

# Competitiveness and Economic Development of Gulf and Middle Eastern Countries

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This presentation draws on ideas from Professor Porter's articles and books, in particular, [The Competitive Advantage of Nations](#) (The Free Press, 1990), "Building the Microeconomic Foundations of Competitiveness," in [The Global Competitiveness Report 2002](#), (World Economic Forum, 2002), "Clusters and the New Competitive Agenda for Companies and Governments" in [On Competition](#) (Harvard Business School Press, 1998), and ongoing research on clusters 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](http://www.isc.hbs.edu)

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# The Competitiveness Challenge Facing the Gulf Economies

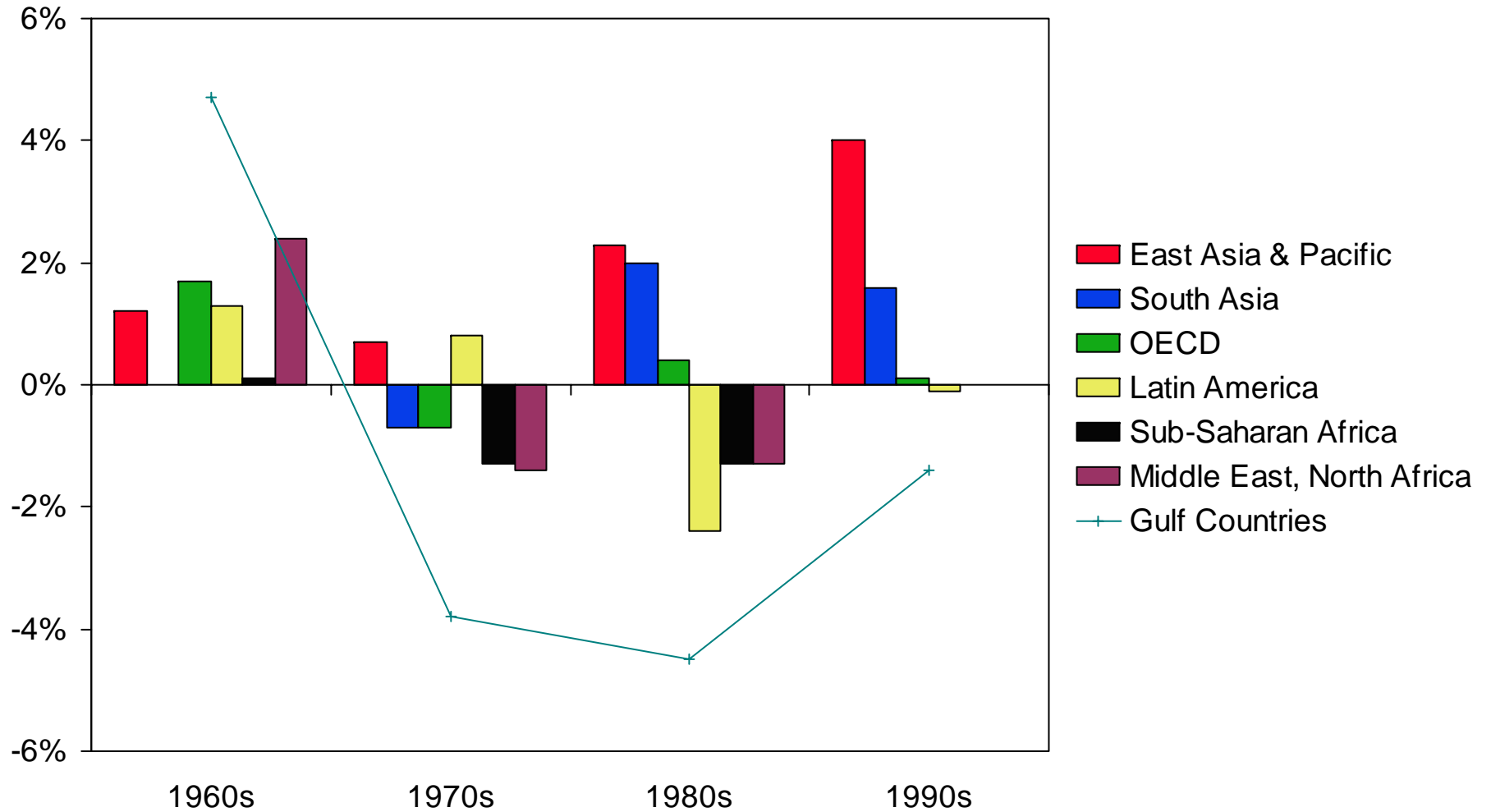
- Many Gulf and Middle Eastern countries have registered **solid economic growth** over the last decade
- **Reforms** have produced economic development outside of the oil sector, with only **mixed** success
- However, growth in per capita GDP and productivity growth have been **sluggish**, and negative in some countries
- Population and workforce growth will **challenge** economic development efforts



- Gulf economies must move to the **next stage of reforms** to attain true competitiveness and produce rising prosperity
- Progress must confront the legacy and **unique challenges** of oil-rich economies

# Total Factor Productivity Growth by Region

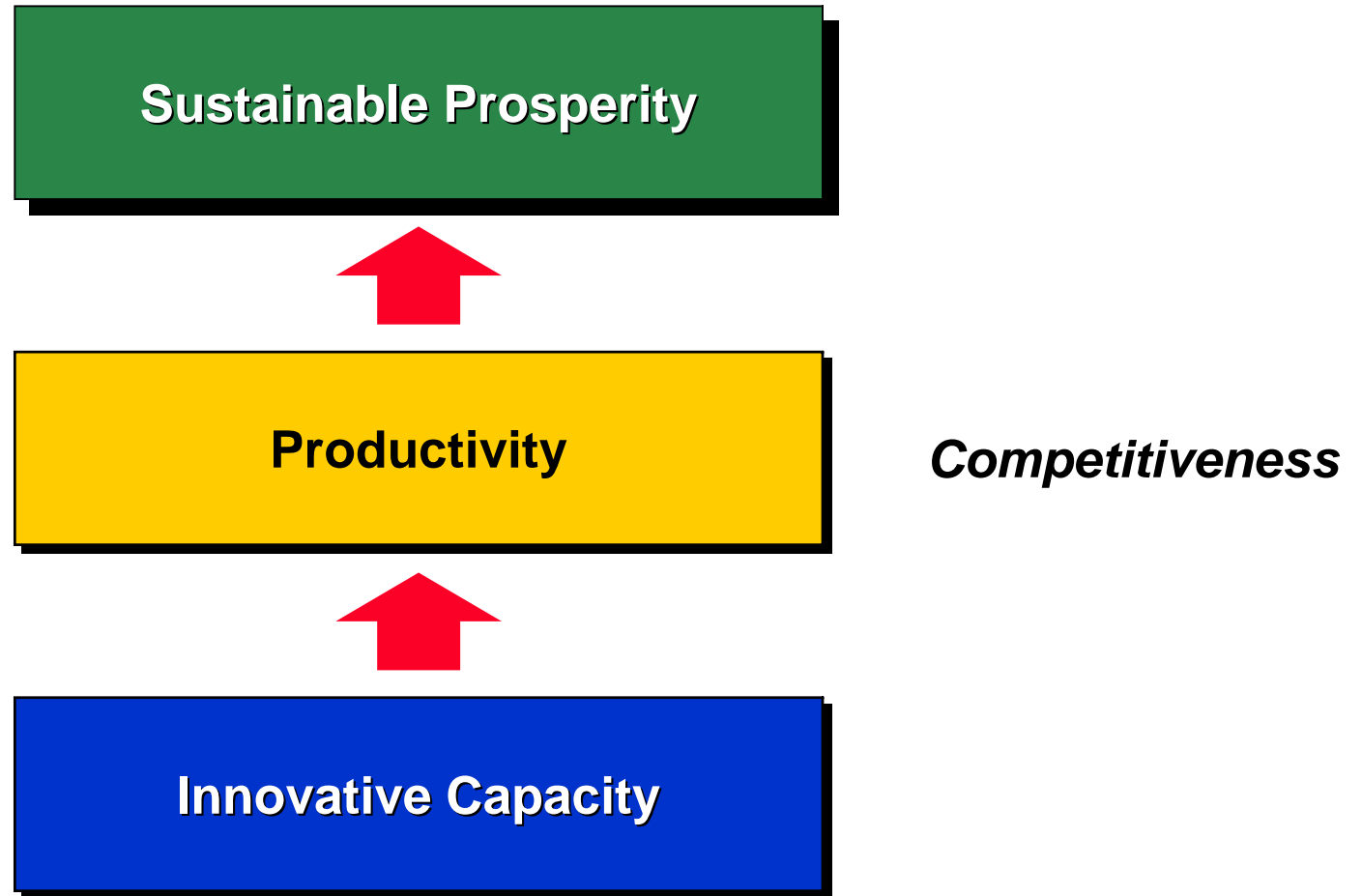
## Ten Year Averages



Source: World Bank (2002)

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# Foundations of Sustainable Prosperity



# What is Competitiveness?

- Competitiveness is determined by the **productivity** with which a nation uses its human, capital, and natural resources. Productivity sets a nation's or region's standard of living (wages, returns to capital, returns to natural resource endowments)
  - Productivity depends both on the **value** of products and services (e.g. uniqueness, quality) as well as the **efficiency** with which they are produced.
  - It is not **what** industries a nation competes in that matters for prosperity, but **how** firms compete in those industries
  - Productivity in a nation is a reflection of what both domestic and foreign firms **choose to do in that location**. The location of ownership is secondary for national prosperity.
  - The productivity of **“local”** industries is of fundamental importance to competitiveness, not just that of traded industries
  - Devaluation **does** not make a country more competitive



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

# Sources of Prosperity

## Inherited Prosperity

- Prosperity is derived from **selling inherited natural resources** or **real estate**
- Prosperity is **limited** by the amount of natural resources available, and ultimately **temporary**
- Focus gravitates towards the **distribution** of wealth as interest groups seek a bigger share



- **Government** is the central actor in the economy as the owner and distributor of wealth

## Created Prosperity

- Prosperity is derived from **creating valuable products and services**
- Prosperity is created by **firms**
- Prosperity is **unlimited**, based only by the innovativeness and productivity of companies in the economy
- Creating the **conditions** for productivity and innovation are the central policy question



- **Companies** are the central actors in the economy
- The **government's** role is to create the enabling conditions

# Determinants of Productivity and Productivity Growth

Macroeconomic, Political, Legal, and Social  
Context for Development

Microeconomic Foundations of Development

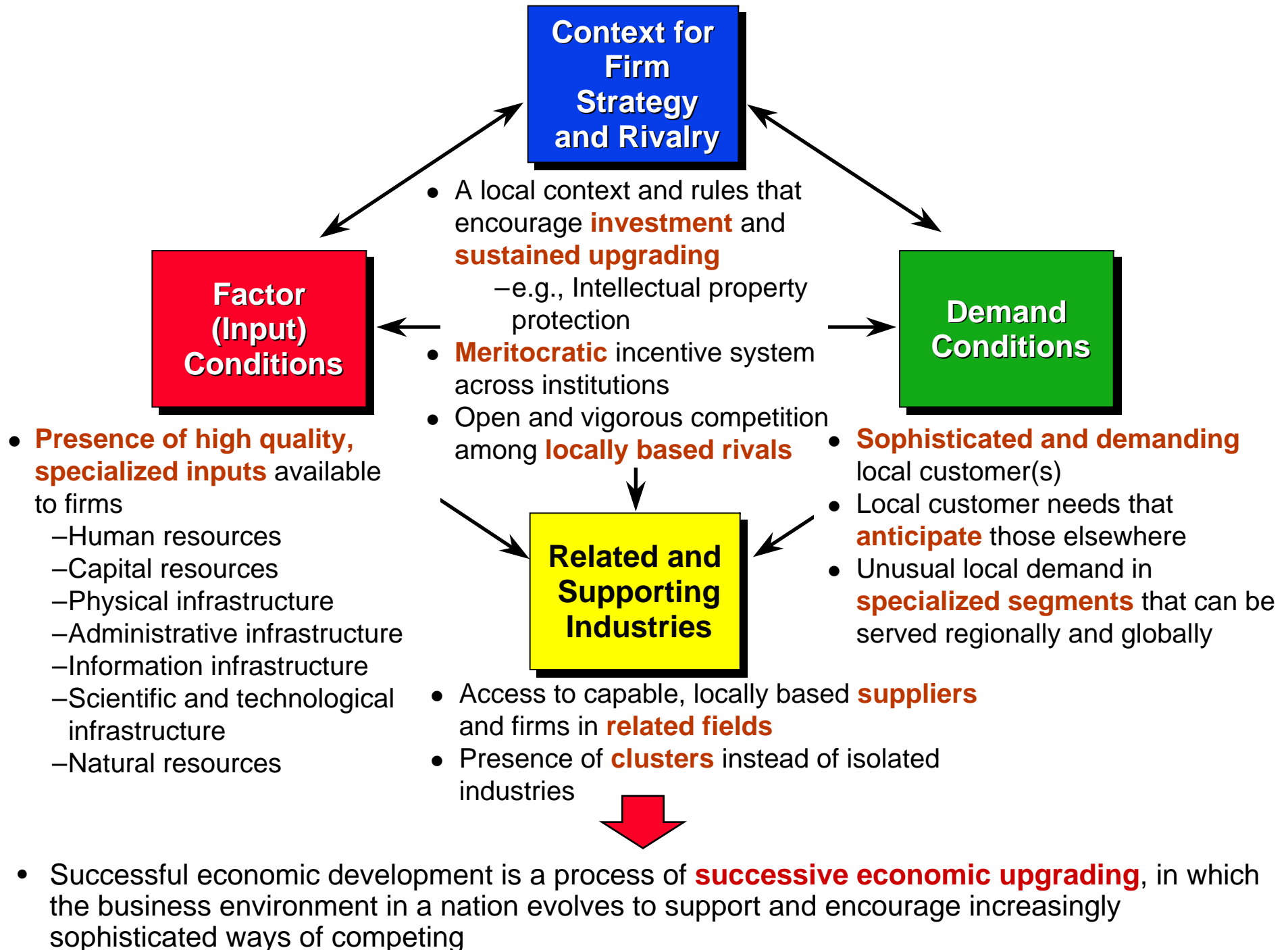
Sophistication  
of Company  
Operations and  
Strategy



Quality of the  
Microeconomic  
Business  
Environment

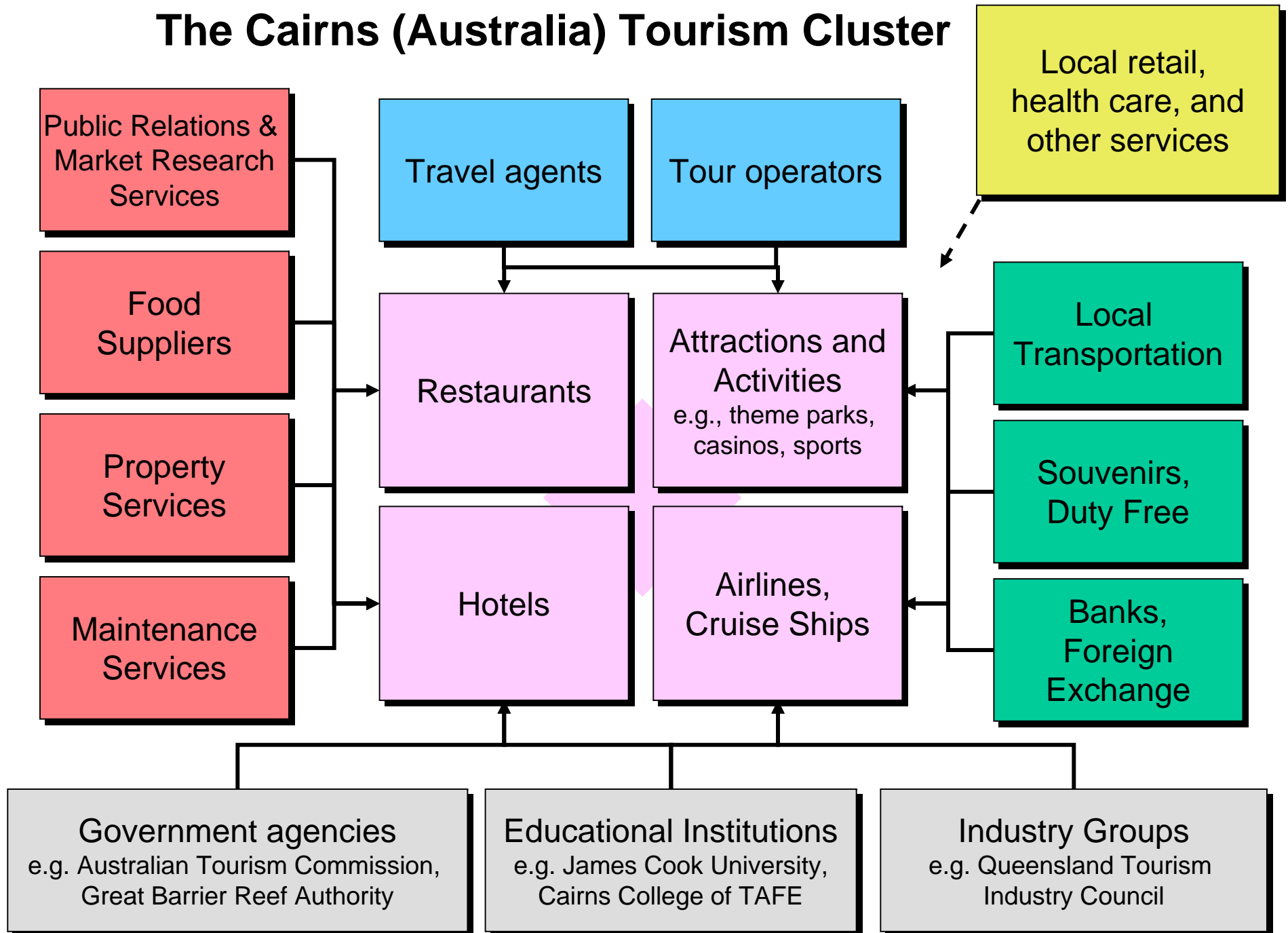
- A sound macroeconomic, political, legal, and social context creates the potential for competitiveness, **but is not sufficient**
- Competitiveness ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local companies and local competition**

# Productivity and the Business Environment

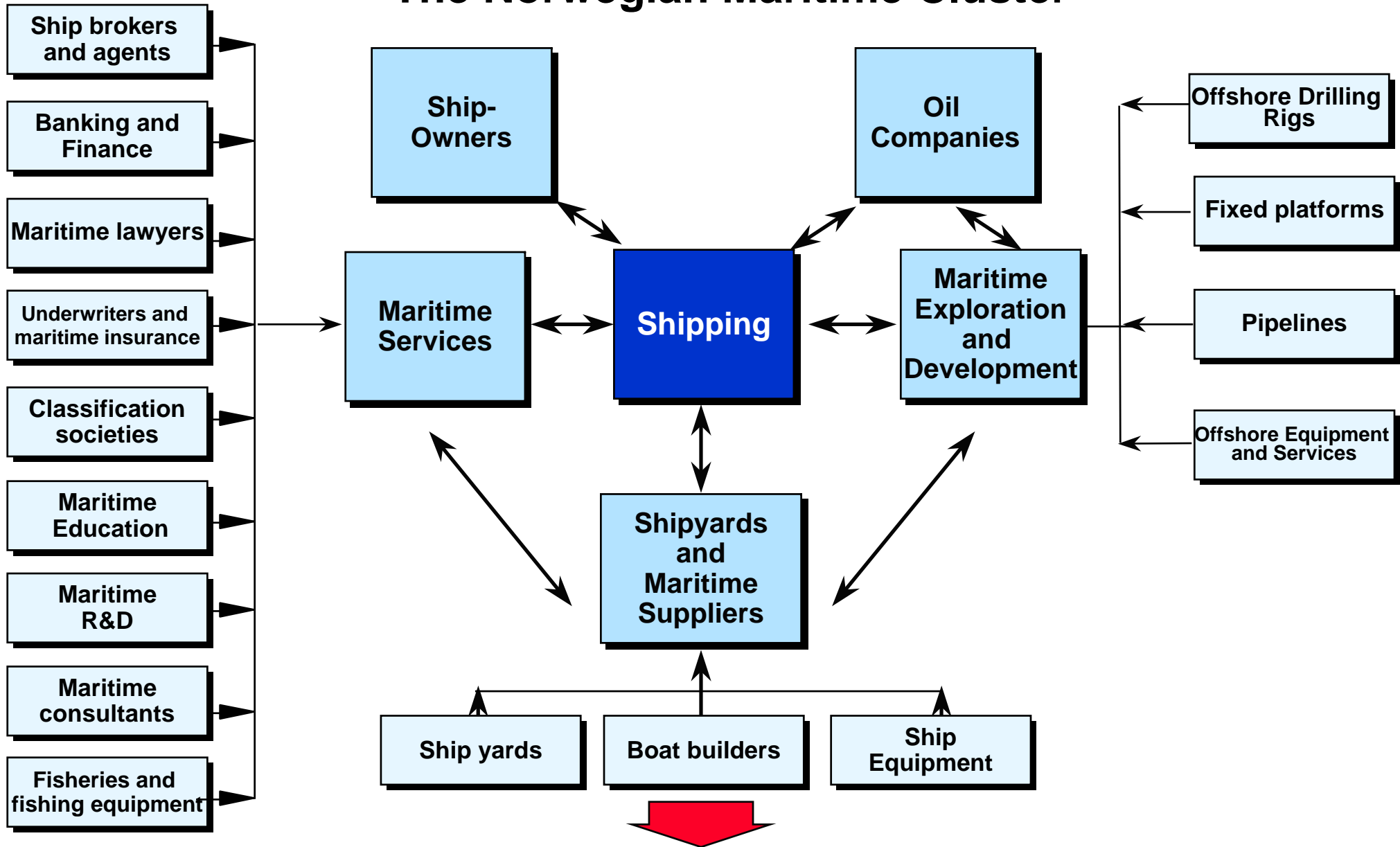




# The Cairns (Australia) Tourism Cluster



# The Norwegian Maritime Cluster



Norway has 0.1% of the world's population, represents 1.0% of the world's economy, yet accounts for 10% of world seaborne transportation

# Institutions for Collaboration

## Selected Massachusetts Organizations. Life Sciences

### Life Sciences Industry Associations

- Massachusetts Biotechnology Council
- Massachusetts Medical Device Industry Council
- Massachusetts Hospital Association

### General Industry Associations

- Associated Industries of Massachusetts
- Greater Boston Chamber of Commerce
- High Tech Council of Massachusetts

### Economic Development Initiatives

- Massachusetts Technology Collaborative
- Mass Biomedical Initiatives
- Mass Development
- Massachusetts Alliance for Economic Development

### University Initiatives

- Harvard Biomedical Community
- MIT Enterprise Forum
- Biotech Club at Harvard Medical School
- Technology Transfer offices

### Informal networks

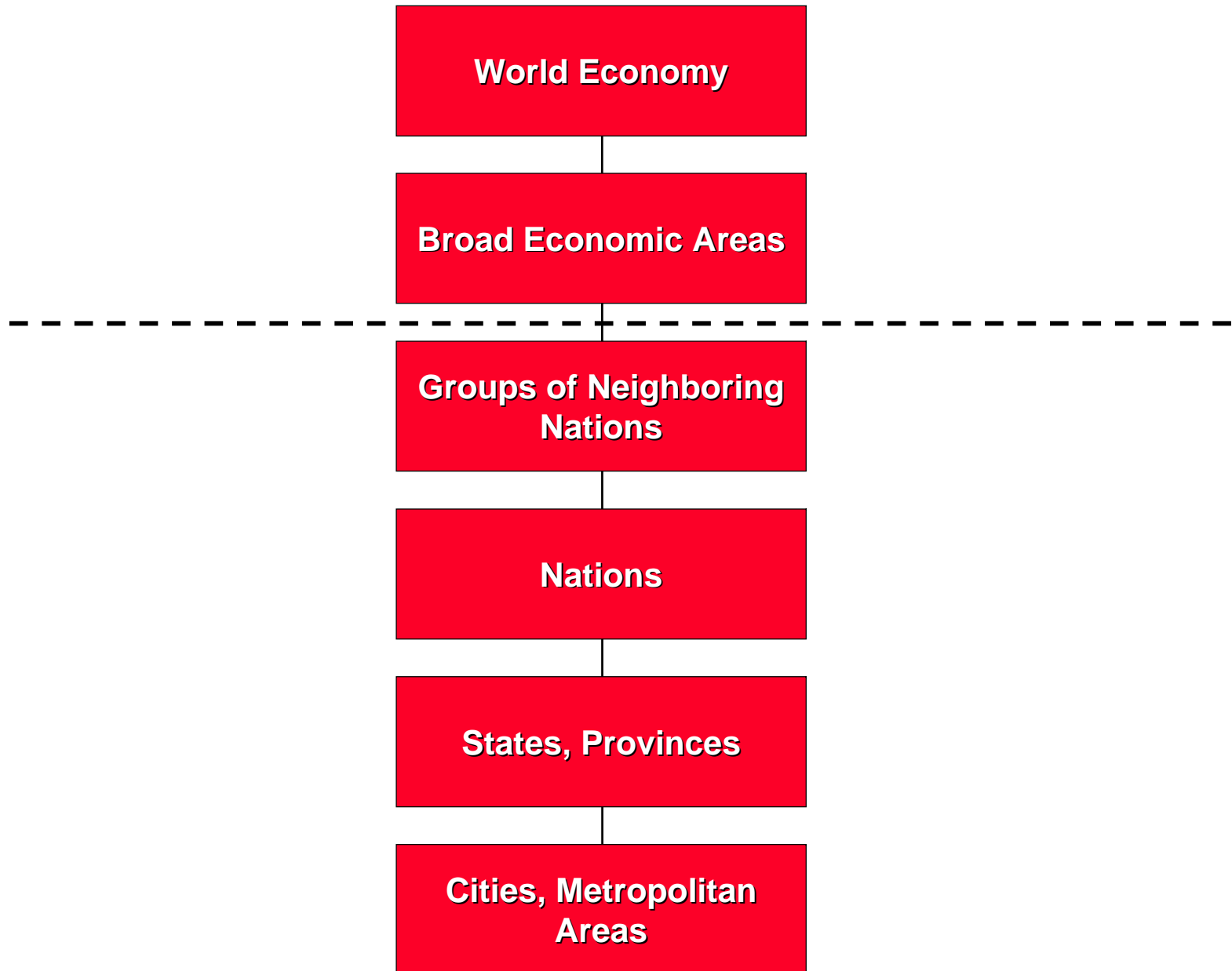
- Company alumni groups
- Venture Capital community
- University alumni groups

### Joint Research Initiatives

- New England Healthcare Institute
- Whitehead Institute For Biomedical Research
- Center for Integration of Medicine and Innovative Technology (CIMIT)

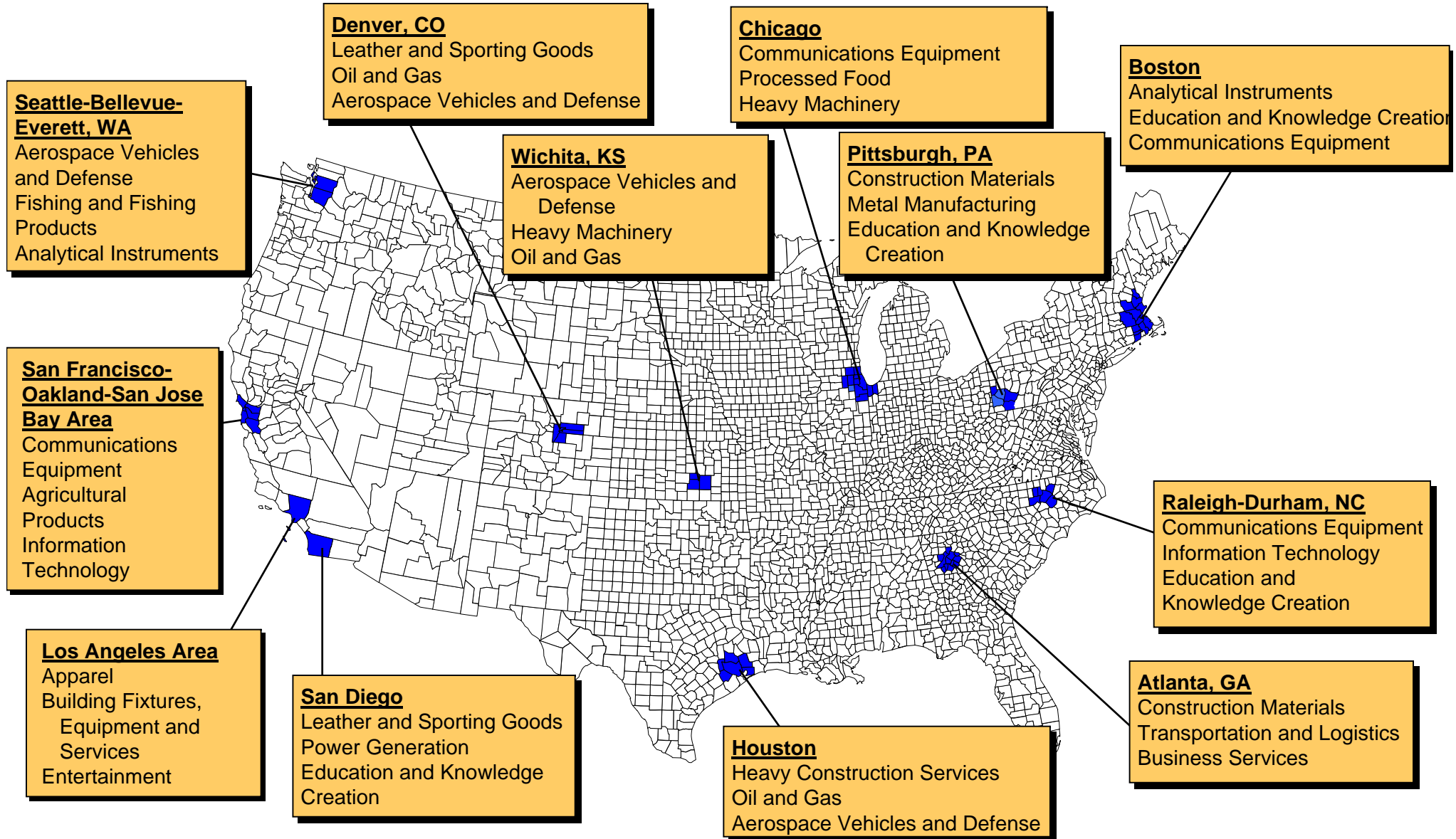
# Influences on Competitiveness

## Multiple Geographic Levels



# Specialization of Regional Economies

## Select U.S. Geographic Areas



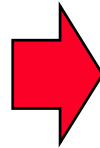
Note: Clusters listed are the three highest ranking clusters in terms of share of national employment

Source: Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School

# Shifting Responsibilities for Economic Development

## Old Model

- **Government** drives economic development through policy decisions and incentives



## New Model

- Economic development is a **collaborative process** involving government at multiple levels, companies, teaching and research institutions, and institutions for collaboration

# Oil-Rich Economies

## Issues for Companies

- Narrow role in the value-chain
  - Intermediating agents versus value creators
- Focus on the local market
- Heavy use of partnerships and joint-ventures
- Exports versus international production and service delivery

# Natural Resources and Economic Performance

## Natural resources and competitiveness

- In the Global Competitiveness Report 2003-2004 we find natural resource-exports to have a **positive direct effect on prosperity**
- However, the presence of high natural resource-exports is associated with **declining competitiveness over time**
  - Countries with a high natural resource share of exports register negative and significant shifts in competitiveness over time

## Oil endowments and prosperity growth

- Research done for the World Bank finds natural resource endowments to have a significant **negative** effect on prosperity growth through having a negative effect on **institutional quality**
  - In contrast, natural resource price volatility and real exchange rate overvaluation (“Dutch disease”) register no significant additional impact on growth
- The negative effect of natural resources on institutional quality is especially strong in the case of **oil exporters** and increases **more than proportionally** with the size of oil endowments



# **Oil-Rich Economies**

## **Issues for Competitiveness**

### **Advantages**

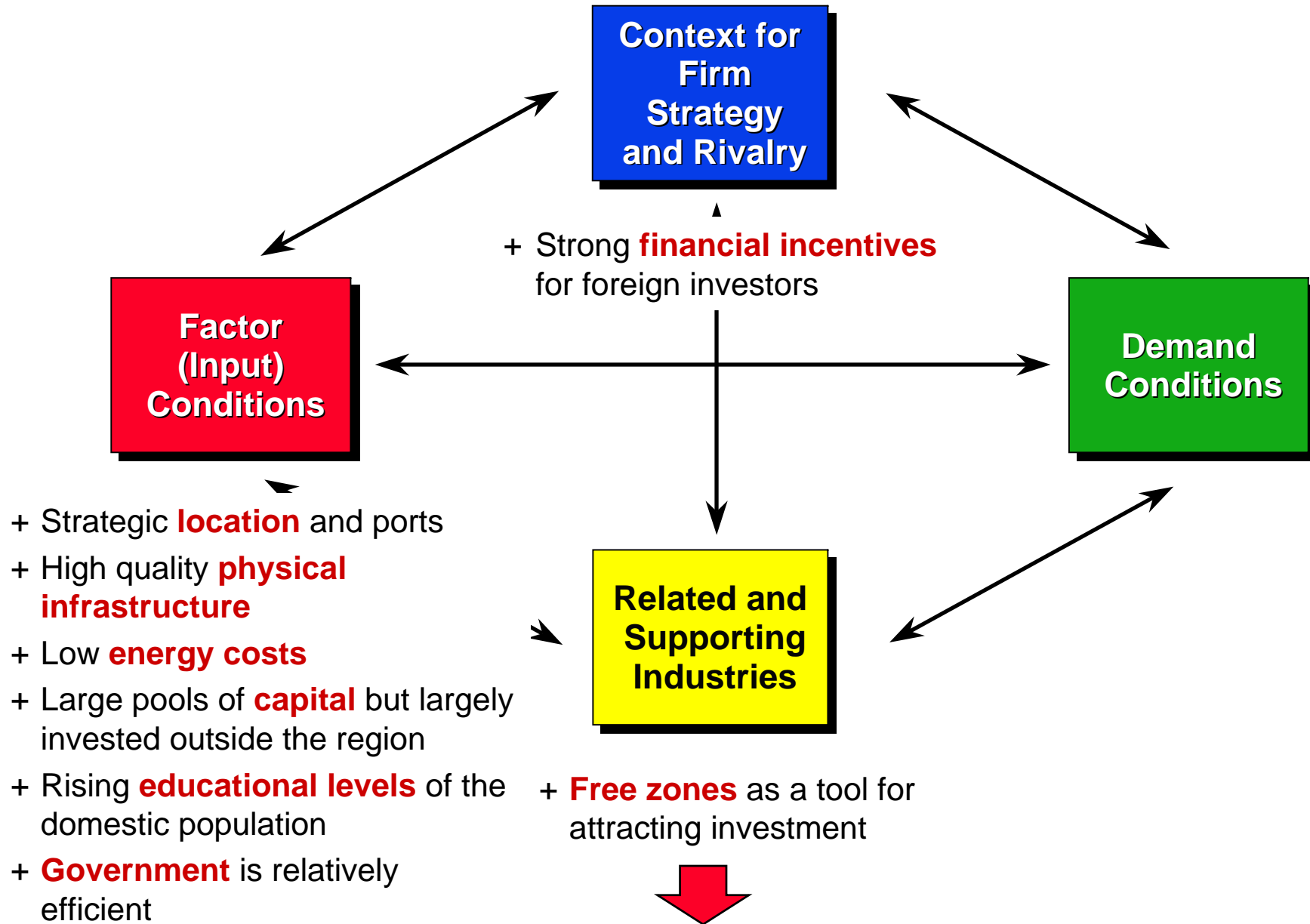
- Direct effect on prosperity via resource exports
- Investment capital for infrastructure and other projects

### **Issues**

- Incentives
- Volatility
- Mindset and attitudes
  - Everything is free
  - Prosperity comes from capturing a part of the inherited wealth

# Business Environment Quality in Oil-Rich Economies

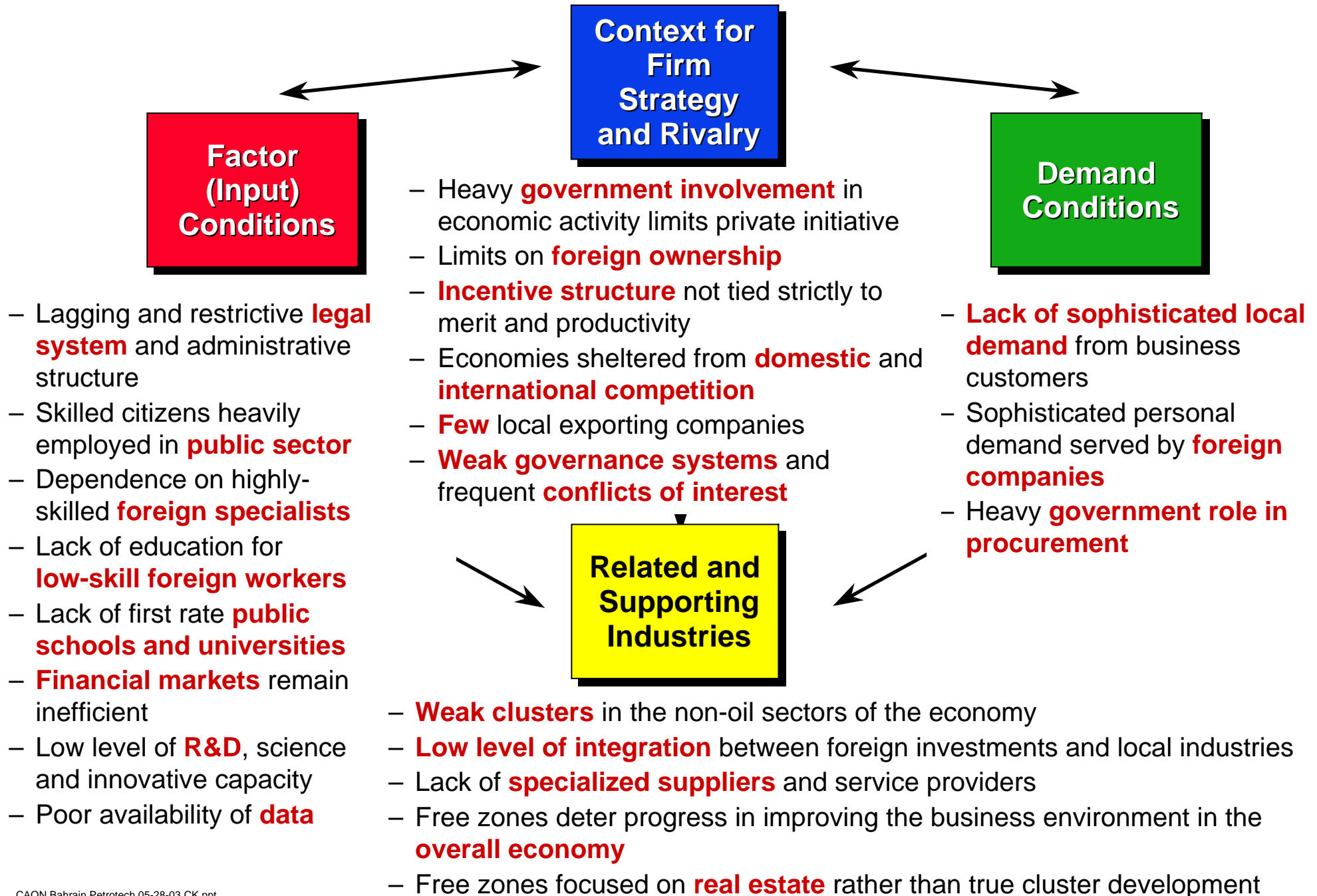
## Selected Observations



- Hardware is in place, but the “**software**” is still missing

# Business Environment Quality in Oil-Rich Economies

## Selected Observations

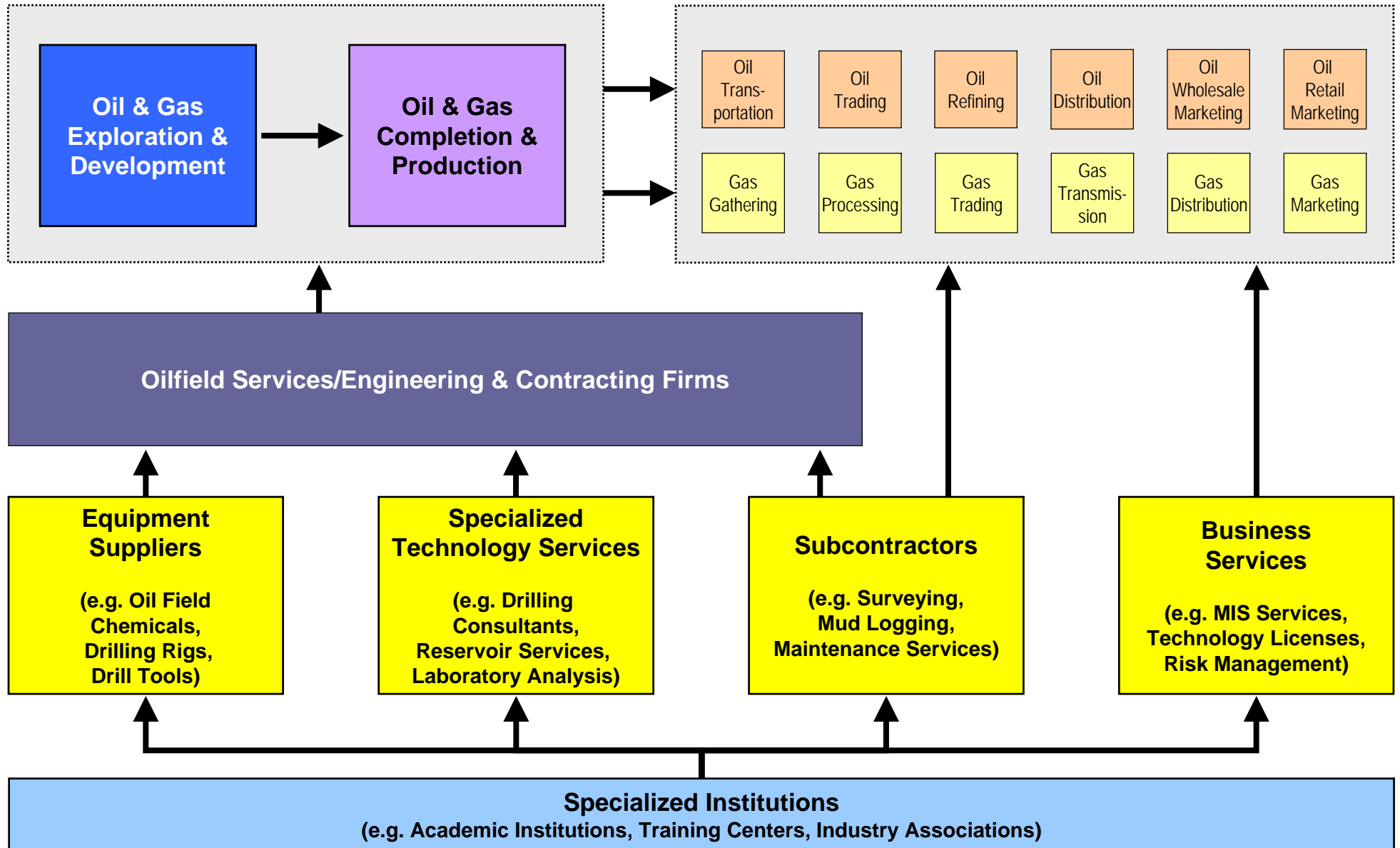


# Export Processing Zones and Competitiveness

- Most oil-rich economies have made extensive use of “**Free Zones**” to attract foreign non-oil investments through tax incentives and dedicated infrastructure
- Export processing zones are more successful if they are targeted around the needs of specific **clusters**
  - Firms have common needs in terms of infrastructure and labor
  - Attracts additional companies as well as specialized suppliers and service providers
- Export processing zones (EPZ) can have a sustained effect on a country’s competitiveness under two conditions:
  - EPZ’s must not be enclaves but lead to **economy-wide changes** in the business environment
    - E.g., upgrading of rules and regulations
    - E.g., improving government services, such as customs
  - **Linkages** must be created between the EPZ and the rest of the economy, such as local supplier relationships and service providers

# Clusters and Competitiveness

## Houston Oil and Gas Products and Services Cluster



- Export knowledge, not just products

# Cross-National Cooperation in the Gulf Region

- The Gulf Cooperation Council has **begun** the process of regional cooperation
  - Defense cooperation is becoming more effective
  - A regional identity is starting to develop
  - Customs Union has been launched
- Other **bilateral projects** are starting to show benefits
  - E.g., gas pipeline between Qatar and the U.A.E.



- Regional cooperation has huge **economic potential**
- The **focus of cooperation** needs to shift from security to economic issues
- The **pace** of cooperation must increase significantly
- The region needs to overcome the tendency to view cooperation in terms of a **win-lose mentality**

# Implications for Petrochemical Companies

- Nations in the Gulf region need **new economic strategies**
  - Created versus inherited wealth
  - New attitudes and mindsets
- Petrochemical cluster is becoming a model for how **competition must evolve**
  - Moving beyond low-cost feedstocks
  - Introducing state-of-the-art technology
  - Developing international channels
  - Beginning international production
- Petrochemical cluster also illustrates the power of **cluster development**
  - Local supplier capability
  - Technological capability in local universities
  - Specialized training
- Petrochemical cluster can become a **change agent** in transforming the business environment and redefine the role of the private sector in economic development