

Arab Planning Institute- Kuwait
E- Conference on Arab competitiveness
15th Jan- 5 Feb 2003

(Participation of Jordan National Competitiveness Team)

Essential elements of the business environment that are necessary to enhancing Arab competitiveness:

Competitiveness is rooted in a nation's microeconomic fundamentals, manifested in the sophistication of its companies and the quality of its microeconomic business environment. Thus, progress in improving the sophistication of companies and the quality of the business environment is the only way to produce real improvements in efficiency, product quality, and new business opportunities that support a rising standard of living for citizens. Political stability, sound macroeconomic policies, market opening, and privatization are necessary but not sufficient.

The central challenge to the world economy is now microeconomic reform. According to Porter, a company's competitive advantage resides partly in the national environment in which it operates. For this reason, national weaknesses in the business environment can constrain the strategies of companies.

The central issue in economic development is creating the conditions for **rapid** and **sustained** productivity growth. Successful economic development is a process of successive upgrading, in which a nation's business environment evolves to support and encourage increasingly sophisticated and productive ways of competing by firms based there.

To prompt successful economic development in Arab nations, it is essential to first address certain issues constraining the evolvement of the business environment to support and encourage increasingly sophisticated and productive ways of competing by firms in Arab nations, which can be considered impediments to increased Arab competitiveness. Thus, Arab nations should work on providing a suitable and enabling environment for all business activities in the economy by focusing on the following key areas- infrastructure, quality of life, ease of set-up and operation, labor market, and economic base.

Regarding the provision of a world-class competitive labor force in terms of skills and capabilities, the creation of such a labor force entails the matching of educational outputs with market needs. To do so, great emphasis should be placed on improving accessibility and the quality of current education systems in Arab countries. An adequate education by international standards should be made available to all Arabs.

Moreover, a competitive mindset must be raised in today's youth by incorporating the importance of entrepreneurship, collectivity, strategic thinking and innovation in their education. Arab youth should be brought up to be independent leaders rather than over reliant liabilities to their economy and community. In short, education is the key to shifting the cultural mindset of future Arab youth to one that accepts and embraces competition.

Furthermore, Arab nations should ensure an efficient infrastructure base. To be specific, in terms of basic infrastructure (e.g. roads, electricity etc.), it should be

provided in rural areas as well as urbanized areas that are considered the centers of economic activity. More importantly though, Arab countries need to focus on enhancing their advanced infrastructure composed of both technological infrastructure (i.e. telecommunications, mobile phones, telephone, and Internet) and scientific infrastructure (i.e. R&D expenditure, scientific degrees, scientific articles, and the number of patents per year). The availability of efficient advanced infrastructure facilitates the harnessing of global technologies, which is essential to meet the challenges posed by technologically advanced ever-changing global trends.

The quality of life in Arab countries is another key area in need of improvement. More attention should be paid to all necessary facilities and amenities characteristic of a modern life that are provided to individuals. These include addressing health and environment issues, which affect the quality of life of citizens. Additionally the value system constituting the values of society which support competitiveness such as national culture, discrimination, females in the parliament, females position, and gender income ratio (i.e. the ratio of estimated female to male earned income globally) need to be examined. Improving the quality of life of individuals helps induce increases in national productivity.

As for the economic base of Arab countries; it needs to be enhanced. Economic policies in Arab nations need to move to the next stage by increasing economic openness in conjunction with the adoption of aggressive export oriented policies by Arab Governments. Wide-ranging structural reforms and legislations also need to be endorsed to foster a more efficient and transparent business environment to help companies achieve or maintain competitiveness. These reforms must be geared towards enabling firms to operate at maximum efficiency through the optimal use of resources, cost efficiency, and the achievement of a strong institutional set-up based on a concrete foundation. A cluster-based economic development¹ framework can be a valuable tool for effective economic change since it is market-driven, strategic and leads to value-creation, collaborative and inclusive; it reaches out to companies large and small as well as suppliers and supporting economic institutions.

Red tape is another key area that needs to be addressed since it is perceived to be high in Arab countries. The extent of red tape in a nation can be determined by the time spent by senior management in dealing with government officials and burdensome administrative regulations. The reduction of red tape helps the economy function properly by increasing economic activity and momentum, hence encouraging growth.

However, venture capital availability should also be increased in Arab nations in order to facilitate the start-up of new businesses and encourage entrepreneurship. Thus, it helps promote the development of new clusters in an economy and lessens the risk of capital and labor becoming stuck in old industries whose growth prospects are declining.

Nevertheless, Arab countries should focus on dealing with several patterns of uncompetitive behavior characterized by over reliance on natural resources, weak inter-firm cooperation, lack of investment to recognize customer needs, weak

¹ Industry clusters consist of agglomerations of competing and collaborating industries in a region networking into horizontal and vertical relationships, involving strong common buyer-supplier linkages, and relying on a shared foundation of specialized economic institutions. Because they are built around core export oriented firms, industry clusters bring new wealth into a region and help drive the region's economic growth.

forward integration, ignorance of the importance of comparative competitiveness, defensiveness, paternalism and government relations, rent seeking behavior and protection.

Arbitrary intervention (i.e. Rent Seeking Behavior²) such as protections or government intervention is supposed to distort resource allocation and to bear inefficiency. As a result of the protections to an industry or enterprises, enterprises tend to form strong dependency on the subsidies or special treatment, and result to focus on "political lobbying behavior", though self-effort innovation is essential to industrialization. It is obvious that the soft budget constraints or paternalism cause to weaken the enterprises' essential competitiveness.

Thus, any profit prospect, which has higher anticipation than that from a competitive market, is supposed to reduce the incentive of enterprises for competition, then, self-effort to innovation cannot be activated. Therefore governmental support creates inefficient rents and futile "rent seeking behavior". Thus, safeguarding measures need to be undertaken. The government must do everything it can to assist the private sector to grow without impeding competition; which can be done through investing in people, infrastructure, learning organizations and a non-defensive dialogue between the public and the private sectors.

Nonetheless, it is crucial to remember that the issue at stake is not only improving the business environment. But rather, it is improving the business environment in a way such that it facilitates for companies the process of capitalizing and taking advantage of what is being offered.

Finally, it is noteworthy to acknowledge that countries that improve both the business environment and company sophistication in tandem reap disproportionate benefits, while countries where there is an imbalance bear disproportionate costs. It is essential therefore for Arab nations to focus both on improving the business environment and upgrading the nation's company operations and strategies if they are to reap the fruits of development and progress in the form of a better standard of living for all citizens. In brief, enhancing the microeconomic foundations of prosperity in Arab nations cannot take place without the involvement of all stakeholders; public sector, private sector and civil societies should all be willing to share responsibility and fulfill their role in this process.

² "Rent seeking behavior" means that other persons' behavior is more expected than self-effort when others are capable of making more welfare than self-effort does. Therefore the attention is paid not to self-innovation but to influence to others.