

The Global Competitiveness Report 2010–2011



economic environment (133rd) as well as education at all levels. The regional ranking closes with **Nepal** (130th) and **Timor-Leste** (133rd), two countries that require improvements across virtually all areas captured within the GCI.

Latin America and the Caribbean

Reflecting the strong resilience within Latin America and the Caribbean in the face of the recent severe global economic downturn, the GCI assessment for the region for this year points to the important progress made by several countries in improving and reinforcing their competitiveness fundamentals. While Bolivia, Panama, and Paraguay post the largest improvements, many other regional economies improve slightly or remain stable; these include Brazil, Chile, Costa Rica, and Uruguay. These results confirm the important strides the region has made in recent decades toward sounder fiscal management, increased market efficiency and openness, and export diversification, among other areas. All of the above, beyond setting the region on a more sustainable growth path in the long run, have helped it weather the global economic crisis that began in 2008. In particular, the reduced debt levels (with longer maturity profiles) of most countries in the region, coupled with their increased foreign reserves, have been instrumental in reinforcing their resilience and ability to support their economy with stimulus measures. Although regional GDP contracted by 1.8 percent in 2009, it is expected to grow by 4 percent in 2010, driven by increased domestic consumption and better external conditions—a satisfactory performance by historical standards and more solid than that projected for advanced economies, which is considerably lower at 2.3 percent.²⁵

At the same time, when compared with the rest of the world, the region must improve significantly in order to catch up with international best practices and fully leverage its competitiveness potential. Only Chile (30th) and the two small Caribbean islands of Puerto Rico (41st) and Barbados (43rd) feature within the top 50 most competitive economies in the world. Panama (53rd), Costa Rica (56th), Brazil (58th), and Uruguay (64th) are also included among the top half of the rankings, together with Mexico (66th), Colombia (68th), and Peru (73rd). Also a large number of regional economies continue to appear in the bottom part of the rankings, trailing behind most of the world in competitiveness—these include Ecuador (105th), Bolivia (108th), Nicaragua (112th), Paraguay (120th), and Venezuela (122nd).

Stable at 30th, **Chile** remains the most competitive country in Latin America and the Caribbean, with a very convincing performance resting notably on solid basic requirements (37th) and efficiency enhancers (35th). The country has been at the forefront of market liberalization

and opening, resulting in very efficient goods and labor markets (28th and 44th, respectively), one of the most sophisticated financial markets (41st), and the largest pension industry in the region. The liberalization process took place in the context of sound macroeconomic policies (27th for macroeconomic stability) and transparent institutions (28th in the institutions pillar). These attributes have not only spurred growth over the last 20 years, but also have provided the country with the resources needed to stimulate the economy in recent times of crisis and to address the pressing reconstruction challenges brought about by the tragic 2009 earthquake. Indeed, a part of the US\$8.4 reconstruction plan envisaged by the government in the next four years is expected to come from the Economic and Stabilization Fund—one of the main tools used by the country in its counter-cyclical policies.²⁶

On a more negative note, although Chile's business sector is fairly efficient and sophisticated (43rd), improving its innovation potential is increasingly becoming a priority as the country approaches the most advanced, innovation-driven stage of development. An important element of the problem is the country's still-unsatisfactory quality of its educational system at all levels (ranked 101st for primary education and 45th for higher education and training), despite rising educational attainment rates and government efforts to improve educational quality, including through increased spending.²⁷ Further efforts should be made to improve teaching quality and training as well as secondary and tertiary enrollment rates (90.6 percent and 52.6 percent, corresponding to 56th and 43rd place, respectively). Additionally, some of the components of an innovation-conducive environment—including the quality of the research institutions (ranked 55th) and the collaboration between academia and industry (currently ranked 39th)—should be strengthened.

Up one place since last year, **Puerto Rico** (41st) confirms its strong position in the region, displaying a dynamic and sophisticated business sector (27th), producing all along the value chain (31st), with an important capacity for innovation (33rd). Also notable competitive strengths are the island's quality higher education and training system (38th) and its well-functioning goods markets (34th).

Closely following Puerto Rico and ranked 3rd in the region, **Barbados** consolidates its competitiveness standing in the rankings at 43rd, thanks to its excellent institutional environment (22nd), a first-class educational system (ranked 7th and 27th for primary education and higher education and training, respectively), and well-developed infrastructure (23rd). Beyond its tiny market size (133rd), the GCI highlights a number of areas in need of improvement, including the country's macroeconomic stability (91st), with notably high deficit and debt levels (8.4 and 100.6 percent of GDP, respectively, in 2009), and, to a lesser extent, the sophistication and innovation potential of its business sector (59th

and 53rd, respectively, for business sophistication and innovation).

Panama posts one of the largest improvements in the region, climbing to 53rd this year thanks in large part to a more positive assessment of infrastructure quality (44th, up 21 places from last year), increased macroeconomic stability (30th, up 16 places) and technological readiness (41st, up 18 places). This advance reflects the country's recent important investment in upgrading its infrastructure, its sound macroeconomic management in recent times of crisis, its prowess in absorbing technology (ranked 7th for the variable on FDI and technology transfer), and its increase in ICT penetration rates. The country also continues to benefit from well-developed financial markets (21st). Strengthening the quality of its educational system (ranked 89th and 82nd for primary education and higher education and training, respectively) and increasing the flexibility of its labor market and the efficient use of talent (107th for the efficiency of the labor market) are crucial to further reinforce Panama's long-term growth potential going into the future.

Despite losing the top position in Central America to Panama, **Costa Rica** remains quite stable at 56th position, after having climbed 13 ranks from 2006 to 2009. The country's strong position rests on first-class quality education (ranked 23rd and 43rd for primary education and higher education and training, respectively), fairly transparent institutions (51st), and a sophisticated and innovative business sector (ranked 32nd and 35th, respectively), which operates high on the value chain (ranked 28th in the variable measuring value chain breadth). Leveraging its well-educated labor force, good governance standards, and strategic geographic position, the country has been very successful in recent years in diversifying its production and export structure toward higher value-added (notably high tech) and niche (eco-tourism) sectors. Further, the focus on new technologies (including biotech and aerospace) has been highlighted as a priority of the new Chinchilla administration. However, the soundness of the macroeconomic environment (108th) remains a problematic area amid increasing security concerns in the country (81st). In addition, the quality of the country's infrastructure (78th) and the development of the financial market (85th) may represent potential bottlenecks going forward.²⁸

Brazil is fairly stable at 58th, with a slight improvement in score (4.3 vs. 4.2 in 2009), after following an impressive upward trend for the last couple of years (up 16 positions between 2007 and 2009). The country's recent dynamism in the rankings has reflected the remarkable strides made in the past 20 years toward macroeconomic stability, liberalizing and opening the economy, and reducing income inequality, among other dimensions.²⁹ These efforts have been instrumental in putting the economy on a much sounder competitive-

ness foundation and in providing a markedly more business friendly environment for private-sector development. Moreover, this has allowed Brazil to successfully react to the impact of the recent global economic crisis: while the country's GDP contracted slightly in 2009 (GDP's growth rate was -0.18 percent in 2009), the economy has started to grow again in 2010, with an expected annual growth rate of 5.5 percent.

Notwithstanding these strengths, the competitiveness picture for Brazil remains mixed, with important strengths accompanied by worrisome weaknesses and challenges that must be tackled for Brazil to fully tap its enormous competitive potential. Among its solid competitive advantages are its large market size (10th), providing the efficient and dynamic business sector (ranked 31st for business sophistication) with important economies of scale, and a large basis on which to absorb and introduce process and product innovation (ranked 44th and 42nd for technological adoption and innovation, respectively). Moreover, Brazil displays one of the most developed and sophisticated financial sectors in the region (50th), coupled with fairly efficient infrastructure by regional standards (ranked 62nd, up 12 places from 2009) and a relatively well functioning higher education system (58th), notably in its on-the-job training component (38th). Box 4 examines more in depth the infrastructure challenge for Brazil and Latin America at large.

On the other hand, despite the progress made toward fiscal sustainability, the macroeconomic environment in the country remains worrisome, with notably low savings rates (15 percent, 101st), a high interest rate spread (35.4 percent, 136th), and relatively high public indebtedness (48 percent of GDP, 84th). Goods and labor markets display important rigidities that hinder the allocation of resources to their most efficient use (ranked 114th and 96th, respectively). In addition, the quality of institutions remains poorly assessed at 93rd, with limited trust of politicians and in the rule of law. Last but not least, further focus and efforts are required to improve the quality of the educational system at all levels (ranked 106th for primary education and 97th for the quality of the higher education) and to reduce regional disparities in educational access and attainment.

At 64th, **Uruguay** overtakes Mexico for the first time in the rankings. The country's good showing rests on its strong institutions and governance standards (39th), its fairly developed infrastructure (53rd), and a strong educational system (ranked 47th for health and primary education and 40th for higher education and training). An important capacity to leverage technology (ranked 50th for technological readiness), notably via FDI (12th for the FDI and technology transfer variable) coupled with an increasing ICT adoption (57th) as a key lever in the competitiveness strategy are also notable competitive strengths. On a more negative note, insufficient macroeconomic stability (at 107th) remains a cause of concern, with increasing levels of public debt and a widening

Box 4: The infrastructure challenge in Latin America: The case of Brazil

The Global Competitiveness Index highlights the key importance of well-developed and efficient infrastructure networks for countries' long-term growth, placing infrastructure among the basic requirements of competitiveness. The quality of infrastructure appears to be a shared concern for Latin America and the Caribbean, with few exceptions. Public investment in infrastructure was the main victim of the stabilization programs implemented in the 1990s in most countries, because cutting this type of investment spending proved easier than cutting current expenditures to cover salaries and pensions, among others: according to the World Bank, public investment in infrastructure in the region fell from 3 percent of GDP in 1988 to 1 percent of GDP in 1998.¹ The adjustment was particularly dramatic because Brazil had increased its current expenditures, and therefore needed to make even deeper cuts in long-term investment. The idea that the private sector could step in and fill the financing gap did not fully materialize. Although Latin America was the recipient of half of the US\$786 billion infrastructure investment in the developing world through public-private partnerships (PPP) between 1990 and 2003, the private funds did not fully compensate for the shortfalls in public

investment. Furthermore, these investments were concentrated in a few selected countries (Argentina, Brazil, Chile, Colombia, Peru, and Mexico) and sectors (telecommunications, energy, and transport).²

As a consequence, infrastructure development in the region has lagged behind that of the East Asian tigers or even China over the last two decades,³ with severe implications in terms of economic growth and poverty reduction. Calderón and Servén estimate that upgrading regional infrastructure to Korea's levels could increase annual GDP growth rates by 1.4 to 1.8 percent while reducing inequality by 10 to 20 percent.⁴

Table 1 displays the rankings and scores of regional economies in the GCI infrastructure pillar this year, together with those of selected relevant comparators, including the regional and BRIC averages, Korea, China, and India. The rather large gap between the regional average (3.75) and top-ranked Hong Kong (6.77) or Korea (5.59, ranked 18th) confirms the magnitude of the challenge facing Latin America and the Caribbean in upgrading regional infrastructure to international best standards.

This challenge is particularly relevant for large emerging markets such as Brazil, which are increasingly playing a key

Table 1: Infrastructure: Latin America and the Caribbean and selected comparators

| Country/Economy | Infrastructure 2010–2011 | | A. Transport infrastructure 2010–2011 | | B. Electricity and telephony infrastructure 2010–2011 | |
|--|--------------------------|-------------|---------------------------------------|-------------|---|-------------|
| | Rank | Score | Rank | Score | Rank | Score |
| Hong Kong SAR | 1 | 6.77 | 1 | 6.69 | 1 | 6.85 |
| Korea, Rep. | 18 | 5.59 | 12 | 5.73 | 30 | 5.44 |
| Barbados | 23 | 5.37 | 29 | 4.82 | 15 | 5.93 |
| Chile | 40 | 4.69 | 37 | 4.56 | 48 | 4.83 |
| Panama | 44 | 4.53 | 46 | 4.15 | 44 | 4.92 |
| Trinidad and Tobago | 45 | 4.53 | 58 | 3.94 | 38 | 5.12 |
| Puerto Rico | 49 | 4.44 | 30 | 4.76 | 70 | 4.12 |
| China | 50 | 4.44 | 31 | 4.73 | 69 | 4.14 |
| Uruguay | 53 | 4.29 | 75 | 3.54 | 42 | 5.03 |
| El Salvador | 59 | 4.13 | 66 | 3.78 | 56 | 4.49 |
| BRIC average | n/a | 4.10 | n/a | 4.27 | n/a | 3.93 |
| Brazil | 62 | 4.02 | 67 | 3.76 | 65 | 4.28 |
| Jamaica | 65 | 3.91 | 51 | 4.05 | 86 | 3.76 |
| Guatemala | 66 | 3.9 | 76 | 3.48 | 64 | 4.31 |
| Latin America & Caribbean average | n/a | 3.75 | n/a | 3.48 | n/a | 4.01 |
| Mexico | 75 | 3.74 | 57 | 3.96 | 92 | 3.51 |
| Argentina | 77 | 3.63 | 89 | 3.17 | 73 | 4.08 |
| Costa Rica | 78 | 3.62 | 111 | 2.78 | 59 | 4.45 |
| Colombia | 79 | 3.59 | 101 | 2.94 | 68 | 4.24 |
| Honduras | 85 | 3.51 | 82 | 3.30 | 88 | 3.73 |
| India | 86 | 3.49 | 39 | 4.50 | 115 | 2.49 |
| Peru | 88 | 3.47 | 94 | 3.08 | 84 | 3.86 |
| Ecuador | 96 | 3.18 | 99 | 2.96 | 95 | 3.39 |
| Bolivia | 100 | 3.04 | 122 | 2.59 | 94 | 3.49 |
| Guyana | 103 | 2.92 | 100 | 2.95 | 102 | 2.90 |
| Dominican Republic | 107 | 2.83 | 79 | 3.38 | 121 | 2.28 |
| Venezuela | 108 | 2.82 | 123 | 2.58 | 98 | 3.06 |
| Nicaragua | 111 | 2.73 | 102 | 2.90 | 112 | 2.55 |
| Paraguay | 125 | 2.46 | 138 | 2.10 | 104 | 2.82 |

(Cont'd.)

Box 4: The infrastructure challenge in Latin America: The case of Brazil (cont'd.)

role in the global economy and for which poor infrastructure quality results in higher logistics costs and inefficient patterns of interregional and international trade.⁵ Table 2 provides an overview of Brazil's infrastructure as assessed within the GCI infrastructure pillar. Although the country has improved eight places since 2008 for the overall quality of its infrastructure, it still ranks a middling 62nd in this pillar, with a similar showing for its transport (67th) and electricity and telephony infrastructure (65th). The most problematic areas, as highlighted by the GCI, are the quality of port infrastructure (123rd), roads (105th), air transport infrastructure (93rd), and, to a lesser extent, railroad infrastructure (87th) and mobile telephony (76th). This assessment reflects the appalling state of transport infrastructure in the country, its underdeveloped railroads, the unexploited potential of its 48,000 kilometers of navigable waterways, its congested ports and airports, and its costly and underdeveloped telephone infrastructure.⁶

Table 2: An assessment of infrastructure quality in Brazil

| | Rank | Score |
|--|-----------|-------------|
| 2nd pillar: Infrastructure | 62 | 4.02 |
| A. Transport infrastructure | 67 | 3.76 |
| Quality of overall infrastructure | 84 | 3.79 |
| Quality of roads | 105 | 2.93 |
| Quality of railroad infrastructure | 87 | 1.94 |
| Quality of port infrastructure | 123 | 2.94 |
| Quality of air transport infrastructure | 93 | 3.98 |
| Available airline seat kilometers | 9 | 3,001.79 |
| B. Electricity and telephony infrastructure | 65 | 4.28 |
| Quality of electricity supply | 63 | 5.06 |
| Fixed telephone lines | 62 | 21.42 |
| Mobile telephone subscriptions | 76 | 89.79 |

Experiences over the past decade or so, such as the energy blackout of 2001, have raised awareness among both the public and the government of the importance of quality infrastructure for competitiveness, trade, and balanced development across Brazilian states. It was estimated that investment in infrastructure needed to reach 5 percent of GDP to keep it from becoming a bottleneck for the country's capacity to achieve sustained growth rates going into the future.

Upgrading infrastructure has been a key element of the Lula administration's ambitious Growth Acceleration Program (PAC), launched in 2007, earmarking a total of R\$504 billion in investment for the 2007–10 period, distributed as follows: R\$171 billion for social infrastructure, R\$275 billion for energy-related projects, and R\$58 billion for logistics.⁷ PAC was conceived as an integrated approach to infrastructure improvement, aimed at increasing the coverage and quality of infrastructure networks together with better access to water, sanitation, housing, electricity, transport, and energy. Yet, three years after the launch of PAC, fewer than half of its targets have been met, with much of the financing going to housing (notably to first-time home owners) rather than to the improvement of physical infrastructure.⁸

What is more, private investment in physical infrastructure has been limited and has failed to make up for scarce public resources and attention. Although PAC has been a significant step in the right direction, it has been said that better coordination of responsibilities among federal and state authorities is necessary to achieve higher investment in infrastructure.

Greater private investment in infrastructure should also be promoted in Brazil, notably through friendlier and more predictable regulations, risk-mitigation mechanisms, and protected returns on investment. The Infrastructure Private Investment Attractiveness Index (IPIAI), developed by the World Economic Forum in 2007 and benchmarking 12 Latin American economies for their friendliness to private investment in infrastructure, ranked Brazil 2nd in the sample. Among Brazil's notable competitive advantages underscored by the IPIAI in this regard were: a very low political risk, with little unrest or expropriation risk; a fairly well developed local capital market; a fairly good track record in private investment in infrastructure, with few projects cancelled or in distress; and a relatively high level of private investment in infrastructure projects over the 1994–2005 period (2.2 percent of GDP).⁹ Figure 1 shows Brazil's performance in the IPIAI, with respect to the best performer in that index, Chile, and the sample average excluding Chile.

This bodes well for the country's capacity to increasingly involve the private sector in financing and managing infrastructure networks, thus complementing public funding and ensuring that infrastructure can truly support Brazil's competitiveness in the years to come. Brazil's experience in infrastructure development is an example of the challenges countries can face in enhancing this critical competitiveness driver.

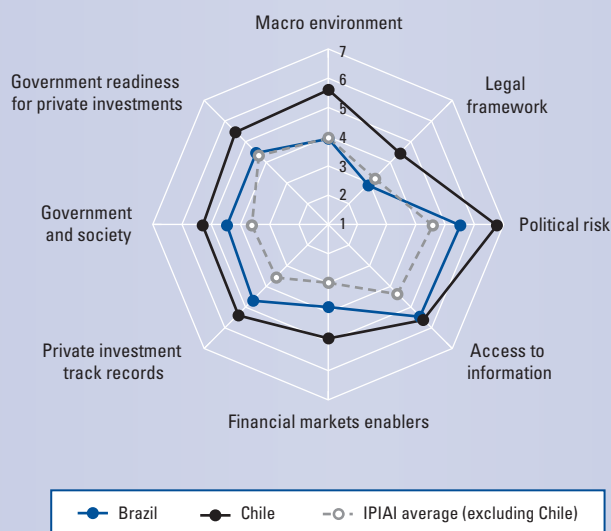
Notes

- 1 The drop contrasts sharply with the amount of public resources invested in health and education (8 percent of GDP) that resulted from an increased focus on poverty reduction.
- 2 See Fay and Morrison 2005.
- 3 According to Fay and Morrison (2005), the region should increase investment in infrastructure to 4–6 percent of GDP over 20 years in order to attain Korea's infrastructure coverage and not to lose further ground with respect to China.
- 4 Calderón and Servén 2004.
- 5 Resende 2009.
- 6 See Resende 2009 for a detailed analysis of Brazil's state of infrastructure and main flaws.
- 7 PAC also comprised a number of measures/policies to limit regulatory risks and develop risk mitigation mechanisms as well as to improve the framework for PPP. On March 29, 2010, the Brazilian government announced a PAC 2, with a total budget of R\$1.59 trillion to be invested in the 2011–14 period with emphasis on high social sensitivity areas, including housing and health, public transit, energy, transportation, logistics, and roads (see Olson 2010).
- 8 See HSBC 2010.
- 9 See Mia et al. 2007 for more information on the IPIAI's methodology and Brazil's performance.

(Cont'd.)

Box 4: The infrastructure challenge in Latin America: The case of Brazil (cont'd.)

Figure 1: Brazil in the IPIAI



Source: Mia et al., 2007.

public deficit (2.3 percent of GDP in 2009 as opposed to 0.1 percent in 2008), while worrisome rigidities persist in factor markets, especially labor market inefficiencies (119th).

With an unchanged score of 4.19, **Mexico** drops six places from 2008 to 66th, clearly demonstrating the need for continuous improvement in order not to lose ground in competitiveness vis-à-vis the rest of the world. Mexico has been among the countries in the region worst hit by the global economic downturn, in large part attributable to its close association with the US business cycle (including links through financing, trade, and remittances). Thanks in particular to the remarkably sound fiscal policies implemented in the past two decades (28th for macroeconomic stability), the country has shown a certain degree of resilience to the pernicious consequences of the crisis and has been able to stimulate its economy with a number of anti-cyclical policies.³⁰ Although Mexico's GDP shrank significantly in 2009 (–6.5 percent), it is estimated to grow by 4.2 percent in 2010. Mexico also has a number of important competitive strengths that are similar to those of Brazil,

such as the large size of the market available for local companies (12th) and a sophisticated and innovative private sector (ranked 67th for business sophistication and 78th for innovation) with well-developed clusters (50th) and companies operating throughout the value chain (49th for the variable on value chain breadth).

Notwithstanding these strong attributes and the liberalization and steps undertaken in recent years to improve the business climate and make the economy more efficient, Mexico's factor markets remain rigid and represent a structural impediment for the country's growth prospects over the long term. In particular, the labor market is ranked at a dismal 120th place, with burdensome regulations, high payroll taxes and social contributions (ranked 103rd for flexibility), and a less-than-efficient use of talent (122nd). The reliability and quality of institutions continue to receive a poor assessment at 106th, with increasing security concerns (134th, down nine places from last year) among the business community, likely related to recent spiraling drug-related violence and civil unrest. Finally, reform of the educational system to boost its quality is necessary to meet the needs

of an economy moving toward the most advanced stage of development. In particular, the poorly rated higher education and training system (79th) does not seem to be producing a highly skilled labor force, notably scientists and engineers (89th), and is not sufficiently conducive to technology adoption and innovation. Although the current administration has adopted, or plans to adopt, a number of competitiveness-enhancing reforms addressing many of these shortcomings, further action is sorely required to reinforce Mexico's competitiveness fundamentals.

Fairly stable at 68th, **Colombia** displays competitive strengths in the quality of its macroeconomic environment (50th), large market size (32nd), and fairly sophisticated businesses (61st), successfully adopting technology and enhancing innovation (ranked 63rd and 65th for technological readiness and innovation, respectively). On the other hand, notwithstanding the important strides realized by the last administration in social pacification, the institutional environment is still characterized by weaknesses at 103rd, with continuing concerns over security (138th). Further investment is required to upgrade infrastructure networks to first-class standards (ranked now at 79th), while factor markets continue to suffer from extensive inefficiencies and rigidities, particularly the goods market (103rd).

Peru continues its upward march in the rankings with another five-place progression to 73rd place (up by six places in a constant sample), with improvements notably in labor market efficiency (up twenty-one places, to 56th) and, to a lesser extent, in infrastructure quality (up nine places to 88th) and higher education and training (up five places to 76th). The country has improved a total of thirteen places since 2007, mirroring its impressive growth performance in recent years (an average of 6.7 percent GDP growth between 2002 and 2009). Peru was one of the few countries whose economy did not contract in 2009 but continued to grow moderately at 0.9 percent. The economy is expected to grow strongly again in 2010 and beyond, with an estimated 6.3 percent rate for this year.

Among the elements underpinning Peru's strong competitiveness showing is the competent macroeconomic policy pursued over the last decade, with moderate public indebtedness levels (26.6 percent of GDP in 2009, placing it 41st in the sample), coupled with liberalization of its goods and labor markets, efforts to encourage trade and FDI, and efficient use of the revenues from the country's rich natural and mineral resources. The country can notably count on flexible goods and labor markets (ranked 69th and 56th, respectively), well-developed financial market (42nd), and access to foreign markets (59th), complementing its relatively large domestic market (44th). On the other hand, Peru faces a number of competitiveness challenges that must be addressed going forward, including improving the poor institutional environment (96th), upgrading the

quality of and access to the educational system at all levels (111th for primary education and 76th for higher education and training), and reinforcing the capacity to absorb technology and generate innovation (ranked 74th and 110th for technological readiness and innovation, respectively).

Argentina is fairly stable at 87th, continuing to feature in the bottom part of the rankings despite its many and diverse competitive advantages and the strong growth rates experienced by the country after its 2001 economic crisis (an average of 8.5 percent between 2002 and 2008). The competitiveness picture provided by the GCI is rather mixed: important strengths, such as its extensive market size (24th) and fairly good educational system at the primary and higher levels (ranked 60th and 55th for health and primary education and higher education and training, respectively), do not seem to compensate for the serious and enduring shortcomings undermining Argentina's long-term growth potential. In particular, its institutional environment is among the worst in the world at 132nd, with little public trust of politicians and deep concerns about the rule of law. This may reflect a number of discretionary policies adopted by the last two administrations—including the nationalization of the private pension system and the recent ousting of the central bank governor following his refusal to let the government tap the central bank's reserves to finance growing public spending and pay its debts—and an erosion in investors' confidence in government transparency and even-handedness in its dealings with the private sector. On a related note, factor markets continue to suffer from worrisome rigidities, red tape, and lack of competition, which all hinder their efficient functioning (ranked 135th, 128th, and 126th, respectively, for goods market efficiency, labor market efficiency, and financial market development). Improving the flexibility of factor markets as well as ensuring a more predictable business environment and a greater respect of the rule of law by the government remain the priorities going forward to restore investors' confidence and lay the foundations for sustained long-term competitiveness.

Venezuela (122nd) continues its fall in the rankings, and is now behind all other Latin American and Caribbean countries and featuring among the least competitive countries of the world. Venezuela's competitiveness landscape appears to be worsening every year, with a notably dismal assessment of the institutional environment (139th, the worst in the entire sample) and factor markets efficiency (139th, 138th, and 132nd for goods market, labor market efficiency, and financial market development, respectively). Despite important investment in education and basic services, infrastructure remains underdeveloped (108th) and educational standards at all levels are low (86th and 68th for health and primary education and higher education and training, respectively), while the macroeconomic environment

continues to deteriorate (now ranked 113th) despite windfall oil revenues in recent years. Finally, the country lacks companies that demonstrate sufficient sophistication and innovation potential (129th and 123rd for business sophistication and innovation, respectively).

Despite posting important improvements since last year, **Bolivia** (108th, up sixteen places in a constant sample), **Nicaragua** (112th, seven places up in a constant sample), and **Paraguay** (120th, nine places up in a constant sample) continue to feature in the very bottom of the rankings, trailing behind most of the world in competitiveness. Major common flaws in the quality of their institutional environment, including rampant crime and violence, widespread red tape, poor educational standards and infrastructure, and inefficient factor markets weaken these countries' competitiveness fundamentals and should be addressed as a priority going forward.

Middle East and North Africa

Following a relatively prosperous period, the Middle East and North African (MENA) region experienced a downturn during the global economic crisis, with average growth rates falling from 6.1 in 2008 to 2.2 percent in 2009. However, MENA was less affected by the downturn than some other regions because it maintained weak interlinkages with global markets. Further, many countries put massive stimulus packages into place, which helped to dampen the recession and in many cases also led to improvements in infrastructure. Overall, the global economic crisis has highlighted some of the vulnerabilities to which the economies of the region were exposed and led to a widening gap between Gulf economies and the rest of the region, a trend that has been observed over recent years. While all the Gulf countries except for the United Arab Emirates (UAE) move up in the rankings, all remaining countries in the region with the exception of Tunisia (and new entrants Iran and Lebanon) decline.

Qatar, ranked 17th, enters the top 20 this year and reaffirms its position as the most competitive country in the MENA region. With a projected growth rate of 18.5 percent for 2010, the country is the fastest-growing economy in the world, as well as one of the wealthiest. Its strong competitiveness rests on solid foundations made up of a high-quality institutional framework, ranked 10th overall, a stable macroeconomic environment (8th), and an efficient goods market (12th). Low levels of corruption and undue influence on government decisions, high government efficiency, and excellent security are the cornerstones of the country's solid institutional framework. Compared with many other economies, the country was relatively unharmed by the global economic crisis, with its growth rate slowing to 9 percent in 2009, down from 16.4 in 2008. This high growth, combined with prudent government support for the financial sector, contributed to maintaining

macroeconomic and financial stability. In international comparison, the country's macroeconomic environment emerged stronger from the crisis, moving from 13th to 8th place. Going forward, reducing the country's vulnerability to commodity price fluctuations will require diversification into other sectors of the economy and improving some of the areas of competitiveness. Despite efforts to strengthen its financial sector, its trustworthiness and confidence is assessed as low by the business community (62nd), with soundness of banks ranked 46th and legal rights of borrowers and lenders under-protected (103rd). Given its high wage level, the country will also have to foster the use of latest technologies (36th) as well as business sophistication and innovation.

Saudi Arabia moves up by seven places to take the second-highest place in the region at 21st. The country has witnessed a number of improvements to its competitiveness in recent years, which resulted in a strong and solid institutional framework, efficient markets, and sophisticated businesses. Improvements to the institutional framework (up by 11 places to 21st), in particular a better assessment of the security situation by business (19th) and a stronger corporate governance framework (26th), have contributed to this year's better positioning. Additionally, the government enacted a massive stimulus package, improving infrastructure in the country, although it led to a deterioration of macroeconomic stability as the budget balance moved into deficit. As much as the recent improvements are commendable, the country faces important challenges going forward. Health and education do not meet the standards of countries at similar income levels. While some progress is visible in health outcomes as well as in the assessment of the quality of education, improvements are taking place from a low level. As a result, the country continues to occupy low ranks in the health and primary education (74th) and higher education and training (51st) pillars. Both these areas, in addition to a more efficient labor market (66th), are of high importance to Saudi Arabia given the growing numbers of its young people who will enter the labor market over the next years. Last but not least, some room for improvement remains with respect to the use of latest technologies (42nd).

Israel ranks 24th in this year's GCI, up three positions after having suffered losses in competitiveness over the past years. The country's main strength remains the excellent—and improving—capacity for innovation (6th), which rests not only on highly innovative businesses but also on the availability of high-quality research institutions and is reflected in a high number of patents. The favorable financial environment (14th) and, in particular, the availability of venture capital (10th) have further contributed to making Israel an innovation powerhouse. Future challenges to maintaining and improving national competitiveness relate to continued upgrading of institutions (33rd) and a renewed focus on raising the bar in terms of the quality of education. Low educational out-