Event Update - The Global Competitiveness Report 2016 - 2017

September-2016

GCC macro ranking down but most other pillars improve...

The World Economic Forum's latest Global Competitiveness Report comes at a time when the world is reeling under significantly stunted growth, a commodity market slowdown and high government debt levels. *The report highlighted the declining openness by countries due to rising income inequalities and varying growth across the globe. This has led to more inward looking policies, protectionism that is questioning the concept of globalization. Britain's decision to leave the Europe Union is a classic example of this phenomenon. In addition, government's assistance to push growth rates and reforms in the form of extended quantitative easing programs and lower rates are proving to be increasingly slow in showing desired results or are ineffective thereby leaving limited to maneuver policy decisions.*

In terms of global rankings, the top three countries remain the same i.e. Switzerland, Singapore and the US, in the same order. *The biggest change in the top 10 rankings was in the ranks of Sweden and UK with both the countries climbing three spots as compared to the previous year. In terms of Brexit, the impact on UK's ranking is uncertain and depends on how fast the country builds the new framework.*

Competitiveness rankings in the GCC and the overall Middle East region was marred by the low oil prices that led to lower oil revenues. *The resultant impact was slower economic growth, high fiscal deficit, and concerns of rising unemployment. Instability related to geopolitical issues in some areas are having a spillover effect on other economies. However,* ***on the positive side, most GCC countries appear diverse on the competitiveness metrics.***

Global Competitiveness Rankings

Top 10 Global Rankings	2015-16	2016-17	Change in Rankings
Switzerland	1	1	=
Singapore	2	2	=
US	3	3	=
Netherlands	5	4	▲
Germany	4	5	▼
Sweden	9	6	▲
UK	10	7	▲
Japan	6	8	▼
Hong Kong	7	9	▼
Finland	8	10	▼

GCC & Selected MENA	2015-16	2016-17	
UAE	17	16	▲
Qatar	14	18	▼
Saudi Arabia	25	29	▼
Kuwait	34	38	▼
Bahrain	39	48	▼
Oman	62	66	▼
Morocco	72	70	▲
Tunis	92	95	▼
Lebanon	101	101	=
Egypt	116	115	▲

Source: The Global Competitiveness Report 2016 - 2017 , KAMCO Research

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A focus on innovation for enhancing competitiveness

The global financial crisis has been the turning point for a majority of policy changes and the implementation process for these policies has been stretched repeatedly by various economies. However, one key point highlighted by the Report is that countries with higher competitiveness rankings were better in implementing the reforms and faster in emerging from the crisis resulting in higher economic growth rates. Moreover, the monetary stimulus has been more effective in these countries that have a more conducive environment for businesses to flourish and increase their productivity. And these two factors remain the main policy challenge for both advanced and emerging economies. This brings innovation at the forefront and as a source of competitiveness and economic diversification to trigger growth. According to the IMF Diversification Index and as highlighted in the Report, more competitive economies also have more diversified export baskets, and more diversified economies are more competitive. As a result, it is pertinent to note that monetary policy is simply not enough to achieve economic growth. Countries need to focus on enhancing competitiveness with innovation as its key ingredient. Moreover, innovation in turn goes hand in hand with openness and economic integration.

GCC in a relatively comfortable position but more needs to be done

The decline in oil prices has shaken the policy framework in the Middle East and has forced oil exporting countries to adopt a renewed reform process by focusing on key areas. Although diversification has been an agenda, it has become an urgent need as seen from the economic volatility associated with the overdependence on oil revenues. Moreover, the geopolitical issues in some areas is having a spillover effect on other regions thereby destabilizing the economic progress in the entire region.

One of the key areas specific to this region is the rising youth population and urgent need for utilizing this key resource by providing employment. This makes private sector a key player in the reform process that requires openness in terms of industry access, reducing barriers to entry for domestic companies as well as creating domestic competition by gradually curbing state as a player. In addition, SMEs also play a crucial role in the reform process by garnering support from a diverse section of the population.

In the GCC region, most of the aforementioned requirements are already in the implementation stage and some of the countries within the GCC are at the forefront of the privatization process. That said, the need to transform is all the more urgent as is aptly reflected in the tough austerity measures and reforms being announced in Saudi Arabia. Moreover, the decline in oil revenues creates an opportunity to deal with the subsidy issues and gradually reducing the state support would allow for more competitiveness-enhancing investments and would support the macroeconomic environment in the long run. from IMF's earlier update in October-2015.

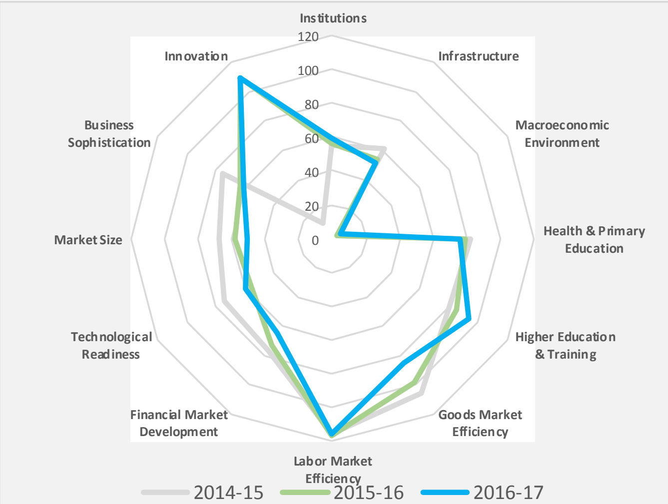
Ascertaining progress by comparing historical rankings on the twelve pillars

The Global Competitiveness Index measures each country on 114 indicators that are grouped into 12 pillars. In the below section, we have measured the progress of GCC economies on these 12 pillars over the past three years.

Kuwait

The country ranked 38th in the latest competitiveness index, a fall of 4 ranks from the previous report. The biggest impact was seen on the innovation pillar over the past two years as the country ranks 110 on this metric. This pillar was affected by poor ranking in University-Industry Collaboration in Research & Development (R&D) as well as corporate spending on R&D. The ranking on Labor Market Efficiency is also alarming at 115, primarily due to lack of professional management. Kuwait's rank also declined on the Higher Education and Training pillar. However, we noticed improvement in Goods Market Efficiency, Financial Market Development and Market Size pillars. The country's rank on macroeconomic environment declined 3 ranks but continues to remain robust with a rank of 6. The fall was primarily due to the decline in oil revenues that affected the country's finances.

Kuwait

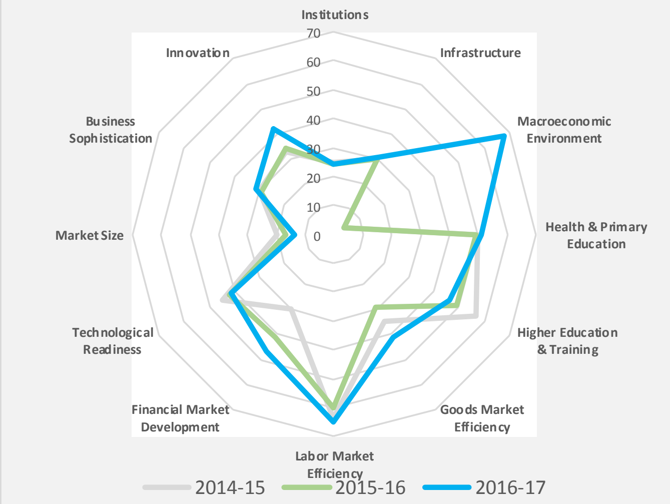


Source: The Global Competitiveness Reports, KAMCO Research

Saudi Arabia

The Kingdom's rank also declined by 4 to reach 29th spot in the latest rankings. The biggest impact was felt on the Macroeconomic Environment pillar due to the decline in oil revenues. The rank on this pillar fell from 4 recorded in the past two years to 68 this year. There was also no improvement in Labor Market Efficiency rank that fell five spots to 65 this year. On the positive side, the country's rank improved on Higher Education & Training and on Technological Readiness pillars. We believe that these pillars are crucial for long term sustainable competitiveness and the country is moving in the right direction by improving ranking on this front. That said, further efforts are required to strengthen education in terms of quality of math and science training and in management and primary education and also build a flexible labor market to utilize these talents efficiently. Saudi Arabia also has the biggest financial market in the region. However, there is further scope of expanding the scope of the market as seen in some of the other GCC economies. The steps taken recently by the financial market regulator for opening up the market should have a long term positive implication and also help the country improve its ranking in terms of global competitiveness.

Saudi Arabia

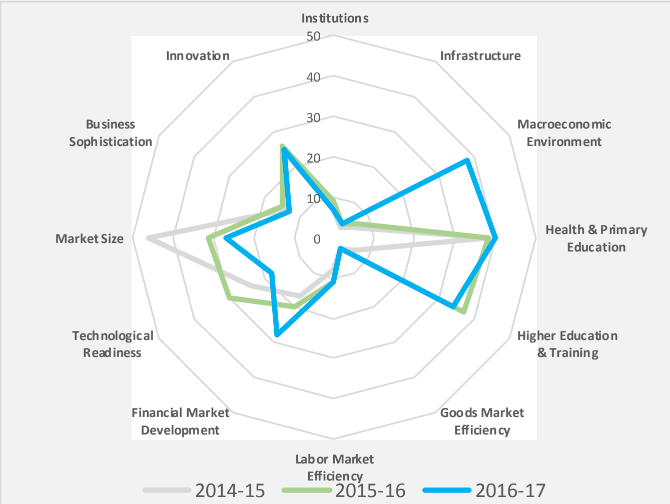


Source: The Global Competitiveness Reports, KAMCO Research

UAE

The UAE is the only country in the GCC that recorded an improvement in its overall competitiveness ranking reaching the 16th spot by advancing one place as compared to the previous year. The country also overtook Qatar to have the best ranking in the GCC as well as the overall MENA region on the overall Global Competitiveness Index. The excellent ranking of UAE stems primarily from three pillars: Institutions, Infrastructure and Goods Market Efficiency . The country ranks within the top 10 globally on these pillars, whereas the ranks on Labor Market Efficiency and Business Sophistication are also commendable at 11th and 13th positions, respectively. On the other hand, the company's fell several spots in terms of macroeconomic environment, in line with the rest of the GCC countries, that led to rising inflation and higher public debt resulting in fiscal deficit. Some of the other key areas of development includes Health & Primary Education and Higher Education & Training. UAE also needs to work on innovation that will be crucial for a sustainable diversification of the economy as well as improve and leverage on its information and communication technology capabilities.

UAE

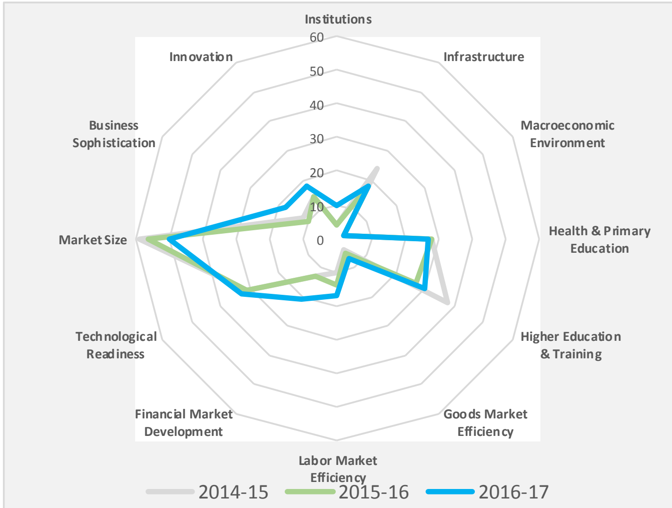


Source: The Global Competitiveness Reports, KAMCO Research

Qatar

Qatar slid four spots this year to reach 18th position on competitiveness, the second-best in the GCC. We believe that the decline in ranking of Qatar was primarily due to improvement in ranking of other economies and has got less to do with any negative factors during this year. The country improved its rank in terms of Market Size (from 56th to 50th) and one spot on Health & Primary Education pillar to reach a rank of 27. Ranking on the rest of the pillars were either flat year-on-year or saw a marginal fall. The most notable fact was that the country ranks 2nd globally in terms of Macroeconomic Environment also reflected in its highest GDP per capita of QAR 315,285 as per the latest IMF report. Meanwhile, Qatar's 33rd ranking in terms of Technological Readiness indicates that it needs to focus on ICT implementation along with the other measures to further improve the country's ranking.

Qatar

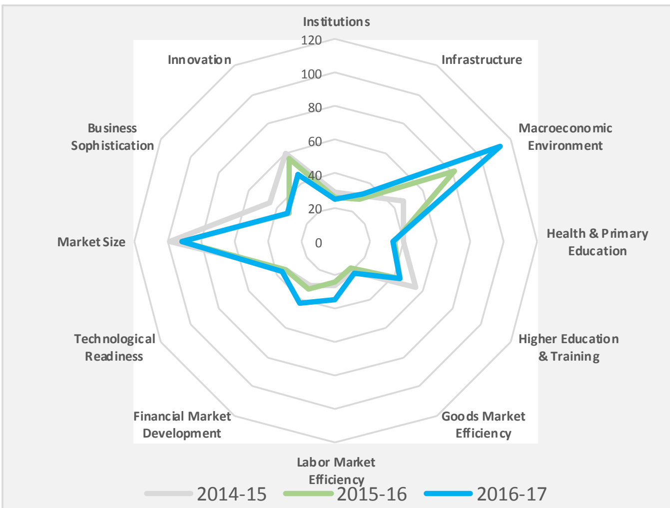


Source: The Global Competitiveness Reports, KAMCO Research

Bahrain

Bahrain witnessed the biggest fall in its Global Competitiveness ranking, sliding 9 spots to reach 48th rank this year. The decline comes primarily on account of fiscal pressure due to the fall in oil revenues that is reflected in its Macroeconomic Environment ranking of 113th a decline from 82nd last year. Ranking on Labor Market Efficiency and Financial Market Development pillars also saw significant declines. On the positive side, the country improved its ranking by 11 positions to on the Innovation pillar to reach 45th rank. There were also marginal improvements in Institutions and Health & Primary Education pillars each recording an increase of a single rank this year.

Bahrain

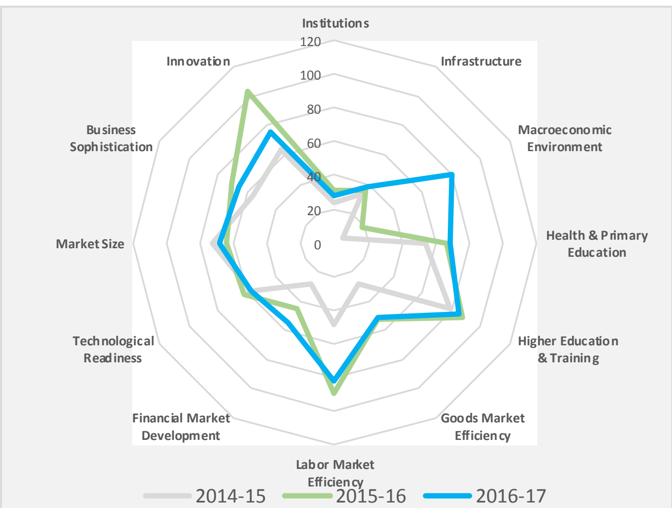


Source: The Global Competitiveness Reports, KAMCO Research

Oman

Oman continues to remain in the last position in the GCC in terms of competitiveness with a rank of 66th, a decline of 4 positions from 62nd during last year. The country witnessed a steep fall in its rank for the Macroeconomic Environment pillar to reach 81st position, still a relatively better rank as compared to Bahrain. That said, the Sultanate continues to rank much lower on other pillars as compared to other GCC economies. It is pertinent to note that Oman along Kuwait are the only countries in the GCC that have improved their year-on-year rankings on seven different pillars. Oman has recorded the biggest improvement in terms of Innovation with an advance of 27 ranks to reach 76th position.

Oman



Source: The Global Competitiveness Reports, KAMCO Research

Summary of GCC Rankings on the 12 Pillars

GCC Economies	Institutions	Infrastructure	Macroeconomic Environment	Health & Primary Education	Higher Education & Training	Goods Market Efficiency
UAE	**7**	**4**	38	40	34	**3**
Qatar	10	18	**2**	**27**	**30**	7
Saudi Arabia	24	31	68	51	46	41
Kuwait	59	52	6	76	94	85
Bahrain	25	32	113	34	44	22
Oman	28	38	81	69	85	51

GCC Economies	Labor Market Efficiency	Financial Market Development	Technological Readiness	Market Size	Business Sophistication	Innovation
UAE	**11**	28	**18**	27	**13**	25
Qatar	17	**21**	33	50	18	**18**
Saudi Arabia	65	47	41	**14**	31	42
Kuwait	115	65	60	51	61	110
Bahrain	35	43	37	92	33	45
Oman	82	55	57	68	66	76

Source: The Global Competitiveness Reports, KAMCO Research

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