



# Country Ranking - a RM4Es approach

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February 2008

# Composite Indicator Type of Country Ranking Widely Used

- Competitiveness Ranking
- FDI Confidence Index
- Corruption Index
- Freedom Ranking
- WB Governance Index
- Business Climate Indicator
- Summary Innovation Index
- .....

# **The Common Approach – a weak 2Es approach**

- Step 1) develop a theoretical definition of the concept
- Step 2) select variables – sometimes by convenience
- Step 3) select data source – usually determined by availability
- Step 4) standardize variables
- Step 5) weighting variables – usually equal weight
- Step 6) summarize variables' values to obtain a ranking

# Weakness of the Common Approach

- Lack of model (equation) specification – the relation between the selected variables and the target measure is not clear
- Estimation methods not clearly defined
- - so that specification errors and estimation errors are large
- Errors are not examined, and used for diagnostics
- Explanations are often misleading

# Improvement needed (1)

- Make relationship between the target measure and observed variables clear
- Clearly specify models
- Minimize model specification errors

## **Improvement needed (2)**

- Examine data accuracy and take the errors into consideration
- Select estimation methods best suitable to the models and data types
- Minimize estimation errors

# Improvement needed (3)

- Calculate errors
- Conduct model validation
- Conduct diagnostics to improve modeling and estimation

# Improvement needed (4)

- Carefully develop scientific explanation
- Pay attention to weakness
- Avoid misleading

# Examples of Using RM4Es Approach

- Spiritual capital index
- Global entrepreneurship measures
- Country democracy index