

# The Global Competitiveness Report 2000



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*Harvard University*

**Michael E. Porter**

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The term "country" as used in this report does  
not in all cases refer to a territorial entity that is  
a state as understood by international law and  
practice. The term covers well-defined, geo-  
graphically self-contained economic areas that  
are not states but for which statistical data are  
maintained on a separate and independent  
basis.

# Contents

<b>Preface</b>	<b>7</b>
by Klaus Schwab, World Economic Forum	
<b>Growth Competitiveness Ranking</b>	<b>11</b>
<b>Current Competitiveness Ranking</b>	<b>11</b>
<b>Executive Summary: Current Competitiveness and Growth Competitiveness</b>	<b>14</b>
by Michael E. Porter, Jeffrey D. Sachs, and Andrew M. Warner, Harvard Business School; Center for International Development, Harvard University	
<b>Globalization and International Competitiveness: Some Broad Lessons of the Past Decade</b>	<b>18</b>
by Jeffrey D. Sachs and Andrew M. Warner, Center for International Development, Harvard University	
<b>Economic Creativity</b>	<b>28</b>
by Andrew M. Warner, Center for International Development, Harvard University	
<b>The Current Competitiveness Index: Measuring the Microeconomic Foundations of Prosperity Competitiveness</b>	<b>40</b>
by Michael E. Porter, Harvard Business School	
<b>Measuring National Environmental Performance and Its Determinants</b>	<b>60</b>
by Daniel C. Esty and Michael E. Porter, Yale University School of Law and Yale School of Forestry and Environmental Studies; Harvard Business School	
<b>Assessing the Euro's Performance on the Basis of the Executive Opinion Surveys</b>	<b>76</b>
by Peter Cornelius, Philippa Malmgren, and Andrew M. Warner, World Economic Forum; Center for International Development, Harvard University	
<b>Education for Technology or Technology for Education: The Dilemma of the New Economy</b>	<b>86</b>
by Macha Levinson, World Economic Forum	
<b>The Executive Opinion Survey</b>	<b>92</b>
by Peter Cornelius and Andrew M. Warner, World Economic Forum; Center for International Development, Harvard University	
<b>Country Profiles</b>	<b>101</b>
<b>Data</b>	<b>223</b>
<b>Technical Notes and Sources</b>	<b>332</b>

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# Preface

KLAUS SCHWAB

President, World Economic Forum

The global economy is undergoing tremendous change, not only bringing about huge opportunities, but also important challenges. In several countries, most notably the United States, the rapid development of information technology has led to increased productivity and higher economic growth. In Europe, a cyclical recovery is underway, and it is hoped that monetary unification will provide renewed impetus for further deregulation and accelerated market-oriented reforms. In the emerging markets, the financial crises are behind us, and many countries have begun to return to a sustained growth path. On the other hand, large disparities in the global economy continue to exist. Indeed, there is a nontrivial risk that the *digital divide*—the gap between those countries that have access to communications infrastructure and those that do not—will widen further, undermining economic integration and development in a large part of the world.

Seizing the opportunities of the network economy and coping with the challenges of increased globalization requires substantial efforts on many fronts. First and foremost, however, this entails improving our understanding about the complexity of the dramatic changes in the world economy. It is with great pleasure, therefore, that I present the World Economic Forum's *Global Competitiveness Report 2000*, which I hope will make an important contribution in this endeavor.

Aiming at helping to *make a difference*—the theme of this year's annual meeting of the Forum—the *Global Competitiveness Report 2000* includes a number of important innovations, three of which are particularly worth noting. To begin with, we attach significantly greater weight than before to technology as a key driver of sustained economic growth. As a result, our rankings reflect to a much larger degree whether countries belong to the group of innovators or adopters whose economies look set to expand particularly fast, or whether they are technologically disconnected. In this context, the Report also discusses the role of education in achieving technological progress and narrowing the gap.

Second, this year's Report focuses on the environmental performance of individual countries, recognizing that the standards of living are inextricably tied to the quality of the natural environment. This analysis builds

upon a project that was launched in Davos earlier this year by the Environmental Task Force of the Global Leaders for Tomorrow of the World Economic Forum. In contrast to this project, which attempts to measure sustainability in a single index, the Report seeks to explain differences in environmental performance across countries based on differences in their policy environments.

Finally, the Report assesses the recent experience with the Euro, the introduction of which in early 1999 arguably represents the most important change in the international monetary system since Bretton Woods. In so doing, the Report takes advantage of the information contained in the Executive Opinion Survey, a truly unique set of data. Comparing the views of key decision makers in the business community, not only across member countries of the European Monetary Union but also over time, suggests a number of important policy conclusions.

As it is becoming increasingly clear just how far-reaching the implications of globality are, it seems fitting that this year's Report will reach a wider audience than ever before. We are pleased that Oxford University Press has agreed to publish the 2000 Edition, and its tradition of excellence in publishing will surely contribute to the continued success of the Report.

The *Global Competitiveness Report* is the result of an extremely fruitful cooperation with our partners at Harvard University, especially Professor Michael Porter of the Harvard Business School and Professor Jeffrey Sachs of Harvard's Center for International Development, who each draw from their command of their disciplines to make their intellectual mark on the Report. Important analytical and empirical contributions have again been made by Dr Andrew Warner of the Center for International Development, helping to ensure the excellence of the Report. At the World Economic Forum, Dr Peter Cornelius has been charged with heading the Global Competitiveness Program under which the *Global Competitiveness Report* is published. I would like to thank especially Dr Macha Levinson, who has continued to ensure the coordination of the Report and the execution of the Executive Survey.





# Rankings



Table 1. Growth Competitiveness Ranking\*

	Growth Competitiveness Ranking 2000	Competitiveness Ranking 1999
United States	1	2
Singapore	2	1
Luxembourg	3	7
Netherlands	4	9
Ireland	5	10
Finland	6	11
Canada	7	5
Hong Kong SAR	8	3
United Kingdom	9	8
Switzerland	10	6
Taiwan	11	4
Australia	12	12
Sweden	13	19
Denmark	14	17
Germany	15	25
Norway	16	15
Belgium	17	24
Austria	18	20
Israel	19	28
New Zealand	20	13
Japan	21	14
France	22	23
Portugal	23	27
Iceland	24	18
Malaysia	25	16
Hungary	26	38
Spain	27	26
Chile	28	21
Korea	29	22
Italy	30	35
Thailand	31	30
Czech Republic	32	39
South Africa	33	47
Greece	34	41
Poland	35	43
Mauritius	36	29
Philippines	37	33
Costa Rica	38	34
Slovak Republic	39	45
Turkey	40	44
China	41	32
Egypt	42	49
Mexico	43	31
Indonesia	44	37
Argentina	45	42
Brazil	46	51
Jordan	47	40
Peru	48	36
India	49	52
El Salvador	50	46
Bolivia	51	55
Colombia	52	54
Vietnam	53	48
Venezuela	54	50
Russia	55	59
Zimbabwe	56	57
Ukraine	57	58
Bulgaria	58	56
Ecuador	59	53

Table 2. Current Competitiveness Index Ranking

	Current Competitiveness Index Ranking 2000	Current Competitiveness Index Ranking 1999
Finland	1	2
United States	2	1
Germany	3	6
Netherlands	4	3
Switzerland	5	5
Denmark	6	7
Sweden	7	4
United Kingdom	8	10
Singapore	9	12
Australia	10	13
Canada	11	8
Belgium	12	15
Austria	13	11
Japan	14	14
France	15	9
Hong Kong	16	21
Iceland	17	22
Israel	18	20
New Zealand	19	16
Norway	20	18
Taiwan	21	19
Ireland	22	17
Spain	23	23
Italy	24	25
South Africa	25	26
Chile	26	24
Korea	27	28
Portugal	28	29
Turkey	29	31
Malaysia	30	27
Brazil	31	35
Hungary	32	33
Greece	33	36
Czech Republic	34	41
Jordan	35	32
Slovakia	36	48
India	37	42
Mauritius	38	30
Egypt	39	43
Thailand	40	39
Poland	41	37
Mexico	42	34
Costa Rica	43	38
China	44	49
Argentina	45	40
Philippines	46	44
Indonesia	47	53
Colombia	48	52
Peru	49	46
Zimbabwe	50	45
El Salvador	51	47
Russia	52	55
Vietnam	53	50
Venezuela	54	51
Bulgaria	55	54
Ukraine	56	56
Ecuador	57	57
Bolivia	58	58

\*NOTE: The concept behind the "Growth Competitiveness Ranking, 2000" and the "Competitiveness Ranking, 1999" is the same: to measure growth potential. However, the methodology for the 2000 ranking has been revised in light of new evidence. Please see the Executive Summary and the chapter on Economic Creativity for further explanation.





# Essays

# Executive Summary: Current Competitiveness and Growth Competitiveness

MICHAEL E. PORTER, Harvard University

JEFFREY D. SACHS, Harvard University

ANDREW M. WARNER, Harvard University

This year we present two indices, one for Current Competitiveness and one for Growth Competitiveness. The Growth Competitiveness Index is a revision of the Competitiveness Index in previous reports. It aims to measure the factors that contribute to future growth of an economy, measured as the rate of change of GDP per person. These factors explain why some countries are improving their prosperity faster than others. The Current Competitiveness Index aims to identify the factors that underpin high current productivity and hence current economic performance, measured by the level of GDP per person. These factors explain why some countries can sustain a higher level of prosperity than others.

Clearly, these two dimensions of competitiveness are related because they both focus on the conditions supporting productivity, albeit over different time horizons. In past years, we have mainly emphasized Growth Competitiveness. Our main definition of *competitiveness* has been “the set of institutions and economic policies supportive of high rates of economic growth in the medium term.” This year we add the Current Competitiveness Index. Understanding the determinants of prosperity at any point in time is as important as understanding the growth drivers, particularly since our focus is on growth that increases the standard of living. The two indices together provide a more revealing picture than either one alone.

Theories of economic growth distinguish between circumstances that contribute to the *level* of income per capita and those that contribute to the change in income per capita, or *growth*. In the simplest theories, the level of income per capita ( $y$ ) depends on the amount of capital per person ( $k$ ), sometimes called the *capital intensity* of the economy. Although capital has often been measured narrowly in empirical investigations, *capital* should be thought of broadly to include both physical capital and human capital. Human capital encompasses not only the level of education but also the work experience of the labor force and managerial know-how.

In the simplest models, the gross national product per person is proportional to the amount of capital per person:

$$y = A k, \quad (1)$$

where ( $A$ ) represents the level of technology, summarized as a single number measuring the average productivity of a unit of capital. The level of income, then, is determined by the capital stock and the level of technology.

In growth models, it is then often assumed that a fixed proportion of income is saved:

$$\Delta k = s y, \quad (2)$$

where ( $y$ ) is GDP or income, ( $s$ ) is the proportion of income saved, and ( $\Delta k$ ) is the change in the capital stock.

In the simplest case in which ( $A$ ) is fixed, the proportionate rate of growth of the economy ( $\Delta y / y$ ) equals ( $\Delta k / k$ ), which in turn equals ( $s$ )  $\times$  ( $A$ ). The growth of income in a fixed technology world is determined by the saving rate multiplied by the “level of technology” ( $A$ ). Of course, ( $A$ ) is not fixed in actual economies. Hence, economic growth has two major components: technological change and capital deepening:

$$\Delta y / y = \Delta A / A + s A \quad (3)$$

**growth = technological change + capital deepening**

It is clear from this framework that we can construct two distinct indices or rankings, one to explain the level of income in the economy, and the other to explain the growth rate of income in the economy. The level index would measure capital ( $k$ ) and the current level of technology ( $A$ ). The growth index would measure the saving rate ( $s$ ), the current level of technology ( $A$ ), and the rate of improvement in technology ( $\Delta A / A$ ). The two indices would have some overlap because both depend on ( $A$ ), but they would also differ because the level index also depends on ( $k$ ) while the growth index also depends on ( $s$ ) and ( $\Delta A / A$ ). An economy could be rich and fast-growing, rich and slow-growing, poor and fast-growing, or poor and slow-growing.

In actual economies, the variables ( $k$ ), ( $A$ ), ( $s$ ), and ( $\Delta A / A$ ) are multidimensional and quite complex. The capital stock of an economy includes not just the accumulated physical capital in machinery, structures, and physical infrastructure (roads, ports, and telecommunications) but also the level of education, workforce skills and attitudes, and managerial talent. Also part of the stock of “capital” in an economy are the set of legal institutions and regulatory practices governing business. Social capital (levels of trust, mores, and the presence of networks) also contribute to the quality of the overall capital stock. The level of technology in an economy is equally multidimensional. It encompasses not only the technological knowledge embedded in a nation’s scientific and technical institutions, but also the technology rooted in firms. Technology is embodied in every activity a firm performs as well as in the strategies firms use to compete.

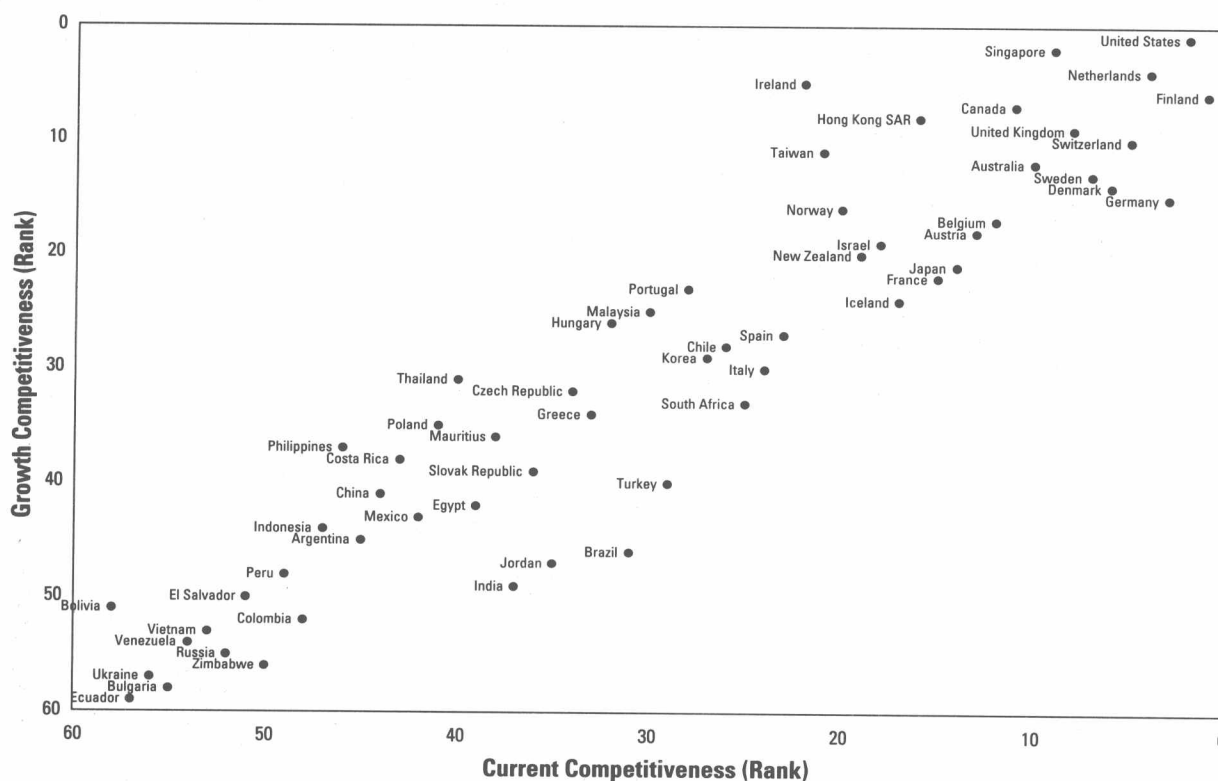
Conditions that lead to rapid economic growth include not just the aggregate investment or saving rates in an economy, but also the mix of public and private institutions that support innovation (such as national laboratories, academia, and private-sector research institutes); the diffusion of ideas across sectors; and the inflow of ideas from foreign economies into the domestic economy. For example, venture capitalists, tax laws favorable for new startups, and cross-border strategic alliances also play a role.

In practice, some of the same institutions, regulations, attributes, and practices affect both level and growth, though sometimes through different mechanisms. For example, the intensity of rivalry in an economy and the sophistication of local customers drive current productivity, but also foster productivity growth. The presence of capable local suppliers benefits current efficiency, but also supports innovation. In practice, then, the influences on current competitiveness and growth competitiveness will be different but overlapping.

Note also that the level of GDP per capita can become misaligned with current competitiveness if a favorable growth environment (eg, high savings or capital inflows) masks weaknesses in current competitiveness. Or the progress of an economy along various dimensions of current competitiveness may be uneven, with some areas becoming constraints that ultimately become binding. Similarly, some growth drivers in a country may be more favorable than others, leading, for example, to heavy physical capital investment without adequate improvement in technology, which drives down the return on investment. When we distinguish level and growth, we can paint a richer picture of a nation’s economic circumstances and prospects.

It is quite possible to have a rich country that is likely to grow slowly in the future (high capital stock and level of technology, but low propensity to save and innovate). It is also possible to have a poor country that is likely to grow rapidly in the future (low capital stock and current technology, but high propensity to save and to adopt new technologies from abroad). As shown in Figure 1, Sweden, Germany, Brazil, Turkey, and India are examples of countries that do relatively better on current competitiveness than on growth competitiveness. These countries appear below the diagonal in the figure, indicating higher rankings on current competitiveness than on growth competitiveness. In contrast, countries above the diagonal, such as China, Portugal, Taiwan, and Ireland, do relatively better on growth competitiveness than on current competitiveness. These differences reflect the need for differing priorities in terms of economic policy. Although the rankings are different, Figure 1 also shows that the rankings tend to move together. Competitiveness along these two dimensions does not completely diverge.

Figure 1: Growth competitiveness versus current competitiveness



### Current Competitiveness Index

The Current Competitiveness Index aims to measure the conditions that determine a nation's sustainable level of productivity. This index builds on the Microeconomic Competitiveness Index introduced in the 1998 and 1999 Reports. The influences on current competitiveness are divided into two major categories. The first category is the sophistication with which a nation's firms compete. It aims to gauge the knowledge, technology, physical capital, and managerial skill reflected in the firms' operating practices and strategies. The second category is the quality of the nation's business environment. It measures the quality of the infrastructure, skills, technology stocks, rules and regulations, and institutions that constitute the context in which a nation's firms operate. The productivity with which firms can compete is partly governed by things outside the firm, as well as firms' own choices.

A variety of measures gauge the sophistication of company operations and strategies, including their level of production technology, extent of marketing, uniqueness of products, and approach to internationalization. These measures assess firms' stock of capital (broadly defined), as well as their level of technology. All of the included measures of company sophistication are statistically related to GDP per capita. We combine them into an Index of the Sophistication of Company Operations and Strategy, a sub-index of the Current Competitiveness Index.

The quality of the business environment consists of four areas: (1) the quality of the inputs available to firms (eg, human resources, physical infrastructure, availability of information); (2) the availability and sophistication of local suppliers of components, machinery and services, and the presence of clusters of related firms; (3) the sophistication of local demand for advanced products and processes, including the stringency of regulatory requirements; and (4) the rules governing the vitality of competition and the incentives for productive modes of rivalry. Each area is measured along a number of dimensions that are drawn from previous research concerning the differences in competitiveness across countries. All the included measures pass the test of being statistically related to GDP per capita. The set of measures is combined into an overall Index of the Quality of the Business Environment, the other sub-index of the Current Competitiveness Index.

We find that the influences on current competitiveness vary at different levels of development. Countries face different challenges as they move from low income to middle income than they do in attaining the status of a truly advanced economy.

### Growth Competitiveness Index

The Growth Competitiveness Index measures factors that contribute to a high rate of growth in GDP per capita. The index was constructed as follows. We first reviewed previous research on economic growth to obtain a broad