Center for Mellemøststudier
ANALYSIS
Juni 2009

Ease of doing business in the Gulf countries

Martin Hvidt

It is with considerable excitement that governments the world over await the yearly Doing Business report from the World Bank. This report attempt to quantify the regulation and red tape involved in setting up, running and closing down a business in each of the 181 countries the report covers. As such this report is essential reading not only for global investors but also for individual governments who aim to foster private business activities and attract investments. This article takes a closer look at the report with special respect to the six Gulf countries Bahrain, Kuwait, Oman, Qatar Saudi Arabia and United Arab Emirates.

CENTER FOR MELLEMØSTSTUDIER
Syddansk Universitet - Campusvej 55, 5230 Odense M
Tlf. 65 50 21 83 - www.sdu.dk/middle-east/
SYDDANSK UNIVERSITET

The Index of Doing Business ranks 181 countries on the basis of 10 parameters that express how easy (in terms of time and money) it is to set up, operate and close a business. The aim of the index is to measure the regulation and red tape relevant to the life cycle of a domestic small to medium-size firm. As such it assesses the effort it takes to apply and procure various licenses, employing workers, registering property, getting credit, paying taxes, doing international trade, enforcing contracts and closing a business.[1] A high rank (low number) indicates that the regulatory environment is conducive to the operation of businesses while a lower rank indicates the opposite. According to the 2009 index, the five easiest countries in which to do business are: Singapore, New Zealand, USA, Hong Kong and Denmark.

This index is relatively narrow in scope in comparison to other types of indexes e.g. World Competitiveness Index and the Index of Economic Freedom. It does not, for example, encompass items as the security situation in a country, the macroeconomic stability, corruption, labour skills of the population, the underlying strength of institutions or the quality of infrastructure. The index is constructed from international available data and not least on behalf of information from a panel of expert in each country.

The reform process in the gulf countries

The Middle East and North Africa (MENA) region has carried through a significant number of reforms over the last five years since the index was established. Two thirds of the countries are implementing reforms. The fastest pace of reforms has taken place in Egypt and Saudi Arabia. As such Saudi Arabia was singled out by the World Bank as belonging to the group of Top Global reformers in 2006/2007, and so was Egypt in 2007/08.

The six Gulf-states which are the focus of this article obtain by far the best rankings among the group of MENA countries. The average rank of this group of countries is 38, while the average rank of the remaining countries in the region is 114. Only Israel (30), Tunisia (73) Yemen (98) and Lebanon (99) are ranked above no. 100.[2] In other words, the Gulf countries are by far the easiest place to do business in the MENA region.

The rank of each Gulf country in the 2009 Doing Business Report

Rank	Country
16	Saudi Arabia
18	Bahrain
37	Qatar

46	UAE
52	Kuwait
57	Oman

Both Saudi Arabian and Bahrain are ranked among the 25 most 'business-friendly' nations in the world, and as such hold a rank similar to countries such as Finland (14), Sweden (17), Belgium (19) Switzerland (21) and Germany (25).

Which types of reforms are undertaken?

The reforms undertaken in 2007/2008 which are reported in the 2009 Doing Business report track every reform that has made it easier or more difficult to set up, operate and close a business. In the Gulf countries, such reforms has generally been undertaken within five areas; namely in the 'ease of starting up businesses,' 'getting credit' or credit information, 'registering property' and reforms to ease of 'trade across borders.' The World Bank considers those to be the easier types of reforms to do, because they can usually be carried through without any significant legal changes or involve difficult political tradeoffs. If one considers changes in labour laws about how to hire and fire workers and issues related to taxation, then the political implications would be considerably more difficult.

As mentioned, Saudi Arabia has been implementing a number or reforms over the last five years. Starting a limited liability company in Saudi Arabia used to demand the highest minimum capital requirement in the world, namely \$125,000. This amount has been significantly reduced, and so has the number of procedures it takes to start a company. Before it took 13 procedures now it takes only 7. As a consequence the amount of days it took to start a company fell from 39 days to 15 days.

Those and other reforms are a part of what King Abdullah in 2006 launched as the 10-by-10 initiative. Since the mid 1990 King Abdullah and his advisors have realized that Saudi Arabian needed to vitalize its economy in order to deal with the challenges it was facing. First among them the lack of job creation both in the public and especially in the private sector. One of the first significant outcomes of this realization was that Saudi Arabia entered WTO in 2005. The 10-by-10 initiative was formulated in a statement by the King in 2006 saying "I want Saudi Arabia to be among the top 10 countries in *Doing Business* in 2010. No Middle Eastern country should have a better investment climate by 2007." And due to the political structure especially the centralized decision making in the country reforms could be implemented very fast. Saudi Arabia assigned SAGIA (Saudi Arabia Government Investment Authority) as the responsible agency for the 10-by-10 effort and even gave the employees bonuses in relation to how well Saudi Arabia did on the Doing Business index.

The goal for Saudi Arabia was not only to improve its business climate, but as stated to improve compared with other countries. The table below show the ranking and not least the change in ranking of each of the six Gulf countries since 2006.

Change in ranking of the Gulf countries 2006 to 2009

Country	DB 2009	DB 2008	DB 2007	DB 2006
Saudi Arabia	16	23	38	35
Bahrain *	18	n/a	n/a	n/a
Qatar *	37	n/a	n/a	n/a
UAE	46	68	77	68
Kuwait	52	40	46	40
Oman	57	49	55	52

DB = Doing Business Report

* Bahrain and Qatar was not included in the index before 2009.

As can be seen, Saudi Arabia has improved its rank significantly. It has moved from a 35th place to no. 16. If this reform initiative can be sustained, they might reach their goal of being among the 10 highest ranked countries in the world by the year 2010. From the table we also can see that UAE has increased its rank about 20 places as a result of genuine reforms. Both Kuwait and Oman has actually fallen behind and have lost ranks over the last four years. The index does not offer a possibility to exactly see what the cause of this is, but the interpretation is that these two countries have lost ground, not because they have not carried out reform (they have in fact, but not many), but because other countries closer to them on the index have carried out reforms at a higher speed, thus suppressing the rank of these two countries.

So what need to be done in order for Saudi Arabia to reach a rank among the easiest ten countries in the world to do business? A closer scrutiny of the data reveals that the rank of Saudi Arabia (and that actually also count for the other Gulf countries) is especially negatively affected by procedures related to the item 'enforcing contracts.' In Saudi Arabia for example it still involves 44 procedures and takes 635 days to enforce a contract and the cost involved amounts to 27.5 % of the claim. The performance related to this parameter is rated so low, that Saudi Arabia is ranked as low as number 137 on this parameter. For the remaining five countries problems exist within most of the parameters that makes up the ranking. In addition to the above mentioned item their scores are negatively affected by factors related to getting 'credit', 'employing workers', protecting investors' and 'closing a business.' Oman furthermore scores really low in relation to 'dealing with construction permits.' (World Bank, 2008b:60-76).

Concluding remarks

So, from the 2009 Doing Business index we have learned that the Gulf countries do relatively well. As such, it is far easier to set up, operate and close down a business in the six Gulf countries than in the other Middle Eastern countries. In this respect only Israel are at par with the Gulf countries, all the other countries are rated significantly lower. The best ranked Gulf countries are ranked similar to many European states.

We have furthermore seen that Saudi Arabia and UAE have improved their rank over the last four year, while Kuwait and Oman has fallen to lower ranks. Qatar and Bahrain which are placed relatively high at the index has not been rated before, and as such we don't know their ranking story.

The above findings are interesting in light of the firmly founded myth, that the Gulf countries (with Dubai as an exception) are difficult places to do business. They still might be. Remember that the Doing Business index measures how easy it is for a domestic firm to set up, operate and close down. In other words it still might be considerably more difficult for an international firm to establish themselves in each of these countries.

The really interesting question is how the current financial crisis will impact the reform process in the Gulf countries. On one hand one might argue that the reform process might come to a halt, because in the midst of a crisis focus shift from reforms to survival.

On the other hand, one could argue, that exactly because of the crisis, a government would undertake significant reforms aimed at making it easier for firms to be set up and operate. In other world, the crisis spurs a need for reforms.

It is not easy to see which of these two strategies will be the outcome of the current crisis. One fact that might point in the direction that the crisis spurs further reforms is that parallel to the current financial crisis, oil prices are rising. The reform process over the last years has taken place a global setting of high oil incomes, and as such, the fact that the oil price again is back over 70$ a barrel, could argue, that the societies have the economic means to carry through the reforms.

References

Niblock, Tim , and Monica Malik (2007). *The Political Economy of Saudi Arabia*. London: Routledge.

World Bank (2008a). *Doing Business 2009: Comparing regulation in 181 economies*. Washington D.C.: The International Bank for Reconstruction and Development / The World Bank.

World Bank (2008b). *Doing Business in the Arab World: Comparing regulation in 20 economies*. Washington D.C.: The International Bank for Reconstruction and Development / The World Bank.

---

[1] See http://www.doingbusiness.org/.

[2] Own calculations using data from table 1.2 (World Bank, 2008b:3). Note that I have included Israel and Iran in this calculation to comply of my definition of Middle East and North Africa.