

Regions and Competitiveness: Implications for Saudi Arabia

Professor Michael E. Porter

*Global Competitiveness Forum
Riyadh, Saudi Arabia
January 26, 2010*

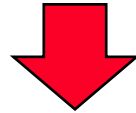
This presentation draws on ideas from Professor Porter's articles and books, including, *The Competitive Advantage of Nations* (The Free Press, 1990), "The Microeconomic Foundations of Economic Development," in *The Global Competitiveness Report*, (World Economic Forum), "Clusters and the New Competitive Agenda for Companies and Governments" in *On Competition* (Harvard Business School Press, 2008) and ongoing research at the Institute for Strategy and Competitiveness. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means - electronic, mechanical, photocopying, recording, or otherwise - without the permission of Michael E. Porter. Further information on Professor Porter's work and the Institute for Strategy and Competitiveness is available at www.isc.hbs.edu,

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**

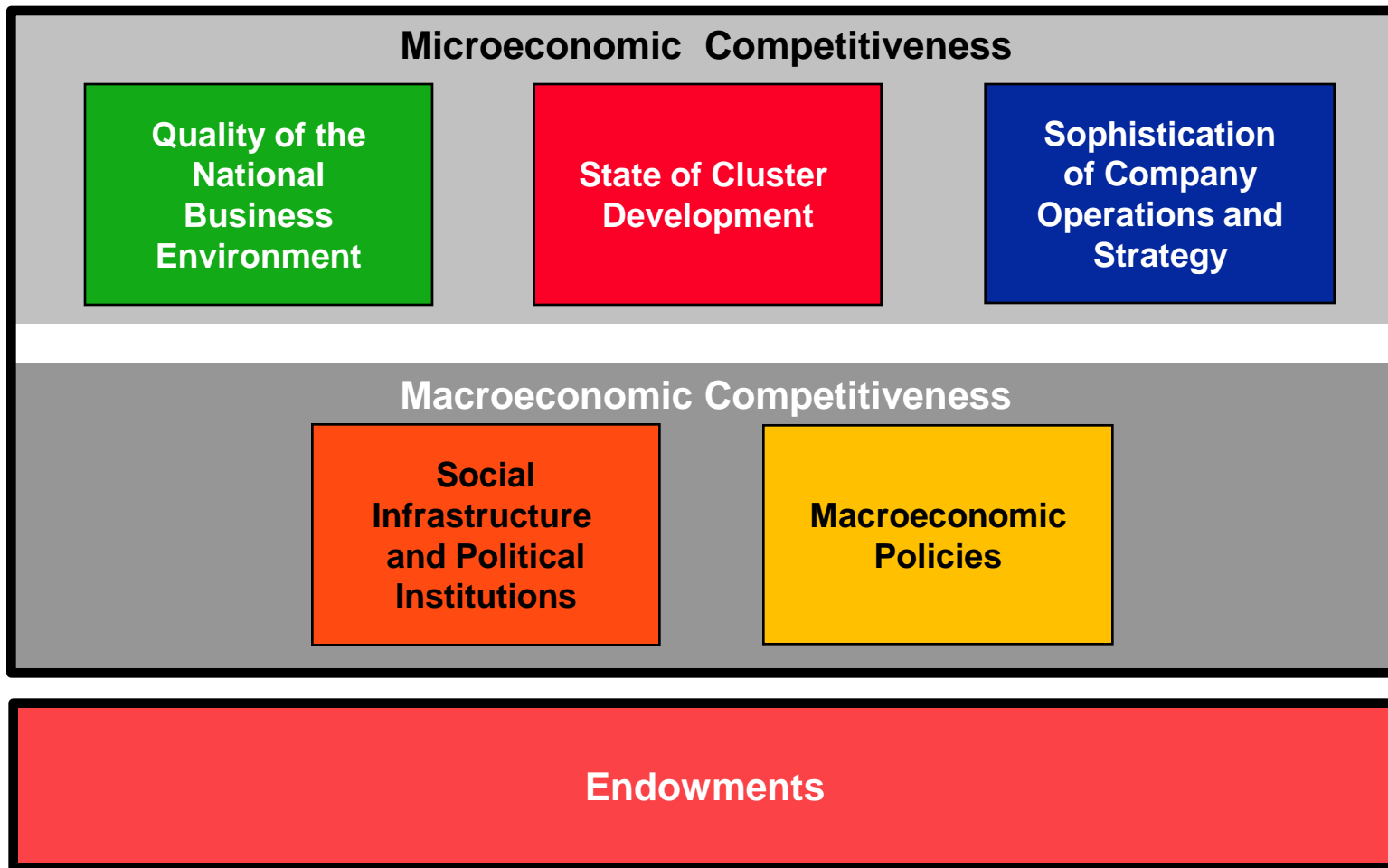
What is Competitiveness?

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



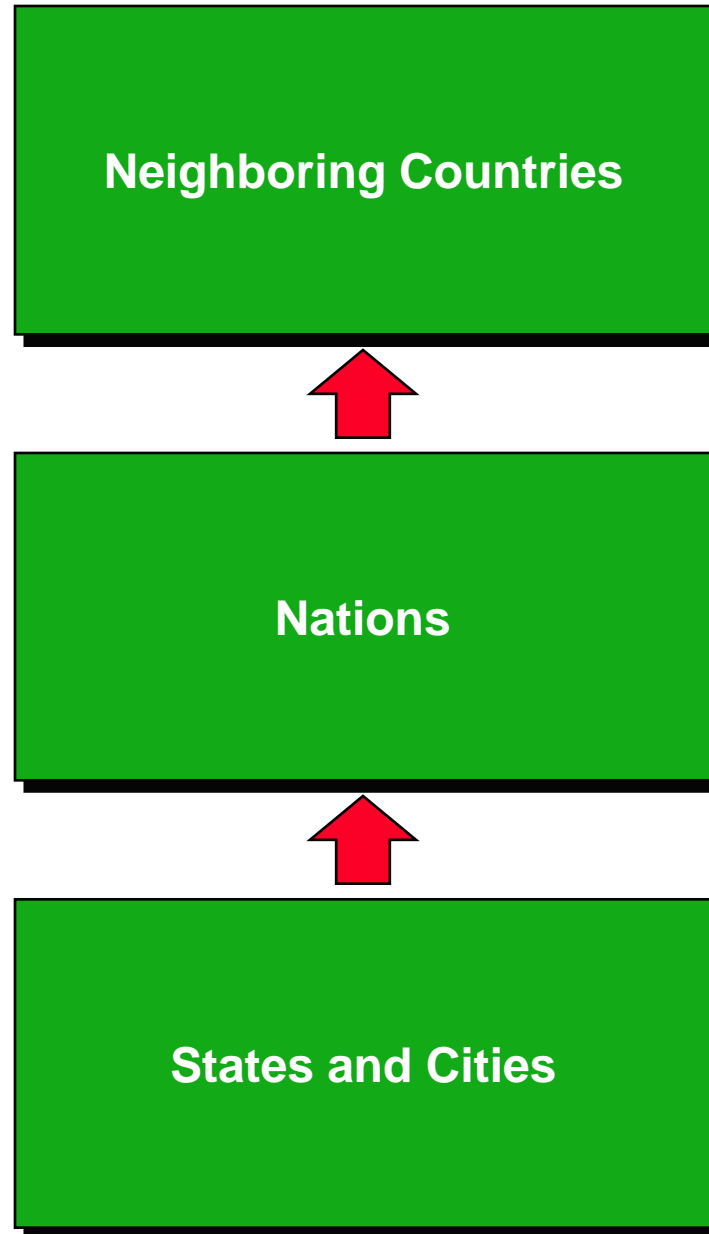
- Nations compete to offer the **most productive environment for business**
- The public and private sectors play **different but interrelated roles** in creating a productive economy

What Determines Competitiveness



- 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



Why the Region Matters

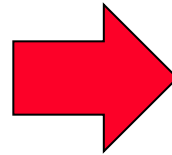
- A nation's most natural trading and investment partners are its **neighbors**
- A nation's economic growth and prosperity can be **greatly enhanced** by a healthy neighborhood, and **vice-versa**
 - Larger, growing, and accessible **markets** for local firms, especially for those with limited international 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**



Broader model



- Opening trade and investment
- Regional cooperation on **multiple dimensions of competitiveness** to gain mutual benefits

Competitiveness Upgrading Among Neighbors

Capturing Synergies

Business Environment

- Improving efficiency and interconnectivity of **transportation infrastructure**
- Enhancing regional **communications**
- Creating an efficient **energy** network
- Linking **financial markets**
- Opening the movement of students for **training** or **higher education**
- Eliminating **trade and investment barriers** within the region
- Simplifying and harmonizing **cross-border** regulations, paperwork and visas
- Coordinating **antitrust** and **competition policies**
- Harmonizing **environmental** and **energy standards**
- Harmonizing product **safety standards**
- Establishing reciprocal **consumer protection laws**
- Opening **government procurement** within the region

Macroeconomic Policy

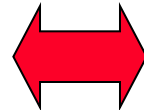
- Coordinating **macroeconomic** policies
- Regional **development bank**
- Coordinated capital requirements

Political Institutions and Governance

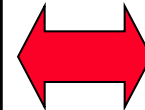
- Sharing **best practices** in government operations
- Creating regional **institutions**
 - Dispute resolution mechanisms
 - Harmonizing economic statistics
- Developing a regional position with **international organizations**

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)



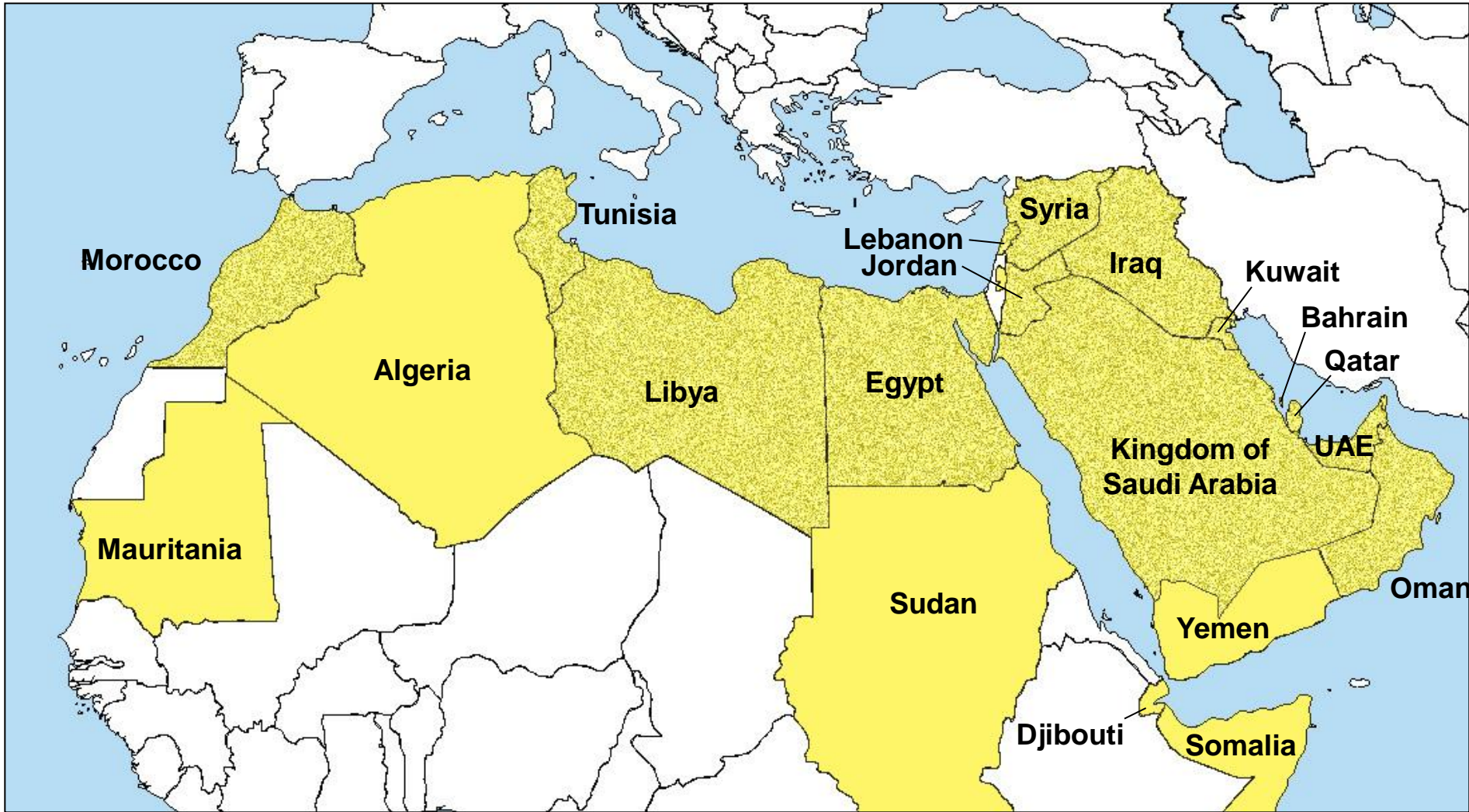
Regional Groupings Involving Saudi Arabia

Arab League



Regional Groupings Involving Saudi Arabia

Greater Arab Free Trade Zone



Arab League

Greater Arab Free Trade Zone (GAFTZ)

Profile of the GCC and Broader Neighborhood

Selected Indicators, 2009 (estimated)

	GDP (billions, US\$ at PPP)	Population (millions)	GDP Per Capita (US\$ at PPP)
Bahrain	\$28.3	1.1	\$25,100
Oman	69.9	3.0	23,480
Qatar	101.3	1.6	62,060
Kuwait	142.3	3.5	40,930
United Arab Emirates	186.7	5.4	34,350
Saudi Arabia	594.4	25.5	23,270
GCC	\$1,122.9	40.2	\$27,937
Egypt	\$470.3	83.1	\$5,660
Iraq	120.2	30.7	3,910
Jordan	32.4	6.3	5,170
Sudan	93.5	42.3	2,210
Yemen	62.0	23.6	2,630



- As the largest economy in the GCC, Saudi-Arabia is the **natural leader** with a critical role for ensuring progress in regional collaboration

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
 - FTA (1983), Customs Union (2003), Common Market (2008)
 - GCC Patents Office (1998)
 - No visa’s for GCC citizens
 - Plans for a Currency Union

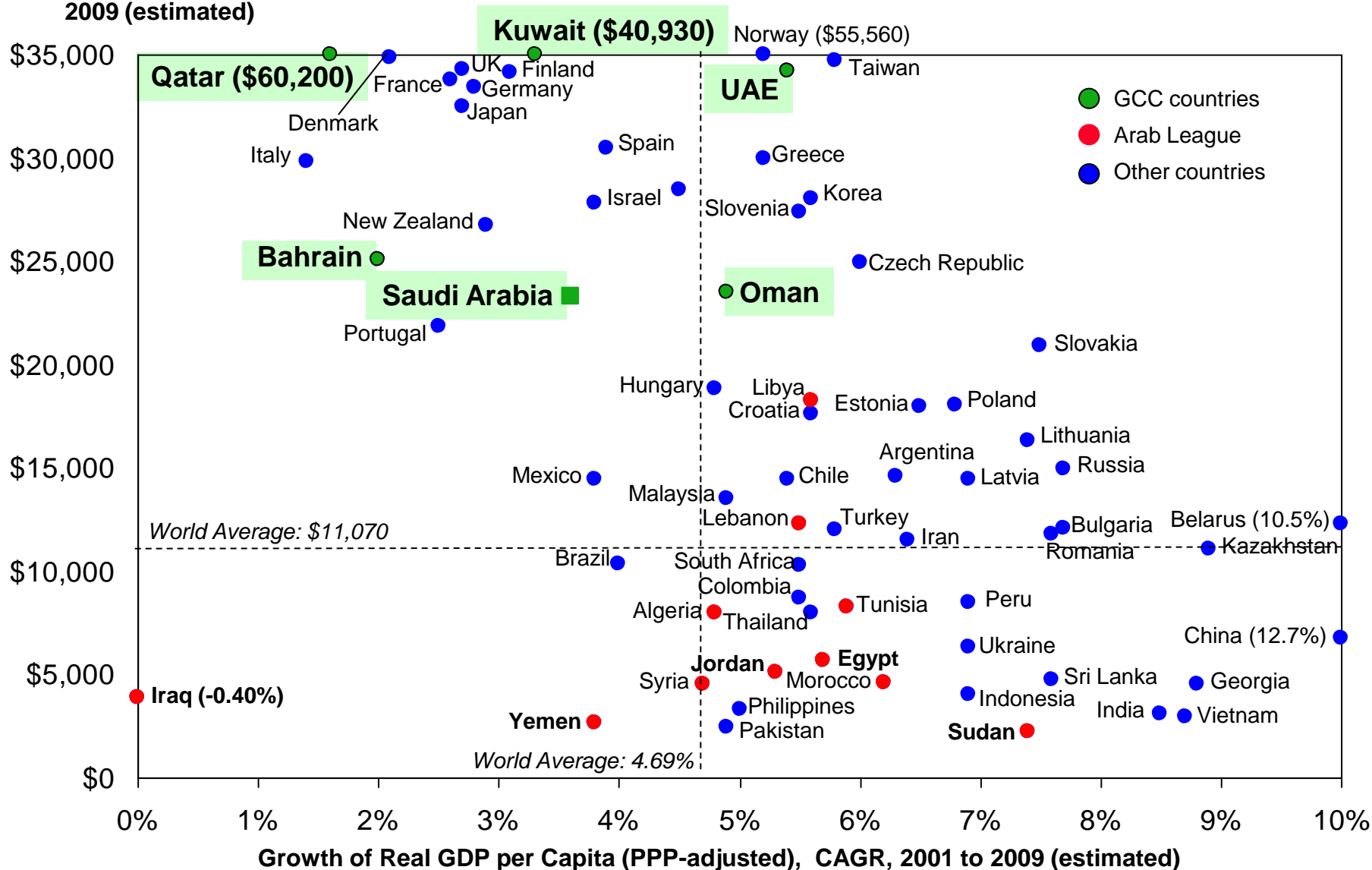


- Broad aspirations
- Modest progress

Competitiveness Challenges Facing the GCC

Prosperity Performance

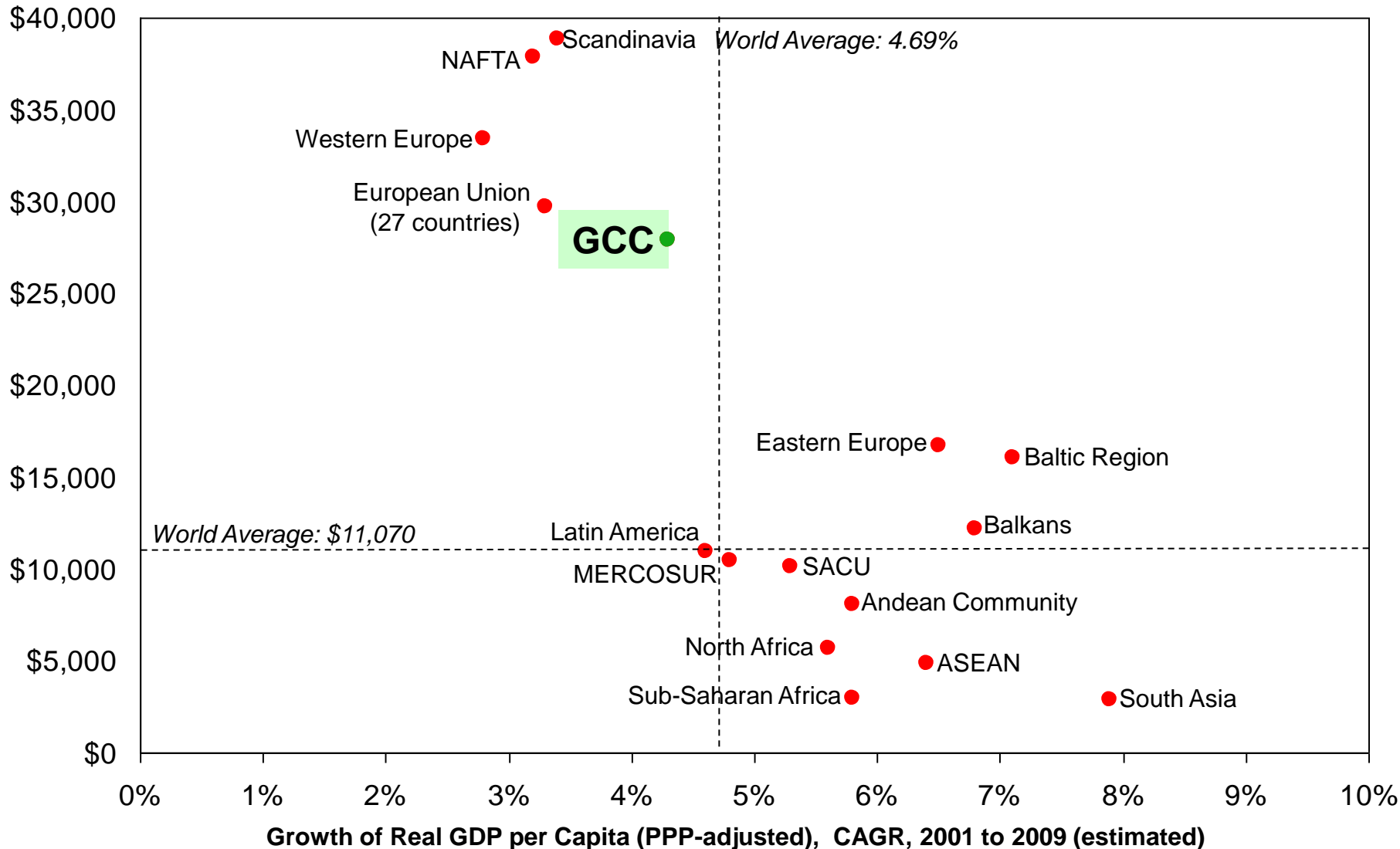
PPP-adjusted GDP per Capita,
2009 (estimated)



Source: EIU (2010), authors calculations

Comparative Performance of Selected Regional Groups

PPP-adjusted GDP per Capita, 2009 (estimated)



Source: EIU (2010), authors calculations

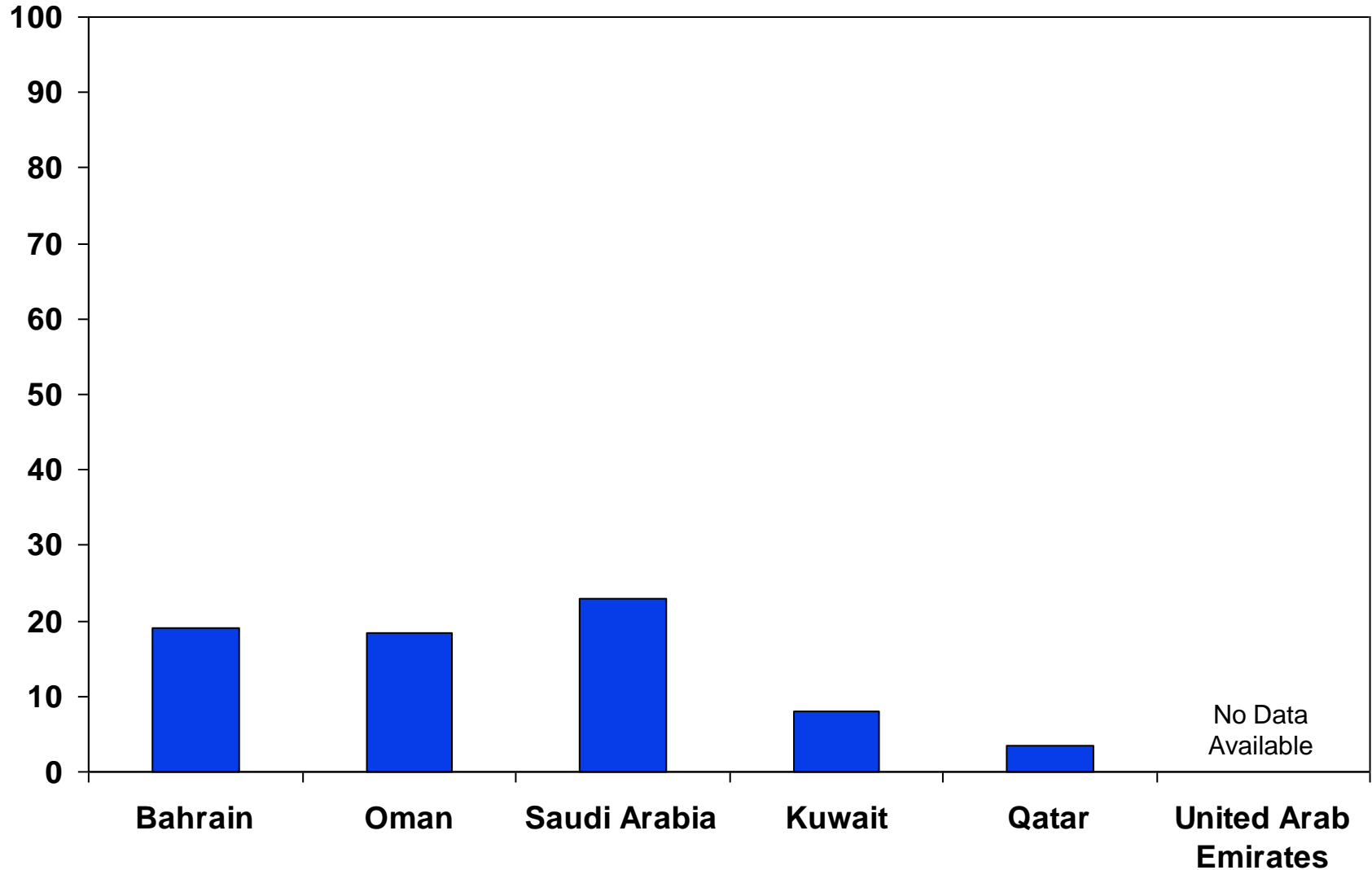
Competitiveness Issues Facing the GCC: Common Challenges

- 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 (%)



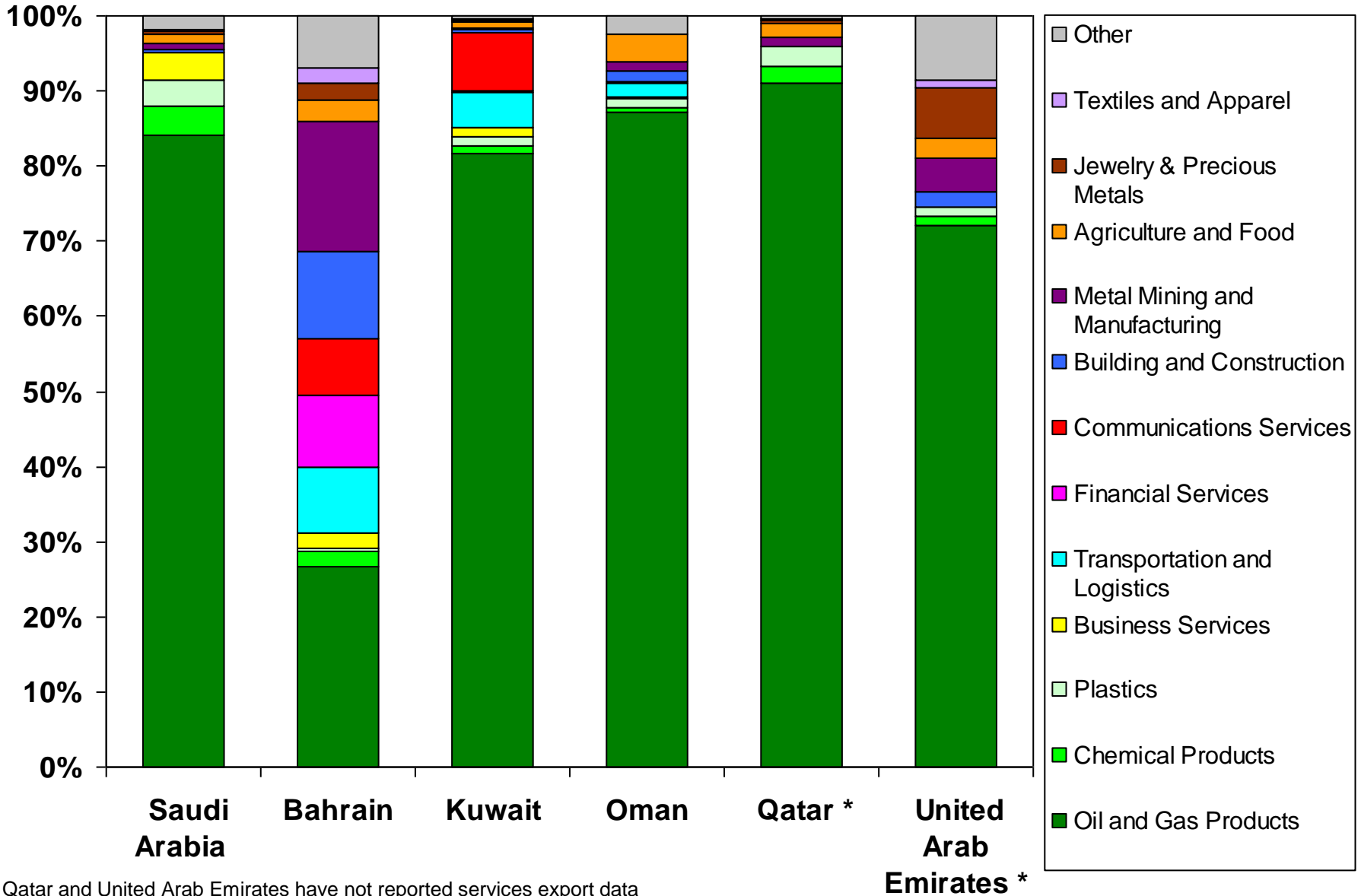
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- Increasing **economic diversification**

Share of Total Exports by Broad Cluster

GCC, 2007

Export Share of Total



Note: Qatar and United Arab Emirates have not reported services export data
 Source: Institute for Strategy and Competitiveness (2010), author's calculations

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- Increasing **economic diversification**
- Need to improve **government effectiveness** and **transparency**
- Continue to streamline **business regulation**

Doing Business

Northern Africa and Middle Eastern Countries

Economy	Ease of Doing Business	Starting a Business	Dealing with Licenses	Employing Workers	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
Saudi Arabia	13	13	33	73	1	61	16	7	23	140	60
Bahrain	20	63	14	13	22	87	57	13	32	117	26
United Arab Emirates	33	44	27	50	7	71	119	4	5	134	143
Qatar	39	68	28	68	55	135	93	2	41	95	33
Kuwait	61	137	81	24	89	87	27	11	109	113	69
Oman	65	62	130	21	20	127	93	8	123	106	66
Tunisia	69	47	107	108	59	87	73	118	40	77	34
Yemen, Rep.	99	53	50	74	50	150	132	148	120	35	89
Jordan	100	125	92	51	106	127	119	26	71	124	96
Egypt	106	24	156	120	87	71	73	140	29	148	132
Lebanon	108	108	125	66	111	87	93	34	95	121	124
Morocco	128	76	99	176	123	87	165	125	72	108	67
Algeria	136	148	110	122	160	135	73	168	122	123	51
Iran	137	48	141	137	153	113	165	117	134	53	109
West Bank and Gaza	139	176	157	135	73	167	41	28	92	111	183
Syria	143	133	132	91	82	181	119	105	118	176	87
Iraq	153	175	94	59	53	167	119	53	180	139	183
Djibouti	163	177	102	151	140	177	178	65	34	161	135
Middle East & North Africa	91.6	90.1	94.6	85.7	80.9	111.6	92.6	66.1	76.4	114.7	90.9

Rank out of 178 countries.

Source: World Bank Doing Business (2009).

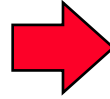
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- Increasing **economic diversification**
- Need to improve **government effectiveness** and **transparency**
- Continue to streamline **business regulation**
- Need to improve **transparency** and **corporate governance**
- Lack of **economic statistics**
- Limited **scientific** and **technological capability**

Enhancing Regional Strategy for the GCC

Expand Internal Trade



Improve Competitiveness

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

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**