ANNUAL SUPPLEMENT 2014

MIDDLE EAST

GLOBAL FINANCE

The Price of Progress

Visitors to the Middle East cannot help but be awed by the majestic skylines of the metropolises that have sprung from the desert sands along the Arabian Gulf. While oil wealth has paid for this development, the real builders and maintainers of these cityscapes are migrant workers, mainly from the poorest countries in Asia and Africa.

Often, these construction workers are lured with fake contracts and pay steep fees to recruiters.

Approximately one million foreign workers have left Saudi Arabia since the authorities cracked down on illegal migrants late last year. Unless more Saudi nationals, including women, enter the private-sector labor force, this dearth could eventually weigh on growth, economists say. The reliance of all countries in the Gulf Cooperation Council on cheap, foreign labor also has come under attack from human rights organizations, with particular focus on Qatar, as it prepares to host the 2022 World Cup of soccer.

We were in Qatar recently and happened to hail a taxi driven by a 23-year-old man from Nepal. We will call him Nischal, the most popular male name in Nepal, which is not his real name. Curious about his living conditions, we asked, "Are you one of those migrant workers we have read about who are sleeping four to a room?" Nischal, obviously well educated, replied in perfect English: "No, sir, that would be a luxury. We are sleeping eight to a room. There are four bunk beds and nothing else." The camp, tucked away in an industrial area, has a squalid, communal toilet.

Nischal said he works a 12-hour shift with no breaks. No food is allowed in the taxi. On some days, Nischal doesn't make enough money to cover the daily taxi-rental fee he must pay his employer. Drivers for the same taxi company held a work stoppage for one day in January, complaining that the rental fees are too high for them to make a living. Such labor actions are rare in Qatar, where expatriates are prohibited from forming unions. They cannot leave the country without permission from their employer.

Our cab fare from downtown Doha to the airport came to 25.5 Qatari riyals ($7). We gave Nischal 100 riyals, which was less than the cost of our lunch. He pocketed the cash without counting it, and made sure we were entering the terminal through the proper gate.

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Economies Thrive Amid Political Instability

The economies of the Middle East continue to prosper despite ongoing instability. In some cases, that instability is creating the greatest opportunities. However, any prospects for investing do come with a unique set of risks. By Gordon Platt

The Middle East's largely oil-based economies continue to grow, despite the political turmoil and outright conflict in the region. The six countries that make up the Gulf Cooperation Council (GCC) are benefiting from high oil prices and increased development spending. Fragile recoveries are beginning to nurture green shoots in some of the countries most affected by the Arab Spring. The only forecast for the region that one can make with any certainty, however, is that there will continue to be challenges.

"I have forgotten what stability means," says Adel El-Labban, group CEO and managing director of Ahli United Bank, based in Bahrain. "Instability is a fact of life in the region, and we view it as an opportunity. AUB made more money in Egypt in the last two years than in the four years before the revolution."

The International Finance Corporation expanded its partnership with AUB Egypt earlier this year, aiming to boost cross-border trade and help local businesses access international markets. "We have learned to manage and arbitrage risk effectively," El-Labban says. "You have to pick the right business and be selective."


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Ghandour, International Bank of Qatar: The government is supporting new companies and new ideas for a knowledge-based economy

El-Labban, Ahli United Bank: Instability is a fact of life in the region

Bahrain's economy has continued to grow throughout the Arab Spring, notes El-Labban. The country is seeing larger inflows of regional money, and asset prices have picked up as a result. "The outlook is improving, buoyed by high oil prices and government spending," he says. Bahrain plans more than $4.4 billion of projects to construct new homes and power facilities, tapping a $10 billion aid package approved by its GCC partners three years ago.

The International Monetary Fund expects growth in the Middle East and North Africa (MENA), along with Afghanistan and Pakistan, to reach 3.3% this year, up from 2.4% in 2013. And the growth rate in 2015 will climb to 4.8%, as oil output in Libya recovers, according to IMF forecasts.

CAUTIOUS BANKING MARKETS

The conflict in Syria is having a noticeable impact on Jordan's economy as a result of heightened uncertainty, reduced trade flows and a costly influx of refugees. This drag is not being sufficiently offset by external grants, according to Nemeh Sabbagh, CEO of Jordan's Arab Bank. However, the direct impact of the conflict on Jordanian banks is limited, he adds, since most banks took adequate provisions at the outbreak of hostilities.

"During 2014 our plan is to strengthen our network in terms of efficiency of operations and business strategy to capitalize on growth opportunities in certain markets," Sabbagh says. He points to Egypt as an example, where the bank has been operating since 1947. "Despite the challenges Egypt has faced during the past few years, the bank has remained committed to that market and has plans to strategically strengthen its branch network there," Sabbagh says.

While credit to the private sector and individuals is gradually rising, banks must ensure they have sustainable and prudent lending levels—and comfortable levels of liquidity to shield against possible volatility, notes Sabbagh. "Overall, the outlook for nonperforming loans is positive, compared to several years ago, when many banks were still reeling from the effects of the global financial crisis," he says.

The competition from international banks in the region is as keen as ever, says Graham Scopes, senior vice president and group head of corporate and structured finance at Arab Banking Corporation in Bahrain (ABC). Japanese banks are formidable competitors in project financing. Meanwhile, local banks in the region are becoming regional banks, increasing cross-border lending, Scopes notes. Egypt is a key growth market for a number of the region's banks.

ABC offers universal banking in Egypt, Jordan, Algeria and Tunisia, with operations also in Lebanon, Abu Dhabi and Iraq. It runs as a wholesale bank in Bahrain and Europe. "Egypt is one of our highest growth targets," Scopes says. "The country has a large, hard-working population, and it has some hydrocarbons. ABC

Bank Egypt will continue to grow and thrive in the Egyptian market."

At Qatar National Bank, cautious growth is also the name of the game. Ali Ahmed Al-Kuwari, acting group CEO of QNB, notes that even as the bank expands outside its home market, it has taken a conservative approach to lending and provisioning. The Qatari bank's international expansion has been rapid: from three countries in 2004 to 26 countries today. In 2013, QNB successfully completed the acquisition of National Société Générale Bank—Egypt's second-largest private-sector bank, with a network of 160 branches. "Our focus for the coming years remains on the MENA region, with sub-Saharan Africa coming into focus at a later date," Al-Kuwari explains.

STRONG OUTLOOK IN QATAR

Qatar was the world's fastest-growing economy from 2008 to 2012, with a real GDP growth rate of 12%, driven mainly by the gas sector—owing to the huge expansion in liquefied natural gas production and exports. The services sector also played an important role in economic growth and is expected to drive a growth rate of more than 10% for the non-oil-and-gas sector in 2014, according to Al-Kuwari. "Going forward, we expect an overall real GDP growth rate in the region of 6% in the next few years, supported by investment in major developmental and infrastructure projects," he says.

Jabra Ghandour, managing director of International Bank of Qatar, says that Qatar has a very strong economic outlook. "The government is supporting the development of new companies and new ideas for a knowledge-based economy. The central bank is doing an excellent job in supporting the banks. It is also encouraging the development of the capital markets."

Qatar wants to be the education center of the area, and it is focusing on different types of tourism, including medical tourism and cultural attractions, Ghandour says. "Trade with other GCC countries

"We expect an overall real GDP growth rate in the region of 6% in the next few years, supported by investment in major developmental and infrastructure projects."

—Ali Ahmed Al-Kuwari, Qatar National Bank

Alyahya, Gulf International Bank: Not only has trade increased in the MENA region, but it is also expected to grow faster than global trade through 2026

Sabbagh, Arab Bank: Markets across the MENA region have come a long way during the last few decades in terms of opening up to global trade opportunities

is continuing to grow," he adds. "With so many big projects, there is a need to import raw materials. Qatar's increasing population, expanding trade and industrial sectors will put further demand on service-based projects, mainly in energy and water."

TRADE GROWTH

"Markets across the MENA region have come a long way during the last few decades in terms of opening up to global trade opportunities," notes Sabbagh.

Scopes at ABC adds that the MENA region has a growing population that creates strong demand for imports. "Countries in the region are relying increasingly on natural-gas-based production. They are using their energy-cost advantage in industries that use a lot of energy, such as metals processing."

Companies in the region have gone downstream, Scopes says. Rather than selling commodity petrochemicals abroad, they are adding more value in the region, so trade flows of imports and exports are both increasing.

Yahya Alyahya, CEO of Gulf International Bank, says: "Not only has trade increased in the MENA region, but it is also expected to grow faster than global trade through 2026. Although hydrocarbons will be at the core of the growth, the region is increasingly being used as a trade route for ferrous and base metals and for soft commodities, such as rice and wheat."

A strong reciprocal trade corridor is being established with Asia, Alyahya adds. "Asia is importing fuel and fuel derivatives from the region and offering a reverse flow of consumer goods," he says. Saudi Arabia is the region's lead exporter to Asia, and the UAE is the top importer of Asian goods and acts as a re-export center.

Both Bahrain and Saudi Arabia have been working hard to diversify their economies away from oil, Alyahya notes. "Saudi Arabia has made tremendous progress developing its petrochemical industry, while Bahrain has developed an aluminum smelter, tourism and a banking center," he says. "Bahrain continues to have a bright future in banking, given the quality of its regulation and the presence of leading international financial institutions. Recently, the central bank has focused on making Bahrain the center of Islamic banking."

The competition of financial centers in the region is intense. With the GCC countries directing budget surpluses to infrastructure projects, cities like Riyadh, Dubai and Doha are being transformed, Alyahya says, adding, "The trend is likely to continue for some time."

As long as oil prices remain high and the GCC countries run surpluses, they will continue to spend on big projects, with positive spillover effects on the non-oil sector, economists say. Meanwhile, Saudi Arabia, the UAE and Kuwait have pledged $18 billion to support Egypt's economy. Dubai's biggest construction company, Arabtec Holding, signed a $40 billion agreement in March to build one million houses in Egypt. For companies experienced in dealing with risks, the Middle East offers plenty of challenges and some very big opportunities. ■

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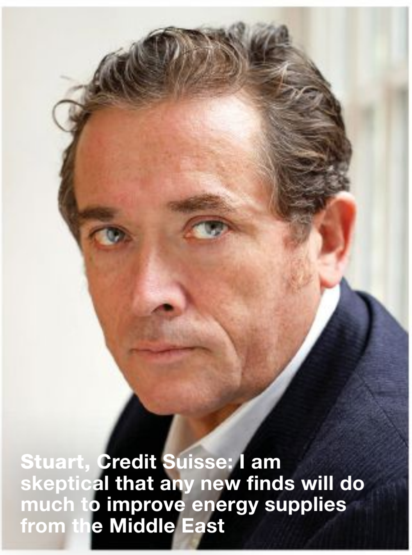
Ukranian Woes: Iranian Win?

Some analysts think the Ukrainian crisis could help improve prospects for Middle Eastern oil producers—pushing up prices and driving development of recent finds as a result.

By Ronald Fink

The crisis in Ukraine sent global energy prices up in early March, as fears rose that Russia's supply of oil and gas to eurozone countries would be affected. But the silver lining, according to some analysts, is that it could further negotiations over Iranian oil and push forward development of new discoveries in the Middle East—including the much-touted reserves in the Levant Basin.

Russia is one of the world's largest oil producers, with an estimated 10.9 million barrels a day, or 13% of the global total On March 3, the first trading day after the Russians seized control of the Crimean peninsula, Brent crude oil, the European oil benchmark, rose as much as 2%, to a two-month high of $111.24 per barrel, while US crude futures hit a five-month high of $104.65. Prices have since fallen back as tensions have eased, but the area clearly remains a hotspot.



Stuart, Credit Suisse: I am skeptical that any new finds will do much to improve energy supplies from the Middle East

Some analysts suggest the Ukrainian conflict could benefit producers in the Middle East. Thomas Pugh, a commodities economist at Capital Economics in London, notes that the Ukrainian crisis could help unlock what he calls "an awful lot of current production, which is currently constrained." The Ukrainian crisis, he says, "can be helpful in a way, as it gives [proponents of negotiations with Iran] a lot more leverage." In that respect, Pugh says, the resulting conflict with Russia "might take the heat off Iran," adding that "it gives US hawks a different enemy to start talking about."

This could add roughly 2 million barrels of daily oil production to current supplies. Iran produces 4 million a day, but sanctions keep half of that off the market.

Another beneficiary could be producers in the eastern Mediterranean, as they exploit the recent discovery of large deposits of oil and gas in an 83,000-square-kilometer area known as the Levant Basin, which the US Energy Information Agency (EIA) estimates contains more than 40 trillion cubic feet of recoverable reserves.

The EIA noted in a report last August that the finds "have the potential to significantly alter energy supply dynamics in the eastern Mediterranean region and could spur natural gas exports in the near future."

But Jan Stuart, head of global energy research at Credit Suisse, notes that "you need peace and stability" to build the pipelines required to move the finds as gas or to ship them in liquefied form. "Who in the world is going to build a pipeline in Syria?" he asks.

What's more, Stuart says there's a fair amount of "ambiguity as to the actual rights" to the discoveries, much of which lie off the coasts of Israel and Cyprus. "I'm a bit skeptical that any new finds will do squat" to improve energy supplies from the Middle East, Stuart says.

As for Iran, regardless of what happens, its production would not come on

"In a best-case scenario, an increase in Iranian production is really a prospect for late 2014, but more likely in 2015."

—Henry Smith, Control Risks

line for a while. "In a best case scenario," says Henry Smith, a global risk analyst in the Dubai office of consultant Control Risks, "an increase in Iranian production is really a prospect for late 2014, but more likely in 2015." Smith notes that without a rollback in specific US and EU sanctions, Iranian exports are likely to remain at their current plateau.

Still, Smith says, "the US and Iranian administrations have demonstrated their commitment to translating the current interim deal into a comprehensive agreement." And despite what he says are significant obstacles, his prognosis is that the interim deal will be extended or that another interim deal will be agreed upon before there's a comprehensive agreement.

Other oil producers, Smith says, are dubious at best. Oil production in Libya, which pumps only 700,000 barrels a day but has a capacity to produce 2 million to 3 million, will likely oscillate for the foreseeable future. "Libya will be unable to sustain output at its maximum capacity," he says, "given the political obstacles to doing so—asset seizures, sit-ins and blockades at fields, pipelines and export facilities by various interest groups."

Smith also sees Algeria, which produces 1.9 million barrels a day, and Iraq (3.4 million) as "potential sources of disruption" to global energy markets. With presidential and parliamentary elections scheduled in April, Iraq, he thinks, is likely to continue to experience "significant bouts of violence and political crises." His prognosis for Algeria is far more positive, but Smith notes that public perceptions of manipulation of elections, also scheduled this month there by the security forces, or the president could spark more-significant unrest than what the country experiences at present.

But Pugh of Capital Economics insists the Ukrainian crisis could change the equation. "If the EU and US start considering sanctions on Russia," he says "all that does is increase dramatically the desire to get those 2 million barrels a day [in Iranian production] back on the market."

The question ultimately may be whether US congressional hawks are willing to buck the Israeli lobby over Iran. Pugh expects them to do so. "There's an awful lot of grandstanding going on" over the Iran sanctions, he says, but, "it wouldn't make a lot of sense to impose new sanctions while winding down old ones." ■

Mideast Production

Total Oil Supply (thousand barrels per day)

	2012	2013
Middle East	27,117.3	27,217.8
Bahrain	48.2	55.2
Iran	4,265.0	3,589.4
Iraq	2,629.0	2,986.6
Israel	6.1	6.1
Jordan	0.2	0.2
Kuwait	2,691.8	2,796.8
Lebanon	0.0	0.0
Oman	890.9	923.8
Palestinian Territories	0.0	0.0
Qatar	1,641.2	1,579.2
Saudi Arabia	11,264.3	11,725.7
Syria	373.7	170.5
United Arab Emirates	3,088.3	3,213.2
Yemen	218.8	171.1

Source: US Energy Information Administration

Dry Natural Gas Production (billion cubic feet)

	2012	2013
Middle East	18,332.4	19,291.6
Bahrain	445.7	481.4
Iran	5,360.8	5,649.1
Iraq	31.1	22.8
Israel	150.8	87.9
Jordan	8.1	7.9
Kuwait	477.9	547.9
Lebanon	0.0	0.0
Oman	936.6	1,034.6
Palestinian Territories	0.0	0.0
Qatar	5,198.3	5,523.2
Saudi Arabia	3,258.2	3,584.9
Syria	277.9	227.5
United Arab Emirates	1,847.3	1,853.9
Yemen	339.7	270.2

Source: US Energy Information Administration

Mideast Reserves

Proved Reserves Of Crude Oil (billion barrels)

	2012	2013
Middle East	799.6	802.2
Bahrain	0.1	0.1
Iran	151.2	154.6
Iraq	143.1	141.4
Israel	0.0	0.0
Jordan	0.0	0.0
Kuwait	104.0	104.0
Lebanon	0.0	0.0
Oman	5.5	5.5
Palestinian Territories	0.0	0.0
Qatar	25.4	25.4
Saudi Arabia	267.0	267.9
Syria	2.5	2.5
United Arab Emirates	97.8	97.8
Yemen	3.0	3.0

Source: US Energy Information Administration

Proved Reserves Of Natural Gas (trillion cubic feet)

	2012	2013
Middle East	2,800.0	2,823.2
Bahrain	3.3	3.3
Iran	1,168.0	1,187.0
Iraq	111.5	111.5
Israel	9.6	9.5
Jordan	0.2	0.2
Kuwait	63.5	63.5
Lebanon	0.0	0.0
Oman	30.0	30.0
Palestinian Territories	0.0	0.0
Qatar	890.0	890.0
Saudi Arabia	283.5	287.8
Syria	8.5	8.5
United Arab Emirates	215.0	215.0
Yemen	16.9	16.9

Source: US Energy Information Administration

Reaching Critical Mass

Islamic finance is going mainstream, with Western countries planning to issue their first sovereign sukuk. It still constitutes only a small percentage of total global financial assets, and most activity is concentrated in a handful of markets—but for how long? By Gordon Platt

"Is the Islamic finance market going global? Of course, it is," says Mohamed Berro, CEO of Al Hilal Bank, one of the fastest-growing banks in the United Arab Emirates. "Global corporations, institutions and sovereign borrowers want to capture Islamic liquidity," he says. "We can compete on a global basis, especially at a time when the world is keen on ethical banking."

Islamic banking and financial products are gaining in popularity, even among non-Muslims. UK prime minister David Cameron's announcement last October of Britain's plans to be the first Western country to issue a sovereign sukuk has galvanized the industry. Luxembourg, which also has designs on being a major Islamic financial center in Europe, joined the race to be the first country on the continent to issue an Islamic bond. The first-ever sovereign sukuk from Ireland, South Africa, Tunisia, Mauritania, Senegal and Oman are also expected in 2014, according to Kuwait Finance House.

Meanwhile, Islamic banks in the Middle East are looking to diversify their overseas portfolios and are expanding from real estate into other assets. Altogether, Islamic financial assets, including takaful, are expected to exceed $2 trillion in 2014, says KFH Research. Despite a drop in global sukuk issuance in 2013, Fitch Ratings predicts a resurgence in 2014, which is expected to equal the record $137 billion of new issues set in 2012.

Abu Dhabi's Al Hilal Bank is the safest Islamic bank in the UAE, according to a recent survey by *Global Finance*. "We are a conservative institution, but we are also fresh and dynamic," Berro says. "An Islamic bank doesn't have to be old or rusty."

Al Hilal Bank's Mall Branch, located in Abu Dhabi's Corniche area, incorporates aspects of the shopping mall, including a Starbucks coffee shop, an airline desk and an Etisalat telecom kiosk, as well as an auto showroom. Taking advantage of the bank's "walk in, drive out" program, customers can get their license plates printed and drive out in a new car.

"We balance our corporate and retail operations, with about 60% of revenues coming from the corporate side," Berro says. Al Hilal Bank is a major participant in the sukuk market, which is undergoing demand-driven growth. "People are hungry for quality sukuk," he says. When Dubai Investment Park offered $300 million of five-year sukuk in February at a profit rate of 4.3%, investors placed $4 billion in orders for the issue. The geographic distribution of investors in the sukuk was widespread and included some buyers from North America, Berro says.

Al Hilal Bank's growth aspirations are primarily in the UAE market, but it has three branches in Kazakhstan, which it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plans to use as a hub for business in the Commonwealth of Independent States. "Kazakhstan has strong ties to Abu Dhabi," Berro says. "It has a majority Muslim population and is rich in resources."

The expansion and enhancement of existing Islamic finance centers and a more transparent regulatory environment could provide the momentum for shariah-compliant banking to join the mainstream, says Standard & Poor's. "Despite more than a decade of heady growth, the industry is still in a formative stage," S&P states in a report issued in January. "But we believe it is only a matter of time before it achieves critical mass, as the pool of assets broadens and deepens and enhances liquidity."

The speed with which the industry matures will depend on how market participants address the imbalance between supply and demand, S&P says. "Islamic finance remains a demand-driven market, with scarce supply, still hampered by a limited range of Islamic financial centers and their variously regulated financial environments," it states.

Steve Troop, CEO of Barwa Bank, a leading shariah-compliant bank in Qatar, says: "The recent growth in Islamic finance markets and increasing interest around the world is very exciting, but let's not get ahead of ourselves. Even if the $2 trillion milestone for Islamic assets is reached this year, global conventional bank assets are estimated at $200 trillion."

Islamic finance is strong in Saudi Arabia and Malaysia, but it has made little progress in other high-potential countries for all sorts of reasons, Troop says. "The world has about 1.6 billion Muslims, and Islamic banks are thought to have about 40 million customers: Islamic finance is yet to serve the Muslim world. The rapid growth rates of Islamic finance are very encouraging, but we need to keep it in perspective."

According to Kuwait Finance House, the largest global Islamic banking jurisdictions (excluding Iran, which is home to many of the world's largest Islamic banks) in 2013 were Saudi Arabia, with an 18% market share, followed by Malaysia's 13%, the UAE's 7% and Qatar's 4%.

LEFT: **Berro, Al Hilal Bank:** An Islamic bank doesn't have to be old or rusty
ABOVE: **Troop, Barwa Bank:** Islamic finance has yet to serve the Muslim world

DIVERSIFYING FUNDING

The UK's planned sovereign sukuk—the first outside the Muslim world—will match the liquid market in the Middle East with Britain's need for funding to rebuild its aging infrastructure, Troop says. "London is the Western European hub for Islamic finance and aspires to be a global leader. Dubai and Kuala Lumpur also have that ambition," he says. "The UK sukuk will have symbolic meaning, and I hope it will encourage UK corporations to tap the sukuk market."

Graham Scopes, senior vice president and global head of corporate and structured finance at Arab Banking Corporation, says the UK's sovereign sukuk could raise the profile of the sukuk market in general and lead to increased corporate issuance.

"The UK has a lot of sophisticated corporate treasurers who are aware of the opportunity sukuk offer as a potential source of finance," Scopes says. "These treasurers have a choice, and they like to diversify their funding. It is often a size and price trade-off as to whether they use Islamic finance or conventional finance."

In January the UK Treasury appointed HSBC to provide financial advice on structuring its sovereign sukuk to ensure that it is shariah-compliant. HSBC topped the league tables for global Islamic bonds in 2013, according to Dealogic. It managed 26 deals, with proceeds valued at a total of $7 billion. Malaysia's CIMB Group was second, with more than $4 billion in proceeds from 38 issues.

The UK Treasury said Linklaters would provide commercial legal advice on the capital markets, tax, regulatory and real estate implications of issuing a sovereign sukuk for the first time. The UK sukuk—worth approximately $300 million—is expected to come to market in September.

Neil Miller, global Islamic finance head at Linklaters, said in a statement: "The United Kingdom is highly regarded for the market-leading work it has done to level the playing field for Islamic finance. The Islamic banks operating in London have come through the financial crisis and are investing in the country. A UK sovereign sukuk will demonstrate further government commitment to alternative finance and help secure more inward investment from the Middle East."

Hot on the heels of the United Kingdom is Luxembourg. Its government presented a draft bill to parliament in January to prepare the way for its issuance of a sovereign sukuk. Deloitte completed a feasibility study for Arab Gulf investors for the creation of an Islamic bank, Eurisbank, to be headquartered in Luxembourg, with branches in Paris, Brussels, Amsterdam and Frankfurt.

"As the worldwide Islamic finance industry moves from niche to critical mass, Europe is becoming an attractive and promising market that is not yet served by shariah-compliant banking services," says Marco Lichtfous, a partner at Deloitte Luxembourg.

France and Germany offer limited Islamic financial services. However, Italy, the third-largest economy in the eurozone, has started a campaign to develop shariah-compliant services and to attract more investment from the Arab Gulf to help it cope with its debt.

"Islamic finance is a phenomenon that cannot be limited to only the Islamic countries, especially given the growing number of Muslims in the West," says Paolo Pietro Biancone, director of the Centre for Research on Islamic Finance at the University of Turin, Italy. Currently, most European Muslims manage their financial assets through conventional banks, because the leading providers of Islamic financial services are not present in the retail market, Biancone stated in a recent paper.

There are greater opportunities for Islamic banks in Italy, owing to the country's geographic proximity to the Middle East, Biancone says. Kuwait's sovereign wealth fund, the Kuwait Investment Authority, announced in February that it would invest $685 million in Italian companies in coordination with the Italian government's own strategic investment fund.

TOP FIVE MIDDLE EAST ISLAMIC BOND BOOKRUNNERS IN 2013

Bookrunner	Proceeds ($million)	Rank	% Mkt Share	# of Deals
HSBC	5,452	1	28.2	12
National Commercial Bank	2,028	2	10.5	1
Deutsche Bank	1,884	3	9.8	5
Standard Chartered Bank	1,464	4	7.6	12
National Bank of Abu Dhabi	844	5	4.4	7
Industry Totals*	**19,308***			**22**

Source: Dealogic
*Figures may not add up as more than one bank typically obtains credit for any one transaction.

RETURN ON CAPITAL

There are two main camps in the Islamic finance market, says Troop of Barwa Bank. One is in Southeast Asia, and the other is in the Gulf Cooperation Council (GCC) countries.

"The GCC countries are more conservative in their interpretation of shariah," Troop says. "Global standards for Islamic finance would be wonderful, but I am not holding my breath," he says. "That said, we have seen significant progress towards standardized documentation and the progressive emergence of national market standards."

Shayne Nelson, CEO of Emirates NBD, based in Dubai, says: "The standards for Islamic finance are getting better all the time. Malaysia changed its standards to meet those in the Middle East. Sukuk issues use the same structure over and over again."

Nelson says the opportunity for future growth is substantial. "Emirates NBD's Islamic finance operations grew strongly last year," he says, adding that Indonesia, Nigeria, Tanzania and Kenya are some potential growth markets for Islamic finance.

Whether or not there will be another record for sukuk issuance this year depends on what happens to underlying rates, according to Troop. "In time, rates will go up," he says. "There may be a flurry of issuance in anticipation of this. Malaysia dominates global issuance, and its economic outlook is positive, which could portend increased sukuk issuance."

Barwa Bank has managed sovereign sukuk for Qatar, Dubai and Turkey. "This reflects the quality of the team we have assembled," Troop says. The three-year-old bank is still bedding down its domestic operation, but there are a number of Muslim markets, Troop notes, that are underserved. "Libya and Egypt, for example, have next to no Islamic finance," he says. "Turkey is a dynamic and very attractive country, but costs of entry are very high, which means generating an attractive return on capital becomes challenging in the short-to-medium term."

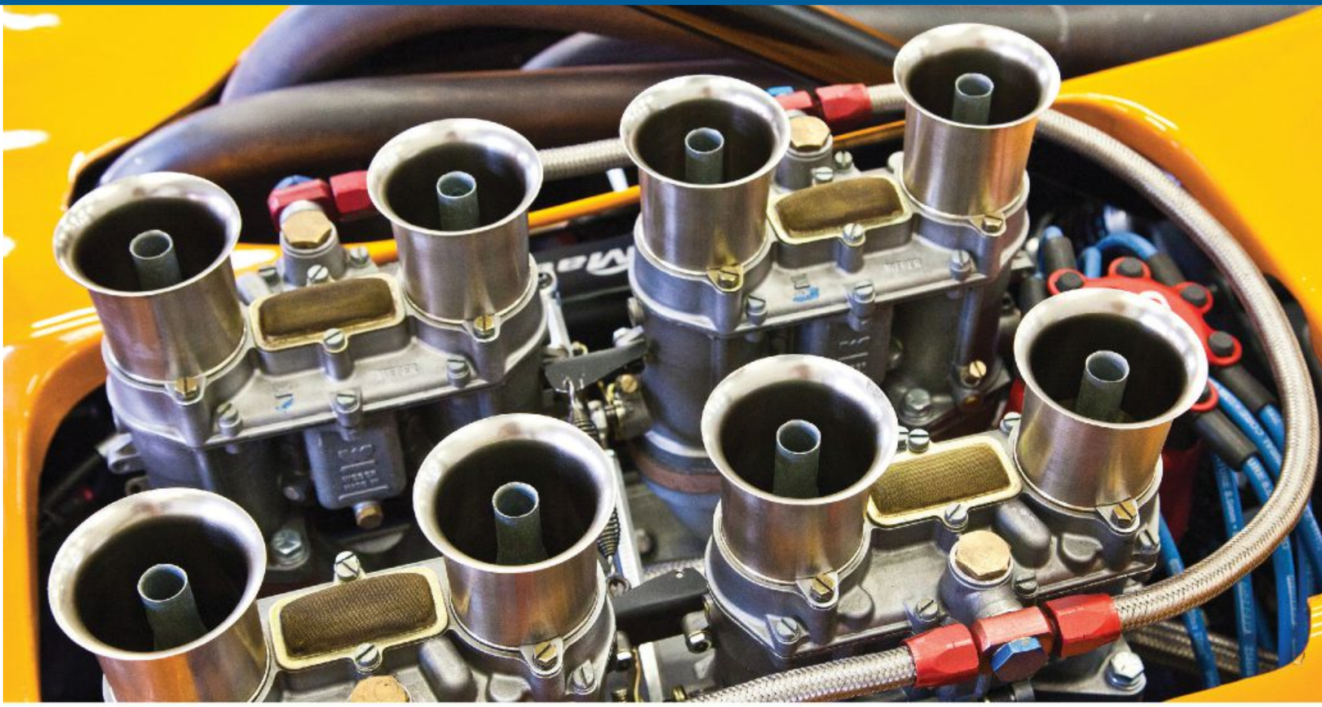
Bahrain-based Ahli United Bank has commenced Islamic banking operations in Libya through an associate bank, United Bank for Commerce and Investment. UBCI began offering Islamic banking products last August and is currently in the process of opening its first Islamic branch.

Nemeh Sabbagh, CEO of Arab Bank, says: "Islamic banking growth has been impressive over the past few years, growing approximately 50% faster than the overall banking sector. We are seeing strong consumer preferences shift toward shariah-compliant products in the region, supported by state-led initiatives to have these products introduced in the monetary and fiscal policies."

A continuing challenge for Islamic bankers is the shortage of shariah-compliant instruments suitable for the management of short-term liquidity. This challenge is increasingly acute for both performance and regulatory reasons, says Troop of Barwa Bank, as Basel III requires all banks to increase the levels of high-quality liquidity that they hold. Domestic central bank initiatives include parallel short-term sukuk issuance alongside more traditional Treasury bill programs.

The International Islamic Liquidity Management Corporation (IILM) issued $860 million worth of three-month Islamic bonds in January to meet a shortage of highly liquid, investment-grade financial instruments that Islamic banks can trade to help manage their short-term funding needs. Many dealers have held on to the instruments after the auctions, however, and secondary market activity is very limited.

The IILM is owned by the central banks of Indonesia, Kuwait, Luxembourg, Malaysia, Mauritius, Nigeria, Qatar, Turkey and the United Arab Emirates, as well as the Islamic Development Bank. ■



Full Throttle

Stock markets in GCC countries, in particular Dubai and Abu Dhabi, have capitalized on the political and economic uncertainty that continues to pervade other Middle Eastern markets more than three years on from the Arab Spring uprisings. By Tiziana Barghini

From Dubai, Abu Dhabi and Doha to Riyadh, the equity markets of the Gulf Cooperation Council (GCC) countries were firing on all pistons in 2013. And they are expected to do well again this year, shrugging off concerns about rising interest rates abroad and political tensions in the region.

Improvements in corporate profitability saw the Dubai and Abu Dhabi stock markets post the highest gains in the first half of 2013. The UAE has become a safe haven for a region that three years after the onset of the Arab Spring is still beset with social and political unrest.

The ongoing political unrest in Egypt, the stalemate in Tunisia, the civil war in Syria and its impact on bordering Lebanon and Jordan have weakened the region's economy. The result is that the Middle East and North Africa (MENA), a gigantic area that includes nearly 20 countries and a population of at least 400 million, will experience lower rates of economic growth this year and worsening fiscal and external balances, according to a World Bank report.

In 2013 the Dow Jones MENA Broad Stock Market Index, which measures the stock performance of actively traded large-caps and mid-caps, rose by 20%, but stock markets in MENA experienced a mixed performance. At opposite ends: The Dubai Financial Market General Index almost doubled in value in 2013, but the Algerian equity market index, SGBV, lost nearly 17% in the same period.

All the GCC countries—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE—saw their indexes grow by double digits in 2013. The Bahrain Bourse All Share Index saw the lowest increase, rising by 17%. Fueled by an upgrade effective in May 2014 to the status of emerging markets by global index compiler MSCI, as well as expectations of a potential merger between the two UAE exchanges, Dubai and Abu Dhabi were the GCC stock markets that grew the most.

"We expect to see the GCC equity markets steadily continue their positive momentum in 2014," says Patrick Delivanis, head of investment banking, MENA, for Morgan Stanley. "The drivers for this [continued positive momentum] include potentially greater international institutional investor interest due to the upcoming MSCI upgrade in certain markets, as well as the further opening of these markets to those same investors." MSCI equity indexes are tracked by investors with approximately $7 trillion in assets.

"Certainly, the GCC markets have decoupled from other structurally stressed markets within the emerging markets universe, and we expect this trend to continue," Delivanis added.

During 2013 and at the start of 2014, investments in Dubai and Abu Dhabi were fueled by the political uncertainty in the broader Middle East area.

UAE PLAYS ITS TRUMP CARD

"The UAE really sets itself apart from the rest of the region because it has much more developed markets than those of other countries in the Middle East. For its political stability, its demonstrated neutrality, the infrastructure that it offers, its transparency and its connectivity to other countries, the UAE really provides a business hub for the region," says Jahangir Aka, managing director of SEI Middle East in Dubai. SEI is a provider of outsourced asset management, investment processing and investment operations.

Heavily hit by the financial crisis in 2009, the Dubai market seems to have finally found its mojo again, and investors expect it to keep rising, supported by exuberant real estate prices, although some are worried about the possibility of another bubble.

"It took more than five years since the financial crisis for investors to regain confidence in the UAE markets" says Tariq Qaqish, head of asset management at Al Mal Capital in Dubai. Qaqish sees upward potential, mainly for banks and real estate stocks.

"In 2013 investors should focus on stock picking, looking at companies with strong growth potential in their core business rather than buying randomly, but in general we remain positive on the overall outlook," says Qaqish, who oversees assets worth $200 million. He foreshadows an increase in the Dubai stock market's liquidity with at least four new IPOs expected to come to market in 2014 and a strong expansion in project financing, linked to building ahead of the World Expo 2020 in Dubai.

With companies like Dubai's Damac Properties and Abu Dhabi-based healthcare firms Al Noor Hospitals and NMC Healthcare snubbing the local market for more-developed, more-liquid stock markets such as the London Stock Exchange, all eyes are now on newcomers. Additional liquidity is considered vital to keep alive the positive momentum.

"We believe that 2014 will see the return of a healthier and buoyant regional IPO market. We suspect potential IPO candidates may be a mix of government-related entities as well as IPOs of some larger, marquee regional companies or regional family businesses" said Morgan Stanley's Delivanis.

"Some of these companies are also looking at potential dual regional listings, whereas previously they might have focused solely on listing somewhere like London, so you can interpret this trend as a vote of confidence in the regional market," adds Delivanis, who has worked in the region since 2007.

MOTOR FOR GROWTH

A flagship project, the World Expo 2020

PERFORMANCE OF MIDDLE EAST STOCK EXCHANGES

Country	Stock Exchange	Code	First Trading Day 2013	Last Trading Day 2013	% Change	Mid-February 2014	% Change (End 2013 - Mid-Feb 2014)
UAE	Dubai DFM General Index	.DFMGI	1,666.9	3,331.9	99.9	4,189.0	25.7
UAE	Abu Dhabi ADSMI	.EFGHABDX	5,443.2	8,981.6	65.0	9,880.5	10.0
Syria	Syria-Damascus Security Exchange	.DSDWX	769.3	1,249.5	62.4	1,230.4	-1.5
Kuwait	Kuwait KWSEID	.KWSE	6,014.2	7,549.5	25.5	7,832.4	3.7
Saudi Arabia	Saudi Arabia Tadawul all Share, SASEIDX	.TASI	6,801.2	8,520.0	25.3	8,970.4	5.3
Qatar	Qatar Doha Security Market DMS	.QSI	8,569.1	10,360.0	20.9	11,546.2	11.4
Oman	Oman-Muscat Index MSM30	.MSI	5,781.8	6,834.6	18.2	7,180.0	5.1
Palestine	Palestine General Index	.PLE	470.3	541.6	15.2	592.7	9.4
Lebanon	Lebanon-BLOM	.BLSI	1,168.2	1,147.2	-1.8	1,204.7	5.0
Jordan	Jordan-Amman Financial Market AFM JOSMGNF	.AMMAN	4,585.9	4,382.0	-4.4	4,622.6	5.5
Iraq	Iraq-Iraq Security Market	.ISX	124.0	113.2	-8.7	112.0	-1.0
Gaza Strip	Gaza Strip al-quds	n/a					
Iran	Teheran-TEPIX	n/a					

Source: Capital Economics, Thomson Reuters, Bloomberg

in Dubai is likely to fuel economic and market growth. "Expo-related investments are in the region of $8 billion, which is tiny in comparison to the $100 billion in infrastructure investment planned across the UAE in the next five years," says Aka

FDI into the UAE tripled from 2009 to 2013, to around $12 billion. In 2014, FDI is expected to reach $14 billion. The UAE is by far the largest recipient of FDI in the region, with net FDI levels remaining well below pre–Arab Spring inflows. There was a decrease in net FDI inflows into Tunisia and Egypt, which fell by 14.5% as a result of the political turmoil.

As many governments renew their investment programs, especially in countries such as Saudi Arabia, Qatar and the UAE, it is likely that project financing will continue to expand. Morgan Stanley expects to see a number of new financial and project sponsors and lenders continue to enter the market, especially from Asia.

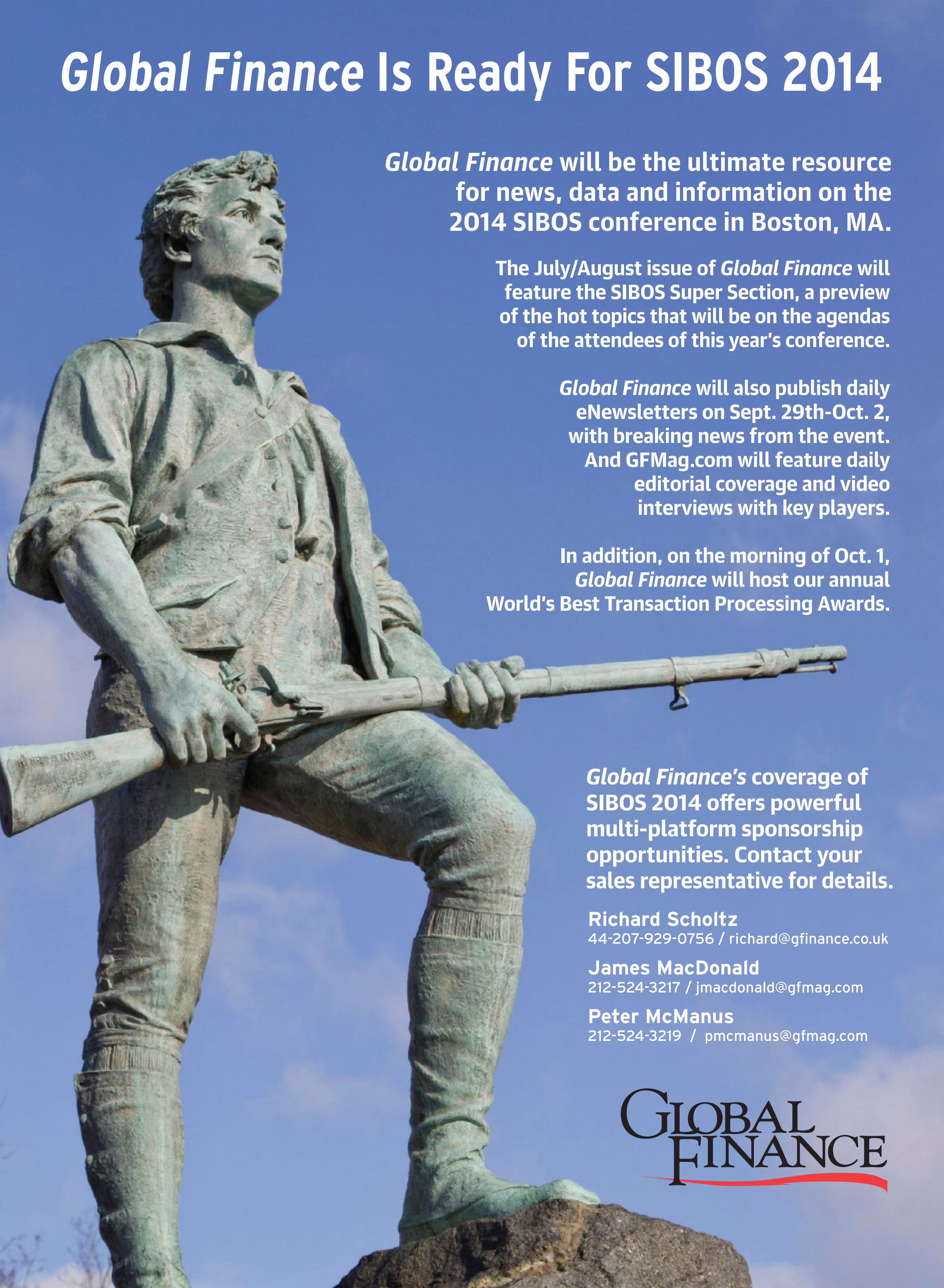
In GCC countries, the main motor for economic growth often comes from high levels of public spending. Qatar, whose economy is expected to grow by 5% this year and next, is seen as the region's rising star. According to William Jackson, emerging markets economist at Capital Economics in London, the government's ambitious investment program will help make Qatar—a small country with a population of approximately 2.1 million, of which 250,000 are local citizens—the region's fastest-growing economy.

Al Mal Capital's Qaqish says economic growth in Qatar will be fueled mainly by government spending on infrastructure—some of which is already under way—ahead of the soccer World Cup in 2022. The Qatari stock market, which was also upgraded to emerging market status by MSCI, has a capitalization of approximately $150 billion and is expected to expand in liquidity this year, with a number of potential IPOs in the cards.

The GCC's largest economy, Saudi Arabia, also offers promising growth prospects, with GDP predicted to expand by 3.5% in 2014. "We remain positive on the kingdom's ability to maintain its growth momentum going forward," says Delivanis. "Positive economic initiatives, such as the new mortgage law and other government stimulus policies, will spur the growth of new, inward investment and overall economic activity. Overall, we believe the Saudi market will be a beacon of growth not only in the Middle East but in the wider global context as well."

Saudi Arabia's stock market, which is the Arab world's largest, climbed 25% in 2013, but it is not yet open to international capital flows. Saudi Arabia is expected to soon grant non-Persian Gulf investors permission to buy Saudi shares, but a date has not yet been set.

Outside of the Gulf caution is a must, investors say. "I like [the projects] going on in Iraq," says SEI's Aka. "I like the Egypt and Tunisia story too over the medium term. They have large populations, resources and history. As soon as they gain some political stability, there will be a flow of FDI to support their economic growth. These are the markets to watch with a three-year horizon." ■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Builder's Paradise, Redux

Dubai has rolled over its debt and keeps on spending in preparation for World Expo 2020. And this time, it says, there will be no property bubble.

By Gordon Platt

Dubai welcomed the New Year with the world's biggest display of fireworks, silhouetting the world's tallest building, Burj Khalifa. The brash emirate has reason to celebrate. Not only is the property sector recovering from the 2008 meltdown, but Dubai won the right to host the World Expo 2020, which is expected to draw 25 million visitors, providing a big boost to the real estate and tourism sectors. The event could contribute as much as $40 billion to the Dubai economy.

"Dubai is back," says Shayne Nelson, CEO of Emirates NBD. "There is clearly a tremendous improvement in the operating environment." Winning the right to host the World Expo in 2020 is a confidence builder, Nelson says. Estimates suggest that the Expo will add an average 0.5 percentage points GDP growth annually in the run-up to 2020 and an additional one percentage point in 2020 itself. Manpower, the employment services firm, estimates that World Expo 2020 will create more than 200,000 jobs in the next few years. Many of them will be short- to medium-term employment on a project basis.

"The tourism sector is already very strong, and Dubai's hotels are operating at 80% occupancy rates," Nelson says. "We see Dubai's [economy growing] at 4.7% in 2014, with significant contributions from tourism, manufacturing and infrastructure."

With the largest asset base in the Gulf Cooperation Council region, Emirates NBD will do well if the economy is doing well, says Nelson. Dubai's real estate prices rose 22% last year, but they remain below their peak level of 2008. "Dubai is cheap compared to some of the major cities in the world, such as Hong Kong," Nelson says. "It is more similar to Kuala Lumpur."

The investment management firm Jones Lang LaSalle forecasts that average real estate prices in Dubai could rise between 10% and 15% this year, putting them back to pre-crisis levels and raising fears of another property bubble at a time when Dubai is still coping with a massive debt overhang from the last crisis.

A REAL ESTATE BOOM WITH A DIFFERENCE

The International Monetary Fund estimates that about $78 billion of debt held by Dubai and government-related entities will come due in the next three years. Meanwhile, Deutsche Bank says the emirate will require approximately $43 billion, or nearly half of last year's entire GDP, to significantly upgrade its infrastructure for the World Expo. Other estimates suggest a lower figure of $18 billion in investment is required. Most of the investment will go into expanding the hotel and leisure industry, while Deutsche Bank estimates that $10 billion will be spent on improving and expanding the transportation infrastructure.

The biggest beneficiary will be the real estate sector, which should continue to attract strong investor interest, says Deutsche Bank. Dubai developer Nakheel, which created the Palm Islands and the Dubai Waterfront, was restructured in 2011 and has returned to profitability. The government-owned developer announced in January that it would prepay more than half of its bank debt of $1.85 billion this year. It repaid $640 million in the first quarter, more than 18 months ahead of time. Nakheel said in a statement that the early repayment "reflects the strong financial performance of the company post-restructuring, the underlying strength of the growing local real estate market, significantly improved economic conditions in the UAE, and increased trust and confidence among investors in Dubai and Nakheel."

> **"We have learned our lesson and are putting a framework in place to, at the very least, lessen any future crisis."**
>
> ***—Mohamed Berro, Al Hilal Bank***

Dubai reached an agreement in February on rolling over $10 billion in debt granted by the UAE central bank during the financial crisis. The rollover at a lower rate than the previous 4% coupon will enable Dubai to continue its massive spending on infrastructure. Meanwhile, Dubai's Department of Finance published a paper saying the country has learned 11 important lessons from the financial crisis, including the importance of budgetary discipline and the need to regulate its property market. The paper cited the need to register real estate deals, as well as to keep the rental market within permissible limits.

Last year Dubai doubled its real estate transaction fee to 4% in an effort to reduce speculation. The Department of Finance also said Dubai needs to monitor the economy and to review development plans to keep the public sector from getting too large.

"The government has a toolbox it didn't have before," says Nelson of Emirates NBD. "The central bank has the ability to restrict lending, and it is doing so. Two-thirds of real estate transactions are for cash."

Dubai is an attractive investment location and a safe haven from the turmoil elsewhere in the region, Nelson says. "The debt workouts are making good progress," he says. "Price inflation helps with the property market."

AVOIDING ANOTHER CRISIS

Mohamed Berro, group CEO of Al Hilal Bank, which participated in Abu Dhabi's $10 billion loan to Dubai at the height of the crisis, says: "Infrastructure, safety and human resources are all ingredients for a successful economy. We have learned our lesson and are putting a framework in place to, at the very least, lessen any future crisis. There are new regulations. We want to make sure we have the mitigating factors to avoid another crisis."

A revival in construction and property projects may help alleviate Dubai's debt burden over time, according to economists at National Bank of Kuwait. "As the emirate continues to restructure its debt, the [World Expo 2020] win comes as a sigh of relief to debtors, as they will likely take advantage of the higher capital inflows to pay off their debts," NBK stated, adding that the Expo would also enhance Dubai's brand and credibility.

Meanwhile, Dubai has created a new agency to attract investment, the Dubai Investment Development Agency. Its mission is to instill confidence in the investment environment and to identify impediments to growth. Dubai has also established a new tourism body, which will set up offices in key cities around the world to promote brand Dubai. ■

Build It And They Will Come

The Arab Spring dissuaded many companies from investing in the Middle East-North Africa region, but foreign investment is now returning on the back of a wide array of major planned infrastructure projects. By Gilly Wright

Ongoing political turmoil, such as the civil war in Syria and political uncertainty in Egypt, continues to dampen economic activity in the Middle East. According to the World Bank's 2014 Global Economic Prospects report, economic growth in the Middle East North Africa (MENA) region averaged 2.8% in 2013, half the estimated growth rate in 2012, let alone that of the boom times of 2005 to 2007, when the region was a favored destination for inbound foreign direct investment.

"The region had a bad financial crisis," states Matthew Alabaster, a UAE-based partner at PwC. "Poor investment decisions were exposed, asset prices declined sharply, and new investment from both local and international capital dried up."

The Arab Spring then had an additional adverse impact, Alabaster points out. PwC estimates that Egypt, for example, lost roughly $26 billion of FDI between 2009 and 2012 as a result of the global financial crisis and the Arab Spring. "And with no perceived resolution to the political problems, international commercial capital is still staying away."

The Arab Spring was a wake-up call for Gulf Cooperation Council (GCC) governments, says Alabaster, as it highlighted the need to focus on job and wealth creation in order to avoid social unrest and to reinvest oil proceeds in infrastructure projects.

The upshot is that now is a good time for international companies to take a second look at MENA: "Government spending in wealthier countries has increased as a result of the Arab Spring—investment in 'hard' and 'soft' infrastructure is a priority," says Alabaster. "The focus of government-led investment has shifted onto domestic priorities to drive the economic diversification agenda harder and, in the short term at least, to [quell] dissent." According to Alabaster, the proportion of state funds being invested outside the GCC has fallen. "Expo 2020 is a visible sign of the confidence that has returned to Dubai, and by implication, the rest of the GCC."

PwC expects countries like Qatar to focus more on home-based infrastructure projects than trophy assets overseas, while across the region countries are expected to pursue investment opportunities in healthcare, transportation, education and affordable housing. "If you are an international business with interests in healthcare," Alabaster advises, "then you should be looking hard at this region and, in particular, Saudi Arabia. All of the countries here understand the need for diversification, and in Saudi, a country of 30 million people with incredibly high youth unemployment, everything is shown in sharp relief. It's a strategic imperative for Saudi Arabia to get a balanced economy where as many Saudis, particularly Saudi youths, are participating in that economy directly."

INFRASTRUCTURE AND JOB CREATION

The World Bank estimates that the Middle East needs approximately $100 billion worth of infrastructure investments per year for the next 15 years. The International Finance Corporation (IFC), the private-sector investment arm of the World Bank Group, invested $3 billion in the region in 2013. Mouayed Makhlouf, IFC director, MENA, maintains that although FDI has historically been low in the region, opportunities are increasing as economies open up and the investment climate improves. "While the MENA region witnessed a surge in FDI inflows (albeit from a low base) in the early 2000s," he says, "FDI flows in MENA continue to lag those of other regions and, more recently, have dramatically declined. For instance, FDI inflows represent only around 1% of GDP in MENA countries, compared to 3% in Asia, Latin America or Eastern Europe and Central Asia." FDI inflows in MENA remain heavily concentrated in the real estate, mining, and oil and gas sectors, he notes, while the manufacturing sector, which is central to job creation, attracts only around 20% of inflows.

The jobless rate is currently 10.9% in the Middle East, with youth unemployment a worrying 27.2%. According to the International Labour Organization, MENA economies suffer from "specialization in sectors that generate low employment growth and from a lack of structural transformation towards highly productive industries."

The brightest spot in the region for both FDI and project finance opportunities is the GCC, which has been on a stable recovery path. Most of the Middle East's FDI by number of projects, value and jobs created in the past decade went to the GCC countries, especially Saudi Arabia, UAE and Qatar.

To future-proof themselves from economic shocks, be it from oil prices or political instability within the greater Middle East region, the GCC is gradually weaning itself off its dependence on oil. "Everyone knows what the main challenges of the region are," says Makhlouf. "Political and security volatility are at the forefront and are the most unpredictable challenges. Economic vulnerabilities are also a challenge right now, and they are especially compounded by economic uncertainties in global and emerging markets." Additional challenges include large infrastructure gaps, low access to finance and a lack of adequate regional and global integration. "Many governments in the region are realizing that these challenges need to be addressed urgently and are beginning to implement reforms," says Makhlouf.

Of the countries that are diversifying, Makhlouf singles out Iraq and the UAE, which is already well diversified. "Saudi Arabia and Oman are trying to diversify by investing in financial services and renewables. There are opportunities for investors in countries like Libya, if the economy opens up and the government embarks on a diversification strategy—there could be huge investment opportunities in infrastructure, telecoms, tourism, business hotels and services. But the environment for the private sector, most importantly security and investment climate reforms, will be critical to make this happen."

In February, Saudi Arabia launched the world's largest mining project. Worth $9.5 billion, the Waad Al-Shamal mining industrial city includes construction of a number of factories, a 1,000 megawatt power plant and a main road, and is part of the Saudi government's plans to bring sustainable development and economic diversity to the kingdom.

The North-South Railway will link the northern border region with other areas of Saudi Arabia. A number of other transport projects are planned—creating opportunities for foreign investors in construction and such associated sectors as residential and commercial real estate.

Saudi Arabia has $61 billion worth of infrastructure projects due to be completed in 2014 alone and is second only to Qatar in terms of the amount of infrastructure investment opportunities it offers.

Qatar looks set to attract substantial FDI between now and the soccer World Cup in 2022, with plans to spend $205 billion between 2013 and 2018 on a range of projects, including transport, housing, electricity and water generation.

Contracts for the first phase of the Qatar Rail project—a 216km metro line in Doha—worth $8.2 billion, were awarded last June to companies including South Korea's Samsung C&T and French

"The focus of government-led investment has shifted onto domestic priorities to drive the economic diversification agenda harder and, in the short term at least, to [quell] dissent." *—Matthew Alabaster, PwC*


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construction firm Vinci. Due for completion in 2019, the metro project is expected to cost around $45 billion to build. Other opportunities for foreign investment include 40 major projects, which are either being executed or mapped out in Oman. They include plans to build a new town in Duqm (transforming the coastline into a major industrial hub with a port, dry dock, airport, refinery, industrial zone, fisheries, a harbor and tourism area).

Although around $40 billion worth of these projects is already in development, more than $50 billion worth of major projects is still in the design or initial study phase. The Oman Power and Water Procurement Company, for example, plans to float a request for qualifications by the third quarter of this year for companies interested in building a $1.5 billion proposed power project.

FLEXIBILITY IS KEY TO SUCCESS

Although there are no recently published statistics to support his assertion, PwC's Alabaster believes that Asian (particularly South Korean, Chinese, Japanese and Indian) investors into the Middle East have taken over from North American and European investors. "Asian economies fared better in the global financial crisis, and Asian companies are often prepared to be more strategic in their pricing and terms of business and, in a general sense, are much more flexible in terms and conditions of contacts they are prepared to take," Alabaster explains. "In a nutshell, they are easy to do business with and don't come armed with teams of lawyers before they sign contracts."

He warns any foreign companies looking to invest in the region that increased competition has changed attitudes in the Gulf. "If you come into town assuming you have the best products and you know what you are doing and that your customer doesn't know what they are doing and nobody is as good as you are, then you are not going to do business here. That attitude is no longer appropriate, as there are increasing numbers of local people here who can do things. And there is competition from the East, as well."

The Arab Spring has accentuated official and unofficial policies to buy local. "And local companies," Alabaster notes, "are getting stronger and stronger all the time." To remind themselves of the capabilities that exist in the region, Alabaster says, foreign investors would do well to remember what the Gulf states have achieved in a relatively short time. "Both Dubai and Abu Dhabi were built in 20 years, which as far as I'm aware," chides Alabaster, "is roughly the same period that a new runway for Heathrow airport was debated."

Such rapid growth has enabled GCC countries to become one of the world's fastest-growing consumer markets, and it will continue to grow as a trading hub, well situated as it is between Europe and Asia. Retail and consumer products, business services and real estate, hospitality and construction are, as a result of this growth, top FDI choices in the region.

At different ends of the retail spectrum, Dutch retailer SPAR opened its first shop in the UAE in 2011, and is now looking to expand convenience stores across the region, while Dubai is planning to develop the world's largest shopping mall as part of a huge tourism and retail project.

But the GCC lacks industries that employ large numbers of people. "To have a diversified economy," says Alabaster, "government capital is required to generate industries that are not natural in this part of the world. Agriculture is very difficult, but they would love manufacturing to be a bigger part of the economy, and there are government funds and incentives to try and drive that."

INCENTIVES FOR AUTOMAKERS AND RENEWABLES

In Saudi Arabia the National Industrial Clusters Development Program, which aims to attract carmakers to the kingdom, is already paying dividends. Jaguar Land Rover signed a letter of intent with the Ministry of Commerce and is discussing building a plant to produce 50,000 Land Rovers a year as of 2017.

"Anything energy intensive is a good fit for Saudi Arabia," says Alabaster, "and both Jaguar and Land Rover cars have a natural market in the Middle East, so it makes a lot of sense as long as they structure it properly."

There are a number of comparative advantages for carmakers in Saudi Arabia, including the existence of support companies that provide materials to the car industry. Saudi Basic Industries is a world leader in polymers and plastics, a material increasingly used by carmakers. Not surprisingly, Ford, GM and Chrysler are also in talks with the Saudi government.

MENA has also witnessed a surge in water and renewable energy investments. Approximately 100 projects, worth $32.7 billion, were initiated in 2013.

"Within the infrastructure space, an important sector with investment opportunities is renewable energy," says IFC's Makhlouf. "Many governments have issued aggressive targets in this sector, which means great prospects for investors in a thus-far-nascent market."

The IFC has helped mobilize $300 million of investment in renewable energy in MENA over the past 18 months and views renewables as a great opportunity, as the region is blessed with abundant wind and solar energy.

"Despite the prevailing short-term vulnerabilities, we believe that the fundamentals of MENA remain strong, primarily due to its strategic location, a demographic dividend (a young and fast-growing population) and substantial investment potential in different sectors," says Makhlouf. "MENA, which has a population of about 400 million people and abundant natural resources (60% of the world's oil wealth and around 40% of its gas reserves), offers significant investment opportunities for those with a long-term investment horizon and a high-risk appetite.

"It is a diverse, strategically located region with strong trade links to Europe, Africa, and Asia. It also has a large domestic market with an expanding middle-class consumer base," concludes Makhlouf, stating the case for both market-based FDI and large-scale infrastructure project finance opportunities. ■

SOPHIE JAMES / SHUTTERSTOCK.COM

Spotlight On Labor Reform

Occurring on the global stage, the World Cup 2022 is helping to highlight labor market reform in Qatar. By Gordon Platt

At least 400 Nepalese construction workers have died in Qatar in the run-up to the World Cup 2022, many from heart attacks or falling from heights, the *Guardian* newspaper of the UK reported in February. French news agency Agence France-Presse said more than 450 Indian migrants working in Qatar had died in the past two years. AFP obtained the information in response to a Right to Information request filed with the Indian embassy in Qatar.

The Qatar Supreme Committee for Delivery and Legacy, organizers of the 2022 World Cup, issued a 50-page document in February, entitled Workers' Welfare Standards, that requires contractors to set up bank accounts for their workers and to treat them humanely. Hassan Al Thawadi, secretary general of the Supreme Committee, says: "We have always believed that Qatar's hosting of the FIFA World Cup would be a catalyst to accelerate positive initiatives already being undertaken in Qatar, which will leave a legacy of enhanced, sustainable and meaningful progress in regards to worker welfare across the country."

However, Nicholas McGeehan, Gulf researcher at Human Rights Watch, wrote in a blog that the new standards (assuming they are enforced) apply only to select projects related to the construction of stadiums and associated infrastructure. He adds: "These standards provide theoretical protection to a small fraction of Qatar's migrant workers. The standards do not alter the fact that, more than three years after Qatar won the bid to host the World Cup, Qatar's legal and regulatory framework still facilitates the trafficking and forced labor of migrant workers."

If the Qatari government is serious about reform, McGeehan says, "it should apply these standards to the whole migrant worker population, back them up with sanctions, and get to work on reform of the 'kafala' system."

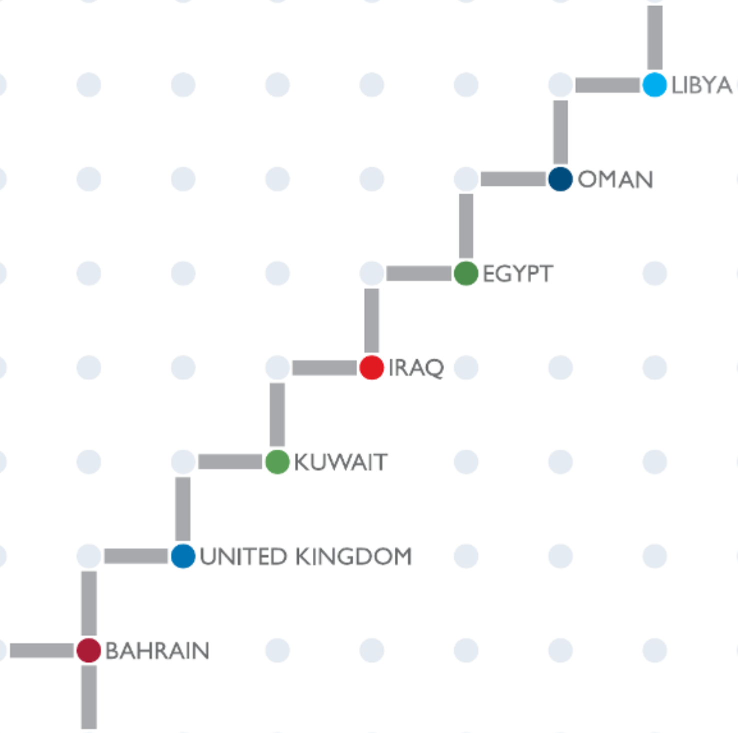
Qatar, like other Arab Gulf countries, has a system of kafala, whereby migrants must be sponsored by an individual in Qatar, usually their employer. They cannot leave the country without permission. Amnesty International last November said some of the biggest companies and projects in Qatar are guilty of severe violations of migrants' rights.

Qatar, one of the world's richest countries, has the highest ratio of migrants to citizens. There are nearly five foreign workers for each Qatari citizen. They make up 94% of the workforce.

Sharan Burrow, head of the International Trade Union Confederation, says up to 4,000 workers could die in Qatar before the World Cup gets under way in 2022, if current laws and attitudes persist. "Qatar is a slave state for 1.4 million migrant workers," she told a European Parliament hearing in February.

Qatar's *The Peninsula* newspaper—in a front-page letter to Qatar's foreign minister—called for setting up media offices at Qatari embassies in foreign countries to address "a series of reports [that] is tarnishing our image."

There are more than 500,000 Indians in Qatar—the largest expat community—and nearly 350,000 Nepalis. Given the large number of Indians in the country, the mortality rate among Indians during the past two years is not surprising, Ali bin Sumaikh Al Marri, chairman of Qatar's National Human Rights Commission, which is close to the government, told AFP. He said a "vested interest lobby" was behind the media campaign against Qatar. ■



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