

BUSINESS ENVIRONMENT INDICATORS

A crucial determinant of prosperity and growth is the business environment of a country. Several indicators measure this factor including the Global Competitiveness Index (GCI) of the World Economic Forum, the Doing Business Ranking of the World Bank and the Economic Freedom Index of the Heritage Foundation. All three indicators intend to measure the business environment, albeit from a different perspective and with a different methodology. The indicators are also presumed to be closely linked to the economic performance of a country.

The GCI defines competitiveness as the set of institutions, policies and factors that determine the level of productivity of a country. It comprises institutions, infrastructure, education, health, innovation and the efficiency of goods, labor and financial markets. The GCI is mainly based on an annual survey of business executives and thus presents a qualitative picture of each country's economic and business environment. Additionally, other indicators or macroeconomic data play a role in determining each country's ranking. The indicator is divided into three sub-indexes ranging from basic requirements to sophistication factors and the weight of these sub-indexes varies across countries depending on the actual development stage.

The Doing Business Ranking of the World Bank focuses on the quality of laws and regulations affecting local business, in particular small and medium-sized companies. It is based on the responses of local practitioners who evaluate standardized case scenarios. These comprise several areas of business regulation related to the life cycle of a hypothetical company ranging from start-up and expansion, to operation and finally insolvency. In doing so, the assessment particularly focuses on property rights, access to credit investor protection, administrative burden and flexibility in hiring. As a result, the indicator focuses attention on tangible legal components and does not measure all aspects of the business environment.

The Economic Freedom Index measures the degree individuals are free to work, produce, consume and invest in any way they please. The indicator compris-

es 10 economic freedoms that are grouped into four broad categories and have equal weight: rule of law, limited government, regulatory efficiency and open markets. The index is mainly based on a variety of other indicators (including the World Bank's Doing Business Ranking). Moreover, qualitative information is converted into quantitative measures, as is the case with as for trade restrictions. Finally, some components, especially fiscal and macroeconomic variables, are calculated from basic economic figures.

Table 1 compares the 2012 rankings of the three indicators for the countries covered by the DICE database (mainly EU-27 and the other major OECD countries). According to the GCI Switzerland, Sweden, Finland, the United States and Germany are the most competitive countries. In the World Bank's Doing Business Ranking New Zealand, the United States, Denmark, Norway and the United Kingdom fare best. The Economic Freedom indicator portrays Australia, New Zealand, Switzerland, Canada and Ireland as the countries with most freedom. Interestingly, all indicators agree that certain countries like the United States and the United Kingdom are highly competitive, and other countries like Greece and most Eastern European countries do not offer favorable business conditions. At the same time, the differences in the factors measured by the different indicators play a crucial role for other countries and imply strikingly distinct outcomes. For example, countries like Sweden and Germany that perform well under the GCI and the Doing Business Ranking are downgraded by the Economic Freedom Index, which penalizes high tax countries. Similarly, a country like Switzerland, which is among the top countries according to the GCI and the Economic Freedom Index, is obviously highly regulated and therefore only ranges at a middle position in the Doing Business Ranking.

M.D.

References

Heritage Foundation (HF), Index of Economic Freedom (<http://www.heritage.org/index/explore>), accessed 23 February 2012.

The World Bank Group, Doing Business, <http://www.doingbusiness.org/CustomQuery/> (accessed on 20 October 2011).

World Economic Forum, Global Competitiveness Report 2011-2012, http://www3.weforum.org/docs/WEF_GCR_2011-12.pdf, accessed 23 February 2012.

Table 1
Comparison of business environment country rankings

Global Competitiveness Index	Doing Business Index	Economic Freedom Index
Switzerland	New Zealand	Australia
Sweden	United States	New Zealand
Finland	Denmark	Switzerland
United States	Norway	Canada
Germany	United Kingdom	Ireland
Netherlands	Iceland	United States
Denmark	Ireland	Denmark
Japan	Finland	Luxembourg
United Kingdom	Canada	United Kingdom
Canada	Sweden	Netherlands
Belgium	Australia	Estonia
Norway	Germany	Finland
Austria	Japan	Cyprus
France	Latvia	Sweden
Australia	Macedonia	Japan
Luxembourg	Estonia	Lithuania
New Zealand	Switzerland	Germany
Ireland	Lithuania	Iceland
Iceland	Belgium	Austria
Estonia	France	Czech Republic
Spain	Portugal	Spain
Czech Republic	Netherlands	Belgium
Poland	Austria	Norway
Italy	Slovenia	Macedonia
Lithuania	Cyprus	Hungary
Portugal	Spain	Malta
Cyprus	Slovak Republic	Slovak Republic
Hungary	Luxembourg	Latvia
Malta	Hungary	Bulgaria
Slovenia	Bulgaria	Romania
Turkey	Poland	Poland
Montenegro	Czech Republic	France
Latvia	Turkey	Portugal
Slovak Republic	Romania	Slovenia
Bulgaria	Croatia	Montenegro
Romania	Italy	Turkey
Croatia	Greece	Croatia
Macedonia		Italy
Greece		Greece

Source: World Economic Forum, World Bank and Heritage Foundation.