

# UAE Competitiveness for the Third Millennium: Implications for Companies

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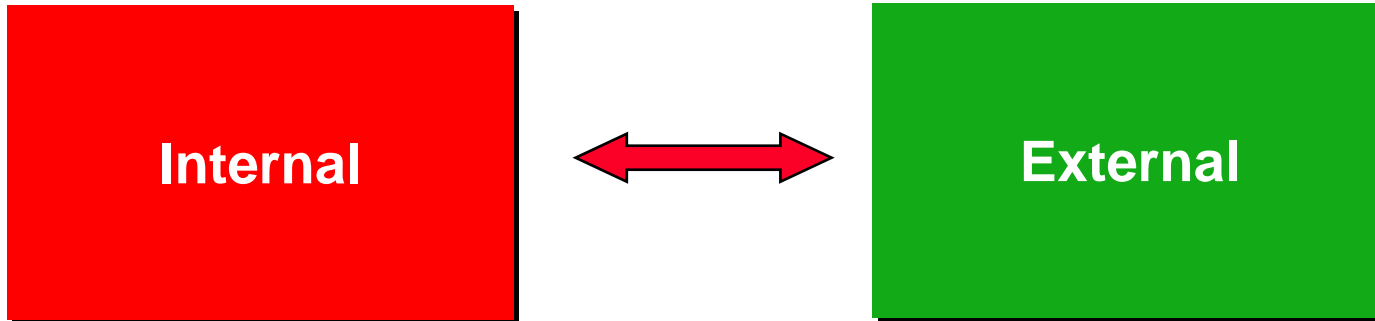
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*January 24, 2010*

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This presentation draws on ideas from Professor Porter's articles and books, including, *The Competitive Advantage of Nations* (The Free Press, 1990), "The Microeconomic Foundations of Economic Development," in *The Global Competitiveness Report*, (World Economic Forum), "Clusters and the New Competitive Agenda for Companies and Governments" in *On Competition* (Harvard Business School Press, 2008) and ongoing research at the Institute for Strategy and Competitiveness. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means - electronic, mechanical, photocopying, recording, or otherwise - without the permission of Michael E. Porter. Further information on Professor Porter's work and the Institute for Strategy and Competitiveness is available at [www.isc.hbs.edu](http://www.isc.hbs.edu),  
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# Perspectives on Firm Success

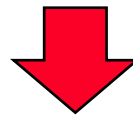


- Competitive advantage resides solely **inside** a company or in its industry
- Competitive success depends primarily on **company choices**

- Competitive advantage (or disadvantage) resides partly in the **locations** at which a company's business units are based
- **Cluster participation** is an important contributor to competitiveness

# What is Competitiveness?

- Competitiveness depends on the **productivity** with which a nation uses its human, capital, and natural resources.
  - Productivity **sets the sustainable standard of living** (wages, returns on capital, returns on natural resources)
  - It is not **what** industries a nation competes in that matters for prosperity, but **how productively** it competes in those industries
  - Productivity in a national economy arises from a **combination of domestic and foreign firms**
  - The productivity of **“local” or domestic industries** is fundamental to competitiveness, not just that of export industries
  - Relentless **innovation** in technology, products, and organizational methods is necessary to **drive productivity growth** and a rising standard of living



- Nations compete to offer the **most productive environment for business**
- The public and private sectors play **different but interrelated roles** in creating a productive economy

# Sources of Prosperity

## Inherited Prosperity

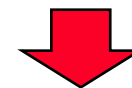
- Prosperity is derived from selling **inherited natural resources**
- Prosperity is **constrained** by the limited amount of resources available
- Dutch disease and macroeconomic volatility **undermine** the non-resource economy
- Focus gravitates towards the **distribution of wealth** as interest groups seek a bigger share of the pie



- **Government** is the central actor in the economy as the owner and distributor of wealth
- Resource revenues allow **unproductive policies and practices** to persist
- Resource revenues support **distortive subsidies**

## Created Prosperity

- Prosperity is derived from **creating valuable products and services**
- Prosperity can only be created by **firms**
- Prosperity is **unlimited**, based only by the innovativeness and productivity of companies and subsidiaries operating in the economy
- Creating the **conditions for productivity and innovation** is the central policy challenge for government



- **Companies** are the central actors in the economy
- Government's role is to create the **enabling conditions** to foster private sector development

# Determinants of Competitiveness

**Natural Endowments**

# Natural Endowments in the UAE

## Location

- Position on the trade route between Europe and Asia and access point to the Gulf economies
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- *Natural basis for a trading hub*
- *Competing locations with similar advantages*
- *Infrastructure needed to leverage location*

## Natural Resources

- Large reserves of oil
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- *Significant financial resources*
- *Potential for Dutch disease and weak institutions*

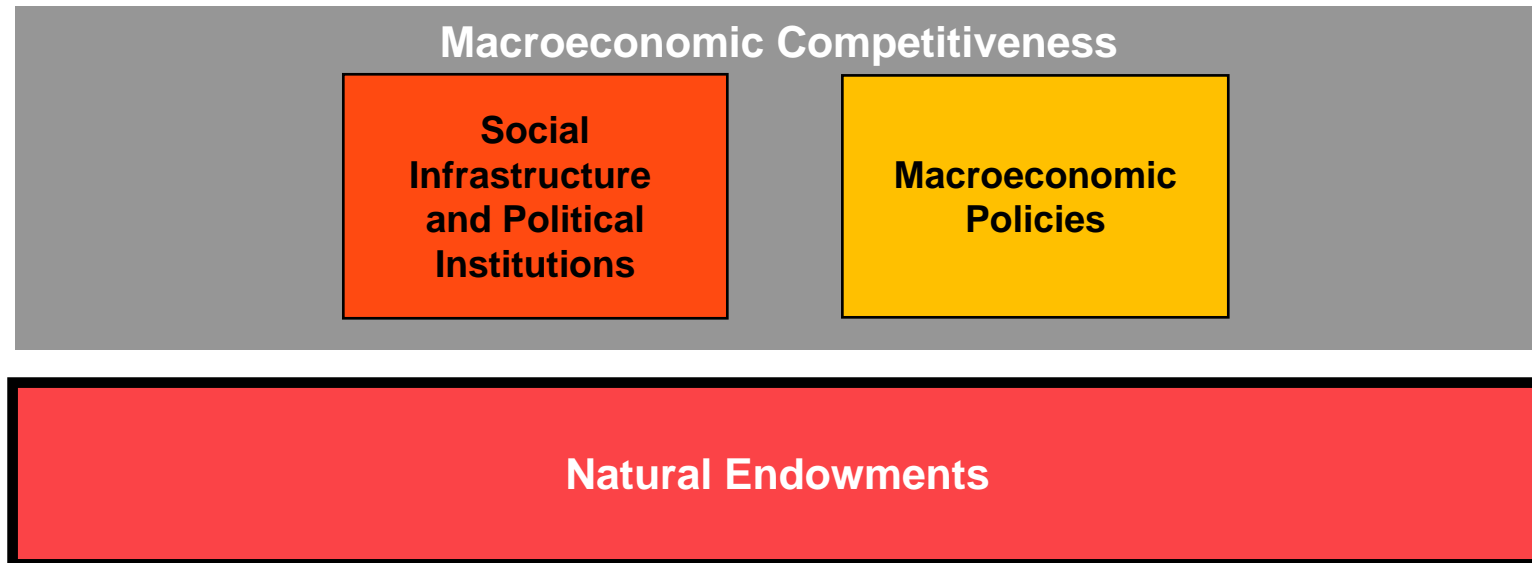
## Size

- Small local population and moderate local market
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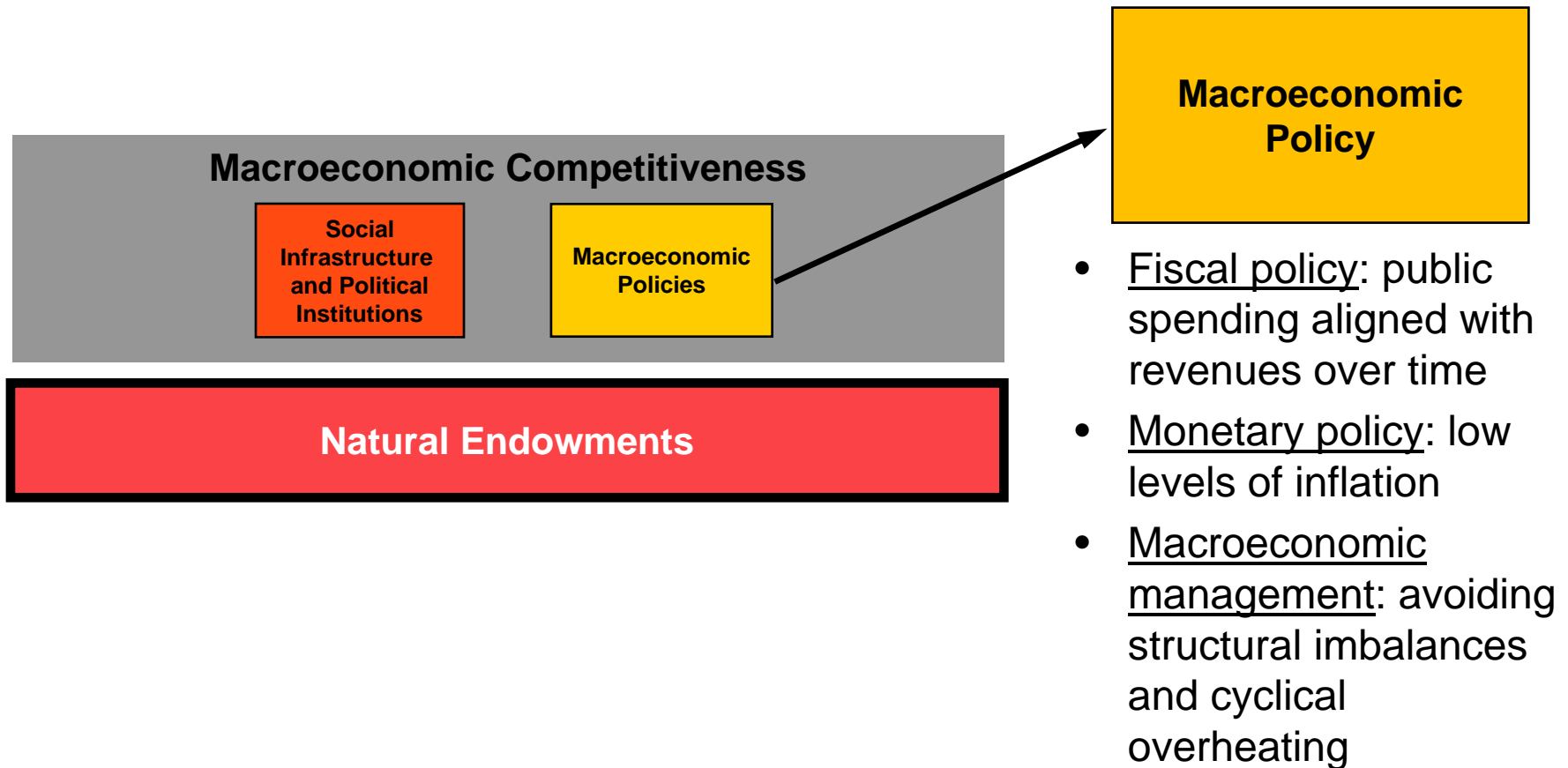
- *Mobilize for consensus and action*
- *Limited 'natural attraction' for foreign companies*

- Natural endowments create **opportunities or challenges**; the actual **outcomes** depend on the policy choices that countries or regions take in response

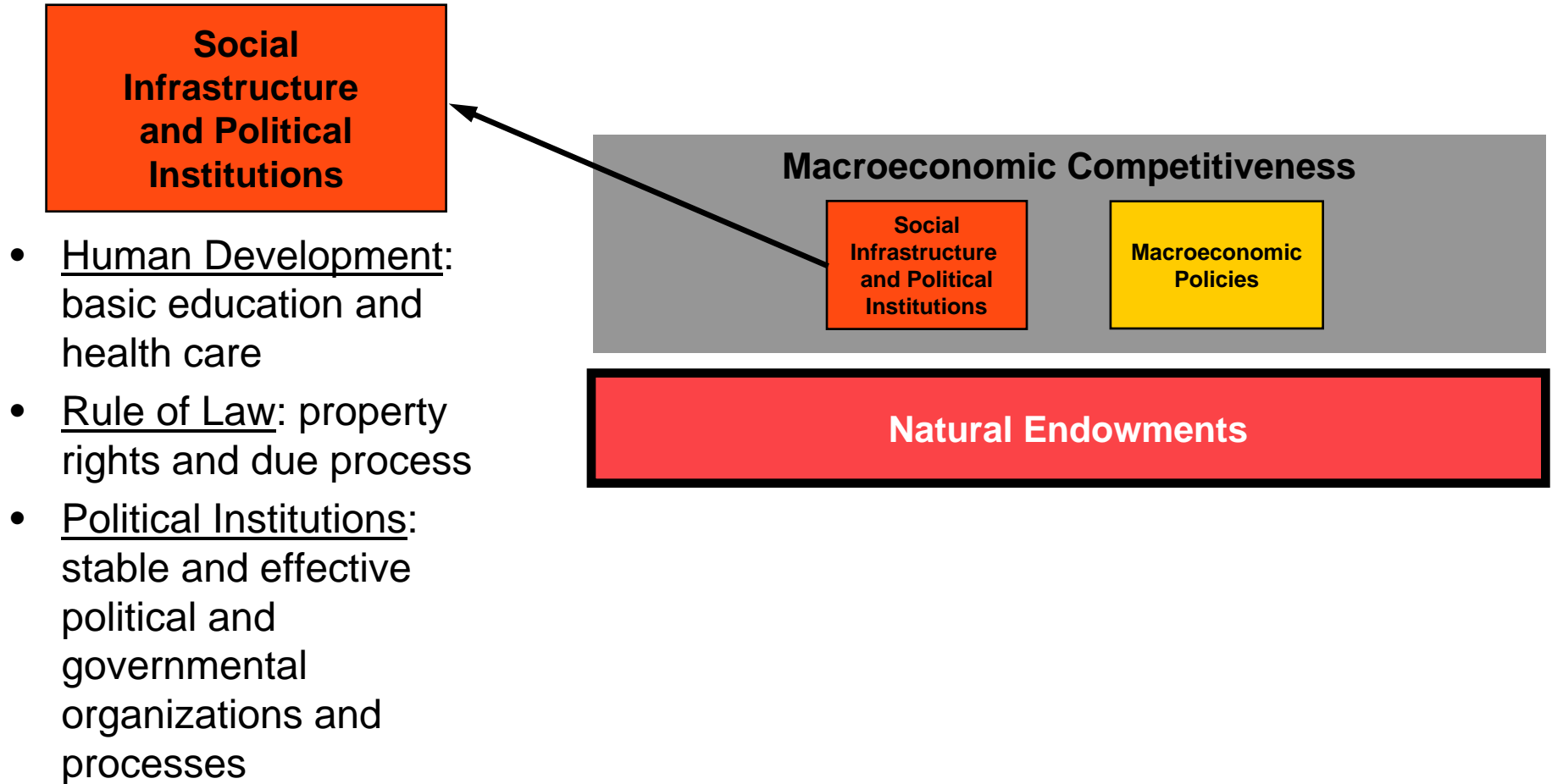
# Determinants of Competitiveness



# Determinants of Competitiveness



# Determinants of Competitiveness



# Human Development Selected Countries

Country	GDP per capita (PPP US\$), 2007	Rank, 2007				
		GDP per capita	Human Development Index (HDI)	Life Expectancy Index	Education index	Gender Development Index (GDI)
Qatar	\$ 74,882	3	33	53	72	35
United Arab Emirates	\$ 54,626	4	35	40	108	38
Norway	\$ 53,433	5	1	14	7	2
Singapore	\$ 49,704	7	23	16	54	..
Kuwait	\$ 47,812	8	31	39	92	34
United States	\$ 45,592	9	13	31	20	19
Ireland	\$ 44,613	10	5	21	9	10
Hong Kong, China (SAR)	\$ 42,306	11	24	2	88	22
Sweden	\$ 36,712	16	7	10	17	5
United Kingdom	\$ 35,130	20	21	26	30	17
Germany	\$ 34,401	24	22	20	32	20
France	\$ 33,674	25	8	9	13	6
Japan	\$ 33,632	26	10	1	34	14
Spain	\$ 31,560	27	15	11	14	9
Italy	\$ 30,353	29	18	8	22	15
Bahrain	\$ 29,723	30	39	50	64	33
Greece	\$ 28,517	31	25	31	11	21
New Zealand	\$ 27,336	32	20	17	1	18
Slovenia	\$ 26,753	33	29	38	19	24
South Korea	\$ 24,801	35	26	29	8	25
Czech Republic	\$ 24,144	37	36	45	40	31
Saudi Arabia	\$ 22,935	40	59	82	111	60
Oman	\$ 22,816	41	56	53	120	56
Portugal	\$ 22,765	42	34	34	45	28
Estonia	\$ 20,361	43	40	77	24	36
Slovakia	\$ 20,076	45	42	59	46	40
Hungary	\$ 18,755	46	43	73	28	37
Croatia	\$ 16,027	52	45	48	51	43
Poland	\$ 15,987	53	41	51	33	39
Russia	\$ 14,690	55	71	133	43	59
Turkey	\$ 12,955	63	79	95	111	70

# Human Development in the UAE

## Observations

### Primary and Secondary Education

- **Free provision** of primary and secondary education to all citizens
- High and rising primary and secondary education **completion rates** among the school age population

### BUT

- **Illiteracy rates** in the UAE are still relatively high
  - A large segment of the expatriate labor force has low levels of education
  - Older generations are significantly less well educated
  - Variations across emirates and gender, with males falling behind
- Little internationally comparable **data** on education quality across the UAE, though some local efforts
- Relative **roles and responsibilities** of government agencies at the UAE and the emirates' level are unclear

### Health Care

- **Free provision** of services to all citizens
- Growing health concerns related to rising prosperity (diabetes, etc.)

# Political Institutions and Rule of Law

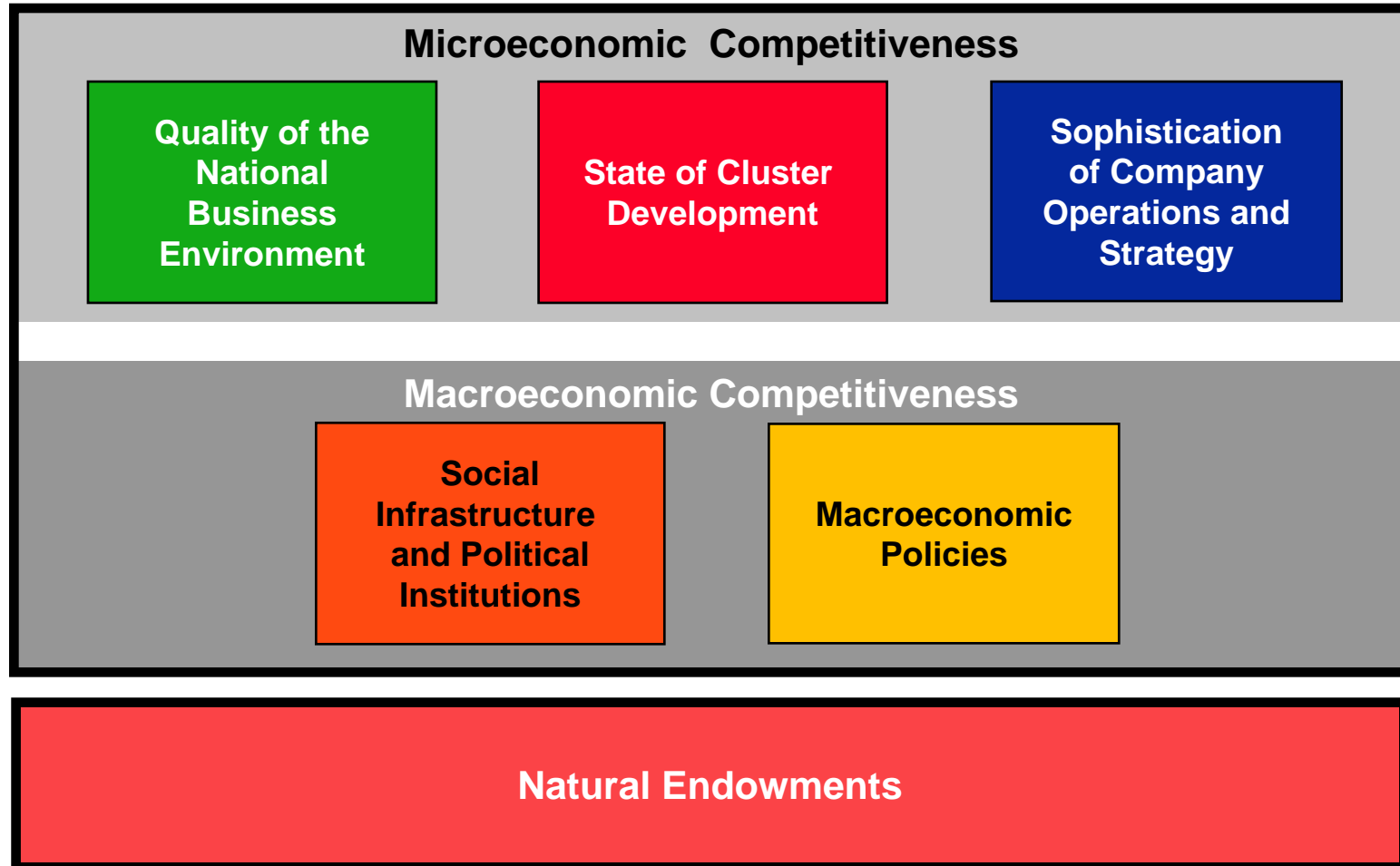
## Observations

- **Solid overall ranking** on rule of law and many indicators of political institutions
- The UAE and its emirates have sought to improve the **legal environment** for business

### However

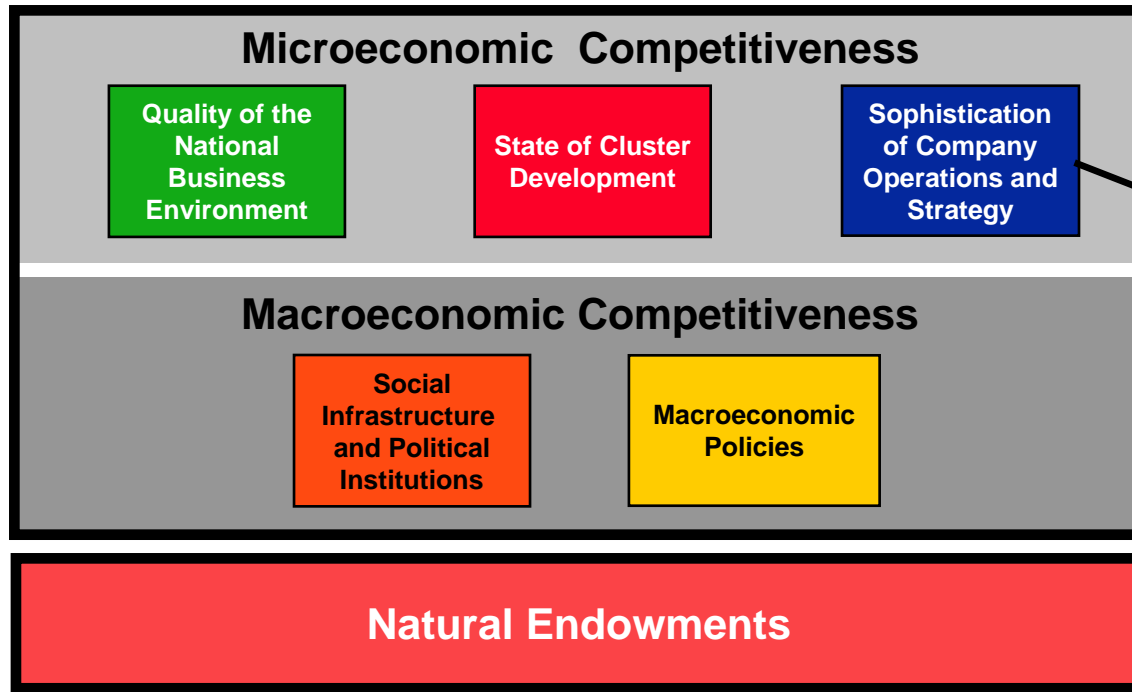
- The system of **legal rights** and **government decision making** is often unclear, ad-hoc, and fragmented
- The **dialogue** between government leaders and the private sector exists but lacks openness and supporting institutions
- Existing problems are usually resolved by one-off decisions that **circumvent root causes** instead of addressing them
- This approach was sufficient in the growth period, but has had **significant costs** in the downturn

# Determinants of Competitiveness



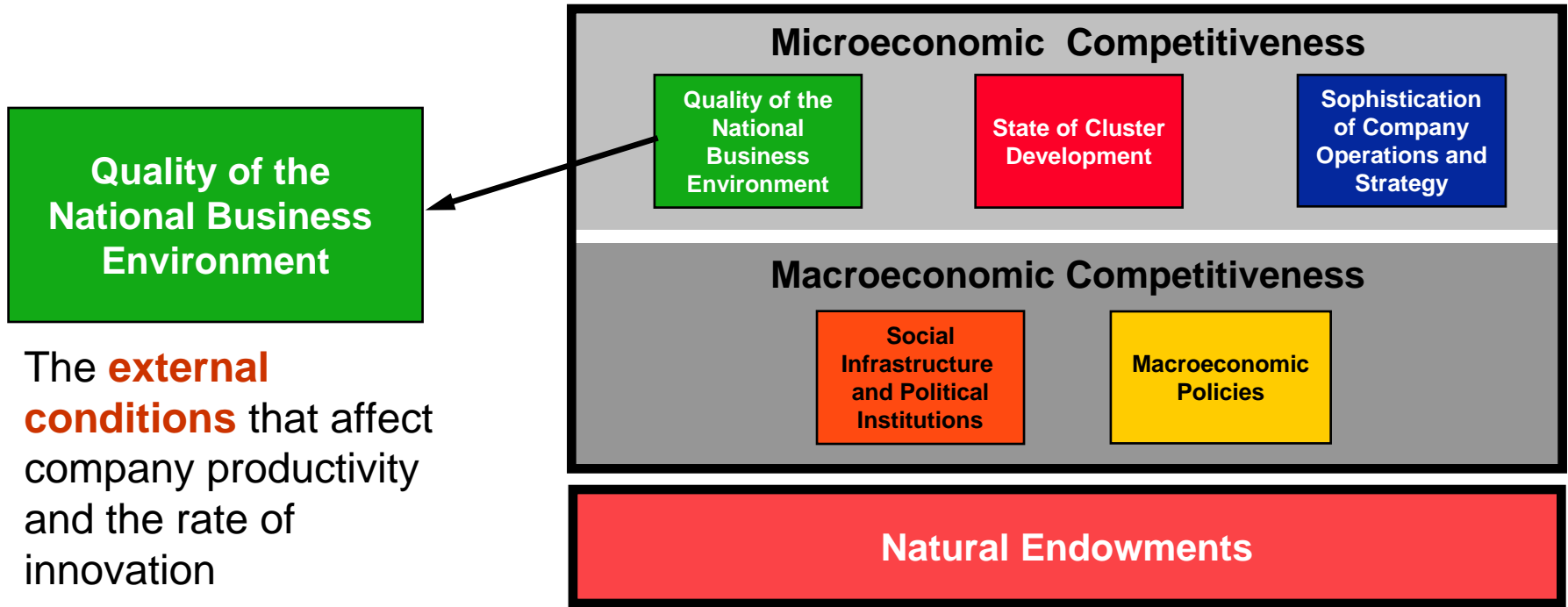
- Macroeconomic competitiveness creates the potential for high productivity, but is **not sufficient**
- Productivity ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local competition**

# Determinants of Competitiveness

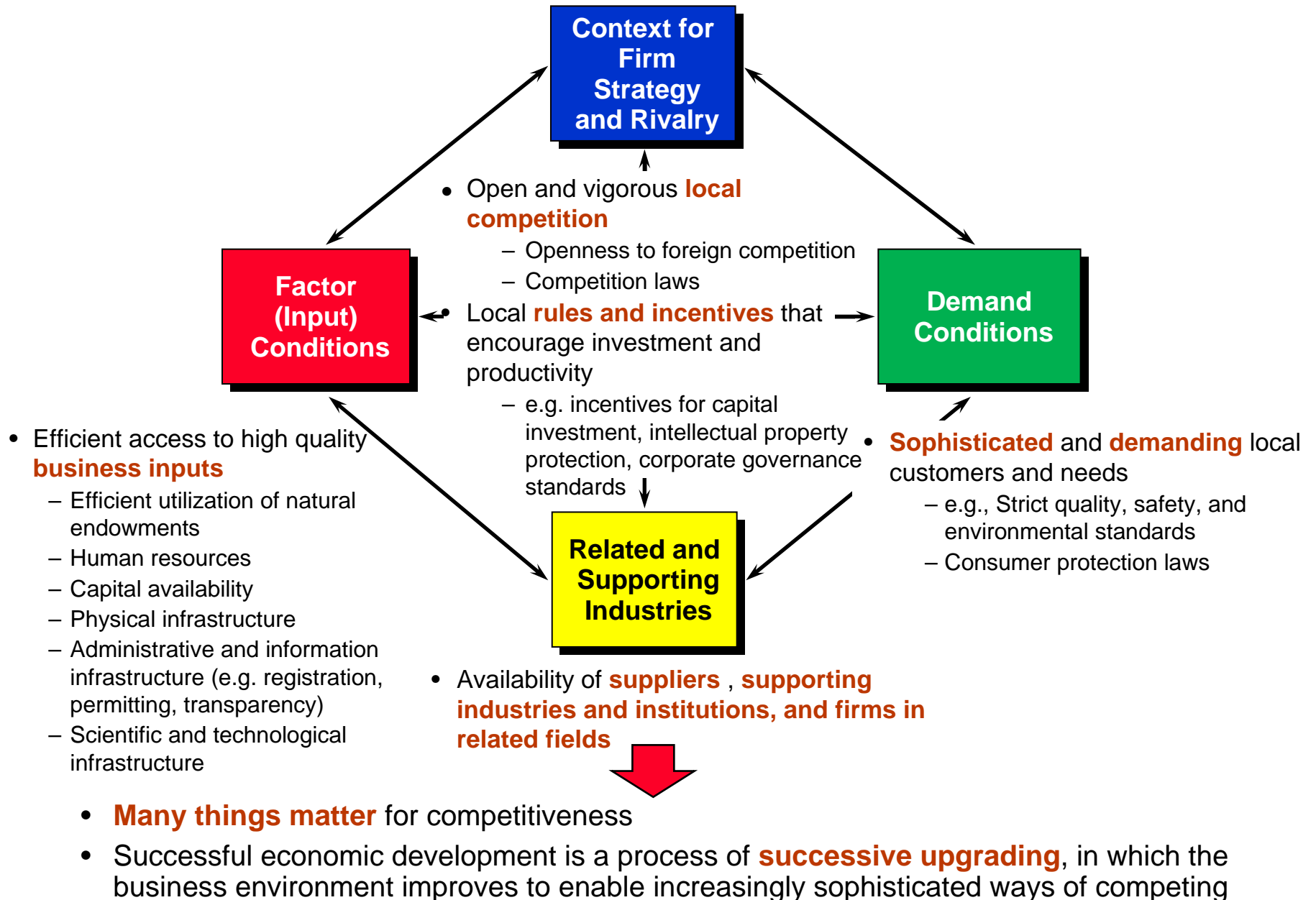


- The **internal skills**, capabilities, and management practices driving company productivity and the vitality of SMEs and entrepreneurship

# Determinants of Competitiveness



# Quality of the Business Environment



## **Factor (Input) Conditions UAE's Relative Position 2009**

### **Competitive Advantages Relative to GDP per Capita**

#### **Communication infrastructure**

Mobile telephone subscribers 1

#### **Logistical infrastructure**

Quality of air transport infrastructure 3

Quality of roads 7

Quality of port infrastructure 7

#### **Administrative infrastructure**

Burden of customs procedures 3

Burden of government regulation 5

#### **Capital market conditions**

Ease of access to loans 5

Venture capital availability 9

Financing through local equity market 12

Protection of minority shareholders' interests 12

### **Competitive Disadvantages Relative to GDP per Capita**

#### **Administrative infrastructure**

Procedures required to start a business 46

Time required to start a business 39

Complexity of paying taxes (World Bank) 32

Ease of starting a new business 27

#### **Capital market conditions**

Strength of investor laws (World Bank) 66

Domestic credit to private sector 47

Soundness of banks 42

Financial market sophistication 27

#### **Higher education infrastructure**

Tertiary enrollment 67

Quality of management schools 16

Availability of scientists and engineers 16

#### **Innovation infrastructure**

Utility patents per million population 38

Quality of scientific research institutions 36

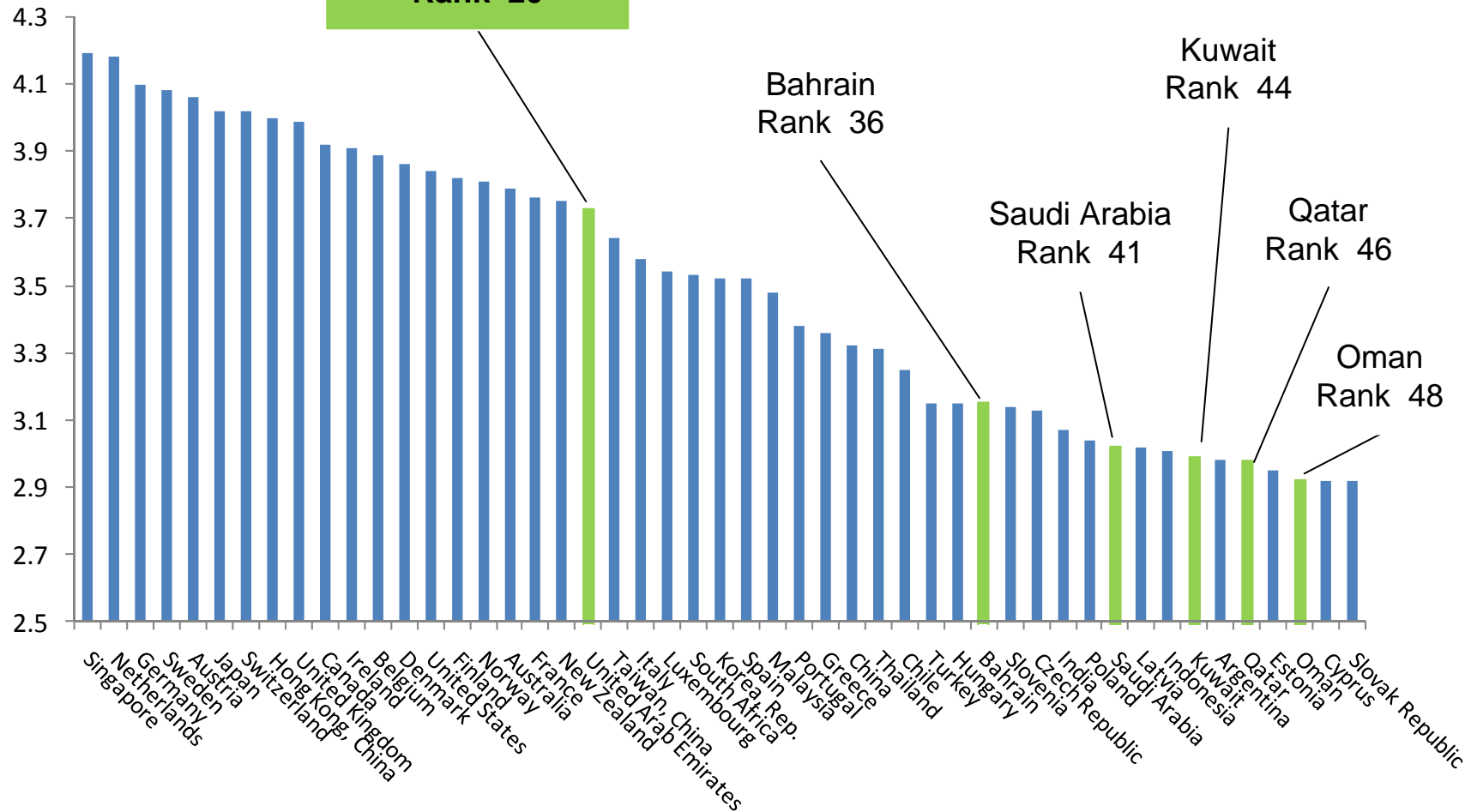
University-industry research collaboration 36

Note: Rank versus 133 countries; overall, UAE ranks 14<sup>th</sup> in 2008 PPP adjusted GDP per capita and 20<sup>th</sup> in Global Competitiveness

Source: World Economic Forum and Institute for Strategy and Competitiveness, Harvard University (2009)

# Logistical Performance Index

Logistical Performance Score, 2008



# Doing Business Selected Countries

Economy	Ease of Doing Business	Starting a Business	Dealing with Licenses	Employing Workers	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
Saudi Arabia	13	13	33	73	1	61	16	7	23	140	60
Bahrain	20	63	14	13	22	87	57	13	32	117	26
<b>United Arab Emirates</b>	<b>33</b>	<b>44</b>	<b>27</b>	<b>50</b>	<b>7</b>	<b>71</b>	<b>119</b>	<b>4</b>	<b>5</b>	<b>134</b>	<b>143</b>
Qatar	39	68	28	68	55	135	93	2	41	95	33
Kuwait	61	137	81	24	89	87	27	11	109	113	69
Oman	65	62	130	21	20	127	93	8	123	106	66
Tunisia	69	47	107	108	59	87	73	118	40	77	34
Yemen, Rep.	99	53	50	74	50	150	132	148	120	35	89
Jordan	100	125	92	51	106	127	119	26	71	124	96
Egypt	106	24	156	120	87	71	73	140	29	148	132
Lebanon	108	108	125	66	111	87	93	34	95	121	124
Morocco	128	76	99	176	123	87	165	125	72	108	67
Algeria	136	148	110	122	160	135	73	168	122	123	51
Iran	137	48	141	137	153	113	165	117	134	53	109
West Bank and Gaza	139	176	157	135	73	167	41	28	92	111	183
Syria	143	133	132	91	82	181	119	105	118	176	87
Iraq	153	175	94	59	53	167	119	53	180	139	183
Djibouti	163	177	102	151	140	177	178	65	34	161	135
<b>Middle East &amp; North Africa</b>	<b>91.6</b>	<b>90.1</b>	<b>94.6</b>	<b>85.7</b>	<b>80.9</b>	<b>111.6</b>	<b>92.6</b>	<b>66.1</b>	<b>76.4</b>	<b>114.7</b>	<b>90.9</b>

Rank out of 178 countries.

Source: World Bank Doing Business (2009).

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# Context for Strategy and Rivalry

## UAE's Relative Position 2009

### Competitive Advantages Relative to GDP per Capita

#### Incentives

Impact of taxation on incentives to work and invest	3
Distortive effect of taxes and subsidies on competition	5

#### Openness

Prevalence of trade barriers	7
Restrictions on capital flows	9

#### Nature of competition

Intensity of local competition	6
Intellectual property protection	11

#### Labor markets

Pay and productivity	5
Low rigidity of employment	14

### Competitive Disadvantages Relative to GDP per Capita

#### Nature of competition

Regulatory quality	47
Market disruption from state-owned enterprises	39
Quality of competition in the ISP sector	38
Effectiveness of antitrust policy	18

#### Openness

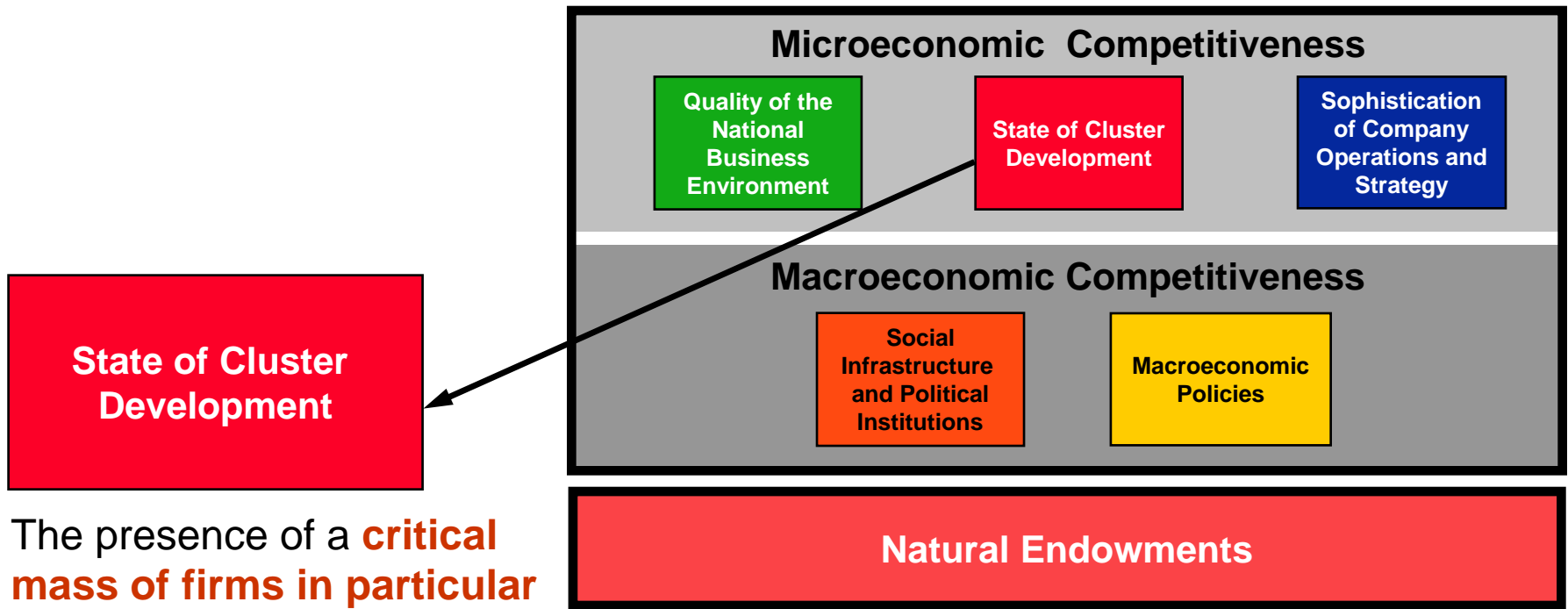
Strength of investor protection	71
Prevalence of foreign ownership	24

#### Corporate governance

Strength of auditing and reporting standards	28
Efficacy of corporate boards	17

Note: Rank versus 133 countries; overall, UAE ranks 14<sup>th</sup> in 2008 PPP adjusted GDP per capita and 20<sup>th</sup> in Global Competitiveness  
Source: World Economic Forum and Institute for Strategy and Competitiveness, Harvard University (2009)

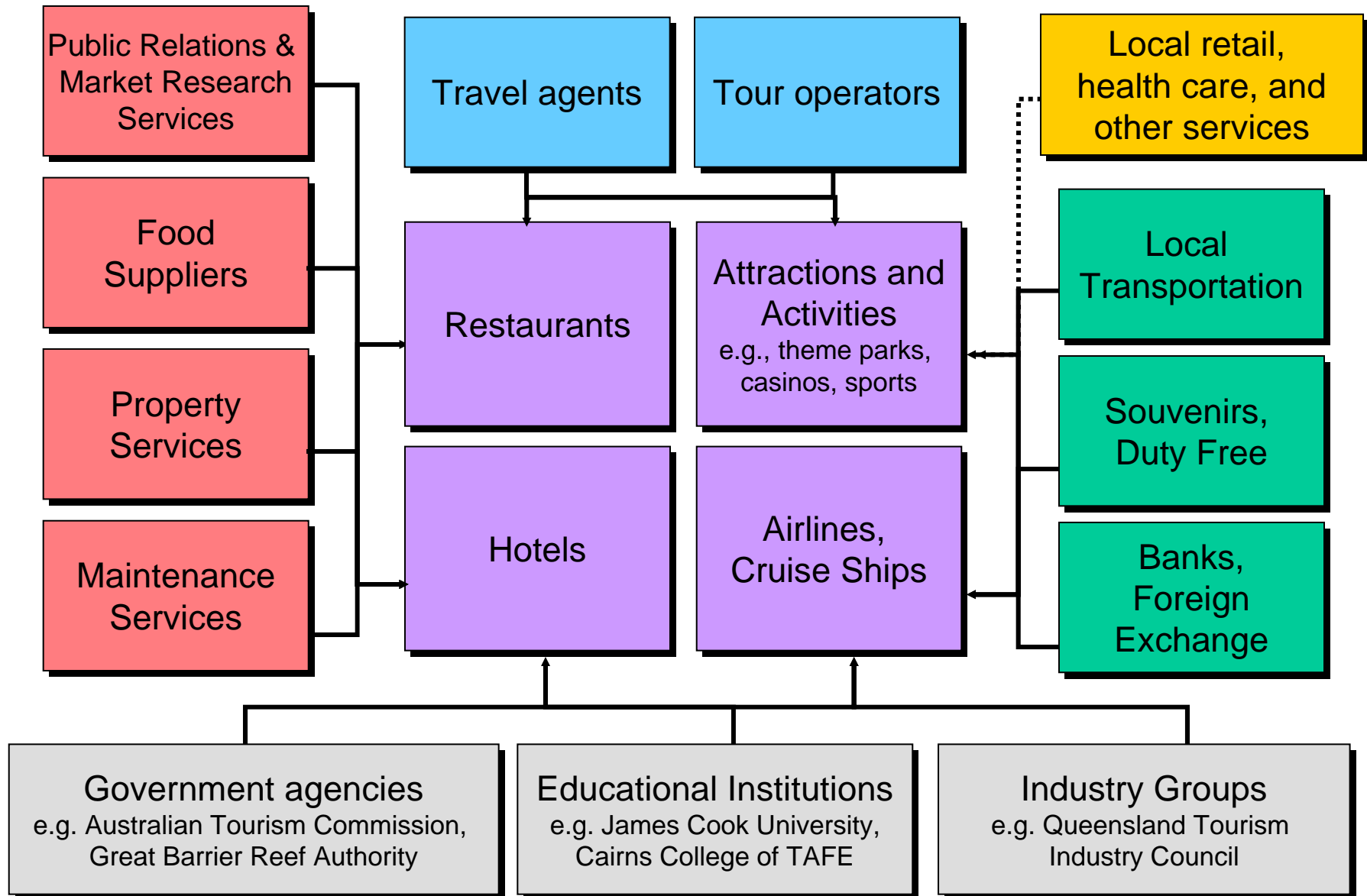
# Determinants of Competitiveness



- The presence of a **critical mass of firms in particular fields**, together with specialized skills, infrastructure, and institutions, that enable productivity through externalities across related firms and supporting services

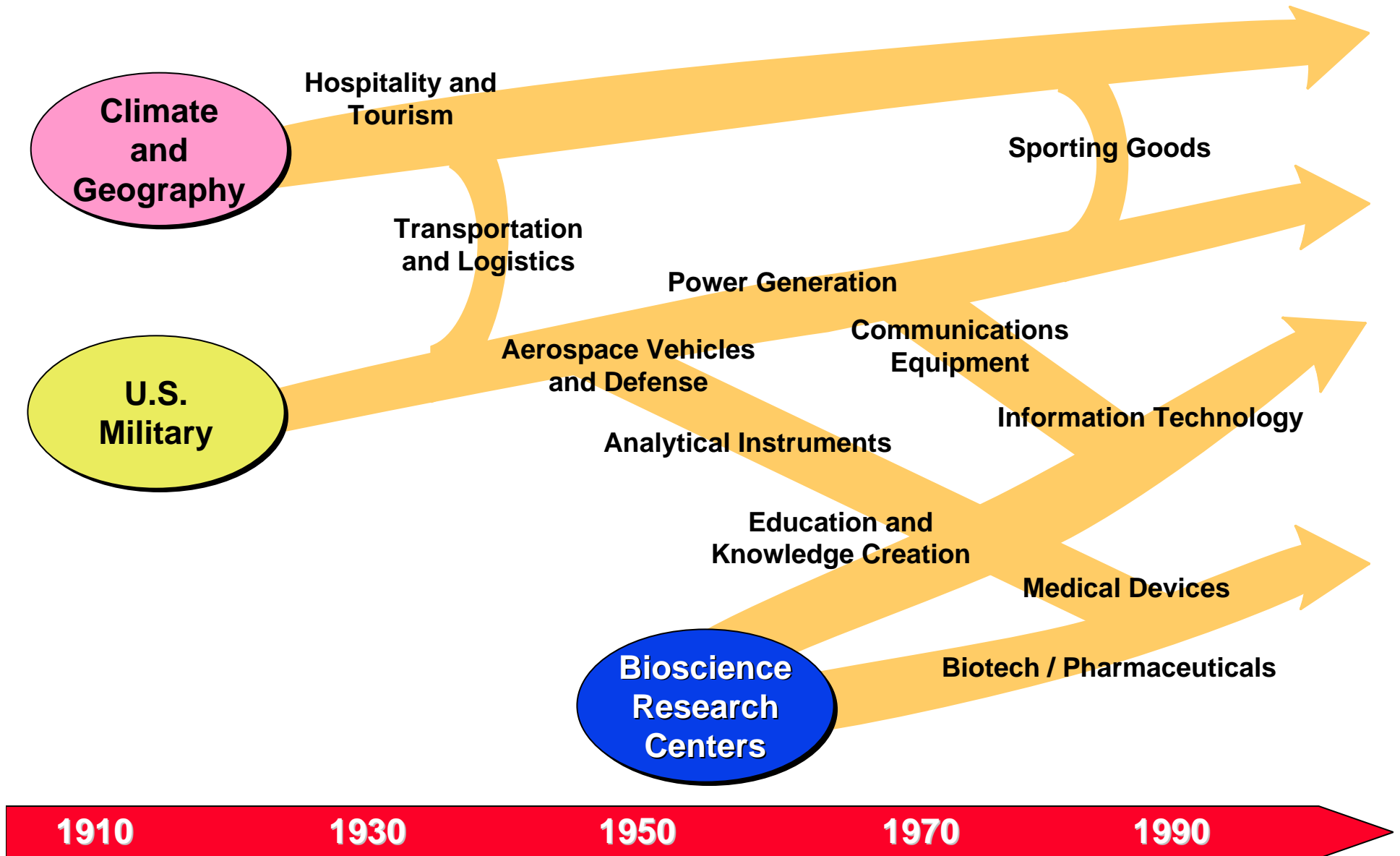
# Enhancing Cluster Development

## Tourism Cluster in Cairns, Australia

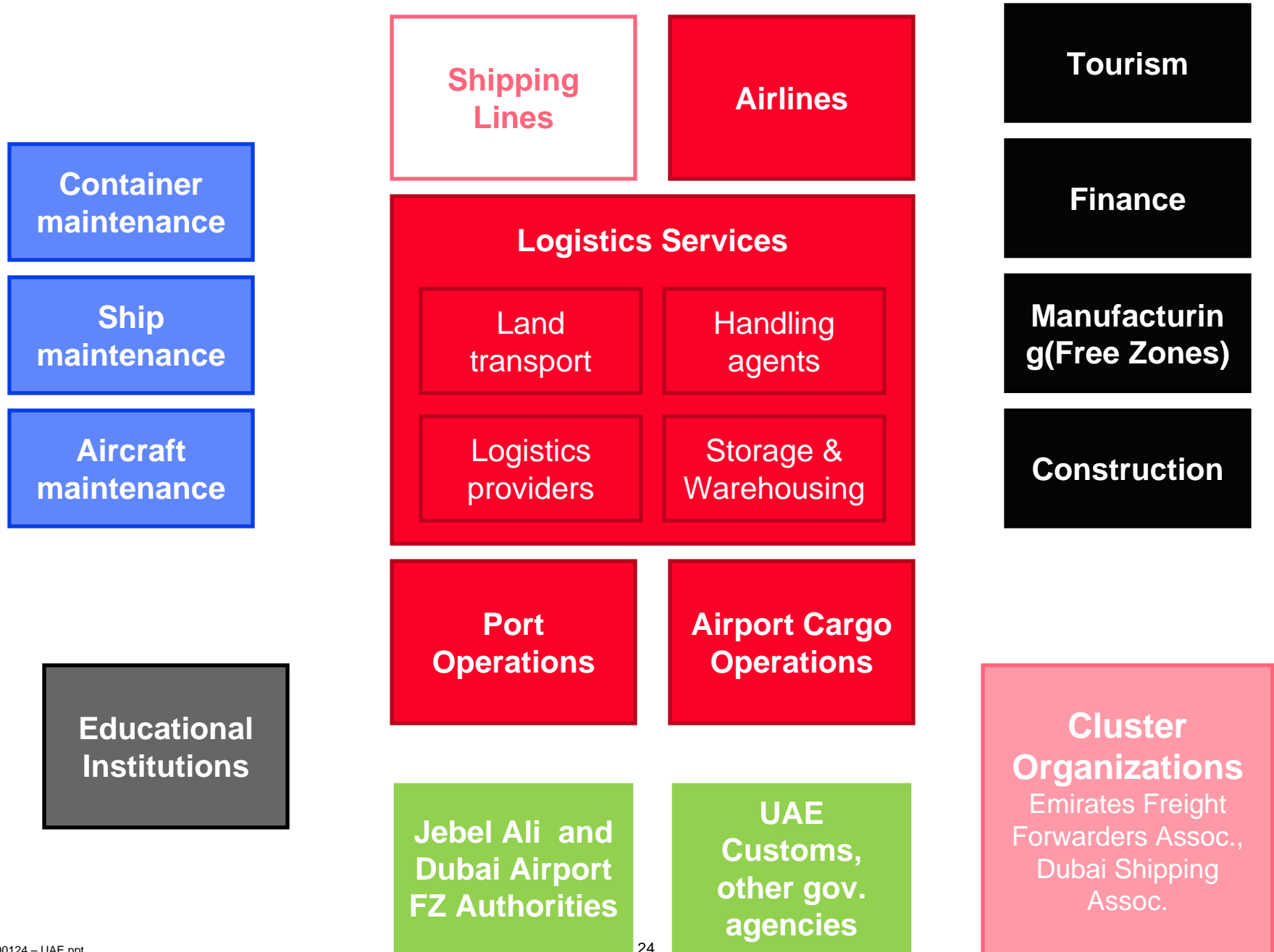


# The Evolution of Regional Economies

## San Diego

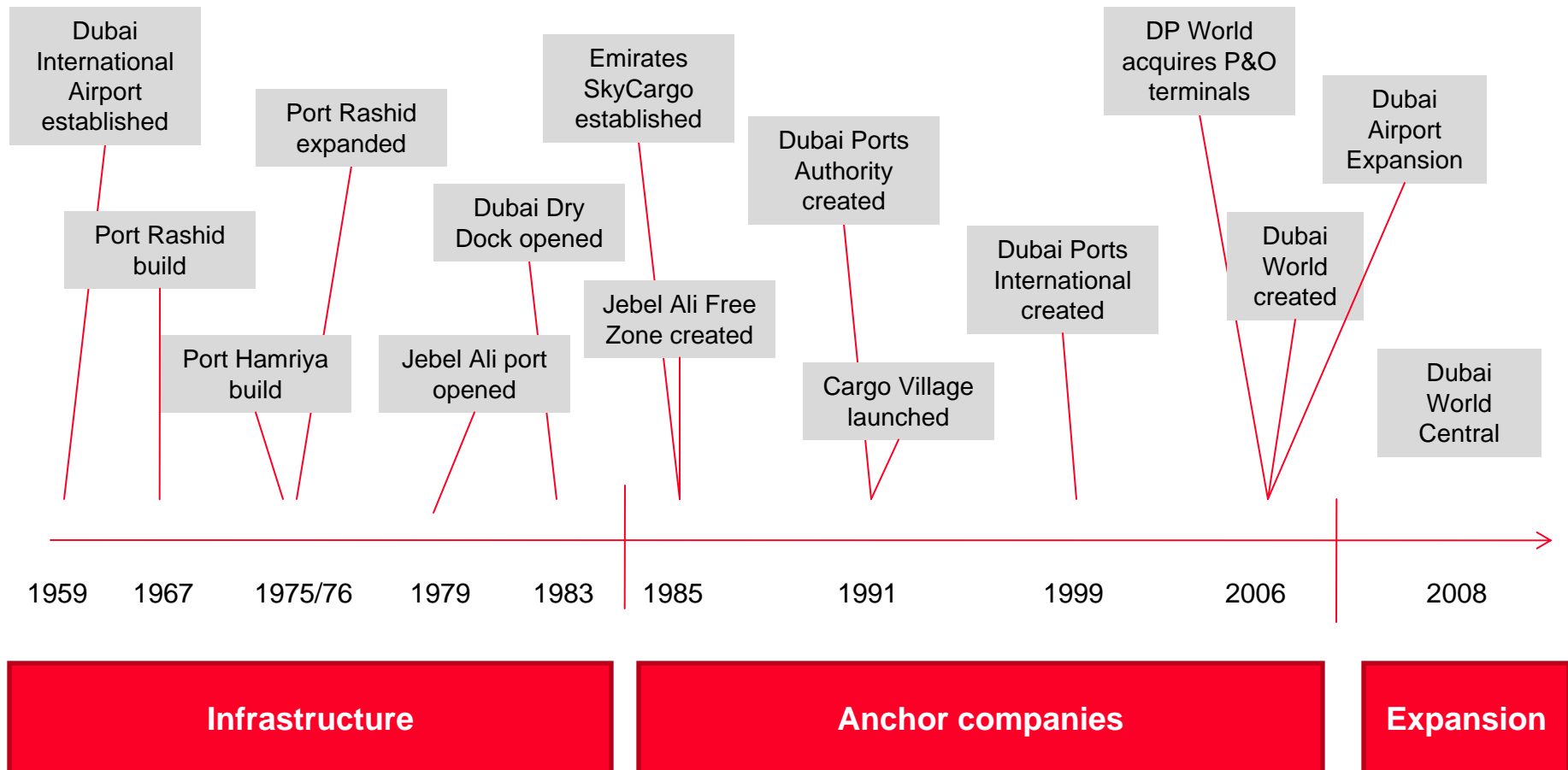


# The Dubai Logistics Cluster Map



# History of the Dubai Logistics Cluster

## Key Developments and Institutions



# Clusters in the UAE

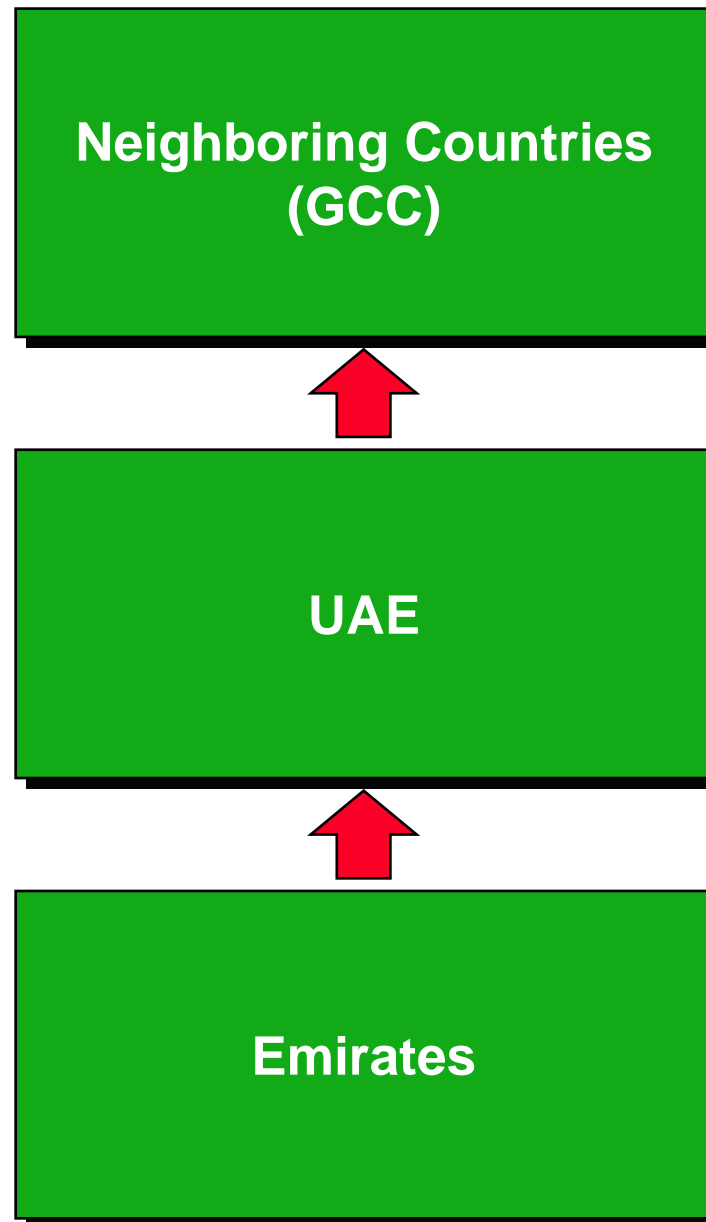
## Observations

- Clusters and cluster development efforts exist at the **level of individual emirates**
- There is **significant overlap** between cluster efforts within the UAE; collaboration is very limited
- Current UAE's clusters build on **natural endowments, infrastructure investments**, and the **attraction of foreign firms and talent**
- Despite **aggressive government efforts**, success in creating clusters in areas outside traditional fields has been limited
- Dialogue and active collaboration **within clusters** is limited, even where there is a significant degree of co-location of activities



- The UAE has made more progress in **cluster-based economic diversification** than many other oil-driven economies
- However, building a broader portfolio of **dynamic, sustainable clusters** remains a major priority

# Geographic Influences on UAE Competitiveness

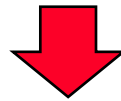


# Regions and Competitiveness

- Economic performance **varies significantly** across sub-national regions (e.g., provinces, states, metropolitan areas)
- Many essential levers of competitiveness reside at the **regional level**
- Rules and regulations ensuring open, effective competition, e.g. trade policy, general rules and regulations for business, are best coordinated **across regions**
- Region's **specialize** in different sets of clusters
- **Cluster strength** directly impacts regional performance
- Each region requires its own distinctive **competitiveness agenda**
- **National policies and investments** can help all regions to be more effective in the competitiveness efforts
- Improving competitiveness requires **effective policy collaboration** between regions and the national government
- Neighboring regions have to find a productive **balance of competition and collaboration** to avoid zero-sum rivalry

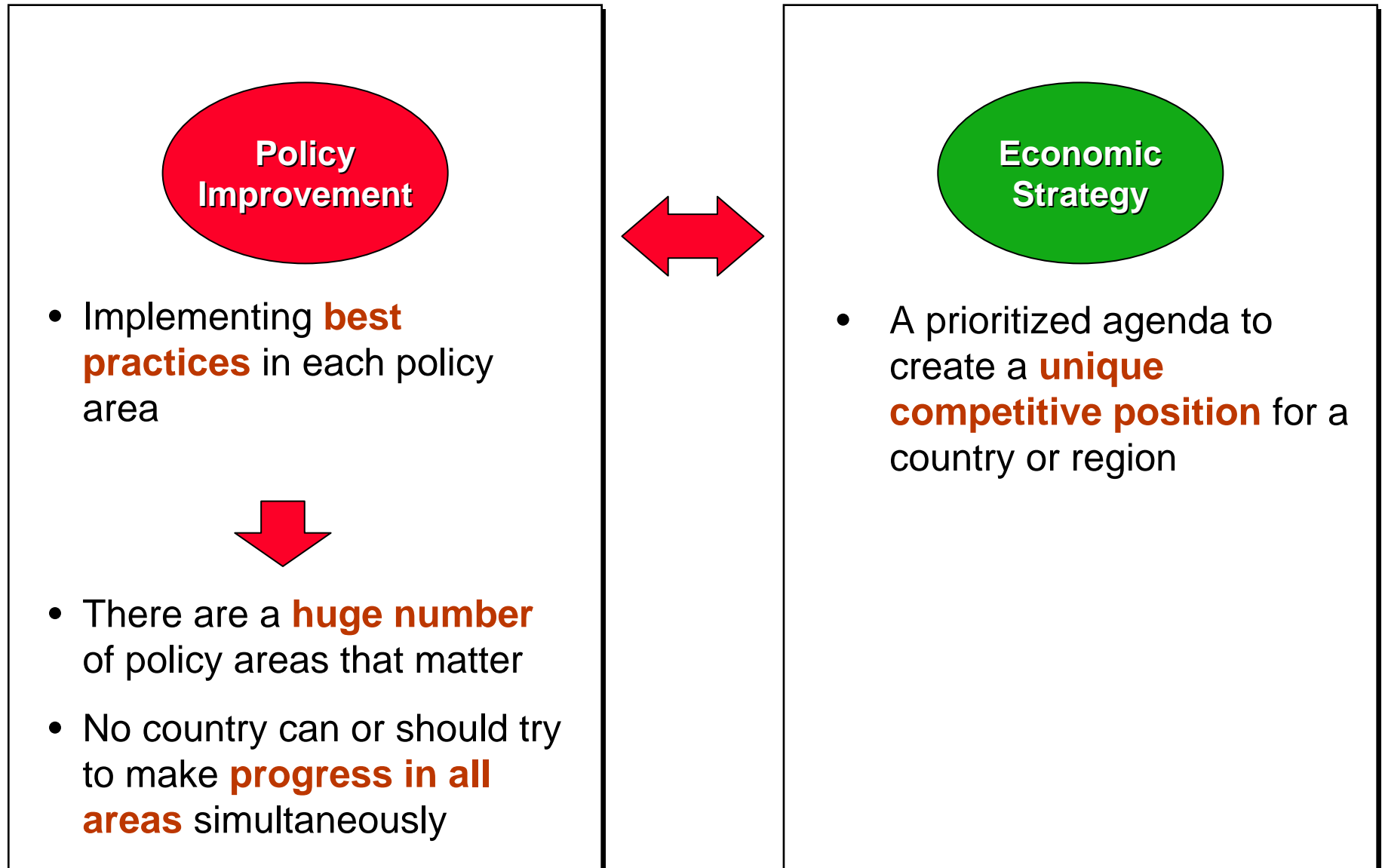
# Regions and Competitiveness in the UAE

- The large **heterogeneity** in economic size, profile, and performance across the Emirates of the UAE is not untypical
- In terms of economic development, more **cooperation** and coordination across the individual Emirates is required
- Competitiveness-related rules, regulations, and policies are **less aligned** across the UAE than in most other countries
- The federal government needs to strengthen the regulatory and legislation frameworks



- The UAE needs to significantly increase the **transparency of roles and responsibilities** (legal as well as actual) across different levels of government
- The UAE needs to focus more on **coordination** and **integration** across different levels of government

# The Need for an Economic Strategy



# Defining an Economic Strategy

## National Value Proposition

- What are the **distinctive competitive assets** of the nation's economy given its location, legacy, rate of progress, existing strengths and potential strengths?
  - What unique value as a business location?
  - In what types of fields / clusters?
  - What roles with neighbors, the region, and the broader world?

## Developing Unique Strengths

- What elements of **institutional context** and the **business environment** can be unique strengths relative to peers/neighbors?
- What **existing** and **emerging clusters** can be built upon?

## Addressing Crucial Constraints

- What are the crucial **weaknesses** and **constraints** that must be addressed to achieve parity with peer countries and allow the country to move to the next level?

- **Priorities** and **sequencing** are a necessity in economic development

# Economic Strategy in the UAE

- The **UAE government** has in early 2007 announced the government strategy for the coming years, outlining activities and ambitions
- Different **emirates** have developed their own economic strategies, e.g., Abu Dhabi Economic Vision 2030 and Dubai Strategic Plan 2015
- For economies that are in the process of economic transformation such documents are particularly important as they **outline new qualities** to be achieved
- These documents also provide important orientation to **coordinate the activities of new government agencies** that are emerging



- Current strategies focus on **aspirations** and particular **policies**, not on specific competitive advantages to be created
- There is **insufficient integration** of strategies and policies at different levels of government

# The Process of Economic Development

## Shifting Roles and Responsibilities

### Old Model

- The **central government** drives economic development through policy decisions, spending and incentives



### New Model

- Economic development is a **collaborative process** involving government at multiple levels, companies, educational and research institutions, and private sector organizations

- Competitiveness must be a **bottom-up process** in which many individuals, companies, and institutions take responsibility and act

# Role of the Private Sector in Economic Development

- The competitive advantage of companies depends partly on the **quality of the business environment** at the national and regional level
- A company gains advantages from being part of a strong **cluster**

## Corporate role in competitiveness

- Inform government on **business needs** and **constraints** bearing on company and cluster development
- Nurture local **suppliers** and attract foreign suppliers
- Work closely with local **educational** and **research institutions** to improve their **quality** and **create specialized programs addressing the cluster's needs**
- Collaborate with other companies to enhance competitiveness through **trade associations** and other mechanisms
- **Participate actively** in national and regional competitiveness initiatives
- Focus **corporate social responsibility initiatives** on enhancing the business environment