

Term

Global Competitiveness Index

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Definition

The "Global Competitiveness Index" (GCI) evaluates the productivity and efficiency of countries.

Relevancy

The goal of the "Top 15 Vision" is to see Israel achieve a significant socioeconomic advancement that would put Israel among the 15 leading countries in terms of Quality of Life within fifteen years.¹

Quality of Life is a subjective term determined by various components. Numerous indices attempt to measure the Quality of Life of individuals in different countries. The most prominent indices among them are the Economist's Quality of Life Index, the UN Human Development Index, and the Quality of Life chapter in the OECD Factbook. These indices utilize a range of methodologies and examine diverse components of Quality of Life.

In order to pursue the Top 15 Vision, the Government of Israel should first define the key components relevant to Quality of Life in Israel.² Thus the Reut Institute identified three main areas that affect Quality of Life in Israel directly and enable a basis for comparison to other countries:

- **Economic well-being** reflects the individual's ability to secure financial stability for himself and for his family.
- **Social well-being** reflects the desire and ability of an individual to identify with his community and to play an active role in it.
- **Personal and physical well-being** reflects the extent to which an individual's life or health is exposed to danger.

The GCI estimates the following factors of Economic and Social well-being: the existence of an environment supporting growth, development of human capital, the performance of the governing body.³ The Reut Institute has concluded that the GCI is an appropriate index to estimate the aforementioned components of Quality of Life, especially when complimented by the IMD Competitiveness Index.

¹ See: Reut Institute paper: Top 15 Vision.

² See: Reut Institute paper: Quality of Life.

³ In order for international indices to affect the design and implementation of policy they must help identify groups, geographical areas, institutions, or sectors of the economy that need to be addressed. Indices should also help evaluate the success of past policy. Finally, indices have a role in affecting the national discourse and guiding public opinion. See: Reut Institute Policy Positions: Competitiveness Indices - Tools for Policy Design and Seven Indices for Measuring Quality of Life.

Israel in Comparison to the Top 15

In 2006-07, Israel was ranked 15th by the Global Competitiveness Index, a marked improvement from the previous year's performance of 23rd place. The three leading countries in descending order are: Switzerland, Finland, and Sweden.

Publisher

The Global Competitiveness Index is published annually by the World Economic Forum, an independent international organization committed to improving the state of the world by engaging leaders in partnerships to shape global, regional and industry agendas.⁴

Structure and Limitations

The GCI is built upon nine pillars organized into three sub-indices. The pillars are composed of ninety variables that influence a country's competitiveness.⁵ The three sub-indices are:

- **Basic Requirements** – This sub-index measures the degree to which the environment enables factors of production (e.g. raw materials, physical and human capital) to participate in the economic marketplace.

The pillars within this sub-index are: macroeconomic stability, the efficiency of private and public institutions, infrastructure, health and primary education. The GCI recognizes these categories as the key contributors to development for countries with GDP per capita less than \$2,000, calculated at PPP.

- **Efficiency Enhancers** – This sub-index measures the factors contributing to the degree of productivity in the economy.

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).⁶ The GCI recognizes these categories as the key contributors to development for countries with GDP per capita between \$3,000 and \$9,000.

- **Innovation and Sophistication** – This sub-index measures the factors that contribute to the development and manufacturing of new products.

The pillars within this sub-index are: business sophistication and innovation. The GCI recognizes these categories as the key contributors to growth for countries with GDP per capita over \$17,000.

The GCI ranks countries according to their overall performance and also provides scores by sub-index, pillars, and variables.⁷

⁴ See the [World Economic Forum](http://www.weforum.org) website.

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

⁶ Efficiency in these markets reduces the costs of doing business and creates incentives by reducing government intervention.

⁷ The rankings and scores for 2006-07 are available at [The GCI Report](http://www.weforum.org) website, p. 16.

Data Sources

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 and managerial surveys.⁸

Usage

The Global Competitiveness Index provides a comparative overview of the economic and business potential of countries. For each individual country, the GCI enables decision makers to estimate the productivity of individual sectors and the economy as a whole. Furthermore, the index identifies elements of the economy that stimulate or inhibit growth.

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⁸ The surveys asked participants to rank various aspects of the market's conduct according to a sliding scale. 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.