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Veröffentlichungsversion / Published Version
Zeitschriftenartikel / journal article

Empfohlene Zitierung / Suggested Citation:

Pleines, H. (2014). Economy-Related Country Rankings: Economic systems and business environments in international comparison. *Caucasus Analytical Digest*, 59, 2-3. <https://nbn-resolving.org/urn:nbn:de:0168-ssoar-93505-2>

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Economy-Related Country Rankings

Economic systems and business environments in international comparison

Heiko Pleines, Bremen

The Idea of the Rankings

The number of economy-related country rankings has been steadily increasing. Most rankings take the model of free, market-based competition as a reference point and then measure how closely specific countries approach this ideal. In addition to general assessments of the quality and competitiveness of economic systems, the evaluation of business environments has gained special attention as it is seen as a major precondition for investment and economic growth. Some rankings have a developmental background and focus on socio-economic conditions. Others look at specific aspects linked to the economy, like corruption or environmental problems. Taken together, these rankings broadly examine economic systems and economic developments among the world's countries.

In their methodological approach, most rankings combine statistical data and expert assessments in order to construct an index. The index then is divided into several subdivisions and, for each subdivision, suitable indicators are selected. For subdivisions, which cannot fully be measured using statistical data, expert assessments are added. In the extreme, the UNDP's Human Development Index relies solely on statistical data, while the World Bank's Worldwide Governance Indicators include only expert assessments. A special case is the World Bank's "Ease of Doing Business" ranking, which assesses the regulatory environment for the initiation and operation of a local firm (in terms of money, time and number of required administrative acts). In a similar way, the Open Budget Index offers a systematic quantitative assessment of the transparency of state budgets.

It is important to note that many rankings change their results and methods retrospectively. The World Bank, for example, has changed the method of the Doing Business ranking in 2009, 2012 and again in 2014. As a result, values for earlier years have been recalculated each time. Another important point is that the year indicated in the ranking usually refers to the year of publication, not to the year in which the data have been gathered. Accordingly, the 2014 Doing Business Ranking was published in autumn 2013 and is based on data for 2013 and partly even 2012.

Discussing Reliability

Those creating the rankings have considerable influence on the results. Without implying any intentions to manipulate, it is obvious that there are several ways to measure rather abstract concepts like competitiveness or socio-economic development and that different ways of measurement most likely lead to different results. In sum, there are five major points of criticism concerning the reliability of rankings:

1. subjectivity of experts' assessments. Looking at the World Bank's Worldwide Governance Indicators, which are based exclusively on experts' assessments, Carmen Apaza has summarized the criticism focusing on the questions of how well the assessments of different experts can be compared, how independent the experts are from each other, and how representative the selection of experts is.
2. validity of national statistics. Although national statistics provide supposedly "hard" facts, many national statistics include unreliable data and figures which have been manipulated for political ends. A World Bank study authored by Lire Ersado on the low value of Azerbaijan's Gini coefficient, for example, comes to the conclusion that the main explanation is that richer households declined to take part in the survey used to calculate the results. A study by Hendrik Wolff and colleagues has, in turn, shown that small corrections of underlying data can fundamentally change the ranking of countries in the Human Development Index.
3. comparability of data between countries. Although rankings take the same data for all countries, their calculation can differ between countries. A prominent example for this is unemployment figures, which can measure those formally registered as unemployed, those actively searching for a job, those claiming in public surveys that they are unemployed or those of working age who currently are not employed. For expert assessments, it is even more obvious that they do not take the world average as their benchmark, but commonly know only a limited number of countries.
4. index construction. Often subindices with a very broad title are built on the basis of only a rather small number of indicators. The selection, as well as the weighting of indicators, can change the index value considerably. Obviously, there is no objective way to establish the only possible indicators and their true weight. As a result the rank-

ings do not simply report facts, but they establish some aspects as important and other as irrelevant. The Index of Economic Freedom, for example, started only in 2005 to include the labour market.

5. index value vs. rank. Most commentators focus on the rank of countries and not on the absolute index value. Doing so they often overlook that small differences in the underlying index value can lead to huge differences in the rank. Bjørn Høyland and colleagues have compared rank and index value in the World Bank's Doing Business Ranking. They conclude: "While the rankings, after taking uncertainty into account, clearly distinguish the best economies from the worst, it does not distinguish particularly well between the economies that are somewhere in between."

There is a large group of more than 100 countries, among which it is almost impossible to identify any differences." An independent panel asked by the World Bank to assess the Doing Business Ranking also voiced a lot of criticism, stressing the risk of misinterpretations, the lack of data, a methodology measuring only what fits to the measurement process and a problematic use of aggregated data. The suggestions by the panel led to a revision of the methodology and to a substantial change in the values for many countries. (Independent Panel 2013).

Conclusion

Despite all the criticism the rankings play an important role in politics, business and media. They are also used in academic research. Although they have their limits, they give some orientation on the state of different national economies and they also have an impact on the image of the respective countries.

That is why we document the results of the most important economy-related country-rankings for the three states of the South Caucasus on the following pages. Each ranking is introduced with a short description based on the self-description of the ranking which is available online. To allow for a comparison, the values of some further countries have been included.

The position of the countries of the South Caucasus in political country rankings will be documented in the Caucasus Analytical Digest No. 63, to be published in June 2014.

About the author

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