

SPECIAL



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PRIVATE BANK COUTTS
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EXPANSION PLANS // P36

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MODERN MAN



DRONE WARS
US AIRSTRIKES
DIVIDE YEMEN // P52

HOTEL HISTORY
THE SECOND EXTRACT FROM
KHALAF AL HABTOOR'S
NEW BOOK // P44

ISSN 1470-6520 41
9 771470 652006
UAE:.....AED10
Egypt:.....EGP10
Bahrain:.....BD1
Kuwait:.....KD1
Saudi Arabia:.....SR1
Oman:.....OR1
Qatar:.....QR10

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COVER STORY BY ANIL BHOYRUL
PHOTOS: ISIDORA BOJOVIC

MODERN MAN

SAUDI ARABIA'S MODERN GROUP IS STEALING A MARCH ON THE REGION'S MANUFACTURING SECTOR, WITH \$3BN WORTH OF INDUSTRIAL PROJECTS UNDER ITS BELT. THE COMPANY'S VICE CHAIRMAN AND CEO **ABDULAZIZ FAHAD BARAKAT AL HAMWAH** EXPLAINS WHY THIS IS A GOOD TIME TO BE DOING BUSINESS IN THE KINGDOM.

WHEN ABDULAZIZ FAHAD BARAKAT Al Hamwah completed his electrical engineering degree from Michigan State University in 1982, he found himself head-hunted by Citigroup.

"I said — 'what do you want from me since I am an engineer?' They said: 'the chairman, John Reed, is an engineer too'. So I said, jokingly, 'fine, I am going to become the chairman one day'."

Al Hamwah never managed to become chairman of Citigroup, but he can have few complaints about his career so far. He is the vice chairman and chief executive of the Saudi-based Modern Group, which he co-owns with HRH Prince Turki Bin Abdulrahman Bin Abdulaziz Al Saud, the chairman of the group. Al Hamwah is pulling the strings on a mega industrial conglomerate with projects under its belt worth more than \$3bn — a figure that is growing fast by the day. Sharp, smart and charismatic, Al Hamwah has turned the company he co-started from scratch eight years ago into a world-class operation, particularly in the mining services sector on which the Modern Group has stolen a march.

"Saudi Arabia is in the midst of a mining revolution and this is because of the rich high-grade mineral deposits the country is endowed with, including large proven reserves of phosphate, bauxite, gold, copper, zinc, earth metals — you name it, Saudi Arabia is the perfect place for it and it's the reason why Saudi Arabia has become such a good place to do business," he says.

It certainly has, as far as the Modern Group is concerned. It is the first company in the kingdom to provide integrated mining services, including the production of commercial explosives and drilling and blasting services for the mining and construction sectors. Modern has introduced best-in-class industry and proprietary practices to improve the safety and cost of using commercial explosives in the Saudi mining sector. To ensure and contribute to the competitiveness of the mining industry, Modern is also planning to build an ammonium nitrate facility, which will produce the main raw material feedstocks for its various commercial explosives manufacturing facilities throughout Saudi Arabia.

But perhaps Al Hamwah's neatest trick has been to sew up a host of international partners, each bringing chunks of equity to the table. Joint ventures have been signed up with the likes of a leading South American oil and



▲ Al Hamwah has turned Modern Group into a world-class operation, particularly in the mining sector.



▲ Modern Group is the first company in Saudi Arabia to provide integrated mining services.

\$3bn

Value of industrial projects the Modern Group aims to build in the coming years.

6%

Saudi Arabia's projected economic growth this year, according to Jadwa Investment.

\$20bn

Value of Saudi Aramco-Dow Chemical deal to build a petrochemical complex in Jubail.

gas giant, EPC Groupe of France and a Japanese mining and steel conglomerate.

"I wanted to bring innovative and high-profile projects and at the same time contribute to the creation of jobs and the industrial diversification of the country. The government has done a great job in certain things — look at the mining sector, whereby it further developed and modernised the industry with the creation of the emerging mining giant, Ma'aden, updated the mining laws to increase competition and transparency and encouraged local and international private sector players in the market," Al Hamwah says.

"It is the same case with the steel industry, in which we will be the first group in the region to set up a manufacturing facility

**AD
page**

“The basic concept that we adopt is to develop ideas for projects that fit the short and long-term economic development plans of the Saudi government”

that produces critical raw materials for steel production. We are complementing what exists. Also it's a source of employment. The country is ready to do this because it has spent billions on infrastructure - we have excellent rail and road networks, deep-sea ports are ready, power is there, government incentives are there. The mining laws already exist," he says.

Al Hamwah adds: "The basic concept that we adopt is to develop ideas for projects that fit the short and long-term economic development plans of the Saudi government, and try to partner with the best-in-class companies with market and technological leadership in their respective sectors. We have partners from various countries and they are all the best in their industries."

It does of course help, in a big way, that Saudi Arabia's economy is doing rather well. It is forecast to grow by nearly six percent this year despite the prevailing global economic uncertainty, according to a new report by Jadwa Investment. Analysts said it has revised upwards its forecast for the Saudi economy from 5.3 percent to 5.8 percent due to recent higher oil production.

"Despite the prevailing global economic gloom, the Saudi economy continues on a solid growth path. We have revised some of our 2012 forecasts to take account of a recent flow of data that has generally been stronger than we had expected," it said in the report.

Higher oil production, despite a difficult global environment, will keep the hydrocarbon sector growth elevated at 6.1 percent this year, it added.

"Saudi Arabia is booming. The oil prices are holding, the government is spending wisely on infrastructure. Mostly for the manufacturing sector, Saudis have learned from their neighbours and around the world. That's why in terms of raw materials or overall costs, we have the lowest cost-curves in our respective industries. When there is an economic downturn most well-managed Saudi firms will survive, and could be very profitable in an upturn in the economic cycle. The purpose



▲ Jubail is now the region's biggest industrial city, and accounts for seven percent of Saudi Arabia's GDP.



▲ Aluminum producers in the Gulf are expanding their capacities and global market share, says Al Hamwah.

“When there is an economic downturn most well-managed Saudi firms will survive, and could be very profitable in an upturn in the economic cycle”

\$7bn

Value of Aramco and Sumimoto's tie-up to build a petrochemical expansion project in Jubail, Saudi Arabia.

of setting up an industry in Saudi is not just for setting up an industry but also it has to be globally competitive from day one," Al Hamwah says.

He adds: "Look at the aluminum sector. If you go to Europe and US you see that the large players of the business are downsizing. However, Gulf producers are expanding their capacities and global market-share. This is also exactly what happened to some of the petrochemical complexes based outside the region — once they were the leading players in the market but they are now struggling to compete. In Saudi, the petrochemical sector is expanding, with several multi-billion-dollar projects announced recently, such as the Aramco/Dow Chemical deal [a \$20bn fully

AD page

integrated complex in Jubail], and Aramco's tie-up with Sumitomo [a \$7bn expansion project in Rabigh]."

That is certainly true of the kingdom today, where the third-quarter 2012 GDP figures came in at 6.4 percent, while the Monitor Group ranked Saudi Arabia at eleventh in the world competitiveness league, up from eighteenth last year. Places like Jubail have grown as the region's biggest industrial city, and the second largest industrial city anywhere on the planet. It already accounts for seven percent of the entire country's GDP. The world's largest aluminum smelter is also being built in Saudi Arabia, in Ras Al Khair.

Al Hamwah says: "When you do your homework and research you will find the market is very competitive. You can go on your own, or find the right partner. The investment laws in Saudi Arabia only came in 2000. For the first five years we had a lot of issues especially with the political situation after 9/11. Then the financial crisis came in 2008. But now things are really picking up, and I really think that when it comes to business, Saudi Arabia is a different ball game."

The continuing success of the group means an IPO for the holding company could be on the cards in the next five to seven years, while specific projects may be independently hived off down the IPO road in just three years time. All of which will probably lead to even more job creation, something Prince Turki and Al Hamwah are extremely passionate about. More than 1 million Saudis currently receive unemployment benefit. Officially, the kingdom's unemployment rate is 10.5 percent, but according to Reuters, that figure does not include the large numbers of working-age Saudis not counted as part of the labour force.

In January this year, Reuters reported that the country needed to create 3 million jobs for Saudi nationals by 2015 and 6 million jobs by 2030, partly through the 'Saudisation' of work now being done by expatriates. Around 90 percent of Saudis in the workplace are employed by the government, while 90 percent of jobs in private companies are filled by around 8 million foreigners, Reuters added.

Al Hamwah says the real issue is one of balance between expats and locals. "In Saudi Arabia if you want to take a real look you have to look who is in the workforce. If you have 10 million expats working and 2 million unemployed Saudis, it doesn't make sense. I think this can be reduced by a great number. Look at the banking sector, where 20 years ago it employed 10 percent locals and today it stands at 80 percent. Similarly, in the steel



"In Saudi Arabia if you want to take a real look you have to look who is in the workforce. If you have 10 million expats working and 2 million unemployed Saudis, it doesn't make sense"

▲ Al Hamwah says the real issue that needs to be dealt with in Saudi Arabia is the employment of women.



▲ Saudi Arabia needs to create 3 million jobs for its nationals by 2015, according to a Reuters report.

"But now things are really picking up, and I really think that when it comes to business, Saudi Arabia is a different ball game"

industry, it was ten percent a few years ago and now stands 95 percent. The real issue is employment of women and that is what needs to be dealt with seriously, especially with the social issues that go with it. There have been steps taken but are they enough? No. More needs to be done but taking into account the social issues," he says.

Either way, the future looks bright for Al Hamwah and the Modern Group. Having spent several years working then as a senior group head in the affiliate bank of Citigroup in Saudi Arabia in his capacity as a lender to local and international companies in the energy, petrochemical, shipping, mining and telecoms sectors, Al Hamwah decided to "cross to the other side of the fence" and set up his own operation just ten years ago. With \$3bn worth of projects to boast of, it has clearly been a huge success.

He explains: "It's not easy anywhere in the world to set up something like this. It takes time. But when you get the ball rolling, it works."

Few could argue with that.