Global Competitiveness

Competitiveness has become a fixation for political leaders, the popular press, corporations, and national and international institutions. Even average citizens worry about the "competitiveness" of a nation when, puzzled, they observe how outsourcing or manufacturing relocation takes jobs from their home country.

The World Economic Forum presents a new index of competitiveness: the Global Competitiveness Index. This new index is designed with the goal of unifying the two indexes currently produced by the World Economic Forum (the Growth Competitiveness Index and the Business Competitiveness Index). The new index is described here without being assessed.

Competitiveness is defined as the set of institutions, policies and factors that determine the level of productivity of a country. The level of productivity, in turn, sets the sustainable level of prosperity that can be earned by an economy. In other words, more competitive economies tend to be able to produce higher levels of income for their citizens. The productivity level also determines the rates of return obtained by investments in an economy. Given that the rates of return are the fundamental determinants of the aggregate growth rates of the economy, a more competitive economy is one that is likely to grow at larger rates over the medium to long run.

The new index is based on three principles:

– The first principal is that the determinants of competitiveness are complex. This complexity is captured by 12 pillars of economic competitiveness which are allocated to three subindexes:

  Subindex 1: Basic Requirements:
  - Institutions
  - Infrastructures
  - Macroeconomic Stability
  - Security
  - Basic Human Capital

  Subindex 2: Efficiency Enhancers:
  - Advanced Human Capital
  - Goods Market Efficiency
  - Labour Market Efficiency
  - Financial Market Efficiency
  - Technological Readiness
  - Openness and Market Size

  Subindex 3: Innovation Factors:
  - Business Sophistication
  - Innovation

– The second principle on which the Global Competitiveness Index is founded is that economic development is a dynamic process of successive improvement, in which economies find increasingly sophisticated ways of producing and competing. In other words, the process of economic development evolves in stages. The countries are allocated to one of the (three) stages of development (or the transitional stages).

– The third principle on which the new index is founded is that, as economies develop, they move from one stage to the next in a smooth fashion rather than in abrupt jumps. Thus, the weights of each of the subindexes change as a country develops. The theory of stages of development suggests that, for less advanced economies, the basic requirements are more important; for intermediate economies, efficiency enhancers are the key; and for advanced countries, innovation factors are central.

The Table displays the results of computing the Global Competitiveness Index for 2004. The countries are ranked in decreasing order. The second column contains the value of the index and the third column the rank number. The following six columns contain the information (value and rank) for each of the three subindexes: the basic requirements subindex, the efficiency enhancers subindex, and the innovation factors subindex, respectively.

The most competitive country in the world is the United States, with an overall score of 5.21, followed by Finland (5.04), and Denmark (4.95), Switzerland (4.93), and Sweden (4.92), which constitute the top five. The United States does not score particularly well in basic requirements (rank 18: the main cause is its dismal macroeconomic stability – rank 83 – and its not-so-great performance in security – rank 37). But it is the world's leader in both efficiency enhancers and innovation factors. Since the United States is in the third stage of development (the innovation stage), the weight of the basic requirements is relatively minor, and so the other two subindexes put this country in the leading position. Finland leads the world in basic requirements, but it only ranks 6th in efficiency enhancers (it is interesting to notice its 18th place in labour market efficiency) and 4th in innovation factors. Denmark is 2nd, 5th, and 8th, respectively.

The next five are Germany (4.86), Singapore (4.85), Hong Kong (4.81), United Kingdom (4.80), and Japan (4.79). Of particular interest is the extremely

The global competitiveness index

Country	Overall index		Three main components					
			Basic requirements		Efficiency enhancers		Innovation factors	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank
United States	5.21	1	5.50	18	5.02	1	5.18	1
Finland	5.04	2	6.03	1	4.54	6	4.70	4
Denmark	4.95	3	5.99	2	4.55	5	4.42	8
Switzerland	4.93	4	5.88	6	4.45	8	4.61	6
Sweden	4.92	5	5.76	8	4.45	7	4.69	5
Germany	4.86	6	5.75	10	4.27	14	4.74	3
Singapore	4.85	7	5.89	5	4.60	4	4.15	14
Hong Kong SAR	4.81	8	5.95	4	4.65	2	3.90	20
United Kingdom	4.80	9	5.48	20	4.61	3	4.38	9
Japan	4.79	10	5.35	22	4.26	15	4.94	2
Taiwan	4.72	11	5.31	23	4.38	10	4.44	7
Netherlands	4.72	12	5.59	14	4.36	11	4.32	10
Iceland	4.70	13	5.80	7	4.42	9	3.97	19
Norway	4.69	14	5.96	3	4.25	16	4.01	18
Canada	4.66	15	5.58	15	4.30	12	4.23	13
Australia	4.63	16	5.70	11	4.28	13	4.04	17
France	4.60	17	5.49	19	4.15	20	4.30	11
Austria	4.57	18	5.61	12	4.13	21	4.11	16
Belgium	4.54	19	5.51	17	4.12	22	4.14	15
New Zealand	4.54	20	5.60	13	4.25	17	3.87	23
Ireland	4.38	27	5.23	27	4.11	23	3.88	21
Spain	4.10	34	5.08	33	3.79	28	3.53	29
Slovenia	4.09	35	5.13	32	3.63	32	3.41	32
Czech Republic	4.06	38	4.83	42	3.60	36	3.35	34
Lithuania	4.06	39	4.80	43	3.61	34	3.30	37
Portugal	4.05	40	5.21	28	3.64	31	3.20	41
Slovak Republic	4.03	41	4.78	45	3.61	35	3.16	44
Latvia	3.97	44	4.86	40	3.47	47	2.93	63
Hungary	3.96	46	4.75	47	3.51	44	3.08	48
Greece	3.84	51	4.94	37	3.47	48	3.13	47
Italy	3.80	56	4.56	54	3.48	46	3.48	30
Poland	3.57	72	4.25	69	3.13	63	2.99	58

low score of Germany in labour market efficiency (82nd in the world). Sweden is ranked quite low in that same pillar (25th), which is led by Hong Kong (1st) and Singapore (2nd).

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Reference

World Economic Forum, *The Global Competitiveness Report 2004–2005*, Basingstoke 2004, pp. 64–5.