Chapter 14
Doing Business and Imperfections in the Development of Knowledge Economy in the Arab Countries

Ahmed Driouchi
Al Akhawayn University, Morocco

ABSTRACT

As underlined in the previous chapter, rents may reduce the capacity of Arab economies to accelerate its adoption of knowledge economy. Major imperfections in these economies at the levels of markets, governance, and enterprises are discussed in this chapter. The limited business and enterprise creation in relation to the high unemployment of skilled labor are among the issues analyzed and discussed. As the prevailing political, macroeconomic, and business components are inter-related, imperfections are identified in almost all areas of the Arab economies. The chapter shows clearly that shifts to further knowledge economic and social policies are needed.

INTRODUCTION

As discussed above, knowledge economy is assumed to be linked with both business development where private initiatives are the main drivers and an overall macroeconomic and social growth where governments play an important role. The impacts of knowledge economy on businesses and economic policies are first reviewed. The second part of this first section is devoted the overall lessons learned globally and from the comparisons with EEE countries. The focus on the imperfections related to knowledge development forms the second part of this chapter as this linked to the creation of enterprises that are knowledge based. Such imperfections might contribute also to the understanding of the constraints to new business creation. This last part introduces new variables that relates to culture and behavior with maintained comparisons with EEE economies.
1. WHAT CAN BE LEARNED FROM DOING BUSINESS BY ARAB ECONOMIES?

The way of doing business and mainly the starting of a business provides important indications about how enterprises are created. It seems that the context of Arab countries shows the prevalence of more public businesses and government related transactions in comparison with that of private businesses. As the growth of the number of enterprises indicates how market economy is promoted, it also indicates how private initiatives lead to enterprise creation.

This chapter uses the data from the World Bank databases with the objective of showing the major trends characterizing the initiation of businesses in Arab economies at the level of countries and globally with comparisons with Eastern European Economies (EEE). The major characteristics as well as the comparisons are important means to underline the existence of market incentives for the expansion of private initiatives in individual countries and for the overall economy of the Arab World.

The chapter is composed of a literature review and a section based on data analysis. This latter is used to discuss the trends taking place in Arab economies.

1.1. Previous Contributions

Most of the existing economic literature focuses on the general economic conditions for business development and on the overall entrepreneurship in Arab countries. Only few contributions are found to be based on the characterization of doing business at the microeconomic level.

In practice, the creation of new enterprises goes through series of steps that relate to the different stages needed for launching a business. This can be crucial in case of largely fragmented set of authorizing agencies.

According to the World Bank Group (2011), Doing Business is easier when governments make registration easy, more entrepreneurs start businesses in the formal sector creating thus, more jobs and generating more revenue for the government. As Doing Business measures the ease of starting a business in an economy by recording all procedures that are officially required in practice by an entrepreneur to start up and formally operate an industrial or commercial business and the time and cost required to complete these procedures. It also records the paid-in minimum capital that companies must deposit before registration (or within 3 months). The ranking on the ease of starting a business is the simple average of the percentile rankings on the 4 component indicators: procedures, time, cost and paid-in minimum capital requirement.

The most important contribution in this area is provided by Qianwei and Guangnan (2007). In this paper, the authors investigate how the fragmentation of licensing rights affects the occurrence of the tragedy of anti-commons in the enterprise licensing procedures. It is also shown that the impacts of the tragedy of the anti-commons are more emphasized with the high extent of fragmentation. This situation alters the evolution of the entrepreneurial initiatives in China because it creates considerable challenges for the victims of the anti-commons (e.g., enterprises). (Dethier, Hirn, & Straub, 2010) survey the recent literature which examines the impact of the business climate on productivity and growth in developing countries using enterprise surveys. Various infrastructure, finance, security, competition, and regulation variables have been shown to have a significant impact on enterprise performance.

Scharff (2006), in condemning the anti-commons, found that economic development of land may be suboptimal where multiple parties have the legal right to exclude use of the property in question.

But some authors referred to the links between bureaucracy, corruption and economic