Challenges faced by advanced and emerging economies

The World Economic Forum’s Global Competitiveness Report 2017 comes in the backdrop of dynamic global developments that threaten the liberal political and economic order of international relations and world trade, built up assiduously in the post-war era.

Calling for more innovative solutions to tackle the bottlenecks to inclusive growth, the report puts into perspective the challenges faced by the advanced and emerging economies alike. Although inequality measured across nation-states—in other words, global inequality—has decreased, there is a recent rise in inequality within countries.

Disruptive technology has contributed to labour market polarization, implying a ‘hollowing out’ of middle-level skills and growth in low- and high-skilled jobs.

The Global Competitiveness Index monitors the performance of 137 countries based on a set of 12 pillars, namely institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business application and innovation.

These pillars are further grouped into three categories—resource-driven, efficiency-driven and innovation-driven. The weights assigned to the different sub-indices depend on a country’s level of development.

For instance, for economies that are largely resource-driven, a higher weight of 60% is placed on the ‘basic requirements index’, compared with innovation-driven economies that only receive a weight of 20% for the basic index. Similarly, for economies transitioning from being resource-driven to efficiency-driven, the weight on the basic requirements index ranges from 40-60% and for those transitioning from being efficiency-driven to largely technology-driven, the weight for the basic requirements index ranges from 20% to 40%.

For transition economies, there are minor methodological differences in the computation of the 2017-18 GCR index. But for India, which has been classified as a resource-driven economy, the weights attributed to the sub-indices do not change over the years, thus capturing India’s performance in real terms. Although the change in weighting for the other 35 transition economies may influence India’s ranking on the overall index, this effect is expected to be small, assuming the change in weighting accurately captures the stage of development of the transition economies.

Having made great strides in its ranking in the past two years (improved 32 positions between 2014-15 and 2016-17), India has stabilized at the 40th position in 2017-18. Although India’s overall ranking has dropped by one point from 2016-17, its absolute score has improved on the whole from 4.52 to 4.59. Its current score stands at the highest ever in the current methodology. Importantly, as seen in the table below, India’s score on each of the sub-indices has improved. (*See Chart*)

India has performed remarkably in terms of market size to be placed at the third position among 137 countries. It has witnessed improvements across the board, particularly with respect to infrastructure where it has climbed two positions to the 66th rank, higher education and training where it is up by six positions to be placed 75th, technological readiness where it is up by three positions at the 107th rank, institutions where it is up three positions to be placed at the 39th rank and labour market efficiency where it up by nine positions to the 75th rank.

Additionally, it is placed very well globally in terms of business sophistication and innovation at 39th and 29th positions respectively. India is imagined along with China and other Asian countries to become a centre of innovation. That's the good news. At the same time the report also highlights some thorny issues impeding India's competitiveness such as inadequate infrastructure, poor work ethic, inadequately educated workforce, restrictive labour regulations, poor public health, complex tax regulations, and insufficient capacity to innovate.

There are some key policy findings that India could draw from this report. These include distributional, banking sector and labour market dilemmas facing India. The report places stress on inclusive growth and in the light of widespread income inequality brought to the forefront by a recent paper by Thomas Piketty and Lucas Chancel (2017), it is imperative that distributional policies be revitalised. The imminent improvement in tax collections following the goods and services tax (GST) should spur more redistribution but to be effective must be accompanied by an improvement in states' capacity to implement policy and prevent leakages.

In addition, the emergence of automation and the fourth industrial revolution means that creating conditions for a smooth transition for workers is imperative. This implies adequate protection of workers' rights combined with a degree of labour flexibility that will enhance and not weaken competitiveness. The report also highlights the banking sector woes in India with the proportion of loans classified as non-performing going up from 4% to 9% in two years.

Addressing these challenges is imperative given the enormous gains to be made from improving competitiveness. This will help rebalance the economy and move the country up the value chain to ensure more solid and stable economic and employment growth.

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