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# SME Competitiveness: A Development Perspective of GCC Countries

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# Introduction to the GCC

The GCC is a collection of six countries located in the Arabian Gulf.

All the countries except for Saudi Arabia and Oman became independent in 1971

The GCC countries have one third of the world's proven oil reserves and account for about 21% of the daily production.

Between 2010 and 2014 the GCC countries have achieved economic growth rates of about 5% per annum and this is expected to continue till 2020.



## 2. Economic Dependence of GCC Countries to the Hydrocarbon Sector

## 2. Oil Dependency

- On an average, hydrocarbons make up 83% of GCC budget revenues.
- Non-hydrocarbon state revenues are limited to fees and charges for government services as well as customs tariffs.
- The GCC states have very little in the way of corporate taxation and no income or sales tax.
- The strong relationship of the economy to the hydrocarbon sector implies that:
  - The economy becomes dependent on global events as a result of their impact on the price of oil.
  - The hydrocarbon sector is tightly controlled by the government and hence the economy becomes controlled by the public sector.

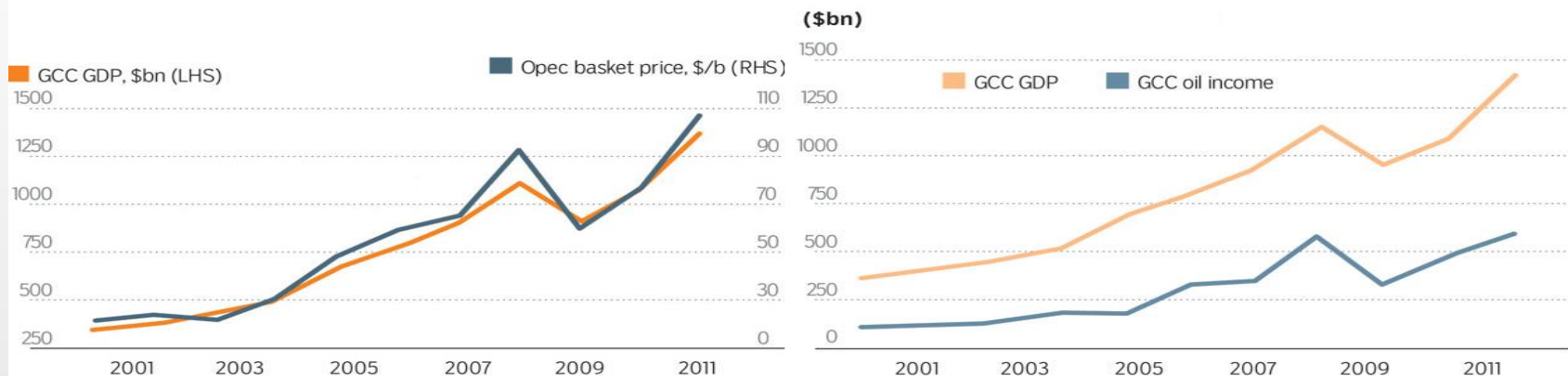
Country	% of export earnings	% of state budget	% of GDP
Bahrain	69	86	28
Kuwait	90	93	64
Oman	65	77	49
Qatar	91	80	54
Saudi Arabia	85	85	47
UAE	69	77	33
GCC Average	78	83	46

Source: % of Export earnings and state budget from Statistical Appendix in Europa Publications (2011) and percentage of hydrocarbon GDP from IMF(2013).

# Oil Price Fluctuations and GCC Economies

- Oil is an international commodity and its price has fluctuated considerably over the last half century.
- The international price of oil has two important aspects namely the long term component
- The heavy reliance of oil within GCC economies substantially impacts their economic performance and certainly the government revenues and GDP.
- a very strong relationship between government spending and the level of business activity in the GCC.

## GCC GDP, Oil Revenue and the Oil Price



Sources: IMF (2013); World Bank (2013); OPEC (2013).

### 3. The Nature of SME Enterprises in GCC Countries

# What is a SME in the GCC ?

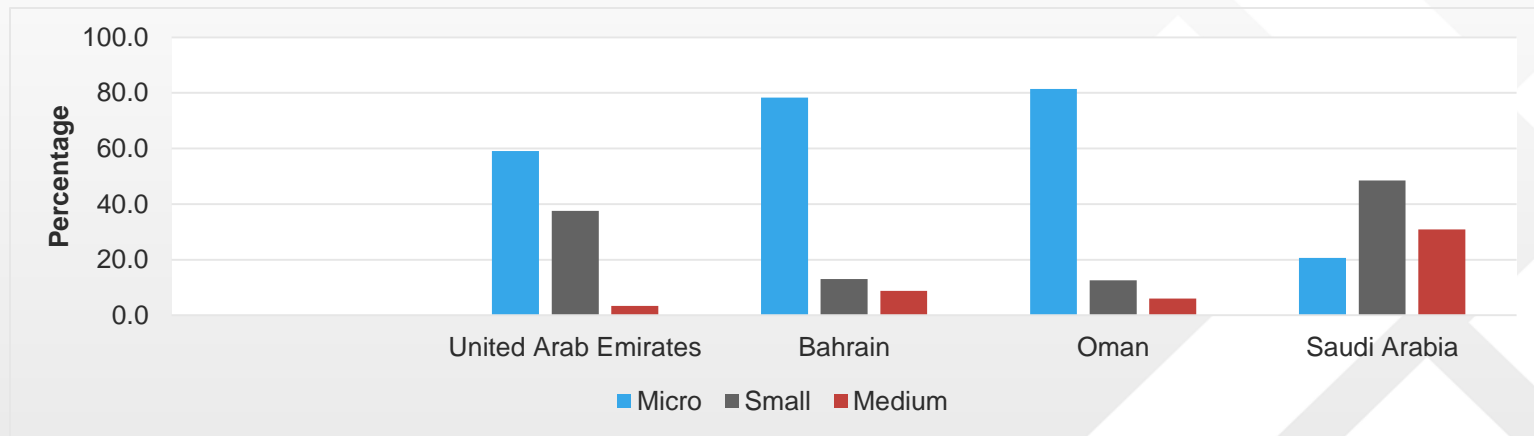
Due to the heterogeneity of businesses and commercial environments it is extremely difficult to have a single definition of an SME. .

Country/ Institution	region/	Micro		Small		Medium	
		Labour	Turnover	Labour	Turnover	Labour	Turnover
<b>Bahrain</b>		1-10	BD100k	11-50	BD 100k to BD1 m	51-250	BD 1m – BD 5m
<b>Bahrain – Construction Sector</b>		1-10	BD100k	11-100	BD 100k to BD1 m	51-400	BD 1m – BD 5m
<b>Kuwait</b>		-	-	-	KD 150k	-	KD 150k to KD 150k
<b>Oman</b>		1-5	RO25k	6-9	RO 25k to RO250k	10-99	RO 250k to RO1.5m
<b>Qatar</b>		-	-	-	-	250	QR100
<b>Saudi Arabia</b>		1	SR 100k	2 to 49	SR 100k to SR 5m	50 to 200	SR 5m to SR 50m
<b>UAE/Dubai (Trading)</b>		1-9	AED 9m	10 to 35	AED 9m to AED 35m	36 to 75	AED 35m to AED 75
<b>UAE/Dubai (Manufacturing)</b>		1-20	AED 10m	21 to 100	AED 10m to AED 100m	101 to 250	AED 100m to AED 250m
<b>UAE/Dubai (Services)</b>		1 to 20	AED 3m	21 to 100	AED 3m to 25m	101 to 250	AED 25m to AED 150m
<b>UAE/Abu Dhabi</b>		1 to 5	-	6 to 19	-	20 to 45	
<b>GCC Average</b>		10		52		167	
<b>European Union</b>		1-10	€2m	11-50	€ 10 m	51-250	€ 50 m
<b>World Bank</b>		1-10	US\$100k	11-50	US\$3m	51-100	US\$15m



# Distribution of SMEs

- In the GCC SMEs account for over 90% of the firms registered.
- 60% are micro firms followed by 28% of small firms and only 12% are medium.
- Using Dubai as an example of perhaps the most diversified economy 73% of SMEs are involved in retail or trading, 16% in the services sector and 11% in manufacturing.
- Average contribution of GCC SMEs to the GDP is 22% compared to the European Union average of 55%.
- Average SME employment in the GCC is 40% compared to the global figure of 62%.



Source: IFC (2015) Note: There is no data for Kuwait and Qatar

## 4. Drivers of Entrepreneurism in the GCC

# Economic Diversification Away from Hydrocarbons

- The abundance of low cost power has meant that industries which are energy intensive have been initiated such as petrochemicals, and building materials where cement, steel rebar and aluminium have been the key products.
  - the prices of these products are linked to oil
  - They are developed by the state
- Despite attempts at diversification, GCC countries have had a limited level of success and the hydrocarbon sector is still the main driving force in the economy.
- What the GCC experience of diversification shows is that if it is to be successful, it needs to incorporate entrepreneurship and private investors taking risk.

# Dealing with the Unemployment Problem

Country	Job Creation		Private Sector		Public Sector	
	in thousands	% of total GCC Value	in thousands	%	in thousands	%
<b>Bahrain</b>	297	4.2%	284	95.6%	14	4.7%
<b>Bahraini</b>	55	3.1%	42	76.4%	13	23.6%
<b>Non Bahrainis</b>	242	4.6%	242	100.0%	1	0.4%
<b>Kuwait</b>	986	13.9%	680	69.0%	306	31.0%
<b>Kuwaiti</b>	135	7.5%	65	48.1%	69	51.1%
<b>Non Kuwaitis</b>	851	16.1%	615	72.3%	237	27.8%
<b>Oman</b>	527	7.5%	481	91.3%	46	8.7%
<b>Omani</b>	157	8.7%	105	66.9%	52	33.1%
<b>Non Omanis</b>	370	7.0%	376	101.6%	-6	-1.6%
<b>Qatar</b>	1,118	15.8%	1,078	96.4%	40	3.6%
<b>Qatari</b>	40	2.2%	21	52.5%	19	47.5%
<b>Non Qataris</b>	1078	20.4%	1057	98.1%	21	1.9%
<b>UAE</b>	1,546	21.9%	1,391	90.0%	155	10.0%
<b>Emirati</b>	110	6.1%	99	90.0%	11	10.0%
<b>Non Emiratis</b>	1436	27.2%	1292	90.0%	144	10.0%
<b>Saudi Arabia</b>	2,598	36.7%	2,344	90.2%	254	9.8%
<b>S. Arabian</b>	1,302	72.4%	1,068	82.0%	234	18.0%
<b>Non Saudis</b>	1296	24.6%	1276	98.5%	20	1.5%
<b>Total</b>	7,072	100.0%	6,258	88.5%	814	11.5%
<b>Nationals</b>	1,799	100.0%	1,401	77.9%	398	22.1%
<b>Non Nationals</b>	5,273	100.0%	4,857	92.1%	416	7.9%

Source: IMF (2011) data for post 2010 is estimated

# Reducing Export Concentration and Increasing Export Sophistication

- GCC countries are highly dependent on exporting hydrocarbons and importing their food and consumer goods.
- 20 countries account for 90% of exports from the GCC.
- If one removes UAE from the average GCC level then the Herfindahl index of supplying nations increases to 0.32.
- Non oil are gold and jewellery, plastics, chemicals and aluminium at 18.5%, 17.1%, 12.9% and 7.1% respectively.
- These product categories tend to be low technology areas relying largely on little level of value addition.
- The World Bank Development Indicators show that on average about 1% of GCC exports are considered to be high technology.

# Increasing Productivity in the Economy

- The GCC model has not been successful in improving its productivity.
- One very important source of low labour productivity in the GCC has been the unlimited and cheap supply of foreign labour largely from Asia.
- Increases in capital accumulation have not kept pace with increased population growth. Also, the increase in labour may have suffered from substantial diminishing returns to scale further supporting the need for increased capital accumulation.
- due to the heterogeneity of capital accumulation the GCC countries as a result of employing lower skilled and cheaper foreign labour were able to produce a lower level from any increase in the stock of capital.
- the lower TFP in GCC countries may be due to the incentives that the governments make available to the private sector. These incentives lead to capital accumulation in areas where the greatest level of transfer payments from the government can be obtained rather than where the productive potential is the greatest.

# Addressing the Incentive Structure for Nationals

- The public sector remains the mainstay of employment for nationals. Also, the public sector offers higher salaries and benefits than private sector with a few exceptions.
- the GCC governments have initiated a very generous system of benefits for their people which when the population numbers were small were not a burden.
- World Economic Forum (2014) study shows that the GCC countries rank among the top ten nations with the worst work ethic.

# Developing Knowledge A Based Economy

- All GCC governments have publicly declared their ambition to become knowledge based economies.

## The Knowledge Economy Index for the GCC Countries (2012)

Rank	Country	KEI	Economic Incentives	Innovation and Technological Adoption	Education and Training	ICT Infrastructure
42	UAE	6.94	6.50	6.60	5.80	8.88
43	Bahrain	6.90	6.69	4.61	6.78	9.54
47	Oman	6.14	6.96	5.88	5.23	6.49
50	Saudi Arabia	5.96	5.68	4.14	5.65	8.37
54	Qatar	5.84	6.87	6.42	3.41	6.65
64	Kuwait	5.33	5.86	5.22	3.70	6.53
	GCC	6.19	6.43	5.48	5.10	7.74
	World Average	5.12	5.45	7.72	3.72	3.58
1	The Top ranking Country (Sweden)	9.43	9.58	9.74	8.92	9.49



## 5. The role of SME government support policies

# Government Support

- The GCC countries have tended to adopt an approach that focuses on start-up programmes so as to grow the number of SMEs.
- The GCC approach has been very transactional in nature and cannot ensure success.
- The SME support institutions have provided training courses in areas such as accounting, finance, marketing etc. Some SME support agencies have also developed government procurement programmes .
- SME support agencies and policies have failed to adopt a more holistic approach that will help develop globally competitive firms.

## 6. Role of Free zones and Clusters in SME development

# Free Zones and SMEs

- Strong clusters are better able to create
  - opportunities leading to more competitive firms.
  - high level of interconnectedness leading to invention
  - development of innovation.
- The value proposition for setting up in a cluster clusters in the GCC is that they provide overseas investors the ability to have full ownership.

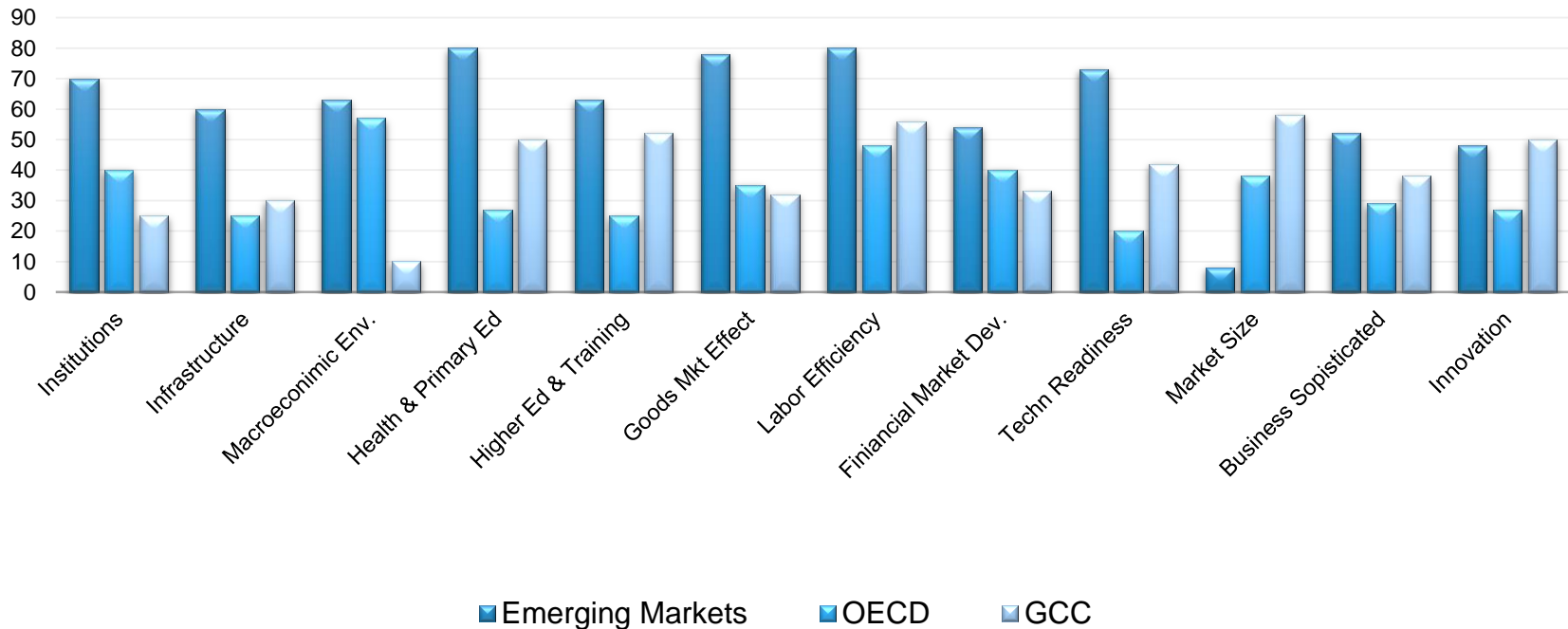
Country	Cluster Focus Areas
<b>Bahrain</b>	Education, Financial Services
<b>Kuwait</b>	Downstream oil; energy related industries
<b>Oman</b>	Software; energy; processed food; knowledge industries
<b>Qatar</b>	Education, Financial Services
<b>Saudi Arabia</b>	Downstream oil; energy related industries; education
<b>UAE</b>	Logistics; technology; media; science and education; construction/design; light manufacturing; financial services; aviation; defence; clean technology and renewable energy

# 7. SME Business Competitiveness

# SME Business Competitiveness

The Average GCC ranking is 30 while countries such as the UAE, Qatar and Saudi Arabia are within the top 25 at 12<sup>th</sup>, 16<sup>th</sup> and 24<sup>th</sup> place respectively.

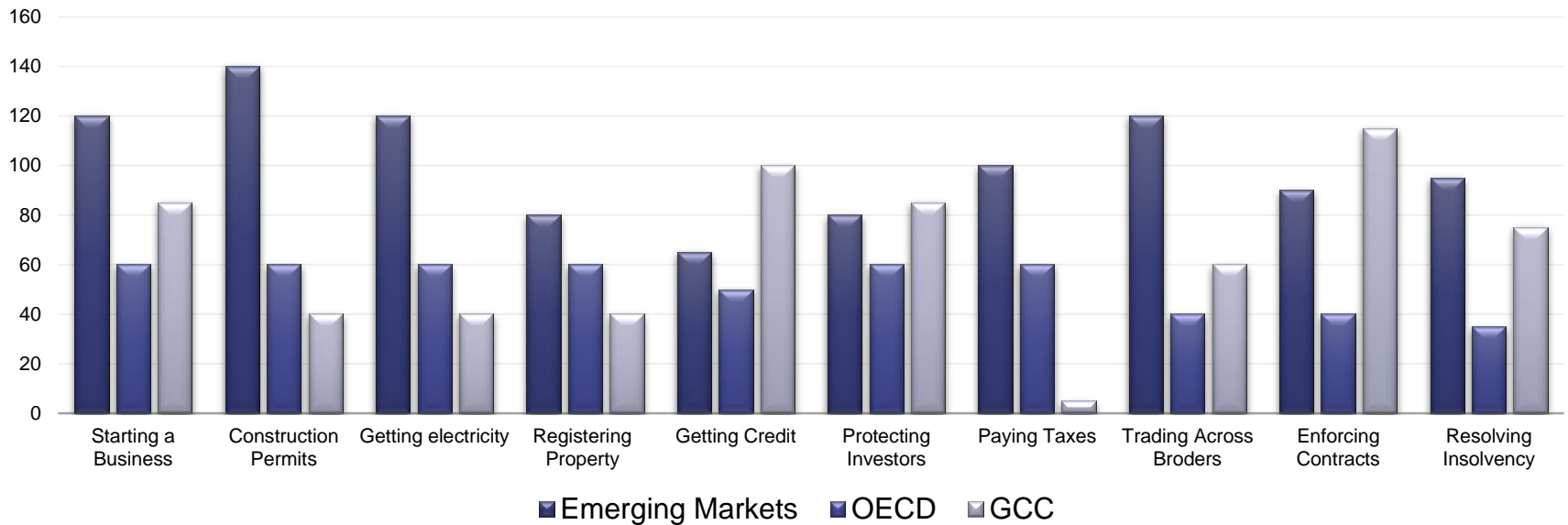
This shows that at least half the GCC countries are comparable to the western countries that dominate this part of the ranking list. .



# World Bank Ease of Doing Business Rankings

Under the World Bank (2014) ease of doing business rankings the GCC countries performing less well with an average ranking of 54.

Economy	Ease of Doing Business Rank
United Arab Emirates	22
Saudi Arabia	49
Qatar	50
Bahrain	53
Oman	66
Kuwait	86



## 8. Summary and Conclusions



# Summary and Conclusions

- The hydrocarbon sector has gained considerable importance in the economy and government policies have sought to ensure its growth at the expense of the private sector.
- This has led to a heavy reliance on the hydrocarbon sector with little in the way of economic diversification.
- The GCC economies are prone to global events which impact their economic performance.
- Government support for the SME sector has been transactional in nature focusing on providing small levels of loans.
- The GCC countries have not developed a holistic approach that seeks to build a truly entrepreneurial ecosystem.

# Summary and Conclusions

- The global competitiveness studies show that the GCC countries lack in their absence of appropriate insolvency laws, business friendly regulations and excessive bureaucracy.
- The transactional nature of government support has meant that it has not supported the development of a manufacturing sector.
- The government SME support mechanisms have placed an undue importance on the growth in the number of start-ups rather than concentrating on type and quality of SME enterprise in terms of activity, competitiveness etc.

# Summary and Conclusions

- Companies that do export tend to do so in low technology sectors with little value add. With little in the way of bank financing or method of obtaining equity finance for start ups implies that SMEs have little choice but to enter the low level activities.
- GCC countries have done little in the way of developing anchor industries.
  - source from the local market and hence encourage SMEs to raise their level of production and efficiency.
  - effective channel by which technology transfer can take place into the SME sector.
  - Knowledge or technology transfer has not been facilitated by linking SMEs with universities. .

# Summary and Conclusions

- Low incentives of nationals needs to be addressed and private sector risk taking must be supported. Through greater risk taking the private sector can be encouraged to invest in new areas and activities leading to export sophistication as well greater value add.
- Our general view is that the importance of oil in the economy may have displaced the private sector leading to an 'oil drag' which has had a negative impact on the competitiveness of the private sector and especially of the SME sector.

# Thank You