

# SAUDI ARABIA: LEADING FORCE OF THE U.S.-ARAB ECONOMIC FORUM

infocus

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## Focus on Competition

**East and West are vying for more than \$700 billion worth of business opportunities as Saudi Arabia transforms itself from one of the world's biggest oil producers into an industrial and intellectual powerhouse**

In the Kingdom of Saudi Arabia (KSA), global competitiveness is a hot topic, and the country is rapidly evolving as a key player.

Encouraging a spirit of rivalry is now regarded as a crucial component in the building of a sustainable economic future for the kingdom.

Once difficult for outside investors and run by state-owned



H.E. Amr Al-Dabbagh, Governor and Chairman, SAGIA

monopolies, Saudi Arabia's economy is being progressively opened up to the competitive instincts of foreign and domestic

investors and entrepreneurs.

The Riyadh government's aim is for the kingdom to be among the top ten most competitive nations in two years, a target symbolized by the simple equation 10 x 10.

More than \$700 billion worth of Saudi business opportunities will be on offer in the global marketplace over the next 15 years as the country transforms itself from simply being the source of one of the world's largest supplies of oil into an industrial and intellectual powerhouse in its own right.

The Saudi business community expects U.S. companies to take up a sizeable number of these investment opportunities.

"American corporations are still positioned as the number one investor in the kingdom," says Amr bin Abdullah al-Dabbagh, governor and chairman of the

Saudi Arabian General Investment Authority (SAGIA). "Last year, for a 12-month period, Japan was number one. But that doesn't mean that the U.S. has lost its leadership in terms of investment in our country."

The desert state has already risen from 38th to 23rd place in the World Bank's rating as one of the globe's top reformers in its annual *Ease of Doing Business* survey. This positions Saudi Arabia as the best place to do business in the Arab world and, internationally, ahead of advanced economies such as France (31st) and Austria (25th).

"Our vision is to attract sufficient investment to achieve rapid and sustainable economic growth, to capitalize on the kingdom's competitive strengths as the global capital of energy and as a major hub between East and West," says Al-Dabbagh.

As part of a strategic development of its economic policy, the kingdom is paying increasing attention to the huge developing markets of Asia. China and Japan are already the kingdom's largest export markets for oil and oil

products and eastward trade is certain to increase as the Chinese and Indian economies continue to expand.

Explaining the reasoning behind the kingdom's plans for the future direction of the economy, Al-Dabbagh says, "We are focusing all our energies on two core competences which are energy and location. We are the oil capital of the world, but our goal is to become the energy capital of the world."

"In energy-intensive industries we presently have only 2.5 percent of the global market share which is obviously a mismatch as we have 25 percent of the world's hydrocarbon reserves. Our goal, therefore, is to increase our market share to 7 percent by 2015.

"In finished plastic products we have only 1 percent of the global market share and yet we are the most cost-efficient place for the production of these products. So our goal is to acquire 15 percent of the global market share by 2020."

Turning to the significance of instilling a competitive spirit into the national psyche, Al-Dabbagh

says: "There are three major initiatives that will help us achieve the 10 x 10 goal. The first is to institutionalize the competitive management process, the second is to become competitive globally in three sectors, and the third is to launch pockets of competitiveness."

The driving force behind the campaign is Saudi Arabia's reformist ruler, King Abdullah, the Custodian of the Two Holy Mosques – the role from which the ruling Al-Saud family derives its authority.

A National Competitive Center has been established to act as a catalyst in the government's endeavor to create a pro-business environment and Michael Porter, the Harvard economist and leading authority on competitive strategy, has been lecturing the kingdom's business elite on the culture of productivity and the benefits to be derived from competition.

Addressing local and international business executives during the second Global Competitiveness Forum staged in Riyadh in January, Professor Porter pointedly drew attention



Michael Porter, Harvard economist and authority on competitive strategy

to the productivity gain opportunities existing with Saudi workers which, he said, was due to the lack of proper training.

"There is no possibility of achieving competitiveness without raising the culture of productivity," he said, urging the decision makers in the kingdom to focus on vocational and training programs in order to better prepare future generations for competition.

The professor's themes have been well received by government ministers and the kingdom's business elite. "The concept of competitiveness can be the umbrella for most of the challenges facing countries because there is a strong correlation between

Continued on next page

## Friendship and Free Enterprise

**As the West rides the credit crunch and the Gulf states fight inflation, the U.S.-Arab forum in Washington aims to foster peace and prosperity through economic partnerships**

The third U.S.-Arab Economic Forum begins its deliberations in Washington today at a time when the tiger-economies of the oil-rich Gulf states are riding high and the American economy is slowing.

The forum, which takes place biannually, brings together heads of state and government and chief executives from the leading American and Middle Eastern corporations, as well as senior diplomats, businessmen, bankers, government officials and academics.

The common ground between most, if not all, of the 800 or more participants is a commitment to the benefits of a free-enterprise capitalist system and a belief in the symbiotic nature of the relationship between

the Arab and American economies. The forum is hosted by the American Middle East Economic Affairs Committee in cooperation with the Arab League.

In a sign of the forum's increasing significance, Amr Moussa, the secretary-general of the Arab League, has offered his endorsement this year, saying that it will provide a platform for leaders from both the Arab world and the U.S. "to interact and build long-lasting relationships to foster peace through economic partnerships."

Key issues for discussion include increasing free trade and investment, strengthening partnerships in science, bridging the gap in innovation, enhancing cultural understanding and promoting the role of women in business.

The Gulf states are battling with rising inflation and the paradoxical problem of having a high population growth yet a shortage of skilled workers. But the booming economic conditions are generating extensive capital investment that requires international private-sector input.

Saudi Arabia is leading the way in this respect. The kingdom's central bank says the Saudi economy has sufficient internal momentum to perform strongly despite the weak global outlook. "Global economic conditions will affect the pace of this growth but will not derail it," says Howard Handy, chief economist of the kingdom's Samba Financial Group. ■

By Michael Knipe

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- The Fund guarantees credits extended to SMEs in the Kingdom.

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Continued from previous page

competitiveness and prosperity," says Dr Awwad Al-Awwad, the deputy governor of SAGIA.

"Listening to these concepts will help to change the minds of people from all levels of our society – from decision makers to young people seeking work. Some will be inspired to begin their own businesses rather than just applying for a government job."

When he opened the forum, King Abdullah emphasized that the kingdom would continue to

**"We intend to be globally competitive in energy, transportation and knowledge-based industries."**

H.E. Amr Al - Dabbagh, Governor and Chairman, SAGIA

support the main engines of economic growth by encouraging investment by local and foreign private companies. "We intend to enhance, gradually and continually, the investment environment, with the purpose of supporting the private sector," he said, adding that telecoms, airlines and insurance had all been opened up to the private sector.

Some 45 percent of the economy is now in private hands, more than double what it was 20 years ago.

Ali Al-Naimi, the minister of petroleum and

mineral resources, and one of the grand architects of Saudi industrial policy, says government strategy is to expand the base of the economy, diversify national income sources, attract more international investment and reap the direct and indirect benefits.

Says Al-Dabbagh: "We intend to be globally competitive in energy, transportation and knowledge-based industries. We have profiled investment opportunities at \$300 billion in energy, \$100 billion in transport and \$100 billion in knowledge-based industries."

This focused approach towards competitiveness, he says, is already paying dividends. "We have not only seen an improvement in our rankings, but also in the value of investment licenses issued and the actual flow of foreign direct investment into the country."

Is the self-imposed goal of being among the world's ten most competitive nations by 2010 within reach?

"The goal is definitely achievable," says Al-Awwad. "It is non-negotiable. We are determined to reach it. Saudi Arabia is on the path to prosperity. The kingdom is an exciting place to do business, the returns are quite promising and we welcome foreigners to do business here ■"

By Michael Knipe

## Booming and Open for Business

**Trade and law reforms and a cutback in red tape are helping to make Saudi Arabia a magnet for international investors**



Ali A. Al-Ayed  
Acting Assistant Director General, SIDF

With crude oil prices at an all-time high of more than \$100 a barrel, it is tempting to attribute Saudi Arabia's phenomenal economic growth solely to its hydrocarbon wealth.

Its position as the world's largest oil producer will, of course, continue to play a fundamental role in its commercial success. But the kingdom's economic reform program, which has gathered pace since the establishment of its Capital Market Authority and World Trade Organization accession in 2005, is also having a positive impact on the economy, and helping to boost foreign direct investment (FDI).

Saudi Arabia, which boasts

scope is limited until the new law is in place.

In addition to its efforts to build a legal and regulatory environment conducive to FDI, much of the success is the result of improvements spearheaded by the Saudi Arabian General Investments Authority, which has become a one-stop shop for the foreign companies seeking to secure operating licenses.

The kingdom is now the number two FDI magnet (behind Turkey) in the West Asia region, according to the UN Conference on Trade and Development's World Investment Report 2007, receiving \$18 billion in direct foreign investment in 2006 – a 51 percent improvement on 2005.

Saudi Arabia is a fast-growing economy that boasts many investment opportunities, according to Hamad Al-Sayari, governor of the Saudi Arabian Monetary Agency (SAMA), the kingdom's central bank. "It provides attractive incentives and concessions to foreign investors, allowing full repatriation of

**The petrochemical sector will provide the biggest return for investors in the coming years, predicts Ali Al-Ayed, acting assistant director general of the Saudi Industrial Development Fund (SIDF).**

capital and profit earned, net of taxes which are quite low," he says.

FDI is expected to climb more rapidly as privatizations are speeded up and with the development of the economic cities which will be a hub for mega industrial projects and service-sector development.

Plans to reduce the kingdom's reliance on oil and gas are moving ahead, with the \$5.5 billion Ma'aden phosphate-fertilizer project under construction set to position Saudi Arabia as one of the world's largest fertilizer producers.

Non-oil growth has averaged 6 percent over the past two years and is expected to continue to climb. "I am confident that with the expansion and diversification of the Saudi economy, non-oil exports, as a percentage of GDP, will move up further in coming years," says Al-Sayari.

The kingdom is adding value to its oil production through the development of its downstream sectors, such as petrochemicals and plastics, to boost employment opportunities for its growing population.

Furthermore, the expanding petrochemical industry has added depth to the stock market, after the government stipulated that companies setting up projects using gas feedstock provided by the state must launch initial pub-

lic offerings (IPO), in order to distribute oil wealth to the kingdom's citizens.

The petrochemical sector will provide the biggest return for investors in the coming years, predicts Ali Al-Ayed, acting assistant director general of the Saudi Industrial Development Fund (SIDF).

"The phenomenal growth of this sector, under the leadership of SABIC (Saudi Basic Industries Corporation) has paved the way for strong future investment and growth in many related industries, such as ammonia, propylene, methanol and polystyrenes," he says. Other promising sectors, in addition to mining, are chemicals and electronics.

The SIDF, reporting to the Ministry of Finance, plays a key role in the kingdom's industrial development, through provision of financial, technical and administrative assistance. "SIDF loan approvals make it easier to get financing, not only from local banks, but also from foreign banks and export credit agencies," says Al-Ayed.

He says the SIDF, in line with government directives, continues to encourage the establishment of joint-venture projects in collaboration with international companies in the belief that there is considerable potential for such projects in the kingdom. It has also recently approved the funding of projects that are wholly supported by foreign investment.

One of the main challenges is a shortage of skilled labor, but this is being met by employing expatriate workers and through improvement in vocational and technical training centers, says SAMA's Al-Sayari. He notes that efforts have started bearing fruit, with the banking sector's personnel now made up of 80-90 percent Saudi nationals.

The kingdom has also launched plans to combat inflation, which rose to 8.7 percent in February, but it still has other obstacles to overcome. Transparency International put the kingdom in eighth place out of 20 countries in the region in terms of rooting out corruption and increasing transparency.

Generally, however, reforms are on the right track. In the past, they have taken a back seat during times of robust oil prices, but this time around, as crude prices continue to rise, they remain resolutely in place. ■

By Melanie Lovatt

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# A Tale of Six Cities

**Dramatic plans for a handful of new mega-cities will result in jobs and homes for millions of Saudis, plus new enterprises and investment partnerships for U.S. companies**

The first phase of Saudi Arabia's most ambitious project – the building from scratch of half a dozen economic mega-cities around the kingdom – is underway.

Contracts have been signed with Saudi companies for construction of the first hundred houses and 300 apartments at the proposed Knowledge Economic City (KEC) near the holy city of Medina.

The six cities are planned to create 1.3 million jobs, accommo-

date 4.8 million people and contribute \$150 billion to the national economy by 2020, says Fahd Al-Rasheed, the chief executive of Emaar, the Economic City, the company developing the King Abdullah Economic City (KAC).

Al-Rasheed was previously deputy governor of SAGIA, the Saudi Arabian General Investment Authority, and responsible for overseeing the development of the mega-cities.

They are designed to broaden the spread of economic development

into the more remote areas of the kingdom and to lessen dependence on oil revenues by establishing new and competitive industries in other sectors.

Capital investment is planned on a massive scale: \$180 billion will be spent on petrochemical and power generation projects,

**“We are looking particularly for information-technology investors in all the main industries and for operators for the ports and power distribution.”**

*Fahd Al-Rasheed, CEO, Emaar, the Economic City*

\$88 billion on water desalination plants and \$50 billion on natural-gas related projects.

The Riyadh government is installing the basic infrastructure of the economic cities at a cost of \$60 billion, but everything else will be undertaken by private

companies. “The government provides the services and the investors provide all the capital and development expertise in the businesses, which are completely market led,” says Al-Rasheed.

“We based the model for our economic cities on our analysis of the various special economic zones, industrial cities and free-zones around the world. The concept is that of an integrated city with a global outreach that requires partnerships.”

The first scheduled for completion, the Knowledge Economic City will act as a cultural landmark, and become a national icon for knowledge-based industrial development. KEC will be the only established in an existing community, and will benefit from the resources already in place in Medina.

The flagship metropolis will be the King Abdullah Economic City which is to be built on the Red Sea coast located north of the commercial hub of Jeddah. KAC will focus on providing port and logistical facilities, light industries and financial, educational and other services. The port will be the largest in the Gulf region with a capacity for more than 10 million 20ft containers.

Total investment in the city is expected to be \$27 billion and the planners believe it will have the potential to create one million jobs and homes for two million.

“King Abdullah Economic City will open its doors at the end of this year to investors,” says Al-Rasheed. “We are looking particularly for information-technology investors in all the main industries and for operators for the ports and power distribution.” A third economic city will be situated at Hail, an oasis on the ancient caravan routes in the center of the

kingdom. It is set to become the largest transportation and logistics hub in the Middle East and will incorporate a cluster-based development comprising transportation, logistics and supply-chain centers.

The fourth city will be at Jazan, the kingdom's most sophisticated heavy-industrial zone on the Red Sea coast, 500 miles south of Jeddah. The location of two more has yet to be announced.

Al-Rasheed says the economic cities will flourish because the kingdom has the energy resources and basic hard infrastructure.

“Now we are looking at the soft infrastructure such as human resources. We are working hard with the private sector to put together the institutions that will allow us to equate the skills of Saudi graduates with the requirements of the cities themselves.” ■

*By Michael Knipe*

## The Science of Success

**For the first time, Saudi students are to enjoy new freedoms in an attempt to close the gap between the West and Arab nations in scientific achievement**

When the King Abdullah University of Science and Technology (KAUST) opens next year, it will be remarkable because the Saudi ruler has decreed that, to inspire an age of scientific achievement in the Arab world, it will be entirely independent of the government and the kingdom's strictly enforced religious regulations.

At the KAUST's campus on the Red Sea coast both faculty members and students will have the same academic freedoms enjoyed at most universities elsewhere in the world but previously unprecedented in the kingdom.

King Abdullah's decision to create the university is a striking indication of his determination to tackle the gap that exists between the West and Arab nations in scientific achievement. It also signifies the extent to which he is encouraging the government and private employers to intensify education and skills training.

With more than 65 percent of the population under the age of 25, both the

government and the private sector have to create 3.5 million jobs in the next ten years.

“Our employees are our biggest investment and priority,” says Malik Bentaieb, the chief operating officer at Bravo Telecom, the kingdom's first and only specialized integrated digital enhanced network service. “The ways in which we train them is critical, whether in the field of language or marketing. We want to invest in the future and the future is people, period.”

Educational progress in Saudi Arabia has been considerable. Expenditure on education as a percentage of GDP has risen from 3.5 percent in 1970 to 10.5 percent last year and, as a result, literacy has reached 81 percent.

For the past five years, budget allocations have amounted to more than \$70 billion and have been distributed equally between boys and girls, says Dr Abdulrahman Alhamedhi, of the Ministry of Higher Education. ■

*By Oliver Kaye*

## Building a Smart City

**With its focus on education, Medina's Knowledge Economic City will become an economically viable catalyst for knowledge-based industries**

With an investment of \$7 billion, the Knowledge Economic City (KEC) in Medina has been designed to accommodate 150,000 people and create more than 20,000 jobs. It will offer facilities for an advanced information-technology-studies institute and a campus for medical research and life sciences in addition to a business district, residential zones and shopping malls.

Preparatory building and engineering work are underway. “We have already signed up with Cisco to develop the smart infrastructure,” says Tahir Bawazir, chief executive of the Knowledge Economic City. “With others, they will de-

velop the service concept of this smart city.”

KEC is expected to attract information and communications firms who want to establish research and development facilities in Saudi Arabia.

Bawazir says that in addition to Cisco, Microsoft, Oracle and Intel have signed up to establish their own educational programs. “The educational objective through these alliances is to establish platforms to support the knowledge-based industries,” he says.

“The aim with Cisco, Microsoft and others is to have a place where they can also meet their objectives. All of them see the market in Saudi Arabia as a huge potential opportunity.”

KEC is also working with both local and international universities and plans to have a 24,000 student capacity, relatively the same as a medium-sized university in the U.S.

Bawazir sees Medina's existing transportation infrastructure as an advantage. “We have done extensive traffic studies for the project,” he says. “This is where our size helps us because we have very good access to the network of roads around us.”

Additionally, the city will develop an alternative central business district for Medina, with provisions for 1200 shops and new medical facilities, as well as mixed-use housing for its residents. Expanding upon its potential as a prime



*Tahir Bawazir, CEO, Knowledge Economic City*

tourism destination, plans are in place for an educational theme park using multimedia technologies to explore the Islamic civilization's history and heritage, and hospitality facilities for 30,000 visitors at a time. ■

*By Barbara Knowles*

# THE GREAT LEAP FORWARD



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## Banking on the Future



**As the sub-prime fallout rocks world banks, Saudi's prudent financial services sector is expanding and poised to help fund a \$500 billion development program**

As the world's largest oil producer, boasting the most expansive reserves, Saudi Arabia's gross domestic product growth will remain dependent on the hydrocarbon sector.

But the financial services sector is an increasing GDP contributor, with its vibrancy illustrating that the kingdom's push to diversify its economy away from oil dependency is taking shape. Banks and other financial services companies have been aided by a supportive but strict regulatory environment and ongoing improvements in legislation, which have fostered a conducive climate for financial product innovation.

Furthermore, with some international banks suffering the fallout from the U.S. sub-prime mortgage crisis, domestic players who have little exposure to problematic loans are poised to step in and fill any gaps in the funding of mega projects.

These banks were shielded because they follow strict and prudent policies and exercise good risk management, says Hamad Al-Sayari, governor of the Saudi Arabian Monetary Agency (SAMA). It keeps a constant vigil to ensure domestic banks do not overexpose themselves to risks that can jeopardize the economy, he says. Luckily, the banks are also less concerned with interna-

tional developments and focus on local expansion.

Over the next ten years, Saudi Arabia will need \$500 billion to fund developments in infrastructure, transport and tourism, and the creation of specialized economic cities, in addition to its oil expansion.

Lending opportunities abound. The new insurance law, which will be followed by the mortgage law this year, will encourage the creation of new retail-sector products, with demand for Shariah-compliant finance among the kingdom's majority Muslim population also spurring an expansion in Islamic banking products.

Samba, the country's second largest bank (with 2007 profits of \$1.3 billion and capital of \$2.4 billion) is looking to further capitalize on Saudi Arabia's economic boom. Originally a joint venture with America's Citibank, Samba made the transition to local management in 2003.

Given its historical ties with the U.S., it is uniquely placed to play a pivotal role in providing services to support Saudi Arabia's relationship with its largest trading partner, explained Samba's chief executive Eisa Al-Eisa.

He believes that Samba's core strength is the expansion of its financial product offerings.

"We are one of the few Saudi

banks that have expanded beyond our borders in order to reap the potential benefits of regional economies," he says. Samba has opened a branch in Dubai, recently acquired a majority stake in a Pakistani bank and plans to evaluate other potential strategic investments in the Gulf.

Samba provides financing and support for many private-sector companies, including those that go public. Initial public offering (IPO) transactions in the first quarter of 2008 already exceed the total for 2007. Samba hopes to build on its 60 percent share of this deal flow, says Al-Eisa.

Samba launched the IPO for the Kayan Petrochemical Company, which is sponsoring the \$10 billion Kayan petrochemical project, and this year the transactions being brought to market include Ma'aden, Chemanol and Astra Industrial Group.

The bank is the third largest Islamic finance house in the kingdom, and was the first to issue Islamic credit cards. Al-Eisa sees further opportunities in Islamic finance, with the credit card, loan and mortgage sectors poised for growth. "We have made progress in these areas and will be looking to capitalize on this strength during our regional expansion," he says.

Sukuk (Islamic bond) issuance is also increasing and Samba is joint-managing a number of these programs. Furthermore, over the past few years large projects in the kingdom have increasingly used Islamic finance, with Al-Eisa predicting that Shariah-compliant tranches will become a standard feature of funding plans, as they have in both the United Arab Emirates and Bahrain.

In addition to the banks, investment companies are also contributing to growth in the financial services sector. One example is Rana Investment, which offers asset management, investment banking, brokerage and advisory services. It has been in business for 22 years and Mazen Hassounah, the chief executive, says the company plans to grow into a leading regional financial-holding group with integrated banking, investment banking, wealth management, leasing and insurance services.

Rana Investment has managed to sidestep the recent global financial market volatility because it has been willing to pass up some potentially risky investments, he says. For example, in 2005, the local and regional markets soared, but Rana Investment under-performed the index by 20 percent. However, when the Saudi stock market slid in 2006, the drop in value of Rana's portfolio was less extreme.

"My motto remains 'no one will complain if you make them eight dollars instead of a possible ten, but they will never forgive you if you lose them a dollar,'" says Hassounah.

He foresees the best investment returns in the kingdom coming from diverse sectors. Service industries, such as housing, education, retail and health-care, are promising investments because the kingdom is seeing rapid population growth. Oil and its derivatives also remain alluring due to Saudi Arabia's competitive advantage, with the telecom sector also set to see strong growth.

The increased foreign interest in Saudi Arabia has encouraged partnerships, and Rana Investment has joined forces with Robeco (an investment offshoot of the Netherlands' Rabobank) to introduce new products to the domestic market. ■

By Melanie Lovatt

## Prescription for Progress

**A welcome budget increase will boost Saudi's healthcare sector with the construction of new hospitals and training of more doctors and nurses**

A recent report by the Saudi National Commercial Bank (NCB) values the healthcare industry in Saudi Arabia at \$13.1 billion or 4.3 percent of GDP.

The kingdom has vast experience in handling the needs of expatriate workers in the Middle East and its healthcare market is the most advanced in the region.

While public-health expenditure remains dominant at 77 percent of total outlay, private-sector participation has grown rapidly over the past ten years, doubling to \$3 billion.

The NCB report raises concern that, in spite of great strides taken over two decades by the public and private sectors to boost the quality of the local healthcare system, "the market is tightening as strong demand outpaces current capacity expansion plans."

With population growth predicted, the 2008 government healthcare budget includes expenditure for eight new hospitals totaling 1,900 beds, the development of existing facilities and the furnishing of newly-completed hospitals. This is in addition to the 79 hospitals already under construction, which will add 9,850 beds to the system.

The budget has also made provisions for developing 250 new primary-care centers.

The World Health Organization says that while foreign nationals will find a certain familiarity in that the majority of the kingdom's health personnel are expatriates (61 percent), the rapid turnover of the foreign workforce has caused some instability.

The government plans to increase the number of Saudi nationals staffing the healthcare sector as part of its recent 'Saudiization' policy. As healthcare is one of the main priorities of the almost 7 million expatriates who live in the kingdom, the number of Saudi nurses and doctors is expected to increase substantially in the near future.

Saudi expertise is highly regarded in the region. In January, the International Finance Corporation (IFC), a member of the World Bank Group, announced a partnership with Saudi Arabia's Magrabi Hospitals & Centers to expand private eye care, address the need for high-quality ophthalmology services, and bring world-class clinical and patient care to underdeveloped markets in the Middle East and North Africa region.

The IFC's \$45 million financing package will be used to partially fund Magrabi's expansion plans in developing countries, including three new low-cost eye hospitals and four eye-referral centers in Egypt, and a new 30-bed, low-cost eye hospital in Yemen. The company is also undertaking a \$30 million expansion project to build more hospitals in Saudi Arabia and other Arabian Gulf countries.

Other U.S.-Saudi collaboration in the health sector sees construction under way on the first phase of the International Medical Center (IMC) in Jeddah. In the coming years, it will include a nursing school and medical college.

The IMC, in partnership with the Cleveland Clinic, has initiated an accreditation process with Joint Commission International based in the U.S. Last year, GE Healthcare signed a memorandum of understanding with the Saudi Ministry of Health to train the nation's medical professionals.

Through GE's training initiatives, especially its focus on continuing medical education through TiP-TV (training in partnership TV network), the health ministry's new training center aims to provide Saudi professionals with new insights into medical science. ■

By Mark McGivern

## The Royal Key to Equality

**Saudi Arabia is reaping the benefits of the feminine touch as King Abdullah opens up the business world to women**

There are many more women playing active roles in the business world in Saudi Arabia than is generally recognized.

Quite a few work in key positions behind the scenes in the family businesses that still account for 90 percent of company ownership in the kingdom. Increasing numbers, however, are assuming front-line roles in their own right.

One of them, who was elected to the board of directors of the Jeddah Chamber of Commerce and Industry in a groundbreaking development three years ago, is playing an influential part in the kingdom's economic affairs.

"The chamber itself has no authority to declare the removal of obstacles for women," says Madawi Abdullah Al-Hassoun.

"But through lobbying, we have a chance to meet with the decision makers. We hold private meetings with senior people and work extensively with the Ministries of Labor, Commerce and Social Affairs, and the Shura council."

Al-Hassoun, who is managing director of her own company, is actively involved in many of the chamber's affairs which include assisting small and medium-sized businesses with loans and advice, promoting sustainable development and encouraging vocational training.

Inevitably, however, her attention is focused particularly on the role of working women. She praises the kingdom's National Commercial Bank which has set up a special section for the funding of projects that incorporate women such as the Khadijah Bint Khuwailid Businesswomen's Center. "This is an excellent scheme for women that will benefit society as a whole," says Al-Hassoun.

Another business woman, Sheikha Nadia Al-Dossary, is chief executive and a partner in an industrial company, Al Sale Eastern, that recycles scrap metal, buys and sells raw steel and shredding machines, and operates weighing systems for bridges.

Having spent five years in the business-development sector of the cosmetics company Avon, she took the reins of her husband's business when he had a serious accident that left him in a coma for two months.

She says the major challenges facing the kingdom are the need to improve the education system



Sheikha Nadia Al-Dossary, CEO and Partner, Al Sale Eastern Company

and to have clearly-written laws and regulations. Al-Hassoun and Al-Dossary pay tribute to their royal ruler's role in opening up the business world to women.

"Since King Abdullah came to the throne, many things have changed," says Al-Hassoun. "He cares a lot, and this is precisely what the kingdom needs." ■

By Michael Knipe

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# Spreading its Wings

**As competition takes off, the Saudi national flag-carrier goes high-tech and holds its own against newcomers**

Business journeys and tourism are creating an unprecedented demand for air travel in the Gulf region.

In spite of the opening up of the kingdom's airways to domestic competition, Saudi Arabian Airlines (SV) increased the number of passengers it carried last year by 300,000. The airline achieved a new record with a total of 17.86 million passengers.

"The growing trend of low-cost carriers entering the market has had implications for the airline industry, challenging the market share of all major airlines, even for long-haul destinations," says Yousef Attiah, SV's vice-president, customer services.

The two new competitors, Sama and Nas Air, have bucked the view, held by many in the Gulf region, that Saudis would only travel first or business class. However, Nas Air is covering its bets by also running a VIP service. Called Al Khayala, it operates from its own termi-

nal and offers one-class executive travel.

SV has responded to the competition enthusiastically. "With international travel rapidly expanding, major airlines have needed to rejuvenate themselves and enhance their operations and their fleet," says Attiah.

An indication of SV's confidence can be gained from its order book.

Reflecting its standing as the kingdom's national flag-carrier, the airline is purchasing 30 Airbus A320 aircraft, with the first of the new fleet expected to arrive in mid-2012. Prior to that, ten new Airbus A320s are being leased, with the first due to enter service next year.

Having been launched in 1945 with a single twin-engine DC3 (Dakota) given to King Abdul Aziz as a gift by President Roosevelt, SV enjoyed monopoly status domestically until the two low-cost Saudi-owned airlines entered the market last year.

"Airlines can no longer take for

granted the size of their operations or the value of their customer base. Continued efforts have to be made in providing customers with the highest level of service from an extensive perspective in order to maintain market share," notes Attiah.

SV has introduced various high-tech electronic services for its passengers including self-ticketing, interactive short message system text facilities and the transformation of its website. Delivery of domestic air-tickets to the customer's doorstep has also been introduced when payment is made online within 72 hours.

"The implementation of e-ticketing is a major achievement and we aim for 100 percent completion by the end of this year," says Attiah. "Along with these services an information-technology master plan has been approved that will bring SV's services to the technological forefront."

New international destinations have been introduced, including Vienna, Munich, Manchester and Athens, with more planned for the near future.



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Progress has also been made in the gradual privatization of the company. The first stage of selling up to 49 percent of the catering unit has been set in motion. It has allowed investors to bring in their own catering expertise while the service is restructured. The cargo business is next in line, again with 49 percent of the equity on offer.

"As SV is one of the largest cargo carriers in the Middle East; with the pri-

vatization of this unit, expectations are high," affirms Attiah.

SV's record number of passengers in 2007 included more than 1.1 million Muslims undertaking the Hajj pilgrimage to Mecca during Ramadan. A further 1 million were performing the Umrah, another pilgrimage that can be undertaken at any time of the year. ■

By Michael Knipe



Traditional house in the old city of Jeddah

## Trails of 2,000 Arabian Delights

**Tourists could soon be following in the footsteps of Lawrence of Arabia if the kingdom's treasures become World Heritage Sites**

The desert wonders that first entranced Western travelers such as the First World War soldier T.E. Lawrence and the explorers Wilfred Thesiger and Freya Stark, are being put forward for potential listing as Unesco World Heritage Sites.

At present, the kingdom has no places among the 851 locations designated by the UN's world heritage committee as being of outstanding international natural or cultural significance.

Prince Sultan bin Salman bin Abdulaziz, secretary general of the Supreme Commission for Tourism, is seeking to rectify this omission by having several of the kingdom's most treasured locations recognized.

The most widely known is the spectacular sandstone rock city of Madain Saleh, situated near the holy city of Medina. With tombs carved into the rock 2,000 years ago by the Nabateans, it is comparable to its sister city Petra in Jordan.

Just outside Riyadh are the ruins of Dir'ayah, which was the kingdom's first capital from 1446

until its destruction in 1818. In recent years, more than \$100 million has been spent reconstructing its palaces, mosques and city walls.

Another candidate for recognition is the old city of Jeddah, on the Red Sea coast. Here there are still some houses built from coral blocks and with wooden balconies that have survived for more than 200 years. They are symbolic of the port city's cosmopolitan past and have been lovingly restored by craftsmen using traditional materials.

The purpose of gaining UN recognition of the heritage sites will be to help ensure their preservation and to boost the kingdom's tourism sector.

There are more than 2,000 listed. The Supreme Commission for Tourism has documented 1,700 archaeological sites, 140 historical ones and nearly 200 others related to the Prophet Muhammad.

Prince Sultan, who flew aboard the U.S. space shuttle *Discovery* as a payload specialist in 1985 before taking charge of the kingdom's tourism ministry, regards tourism as an important means of increasing revenue, boosting employment and im-

proving understanding of the kingdom.

Government policy is directed first at persuading the kingdom's domestic population of 27.6 million to travel more around their own country, and second at persuading the millions of pilgrims who visit Mecca to stay longer and explore other regions.

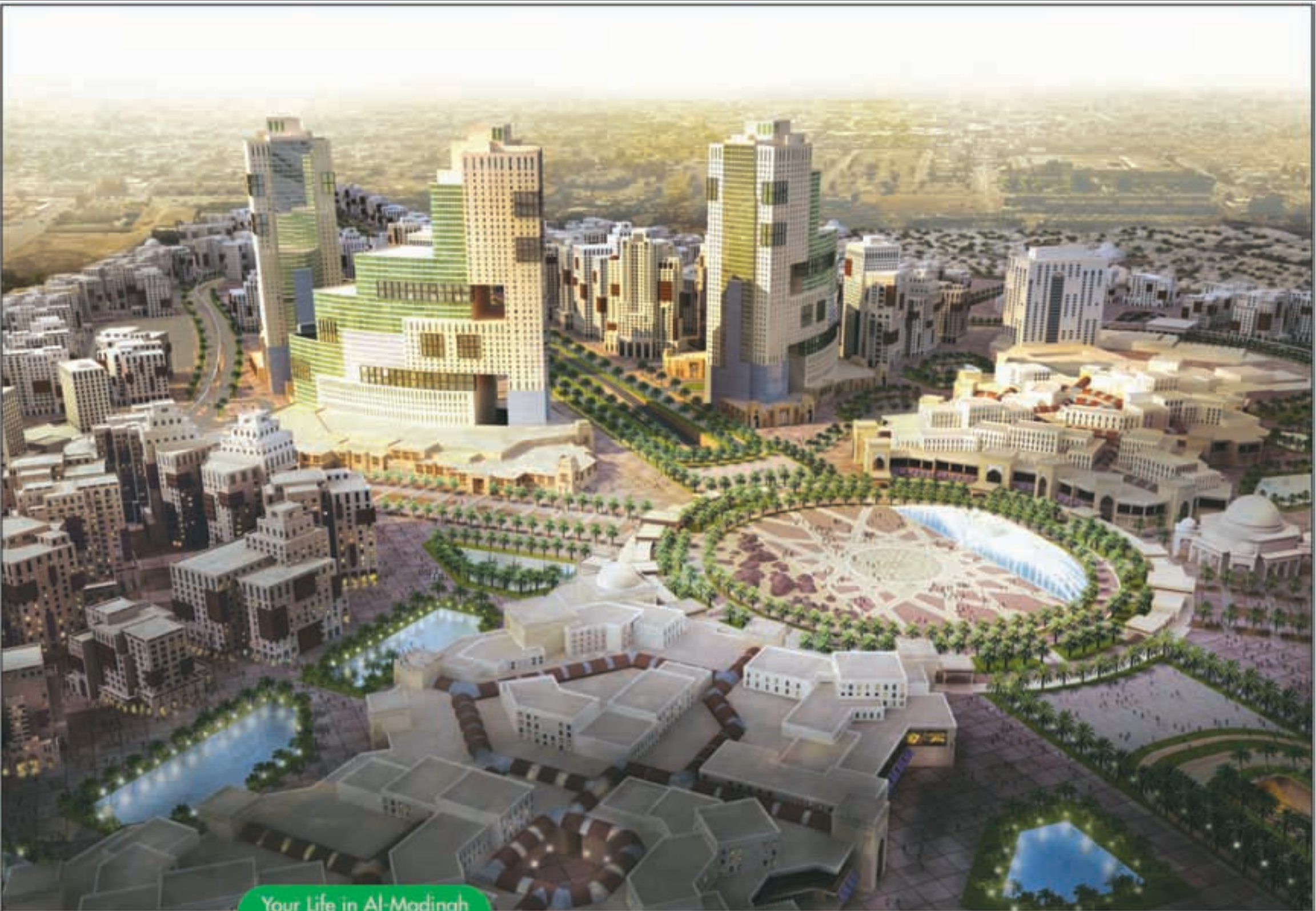
Prince Turki bin Nasser bin Abdulaziz, president of the Presidency of Meteorology and Environment, believes that the kingdom's environmental diversity gives it a competitive advantage in attracting tourists.

"In the kingdom, as well as deserts, we have mountains that reach 13,000 ft and the most beautiful beaches and coral reefs," he says. "The diving is unbelievable and the reef we have here is far more impressive than any elsewhere. Besides that, we have the only place which Muslims from all over the world visit."

The number of religious pilgrims visiting the kingdom is growing and is predicted to reach a million a month. "Imagine," says Prince Turki. "Ten million for Umrah and two million for Hajj!"

But the kingdom is also now beginning to cautiously welcome non-Muslim tourists. Last year, there were 6,000. The tourism commission envisages the eventual prospect of the country receiving 1.5 million non-religious visitors. ■

By Michael Knipe



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# Money Talks



**Saudi's cutting-edge telecom market leaps by 14 percent and rings up an annual income of \$8 billion**

Since the Saudi Telecom Company (STC) lost its monopoly of the Saudi mobile market in 2005, the technology landscape has changed rapidly in the kingdom.

Mobily, now the nation's second cellphone operator, has enjoyed strong success in the country, capturing a 20 to 30 percent share of the market in about two years.

The Kuwait-based Mobile Telecommunications Company MTC (Zain) has begun operations in Saudi Arabia this year. STC has not taken a backseat either: 2007 saw the corporation expand its operations into Malaysia, Indonesia, India and Kuwait. It now has access to around 1.4 billion subscribers spread across the world.

Analysts predict that a partly-privatized STC and more competition will ensure that the Saudi GSM (global system for mobile) market will increase revenues by an annual 14 percent to reach more than \$8 billion this year.

In a step forward from GSM technology, Bravo, a digital radio-trunking operator based in Saudi Arabia, has launched a new hybrid service. Bravo is the only specialized iDEN (integrated digital enhanced network) service provider in the kingdom and operates alongside the three GSM operators. Bravo utilizes the Motorola-

designed iDEN technology to provide its customers - through the same handset - with wireless PTT (push-to-talk) technology, cellular connection to other mobile and land networks, text messaging, data-transfer services, as well as group and fleet locating and tracking services.

Bravo mainly targets the business segment and operates throughout the Kingdom of Saudi Arabia. iDEN technology, developed by Motorola, uses packet data, allowing for faster transmission of information, maximizing channel capacity and maintaining a constant and reliable connectivity.

For users, this translates to high-voice quality, lower latency, reliable communications and instant access, says Malik Bentaieb, chief operating officer at Bravo.

Services offered include PTT, country wide instant group communication through a simple push of a button on special iDEN-enabled handsets. This service has been widely adopted by several industries such as construction, oil & gas, transportation & distribution.

Bentaieb is happy with the take-up of iDEN technology in the Middle East. "The technology has been used at OPEC summits and major regional economic forums," he says. "We are a business focused total-service solution provider.

Our strategy is to focus on serving our niche target market rather than pursuing a mass consumer market.

"Our competitive edge lies in the fact that we are different. The way we work is through consultative sales. We are after the corporate segment, and so far our interdependent relationship with Motorola in the Middle East has worked successfully."

Bentaieb is quite convinced that with businesses in the Middle East seeking to minimize communication costs, Bravo can offer employers complete hybrid packages. He expects the telecommunications landscape to change rapidly throughout 2008.

Highlighting Bravo's strategy in the extremely competitive Saudi telecom market, Bentaieb says, "We will follow the market trends and adapt our strategies and policies to remain a prominent entity in our niche markets. We are here at the right time with the right strategy and I am confident to say that we have the right people for that," Bentaieb affirms. ■

By Mark McGivern

# Running for Cover

**Saudi's insurance market is booming with growing demand for auto, medical, property and workplace policies**

The sale of insurance cover increased by 75 percent in Saudi Arabia last year and analysts predict that it will grow by at least 24 percent annually during the next three years.

The industry currently earns nearly \$2 billion annually and some industry experts believe it will swell to \$8 billion within ten years.

Market penetration is still low. But with GDP per capita now exceeding \$20,700 and with less than 1 percent of the population covered by life insurance, there is significant room for growth.

This is being boosted by increased regulation by the Saudi Arabian Monetary Agency (SAMA) and by greater public demand for insurance cover.

Health insurance sales have grown by more than 60 percent, reflecting the enforcement of compulsory health insurance regulations which will eventually apply to all Saudi citizens and the kingdom's 7 million expatriates.

The insurance sector has been

gradually privatized in accordance with the Riyadh government's economic reforms. Five years ago, the government introduced a major restructuring process setting March this year as a deadline by which date all insurance companies operating in the Saudi market had to have applied for a license to operate.

By September 2007, nine companies had obtained licenses, 11 others had been approved by the council of ministers and seven received preliminary approval from SAMA.

One of the licensed companies, the Allied Cooperative Insurance Group (ACIG), can claim an instant competitive edge. It has already had 25 years' experience in the insurance business of the Gulf, having been registered in Bahrain. ACIG is also the only one in which the Islamic Development Bank (IDB) is a key investor, with 20 percent of the shares.

"Being owned partially by IDB gives us a good foundation," says Omar Zuhair Hafiz, the president and chief executive of ACIG. "We distinguish ourselves in terms of quality

and services, and also by having committed to being Shariah compliant. This is something that gives us a significant niche."

The difference between conventional and Islamic insurance is primarily that in Shariah-compliant insurance, known as Takaful, the company providing it operates on a cooperative basis rather than a commercial one and takes only management fees. "Whatever the reserves or surplus earned, remains with the policyholder," Dr. Hafiz explains.

The kingdom's market is growing, he says, because it is becoming compulsory for cars to be covered at least for third-party insurance.

"Medical cover is also going to be a must for whoever is living in the country, and there are going to be other mandatory policies that will be in place very soon."

The main challenge for the insurance sector in the kingdom, he says, is to provide cover for more of the businesses that at the moment have none, such as factories and real estate companies. "The more we can educate people about the advantages of insuring their properties against fire and theft, the greater our market share will be," says Dr. Hafiz. ■

By Michael Knipe

# On the Right Track

**A new landbridge railroad will save sea journeys and boost the Gulf route for trade between Central Asia and Europe**

After months of deliberation, the Saudi Railways Authority has selected the consortium that will build a \$2.5 billion railroad running from the Red Sea Port of Jeddah across the Arabian peninsula to the Gulf port of Dammam.

The 600-mile rail link will become part of a mostly new \$5 billion rail network that will revolutionize the transport system across the Arabian Gulf.

Dubbed "the landbridge," it will cut the transport time from seven days to 48 hours for

goods currently being shipped around the peninsula, boosting the Gulf route for trade between Central Asia and Europe.

Final contracts for the construction are expected to be signed within the next few months, opening the way for the building of the railroad to begin. The international consortium that undertakes the project will design and build the line and operate it under a 50-year concession.

In addition to the Jeddah-Dammam link, there will be a 65-mile section of track along

the Gulf coast joining Dammam to the industrial city of Jubail. Rail connections will also be built to integrate the track with the two existing lines between Riyadh and Dammam. Another possible track under consideration would run the length of the Gulf coast and extend as far as the border with Yemen.

Jobara Al-Suraisry, the Minister of Transport, says the landbridge is one of many major transport projects that will transform the kingdom in the next few years. The second most important project, he says, is the high-speed train that will connect Mecca, Jeddah and Medina.

The third is a north-south railroad starting from the border of Jordan and running all the way to the Arabian Gulf, where a special port is being con-

structed for the export of minerals by sea. Additionally, the north-south railroad will connect four provinces, Hail, Qasim, Riyadh and the Eastern Province.

"These three projects will serve 80 percent of the population and represent 80 percent of the economic activity of the kingdom," says Dr. Al-Suraisry.

"In terms of roads, we will soon complete the connection of all the 13 provinces with highways, and we are implementing a large expansion program that will double the capacity of some of our ports in the next two or three years."

Private companies, both Saudi and non-Saudi, are involved in building the ports, railroads and highways. ■

By Oliver Kaye

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