Entrepreneurship and Competitiveness: Implications for Saudi Arabia

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The World Economy in Early 2012

- A weak *macroeconomic environment* is constraining growth in the global economy (e.g., Europe, US, China)
  - Failures of *political* leadership

- However, sustainable fiscal policies are *necessary but not sufficient* to restore healthy growth

- The only way to ensure long term job and prosperity growth is through fundamental improvement in *competitiveness*, especially for higher income economies
What is Competitiveness?

- Competitiveness is manifested in the ability of companies operating in a country or region to compete successfully in international markets while simultaneously improving the living standards of citizens.

- Competitiveness depends on the long term productivity with which a nation uses its human, capital, and natural resources:
  - Competitiveness is not achieved through low wages or low currency.
  - Productivity sets sustainable wages and standard of living.
  - It is not what industries a nation competes in that matters for prosperity, but how productively it competes in those industries.
  - Productivity in a national economy benefits from a combination of domestic and foreign firms.

- Competitive businesses create rising incomes and good jobs.
- Nations compete to offer the most productive environment for business.
- Competitiveness is not a zero sum game.
### What Determines Competitiveness?

<table>
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<th>Microeconomic Competitiveness</th>
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<td>Quality of the National Business Environment</td>
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<td>State of Cluster Development</td>
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<th>Macroeconomic Competitiveness</th>
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<td>Macroeconomic Policies</td>
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Endowments

- Productivity ultimately depends on improving the *microeconomic capability* of the economy and the *sophistication of local competition*.
- Macroeconomic competitiveness sets the *potential* for high productivity, but is *not sufficient*.
- Endowments create a *foundation* for prosperity, but true prosperity is created by *productivity in the use of endowments*.
Saudi Arabia’s Progress on Competitiveness

- Competitiveness has become central to Saudi Arabia’s economic policy agenda.
- Substantial reforms have been implemented in areas like infrastructure, market opening, legal reform, business regulation, education, and financial markets.
World Bank Doing Business Indicators
Saudi Arabian Doing Business Ranking, 2005 - 2012

Note: Rankings include total of 183 countries.
Source: World Bank, SAGIA
Saudi Arabia’s Progress on Competitiveness

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Prosperity Performance
Selected Middle Income Countries

PPP-adjusted GDP per Capita, 2010 ($USD)

Average: 5.4%

Source: EIU (2011), author’s calculations
Saudi Arabia’s Share of World Exports by Cluster, 2009

World Market Share

- > 5.0%
- 1.27% - 5.0%
- 0.2% - 1.26%

Note: Saudi Arabia’s overall share of world exports is 1.268%.

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• Stimulating entrepreneurship is central to reap the full benefits of these competitiveness reforms
Competitiveness and Entrepreneurship

- Creates the necessary context for entrepreneurship to emerge and prosper

- Drives competitiveness upgrading
- Builds out clusters
- Enables economic diversification
- Fundamental to large scale job growth
What Drives Entrepreneurship?
Measures to Upgrade the Business Environment for Entrepreneurs

Context for Firm Strategy and Rivalry

- Availability of **funding**
  - Access to lending
  - Angel funding
  - Organized risk capital
- Strong **incentives**
  - Low taxes on capital gains
  - Strong IP protection
- **Public recognition** of entrepreneurial success

Factor (Input) Conditions

- Entrepreneurship **education**
- **Mentorship** programs
- Entrepreneur **networks**
- **Policies** to ease new business formation
  - Ease of incorporation
  - Ease of doing business
  - Corporate and bankruptcy laws

Demand Conditions

- Government and private sector **procurement policies** open to SMEs

Related and Supporting Industries

- Availability of **support services** such as legal and business services
- A **cluster-based** development model
Entrepreneurship in Saudi Arabia
The Opportunity

- Stable economy with a prudent financial structure
- Large, youthful and growing population
- Growing markets with many unserved niches
- No income taxes
- Emerging venture capital industry
- Large and sustained government investments in the economy
- Increasing foreign interest in investing in the Middle East
- Opportunity to serve the entire region from a base in the largest economy
Entrepreneurship in Saudi Arabia

Current Situation

- Competitiveness upgrading in the Saudi economy has enabled entrepreneurship to take root
Entrepreneurship Profile in the GCC Region
Findings from the Saudi Fast Growth 100 and the Arabia 500

• Academic background often in engineering or business

• Worked 3-5 years for a global firm before launching their enterprise at 30, often in a related industry

• Creatively configured products and services that are tailored to local market conditions

• World class operating practices akin to those of multinationals

• Persistence and agility in order to compete with large incumbents

• International networks of business partners and associates

Source: Arabia 500
Entrepreneurship in Saudi Arabia

Current Situation

• Competitiveness upgrading in the Saudi economy has enabled entrepreneurship to take root

• Entrepreneurs are making an important contribution to diversifying the economy (services, non-resource industries)

• Entrepreneurs are creating a mechanism for Saudi Nationals to enter the private sector

• However, further efforts to improve the context for entrepreneurs are critical in order for entrepreneurship to reach its full impact on the Saudi economy
Current Efforts to Support Entrepreneurship in Saudi Arabia

Financing
- Saudi Industrial Development Fund – Kafalah Program
- Centennial Fund
- Bab Rizq Jameel

Awareness
- Saudi Fast Growth 100
- Prince Salman bin Abdulaziz - Young Entrepreneur Awards
- Injaz-Saudi Program
- MIT Arab Business Plan Competition

Incubation
- Riyadh Technology Incubation Center
- Riyadh Techno Valley
- Dhahran Techno Valley
- National Entrepreneurship Institute

- Many of these efforts are relatively new, and bringing them to scale will be critical for entrepreneurship in Saudi Arabia

Source: “SME and Entrepreneurship Support Services in Saudi Arabia Stakeholder Mapping” report by SAGIA.
Challenges to Entrepreneurship in Saudi Arabia and Other Emerging Economies

- Limited, but growing entrepreneurial culture
- Lack of public visibility and media coverage of emerging companies
- Risk aversion and fear of failure
- Limited skills in the Saudi workforce
- Still cumbersome government regulation and red tape
- Limited progress on cluster development, and few cluster collaboration organizations supporting SMEs
- Lack of supplier development programs at large companies
- Risk of “crowding out” by government-linked companies and large MNCs
Entrepreneurship and Saudi Competitiveness

Conclusions

- Entrepreneurs are crucial in order to translate Saudi Arabian progress on competitiveness into broad-based economic growth and employment.

- Saudi entrepreneurs have begun to establish themselves as an integral part of the Saudi economy.

- The future success of Saudi entrepreneurs will depend on sustained efforts to upgrade the Saudi business environment to meet entrepreneurs’ specific needs.