

COMPETITIVENESS OF THE NATIONAL ECONOMY

6.1 INTRODUCTION

Global economic and technological developments since the nineties of last century, characterised by economic and trade openness due to globalization, have created new challenges to the Saudi economy, including access of national products to foreign markets, increased competition between national products and their foreign counterparts in the local market, and increased global competition for foreign direct investment. In such a competitive environment and the challenges it poses to the integration of the Saudi economy into the global economy, and with efforts to strengthen private-sector enterprises, improvement of macroeconomic and microeconomic competitive capacities has become an important element of Saudi strategies for future development. Hence, the Ninth Development plan has put developing the competitive capacities of the national economy among its main priorities.

This chapter reviews the main features of the current conditions of the competitiveness of the national economy, highlighting achievements, key issues and challenges facing the effort to upgrade competitiveness at both the macroeconomic and microeconomic levels, underlining the strategic cornerstones of the strategy for future development and its basic goals and policies.

6.2 CURRENT CONDITIONS

6.2.1 Elements of Competitiveness

Competitiveness of the Saudi economy is based on several components; the most important of which are the resources and capabilities that provide a solid foundation for competitive advantages in the production of numerous goods and services for both domestic and

foreign markets. Among the factors conducive to building competitive advantages are the following:

- Saudi Arabia ranks first in the world in oil reserves, production and export; and fourth globally in gas reserves.
- The Kingdom offers numerous incentives to investors, including an open economy; high purchasing power of population; low rates of taxation; freedom for foreign investors to own real estate and projects; complete freedom of entry and exit of capital and transfer of income and profits; a stable exchange rate; and a stable political system supportive of investment and development.
- A young population, which provides human resources whose capabilities can be developed and skills refined to become a valuable asset for building and enhancing competitive advantages.
- An advanced banking system.
- Modern infrastructure.
- Outstanding geographical location.
- Four Economic Cities under construction, with the aim of establishing highly competitive industries based on the latest technologies, in addition to two other cities under study.

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6.2.2 General Competitive Position

The Eighth Development Plan attached great importance to raising effectiveness and efficiency of government agencies and institutions, with the aim of enhancing competitiveness of the national economy. To the same end, it also laid emphasis on developing manpower; diversifying the economic base; improving productivity of the national economy; increasing contributions of the private sector to economic and social development, in an appropriate competitive environment; developing science, technology and informatics systems; and supporting and encouraging scientific research and technological development.

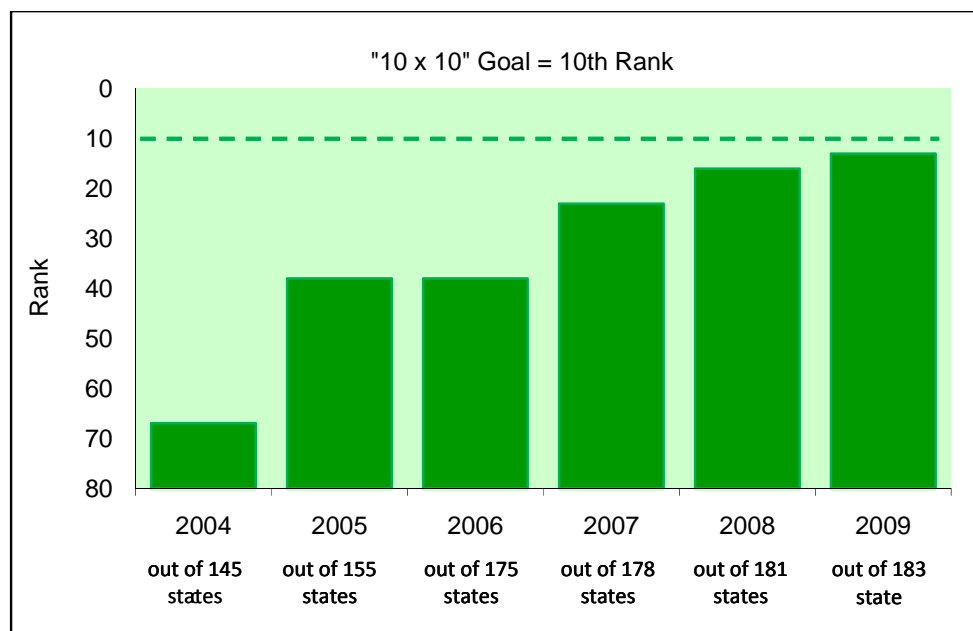
Extensive efforts were made to improve the competitive position of the Kingdom. A number of institutional and administrative development

measures were taken, business environment was improved. As a result, efficiency of government agencies was raised, and moves towards knowledge-based economy were accelerated. These efforts resulted in tangible improvement of the investment environment. As a result, the Kingdom occupied privileged positions in reports of international competitiveness (Box 6.1 and Figure 6.1).

Box 6.1: Competitiveness of the Kingdom as Assessed by International Reports

	International report	Ranking of Kingdom	Areas of Excellence of Kingdom in Accordance with Sub-indicators
1	Global Competitiveness Report issued by the World Economic Forum	<ul style="list-style-type: none"> * Assumed rank 35 in 2007. * Rank improved to 27 in 2008. 	<ul style="list-style-type: none"> * Index of Macroeconomic Stability for 2008, which placed the Kingdom in ninth place. * Index of Health and Primary Education, which ranked the Kingdom 51 in 2008, compared with 71 in 2007. * Index of "Efficient Market for Goods", which ranked the Kingdom 34 in 2008, compared with 51 in 2007.
2	Doing Business Report issued by the International Finance Corporation (IFC) of the World Bank	<ul style="list-style-type: none"> * Ranked 67 in 2004, 38 in 2006, 23 in 2007, 16 in 2008, and 13 in 2009. * Among top 7 countries globally in 2009 in terms of reform of business environment 	<ul style="list-style-type: none"> * Index of Registering Property, which ranked the Kingdom first in 2009, due to abolition of real-estate registration fees. * Index of Paying Taxes, which ranked the Kingdom 7. * Index of Cross-border Trade, which ranked the Kingdom 23. * Index of Protecting Investors, which ranked the Kingdom 16. * Index of Establishment of Institutions, which ranked the Kingdom 13
3	Report on Attracting Foreign Direct Investment issued by the United Nations Conference on Trade and Development (UNCTAD).	<ul style="list-style-type: none"> * Ranked 121 globally in 2004, rising to 51 in 2007 	<ul style="list-style-type: none"> * Share of the Kingdom in total foreign direct investment inflows was \$19.4 billion in 2004. * Share of the Kingdom in total foreign direct investment increased to \$24.3 billion in 2007, and then to \$38.2 billion in 2008, which confirms effectiveness and success of policies to improve investment climate.

Figure 6.1
General Ranking of Kingdom in Doing Business Report



Source: Doing Business Report (2008–2009), IFC of the World Bank .

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6.2.3 The Private Sector and Competitiveness of National Products

The Eighth Development Plan period witnessed significant progress in the performance of the national private sector at both the local and international levels, with an increase in the number of companies and factories producing sophisticated goods and services with a high technology content, as well as with some national companies acquiring stakes in international companies producing goods with high competitive advantages; thus gaining easy access to world markets. These developments resulted in closer cooperation between the national and the international private sectors.

In an effort to protect and promote competition locally, thereby improving the competitive environment, the Kingdom issued the Competition Law of 2004, its executive regulation in 2006, and its governing rules in 2008. The Competition Protection Council, which was formed in 2005, is developing a strategy for promoting competition and its culture in society.

On the other hand, the Saudi Export Development Centre of the Council of Saudi Chambers of Commerce and Industry endeavours to enhance the competitiveness of national products, through conducting research to assess export potential in the Kingdom, analyse foreign markets and their capacities and conditions, and assess goods that compete with national products. Moreover, the Saudi Exports Programme of the Saudi Fund for Development provides for development of non-oil exports funding and guarantees facilities that amounted to around SR4.7 billion in 2008; an increase of 16.7% from the previous year. It is also worth noting the establishment by Council of Ministers Resolution 59 of 2007 of the Saudi Exports Development Authority, with the aim of preparing appropriate plans, programmes, and policies for developing non-oil exports, in addition to providing technical assistance and incentives to exporters in support of the competitiveness of national products

6.2.4 National Competitiveness Centre

Competitiveness is an important basis for promoting economic growth. International experience has shown that countries with a high competitiveness ranking have a high GDP, high growth rates, low unemployment rates, high rates of return on investment, and large volumes of goods and services exports. Recognising the importance of improving the competitive position of the Kingdom, the Saudi Arabian General Investment Authority (SAGIA) established the National Competitiveness Centre in 2006, with the mission of “providing an investment environment favourable to business; supporting establishment of highly competitive business sectors; improving performance of existing businesses and their competitive capabilities, through providing professional consultancy based on valid data on opportunities for improving competitiveness; and promoting establishment of advisory boards and taskforces in cooperation with key partners.” In this context, the activities of the Centre are identified as follows:

- a. Establishment of advisory councils for business sectors: to bring together the relevant authorities in both the public and the private sectors, with the aim of promoting cooperation and

dialogue on issues of improving competitiveness.

- b. Providing support to initiatives of SAGIA: to provide SAGIA with information and analyses in support of its policy initiatives, to ensure that they raise the level of competitiveness.
- c. Issuing an annual report on competitiveness: to review the competitive position of the Kingdom at both the macroeconomic and microeconomic levels. Occasionally, the report focuses on a particular sector or topic, such as education or individual investments.
- d. Measuring progress of the Competitiveness Programme: the Centre uses accepted international standards for measuring competitiveness to provide a ranking of the Kingdom, drawing on international expertise. The Centre also collaborates with King Abdul-Aziz University in conducting the requisite field surveys.

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6.2.5 Access Programme

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This Programme aims to make the Kingdom by the end of 2010 one of the best 10 countries in the world in terms of ease of doing business, by implementing further institutional reforms to create an economic environment conducive to businesses, as well as by providing services and incentives to enhance the investment climate.

6.3 ISSUES AND CHALLENGES

6.3.1 Technology Content of National Exports

Raising the technology content of export products is a major component of enhancement of their competitiveness, giving them access to global markets. Several countries, such as Turkey, Malaysia, Indonesia, and Brazil, have succeeded in increasing competitiveness of their exports by increasing the proportion of exports with medium and high technology contents; for example, to around 70% of Malaysian exports, 50% of Brazilian exports, and 30% of Turkish exports.

Saudi exports have continued to increase in total value over the successive development plans. Moreover, efforts to diversify exports and increase their technology content have persisted. Some progress has been achieved, but it is still short of what is expected. The structure of exports is still dominated by exports of crude oil and by industrial exports based on natural resources, such as refined petroleum products, basic metal products, cement and glass; in addition to some industrial exports with simple technology content, such as clothing, leather and paper products, iron and steel products, and jewellery. Exports of medium and high technology content (with the exception of petrochemical exports) constitute about 10% of total non-oil exports, including exports of manufactured goods, such as fertilizers, plastics, advanced iron and steel products, machinery, tools and electronic devices.

Persistence of this situation constitutes an obstacle to the development of competitive national exports. It has, therefore, become necessary to intensify efforts to upgrade the technology content of export products. In this context, the National Industrial Strategy, which aims to increase the technology content of industrial exports, is noteworthy.

6.3.2 Innovation

In addition to providing a base for self-generation and sustainability of wealth, incentivising innovation is vital for enhancing the competitiveness of countries. States provide an enabling environment for stimulating innovation through: investment in education (especially, in scientific and engineering programmes); promoting scientific research; establishing and supporting research institutions; encouraging companies to invest in research, development and innovation; establishing close ties between the academic community and the business community; strictly protecting intellectual property rights; and granting awards for and commercializing innovations. Moreover, many countries that host foreign capital have controls to guarantee transfer and indigenisation of advanced technology through foreign direct investment. Furthermore, countries strive to link the value chains

of their national products to the value chains of global products based on high technology and advanced knowledge skills.

The Kingdom has made great efforts in this regard. It has enhanced the budgets of universities, research centres and King Abdul Aziz City for Science and Technology, to enable them to further research and development and play a fundamental role in improving the environment for innovation. Nonetheless, the Kingdom continues to suffer from a shortage of specialists and skilled manpower in science and technology. This, in turn, leads to a severe shortage of qualified national competencies in innovation that are capable of assimilating, indigenising and locally generating new technologies, and, consequently, producing new innovative goods and services.

Moreover, private sector investment in research and development is still limited, which impedes commercial use of results of scientific research and technology innovations. Recognising the importance of this issue and its negative impact on the efforts to move the Kingdom to a distinguished competitive position among nations, the Ninth Development Plan gives priority to adoption of policies and appropriate implementation mechanisms to address it.

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6.3.3 Favourable Environment for Exports

Many parties have participated in providing a favourable environment for exports, whether through establishing supportive institutions or through the activities of Chambers of Commerce and Industry. Yet, there is still a need for further work to increase competitiveness of Saudi exports of goods; most notably to: upgrade the skills of the national companies in global marketing, and organize exhibitions abroad; improve the quality of goods and services by encouraging quality management in national companies; apply internationally accepted specifications and standards to Saudi products; reduce cost of supporting financial services, such as export guarantees, banking and credit; improve infrastructure used for exportation, such as infrastructure for transport, communications and information; stimulate enhancement of means of production in national companies,

encouraging them to invest in improving productivity and adopting modern, knowledge-and-capital-intensive rather than unskilled-labour-intensive production methods; develop judicial procedures; complete establishment of commercial courts; and develop rules and regulations governing export and import procedures.

6.3.4 Employment in the Private Sector

A qualified workforce capable of assimilating new technologies is one of the cornerstones of development of competitiveness. In order to raise efficiency and improve productivity, thereby reducing costs of products and boosting their competitiveness in the market, the private sector in all countries is keen to recruit qualified human resources, capable of assimilating new technologies. However, the Saudi private sector still depends mainly on a workforce with low levels of education, which impedes expansion of utilisation of modern technologies and advanced means of production. Indeed, to improve competitiveness of Saudi products in both domestic and foreign markets, the private sector should increase the proportion of workforce with higher scientific and technical skills. For its part, the state is making efforts to provide a national workforce that is well qualified scientifically and technically, enabling it to contribute effectively to raising national competitive capacity and achieve the desired move towards a knowledge-based economy.

6.3.5 Business Clusters

Business clusters consist of several industries, companies, and institutions with strong interlinks and interrelationships, as well as spatial proximity (Box 6.2). Intensive interaction in a business cluster among customers, producers, suppliers and institutions contributes to enhancing competitiveness through:

1. Increasing productivity and raising efficiency through identification of best practices in the companies affiliated to the business cluster.

2. Stimulating innovation through identifying new opportunities and accelerating the process of generating ideas and knowledge.
3. Facilitating conversion of new goods and services to successful commercial products.
4. Providing opportunities for establishing new businesses.
5. Facilitating and coordinating external marketing and increasing the volume of exports.

Business clusters in the national economy are few, and linkages among enterprises of all sizes are weak. This is a constraint on developing competitive advantages for national products. By establishing industrial and technological zones and economic cities, the State has set up the supporting infrastructure for business clusters. However, further efforts are needed to promote economic integration among economic enterprises, build value chains in various economic sectors, and encourage company mergers and reduce market fragmentation in the Kingdom itself, as well as for GCC countries as a whole. Speedy implementation of the National Industrial Strategy should be one of the most important factors in providing a favourable environment for establishing such clusters.

Box 6.2: Examples of Clusters

Examples of successful business clusters abound internationally, such as:

1. Clusters of automatated machinery, cars and fax machines in Japan.
2. Clusters of ceramics, shoes, and equipment in Italy.
3. Clusters of aeroplane manufacture and construction equipment in the United States.
4. Clusters of diamonds in South Africa.

6.3.6 Family Businesses

The Saudi private sector consists mainly of family-owned companies in various legal forms. Success of some family businesses notwithstanding, they often pose many challenges; the most important of which is lack of a clear dividing line between ownership and management, which may lead to poor use of appropriate skills and

technical, administrative, and financial competencies, as well as to the use of obsolete management methods; in addition to limited application of effective control systems and corporate governance, poor use of modern technologies, and failure to apply total quality management.

These challenges hinder development of the competitive capacities of the private sector. Hence, there is a need to continue encouraging transformation of family-owned companies to joint stock companies, in order to facilitate raising capital, expanding scope of activities, and adopting advanced management methods and modern production techniques, while also encouraging merger of enterprises to take advantage of the benefits of economies of scale and all that which would upgrade the competitiveness of enterprises.

6.4 DEVELOPMENT STRATEGY

6.4.1 Future Vision

Continuing to upgrade the economy of the Kingdom to a high rank, in terms of global competitiveness, including: the competitive position of companies and their goods in the global market, the ability of national products and services to compete with imported products, and the ability of the investment environment to attract both national and foreign capital.

6.4.2 Objectives

The general objectives of development of competitive capacities under the Ninth Development Plan are as follows:

- Moving the national economy to competitiveness based on innovation.
- Improving competitiveness of national products in domestic and external markets.
- Supporting competitiveness of non-oil exports and increasing their technology content.

- Raising the level of education and training, and expanding science and technology education.
- Continuing to develop the investment environment and the export environment.
- Intensifying technology transfer, indigenisation and generation, in order to enhance competitiveness and keep pace with globalization of production.
- Expanding establishment of business clusters with strong multiple forward and backward interlinks among their units, and promoting mergers of national companies and closer cooperation with foreign advanced-technology companies.
- Increasing investment in industrial and information infrastructure.
- Improving quality of goods and services

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6.4.3 Policies

The policies of the Ninth Development Plan aimed at increasing competitiveness of the national economy are comprehensive and interlaced with the policies for various economic sectors. Most important among these policies are the following:

- Increasing investment expenditure on infrastructure and informatics.
- Maintaining price stability and reducing inflationary pressures.
- Continuing to develop services of banking and financial institutions.
- Accelerating the move to universal application of electronic transactions.
- Expanding establishment of investor services centres.
- Increasing specialization of judges in trade, and increasing numbers of specialized courts and departments.
- Developing and implementing streamlined legal procedures for starting businesses and investment in all regions of the Kingdom.

- Implementing comprehensively the National Strategy for the Protection of Integrity and Combating Corruption, and establishing the requisite agency.
- Providing comprehensive and timely information on government economic measures and actions with a direct impact on the private sector, through various media and e-government portals.
- Accelerating the application of the corporate governance system.
- Continuing the efforts aimed at improving productivity in the national economy, particularly in sectors of comparative advantage.
- Expanding application of internationally recognized quality standards in all sectors of economic activity, especially those linked to exports.
- Implementing programmes for disseminating the culture of quality, professionalism, and excellence among members of the community.
- Entrenching good management practices in government agencies.
- Establishing excellence awards given annually to the best performing companies or public bodies that improve performance and increase productivity.
- Energizing the National Export Development Centre, particularly in familiarising businesspersons with export opportunities and organizing trade fairs abroad to market national products.
- Awarding excellence awards to private-sector companies that adopt modern systems of management, planning, follow-up, and marketing, and those allocating high proportions of their resources to research, development and innovation.
- Implementing awareness-raising programmes in print, broadcast and visual media on competitiveness and its importance to private-sector companies.

- Introducing and promoting private-sector business clusters in all areas, with the possibility of allowing participation by public sector companies and foreign direct investment (tripartite participation).
- Implementation by Chambers of Commerce and Industry of educational programmes to demonstrate benefits of integration or merger of private-sector projects.
- Reducing administrative burdens associated with obtaining visas for highly skilled workers.
- Facilitating procedures for transformation of all forms of family businesses in joint-stock companies.
- Disseminating the culture and systems of e-commerce and promoting it among businesses and consumers.
- Furthering development of qualified nationals capable of innovation and assimilation of modern technologies.
- Continuing to pursue Saudization, while reducing expatriate manpower with low educational attainment.
- Applying the professional competence system that sets minimum educational and professional skill levels for technical and service jobs, to upgrade the educational and skill levels of expatriate and national manpower.
- Developing systems for distance work to increase employment opportunities for women.
- Implementing university and professional programmes for increasing the number of nationals working in modern-technology fields.
- Implementing programmes to impress upon young people the importance of enrolment in scientific and engineering disciplines, providing financial incentives for those who enrol in disciplines required by the labor market, and granting incentive awards to high achievers.

6.4.4 Targets

- Increasing the volume of investment in basic infrastructure at a rate of about 9.5% per annum.
- Increasing investment in human development at a rate of about 8.4% per annum.
- Increasing the numbers enrolled in science and engineering colleges at a rate of about 22.4% over the years of the Plan.
- Increasing the number of students enrolled in technological and industrial institutes at a rate of about 11% over the years of the Plan.
- Increasing allocation for expenditure on scientific research, development and innovation at an average annual rate of about 0.08% to reach 1% of GDP by the end of the Plan.
- Increasing non-oil exports at an average annual rate of approximately 9.7%.
- Increasing participation of Saudi women in the labour force to about 13.9% by the end of the Plan.
- Reducing the rate of recruitment of illiterate foreign labour at an average annual rate of about 1.5%.

