

THE INTERNATIONAL



**ISLAMIC FINANCE
FORUM**

New Markets

The Growth Imperative



Fehmy Saddy
President

FS International Partners

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World Bank's World Development Report

The...s have begun on sluggish note. Growth in the industrialized market economies as a group slowed down sharply in... and will remain slow in... as well. These countries show few signs of overcoming the inflationary legacy of the...s- just one of several similarities between two decades. Others include rising real oil prices; continuing large trade deficits and, consequently heavy borrowing from abroad by the developing countries; and the prospect of much slower growth in low income countries than in middle income countries.

Past or Present

The above quotation is NOT from the World Bank Report for 2008

It is from its Report for 1981, more than quarter of a century earlier

Yet, you can only change the year and it will be as relevant today

Globalization & the Middle East

- ❑ The international financial system is facing the first crisis of globalization; it circulates the bad (Giscard d'Estaning)
- ❑ Globalization has changed the world, for bad or for good, yet to a large extent the Middle East and North Africa (MENA) region, as a whole, the benefits have been limited
- ❑ Recent phenomenal increase of oil prices has helped oil producing countries achieve fast domestic economic development while accumulating large surplus funds
- ❑ But for the rest, by any set of measures, economic, social and educational conditions have worsened
- ❑ The rate of illiteracy in the MENA region is double the world average rate (70 million illiterates) (UNESCO 2008)

Technology & the Middle East

- ❑ Communication technology has benefited MENA countries, to varying degrees, but its effect remains limited as well
- ❑ But communication has sown the seeds of discontent
- ❑ The oil producing countries (GCC) have been able to reap fully its benefits
- ❑ It has been instrumental in the management of their financial resources, locally, regionally and globally
- ❑ Exploration of new knowledge, new horizons and new markets
- ❑ London remains a favored GCC investors destination, but no longer “The Center”; and certainly not of Islamic finance
- ❑ Islamic finance has many centers (Malaysia, Bahrain, and why not Istanbul?)

Recycling Petrodollars: Old/New Debate

The Old Debate:

- ❑ The first oil price “shock” in early 1970s followed the oil embargo when the price jumped ten times (from \$3 to over \$30)
- ❑ Due to the “limited absorptive capacity” of the MENA region, oil revenues were invested in the Western markets which, it was claimed then, only they have the “width and depth”
- ❑ The term “Surplus” was the buzz word; but it was questioned
- ❑ History has shown that that was a badly conceived strategy
- ❑ Returns on investment in 1972-79 ranged between zero and -3.4, not counting inflation
- ❑ Worldwide recession slowed demand and depressed oil prices
- ❑ GCC oil producing countries, led by Saudi Arabia, resorted to borrowing, essentially their own money, from Western banks

The old/new Debate

The New Debate:

- ❑ Not a “shock”; but where should the oil revenues be invested?
- ❑ GCC have adopted a diversified approach. They have invested heavily in their economies
- ❑ Investments in the MENA region are found to be more secure, and with better returns
- ❑ However, considering the large sums of surplus capital, investments outside the region are imperative
- ❑ Investment in Western markets: US, UK, and Continental Europe. The new buzz word “Structured Product”
- ❑ Exploration of new markets: Central Asia, South East Asia, China, Russia and Central Europe
- ❑ But little, if any, in Africa or Latin America

Where to go from here? The US market

- ❑ At best, the current US economic crisis will languish for a while, and recovery is unlikely to take place anytime soon
- ❑ The contamination of world economy: “Toxic Assets”
- ❑ No one knows or can estimate the impact of \$11.3 trillion US national debt on the value of the US dollar (and oil)
- ❑ Certainly, the \$700 billion rescue package, to be disbursed over time, will not restore credit confidence and salvage a heavily leveraged and essentially bankrupt US banking system
- ❑ If market psychology does not go along with the Treasury’s plan, as it seems the case, what will happen to the credit default swap market of \$62 trillion?
- ❑ Plausible scenario: start a war somewhere to stimulate the economy, as the case after the Depression (Richard Cohen)

Western Europe, China and New Markets

- ❑ Western Europe is seriously affected by the US Banking crisis and its economic depression
- ❑ Credits will be loosened, and the European banking system will rebound; but growth will be anemic: strong Euro, decreased exports, and increased unemployment
- ❑ Europe markets vary with US markets, minute by minute: Interdependence or dependence?
- ❑ Cultural protectionism, rise of the Right (as in the 1930th)
- ❑ China's economy is cooling off and the real estate market, the preferred form of Middle East investors, is showing strains
- ❑ Other Asian markets are performing better, but are shallow to accommodate substantial GCC investments

Destination Latin America

- ❑ A Neglected region: the dependency paradigm
- ❑ Case in point, Venezuela's pioneering role in forming OPEC in 1960 (Abdullah H. Tariki, first Oil Minister of Saudi Arabia)
- ❑ Shared culture with the Middle East; common heritage from the times of the Arab presence on the Iberian Peninsula
- ❑ 20% of Brazilian population is of Arab origin, new immigrants
- ❑ Land mass with substantial agricultural and natural resources
- ❑ Relative political stability
- ❑ Commitment to development (UN, World Bank, IDB)
- ❑ Growth rate 5.6% in 2007; estimated 4.6% in 2008 (likely to decline further)
- ❑ Hospitable investment environment

Destination Brazil



Why Brazil?

- ❑ Continental dimension; the fifth largest country in the world
- ❑ Accounts for two thirds of all Latin American GDPs
- ❑ Metropolitan Sao Paulo consumes energy as entire Argentina
- ❑ Bread basket for the world; but not only bread
- ❑ A Newly Industrialized Country in the real sense
- ❑ Research and development on par with advanced countries
- ❑ Pioneer in technology: energy, agriculture, and medical sciences
- ❑ Political and social stability
- ❑ Favorable investment environment
- ❑ Clear fiscal policies

Economic performance

Vibrant economy: Consider the following (March 2008):

- ❑ International reserves - \$195.850 billion
- ❑ International debt - \$15.1 billion
- ❑ Internal debt in relation to GDP – 41.2 %
- ❑ Direct foreign investments \$8.799 billion (first quarter, 2008)
- ❑ Growth rate - 4.79 per year (4.6% estimate 2008; likely to decline further)
- ❑ Inflation for 2008 (estimated 4.79%)
- ❑ Real estate debt market 2% of GDP (compared to 69% in US)
- ❑ Strong currency; appreciation against the US dollar and Euro
- ❑ Rated by Standard & Poor's "Investment Grade" country (not that the rating means anything)

Foreign Investments

- ❑ US Investments are increasing, particularly in agriculture
- ❑ One third of the price of US agricultural land; yet three crops per year, with higher yields
- ❑ Ethanol production for export to the US and Europe
- ❑ European investments in real estate and resorts
- ❑ Chinese investments in food and mineral resources
- ❑ Middle East investments: negligible exposure, but expanding
- ❑ Limited investments in food production and resort projects
- ❑ Investment opportunities: agribusiness, real estate, infrastructure, hydroelectric power, clean energy, etc.

FS International Partners' Projects

- ❑ FS International and Brazilian partner, Global Hedging, are launching the first Middle East agribusiness fund for plantation and export of commodities (soybean, corn and cotton) targeting the MENA markets
- ❑ Also launching the first trading company to arrange real commodities transactions for the account of Islamic financial institutions (Murabaha); not peddling papers (Tawarruq)
- ❑ Plans to launch a real estate investment fund (2009)
- ❑ Looking into the future; an enduring commitment
- ❑ Robert McNamara: “The parable of the talent is about financial power – and it illuminates the great truth that all power is given us to be used, not to be wrapped in a napkin against risk.”



FS International Partners SA

Contact: Fehmy Saddy

40, rue du Marche, CH 1204 Geneva, Switzerland

Tel: 41-22 818 5040

Fax: 41-22 818 5041

Email: fsaddy@fspartners.net

Website: www.fspartners.net