

# **The Dynamics of Mideastern Trade and Finance:**

**American Official and Arab Business Views**

**Ms. Molly Williamson,  
Deputy Assistant Secretary of Commerce  
for the Near East,  
U.S. Department of Commerce**

**Mr. Hani Beyhum,  
Olayan Corporation**

**U.S.-GCC Corporate Cooperation Committee - Issue Brief No. 4 - \$3.00**



**Series Editor: Dr. John Duke Anthony - Washington, DC - Fall 2000**



# The Dynamics of Mideastern Trade and Finance

The Honorable Molly Williamson

Mr. Hani Beyhum

Excerpted from the Proceedings of  
the Eighth Annual U.S. Mideast Policymakers Conference  
Lexington, Virginia  
September 12-13, 1999

U.S.-GCC Corporate Cooperation Committee  
Issue Brief No. 4  
Series Editor: Dr. John Duke Anthony

# TABLE OF CONTENTS

<b>I.</b>	<b>Introduction:</b> Mr. Burton Bacheller and Dr. John Duke Anthony.....	<b>i</b>
<b>II.</b>	<b>U.S. Policymaker Perspective:</b> Ms. Molly Williamson, Deputy Assistant Secretary of Commerce for the Near East, U.S. Department of Commerce.....	<b>1</b>
	<b>An Abundance of Opportunities for American Businesses.....</b>	<b>1</b>
	<b>Regional Economic Requirements.....</b>	<b>2</b>
	<b>Words for the Wise.....</b>	<b>2</b>
	<b>Tourism and Financial Services.....</b>	<b>2</b>
	<b>Ongoing Challenges.....</b>	<b>3</b>
	<b>Recent Trends and Indications.....</b>	<b>3</b>
	<b>The Message Once More: Join the WTO.....</b>	<b>4</b>
<b>III.</b>	<b>Corporate Perspective:</b> Mr. Hani Beyhum, Vice President, Olayan Corporation.....	<b>5</b>
	<b>Changing Economic Circumstances.....</b>	<b>5</b>
	<b>Privatization.....</b>	<b>6</b>
	<b>Impact on Commercial Markets.....</b>	<b>6</b>
	<b>Impact on the Financial Environment.....</b>	<b>7</b>
	<b>Likely Near-Term Developments.....</b>	<b>7</b>
	<b>U.S. Business Opportunities Revisited.....</b>	<b>8</b>
<b>IV.</b>	<b>Discussion.....</b>	<b>8</b>

# Introduction

The U.S.-GCC Corporate Cooperation Committee and its Secretariat, the National Council on U.S.-Arab Relations, are pleased to present *The Dynamics of Mideastern Trade and Finance: American Official and Arab Business Views*.

The two individuals brought together here are eminently qualified to discuss the role of the United States in the state of trade and finance in the Middle East. Ms. Molly Williamson is the Deputy Assistant Secretary for the Near East at the U.S. Department of Commerce. Mr. Hani Beyhum is Vice President of Olayan Development Corporation, Ltd., which spearheads and supports new representations, distributorships, and joint-venture partnerships. Between them, they possess a wealth of knowledge and experience from the world of U.S. and Arab business.

Populations in the Arab world continue to grow at unprecedented rates. The average age of these populations declines steadily. The need for employment opportunities for an ever-increasing number of new workforce entrants looms large on the minds of policymakers in the region. The issue of trade and development in the Middle East needs to be addressed rationally and carefully. The analysis provided herein contributes to the debate on this important matter.

The Committee and the National Council present this monograph in the spirit of contributing to the national dialogue on U.S. commercial relations with the Arab countries, the Mideast, and the Islamic world.

**Mr. Burton Bachellor**

Director, International Operations,  
Boeing Company, and Chairman,  
U.S.-GCC Corporate  
Cooperation Committee

**Dr. John Duke Anthony**

President and CEO,  
National Council on  
U.S.-Arab Relations

# The Dynamics of Mideastern Trade and Finance

## U.S. Policymaker Perspective: Ms. Molly Williamson, Deputy Assistant Secretary of Commerce for the Near East, U.S. Department of Commerce

I have been working on Middle East issues for the last twenty years in many different capacities, but only recently began working with the corporate world in my position at the Department of Commerce. Since joining Commerce, I have made a point to meet with three different kinds of people during my visits to 14 countries:

- Government officials relevant to the issues of trade, discussing with them what can be done to increase U.S.-Mideast bilateral commercial exchanges and ties;
- Indigenous business representatives, looking at their priorities and goals;
- American business representatives, many of whom are already in the region, and include numerous success stories from which one can learn much as to what they are doing right and what more needs to be done.

### An Abundance of Opportunities for American Businesses

Virtually everywhere I have gone, and in every conversation I have had with public and private sector leaders alike, I have found a strong desire for more business and trade. The region's corporate leaders like American products. They like American expertise. They like American technology. They like the American way of doing business. And they want more.

In each country I visited, there was recognition of a strong need for a growing economy. For example, Egypt needs to create 500,000 jobs a year to accommodate the new entrants into its workforce. The population rates of growth imply that the government, in concert with the private sector – with the latter playing a steadily increasing and soon the dominant role – find ways to make the economy grow and expand the job market.

The governments cannot do this in and of themselves. Neither can the private sectors, nor the two of them together, unaided by others, achieve the desired results.

The leaders of both sectors know what needs to be done. Both are looking towards direct foreign private investment, the formation of additional joint ventures, and the opening up of the international marketplace. This means they have to make themselves look more attractive to the international business community, and they have to find ways to market their own goods.



Ms. Molly Williamson

Deputy Assistant Secretary of Commerce for the Near East, U.S. Department of Commerce

Ms. Williamson has held her current position since March of 1999. In this position, she directs the Department's activities on trade, commercial compliance, and investment policies with countries of the region and provides support for improving market access for U.S. companies.

Ms. Williamson is a career Foreign Service Officer. She has served extensively in Israel and the Arab world and has studied Arabic and Hebrew. She was Chief of Mission in Jerusalem during the Madrid Peace Process (1991-1993). She was also Deputy Assistant Secretary of Defense for the Middle East and Africa (1993-1995), where strategic policy focused heavily on Persian Gulf security, joint military negotiations, and South Asian non-proliferation efforts.

---

The region's corporate leaders like American products. They like American expertise. They like American technology. They like the American way of doing business. And they want more.

---

## Regional Economic Requirements

---

The region's economies need everything. Everyone is looking for high-tech anything.

---

- The region's economies need everything. Everyone is looking for high-tech anything - telecommunications, infrastructure building, agribusiness, farm machinery, fertilizers, water conservation, water reclamation, water exploration, food processing, and energy exploration that is environmentally friendly, to name but a few areas of great need and interest.

Economic and commercial planners in prominent corporations, and owners of large and small businesses alike, are looking for assistance in virtually every area of training and human resource development.

- This is not to deny that the region's populations, on the whole, are relatively well-educated in philosophy, history, literature, religion, humanities, the arts, and social sciences. Rather, it is to point out that the numbers that have been trained to compete successfully in the marketplace fall far short of what is needed.

## Words for the Wise

To companies eager to pursue some of the myriad business opportunities in the region, the words to the wise are these: if you incorporate a training component into your bid for a contract, you will have an immediate advantage over your competitors that fail to do likewise. The region's governments and private sectors are especially keen to obtain training assistance in the fields of health care and pharmaceuticals.

---

...if you incorporate a training component into your bid for a contract, you will have an immediate advantage over your competitors that fail to do likewise.

---

## Tourism and Financial Services

- Throughout the Arab North African countries, and increasingly nearly everywhere else as well, the interest in promoting tourism as a value-added sector to their economies is ubiquitous. Investment and profitable business opportunities abound in the areas of hotels, hotel management, hotel construction, franchising, and state-of-the-art tour packaging and marketing. Opportunities in what we refer to as the entertainment industry – films, videos, and, especially, theme parks – are at an all-time high.
- Another area that holds much promise is in financial services – everything from mortgage financing, vehicular insurance, life insurance, and long-term banking and venture capital relationships.



Source: Council of Saudi Chambers of Commerce & Industry, 2000

## Ongoing Challenges

U.S. companies, however, have to recognize that there are challenges to doing business successfully in every country in the region. Among them are those inherent in such areas as limited access to investment capital and training, limited transparency, and, often, the availability of less than comprehensive information about potential business partners.

Another challenge remains imbedded in the strong regional tradition of reliance upon agents who represent many of the prominent commercial families. What many of these families have done for years is lend their name to assist in the development of new businesses – in some cases, to more than 100 companies.

An American new-to-market company, lacking such an advantage, can all too easily be dissuaded from staying the course, especially when it knows that there are equally profitable opportunities elsewhere minus complications.

A standard response among some is that having an agent is not legally required nor should it be viewed as absolutely necessary in order to run a successful business. Rather, the agent, being a citizen and native of the country, can save the foreign investor both money and a great deal of headaches. This is because, in the case of the best ones, they are often quite knowledgeable of the local market, and they know the ins and outs of the bureaucracy for purposes of obtaining permits, securing licenses, expediting services, and myriad other tedious and tiresome details that are necessary to conducting business anywhere.

Even so, the day of agents as central gatekeepers is rapidly coming to an end and, in the eyes of many, not a day too soon. Until that day comes, newcomers will continue to have their work cut out for them in trying to learn how to deal with governments and regulations, how to negotiate contracts, and how to deal with agents who will remain active in one way or another no matter how much change may occur in other areas.

In Arabia, as in America, old habits, especially ones that turn a profit, die hard. In the interim, one can expect continuing concerns from corporate leaders and foreign investors about the host country's legal system and the whole concept of how in-country representation relates to the way that business is practiced.

Increasingly, governments have acknowledged the degree to which various systemic, legislative, and cultural issues, along with old ways of doing things, can pose major challenges to companies entering the market for the first time.

## Recent Trends and Indications

Fortunately, the level of support among government officials and private sector leaders alike for the enactment and implementation of more effective commercial and economic policies is higher than it has ever been. In general, the indigenous business communities have been increasingly successful in persuading their governments to be more forthcoming in dealing internationally.

---

In Arabia, as in America, old habits, especially ones that turn a profit, die hard. In the interim, one can expect continuing concerns from corporate leaders and foreign investors about the host country's legal system and the whole concept of how in-country representation relates to the way that business is practiced.

---

---

In general, the indigenous business communities have been increasingly successful in persuading their governments to be forthcoming in dealing internationally.

---



Except for three countries - Iraq, Iran and Libya - all of the Middle Eastern and North African countries have either become members of the World Trade Organization (WTO), applied for membership, or announced their intention to apply for membership in the WTO.

---

The region itself is a moneymaker for the United States. The United States has a net trade balance in its favor, including oil imports.

---

What this says is that the region's governments have recognized that they will have to play by the internationally accepted rules in the trade game or they will not be able to advance to the next plateau in trade. Their own indigenous business communities are partners, in this, saying, "We want more contact with the international business community. Our governments need to show that they will adhere to the internationally recognized rules of the game and that our countries' business laws and practices are increasingly in harmony with those of the WTO member-states."

The recognition that business communities and governments have to become partners in this endeavor is self-evident. This has led to a coming together of a number of factors:

- The region itself is a moneymaker for the United States. The United States has a net trade balance in its favor, including oil imports.
- The Mideastern governments have come to realize that they cannot continue their previous (in some cases lavish) programs of subsidies and entitlements.
- The countries of the region must find ways to pool their purchasing power. To speak of a market of 270 million Mideastern purchasers is misleading. What American business executives who have done their homework see instead is 28 different countries, many of whose leaders are not particularly fond of one another.
- If all of the GCC countries were to stand together and approach a pharmaceutical or medical supply company – and as they once did to a rice company – and say, "We're all going to buy band-aids, preferably from you," collective behavior of this kind would likely translate into something that could be quite attractive to the business community.

---

...if all of the GCC countries were to stand together and approach a pharmaceutical or medical supply company – as they once did to a rice company – and say, "We're all going to buy band-aids, preferably from you," collective behavior of this kind would likely translate into something that could be quite attractive to the business community.

---

### **The Message Once More: Join the WTO**

There is money to be made in the Mideast. The countries' consumers want to spend it. There are things we could do with each other, and there is growing mutual recognition of the key elements that are keeping us from doing more business – elements rooted in policies, positions, and attitudes in the governments as well as in private industry. And there is a commitment on the part of the countries that legislation is necessary to correct the situation and remove unwarranted constraints to what would otherwise be a far more vibrant marketplace.

Where it is necessary to recognize playing by internationally accepted rules, the word is out: join the WTO.



## Corporate Perspective: Mr. Hani Beyhum, Vice President, Olayan Corporation

*Editor's note: The Olayan Corporation is operated by the female progeny of its founder, H.E. Suleiman Olayan, a prominent Saudi Arabian businessman long engaged as a partner in highly successful joint business ventures with Bechtel Corporation, Coca-Cola, IBM, and numerous other "Fortune 100" firms. Mr. Olayan, while still a teenager, started out as an employee of what was then the Arabian American Oil Company.*

*Like other Saudi Arabians who have succeeded in business, Mr. Olayan became a contractor to Aramco and then steadily expanded his operations into one of the most modern and profitable of all Mideastern companies. A past Chairman of the Riyadh Chamber of Commerce and Industry and the Council of Saudi Arabian Chambers of Commerce and Industry, the umbrella grouping of the Kingdom's commercial community, Mr. Olayan has been a keen supporter of the work of the U.S.-GCC Corporate Cooperation Committee and the National Council on U.S.-Arab Relations.*

\*

\*

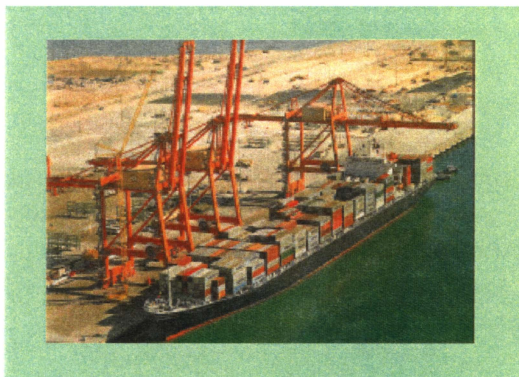
\*

One of the major factors driving change in the region is the growing population, with 55 percent below the age of twenty. In Saudi Arabia, for example, the population growth rate, presently at 3.5 percent, if left unchecked, will more than double in the next fifteen years.

Consumers in these markets are becoming increasingly more sophisticated. They are more educated, and they have a large selection of products and goods to choose from. They are also becoming more value conscious and value oriented.

### Changing Economic Circumstances

The transformations underway are partly the result of the Saudi Arabian government's decision, for reasons of fiscal prudence, to decrease rather dramatically the previous high level of subsidies that were introduced in the immediate aftermath of the mid-1970s oil boom – a period that, as Crown Prince Abdallah emphasized at the GCC heads of state summit in Abu Dhabi in 1998, is over and unlikely to return.



Source: Salalah Port Services Company



Mr. Hani Beyhum

Vice President, Olayan Development Corporation, Ltd.

The Olayan Development Corporation, Ltd. acts on behalf of The Olayan Group and its subsidiaries in Saudi Arabia and the Middle East to spearhead and support new representations, distributorships, and joint-venture partnerships. Mr. Beyhum joined the Group in 1989.

Before joining the Group, Mr. Beyhum worked for several years in the construction industry in Saudi Arabia, where he was involved in both infrastructure and commercial projects.

The transformations underway are partly the result of the Saudi Arabian government's decision, for reasons of fiscal prudence, to decrease rather dramatically the previous high level of subsidies that were introduced in the immediate aftermath of the mid-1970s oil boom.

With or without subsidies, the purchasing power of tens of thousands of Saudi Arabians, a great many of whom saved and invested wisely from the 1970s to the 1990s – to the tune of a reported \$400 billion in deposits and money-making instruments abroad – will likely remain high, and that will support change in a positive way.

---

...the purchasing power of thousands of Saudi Arabians, a great many of whom saved and invested wisely from the 1970s to the 1990s – to the tune of a reported \$400 billion in deposits and money-making instruments abroad – will likely remain high, and that will support change in a positive way.

---

Many of the Kingdom's well-heeled consumers, like their counterparts elsewhere, expect the latest products, frequently travel abroad, and are the reason Saudi Arabia has become the Mideast's most rapidly growing market in e-commerce.

### **Privatization**

Another factor driving change is privatization, or the opening up of sectors previously closed to the private sector, such as power-generation, water desalination, gas production, utilities, seaport management, and, eventually, railways and air transportation, in addition to the divestiture of the government's remaining shares in the already partially-privatized Saudi Arabian Basic Industries Corporation (SABIC).

Privatization supporters are not confined to bureaucrats and business leaders in the capital. Provincial and local government leaders and their counterparts in the private sector are also increasingly keen to reap the potential benefits of privatization. One of the reasons is their awareness that privatization offers a means to obtain much-needed funds for social programs that would be difficult to generate otherwise.

Some governmental agencies, such as the former Ministry of Post, Telephone, and Telegraph, have already been selected for privatization. In other cases, infrastructure and other development projects that were slated for postponement or had been scaled back in their scope, now, through privatization at the outset, have a greater chance to be launched earlier and with assured financing.

---

Many of the Kingdom's well-heeled consumers, like their counterparts elsewhere, expect the latest products, frequently travel abroad, and are the reason Saudi Arabia has become the Mideast's most rapidly growing market in e-commerce.

---

As one observer has noted, instead of responding positively to private sector pressures for the government to increase a region's power supply, as in the past, officials are more and more comfortable saying, "We are unable to do so, but, in the event you can find a way to finance it yourself, we'll do our best to be supportive." Increasingly, private sector investors are reacting positively to such encouragement, giving new meaning to the phrase "power to the people."

New investment laws and capital market regulations will undoubtedly hasten this process and encourage foreign partners to put money into this area.

### **Impact on Commercial Markets**

The impact of these forces and factors of economic and fiscal change on the commercial markets will have several positive effects. As the new generation enters into the world of job seekers, one will likely see altered consumption patterns in such areas as housing, household furnishings, and automobiles, with greater sensitivity to such factors as size, cost, fuel efficiency, and serviceability.

The growing demand for a larger selection of products and competitive prices has already heightened the pressure on global companies to satisfy local consumers. This, in turn, is forcing local companies to cut costs and improve management and operation processes in order to become more efficient, productive, and competitive.

In addition, as more and more companies explore ways to expand their operations throughout the Mideast, this, in time, will likely help to standardize regional markets.

Another change afoot is that more and more family-owned companies are weighing the perceived merits and demerits of going public.

### **Impact on the Financial Environment**

Cumulatively, all of these forces and factors of change are having an ongoing impact on the financial environment. Foreign partners are increasingly being sought to bring in technical know-how and investment.

With more than a dozen major commercial and economic policy reforms underway with a view to enhancing the array of incentives for foreign and local direct investment, the long-awaited opportunities for repatriating some of the billions of dollars in Saudi Arabian capital overseas are nearer to hand than ever before.

This will increase the size and quality of the capital markets in the Kingdom; even as it is, 40 percent of the entire Arab world's capitalization is in Saudi Arabia.

### **Likely Near-Term Developments**

While overall growth rates in the region may continue to lag behind other regions for the time it takes for the reforms underway to be implemented and accepted as common business practice, there is little doubt that the potential benefits, both in nature and in scope, are substantial.

In the interim, what is also noteworthy is that, in countries from one end of the region to the other, vertical integration into local manufacturing and assembly is increasing. Simultaneously, new opportunities are continuously opening up in the service sectors, especially in such areas as human resource management and training, repair and maintenance, investment banking, management consulting, and information technology.

Oil, gas, and petrochemical raw materials and products are likely to remain the Kingdom's comparative economic advantages for far into the future, increasing opportunities for financial and investment services, and the nature and level of regional trade is certain to grow.

The latter will be accelerated not least by the pan-GCC customs union projected for no later than March 2005 and the pan-Arab Free Trade Zone (AFTZ), scheduled to come into force by 2008. The AFTZ envisions linking markets from the Gulf to the Mediterranean and extending across Arab North Africa all the way to the Atlantic. Already, the 14 signatories to the 1988 accord include the six GCC member-states and eight other Arab countries, constituting 95 percent of the total Arab GDP.

---

With more than a dozen major commercial and economic policy reforms underway with a view to enhancing the array of incentives for foreign and local direct investment, the long-awaited opportunities for repatriating some of the billions in Saudi Arabian capital overseas are nearer to hand than ever before.

---

---

...new opportunities are continually opening up in the service sectors, especially in such areas as human resource management and training, repair and maintenance, investment banking, management consulting, and information technology.

---



## **U.S. Business Opportunities Revisited**

There will be growing opportunities for U.S. companies in consumer and health care products and services, industrial equipment, building and operating infrastructure projects and services, IT products and computer services, recreational concepts, and financial services, including insurance.

However, in the Mideast as elsewhere, there are impediments to change. One of these is that privatization is moving too slowly. The peace process is moving too slowly. For some countries, entrance into the WTO is moving too slowly. And for many, the pace in which the new foreign investment laws and capital markets are being put into place and implemented is also taking place far too slowly.

In conclusion, this is a region that is undergoing dynamic change in its economic and commercial sectors, and in the nature and scope of a still experimental but increasing partnership between the public and private sectors. The opportunities will continue to grow as the economies and trans-national as well as sub-regional markets become more standardized and more diversified through increased private sector involvement.

## **DISCUSSION**

- Q.** Do the French have Arab North Africa (the Maghreb) locked up?
- R.** The British and the French naturally want to keep these markets, but companies in the Maghreb have gone to great lengths to indicate that they want to do business with the United States.

The United States has reciprocated through the Eisenstat Initiative, which envisions substantially increased trade between and among Algeria, Morocco, and Tunisia and between each of these countries individually and collectively with the United States.

Key to the Initiative's prospects is further political reconciliation between Algeria and both its neighbors and a settlement of the long-festering Western Sahara dispute regarding which Algeria and Morocco remain at odds.

- Q.** Why doesn't the United States have a free trade agreement with any of the Arab countries - not even Egypt - although it has one with Israel?
- R.** This has nothing to do with politics. The administration failed to persuade Congress to grant it the "fast track" authority it had sought in order to negotiate potentially promising trade arrangements with other countries, including Arab nations. Even with the complications of doing business, the Mideast is still a money maker for the United States and a good sign of what more we could be doing.

- Q.** What possibilities are there for lifting the Iran-related provisions of the Iran-Libya Sanctions Act?
- R.** Frustrations among U.S. companies are increasing, but no one wants to be in a position of defending or appearing to side with one or more of the regimes to which the sanctions apply. Increasingly, what one is seeing is the U.S. private sector opting to organize a collective voice, so that speaking out against sanctions is not left to one particular company.



Source: Salalah Port Services Company

Oman's New State-of-the-Art Container  
Import and Trans-shipment Terminal at Salalah