KCS Group Europe

USA Boycotts: The impact of Middle East politics on US businesses in Southeast Asia

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Recent reports have exposed economic acts of disapproval in Malaysia and Indonesia, where nationwide boycotts against US businesses, particularly in the fast-food chain sector like McDonald's and KFC, have taken hold. These movements are a peaceful but clear protest against the US for its support of Israel and the conflicts in the Gaza strip. The boycotts reveal a broad disapproval of international policies that appear to aggravate regional conflicts, and they also indicate to what degree global political alliances can influence local economies.

The war in Gaza has not only strained geopolitical relationships, but also created ripple effects throughout business sectors, causing financial havoc for American companies operating half the world away from the conflict in Gaza.

Global support for Palestine

Many Muslim-majority populated countries are in support of Palestine, fuelled in part by religious and cultural associations. Countries like Turkey, Iran, Malaysia and Indonesia have been outspoken in their support, citing the Palestinian fight and opposition to Israel. Their sentiments are expressed through diplomacy, social media and by aligning with pro-Palestinian resolutions at the United Nations (UN).

The UN has been a key figure in issues surrounding the conflict, aiming to produce resolutions that focus on mediation, with a view to stemming tensions. However, the implementation of such reforms remains a challenge. International efforts are often reinforced by Non-Aligned Movements, and the Islamic Co-operation Organisation, which seek Palestinian sovereignty, condemning international law violations.

Global opinion on the Israel-Palestine dispute is diverse, indicating myriad religious and humanitarian concerns. Many nations are, however, sympathetic to the Palestinian cause, which has had profound effects on government policies and produced initiatives like the epidemic boycotting of US businesses. This demonstrates the extent of global community engagement in response to the conflict.

The economic impact of boycotts

US fast-food and beverage outlets McDonald's, Starbucks, Coca-Cola, Domino's and KFC have continued to make significant losses in the Middle East and Asia following prolonged boycotts relating to the Gaza war. Lower than expected trade performance has even resulted in the mass closure of some franchises in Southeast Asia.

McDonald's

From October 2023, pro-Palestinian Muslim groups have initiated a worldwide boycott of Israel friendly nations. This has been significant in the Middle East where McDonald's has 5% of its franchises registered. Although the burger chain's sales targets in the Middle East, India and China were set at 5.5% from October to December, the company barely achieved 0.7% growth with sales shrinking predominantly in the Middle East.

Starbucks

Coffee chain Starbucks had to adjust its full year sales forecast in both domestic and international markets in response to the boycotts. CEO Laxman Narasimhan stated that "*Significant impact on traffic and sales in the Middle East was as a result of the war in Gaza*". Starbucks also saw sales dip in the US due to protesters campaigning against the company, requesting that it no longer supports Israel.

The company also came to blows with its workers' union, consisting of thousands of baristas across over 360 US cafes, following a collective post they made on X showing their solidarity for Palestinians, days after the war started. It was deleted within hours.

The public in Indonesia – the world's largest Muslim population – have been avoiding Starbucks, McDonald's and KFC since the conflict began.

Coca-Cola

The popular drinks manufacturer has been the target of boycotts in the Middle East for some time. In 1967, Coke was boycotted by the Arab League for building a bottling plant in Israel.

In Turkey, in November 2023, Coke experienced a 22% fall in sales following the Turkish Parliament's vote to remove the drink from shops on its premises.

In Egypt, the boycott of Coke spurred the revival of a 100yr old local soda brand called 'Spiro Spathis', which has seen sales soar.

Domino's

The US-based pizza maker has also seen its franchises take a hit around the world. Misinformation spread across social media claiming the company had given free food to Israeli soldiers, with no evidence to support the claim.

In Asia, the brand's established stores saw sales slump by 8.9% in the last half of 2023. This was believed to be due to the Malaysian consumer boycott, which associates the brand with the US. Malaysians have staunchly called for an end to Israels war, with Prime Minister Anwar Ibrahim furthering the cause by banning all Israeli flagged or destined ships from its docks. Don Meij, managing director of Domino's Pizza Enterprises said, "*It is well publicised that US brands in Asia, and in this case, particularly Malaysia, have been affected by the boycotts in the Middle East*".

KFC

KFC owners, QSR brands, closed 108 of 600 outlets in Malaysia, citing significant sales slowdowns due to boycotts. 85% of its 18,000 staff members are Muslims and all have been relocated to busier stores.

In Indonesia, KFC has reported even steeper losses. KFC Indonesia, which is owned by Fast Foods Indonesia, reported that it made a net loss of 348.83 billion rupiah (US$21.5 million) in the first quarter of 2024, some 60 times greater than the loss of 5.56 billion rupiah (US$343,835) reported for the same period in 2023.

What is intriguing is that KFC is one of the best loved fast foods in Indonesia, where 87% of the 270 million people are Muslim. KFC first opened in Jakarta in 1979, with restaurants occupying 150 cities.

Reactions and responses

US businesses affected by boycotts in the Middle East, Malaysia and Indonesia have sought to mitigate losses, cultivate community relationships and repair public relations. Some have gone to great lengths to distance themselves from the political issues by dissociating from same brand franchise outlets that have given free food to, or who have shown support to, Israeli soldiers. In addition, firms have leaned toward transparency and charity by detailing local supply chain suppliers and making large local community donations.

In the US, there has been both criticism and support for the affected businesses with some asking the US government to act and protect American interests overseas. However, some US citizens are sympathetic to the boycotters' reasons. In terms of diplomacy, no significant talks have been held to address these boycotts in isolation. For the most part, the problem is absorbed into broader discussions about trade and foreign relations between the US and the affected countries.

Effects on the US Economy

While the effects of the financial losses felt by US business that are subjected to boycotts in Malaysia and Indonesia are notable, they represent a nominal fraction of the overall US economy. At present, the US economy has a GDP in excess of US$20 trillion and can therefore wear these losses without cause for concern. Also, US fast food chain global operations mitigate the impacts of regional boycotts. The reported losses ranging in the tens of millions of US dollars per annum are significant at a corporate level, but not so in terms of the total global revenues these businesses generate.

If, however, the boycotts persist and expand into other territories, the effects could be far more serious, and that could lead to a pivot in market focus seeing investment diverting into less hostile, neutral or more friendly regions.

Extended boycotts could, ultimately, affect corporate image internationally, which could result in a loss of market share impacting on stock price.

Conclusion

The ramifications of the boycotts in the Middle East and Southeast Asia against US business are real but not yet concerning in terms of the greater US economic output. Nevertheless, the data does represent a direct correlation between US political activities in the Middle East and the revenues generated by US firms in the affected regions. McDonald's reported huge shortfalls in sales growth targets in the Middle East, achieving just 0.7% growth, down from a projected 5.5%.

Starbucks also adjusted its sales forecasts due to similar impacts in the same region, as a direct result of negative consumer sentiment.

KFC's operations in Indonesia signify more severe outcomes with the franchise reporting losses exponentially higher than the previous year. Domino's and Coke also producing similar results in Malaysia and the Middle East, respectively.

When combined, these instances tell a story of substantial regional economic damage, that while producing some concerning signals, represents a small percentage of global corporate revenues. However, if the war in Gaza persists and the boycotts continue into the distant future, circumstances might change, causing these businesses to either downsize further or divest entirely to pursue opportunities in more US-friendly markets.