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The Emerging Markets of the Middle East

*Strategies for Entry
and Growth*

Tim Rogmans



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The Emerging Markets of the Middle East: Strategies for Entry and Growth
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To Dani and Yasmina

Abstract

The Emerging Markets of the Middle East: Strategies for Entry and Growth is aimed at managers who are planning growth strategies for Middle Eastern markets, either as newcomers into the region or on the basis of an existing operation in one or several Middle Eastern countries.

Over the next decade, the economies of the Middle East will continue to be characterized by rapid growth, political turmoil, and increasing competitive intensity. International investors have the choice either to ignore the region all together and bypass business opportunities with great potential or to make a careful assessment of which countries to enter and how to enter them successfully. This book is the first of its kind to include the information, insights, and frameworks that are required to develop entry and growth strategies for the Middle East in the new turbulent environment following the global economic crisis and the Arab Spring.

The first part of this book provides an in-depth analysis of the major developments that determines the business environment of different countries in the region. This section includes a discussion of major social and economic developments, the impact of the rise of multinational companies from the Middle East, and the role played by institutions and political risk.

The second part deals with each of the major decisions that a company planning to grow in the region needs to make: Which countries to enter? What is the right entry mode and ownership structure? How to choose between a greenfield operation and an acquisition? This book concludes with practical advice on the process of setting up operations in the Middle East.

Keywords

Middle East, emerging markets, entry strategies, foreign direct investment, institutions, multinationals, political risk, Arab Spring

Contents

<i>Preface</i>	ix
Chapter 1 Emerging Middle East	1
Part 1 The Emerging Markets of the Middle East.....	11
Chapter 2 Middle East Megatrends	13
Chapter 3 The Rise of Multinational Companies from the Middle East	33
Chapter 4 Institutions and Risk.....	45
Part 2 Strategies for Entry and Growth	59
Chapter 5 Location Choices	61
Chapter 6 Entry and Operation Modes	71
Chapter 7 Mergers and Acquisitions.....	85
Chapter 8 Implementation Considerations.....	97
<i>Appendix: Country Profiles</i>	105
<i>Notes</i>	113
<i>References</i>	117
<i>Useful Websites</i>	121
<i>About the Author</i>	123
<i>Index</i>	125

Preface

The Emerging Markets of the Middle East: Strategies for Entry and Growth is aimed at managers who are planning growth strategies for Middle Eastern markets, either as newcomers into the region or on the basis of an existing operation in one or several Middle Eastern countries.

Over the next decade, the economies of the Middle East will continue to be characterized by rapid growth, political turmoil, and increasing competitive intensity. International investors have the choice either to ignore the region all together and bypass business opportunities with great potential or to make a careful assessment of which countries to enter and how to enter them successfully. This book is the first of its kind to include the information, insights, and frameworks that are required to develop entry and growth strategies for the Middle East in the new turbulent environment following the global economic crisis and the Arab Spring. In this new context, companies that have not yet entered the region are asking themselves what opportunities exist and how to capitalize on them. Existing players are also now in the process of redefining their regional plans after a period of rapid growth, sudden slowdown, and gradual recovery.

The first part of this book provides an in-depth analysis of the major developments that determines the business environment of different countries in the region. This section includes a discussion of major social and economic developments, the impact of the rise of multinational companies from the Middle East, and the role played by institutions and political risk. In this context, this book intends to clarify both what makes the countries in the region similar and what makes them very different from each other.

The second part deals with each of the major decisions that a company planning to grow in the region needs to make: Which countries to enter? What is the right entry mode and ownership structure? How to choose between a greenfield operation and an acquisition? This book concludes with practical advice on the process of setting up operations in the Middle East.

The aim of this book is to provide support for executives who need to make strategic decisions that are in reality often based on personal preferences of key personnel or result from specific opportunities that arise. Although the role of these more opportunistic elements in the business planning process is undeniable and highly relevant, this book serves as a guide to put all potential opportunities into perspective and to make the right decisions quickly in a structured manner.

CHAPTER 1

Emerging Middle East

*Multinational companies cannot afford to ignore emerging markets.
Nor can they afford to ignore the difficulties involved.¹*

—*Financial Times*, August 14, 2011

Since the global economic slowdown that started in 2008, businesses have increasingly looked at the world's rapidly developing economies as a source of profitable growth. Today, the vast majority of the business literature on emerging markets has a strong focus on the major economies of Asia and Latin America, particularly the BRIC countries (Brazil, Russia, India and China) and sometimes other large economies such as Indonesia, South Africa and Turkey. The countries of the Middle East are usually not included in these discussions, despite displaying many of the key characteristics of emerging markets, including strong economic growth, growing populations and rapid institutional development coupled with ongoing political instability. The lack of attention to the Middle East may be due to the fragmentation of the region into a number of smaller markets, none of which can compete in size with any of the BRIC nations. It may also be because the Middle East is often perceived as a risky and difficult market to operate in, especially among investors with no direct experience in the region. The dramatic changes that started with the Arab Spring have made it tempting for multinational companies to put Middle East expansion plans on the back burner. This attitude is understandable given the difficulties many companies have faced in raising finance since 2008 and the apparently larger and easier to capture opportunities in other emerging markets. However, ignoring the growth potential of the Middle East would be a mistake for any company with global ambitions. Indeed, many companies have successfully entered the region over the last two decades and have enjoyed rapid and profitable growth, as well as challenges on the way.