

WORLD SPACE RISK FORUM

Dubai, 1ST March 2010

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AGENDA

- 1. “Great Recession” & Changing Economic Geography**
- 2.Challenges /Potential Ahead**
- 3.Role of DIFC & Development of Financial Markets**

Three Major Lessons from the “Great Recession”

1. Globalisation means fragmentation, reassembling and a redistribution of power: diminished power of its advocates (US, UK) and strengthened its targets (China, EMEs)

2. Neoliberalism which sought to limit the size & power of the State has delivered a bloated state with a pervasive role of Government: TBTF & TITF **TSTF** financial sector has captured the State

3. Polycentric world emerging: politics, social & ethical values, economic and financial regulation are to be redefined: *“The Western-centric conception of modernisation that shaped thinking and policymaking in much of the world over the last hundred years belongs in history's trash heap.” John Gray*

World & GCC Economic Growth Outlook: delinking of Emerging Markets from Advanced economies

	2006	2007	2008	2009	2010f	2011f
World output	5.1	5.2	3	-0.8	3.9	4.3
Advanced economies	3	2.7	0.5	-3.2	2.1	2.4
United States	2.8	2	0.4	-2.5	2.7	2.4
Euro area	2.9	2.7	0.6	-3.9	1	1.6
Japan	2	2.4	-1.2	-5.3	1.7	2.2
United Kingdom	2.8	3	0.5	-4.8	1.3	2.7
Other advanced economies	4.6	4.7	1.7	-1.3	3.3	3.6
Newly industrialized Asian economies	5.6	5.7	1.7	-1.2	4.8	4.7
Emerging and developing economies	8	8.3	6.1	2.1	6	6.3
Developing Asia	9.8	10.6	7.9	6.5	8.4	8.4
China	11.6	13	9.6	8.7	10	9.7
India	9.8	9.3	7.3	5.6	7.7	7.8
ASEAN-5	5.7	6.3	4.7	1.3	4.7	5.3
Middle East	5.7	6.2	5.3	2.2	4.5	4.8
Western Hemisphere	5.7	5.7	4.2	-2.3	3.7	3.8

Real GDP growth (Annual change, %)

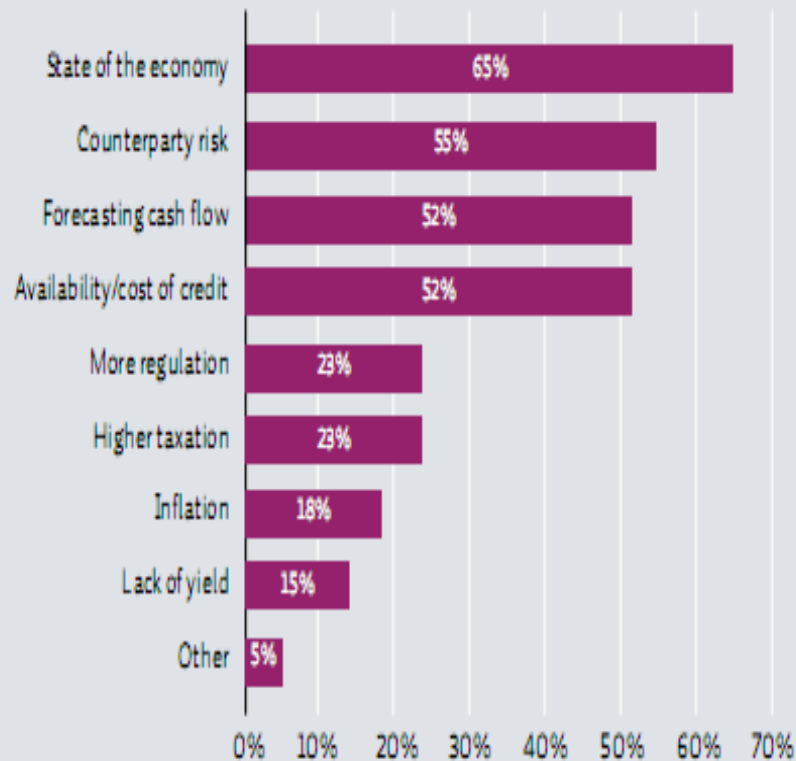
➤ Emerging markets have recovered

➤ Most indicators (trade, industrial production) rising faster than advanced countries

	2000-04 avg.	2005	2006	2007	2008	2009f	2010f
Bahrain	5.6	7.9	6.7	8.1	6.1	3	3.7
Kuwait	13.3	10.6	5.1	2.5	6.3	-1.6	3.2
Oman	3.2	4.9	6	7.7	7.8	4.1	3.8
Qatar	8.9	9.2	15	15.3	16.4	11.5	18.5
Saudi Arabia	3.7	5.6	3.2	3.3	4.4	-0.9	4
UAE	7.7	8.2	9.4	6.3	7.4	-0.2	2.4
GCC	5.8	6.9	5.5	5	6.4	0.7	5.2

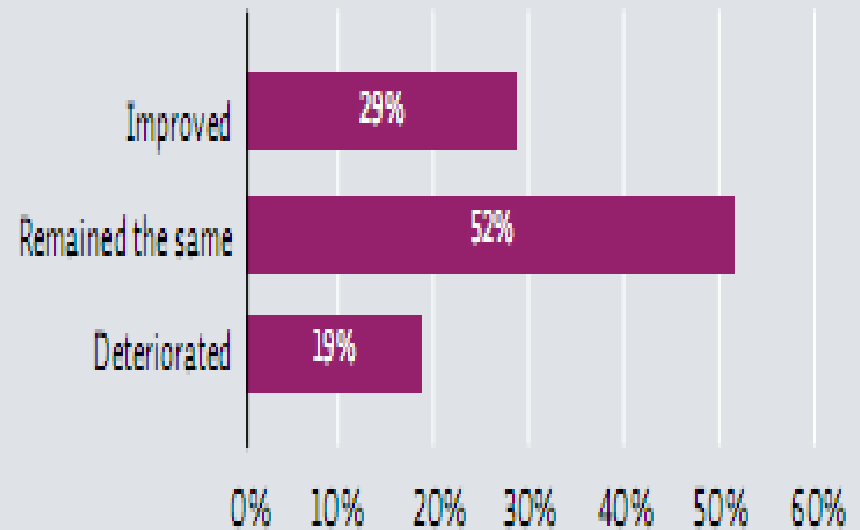
Top Concerns of Treasurers

Chart 3: What are your top three concerns/worries?



Source: EuroFinance Business Confidence Survey, December 2009 – January 2010

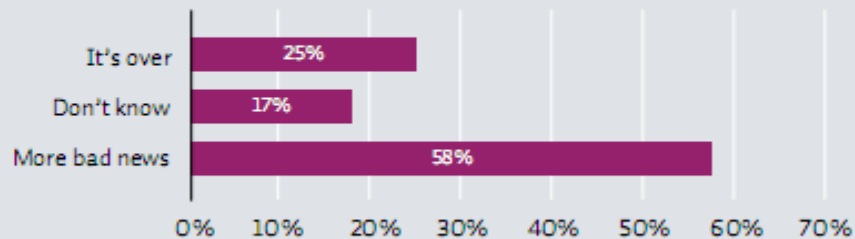
Chart 6: Compared with six months ago, how have credit conditions changed for your company?



Source: EuroFinance Business Confidence Survey, December 2009 – January 2010

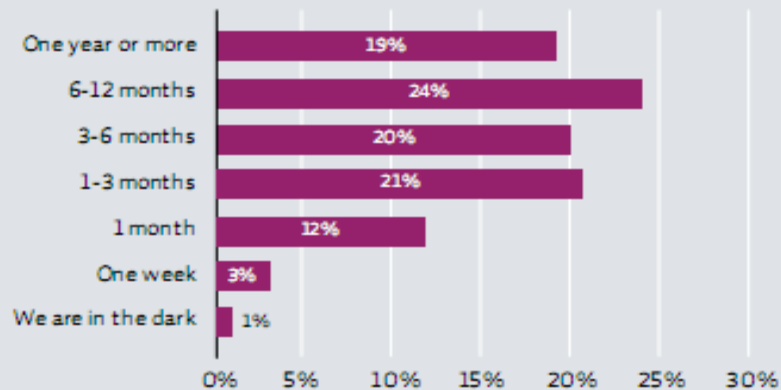
Expectations over the course of the crisis

Chart 1: Is the financial crisis over? Or will further bad news emerge in the coming year?



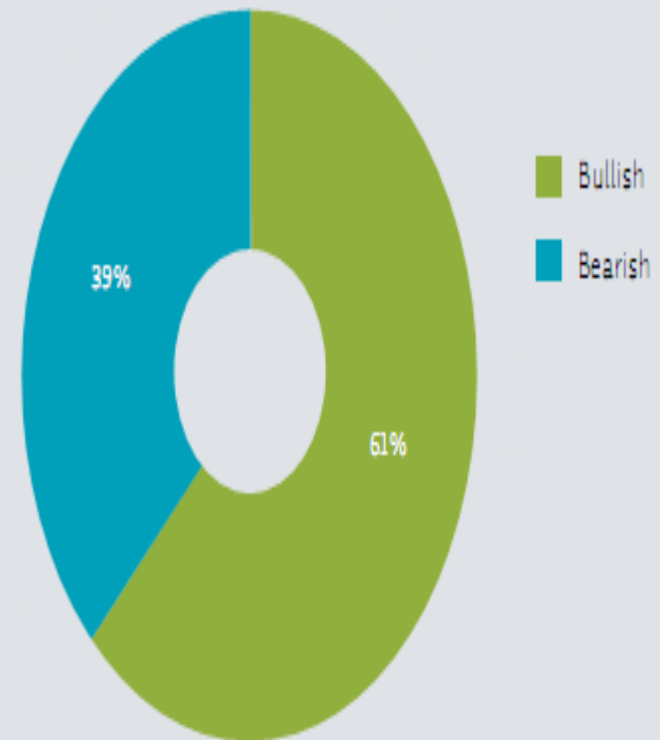
Source: EuroFinance Business Confidence Survey, December 2009 – January 2010

Chart 5: How far into the future are you comfortable with your company's cash flow forecasts?



Source: EuroFinance Business Confidence Survey, December 2009 – January 2010

Chart 2: Overall, are you bullish or bearish for 2010?

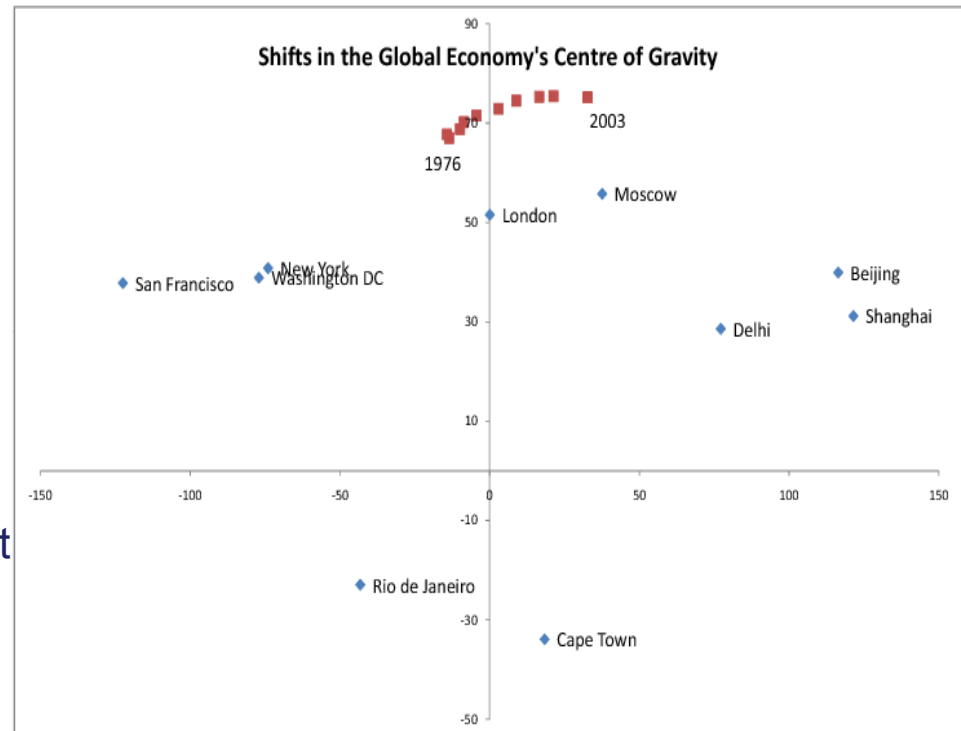


Source: EuroFinance Business Confidence Survey, December 2009 – January 2010

Emerging Markets: Changing Economic Geography

Emerging markets have contributed 2/3 of global growth since 2002.

- The world's economic centre of gravity in 1976 was a point West of London, somewhere towards the middle of the Atlantic Ocean.
- But in the 30 years since then, that centre of gravity has drilled 1800 km - one third of the planet's radius - deeper into the Earth's crust, away from the US & towards the East.
- Interestingly, evidence shows **geographical shift accelerated in 1991 & 2001 - each time the US was in recession!**
- In less-turbulent times, between 2002 and 2007:
 - ✓ China's average contribution to world economic growth approached 66% that of the US;
 - ✓ China and India's together, almost 85%;
 - ✓ East and Southeast Asia's, more than 130%.



The New Financial Geography

- The new economic geography is reflected in the evolution of capital markets
- The crisis will contribute to eradicate the hub-spoke model centred on London and New York giving impetus to a transition to a polycentric, spider web model

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009(E)
World Market Cap	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
United States	46%	47%	50%	47%	45%	43%	39%	36%	31%	33%	28%
Rest of Developed	46%	45%	41%	42%	44%	44%	44%	44%	41%	41%	41%
Emerging Markets	8%	8%	9%	11%	12%	13%	16%	20%	28%	26%	32%
BRIC	2%	3%	3%	3%	4%	4%	6%	9%	17%	15%	19%
Rest of Emerging	6%	5%	6%	7%	7%	9%	11%	10%	11%	11%	13%
of which GCC	0.3%	0.3%	0.4%	0.9%	0.9%	1.3%	2.5%	1.3%	1.7%	1.6%	1.2%

Main Global Threats/Issues

1. New Financial & Regulatory architecture and end of hub-spoke model.

- **Markets are not self regulating and rules are rarely self enforcing**
- **Basel III will emerge**, but not clear that it will be any more successful.
- **Leverage must be capped**
- **Liquidity must be preserved**
- **Regulation must be enforced with effective action not tick box approach**
- **Spider Web rather than a hub-spoke**

2. The New Debt Trap: Growth of public debt and deficit spending (highest in peacetime) could pave the way to a **virulent inflationary episode** and a crippling dollar devaluation. Mounting risk of a **sovereign debt crisis**

3. New Global Governance Framework: New role of G20 and Emerging Markets: G-20 emerged as the key economic grouping during the financial crisis. Problem: What is the vision?

GCC Lessons Learnt (?) from the Financial Crisis

• **Contagion & Spillover effects:** 2/3 of increased financial stress in MENA EM countries post Lehman shock attributable to direct or indirect spillovers of financial stress in advanced economies (IMF WP/10/8, K Moriyama, Jan 2010)

• **Region is a major capital Exporter:** PV of GCC oil-gas revenues is some US\$18.3 trillion (@ \$50) and \$37.7 @ \$100

Some Lessons:

- 1. Strengthen Corporate Governance, Transparency & Disclosure**
- 2. Engage in design of new International Financial Architecture, Policy & Regulation**
- 3. Develop Local Currency Money and Debt markets & Design & introduce Financial Safety Net**

MENASA/GCC: Great Transformations

- Infrastructure, investment and positive demographics will remain key: some \$2.7 trillion of investments
- Reforms in public finance management and transparency in the use of resources are necessary to efficiently tap the financial markets
- GCC are increasingly trade & investment linked to Asia
- Institutional & Structural reforms required to sustain growth
- Examples of transformation:
 - IRENA/MASDAR and Renewable Energy
 - Yahsat announced today as 3rd Telecom company
 - UAE's 1st remote sensing satellite – DubaiSat-1 – was launched (July 2009): urban planning, disaster relief

Total Insurance Growth, Density & Penetration by Region (2008)

Total Business	Premiums	Real	Share of world	Premiums	Premiums per
Region	(in USDmn)	growth	market (in %)	in % of GDP	capita (in USD)
	2008	2008	2008	2008	2008
America	1,450,749	-2.4	33.98	7.29	1,552.7
North America	1,345,816	-3.1	31.52	8.54	3,988.8
Latin America and Caribbean	104,933	8.4	2.46	2.53	175.8
Europe	1,753,200	-6.2	41.06	7.46	2,043.9
Western Europe	1,656,281	-6.9	38.79	8.33	3,209.2
Central and Eastern Europe	96,919	9.0	2.27	2.79	299.2
Asia	933,358	6.6	21.86	5.95	234.3
Japan and newly industrialised Asian economies	675,109	3.8	15.81	10.41	3,173.2
South and East Asia	229,036	16.3	5.36	3.20	65.5
Middle East and Central Asia	29,213	4.7	0.68	1.45	110.3
Oceania	77,716	8.6	1.82	7.02	2,271.9
Africa	54,713	4.9	1.28	3.57	55.6
World	4,269,737	-2.0	100.00	7.07	633.9
Industrialised countries	3,756,939	-3.4	87.99	8.81	3,655.4
Emerging markets	512,799	11.1	12.01	2.72	89.4
OECD	3,696,073	-3.2	86.56	8.32	3,015.2
G7	2,925,946	-4.4	68.53	8.96	3,930.2
EU, 27 countries	1,616,461	-6.7	37.86	8.28	3,061.3
NAFTA	1,364,839	-3.0	31.97	8.10	3,065.7
ASEAN	45,493	0.4	1.07	2.99	85.1

Transformational Role of the DIFC

- DIFC has set in place a sophisticated framework of laws, regulations and governance, modeled on international best practices: **DIFC ranks 7th** in competitive assessment of selected 15 international & regional financial centres
 - ✓ **Provides market infrastructure for GCC bloc to emerge as economic and financial hub for MENASA region**
 - ✓ **Provides comprehensive platform for listing, IPOs, privatisation, project finance, securitisation**
 - ✓ **Develop Regional Debt Market**
 - ✓ **Develop Islamic Securities Market**
 - ✓ **Build payment system infrastructure for \$ and Euro payments**
 - ✓ **Greater harmonization of laws & regulations across UAE and wider GCC**

But wise men perceive approaching things

**Men know what is happening now.
The gods know the things of the future,
the full and sole possessors of all lights.
Of the future things, wise men perceive
approaching things. Their hearing**

**is sometimes, during serious studies,
disturbed. The mystical clamor
of approaching events reaches them.
And they heed it with reverence. While outside
on the street, the peoples hear nothing at all.**

Constantine P. Cavafy (1915).