

# LITHUANIA'S COMPETITIVENESS: MYTHS, REALITIES AND PERSPECTIVES

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*In recent years, the concept of national competitiveness and favourable business environment is broadly associated with economic development. The countries are increasingly paying attention to their competitiveness on global markets by promoting national programs and founding institutions aimed at tackling competitiveness issues. A number of leading international organizations, research institutes and business entities carry out global comparative studies on nation's competitiveness.*

*However, the global competitiveness ranking results are often inconsistent with economic trends. This raises a question whether the international competitiveness rankings provide a proper guidance for an individual economy in improving the business environment.*

*The paper aims at revealing the factors behind the discrepancies in evaluating a national competitiveness by international institutions and national agents. The analysis is based on the datasets of two influential publications – Doing Business (the World Bank) and Global Competitiveness Report (World Economic Forum). The study was enriched by a questionnaire, specially tailored to assess the most problematic issues in measuring the business and investment environment.*

*The research has shown that the international comparisons only partially correspond to the national perception of competitiveness. The paper also addresses policy insights for enhancing Lithuania's competitiveness.*

**Keywords:** Lithuania, international competitiveness, assessment.

## 1. Introduction

Competitiveness is a broad concept embracing a diverse range of factors and policy inputs, meaning the ability of a nation's citizens to achieve a high and rising standard of living. In recent years, national competitiveness and favourable business environment are broadly associated

with the economic development. Being competitive is particularly vital for small open economies, since they are relatively more dependent on international trade and foreign direct investment on their road to increasing living standards. Therefore, there is an increasing number of attempts to measure the country's competitiveness both on the national level and globally.

However, the global competitiveness ranking results are often inconsistent with economic trends and somewhat puzzling. For instance, over 2001–2007, Lithuania enjoyed an outstanding economic growth (the country's annual growth rate averaged at 7.9%, unemployment rate dropped significantly, income surged, government and private finance improved markedly), nevertheless, the ability to attract foreign investments remained humble: this was shown by one of the lowest indicators of foreign direct investment (FDI) per capita in the EU. Meanwhile, Lithuania was one of the two new EU member states that ranked among the top 20 economies on the ease of doing business (the World Bank "Doing Business 2005"). Furthermore, Lithuanian's competitiveness evaluation in the global competitiveness report issued by the World Economic Forum varied notably over the period: in 2004 Lithuania was ranked 36<sup>th</sup>, in 2005 it slumped by 7 positions, in 2006 and 2007 improved to 39<sup>th</sup> and 38<sup>th</sup>, respectively, while individual components of the index saw even a more extreme ebb and flow. This raises a question whether the international competitiveness rankings provide a proper guidance for an individual economy on improving its business environment and overall competitiveness.

The objective of the present research, therefore, was to reveal the factors behind the discrepancies in evaluating a country's competitiveness level by international institutions and national agents. The paper aims at providing a critical assessment of the international competitiveness indexes and Lithuania's rankings by confronting the key findings of the international reports

with national perceptions. Furthermore, the paper addresses the ways of improving Lithuania's competitiveness measurement through introducing modifications in the indexes so that the latter would correspond to the current situation in the economy and to provide fair advice to policymakers.

The article is structured as follows. Section 2 addresses some important theoretical issues the definition of competitiveness. In Section 3, we derive a set of the countries Lithuania to be paralleled with. Section 4 provides a comparative assessment of competitiveness drivers in Lithuania vis-à-vis other EU states and raises some questions about the robustness of the international competitiveness indexes. Section 5 takes a closer look at Lithuania's competitiveness evaluation results and highlights the contrarities. The last section summarizes analysis results and provides conclusions and policy implications.

## **2. Evolution of the concept of competitiveness**

Despite the fact that the term 'competitiveness' takes its roots from the 19th century and is widespread in both economic literature and the mass-media, there is no common definition of what competitiveness means.

The first attempts to measure a nation's competitiveness originate in the early 18th century from mercantilists who linked national competitiveness with international trade. As a result, a higher competitiveness was related with trade surplus. In classical economics, competitiveness was predominantly determined by relative costs. Later, in 1965, based on the Ricardian and Heckscher-Ohlin theories on comparative

advantage, Béla Balassa (1928–1991) introduced the so-called revealed comparative advantage index, which is broadly used nowadays to measure a country's comparative advantages globally, regionally or bilaterally.

Another embranchment of the competitiveness theory is related to M. Porter's works. In his book "Competitive Advantage of Nations", M. Porter extended the definition of competitiveness by introducing productivity as a key factor of national success. He has also educated that a nation's competitiveness is a complex concept embracing a number of factors, and articulated that competitiveness stems from the countries' ability to create a favourable environment stimulating innovations and upgrading at a more rapid pace compared to the other countries.

In the last two decades of the 20th century, rising income has become the central issue in competitiveness analysis. The concept of competitiveness referred to a country's ability to maintain and increase the real income of its citizens. Many of the researchers (Tyson, 1988; Krugman, 1994; Cohen 1994, etc.) have quoted the macroeconomic definition of a nation's competitiveness provided by the President's Commission on Industrial Competitiveness in mid-90s. The report, written for the Reagan administration in 1984, stated that "competitiveness is the degree to which a nation can, under free and fair market conditions, produce goods and services that meet the test of international markets while simultaneously maintaining or expanding the real incomes of its citizens" (OECD 1992; 237).

Farberger (1988) also defines a country's competitiveness as growth in in-

come and employment without running into balance-of-payments difficulties, and suggests that the theory of international competitiveness should establish the links between the growth of welfare and international trade balance of an open economy and factors underpinning economic development.

Dollar and Wolff (1993) expressed similar ideas by emphasizing the relation of the country's competitiveness with high technology-based international trade and simultaneously with the maintenance of high incomes and high wages. Gough (1995) also stressed the country's ability to secure high and rising incomes for its people on the back of a solid exposure of the producers to foreign competition (Gough, 1995: 14).

In the meantime, other researchers strongly criticized the idea of measuring a nation's competitiveness. Among the most savage critics was Paul Krugman who stated that a nation's competitiveness is a myth, just a metaphor, "a poetic way of saying productivity", and has nothing in common with the actual disparities among countries. According to P. Krugman, those writing about competitiveness "engage in what may perhaps most tactfully be described as 'careless arithmetic'." After the article had been published in the *Foreign Affairs* magazine, it fuelled a bunch of hot disputes, and the economic world could shortly read the response by Stephen S. Cohen where he attacks the "one-number approach" in favour of "a broader, more open-minded and modest approach". In his article, Cohen concludes that there is no single way to answer the question how well the economy is doing, and states that

“competitiveness is reconsideration of a broad set of indicators, none of which tells the whole story but that together provide a highly legitimate focus”.

This dispute, however, had a very valuable outcome: since both sides of the polemic were arguing on the same competitiveness explanation (the one provided by President's Commission in 1984), the latter finally was acknowledged as the standard definition of a nation's competitiveness. Despite many further interpretations, the key components of the aforementioned definition, mainly such as “complex concept”, “international markets” and “expanding real income”, are present nearly any attempt to describe the international competitiveness of nations.

### **3. Selection of countries for comparative analysis**

After defining the competitiveness concept, we can proceed on analysing Lithuania's competitiveness position and its measurements niceties. For this reason, we will identify a list of the countries for Lithuania to be compared with. The set of the countries for the analysis comprises eight new EU member states (except Bulgaria, Romania, Cyprus and Malta) and three developed EU countries, i. e. Denmark, Finland and Ireland (further EU-11). This countries' set will gain most attention in the analysis, however, we do not exclude the other competitors.

The logic behind choosing the aforementioned countries is the following: firstly, the new member states (NMS) undergone a very similar pattern in their economic development (despite major disparities in economic policies) on the back

of analogous initial conditions. Moreover, since EU entrance, the interrelationship among both the new member states and old EU block has increased dramatically. NMS foreign trade within the European community comprises up to 2/3 of total volumes. The countries also enter in rivalry for extra investments by improving the business conditions, but not just through an aggressive reduction of tax rates.

Within the selected NMS, the three Baltic countries (Lithuania, Estonia and Latvia) are of a similar size and level of development. In spite of marked differences in economic policies, the countries are widely recognized by the external analysts, international organizations and rating agencies as a uniform area for their similarities (with some exceptions for Estonia). Moreover, the orthodox growth theory (Solow, 1956) asserts that the countries that diverge in terms of initial productivity levels but not in terms of other factors (i. e. population growth and saving propensities) tend to converge towards the same level and the same rate of productivity growth in the long run<sup>1</sup>. Since the nation's competitiveness is underpinned by productivity growth and potential (Sala-I-Martin et al., 2007), this leads to a conclusion that there should be nearly no divergence among the three Baltic states.

Two Nordic countries are among those continuing to lead the global rankings in terms of overall competitiveness, and they remain the key benchmark countries for Lithuania and other NMS. Despite the fact that in some areas Denmark and Finland are outweighed by the United States and

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<sup>1</sup> Under condition that technology is considered as a freely available public good.

Switzerland (e. g. best marks worldwide, macroeconomic environments), the Nordic states used to held privileged positions in the overall competitiveness rankings.

Ireland was included into the set as a yardstick for the momentous breakthrough. The Irish economy is a remarkable success story of what a small country on the edge of Europe can achieve in a short period of time. Since there have been a lot of speculations whether Lithuania and the other two Baltic states (a.k.a. “Baltic tigers”) are keeping trace of its Celtic brother, the country is a “must” for the analysis.

#### 4. Evaluation of Lithuania’s competitiveness on the global scoreboard

The measures of international competitiveness for individual countries remain uncommon, although it is widely admitted that the concept of international competitiveness closely relates to key economic policy goals (Farberger, 1988). Cross-country international competitiveness indicators are frequently taken into consideration by governmental reports and discussions of economic policy and are broadly used in the mass media.

The World Economic Forum (WEF) competitiveness measurement is based on three stages of economic development and 12 pillars (see Tables 1, 2). WEF assigns individual countries to different stages of development on the basis of GDP per capita level (the income brackets 2,000–3,000 and 9,000–17,000 stand for transition stages).

Interestingly, the higher level of development does not necessarily guarantee the higher ranking in the overall competitiveness list. Thus, Malta and Hungary, who took the 44<sup>th</sup> and 53<sup>rd</sup> places in 2007–2008 (41<sup>st</sup> and 39<sup>th</sup> in 2006–2007), although they are ranked as countries with a higher stage of development (transition from 2 to 3). The same is true for Barbados, Trinidad and Tobago, and Bahrain (respectively, 78<sup>th</sup>, 47<sup>th</sup>, and 40<sup>th</sup>). Portugal, Italy and Cyprus also were ranked below Lithuania, while all three are in the so-called innovation-driven stage. Estonia ranked 27<sup>th</sup> in 2007–2008 and retained its position as the most competitive economy among the NMS. Estonia’s success stems from a markedly higher evaluation of public finances and efficiency of the government institutions, not least from the country’s aggressiveness in adopting new technologies.

*Table 1. Weights of three main groups of pillars at each stage of development, 2007–2008*

	Factor-driven stage (GDP per capita < USD 2,000)	Efficiency-driven stage (GDP per capita USD 3,000–9,000 USD)	Innovation-driven stage (GDP per capita > USD 17,000)
Basic requirements	60% (50%)	40%	20%(30%)
Efficiency enhancers	35% (40%)	50%	50% (40%)
Innovation and sophistication factors	5% (10%)	10%	30%

Note. Previously used weights, if changed, are shown in brackets.

Source: World Economic Forum, Global Competitiveness Report 2006–2007; 2007–2008.

Table 2. EU-11 Global Competitiveness Index (GCI) rankings, 2007–2008

Rank	DK	FI	IE	EE	LV	LT	PL	CZ	HU	SK	SL
<b>GCI 2007–2008</b>	<b>3</b>	<b>6</b>	<b>22</b>	<b>27</b>	<b>45</b>	<b>38</b>	<b>51</b>	<b>33</b>	<b>47</b>	<b>41</b>	<b>39</b>
<i>Basic requirements</i>	1	2	27	29	47	43	64	42	55	50	37
1. Institutions	2	1	18	34	59	58	82	69	54	60	44
2. Infrastructure	7	10	49	36	56	48	80	41	54	58	37
3. Macroeconomy	10	9	21	14	44	38	56	43	107	62	29
4. Health and primary education	3	1	16	30	45	43	36	29	41	39	22
<i>Efficiency enhancers</i>	4	14	19	27	42	41	43	30	40	34	38
5. Higher education and training	3	1	21	23	29	25	35	28	33	41	24
6. Goods market efficiency	3	10	4	27	47	44	69	38	59	35	39
7. Labour market efficiency	5	29	19	26	36	44	49	35	58	25	51
8. Financial market sophistication	6	17	5	31	38	54	64	53	51	33	47
9. Technological readiness	5	11	25	19	40	38	51	35	41	36	29
10. Market size	45	49	46	91	82	67	22	38	41	57	72
<i>Innovation and sophistication factors</i>	8	6	22	35	72	44	61	28	43	52	30
11. Business sophistication	6	11	22	44	71	42	68	30	46	52	31
12. Innovation	10	3	19	31	77	48	58	27	37	51	30

Note. The colour of a cell indicates ranking changes in 2007–2008 versus 2006–2007.

Source: World Economic Forum, the Global Competitiveness Report 2006–2007 and 2007–2008.

Lithuania's performance, according to the last-year WEF report, improved markedly: it outshined both Slovenia and Latvia who previously were ranked higher, and gained the 36<sup>th</sup> place among the 2006–2007 countries, or alternatively was 38<sup>th</sup> among the 2007–2008 country set. In 2006–2007, Lithuania ranked 39<sup>th</sup> and was more competitive than Hungary, Italy, Cyprus, Greece, Poland and Croatia in the frames of the European Community. According to the distribution of scores by pillars, Lithuania falls closest to Slovenia and Estonia (see correlation matrix, Annex 1).

A brief comparison of the GCI results and evaluation show that Lithuania pursues relatively balanced positions in most of

the criteria; however, the country's overall competitiveness performance is dragged down by some structural weaknesses in the economy. Moreover, international comparison makes it clear that compared to other countries of interest, Lithuania has no obvious advantages that could attract foreign investments and ensure a robust economic development in the future.

The basic factors look relatively acceptable as compared to the selected European countries, with the exception of health and primary education. In this category, Lithuania falls behind all the selected countries except for neighbouring Latvia. With regard to infrastructure, Lithuania, ranked 48<sup>th</sup>, outweighs even

Ireland following next. However, it is the only position in which Lithuania is ahead of the selected developed countries. Macroeconomic stability results raise more questions. In 2007, the three Baltic states were increasingly accused of the overheating and macroeconomic imbalances. Nevertheless, Lithuania's ranking surged significantly, while still falling far behind Estonia's (most probably due to weak public finances). Yet, the most surprising is the fact that according to the WEF index, all three Baltic states, together with Poland and Czech Republic, are enjoying a much better macroeconomic situation than Slovakia which has been recently granted an official permission to join the Euro Club next year. The striking ranking questions either the farsightedness and expertise of the European commission or the veracity of the index.

Within the *efficiency enhancers* group, Lithuania's most remarkable disadvantage is its *financial market sophistication* resulting from weak legal rights, higher restrictions on capital flows, unsoundness of banks, high barriers to access to loans, limited financial market services. The other obvious weaknesses are *technological readiness* and *market size*.

In contrast to GCI, the annual e-readiness report by the Economist Intelligence Unit (EIU) in co-operation with the IBM Institute for Business Value has revealed that Lithuania scores well in terms of the most favourable legal environments for IT developments and is among the key destination for business. Nevertheless, the total ability of the country to use information and communications technology to its benefit and the quality of ICT remained relatively

low compared to the selected countries. Despite a noticeable annual progress, by the overall ranking Lithuania (38<sup>th</sup> among 82 countries) outpaced only Poland (41<sup>st</sup>) and gained the same score as Latvia.

In the context of the *innovation and sophistication* pillar, Lithuania scores above the selected NMS average by *business sophistication* and slightly lags behind in terms of innovations. From the individual factor groups, the repressing performance is due to a perceived lack of governmental procurement of advanced technology products, a weak progress in university-industry research collaboration, cluster development, within the micro-level – the meagre willingness to delegate authority and poor extent of marketing.

The global competitiveness report has also identified a low labour market efficiency, in particular non-wage labour costs and hiring and firing practices (109<sup>th</sup> and 107<sup>th</sup>, respectively), among the most notable competitive disadvantages. Then, relatively low rankings are emerging from infrastructure, mainly available seat kilometres<sup>2</sup>, and a poor quality of air and port infrastructure (99<sup>th</sup>, 73<sup>rd</sup> and 61<sup>st</sup>). Another worth-mentioning pillar whose results fall below expectations is a good market efficiency, with extremely low rankings in business impact of rules on FDI (97<sup>th</sup>), agricultural policy costs (91<sup>st</sup>), prevalence of foreign ownership (81<sup>st</sup>), a relatively high total tax rate and extent of taxation (71<sup>st</sup> and 70<sup>th</sup>), not least an excessive domination of the corporate activities on the market. However, the longest list of imbalan-

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<sup>2</sup> Available seat kilometers represent the aircraft seating capacity multiplied by the number of kilometers the seats are flown.

ces is stemming from the pillar on institutions where 17 positions were pinpointed as comparative disadvantages, versus the only one (business costs of terrorism) assessed as an advantage. Among the most problematic areas stood protection of minority shareholders' interests, favouritism in decisions of government officials, and a low reliability of police services (85<sup>th</sup>, 82<sup>nd</sup> and 80<sup>th</sup>). Among the other weaknesses are flaws in the judicial system and legal framework, misuse of public funds.

On the global scoreboard, the leading comparative advantage of Lithuania is uncommon malaria incidences. However, this criterion is strong in all the selected countries and, therefore, could not be a comprehensive benefit. The next, and more interesting, is the fact that Lithuania is No. 2 in the world (after Luxemburg) according to the extent of mobile connection penetration into the country, i. e. by the relative number of mobile telephone sub-

scribers. International Institute for Management Development (IMD) in its newest World Competitiveness Yearbook 2008 also acknowledged Lithuania's easy access to mobile connection. This institution, by the way, recognized Lithuania among the world top-three leaders according to the number of women executives and the level of corporate taxation. Based on hard data, these categories earn remarks for Lithuania across the globe.

According to the Doing Business report by World Bank (WB), Lithuania suffered a drastic deterioration of business conditions, which resulted in a slump of the country's ranking from the 16<sup>th</sup> position in 2006 to the 26<sup>th</sup> last year. In 2004–2005, Lithuania's rankings were respectively the 17<sup>th</sup> and the 15<sup>th</sup>. From the positions of individual categories and their components, the most significant aggravation stemmed from rapidly growing costs. However, the results are somewhat

Table 3. EU-11 rankings by ease of doing business, 2008

	DK	FI	IE	EE	LV	LI	PL	CZ	HU	SK	SL
<b>Ease of Doing Business</b>	<b>5</b>	<b>13</b>	<b>8</b>	<b>17</b>	<b>22</b>	<b>26</b>	<b>74</b>	<b>56</b>	<b>45</b>	<b>32</b>	<b>55</b>
Starting a business	18	16	5	20	30	57	129	91	67	72	120
Dealing with licenses	6	39	20	14	82	57	156	83	87	50	62
Employing workers	10	127	37	156	96	124	78	55	81	75	166
Registering property	39	17	79	21	85	4	81	54	96	5	99
Getting credit	26	26	7	48	13	36	68	26	26	7	68
Protecting investors	51	51	5	33	51	83	33	83	107	98	19
Paying taxes	83	83	6	31	20	71	125	113	127	122	63
Trading across borders	2	5	20	7	19	23	40	30	45	90	69
Enforcing contracts	30	7	39	29	3	18	68	97	12	50	79
Closing a business	7	5	6	50	64	31	88	108	53	36	34

Improved  
No changes  
Worsened

Note. The colour of a cell indicates ranking changes in 2007–2008 versus 2006–2007.

Source: World Bank, Doing Business in 2008, Doing Business in 2007, author's marks.

puzzling. For instance, fees associated with completing the procedures of licensing in the construction industry (bribes excluded) over the year soared about 7 times (from 18% of income per capita to over 133%). Even on the back of the booming real estate market, this seems a bit too much. Either the outcome includes some unofficial payments or, most likely, the earlier results were far from reality. Similar trends are in force for enforcing contracts, where costs recorded as a percentage of the claim increased by 2.7%. As a result, the bulk of categories suffered a crash (see Table 3), pulling down the overall Lithuania's score by the most outrageous margin both in the EU and globally.

### **5. Lithuanian perception of competitiveness**

According to the WB survey results, there is a significant divergence between large and small firms' evaluations. The largest differences were found in taxation, access to finance, custom and trade regulations, labour regulations and anticompetitive or informal practices (see Annex 3). Therefore, in order to improve the overall business environment, it is essential to consider various forms of businesses (by structure, by size and by orientation).

The discussion round with the businessmen resulted in a formal survey disseminated through the key organizations and externally. This pilot survey was constructed to reveal the disparities on key competitiveness issues made by the international organizations and those of national businesses and was targeted mostly at small and medium-size business. The

number of respondents corresponded to the standards of international institutions (75 and more).

According to the survey, about 2/3 of the businessmen assess the business environment in Lithuania as satisfactory, and less than 10% have concluded that the business conditions are not favourable. About 40% of the respondents indicated that there had been no significant changes in the business environment over the last 2–3 years, roughly one third found the conditions to have improved, and about 18% affirmed the conditions to have worsened (see Charts 1,2). The result contradicts the Doing Business Report findings, indicating a drastic worsening in the ease of doing business (recall a drastic drop of Lithuania's ranking from the 15<sup>th</sup>–17<sup>th</sup> position over the 2004–2006 span to the 26<sup>th</sup> last year).

Further, the results of the survey have divulged that executives of small and medium-size businesses accentuate other barriers to business as compared to WEF and WB. For instance, according to WEF, for a number of years in a row, the most problematic areas of the business environment remain to be taxes and tax regulations. Contrarily, the survey disclosed the top three positions to be bureaucracy, corruption and the lack of labour force (respectively 54%, 48% and 44% of respondents voted for these categories, see Chart 3). By the way, alternative surveys conducted recently in Lithuania have captured the same trends (Lithuanian Employers' Confederation, 2007).

Moreover, the majority of respondents disagreed with the key statements and conclusions of the international surveys.

Chart 1

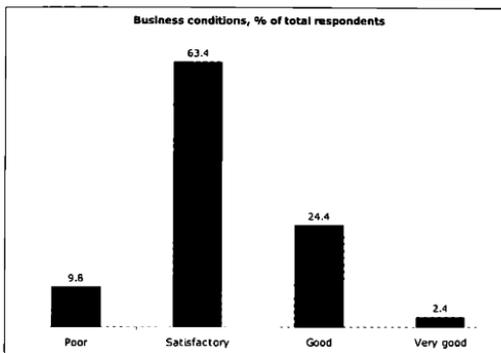


Chart 2

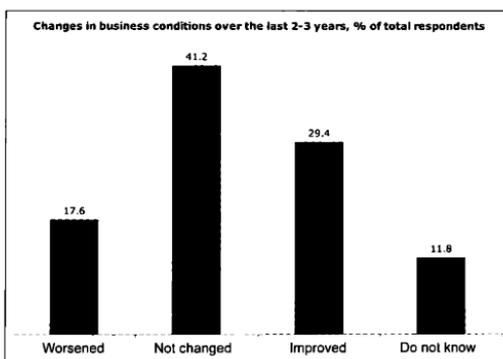
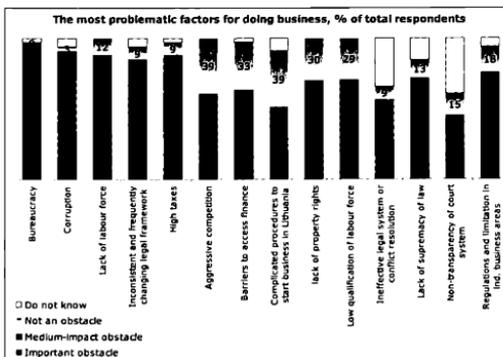


Chart 3



Charts 1–3. Selected results of the survey

Source: survey results, 2007.

Chart 1



Chart 2

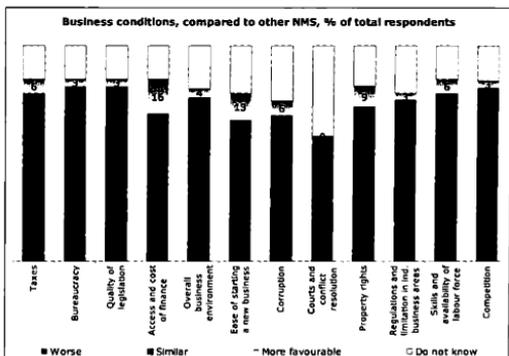
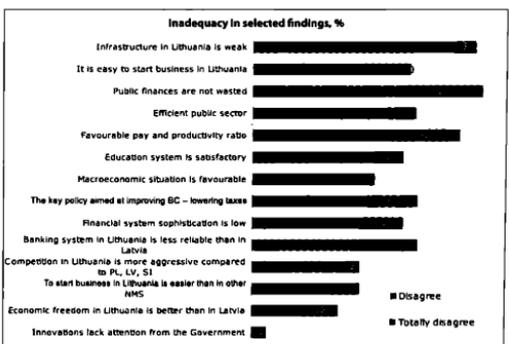


Chart 3



**Charts 4-6. Selected results of the survey**

Source: survey results, 2007.

## 6. Conclusions

On the back of hastening globalization, particularly in the international trade area, higher competitiveness becomes a core element of economic development and gains a lot of attention. Not surprisingly, the main multilateral institutions, such as Washington Consensus, suggest the countries to promote domestic competition and pursue a higher level of international competitiveness. Talking about individual countries, a higher international competitiveness is a safety belt for many economies against temporal economic culprits and downs. Thus, for Lithuania which is facing a marked economic slowdown, measures aimed at improving productivity, promoting investments and exports are of a central magnitude. Therefore, it is extremely important that reports give fair signals about the market, its key strengths and weaknesses.

International competitiveness indexes very often serve as a guideline for national economic policies, and it became an ultimate ambition of global rankings. Thus, the World Economic Forum states that the Global Competitiveness Report “includes comprehensive listings of the main strengths and weaknesses of countries, making it possible to identify key priorities for policy reform” (WEF, 2007–2008). Or, alternatively, the World Bank affirms the importance of the Doing Business publication stating that “the analysis helps in setting priorities for reform and in designing improvements to indicators”

Unfortunately, although international competitiveness indexes provide a useful tool for comparative analysis, their attempts to produce objective results often fail. There are numerous contrapositions

in the overall and individual indexes, especially those derived from survey data. Below, we will discuss the key findings of the international reports.

Moreover, the myth that a higher country’s competitiveness is associated with the higher appeal for foreign investors and, hence, more intensive capital inflows into the country bursts. Although the two concepts are linked, they do not always go in line. For instance, GCI does not show any significant correlation with the accrued foreign direct investment to GDP ratio, while it is obvious in case of GDP per capita (see Annex 2).

We will not stop implicitly on the limitations of the methodology for measuring the individual categories of WEF or Doing Business indicators because the issue has been scrutinized by a number of researchers (Davis et al., 2007; Berg, and Cazes, 2007; Arruada, 2008; etc.). Arruada proclaimed that “Doing Business should stop marketing its indexes as performance indicators and offer them merely as preliminary and partial snapshots of institutional structures” (Arruada, 2008: 15). Yet, several shortcomings should be highlighted in order to avoid disorientation while adjusting the national competitiveness evaluation.

Firstly, the international assessments pursue subjective judgment in weighting countries; e. g. WEF assigns individual countries to different stages of development on the basis of GDP per capita level (USD-based) and a unified structure of basic requirements, efficiency enhancers and the innovation and sophistication factor. A sudden increase in Lithuania’s GDP per capita, without any major improvement in individ-

ual components of the index and structural changes, will result in a significant drop in ranking. Competitiveness measurement is sensitive to changes in the methodology and subjective perceptions which could cause a considerable fluctuation in the countries' ranking. Furthermore, the hard data used for the indexes is often out of date (for the compatibility reasons, the dataset is usually lagging about 2 years behind). This is not a problem for the developed countries; however, it is crucial for transition and converging countries, since their economic development is extremely dynamic.

Secondly, the definition of agents eligible to answer international questionnaires may provide a substantial bias in measuring the competitiveness level of an individual country; especially in relatively small economies the typical respondent arises from the most populous city, thus international reports often disregard the

regional business environment differentiation. Moreover, the WEF is targeted mainly to the respondents with an international perspective and/or foreign capital, leaving aside national companies. Besides, the legal entities usually appear to be large firms (in Lithuania's case).

In order to capture the fair results, it is important to go beyond the frameworks of the international institutions, i. e. to broaden the criteria for target respondents regionally, include small and medium business a while considering the structure of economy by firm type, size and source of finances. Creating a favourable business environment does not necessarily mean to ensure exclusive conditions for foreign capital to enter the economy, but it does mean to stimulate the local companies to increase productivity and thus improve their competitiveness on international markets.

## ANNEXES

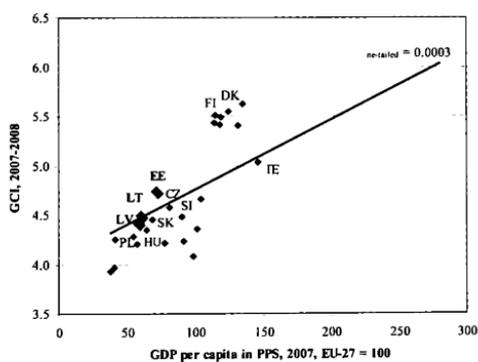
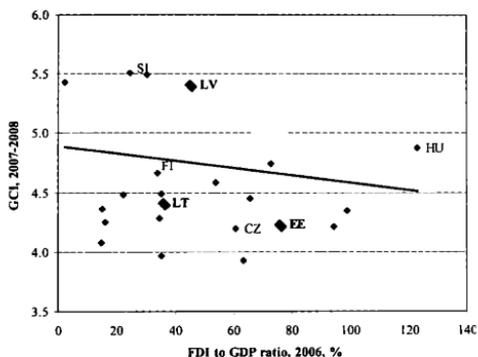
### *Annex 1. Correlation matrix on GCI ranks by pillars*

	LT	LV	EE	PL	HU	SK	SL	CZ	IE	DK	FI
LT	1										
LV		1									
EE			1								
PL	0.13	0.12	-0.31	1							
HU	-0.01	-0.16	-0.29	0.32	1						
SK	0.34		0.35	0.31	0.34	1					
SL		0.28		-0.18	-0.02	0.00	1				
CZ	0.53	-0.05	0.04	0.54	0.39	0.30	0.36	1			
IE	0.26	0.41	0.55	-0.15	-0.08	0.53	0.31	-0.08	1		
DK		0.60		-0.48	-0.04	0.37		-0.03	0.56	1	
FI	0.57	0.27		-0.43	0.01	-0.08		0.02	0.38		1

■	Significant at 1% level
■	Significant at 5% level
■	Significant at 10% level

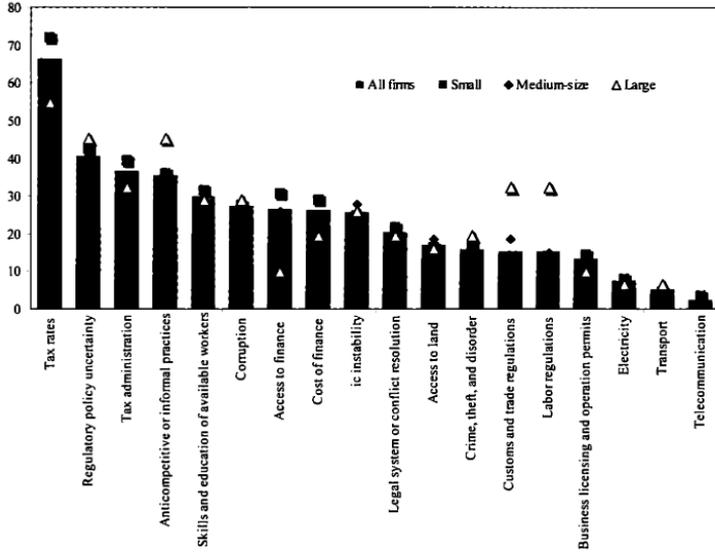
Source: World Economic Forum, author's calculations.

**Annex 2. Global competitiveness index, foreign direct investments and GDP per capita in purchasing power standards in selected countries**



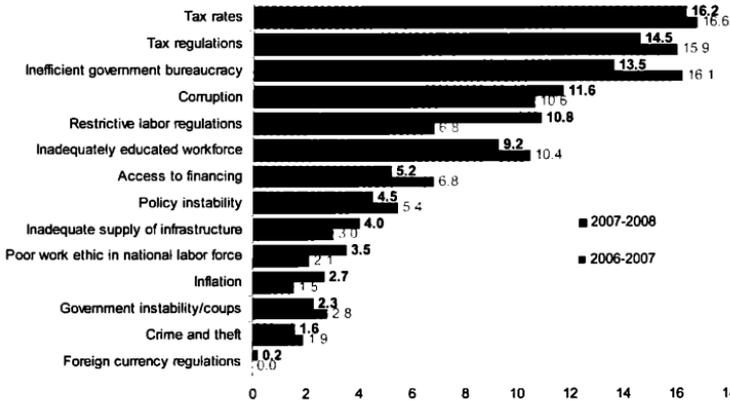
Source: World Economic Forum, Eurostat, author's calculations.

**Annex 3. Constraints ranking in Lithuania, by type of a firm, percent of respondents**



Source: World Bank, Lithuanian competitiveness report.

**Annex 4. Most problematic factors for doing business, percent of respondents**



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

Source: World Economic Forum, Global Competitiveness report.

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## LIETUVOS KONKURENCINGUMAS: MITAI, REALYBĖ IR PERSPEKTYVOS

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### S a n t r a u k a

Pastaruoju metu aukštas šalies konkurencingumo ir palankus verslo klimatas tapo viena svarbiausių sėkmingos ekonominės plėtros sudedamųjų dalių. Valstybės skiria vis daugiau dėmesio eksportuojamos produkcijos konkurencingumui užsienio rinkose didinti ir verslo sąlygoms gerinti. Šiuo tikslu yra steigiamos specialios institucijos, kuriamos skatinamųjų priemonių programos. Daugybė įtakingų tarptautinių organizacijų, tyrimo centrų ir verslo lyderių stengiasi išmatuoti šalių konkurencingumo lygį, įvertinti jų pažangą šioje srityje.

Tačiau reikėtų pripažinti, kad pasaulio konkurencingumo vertinimai dažnai neatspindi ekonominių tendencijų arba joms net prieštarauja. Kyla klausimas, ar iš tikrųjų tarptautinio konkurencingumo rodikliai yra tinkamas ekonominės politikos orientyras siekiant sistemingai gerinti šalies verslo sąlygas.

Šis straipsnio tikslas – įvertinti galimus tarptautinio institucijų ir nacionalinių agentūrų konkuren-

cingumo vertinimo metodikų nukrypimus. Analizei buvo pasirinkti du plačiai ekonomikos literatūroje cituojami tarptautiniai tyrimai – Pasaulio banko ir Europos rekonstrukcijų ir plėtros banko verslo klimato vertinimo apžvalgos „Verslas“ (angl. *Doing Business*) ir Pasaulio ekonomikos forumo „Globalaus konkurencingumo ataskaita“ (angl. *Global Competitiveness Report*). Be to, straipsnyje buvo panaudotos įmonių vadovų apklausos apie verslo sąlygas, svarbiausios kliūtys skatinant verslo plėtrą ir pritraukiant investicijas Lietuvoje.

Tyrimas parodė, kad tarptautinių institucijų vertinimai tik iš dalies atitinka nacionalinę konkurencingumo koncepciją. Straipsnyje buvo pateiktos išvados ir siūlymai, kaip pagerinti verslo klimatą Lietuvoje ir padidinti šalies konkurencingumą.

*Pagrindinės sąvokos:* Lietuva, tarptautinis konkurencingumas, įvertinimas