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The Global Competitiveness Report 2009-2010: Country Profile Highlights

The Top 10 ranked countries

Switzerland overtakes the United States this year as the world's most competitive economy. This is explained by the fact that Switzerland's performance has remained relatively stable, whereas the United States has seen a weakening across a number of areas. Switzerland's economy continues to be characterized by an excellent capacity for innovation and a very sophisticated business culture, ranked 3rd for its business sophistication and 2nd for its innovation capacity. The country is characterized by high spending on R&D. 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 research is translated into marketable products and processes, reinforced by strong intellectual property protection. This strong innovative capacity is captured by the high rate of patenting (148.27 per million inhabitants) in the country, for which Switzerland ranks 7th worldwide on a per capita basis. Switzerland's public institutions are rated among the most effective and transparent in the world (7th), ensuring a level playing field and 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) and a well-functioning goods market (5th), as well as a labor market that is among the most efficient in the world (2nd, just behind Singapore). And Switzerland's macroeconomic environment, although weakening somewhat since last year, continues to be assessed as stable compared in particular with the United States and many European neighbors (ranked 17th). On the other hand, the university enrollment rate of 47 percent continues to lag behind many other high-innovation countries, placing the country 46th on this indicator. Although gaps are currently being filled through immigration, efforts should be made to boost higher education attainment to ensure sufficient national talent. Financial markets have also weakened somewhat, reflecting in particular difficulties in the national banking sector. However, this has been muted compared with many other countries.

After several years at the top of the rankings, the **United States** falls one place and is ranked 2nd this year. The country continues to be endowed with many structural features that make its economy extremely productive and that place it on a strong footing to ride out business cycle shifts and economic shocks. However, a number of escalating weaknesses have taken their toll on the US ranking this year. The United States is home to highly sophisticated and innovative companies operating in very efficient factor markets. The country is also endowed with an excellent university system that collaborates strongly with the business sector in R&D. Combined with 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. Labor markets are ranked 3rd, characterized by the ease and affordability of hiring workers and significant wage flexibility. The country's goods markets (12th) are also characterized by low levels of distortion within the context of a very competitive environment. Although the country is very competitive overall, there are some weaknesses in particular areas that have deepened since the last assessment. Some aspects of the institutional environment could be strengthened, with particular concerns on the part of the business community about the government's ability to maintain arms-length relationships with the private sector (48th), and in the perception that the government spends its resources wastefully (68th).There is also increasing concern related to the functioning of private institutions, with a measurable weakening of the assessment of auditing and reporting standards (down from 20th last year to 39th this year), perhaps not unexpected in the context of recent turmoil and scandals within the financial sector in particular. More generally, given that the financial crisis originated in large part in the United States, it is hardly surprising that there has been a weakening of the assessment of its financial market sophistication, dropping from 9th last year to 20th overall this year in that pillar. The country's greatest overall weakness continues to be related to its macroeconomic stability, where it ranks 93rd, down from 66th last year. The United States has built up large macroeconomic imbalances over recent years. Repeated fiscal deficits have led to burgeoning levels of public indebtedness, which are presently being exacerbated by significant stimulus spending.

Singapore moves up two ranks to 3rd place, remaining the highest-ranked country from Asia. The country's institutions continue to be ranked as the best the world; at a time when confidence in governments in many countries has diminished, they are assessed even more strongly than in past years. Singapore places 1st for

the efficiency of its goods and labor markets and 2nd for its financial market sophistication, ensuring the proper allocation of these factors to their best use. Singapore also has world-class infrastructure (ranked 4th), leading the world in the quality of its roads, ports, and air transport facilities. In addition, the country's competitiveness is propped up by a strong focus on education, providing highly skilled individuals for the workforce. In order to strengthen its competitiveness further, Singapore could encourage even stronger adoption of the latest technologies—especially broadband Internet—as well as the innovative capacity of its companies.

The Nordic members of the European Union continue to hold privileged positions in the rankings. **Sweden, Finland,** and **Denmark** hold the 4th through the 6th places. They continue to lead the rankings in a number of individual areas. For example, they are all ranked among the top 15 countries with regard to macroeconomic stability, all running healthy budget surpluses through 2008, with low levels of public indebtedness, high national savings, and narrow interest rate spreads. The three countries have among the best functioning and most transparent institutions in the world, ranked behind only Singapore on this pillar, as in past years. Finland, Denmark, and Sweden also continue to occupy the top three positions 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 ground for their high levels of technological adoption and innovation, which is crucial for countries at their advanced stage of economic development. Notably, amid the economic and financial crisis, all three countries' financial markets continue to receive high scores, with Finland and Denmark ranked 7th and 8th, respectively, and Sweden close behind at 12th. A marked difference among these three Nordic countries relates to labor market flexibility. Denmark continues to distinguish itself as having one of the most flexible and efficient labor markets internationally (ranked 5th). In Finland and Sweden, however—as in a number of other European countries—companies have less flexibility in setting wages, and firing and therefore hiring workers is deemed expensive, although cooperation in labor-employer relations is good in all three countries.

Germany remains stable at 7th place. The country is ranked 1st for the quality of its infrastructure, a position it has held for some time, with particularly good marks for its transport and telephony infrastructure. Its goods market is assessed as being efficient (18th), with a high level of competition among companies (21st).The financial market also continues to receive relatively good marks, although the ranking has dropped in this area from19th to 36th, with rising concerns about the soundness of banks and more difficult access to capital for business development. Germany has very sophisticated businesses, ranked 2nd, just behind Japan. These attributes allow Germany to benefit greatly from its significant market size (5th). On the other hand, Germany's labor market remains very rigid (124th for the labor market flexibility subpillar), where a lack of flexibility in wage determination and the high cost of firing provide a hindrance to job creation.

Japan moves up one place to 8th overall, mainly by maintaining its performance compared with last year, while other countries in the top 10 have weakened. Japan continues to enjoy a major competitive edge in the areas of business sophistication and innovation, ranked 1st and 4th, respectively, in these two pillars. The country benefits from the strong availability of scientists and engineers and high company spending on R&D (2nd on both indicators) as well as a capacity for innovation that is second to none. Indeed, in terms of innovation output this pays off with a rate of patenting per capita (263.35 per million inhabitants) that is 2nd worldwide. The country's overall competitive performance, however, continues to be dragged down by its macroeconomic weaknesses, with high budget deficits over several years (ranked 115th in 2008), which have led to the buildup of one of the highest public debt levels in the world (196.29 percent of GDP in 2008, corresponding to a 132nd rank, or second to last on this indicator). Japan's rise in the rankings can in large part be traced to the fact that its main areas of weakness, linked to macroeconomic instability and questions about the soundness of its banks, for example, have now become concerns for many other countries.

Canada moves up one more place this year to 9th, having joined the top 10 last year. Canada benefits from excellent transport and telephony infrastructure (7th for the infrastructure pillar), highly efficient markets, particularly labor and financial markets (ranked 7th and 11th, respectively), and well-functioning and transparent institutions (17th). In addition, the country has been successful in nurturing its human resources: it is ranked 7th for health and primary education and 9th for higher education and training. This has paved the way for the country's workforce to adopt the latest technologies for productivity enhancements (ranked 11th). Further, at a time when many industrialized and developing countries alike are struggling with macroeconomic instability, Canada has improved in this area since last year, rising from 43rd to 31st. Continuing to reduce the debt level will be important for ensuring the Canadian government's ability to meet its future liabilities and grow in a sustainable way.

The Netherlands drops two places to 10th place, rounding out the top 10.The country's companies are highly sophisticated (ranked 6th on the business sophistication pillar) and are among the most aggressive internationally in absorbing new technologies (ranked 2nd for their technological readiness, just behind

Sweden). Business activity is buttressed by an excellent educational system and efficient factor markets, especially goods markets, which are ranked 6th overall. The Netherlands is also characterized by a comparatively stable macroeconomic environment, improving on a relative basis compared with last year. The drop in the rankings can be traced mainly to a weaker assessment of its financial markets, which have dropped from 11th to 23rd overall, linked, as in many countries, to concerns about the solvency of the banking sector and more difficult access to credit.

Europe

After having fallen three positions in the last edition, the **United Kingdom** loses another place to settle at 13th this year. The country benefits from clear strengths such as the efficiency of its labor market (8th), standing in contrast to the rigidity of many other European Union (EU) countries. The United Kingdom is also harnessing the latest technologies for productivity improvements: it is ranked 8th on the technological readiness pillar. The country continues to have sophisticated and innovative businesses, characteristics that are important for spurring productivity enhancements. The drop in rank is largely attributable to a weakening of the assessment of the country's financial market, which has slipped from 5th to 24th place since last year, based on rising concerns in the business sector about the soundness of banks (126th) on the back of several banking-sector bankruptcies and bailouts. In this context it is not surprising that a significant and growing weakness remains the United Kingdom's macroeconomic instability (71st, down 13 places since last year), with low national savings, an exploding public-sector deficit (related in large part to recent efforts to bail out the financial sector), and consequential public indebtedness.

France is ranked 16th in this year's GCI, with a stable performance compared with last year and demonstrating a number of competitive strengths. The country's infrastructure is among the best in the world (ranked 3rd), 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 11th for health and primary education and 15th for higher education and training), providing the economy with a healthy and educated workforce. In addition, the sophistication of its business culture (10th in the business sophistication pillar) and its leadership in the area of innovation (18th 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 full competitive potential. Macroeconomic stability, while improved from last year (up to 58th from 65th), still raises alarm bells for the future: the government budget deficit and the related public-sector debt ratio remain large, and the national savings rate, while growing, still remains somewhat low by international standards. Finally, France's labor market flexibility continues to be ranked very low (115th) because of the rigidity of wage determination and the strict rules on firing and hiring, as well as the poor labor-employer relations in the country. It is clear that structural reforms in this area, long mooted, are overdue.

Iceland drops six places to 26th position, mainly because of a sharp deterioration in the macroeconomic environment (from 56th to 119th) and a much poorer assessment of the country's financial market sophistication (from 20th to 85th). Indeed, the bankruptcy of the three main banks—following their inability to re-finance short term debt and a run on deposits—and the consequent takeover by the government of their domestic operations took a significant toll on the public finances. The public debt spiraled from 24.26 percent in 2007 to 93.21 percent of GDP in 2008. Nevertheless, the sound competitiveness fundamentals displayed by the country in key areas will, it is hoped, ease the recovery and allow the Icelandic economy to bounce back more rapidly. Toward that end, Iceland can count on a top-notch educational system at all levels (2nd and 4th in the health and primary education and higher education and training pillars, respectively) coupled with a rather sophisticated business sector (23rd) displaying high levels of technological readiness (14th) and innovation (16th). An extremely flexible labor market (6th), efficient infrastructure (11th), and well-functioning institutions (13th) complete the picture.

Spain has dropped four ranks this year to reach 33rd place. Spain's competitiveness performance continues to be boosted by the large market (13th) available to its national companies, strong technological adoption (29th in the technological readiness pillar), first-class infrastructure (22nd), and good-quality higher education and training (33rd). On a more negative note, its institutional environment (49th) could be strengthened to further buttress its economic potential. In addition, there has been a measurable weakening of the country's macroeconomic stability since last year, dropping from 30th to 62nd place, with the government now running budget deficits and contributing to the already large debt burden. And the greatest area of concern remains the highly inflexible labor market (122nd), which discourages job creation, a matter of particular concern given the recently rising unemployment in the country—at 19 percent, it is the highest in the euro zone. It is especially interesting to note that the Spanish financial sector pillar has fallen 14 positions to rank 50th.This is interesting because Spain's financial sector was praised by world leaders during the 2008 G-20 summit,

right before the construction companies went bankrupt as a result of the explosion of the housing bubble, causing a sizeable hole in the balance sheets of its main financial institutions.

Italy moves up by one place this year to 48th place, remaining nevertheless the lowest-ranked G-7 member country. The country continues to do well in more complex areas measured by the GCI, particularly the sophistication of its businesses environment. Italy is ranked 20th for its business sophistication, producing goods high on the value chain using the latest production processes (14th), also thanks to strong business clusters (3rd). Italy also benefits from its large market size—the 9th largest in the world—which allows for significant scale economies. However, Italy's overall competitiveness performance continues to be held back by some critical structural weaknesses in the economy. The labor market remains among the most rigid in the world, with Italy ranked 117th out of 133 countries for its labor market efficiency, creating a large hindrance to job creation. Another problematic area is its weak public finances and extremely high levels of public indebtedness (it is ranked 128th on this indicator—even lower than last year). 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, with Italy ranked 97th overall for its institutional environment.

Among the 12 countries that have joined the European Union since 2004, the **Czech Republic** takes the lead at 31st position. Although the country continues to face difficulties with respect to macroeconomic stability (43rd) and the quality of infrastructure (48th), consistent improvements across all dimensions of the institutional environment (up 10 places, from 72nd to 62nd), improved efficiency of markets (27th), and advances in technological readiness (30th) have contributed to this rise in the rankings. **Slovenia** (ranked 37th) follows closely behind, having improved by five places. Slovenia benefits from world-class health and educational systems, good infrastructure, and impressive innovative capacity. In addition, the country's macroeconomic stability has improved (up from 33rd to 26th rank this year), advancing its overall competitiveness outlook.

Among the Baltic economies, **Estonia** at 35th loses some ground for the second year in a row, largely because of a deteriorating macroeconomic environment following the economic crisis. Nevertheless, the country continues to be characterized by efficient institutions, well-functioning markets, and strong uptake of new technologies. Similarly, **Latvia** and **Lithuania** are down 14 and 9 places to 68th and 53rd, respectively. The largest improvement among the new EU members is registered by **Poland,** up seven places to 46th rank this year. Poland benefits from its strong educational system and large market size, and has seen measurable improvements in the quality of its public institutions, with greater confidence in the efficiency and honesty of the country's public servants. EU membership and buoyant growth over past years have provided an incentive and the means for conducting reforms. Although the macroeconomic stability pillar has registered a significant drop in rankings this year (from 50th to 74th) because of the financial crisis, the years up to 2007 have seen a streamlining of fiscal and monetary policies. This, along with prudent regulation of financial markets and the large size of the domestic market, has helped Poland to weather the effects of the current global downturn and become one of the most economically stable countries in the region.

Azerbaijan moves up an impressive 18 places to rank 51st this year, with measurable improvements across many aspects of the Index. The country is characterized by strong and improving macroeconomic stability, moving up 18 spots to 27th place this year, with high national savings, a large budget surplus, and low and shrinking government debt, although high inflation does raise some concerns. There have also been measurable improvements in the efficiency of the country's markets, especially labor and goods markets. Labor markets are ranked a high 13th (up from 34th last year), characterized by high and improving flexibility (for example, the country improved from 70th to 4th position in the rigidity of employment index).Within goods markets (up 18 places, from 89th to 71st), it has become much easier and less expensive to start a business: the number of procedures required more than halved from 13 to 6, and the time required has been reduced from 30 to 16 days. Indeed, the country is one of the ten biggest improvers in the World Bank's *Doing Business 2009* report.

Turkey moves up two places to 61st this year, with a stable performance overall. Turkey continues to benefit from its large market, which is characterized by strong competition (26th) and reasonably sophisticated business practices (52nd). Compared with other countries, Turkey has also seen an improvement in its macroeconomic stability, moving up from 79th to 64th this year, although this is mainly because of other countries' weakening rather than particular improvements in Turkey's fiscal and monetary policies. On the other hand, some more basic issues must still be tackled, such as upgrading the quality of infrastructure, now ranked 62nd (especially ports and the electricity supply), improving the human resources base through better primary education and better healthcare (74th), addressing the inefficiencies in the labor market (120th), and reinforcing the efficiency and transparency of public institutions.

Russia falls 12 places this year to 63rd, the only BRIC economy to see a decline in performance. Russia's main strengths are its large market size and reasonable macroeconomic stability (although this has been partly the result of windfall oil revenues and might not prove sustainable in the longer term). However, to improve its competitiveness further, the country must tackle a number of structural weaknesses. Of major concern are a perceived lack of government efficiency (110th), little judicial independence in meting out justice (116th), a lack of property rights (119th), and more general concerns about government favoritism in its dealings with the private sector. Private institutions also get poor marks, with corporate ethics in the country placing Russia 110th overall on this indicator. The drop in overall rank is mainly attributable to a weaker assessment of the functioning of factor markets, with, in particular, goods markets (ranked 108th) and financial markets (ranked 119th) getting poor marks.

Asia and the Pacific

In the Asia and Pacific region, **Hong Kong SAR** retains its 11th position, and features in the top 10 in five of the 12 GCI pillars. It continues to top the financial market pillar, although its score and lead are eroding. It places no lower than 8th in all indicators but one. Even though the crisis hit the country hard Hong Kong undoubtedly remains one of the world's major financial centers, and continues to lure both investors and companies. This is partly because of its close links with mainland China's financial market. More generally, Hong Kong offers one of the world's most business-friendly environments. The territory has improved its marks in the infrastructure pillar, now placing second only to Germany. Finally, the quality of public institutions (10th overall), and in particular the efficiency of the government (2nd), continues to be praised by business leaders.

Taiwan is up five places to 12th position overall, thanks to a combination of small improvements in the areas of institutions (38th), infrastructure (16th), and education (15th).Above all, Taiwan's significant progression owes to the fact that the island has now entered the third and most advanced stage of development as defined by the Global Competitiveness Index framework. Taiwan now gets fully rewarded for its outstanding capacity to innovate (6th). In effect, for countries in the third stage, the innovation pillar accounts for 15 percent of the overall GCI score. On a more negative note, we observe a generalized weakening of the macroeconomic situation (25th, down seven places): inflation, interest rate spreads, and public debt were all on the rise in 2008, and the government posted a small budget deficit. Provided macroeconomic fundamentals are kept in check, and if Taiwan can improve on its institutional framework (38th) and the efficiency of its financial market (54th)— by far its two weakest spots—the competitiveness landscape will be even brighter in the years to come.

Australia improves by three positions to rank 15th overall. Its performance remains very much in line with that of last year, the only notable improvement coming from the macroeconomic environment (18th, up 10 positions). In 2008, Australia managed to balance its budget and reduce its public debt to 14 percent of GDP—the second lowest among OECD countries after Luxembourg. Australia also has improved its showing in the financial markets pillar by two places (4th worldwide), with its score decreasing less than that of other large economies. The trustworthiness and confidence in the banking system remain essentially intact (4th). Australia remains a prime location for doing business with efficient goods markets and flexible labor markets (both ranked 9th), and excellent public (14th) and private (9th) institutions. To progress even further, the country will need to improve on several measures of business sophistication (26th) and strengthen its innovation capacity (20th). Most importantly, there is a need to upgrade infrastructure (25th), particularly ports (50th). Infrastructure is a keystone of Australia's economy given its large land mass, remoteness, and trade profile—the country is one of the world's biggest commodity exporters. By the government's own account, deficient port infrastructure represents a bottleneck in the export process, resulting in delays and contractual issues, and ultimately hurting Australia's competitiveness.

Korea falls six places to 19th position. The decline is attributable to deteriorations in three categories that were already of concern. First, the country ranks 118th with respect to labor market flexibility. The business community's discontent about the difficulty of hiring and firing employees (108th) is particularly pronounced and mirrored by Korea's low rank in the World Bank's Doing Business rigidity of employment index (92nd). This leads companies to resort extensively to temporary employment, thus creating precarious working conditions and giving rise to tensions—Korea ranks third to last for the quality of relations between employers and workers. A major labor law reform bill aimed at increasing flexibility while providing a better safety net exists, but it has yet to be approved by the parliament. A second area of concern is the financial market, particularly the banking sector. Despite the waves of consolidation and restructuring the sector has undergone since 1997, banks are still very much seen as unsound (90th).Third, Korea ranks a low 53rd with respect to the quality of its institutions. Survey data show a general dissatisfaction with the government, as reflected in the mediocre level of trust in politicians (67th), the perceived opacity of policymaking (100th), and

the burden of red tape (98th). Yet Korea continues to be characterized by a number of strengths, which drive its overall productivity and keep it placed in the top 20 of the rankings. Specifically, Korea has world-class infrastructure (17th), strong macroeconomic stability (11th), and an excellent higher educational system (16th), while it remains one of the world's innovation powerhouses (11th in the innovation pillar).

New Zealand (20th) advances four ranks and joins the top 20. It is the only country within the top 20 to improve its score year on year (4.9 to 5.0), an increase attributable to a number of small improvements across the board. The country maintains or improves its ranking in no less than 85 indicators out of the 113 that compose the GCI. Public institutions are assessed very well, placing New Zealand in 5th position worldwide, behind only Singapore and three Nordic countries. The incidence of corruption is minimal by all measures. And when it comes to private institutions, New Zealand is second to none. It ranks 1st with respect to corporate ethics, the strength of auditing standards, and protection of shareholders; and 2nd for the efficiency of corporate boards. Overall, the environment is extremely conducive to business, supported by efficient goods (8th, up nine places) and labor (11th) markets, and by one of the soundest financial systems in the world (3rd). Yet, very much like neighboring Australia, New Zealand's infrastructure is in need of upgrading, as reflected in the country's 35th rank in this area—its lowest for any of the 12 pillars, after market size. In this light, within the government's stimulus plan, investment in infrastructure projects and incentives to boost innovation capacity would be expected to improve the country's competitiveness going into the future.

Malaysia (24th) drops three positions, essentially as the result of a much poorer assessment of its institutional framework. In this area, every indicator has been exhibiting a downward trend since 2007, causing Malaysia to tumble from 17th to 43rd position in this dimension in just two years. Security is of particular concern (85th, down 25 ranks). According to the business community, the potential of terrorism (97th) and crime (95th) both impose significant business costs. Also of concern is the budget deficit, which increased in 2008, amounting to almost 5 percent of Malaysia's GDP. Yet in most other dimensions it scores high, particularly in those factors at the top end of the value chain, namely business sophistication (24th) and innovation (24th). Expectations are high for a country that averaged an impressive 7 percent growth per year between 1990 and 2000 and a healthy 5 percent since then. Mirroring this economic success, Malaysia has featured prominently in the competitiveness rankings ever since its first inclusion in 1994. Indeed, it remains the most competitive Stage 2 (efficiency-driven) country. To maintain its competitive edge, Malaysia now needs to prepare its conversion into a knowledge-based, innovation-driven economy. Improving both the quantity and quality of higher education (41st) and boosting technological readiness (37th), particularly ICT penetration, would serve this effort well.

Up one position from last year, **China** consolidates its presence in the top 30. At 29th, it outperforms the other BRIC economies, ahead of the closest contender, India, by 20 positions. The country's very high growth rates in recent years have moved China from Stage 1 to Stage 2, as measured by the GCI, in just three years. This rapid progression is posing new challenges to China. As the country moves up the development ladder, its competitive edge can no longer be based on the use of cheap factors of production alone and increasingly must be based on efficiency improvements. This will pose challenges for the country to achieve the minimum growth rate—8 percent by the government's own estimates—necessary to prevent any rise in unemployment and avoid social unrest. The GCI captures a number of these efficiency-enabling factors and reveals that China still presents some shortcomings—in particular with respect to financial market sophistication (81st) and technological readiness (79th), and, to a lesser extent, higher education (61st). A number of measures also reveal the relative rigidity of the labor market. But China can already rely on a relatively sophisticated business environment (38th, up five) and its capacity to innovate (26th, up two) to move up the value chain. In addition, China's enviable fiscal situation allows the government to stimulate internal demand, invest in infrastructure, and pursue economic reforms. These combined strengths provide the basis for China's overall strong position in the GCI ranking.

Following last year's first inclusion, **Brunei Darussalam** leaps seven places to 32nd.The sultanate continues to do relatively well in all the categories that matter the most given its stage of development, namely institutions (36th, up five), infrastructure (41st, down two), health and primary education (42nd, up five), and macroeconomic stability (1st). Brunei tops this latter category thanks to a hefty budget surplus equivalent to one third of its GDP (4th highest), high savings (2nd), and controlled inflation (2.7 percent, 6th lowest).Yet the challenges inherent in diversifying away from oil and gas are enormous. The overall environment is generally not conducive to doing business. The goods market does not function efficiently (100th); in particular, the level of competition is disturbingly low (106th). Furthermore, higher education, technological readiness (60th), business sophistication (77th), financial markets, and innovation (75th) all exhibit major shortcomings. Addressing and overcoming these challenges is a condition that must be met to further widen the economic base beyond oil and gas, which together account for half of Brunei's GDP.

Once a member of the top 30, **Thailand** (36th) drops for the second year in a row. The country's competitiveness suffers from protracted instability. Unsurprisingly, the quality of public institutions continues to deteriorate. Ranked 63rd in this category, Thailand has dropped 20 places over the past three years. Insufficient protection of property rights (75th) and security (85th) are of particular concern to the business community. With respect to public health (78th), HIV/AIDS, which afflicts 1.4 percent of the adult population; tuberculosis (142 cases per 100,000 population); and malaria (400 cases per 100,000 population) are all major concerns. Thailand's technological readiness (63rd) is also lagging. Although mobile telephony penetration is among the densest in the world at 124 mobile subscriptions per 100 population, the use of the Internet (21 users per 100) and computers (6 per 100) remains scarce. Looking at the most positive aspects of Thailand's performance, the macroeconomic situation (22nd) improved slightly between 2007 and 2008.The efficiency of the labor market (25th) constitutes another strength. Finally, the sheer size of its domestic (22nd) and foreign (18th) markets is a source of economies of scale.

India is up one position at 49th. India's GDP has grown 6.6 percent per year on average since 1991, when many economic reforms began in earnest, yet its GDP per capita remains just above US$1,000—a third and a tenth, respectively, of those in China and Russia. A wide gap also remains between rural India and its thriving economic and technological hubs. India hosts some of the best universities in the world, and a number of Indian corporate giants have become major global players or even leaders in their fields. At the same time, some 42 percent of the population lives on less than $1.25 a day (in PPP international dollars), more than twice China's equivalent figure. Mirroring this dichotomy, India's competitive performance continues to exhibit a rather reversed development pattern. It ranks an outstanding 28th in the most complex areas measured by the business sophistication and innovation subindex, ahead of several advanced economies. The country also boasts fairly well functioning institutions (54th), bustling financial markets (16th), and a sound banking sector (25th) supported by a vast domestic market (4th largest in PPP terms). On the other hand, the country underperforms on some of the basic determinants of competitiveness, namely health and primary education (101st), macroeconomic stability (96th)—though improving—and infrastructure (76th). In addition, penetration rates for mobile telephony (116th), the Internet (104th), and personal computers (96th) remain among the lowest in the world, while inefficiencies in the labor market (83rd) prevent an optimal allocation of human capital. Improvements in these areas would place India on a stronger growth trajectory going into the future.

Moving up one place, the assessment of **Indonesia** (54th) is very much in line with that of the previous three years. Three areas—among the most important given Indonesia's current stage of development—are of particular concern. First, infrastructure is in need of upgrading (84th), in particular with respect to ports (95th) and roads (94th). Second, several indicators reveal the poor level of public health: tuberculosis and malaria incidence are among the highest in the world, while infant mortality remains high. The third area of concern relates to technological readiness (88th). ICT penetration rates remain low by all measures and have been improving more slowly than in other countries. Indeed, related to this last area, Indonesia is now in transition between being a factor-driven economy and becoming an efficiency-driven one. The country's competitiveness will therefore increasingly be driven by such efficiency enhancing factors. On a more positive note, similar to the situation in India, Indonesia ranks higher in more complex factors such as business sophistication (40th) and innovation (39th).This certainly bodes well for the future, but does not reduce the urgency of making improvements in the other priority areas highlighted.

Vietnam is down five positions to 75th. Although the country improves in most of the categories of the Index, the considerable worsening of its macroeconomic situation—dropping from 70th to 112th place—weighs heavily on its economy and competitiveness. A widening trade deficit, an overheating economy, and a global rise in commodity prices caused inflation to shoot up to 23 percent in 2008.This in turn triggered a crisis of confidence, big swings in interest rates, and a sharp fall of the dong, the local currency. It is crucial for monetary authorities and the government to bring inflation back under control and restore macroeconomic stability so that Vietnam can reap the benefits of the efforts and successes achieved in other areas.

Like last year, **Pakistan** ranks 101st. Still at an early stage of development, the country fails to improve significantly on any of the basic determinants of its competitiveness, namely institutions (104th), infrastructure (89th), macroeconomic stability (114th), and basic (128th) and higher education (118th).To make things worse, the threat of terrorism bears heavily on the business community.

Latin America and the Caribbean

Chile leads the Latin America and Caribbean region in competitiveness at a still remarkable 30th place, although it has lost some ground in the last two years, with a four-position fall overall. The country's successful early and timely market liberalization and trade opening, as well as consistent macroeconomic

management have resulted in extremely high growth rates over the last two decades or so. Notably, thanks to the countercyclical policies followed in recent times of high commodity prices, Chile is now, more than any other economy in the region, able to stimulate the economy in the current slowdown with a comprehensive stimulus package. Besides sound macroeconomic fundamentals (19th), Chile's performance in the GCI is especially boosted by efficient and transparent institutions (35th); highly developed infrastructure (30th); and well-functioning goods (26th), labor (41st), and financial (32nd) markets—the latter displaying the largest pension industry in the region. Completing the picture, Chile also boasts a sophisticated business sector (39th), effectively absorbing technology and knowledge coming from abroad, notably through FDI (21st for FDI and technology transfer).The main area requiring improvement for Chile going forward remains the unsatisfactory quality of its educational system, notwithstanding increasing investment in education and rising educational attainment rates. Despite a slight improvement in both cases, primary and higher education continue to be assessed fairly poorly at 96th and 45th ranks, respectively, pointing to the need for further upgrading if Chile is to catch up with best practice countries and establish an innovation-conducive environment.

Fairly stable at 42nd, **Puerto Rico** follows Chile as the second-most competitive economy in Latin America and the Caribbean. Among the island's main competitive advantages are its sound innovation and sophistication factors (31st), with dynamic businesses operating high in the value chain (29th) and with an important innovation potential (31st). It also has a well-developed financial sector (19th) and efficient goods markets (34th).

Third in the region, **Barbados** improves three places to 44th, continuing the upward trend observed last year. The country displays a rather mixed performance, whereby very poor macroeconomic fundamentals (115th), a small market size (126th), and, to a lesser extent, a relatively inefficient goods market (72nd) go hand in hand and are counterbalanced by first-class institutions (20th) and infrastructure (21st), as well as excellent primary (6th) and higher (26th) education, among other factors.

Costa Rica climbs another four ranks from last year to reach 55th place, overtaking Panama (59th) as the best performer in Central America. It is worth noting Costa Rica's remarkable evolution in the rankings since 2006, with an overall 13-position improvement since that year, demonstrating the success of the unique development strategy followed by the country over decades. This has consistently focused on high-quality education, good governance standards, and production and export diversification—notably toward high-tech products and eco-tourism. The GCI underscores Costa Rica's fairly good institutional environment (47th), quality education at all levels (29th for primary education and 44th for higher education and training), and the sophistication of its businesses (41st) and innovation potential (34th) as areas of strength. On a less positive note, notwithstanding recent progress, macroeconomic stability, at 101st, remains a cause for concern, while the poor state of the country's infrastructure (82nd) represents a potential bottleneck for further economic modernization and diversification. Finally, red tape and rigidities in different sectors continue to affect the country's business environment.

The regional giant **Brazil,** at 56th, continues the impressive upward evolution it started last year, gaining another eight positions, overcoming Russia for the first time, and partially closing the competitiveness gap with India and China among the BRIC economies. The important steps taken since the 1990s toward fiscal sustainability, as well as measures taken to liberalize and open the economy, have significantly boosted the country's competitiveness fundamentals, providing a better environment for private-sector development. The GCI assessment highlights further improvements across the board from last year, particularly in the efficiency enhancers, from which Brazil's growth potential critically depends in its current stage of development. It also reflects Brazil's main competitive strengths, notably its extensive and growing domestic market (9th), one of the most developed financial markets in the region (51st), and a diversified and sophisticated business sector (32nd) with a significant potential for innovation (43rd). However, a number of shortcomings remain to be addressed for Brazil to fully tap its important competitive advantages and further reduce poverty and income inequality. The institutional environment (93rd), macroeconomic stability (109th), and the efficiency of the goods (99th) and labor markets (80th) continue to be poorly assessed, notwithstanding some improvements in recent years. Moreover, despite the government's increased focus, the educational system at all levels (79th and 58th for health and primary education and higher education and training, respectively) remains in serious need of upgrading, and a particular effort should be made to reduce the high student dropout rates and regional disparities in education attainment and quality.

Mexico's rank remains unchanged at 60th, demonstrating some resilience to the current international economic downturn. This is particularly notable given Mexico's close association with the US business cycle in terms of availability of financing, trade, and remittances. The important steps taken by Mexico in the last two decades toward more responsible fiscal policies (28th in the macroeconomic stability pillar) as well as in opening, liberalizing, and diversifying its economy are now enabling the country to address the recession

more effectively. A number of competitive advantages underpin Mexico's competitiveness performance. These include the sound macroeconomic fundamentals already mentioned; one of the largest markets in the world available for local companies (11th), thanks to a comprehensive network of preferential trade agreements and an important and expanding domestic market; and a diversified and fairly sophisticated business sector (62nd) that displays relatively well developed clusters (53rd), quality local suppliers (47th), and a comprehensive value chain breadth (54th), and that exports mainly manufactured products. At the same time, the GCI analysis points to some important weaknesses in key areas for the country's sustained growth in the medium to long term. The inefficiency of public institutions (101st), together with high insecurity (125th) due to spiraling and widespread violence and crime, are reasons for concern. Equally worrisome are Mexico's rigid labor market (115th)—characterized by burdensome labor regulations, high payroll taxes, and high social contributions—and inefficient goods market (90th), with widespread red tape and insufficient competition. Last but not least, the higher education and training system (74th) does not seem to provide the economy with the necessary pool of skilled labor, notably scientists and engineers (94th), and is not creating an environment conducive to adopting new technologies (71st in the technological readiness pillar) and generating new ones (78th in the innovation pillar). Further action is needed to liberalize markets, upgrade the educational system, and improve public governance in the country.

Uruguay, at 65th and up 10 places from last year, presents the largest improvement in the region. It has made significant progress in various areas, including infrastructure, macroeconomic stability, higher education and training, and technological readiness. The country's development model and competitiveness strategy rest on a continuous emphasis on education at large (ranked 52nd for health and primary education and 50th for higher education and training), and it has among the best regional public governance standards (39th for public institutions). Strides toward macroeconomic stability have also been made in recent years, notably with a significant reduction of public debt levels in the last few years (reduced from 116.51 percent of GDP in 2006 to 53 percent in 2008).Widespread rigidities in the factor markets remain a cause of concern, especially in the labor market (119th), but also, to a lesser extent, in the financial (88th) and goods (78th) markets.

Colombia has gained five positions since last year and is now placed 69th.The country has achieved significant advances in macroeconomic stabilization and civil pacification and can count on a rather extensive market size (31st) and sophisticated business sector (60th), successfully absorbing technology from abroad (66th for technological readiness) and with a fairly high innovation potential (63rd). However, the poor institutional environment (101st), displaying notably low levels of security for businesses and the population at large (132nd), infrastructure in sore need of improvement (83rd), and rather inefficient factor markets (88th, 78th, and 78th for goods, labor, and financial markets, respectively) are among the areas hindering Colombia's competitive potential going forward.

Peru is up five places to 78th, continuing the upward trend started last year and improving in most of the dimensions assessed by the GCI. The country's positive recent growth performance has much to do with the competent monetary and fiscal policy pursued particularly over the last decade, with falling levels of public indebtedness (from 37.8 percent of GDP in 2006 to 24 percent in 2008) and consistent budget surpluses (2.40 percent of GDP in 2008); this has gone hand in hand with goods and labor market liberalization, trade and FDI opening, and maximization of the revenues from the country's rich natural and mineral resources. Peru also benefits from strengths such as the fairly large size of its market (46th) and its sophisticated and rather deep financial sector (39th). For Peru to continue to grow in a sustained fashion and fulfill its competitive potential going forward, a number of weaknesses will need to be tackled. This will include improving the quality of the institutional environment (90th), upgrading the country's poor infrastructure (97th) and educational standards and access at large (91st and 81st for health and primary education and higher education and training, respectively). In particular, an improved educational system will better cater to the needs of an efficiency-driven economy such as Peru and facilitate technological adoption (77th for technological readiness) and generation (109th for innovation) in the domestic market. Finally, poverty levels and income and regional inequalities continue to loom as a cause of social unrest in the country, despite the current administration's efforts to increase social expenditure and public investment in infrastructure.

Argentina climbs three places to 85th place, a still disappointing result given the country's many competitive strengths. The country benefits from a fairly educated labor force (59th and 55th on the health and primary education and higher education and training pillars, respectively) and a large market size (23rd). On the other hand, serious flaws continue to affect the country's competitiveness landscape, representing enduring vulnerabilities in the current difficult economic outlook and going forward. In particular, the expansionary fiscal and monetary policies of recent years have caused the economy to overheat, resulting in high inflation levels (8.59 percent in 2008).The still-high public debt (48.5 percent of GDP in 2008), despite debt restructuring, coupled with the reduction in tax revenues brought about by decreased commodities prices, are particularly worrisome features in the face of the current global economic downturn. Furthermore, the

dismal 126th rank for the quality of the institutional environment highlights the business community's deep distrust of, and pessimism about, government efficiency and transparency, respect of the rule of law, and even-handedness in dealing with the private sector. The tendency of the last two administrations to adopt discretionary policies (including a recent attempt to increase taxes on agricultural exports, as well as the nationalization of the private pension system) has eroded the confidence of national and international investors, thus creating greater incentive for capital outflows. On a related note, factor markets continue to be unable to allocate resources to their most efficient use because of the many rigidities troubling the goods (124th), labor (123rd), and financial (116th) markets. Going into the future, institutionalization of sound fiscal policies, a greater respect for the rule of law, the liberalization of the factor markets, and a reduction of red tape will be crucial to restoring investors' trust in the fairness of the government and in the business environment in Argentina.

Venezuela falls to 113th place, losing eight positions from last year and continuing the downward trend observed in recent years, despite some marginal improvements in macroeconomic stability and infrastructure quality and the sheer size of its market (37th).The GCI assessment continues to highlight major problematic areas in Venezuela's competitiveness performance. Among these is its poor macroeconomic environment (91st)—despite windfall oil revenues in recent years, this poor showing is mainly due to expansionary fiscal policies and discretionary administrative measures. The dreary quality of its institutional environment, for which Venezuela continues to be assessed as worst out of all countries covered by the GCI, is another major problem area; this mirrors enduring concerns on the part of the business community in Venezuela about the respect of the rule of law, the fairness and efficiency of the government in its day-to-day operations and strategy, and the high violence and crime levels in the country. Other serious concerns include factor markets that are among the least efficient in the world, at 132nd (goods market efficiency), 133rd (labor market efficiency), and 126th (financial market sophistication). Underdeveloped infrastructure (106th) and poor educational standards at all levels (81st and 83rd for primary health and primary education and higher education and training, respectively) complete the picture. The growing distortions in the economy and the high vulnerability of public finance to changes in oil prices are particularly troubling and require urgent structural reform; such reform should also ensure that public spending on health and education are better targeted. Restoring investors' trust in the country's institutional and business environment would be equally important for unleashing Venezuela's competitiveness potential going forward.

Middle East and North Africa

At 22nd, **Qatar** takes the lead in the Middle East and North Africa region, gaining four positions compared with last year's edition of the *Report.* The country continues to weather the economic crisis well thanks to its abundant resources in natural gas remaining, with an estimated 18 percent growth rate in 2009, the fastest-growing economy in the Gulf Cooperation Council region. This positive economic performance is reflected in a number of indicators captured by the GCI. Over the past year, the country moved up by six places from last year's already high base in the macroeconomic stability pillar, to 13th.This is a reflection of both absolute improvements—notably in the budgetary surplus and public debt levels—and the poorer macroeconomic performance of many other countries due to the financial crisis and concurrent countercyclical measures. In terms of macroeconomic management, the country's priorities remain to reduce inflation, which was exacerbated by rising food and housing prices in 2008, and to expand credit. Qatar is moving in the right direction in many areas of competitiveness. The upgrading of the institutional framework continues (9th), and goods and labor markets are more efficient than in previous years, ranked 21st and 14th, respectively. In addition, the country has made great strides in harnessing the latest technologies, such as mobile telephony (2nd) and broadband (37th), and in opening up to foreign investment (it is ranked 13th on the restrictiveness of rules and regulations on FDI). Moving forward, improving competitiveness will necessitate further measures to encourage students to pursue tertiary education, where enrollment rates remain low (93rd). Additionally, the stability of Qatar's financial sector (35th) would benefit from a stronger protection of investor's rights. The country ranks 71st for the strength of investor protection and 98th for the strength of legal rights.

The **United Arab Emirates (UAE)** occupies the 23rd position in this year's *Report* and 2nd in the region, building on the positive trend of the past few years. Notwithstanding the current cyclical downturn, the available data suggest that the UAE has in place the underlying fundamentals of a competitive economy. The lower score in macroeconomic stability due to rising public debt and lower budget surplus is in line with most other countries' results in this pillar and therefore does not lead to significant changes in the ranking. However, serious doubts persist about the sustainability of public finances in Dubai and the potential effect a further deterioration may have on the country as a whole. As the global downturn continues to limit the availability of finance and reduces tourism and trade, the country's main sectors of activity are likely to be adversely affected. However, in spite of the fall in real estate prices, the assessment of its financial markets

so far proves more resilient than for many other countries. The UAE has improved by eight positions to 33rd in this pillar, although the score has gone down. It has to be noted, however, that businesses assess banks as somewhat less sound than previously (down by five positions to 36th).The changing global environment is also reflected in the intensifying competition in goods markets in the Emirates, which may in turn have positive effects on the country's future development path. The consistent upgrading of institutions and infrastructure and rising technological readiness and innovative capacity over the past few years will help the UAE maintain its competitive edge in the longer term. Perhaps more emphasis will be needed on education, where quantitative measures still point to low secondary and tertiary enrollment rates (50th and 81st, respectively), and on further boosting the country's innovative capacity, which remains constrained by the quality of research institutions (53rd) and relative disconnect between universities and businesses (39th).

Israel's competitive position continues to deteriorate, coming in at 27th, four positions down from last year. This deterioration is mainly due to a continuously lower assessment of the quality of the educational system (from 15th in 2006 to 65th in 2009), which was also mirrored in the OECD's PISA assessment in 2006. It appears that reductions in overall government spending have affected the educational system, as reflected in the falling public education expenditure as a share of gross national income. The deteriorating quality of education in Israel is worrisome because the availability of a well educated workforce, such as engineers and scientists, provided the basis of the successful technology-focused development strategy followed by the country over the last three decades. In addition to the quality of education, the sophistication of business strategies as well as innovative capacity have deteriorated over the past two years. Despite this slightly downward trend, the country's innovative capacity, ranked 9th, remains a key competitive advantage, along with the high level of sophistication of its financial markets, ranked 15th.As well as addressing the educational system, the challenges to be tackled going into the future are to be found in a number of other basic areas of the GCI. The quality of infrastructure (44th) is assessed below levels expected from a country at such a high level of income, and public and private institutions, although recovering, are still assessed as relatively weak, in particular with respect to the capacity of government to ensure security (69th) and the efficiency of government operations (51st).The present economic crisis has also taken a toll on macroeconomic stability in Israel. Rising inflation (4.75 percent in 2008) and an increasing budget deficit (2.8 percent of GDP in 2008) have contributed to pulling the ranking on this pillar down to 67th this year.

Saudi Arabia ranks 28th with a fairly stable performance. As in previous years, the country's macroeconomic stability, ranked 9th, remains its main strength; this is buoyed by the still relatively high oil prices in 2008. Since its first inclusion in the GCR in 2006, Saudi Arabia has made continuous progress in improving its competitive position in the framework of the ambitious 10 x 10 program. Major reforms in the area of the investment climate, education, health, the financial sector, and the judiciary are under way or envisaged, and are being registered in the country's performance in the GCI. Saudi Arabia has in particular made progress with respect to upgrading its public institutions, ranked 28th this year. The protection of property rights has been improved, corruption has been reduced, and the judiciary has made gains in independence. The country has also made great strides in improving the competitive environment for firms. Despite these commendable moves, some of the most serious challenges have not been addressed sufficiently. The quality of education (74th), as well as enrollment rates at all levels—Saudi Arabia ranks 109th for primary, 45th for secondary, and 72nd for tertiary enrollment—have not improved, although public expenditures on education are among the highest in the world (7th).The other challenges Saudi Arabia will have to address are the fairly rigid labor market (71st) and the trustworthiness and confidence in the financial sector, which remain low, although they have held up well in the current financial crisis, improving from 98th to 81st.

Tunisia drops four places to 40th in this year's rankings, but retains the lead among the North African countries. The country's efficient government institutions (15th) remain its main strength, along with a high level of security (23rd) and an educational system that ensures a good quality of education (29th), although enrollment rates in secondary and tertiary institutions are fairly low (ranked 66th and 70th, respectively). At the same time, Tunisia boasts fairly well developed infrastructure (37th), in particular for air and rail transport, and has fairly efficient domestic markets for goods and services (39th). In the course of the past years, the macroeconomic environment in the country has remained stable. The government continues to run a small deficit of about 3 percent; public debt appears manageable and is being reduced continuously; and inflation, although rising recently, remains largely under control. In light of the recent deterioration in the macroeconomic stability of many countries worldwide, this relative stability has lead to a significant improvement in rankings for Tunisia on the related pillar (55th). Moving forward, two priorities for Tunisia emerge from the GCI results in order to become more competitive. First, the country will have to tackle inefficiencies related to its labor market. The low ranking of 98th reflects in particular rigid employment regulations (108th) and wage-setting processes (118th), high taxes (108th), and the low participation of women in the labor force (124th). Second, the low confidence in the stability of the banking system (94th) and the efficiency of financial markets (68th) will need to be addressed. In particular, investors cannot rely on

the legal framework for protection of their rights (110th), and the sophistication of financial markets and restrictions on capital flows are considered burdensome by the business community (89th).

Egypt moves up 11 places to 70th in this year's GCI rankings, overtaking **Morocco** at 73rd and reflecting recent liberalization efforts in the country. The improvement in the overall ranking stems mainly from the upgrading of infrastructure across all categories and from positive developments related to labor market efficiency and, to an even greater extent, financial markets sophistication. Egypt's main competitive strengths are the sheer size of its market (26th), which allows businesses to exploit economies of scale; the fairly solid private institutions (53rd); and the satisfactory quality of the transport and energy networks (55th overall).The challenges, on the other hand, are numerous. The labor market continues to be over-regulated, which diminishes its efficiency. Although some progress has been achieved, the persisting labor market rigidities are particularly worrisome. Inflexible hiring and firing procedures keep the country's many unemployed young people, a large number of whom are well educated, from entering the formal labor market, raising the risk of a degradation of human capital, brain drain from the country (123rd), and potentially causing social problems. Also, the participation of women in the labor force continues to be low (127th), despite some progress achieved in the context of a government program. Egypt continues to struggle with serious challenges related to macroeconomic stability (120th). Although government debt has been reduced somewhat (from 105.8 percent of GDP in 2007 to 85.9 in 2008), the budget deficit and inflation continue to rise. The budget deficit has reached 6.8 percent of GDP (in 2008, 128th position), and inflation is also among the highest in the world at 11.7 (in 2008, 101st). Furthermore, Egypt's banking system continues to lack trustworthiness and solidity, as reflected in the 107th position in the rankings.

The regional ranking closes with **Libya** at 88th and **Syria** at 94th. Both countries display fairly solid public institutions (59th for Libya and 56th for Syria) and high levels of security (32nd and 17th, respectively), but face numerous serious challenges related to the inefficiency of their goods, labor, and financial markets. Libya has the additional advantage of a stable macroeconomic environment (4th), thanks to the significant gains in oil revenues realized in recent years.

Sub-Saharan Africa

South Africa, at 45th overall, remains the highest ranked country in sub-Saharan Africa, with a stable performance compared with last year. The country continues to benefit from the large size of its economy, particularly by regional standards (it is ranked 24th in the market size pillar). South Africa does well on measures of the quality of institutions and factor allocation, such as intellectual property protection (24th), the accountability of private institutions (5th), and goods market efficiency (35th). In this area there has been a notable improvement in the evaluation of the country's financial markets, which have increased in rank from 24th last year to a very high 5th this year, indicating strong confidence in South Africa's financial markets at a time when trust has been eroded in many other parts of the world. South Africa also does reasonably well in more complex areas such as business sophistication (36th) and innovation (41st), benefiting from good scientific research institutions (ranked 29th) and strong collaboration between universities and the business sector in innovation (ranked 25th). On the other hand, South Africa's competitiveness would be enhanced by tackling some enduring weaknesses. The country ranks 90th in labor market efficiency, with inflexible hiring and firing practices (125th), a lack of flexibility in wage determination by companies (123rd), and poor labor-employer relations (121st). Furthermore, the country's innovative potential could be at risk with a university enrollment rate of only 15 percent, which places the country 94th overall. In addition, South Africa's infrastructure, although good by regional standards, requires upgrading (ranked 45th). In this light, the improvements in transport infrastructure related to the 2010 World Cup is a welcome development that should reinforce South Africa's competitiveness. The poor security situation remains another important obstacle to doing business in South Africa. The business costs of crime and violence (133rd) and the sense that the police are unable to provide protection from crime (106th) do not contribute to an environment that fosters competitiveness. Another major concern remains the health of the workforce, ranked 127th out of 133 countries, the result of high rates of communicable diseases and poor health indicators more generally. Improvements in these areas will enhance South Africa's competitiveness outlook.

Mauritius is ranked 57th this year, the same ranking it held last year, and the second-highest in sub-Saharan Africa. The country is characterized by strong and transparent public institutions, with clear property rights, strong judicial independence, and a security situation that is good by regional standards (44th). Private institutions are rated as accountable and improving (ranked 22nd), with strong auditing and accounting standards and a system that protects minority shareholders' interests. The country's infrastructure is well developed by regional standards, particularly roads, air transport, and telephony. Health standards are also impressive compared with other sub-Saharan African countries. Further, both goods and financial markets function well (ranked 37th and 26th, respectively), with improvements registered in both

areas since last year. However, efforts continue to be required in the area of education. Educational enrollment rates remain somewhat low, particularly at the university level (placing Mauritius 97th); education spending is low; and the educational system gets mediocre marks for quality. Beyond the educational weaknesses, labor markets could be made more flexible, with stringent hiring and firing laws (87th) and wages that are not flexibly determined (105th), although there have been measurable improvements in this area since last year.

After climbing significantly in the rankings last year, **Botswana** falls back by 10 places to 66th, although it is still in the top half of the rankings and counted as one of the three most competitive economies in the region. Among the country's strengths are its reliable and legitimate institutions, ranking 16th worldwide for the efficiency of government spending, 19th for public trust of politicians, and 27th for judicial independence. Botswana is rated as the country with the lowest corruption in Africa (ranked 22nd overall, on a par with countries such as Austria and Germany). Over past years, the transparency and accountability of public institutions have contributed to a stable macroeconomic environment, although there has been a weakening in this area since last year, dropping from 22nd to 41st. Botswana's primary weaknesses are related to the country's human resources base. Despite high spending on education, educational enrollment rates at all levels of the educational ladder remain low by international standards (ranked 111th, 92nd, and 115th for primary, secondary, and tertiary enrollment, respectively), 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 is the health situation in the country. Botswana's HIV prevalence rate remains very high (ranked 133rd), as well as the incidence of malaria (94th) and tuberculosis (130th). However, these rates are for the most part coming down, leading to an improvement in life expectancy from 52 to 56 years by the most recent estimate. Continuing to improve the health and education levels of the workforce remain the key priorities for improving Botswana's competitiveness.

Namibia has moved up six ranks to 74th place this year, with small improvements across most of the areas measured by the GCI. Among Namibia's comparative strengths is the quality of the institutional environment (ranked 37th, up from 42nd last year). Property rights are well protected (ranked 21st), the judiciary is perceived as independent from undue influence (21st), and there is strong public trust in politicians (27th).The quality of the country's infrastructure, most particularly its transport infrastructure, is also excellent by regional standards (ranked 32nd). Goods and labor markets (77th) function fairly well by regional standards, and both have seen improvements in their functioning since last year. Financial markets also function particularly well, with the rank in this pillar going up from 53rd to 31st this year, with particular advances in aspects related to trustworthiness and confidence. The country also continues to be characterized by reasonable macroeconomic management, although this is an area that has weakened since last year, falling from 27th to 66th overall, a drop mainly attributable to the government's deficit spending. With regard to weaknesses, Namibia's health and education indicators are worrisome. The country is ranked a low 115th 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 assessment of the quality of the educational system remains poor, ranked 104th. In addition, the country could do more to harness new technologies to improve its productivity levels, with low penetration rates of new technologies such as mobile phones and the Internet.

Kenya, ranked 98th, has fallen five places this year, with a weakening especially in its institutional environment. Kenya's key strengths continue to be found in the more complex areas measured by the GCI. For example, Kenya's innovative capacity is ranked an impressive 48th, with high company spending on research and development and good scientific research institutions collaborating well with the business sector in research activities. Supporting this innovative potential is an educational system that—although reaching a relatively small proportion of the population compared with most other countries—gets good marks for quality (34th) as well as for on-the-job training (44th).The economy is also supported by financial markets that are sophisticated by international standards (37th), 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 Kenya's overall competitive potential. As mentioned above, the country's public institutions are assessed as increasingly inefficient (ranked 117th, down from 100th last year), plagued by undue influence (120th), government inefficiency (101st), and high and rising corruption (116th, down from 101st last year). The security situation in Kenya is also worrisome, particularly in regard to crime and violence (122nd), the potential of terrorism (127th), and the prevalence of organized crime (118th). Health is another area of serious concern (ranked 119th), with a high prevalence of communicable diseases contributing to the low life expectancy of 54 years.

Nigeria is ranked 99th this year, down five places since last year. The country's greatest area of strength remains its macroeconomic environment (ranked 20th), with the government running budget surpluses, a high national savings rate, and low national debt. Nigeria also benefits from a relatively large market (42nd),

providing its companies with opportunities for economies of scale. Factor markets also function relatively well by regional standards, with goods, labor, and financial markets ranked 62nd, 61st, and 57th, respectively. On the other hand, Nigeria's economy is characterized by weak institutions (ranked 102nd), including a serious security problem (117th), high levels of corruption (122nd), and government spending that is perceived as wasteful (120th). It also receives poor assessments for its infrastructure (127th) as well as health and primary education (132nd). In addition, the country is not harnessing the latest technologies for productivity enhancements, as demonstrated by its low rates of ICT penetration.

Tanzania has seen an impressive improvement this year of 13 ranks, up to 100th place, and directly following Kenya and Nigeria in the overall rankings. The country benefits from public institutions that are characterized by reasonable public trust of politicians (ranked 61st), relative government evenhandedness in its dealings with the private sector (ranked 60th) and a security situation that is good by regional standards (ranked 64th). In addition, some aspects of the labor markets lend themselves to efficiency, such as the high female participation in the labor force (ranked 4th) and reasonable taxation and firing costs. There has also been a measurable improvement in the sophistication of financial markets, up from 90th to 74th place this year. But Tanzania demonstrates weaknesses throughout most of the other areas measured by the Index. Infrastructure in the country is underdeveloped (ranked 123rd), with poor-quality roads, ports, and electricity supply, and few telephone lines. And although primary education enrollment is commendably high (25th), enrollment rates at the secondary and university levels are among the lowest in the world (ranked 125th and 129th, respectively). Related to the education level of the workforce, the adoption of new technologies is low in Tanzania (ranked 120th), with very low uptake of ICTs such as the Internet and mobile telephony. In addition, the quality of the educational system receives a poor assessment. And the basic health of the workforce is also a serious concern, ranked 118th in this area, with poor health indicators and high levels of diseases such as malaria, tuberculosis, and HIV.

Ghana is ranked 114th this year, down 12 ranks since last year. Ghana continues to display excellent public institutions and governance indicators, for which it has often been commended by international leaders in recent years, having notably seen a peaceful transition of political power through presidential elections. The weakening of Ghana's performance is attributable to a deterioration of the country's macroeconomic stability since last year. Overall, Ghana's institutions are ranked 68th, with reasonable public trust of politicians (ranked 62nd), relative judicial independence (69th), and corruption levels lower than in most other countries of the region (71st for ethics and corruption). Some aspects of the country's infrastructure are also good by regional standards, particularly roads and ports, which are ranked 76th and 69th, respectively. Financial markets are also relatively sophisticated (ranked 59th). On the other hand, education levels continue to lag behind international standards at all levels, goods and 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, the country is characterized by high and increasing macroeconomic instability, having gone from 121st on this pillar last year to a very low 129th this year. The government is running high and increasing fiscal deficits, debt levels are high, inflation is well into the double digits, and high interest rate spreads point to inefficiencies in the financial system.

Zimbabwe continues to be among the least competitive economies included in the GCI, ranked second to last at 132nd overall. The institutional environment continues to be ranked among the worst of all countries, with a complete absence of property rights (ranked last out of all countries at 133rd), high levels of corruption (122nd), and a lack of evenhandedness of the government in its dealings with the public (129th) as well as basic government inefficiency (124th). And even amid the international economic turmoil affecting so many countries, 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 133rd). Zimbabwe continues to carry out massive deficit spending, engendering unsustainable public debt. Raging hyperinflation that was unparalleled internationally recently pushed the government to suspend the printing of Zimbabwean dollars and to dollarize the economy in the early months of 2009.Weaknesses in other areas include health (ranked 128th in the health subpillar), low educational enrollment rates, and official markets that are functioning only with great difficulty (particularly with regard to goods and labor markets, ranked 130th and 125th, respectively).