Middle East
Foreign Policy Brief
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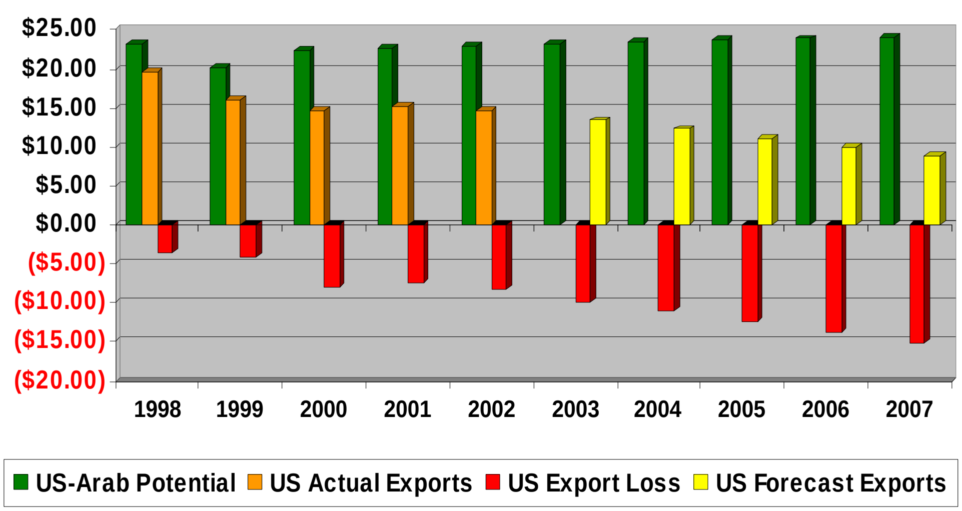
Dividends of Fear:
America's $94 Billion Arab Market Export Loss

Executive Summary

The U.S. share of world merchandise exports to the Arab Middle East slid from 18% in 1997 to 13% in 2001. This occurred during import demand growth averaging 1% per year and voracious demand for high value-added capital goods among Arab economies. The hardest hit U.S. export sectors include civilian aircraft, agriculture, heavy transportation, as well as telecommunications and industrial equipment. On the demand side, the broad U.S. export downturn is driven by growing Arab boycotts against U.S. consumer and industrial goods. These occur as a response to the perceived loss of U.S. regional foreign policy legitimacy as seen through the eyes of Arab buyers. On the supply side, the increasing restrictions on Arab business travel to the United States, and surging U.S. fear, xenophobia and legal campaigns leveled against Arab business are positioned to accelerate the toll on future trade. The IRMEP estimates that America has already lost U.S. ***$31 billion*** *in exports between 1998 and 2002. If the trend continues, the U.S. stands to lose an additional U.S.* ***$63 billion*** *through 2007 for a ten year export loss of* ***U.S. $94 billion****. (see Exhibit 1)*

Exhibit #1
Forecast Actual, Potential and Lost U.S. Exports to Arab Markets 1998-2007
(IRMEP 2003)



This paper examines the actual vs. potential U.S. merchandise exports to Arab markets by industry category. IRMEP suggests strategies for overcoming export obstacles to members of the U.S. business community and government. More effective engagement can reverse U.S. export damage while sowing the seeds of broader U.S. interests across the region.

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I. By the Numbers: Lost U.S. Merchandise Exports

"Are you still smoking American cigarettes?" one Arab asked another beneath a billboard filled with the imagery of a bloody Israeli military intervention into the occupied territories. The question calls for the boycott of American consumer goods for U.S. complicity in supporting Israel, U.S. military interventions, and regional policies few Arabs feel are just. Questions like this have been asked many times in Arab markets. Now, the constant and growing pressure to boycott the U.S. has begun to quantifiably damage American exports. Although overall import demand across Arab Middle East markets is robust and growing, the U.S. share continues to drop.

Some skeptics point to isolated successes such as the increase in total U.S. exports to Gulf heavyweight United Arab Emirates (UAE) as proof that the boycott is neither a broad nor growing phenomenon. However, analysis of recently released Census Bureau Foreign Trade Division and U.S. Department of Commerce data reveals otherwise. While total UAE imports grew from U.S. $29.2 billion in 1999 to $35.9 billion in 2002, the U.S. market share actually decreased from 8.1% in 1999 to 7.4% in 2002. U.S. exports to UAE are suffering as much as exports to other Arab markets.

High value-added U.S. industries are among the hardest hit. Between 1998 and 2002 exports of civilian aircraft represented 13% of total U.S. exports to the region. Aircraft exports were U.S. $3.9 billion in 1998 and U.S. $1.4 billion in 2002. Although the U.S. export of aircraft to global markets was experiencing a cyclical downturn of -3.4% over this period, the mean annual decline in U.S. aircraft exports to the Arab Middle East reached -11.8%. Other hard-hit industries experiencing damage far beyond normal cyclical demand fluctuation included industrial machines, transport equipment, telecom equipment, spare parts and military gear. The trucks, buses and special purpose vehicles category, which represented 3% of total U.S. exports to the region, was $663 million in 1998 and to $215 million in 2002. **The "America Inc." consumer brand is in danger of extinction in Arab markets.** Branded U.S. consumer goods, de facto subsidiaries of "America Inc." such as cigarettes and beverages have suffered massive losses. In March 2003, Coca-Cola announced it was permanently relocating its Middle East headquarters, established a decade ago in Bahrain, to Greece as Arab demand for non-U.S. branded colas surges.

Although the Bush Administration has signaled that a free trade agreement with preferential tariffs is the new U.S. approach to the region, in reality, tariff barriers within Arab markets and the U.S. have already been declining steadily.

Tariffs in Egypt declined 3% from 1995 to 1998. Saudi Arabia, while in the midst of a project to increase domestic production and industrial growth for jobs creation "Saudization" only saw mild increases in tariffs, amounting to 0.1% between 1994 and 1999. Also, positive regional common external tariffs and trade agreements between Gulf Cooperation Council (GCC) members is improving. (see Exhibit #2)

Exhibit #2
Arab Market and U.S. Mean Tariff Declines
(Source: World Bank and IRMEP 2003)

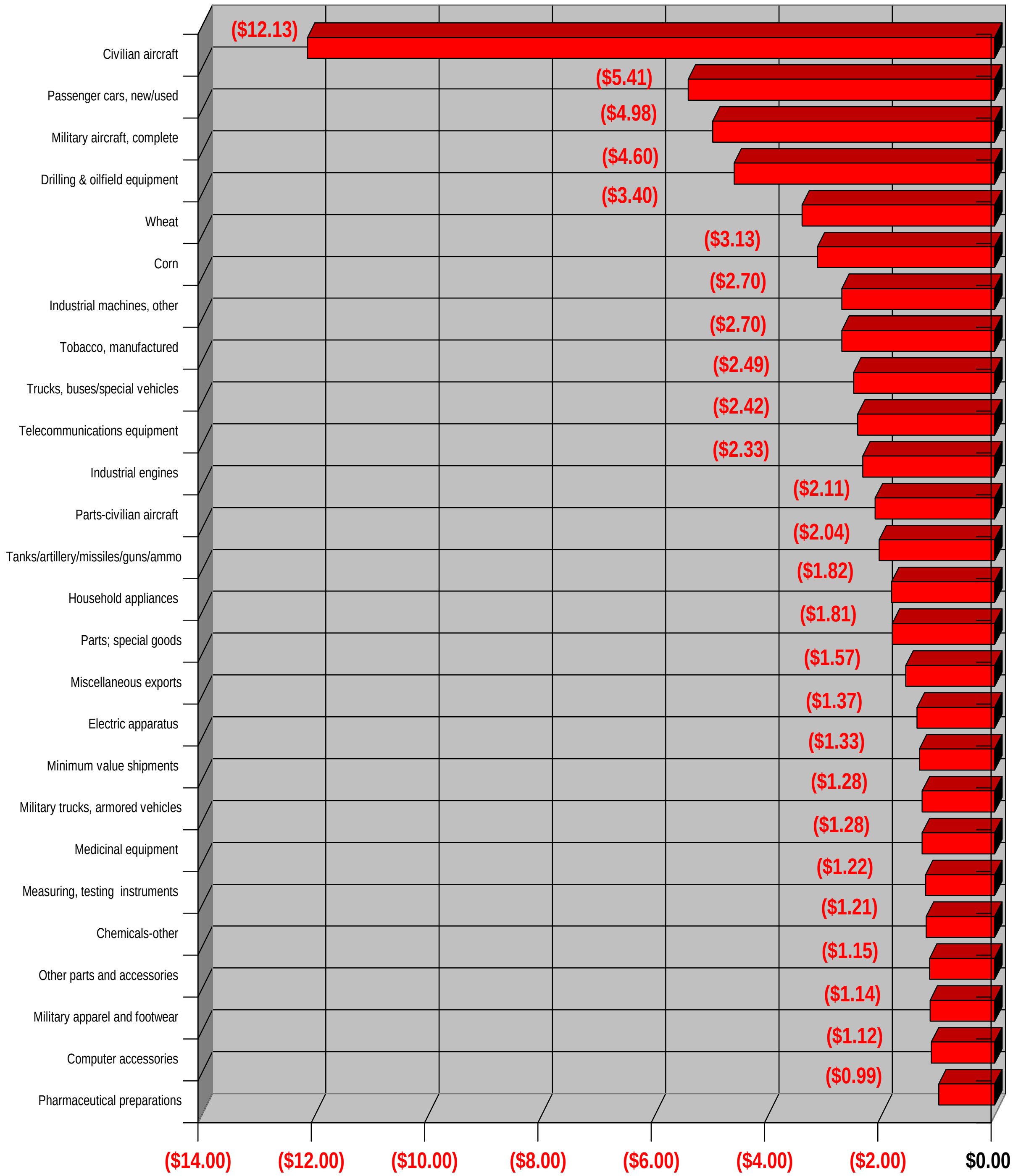
Country	Benchmark Years	Weighted Mean Tariff	Period Variance	Average Annual Tariff Declines
Egypt	1995	16.7%		
	1998	13.7%	-3.0%	**-1.00%**
Oman	1992	7.4%		
	1997	4.7%	-2.7%	**-0.54%**
Saudi Arabia	1994	10.7%		
	1999	10.8%	+0.1%	**+0.02%**
United States	1989	4.1%		
	1999	2.8%	-1.3%	**-0.13%**

The U.S.'s largest regional challenge is not tinkering with tariffs, but rather stimulating waning Arab market demand for U.S. merchandise. Total Arab market imports (see the end note for countries included in this report) have grown from U.S. $117.67 billion in 1997 to $119.42 in 2001. If this steady growth rate continues (and some economists believe it may accelerate), total regional import demand will reach U.S. $126.6 billion by 2007.

IRMEP believes that a conservative expected mean share of U.S. exports to the region in 1998-2002 should have been **19.05%** of the total Arab market rather than the **14.95%** actually achieved. **19.05% is the actual 1998-2002 market weighted mean share of U.S. exports to non-Arab UNCTAD petroleum exporting category countries that annually import more than U.S. $1 billion in American merchandise.** This benchmark rate of American export penetration applied to past and future Arab import demand yields U.S. $229.91 billion in 1998-2007 American exports to the region.

If the preceding half-decade's trend continues (four years of export declines for every year of advances), the U.S. will lose Arab market share at the rate of -7.3% per year. Analyzed this way, the U.S. has irrecoverably lost U.S. $31 billion in Arab export opportunities. And while past losses cannot be recouped, $63 billion in losses have yet to be realized. IRMEP conservatively forecasts total non-cyclical U.S. export losses between 1998 and 2007 will exceed U.S. $94 billion**. The most heavily damaged U.S. export categories are high value-added industries including civilian aircraft, passenger cars, military aircraft and drilling/oilfield equipment. Affected industry categories also include agricultural output and many consumer packaged and non-durable goods. (see Exhibit #3)**

Exhibit #3
1998-2007 Forecast U.S. Arab Market Losses (U.S. $Billion) by Export Category
(Source: IRMEP 2003)



The 19.05% benchmark rate is an achievable U.S. total market share goal. Amidst global oversupply and building deflationary pressures, U.S. industries must strive to return to their fair share of Arab markets. Within a larger framework of productive engagement, increased U.S. exports can be a catalyst that solidifies the realization of broader American interests in the region. However, American industry associations and leading corporations must begin to confront and roll back a number of entrenched and narrow interests that actively harm exports.

II. Negative Factors Impacting U.S. Exports

Supply-side obstacles have less of an impact than demand side issues, but will accelerate the damage to future U.S. exports if left unchecked:

Supply Side Issues

The following two factors have negatively affected U.S. exports to the region:

1. ***Increased Asian competition:*** U.S.-Asian competition across many export categories is heavy. As one Arab industrial buyer mentioned, "my Asian suppliers can now usually match the U.S. on price and sometimes quality. Before, there was always a subtle psychological premium to buying American. Now, that premium has been blown away."
2. ***Strong U.S. dollar:*** Bush administration is beginning to address the strong U.S. dollar. In the past, the strong dollar made U.S. manufactured goods prices somewhat less attractive than those of foreign competitors, though not enough to account for the magnitude of U.S.-Arab market share losses.

Other factors are only beginning to be felt but will accelerate the downturn in the future:

3. ***U.S. visa restrictions on Arab business travel:*** Total foreign visitors to the United States between 1994 and 2001 increased 6.83% annually. Arab visitors, represented by Egypt, Saudi Arabia, Jordan and UAE trailed slightly at 6.75% annual visitor increases. Although 2002 data is not yet publicly available, anecdotal evidence suggests that Arab visitors in particular have been driven away as U.S. visa processing requirements begin to treat even longtime international Arab executives more like "suspects" than "prospects." As one Gulf State ambassador recently stated "our elite business people are not going to undergo fingerprinting just to renew a U.S. visa."
4. ***Anti-Arab xenophobia campaigns and damaging political appointments:*** Prominent U.S. think tanks continue to produce and evangelize a large quantity of anti-Arab "research". These include studies such as David Wurmser's work on "Battle Cry of Tyranny: Anti-Americanism in Arab Politics" or Daniel Pipes' books that encourage U.S. fear of Arabs by propagating an idea that 15% of all Muslims are potential terrorists. Heavy funding for these types of projects continues to flow, though usually only from a handful of niche ultra-conservative pro-Israel foundations, individuals, and unsuspecting corporate donors.
5. ***Plummeting Arab foreign exchange students:*** The number of Arab students studying in U.S. universities has plummeted. Their concerns about personal safety and the financial and privacy costs of onerous U.S. visa application and student tracking requirements have made European alternatives ever more attractive. Over the coming decades, Arab business people familiar with U.S. principles and practices will steadily decline. The current generation of executives will retire and be replaced by graduates of foreign universities with few insights into or firsthand experience with the U.S. Also, as new movements dedicated to shutting down U.S. university Arab studies departments and diverting funding, such as "Campus Watch", continue to achieve their objectives, the number of international U.S. executives able to function capably in the region will also decline.

The Asian trade factor is largely beyond U.S. influence. U.S. officials appear to be reassessing issues surrounding the strength of the dollar. The damage caused by the other factors will largely be felt in the future, but can be addressed now. **However, the most important actions the U.S. must now take address and influence *demand issues.***

Demand Side Issues

America's reputation and credibility in Arab markets has hit a new low point, and poses the greatest danger to future U.S. exports. The single driver of the growing preference for non-U.S. imports is negative Arab perceptions about regional U.S. policies. Recent Bush administration statements about Israeli-Palestinian peace plans and more equal treatment of regional concerns have been welcomed in Arab markets. However, only tangible results of changes to U.S. policies will regenerate demand for U.S. exports:

1. ***Reaction to U.S. Engagement Programs:*** Positive U.S. actions such as the U.S. Middle East Partnership Initiative and the recently announced trade agreement plan are viewed with skepticism due to the minimal levels of U.S. funding commitment, suspicious timing, low regional relevance and even lower expected impact. U.S. corporations continue to be targeted in retaliation. A blunt weapon, Arab selection of alternative suppliers affects many U.S. business interests that have had little first-hand responsibility for U.S. regional policy. Strong and equitable U.S. actions, as opposed to weak "vision statements" and public relations campaigns are sorely needed.
2. ***The Arab Boycott:*** Israel will continue to be a regional pariah to Arab consumer markets until the U.S. enforces a just settlement with the Palestinians. Bush Administration statements wish that "regional hatreds will be swept away". Officials have attempted to gain guarantees that the boycotts will be dropped by participating Arab states, thereby creating a more productive environment for peace. However the elementary force of Arab outrage at the historical injustices visited upon Arabs during the creation of Israel lingers on. It is unrealistic to expect or demand that normal trade and relations commence over the short term between remaining Arab boycott countries and Israel until root causes of conflict are equitably resolved and sustained over time.
3. ***Increasing U.S. Legal Exposures:*** Actual and planned lawsuits leveled against Arab corporations and individuals formerly playing a prominent role in trade are on the rise. Arab traders and investors fear well-funded legal fishing expeditions searching for any opportunity to "link", sue and try cases before highly sympathetic U.S. judges and juries. "Doing business while Arab" increasingly means fending off the threat of massive U.S. damage claims mounted against any identifiable pool of assets. This will continue to move many corporate good citizens and their investments out of the U.S.
4. ***Judgment of U.S. Fairness and Neutrality:*** Some Arab thought leaders will continue to measure many U.S. initiatives by their stated or perceived benefit to Israel. Arab buyers punish U.S. exporters in a "one brand" approach toward rejecting U.S. overall policy in the region. Right or wrong, massive military aid to Israel, U.S. unwillingness to militarily, politically, or financially halt illegal Israeli settlement expansion, and the U.S. invasion of Iraq are all seen as actions largely conceived, promoted, and implemented for the benefit of Israel. All "America Inc." brands subsequently suffer.

The Bush Administration Trade Proposal

Many aspects of the May 9, 2003 Bush administration plan for a regional free-trade agreement have been met with surprise in Arab markets. The announced proposal revealed a lack of understanding about indigenous Arab movements toward freer trade, and regional market system realities. Key concerns include:

1. ***Timing:*** The timing of the Bush announcement has been questioned. Some Arabs wonder whether it is intended to confront the core issue of foundering regional demand for U.S. merchandise, or merely focus attention away from coalition post-war security and infrastructure rebuilding challenges in Iraq.
2. ***The Boycott:*** Although many Arab states are already working toward WTO accession, the Bush admonition that WTO is most important because it would require Arab markets to drop their boycotts of Israel in order to enter the global system raises questions. Many Arab governments feel their boycott of Israel is as justified in principle as the U.S. trade embargo on Cuba. Remaining boycott states are not making WTO entry adjustments as a bid to favor Israeli exports.
3. ***Arab Corruption Charges:*** President Bush slighted Arab business by trumpeting trade as a way to combat Arab corruption. "By replacing corruption and self-dealing with free markets and fair laws, the people of the Middle East will grow in prosperity and freedom," Mr. Bush said in his commencement speech to 1,200 graduates of the University of South Carolina. That this type of prejudicial language, formerly emanating only from the ranks of fringe neoconservative policy pundits, has now been adopted by the White House is both troubling and unproductive.

   Many Arab business people were perplexed and hurt by charges of self-dealing from a nation suffering its own corporate governance issues and the aftermath of widespread corruption on Wall Street. “We know these types of sentiments are all but exclusively for domestic consumption” stated one Gulf state ambassador to the U.S., “but when the time comes to make a major purchase, we certainly remember them.”
4. ***Petroleum Market Realities:*** With or without a trade agreement, an important portion of the system will continue to function as a petroleum market. In this system any U.S. merchandise exports, goods with many substitutes, are paid for by petroleum exports, goods with no substitutes. **Even powerful U.S. players such as petroleum service, engineering and construction industries protected by their size, expertise and relationships may face greater market substitution pressures in regional markets. The June 6, 2003 Saudi cancellation of US $25 billion in regional infrastructure projects could be only the beginning.** Meanwhile, consumer and tech export sectors that rely on the synthesis of ingenuity and marketing savvy to sell sophisticated products to “hearts and minds” in Arab consumer and enterprise markets will continue to lose out even if a falling dollar lowers their prices relative to the competition.

III. Recommendations

U.S. interests can be achieved by nullifying factors damaging market demand. In this section, we propose concrete steps that individuals in U.S. business and government can pursue toward restoring U.S. credibility and integrity in the region and ultimately regenerating Arab demand for U.S. exports.

IRMEP Recommendations to Business

Businesses negatively affected by Arab market demand can take three steps to improve their export prospects in the short and medium term:

1. ***Increase the distance between your brand and U.S. policies:*** Many U.S. corporations in affected industries have already sought to emphasize the amount of local Arab market inputs that go into their production, and stress the global nature of their business.

   This positioning alone is not enough to trigger an inflection point in Arab market demand. Companies marketing to Arab consumer and small to medium size enterprise markets in particular need to begin sending messages that their brands are part of the solution, not the problem. The messages can be deeply serious or even light-hearted in tone. Two key messages that can be integrated into regional publicity and public relations include:

   a. ***"We are working toward peace and justice." (Serious)***: American companies selling to the region can emphasize through charitable contributions and involvement in Arab relief agencies how they are working toward alleviating Palestinian suffering and that of other victims of regional conflict. Billboards and broadcast media positioning consumer brands alongside relief and development service images can somewhat decouple an American brand from U.S. foreign policy.

   b. ***"We're not so stupid as to blame you for 9/11" (Humorous, light):*** Humorous ads depicting the so-called "ugly American" blaming all Arabs for 9/11 and how the affected company's brands transcend Arab smear, fear and discrimination can tackle demand issues in a lighter and brand-effective way.

2. ***Scrutinize corporate policy research funding***: Most corporate foundations don't consciously fund vitriol and discrimination or otherwise try to feed the growing Arab xenophobia machine in the U.S. However, many corporations that do give, particularly to certain Washington D.C. policy think-tanks, may be contributing to fear and xenophobia campaigns without realizing it. The American Enterprise Institute, Hudson Institute, Middle East Forum, Washington Institute for Near East Policy and other neutral sounding policy think-tanks that have promoted highly questionable and negative Middle East policies are generally very narrowly funded by a small handful of contributors (See http://www.irmep.org/member_support.htm). However, corporations in negatively affected industries should nevertheless carefully analyze and screen their corporate giving programs in order to determine whether they are unknowingly funding works of little academic merit that harm their own core business interests.

3. ***Get involved in regional U.S. policy issues that negatively affect consumer demand*:** Packaged goods and other corporations in industries that rely upon consumer or enterprise market goodwill need to get more involved on Capitol Hill. Misguided and damaging legislation pitched by narrow interests in the U.S. Congress can create billions of dollars in losses when they do not receive a healthy dose of attention by affected industries.

IRMEP Recommendations to U.S. Government

Although business interests can work toward creating solutions to U.S.-Arab export declines, only the U.S. government can take the larger steps to restore U.S. regional credibility and trade with Arab countries.

1. ***Enforce an Israeli-Palestinian solution:*** Many D.C. think tanks routinely broadcast a common message about US-Arab discord, that "Israel has nothing to do with it". **They are <u>wrong</u>.** Currently, many Arabs expect that the U.S. will be either unable or unwilling to apply constructive pressure upon Israel toward achieving the road map for peace proposal, irrespective of any apparent "break through". Arab markets are fatalistic in expecting events to emerge over the long term which will lead to the retention or even expansion of Israeli-occupied territories, and the complete minimization of Palestinian interests. It is up to the U.S. government to demonstrate with acts, rather than words, the willingness to force a just solution. This alone would bolster the "America Inc." brand.

2. ***Appoint experienced Arabist regional analysts to key U.S. policy positions:*** Most current Bush administration Middle East appointees have compromising ties and are widely believed to be over-weighted with alumni from pro-Israel lobbies. The most recent nomination of Daniel Pipes for the United States Institute of Peace is a case in point. Pipes has made numerous statements such as, "Western European societies are unprepared for the massive immigration of brown-skinned peoples cooking strange foods and maintaining different standards of hygiene. All immigrants bring exotic customs and attitudes, but Muslim customs are more troublesome than most." The influence of individuals with a long and documented record of racist thinking and their subsequent policy products is a direct contributor to declining U.S. regional trade and engagement, and must be reversed. Currently, no high-ranking regionally credible appointee thought to be an "Arabist" occupies any top policymaking position.

3. ***Target funding for illegal Israeli settlements**:* Arab markets have watched blunt U.S. efforts to trace and stop terrorist financing by rolling up unregulated Islamic charity networks operating in the U.S. Now, the U.S. Department of Justice must also publicly roll up U.S. networks that have financed the illegal expansion of settlements in Israeli occupied Arab lands. The U.S. must indict, arrest, and prosecute persons and organizations actively flouting U.S. peace initiatives. These include select religious funding networks and individuals operating in the U.S. such as "Bingo King" Irving Moskowitz or former Texan and West Bank developer Homer Owen. Prosecution for the transfer of funds from the U.S. in order to expand illegal Israeli settlements at the same time the U.S. government has been calling for a settlement freeze and dismantlement would bolster the U.S. position as an honest broker in the current peace process.

4. ***Streamline Arab business and student U.S. visa processes*:** The background and activities of 9/11 ringleaders and collaborators are easily distinguishable from those of longtime international business people and legitimate foreign students seeking entry into U.S. universities. The U.S. should leverage its new and hard-won knowledge base about terrorists in order to streamline visa renewal processes for veteran Arab business people. It must also limit the invasion of privacy and time demands placed upon low-risk individuals who pose zero threat to homeland security and have the greatest potential benefits to present and future U.S. trade.

5. ***Consider the trade and export cost of regional policies:*** The administration must begin to calculate the opportunity costs of U.S. policies on businesses operating in the Middle East. Cynics may claim that no loss is incurred whether U.S. goods and services are consumed as regional exports, or consumed in military campaigns, foreign aid, and

reconstruction. In fact American taxpayers fund aid and military interventions, while U.S. business loses billions of dollars in market opportunities.

The obstacles identified in this report harm exports and produce only one payoff, the dividends of fear. We must begin to take new approaches that encompass broader American interests through legitimate pro-engagement policies.

Notes and Further Reading

Data and forecasts for this report include Bahrain, Egypt, Jordan, Kuwait, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates and Yemen. IRMEP forecast model output customized by industry and country market, with scenario and policy change strategy analysis is available to interested industry associations and corporations. Contact IRMEP by email info@irmep.org or by telephone (202) 342-7325. For other IRMEP policy briefs and analysis consult http://www.irmep.org on the World Wide Web. Receive monthly hardcopy reports and support IRMEP research and educational outreach through an annual membership:

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