

The Global
Competitiveness Report
2005–2006

Policies Underpinning Rising Prosperity

WORLD
ECONOMIC
FORUM

COMMITTED TO
IMPROVING THE STATE
OF THE WORLD



Augusto Lopez-Claros, World Economic Forum
Michael E. Porter, Harvard University
Klaus Schwab, World Economic Forum

Competitiveness Obstacles and Opportunities for Asia

Insights from the Global Competitiveness Report 2005-2006

- **Irene Mia**
Senior Economist
- **The Competitiveness Institute's (TCI) Regional
Conference on Competitiveness and Economic
Growth in Asia**

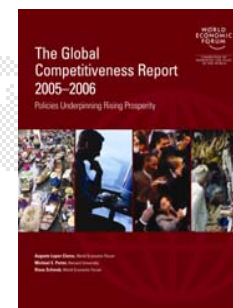
Islamabad
- **May 14-17, 2006**

Outline

- The Global Competitiveness Network.
- The Global Competitiveness Index (Global CI).
- The Global CI's results for 2005.
- A look at Pakistan's competitiveness balance sheet.

The Global Competitiveness Network at the World Economic Forum

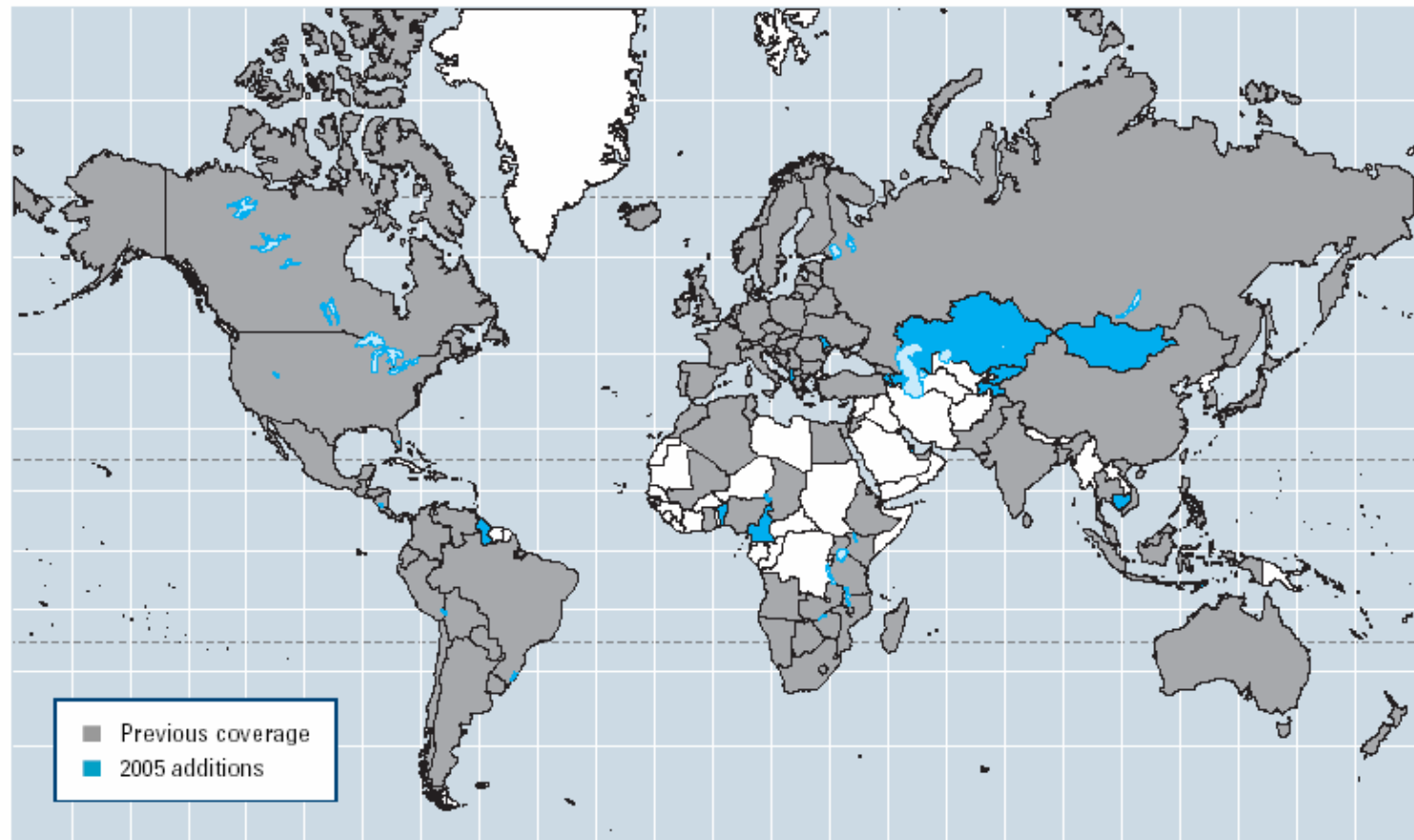
- Flagship products:
 - Global Competitiveness Report, published annually
 - Regional and sector-specific reports, focused on Africa, Latin America, the Arab World, the EU...
 - The Global Information and Technology Report
- Launched first in 1979 covering 16 countries.
- The 26th and latest edition of the Report in 2005 covered 117 countries.



The Global Competitiveness Network

Geographic coverage in 2005

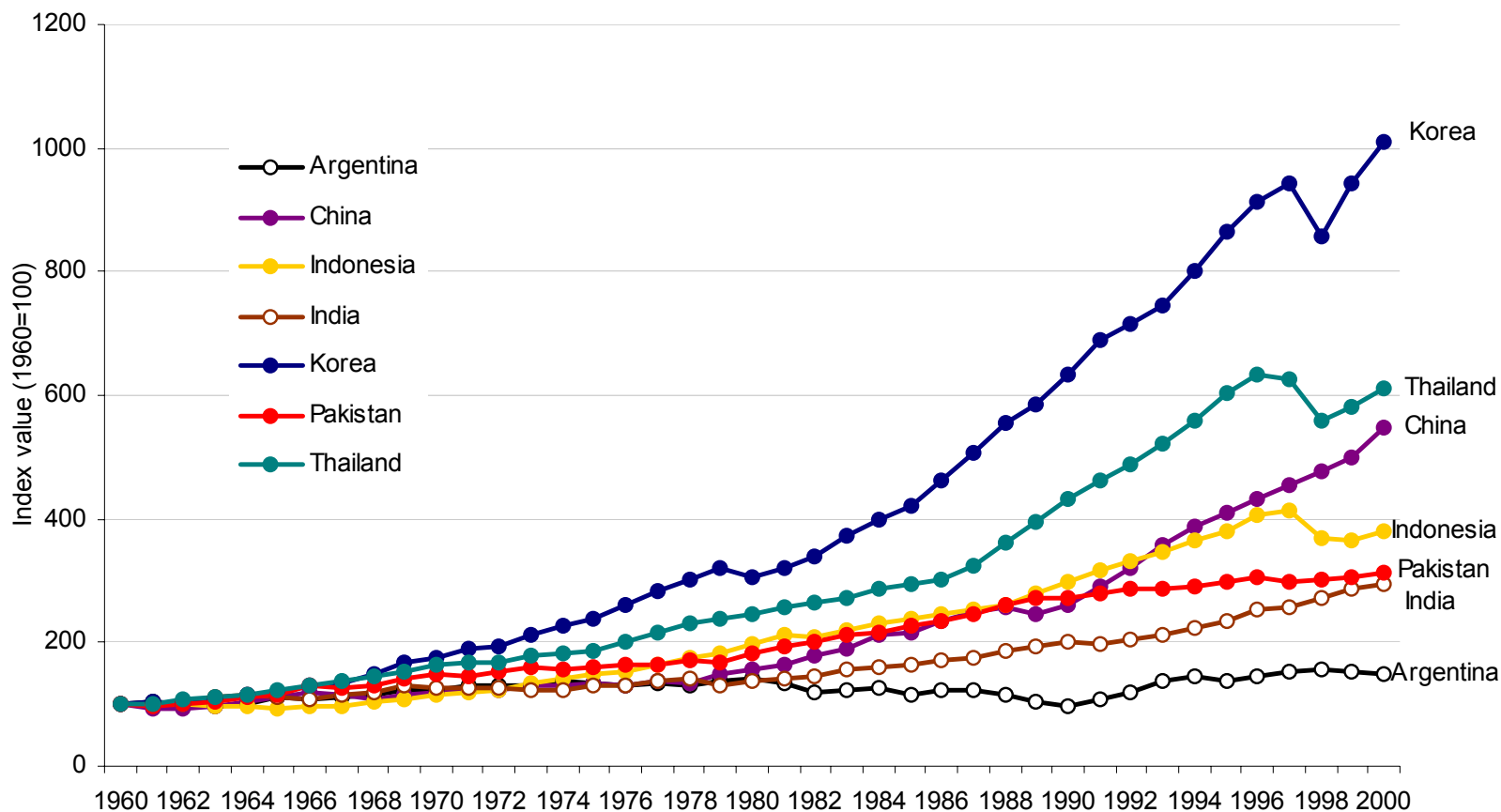
Figure 1: Country coverage of the Executive Opinion Survey



The Global Competitiveness Network

What are we trying to achieve?

Normalized GDP per capita (PPP 1996 US\$)



Source: Penn World Table 6.1, Center for International Comparisons (CIC), University of Pennsylvania, April 2006

The Global Competitiveness Network

What are we trying to achieve?

- We would like to cast some light on the factors that help explain these differences and their relative importance.
- Why is it that Argentina's and Korea's GDP per capita have diverged to such an extent in the last 4 decades?
- What variables are crucial to enhancing the capacity of an economy to achieve sustained growth over the medium term, controlling for the current level of development ?
- We attempt to identify and measure several key factors which play a crucial role in safeguarding the health of a nation's economy and its ability to grow on a sustained basis.

The Global Competitiveness Network

Key insights

- The factors that determine the level of productivity of a country are many and spread over a large number of areas.
- These factors matter differently for different countries depending on their stage of development.
- Their relative importance changes over time.

The Global Competitiveness Index From Growth to Global

- In 2004, the **Global** Competitiveness Index was introduced as an improvement to the **Growth** Competitiveness Index.
- The Growth Competitiveness Index is a simple structure which captures some of the key drivers of growth.
- It does not incorporate concepts which the theory or empirical observation suggests are important determinants of competitiveness.
- For instance, the functioning of labour markets, the quality of a country's infrastructure, the state of public health and the size of the market.
- The Global Competitive Index tries to assess both the macroeconomic and microeconomic determinants of competitiveness in one index.

The Global Competitiveness Index

- Three stages of development:
 1. "Factor-driven stage"
Firms compete in prices, taking advantage of cheap factors.
e.g., India, China, Ukraine, Pakistan.
 2. "Efficiency-driven stage"
Efficient production practices to increase productivity.
e.g., Poland, Brazil, Mexico.
 3. "Innovation-driven stage"
Economies need to produce innovative products using sophisticated production methods.
e.g., Finland, Germany, Japan.

The Global Competitiveness Index

The 9 pillars of competitiveness

BASIC REQUIREMENTS

1. Institutions
2. Infrastructure
3. Macroeconomy
4. Health and Primary Education

Key for
factor-driven
economies

EFFICIENCY ENHANCERS

5. Higher Education and Training
6. Market Efficiency (goods, labour, financial)
7. Technological Readiness

Key for
efficiency-driven
economies

INNOVATION & SOPHISTICATIONS FACTORS

8. Business Sophistication
9. Innovation

Key for
innovation-driven
economies

The Global Competitiveness Index

Index structure

- Within each pillar, the variables used to compute the Index are organized according to the following structure

1st Pillar: Institutions

A. Public institutions

- Property rights
- Ethics and corruption
- Undue Influence
- Government Inefficiency
- Security

B. Private institutions

- Corporate Ethics
- Accountability

2nd Pillar: Infrastructure

3rd pillar: Macroeconomy

4th Pillar: Health and primary education

A. Health

B. Primary education

5th Pillar: Higher education and training

A. Quantity of education

B. Quality of education

C. On-the-job training

6th Pillar: Market efficiency

A. Good markets: distortions, competition and size

- Distortions
- Competition
- Size

B. Labor markets: flexibility and efficiency

- Flexibility
- Efficiency

C. Financial markets: sophistication and openness

7th Pillar: Technological readiness

8th Pillar: Business sophistication

A. Networks and supporting industries

B. Sophistication of firms operations and strategy

9th Pillar: Innovation

The Global Competitiveness Index

- Weights of the three main groups of pillars at each stage of development

	Basic Requirements	Efficiency Enhancers	Innovation and Sophistication Factors
Factor-Driven Stage	50%	40%	10%
Efficiency-Driven Stage	40%	50%	10%
Innovation-Driven Stage	30%	40%	30%

The Global Competitiveness Index

List of countries in each stage

Stage 1	Transition from 1 to 2	Stage 2	Transition from 2 to 3	Stage 3
Income of less than US\$2,000	Income of US\$2,000-US\$3,000	Income of US\$3,000-US\$9,000	Income of US\$9,000-US\$17,000	Income more than US\$17,000
Armenia	Albania	Argentina	Bahrain	Australia
Azerbaijan	Algeria	Botswana	Czech Republic	Austria
Bangladesh	Colombia	Brazil	Hungary	Belgium
Benin	Dominican Republic	Bulgaria	Korea, Rep.	Canada
Bolivia	Ecuador	Chile	Malta	Cyprus
Bosnia and Herzegovina	El Salvador	Costa Rica	Portugal	Denmark
Cambodia	Guatemala	Croatia	Slovenia	Finland
Cameroon	Kazakhstan	Estonia	Taiwan	France
Chad	Macedonia, FYR	Jamaica	Trinidad and Tobago	Germany
China	Namibia	Latvia		Greece
East Timor	Peru	Lithuania		Hong Kong SAR
Egypt	Serbia and Montenegro	Malaysia		Iceland
Ethiopia	Thailand	Mauritius		Ireland
Gambia, The	Tunisia	Mexico		Israel
Georgia		Panama		Italy
Ghana		Poland		Japan
Guyana		Romania		Kuwait
Honduras		Russian Federation		Luxembourg
India		Slovak Republic		Netherlands
Indonesia		South Africa		New Zealand
Jordan		Turkey		Norway
Kenya		Uruguay		Qatar
Kyrgyz Republic		Venezuela		Singapore
Madagascar				Spain
Malawi				Sweden
Mali				Switzerland
Moldova				United Arab Emirates
Mongolia				United Kingdom
Morocco				United States
Mozambique				
Nicaragua				
Nigeria				
Pakistan				
Paraguay				
Philippines				
Sri Lanka				
Tajikistan				
Tanzania				
Uganda				
Ukraine				
Vietnam				
Zimbabwe				

The Global Competitiveness Index Top 20

<u>Global Competitiveness Index 2005</u>	<u>Basic Requirements</u>	<u>Efficiency Enhancers</u>	<u>Innovation Factors</u>
United States	1	18	1
Finland	2	2	5
Denmark	3	1	3
Switzerland	4	6	7
Singapore	5	3	2
Germany	6	8	19
Sweden	7	7	9
Taiwan	8	19	6
United Kingdom	9	17	4
Japan	10	25	17
Netherlands	11	9	16
France	12	16	18
Canada	13	11	11
Hong Kong SAR	14	4	12
Austria	15	14	21
Iceland	16	13	10
Norway	17	5	15
Australia	18	12	8
Korea, Rep.	19	20	20
Belgium	20	21	23

The Global Competitiveness Index

Top performers in the 9 pillars

	Institutions	Infra-structure	Macro-economy	Health and primary education	Higher education & training	Market efficiency	Techno-logical readiness	Business sophistica-tion	Innovation
Singapore	1	5	9	69	8	4	1	20	9
Denmark	2	1	16	23	3	5	2	4	10
Chile	* 27	34	1	25	42	24	36	31	41
Japan	26	9	93	1	16	16	17	1	2
Finland	3	10	10	10	1	12	12	12	4
United States	16	8	62	47	2	1	5	3	1
China	* 60	65	13	61	69	47	65	58	35
India	* 41	69	88	87	46	27	57	27	27
Indonesia	* 65	75	63	80	76	61	77	70	47
Korea, Rep.	* 38	20	5	30	19	32	11	19	15
Pakistan	* 75	76	69	115	104	41	82	57	71
Thailand	* 40	37	11	85	43	29	49	39	38

The Global Competitiveness Index

Asia and Pacific

<u>Global Competitiveness Index 2005</u>	<u>Basic Requirements</u>	<u>Efficiency Enhancers</u>	<u>Innovation Factors</u>	
Singapore	5	3	2	14
Taiwan	8	19	6	8
Japan	10	25	17	2
Hong Kong SAR	14	4	12	21
Australia	18	12	8	23
Korea, Rep.	19	20	20	17
New Zealand	22	15	13	22
Malaysia	25	26	25	25
Thailand	33	34	41	38
India	45	65	46	26
China	48	45	62	48
Kazakhstan	51	51	56	58
Mauritius	55	64	58	46
Azerbaijan	62	48	79	64
Indonesia	69	71	74	55
Philippines	73	81	63	56
Vietnam	74	68	77	79
Sri Lanka	80	84	78	68
Mongolia	90	98	80	105
Pakistan	94	105	87	63
Bangladesh	98	95	100	90
Cambodia	111	104	114	113

The Global Competitiveness Index

Europe

<u>Global Competitiveness Index 2005</u>	<u>Basic Requirements</u>	<u>Efficiency Enhancers</u>	<u>Innovation Factors</u>
Finland	2	5	5
Denmark	3	3	7
Switzerland	4	7	4
Germany	6	19	3
Sweden	7	9	6
United Kingdom	9	4	11
Netherlands	11	16	12
France	12	18	9
Iceland	16	10	18
Norway	17	15	20
Ireland	21	14	19
Estonia	26	24	34
Spain	28	27	28
Slovenia	30	29	31
Italy	38	36	30
Latvia	39	37	62
Poland	43	38	45
Russian Federation	53	53	66
Romania	67	55	76
Turkey	71	54	44
Albania	100	95	112

The Global Competitiveness Index

Latin America and the Caribbean

<u>Global Competitiveness Index 2005</u>	<u>Basic Requirements</u>	<u>Efficiency Enhancers</u>	<u>Innovation Factors</u>	
Chile	27	24	31	32
Argentina	54	62	57	52
Costa Rica	56	73	50	37
Brazil	57	77	51	36
Colombia	58	63	67	49
Mexico	59	55	61	57
El Salvador	60	50	73	73
Jamaica	63	72	52	59
Panama	65	59	65	54
Trinidad and Tobago	66	56	66	69
Uruguay	70	54	71	75
Peru	77	82	70	82
Venezuela	84	79	76	92
Ecuador	87	75	104	101
Dominican Republic	91	97	85	93
Guatemala	95	90	103	94
Nicaragua	96	91	97	107
Honduras	97	83	110	104
Bolivia	101	99	98	114
Paraguay	102	94	107	115
Guyana	108	111	102	110

The Global Competitiveness Index

Sub-Saharan Africa

<u>Global Competitiveness Index 2005</u>	<u>Basic Requirements</u>	<u>Efficiency Enhancers</u>	<u>Innovation Factors</u>	
South Africa	40	46	43	29
Botswana	72	61	69	77
Ghana	78	86	72	53
Namibia	79	66	86	89
Nigeria	83	78	90	72
Kenya	93	108	83	51
Cameroon	99	101	101	84
Uganda	103	107	96	86
Tanzania	105	103	105	88
Benin	106	100	111	100
Madagascar	107	102	109	95
Gambia, The	109	110	106	108
Zimbabwe	110	113	93	87
Mozambique	112	112	113	106
Mali	115	116	112	91
Ethiopia	116	115	116	111
Chad	117	117	117	116

The Global Competitiveness Index

Pakistan

	rank	score
Global Competitiveness Index 2005-2006	94	3.5
Basic requirements	105	3.7
1st Pillar: Institutions	75	3.4
A. Public institutions	85	3.1
B. Private institutions	52	4.4
2nd Pillar: Infrastructure	76	3.1
3rd pillar: Macroeconomy	69	4.3
4th Pillar: Health and primary education	115	4.0
A. Health	96	5.6
B. Primary education	115	2.5
Efficiency enhancers	87	3.2
5th Pillar: Higher education and training	104	2.7
A. Quantity of education	110	1.6
B. Quality of education	84	3.4
C. On-the-job training	93	3.1
6th Pillar: Market efficiency	41	4.3
A. Good markets: distortions, competition and s	42	4.3
B. Labor markets: flexibility and efficiency	65	4.1
C. Financial markets: sophistication and openne	42	4.5
7th Pillar: Technological readiness	82	2.7
Innovation factors	63	3.6
8th Pillar: Business sophistication	57	4.1
A. Networks and supporting industries	52	4.6
B. Sophistication of firms operations and strateg	69	3.6
9th Pillar: Innovation	71	3.0