

The Global Competitiveness Report: Prioritizing Competitiveness Initiatives

The recently published Armenia Competitiveness Report (ACR) examines Armenia's current competitive position, drawing largely on the Global Competitiveness Report (GCR). However, as is the case for most countries, the challenges confronting Armenia are too numerous to tackle all at once. This begs the question: How does a country prioritize what to do first? The recently released Armenian Competitiveness Report (ACR) proposes one such approach to prioritizing competitiveness initiatives, focusing on quick wins which would provide a "demonstration effect" to create momentum for larger change. The purpose of this article is to lay out a few other alternatives. These include: 1) prioritization based on a country's stage of development, 2) prioritization that weighs ease and cost of implementation with expected benefits, 3) a blended, or "hybrid" approach that combines the first two approaches, and 4) an evaluation of root causes. Yet one more school of thought suggests that successful reformers have succeeded by becoming known for their excellence in one or two things, and should therefore focus their efforts on developing world class capabilities on those.

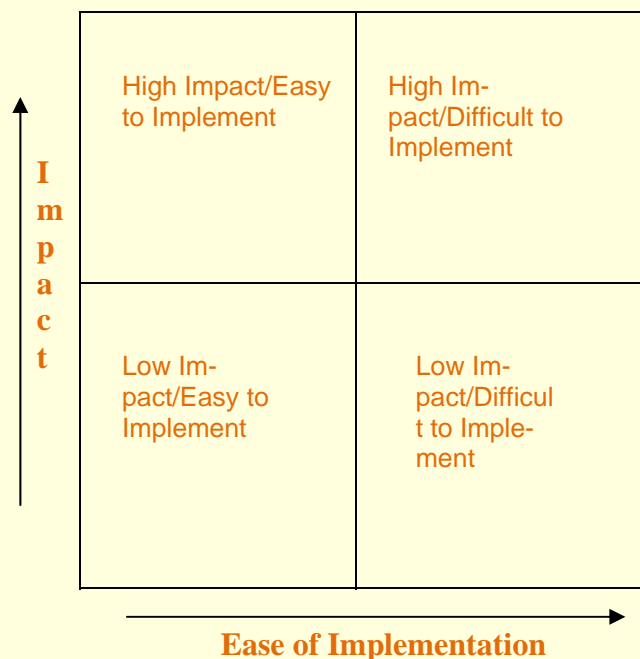
The GCR presents a country with, in many cases, an overwhelming amount of data. For simplification's sake, there may be a tendency to try to tackle first the categories on which a country has received the lowest ranking. Armenia, for example, scored 115th on business sophistication, its lowest ranking on any of the 12 pillars. According to this line of thinking, Armenia would be best served to begin there. However, this may not be the best approach.

The Report's authors have identified economies as belonging to one of three categories: factor-driven economies (which rely on low input costs to determine their competitiveness), investment-driven economies (which rely on the ability to produce things more efficiently than competitors), and innovation-driven economies (those that rely on the leverage of knowledge and innovation to achieve competitive advantage). While a case can (and has) been made that countries are able in some cases to "leapfrog" from the first stage to the third, in most cases countries

advance in a linear fashion through the three stages. A country's stage of development can help the country determine how to prioritize initiatives.

Armenia is currently classified as a "factor-driven" economy, which suggests it relies heavily on basic requirements (institutions, infrastructure, macroeconomic stability, and health and primary education and skills) as determinants of its competitiveness. Therefore, in order to enhance its competitiveness, Armenia may want to explore first, changes within the pillars that are having the greatest negative impact on its basic factors. These may include health and education (on which it ranked 99th) and infrastructure (96th).

Another consideration is ease of addressing the issues. Some changes may require significantly more time or cost to implement than others, or may simply be more difficult to achieve. For example, Armenians may determine that, although its market size (on which it ranks 111th) represents a considerable weakness, it is either difficult or impossible to change. Therefore, a second approach is to map the interventions on a matrix reflecting both ease of implementation and level of impact, such as the following:



Once the matrix has been created, issues would be addressed in the following order:

- 1) Those in the upper left-hand box
- 2) Those in the lower left-hand box
- 3) Those in the upper right-hand box
- 4) Those in the lower right-hand box

The objective is to first address the areas that are easiest to change, focusing first on those with higher overall impact, before proceeding to more difficult measures. This approach most closely approximates that presented in the ACR.

A third blended, or “hybrid” approach, mixes features of the first two. This approach first prioritizes factors based on Armenia’s level of development and then uses a cost-benefit approach (applied only to those factors considered most relevant given its level of development) that considers both cost and ease of implementation as well as projected benefits.

A fourth approach is to evaluate “root causes” to determine which initiatives are projected to have the greatest overall impact. For example, Armenia scored only 104th on goods market efficiency (which measures the efficiency with which goods can be transferred from buyer to seller). A closer evaluation shows that the largest contributors to this ranking were extent of market dominance (131st), effectiveness of anti-monopoly policy (130th), and the intensity of local competition (124th). Rather than trying to address each of these individually, a root cause analysis might suggest that all three scores have at their root ineffective anti-trust policy. One policy change, therefore, may make a positive contribution to several indicators.

Finally, a last school of thought emphasizes the importance of world class achievement in just one or two areas. This school suggests that that top performing countries have succeeded by establishing reputations for excellence on a limited number of factors, rather than attempting to raise their performance across a wider range of factors. Examples include Korea, which made itself a communications center; and Singapore, which made itself a logistics hub.

There is no one best way to approach making improvements in the GCR rankings. However, it is important to have a strategy to do so in order to set priorities and avoid becoming

overwhelmed by data. Ultimately, a country’s ability to enhance its competitiveness will be determined by its ability to make sense of the data that the GCR presents and to react appropriately to it. What approach do you think Armenia should take and why?



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