

The Global Competitiveness Report 2011-2012: Country Profile Highlights

Top 10

As in previous years, this year's top 10 remain dominated by a number of European countries, with Sweden, Finland, Denmark, Germany, and the Netherlands confirming their place among the most competitive economies. Singapore continues its upward trend to become the second-most competitive economy in the world, overtaking Sweden, while the United Kingdom returns to the top 10 as it recovers from the crisis.

Switzerland retains its 1st place position again this year as a result of its continuing strong performance across the board. The country's most notable strengths are related to innovation, technological readiness, and labor market efficiency, where it tops the GCI rankings. Switzerland's scientific research institutions are among the world's best, and the strong collaboration between its academic and business sectors, combined with high company spending on R&D, ensures that much of this research is translated into marketable products and processes that are reinforced by strong intellectual property protection. This robust innovative capacity is captured by its high rate of patenting, for which Switzerland ranks 7th worldwide. Productivity is further enhanced by a business sector and a population that are proactive at adapting latest technologies, as well as by labor markets that balance employee protection with the interests of employers. Moreover, public institutions in Switzerland are among the most effective and transparent in the world (7th). Governance structures ensure a level playing field, enhancing business confidence; these include an independent judiciary, a strong rule of law, and a highly accountable public sector. Competitiveness is also buttressed by excellent infrastructure (5th), well-functioning goods markets (5th), and highly developed financial markets (7th), which benefit from a sounder banking sector than seen in last year's assessment. Finally, Switzerland's macroeconomic environment is among the most stable in the world (11th) at a time when many neighboring economies continue to struggle in this area. While Switzerland demonstrates many competitive strengths, maintaining its innovative capacity will require boosting the university enrollment rate of 49.4 percent, which continues to lag behind that of many other high-innovation countries.

Singapore moves up by one place to 2nd position, maintaining the lead among Asian economies. The country's institutions continue to be assessed as the best in the world, ranked 1st for both their lack of corruption and government efficiency. Singapore places 1st and 2nd, respectively, for the efficiency of its goods and labor markets and leads the world in terms of financial market development, ensuring the proper allocation of these factors to their best use. Singapore also has world-class infrastructure (3rd), with excellent roads, ports, and air transport facilities. In addition, the country's competitiveness is reinforced by a strong focus on education, providing individuals with the skills needed for a rapidly changing global economy. In order to strengthen its competitiveness further, Singapore could encourage even stronger adoption of the latest technologies (10th) as well as measures that support the sophistication of its companies (15th).

Sweden, overtaken by Singapore, falls one place to 3rd position. Like Switzerland, the country has been placing significant emphasis on creating the conditions for innovation-led growth. The quality of its public institutions is first-rate, with a very high degree of efficiency, trust, and transparency. Private institutions also receive excellent marks (3rd), with firms that demonstrate the highest ethical behavior (3rd), supported by strong auditing and reporting standards (2nd) and well-functioning corporate boards (1st). Goods and financial markets are also very efficient, although the labor market could be more flexible (25th). Combined with a strong focus on education over the years (2nd for higher education and training) and a high level of technological adoption (2nd), Sweden has developed a very sophisticated business culture (2nd) and is one of the world's leading innovators (2nd). Last but not least, the country boasts a stable macroeconomic environment (13th), with an almost balanced budget and manageable public debt levels. These characteristics come together to make Sweden one of the most productive and competitive economies in the world.

Finland moves up three places since last year to reach 4th position. Similar to other countries in the region, the country boasts well-functioning and highly transparent public institutions (3rd), topping several indicators included in this category. It also occupies the top position in the higher education and training pillar, the result of a strong focus on education over recent decades. This has provided the workforce with the skills needed to adapt rapidly to a changing environment and has laid the groundwork for high levels of technological adoption and innovation. Finland is one of the innovation powerhouses in Europe, ranking 3rd, behind only Switzerland and Singapore, on the related pillar. Finland's macroeconomic environment remains fairly healthy, despite a small increase in the government's budget deficit.

The **United States** continues the decline that began three years ago, falling one more position to 5th place. While many structural features continue to make its economy extremely productive, a number of escalating weaknesses have lowered the US ranking in recent years. US companies are highly sophisticated and innovative, supported by an excellent university system that collaborates admirably with the business sector in R&D. Combined with flexible labor markets and the scale opportunities afforded by the sheer size of its domestic economy—the largest in the world by far—these qualities continue to make the United States very competitive. On the other hand, there are some weaknesses in particular areas that have deepened since past assessments. The business community continues to be critical toward public and private institutions (39th). In particular, its trust in politicians is not strong (50th), it remains concerned about the government's ability to maintain arms-length relationships with the private sector (50th), and it considers that the government spends its resources relatively wastefully (66th). In comparison with last year, policymaking is assessed as less transparent (50th) and regulation as more burdensome (58th).

A lack of macroeconomic stability continues to be the United States' greatest area of weakness (90th). Over the past decade, the country has been running repeated fiscal deficits, leading to burgeoning levels of public indebtedness that are likely to weigh heavily on the country's future growth. On a more positive note, after having declined for two years in a row, measures of financial market development are showing a hesitant recovery, improving from 31st last year to 22nd overall this year in that pillar.

Germany is ranked 6th this year, a decline of one place but with a slight increase in score. Since our last assessment, the quality of its public institutions as well as the efficiency of its goods markets have deteriorated slightly; in other areas, Germany either improves or maintains its performance. The country is ranked an excellent 2nd for the quality of its infrastructure, boasting in particular first-rate facilities across all modes of transport. Despite the slight drop in rankings, the goods market is quite efficient, characterized by intense local competition (9th) and low market dominance by large companies (3rd). Germany's business sector is highly sophisticated, especially when it comes to production processes and distribution channels, and German companies are among the most innovative in the world, spending heavily on R&D (5th) and displaying a strong capacity for innovation (3rd)—traits that are complemented by the country's well-developed ability to absorb the latest technologies at the firm level (14th). These attributes allow Germany to benefit greatly from its significant market size (5th), which is based on both its large domestic market and its strong exports. On a less positive note and despite some efforts, Germany's labor market remains rigid (125th for the labor market flexibility subpillar), where a lack of flexibility in wage determination and the high cost of firing present a hindrance to job creation. At the same time, the deteriorating availability of scientists and engineers (down from 27th to 41st this year) may erode the country's major competitive advantage in innovation if it remains unaddressed.

The Netherlands improves one rank to 7th this year, reflecting a modest strengthening of its institutional framework as well as the efficiency and stability of its financial markets. Overall, Dutch businesses are highly sophisticated (5th) and innovative (12th), and the country is rapidly and aggressively harnessing new technologies for productivity improvements (5th). Its excellent educational system (8th in the two related categories) and efficient markets—especially its goods market (9th)—are highly supportive of business activity. And although the country registered a fiscal deficit in 2010 (5.18 percent of GDP), its macroeconomic environment is more stable than that of a number of other advanced economies (36th). Last but not least, the quality of its infrastructure is among the best in the world, reflecting excellent facilities for maritime, railroad, and air transport, ranked 2nd, 6th, and 5th, respectively.

Denmark moves up one position to 8th place. Similar to its Nordic neighbors, the country benefits from what is one of the best-functioning and most transparent institutional frameworks in the world (5th) and an excellent infrastructure for transport as well as electricity and telephony. Denmark also continues to receive a first-rate assessment for its higher education and training system, the positive result of a strong focus on education over recent decades. This has provided the Danish workforce with the skills needed to reach high levels of technological adoption and innovation. A marked difference with regard to the other Nordic countries relates to labor market flexibility, where Denmark (6th) continues to distinguish itself as having one of the most efficient labor markets internationally, with more flexibility in setting wages, firing, and therefore hiring workers than in the other Nordics and in most countries more generally.

Japan falls three places to rank 9th, with a performance similar to last year's.²³ The country continues to enjoy a major competitive edge in business sophistication and innovation, ranking 1st and 4th, respectively, in these two pillars. Company spending on R&D remains high and Japan benefits from the availability of many scientists and engineers, buttressing a strong capacity for innovation. Indeed, in terms of innovation

output, this pays off with the second-highest number of patents per capita. Further, companies operate at the highest end of the value chain, producing high-value-added goods and services. The country's overall competitive performance, however, continues to be dragged down by severe macroeconomic weaknesses (113th), with high budget deficits over several years (135th), which have led to the highest public debt levels in the entire sample by far (over 220 percent of GDP in 2010).

The **United Kingdom** (10th) continues to make up lost ground in the rankings this year, rising by two more places and now moving back to the top 10 for the first time since 2007. The country improves its performance across the board, benefitting from clear strengths such as the efficiency of its labor market (7th), in sharp contrast to the rigidity of those of many other European countries. The United Kingdom continues to have sophisticated (8th) and innovative (13th) businesses that are highly adept at harnessing the latest technologies for productivity improvements and operating in a very large market (it is ranked 6th for market size). All these characteristics are important for spurring productivity enhancements. On the other hand, although improved since last year, the country's macroeconomic environment (85th) represents the greatest drag on its competitiveness, with a double-digit fiscal deficit in 2010 (placing the country 138th) that must be reined in to provide a more sustainable economic footing going into the future. The situation is made worse by the mounting public debt (77 percent of GDP in 2010, 120th) and a comparatively low national savings rate (12.3 percent of GDP in 2010, 119th).

Europe and North America

European economies have faced a number of challenges in the past few years. After weathering the significant difficulties brought about by the global economic crisis, a tentative recovery is being threatened by rising concerns about the sustainability of sovereign debt in Greece and a number of other European countries, raising questions about the very viability of the euro. Despite these challenges, several European countries continue to feature prominently among the most competitive regions in the world. As described above, seven of them are among the top 10. In total, eleven are among the top 20, as follows: Switzerland (1st), Sweden (3rd), Finland (4th), Germany (6th), the Netherlands (7th), Denmark (8th), the United Kingdom (10th), Belgium (15th), Norway (16th), France (18th), and Austria (19th). However, Europe is also a region with significant disparities in competitiveness, with several countries from the region significantly lower in the rankings. As in previous years, the two countries from North America feature among the most competitive economies worldwide, with the United States occupying the 5th position and Canada the 12th.

Canada has dropped two positions this year to 12th place, with a slight improvement in score. Canada continues to benefit from highly efficient markets (with its goods, labor, and financial markets ranked 12th, 5th, and 13th, respectively), well-functioning and transparent institutions (11th), and excellent infrastructure (11th). In addition, the country has been successful in nurturing its human resources: it is ranked 6th for health and primary education and 12th for higher education and training. As we have noted in recent years, improving the sophistication and innovative potential of the private sector, with greater R&D spending and producing goods and services higher on the value chain, would enhance Canada's competitiveness and productive potential going into the future.

Belgium is ranked 15th, up four spots since last year. The country has outstanding health indicators and a primary education system that is among the best in the world (2nd). Belgium also boasts an exceptional higher education and training system, with excellent math and science education, top-notch management schools, and a strong propensity for on-the-job training. Its goods market is characterized by high levels of competition and an environment that facilitates new business creation. Business operations are also distinguished by high levels of sophistication and professional management. On the other hand, there are some concerns about government inefficiency (56th), and its macroeconomic environment is burdened by persistent deficit spending and high public debt, although overall the country has seen some marginal improvements here since the last assessment (advancing from 72nd to 60th place in the macroeconomic environment pillar) and remains better assessed in this area than many other European countries.

Norway is ranked 16th this year, down two places since last year but with a slight improvement in score. Similar to the other Nordic countries, Norway is characterized by well-functioning and transparent public institutions; private institutions also get admirable marks for ethics and accountability. Markets in the country are efficient, with goods, labor, and financial markets ranked 31st, 18th, and 5th, respectively. Productivity is also boosted by a high uptake of new technologies, ranked 7th overall for technological readiness. Moreover, Norway's macroeconomic environment is ranked an impressive 4th out of all countries, driven by windfall oil revenues combined with prudent fiscal management. On the other hand, Norway's competitiveness would be further enhanced by upgrading its infrastructure (35th) and encouraging more innovative businesses (20th).

France is ranked 18th, down three places from last year but with a relatively stable score. The country's infrastructure is among the best in the world (4th), with outstanding transport links, energy infrastructure, and communications. The health of the workforce and the quality and quantity of education are other clear strengths (ranked 16th for health and primary education and 20th for higher education and training). These elements have provided the basis for a business sector that is aggressive in adopting new technologies for productivity enhancements (it is ranked 13th for technological readiness). In addition, the sophistication of the country's business culture (14th in the business sophistication pillar) and its leadership in the area of innovation (17th in the innovation pillar), bolstered by a highly developed financial market (18th) and a large market (7th), are important attributes that have helped to boost the country's growth potential. On the other hand, France's competitiveness would be enhanced by injecting more flexibility into its labor market, which is ranked a low 113th both because of the strict rules on firing and hiring and the rather conflict-ridden labor-employer relations in the country.

After declining in rank over the past two editions of the *Report*, **Ireland** remains stable at 29th position this year. The country continues to benefit from a number of strengths, including its excellent health and primary education (10th) and strong higher education and training (22nd), along with its well-functioning goods and labor markets, ranked 13th and 17th, respectively. These attributes have fostered a sophisticated and innovative business culture (ranked 22nd for business sophistication and 23rd for innovation). Yet the country's macroeconomic environment continues to raise significant concern (118th), with its budget deficit of more than 32 percent in 2010, following the government's bailout of the banking sector, placing Ireland last out of all 142 countries in the sample. Of related and continuing concern is also Ireland's financial market (with a precipitous drop from 7th place three years ago to 115th this year in this pillar).

After falling 11 positions over the past two years, **Iceland** reverses the trend this year and moves up one to 30th place. Despite recent difficulties, Iceland continues to benefit from a number of clear competitive strengths in moving to a more sustainable economic situation. These include the country's top-notch educational system at all levels (5th and 9th in the health and primary education and higher education and training pillars, respectively) coupled with an innovative business sector (19th) that is highly adept at adopting new technologies for productivity enhancements (3rd). Business activity is further supported by an extremely flexible labor market (10th) and well-developed infrastructure (14th). On the other hand, persisting macroeconomic weaknesses (131st) and weakened financial markets (108th) continue to be areas of concern.

Estonia and the **Czech Republic** remain the best performers within Eastern Europe, ranking 33rd and 38th, respectively. As in previous years, the countries' competitive strengths are based on a number of common features. They rely on excellent education and highly efficient and well-developed goods, labor, and financial markets, as well as their strong commitment to advancing technological readiness, particularly in the case of Estonia. In addition, Estonia's 33rd rank reflects solid institutions and well-managed public finances.

Spain regains some ground to place 36th this year, after two years of sharp decline that led it to fall from 29th place in 2008–09 to 42nd place last year. This year's progress can be attributed to slight improvements in several areas measured by the Index, as well as a deterioration in the performance of other economies that previously ranked ahead of Spain. Despite a sluggish economic recovery and an important weakening of its macroeconomic stability (falling from 66th to 84th position), the country has managed to improve its performance thanks to a greater use of ICT (up from 29th to 24th) and its resilience in terms of R&D investment and innovation capacity. Further improvement of these growth-enhancing factors will be crucial for its future recovery and a much-needed economic transformation. Overall, Spain's competitive edge is hampered by its macroeconomic imbalances. Its very high and increasing public deficit (134th), its high level of public debt (108th), and its enduring very low national savings rate (83rd) have caused a great deal of distress in its financial markets and are asphyxiating access to financial resources—both in equity investment (85th) and in access to loans (99th)—thus jeopardizing future investment plans. Regaining macroeconomic stability not only by decreasing the public deficit but also by adopting the necessary reforms to boost growth should be a priority in the short run. The rigidities in the labor market (134th)—both in terms of hiring and firing practices (137th) and in the disconnect between wage setting and productivity levels (126th) that eroded much international competitiveness in the past decade—are worrisome. These rigidities have not allowed it to adjust rapidly after the economic crisis and the bursting of the construction bubble, and have left a substantial share of the labor force out of work. Moreover, despite high educational enrollment rates (Spain ranks 3rd at secondary and 18th at university levels), the inadequate educational system seems to fail to provide a large share of the population with the skills necessary for participating in an increasingly knowledge-driven

economy. While Spain can still leverage its large market size (13th) and its world-class infrastructure (12th), addressing these structural weaknesses and further developing its innovation performance will be crucial for the country's sustainable economic growth.

After having moved up by six positions last year, **Poland** drops back two places to 41st. The country displays a fairly even performance across all 12 pillars of competitiveness. Notable strengths include its large market size (20th) and high educational standards, in particular its high enrollment rates (17th). The financial sector is well developed (34th) and Poland's increased trustworthiness (16th) has contributed to its very good performance in this domain. Indeed, banks are assessed as more sound than they were only two years ago, although additional strengthening will be necessary given the country's still mediocre 60th rank on this indicator. Further enhancing competitiveness will require a significant upgrading of transport infrastructure, which trails international standards by a considerable margin (111th). While some progress has been made in this area since last year, it is not sufficient to increase its ranking. The quality of roads in Poland continues to be assessed particularly poorly (134th). And although the improvements to some aspects of the institutional framework, such as the transparency of government policymaking and physical security, are notable, the business sector remains very concerned about the burden of government regulation (124th). As Poland transitions to the innovation-driven stage of development, it will have to focus more strongly on developing capacities in innovation and business sophistication. Stronger clusters, more R&D orientation of companies, and intensified collaboration between universities and the private sector would help the country to move toward a more future-oriented development path.

Italy moves up by five places to 43rd position this year, although it remains the lowest-ranked of the G-7 countries. Italy continues to do well in more complex areas measured by the GCI, particularly the sophistication of its businesses, where it is ranked 26th, producing goods high on the value chain with one of the world's best business clusters (2nd). Italy also benefits from its large market size—the 9th largest in the world—which allows for significant economies of scale. However, Italy's overall competitiveness performance continues to be hampered by some critical structural weaknesses in its economy. Its labor market remains extremely rigid, ranked 123rd for its labor market efficiency, hindering employment creation. Financial markets are not sufficiently developed to provide needed finance for business development (97th). Other institutional weaknesses include high levels of corruption and organized crime and a perceived lack of independence within the judicial system, which increase business costs and undermine investor confidence—Italy is ranked 88th overall for its institutional environment.

Despite the country's critical financial situation, which led to a recovery plan earlier in the year—and notwithstanding the negative economic forecasts for the next two years as the consolidation plans start to reduce public spending—**Portugal** improves its competitiveness performance slightly and moves up one position to 45th place. This positive development is largely led by an increase in ICT use throughout the economy (18th) and an improvement in the quality of its overall infrastructure (12th), especially of roads (5th). Despite this slight progress, the country still holds one of the poorest competitive positions among advanced economies and suffers from serious weaknesses. In addition to the well-documented macroeconomic difficulties of a national savings rate below 10 percent (128th), a high deficit (122nd), and high public debt (128th) that hinder the availability of financial resources for local companies, the economy suffers from rigidities in its labor market (136th) and a disconnect between salaries and productivity (112th) that have hampered Portugal's capacity to remain internationally competitive. Moreover, the traditional lag in company R&D (41st) and other innovation-oriented investments have prevented it from moving toward higher-value-added activities, so it suffers the consequences of fierce competition from cheaper production sites, such as Eastern Europe and China. Addressing these weaknesses by adopting the necessary reforms and preserving growth-enhancing investments will be crucial to boost the competitive edge of the economy and set the national economy on a path of growth after a decade of stagnation.

Turkey moves up by two places this year to 59th position. The country benefits from its large market (17th), which is characterized by intense local competition (13th). Turkey also benefits from its reasonably developed infrastructure (51st), particularly roads and air transport, although ports and the electricity supply require upgrading. In order to further enhance its competitiveness, Turkey must focus on improving its human resources base through better primary education and healthcare (75th) and higher education and training (74th), increasing the efficiency of its labor market (133rd), and reinforcing the efficiency and transparency of its public institutions (86th).

The **Russian Federation** drops three ranks to 66th position this year. The drop reflects the fact that an improvement in macroeconomic stability was outweighed by deterioration in other areas, notably the quality

of institutions, labor market efficiency, business sophistication, and innovation. The lack of progress with respect to the institutional framework is of particular concern, as this area is likely to be among the most significant constraints to Russia's competitiveness. Strengthening the rule of law and the protection of property rights, improving the functioning of the judiciary, and raising security levels across the country would greatly benefit the economy and would provide for spillover effects into other areas. In addition to its weak institutional framework, Russia's competitiveness remains negatively affected by the low efficiency of its goods market. Competition, both domestic as well as foreign, is stifled by market structures dominated by a few large firms, inefficient anti-monopoly policies, and restrictions on trade and foreign ownership. And despite many efforts, its financial markets remain unstable, with banks assessed very poorly (129th). Taken together, these challenges reduce the country's ability to take advantage of some of its strengths—particularly its high innovation potential (38th for capacity for innovation), its large and growing market size (8th), and its solid performance in higher education and training (27th for the quantity of education).

After falling 16 places over the last two years—one of the steepest declines of all countries, which reflects the many economic and political challenges the country has faced in recent years—**Ukraine** reverses the trend and moves up 7 positions this year. The country continues to demonstrate a number of competitive strengths. A well-educated population, flexible and efficient labor markets, and a large market size continue to set a good base for the country's future growth performance. On the other hand, despite its impressive reform agenda, no real improvements have been measured in the country's weak institutional framework (131st) or in its highly inefficient markets for goods and services (129th), which stifle competition and prevent entrepreneurship from flourishing. In this context, it is hoped that the country's accession to the World Trade Organization (WTO) will further contribute to intensifying competition in the country by reducing both trade barriers and domestic obstacles. Priority should also be given to continuing the stabilization and development of its financial sector (116th), building on recent reforms.

This year **Greece** falls another seven places in the rankings to 90th, remaining the lowest-ranked country of the European Union. In the context of the ongoing sovereign debt crisis, Greece continues to fall precipitously in the macroeconomic environment pillar, dropping to 140th position this year. Similarly, Greece's financial markets are assessed more poorly than in the past, at 110th this year, showing particularly low confidence on the part of investors. The evaluation of public institutions (e.g., government efficiency, corruption, undue influence) continues to suffer and is ranked a low 89th overall. Another major area of concern is the country's inefficient labor market (126th), which continues to constrain Greece's ability to emerge from the crisis, demonstrating the importance of recent efforts to increase the retirement age and increase labor market flexibility. In working to overcome the present difficulties, Greece has a number of strengths to build upon, including a reasonably well educated workforce that is adept at adopting new technologies for productivity enhancements.

Asia and the Pacific

Asia's rise to economic prominence has been accompanied by a remarkable dynamism in terms of competitiveness. Over the past five years, several countries in the region—including China, Indonesia, Vietnam, and Sri Lanka—have made important strides in the GCI rankings. Yet the disparities in terms of competitiveness within the region are unique, ranging from Singapore at 2nd place to Timor-Leste at 131st. Two of the region's largest economies, Bangladesh (108th) and Pakistan (118th), continue to rank very low, while a number of Asian emerging economies enter the top 30.

As the third-placed Asian economy behind Singapore (2nd) and Japan (9th), **Hong Kong SAR** maintains its 11th position while slightly improving its score. Although absent from the overall top 10, it features in the top 3 of four individual pillars and in the top 10 of three others. Among the highlights of this consistent performance, Hong Kong tops the infrastructure pillar with the outstanding quality of its facilities across all modes of transportation and its telephony infrastructure. The dynamism and efficiency of its goods market (3rd), labor market (3rd), and financial market (2nd) also contribute to the economy's very good overall positioning. In order to enhance its competitiveness and move it up into the top 10, continued improvements in two areas—higher education and innovation—will be necessary. Although the quality of education in Hong Kong is good (14th), participation remains below levels found in other economies (53rd). Improving educational outcomes will also help boost Hong Kong's innovative capacity (25th), which remains constrained by the limited availability of scientists and engineers (43rd), among other things.

Taiwan, China remains stable in 13th position, with its competitiveness profile essentially unchanged from last year. Taiwan displays a consistent performance across the pillars of the GCI, although it enters the top 10 in only two of them. Its prowess in innovation is undeniable. Ranked 9th in the innovation pillar, Taiwan

boasts the largest number of United States Patent and Trademark Office (USPTO)–granted patents on a per capita basis, more than the United States. In addition, the quality and presence of business clusters in high-end manufacturing, along with its first-class R&D, earns Taiwan the top spot on the related indicator. The economy’s capacity for innovation is further supported by an excellent educational system, which is characterized at all levels by high enrollment rates and first-rate quality. Specifically, Taiwan ranks 10th in higher education and training. The economy can also rely on a high level of technological readiness (24th) and well-developed infrastructure, with the exception of air transport (51st). Among the country’s relative weaknesses, its labor market is characterized by much rigidity (98th); the situation has been deteriorating over the past two years (it now ranks 33rd, down nine places in two years). Room for improvement also exists in public and private institutions (31st), although consistent advances have been achieved in this area since 2008.

With an unchanged score, **Australia** drops four spots to 20th place as other countries move ahead. Among the country’s most notable advantages are its efficient financial system (6th), supported by a banking sector that counts among the most stable and sound in the world, ranked 4th. Also noteworthy is its very good—and improving—performance in education: Australia ranks 11th in both the health and primary education subpillar and the higher education and training pillar. Australia’s macroeconomic situation is satisfactory in the current context (26th), especially when considering the difficulties many other economies face in this area. Despite repeated budget deficits in recent years, its government debt, at 22.3 percent of GDP, is the second lowest among the advanced economies behind Luxembourg. Finally, Australia’s public and private institutions are transparent and efficient, ranked 17th and 8th, respectively, and physical security is assured (19th), although business leaders continue to be concerned about the burden of government regulation (75th). On a less positive note, Australia still lags behind the top performers of the GCI when it comes to innovation (22nd) and business sophistication (29th), two critical drivers of competitiveness for advanced economies. Finally, because of intensifying trade in commodities, the country’s transport infrastructure, particularly seaports, has been increasingly strained in recent years and it lags behind the world’s best.

Malaysia gains five ranks to reach 21st position, registering improvements across the board. The country’s progress is particularly noteworthy in the institutions and macroeconomic environment pillars, as well as in several measures of market efficiency. Among the prominent advantages of this strong and consistent performance are its efficient and sound financial sector—which places among the world’s most developed, just behind Singapore and Hong Kong—and its highly efficient goods market, ranked 15th. In addition, its macroeconomic situation has improved markedly over the past year to reach 29th place, even though the country continues to run a budget deficit of about 5 percent of GDP. As it moves toward becoming more innovation driven, Malaysia will need to improve its performance in education and technological readiness. In the latter dimension, the country places a low 44th, with room for improvement in technological adoption by both businesses and the population at large. In terms of higher education and training (38th), improving access remains a priority in light of low enrollment rates of 69 percent (101st) and 36 percent (66th) for secondary and tertiary education, respectively.

The **Republic of Korea** improves its score but falls by two places to 24th. Korea’s performance is very uneven across the 12 pillars of competitiveness. The country’s outstanding infrastructure (9th) and stable macroeconomic environment (6th) are among its key competitive strengths. Furthermore, primary education (15th) and higher education (17th) are accessible and of high quality. These factors, combined with the country’s high degree of technological readiness (18th), are among the building blocks of its remarkable capacity for innovation (14th). On the other hand, considerable room for improvement remains with respect to the quality of its institutions (65th) and its rigid labor market (76th), as well as its largely inefficient financial market (80th). Improvements across these dimensions would help the country to raise its competitiveness and ranking in the GCI after three years of decline or static performance.

China continues its steady progression in the rankings, rising by one rank to 26th. Indeed, it has improved its score and rank each year since 2005. The world’s most populous country continues to lead the BRICS economies by a significant margin, with South Africa—second among the BRICS—placing 50th.²⁴ China’s performance improves in most pillars of the GCI and is stable in the remaining ones. As in previous years, its macroeconomic situation is again very favorable (10th), despite a prolonged episode of high inflation. China is one of the world’s least indebted countries, boasts a savings rate of some 53 percent of GDP, and runs only moderate budget deficits. These factors, combined with good economic prospects, contribute to an improvement of the quality of its sovereign debt far greater than that of the other BRICS. China also achieves relatively high standards in terms of health and basic education (32nd), with positive trends in health indicators and nearly universal access to primary education, which is well assessed

in terms of quality. Turning to the more sophisticated areas of competitiveness, China ranks high in business sophistication (37th) and innovation (29th), particularly when considering its level of development. On a less positive note, a number of challenges persist in the areas of corruption and judicial independence within the institutions pillar (48th). Moreover, the sentiment among businesses is that the country has become less safe over the past three years, resulting in higher costs for protection against diverse forms of crime and violence. Finally, standards of business ethics (57th) and corporate accountability (66th) are below those found in a number of other economies. As in previous years, China's fairly poor results in the financial market development and technological readiness pillars pull down the economy's overall competitiveness performance. However, the country improves markedly in the first of these (48th, up nine spots), thanks to an increased availability and affordability of financial services and better access to credit. It also makes strides in the technological readiness pillar (77th, up one), largely because of double-digit growth in the penetration rates of Internet use and mobile telephony.

Although dropping one more rank, **Thailand** (39th) maintains its score and appears to be stabilizing after its eroding performance of the previous four years. The improved macroeconomic environment (28th, up 18 places) represents the most positive aspect of Thailand's accomplishment in this year's assessment. Its public deficit has been reined in and brought to a more manageable level, and the efficiency of its labor market also stands out positively (30th). Moreover, labor markets are flexible (44th) and allow for an efficient allocation of talent (34th). However, many challenges will need to be addressed to make Thailand more competitive. One of the biggest areas of concern is the efficiency of its public institutions (74th), which has been deteriorating over the past three years. Property rights for intellectual as well as physical and financial goods remain underprotected (101st), and the worrying security situation imposes a high cost on business (91st). It remains to be seen what impact the new political landscape will have on the economy and whether the new government will succeed in restoring the trust and confidence of the business community.

India ranks 56th in this year's assessment. The country drops five places and demonstrates only minor changes in its competitiveness performance since last year.²⁵ Among the BRICS, India continues to rank on a par with South Africa (50th) and Brazil (53rd) and ahead of Russia (66th), but its gap with China is widening: the score difference between the two economies has increased sixfold between 2006 and today, the gap expanding from less than 0.1 to 0.6 points. India continues to be penalized for its mediocre accomplishments in the areas considered to be the basic factors underpinning competitiveness. The country's supply of transport, ICT, and energy infrastructure remains largely insufficient and ill-adapted to the needs business (89th). Indeed, the Indian business community continues to cite infrastructure as the single biggest hindrance to doing business in the country. It must be noted, however, that the situation has been slowly improving since 2006, although this does not translate into a higher ranking because other countries have been improving faster. The picture is similar in the health and basic education pillar (101st). Despite improvements across the board over the past few years, public health and education quality remain a prime cause of concern. While we observe some encouraging trends in these two areas, the same cannot be said of the country's institutions and macroeconomic environment, the other two dimensions comprising the basic requirements component of the GCI. In the past five years, discontent in the business community about the lack of reforms and the apparent inability of the government to provide a more conducive environment for business has been growing. Corruption (99th) and burdensome regulation (96th) certainly fuel this discontent. Since 2006, India's score in the institutions pillar has plunged from 4.5 to 3.8. Once ranked a satisfactory 37th in this dimension, India now ranks 69th, having dropped 11 places this year alone. Meanwhile, the macroeconomic environment (105th) continues to be characterized by large and repeated public deficits and the highest debt-to-GDP ratio among the BRICS. More recently, the stability of the country's macroeconomic environment is being undermined by high inflation, near or above 10 percent. As a result, India has been hovering around the 100 mark in this pillar for the past five years. Despite these considerable challenges, India does possess a number of remarkable strengths in the more advanced and complex drivers of competitiveness. This "reversed" pattern of development is characteristic of India. The country boasts a vast domestic market that allows for economies of scale and attracts investors. It can rely on a well-developed and sophisticated financial market (21st) that can channel financial resources to good use, and it boasts reasonably sophisticated (43rd) and innovative (38th) businesses.

Indonesia drops two places this year to 46th, following an impressive improvement of 11 places over the past two years. Indonesia remains one of the best-performing countries within the developing Asia region, behind Malaysia and China yet ahead of India, Vietnam, and the Philippines. The macroeconomic environment (23rd, up 12 places) continues to improve despite rising fears of inflation. Sound fiscal management has brought the budget deficit and public debt down to very low levels, attributes that contribute to further upgrading the country's credit rating and to raising the country's ranking on the

macroeconomic environment pillar to 23rd this year (up from 89th in 2007). The situation is also improving, albeit from a much lower base, in the area of physical infrastructure (76th, up six places), yet the quality of port facilities remains alarming and shows no sign of progress (103rd, down seven places, with a score of 3.6) and the electricity supply continues to be unreliable and scarce (98th). The assessment of public institutions continues to deteriorate, with a 10-place drop in the related pillar (71st), even though Indonesia does relatively well on selected components. Despite efforts to tackle the issue, corruption and bribery remain pervasive and are singled out by business executives as the most problematic factor for doing business in the country. Security, or the lack thereof, is again becoming a concern, and the business community assessed this indicator at levels similar to those seen in 2005 (91st). Because it is now close to entering the efficiency-driven stage of development, according to the GCI classification, Indonesia's competitiveness increasingly depends on more complex elements, such as market efficiency. Addressing the many rigidities (120th) and inefficiencies of the labor market (94th) would ensure a more efficient allocation of labor. Additional productivity gains could be reaped by boosting technological readiness (94th), which remains very low, with slow and scant adoption of ICT by businesses and the population at large.

Vietnam's competitiveness assessment declines in this edition, dropping six places to 65th. The country loses ground in 10 of the 12 pillars of the GCI and only a significant improvement in the macroeconomic environment (65th, up 20 places) limits its fall in the rankings. Despite this considerable improvement, some macroeconomic challenges remain. The 2010 budget deficit was still too large, at 6 percent of GDP, and inflation moved back to near double-digit levels after having briefly receded the year before. Going forward, Vietnam will have to build on its strengths while addressing the economy's numerous challenges. Among its competitive strengths are its fairly efficient labor market (46th) and its innovation potential (66th) given its stage of development, including its relatively large market size (33rd), which benefits from a particularly large export market. However, the challenges going forward are numerous and significant. Infrastructure, strained by rapid economic growth, remains a major challenge for the country despite some improvement in recent years, with particular concerns about the quality of roads (123rd) and ports (111th). And although education appears to be satisfactory in terms of quality, enrollment rates at all levels remain low (64th, 103rd, and 110th for primary, secondary, and tertiary enrollments, respectively). In order to further improve its competitiveness, Vietnam must also continue to strengthen its institutional environment. Regulation is perceived as burdensome (113rd), with the number of procedures (9, 94th) and time (44 days, 119th) required to start a business making this a cumbersome process. In addition, there are concerns regarding the level of intellectual property protection (127th) and, to a lesser extent, the respect of property rights (98th). Finally, corruption is considered frequent and pervasive (104th).

Up 10 places to 75th, the **Philippines** posts one of the largest improvements in this year's rankings. The vast majority of individual indicators composing the GCI improve, sometimes markedly. Yet the challenges are many, especially in the areas at the foundation of any competitive economy, even at an early stage of development. The quality of the country's public institutions continues to be assessed as poor: the Philippines ranks beyond the 100 mark on each of the 16 related indicators. Issues of corruption and physical security appear particularly acute (127th and 117th, respectively). The state of its infrastructure is improving marginally, but not nearly fast enough to meet the needs of the business sector. The country ranks a mediocre 113th for the overall state of its infrastructure, with particularly low marks for the quality of its seaport (123rd) and airport infrastructure (115th). Finally, despite an enrollment rate of around 90 percent, primary education is characterized by low-quality standards (110th). Against such weaknesses, the macroeconomic situation of the Philippines is more positive: the country is up 14 places to 54th in the macroeconomic environment pillar, thanks to slightly lower public deficit and debt, an improved country credit rating, and inflation that remains under control. In the other, more complex pillars of the Index, the Philippines continues to have a vast opportunity for improvement. In particular, the largely inflexible and inefficient labor market (113th) has shown very little progress over the past four years. On a more positive note, the country ranks a good 57th in the business sophistication category, thanks to a large quantity of local suppliers, the existence of numerous and well-developed clusters, and an increased presence of Filipino businesses in the higher segments of the value chain. Finally, the sheer size of the domestic market (36th) confers a notable competitive advantage.

Up five places, **Pakistan** (118th) partially bounces back from last year's significant drop in rank. Yet, in several categories, it remains one of the poorest performers of the developing Asia region, and indeed of the entire sample of economies. It is particularly worrisome that Pakistan earns its lowest marks, with no sign of improvement, in the most basic areas of competitiveness, namely institutions (107th), infrastructure (115th), health and primary education (121st), and the macroeconomic environment (138th). In order to benefit from the scale advantages associated with its significant market size (30th), Pakistan will have to decrease regu-

latory rigidities in the labor market (now ranked 136th) and reduce barriers to domestic and foreign competition in order to render the markets for goods and services more efficient (93rd). Last but not least, boosting the technological adoption of firms and the public at large would allow for considerable productivity increases in the country.

Latin America and the Caribbean

The economic outlook for Latin America shows a relatively rosy picture for the coming years, notwithstanding some uncertainty linked to a possible slowdown in Europe and the United States, both important trading partners. Despite a decrease in GDP of 1.8 percent in 2009, the region has managed to weather the global recession relatively well and has been growing steadily ever since. With a growth rate of around 6 percent in 2010 and expected rates of 4.75 percent in 2011 and 4.25 percent in 2012, the region has closed the output gap and the excess of capacity generated during the recession years, outperforming most advanced economies. However, in some commodity-exporting countries—such as Chile and Brazil, where economic growth is forecasted to reach 6.5 percent and 4.1 percent, respectively, in 2011—some signals of overheating with inflationary pressures have already started to accrue and are becoming increasingly worrisome. The region's overall positive performance is linked both to an improvement in some competitiveness fundamentals, such as sounder fiscal and monetary policies and buoyant internal demand, and to favorable external conditions, including a robust demand for commodities from China and the progressive recovery of importing economies, notably the United States. In terms of competitiveness, many countries have experienced significant improvements. Mexico (up eight positions), Peru (up six), Bolivia (up five), and Brazil (also up five) register the largest improvements, while Panama (up four) Ecuador (up four), Argentina (up two), Barbados (up one), and Uruguay (also up one) have seen more moderate progress. The rest of the countries in the region have either remained stable like Colombia, or have slightly declined. The highest drops in the region have been experienced in some countries of Central America—for example, in Costa Rica, Guatemala, El Salvador, Nicaragua, and Jamaica—mainly due to a deterioration of the security conditions. In order to keep the positive momentum going, Latin America and the Caribbean will need to address some of the persistent challenges that constrain its competitiveness. While the region is vast and heterogeneous as a whole, four main key challenges that affect each country differently can be highlighted: (1) weak institutions with high costs associated with a lack of physical security; (2) poor development of infrastructure; (3) an inefficient allocation of production and human resources; and, increasingly, (4) a lag in innovation vis-à-vis more developed, but also emerging, economies, as discussed in Box 4. Addressing these challenges in the next decade will be crucial to ensure the economic and social progress of the region.

Chile, at 31st—one position down but with a slight improvement in its score this year—remains the most competitive economy in the region. A solid institutional framework (26th) with a high level of trust in the rule of law and transparent public governance mechanisms, coupled with a sound and traditionally counter-cyclical macroeconomic policy (14th), have set solid foundations that have allowed Chile to grow at a steady pace since the early 1990s and benefit from one of the highest per capita incomes in the region. Early measures to open and liberalize its markets by introducing high levels of domestic (24th) and foreign (17th) competition, a relatively flexible labor market (49th), and one of the most sophisticated and efficient financial markets (21st) have also helped the country to maintain its long-term growth prospects in the past decades. Moreover, in recent years, the increase in international prices of commodities such as copper has provided Chile with an important source of revenue that has boosted the economic prospects of the country: GDP growth forecasts are at 6.5 percent for 2011 and 5.1 percent for 2012. This source of growth should provide the government with enough financial muscle to undertake the reconstruction needed after the 2009 earthquake without jeopardizing public finances, and to invest in those areas where the country depicts a weaker performance. As Chile moves quickly toward higher levels of rent and the next stage of development, the solid basic requirements and efficiency enhancers that have paved the way for the economic success of the country thus far will give way to innovation, a pillar where at present Chile is lagging behind. Companies with low investment in R&D (60th) and a weak capacity for innovation (66th) act in an innovation environment characterized by relatively low-quality scientific research institutions (51st) and weak university-industry collaboration in R&D (44th). Moreover, the perceived poor quality of the overall educational system (87th)—especially of primary education (123rd), along with poor results in math and science (124th)—hinder the capacity of the economy to generate, diffuse, and use knowledge that can be brought into the market in the shape of new products or services. Making sufficient progress on this front is the major challenge that Chile will face in the next decade.

Barbados, at 42nd place, moves up one position in the rankings despite a severe deterioration of its macroeconomic stability. The decline in tourism resulting from the economic downturn has had a serious negative impact on the island's general economy as well as its public finances in recent years. A large and

rising government debt coupled with persistent budget deficits and a low national savings rate highlight some significant weaknesses that can affect the future capacity of the country to undertake the necessary investments to boost its competitiveness performance. Notwithstanding these weaknesses, Barbados can still leverage its strengths in terms of its stable, transparent, and reliable institutions (18th), high-quality infrastructures (22nd), and excellent educational system (ranked 5th in terms of primary education quality, 15th for the entire system, and 10th for the quality of math and science education).

Panama, for the second consecutive year, depicts the strongest competitive position in Central America and is the only country in the isthmus that manages to improve its performance, entering the top 50 at 49th position. The country has remained relatively stable in most competitiveness drivers. Overall, it benefits from important strengths in its efficient financial market (16th), solid transport infrastructures (39th), and very good technological adoption (12th), especially through FDI, where it is ranked 4th. In dynamic terms, it is important to highlight the progress the country has made in the quality of its port and air transport infrastructure (5th and 15th, respectively) and its fostering of stronger domestic competition (43rd). Notwithstanding these advantages, the country still faces important weaknesses in terms of education, where it demonstrates a relatively low level of secondary education enrollment (99th) and an overall poor quality of its educational system (131st). Panama also struggles with rigidities in its labor market (109th), low levels of public trust of politicians (109th), insufficient judicial independence (133rd), and favoritism in the decisions of government officials (120th)—a situation that has deteriorated in the past years.

Brazil improves five places to rank 53rd overall. The country benefits from several competitive strengths, including one of the world's largest internal markets (10th) and a sophisticated business environment (31st), thus allowing for important economies of scale and scope. Moreover, the country has one of the most efficient financial markets (40th) and one of the highest rates of technological adoption (47th) and innovation (44th) in the region. On a less positive note, Brazil still suffers from weaknesses that hinder its capacity to fulfill its tremendous competitive potential. The lagging quality of its overall infrastructure (104th) despite its Growth Acceleration Programme (PAC), its macroeconomic imbalances (115th), the poor overall quality of its educational system (115th), the rigidities in its labor market (121st), and insufficient progress to boost competition (132nd) are areas of increasing concern.

With one of the highest improvements in the regional rankings, moving up eight spots, **Mexico** occupies 58th position this year. The country's efforts to boost competition—although it remains an important weakness (103rd)—and its regulatory improvements that facilitate entrepreneurial dynamism by reducing the number of procedures (34th) and the time (35th) required to start a business seem to be paying off, contributing to an improvement of the overall business environment. This development, coupled with the country's traditional competitive strengths such as its large internal market size (12th), fairly good transport infrastructure (47th), sound macroeconomic policies (39th), and strong levels of technological adoption (58th) have led Mexico to improve its competitive edge. However, the country still suffers from important weaknesses that are holding back its capacity to further enhance competitiveness. Not much progress has been made in addressing the flaws in the public institutional framework (109th). Despite many efforts to fight organized crime, security concerns still exact a high price from the business community (139th). Adopting and implementing policies to boost domestic competition (107th), especially in strategic sectors such as ICT, energy, and retailing, along with additional reforms to render the labor market more efficient (114th) are still needed to increase the efficiency of the Mexican economy. Moreover, as the country continues to grow and move toward a higher stage of development and production costs rise, sustainable growth and higher wages will increasingly call for further reforms and investment to improve the educational and innovation systems. The current overall poor quality of the educational system (107th), insufficient company spending in R&D (79th), and limited innovation capacity (76th) can jeopardize the future ability of the country to compete internationally in higher-value-added sectors.

Costa Rica, at 61st position, declines slightly in this year's rankings. The main reasons for this drop are the perceived deterioration in the country's sense of security (97th)—a common feature of almost all Central American economies—and the lack of improvement to its transport infrastructure (121st), caused by insufficient maintenance and investment. These two areas, in addition to the macroeconomic imbalances seen in its high budget deficit (103rd) and inflation (100th), the excessive red tape that makes it cumbersome and time consuming to start a new business, and a scarcity of financial resources for the private sector—be it through equity finance (121st) or loans (119th)—are the most important constraints to the country's competitive potential. With solid economic growth over the past two years and fairly rosy forecasts of around 4.5 percent GDP growth rates for the coming years, the country should use this window of opportunity to address these challenges and leverage its many important strengths. Notwithstanding these challenges,

Costa Rica still depicts a fairly strong overall position in the region thanks to its friendly policies toward trade, with low trade tariffs (44th) and few constraints on FDI, and its strong educational system—both in terms of pre-university enrollment rates and overall quality (23th). Moreover, the country presents strong levels of technological adoption (44th) with many companies in high-tech industries, as well as solid business sophistication (35th) and innovation (35th). All these factors facilitate the creation, diffusion, and adoption of new knowledge that, if properly brought into the market, can generate significant benefits.

With a stable performance, **Uruguay** moves up one place to 63rd position. The country leverages its traditional competitiveness strengths: its transparent and well-functioning public institutions (35th), its high rates of education enrollment (16th for primary education and 25th for tertiary education), and its stable policies that encourage FDI (6th) allow the country to gain access to technology transfers (9th). Moreover, its rapid economic growth of the past years—with annual growth rates of around 6.5 percent since 2004, 2.9 percent in 2009 (a result of the global downturn), and 8.5 percent in 2010—has allowed the country to regain a greater macroeconomic stability, climbing from 107th to 59th place. Economic growth has been led by private consumption and rising international commodity prices, which in the last year has allowed a reduction of the government deficit and the overall level of public debt. However, despite this progress, inflationary pressures (110th) and the reduction of the national savings rate (84th) hint to an overheating of the economy, which can bring about significant macroeconomic distress if not properly tackled. Moreover, as Uruguay keeps growing and moves steadily toward a higher stage of development, policies to increase domestic competition (today ranked 92nd) that would incentivize higher business-sector investment in R&D (56th) and innovation capacity (65th) will become increasingly important.

As in recent editions, **Peru** at 67th place continues to move upward in the rankings. Its improvements in macroeconomic stability (52nd), thanks to a better control of inflation and a reduction of the government deficit and debt, coupled with a friendlier environment for entrepreneurship with fewer procedures (34th) and less time (91st) needed to start a business, have contributed to strengthening the country's competitive edge. Moreover, the consolidation of the efficiency gains in both the labor (43rd) and financial (38th) markets, the relatively large size of the domestic market (43rd), and the country's openness to international trade and FDI have also contributed to sustaining Peru's competitiveness progress in the past four years. Notwithstanding these past improvements, Peru's economy still faces a number of important challenges that hamper its competitiveness potential. A relatively weak public institutional environment (103rd), an insufficiently developed transport infrastructure network (93rd), an educational system in need of higher quality (128th), and the very low level of innovation (113th) are areas for further effort. The impressive economic outlook for the next years, with GDP growth rates forecasted at 7.5 percent for 2011 and 5.8 percent for 2012 thanks to high mineral prices, provides a good opportunity to undertake the necessary investments and reforms to address its pending competitive limitations.

In the same position as last year, **Colombia** at 68th place experiences an improvement in its overall score, which goes up from 4.14 last year to 4.20. The competitive strengths of the country cluster around a sound and stable macroeconomic environment (42nd) characterized by a low inflation rate and manageable levels of public debt and deficit; an improving educational system with a high level of enrollment and, although still a challenge, rising quality (72nd); and a large domestic market (28th). On the other hand, despite the sustained efforts of the government to improve social pacification and eradicate organized crime, security concerns (138th) remain very high on the list of factors dragging down its competitive potential. In addition, improved regulation to foster domestic competition (124th) and facilitate a more efficient allocation of resources, as well as further investments to improve the transport infrastructure (105th), are needed.

Argentina remains fairly stable this year at 85th, rising two positions in the rankings. The extraordinary competitive potential of the country that benefits from a large domestic market size (22nd) and a population that has a fairly high level of education, with one of the highest tertiary education enrollment rates in the region (21st), remains unfulfilled because of both a lack of trust in its institutions (134th) and the large inefficiencies in its allocation of goods (137th), as well as labor (131st) and financial (126th) resources. More precisely, the country's low public trust of politicians (138th), the uncertainties and favoritism in the decisions of government officials (139th), and the poor assessment of government efficiency (138th) contribute to weakening the foundations of the country's institutional framework. Excessive red tape (131st) that benefits the expansion of the informal economy, enduring distortions of domestic competition (140th), and high barriers to trade (142nd) bring about an inefficient allocation of resources in the goods market. Moreover, a lack of confidence in the financial system (116th) hinders the economy's capacity to mobilize and channel financial resources in an efficient manner. The result is that businesses in the country face difficulties in accessing equity through local markets (114th), loans (134th), or venture capital (129th) to finance their

investment decisions. Finally, the progressive deterioration of the country's macroeconomic stability (62nd), which was firmly controlled after the 2001 crisis with the adoption of pro-cyclical policies and a two-digit inflation rate, casts additional worrisome uncertainties about the sustainability of its economic growth. Unless these weaknesses are addressed and structural reforms introduced, the high growth that the economy has experienced since 2003 is unlikely to continue, especially once favorable international conditions and high food prices start to fade. This could lead the economy back into the erratic fluctuations of the past, characterized by high expansionary periods followed by deep recessions.

This edition of the GCR analyzes the competitiveness of **Belize** for the first time. The country ranks 123rd, due to weak institutions (120th), especially in terms of lack of security (122nd), poor infrastructure, and an insufficient level of competition that hinders efficient allocation of resources in the goods market. Moreover, while the country scores well in terms of primary education enrollment with virtually universal schooling, the rate of people attending higher education is very low (105th), as is the quality of the overall educational system (126th). Policies addressing these weaknesses will help boosting the competitive edge of the country.

Venezuela (124th) continues to fall in the rankings, despite a slight improvement in its overall score. The poor quality of the country's public institutions is ranked the worst in the sample at 142nd place. This dismal showing, coupled with severe weaknesses in its markets efficiency—especially for its goods and labor markets, where the country repeats as the worst performer—and a deterioration in the macroeconomic stability have led Venezuela to feature at the bottom of the region and among the least competitive countries in the world. Despite being at the forefront in of its tertiary education enrollment rate (8th), the overall quality of the educational system is weak (121st). This, added to a lack of sophisticated businesses (124th) and poor innovation potential (126th), critically constrain the competitiveness performance of the country.

Haiti is included in the analysis for the first time and comes in at 141st place. The country suffers from important weaknesses in many areas and is still recovering from the consequences of the devastating earthquake of 2010. Nevertheless, some positive aspects of its macroeconomic environment, its openness to trade, and its flexible labor market bode well for the country's future and could provide a fruitful basis for future reforms. We hope that Haiti's inclusion in the GCR will help guide and define the strategic agenda for its reconstruction, putting its economy on a more solid footing and contributing to eradicating poverty in the country.

Middle East and North Africa

Over the past year, the Middle East and North Africa (MENA) region has been affected by a great deal of turbulence that will have an impact on national competitiveness and might further exacerbate the competitiveness gap between the Gulf economies and the rest of the region. This trend is reflected in this year's GCI results, where most Gulf countries continue to move up in the rankings, while the competitiveness of many countries from North Africa and the Levant stagnates or deteriorates. Box 5 further analyzes how the Arab Spring could influence competitiveness in the region. One country, Yemen, has been added to the sample this year and enters at 138th position.

Qatar reaffirms its position as the most competitive economy in the region by moving up three places to 14th position, sustained by improvements in its macroeconomic environment, business sophistication, and innovation. Its strong performance in terms of competitiveness rests on solid foundations made up of a high-quality institutional framework where it ranks 14th overall, a stable macroeconomic environment (5th), and an efficient goods market (17th). Low levels of corruption and undue influence on government decisions, high efficiency of government institutions, and high levels of security are the cornerstones of the country's very solid institutional framework. These institutional attributes provide good foundations for efficiency. Going forward, as noted in previous editions of this *Report*, reducing the country's vulnerability to commodity price fluctuations will require diversification into other sectors of the economy and reinforcing some areas of competitiveness. Despite efforts to strengthen the financial sector, its trustworthiness and confidence and the soundness of banks are assessed as low by the business community (80th) and legal rights of borrowers and lenders are seen as underprotected (105th). Given its high wage level, diversification into other sectors will require the country to raise productivity by continuing to promote a greater use of the latest technologies (33rd) and by fostering more openness to foreign competition, currently ranked at 53rd—reflecting barriers to international trade and investment.

Saudi Arabia maintains the second-best place in the region and moves up by four ranks to reach 17th position. The country has seen a number of improvements to its competitiveness in recent years, which have

resulted in a solid institutional framework, efficient markets, and sophisticated businesses. Improvements to the institutional framework (up by nine places)—in particular, a better assessment of the security situation by business (4th) and stronger private institutions (17th), as well as better macroeconomic results—have contributed to a better positioning in this year's GCI. The macroeconomic environment benefitted from rising energy prices, which buoyed the budget balance into surplus in 2010, although it still remained significantly below pre-crisis levels. Additionally, the country's largest stimulus package among the G-20 contributed to improving infrastructure in the country. As much as the recent developments are commendable, the country faces important challenges going forward. Health and education do not reach the standards of other countries at similar income levels. While some progress is visible in health outcomes and the quality of education is increasing quickly, improvements are taking place from a low level. As a result, the country continues to occupy low ranks in the health and primary education pillar (61st), and room for improvement remains on the higher education and training pillar (36th). Boosting these areas, in addition to fostering a more efficient labor market (50th), are of great significance to Saudi Arabia given the growing numbers of its young people who will enter the labor market over the next years. More efficient use of talent will increase in importance as global talent shortages loom on the horizon and the country attempts to diversify its economy, which will require a more skilled and educated workforce. Last but not least, the use of the latest technologies can be enhanced (43rd); this is an area where Saudi Arabia continues to lag behind other Gulf economies.

Israel ranks 22nd in this year's GCI, gaining ground for the second year in a row after having previously declined in the rankings. The country's main strengths remain its world-class capacity for innovation (6th), which rests on highly innovative businesses that benefit from the presence of the world's best research institutions, geared toward the needs of the business sector. The excellent innovation capacity, which is additionally supported by the government's public procurement policies, is reflected in the country's high number of patents (4th). Its favorable financial environment (10th), particularly the solid availability of venture capital (2nd), has further contributed to making Israel an innovation powerhouse; these elements have become stronger in the course of the past year. Challenges to maintaining and improving national competitiveness relate to the need for continued upgrading of institutions (33rd) and a renewed focus on raising the bar in terms of the quality of education. If not addressed, poor educational outcomes, in particular in the area of math and science (79th), could undermine the country's innovation-driven competitiveness strategy over the longer term. As in previous years, the security situation remains fragile and imposes a high cost on business (74th). Room for improvement also remains with respect to the macroeconomic environment (53rd), where increased budgetary discipline with a view to reducing debt levels would help the country maintain stability and support economic growth going into the future.

For the second year in a row, the **United Arab Emirates** loses two places in the GCI to take the 27th position. The drop reflects deterioration in a number of areas, but the most striking is the country's loss of its ability to harness the latest technologies for productivity improvements. The country's overall competitiveness reflects the high quality of its infrastructure, where it ranks a very good 8th, as well as its highly efficient goods markets (10th). Strong macroeconomic stability (11th) and some positive aspects of the country's institutions—such as an improving public trust in politicians (8th) and high government efficiency (5th)—round up the list of competitive advantages. However, over recent years, we have observed a lower assessment of institutions overall—an assessment that was probably affected by the particular severity of the country's economic crisis. The resulting reorientation of the country's development model will demand solid foundations in competitiveness and a continuation of competitiveness-enhancing structural reforms to reduce the risk of asset bubbles and put economic development on a more stable footing. Priorities in this context should include further investment to boost health and educational outcomes. Raising the bar with respect to education will require not only measures to improve the quality of teaching and the relevance of curricula, but also incentivizing the population to attend schools at the primary and secondary levels.

Tunisia, the country where the Arab Spring began, drops by eight positions to 40th place overall, likely reflecting instability of the business environment during the uprising (see also Box 5) as well as a heightened awareness of a number of challenges the country is facing. These include a less favorable assessment of the quality of public and private institutions, which drops from 23rd last year to 41st this year. The institutional framework is perceived as more prone to corruption and government favoritism, and the judiciary as less independent, than in previous years. Not surprisingly, the security situation—one of the country's main competitive advantages in the past—takes a much higher toll on business activity in this year's GCI, dropping from 14th to 47th. However, the fact that the events have not affected two of the country's core competitive strengths bodes well for the future. First, Tunisia continues to display solid educational outcomes, which remain significantly above the North African average not only in terms of quality (33rd), but

also for participation at the primary and secondary levels. And second, a healthy macroeconomic environment was maintained so the country's new government will benefit from manageable levels of public debt and a low budget deficit. Despite these strengths, the future economic agenda is challenging. It will require that political leaders not lose sight of the long-term picture by resisting public pressures that might take the focus off competitiveness-enhancing reforms and investments. Providing the country's youth with employment opportunities in the future will require not only more efficient and flexible labor markets and a more meritocratic business culture, but also business activity must be unleashed by creating a business environment that is more conducive to vibrant and healthy competition, notably by reducing domestic barriers to market entry—presently constrained by red tape and high taxes—and by lowering import tariffs.

Similar to Tunisia, **Egypt** drops 13 places to 94th in this year's GCI rankings. Recent events brought to light the country's numerous challenges, a number of which are among the root causes of the uprising. The country's new political leadership will need to address several competitive challenges, starting with a reform of the labor market, which suffers from an inefficient use of available talent, rigid labor regulations, and little cooperation between labor and employers. Yet unleashing job creation will also necessitate boosting demand for labor by establishing a framework that would allow for more vibrant domestic competition and greater openness to trade and FDI. Combined with the country's large market size and its potential for increasing exports given its proximity to the large European market, competitiveness-enhancing reforms could efficiently enhance business activity in the shorter to medium term. A longer-term issue that remains to be tackled is the overhaul of the educational system, which needs to gear educational outcomes more strongly toward the needs of the business community and ensure high enrollment. Contrary to Tunisia, the macroeconomic situation in Egypt is less favorable than the country's other indicators. Although public debt has been reduced in the past, the fiscal deficit and inflation continue to burden the economy. Going forward, providing Egypt's population with opportunities and prosperity in the future will require putting the country on a higher and more sustainable growth path. This can be achieved only by resisting pressures against the reform process in these challenging times and focusing on a competitiveness-enhancing agenda that will raise the economy's productivity levels.

The regional rankings close with **Yemen**, which enters the GCI sample for the first time at 138th place. The low ranking reflects the numerous challenges the country faces in order to improve competitiveness and enhance economic growth. Among the limitations to be addressed on a priority basis, given the country's factor-driven stage of development, are its weak institutional framework (140th) as it relates to both public-sector and private-sector governance and its poor educational and health outcomes (127th), as well as its underdeveloped infrastructure (132nd). Tackling these challenges would enable the country to experience some productivity improvements, building on strengths such as its market size, the economy's openness to trade, and its flexible labor markets.

Sub-Saharan Africa

Sub-Saharan Africa has grown impressively over the last 15 years. It has bounced back rapidly from the global economic crisis, and its growth rates continue to exceed the global average. Indeed, some African countries improve with respect to national competitiveness this year. South Africa and Mauritius remain in the top half of the rankings, having advanced since last year. There have also been measurable improvements across specific areas in a number of other African countries. On the other hand, some significant declines have registered in countries that were previously striding ahead. More generally, sub-Saharan Africa as a whole lags behind the rest of the world in competitiveness, requiring efforts across many areas to place the region on a firmly sustainable growth and development path going forward. For a discussion of the recent trends in competitiveness of the sub-Saharan African countries, see Box 6.

South Africa moves up by four places to attain 50th position this year, remaining the highest-ranked country in sub-Saharan Africa and the second-placed among the BRICS economies. The country benefits from the large size of its economy, particularly by regional standards (it is ranked 25th in the market size pillar). It also does well on measures of the quality of institutions and factor allocation, such as intellectual property protection (30th), property rights (30th), the accountability of its private institutions (3rd), and its goods market efficiency (32nd). Particularly impressive is the country's financial market development (4th), indicating high confidence in South Africa's financial markets at a time when trust is returning only slowly in many other parts of the world. South Africa also does reasonably well in more complex areas such as business sophistication (38th) and innovation (41st), benefiting from good scientific research institutions (30th) and strong collaboration between universities and the business sector in innovation (26th). These combined attributes make South Africa the most competitive economy in the region. However, in order to further enhance its competitiveness the country will need to address some weaknesses. South

Africa ranks 95th in labor market efficiency, with rigid hiring and firing practices (139th), a lack of flexibility in wage determination by companies (138th), and significant tensions in labor-employer relations (138th). Efforts must also be made to increase the university enrollment rate of only 15 percent, which places the country 97th overall, in order to better develop its innovation potential. In addition, South Africa's infrastructure, although good by regional standards, requires upgrading (62nd). The poor security situation remains another important obstacle to doing business in South Africa. The business costs of crime and violence (136th) and the sense that the police are unable to provide protection from crime (95th) do not contribute to an environment that fosters competitiveness. Another major concern remains the health of the workforce, which is ranked 129th out of 142 economies—the result of high rates of communicable diseases and poor health indicators more generally.

Mauritius is ranked 54th this year, up one place since last year, the second-highest ranked country in the region after South Africa. The country benefits from strong and transparent public institutions, with clear property rights, strong judicial independence, and an efficient government. Private institutions are rated as highly accountable (19th), with effective auditing and accounting standards and strong investor protection. The country's infrastructure is well developed by regional standards, particularly its ports, air transport, and fixed telephony. Its health standards are also impressive compared with those of other sub-Saharan African countries. Further, its goods markets are efficient (28th). However, efforts continue to be required in the area of education. Educational enrollment rates remain low at all levels, and its educational system gets only mediocre marks for quality. Beyond its educational weaknesses, its labor markets could be made more efficient—it has stringent hiring and firing laws (82nd) and wages that are not flexibly determined (107th), reducing the incentive for job creation in the country.

Rwanda moves up by 10 places this year to 70th position, placing third in the sub-Saharan African region. As do the other comparatively successful African countries, Rwanda benefits from strong and well-functioning institutions, with very low levels of corruption (an outcome that is certainly related to the government's non-tolerance policy) and a good security environment. Its labor markets are efficient, its financial markets are relatively well developed, and Rwanda is characterized by a capacity for innovation that is quite good for a country at its stage of development. The greatest challenges facing Rwanda in improving its competitiveness are the state of the country's infrastructure, its low secondary and university enrollment rates, and the poor health of its workforce.

Although **Botswana** falls four places to 80th rank, it remains one of the four most competitive economies in the region. Among the country's strengths are its reliable and legitimate institutions (32nd), with efficient government spending, strong public trust of politicians, and low levels of corruption. While it is still better rated than a number of industrialized countries, Botswana's macroeconomic environment has deteriorated, dropping from 41st place two years ago to 82nd this year. Botswana's primary weaknesses continue to be related to its human resources base. Educational enrollment rates at all levels remain low by international standards, and the quality of the educational system receives mediocre marks. Yet it is clear that by far the biggest obstacle facing Botswana in its efforts to improve its competitiveness remains its health situation. The rates of disease remain very high despite some improvements in recent years.

Namibia falls nine places this year to 83rd place, with a particular weakening of the macroeconomic environment since last year, caused in large part by a significant government budget deficit in 2010. The country continues to benefit from a solid institutional environment (43rd), with well-protected property rights, an independent judiciary, and strong public trust of politicians. The country's transport infrastructure is also good by regional standards (40th) and its labor market (57th) functions fairly well. Financial markets are well developed by international standards (36th), along with a solid confidence in financial institutions. With regard to weaknesses, as in much of the region, Namibia's health and education indicators are worrisome. The country is ranked a low 116th on the health subpillar, with high infant mortality and low life expectancy—the result, in large part, of the high rates of communicable diseases. On the educational side, enrollment rates remain low and the quality of the educational system remains poor, ranked 127th. In addition, Namibia could do more to harness new technologies to improve its productivity levels; it currently shows low penetration rates of new technologies such as mobile phones and the Internet.

Kenya moves up four places to rank 102nd this year. The country's strengths continue to be found in the more complex areas measured by the GCI. Kenya's innovative capacity is ranked an impressive 52nd, with high company spending on R&D and good scientific research institutions that collaborate well with the business sector in research activities. Supporting this innovative potential is an educational system that—although educating a relatively small proportion of the population compared with most other countries—gets

fairly good marks for quality (51st) as well as for on-the-job training (54th). The economy is also supported by financial markets that are well developed by international standards (26th) and a relatively efficient labor market (37th). On the other hand, Kenya's overall competitiveness is held back by a number of factors. Health is an area of serious concern (122nd), with a high prevalence of communicable diseases contributing to the low life expectancy of less than 55 years and reducing the productivity of the workforce. The security situation in Kenya is also worrisome (129th). It is hoped that the reforms in the context of the new constitution will bring about improvements in several of these areas.

Ghana is ranked 114th this year, the same as last year, although it gains one position in a constant sample. The country continues to display strong public institutions and governance indicators with relatively high government efficiency, particularly in regional comparison. Some aspects of its infrastructure are also good by regional standards, particularly the state of its ports (66th). Financial markets are also relatively well developed (61st). On the other hand, education levels continue to lag behind international standards at all levels, labor markets continue to be characterized by inefficiencies, and the country is not harnessing new technologies for productivity enhancements (ICT adoption rates are very low). Finally, Ghana suffers from macroeconomic instability (it is ranked a low 139th in this pillar), with the government running high fiscal deficits and building up significant debt; the country is also experiencing high, albeit improving, inflation.

Tanzania is ranked 120th, falling by six positions in a constant sample of economies included last year. The country's performance remains quite stable and the change in rank is mainly the result of other countries improving more quickly. Tanzania benefits from public institutions characterized by a reasonable public trust of politicians (53rd) and relative evenhandedness in the government's dealings with the private sector (49th). In addition, some aspects of the labor markets lend themselves to efficiency, such as a high female participation in the labor force (5th) and reasonable redundancy costs. On the other hand, infrastructure in the country is underdeveloped (130th), with poor-quality roads and ports, unreliable electricity supply, and few telephone lines. And although primary education enrollment is commendably high, providing universal access, enrollment rates at the secondary and university levels are among the lowest in the world (132nd and 139th, respectively). In addition, the quality of the educational system needs upgrading. A related area of concern is the low level of technological readiness in Tanzania (126th), with very low uptake of ICTs such as the Internet and mobile telephony. In addition, the basic health of its workforce is also a serious concern; the country is ranked 123rd in this area, with poor health indicators and high levels of diseases.

After falling in the rankings over recent years, **Nigeria** retains the same 127th place this year; this represents an improvement by two ranks in a constant sample of economies since last year. The country has a number of strengths on which to build, including its relatively large market (34th), which provides its companies with opportunities for economies of scale. Nigeria's businesses are also sophisticated by regional standards (64th), with some cluster development, companies that tend to hire professional managers, and a willingness to delegate decision-making authority within the organization. On the other hand, despite a slight improvement since last year, the institutional environment does not support a competitive economy because of concerns about the protection of property rights, ethics and corruption, undue influence, and government inefficiencies. The security situation in the country continues to be dire (128th). Additionally, Nigeria receives poor assessments for its infrastructure (135th) as well as its health and primary education levels (140th). In addition, the country is not harnessing the latest technologies for productivity enhancements, as demonstrated by its low rates of ICT penetration.

After falling in the rankings for many years, **Zimbabwe** tentatively reverses the trend this year for the first time, moving up to 132nd place, an improvement of six places in a constant sample. The assessment of public institutions, while still weak, has improved measurably, increasing from 125th two years ago to 107th this year. Specific areas of improvement are ethics and corruption and government inefficiency, although significant room for improvement remains. On the other hand, some major concerns linger with regard to the protection of property rights (140th), where Zimbabwe is second-to-last, reducing the incentive for businesses to invest. And despite efforts to improve its macroeconomic environment—including the dollarization of its economy in early 2009, which brought down inflation and interest rates—the situation continues to be bad enough to place Zimbabwe among the lowest-ranked countries in this pillar (136th), demonstrating the extent of efforts still needed to ensure its macroeconomic stability. Weaknesses in other areas include health (137th in the health subpillar), low educational enrollment rates, and official markets that continue to function with difficulty (particularly with regard to goods and labor markets, ranked 124th and 130th, respectively).