

SIXTH DOHA DEVELOPMENT FORUM

Democracy, Development and Foreign Trade

Facing the challenges of Globalization in the Arab Region

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The Arab Region in the Global World

- The Arab region has been marginalized in the Global economic world in spite of its huge energy and human resources
- Its economic performance compared to other emerging regions of the world, as South East Asia and Latin America has been weak
- Its participation in international trade in goods and services (excluding energy) has been declining
- FDI has remained marginal and largely concentrated in a few sectors (energy, banking, telecom, tourism)

Arab economies lack of competitiveness

- Arab economies continue to suffer from various economic ills preventing them to take advantage of opportunities offered by globalization
- Main obstacles that need to be waved so that the region can take advantage of globalization are the following:
 - Large pockets of illiteracy in important economies
 - High rates of unemployment, particularly among the young people and people with academic background
 - High rate of brain drain of the most educated part of the population
 - Large informal sector with low value added and not integrated in the modern economy
 - Oligopolistic structure of the private sector in which a few family-owned groups largely dominates the modern segment of the economy
 - Innovation capacity in high value added industries and services is very weak

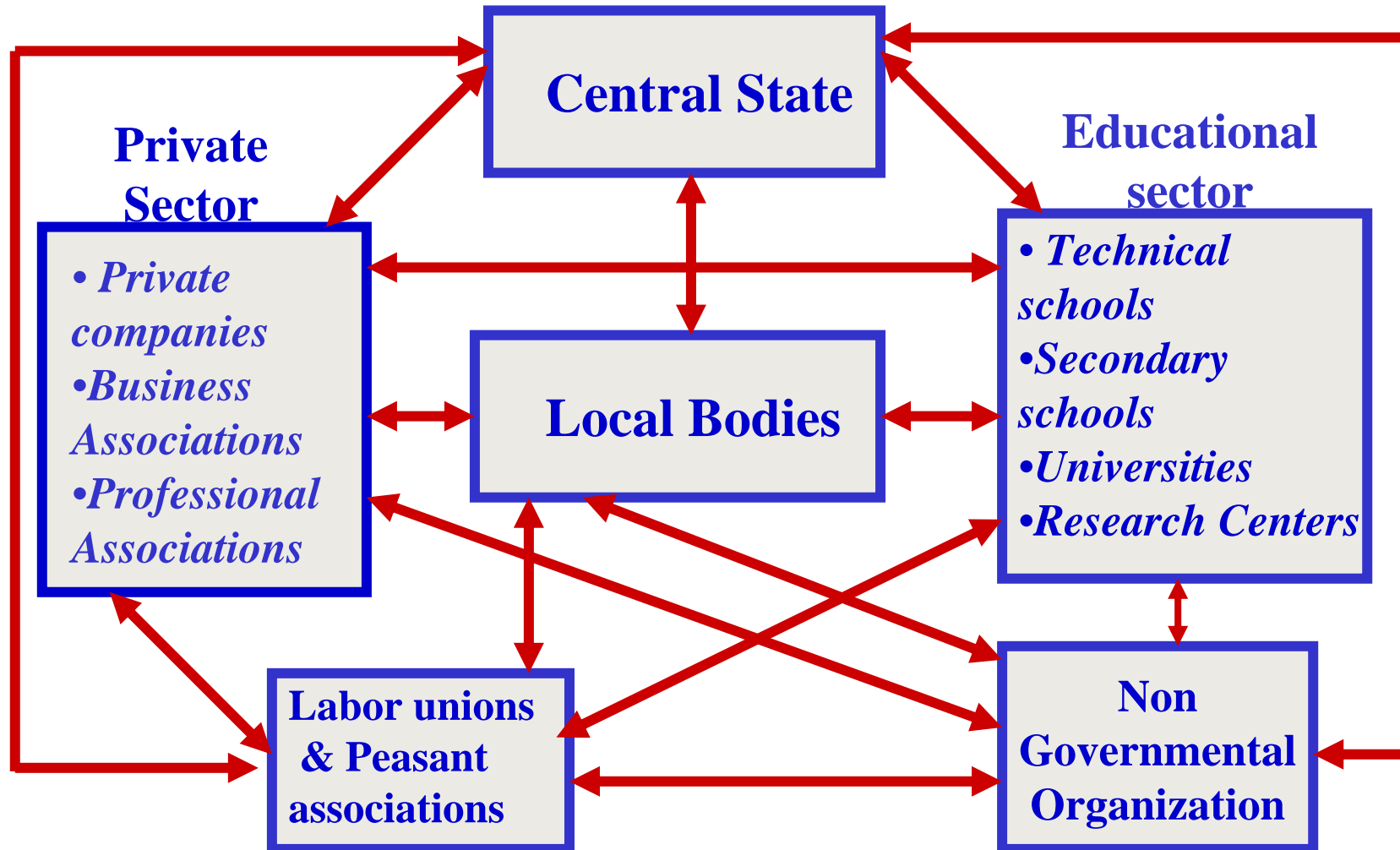
How to accelerate economic change

- Defining agents of change
- Defining issues and tools to be activated
- Linking the actors of change in a common strategy to taking advantage of globalization
- Exiting from the vicious circle of low productivity to the virtuous circle of high productivity and competitiveness on the global market.

The Main agents for change

- **The Private sector**
 - Companies
 - Chambers of commerce, industry and agriculture
 - Business & Sectoral Professional Associations
 - Associations of liberal professions (engineer, lawyers, physicians, pharmacists...)
- **The Educational sector**
 - Secondary Schools
 - Technical and Vocational schools
 - Universities and High Study Institutes
 - Research Centers
- **Local Bodies**
 - Municipalities
 - Districts & Regions
 - Wakfs (Religious Endowments)

Network of Development change



Actors, issues and tools

Actors to become more dynamic

Private sector (business & Professional Associations)

- Universities & Higher training institutes)
- Local bodies (municipalities, regions)
- NGOs

Main issues

- Increasing productivity by investing in R & D and human resources training in the private sector
- Attracting outsourcing and FDI
- Linking universities and technical training institutions with the private sector needs

Main tools

- Taxation policies to encourage R & D and HR training
- Improved investment climate & infrastructure facilities at local levels
- Availability of venture capital to encourage innovation and young entrepreneurs
- More active policies to eradicate poverty and illiteracy
- Stimulating competition on domestic markets and preventing oligopolistic situation

Lack of common vision and strategy between actors of change

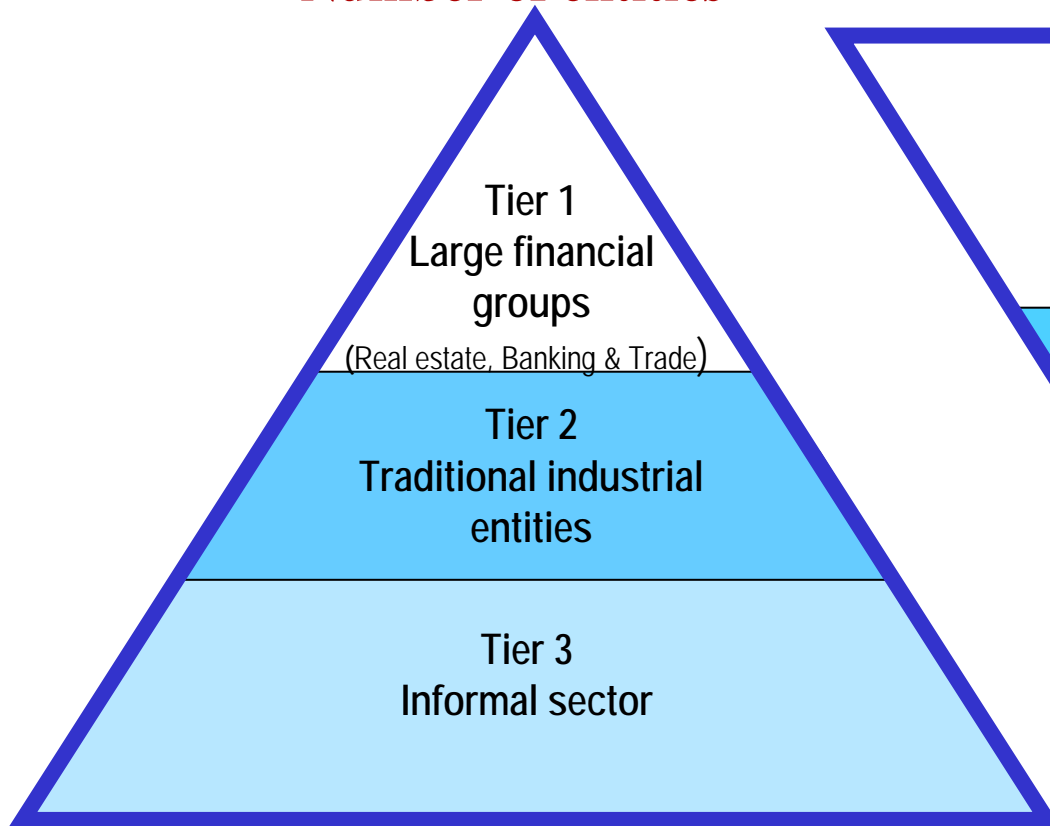
- **Absence of common vision about how to take advantage of globalization**
 - Defining what are the fields in which domestic industries and services can best compete in the global market
 - Determine a strategy to increase the level of productivity in these sectors
 - Define when and why State intervention might be needed (R & D, funding, industrial zones, HR training, etc.).
- **Absence of means to secure permanent linkages between actors and to distribute implementation responsibilities**
 - Inefficiency of the Tax system that grant “blind” tax incentives instead of targeted incentives linked to R & D and training
 - Weak links between the State and the Business sector not focused on adequate implementation of strategy to take advantage of globalization, but rather on granting tax privileges and preventing real free competition on domestic markets; extremely weak links between private sector and education sector
 - Banking sector (private or public) remains too much focused on traditional commercial banking activities and not on corporate finance and investment banking
 - Inexistence of venture capital and seed money for innovation

Raising the awareness of the Educational Sector and the Private sector

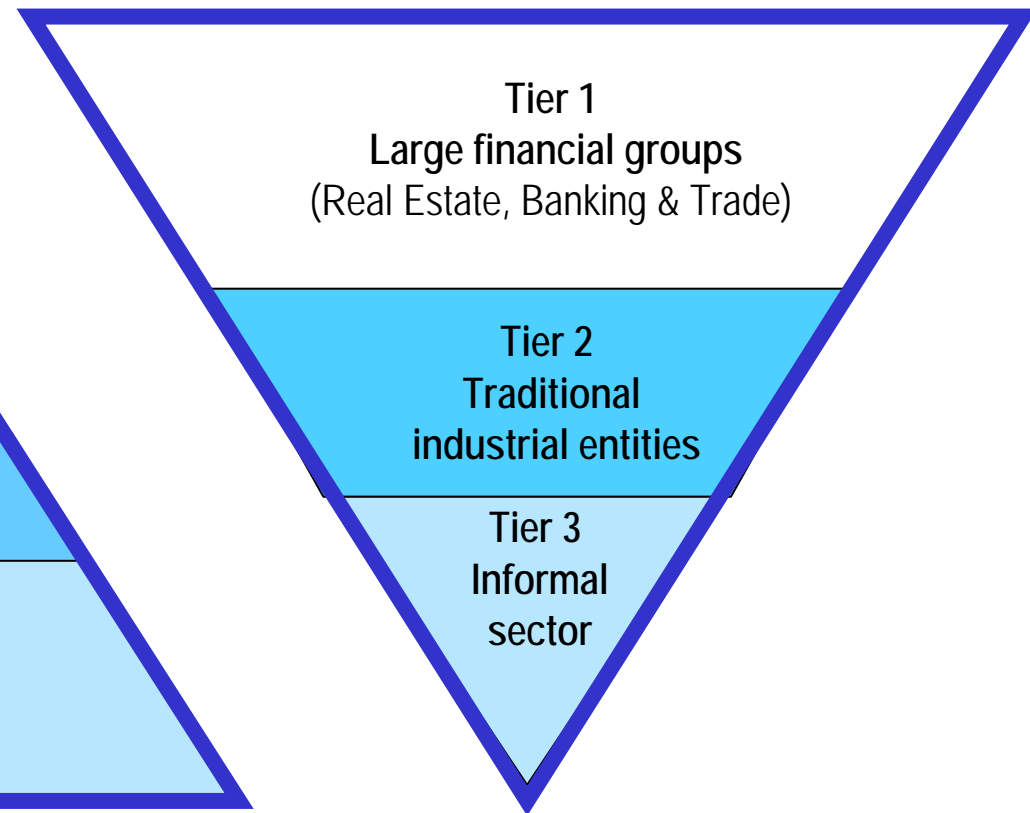
- No awareness about the implications of globalization for the domestic economy; the best universities prepare bright students to migrate
- No linkages between educational institutions and the Business or professional associations to assess the needs of the labor market and design policies to increase employment opportunities
- Absence of efforts to develop R & D and create Laboratories & Technology research centers in the ES and absence of interest or awareness from the private sector in such efforts to increase quality and competitiveness of local production

The structural problem of the Private Sector in the Arab Region

Number of entities



Value Added



Making the Private sector more integrated and efficient

- Integrating the three tiers of the private sector
 - Large financial groups to invest more into local mastery of technology through venture capital and through support to existing industrial companies
 - Large industrial companies to subcontract and outsource activities to small & informal business entities and assist them in capacity building
- Increased spending on R & D and training of human resources
- Funding to be made available to young talented entrepreneurs and to innovators (venture capital)
- Business Associations to become more proactive into establishing links with the education sector and with foreign sources of technology

Making the Education Sector more close to the needs of competitive local markets

- The role and objectives of this sector have to be adapted to local conditions and specificities
- Students are entitled to receive an education adapted to the needs of the local economy and its enterprises so that brain drain can be avoided.
- University and High study institutes to participate actively in R & D in coordination with the State, the Local bodies, the Business & professional associations and private firms

Upgrading the human and financial resources of Local Bodies

- Local bodies to become much more involved into providing improved local infrastructure and trying to attract domestic & foreign investment to fight against unemployment at their level
- They should coordinate with private sector companies, business and professional associations and the educational sector to secure local development.
- They should be entitled to enjoy the adequate human and financial resources to respond efficiently to their responsibilities

Activating fiscal decentralization

- Absence of fiscal decentralization allowing the local bodies to dispose of adequate human & financial resources
- Supervise spending at local level can be better than at the State level provided a clear legislation on fiscal decentralization
- No clear common vision of development strategy adapted to the needs and constraints of globalization between LB and the State
- No linkages between LB & the local private sector and the educational sector (central & local)
- No Public-Private partnership at the local level

Facing the global world in the Arab Region

From vicious to virtuous circle

Vicious circle

- *Lack of entrepreneurial dynamism*
- *Lack of employment opportunities*
- *Brain drain*
- *Low productivity*
- *Trade and Public finance deficit*
- *Lack of financial resources*
- *Increase in poverty and unemployment*
- *Increase in environment degradation*
- *Increased brain drain and lower productivity*
- *Increased lack of entrepreneurial dynamism*
- *Lower available financial resources for R & D and HR training and poverty eradication*

Virtuous circle

- *Domestic and external resources mobilized for:*
 - *Stimulating innovation and R & D*
 - *Capacity building for actors and stakeholders of economic change*
 - *External Debt swap into actions for innovation and R & D*
 - *Adapting taxation system to a global economy*
- *Increased employment opportunities for skilled workers and University graduates*
- *Improved management of the economy*
- *Increased productivity*
- *New financial resources for R & D and HR training and poverty eradication*

Breaking the vicious circle in the Arab Region

