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Re: Georgia's performance on the Global Competitiveness Index 2006-2007

Summary

Georgia scored poorly in the World Economic Forum's Global Competitiveness Index (GCI) 2006-2007: 85th place out of 125 countries. Georgia's overall rank was second worst in the region, ahead only of Moldova. (See Table 2, Benchmarking Georgia with Countries in the Region.). The Index used survey information and hard data to score different countries. Survey data was obtained from World Economic Forum's Executive Opinion Survey conducted in the early months of 2006. Hard data was obtained from a variety of sources, using 2003-2006 data. The GCI covers 125 countries, compared with World Bank's Doing Business Index-175 countries, Heritage Foundation's Economic Freedom Index -161 countries.

GCI Methodology

The Global Competitiveness Index analyses factors that are critical to driving productivity and competitiveness. The factors are grouped into nine indicators.

1. Institutions
2. Infrastructure
3. Macroeconomics
4. Health and primary education
5. Higher education and training
6. Market efficiency
7. Technological readiness
8. Business sophistication
9. Innovation

The indicators are organized into three sub-indices each of which relates to a particular stage of development:

- Basic Requirements group those indicators (1-4) critical for countries in the “factor-driven stage” (stage 1- countries with GDP per capita of less than USD $2,000, such as Georgia, Armenia and Azerbaijan);

- Efficiency Enhancers group those indicators (5-7) critical for countries in the “efficiency-driven stage” (stage 2- countries with GDP per capita from USD $3,000 to USD $9,000, such as Kazakhstan, Latvia and Lithuania);
- Innovation and Sophistication Factors group those indicators (8-9) critical to countries in the innovation-driven stage (stage 3- countries with GDP per capita more than USD 17000, such as United States, United Kingdom and Qatar).

Countries are assigned to one of the three stages of development based on GDP per capita. The sub-indices are weighted depending on which of the three stages the given country is. More weight is placed on those indicators that are most critical considering a given country’s state of development.

There are two more stages for the countries analyzed in GCI: transition from stage 1 to stage 2 (countries with GDP per capita from USD $2,000 to USD $3,000) and transition from stage 2 to stage 3 (countries with GDP per capita from USD $ 9,000 to USD $17,000). For the "transitional" countries, weights change; increasingly more weight is placed on those indicators that are becoming more important for the country's competitiveness.

Georgia’s Performance:
Georgia's overall rank for GCI 2006-2007 was 85th place (out of 125 countries):

Table 1 GCI 2006-2007 ranks for Georgia

Indicators	Rank
Basic Requirements	**82**
Institutions	78
Infrastructure	79
Macroeconomy	93
Health and primary education	61
Efficiency Enhancers	**87**
Higher education and training	76
Market efficiency	86
Technological readiness	106
Innovation Factors	**113**
Business sophistication	116
Innovation	102
Overall rank	**85**

Georgia's rank is one of the lowest when compared to other countries in the region.

Table 2 Benchmarking Georgia with the countries in the region

Pillars, Sub-Indices	Armenia	Azerbaijan	Bulgaria	Kazakhstan	Moldova	Ukraine	Russia	Average (excluding Georgia)	Georgia
Basic Requirements	**81**	**56**	**62**	**51**	**88**	**86**	**66**	**70**	**82**
Institutions	84	72	109	75	101	104	114	94	78
Infrastructure	92	56	65	68	85	69	61	71	79
Macroeconomy	71	17	35	10	67	74	33	44	93
Health and primary education	62	96	39	86	92	94	77	78	61
Efficiency Enhancers	**88**	**78**	**70**	**56**	**85**	**69**	**60**	**72**	**87**
Higher education and training	80	82	62	51	73	48	43	63	76
Market efficiency	104	81	90	44	92	80	60	79	86
Technological readiness	86	76	68	66	96	90	74	79	106
Innovation Factors	**93**	**70**	**85**	**74**	**98**	**78**	**71**	**81**	**113**
Business sophistication	104	70	84	72	93	76	77	82	116
Innovation	84	63	87	70	100	73	59	76	102
Overall rank	**82**	**64**	**72**	**56**	**86**	**78**	**62**	**71**	**85**

All Georgia's indicators are below the average of the selected countries, except Institutions and Health and primary education.

Georgia has the second best rank on the Institutions indicator, following Azerbaijan. Notable competitive advantages are: Burden of government compliance (18^{th} rank); Business cost of terrorism (45^{th} rank, measures the threat of terrorism) and Wastefulness of government spending (50^{th} rank). Georgia has the second best rank in Health and primary education also (following Bulgaria): in HIV prevalence Georgia's rank is 26^{th}.

Other notable competitive advantages for Georgia are: Government debt in Macroeconomic indicator, tertiary enrollment in higher education and training and labor market regulation in the sub-indicators of the Market efficiency indicator.

The major competitive disadvantages for Georgia in GCI 2006-2007 are the following:

Table3 Main Competitive Disadvantages

Sub-Indicators, Indicators	Rank
Institutions	
Judicial independence	117
Protection of minority shareholders' interests	116
Ethical behavior of firms	105
Property rights	102
Infrastructure	
Quality of electricity supply	104
Macroeconomy	
Interest rate spread	111
Inflation	95
Higher education and training	
Local availability of research and training services	107
Market efficiency	
Efficiency of legal framework	119
Local equity market access	109
Agricultural policy costs	105
Intensity of local competition	102

Georgia has a low rank in judicial independence because the judiciary is not independent from political influences. Protection of minority shareholders' interests is expected to be improved after amendments are passed to the Law on Securities Market and the Law on Entrepreneurs (these changes will also improve Georgia's rank for the Doing Business Protecting Investors category). Quality of electricity supply should be improved also, mainly survey measures lack of interruptions and lack of voltage fluctuations. Ethical behavior of firms and property rights are also the problems in Institution indicator.

In the Macroeconomy indicator interest rate spread (difference between typical lending and deposit rates) and inflation remain problems. In higher education and training, local availability of research and training services is a problem. In market efficiency the problems are legal framework for private business to settle disputes and challenge the legality of government actions and or regulations and raising money by issuing shares as a local stock market is not developed. Agricultural policy in Georgia is burdensome for the economy and competition in the local market is limited.

Conclusion

The majority of Georgia's indicators are below the average indicators of the selected countries in the region. Georgia's overall rank is the second worse among the selected countries (Armenia, Azerbaijan, Bulgaria, Kazakhstan, Moldova, Ukraine and Russia).

Georgia's labor regulations are among the best in the world, first place in the world by the Labor Freedom indicator of Heritage Foundation Index and 6th place by Employing Workers indicator of Doing Business Index. In GCI's Flexibility of wage determination and hiring and firing practices Georgia ranks 13th and 16th, the best indicators for the country.

Judicial inefficiency remains one of the country's main problems. Georgia's judicial independence score, 117th place out of 125 countries, is the worst sub-indicator for the country, because its judiciary is not independent from political influence. In the Heritage Foundation 2007 Index judicial inefficiency and corruption are also considered as major impediments for the country's economic freedom.

Protection of minority shareholders' interests, the second worst sub-indicator for Georgia, is expected to be improved after amendments to the Law on Securities Market and the Law on Entrepreneurs are passed, these changes will also improve Georgia's rank for the Doing Business Protecting Investors category.

As Georgia is in the factor driven stage, stage 1, more weight is placed on basic requirements indicators. The worst sub-indicators from this sub-index for the country are the following: judicial independence, protection of minority shareholders' interests, ethical behavior of firms, property rights, quality of electricity supply, interest rate spread and inflation.