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THE MIDDLE EAST  
BUSINESS , BANKING AND INVESTMENT  
IN A NEW ERA

CHALLENGES AND HOPES FOR MIDDLE EAST  
ECONOMIC AND FINANCIAL DEVELOPMENT

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*Jew Highness*

**EXCELLENCIES, LADIES & GENTLEMEN**

It is a great honour for me to be invited to chair this important conference on "THE MIDDLE EAST IN A NEW ERA IN THE FIELD OF BUSSINESS, BANKING AND INVESTMENT " in which we have such distinguished participants and speakers who will undoubtedly enrich our knowledge and experience on the events and consequences of changes in 1990's with its challenges and prospects particularly in this strategic part of the world the "MIDDLE EAST ".

To his Highness **SHEIKH EISSA BIN SALMAN AL KHALIFA** the head of the state of BAHRAIN <sup>H.E.</sup>, the Crown PRINCE <sup>H.E. the Prime Minister</sup> and the organising body of BAHRAIN (The DEVELOPMENT AWARENESS COMMITTEE ), headed by **H.E. Mr. Tarek Elmoayed** our gratitude. To the, EUROMONEY <sup>and the sponsoring institutions</sup> our appreciation for the well organised conference which we hope will convey the facts of the passing era, the challenges of the present and the hopes of the future . On behalf of all organisers, i hope that you will enjoy your stay in BAHRAIN and feel the hospitality of the BAHRAINY'S who extend their welcome with open hearts and minds - God bless you all and my best wishes for success in the enevour to discover the over-all economic picture of what is termed . " **MIDDLE EAST** " within a framework of changes taking place in the region and the world at large.

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ  
INTRODUCTION

We must confess that there are wide changes taking place not only in the Eastern Communist block, but also within the so-called capitalist market oriented nations. In the East, changes are forced by the will of the people, backed by leaders, to free themselves from the totalitarian doctrines and centralised planned economies. They seek freedom, democracy and open market economies which they hope will provide the basic needs and a welfare society they dreamed of so long. New terms are introduced in the economic and political jargons .. "Prestorika " "Glasnot" & even " European house " .

On the other hand the developed nations, Western Europe, North America ( the U.S.A. & CANADA ), Japan and the south East Asia, countries are trying to build up regional single markets or blocks as a natural development for the new era of globalisation, disarmament and the search for peace.

Although our hopes are with these revolutionary actions in the new era, our fears are greater, as the future of these changes and movements is not certain, the fear of building "fortresses", introducing " protectionism," or at least " forcing reciprocity". The loss of " sovereignty" / through the <sup>adoption of a single</sup> (uniform) currency and a governing central bank for the new alliance, and the social charter may create national problems. The international changes may bring about conflicts of a different nature specially for the third world countries, of which the MIDDLE EAST constitutes

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an important region / CAN WE IN THE MIDDLE EAST ( THE ARABS) MOVE - EVEN AS A REACTION - TO BE A WORLD POWER ? We feel that this is not a game of nations / but a game of " blocks" / With new rules and objectives / can we live up to it? ...If so, can we apply the rules of the same game / or shall we miss once again the fight for taking our position as an important force in world development.

*Excellencies, Ladies & Gentlemen*

But before we embark on the subject of our conference, let me first outline where we - the Arabs of the MIDDLE EAST stand in this complex world .

**FIRST: DEFINITION** The title of the conference refers to the MIDDLE EAST as if it is well defined. Some believe that the MIDDLE EAST is known to encompass the East of the MED / but to others it includes the Arab Magreb ( ALGIER - TUNIS AND MORROCO) / and to others it extends to the north of the MED to include Turkey and Iran / The programme of the conference concentrates on the Gulf but I wish to direct the attentions to the fact that in the new era, we should use the term **MIDDLE EAST** in its widest framework / not only because of the cultural and geographical aspects / but also because of expected benefits from political & economic aspects / We hope that the ninety's will bring peace and stability between these nations / to form an integrated alliance and bring peace and stability in this wider region through negotiations and not through war and distruction . We call on leaders and people of Iran and Israel to come to senses and end hostilities / following the wish of the international community to bring peace to the land of devine messages of peace.

*and Iran to move towards real peace.*

**SECOND: DISTRIBUTION** We should understand the status of the population/ the rate of increase/ and their distribution among the states of the region/ Because of the establishment of sub-regions/ we must see how the total Arab population amounting to 203.4 million is distributed/ If we add Turkey (59.6) and Iran (47.0) we have a total of 303.0 million. (1) A figure comparable to a great extent with ~~the~~ Europe as <sup>a</sup> single market (322) million 1985 (without East Europe)

	population Arabs Total million	%total Arab pop	% total ME
The Gulf cc	18.0	8.85	5.94
The Arab cc	79.5	39.09	26.24
The Magreb union	60.0	29.50	19.80
Unclassified (2)	45.9	<u>22.56</u>	15.15
	----- 203.4		
Turkey and Iran		99.6	32.87
	-----		
	203.4	303.0	100.00
			100.00
	=====		

The rate of increase in Arab population in most countries of the region exceeds 3% ( see schedul 1)

We hope that those unclassified nations (2) would decide their alliance or at least co-operation with one of these sub-groups , constituting a total alliance within the Arab League or a common single market.

(1) see schedule no (1) ( Israel and Palestine are not included).

(2) Syria, Lebanon, Sudan, Somalia,, Yemen P.D.R. and Djibouti.

**THIRD : DISTRIBUTION OF PEOPLE ACCORDING TO INCOME**

To understand the economic situation in the ME as reflected on the people of the region we have to understand the distribution of the people of the region according to their levels of income. According to the world bank statistics(1) their distribution is as follows :

Economies with	population (million)	% to Arab POP	% to ME POP
Low income below 480 us	33.0	16.2	10.9
Low Medium Income 480-1970	108.1	53.2	35.7
High Medium Income 1970-6000	45.6	22.4	15.0
High Income over 6000	16.7	8.2	5.5
	203.4	100.0	
	=====	=====	
Low Medium Income Turkey	52.6		17.4
High Medium Income Iran	47.0		15.5
	303.0 (Total mid 1987)		100.0
	=====		=====

53.0

This shows that 16.2 % of the Arab population live beyond the poor level and 75.6 % of the population constitutes the middle income groups and only 8.2% represent the high income group mainly in the Gulf. To speak about the MIDDLE EAST we should give due care to the low and middle

(1) Report on Development in the world 1989

income groups. Modest policies should be investigated by the Arab community to help the poorer nations to catch up with the others. They may need a set policy for the mobility of labour and to assist in vocational training and offering <sup>them</sup> investment to develop. Any alliance should help to promote development for the sake of securing the basic needs and raise the standard of living, an objective which those in Europe have taken care of in their endeavour for a single market by helping the European Mediterranean countries south of Europe. Any negligence in this direction may create unstable conditions in the region.

#### FOURTH: CHARACTERISTICS OF ECONOMIC ACTIVITIES

To evaluate the sufficiency of national production to the needs of the population, one can analyse the figures of imports and exports of the Middle East countries as they represent the surplus and deficit in their productive / consumption capacity. (1) It is noticed that fuel exports are <sup>now</sup> dominating the export figures of most of the ME Countries specially in the Gulf countries where the share in general exceeds 80% Manufactured goods and food exports took the second importance in certain countries, while exports of agricultural raw materials ores and metals take third place. The share of imported manufactured goods out of the total imports in the ME countries exceeds 50% in most of the ME countries followed by imports of food to practically all ME countries and fuels in those non producing countries of oil (2). ~~H~~ fuel

(1) See schedule (2) adopted from Monograph of statistics of LBD 1989.

products could be supplied from within the ME countries, and food could be produced in the region because of availability of land, water, manpower, experience and finance. Imports of manufactured goods need to be studied to set priorities for future development in the region.

This needs a co-ordinated and integrated development plan for the region to make use of available resources to prevent over capacity in certain fields of activity and deficits in certain strategic commodities. The co-ordinated investment programme of action in the ME region should have the highest priority in a world of globalisation to compensate first for satisfying the basic needs and raising the standard of living... To meet these challenges, a programme of action should concentrate on the following:-

1- <sup>The definition of</sup> To define the role and scope of government and public organisations or corporations in the process of economic and social developments . Undoubtedly the trend in ME countries is directed towards the decrease of the state role particularly in economic affairs and the promotion and encouragement of the private sector. The problem of economic performance and social justice ( subsidies) are under review and will be tackled. Moves for democratisation, liberalisation and privatization in the region are gaining momentum and should be encouraged. The state should concentrate on national security, and political and economic stability. The need for creating credibility and a climate of confidence for investors and other interested parties should be emphasised .



(a) I believe that the state should concentrate on sovereign functions , national security, strategic industries , infra structure, energy and food security..

(b) The state should set the priorities of national, regional developments with the objective to keep balance between self-sufficiency and market oriented production towards export to meet foreign currency needs .

(c) The state should encourage the establishment of corporations & open it to greater numbers of shareholders. The popular participation in shareholdings will reduce the formation of monopolies of individuals or power groups. Even if these groups are allowed to start projects, they should aim to expand the number of shareholders. This would help to activate the Arab capital markets. This will also satisfy those seeking the implementation of the Islamic economic order.

(d) The state should expand the scope of investments - geographically rather than concentration of development in urban cities bringing with it problems of growth.

(e) The state should encourage consolidation of entities through mergers and joint ventures so that they can compete in the new global markets where such action have been followed up by investors in developed countries. Private individual enterprises should be set in home industries.

(f) With maximization of productivity, economic efficiency through market forces, Inter-Arab trade should be promoted and encouraged. This could be achieved through harmonisation of regulations for the free movement of commodities/ offering more banking facilities for the finance of trade/ and extending incentives to national products within the ME region/ and cutting bureaucracies and barriers against free movement of trade/ Tourism should be encouraged between Arab countries.

A pan ME investment plan should be formed to prevent any excess in the production of commodities unless it is meant for export markets.

#### FIFTH : FINANCE AND BANKING

With the rise and fall of oil resources/ and a modest and steady growth in other production commodities and services in the ME region/ specially after the October War/ the Gulf countries accumulated surpluses and other Arab countries developed an indebtedness situation with all its implications internally and internationally . At the same time, certain developments took place in the financial area particularly in the following fields .

##### 1 - THE BANKING SECTOR

In the ME ( Arab countries) Banks increased in number and volume of activity. The total of balance sheets ( assets /liabilities) amounted to 317.341.3 million usdollars in 1987(1) but decreased to 304.6 billion in 1988 due mainly to changes in rates of exchange of Arab currency and partial

surpluses  
indebtedness

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recession due to reduction in oil prices. Its position in general as compared with international banks are as the studies proved satisfactory from a credibility point of view, but lack a more an effective presence in international finance and banking.

Side by side with the developments in the interest banking systems and with the development of the Islamic movement, the application of the Islamic economic order has emerged as a major force in the financial field (2) Although it is a religious move in nature, it involves economic, social and political objectives. The development of Islamic banks, Islamic financial institutions and corporations had increased with their successes and failures, but they started to constitute a growing share in the national market, and now among the biggest players in the ME countries and some of them have set out to penetrate into Western markets and will undoubtedly have their impact on the use and movement of surplus resources to finance trade and investment in the region as they are forbidden to regard money as a commodity.

## 2 - FINANCIAL INSTITUTIONS

With the development of the oil boom, a number of Arab funds have been established in a short time with presence in the Arab region and abroad. They started to manage official aid programmes, channel public and private funds to available investment opportunities. They also helped to

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1 - Journal of Arab Banks (volume 9-107) 1989

2 - IBID P.

3 - Financial times Islamic Banks Sept 27.1989 page 3

provide loans on concessional terms for viable projects. On the international investment front, some of these financial institutions operated in the international financial instruments with diversified term structures such as bank deposits, securities, papers and notes, and medium term loans. The expressed policy of the managements of these entities concentrated on security and safety. The regional changes in the new era of the 1990's should force the management of these funds and financial institutions to evaluate their performance and set a new policy for the benefit of the region as a whole. I think an Arab bank of Construction and Development is needed to cope with demands for project finance in the region specially for those underdeveloped. I think we should benefit from similar experiments now in the process of forming ~~for~~ development in Eastern Europe.

### 3 - CAPITAL MARKETS

Although some of the Arab countries ( Egypt 1861-1910) had for long an established commodity & stock exchanges, Arab stock exchange activities have gone through ups and downs due to a number of factors, starting from the socialisation of the economies depriving the stock exchange from listed companies and minimum formation of private companies, to the collapse of the stock exchange in Kuwait ( Souq el Marakh ), and finally due to limited experiences in international capital market operations. A large proportion of the region biggest companies remain closely in the hands of families, in the form of closed companies, being reluctant either to dilute control or to submit themselves to stock exchange requirements. These and many other factors have helped to

keep the volume of transactions limited as compared with available invested funds or international volume of activity in the main stock exchanges in LONDON, PARIS, NEW YORK, FRANKFURT OR TOKYO.

If we look to the future, we need to activate the Arab Capital Markets revising regulations towards more deregulation, standardisation of accounting information and a programme of action to co-ordinate the activities first of the Arab Capital Markets and gradually open it for the market instruments which can help to promote and encourage investment in the region. We have to create some quality instruments starting by floating some of the successful and viable public companies in their move to form a core of high grade investment papers, Gov. bills real estate shares/ Mutual funds and equities for joint ventures could be some of the instruments. What is urgently needed in the 1990's for the Arab capital markets is to build up confidence and a proof of viability of instruments whether local, regional or international to overcome the drawbacks of crashes whether in the national or international capital stocks.

#### SIXTH: RELATIONSHIPS WITH REGIONAL ECONOMIC GROUPINGS

We know that important structural and regional adjustments are taking place/ EC 92 is already in action. The rise of the Pacific Rim is becoming an economic force to rival the North America Alliance and Europe single market/ Japan will strengthen the links with the newly industrialised countries of South East Asia and started to find some foot hold in the single market. The ME countries have their

major links mainly with Europe and the U.S.A and partially with the Eastern block when socialisation was implemented in the 1960's and 1970's.

In this over all context, a unified ME Arab move is in action, prompting countless businesses to invest in the region to satisfy the needs of the increasing population and adjust the deficits already encountered in the various balances of trade, payment and budget. It is also important to stop any protectionist measures or reciprocity actions due to the single market development in Europe. Main exports of ME products should have free access to Europe with no restrictions on quotas. Mobility of Magreb labour to Europe must be dealt with utmost care so that we prevent putting a new burden on the economies of the Magreb union. This cannot be tackled piecemeal but could be challenged with a unified policy and strategy not only of the Arab sub-regions but the Arab League. Our hopes are with those negotiating teams on all levels, whether Governments or business entrepreneurs of the private sector. We look forward to cement our relation with Europe, our traditional partner in co-operation and growth.

We should not have biases towards the East or the West, or towards any of the "isms" because we have our culture and historical background. We should direct our attention to the developments in Japan and the countries of South East Asia . I believe that we can benefit from their experience in technology, management and finance. In the World of the 1990's we should strengthen our relations with those who are ready to join us in the process of development, growth and prosperity. We should not neglect

our relations with the Islamic nations (1) who share us in culture and are already in alliance in the Conference of Islamic nation.

#### SEVENTH: TECHNOLOGY AND ENVIRONMENT

In the light of already available evidence, scientific development in many fields, technology applications in industry, agriculture, alternative energy production and many other developments concerning the habitat, the world is facing - the ME no exception - problems of pollution and land degradation. Reports include warnings of water shortage in the ME countries.(2) The growth taking place in the main urban cities specially in the highly populated countries of the region have a great impact on the public health of the population and the financial needs to cope with these condensed growing cities. A Pan-Arab strategy plan for environment is highly needed, otherwise this could be detrimental to the future of the coming generations

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(1) Total population of Islamic countries outside the ME region amount to 579.5 million.

2- US foreign policy on Water Resources in the Middle East by Toyce R.Starr and Daniel C. Stoll published by the Centre for strategic and International studies ( Washington D.C. Dec. 1987.

To conclude let me sum up :-

1 - The Middle East Region should be drawn to include all Arab and Islamic countries around the Med., joining in an alliance for growth, stability and prosperity.

2 - To strengthen our alliance in the Arab World , we should call on those countries who have not joined the sub-region councils or Unions to decide for the sake of consolidation of efforts . As these three councils are working within the Arab League it should revise its new role due to changes both nationally and internationally. An urgent move and action should polorize the future path of progress of the Arab alliance co-operation and finally integration.

3 - The main objective of alliance <sup>should</sup> ~~centre~~ around the welfare of all people of the region .This involves a coherent policy, a joint venture between the rich and the poor countries of the region to arrive at a standard of power which can protect the interests of the growing population which cannot be checked easily and fulfill the people'hopes to achieve a stable and secure region.

4 - We should not be over-optimistic about the future of oil and gas production and prices, thus depending for our future on one source of income which is subjected to many variables some of which are not under our control. We can learn from the experience of the European single market in agriculture. We <sup>must</sup> can develop " A Green Middle East" as a basis foundation for the Arab Common Market by giving