WORLD ECONOMIC FORUM

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The Global Competitiveness Report 2008-2009

Country Profile Highlights

- Despite the financial crisis, the **United States** continues to be the most competitive economy in the world. This is because it is endowed with many structural features that make its economy extremely productive and place it on a strong footing to ride out business cycle shifts and economic shocks. Thus, despite rising concerns about the soundness of the banking sector and other macroeconomic weaknesses, the country's many other strengths continue to make it a very productive environment. The United States is ranked first for innovation, and its markets support this innovative activity through their efficient allocation of resources to their most effective use. However, the United States has built up large macroeconomic imbalances over recent years, with repeated fiscal deficits leading to rising and burgeoning levels of public indebtedness. This indicates that the country is not preparing financially for its future liabilities and is on the road to making interest payments that will increasingly restrict its fiscal policy freedom going into the future.

- **Switzerland** retains the same ranking as last year, second only to the United States. Its economy is characterized by an excellent capacity for innovation and a very sophisticated business culture, ranked second for its business sophistication and third for its innovation capacity. The country is characterized by high spending on research and development (R&D), particularly impressive given the country's small size. Switzerland's scientific research institutions are among the world's best, and the strong collaboration between the academic and business sectors ensures that much of this basic research is translated into marketable products and processes, buttressed by strong intellectual property protection. This strong innovation is captured by the high rate of patenting in the country, for which Switzerland ranks 6th worldwide on a per capita basis. In addition, Switzerland's public institutions are rated among the most effective and transparent in the world (4th), ensuring a level playing field and enhancing business confidence.

- The Nordic members of the European Union continue to hold privileged positions in the rankings. **Denmark** is ranked third, with **Sweden** and **Finland** following closely at 4th and 6th places respectively, the same rankings as last year for all three countries. As in past years, the Nordic countries outperform the United States in a number of areas. For example, like Switzerland, they receive among the best marks worldwide in terms of the macroeconomic environment, as they are also running healthy budget surpluses and have achieved very low levels of public indebtedness. The three countries have among the best functioning and most transparent institutions in the world, ranked only behind Singapore on this pillar. Given the significant focus that the Nordic countries have placed on higher education and training over recent decades, it is not surprising that Finland, Denmark and Sweden continue to occupy the top three positions in the higher education and training pillar. This has provided the workforce with the skills needed to adapt rapidly to a changing environment and has laid the ground for their high levels of technological adoption and innovation in recent years.

- **Singapore,** at 5th place, is the top-ranked country from Asia on the strength of its institutional environment, moving up two places from last year as a result of a strengthening across all aspects of the institutional framework. Singapore also places among the top two countries for the efficiency of all of its markets – goods, labour and financial – ensuring the proper allocation of these factors to their best use. Singapore also has world-class infrastructure, leading the world in the quality of its port and air transport facilities. But Singapore's overall ranking is constrained by its domestic market size and mixed performance in the macroeconomic stability pillar, where it ranks 59th and 121st for its interest rate spread and government debt, respectively.

- **Germany** remains among the top-10 ranked countries, although it slips two positions to 7th place. The country is ranked first out of all countries for the quality of infrastructure, with particularly good marks for its transport and telephony infrastructure. The efficiency of its goods and financial markets is another strength, buttressed by a very high level of business sophistication (ranked first on this pillar), although it should be noted that there has been a measurable decline in the business sector's assessment of the country's financial markets over the past year. These attributes allow Germany to benefit greatly from its significant market size (ranked 4th on this pillar). On the other hand, Germany's labour market continues to be very rigid (ranked 122nd on the labour market flexibility subpillar), where a lack of flexibility in wage determination, high nonwage labour costs and the cost of firing provide a hindrance to job creation.

- **The Netherlands** moves up two spots to 8th place, and rounding out the list of the European countries in the top 10. The country's companies are highly sophisticated and are the most aggressive internationally in adopting new technologies (ranked first for its technological readiness), buttressed by an excellent educational system and extremely efficient factor markets. The improvement in the ranking can be traced mainly to an even better assessment than last year of the functioning of its markets. The labour market in the Netherlands is notably efficient compared with the situation in many other European economies, and its goods market is ranked third for its excellent functioning.

- **Japan,** at 9th place, enjoys a major competitive edge in the areas of business sophistication and innovation, characterized by a high availability of scientists and engineers, high company spending on R&D, and an excellent capacity for innovation (ranked second on all three indicators). The country's overall competitive performance, however, is dragged lower by its macroeconomic weaknesses, with extremely high deficits (ranked 110th), which have led to the build-up of one of the highest debt levels in the world (ranked 129th). Financial markets also remain an area of concern, traced to a lack of trust in the banking sector, for example (Japan ranks 93rd on the soundness of its banks). Japan's current ranking marks a drop of one position since last year, with a measurable weakening across a broad range of areas, most notably a number of aspects of the country's public institutions. In particular, the business community perceives that government spending has become more wasteful and public trust in politicians has diminished further since last year's assessment.

- **Canada** moves up three places to join the top 10 (ranked 10th). Canada benefits from top-notch transport and telephony infrastructure; highly efficient markets, particularly labour and financial markets (ranked 7th and 10th respectively); and well-functioning and transparent institutions (ranked 15th). In addition, the educational system gets excellent marks for quality, which has prepared the country's workforce to adopt the latest technologies for productivity enhancements (ranked 9th). Canada's main weakness remains its macroeconomic stability, where it is ranked 43rd, mainly linked to the significant government debt of nearly 70% of GDP, which places the country 107th out of 134 countries on this indicator. On a more positive note, however, the government has been running small surpluses over recent years, which is allowing the country to put the debt level on a downward trend.

- **The United Kingdom** falls three positions to 12th place this year. Among the country's notable strengths is the efficiency of its labour market (ranked 8th), standing in contrast to the rigidity of many other EU countries. In addition, notwithstanding the recent financial crisis, the United Kingdom's financial markets continue to be assessed as among the most efficient in the world, although they have slipped from second to 5th place since last year in this area, attributable to rising concerns among the business sector about the soundness of banks and the ease of access to various forms of capital. The United Kingdom is also harnessing the latest technologies for productivity improvements; it is ranked 8th on the technological readiness pillar. On the other hand, the country's greatest weakness remains its macroeconomic environment (ranked 58th), with low national savings, a growing public sector deficit and consequential public indebtedness.
- **France** is ranked 16th in this year's GCI, up two places from last year. The country's infrastructure is among the best in the world (ranked second), with outstanding transport links, energy infrastructure and communications. The health of the workforce and the quality and quantity of education provision are other clear strengths (ranked 9th for health and primary education and 16th for higher education and training), ensuring a healthy and educated workforce. In addition, the sophistication of its business culture (9th in the business sophistication pillar) and its leadership in the area of technological innovation (16th in the innovation pillar) are important attributes that have helped to boost the country's growth potential. On the other hand, a number of weaknesses are hindering the country from unleashing its competitive potential. France's labour market flexibility continues to be ranked very low (131st) because of the rigidity of wage determination, high nonwage labour costs and the strict rules on firing and hiring, as well as the poor labour employer relations in the country. It is clear that structural reforms in this area, long mooted, are long overdue. Another area of concern is macroeconomic stability (65th): the government budget deficit and the related public-sector debt ratio remain large, and the national savings rate, while growing, still remains low by international standards.

- In spite of the economic slowdown recently observed in **Spain**, the country remains stable at 29th place. Spain's competitiveness performance continues to be boosted by the large market (12th) available to its national companies; a highly sophisticated business sector (24th), which is effectively leveraging ICT and exogenous technology (29th in the technological readiness pillar); first-class infrastructure (22nd); good-quality higher education and training (30th); and strong macroeconomic fundamentals (30th). On a more negative note, its institutional environment (43rd) and innovation potential (39th) could be strengthened to further buttress its economic potential. And the greatest area of concern remains the greatly inflexible labour market (126th), a matter of particular concern given rising unemployment in the country.

- On a less positive note, **Italy** (ranked 49th) is down by three places this year. The country continues to do well in more complex areas measured by the GCI, particularly the sophistication of its business environment. Italy is ranked 21st for its business sophistication, producing goods high on the value chain using the latest production processes, thanks also to strong business clusters. However, Italy's overall competitiveness performance is held back by some critical structural weaknesses in the economy. The labour market remains among the most rigid in the world, with Italy ranked 129th out of 134 countries for its labour market flexibility, creating a large hindrance to job creation. Another problematic area is its weak public finances and extremely high levels of public indebtedness (ranked 123rd on this indicator), related to the inefficient use of public resources (it is ranked 128th for the wastefulness of government spending). Other institutional weaknesses are its 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.

- Among the 12 countries that joined the European Union (EU) since 2004, **Estonia** (ranked 32nd) continues to be, by a significant margin, the most competitive economy, despite a fall of five places in the ranking since last year. Estonia has built up efficient government institutions (ranked 23rd) and well-functioning markets. The government manages public finances adeptly and has been successful in its efforts to make Estonia one of the most aggressive in adopting new technologies for productivity enhancements (17th). The drop in the country's ranking is mainly attributable to a lower government budget surplus and increasing inflation, and echoes the recent economic downturn in the Baltic region. This stands in contrast to **Bulgaria** (ranked 76th), one of the newest and the lowest ranked EU members. Bulgaria's low ranking is attributed to, among other factors, infrastructure inadequacies and institutional weaknesses including burgeoning corruption. However, on a positive note, Bulgaria has moved up four places in the ranking since last year, an improvement possibly linked to the perceived benefits brought about by accession, a trend also witnessed in **Romania** (up six positions at 68th position), the other new EU member since 2007.

- **Russia** is ranked 51st, up seven places from last year. Russia's main strengths are its large market size and improving macroeconomic stability (partly thanks to windfall oil revenues). However, to improve its competitiveness further, the country must tackle a number of structural weaknesses. Of major concern is a perceived lack of government efficiency (116th), the lack of independence of the judiciary in meting out justice (109th), and more general concerns about government favouritism in its dealings with the private sector. Private institutions also get poor marks, with corporate ethics in the country placing Russia 112th overall on this indicator. In addition, goods and financial markets are inefficient by international standards (ranked 99th and 112th respectively). All these areas make it very difficult to do business in the country and should be addressed to place the country on a more sustainable development path going forward.

- After improving last year, **Turkey** (63rd) has dropped by 10 places in the ranking this year. Turkey continues to benefit from its large market, which is characterized by relatively high competition (46th). However, some more basic issues must still be tackled, such as upgrading the quality of infrastructure (especially ports and the electricity supply), improving the human resources base through better primary education and better healthcare (78th), addressing the burgeoning inefficiencies in the labour market (125th), and reinforcing the efficiency and transparency of public institutions. Indeed, there has been measurable decrease since last year in the public's trust in government institutions, demonstrated by a drop in rank from 57th to 82nd on this subpillar, likely related in part to recent political turbulence, such as the failed attempt to ban the ruling party. The overall drop in rank can also be traced to a weakening of the country's perceived financial market efficiency (which fell from 61st to 76th place), with a drying up of credit through the banking sector and increasing concerns about the soundness of banks in the country.

- Within the Latin America and Caribbean region, **Chile** remains at a comparatively high rank as 28th, still leading the region and most of the world in competitiveness. The country's remarkable success has much to do with its sound macroeconomic management, coupled with timely market liberalization and opening to trade, all taking place within the context of a transparent and predictable regulatory framework. Specifically, Chile has successfully laid most of the basic foundations for competitiveness, including strong macroeconomic fundamentals (14th), well-developed infrastructure (30th), efficient institutions (37th) and a good healthcare system (31st in the health subpillar). Moreover, it displays efficient goods (26th) and labour (17th) markets, together with a fairly sophisticated financial market (29th), buttressed by the largest pension industry in the region (worth over 60% of GDP). All of these attributes have contributed to Chile's "Asian style" growth rates for the past 25 years. The current challenge for Chile, which is bound to become even more pressing as the country moves up the growth path and gets closer to the technological frontier, relates to the quality of its educational system. Both basic (105th) and higher (50th) education receive middling to poor marks, which bodes poorly for the country's capacity for knowledge generation and innovation.

- Down five places from last year and now ranked 41st, **Puerto Rico** is the second highest ranked economy in Latin America and the Caribbean. The island's competitiveness continues to rest on its well-functioning goods (29th), labour (37th) and financial (30th) markets, coupled with a dynamic and sophisticated business sector (28th), which displays an important innovative potential (30th). Within the Caribbean, **Barbados** is also very successful by regional standards, moving up three places to 47th this year. The rather worrisome macroeconomic weaknesses displayed by the country (114th) are counterbalanced by its excellent institutional environment (20th), first-class infrastructure (24th) and high-quality primary (5th) and higher (29th) education, among other factors.

- **Panama**, fairly stable at 58th, and **Costa Rica**, up four positions to 59th, are the most competitive countries in Central America. Costa Rica, in particular, has showed an impressive upward trend in the past few years, gaining a total of nine positions since 2006. The country's main competitive advantages can be found in its fairly efficient institutions (50th), relatively good primary (36th) and higher (49th) educational systems, flexible labour markets (35th), and the impressive sophistication (42nd) and capacity for innovation (38th) displayed by its business sector. The country has also made important progress towards macroeconomic stability, improving its ranking significantly from 111th in 2007 to 85th in this area.

- **Mexico**, with a fairly stable score, loses eight positions from last year, and is now placed 60th. The country has made impressive strides towards macroeconomic stability (reflected in a relatively strong 48th position in the macroeconomic stability pillar) and towards opening, liberalizing and diversifying its economy over the last decade, emerging as the second-largest economy after Brazil and the top FDI destination in the region. In addition, it benefits from a large domestic market and fairly good business sophistication (58th). On the other hand, a number of important weaknesses continue to hinder Mexico's competitiveness. These include its weak public institutions (97th) and rampant violence (123rd). Also problematic is its inflexible labour market (99th), as well as a higher education and training system (74th) that does not provide the economy with the appropriate pool of skilled labour, notably scientists and engineers (105th).

- **Brazil**, at 64th place, posts a remarkable eight-position improvement, partially closing the competitiveness gap with Mexico. The country has continued to move in the direction of sounder public finances and has seen improvements in many of the areas assessed by the Index. Brazil's main competitive advantages include the large size of the market available to its firms (10th out of 134 economies), access to one of the more sophisticated financial markets in the region (64th), a dexterity in absorbing and adapting technology from abroad and leveraging ICT (56th in the technological readiness pillar), and especially the high degree of sophistication displayed by its business sector (35th), together with a prowess for generating innovation (43rd). Despite these encouraging trends, Brazil still faces important challenges in view of improving its competitiveness further. These include the still high debt levels, contributing to a low national savings rate and high interest rates, and its 122nd position in the macroeconomic stability pillar. There is also a general distrust of public institutions among the business community (98th), with weak public ethics (121st) and government inefficiencies (124th), as well as serious concerns regarding the security situation in the country (103rd).

- Notwithstanding its strong recovery after the deep economic crisis of 2001, **Argentina** continues to place low in the rankings at 88th position. The country has a number of important competitive advantages, including its relatively well-educated labour force and the large market size available to its enterprises. However, the economy is also characterized by some serious weaknesses. For example, despite debt restructuring, the public debt remains high, estimated at 56.1% of GDP in 2007 (placing the country 97th on this indicator); this, combined with continuing high inflation, may undermine the steps taken towards macroeconomic stability. On a related note, the GCI highlights a deep distrust on the part of the business community regarding the quality and efficiency of the country's public institutions (128th), the respect and enforcement of the rule of law, and the even-handedness of the public sector in its relations with the private sector. The economy is also characterized by overregulated and rigid goods (122nd), labour (130th) and financial (117th) markets, which are not able to allocate resources to their most effective use.

- **Venezuela**, at 105th place, continues to fall in the rankings, a trend seen over the past several years. This year the country has fallen seven more places. This is due in large part to the fact that, despite windfall oil revenues, the macroeconomic environment continues to deteriorate: expansionary fiscal policies and discretionary administrative measures have led to increasing levels of public indebtedness and rampant and increasing inflation (ranked 132nd). Related to the poor fiscal and monetary management, as last year, Venezuela ranks last out of all countries for the perceived quality of its institutions, reflecting the business sector's enduring concerns about the weak rule of law, government inefficiencies and the government's lack of even-handedness in its dealings with the private sector. There has been an increase in red tape, and goods, labour and financial markets are not able to effectively allocate resources in the economy, with goods (132nd) and labour (131st) markets in particular assessed as among the least efficient in the world.

- In Asia, **Hong Kong SAR**, at 11th place, leads the world in financial market sophistication and also benefits from very efficient goods markets and a high level of macroeconomic stability. The country ranks third for its macroeconomic stability, due to its excellent fiscal management which has resulted in a notably low level of government debt, and an improving macroeconomic environment more generally. On the other hand, Hong Kong's competitive disadvantages stem primarily from its small domestic market size and its mixed performance in the areas of health and primary education, as well as higher education and training.

- **Korea,** at 13th place, derives its strong position from attributes such as its macroeconomic stability and very innovative business sector. Korea's macroeconomic environment is characterized by government budget surpluses, which have led to the reduction of the national debt, a high national savings rate, and a very low interest rate spread (ranked third on this indicator). The country is also highly innovative, with high company spending on R&D and a strong government focus on procuring advanced technology products (ranked second), which have contributed to the country becoming one of the most inventive in the world (ranked 7th for utility patents). Korea's competitiveness would be strengthened further by addressing a number of weaknesses, most notably inefficiencies in its financial and labour markets.

- **Taiwan, China,** at 17th place, down three places from last year, draws its greatest competitive strengths from its education sector and related business innovation. Taiwan has high enrolment rates at all levels, and the educational system gets good marks for quality. In addition, companies provide a high level of continuing on-the-job training, ensuring that the workforce can adapt to the rapidly changing economy. Related to innovation, Taiwan has a large pool of scientists and engineers, and it benefits from high company spending on R&D and strong collaboration between research institutes and the business sector in innovation. All of this has come together to place Taiwan first worldwide in terms of the patenting per capita of new inventions. On the other hand, Taiwan's financial markets represent a comparative weakness, with concerns about the soundness of banks (ranked 117th) and the restriction of capital flows (78th). Similarly, public institutions could be further strengthened.

- **Australia,** at 18th place, draws its strongest competitive advantages from the excellent functioning of its goods, labour and financial markets. Within its financial markets, the country ranks third for the regulation of its securities exchanges and for legal rights, and 4th for the soundness of its banks. Australia's goods markets are characterized by the ease of starting a business: the number of procedures and the time required to start a business are both ranked first internationally. And labour markets are very flexible, characterized by significant ease in hiring and firing employees and a lack of nepotism in the business sector by international standards. Australia also has very strong private institutions, ranked second for the efficacy of its corporate boards and third for the strength of auditing and reporting standards in the country. Higher education and training is also an area of strength, with high enrolment rates at all levels, and very good marks for the quality of the educational system (ranked 9th).

- **Malaysia**, at 21st place, benefits from the excellent functioning of its goods, labour and especially financial markets. Labour markets are very efficient (19th) and goods markets function well (23rd), with strong competition and business-friendly taxation. The financial market continues to perform well, clearly well recovered from the 1998 financial crisis – now ranked 16th internationally for its sophistication – with a sound banking sector and a relative ease of access to various forms of finance for business development. Other strengths include the quality of the country's transport infrastructure and its strong business sophistication and innovative potential, which have contributed greatly to the country's growth over recent years. On the other hand, efforts should be made in the area of education, where attainment rates at the secondary level remain low, and in addressing the relatively poor health of the workforce. Finally, greater fiscal discipline would better ensure sustainable macroeconomic stability going into the future, with repeated government deficits (ranked 109th) to build up substantial government debt over the years.

- **China** enters the top 30 this year, up four places from last year. The country benefits greatly from its large and rapidly growing foreign and domestic market size (ranked first and second, respectively) allowing for significant economies of scale. Macroeconomic stability also remains a source of competitive advantage, with the government budget moving into surplus, and manageable debt levels, although rising inflation has become an area of concern. Innovation is becoming another competitive advantage, with rising company spending on R&D coupled with strong university-industry research collaboration, and an increasing rate of patenting. China's key competitive weakness is related to its financial market (109th), with restricted capital flows (ranked 121st), inadequate regulation of securities exchanges (ranked 109th), and concerns about the soundness of the banking sector (ranked 108th). Related to these weaknesses is the need to strengthen private institutions (ranked 77th), with insufficient protection of minority shareholders' interests (ranked 94th), inefficient corporate boards (90th), and weak accounting and auditing standards (86th). And, given the increasing importance of innovation for the country's competitiveness, improving higher education and training should be a priority to address the low enrolment rates at the secondary and tertiary levels, and to upgrade the quality of the educational system more generally.

- **Thailand**, ranked 34th, has fallen six places since last year. The country derives certain competitive strengths from its market size as well as the efficiency of its labour market (ranked 13th). The country's infrastructure is also very good, particularly roads and air transport. But Thailand lags in technological readiness (66th), with low penetration rates for Internet use, broadband and mobile telephones in particular. The health of Thailand's workforce is another area of concern (ranked 76th), with high rates of HIV, tuberculosis and malaria (ranked 108th, 96th and 93rd, respectively). Some aspects of the financial market also require attention, especially concerns about the soundness of the banking sector. Given the political turmoil experienced over the past year, it is notable that the decline in the overall ranking this year can be traced in part to a weakening assessment of government institutions, with increasing concerns about the transparency of policy-making and public-sector efficiency more generally.

- **India,** at 50th place, derives substantial advantages not only from its market size (ranked 4th for its domestic market size and 5th for its foreign market size), but also from its strong business sophistication (ranked 27th) and innovation (ranked 32nd). The country is endowed with strong business clusters and many local suppliers, and ranks an impressive third for the availability of scientists and engineers and 27th for the quality of its research institutions. However, India's overall competitive position is weakened by its macroeconomic instability (109th), with the government running one of the highest deficits in the world (ranked 127th), unsustainable levels of government debt (ranked 113th), and fairly high inflation. Health and primary education is another area of concern, with poor health indicators (ranked 105th for both infant mortality and in life expectancy, for example), related to the high prevalence of diseases such as tuberculosis and malaria. Educational enrolment rates also remain low at all levels, with the primary educational system in particular getting poor marks for quality. Certain labour market efficiency indicators are also poor, including female participation in the labour force (ranked 122nd) and the facility with which firms can hire and fire employees (ranked 104th).

- **Indonesia,** at 55th place, enjoys a competitive advantage in selected areas, such as labour market efficiency. In contrast, the country's main competitive weaknesses lie in the areas of technological readiness, infrastructure and the quality of public institutions. With regard to technological readiness, Indonesia's penetration rates of ICTs remain low (ranked 107th for Internet users, 105th for personal computers and 100th for both mobile telephone subscribers and broadband Internet subscribers). The country's infrastructure also requires upgrading, with poor ratings for the quality of roads (ranked 105th) and ports (ranked 104th). Public institutions would also benefit from greater efficiency.

- **Kazakhstan** is ranked 66th in this year's GCI, the highest-ranked country in central Asia. Kazakhstan gets excellent marks for its labour market efficiency, which is ranked 12th worldwide, with high levels of flexibility in the hiring and firing process and in determining wages. Moreover, boosted by the country's natural resource wealth, it benefits from a number of macroeconomic strengths, including a balanced budget and a very low debt-to-GDP ratio. However, rising inflation, which has reached double digits, raises some cause for concern, placing the country 121st on this indicator. In addition, more will have to be done in Kazakhstan to improve the institutional environment. Particular attention should be focused on addressing weaknesses related to the quality of its institutions, notably judicial independence, the protection of property rights, government inefficiency, public trust of politicians and security. A focus on improving the health of the workforce and the quality of the educational system, and placing a greater focus on technological adoption, will also be important in the country's efforts to improve its competitiveness.

- The **Philippines,** at 71st place, benefits from its relatively large market size (ranked 34th). In addition, the country has seen an improvement in its macroeconomic stability since last year, with a shrinking government budget deficit, lower public debt and lower inflation. On the other hand, the main obstacles to greater competitiveness are related to the quality of the country's public institutions and a lack of efficiency in its labour market. The institutional environment is characterized by the perception that government spending is highly wasteful (ranked 120th), a lack of even-handedness in the government's dealings with the private sector (117th), and general concerns about corruption in the public sphere. In addition, the threat of terrorism imposes significant costs on businesses in the country (ranked 125th). With regard to labour market inefficiencies, wages are not flexibly determined by companies (108th), regulations impede firms from freely hiring and firing workers (101st), and firing costs are excessive (ranked 108th), all of which hinders job creation.

- **Sri Lanka**, at 77th place, has fallen seven places since last year. The country suffers from macroeconomic instability, ranked a low 132nd on this pillar, with the government running budget deficits that are among the highest in the world (ranked 130th), leading to the build-up of high levels of public debt (nearly 84% of GDP, placing the country 118th on this indicator). In addition, lax monetary policy has produced the second to highest inflation rate of all countries covered, bar Zimbabwe. Another area requiring urgent attention is Sri Lanka's labour market, which lacks flexibility and efficiency (ranked 115th overall), and is characterized by high firing costs, low female participation in the labour force, and a very high total tax rate.

- **Pakistan,** at 101st place, benefits from its large market size (ranked 29th overall). However, a number of competitive weaknesses are hindering its ability to fully benefit from the potential economies of scale, mainly related to the human resources base. Specifically, Pakistan's rankings are low in the pillars measuring health and primary education (116th), higher education and training (123rd), labour market efficiency (121st) and technological readiness (100th). In addition, there has been a measurable weakening over the past year in the perceived quality of public institutions.

- As in previous years, **Israel**, at 23rd position, leads the Middle East and North Africa ranking, despite a drop of six places since last year. The most significant area of weakening is linked to the country's public institutions, with increasing concerns about inefficient government spending (60th), and a deteriorating public trust in politicians (61st). Yet, despite this more critical assessment of economic and political institutions, the country's well-developed human and institutional infrastructure for innovation, in particular at the early stage, as well as its widespread adoption of the latest technologies, continue to contribute to Israel's strong competitiveness and productive potential. Israel ranks 6th in terms of overall innovative capacity, with excellent national research institutes (3rd) and the government taking a proactive role in procuring high-tech products. The success of the resulting research activity is reflected in the high rate of patenting per capita (5th) registered by Israeli residents. The well-developed financial markets play a key role in supporting the process of turning ideas into marketable products through facilitated access to venture capital (8th) and equity finance (14th).

- The competitiveness of most **Gulf countries** covered by the GCI show a robust upward trend. The most competitive among them, **Qatar,** 26th overall, has moved up by five places since last year, buoyed by the country's well-assessed institutions, but also by advances in the functioning of financial markets, as well as enhanced innovative capacity. The educational system has also received a better assessment than in previous years. Yet, despite progress made in ensuring high-quality education, tertiary enrolment remains low given the country's advanced stage of development, and the economy remains characterized by a very low participation rate of women in the labour force. Another threat that could put Qatar's future competitiveness at risk is rising inflation, which reached almost 14% in 2007, placing Qatar 129th out of 134 countries on this indicator.

Qatar is followed by **Saudi Arabia**, a country that has experienced a robust improvement by eight positions to place 27th this year, mirroring the government's determination to improve its performance on a number of competitiveness indicators under the ambitious 10x10 program. The most notable advances have been achieved with respect to the institutional framework for doing business, where the country moved from 41st to 37th place, and the efficiency of goods markets, where it improved by 17 ranks, from rank 51st to 34th. These results mirror recent reforms, such as the greater ease of setting up new businesses and the overhaul of the judiciary, which have been initiated. On the other hand, improving the quantity and quality of education as well as improving institutions and the financial sector will be important for improving Saudi Arabia's competitiveness going into the future.

- The **United Arab Emirates** confirms its position as one of the most competitive economies in the region, moving up by six positions to 31st place. Overall, the country improves its ranking across all pillars of the GCI, with a more stable macroeconomic environment and a better assessment of the quality of the educational system (although the share of young Emiratis attending higher-education institutions remains low by international standards). The country's institutional environment remains a competitive advantage, characterized by a low regulatory burden (5th), high public trust in politicians (8th), and reliable police services. In addition, the use and penetration of ICTs and other advanced technologies are widespread and are increasingly catching up with the rest of the world, allowing the country to move up in the rankings to 28th position in this area. Yet, the fairly low quality of research institutions (74th) and companies' low spending on R&D (50th), as well as shortages in qualified research staff (75th), constrain the strengthening of the innovative capacity, which, at 46th, remains far behind top international levels.

- **Tunisia** tops the rankings among the North African countries at 36th position, preceding Bahrain and Oman by a narrow margin. The country's institutions are one of its major competitive advantages. They rest on fairly transparent and trustworthy relations between the government and the civil society as expressed in the high public trust of politicians (16th), a favourable assessment of the efficiency of government spending (2nd), and transparent policies (15th), as well as limited favouritism on the part of government officials (14th). A well-functioning health and educational system, as well as sound levels of domestic competition (34th) and a strong innovative capacity (27th), round out the positive picture. Moving forward, Tunisia will need to focus on reforming its rigid labour market (ranked 103rd) and further streamlining its macroeconomic management in order to improve its competitive position.

- **Jordan** occupies the 48th rank this year, much in line with previous years' assessments. Well-defined property rights (23rd), efficient government spending (26th), a low burden of government regulation (18th) and an efficient legal framework (29th), coupled with a very safe and secure environment (14th), ensure that the country's institutions receive a positive assessment. At the same time, the country's weak and deteriorating macroeconomic position is worrying, ranked a low 111th, 11 positions lower than last year, with a growing budget deficit and accompanying debt level. Moving forward, Jordan should also address its low primary education enrolment rate, which could otherwise lead to a literacy gap that will become increasingly difficult to close over time. In addition, policies aimed at making the labour market more flexible would also be beneficial for the country's business sector and employment creation.

- **Morocco** has fallen by nine ranks this year, to 73rd place, in line with the deteriorating performance of North Africa as a whole. In the case of Morocco, a weakening security environment and a deteriorating assessment of the quality of the educational system contribute to the country's declining competitive position. At the same time, the macroeconomic environment – traditionally one of the country's weaknesses – has improved due to laudable efforts to curb inflation, control spending and streamline the tax collection system. The country also boasts a regulatory environment that is conducive to business activity and to business creation, ranked 19th and 22nd for the number of procedures and time required to start a business. At the same time, the rigid labour market, assessed at a low 128th rank, remains a serious drag on the country's competitiveness.

- **Egypt** ranks 81st in this year's edition of the GCI, down four places compared with last year. Despite some improvements, macroeconomic instability remains a major challenge for the government, as mirrored in the very low 125th rank the country obtains on this pillar. High government debt, double-digit inflation and a still high – although decreasing – budget deficit continue to weaken the macroeconomic environment, despite improving fiscal management. In addition, labour market efficiency is poor in international comparison, ranked last among all 134 countries. At the same time, Egypt has made progress in fostering technological readiness (84th), although the increased penetration of the latest technologies, such as the Internet, PCs and mobile telephones, has not been sufficient for the country to move in the rankings, as other countries are improving more quickly. To further benefit from internationally available technology, Egypt will need to upgrade its educational institutions, which continue to receive weak assessments (124th).

- **Algeria** has dropped 18 positions to 99th rank, and is now the weakest regional performer. Despite robust growth and relative macroeconomic stability, the business sector assesses the operating environment in the country as more difficult than in previous years, in particular with respect to public and private institutions as well as innovative capacity. Trust in politicians is eroding, as business leaders see the institutional framework deteriorate and the already precarious security situation worsen. In addition to upgrading the institutional environment, improving the country's competitive position will require reforms in what is one of the most rigid labour markets in the world (132nd) and a restructuring of the very inefficient and unstable financial system (132nd).

- **South Africa**, ranked 45th overall, remains the highest ranked country in sub-Saharan Africa, with a very stable performance. Among the country's strengths is the large size of the economy, particularly by regional standards (ranked 23rd in the market size pillar). The country continues to receive good marks in more complex areas measured by the GCI, such as intellectual property protection (23rd), the quality of private institutions (25th) and goods (31st), as well as financial market efficiency (24th), business sophistication (33rd) and innovation (37th). South Africa benefits from high spending on R&D, accompanied by strong collaboration between universities and the business sector in innovation (both ranked 28th). However, South Africa does face a number of obstacles to competitiveness. For example, the labour market is ranked a low 88th for its lack of flexibility. Further, the country's innovative potential could be at risk with a university enrolment rate of only 15%, which places the country 93rd overall. The poor security situation remains another important obstacle to doing business in South Africa. The greatest concern, however, remains the health of the workforce, ranked 129th out of 134 countries, due to high rates of communicable diseases and poor health indicators more generally.

- **Botswana,** ranked 56th, follows only South Africa in sub-Saharan Africa. The country regains its position this year in the top half of the rankings, moving up a remarkable 20 places, the largest improvement this year. In this light, the GCI is beginning to weight more heavily those complex factors from which Botswana derives its competitive strengths. Among the country's strengths are its reliable and legitimate institutions, ranking a high 21st worldwide for the efficiency of government spending, 22nd for public trust of politicians, and 26th for judicial independence. Botswana is rated as the country with the lowest corruption in Africa (22nd out of 134 countries). Over past years, the transparency and accountability of public institutions have contributed to a stable macroeconomic environment, and this is one key area of improvement: the government has been running a healthy budget surplus, which is allowing it to reduce debt levels, and inflation has come down from its peak in 2006 as well. Botswana's primary weaknesses are related to the country's human resources base. Despite high spending on education, educational attainment rates at all levels of the educational ladder remain low by international standards, and the quality of the educational system receives mediocre marks. Yet, the biggest obstacle facing Botswana in its efforts to improve its competitiveness is the health situation in the country. Botswana has the highest HIV prevalence rate of all countries covered, as well as very high malaria and tuberculosis incidences, although the health situation is moving in the right direction with life expectancy back on the rise.

- **Mauritius** has seen an improvement of three places since last year, moving up to 57th position and following Botswana directly in the ranking. The country is characterized by strong and transparent public institutions, with well-protected property rights (ranked 22nd), reasonable levels of judicial independence, and a security situation that is good by regional standards (37th). The country's infrastructure is well developed by regional standards, and goods and financial markets function well, ensuring an efficient allocation of resources in the country. However, efforts will be required in the area of education. Educational attainment rates remain low, particularly at the university level (placing Mauritius 90th), and the educational system gets mediocre marks for quality. Beyond the educational weaknesses, labour markets could be made more flexible, with stringent hiring and firing laws (110th) and wages that are not flexibly determined (118th). Finally, Mauritius must work to improve the stability of the macroeconomic environment going forward (ranked 117th), with a government budget deficit that places the country 115th (which has led to the build-up of significant national debt and high interest rates), as well as high and rising inflation.

- **Namibia** has moved up nine places to 80th place this year, with improvements across many of the areas measured by the GCI. Among Namibia's comparative strengths is the quality of the institutional environment (ranked 42nd). Property rights are well protected (ranked 25th) and the judiciary is perceived as independent from undue influence (22nd). The country's strong institutional environment continues to contribute to responsible macroeconomic management. The government budget remained in surplus between 2006 and 2007, helping to significantly relieve the country's debt burden, although rising inflation still remains high by international standards (ranked 83rd on this indicator). The quality of the country's infrastructure is also excellent by regional standards (ranked 33rd), most particularly the transport infrastructure. With regard to weaknesses, Namibia's health and education indicators are worrisome, with the country ranked a low 124th on the health subpillar, with poor health statistics. On the educational side, attainment rates remain low, with primary, secondary and tertiary enrolment rates placing the country 114th, 103rd and 112th, respectively. The quality of the educational system is poorly assessed (114th), despite high government per capita spending on education. In addition, Namibia's goods markets suffer from a number of distortions, such as the long time required for starting a business (99 days, placing the country 122nd).

- Notwithstanding the post election political and social turmoil earlier in the year, **Kenya** (ranked 93rd overall) has moved up by six places this year, with its key strengths found in the more complex areas normally reserved for countries at higher stages of development. For example, Kenya's innovative capacity is ranked an impressive 42nd, with high company spending on R&D, and good scientific research institutions collaborating 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 (primary, secondary and tertiary enrolment rates are ranked 116th, 108th and 126th, respectively) – gets good marks for quality (33rd) for those attending schools. The economy is also supported by financial markets that are sophisticated by international standards (44th), with relatively easy access to loans and share issues on the local stock market. However, there are a number of basic weaknesses that are eroding at Kenya's overall competitive potential. The country's public institutions continue to be assessed as highly inefficient (100th), plagued by undue influence (111th) and high levels of corruption (101st). The security situation in Kenya is also extremely worrisome, particularly in crime and violence (126th), the potential of terrorism (129th), and the prevalence of organized crime (118th). Health is another area of serious concern (ranked 117th), due to poor health indicators in the country.

- **Nigeria** is ranked 94th this year. The country's greatest area of strength remains the macroeconomic environment (ranked 26th), with windfall oil revenues contributing to large (although declining) government budget surpluses, and a high national savings rate. In addition, inflation, although still very high by international standards, has been coming down over recent years. Nigeria also benefits from a relatively large market, allowing for economies of scale. In addition, its financial markets are quite sophisticated by regional standards (ranked 54th). On the other hand, the GCI shows that Nigeria's economy is characterized by weak and deteriorating institutions (ranked 106th, down from 87th in 2006) – including a serious security problem (125th) – and poor assessments for its infrastructure (120th) and basic health and education (126th).

- **Zimbabwe** continues to be ranked among the least competitive economies included in the GCI, ranked second to last at 133rd overall. This compares with last year's rank of 129, and represents a decline of one place even in a constant sample. The institutional environment is ranked among the worst of all countries, with a complete absence of property rights (ranked last out of all countries at 134th), high levels of corruption (130th), and a lack of even-handedness of the government in its dealings with the public (129th), as well as basic government inefficiency (130th). The extreme mismanagement of the public finances and monetary policy has placed Zimbabwe once again at the bottom of all countries covered with regard to macroeconomic stability (ranked 134th), with enormous – and growing – deficit spending, negligible national savings, and raging hyperinflation that is unparalleled anywhere else in the world. The economy is now characterized by mismanagement and weaknesses across all areas, including health (ranked 128th in the health subpillar), low educational enrolment rates, and official markets that have ceased to function for all intents and purposes (particularly goods and labour markets, ranked 133rd and 127th, respectively).