East meets Middle East

Getting the recipe right

Few can negate the importance of the construction, infrastructure and property development industries in transforming the economies of many of the GCC countries. They continue to be very powerful and visible indicators of the development of modern Arab cities and infrastructure across the region. From ports, road, rail to power, water and transportation, the GCC has been, over the last 40 years, the epicenter of mega construction projects, all eagerly publicized to the world. In doing so it has created a magnet of attraction for the world's leading contractors, consultants, funders and investors, eager to play their part in the growing success of the region.

But as regional and global interests and influences change, as Asia reaches out ever westward, what will it mean for the construction, infrastructure and property industry? What trends should we expect? What benefits are to be gained? What significance of the clash of "East meets West" as increasingly, the East (Asia) meets the Middle East? Where are the opportunities in this increasing regional fusion with Asia and how should Middle Eastern businesses move forward to explore the benefits for their investment, development or infrastructure projects? Additionally, what separates fact from myth when considering whether looking East is the right call?

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The opportunities...

Firstly let us consider some of the 'big ticket' benefits that typify Asian market providers. These are in no particular order of significance:

1. **Size, capacity & price –** Many Asian companies have generations of expertise, track records and significant manpower to dwarf the size of many U.S./European competitors. All traditionally at a lower cost.
2. **Quality improvements –** Product research, development and technology has seen a boom over the last 20 years with matching benefits to higher quality and reliability of manufactured products and systems for the construction industry. While there is still a huge variance in cost and quality, effective procurement can yield significant benefits on both.
3. **Supply chain integration –** Most companies are either vertically or horizontally integrated providing collaboration opportunities throughout the supply chain for MENA companies. Others on the other hand prefer more local integration (including joint ventures) as a way of reducing delivery risk.
4. **Social Infrastructure know-how –** Many of the larger companies have grown through the delivery of national welfare agendas over many decades, in housing, health and education provision on a huge scale reflecting their high populations, budgetary constraints and geographical diversity.
5. **Heavy Infrastructure DNA –** As with social infrastructure many of these companies have grown and delivered to the industrialization agendas of their home and neighboring countries from power and utilities, rail, road, aviation, bringing vast experience and expertise. Consider for instance, China's railways move more people by rail in a day than anywhere else on the globe!
6. **Technology Transfer/Share –** The entering into strategic joint ventures to share and develop technology transfers, such as one between the UAE and Korean Governments to design, build and operate the UAE's new nuclear power stations highlights the "share and transfer" opportunities of such a collaboration on tangible assets delivery but also uniquely in intangible experience and know-how.
7. **Funding from Asian banks –** The One Belt One Road (OBOR) initiative from China is one of a number of Asian country initiatives focusing specifically on increasing overseas investment in the delivery and operation of core assets and infrastructure. The recent formation of the US$100bn UAE/Asian Investment Fund typifies this growing trend across the MENA region.

...and how to harness them

Recognizing the changing landscape and the scale and reach of many Asian organizations, how do businesses engage and evaluate whether this model would work for them?

1. Recognize that the Asian markets and industries have matured significantly over the last 20 years. With the appropriate procurement safeguards, the sourcing of high quality, technically advanced and reliable products is possible. The key is to be well informed and inquisitive.
2. Invest in effective and insightful advice on the Asian markets. This will allow for a stronger appreciation and integration

of cultural and technical differences from the outset. Remember that "differences" could often yield innovative solutions by challenging pre-conceived norms thereby "pushing the needle." For example, perhaps reducing Capex investment without increasing Opex costs, or introducing new proven Asian technology into the MENA market.

3. Seek early advice to understand and map potential collaborations/joint venture options. Focus needs to be on more than just how these might work from a legal perspective but also from a cultural and operational perspective. For example - how will the combined delivery team work? Do business cultures align, compliment or potentially clash? Who will lead the joint venture? How will data be managed? What project controls will be adopted? How will each partner manage and comply with financial reporting, quality assurance and quality control (QA/QC) requirements? You can see how the complexity quickly rises!
4. Identify and nurture new relationships with an experienced advisory partner, familiar with the Asian markets who can locate, navigate and support (sometimes arbitrate) a new venture from the forming to performing phases of any new joint venture/team formation. The advisor should act as the independent broker to defuse any differences and (often cultural) suspicions that sometimes arise purely from a "lost in translation perspective." Ensure that you remain focused on successful solutions and aligned outputs at all times, not politics, as has unfortunately happened once too often.
5. Ensure that early and strong governance, processes and procedures/project controls are developed and deployed. Ensure that the new organization is designed and supported by proven technology to underpin everything it does.
6. Ensure that your advisory firm is experienced in interacting and dealing with Asian and international business practices and cultures. Overlaying this with MENA insight and experience can provide a potent and winning formula.
7. Research and understand the benefits of potential investment support or third party funding. What are the terms of the agreement? How does this benefit or complicate your own future strategic goals, including exit options? Does the funding also leverage potential benefits in lower construction costs through wider collaboration?

With the slowing of the MENA markets it seems inevitable that many companies will increasingly come under pressure to deliver more for less. To meet this new agenda, it is worth reappraising and embracing the Asian model as an opportunity.

By redefining the relationship with Asia and taking a measured but collaborative approach, leading companies should be able to successfully access core capability, resources, strong supply chains as well as potential financing via Asia's largest banks, developers and construction companies.

Part of the secret to success in this complex fusion of businesses and cultures is appointing the right advisor to balance these undeniable but navigable differences and in so doing, achieving the synergies of this powerful East meets Middle East fusion.

It's all about getting the recipe right.

by **Andrew Jeffery**, Managing Director, Capital Projects, Deloitte Corporate Finance Limited

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