Doing business in Islamic countries: an overview

Haciendo negocios en países islámicos: una visión panorámica

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Abstract: The access of Western companies -in particular the Spanish ones- to countries and markets where strong presence of Islam religion is consistent and significant. The relevance of this business target and model is growing, due to the combination of several factors: the relative higher growth of this religion and the prevalence of the religious practices in the economies and cultures, the more accelerated (on average) economic development despite the specific crisis and oil price turmoil, the international expansion of partnerships and foreign investments that many of these countries are addressing, the consolidation of a synergic "Islamic economy and business practice" usually restrained and limited to similar Islamic countries but nowadays more tolerant to non-Islamic ones, and the progressing opening of these countries and economies to global rules of commerce, intellectual property, business ownership and international operations. There is kind of a global consensus on the positive forecast of these trends, that will make the key direction of development of most of these countries in the next years.

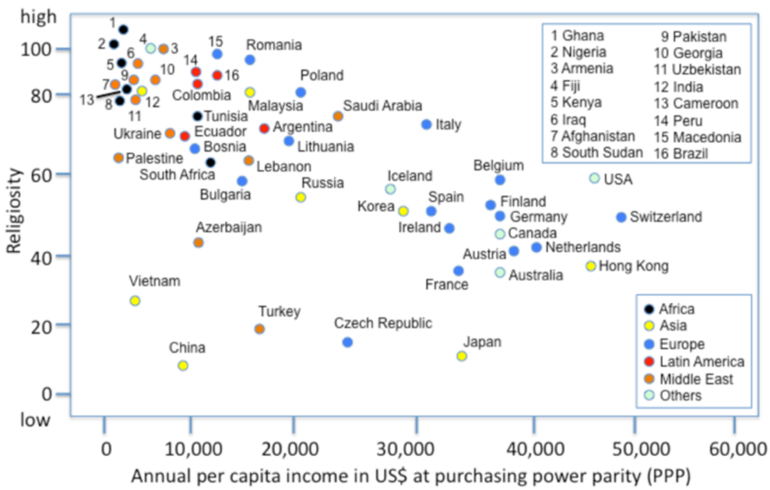
Key words: Islam; Development strategies; Gulf economies; Economic opening: Success factors.

Resumen: El acceso occidental – en particular español- a los mercados en países de fuerte penetración de la religión islámica es consistente y potente. La relevancia de este modelo de negocio está creciendo, por la combinación del mayor crecimiento relativo del Islam, del desarrollo más acelerado de estos países, de la expansión internacional que muchos de estos países están abordando y en muchos casos bajo el modelo sinérgico de "economía islámica" altamente cerrado, y de la propia apertura de estas economías a reglas globales comerciales, de propiedad, de acceso y de operación. Existe consenso generalizado en que estas tendencias van a definir la dirección principal de desarrollo de las economías mundiales en los próximos años

Palabras clave: Islam; Estrategias de desarrollo; Países del Golfo; Apertura: Modelos de éxito.

Islam is the second religion in the World: with more that 1.600 million people professing this religion in 2.010 according to the best contrasted available data from the last Pew Research Center report (2.015), and with figures that other sources quantify today among 1.700 and 2.180 million people (this largest last number coming from studies published by Muslimpopulation.com, or Sánchez-Bayón, 2012); no doubt that is in clear expansion and accelerated growth, due to the higher birth rates in the countries where this Islam religion is unique, and as well due to the relative growth that is experiencing in several countries where used to be marginal or minority (let us refer as an example to the same Pew Research Center, that evaluates the increased penetration of Islamic religion in the population of the USA from 0,9% in 2.010 to 1,2% today, and estimates a 2,1% for 2.050). The "generally accepted" projected figure for Islam religion worldwide penetration is of 2.760 million persons, by 2.050, what would mean Islam would be the dominant religion (so, religion is a key for doing business in a changing World, Sánchez-Bayón, 2016, 2017 & 2019).

It´s true that, along the history, Islam has reached majority penetration and experienced largest growth rates in the "poor" countries (excluding the oil-based Gulf countries: of them, only Saudi Arabia is referred below), as the following analysis shows:



Source: "World Publics Welcome Global Trade – But Not Immigration / Pew Global Attitudes Project", Pewglobal.org

1. ECONOMIC GROWTH AND RELIGION

Official data available on economic growth show, without any debate or statistical bias, that growth rate and economic development of the economies of countries of strong Islam penetration are significantly exceeding those of any others. The next table, built from different sources (WEF, IMF, Workld Bank, UN, The Guardian Datablog, etc.) sets this comparison for a relevant sample of countries (most of them within the top 100 World economies, others of lower economy size added to adequately represent the Middle East region):

Gross domestic product 2016

Economy	*GDP 2016 (millions of US dollars)*	*GDP growth 2.016*	*Islam penetration Millions*	*% islam penetration*
United States	18.569.100	1,6%	2,5	0,9%
Italy	1.849.970	0,9%	-	1,0%
Spain	1.232.088	3,2%	0,7	1,0%
Mexico	1.045.998	2,3%	0,1	1,0%
Poland	469.509	2,8%	-	1,0%
Norway	370.557	1,0%	-	1,0%
China	11.199.145	6,7%	216,7	1,6%
Australia	1.204.616	2,5%	0,4	1,7%
Argentina	545.866	-2,3%	0,8	1,9%
Canada	1.529.760	1,4%	0,7	2,0%
Sweden	511.000	3,3%	0,2	2,0%
United Kingdom	2.618.886	1,8%	1,7	2,7%
Belgium	466.366	1,2%	0,3	3,0%
Austria	386.428	1,5%	0,4	4,2%
Switzerland	659.827	1,3%	0,3	4,3%
Germany	3.466.757	1,8%	4,0	5,0%
Netherlands	770.845	3,3%	1,0	5,7%
Thailand	406.840	3,2%	3,9	5,8%
France	2.465.454	1,2%	3,6	6,0%
Russian Federation	1.283.162	-0,2%	16,5	11,7%
India	2.263.523	6,3%	160,9	13,4%
Nigeria	405.083	-1,5%	78,1	50,4%
United Arab Emirates	348.743	2,7%	3,5	76,2%
Qatar	152.469	2,7%	0,1	77,5%
Bahrain	31.859	4,0%	0,6	81,2%
Oman	66.293	4,0%	2,5	87,7%
Indonesia	932.259	5,0%	209,1	88,2%
Bangladesh	221.415	0,7%	145,3	89,6%
Egypt, Arab Rep.	336.297	4,3%	78,5	94,6%
Kuwait	114.041	2,5%	0,8	95,0%
Pakistan	283.660	0,6%	174,1	96,3%
Saudi Arabia	646.438	1,4%	25,0	97,0%
Turkey	857.749	2,9%	73,7	98,0%
Algeria	156.080	4,2%	34,2	98,0%
Iraq	171.489	10,1%	3,0	99,0%
Iran, Islamic Rep.	393.436	6,5%	73,8	99,4%

Source: prepared by the author from mentioned raw data sources

What conclusions can we extract from this so basic analysis? Without any statistically significant methodology (let us leave this approach for further publications, but trust that the conclusions will be exactly the same), let us make some "guess-statements".

First: the set of countries where Islam penetration represents more than 50% (measured on total population) has shown a growth in 2.016 of 3,17%. Rest of countries shows only a 2,88% growth in the same period (if China included), and of only 1,87% (China excluded). In summary, the countries of extensive Islamic base almost duplicate the economic growth of the rest.

Second: the countries traditionally summarized in the Western simplification of "Arab countries" or "Middle East countries", that altogether show an Islamic religion penetration between 76 and 99%, showed in 2.016 an aggregate economic growth of 3,84%. So, still higher than the earlier averages.

2. SOME "COMMON UNDERSTANDINGS" OF THIS ECONOMIC VISION

The first unarguable evidence is that, on average, countries with strong Islamic base have a lower development starting point. With the exception of the Gulf region nations (the most relevant of them highlighted in yellow in the below table), we can see the relevant inverse correlation between per capita GDP and the Islam penetration index, even in 2.016:

GDP per capita 2016 (US dollars)

Economy	GDP per capita (US dollars)	% islam penetration
Norway	82.440	1,0%
Switzerland	81.240	4,3%
Qatar	75.660	77,5%
United States	56.810	0,9%
Sweden	54.590	2,0%
Australia	54.420	1,7%
Netherlands	46.640	5,7%
Austria	45.790	4,2%
Germany	43.850	5,0%
Canada	43.660	2,0%
United Kingdom	42.330	2,7%
Belgium	41.820	3,0%
United Arab Emirates	40.480	76,2%
France	38.720	6,0%
Japan	37.930	-
Kuwait	34.890	95,0%
Italy	31.730	1,0%
Spain	27.600	1,0%
Korea, Rep.	27.600	-
Bahrain	22.660	81,2%
Saudi Arabia	21.720	97,0%
Oman	18.080	87,7%
Poland	12.690	1,0%
Argentina	11.970	1,9%
Turkey	11.230	98,0%
Russian Federation	9.720	11,7%
Mexico	9.040	1,0%
Brazil	8.840	-
China	8.250	1,6%
Thailand	5.640	5,8%
Iran, Islamic Rep.	5.470	99,4%
Iraq	5.420	99,0%
Algeria	4.220	98,0%
Egypt, Arab Rep.	3.410	94,6%
Indonesia	3.400	88,2%
Nigeria	2.450	50,4%
India	1.670	13,4%
Pakistan	1.500	96,3%
Bangladesh	1.330	89,6%

Source: prepared by the author from World Bank data

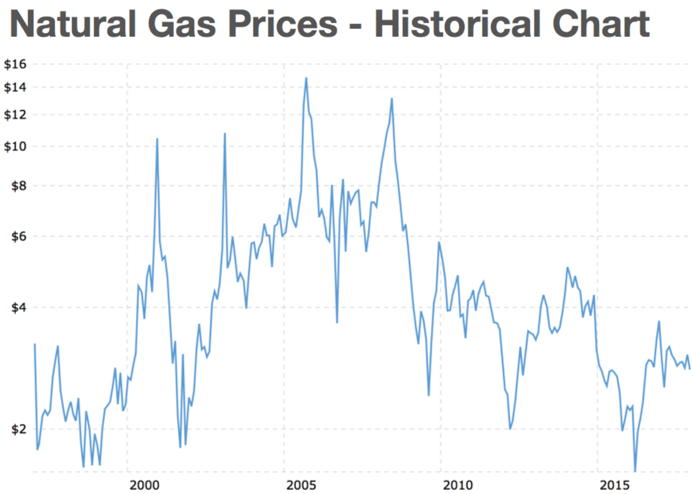
This evidence must, in any case, be nuanced: the Gulf countries best have powerful economies and high income (as showed above, quite similar to the Western ones); as we will see later, these economies are not anymore exclusively dependent of oil and gas, but are developing themselves on more competitive drivers in segments of activity comparable to many other developed nations.

The second understanding -this one clearly arguable- is the so called "positive relative effect" of the more basic structure of the economy: competitive raw materials exporters, to a lesser extent exporters of intermediate transformation products and services (e.g. steel), and minimally of finished products and services of low value-added (examples: basic textiles, electronic sub-assemblies, or "tier 3" automotive and aeronautics sets). Tourism as an emerging industry is as well in a first stage of development (although in some countries already powerful, as events tourism). Traditionally this economic basis has been seen positive due to the higher permanence and stability of the foreign demand that (although smaller) is sustained, the higher potential coming from the internal demand while higher national economic growth ratios continue, and the lower competition to thee activities in the periphery of these nations. On the contrary, price deflation in the raw materials markets in long term cycles has been dramatic, and this basic component of the most of these economies has delivered a negative contribution to GDP (even worse if other effects as exchange rates, China slow-down economy, etc are considered).

Oil, after the historical movements from the price point of 170US$ (in the ´70 and ´80), the more recent fall to 110US$ (that was considered to be the “projection price level in the long term), seems to be now steadily maintained in closer but already long periods at 50 a 70US$. The emergence of new technologies and sources from fracking (in the lowest level of this price bandwidth), together with the reduction of the overall perspectives for long term economic growth of emerging economies (let us remember the times when China projected sustained GDP growth in the two-digit level, while recent trends reduce that growth to barely half), have left OPEC with limited potential to control prices, even considering the production movements that were the key international price control mechanism.

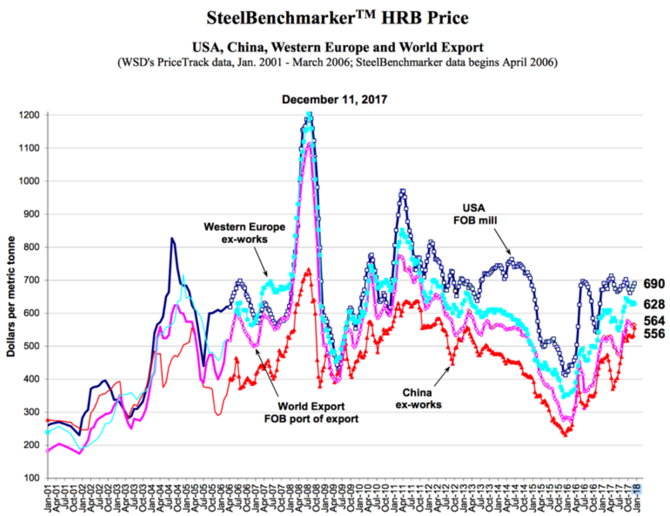
Source oilprice.com

Gas is experiencing the same value reduction process (even more accelerated in reality); the current price index (without deflation) shows a sustained average prioce reduction rom the level of 8US$ to the 3US$:



Source: http://www.macrotrends.net/2478/natural-gas-prices-historical-chart

Comparable behaviours can be seen, in general, in the rest of iraw materials and intermediate manufactured products. As a good example of this last category, steel suffers a long period of price reduction, coming out from a reduced capacity utilization (despite massive closures in Western countries, capacity has moved towards India, China, etc).



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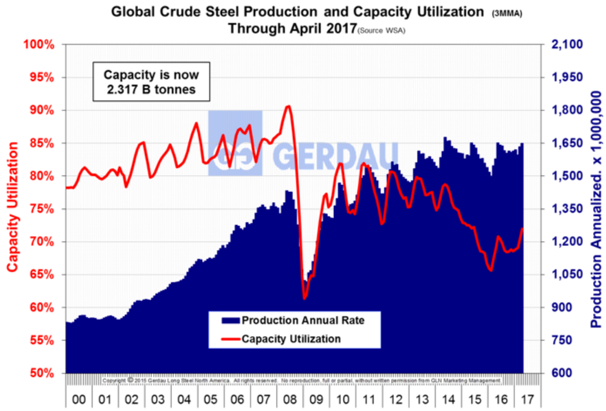
Source: SteelBenchmarker



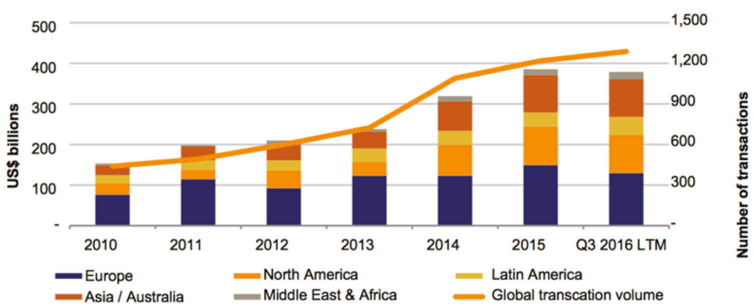
Source: http://gerdaumarketupdate.com

What economic conclusions can we extract from these trends?

Clearly: despite the traditional economic basis of the countries with high Islam penetration is suffering the deepest and longest price crisis in raw materials and basic products in history (with high dependence of primary economic factors, poorly “tertiary built” in comparison to the rest of the countries), these nations have found ways to accelerate their economies well above the trends that would nbe expected from pure external (Western, more developed) demand.

It is true that we are experiencing a relative acceleration of funding applied to infrastructure development projects, more focused on Asia and Latin-America, that delivers an evident support to the economic development of the Islamic world, as can be seen in the following chart, where since 2.010 we see an international investment expansion that represents (in the two regions mentioned) an annual absolute growth close to annual 200.000 million US$.

Figure 2: Global infrastructure transaction activity



Source: InfraDeals

Source: Global Infrastructure investment, GIIA PwC

Following the religion-basis (Islam) perspective that we are using, there is a significant consensus in the relevance of these countries on the overall global economic development cycle.

3. THE "NEW ECONOMY" OF ISLAMIC COUNTRIES: GULF AREA

The oil-based countries of the Gulf region are involved in several directions of economic change,

a) Reducing the dependence of the oil and gas exports, through reforms to make easier and deeper the foreign investment and the partnered development of tertiary industries

b) Extending the flexibility of the regulations to support this foreign investment and accommodate foreign third parties: respecting the ownership in co-financed strategic development initiatives, not only in the Islamic influence area (Islamic Banking mechanisms) but as well towards third countries

Let us follow as an example the EAU (Emirates), nation that is leading these global trends; with respect to the first one, a first Strategic Plan to 2.014 – extended to a new "plan 2.021"- has been created, and -more important- sustained with relevant intermediate positive results: the economic dependence of oil and gas has been reduced from 83% to 34,3% of the GDP, and the value-added export industries l(excluded real estate, building and construction, and retail, strongly local) represent already today 30,6% of the economy.

These activity segments, besides, are “gaining traction” delivering an annual 8,1% growth (compared to the 3,7% annual GDP growth). Despite a still limited national foreign trade capability, the third-parties´ commercial flow-through in the economic structure of the nation has managed to deliver those significant results (earlier mentioned) on GDP.

The axes on which the success of these Strategic Plans has been built do break lots of the “stated principles” about the peculiar Islamic business models and constrains, attached to our Western vision of demands and limitations coming out of their religion-State basis

- Infrastructure connecting with Europe, Asia (specially India and China), and Africa has been developed
- The public funds (reserves, Sovereign Fund) are addressing not only local infrastructure projects, but as well co-financing third-party lead projects with external partners. With more than 800.000 million US$ in these funds (even though punctual liquidity crisis happen), and with 40.000 million US$ already allocated to projects in the next 5 years, continuity has been secured to the strategy of building an economic “hub” securing the integration and inter-connection of UAE with the international economy
- Economic liberalization: there are (operating and under development) more than thirty free trade and off-shore zones, supporting “Western” principles of full external ownership rights, and internationally acceptable profit tax repatriation schemes. This new economic freedom -so distant to our beliefs about Islamic world- has supported more than one third of the recorded expansion of non-energy activities after the last Plan
- Selective investments and co-financing initiatives in strategic priority industries that are key for diversification: international trade (“hub”), tourism, air transport, financial services, renewable energies and new technologies
- Project in place to build a “green economy hub”, focused on locating and supporting international R&D, state-of-the-art technologies, environmentally-friendly products and solutions for agriculture, energy, water, transport, construction and building, and recycling

EAU, in parallel, has leaded as well the consolidation of the so called “Islamic economy”: since the early ´70 instruments preceding the “Islamic compliant financing” as banks and specific financial markets (“Sharia-compliant”) have been put in place, including an instrument to give international continuity to this initiative (the Dubai Islamic Economy Development Center). The rest of Gulf countries have followed this initiative (as an example, the Bank of Muscat in Oman). Financial derivatives allowing operation in Islamic financial markets (with the particular features, for instance, of the compliant interests solutions), have given birth to an industry with all necessary capabilities to deliver solutions to the usual international models of investment, management, currencies, multinational operations, etc

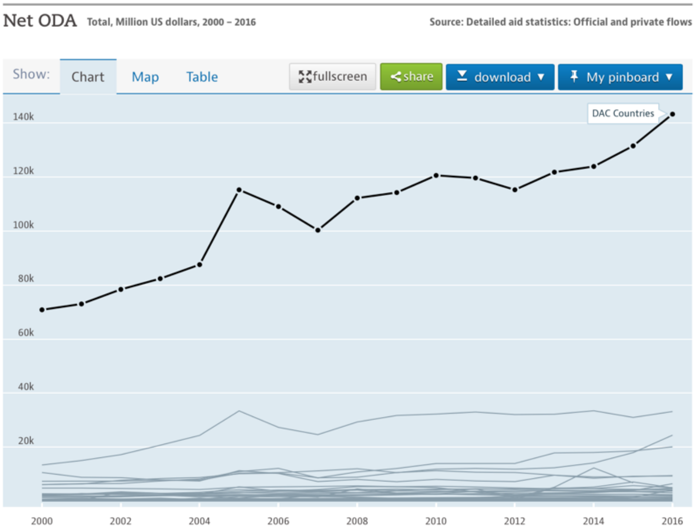
EAU, finally, is aggregating an important amount of R&D with global impact potential: behind the program "Emirates Science, Technology and Innovation Higher Policy", a few hundred international projects are being financed and developed covering areas of robotics and industrial automation, solar energy, bio-engineering and bio-technologies, etc

It is also true that the "Islamic countries" block of the Arab world is not yet strongly homogeneous: the openness, internationalization and integration levels in the standard global commercial and financial flows are very different among Emirates (EAU) or Oman, and as references Saudi Arabia or Iran. In any case, there is a general consensus coming out from so old as multiple 2.005 publications (as an example the book "Modernization, democracy and Islam", Huma Malick, ABC Clio 2.005), that even recognizing the heavy weights making difficult the reforms from multiple factors (integrating principles and models coming from religion and policy into the day-to-day operation of economy and society, cancelling some of the cultural issues still influential of old colonial models in many of those countries, getting rid of the relative instability of international commercial flows and agreements and protectionist policies, replacing regimes and governments poorly focused on liberalization, etc), did already anticipate the clear scenario that overall we are attending: at different speeds, on long time periods in many cases, the economic integration and the foreign trade liberalization "without religious barriers" will be clearly visible.

4. THE "NEW ECONOMY" OF ISLAMIC COUNTRIES: A VIEW OUTSIDE THE GULF AREA

The other countries referred in the tables above (also of major Islamic influence, but of notably lower economic performance level) in Asia and Africa, are experiencing development models very different, and as we discussed in general of lower effectiveness. There are few common elements between for instance Turkey (approaching the European Union, strongly involved in the heart of the European economy and as well highly globalized), currently suffering social, political and economic tensions between the traditional religion base and the "winning" economic opening, and some African countries like Nigeria, some of the Mediterranean shore nations, or some Asian ones (Pakistan, Bangladesh) where the evolution is more conditioned by a stronger traditional Islamic pressure. As a consequence, we can easily observe that these lower stability scenarios are limiting their growth possibilities, reaching significantly lower ranges (among 2% and negative figures).

The development path in these countries is suffering not because - as a part of the public opinion believes- the slowing-down of the "rich" countries´ economies, or our reducing development aids, but fundamentally by these unstable scenarios, reducing the positive long term impact of most of the mentioned investments , instruments and strategies. After creating the standardization mechanism ODA (Official Development Assistance) by the OECD Development Assistance Committee (born in 1.972 and strongly reinforced in 1.992), that evolved from mobilizing 80.000 million US$ to some 120.000 million US$ since 2.004 in financial development support of many kinds (subsidies, soft credits, "equity" project warrants and leverage, etc) , the funding for development in this so called "Third World" continue growing:



Source: OECD DATA https://data.oecd.org/oda/net-oda.htm

A recent analysis (see "*The development effectiveness of supporting the private sector with ODA funds*", Research Paper) exemplifies, through a thorough analysis of 15% of these funds, the poor results achieved against the expectations, and summarizes as well the endogenous root causes above mentioned.

5. CONCLUSIONS: EXPERIENCES AND ADVICES FOR OPERATING IN THE ISLAMIC COUNTRIES

What commonalities can be pointed out when addressing the operation of companies of strong Western cultural base in countries of Islamic base, especially those more stable (Gulf Arab nations, north of Africa, Asian coast countries)? After years of business development personal experiences in all those regions, let me summarize some findings.

First: European companies are generally “very welcome”, and quite specially well the Spanish ones. With more or less tensions in the actual execution of the projects or in the effective company implementation, access to key prescribing roles and decision-makers, to markets and to potential local partners for any cooperation agreements necessary for local operation is usually straightforward and simple.

Second: Islamic-base countries do operate in an ethical model that, although strongly different in the concepts and rules of operation, have close proximity to Occidental models; in general terms the local companies respect these ethical bases in their businesses in a more strict and stringent way than many of our Western companies. Respect to these rules, that go from the essential to the merely formal, from timings for pray and customer contact ways (sex, nationality, castes, etc) to organizational structures and local teas roles and integration, is vital for the business development. The inter-action elements, starting with protocols, must be carefully managed.

Third: Countries of Islamic base, in general, have a strong respect for their culture, their heritage and traditions, their “ways of doing” and their hierarchies. Person-to-person respect, in the essential and the formal sides, is a critical factor. Management models that are traditional and “generally accepted” in the Western culture (including for instance the usual quarterly or annual imbalances between short and long -erm objectives, between strategy and cash flow management) do not match well with the Islamic company management. Tactical or improvised shifts of “strategy and policies” linked in most cases to external short term influences (for instance, the usual temporary instructions for expenses and travel bans or the re-periodification of activities or investments, to manage (or better to make-up-) the quarterly and end-of-year expectations in public companies) do more often than not create delicate tensions with the Islamic company culture, that in many cases are understood as a “lack of respect” to local partners, agreements and persons.

Fourth: The “invisible web”, the integration existing -invisible for most Occidental companies- between institutions, organizations, companies and families / persons of the Islamic world is complex, dense and relevant for businesses. The relational webs (families and “widened families”), the informal proximities among companies mostly in the Arab world, Africa and India, where the gluing factor is the Islamic culture, mean an additional complexity factor not easy to understand specially in the early stages of business idea. “Taking the time” necessary to comprehend the relations and implications of these networks, that is only accessible as long as the construction of a mutual confidence relation “step by step”, is a critical success factor in these countries. Western business models and plans are in the Islamic nations, much more flexible, adaptative and -for our standards- “vague”; when reaching to the effective implementation, execution is notably different to the “a priori” designs, involving new associations, partners and operations that in many cases make a strong new competitive advantage.

Fifth: The local enterprise tissue has a dark structure of ownership concentration in large family groups; one relevant Kuwait-based group controls –under different formats of ownership, joint ventures and “master franchise” for the whole Islamic geography- the presence and business development of more than 60 Western brands. After the mentioned changes in the institutional and business structures in these countries, our companies can find large corporations of paramount financial power and strong market control and access in the Islamic world.

Sixth: As a final thought, a large share of the Islamic world is still under a turbulent phase affecting the social and economic models, and with a development still strongly dependent of infrastructure projects. Competition of (improperly called) emerging powers as Chinese or Russian companies is relevant and hard to beat: despite a decreasing weakness in technologies and experience of companies -and States themselves- in these regions with respect to Western companies, it is clear the existence of advantages in pricing, financial capacity and

"State-to-State balance of commerce" power. In this sense, the early presence and involvement of Western companies in the starting development phases of programs in the "Islamic economies and nations" continues being scarce and complex, and it is limited mostly to projects or companies supported by trade agreements or co-financing programs. This is a sensitive weakness of Western companies when competing in a networked market against State-supported companies.

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