Measuring of Countries Economic Competitiveness with Indexes

Edgars Rožāns, MBA

University of Latvia, Faculty of Economics and Management, Ministry of Economics of the Republic of Latvia, Foreign Trade Policy Senior Officer

*Corresponding Author: Edgars Rožāns, MBA, University of Latvia, Faculty of Economics and Management Ministry of Economics of the Republic of Latvia, Foreign Trade Policy Senior Officer. E-mail: edgars.rozans@gmail.com

ABSTRACT
The national economic competitiveness of countries in our increasingly globalized world gains exponentially growing significance. Researchers have accomplished remarkable work to comprehensively measure economic competitiveness of countries with indices. If we look at the some of the most well-known indices measuring national economic competitiveness, we can see that each of them have their advantages and deficiencies. The Global Competitiveness Report covers the biggest number of factors regarding this matter, however, among other imperfections, it lacks impartially quantifiable data. The Doing Business index provides useful data about the legislative and legal environment for businesses in given countries, but not much more. The Index of Economic Freedom covers vast amounts of information about different factors significant for an economic development, however, at the same time giving partial assessments from their economic doctrine point of view.

Keywords: Economic competitiveness of countries; indices measuring economic competitiveness; the Index of Economic Freedom; the Doing Business index; the Global Competitiveness Report.

INTRODUCTION
In our increasingly globalized economy, global competitiveness of countries becomes only more and more important. Not surprisingly this matter gets appropriately more attention from national countries, researchers and their represented institutions and organizations, as well as from others concerned about the topic.

Countries in order to maintain their competitiveness in the global economy, devote significant resources for analyzing it and taking the proper steps for necessary improvements, which usually have to take mid-term and long-term policy planning.

Researchers with their represented institutions and organizations have put a great effort to establish methodologies to evaluate competitiveness of countries, despite its complicated nature.

Nevertheless, in spite of a huge criticism these indexes often get, also largely due to different misunderstandings about their role and goals, generally overall trends show that the same countries earn the same places from index to index, which are also in accordance with their relative wealth and quality of life, when used in comparison with other countries.

The aim of this paper is to investigate some the most popular indexes that exist to measure economic competitiveness of countries.

To achieve this aim a number of tasks were set. These tasks in the order of sequence are following:

• Review of the literature on competitiveness and economic freedom
• Examining of the most popular economic freedom indices
• Make the conclusions about the investigated indices

To achieve the above-mentioned tasks, mainly descriptive, analytical and comparative methods were used.

Accordingly, to assess the indices to measure economic competitiveness of countries, the remainder of this paper is structured as follows. Section 1 provides brief review of the literature about this topic. Section 2 investigates some of the most popular indices that exist to measure
economic competitiveness of countries, i.e., the Global Competitiveness Report, the Doing Business, and the Index of Economic Freedom and other indices measuring economic competitiveness through economic freedom. Finally, conclusions section look at the interpretations derived from this article.

**Brief Review of the Literature**

Depending on the context in which competitiveness is being described, definitions also differ on it. Given that in this article competitiveness is looked at in the context of national competitiveness, the author went through some of the definitions that exist for explaining it.

Some of the most prominent researchers on competitiveness, Mercedes Delgado, Christian Ketels, Michael Porter and Scott Stern, in their joint research about the national competitiveness defining factors also accentuate that the national competitiveness definitions are very different, depending on the point of focus. Some equate competitiveness with ability to achieve certain overall outcomes, such as a high standard of living and economic growth. Other definitions focus on the ability to achieve specific economic outcomes such as job creation, exports, or foreign direct investment (FDI). Yet other definitions see competitiveness as defined by specific local conditions such as low wages, stable unit labor costs, a balanced budget, or a competitive exchange rate to support the current account surplus (Delgado et al., 2012).

Possibly the most well-known researcher of competitiveness, Harvard University professor Michael Porter, on the matter of national competitiveness, has said that nation’s prosperity depends on its competitiveness, which is based on the productivity with which it produces goods and services. Sound macroeconomic policies and stable political and legal institutions are necessary but not sufficient conditions to ensure a prosperous economy. Competitiveness is rooted in a nation's microeconomic fundamentals - the sophistication of company operations and strategies and the quality of the microeconomic business environment in which companies compete. An understanding of the microeconomic foundations of competitiveness is fundamental to national economic policy (Porter, 2014).

Looking from this perspective, competitiveness becomes strongly jointed with productivity. There is a wide belief that productiveness is one of the central aspects to explain differences in wealth of the nations, backed up by numerous research.

Such structural policy documents as the Growth Agenda, published by the Organization for Economic Co-operation and Development (OECD, 2005) and the European Commission 2020 strategy (EC, 2010), are largely based on the competitiveness enhancing activities which promote productivity.

Largely based on the 18th century philosopher and economist Adams Smith's believes on the benefits of the free market, which were already published in a year 1776, well before the industrial revolution, in his famous book “An inquiry into the nature and causes of the wealth of nations,” competitiveness is looked up from the standpoint of economic freedom. In the years to follow, it has been backed up by countless research, showing the contribution of economic freedom for the wealth of nations.

In the era of mercantile economic thinking, Smith came up with totally revolutionary and novel ideas. He argued that regulation of commerce is unproductive, hindering people from investing their own resources into actions where they see the best economic use of it. By not developing free trade and competition, introducing tariffs, establishing monopolies and subsidy systems, consumers eventually are forced to pay a bigger price than they would under free competition conditions.

Given these reasons, Smith believed that a state role has to be limited, in order to not distort the free market economy. Its biggest role is to ensure external and internal safety of a state, the rule of law, development of infrastructure and promotion of education. That of course can be done through taxation, which Smith doesn’t deny, but at the same time putting emphasis that the level of taxation should be at the extent that citizens can afford. However, he would still oppose a taxation of capital, because availability of capital is one of the productivity pillars. Concerning productivity, Smith also believed that for the work productivity critical is work specialization, which through economic profit making leads to the accumulation of capital, which in turn allows to invest in even more productive devices and processes.

Many of our contemporary economists have also tried to explain the concept of economic freedom. Definitions of this concept vary, just like for the concept of competitiveness,
nevertheless, the common thing here is that they all put emphasis on the principles of free market trade and private property rights.

Such economists as Lawrence McQuillan, Michael Maloney, Eric Daniels and Brent Eastwood, which in the past themselves have introduced an index of economic freedom for the US, describe economic freedom as the right of individuals to pursue their interests through the voluntary exchange of property which is subdued to the rule of law. It is this kind of economic freedom that lays sound foundations for an economy. Economic freedom under minimal state interference extent, in order to ensure safety and reliability of a legislative basis, judicial or court rules, are critically important, because otherwise it would only serve as a hindrance for economic freedom. State rules that ensure these rights promote economic freedom.

Nevertheless, there are researchers that cast doubt on the special merits of competitiveness and economic freedom in the global economy. One of the most prominent of them is Paul Krugman. He argues that when we compare countries, the level of productivity is the thing that really matters, not competitiveness measures, because countries don’t compete with each other in any relevant manner and focusing on competitiveness leads only to destructive state policies.

One can agree to such statement only partially. Like previously stated, undoubtedly there is a correlation between the competitiveness and productivity improvements, taking this into consideration, it wouldn’t be right for countries to not compare their competitiveness against other economies in this era of continually increasing globalization, where economies cooperate and at the same time compete with their goods and services in the global market. The words of the 17th century Japanese Buddhist Samurai Miyamoto Musashi, that it is hard to understand the Universe by exploring only one planet, fit in here very well.

Krugman is also critical about economic freedom, he associates it with a dominance of foreign companies in countries which for various reasons are in lower stages of economic development, which given their advantage of the level of accumulated capital makes it easy for them to takeover local businesses. That becomes especially evident in times of periodical economic crisis, which in turn are often stimulated by asset bubbles that are in part caused by influx of investment.

Also in the cases of full capital liberalization, in underdeveloped countries often short term speculative investments evolve, which without sufficiently effective regulatory framework can provoke distress of a financial system (Stiglitz, 2000). However, in the case of foreign direct investment, risks are not as high, given that capital can’t flow away just as swiftly.

Another negative aspect of increasing economic freedom in developing economies is that countries have to go through the phase of increasing inequality (Berggren, 2003), which basically is a result of decreased redistribution.

These of course are not the only negative effects on societies from economic freedom or liberalization, author himself, for example, can add things like running a local enterprises out of business, takeover of competitive firms, enforcing the interests of foreign companies, dependence on foreign capital, deteriorating work rights, harmful manufacturing for the environment, introducing of commercial practices that are not favorable for consumers, as well as endangerment for survival of national cultures.

All these arguments about the negative side effects of economic freedom, in our from cross-border trade and investments dependent world capitalism (EC, 2013), are very strong. Nevertheless the shorter term negative impact of economic freedom is being outweighed by its positive impact in a longer term, as countless studies have shown. Economic openness and competitiveness is especially critical for small economies that cant build their prosperity on valuable natural resources like for example Persian Gulf countries, or even on historically accumulated capital like Scandinavian countries, as a good example here could serve the highly educated Baltic nations with very high work ethics, which given their tough historic legacy regaining independence from the Soviet Union, has to objectively go through many phases of economic development to reach the level of the wealthiest countries. Regarding the Scandinavian countries, it is important to note that Norway has built its economic prosperity largely thanks to the abundance of natural resources that it possesses.

Another big factor is that despite the fact that improvements in competitiveness and economic freedom do not automatically mean greater
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output, it plays substantial role creating positive image about an economy, which again is important for the attraction of FDI (Berger and Bristow, 2009). That alone means that it is worth for countries to pay some attention to these wildly disputed indices.

Also very importantly, regarding economic freedom, research shows that although it has its negative effects, overall trends are indicative that countries with higher levels of economic freedom have not only higher gross domestic product per capita and its growth rates, but also have better health care, education system, environment protection (Roberts and Olson, 2013), as well as greater income equality (Esposto and Zaleski, 1999), and maybe above all, happiness results (Gropper, 2011). These trends of increasing prosperity with augmenting economic freedom are confirmed even when we compare these results within the territories of countries (Stansel, 2013; Davies, 2013). However in various research differs the importance of each economic freedom component in acquiring prosperity.

The Most Well-Known Indices to Measure National Economic Competitiveness

Some of the most popular indices of assessing national economic competitiveness are the Global Competitiveness Report by the World Economic Forum, the Doing Business by the World Bank, and the Index of Economic Freedom by the Heritage Foundation and the Wall Street Journal.

The Global Competitiveness Report

The Global Competitiveness Report (GCR) by the World Economic Forum (WEF) has been carrying out its analytical work for more than 30 years already, acquiring data for it mainly through a form of questionnaires and updating its methodology constantly. During these years, from the year 1979, when the first survey took place, the number of included countries has risen from 16 only European countries (WEF, 2014) to 148 countries worldwide (Schwab and Sala-i-Martin, 2011). At the moment, it could be regarded as the most well-known and comprehensive index covering economic competitiveness.

WEF defines competitiveness as the network of institutions, policies and factors, which determine the level of state productivity, which in turn is a crucial prerequisite for national prosperity. We have to take into consideration that national competitiveness has to be approached through static and dynamic perspective, namely, looking from the static approach, high level of competitiveness enables countries to sustain high standard of living, looking from the dynamic approach, and improvements in competitiveness enable productivity growth and economic development.

GCR provides useful insight into national economic environments and their potential to achieve sustainable growth and prosperity. In order to provide as comprehensive as possible view, WEF obtains its data from national and international institutions and organizations, as well as from their own gathered questionnaires. All this gathered information allows to obtain very comprehensive insight into each country’s economic and business environment in comparison with other countries.

The questionnaires enable to gather relevant information about the state of factors that are important for national economic competitiveness in countries that otherwise wouldn’t be accessible for comparison at the global level.

To achieve this, reputable local institutes in each country gather the necessary data. These institutes are chosen on the basis that they have access to the leading companies, which in turn can give useful insight into national economy and business environment.

In these questionnaires participants are asked to evaluate specific conditions of their economic environment in the range from 1 to 7. Mark 1 means the very worst possible appraisal, and contraversary, mark 7 signifies the very best possible appraisal (Schwab and Sala-i-Martin, 2011).

In this manner, by calculating the average score, an assessment of each specific aspect for every included country is acquired.

The overall competitiveness of countries is determined through means of 114 resource, efficiency and innovation factors, which are divided into 12 competitiveness pillars, which in turn are divided into 3 categories:

- Basic requirements - 1) Institutions 2) Infrastructure 3) Macroeconomic environment 4) Health care and primary education
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- Development 9) Technological readiness 10) Business sophistication
- Innovation and sophistication factors 11) Innovation

Every single of these competitiveness pillars are important for all economies, however their importance varies depending on country’s economic development stage. To improve competitiveness in Germany will not be the same as improving competitiveness in Ghana. That is because these countries are at different stages of development. As countries progress through development phases wages tend to increase, accordingly for countries to be able to sustain this increase of salaries they have to improve their productivity. For this reason, based on the gross domestic product per capita results, countries are divided into 5 different levels - countries based on resources, countries based on efficiency, innovation-based countries, and two transitional levels between these stages (Schwab and Sala-i-Martin, 2013). Taking into account this division, for obtaining the overall outcome, respectively more weight is put on the pillars which for the given countries are more important, according to their level of economic development.

From all the economic competitiveness indices, GCR has the biggest number of included factors to evaluate as large as possible variety of aspects that affect competitiveness, nevertheless, by looking at the analysis of researchers about this particular index (Vanags, 2005; Nayak, 2007; Arslan, 2011; among others), we can see that it also has many imperfections.

First of all, we have to keep in mind that availability of quantitative data is limited, given that in this index mainly questionnaires are used to obtain assessments for countries in each specific factor, one has to be cautious since individual appraisals are partial and can frequently lead to misleading conclusions.

We also have to take into account that business leaders pretty much always are truly competent only in business factors that they are directly involved in, and even then often times with not sufficiently wide scope to give impartial appraisal.

Additionally, relativity can play a very big role when evaluating factors, e.g., given very large differences of economic development in various regions worldwide, with people tending to compare their situation with the best and worst performing countries in their region and not looking at the situation from the global perspective.

In the process of acquiring competitiveness outcomes for the included countries in the survey, no econometric methods are used for proving the grounding of assigned factor values. That in turn doesn’t allow objective analysis of the obtained results.

Given that acquired results mainly are mere average scores of the questionnaires, they don’t directly indicate any specific improvements that have to take place, that is different from the other indices, i.e., the Doing Business or the Index of Economic Freedom.

**THE DOING BUSINESS**

The Doing Business (DB) index by the World Bank has been conveyed since the year 2003. In the very first DB report 5 factors important for the business development were compared in 133 economies, in the DB 2014 report already 189 economies were compared with a help of 11 factors.

DB index evaluates entrepreneurial environment for local businesses. Project focuses on small and medium size enterprises, which have engaged in doing business in the economically largest city of each given country. Based on standardized cases, quantitative results are provided about processes that businesses usually have to undergo through various stages of business cycle.

Outcomes of countries can be compared with all 189 covered countries, as well as with their own national results over the time frame.

That allows countries to evaluate their legislative entrepreneurial environment, detecting problematic factors and flowingly enabling them to commit for the necessary improvements. Such claims of the usefulness of this index is backed up by the presentation of the World Bank to the European Commission, which suggests that last year alone reforms to facilitate entrepreneurial environment have increased by 18 percent (EP, 2013).

If we look at the data provided by the index authors (World Bank, 2013), the DB doesn’t define competitiveness as such, but given its methodology, competitiveness is approached through orderliness viewpoint of countries legislative environment for doing business, enabling comparisons of competitiveness in this area with other countries. Emphasis on the
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legislative basis, which can be taken care of properly much faster than many important competitiveness factors that take a lot of resources and long economic development, e.g., infrastructure, allows many countries that are less developed, for various impartial or partial reasons, to show better results than more developed countries.

As mentioned before, the DB index consists from 11 factors that are important for performing economic activity in a country. These factors are following:

- Starting a business (procedures; time; cost; initial capital)
- Dealing with construction permits (procedures; time; cost)
- Getting electricity (procedures; time; cost)
- Registering property (procedures; time; cost)
- Getting credit (legal rights; credit registry)
- Protecting investors (transparency and liabilities)
- Paying taxes (payments; time; total tax rate)
- Trading across borders (documents; time; cost)
- Enforcing contracts (procedures; time; cost)
- Resolving insolvency (time; cost; recovery rate)

Respondents of this survey are professionals that on a daily basis manage or give advice about the legal and regulatory requirements in each of the covered Doing Business factors. They are selected based on their expertise in every specific index factor. Given the emphasis on legal and legislative aspects, majority of contributors are from the legal field - lawyers, judges and notaries. The getting credit factor questionnaires are filled by credit register officials. Freight carriers, accountants, architects, engineers and other professionals give answers about the cross-border trade, taxes and building permits.

For gathering of the data, the DB index doesn’t focus on enterprises for two main reasons. First of all, in their life cycle enterprises perform certain activities very rarely or even onceonly, e.g., a company goes through the process of establishing it only once, while advocate of mergers might go through this process several times a year. Second of all, index covers an information that companies themselves are rarely aware of, e.g., only few companies will know about many legal steps they have to go through to resolve a commercial dispute through court, while adversely, lawyer with corresponding competency will have no problem naming all the required steps.

Nevertheless, looking at the index from a critical point of view (World Bank, 2013; Manuel et al., 2013; Thomas et al., 2008), we have to conclude that it is far from perfect, for which the authors of this index are not trying to lay a claim for, just like in the instance of the other indices. Firstly, it is limited in its scope, not evaluating a full range of factors, policies and institutions quality, which affect the quality of business environment, e.g., it doesn’t cover aspects such as security, corruption, market size, macroeconomic stability, financial system sustainability or labor force and education system quality.

The DB is also very limited in its range when it comes to appraising infrastructure, which is a very important prerequisite for a competitive economy. It doesn’t at all, or very symbolically looks at roads, railways, ports and other communications leaving an important impact on business competitiveness. In a very small degree the quality of harbors is touched with the help of cross-border trade factor.

Similarly, even for the factors that are included into this index, their scope is not complete enough to give comprehensive appraisal of the current situation in these factors, e.g., getting electricity factor covers the necessary procedures, time and cost for businesses to acquire permanent electricity connection, but they do not evaluate the quality of this connection.

That can lead to misleading and false conclusions about the necessary improvements in national competitiveness of an economy that are most acutely needed. For example, India has been focusing on the small and medium enterprises sector to stimulate growth and employment. Several surveys were suggesting that enterprises of this size face significant problems in accessing loans with reasonable conditions, however, in the DB index the country was ranked 23rd in the getting credit factor, while overally it was ranked only 132nd in the ease of doing business (Manuel, 2013). Such a high outcome in this particular factor was possible given that the index methodology uses only information about how well regulated is its legislation and credit register.
Subsequently, if this particular country would concentrate on this index for improving its business environment, it could miss this very important aspect.

Secondly, the index is limited in its scope, basing it on the standardized business case in each country. For comparing the ease of doing business, the data is gathered only from the biggest economic city in a country, however, in reality regulation of business activities in different parts of a country can be very different, it is especially evident in federal and large countries. In some cases, when such initiative is shown, countries together with the DB index experts can evaluate the ease of doing business in different parts of a country.

Thirdly, the index is limited in its scope, covering only the formal sector. Creating this index, it is assumed that entrepreneurs are well informed about and comply to all the set rules. In practice though, many entrepreneurs are not aware of all the required activities that have to be taken, thusloosing valuable time finding it out, or in the worst case scenario excluding adhering of the rules. That is very evident in countries where regulation of doing business is very troublesome, which in these countries often leads enterprises to shift into informal sector, or the so-called shadow economy.

Many researchers also believe that the DB index shouldn’t count all the factors together for getting the overall score, subsequently creating the ranking of countries. The reason for that is that there haven’t been any conclusive results about how important each of these factors are for the ease of doing business.

Regarding the data gathered by the Doing Business index, it is important to note it also collects information about the regulation of labor force, however, it doesn’t include it anymore in its annual report, given the criticism it was receiving for suggesting less labor rights in order for economies to be more competitive. Ironically, the information gathered by the DB, but not included in its annual report, is being used in the Index of Economic Freedom to evaluate the state of economic freedom in countries worldwide. The authors of the IEF justify it by claiming that labor freedom is important for economic freedom given that labor force market in its essence is just like any other market of resources, and just like in any other market, artificial regulating of it through means of setting minimum wages, centralized salary setting, hiring and dismissal conditions, unemployment allowances and other regulations, which are not based on the principles of free market exchange, are not desirable for productivity and development of an economy. From fundamental economic freedom standpoint people have the right to work where and how much they like, if not their economic freedom is restricted.

Significance of economic freedom for economic development has been justified by various surveys. It has been shown that excessive workforce market regulation decreases employment and increases unemployment, both in Europe (Munkhammar, 2011), and in OECD member countries as a whole (Siebert, 1997). In the case of Europe this is very important given the trends of globalization and ageing population. Besides the fact that excessive workforce regulation hinders attraction of the foreign direct investment, it is also significant that in case of successfully attracting them, movement from an enterprise where a new knowledge has been acquired to a local enterprise is more difficult, making the knowledge transfer from multinational corporations troublesome (Fosfuri, 2001), which in turn is not a positive thing for the development of knowledge based economy. Interestingly enough, that is not the only data gathered from the work of the DB index and used by the IEF, which will be the next economic competitiveness of countries measuring index that will be reviewed. To evaluate the level of business freedom, the IEF uses three of the DB constituting factors - the starting a business, the dealing with construction, and the resolving insolvency. Basically the take of the IEF authors on the business freedom is that it is important for economic freedom, and thus economic development, given that excessive regulatory rules for business impede its development, consuming resources, which in turn lower productivity. In the case of too complicated and difficult regulatory requirements, in relation to various kind of economic activity, many malign risks for an economy come in, for example, in the public sector increases the risk of corruption, given that incentives for corruption arise, but in the private sector increases the size of unregistered shadow economy, given that it becomes much easier to not register economic activity at all.

Importance of the business freedom is proved by vast amounts of literature. One of the researches shows that by improving national positions in
the Doing Business index from the lowest performing quartile to the highest performing, on average gives 2.3% better annual gross domestic product growth (Djankov, 2006), giving even bigger positive effect for economic growth than increasing a number of pupils that have received the basic and high school education. Summarizing the complex insolvency factor influence, there is a wide consensus that well functioning insololvency system affects positively economic dynamism in the private sector (Klapper, 2011), through faster return of funds, saving businesses, accessibility of funds and other factors. Another of the business freedom composing indicators - dealing with construction permits, is not only important for a safety of people, given that excessive requirements enhance overlooking of the rules (Moullier, 2009), but also from the economical point of view, e.g., attracting foreign direct investment, which in turn advances economy.

**THE INDEX OF ECONOMIC FREEDOM AND OTHER INDEXES MEASURING ECONOMIC FREEDOM**

The Index of Economic Freedom by the Heritage Foundation and The Wall Street Journal is published annually since the year 1995. In the first report of economic freedom 101 countries were included, currently it already covers 186 countries, including even the least free country in the world - North Korea. That is possible given the methodology of the index, which doesn’t require direct involvement of countries to evaluate their level of economic freedom.

The authors of the index approach competitiveness through economic freedom, which according to them is the most important precondition of competitiveness.

The less countries are regulated by their governments, enhancing economic freedom, the more competitive and wealthier they will be. Economic freedom is defined as the core right of individuals to manage their own work and property.

In an economically free society individuals are free to work, produce, consume and invest as they like, economically free countries let the workforce, capital and goods move freely, abstaining from interference and restrictions more than it is necessary for ensuring freedom as such. (The Heritage Foundation, 2014; Vanags, 2005).

The Index of Economic Freedom methodology is based on 10 components composing economic freedom, which all are grouped in 4 pillars where countries perform some kind of regulating functions:

- **Rule of Law** (property rights, freedom from corruption)
- **Limited Government** (fiscal freedom, government spending)
- **Regulatory Efficiency** (business freedom, labor freedom, monetary freedom)
- **Open Markets** (trade freedom, investment freedom, financial freedom)

In order to achieve comprehensive enough outlook in these four categories of economic freedom, index evaluates all 10 components on the scale from 0 to 100. All 10 components are weighted equally, given that there hasn’t been conclusive evidence about which of them play bigger or lesser role in ensuring economic freedom (Gwartney and Lawson, 2003), as well as for enhancement of economic prosperity (Diaz-Casero et al., 2012; Carlsson and Lundstrom, 2001; Heckelmann and Stoup, 2000), giving both surprising and contradictory results, e.g., that trade freedom is not an important factor for the growth, which is contrary not only to countless other research, but also to a contemporary mainstream teachings about the benefits from the free market trade.

Like other indices measuring economic competitiveness and freedom, this index also is not ideal and perfect to explain the whole complexity of the subject. Authors of the index admit it themselves, stressing that it has never been their goal. Rather their goal is to give data for exploration of interconnections that exist regarding this matter.

For example, famous American economist Jeffrey Sachs in his book “The end of poverty: Economic Possibilities of our Time” has shown that correlation between economic freedom and GDP growth doesn’t always exists. That was illustrated by comparing despite their high economic freedom scores, sluggish economic growth results presenting Switzerland and Uruguay with China, which despite its relatively low scores of economic freedom experienced unprecedented economic growth (Sachs, 2005). The same truth, that improvements in economic freedom doesn’t necessarily mean higher economic growth, has been produced by other
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research as well (The Left Business Observer, 2005).

For the sake of objective index advocacy, here we have to remind that authors of the index are not attempting to explain every case of economic growth, since the science of economics is very complex and many other factors come in to equation to explain economic growth, like in this instance Chinese comparative advantage of using economies of scale. Also we have to keep in mind dynamic and static growth factors. Countries like China, which are in the dynamic growth phase, have higher GDP growth potential than countries like Switzerland, which is in the static growth phase. We have to keep this in mind looking at the other indices of competitiveness as well, when trying to explain economic growth.

Shortages of The Index of Economic Freedom have been investigated by the Austrian Ludwig von Mises institute researcher Stefan Karlsson, showing a number of deficiencies in its methodology and components, and their choice as such. The IEF has been heavily criticized by state officials as well (The Business Inteligence, 2008), casting doubt on some of the appraisals by contradicting them with appraisals in other indices and surveys. Another common criticism that the index receives is that given their authors, representing the Heritage Foundation and The Wall Street Journal, they are openly lobbying interests of the private sector. Also this index gathers its information to give appraisals for various components pretty much only from US institutions or international organizations that are based in this country.

Without already reviewed the Index of Economic Freedom, published by the Heritage Foundation and The Wall Street Journal, currently exist and before have existed several other indices to measure economic freedom. The other from the most well-know indices that measure this matter is the Economic Freedom of the World index, established by the Canadian based Fraser Institute (Gwartney and Lawson, 2013), and by its structure being very similar to The Index of Economic Freedom, not surprisingly giving also very similar scores. (Hanke and Walters, 1997). The EFW report has been already published since the year 1980, in difference from the IEF, it is using more quantifiable data (Gwartney and Lawson, 2003), and mostly information from third parties, i.e., mainly from international organizations. At the current moment it compares economic freedom data about 152 countries, which is less then covered in the IEF.

The authors of the EFW define economic freedom as the right of individuals to have personal choice, voluntary exchange, freedom to compete, as well as personal and property safety. When economic freedom exists, the choice of people will decide what goods and services will be produced. Clearly, people will take part in exchanges that are beneficial for both sides. Personal property is the foundation for economic freedom, for that reason individuals have the right to choose how they will use their time and skills, and at the same time they don’t have the right on the time, skills and resources of others, meaning that they don’t have the right to demand from others (Gwartney and Lawson, 2003).

The index itself consists from 42 factors, which are divided into 5 economic freedom pillars –

- Size of Government;
- Legal Structure and Security of Property Rights;
- Sound Money;
- Freedom to Trade with Foreigners;
- Regulation of Credit, Labor, and Business

Just like in the case of the IEF, the EFW also counts all the component scores together to later get the average score, not putting any additional weight on any of the components or factors.

Not gaining very big publicity, without these two, other indices to measure economic freedom exist, measuring it globally, as well as in cases of bigger countries, measuring it on a national scale. For example, without already mentioned, in North America used indices, two indices have been used to measure the level of economic freedom in India, in one of them using the methodology obtained from the Fraser Institute.

CONCLUSIONS

The national economic competitiveness of countries in our increasingly globalized world gains exponential significance. Accordingly, this matter is getting more and more attention from countries, institutions and organizations worldwide.

Researchers have accomplished remarkable work to comprehensively measure economic competitiveness of countries with these wildly disputed and challenged indices. As the research shows, none of them are perfect, for which the
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authors of these indices are not trying to lay a claim for, with their goal rather being to deliver a valuable information about economic business environment of covered countries to investigate further interconnections that exist between these competitiveness factors across economies.

If we look at the some of the most well-known indices of national economic competitiveness, we can see that each of them have their own advantages and deficiencies.

The Global Competitiveness Report thanks to its questionnaires method covers the biggest number of factors regarding this matter, however, among other imperfections, it lacks impartially quantifiable data, it doesn’t use any econometric methods for the grounding of assigned factor values for each country, and is not directly providing any specific structural reforms that have to take place.

The Doing Business index provides very useful data about the legislative and legal environment for business in given countries, in difference from the GCR, acquiring it from true professionals in each specific factor, nevertheless, it is limited in its scope, not evaluating a full range of factors, policies and institutions quality, which affect the quality of business environment, e.g., it doesn’t cover aspects such as security, corruption, market size, macroeconomic stability, financial system sustainability or labor force and education system quality.

It pretty much doesn’t cover infrastructure, which is a very important prerequisite for a competitive economy. Even for the factors that are included into this index, their scope is not complete enough to give comprehensive appraisal of the current situation in these factors. It is based on the standardized business case for the small and medium sized companies in the economically largest city of a country.

The Index of Economic Freedom covers vast amount of information about different factors significant for an economic development, however, at the same time it’s giving partial assessments from their economic doctrine point of view.

Besides the fact that like other indices it doesn’t cover full range of factors affecting economic competitiveness, e.g., infrastructure, a number of deficiencies exist in its methodology and components, and their choice as such. Given its authors the index constantly is getting criticized that their goal is to lobby interests of the private sector, and not the well-being of people.

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