

# Regional Analysis and Selected Economy Highlights

*The Global Competitiveness Report* has monitored and benchmarked the factors and institutions that determine productivity in close to 140 countries for the past 40 years. In this chapter, we present the results by region, as well as results for the top 10 ranked economies and G20 countries. Additional economies are described in the Economy Profiles.

The results show that growth is starting to recover, but still is not yet sufficient to provide the foundations needed for continued reductions in poverty and broad-based improvements in the quality of life of the many. With emerging markets having a greater participation in global production and growth, progress in competitiveness among the large growing economies of Asia, Africa, and Latin America will be fundamental to the ability to provide a new boost to global growth.

In the context of the global challenges presented in Chapter 1, understanding the determinants and priorities at a regional level is a necessity for striving for faster global convergence toward higher incomes and greater well-being. Making globalization work for all requires making progress in all the pillars of competitiveness across regions. Emerging economies need to close the gaps with advanced economies in order to benefit from the possibilities of international trade and mobility of labor and capital as well as the latest technological developments available worldwide. On the other hand, advanced economies need to prioritize competitiveness-enhancing reforms. In particular in the current rapidly changing and still challenging socioeconomic context, inaction will undermine future prosperity. Our data show that all countries have room for improvement while some are even falling back in specific areas.

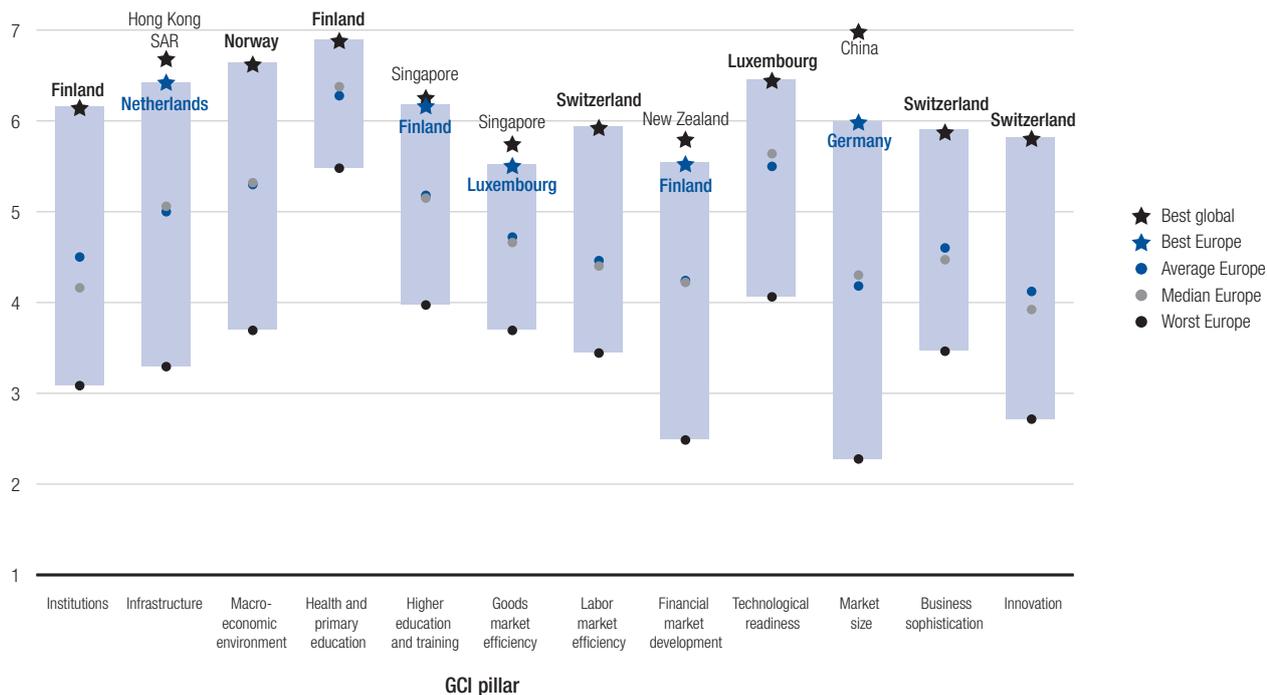
## EUROPE

Ten years on from the financial crisis, European economies are at last showing cautious signs of recovery, with the euro area predicted to grow by 1.9 percent this year (versus 1.8 percent in 2016) and emerging European markets by 3.5 percent (versus 3.0 percent in 2016).<sup>1</sup> However, the pick-up in economic activity still looks fragile, and sustained momentum cannot be taken for granted. In particular, European labor markets remain under pressure, with high levels of youth unemployment and a growing polarization of demand for skills as middle-skilled employment falls in several countries.<sup>2</sup> Investment levels are low compared with previous recovery periods, given the depth of monetary stimulus, with particular shortfalls in digital, energy, and transport infrastructure.<sup>3</sup> The competitiveness landscape in Europe is shown in Figure 1.

The challenge now is to leverage the momentum of the current recovery to strengthen the fundamental drivers of competitiveness. To this end, Box 1

**Figure 1: GCI score range for Europe across the 12 pillars, 2017–2018 edition**

Score (1–7)



Source: Calculations based on the results of the Global Competitiveness Index 2017–2018.

Note: The name of the best global economy is mentioned at the top; where the best European country does not coincide with the best global, the best European country is mentioned separately.

summarizes recommendations from an in-depth analysis of bottlenecks to competitiveness and inclusive growth in Europe, carried out in 2017 by the World Economic Forum and the European Investment Bank, with contributions from Bruegel.

This year’s GCI performance of the European region—which includes the EU28, the Balkans, Iceland, Norway, Switzerland, and Turkey—is stable overall relative to last year. The region’s top performers remain at the competitiveness frontier, with six European countries in the top 10: Switzerland (1), the Netherlands (4), Germany (5), Sweden (7), the United Kingdom (8), and Finland (10). However, there is little sign of the region’s southeastern economies closing the gap with its northwestern ones. Iceland, Estonia, and the Czech Republic continue to occupy the middle ground between these two blocs.

Taking a longer view, over the last decade many European countries have improved aspects of their innovation ecosystems, such as the quality of scientific institutions, company spending on research and development (R&D), and firms’ capacity for innovation. The last 10 years of data also show some recovery in the macroeconomic environment across the region as well as the availability of venture capital, an important ingredient for a thriving innovation ecosystem. However, over the same period the Global Competitiveness Index (GCI) shows a worrying deterioration for a number of

European economies in some education indicators, such as the quality of the education system, of primary education, and of math and science education. Perceived transparency of the policymaking process and the security situation have also weakened across several European countries.

**Switzerland** (1st) continues to top the overall rankings, with strong results evenly balanced across the different components of competitiveness. Economic performance benefits from extremely strong fundamentals including public health, primary education, and a comparatively solid macroeconomic environment. Its economy has a high level of flexibility, with its labor markets being ranked as the best-functioning globally. Absorptive capacity for new technologies is high, with an overall 2nd place ranking in the tech readiness of citizens and businesses. Switzerland further improves its scores for business sector sophistication and its innovation environment, thereby defending its top global ranking on those two important pillars.

The **Netherlands** (4th) maintains its position with the support of a strong education system and high levels of tech readiness among businesses and individuals. Its thriving innovation ecosystem, ranked 6th globally, puts the country in an excellent position to shape the unfolding Fourth Industrial Revolution.

**Germany** (5th) remains in the same position as last year, while slightly increasing its overall score. The

### Box 1: Key findings from the Europe Inclusive Growth and Competitiveness Lab

The Europe Inclusive Growth and Competitiveness Lab (the Lab) aims to support the design, launch, and implementation of actionable agendas for public-private collaboration to increase competitiveness and inclusive growth in Europe in response to rapid technological change. The Lab was a joint initiative between the World Economic Forum and the European Investment Bank Group (EIB Group), with contributions from the economic think tank Bruegel.

The Lab's white paper, "Beyond the Equity-Efficiency Trade-Off: Practical Ideas for Inclusive Growth and Competitiveness in Europe," identifies five concrete actions and presents practical examples as starting points. These are:

- not just encouraging more open innovation systems, but also increasing efforts to diffuse existing general-purpose technologies more rapidly across all types of firms—the objective of the Austrian Pilotfabrik 4.0, for example;
- not just offering the right framework conditions for entrepreneurship, but also ensuring a successful transition from start-up to scale-up—as supported, for example, by the TechCity Upscale Programme in the United Kingdom;
- creating conditions that enable inclusion and competitiveness through smarter infrastructure, including better-connected digital, transport, and energy

networks—for instance, initiatives such as Superfast Cornwall, Real Time Passenger Information systems in Madrid, Enexis, and the Dutch smart grids for electric cars;

- equipping people with the best possible cognitive and digital skills to enable them to benefit from technological progress—as recognized by the programs of the European Institute of Innovation & Technology, for example; and
- providing ready capital to innovative firms, tailored to their needs at different stages of the life cycle, from more venture and growth capital funding for start-ups to credit guarantee schemes for small and medium-sized enterprises—such as the InnovFin SME Guarantee Facility.

The Lab calls on the community of European stakeholders to collaborate in further developing these ideas.

**Source:** World Economic Forum and EIB, 2017.

**Note:** Information about these programs is available at <https://www.weforum.org/whitepapers/beyond-the-equity-efficiency-trade-off-practical-ideas-for-inclusive-growth-and-competitiveness-in-europe>.

excellent performance of its innovation and business ecosystem is particularly noteworthy: Germany's innovation capacity and business sophistication are assessed as 5th best in the world, supported by high levels of technological readiness (8th) and high-quality infrastructure (10th).

The **United Kingdom (UK)** (8th) falls one spot. This drop does not yet reflect the outcome of the Brexit negotiations, which is likely to further undermine the country's competitiveness. Currently the country performs very well on technological readiness and the sophistication of its business sector (4th and 7th overall). Its macroeconomic environment remains challenging (68th) and could become an important constraint in the future as the timeline for a reduction of the fiscal deficit is repeatedly pushed back.

**Sweden** (7th) is overtaken by Hong Kong SAR this year, dropping one spot while retaining its absolute score. The Swedish economy performs best in absolute terms on the set of basic requirements, although the data show a deterioration in the perception of the institutional environment. This is true for both public and private institutions, with the economy dropping seven spots on this set of indicators. Sweden's macroeconomic environment (4th) continues to improve as both the government's budget deficit and debt fell in 2016. Furthermore, the country is well positioned to contribute to and benefit from technological advances,

with top 10 ranks for technological readiness, business sophistication, and innovation capacity.

**Finland** (10th) rounds out the top 10 for the second year in a row, helped by its top global ranking for public health and primary education, and a higher education performance that is second only to Singapore's. Finland's approach to preparing the younger generation for the challenges of the Fourth Industrial Revolution through novel teaching approaches has been particularly noteworthy. Its high levels of investment in human capital are complemented by a sophisticated innovation environment (ranked 4th globally).

**Norway** (11th) tops the macroeconomic environment pillar, a factor that has been a consistent weakness for most of its high-income peers in recent years. The country can further rely on strong institutions and a high-performing education system, both ranking among the top 10 in the world. With high levels of information and communication technology use and a very dynamic business sector, it is well placed to capitalize on the opportunities of the digital transformation.

**France** (22nd) remains stable in terms of score. Its strong points are infrastructure, a large and globally integrated market, and a top-20 innovation ecosystem. Of particular concern are a weak macroeconomic environment (63rd) and historically fairly rigid labor markets (56th). In a continuation of last year's trend, the

Figure 2: Eurasia average score: Gap and evolution by pillar

Gap between Eurasia score and global average	Pillar	Eurasia average score change since the 2016–2017 edition
-0.94	GCI total	0.08
-0.20	1. Institutions	0.07
-0.15	2. Infrastructure	0.10
-0.28	3. Macroeconomic environment	0.01
0.22	4. Health and primary education	0.20
0.14	5. Higher education and training	0.03
-0.03	6. Goods market efficiency	0.04
0.09	7. Labor market efficiency	-0.07
-0.46	8. Financial market development	0.08
-0.20	9. Technological readiness	0.18
-0.25	10. Market size	0.10
-0.37	11. Business sophistication	0.11
-0.33	12. Innovation	0.05

Source: Calculations based on the results of the Global Competitiveness Index 2016–2017 and 2017–2018.  
Notes: Based on a constant sample. Gray bars correspond to negative values and blue bars to positive values.

country's perceived capacity to attract talent falls 10 spots to 61st.

**Italy** (43rd) improves one place in the rankings slightly increasing its score, notably through improved goods market efficiency (up seven places to 60th) and higher education and training (up two to 41st). Its long-standing competitiveness advantages include health and primary education (25th), large market size (12th), infrastructure (27th), and business sophistication (25th). Despite recent reforms, labor markets (116th) and financial markets (126th) remain weak points.

**Turkey** (53rd) rises by two places but remains below historical highs (the country ranked 43rd in 2012). This year, it sees the strongest improvements in the take up of the latest technologies as well as in mobile broadband subscriptions—from 51 percent in 2015 to 67 percent of the population in 2016. Going forward, Turkey must improve its institutional framework, continue to remove the significant rigidities that exist in its labor markets, and strengthen the efficiency and stability of financial markets. In 2017, the Turkish economy is expected to grow by 2.9 percent. In the first half of the year, the depreciation of the lira has helped Turkish exports and the government boosted domestic demand through monetary and fiscal policies.

## EURASIA

Eurasia's competitiveness performance has improved slightly over the last year, and it will have mostly recovered from the 2015 recession by the end of this year. GDP growth, barely positive in 2016, is projected to reach 1.7 percent in 2017. On average, Eurasia has progressed in almost all competitiveness factors,

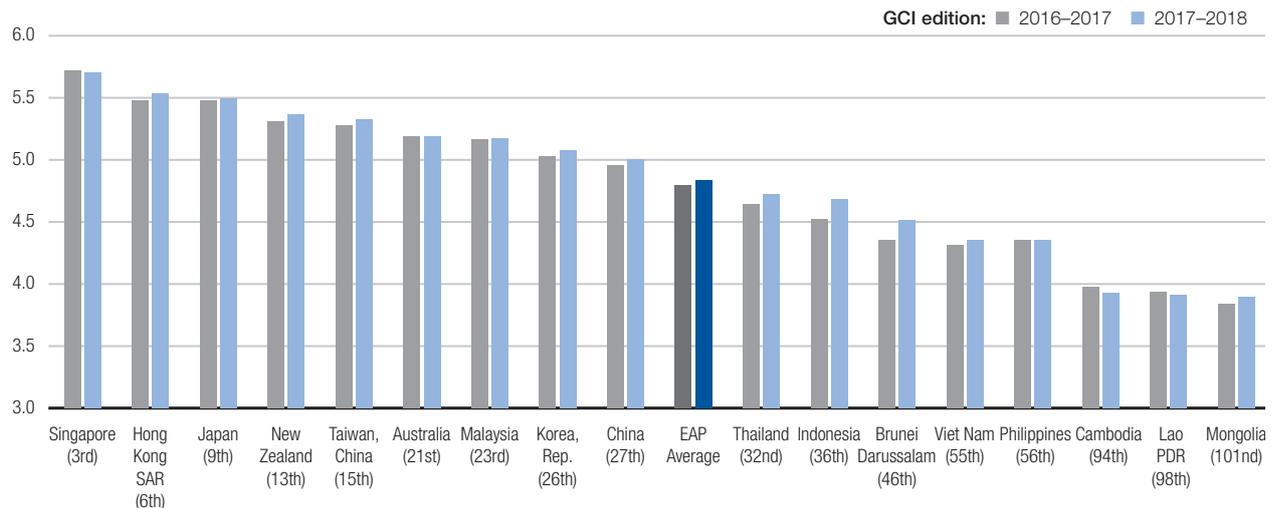
benefiting especially from lower inflation (the average dropped from 15.5 percent in 2016 to 8.2 percent in 2017) and progress in technological readiness, innovation, and primary education.<sup>4</sup> Better-than-expected performances in the region's two main commercial partners, China and Russian Federation, have also made business sentiment more upbeat.

Nonetheless, not all factors are improving—labor market efficiency has diminished in most countries—and the overall competitiveness of Eurasia remains below the global average. In particular, despite progress this year, the region lags significantly behind most economies in infrastructure, macroeconomic environment, financial development, and the innovation ecosystem (see Figure 2). In a reality of persistently low commodity prices and geopolitical uncertainties, Eurasian economies should accelerate reforms to foster diversification and innovation while continuing to consolidate their public finances.

Although the overall trend is positive for most Eurasian economies, there is little sign of convergence within the region. Its most competitive economies, including the Russian Federation (38th, up five), are maintaining their edge. This year's most improved Eurasian economy started from a low base: Moldova moves up 11 places to 89th. Others that had been catching up in past years are slipping back, with Georgia (67th) and Kazakhstan (57th) losing eight and four places respectively.

There has been convergence in some pillars, including the macroeconomic environment—where gaps were large—and in one of the most homogenous dimensions, health and primary education. There is,

Figure 3: Overall GCI scores for East Asia and Pacific (EAP) for 2016–2017 and 2017–2018



Source: Calculations based on the results of the Global Competitiveness Index 2016–2017 and 2017–2018.

however, not much narrowing of the wide gaps in technological readiness and infrastructure.

The **Russian Federation** (38th) improves five positions, mostly driven by the macroeconomic environment (up 38 positions to 53rd), rebounding strongly from the 2015–16 recession. However, its economy remains highly dependent on mineral exports and prospects remain uncertain. Weak links continue to include the financial market (107th), in particular the banking sector, along with aspects of institutional quality such as property rights (106th), judicial independence (90th), and corruption, which remains one of the most problematic factors for doing business. Russia has passed new laws to increase the minimum wage (2015) and protect temporary employment (2016), which have lowered labor market flexibility (75th, down 18 places); however, this may have a beneficial overall effect by restoring domestic purchasing power, which had been hit by inflation and the weak ruble.

### EAST ASIA AND PACIFIC

Among the 17 East Asia and Pacific economies covered by the GCI, 13 have increased their score—albeit marginally—with Indonesia and Brunei Darussalam making the largest strides. Only Singapore, the Philippines, Cambodia, and Lao People’s Democratic Republic have seen their scores decrease (Figure 3). Even with China’s gradual slowdown, economic growth has continued to be robust in the region as a result of sustained domestic demand and increased exports from emerging economies.

Singapore falls behind the United States to rank 3rd globally, but remains the most competitive economy in

the region. Hong Kong SAR is closing the gap, rising from 9th to 6th, while Japan slips back one place for the second year in a row and now ranks 9th. The lowest-ranked performer among the region’s advanced economies continues to be the Republic of Korea, which remains 26th for a fourth consecutive year, placing it behind Malaysia (23rd), the region’s top emerging economy, and just ahead of China (27th).

Many of the region’s advanced economies—including Korea, Hong Kong SAR, and Taiwan (China), but not Japan—and a few emerging economies have benefited from a favorable macroeconomic context. This could be partly explained by a regional financial market stabilizing after the volatility of late 2016, although the recent escalation of tensions in the Korean peninsula has again raised uncertainty. High levels of household debt in many advanced economies may also eventually threaten the region’s economic and financial stability.<sup>5</sup>

There have been signs of a productivity slowdown among the region’s advanced economies and in China,<sup>6</sup> suggesting the need for greater focus on advancing technological readiness and promoting innovation. For instance, greater access to mobile technology in China has fostered the expansion of the “sharing economy,” which is expected to reach 10 percent of GDP by 2020. Hong Kong SAR is the region’s only economy among the top 10 globally in technological readiness, a category dominated by European economies—but all the others, except Singapore, have made tremendous progress since last year.

On innovation, Taiwan (China) rebounds this year after several years of decline, Hong Kong SAR and New Zealand continue to make steady progress, and Korea’s

score improves slightly. Both Japan and Singapore maintain their places among the top 10 innovators, despite their scores falling this year—Japan’s for the third consecutive year. Innovation and sophistication are not the only priorities, however: Viet Nam, Cambodia, the Philippines, Lao PDR, and Mongolia could all make large gains in competitiveness at a relatively lower cost by improving their performance on infrastructure, health, and education.

**Singapore** (3rd, down one) posts an excellent performance across the board. It continues to lead the Higher education and training pillar and the goods market efficiency pillar, and features in the top 10 of six others. In particular, Singapore ranks 1st worldwide for public sector performance, one of the categories of the institutions pillar, where it also excels (2nd). The country also possesses superior transport infrastructure (2nd), its labor market is extremely efficient (2nd), and its financial sector is well developed, stable, and trustworthy (3rd). Singapore’s macroeconomic environment (18th) has slightly deteriorated as a result of a persisting deflationary spell. There exists room for improvement among innovation (9th) and business sophistication factors (18th). Singapore continues to lag behind the world’s most prolific innovation powerhouses in these areas.

**Hong Kong SAR** (6th) has made the largest leap among the top 10 economies this year, moving ahead of Sweden (7th), the United Kingdom (8th), and Japan (9th). Hong Kong is still endowed with the world’s best physical infrastructure and its healthy level of competition and openness ensure extremely efficient markets (2nd), which in turn are supported by strong and stable financial markets (5th). Hong Kong’s labor market is highly flexible and efficient, though it could do better in terms of harnessing talent from its workforce (17th). Hong Kong has also advanced its macroeconomic environment by slightly bringing down its inflation rate in 2016. Its most significant improvement can be observed across the business sophistication (11th) and innovation (26th) pillars, which is a step in the right direction given that the business community consistently cites their insufficient capacity to innovate as one of the most problematic factors for doing business.

**Japan** (9th), with a minor improvement in score, loses one place as a result of Hong Kong SAR’s larger improvement. The country’s overall performance is largely driven by high-quality physical and digital infrastructure (4th), a healthy and educated workforce, and a fertile innovation ecosystem. Despite these attributes, Japan’s performance is dragged down by its poor macroeconomic environment (93rd), caused mostly by a period of deflation in 2016 and persistently troubled public finances. The situation has improved slightly since last year as a result of better government budget balance and higher gross national savings. Japan also made strides in the technological readiness pillar

(15th, up four) as a result of higher levels of ICT usage. A drop in the rankings in the labor market efficiency pillar, however, points to certain difficulties among firms in retaining talent.

**Australia** (21st) moves up one place in the rankings with a stable score. When considering Australia’s performance by pillar, its results are rather less static. The country posts a noticeable drop in the infrastructure pillar, more specifically its communications’ infrastructure, while several other pillars increase only marginally. Australia’s overall performance is not remarkable: in most pillars it does not rank among the top 25 countries. Similar to last year, Australia performs comparatively better in the higher education and training pillar (9th), which reflects its capacity to produce a large pool of qualified workers. It also performs well in the financial market development (6th) pillar, which is driven mostly by a stable and well-regulated banking sector.

**China** (27th) has gained one place as a result of steady, albeit incremental, improvements to its overall competitiveness score. Since last year, China has made progress in all pillars except its macroeconomic environment and infrastructure. A decline in the former is explained by a worsening of the government budget deficit, which has been slightly higher than the expected target for 2016.<sup>7</sup> The score for the infrastructure pillar decreases for the second year in a row, the result in part of a decline in the quality of port infrastructure and the reliability of electricity supply as perceived by the business community. The largest gains are observed in technological readiness, owing to higher ICT penetration and the extent to which foreign direct investments have been bringing new technologies to China. Despite the remarkable progress already made, further improvement on this front would foster the growth of emerging digital industries and create the conditions necessary to kick-start new ones. Other significant advances have been made in the goods market efficiency pillar as a result of a slight reduction in the number of procedures for starting a business compared to last year.

The **Republic of Korea’s** (26th) overall performance has improved slightly since last year, with all 12 pillars obtaining a higher score. For an advanced economy, however, the country still presents large disparities between pillars. Its performance is largely driven by its remarkable infrastructure (8th) and a highly favorable macroeconomic environment (2nd). This year’s political turmoil and corruption scandals highlighted the challenges in the country’s institutional environment, yet the score of the institutions pillar advanced marginally. Another area in which Korea consistently underperforms is labor market efficiency, in which it ranks 73rd, hiding deeper challenges with regard to labor market flexibility—in which it ranks 106th—caused notably by conflictual labor-employer relations and high redundancy costs. Looking back at Korea’s performance over the

## Box 2: The Philippines: Building City Competitiveness

The Philippines created the Task Force on Competitiveness in 2006, which it upgraded to create the National Competitiveness Council (NCC) in 2011 through an Executive Order issued by the President. The NCC is a public-private partnership body, with government represented by the Secretary of Trade and Industry, the Secretary of Finance, the Director-General of the National Economic Development Authority (the country's planning agency), the Secretary of Education, the Secretary of Tourism, and the Secretary of Energy, while the private sector is represented by five business executives appointed by the President.

The Council closely monitors the global competitiveness ranking of the Philippines across a number of major reports, including the World Economic Forum's *Global Competitiveness Report*, *Travel & Tourism Competitiveness Report*, and *Global Information and Technology Report*. Over a dozen global indices are tracked so data can be used for benchmarking the country's progress in the competitiveness rankings across indicators as diverse as governance, infrastructure, education, science and technology, and the ease of doing business.

Working groups, task forces, and special projects have been created to focus on specific issues or problems that need special attention. These groups have also been created as public-private partnership committees, with co-chairs from government and the private sector and membership drawn almost equally from both sides.

One of the projects launched by the Council was the Cities/Municipalities Competitiveness Index, in the belief that local competitiveness is a key building block for overall national competitiveness. The Council also believes that, in a country the size of the Philippines—with over 100 million people spread out over 7,000 islands—it is important to create more economic engines built around cities or clusters of cities to drive long-term economic growth and development. Building these economic engines would disperse investment and job opportunities and spur inclusive growth. It would also spread risk for companies looking for new business locations and create a better investment environment for the country as a whole because there would now be more options available.

The problem was that the identification of which cities were likely to be good candidates for their own region's growth engines was not easy. Moreover, cities themselves could not tell how they compared against others or whether their competitive positions were improving or not over

time. So, in 2012, the Council conceptualized the Cities/Municipalities Competitiveness Index and started organizing Regional Competitiveness Committees across the nation to oversee a review. Although there were earlier attempts to measure subnational competitiveness, those projects covered only a few cities (the conventional choices) and could be carried out only once every three years. These early projects eventually faded away.

The goal was to measure all cities and municipalities (the Philippines has 1,634) annually and to eventually institutionalize and embed this data-gathering and analysis activity in cities so they could use their own data to plan their futures. Following an initial set of discussions with industry and experts, the Council worked jointly with Regional Competitiveness Committees to draw up a list of indicators that would measure the competitiveness of cities and municipalities. These were categorized in three broad pillars—Economic Dynamism, Government Efficiency, and Infrastructure—for a total of 30 indicators. At first, not all data were readily available because records were not well maintained. Thus, many cities had difficulty submitting data for measurement. Nonetheless, the work continued and a total of 285 cities and municipalities entered the Index; an announcement of the first ranking report was made in 2013. Since then some adjustments have been made to the indicators to focus on readily available data. A fourth pillar—Resiliency—was also added because this issue has become increasingly important for cities in the age of climate change.

This year, the Council is running the fifth annual Cities/Municipalities Competitiveness Index awards, with 1,487 cities and municipalities—over 90 percent of the country—now covered. The award ceremony has become a much-anticipated event by mayors and city administrators and almost 2,000 people were expected to attend the ceremony in August 2017. More importantly, the data and results generated by the award have become a benchmark for both government agencies and investors to more closely monitor cities and make decisions, whether for budgeting or investing.

The old adage that “what gets measured, gets managed” rings true for more and more cities in the Philippines. Local competitiveness will lead to better delivery of services and economic development in cities—the building blocks of nations.

Contributed by Guillermo M. Luz, Private Sector Co-Chairman, National Competitiveness Council of the Philippines.

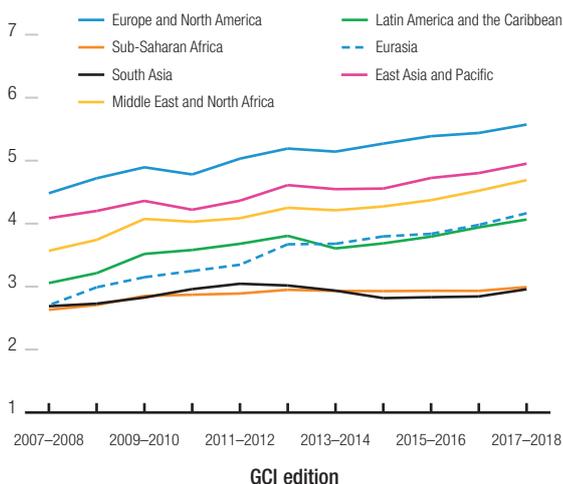
last decade, it is one of the few advanced economies that have experienced a general decline in performance for a majority of its pillars of competitiveness. It is hoped that this year's rebound signals a shift toward a more positive trend overall.

**Indonesia** (36th) is inching its way up the competitiveness ladder, moving ahead five places since last year. Similar to Korea, Indonesia has improved its performance across all of its pillars. Its position in the rankings is driven mainly by its large market size (9th) and a relatively robust macroeconomic environment

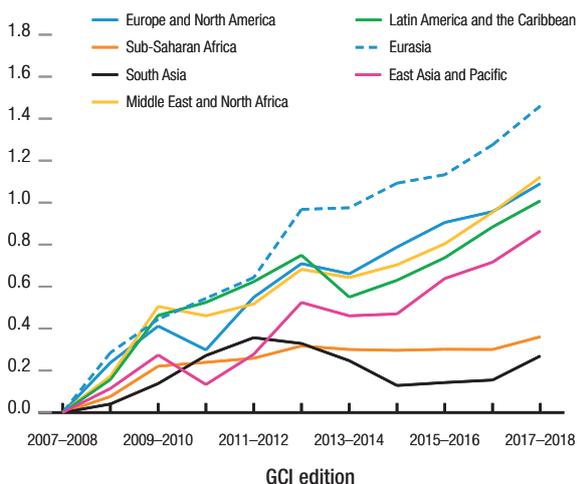
(26th). Ranking 31st and 32nd in innovation and business sophistication respectively, Indonesia is one of the top innovators among the emerging economies. In contrast, the country is lagging quite far behind in terms of technological readiness (80th) despite having made steady progress on that front over the last decade. Significant advances are also needed in the labor market efficiency pillar (96th), which is dragged down by excessive redundancy costs, limited flexibility of wage determination, and a limited representation of women in the labor force.

Figure 4: Technological readiness by region

## 4a: Evolution of score



## 4b: Cumulative change in score



Source: Calculations based on the results of the Global Competitiveness Index 2007–2008 through 2017–2018.  
Note: Based on a constant sample of 114 economies.

With a relatively modest increase in its overall score, **Viet Nam** (55th) moves up five places to narrowly surpass the Philippines (56th). Viet Nam's competitiveness is significantly driven by its market size (31st). Although the withdrawal of the United States from the Trans-Pacific Partnership (TPP) earlier in 2017 eliminated significant trade opportunities, the country's growth is nonetheless projected to remain robust from strong exports.<sup>8</sup> Significant improvements are necessary across all pillars, notably among the basic requirement factors (75th) and higher education (84th), as firms perceive that the lack of an educated workforce constitute a significant hurdle for doing business. Viet Nam could also boost its competitiveness by closing gaps in innovation and sophistication factors with countries at a similar stage of development, such as the Philippines (see Box 2 for a description of how the latter is working with the GCI to advance its competitiveness agenda).

### SOUTH ASIA

Competitiveness has improved across most countries in South Asia (as seen in Figure 4a and 4b), in particular in the two Himalayan countries of Bhutan (82nd, up 15) and Nepal (88th, up 10). On a similarly positive trend, Pakistan (115th, up seven) and Bangladesh (99th, up seven) have both improved their scores across all pillars of competitiveness. Upgrading ICT infrastructure and increasing ICT use remain among the biggest challenges for the region: over the past decade, South Asia has been the area where technological readiness stagnated the most, with a performance similar to that of sub-Saharan Africa.

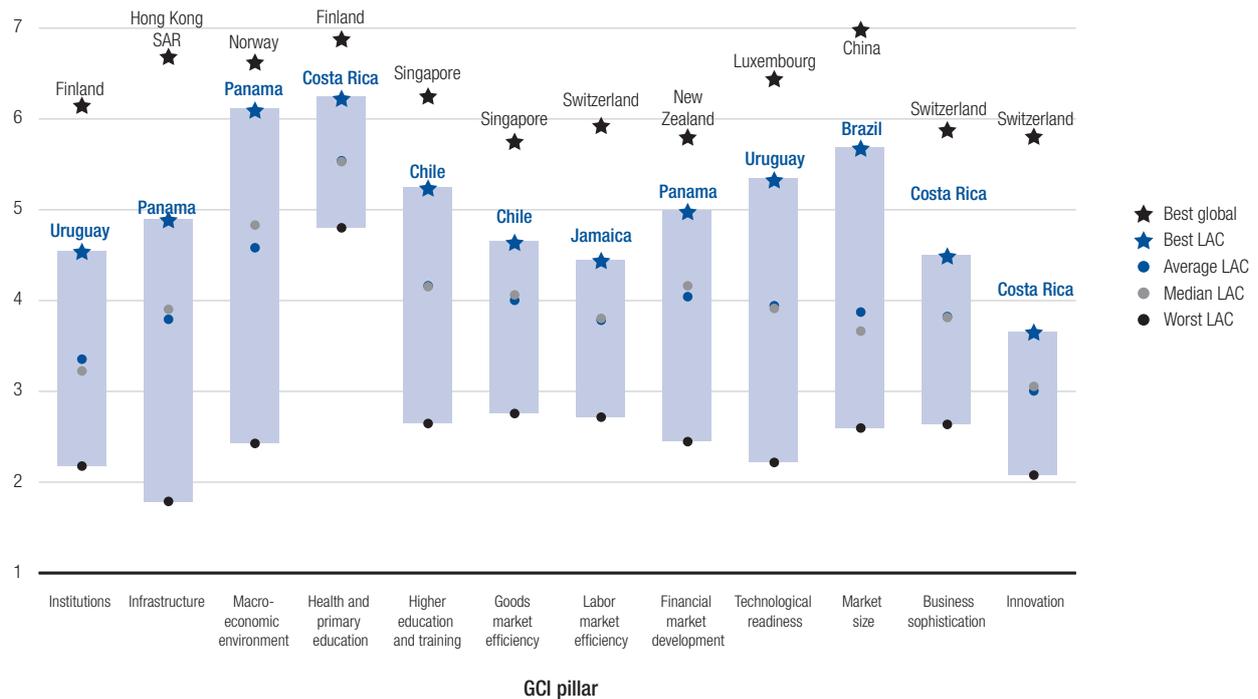
**India** (40th) stabilizes this year after its big leap forward of the previous two years. The score improves across most pillars of competitiveness, particularly infrastructure (66th, up two), higher education and training (75th, up six), and technological readiness (107th, up three), reflecting recent public investments in these areas. Performance also improves in ICT indicators, particularly Internet bandwidth per user, mobile phone and broadband subscriptions, and Internet access in schools. The quality of institutions has increased further, especially in terms of efficiency of public spending (20th), but the private sector still considers corruption to be the most problematic factor for doing business in India.

### LATIN AMERICA AND THE CARIBBEAN

After two years of recession in many countries in the region, Latin America and the Caribbean's GDP is expected to grow by 1.1 percent on average in 2017 according to the International Monetary Fund (IMF).<sup>9</sup> After being hit hard by the end of the commodity boom and seeing exports plummet, current account deficits soar, and government revenues contract, the region is slowly adjusting to new international conditions. The fall in commodity prices and the deterioration of terms of trade led to sharp depreciations of the major currencies in the region. Many believed that the exchange rate would serve as an automatic stabilizer and help boost new export sectors that would reignite growth. This effect was not strong enough to meet expectations and it failed to prevent the steep drop in growth.

The slow response of exports revealed the competitiveness challenges in the region (Figure 5). Large gaps in all of the pillars of competitiveness

**Figure 5: GCI score range for Latin America and the Caribbean (LAC) across the 12 pillars, 2017–2018 edition**  
Score (1–7)



Source: Calculations based on the results of the Global Competitiveness Index 2017–2018.

persist, especially in institutions, infrastructure, labor market efficiency, and innovation. The wide range of performance exhibited in the region also contributes to regional inequality. Latin America's poor performance and the region's lack of progress in closing gaps with global leaders are associated with low productivity, high informality, insufficient export diversification, and growth that is insufficient to create employment and fund the growing demand for more and better public goods.

As Latin America strives to consolidate the social gains it has made in the past decade—a record reduction in poverty and a growing middle class—it must strengthen its capacity to adapt to changing international conditions and rediscover new sources of sustainable growth based on a coherent competitiveness agenda that enables entrepreneurship and new innovative businesses to emerge. The results in the report can help guide the identification of priorities and catalyze public-private collaboration (see Box 3 for examples in Colombia and Mexico).

As we look back at a decade of competitiveness monitoring in the region, we see that many of the fundamentals of competitiveness and growth have worsened in Latin America and the Caribbean. Basic requirements such as institutions have deteriorated, with democratic institutions failing in Venezuela and corruption scandals throughout the region, as shown in

Figure 6. Trust in government and a crisis in governance continue to represent significant challenges for a region in need of effective public-private collaboration.

Efficiency enhancers, measuring how well markets work, have also deteriorated in the region—goods, labor, and financial development have failed to consistently improve. Although, on average, goods markets and financial markets have marginally improved, the distance between the best and the worst in the region continues to increase as Venezuela continues to fall into chaos. Finally, business sophistication has also continued to weaken, reflecting the region's dearth of structural transformation and lack of truly transformational new sectors and business models.

Despite the deterioration of some of the fundamental pillars of competitiveness, the region has made progress in infrastructure and also in human capital—in both health and education (Figure 6). Together with improvements in technological readiness and innovation, these developments will help Latin America and the Caribbean discover new sources of growth and guarantee inclusive and broad-based growth. Unequal performance on the macroeconomic pillar reflects the size of the negative macroeconomic shock of the last couple of years and the challenge of restoring stability.

**Mexico** places 51st with an overall score that increases, indicating that the country has continued

### Box 3: Using the Global Competitiveness Report in Latin America

#### Mobilizing for prosperity: The use of the GCI for Colombia's competitiveness agenda

In 2006, Colombia defined a vision for the year 2032 in which the country would be one of the three most competitive in Latin America, with a per capita income equivalent to that of a medium-high-income country and an economy that exports high-value-added goods and services. To achieve this aim, the national government and the private sector—led by a group of entrepreneurs—decided to create an institutional arrangement for competitiveness, now called the National System of Competitiveness, Science, Technology and Innovation. Following the establishment of this arrangement, the same group of entrepreneurs formed the Private Council on Competitiveness to work hand in hand with the government in identifying and coordinating initiatives to help the country achieve the 2032 goal.

The most salient challenge in this type of long-term, collaborative work between public officials and private-sector leaders is the absence of measurable and objective indicators for progress. Usually reforms in the areas of competitiveness have impacts that are not evident in the short term, and they require continuous work that goes beyond the scope of a single administration. Hence the Global Competitiveness Index (GCI) quickly became a guiding tool for the country, and its results are reviewed and monitored by the President of Colombia, leaders from the private sector, and civil society representatives in the National System's Commission at the end of each year.

The GCI is also used systematically by the Private Council on Competitiveness, which publishes an Annual Report that analyzes the performance of Colombia in each one of the GCI pillars. This report presents a comprehensive diagnosis of the issues that need to be reformed, an analysis of opportunities to promote productivity, and a possible set of solutions that could advance Colombia's agenda with the collaboration of governments and firms.

Furthermore, in 2013 the Private Council on Competitiveness partnered with Universidad del Rosario to design a subnational Department Competitiveness Index based on the GCI framework. Now in its fourth edition, this regional index has become a tool for local governments and private-sector organizations to monitor their performance, replicating the role that the GCI plays at a national level.

The GCI became a central tool for the National System in its first decade, and has helped to shape the way that public and private actors are mobilized toward the joint objective of prosperity.<sup>1</sup>

#### The Mexico Competitiveness Lab

Across the world, growth and productivity have slowed while middle classes in some industrialized countries face rising levels of inequality and insecurity. An expanding middle class in emerging markets also has higher aspirations and increased demand for quality public goods. Middle classes across both industrialized and emerging countries are putting increased pressure on governments. As a consequence, electorates are pushing back against some of the features of globalization. Policymakers must work urgently to identify priorities for public policy action jointly with the private sector. Based on the findings of World Economic Forum's *Global Competitiveness Report* and *Inclusive Growth and Development Report*, the methodology of workshops and competitiveness labs, and new work with the OECD Development Centre on policy prioritization, the Competitiveness Lab helps to develop public-private action plans for growth and inclusion.

The Competitiveness Lab Latin America is the largest and most advanced workstream under the Reform Agendas for Growth and Social Inclusion Project at the World Economic Forum. The initiative was launched in 2013 to create actionable agendas for public-private collaboration to enhance innovation and related skills. It has convened a steering board whose recommendations were revealed at the World Economic Forum's 2015 Annual Meeting in Davos. Mexico is the second country that has been supported in its efforts to develop a public-private financing scheme for innovation following the recommendations of the Insight Report based on the Global Competitiveness Index. As a result, the working group, with the participation of several ministries and the private sector, presented a proposal for a new public-private financing model for innovation with multistakeholder governance, a mechanism for project selection, and an implementation agenda. The proposal was presented to Mexico's Secretary of the Economy, Chair of the Steering Committee, by the Working Groups and assigned to the Under-Secretary of Industry for implementation.<sup>2</sup>

#### Notes

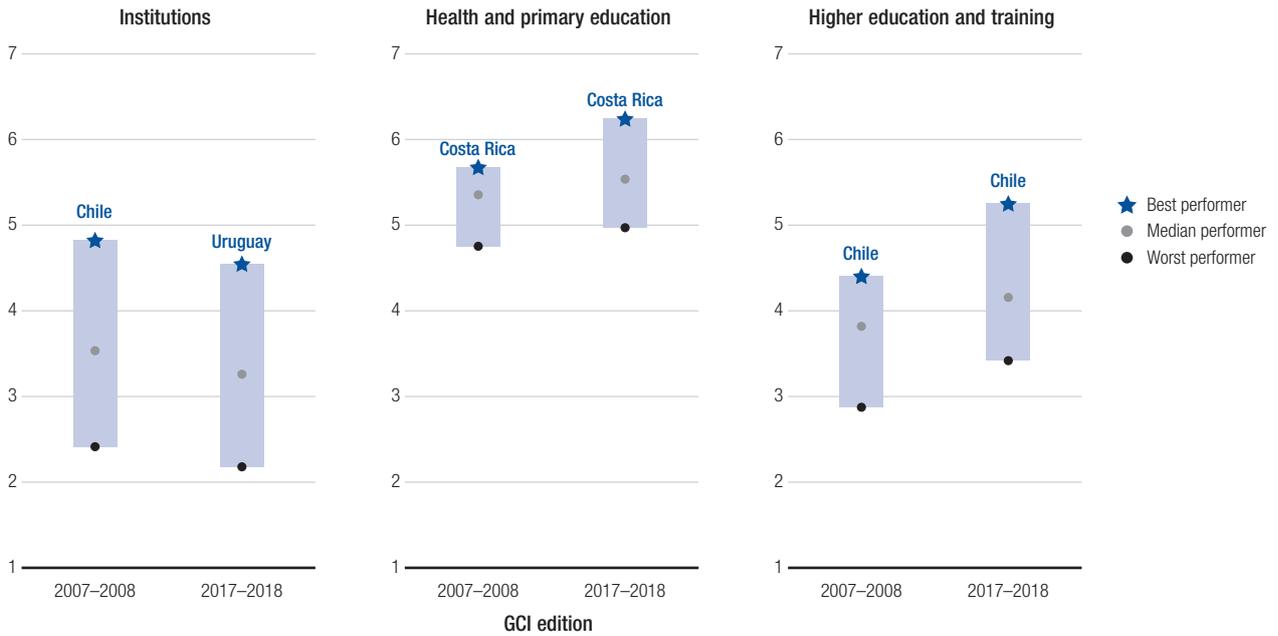
- 1 Contributed by the Colombian Private Council on Competitiveness.
- 2 The full report can be found at [http://www3.weforum.org/docs/WEF\\_White\\_Paper\\_Mexico\\_Competitiveness\\_Lab.pdf](http://www3.weforum.org/docs/WEF_White_Paper_Mexico_Competitiveness_Lab.pdf).

to make progress but at a relatively slower rate than other countries. The main reduction in score is in the institutions pillar, with efficiency in government spending falling in both score and rank. Private institutions also worsen, with deteriorations in corporate ethics and responsibility. After significant efforts to implement efficiency-enhancing reforms, the slow progress this year signals the need to increase the speed and depth of reforms that will improve the allocation of factors of

production and the competitive forces driving innovation and rivalry in product markets.

**Brazil** improves to 80th position, leveling off after several years of falling in the rankings. After being rocked by corruption scandals and political instability, the institutions pillar recovers 11 positions, showing the effects of investigations leading to more transparency and a perception of successful proceedings to curb corruption within the institutional limits of Brazil's constitution.

**Figure 6: Evolution of competitiveness in Latin American and the Caribbean in selected pillars**  
Score (1–7)



Source: Calculations based on the results of the Global Competitiveness Index 2007–2008 through 2017–2018.

Following two years of falling GDP growth and worsening macroeconomic conditions, Brazil this year improves slightly, bringing inflation and government deficits back under control. Efficiency enhancers also advance this year, with improvements in goods market efficiency. Brazil’s largest progress comes in the innovation pillar, with upturns in many of the indicators, indicating an enhanced capacity for innovation, more industry-university-business collaboration, a higher quality of research, and better-trained scientists and engineers.

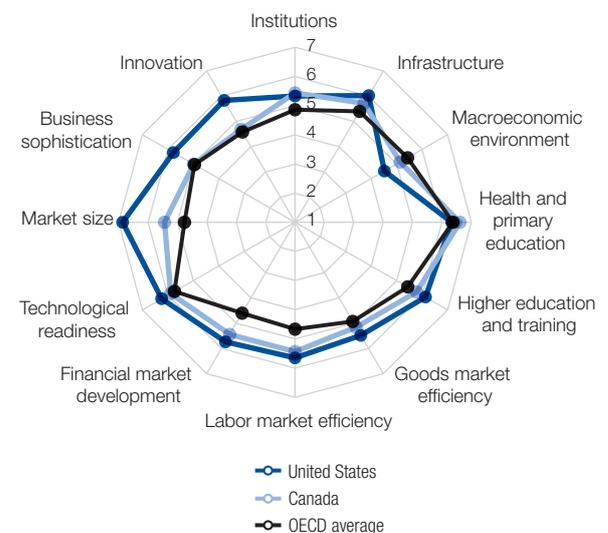
**Argentina** improves 12 positions to rank 92nd this year, boosted by a better performance in basic requirements. In particular, institutions improve significantly and consistently, reflecting renewed trust in public and private institutions. Technological adoption, business sophistication, and innovation all improve, signaling a reconversion process in Argentina and reflecting new sources of growth. As the government implements reforms that target distortions affecting market efficiency, some indicators of goods markets, labor markets, and financial development are starting to improve. These small improvements are indicative of the road ahead.

**NORTH AMERICA**

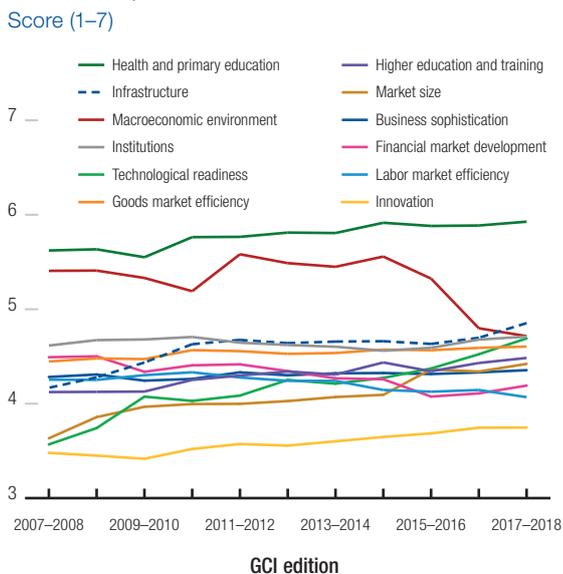
The two countries of North America—Canada and the United States—are two of the GCI’s top performers. Both countries consistently rank high on most pillars of the Index (Figure 7). However, in order to remain in the top of the rankings, both countries face important challenges,

including securing the free flow of goods, people, capital, and services within the North America Free Trade Agreement with Mexico; investing in human capital, both health and education; and consolidating the basic requirements of competitiveness that lag relative to other advanced economies while at the same time protecting their advantage in innovation and business sophistication and the efficiency of their markets.

**Figure 7: Performance of North America and OECD countries, 2017–2018 edition**



Source: Calculations based on the results of the Global Competitiveness Index 2017–2018. Note: OECD = Organisation for Economic Co-operation and Development.

**Figure 8: Evolution of pillar scores in the Middle East and North Africa, 2007–2017**

Source: Calculations based on the results of the Global Competitiveness Index 2007–2008 through 2017–2018.

Note: Based on a constant sample of 11 countries: Algeria, Bahrain, Egypt, Israel, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

Although technological progress and innovation place North America at the top of the competitiveness rankings and serve as an engine of not only local, but also global growth, the region also faces the challenges of increasing industry concentration, inequality, and sustainability. The issue of the quality of growth, not only its quantity, is particularly important in countries such as the United States. If these issues are not addressed, the institutional underpinnings of the system, as well as the performance of the region on pillars of competitiveness related to competition, human capital, and the efficient use of talent, could affect future growth and undermine growth prospects.

It is no time for complacency. Achieving a competitiveness agenda that can lay the foundation for future inclusive and sustainable growth should be at the top of the agenda—even for leading countries.

The **United States** ranks 2nd overall this year, displaying a constant improvement in score since 2010. Although ranking high overall, the country ranks 25th in basic requirements, with institutions, coming in below the top 10 and the macroeconomic environment placing 83rd. The macroeconomic environment pillar, out of all the components of the basic requirements subindex, has advanced the least and is one of the country's worst-ranked areas. Compared with other top-ranked countries, the United States performs poorly in health and primary education, coming in 29th despite an improvement of 0.15 in score over the last year. The strength of the United States comes from its performance in efficiency enhancers and innovation and sophistication factors,

where it comes in at 1st and 2nd respectively. These two subindexes reflect sound and well-functioning factors of production and product markets and a vibrant innovation ecosystem. The United States faces numerous policy uncertainties moving forward, many of which are in the areas where it is relatively weakest. Successfully meeting institutional challenges relating to both public and private institutions, improving the macroeconomic environment, and investing in human capital—particularly in the areas of health and primary education—will be crucial for the United States to maintain its position near the top of the competitiveness rankings.

**Canada** ranks 14th this year, a very slight improvement over last year's ranking. The main changes with respect to last year are in the efficiency of government spending (where it falls 13 places) and the macroeconomic environment (where it falls six spots), reflecting the negative international shocks via terms-of-trade deterioration and their impact on government revenues and national savings. Uncertainties regarding the United States' trade policy present challenges to Canada, with trade disruptions potentially affecting regional value chains. Canada's main challenges to continue making progress toward the top 10 lie in the macroeconomic environment pillar, ranking 47th; the quantity of education subpillar, where it ranks 28th; and the technological readiness, business sophistication, and innovation pillars where it ranks in the 20s. On the other hand, Canada ranks a high 7th in labor market efficiency, driven mainly by the efficient use of talent (3rd).

## MIDDLE EAST AND NORTH AFRICA

The Middle East and North Africa improves its average performance this year, in part because the new normal of low oil and gas prices is forcing many countries to implement reforms to increase diversification. Across the region, the most-improved country this year is Egypt (101st, up 14).

Looking at the data over the past decade, it becomes clear how the fall in oil prices has affected the macroeconomic environment in the region, which used to lead the way in this dimension (Figure 8). This has mainly affected some Gulf Cooperation Council economies' macroeconomic performance negatively. In many other countries, the fall in oil prices has increased the fiscal space because energy subsidies could be reduced. On the positive side, heavy investment in digital and technological infrastructure has allowed major improvements in technological readiness, but these have not yet led to an equally large turnaround in the region's level of innovation. The growth in market size also slowed down after 2015 with the decrease in oil prices.

The **United Arab Emirates (UAE)** (17th) improves its absolute assessment and continues to lead the Arab World in terms of competitiveness, but it loses one place as other countries post even larger gains. This

Figure 9: Sub-Saharan Africa average score: Gap and evolution by pillar, 2016–2017 and 2017–2018

Gap between sub-Saharan Africa score and global average	Pillar	Sub-Saharan Africa average score change since the 2016–2017 edition
-0.73	GCI total	-0.01
-0.41	1. Institutions	-0.07
-1.30	2. Infrastructure	0.09
-0.82	3. Macroeconomic environment	-0.25
-1.19	4. Health and primary education	0.10
-1.22	5. Higher education and training	0.00
-0.40	6. Goods market efficiency	-0.02
-0.04	7. Labor market efficiency	0.00
-0.52	8. Financial market development	-0.05
-1.34	9. Technological readiness	0.05
-0.95	10. Market size	0.09
-0.54	11. Business sophistication	0.05
-0.50	12. Innovation	-0.03

Source: Calculations based on the results of the Global Competitiveness Index 2016–2017 and 2017–2018.  
Notes: Based on a constant sample. Gray bars correspond to negative values and blue bars to positive values.

improvement shows the resilience of the UAE economy, in part due to increased diversification, which is reflected in its strengthening macroeconomic environment and its ability to weather the double shock of lower oil and gas prices and reduced global trade. Although the IMF predicts GDP growth to drop to 1.3 percent this year, non-oil growth is expected to pick up, suggesting that the country's diversification strategy is bearing fruit.<sup>10</sup> To further increase its competitiveness, the UAE will have to speed up progress in terms of spreading the latest digital technologies (36th) and upgrading education (36th).

**Saudi Arabia** (30th) slips one position, with a relatively stable overall performance. The macroeconomic environment has improved slightly after the 2015 oil price shock, but financial market efficiency (down 10, at 57th) has deteriorated as interest rates increased in 2016 and credit growth slowed. The country has stable institutions (27th), good-quality infrastructure (29th), and the largest market in the Arab world (15th). Saudi executives see restrictive labor regulations as their most problematic factor for doing business: the labor market is segmented among different population groups, and women remain largely excluded. Another concern is the lack of adequately educated workers: although tertiary enrollment is strong at 63 percent, more efforts are needed to advance the quality of education and align it with economic needs.

### SUB-SAHARAN AFRICA

On average, sub-Saharan Africa's competitiveness has not changed significantly over the past decade: while a little ground was gained between 2011 and 2015, it has been partially lost again over the past two years. Only four countries (Ethiopia, Senegal, Tanzania, and Uganda)

have improved their performance for five consecutive years since 2010. Africa's recent decline in overall competitiveness is reflected in subdued growth rates—only 1.4 percent in 2016 and a modest 2.6 percent projected for 2017.<sup>11</sup> Gross capital formation is now lower than at any other point in the last 10 years.<sup>12</sup>

Continued deterioration in the macroeconomic environment (Figure 9) is behind most of this year's fall in competitiveness. Average inflation grew to double digits in 2016 and remains above 10 percent. Public finances are still being affected by past slower global growth and commodity prices, which—although picking up somewhat—remain well below the commodity price levels of the 2005–14 period. As a consequence, African public revenues fell from an average of 26.5 percent of GDP in 2006 to 17 percent in 2016, and many countries are running deficits. In just two years public debt has risen from an average of 31.5 percent to 42.5 percent of GDP, and 22 of the 31 countries assessed by the GCI this year report higher debt than last year.

These challenges are affecting the banking sector, with financial market efficiency continuing to decline. In addition, after four years of improvement, performance in the institutions pillar has worsened this year—particularly in South Africa, Lesotho, and Zambia—while elections in 2017 in Rwanda, Kenya, Liberia, and the Democratic Republic of Congo have increased volatility and uncertainty in the African business environment. These negative trends have been partly compensated by improvements in infrastructure, health, technological readiness, and business sophistication, although Africa remains below the global average in these areas.

There is significant variation across countries. Mauritius is again the most competitive country in

Africa, at 45th in the overall GCI, with its main rivals falling back: South Africa drops 14 places to 61st and Rwanda drops seven places to 58th. The most improved African countries year-on-year are Madagascar (121st, up seven), Gambia (117th, up six), Kenya (91st, up five), and Senegal (106th, up six), thanks either to an improved macroeconomic environment (Madagascar and Senegal) or to the efficiency of goods, labor, and financial markets (Gambia, and to a lesser extent Kenya).

In general, restoring macroeconomic stability and institutional trust are short-term priorities to reignite competitiveness and growth in Africa. In the long run, continued investment in infrastructure, human capital, and technological adoption will be needed to reduce productivity gaps (Figure 9).

**South Africa** (61st) remains one of the most competitive countries in sub-Saharan Africa, and among the region's most innovative (39th)—but it drops 14 positions in the overall rankings this year. South Africa's economy is nearly at a standstill, with GDP growth forecast at just 1.0 percent in 2017 and 1.2 percent in 2018—hit by persistently low international demand for its commodities, while its unemployment rate is currently estimated above 25 percent and rising. Political uncertainty in 2017 has decreased the confidence of South African business leaders: although still relatively good in the African context, the country's institutional environment (76th), financial markets (44th), and goods market efficiency (54th) are all rated as weaker than last year, also partially due to a structural break in the Executive Opinion Survey sample.

**Nigeria** (125th) moves up two places in the rankings despite its score having fallen every year since 2012. Its macroeconomic conditions are worsening (122nd, down 14), inflation (131st) is high at 15.7 percent, and its budget deficit (98th) has reached 4.4 percent. Institutions appear more fragile (125th, down seven), adding uncertainty to the business environment. Nigeria is struggling to adapt to lower commodity prices, with the potential for structural change impeded by low scores on infrastructure (132nd), technological readiness (112th, down seven), higher education (116th), and innovation capacity (112th). However, new prudential requirements have strengthened the banking sector's soundness, and the Economic Recovery and Growth Plan (ERGP) for 2017–2020 contains much-needed reforms on transport and power infrastructure, the business environment, and education investment.

## CONCLUSIONS

As the challenges facing economies around the globe are varied, agendas to improve competitiveness need to be defined locally. Public-private collaboration must, however, also explore regional factors: multinational corporations can engage with several jurisdictions, while regional organizations, such as trade blocs, are able

to coordinate countries. The Global Competitiveness Index can help to guide and structure these long-term dialogues, leading to actionable agendas—not only at the national level, but also subnationally and regionally.

## NOTES

- 1 IMF 2017d.
- 2 See Eurostat 2016 for data on youth unemployment; see Darvas and Wolff 2016 and OECD 2017 for details about the fall of middle-skilled employment.
- 3 World Economic Forum and EIB 2017; EIB 2016.
- 4 Some of this improvement is due to the statistical revision of specific indicators. See Appendix A, Methodology and Computation of the GCI 2017–2018.
- 5 IMF 2017a.
- 6 IMF 2017a.
- 7 Yao 2017.
- 8 World Bank 2017.
- 9 IMF 2017b.
- 10 IMF 2017e.
- 11 IMF 2017c.
- 12 Inflation, government revenues, investment, and GDP growth statistics in this section are from the IMF *World Economic Outlook, April 2017* (IMF 2017c).

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