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Increasing Competitiveness in the Arab World
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I. Introduction:

The last quarter of the past century has seen and is still undergoing tremendous and rapid change in the global economy bringing about huge opportunities as well as important challenges. Nonetheless, national economies are becoming more closely integrated into a single, interdependent, global economic system. The underlying drive of the global economy is the concept of competitiveness, which denotes the ability of a national economy to achieve sustained high rates of economic growth.

To evaluate an economy's global and international performance, the key micro-economic foundation for prosperity should be taken into consideration. This is a nation's standard of living, which is determined by the productivity of its economy. Therefore, the central issue in economic development is how to create the necessary conditions for rapid and sustained productivity growth.

At the macro level, competitiveness is obtained through stimulating the economy to operate on the international efficiency frontier by promoting liberalization and market economy mechanisms that guarantee efficient resource allocation. The package of reforms would include among others, the creation of a competitive environment, trade liberalization, privatization and divesture, private sector development, flexible exchange rate regime, sound monetary and fiscal policies, infrastructure management, institutional liberalization, financial sector management, and prudent regulatory framework.

However, political and macroeconomic reform will not bare full fruit unless there is appropriate improvement at the microeconomic level. In this regard, companies need reforms in order to achieve and enhance competitiveness. These reforms should focus on strategic competition, concentrate on best cost and quality measures, and must capture critical resources and capabilities. This cannot be achieved without sound economic foundations, in the form of fitting economic policies and relevant infrastructure for conducting business, which are lacking in most Arab countries. The role of strategy is critical to the private sector in the Arab World, in particular strategies that prove to be flexible at times of change, whilst emphasizing the process of learning in companies.

A cluster-based economic development¹ framework can also be a valuable tool for effective economic change since it is market-driven, strategic, leads to value-creation, based on a collaborative approach and is inclusive; reaching out to companies both large and small, as well as suppliers and supporting economic institutions.

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.

II. Necessary measures to overcome Competitiveness impediments in the Arab World: (See Annex 1)

The fact that the Arab World possesses an abundance of natural resources and controls two-thirds of the world's oil reserves reflects the strong economic potential of the Arab world in the case that these natural resources are efficiently exploited and utilized.

However, various attributes of the Arab world stifle the economic performance of Arab countries. Such attributes include low labor productivity, weak education that does not meet market needs, the digital divide, high poverty and unemployment, and weak resilience to political instability in the region.

According to the Arab Human Development Report and World Bank statistics, GDP in all Arab countries combined, reached in 2001 \$711.3 billion, which according to the report, is less than that of Italy (\$1.1 trillion), taking into consideration that the population of the Arab world is 289 million, and that of Italy is 57.7 million. This gives an indication of overall low productivity, representing a major challenge for the Arab world. Additionally, GNP per worker in all Arab countries combined was less than half that of Argentina and the Republic of Korea. Estimates of total factor productivity in the Middle East and North Africa showed a steady decline of -0.2% a year since 1960, which is further hampered by low and declining labor productivity.

Additionally, the sluggish economic growth of the Arab world at 1.2% and rapid population growth at 3.4% during the period 1980-2000 have reduced Arab economies' capacities to expand job opportunities via substantial new investment. This resulted in high unemployment rates especially in non-oil Arab countries as can be seen in the table below.

Country	Unemployment Rate (%)
Egypt	8.7
Libya	11.2
Morocco	17.8
Jordan	14.4
Syrian Arab Republic	8.9
Tunisia	7.2
Yemen	8.2

*Source: Arab Human Development Report 2002.

Moreover, the Arab Human Development Report highlights that countries affected by wars, protracted civil conflict, political instability, sanctions and occupation have experienced multiple shocks to stability that have exacerbated unemployment rates and poverty. Such countries include Algeria (29.9%), Lebanon (8.5%), the occupied Palestinian territory (51%), and Sudan (17%).

Furthermore, educational achievement in the Arab world as a whole is still modest when compared to elsewhere in the world, even in developing countries. One indicator is the high illiteracy rates in the Arab world; they continue to be higher than the international average and are even higher than the average of developing countries. According to World Bank data, illiteracy rates in the Arab world range from 9.7% (Jordan) to 52.3% (Yemen).

More importantly, in many Arab nations, there is a lack of alignment of graduates with needs. In other words, there is a poor match between the technical skills demanded in the labor market and the supply of graduates. Given the demands of the knowledge economy, it is more important than ever that educational institutions work closely and cooperatively with employers and firms in the communities they serve.

Furthermore, the poor quality of education is a major contributor to the digital divide. In accordance with the Global Information Technology Report for the year 2003, it is caused by the combination of structural fragmentation of societies and the lack of leadership in many

Arab states with regard to ICT policies and implementation. The divide is further aggravated by the absence of cross-Arab initiatives, lack of financing, and poor education. It is worth noting that there are three aspects to the digital divide in Arab states: (1) the divide between the Arab world as a whole and the rest of the world, (2) the divide across Arab states, and (3) the divide within Arab states.

Most Arab countries are largely characterized by poor ICT infrastructure, an uncompetitive telecommunications industry, and inaccessibility of PC equipment for most of the population. Moreover, the linguistic barrier plays a major role in deepening the phenomenon, due to the lack of proper Arabic content on the web. ESCWA estimates reveal that an investment of around \$40 billion is required to bring ICT penetration rates up to the world average.

Another contributing factor to the digital divide in the Arab world is the brain drain phenomenon. The Global Information Technology Report states that the Arab world risks jeopardizing its efforts in building ICT and e-commerce industries. In specific, it states that dissatisfaction with national economic reforms and the deficits in work opportunities, research and education, are causing younger Arabs to seek expatriation. In 2002, the UNDP conducted a cross-sectional poll of Arab youth. The poll draws attention to various disturbing trends: respondents expressed a desire to emigrate due to the lack of job opportunities (45%), education (23%), and the distribution of income and wealth (8%).

It is believed that the above described attributes are impediments to competitiveness in the Arab world, however in actual effect; the above are only symptoms of the true impediments to competitiveness, which can be described as "conceptual". These impediments are personified in the lack or absence of the essential driving forces that help achieve increased competitiveness.

Competitiveness is an advantage created through the perseverance of peoples and not from the possession of bountiful resources or maintenance of comparative advantages. Therefore, weak competitive ability stems from the absence of a vision, the absence of effective leadership; especially at the individual and business levels, the lack of institutionalization, and the absence of true partnerships amongst all stakeholders in society.

The absence of a vision for any economy is a clear sign that it is clueless in terms of where it is heading and what type of future it hopes to realize for generations to come. As a result, the economy possesses no choice but to adopt a reactive approach to uncontrollable and unforeseen external changes in the surrounding environment. This approach results in random and scattered efforts to be undergone in the economy, which in spite of their importance, do not effectively yield the desired or intended outcomes. Consequently, the progress of an economy, although slow, may not necessarily succumb to enhanced competitiveness and high standards of living.

Nonetheless, the fulfillment of any vision formulated through cooperation, and constructive and open dialogue amongst stakeholders; thus constituting true partnerships, cannot be achieved if effective leadership is absent within the business environment. In this regard, effective leadership moves beyond good management; to responsible leadership, proactive leadership, and persistent leadership that influences and inspires others.

Yet the results of such efforts cannot be sustained in the long-run if institutionalization is absent. Institutionalization is the key to preventing the loss of any efforts undergone at national level in the event of high turnover in leading government officials and representatives.

There is no dispute that achieving world-class competitiveness is a long-term goal attained through a long process that requires substantial investment efforts in both human capital and technology. Despite the huge efforts made by many Arab countries, including Jordan, to stabilize and adjust their economies through various economic reform programs; their

performance is still below their potential as a result of the impediments they face, which cripple and stifle their growth and progress. Consequently, enhancing the competitiveness of Arab economies is no longer an option as it is a matter of survival in the global economy.

This necessitates cultural transformation, particularly with regards to competition in the Arab region, which nurturing a "competitive mindset" in the Arab culture; one that welcomes the concept of competition and cooperation at the same time (Coopetition), innovatively develops products and production processes, utilizes strategic thinking to attain an advanced position at a global scale, and adopts advanced regulatory standards in monitoring and assessing the performance of institutions.

Jordan, experiencing the impediments and symptoms described above, realizes the enormity of the challenges it is facing. Hence, it started to take the necessary measures to overcome them. One such measure is the pilot initiative of establishing the Competitiveness Unit at the Ministry of Planning in 1997. Today, the concept of competitiveness has been thoroughly disseminated to be engrained in the minds of all government officials, business leaders and citizens striving for change. An economy armed with a competitive mindset allows itself to look past the obstacles it faces, realize its capabilities and form a clear vision of where it wants to be in the future.

Jordan recognizes that having a vision is crucial to any economy giving hope, and a sense of direction and unity to all. It also recognizes that the success of any vision is determined by the extent to which it is communicated and comprehended by all stakeholders, thus arises the importance of establishing at national level capable Public Private Partnerships (PPP) under effective leadership, which succeed in attaining overall citizen ownership.

This was achieved in the recent years, when His Majesty King Abdullah II, by Royal decree, called for a series of retreats or national conferences. The third and most recent retreat was in October 2002, which took place in Aqaba in pursuit of a vision of achieving sustained economic growth and high value added by producing and exporting high quality goods and services that are able to compete in the world markets through the use of extensive research and development as a key instrument. Accordingly, the retreat addressed issues pertaining to four main pillars viewed as crucial to enhanced competitiveness and an improved standard of living; these encompass Competitiveness through Research and Development, Tourism, Human Resources Development, and Health.

Great emphasis was placed on the first pillar "Competitiveness through Research and Development", which aimed at enhancing the competitiveness of economic activities in the Jordanian economy through increased R&D, and creating a business environment based on creativity and innovation to face the challenges prompted by globalization. Consequently, various recommendations were articulated to increase cooperation and partnership efforts between R&D centers, universities, industries, financial institutions, government and the society as a whole, as well as increase R&D usage, thereby make it a crucial part of infrastructure supporting the growth of the Jordanian economy and accelerating development in the global information economy.

Based on these recommendations, the Ministry of Planning stressed the importance of establishing a mechanism, which effectively evaluates and monitors the competitiveness of Jordan. Henceforth, the concept of creating a Competitiveness Observatory was recommended, agreed on and adopted. The Competitiveness Observatory will build on the efforts accomplished by the Competitiveness Unit, by acting as a pioneer in Jordan monitoring and measuring the competitiveness of various economic activities using a set of inter-related indicators. Results in these indicators will allow the Ministry of Planning to conduct an in-depth analysis evaluating the microeconomic performance of Jordan and its industries. The observatory will also act as a center for communicating emerging issues/trends in industries and identify obstacles to economic development as they arise. The wealth of information produced will assist decision makers in formulating adequate policies,

and businessmen in modifying their strategies to upgrade the overall performance of the Jordanian economy.

In brief, the essence of the Aqaba Retreat lies in the fact that it successfully united all stakeholders both public and private in formulating practical and achievable recommendations as remedy to obstacles hindering the development and progress of the national economy, whilst reaching consensus amongst all stakeholders.

Nevertheless, despite all measures taken at national level to enhance competitiveness, Jordan is still and will always remain, committed to ongoing improvements at the micro level in order to assure a safe and sustainable healthy environment supportive of development and continued economic growth. Hence, it seeks to further widen its economic base and increase the efficiency of Jordanian enterprises through the establishment of partnerships with the world. It adopted various initiatives to heighten involvement with the world economy such as the adoption of an aggressive policy of export orientation by becoming a member of the World Trade Organization (WTO), signing the Jordan-US Free Trade Agreement (JOR-US FTA), the Qualifying Industrial Zones (QIZ) Agreement, Euro-Jordanian Partnership Agreement, and the Europe Free Trade Agreement (EFTA).

Overall, Arab countries have the right ingredients to gain from further regional integration since there is a potential for increasing the share of intra-industry trade within the region. In this regard, Jordan signed the Arab Free Trade Agreement (AFTA) since it strongly believes that widening the market by dismantling national economic barriers will serve the objectives of raising the level of national productivity, enhancing the nation's competitiveness, as well as build up the region's capability to compete in the world markets.

III. Conclusion

In order to enhance the competitiveness of Arab countries and thereby compete effectively in the global market and achieve sustained rates of economic growth, ample assistance and support is needed from the developed countries in the following areas:

- Upgrade Arab industries through the establishment of new programs which focus on upgrading existing production lines and technologies, standards and quality as well as product design and development to meet international market standards.
- Improve efficiency through the provision of a developed basic infrastructure such as power, transportation, communications, and health. This can be achieved through the allocation of funds specifically directed at upgrading infrastructure in the Arab world.
- Build human capacities in the Arab world through the enhancement of available internships in developed countries and the provision of continuous training programs in national industries to upgrade existing human capacities, in order to heighten labor productivity thereby improve total factor productivity, which is an essential cornerstone of enhanced competitiveness.
- Enhance trade through various initiatives. One example is the recent extension of US free trade benefits already enjoyed by the Kingdom of Jordan to other countries in the Middle East within the coming 10 years. This type of support is essential for Arab countries to increase inter-Arab trade levels, which will support their national economies through the attraction of foreign investments and the creation of employment opportunities.
- Allow diagonal accumulation within the EU association agreement with Arab countries to fulfill the rules of origin stated in the association agreement; this encourages integration in the Arab world and increases inter-Arab trade.
- Lower the debt burden in the Arab world. This will give way to increased expenditure on various aspects of the national economy such as education, health, and R&D.

As for Jordan, in spite of the various measures it undertook as a developing nation to enhance its competitiveness, there is still much work to be done at the macro level, and more importantly at the micro level. Naturally, this cannot be accomplished without the assistance and support of the developed and donor countries.

In this regard, H.M. King Abdullah II is quoted from his last but not least speech at the annual conference of the International Labor Organization on 12th of June 2003:

"It would be untrue to suggest that my country, or any country, can make it alone. Today, for developed and developing nations alike, progress on the national level demands progress on the global level as well. Achieving such progress will require a true partnership between developed and developing countries- a partnership based on our common interests, our interdependence, and our shared responsibilities. Only such a partnership can deliver the global justice that is required ...and encourage developing countries to embark upon needed political, economic and social reforms.

The new global partnership faces hard choices for reshaping the national and global governance agenda, for a more equal distribution of benefits. Dialogue must be coupled with action, from both sides. Across the board, we need improved market access, the removal of trade barriers and predictable trade policies. Developed countries must increase the level of direct assistance...encourage foreign direct investment and technology transfer ...and reduce the debt burden"

However, inspired by His Majesty's speech as well as Jordan's vision to become a creative economy, Jordan needs a true partnership with international partners in the enhancement of its R&D efforts. This can be achieved through acute involvement in the European R&D networks specifically the Sixth Framework Program that promotes a real partnership between the European Community and other developing countries. However, Jordan hopes to attain a status that encourages a real involvement in the different R&D initiatives under this program by requesting an associated country status. Achieving this status will promote innovation and creative thinking at different levels of the country; hence also promote creative thinking approaches leading to more innovative ideas and entrepreneurial projects.

Jordan's attainment of associated country status will promote and facilitate the creation of enterprises that support the economy through creating employment opportunities and enhance the standards of living through improved productivity. However, the transformation of such entrepreneurial initiatives into productive projects and world class enterprises will require further financial support. One important type of fund that is observed to be of real importance is one which provides venture capital and seed money to projects. In this regard, Jordan seeks further assistance.

Moreover, realizing the innovative economy that Jordan envisions requires human capital, which represents the most important ingredient in the Jordanian competitiveness recipe, to maintain distinctive characteristics. Human capital in Jordan needs to further develop a "creative mindset" through integration and promotion of this concept throughout the educational process. Thus, this entails incessant examination and review of curricula, the teaching methodology and the educators' skills and qualifications. Consequently, Jordan needs full support to elevate national educational standards to bring to fruition the economy it envisions.

To develop its human resources, Jordan understands that integrating its individuals into the global arena through the extensive utilization of technology is of great importance. Therefore, Jordan demands full support from the international community in bridging the digital divide by increasing the level of penetration of PC's throughout the community and empowering the use of advanced technology in creation of a competitive base for innovation and upgrading.

Finally, Jordan is currently developing the concept of the Competitiveness Observatory, which will operate at both the macro and micro levels. The observatory initiative is viewed as a tool to measure, monitor and amend the vision, strategies and actions taking place in the aim of transferring Jordan into a more competitive economy that functions effectively and benefits from the globalization phenomenon. In this regard, Jordan needs full support from developed countries as well as international donor institutions, to accelerate the implementation of this promising initiative.

Annex (1):

Selected Arab World Indicators

Indicator/country	Algeria	Bahrain	Egypt	Iraq	Jordan	Kuwait	Lebanon	Morocco	Oman	Qatar	Saudi Arabia	Sudan	Syria	Tunisia	UAE	Yemen
GDP (US\$ billion)	54.7	7.9	98.5	-	8.8	32.8	16.7	33.7	19.9	16.6	186.5	12.5	18.4	20	68	9.3
GDP Growth (Annual %)	2.1	0	2.9	-	4.2	-1.0	1.3	6.5	-	-	1.2	6.9	2.8	4.9	-	3.1
Gross Capital Formation (% of GDP)	25.7	12.5	15.5	-	25.9	8.6	18.7	44.6	-	-	18.9	17.7	21.2	27.5	-	20.4
Foreign direct investment, net inflows (US\$ billion)	1.2	-	0.509	-	0.1003	-	0.2493	2.7	0.416	-	-	0.574	0.205	0.457	-	-0.204
Present value of debt (US\$ billion)	21.7	-	25.1	-	6.9	-	13.5	14.7	5.8	-	-	14.5	20.8	10.8	-	3.6
Total debt services (% of exports of goods and services)	19.5	-	8.9	-	10.7	-	50.9	17.8	14.2	-	-	2.3	3.4	12.9	-	4.9
Short term debt outstanding (US\$ billion)	0.1987	-	3.4	-	0.4471	-	2.7	0.2471	1.3	-	-	5.8	5.5	0.682	-	0.5177
Population, total (million)	30.8	0.651	65.2	23.3	5	2	4.4	29.2	2.5	0.5976	21.4	31.7	16.6	9.7	3	18
Population growth (Annual %)	1.6	0.41	1.8	1.9	2.8	2.9	1.3	1.6	2.4	2.1	3.3	2.1	2.4	1.2	2.4	3
Illiteracy total (% of age 15 and above)	32.3	12.1	43.9	44.1	9.7	17.6	13.5	50.2	27	18.3	22.9	41.2	24.7	27.9	23.3	52.3

Indicator/country	Algeria	Bahrain	Egypt	Iraq	Jordan	Kuwait	Lebanon	Morocco	Oman	Qatar	Saudi Arabia	Sudan	Syria	Tunisia	UAE	Yemen
Illiteracy female (% of age 15 and above)	41.7	16.8	55.2	-	14.9	19.7	19	62.8	36.5	16.3	31.9	52.3	38.4	38.1	20.2	73.1
Value added in agriculture (% of GDP)	9.8	-	16.8	-	2.1	-	-	15.6	-	-	-	38.9	22.5	11.6	-	15.5
Value added in industry (% of GDP)	54.7	-	33.1	-	24.7	-	-	31.1	-	-	-	18.8	28	28.9	-	49.7
Value added in services (% of GDP)	35.5	-	50.1	-	73.2	-	-	53.3	-	-	-	42.4	49.6	59.5	-	34.8
Fixed lines & mobile telephones (per 1,000 people)	64.2	671.5	146.9	-	294.5	685.1	-	204.4	213.4	567.6	258.1	17.5	115	149	955.6	30.1
Telephone average cost of local call (US\$ per three minutes)	0	0.1	0	-	0	-	0.1	-	0	-	0	0	0	0	-	-
Personal computers (per 1,000 people)	7.1	141.8	15.5	-	32.8	31.9	56.2	13.7	32.4	163.9	62.7	3.6	16.3	23.7	135.5	1.9
Internet users (thousand)	60	140.2	600	-	-	200	-	400	120	40	300	56	60	-	976	17
High-technology export (% of manufactured exports)	-	-	0.8	-	6.9	-	2.7	-	-	0	-	-	-	-	-	-

Selected World Countries' Indicators

Indicator/country	United Kingdom	Italy	France	Spain	Hungary	Yugoslavia	Romania	Bulgaria	Albania	Japan	China	Australia	Singapore	Canada	United States	Turkey	Israel
GDP (US\$ billion)	1400	1100	1300	581.8	51.9	10.9	38.7	13.6	4.1	4.1	1200	368.7	85.6	694.5	10100	147.7	108.3
GDP Growth (Annual %) billion	2.2	1.8	1.8	2.8	3.8	5.5	5.3	4.0	6.5	-0.6	7.3	3.9	-2.0	1.5	0.3	-7.4	-0.9
Gross Capital Formation (% of GDP)	17.2	19.7	20.1	25.5	27.3	13.5	21.9	20.4	19.4	25.5	37.9	-	24.3	19.6	-	16.5	-
Foreign direct investment, net inflows (current US\$) billion	63.1	14.9	52.5	21.5	0.24	0.0	1.2	0.692	0.207	6.2	44.2	4.4	8.6	27.4	130.8	3.3	3.2
Present value of debt (US\$ billion)	-	-	-	-	28.4	11.7	11.1	8.4	0.762	-	164.1	-	-	-	-	116.7	-
Total debt services (% of exports of goods and services)	-	-	-	-	37.2	2.4	18.8	17.4	2.2	-	7.8	-	-	-	-	40.4	-
Short term debt outstanding (US\$ billion)	-	-	-	-	4.6	4.8	5.22	3.454	0.030	-	43.9	-	-	-	-	16.3	-
Population, total (million)	58.8	57.9	59.2	41.1	10.2	10.7	22.4	7.9	3.2	127.0	1300.0	19.4	4.1	31.1	285.3	68.5	6.4
Population growth (Annual %)	0.1	0.0	0.4	0.2	-0.2	0.1	-0.2	-0.7	1.0	0.1	0.7	1.0	0.8	1.1	1.1	1.4	2.0
Illiteracy total (% Age 15 and above)	-	1.5	-	2.3	0.7	-	1.8	1.5	12.7	-	14.2	-	7.5	-	-	14.5	4.9
Illiteracy female (% age 15 and above)	-	1.9	-	3.1	0.8	-	2.6	2.0	22.2	-	21.3	-	11.3	-	-	22.8	6.9
Value added in agriculture (% of GDP)	1.0	2.8	2.9	3.6	-	-	15	13.9	50.2	-	15.2	-	0.1	-	-	13.8	-
Value added in industry (% of GDP)	27.4	28.9	25.6	30.2	-	-	34.6	29.0	23.4	-	51.1	-	31.6	-	-	25.6	-
Value added in services (% of GDP)	71.6	68.2	71.5	66.2	-	-	50.4	57.1	26.4	-	33.6	-	68.3	-	-	60.7	-

Indicator/country	United Kingdom	Italy	France	Spain	Hungary	Yugoslavia	Romania	Bulgaria	Albania	Japan	China	Australia	Singapore	Canada	United States	Turkey	Israel
Fixed lines & mobile telephones (per 1,000 people)	1358.4	1310	1178.8	1086.4	872.2	415.9	356.2	550.6	137.9	1184.8	147.7	1095.0	1195.6	1037.6	1117.9	587.0	1284.6
Telephone average cost of local call (US\$ per three minutes)	0.2	0.1	0.1	0.1	0.1	-	-	-	-	0.1	-	0.1	0.0	-	-	0.1	0.0
Personal computers (per 1,000 people)	366.2	194.8	337.0	168.2	100.3	23.4	35.7	-	7.6	348.8	19.0	515.8	508.3	459.9	625.0	40.7	245.9
Internet users (thousand)	24000	16400	15700	7400	1500.0	600	1000	605	10	55900	33700	7200	1500	13500	142800	2500.0	1800.0
High-technology export (% of manufactured exports)	31.4	9.5	22.8	-	23.4	-	5.7	-	0.9	26.0	20.4	10.0	59.7	15.3	32.1	-	-