



# “Meeting of Minds & Economic Plates?”

ICMA : AGM and Annual Conference 2010

**Dr. Nasser Saidi,**  
**Chief Economist, DIFC Authority**

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## Agenda

# “Meeting of Minds & Economic Plates?”

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**Emerging Markets: Economic Tectonics**

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**New Financial Architecture & End of Hub-Spoke Model**

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**Future of MENASA Regional Capital Markets**

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**Islamic Finance**

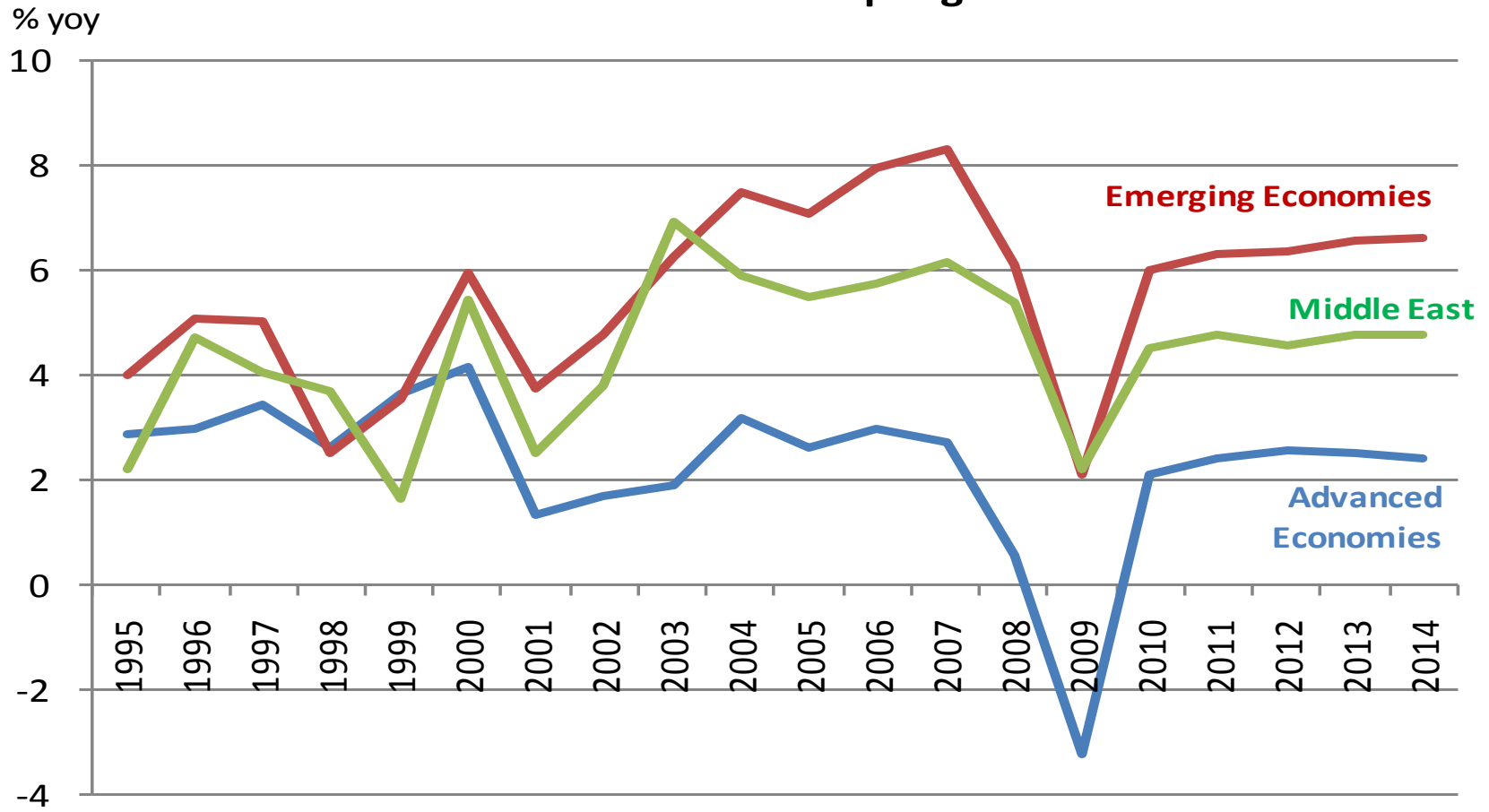
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**DIFC’s Transformational Role**

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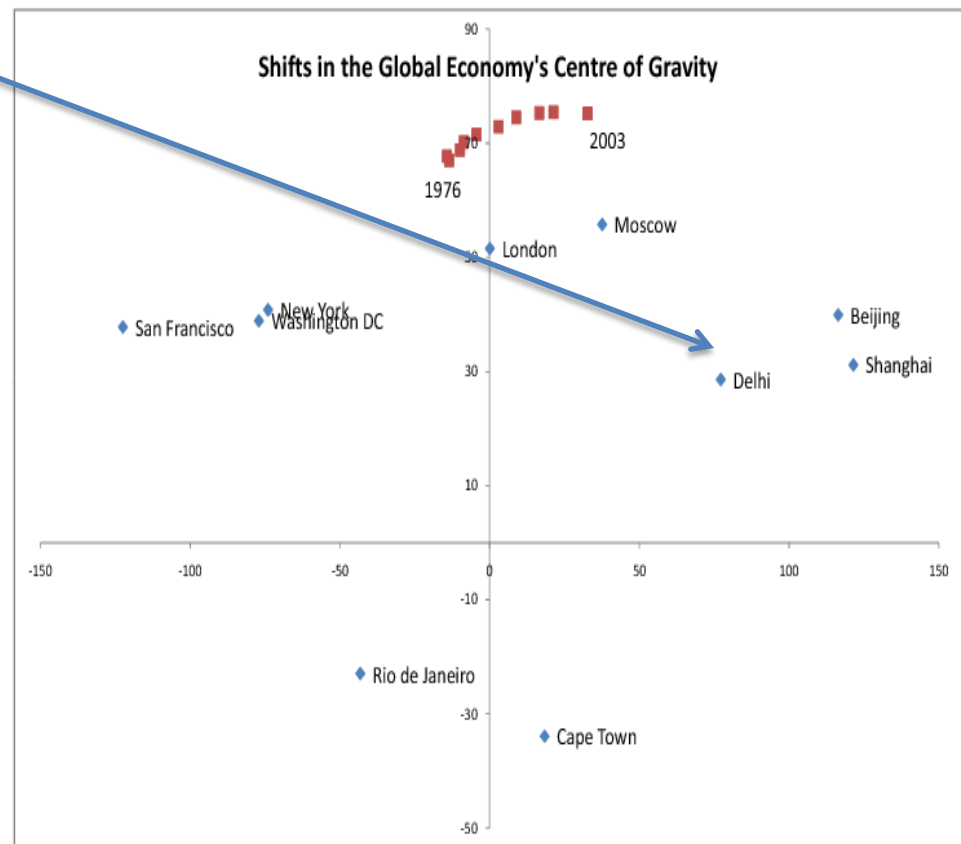
# Delinking of Emerging Markets from Advanced

## Evidence of Decoupling



# Emerging Markets: Changing Economic Geography

- World's economic centre of gravity in 1976 was a point in the middle of the Atlantic Ocean. But 34 years since then, that centre of gravity has drilled 1800 km - one third of the planet's radius - away from the US & towards the East.
- 2010 Epicentre between Dubai
- & Shanghai !
- Geographical shift accelerated in 1991 & 2001 - each time the US was in recession!
- Emerging markets have contributed 2/3 of global growth since 2002
- Global output @ PPP rates:
  - 40% Asia-ME
  - 20% US
  - 20% EU
  - 20% other EMEs
- Similar contribution of EMEs to:
  - Growth of World Trade
  - Investment & FDI



# Growing South-South relations

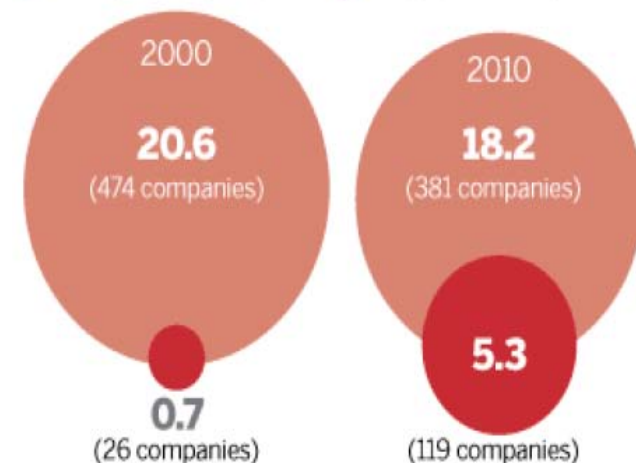
- US& UK had expanded as capital exporters; now it's the turn of the EMEs.
- HNWI financial wealth is expected to recover to \$48.5 trn by 2013; Asia-Pacific will overtake North America as the largest region for HNWI financial wealth
- For the first time (2009) takeovers by emerging world companies of developed world groups: \$105bn > takeovers going the other way at \$74.2bn, according to Dealogic.
- Emergence of EME multinationals

⇒ ***Terms of trade b/n developed & emerging market groups are changing, with power shifting to the emerging world.***

## The pendulum swings

Market capitalisation of FT500 companies (\$'000bn)

● Developed country companies ● Emerging market companies



## Emerging market M&A deal value (\$bn)



Sources: Dealogic; FT research

# Emerging Markets: Changing Financial Geography

- New economic geography is reflected in the evolution of capital markets
- Financial crisis will contribute to the demise of 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	<b>100%</b>										
United States	<b>46%</b>	<b>47%</b>	<b>50%</b>	<b>47%</b>	<b>45%</b>	<b>43%</b>	<b>39%</b>	<b>36%</b>	<b>31%</b>	<b>33%</b>	<b>28%</b>
Rest of Developed	<b>46%</b>	<b>45%</b>	<b>41%</b>	<b>42%</b>	<b>44%</b>	<b>44%</b>	<b>44%</b>	<b>44%</b>	<b>41%</b>	<b>41%</b>	<b>41%</b>
Emerging Markets	<b>8%</b>	<b>8%</b>	<b>9%</b>	<b>11%</b>	<b>12%</b>	<b>13%</b>	<b>16%</b>	<b>20%</b>	<b>28%</b>	<b>26%</b>	<b>32%</b>
BRIC	<b>2%</b>	<b>3%</b>	<b>3%</b>	<b>3%</b>	<b>4%</b>	<b>4%</b>	<b>6%</b>	<b>9%</b>	<b>17%</b>	<b>15%</b>	<b>19%</b>
Rest of Emerging	<b>6%</b>	<b>5%</b>	<b>6%</b>	<b>7%</b>	<b>7%</b>	<b>9%</b>	<b>11%</b>	<b>10%</b>	<b>11%</b>	<b>11%</b>	<b>13%</b>
of which GCC	<b>0.3%</b>	<b>0.3%</b>	<b>0.4%</b>	<b>0.9%</b>	<b>0.9%</b>	<b>1.3%</b>	<b>2.5%</b>	<b>1.3%</b>	<b>1.7%</b>	<b>1.6%</b>	<b>1.2%</b>

# New Financial Architecture & End of Hub-Spoke Model

**Lessons from crisis: 2/3 of financial stress in MENA due to spillover & contagion effects**

- **London & NY have become TBTF & TITF**
- Need to design and move to an architecture of **networked financial markets** - a more stable and sustainable “**spider - web**” model
- Where there is not a small number of financial centres intermediating and reallocating the entire world’s savings leading to global systemic risk and crises
- Rather, there are numerous international financial centres across the globe that have the capital market depth & regulatory sophistication to absorb excess capital from their own regions, as well as from elsewhere.
- Such a model will prevent the enormous accumulation of savings in just one or two financial centres, creating an unstable sloshing of large waves of capital.
- **Move from New York/London to the “-ai” markets – Dubai, Mumbai, Shanghai!**

## What Lies Ahead? Looking to the Future

- More than 2/3 of world's proven oil & gas reserves are located in MENASA region.
- PV of GCC Oil & Gas exports are estimated at over \$37 trillion @ \$100 per barrel (see DIFC Economic Note # 4 on [www.difc.ae](http://www.difc.ae))
- Era of recycling petro-dollars is gone: SWFs
- Economic diversification: extracting energy resources and transforming them into the platform for the development of a XXI century knowledge based economy.
- **Greater Economic & Financial Regionalism**



# MENASA: Demographics, Natural & Financial Resources

## MENASA Region : Key Indicators

	2007	2008	2009e	2010f
Population (mns)	1939.1	1971.9	2004.9	
GDP (Nominal GDP, USD bn)	4026.9	4643.0	4437.1	<b>5212.7</b>
GDP (PPP terms, Curr. Intl dollars, bn)	7951.2	8553.9	8915.2	<b>9529.6</b>
International Reserves (USD bn)	1186.4	1347.0	1355.6	1476.1
Total Exports (USD bn)	1217.6	1630.0	1102.6	1303.2
Total Imports (USD bn)	1092.7	1416.4	1130.6	1264.3
Oil reserves (thou' mn barrels)	875.6	875.3	-	-

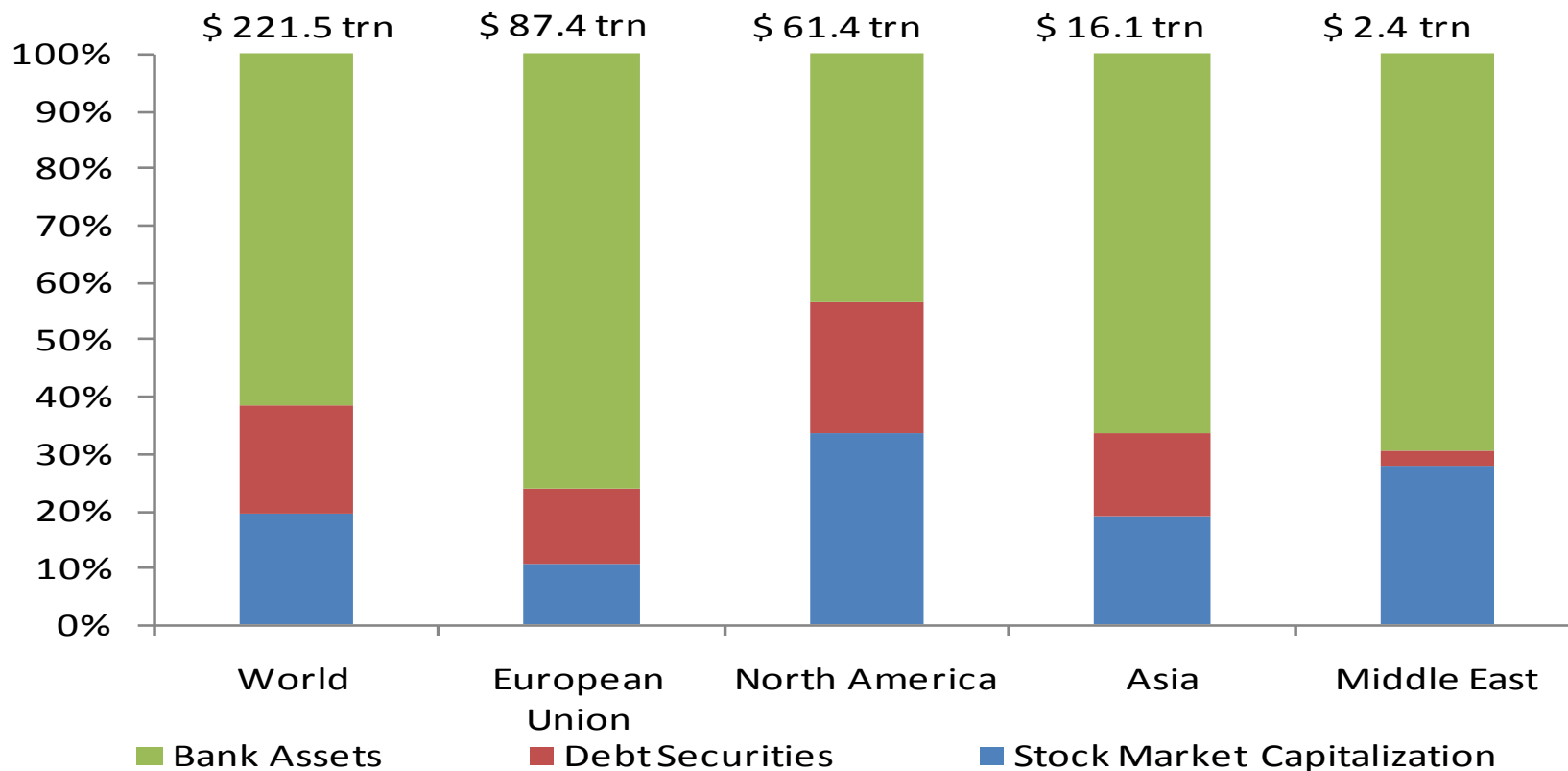
Source: EIU, IMF WEO Apr 2010, BP

*MENASA region includes: all GCC countries along with Algeria, Azerbaijan, Bangladesh, Egypt, India, Iran, Iraq, Jordan, Kazakhstan, Kyrgyz Republic, Lebanon, Libya, Morocco, Pakistan, Sri Lanka, Sudan, Syria, Tunisia, Turkey, Turkmenistan, Yemen)*

## Underdeveloped MENASA Markets: Equity \$1.3 trn

- In the MENASA region, capital markets are dominated by bank assets and equities
- Debt securities make up only 2.7% of the Middle Eastern capital markets!

**Financial Depth Across Regions**

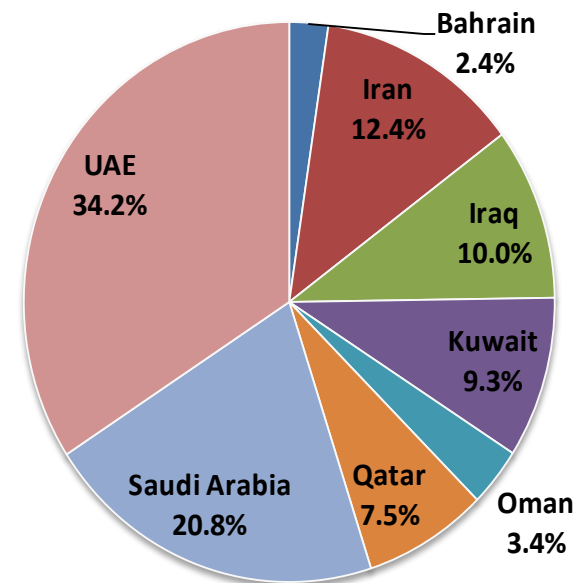


## What Lies Ahead? MENASA Capital Markets

- ✓ **Integration of capital markets: starting with the equity markets of UAE**
- ✓ **Fiscal transformation of GCC:**
  - ✓ **Counter-cyclical fiscal  $\longrightarrow$  public debt management**
  - ✓ **Revenue diversification away from oil dependence**
  - ✓ **PPP and Privatisation**
- ✓ **Need to develop local currency debt markets**
- ✓ **Creation of a second-tier market for family-owned, small and medium enterprises, the most dynamic of which are located in the free zones**
- ✓ **Strengthen Corporate Governance**
- ✓ **Increased transparency & disclosure**

## Infrastructure Investments: Main Growth Driver

- There are **two epicentres in MENASA** : GCC & India
- Massive infrastructure investment by GCC countries has been a major factor & contributor to recent (2003-2008) economic growth, productivity gains, increased private sector investment and diversification.
- As of Apr 26, 2010, MEED Projects estimates value of projects planned and underway in the Gulf region at \$2.26trn.
- India is the second hub, with close to 500 bn in planned Infrastructure Development till 2012.
- **Complementarity on both production & financing side:** GCC are resource-based, K exporters with abundant liquidity; India & other MENASA countries are K importers
- Infrastructure spending continued despite the financial crisis: helped stabilize economies, avoid contagion effects from credit crunch & sustain growth.
- Imperative to accelerate the pace on infrastructure & network projects that foster **regional integration**



# Local Debt Markets: Cornerstone of Development Policy

## Potential drivers of MENASA Debt Market

- **Finance infrastructure** and development projects in the region
- **Corporate Debt:** Well functioning debt markets will help reduce dependence on bank finance at a time when the banking sector is in a process of deleveraging
- **Government Debt:** Diminish macroeconomic and financial vulnerability from energy price fluctuations by providing governments with an alternative source of funding to smooth out volatile revenues
- **Enable Monetary Policy** by providing central banks with a market to conduct open market operations & control liquidity
- **Mortgage Markets:** cornerstone of housing finance
- Provide **institutional investors** instruments that offer safe and stable long term yields in local currency
- Provide **International investors** with access to local markets

## ISLAMIC FINANCE INDUSTRY

- Islamic finance is nascent but has transcended borders and regions.
- IF assets excess of \$1 trillion growing to \$2 trillion by 2020; fast growing @ 10%-15% growth rates
- Numerous challenges lie ahead before it can make the crucial leap from being a promising but niche market to becoming an integral part of global financial markets.
- Islamic finance has enormous potential: shift in risk preferences, demographics, ethical standards
- Demographics & Growing Global Muslim Population (24% of global) with low financial penetration rates
- Need to develop both Wholesale & Retail products, services & markets

## CHALLENGES FACED BY IF INDUSTRY

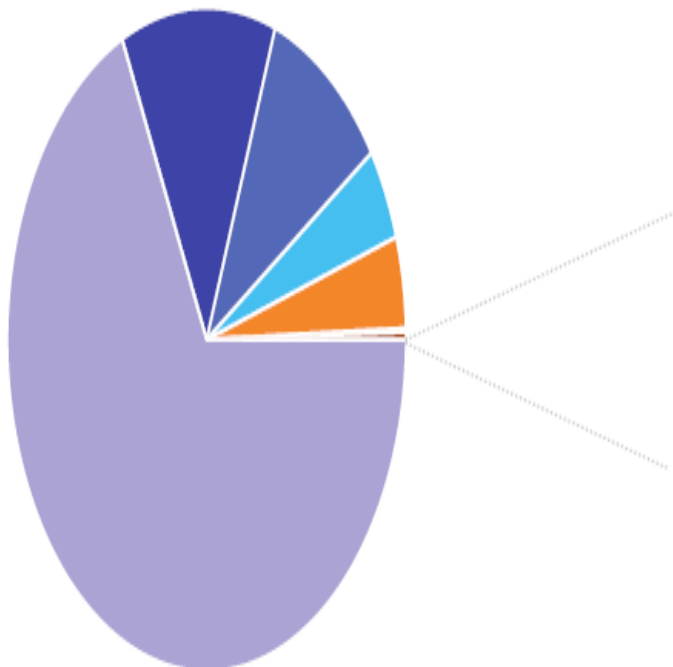
Challenges include:

1. Lack of standardization resulting in higher entry & transactions costs
2. Low levels of liquidity
3. Lack of reliable information & statistical data
4. Lack of regulatory convergence
5. Untested & opaque Islamic Insolvency & Creditor Rights Regime
6. Limited human capital resources: e.g. Shari'a scholars
7. Low levels of innovation

- Total outstanding value of Sukuk is \$130.7 billion across 1546 active issues globally. (Listed outstanding value is \$36.7 billion and unlisted outstanding value is \$94.1 billion)
- Money raised via Islamic loans is \$85 billion across 255 deals globally
- Assets under management amount to \$37.5 billion across 560 Shariah Complaint Funds globally. (MENASA region has \$22 billion AUM across 243 funds)
- A total of 147 (\$19 billion) Islamic funds under management in Saudi Arabia; 33 funds (\$1.7 billion) in Kuwait ; 17 funds (\$321 million) in Bahrain; three (\$68 million) in the UAE; one (\$16 million) in Qatar; and 5 (\$152 million) in Egypt
- Global Takaful premiums reached \$5.6 billion last year; \$2.4 billion in Saudi Arabia, \$157 million in the United Arab Emirates, \$149 million in Qatar and \$100 million in Bahrain
- The worldwide Halal food market is estimated to be worth \$641.5 billion

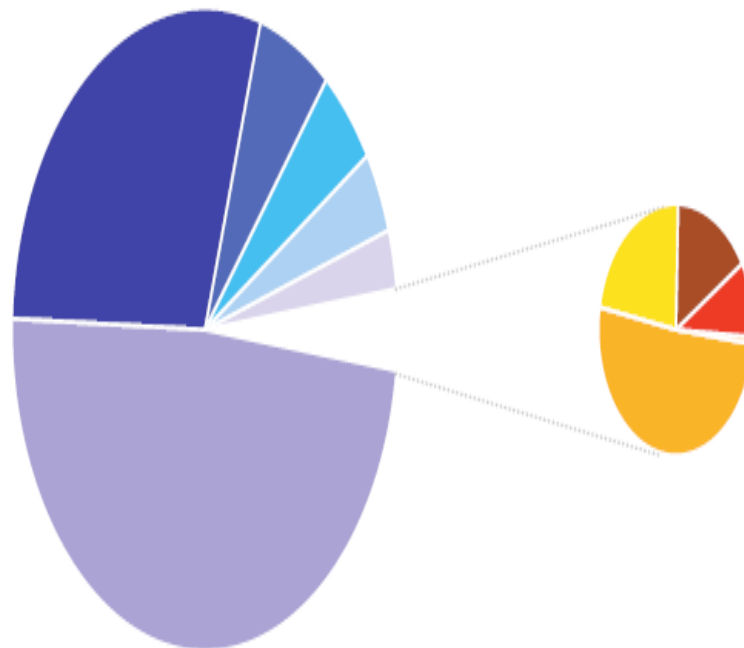


**Sukuk volume by country (May 09-May 10)**



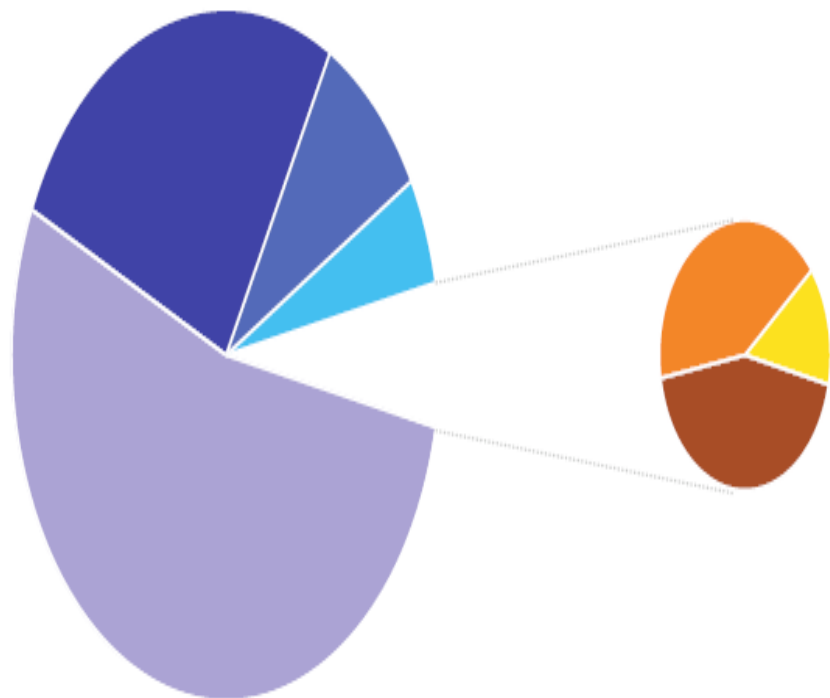
- |                        |                 |                  |
|------------------------|-----------------|------------------|
| ■ Malaysia             | ■ Indonesia     | ■ Eurobond       |
| ■ Saudi Arabia         | ■ United States | ■ Pakistan       |
| ■ Bahrain              | ■ Singapore     | ■ Cayman Islands |
| ■ United Arab Emirates | ■ Jersey        |                  |

**Sukuk volume by industry (May 09-May 10)**



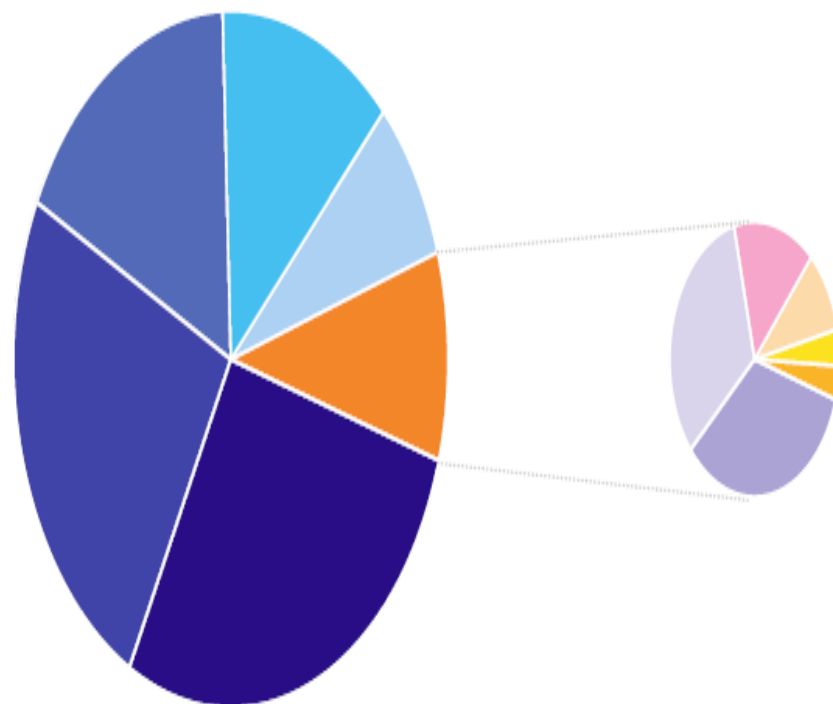
- |                   |                   |                    |
|-------------------|-------------------|--------------------|
| ■ Other Financial | ■ Sovereign       | ■ Agency           |
| ■ Electric Power  | ■ Manufacturing   | ■ Transportation   |
| ■ Energy Company  | ■ Service Company | ■ Banks            |
| ■ Consumer Goods  | ■ Telephone       | ■ Gas Distribution |

Islamic loan volume by country (May 09-May 10)



- Saudi Arabia
- Qatar
- United Arab Emirates
- Bahrain
- Turkey
- Kuwait
- Singapore

Islamic loan volume by industry (May 09-May 10)



- Telecommunications
- Utilities
- Financial Services
- Chemicals, Plastics & Rubber
- Wholesale
- General Manufacturing
- Real Estate
- Construction
- Oil and Gas
- Transportation
- Aerospace and Defense

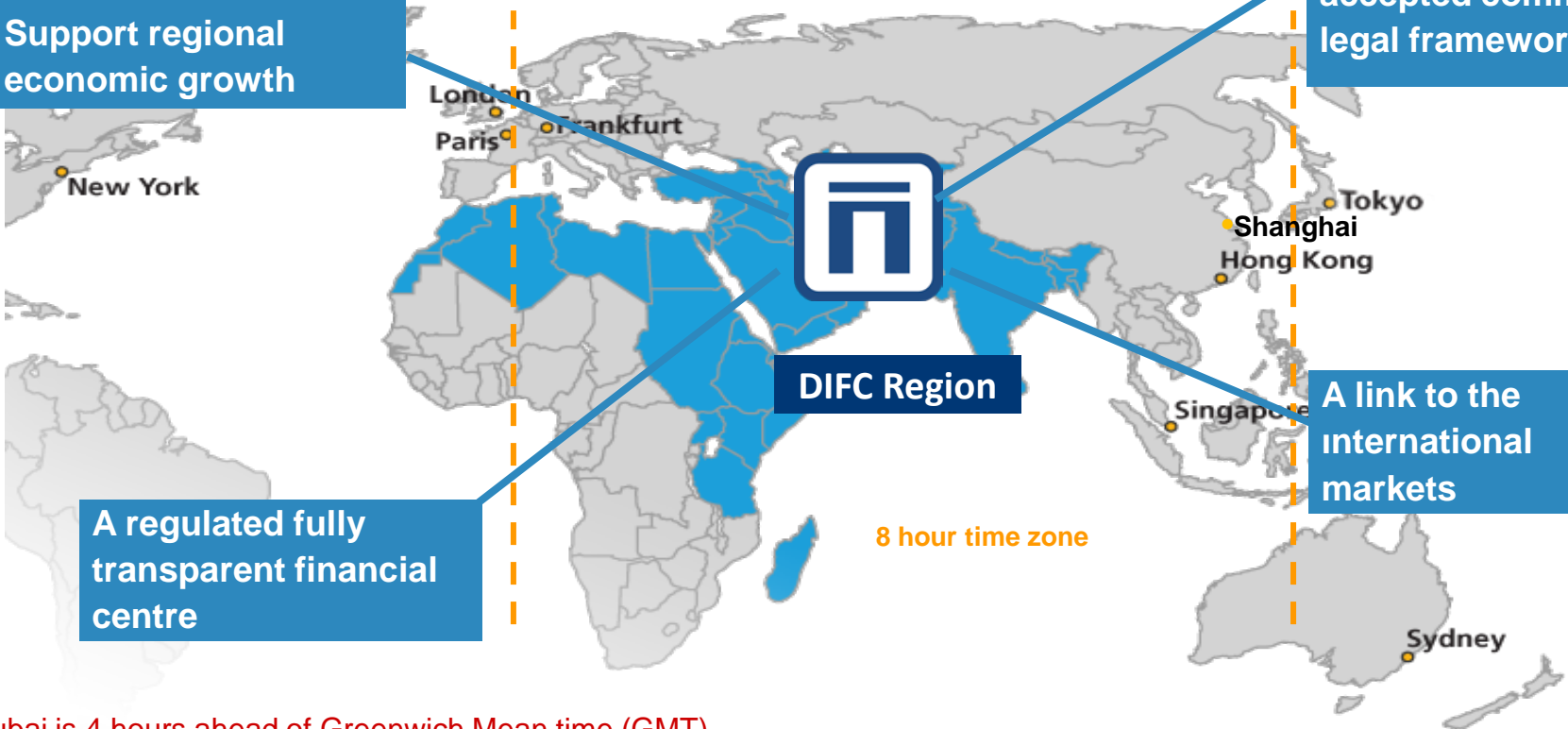
## Islamic Finance/Sukuk: How can the ICMA add value?

- **Objective: Establish liquid Islamic Securities Market**
- **Working group (DIFC+IFSB+WB+IFC+GBSA) on Sukuk documentation standardization**
- **Mainstreaming Islamic Finance:**
  - **MRAs**
  - **GATS**
  - **Free Trade Agreements**
  - **Islamic Financial Passport**
- **ICMA can cooperate and facilitate passportability & co-listing in other capital markets**

# Why Create A New International Financial Centre?

Deployment channel for the new wealth & Support regional economic growth

Internationally-accepted common legal framework



A regulated fully transparent financial centre

DIFC Region

A link to the international markets

8 hour time zone

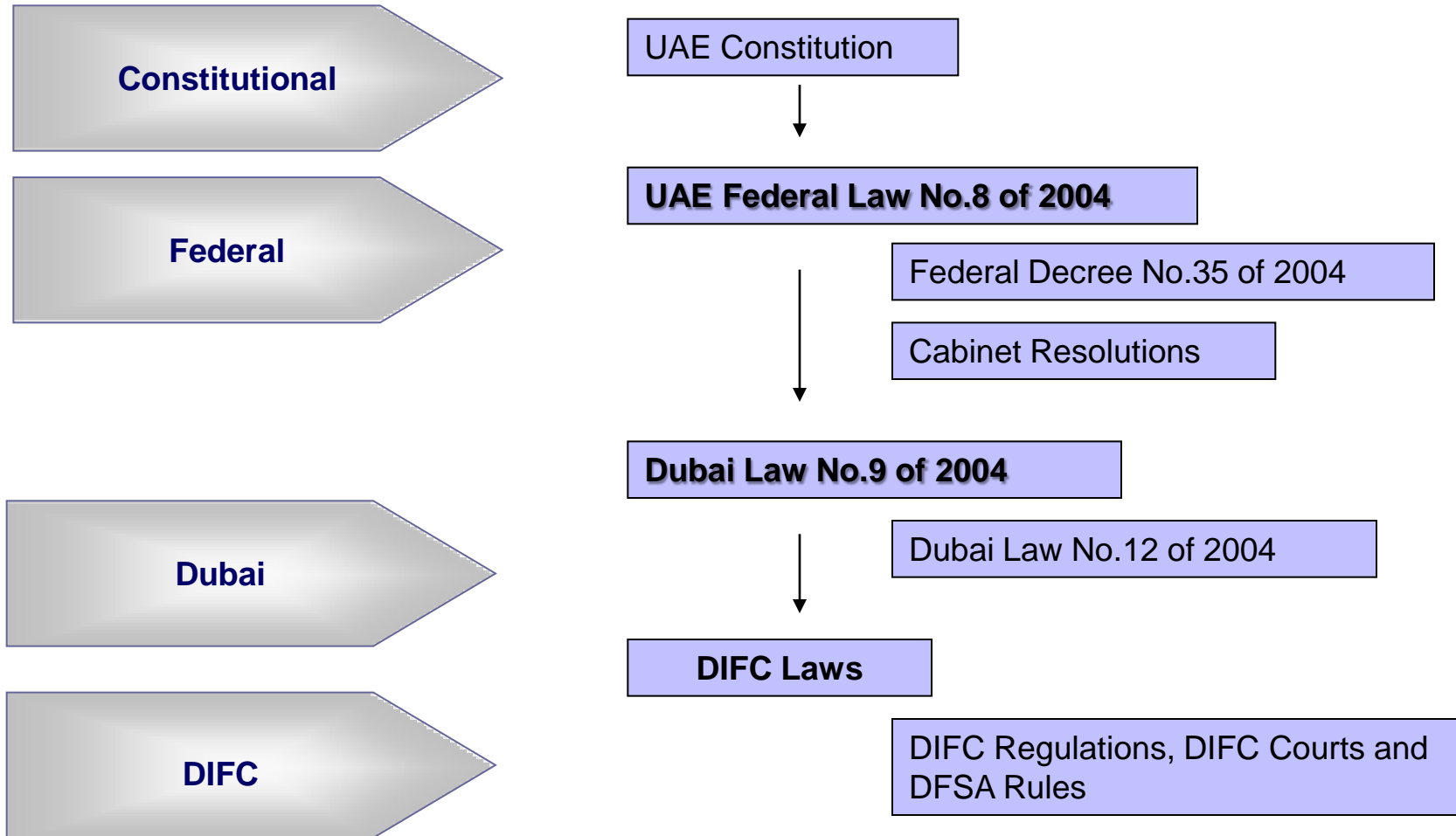
Dubai is 4 hours ahead of Greenwich Mean time (GMT)

5pm Dubai = 9am New York

1pm Dubai = 9am London

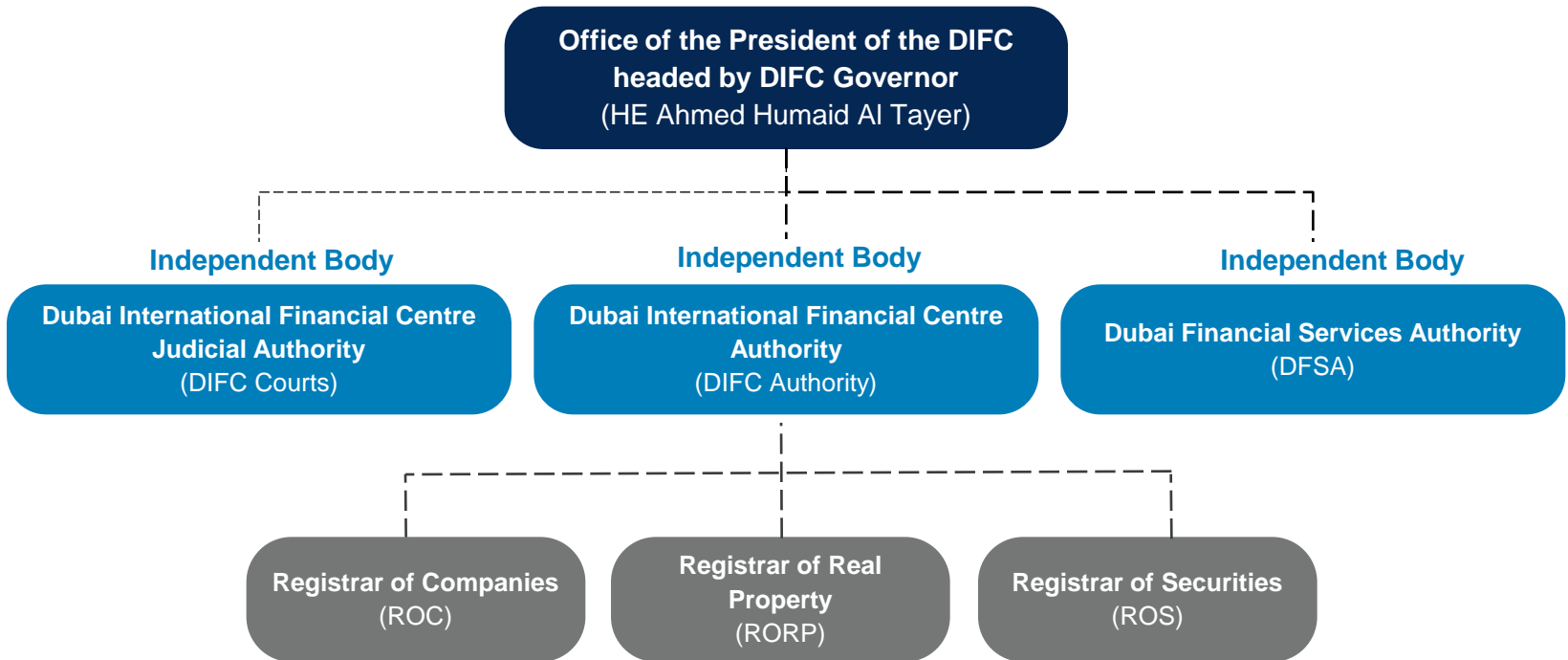
9am Dubai = 1pm Hong Kong

# DIFC- Legal Foundations



# DIFC Structure

HH Sheikh Maktoum Bin Mohammed Bin Rashid Al Maktoum  
Deputy Ruler of Dubai and DIFC President



## DIFC Structure II

**27 laws & regulations** have been enacted establishing the basis for regulatory framework and allowing financial institutions to carry out activity in the DIFC.

Tailor-made based on the best laws available in leading jurisdictions (e.g. Regulatory Law based on Common Law, Insurance Regulations based on Bermuda Law, Trust Law similar to Singapore and US regulations)

DIFC issued a **Data Protection Law**, compliant with EU Directives, the first regime in the region to ensure the protection of all personal information.

Other laws in the pipeline: intellectual property law, electronic transactions law, statistics law among others.



- An independent court system responsible for administering and enforcing the civil and commercial matters at the Centre
- Based on Common Law-offering institutions and companies the legal clarity and predictability



- Develop overall strategy and provide direction to the Centre
- Develop laws and regulations governing non-financial services activities
- Promote DIFC and attract licensees to operate in the Centre
- One stop shop service for visas, work permits etc



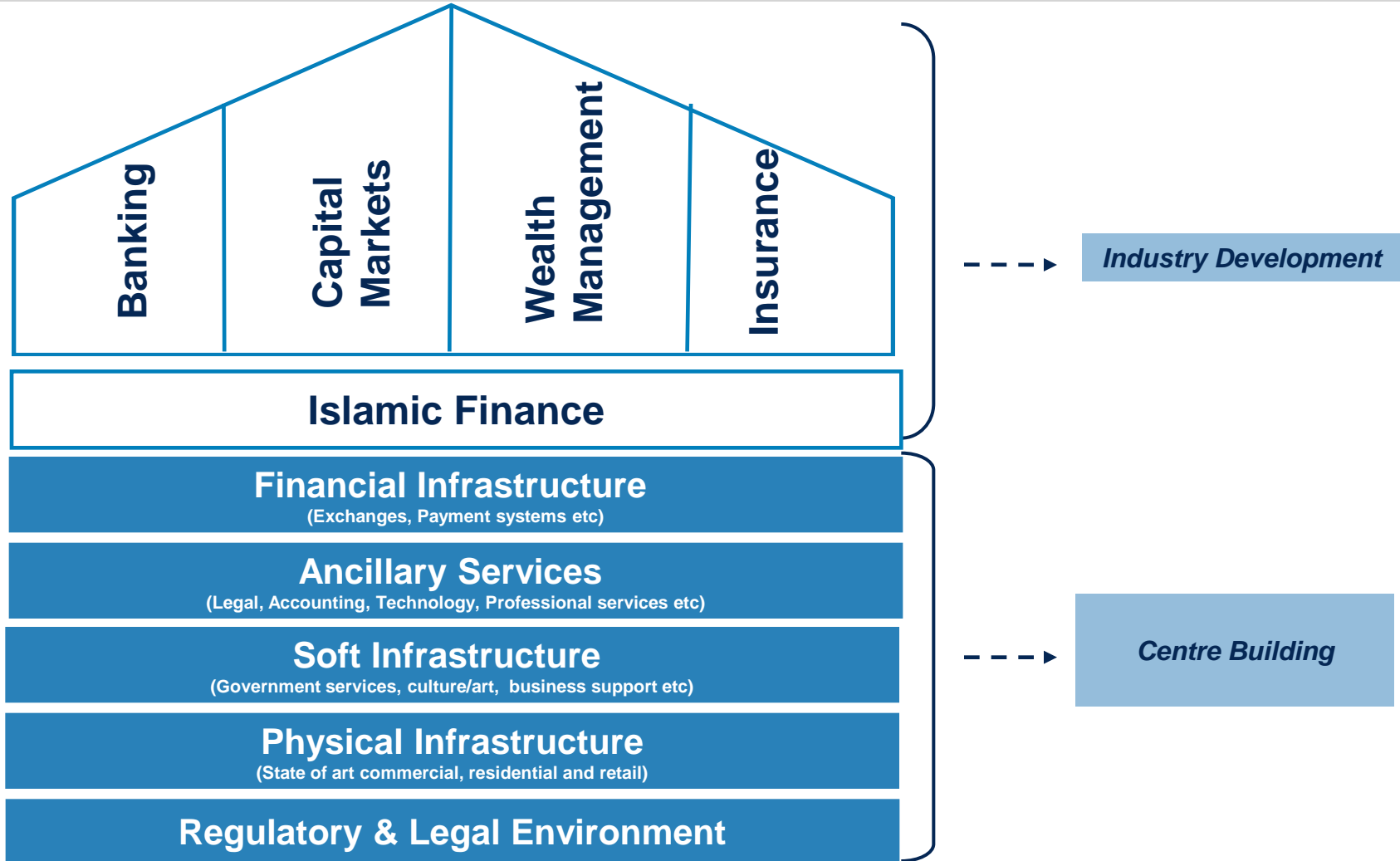
- Sole financial regulator within DIFC, AML co-regulation with UAE Central Bank
- Administrative and civil rule making and enforcement
- Bilateral MOUs with host of jurisdictions
- IOSCO, the BOCA Declaration (including multilateral MOUs), IFSB, IAIS (Technical Committee) etc

# DIFC Legal Infrastructure: a Common Law Jurisdiction

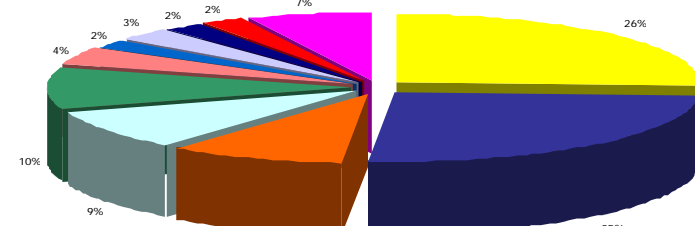
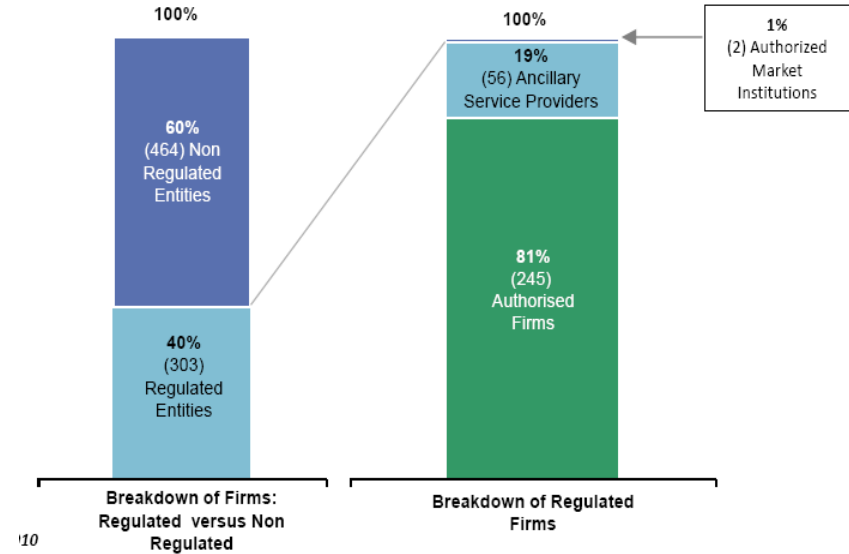
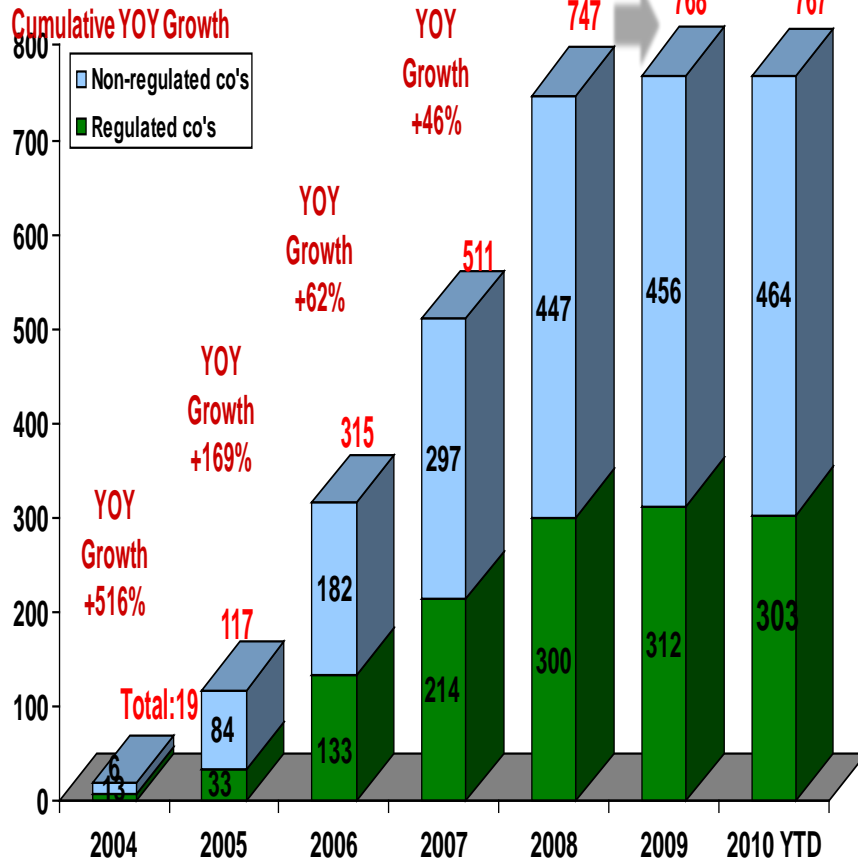
DIFC Law No.	Law/Regulation	Administrative Authority		
		DIFCA	DFSA	DJA
No. 1 of 2004	Regulatory Law		✓	
No. 2 of 2004	Companies Law	✓		
No. 4 of 2004	Law Relating to the Application of DIFC Laws	✓		
No. 5 of 2004	Limited Liability Partnership Law	✓		
No. 6 of 2004	Contract Law	✓		
No. 7 of 2004	Insolvency Law	✓		
No. 10 of 2004	Courts Law			✓
No. 11 of 2004	General Partnership Law	✓		
No. 12 of 2004	Markets Law		✓	
No. 13 of 2004	Law Regulating Islamic Financial Business		✓	
No. 4 of 2005	Employment Law	✓		
No. 5 of 2005	Law of Obligations	✓		
No. 6 of 2005	Implied Terms in Contracts and Unfair Terms Law	✓		
No. 7 of 2005	Law of Damages and Remedies	✓		
No. 8 of 2005	Law of Security	✓		
No. 9 of 2005	Personal Property Law	✓		
No. 10 of 2005	Law on the Application of Civil and Commercial Laws	✓		
No. 11 of 2005	Trust Law		✓	
No. 1 of 2006	Collective Investment Law		✓	
No. 3 of 2006	Companies Law	✓		
No. 4 of 2006	Limited Partnership Law	✓		
No. 5 of 2006	Investment Trust Law		✓	
No. 1 of 2007	Data Protection Law	✓		
No. 4 of 2007	Real Property Law	✓		
No. 5 of 2007	Strata Title Law	✓		
No. 1 of 2008	Arbitration Law	✓		
No. 1 of 2009	Payment System Settlement Finality Law	✓		



# DIFC: Ecosystem



# Development of DIFC as a Financial Hub



- Arranging Credit or Deals in Investments
- Advising on Financial Products
- Managing Assets
- Dealing in Investments as Agent
- Arranging Custody
- Dealing in Investments as Principal
- Fund Administration
- Providing Credit
- Accepting Deposits
- Insurance Intermediation
- Other

## Transformational Role of the DIFC

DIFC has achieved **critical financial mass**: it has in place a sophisticated framework of laws, regulations & governance, modeled on international best practices

- ✓ Provides market infrastructure for GCC bloc to emerge as economic and financial hub for MENASA region
- ✓ Provides comprehensive platform for regional & international listing, IPOs, privatization, project finance, securitization
- ✓ Lower access barriers to financial services
- ✓ Lead integration of financial markets: starting with DFM + Nasdaq-Dubai
- ✓ Develop Regional Debt Market
- ✓ Build payment system infrastructure for \$ and Euro payments

**Change in Global Economic Geography requires accompanying change in Global Financial Geography**

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## ICMA & DIFC Areas of Cooperation

- **Contribute to Regional Capital Markets Development & Integration**
- **Develop Local Currency Bond & Sukuk Market**
- **Develop 2<sup>nd</sup> Tier Market**
- **Mainstream Islamic Finance**

## **New World Order: A Historical Perspective**

**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 Financial Crisis & 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**

**Polycentric world emerging: politics, social & ethical values, economic and financial regulation are to be redefined away from Western-centric conception**

# Dubai Images - Past, Present and Future

## Dubai early 1950s



## Sheikh Zayed Road, Circa 1990



## Sheikh Zayed Road, Circa 2003 (IMF-WB Meetings)





## DIFC circa 2011

