

Once a member of the top 30, **Thailand** (36th) drops for the second year in a row. The country's competitiveness suffers from protracted instability. Unsurprisingly, the quality of public institutions continues to deteriorate. Ranked 63rd in this category, Thailand has dropped 20 places over the past three years. Insufficient protection of property rights (75th) and security (85th) are of particular concern to the business community. With respect to public health (78th), HIV/AIDS, which afflicts 1.4 percent of the adult population; tuberculosis (142 cases per 100,000 population); and malaria (400 cases per 100,000 population) are all major concerns. Thailand's technological readiness (63rd) is also lagging. Although mobile telephony penetration is among the densest in the world at 124 mobile subscriptions per 100 population, the use of the Internet (21 users per 100) and computers (6 per 100) remains scarce. Looking at the most positive aspects of Thailand's performance, the macroeconomic situation (22nd) improved slightly between 2007 and 2008. The efficiency of the labor market (25th) constitutes another strength. Finally, the sheer size of its domestic (22nd) and foreign (18th) markets is a source of economies of scale.

India is up one position at 49th. India's GDP has grown 6.6 percent per year on average since 1991, when many economic reforms began in earnest, yet its GDP per capita remains just above US\$1,000—a third and a tenth, respectively, of those in China and Russia. A wide gap also remains between rural India and its thriving economic and technological hubs. India hosts some of the best universities in the world, and a number of Indian corporate giants have become major global players or even leaders in their fields. At the same time, some 42 percent of the population lives on less than \$1.25 a day (in PPP international dollars), more than twice China's equivalent figure. Mirroring this dichotomy, India's competitive performance continues to exhibit a rather reversed development pattern. It ranks an outstanding 28th in the most complex areas measured by the business sophistication and innovation subindex, ahead of several advanced economies. The country also boasts fairly well functioning institutions (54th), bustling financial markets (16th), and a sound banking sector (25th) supported by a vast domestic market (4th largest in PPP terms). On the other hand, the country underperforms on some of the basic determinants of competitiveness, namely health and primary education (101st), macroeconomic stability (96th)—though improving—and infrastructure (76th). In addition, penetration rates for mobile telephony (116th), the Internet (104th), and personal computers (96th) remain among the lowest in the world, while inefficiencies in the labor market (83rd) prevent an optimal allocation of human capital. Improvements in these areas would place India on a stronger growth trajectory going into the future.

Moving up one place, the assessment of **Indonesia** (54th) is very much in line with that of the previous three years. Three areas—among the most important given Indonesia's current stage of development—are of particular concern. First, infrastructure is in need of upgrading (84th), in particular with respect to ports (95th) and roads (94th). Second, several indicators reveal the poor level of public health: tuberculosis and malaria incidence are among the highest in the world, while infant mortality remains high. The third area of concern relates to technological readiness (88th). ICT penetration rates remain low by all measures and have been improving more slowly than in other countries. Indeed, related to this last area, Indonesia is now in transition between being a factor-driven economy and becoming an efficiency-driven one. The country's competitiveness will therefore increasingly be driven by such efficiency enhancing factors. On a more positive note, similar to the situation in India, Indonesia ranks higher in more complex factors such as business sophistication (40th) and innovation (39th). This certainly bodes well for the future, but does not reduce the urgency of making improvements in the other priority areas highlighted.

Vietnam is down five positions to 75th. Although the country improves in most of the categories of the Index, the considerable worsening of its macroeconomic situation—dropping from 70th to 112th place—weighs heavily on its economy and competitiveness. A widening trade deficit, an overheating economy, and a global rise in commodity prices caused inflation to shoot up to 23 percent in 2008. This in turn triggered a crisis of confidence, big swings in interest rates, and a sharp fall of the dong, the local currency. It is crucial for monetary authorities and the government to bring inflation back under control and restore macroeconomic stability so that Vietnam can reap the benefits of the efforts and successes achieved in other areas.

Like last year, **Pakistan** ranks 101st. Still at an early stage of development, the country fails to improve significantly on any of the basic determinants of its competitiveness, namely institutions (104th), infrastructure (89th), macroeconomic stability (114th), and basic (128th) and higher education (118th). To make things worse, the threat of terrorism bears heavily on the business community.

Latin America and the Caribbean

Chile leads the Latin America and Caribbean region in competitiveness at a still remarkable 30th place, although it has lost some ground in the last two years, with a four-position fall overall. The country's successful early and timely market liberalization and trade opening, as well as consistent macroeconomic

management have resulted in extremely high growth rates over the last two decades or so. Notably, thanks to the countercyclical policies followed in recent times of high commodity prices, Chile is now, more than any other economy in the region, able to stimulate the economy in the current slowdown with a comprehensive stimulus package. Besides sound macroeconomic fundamentals (19th), Chile's performance in the GCI is especially boosted by efficient and transparent institutions (35th); highly developed infrastructure (30th); and well-functioning goods (26th), labor (41st), and financial (32nd) markets—the latter displaying the largest pension industry in the region. Completing the picture, Chile also boasts a sophisticated business sector (39th), effectively absorbing technology and knowledge coming from abroad, notably through FDI (21st for FDI and technology transfer). The main area requiring improvement for Chile going forward remains the unsatisfactory quality of its educational system, notwithstanding increasing investment in education and rising educational attainment rates. Despite a slight improvement in both cases, primary and higher education continue to be assessed fairly poorly at 96th and 45th ranks, respectively, pointing to the need for further upgrading if Chile is to catch up with best practice countries and establish an innovation-conducive environment.

Fairly stable at 42nd, **Puerto Rico** follows Chile as the second-most competitive economy in Latin America and the Caribbean. Among the island's main competitive advantages are its sound innovation and sophistication factors (31st), with dynamic businesses operating high in the value chain (29th) and with an important innovation potential (31st). It also has a well-developed financial sector (19th) and efficient goods markets (34th).

Third in the region, **Barbados** improves three places to 44th, continuing the upward trend observed last year. The country displays a rather mixed performance, whereby very poor macroeconomic fundamentals (115th), a small market size (126th), and, to a lesser extent, a relatively inefficient goods market (72nd) go hand in hand and are counterbalanced by first-class institutions (20th) and infrastructure (21st), as well as excellent primary (6th) and higher (26th) education, among other factors.

Costa Rica climbs another four ranks from last year to reach 55th place, overtaking Panama (59th) as the best performer in Central America. It is worth noting Costa Rica's remarkable evolution in the rankings since 2006, with an overall 13-position improvement since that year, demonstrating the success of the unique development strategy followed by the country over decades. This has consistently focused on high-quality education, good governance standards, and production and export diversification—notably toward high-tech products and eco-tourism. The GCI underscores Costa Rica's fairly good institutional environment (47th), quality education at all levels (29th for primary education and 44th for higher education and training), and the sophistication of its businesses (41st) and innovation potential (34th) as areas of strength. On a less positive note, notwithstanding recent progress, macroeconomic stability, at 101st, remains a cause for concern, while the poor state of the country's infrastructure (82nd) represents a potential bottleneck for further economic modernization and diversification. Finally, red tape and rigidities in different sectors continue to affect the country's business environment.

The regional giant **Brazil**, at 56th, continues the impressive upward evolution it started last year, gaining another eight positions, overcoming Russia for the first time, and partially closing the competitiveness gap with India and China among the BRIC economies. The important steps taken since the 1990s toward fiscal sustainability, as well as measures taken to liberalize and open the economy, have significantly boosted the country's competitiveness fundamentals, providing a better environment for private-sector development. The GCI assessment highlights further improvements across the board from last year, particularly in the efficiency enhancers, from which Brazil's growth potential critically depends in its current stage of development. It also reflects Brazil's main competitive strengths, notably its extensive and growing domestic market (9th), one of the most developed financial markets in the region (51st), and a diversified and sophisticated business sector (32nd) with a significant potential for innovation (43rd). However, a number of shortcomings remain to be addressed for Brazil to fully tap its important competitive advantages and further reduce poverty and income inequality. The institutional environment (93rd), macroeconomic stability (109th), and the efficiency of the goods (99th) and labor markets (80th) continue to be poorly assessed, notwithstanding some improvements in recent years. Moreover, despite the government's increased focus, the educational system at all levels (79th and 58th for health and primary education and higher education and training, respectively) remains in serious need of upgrading, and a particular effort should be made to reduce the high student dropout rates and regional disparities in education attainment and quality.

Mexico's rank remains unchanged at 60th, demonstrating some resilience to the current international economic downturn. This is particularly notable given Mexico's close association with the US business cycle in terms of availability of financing, trade, and remittances. The important steps taken by Mexico in the last two decades toward more responsible fiscal policies (28th in the macroeconomic stability pillar) as well as in opening, liberalizing, and diversifying its economy are now enabling the country to address the recession

more effectively. A number of competitive advantages underpin Mexico's competitiveness performance. These include the sound macroeconomic fundamentals already mentioned; one of the largest markets in the world available for local companies (11th), thanks to a comprehensive network of preferential trade agreements and an important and expanding domestic market; and a diversified and fairly sophisticated business sector (62nd) that displays relatively well developed clusters (53rd), quality local suppliers (47th), and a comprehensive value chain breadth (54th), and that exports mainly manufactured products. At the same time, the GCI analysis points to some important weaknesses in key areas for the country's sustained growth in the medium to long term. The inefficiency of public institutions (101st), together with high insecurity (125th) due to spiraling and widespread violence and crime, are reasons for concern. Equally worrisome are Mexico's rigid labor market (115th)—characterized by burdensome labor regulations, high payroll taxes, and high social contributions—and inefficient goods market (90th), with widespread red tape and insufficient competition. Last but not least, the higher education and training system (74th) does not seem to provide the economy with the necessary pool of skilled labor, notably scientists and engineers (94th), and is not creating an environment conducive to adopting new technologies (71st in the technological readiness pillar) and generating new ones (78th in the innovation pillar). Further action is needed to liberalize markets, upgrade the educational system, and improve public governance in the country.

Uruguay, at 65th and up 10 places from last year, presents the largest improvement in the region. It has made significant progress in various areas, including infrastructure, macroeconomic stability, higher education and training, and technological readiness. The country's development model and competitiveness strategy rest on a continuous emphasis on education at large (ranked 52nd for health and primary education and 50th for higher education and training), and it has among the best regional public governance standards (39th for public institutions). Strides toward macroeconomic stability have also been made in recent years, notably with a significant reduction of public debt levels in the last few years (reduced from 116.51 percent of GDP in 2006 to 53 percent in 2008). Widespread rigidities in the factor markets remain a cause of concern, especially in the labor market (119th), but also, to a lesser extent, in the financial (88th) and goods (78th) markets.

Colombia has gained five positions since last year and is now placed 69th. The country has achieved significant advances in macroeconomic stabilization and civil pacification and can count on a rather extensive market size (31st) and sophisticated business sector (60th), successfully absorbing technology from abroad (66th for technological readiness) and with a fairly high innovation potential (63rd). However, the poor institutional environment (101st), displaying notably low levels of security for businesses and the population at large (132nd), infrastructure in sore need of improvement (83rd), and rather inefficient factor markets (88th, 78th, and 78th for goods, labor, and financial markets, respectively) are among the areas hindering Colombia's competitive potential going forward.

Peru is up five places to 78th, continuing the upward trend started last year and improving in most of the dimensions assessed by the GCI. The country's positive recent growth performance has much to do with the competent monetary and fiscal policy pursued particularly over the last decade, with falling levels of public indebtedness (from 37.8 percent of GDP in 2006 to 24 percent in 2008) and consistent budget surpluses (2.40 percent of GDP in 2008); this has gone hand in hand with goods and labor market liberalization, trade and FDI opening, and maximization of the revenues from the country's rich natural and mineral resources. Peru also benefits from strengths such as the fairly large size of its market (46th) and its sophisticated and rather deep financial sector (39th). For Peru to continue to grow in a sustained fashion and fulfill its competitive potential going forward, a number of weaknesses will need to be tackled. This will include improving the quality of the institutional environment (90th), upgrading the country's poor infrastructure (97th) and educational standards and access at large (91st and 81st for health and primary education and higher education and training, respectively). In particular, an improved educational system will better cater to the needs of an efficiency-driven economy such as Peru and facilitate technological adoption (77th for technological readiness) and generation (109th for innovation) in the domestic market. Finally, poverty levels and income and regional inequalities continue to loom as a cause of social unrest in the country, despite the current administration's efforts to increase social expenditure and public investment in infrastructure.

Argentina climbs three places to 85th place, a still disappointing result given the country's many competitive strengths. The country benefits from a fairly educated labor force (59th and 55th on the health and primary education and higher education and training pillars, respectively) and a large market size (23rd). On the other hand, serious flaws continue to affect the country's competitiveness landscape, representing enduring vulnerabilities in the current difficult economic outlook and going forward. In particular, the expansionary fiscal and monetary policies of recent years have caused the economy to overheat, resulting in high inflation levels (8.59 percent in 2008). The still-high public debt (48.5 percent of GDP in 2008), despite debt restructuring, coupled with the reduction in tax revenues brought about by decreased commodities prices, are particularly worrisome features in the face of the current global economic downturn. Furthermore, the

dismal 126th rank for the quality of the institutional environment highlights the business community's deep distrust of, and pessimism about, government efficiency and transparency, respect of the rule of law, and even-handedness in dealing with the private sector. The tendency of the last two administrations to adopt discretionary policies (including a recent attempt to increase taxes on agricultural exports, as well as the nationalization of the private pension system) has eroded the confidence of national and international investors, thus creating greater incentive for capital outflows. On a related note, factor markets continue to be unable to allocate resources to their most efficient use because of the many rigidities troubling the goods (124th), labor (123rd), and financial (116th) markets. Going into the future, institutionalization of sound fiscal policies, a greater respect for the rule of law, the liberalization of the factor markets, and a reduction of red tape will be crucial to restoring investors' trust in the fairness of the government and in the business environment in Argentina.

Venezuela falls to 113th place, losing eight positions from last year and continuing the downward trend observed in recent years, despite some marginal improvements in macroeconomic stability and infrastructure quality and the sheer size of its market (37th). The GCI assessment continues to highlight major problematic areas in Venezuela's competitiveness performance. Among these is its poor macroeconomic environment (91st)—despite windfall oil revenues in recent years, this poor showing is mainly due to expansionary fiscal policies and discretionary administrative measures. The dreary quality of its institutional environment, for which Venezuela continues to be assessed as worst out of all countries covered by the GCI, is another major problem area; this mirrors enduring concerns on the part of the business community in Venezuela about the respect of the rule of law, the fairness and efficiency of the government in its day-to-day operations and strategy, and the high violence and crime levels in the country. Other serious concerns include factor markets that are among the least efficient in the world, at 132nd (goods market efficiency), 133rd (labor market efficiency), and 126th (financial market sophistication). Underdeveloped infrastructure (106th) and poor educational standards at all levels (81st and 83rd for primary health and primary education and higher education and training, respectively) complete the picture. The growing distortions in the economy and the high vulnerability of public finance to changes in oil prices are particularly troubling and require urgent structural reform; such reform should also ensure that public spending on health and education are better targeted. Restoring investors' trust in the country's institutional and business environment would be equally important for unleashing Venezuela's competitiveness potential going forward.

Middle East and North Africa

At 22nd, **Qatar** takes the lead in the Middle East and North Africa region, gaining four positions compared with last year's edition of the *Report*. The country continues to weather the economic crisis well thanks to its abundant resources in natural gas remaining, with an estimated 18 percent growth rate in 2009, the fastest-growing economy in the Gulf Cooperation Council region. This positive economic performance is reflected in a number of indicators captured by the GCI. Over the past year, the country moved up by six places from last year's already high base in the macroeconomic stability pillar, to 13th. This is a reflection of both absolute improvements—notably in the budgetary surplus and public debt levels—and the poorer macroeconomic performance of many other countries due to the financial crisis and concurrent countercyclical measures. In terms of macroeconomic management, the country's priorities remain to reduce inflation, which was exacerbated by rising food and housing prices in 2008, and to expand credit. Qatar is moving in the right direction in many areas of competitiveness. The upgrading of the institutional framework continues (9th), and goods and labor markets are more efficient than in previous years, ranked 21st and 14th, respectively. In addition, the country has made great strides in harnessing the latest technologies, such as mobile telephony (2nd) and broadband (37th), and in opening up to foreign investment (it is ranked 13th on the restrictiveness of rules and regulations on FDI). Moving forward, improving competitiveness will necessitate further measures to encourage students to pursue tertiary education, where enrollment rates remain low (93rd). Additionally, the stability of Qatar's financial sector (35th) would benefit from a stronger protection of investor's rights. The country ranks 71st for the strength of investor protection and 98th for the strength of legal rights.

The **United Arab Emirates (UAE)** occupies the 23rd position in this year's *Report* and 2nd in the region, building on the positive trend of the past few years. Notwithstanding the current cyclical downturn, the available data suggest that the UAE has in place the underlying fundamentals of a competitive economy. The lower score in macroeconomic stability due to rising public debt and lower budget surplus is in line with most other countries' results in this pillar and therefore does not lead to significant changes in the ranking. However, serious doubts persist about the sustainability of public finances in Dubai and the potential effect a further deterioration may have on the country as a whole. As the global downturn continues to limit the availability of finance and reduces tourism and trade, the country's main sectors of activity are likely to be adversely affected. However, in spite of the fall in real estate prices, the assessment of its financial markets