THE GLOBALIZATION OF BUSINESS AND THE MIDDLE EAST

Opportunities and Constraints

Masoud Kavoossi

Q

QUORUM BOOKS
Westport, Connecticut • London

THE GLOBALIZATION OF BUSINESS AND THE MIDDLE EAST

This page intentionally left blank.

THE GLOBALIZATION OF BUSINESS AND THE MIDDLE EAST

Opportunities and Constraints

Masoud Kavoossi

QUORUM BOOKS

Westport, Connecticut • London

Library of Congress Cataloging-in-Publication Data

Kavoossi, Masoud.
The globalization of business and the Middle East : opportunities and constraints / Masoud Kavoossi.
p. cm.
Includes bibliographical references and index.
ISBN 1–56720–203–9 (alk. paper)
1. Middle East—Foreign economic relations. 2. Middle East—Economic conditions—1979–3. Middle East—Economic integration. I. Title.
HF1583.3 .K38 2000
337.56—dc21 99–056360

British Library Cataloguing in Publication Data is available.

Library of Congress Catalog Card Number: 99–056360
ISBN: 1–56720–203–9

First published in 2000

Quorum Books, 88 Post Road West, Westport, CT 06881
An imprint of Greenwood Publishing Group, Inc.
www.quorumbooks.com

Printed in the United States of America

The paper used in this book complies with the Permanent Paper Standard issued by the National Information Standards Organization (Z39.48–1984).

10 9 8 7 6 5 4 3 2 1

To the memory of my mother, Azar, who inspired me to write this book

This page intentionally left blank.

Contents

Introduction

Events in the last decade have transformed the Middle East: the Iranian revolution, the Iran-Iraq War, the Rushdie affair, the Gulf War. Many countries in the region remain under the threat of international- or U.S.-imposed trade sanctions, including Iran, Iraq, and Libya, as well as Pakistan. The outside world now reaches into the most closed homes, through the various consumer products exported into the region. Processes of modernization, industrialization, and westernization have hit traditional cultures so hard and in such a way that they have raised issues for the peoples and governments alike. Middle Easterners are now faced with these issues and have to formulate responses to them. Matters that in the past might have been ignored must be considered with urgency.

One thing, however, is clear: the internationalization of world markets has applied to the Middle East as well. In the course of the last two decades, international business activities in the region have increased greatly. Moreover, this increase is not limited to any one, specific country. It is not just the more populous and larger countries that have engaged and attracted foreign investors; smaller countries are equally active. The Middle East may not have its own Silicon Valley, but for the most part it is properly poised, with the necessary elements in place, to develop into an industrial region, similar to other developing regions of the world.

With a greater degree of Islam's influence on all facets of life, both in the business environment and daily functions, combined with accelerated industrial modernity, all of the Middle East is undergoing fundamental and rapid change. It is my suspicion that this will be a change for the better.

There are various reasons why this should be so. The availability of a high culture, or great tradition, has many features that make it compatible with the requirements of modern life—individualism and a deep sense of community. The painful choice between modernization and Islam, dwelled upon for many years, seems no longer to be so relevant any more. More and more Middle Easterners appear to believe that to be a Muslim is to be modern, that technology and ideology—Islam—are not contradictory, rather complementary. Foreign investors need to be informed that the primary organizing principle in the region remains Islam and tradition, with its internal tensions and variations. It ought to be also recognized that Islamic societies refuse to become post-Islamic, as the modern West became post-Christian. Islam remains as a system of thought and provides an inner compass to its individual adherents and to society as a whole. Middle Eastern Muslims have resisted pressure to reduce Islam to simply one element of culture, preferring to maintain it as a culture, with all of its attributes, elements, and manifestations, such as economics and worldview. The Middle East can be as important in world commerce, in addition to oil, as it is in world politics.

These would seem to be the kinds of general issues that need to be faced in studying international business in the Middle East. That can only be done by concrete and thorough research and analysis, like that provided by the studies assembled in this book. They have remarkable range and penetration, and they make a significant contribution to the understanding of business, environment, and conditions in this very important part of the world.

Successful international business requires the development and implementation of business strategies responsive to different environments. In the Middle East, the economic, social, and political dimensions differ considerably. Multinational companies must be fully informed and aware of these dimensions and the globalization of the region.

1 Improving International Competitiveness in the Persian Gulf Region: An Assessment

The Persian Gulf region has a significant level of international commerce and investment, as represented in part by an estimated $120 billion in exports and the presence of nearly 1,200 foreign-affiliate firms, with approximately $29 billion in investments in the region. Recent trends point to increased international investment. The region's major international strengths include oil and natural gas, major international airports, ports along the Persian Gulf, high disposable income per household, an educated labor force, a growing high-technology industrial base, and world-class financial centers. In addition, the region is home to many international and regional organizations. In the aftermath of the Arab-Israeli peace accord, people feel more confident about the stability of the region (see Table 1.1). International weaknesses, however, include a lack of positive image, a serious need for surface transportation improvements, lack of efficient and speedy bureaucracies, a perceived high cost of doing business, inadequacies in the workforce, and the absence of a single entity to promote the region internationally.

Many entities in the world, such as the European Union (EU), the Association of Southeast Asian Nations (ASEAN), and nearby competitors, including India, China, Turkey, and the newly independent states of the former Soviet Union, are in competition with the Persian Gulf states in the global marketplace. At this point there is a need to

Table 1.1

Human Development Index, 1994 Selected Gulf States

Locality	Real GDP per Capita $ (1991)	Adult Literacy Rate Percent (1992)	Number of Years of Scooling (1992)	Human Development Index* (1992)
Saudi Arabia	10,850	64.1	3.9	0.742
UAE	17,000	65	5.6	0.777
Kuwait	13,126	73.9	5.5	0.809
Bahrain	11,536	79	4.3	0.791
Iran	4,670	56	3.9	0.672
Qatar	14,000	79	5.8	0.795
Iraq	3,500	62.5	5	0.614

*A composite of life expectancy, literacy and schooling, and standard of living, measured by purchasing power.

Source: Human Development Report, UN Development Program, New York, June 1994.

make a long-term commitment to increase the region's international competitiveness and to develop an integrated strategy for marketing it more effectively. The emerging realignment of global strategic power through new economic and political blocs may produce a reshaped Europe, possibly including some of the former Soviet republics. A second bloc may be led by Japan; it would be mainly trade based. Members here would come mainly from the Pacific Rim. A third bloc could emerge in the Western Hemisphere, led by the United States and including Canada, Mexico, and perhaps Brazil and Chile. Such a bloc would be primarily trade based, but it could eventually also incorporate many political dimensions. The only remaining region with any political and economic significance would be the Middle East.

In the global configuration now emerging, the United States is no longer perceived as a superpower by many in the Middle East, merely a great power. Having decided that only superpowers count, Middle Easterners, Europeans, Asians, and Latin Americans are forging new economic alliances.

This chapter will offer recommendations to improve the region's international competitiveness, image, visibility, business base, and infrastructure in order to expand its capacity to absorb a variety of imports as well as exports, currently absent.

Theoretical and empirical studies suggest a correlation between increased trade and investment and increased national income. Maizels (1968), Koon (1971), and Tyler (1981), among others, established the relations. The Persian Gulf states under study generally confirm this finding. The countries in the region are essentially mono-product economies attempting to diversify their economic base. The disadvantage of basing economic development on the expansion of a primary-sector industry, such as oil, is the potential instability of primary-product prices. The combination of inelastic demand and inelastic supply conditions that are characteristic of the market of many primary products means that changes in price have little short-term effect on the quantity demanded or supplied. The market adjusts mainly through changes in price; it experiences relatively little change in the quantity traded. The result has been fluctuating oil revenues in the face of unstable prices for this key export commodity (Temple, 1994).

In order to reduce uncertainty and provide greater economic stability, the Gulf countries have attempted to diversify their economies. For this they need foreign investment and technology, subsequently enhancing the countries' ability to attract, absorb, and become globally competitive.

Global competitiveness, here, principally refers to the rapid developments in technology, transport, and information that bring the region to par with the more advanced parts of the world. One consequence of the global competitiveness process is to look at the region not as marginal but as something that concerns the global community. There are some hundred million people living in and around the Persian Gulf, in more than eight countries. Owing to the developments in the region, words such as *fatwa, jihad, ayatollah* are now common in the West. Like much of the rest of the world, the region has long been interconnected through international trade and economic interaction. International competitiveness is not necessarily a wholly novel phenomena, unique to recent decades. As a process it is of considerable historical depth (Ahmed and Donnan, 1994).

Findings of this research may serve as a model for other developing regions in the world. The study will further contribute to the field of international business by evaluating and assessing regional efforts to penetrate international markets successfully. While there exist a number of research studies on other regions, there is a deficiency on the Middle East. This research will utilize sources available from governmental and international organizations.

Expected results include the following general recommendations:

- The private sector needs to become more actively involved in the economic affairs of the region.
- Create a regional international business council.
- Develop a spirit of public and private partnership.
- Improve the region’s international infrastructure.
- Foster international awareness of the region as a business center.

REGIONAL GROWTH TRENDS

The Persian Gulf region has a rising level of international activity and is home to a growing number of international companies and investors. At present there are more than 1,200 foreign-affiliate firms in the region, employing over 120,000 people and owning property, plants, and equipment worth approximately $12 billion. Some examples are General Motors, IBM, Toshiba, Sharp, Caterpillar, and Honeywell. Iran, Saudi Arabia, and the United Arab Emirates (UAE), which compose the bulk of the population of the Persian Gulf states, have a rapidly growing export base, as evidenced by a 12 percent increase in exports between 1990 and 1994.

The region’s international airports—Tehran International, Dubai, Jeddah, and Riyadh International—experienced more than a 50 percent increase in international air passengers between 1988 and 1994. The number of weekly international flights at Tehran International, Dubai International Airport, and Riyadh International increased by 6.3 percent from 1983 to 1993 (Withiam, 1994). In addition, the number of international markets served by Tehran, Dubai, and Riyadh has increased from twenty-two to 102 destinations in more than fifty-seven countries around the world (Journal *of Commerce,* 1994). Between 1983 and 1993, the region accounted for a 2.1 percent global market share in air passengers, and for 2.3 percent of the world’s revenue passenger-kilometers in 1991. In 1992 the port of Sharja in the UAE handled 37,400 ton-equivalent units (TEU), a 146 percent increase over 1991, and about fifty-five thousand TEU in 1993 (‘‘New Services,” 1993).

GLOBAL COMPETITION AND THE NEED FOR CHANGE

The Persian Gulf region has neither the competitive international reputation nor the economic-development focus of other competing regions. As such, it is not a priority location choice for American and Western European investors. Countries such as India, Turkey, and Indonesia are in competition with the Persian Gulf region for international trade and investment. These states are not only marketing their countries but working to solve infrastructure problems and building their local executives' capacity to trade internationally. At present the Persian Gulf region is doing very little.

The global economy is becoming more, not less, competitive (Porter, 1986). The region possesses the basic assets and intellectual talents to compete with any region on the globe. However, it must operate, harmonize, and engage its combined resources to move forward in a deliberate effort to improve its international competitiveness (Porter, 1986).

PAST COOPERATIVE EXPERIENCES

Numerous agreements have been signed, resolutions passed, and measures adopted to work toward greater cooperation. Some of the better known include the Gulf Cooperation Council (GCC), the Economic Cooperation Organization (ECO), the Economic and Social Council, the Council of Arab Economic Unity, the Arab Common Market, and the Arab Fund for Economic and Social Development (AFESD), among others. Up to three-hundred bilateral and multilateral agreements have been signed by countries in the region and the broader Middle East including Egypt, Turkey, and Lebanon. Kuwait has three agreements and its own fund for development, the Kuwait Fund for Economic Development (KFED). It is followed by Saudi Arabia, Qatar, and Bahrain, each having signed four agreements. The UAE has signed three.

Improving cooperation in the region should aim at the following objectives:

- Accelerate the process of industrial development by removing trade barriers.
- Create wider cooperation for modernization of industries, perhaps modeled after the European Coal and Steel Community (ECSC) (Weekly and Aggarwal, 1987).
- Coordinate the creation and future expansion of regional industries.
- Create and enforce more comprehensive commercial law, e.g., copyright, and other intellectual-property rights.

A policy based on cooperation is necessary to reduce the shortcomings of market imperfections.

RECOMMENDED INTERNATIONAL MARKETING PLAN

- Marketing publications—prepare an updated international directory.
- Business roundtables and seminars on trade opportunities and international business developments in the area.
- Executive marketing programs focused on attracting foreign investment and promoting export activities.
- Export and trade promotion programs—provide small-business technical assistance and advice for area firms.
- Databases supporting trade and investment programs.

Significant resources must be devoted to international marketing, an important step that is badly needed. This will help close the gap, on the marketing side of the equation, that currently exists between the Persian Gulf and other competing regions. There remains the need to focus on assisting local executives in building their capacities to engage in international trade, through networking and education, and on improving the region's delivery system, by upgrading its infrastructure.

STRENGTHS AND WEAKNESSES

Strengths

A summary of the region's international strengths is as follows:

- Geo-economic location; two-thirds of world oil and gas are located in the region. No other region of the world has such economic significance. Decisions of critical international importance are made in Iran, Saudi Arabia, Iraq, Kuwait, and the UAE. There are compelling reasons for business to establish a presence.
- Availability of major ports and airports.
- Instant recognition of the Persian Gulf worldwide.
- Highest median household disposable income in the developing world.
- A world-class professional and business service sector.

- Home to many international banks.
- Home to the Islamic Development Bank, OPEC, Economic Cooperation Organization (ECO), Organization of Arab Petroleum-Exporting Countries (OAPEC).
- Strategic location, particularly well suited to the European Union, given flight times and time-zone differentials. Multinational corporations positioned in the Persian Gulf are enabled to operate south and west around the Mediterranean Sea, North Africa, and Asia.

Airports

Of particular importance is the region's international transportation sector. The importance of international transportation is reflected in the international airlines serving the region's airports: Aeroflot, Austrian Airlines, Air France, All Nippon Airways (ANA), British Airways, KLM Royal Dutch Airlines, Lufthansa German Airlines, Swissair and Alitalia, among others.

Ports

Another important international strength is the number of ports on the Persian Gulf. Steamship lines from around the world call there, transporting a wide variety of cargos, such as automobiles, farm and construction equipment, steel, coal, grain, and many types of liquid and dry bulk commodities. This diversity helps make the ports of the Gulf among the largest in the region. In 1992, the UAE alone handled foreign commercial imports worth $17 billion ("New Services," 1993). Many of the ports are modern, with state-of-the-art facilities and experienced, skilled labor forces. One of the most modern terminals in the region, Sharjah, features a computerized complex for processing cargo.

Proximity to important populations and industrial centers of the region makes the ports gateways to the Middle East's heartland. The port area is an overnight drive from 35 percent of the region's population.

Weaknesses

The weaknesses of the region can be summarized as follows:

- Lack of positive business image and a general perception of economic mismanagement.