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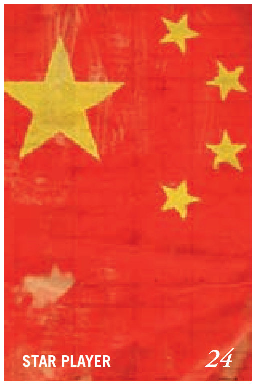

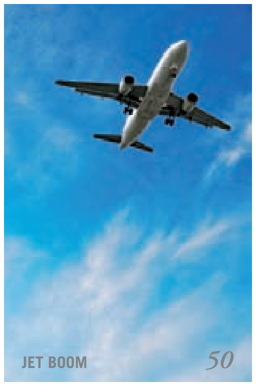

COVER PLATE - RIYADH

The historic Saudi Arabian capital has been transformed from an oasis on the Wadi Hanifah into a dynamic and beautiful modern city.

The spectacular images have been captured by international award-winning young Saudi Arabian photographer Faisal Almalki, whose portfolio ranges from animals to architecture and fine art, and by Paddy Eckersley, who has exhibited in leading international galleries worldwide.

World Bank Ranked Saudi Arabia Number One In The Arab World

in ease of doing business in the IFC «2007 Doing Business: How to Reform» Report.
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Saudi Arabian General Investment Authority
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GLOBAL ISSUES IN PERSPECTIVE

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Letter from the editor

Competitiveness – the key to success

If one word dominates the thinking and decision-making of political and business leaders as they try to stimulate growth in a period of global economic and financial instability, it is surely "competitiveness".

To survive in a global market where national barriers to trade and the transfer of capital are steadily being dismantled, the boards of leading international firms must be forever looking to invest in those countries which offer them the best mix of cheap natural resources and skilled, reasonably priced workers, combined with an efficient and friendly atmosphere in which to do business.

Governments too must all the time be overhauling their best practice, otherwise they will be left behind, with their economies unable to generate enough activity to provide jobs for their citizens.

As a result "competitiveness" is becoming the leading topic at international events such as the World Economic Forum. Significantly, at these meetings, the most innovative ideas are coming from the world's newly developing dynamic countries. Saudi Arabia, for example, has established not only a Global Competitiveness Forum but also a National Competitiveness Centre (NCC) to assess its performance against global standards.

And there are today a growing number of benchmarks by which to make this judgement. In this issue of Think, Global Issues in Perspective, we look at the various methodologies now in use. These include the WEF's Global Competitiveness Report and the Doing Business report of the World Bank's International Finance Corporation (IFC).

But, whatever method is used, all the evidence shows that Saudi Arabia is performing well. The World Economic Forum's annual Global Competitiveness Report ranks Saudi Arabia 35th out of 131 countries and its report on business competitiveness puts the Kingdom 51st, six places above China. In the Doing Business report of the IFC, Saudi Arabia moved up ten places to 23rd out of 178 economies.

Saudi Arabia is well on its way to achieving its goal of becoming one of the 10 most competitive economies in the world by 2010.

But Saudi Arabia's leaders know that they have to maintain the pressure on private and public sector alike to improve this performance. For there is plenty of evidence in these reports that more and more countries are starting to realise the importance of being able to compete.

In this issue David Smith, author of "The Dragon and the Elephant: China, India and the New World Order", examines the remarkable economic performance of China in terms of its economic growth and in attracting inward investment.

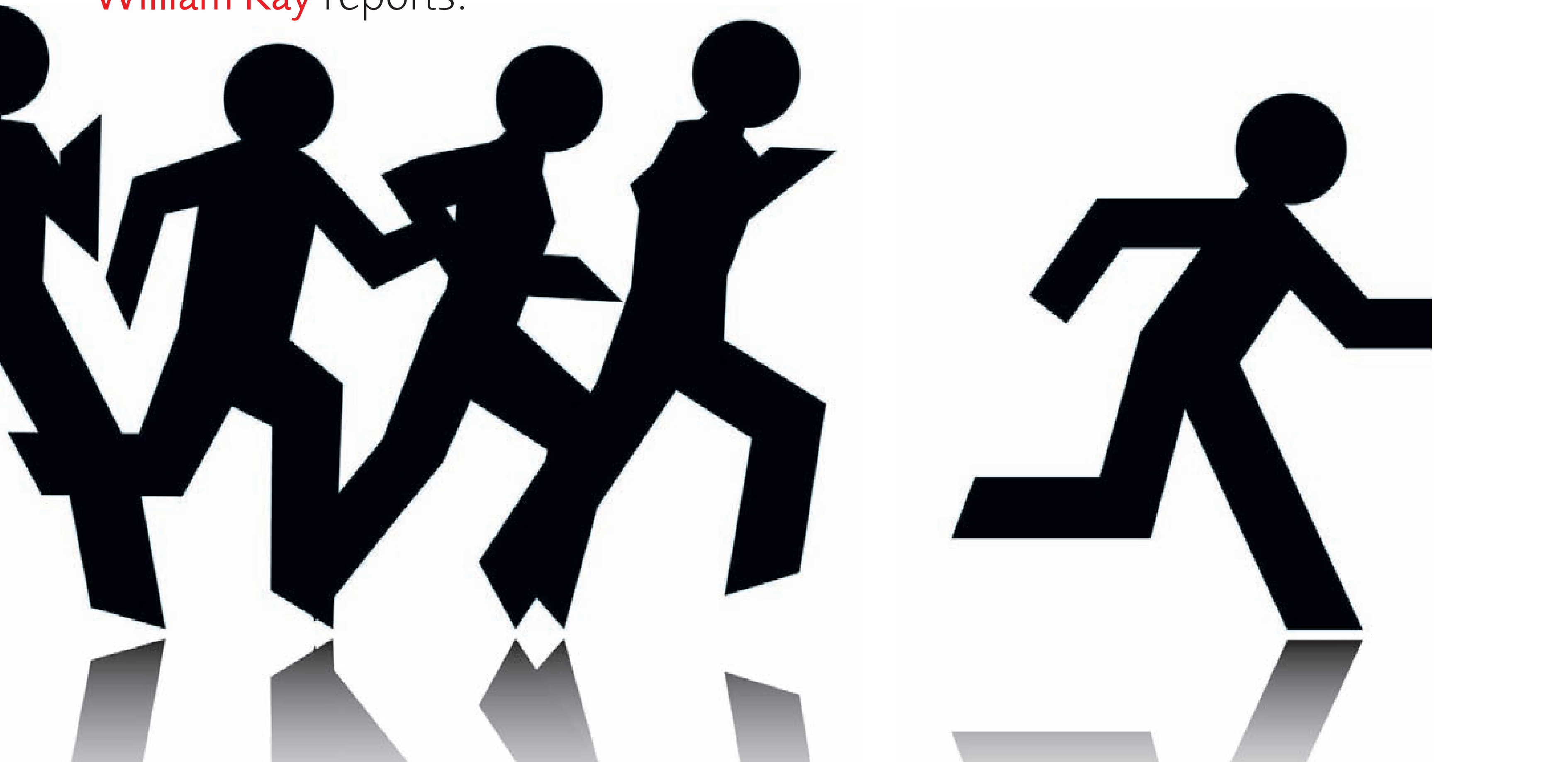
Saudi Arabia has responded to the challenge by initiatives such as the creation of new Economic Cities, by opening up its economy and by making its own government more efficient.

The message from the performance of Saudi Arabia, China and all those climbing up the ratings is clear: being ever more competitive is the only way to survive and prosper.

Saudi Arabian General Investment Authority
(SAGIA)

Winning the Race

The latest World Economic Forum Global Competitiveness Report has focused renewed attention on the key importance of competitiveness in helping emerging and developing countries to challenge the long-established industrial leaders. One of the overriding themes of the report was the extent to which competitiveness is becoming a knowledge race. William Kay reports.



According to Jim Goodnight, chief executive of US-based business intelligence software services firm SAS, "Today's race is a race for minds and whichever country, whichever region, can create the greatest set of minds are the ones that will eventually dominate. Innovation comes from countries that have the most educated workforces."

The author of the WEF's Business Competitiveness analysis, world-renowned expert Professor Michael Porter, put Goodnight's sentiments in more strictly economic terms with the conclusion that "national prosperity is ultimately determined by competitiveness, which is manifested by the productivity with which a nation utilises its human, capital, and natural resources".

Competitiveness is rooted most importantly in a nation's micro-economic fundamentals, contained in the sophistication of company operations, the quality of the micro-economic business environment, and the strength of clusters [of interconnected and geographically close businesses and suppliers]."

In a third study published recently, the Washington-based World Bank's International Finance Corporation looks at countries' legal, fiscal and regulatory structures in its annual Doing Business report, as these structures can pose formidable obstacles to competitiveness, both internal and external.

Competitiveness has been seen for many years as vital to economic growth, both relative and absolute. The very word itself speaks of the ability to compete successfully, not as an end in itself but as a means to achieving the goals which ambitious governments set for themselves and their cornerstone industries. These economic goals lead in turn to political dividends in terms of loyal and peaceful populations.

But the big debate has, understandably, been about how to become more competitive, at both the macro-economic and micro-economic levels. Every detail is being examined and re-examined, especially at the micro level, to evaluate factors varying from training and a positive work environment to hiring practices, job performance reviews and what makes a world-class business leader.

Klaus Schwab, WEF founder and executive chair, notes: "In an uncertain global financial environment it is more important than ever for countries to put into place the fundamentals underpinning economic growth and development."

Although it is not exactly the object of competitiveness, one unavoidable effect of increased awareness of the phenomenon will be to shake up league tables such as that produced by the WEF, where the United States has so far dominated. As the distinguished economist Paul Samuelson has pointed out, the tide is running away from the US. He said: "Historically, US workers used to have kind of a de facto monopoly access to the superlative capital and know-how (scientific, engineering and managerial) of the US. All of us Yankees, so to speak, were born with silver spoons in our mouths. That importantly explained the historically high US market-clearing real wage rates for (among others) janitors, house-helpers, small business owners and so forth.

"However, after the Second World War, this US know-how and capital began to spread faster. That meant that in a real sense foreign educable masses could and did genuinely provide the same kind of competitive pressures on US lower middle-class wage earnings that mass migration would have threatened to do."

"National prosperity is ultimately determined by competitiveness, which is manifested by the productivity with which a nation utilises its human, capital, and natural resources." – Professor Michael Porter

For some politicians eager to cash in on their own countries' comparative advantage, these trends crystallise into one simple mantra: free trade. But, as Senator John McCain, a 2008 US Presidential election candidate, has warned, it is not as simple as that. "Lower wages and weaker occupational safety standards do not guarantee competitive advantages to a country," McCain said. "If that were so, India would be a better competitor than Japan, and Portugal a better competitor than Germany. There are a great many factors other than low wages and lax enforcement of safety regulations that contribute to an industry's competitiveness: productivity, technology, access to multiple transportation and quality of product, to name a few."

Liu Jiren, chairman and chief executive of Chinese technology firm

“Lean manufacturing, Six Sigma, kaizen, teamwork – these are all things of the past. Every manufacturer these days has a continuous improvement or quality programme going. To be the best of the best, you've got to have something extra."

Professor Kumar Bhattacharyya

Above: Professor Kumar Bhattacharyya

Neusoft, developed this theme when he told the 2007 Asian WEF that China had to cultivate a culture of innovation among its six million students graduating every year. “Innovation is not only an issue of technology, it is also an issue of mindset, and also we need to find new models,” he explained.

Even poverty can be turned to advantage in the search for a competitive edge. Lamon Rutten, joint managing director of the Multi Commodity Exchange of India, has pointed out: “Asia is very well placed for disruptive innovation and that will generate a global competitiveness. Many in Asia live on less than $2 a day, and to reach those people you have to be very innovative.”

Professor Kumar Bhattacharyya of Britain’s Warwick University summed up the changing mood when he observed: “Lean manufacturing, Six Sigma, kaizen, teamwork – these are all things of the past. Every manufacturer these days has a continuous improvement or quality programme going. To be the best of the best, you’ve got to have something extra.”

He took the US auto industry as an example of how easy it is to fall behind. “Why have they done so?” he asked. “Because of their products. Product development is what interests the consumer. If you don’t have a working environment that fosters and encourages innovation, your company will suffer because of a lack of products that get customers excited.”

But every industry in every country has its weaknesses. The first step in drawing up a strategy to enhance competitiveness is to identify those weaknesses and then investigate how government policy can help to overcome them. As Porter says: “Economic policy, especially at the micro-economic level, needs to set priorities that reflect the most important constraints to competitiveness in each country. The Global Competitiveness Report enables countries to move beyond abstract theoretical policy debates and identify the specific tasks ahead of them.”

Those tasks can range from relatively straightforward housekeeping issues of updating internal systems to policies deliberately focused on dealing with external economic threats. The dilemma for the old economies has been spelled out in stark terms by Mitt Romney, another 2008 US Presidential candidate. He said: “Today our economy faces unprecedented challenges from abroad. Maintaining our competitiveness will demand a commitment from Washington to cut the tax and regulatory burdens, better our education system, make healthcare more affordable, and accessible and end our dependence on foreign oil.” ■

THE CHALLENGE TO THE US

The United States tops both the 2007 World Economic Forum competitiveness league tables, for global competitiveness and business competitiveness, but comes only third in the World Bank International Finance Corporation's Doing Business rankings after Singapore and New Zealand.

The reason is that, while the US has the most powerful economy, offering huge economies of scale and other business opportunities, according to the IFC it is let down as a place for foreigners to do business by its red tape.

The US comes top on the IFC's ratings for foreign companies on employing workers, because US labour laws are designed to encourage businesses to recruit and shed workers easily. But it comes 76th out of 131 countries as a country in which to pay taxes, and 24th for dealing with licences. Closing a business and trading across borders are not much easier.

Singapore shares top spot with the US for its flexible employment laws, and is also top for trading across borders. New Zealand comes top for registering property and protecting investors.

Nevertheless, the WEF report says the US "is endowed with a winning combination of highly sophisticated and innovative companies operating in very efficient factor markets. This is buttressed by an excellent university system and strong collaboration between the educational and business sectors in research and development".

The WEF found that, beyond the US, most industrialised countries have continued to grow briskly, notably the euro zone and Japan. This has been reinforced by the continuing rapid growth of the larger emerging economies, led by China, India, and Russia, which were expected to grow by average nine per cent in 2007.

However, within these trends there were some notable risers and fallers in the competitiveness league tables. The United Kingdom slipped from second to ninth in the WEF Global Competitiveness Index and Japan slipped from fifth to eighth. These declines left the door open for Switzerland to jump from fourth to second, and Sweden from ninth to fourth. Korea also made good progress, from 23rd to 11th. Switzerland was praised by the WEF for being "characterised by an excellent capacity for innovation and very sophisticated business culture". Japan and the UK were let down by poor ratings for macro-economic stability. The WEF chides them, along with Germany and the US, for their public sector deficits and rising levels of public indebtedness, "spending today instead of saving in order to meet tomorrow's burgeoning liabilities".

In Professor Michael Porter's Business Competitiveness Index, the US, Germany and Finland this year retained first, second and third places respectively. Although their placings have varied, these three countries have dominated this index since 2002. They have also been unchallenged since 2004 for the quality of their business environments.

Porter commented: "The United States' strength is greatest in innovative capacity and financial markets, while Germany continues to draw strength from the export orientation of companies, unique company positioning and the quality of the regulatory and legal framework. Finland remains strong in its government administrative infrastructure, competitive environment and the educational system. It also has strengths in the telecommunication infrastructure, and access to debt and venture capital."

Right: Professor Michael Porter

Saudi Arabian Performance

The World Bank's International Finance Corporation also rates Saudi Arabia highly in its annual Doing Business report, which looks at countries' legal, fiscal and regulatory structures.

In 2007 Saudi Arabia took its place among the world's leading economies and business environments. It has scored highly in three extensive assessments by major international agencies, putting it firmly on track to make real the vision of the Supreme Economic Council and the Governor of SAGIA that the country should be one of the top ten most competitive nations in the world by 2010.

In its inaugural appearance in the highly respected World Economic Forum's annual Global Competitiveness Report, Saudi Arabia is ranked 35th out of 131 countries. According to the key yardstick of macro-economic stability, Saudi Arabia was placed a remarkable third in the world, while the United States came only 75th.

The report says: "As is the case of the other oil exporters, macro-economic stability is the country's main competitive strength, with a healthy fiscal environment, relatively low interest rates, and inflation that has been kept under control.

"Saudi Arabia's access to a relatively large domestic and foreign market is also a competitive advantage, allowing Saudi businesses to benefit from economies of scale. This is complemented by elements of business sophistication, with relatively sophisticated production processes and strong control over international distribution chains."

In a separate report on business competitiveness, the World Economic Forum ranked Saudi Arabia 51st, six places above China.

The World Bank's International Finance Corporation also rates Saudi Arabia highly in its annual Doing Business report, which looks at countries' legal, fiscal and regulatory structures. The latest report moved Saudi Arabia up ten places to 23rd out of 178 economies, again recording top ten rankings for both Registering Property and Paying Taxes.

The IFC investigation noted: "Saudi Arabia…reduced the days needed for company start-up from 39 to 15. It launched a commercial credit bureau whose reports include the credit exposure of companies. It also speeded up trade, reducing the number of documents required for importing and cutting the time needed for handling at ports and terminals by two days for both imports and exports."

But there are still challenges ahead for Kingdom's leaders. The World Economic Forum added that improving Saudi Arabia's human resources base will require attention to prepare the country for moving to more advanced stages of development from its current weak showings on many health indicators.

With regard to education, the country's primary enrolment rate of 78 per cent places it 112th out of 131 countries, and increasing secondary and tertiary education also require attention to prepare the country for more sophisticated production methods and increase its innovative potential.

The report concludes: "This should be buttressed by efforts to unleash the potential of Saudi Arabia's markets, which are presently characterised by a number of inefficiencies, particularly with regard to its labour and financial markets."

INDEXES OF SUCCESS

The three competitiveness indexes – two published by the World Economic Forum and the International Finance Corporation's Doing Business index – use very different methods to arrive at their country league tables.

The basis of the World Economic Forum's Global Competitiveness Index is Professor Michael Porter's vision of the 12 pillars that contribute to a country's competitiveness. These are evaluated separately and then averaged to produce an overall figure. But the weighting given to each pillar for any given country varies according to the stage of development that country has reached.

The 12 pillars are institutions, infrastructure, macro-economy, health and primary education, higher education and training, goods Market efficiency, labour market efficiency, financial market sophistication, technological readiness, market size, business sophistication and innovation. These are then grouped into three sub-indexes: the first four form a basic requirements sub-index, the next six are bracketed as efficiency enhancers, and the last two combine as innovation and sophistication.

So a country's rating for each of the 12 pillars is distilled into three sub-index scores, finally averaged to produce a single index figure ranging from 5.67 for the US to 2.78 for Chad.

The Business Competitiveness Index is based on a survey of an average of 88 executives, domestic and foreign, for each of the 127 countries covered. The countries were divided into three groups according to income, and the executives' responses were adjusted depending on the size of their company – smaller companies tend to be more critical, whatever the country.

The compilers also incorporated the Heritage Foundation's indicators on property rights and freedom from corruption. Further light was shed by statistics on patenting rates, and internet and cellular phone penetration, all of which are significantly correlated to GDP per capita.

The International Finance Corporation's Doing Business report relies heavily on the work of its founder, the World Bank economist Simeon Djankov. His research, with co-authors, is the source of the report's findings on starting a business, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business.

The reports are based on time-tracking techniques, noting for example how long it takes to register a property in a particular country compared with previous years. The underlying assumption is that transparency and ease of doing business make a country more attractive to inward investors and therefore more competitive.

Djankov argues that countries implement positive reforms because they want to achieve a higher ranking in the following year's Doing Business league table.

He says: "This illustrates the main advantage of showing a single rank: it is easily understood by politicians, journalists and development experts and therefore creates pressure to reform.

As in sports, once you start keeping score everyone wants to win."

EIGHT KEY AREAS

Y Bhg Dato Mustapa Mohamad, former Executive Director of the National Economic Action Council of Malaysia, has argued that global competitiveness should in itself be a business strategy. He has identified eight key areas in which government must create new capabilities to seize opportunities and harness gains from competitiveness. These are:

1. **Marshalling knowledge** to improve products and services and enhance productivity and efficiency.

2. **Focusing on human resource development** to ensure a supply of highly skilled and productive workers.

3. **Sustaining investment in R&D** and a strong commitment to innovation.

4. **Investing in technology** to elevate businesses' performance and competitiveness.

5. **Developing entrepreneurial and 'technopreneurial' capacity** to access know-how, identify the commercial potential of opportunities and take calculated risks.

6. **Developing world-class companies** to instil a culture of excellence and best international practices in industry through alliances and 'smart partnerships' with international companies, to gain access to markets, technologies and know-how.

7. **Creating market niches** in selected high-value-added products and services aimed at specific clients.

8. **Strengthening corporate governance** to reduce corporate abuses and stock market volatility, to attract more strategic alliances and partnerships.

10x10 Vision

Saudi Arabia is well on the road to transforming itself into one of the top ten most competitive nations by 2010. Its determination to attain this goal is backed by leading international investors such as Microsoft and Cisco Systems.

The ambition is bold – nothing less than making Saudi Arabia one of the most competitive business destinations in the world.

The determination is absolute. "The outcome of the programme is not negotiable; we will build a competitive country where productive and innovative businesses grow and prosper," says Amr Al-Dabbagh, Governor of the Saudi Arabian General Investment Authority (SAGIA), which is driving this agenda forward.

And the execution so far is impressive. Already the Kingdom is climbing the ratings tables used by the World Bank and World Economic Forum to judge the performance of the investment environment, and the enthusiasm of global blue chip firms such as Microsoft and Cisco Systems to invest in the country is a further vindication of this strategy.

Cisco Systems is investing $265 million in the Kingdom and is playing an active part in developing the economic cities that will be at the heart of economic development. "Saudi Arabia is experiencing a transformation as it expands its economic growth opportunities into new sectors using information technology. Cisco is pleased to partner with Saudi Arabia in its focus on entrepreneurship, innovation and education, which we believe will help drive the 21st-century global economy," says John Chambers, Chairman and CEO, Cisco Systems.

Equally heavily involved is Microsoft, whose commitment was demonstrated by the presence of Microsoft boss Bill Gates at SAGIA's first competitiveness forum. "Our strategic co-operation with SAGIA comes at the level of sharing visions and launching initiatives that enhance ICT in the Kingdom. Together we are working on developing initiatives that lay foundations for the healthy knowledge-based economy for the benefits of our country and people," says Khalid Al-Daher, general manager of Microsoft in Saudi Arabia.

The British airline BMI also reports positively on its experience, which has seen the launch of flights between London and Riyadh, Jeddah and Dammam. "Everyone has been helpful and setting up the business in Saudi Arabia was very straightforward. SAGIA were very efficient and helpful," says deputy chief executive Tim Bye.

The response of international business is a vindication of SAGIA's 10 x 10 vision to position Saudi Arabia among the top ten most competitive nations by 2010 through the creation of a pro-business environment, a knowledge-based society and by developing new economic cities.

"SAGIA is committed to ensuring this goal is achieved, and we are targeting investors whose value propositions are strategically aligned with our competitive strengths as the global capital of energy and a major hub between East and West," says Amr Al-Dabbagh. "This will help us in our goal to achieve rapid and

Above: Jazan Economic City

sustainable growth in Saudi Arabia."

The Governor is putting into effect a policy to deliver his long-held belief that local and international investment is essential for long-term prosperity. "We need to inject sufficient investment into the economy to increase economic growth and create jobs," he says.

The ambition is to build a country which will be one of the most attractive business destinations, where the rapid increase in the knowledge economy keeps pace with rapid GDP growth in the non-oil sector and where investment in human capital provides a workforce able to meet the needs of foreign investors.

"This initiative is our guarantee to each business and citizen of Saudi Arabia that we will continuously provide marked improvements in levels of prosperity and standards of living," says Amr Al-Dabbagh.

"Beyond economic reforms and incentives, competitive economies must boast a workforce educated to international standards, modern and efficient infrastructure and world-class health provision. Saudi Arabia has committed itself to investing heavily in each and every one of these areas and all others that are necessary to create sustainable competitive advantages for all those who come to live and conduct business in Saudi Arabia."

Amr Al-Dabbagh, who became Governor of SAGIA in 2004 after a highly successful career in industry and business, has a three-pronged strategy of driving competitiveness forward through reducing bureaucracy, benchmarking progress against the highest standards, and establishing organisations and events that will ensure that the issue remains at the forefront of business and political thinking.

He argues that the country's ability to be competitive must be subject to the toughest possible examination. "It must be a comprehensive and independent assessment of a country's economic strength and the ability of all economic factors to yield high returns on investment," he says.

Not only is the Kingdom's performance being judged by the highest international standards, set by the World Bank, the International Finance Corporation, the IMD and the World Economic Forum, but SAGIA also established the National Competitiveness Centre (NCC) in 2006. Its mandate is to support the competitiveness agenda through data-driven objective advice on regulatory reform and sector improvement opportunities that will contribute to increasing sustainable prosperity for the people of Saudi Arabia. "The NCC fulfils its role by serving as a think tank, facilitator and communicator of change," says Amr Al-Dabbagh.

In its role as a think tank, the NCC has already made a thorough assessment of the Kingdom's competitiveness, producing a preliminary estimate of the cost of

SAGIA Licenses Statistics (2001-2006)

	2001	2002	2003	2004	2005	2006	TOTAL (Last 6 Years)
Total Activities:							
No of Projects	660	910	599	461	642	1422	**4694**
Total Investment (Billion SAR)	31.8	12.9	13.0	15.2	202.4	112.8	**388.1**
Industry:							
No of Projects	330	375	212	193	174	328	**1612**
Total Investment (Billion SAR)	16.4	6.3	11.1	14.5	77.9	51.7	**177.9**
Service:							
No of Projects	329	533	385	266	466	1094	**3073**
Total Investment (Billion SAR)	15.4	6.6	1.9	0.7	124.3	61.1	**210**
Agriculture:							
No of Projects	1	2	2	2	2	0	**9**
Total Investment (Billion SAR)	0.025	0.05	0.09	0.05	0.3	0	**0.5**

Source: SAGIA

bureaucracy in the Kingdom, and is continually monitoring the performance to ensure that progress is maintained. It prepared the business case for eliminating the minimum capital requirement for limited liability companies, a measure that has now passed into law, and is working with SAGIA sector heads on initiatives to improve competitiveness.

The NCC also helps ensure that the success of the strategy is communicated and sets up forums which bring together public and private sector stakeholders with a role in implementing the strategy.

It is also helping SAGIA with this year's Global Competitiveness Forum, which will build on the success of the first event held at the end of 2006. More than 1000 people, headed by Gates, attended the forum, which addressed the theme of "Information and Communication Technology (ICT) as an enabler for competitiveness". Its focus was to explore the impact that ICT can have on competitiveness and how to harness it.

Participants concluded that ICT had a critical role to play in building a knowledge-based society, making it possible to establish a highly productive society and economy driven by knowledge-based assets, skills and innovation, rather than one based on solely natural resources or labour advantages.

The keynote speech – "ICT an Enabler of Competitiveness" – was delivered by Gates and was followed by presentations and panel discussions based on the National Competitiveness Agenda and the ways ICT could help Saudi Arabia achieve its 10 x 10 agenda.

This year more than 1,000 delegates, headed by Professor Michael Porter of the Harvard Business School, will debate "Competitiveness as an engine of economic growth". Leaders of commerce, politics and academia are focusing on improving the investment environment, sharing local and international experiences.

"Those who attend our forums know they can expect insightful presentations followed by lively panel discussions and debates and interactive Q&A sessions, and there will also be participation from government officials and private sector executives," says Amr Al-Dabbagh.

Part of the focus at the forum and through the rest of the year will be on the progress in creating new economic cities in Saudi Arabia, which are internationally respected for the scope of the vision and are being eagerly analysed to see if this ground-breaking concept has lessons for developers across the globe.

Central to all the efforts to create a competitive economy is Amr Al-Dabbagh's master-plan for the four existing and the two planned Economic Cities in the Kingdom. This is remarkable for the innovative thinking behind the decision that these cities should focus on specific business sectors, and for the billions of dollars of projects to be wholly financed by the private sector.

For example, the Dubai-based Emaar Properties is the lead developer of the King Abdullah Economic City (KAEC) through a company called Emaar The Economic City, some of whose shares have been floated on the Riyadh stock exchange.

Equally remarkable is the scale of the projects. In total the cities will require $170 billion investment in infrastructure and $200 billion in industry. By 2020, they will have contributed an extra $150 billion to the Saudi GDP.

Of the four already launched. KAEC is the first and largest – work is proceeding apace on the site which is on the Red Sea north of Jeddah. A knowledge city is being built in Medina, while there will also be cities in Jazan in the south-west of the Kingdom, which will concentrate on energy related industries, and Hail in the north, which will focus on transport, logistics and food-related industries. Two more, one in Tabuk and one in the eastern province, have yet to be launched.

KAEC will become home to 2,500 industrialists and manufacturers and will include a new port with capacity for 10 million 20-foot containers.

Confidence in the project is reflected by the fact that 500 apartments in the city were sold 24 hours after going on the market, while 400 Saudi industries have committed to 800,000 square metres of industrial space and there have been expressions of interest in nine million square metres of the industrial area.

Deals are nearing completion for the port, the refinery and other industrial projects. "Through the economic cities initiative, SAGIA plans to develop rapidly vibrant prosperous cities with an unparallelled business-friendly environment that leverages Saudi Arabia's core economic advantages: the abundance of low-cost energy and its strategic location," says Amr Al-Dabbagh. ■

Above: King Abdullah Economic City **Below:** Knowledge Economic City

	Foreign Direct Investment by Sector	Inflow 2006 (Millions of dollars)	Total Stock 2006 (Millions of dollars)	(%) from Total Stock
	Total FDI	**14,293**	**47,828**	
1	**Agriculture and Fishing**	**0**	**71**	**0.15%**
2	**Mining, Extraction of Oil & Gas Services**	**4,400**	**4,722**	**9.87%**
3	**Industry**	**4,613**	**27,043**	**56.54%**
	Manufacture of food products & beverages	-542	451	0.94%
	Manufacture of textiles	1	49	0.10%
	Manufacture of wearing apparel; dressing and dyeing of fur	2	60	0.12%
	Tanning and dressing of leather; manufacture of handbags, footwear	0	34	0.07%
	Manufacture of wood & wood products, except furniture	2	76	0.16%
	Manufacture of paper & paper products	2	289	0.61%
	Publishing, printing & reproduction of recorded media	0	7	0.02%
	Manufacture of coke & refined petroleum products	2,103	4,884	10.21%
	Manufacture of chemicals & chemical products	3,042	18,363	38.39%
	Manufacture of rubber & plastics products	11	700	1.46%
	Manufacture of other non-metallic mineral products	10	478	1.00%
	Manufacture of basic metals	0	118	0.25%
	Manufacture of fabricated metal products except machine & equip	-33	871	1.82%
	Manufacture of machinery & equipment	1	196	0.41%
	Manufacture of office, accounting & computing machinery	0	4	0.01%
	Manufacture of electrical machinery & apparatus n.e.c.	5	165	0.34%
	Manufacture of radio, television & communication equip and apparatus	0	28	0.06%
	Manufacture of medical, precision & optical instruments, watches and clocks	1	11	0.02%
	Manufacture of motor vehicles, trailers & semi-trailers	1	89	0.19%
	Manufacture of furniture & jewellery and related articles	7	163	0.34%
	Recycling of metal & non-metal waste and scrap	0	8	0.02%
4	**Electricity, Gas and Water Supply**	**1,695**	**4,131**	**8.64%**
5	**Contracting**	**501**	**1,700**	**3.55%**
6	**Trade**	**0**	**120**	**0.25%**
7	**Hotels and Restaurants**	**0**	**149**	**0.31%**
8	**Transport, Storage and Communications**	**0**	**979**	**2.05%**
9	**Finance Services & Insurance**	**2,278**	**3,805**	**7.96%**
10	**Real Estate & Other Activities**	**805**	**5,108**	**10.68%**

Source: SAGIA

A Boost from Spain

"The Saudi-Spanish Infrastructure Fund will allow the two countries to capitalise on the competitive advantage of each other, and facilitate transfer of knowledge."

- Mikael Karlsson, managing partner of Arox Infrastructure

The success of the Saudi-Spanish Infrastructure Fund (SSIF), which has just completed its first closing with commitments of $680 million, vindicates the strategy of encouraging foreign institutions to invest in the Kingdom's economy.

Spanish investors are investing $230 million, with the balance coming from within Saudi Arabia, and the fund's managers are convinced that there is scope to raise even more money.

"The objective is to raise additional capital during 2008 to reach the initial target of $1 billion, which will enable the fund to finance and develop projects with a total cost of up to $5 billion," says Mikael Karlsson, co-founder and managing partner of Arox Infrastructure, which, together with Cheyne Capital, is managing the fund. Morgan Stanley is the placement agent to the Fund.

Arox, whose senior executives have between them more than 125 years' experience in developing and investing in the energy and infrastructure sectors, and Cheyne Capital, which manages more than $12 billion in net assets, will target new greenfield assets in energy, including power, oil and gas, energy transmission and distribution. It will also invest in infrastructure projects such as the transport, water and telecommunications sectors in Saudi Arabia.

"The investment objective of the Fund is to maximise the risk-adjusted returns to the investors while at the same time aiming to achieve the strategic objectives of the Fund's investors," says Karlsson.

The commitment of the two governments is shown by the fact that it has taken less than two years to establish the Fund since it was first proposed during an official visit of His Majesty King Juan Carlos to Saudi Arabia.

Further evidence of official support comes from the presence on the advisory committee to the investment committee of Amr Al-Dabbagh, Governor of the Saudi Arabian General Investment Authority and Pedro Mejia Gomez, Spain's Secretary of State of Tourism and Trade.

"One of the key objectives of the Fund will be to invest in the six new Economic Cities, which require $100 billion of investments in transportation assets and $300 billion in energy assets by 2020," says Stuart Fiertz, co-founder of Cheyne Capital.

He adds: "It will also enhance bilateral co-operation, give companies in each country access to the market of the other, increase the collaboration between the private sectors, allow the two countries to capitalise on the competitive advantage of each other, and facilitate transfer of knowledge."

There are enormous opportunities for both investors and contractors. The aim of the Saudi anchor investors, which include the developers of the Economic Cites, is to support the development of these projects.

"They can do this, which will give them access to the knowledge and expertise of the fund manager and the Spanish companies in the development, investment in and management of energy and infrastructure assets," says Karlsson.

The Spanish investors, including industrial companies and financial institutions, are keen to participate in the Fund's projects as co-developers, co-investors, financiers, and to provide services on market terms and conditions during the construction and management of these projects.

And there is no doubt that the involvement of Spanish companies will enhance the quality of the Economic Cities. "Spain has six of the top ten companies managing transportation concessions worldwide; Spanish companies are world leaders in renewable energy; and Spain is the world's largest producer and consumer of desalination water outside of the Middle East and the fourth-largest globally," says Karlsson.

Path to Success

Interview with His Excellency Amr Al-Dabbagh, Governor and Chairman of the Board of Directors of the Saudi Arabian General Investment Authority (SAGIA).

Photography by Faisal Almalki

Q. *What progress has been made in transforming Saudi Arabia into a competitive international economy?*

A. In 2007 the World Bank's Doing Business Report ranked KSA first in the entire Middle East and Arab world and 23rd globally for Ease of Doing Business. Also in 2007 UNCTAD ranked the Kingdom first in the Middle East and Arab world for attracting FDI and 20th globally. We attracted $18 billion in foreign direct investment in 2006 and $73 billion in DDI for a total of $91 billion dollars.

Q. *How proud are you about Saudi Arabia's progress in climbing up the IMG and WEF competitiveness leagues?*

A. We are very proud and have openly publicised our gratitude to the Custodian of the Two Holy Mosques and HRH the Crown Prince, the SAGIA team, the National Competitiveness Centre, all government agencies, ministries and our private sector partners. It's a team effort.

Q. *How significant a driver of progress is the 10 x 10 strategy?*

A. Given that the 10 x 10 objective means benchmarking ourselves against over 300 indicators used by independent international bodies to determine the quality of a business environment, and that these indicators leave no stone unturned, it is perhaps one of the single most significant drivers we have in place now. It is in fact the product of our having sat down one day and asked: "What is the single mechanism we could use to achieve out long term goals?" Increasing competitiveness was our answer.

Q. *In which sectors has the Saudi economy become more competitive?*

A. In order to achieve our 10 x 10 goal, we have to benchmark ourselves against over 300 different indicators used by the World Bank, the IMF, the IMD and the WEF, and these indicators touch upon nearly ever sector of the economy.

The only way we can achieve the 10 x 10 objective is to ensure that we can meet the criteria required in every case. We don't really have the luxury of picking and choosing which areas or criteria we improve upon or not. However, SAGIA has targeted three sectors in which to invest the bulk of our resources: these are energy, transportation and knowledge-based industries (KBIs) – in our case, life sciences, healthcare, education and IT.

This enables us to leverage our natural competitive advantages of energy and location, and the combination of financial and human capital. We have a quarter of the world's energy resources, yet host only 2.5 per cent of the global energy intensive industries, which doesn't make sense given that we are the most cost-efficient place on earth for these industries. Our goal now is to increase our market share in these industries to 7.5 per cent by 2015, and to become one of the top one or two in approximately ten energy intensive industries by 2020. Plastics is another example. We are again the most cost-efficient place on earth for finished plastics products, yet have only one per cent of the global market share. Our goal is to increase that to 15 per cent by 2020.

Q. *Do you think that Saudi business and government has fully taken on board the need to be competitive in a global economy?*

A. Absolutely. Other government agencies are dismantling existing strategic goals in favour of creating a set of goals that are what we call "10 x 10 compliant". Moreover, a Royal Decree was recently issued to make 10 x 10 compliance a national requirement for government agencies. As for the private sector, no one has to convince the private sector of the benefits competitiveness conveys.

Q. *How important is it to encourage more foreign investment into Saudi Arabia?*

A. Our main reason for attracting FDI is for knowledge and technology transfer. Our second largest export after oil is capital, so it's not an issue of capital moving us to increase our efforts for FDI. Our strategy for acquiring it consists of three main initiatives.

The first is managing the investment environment through institutional work, combined with a measurement of progress based on the criteria of international institutions such as the IFC, the World Bank, the WEF and the IMD. SAGIA monitors nearly 300 indicators used by international reports to measure the development of the investment environment and the capacity to attract investment from around the world.

We have created the National Competitiveness Centre (NCC), which is the main arm toward achieving our objectives.

Secondly, we are establishing an integrated system of Economic Cities that can create a competitiveness environment able to provide everything, including commercial and residential land, visas, work permits, labour force, entertainment, as well as offering the best quality of life for the inhabitants and investors.

Three, as I noted earlier, we focus on attracting investment into those sectors in which the Kingdom has a competitive advantage – energy, transportation and KBIs.

Q. *How easy is it for foreign businesses to set up in the Kingdom?*

A. If all the documents are ready we can issue an investment licence in one day, and are legally required to have the entire licencing and commercial registration process done for branches of a company in 30 days. For limited liability companies, we can have a licence issued in one day and the commercial registration done in 14 working days. For 2008 our goal is to have the whole process completed in seven days.

Q. *What role have the Economic Cities in developing the national economy and attracting investment?*

A. In 2007 we surpassed our target of SR300 billion in the value of investment licences issued and the Economic Cities represents a good share of that number. We are not surprised because they are the result of careful planning and strategic thinking.

We examined our value proposition and determined it was energy and location. We then revisited one of our strategic initiatives at SAGIA which is regional development, and decided to create a product that didn't yet exist, which was integrated into the global marketplace, which would enable us to capitalize on our competitive advantages, help us to achieve our 10 x 10 objective and be the ultimate living and investment destinations.

Our economic cities aren't Free Zones, they aren't special economic zones, they aren't free trade zones; they are all of the above, plus something extra. We are creating cities with the ultimate in living environments and service provision. We are right on track in terms of development.

Mounting Pressures

When the world's economic experts meet for the annual World Economic Forum in Davos late in January, they have serious challenges to confront as the banking system creaks and a potential recession looms. William Keegan examines the issues.

How fitting that the organisers of the annual World Economic Forum in Davos should have chosen the theme of The Power of Collaborative Innovation for its 2008 renewal.

The power of collaborative innovation has been demonstrated all too vividly in the financial markets in recent years. Unfortunately that power was to a degree misapplied. Financial innovation, financial engineering, and the so-called "spreading of risk" have proved all too innovative, all too collaborative. The result has been a crisis that has rocked the very foundations of the banking system on which Western capitalism ultimately depends, and whose free-market virtues were so assiduously preached to what were called "emerging markets".

The credit crunch first became manifest last August. Its implications, with hundreds of billions of dollars of write-offs, became more serious by the month, as the market for three-month interbank lending dried up and there was a dawning realisation that the spreading of risk via less than transparent financial instruments not only failed to eliminate or dilute that risk, but actually increased it.

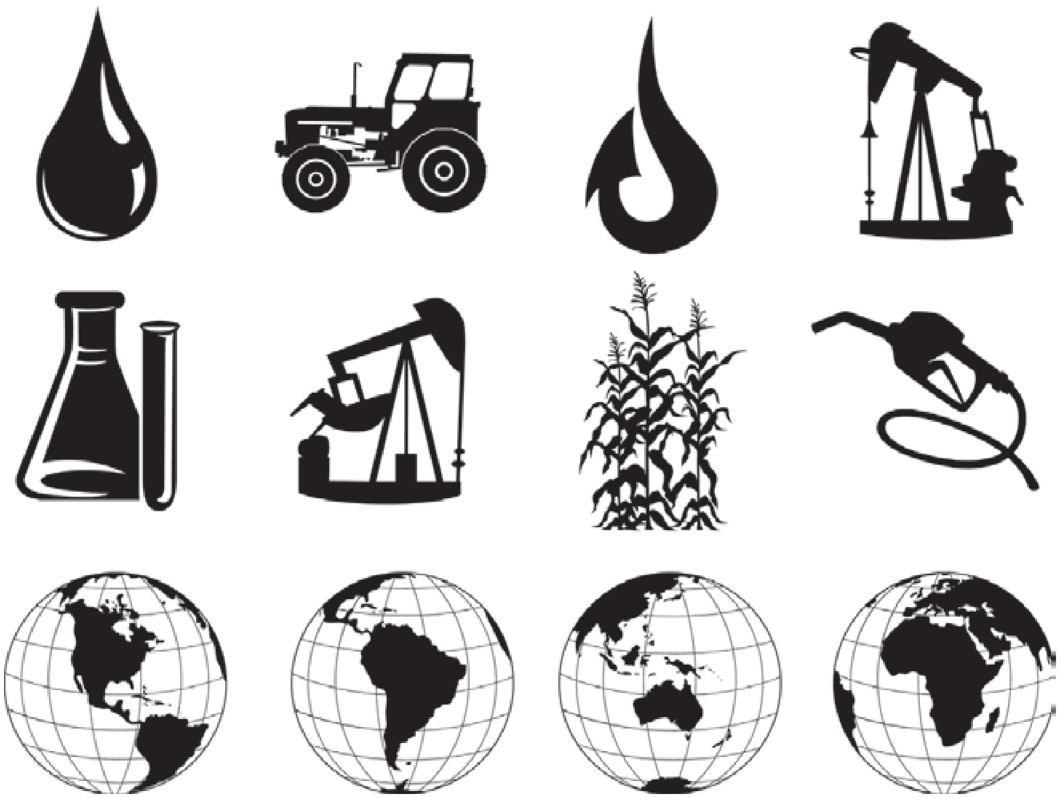
It was therefore most appropriate that the geopolitical mountaineers of Davos decided this year that a different form of collaborative innovation was required: something with the power to put Humpty Dumpty back together again. As the WEF has noted: "Lingering uncertainty in various markets reflects the need to rethink underlying risk management models."

It is a mighty challenge for the chief executive officers who assemble at the WEF – and they have seldom been under such pressure. Perversely they have never been so well rewarded, and that is still a concern for many business and political leaders.

The financial rewards of CEOs and other senior executives, not to mention the rewards for partners in investment banks and the more successful practitioners of private equity deals, have been well publicised in recent months.

But so have the rumblings of criticism, sometimes in the most unlikely places. In the International Herald Tribune, Henry Blodget, a former stock analyst, said this of the Goldman Sachs executives rewarded with large bonuses: "In a country where some people are starving and others are furiously debating a $1 increase in the minimum wage, such bonanzas provide a startling reminder of the inequities of America's free-market system."

Again, in the Financial Times, the commentator John Thornhill complained that "this new globalised 'aristocracy' of financiers, industrialists and policymakers... while telling their employees that job insecurity, reduced welfare benefits and lower salaries are the condition of the modern world…don golden parachutes to protect themselves from failure."



With the collapse of the disastrous Soviet communist system still a very recent memory, there has been a revival of interest in the work of Karl Marx, and his critique of 19th-century capitalism, with many a parallel being drawn with 21st-century globalisation.

The formidable US economist Lawrence Summers has manifested concern about the imbalances of income and wealth, as well as the more familiar global financial imbalances. Summers, who as US Treasury Secretary in the 1990s was one of those spreading US-style capitalism to the rest of the world, now worries about the victims in advanced industrial countries of cheap-wage competition. He maintains: “Those who dislike indirect protectionist ways of responding to the distributional consequences of globalisation have an obligation to either advocate direct responses or to explain why they are not concerned.”

There is, of course, nothing new about extremes of income and wealth, or pressures for protection from international competition. In the early part of the last century, the Italian economist Vilfredo Pareto made a name for himself by seeming to establish laws about the proportions of income and wealth accruing to certain proportions of the population.

It is just that the disparities have become markedly more extreme in recent years, as globalisation has made it easier for business to withstand trade union demands for higher wages, and governments have been less inclined to offset what seems to be capitalism’s natural tendency to produce greater rewards at the top.

While communism or socialism existed as an alternative, and as long as corporations felt too weak to challenge organised labour, there seemed to be limits to the “winner takes all society”. In recent years the barriers have fallen, and we are now witnessing the first stirrings of a reaction.

We may also be seeing the beginning of a serious debate about how to make capitalism, in modern jargon, more “user-friendly”. In the second half of the 19th century and early 20th century, unbridled capitalism and free trade produced a revolutionary reaction and an outbreak of protectionism. After the Second World War – indeed during it – policy-makers, and most notably the economist John Maynard Keynes, did their best to set up a new world economic order, with rules and multilateral institutions designed to make capitalism work properly, in the interests of all.

It was hoped that a well-functioning trade and international payments system, accompanied by enlightened economic policies, would provide prosperity for all, and help to ward off both social dissatisfaction and protectionism.

The results were remarkably successful, but the system (known as Bretton Woods, after the location in New Hampshire of the 1944 conference that led to the setting-up of the International Monetary Fund and World Bank) broke down in the early 1970s as a result of the strains placed upon the US dollar, the very lynch-pin of the system.

The maintenance of full employment became ever more difficult as governments and central banks struggled to defeat inflation, which had been aggravated by domestic reaction to higher oil prices.

Then came the various “oil shocks”, with the result that the interim committee set up by the International Monetary Fund, intended to devise a new system, remained interim. Instead of a new system we had a series of ad hoc arrangements, including the evolution of the various groupings of finance ministers and central bank governors known as the G5 or G6 or G7, as well as the annual economic summits now known as the G8.

A former finance minister who was a member of the interim committee in the

mid-1970s recently told me that he had no idea that, while the committee on which he sat was trying to devise a new system, Henry Kissinger was in secret discussions with oil producers about their continuing to price oil in dollars and deposit surplus funds in New York.

This non-system has persisted through several decades, with the dollar still its lynch-pin. But in recent years more and more concern has been manifested about "imbalances" – not least the seemingly insatiable appetite of the US for Asian and OPEC funds to finance a balance of payments deficit that reached almost seven per cent of gross domestic product.

How ironic that this was the kind of deficit Washington used to associate with "undisciplined" Latin American economies, towards which it administered stern measures via the IMF, on which the US remains the majority shareholder.

Wolf has been cried many times about the US payments deficit, but in the fairy story the wolf eventually turned up. In this particular instance, however, it is a case of the dollar turning down, as the implications, not only of diversification of reserves but of even a slowdown in the rate of increase, are becoming apparent.

More recently, however, the UK's Bank of England governor Mervyn King has been preoccupied by institutional problems closer to home, such as the collapse of the Northern Rock bank. He has also emerged as a forceful critic of the way that, between them, the IMF and Group of Seven finance ministers and central bank governors are failing to make the non-system work satisfactorily, with all that this may mean if we witness a major bout of turmoil in the currency markets.

Until last summer more and more concerns were being expressed in official circles about the vulnerability of a financial system which has become ever more sophisticated in "derivative" instruments that spread risk, but also seem to produce high returns and to encourage the taking of more risk.

Things came to a head in August with news of the severe balance-sheet difficulties of Northern Rock and certain European banks. Then came the rapid succession of write-offs at major international financial institutions and the credit crunch that is still very much still with us.

The fact of the matter is that a whole generation of bankers and officials will now have to go back to banking basics, and mean what they say when they talk of transparency.

Meanwhile, we face what the Chinese proverb has always warned us about: "interesting times". Collaborative innovation may yet prove to be one of the answers, but the economic experts gathering at Davos have much to ponder. ■

SETTING THE AGENDA

Throughout the year, senior politicians from presidents to prime ministers past and present meet with the elite of intellectual thought and business leadership in various cities across the world to discuss the important issues facing international decision-makers.

The debate at these World Economic Forums is always robust and the analysis sharp, no more so than at the annual meeting that takes place in Davos every January. For the last 30 years it has provided an unrivalled platform for leaders to shape the global agenda by finding innovative solutions and ways in which to implement them.

In 2007 delegates debated a "shifting power equation", and this year, led by former British Prime Minister Tony Blair and former US Secretary of State Henry Kissinger, the focus – as it will be for decision-makers in chancelleries across the globe – is on the power of collaborative innovation.

Amr Al-Dabbagh, Governor of the Saudi Arabian General Investment Authority, believes the second annual Global Competitiveness Forum (GCF) on 21-22 January is the ideal precursor to Davos. "We think having the world's first and only global competitiveness think tank located in Saudi Arabia immediately prior to the WEF annual meeting will have the impact of raising both national and international awareness on the issue," he said.

"We are pleased with the turnout for this year's GCF and have already started putting together the agenda for 2009. Things have really taken off since the inaugural event, which Mr Bill Gates (Chairman of Microsoft Corporation) opened with the theme: ICT as an Enabler of Competitiveness.

"This year Professor Michael Porter (Harvard Business School) will open with the theme: Competitiveness as an Engine for Economic Growth, which resonates well at a national level. Saudi Arabia has always been a free-market economy, and implicit in competitiveness is as free a movement of goods, services and human resources as possible. For us it only means doing what we have always tried to do even better."

The five pillars of the debate at Davos 2008 will be:

1. Competing while collaborating: companies that are to succeed will have to learn to be innovative while working with different stakeholders and being socially responsible. The key to success is to allow competitive and collaborative impulses to exist inside corporations.

2. Addressing economic insecurity: market volatility, the impact of private equity firms, shareholder activism and global economic uncertainty are all combining to present unprecedented challenges. The challenge for leaders is to understand how to mitigate risk to ensure a brighter economic outlook.

3. Aligning interests across divides: future generations face great challenges, countries with energy and natural resources are demanding a greater voice in global decision-making and the leaders of major nations are new or facing elections. The task is to improve the alignment of the global and regional agendas across various divisions.

4. Exploring nature's new frontiers: science and technology are affecting every aspect of our lives, while mankind is now able to control and manipulate the natural world in ways that are beyond public understanding. Leaders have to delve into the developments in science and technology that will reshape how we live and work in the future.

5. Understanding future shifts: the world is changing with the emergence of new powers, diversity and migration are becoming contentious and the West may face challenges to its competitive and innovative advances. The need is to explore various facets of the cultural and nominative shifts taking place today that are emerging from various regions of the world.

The China Effect

All eyes are on China, and not just because of the approaching Beijing Olympics, scheduled for August 2008. Investors do not need reminding of the power and influence of China. This year's volatility in Shanghai share prices has had ramifications not just for other emerging markets but also for the main global stock exchanges. China's currency policy, meanwhile, is subject to closer foreign exchange market analysis than some of the major currencies. David Smith, author of The Dragon and the Elephant: China, India and the New World Order, assesses the implications.

The China effect is large and varied. It is reflected in the rise in commodity prices, including oil, to record levels. In the 1990s China was a net exporter of oil; now it has a huge appetite for imports. At the same time, the People's Republic, while experiencing its own inflation problems, continues to bear down on inflation in other countries, by exerting a powerful downward influence on the price of goods.

2008 will be a big year for the Chinese economy. Not only will the Olympics provide a boost, though an economy growing by 11-12 per cent a year hardly needs it, but China will be tested in another way.

Has it achieved what the late Walt Rostow, a renowned economic historian, described as self-sustained growth? Or will the slowdown in America and the risk that the US economy will skirt close to recession hit China hard?

According to the International Monetary Fund, whose chief economist Simon Johnson has described conditions in global financial markets as "a perfect storm", the outlook for the world economy remains upbeat in spite of a slowdown in all the advanced economies. This is not just because of China – many commodity-rich economies are prospering. But China, now the world's fourth largest economy in terms of its absolute level of gross domestic product, will carry on growing strongly.

The Asian Development Bank recently revised down its forecasts for the advanced economies for 2008, while lifting its growth prediction for Asia to more than eight per cent. China, the ADB said, would grow by 10.8 per cent, only slightly below its expected growth rate of 11.2 per cent in 2007.

Jim O'Neill, chief international economist at Goldman Sachs, believes the so-called BRIC economies (Brazil, Russia, India and China) will continue to shine in a more subdued global economy. And within this, China will be the key. The real sign the global economy was in trouble would be a significant slowdown in China, he says.

If China does sail through the global slowdown, it will be another chapter in a significant economic success story: 2008 is the 30th anniversary of the start of the "new" Chinese economy, when Deng Xiaoping began introducing the economic freedoms that put the country on a rapid growth trajectory.

In that time China has had an enormous impact on the global economy, certainly on a par with the post-war rise of Japan, and arguably rivalling Britain's impact when it emerged as the first industrial nation in the 18th and 19th centuries, or even America's in the final decades of the 19th and the early 20th century.

The key is the pace of growth. China started in 1978 with less than three per cent of the world economy but has grown at a

9-10 per cent rate for three decades, three times as fast as the global average. Britain and America during their golden ages typically only grew at twice the rate of the global economy.

It is easy to get carried away with superlatives about the Chinese economy. A country with 1.3 billion that can achieve economic growth of 9.5 per cent a year over three decades is achieving something special. Recently, too, that growth appears to have come of age. China has been phenomenally successful at attracting inward investment, some $60 billion annually in recent years (roughly 10 times that attracted by India).

That has produced accusations that China is overly dependent on mult-inationals for its economic development. US-based China specialists such as Yasheng Huang see inward investment as a sign of weakness, and a lack of domestic entrepreneurial drive, rather than a sign of strength, implying that China is a "branch" economy of the advanced countries.

Lately, however, China has begun to change that. Not only has it established its own sovereign wealth fund, the China Investment Corporation, to invest $200 billion overseas, but national business champions are beginning to emerge. Lenovo's acquisition of IBM's personal computer division was the most eye-catching so far, but there will be many others in similar vein.

Though China should not be underestimated, it is important to remember that this is still a relatively poor country. While 400 million people have been lifted out of poverty on the United Nations' definition over the past three decades, average per capita incomes remain low, around $1,700. Even now, China barely makes it into the world's top 100 in terms of gross national income (GNI) per capita.

The reality of life for many Chinese is not urban living, or gleaming new factories owned by multi-nationals. For the majority, 750 million, it is the often grinding poverty of rural life. Even in 2030, according to the Chinese government's own estimates, 600 million people will still live in the country. They are not a world-beating competitive labour force, though some will provide the "factory fodder" for China's industrial expansion.

That is changing, and rapidly. Visitors tend to head for places like Beijing's Silk Alley, where branded goods can be bought at lower than Western prices. But for some of China's new consumers, at least, prestige matters, as do expensive branded goods. Perhaps we should not be so surprised. China already has an estimated 300,000 dollar millionaires and the number is growing by about 50,000 a year.

A country's prosperity is not, of course, measured by the number of its super-rich. But the middle-classes are growing and account for 12 per cent of global luxury

goods sales, third only to America and Japan. Before long China will be the biggest market for consumer products in the world. There will be economic setbacks, but they will not prevent China's consumer markets growing.

What about China's demand for natural resources? Combine a large population with rapid rates of economic growth and China's claim on global resources will grow. China now out-consumes the United States in four of the five basic food and industrial commodities; grain, meat, steel, and coal, oil being the only exception. China consumes nearly 50 per cent more grain than America and nearly twice as much meat. China is the world's second biggest oil consumer, having overtaken Japan, and has America in its sights.

The impact is undeniable. What happens next? Between 1990 and 2005, China's oil consumption rose by between seven and eight per cent a year. Extrapolating these rates of increase forward produces some impossible results. Within half a century China would be using the whole of current world oil output. It will not, of course, happen, but fears of resource shortages will grow.

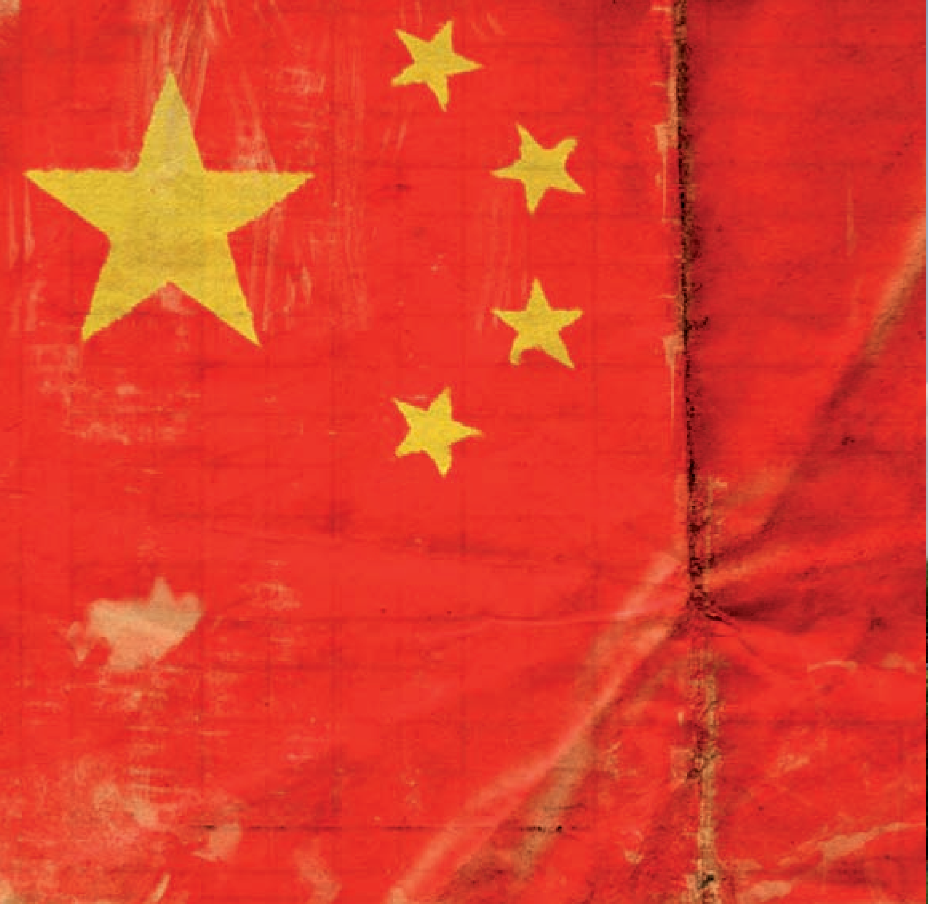
"The emergence of new major players in global energy markets means that all countries must take vigorous, immediate and collective action to curb runaway energy demand," says Nobuo Tanaka, executive director of the Paris-based International Energy Agency. The IEA is increasingly focusing its attention on fast-rising energy demand in China, as well as India.

It is not just a question of energy demand. China probably overtook the United States in 2007 as the world's biggest emitter of greenhouse gases. Coal-fired power stations, using old and dirty technology, are being opened at a rate of at least one a week, China accounting for a third of global coal consumption.

Will China destroy the planet? Poorer, fast-growing economies have more heavy industry, use older technology and are less efficient in their use of energy. On the face of it, the rise of China is bad for the planet. Roughly speaking, every one per cent of economic growth in China requires an increase of one per cent or more in energy use, compared with half or a third of that even in America.

There is another side to the story. While China has not been solely responsible for the rise in global energy prices, it has clearly contributed to it. High energy prices mean a greater emphasis on efficiency, and may be more effective in this respect than global warming warnings.

It is possible, indeed, to combine growing energy demand in China with a drop in global carbon emissions. Price Waterhouse Coopers did this is in a set of simulations, which assumed greener growth in the West and a drop in its share of emissions. That,



however, requires some tough decisions.

That is one area where China faces some difficult interaction with the rest of the world, but there are others. As the axis of the global economy tilts towards Asia, led by China's rise, the pressure on Beijing will grow. In Washington, many policy-makers see America's current account deficit and the loss of jobs in the rust belt as directly related to the growing Chinese trade surplus. There is pressure for protectionist measures against China, pressure that may grow stronger when there is a change of US president.

The European Union has imposed restrictions on Chinese imports of clothing and shoes, under anti-dumping rules. In the US Congress, where protectionism is never far below the surface, there has been hostility to the takeover by Chinese state-owned enterprises of America's corporate assets. There was opposition to Lenovo's acquisition of IBM's personal computer division and to the proposed takeover by CNOOC, the Chinese oil company, of Unocal of California.

Henry Paulson, the US treasury secretary, has continued to press Beijing to allow its currency to rise more rapidly against the dollar and other currencies. China now gets invited to meetings of G7 and G8 finance ministers, though the membership of these groupings has not yet been formally expanded. So far, however, this has not resulted in any shift in currency policy. It is a central issue, according to the Organisation for Economic Co-operation and Development (OECD).

"In current circumstances, a striking feature as regards exchange rates is the so far limited appreciation of the currency (the renminbi)," says Jorgen Elmeskov, acting head of economics at the OECD. "Given symptoms of overheating and high domestic inflation, faster appreciation would seem to be in China's own interest. It would also allow less emphasis to be put on direct intervention and regulatory instruments to contain inflation, with beneficial effects for the economy going forward. At the same time, it would help shift demand towards other countries where downside risks are currently larger."

That will be a source of pressure on China for some time to come. Will it seriously hamper China's extraordinary rise? Three decades of growth represents a lot of momentum. Goldman Sachs, and others, think China's rise will mean that it overhauls America's level of GDP in the coming decades, despite some of the strains that growth is bringing in its wake. 2008 will be China's year. There will be many more such years to come. ■

Page 25: Traditional flag dancing in Shanghai
Pages 26-27: Bank of China in Shanghai, The Great Wall, Incense burner
Above: Chinese national flag, The Tiananmen Gate

CHINA AND SAUDI ARABIA

For several years, China's trade with Gulf Co-operation Council (GCC) countries has outpaced even its rapid rate of growth with the rest of the world. Part of this reflects China's powerful demand for oil and related products, but there is also evidence of growth in other areas.

Since King Abdullah Bin Abdulaziz Al Saud, King of Saudi Arabia and Custodian of the Two Holy Mosques, visited China in 2006, the first such visit since diplomatic relations were established in 1990, trade between the two countries has been growing at more than 50 per cent annually.

There are also significant two-way investment flows. In May 2007, Saudi Aramco announced $5 billion of refinery investments in China, including an investment in a refinery being built by Sinopec in the eastern Chinese port city of Qingdao.

In April 2007 the China National Machinery Industry Corporation, Sinomach, and China Nonferrous Metals Industries Foreign Engineering and Construction Co, NFC, signed an agreement to build a complex producing 1.6 million metric tonnes of alumina and 700,000 tonnes of aluminium annually in Jazan Economic City in the south of Saudi Arabia.

The agreement covered the entire engineering and fabrication of the complex, which will use imported bauxite from Greece. The Chinese companies will also take a stake in the project. Amr Al-Dabbagh, Governor of the Saudi Arabian General Investment Authority, SAGIA, said the investment is among the largest ever made by China in the Middle East. It was perhaps the strongest sign that Saudi Arabia and China are increasing investments in each other's territories and strengthening a trade relationship built on China's need for oil to fuel its economic growth.

More recently, in November 2007, China was awarded $443 million of contracts to build the third terminal at Jeddah Islamic Port (JIP). Saudi Trade and Export Development Company (Tusdeer) signed a deal with China Harbour Engineering Company (CHEC) to build the Red Sea Gate terminal over 22 months, beginning in January 2008. The new terminal, designed by the British engineering consultancy Halcrow, is scheduled to begin operating fully in the fourth quarter of 2009 and will increase the port's capacity by 45 per cent.

Below: **Li River, Guilin, China**

Global Medicine Men

No longer do patients want to cross the world to seek the best in treatment. In response commercial healthcare organisations are adopting a new business model, aware that they need to operate in a worldwide marketplace to make an impact.

By Claudia Flisi

Right: Steven Thompson

Maryland executive Steven Thompson has a mission. So does Dr Akef El Magrabi, ophthalmologist and entrepreneur in Saudi Arabia. So does Professor Nagi Khouri, born in Palestine and raised in Lebanon. All three are examples of individuals who want to extend good healthcare practices beyond narrow geographic boundaries, and want to improve medical research and disease prevention programmes on an international scale.

El Magrabi and Khouri are physicians, so their interest in medical missions is understandable. Thompson is vice-chairman of Johns Hopkins Medicine International (JHMI), a non-profit organisation created in 1998 with the explicit mission of improving health and healthcare education, encouraging research, and enhancing patient care. "We carry out our mission through a variety of institutional arrangements, aided by the rising wave of privatisations worldwide," Thompson explains.

There is a good commercial reason, too, behind this strategy. Patient behaviour has changed. No longer do they come in such large numbers from the Middle East to the United States. The quality of local medical services has improved dramatically, so any institution with ambitions to treat international patients has to have a global strategy.

JHMI is an offshoot of Johns Hopkins Medicine, one of the pre-eminent healthcare research organisations in the United States. "For the first 120 years of our existence, our model had been for people to come here {Johns Hopkins Hospital in Baltimore} to take advantage of the medical care we offer," says Thompson, who is also senior vice-president of Johns Hopkins Medicine (JHM). "But in an era of globalisation, it makes sense that we be global."

Hopkins does not have the international medical market all to itself. Among the organisations with an overseas presence is Cleveland Clinic, which owns a small piece of a hospital in Jeddah. In Dubai, Harvard advises on a "healthcare city", and the Mayo Clinic runs a cardiology centre in Dubai. Cornell has a full-scale medical school in Doha, Qatar, while the University of Pittsburgh Medical Centre operates a transplant facility in Palermo, Italy, and is developing two cancer centres in Ireland."

Hopkins has been active internationally for many years and has had exchange programmes for students and faculty for decades – in the 1980s El Magrabi was sending some of his students from Saudi Arabia to Hopkins' Wilmer Eye Institute for specialised ophthalmology training. Moreover, Hopkins has always attracted international patients to its Baltimore hospital – these are highly sought after because they pay full cost without the burdens of US bureaucracy, and Hopkins offers a host of specialised services to accommodate them. These include translators in dozens of languages, assistance

Below: Johns Hopkins Medical Campus

Patient behaviour has changed. No longer do they come in such large numbers from the Middle East to the United States. The quality of local medical services has improved dramatically, so any institution with ambitions to treat international patients has to have a global strategy.

in finding lodging for family members, and "meet-and-greet" upon arrival.

That market, though, is not what it was. In 2003 the hospital reportedly treated only about half the 4,500 patients it had looked after two years earlier. Although numbers are on the increase again, it is still likely to be less than 3,500 this year. The organisation's response was to put an even greater emphasis on the strategy of systematic international expansion, an approach that would make it possible to reach many more patients than could be accommodated in Baltimore.

The first move was the creation of Johns Hopkins Singapore in 1998. Today there are two 18-bed units inside a larger oncology hospital. Hopkins hires the doctors, scientists and researchers, with funding provided by the government of Singapore. The clinical arm, the Johns Hopkins Singapore International Medical Centre, recently became the first private hospital in Singapore to receive the Joint Commission International Accreditation

THE EYES HAVE IT

Sometimes near-blindness can improve one's overall vision. That has been the case with Prince Abdulaziz bin Ahmad bin al-Saud of Saudi Arabia. The prince suffers from retinitis pigmentosa, an affliction of the retina that results in poor night vision and can lead to blindness.

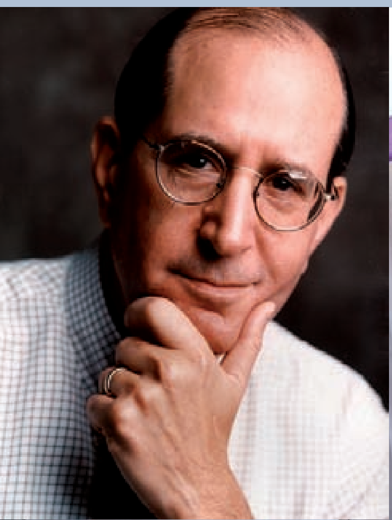
In 1986, the prince invited Dr Alfred Sommer, Hopkins' leading ophthalmologist and a world authority on blindness prevention, to Riyadh. Sommer has already met Dr Akef Al Magrabi, also an ophthalmologist as well as an entrepreneur, businessman, and chairman of Magrabi Hospitals & Centres of Saudi Arabia, who had sent some of his students to do specialist training at Hopkins.

Sommer recalls their first meeting: "I was told that I should meet this Saudi doctor. We set up an appointment but he was delayed and I had another meeting and couldn't wait. Then I went to a reception and this man suddenly pulled me to one side and began to describe his plans for helping all the school children in Saudi Arabia who had eye problems.

"He wanted me to visit five provinces in the Kingdom with local officials and doctors to examine the situation. He was very persuasive and I went. It was to be the first of many trips."

Because of his eye impairment, Prince Abdulaziz was willing to finance this and other initiatives. And his dedication to treating eye problems has not diminished: today he is the chairman for the Middle East of a programme called Vision 2020 – a global initiative to eliminate trachoma as a blinding disease. Al Magrabi is presently vice-president of the International Council of Ophthalmology. His hospital is now is the largest medical care network in the Middle East and encompasses 27 hospitals and medical centres, seven of which are run on a charitable basis.

Below: Dr Alfred Sommer, The Bloomberg School of Public Health



with outstanding overall performance.

However, says Thompson, the "all-in, full operations model" represented in Singapore will probably not be repeated elsewhere as JHMI embarks on an aggressive programme of international expansion. Instead, it is experimenting with a variety of other models – short-term limited consulting, more comprehensive consulting arrangements and affiliation models (both clinical and academic). Given the unpredictability of world events, not to mention natural disasters, flexibility will be the core principle – the events of 9/11 hit the company hard and it took three years to bring revenue back to pre-2001 levels. By 2005, however, the group had generated more than $51 million in downstream revenue, compared with less than $39 million in 2001.

Among the partnerships currently in progress, JHMI is working with the

ABOUT JHM

Johns Hopkins Medicine, located in Baltimore, Maryland, and its three affiliated hospitals includes the top-ranked hospital in the United States for 16 consecutive years, the consistently top-ranked school of public health, the number two medical school, and one of the nation's top nursing schools.

Although JHM was created in 1996, the Johns Hopkins University – its parent structure – is over 130 years old. Inspired by the German idea of research and academia co-existing in the same institution, the opening of JHU in 1876 marked the beginning of the American research university system.

Today it is big business as well, with total revenue in 2007 of more than $4 billion and attracting more federal research and development funding than any other university.

The Johns Hopkins Hospital opened in 1889, and offers advanced care in every medical specialty. Its 1,039 beds are supplemented by nine other centres, clinics, and facilities in and around Baltimore.

The JHU medical school, founded in 1893, was the first major medical school in the United States to admit women, the first to use rubber gloves during surgery, and the first to develop renal dialysis and CPR.

Many medical specialties, including neurosurgery, urology, endocrinology and paediatrics, were developed at Johns Hopkins Hospital. No fewer than 14 Nobel prizes for medicine have gone to researchers affiliated with Hopkins, not counting 18 other Nobel prizes to faculty and alumni of Johns Hopkins University in a variety of fields.

The Bloomberg School of Public Health, founded in 1916, is the oldest and largest school of public health in the world, as well as the top-ranked. It has 10 departments, including a department of international health, 500 on its faculty, and 2,000 students.

American University of Beirut (AUB) on the latter's academic programme in their medical and nursing schools.

This is where Khouri comes in. Since 1990 he has been trying to revive a once-successful "train the trainer" programme from the 1960s and early 1970s. Back in 1973, 30 per cent of the faculty at AUB had trained at JHU, doing joint programmes and research in diabetes, hypertension, consanguinity, cardiovascular disease, and cancer. All these diseases are prevalent in the Middle East because of increasingly sedentary lifestyles and a rich diet. Inevitably this relationship stopped when Lebanon disintegrated into civil war in the 1970s.

Khouri hopes that renewing this programme will position AUB as a research and teaching hospital for the entire Middle East. AUB Hospital, he points out, is already a teaching hospital with its bylaws in New York. The dean of its school of public health is a Hopkins graduate. He is currently looking for $5 million in funding to "make the hospital a regional institution for training physicians, build an intellectual and physical infrastructure, and invest in the future of the region".

In 2006 JHMI announced a consulting arrangement with a hospital in Dublin, Ireland, and continued its consulting contract with the Andalou Health Village in Istanbul, a 207-bed acute care hospital that opened in 2005. Andalou is an example of an affiliate relationship as well as consulting, with JHMI advising on issues such as architectural design, clinical programmes, risk management, infection control, operating rooms, capital equipment, and staff education.

Another affiliate arrangement is with the Clemenceau Medical Centre in Beirut, a 100-bed, state-of-the-art facility that opened last year as the first private hospital in Lebanon. It is now operating extremely successfully, having escaped the worst consequences of last summer's Israeli bombardment.

Also in 2006, Hopkins signed a 15-year management contract to run a hospital in the UAE state of Abu Dhabi. But the strategy has not been limited to the Middle East. In 2006 an affiliated hospital opened in Panama City, and a Centre for Safety, Quality and Management was launched with a technical institute in Monterrey, Mexico.

For all these projects, education is a top priority, emphasises Khouri. "Don't build beautiful hospitals and buy expensive equipment until you have trained the people needed to staff and operate them," he warns. Research is needed along with education, because disease prevention works hand in hand with reliable statistics and analysis.

Khouri warns of major health challenges facing the Middle East given that 30 per cent of its population is under 15. "The problem is not so much equipment as delivery," he says, noting that the region is coming to grips with the need to meet growing medical demands as its population ages. ■

THE MIDDLE EAST INITIATIVE

"Women are the key to the health of the family, so their well-being has a direct impact on the health of a country," notes Dr Nagi Khouri, associate professor of radiology and oncology at Johns Hopkins Medicine.

One way to improve women's health is to reduce mortality rates for breast cancer, the most common form of cancer in women. The fact that 80 per cent of women who contract breast cancer in the Middle East die of the disease within five years is cause for alarm, given that the opposite occurs in western countries: 80 per cent of breast cancer patients live more than five years.

The problem is partly cultural, admits Dr Khouri. Middle Eastern women tend to be fatalistic and are sometimes hesitant to touch their own bodies. But the major reason is lack of knowledge related to breast cancer. Therefore Johns Hopkins Medicine International is partnering with Saudi Arabia, the UAE, the US State Department, the Susan G Komen Breast Cancer Foundation and MD Anderson Cancer Centre on a new programme of public health and awareness in the region.

The Middle East Partnership for Breast Cancer Awareness and Research was announced by US First Lady Laura Bush on 12 June 2006. The official launch took place in Saudi Arabia on 1 November 2006, with a delegation from the King Faisal Specialist Hospital in Riyadh.

"Don't build beautiful hospitals and buy expensive equipment until you have trained the people needed to staff and operate them," warns Professor Nagi Khouri.

Right: Dr Nagi Khouri

Risk management is increasingly moving up the agenda of the world's largest companies. London has traditionally been at the forefront of the specialist insurance and reinsurance market, with Lloyds taking on the largest and most complex risks for the last 300 years. But, reports James White, market forces have no respect for tradition.

Risky Business

Driven by a range of factors such as the raft of major infrastructure projects across the region, the introduction of legislation for compulsory health and motor insurance in some countries and the emergence and ongoing development of takaful insurance products, the Gulf has become a key target growth region for an array of international insurance firms.

Whilst the Gulf states account for only 0.3% of the global insurance market premium, the Gulf market's growing sophistication can be seen in the emergence of local markets for the placement of risk. There is growing concern among underwriters in London, the world's largest insurance market, about the competition, as local insurers spring up in the Middle East.

"Local markets are developing and the rate of change is quite phenomenal," said Richard Ward, chief executive of Lloyd's. "What is clearly happening globally is that a lot of risks are tending to be placed locally rather than internationally. The challenge is to respond to that and ensure we see risks that would ultimately come back to the marketplace."

Research from the Economist Intelligence Unit has found that the average board, driven by the need to provide transparency to shareholders and potential investors, now spends about ten per cent of its time on risk management, twice as much as at the beginning of the decade.

There was a buzz at September's Global Middle East Insurance Summit, held in London, as industry figures discussed the huge potential for the insurance industry in the region. The last few years have seen a multitude of blue-chip financial services organisations make significant investments in the region, priming themselves to take advantage of the business opportunities, whilst Gulf financial centres have, for their part, developed the necessary regulatory environment.

Although the insurance market in the Middle East remains immature, it is fast evolving. Driven by a range of factors such as the raft of major infrastructure projects across the region, the introduction of legislation for compulsory health and motor insurance in some countries and the emergence and ongoing development of takaful insurance products, the Gulf has become a key target growth region for an array of international insurance firms, including brokers, insurers and reinsurers.

Below: Nigel Bond

The Middle East represents the fastest growing area of business for insurer Royal & Sun Alliance, which is targeting double-digit growth per annum in the region and aiming to double 2005 premium levels by 2010. Global insurance giant AIG has reported that the insurance market in the Gulf region is ripe for a major expansion. According to its own analysis, the market is expected to almost double in the next three years to reach a collective value of $4 billion. "This rapid expansion will be led by Saudi Arabia and United

A CAPTIVE AUDIENCE

Captives is an emerging area of the region's insurance sector and can provide companies with benefits including lower insurance cost, better coverage flexibility, improved price stability and potential investment returns.

Stephen Cross, chief executive of Aon captive services group, says: "People who are not thinking towards the alternative market still tend to buy their coverage on an each-line basis. However, carrying various lines of business in a captive will create a portfolio effect for firms, so even if one area of the captive does not perform particularly well, it is balanced out to some degree by the performance of other areas."

As more companies examine the benefits of forming captives to fulfil broader strategic management aims, the market has seen an emergence of onshore domiciles, particularly in the United States. Domiciles set up in the Middle East financial centres will see the large majority of business coming from local parent companies. Bahrain has led the way in captive legislation, with Dubai and Qatar not far behind.

The nascent Middle East market saw its first captive formation at the end of 2006. The set-up for Tabreed, a water-cooling company, is managed by Ensurion, an independent captive management company. Youssef Al Kareh, Ensurio's General Manager, said: "The Tabreed captive was a significant milestone in the development of the region's insurance industry. Insurance procurement is carried out through the captive, optimised with the support of an international panel of distinguished reinsurers and structured to provide the company with significant cost savings and controls."

More regional companies will follow the Tabreed example, according to Al Kareh. "We have a number of new clients in the pipeline, mainly in petrochemicals, logistics and marine. There are distinct advantages to Middle East companies in having a captive domiciled in the region. For example, it is more cost-effective from a geographic and logistical point of view to hold board meetings.

"Sharia sensitivities do not discriminate against captives, and whilst sharia-compliant captives are on our radar screen, it is not necessarily important to the larger corporates that we are dealing with."

As Middle East companies' influence in the global markets continues, it is likely that increasingly sophisticated approaches to risk management will emerge, leading to greater captive take-up. "I can envisage between ten and 15 captives being domiciled in the Gulf region within the next five years," concludes Al Kareh.

"Many companies are cautious because this new area is out of their comfort zone. But I'm confident that as the region's regulatory frameworks develop in the financial centres, resistance to change will lessen."

Arab Emirates," said Sumanth Badiga, AIG's chief financial officer for the Middle East.

The progress of the sector can be evidenced in the fact that four years ago ratings agency Standard & Poor's had no interactive non-life insurance ratings in the Middle East. Now there are 13, and a steady stream of other non-life insurers are requesting an interactive rating.

Furthermore, according to Nigel Bond, a credit analyst at Standard & Poor's, in their respective markets Middle East insurers are faring better than their western counterparts in terms of competitive position and operating performance, though their main challenge will be to manage such fast growth. An S&P report found that Middle East non-life insurers are generally rated lower than their UK counterparts, mainly due to the fact that they implement less developed enterprise risk management and have much higher risk investment profiles. "We expect the credit ratings on Middle East non-life insurers to move gradually higher and narrow the gap," added Bond.

Saudi Arabia is taking a different approach to that of the previous economic booms in the 1970s, by directing its surpluses of capital to significantly increasing the pace of economic development in the Kingdom rather than towards overseas investments. Developing the private sector will create much-needed employment and diversifying the economy away from oil. Over the next five years, the Kingdom plans to invest $70 billion in oil and gas infrastructure, a further $140 billion into general infrastructure projects, $92 billion into petrochemicals, $90 billion into electricity and water. The development of four economic cities will create one million jobs in a maximum of 20 years.

Development on such a massive scale will undoubtedly further fuel a Saudi insurance market which witnessed significant growth of 35 per cent in 2006, according to the Saudi Arabian Monetary Agency, with gross written premiums reaching £900 million compared to £687 million the previous year (see SA insurance snapshot).

This growth was primarily driven by favourable economic conditions and infrastructure projects, as well as by the introduction of compulsory motor insurance and health insurance. And it clearly

SA INSURANCE SNAPSHOT

General insurance gross written premiums, which represented 65 per cent of the insurance market, increased by 25 per cent to SR 4.5 billion in 2006, compared to SR 3.6 billion in 2005.

Health insurance gross written premiums, which represented 32 per cent of the insurance market, increased by 62 per cent to SR 2.2 billion in 2006 compared to SR 1.4 billion in 2005.

Protection & savings insurance gross written premiums, which represented three per cent of insurance market, increased by 13 per cent in 2006 compared to 2005.

As of 2006, 42 insurance companies were operating in the Saudi market. At present the market is in a transition phase, whereby existing companies are allowed to operate under a grace period ending in March 2008. At that point, insurance companies and other insurance service providers must either obtain a licence from the Saudi Arabia Monetary Authority (SAMA) – in accordance with the Cooperative Insurance Companies Law, 2003 – or exit the market.

Insurance companies that receive approval have to undergo an IPO, float their shares on the local stock exchange, and complete subsequent regulatory requirements before receiving a licence from SAMA.

CASE-STUDY

The large risks opportunities presented by the region have made it particularly attractive to brokers. International insurance and reinsurance broker Jardine Lloyd Thompson (JLT) has been active in placing Middle East risk over the last 20 years.

"The liberalisation of Saudi Arabia's insurance market via regulation to encourage private insurance start-ups was a necessary step for a region that is undergoing such significant indigenous growth," says JLT Group's international chairman, Mark Drummond-Brady, referring to the government-backed $624 billion investment programme for infrastructure and industrial projects which will take the country through to 2020.

In August 2007, JLT announced a joint venture arrangement with Arab Commercial Enterprises (ACE) in Saudi Arabia, which will see the broker significantly expand its distribution network in the Kingdom.

"We couldn't have wished for a better partner for developing our distribution in Saudi Arabia," says Drummond-Brady. "The agreement is a reinforcement of our already existing relationship. Where we have other important relationships, we see our new partnership as adding strength to those relationships."

Peregrine Towneley, JLT Group's strategic director for the Middle East, adds: "We are seeing strong growth in Saudi Arabia across the areas of business that you would expect, such as oil and gas, construction, marine and aviation. Interestingly, we are also seeing increasing demand from Saudi Arabian companies for credit risk cover, directors and officers cover, as well as professional indemnity.

"This could be viewed as a sign that Middle East corporates have to become more sophisticated in the way they manage risk, as they become more internationalised, largely through the acquisition of overseas companies."

Additional areas of future growth in the Kingdom, according to Towneley, will occur in the areas of accident and health and employee benefits. Growth in these areas will be linked to the development of increasingly innovative takaful insurance products and will present genuine opportunities to the reinsurance companies.

The Kingdom's commercial insurance market is becoming increasingly vibrant, in conjunction with the progress of its major infrastructure projects. Significantly the boom is locally based rather than a result of an influx of expatriates. The result is a more predictable and sustainable outcome. "In ten years' time, we expect that the Kingdom's insurance market will have developed into one of the most dominant in the Gulf region," concludes Drummond-Brady.

Below: Mark Drummond-Brady

TAKAFUL

Although global takaful contributions are set to grow at a double-digit rate, the industry is still small compared with the world's insurance sector, according to ratings agency Fitch. The main takaful markets are located in the Middle East and South-East Asia, with Africa accounting for a small percentage of total premiums. The major contributors in term of gross contributions are from Iran (64 per cent), Saudi Arabia (17.6 per cent) and Malaysia (7.7 per cent).

Many of the multinational insurers expanding into this sector are located either in Bahrain or Malaysia, where the required infrastructure is in place, and where they have been particularly pro-active in developing the necessary legal and regulatory environment.

The increasingly rapid economic development of the Gulf region and its current low insurance penetration rates provide some of the potential growth momentum for the future. In addition, the potential switch of existing insurance purchases from conventional insurers to takaful operators, combined with introduction of compulsory insurance legislation, will also drive the growth trend.

positions the market as attractive for overseas insurance companies, some of whom have already entered the Saudi market through joint ventures.

Insurance penetration, defined as Gross Written Premium (GWP) as a percentage of Gross Domestic Product (GDP), is still very low across the Gulf region. Penetration in Saudi Arabia was 0.44 per cent in 2005, increasing to 0.53 per cent in 2006. As might be expected, in 2006 around 60 per cent of premiums were generated by compulsory lines of business, namely motor and health insurance. Health insurance became the largest line of business, accounting for 32 per cent of premiums compared to 27 per cent in 2005.

The fastest growing lines of business were engineering and health insurance, which realised a growth rate of 84 per cent and 62 per cent respectively. The slowest growing lines were protection and savings and marine insurance, which both realised a growth rate of 13 per cent, whilst aviation premiums fell by seven per cent.

As Saudi Arabia's retail and commercial insurance markets continue to develop, driven by an economic boom, one of the main challenges will be ensuring a workforce which is fully qualified to service the sector. The next step for the Saudi insurance market, with the largest potential in the region, is to develop training opportunities in an industry where 82 per cent of its 4,200 employees are foreign.

Dr Abdaleh Saaty, Vice-Dean and Professor of Insurance at King Abdulaziz University, Jeddah, estimates that with the Saudisation laws requiring a 30 per cent local workforce, there are now 10,000 job opportunities with no qualified takers. In response, his university has launched a three-year insurance degree programme.

There is no doubt there will be demand for those graduates. The Middle East has long been attractive to large insurers specialising in high-risk sectors such as energy and construction. Now, due to legislative changes such as the introduction of compulsory motor insurance and medical insurance schemes, already enacted in Saudi Arabia and Abu Dhabi and under consideration in Bahrain and Qatar, the region has broadened its allure to a growing number of insurers.

As the regional financial centres develop and establish their regulatory frameworks in line with international standards, liberalising the markets further and the takaful insurance sector becomes more innovative, the one certainty is that the region's development as an insurance centre is just beginning. ■

Riyadh

City of beauty

By Peter Fulbright

Photography courtesy of Faisal Almalki, Paddy Eckersley and the Supreme Commission for Tourism (SCT)

Riyadh is truly the heartbeat of Saudi Arabia. Back in 1902, when King Abdul Aziz ibn Saud gave the order to tear down the mud-brick walls of Riyadh and begin its development, there were no tarmac roads in the Kingdom. There were a few cars, which can still be seen in the capital's museum, a lot of camels and camel tracks, but no roads.

Today there is a network tens of thousands of kilometres long, including a couple of thousand kilometres of eight-lane motorway. Hand in hand, there are pipelines for oil, gas and water – piped from desalination plants at Dammam on the Gulf 400 kilometres away – power-lines for electricity and plans for a new railway line across the Kingdom.

A traveller who has not visited Riyadh for ten years would be astonished by its rapid development. From the moment he lands at King Khalid International Airport, itself a marvel of design, wedding the traditional Arab style to the best of modern architecture, he will be aware that he has arrived in a dynamic and exciting modern city, the heart of a thriving prosperous economy.

In short there is now a mature infrastructure. The capital has been waiting patiently for its roots to spread

Right: Dira Square (courtesy of SCT)

Top Left: Al Masmak Fort in the old City of Riyadh (courtesy of SCT)
Top Right: Traditional Saudi Dance (courtesy of SCT)
Bottom Left: New building in the style of old Riyadh (courtesy of Faisal Almalki)
Bottom Right: Saudi boys in a national event (courtesy of SCT)

throughout the Kingdom and now it is ready to rise up and bloom; blooming, that is, in an architectural sense – or one of urban identity. The city's very name derives from the plural of the Arabic word "rawdah" meaning a place of gardens and trees.

As recently as 1950 there were palm groves and market gardens outside the walled mud-brick town. In fact there is archaeological evidence all along the Wadi Hanifah of a string of small oases with farms and settlements, which were occupied in ancient, early Islamic and recent times.

Among the thousands of dry water-courses etched into the desert plateau of Najd, Wadi Hanifah is, or was, unusually bountiful. It provided enough well-water in 1950 for about 50,000 people to live in Riyadh.

At that time there were bigger towns in the Kingdom, such as Jeddah, Mecca, Medina, perhaps even Dammam. However, if we fast-forward to 2008 we find Riyadh dwarfs all these put together, with a population of more than one million inhabitants, and nearly nine million projected by 2020.

Of course very little has survived from the mud-brick town of old Riyadh. Yet the Saudis value their history, so care has been taken to preserve a few key monuments. Chief among these is Qasr al Masmak, the high-walled fort with round bastions at its four corners, which stands in downtown like Riyadh's equivalent of the Tower of London.

It was built in the late 19th century by the Al-Rashid dynasty from Shammar in the north, rather than by local rival Al-Saud whose home was the Najd region. The beginning of the modern Kingdom dates from 1902, when Abdul Aziz ibn Saud and his followers captured the fort and thus restored his control of Najd, leading to the establishment of the Kingdom of Saudi Arabia in 1932.

As a connection to that very time, there is a spear-point from the attack still embedded in the gnarled wood of the

Care has been taken to preserve a few key monuments. Chief among these is Qasr al Masmak, the high-walled fort with round bastions at its four corners.

Right: Architectural details by Paddy Eckersley
Top Far Right: Diriyah (the capital of first Saudi State)
Bottom Far Right: Park area around the King Abdulaziz National Museum (courtesy of SCT)

great gates which you can reach out and touch. Inside is a wonderful maze of rooms and battlements, all built up from shallow stone foundations in massive walls of mud brick, with palm-log ceilings and roofs, finished in mud plaster, some whitewash and paint.

Perhaps it is over-restored, but it is beautiful nonetheless, and in the museum which it contains there are photographs of its working appearance as a prison in the 1930s and 1940s – notably by the English traveller Gertrude Bell and the English resident Harry St John "Abdullah" Philby.

Adjacent to the Masmak is Dira Square, a broad paved area with avenues of shade palms, with the Great Mosque, Palace of Justice and The Emirate set back on its sides. This was where the open souk stood at the centre of the old town. Now it is a pleasing and architecturally coherent set of low-rise buildings in baked brick, completed in the 1990s, which are styled to be modern, but also to echo clearly in colour and form the vanished adobe buildings of the past and the surviving Masmak.

Riyadh has a different "feel" to a western city. Here is the vast grid of a thriving metropolis, with huge street blocks, six-lane boulevards teeming with traffic, eight-lane expressways criss-crossing, and suburb upon suburb of villas and blocks spreading out for tens of kilometres. Large sections of this urban fabric are reserved for specific functions, such as new hospitals, state-of-the-art universities, the beautifully landscaped diplomatic quarter, gated compounds for foreign workers, and even the city zoo.

One of the most attractive sites to visit is the combined National Museum and King Abdulaziz Historical Centre. The former has superb displays of the archaeological and religious history of the Kingdom, while the latter includes a restored part of the late king's Murabba palace made of adobe, and a gleaming selection of his old Buicks and other American cars.

It is no accident that the landmark towers of the Faisaliyah

The capital has been waiting patiently for its roots to spread throughout the Kingdom and now it is ready to rise up and bloom.

Far Right: Kingdom Tower (courtesy of SCT)
Top: Faisaliyah Tower (courtesy of SCT)
Bottom: King Abdulaziz national museum in Riyadh (courtesy of Fahad Bahada)

and the Kingdom are both in the Olaya district, along with the luxury hotels, restaurants and shops. A string of ultra-modern shopping malls offers all the top international brands, including the first and only Saks Fifth Avenue store opened outside the US, in the Kingdom Centre, and a huge selection of top designer shops such as Louis Vuitton, Dolce & Gabbana, Lacoste and Hugo Boss, Tiffany & Co. in the Faisaliyah and Sahara malls.

The skyline of Riyadh is indeed set to bloom in the next few years, with state revenue riding high on a crude oil price pushing $100 per barrel. Beyond Olaya, the Crystals of Riyadh, The Jewel of Saudia and the Al Rajhi Tower are three new landmarks set to rise. The potential is limitless.

But Saudi Arabia is also planning to build six entirely new cities around the Kingdom, each of which will cast the projects of the capital in quite a modest light. These are surely the right priorities for a big and rich nation, to distribute rather than hoard the fruits of modernity, and to treasure history.

Take one last site example: the spectacular adobe ruins of Diriyah, which stand beside Wadi Hanifah about 30 kilometres from the centre of Riyadh – now on the edge of its north-western suburbs. This was the capital of the first Saudi state; forged in an alliance between the Islamic reformer Imam Mohammad bin Abdul Wahab and Prince Mohammad bin Saud.

It was besieged, bombarded and destroyed in 1818, by the Egyptian army acting on behalf of the Turkish Sultan. Few nations would trouble to care for such scant remains of broken mud. But since 1985 the Saudis have been patiently reconstructing the buildings and walls. Although there are years more work to do, the results are already touchingly beautiful; more beautiful, perhaps, than many a gleaming tower in Riyadh's new heart. ■


DEBENHAMS

Sir Kenneth Warren sees exciting and challenging times ahead for the air transport industry in the Middle East, as international carriers launch a remarkable surge in orders for new airliners to meet growth in passenger and freight traffic.

Up in the Air

An absorbing sight for observers of the geo-politics of the Middle East in 2007 has been the seemingly endless orders for new civil airliners, from wide-bodied giants to sleek business jets. Placed by airlines and charter enterprises along the Gulf, this surge of demand has already been registered within this international, highly competitive industry as a milestone in the evolution of world air transport. Everybody is asking what is going on.

This is not just a singular event, but an important indicator which demonstrates clearly the evolution of the Gulf from its world-recognised status as mass producer of oil and gas into new industries aimed at global markets: communications, tourism, and financial services. The Gulf is becoming big business in its own right. At the heart of this activity – and indeed an essential enabler of it – is the airline industry.

A keystone report on this dynamic expansion of home-based air transport resources in the Middle East and their deployment in the future was published by the Centre for Asia Pacific Aviation (CAPA). Entitled Middle East Aviation Outlook: The Next Generation Aviation Market, it demonstrates that the expansion is spread almost evenly along the southern rim of the Gulf.

These orders have entered the suppliers books during the period when the price of oil has been escalating steeply towards $100 per barrel, so it is a reasonable assumption that airline managements took into account the potential impact on their future profit forecasts when placing their orders.

CAPA points out that, whereas the rest of the world should be anticipating international air traffic growth of 4.8 per cent this year, the rate of growth in the Gulf will, at seven per cent, be nearly twice as fast. And the country to watch most closely is Saudi Arabia. That means not just the state-owned national carrier Saudia but also other new entrants to the market. According to CAPA, "the Kingdom's aviation sector has positioned itself to experience a near-total renaissance".

The reason for this transformation is the national carrier Saudia's drive to privatise and the licensing of new low-cost airlines. To implement the policy Saudia has relinquished half its exclusive operating rights on domestic routes. This made it possible for private enterprise airlines to enter the domestic market – and they have done so, eagerly.

Two new regional airlines have already been launched, Nas Air and SAMA. The former was not slow to demonstrate its eagerness and determination to develop its new market opportunity when it signed orders and options with the Brazilian constructor Embraer for 22 regional jets. Already it has established more than 300 flights a week operating to Abha, Dammam, Gassim, Hail and Tabuk. Meanwhile SAMA anticipates expanding its operating fleet of six aircraft today up to a leased fleet of 35 aircraft by 2010.

But whilst the magnitude of the new

> Exciting new market sectors are being marked out by private ownership and charters across the region, particularly in Saudi Arabia. Some industry experts believe that demand for business jets alone is growing at a compound annual rate of 40 per cent.

orders for mega-transports placed with Airbus and Boeing creates stunning headlines, it is important to remember that those deliveries are many years in the future for most of the airlines of the Gulf region. The challenge today is to resolve a much more immediate problem. They need more aircraft not to deal with future predicted demand but to meet the current, visible growth in passenger and freight transportation.

For example, Khalid Al Molhem, the Director General of Saudi Arabian Airlines, has not only ordered 20 new airbus 320s but also has plans to lease another 20. He is not the only one. Across the world aircraft lessors are being besieged by airlines which need new, bigger, more efficient transports – and they need them now.

Meanwhile at the main construction bases of Boeing in Seattle and Airbus in Toulouse, forward production slots are full for up to four years ahead, with only limited chances of significantly increasing output rates. However, there are rumours in the industry that Boeing is contemplating a new, parallel line for their B787 Dreamliner. Demand is rampant.

Even more remarkably, this record of growth is not one measured solely by what we might call conventional air traffic. Exciting new market sectors are being marked out by private ownership and charters across the region, particularly in Saudi Arabia. Some industry experts believe that demand for business jets alone is growing at a compound annual rate of 40 per cent.

There is evidence to back up this assessment. Without doubt this market sector was launched by the startling news that Prince Alwaleed bin Talal bin Abdulaziz Al Saud, Chairman of the Kingdom Holding Company in Saudi Arabia, had become the first person in the world to buy a giant double-deck Airbus 380 for his personal use. Delivery of this magnificent aircraft will be in 2010.

Meanwhile, not content with today's designs, Saudi businessmen Saad Wallan and Tarek Bin Laden have ordered new aircraft off the drawing board for charter work. Saad Wallan remarked that there is a significant change in the pattern of demand at this size range in that, for the first time, the purchases of small jets by government officials and sheiks have been overtaken by businessmen and high-net-worth individuals.

Another acknowledgment of this new market has been made by Edward Winter, Chief Executive Officer of Middle East NetJets of Saudi Arabia. He said that, whereas he has 12 aircraft currently operating now, he expects to have 60 in service within the next five years.

It is self-evident that there is growth across all sectors. The Arab Air Carriers Association (AACO), with a membership of 23 airlines, recorded 60 million international movements by their members in 2005 and expects that number to have risen by 13.3 per cent in 2007 to a total of 68 million. There are consequential effects, some of which may become serious and inhibiting, in the total operating regime. There is an inevitable, ever-growing strain on existing ground handling and maintenance facilities, let alone staff.

In Saudi Arabia the General Authority of Civil Aviation, recognising these challenges, has announced a $5.4 billion plan to upgrade its three principal airports at Dammam, Riyadh and Jeddah. The latter has a special responsibility in having to cater for 7.5 million Haj pilgrims each year, taking the total number of passengers using the airport up to 15 million. Its enlargement is recognised as a critical requirement for properly welcoming travellers, many of whom have travelled very long distances.

In parallel, ground maintenance facilities for aircraft must be attuned to keep aircraft up in the air, the only place where they can earn money. This is usually a slow and testing process for new entries into "repair and

overhaul", as some new bases in the region are discovering.

Luckily Saudi Arabia has such a facilities partnership with the Boeing Corporation. In 1982 Boeing set up two Middle East bases, one in Riyadh and the other in Abu Dhabi. This has proved to be a sound working relationship for the company and Saudi Arabia. Therefore it was no surprise when the Saudi Arabian General Investment Authority (SAGIA), which is well appraised of the imperative to be constantly attuned to maintenance efficiency, took the initiative of setting up Alsalam Aircraft Company, again in collaboration with Boeing. This ensured that the Kingdom had a state-of-the-art base, providing aircraft maintenance, overhaul, modification and technical support. Not only is this serving Saudi interests, it is a facility open to the whole region.

Inherent in this surge in aviation infrastructure is a coupling with the Saudi education system to ensure that there are recruits available of the calibre required to meet the extremely high standards required of everybody engaged in aeronautical engineering, whether working on the ground, or in the air. These standards are set internationally in air transport, for safety reasons above all.

While English is the common language of world aviation, the rigours of competition between airlines are alleviated and quality enhanced when the character of the home nation of an airline shines through in unique styles of service. Saudia's reputation for being a well-versed international operator, one with a personal touch, identifying its style of service directly with the Kingdom, keeps it in the front rank of competition.

The commitment of faith by the Gulf states that there will be ever-growing demand for passengers and cargo to be airlifted within their borders and across the world is shown by the orders to purchase and lease hundreds of new aircraft in the last year.

Not unnaturally this raises questions for every professional in the international airline industry. Are there commitments to the right number of aircraft, of the right types? Will they be delivered at appropriate rates and at the right points in time? How will the airlines generate the demand to fly and fill the huge wide-bodied jets? Are they planning to compete head-on with other carriers transiting the region? Or do they believe there is room for everybody in a growing market, with profits for all? Will the inevitable toughening of competition between Gulf-based carriers cause them to amalgamate? Indeed, will there be a survival of the fittest?

Taken together they make up an intriguing matrix of interlocking influences. There are reasons for confidence that the judgements have been correct. The dedication to success is a constant throughout. Enthusiasm abounds. International political strains and stresses are discounted as barriers. But the only certainties are that we are in for interesting times, and that we will only know the answer to these questions a decade from now. ■

Masters of Art

Contemporary art worth millions has become the fashionable must-have for the glitterati of the financial world. But, says **Sandra Lane**, discerning collectors are moving into some less-travelled but equally valuable territories, including Middle Eastern and Chinese art.

Left: Studio
Below: Studio Steps
BY ROY OXLADE

Above: Ace by Robert Rauschenberg, 1962

Art is hot, hot, hot; especially contemporary art. The record price for a single painting was broken three times in 2006. The world's most expensive piece of contemporary art was sold in August 2007 for $100m: November's auctions in New York saw record takings for the fourth year in succession: $325m at Christie's and $316m at Sotheby's. The latter achieved a new record for a living artist at auction: $23.6m for Jeff Koons' Hanging Heart. The previous record was also Koons, at Christie's just 24 hours earlier: $11.8m for Diamond (Blue). Until very recently an artist had to die before his work would hit eight figures.

But it's not just about headline-grabbing prices. As contemporary art has become the status symbol du jour for hedge fund managers, newly-minted Russian billionaires and other masters of the financial universe, some are eager to spend tens of thousands for a chance to rub shoulders with the wildly rich and/or fabulously trendy and get in on both the boom and the social scene that surrounds it.

When Vanity Fair and W magazines both publish art-themed editions, you know there's something going on. Suddenly, it seems, you need an art collection to mark you out as smart, cool and successful; the yacht and racehorses are no longer enough.

Attracting newer, younger, shinier clients, art fairs have become as much about people-watching and partying as they are about unearthing work by the newest talents. Attendance is surging at events such as Art Basel Miami Beach (ABMB) in December, London's Frieze (October) and New York's Armory Show (March), as well as the Venice Biennale.

Netjets says that it takes more people to ABMB than to the Oscars. Established just six years ago, this early December extravaganza has become the ne plus ultra of contemporary art fairs, with 26 satellite events surrounding the main show. This December 40,000 people swarmed in to snap up everything they could get their hands on – and party like there was no tomorrow. Los Angeles dealer Tim Blum says that he sold $5-$10 million worth of artworks on the opening day.

London's four-year-old Frieze tells a similar story: 151 galleries from 28 countries attracted 68,000 visits in 2007 and it is morphing from a straightforward art fair into a larger event where art is made and the cultural agenda is set. It now attracts a high proportion of serious collectors, not just visitors who, in the words of one regular exhibitor, "used to race in, grabbing the young, cool, hip and cheap".

So what is driving this boom? It all seems so much bigger and brighter than the last boom, which peaked around 1990.

According to Martin Guesnet, of Paris auction house Artcurial, the greater transparency of the market has helped to build confidence. Before, collectors could compare prices only by attending auctions and reading expensive catalogues, whereas today information is readily available online. "People can look at the prices," he said, and if a certain artist is commanding $1 million, "they see everyone is paying the same."

Another factor is what Guestet calls "lifestyle marketing". The idea that you need certain accoutrements to reflect your station in life is alive and well in the art world today. "The marketing didn't exist 20 years ago," he explains. "Now it is part of a community; part of the excitation. It is a very important element."

For some, owning provocative art confers a sort of social distinction. "If you own a piece of art work that is inscrutable to other people, it is a signal to them that you have sophisticated concerns about other things besides money," says William Goetzmann, a Yale professor with his own art index.

There is almost an air of trophy-hunting about it – and that particular fire is being stoked by a cult of celebrity. Celebrity artists (there have always been "bad boys" and girls in the artistic community; they just didn't get the media attention before), celebrity art collectors, celebrity gallerists hosting receptions for celebrity guests. It's reasonable to argue that – leaving aside the discussion of artistic merit – this contributed to the YBA (Young British Artists) movement of the 1990s achieving global notoriety, rather than remaining an interesting historical footnote.

But the biggest factor by far is the sheer amount of money available, not just in the world's established financial capitals but globally.

You can see it in the way art is paid for: 20 years ago many large purchases were made on credit (often provided by the auction house that was selling the work: remember Sotheby's $27m loan towards the cost of Van Gogh's Irises? That loan was never repaid). That's no longer the case – and there's a side benefit: cash purchases mean fewer forced sales if the market changes.

It's not just a matter of how much money but where it is coming from. New money from China, India and Russia is joining the chase and, notably, pushing up the prices of art from their own countries.

Leading Mumbai auction house, Osian's, reports that the cost of the average lot has risen from Rs 1.4 lakh at its first sale in 2001 to Rs. 66.7 lakh in its September 2007 sale. The turning point for Indian art came in 2002, when Tyeb Mehta's tryptich Celebration sold for more than $300,000. In autumn 2005 his Mahisasura achieved $1.58 million at Christie's in New York — the first Indian work to break the million-dollar barrier. Overall, prices for Indian contemporary art have risen ten-fold in the last five years.

A similar trend is starting to emerge in Middle Eastern art, with growing international recognition

for artists such as Safwan Dahoul, Hassan Massoudy and Qatar's Yousef Ahmed.

In November at a Christie's sale, Egypt's Ahmed Moustafa beat his own record for a work by an Arab artist with $675,000 being paid for his Polyptych of Nine Panels, while Farhad Moshiri became the highest-priced Iranian artist, with the $601,000 paid for his map of the world made of crystals' ten times the pre-sale estimate. The sale as a whole took $15m.

The hottest player of all in this new market is China. Christie's November 2006 auction in Hong Kong, saw a work by the surrealist-inspired painter Zhang Xiaogang sell for $2.3m. Then, in late May 2007, a painting by the cynical-realist painter Yue Minjun fetched $2.62m at another Christie's auction, several times its estimate. Days later, at the Poly Auction house in Beijing, a Shi Chong oil painting sold for almost $2.2m. However, that pales against the $9.5m paid by a private collector at Christie's Hong Kong sale this November for a set of gunpowder-and-ink paintings by Cai Guo-Qiang, a new record for a Chinese artist.

Interest in Chinese art is now global, as Asian

Above Left: Installation, Gagosian gallery
Above Right: Self Eater by Dana Schutz

buyers and a growing number of mainland Chinese have been joined by Hong Kong Chinese, Taiwanese, New York hedge-funders and European collectors. Charles Saatchi, Britain's most prominent collector, has been buying heavily for the past few years and is planning an exhibition devoted to the genre in his new London gallery in March.

Pondering the question of what comes first – rising prices or global interest – Henry Howard-Sneyd, Sotheby's managing director in Hong Kong, suggests that it may be the latter. Chinese art had simply been under-exposed and once that changed, "maybe the paintings were under-priced compared to the international market", he suggests. So is this a cultural equivalent of the dot-com bubble? "There's bound to be a correction," he told the New York Times in November 2006, "and then prices will simply level off." A year later the world still awaits that correction.

According to the Mei Moses art index, developed by two senior professors at New York University's Stern School of Business, Jianping Mei and Michael Moses, the performance of US postwar and contemporary art rose 55 per cent on an annualised basis for 2006. All indications are that 2007 will be at least as robust.

Is the market about to catch a cold? It depends who you ask – and when: for instance, on 4 November the Financial Times ran the warning headline "Market jitters to hit high art costs", and cited "Wall St guys…worried about losing their jobs, their bonuses…" as the cause. This was the same Financial Times that, exactly 20 days later trumpeted those record sales at Sotheby's and Christie's.

History has shown that the art market moves in cycles – usually lasting six to seven years. Each cycle has its favourites. Last time it peaked, around 1990, the Impressionists had their day, as Japanese property tycoons developed a passion for Van Gogh's flowers. A few years later, the value of such works had plummeted; indeed, the value of the modern art market as a whole fell by 50 per cent over the following five years.

It's impossible to know if the present price boom is cyclical, or part of a longer-term trend that will see prices move higher permanently.

It may simply be too soon to call: historically there has been a lag of between six and 18 months between the economic indicators turning and the effect being felt on the art market. On the other hand, the whole pattern of demand has shifted. Today's boom is not just one group of people buying one type of painting – and it's a global phenomenon. Demand is lifting prices across a range of categories.

The current mania for numbers perhaps clouds the real issue: why buy art at all? Does its financial value actually matter? Just like their historical counterparts – Renaissance dukes, 17th-century Dutch merchants – today's mega-collectors like François Pinault, Steven Cohen, David Geffen and thousands of not-quite-billionaires buy paintings for prestige, status, ego, a passion for collecting or all of those reasons. And not even billionaires like to see the value of expensive purchases decline over time.

However, you cannot apply any kind of normal valuation analysis to works of art. The only thing that determines the price of a given piece is the cultural perception of value attributed to it in any given moment. Clearly, that's no basis for making a reasonable prediction about its future value.

So, what to buy? Those headline-grabbing, record-smashing deals are not the best bets: Mei and Moses point to strong evidence of a negative "masterpiece effect", meaning that the most expensive paintings tend to under-perform in the art market index.

That said, if you view art as an asset class, Chinese contemporary painting must rank alongside the most alpha investments of all. For those with early-mover advantage, the returns have been astonishing. Based on current auction prices, some collectors' paintings have appreciated at a compound annual return of about 125 per cent over the past seven years: not quite Google stock but very attractive all the same.

So perhaps this is still a good time to invest. The question is: invest in what?

Buying early works from a specific artist can lead to spectacular returns. For example, a piece by abstract painter Cecily Brown sold for $11,000 at her second show, at New York's Deitch Projects gallery in 1998. Last year, a similarly-sized piece that had been in the same show sold at auction for $968,000. Further up the scale, Robert Rauschenberg's work from the 1950s and 60s can sell for eight-figure sums, while his most recent work makes little over $1m.

With all the mania for the new, the young and the Next Big Thing, there is a growing school of thought that it's worth looking elsewhere – specifically at older-established, albeit less fashionable artists, who have fallen out of fashion.

Take American Social Realist painter Jack Levine, for instance. Now aged 92, he was for decades one of the art world's most infamous bad boys, but now he has been shoved aside by the market's scramble to find the Next Big Thing. At the latest Art Basel Miami Beach a wall-sized painting, Bandwagon (Four More Years), painted in protest at the re-election of President Richard Nixon, was being offered for $165,000: by any measure a very good price.

Similarly, British painter Roy Oxlade, one of a small group that studied under David Bomberg in the 1950s, is regarded by connoisseurs as being undervalued, as are many of his peers. London-based Daniel Katz, himself a prominent dealer in Renaissance bronzes, began collecting British Modernist painters in 1998, inspired by the aesthetics. "I found out that there was no one really promoting them," he said. "Of course, everything has gone up over the past three years. But I still believe there are great things to be bought. This is in contrast to their contemporaries on the continent or in America."

Above: Zhang Xiaogang's oil on canvas work from the "Comrades" series displayed at Art Basel Miami Beach 2007

As Charles Saatchi, in a recent interview with The Art Newspaper, asked: "Who's to say what will one day appear to have been trendsetting? Sometimes artists who receive breathless acclaim initially seem to conk out. Other artists who don't register so keenly at the time prove to be trailblazers."

As a rule of thumb, nine of 10 works bought by collectors are eventually consigned to the aesthetic dustbin. That's why, for all the current art-as-asset frenzy, almost everyone in the art world will offer you the same advice: buy what you enjoy, for its own sake. Then, in the worst-case scenario, if the market bottoms out you're stuck with a work that you like, rather than one you can't stand.

Mega-collector Steven A Cohen, founder of Connecticut-based hedge fund SAC Capital Partners, gets right to the point. "I like things that make me laugh," he said recently. "Art is a great diversion from looking at numbers."

Rising Stars

Faisal Almalaki - Photographer

Faisal Almalki is an international award-winning photographer with a reputation that extends far beyond his home country of Saudi Arabia.

Aged 31, Almalki graduated with a marketing degree from King Fahd University of Petroleum and Minerals at Dhahran in Saudi Arabia.

After several years in advertising, Almalki is devoting himself to photography. "I have always enjoyed looking at photos, but it was only two years ago when I picked up a new camera and joined a photo forum and started working on a wide range of subjects that I realised what can be achieved," he says.

He has photographed in many countries and his portfolio of work covers everything from animals to architecture to fine art abstracts.

Ola Hejazi - Painter

Ola Hejazi is one of the outstanding examples of a modern, innovative and imaginative style of painting that is establishing Saudi Arabia's international cultural reputation.

Admired by critics for the depth, vision and inspirational qualities of her work, she has exhibited across the world, including most recently in Paris at the Europia Gallery.

"The inspiration for my work comes from many years of travelling over the world, from everyday life, and from some of my favourite artists, such as Frida Kahlo, Klimt, Klee, Miro, Matisse, Robert Rauschenberg and Marcel Duchamp," she says.

Hejazi has also held a solo exhibition in Jeddah and participated extensively in group exhibitions across the Middle East, including in Cairo, Bahrain and Abu Dhabi. She has won significant awards as one of the leading female painters in the Kingdom and also won international awards for her art.

Time to Savour

The burgeoning Slow Food movement has been established not just as a response to pervasive fast-food culture, but as the salvation of culinary traditions which would otherwise be lost. It is also dedicated to encouraging traditional farming methods and promoting biodiversity, says Claudia Flisi

Carlo Petrini, the founder of Slow Food, likes to cite the Greek philosopher Seneca in explaining why his movement has caught the attention of the world. If we eat well, he says, if we prepare natural, locally grown food in an environmentally friendly fashion and eat it in a convivial setting, we ensure better lives for ourselves and our planet.

A stylised snail is the Slow Food symbol: a snail moves slowly but deliberately and in direct contact with the earth. It is natural, edible and eco-friendly.

Slow Food was born in 1986 when Petrini, a food journalist from Piedmont, learned that McDonalds planned to open a fast-food outlet near the historic Spanish Steps in Rome. Petrini, who also had a background in social activism, organised a demonstration protesting at the intrusion of fast food into the traditional "slow food" of Italy, and highlighted his message with protestors brandishing bowls of pasta.

McDonalds won the battle of the Spanish Steps, but Petrini struck a resonant chord with many Italians. The idea of an alternative to fast food and all it represented – cheap gratification, uniformity of tastes, lowest common denominators and unhealthy ingredients – appealed to many who remembered the importance of home-cooked meals and conversations at the family table.

Today there is delicious irony in the name Slow Food. The organisation isn't "slow" at all. It has grown quickly in barely 20 years into a body with more than 800 chapters in 100 countries on five continents. And it isn't just only about food – it educates people about biodiversity and the food production chain as well as taste.

Petrini admits that he didn't know how fast his concept would spread. "I always envisaged a world of associations outside Italy," he says, "but you can never tell how things will progress." In fact, in December 1989, only three years after its creation, a manifesto for the international Slow Food movement was signed in Paris by delegates from 15 countries.

"We didn't have the concepts of biodiversity and ecology so clearly defined at the beginning, but we already had the idea of defending the integrity of the food cultures of countries," says Petrini. "We realised it was important to defend regional culture as linked to food, and combat the homogenisation of culture as it related to food, not only in Italy but elsewhere."

Reflecting Petrini's background in grass-roots organisation, Slow Food is built upon a series of local convivial, or chapters. Each convivium organises events such as themed dinners and visits to places of interest to foodies. It collects and distributes information about regional food, biodiversity issues. Petrini chose the name "convivium" deliberately to emphasise the importance of conviviality in the Slow Food community.

At the first Slow Food International Congress in Venice, the importance of food-based tourism was taking hold, notes Petrini, and the organisations promoting such efforts – at international as well as national levels – were becoming natural allies of the fast-moving snail. That same year the Slow Food Editore publishing house was created. Today the group publishes two magazines (Slow, in six languages, and Slowfood in Italian), guidebooks, food memoirs, itineraries, food studies and surveys, and taste manuals.

By the mid 1990s, the group's Italian name Arcigola was subsumed into Slow Food Italia, and two years later the Slow Food International Office opened, facilitating the already rapid growth outside Italy and Europe. Petrini also launched the first Salone del Gusto in Turin, originally a way to give food producers the opportunity to share experiences and benefit from greater public visibility.

"The idea was to create a moment of awareness, to offer initiatives that would increase awareness of cultural products, their richness and variety," he says. He recalls that the products on display then were regarded as "niche", since people believed that industrialised agribusiness was the future of the food industry. Since then more and more consumers have come to value quality over quantity on their table, he affirms.

The Ark of Taste, for example, which made its debut at the first Salone, was set up to save culinary traditions that would otherwise be lost. The Ark has identified over 500 animal breeds, fruit and vegetable varieties, prepared foods and specific dishes to date, including the American Navajo-Churro sheep and a unique variety of Greek fava beans grown only on the island of Santorini. All are endangered products with real economic viability and commercial potential.

Other regular Salone events include a Theatre of Taste, where international chefs prepare dishes in an amphitheatre with 60 seats, Dinner Dates where local restaurants and historic venues host theme dinners and Taste Workshops at which participants taste and compare different varieties of the same products.

"We wanted Taste Workshops right from the beginning. Unlike other food exhibitions, we were not trying to promote commercial interests but to heighten awareness," says Petrini. "It's pretty amazing to see 45,000 people sitting down for sessions, taking lessons in taste as if they were in school."

At the 2006 event, displays sprawled over four pavilions, with more than 300 producers from Italy alone, encompassing fruits and vegetables, spices, aromatic herbs, vinegar, tea and infusions, cheeses, cured meats, oil and condiments, cereals, pasta, breads, meats, desserts, chocolate, honey, jams and preserves. The Salone del Gusto is now an established biannual date on the international food calendar. In 2003 it won an award as the best international show of any kind. The 2006 show attracted more than 170,000 visitors, a 23 percent increase over 2004.

Slow Food has also moved into the awards business. In 2000 it awarded its first prize for the defence of biodiversity and launched the Presidia project. The former spotlights individuals and organisations working to encourage biodiversity in the agro-industrial field, while the latter was a follow-up to the Ark of Taste: Petrini realised that survival depended on economic viability, so Presidia facilitates small projects that assist groups of artisan producers.

More recently the Slow Food movement and the regions of Piedmont and Emilia-Romagna have set up the University of Gastronomic Sciences, which operates as an international research and training centre working to encourage traditional farming methods, protect biodiversity and develop an organic relationship between gastronomy and agricultural science.

To further these inter-relationships, Slow Food created a new biannual event, Terra Madre, whose aim was to develop a network of people involved in the production of quality food while preserving the environment and providing

Above: University Gastronomi

SLOW FOOD IN THE MIDDLE EAST

"A traditional Arab souk is like a mall, it's a seller's place, not a producers' market," says Kamal Mouzawak, president of Slow Food in Lebanon. Since Slow Food spotlights producers, Mouzawak needed to find an alternative to Beirut's souks to carry out the organization's objectives in his home country.

So in 2004, he set up a farmer's market organised to feature producers, not products. "Souk el tayeb is much more than a farmers' market," he says. "It has many educational projects and is an important meeting place in a city and a country that need to bring people together. Its name means 'market of goodness', representing good food, good taste, and good for society."

Souk el tayeb is held weekly, and is frequented by food lovers, restaurateurs, and people who are interested in supporting rural development. The focus is always on traditional food products, such as darfyieh, serdeleh and kechek elfoqara. Darfyieh is a goat cheese aged in goatskin and found in the mountains of Lebanon. Serdeleh is a goat curd made by leaving goat milk in a special glass container called a serdeleh for 15 days, after which the whey is skimmed off. Kechek el foqara is crushed, fermented wheat (bulgar), water and salt. It is called the cheese of the poor because not everyone can afford a cow or goat.

In addition to the chapter in Lebanon, there is Slow Food representation in Syria, Jordan and Egypt. These groups will form the core of a Terra Madre Arabia in Beirut in the spring of 2008. The event will gather farmers and producers from all Arab countries in an event that will mix elements of Salone del Gusto as well as Terra Madre.

Mouzawak is an enthusiastic proponent of the cooking of the Middle East, especially his homeland. "We want to exalt the richness of Lebanon, its geographical diversity with beaches, mountains, desert, the diversity of its climate and origins and religions. All this diversity means a very rich cuisine. Every country in the region has a different geographical context and different traditions, and modernity is threatening them too. So similar actions must be taken in all Arab countries through the efforts of local people."

social justice for food producers. The link between the Salone del Gusto and Terra Madre was intentional: the idea is that the two communities together can help preserve a global heritage and promote 'virtuous globalisation'.

Petrini acknowledges that the global production and consumption of meat must be reduced. "If developing countries start consuming meat at the same rate the industrialised world has done, we will quickly destroy the planet," he declares. This was the rationale behind Slow Fish, another international biannual event whose third renewal was held in Genoa last year. Because the problems of dwindling fish and water supplies are well known, Slow Fish emphasises education in its displays and conferences. "You can't have good ecology without good gastronomy and vice versa. Land, water, and a food community must work together," Petrini says.

Slow Food encourages the consumer to eat less "noble" species which have been largely ignored by cookbooks. "We also try to educate the consumer to defend the eco-system, and fight against invasive fishing techniques such as bottom trawling," says Petrini. "We need to work with governments and consumer groups. You can't do anything by yourself anymore, regardless of how big an organisation you are."

Slow Food's increasingly political role has made it more controversial: no one is opposed to eating better, but many private and government interests are opposed to a movement that rejects all but locally-grown food, that demonises the use of modified crops and fertilisers, that eschews some "modern" methods of farming and distribution.

One US agricultural official fears the Slow Food movement is aligning itself with anti-global and anti-US movements. "Slow Food has evolved into a world view, not only about food. The initial premise is wonderful but the movement should eliminate its darker side and the need to create an enemy," he says. "Globalisation is not necessarily a negative, it is not antithetical to local products and local distribution. It extends the range and availability of products. After all, what is so bad about enjoying strawberries out of season or bananas in cold climates?"

Above: Milanesio - Cheese 2007

Ironically, the US – along with Japan – has the greatest membership growth rate outside Italy. Currently there are 28,000 Slow Food members in Italy and 20,000 in the US, but the latter is expected to overtake Italy shortly as the country with the largest membership overall.

Slow Food is often accused of being elitist and out of touch with the mass consumer today. Critics say it is unrealistic for working families to devote hours each day to home-cooked meals, and the quality products espoused by the movement are more expensive than supermarket fodder.

Petrini bristles at these suggestions. "Today we have more free time than ever before in man's history," he insists. "The question is, how do we want to spend it? What we are moving toward is a philosophy of Slow Life, finding the time to find the things that give us pleasure so we can live better, as Seneca suggested. Food is among these things. If we go too fast, we miss it."

The Slow Food philosophy has spawned an entire movement devoted to "slow": slow cities (www.cittaslow.org), slow tourism, slow books, slow schools and slow living. The essence of slow living is that we should "stop and smell the flowers" and enjoy life more by accepting that faster isn't better, and more is never enough. ■

CORNUCOPIA IN THE DESERT

Saudi Arabia is friendly terrain for the Slow Food philosophy of embracing locally grown products. Since the 1970s the Saudi government has encouraged agricultural development within the Kingdom for a number of reasons: to develop employment, to diversify the economic base, to encourage population stability in rural areas, and to decrease reliance on food imports, all goals applauded by Slow Food.

The government's efforts were so successful that within a decade the Kingdom's farmers were providing sufficient quantities of many basic foods to supply the nation's requirements, says the Saudi Ministry of Culture and Information.

As well as a population of 27 mliion to feed, seven million pilgrims come to Mecca each year as well as tourists and business travellers. There are also more than 14 million chickens, seven million sheep, and 2.2 million goats, not to mention hundreds of thousands of cattle, camels, and Arabian horses that all require wheat and other livestock feed.

The Kingdom has been self-sufficient in its main crop wheat since 1984, and has been exporting its excess to the European Union, China, and Russia ever since. It is also a significant producer and exporter of dates, tomatoes, potatoes, watermelon, barley, and citrus, as well as mutton, chickens, eggs and milk.

Fishing is not neglected; the government has created a joint stock operation, the Saudi Fish Company, which provides a variety of fish and shrimps both for home consumption and export.

Visions in Green

By Sandra Lane

Ecotourism, green tourism, nature tourism, geotourism, sustainable tourism, responsible tourism: pick your buzzword. The value of the world ecotourism business is growing at an estimated 30 per cent a year and ecotourist destinations now attract about 15 per cent of the global tourist market, according to the International Ecotourism Society (TIES).

However, the "eco" word is in danger of becoming as debased and over-used as the word luxury, unlike luxury, though (which, one could argue, is partly a matter of taste and opinion) eco needs clear definition and tight quality controls.

Why? In the eternal search for the new, the greatest pressure is on novel, niche destinations – and these are usually the most fragile, either environmentally or culturally. And with money to be made by claiming eco credentials, there's a lot of "greenwashing" going on.

The proposition is "sustainable development" and "responsible tourism" and it's becoming clear that it can co-exist with and directly support long-term conservation efforts. However, by definition, sustainable tourism must be small-scale and well operated in order to be beneficial to most stakeholders. The consensus now is that that the definition embraces indigenous communities and cultures, as well as flora, fauna and landscape.

The good news is that sustainable tourism is attracting a new breed of hotel owner. Visionaries who are willing to invest what's needed to build well in remote places. As one of the owners of Mozambique's Vamizi Island Lodge explains: "I think we all like the idea of 'putting something back', especially in places where we still have a chance to make a difference. You know, once [we had] seen Vamizi [we] became obsessed with saving it, and understood what damage we've done to other parts of the world."

If you hanker after the urbanised trappings of a mega-resort; if you balk at the idea of paying US$500 for a place without TV, telephone or Internet, possibly with no air-conditioning, then it's not for you. This is a different kind of luxury; something simpler and more authentic, which provides the kind of adventure that makes the heart sing. Almost "non-hotel" hotels, they prove that being sensitive to the environment and providing fabulously stylish and comfortable surroundings are not mutually exclusive.

BAMURRU PLAINS LODGE, Australia

You wake in the morning to the chorus of thousands of magpie geese, the raucous cry of blue-winged kookaburra and the splashing of water buffalo in the floodplains just a few metres from your suite.

On the Mary River delta in the top end of Australia's Northern Territory, Bamurru is an amazing wilderness experience. Part of the 300-square-kilometre Swim Creek Station, it has just nine suites, each of which is built on a raised timber platform to minimise its impact on the land.

The extraordinary ecosystem of this coastal floodplain, which includes paperbark swamps, river mangroves, vast reed beds, coastal beaches and savannah bush, is home to remarkably diverse wildlife. You will see wallabies, dingoes, crocodiles, buffalo and wild pigs, along with fantastic bird life – 236 different species have been counted – and one of the largest crocodile populations in Australia.

Inspired by the luxury safari camps in Africa, where its owner, Charles Carlow, began his career, Bamurru owes its "Australian bush chic" style to a mix of screened windows and corrugated iron, polished wood floors and earth-toned fabrics.

Most of the food is sourced locally – and the cooking is both creative and delicious. Highlights include kangaroo carpaccio seared with black pepper, and stir-fried emu with ginger.

Everything, including the air-conditioning, is solar-powered. But there are no televisions, telephones or CD players. In the evenings, Bamurru's soundtrack is the stillness of the wild; during the day you will be getting out into that wilderness with the camp's guides. Game drives here are by airboat or on horseback and there's great fishing, too, whether for barramundi in the river or for larger game out on the reef.

Above: Bamurru Plains Lodge, Australia

HOTELITO DESCONOCIDO, Mexico

Ground-breaking when it opened almost 10 years ago, the Hotelito remains an icon of both "eco" and chic, thanks to the unshakeable conviction of its owner, Italian designer Marcello Murzilli.

Set on a lagoon in the heart of a nature reserve, it offers 65 kilometres of wild and deserted coastline, 150 bird species, a federally protected turtle sanctuary and, during the migratory season, a parade of whales and dolphins passing close to the shore.

Designed and built using the traditional methods of an indigenous fishing settlement, Hotelito's 24 palafitos (cottages) are set on stilts above the lagoon or on the ocean beach. The bamboo walls, reed mats, palm-frond roofs and handmade furniture have been painted in bright, Mexican colours. There's no electricity: the rooms are kept deliciously cool by solar-powered ceiling fans and the sea breeze, windmills pump the water and hundreds of candles light up the nights.

All used water is purified and returned to the wetlands; all food is from local organic sources and the fish is line-caught nearby.

While the impact of the Hotelito on the environment is minimal, its impact on the local economy has been enormous. Local craftspeople built the hotel, the staff come almost exclusively from the nearby village of Cruz de Loreto, and the hotel helps to fund the nearby sea turtle research station.

It's a place either for lazing around and enjoying an afternoon massage before gazing at the sunset or for getting active and exploring the estuary by kayak, riding a horse along the beach, sending newly hatched turtles safely to sea or taking windsurfing lessons.

VAMIZI ISLAND LODGE, Mozambique

Set on a remote and dream-like island fringed with white sand and spectacular reefs, so unspoiled that few of the diving sites have even been properly mapped, Vamizi is more than just a stylish castaway retreat. Its owners – a syndicate of private investors – have bigger ambitions. The island forms part of the Cabo Delgado Biodiversity Project, aimed at conserving 33,000 hectares of savannah on the mainland and two other islands close to Vamizi in the Quirimbas archipelago.

Researchers, working with the Zoological Society of London, have been studying the mainland reserve and three islands. More than 100 species of birds, four species of turtle and giant coconut crabs inhabit the area. Offshore there are more variations of coral than on the Great Barrier Reef. Turtle populations have been counted, tagged and protected and on the mainland farmers are being helped to avoid conflict with elephants over their precious crops.

So far, money from the lodge on Vamizi has been used to build a clinic, supply medicine and buy books for a school. Villagers are employed at the lodge, fish is bought from the local boats whenever possible, and fishermen are being taught the value of sustainable fishing techniques.

The lodge itself epitomises barefoot luxury. Set at least 25 metres apart to enhance privacy and raised on platforms to minimise damage, its ten stylish cottages are tucked discreetly among the casuarina trees and slightly back from the beach so as not to disturb the nesting turtles. The construction uses almost entirely indigenous materials – timber, makuti (palm) thatch and stone – thus supporting the local economy.

King-size beds are draped with natural muslin mosquito nets, although the island is malaria free, Mozambique marble has been used to create a great sunken shower and "his" and "hers" sinks and, instead of windows, wooden latticed shutters give shimmering views of the cobalt sea.

AMANWANA, Indonesia

East of Bali and Lombok, Moyo Island feels much more remote than it is. An easy hop by amphibian from Bali's Denpasar airport takes you directly to the secluded cove where Amanwana is tucked discreetly among the tall trees at the edge of the shore.

Local planning laws forbade the building of solid structures, so Amanwana uses tents – 20 fabulously beautiful tents. With their teak walls and polished hardwood floors, they have a lot more in common with a fleet of classic yachts than army camp. Amanwana is at the furthest, most pampering end of the eco spectrum. The food is delicious, the air-conditioning works a treat and the masseur is world-class.

Just offshore there's great diving, on reefs that remain beautifully unspoilt – and populated by pygmy seahorses, ghost pipefish and frog fish. Diving guide Kaz is a local boy who couldn't even swim five years ago; the hotel taught him as part of its scheme to hire and train local staff.

The island itself is mainly a nature reserve – over 36,000 hectares of vegetation that ranges from savannah to tropical jungle – with a scattering of villages. It's a deeply peaceful, almost prehistoric-feeling Eden, where you'll find extinct volcanoes with lakes in the craters, bat caves filled with bat-eating pythons, the occasional herd of wild boar, hordes of native deer, and crab-eating macaque monkeys that delight in bouncing on the tent roofs. A short boat-ride to the other side of the island takes you to the most spectacular waterfalls.

If you thrill at the idea of seeing the world's rarest wildlife, you can add on a week's round-trip to nearby Komodo to see the dragons (but plan ahead; it gets booked up months in advance).

Far Left and Left: Vamizi Island Lodge, Mozambique
Top: Amanwana, Indonesia

ADRERE AMELLAL

On the edge of Siwa oasis in Egypt's western desert, Adrere Amellal is a world apart. By day you have endless views of the dunes that stretch into the Great Sand Sea. By night, beyond the glow of the candles, hurricane lamps and open fires, you have profound, velvety darkness and absolute silence. No generators humming to keep the place air-conditioned (the breeze-catching, traditional architecture makes it unnecessary); indeed, no electricity at all. No phones. No TV. Just the elements.

The walls are built of traditional kershef (bricks made of the local salt-rich mud), the roofs of palm leaves; bathrooms are open to the sky, furniture is made from palm wood found within the oasis; everything has been handmade by local labour. But this is far from primitive: the bed sheets are linen, the china is Limoges, the silver is Christofle and the cuisine is delicious.

As well as involving locals deeply (from the outset sheikhs and community elders were invited to approve the plans) care is taken to operate the lodge responsibly. Waste disposal is optimised through recycling and a compost pit. Waste water is treated aerobically and run-off is used to irrigate an organic vegetable garden. The grounds are being developed into a desert park to protect endangered flora and fauna, and the swimming pool is fed by a natural, mineral-water spring.

The lodge's 39 rooms are arranged so that you hardly have to see another person throughout your stay, if that's the way you want it. Every day you eat at your own private table, which moves with each meal. One dinner you are on the rooftop under the stars, the next you are in a round room whose walls are decorated with shards of salt that glitter in the candlelight.

360 LETI, India

For an extreme mountain experience – meaning extreme peace and seclusion – nowhere in the world matches 360∞ Leti, a mountain retreat that opened just a few months ago in the Indian Himalayas. You wake in the morning to a view of snowy peaks flushed pink by the rising sun and drift off to sleep at night gazing at the diamond-bright stars through the glass-panelled walls of your private pavilion.

It's a great place to simply sit, stare and think, and yet the lure of mountain walks – the camp's guides know just what's right for every degree of fitness – and fabulous photo-opportunities will be irresistible.

There are just four guest suites, each one strategically positioned to make the most of the stunning views (the clue is in the name, 360∞). Simple, sophisticated and stylish, the camp's construction combines the modern (glass and hardwood – all of which was carried by hand from the road-head, a 90-minute walk away) with the ancient: dry-stack stone wall construction, which is traditional to the area. To build the camp, its owners reopened a disused quarry nearby and revived the skilled techniques practiced by only a few families in the area.

The owners have ensured that the camp makes only the lightest footprint on its fragile environment. There is no electric lighting; all of the power is from sustainable sources, mostly solar; heat is provided by open fires that burn only "fallen" wood; the showers are gravity-fed; the bathroom floors constructed so that water soaks away naturally.

Great attention is paid to the camp's impact on the local community, providing jobs and training, while keeping things on an almost micro scale, to avoid compromising the villagers' culture. Even tipping is thought about carefully; the owners ask that guests contribute through Leti's Village Development Fund rather than making the cultural gaffe of handing over cash directly.

SEVEN KEY QUESTIONS TO ASK BEFORE BOOKING

1. Where does the on-site power come from? Is it generated by renewable sources such as solar, wind or water?

2. How much waste is recycled on site? Rubbish shouldn't be going to landfill and the sewage shouldn't be going into the sea.

3. Does the hotel work closely with surrounding communities? In what ways is it "giving back" direct benefits and/or minimising its adverse impact on local culture and society?

4. What water preservation measures does it have? Rainwater harvesting, grey-water recycling and water-saving devices should all be in evidence.

5. How carbon neutral is the resort? Items such as building materials and food should all be from local sources, to reduce CO^2 generated by shipping things from far away.

6. How is the resort designed and built? It should have the lightest possible footprint on the land.

7. Is this a destination that really needs – and will benefit from – my tourist money? What tangible evidence is there that the benefit is reaching where it is needed?

Left: 360 LETI, India

CONTACT DETAILS

BAMURRU PLAINS LODGE, Australia
www.bamurruplains.com +61-2-9571 6677 (Sydney Office).
Doubles from $1,400

HOTELITO DESCONOCIDO, Mexico
www.hotelito.com +52-322-281 4010
Doubles from $250 + tax + meals.

VAMIZI ISLAND LODGE, Mozambique
www.vamizi.com +27 11 884 8869 / mobile: +258 82 347 8560.
Doubles from $1,480

AMANWANA, Indonesia
www.amanresorts.com +65 6553 2555
Doubles from $1,100 full board

360∞ LETI, India
www.shaktihimalaya.com +91 11 4173 4788 (Delhi Office)
Doubles from $1,500. For exclusive use, please enquire.

ADRERE AMELLAL
www.adrereamellal.net +20-2-736 7879 (Cairo Office)
Doubles from $500 night

Rates quoted are approximate US dollar equivalents of local currency rates and are "full board" unless otherwise stated.

Paulo Coelho In The Days When Animals Spoke

World-renowned author Paulo Coelho suggests that animals have more wisdom to offer us than many modern philosophers.

When I was a child, a great many stories started with two phrases: the first and best-known was: "Once upon a time..." The second, also well known to Brazilians, was: "In the days when animals spoke..."

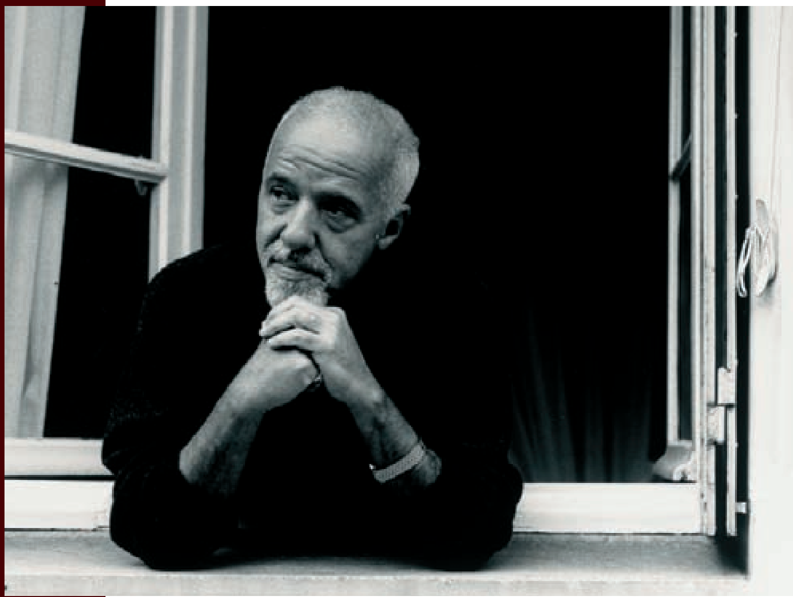
Perhaps this tradition began with the fables of an old slave, Aesop, who lived over two and a half centuries ago. The origins of the tradition are also legendary; depending on the encyclopedia consulted, its birthplace varies from Greece to Ethiopia. But this does not have the least importance, for the legacy has defied time, proved successful in all generations and is still alive today.

Now and again I reread what the fables teach, and they strike me as more important than the teachings of many current philosophers. Below are some fables that use the motif of the fox. These stories are so powerful that even today the poor animal is a synonym for cunning.

The fox and the monkey king: The animals decided that their king would be elected by the best dancer. At the end of a big feast, the monkey was crowned king. The jealous fox went for a walk around the neighbourhood. There he discovered a trap intact with food inside it. He swiftly picked it up and brought it to the group.

"I found this banquet and felt that I had to bring it to our king, who shall have priority in all things," he said.

In all innocence, the monkey stretched out his paw to get the food, and was caught in the trap. "You betrayed me!" he shouted.



"What do you mean?" said the fox. "I did not even try to take the food! But now we have seen that you are not fit to be king. An intelligent animal would never make a decision without first thinking through all the possibilities and dangers involved.

The fox without a tail: A fox was caught in a trap. She managed to free herself, but her tail was cut off. From then on, she considered herself fearfully ugly. But she found a solution. On meeting her friends she would say: "I think the latest style now is to have your tail cut off. It makes hunters covetous, and it's of no use to us, just a useless weight that we carry around."

"Dear sister," answered one of the friends, "if you had a tail, would you be giving us this advice? We are wise enough to know when someone wishes us well or when they just want to make us share their shortcomings."

The fox and the farmer: Tired of seeing his harvest always being devastated by the fox, the farmer managed to capture her. Without the least pity, he drenched her with inflammable liquid and set fire to her.

Knowing she was going to die, the fox began to run through the crops, and everything around her caught fire too.

As she ran, she shouted: "Next time, try to be understanding and indulgent! It's always better to give a little of what you have than to want to keep it all. Whenever we do evil, it ends up working against us."

The fox and the crow: The crow stole a piece of cheese from some shepherds and settled in a tree to enjoy it. At that moment a hungry fox passed by and asked for a morsel of the cheese, but the crow refused with a shake of his head.

Then the fox began to flatter the crow: he was smart, he knew how to fly, and he had beautiful black feathers. He had only one defect: he could not sing like the other birds.

To prove that the fox was wrong, the crow opened his mouth to sing, and the cheese fell to the ground. The fox seized it immediately and left, saying: "Dear friend, such is the price of vanity. When someone praises you so highly, you should always be suspicious."