



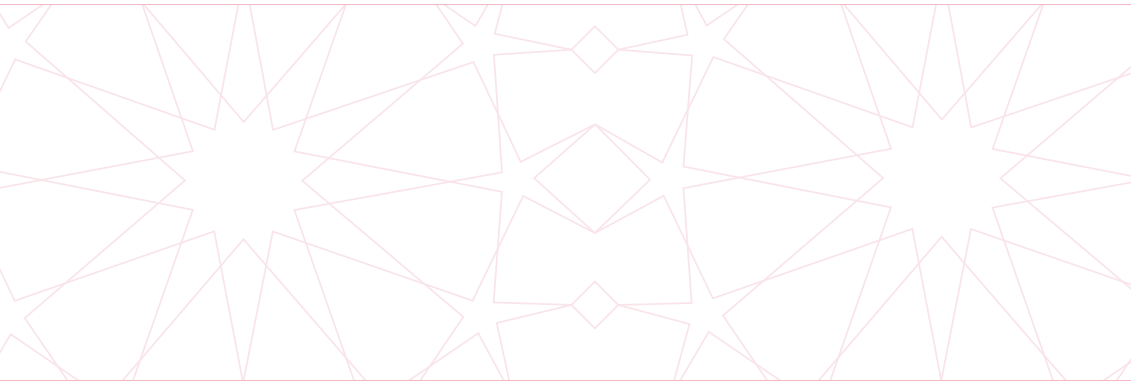
ARAB
BUSINESS
INTELLIGENCE
REPORT

Confidence Confirmed

The 2nd Arab Business Intelligence Report
December 2006



HOW THE REPORT WAS PRODUCED



Building on the success of last year's ABIR I, the second Arab Business Intelligence Report presents the results of a major independent program of research carried out in the autumn of 2006 jointly by Moutamarat and PricewaterhouseCoopers.

PwC's International Survey Unit, its in-house centre of excellence for research, was responsible for designing the report's methodology and conducting the fieldwork. Our survey specialists used tried and tested methods for assessing industries and measuring opinion leaders' perceptions, bringing extra clarity and objectivity to the report.

PwC is proud to be associated with Moutamarat which has effectively positioned itself as a pioneering force in developing impactful knowledge on the region. With its finger on the pulse of the Arab world, Moutamarat's leadership has become a catalyst in bringing together business leaders from across the region.

Breaking new ground, the ABIR I gave Arab business leaders a unique point of reference and an insight into the underlying economic strategies on a national and regional level. This introduced the first CEO Arab Confidence Index, based on the same methodology as the USA Conference Board Measure of CEO Confidence.

The inclusion of six additional key industries and another four Arab nations to the ABIR II provides the means to create new benchmarks. The Arab Innovation Index and the Labor Market Index effectively complement the Confidence Index to provide even deeper insights into the most relevant Arab world business issues. These three indices combine to form a sophisticated and accurate tool for both Arab business leaders and CEOs on a global scale.

The ABIR II is the largest study ever undertaken of the opinions and perceptions of Arab world business leaders. It is based on telephone interviews of 568 senior executives – typically company presidents, chairmen or



chief executives – marking a significant increase from the 140 respondents in 2005. Every care has been taken to make the survey as representative as possible of the participating countries, according to gross domestic product, and we are confident that the respondent base provides a reliable barometer of opinion.

The outstanding results of the ABIR II have only been made possible by the trust and the considerable investment of time and energy of survey respondents in providing us with a wealth of thought-provoking knowledge and opinion.

The report is rigorous, comprehensive and independent, to be used by the Arab business community as an accurate instrument in assessing development and prospects in a variety of key industries throughout the Arab world. This document will influence senior executives' decisions and enhance their understanding of economic conditions, challenges, growth and potential. It is designed to be used by any individual or organization with an interest in the Arab world's growing economic confidence and the huge opportunities that the region offers.

Michael Stevenson
Senior Partner
PricewaterhouseCoopers
Middle East Region

FOREWORD



I am delighted to present the second Arab Business Intelligence Report. Our objective is to present a practical reference document based on the real opinions of the business leaders of the Arab world. We launch this second edition with pride and excitement, confident that you will find the results both informative and insightful. In my view, the ABIR brings clarity and simplicity to matters of high complexity, offering for the first time a comprehensive profile of the Arab business community.

The second ABIR builds on the solid foundation established by our first report by analyzing and highlighting the key factors that have shaped the region's economy over the past 12 months. We have expanded its reach to study more countries and more industry sectors than any other CEO survey in the Arab world. The robust methodology developed with PricewaterhouseCoopers will help us make further contributions to the wider debates about the fundamental questions that confront the Arab business world.

Together with our partners, we are confident that the ABIR can eventually become a tool to gain deeper insights into the Arab business community and to achieve a comprehension of the real challenges that our business leaders will face in the future. This Report should help us to better understand and adapt to a fast-changing environment.

The overriding issue in this year's ABIR is the critical importance of Human Capital. Business leaders have articulated their concerns about human capital in no uncertain terms. They consider educating the workforce as a priority for industry growth, and perceive the lack of available talent as the greatest threat, replacing global terrorism at the top of the list. We have therefore decided to dedicate this second edition to the Human Capital angle and to focus the in-depth interviews on this theme.

I would like to extend our gratitude to all those business leaders across the Arab world who volunteered their time for the survey and who have enriched the ABIR with their personal insight. This Report is made by the business community for the business community. My special

appreciation also goes to Anne Simon and our friends and partners at PwC who have so closely embraced the spirit of this publication and who developed the Labor Market Index for the ABIR. Similarly, I want to acknowledge the vision and the work of Professor Soumitra Dutta of INSEAD in the development of the ground-breaking Arab Innovation Index. Finally, I wish to extend a very special consideration for the Moutamarat team that heads this visionary project—Daniel Camara, Mitra Khoubrou and their team—for their efforts in putting this volume together despite the many challenges that are associated with the creation of such an ambitious research project.

The business leaders of the Arab world have again shared with us their objectives and opinions. We are delighted to be able to share with you the main highlights of our research in the hope that they will shed new light on the priorities and competitive challenges of the Arab business leaders.

Khalid Al Malik
Chief Executive Officer
Moutamarat

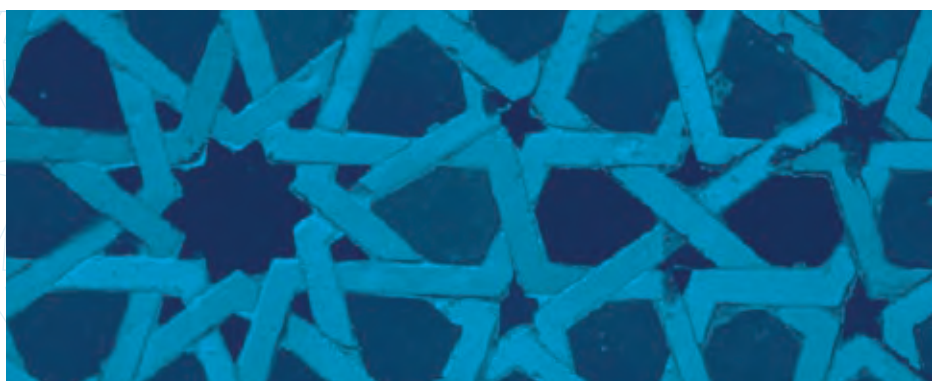


Economic confidence in the Arab world:

81%

believe conditions will improve over the next year

HEADLINE FINDINGS



1. CONFIDENCE CONFIRMED

Economic confidence in the Arab world remains very high. Almost eight out of ten senior executives (79%) in 18 countries and across nine industry sectors say that economic conditions are better than 12 months ago and 81% say that they expect conditions to improve even further over the next year.

2. THE ARAB ORACLE?

The ABIR I was a reliable source to predict annual economic results for the Arab world this year. In 2005, 83% of respondents expected economic conditions to improve in 12 months' time. In 2006, 79% of business leaders actually reported an improvement in conditions. Comparisons across the three sectors that participated in last year's survey illustrate that this pattern was maintained.

3. MIND THE GAP!

The gap in business confidence between the Arab world and the US is greater than in 2005, indicating a sustained economic momentum in the Arab world. At a score of 76.5 points in 2006, it is almost identical to the high benchmark set in 2005. The comparable US Conference Board CEO Confidence Index fell to 44 points in the third quarter of 2006, a significant drop from the 56 point score of 2005.

4. ECONOMIC STABILITY

The war in Lebanon did not appear to have an overall negative impact on economic confidence in the Arab world. Confidence in the Gulf region increased after the war broke out and only dropped marginally in the North Africa and Levant regions.

5. GROWTH LEADERS

Saudi Arabia (18%) and the UAE (12%) are seen by leaders as the major growth markets across all nine industries. In terms of forming alliances, the UAE (24%) and Saudi Arabia (14%) are once more at the forefront.

6. SETTING PRIORITIES

Arab world business leaders report that raising education levels within the workforce and improving infrastructure are the most important factors for sector growth and development.

7. NEW THREATS

Lack of available talent (73%) and increased competition (63%) are perceived as the major threats to business growth. Global terrorism (61%) is still regarded as a major threat to economic well-being, but has diminished since 2005 (71%). The 2006 figure is, however, considerably higher than the overall world figure reported in the 2005 PwC Global CEO Survey (48%).*

8. THE KEY IS HUMAN CAPITAL

As the 2005 ABIR I survey demonstrated, human capital is perceived as a long-term driver of growth. The 2006 ABIR II figures suggest that this has become even more important, with 29% of Arab world business leaders citing "improving people" as their highest priority and 14% naming "staff retention". The figures in 2005 were 28% and 10% respectively.

9. COST OF TALENT

An expected increase in the demand for skilled labor has resulted in 81% of Arab business leaders predicting that costs of skilled labor will be higher in 12 months' time.

10. A PERFECT STORM?

The combination of respondents' perceptions of labor supplies and their attitudes towards training may impact business confidence levels. Bahrain and the UAE effectively illustrate this point, having experienced by far the biggest drops in business confidence from the 2005 survey (-16% and -11% respectively). Business leaders from both countries have a relatively low opinion of their domestic labor supply, a high opinion of their international labor supply, and a low opinion of the importance of improving training opportunities.

* The Global PwC CEO Survey comprises around 1,500 interviews with major companies to assess perceptions of salient business issues. The Survey is now in its 10th year and the results feed into the World Economic Forum at Davos.

INTRODUCTION AND METHODOLOGY

OBJECTIVES

On the back of the encouraging reception of the first ABIR in 2005, Moutamarat and PwC extended both the scope and the geographical area in the 2006 study. The ABIR is now the most comprehensive and independent assessment of the Arab world's corporate agenda.

Economic sectors covered in the ABIR II

- Energy, Mining and Utilities
- Engineering, Construction and Real Estate
- Entertainment and Media
- Financial Services
- Healthcare
- Information and Communication Technologies (ICTs)
- Retail and Consumer Goods
- Transport, Logistics and Storage
- Travel and Tourism

Countries surveyed





METHODOLOGY

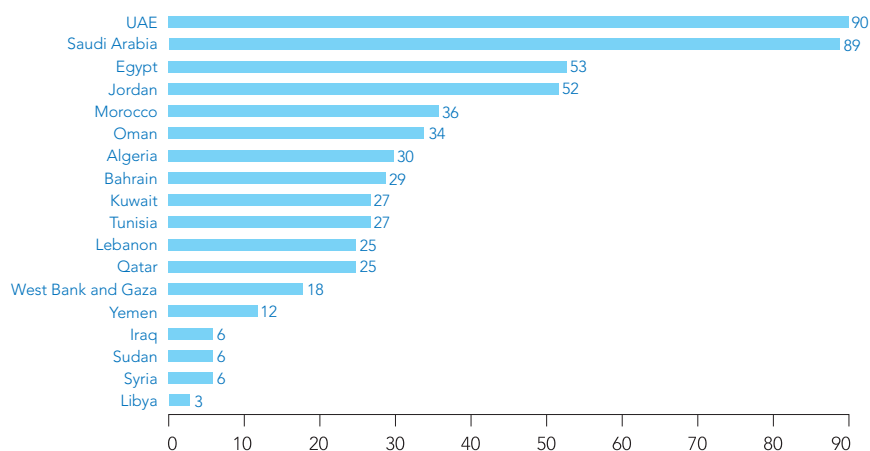
PwC and Moutamarat continued to draw on their extensive networks of corporate leaders across the Arab world to compile a pan-regional listing of the most prominent business leaders in each sector – typically the Chairman, CEO or President of leading companies. As in 2005, the quantitative telephone surveys form the cornerstone of the research, and are complemented by a number of in-depth interviews with the most influential decision-makers from the Arab world.

Between June 19th and October 1st 2006, PwC interviewed a sample of senior executives via its International Survey Unit. The 45-minute telephone interview covered strategic issues common to all companies as well as issues specific to each of the nine sectors. These included:

- Threats and Barriers to Growth;
- Sector-Specific Issues. (These unique reports focusing specifically on the individual sectors will be produced at a later date.)
- Economic Confidence in the Arab World;
- Sector Growth and Development;

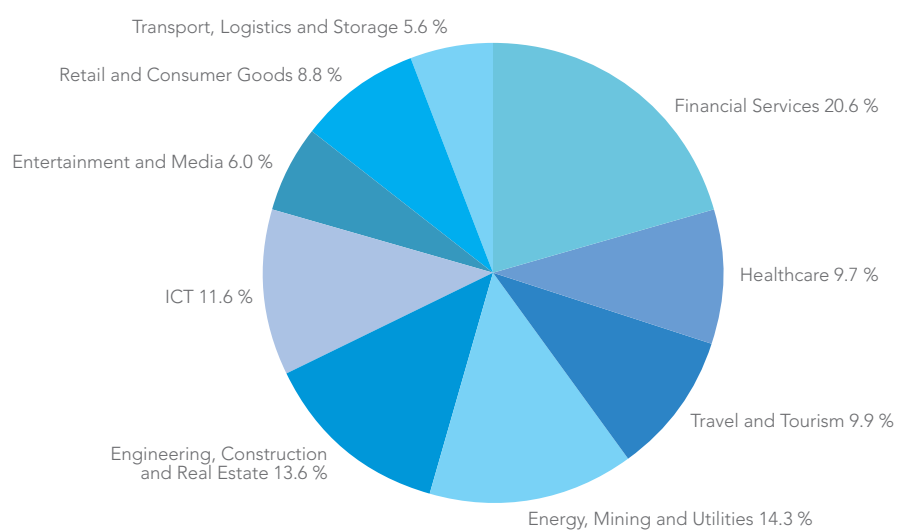
The overall response rate was 18.7%. Moutamarat and PwC took every care to ensure that there was accurate coverage of country and sector representation in the results.

Number of respondents by country





Proportion of respondents by sector



The scope of the ABIR II has increased dramatically since the ABIR I. The number of surveys conducted has risen from 140 to 568 (an increase of over 300%); there are now nine sectors compared to three in the first report; and the geographical range has expanded from 14 to 18 countries.

The ABIR database is representative of the GDPs of the participating countries and the respondent base depicts a statistically valid account of the region as a whole. Great care was also taken to ensure that enough responses were achieved in each of the nine sectors to allow a robust comparison between them.

BUSINESS CONFIDENCE



CONFIDENCE CONFIRMED

The extraordinary optimism among the Arab business community, already conveyed through the 2005 Arab Business Intelligence Report, is confirmed in 2006. This is even more remarkable in the context of a challenging year for the Arab world.

The 2006 confidence score is 76 out of a maximum of 100, which is over 30 points (40%) higher than the USA scores in The Conference Board Measure of CEO Confidence*, using a comparable methodology. While the Arab world has maintained the extremely high confidence from last year, confidence in the United States has fallen by 12 points (21%).

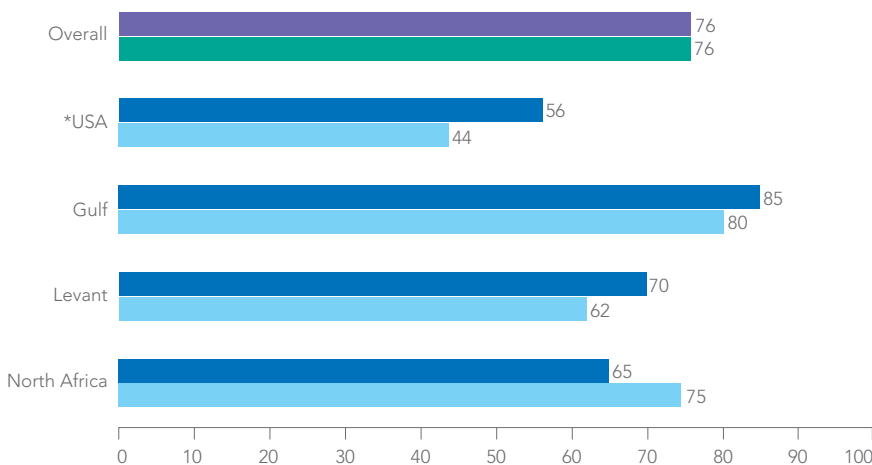
In 2005, 83% of respondents expected economic conditions to improve in 12 months. In 2006, 79% of business leaders report an actual improvement. This addresses the concerns of a certain degree of over-confidence of Arab business leaders and speaks to their capacity to accurately predict business results.

Comparisons across the three sectors that participated in last year's survey illustrate that the ABIR could become an excellent tool to predict future economic performance in the Arab world:

- In 2005, 77% of senior executives in the Financial Services sector predicted that economic conditions would be better. Exactly the same proportion (77%) reported in 2006 that conditions had indeed improved.
- The corresponding figures for Healthcare were 80% in 2005 and 75% in 2006, and for Travel and Tourism 87% in 2005 and 77% in 2006.

Looking ahead, 81% of business leaders in 2006 say they expect even better economic conditions next year. In the ABIR III, we will see if those expectations are justified.

Economic confidence indices by region



Overall Arab World Index base: 529

* 3rd quarter figures from USA Conference Board. The US survey includes about 100 business leaders and uses a similar methodology to the Moutamarat / PwC Confidence Index.

Legend: 2005 (dark blue), 2006 (light blue), Overall 2005 (purple), Overall 2006 (green)

* The Index is produced by averaging the proportion of positive responses to three questions: whether economic conditions have improved over the last 12 months, whether they will improve over the next 12 months and whether the respondent's company will meet expected revenue targets.



The overall economic confidence is more or less the same as in 2005 but a regional analysis shows that there have been considerable changes in the make-up of this figure. A study of the results on a country-by-country basis provides the following insights:

BY REGION

The GCC:

- The high confidence level in the GCC is being primarily driven by Saudi Arabia (86), Qatar (83) and Oman (81).
- Conversely, confidence has dropped in the UAE and Bahrain, with decreases of 11% and 16% respectively.

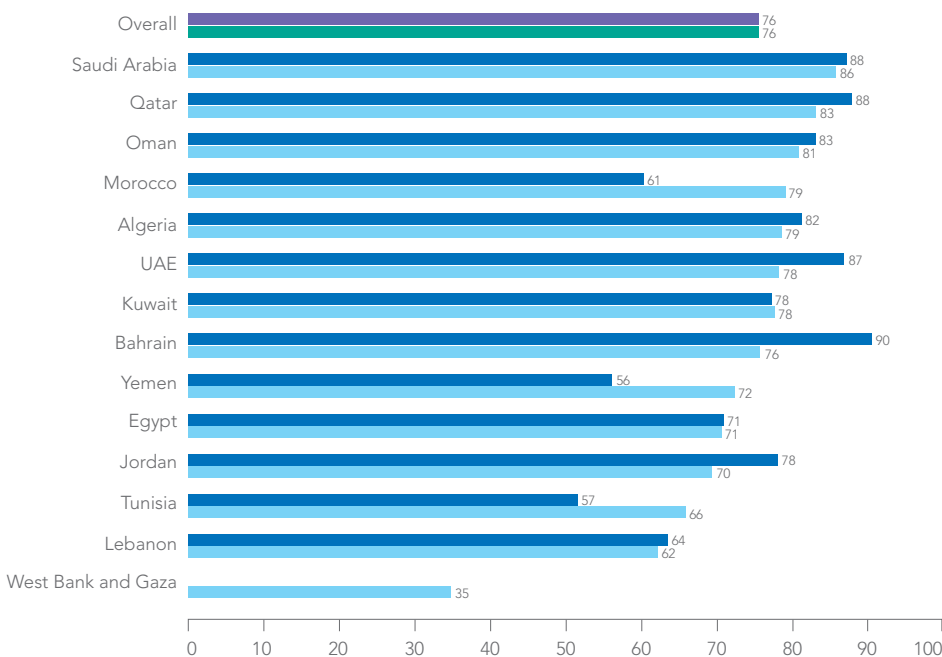
The Levant:

- The decline in confidence in the Levant is predominantly due to a decrease in optimism in Jordan (-11%) and the inclusion of West Bank and Gaza respondents in the 2006 survey.
- The confidence value for West Bank and Gaza (35) is considerably lower than any other country in the study.
- The level of economic confidence in Lebanon has remained relatively stable - a remarkable achievement given the events of the last 12 months.

North Africa:

- The overall increase in business confidence in the North Africa region (15%) can be accounted for by the dramatic increase in confidence levels in Morocco (30%) and Tunisia (16%) since 2005.
- Confidence in Egypt (71) remains at a similar level to that in 2005.
- Algeria is the only country in North Africa to experience a decrease in confidence levels (down by 4%), although at 79, confidence remains very high.

Economic confidence indices by country



Please note that for the 2006 figures, countries with a respondent base of less than 10 have been excluded from this graph.

■ 2005 ■ Overall 2005
■ 2006 ■ Overall 2006



THE WAR IN LEBANON

Interviewing for three sectors* had already begun on July 12th – about one month prior to the outbreak of the war in Lebanon – and continued after the ceasefire was brokered on August 14th. Any subsequent analysis in relation to conditions before and after the war relates

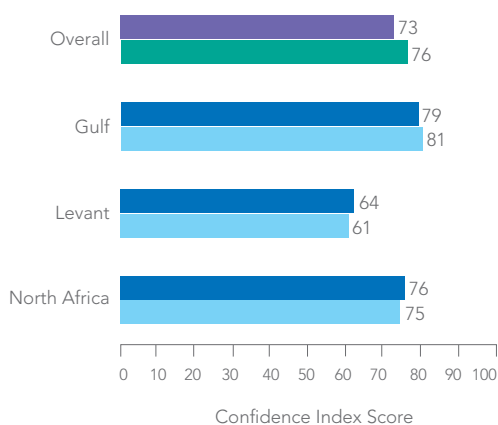
to these specific sectors. The survey results show that the war had a limited impact on levels of confidence in the Arab world. The overall figure was fractionally higher post-war; confidence in the Gulf region increased marginally and fell slightly in North Africa and the Levant.

While confidence in the Travel and Tourism sector decreased slightly, there was a significant increase in confidence in the Healthcare sector and a marginal increase in the Financial Services sector.

* Financial Services, Healthcare and Travel and Tourism

Economic confidence – pre and post war

by region

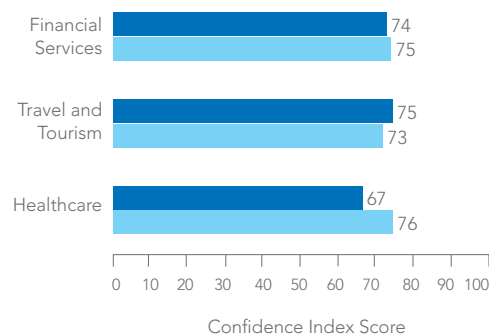


Overall Index Bases: 11-422

NB: Some pre conflict figures have a small base.

■ Pre conflict ■ Overall pre conflict
■ Post conflict ■ Overall post conflict

by sector

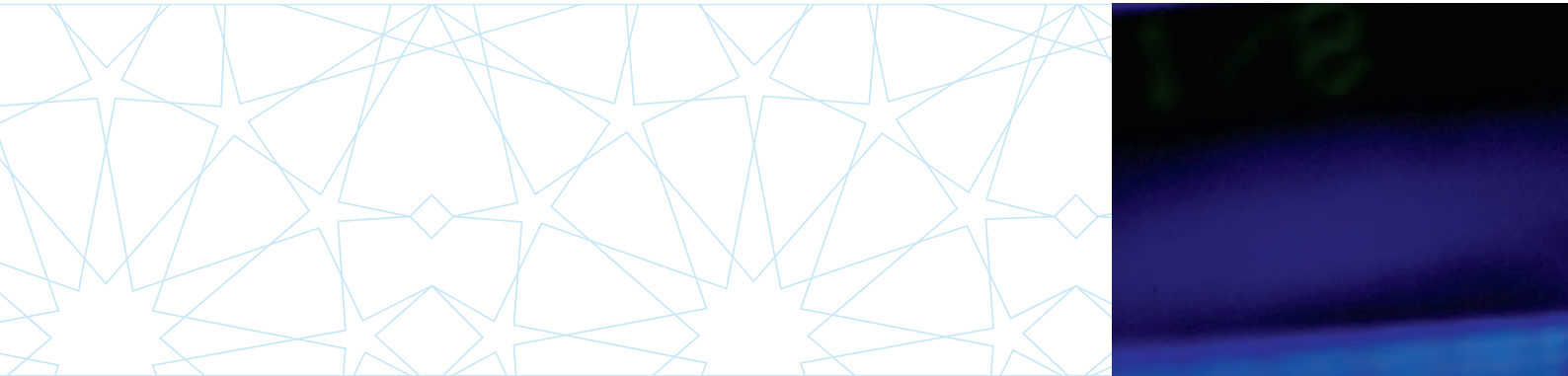


Overall Index Bases: 19-57

NB: Only those sectors with a significant number of completed interviews prior to the conflict have been included here.

■ Pre conflict
■ Post conflict

SECTOR GROWTH AND DEVELOPMENT

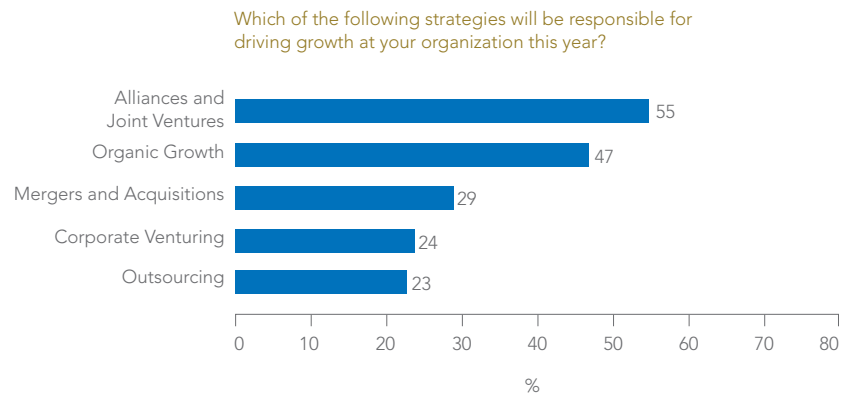


GROWTH STRATEGIES

With regard to strategies that will be responsible for driving growth in their organization, alliances and joint ventures were identified by 55% of respondents, over organic growth (47%). These two strategies were well ahead of other possibilities such as mergers and acquisitions (29%), corporate venturing (24%) and outsourcing (23%). These results could indicate that organic growth may not be sufficient for organizations' growth plans in a fast-moving region. Companies then seek to expand by crossing borders and seem to opt for alliances and joint ventures instead of going down the path of mergers and acquisitions, which may be hindered by large amounts of regulation.

The preference towards alliances and joint ventures is largely attributable to three of the nine sectors surveyed, namely Engineering, Construction and Real Estate (68%), Information and Communication Technologies (64%) and, to a lesser degree given the smaller number of respondents, Transport, Logistics and Storage (78%).*

Perceived strategies responsible for driving growth



* The preferred growth strategies of each of the nine sectors surveyed will be studied in greater detail in industry-specific reports to be published later this year.



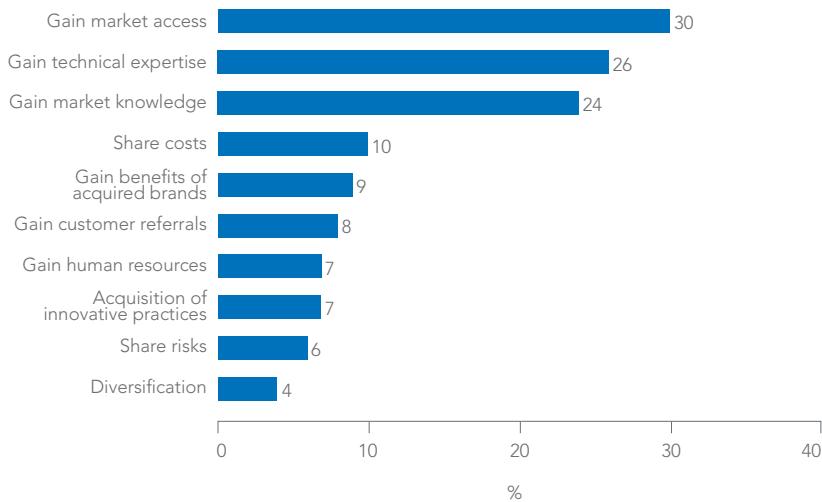
The countries which are most positive towards alliances and joint ventures are Kuwait (81%), Qatar (76%) and Algeria (67%). Across the 18 countries surveyed, there are no emerging patterns to suggest that countries prefer one particular strategy at the expense of another. In other words, an above average preference for alliances and joint ventures is not necessarily

accompanied by a below average preference for organic growth.

With regard to the main drivers behind securing mergers and acquisitions and alliances and joint ventures, most respondents feel that they would gain market access (30%), technical expertise and market knowledge (26% and 24% respectively).

The most important factors behind plans to work with or acquire other organizations

Thinking about the drivers behind your growth strategy for this year, what are the most important factors behind your plans to work with or acquire other organizations?



Base: All Arab Industry Leaders who mentioned Alliances and Joint Ventures or Mergers and Acquisitions as their most important growth strategy (243)



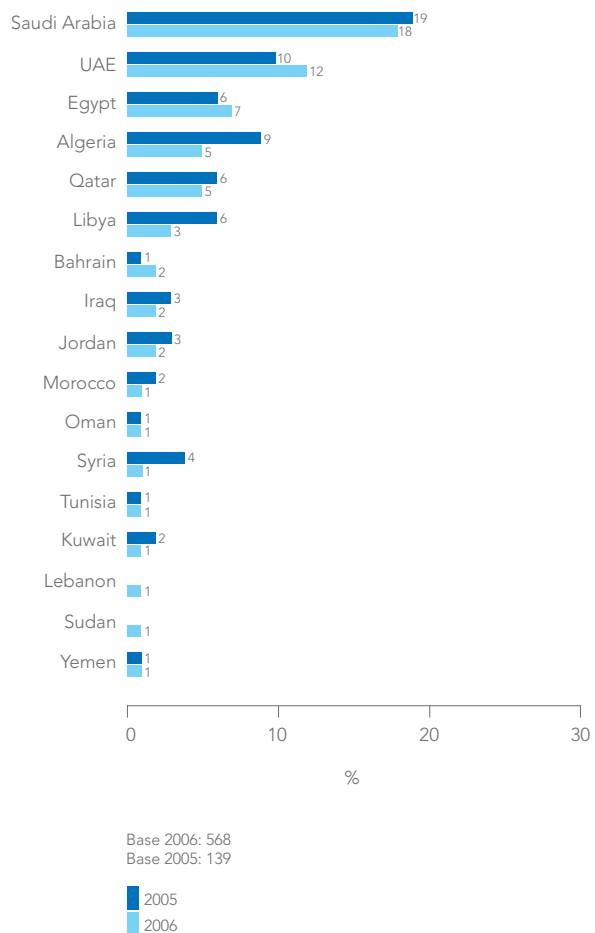
GROWTH MARKETS IN THE ARAB WORLD

Saudi Arabia and the UAE remain the major growth markets for Arab business leaders. In the 2005 ABIR I, 19% of respondents cited Saudi Arabia and 10% cited the UAE as the major growth markets; in the 2006 survey, these figures are 18% and 12% respectively.*

*When considering these figures, it must be borne in mind that the 2006 survey was on a larger scale than ABIR I. A total of 568 interviews were achieved across 18 countries and 9 industry sectors in 2006, as opposed to 140 interviews across 14 countries and 3 industry sectors in 2005.

Major growth markets

Thinking only about other countries within the Arab world, what is the most important growth market for your industry?





COMMERCIAL ALLIANCES FOR GROWTH

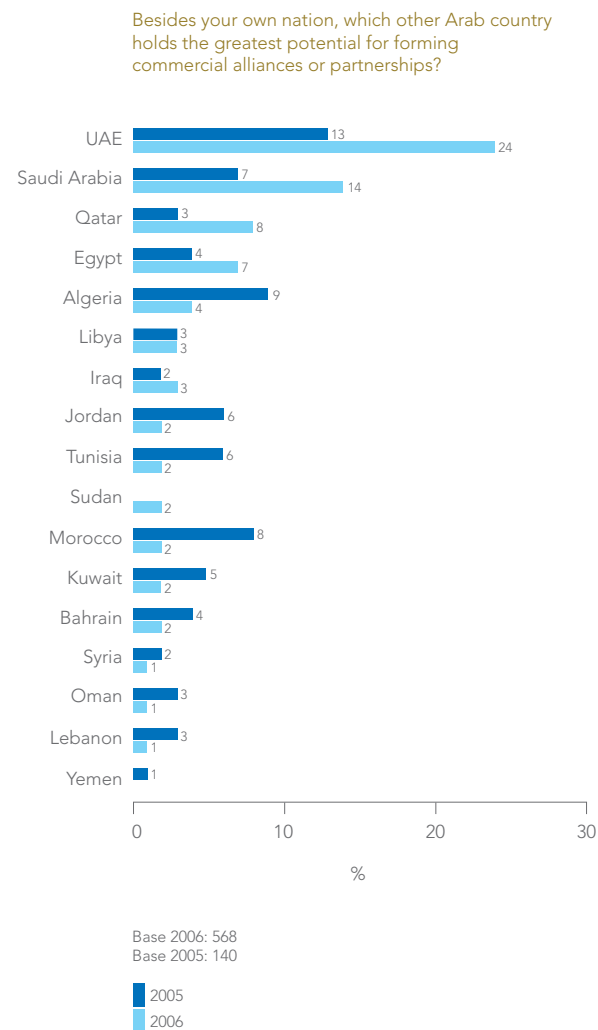
The UAE and Saudi Arabia hold the greatest potential for forming commercial alliances or partnerships. The importance of the UAE as a partner has increased from 14% in 2005 to 24% this year, and Saudi Arabia has also increased from 7% to 14%.

Country variation

The results show that there are stark contrasts in allegiances to particular countries. For example, senior executives in Bahrain have proved to be Saudi Arabia's strongest allies, with 55% saying it is the most important growth market and 45% citing it as having the greatest potential for commercial alliances and partnerships. However, only 7% of respondents in Bahrain rate the UAE as an important potential business partner, compared to the 24% overall figure. Respondents in Oman, on the other hand, rank the UAE as a significantly greater business opportunity than Saudi Arabia.

It is also worth noting that business leaders in the UAE and Saudi Arabia regard one another as having the greatest potential as commercial allies and partners. However, while 33% of UAE senior executives rank Saudi Arabia as the most important growth market, only 11% of Saudi Arabian respondents regard the UAE market in the same way.

Arab countries with the greatest potential for forming commercial alliances or partnerships



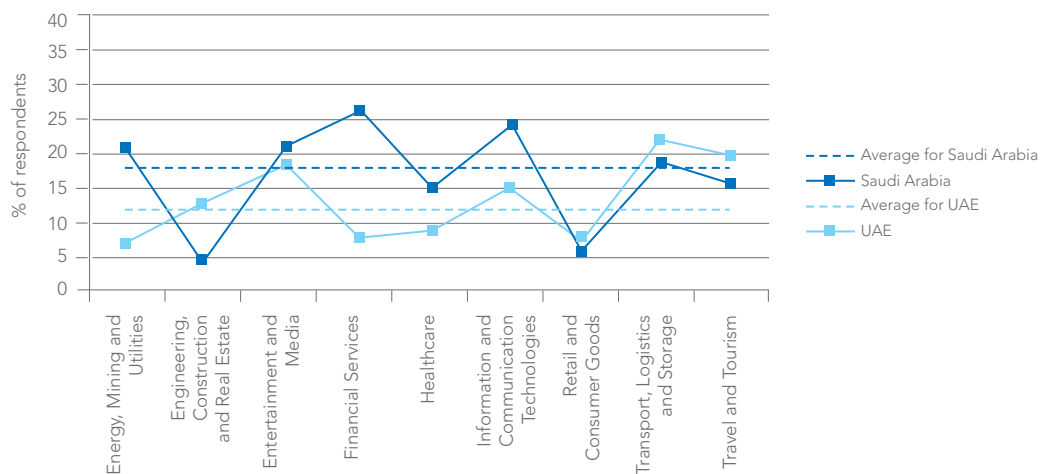


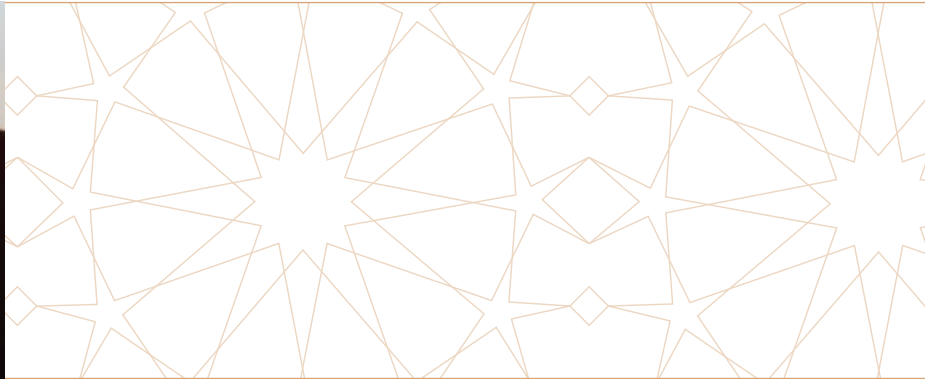
Growth markets and commercial partners by country

Rank	Most important growth market	Greatest potential for commercial alliances and partnerships
1	<p>Saudi Arabia</p> <p>18% of respondents overall</p> <p>55% of respondents in Bahrain</p> <p>33% of respondents in UAE</p>	<p>UAE</p> <p>24% of respondents overall</p> <p>45% of respondents in Saudi Arabia</p> <p>42% of respondents in Oman</p>
2	<p>UAE</p> <p>12% of respondents overall</p> <p>35% of respondents in Oman</p> <p>26% of respondents in Kuwait</p>	<p>Saudi Arabia</p> <p>14% of respondents overall</p> <p>45% of respondents in Bahrain</p> <p>38% of respondents in UAE</p>

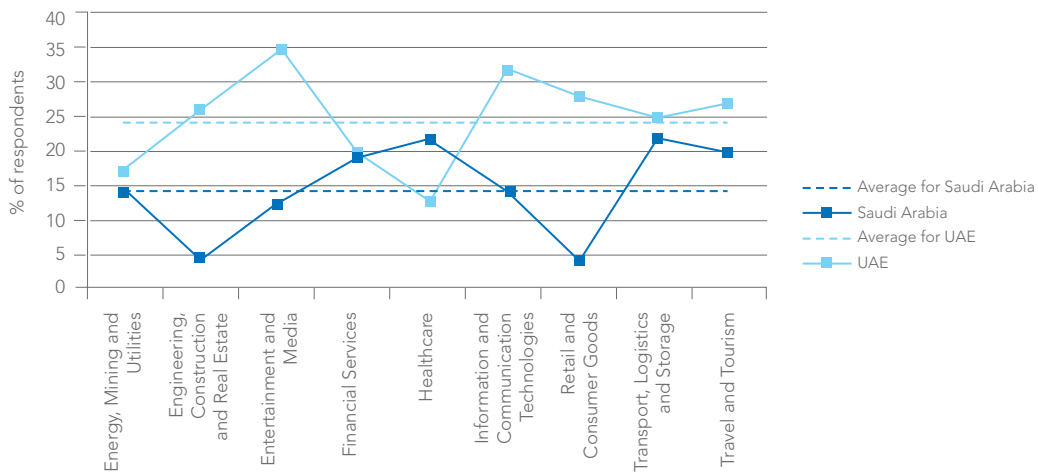
Growth markets and commercial partners by sector

Sector breakdown of respondents who regard Saudi Arabia and UAE as their most important growth market





Sector breakdown of respondents who regard UAE or Saudi Arabia as holding the most potential for commercial alliances and partnerships



INDUSTRY GROWTH – PUBLIC POLICY PRIORITIES

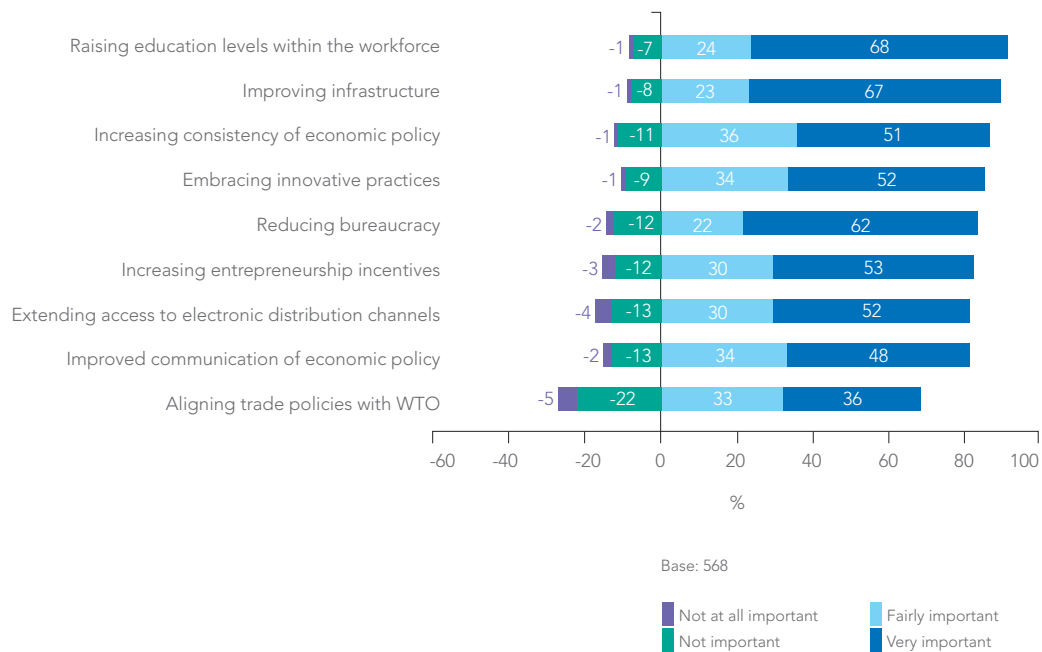
Arab business leaders were asked to rate the importance of a range of public policies in relation to the business development of their industries. While improving infrastructure remains high at 90%, it has been overtaken as the top priority in 2006 by raising education levels within the workforce (92%). This

ranks higher than reducing bureaucracy and increasing entrepreneurship incentives, showing that the development of people has become the highest priority in terms of public policy for Arab business leaders.



Importance of initiatives for business development

Thinking about the business environment in your country, please rate the importance of the following initiatives in relation to business development in your industry

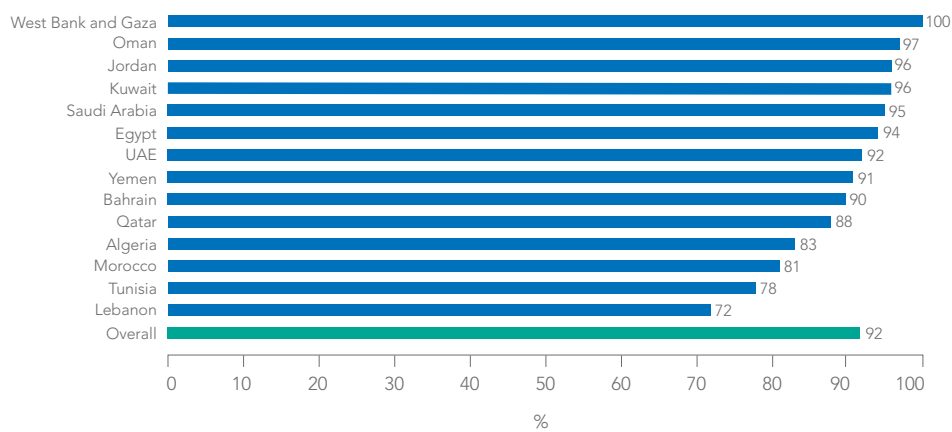


There are still significant differences of opinion at a national level, with certain countries exceeding the 92% average and others well below this figure. All of the respondents in the West Bank and Gaza feel that raising education levels is important, whereas only 72% of business leaders in Lebanon agree.

At the sector level, senior executives from Entertainment and Media, and Information and Communication Technologies emphasize the importance of raising education levels within the workforce (both 97%), whereas only 82% of the Healthcare respondents agree.



Breakdown of respondents by country who reported that raising education levels within the workforce is important



Please note that countries with a respondent base of less than 10 have been excluded from this graph.

A further interesting development since the 2005 ABIR I is a decrease in the stated importance of aligning trade policies with the WTO. This was considered important by 77% of participants last year and by 69% in 2006. A closer look at the split of country opinions shows that 84% of those surveyed in Saudi Arabia place significant importance on aligning its policies with the WTO, compared to only 48% of Tunisian business leaders.

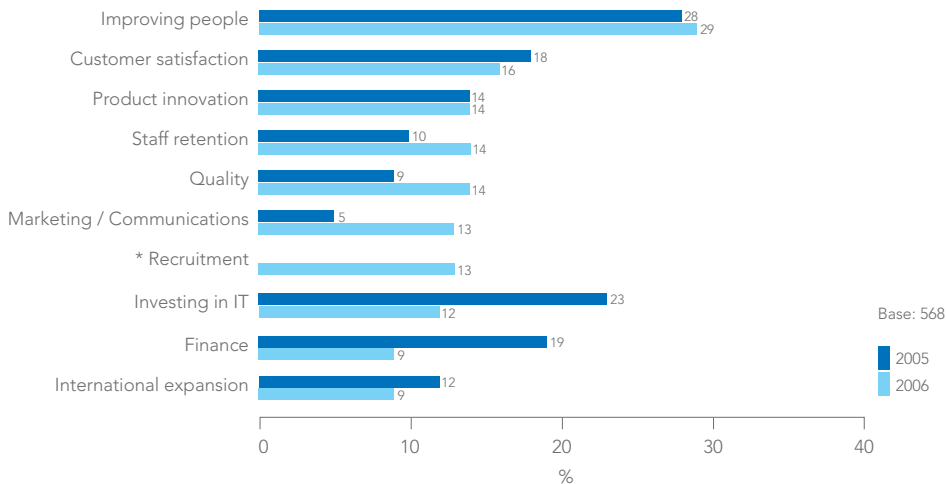
BUSINESS GROWTH – BUSINESS PRIORITIES

Arab leaders once again highlight the importance of people as a driver of competitive performance, particularly recruiting the right staff (13%), retaining them (14%) and improving them (29%), which is seen as the top priority. Investing in IT, on the other hand, has dropped down the list of priorities since the 2005 ABIR I survey.



The highest priorities in order to improve competitive performance over the next 12 months

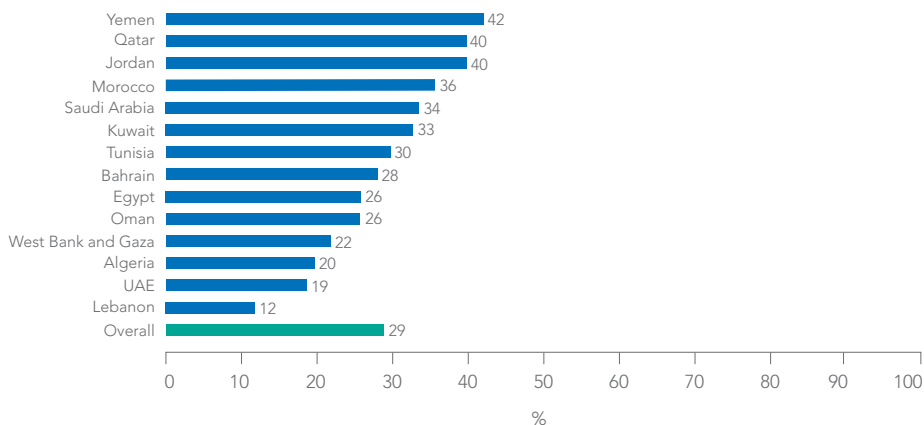
What do you consider to be the highest priorities for your business in order to improve competitive performance over the next 12 months?



* The "Recruitment" variable was not included in the 2005 survey.

Once again, there are noticeable differences across the 18 countries; improving people was rated more highly in Yemen (42%), Qatar (40%) and Jordan (40%), but much less so in the UAE (19%) and Lebanon (12%).

Breakdown of respondents by country who mentioned the importance of improving people



Please note that countries with a respondent base of less than 10 have been excluded from this graph.

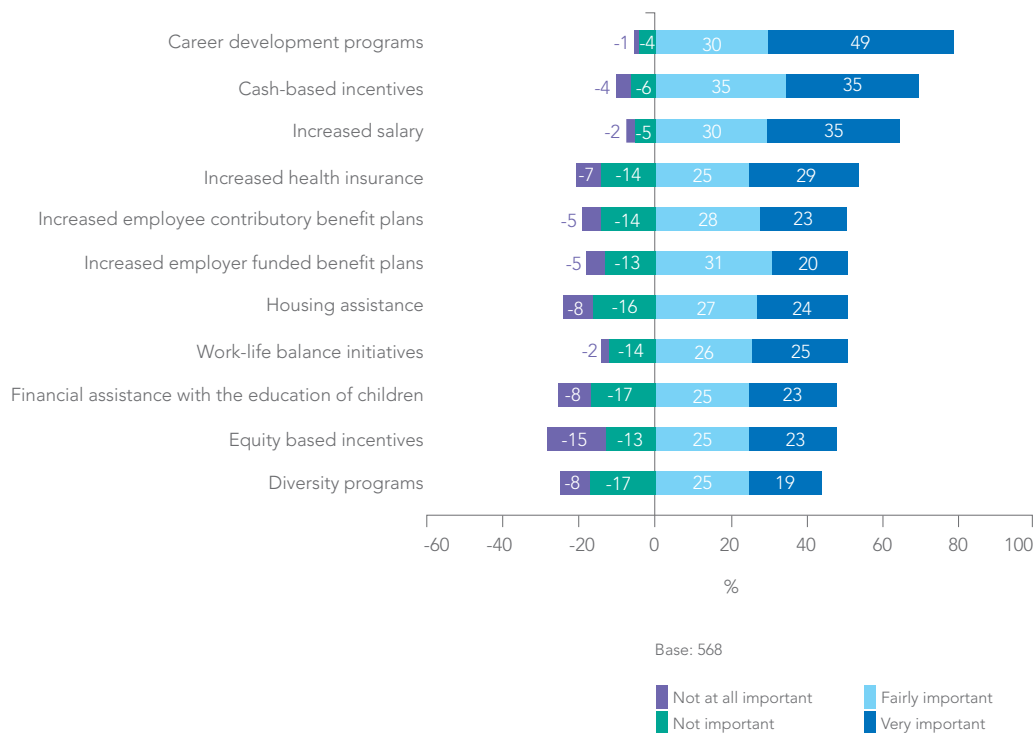
Retaining key personnel

Career development programs are considered either fairly important or very important by 79% of Arab business leaders, ahead of cash-based incentives (70%) and increased salary (65%).



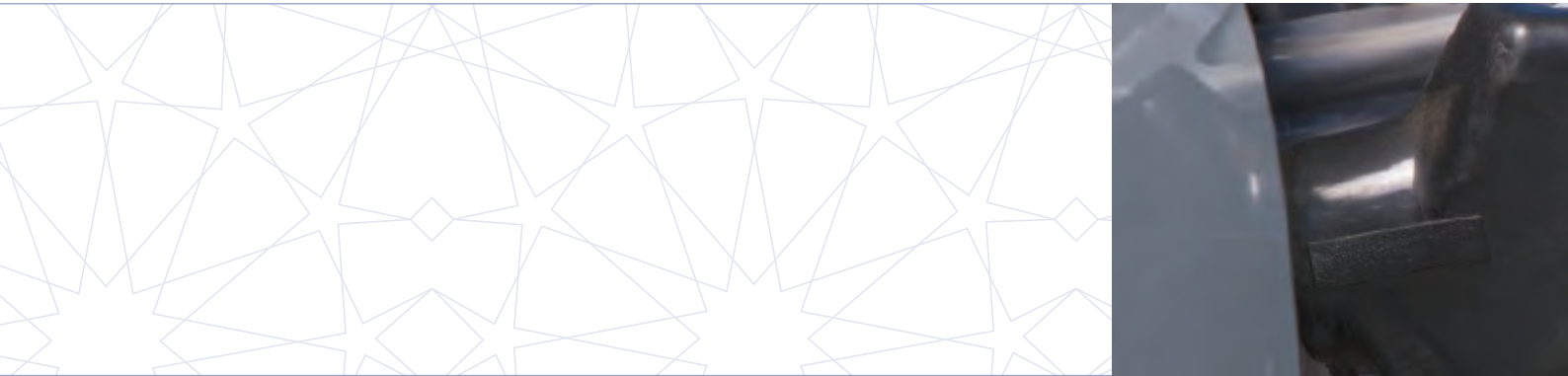
Measures to retain key personnel

Rate the importance of the following measures that can be taken to help retain key personnel:



At country level, there is a dramatic deviation from the 79% average. Yemen (100%), Jordan (93%), Algeria and Saudi Arabia (both 86%) feel that career development programs are important. At the other end of the spectrum, only 68% of the UAE's business leaders and 60% of those in Lebanon agree.

THREATS TO GROWTH



THREATS TO GROWTH – LONG-TERM

Despite optimism and continued business confidence, Arab world business leaders are still very aware of internal and external threats to their business. The lack of available talent (73%) is now perceived as the greatest threat to growth, replacing global terrorism, which was seen as the greatest threat in 2005.

There are however, some variations according to sector and country. Unsurprisingly the Travel and Tourism sector is most concerned about the implications of global terrorism, with 66% of respondents citing this as one of the biggest threats faced by their organization. Those leaders in the Information and Communication Technologies (33%), Transport, Logistics and Storage (34%) and Retail and Consumer Goods sectors (36%) are less inclined to perceive terrorism as the major threat to growth.

The lack of available talent is felt acutely across all three regions, although leaders in Morocco (56%) and Kuwait (52%) feel it is a bigger threat than those in Lebanon (32%) and Qatar (36%). Respondents working in the Transport, Logistics and Storage sector (53%) identify the lack of available talent as a greater problem than those in the Retail trade (38%).

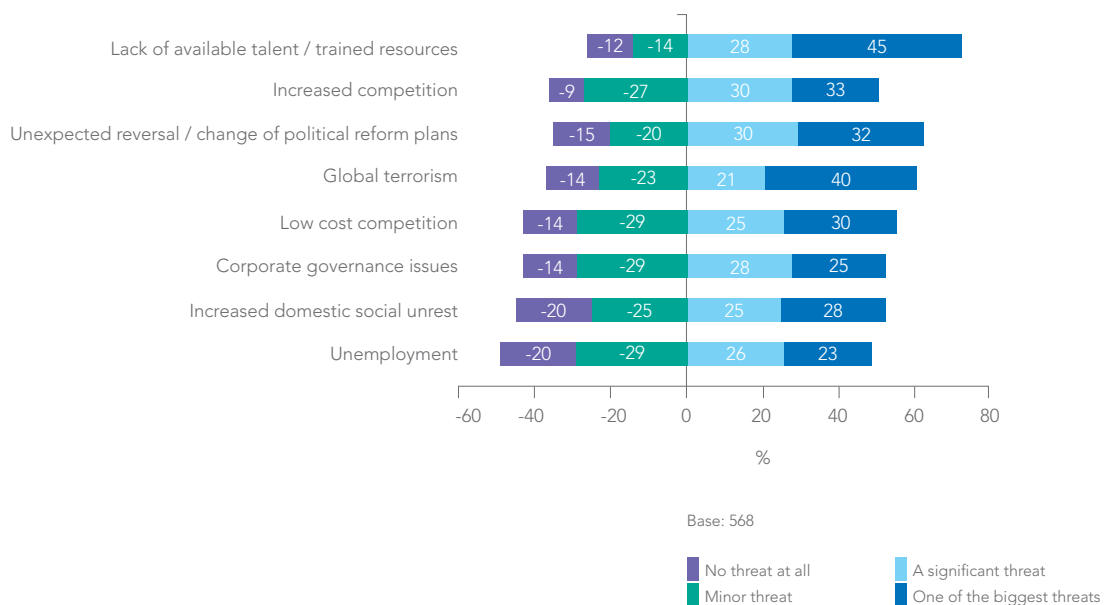
In 2005, 20% of respondents cited increased competition as one of the biggest threats that they faced; this figure has risen to 33% in 2006. The survey results show that the greatest competition is faced in the Retail and Consumer Goods (46%) and Engineering,

Construction and Real Estate (43%) sectors and much less so in the Energy, Mining and Utilities (19%) and Transport, Logistics and Storage (22%) sectors. Saudi Arabia (47%) and Kuwait (41%) feel most strongly that increased competition is a major threat, while leaders in Bahrain (21%) and West Bank and Gaza (11%) are less concerned.



Threats to long-term business growth prospects

How big a threat are the following to your long-term business growth prospects?



THREATS TO GROWTH – MID-TERM

Oil price movements continue to be highly important in the Arab world, with 78% of respondents stating that this is a priority to overcome within the next six months; nearly half of all business leaders (49%) list this as a critical priority. Respondents are also concerned about the cost of capital (75%), currency

fluctuations (72%) and inflation (71%) but are less worried about stock market volatility (61%).

There is a considerable regional and national difference of opinion over the importance of fluctuations in oil prices. Nearly all business leaders in Morocco (91%) and the vast majority in Jordan (85%) believe that oil prices are crucial to the future health of their businesses.

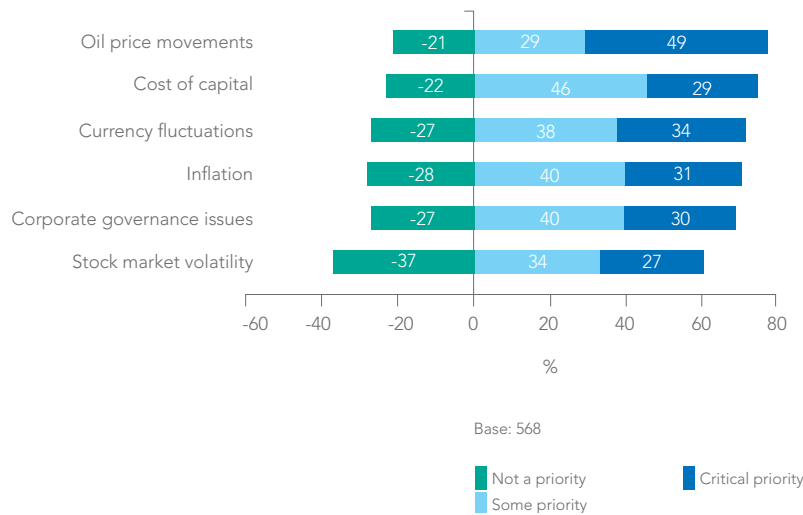
The fact that neither is a crude oil producing country may contribute to the fact that they feel more vulnerable to volatile oil prices.

Although corporate governance ranks lower than some other issues, at 70% it is still relatively high for a region where corporate governance is not at an advanced stage, perhaps suggesting that these issues are becoming more prevalent in the Arab world.

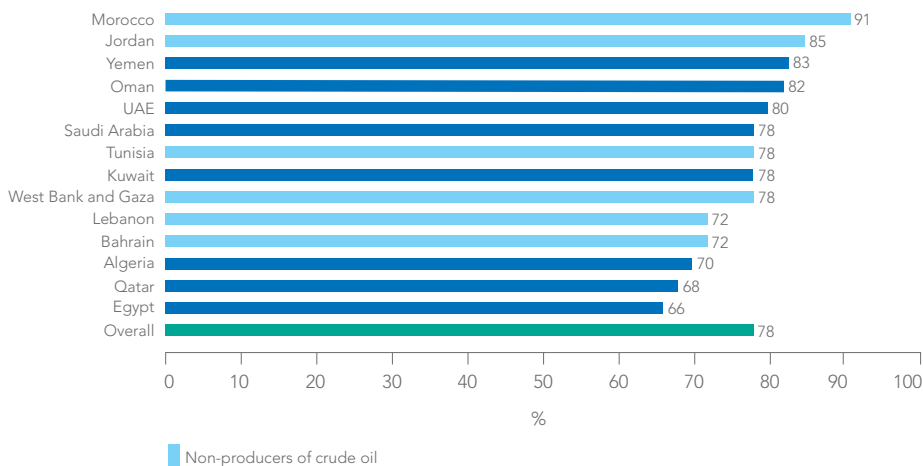


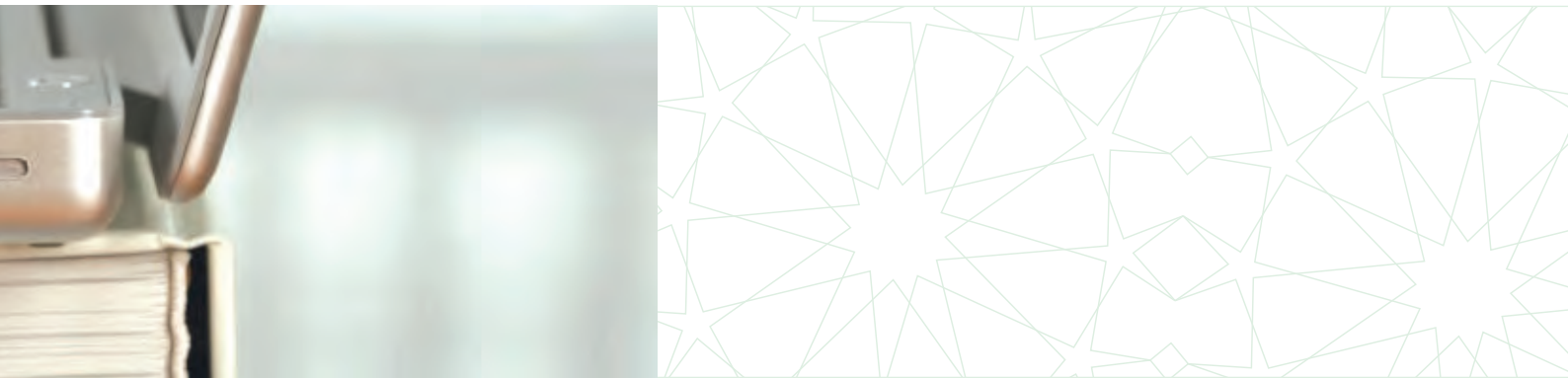
Priorities to overcome in the next 6 months

From the list of potential threats to your business growth prospects, how big a priority is it for your industry to overcome these issues in the next six months?



Breakdown of respondents by country who mentioned oil prices as a potential threat to their business





QUALITY OF THE LABOR MARKET (DOMESTIC AND INTERNATIONAL)

Respondents were asked to rate the quality of labor supply in the domestic and international markets at four different staff grades (administrative/operational, IT/technical, middle management/professional and senior executive). There was very little variation in opinion about the quality of the different grades of staff; there were, however, discernable differences in the perceived quality of domestic and international labor supply.

Overall, the quality of labor supply in the domestic market is considered lower (52) than in the international market (71). Many respondents believe that this is not economically sustainable, and that Arab countries need to improve the quality of their domestic labor markets. The focus is therefore shifting from importing labor to recruiting, training and developing home-grown talent.

A PERFECT STORM? QUALITY OF TRAINING IN DOMESTIC LABOR MARKETS

Looking at the relationship between those countries that have a low opinion of their domestic labor markets and respondents' viewpoints on the importance of providing training, a number of issues emerge. Senior executives in the UAE (43) and Bahrain (38) rate the quality of domestic labor as poor across all grades, but comparatively few report that they view training of staff to be very important.

Interestingly, business leaders from the UAE (72) and Bahrain (64) also report a much higher opinion of foreign labor markets, perhaps indicating that they are more inclined to recruit staff from abroad. Bahrain (-16%) and the UAE (-11%) also experienced by far the biggest percentage drops in business confidence from the 2005 survey. This may stem from a lack of conviction in their domestic labor markets, and concerns that over-dependence on foreign labor will result in extremely high labor costs.

THREATS TO GROWTH /

Continued



Quality of domestic labor market

Rank	Country	Score
1	Jordan	66
2	Lebanon	64
3	Egypt	62
4	Morocco	60
5	Saudi Arabia	60
6	Tunisia	58
7	West Bank and Gaza	57
8	Kuwait	51
9	Algeria	46
10	UAE	43
11	Bahrain	38
12	Qatar	38
13	Oman	36
14	Yemen	26
	Overall	52

Quality of international labor market

Rank	Country	Score
1	Saudi Arabia	83
2	Oman	80
3	Qatar	79
4	Kuwait	74
5	UAE	72
6	Jordan	69
7	Algeria	68
8	Morocco	66
9	Egypt	65
10	Tunisia	64
11	Bahrain	64
12	West Bank and Gaza	63
13	Lebanon	58
14	Yemen	53
	Overall	71

RISING COST OF SKILLED LABOR

The potential shortage of key talent combined with the extensive growth that many companies are expecting has created a major challenge for business leaders. Over four-fifths of respondents (81%) expect the cost of skilled labor to increase over the next 12 months.

Bahrain, Kuwait, Qatar, Oman and the UAE expect a major increase in the cost of skilled labor due to the shortage of adequate local human capital. This results in business leaders recruiting foreign labor, which is both considerably more expensive and detrimental to the growth of their domestic labor markets.

Conversely, Yemen, Morocco and the West Bank and Gaza have a higher opinion of their domestic labor markets, and may not feel the need to recruit from overseas to the same extent. This means local labor is used more extensively, avoiding the higher costs of importing foreign talent, while promoting the development of national employees.

A man wearing a white thobe and an orange ghutra is seated at a table in a modern building with large glass windows. The scene is dimly lit, with a blue tint. The man is looking down at something on the table. The background shows the structural elements of the building and a view of the sky through the windows.

Economic confidence is currently

40%

higher than in the USA

ABOUT MOUTAMARAT

Created in July 2005, Moutamarat (www.moutamarat.com) is the knowledge brand jointly owned by Tatweer and Saudi Research and Publishing Company (SRPC). Moutamarat manages research-based conferences in the Arab world and produces publications. It is one of the few examples of high-profile pan-Arab business initiatives that seek to create value for the whole region.

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