Resource Export Dependence: Lessons from the Middle East and Beyond

Moscow Economic Forum, 20-21 Mar 2013
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What did Middle East Energy Exporters learn from previous cycles of growth and crisis?

- Long Term Volatility: The Oil Boom of the 1973-1982 era was followed by a sharp contraction in the next decade. Only in the 2000s, as oil prices began to rise again, did GDP growth resume at a reasonable level.

- The Spending Curse: If left unchecked, government spending rises and falls pro-cyclically with energy prices, making both planned investment and short term macro policy hard to carry out

- Dutch Disease: Inflow hard currency causes appreciation of local currency, making imports cheaper, but making exports less competitive, hurting productive sectors like agriculture and manufacturing

- Rentier state patronage and corruption: Inflow of rents to central government from foreign sources undermines government-citizen relations and fosters authoritarianism

How did that experience change the role played by Gulf investors in the 1990s-2000s?

- Increased spending on education at all levels
- They diversified their investments, within their own countries as possible, given limited absorptive capacity and small populations.
- They diversified outside their countries, across many sectors, and across all continents, through both direct foreign investment and portfolio management

Shaikh Mohammad Bin Rashid Al Maktoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai, during an opening ceremony of Gitex Week 2008 at the Dubai International Exhibition Centre.

Gitex is producer and distribution of high technology products. Note woman in center.

REAL ESTATE AND TOURISM: A camel keeper waits for tourists on the beach as the Jumeirah Residence construction site looms in Dubai. (AP/Kamran Jebreili)

AUTOMOBILE MANUFACTURE AND DISTRIBUTION

Alfahim Chairman, HE Saeed Abdul Jalil Al Fahim, President and CEO of ***DaimlerChrysler Middle East***, Nicholas Speeks, Christopher Preston, CEO of Alfahim Automotive Division, and EMC General Manager, Monzer Al Rifai, inaugurated the new showroom, *MEED,* 3 September 2007.

INFRASTRUCTURE, CONSTRUCTION, AND CONSTRUCTION MATERIALS:
Qatar construction sector to see 17.6pc growth this year

Diversification outside Gulf: Mediterranean Region

– Much better management than 1970s-1980s

– Diversified much more than in 1970s-1980s

– Use cultural and historical affinities well: family and patrimonial capitalism

– Buy imports from many sources

– Productive investment: willing to do “Greenfield”

AGRO-BUSINESS: Istanbul straddles the Bosporus with a population of thirteen million. Over the last decade, oil tanker traffic on the strait has increased 240 percent. No other city in the world is exposed to the transit of such volatile cargo every day. Saudi company bought 100% of a Turkish agro-business firm in 2007 and ships through this passage.

JORDAN PHOSPHATE MINES CO.

Kuwait owns 10% stake.

JPMC posts unprecedented record profits for year 2008

Feb 16 2009

JPMC Issues an Invitation for Expressions of Interest to Construct a New Rock Phosphate Terminal

May 19 2009 - Do you want to tender an offer?

Phosphate Truck Transport reached up to 3.2 million tons in 2007

Egypt and China have signed a contract to establish the first factory of its kind in the Middle East to produce the magnesium sulfurs used as fertilizers to improve soil, feed livestock and as an ingredient in pharmaceutical industries.
The deal was signed by Chairman of the Egyptian Company for Salts and Minerals and head of the Chinese company with Deputy Premier and Minister of Agriculture Dr. Youssef Wali, Chinese Ambassador to Egypt Wu Sike and three Ministers and Governor of Fayoum Saad Nassar attending. The factory's capital is LE 123 million and was due to produce 27,000 tons a year making up ***5% of the world's output***.
(Embassy of China, Cairo, 6/14/04)

CAIRO, Egypt, Jul. 21, 2008 (IPS/GIN) -- Controversy is rising over the fate of a Canadian fertilizer plant currently under construction in Egypt's coastal province of Damietta.

Residents fear the plant could adversely affect the environment. But despite a recommendation from parliament concerning the relocation of the factory, recent official statements suggest the issue is far from settled.

The Egyptian government is negotiating with a number of fertilizer companies operating in free zone areas to increase the price they pay for natural gas in order to comply with the international gas prices. ***Al Khorafi Group of Kuwait*** has agreed on amending prices of natural gas supplies to Alexandria Fertilizers plant, in which it controls a ***29.24% stake*** (*Egypt Oil and Gas*, May 2008) That is, Kuwait is

Diversification outside Gulf: U.S, Europe and Elsewhere

- Buy EuroBonds and US Treasury Bonds, not make bank deposits

- Buy shares in banks -- $67 billion to West in 2008

- Buy real estate and productive enterprises

Ahmad Humaid Al Tayer, Chairman of Emirates NBD, inaugurating the private banking centre in Dubai on Wednesday. The UAE's largest bank by assets has also set up private banking operations out of Abu Dhabi and London (UK), and plans are underway to open an office in Singapore by the end of 2008. The minimum threshold will be $1 million (Dh 3.67 million) for a private banking account. Would you like to become a depositor?

Barclays under fire for letting Middle East states take 30% stake

- Cable asks if move was prompted by bonus fears
- Shares slump 12% over worries about implications
- Jill Treanor, The Guardian, Saturday 1 November 2008

Barclays Bank under a cloud. Photo: Daniel Hambury/EPA

•guardian.co.uk, Friday 31 October 2008 10.15 GMT

Adviser to Sheikh Zayed Al-Nahyan and Amanda Staveley, chief executive of PCP Gulf Invest - outside Barclays head office this morning

Barclays is raising up to £7.3bn, mainly from Middle East investors who could end up owning nearly a third of the UK's second largest bank.

The move announced today allows the bank to strengthen its balance sheet to ride out the financial crisis without getting help from the taxpayer.

Most of the cash injection is coming from
the royal families of Abu Dhabi and Qatar, who have both agreed to pump billions into Barclays to bolster its capital ratios.

The ***Qatari***s, who already own a significant shareholding in Barclays through two different investment funds, are providing up to £2.3bn. Once the deal goes through they will own up to ***15.5%*** of the bank.

Sheikh Mansour Bin Zayed Al Nahyan, a member of the ***Abu Dhabi*** royal family, will provide up to £3.5bn and will become Barclays' largest shareholder with a ***16.3%*** stake.

A further £1.5bn is being raised from institutional investors.

Barclays turns to Middle East in £7bn fundraising
Graeme Wearden and Jill Treanor
guardian.co.uk, Friday 31 October 2008

Qatari royal takes 5% share in Kaupthing

Sheikh Mohammed Bin Khalifa Al-Thani has invested more than £155m to buy a stake in Iceland's largest bank [which was to go bankrupt 3 weeks later]

Julia Kollewe, guardian.co.uk, Monday *22 September 2008* 12.06 BST

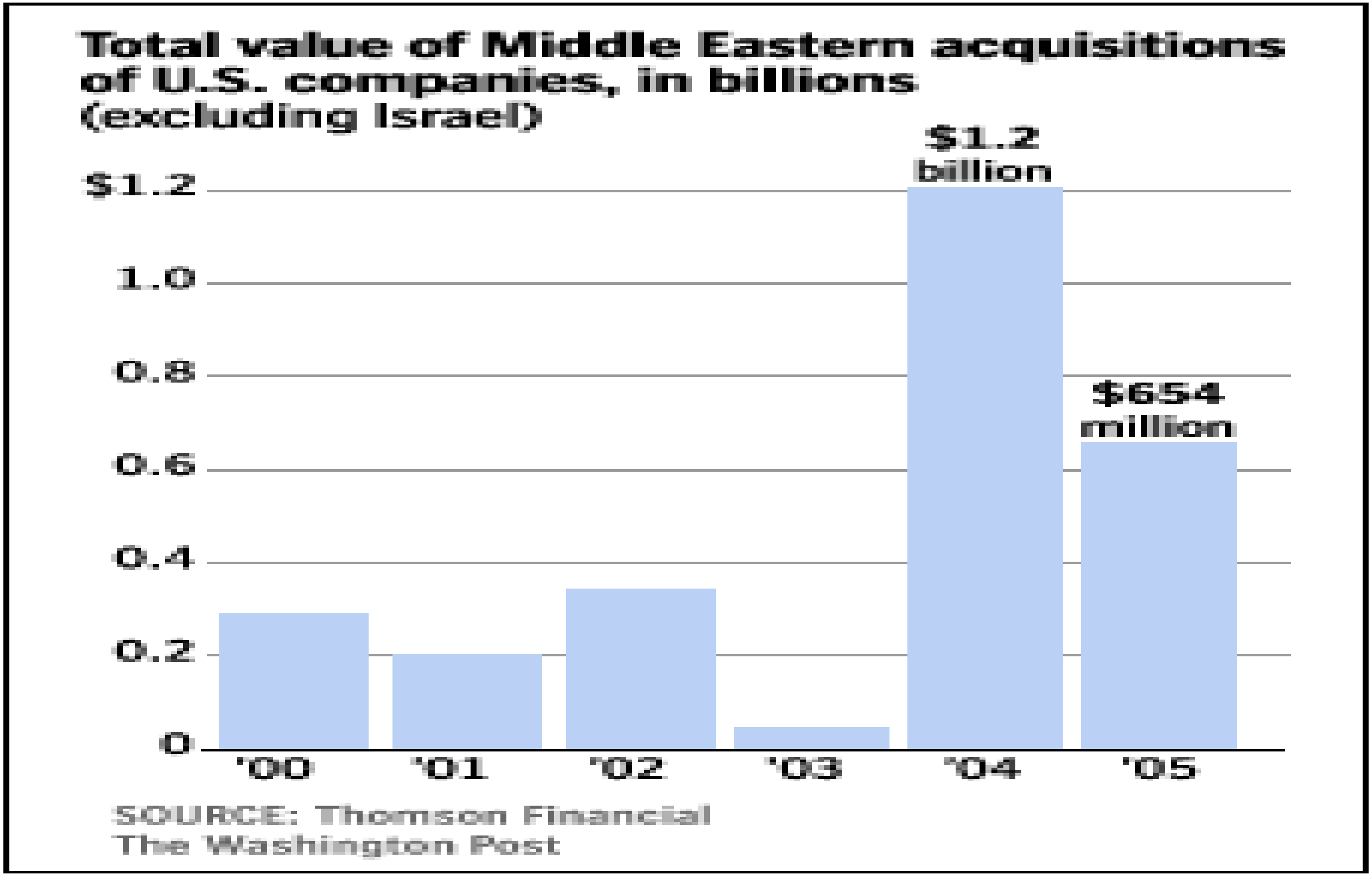
From Times Online
October 9, 2008
Iceland seizes Kaupthing as meltdown continues

Financial Crisis: Kaupthing blames collapse on British Government:
Icelandic bank Kaupthing has blamed Britain for its collapse, claiming the Treasury's refusal to allow it to participate in the £500bn rescue package for UK lenders triggered its downfall.

By Rowena Mason Last Updated: :59AM BST *10 Oct 2008*
Kaupthing bosses hold the UK responsible for the bank's failure Photo: REUTERS
Kaupthing – among Britain's 20 largest banks – became the third financial institution to be taken over by the Icelandic government this week, after Chancellor Alistair Darling seized its UK operation on Tuesday and ruled out help through the bail-out.
Sigurdur Einarsson, the bank's chairman, said the seizure of the UK arm directly led to the collapse of the entire group. "It is very sad, unfortunate and disappointing," he said.

Secretary-general of the OECD, Angel Gurría, argues the global economy has much to gain from timely infusion of Gulf-sourced investment in global financial institutions. Photograph: Koji Sasahara/AP; Guardian, UK, 9 Apr 08

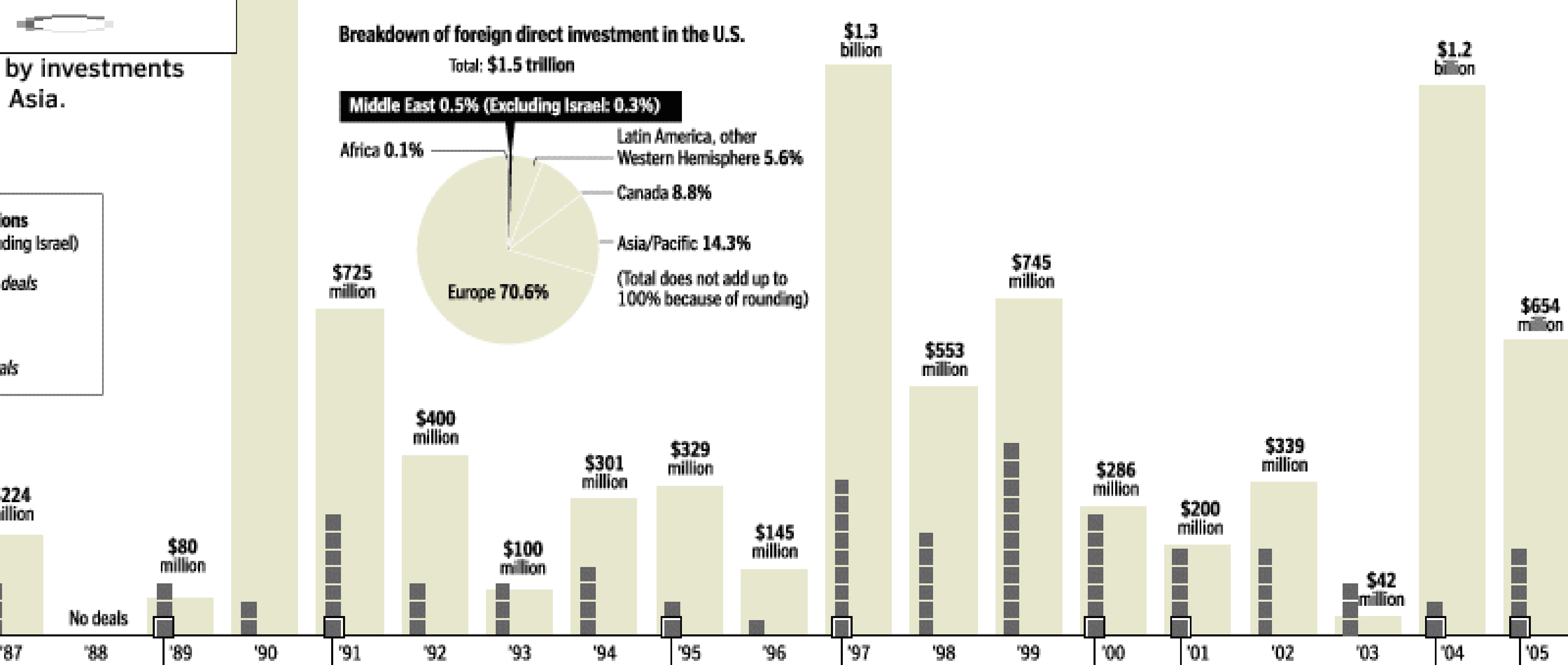
REAL ESTATE DIVERSIFIED BY PLACE:
New York's Chrysler building. Photograph: Peter Foley/Getty
The Chrysler Building is a classic example of Art Deco architecture and considered by many contemporary architects to be one of the finest buildings in New York City. Abu Dhabi Investment Council purchased it for $800 million on 10 July 2008.



Mideast investments in U.S. businesses are growing, but they are still dwarfed by investments from Europe and Asia

Proposed Ports Deal Is Just Part of Flood of Oil Wealth Spilling Ashore

By Paul Blustein, Washington Post Staff Writer, Tuesday, March 7, 2006; Page A01



November 1989
Ice cream maker **Carvel Corp.** acquired by Bahranian investment company for $80 million. Sold in 2001 to an Atlanta-based private equity firm.

February 1991
Saudi Prince Alwaleed bin Talal invests $590 million in **Citicorp.** His 4.3 percent stake in the company now called Citigroup is currently valued at $9.9 billion.

April 1995
Donald Trump sells the **Plaza Hotel** to Alwaleed and a partner. An Israeli company bought the landmark hotel in 2004.

April 1997
Alwaleed buys a 5 percent stake in **Apple Computer Inc.**

December 2000
Bahrain-based First Islamic Investment, now called Arcapita Inc., acquires **Caribou Coffee Co.** for $80 million.

June 2001
First Islamic Investment acquires U.S. aircraft manufacturer **Cirrus Industries Inc.** for $133 million.

December 2004
Dubai Ports World acquires international port assets of U.S.-based **CSX Corp.** for $1.2 billion.

Septem
Dubai
Group
York's

al, Organization for International Investment, Congressional Research Service, Bureau of Economic Analysis, Bloomberg | By Karen Yourish and Laura Stanton, The Washington Post

Continued Problems, Limits of GCC Regional Investment

- Overemphasize greenfield, not enough brownfield
- Overemphasize scale and grandiosity
- Do not emphasize smaller manufacturing, with labor intensive processes to create jobs
- Investment still connected to oil prices and global crisis: investment in Mediterranean from Gulf plunged 40% in 2008
- GCC economies dragged down by global

Another impact of global financial crisis and recession: Profits of Kuwait-listed firms drop 94% , first quarter of 2009, to KD 60 ($ 208.2 million), down from KD986.2 million in the first three months of 2008), Kuwait Stock Exchange Drops Precipitously Kuwait Times

The Leading Independent Daily In The Arabian Gulf

HTTP://WWW.KUWAITTIMES.NET

The Peninsula

Another consequence of global financial crisis: Highly indebted UAE pulls out of long-planned GCC monetary union as real estate collapses, banks go bankrupt, and its currency weakens

GCC Potential Agricultural Investment in Africa and Central Asia

•Expect GCC population to double from 30 million in year 2000 to 60 million in 2030.

•Local agricultural expansion is “economically infeasible and ecologically unsustainable”

•Examples of current GCC investments:

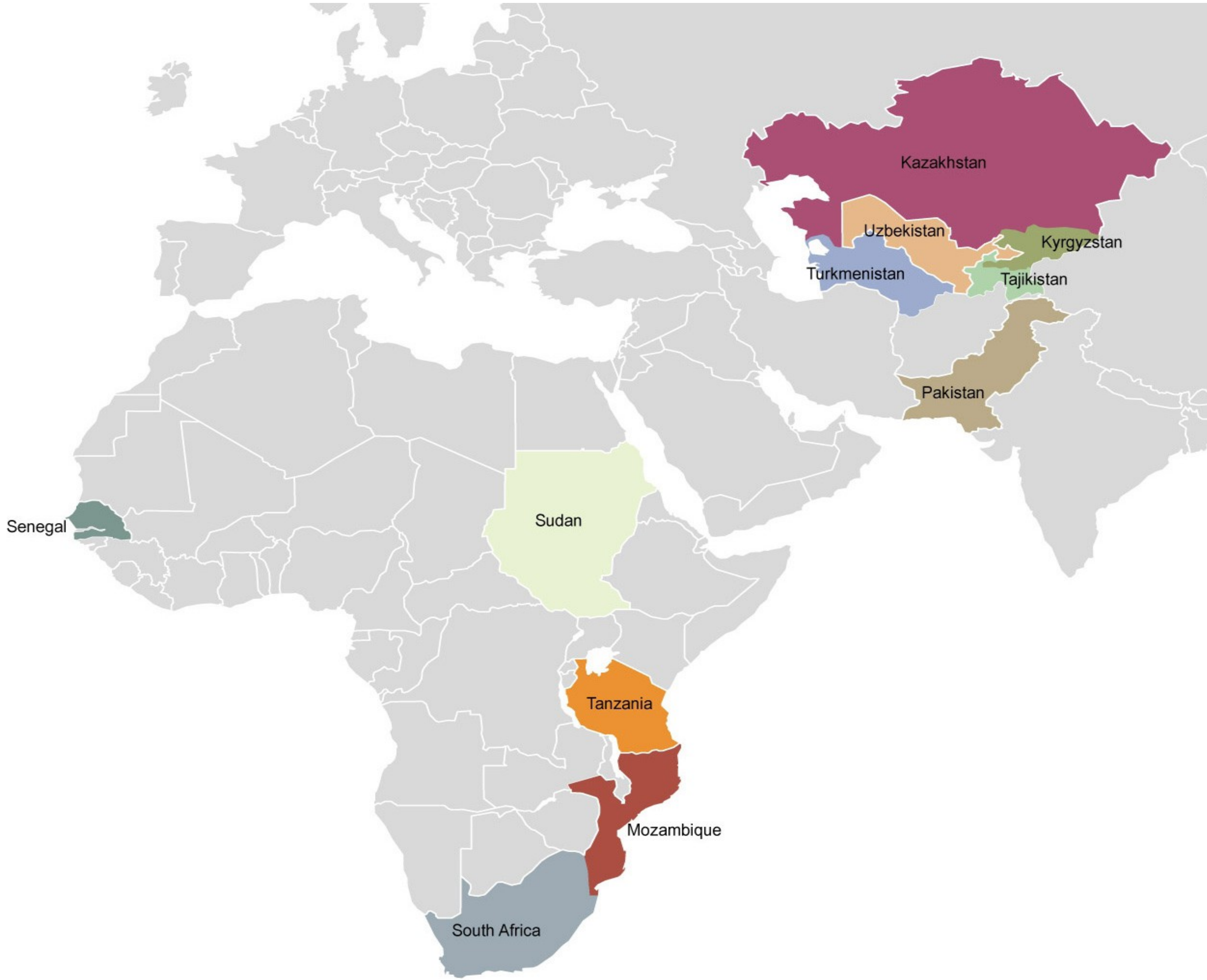
Sudan’s Merowe Dam, 350 km north of Khartoum, with investment by Saudi, Kuwaiti, and Abu Dhabi funds for development.

UAE private equity Abraaj Capital acquired 800,000 acres of farmland in Pakistan, and $3 billion of investment for milk and fruit production.

•The United Nations Food and Agriculture Organization is encouraging Abu Dhabi to invest in Horn of Africa and South Asia for grain, meat, and oil seed production.

The FAO sees great potential for growth of irrigated agriculture in sub-Saharan Africa as it uses only 2.9% of its renewable water resources, as compared to 62.5% for MENA region.

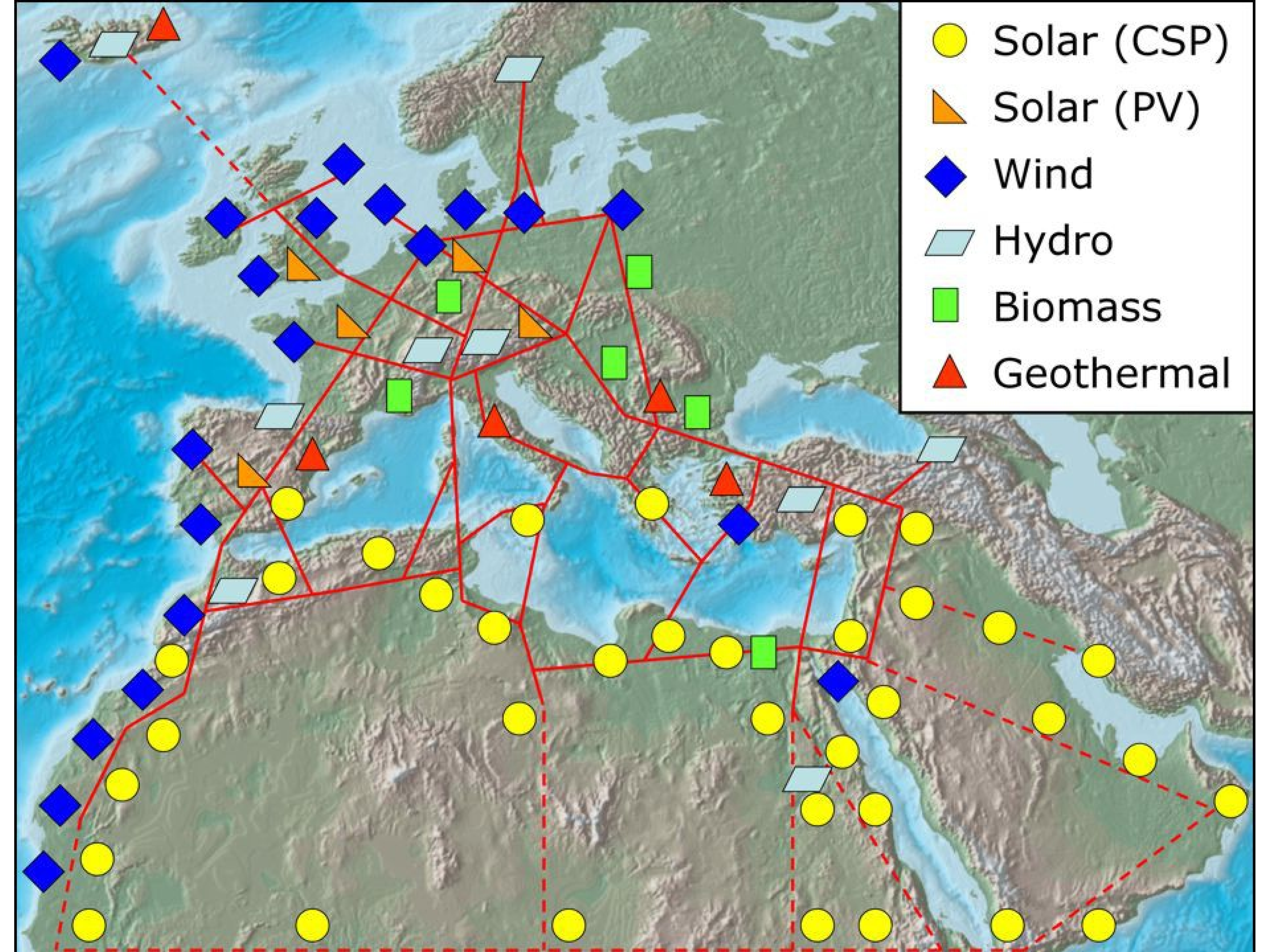
(Source: Woertz 2008)


Kazakhstan
Uzbekistan
Kyrgyzstan
Turkmenistan
Tajikistan
Pakistan
Sudan
Senegal
Tanzania
Mozambique
South Africa

GCC and Alternative Energy

"Satellite-based studies by the German Aerospace Center (DLR) have shown that, using less than 0.3% of the entire desert areas of the MENA region, solar thermal power plants can generate enough electricity and desalinated seawater to supply current demands in EU-MENA, and anticipated increases in those demands in the future."[13]

E**uro-Supergrid with a EU-MENA-Connection: Sketch of possible infrastructure for a sustainable supply of power to EU-MENA, by Trans-Mediterranean Renewable Energy**



Solar (CSP)
Solar (PV)
Wind
Hydro
Biomass
Geothermal

New Rentier Economies in Africa

- Chad: Oil
- Mali: Gold
- Mauritania: Oil
- Niger: Uranium
- Djibouti: Commercial and Military Port

What’s Wrong with “rentier” economies?

1. If the revenues (rent) from primary exports go to a central government that has little responsibility toward its citizens, it can be wasted on luxury consumption and the military.
2. If the government has some sense of responsibility, but is authoritarian, it can create a welfare-patronage state and promote state-led growth dependent on export revenues.

What’s wrong with “rentier” economies (cont)? As we’ve seen with MENA:

3. Authoritarian government tends not to invest sufficiently in diversifying the domestic economy or in job-creating industries.
4. While primary-good export prices are high, the country’s currency appreciates. This makes imports cheaper, and reduces incentives to continue investment by the private sector in domestic industry and agriculture:

What's wrong with rentier economies (cont)? Maybe they can change:

We saw above that the MENA oil exporters may have learned their lesson from the boom of 1970s, then crash of 1980s and slow growth in 1990s, and are investing in diversified projects today.

But the new rentier states of the Sahara/Sahel and Horn of Africa are going through the original scenario. What will happen to the rest of their economies when commodity-export prices fall?

Does it Have to be this way?

No. In Africa, we have the example of Botswana. Botswana exports diamonds, but avoided becoming a “rentier” state because it had a wise democratically-elected government from time of independence that pursued a diversified economic strategy.

Jwaneng Diamond Mine (right) Attribution - Unknown/Public Domain

What about all you read on World Bank and IMF and the HICP and debt forgiveness and poverty-reduction and economic reform programs?

Do not put your faith in the IFIs. The role of World Bank and IMF is not that of innocent "donors."

First, they lend and charge interest; they do not donate. Their charters require them to be self-supporting. Only countries donate aid.

Second, their ability and motivation to cultivate democratic and independent economic policy-making in the new rentier states of Africa is limited. *Objectively,* they serve the

“In a continent where natural resources are often plundered to the detriment of ordinary people, impoverished Chad—the new oil frontier—could become a model of fairness.” *National Geographic,* September 2005.

Example: Chad

The Chad-Cameroon oil pipeline was built more than a year ahead of schedule, partly with WB loans to Chad, to carry oil out to a consortorium led by Exxon Mobil. The government agreed to WB proposed program to use revenues to benefit the populace.

The oil started flowing in 2003, but in 2005 the Chad government changed its mind about cooperating with the WB reform program to use the proceeds to benefit its people.

The WB withdrew support from the Chad government, but the oil continued to flow.

Anger rises in oil-rich Chad as funds don't aid the poor

By Raymond Thibodeaux, Globe Correspondent | April 30, 2006

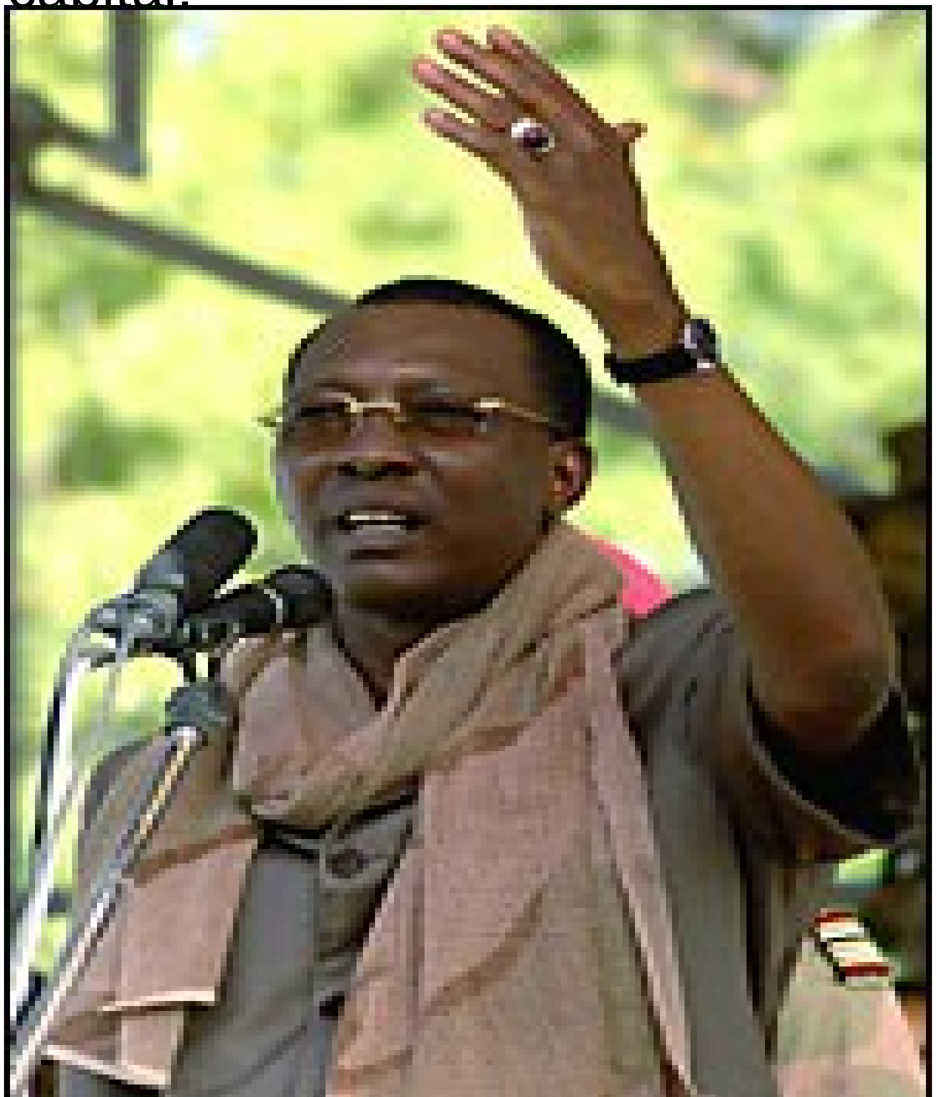
Despite living in a country that produces more than 160,000 barrels of oil a day, most Chadians buy their gasoline from sellers who store it in used soda and liquor bottles. (Raymond Thibodeaux for the Boston Globe.)

What about western powers' democracy promotion efforts?

When a coup was attempted against Chad's president Idriss Deby in 2006, the French military intervened to protect him and help set up the "elections" that made Deby president for life.

The World Bank restored its commitment to funnel the last round of funding to the Deby government, and, despite a severe environmental impact, the oil still flows today.

"It's something that's with us every day" - whether rebels "are going to come or not," says Maat Parannee, a young woman washing vegetables in the river running through this dusty capital."



UNDER PRESSURE: Chad's President Idriss Deby faces a growing insurgency.

Country: Russia
Fund Name: Stabilization Fund of the Russian Federation (SFRF)
Assets Under Management: $127 billion
Year Of Inception: 2003
Source: Oil
Recent Investments: Russia has dithered over how to use this rapidly growing fund. it was originally set up to invest in foreign government bonds and companies; President Vladimir Putin recently declared the SFRF (which grew by almost 90% in 2006, according to RIA Novosti) should be spent on pensions and "innovation projects" in Russia.

Country: Norway
Fund Name: Government Pension Fund Global (GPFG)
Assets Under Management: $322 billion
Year Of Inception: 1990
Source: Oil
Recent Investments: This pension fund focuses on small, minority stakes, reportedly with almost 4,000 different commitments worldwide. Between 50% and 70% its portfolio is made up of fixed-income securities, and 30% to 50% in equities.