Regions and Competitiveness: Implications for Saudi Arabia

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Saudi-Arabia’s Competitiveness Agenda

• Saudi-Arabia has embarked on an ambitious effort to upgrade its competitiveness

• While significant progress has been made, achieving competitiveness remains a long term challenge

• Greater economic integration of the Gulf region is an unfulfilled opportunity to enhance competitiveness in all the Gulf countries while accelerating the pace of domestic reform

• Achieving greater economic integration in the broader region beyond the GCC will also be crucial to Saudi Arabia’s stability and long term economic potential

• Saudi Arabia has the opportunity, and the obligation, to play a leadership role
What is Competitiveness?

- Competitiveness depends on the *productivity* with which a nation uses its human, capital, and natural resources.

- Nations compete to offer the *most productive environment for business*

- The public and private sectors play *different but interrelated roles* in creating a productive economy
What Determines Competitiveness

Endowments

**Microeconomic Competitiveness**
- Quality of the National Business Environment
- State of Cluster Development
- Sophistication of Company Operations and Strategy

**Macroeconomic Competitiveness**
- Social Infrastructure and Political Institutions
- Macroeconomic Policies

- Macroeconomic competitiveness creates the potential for high productivity, but is not sufficient
- Productivity ultimately depends on improving the microeconomic capability of the economy and the sophistication of local competition
Geographic Influences on Competitiveness

- Neighboring Countries
- Nations
- States and Cities
Why the Region Matters

• A nation’s most natural trading and investment partners are its neighbors

• A nation’s economic growth and prosperity can be greatly enhanced by a healthy neighborhood, and vice-versa
  – Larger, growing, and accessible markets for local firms, especially for those with limited international experience
  – The effect of neighbors on a country’s reputation and image

• National productivity can be greatly enhanced through regional coordination of economic policies

• Regional integration makes all nations more attractive as locations for FDI

• A regional approach creates greater weight in international relations
Models of Regional Economic Cooperation

Traditional model

- Countries create **free trade areas, customs unions or common markets**

- Opening trade and investment

Broader model

- Regional cooperation on **multiple dimensions of competitiveness** to gain mutual benefits
## Competitiveness Upgrading Among Neighbors

**Capturing Synergies**

<table>
<thead>
<tr>
<th>Business Environment</th>
<th>Macroeconomic Policy</th>
<th>Political Institutions and Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving efficiency and interconnectivity of transportation infrastructure</td>
<td>Coordinating macroeconomic policies</td>
<td>Sharing best practices in government operations</td>
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<tr>
<td>Enhancing regional communications</td>
<td>Regional development bank</td>
<td>Creating regional institutions</td>
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<tr>
<td>Creating an efficient energy network</td>
<td>Coordinated capital requirements</td>
<td>– Dispute resolution mechanisms</td>
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<tr>
<td>Linking financial markets</td>
<td></td>
<td>– Harmonizing economic statistics</td>
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<tr>
<td>Opening the movement of students for training or higher education</td>
<td></td>
<td>Developing a regional position with international organizations</td>
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<tr>
<td>Eliminating trade and investment barriers within the region</td>
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<td>Simplifying and harmonizing cross-border regulations, paperwork and visas</td>
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<td>Coordinating antitrust and competition policies</td>
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<td>Harmonizing environmental and energy standards</td>
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<td>Harmonizing product safety standards</td>
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<td>Establishing reciprocal consumer protection laws</td>
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<tr>
<td>Opening government procurement within the region</td>
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</tbody>
</table>
Cross Border Economic Cooperation at Different Levels

- Neighboring Countries
- Wider Regions (e.g., APEC)
- World Community (e.g., WTO)
Regional Groupings Involving Saudi Arabia
Gulf Cooperation Council (GCC)

Source: BYU Geography, 2002
Regional Groupings Involving Saudi Arabia

Arab League

Source: BYU Geography, 2002
Regional Groupings Involving Saudi Arabia
Greater Arab Free Trade Zone

Source: BYU Geography, 2002
Profile of the GCC and Broader Neighborhood
Selected Indicators, 2009 (estimated)

<table>
<thead>
<tr>
<th></th>
<th>GDP (billions, US$ at PPP)</th>
<th>Population (millions)</th>
<th>GDP Per Capita (US$ at PPP)</th>
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</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>$28.3</td>
<td>1.1</td>
<td>$25,100</td>
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<tr>
<td>Oman</td>
<td>69.9</td>
<td>3.0</td>
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<td>Qatar</td>
<td>101.3</td>
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<tr>
<td>Kuwait</td>
<td>142.3</td>
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<td>40,930</td>
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<td>United Arab Emirates</td>
<td>186.7</td>
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<td>594.4</td>
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<td>Yemen</td>
<td>62.0</td>
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• As the largest economy in the GCC, Saudi-Arabia is the **natural leader** with a critical role for ensuring progress in regional collaboration

Source: EIU (2010)
History of Regional Collaboration in the GCC

- The Gulf Cooperation Council (GCC) was created in 1981 with the ambition to achieve “unity” across its six member countries.

- Activities have concentrated on trade and monetary affairs, with selected attention to other policy areas:
  - GCC Patents Office (1998)
  - No visa’s for GCC citizens
  - Plans for a Currency Union

- Broad aspirations
- Modest progress
Competitiveness Challenges Facing the GCC
Prosperity Performance

PPP-adjusted GDP per Capita, 2009 (estimated)

$35,000
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
$0

0% 1% 2% 3% 4% 5% 6% 7% 8% 9% 10%

Kuwait ($40,930)
Qatar ($60,200)
UAE
Bahrain
Saudi Arabia
Oman

Growth of Real GDP per Capita (PPP-adjusted), CAGR, 2001 to 2009 (estimated)

Source: EIU (2010), authors calculations

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Comparative Performance of Selected Regional Groups

PPP-adjusted GDP per Capita, 2009 (estimated)

Source: EIU (2010), authors calculations
Competitiveness Issues Facing the GCC: Common Challenges

• Pressing need for job creation
• Need to improve the quality of education and health care
• Presence of large expatriate populations
Role of Nationals in the Workforce
GCC countries, 2005

Nationals employed in the private sector (%)

Source: Conference Board, Growing From Oil, 2008
Competitiveness Issues Facing the GCC: Common Challenges

• Pressing need for job creation
• Need to improve the quality of education and health care
• Presence of large expatriate populations
• Increasing economic diversification
Share of Total Exports by Broad Cluster
GCC, 2007

Export Share of Total

Saudi Arabia
Bahrain
Kuwait
Oman
Qatar *
United Arab Emirates *

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Other
Textiles and Apparel
Jewelry & Precious Metals
Agriculture and Food
Metal Mining and Manufacturing
Building and Construction
Communications Services
Financial Services
Transportation and Logistics
Business Services
Plastics
Chemical Products
Oil and Gas Products

Note: Qatar and United Arab Emirates have not reported services export data
Source: Institute for Strategy and Competitiveness (2010), author’s calculations
Competitiveness Issues Facing the GCC: Common Challenges

• Pressing need for **job creation**
• Need to improve the quality of **education** and **health care**
• Presence of large **expatriate populations**
• Increasing **economic diversification**
• Need to improve **government effectiveness** and **transparency**
• Continue to streamline **business regulation**
# Doing Business
## Northern Africa and Middle Eastern Countries

<table>
<thead>
<tr>
<th>Economy</th>
<th>Ease of Doing Business</th>
<th>Starting a Business</th>
<th>Dealing with Licenses</th>
<th>Employing Workers</th>
<th>Registering Property</th>
<th>Getting Credit</th>
<th>Protecting Investors</th>
<th>Paying Taxes</th>
<th>Trading Across Borders</th>
<th>Enforcing Contracts</th>
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<td>West Bank and Gaza</td>
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<td><strong>Middle East &amp; North Africa</strong></td>
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<td><strong>90.1</strong></td>
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<td><strong>76.4</strong></td>
<td><strong>114.7</strong></td>
<td><strong>90.9</strong></td>
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</tbody>
</table>

Rank out of 178 countries.
Competitiveness Issues Facing the GCC: Common Challenges

- Pressing need for job creation
- Need to improve the quality of education and health care
- Presence of large expatriate populations
- Increasing economic diversification
- Need to improve government effectiveness and transparency
- Continue to streamline business regulation
- Need to improve transparency and corporate governance
- Lack of economic statistics
- Limited scientific and technological capability
Enhancing Regional Strategy for the GCC

**Issue**
- GCC countries have **similar economic structures**
- History of viewing economic coordination as a **win-lose** proposition
- Governments are reluctant to **cede autonomy**

**Opportunity**
- GCC countries have **common challenges**
- There are **efficiencies** and **synergies** of coordination in many areas
- Governments can **retain sovereignty** while making changes **faster** and **more efficiently**
- Regional economic agreements help overcome domestic **political** and **economic barriers to progress**

**Expand Internal Trade**

**Improve Competitiveness**
Next Steps

Potential Agenda Items

- Improve **infrastructure** interconnectivity (e.g., logistics, energy, air, communications, etc.) through alignment of investments and procedures
- Harmonize rules for **public procurement** and participation in government-financed development projects
- Common **policy framework** for governance of government-linked companies
- Harmonize product and service **regulations** and **standards**
- Simplify/eliminate **cross-border** paperwork
- Common economic **statistics** and **reporting mechanisms**
- **Research** collaboration
- Policy **benchmarking and learning** in areas such as education system improvement, cluster development, SME development, workforce skills, legal reform, public sector management, etc.

Process

- Commit to more frequent meetings of leaders and ministerial working groups to drive a **GCC Competitiveness Action Agenda**, with rotating chairmanship
- Create **formal participation by the private sector**, including both local companies and multinational corporations
  - Business Advisory Council-model such as in APEC, EU, etc.
The Role of Saudi Arabia in the GCC

• As the largest economy, Saudi Arabia has a **special responsibility** for regional development

• Progress will be fastest if Saudi Arabia can **shift the mindset** in the region from competition to the pursuit of mutual benefit

• To speed up progress, Saudi Arabia should pursue **concrete, bilateral steps** to enhance competitiveness and build confidence
Broader Integration

• The economic benefits of integration will be even greater if it includes a wider set of countries
  – Some steps began with Yemen in 2001/2002

• Integration which improves the economic prospects of lower income neighbors will also help to mitigate conflicts and address longer term instability