

**Arab Gulf Business Leaders Look to the Future**

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## **INTRODUCTION**

Significant developments are taking place in the Arab Gulf region. Dramatic increases in oil revenues have spurred what some are calling an “Arab Renaissance,” with record construction, investment, and growth observed in many of the area’s countries. At the same time, some of the region’s governments have taken new initiatives aimed at liberalizing their economies and, in varying degrees, their political systems. All of these positives, however, are occurring against the backdrop of worrisome destabilizing developments, some in the broader region and others in the Gulf itself.

How are the region’s business elites looking at these developments and the long-term prospects for the region? Are they confident that there is in fact an Arab Renaissance, and that it has staying power? Do these elites believe that this new wealth is being invested wisely toward sustaining this growth and are they comfortable with the pace of change (political, economic, and social) that are also necessary for the long-term health of the region? Are they merely “going with the flow” or is there a strategic design at work to take advantage of this new wealth to both serve the region’s economic future and reposition it as a major proactive player on the new world economy? And finally, how do these business elites assess the repercussions of the region’s political turbulence?

In an effort to develop a preliminary understanding of these and other related issues, Zogby International interviewed a group of 15 business leaders from Saudi Arabia, United Arab Emirates, Kuwait, and Bahrain. The interviews were conducted in person, by telephone, or via e-mail using an extensive questionnaire that included both open-ended and closed questions.

What we found:

### **1) “THE ARAB RENAISSANCE”**

There is broad agreement that the region is in the midst of a Renaissance with most business leaders understanding this to be the result of the confluence of a number of positive developments. Obviously, new oil revenues play an important part here, but there are other factors as well. Some of our respondents mentioned the fact that Gulf societies have matured after many decades of social and economic development—one called it “the payoff of past investments in the economic and social infrastructure (especially in education).” A number of businessmen also pointed to the liberalization that has opened up many of the Gulf’s economies, creating new opportunities that have empowered and energized the private sector. At the same time, this has helped to foster a new partnership between the government and the private sector. Finally, one especially astute businessman suggested an additional factor that accounts for this new Renaissance: the new wealth spurred both government and private sector to take bold initiatives because of their belief that the “region was being left behind” and needed to take “dramatic steps to catch up.”

While most of the business elites consulted for this report - felt that this new wealth was being invested wisely, some of their comments were accompanied with reservations, particularly on the subject of transparency, more of which they felt is needed for them to make a categorical judgment. Without this transparency, one observed that it is difficult to measure whether “new monies are being invested in viable and economically productive activities.”

There was also the view expressed that oil revenues were being used more wisely and efficiently than they were in the 1970’s and 1980’s. One individual noted that this is the result of both the maturation of the government and the private sector.

A majority of leaders did not feel that the economies of the region were diversifying sufficiently from oil, and this explains in part the reservations that most business leaders have on the degree to which the current boom is sustainable.

While a few of the business leaders who participated in this survey were bullishly optimistic on the long-term growth of the economy---one of these CEOs attributed his views to the belief that oil will continue to dominate the economy: “demand is high and will continue to grow” --- others had a more cautiously optimistic outlook, much of it based on the belief that oil still plays too great a role at the expense of diversification. Other reasons included a lack of innovation and creativity, the realities of an increasingly globalized economy, and the difficulty in altering long-held traditions.

One CEO wasn’t prepared to bet beyond the next 5-7 years, while another predicated the possibilities for real sustainable growth on the degree to which governments use their wealth to fund education, empower women, build infrastructure, and pursue policies that attract foreign investment. He concluded with the belief that it would take decades “on a realistic basis” before these elements are fully in motion.

When asked what was needed to secure the region’s economic future, the need to diversify the economy and rely less on oil was again the dominant theme. The banking sector wins hands-down as the sector which respondents felt should be emphasized for future growth. Significant interest was also shown in exploiting the region’s tourism potential (both internal and external tourism). Next in line was interest being shown toward pharmaceuticals and foreign acquisitions.

Liberalization of the economy was also top-of-mind in assessing the prerequisites for future growth, as was education. One leader emphatically limited his comments on what was needed to secure the region’s economic future to: “Education, 21<sup>st</sup> Century Education.”

**Some relevant comments worth noting:**

**a) Arab Renaissance**

*The increase in oil revenues this time is taking place at the same time that Arab Gulf countries are liberalizing their economies with first serious signs of real participation between the government and private sectors.*

*Because of this dramatic increase of revenues, significant investment in the economic and social infrastructure (power generation, education, transportation water) became possible and the private sector is energized.*

*The leaders in the Gulf are aware of the future challenges that lie ahead. The people are closer to their leaders and will support them in the economic growth.*

*The fact is that these revenues came just as reform, in different areas of life, was starting. And I have seen no negative impact on the reform by the increased revenue.*

*The people of the Gulf countries are always looking for improvement. The “Arab Renaissance” you mention has its roots since the 70’s and not because of the recent oil situation.*

**b) Are revenues being invested wisely**

*[Yes] because I feel that this time around Arab Governments will hopefully use the windfall oil surplus in funding education, training, women and youth employability; infrastructure building, rebuilding and maintenance; attracting foreign direct investment through greater efficiency and new free trade zones (linked to higher employability); greater security; and greater inter-Arab trade.*

*The economic development in the country reflects the wise management of most of the revenues.*

*Expenses are being carefully monitored and budget surplus are utilized to reduce government borrowing and additional funds are going towards improving production and human resources.*

*There are good intentions towards more transparency, emphasis on social and economic developments. However, there is still bureaucracy, corruption, shortsightedness.*

*[Yes, due to] the increased expenditure on development and infrastructure projects, on health and education and long term investments.*

**c) Is this economic boom sustainable**

*To have continuous and sustainable high growth is simply against economic logic and does not take into account growth, performance, inflation, interest rates of other countries in the region as well as main trading partners of the Arab Gulf countries.*

*Most projects are sustainable by government or morally supported by government.*

*[No, due to the] dependence on oil and lack of real diversification plan.*

*At least for the coming 5-7 years.*

*[....]. new foundations for more sustainable growth is possible, however, this will take decades on a realistic basis. We have been dormant for more than 20 years.*

*[No] the current growth is based on 1. oil prices 2. real estate, 3. capital market which is based on real estate and oil i.e. [and not on] innovation or creativity.*

**2) MOVING FORWARD**

In addition to expressing a need for greater diversification in the region's economy, many of our respondents indicated that political and social changes are vital to future growth. When asked whether they were satisfied with the pace and direction of the region's economic and political reforms, the group were divided. All agreed to some degree that changes have occurred and are a positive factor, but some urge that the pace be quickened. A number advocated greater participation for the private sector in economic decision-making, greater political accountability and more transparency from both government and corporations. Others emphasized that governments and business should give more focus to job-creating enterprises and to the pursuit of projects that promote broader social goals, not just profits. Many of the businessmen interviewed indicated that more attention should be paid to making further improvements in the region's educational system.

There was substantial agreement that cultural factors continue to pose barriers to change. The solution: more education and more economic progress, which, they believe will, in the end, combine to transform customs and traditions. In this context, a few businessmen also expressed the belief that in order to change this traditional mindset, the change must be gradual and come from within each society—and not as a result of external pressure.

**Some relevant comments worth noting:**

*The most important [step toward securing the region's economic security] is diversity of the economy and the removal of all kinds of subsidies so economies*

*can stand on their own and compete with economies of other countries and regions.*

*Peace, security, diversification and less dependence on oil, more employment closer cooperation among countries of the region, open markets and use of technology.*

*Our weapon to secure the regions economic future should be internal, namely it's own people, their education, their determination, their beliefs and their ambition to succeed.*

*Diversify the economy and concentrate on export-oriented industries and services.*

*[1] Free and Open Inter-regional trade, [2] Investment in entrepreneurs, [3] full reform process (economic, management & Educational).*

*More democratic steps, more public participation, more transparency, less corruption.*

*Greater participation and accountability politically; greater transparency on the corporate level and further economic liberalization in inter regional relations.*

*The most important [change needed toward securing the region's economic and political security] is the increased pace of political participation between the ruling families and the people of this region and secondly the commitment of governments to increase the role of the private sector in the economies of these countries.*

*I think the changes are happening in the form of economic reforms to a large extent. More political reform is required, though the pace is adequate in order to achieve acceptability on the Arab street. Economic growth and political stability will speed up the pace of reforms, and vice versa. Economic growth is a strong foundation for political stability.*

*External pressure from America especially, and from Europe to a lesser extent, is hurtful because people need to have locally produced solutions to our unique local problems. We still need to get "buy-in" from the public and we need great trust in the leadership (which is currently lacking, especially among the young people). External pressure would eradicate whatever little trust there is and will impede greater trust, which can be bolstered by greater economic prosperity.*

### **3)           LOOKING EAST?**

Overall, there was broad agreement that, for the foreseeable future, the United States would continue to wield significant political and economic clout in the region. But there

is some caution as well. On the one hand, there is the fact that the “US is still the only superpower, militarily, politically, and economically, and has vital interests in the region,” and the reality is that “the region needs American technology and expertise.” But even from these businessmen, most of who are deeply engaged with American partners, there is concern. One noted that recent US political engagements in Iraq and Palestine and the ideology of the neo-conservatives have had a negative impact and may affect business decisions in the future.

Even those who voiced strong disagreements with current policies expressed the hope that these would change, at least in the next administration, before any greater damage is done in relations.

One observed that in addition to the US’s weakened prospects in the region due its policies, some blame is to be shouldered by U.S. companies who neglected the region, allowing European and Asian companies to take the lead.

At the same time, most of these businessmen are, in fact, “looking East” to expanding markets and opportunities in China, India and Pakistan, and South East Asia. China, far and away, is the favored locus of attention with the majority of those interviewed, indicating that it definitely factored into their trade and investment calculations during the next five years and beyond.

While not as overwhelmingly strong, there was, nevertheless, interest expressed by almost three-quarters of the interviewees to expand their trade and investment into India, Pakistan, and South East Asia, as well.

Now while two-thirds of our group indicated that their expanded trade and investment in the East would be in addition to their involvement with the US, one-third indicated that their “looking East” would necessarily be at the expense of the US.

**Some relevant comments worth noting:**

*Washington remains a potent force in security and regional matters, but it is a geographically distant power with a bitter episode in Iraq.*

*This is subject to the involvement of American companies in the economy of the Gulf region. If they do not get involve these projects will go somewhere else.*

*The U.S may encourage open markets yet it’s own market is not open. The growth of the Gulf region will attract all international business activities. If American companies can challenge them, there is no reason to fear loss of business yet, recent political engagements and ideologies may affect business decisions in the future.*

*10 years from now, China will be the major economic power and it will be easier to deal with than the US*

*The U.S. has done some mistakes in the region that has set back its position. Economically, U.S. companies have neglected the region allowing other European and Asian companies to fill the gap.*

*I understand why some would suggest this [the possibility of the decline of US influence] because of the disapproval of the current administration but, I think US influence will somewhat increase due to two factors. One is that I believe over time the situation in Iraq will improve. Secondly, I think due to US public pressure on either this administration or the next would most likely be less intransigent towards countries like Iran and Syria and will resort to more diplomatic means. Efforts to resolve the Israeli-Palestinian conflict will go a long way to creating greater acceptance of US presence and influence.*

*9/11 has taught the region a lesson not to over depend on one side, plus the NEW OLD world [i.e. India & China] is becoming influential in the area.*

*As I see it integration will be based on comparative advantage. India for example is becoming the back office and IT provider of the region, while China will be the factory floor.*

#### **4) REGIONAL INTEGRATION AND FTA'S**

While many of our group expressed the view that regional economic integration would be beneficial to the area's growth and development, only about a half of those interviewed felt that progress would be made in this direction in the next five years. On the positive side of this discussion, one businessman observed, "trade in this region is ancient, there is no reason for non-integration." Given the opportunities that currently exist, others in the private sector see both the advantages and, to some, the inevitability of integration taking place in the form of greater movements of money and investments, with a few projecting the desirability of establishing common markets, trade zones, and a common currency.

Those less optimistic suggest that although clearly desirable, steps toward regional integration will take a back seat to internal developments within each of the Gulf countries, with one businessman observing that as greater economic liberalization and political participation occurs, the private sector will, in the long-run, be better positioned to act as the engine that drives integration. By implication, some seem to be suggesting that for the time being, resistance to more integration is coming primarily from the region's governments.

As to the matter of Free Trade Agreements currently being negotiated between some of the region's countries and the US, there was, as expected, a division of opinion. Some businessmen expressed the view that negotiating both FTAs and WTO membership provided important incentives toward advancing economic liberalization. There is, however, concern that bilateral agreements between individual countries and the US may



have a negative impact on regional cooperation, causing friction between some countries and possibly having a negative impact on future economic relations with the EU and China.

A few businessmen questioned whether FTA's, as they were being negotiated by the US, were a good thing for their countries. They failed to see how their country's economic interests were secured—seeing the terms of the agreements as weighing too strongly in the US's favor.

## **5) REGIONAL THREATS**

By far and away the single greatest threat of concern to those businessmen was the current situation in Iraq and the instability resulting from the US invasion. This was the near universal view of all of our respondents. Reasons vary, but several related concerns are raised. First there is worry that a destabilized Iraq has empowered and emboldened Iran. One recalls that for decades now, while the problem of Iraq was that of its regime—a short-term threat—the problem of Iran, on the other hand, was a longer-term strategic threat compounded by the extremist ideology and practice of its current government.

There is concern, as well, for the impact the potential fragmentation of Iraq may have on the region—with the likelihood of conflict, not only internal to Iraq, but regional, as well, continuing for years to come. Not good for business.

Finally there is the concern that in pursuing this war, the US has further harmed its position in the region. This has complicated the situation of its Gulf Arab allies who have relied on the US for security assistance, making these governments more vulnerable to extremist anti-Americanism. This may also have a longer-term affect, some worry, on US-Arab business partnerships, and “selling the American brand in the region.”

Other issues of potential concern were less frequently mentioned or graded lower in importance by our respondents. After Iraq and Iran, concern with the Arab-Israeli conflict was mentioned by only half of the businessmen, with the danger posed by extremist movements next in significance. This in itself is intriguing given the once premier role this issue played in the region. (It is worth noting, that this decline in importance of the Arab-Israeli conflict was also observed in the most recent Zogby International poll of Arab public opinion).

While some expressed concern with future “domestic instability in Gulf countries” or with potential problems posed by reliance on guest workers—those issues were of interest to only a few of our respondents.