

**Anti-competitive Practices in Kuwait**  
**The Impact on an MGM Mirage Global Venture**

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## INTRODUCTION

The entertainment industry sector makes up less than 1% of gross domestic product within Kuwait. The industry itself relies upon local sports, archaeological sites, shopping and desert tours to fulfill tourist's interests within the country. Since the industry is so small within the country it is not subject to an overwhelming amount of anti-competitive practices which could provide profitable for MGM Mirage. Practices such as dumping, cartels and price fixing, monopolies and boycotts are examined as barriers to entry for the casino market.

It should be noted that Kuwait does not specifically ban gambling in the country however like alcohol it opposes the beliefs of the religion of Islam, a large influence over Kuwaiti law. In the recent years online gambling has increased among Arabs since internet sites are not intensely regulated by governments. This could mean that if MGM Mirage can work around anti-competitive barriers it can establish a foothold within the Middle East and globalize its product. The remainder of this section addresses the anti-competitive practices that MGM Mirage may face while establishing this foothold and how these practices can also work in favor of the company.

## DUMPING

According to Hill (2005), dumping is "selling goods in a foreign market at below their costs of production, or as selling goods in a foreign market at below

their “fair” market value.” Dumping introduces a product into a market which undercuts all indigenous prices to gain a foothold in the target country. This practice discourages consumers from buying more expensive local brands. Once these brands are out in the market a company will gradually increase prices and earn a sizeable profit.

In August 1999 Kuwait, along with Venezuela, Mexico and Iraq, was brought before the United States Commerce Department with charges of dumping oil into the U.S. market to force U.S. companies out of the marketplace. The Commerce Department rejected the petition which marked “the first time the U.S. Commerce Department has rejected an antidumping petition since the WTO agreement on antidumping and countervailing duties went into effect in 1995”(ictsd.org). Kuwait’s oil production in the global market is positioned to undercut other countries that sell oil worldwide. Currently Kuwait is negotiating with 16 countries to sign a deal that will reduce double taxation of oil imports which will reduce income of the movable property by 15 percent of the total taxes imposed. This is a move to sell oil at a cheaper price and undercut other countries domestically producing oil and foreign competitors.

Dumping does not prohibit MGM Mirage from entering into the Kuwaiti market. In fact according to the Gulf Daily News “Kuwait has opened up most sectors of its domestic economy to foreign investors for the first time, but maintained a lid on the vital oil industry. The cabinet said foreigners can now invest in all industries, except oil and gas exploration and production, according to a new decision, the details of which were carried by Al-Qabas newspaper.

Infrastructure projects in water, power, telecommunications and sewage treatment, in addition to housing projects, real estate investments and the entertainment industry are among the sectors now open to foreigners.” This is advantageous to MGM Mirage because the Kuwaiti Government does not appear to want to compete with the casino industry as long as oil profits are strong.

## **CARTELS AND PRICE FIXING**

The Wikipedia.org defines cartels as “a group of legally independent producers whose goal it is to fix prices, to limit supply and to limit competition. Cartels are prohibited by antitrust laws in most countries; however, they continue to exist nationally and internationally, formally and informally.” A cartel is often subject to high levels of collusion and conspiracy among its members. They also incent members to collude against each other within the cartel by undercutting the agreement that a cartel has reached.

The Organization of Petroleum Exporting Countries (OPEC) was formed in 1960 by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela as an oil cartel regulating production throughout the world. In 1998 the price per barrel of oil was \$10; in 2006 it is currently \$68 (wtrg.com). In order to raise oil prices OPEC cut production and placed pressure on oil producing countries to also cut production. The oil cartel that Kuwait is a member of is often viewed as greedy and untrustworthy by Western standards. This is the only known cartel that Kuwait currently participates in.

Since the future and stability of OPEC members relies upon the oil cartel they in effect control worldwide oil prices. This is important when other industries go to prosper within these nations. Currently the casino is all but non-existent in the Middle East which is positive for MGM Mirage in that the oil cartel will have no bearing on Kuwaiti foreign investment. In fact the Kuwaiti Government may support the idea of diversifying tourist attractions in Kuwait and create a new job market within the country. Tourism is 92% dependent on Government jobs. The complete lack of entertainment industry within the country allows great flexibility for foreign investment.

Price fixing could occur through the use of Government taxes. In 1992 it was stated that “corporate taxation in Kuwait is applied only to foreign firms and has become a major problem for U.S. and other firms seeking to establish a permanent business presence in Kuwait” (mac.gov). Current rates of 55% may be lowered by 30% for increased foreign investment.

Since 1992 the Kuwaiti Government has opened up its doors to foreign investment not related to the oil or banking industry. In order to spur foreign investment Kuwait has established incentives for investment in the country. Investment incentives such as grants, tax deferrals, special access to credit and import quota exceptions are available to foreign investors and favored treatment given to foreign investors. Corporations can also get an exclusion of import duties of up to ten years for industrial undertakings but it must be approved by the Council of Ministers. This could pose an advantage to MGM Mirage if it is

able to receive this ten year exclusion to import goods and services in support of building the casino industry in Kuwait.

## MONOPOLIES

A monopoly is the exclusive control by a country, organization, or person over the production or sale of a good or service. It prohibits entry of other competitors within the marketplace and often results in a poor product at a higher price due to the lack of competition.

Currently a major monopoly that exists in Kuwait is the Kuwait Oil Company (KOC). The KOC is the only company in the country of Kuwait that has the ability to drill for oil within the oil rich nation. Also, the public switched telephone network (PSTN) within Kuwait is a monopoly and the global system for communication (GSM) is a duopoly. It is expected that sometime in 2006 that the PSTN network will compete the service with another foreign company and the GSM network will add another, bringing the total to three.

The PSTN would affect MGM Mirage in their global venture because credit card transactions and financial banking must utilize PSTN technology. This would affect transaction costs for the casino and is important to support competition within this industry. The globalization of telecommunications infrastructure is slowly occurring worldwide, Kuwait is slowly catching up to countries such as Bahrain, Saudi Arabia, Oman and even Iraq. The monopoly and duopoly currently in the PSTN and GSM infrastructure do not pose a large

threat for investment into Kuwait for MGM Mirage, as the country shows signs of permitting foreign investment to increase capacity for such technology.

## **BOYCOTTS**

A boycott is the refusal to buy, sell or trade with an individual, organization or country that is believed to be doing things morally or politically wrong. It is often used as a statement which strives to encourage change. Boycotts happen worldwide and can be both legal and illegal based upon their target and purpose.

The people of the Middle East have been known to boycott Western powers. In fact until 1993 Kuwait boycotted buying or selling goods with Israel and instituted a secondary boycott which would not purchase from companies that had dealings with Israel. Since 1993 this has changed however the ability to boycott is still fresh in the minds of Arabs. Recently there have been boycotts of American products within Kuwait and throughout the Middle East due to the interest the U.S. has taken in the Arab Nations. The people are revolting against mostly American products but also Western goods as well.

In addition to boycotting goods Kuwaitis are also boycotting travel to the U.S. and the U.K. citing breach of human rights for Arabs, foreign policy with regard to Palestine, and the killing of Kuwaiti citizens during operations in Afghanistan, according the freerepublic.com. This could have a major impact with the investment of MGM Mirage. If Kuwaitis and Arabs decide to boycott in protest against political policy within Kuwait against MGM Mirage it could potentially shutdown the entire casino. This is a major barrier to sustainment

within the region and is the most potent threat to the profitability of entering into the Kuwaiti market. The Kuwaiti Government can do little in terms of preventing international boycotting and could not step in and support MGM Mirage.

## **CLOSING**

It is clear that boycotts could have the greatest effect on the stability and profitability of MGM Mirage in Kuwait. In this analysis it presents that the Kuwaiti Government is not interested in developing the entertainment sector within its country and intends to focus on the oil and banking industry through cartels and monopolies. Dumping is not a primary concern as an anti-competitive practice however it should be noted that in some fashion Kuwait has participated in each of these practices within the oil industry. This is important if the focus of the Kuwaiti Government and investments shift away from oil and banking if the entertainment industry begins to boom.

It appears that the Kuwaiti Government has opened its arms to foreign investment for other undeveloped sectors as it has shown in the telecommunications sector and regulations to support the relief of import duties. Due to the instability of the region boycotting could play an important factor in the decision to enter the Kuwaiti and Middle Eastern marketplace. Factors such as terrorist attacks, Islamic religious beliefs, Western boycotting and discontent could lead to increased anti-competitive practices within the region.

As Kuwait evolves as a nation and relies less on its oil sales worldwide and ventures into other sectors such as entertainment and tourism

there is reason to believe the national policies of Kuwait may change. The current trend of applying numerous anti-competitive practices on the oil and telecommunications market within Kuwait such as dumping, cartels, price fixing, monopolies and boycotts could lead to increased regulations if these sectors become highly profitable. Historically Kuwait has implemented anti-competitive practices as foreign dependencies increase on demanded goods and services from the country. This framework could lead to greater barriers to entry and regulations for foreign investors interested in entering into the Kuwaiti market.

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