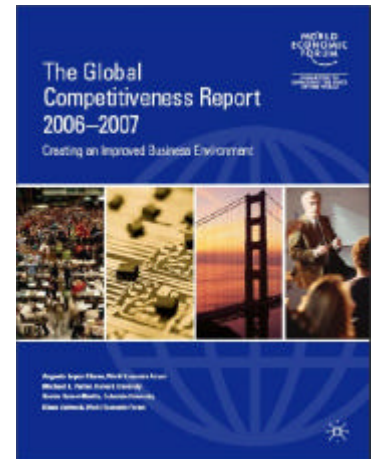


## SPAIN'S RANKING UNCHANGED IN THE WORLD ECONOMIC FORUM'S GLOBAL COMPETITIVENESS INDEX

### Switzerland, Finland and Sweden take the lead, but US drops

**Geneva, Switzerland 27 September 2006** – Spain is the 28th most competitive economy in the world, unchanged from last year, according to the latest edition of the World Economic Forum's Global Competitiveness Index (GCI) rankings for 2006-07, released today. Spain's strengths are reflected in excellent school enrolment rates at all levels of the educational ladder, very strong public health indicators (14), good infrastructure (22) and a stable macroeconomic environment (24). However, there are also a number of areas which may be preventing the country from improving its competitiveness. As is the case in some other European countries, its most gaping weakness is the lack of flexibility and efficiency of its labour markets as well as existing distortions in its goods markets. More also could be done to reduce the burden of bureaucracy and red tape and to boost the quality of institutions of higher education, including those engaged in scientific research and technology innovation.



“Spain has the potential to become one of the most competitive economies in Europe, having already demonstrated, through the establishment of sound macroeconomic fundamentals, the ability of the authorities to build upon past achievements and to press on with reforms. However, Spain's ability to catch up with its leading European partners rests crucially on its ability, in the years to come, to make its labour markets more flexible, thus absorbing the persistent high unemployment rates, reducing distortions in its goods markets, as well as on upgrading the quality of secondary and tertiary education, to fully develop its capacity as a knowledge economy,” said Augusto Lopez-Claros, Chief Economist and Head of the Global Competitiveness Network at the World Economic Forum.

Switzerland, Finland and Sweden are the world's most competitive economies according to the report. Denmark, Singapore, the United States, Japan, Germany, the Netherlands and the United Kingdom complete the top ten list, but the United States shows the most pronounced drop, falling from first to sixth.

The rankings are drawn from a combination of publicly available hard data and the results of the Executive Opinion Survey, a comprehensive annual survey conducted by the World Economic Forum, together with its network of Partner Institutes (leading research institutes and business organizations) in the countries covered by the Report. This year, over 11,000 business leaders were polled in a record 125 economies worldwide. The survey questionnaire is designed to capture a broad range of factors affecting an economy's business climate that are critical determinants of sustained economic growth. The Forum annually delivers a comprehensive overview of the main strengths and weaknesses in a large number of countries, making it possible to identify key areas for policy formulation and reform.

Global Competitiveness Index 2006 and 2005 comparisons					
	GCI	GCI	GCI		
Country/Economy	2006 Rank	2006 Score	2005 Rank	Changes 2005-2006	
Switzerland	1	5.81	4	↗	3
Finland	2	5.76	2	→	0
Sweden	3	5.74	7	↗	4
Denmark	4	5.70	3	↘	-1
Singapore	5	5.63	5	→	0
United States	6	5.61	1	↘	-5
Japan	7	5.60	10	↗	3
Germany	8	5.58	6	↘	-2
Netherlands	9	5.56	11	↗	2

United Kingdom	10	5.54	9	↓	-1
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This year marks an important progression in *The Global Competitiveness Report's* methodology, with the adoption of a new, more comprehensive, tool to assess countries' competitiveness: the Global Competitiveness Index (GCI). Developed for the World Economic Forum by Professor Xavier Sala-i-Martin of Columbia University, the new index – representing two years of collaboration with him and feedback from a broad set of users – extends and deepens the concepts and ideas underpinning the earlier index used by the Forum.

“The introduction of the Global Competitiveness Index is a logical extension of the World Economic Forum’s competitiveness work. Changes in the global economy and the increasing complexity which characterize the business environment have made it necessary to develop an instrument that captures a larger set of factors affecting the evolution of economic growth. We are confident that this index, elegant in design and with a strong conceptual underpinning, will become an important tool for dialogue with policy-makers and the business community on the key drivers of productivity,” said Augusto Lopez-Claros.

“With the growing complexity of the global economy, *The Global Competitiveness Report* is a contribution to enhancing our understanding of the key factors which determine economic growth and will help explain why some countries are much more successful than others in raising income levels and opportunities for their respective populations. By providing detailed assessments of the economic conditions of nations worldwide, the Report offers policy-makers and business leaders an important tool in the formulation of improved economic policies and institutional reforms,” noted Klaus Schwab, Founder and Executive Chairman of the World Economic Forum.

Harvard Business School Professor Michael E. Porter presents the results of the Business Competitiveness Index (BCI), an especially useful complement to the GCI, with its emphasis on a range of company-specific factors conducive to improved efficiency and productivity, such as the sophistication of the operating practices and strategies of companies and the quality of the microeconomic business environment in which a nation's companies compete. Results of the BCI rankings are fully reported in the Executive Summary and available online at [www.weforum.org/gcr](http://www.weforum.org/gcr)

The World Economic Forum continues to expand geographic coverage of *The Global Competitiveness Report* and with the current instalment featuring a total of 125 economies, this Report is the most comprehensive of its type. This year, coverage has been expanded to Angola, Barbados, Burkina Faso, Burundi, Lesotho, Mauritania, Nepal, Suriname and Zambia.

This year’s Report features a number of country-specific boxes on Argentina, Brazil, France, Hungary, Israel, Japan, South Africa, Turkey and the United States, providing an in-depth analysis of the issues affecting national competitiveness. Moreover, the Report contains a number of external studies on pertinent issues related to global competitiveness and, more generally, themes which emanate from the World Economic Forum’s concern with growth and development. In addition to these, the Report also includes an interview, in which the Forum’s Chief Economist Augusto Lopez-Claros talks to Harvard Professors Richard Cooper and Kenneth Rogoff about the ramifications of global imbalances.

The Report contains a detailed country/economy profile for each of the 125 economies featured in the study, providing a comprehensive summary of the overall position in the Index rankings as well as a guide to what are considered to be the most prominent competitive advantages and competitive disadvantages of each. Also included is an extensive section of data tables with global rankings covering over 100 indicators.

## Highlights

- **Switzerland** is number one in *The Global Competitiveness Report* for the first time, reflecting the country's sound institutional environment, excellent infrastructure, efficient markets and high levels of technological innovation. The country has a well developed infrastructure for scientific research, companies spend generously on R&D, intellectual property protection is strong and the country's public institutions are transparent and stable.
- The **United States**, previously in first place, continues to enjoy an excellent business environment, efficient markets and is a global centre for technology development. However, its overall competitiveness is threatened by large macroeconomic imbalances, particularly rising levels of public indebtedness associated with repeated fiscal deficits. Its relative ranking remains vulnerable to a possible disorderly adjustment of such imbalances, including historically high trade deficits.
- As has been the case in recent years, the **Nordic countries** hold prominent positions in the rankings this year, with **Finland** (2), **Sweden** (3), and **Denmark** (4) all among the top ten most competitive economies. The Nordic countries have been running budget surpluses and have lower levels of public indebtedness on average than the rest of Europe. Prudent fiscal policies have enabled governments to invest heavily in education, infrastructure and the maintenance of a broad array of social services. Finland, Denmark and Iceland have the best institutions in the world (ranked 1, 2 and 3, respectively) and, together with Sweden and Norway, hold top ten ranks for health and primary education. Finland, Denmark and Sweden also occupy the top three positions in the higher education and training pillar, where Finland's top ranking is remarkable for its durability over time.
- **Germany** and the **United Kingdom** continue to hold privileged positions, ranked 8th and 10th, respectively. In the areas of the safety of property rights and the quality of the judicial system, Germany is second to none. By contrast, both countries score poorly for their macroeconomic environments, though Germany does less well. In both cases public sector deficits and rising levels of public indebtedness as well as a strengthening of the currency in both countries in 2005 are the main causes of this. The United Kingdom excels in market efficiency, enjoying the most sophisticated financial markets in the world. Its flexible labour market and low levels of unemployment stand in sharp contrast to Germany, whose business community is burdened with sclerotic labour regulations. But Germany does somewhat better than the United Kingdom in innovation indicators and the sophistication of its business community is peerless.
- **Italy's** competitive position has continued on a downward trend, well established over the past few years, dropping four places to 42 in this year's Report. The list of problems is long. Italy's underlying macroeconomic environment is poor due to having run budget deficits without interruption for the past 20 years. The fiscal situation has deteriorated sharply since 2000 and public debt levels are well over 100% of GDP, among the highest in the world. The poor state of Italy's public finances may itself reflect more deep-seated institutional problems, which are shown in low rankings for variables such as the efficiency of government spending, the burden of government regulation and, more generally, the quality of public sector institutions.
- As in previous years, **Poland** remains the worst performer among the EU economies, with a rank of 48, right behind **Greece** (47) and well behind **Estonia** (25), the **Czech Republic** (29) and **Slovenia** (33), Central and Eastern Europe's top performers. Particular weaknesses in Poland stem from the highly protected and rigid labour markets, particularly harmful in a country where unemployment is close to 18%. As in many transition economies, businesses have to deal with uncertainties stemming from weak institutions, corruption and crime, favouritism, an easily influenced judiciary and a weak property rights regime. Deeper reforms will be necessary if Poland is to increase productivity and stay competitive in the face of rising labour costs. Among the candidate countries, **Turkey** and **Croatia** both seem to have benefited from the "EU bonus", moving up impressively in the rankings by 12 places each, to positions 59 and 51, respectively.
- **Russia** has fallen from its 53rd rank in 2005 to 62nd in 2006. The private sector in Russia has serious misgivings about the independence of the judiciary and the administration of justice. Legal redress in Russia is neither expeditious, transparent nor inexpensive, unlike in the world's most competitive economies. A ranking of only 110 among 125 countries in 2006 suggests that it is time-consuming, unpredictable and a cost burden to enterprises. Partly because of this, the property rights regime is extremely poor and worsening. Russia's ranking in this indicator during the last two years has suffered a precipitous decline, from 88 in 2004 to 114 in 2006, among the worst in the world.
- Leading within Asia are **Singapore** and **Japan**, ranked 5th and 7th respectively, closely followed by **Hong Kong** (11) and **Taiwan** (13). These economies are characterized by high-quality infrastructure, flexible and efficient markets, healthy and well-educated workforces and high levels of technological readiness and innovative capacity. **Malaysia**, ranked 26th overall, has one of the most efficient economies in the region with flexible labour markets, relatively undistorted goods markets and public institutions which in many areas (e.g., rule of law, the legal system) are already operating at the level of the top performing new EU members.
- **Korea's** (24) performance is slightly more uneven than that of Malaysia. The country has already reached world-class levels in certain areas, such as macroeconomic management, school enrolment rates at all levels, penetration rates for new technologies and scientific innovation, as captured by data on patent

registration. However, Korea continues to be held back by institutional weaknesses, both public and private, for which it has not yet reached the standards of Finland, Sweden, Denmark or Chile. **Taiwan** (13) continues to operate at a high level of efficiency but has dropped below last year's "top-ten" status. It is an innovation powerhouse, with levels of per capita patents registration exceeded only by the US and Japan. It continues to excel in higher education and training indicators (ranked 7th overall) but, like Korea, its overall rank is weighed down by weaknesses in the institutional infrastructure.

- **India** ranked 43rd overall with excellent scores in capacity for innovation and sophistication of firm operations. Firm use of technology and rates of technology transfer are high, although penetration rates of the latest technologies are still quite low by international standards, reflecting India's low levels of per capita income and high incidence of poverty. Despite these encouraging results, insufficient health services and education as well as a poorly developed infrastructure are limiting a more equitable distribution of the benefits of India's high growth rates. Moreover, successive Indian governments have proven remarkably ineffective in reducing the public sector deficit, one of the highest in the world.
- **China's** ranking has fallen from 48 to 54, characterized by a heterogeneous performance. On the positive side, China's buoyant growth rates coupled with low inflation, one of the highest savings rates in the world and manageable levels of public debt have boosted China's ranking on the macroeconomy pillar of the GCI to 6th place – an excellent result. However, a number of structural weaknesses need to be addressed, including in the largely state-controlled banking sector. Levels of financial intermediation are low and the state has had to intervene from time to time to mitigate the adverse effects of a large, non-performing loan portfolio. China has low penetration rates for the latest technologies (mobile telephones, Internet, personal computers), and secondary and tertiary school enrolment rates are still low by international standards. By far the most worrisome development is a marked drop in the quality of the institutional environment, as witnessed by the steep fall in rankings from 60 to 80 in 2006, with poor results across all 15 institutional indicators, and spanning both public and private institutions.
- As in previous years, **Chile**, ranked 27th, leads the rankings in **Latin America and the Caribbean**. Chile's position reflects not only solid institutions – already operating at levels of transparency and openness above those of the EU on average – but also the presence of efficient markets that are relatively free of distortions. The state has played a supportive role in the creation of a credible, stable regulatory regime. Extremely competent macroeconomic management has been a critical element in creating the conditions for rapid growth and sustained efforts to reduce poverty. The resources generated by Chile's virtuous fiscal policy have gone to finance investment in infrastructure and, increasingly, education and public health. Given Chile's strong competitive position, the authorities will have to focus attention on upgrading the capacity of the labour force with a view to rapidly narrowing the skills gap with respect to Finland, Ireland and New Zealand, the relevant comparator group for Chile.
- **Brazil's** ranking, 66th overall, down from 57th last year, reflects a particularly poor position in the macroeconomy pillar of the GCI (114th, as compared to 91st in 2005), resulting from a large budget deficit relative to that of other countries, if not to its historical performance. High levels of government debt and a wide interest rate spread give an indication of the heavy intermediation costs in the Brazilian banking sector, which negatively affect private sector investment and contribute to lower economic growth.
- **Mexico's** ranking has remained broadly stable, moving up one place to 58. The country's somewhat uneven performance over the various pillars of the GCI is shown by relatively high scores for health and primary education, goods' market efficiency and selected components of technological readiness, e.g., FDI and technology transfer, no doubt reflecting the close links of the Mexican market to the US in the context of NAFTA. However, this is offset by the same institutional weaknesses as are prevalent in the rest of Latin America.
- A lack of sound and credible institutions remains a significant stumbling block in many Latin American countries. **Bolivia** (97), **Ecuador** (90), **Guyana** (111), **Honduras** (93), **Nicaragua** (95) and **Paraguay** (106) achieve low rankings overall and, in particular, are among the worst performers for basic elements of good governance, including reasonably transparent and open institutions. These countries all suffer from poorly defined property rights, undue influence, inefficient government operations, as well as unstable business environments. Perceived favouritism in government decision-making, an insufficiently independent judiciary, and security costs associated with high levels of crime and corruption make it difficult for the business community to compete effectively.
- As in previous years, **Venezuela's** overall performance (88, down four places) continues to deteriorate, despite the emergence of a government budget surplus, a phenomenon seen in all oil-exporting countries. The single most important obstacle to development, however, appears to be the insufficient quality of Venezuelan institutions, especially to combat corruption, undue influence in decision-making and to reduce government intervention, all areas in which Venezuela figures among the worst ranks. For all the talk about the social dimension of the government's "benign" revolution, school enrolment rates are either mediocre or poor, with Venezuela ranking 84th, just behind Vietnam, Suriname and China, at the secondary school level. Venezuela's infant mortality rate of 16 per 1,000 live births is on a par with Albania and is higher than that of Russia or the Ukraine, two countries still recovering from decades of public health neglect.
- Within the **Middle East and North Africa (MENA)** region, the Gulf States continue to perform quite well in the overall GCI rankings. The **United Arab Emirates** (UAE) ranked 32nd while **Qatar** moved up eight

places to rank 38th. Terms-of-trade gains linked to oil prices have boosted growth rates and reinforced already high levels of confidence in the business community, resulting from ongoing institutional modernization and improvements in macroeconomic management. However, in many of the resource-rich countries, the availability of public finance appears – at least for now – not to have translated into improvements in human capital, which would play an important role in helping these economies that are highly dependent on oil and vulnerable to external shocks to diversify their economic base.

- **Tunisia**, the most competitive economy in the region ranked 30th, **Algeria** (76) and **Morocco** (70) all improved remarkably from last year, thanks in part to significant improvements in institutions. **Egypt** dropped nine ranks to 63rd this year, due to an extremely sharp drop of 58 places to rank 108 in the macroeconomy pillar, as it struggled with worsening government finances and a large debt ratio. It also fell back in the areas of higher education and training and innovation.
- In **sub-Saharan Africa**, **South Africa** (45th) does particularly well in a number of areas typically reserved for rich, innovation-driven economies. Its economic sophistication is reflected in high ranks for property rights, private institutions, goods and financial market efficiency, business sophistication and innovation.
- **Botswana**, ranked 81st, has succeeded in using its wealth from key natural resources to boost the growth rate. Key to Botswana's success have been its reliable and legitimate institutions, the prudence of government spending and public trustworthiness of its politicians. The transparency and accountability of public institutions have contributed to a stable macroeconomic environment, efficient bureaucracy and market-friendly regulation.
- On the other hand, **Tanzania** and **Uganda** ranked 104th and 113th, respectively, suffer from large weaknesses in health and education. Their failure to make a significant improvement in these basic requirements is likely to continue to dent their growth prospects. **Nigeria** is down 18 places to 101, on the back of poor macroeconomic management despite the surge in oil export revenues and **Zimbabwe** at 119 continues its rapid descent to the bottom of the rankings, due to a further deterioration of the institutional climate, including the erosion of property rights and rule of law, as well as problems of corruption and the implications these and other factors have had for macroeconomic management.

#### Notes to Editors:

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