

# Companies must adapt their thinking over the oil boom

The consensus is that the Gulf boom will last for at least five more years. Business needs to adjust its regional strategy to match



**“The project market could be shaping up into a new battlefield between clients and contractors in which both sides would lose”**

**A**t dinner at the British embassy in Riyadh on 7 May, HSBC Bank celebrated the opening of its Riyadh joint venture investment bank with Saudi British Bank. The conversation was about the precipitous decline in the Saudi share market since February and the dramatic rise in the price of oil over the same period.

The consensus was that the share slump was painful but remedial and that higher oil prices were here to stay. HSBC energy and utilities co-head and managing director Mark Bentley said oil prices would fall sharply within 18 months from present levels but would hold in the \$35-50-a-barrel range for years.

A minority forecasts that the oil boom will soon end and that a strike against Iran, possibly within months, will be the trigger for a short-term price spike, world recession and a collapse in oil demand. But most experts agree that the energy market will remain buoyant regardless.

This projection is yet to have an effect on Gulf business strategies, which continue to be short-term in nature. This is hardly surprising. The oil booms of 1973-74 and 1979-81 were short. They were followed by slump and regional conflict. Local companies were reluctant to invest long-term. Public spending was diverted towards defence and security. Foreign firms tended to behave opportunistically. It remains the case that few in the private sector think beyond a five-year investment horizon.

The issue was highlighted at a Gulf Society for Organisational Learning seminar in Al-Khobar at the start of May. Speakers from Saudi Aramco and Saudi Basic Industries Corporation (Sabic) described capital spending plans totalling almost \$100,000 million by the end of 2011. They called on foreign construction firms to invest in training young Saudi Arabians and local manufacturing capacity. It was suggested that firms that did would get preferential treatment in the Saudi project bonanza. “We don’t want a repeat of what happened in the earlier mega projects,” said Khalid al-Zamil, director of the kingdom’s Al-Zamil Group. “Foreign companies came in, did the work, took the money and then left. This time we want them to stay.”

This has evoked mixed feelings among international construction firms. They are excited by the opportunities, yet concerned that they will be forced to hire unqualified people and invest against their will. The effect will be lower profit margins and fewer participants in the Gulf construction industry.

The project market could be shaping up into a new battlefield between clients and contractors in which both sides would lose. But there may be an alternative. If foreign suppliers are convinced that the new boom will last, they would not require directives to train and invest because it would be done out of commercial self-interest.

The solution is for the regional economic consensus to be defined more precisely and discussed more widely. Nothing will do more to promote the long-term business planning that will satisfy the objectives of everyone concerned with the \$1 trillion Gulf project market.

## Riyadh’s square kilometre

Promoters of Riyadh’s King Abdullah Financial District, unveiled on 9 May, are adamant that it will not be a free zone. There will be no special incentives to attract investors and tenants to Saudi Arabia’s answer to the City of London, which will cover 1.6 million square metres close to King Abdulaziz International Airport.

The district is the Gulf’s latest financial zone after the Bahrain Financial Harbour, the Dubai International Financial Centre and Financial Island in King Abdullah Economic City in Rabigh. They should test what makes the most difference to global banking: world-class regulation, quality of life or market opportunity.

The big Saudi story of the week was the news that the kingdom plans to privatise its Tadawul electronic stock exchange. The crash since February has knocked Saudi Arabia off the top spot among emerging markets, but it was still the world’s 11th largest in mid-May. Spirits among battered investors may also be lifted by the expectation that the green light will soon be given for the \$680 million initial public offering (IPO) for shares in Emaar The Economic City, the new company being set up to help promote the new Rabigh project.