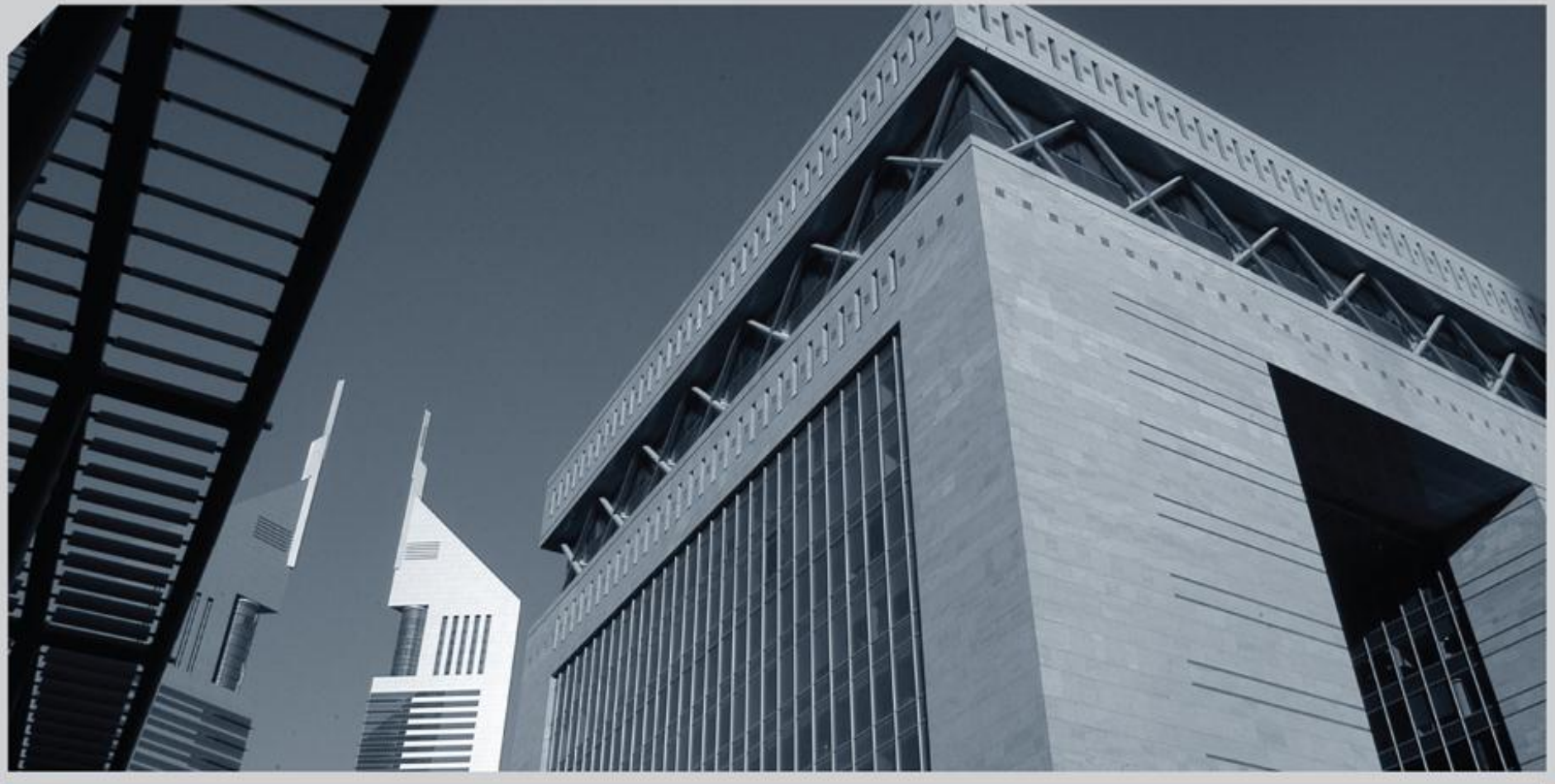

Board Development Institute
Regional Economic Trends & the Corporate Governance Imperative

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DIFC Dubai International Financial Centre

AGENDA

1. Globalization and its Unintended Consequences
2. Changing Economic Geography
3. Macroeconomic Outlook for the Gulf
4. Challenges Ahead
5. Corporate Governance Imperative

A Historical Perspective: 3 Defining Moments

- **In the post WWII period three key events shaped the course of history:**

1. **Suez Canal crisis in 1956 => The end of European colonial era**
2. **Fall of Berlin Wall in 1989 => The end of Soviet Union**
3. **The Great Recession in 2008 => The end of US financial empire and "uni-polar" world ;**

We are experiencing a tectonic movement not a marginal change or a temporary crisis and we are stepping into a new world, yet to take shape

Three Major Lessons from the “Great Recession”

1.Globalisation means fragmentation, reassembling and a re-distribution 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 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

- Emerging markets have recovered
- Most indicators (trade, industrial production) rising faster than advanced countries

Real GDP growth (Annual change, %)

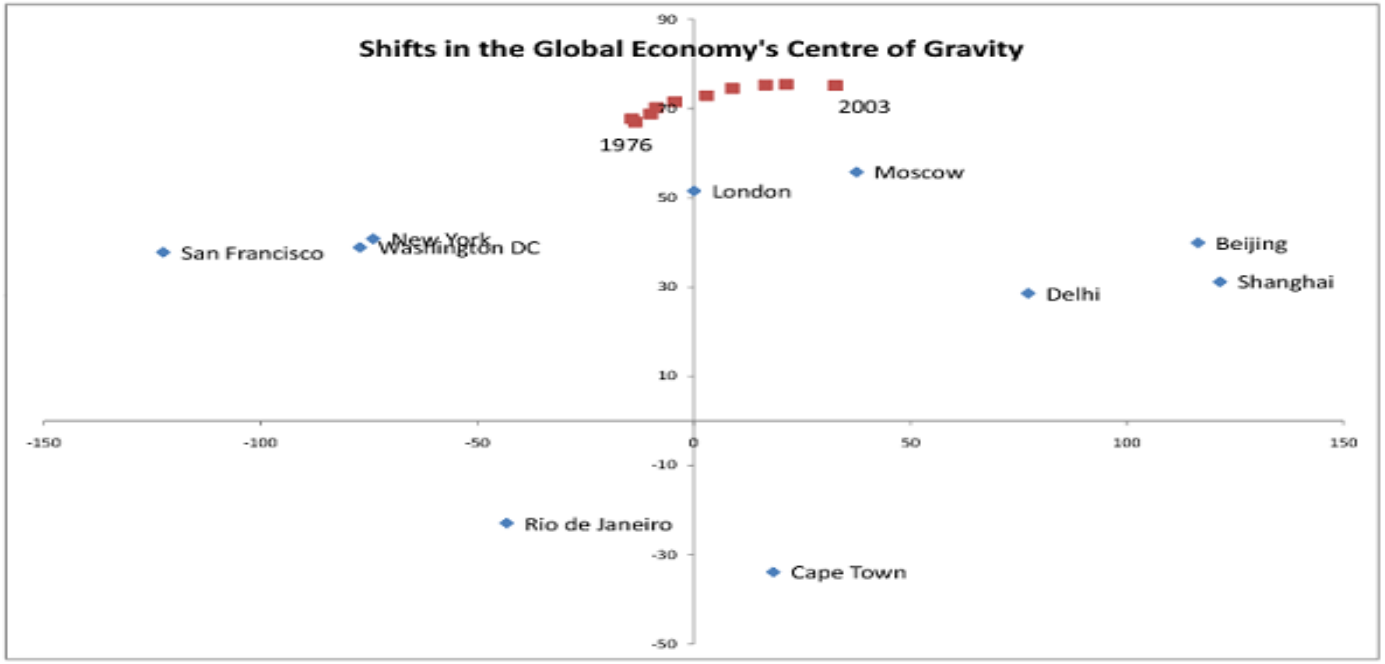
	2000–04 avg.	2005	2006	2007	2008	2009f	2010f
Bahrain	5.6	7.9	6.7	8.1	6.1	3	3.7
Kuwait	13.3	10.6	5.1	2.5	6.3	-1.6	3.2
Oman	3.2	4.9	6	7.7	7.8	4.1	3.8
Qatar	8.9	9.2	15	15.3	16.4	11.5	18.5
Saudi Arabia	3.7	5.6	3.2	3.3	4.4	-0.9	4
UAE	7.7	8.2	9.4	6.3	7.4	-0.2	2.4
GCC	**5.8**	**6.9**	**5.5**	**5**	**6.4**	**0.7**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

Source: IMF WEO (Jan 2010 update), REO (Oct09) , DIFC Economics

The New Economic Geography

The development showed in the previous slide are part of a long trend started in the late ‘70 and accentuated in the ‘90s.T

The Global Economic epicentre is now between Dubai & Beijing. Every crisis (1991, 2001) has accelerated the shift to the East, as Emerging markets have contributed 2/3 of global growth, Trade & Investment since 2002.



Source: Quah, D.“THE SHIFTING DISTRIBUTION OF GLOBAL ECONOMIC ACTIVITY” LSE Working Paper, October 2009

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%

Source: Standard & Poors

Main Global Threats I: Financial Regulation Revamp

- **Conflicts of interests have marred the sequence of crises in the past decade.**
- **General lessons:**
  - **Markets are not self regulating and rules are rarely self enforcing**
  - **Leverage must be capped**
  - **Liquidity must be preserved**
  - **Regulation must be enforced with effective action not tick box approach**
  - **Basel III will emerge**, but not clear that it will be any more successful. New Financial & Regulatory architecture and end of hub-spokes model.

Main Global Threats II: The New Debt Trap

•A meltdown of the global financial system was avoided last year by **shifting massive private sector liabilities onto public institutions**, i.e. central banks and Treasuries, so ultimately burdening future generations.

•Growth of public debt and deficit spending (highest in peacetime) could pave the way to a **virulent inflationary episode** and a crippling dollar devaluation.

•A mounting risk of a **sovereign debt crisis** is materializing in Greece and other Mediterranean countries, but risks triggering a domino effect to the UK and the US. In these conditions, maintaining the high levels of public spending that social democracy requires will be next to impossible.

New Global Governance Framework

•**New role of G20 and Emerging Markets:** G-20 emerged as the key economic grouping during the financial crisis, encompassing a wider range of countries including key emerging economies needed to tackle global issues, foremost the imbalances of current accounts. The G7 has been sidelined as little more than a coordination group in between G20 meetings.

•**Developing economies** have been pushing for institutional reform of groups like the IMF, G7 and the Financial Stability Board (FSB) to incorporate the new balance of economic power. But they need to be more proactive and shape a vision for Global Governance

•**Tests:** what is the vision of the G20? Which countries will drive it?

- •Leadership: a fig leaf for G2?
- •Cooperation: financial stability, global warming, currency manipulatoin
- •Decision making method: drafting the agenda, taking decisions, sharing burden
- •Implementation: institutional engagement (IMF, World Bank, BIS) new actors?

GCC Lessons Learnt (?) from the Financial Crisis

•**Contagion & Spillover effects (Metastasis!)**: 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)

Some Lessons:

1. **Strengthen Corporate Governance, Transparency & Disclosure**
2. **Strengthen Financial Sector Regulation & Regulatory Capacity**
3. **Design & introduce Financial Safety Net**
4. **Institutionalise and Build Economic Policy Capacity**
5. **Engage in design of new International Financial Architecture, Policy & Regulation**
6. **Develop Local Currency Money and Debt markets**
7. **Modern framework on Insolvency & Creditor Rights**
8. **MENASA Development & Reconstruction Bank**

Hawkamah Organizational Milestones

2006 (May-December)

- Establishment of Hawkamah
- Signed up PwC and MasterCard as founding members
- Produced the ***Hawkamah IIF Regional Report on CG in GCC from an Investors' Perspective***
- Signed 26 MOUs with international and regional partners
- Advised the UAE's Securities and Commodities Authority on CG Guidelines
- Hawkamah annual conference and issued Dubai Declaration
- Launched regional task forces for banks, insolvency, and state-owned enterprises

2007 (January-December)

- Produced the ***Hawkamah-IFC regional survey of CEOs***
- Signed up Bank of Sharjah as founding member; AIG MEMSA, TNI and Abraaj as corporate supporters
- Launched Hawkamah-UAB Bank CG Awards
- Signed 15 additional MOUs with partners
- Advised CG codes for Egypt, Lebanon, Syria, KSA
- Launched and organized 6 DDPs, 2 CS, 1 journalist, and 1 asset manager trainings
- Developed concept paper and organized stakeholders meeting to support the development of Institute of Directors
- Hawkamah annual conference, part of DIFC Week
- Launched insurance task force with AFIRC

2008 (January-December)

- Produced ***Power Matters: Survey of GCC Boards*** with The National Investor
- With The National Investor, produced the ***BASICs Report*** focusing on transparency and disclosure of GCC listed companies
- Signed up Emirates NBD, GE as founding members
- Advised CG codes for Palestine, Morocco
- Organized 2 DDPs, 3 CS trainings, 5 workshops
- Developed Qatar Financial Markets Authority (QFMA)'s CG Guidelines
- Hawkamah conference in Doha, supported by QFMA, QFC, QCB
- Launched private equity and IFI task force

2009 (January to December)

- Moved to Gate Village
- First Arab organization signatory to the UNPRI
- Signed up Dubai Islamic Bank as founding member, Abu Dhabi Commercial Bank as corporate supporter
- Organized 3 CS, 1 journalist training, 4 governance related workshops
- Organized 1st insolvency conference in the region
- Conducted CG assessment of UAE SOE
- Issue regional bank CG policy brief with OECD
- Issue regional insurance CG policy brief with AFIRC

Hawkamah Regional Task Forces

To build momentum for corporate governance reform in the region

- **Corporate Governance of Banks** (implement the policy recommendations from the policy brief)
- **Corporate Governance of State-owned Enterprises** (assess state of corporate governance of state-owned enterprises and build momentum for SOE CG agenda)
- **Insolvency and creditor rights** (assess insolvency regimes in the region with the aim towards modernization)
- **Corporate Governance for Insurance** (develop a policy brief for increased corporate governance implementation in the industry)
- **Corporate Governance of Shari'a Compliant Institutions** (work with Islamic financial institutions to implement good corporate governance standards in their institutions)
- **Corporate Governance for Private Equity** (develop regional corporate governance standards for the private equity industry and target companies, most of which are non-listed companies)

Hawkamah 2010 Plans (1)

Thought Leadership

- Constitute a technical advisory group to oversee thought leadership initiatives
- Linkages with DIFC Centre of Excellence and other UAE and regional business schools to jumpstart more regional research
- Focus Hawkamah monthly workshops on specific governance challenges in the region (UAE CG Code, IT Governance, Ethics and Integrity, Risk Management, Value Based Managed, Control Environment, etc.)
- Develop a Hawkamah White Paper series

Listed Companies

- Linkage with the Federation of Arab Stock Exchanges to develop regional awards programme
- Continuing work on the BASIC and expansion to cover MENA, utilizing existing database developed for the ESG index
- Developing training programmes for listed companies, exchanges
- Environment Social and Governance (ESG) Index
- Development of a new product to work with Capital Market Authorities in developing a CG department

Hawkamah 2010 Plans (2)

Banks

- Focus on training of regulators and development of toolkits with the Union of Arab Banks
- Aggressive outreach to bank boards for board assessment services and/or comprehensive CG benchmarking
- Utilizing monthly workshop series to present some of the bank board issues and solutions: risk management, transparency and disclosure, etc.
- Integration of bank policy brief into the Hawkamah-UAB bank CG awards criteria

Families

- Build on linkages with the Family Office Exchange and Family Office to develop regionally focused research pieces
- Ongoing workshops for families with Shoora/IFC

Hawkamah 2010 Plans (3)

CG Stakeholders

- Ongoing training programmes for company secretary (6-8 such workshops this year) and director development programmes (15 workshops for this year)
- Development and delivery of training programmes for ‘what is corporate governance and what can your company do to improve your cg’
- In partnership with the Middle East Investor Relations Society (MEIRS) deliver training programmes for investor relations departments
- Research on the utilization of various CG stakeholders (CRO, IR, etc.) in MENA firms

Hawkamah 2010 Plans (4)

Task Forces

- Finalize Islamic financial institution task force policy brief, and possible development of new products (awards, IFI specific assessments)
- Expand universe for SOE task force by using the Ministerial meeting and constant outreach to SOEs/SWFs, including integration of Santiago Principles into Hawkamah's advocacy
- Finalize PE task force policy brief (awards, PE specific assessments)
- Formally launch the Forum for Insolvency Reform in MENA (FIRM), which will be supported by international and regional organizations to drive the insolvency and creditor/debtor rights agenda forward

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).