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International Expansion Strategy for Arabtec

Introduction

Launched in 1975 in United Arab Emirates (UAE), Arabtec Construction L. L. C. is one of the local leaders in the construction industry, developing stores, student accommodation centers, residential buildings, private villas, shopping centers, car parks, office buildings, airport buildings (Emirates New Technical Centre) or hotels (arabtecuae official website). Recently, the company registered significant growth and global recognition for building one of the tallest residential buildings, the 21st Century Tower (2003), and contributing to the 828 m tall building, the Burj Khalifa or to Address Hotel, named the New Hotel of 2008, when it was completed (arabtecuae, official website). The company should pursue expansion for optimizing its expertise in new areas.

Building on its resources, capacity and experience in residential sector, the UAE company should pursue expansion in the residential sector in an emerging economy country, such as BRIC (Brazil, Russia, India, China) or the

MIKT countries (Mexico, Indonesia, South-Korea and Turkey) (Ciravegna, Fitzgerald & Kundu 318). Considering the focus on residential buildings, the company should focus on a market wherein this sector is growing. Turkey was not much affected by the economic crisis that severely hit the real estate market and the country registered a considerable growth of 19.7% in second quarter of 2011 and of 12.7% in the third quarter of the same year, having an expected average growth of 8.5% between 2009 and 2014 (Komurlu, “ Turkey Real Estate”).

Although the residential market in Turkey registered its peak in 2011, when home sales grew with 21% in the term of one year, it continued a steady growth in 2012, as the interest in owning a property in this country is still major (Oxford Business Group 141). The country has a high potential for residential development in the coastal area and in the newer Turkish cities (“ Hottest Overseas Real Estate Markets in 2014”).

The entrance of Arabtec on Turkey’s real estate market is favored by the country’s policies of merging into the global economy, being in a constant increase since 1990s (Birgonul & Dikmen 845).

Market Analysis

Since 1923 Turkey is consolidated as a republic and its current politic regime is based on a parliamentary representative democracy, being governed by the center right AK Party (AKP), sustaining a secular politics, meant to speed up and strengthen the country’s democracy and modernization (Celik & Celik 1). This makes Turkey a country with a solid political system, focused on maintaining good political relationships with its neighbors but mostly with the Western economies, where it pursues its economic development, which

nevertheless creates internal religious tensions, driven mostly by the Islamic population, traditionally repugnant of Western lifestyle model that Turkey seeks to adopt (Heper & Sayari 217). As of July 2013, Turkey has 80, 694, 485 people, with 42, 7% of people ranging in the category of 25-54 years, having a median age of 29. 2 years, denoting a young population, having a growth rate of 1. 16% (Indexmundi, “ Turkey”). Pozas (118) indicates a decline in Turkey’s demographics, caused by a diminution of the fertility rate, which seems to have started in the last quarter of the twentieth century, ranging, however in top 20, on 27th position, of the most fertile countries of the world.

In terms of foreign politics, Turkey is criticized of practicing a Neo-Ottomanism political ideology, which describes its soft hegemonic interest upon its neighbor countries, former parts of the Ottoman Empire, such as Syria, Israel, Egypt, Iran, Iraq or the Balkan countries, in its quest of becoming a regional power in Middle East and Balkans, which indicates a shift from its pro-Western political axis (“ Claims of Axis Shift”).

However, economically, Turkey pursues its pro-Western approach of reaching its modernization, aiming to become an EU member, accomplishing this task partially in 1996 when it signed the European Union – Turkey Customs Union, which allowed the liberalization of tariff rates in EU countries (Kaminski & Ng 2). Following a democratic modernization, Turkey’s policies include a significant decrease of the government involvement in foreign trades. Turkey is the 17th largest world economy, due to a constant economic growth (registering an economic growth of 11% in the first quarter of 2011, overpassing China or Argentina), but it still faces rather high

unemployment rates, most affected being the young population, under the age of 25 (Celik & Celik 7-8). Its labor market is formed of 27.34 million people and an impressive segment of 1.2 million of Turks employees work outside, in foreign countries (indexmundi, “Turkey”). Being a service focused country, most of Turkey’s population is employed in this sector (48.4%), the rest being separated between agriculture (25.5%) and industry (26.2%) (indexmundi, “Turkey”). Its industry focused profile set Turkey on an urban setting, having more than 76% of its population living in urban areas, as a result of a social change, inclined towards the “westernization” (Groth & Sousa-Poza 127).

Because of its geostrategic positioning (neighboring eight countries: Bulgaria, Greece, Georgia, Armenia, Iran, Azerbaijani, Iraq and Syria and having exits to Mediterranean Sea, Black Sea, Marmara, Bosphorus and Dardanelle (National Geographic “A Commonly Accepted Division”), Turkey benefits of major economic and political advantages, allowing the country to capitalize on its location, as Baku-Tbilisi-Ceyhan (the latter being a Turkey province) is a significant pipeline for the West (Celik & Celik 10). From a topography point of view, Turkey spreads onto 5547 25K sheets in the UTM coordinate system (Bildirici, Ustun, Ulugtekin & all 2). Darke (3) observes that Turkey’s topographic positioning has been represented for ages as a passage between Europe and Asia because of its borders neighboring both continents, having its western part looking towards the Aegean and Mediterranean seas, connecting with Europe and its cultural consciousness connecting with Asia in its origins.

In terms of competition, Arabtec would firstly face the local construction

companies, but due to its residential focus and because this market segment is recognizing a consistent growth, the United Arab Emirates Company would land on a market that has a high foreign exploitation potential. However, a recent report regarding the Turkey's construction segment indicates that this segment is decreasing, but the residential area still remains solid (Oxford Business Group, "Economic Update"). However, considering its recent earthquake and the economic crisis, Turkey's construction segment is not as affected as the rest of Europe is, because Turkey was not highly impacted by the economic crisis, as its residential industry was not as developed as the Occidental countries' residential industry was at the time of the crisis initiation (Lovatt & Banyard Smith 222).

Nevertheless, the fact that Turkey is an ascending residential market attracts other competitors also, both from Arab countries and from Western regions, proposing distinct architectures and technologies.

Market Entry Strategy

Capitalizing on its business experience in construction sector, the fact that Arabtec pursues the expansion in Turkey indicates its commitment for going international and recognizing into Turkey a relevant and suitable candidate for its extension plans. Having this background established, the company's most appropriate entry market mode should be the wholly owned subsidiary and the strategy that Arabtec should pursue is the Greenfield investment. Although this foreign direct investment strategy is a costly market entry, its advantage stays in the fact that it assures the full ownership of the Turkish operations to the UAE firm, allowing it to pursue its expansion independently. Nevertheless, this might also represent a disadvantage, since it places the

company on a new market, with no in-depth knowledge about the market's insights. This is why Arabtec should capitalize on the Turkish resources, employing Turkish experts and professionals for its key business development roles, assuring a smooth transition into this new market, due to their knowledge about the local residential market. Moreover, this entry mode is sustained also by governments, as they are eager to encourage the competition in specific industries, hence, the entrance of Arabtec with Greenfield investment strategy will increase the competition on this market (Epperlein 21). Nevertheless, increased competition also leads to more qualitative business, which Arabtec is prepared to offer, providing state of arts business example. The Greenfield investment implies that Arabtec will invest in customized equipment, (facilitating its knowhow absorption of the target market) and in local workforce, which is fully available, considering the high rate of unemployed youngsters in Turkey.

Conclusion

Arabtec has been so far focused on local UAE projects, but it is time for the company to explore international expansion, focusing on residential market, which represents its major construction segment. Turkey is an appropriate target country for Arabtec's international expansion, considering its considerable residential potential and the fact that it is a transcontinental country, which constitutes a high interest for Western or Oriental citizens to purchase here a second property. The company should capitalize on Turkey's pro-Western political ideology and foreign trade economic policies meant to encourage the foreign direct investments in the country and opening it to

globalization and it should approach the greenfield investment market entry strategy, which will assure Arabtec full ownership of its Turkish subsidiary.

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