

AN ASSESSMENT OF COMPETITIVENESS IN INDIA AND IRAN

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Abstract

Competitiveness is an indicator of a nation's productivity and people's standard of living. It is in this context that the Global Competitiveness Report of the World Economic Forum serves as a useful data base for the purpose of examining and understanding the competitiveness of India and Iran economies on a broad set of micro economic and macroeconomic indicators. Assuming that the competitiveness reflects the strength of micro economic environment of any nation, it is an essential parameter for an improved macro economy.

The objective of this paper is to assess the competitiveness of India and Iran economies using Global Competitive Reports and proving that Iran has performed better than India in indicators like Infrastructure, Macroeconomic environment and Health & Primary Education whereas India has performed better in other indicators like Good Market efficiency, Financial Market Development, Technology readiness, Market size, Business sophistication and Innovation during the study period.

Key words: Assessment, technology readiness, primary education , good market efficiency

Introduction: The rapid changes in the context of the process of economic reforms, globalization and liberalisation have created greater compulsion for us to be productive and competitive than ever before. With rapid advancement in technology as well as management theory and practice, the concept and techniques of productivity have undergone a change over time, thereby creating a need for devising fresh approaches, new message and adopting a new idiom to spread the message to the stakeholders. Since 2001, the World Economic Forum has been using Growth Competitiveness Index (GCI) developed by Jeffery Sachs and John Mc Arthur to assess the competitiveness of nations. This forum explicitly incorporates notions of public sector accountability, efficiency, transparency and in generally, the various ways in which the government interacts with economic agents in the domestic economy, particularly in the business sector. It is in this context that the Global Competitiveness Reports serve a useful purpose of examining and understanding economic issues underlying competitiveness of nations.

Defining Competitiveness

In early days, the concept of competitiveness was considered as a country's share of world markets for its products. Prof. Michael Porter (Porter: 2005) says that this view though being intuitive is deeply flawed because then competitiveness becomes a zero-sum game; as one country's gain comes at the expense of another. A deeper insight into this reveals a vicious cycle, that is--a country designs its policies to provide subsidies, hold down local wages, and devalue currency; to expand exports; but the end result is an unattractive standard of living. The concept of productivity is central to the understanding of competitiveness as it

determines the standard of living of citizens. Productivity is measured by the value of goods and services produced per unit of the nation's human, capital and natural resources. Hence, productivity becomes the unit of analysis for determining competitiveness of a nation.

Various authors have thus defined competitiveness in a number of ways--two of the most acceptable and quoted ones are given below:

Stephen Cohen, a great debate on competitiveness states

"Competitiveness has different meanings for the firm and for the economy. A nation's competitiveness is the degree to which it can, under free and fair market conditions, produce goods and services that meet the test of international markets while simultaneously expanding real incomes of its citizens. Competitiveness at the national level is based on superior productivity performance by the economy and the economy's ability to shift output to high productivity activities which in turn can generate high level of real wages".

The most often quoted definition has been given by the World Economic Forum, which says that, *"Competitiveness is Collection of factors, policies and institutions which determine the level of productivity of a country and that, therefore determines the level of prosperity that can be attained by an economy"*. (Lopez-Claros: 2005, xiii)

So, competitiveness becomes the fundamental determinant of the level of prosperity a country can attain and therefore, it is measured by productivity which allows a nation to support high wages, a strong currency and attractive returns to capital all leading to a high standard of living. Thus we see that the world economy is not a zero sum game; and, the challenge for a country to improve its economic development is to create conditions for rapid and sustained productivity growth.

Importance of Competitiveness

Though Porter (2004) suggested that the traditional focus on macroeconomic stabilization and market opening is insufficient for understanding a nation's rising productivity; still most of the discussion on competitiveness and economic development is focused on the macroeconomic, political, legal, and social circumstances that underpin a successful economy. These broader conditions are necessary but not sufficient. They provide an opportunity to create wealth but do not themselves create wealth. Wealth is actually created at the microeconomic level of the economy, rooted in the capabilities of a nation's companies, as well as in the quality of the microeconomic business environment in which these companies compete. Macroeconomic policies encouraging high rates of capital investment will not translate into rising productivity unless the forms of investment are appropriate, the company skills and supporting industries are present to make the investment efficient and strong competitive pressures and adequate corporate governance provide the needed market discipline. Sound monetary and fiscal policies and removal of distortions in exchange rates and other prices will eliminate impediments to productivity, but microeconomic foundations must be in place if productivity is to rise.

The prudence of foreign debt levels also depends on exactly where the foreign capital is invested, together with the microeconomic fundamentals surrounding its deployment and governance. Similarly, high rates of public investment will not pay off unless a nation's microeconomic circumstances create the demand for skills in companies. Privatizations will not boost prosperity unless companies can improve efficiency and are pressured by local competition. Thus we see that a sound economic development is a process whereby a country

not only has to improve its macroeconomic conditions but also has to simultaneously bring about microeconomic reforms.

History of Iran-India Relations

For India, the number of variables that need to be taken into consideration for deciding its future relations with Iran, are many and varied. Historically, Iran and India have shared deep social, political and economic ties. It is documented in literature that the Islam that came to India through conquest was first brought by Mahmud of Ghazni of Persia. More importantly, one of the world's most important trans-national Islamic movements, i.e., of Sufism, can trace its roots back to the Persian cultural influences in India of the 11th century. At the same time, India has been home to the Zoroastrians since the 7th century AD, when Islam took over the Persian Empire from the Sassanian dynasty, and the Parsis as a community started migrating for survival. To date they exist as a thriving community whose contribution to Indian history and development has been markedly significant. Also, the evolution of Urdu (the language of the imperial camp) traces its roots from the Presiante patois to a more indigenous contact with Hindustani linguist style. Over the last century and a half, the language has been cultivated across the country from the Indo-Gangetic belt to the south of the Deccan.

Significantly, till the British colonisation of India, the court language of India was Persian. The relations between India and the rest of the world underwent a drastic change during British colonisation. Post-colonial political and cultural ties between the Shah of Iran and India retained their strength.

Objective of the study

The recent global financial crisis engulfed economies marked in full adjustment at the macro level coupled with micro level distortions and incentives created by past policy actions. The crisis spread was through four channels—trade, finance, commodity, and confidence. The slump in export demand and tighter trade credit caused a deceleration in aggregate demand. The global financial crisis inflicted significant loss in output in both India and Iran.

The paper aims at presenting a comparative analysis on competitiveness of India and Iran on the basis of Global Competitive Report published during the years 2010-11 to 2013-14. The study describes the methodology and approach towards measurement of competitiveness comparative ranking of both nations and ends with conclusions.

Research Methodology

In this context, to assess the competitiveness of India and Iran, we have used the Global Competitiveness reports for the year 2010-11 to 2013-14, because the methodology adopted by the reports have solid theoretical foundation and combines publicly available information and the results of an executive opinions Survey that was designed specifically for the needs of the study. Global Competitiveness Report allows measurement and benchmarking of many critical factors like a set of Infrastructure, Macro Economy, Health and Primary and Secondary education and training, Market efficiency, Technological readiness, Business Sophistication and Innovation.

It is important to note that none of these factors alone can ensure competitiveness. Therefore, the most competitive economies in the world will typically be those whose concerned efforts have been made to frame policies in a comprehensive way, their interconnections and need to address the underlying weakness they reveal in a proactive way.

In addition to the above factors we have also discussed the most problematic factors for doing business in these countries.

Table 1 reveals the key indicators of India and Iran during 2009 to 2012 that in GDP PPP in billion US\$ (rank in world) India continued to be in top three where as Iran loses its one position. In case of GDP (US\$ billions) India is the fastest growing economics in the current decade. It has been observed from the table that India in the year 2009 (1236 US\$ billions) to 1825 US\$ billions in 2012 where as Iran has not shown major difference when compared with India during the study period.

In GDP per capita (US\$) Iran improved significantly i.e., (4460) in the year 2009 to (7211) in 2012 where as India's per capita income is low due to the higher population when compared to Iran.

Table: 1- Key indicators of India and Iran during 2009 to 2012

	GDP PPP in billion US \$ (Rank in world)				GDP (US\$ billions)				GDP per capita (US\$)				GDP (PPP) as share (%) of world total			
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
India	4	4	3		1236	1538	1676	1825	1031	1265	1389	1492	5.06	5.40	5.65	5.63
Iran	18	18	17	17	331	357	482	549	4460	4741	6360	7211	1.19	1.12	1.26	1.20

Source: Global Competitiveness reports

Table 2 reveals that none of the two selected countries have entered in top 50 in global competitiveness index ranking comparing to 2010-11 to 2013-14. In the year 2010-11 India (51st) down nine positions attaining (60th) place in 2013-14 where Iran in the year 2010-11 (69th) has lost 13 places attaining (82nd) place in 2013-14.

Table: 2 -Comparative Global Competitiveness Index Ranking for India and Iran Nations

Nations	2010-11 (Out of 139)	2011-12 (Out of 142)	2012-13 (Out of 144)	2013-14 (Out of 148)
India	51	56	59	60
Iran	69	62	66	82

Source: Global Competitiveness reports

Global Competitiveness Index provides holistic overview of factors that are critical in driving productivity and competitiveness and group them in to 10 pillars.

Infrastructure

Extensive and efficient infrastructure ensures effective functioning of the economy. Well developed infrastructure reduces the effect of distance between regions, integrating the national market and connecting it at low cost to markets in other countries and regions. The quality and extensiveness of infrastructure networks has significant impact on the economic growth and reduces the income inequalities and poverty in a variety of ways.

Macro Economic Environment

The stability of the macroeconomic environment is important for business and the overall competitiveness of a country. The government cannot provide services efficiently if it has to make high interest payments on its past debts. Running fiscal deficits limits the governments' future ability to react to business cycles and to invest in competitiveness-enhancing measures. Firms cannot operate efficiently when inflation rates are out of hand. In sum, the economy cannot grow in a sustainable manner unless the macro environment is stable. Macroeconomic environment of India continues to be characterised by persistent budget deficits, high public debt, and high inflation in 2010-11.

Health and Primary Education

A healthy human resource is essential to a country's competitiveness and productivity. Poor health leads to significant costs to business, absenteeism of workers or decreased level of work efficiency. In addition to health, primary education increases the efficiency of each individual worker. In other words, lack of basic education can become a constraint on business development, with firms finding it difficult to move up the value chain by producing more sophisticated or value intensive products, with the existing human resources.

Higher Education and Training

Quality higher education and training is particularly crucial for economies that want to move up the value chain beyond simple production process and products. In today's globalizing economy it is necessary for countries to nurture pools of well-educated workers who can perform complex tasks and easily adopt to the changing environment and the latest needs of the economy. It measures secondary and tertiary enrolment rates as well as the quality of education as evaluated by the business community.

Good Market Efficiency

Health market competition, both domestic and foreign, is important in driving market efficiency and thus business productivity by ensuring that the most efficient firms, producing goods demanded by that market, are those that thrive.

The recent economic crisis has highlighted the degree of independence of economies worldwide and the degree to which growth depends on open markets. Protectionist measures are counterproductive as they reduce aggregate economic activity.

Financial Market Development

An efficient financial sector allocates the resources saved by a nation's citizens, as well as those entering the economy from abroad, to their most productive uses. It channels resources to those entrepreneurial or investment projects with the highest expected rates of returns rather than to the politically connected. A thorough and proper assessment of risk is therefore a key ingredient of a sound financial market.

Technological readiness

This pillar measures the agility with which an economy adopts existing technologies to enhance the productivity of its industries, with specific emphasis on its capacity to fully leverage information and communication technologies in daily activities and production for

increased efficiency and enabling innovation for competitiveness. The information and communication technologies access and usage are key enablers of countries' overall technological readiness.

Market Size

The size of the market affects productivity since large markets allow firms to exploit economies of scale. In the era of globalization, international markets can to a certain extent substitute for domestic market, especially for small countries. Vast empirical evidence shows that trade openness is positively associated with growth.

Business Sophistication

Business Sophistication concerns two elements that are intricately linked: the quality of a country's overall business network and the quality of individual firms' operations and strategies. The quality of a country's business networks and supporting industries, as measured by the quantity and quality of local suppliers and the extent of their interaction, is important for a variety of reasons. When companies and suppliers from a particular sector are interconnected in geographically proximate groups, called clusters, efficiency is heightened, greater opportunities for innovation in processes and products are created, barriers to entry for new firms are reduced.

Individual firm's advanced operations and strategies (branding, marketing, distribution, advanced production processes, and the production of unique and sophisticated products) spill over into the economy and lead to sophisticated and modern business processes across the country's business sectors.

Innovation

Innovation can emerge from new technological and non technological knowledge.

Non-technological innovations are closely related to the know- how, skills, and working conditions that are embedded in organisations.

Table 3 reveals the global competitiveness index of India and Iran in the above mentioned pillars. In infrastructure India has improved drastically at (74th) in 2010 to (65th) place in 2013.

India micro economic environment has been a significant decline at (73rd) in 2010 to (110th) place in 2013. In case of Health and Primary Education Iran reached to below 50 positions in 2012. But India still continued its ranks above 100 during the study period.

In the pillar higher education and training there has been no significant change in their ranks. In case of good market efficiency pillar the two selected nations fall in its ranks India (71st) in the year 2010 to (85th) in the year 2013 and Iran (98th) in 2010 to (110th) in 2013.

In Financial market development pillar India posted its position in top 50 during the study period. But Iran lost 10 positions (120th) in 2010 to (130th) in the year 2013. In Technology readiness both nations posted fall in its positions. India (86th) in the year 2010 to (116th) in the year 2013. In market size pillar India continued its rank in top three positions while Iran improved to one positions i.e., (20th) rank in the year 2010 to (19th) in 2013.

In Business Sophistication, India ranks (44th) in 2010 went up to (42nd) position in 2013, where as Iran ranks (91st) in 2010 falling down to (104th) i.e., loses 12 places. In case of Innovation pillar Iran falling the position (66th) in 2010 to (71st) in 2013 out of 148 nations.

**Table: 3-Ranks on Global Competitiveness Index for
and Iran during 2010 to 2013**

Factors	India				Iran			
	2010 (out of 139)	2011 (Out of 142)	2012 (Out of 144)	2013 (out of 148)	2010 (out of 139)	2011 (Out of 142)	2012 (Out of 144)	2013 (out of 148)
Infrastructure	86	89	84	85	74	67	69	65
Macro Economic Environment	73	105	99	110	45	27	57	100
Health and Primary Education	104	101	101	102	54	50	46	51
Higher Education & training	85	87	86	91	87	89	78	88
Good Market Efficiency	71	70	75	85	98	103	98	110
Financial Market Development	17	21	21	19	120	123	123	130
Technology Readiness	86	93	96	98	96	104	111	116
Market size	4	3	3	3	20	21	18	19
Business Sophistication	44	43	40	42	91	92	93	104
Innovation	39	38	41	41	66	70	65	71

Source: Global Competitiveness reports

Table 4 reveals a detailed competitiveness index of India and Iran. In quality of overall infrastructure India posted (85th) rank in the year 2013 while Iran (76th) rank as the infrastructure remains largely insufficient and ill adapted to the needs of the economy. In case of quality of electricity supply India (13th) in the year 2013 is ahead of Iran (56th) in the year 2013. Mean while, in the macroeconomic environment pillar, general government debt, % GDP India lost 50 places reaching from (66th) in the year 2011 to (166th) in 2013. On the other hand Iran ranks (13th) in the year 2011 to (9th) in the year 2013. In case of Health and Primary Education pillar life-expectancy Iran has performed better compared to India during the study period. Primary Education enrolment, net % Iran posted single digit rank while India continued to be (80th) rank. In case of Higher Education & training pillar, in quality of educational system India improved to 5 position while Iran improved only one position and in interest access in schools India posted better ranked comparing to Iran. In Good Market efficiency pillar, except total tax rate % profits, no. procedures to start a business, and no. days to start a business India performed better than Iran. In technology readiness pillar and Market size pillar India posted better ranks compared to Iran.

Table: 4- Detailed Competitiveness Index of India and Iran

Indicator	India			Iran		
	2011 (Out of 142)	2012 (Out of 144)	2013 (out of 148)	2011 (Out of 142)	2012 (Out of 144)	2013 (out of 148)
Infrastructure						
Quality of overall infrastructure	86	87	85	78	74	76
Quality of roads	85	86	84	74	68	66
Quality of railroad infrastructure	24	27	19	50	45	46
Quality of port infrastructure	82	80	70	87	81	79
Available airline seat kms/week, millions*	67	68	61	137	132	122
Quality of electricity supply	12	13	13	49	53	56
Mobile telephone subscriptions/100 pop	112	110	111	72	60	117
Fixed telephone lines/100 pop.	117	118	123	31	112	28
Macroeconomic environment						
Government budget balance, % GDP	133	136	141	19	29	62
Gross national savings, % GDP*	15	22	28	10	3	15
Inflation, annual % change	139	116	130	136	142	148
General government debt, % GDP*	66	111	116	13	15	9
Country credit rating, 0–100 (best)*	117	43	47	114	108	119
Health and primary education						
Business impact of malaria	106	110	112	84	79	81
Malaria cases/100,000 pop.*	107	112	116	86	84	85
Business impact of tuberculosis	97	102	103	66	57	63
Tuberculosis cases/100,000 pop.*	104	113	114	41	38	47
Business impact of HIV/AIDS	102	102	96	66	62	72
HIV prevalence, % adult pop.*	69	68	60	55	54	45
Infant mortality, deaths/1,000 live births*	114	112	120	92	88	93
Life expectancy, years*	110	110	111	86	86	87
Quality of primary education	86	81	84	66	61	65
Primary education enrollment, net %*	84	84	80	5	9	6
Higher education and training						
Secondary education enrollment, gross %*	108	107	110	80	62	81
Tertiary education enrollment, gross %*..	100	95	98	65	59	52
Quality of the educational system	38	34	33	104	94	103
Quality of math and science education	32	30	32	35	32	40
Quality of management schools	30	33	30	94	93	95
Internet access in schools	74	75	77	118	117	126
Availability of research and training services	58	59	47	79	73	82
Availability of research and training services	63	54	53	113	134	141
Goods market efficiency						
Intensity of local competition	31	34	24	106	106	121
Extent of market dominance	23	27	26	49	47	67
Effectiveness of anti-monopoly policy	31	34	29	73	60	73

Extent and effect of taxation	39	44	44	73	71	95
Total tax rate, % profits*	124	123	128	86	93	98
No. procedures to start a business*	119	121	129	34	47	74
No. days to start a business*	96	99	103	28	34	63
Agricultural policy costs	79	87	87	82	102	114
Prevalence of trade barriers	91	78	61	137	125	113
Trade tariffs, % duty*	128	126	128	140	139	147
Prevalence of foreign ownership	83	84	94	141	144	148
Business impact of rules on FDI	59	62	67	128	127	136
Burden of customs procedures	89	84	88	104	100	103
Imports as a percentage of GDP*	119	101	107	133	137	147
Degree of customer orientation	63	60	78	115	114	122
Buyer sophistication	42	53	59	58	48	56
Financial market development						
Availability of financial services	45	44	45	134	135	137
Affordability of financial services	32	33	38	130	128	135
Financing through local equity market	15	19	18	80	65	86
Ease of access to loans	35	38	38	137	141	148
Venture capital availability	27	26	27	133	129	139
Soundness of banks	32	38	49	89	104	121
Regulation of securities exchanges	26	28	27	89	74	82
08 Legal rights index, 0–10 (best)*24	20	NA	28	NA	99	101
Technological readiness						
Availability of latest technologies	47	47	58	117	114	121
Firm-level technology absorption	41	40	48	120	119	120
FDI and technology transfer	38	44	32	111	108	123
Individuals using Internet, %*	112	119	120	102	95	98
Broadband Internet subscriptions/100 pop.*	101	101	106	104	89	85
06 Int'l Internet bandwidth, kb/s per user	100	104	113	103	115	122
Mobile broadband subscriptions/100 pop.*		102	99		128	136
Market size						
Domestic market size index, 1–7 (best)*	3	3	3	18	17	18
Foreign market size index, 1–7 (best)*	4	4	4	15	26	25
GDP (PPP\$ billions)*	NA	NA	3	NA	Na	17
Exports as a percentage of GDP*	NA	NA	125	NA	NA	103
Business sophistication						
Local supplier quantity .	14	10	2	53	46	57
Local supplier quality	67	69	76	129	123	128
State of cluster development	31	29	16	93	85	99
Nature of competitive advantage	60	75	80	95	100	116
Value chain breadth	42	38	40	107	107	112
Control of international distribution	51	51	38	21	21	34
Production process sophistication	44	46	52	76	71	80
Extent of marketing	58	48	52	114	113	120
Willingness to delegate authority	42	50	58	124	120	131
Innovation						

Capacity for innovation	35	42	41	67	59	85
Quality of scientific research institutions	34	39	37	49	40	43
Company spending on R&D	33	37	39	102	97	110
University-industry collaboration in R&D	50	51	47	93	87	90
Gov't procurement of advanced tech products	78	NA	92	61	66	73
Availability of scientists and engineers	21	16	15	37	34	37
PCT patents, applications/million pop.*	59	63	64	79	100	107

Source: Global Competitiveness reports

The table 5 represents the five most problematic factors for doing business in each of the countries. In case of India, the major challenges are (i) diversifying its growth towards manufacturing while maintaining service-led growth model, (ii) making the growth process more inclusive (iii) improving physical infrastructure (iv) developing the agriculture sector and (v) delivering essential public services such as education and health. Iran five most problematic factors for doing business are i) Policy Instability, ii) Foreign currency regulations, iii) Access of financing, iv) Inflation and v) Inefficient Govt. Bureaucracy

The problems that are common in both in countries are policy instability, inefficient government Bureaucracy and inflation.

Table: 5- The five most problematic factors for doing business in India & Iran

India	Iran
Inadequate supply of Infrastructure	Policy Instability
Corruption	Foreign currency regulations
Inefficient Govt. Bureaucracy	Access of financing
Policy Instability	Inflation
Inflation	Inefficient Govt. Bureaucracy

Source: Global Competitiveness reports

Conclusion:

From the above discussions and data analysis, we conclude that competitiveness of nations have major impact on their economics. There exists remarkable competitiveness among the nations and that it has a major impact on depicting the strength of the nation in the world economy (through growth and development of that particular country)

One significant observation from the assessment of competitiveness among the nations is that India and Iran showed incredible potential as the fastest growing countries and has exhibited great growth performance in the critical factors taken for the analysis. From the above discussion it is clear that fall in the level of the improvement made in the critical

factors effects the country's economy and which would in turn create a situation for the withdrawal of the country from being in the competitiveness of the world economy. So there is a direct relation between the countries activities and measures it takes for its growth and development and is not just one or two but all the factors that contribute to the success of the nation that is the strength of the nation is expressed through the efforts made in framing policies in a comprehensive way their interconnections and also to address the underlying weakness that is revealed in a proactive way.

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