



World Economic Forum Global Competitiveness Report 2010-2011

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www.nzinstitute.org

BACKGROUND



GLOBAL OVERVIEW, 2010-2011 COMPETITIVENESS REPORT

- Switzerland once again tops the world's countries in the competitiveness index
- The United States falls two places to 4th, overtaken by Sweden (2nd) and Singapore (3rd)
- Germany moves up two places to 5th, leading the Eurozone countries
- Nordic countries continue to be well positioned in the ranking, with Sweden, Finland (7th) and Denmark (9th) among the top 10, and Norway at 14th
- The People's Republic of China continues to move up the rankings to 27th, with marked improvements in several other Asian countries
- The three other BRIC economies, Brazil (58th), India (51st) and Russia (63rd) remained stable
- Australia falls one place to 16th and New Zealand falls three places to 23rd

NEW ZEALAND FALLS THREE PLACES, TOP TEN RESHUFFLE

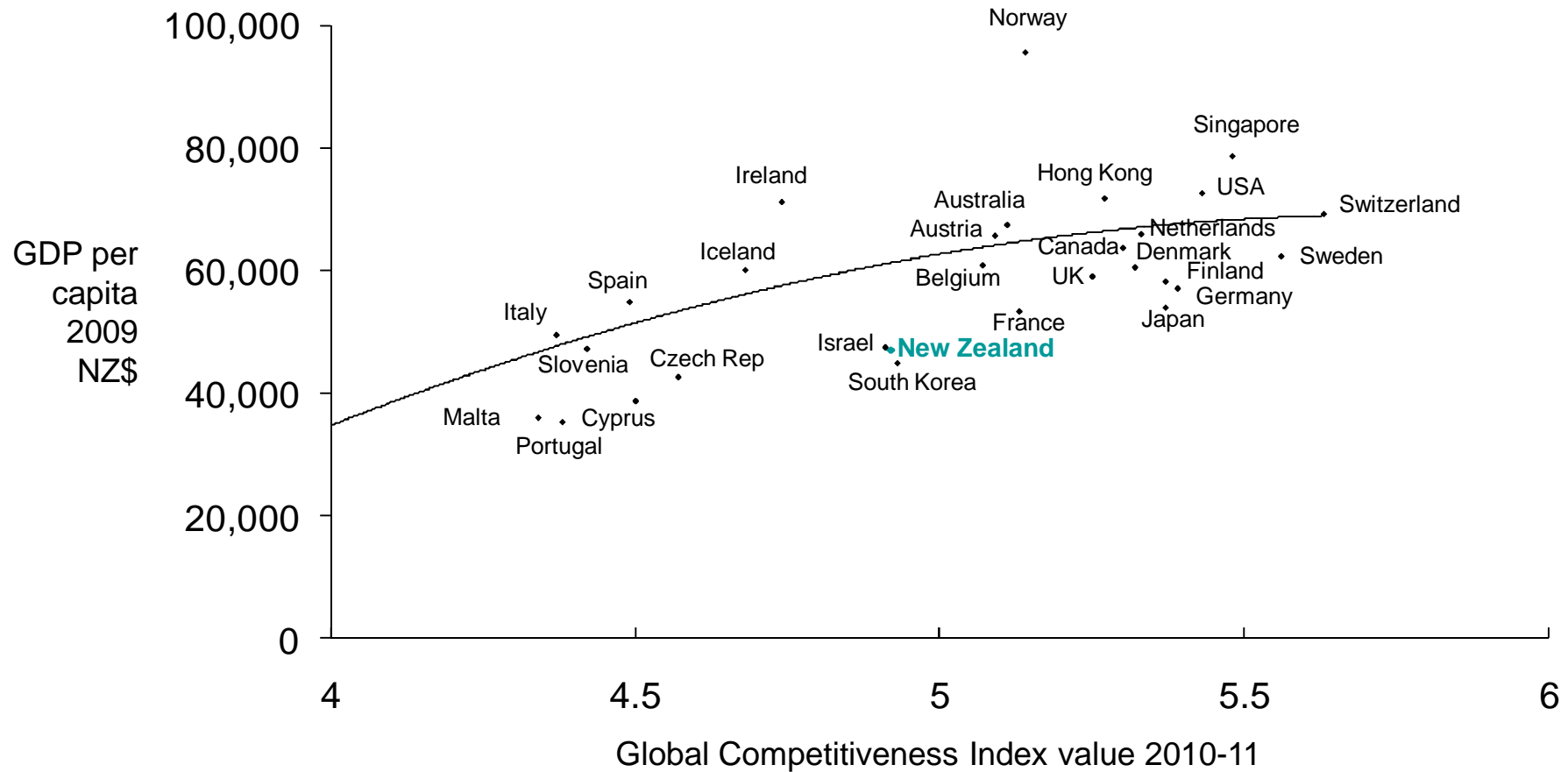
Country	2010-11 rank	2009-10 rank	2008-09 rank	2007-08 rank	2006-07 rank
Switzerland	1	1	2	2	4
Sweden	2	4	4	4	9
Singapore	3	3	5	7	8
USA	4	2	1	1	1
Germany	5	7	7	5	7
Japan	6	8	9	8	5
Finland	7	6	6	6	6
Netherlands	8	10	8	10	11
Denmark	9	5	3	3	3
Canada	10	9	10	13	12
Australia	16	15	18	19	16
New Zealand	23	20	24	24	21

NEW ZEALAND OVERVIEW, 2010-2011 COMPETITIVENESS REPORT

- Despite losing three positions and a small worsening in its score, New Zealand (23rd from 20th) posts a performance largely in line with last year
- New Zealand was overtaken by Qatar, Luxembourg and Saudi Arabia
- Relative performance is strong on measures that are most important for developing economies e.g. institutions (3rd), health and primary education (5th) and market efficiency: goods (7th), financial (10th), labour (12th)
- Incomes in advanced economies like New Zealand depend on strong performance in innovation-driven factors, but New Zealand scores relatively poorly on these measures, 28th
- Performance remains relatively weak in infrastructure (37th), technological readiness (25th), business sophistication (30th) and innovation (25th). All these measures can be improved.

MORE COMPETITIVE ECONOMIES TEND TO PRODUCE HIGHER LEVELS OF INCOME

GDP per capita and GCI index value for 32 innovation-driven economies



Source: World Economic Forum Global Competitiveness Report 2010-11 and The Conference Board Total Economy Database, January 2010, <http://www.conference-board.org/economics/database.cfm>

THE 12 COMPETITIVENESS PILLARS FIT IN THREE SUB-INDICES

Basic Requirements

- Institutions
- Infrastructure
- Macroeconomic environment
- Health and primary education



Most important for
factor-driven
economies

Efficiency enhancers

- Higher education and training
- Goods market efficiency
- Labour market efficiency
- Financial market development
- Technological readiness
- Market size



Most important for
efficiency-driven
economies

Innovation and sophistication factors

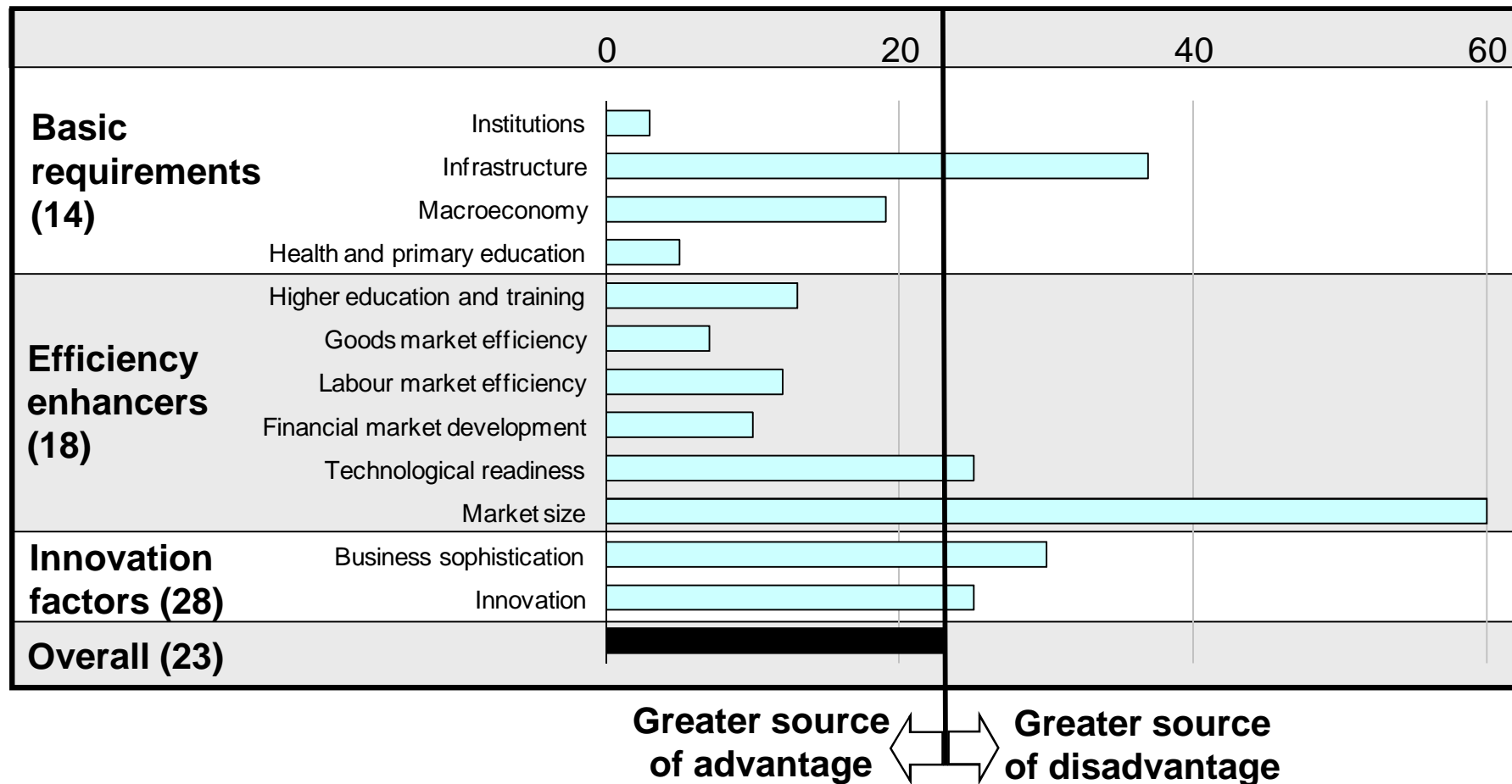
- Business sophistication
- Innovation



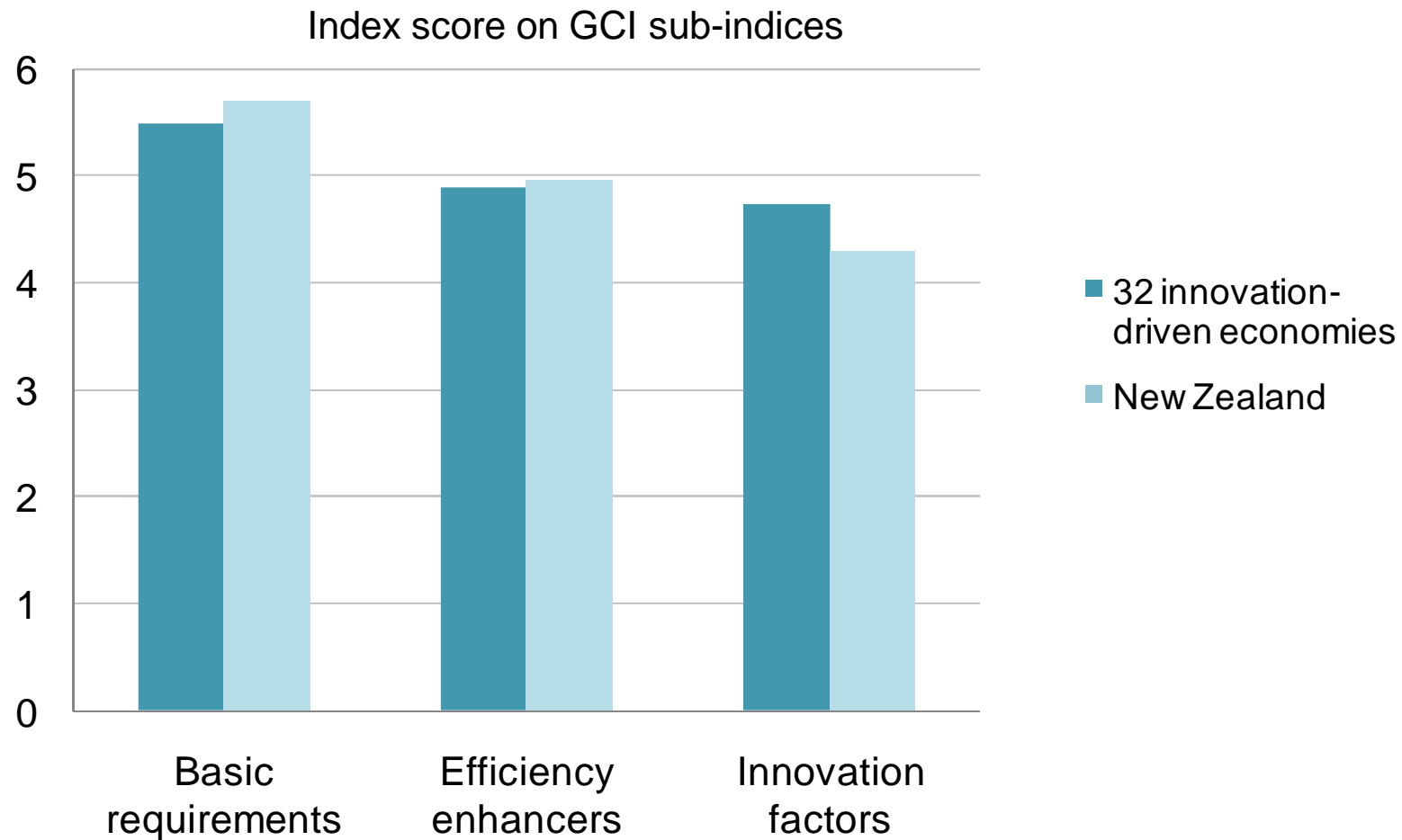
Most important for
innovation-driven
economies

NEW ZEALAND'S PERFORMANCE DRIVEN BY STRENGTHS IN BASIC REQUIREMENTS AND EFFICIENCY ENHANCERS

New Zealand rank on each pillar, out of 139 economies



RELATIVE TO PEER GROUP, NEW ZEALAND STRONG IN BASIC REQUIREMENTS BUT LAGS IN INNOVATION FACTORS



Note: Scores out of a maximum of 7.

Source: World Economic Forum Global Competitiveness Report 2010-11.

BASIC REQUIREMENTS SUB-INDEX: 4 PILLARS

- New Zealand's ranking overall improved by two places (14th from 16th) and once again achieves very high rankings in two pillars:
Institutions (3rd from 5th), **Health and primary education** (5th from 4th)
 - Among the 21 indicators measured for the Institutions pillar, New Zealand achieved number 1 world ranking for *diversion of public funds, irregular payments and bribes, judicial independence and strength of investor protection*
 - In the Health and primary education pillar, New Zealand performed well because the climate does not support malaria, and due to the quality and enrolment rate for primary education
- Greatest improvement occurred in the **Macroeconomic** pillar (19th from 33rd)
 - This was due to better performance relative to other countries in *government budget balance* and the *country's credit rating*
- New Zealand still has a relatively poor and deteriorating ranking in the **Infrastructure** pillar (37th from 35th)
 - For most of the 9 indicators measured, more than 45 countries outperform New Zealand, with significant gaps in electricity, road, rail, and mobile telephone subscriptions
 - Only in air transport, ports, and fixed telephone lines does New Zealand rank better than 45, and none of those are in the top 10

EFFICIENCY ENHANCERS SUB-INDEX: 6 PILLARS

- New Zealand fell by three places (18th from 15th) but still retained very high rankings in two pillars:
 - Goods market efficiency** (7th from 8th), **Financial market development** (10th from 3rd)
 - Among the 15 indicators measured for the Goods market efficiency pillar, New Zealand achieved number 1 world ranking for *number of procedures required to start a business, time required to start a business* and *agricultural policy costs*. Insufficient *intensity of local competition* is an indicator with poor performance.
 - In the Financial market development pillar, New Zealand performed well due to the *soundness of banks* and *legal rights index*, but dropped in performance on the other 9 indicators
- **Labour market efficiency** (12th from 11th) changed very little with *brain drain* and *hiring and firing practices* two of the nine indicators with poor performances
- **Higher education and training** (13th from 11th) declined slightly
- **Technological readiness** (25th from 23rd) declined slightly with the extent that foreign direct investment brings new technology into the country an area of poor performance
- **Market size** (60th from 59th) remains a challenge for New Zealand due to its small domestic market and the scale of trade and exports

INNOVATION AND SOPHISTICATION FACTORS SUB-INDEX: 2 PILLARS

- New Zealand fell one rank (28th from 27th) and it continues to perform relatively poorly on a range of indicators.
- **Business sophistication** (30th from 34th) improved due to an increase in the quantity of local suppliers and a slight improvement in penetration of the value chain by exporting firms, although both are still performing poorly. A drop in the control of international distribution was also measured compared to the 2009-10 year.
- **Innovation** (25th from 23rd) dropped two rankings with performance much weaker compared to the previous year in government procurement of advanced technical products, the availability of scientists and engineers and company spending on R&D. Only the quality of scientific research institutions and the utility patents per million population remained the same.

INNOVATION AND SOPHISTICATION FACTORS SUB-INDEX: 2 PILLARS

Innovation, ranked 25th

Innovation components	New Zealand position	Rank
Quality of scientific research institutions	Advantaged	14
University-industry collaboration in R&D	Advantaged	21
Utility patents per million population	Disadvantaged	24
Capacity for innovation	Disadvantaged	28
Company spending on R&D	Disadvantaged	38
Availability of scientists and engineers	Disadvantaged	67
Government procurement of advanced tech products	Disadvantaged	73

Business sophistication, ranked 30th

Business sophistication components	New Zealand position	Rank
Willingness to delegate authority	Advantaged	10
Local supplier quality	Advantaged	15
Extent of marketing	Just equal	23
Production process sophistication	Disadvantaged	26
Control of international distribution	Disadvantaged	37
Value chain breadth	Disadvantaged	51
State of cluster development	Disadvantaged	56
Nature of competitive advantage (unique products and processes)	Disadvantaged	74
Local supplier quantity	Disadvantaged	77

POLICY IMPLICATIONS FOR NEW ZEALAND - CONTEXT

- Innovation performance is the most important driver of economic performance for advanced economies like New Zealand
- While New Zealand's institutions and markets perform well relative to competing economies, having a small country distant from markets is a substantial disadvantage
- The policy proposals set out in the following slide arise from the survey indicators and rankings and are based on the underlying logic that increasing competitiveness will increase prosperity
- When deciding where to focus improvement efforts, Government must consider the affordability of options as well as the broader effects of changes.

POLICY PROPOSALS FOR IMPROVING NEW ZEALAND'S COMPETITIVENESS

- Focus on the **requirements for successful innovation** where there is improvement potential
 - Increase availability of scientists and engineers
 - Increase the contribution from government procurement of advanced technical products
 - Develop business clusters
 - Help exporting firms to penetrate more layers of the value chain
 - Improve the competitive advantage of companies in international markets through more unique products and processes
 - Invest in infrastructure.
- Address other **specific areas of under-performance** relative to leading economies
 - Increase the national savings rate
 - Reduce the business impact of rules on FDI
 - Increase FDI and technology transfer
 - Address the brain drain
 - Improve hiring and firing practices.