.31	36	4.72	35	4.65	53	3.56
Turkey	54	4.02	57	4.15	47	4.35	52	3.56
Uganda	98	3.12	107	2.78	84	3.90	94	2.67
Ukraine	69	3.68	48	4.35	80	3.96	90	2.71
United Arab Emirates	35	4.55	58	4.13	23	5.05	31	4.47
United Kingdom	7	5.59	11	5.57	3	5.63	6	5.56
United States	1	5.66	5	5.82	2	5.67	8	5.49
Uruguay	73	3.63	55	4.19	116	3.42	63	3.27
Venezuela	84	3.40	78	3.63	110	3.53	77	3.02
Vietnam	83	3.45	90	3.39	73	4.10	85	2.85
Zambia	106	3.01	117	2.48	85	3.87	93	2.67
Zimbabwe	104	3.02	96	3.10	113	3.48	109	2.48

Table 4: Global Competitiveness Index: Innovation factors

Country/Economy	Innovation factors Rank	Innovation factors Score	8th pillar: Business sophistication Rank	8th pillar: Business sophistication Score	9th pillar: Innovation Rank	9th pillar: Innovation Score
Albania	121	2.57	115	3.10	125	2.04
Algeria	90	3.22	103	3.36	76	3.09
Angola	123	2.52	123	2.74	121	2.30
Argentina	79	3.44	75	3.85	83	3.03
Armenia	93	3.17	104	3.34	84	3.00
Australia	24	4.66	28	4.98	24	4.35
Austria	12	5.28	4	5.91	17	4.65
Azerbaijan	70	3.59	70	3.92	63	3.26
Bahrain	77	3.47	55	4.24	101	2.71
Bangladesh	104	3.01	96	3.42	109	2.59
Barbados	54	3.78	58	4.21	49	3.36
Belgium	14	5.21	12	5.73	16	4.68
Benin	88	3.23	85	3.58	90	2.87
Bolivia	119	2.64	119	2.97	120	2.31
Bosnia and Herzegovina	99	3.08	92	3.47	104	2.68
Botswana	95	3.15	95	3.43	91	2.87
Brazil	38	4.09	38	4.61	38	3.56
Bulgaria	85	3.26	84	3.59	87	2.93
Burkina Faso	84	3.27	98	3.40	69	3.14
Burundi	118	2.66	117	3.01	119	2.32
Cambodia	102	3.05	100	3.37	98	2.72
Cameroon	101	3.05	101	3.37	97	2.73
Canada	16	5.08	18	5.33	13	4.82
Chad	122	2.53	121	2.81	122	2.26
Chile	33	4.22	30	4.88	39	3.56
China	57	3.75	65	4.05	46	3.44
Colombia	48	3.82	48	4.34	57	3.30
Costa Rica	35	4.16	34	4.66	36	3.65
Croatia	50	3.81	61	4.17	45	3.45
Cyprus	49	3.81	50	4.32	55	3.30
Czech Republic	27	4.47	29	4.96	28	3.98
Denmark	7	5.40	9	5.76	10	5.04
Dominican Republic	91	3.22	79	3.72	99	2.72
Ecuador	97	3.14	82	3.63	105	2.65
Egypt	65	3.63	57	4.22	82	3.04
El Salvador	75	3.51	62	4.13	89	2.89
Estonia	32	4.24	35	4.65	30	3.83
Ethiopia	116	2.72	120	2.94	114	2.50
Finland	6	5.65	11	5.74	4	5.56
France	13	5.28	10	5.76	14	4.80
Gambia	112	2.89	106	3.30	115	2.48
Georgia	113	2.86	116	3.02	102	2.71
Germany	3	5.89	1	6.26	5	5.51
Greece	45	3.89	46	4.35	47	3.43
Guatemala	64	3.63	60	4.19	78	3.07
Guyana	106	2.95	97	3.42	116	2.48
Honduras	100	3.07	87	3.53	107	2.61
Hong Kong SAR	18	4.97	13	5.48	22	4.46
Hungary	39	4.08	49	4.34	31	3.82
Iceland	17	5.00	14	5.45	19	4.55
India	26	4.60	25	5.06	26	4.14
Indonesia	41	4.07	42	4.53	37	3.60
Ireland	19	4.96	16	5.39	20	4.54
Israel	8	5.40	17	5.38	7	5.42
Italy	31	4.29	24	5.08	43	3.50
Jamaica	56	3.77	56	4.22	54	3.32
Japan	1	6.02	2	6.14	1	5.90
Jordan	61	3.65	67	4.04	64	3.25
Kazakhstan	74	3.51	72	3.90	70	3.13
Kenya	59	3.73	68	4.04	48	3.42
Korea, Rep.	20	4.96	22	5.20	15	4.71
Kuwait	46	3.85	33	4.66	81	3.04
Kyrgyz Republic	108	2.93	105	3.31	111	2.55

(cont'd.)

Table 4: Global Competitiveness Index: Innovation factors *(cont'd.)*

	Innovation factors		8th pillar: Business sophistication		9th pillar: Innovation	
Country/Economy	Rank	Score	Rank	Score	Rank	Score
Latvia	58	3.74	54	4.28	66	3.19
Lesotho	120	2.59	122	2.80	117	2.37
Lithuania	44	3.96	41	4.56	50	3.35
Luxembourg	23	4.81	21	5.27	23	4.36
Macedonia, FYR	87	3.24	88	3.50	86	2.98
Madagascar	89	3.23	99	3.39	77	3.07
Malawi	109	2.93	113	3.16	103	2.70
Malaysia	22	4.91	20	5.29	21	4.53
Mali	94	3.17	107	3.29	80	3.04
Malta	53	3.79	51	4.32	62	3.26
Mauritania	105	2.98	102	3.36	108	2.60
Mauritius	47	3.84	44	4.44	65	3.23
Mexico	52	3.80	52	4.30	58	3.29
Moldova	98	3.09	93	3.46	100	2.72
Mongolia	110	2.92	118	2.98	94	2.86
Morocco	72	3.54	78	3.82	61	3.26
Mozambique	115	2.86	114	3.13	110	2.58
Namibia	86	3.25	83	3.60	88	2.91
Nepal	111	2.90	108	3.26	112	2.54
Netherlands	11	5.35	7	5.80	11	4.90
New Zealand	25	4.65	26	5.06	25	4.23
Nicaragua	107	2.94	109	3.23	106	2.64
Nigeria	69	3.60	74	3.87	52	3.33
Norway	21	4.95	19	5.30	18	4.59
Pakistan	60	3.66	66	4.05	60	3.27
Panama	62	3.64	53	4.29	85	2.99
Paraguay	117	2.68	112	3.16	123	2.20
Peru	68	3.61	47	4.35	92	2.86
Philippines	66	3.63	59	4.20	79	3.05
Poland	51	3.80	63	4.13	44	3.47
Portugal	37	4.14	43	4.47	32	3.81
Qatar	55	3.78	69	4.04	41	3.51
Romania	73	3.52	73	3.89	68	3.14
Russian Federation	71	3.55	77	3.83	59	3.28
Serbia and Montenegro	83	3.27	94	3.44	71	3.11
Singapore	15	5.11	23	5.17	9	5.04
Slovak Republic	43	3.96	45	4.41	42	3.51
Slovenia	34	4.18	36	4.64	34	3.71
South Africa	29	4.35	32	4.79	29	3.92
Spain	30	4.34	27	5.00	35	3.68
Sri Lanka	67	3.61	71	3.90	53	3.32
Suriname	114	2.86	111	3.18	113	2.54
Sweden	5	5.66	5	5.87	6	5.44
Switzerland	2	5.89	3	6.06	3	5.72
Taiwan, China	9	5.38	15	5.45	8	5.31
Tajikistan	103	3.02	110	3.19	95	2.85
Tanzania	76	3.49	81	3.68	56	3.30
Thailand	36	4.15	40	4.57	33	3.74
Timor-Leste	125	2.36	124	2.58	124	2.14
Trinidad and Tobago	63	3.63	64	4.10	67	3.17
Tunisia	28	4.42	31	4.80	27	4.05
Turkey	42	3.96	39	4.58	51	3.35
Uganda	82	3.30	90	3.49	72	3.11
Ukraine	78	3.47	76	3.84	73	3.11
United Arab Emirates	40	4.08	37	4.63	40	3.52
United Kingdom	10	5.36	6	5.82	12	4.89
United States	4	5.75	8	5.78	2	5.72
Uruguay	80	3.41	80	3.71	74	3.10
Venezuela	96	3.14	91	3.48	96	2.80
Vietnam	81	3.32	86	3.55	75	3.10
Zambia	124	2.43	125	2.51	118	2.35
Zimbabwe	92	3.18	89	3.50	93	2.86

As in previous years, Venezuela's overall performance continues to deteriorate, reflecting a sharp deterioration in the quality of Venezuelan institutions, especially in combating corruption, undue influence in decision-making, and in reducing government intervention. For all the talk about the social dimension of the government's "benign" revolution, school enrolment rates are either mediocre or poor, with Venezuela ranking 85, just behind Vietnam, Suriname, and China at the secondary school level. Venezuela's infant mortality rate of 16 per 1,000 live births is on a par with Albania, and actually higher than that of Russia or the Ukraine, two countries still recovering from decades of public health neglect.

The competitiveness landscape in the Middle East and North African region has generally seen an improvement since last year's *Report*. Among the larger economies, Algeria and Morocco moved up six places each, to ranks 76 and 70, respectively, while Tunisia, the most competitive economy of the region, reached rank 30, up seven places from last year, closely followed by the United Arab Emirates at rank 32. The smaller Gulf States also did well: Kuwait was up five places to rank 44, Qatar leaped eight places to rank 38 and Bahrain achieved rank 49. Israel also saw a notable improvement, moving up eight places to rank 15. Only Egypt (rank 63) and Jordan (rank 52) lost significant ground, dropping ten and nine ranks respectively.

Although sub-Saharan Africa has experienced high growth over the past few years, the results of the Global Competitiveness Index suggest that this trend may not be sustainable. In terms of competitiveness, the region lags far behind the rest of the world. Out of the 24 countries from Sub-Saharan Africa included in this year's sample, 19 rank among the 25 weakest performers occupying rank 100 or below. The seven newcomers to the Report from the region (Angola, Burkina Faso, Burundi, Cameroon, Lesotho, Mauritania, and Zambia) are no exception. All rank below 100 and suffer from a weak performance in most of the nine pillars. Only a few countries are taking advantage of the global boom in commodity prices to build a strong institutional basis for long-term growth.

South Africa remains the top performer of the region (45th overall). Despite significant achievements since the ending of apartheid, the country is in many ways still struggling with its legacy, including gross inequalities, high unemployment, major skill shortages, and a striking dichotomy between first and third world characteristics.

Nigeria shows a very different picture. Weak and deteriorating institutions, including a serious security problem, lower scores in the areas of infrastructure and basic health and education, and a very significant change for the worse in macroeconomic management have depressed the country's rank to 101, from 83 last year. Despite its huge revenues from record high oil prices, the large majority of the population remains very poor and without access to basic healthcare and education. Botswana has been relatively successful, ranking 81st, the third best performance in sub-Saharan Africa after South Africa and Mauritius (55th). The government succeeded in using its wealth from key natural resources to boost the country's growth rate. Key to Botswana's success were reliable public institutions and the country is known to have one of the lowest levels of corruption in Africa.

The Business Competitiveness Index

Competitiveness finds its ultimate expression in the prosperity that countries can sustain over time. Prosperity is sustainable, if it is based on the productivity companies can reach given the conditions they face in an economy. While most discussion of competitiveness remains focused on the macroeconomic, political, legal, and social circumstances that underpin a successful economy, progress in these areas is necessary but not sufficient. Reflecting this view, the Business Competitiveness Index (BCI) ranks countries by their microeconomic competitiveness, identifies competitive strengths and weaknesses in terms of countries' business environment conditions and company operations and strategies, and provides an assessment of the sustainability of countries' current levels of prosperity.

This year's BCI rankings, calculated for 121 countries, are shown in Table 5. The first column shows the overall rankings, while the second two columns show the rankings in each of the two subindexes: company operations and strategy and the quality of the national business environment. As in previous years, the authors estimate that the BCI explains more than 80 percent of the variation of GDP per capita across the wide sample of countries covered, a confirmation of the critical importance of microeconomic factors for prosperity.

The United States remains in the leading position in competitiveness, ahead of Germany and Finland. The United States' strength is greatest in the business environment, including domestic rivalry (rank 1 on "intensity of local competition" and "effectiveness of antitrust policy"), financial markets (rank 1 on "venture capital availability," "local equity market access," and "financial market sophistication"), and innovative capacity (rank 1 on "university/industry research collaboration," "company R&D spending," "local availability of specialized research and training services," and "quality of scientific research institutions").

High-income nations improving their rankings the most include Hong Kong (up 7 ranks after a decline last year), registering strong improvements in management education, the efficacy of government boards, and local availability of process machinery; and Norway, (up 5 ranks) benefiting from increasing intensity of local competition, the availability of venture capital, and efficiency of the

Table 5: The Business Competitiveness Index

Country/Economy	BCI ranking	Quality of the national business environment ranking	Company operations and strategy ranking
United States	1	1	1
Germany	2	2	2
Finland	3	3	8
Switzerland	4	4	4
Denmark	5	6	6
Netherlands	6	5	7
Sweden	7	8	3
United Kingdom	8	7	9
Japan	9	9	5
Hong Kong SAR	10	10	12
Singapore	11	11	21
Austria	12	14	10
Iceland	13	12	19
Norway	14	13	20
Canada	15	16	18
France	16	18	11
Belgium	17	17	13
Australia	18	15	23
Israel	19	19	15
Malaysia	20	20	14
Taiwan, China	21	22	16
Ireland	22	23	17
New Zealand	23	21	24
Estonia	24	24	35
Korea, Rep.	25	29	22
Tunisia	26	25	33
India	27	27	25
Portugal	28	26	40
Chile	29	28	29
Spain	30	31	31
United Arab Emirates	31	30	39
Czech Republic	32	32	28
South Africa	33	34	27
Qatar	34	33	44
Indonesia	35	38	26
Slovenia	36	36	34
Thailand	37	37	30
Italy	38	42	32
Hungary	39	35	43
Slovak Republic	40	39	45
Malta	41	40	63
Barbados	42	41	60
Lithuania	43	45	37
Kuwait	44	44	59
Cyprus	45	43	67
Turkey	46	46	41
Latvia	47	48	47
Mauritius	48	49	46
Greece	49	47	53
Costa Rica	50	52	36
Bahrain*	51	50	64
Jordan	52	51	70
Poland	53	53	49
Jamaica	54	55	52
Brazil	55	58	38
Croatia	56	54	56
Mexico	57	56	42
Panama	58	57	58
Colombia	59	59	54
El Salvador	60	60	61
Guatemala	61	66	50
Uruguay	62	61	71
Trinidad and Tobago	63	64	65
China	64	65	69
Sri Lanka	65	68	68
Morocco*	66	62	80
Pakistan	67	67	72
Kenya	68	72	57
Botswana	69	63	86
Kazakhstan	70	70	74
Peru	71	75	51
Philippines	72	76	48
Tanzania	73	71	75
Romania	74	73	73
Namibia	75	69	83
Egypt	76	74	76
Azerbaijan*	77	78	66
Argentina	78	79	62
Russian Federation	79	77	78
Nigeria*	80	84	55
Ukraine	81	80	82
Vietnam	82	83	77
Bulgaria	83	81	95
Dominican Republic	84	86	79
Algeria	85	82	112
Serbia and Montenegro	86	85	110
Macedonia, FYR	87	87	90
Uganda*	88	90	87
Burkina Faso*	89	88	98
Moldova	90	91	91
Mali*	91	89	100
Gambia	92	92	85
Venezuela	93	94	81
Armenia	94	93	101
Benin	95	95	94
Bosnia and Herzegovina	96	96	107
Madagascar	97	99	99
Tajikistan*	98	97	108
Mongolia	99	98	104
Georgia	100	101	97
Mauritania*	101	102	88
Nicaragua	102	100	109
Zimbabwe	103	104	84
Malawi	104	103	93
Ecuador	105	105	89
Honduras	106	106	92
Cambodia	107	107	96
Bangladesh	108	110	105
Suriname	109	108	115
Mozambique	110	111	103
Nepal	111	113	106
Kyrgyz Republic	112	112	114
Cameroon	113	114	102
Guyana	114	115	111
Lesotho	115	116	116
Zambia	116	109	123
Bolivia	117	117	120
Ethiopia	118	118	121
Albania	119	120	113
Paraguay	120	119	118
Chad*	121	121	124

(cont'd.)

Note: *Survey data for these countries have high within-country variance; until the reliability of survey responses improves with future educational efforts and improved sampling in these countries, their rankings should be interpreted with caution.

legal framework. High-income economies falling in the rankings include Cyprus, the Czech Republic, Taiwan, and France. France (down 6 ranks), failed to maintain last year's progress, driven especially by weaker assessments of the ease of access to loans, university/industry research collaboration, and the quality of public schools.

Middle-income nations improving their competitiveness ranking include Guatemala, Indonesia, the Dominican Republic, and Morocco. Indonesia (up 24 ranks), registered a major rebound after the large drop last year following concerns about the effectiveness of the new government. This year's gains were driven by easier access to loans, decreased power of business groups, and more effective anti-trust policy. Middle-income countries falling in competitiveness rank include Argentina, Botswana, the Ukraine, China, Jordan, and Poland. Argentina (down 15 ranks), Botswana (down 13 ranks), and Poland (down 8 ranks) all fell back after gains last year proved unsustainable. Argentina was dragged down by worsening local supplier quality and quantity and increasing centralization of economic policy-making.

Among low-income countries, China (down 9 ranks) continues the downward trend beginning in 2002. This year's decline was driven especially by higher levels of corruption, weaker assessment of buyer sophistication, and concerns about labor relations. Euphoria about China is moderating as the realities of its competitiveness become more apparent. Among other low-income countries, Benin (up 7 ranks), Kenya (up 6 ranks), and Tanzania (up 6 ranks) made the largest improvements. Malawi (down 18 ranks), Zimbabwe (down 15 ranks), Cameroon (down 10 ranks), and Mozambique (down 10 ranks) experienced the largest drops among low-income countries. Zimbabwe's political problems seem increasingly to be feeding through to the microeconomic foundations of its economy.

This year the chapter includes a new analysis of the relationship between the productivity attainable in a country – measured by its BCI score – and the prevailing wage levels. The analysis on a sub sample of 42 countries with comparable data confirms that competitiveness has a major impact on sustainable wage levels. Many western European countries register actual wages above the level justified by their competitiveness, a cause for concern. Five Asian countries and the Baltic Tigers instead report wages below the level indicated by their competitiveness, explaining why these countries are widely seen as attractive locations to do business. The United States and Japan are notable as high-wage economies that still provide good value given their competitiveness.

The chapter also includes a new section ranking countries on their dynamism in upgrading competitiveness. Competitiveness is a dynamic concept where progress depends on continuous improvements in those dimensions of company sophistication and business environment quality that matter most given a country's current stage of development. Among low-income countries, India, followed by Pakistan, registers the highest rate of dynamism, while Vietnam and Malawi lost ground. Among middle-income countries, Malaysia and Turkey registered the highest rate of dynamism. Among high-income countries, Norway is a surprising leader in dynamism while Italy has lost ground; Finland, and to a smaller degree Sweden, have also moved backwards.

Finally, the chapter provides an analysis of contextual factors. Political stability, location—a prosperous neighborhood and a beneficial geography with access to trade routes—, and natural resource wealth help to explain why countries' actual prosperity can deviate from the level predicted by their competitiveness. Overall, high-income countries benefit from a better context than middle- and especially low-income countries.

The *Report* also includes specific profiles for the 125 countries covered, outlining the index rankings for each, as well as their relative competitive advantages and disadvantages. In addition to the country profiles, detailed data tables give an account of country rankings on the variables utilized to compute the indexes, as well as others. Guidelines on how to read the country profiles and data tables are included at the end of the Report, along with technical notes on data sources, and the full definition of certain variables.

Selected Issues of Competitiveness

As in previous *Report*s, this year's edition features several outstanding contributions from eminent scholars and experts, dealing with specific competitiveness issues or broader development themes. All are concerned with the conditions for sustained growth and development and represent a very insightful reading for policymakers, business and the general public. Each addresses a different aspect of competitiveness, and provides in-depth analysis of some of the central questions at the heart of the work we do at the World Economic Forum, on such topics as the role of good governance in fostering an attractive investment climate, and the importance for the development process of what professor Huang calls the soft infrastructure of growth. These special studies are highly business relevant, and complement the competitiveness indexes, country profiles and data tables elsewhere in the *Report*.

Global imbalances

Richard Cooper and Ken Rogoff present two contrasting interpretations of the threat global imbalances represent for global prosperity. For Cooper, the US current account deficit is a natural feature of a globalized economy, reflecting matching surpluses in countries with aging, high-saving populations, shrinking labor markets, declining investment, and low returns. Excess savings in some of these large countries, such as, Germany and Japan, manifest themselves in budget deficits and current account surpluses at home and investment abroad. The United States, the world's center of technological innovation, with extremely well developed financial markets, produces secure, high-yielding financial assets that attract a reasonable share of global world savings and foreign official investment, equivalent to the current account deficit, which can thus be sustained for many years. What is unsustainable is the present growth of the US deficit as a share of GDP. Maintaining a constant share deficit may require some depreciation of the dollar and a reduction in the trade deficit. It will also require greater effort on the part of the United States to reduce fiscal imbalances.

For Rogoff, the US deficit represents government borrowing and no longer supports high real investment. The United States is presently consuming 70 percent of the world's net savings. Historically, current account deficits have tended to collapse at relatively low levels. A housing slump would slow the US economy, while other countries are growing, reducing the US deficit. The overvalued dollar could drop up to 40 percent on a trade-weighted basis, reducing global output and precipitating a financial market crisis, soaring interest rates, with a concomitant severe impact on Europe and Japan. Budget deficits are ballooning, with rising costs for the elderly and for security. High government debt to GDP ratios and rising interest rates could precipitate emerging market debt crises and defaults. Accumulating global imbalances are now a substantial risk to the world economy, which only multilateral policy consultations could reduce. There has to be a massive appreciation in emerging Asia, and an immediate effort to balance the US budget.

The fight against corruption

In her thoughtful paper "Looking Under Every Stone: Transparency International and the Fight Against Corruption," Juanita Olaya provides a compelling account of the history and achievements of Transparency International (TI) in fighting corruption in the world and of the challenges remaining to be addressed.

The author begins by briefly describing the pathology of corruption—the abuse of entrusted power for private gains—highlighting its typologies and degree in both private and public sectors, and in developing and developed countries. Corruption has been estimated by the World Bank to account for as much as 3 percent of global GDP (2004). Olaya describes the negative impact of corruption on many of the factors enabling socio-economic development, significantly slowing the growth of corrupt countries.

In view of these facts, TI was founded in 1993 to deal with systematic change and prevention of corruption at the national and international level. The paper provides a comprehensive picture of TI's projects and accomplishments up to the present, the most notable of which was its success in inserting the fight against corruption into national and global agendas and raising awareness of the important role to be played in combating corruption by both the private sector and civil society.

Notwithstanding the signal achievements of TI, Ms. Olaya argues that corruption remains endemic, due to its endogeneity and varied typologies, the slow pace of institutional change, and the limited application and enforcement of anti-corruption legislation. Among the challenges in the years to come she cites the need to move from regulation and rule-making to actual implementation, to ensure that appropriate checks are in place in international transactions, and to set up cooperative and information-sharing mechanisms among the many stakeholders in the fight against corruption.

Economic growth, employment, and competitiveness

The paper "Economic Growth, Employment, Competitiveness, and Labor Market Institutions," by Peter Auer and Rizwanul Islam, of the International Labour Organization, illustrates how high employment intensity of growth can help tackle unemployment and contribute to poverty reduction. The authors make a strong case for the vital importance of understanding the link between output and employment growth and its relevance to economic policy-making.

The underlying identity that links these concepts states that, in general, the rate of employment growth is inversely related to labor productivity growth. However, the paper argues that although there may be a trade-off between employment and productivity in the short-run, employment-intensive growth does not necessarily compromise productivity, which is essential for maintaining competitiveness.

Using a large set of cross-country comparable data, the paper finds that over the last decade there has been an increasing global trend toward economic growth without significant employment growth. It also shows that there can be a considerable amount of variation in the degree of employment intensity between various sectors and subsectors of an economy. Thus, the overall employment intensity can actually increase if the labor-intensive sectors grow at higher rates.

The paper also argues that labor market flexibility is necessary in order to adapt to changing market circumstances, and supports the employment intensity of growth when it leads to efficient reallocation of labor. But, they argue, too much flexibility might be detrimental to worker security and also productivity. Because employment protection legislation and tenure support investment in training and increases in productivity, they also have positive effects. Taken together, the authors suggest that, rather than flexibility of the labor market alone, it is preferable to have optimal combinations of labor market flexibility, employment stability, and security, in order to have good labor market performance and a robust growth-employment link.

A competitiveness perspective on China and India

In his insightful contribution "Are China and India Performing Well Relative to their Competitive Potential?" Yasheng Huang compares the development paths of China and India and questions the current perception that China, due to its overwhelming success, should serve as a model for India. He makes the point that by focusing on improving governance and fostering private sector development India created a better base for future growth than the Chinese investment-led approach.

In support of his argument, Huang looks at those factors which cast doubt on the widely held perception of China's relative success and explains why its performance deteriorated, relative to that of India, in the late 1990s. In the 1990s, India achieved levels of growth similar to those of China despite the latter's advantages of geographical location, a better educated and healthier population, and a more mobile social system. Moreover, China performs poorly on a number of microeconomic indicators, including those contained in the Business Competitiveness Index published in this *Report*, which show that the health of China's enterprises has been declining since the late 1990s while India's business sector has been thriving and achieving significantly higher productivity growth over the same period. China's progress in reform stalled after government-led investment and spending took the pressure off reform, while India continued to focus on productivity-enhancing measures.

Huang dismantles another argument for China's relative supremacy, namely the significantly higher FDI inflows into China. Until the mid 1990s, FDI inflows into China mainly came from diaspora Chinese and were not grounded in better growth prospects. Today, India's Western FDI inflows surpass what China has received at a similar stage by a large margin, and have a greater technological component. He contends that "soft infrastructure" factors which matter for economic growth in the long term—such as the quality of the financial system, good political and corporate governance, and the rule of law—are less developed in China than in India. This is illustrated by the financial sector. While India's companies face financing constraints similar to those in more advanced emerging markets such as Malaysia or Thailand, Chinese companies operate under severe financing constraints similar to those in such former transition economies as Russia and Romania. Huang believes that hard infrastructure, widely perceived as one of China's advantages over India contributed less to Chinese development than it might appear.