

# Chapter 71

## Entrepreneurship and Innovation in the Middle East: An Analysis for Egypt, Turkey, Iran, Jordan, and UAE

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### ABSTRACT

*In this chapter it is analyzed the importance of innovation in services and industry in the entrepreneurial and business activity in five countries that represent a 65 percent of the population of the Middle East. The characteristics of the owners of firms in are studied according to the Standard Industrial Classification. The differences between services and industries with respect to innovation are highlighted. Then the determinants of innovation are determined in this set of countries during the period 2001-2008 and the role of individual characteristics such as gender, age, skills and perception of business owners' status are studied. The most important factors for innovation in services sector and the ones of manufacturing are compared.*

### INTRODUCTION

The Middle East is a region that covers a greater part of Western Asia and also includes Egypt in the northeast of Africa. Throughout its history, the Middle East has been a main centre of world affairs. Many countries located around the Persian Gulf have large quantities of crude oil, which has resulted in much wealth particularly for nations in the Arabian Peninsula. "Since the industrial revolution, the Middle East region has been facing considerable economic challenges. Macroeconomic performance

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and institutional frameworks of the Middle East has been conspicuously weak, in terms of governance, competition, and productivity.” (Behboudi, Assadzadeh and Oskoui, 2013)

According to Statistical Review of World Energy 2013 this region holds 48.4% of world oil proven reserves. If these countries maintain their production quota they will have oil for 78 more years, more than double than other regions such as Europe or North America. Partially by the natural resources importance, in modern times the Middle East remains a strategically, economically and politically sensitive area.

This paper aims to present new evidence of the current situation of entrepreneurship and its relation to the level of innovation in a sample of countries of the Middle East making use of microdata from the Global Entrepreneurship Monitor. Differences among countries and the effect of gender, age and sector are emphasized. Econometric models allow explaining the conditions of entrepreneurs and firm owners who perform innovative activities in their firms. The main limitation is the lack of literature on this topic and reliable statistics. The only article similar to this chapter is the one by Hala Hattab (2011) but she only focuses on female entrepreneurship in Middle East and North Africa. This chapter also explores the relations between entrepreneurship and innovation. Gender is an important variable in the analysis but it is included to explore these activities under a more extensive scope.

Entrepreneurship and innovation in the Middle East are topics largely unexplored from a scientific point of view. This is due largely to the low data availability. Despite the small amount of literature on this regard in the second section it is presented a review of the most relevant empirical findings for countries of this region.

In the third section the most important features of the variables of the dataset are analyzed and the results obtained for this set of countries are presented. In the fourth section the econometric analysis is carried out and several models to enquiry about entrepreneurship and innovation for the countries are presented. Finally the most important findings are pointed out in the conclusion.

## **BACKGROUND**

### **Main Insights of the Economies of the Middle East**

The Middle East is a complex and diverse region. Hereby the five countries that are later studied are presented. They are Egypt, Turkey, Iran, Jordan and United Arab Emirates:

*Egypt* had a highly centralized economy during the government of President Gamal Abdel Nasser but opened during the administrations of Presidents Anwar Sadat and Hosni Mubarak. The economic history of Egypt shows a country that does not incentive entrepreneurship or innovation has it happened in other centralized economies. However, the government implemented aggressive reforms between 2004 and 2008 to attract foreign investment and stimulate growth, which was above 7% a year in 2007 and 2008. The 2009 growth fell to 4.7% as a result of the global financial crisis, which severely affected export sectors, especially manufacturing and tourism. Today, the Egyptian economy is the third in Africa, after Nigeria and South Africa, according to the African Development Bank. It is one of the most developed countries in that continent but still does not count with good figures of innovation and rate of new firms.

Egypt still is predominantly an agricultural country; and one of the most important crops are cotton, other than subsistence farming, since about 40% of the workforce is engaged in agriculture or farming. Egypt's economy was socialized after the enactment of a series of laws in early 1961. These laws made

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