

Armenia Ranks 32nd, 39th, 83rd, 93rd, and 108th: Understanding and Reconciling the Indicators

The 2007-2008 Global Competitiveness Report (GCR), which has been the subject of much discussion given its recent release, is just one of a number of indexes used to attempt to measure, rank and benchmark a country's performance. Other prominent indexes include the World Bank's Doing Business report, The Heritage Foundation's Index of Economic Freedom, and the Human Development Index (HDI), published by UNDP. This proliferation of indexes can cause confusion, as the indexes each measure something distinct and may sometimes appear to contradict one another. To add to the confusion, the number of countries measured by each index is different. When taken together, however, they tell a surprisingly insightful story.

Index	Sponsor	Number of Countries
Global Competitiveness Report	World Economic Forum	131
Doing Business	World Bank	178
Index of Economic Freedom	Heritage Foundation	161
Human Development Index	UNDP	177

Armenia scored best in the Index of Economic Freedom (32nd) and Doing Business Report (39th). Both measure policy performance. Doing Business is designed to measure policy directly related to the micro-economic environment; that is, the policy environment that has a direct impact on firms. The Index of Economic Freedom measures policy more widely, emphasizing the degree to which policy contributes positively to overall economic freedom in conducting business, and measures both micro- and macro-economic policies. Both of these indexes rely heavily on quantitative data.

Armenia did less well in the GCR and HDI measures. The GCR has two components: The Global Competitiveness Index (GCI), on which Armenia ranked 93rd, and the Business Competitiveness Index (BCI), on which it

ranked 108th. The GCI measures overall competitiveness, including both micro and macro-economic factors. The BCI looks at both the quality of the national business environment as well as company-level operations and strategy (that is, the micro-economic foundations of competitiveness only). Both are attempts to measure the drivers of productivity (or competitiveness). The difference between these two measures is that the first looks at both micro- and macroeconomic drivers of productivity, while the second focuses specifically on the micro-economic drivers.

Unlike the Doing Business and Economic freedom indexes, the GCR measures a wider range of factors than the policy environment alone. The GCR also supplements its quantitative data with surveys of business executives. It is interesting to note the gap between Armenia's rank in Doing Business and the Index of Economic Freedom and its results in the GCR. While Armenia's policy environment appears to be generally favorable to business, there are other, non-policy factors that contribute to competitiveness. These are discussed further in the first annual Armenia Competitiveness Report. It is also important to note that some policy issues addressed in the GCR are not incorporated in the Doing Business and Economic Freedom indexes. The strength of antitrust policy (on which Armenia ranked 130th), for example, is a critical contributor to competitiveness in the GCR but is not considered relevant in Doing Business or the Index of Economic Freedom.

Finally, Armenia ranked 83rd overall on the HDI. HDI is an attempt to measure broader well-being, which includes GDP per capita, life expectancy, and educational achievement. A close look at the HDI ranks suggests that, while it is possible to have a low HDI score in spite of a relatively higher GDP per capita number, it is very difficult to achieve a high HDI score unless GDP per capita is also relatively high. Armenia, for example, ranked just 103rd on GDP per capita, a major contributor to its overall ranking. This suggests that GDP per capita is a necessary, although insufficient, component of well-being. Of the indexes mentioned above, the GCR (espe-

cially the BCI, which accounts for 82% of variation across countries in GDP per capita, adjusted for purchasing power parity, or PPP) is probably most relevant in terms of contribution to the HDI. Incidentally, Armenia's rank on the BCI (108th) is more closely correlated with its GDP rank (103rd) than any other index.

This is not to suggest the inherent superiority of any particular index. Different indexes attempt to measure different things, and a country can rank high on some indexes while struggling on others (as is the case with Armenia). However, Armenia should be careful not to "rest on its laurels" with regard to the indexes (*Doing Business* and Economic Freedom) on which it scored better. While these tell us a story, they do not tell the complete story-there are many other factors that contribute to competitiveness that these indexes do not measure. The GCR remains the single best and most comprehensive index for measuring a country's overall competitiveness; hence, the emphasis placed upon it in the soon-to-be published Armenia Competitiveness Report. Further, it represents the best effort to date to accurately measure and predict wealth creation, given its strong correlation with GDP per capita (adjusted for PPP). Future articles will explore further the issues of competitiveness in the hope of expanding the debate on this very important yet not fully understood topic.



The contents of this article are the sole responsibility of the authors and do not necessarily reflect the views of USAID or the United States Government.