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How can competitiveness accelerate economic growth in MENA?

In the Middle East
since 1926

Why do nations compete?

The region is aiming at diversifying and growing its economy to reduce dependency on oil, in addition to driving better employment opportunities and long-term prosperity for citizens. This can only be achieved by introducing a mindset of competitiveness, which would create the foundation for a sustainable economy.

With international foreign direct investment (FDI) shifting to developing economies after the global crisis in 2008, followed by the recent drop in oil prices, governments in the Middle East and North Africa (MENA), and particularly those in the Gulf Cooperation Council (GCC) countries, have been focusing on improving their business environments to position themselves as key destinations to do business in attempt to successfully diversify their economies.

Investors around the world have also started venturing into destinations that would maximize returns or create cost efficiencies due to a number of factors such as proximity to markets, access to technology, finance or natural resources, or the cost of doing business. The approach to enhancement of country ranking and improving the business environment to maximize impact and returns on the economy can be summarized in three main stages focused on evaluating and enhancing competitiveness to win in regional and global markets:

- Collect and define;
- Execute;
- Evaluate reforms.

Figure 1: Competitiveness model

Strategy:
- Long term national strategy
- Short term implementation plan focusing on priority sectors/verticals
- Establishment of milestones
- Establishment of responsibilities and accountability

Systems:
- Political will
- Good governance
- Alignment
- Reduction of silos
- Procedural efficiency
- Resolcing disputes

Policy:
- Establishment of business friendly policies
- Reduction of bureaucracy
- Promotion of transparency
- Zero tolerance for corruption

Innovation:
- Infusing creativity and innovation throughout society
- Providing funding for innovation
- Developing innovation with strategy and systems

What makes an economy truly competitive?

According to the IMD World Competitiveness Center, "Competitiveness is the extent to which a country is able to foster an environment in which enterprises can generate sustainable value."[1] The competitiveness for a national economy is indelibly linked to prosperity for its citizens. With this in mind, competitiveness is the outcome when strategy, systems, policy, and innovation come together to spur economic growth. The Competitiveness Model shown in Figure 1 helps explain how competitiveness contributes to economic growth at a national level.[2] The bottom line is that competitiveness more often than not leads to productivity growth, which means achieving more output with the same amount of or fewer resources. As has been stated by Nobel Laureate Paul Krugman: "Productivity isn't everything, but in the long run, it's almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker." [3]

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What is the effect of competitiveness on an economy?

There are many examples that reinforce the Competitiveness Model highlighted in Figure 1. Competitiveness at its core includes increaseing economic freedom and overall quality of life. Countries that do not adopt the Competitiveness Model may increase their rankings in international reports, but all too often these initiatives do not lead to increases in the prosperity of their citizens, as measured by the Legatum Prosperity Index (LPI) report. The LPI report is generated by the Legatum Institute, a London-based think tank, which measures national prosperity based on economic and social wellbeing.[4] As shown in Table 1, BRIC countries (Brazil, Russia, India, China) had super-heated economic growth in the late 1990s and early 2000s that favorably impacted their rankings in major competitiveness reports. However, their momentum slowed down and their movement toward sustained competitiveness actually decline from 2010. In other words, their competitiveness did not lead to prosperity because their reforms did not lead to real transformation (reinvention) of their economies. This is reflected by their latest rankings in key competitiveness-oriented reports, which seem to reflect significant gaps within their competitiveness models that have become impediments to sustained growth.[5]

While one may rightly argue that rankings in reports are not true indicators of national competitiveness, they do provide a lens through which one can examine the factors that drive these rankings. As former New Zealand Prime Minister James Bolger stated many times, "If your country is competitive, you don't need the rankings of reports to let you know. The same is true if your country is uncompetitive. That being said, they are good platforms to highlight specific issues and to frame tough questions that will lead to dialogue, strategy, and action."

In contrast to BRIC, some of the world's most prosperous countries continue to make major gains in economic growth due to the constant process of reinvention. This is illustrated by Table 2, which highlights their rankings in major global competitiveness reports. While their efforts are not perfect, they reflect an approach to competitiveness that has established a pattern of ongoing increases in the quality of life and economic livelihood of their citizens.

Table 1: BRIC rankings

Country	WEF Global Competitiveness Report (2018) (x/140 countries)	WB Ease of Doing Business Report (2019) (x/190 countries)	Legatum Prosperity Index (2018) (x/149 countries)
Brazil	72	109	65
Russia	43	31	96
India	58	77	94
China	28	46	82

Table 2: Top 4 global performers

Country	WEF Global Competitiveness Report (2018) (x/140 countries)	WB Ease of Doing Business Report (2019) (x/190 countries)	Legatum Prosperity Index (2018) (x/149 countries)
United States	1	8	17
Germany	2	24	14
Singapore	3	2	21
Switzerland	4	38	4

On average, a one percent higher score for regulatory quality as measured by Doing Business is associated with approximately US$250-500 million higher annual FDI inflows.

When benchmarking competitiveness, it is important to understand how the world's most competitive countries got to where they are and how they remain competitive year-after-year even during market aberrations.

In the GCC region, a leading group of countries has improved competitiveness according to key metrics and rankings in global reports, but structural, institutional and policy deficiencies continue to hamper their efforts.

The real story behind competitiveness in the GCC region will be enabling leading countries to sustain their competitiveness through a process of strategy, good governance, business-friendly reforms, and innovation that leads to ongoing reinvention and strategic course-corrections.

Institutions argue that while rankings alone do not signify whether a country is an advantageous place to invest, the underlying methodology of the rankings serves as a representative measure of the overall regulatory health and business-enabling environment. As the World Bank noted in a commentary on the 2013 Doing Business report: "The case studies underpinning the Doing Business indicators focus on small to medium-size domestic firms, so the laws, regulations and practices tracked by the project are not necessarily relevant to larger foreign-owned firms. But the quality of the laws and regulations, and the extent to which this quality is reflected in their implementation, may be a useful signal to foreign investors of the overall quality of the business environment."[6] On average, a one percent higher score for regulatory quality as measured by Doing Business is associated with approximately US$250-500 million higher annual FDI inflows.[7]

Within the Middle East, governments are designing and investing in programs with the sole purpose of increasing national rankings across multiple indexes. MENA countries with such initiatives include Egypt, theKingdom of Saudi Arabia (KSA), the United Arab Emirates (UAE) and Morocco.

Assessments of the World Bank and WEF indexes have often centered on the approach of countries towards improving rankings--making simple reforms required to gain more points without addressing perceptions and core underlying societal and economic issues that could require structural changes.

Therefore, increasingly, higher ranked countries are exploring indexes that capture citizens' perceptions of government and business performance (and even lifestyle), including the United Nations Sustainable Development Solutions Network's World Happiness Report rankings, Transparency International's Corruption Perceptions Index, and the United Nations Development Program's Human Development Index.

Egypt:
- Introduced a one-stop-shop for all procedures and improved process of getting electricity as well as protection of minority investors by boosting shareholder rights in corporate decision-making
- Improvements in legal protection for businesses and property rights

Morocco:
- Sucessfully completed extensive reforms including developing online portals for business registration, provision of credit scores, streamlining property registration, increasing corporate transparency and ownership regulationsm, and introducing a single window system for international trade
- A new constitution spurred the diversification of key industries, including manufacturing, finance, and telecoms
- National government program introduced subsidy reductions to benefit from low energy import prices which encouraged FDI and linkages to global value chains

KSA:
- Launch of national Vision 2030 and major reform programs to improve competitiveness and the ease of doing business
- Revamp of government service processes
- Focus on non-oil sectors (e.g. leisure and entertainment)
- The Saudi Stock Exchange and Citibank name women as their chief executives
- Woman appointed as the first Minister advisor in the history of KSA
- Privatization of Saudi Aramco

UAE:
- Establishment of sector development free zones (media, healthcare, technology, trade, manufacturing, and others)
- Developed major non-oil sectors (e.g. tourism and financial services)
- Launch of innovative solutions and plans (e.g. hyperloop, flying taxis, etc.)
- Digital services and e-government
- Focus on renewables and sustainabilty sectors
- Launch of the UAE Happiness Ministry

Bahrain:
- Removed the minimum capital requirement, improved access to credit information, and improved key infrastructure for trade with KSA
- Ranked 2nd in the world for Islamic Finance; best in the MENA region for gender equality across wages

Qatar:
- Removal of the "Kafalah" system thus freeing up the foreign labor force
- Establishment of several technology and innovation freezones and incubators

Oman:
- Introduced a single window solution to facilitate trade
- Establishment of a one-stop shop and reduced the minimum capital requirement
- Growth in major sectors such as trade and tourism
- Establishment of Oman's Innovation Park Muscat

What are economic indicators and how do they measure competitiveness?

International competitiveness experts understand the value of analyzing data as a way to measure competitiveness. There are two types of data, quantitative and qualitative, typically used in such analyses, as shown in Table 3.

Quantitative data is typically segmented into macro and micro indicators, as shown in Figure 2. Macro indicators

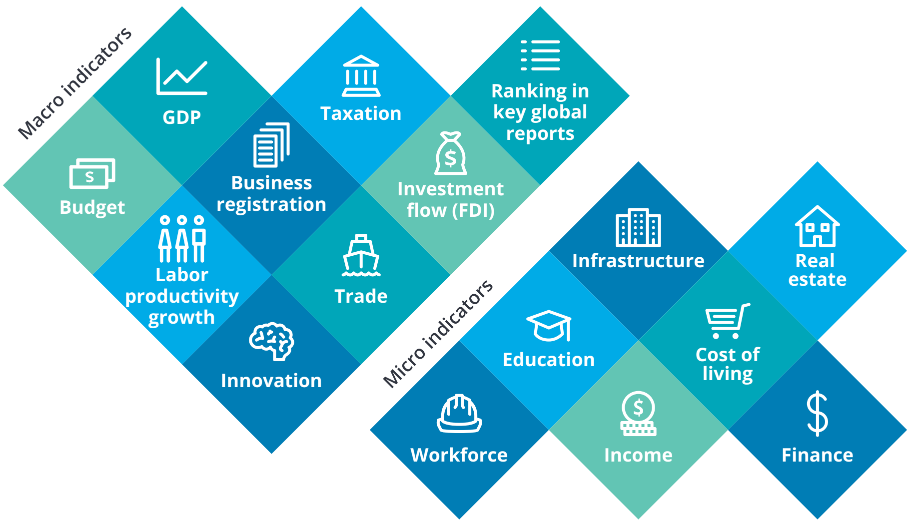
Table 3: Data types

Quantitative data	Qualitative data
Economic statistics that can be tracked year-to-year	Input from individuals or organizations that provides anecdotal and/or valid information to augment quantitative analysis
Comes from primary data, which is defined as the closest to the source and/or the most valid data, and secondary data, which is used to validate primary data and that is data gathered from other than primary sources	Typically gathered from surveys, interviews, and focus groups
Validity depends on a) appropriateness of the data, b) whether it can be tracked year-to-year, and c) whether it can be validated by a secondary source	Validity depends on mapping input to quantitative data and using it only as a mechanism to augment other research rather than a singular source used for analysis

track economic trends on a high level while micro indicators track trends within economic categories that relate to these macro indicators.

When data is tracked and maintained over a number of years, it provides insight into overall trends regarding a country's current state of competitiveness. A competitiveness expert analyzes the collected data to determine the story behind the numbers in order to draw conclusions about a country's competitive position. The analysis provides insight into strategy, policy, or implementation changes to establish an alternative competitiveness course or develop an entirely new one.

Figure 2: Competitiveness indicators



What are the priority sectors that MENA countries can focus on to be more competitive?

- Chemicals, petrochemicals, and oil & gas
- Information and communications technology
- Industrial and manufacturing
- Metals, mining, and quarrying
- Transport and logistics
- Healthcare and life sciences
- Tourism, entertaiment and quality of life
- Energy and water
- E-commerce and trade

Emerging sectors

- Housing and real estate development
- Financial services
- Smart cities
- Education

What are the different approaches to improve regional competitiveness within a country?

There are many approaches that a country can adopt to improve the competitiveness of its regions. While the majority of countries in the world have acknowledged the importance of regional competitiveness, some have focused on a circular cumulative causation model that was developed by Swedish economist Gunner Myrdal in the late 1950s. Myrdal argued that increasing returns in faster developing regions typically sets in motion a process where production factors, especially human capital, move away from lower developing regions to embrace opportunities in those that are more competitive, thus providing more opportunity. This is common in emerging markets where rural to urban migration is common, as is movement from low-performing to high-performing regions. In simplified terms, people go where there are economic opportunities, whether that is movement within a country or from one country to another.

The consequences faced by many countries adopting this model are that they force migration to high-performing regions, which further erodes the ability of low-performing regions to compete. This can result in lack of competitiveness in low-performing regions, which affects the country's overall competitiveness. Once the national government realizes this, it attempts to correct the problem by focusing monetary investment and/or incentives on low-performing regions, which then pulls resources away from high-performing ones. This undermines competitiveness in high-performing regions while typically having only a marginal impact on low-performing ones. Myrdal argued that state intervention in terms of policy and resources is required to "level the playing field" between regions, which makes sense in theory, but can only be so if a country understands the competitiveness of its regions and thus has a clear picture of what needs to be done to address inequities.

The commitment of countries to track, analyze and thus understand regional competitiveness is more consistent with the endogenous growth theory that was developed by Nobel prize-winning economist Paul Romer and others. This theory postulates that accumulation of knowledge generates increased returns.

Thus, enhancing regional competitiveness occurs when leaders harness strategy and resources that lay the foundation for sustainable regional competitiveness. This requires a re-thinking of Myrdal's more spatially-oriented approach to instead focus on the broader areas of people and institutions, as such adopting a "spatial blindness" approach.

Figure 3 provides an overview of Myrdal's and Romer's theories of regional development, the latter of which benefits from the "spatial blindness" approach. In fact, some have described "spatial blindness" as a version 2.0 of Romer's frontier growth assumption within the endogenous growth theory. Also included are examples of countries that have utilized each concept.

Enhancing regional competitiveness occurs when leaders harness strategy and resources.

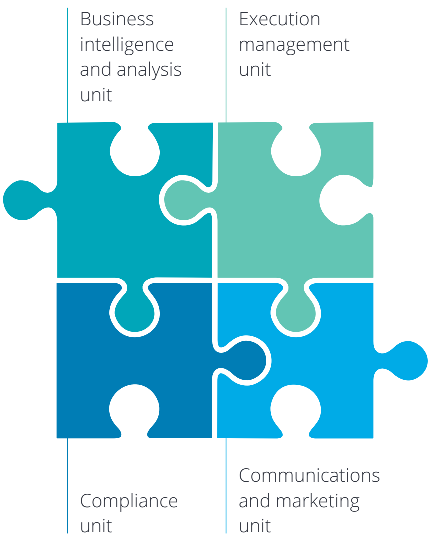
Figure 3: Overview of regional competitiveness theories

	1 Focal area	2 Geography	3 Target stakeholders	4 Institutions	5 Financing	6 Innovation	7 Reforms	8 Countries utilizing the theoretical model/approach
Cumulative causation theory	Parity	Focuses on helping low-performing regions catch up	Takes a more spatial approach and holistic one (Regional Approach)	Targets support for institutions in low-performing regions	Provides incentives for investment in low-performing regions	Does not infuse innovation as part of the development process	Targets reforms on spatial-centric interventions	Thailand, Serbia
Endogenous growth theory	Performance	Focuses on assets within a region as building blocks for investment and competitiveness	Aligns skills and resources behind sectoral strategy that focuses on regional assets (Skills Approach)	Targets support for institutions and organizations that can enhance regional assets for growth	Provides non-regional specific incentives to build on sectoral assets and to align education, skills, infrastructure, et al	Focuses on value-added interventions and creation of high-value jobs	Targets reforms on strategies and actions that build sector-based competitiveness	Jordan, UAE, Czech Republic, Cyprus
Spatial blindness approach	People	Does focus on geography, but on building overall competitiveness through the nexus of regional assets and emerging opportunities	Focuses on increasing the prosperity and quality of life of citizens by focusing reforms and resources on building the capacity of people (People Approach)	Targets support for systems across the board so that all institutions in a region can gain capacity, visibility and good governance	Provides funding to build the capacity of people, institutions, and innovation throughout the country, targeting specific interventions on regions based on their value propositions	Infuses innovation in every strategy and action, leveraging technology and promoting creativity	Targets people instead of geography. Removes roadblocks that prevent individual growth and quality of life	Finland, New Zealand, Denmark, Ireland

What is the successful model that the Kingdom of Saudi Arabia adopted to deliver competitiveness?

On October 24, KSA officially launched the National Competitiveness Center (NCC) accompanied by the World Bank's announcement on KSA's Ease of Doing Business ranking, which witnessed an exceptional improvement moving up 30 places to rank 62nd globally. A total of 62 reforms were submitted, out of which 28 were accepted, helping enhance KSA's ranking in 9 out of 10 pillars, such as paying taxes, protecting minority investors, and enforcing contracts.

The NCC consists of four main units that work together to evaluate and monitor the competitiveness of the Kingdom in order to assess, communicate and implement the necessary reforms.



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- **Business intelligence and analytical unit:** will act as a research think tank within the NCC to develop competitiveness reports and reforms to improve the competitiveness status and the business environment of the Kingdom of Saudi Arabia
- **Execution management unit:** will, with the collaboration of government committees, support and monitor the implementation of reforms and ensure that the reforms achieve the desired impact
- **Compliance unit:** will conduct investor engagement activities and provide evidence of the success of the reforms and regulations in addressing investor concerns
- **Communications and marketing unit:** will focus on campaigns to raise awareness and enhance the perception of the investment climate through specific events and communications

The Kingdom's ranking in the IMD World Competitiveness Yearbook witnessed the greatest improvement as it moved up 13 places to reach 26th worldwide. The Kingdom ranks 7th within the G20 group and 16th within North Africa and Europe.

The Global Competitiveness Report was issued at the beginning of October of 2019 by the World Economic Forum, and presented the advancement of the Kingdom by 3 places to become 36th globally. It ranked 11th within the G20 group and 4th within Europe and North Africa.

Many reforms related to the "Women, Business, and Law Report", published yearly by the World Bank Group, such as the prevention of discrimination between men and women in the workplace, the prevention of the dismissal of women from work during pregnancy, and an equal retirement age between men and women were also implemented. The NCC also analyzed and prepared recommendations for the results of a survey performed with 600 local and foreign investors, aiming to address the common challenges among economic sectors. The NCC has proved that it can deliver results and play an instrumental role in achieving the ambitious plans set by Vision 2030 on a regional and global scale.

Endnotes

1. IMD World Competitiveness Center
2. The issues listed under each heading in the Competitiveness Model are not exhaustive. There are many others that could come into play based on country context.
3. Krugman, Paul (1994), The Age of Diminished Expectations, MIT Press, Cambridge, page 13.
4. li.com/
5. The World Economic Forum report tracks indicators that are linked with overall competitiveness, while the World Bank report focuses on the ease of doing business.
6. www.doingbusiness.org/~/media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB13-Chapters/DB13-CS-Doing-Business-matter-for-FDI.pdf
7. www.doingbusiness.org/~/media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB13-Chapters/DB13-CS-Doing-Business-matter-for-FDI.pdf

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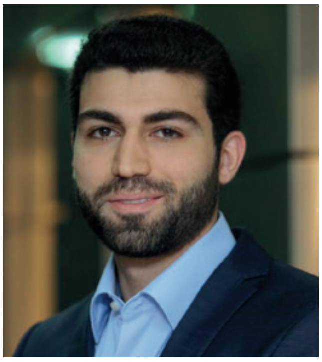

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