

THE GLOBAL COMPETITIVENESS REPORT 2006-2007

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Why Competitiveness ?

- Competitiveness is becoming a major paradigm of economic development.
- Competitiveness is a more comprehensive indication of the state of an economy than economic growth rate.
- Competitiveness influences the ability of the economy to achieve growth in mid- and long-term perspective.

Global Competitiveness Report

- The most comprehensive data set on competitiveness, using “hard data” (publicly available information) and survey data (from the Executive Opinion Survey.)
- Assesses the comparative strengths and weaknesses of a large number of economies and factors affecting competitiveness and economic growth.
- Provides readers with an exceptional opportunity to make in depth analysis of the specifics of each economy involved.
- **Multidimensional** analysis of economies.
- Produced in collaboration with leading academics worldwide and a global network of partner (research) institutes. The Partner Institute of WEF in Armenia is the **Economy & Values Research Center**.

Executive Opinion Survey

- The **Executive Opinion Survey** records the **perspectives of business leaders** around the world. Survey data is indispensable, particularly for variables where no reliable hard data sources exist.
- Respondents compare their own operating environments with global standards on a wide range of dimensions.
- The questionnaire is structured around the **main issues affecting the state of an economy's current business environment**.
- The sample of respondents is carefully selected by the Partner Institute of the WEF in a given country to reflect the **structure of a country's business environment** (i.e. the composition of the sample (in percentage terms)).
- In 2006, the record response rate was over 12,232 responses throughout the world.
- 95 business executives participated in the survey in Armenia.

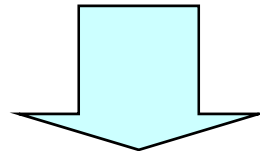
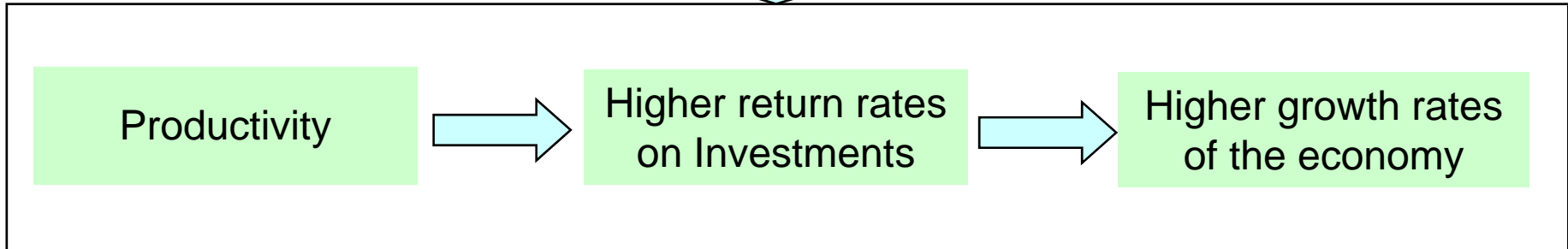
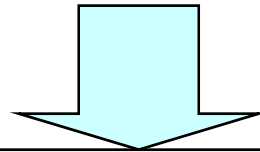
Global Competitiveness Index

- Over the past three years, the World Economic Forum worked with Professor Xavier Sala-i-Martin (Columbia University) to produce a new comprehensive index: the **Global Competitiveness Index (GCI)**.
- It unified the two indexes (Business Competitiveness Index (BCI) and Growth Competitiveness Index (Growth CI)): to assess both the macroeconomic and microeconomic determinants of competitiveness in one index.
- **The Global Competitiveness Index replaced the Growth Competitiveness Index in 2006.**

Global Competitiveness Index

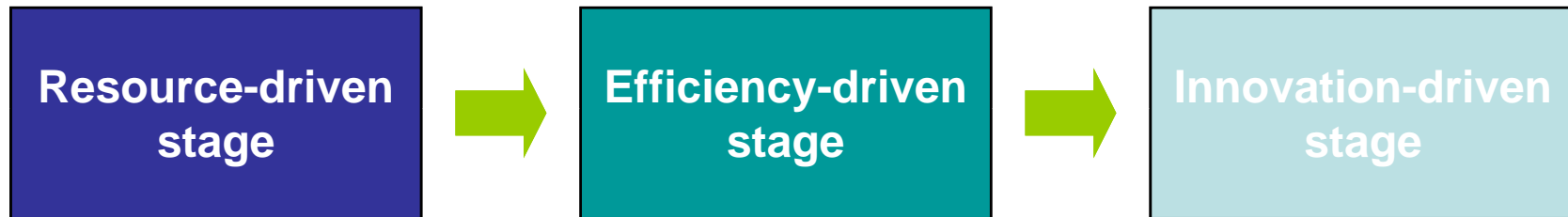
Competitiveness is defined as:

“collection of factors, policies, and institutions which determine the *level of productivity* of a country and that, therefore, determine the level of prosperity that can be attained by an economy in the next 3-5 years”, World Economic Forum



“More competitive economies tend to be able to produce higher levels of income for their citizens”, (Xavier Sala-i-Martin, 2004)

Global Competitiveness Index



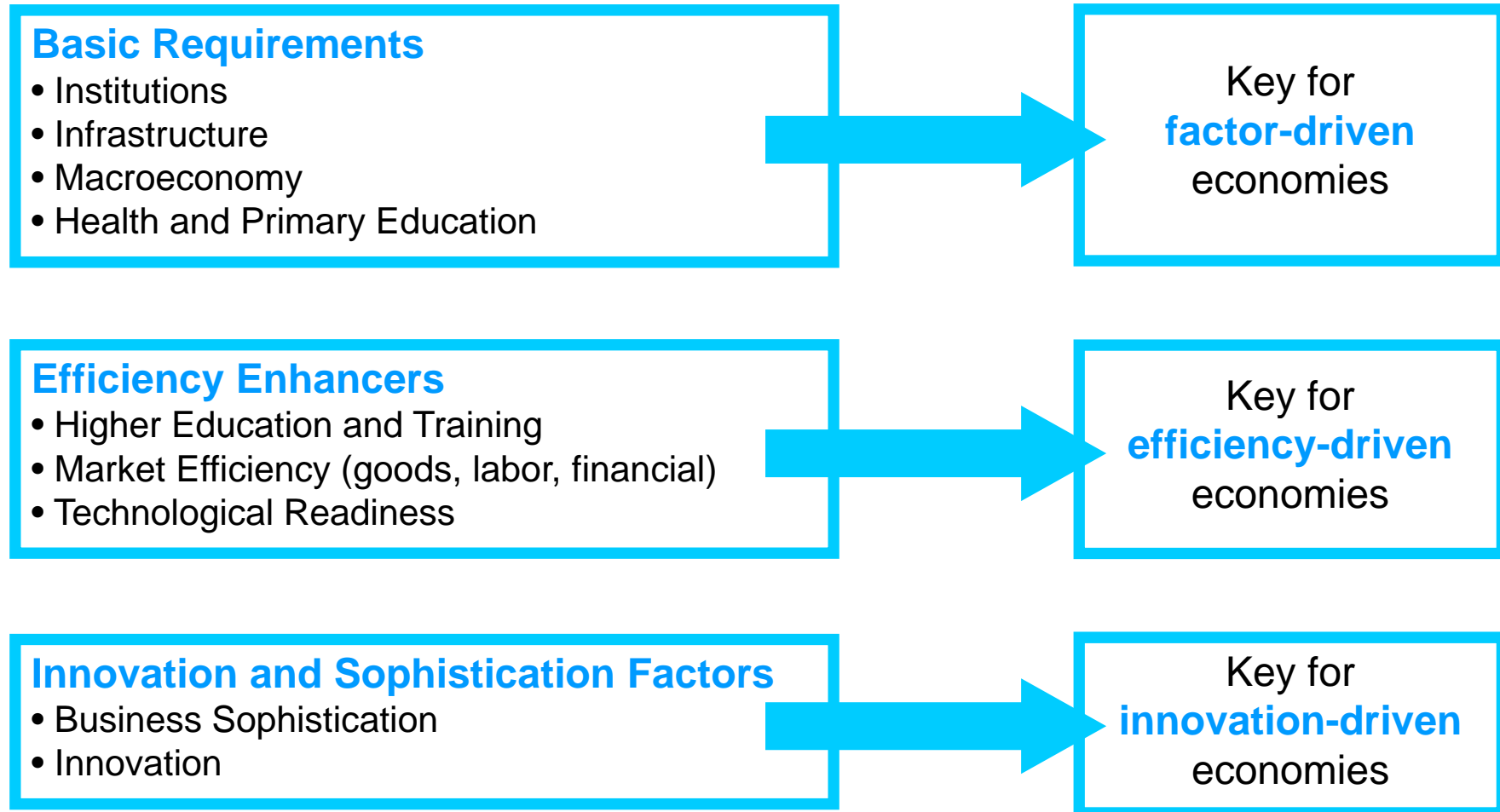
Firms **compete in prices**, taking advantage of cheap factors

Efficient production practices to increase productivity

Economies need to produce **innovative products** using **sophisticated production methods**

Different weights given for the pillars depending on which stage a country is in.

Global Competitiveness Index



Global Competitiveness Index

9 pillars of competitiveness

Basic requirements sub-index (Stage 1. Resource-driven)

1. Institutions
2. Infrastructure
3. Macroeconomy
4. Health and primary education

Efficiency enhancers sub-index (Stage 2. Efficiency-driven)

5. Higher education and training
6. Market efficiency (goods, labor, financial)
7. Technological readiness

Innovation and sophistication factors sub-index (Stage 3. Innovation-driven)

8. Business sophistication
9. Innovation

Global Competitiveness Index

Weights assigned to each pillar (sub-indexes)

Stage	Basic requirements	Efficiency enhancers	Innovation and sophistication factors
Resource-driven stage	50%	40%	10%
Efficiency-driven stage	40%	50%	10%
Innovation-driven stage	30%	40%	30%

Global Competitiveness Index

Development stages

Current development stage classification of each country is based on GDP per capita.

Stage 1	Stage 2	Stage 3
<\$2,000	\$3,000-\$9,000	> \$17,000
Armenia, India, Vietnam	Chile, Poland, Turkey, Kazakhstan	USA, UAE, Singapore

Countries with the level of GDP per capita above the threshold levels are considered to be countries in transition.

Transition 1-2	Transition 2-3
\$2000-\$3000	\$9,000-\$17,000
El Salvador, Albania, Tunisia	Bahrain, Korea (Rep.), Taiwan, Barbados

Armenia is in the 1-st stage of development.

Global Competitiveness Index

Top 15 Countries	GCI 2006–07 rank	GCI 2006–07 score	GCI 2005–06 rank
Switzerland	1	5.81	4
Finland	2	5.76	2
Sweden	3	5.74	7
Denmark	4	5.7	3
Singapore	5	5.63	5
United States	6	5.61	1
Japan	7	5.6	10
Germany	8	5.58	6
Netherlands	9	5.56	11
United Kingdom	10	5.54	9
Hong Kong SAR	11	5.46	14
Norway	12	5.42	17
Taiwan, China	13	5.41	8
Iceland	14	5.4	16
Israel	15	5.38	23

Global Competitiveness Index

Country	GCI Rank 05-06	Score	Change	GCI Rank 06-07	Score
Turkey	71	3.94	↗	59	4.14
Botswana	72	3.94	↘	81	3.79
Philippines	73	3.93	↗	71	4.00
Vietnam	74	3.91	↘	77	3.89
Macedonia, FYR	75	3.84	↘	80	3.86
Morocco	76	3.83	↗	70	4.01
Peru	77	3.83	↗	74	3.94
Ghana	78	3.82	-	-	-
Namibia	79	3.8	↘	84	3.74
Sri Lanka	80	3.77	↗	79	3.87
Armenia	81	3.75	↘	82	3.75
Algeria	82	3.75	↗	76	3.9
Nigeria	83	3.74	↘	101	3.45
Venezuela	84	3.71	↘	88	3.69
Serbia and Montenegro	85	3.67	↘	87	3.69
Georgia	86	3.61	↗	85	3.73
Ecuador	87	3.59	↘	90	3.67
Bosnia and Herzegovina	88	3.58	↘	89	3.67
Moldova	89	3.58	↗	86	3.71
Mongolia	90	3.57	↘	92	3.6
Dominican Republic	91	3.56	↗	83	3.75

Global Competitiveness Index

CIS Countries	GCI 2006–07 rank	GCI 2006–07 score	GCI 2005–06 rank
Kazakhstan	56	4.19	51
Russian Federation	62	4.08	53
Azerbaijan	64	4.06	62
Ukraine	78	3.89	68
Armenia	82	3.75	81
Georgia	85	3.73	86
Moldova	86	3.71	89
Tajikistan	96	3.5	92
Kyrgyz Republic	107	3.31	104

Global Competitiveness Index

CIS Rankings	Subindexes							
	Overall Index		Basic requirements		Efficiency enhancers		Innovation factors	
Country	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Kazakhstan	56	4.19	51	4.64	56	3.97	74	3.51
Russian Federation	62	4.08	66	4.43	60	3.91	71	3.55
Azerbaijan	64	4.06	56	4.59	78	3.52	70	3.59
Ukraine	78	3.89	86	4.15	69	3.68	78	3.47
Armenia	82	3.75	81	4.21	88	3.33	93	3.17
Georgia	85	3.73	82	4.2	87	3.36	113	2.86
Moldova	86	3.71	88	4.09	85	3.38	98	3.09
Tajikistan	96	3.5	94	3.94	103	3.07	103	3.02
Kyrgyz Republic	107	3.31	109	3.56	102	3.08	108	2.93

Global Competitiveness Index: Basic Requirements

CIS Rankings	Basic Requirements		1. Institutions		2. Infrastructure		3. Macro-economy		4. Health and Primary education	
	Country	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank
Kazakhstan	51	4.64	75	3.59	68	3.33	10	5.57	86	6.08
Azerbaijan	56	4.59	72	3.63	56	3.67	17	5.3	96	5.76
Russian Federation	66	4.43	114	2.97	61	3.52	33	4.95	77	6.29
Armenia	81	4.21	84	3.44	92	2.66	71	4.33	62	6.4
Georgia	82	4.2	78	3.51	79	2.87	93	4.02	61	6.4
Ukraine	86	4.15	104	3.14	69	3.3	74	4.27	94	5.88
Moldova	88	4.09	101	3.18	85	2.77	67	4.41	92	6.01
Tajikistan	94	3.94	77	3.53	108	2.2	96	3.94	85	6.09
Kyrgyz Republic	109	3.56	123	2.66	103	2.3	117	3.27	91	6.02

Global Competitiveness Index: Efficiency Enhancers

CIS Rankings	Efficiency Enhancers		5. Higher Education and Training		6. Market Efficiency		7. Technological Readiness	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Kazakhstan	56	3.97	51	4.28	44	4.39	66	3.23
Russian Federation	60	3.91	43	4.44	60	4.2	74	3.1
Ukraine	69	3.68	48	4.35	80	3.96	90	2.71
Azerbaijan	78	3.52	82	3.56	81	3.96	76	3.03
Moldova	85	3.38	73	3.78	92	3.73	96	2.62
Georgia	87	3.36	76	3.69	86	3.86	106	2.54
Armenia	88	3.33	80	3.58	104	3.6	86	2.81
Kyrgyz Republic	102	3.08	79	3.6	114	3.48	122	2.16
Tajikistan	103	3.07	98	3.09	108	3.56	102	2.57

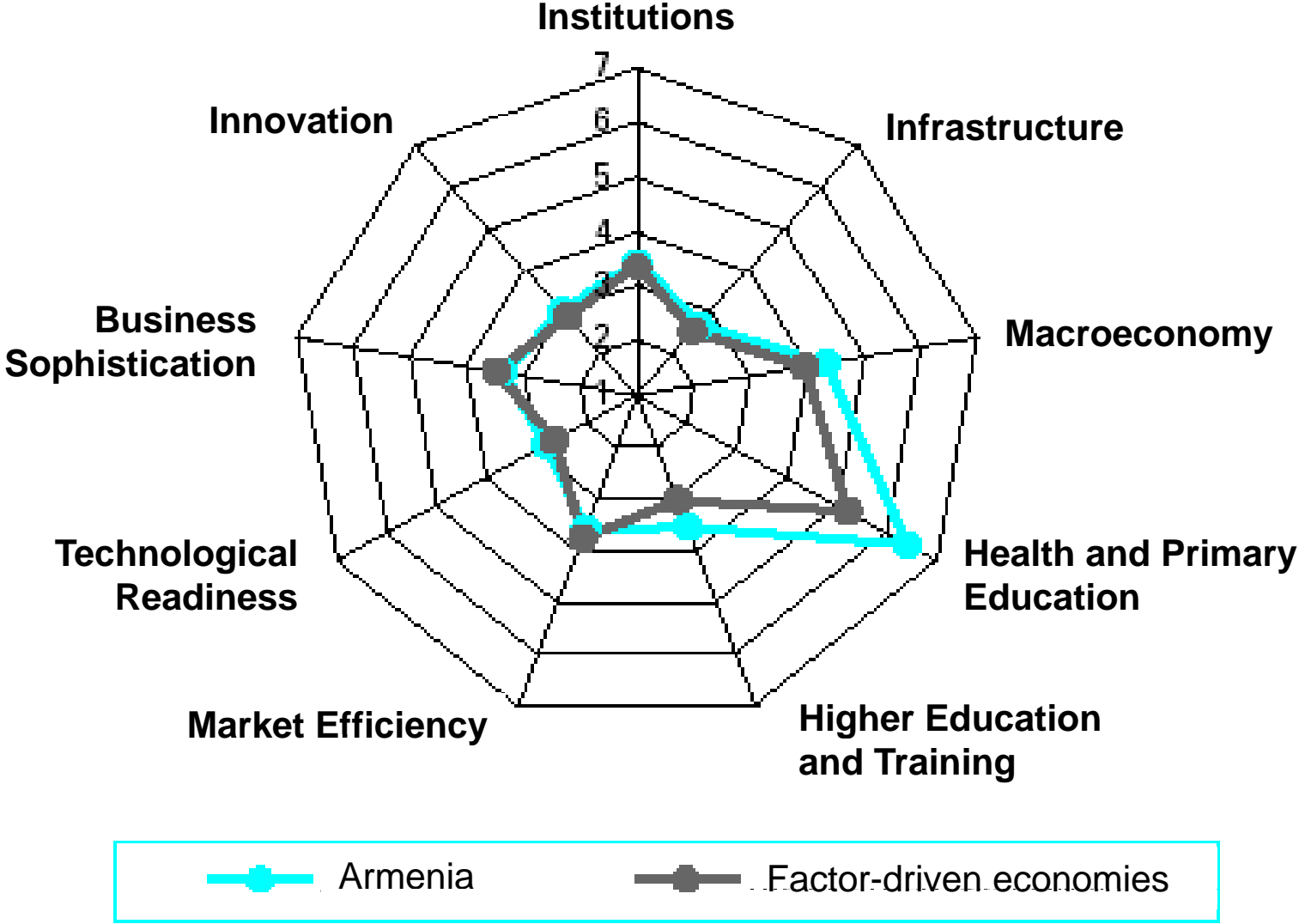
Global Competitiveness Index: Innovation Factors

CIS Rankings	Innovation factors		8. Business sophistication		9. Innovation	
Country	Rank	Score	Rank	Score	Rank	Score
Azerbaijan	70	3.59	70	3.92	63	3.26
Russian Federation	71	3.55	77	3.83	59	3.28
Kazakhstan	74	3.51	72	3.9	70	3.13
Ukraine	78	3.47	76	3.84	73	3.11
Armenia	93	3.17	104	3.34	84	3
Moldova	98	3.09	93	3.46	100	2.72
Tajikistan	103	3.02	110	3.19	95	2.85
Kyrgyz Republic	108	2.93	105	3.31	111	2.55
Georgia	113	2.86	116	3.02	102	2.71

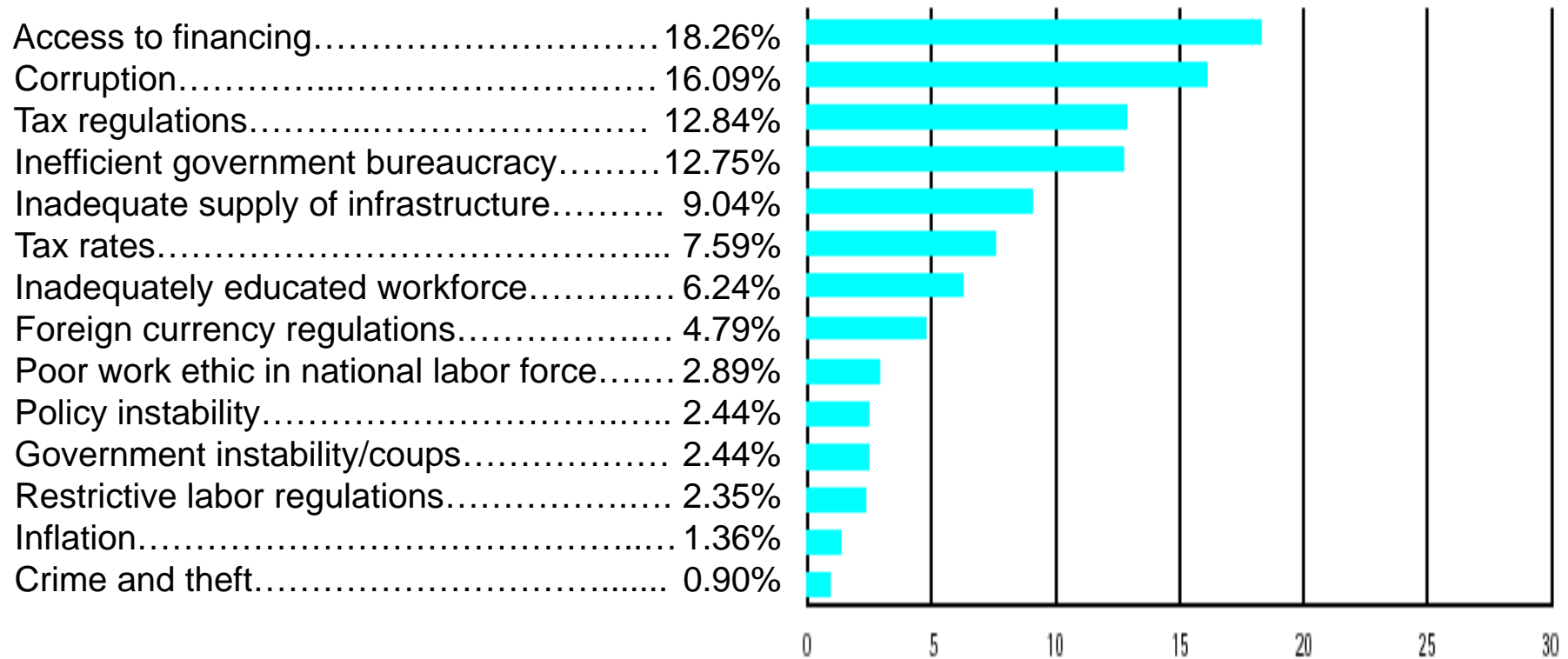
Global Competitiveness Index: Armenia

Armenia	2006	Score	2005	Score
Global Competitiveness Index Rank	82	3.75	81	3.75
Basic Requirements Sub-index Rank	81	4.21	80	4.20
Institutions	84	3.44	77	3.4
Infrastructure	92	2.66	95	2.57
Macroeconomy	71	4.33	70	4.31
Health and Primary Education	62	6.4	75	6.52
Efficiency Enhancers Sub-index Rank	88	3.33	82	3.29
Higher Education and Training	80	3.58	67	3.8
Market Efficiency	104	3.6	93	3.52
Technological Readiness	86	2.81	91	2.56
Innovation Factors Sub-Index Rank	93	3.17	80	3.35
Business Sophistication	104	3.34	81	3.69
Innovation	84	3.0	73	3.01

Global Competitiveness Index: Armenia



Most Problematic Factors for Doing Business in Armenia



Note: From a list of 14 factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 and 5. The bars in the figure show the responses weighted according to their rankings.

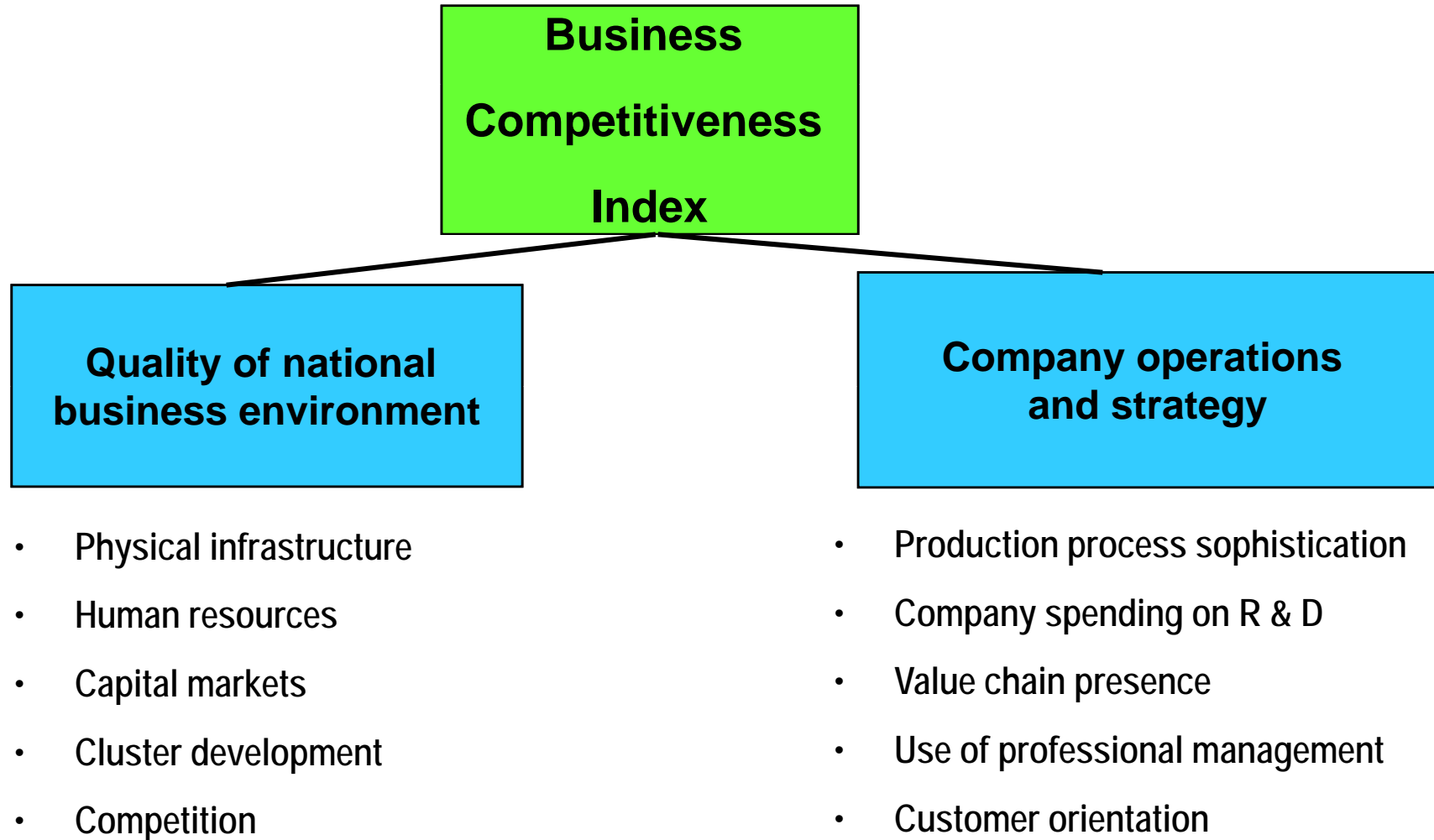
Key Messages: GCI

- Armenia's rankings remain remarkably consistent with the last year's results. Although Armenia fell by one place from 81st to 82nd place from 2005 to 2006, it actually rose from 69th percentile to 65th percentile because 8 additional countries were included.
- Armenia's ranking pretty well fit with the general trends of the developing countries, slightly over performing them in health and primary education.
- Armenia's competitiveness remains at a low level that will impede the country's ability to sustain high levels of growth in mid- and long-term perspective.
- Most fundamental problems are inhibited in market efficiency and technological readiness of the country. The market efficiency ranking reflects the dominance of anti-competitive practices in goods market, control of key domestic markets by a few business groups as well as extremely low level of development of financial markets.

Key Messages: GCI - Continued

- One of the most alarming indicators are very low rankings of business sophistication.
- The low ranking partly reflect the nature of economic growth that is achieved primarily due to growth of construction and agriculture. These sectors are mostly oriented towards the domestic economy, are not exposed to international markets and do not bring new, top level business practices into the country.
- Weak innovation activity of Armenian companies essentially impedes the potential to achieve higher competitive position in international markets and successfully compete in higher value added segments.

THE BUSINESS COMPETITIVENESS INDEX



Business Competitiveness Index

Top 20 Countries	BCI Ranking	Quality of National business environment ranking	Company operations and strategy ranking
United States	1	1	1
Germany	2	2	2
Finland	3	3	8
Switzerland	4	4	4
Denmark	5	6	6
Netherlands	6	5	7
Sweden	7	8	3
United Kingdom	8	7	9
Japan	9	9	5
Hong Kong SAR	10	10	12
Singapore	11	11	21
Austria	12	14	10
Iceland	13	12	19
Norway	14	13	20
Canada	15	16	18
France	16	18	11
Belgium	17	17	13
Australia	18	15	23
Israel	19	19	15
Malaysia	20	20	14

Business Competitiveness Index

CIS Countries	BCI Ranking		Quality of National business environment ranking		Company operations and strategy ranking		GDP per capita (PPP adjusted)
	2006	2005	2006	2005	2006	2005	2005
Kazakhstan	70	64	70	62	74	73	8,318
<i>Azerbaijan</i>	<i>77</i>	<i>72</i>	<i>78</i>	<i>73</i>	<i>66</i>	<i>67</i>	<i>4,601</i>
Russian Federation	79	70	77	67	78	78	11,041
Ukraine	81	68	80	69	82	71	7,156
Moldova	90	88	91	89	91	89	2,374
Armenia	94	87	93	88	101	86	4,270
<i>Tajikistan</i>	<i>98</i>	<i>100</i>	<i>97</i>	<i>98</i>	<i>108</i>	<i>108</i>	<i>1,388</i>
Georgia	100	90	101	90	97	91	3,616
Kyrgyz Republic	112	105	112	107	114	90	2,088

Note: Countries in italics do not pass the data consistency test in 2006. Their results should be interpreted with caution

Key Messages: BCI

- The Business Competitiveness Rank reflects the worsening microeconomic conditions in Armenia in comparison to other countries.
- The competitiveness implies winning strategies and operational effectiveness, particularly dependent on use of marketing tools, deep knowledge of customers, R&D spending, staff training.
- The major weaknesses of the national business environment are poor administrative infrastructure, extremely low level of sophistication of financial markets, distortions in local competition, and lack of deep clusters reflecting lax cooperation among industry players, government, research and supporting institutions.

THOUGHTS

- For national competitiveness slow progress means defeat.
- The adverse impact of weakened competitiveness will be felt in 3-4 years.
- Armenia is able to catch up and considerably improve its competitive position in a very short period of time in case an aggressive change agenda is developed and implemented.
- Still the government should take a lead role, but the private sector should take the message.
- Leadership horizon should exceed the current political cycle

THOUGHTS

- **Institutions, macroeconomic environment, basic education/healthcare and infrastructures are considered to be fundamental drivers of economy in the current stage of Armenia's development.**



Driving force -
government

- **In order for Armenia to move to the next stage of development it should focus on creating efficient markets, eliminating anti-competitive practices, aggressively developing financial system, substantially investing in higher education / vocational training and modern technologies**

- Efficient government
- Effective antitrust policy
- Development of financial markets
- Increasing the quality of management and decision-making in companies
- Availability of ICT



Driving force -
public/private
partnership

- **Becoming a competitive nation will depend on adoption of most sophisticated managerial tools and ability of companies to innovate**

- Creation of full value chain activities
- Exploitation of marketing tools / branding
- Protection of intellectual property rights
- Government's role in providing proper IT infrastructure
- Engagement of professional managers in businesses

Driving force -
private sector

Increasing Armenia's competitiveness is becoming a national security issue.

Armenia Competitiveness Report

- The Economy and Values (EV) Research Center is preparing the first Armenia's National Competitiveness Report aimed at:
 - evaluating the competitiveness of Armenia's economy
 - revealing the major challenges in this area
 - identifying their mid-term and long-term impact on the country's development
 - highlighting key levers that will help improving Armenia's competitive position
- EV Center will collaborate with the government and business leaders to highlight the most pressing issues
- The launch of the Report is planned in April 2007.

The electronic version of this presentation will be available at:

www.ev.am