

continued from page one

own financial centres they supported the rival banking capitals of New York and London. Despite Saudi Arabia and the Emirates having their own major banks, they bailed out established competitors. Regardless of the growth of Islamic finance, they backed traditional Western banks.

The Middle Eastern wealth funds need a home for their surplus finance, of course, and oil prices had continued to soar despite the financial crisis, almost touching \$150 a barrel. There was thus a countercyclical element in using booming oil revenues to recapitalise bust banks. But there are many

other sectors they could have chosen. The wealth funds have bought government bonds and are buying real estate at bombed-out prices but they have shunned investment in Western manufacturing or trading companies in favour of financial firms. Dubai and Qatar own more than one third of the London Stock Exchange, for instance, and had battled to buy OMX, the Swedish exchange.

"Banks are considered flagship investments in the Middle East," explains Mr Tazi at MF. "They carry a cachet."

And the financial crisis has opened a door for these buyers that was previously closed. Western countries have jealously protected their banks

from foreign ownership. Even when Hongkong & Shanghai Banking Corporation agreed to rescue Britain's Midland Bank in 1992 it had to become a UK-registered company. Abbey National's takeover by Santander of Spain shows attitudes have changed but few believe the Middle Eastern funds would have been so welcome without the crisis.

"It's highly improbable that any of them would be allowed to own any western bank because they are so strategically important," says Mr Hamilton.

Kuwait still remembers how its fund bought a 22 per cent stake in BP when other investors refused to buy the UK government's holding in the oil com-

pany in 1987 – only to be ordered to resell it. More recently, Dubai World Ports was forced to resell seven US shipping ports acquired in its takeover of P&O because of US government opposition. Even last year, Congress held hearings into the investments in Citigroup and Merrill Lynch and Abu Dhabi had to pledge not to use its stakes for political advantage.

So, having helped the West in its hour of need, these funds now have a strong foothold in Western banking. "The crisis gave some of the Middle East money a chance to be round the table and make money," says Mr Tazi. Qatar made a large profit selling part of its Barclays stake, including over £1 billion of warrants this

week, but it remains the major shareholder and the holding could expand the bank's business in the Emirate.

Western governments may need to turn again to these sovereign wealth funds. The countries that bailed out their banks need to sell those shares to reduce their own debts. The US government now owns stakes in all the major Wall Street investment banks plus AIG, Fanny Mae and Freddie Mac while the UK state portfolio includes most of Royal Bank of Scotland, much of Lloyds, and Northern Rock.

"Will Middle Eastern funds be there when the government stakes are sold?" asks Mr Tazi. "If they are allowed to participate I think they will be there."

Opportunities for British business

Long-standing relationships between Britain and the Arab world provide the chance for UK companies to share in the region's growth, says Dr Afnan Al Shuaiby (right), Secretary General & CEO of Arab-British Chamber of Commerce

The Arab economies demonstrated impressive resilience in the face of last year's credit crunch and a mood of confidence prevails now that the region has successfully passed through the worst of the crisis without experiencing systemic risks.

No major Arab banks or investment firms faced collapse or needed major financial bail-outs like some leading Western banks. Arab governments, regulators and private institutions responded swiftly, working together to bring the region steadily through the most serious test ever to their institutions and structures of governance.

Now the Middle East banking sector is poised for growth following regional market reforms and global structural changes. Gulf economies should grow by 5.2 per cent next year as oil prices rise, credit markets improve and the property sector stabilises, says the International Monetary Fund in its latest World Economic Outlook report.

Arab economies were broadly unhurt by the finance crisis because they were not tightly linked into the global banking system and had not acquired toxic assets. Even non-oil-rich Arab economies weathered the storm remarkably well.

But apart from making adjustments to meet the demands of a new era in global finance, many challenges need to be faced, including the continuing impact of globalisation, sustainable development, climate change and renewable resources and adapting new technologies.

To address these issues the Arab-British Chamber of Commerce has organised its first Arab-British Economic Forum. The international forum will be held in London on 27 and 28 October under the theme of "Meeting the Challenges Together" and will allow distinguished Arab and British speakers to discuss how companies from their countries can build on their close relations to form new partnerships and take advantage of new business opportunities.

Funding emerged as a major challenge for businesses against the backdrop of reduced growth. However, Arab governments demonstrated their preparedness to support major infrastructure projects and bond issues have emerged as a key source of funding, with financial observers expecting no serious obstacles to prevent projects moving to completion. Foreign direct investment inflows and remittances are making significant contributions to the massive infrastructure developments in the Arab world.

Engaging with the economies of the Arab world, from the Gulf to North Africa, is now widely recognised globally as a highly lucrative investment option. A top UK bank recently estimated that infrastructure spending by Gulf countries alone will reach \$205 billion by 2013. Saudi Arabia accounts for half that, with investment worth \$105 billion planned in projects such as hospitals, roads, railways and airports.

Opportunities identified include international joint ventures, mergers and acquisitions, development planning



Highly qualified Arab nationals are welcoming UK business

plus the provision of legal, financial and consultancy services. Innovative business practices and strategies are increasingly being adopted in response to current worldwide challenges.

The drive for diversification is certain to gather pace, with Arab countries showing increased interest in acquiring technical know-how and adapting new technologies to meet local needs. New businesses involved in

technology and innovation now form a key part of the UK government's strategic vision for Britain's economic recovery and UK firms should be well placed to take advantage of the increasing demand for their services and expertise as Arab countries diversify their economies to make them fit for the 21st century.

The current state of the infrastructure across large tracks of the Arab

world is still far from adequate to meet the changing demands of the modern global economy. Upgrading the infrastructure is now accepted as essential for developing the domestic economies, attracting investors and enhancing global competitiveness. British construction companies are well placed to assist partners in the Arab world in modernising their transport networks, public utilities, housing, health and education infrastructure as well as hotel and leisure facilities.

One of the key common challenges shared by all Arab countries is to create sufficient suitable employment for their rapidly growing young population, around 60 per cent of which is under 30 years of age. About 100 million new job-seekers are expected to enter the market over the next 10 to 15 years.

In response, Arab governments are seeking to ensure that their nationals are best qualified to compete successfully in the jobs market and that students acquire the relevant education and skills training to enable them to engage in productive activities and hence support internationally competitive economies. Increasingly, British educational experts, schools, colleges and universities are forming partnerships with Arab institutions to meet the education and training needs of Arab students.

The Arab-British Chamber of Commerce firmly believes the strong partnership that exists between the UK and the Arab world is becoming more vitally important than ever as the global economy enters its recovery period. As the business environment becomes more competitive, British and Arab companies should be able to benefit from the close relations in a range of sectors. The Chamber remains ready to assist them in taking advantage of the new business opportunities emerging.

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