

Risks and Revenues in the Middle East

For telecoms vendors, investing in the Middle East is not for the faint of heart. Yet we believe that vendors face an even greater risk by not investing in the region.

According to our Middle East research team, telecoms vendors are overlooking significant CAPEX opportunities throughout the region. War or no war, the Middle East is starved for telecoms connectivity and infrastructure. The only question is: which vendors are going to seize the opportunity?

To learn more about the region, we sat down with Joseph Braude, Pyramid's Senior Analyst of the Middle East and North Africa who also is the author of the forthcoming book, [The New Iraq: Rebuilding the Country for Its People, the Middle East, and the World](#) (Basic Books, March 2003).

Are there business opportunities in the Middle East right now for global telcos?

Yes, the Middle East is one of the few bright spots in telecoms right now, as we demonstrated in our last report, [Winning Vendor Strategies in Middle East & North African Equipment Markets](#). Over the next two years, Middle Eastern governments and companies will contract \$8 billion in fixed and mobile CAPEX. This boils down to a series of niche contracting opportunities where the profit margin can be high. Now is a critical time to enter the market.

What makes this time so critical?

A number of vendors have recently left the field such as Lucent in Saudi Arabia, creating opportunity for other vendors. There is tremendous pent-up demand, planned privatizations, new licenses and increased investment mandates by governments over the next several years. Egypt, the most populous Arab country, has an unsated appetite for the installation of new fixed lines. As our [Country Outlook for Bahrain](#) shows, the country is a lucrative niche consumer market that is about to auction off a second mobile license, and that's only the beginning.

But what about a war in Iraq? How does that affect the telecoms landscape?

In the event of a war, investments in the Middle East will stall in the short-term, but in the long-term, there will likely be even more investment opportunity, especially in Iraq. In a country of 24 million people, Iraq's telecoms infrastructure is severely crippled by sustained allied bombing of its grids, and the long-term blocking of equipment imports by U.N. sanctions. As Pyramid Research demonstrates in its soon to be released Perspective on Iraq, contracts to rehabilitate Iraq's fixed network will be among the largest tenders for the region in this year. It creates an even greater business opportunity when the dust settles.

Who is positioned to get those contracts?

Outside of Iraq, Huawei and ZTE, Chinese newcomers, are making a serious impact and have their competitors nervous. In Iraq, all bets are off. American players will have a solid opportunity in the new Iraq, as will Asia and European vendors that have been active in the country in recent years. If there is a war (which we believe is likely), geopolitics may favor American companies like Lucent and Motorola, given the U.S. potential leadership role in a campaign to alter the Iraqi government.

What should equipment vendors be doing to prepare for this opportunity?

Despite the uncertainties, vendors should be investing in the region, to develop relationships, particularly in Iraq. The locus of power is shifting in Iraq. Telcos need qualitative intelligence on the emerging power brokers in Iraq's private sector and periphery, as well as data on the state of fixed infrastructure in the country, in order to size the market and formulate a business plan.

Let's drill down in Iraq. How will a government transition in Iraq affect the telecoms

industry?

Current players on the technocrat level inside Iraq are keen to maintain their positions and prove indispensable to whatever new regime emerges. Thus many of the present executives of the Iraqi Public Telecommunications Company (IPTC) will make a compelling case for holding onto their jobs, and are likely to seek out ties with multinational companies as soon as circumstances permit.

What's the dollar value of future Iraq contracting opportunities?

A conservative estimate for the next two years would have the government spending \$50 million annually on fixed CAPEX (2003-04). For mobile CAPEX, we anticipate approximately \$33 million to be spent in 2003 and \$36 million for 2004.

Pyramid Research predicts that over the next seven to ten years, more than \$1 billion will be spent to rehabilitate the fixed network, the majority of which will be invested toward meeting the formidable demands of the local loop in urban areas. Our Perspective on Iraq spells out the details.

What advice would you have for operators in the region?

There is hope that an end to American-Iraqi hostilities may at last create the climate and investor confidence the region needs to finally win global capital for its telecoms ventures. This means that privatization initiatives now on hold, or indefinitely delayed across the region, had best prepare for a jump-start some time this spring. Our source in capital markets has indicated that they will be keenly eyeing investment prospects in the Middle East and North Africa in the months ahead.