The Global Competitiveness Index 2012–2013: Country Profile Highlights

The following sections discuss the findings of the GCI 2012–2013 for the top performers globally, as well as for a number of selected economies in each of the five following regions: Europe and North America, Asia and the Pacific, Latin America and the Caribbean, the Middle East and North Africa, and sub-Saharan Africa.

Top 10

As in previous years, this year's top 10 remain dominated by a number of European countries, with Switzerland, Finland, Sweden, the Netherlands, Germany, and the United Kingdom confirming their place among the most competitive economies. Along with the United States, three Asian economies also figure in top 10, with Singapore remaining the second-most competitive economy in the world, and Hong Kong SAR and Japan placing 9th and 10th.

Switzerland retains its 1st place position again this year as a result of its continuing strong performance across the board. The country's most notable strengths are related to innovation and labor market efficiency, where it tops the GCI rankings, as well as the sophistication of its business sector, which is ranked 2nd. Switzerland's scientific research institutions are among the world's best, and the strong collaboration between its academic and business sectors, combined with high company spending on R&D, ensures that much of this research is translated into marketable products and processes reinforced by strong intellectual property protection. This robust innovative capacity is captured by its high rate of patenting per capita, for which Switzerland ranks a remarkable 2nd worldwide. Productivity is further enhanced by a business sector that offers excellent on-the-job-training opportunities, both citizens and private companies that are proactive at adapting the latest technologies, and labor markets that balance employee protection with the interests of employers. Moreover, public institutions in Switzerland are among the most effective and transparent in the world (5th). Governance structures ensure a level playing field, enhancing business confidence; these include an independent judiciary, a strong rule of law, and a highly accountable public sector. Competitiveness is also buttressed by excellent infrastructure (5th), well-functioning goods markets (7th), and highly developed financial markets (9th). Finally, Switzerland's macroeconomic environment is among the most stable in the world (8th) at a time when many neighboring economies continue to struggle in this area.

While Switzerland demonstrates many competitive strengths, maintaining its innovative capacity will require

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For further analysis of this year's national competitiveness landscape, see *The Global Competitiveness Report 2012–2013* with detailed profiles of all 144 economies as well as an interactive data platform are available at **www.weforum.org/gcr.**

boosting university enrollment, which continues to lag behind that of many other high-innovation countries, although this has been increasing in recent years.

Singapore retains its place at 2nd position as a result of an outstanding performance across the entire Index. The country features in the top 3 in seven of the 12 categories of the Index and appears in the top 10 of three others. Its public and private institutions are rated as the best in the world for the fifth year in a row. It also ranks 1st for the efficiency of its goods and labor markets, and places 2nd in terms of financial market development. Singapore also has world-class infrastructure (2nd), with excellent roads, ports, and air transport facilities. In addition, the country's competitiveness is reinforced by a strong focus on education, which has translated into a steady improvement in the higher education and training pillar (2nd) in recent years, thus providing individuals with the skills needed for a rapidly changing global economy.

Finland moves up one place since last year to reach 3rd position on the back of small improvements in a number of areas. Similar to other countries in the region, the country boasts well-functioning and highly transparent public institutions (2nd), topping several indicators included in this category. Its private institutions, ranked 3rd overall, are also seen to be among the best run and most ethical in the world. Finland occupies the top position both in the health and primary education pillar as well as the higher education and training pillar, the result of a strong focus on education over recent decades. This has provided the workforce with the skills needed to adapt rapidly to a changing environment and has laid the groundwork for high levels of technological adoption and innovation. Finland is one of the most innovative countries in Europe, ranking 2nd, behind only Switzerland, on the related pillar. Improving the country's capacity to adopt the latest technologies (ranked 25th) could lead to important synergies that in turn could corroborate the country's position as one of the world's most innovative economies. Finland's macroeconomic environment weakens slightly on the back of rising inflation (above 3 percent), but fares comparatively well when contrasted with other euro-area economies.

Sweden, overtaken by Finland, falls one place to 4th position. Like Switzerland, the country has been placing significant emphasis on creating the conditions for innovation-led growth. The quality of its public institutions remains first-rate, with a very high degree of efficiency, trust, and transparency. Private institutions also receive excellent marks, with firms that demonstrate excellent ethical behavior. Nevertheless, we registered a slight but consistent deterioration in the country's institutional framework over the past three years. Additional strengths include goods and financial markets that are very efficient, although the labor market could be more flexible (ranking 92nd on the flexibility subpillar). Combined with a strong focus on education over the years and a high level of technological readiness (1st), Sweden has developed a very sophisticated business culture (5th) and is one of the world's leading innovators (4th). Last but not least, the country boasts a stable macroeconomic environment (13th), with a balanced budget and manageable public debt levels. These characteristics come together to make Sweden one of the most productive and competitive economies in the world.

The **Netherlands** continues to progress in the rankings, moving up to 5th place this year. The improvement reflects a continued strengthening of its innovative capacity as well as the heightened efficiency and stability of its financial markets. Overall, Dutch businesses are highly sophisticated (4th) and innovative (9th), and the country is rapidly and aggressively harnessing new technologies for productivity improvements (9th). Its excellent educational system (ranked 5th for health and primary education and 6th for its higher education and training) and efficient markets—especially its goods market (6th)—are highly supportive of business activity. And although the country has registered fiscal deficits in recent years (5.0 percent of GDP in 2011), its macroeconomic environment is more stable than that of a number of other advanced economies. Last but not least, the quality of its infrastructure is among the best in the world, reflecting excellent facilities for maritime, air, and railroad transport, ranked 1st, 4th, and 9th, respectively.

Germany maintains its position at 6th place this year. The country is ranked an excellent 3rd for the quality of its infrastructure, boasting in particular first-rate facilities across all modes of transport. The goods market is quite efficient, characterized by intense local competition (8th) and low market dominance by large companies (2nd). Germany's business sector is very sophisticated, especially when it comes to production processes and distribution channels, and German companies are among the most innovative in the world, spending heavily on R&D (4th) and displaying a high capacity for innovation (3rd)—traits that are complemented by the country's well-developed ability to absorb the latest technologies at the firm level (16th). These attributes allow Germany to benefit greatly from its significant market size (5th), which is based on both its large domestic market and its strong exports. On a less positive note and despite some efforts, Germany's labor market remains rigid (119th for the labor market flexibility subpillar), where a lack of flexibility in wage determination and the high cost of firing hinder job creation, particularly during business cycle downturns. In addition, improving the quality of the educational system—where the country continues to trail its top 10 peers at 28th place—could serve as an important basis for sustained innovation-led growth. In view of continued economic difficulties in the euro area, Germany's performance in the macroeconomic pillar remains remarkably stable, with the country even registering a reduction in the fiscal deficit to –1 percent of GDP, but concerns about potential effects of the European sovereign debt crisis are reflected in the downgrading of the country's credit rating.

The **United States** continues the decline that began a few years ago, falling two more positions to take 7th place this year. Although many structural features continue to make its economy extremely productive, a number of escalating and unaddressed weaknesses have lowered the US ranking in recent years. US companies are highly sophisticated and innovative, supported by an excellent university system that collaborates admirably with the business sector in R&D. Combined with flexible labor markets and the scale opportunities afforded by the sheer size of its domestic economy—the largest in the world by far—these qualities continue to make the United States very competitive.

On the other hand, some weaknesses in particular areas have deepened since past assessments. The business community continues to be critical toward public and private institutions (41st). In particular, its trust in politicians is not strong (54th), perhaps not surprising in light of recent political disputes that threaten to push the country back into recession through automatic spending cuts. Business leaders also remain concerned about the government's ability to maintain arms-length relationships with the private sector (59th), and consider that the government spends its resources relatively wastefully (76th). A lack of macroeconomic stability continues to be the country's greatest area of weakness (111th, down from 90th last year). On a more positive note, measures of financial market development continue to indicate a recovery, improving from 31st two years ago to 16th this year in that pillar, thanks to the rapid intervention that forced the deleveraging of the banking system from its toxic assets following the financial crisis.

The **United Kingdom** (8th) continues to make up lost ground in the rankings this year, rising by two more places and now settling firmly back in the top 10. The country improves its performance in several areas, benefitting from clear strengths such as the efficiency of its labor market (5th), in sharp contrast to the rigidity of those of many other European countries. The United Kingdom continues to have sophisticated (8th) and innovative (10th) businesses that are highly adept at harnessing the latest technologies for productivity improvements and operating in a very large market (it is ranked 6th for market size). The financial market also continues its recovery, ranked 13th, up from 20th last year. All these characteristics are important for spurring productivity enhancements. On the other hand, the country's macroeconomic environment (110th, down from 85th last year) represents the greatest drag on its competitiveness, with a fiscal deficit nearing 9 percent in 2011, an increase of 5 percentage points in public debt amounting to 82.5 percent of GDP in 2011 (127th) and a comparatively low national savings rate (12.9 percent of GDP in 2011, 113th).

As the second-placed Asian economy behind Singapore (2nd), **Hong Kong SAR** rises to 9th position while slightly improving its score. The territory's consistently good performance is reflected in very good showing across most of the areas covered by the GCI. As in previous years, Hong Kong tops the infrastructure pillar, reflecting the outstanding quality of its facilities across all modes of transportation and its telephony and electricity infrastructure. Moreover, the economy's financial markets are second to none, revealing high efficiency and trustworthiness and stability of the banking sector. The dynamism and efficiency of Hong Kong's goods market (2nd) and labor market (3rd) further contribute to the economy's very good overall positioning. To maintain and enhance its competitiveness going forward, continued improvements in two important areas—higher education (22nd) and innovation (26th)—will be necessary. Although the quality of education in Hong Kong is good (12th), participation remains below levels found in other advanced economies (53rd). Improving educational outcomes will also help boost Hong Kong's innovative capacity, which remains constrained by the limited availability of scientists and engineers (36th), among other things.

Japan falls one place to rank 10th this year, with a performance similar to that of last year. The country continues to enjoy a major competitive edge in business sophistication and innovation, ranking 1st and 5th, respectively, in these two pillars. Company spending on R&D remains high (2nd) and Japan benefits from the availability of many scientists and engineers buttressing a strong capacity for innovation. Indeed, in terms of innovation output, this pays off with the fifth-highest number of patents per capita. Further, companies operate at the highest end of the value chain, producing high-value-added goods and services. The country's overall competitive performance, however, continues to be dragged down by severe macroeconomic weaknesses (124th), with the second-highest budget deficit in this year's sample (143th). Repeated over recent years, this has led to the highest public debt levels in the entire sample (nearly 230 percent of GDP in 2011). In addition, we observe a downward assessment of labor market efficiency (from 13th two years ago to 20th place this year), with the business sector perceiving the alignment between pay and productivity, hiring and firing practices, and brain drain less favorably than in previous years.

Europe and North America

European economies have faced a number of challenges in the past few years. Although they had been recovering from the significant difficulties brought about by the global economic crisis, rising concerns about the sustainability of sovereign debt in Greece and a number of other European countries continue to raise questions about the viability of the euro. Most recently this has led to a double-dip recession in several countries in the region, rising inflation, and great concern about the effects of these difficulties on other parts of the world. Despite these challenges, several European countries continue to feature prominently among the most competitive economies in the world. As described above, six of them are among the top 10. In total, ten are among the top 20, as follows: Switzerland (1st), Finland (3rd), Sweden (4th), the Netherlands (5th), Germany (6th), the United Kingdom (8th), Denmark (12th), Norway (15th), Austria (16th), and Belgium (17th). However, Europe is also a region with significant disparities in competitiveness,[1] with several countries from the region significantly lower in the rankings (with Spain at 36th, Italy at 42nd, Portugal at 49th, and Greece at 96th). As in previous years, the two countries from North America feature among the most competitive economies worldwide, with the United States occupying the 7th position and Canada the 14th.

Denmark loses four positions this year, placing 12th, with a weakening in the assessments of its institutions and financial markets. Similar to its Nordic neighbors, the country benefits from one of the best functioning and most transparent institutional frameworks in the world (14th), although there has been some decline in this area since last year. Denmark also continues to receive a first-rate assessment for its higher education and training system (14th), which has provided the Danish 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. A continued strong focus on education would help to reverse the downward trend (from 3rd place in 2010 to 14th this year) and to maintain the skill levels needed to provide the basis for sustained innovation-led growth. A marked difference from the other Nordic countries relates to labor market flexibility, where Denmark (8th) continues to distinguish itself as having one of the most efficient labor markets internationally, with more flexibility in setting wages, firing, and therefore hiring, more workers than in the other Nordics and than most European countries more generally.

Canada falls two positions to 14th place in this year's rankings. Although Canada continues to benefit from highly efficient markets (with its goods, labor, and financial markets ranked 13th, 4th, and 11th, respectively), well-functioning and transparent institutions (11th), and excellent infrastructure (13th), it is being dragged down by a less favorable assessment of the quality of its research institutions and the government's role in promoting innovation through procurement practices. In a similar fashion, although Canada has been successful in nurturing its human resources compared with other advanced economies (it is ranked 7th for health and primary education and 15th for higher education and training), the data suggest a slight downward trend of its performance in higher education (ranking 8th place on higher education and training two years ago), driven by lower university enrollment rates and a decline in the extent to which staff is being trained at the workplace.

Norway is ranked 15th this year, up by one place and showing progress in a number of areas. Specifically, the country features a notable improvement in its innovative capacity (up from 20th to 15th place), driven by improved R&D spending by business, a better collaboration between the business sector and academia, and increased government procurement of advanced technological products. However, looking forward, reversing the downward trend in the availability of scientists and engineers (from 18th two years ago to 42nd in 2011) will be critical to maintain the country's high level of innovative activity. Similar to the other Nordic countries, Norway is further characterized by well-functioning and transparent public institutions; private institutions also get admirable marks for ethics and accountability. Markets in the country are efficient, with labor and financial markets ranked 18th and 7th, respectively. Productivity is also boosted by a good uptake of new technologies, ranked 13th overall for technological readiness. Moreover, Norway's macroeconomic environment is ranked an impressive 3rd out of all countries (up from 4th last year), driven by windfall oil revenues combined with prudent fiscal management. On the other hand, Norway's competitiveness would be further enhanced by continuing to upgrade its infrastructure (27th), fostering greater goods market efficiency and competition (28th), and further improving its environment for research and development.

Austria is ranked 16th this year, up three places since last year, with small improvements across a number of areas. The country benefits from excellent infrastructure (15th) and registers improvements in its innovation capacity (up three places from last year) on the back of resilient R&D spending and improvements in the business sophistication pillar (up one place for business sophistication). Education and training also gets strong marks, particularly for on-the-job training (3rd). Austria's competitiveness would be further enhanced by greater flexibility in the labor market (the country is ranked 72nd in this subpillar), and by continuing to improve the already excellent educational system.

Belgium is ranked 17th, down two ranks since last year. The country has outstanding health indicators and a primary education system that is among the best in the world (2nd). Belgium also boasts an exceptional higher education and training system (4th), with excellent math and science education, top-notch management schools, and a strong propensity for on-the-job training that contribute to an overall high capacity to innovate (11th). Its goods market is characterized by high levels of competition and an environment that facilitates new business creation. Business operations are also distinguished by high levels of sophistication and professional management. On the other hand, there are some concerns about government inefficiency (55th) and its highly distortionary tax system (140th), and its macroeconomic environment is burdened by persistent deficit spending and high public debt.

France is ranked 21st, down three places from last year on the back of falling confidence in public and private institutions (down four places) and the financial sector (down 13 places in trustworthiness). On a positive note, the country's infrastructure is among the best in the world (4th), with outstanding transport links, energy infrastructure, and communications. The health of the workforce and the quality and quantity of education are other strengths (ranked 21st for health and primary education and 27th for higher education and training). These elements have provided the basis for a business sector that is aggressive in adopting new technologies for productivity enhancements (France is ranked 14th for technological readiness). In addition, the sophistication of the country's business culture (21st in the business sophistication pillar) and its good position in innovation (17th in the innovation pillar, particularly in certain science-based sectors), bolstered by a well-developed financial market (27th) and a large market more generally (8th), are important attributes that help to boost the country's growth potential. On the other hand, France's competitiveness would be enhanced by injecting more flexibility into its labor market, which is ranked a low 111th both because of the strict rules on firing and hiring and the rather conflict-ridden labor-employer relations in the country. The tax regime in the country is also perceived as highly distortive to business decisions (128th).

Ireland moves up by two positions to 27th place this year after falling in recent editions of the *Report.* The country continues to benefit from a number of strengths, including its excellent health and primary education (12th) and strong higher education and training (20th), along with its well-functioning goods and labor markets, ranked 9th and 16th, respectively. These attributes have fostered a sophisticated and innovative business culture (ranked 18th for business sophistication and 21st for innovation). Yet the country's macroeconomic environment continues to raise significant concern (131st), although matters seem to be moving in the right direction following the government's massive bailout of the banking sector. Of related and continuing concern is also Ireland's financial market (108th), although this seems to be tentatively recovering since the trauma faced in recent years.

Iceland maintains its place at 30th position this year. Despite difficulties in recent years, Iceland continues to benefit from a number of clear competitive strengths in moving to a more sustainable economic situation. These include the country's top-notch educational system at all levels (6th and 13th in the health and primary education and higher education and training pillars, respectively) coupled with an innovative business sector (20th) that is highly adept at adopting new technologies for productivity enhancements (8th). Business activity is further supported by an extremely flexible labor market (12th) and well-developed infrastructure (20th). On the other hand, a weakened macroeconomic environment (123rd) and financial markets (97th) remain areas of concern.

Despite its very delicate macroeconomic situation and the well-known difficulties of its banking system that restricts the access to financing for local firms, **Spain** remains stable at 36th place. The country continues to benefit from world-class transport infrastructure facilities (10th) and a good use of ICT (24th). It also has one of the highest tertiary education enrollment rates (18th), which provides a large pool of skilled labor force that, if properly mobilized, could help the country's much-needed economic transition toward higher-value-added activities. Notwithstanding these strengths, Spain's competitive edge is hampered by its macroeconomic imbalances. Its difficulties in curbing the public deficit (135th), which continue to add to the already high public debt (112th), in addition to the severe difficulties of a segment of the banking system (109th), have resulted in a lack of confidence in the financial markets and the country's ability to access affordable financing from the international markets. The bond spread against stronger economies has relentlessly continued to grow, hindering the capacity of the country, its banking system, and finally its business sector to access affordable sources of financing (122nd). In addition, Spain's labor markets, while improving slightly, remain too rigid (123rd). The recently adopted structural reforms, both in the banking system and the labor market, should help in addressing these weaknesses once implemented. However, recent cuts in public research and innovation, coupled with the increasing difficulties of the private sector in obtaining funding for research and development activities, could continue to hold back the capacity of local firms to innovate (44th), which will be crucial to facilitate the economic transformation of the country.

Estonia and the **Czech Republic** remain the best performers within Eastern Europe, ranking 34th and 39th, respectively. As in previous years, the countries' competitive strengths are based on a number of common features. They rely on excellent education and highly efficient and well-developed goods and financial markets, as well as their strong commitment to advancing technological readiness, particularly in the case of Estonia. In addition, Estonia's 20th rank on macroeconomic stability reflects its relatively well managed public finances. The country's margin ahead of the rest of the region also reflects its more flexible and efficient labor markets (10th), which continue to be rigid in other countries, including in the Czech Republic (75th).

Poland reaffirms its 41st position this year. The country displays a fairly even performance across all 12 pillars of competitiveness. Notable strengths include its large market size (19th) and high educational standards, in particular its high enrollment rates (it is ranked 20th on the quantity of education subpillar). The financial sector is well developed (37th), and confidence in this sector has been increasing for a number of years to rank 14th this year. Indeed, banks are assessed as more sound than they were only three years ago, although additional strengthening will be necessary given the country's still mediocre 57th rank on this indicator. Further enhancing competitiveness will require a significant upgrading of transport infrastructure, which trails international standards by a considerable margin (ranked 103rd). Although some progress has been made in this area in the run up to the European Football Championships in 2012, it is not sufficient to create the step change necessary to better connect the different parts of the country. The business sector remains very concerned about some aspects of the institutional framework, including the overall efficiency of government (116th) and government regulation (131st). As Poland transitions to the innovation-driven stage of development, it will have to focus more strongly on developing capacities in R&D and business sophistication. Stronger R&D orientation of companies, easier access to venture capital, and intensified collaboration between universities and the private sector would help the country to move toward a more future-oriented development path.

Italy moves up by one place to reach the 42nd position this year. The country continues to do well in some of the more complex areas measured by the GCI, particularly the sophistication of its businesses, where it is ranked 28th, producing goods high on the value chain with one of the world's best business clusters (2nd). Italy also benefits from its large market size—the 10th largest in the world—which allows for significant economies of scale. However, Italy's overall competitiveness performance continues to be hampered by some critical structural weaknesses in its economy. Its labor market remains extremely rigid—it is ranked 127th for its labor market efficiency, hindering employment creation. Italy's financial markets are not sufficiently developed to provide needed finance for business development (111th). Other institutional weaknesses include high levels of corruption and organized crime and a perceived lack of independence within the judicial system, which increase business costs and undermine investor confidence—Italy is ranked 97th overall for its institutional environment. The efforts being undertaken by the present government to address such concerns, if successful, will be an important boost to the country's competitiveness.

Turkey moves up by 16 places this year to attain the 43rd spot. The country's economy grew by 8.4 percent in 2011 and benefits from considerable progress in a number of areas covered by the GCI. Macroeconomic stability has improved and the financial sector is assessed as more trustworthy and finance as more easily accessible for businesses. Improvements to the institutional framework and greater competition in local markets have also been registered; these will further strengthen the country's competitive position. Turkey's vibrant business sector derives important efficiency gains from its large domestic market (ranked 15th), which is characterized by intense local competition (16th). Turkey also benefits from its reasonably developed infrastructure (51st), particularly roads and air transport, although ports and the electricity supply require additional upgrading. In order to further enhance its competitiveness, Turkey must focus on building up its human resources base through better primary education and healthcare (63rd) and higher education and training (74th), increasing the efficiency of its labor market (124th), and reinforcing the efficiency and transparency of its public institutions (67th).

Portugal falls by four places in the rankings to 49th position. As in the case of other Southern European economies, Portugal continues to suffer from a deteriorating macroeconomic environment (116th)—despite the recent progress in curbing public deficits—and a worrisome state of the banking system (119th) that has shut down access to affordable financing, affecting the capacity of local firms to obtain loans (109th), equity (97th), or venture capital (97th) for their investment projects. In addition, labor markets are considered too rigid (137th) and the level of local competition low (82nd), mainly the result of a lack of liberalization in some services. Several of the structural reforms that Portugal has recently implemented are directed to addressing all these weaknesses. Ensuring their proper implementation will be crucial to increasing Portugal's competitive edge and leveraging its traditional strengths in terms of high-quality infrastructure (11th) and the highly educated population (29th). However, as for Spain, cuts in research and innovation and a drop in corporate innovation-related investments could continue to affect the capacity of firms to innovate (40th) and therefore the capacity of the country to transform its economy and move toward higher-value-added activities.

Following a protracted economic crisis, **Ukraine** bounces back to 73rd position in this year's GCI. The country's competitiveness benefits notably from a healthier macroeconomic environment than in previous years. The budget deficit was cut to 2.7 percent of GDP in 2011, the debt-to-GDP ratio fell somewhat, and inflation was reduced, although it still remains fairly high at almost 8 percent. Overall, Ukraine maintains its competitive strengths; these result from its large market size (38th) and a solid educational system that provides easy access to all levels of education (ranked 47th on higher education and training and 54th on primary education). The good educational outcomes provide a basis for further developing the innovation capacity of the country (71st). Putting economic growth on a more stable footing in future will require Ukraine to address important challenges. Arguably, the country's most important challenge is the needed overhaul of its institutional framework, which cannot be relied on because it suffers from red tape, lack of transparency, and favoritism. Ukraine could realize further efficiency gains from instilling more competition into the goods and services markets (117th) and continuing the reform of the financial and banking sector (114th).

Kazakhstan moves back up to 51st, a similar position to the one it held a few years ago. This improvement reflects progress in a number of areas, but most importantly in macroeconomic stability, where the country ranks 16th, and technological readiness, where it advances from 87th to 55th. Despite the progress achieved, important challenges related to health and primary education (92nd), business sophistication (99th), and innovation (103rd) remain.

The **Russian Federation,** at 67th place, drops one position since last year. A sharp improvement in the macroeconomic environment—up from 44th to 22nd position because of low government debt and a government budget that has moved into surplus—has not been enough to allow the country to compensate for the poorer assessment of its already weak public institutions (133rd) and the innovation capacity of the country (85th this year, down from 57th in the 2010–2011 edition of the GCI). The country suffers from inefficiencies in the goods (134th), labor (84th), and financial (130th) markets, where the situation is deteriorating for the second year in a row. The weak level of competition (136th)—caused by inefficient anti-monopoly policies (124th) and high restrictions on trade and foreign ownership as well as the lack of trust in the financial system (134th)—contributes to this inefficient allocation of Russia's vast resources, hampering higher levels of productivity in the economy. Moreover, as the country moves toward a more advanced stage of economic development, its lack of business sophistication (119th) and low rates of technological adoption (137th) will become increasingly important challenges for its sustained progress. On the other hand, its high level of education enrollment, especially at the tertiary level; its fairly good infrastructure; and its large domestic market (7th) represent areas that can be leveraged to improve Russia's competitiveness.

This year **Greece** falls another six places in the rankings to 96th, remaining the lowest-ranked country of the European Union. In the context of the ongoing sovereign debt crisis, Greece continues to fall in the macroeconomic environment pillar, dropping to rock bottom 144th position this year. Similarly, Greece's financial markets are assessed more poorly than in the past, down to 132nd from 110th last year, showing particularly low confidence on the part of investors. The evaluation of public institutions (e.g., government efficiency, corruption, undue influence) continues to suffer and is ranked a low 111th overall. Another major area of concern is the country's inefficient labor market (133th), which continues to constrain Greece's ability to emerge from the crisis, highlighting the importance of recent efforts to increase the retirement age and increase labor market flexibility. In working to overcome the present difficulties, Greece has a number of strengths on which it can build, including a reasonably well educated workforce that is adept at adopting new technologies for productivity enhancements. With the correct growth-enhancing reforms, there is every reason to believe that Greece will improve its competitiveness in the coming years.

Asia and the Pacific

As in previous years, the Asia and Pacific remains among the fastest-growing regions worldwide, and many of its economies have greatly improved their competitiveness over the past years. The excellent performance of some of the regional champions is reflected in the presence of six economies—Singapore; Hong Kong SAR; Japan; Taiwan, China; the Republic of Korea; and Australia—within the top 20. However, significant and growing differences persist in terms of the competitiveness performance within the region, with countries such as Bangladesh (118th), Pakistan (124th), and Nepal (125th) lagging further and further behind.

Taiwan, China, maintains its 13th position for the third year in a row. Its competitiveness profile is essentially unchanged and consistently strong. Notable strengths include its highly efficient markets for goods, where the economy ranks 8th; its solid educational performance (9th); and its sophisticated business sector (13th), which is inclined to innovate (14th). Strengthening competitiveness will require continued improvements to the economy's institutional framework as well as stabilizing its macroeconomic environment, which would require fiscal consolidation to reduce the budget deficit.

Reversing the negative trend of recent years, the **Republic of Korea** (19th) advances five positions and re-enters the top 20. Despite this clear improvement, the assessment remains uneven across the 12 pillars of the Index. The country boasts outstanding infrastructure (9th) and a sound macroeconomic environment (10th), with a government budget surplus above 2 percent of GDP and low level of public indebtedness. Furthermore, primary education (11th) and higher education (17th) are universal and of high quality. These factors, combined with the country's high degree of technological readiness (18th), partly explain the country's remarkable capacity for innovation (16th). However, three concerns persist—namely, the quality of its institutions (62nd), its labor market efficiency (73rd), and its financial market development (71th), even though Korea posts improvements in all three areas.

After losing four positions to faster-improving economies last year, **Australia** retains its rank of 20th and score of 5.1, just behind Korea. Among the country's most notable advantages is its efficient and well-developed financial system (8th), supported by a banking sector that counts as among the most stable and sound in the world, ranked 5th. The country earns very good marks in education, placing 15th in primary education and 11th in higher education and training. Australia's macroeconomic situation is satisfactory in the current context (26th). Despite repeated budget deficits, its public debt amounts to a low 23 percent of GDP, the third lowest ratio among the advanced economies, behind only Estonia and Luxembourg. The main area of concern for Australia is the rigidity of its labor market (42nd). Indeed, the business community cites the labor regulations as being the most problematic factor for doing business, ahead of red tape. In addition, although the situation has improved since last year, transport infrastructure continues to suffer bottlenecks owing to the boom in commodity exports.

Following improvements in last year's *Report,* **Malaysia** maintains its score but drops four places as other economies move ahead. The most notable advantages are found in Malaysia's efficient and competitive market for goods and services (11th) and its remarkably supportive financial sector (6th), as well as its business-friendly institutional framework. In a region where many economies suffer from the lack of transparency and the presence of red tape, Malaysia stands out as particularly successful at tackling those two issues. Yet, despite the progress achieved, much remains to be done to put the country on a more solid growth path. Its low level of technological readiness (51st) is surprising, especially given its achievements in other areas of innovation and business sophistication and the country's focus on promoting the use of ICT. Lack of progress in this area will significantly undermine Malaysia's efforts to become a knowledge-based economy by the end of the decade.

China (29th) loses some ground in this year's edition of the *Report.* After five years of incremental but steady progression, it has now returned to its 2009 level. The country continues to lead the BRICS economies by a wide margin,[2] ahead of second-placed Brazil (48th) by almost 20 ranks. Although China's decline is small—its overall score barely changes—it affects the rankings of every pillar of the GCI except market size. The deterioration is more pronounced in those areas that have become critical for China's competitiveness: financial market development (54th, down 6), technological readiness (88th, down 11), and market efficiency (59th, down 14). In this latter pillar, insufficient domestic and foreign competition is of particular concern, as the various barriers to entry appear to be more prevalent and more important than in previous years. On a more positive note, China's macroeconomic situation remains very favorable (11th), despite a prolonged episode of high inflation. China runs a moderate budget deficit; boasts a low, albeit increasing, government debt-to-GDP ratio of 26 percent; and its gross savings rate remains above 50 percent of GDP. The rating of its sovereign debt is significantly better than that of the other BRICS and indeed of many advanced economies. Moreover, China receives relatively high marks in health and basic education (35th) and enrollment figures for higher education are also on the rise, even though the quality of education—in particular the quality of management schools (68th)—and the disconnect between educational content and business needs (57th) in the country remain important issues.

After having fallen for six years in a row, **Thailand** (38th) halts the negative trend and improves by one place in this year's GCI. Yet the competitiveness challenges the country is facing remain considerable. Political and policy instability, excessive red tape, pervasive corruption, security concerns, and uncertainty around property rights protection seriously undermine the quality of the institutional framework on which businesses rely heavily. The country loses an additional 10 places in this category to rank a low 77th. Poor public health (71st) and basic education standards (89th), two other critical building blocks of competitiveness, require urgent attention. Turning to more sophisticated areas, which are just as important given Thailand's stage of development, technological adoption is generally poor (84th). Less than a quarter of the population accesses the Internet on a regular basis, and only a small fraction has access to broadband. On a more positive note, the macroeconomic environment continues to improve—albeit marginally (27th, up one spot)—as the budget deficit was reduced to less than 2 percent of GDP and the debt-to-GDP ratio dropped to 42 percent in 2011.

Indonesia drops four places in this year's edition, but maintains its score and remains in the top 50 of the GCI. The country remains one of the best performers within the developing Asia region, behind Malaysia, China, and Thailand yet ahead of the Philippines, Vietnam, and all South Asian nations. The country's performance varies considerably across the different pillars. Some of the biggest shortcomings are found in the "basic" areas of competitiveness. The institutional framework (72nd) is undermined by concerns about corruption and bribery, unethical behavior within the private sector, and the cost to business of crime and violence. Yet bureaucracy is less burdensome and public spending less wasteful than in most countries in the region, and the situation keeps improving. And infrastructure remains largely underdeveloped (78th). Furthermore, the public health situation is a cause of even more concern (103rd). By contrast, Indonesia provides almost universal basic education of satisfactory quality (51st) and the macroeconomic environment is stable, judging by the country's 25th rank on the related pillar. This macroeconomic stability is buoyed by its solid performance on fundamental indicators: the budget deficit is kept well below 2 percent of GDP, the public debt-to-GDP ratio amounts to only 25 percent, and the savings rate remains high. Inflation was reduced to around 5 percent in recent years after frequent episodes of double-digit inflation in the past decade. These positive developments are reflected in the improving, although still low, country credit rating.

Because the country has entered the efficiency-driven stage of development, its competitiveness increasingly depends on more complex elements, which should be addressed on a priority basis. In this context, addressing the many rigidities (134th) and inefficiencies of the labor market (70th) would allow for a smoother transition of the labor force to more productive sectors of the economy. Additional productivity gains could be reaped by boosting technological readiness (85th), which remains low, with the country exhibiting only a slow and limited adoption of ICT.

India ranks 59th overall, down three places from last year. Since reaching its peak at 49th in 2009, India has lost 10 places. Once ahead of Brazil and South Africa, India now trails them by some 10 places and lags behind China by a margin of 30 positions. India continues to be penalized for its disappointing performance in the areas considered to be the basic factors underpinning competitiveness. The country's supply of transport, ICT, and energy infrastructure remains largely insufficient and ill-adapted to the needs of the economy (84th). Indeed, the Indian business community repeatedly cites infrastructure as the single biggest hindrance to doing business, well ahead of corruption and bureaucracy. It must be noted, however, that the situation has been slowly improving since 2006. The picture is even bleaker in the health and basic education pillar (101st). Despite improvements across the board over the past few years, poor public health and education standards remain a prime cause of India's low productivity. Turning to the country's institutions, discontent within the business community remains high about the lack of reforms and the perceived inability of the government to push them through. Indeed, public trust in politicians (106th) has been weakening for the past three years. Once ranked a satisfactory 37th in this dimension, India now ranks 70th. Meanwhile, the macroeconomic environment (99th) continues to be characterized by large and repeated public deficits and the highest debt-to-GDP ratio among the BRICS. On a more positive note, inflation returned to single-digit territory in 2011.

Despite these considerable challenges, India does possess a number of strengths in the more advanced and complex drivers of competitiveness. This "reversed" pattern of development is characteristic of India. It can rely on a fairly well developed and sophisticated financial market (21st) that can channel financial resources to good use, and it boasts reasonably sophisticated (40th) and innovative (41th) businesses.

Ranked 65th, the **Philippines** is one of the countries showing the most improvement in this year's edition. Indeed, it has advanced 22 places since reaching its lowest mark in 2009. The Philippines makes important strides this year in improving competitiveness—albeit often from a very low base—especially with respect to its public institutions (94th, up 23 places). Trust in politicians has made considerable progress (95th, up 33), although significant room for improvement remains. The perception is that corruption (108th, up 11) and red tape (108, up 18) are finally being addressed decisively, even though they remain pervasive. The macroeconomic environment also exhibits marked improvement (36th up 18) and represents one of the strongest aspects of the Philippine's performance, along with its market size (35th). In addition, the financial sector has become more efficient and increasingly supportive of business activity (58th, up 13). Despite these very positive trends, many weaknesses remain to be addressed. The country's infrastructure is still in a dire state, particularly with respect to sea (120th) and air transport (112th), with little or no progress achieved to date. Furthermore, various market inefficiencies and rigidities continue, most notably in the labor market (103rd).

Vietnam ranks 75th this year and switches positions with the Philippines. Over the last two editions, Vietnam has lost 16 places and is now the second-lowest ranked among eight members of the Association of Southeast Asian Nations (ASEAN) covered by the *Report.* The country loses ground in 9 of the 12 pillars of the GCI. It ranks below 50th in all of the pillars, and dangerously close to the 100th position on a majority of them. As a sign of its fragility and extreme volatility, Vietnam plunges 41 places in the macroeconomic environment pillar to 106th after it had recorded a 20-place gain in the previous edition. Inflation approached

20 percent in 2011, twice the level of 2010, and the country's sovereign debt rating worsened. In an effort to stem inflation, the State Bank of Vietnam tightened its monetary policy, thus making access to credit more difficult. Infrastructure (95th), strained by rapid economic growth, remains a major challenge for the country despite some improvement in recent years, with particular concerns about the quality of roads (120th) and ports (113th). Public institutions are characterized by rampant corruption and inefficiencies of all kinds. Respect of property rights (113th) and protection of intellectual property (123rd) are all insufficient according to the business community. Private institutions suffer from poor ethics and particularly weak accountability (132nd). Among Vietnam's few competitive strengths are its fairly efficient labor market (51st), its large market size (32nd), and a satisfactory performance in the public health and basic education pillar (64th). The challenges going forward are therefore numerous and significant and will require decisive policy action in order to put the country's growth performance on a more stable footing.

Latin America and the Caribbean

Latin America and the Caribbean has continued to grow steadily in the past year at an average rate of 4.5 percent. Strong external demand for local commodities, especially from China and other Asian economies, coupled with good macroeconomic management have allowed the countries in the region to put their short- and medium-term growth outlooks on a "glide path to steady growth."[3] With expected growth rates of 3.4 percent and 4.2 percent for 2012 and 2013, respectively, the region is expected to continue to outperform the rest of the world.

Despite this rather optimistic outlook, the region may face the interrelated potential headwinds of a less robust recovery in the United States, a deceleration in the economic growth of China and other Asian emerging economies, and the sovereign debt crisis in Southern Europe that is affecting the economic growth forecast in all of Europe. Against this backdrop, boosting national competitiveness by raising productivity is the best way to ensure economic growth over the longer term and increase the region's resilience to economic shocks.

Over the past year, although several countries have once again made good progress in raising competitiveness, the region as a whole continued to face important competitiveness challenges. These pertain in particular to a weak institutional set-up with high insecurity, poor infrastructure, inefficient allocation of production resources caused by insufficient levels of competition, and a low capacity to generate new knowledge to strengthen R&D innovation in the region. Addressing these weaknesses will allow countries in Latin America and the Caribbean to be better connected not only among themselves but also to the rest of the world, and to boost productivity levels.

Despite a slight drop of two positions, **Chile,** at 33rd place, shows a rather stable performance and remains the most competitive economy in Latin America. A very solid macroeconomic framework (14th) with very low levels of public debt (10th) and a government budget in surplus (21st), coupled with well-functioning and transparent public institutions (28th) and fairly well developed transport infrastructures (40th), provide Chile with a solid foundation on which to build and maintain its competitiveness leadership in the region. Moreover, the country's traditional liberalization policies and its openness to trade have resulted in flexible and efficient markets that ensure a good allocation of resources in the goods (30th), labor (34th), and financial (28th) markets. Notwithstanding these important strengths, Chile also presents a number of challenges in terms of improving the quality of its educational system (91st), which has created a heated public debate in the country. It also needs to increase the use of ICT (57th) and strengthen its national research and innovation system (44th). Further competitiveness gains will be contingent on successfully addressing these weaknesses. As the economy steadily moves toward a higher stage of development, many economic activities will require higher levels of skills and innovation in order to increase their competitiveness potential.

Panama, at 40th place and nine ranks up since last year, continues its steady progress and consolidates its position as the most competitive economy in Central America. Panama leverages its traditional strengths with its very good transport infrastructure (33rd), especially for ports (4th); its macroeconomic stability (53rd), despite the worrying inflation rate of nearly 6 percent; its efficient financial markets (9th); and its relatively high levels of competition (31st) and openness to FDI (9th). The country has also made progress in addressing some of the most pressing weaknesses that have traditionally hindered its competitiveness potential. More precisely, Panama seems to be improving the quality of its educational system compared with last year, although it still remains a very important challenge (112th). Corporate R&D investments (34th) appear now to contribute more to improving the country's innovative capacity (94th), which remains one of the biggest challenges to diversifying the national economy. However, little progress is observed in Panama's institutional set-up, where public trust in politicians (101st) is low, security (96th) remains a general concern, and judicial independence is deemed one of the lowest in the region (132nd). Strengthening the functioning of the institutions and persisting with improvements to its education, research, and innovation systems will be crucial for Panama to continue raising its competitiveness performance.

The continued deterioration of the macroeconomic framework has led **Barbados** to fall two notches in the rankings, to 44th place. With one of the lowest national savings rates (136th) and one of the highest government debt levels (139th), the macroeconomic conditions in the country (134th) are strangling the access of businesses to financing through local equity markets (92nd), loans (79th), or venture capital (94th). As a result, the business community continues to face important challenges in engaging in new investment projects. Notwithstanding these serious weaknesses, which sharply affect economic activity, the country still benefits from well-functioning institutions (24th) and good infrastructure (22nd). Moreover, a very high quality educational system (11th), a high use of ICT (32nd), and a fairly sophisticated business community (36th) help foster innovation in a service-oriented economy despite the low R&D investment (72nd) and technological innovation capacity (91st).

Entering the top 50, **Brazil** goes up five positions to attain 48th place on the back of a relative improvement in its macroeconomic condition—despite its still-high inflation rate of nearly 7 percent—and the rise in the use of ICT (54th). Overall, Brazil's fairly sophisticated business community (33rd) enjoys the benefits of one of the world's largest internal markets (7th), which allows for important economies of scale and continues to have fairly easy access to financing (40th) for its investment projects. Notwithstanding these strengths, the country also faces important challenges. Trust in politicians remains low (121st), as does government efficiency (111th) because of excessive government regulation (144th) and wasteful spending (135th). The quality of transport infrastructure (79th) remains an unaddressed long-standing challenge and the quality of education (116th) does not seem to match the increasing need for a skilled labor force. Moreover, despite increasing efforts to facilitate entrepreneurship, especially for small companies, the procedures and time to start a business remain among the highest in the sample (130th and 139th, respectively) and taxation is perceived to be too high and to have distortionary effects (144th).

Mexico, at 53rd place, moves up five positions and consolidates last year's positive trend, with small improvements in seven of the 12 pillars. Overall, the country boasts several competitiveness strengths, including its large and deep internal market (11th), a sound macroeconomic framework (40th), fairly good transport infrastructure (41st), and fairly sophisticated businesses (44th). Notwithstanding these strengths, Mexico still faces persistent structural challenges that will need to be addressed in order to continue improving the competitive edge of the economy. The functioning of public institutions is still poorly assessed (100th) because of the high costs associated with the lack of security (137th) and the low trust of the business community in politicians (97th). The functioning of the labor market is considered inefficient (102nd) because of rigidities in hiring and firing practices (113th) and the relatively low female participation (121st). The lack of effective competition (100th), especially in some key strategic sectors, also hinders an efficient allocation of resources that spills over into most sectors of the economy. Finally, Mexico's innovative potential is hampered by the low quality of education (100th) especially in math and science (124th), the low use of ICT (81st), and the low uptake by businesses of new technology to spur productivity improvements and innovation (75th).

Costa Rica bounces back four positions to 57th place. An improvement in the macroeconomic conditions of the country thanks to a lower budget deficit and decreasing government debt, coupled with an increase in ICT use, have allowed Costa Rica to obtain this better result. The country leverages its well-functioning public institutions (55th) despite the high costs associated with crime (85th) endemic in the region, the perception of high wastefulness of government spending (105th), and falling trust in politicians (64th). Moreover, Costa Rica has one of the highest innovation potentials in the region thanks to a high-quality educational system (21st), an acceptable use of ICT (58th), and an above-average capacity to innovate and use available technology (39th). Notwithstanding these strengths, the country still faces significant challenges that it must address to improve its competitive edge. The quality of transport infrastructure is poor (116th), procedures to start a business are lengthy (130th), and available financing for businesses—especially through local equity markets—is scarce (122nd), affecting the conditions for entrepreneurship.

Continuing its rise of the past several years, **Peru** climbs six positions in the rankings to reach 61st place. Further improvements to the already-good macroeconomic situation of the country (where it ranks 21st)—despite a rise in inflation—have buttressed this upward trend, while the situation in most of the other pillars has remained stable or slightly deteriorated. Overall Peru continues to enjoy the benefits of its liberalization policies that have supported the high levels of efficiency in the goods (53rd), labor (45th), and financial markets (45th). However, the country still faces important challenges for strengthening the functioning of its public institutions (118th), where government efficiency (100th) caused by excessive red tape (128th) and weak judicial independence are questioned. Moreover, the quality of its transport infrastructure (97th) needs to be improved. Furthermore, as the economy moves to higher levels of development and explores ways to diversify away from its large mining sector, its low quality of education (132nd), poor use of ICT (89th), and low R&D and technological capacity (118th) work against developing the country's overall capacity to innovate and move toward higher-value-added activities.

Despite the slight decline of one position, **Colombia** shows a relatively stable picture at 69th place. An improvement in macroeconomic conditions (34th) thanks to the reduction of the government deficit and debt values has compensated for slight drops in those pillars that have traditionally represented competitiveness challenges: weak public institutions (122nd), the poor quality of its transport infrastructure (114th), the poor quality of education in the country (77th), and its low research and innovation capacity (70th). As the economy continues to improve steadily, with a growth rate of 4.5 percent, unaddressed challenges in these areas that hinder the competitive edge of national businesses seem to become more evident, despite recent policy efforts to address them. In order to further improve competitiveness, Colombia should address these weaknesses and further leverage its strengths in terms of the already-mentioned macroeconomic stability, its large and increasing domestic market (27th), and its relatively efficient financial market (55th).

Uruguay sustains one of the region's sharpest drops, falling 11 places in the rankings to 74th position. Despite important gains in reducing the procedures and time needed to start a business (29th and 25th, respectively) and slight increases in ICT use (46th) and market size (86th), Uruguay drops systematically in all the remaining eight pillars that drive competitiveness. Worrying inflationary pressures above 8 percent coupled with relatively high government debt (101th) have deteriorated the macroeconomic conditions (63rd) of the country and cast some doubt about the sustainability of recent growth rates. Although Uruguay still benefits from one of the best functioning institutional set-ups in the region (36th), there are rising concerns about excessive red tape (89th) and wasteful government spending (95th), as well as about the business cost of crime and violence (88th). Labor markets are considered very rigid (139th), with some of the world's most restrictive hiring and firing practices (138th) and a lack of flexibility in wage determination (144th) that does not match pay to productivity (143rd). As Uruguay's economy moves toward higher levels of development, some doubts arise about the ability of the traditionally praised educational system to generate the skills that businesses require (107th), the overall availability of scientist and engineers (117th), and the innovation capacity of the country more broadly (69th). Improving the macroeconomic management of the country while addressing its labor market conditions, along with enhancing its innovation capacity by improving the quality of its educational system and the technological capacity of indigenous firms, will be crucial to shift the declining trend.

In the bottom half of the rankings, at 83rd place, **Guatemala** goes up by one place this year. The country boasts some relative competitiveness strengths in terms of flexible labor regulations for hiring and firing staff (54th) and wage determination (43rd), efficient financial market development (41st), and the intensity of local competition (46th). However, its competitiveness is hampered by a weak public institutional set-up (130th) and hindered by the very high costs of crime and violence (144th) and low trust of the business community in politicians (122nd). Guatemala's very low level of innovation capacity is the result of a low-quality educational system (130th), scarce use of ICT (99th), and low R&D-related innovation investments (90th). The weak quality of its transport infrastructure (93rd) also negatively affects its national competitiveness.

Falling 10 places, **Argentina** drops to 94th position this year. The continued deterioration of the country's macroeconomic conditions (94th) coupled with a very negative assessment of the institutional set-up (138th) and the inefficient functioning of the goods (140th), labor (140th), and financial markets (131st) are the main reasons for this poor evaluation. It appears that the country fails to leverage the important competitiveness potential provided by its large domestic market (21st) that allows for important economies of scale, its relatively high levels of ICT use (56th), and its high number of university enrollment rates (20th) that should provide local firms with a skilled labor force. Argentina's weak government efficiency (142nd) and high levels of undue influence (140th), along with one of the lowest ratings in terms of trust in politicians (143rd), result in a poor evaluation of its institutional functioning. Structural reforms to improve the functioning of the goods markets by increasing domestic competition (143rd) and reducing the barriers to entrepreneurship, increase the flexibility of the labor markets (142nd), and ease access to financing by deepening the financial market could result in important efficiency gains that could boost Argentina's productivity.

Venezuela, at 126th place, falls two positions in the rankings. As it did last year, the country continues to rank last in terms of the functioning of public institutions (144th), with a very low trust of the business community in politicians or in judicial independence. This, coupled with weak macroeconomic management (126th) resulting in inflation rates above 20 percent and a budget deficit above 5 percent of national GDP, as well as poor transport infrastructure (135th), hampers the capacity of the country to count on a solid foundation for enhancing competitiveness. In addition, weaknesses in the functioning of the goods market do not allow for an efficient allocation of resources. Low domestic competition (144th), excessive red tape when starting a business (141st), and high trade tariffs (125th) as well as rules and regulations that deter FDI (144th) limit the efficiency of good markets. Rigidities in the labor market (144th) and weak financial development (133rd) also affect the development of business opportunities. Finally, although tertiary education enrollment is one of the highest in the world (11th), the quality of the educational system is assessed as poor (122nd). This and the low R&D spending (127th) contribute to the low innovation capacity of the country (134th).

The Middle East and North Africa

The Middle East and North Africa region continues to be affected by political turbulence that has impacted individual countries' competitiveness. Countries that embarked on partial reforms such as Jordan and Morocco move up in the rankings, while economies that were more significantly affected by unrest and political transformations tend to drop or stagnate in terms of national competitiveness. Addressing the unemployment challenge will remain the key economic priority of the region as a whole for the foreseeable future.

Qatar reaffirms once again its position as the most competitive economy in the region by moving up three places to 11th position, sustained by improvements in its macroeconomic environment, the efficiency of its markets for goods and services, and its institutional framework. Its strong performance in terms of competitiveness rests on solid foundations made up of a high-quality institutional framework, a stable macroeconomic environment (2nd), and an efficient goods market (10th). Low levels of corruption and undue influence on government decisions, high efficiency of government institutions, and high levels of security are the cornerstones of the country's very solid institutional framework, which provides a good foundation for heightening efficiency. Going forward, as noted in previous editions of this *Report,* reducing the country's vulnerability to commodity price fluctuations will require diversification into other sectors of the economy and reinforcing some areas of competitiveness. Qatar's efforts to strengthen its financial sector appear to be paying off, as the trustworthiness and confidence in the country's financial markets improved from 80th to 44th this year. However, the legal rights of borrowers and lenders remain underprotected (99th). Given its high wage level, diversification into other sectors will require the country to raise productivity by continuing to promote a greater use of the latest technologies (27th) and by fostering more openness to foreign competition—currently ranked at 42nd, reflecting barriers to international trade and investment.

Saudi Arabia maintains the second-best place in the region and falls by one position from 17th to 18th position overall. The country has seen a number of improvements to its competitiveness in recent years that have resulted in a solid institutional framework, efficient markets, and sophisticated businesses. Higher macroeconomic stability (6th) and more prevalent use of ICT for productivity improvements contribute to maintaining Saudi Arabia's strong position in the GCI. Its macroeconomic environment benefits from rising energy prices, which buoyed the budget balance into an even higher surplus in 2011. As much as the recent developments are commendable, the country faces important challenges going forward. Health and education do not reach the standards of other countries at similar income levels. Although some progress is visible in health outcomes, improvements are being made from a low level. As a result, the country continues to occupy low ranks in the health and primary education pillar (58th), and room for improvement remains on the higher education and training pillar (40th) as well. Boosting these areas, in addition to fostering a more efficient labor market (59th), will be of great significance to Saudi Arabia given its growing number of young people who will enter the labor market over the next several years. More efficient use of talent will increase in importance as global talent shortages loom on the horizon and the country attempts to diversify its economy, which will require a more skilled and educated workforce. Last but not least, although some progress has been recorded over the past years, the use of the latest technologies can be enhanced further (35th), especially as this is an area where Saudi Arabia continues to lag behind other Gulf economies.

The **United Arab Emirates** gains three places in the GCI to take the 24th position. The improvement reflects a better institutional framework as well as greater macroeconomic stability. Higher oil prices buoyed the budget surplus and allowed the country to reduce public debt and raise the savings rate. Overall, the country's competitiveness reflects the high quality of its infrastructure, where it ranks a very good 8th, as well as its highly efficient goods markets (5th). Strong macroeconomic stability (7th) and some positive aspects of the country's institutions—such as an improving public trust in politicians (3rd) and high government efficiency (7th)—round up the list of competitive advantages. Going forward, putting the country on a more stable development path will require further investment to boost health and educational outcomes. Raising the bar with respect to education will require not only measures to improve the quality of teaching and the relevance of curricula, but also incentivizing the population to attend schools at the primary and secondary levels.

Israel falls by four places to 26th in this year's GCI, reversing its upward trend of previous years. The country's main strengths remain its world-class capacity for innovation (3rd), which rests on highly innovative businesses that benefit from the presence of the world's best research institutions geared toward the needs of the business sector. Israel's excellent innovation capacity, which is supported by the government's public procurement policies, is reflected in the country's high number of patents (4th). Its favorable financial environment, particularly evident in the ease of access to venture capital (3rd), has contributed to making Israel an innovation powerhouse. Challenges to maintaining and improving national competitiveness relate to the need for the continued upgrading of institutions (34th) and a renewed focus on raising the bar in terms of the quality of education. If not addressed, poor educational quality—particularly in math and science (89th)—could undermine the country's innovation-driven competitiveness strategy over the longer term. As in previous years, the security situation remains fragile and imposes a high cost on business (65th). Room for improvement also remains with respect to the macroeconomic environment (64th), where increased budgetary discipline with a view to reducing debt levels (121st) would help the country maintain stability and support economic growth going into the future.

Jordan improves by seven positions to 64th rank. The country was considerably affected by the global financial and economic crisis in recent years. GDP growth slowed down to 2.3 percent annually in 2010 and has not returned to pre-crisis levels since (GDP growth was 8.2 percent in 2007). These growth rates are not sufficient to create the employment necessary to absorb the about 60,000 new entrants into the Jordanian labor market every year.[4] Boosting growth over the longer term to levels that would result in sustainable job creation will require Jordan's policymakers to address a number of challenges. Stabilizing the macroeconomic environment should remain on the agenda and should be accompanied by growth-enhancing structural reforms. According to the GCI, there is significant room for improvements in terms of labor market efficiency and the full potential of ICT for productivity improvements has not yet been exploited, as reflected in the 90th rank on ICT use. Jordan could also benefit from more openness to international trade and investment, which would trigger efficiency gains in the domestic economy as well as transfer of knowledge and technology. Tariff barriers remain high in international comparison (104th) and regulatory barriers to FDI remain in place (70th). And although financing appears to be more easily available than in many other countries (i.e., 45th on ease of access to loans) and efforts to further stabilize the banking sector should be continued (90th).

Egypt drops by 13 positions to reach 107th place in this year's GCI. This assessment was arguably influenced by the uncertainty caused by the political transition the country has experienced since the events of the Arab Spring. According to the business community, government efficiency has deteriorated by 22 positions to 106th and the security situation, which was particularly affected by the events, has dropped 40 ranks to 128th. At the same time, the country has improved in individual areas captured by the institutions pillar, such as less favoritism being displayed by government officials (up by 31 ranks) and stronger corporate ethics (up by 17), suggesting the potential for further positive developments in the future. Many economic policy challenges lie ahead for the new government to put the country on a sustainable and equitable growth path. For Egypt to more fully benefit from the considerable potential that lies in its large market size and proximity to key global markets, the country will have to raise its productive potential across the domestic economy. According to the GCI, three areas are of particular importance. First, the macroeconomic environment has deteriorated over recent years to reach 138th position mainly because of widening fiscal deficit, rising public indebtedness, and persisting inflationary pressures. A credible fiscal consolidation plan will be necessary in order to maintain macroeconomic stability in the country. This may prove difficult in times of rising energy prices, as energy subsidies account for a considerable share of public expenditure. However, better targeting of subsidies could allow for fiscal consolidation while protecting the most vulnerable. Second, measures to intensify domestic competition would result in efficiency gains and contribute to energizing the economy by allowing for new entrants. And third, making labor markets flexible (135th) and more efficient (141st) would allow the country to increase employment in the medium term.

Sub-Saharan Africa

Sub-Saharan Africa has grown impressively over the last 15 years: registering growth rates of over 5 percent in the past two years, the region continues to exceed the global average and to exhibit a favorable economic outlook. Indeed, the region has bounced back rapidly from the global economic crisis, when GDP growth dropped to 2.8 percent in 2009. These developments highlight its simultaneous resilience and vulnerability to global economic developments, with regional variations. Although growth in sub-Saharan middle-income countries seems to have followed the global slowdown more closely (e.g., South Africa), lower-income and oil-exporting countries in the region have been largely unaffected. These regional variations are reflected in this year's rankings. While some African economies improve with respect to national competitiveness this year, South Africa and Mauritius, the two African countries in the top half of the rankings, remain stable. However, other countries that were previously striding ahead are registering significant declines. More generally, sub-Saharan Africa as a whole lags behind the rest of the world in competitiveness, requiring efforts across many areas to place the region on a firmly sustainable growth and development path going forward.

South Africa is ranked 52nd this year, remaining the highest-ranked country in sub-Saharan Africa and the third-placed among the BRICS economies. The country benefits from the large size of its economy, particularly by regional standards (it ranks 25th in the market size pillar). It also does well on measures of the quality of its institutions and on factor allocation, such as intellectual property protection (20th), property rights (26th), the accountability of its private institutions (2nd), and its goods market efficiency (32rd). Particularly impressive is the country's financial market development (3rd), indicating high confidence in South Africa's financial markets at a time when trust is returning only slowly in many other parts of the world. South Africa also does reasonably well in more complex areas such as business sophistication (38th) and innovation (42nd), benefitting from good scientific research institutions (34th) and strong collaboration between universities and the business sector in innovation (30th).

These combined attributes make South Africa the most competitive economy in the region. However, in order to further enhance its competitiveness, the country will need to address some weaknesses. South Africa ranks 113th in labor market efficiency (a drop of 18 places from last year), with rigid hiring and firing practices (143rd), a lack of flexibility in wage determination by companies (140th), and significant tensions in labor-employer relations (144th). Efforts must also be made to increase the university enrollment rate in order to better develop its innovation potential. Combined efforts in these areas will be critical in view of the country's high unemployment rate of almost 25 percent in the second quarter of 2012. In addition, South Africa's infrastructure, although good by regional standards, requires upgrading (63rd). The poor security situation remains another important obstacle to doing business in South Africa. The high business costs of crime and violence (134th) and the sense that the police are unable to provide sufficient protection from crime (90th) do not contribute to an environment that fosters competitiveness. Another major concern remains the health of the workforce, which is ranked 132nd out of 144 economies—the result of high rates of communicable diseases and poor health indicators more generally.

Mauritius comes in at 54th this year, the second-highest ranked country in the region after South Africa. The country benefits from relatively strong and transparent public institutions (40th), with clear property rights, strong judicial independence, and an efficient government. Private institutions are rated as highly accountable (13th), with effective auditing and accounting standards and strong investor protection. The country's infrastructure is well developed by regional standards, particularly its ports, air transport, and fixed telephony. Its health standards are also impressive compared with those of other sub-Saharan African countries. Further, its goods markets are efficient (27th). However, efforts are still required in education. Enrollment rates remain low at all levels, and the country's educational system gets only mediocre marks for quality. Beyond its educational weaknesses, its labor markets could be made more efficient—it has stringent hiring and firing practices (78th) and wages that are not flexibly determined (108th), reducing the incentive for job creation in the country.

Rwanda moves up by seven places this year to 63rd position, continuing to place third in the sub-Saharan African region. As do the other comparatively successful African countries, Rwanda benefits from strong and relatively well-functioning institutions, with very low levels of corruption (an outcome that is certainly related to the government's non-tolerance policy), and a good security environment. Its labor markets are efficient, its financial markets are relatively well developed, and Rwanda is characterized by a capacity for innovation that is quite good for a country at its stage of development. The greatest challenges facing Rwanda in improving its competitiveness are the state of the country's infrastructure, its low secondary and university enrollment rates, and the poor health of its workforce.

The **Seychelles** enters the Index for the first time this year at 76th position overall, 4th in the region. The country benefits from strong and well-functioning institutions by regional standards (47th), with strong public trust in politicians (38th) and a government that is seen as efficient (28th). Infrastructure is also relatively well developed (42nd), and the country has impressive educational outcomes in terms of enrollment rates, although the quality of education—particularly in math and science—is perceived to be rather poor by the business community. Moving forward, the country will need to improve the efficiency of its markets, particularly its goods and financial markets (ranked 70th and 94th, respectively). Further, because the Seychelles is now approaching the innovation-driven stage of development, a more innovative business culture will be critical for ensuring continued productivity enhancements into the future.

Botswana moves up one place to 79th, one of the top five economies in the region. Among the country's strengths are its relatively reliable and transparent institutions (33rd), with efficient government spending, strong public trust in politicians, and low levels of corruption. Although improving since last year, Botswana's macroeconomic environment remains of some concern and is ranked 81st this year. However, Botswana's primary weaknesses continue to be related to its human resources base. Education enrollment rates at all levels remain low by international standards, and the quality of the educational system receives mediocre marks. Yet it is clear that by far the biggest obstacle facing Botswana in its efforts to improve its competitiveness remains its health situation. The rates of disease in the country remain very high, and health outcomes are poor despite improvements in fighting malaria and reducing infant mortality.

Namibia continues its downward trend and falls nine places this year to 92nd place, with weakening across most areas measured by the Index. The country continues to benefit from a relatively well functioning institutional environment (52nd), with well-protected property rights, an independent judiciary, and reasonably strong public trust in politicians. The country's transport infrastructure is also good by regional standards (59th). Financial markets are developed by international standards (47th) and buttressed by solid confidence in financial institutions (23rd), although their overall assessment has weakened for three years in a row. With regard to weaknesses, as in much of the region, Namibia's health and education indicators are worrisome. The country is ranked a low 120th on the health subpillar, with high infant mortality and low life expectancy—the result, in large part, of the high rates of communicable diseases. On the educational side, enrollment rates remain low and the quality of the educational system remains poor, ranked 127th. In addition, Namibia could do more to harness new technologies to improve its productivity levels; it currently shows low penetration rates of new technologies such as mobile phones and the Internet.

Ghana is ranked 103rd this year, moving up by an impressive 11 places since last year on the back of improvements in the basic requirements of its macroeconomic stability and health and educational outcomes. Traditionally displaying strong public institutions and governance indicators, especially in regional comparison, along with increased government regulation and sizeable deteriorations in all indicators have dragged down the country's score in the institutions pillar to 75th place (from 61st last year). Education levels also continue to lag behind international standards at all levels, labor markets are still characterized by inefficiencies, and the country is not harnessing new technologies for productivity enhancements (ICT adoption rates are very low). On a more positive note, some aspects of its infrastructure are good by regional standards, particularly the state of its ports. Financial markets are also relatively well developed (59th).

Kenya is ranked 106th this year, showing a relatively steady performance. The country's strengths continue to be found in the more complex areas measured by the GCI. Kenya's innovative capacity is ranked an impressive 50th, with high company spending on R&D and good scientific research institutions that collaborate well with the business sector in research activities. Supporting this innovative potential is an educational system that—although educating a relatively small proportion of the population compared with most other countries—gets relatively good marks for quality (37th) as well as for on-the-job training (62nd). The economy is also supported by financial markets that are well developed by international standards (24th) and a relatively efficient labor market (39th). On the other hand, Kenya's overall competitiveness is held back by a number of factors. Health is an area of serious concern (115th), with a high prevalence of communicable diseases contributing to the low life expectancy of less than 57 years and reducing the productivity of the workforce. The security situation in Kenya is also worrisome (125th).

Liberia enters the rankings for the first time at 111th place. The country's institutions receive an impressive assessment (45th), with strong public trust in politicians (25th) and high marks for the efficiency of government (30th). Goods markets are also efficient (40th), with few procedures and low cost to start a business in the country, and a taxation regime that is not overly distortive to economic decision making. In order to enhance Liberia's competitiveness, the country must focus on building physical infrastructure and enhancing human resources by improving the health and education levels of the country's workforce, as well as encouraging the adoption of the latest technologies for productivity enhancements.

After some deterioration in the rankings over recent years, **Nigeria** has moved up to 115th place this year thanks to improved macroeconomic conditions (reflecting a positive government balance and a drop in inflation, although it remains in the double digits) and a financial sector that is recovering from its 2009 crisis. The country has a number of strengths on which to build, including its relatively large market (33rd), which provides its companies with opportunities for economies of scale. Nigeria's businesses are also sophisticated by regional standards (66th), with some cluster development, companies that tend to hire professional managers, and a willingness to delegate decision-making authority within the organization. Likewise, the country registers improvements in its labor market based on more efficient use of talent. On the other hand, despite a slight improvement since last year, the institutional environment does not support a competitive economy because of concerns about the protection of property rights, ethics and corruption, undue influence, and government inefficiencies. The security situation in the country continues to be dire and has worsened since last year (134th). Additionally, Nigeria receives poor assessments for its infrastructure (130th) as well as its health and primary education levels (142nd). Furthermore, the country is not harnessing the latest technologies for productivity enhancements, as demonstrated by its low rates of ICT penetration.

Tanzania is ranked 120th this year. Tanzania benefits from public institutions characterized by a relative evenhandedness in the government's dealings with the private sector (56th) and government regulation that is not seen as overly burdensome (58th). In addition, some aspects of the labor market lend themselves to efficiency, such as a high female participation in the labor force (5th) and reasonable redundancy costs. On the other hand, infrastructure in the country is underdeveloped (132nd), with low-quality roads and ports and an unreliable electricity supply. And although primary education enrollment is commendably high, providing universal access, enrollment rates at the secondary and university levels are among the lowest in the world (both at 137th place). In addition, the quality of the educational system needs upgrading. A related area of concern is the low level of technological readiness in Tanzania (122nd), with very low uptake of ICT such as the Internet and mobile telephony. In addition, the basic health of its workforce is also a serious concern; the country is ranked 113th in this area, with poor health indicators and high levels of diseases.

Zimbabwe remains stable at 132nd position. Public institutions continue to receive a weak assessment, particularly related to corruption, security, and government favoritism, although overall the assessment of this pillar is better than it was just a few years ago. On the other hand, some major concerns linger with regard to the protection of property rights (137th), where Zimbabwe is among the lowest-ranked countries, reducing the incentive for businesses to invest. And despite efforts to improve its macroeconomic environment—including the dollarization of its economy in early 2009, which brought down inflation and interest rates—the situation continues to be bad enough to place Zimbabwe among the lowest-ranked countries in this pillar (122nd), demonstrating the extent of efforts still needed to ensure its macroeconomic stability. Weaknesses in other areas include health (133rd in the health subpillar), low education enrollment rates, and official markets that continue to function with difficulty (particularly with regard to goods and labor markets, ranked 133rd and 139th, respectively).

Mozambique ranks 138th this year and needs improvements across many areas to lift the economy onto a sustainable growth and development path, particularly in view of its natural resource potential. The country's public institutions receive a weak assessment on the back of low public trust in politicians, significant red tape faced by companies in their business dealings, and the perceived wastefulness of government spending. Indeed, recurring government deficits are leading to a rising public debt burden. Macroeconomic stability is further undermined by double-digit inflation, although recent efforts seem to be bearing some fruit in containing price rises. Looking ahead, important reform efforts will be needed to improve the country's long-term competitiveness, including critical investments across all modes of infrastructure (rank 129th), establishing a regulatory framework that encourages competition to foster economic diversification, and developing a sound financial market (134th). Also critical, in view of the country's rapidly growing population and high unemployment, are investing in the healthcare system and primary education (137th) as well as higher education and training (138th).

NOTES

1 See World Economic Forum 2012a.

2 The BRICS countries are Brazil, Russia, India, China, and South Africa.

3 IMF 2012b.

4 IMF 2012c.