Annual Supplement

Middle East 2011

Global Finance

Contents

Winds Of Change

These are times of unprecedented change in the Middle East and North Africa. Years of pent-up frustration among the region's youth—around 60% of the population in some countries—has already swept away two governments. More may follow, even in the Gulf where greater wealth, generous financial disbursements and promises of increased social spending have so far helped dampen resentment.

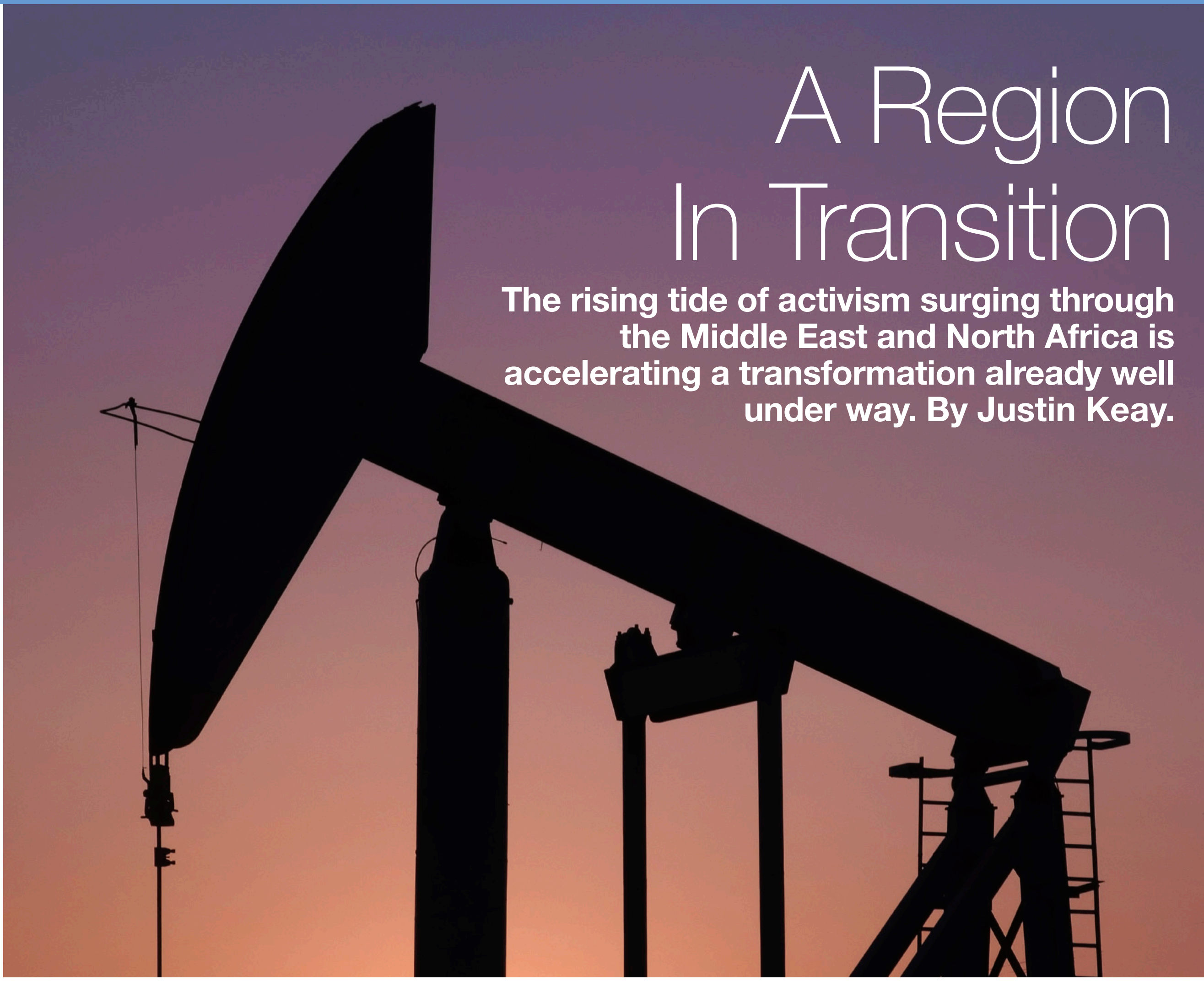
The dangers apparent in this highly febrile environment are many: that instability persists, discouraging FDI and denting the economy; that Islamist groups become prominent, changing the hitherto largely secular nature of these movements; or that the protests' momentum slows and the region slumps back to the status quo.

Success in finance and business depends, of course, on identifying opportunity. Although these are very early days, there is plenty to be excited about. Accountable governments that spend more on improving the lives of their citizens are not only good news politically, easing tensions and resentments, but economically. We can expect growth across the region to pick up if ambitious new infrastructure and other plans are implemented, with opportunities for Western and local banks and companies.

A more open and democratic Middle East also means a region more closely connected to the rest of the world in terms of trade, investment and finance. As this report points out, finance—perhaps the most international economic sector—could be one of the biggest beneficiaries. More Western banks may be allowed to compete with local players as local regulators begin to focus on transparency and adopting Western-style corporate governance, while exchanges could consolidate or at least work together to exploit the advantages of the Middle East's time zone, midway between Europe and the Far East.

The big questions, of course, are the hardest to answer. How long will the transition take and what sort of governments can we expect to emerge? Nobody knows, but Eastern Europe's experience over 20 years ago shouldn't necessarily be taken as a guide. The revolutions there were against a bankrupt ideology and foreign (i.e. Russian) domination. The countries' long transition time reflected the fact that most had to essentially start from scratch, without a textbook and with limited resources. Although some of the statist systems in the Middle East are moribund, existing trade, banking and investment links to the rest of the world will help the transition process, as will the deep pockets that many countries have. Western countries, institutions and banks should remain supportive of this historic transformation, bearing in mind the mutually beneficial possibilities.

Justin Keay
Contributing writer



A Region In Transition

The rising tide of activism surging through the Middle East and North Africa is accelerating a transformation already well under way. By Justin Keay.

When asked what was most likely to blow governments off course, former British prime minister Harold Macmillan is famously said to have replied: "Events, dear boy, events." The events that have been blowing through the Middle East since last December, when protests ignited against the Ben Ali regime in Tunisia, have done more than blow governments off course. Two regimes have collapsed, in Tunis and Cairo, and, as *Global Finance* was going to press, it was apparent Libyan leader Muammar al-Qadhafi's troops had still failed to overcome rebels in eastern Libya and his regime was looking shaky in Tripoli, too. Prospects for the current rulers in both Yemen and Algeria look uncertain, and the ruling Al-Khalifas in Bahrain have been dragged toward negotiation as a result of the violent demonstrations that swept through Manama in mid-February. Quite aside from the concerns that the unrest there has raised in neighboring Saudi Arabia, Bahrain must come to terms with the fact that the events at the Pearl Roundabout in mid-February will have an impact on its efforts to build a financial center to rival Dubai and Beirut. Soon after the authorities' clampdown, Fitch put Bahrain on review for a ratings downgrade and, a week later, cut its rating one notch to A-.

Unprepared, complacent governments long accustomed to quiescent populations have struggled to formulate an adequate response to the rage making itself felt across the region. There is uncertainty about whether the revolutionary spirit gripping so far mainly North Africa will make itself felt across the Gulf region, or whether the hitherto largely secular nature of the protests will acquire an Islamist tinge.

Regimes in North Africa have arguably been more sclerotic, corrupt and unpopular than their monarchical counterparts in the Gulf Cooperation Council (GCC) and thus have had less legitimacy. However, even this attempt at rationalization soon runs into

"Only history will tell whether this is a Berlin Wall moment"

"Much will depend on the governments' response—in particular how they move to address youth disaffection and unemployment"
—Nasser Saidi, chief economist at the Dubai International Finance Centre

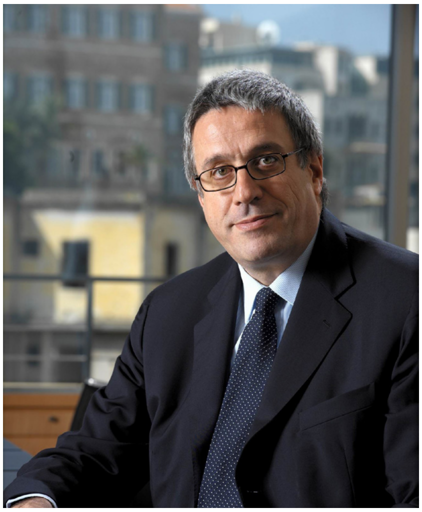
trouble, and the disturbances in Oman, for example, where Sultan Qaboos enjoys genuine widespread support, raise serious and complex questions about where and how all this will end.

John Sfakianakis, chief economist at Banque Saudi Fransi, says concerns about the contagion reaching Saudi Arabia are misplaced: "The chances of disruption to major oil production remain distant, as is the likelihood of major unrest," he wrote recently, arguing that "the economic changes desired and needed are not predicated on calls for a change in the leadership structure."

This may be so, but the calls for changes making themselves felt even in this most conservative of countries—prompting the Saudi authorities on March 8 to ban all demonstrations and to fire on demonstrators in at least one instance—suggest the Facebook and Twitter generation here are no different from elsewhere in the region. With aspirations raised through education and the media, with jobs in short supply and a huge proportion of these populations under 30 (60% in Saudi Arabia and a similar proportion in many other countries), change is inevitable.

"Clearly things cannot go back to how they were before January 25 [the date Egypt's popular uprising began], which was a defining moment," says Nasser Saidi, chief economist at the Dubai International Finance Centre (DIFC) and formerly a minister and vice president of the central bank in his native Lebanon. "Only history will tell whether this is a Berlin Wall moment. Much will depend on the governments' response—in particular how they move to address youth disaffection and unemployment."

It will also depend on how serious governments are about tackling corruption, nepotism and lack of transparency, which have been prevalent across the region, and making efforts to ensure that wealth does not stay concentrated in the hands of the few but trickles down through society. "If leaderships bury their heads in the sand and ignore these challenges, there really will be problems," says Mohamad Moabi, an economist at QNB in Qatar.



Baz, Bank Audi: Greater freedom should lead to stronger economies

However GCC governments, in particular, have moved fast since the start of the disturbances. In Manama the authorities are now talking to the opposition, having reaffirmed the right to demonstrate. In Oman in early March, Sultan Qaboos sacked 12 ministers including the minister of the interior in the face of disturbances alleging high-level corruption.

In all these countries, governments have reached for their checkbooks. Riyadh has gone the furthest, with a vast new $36 billion spending program announced on top of what was already the most expansionary budget in the country's history. This new money—equivalent to 8.3% of GDP—will go toward education, housing and social welfare. In the UAE, Abu Dhabi, which is by far the wealthiest of the country's emirates, is to distribute funds and boost job creation in some of the poorest emirates, including Sharjah and Ras al Khaimah. Governments in Kuwait and Bahrain have distributed cash to every citizen, the latter also announcing it is to spend $6.6 billion building some 50,000 new homes over the next few years. Meanwhile the GCC is considering establishing a new stability fund paid for by Saudi Arabia, Kuwait, the UAE and Qatar to help Bahrain and Oman alleviate social tensions.

Accountable governments "act more in line with the needs of consumers and business"

"If Egypt and other countries can … install proper democratic regimes, the opportunities will be huge" —*Jeff Singer, CEO of Nasdaq Dubai*

Regional Differences

North African governments do not have the same deep pockets, but there will have to be recognition of the need for serious systemic change. At the political level, this will mean taking bold steps, such as Tunisia's announcement in early March that it will disband the hated secret police, that elections will be held within a reasonable time frame and that senior figures from the old regime will not feature prominently, even in interim governments.

The good news is that economically, the Middle East region—in particular the GCC but also many of the North African states—begins any transition in comparatively good shape. At the start of the year, admittedly before any serious disruption had occurred, the GCC region was expected to grow by some 5.9%, boosted by rising oil revenues and infrastructure spending. North Africa was also looking forward to strong GDP growth. Egypt's economy, for example, was expected to grow by some 5.6-6%.

The bad news is that, in the short term, these figures are going to take a hit, as tourists and foreign investors stay away. The brokerage CI Capital expects Egyptian 2011 growth to be no more than 4% with expected foreign direct investment dropping to $4.3 billion against previous expectations of $7.7 billion, with the fiscal deficit rising as the tax take falls and government spending rises. Similarly, Tunisia will struggle to achieve the 5.4% rise in GDP growth it was expecting, while Libya's economic prospects will be severely damaged by the unfolding civil war, which has already reduced daily oil output by some 60%.

At a regional level, the crisis may enhance

"Most GCC countries do the same thing—export hydrocarbons—and do little trade with each other"

"These countries have pegged their currencies to the US dollar [so] currency stability is there anyway" —*Richard Sykes, Standard Chartered*

the role of super-national institutions such as the Arab League, which has been critical of Qadhafi's brutal crackdown in Libya, and of course the GCC. As well as formulating its plan to provide extra funds for Bahrain and Oman, the GCC has said it will prioritize finding a mechanism for distributing customs receipts as part of a move toward finalizing the customs union first announced in 2003. Whether there will be any progress in moving toward a single currency, something that has been under discussion for years, is another matter.

Richard Sykes, a banker at Standard Chartered in Qatar, believes the single currency is as far away as ever, given the lack of enthusiasm for it in the UAE, the GCC's second largest economy, and Oman, but he argues it probably doesn't matter. "Most GCC countries do the same thing—export hydrocarbons—and do little trade with each other," he says. "For investors and traders, the fact that these countries have pegged their currencies to the US dollar means currency stability is there anyway."

Revolutions May Boost Economies

The big question is what the long-term business impact of the Arab Awakening will be. Jim O'Neill, chairman of Goldman Sachs Asset Management, says the region's proximity to Europe and its time zone—between Europe and Asia—could be big advantages, helping the region develop a strong manufacturing base using its skilled, inexpensive workforce and boosting its financial sector. "Successful revolutions should mean incredible opportunities, similar to those that came with the emergence of the Brics a decade ago. The population of the Middle Eastern and North African countries is around 400 million—more than double Brazil and nearly three times larger than Russia," he wrote recently.

Jeff Singer, CEO of Nasdaq Dubai, agrees. "When governments can be held accountable, they act more in line with the needs of consumers and business. If Egypt and other countries can pull off a miracle and install proper democratic regimes, the opportunities will be huge—roads, hospitals and schools, you name it," he says.

Businesses and the banking sector look likely to focus on improving transparency, as well as creating a more genuinely competitive environment with better corporate governance. "Countries across the region are recognizing that if they want to become global players, these factors must be taken seriously. Thus, you are already seeing organizations like Saudi Arabia's Capital Markets Authority get more teeth," says Saidi.

Greater transparency and improved corporate governance on top of the increased earnings from hydrocarbon sales and a greater role for SMEs and private business should boost local banks and exchanges. In the short term it may lead to increased consolidation but in the long term, produce larger, increasingly powerful entities.

Singer believes the lack of scale that is currently hampering the growth of the region's exchanges will eventually be overcome by either consolidation or regulatory passporting. Others believe financial centers will move toward differentiation, with, say, Bahrain focusing on Islamic banking, Qatar on insurance and asset management and Dubai on a broad range of services.

All this, of course, lies in the future. As *Global Finance* went to press, the Arab Spring showed little sign of slowing, making it hard to predict what lies ahead. "Greater freedom can only improve the efficiency of the economies, but they will have to go through a period of transition. Hopefully though, this won't have a lengthy and costly economic impact," says Freddie Baz, CFO and chief strategist at Lebanon-based Bank Audi.

In the meantime, however, the region looks set for a long period of what investors and bankers fear most: uncertainty. ■

Far from the storm: Much of the Gulf is unaffected by the wave of protest sweeping through the wider Middle East and North Africa region

Looking To The Future

The current market conditions may have prompted slowing in their expansion plans, but the Middle East's banks are still building for the future. By Justin Keay.

Until late 2010, the sentiment of most Middle Eastern bank CEOs was that cautious lending, an aversion to securitization, strong management, firm regulation and sheer luck had helped them successfully steer through the global crisis that so damaged many of their Western counterparts. Although the picture varies country by country, last year was a time for consolidation, fixing damage to balance sheets and revenue streams and looking ahead to what then looked like a more stable future, underpinned by an ongoing recovery in energy prices and the global economy. Many banks reduced loan loss provisions over 2010 compared with 2009 and also moved to reduce operating expenses, reflecting the restructuring many undertook in the wake of the global downturn. Some saw profits decline, notably in the UAE where the bursting of the Dubai property bubble had a significant impact.

Emirates NBD, created following the merger of Emirates Bank and the National Bank of Dubai in late 2007 and now the largest banking group in the Middle East, is a case in point. Total income last year was 10% down at AED9.7 billion ($2.6 billion) while net profits dropped to AED2.2 billion from AED3.3 billion in 2009 (but operating costs were down 14%). By contrast, Qatari, Saudi and Kuwaiti banks saw profits rise, due partly to their involvement in funding ambitious infrastructure projects but also to a growing deposit base, reflecting rising personal wealth. Banks in North Africa also had a generally good year: Al Baraka Egypt Bank, for example, saw its net profits double to 107 million Egyptian pounds ($18.2 million).

Having dodged the bullet of the global economic crisis, though, banks must now grapple with even greater uncertainty, as their businesses experience the impact of the Arab Spring. For many banks the effect has been immediate, with ratings agencies moving to downgrade them, in many cases in the wake of earlier decisions to downgrade their respective home countries' sovereign ratings. In early February, Moody's downgraded five Egyptian banks (National Bank of Egypt, Banque Misr, Banque du Caire, Commercial International Bank and the Bank of Alexandria), citing concerns about largely domestic credit portfolios amid growing macroeconomic uncertainty and doubts about Egypt's ability to support its banks should this become necessary. In neighboring Tunisia, where the Arab Spring started in December 2010, Zitouna, Tunisia's first Islamic bank, was nationalized because of its close connection to ousted president Zine El Abidine Ben Ali, and ratings agencies have downgraded several local banks and warned that further downgrades are possible.

Elsewhere however, particularly in the Gulf, where contagion from the crisis has so far been less, but also in Lebanon (no stranger to uncertainty), the mood has been more sanguine. "Most banks in the GCC area are pretty solid—I don't see any signs of collapse," says Rohit Walia, CEO of Bank Sarasin-Alpen (ME). "Sure, they may look set to make less money—maybe 30% or so less than before—but there are still profits here that are not to be sneezed at."

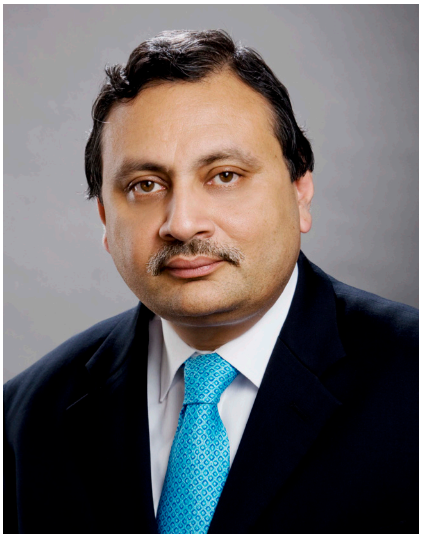
Freddie Baz, CFO and chief strategist of Bank Audi, one of Lebanon's leading banks, is also optimistic, arguing that the eventual outcome will be greater transparency and

Doha Bank's R. Seetharaman: "We are facing a new generation of banking"

more business, although the immediate uncertainty has prompted a shift in bank strategy in the region from expansion to consolidation. "Yes, we are slowing down our expansion, but if the longer-term outlook is better, who cares if plans are delayed by a few years?" he comments. "Our philosophy is to build a stable, solid franchise for the long term."

The general feeling is that banks with a broad spread of business, both at home and in foreign markets, and a proactive but cautious investment strategy look best-placed to ride out the current uncertainties. Many banks seem to be taking a similar approach: focus on developing markets and capabilities; boost brand awareness; tackle any bottlenecks; and hold one's nerve until the outlook becomes clearer.

Qatar-based Doha Bank is a case in point. With total assets of almost $13 billion, and deposits of $8.5 billion, this highly rated bank has the largest national market share of trade finance, as well as 36 branches around



Walia of Bank Sarasin-Alpen (ME): Family businesses will remain resilient

the country. Chief executive R. Seetharaman argues that, despite the uncertainties, the economic and business outlook for the Middle East and North Africa (MENA) region remains good, and banks like his should be well placed to benefit from future opportunities, particularly given the firm financial regulation prevailing in a country such as Qatar, where the bank capital adequacy ratio is 15%. "We are facing a new generation of banking with such innovations as Web banking and [mobile banking], as well as demand for new products. We are well placed to meet this," he says. Seetharaman says the bank is expanding its product and service range and points to the growth of two new businesses, Doha Bank Assurance (a general insurance company) and DB Capital, which is scheduled to commence operations soon and to focus on asset management.

"Our aim is for DB to move from being a local to regional to global performer: We want to be a global enterprise. Increasingly, people are not location-centric but information-centric. If you remain a conventional performer, you will not get the customers' attention," he says.

Banks Spread Their Wings

Building up a strong regional presence backed by a recognizable, respected brand is also part of Qatar National Bank's (QNB) strategy, according to chief economist

"Islamic finance is developing in a way that allows us to conduct a broad range of activities"

"Many of the ongoing political changes in the region—particularly in Egypt—will make valuations more interesting" —*Shahzad Shahbaz, QInvest*

Mohamad Moabi. With more than 40% of Qatar's bank sector assets, a presence in 24 countries and an increasingly critical role in funding key infrastructure developments, QNB sees its main regional competitors as the National Bank of Kuwait, the National Bank of Abu Dhabi and the National Commercial Bank of Saudi Arabia. "Whether you look at assets, loans or profits we are moving up the rankings—and fast," he says.

Building brand awareness and looking beyond the region—to the Far East—is also likely to remain an important part of Emirates NBD's strategy, according to CEO Rick Pudner. Speaking after the bank's 2010 results announcement, he pointed to its 135 branches, its expanded retail presence in Abu Dhabi and many of the recent steps taken, including strengthening the balance sheet (the capital adequacy ratio is now above 12%) and stress-testing all the risks in its portfolio. With Emirates NBD expected soon to finalize its takeover of Network International, one of the region's largest payment card processors, Pudner says he is looking for 5% loan growth this year after an 8% contraction last year. As well as focusing on its traditional markets, the bank will be looking east for new business.

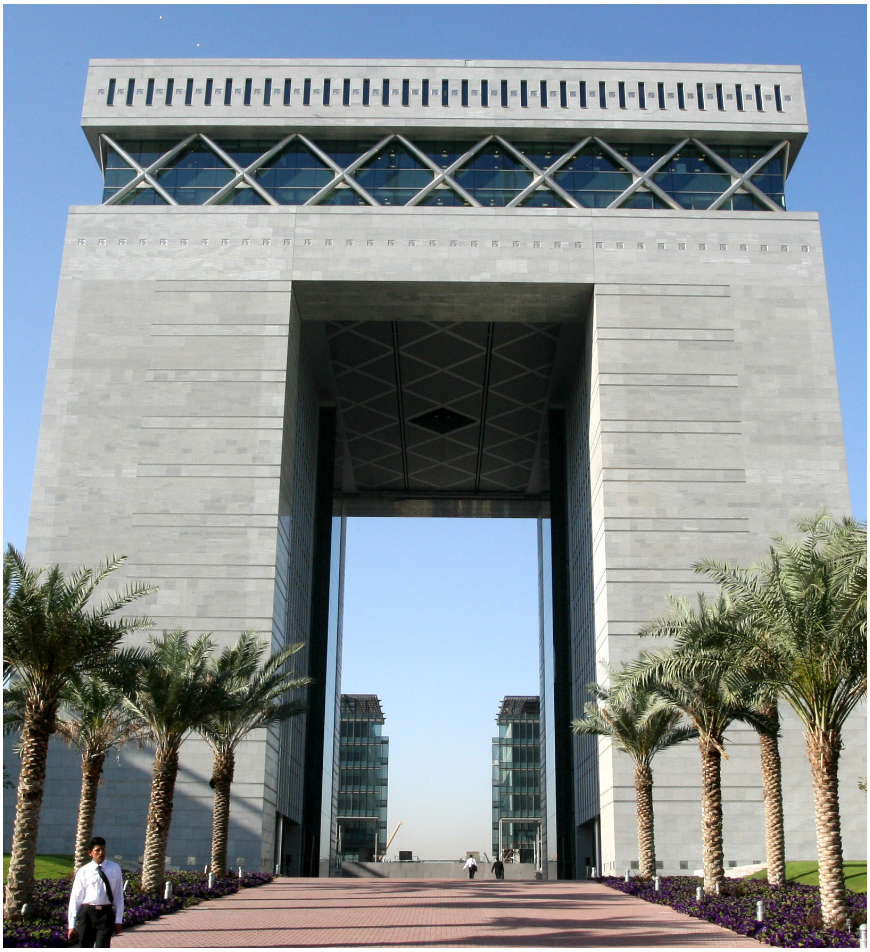
Pudner suggests that his bank, like Dubai, is ripe for a surge. "We feel we have put the bank into a strong position and are looking for growth opportunities," he says. "After going through this period of de-risking, we want to grow the business."

Growth is the cornerstone of Doha-based QInvest, a shariah-compliant institution that became fully operational only in 2009 but now seems to be racing to make up for lost time. Headquartered in the high-tech Tornado Tower in West Bay, the city's fast-growing financial center, QInvest is a full-service investment bank offering asset and wealth management as well as brokerage services. It is underpinned by $750 million in paid-in capital, with Qatar Islamic Bank owning 46.6% and a range of institutions and high-net-worth individuals owning the remainder. It is focusing its attention not only on the MENA region but on Turkey, South Asia, India and Malaysia. Two recent investments—in India's Ambit Capital and the mid-range UK stockbroker Panmure Gordon—confirm that, despite its Islamic tag, it is determined not to confine its activity to the Islamic world. However, this will clearly remain the driving force of its growth strategy, with QInvest, which has already won numerous awards for shariah-compliant banking, having recently secured a license to operate in Saudi Arabia. A recent ruling that conventional lenders in Qatar must close their Islamic banking operations by the end of 2011 will also clearly benefit QInvest, but the bank argues that the ongoing evolution of shariah-compliant financial activity from niche to mainstream will be its biggest boon.

"Islamic finance is developing in a way that allows us to conduct a broad range of activities," says CEO Shahzad Shahbaz, stressing that organic growth will drive QInvest, although it will also stay on the lookout for acquisition opportunities.

"These are often hard to find, but we are always open to possibilities: I am confident that many of the ongoing political changes in the region—particularly in Egypt—will make valuations more interesting for us," he predicts.

QInvest is not the only institution, by any means, focusing on high-net-worth individuals in the region. Sarasin, a subsidiary of Bank Sarasin-Alpen, established in Switzerland in 1841, opened its first branch in the Middle East in 2005 with separate investment bank and private bank functions, and has since grown by around two branch offices a year. Headquartered in Dubai, it has branches in Bahrain, Abu Dhabi and five other locations. Its majority shareholder is Rabobank, which is Triple A-rated and recently placed sixth in the *Global Finance* list of the world's safest banks, but Sarasin stresses its traditional, private bank roots. "Our focus in the region



Dubai's International Finance Centre: Anticipating a surge in business

is family businesses. Whatever happens, they make money, and this has a positive impact on our business. We believe this will remain resilient," says CEO Walia.

He attributes much of Sarasin's success to adherence to old-fashioned principles: Most investing is into fixed income products, with exotics never featuring on its investment horizon. Returns are single-digit. Walia believes the client's needs must always come first. "Suitcase banking is dead. A client will see you when he wants to, not when you want to see him. That is why we stress the importance of having a full office where our clients live, and not just a rep office, so we can always be there for them," he notes.

Walia says that despite the disturbances across the region, he plans to continue Bank Sarasin's expansion program "one country at a time," maintaining the dual investment/private bank approach, with Saudi Arabia, Egypt, Jordan and Turkey all on the radar.

These countries and others have been driving Bank Audi's profits forward in recent years, with its regional franchise approach transforming it into Lebanon's largest bank in terms of assets and deposits: not bad, considering that only three years ago Blom Bank was bigger. Chief strategist and CFO Baz admits Bank Audi's business in Egypt was a significant driver of its growth, with $3 billion of business, 160,000 customers and 31 branches built up in just three years following the acquisition of a local bank. Syria has also been doing very well, with some $2 billion in assets. Bank Audi has also built up substantial business in Jordan, Qatar and the UAE.

Baz says the deposit base looks likely to continue growing in all franchise operations, adding that Bank Audi tends to be viewed as a reliable, safe port in a storm. The results of stress testing have been reassuring, although he admits now is a time for consolidation rather than the pursuit of more growth. "We had been diversifying our range of services but are now freezing development. The crisis will therefore affect us, but only in terms of time rather than losses," he says. He attributes this to Bank Audi's "always conservative" lending policy, which has resulted in a loan-to-asset ratio of 25% and a loan-to-deposit ratio of 32%.

"We have very limited risk appetite, compared even to our peers in the GCC, where these ratios are closer to 80-90%. Typically we lend to corporates with high value-added, and this won't change," he says.

Challenges Ahead

The regional uncertainty may loom large at present, but the Middle East's banks will face other challenges in the coming year. Many banks see the need for more SME/private sector business, which in most countries has been growing much slower than government-sponsored activity; some even see a need for the private sector to get involved in some of the large infrastructure projects.

Building a brighter future: Doha's constantly changing skyline illustrates the pace of development in the Gulf

Although regulation throughout the region has been generally effective, with little fallout from the global securitization problems, banks are hoping for more coordination between regulators. This is particularly so in such countries as Qatar, where finance is a fast-growing activity and institutions such as the Qatar Exchange have considerable regional ambitions.

"Lack of integration between regulators is a concern. The central bank, the QFCRA and QFMA [the local regulators] have all been in discussion for a long while, but they need to act to prevent the emergence of any systemic problems," says Doha Bank's Seetharaman.

The other two challenges are perennial ones, with banks as concerned as ever that their perpetually evolving information and communications technology and staff requirements are met. The latter is often seen as the biggest challenge, particularly in countries such as Saudi Arabia, where secondary schools and universities have traditionally been focused on religious and other studies at the expense of those that would serve the financial sector and indeed, the broader economy. Some point to the Qatar Foundation, a huge nonprofit organization that spends large sums to attract Western universities to set up remote campuses in Qatar—and whose mission is "to prepare the people of Qatar and the region to meet the challenges of an ever-changing world and make Qatar a leader in innovative education and research"—as the model to copy.

As the upheavals continue, banks must be hoping governments move to boost training in areas like finance as part of a broader move toward meeting the aspirations of the region's disaffected youth. ■

Focused On The Middle East's Potential: Standard Chartered

If V. Shankar, Standard Chartered's CEO for the Middle East, Africa, Europe and the Americas, is unsettled by the unfolding events in the Middle East, he does a good job of hiding it. Sitting in his office in the Dubai International Financial Centre, he appears sanguine, arguing that wealth inequalities, coupled with high unemployment, rising food prices and inflation, made the Arab Awakening almost inevitable.

"We are very positive about the region. The changes will lead to greater transparency, better institutions and thus more opportunities for banks," he says.

Standard Chartered, it must be said, has been doing pretty well in the Middle East, where it has been active now for many years (it has been in Qatar for over 60 years, for example, and Bahrain for 90 years.)

It now employs some 2,600 people in the UAE alone and has elevated Dubai to the status of a regional hub, alongside London and Singapore. Dynamic wholesale and retail activity in such countries as Qatar, Bahrain and the UAE pushed operating profits up some 130% last year to $841 million (operating profits in Europe and the Americas actually fell). This means the Middle East is now a sizable contributor to the bank's total pretax profit of $6.1 billion (against $5.1 billion in 2009) and looks likely to grow further. The bank recently acquired a capital markets license for Saudi Arabia and opened its first office in Riyadh. Although its international competitors include the likes of HSBC and UBS, among Middle East regional banks its only real competition now comes from Emirates NBD and the National Bank of Abu Dhabi.

"In times of uncertainty and crisis we usually improve our positioning, because we make sure we are there when clients need us. For example, during Dubai's recent crisis, many of our rivals left. We stood by our clients. Our strap line is that we are here for good, and the longevity of our presence supports that," he says.

Shankar: Very positive about region

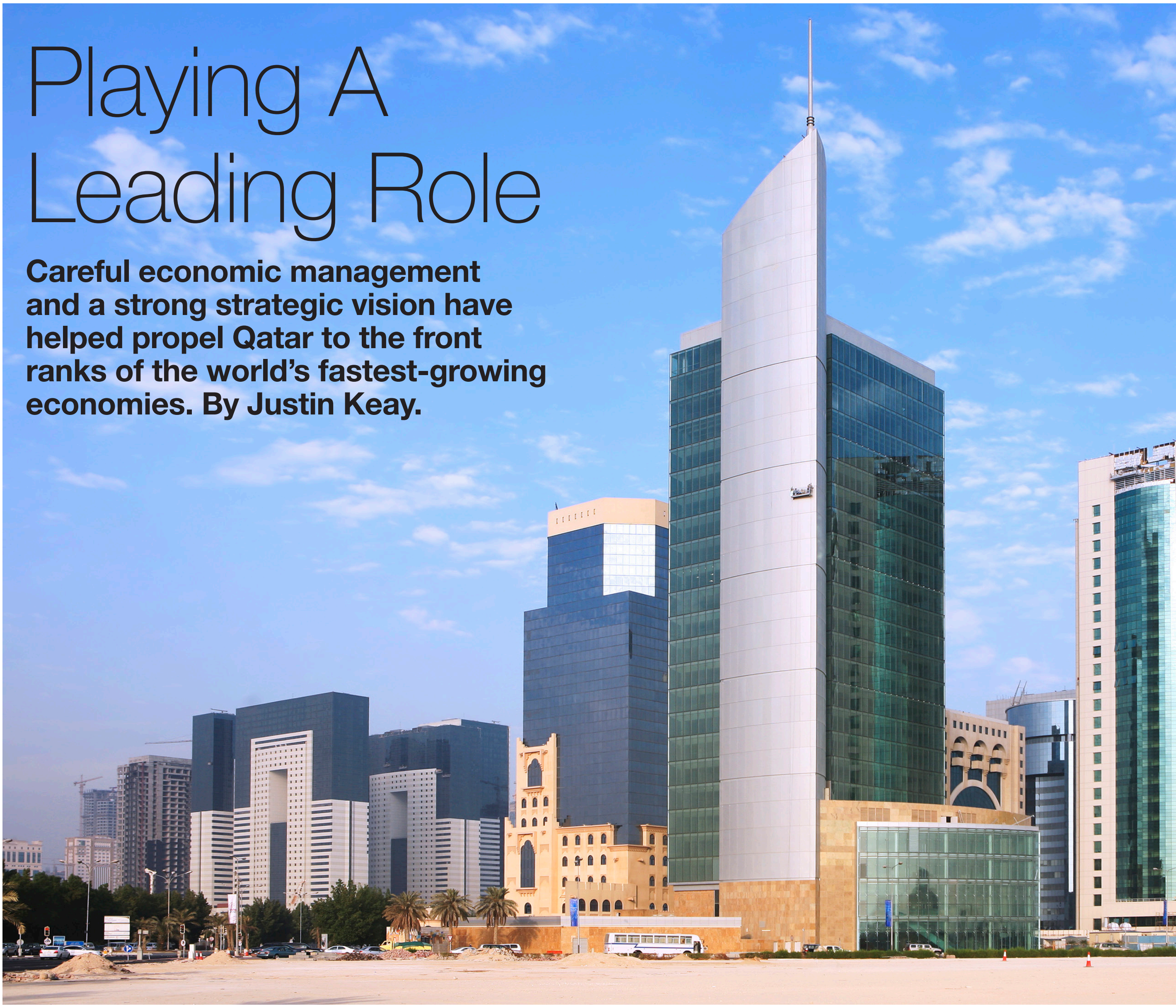
Although retail business has been performing well, wholesale business has been the biggest driver of growth. Standard Chartered has demonstrated a clear understanding of the region's evolving business trends, enabling it to focus on lucrative areas such as cross-border trade and investment. Shankar says the fact that the Middle East is now trading less with Europe and more with Africa and Asia is also benefiting his bank because of its strong presence and track record on both continents. He points to Standard Chartered's involvement in a number of recent big deals—the UAE's Al-Futtaim Group's acquisition of Robinson's department store in Singapore and Sembcorp Singapore's ongoing construction of a $1 billion water and power plant in Salalah, Oman, for instance—as examples where its international reputation, expertise and reach has translated into solid business.

Shankar says the pattern of Middle East trade and investment will continue to evolve. "Although 75% of this region's sovereign wealth fund assets are in the West, an increasing share is going into the Middle East—into infrastructure and other projects—and to Asia and Africa. In the last, we are seeing sectors like agriculture, mining and infrastructure all benefit," he says.

As regards the Middle East, though, he says he is very comfortable with Standard Chartered's presence. "We are looking to substantially improve our size and profitability here—the opportunities remain considerable."

Playing A Leading Role

Careful economic management and a strong strategic vision have helped propel Qatar to the front ranks of the world's fastest-growing economies. By Justin Keay.



Ten years ago, Qatar could have safely laid claim to being one of the most obscure countries in the Middle East. With few historical attractions, little cultural appeal and a small population of maybe 600,000, it somehow seemed overshadowed even by its tiny neighbor and historic rival Bahrain, which had more of all three as well as strong ambitions to challenge Dubai as a financial center. Guidebooks rudely dismissed Doha as the Gulf's dullest city famous only for its Corniche and the pearl monument commemorating what was once the driver of economic growth—pearl diving.

Today the story couldn't be more different, with Qatar standing as one of the Middle East's biggest—and most unclouded—success stories. Last December the emirate announced that its export capacity of liquid natural gas had hit 77 million tons per year. This follows years of massive investment in its energy industry that has not only made Qatar the world's largest producer of natural gas—as well as a sizable producer of oil—but also transformed its economy into the fastest-growing in the world.

According to figures from Qatar National Bank (QNB), GDP last year grew some 16%—up from 8.8% in 2009, when energy prices slid during the global downturn—and this year is poised to increase a further 18.6%, against a GCC average of 5.9%. In per capita terms, the country looks even more wealthy—the *CIA Factbook* estimates that Qatar's $122 billion GDP (at purchasing-

power parity) in 2010 gave its 840,000 people the highest GDP per capita in the world at around $145,000 (PPP).

Qatar's budget surplus over the past 10 years amounts to $52 billion, enabling the emirate—especially its sovereign wealth fund, the Qatar Investment Authority, whose assets top $65 billion—to become a high-profile global investor. Examples abound, including last year's £1.5 billion ($2.2 billion) acquisition of London's landmark Harrods department store by the Qatar Investment Authority's investment arm, Qatar Holding, and its investment of more than £2 billion in Barclays Bank. The QIA is reportedly considering large-scale investments in two of Britain's majority-state-owned banks, Lloyds TSB and RBS.

Qatar's international image has also been bolstered by the phenomenal growth of Qatar Airways, which describes itself as the world's five-star airline. Barely over a decade ago, the airline was practically unknown, with just a handful of planes. It now rivals Emirates as the region's best-regarded airline. The news that Qatar will host the 2022 Fifa World Cup—it surprised many by beating out better-known football nations when the vote was taken last December—has put this small nation even more prominently on the map.

"Not only are economic fundamentals here very good—perhaps better than anywhere else in a region that we expect to be very buoyant—but things have been very well managed, which bodes well for the future," says Mohamad Moabi, economic director at QNB.

This success story hasn't been altogether a matter of luck. Rather, it reflects an administrative approach that crystallized in 2008, when the ruling Al-Thani family unveiled National Vision 2030, aimed at transforming Qatar into an advanced economy by that date. On current reckoning, this will happen much earlier. Just as the huge investments that have been driving capacity growth in the natural gas industry come to fruition, many of the other vast planned infrastructure projects will also start to come on-stream, sustaining GDP growth. Even before Doha secured the World Cup, it was planning some $125 billion in infrastructure projects for the coming decade. They include a monorail system for Doha (to cost around $25 billion), the completion of several major construction projects—notably the West Bay financial district, with its Manhattan-style skyline—and the building of a brand new city, Lusail, some 25 kilometers north of Doha. Other planned infrastructure projects include the ambitious $3 billion Qatar-Bahrain Friendship bridge connecting the two emirates. At 25 miles, it will be the longest bridge in the world and will enable travel between the two countries within half an hour instead of the current five, via Saudi Arabia. Qatar has said that in preparation for hosting the World Cup it will spend some $50 billion building new stadiums—including the space-age-style Doha Port stadium—a new airport and several other projects.

Qatar's newfound wealth and confidence are already becoming apparent in Doha, and not just in its high-end West Bay neighborhood. Distinctive new buildings, including QNB's modern headquarters, the impressive new Museum of Islamic Art opposite and, soon to come, the new National Museum are transforming it into a must-visit destination. Many projects—such as the innovative $5.5 billion Musheireb city center housing/recreational project next to the revitalized souk—marry Arabic architectural traditions with new building design. "The pace of change is phenomenal. If you had come here 15 years ago, there was almost nothing. Now something new seems to get unveiled every month. It isn't often you can see a city literally springing up around you," says Richard Sykes, head of global markets at Standard Chartered in Qatar. He adds that the bank sector has also progressed by leaps and bounds.

Much the same can be said of Qatar as a whole, which in early 2011 looks to be not only the Middle East's fastest-moving economy but one of the few without a significant downside. ■

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—Richard Sykes, Standard Chartered

Bouncing Back

After a tough two years, Dubai has consolidated its position as a regional financial and transport hub and is set for a sharp upturn. By Justin Keay.

Anyone arriving on a spanking new Emirates Airbus A380 at Terminal 3 in Dubai could be forgiven for wondering: Crisis, what crisis? The ambition behind this hugely impressive new terminal—avowedly the largest building in the world, with acres of shops and restaurants—recalls Dubai before that fateful day in November 2009 when state-owned conglomerate Dubai World shocked the global financial community by wanting to renegotiate terms on almost $25 billion of debt.

Yet this city's changed fortunes become apparent soon after you step into your taxi. The frenetic construction work that defined the pre-2009 boom years has all but stopped; the bling that made Dubai a byword for gold-brocaded, in-your-face excess is more subdued; even the traffic that could make the four-mile journey into town a two-hour ordeal seems less severe.

"The extent of the overbuild in Dubai is just huge—the real estate sector will take years to recover," reckons Shahzad Shahbaz, CEO of Qinvest, a Doha-based bank.

Indeed. Average house prices here are 62% down from their peak, while international realty agency Jones Lang LaSalle says the value of real estate deals fell 65% last year from 2009, with transaction volumes down by half. Many ambitious projects, including Dubai Waterfront and Palm Jebel Ali, have been shelved, with investors offered an alternative or a cash refund in 2015 by developer Nakheel, whose need to renegotiate almost $11 billion of debt precipitated the crisis. And yet supply keeps coming—50,000 new homes are expected on the market over the next two years, which will help keep real estate prices in the doldrums despite bargain hunters being attracted by the lower prices.

Beyond the real estate sector, though, there is a growing sense of confidence. In early March, Dubai's ruler, Sheikh Mohammed bin Rashid Al Maktoum, formally announced the emirate was over the worst. He also indicated that a new regulatory body would be set up to oversee government departments in the future, presumably to prevent overspending.

And there is a growing sense that this well-connected, tolerant and outward-looking place will emerge as a key beneficiary of the unrest currently raging through the region, picking up financial and other business in particular from its beleaguered rival Bahrain. If Dubai's main function is as an international business hub sustained by Western-style regulation, institutions and laws, the signs actually look pretty good.

"The Dubai model is sustained by four key pillars—infrastructure, free zones (18 in total), international openness and a pro-business approach—and of these it is the first that has been the main building block," Nasser Saidi, chief economist at the Dubai International Financial Centre. He argues that the developments of recent years, combined with the phenomenal growth of Emirates Airlines, have transformed the economy of Dubai, essentially turning it into the Middle East's undisputed business hub. "Some 85% of the population here is expatriate, with 30% from India," says Saidi. "We are increasingly geared toward that market and others in Asia, connected by some 184 flights a day. People are attracted here by the four s's—sun, sea, sand and shopping—but increasingly professionals are putting down roots," he contends.

Saidi adds that Dubai's dependence on trade meant it was hit disproportionately by the downturn, but that trade's elasticity should mean Dubai sees a disproportionate share of the upside when the global economy recovers. "The investments made here, in roads, hospitals, free zones, but also in connecting the port at Jebel Ali directly to Dubai World Central cargo airport, will pay handsome dividends," he predicts.

Saidi also believes that in the wake of Dubai's 2009 crisis, the private sector will play an increasing role in financing future projects in the emirate, either alone or via public-private partnerships.

Jeff Singer, head of Nasdaq Dubai, is also hopeful things are picking up. "We've got a good pipeline of companies getting their accounts together, their statements consolidated before lodging their prospectus with the regulator. The signs for this year are encouraging, but 2012 will also be a good year for us," he says. ■