

# Global Competitive Index & India: Current Trends & Future Opportunities

## Abstract

The process of global competitiveness can be showcased at different levels starting at firm, regional and national levels. The competition witnessed at global level has its effect on the large part of the world. There is a shift in the definition of competitiveness as it moves from common perception to explicit understanding at firm and country levels. In doing so, those definitions arrest the progress of the competitiveness process from a micro to a macro level.

The advances in technology, communication, transport etc has given a new platform to the global market. Those business units, who have geared up with the pace of new reality, are enjoying the benefits in the form of enormous economies of scale in production, distribution, marketing and management. In the recent times, international markets are playing an integral role and this is witnessed in the form of growing integration of the world economies resulting in growing worldwide competition. Keeping this context in backdrop, the present paper examines the concept of global competitiveness and global competitiveness index of India and the factors underlying it.

**Keywords:** Global Competitive Index, Competitiveness, Economy, India, Globalization.

## Introduction

In the global era competitiveness has emerged as one of the most researched areas in economic analysis. A range of research efforts have brought many fascinating outlook and frameworks at the country, industry and firm level. "Globalization can be defined generally as the growth of economic activity spanning politically defined national and regional boundaries. It finds expression in the increased movement across the boundaries of goods and services, viz. Trade and investment, and often of people via migration. It is driven by the actions of individual economic actors – firms, banks, people – usually in the pursuit of profit and often spurred by the pressures of competition [Agnihotri and Santhanam, 2010]. The advances in technology, communication, transport etc has given a new platform to the global market. Those business units, who have geared up with the pace of new reality, are enjoying the benefits in the form of enormous economies of scale in production, distribution, marketing and management.

No economy can globalize suddenly and that too, mechanically on its own and all economy cannot be a global one. To proceed ahead with globalization there are definitely some dynamic agents who determine the potential of the economy.

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## Global Competitiveness

The process of global competitiveness can be showcased at different levels starting at firm, regional and national levels. The competition witnessed at global level has its effect on the large part of the world. There is a shift in the definition of competitiveness as it moves from common perception to explicit understanding at firm and country levels. In doing so, those definitions arrest the progress of the competitiveness process from a micro to a macro level.

There are several definitions of competitiveness that must be considered before building a particular understanding of global competitiveness. Since 2005, the World Economic Forum has based its

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competitiveness analysis on the Global Competitiveness Index [GCI], a comprehensive tool that measures the microeconomic and macroeconomic foundations of national competitiveness.

The definition of competitiveness as given by the World Economic Forum, mentions it as the set of institutions, policies and factors that decide the level of efficiency of a country. The level of output, in turn, sets the sustainable level of opulence that can be earned by an economy. The static and dynamic components thus engages concept of competitiveness. Though, the high level of sustained income is determined by the productivity of a country, is also one of the vital determinants of its return on investment, and also explains about the key factors of economy's growth potential.

### Importance of Global Competitiveness

1. To increase productivity
2. To increase the FDIs
3. To increase the Standard of Living
4. To maintain the balance of trade between import & export of a country
5. To gain macro-economic stability
6. For the overall economic development of the country

**Table 1: The Global Competitiveness Index: The Framework**

The Global Competitiveness Index: The Framework		
Key for factors driven economies	Key for efficiency driven economies	Key for Innovation driven economy
<b>A. Basic Requirements</b>	<b>B. Efficiency Enhancers</b>	
1. Institutions	5. Higher Education & Training	11. Business Sophistication
2. Infrastructure	6. Goods Market Efficiency	12. Innovation
3. Macroeconomic Environment	7. Labour Market Efficiency	
4. Health & Primary Education	8. Financial Market Development	
	9. Technological Readiness	
	10. Market Size	

Source: weforum.org

### India's Global Competitiveness

The fast-paced economic and political changes across the world are forcing India to be more globally-oriented. India as a developing nation has strategically identified various economic areas. India's competitive project will help to understand the drivers of India's competitiveness and some major challenges that Indian Economy will face in future. It will provide insight on various initiatives that are taken by the government and also talks and discusses about the India's competitiveness across the globe.

In 2016, the status of India as revealed by the Global Competitiveness Report mentions that:

1. The report mentions that after five years of decline, India was positioned at the 55<sup>th</sup> place as it was able to jump up 16 ranks. The report admires Prime Minister Narendra Modi for this remarkable turnaround by saying that his pro-business, pro-growth, and anti-corruption carriage has enhanced the business community's sentiment toward the government.
2. There is a favourable change in the quality of India's institutions [60<sup>th</sup>, up 10]. However, most of the business leaders still believe corruption to be the prominent obstacle for doing business in the country.

### Global Competitive Index

The competitiveness of the countries is evaluated and benchmarked by a designed strategic tool – global competitiveness index. It reflects manifold structural dimensions of a countries economy that influence their economic performance. The World competitiveness Yearbook's global competitiveness index or ranking appraises and ranks how countries and enterprises administer the sum of their competencies to accomplish amplified prosperity and outlines a country's ability to build and preserve an environment that sustains more value creation for its enterprises and more well-being for its people.

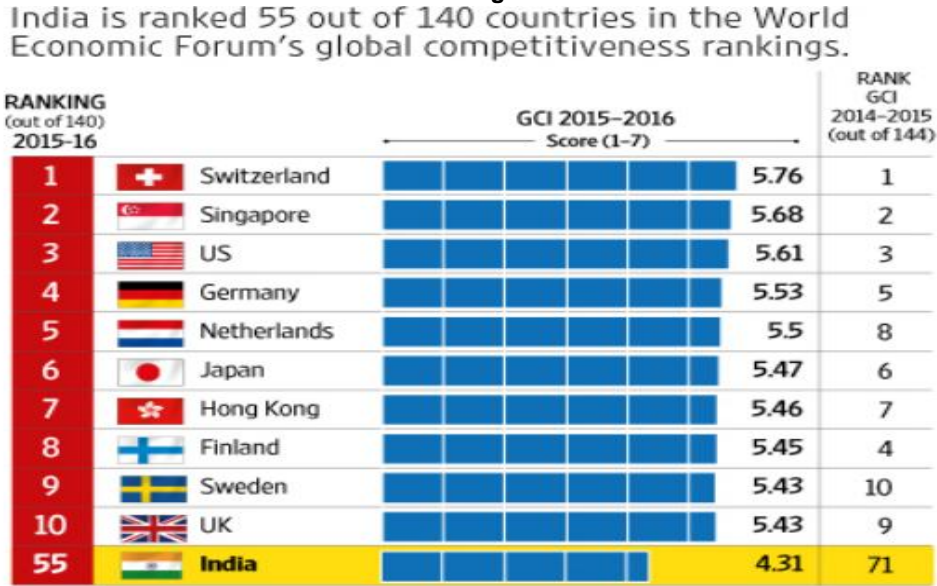
In 2004, the global competitive index report was published and it introduced global competitive index. The global competitive index ranks the world's nation on different parameters. The foundation of this report is the latest theoretical and empirical research. More than 100 variables are included in this report of which one thirds come from the Executive Opinion Survey and one third comes from publically available sources such as the United Nations.

The following table shows the variables further are organized and divided into twelve pillars with each pillar representing an area considered as an important determinant of competitiveness.

3. In terms of performance, the macroeconomic pillar of India shows stability, but the situation still remains troublesome [91<sup>st</sup>, up 10]. Due to lower commodity prices, this macroeconomic stability was achieved. In 2014 inflation eased at 6 percent, down from near double-digit levels as compared to previous year.
4. There is a drop in government budget deficit since its 2008 peak. Still it amounts to 7 percent of GDP in 2014, one of the world's highest [131<sup>st</sup>].
5. The infrastructure of the nation has improved [81<sup>st</sup>, up six], but the electricity sector still faces a foremost bottleneck.
6. One of the least digitally connected countries in the world is India [120<sup>th</sup>, up one]. Less than one in five Indians access the Internet on a regular base, and less than two in five are expected to own even a basic cell phone.
7. The basic drivers of competitiveness show a noteworthy expansion and promise a bright future, mainly the development of the manufacturing sector. However, the other segments also deserve consideration, including technological promptness.

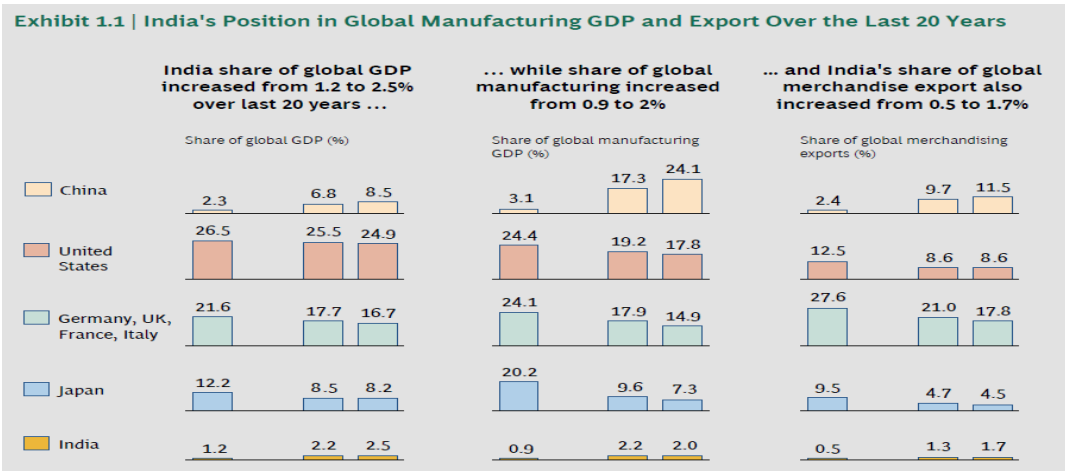
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Figure 1: India is ranked 55 out of 140 countries in the World Economic Forum’s Global Competitiveness Rankings



The above figure shows India has bagged 55<sup>th</sup> rank in Global Competitiveness Index amongst 140 countries. When compared with last year’s ranking India’s position has gone uphill from 71<sup>st</sup> to 55<sup>th</sup> rank in case of many other countries except for some changes not much changes have been noticed. The first 10 ranks shows minor reshuffling in their position. The rankings on the global competitiveness

Index showcase some interesting trends. This year’s Index ranks 140 economies. Switzerland retains the top rank followed by Singapore. The top ten slots are occupied by the same countries that were the top ten countries in 2014-15 GCR. Among the top ten only four countries are outside of Europe. These include Singapore [ranked 2<sup>nd</sup>], US [ranked 3<sup>rd</sup>], Japan [ranked 6<sup>th</sup>] and Hong Kong SAR [ranked 7<sup>th</sup>].



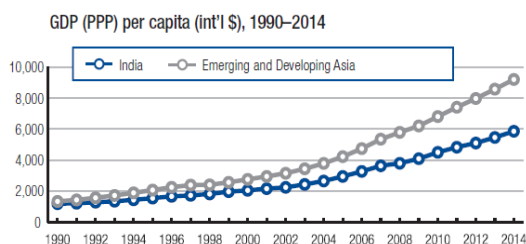
The figure shown above shows the India’s position in global manufacturing GDP & exports over the last 20 years. The figure clearly indicates that though there is improvement in India’s manufacturing, GDP and Exports but when it is compared with other advanced countries like US, Germany, UK, France and Italy India is lagging behind. The picture is not different when it is compared with other Asian countries like Japan and China. Another crucial point

that is talked about in the report is that the total factor productivity [TFP] has grown by close to 1.4 percent in India in the decade 2005-14 as compared to the preceding decade from 1995-2004. It is in stark dissimilarity to what most other economies have witnessed in the same time frame. Almost all of the major economies have seen a decline in TFP barring China, which has seen a growth of close to 0.25 percent over the proportionate period.

# India

## Key indicators, 2014

Population (millions).....	1,259.7
GDP (US\$ billions).....	2,049.5
GDP per capita (US\$).....	1,627
GDP (PPP) as share (%).....	6.84

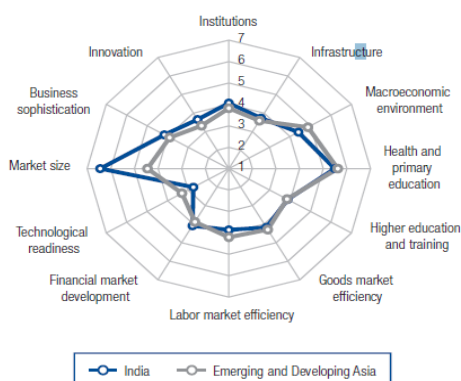


The above figure shows key indicators of Indian economy and the graph clearly shows that

India is one of the most upcoming economies in the Asia.

## Global Competitiveness Index

	Rank (out of 140)	Score (1-7)
<b>GCI 2015-2016</b> .....	<b>55</b>	<b>4.3</b>
GCI 2014-2015 (out of 144).....	71	4.2
GCI 2013-2014 (out of 148).....	60	4.3
GCI 2012-2013 (out of 144).....	59	4.3
<b>Basic requirements (60.0%)</b> .....	<b>80</b>	<b>4.4</b>
1st pillar: Institutions .....	60	4.1
2nd pillar: Infrastructure .....	81	3.7
3rd pillar: Macroeconomic environment .....	91	4.4
4th pillar: Health and primary education .....	84	5.5
<b>Efficiency enhancers (35.0%)</b> .....	<b>58</b>	<b>4.2</b>
5th pillar: Higher education and training .....	90	3.9
6th pillar: Goods market efficiency.....	91	4.2
7th pillar: Labor market efficiency .....	103	3.9
8th pillar: Financial market development.....	53	4.1
9th pillar: Technological readiness .....	120	2.7
10th pillar: Market size.....	3	6.4
<b>Innovation and sophistication factors (5.0%)</b> .....	<b>46</b>	<b>3.9</b>
11th pillar: Business sophistication .....	52	4.2
12th pillar: Innovation .....	42	3.6



## Stage of development



The above table shows India's global competitiveness index. A close look at table clearly shows the fluctuations in India's overall ranks during

last 3- 4 years. The table also shows the rank of 12 pillars. The report also classifies economies into five stages of development primarily by taking GDP per

capita into account. These five stages are factor driven, a transition stage between factor driven & efficiency driven, efficiency driven, a transition stage between efficiency driven & innovation driven and an innovation-driven stages. The basic requirements sub index is critical for factor-driven economies. Similarly, the efficiency enhancers sub index is critical for efficiency-driven economies and innovation and sophistication factors sub index is critical for innovation-driven economies.

#### **Conclusion and Suggestions**

At the time of its introduction, the global competitive index represented the latest philosophy on national competitiveness. The recent events and economic thinking in the last 10 years have brought to light latest elements that shape competitiveness, once more calls for a evaluation.

The GCI is a new international tool which came into existence during last one decade and is still in its embryonic stage. To capture the achieved developments, the World Economic Forum has embarked on a two-year process of reviewing and modernizing the index. "While most of the factors that were believed to determine competitiveness 10 years ago are still believed to do so today, to remain at the cutting edge the GCI methodology needs to be brought up to date with new elements and improved measurements. By doing so, the updated GCI will provide policymakers, businesses, and civil society with a better assessment of countries' economic performance [GCI 2015/16]". There are no two opinions that GCI provides a comparative overview of economic and business potential. It also provides an assessment of the value of investing in the listed countries based on the identification of comparative advantages. It also highlights the strengths and weaknesses of national economies, and identifies elements of the economy that stimulate or inhibit growth. But there is no consistency in the parameters to measure the competitiveness of the economies across the world we do not find a consistent GCI. The long-established factors already captured in the current GCI and presenting the World Economic Forum's updated thinking in some areas, with special emphasis on innovation, education, and financial markets, in light of the most recent evidence and economic research. Apart from this the same yardstick cannot be applied to measure the competitiveness of all countries due to variance in these countries falling in different economic and geographical pockets. 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 replicates its specific economic make-up, it is essential to examine the

scores earned for each sub-category and variable. Technical and statistical limitations reduce the precision and reliability of both objective measures and managerial surveys.

Evidences show that India's position in GCI was not that strong and also kept on fluctuating for a long period of time. During last five years it has shown a downhill trend. In the year 2015/16 it has suddenly jumped 16 positions up from 71 to 55. Though, it is too early to make any concrete comment and projection regarding the India's position unless and until we are able to maintain the same position so as to get cumulative effect.

In the current GCI and presenting the World Economic Forum's updated thinking in some areas, with special emphasis on innovation, education, and financial markets, in light of the most recent evidence and economic research. This conceptual discussion will serve as a basis for discussion leading to the updated version of the GCI. Overall the report comes across, as having rich insights in areas countries should work on to improving their productivity and long-term prosperity. The policymakers are advised to take note and work towards improving their competitiveness in the years to come so that GCI helps to highlight the strengths and weaknesses of national economies, and identifies elements of the economy that stimulate or inhibit growth.

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