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## WHERE'S THE SMART ARAB MONEY GOING?

### SUMMARY

#### *Surfing waves of uncertainty*

Arab investors are reviewing their investment strategies as global markets grow more uncertain and oil revenues shrink. Inter-MENA regional investment remains stable. There is a steady flow of new deals being signed. Developing economies have become more attractive with relatively attractive investment climates.

Meanwhile there is hesitation over Europe following Brexit, concern over political stability with a weak Euro and how best to handle mass migration. Bonds are less attractive at a time of low interest rates yet global equity markets are also proving hard to read. The USA is a wild card. Both US presidential hopefuls seem to be willing to consider various forms of protectionism as domestic jobs become the priority.

An underlying concern for Arab energy exporters is the political drive to reduce the world's carbon dependency with the threat of stranded assets. The UAE and Qatar are already looking at non-carbon energy investments while Saudi has announced an ambitious plan to restructure the economy. The hope is that this will reduce their carbon risk exposure while also creating jobs by diversifying. These countries will be seeking foreign investors for some of the big ticket infrastructure plans that are needed as part of the massive restructuring.

Central Asia and Pacific Rim economies have increasingly benefitted from Arab investment on the coat-tails of energy deals. The brake has however gone on as Chinese and Japanese economic forecasts suggest a slow-down for both economies.

Smart investors are therefore looking at traditional areas of real estate, food and similar as bankers in this turbulence. Niche investors are going into areas such as fintech – technical innovation for the financial sector –which is attracting significant UAE investment. The belief is that such companies will benefit as



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financial markets look to reduce their overheads. Healthcare innovation is also attracting investor interest as the healthcare sector expands in the MENA region.

### **Current situation**

Undoubtedly, economies in the MENA region will be the most affected by the global changes in oil markets which have rapidly decreased confidence in the economic stability of the Middle East. Add to this various forms of political unrest throughout the region and civil uprisings in formerly stable countries, foreign investors are looking increasingly wary of continuing to invest in MENA economies. For oil exporting countries, the outlook is dim, especially after the past year – the World Bank's quarterly report released in July, stated that Gulf Cooperation Council (GCC) countries lost \$157 billion in oil revenues last year and is expected to lose another \$100 billion this year, with Saudi Arabia and Algeria similarly seeing their reserves depleted as they struggle to restructure to account for losses.

However, economic growth is stagnating and governments throughout the region are taking steps which were previously considered implausible. Saudi Arabia, which had previously had one of the world's most strict stock markets has made moves to liberalize, and nearly every oil exporting country within MENA is making massive changes to its public sector subsidies and economic balance in order to regain some of the ground it has lost since the 2014 oil price slump which is now reverberating around the region.

## Fiscal Consolidation Measures

(Percent of non-oil GDP, 2015–16)

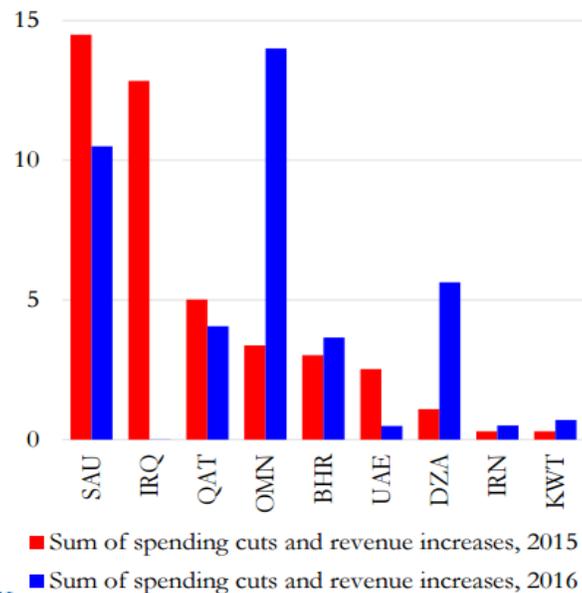


Figure 1 : Fiscal Consolidation Measures, taken from IMF publication, *Middle East and North Africa Regional outlook*, April 25<sup>th</sup>, 2016, [accessible here](#)

In some of these countries, previously unheard of ideas such as introducing VAT and income tax have now been floated as a more sustainable way to maintain current economic growth, in addition to reducing public sector hiring. A report released by Chatham House has suggested that even though the reforms in the economic sector for these countries has been triggered by a slump in oil prices, these reforms are much needed to bring long term stability to these countries and may even be more beneficial than the previous economic model in the long run. Moreover, MENA economies have tended towards the cyclical, with low prices typically shifting back to a normal after a period of uncertainty – however, prices have remained consistently low since 2014, which may have benefitted consumers but by and large has taken its toll on



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producers. This has led to the recent wave of economic diversification which many MENA countries are pursuing, as well as their changes to domestic economic policy. Moreover, OPEC's proposed policy of oil output freeze may be undermined by individual actors in the region, as well as the re-entry of Iran onto the world stage since the lifting of American sanctions – the variety of challenges to be faced are complex, which may be why it has been difficult for intelligence units to accurately predict the state of these economies even in the next quarter.

### **Emerging Markets**

Bosnia (Bosnia as an escape from the heat in the Gulf region) is attracting growing Gulf investment led by Kuwait ranging from a shopping mall to real estate. Cheap prices and a country that is half Muslim is part of the attraction. Bosnian businesses are welcoming this investment in their real estate, and they hope it will translate into long term economic stimuli for the country.

The UAE has increasingly been investing large sums in Georgia, seeing growth potential. Georgia is of geopolitical significance, given its borders with Russia and with Europe. Arab investments have already financed a hotel in Tbilisi with the expectation of further UAE investments in education and real estate.

Qatari, Saudi Arabian and Gulf investors have expressed an interest in increasing their stake in the mining sector in Sudan, gold mining, electricity and solar power are all being explored.

### **Saudi Arabian Restructuring**

Saudi is seen as the country to watch in terms of re-structuring. Recently, Riyadh had announced a National Transformation Plan for economic diversification, known as Vision 2030. In July of this year, the Kingdom experienced its first economic recession since 1998, which has lent urgency to re-structuring and privatisation plans.

Saudi Arabian investors have most recently been looking into technology start ups and ventures, which have also attracted investment from other sovereign wealth funds such as Norway, which had previously been involved in investment in fintech. Deputy Crown Prince Mohammed bin



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Salman recently hosted a dinner in Silicon Valley where he met with various directors and entrepreneurs to whet their appetite in working with Saudi partners.

Saudi Arabia has the largest sovereign wealth fund in the world. Part of its portfolio is now being invested in boosting Saudi Arabia's own IT industry, as well as in ride-sharing service, Uber, which is moving to further expand into Saudi Arabia as part of its overseas market expansion plan in the Middle East. Later in August, the USSABC (US-Saudi Arabia Business Council) will be holding an event to encourage increasing investments from Saudi Arabia, and to stimulate jobs and economic development in the Kingdom itself. Part of the shake-up includes a move to allow foreign investors to subscribe to IPOs, including Aramco, the state-owned oil giant.

### **Technology**

Technology industries have benefitted from increased Arab investments. The attraction has been historic high returns despite the associated high risk of failure.

Another business model that is becoming increasingly popular is crowd funding for equities and for property. Increasingly, GCC countries are invested in venture capital start-ups, particularly within the United States, with Qatar and Abu Dhabi diversifying their investment portfolios by investing in VC funds and start-ups. Many regional funds within the US are specifically looking for HNWIs and family offices to invest in them.

Emirati businessman Mohammed al-Abbar is at the head of an initiative to launch the largest technology fund in the MENA region. This fund plans to invest \$1 billion to boost Arab tech-entrepreneurship. Al-Abbar has also acquired 16 % of Aramex in a bid to launch the largest platform for e-commerce in the Arab world.

Bahraini investment firm Investcorp has acquired a British cyber security firm Nebulas, reportedly as part of its goal to expand into European cyber security and create a large pan- European cyber security firm with access to new markets. In the last 12 months, Investcorp has also signed five new deals in various sectors.



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## Global Market Outlook

Over the last year, Kuwaiti investment in Russian industry has increased significantly. Funds from all the Gulf Cooperation Council Countries are going to be invested in Russia as part of this investment vehicle.

The United Arab Emirates enjoys a strong relationship with China, and will be continuing to invest further in this relationship as the UAE continues to invest in the Chinese Silk Road Economic Belt initiative.

The CEO of Abu Dhabi Securities Exchange, along with other representatives, participated in China Investment Conference 2016, where he emphasized the need for further cooperation. China is set to be an increasing world player in investments as diversification takes place in the MENA region. There have already been signs in the Gulf of a move to reduce overreliance on the USA as the prime trading and investment partner.

Turkey, despite the recent failed coup d'etat, continues to attract foreign direct investment from Gulf countries. Saudi currently contributes 75 % of Turkey's overall FDI.

The Bahraini government's investment arm Bahrain Mumtalakat Holding Company (Mumtalakat) has acquired a stake in a British water company, Envirogen, in a joint venture with two other companies. This demonstrates the Bahraini government's commitment to economic diversification, and also highlights the long history of cooperation between Bahrain and Great Britain. Similarly, Investcorp has also invested in a luxury Italian menswear company Corneliani, and says that they hope to aid the firm's international expansion.