

A New Economic Compass for the Fourth Industrial Revolution

This year represents a milestone in the four-decade history of the *Global Competitiveness Report* series, with the introduction of the Global Competitiveness Index 4.0. Since 1979, when Klaus Schwab published the first edition, the series has been providing policy-makers and other stakeholders around the world with an annual assessment of the drivers of long-term growth.

At the heart of the competitiveness agenda is the recognition that economic growth is a core driver of human development. There is overwhelming evidence that growth has been the most effective way to lift people out of poverty and improve their quality of life. The importance and policy relevance of growth has been re-affirmed through the United Nations' Sustainable Development Goals (SDGs). Goal 8 calls for “sustained, inclusive and sustainable economic growth” and sets an ambitious target of 7% growth for least-developed countries.¹

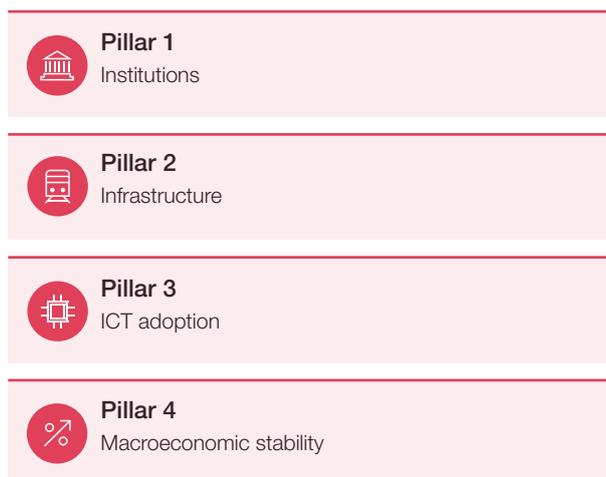
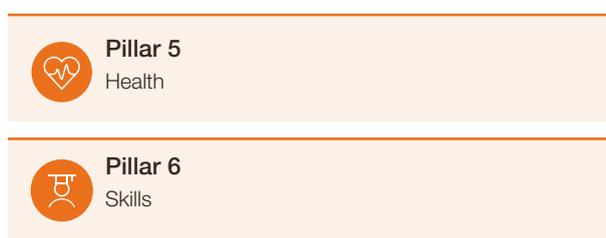
After a lost decade, economic recovery is well underway, with the global economy projected to grow almost 4% in 2018 and 2019.² But delivering growth is difficult even in the best of times, and today's economic environment is increasingly uncertain, challenging and complex. Recovery remains vulnerable to a range of risks and potential shocks.

Many productivity-enhancing reforms announced in the wake of the crisis did not materialize or remain incomplete, while other reforms are in danger of being rolled back. The international governance system is in crisis and in dire need of reform. Globalization, a key driver of growth in the past 30 years, is facing a popular and political backlash. Recent tariff increases by the United States and retaliatory measures by trading partners have increased the risk of a trade war. Escalation in various other conflicts, crises and geopolitical tensions could also impact the global economy.

In addition, the Fourth Industrial Revolution (4IR) is disrupting economies and societies by redefining the way we work, live and interact with each other. The 4IR offers the potential to leapfrog stages of development—but it also makes the pathway to development less certain, notably for emerging economies betting on industrialization and the demographic dividend.

Major economic challenges need long-term solutions, but short-termism prevails in governments, administrations and corporations around the world. The new GCI 4.0 provides a much-needed compass for policy-makers and other stakeholders to bridge this chasm. It offers guidance on what matters for long-term growth. It can inform policy debates and help shape economic strategies and monitor progress.

Like its predecessor, the GCI 4.0 assesses competitiveness through the factors that determine an economy's level of productivity—widely considered as

Figure 1: The Global Competitiveness Index 4.0 2018**Enabling Environment****Human Capital****Markets****Innovation Ecosystem**

the most important determinant of long-term growth and income. The causal link from productivity to growth and income is firmly grounded in theory and has been established empirically, as discussed in detail in Chapter 3. Performance on the GCI 4.0 explains over 80% of the variation in income levels and 70% of the variation in long-term growth across countries and economies. Beyond income, competitiveness is generally associated with better socioeconomic outcomes, including life satisfaction (see Chapter 1, Figure 14).

The GCI 4.0 framework is organized into 12 main drivers of productivity, or ‘pillars’ (Figure 1). It places a premium on factors that will grow in significance as the 4IR gathers pace: human capital, agility, resilience, and innovation.

Competitiveness is an important starting point because it contributes to higher living standards and generates the resources needed for wider societal goals. There are, inevitably, tensions—social, economic, and environmental—between the various dimensions of economic progress. However, there are no inherent trade-offs among them. We believe that a competitiveness agenda is not just compatible but integral to the pursuit of other developmental goals.

The report is organized as follows: Chapter 1 distils global findings from the inaugural edition of the

GCI 4.0, with four In Depth sections addressing the following questions: “Is there a formula for innovation?”; “Are institutions still important?”; “Are prosperity, people and planet compatible?”; and “Should countries pursue openness?”

Chapter 2 analyses GCI 4.0 performance results by region and for selected economies. Chapter 3 presents the key features of the GCI 4.0 framework and methodology, its theoretical underpinnings, and a description of each pillar. Detailed scorecards for all economies are presented in the Economy Profiles section. Appendix A reports the GCI results at the pillar level, Appendix B describes the Forum’s Executive Opinion Survey and Appendix C provides additional information on the GCI 4.0, including its detailed structure. The *Global Competitiveness Report* website at <http://gcr.weforum.org/> is the essential companion of this report. It features interactive scorecards and rankings, with additional information on each index component, a download section, shareable infographics and articles.

We hope the report will help policy-makers and other stakeholders around the world shape their economic strategies in the era of the 4IR. The Forum is committed to contributing to these efforts through the Centre for the New Economy and Society, the new home of the *Global Competitiveness Report*.

NOTES

- 1 The target is for growth in GDP per capita, which makes it harder to attain given population growth. The 7% mark was reached by only a handful of least-developed countries over the period 2007–2017: Myanmar, Timor-Leste, Ethiopia, Lao PDR and Rwanda. See World Bank, 2018.
- 2 IMF, 2018a.

REFERENCES

International Monetary Fund (IMF), *World Economic Outlook Update, July 2018*, 2018.

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World Bank, *Atlas of Sustainable Development Goals 2018: World Development Indicators*, 2018.