Term

Global Competitiveness Index

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Definition

The "Global Competitiveness Index" (GCI) compares countries' productivity and efficiency and highlights their comparative advantages and the advisability of investing in them. The index examines the efficiency of different sectors of the national economies and their contributions to the country's productivity. It is useful because it identifies the strengths and weaknesses of national economies.

Background

The Global Competitiveness Index is published annually by the World Economic Forum,[1] an independent group whose goal is to promote economic growth and social development. Most of the world's countries are ranked by the index.[2]

Switzerland is the world's most competitive country according to the 2006/7 index. Finland is ranked second and Sweden is ranked third. Israel is ranked 15th.

Usage

The Global Competitiveness Index has varied uses:

- It provides a comparative overview of the economic and business potential of the included countries.
- It estimates the productivity of individual sectors and the economy as a whole.
- It provides an assessment of the value of investing in the listed countries based on the identification of comparative advantages.
- It highlights the strengths and weaknesses of national economies, and identifies elements of the economy that stimulate or inhibit growth.

However, some limitations to the index should be noted.

- The ordinal ranking of economies does not express the size or cause of gaps between countries. To understand how a particular country's overall rank reflects its specific economic make-up, it is necessary to examine the scores earned for each sub-category and variable.
- Technical and statistical limitations reduce the precision and reliability of both objective measures[3] and managerial surveys.[4]

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1 See the World Economic Forum website

2 See the Global Competitiveness Index Rankings (page 14, table 4) in the Global Competitiveness Index.

3 The Reut Institute is interested in the GCI as it pertains to quality of life. Competitiveness reflects an economy's productivity and the efficiency with which it uses its existing resource base as a growth engine for improved quality of life. When estimating quality of life, careful thought must be given to the choice of objective variables, like GDP. Though the GCI uses GDP, the GPI (Genuine Progress Indicator) better represents an economy's quality of life growth prospects because it excludes the economic growth due to property damage, security, and crime. Though these factors contribute to GDP growth, they do not improve wellbeing.

- The index reflects the existing reality caused by preexisting policy. It does not encapsulate the effects and future benefits of recent policy changes.
- The index does not reflect the unique characteristics of countries, nor does it address subjective and varying perceptions of quality of life.

Construction

The Global Competitiveness Index is built upon three sub-indices broken down into nine pillars. The pillars are composed of ninety variables that influence a country's competitiveness.[5] The three sub-indices are:

- **Basic Requirements** – The pillars within this sub-index are: macroeconomic stability, institutions, infrastructure, and health and primary education.[6] This sub-index is most influenced by the performance of the public sector.

  The competitiveness report recognizes these categories as the key contributors to development for countries with GDP per capita less than $2,000 calculated at PPP.
- **Efficiency Enhancers** – The pillars within this sub-index are: higher education and training, market efficiency (in terms of products, labor, and capital), and technological readiness (an economy's ability to adapt existing technologies).[7]

  The competitiveness report recognizes these categories as the key contributors to development for countries with GDP per capita between $3,000 and $9,000 calculated at PPP.
- **Innovation and Sophistication** – The pillars within this sub-index are: business sophistication and innovation. This sub-index is most influenced by the private sector.

  The competitiveness report recognizes these categories as the key contributors to growth for countries with GDP per capita over $17,000 calculated at PPP.

Methodology

The variables used in determining the GCI are drawn from two sources:

- Statistical data collected from a variety of sources such as the IMF and the World Bank
- Managerial surveys in which participants are asked to rank various aspects of the market's conduct according to a sliding scale[8]

Israel's Rank

In 2006/7, Israel was ranked 15th by the Global Competitiveness Index. The 2006/7 rank is a marked improvement on the previous year's performance, due in large part to the recent capital

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4 For example, the quality of a survey is influenced by the number of observations, the identity of those surveyed, the period of time during which the survey was taken, correlation between the survey variables, and the absence of important variables

5 For example, the macroeconomy category includes the national deficit, the national savings rate, the inflation rate, the national debt, and the nominal interest rates.

6 See p.11 of the 2006/7 Global Competitiveness Report

7 Efficiency in these markets reduces the costs of doing business and creates incentives by reducing government intervention.

8 For example, the survey participants were asked to rank the ease of access to capital, the reliability of police services, or the level of expenditures due to war, crime, and violence.

market reforms.[9] Analysis of the sub-indices reveals a disparity between the public sector's competitiveness and the private sector's efficiency and innovation.[10] Israel's ranking are:

- 29th place in Basic Requirements
- 12th place in Efficiency Enhancers
- 8th place in Innovation and Business Sophistication

End.

9 Israel was ranked 23rd by the 2005/6 Global Competitiveness Report. The World Economic Forum attributes Israel's jump in rankings to the passage of the Bachar Reforms. See p.40 of the 2006/7 Global Competitiveness Index.

10 The United States, Taiwan, and Japan are the other countries whose public sector is less competitive then its private sector.

