

Improving GCC business environments needs to be a top priority

- While GCC governments' financial firepower helped the region escape the global financial crisis at relatively low cost, it is no substitute for enhancing the region's long-term competitiveness.
- In global rankings, regional economies score well – unsurprisingly - when it comes to the taxation environment, but often badly in areas such as enforcing contracts and starting new businesses. There have been some notable improvements in recent years, however.
- Current domestic and global economic conditions should provide an encouraging atmosphere for Gulf countries to expedite further much-needed reforms in their business environments.

IBQ's latest GCC Brief stated: The GCC economies have managed to escape the fallout of the global economic and financial crisis at a relatively low cost, thanks in part to their strong financial positions that enabled the adoption of stimulus packages to support economic growth. Undoubtedly, the recent crisis has demonstrated the importance of fiscal policies and direct government intervention in countering cyclical downturns in the short run. But other than providing temporary support, fiscal policies should not be viewed as a substitute for enhancing the competitiveness and fundamentals of domestic economies. As such, supporting the resilience of the regional economies in the face of anticipated future shocks should be prioritized.

Unfortunately, and despite the availability of ample resources, the progress of Gulf economies in achieving their visions and strategic objectives is moving very slowly, especially those pertaining to the reduction of the region's heavy dependence on the hydrocarbon sector through economic diversification and boosting the role of the private sector. Indeed, experience shows that the achievement of these targets requires the creation of an attractive business environment, which has yet to materialize throughout the region. In this note, we will try to shed some light on the strength and weaknesses of the GCC business environments, and the major needed improvements and reforms.

Two economic challenges

Besides the economic instability emanating from oil price volatility and the limited ability to influence the future path of oil prices, Gulf economies face two major challenges over the coming decade: creating adequate jobs for Gulf nationals given mushrooming growth in the number of new entrants into the labor force and the possibility of government budgets slipping into sizeable deficit.

On the first challenge, estimates show that more than half of GCC nationals employed in 2008 worked in the public sector. The percentage of nationals working in the public sector ranged between 30% in Bahrain and 50% in Saudi Arabia, and 82% in Kuwait, 88% in Qatar and an estimated 85% in the UAE. Clearly, the ability of the public sector to absorb new entrants into the labor force will be increasingly limited in the future.

Large deficits in the future are another challenge. The most recent oil boom that started in early 2003 and lasted for 5 consecutive years lured Gulf governments to expand public spending at unprecedented pace. Annual growth in spending averaged 16% over the last 5 years and is expected to expand by a further 12% in 2010. This is likely to limit governments' capacity and willingness to respond to economic difficulties in the future and increases the possibility of budgets falling into deficit if oil prices decline.

These two challenges can be addressed by paving the way for the private sector to play a larger role in the economy; to create the needed jobs and to become a major provider of public services. To do this, governments must introduce policies that make it easier for the private sector to do business and remove unnecessary impediments to private investors. While some progress has been made on this front, it remains limited and piecemeal.

Business environments

The World Bank's annual Doing Business report - first published in 2003 - is an authoritative source on the quality of the business environment globally. The report highlights aspects of the business environment where reforms are most needed. It also provides a benchmark for the speed of implementing reforms and generally provides investors with guidance on where to invest.

Doing Business 2010 ranks GCC members in the upper one-third of all countries in terms of the business environment. Saudi Arabia is the leader in terms of the attractiveness of its business environment followed by Bahrain, while Kuwait and Oman are the least desirable places to do business. The UAE and Saudi Arabia have both managed to improve their ranking notably over the last 5 years, rising by 36 and 25 places, respectively, in spite of the fact that the number of countries surveyed has risen by 28. On the other hand, the rankings of both Kuwait and Oman deteriorated by 14 places during the same period, indicating that the two countries lost ground in favor of other countries where the pace of reforms was faster. Within the MENA region, Gulf countries look in better shape ranking at the top of the 19 surveyed countries. While Tunisia, at 69, ranks only slightly below Oman most other MENA countries fall well below the GCC members, including Jordan at 100, Egypt at 106, Lebanon at 108, Morocco at 128, and Algeria at 136.

Table 1: Ranking of GCC countries according to the ease of doing business (2006-2010)

	2006	2007	2008	2009	2010
Saudi Arabia	38	38	23	16	13
Bahrain*	n/a	n/a	n/a	18	20
UAE	69	77	68	46	33
Qatar*	n/a	n/a	n/a	37	39
Kuwait	47	46	40	52	61
Oman	51	55	49	57	65
Total no. of countries	155	175	178	181	183

Sources: *Doing business – World Bank (various reports)*

*Bahrain and Qatar were not included in the doing business index prior to 2009

Strength and weaknesses

The Doing Business index for each country is constructed by using the simple average of ten indicators. These indicators measure the ease of doing business pertaining to the following aspects: starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and closing a business.

The ten indicators reveal a number of interesting facts for GCC countries. First, not one Gulf country has improved its ranking since 2006 in every indicator of the business environment. This also applies to Qatar and Bahrain, whose coverage started in 2009. Second, Saudi Arabia and the UAE are the two GCC countries where reform endeavors are most apparent. Saudi Arabia has improved its ranking in six indicators since 2006, especially in the areas of starting a business and trading across borders, while the UAE advanced its ranking in seven indicators, mainly in starting a business and dealing with permits. Third, all GCC members are among the top 15 countries with lowest tax burden and most ease of paying or complying with tax laws.

Table 2: Strength and drawbacks elements in the region’s business environment (2010)

	Strength	Weaknesses
Saudi Arabia	Registering property (1), paying taxes (7), starting business (13)	Enforcing contracts (140), hiring & firing (73), getting credit (61)
Bahrain	Paying taxes (13), hiring & firing (13), dealing with licenses (14)	Enforcing contracts, (117), getting credit (87), stating a business (63)
UAE	Paying taxes (4), trading across borders (5), registering property (7)	Closing business (143), enforcing contracts (134), protecting investors (119)
Qatar	Paying taxes (2), dealing with licenses (28), closing a business (33)	Getting credit (135), enforcing contracts (95), protecting investors (93)
Kuwait	Paying taxes (11), hiring & firing (24), protecting investors (27)	Starting a business (137), enforcing contracts (113), trading across borders (109)
Oman	Paying taxes (8), registering property (20), hiring & firing (21)	Dealing with licenses (130), getting credit (127), trading across borders (123)

Sources: *Doing business 2010-World Bank*

Note: Number in parentheses reflects ranking among 183 countries.

Fourth, some Gulf countries are among the top five countries in a number of indicators. For example, Saudi Arabia is the world leader in terms of simplifying and streamlining property registration, Qatar ranks second in paying taxes, and the UAE ranks fifth in trading across borders (exporting and importing by ocean transport). Finally, all Gulf countries suffer major weaknesses in enforcing contracts, which captures the time, cost and complexity of procedures in resolving commercial lawsuits, with ranks ranging from 95 in Qatar to 140 in Saudi Arabia.

Improving business environments

The IBQ report concluded: GCC countries’ rankings in the Doing Business report highlight the need to deal with shortcomings in the business environment. While there has been some progress, it has been limited. Fortunately, most required reforms are not hard to implement and can be easily adopted without creating political tension. Saudi Arabia, which has seen the most substantial reforms in recent years, can be viewed as a model for others to follow, though Saudi Arabia’s own reform agenda is far from complete. Oman and Kuwait are the two weakest overall business environments and also the countries with the worst records on reforms. Both will need to act decisively in order to mitigate the growing gap with the rest of Gulf countries. For example, starting a business in Kuwait requires 13 procedures and 35 days to complete, compared to four procedures and five days in Saudi Arabia. Similarly, eight documents and ten documents are needed in Kuwait to export and import, respectively, compared with five documents in both cases in Saudi Arabia. The current domestic and global economic conditions should provide an encouraging atmosphere for Gulf countries to expedite reforms in their business environments. □