Economist Intelligence Unit

The Economist

New routes to the Middle East
Perspectives on inward investment and trade

A report from the Economist Intelligence Unit

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Contents

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About the research

New routes to the Middle East: Perspectives on inward investment and trade is an Economist Intelligence Unit report that gauges the views of companies from emerging and developed markets on doing business in the Middle East. The analysis focuses primarily on 16 Middle Eastern and North African markets: Algeria, Bahrain, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Qatar, Saudi Arabia, Syria, Tunisia, Turkey and the United Arab Emirates.

In the research for this report, which was commissioned by HSBC, the Economist Intelligence Unit conducted a survey in May 2011 of 618 executives with recent experience of doing business in the Middle East and North Africa (MENA) region. Respondents were spread equally across five regions: MENA, Asia-Pacific and Latin America, as well as Europe and North America. The respondents were from 60 countries in total and represent 19 sectors. Nearly one-half (48%) are board level or C-suite executives, and the rest are in senior management positions. Roughly 26% of respondents represent companies with global annual revenue above US$10bn. In addition, we conducted in-depth interviews with a range of senior executives and analysts. The report was written by Jane Kinninmont and edited by Paul Lewis, Abhik Sen and Zoe Tabary.

We would like to thank all those who participated in the survey and the interviews for their time and insight. The Economist Intelligence Unit bears sole responsibility for the content of this report.

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Executive summary

For centuries, trade has been integral to most countries that constitute the Middle East and North Africa (MENA) region. As momentum in global business shifts towards greater intra-emerging market (or “south-south”) trade and investment, the MENA economies are well positioned to benefit. But how far and fast the MENA region integrates into these new economic relationships will depend on how it is viewed by executives from other emerging markets, and how such perspectives may differ from those of their peers in the developed world.

According to the survey conducted for this report, there are striking differences in the ways that respondents from different regions view the MENA region as a place to do business. Of course, there are similarities too. Most companies plan to expand significantly in the region, especially in the Gulf states. And most cite concerns over political risk, bureaucratic red tape and, in particular, a perceived lack of transparency in the region.

However, there are major differences in the way that executives from different regions view the prospects for democracy in the Middle East and the likely implications for their own businesses. The culture and norms of respondents’ home markets also seem to influence their attitudes towards such factors as volatility in the business environment, corruption and diversity, to name but a few.

The key findings from the research include the following:

- **The Middle East region will benefit strongly from accelerating “south-south” business**. Our survey confirms the trend of increasing trade between and among emerging markets. While executives from all regions expect the Middle East to feature more strongly in their global business plans over the next five years, it is among Latin American firms, followed by those from Asia-Pacific and North America, where this trend is most pronounced.

- **Businesses’ views on the potential impact of the “Arab Spring” on trade and investment are divided**. While the outbreak of pro-democracy movements across the Middle East is broadly welcomed by investors, the upheavals of the Arab Spring create short-term political risk that can dent business confidence. Almost one-half of all respondents agree that the current unrest in the region is likely to have an adverse effect on their business in the near future.

- **The UAE is the most favoured destination in the Middle East**. For most survey respondents, expansion plans centre on the wealthy Gulf states, probably reflecting the beneficial impact of high

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oil prices on the economic outlook for these countries. The Gulf states are also favoured because of the perception that political risk is lower than in other countries in the region. The UAE is by far the most popular investment and trading location, cited by 63% of respondents overall. Latin American executives also showed strong interest in Egypt and Morocco. Emerging-market firms are more likely to focus activities on less saturated markets and sectors.

- **Latin American firms are less worried about the impact of political turmoil on business in the Middle East than respondents from any other region in the world**. A total of 55% of respondents from Latin America say that the political upheaval seen this year in the region is unlikely to affect business adversely in the medium to long term, compared with 43% of respondents from both North America and Asia-Pacific. This could reflect the fact that many Latin American countries have come through their own transitions from authoritarian or military rule to democracy in the past 25 years. Nevertheless, a majority of investors, unsure how to handle rapid change, say that if forced to choose, they would prefer stability to democracy.
- **Corruption is less of a concern for emerging-market firms than it is for businesses from developed markets**. Corruption is a relatively minor concern for emerging-market investors in the Middle East, especially among Asian and Latin American companies (cited by around 30% from these regions). However, for European and North American firms, corruption is cited by 51% and 42% respectively as having a major impact on operations, possibly reflecting tighter anti-corruption legislation in their home markets.
- **Cultural factors present major concerns for emerging-market businesses**. The view that businesses and workers may face discrimination on the basis of gender, race or nationality in the Middle East is cited by a significant minority of respondents from all regions as a major issue. An average of 41% of respondents across all regions agree with the statement that “attitudes towards women and ethnic minorities significantly hold back the economic development of the region”. Almost one-half (48%) of Latin American businesses also feel that the business culture of the Middle East is more suitable for firms from other emerging markets than it is for firms from developed markets, far exceeding the responses from other regions (except for those in the Middle East itself). Some emerging-market investors also express concern that their goods, services or employees are not treated on par with those from Western countries.
- **The burgeoning youth population that is demanding political change in the Middle East is also valued as an economic resource**. Demographics are seen as at least as important as oil and gas resources when it comes to driving opportunities for business in the Middle East. Nearly 50% of all respondents expect business opportunities to emerge from the growth of a new middle class, while 41% cite the growing young population as a source of opportunities. Respondents from Europe are particularly likely to value the region’s demographics, probably reflecting concerns about slowing population growth, ageing populations and market saturation in their home markets: 52% of European respondents cite the growing and young population as a source of opportunities, compared with just 33% who cite commodities.

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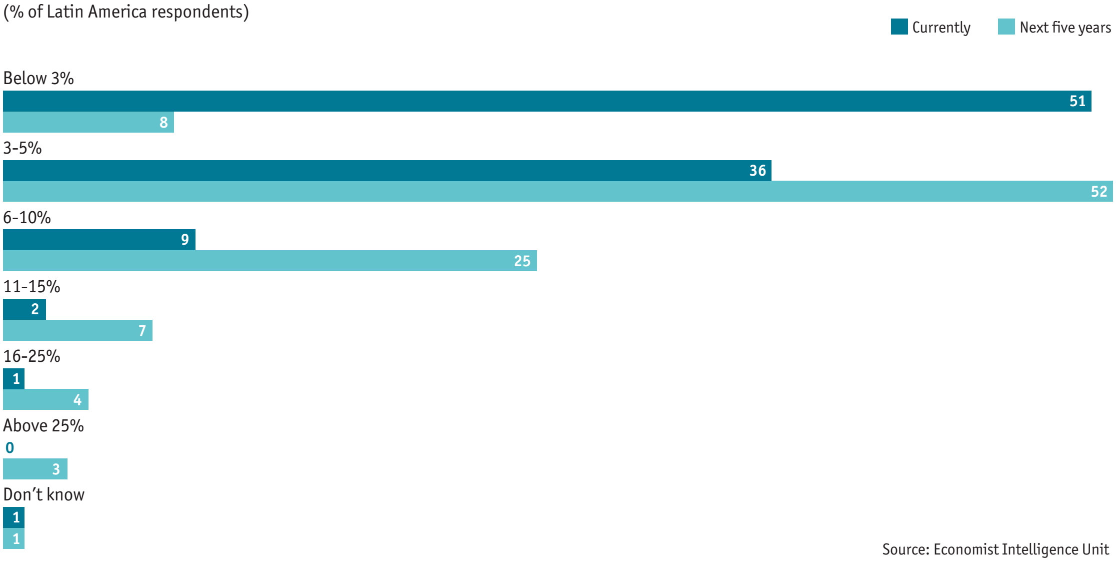
An emerging-market perspective

The MENA region has been rising up the agenda of global companies in recent years, as a result of changes in the price of oil, significant economic liberalisation throughout the region and rapid population growth.

An equally important trend in the region's economic development over the past decade has been a gradual but sustained shift towards doing business with other emerging markets. This is part of a global pattern of growing south-south trade, reflecting the increasing weight of emerging markets in the global economy. Data from our survey bear this out. While firms from all regions expect the Middle East to feature more strongly in their global business over the next five years, it is among firms in Latin America, followed by those from Asia-Pacific and North America, where this trend is most pronounced.

For over one-half of all Latin American companies surveyed, the Middle East region currently accounts for less than 3% of their global revenue. But in five years' time, far fewer (one in 13) Latin American firms surveyed expect to be doing so little business in the region. Instead, almost two-fifths expect over 6% of their global revenue to come from the MENA region.

How important is the Middle East market to your global business in terms of proportion of revenues, currently and likely to be in the next five years?
(% of Latin America respondents)



Source: Economist Intelligence Unit

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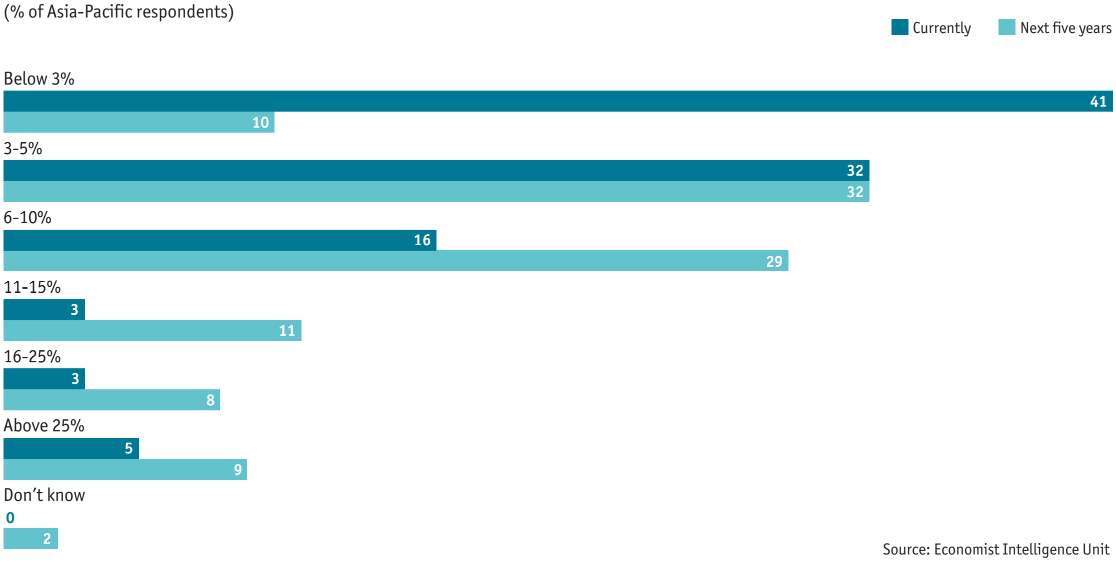
Similarly, two-fifths of Asia-Pacific companies surveyed say that their revenue from Middle East business currently amounts to less than 3% of their global revenue. But in five years' time, only one in ten Asia-Pacific companies expect the Middle East region to account for a small part of their global revenue, and among the number of companies that do over one-quarter of their business is expected to almost double.

How important is the Middle East market to your global business in terms of proportion of revenues, currently and likely to be in the next five years?
(% of Asia-Pacific respondents)



Source: Economist Intelligence Unit

The gradual shift towards emerging markets also reflects policy decisions by Middle Eastern governments, including the region's major oil exporters, who are well aware that their future top customers are located in Asia. Indeed, when the current Saudi ruler, King Abdullah bin Abdel-Aziz Al Saud, came to the throne, his first overseas trip was to Beijing, not to London or Washington. For a brief period in 2009, China imported more oil from Saudi Arabia than the US—something that may become a permanent reality in a few years' time assuming Chinese oil consumption grows and the US continues a policy of reducing its reliance on Middle East crude.

Moreover, some of the region's authoritarian rulers have been particularly attracted to the so-called "China model": focusing on economic development but not on political reform. In contrast to the US or Europe, China does not seek commitments on human rights in order to sign trade deals. While China's approach to trade may appeal to authoritarian regimes in the Middle East, this year's Arab Spring of popular uprisings in favour of greater democracy is likely to force governments in the region to reconsider their foreign and trade policies.

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Arab Spring and the outlook for trade

The outcry for greater political and economic freedom across the Middle East has divided opinion among investors about the likely economic future of the region. While the potential for faster growth will be greater if better governance, transparency, accountability and a more level playing field are introduced, short-term considerations of political risk have deterred more than a few investment plans. Nevertheless, the region's economic growth prospects are no substitute for political reform. Protestors across the region appear to understand this, expressing a mixture of political and economic demands; in Egypt, where 20% are below the poverty line and another 20% just above it, demonstrators demanded "bread, dignity and social justice", not just bread. Political changes in the Middle East may lead to new international alliances, and it is conceivable that China could become a less attractive business partner in the future for emerging democracies such as Egypt and Tunisia.

"Latin American firms are generally less worried about political uncertainty in the Middle East because we are used to handling it in Latin America"

Ramiro Goncalez
Professor of market intelligence, University of Sao Paulo

For executives taking a medium-term view, there are grounds for optimism. While nearly one-half of survey respondents say that the current unrest in the region would adversely affect their business planning in the short run, the outlook is much more positive over a longer period of time. Ashish Panjabi, chief operating officer of Hong Kong-based Jacky's, an electronics and consumer goods retailer that operates in Dubai, reflects the view of many in seeing the Arab Spring ushering in a "boom time", and creating a business environment that means "doing things right, rebuilding, improving, investing and strengthening the infrastructure as people are going to be more vocal about what they want." The founder of a generics and medical devices company in Egypt points out that, after mass protests forced the president, Hosni Mubarak, to quit earlier this year, officials renowned thus far for their nepotism and corruption are now making much more of an effort to treat businesses fairly.

Companies based in Latin America are by far the most sanguine about the impact of unrest, with 55% saying it is unlikely to have an adverse medium- to long-term impact on their business, compared with 43% of respondents in both North America and Asia-Pacific. Ramiro Gonçalez, a professor of market intelligence at University of São Paulo's FIA Business School in Brazil, argues: "Latin American firms are generally less worried about political uncertainty in the Middle East because we are used to handling it in Latin America. We have experienced our revolutions and conflicts issues." Similarly, Daniel Romano of Speed Cooperativa de Crédito, Consumo y Vivienda Ltda, a financial services company in Argentina, responds: "It's only logical—political turmoil is our natural habitat. Besides, the entire world is becoming more and more uncertain." Mr Gonçalez adds that Latin America's experience with political transitions presents ground for optimism: "We know this is a door to the future. It will be pain, but the gain [will be] worth it."

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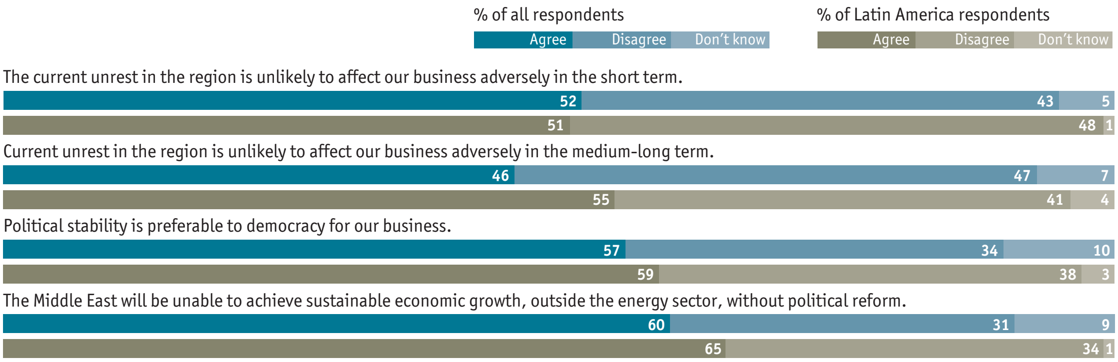
Do you agree or disagree with the following statement, regarding the political environment in your key markets in the region?



Source: Economist Intelligence Unit

The reactions towards unrest reflect not only the ability of companies to handle instability, but also their level of comfort in dealing with authoritarian regimes. This dilemma afflicts Western companies in particular: according to our survey, European firms are the least likely to say that political stability is preferable to democracy when doing business in the Middle East (42%), compared with 57% of respondents from North America who say they prefer political stability over democracy. Asian firms are most likely to choose stability over democracy (68%).

Allen Ng, director of Soil Investigation, a geological company based in Singapore, says his firm has just pulled out of the Middle East because of political instability and concerns about non-payment of dues. He believes that the Middle East will never reach Singapore's degree of stability, but says "in the long term they can do something about it, improve on what they have and make the situation more acceptable to the people". He is not alone in taking this view. Almost two-thirds (64%) of respondents—apart from those from the Middle East—believe that the region will be unable to achieve sustainable economic growth outside the energy sector without political reform.

Countries that are proactively adopting real political reforms may be perceived more positively by investors. It is striking that in the questions looking at political risk perceptions of specific MENA markets, Morocco—where the king has announced constitutional reforms—is regarded as the least risky, with just 14% of all survey respondents citing political instability as one of the top three operating obstacles. Saudi Arabia and Qatar are also regarded as relatively low-risk—with only about 15% citing political instability as a top-three operating obstacle for either country—a finding that probably reflects the fact that business opportunity in these countries trumps concerns over political stability. By contrast, nearly one-half of respondents see political risk as one of the top three obstacles to doing business in the region's other major economy, Egypt.

Interestingly, executives from companies based elsewhere in the Middle East are far more worried about Egypt (with 67% listing it as a top-three concern) than their counterparts in Europe (56%), North America or Latin America (some 43% in each region) or Asia-Pacific (37%). Perceptions in the Middle East have probably been swayed by coverage of events in the media; much of the media coverage in the Gulf of the upheavals in Egypt and other Arab countries has been somewhat negative in its tone.

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Other attractions and deterrents

Political risks aside, the attractions of the region seem large and varied for emerging-market firms. S. Giridhar, president of Alok Industries, a textiles company based in Mumbai, finds that the main draw is "the purchasing power of the population, since we can then target our premium products". Another key attraction, in his view, is the Middle East's "proximity to several countries and regions like the EEC, Poland and Slovakia". Tiago Stachon, director of planning at Getz, a Brazilian agribusiness firm, sees "endless opportunities because they are relatively young countries, because the population is growing fast, because of the culture of Islam and the number of immigrants". Edi Damardjati, an executive at Bank BRI of Indonesia, based in Jakarta, also says "a high-potential market, its population and economic growth is very attractive for Indonesian companies, and we have a similar Islamic culture".

CASE STUDY Kepco's competitive edge

In 2009 a consortium led by Korea Electric Power Corp (Kepco) won a contract to design, build and help operate the UAE's first nuclear reactors—beating a rival bid from Areva of France, which many Western observers had assumed would be the winner, given France's long history of nuclear power production. However, the South Korean bid to build the four planned reactors was perceived as being better value.

The project, which was designed to be rolled out in three phases, coming on stream between 2017 and 2020, is to add a total of 5,600 mw to the UAE's electricity-production capacity at an estimated cost of US$18.4bn. (It is possible that the cost and timeline will be reviewed following the 2011 nuclear disaster in Japan, which has added to international concerns about the safety of nuclear power, although the UAE seems unlikely to join Germany in reversing its policy in nuclear power generation.) The French bid was reported to cost significantly more. In addition, some Western companies working in the UAE give credit to South Korean officials for putting more time and effort into high-level visits to the UAE than the French leadership did in the run-up to the bid, in a region where government-to-government relations can be an important factor affecting business.

The success of the South Korean consortium, which also includes Hyundai Engineering and Construction, and Doosan Heavy Industries and Construction Company, was a wake-up call for Western firms operating in high-tech industries, in energy and elsewhere.

Traditional Western manufacturing has faced tough competition from Asia for years, first from Japan and more recently from China, which has rapidly increased exports to the Middle East in the past few years and which is now the main supplier of exports to the region. But Western firms have generally assumed they could maintain a competitive edge in terms of technological innovation and scientific expertise, given the West's early and ample investment in research and development (R&D). The South Korean consortium's success in winning the contract may be a signal that this assumption may no longer be valid.

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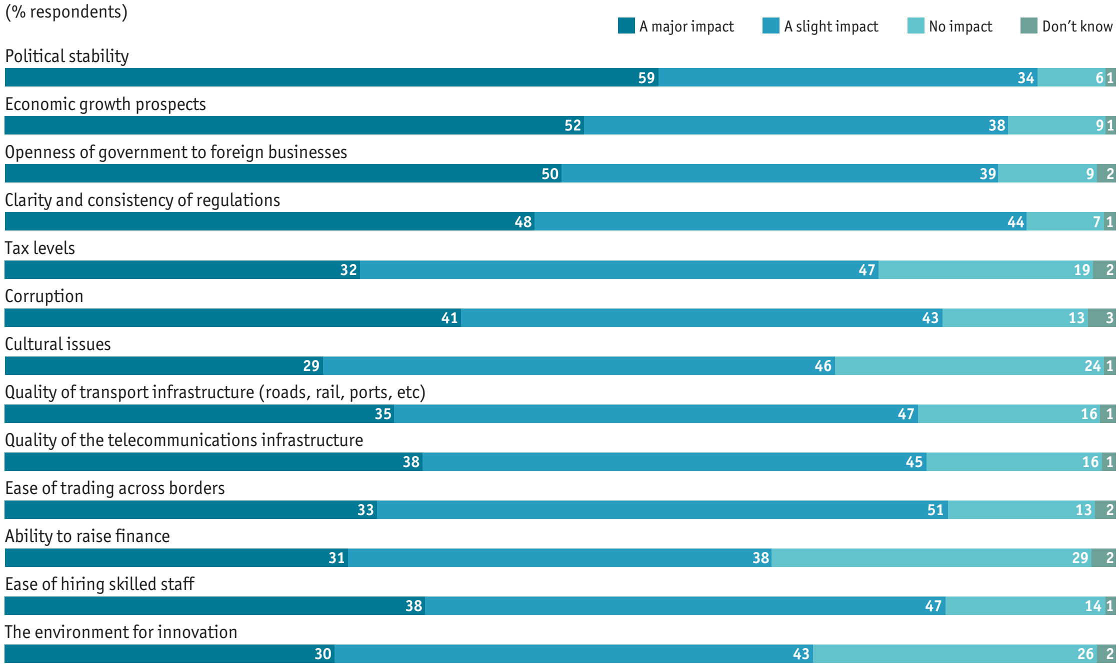
The burgeoning youth population would suggest a sizeable pool of talent, and many companies celebrate the region's demographic profile, which is the opposite of that in the West. Indeed, perhaps surprisingly, demographics are seen as at least as important as oil and gas resources when it comes to driving opportunities for business. Almost 50% of all respondents see opportunities coming from the growth of a new middle class, while 41% cite the youthful population as a source of opportunities, on a par with the number that cite the availability of commodities. Respondents from Europe are particularly likely to value the region's demographics, probably reflecting concerns about slowing population growth, ageing populations and market saturation in their home markets: 52% of European respondents cite the growing young population as a source of opportunities, compared with just 33% for commodities.

However, although some two-fifths of survey respondents rate the Middle East as "good" or "very good" for the foreign language skills of local workers, there are concerns about the lack of sufficient talent or skills within the local population to take on some highly specialised jobs. Foreign businesses are particularly keen to ensure that they can employ immigrant labour and hire managers from around the world in order to have a workforce with the appropriate skills and experience. Another worry is the region's infrastructure, especially the rail network, which over one-third (35%) of respondents rate as "poor".

For Asian firms, the main points of concern beyond political uncertainty regarding the Middle East are the region's economic growth prospects and the clarity and consistency of regulations. By contrast, Latin American respondents are more likely to cite cultural issues as the top non-political factor (39%),

Considering the business environment in more detail, which of the following issues are likely to have an impact on whether or not to invest in the region?
(% respondents)



Source: Economist Intelligence Unit

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Regarding your operations in the region as a whole, how would you assess the general business environment overall, and the risk-reward ratio of your business?
(% of respondents)

Source: Economist Intelligence Unit

followed by regulatory uncertainty and tax. Overall, just under one-third of all respondents agree that tax levels are likely to have a major impact on investment decisions. Respondents from within the Middle East region itself consider economic growth prospects, openness to foreign business and the quality of transport and telecommunications infrastructure as important. Mr Giridhar of Alok Industries in Mumbai notes that another downside of the region is that the population of the entire Arab world is just one-sixth of that of India or China, and is fragmented into 22 jurisdictions with few common regulations or standards.

For developed-market firms, by contrast, particularly North American firms, the issues most likely to have a major impact on their plans are openness to foreign business and corruption (cited by one-half of North American respondents). This is possibly a reflection of tighter anti-corruption legislation in home markets, such as the US’s Foreign Corrupt Practices Act.

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Favoured locations

The view of the region overall obviously obscures major variations in the relative attractiveness of countries within it. The UAE is by far the most popular location, according to 63% of respondents overall, as a market in which to trade or invest. Mr Damardjati of Bank BRI in Indonesia selects the UAE, especially the emirate of Abu Dhabi, and Qatar as his organisation's most favoured markets. The UAE's prominence as a business destination is greater than what its GDP or population would suggest: its GDP is lower than that of Turkey or Saudi Arabia, and its population, at just 5.6m, is far smaller than those of Egypt (85m) or Iran (70m). Rather than focusing on the UAE's domestic market, large companies typically use it as an export gateway to the wider MENA region, and often into South Asia and Sub-Saharan Africa as well. Such companies typically cite the well-developed infrastructure, free trade zones and expatriate-friendly lifestyle among their main reasons for operating in places like Dubai. The survey results show that Asian and Latin American respondents in particular are likely to operate across the UAE.

By contrast, Middle Eastern respondents are the only group that did not show the UAE as their most popular investment destination; they are more likely to operate in or trade with Saudi Arabia, the Arab world's largest economy. This may be because Arab companies are less likely to require such an expatriate-friendly culture as is offered by Dubai (where the vast majority of the population is not Arab).

For most survey respondents, expansion plans centre on the wealthy Gulf states—reflecting the impact of the high oil price on the economic outlook for these countries, as well as the perception that political risk is relatively contained in most of them. Asian firms, in particular, focus on the Gulf Arab countries and on Turkey, whereas Latin American firms also show strong interest in Egypt and Morocco. Asian firms are the most likely to do business with Iran—a virtual no-go area for Western investors because of the trade embargoes imposed by many of their governments over Iran's nuclear programme.

In the region's largest economy, Saudi Arabia, bureaucracy (cited by just over one-third of respondents), talent shortages (28%) and openness to foreign business (26%) are deemed the biggest bottlenecks, despite the fact that legal restrictions on foreign investment have eased considerably over the past decade. Respondents are less likely to see political risk as one of the top three obstacles in Saudi Arabia than in either the UAE or Turkey, although this might merely suggest that there are even greater headaches to contend with in Saudi Arabia, rather than indicating that the country is less politically risky than Turkey or the UAE (where business is generally easier, at least in the free zones where most foreign companies operate).

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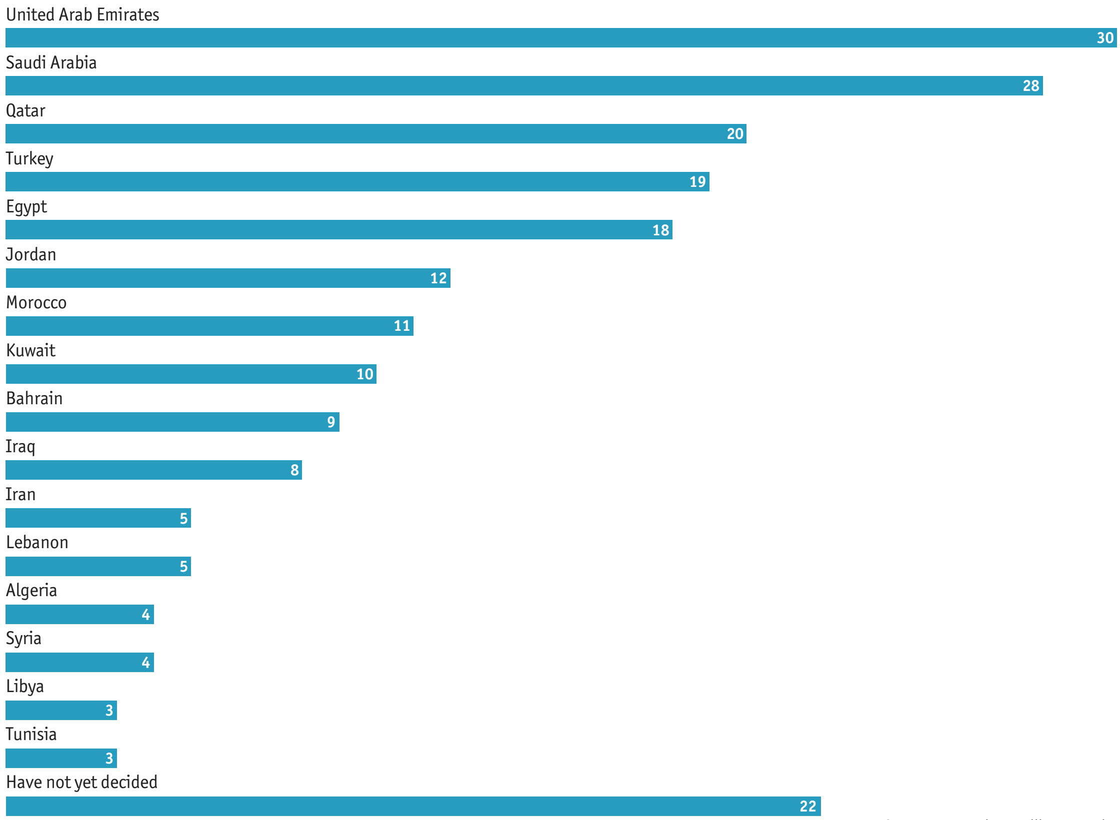
Which of the following Middle East markets are you planning to enter or undertake significant expansion in over the next two years?
(% respondents)



Source: Economist Intelligence Unit

Bureaucracy and high costs are concerns for all groups of respondents, but views on other issues vary widely. Respondents from within the Middle East cite the shortage of talent as the top barrier; European and North American firms share the concerns about talent shortages but are more likely to highlight "openness to foreign business" as a barrier, rather than high costs; and respondents from North America are more than twice as likely as respondents from the Middle East to highlight corruption as a barrier.

Some allowance must also be made for sectoral differences. Energy, energy-related industries and construction attract the most inward investment into the Middle East, and this might bias concerns towards use of foreign labour and bureaucracy. However, firms from emerging markets appear to be favouring less saturated markets, or those that play to their own competitive strengths. MTN, a South African-based mobile telecoms company, operates in Syria, Yemen, Sudan and Iran—a step too far for most Western multinationals. MTN has expanded partly through acquisitions, buying an existing Yemeni mobile operator, Spacetel, in 2007. In March 2011, MTN boasted some 130m customers across the Middle East and Africa. The company has developed mobile money services in some of its East African markets, which could be brought to the "unbanked" populations in the MENA region too.

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CASE STUDY Jacky's global hub

Jacky's, an electronics and consumer goods retailer, was originally set up in Hong Kong, established its first branch in the Middle East in Dubai in 1985, and decided to relocate its headquarters to Dubai in the mid-1990s. Its chief operating officer, Ashish Panjabi, comments: "Logistically, Dubai seemed more in the centre. Much of our business was moving towards Africa, the CIS and the subcontinent, as well as growing in the Middle East region. The time zone is similar, it's easy to move money around and a lot of what was needed, like shipping lines, were here." More recently, the emirate has also been able to attract a critical mass of businesses along the supply chain, making it a relatively easy place from which to run operations in Africa or South Asia as well as the Middle East. "A lot of our investments in the past couple of years have been in Africa, especially Kenya, Tanzania and Uganda," he says, "and our suppliers for electronics or fast-moving consumer goods also have centres in Dubai, so we don't have to ship Asian goods all the way from Asia."

Thus Dubai has become a business hub that leverages growth beyond the MENA region. But to sustain this status, it needs to be competitive relative to such global hubs as Hong Kong, Jacky's home base. "Hong Kong is very fast-paced and efficient, and the work culture is quite different in Dubai," notes Mr Panjabi. However, it compares favourably to being based in India, where infrastructure poses problems in many areas. Also, "as an expatriate, you look at comfort and quality of life", and in India the cost of a professional expatriate package has been rising dramatically in major cities. "Even a hotel in Mumbai is more than US$400 a night now," he says.

However, life in a Dubai free zone is far from representative of the wider Middle East. Indeed, there are major differences even within Dubai itself, depending on whether a company is based in a free zone, or operates within the city, where foreign companies are required to have a local partner. "Some of Dubai's ideas and business practices are trickling into other places now, especially Abu Dhabi and Qatar," says Mr Panjabi. However, the lack of diversity in some Gulf states narrows the choices, especially for schools and for expatriates, whether from Asia, Europe or other emerging markets.

While Mr Stachon of Getz in Brazil sees opportunities for Latin American firms in almost all sectors in the region, he cites the export of basic foodstuffs and the development of retail, fast food, construction, sanitation and other services to cater for the rapidly growing population as having most appeal. The least attractive sectors, in his view, are businesses related to oil and gas, and tourism, but only because they are relatively mature and have "already attracted investments from many countries, mainly from Europe". Mr Gonçalez of University of São Paulo's FIA Business School in Brazil agrees that the food sector is the most attractive for Latin American firms operating in the Middle East, reflecting one of their strongest areas of competitive advantage; he adds that the market for industrial goods such as electronics, cars and capital assets is less likely to be tapped by firms from his region.

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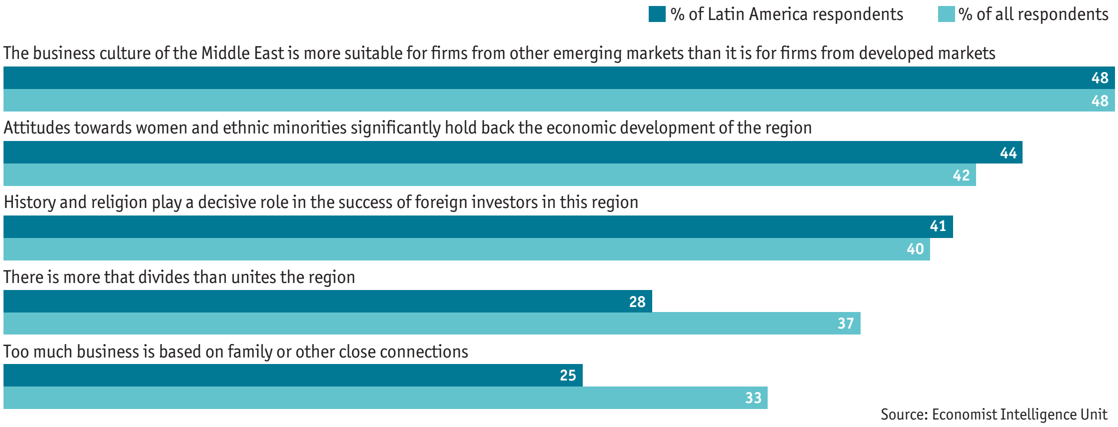
Culture and diversity

While concerns over political risk, corruption and bureaucracy are all obvious areas to highlight in the current period of unrest, cultural differences may present longer-term obstacles for foreign investors, not least to firms from other emerging markets. Latin American respondents are the most likely (40%) to cite cultural issues as something that could have a "major impact" on their business in the region, compared with 30% of North Americans, 25% of Asian respondents and just 20% of Europeans. Almost one-half (48%) of Latin American businesses also feel that the business culture of the Middle East is more suitable for firms from other emerging markets than it is for firms from developed markets, far exceeding the responses from other regions (except for those in the Middle East itself).

In your experience, which of the following statements about the business culture in the Middle East have presented major challenges to doing business in your region?



Source: Economist Intelligence Unit

Mr Romano of Speed Cooperativa de Crédito, Consumo y Vivienda Ltda in Argentina emphasises that Middle Eastern and Latin American cultures are very different and that his company needs to be very selective when finding staff to send to the region. However, Mr Gonçalez of University of São Paulo's FIA Business School in Brazil argues that religious and language differences are not particularly important when it comes to doing business there. Both Latin American and Middle Eastern companies are used to speaking English, he says, and language can therefore hardly be

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counted as a major barrier. "The issues are more related to the informal approach that businessmen in Latin America are used to taking," he explains.

Mr Stachon of Getz in Brazil, who spent a year living in Dubai, says that for Brazilians, living in the Middle East feels far more different to home than living in Europe, America or the Asia Pacific when it comes to "food, language, culture, religion" or even "the way of dressing and the cinema", and that "it's easy to find people homesick after only six months". He notes that one Brazilian company, Sadia, is even offering pre-prepared Brazilian products in supermarkets.

More broadly, Mr Stachon advises that "it is necessary to understand the culture, the vision of society and history of the Arab people", noting that historically Brazilians, like Arabs, have favoured a sceptical approach to trade. "Although it is not essential to speak Arabic in order to do business in the Middle East, speaking even a few key sentences is a great advantage," he adds.

"Over the last few years, the quality perception of 'Asian' goods has vastly improved since most 'Western' goods are now actually manufactured in Asia"

S. Giridhar
President, Alok Industries

Foreign workers in the Middle East are particularly concerned about perceived discrimination over pay and recruitment on the basis of nationality. The link between pay and nationality is particularly strong in the Gulf states, where the belief is widespread that the most attractive jobs should be reserved for local nationals, who also have the choice of working in the public sector where the hours are shorter and holidays are longer.

Some emerging-market executives also complain of a bias in the region in favour of Western firms. According to one, customers in the Middle East are likely to "look more favourably upon a product if it has been imported from a developed country, regardless of real differences in quality". For that reason, many European and American brands are dominant across the region. But a new breed of emerging-market businessmen is now willing to challenge the status quo. "We market as Indian brands and see no reason to hide behind Westernised names. That is because we have some of the best quality in the world and can take on any competition," says Mr Giridhar of Alok Industries in Mumbai. "Besides, over the last few years, the quality perception of 'Asian' goods has vastly improved since most 'Western' goods are now actually manufactured in Asia."

A significant minority of surveyed executives in all regions also agree with the statement that "attitudes towards women and ethnic minorities significantly hold back the economic development of the region". Unsurprisingly, executives based in the Middle East are the least likely to take this view, with just 27% agreeing with the statement, compared with an average of over 40% of all the respondents.

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Conclusion

Companies around the globe recognise the long-term economic potential of the Arab world. Trade between the countries of the Middle East and others, particularly those from emerging markets, has been increasing for years, and is likely to grow further as part of a broader trend of greater economic exchange between non-OECD countries. But as with all emerging-market regions, there will be hurdles along the way. Political authoritarianism and instability have forced many investors to think twice about their plans in the short term, although many emerging-market firms appear less worried about volatile operating conditions. A significant minority of executives in all regions (except the Middle East itself) feel that local attitudes towards women and ethnic minorities would hold back the region's economic development. Nevertheless, the current upheavals of the Arab Spring are giving hope to investors from all regions that, despite obvious short-term difficulties inherent in political transition, a more transparent business environment will eventually emerge.

While concerns about corruption, infrastructure and political uncertainty will generally remain troubling in the medium term, the opportunities deriving from a young and growing population are all too evident, and our survey shows that investors from all regions are planning major expansion into the MENA region. Firms from other emerging markets are increasingly eyeing opportunities outside the oil and gas industry, in the less-developed sectors and countries across the region. For example, Latin American firms are leveraging their expertise in fostering innovation in agriculture. Others are finding a niche in providing goods and services by competing on price or quality.

For companies from industrialised countries and emerging markets alike, significant challenges remain in doing business in and with the Middle East. But the region is also changing in ways that are visible, as made clear from the Arab Spring, and in ways that are more imperceptible, as in the recalibration of policies and attitudes to business. The region today represents opportunity that businesses around the world are keen to grasp. Given the trends in global trade and investment, it is more than likely that the attractiveness of the opportunities will outweigh the risks over time.

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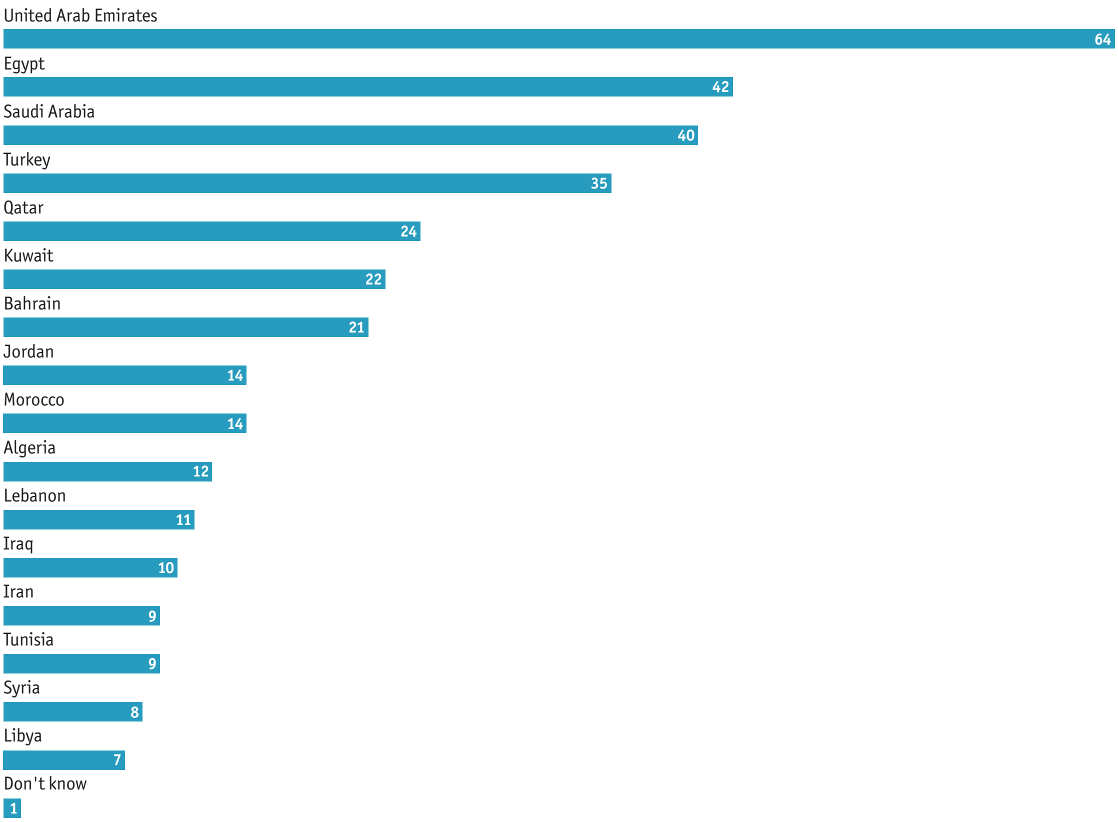
Appendix: Survey results

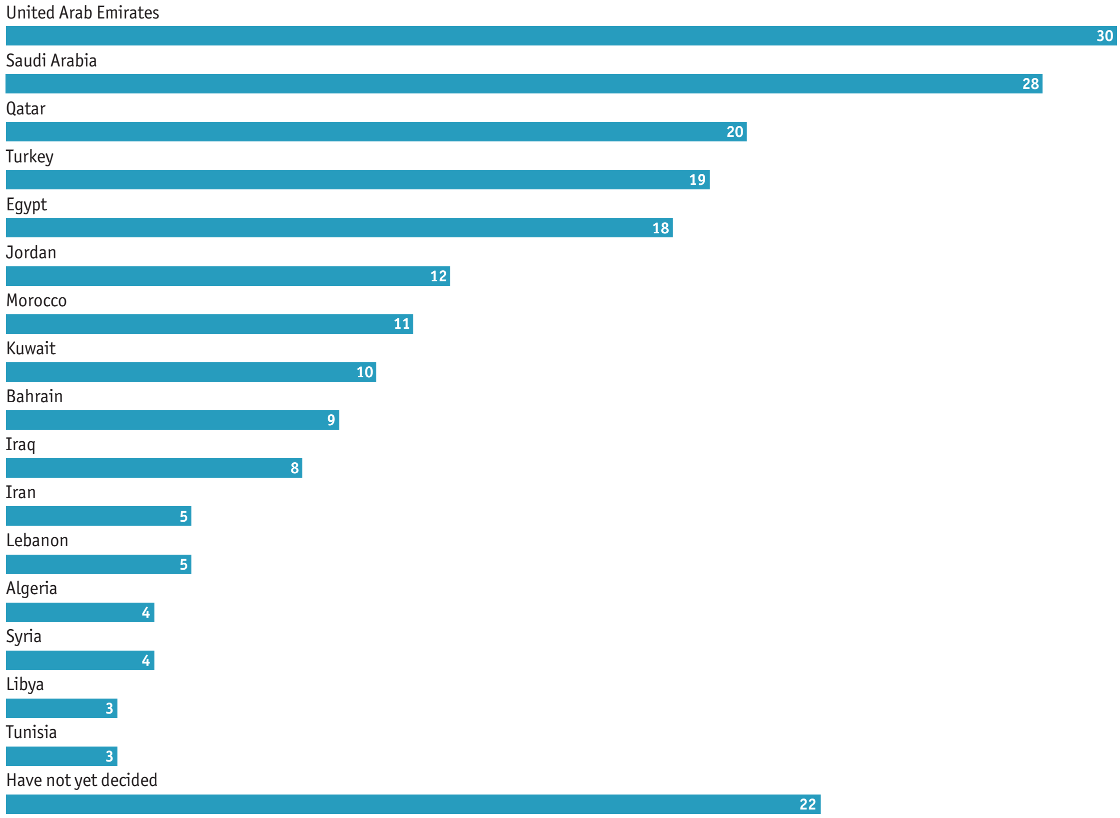
Percentages may not add to 100% due to rounding or the ability of respondents to choose multiple responses.

Which of the following Middle East markets do you currently operate in or trade with? Select all that apply.
(% respondents)

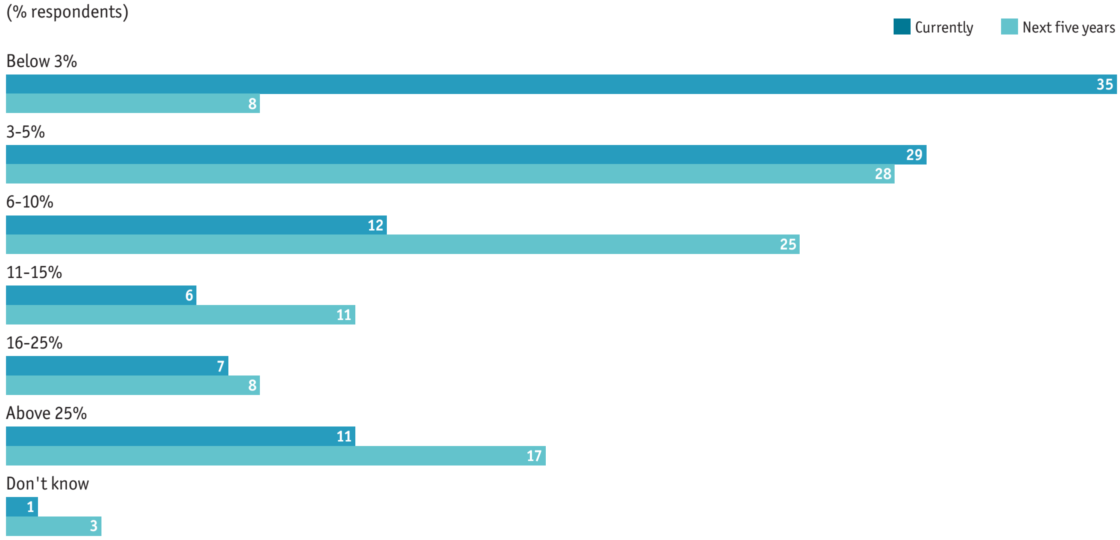


Are you currently, or in the past 5 years been responsible for doing business in any of the above countries?
(% respondents)

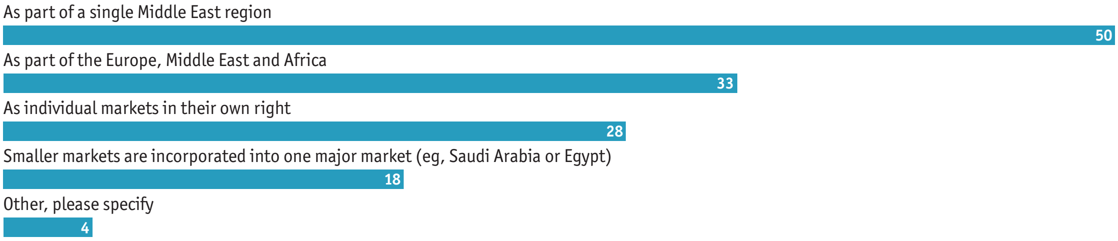
Which of the following Middle East markets are you planning to enter or undertake significant expansion in over the next two years? Select all that apply.
(% respondents)



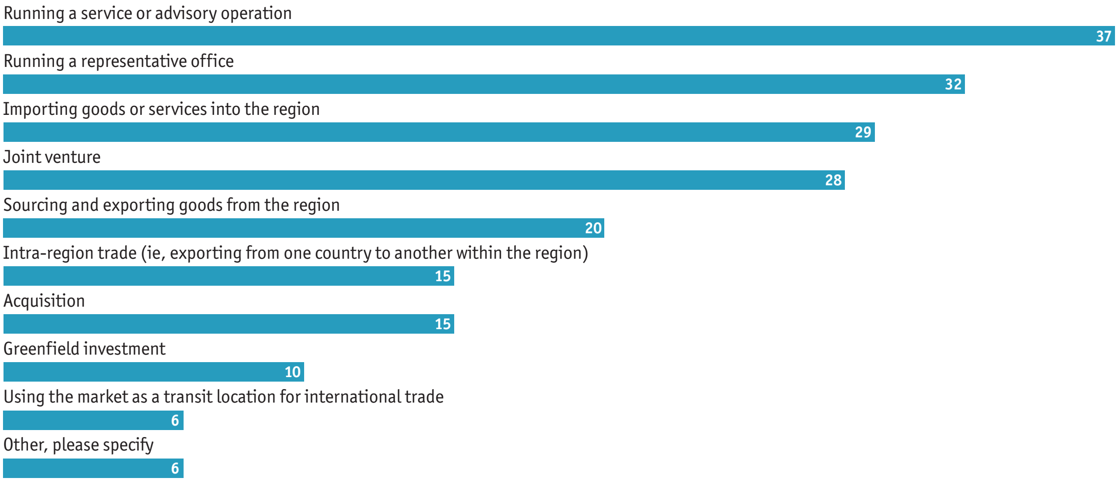
How important is the Middle East market to your global business in terms of proportion of revenues, currently and likely to be in the next five years? Select one for each column
(% respondents)



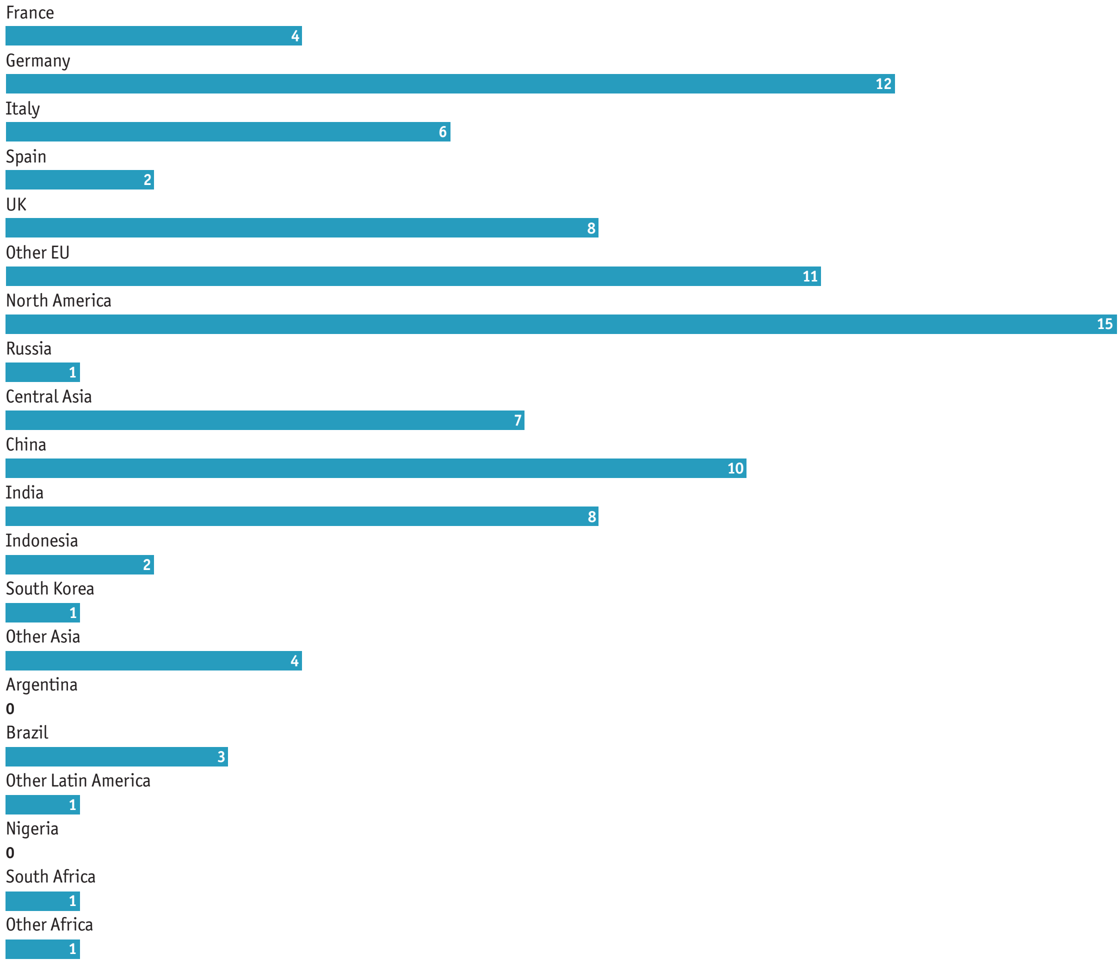
How is the Middle East region incorporated into the broader structure of your global operation? Select all that apply.
(% respondents)



Which of the following best characterise the nature of your business in the region? Select up to three.
(% respondents)

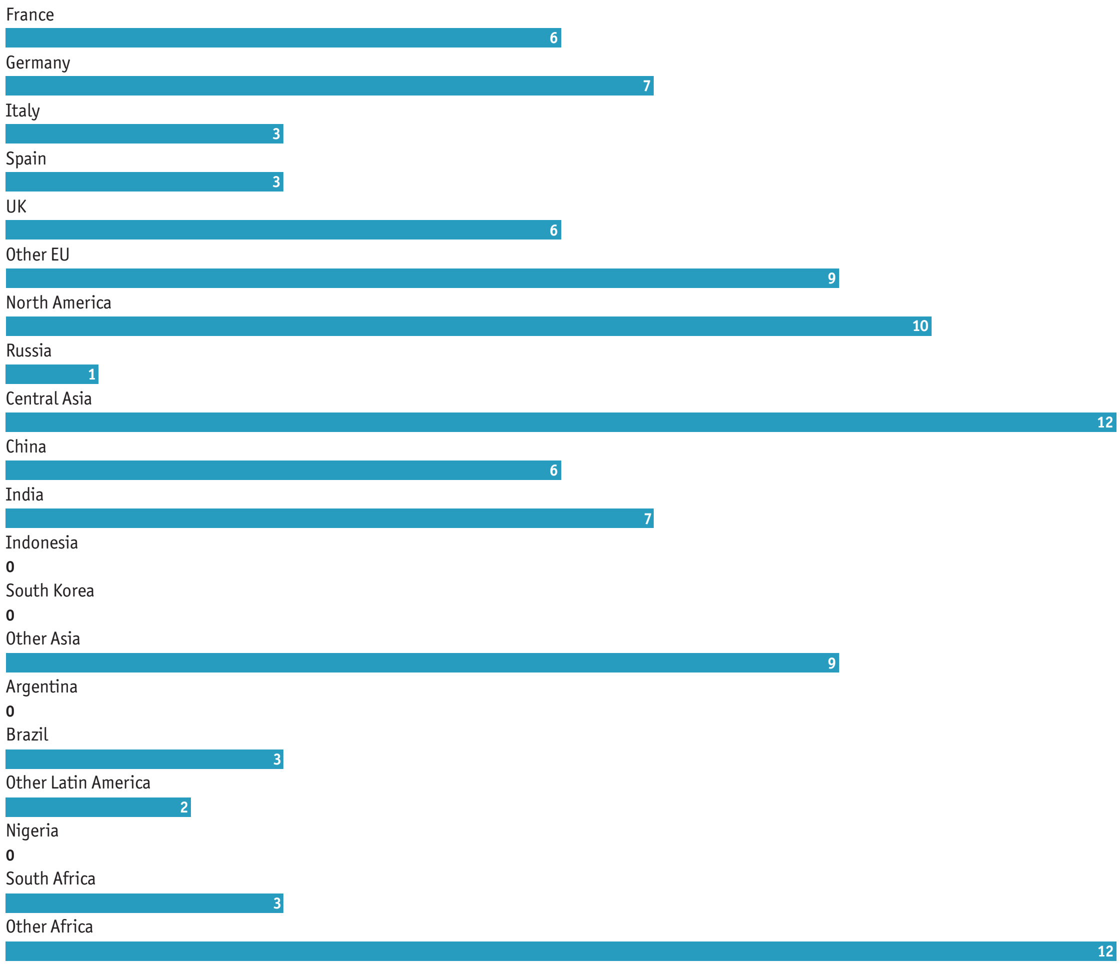


If your company is involved in trade transit through the region, please select the main market of origin, Middle Eastern country of transit and destination. - Main market of origin
(% respondents)

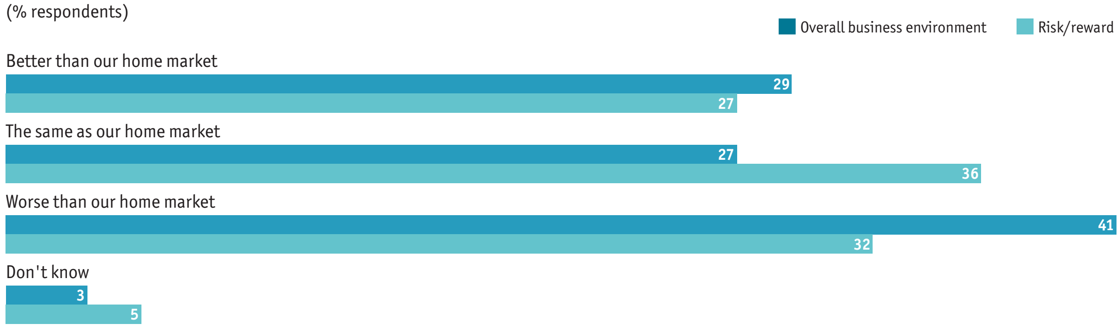


If your company is involved in trade transit through the region, please select the main market of origin, Middle Eastern country of transit and destination. - Main Middle East country of transit
(% respondents)

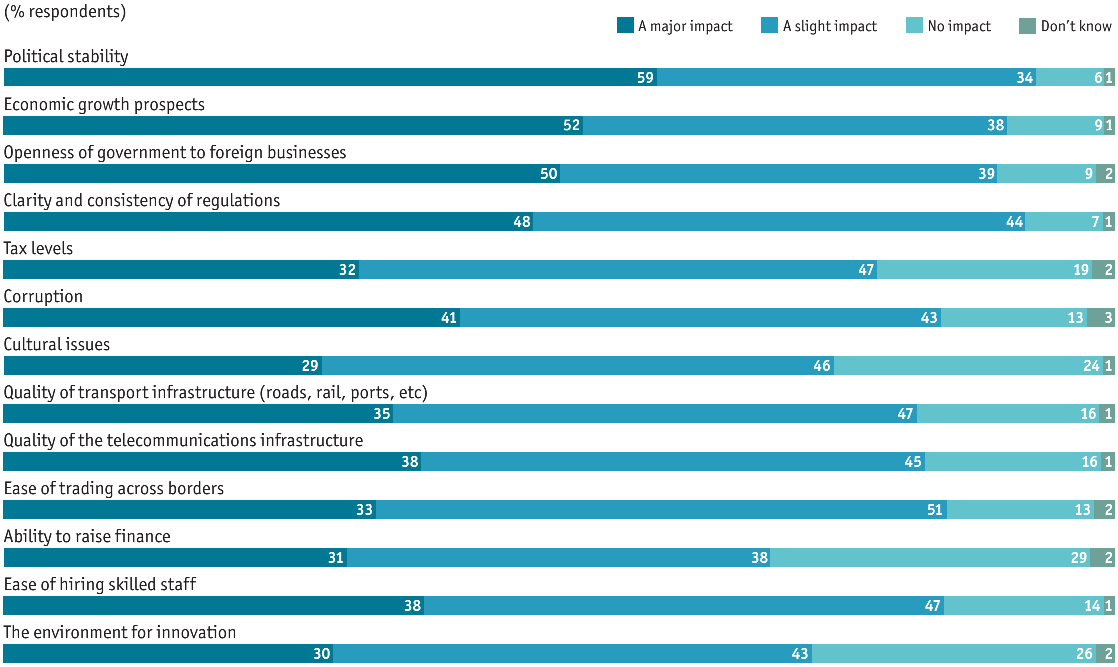
If your company is involved in trade transit through the region, please select the main market of origin, Middle Eastern country of transit and destination. - Main destination market
(% respondents)



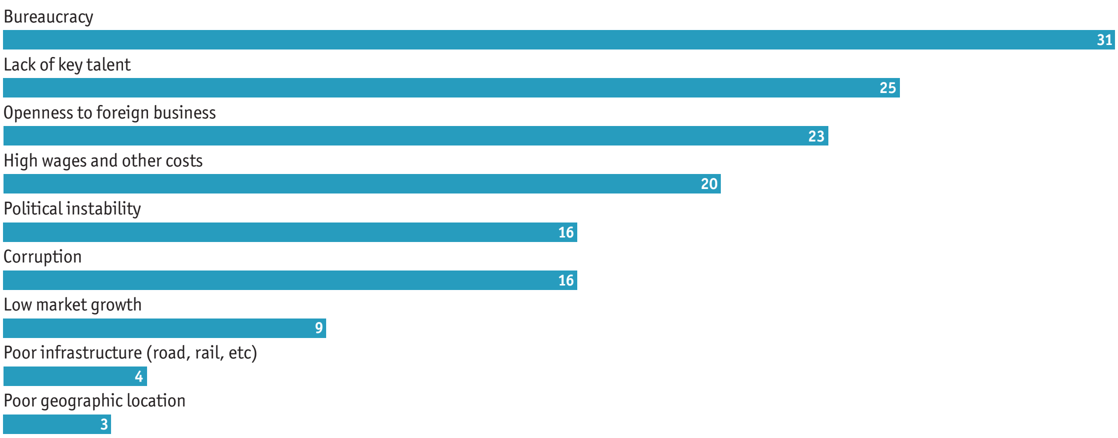
Regarding your operations in the region as a whole, how would you assess the general business environment overall, and the risk-reward ratio of your business? Select one for each column that best applies.
(% respondents)



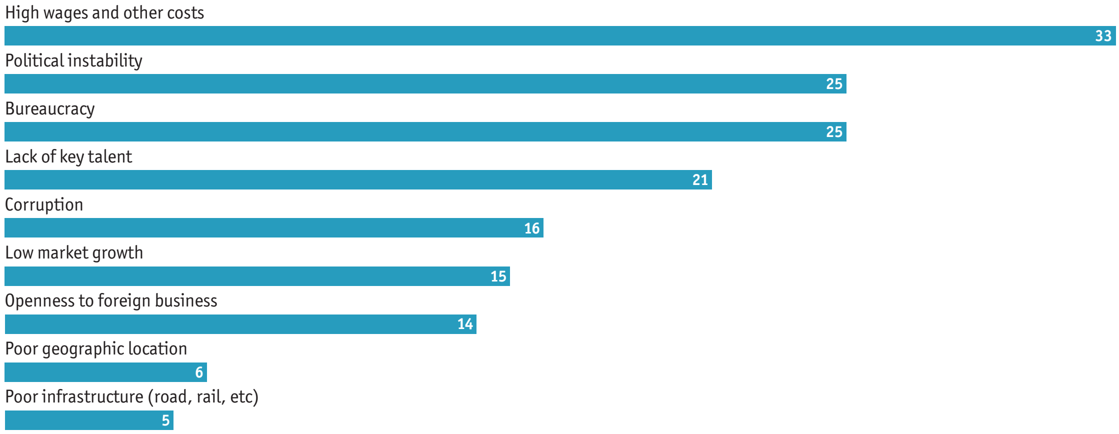
Considering the business environment in more detail, which of the following issues are likely to have an impact on whether or not to invest in the region?
(% respondents)



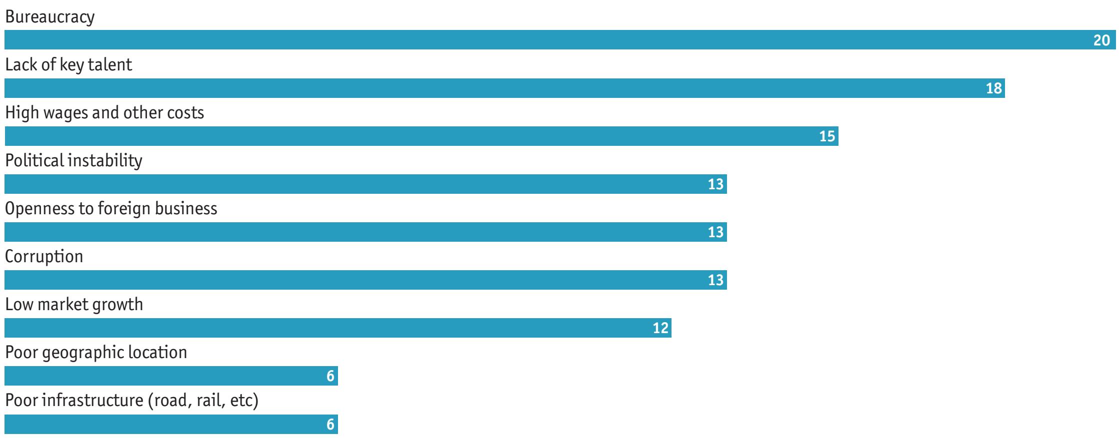
Which of the following issues do you consider represent the main operating obstacles to doing business in the following key Middle East markets? Select up to three issues for each country. - Saudi Arabia
(% respondents)



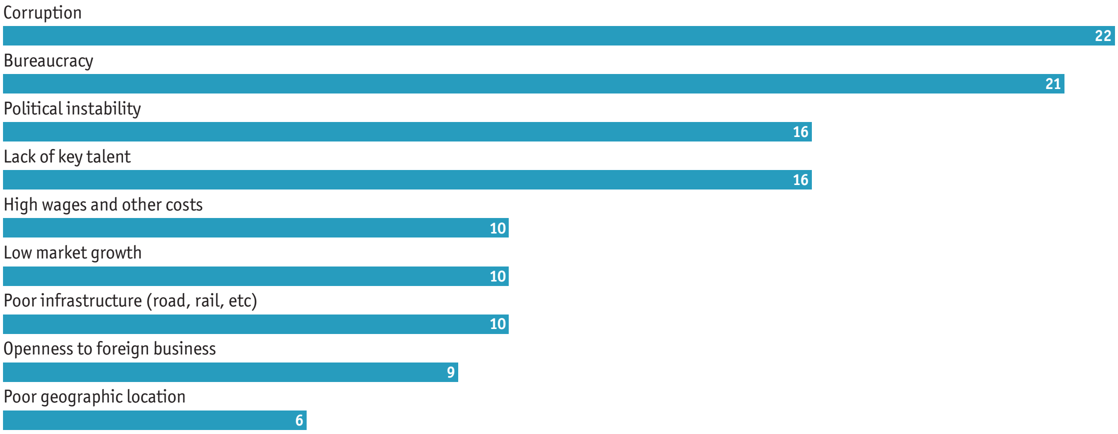
Which of the following issues do you consider represent the main operating obstacles to doing business in the following key Middle East markets? Select up to three issues for each country. - UAE
(% respondents)



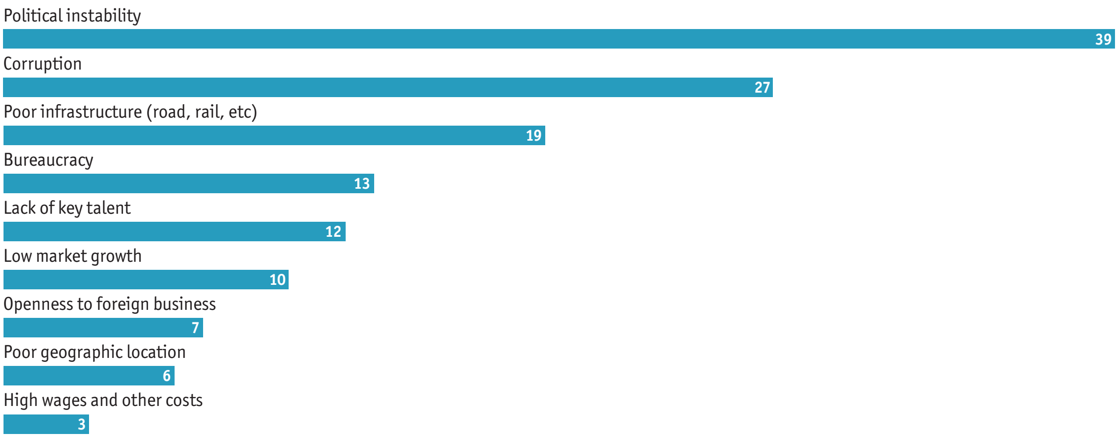
Which of the following issues do you consider represent the main operating obstacles to doing business in the following key Middle East markets? Select up to three issues for each country. - Qatar
(% respondents)



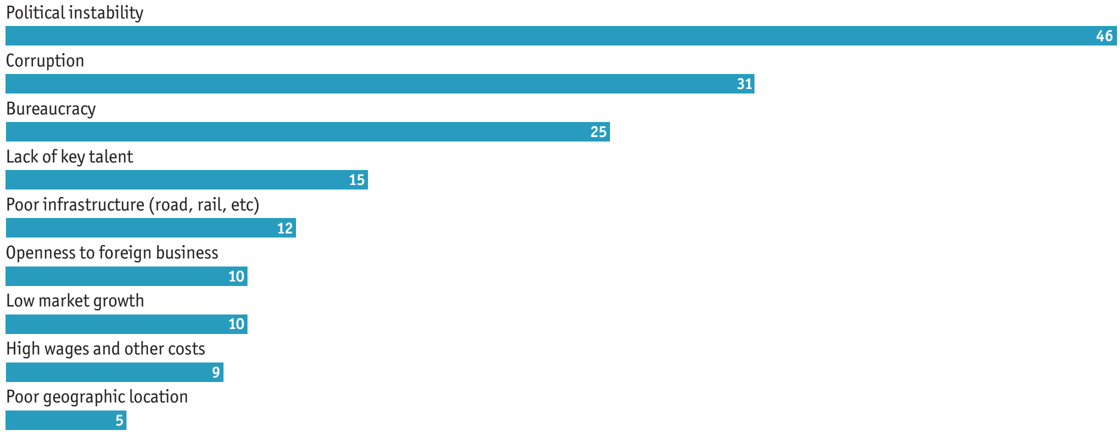
Which of the following issues do you consider represent the main operating obstacles to doing business in the following key Middle East markets? Select up to three issues for each country. - Turkey
(% respondents)



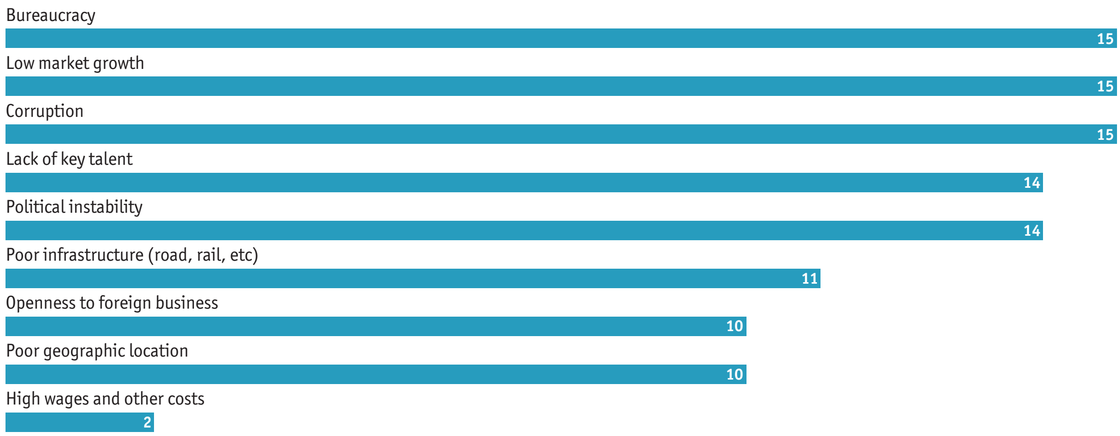
Which of the following issues do you consider represent the main operating obstacles to doing business in the following key Middle East markets? Select up to three issues for each country. - Iraq
(% respondents)



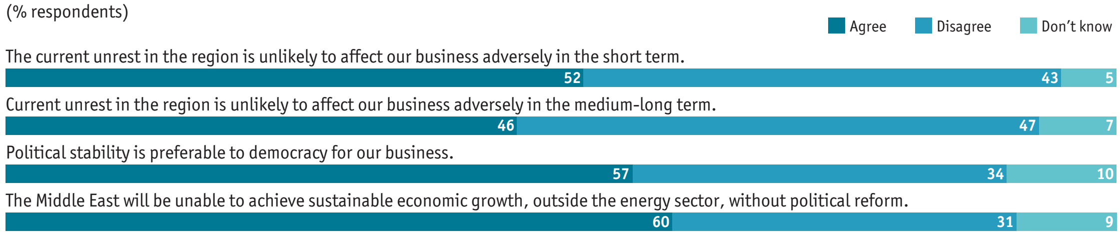
Which of the following issues do you consider represent the main operating obstacles to doing business in the following key Middle East markets? Select up to three issues for each country. - Egypt
(% respondents)



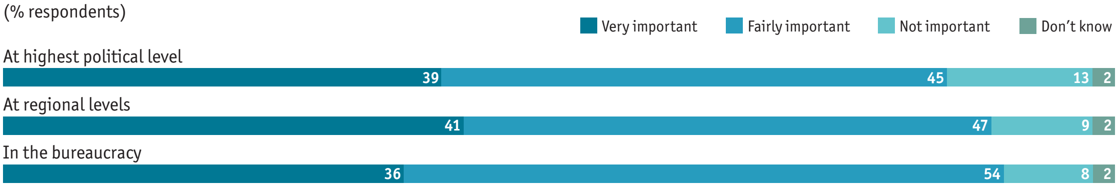
Which of the following issues do you consider represent the main operating obstacles to doing business in the following key Middle East markets? Select up to three issues for each country. - Morocco
(% respondents)



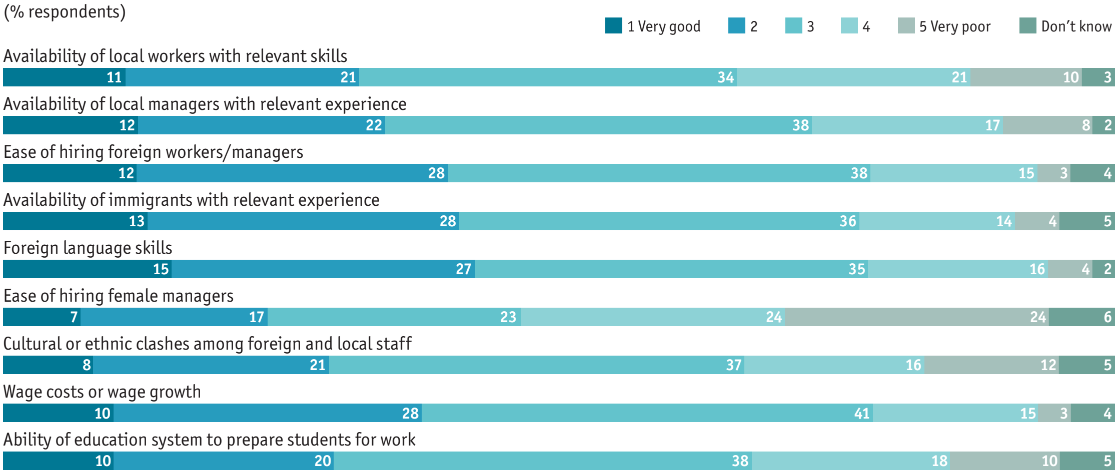
Do you agree or disagree with the following statement, regarding the political environment in your key markets in the region?
(% respondents)



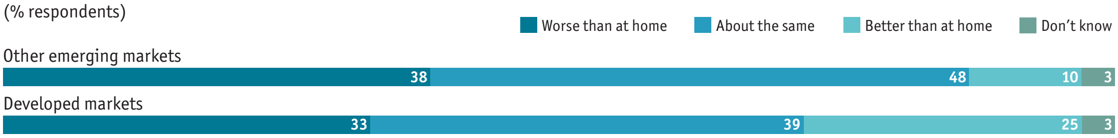
How important are good connections in government in order to conduct your business profitably?
(% respondents)



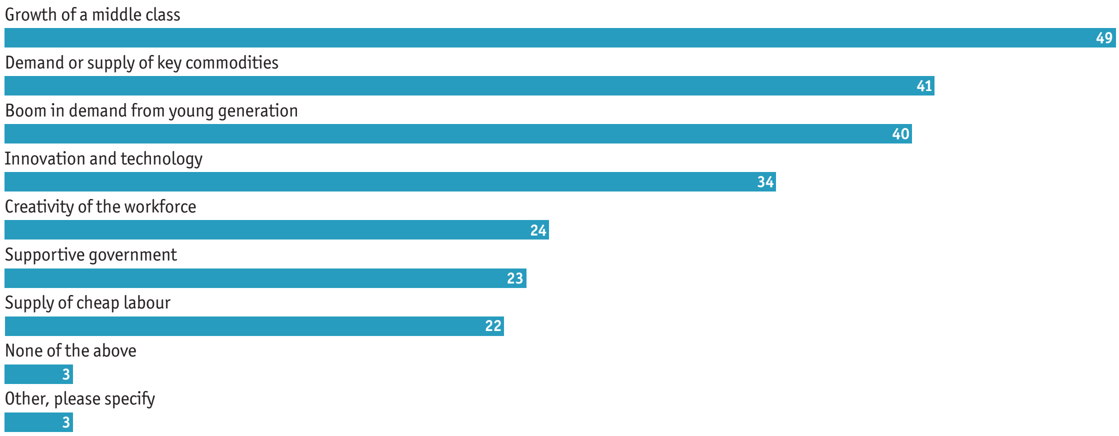
How would you rate the following areas in regard to talent in the region, in terms of satisfying your business requirements?
Please rank 1-5, where 1=Very good and 5=Very poor.
(% respondents)



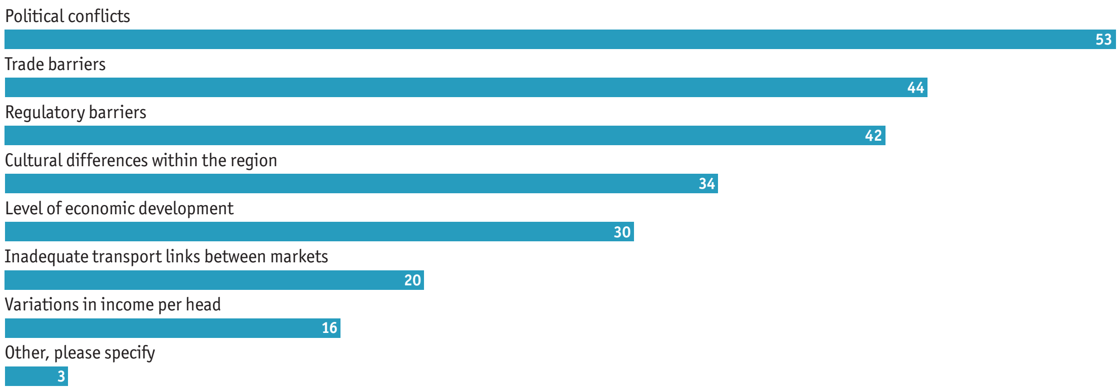
How would you rate the education level of the working population, compared with that of your home market, other emerging markets and developed markets?
(% respondents)



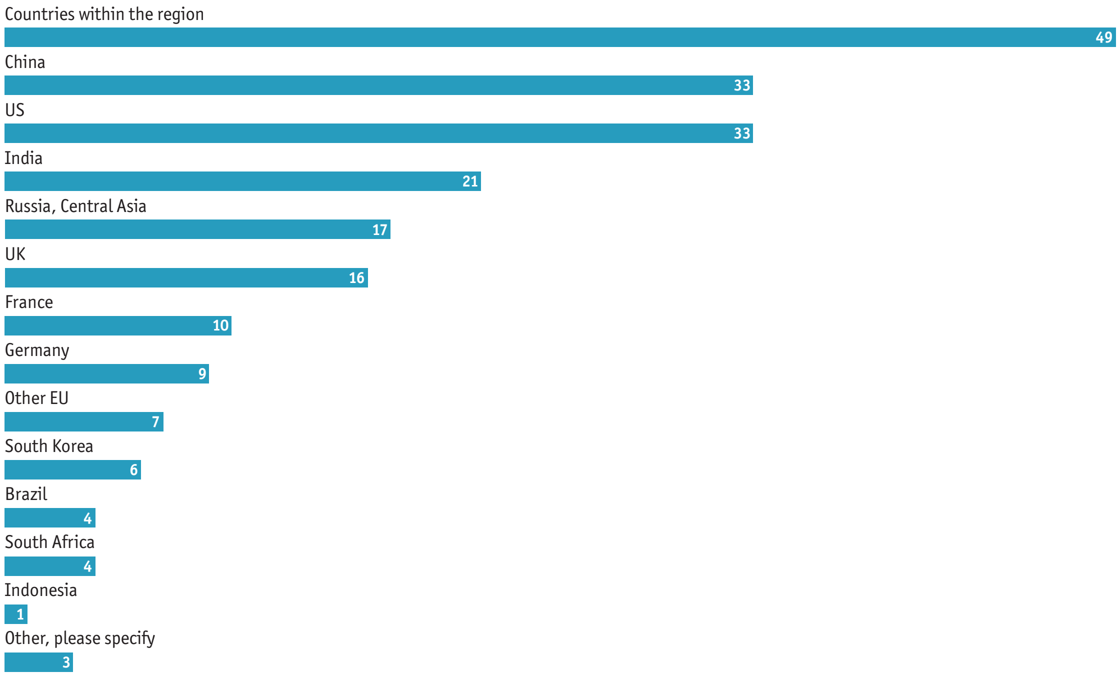
In which of the following areas do you believe the Middle East presents greatest opportunities for your company when compared with other emerging markets? Select all that apply.
(% respondents)



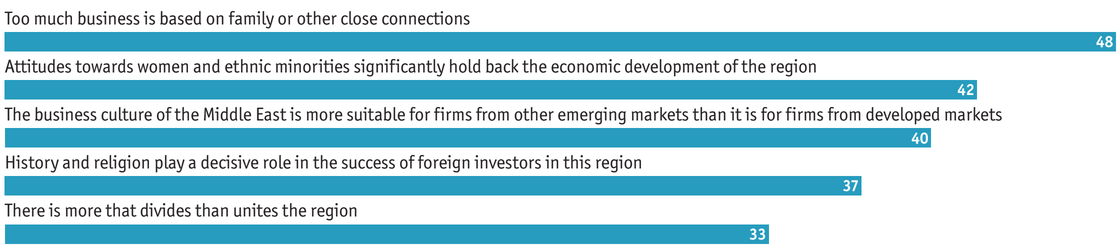
What are the main obstacles to integrating your business across all or several markets in the region? Select up to three.
(% respondents)



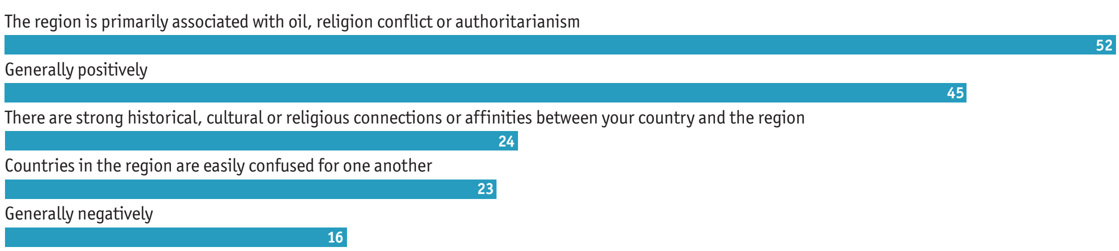
Which countries or regions present the greatest competition to your business in the Middle East? Select up to three.
(% respondents)



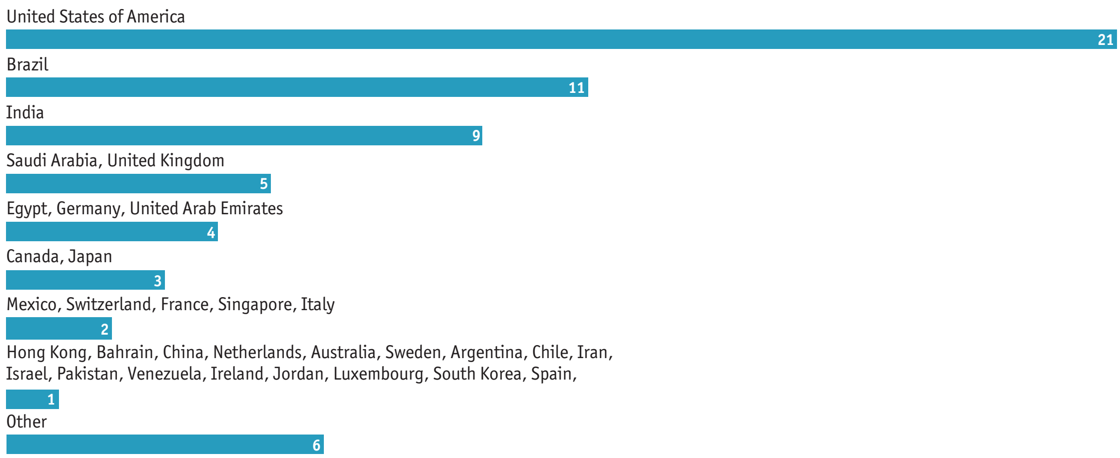
In your experience, which of the following statements about the business culture in the Middle East have presented major challenges to doing business in your region? Select all that apply.
(% respondents)



Overall, how is the Middle East region broadly viewed in your home country? Select all that apply.
(% respondents)

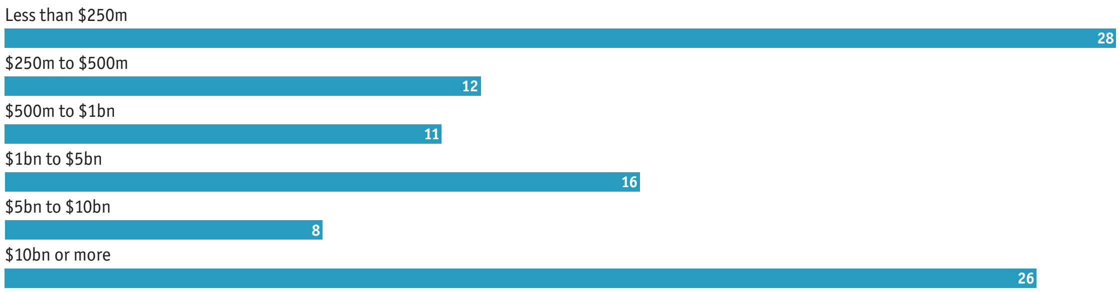


In which country is your company headquartered?
(% respondents)

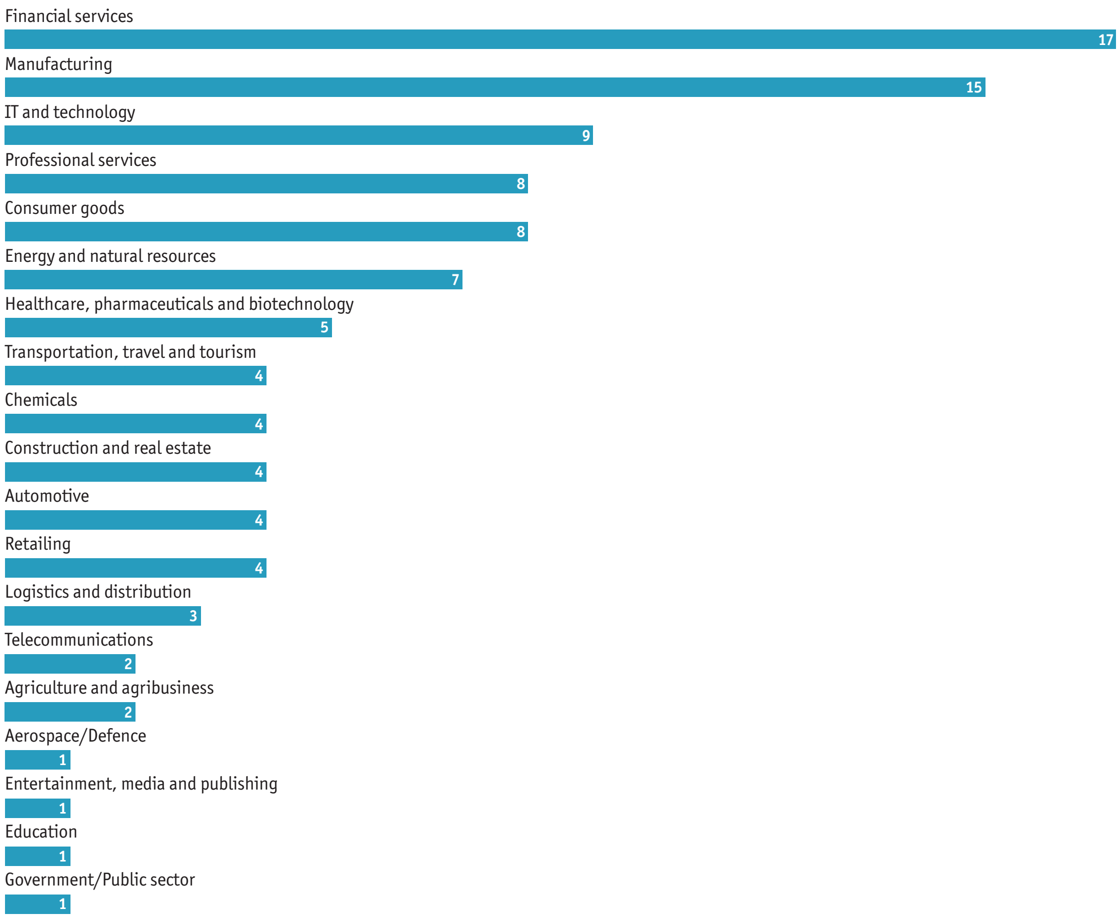


In which region is your company headquartered?
(% respondents)

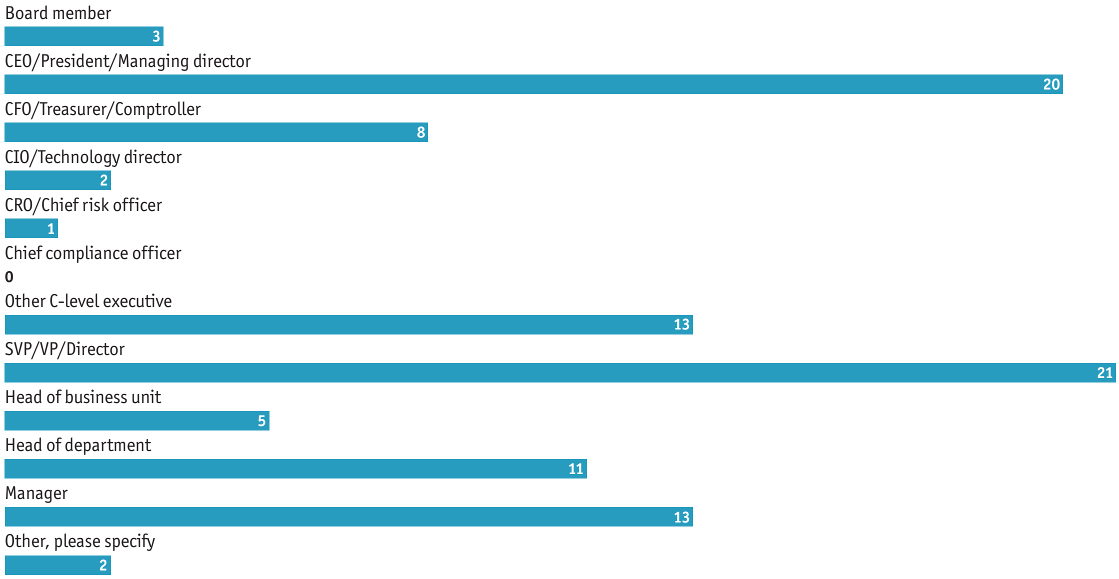
What is your organisation's global annual revenue in US dollars?
(% respondents)



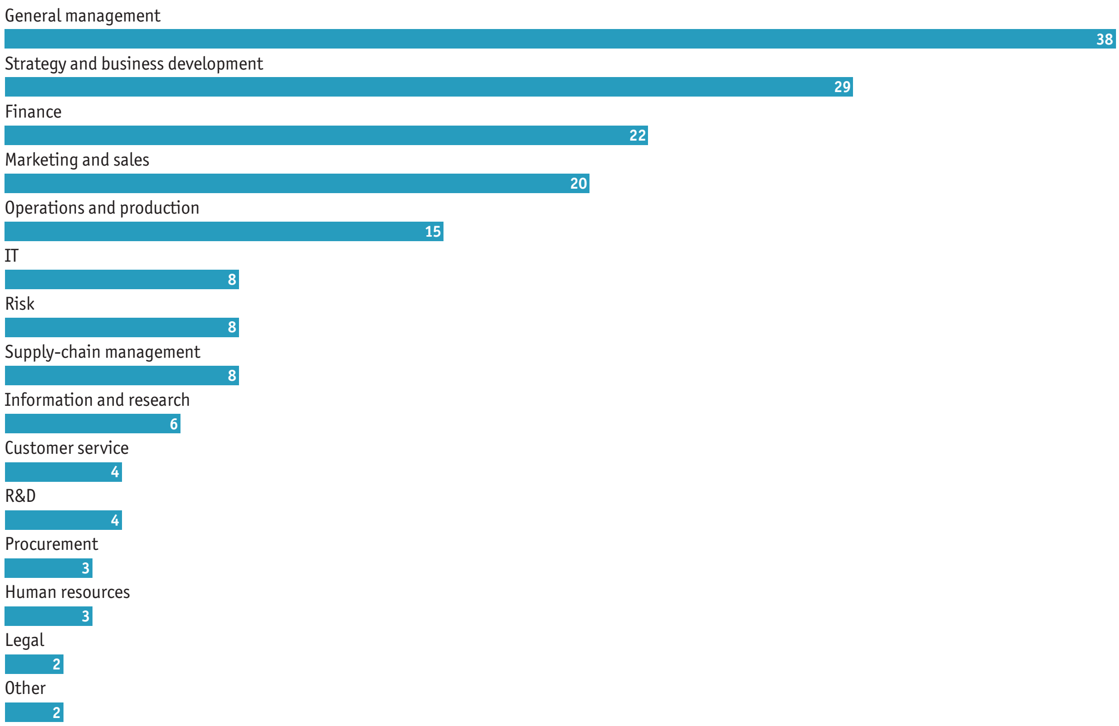
What is your primary industry?
(% respondents)



What is your title?
(% respondents)



What are your main functional roles? Please choose no more than three functions.
(% respondents)



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