Schumpeter

The other Arab spring

Entrepreneurs in the Arab world are leaping into action

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THE excitement in the colourful offices of Seeqnce, a business incubator in Beirut, is palpable. In one room disembodied entrepreneurs pitch their ideas over Skype to a three-judge panel. In another Fadi Bizri, one of Seeqnce's founders, scrawls business plans on a wipeable desk. So far Mr Bizri and his colleagues have considered 433 applications in their hunt for eight winning teams that will spend six months in the incubator creating internet and mobile companies.

Seeqnce is part of another Arab spring. Incubators are trying to do for Cairo (Flat6Labs) and Jordan (Oasis500) what Seeqnce is doing for Beirut. Private-equity firms such as Abraaj Capital and Citadel Capital are investing in high-growth companies. ArabNet helps techies to network. New ventures are popping up everywhere. Cinemoz, in Beirut, allows access to the Arab world's biggest online library of films and soap operas. Diwanee, in Dubai, provides online articles in Arabic for women. Ekshef links patients with doctors in Egypt. Linda

Rottenberg of Endeavor, a networking group for entrepreneurs, says the Arab world resembles Latin America a few years ago when it comes to start-ups.

How likely is it that these green shoots will flower? It is easy to be downbeat. Arab companies tend to come in two types—lumbering giants (which depend on state patronage) and rickety dwarfs (which lack the capital and talent they need to survive). The region manufactures only half as much per head as others at a comparable stage of development. However, it employs twice as many bureaucrats per head as the global average.

Bankruptcy is a criminal offence in several countries, which hardly encourages risk-taking. Red tape is as abundant as sand—just ten Egyptian ministries are responsible for 36,000 fiddly regulations. Foreign firms fret about Islamic fundamentalism: Arla Foods, a Danish dairy firm, spent 40 years building its business in the region only to see sales collapse when a Danish newspaper published cartoons of Muhammad.

In "The Arab World Unbound", a new book, Vijay Mahajan of the University of Texas at Austin argues that it is possible to tell a more optimistic story: that the Arab world's new entrepreneurs are operating in a large and steadily blossoming market. The Arab League has a collective annual GDP of $2 trillion, or $6,000 per head. Arabs are increasingly interconnected and plugged in. Arabsat (Arab League), Nilesat (Egypt) and Noorsat (Bahrain and Jordan) broadcast 1,500 television and radio channels between them. Dubai is a global hub, eight hours from either Shanghai or London. Egypt is an entrepot to north Africa.

Global multinationals have put down deep roots in the region. Intel and Microsoft have created an Egyptian outsourcing industry that employs 65,000 people and generates $1.1 billion in revenues every year. McDonald's has a third more customers per restaurant than in Europe. Vimto, a drink that fell out of fashion in its British home years ago, is one of the most popular thirst-quenchers in Saudi Arabia, particularly during Ramadan. Red Bull, a more recent invention, puts up pop-up stores in Saudi airports during the *haj* for pilgrims who might need an energy jolt.

The region has some global champions such as Emirates airlines (which has annual revenues of $18 billion and profits of $710m). It is also producing a wide variety of niche players. Al Baik, a Saudi Arabian chicken-and-seafood company, has a fanatical local following. Aramex has become the largest delivery company in the region because it is undeterred by difficulties such as civil wars and the lack of street signs. Flydubai, a low-cost airline, has 23 aircraft serving 51 destinations just two years after its creation.

Foreign and domestic firms have come up with clever ways to deal with local peculiarities. Coca-Cola copes with Cairo's tiny shops by providing street-trading middlemen with ice boxes and telling them to keep shops in their territories supplied with Coke. Unilever studies the "grey market" for its wares and applies the lessons that it learns when it launches products officially. These innovations have sometimes produced big businesses.

For example, IrisGuard developed a system for identifying people from their irises (which means that women do not have to remove their veils). It is now used by border guards and banks across the region and beyond. GEMS, which was founded in Dubai in 1968, is one of the largest education companies in the world, with 110,000 students and schools in nine countries. The company has tackled one of the region's biggest problems—the low quality of its teachers—by recruiting staff from around the world and emphasising their high status.

Family fortunes

"The Arab World Unbound" is clearly much too optimistic. The region's problems extend beyond the obvious, such as the power of feudal families and the treatment of women, to more subtle ones such as its approach to business. Family-owned companies are the region's economic engines. But these firms are constantly fragmenting because Islamic inheritance law mandates the division of property and Arab traditions fail to make a distinction between corporate and family property.

Still, Mr Mahajan is right about two big things. The first is that business is an engine for social as well as economic progress in the region. In 2010 conservatives fulminated when Panda hired female cashiers for its Saudi hypermarkets; a year later the government announced plans to create 1.5m retail jobs for women. The second is that the region needs to push ahead with pro-business reforms. Half of its people are under 25 and 22% of 15-24-year-olds are jobless. The Arab world's best chance of avoiding social stagnation and political instability lies in continuing to cultivate the green shoots that are starting to sprout.

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