
ARAB BUSINESS COUNCIL

ABC ANNUAL MEETING, MARRAKECH, 25 NOVEMBER 2004 Aide Mémoire

The following aide mémoire reports the public discussions of the ABC meeting in Marrakech, 25-26 November, 2004. Discussions were intensive and tackled many dimensions of the Arab reform agenda and the role of the Arab business community in pursuing reforms.

The following is a synthesis of the discussion. It does not comprehensively report on each single issue raised during the deliberations.

The ABC and the World Economic Forum

Klaus Schwab, Executive Chairman of the World Economic Forum, presented his vision for the work of the ABC, which is based on five elements:

- The ABC shall become a driving force for effective pan-Arab co-operation.
- It shall become truly representative of the Arab business community. (NB: Currently, 16 Arab countries are represented in the ABC)
- The ABC shall become a good partner for governments in the Arab world and beyond to pursue the public good in the Arab world.
- The legitimacy of the ABC shall both be based on a strong governance system and a strong track-record of achievements.
- The Forum strives to be a crucial partner to and mentor for the ABC. In the same way as the Forum aspires and is committed to improving the state of the world, the ABC shall be driven by the wish to improve the state of the Arab world.

The Arab Business Council: Evolution and General Outlook

- Shafik Gabr, Chairman of the Executive Committee of the ABC, briefly recapitulated the origins of the ABC: Following a meeting organised by the Forum discussing competitiveness in the Arab world in 2002, the ABC was formally inaugurated at the Extraordinary Annual Meeting of the Forum at the Dead Sea in 2003.
- Based on the findings of the Arab World Competitiveness Report 2003, the ABC developed a "Blueprint for Reform" in Aqaba, later published in Davos 2004.

- The ABC also became one of the main sponsors of the process leading to the “Alexandria Declaration”, to which the ABC continues to be a member.
- The ABC’s work is based on the understanding that it is not enough for the Arab business community to work in isolation to press for reforms. Rather, the Arab business community is due to join forces and thus work more effectively for reform.
- Key goals include to (i) work together with government to improve the competitiveness of the Arab world, (ii) move beyond constituting a regional voice and have a more substantial international impact, (iii) be the legitimate representative of the Arab business community.
- The ABC also understands that, amongst others, it can make particular contributions to (i) the development of deeper capital markets in the Arab world, (ii) education, (iii) the reform of the public sector, (iv) and the promotion of ITC.
- It also strives to enhance the competitiveness of national Arab economies.
- To achieve this purpose, it aims to install Competitiveness Councils in Arab countries. A “best practice” example is the Competitiveness Council in Egypt. An extensive presentation was given on this topic. The ABC agreed to install competitiveness councils in other Arab countries.

The Economic Situation of the Arab World

- Becoming more competitive is not only due to an economic rationale, but also a social necessity. The Arab world needs to create some 80 million additional jobs in the coming years in order to absorb new labour entrants. This requires growth rates of 6-7% per annum.
- Growth rates of the past four years are an illusion. They are based on increased oil revenues and potentially undermine reform efforts.
- Business shall be one of the key drivers creating that growth. This is one of the key agendas of the ABC.
- Intra-regional trade in the Arab world is weak. However, boosting intra-regional trade is not enough to produce overall growth. Intra-regional trade is strongly linked to global trade integration (see World Bank report on intra-regional trade and link to global trade, Prospects 2004 of the World Bank).
- There are huge disparities in the Arab world with regard to the sources of growth: 75% of Egyptian GDP is produced by the private sector, in Kuwait it is only 25%.
- Corporate governance is not taken seriously in the Arab world, there is not even an Arabic expression for the term (hakamia might come close). There is little buy-in into principles like fairness, accountability, governance. There is no empirical research available on the issue of corporate governance in the Arab world and no single study on corporate governance in the Arab world.
- Other economies outside the Arab world might serve as examples: India’s approach to reform, amongst others: tariff rate cuts from 128% to 29% (average), non-tariff barriers were reduced, FDI permitted in many sectors, restrictions on capital outflow reduced, portfolio investment permitted. Growth in India is due to the performance of existing firms rather than the entry of new firms. India’s exports grew tremendously, FDI and portfolio investment tripled, per capita GDP grew considerably, productivity grew in particular in the service sector. Lessons from India: Trade policy reform seems necessary to ensure sustained growth and diversification.

- Overall manufacturing exports from middle-income countries have risen to some 70 per cent, outstripping by far natural resource exports. But: MENA has lagged behind, although resource exports declined somewhat against manufacturing exports.
- Without trade there is no growth expansion. There is a strong link between trade and investment policies (see the World Bank report on trade and investment in the MENA region). Without investment no trade.
- There is no statistical information about the amount of Arab wealth invested outside the Arab world.

Competitiveness of the Arab World

Introduction to the competitiveness work of the World Economic Forum and subsequent discussions on the key findings.

- The Growth Competitiveness Index 2005 includes seven countries from the Arab world. These are clustered within three per capita income brackets: (i) Bahrain and the UAE in the high income bracket, (ii) Tunisia in a middle income bracket, (iii) Jordan, Morocco, Egypt and Algeria in a low income bracket.
- The Growth Competitiveness Index assumes three pillars of global competitiveness: (i) macroeconomic environment, (ii) quality of public institutions, (iii) technology, human development, infrastructure, etc.

Macroeconomic environment in the Arab world - key findings:

- Poor state of public finance, huge public sector deficits, (remarkable in times of growth, growth might make fiscal adjustment easier).
- Stock of public sector debt is high, indicating a public sector management problem, denies governments to allocate current expenditure to invest in education, infrastructure, etc.
- Inflation is rather low. However, there is no reason for complacency, as low inflation is also due to exchange rate management and pegged currencies (that, in return, have a negative impact on price competitiveness).
- Spread of interest rates of loans and deposits is high in the Arab world, indicating intervention and non-transparent capital markets.

The Case of Syria

- There are no reform plans on paper. Syria is in need of a clear vision.
- Within 5-7 years the Syrian economy shall be completely restructured. Given demographic developments, Syria's macroeconomic stability could be in danger. Within the next 10 years, 500,000 job seekers will be added to the job markets each year. The window of opportunity to reform is limited given the demographic pressures.
- Syria needs growth of six to seven per cent to sustain itself – to achieve this, Syria needs high investment (public and private), but also drastic improvement of productivity.
- The past decade was a lost one for Syria. It was not conducive to private sector development, growth, or employment. In the past ten years, Syria witnessed a severe economic crisis. One out of four job seekers does not find a new job.

- Syria embarks on a path of reform that emphasises manufacturing over resources (from oil to non-oil), from public sector- to private sector-driven growth, from import substitution to export-led growth.
- Syria, as any other country aiming to reform, must consider the deep interrelationships that exist between the issue areas to be reformed. Issue areas are inherently interrelated.

About Reforms

- The Arab world has little time to embark on an ambitious reform process. The demographic time bomb is ticking.
- Reforms must be implemented in sequences and be focused. A distinction must be made between reforms that have a short and those that have a long-term impact (i.e. education).
- There are many problem areas that can be addressed immediately and quickly (exchange rate management, tariffs)
- A thorough reform agenda is needed. This agenda shall be comprehensive, yet easy to understand. It shall also be based on the understanding that issue areas and problems in the Arab world are inherently inter-linked.
- There needs to be an understanding that there are societal costs to reform. In anticipation of reforms, a constituency against reform is very loud. In order to soften this resistance, a way to compensate the ones that loose out from reforms needs to be thought through.
- It must also be acknowledged that reforms can be pursued within separate issue areas and independently from others lagging behind (see the example of India and its high corruption environment). Beginning in some areas might have positive spill-over effects on others.
- The private sector is not all for reform and openness. Some members of the private sector have engaged with public decision makers to prevent reforms from being designed and implemented.

Areas of Reform

1. Trade:

- Delete the negative lists within the free trade agreements between Arab countries, (examples mentioned: Jordan, Egypt), and accept that some products cannot be produced on a competitive level in a free trade arrangement,
- implement a scheme of a pan-Arab free trade area and reduce tariff and non-tariff barriers, evolving into a customs union amongst Arab states,
- open up to global trade, as intra-regional trade alone will not deliver the goods,
- establish trade dispute resolution mechanisms across the Arab world,
- engage in unilateral tariff cuts (see World Bank report).

2. Corporate Governance:

- develop a research agenda on corporate governance in the Arab world,

- create a “Council of Directors” in the Arab world, following the model of the “Institute of Directors” to be established in Egypt,
 - develop, together with the markets, and promote corporate governance standards in the Arab world.
3. Finance:
- develop efficient and transparent capital markets (‘money goes where money grows’),
 - make capital accessible to Arab entrepreneurs,
 - publish frequently accurate data about Arab economies,
 - put together an Arab stock index, used by investors as reference to allow cross-Arab capital investment,
 - liberalize portfolio investment.
4. Education:
- marry the human resources of the Arab world with its capital
 - enhance critical analysis capability, emphasising the problem-solving capabilities,
 - establish world-class business schools in the Arab world (see the example of the business school of Haidarabad, India),
 - develop a pan-Arab mentoring system for young entrepreneurs (example: business plan competition by the AUL), also engaging the Arab diaspora,
 - broaden the reach of the Jordan Education Initiative.
5. Mobility:
- improve travel interconnectivity,
 - introduce a Business Travel Certificate allowing to travel freely within Arab countries.
6. Macroeconomic Stability:
- revise exchange rate management in the Arab world (from pegged to floating),
 - reduce budget deficit and reduce public debt.
7. Improve investment Climate:
- improve the investment climate and business facilitation based on the findings of the “Doing Business” report of the World Bank,
 - make public tender processes more transparent by creating an IT-based trans-Arab tender platform¹,
 - ease the entry of investors into the country by following a one-stop-shop approach.²

¹ See as an example the defence contractor/tender platform developed out of Greece, see the example of Bahraini Tender Board – bahraintenders.gov.bh.

² See example of the Jordan investment board.

Commitment from ABC Annual Meeting in Marrakech

The General Assembly of the Arab Business Council meeting in Marrakech on November 25-26, 2004, commits to:

1. Establish **National Competitiveness Councils** progressively in each Arab country, engaging the private, public and academic sectors, to assess on an annual basis, the current state of competitiveness and prepare recommendations on means to improve it. These councils should ensure that economic and socio-economic data and information is available for all Arab countries at international (OECD) levels.
2. Work with National Competitiveness Councils and other regional business institutions to establish a regional **Task Force on Investment (TFI)**, with a Board of Trustees comprising of business representatives from the region, the G-8, China and India, to facilitate investment awareness and investment-friendly environments, enhance investment flows and encourage capital market integration.
3. In the context of the **National Competitiveness Councils**, the **Task Force on Investment**, and the **Arab Business Council** itself, engage with national governments to :
 - remove as many items as possible from the negative lists established under the Free Trade Agreements, noting the decision announced by the Egyptian government at the ABC Conference to eliminate the negative list in its agreement with Jordan on all items except textiles
 - establish an effective recourse and dispute resolution mechanism to address conflicts arising from regional Free Trade Agreements
 - move rapidly towards adoption of zero-tariffs for industrial inputs
 - implement a customs union between the largest possible number of Arab states
 - encourage accelerated compliance with the provisions of the EU/US trade agreements and apply these on a MFN basis
 - press for better access to G-8 and other OECD markets, especially in the agricultural products field
 - simplify tax codes and apply the lowest reasonable rate of taxation
 - enhance ICT connectivity in the region, to strengthen business communication, government effectiveness, access to information and education quality
 - work towards deeper, better regionally- and internationally-integrated, financial markets, including capital and bond markets
 - improve the quality of corporate, political and economic governance and application of the rule of law, to improve business efficiency and encourage investment
 - enable better delivery of business-relevant education and skills by partnering with tertiary institutions in delivering specific programmes and sponsoring Entrepreneurship Centres.