

GCC's integration with Asian financial system will boost resilience

THE ASIAN REGION has benefited from technology transfer, foreign direct investment, exports and, most recently, ample liquidity after the global financial crisis. It saw the headwinds, in large part owing to tighter liquidity as the US Federal Reserve tapered its bond buying programme. As far as the GCC is concerned the UAE and Qatar capital markets had witnessed significant capital flows after their MSCI upgrade in June 2014. The recent drop in oil price witnessed correction in the GCC capital markets and other Asian markets also witnessed correction on account of concerns of global slowdown. Asia has relatively low degree of financial integration. It tend to be more financially integrated with economies outside the region than inside, particularly with regard to portfolio investment. The low degree of financial integration can be accounted for by capital restrictions, which, indirectly, also inhibit overall financial development. The concerns of oil price and possible rate hike by Fed makes the case for more intra-region integration within Asia and the GCC should also be part of it. More financial integration can foster economic rebalancing.

Capital flows and financial integration are an opportunity to start correcting growth imbalances. Policies are needed that improve the allocation of capital and are conducive to harnessing more long-term stable inflows, for example by lowering remaining restrictions on foreign direct investment, promoting private-public partnerships for much needed infrastructure investment, or enhancing the financial infrastructure. With total FDI inflows of \$426 billion in 2013, developing Asia accounted for nearly 30 per cent of the global total and remained the world's number one recipient region. With inflows at \$124 billion in 2013, China ranked second in the world. India attracted FDI inflows worth \$28 billion. FDI flows to West Asia in 2013 was \$44 billion.

China and India have gradually loosened restrictions, and both have plans to continue this liberalisation, which will help savers find more outlets abroad and allow foreign investors to diversify more effectively by buying Chinese and Indian assets. The opening up of the Chinese capital account will be a crucial step in the process of developing the broader Asian financial system. Currently China accounts for approximately 50 per cent of the region's trade, approximately 50 per cent of the region's GDP but a much smaller proportion of the region's cross-border capital flows. Through this process

of financial liberalisation we can expect a dramatic pick-up in intra-regional capital flows. The last Indian budget also gave encouragement for FDI in insurance and defence. Major investors have invested in China and India in recent years. Qatar Investment Authority and Kuwait Investment Authority had invested \$6 billion and \$1.9 billion respectively. Qatar Foundation has acquired five per cent stake in Bharti Airtel for \$1.26 billion.

The GCC is a significant trading partner with countries in the Asian and Pacific Region namely Japan, India, China, South Korea, Singapore, Hong Kong and Australia. The GCC trade with Japan has exceeded \$170 billion last year. India and China, each had trade relationships worth more than \$150 billion last year. The GCC trade with South Korea exceeded \$130 billion last year. The GCC trade with Singapore and Hong Kong exceeded \$60 billion and \$10 billion respectively last year.

5%

stake in Bharti Airtel acquired by Qatar Foundation

Australia's trade with the GCC exceeded A\$10 billion last year. The surging bilateral trade relationships will also further improve the GCC's integration with the Asia financial system.

The use of yuan has been increasing with China having a programme to internationalise its currency by allowing the yuan to be used to settle cross-border trade. Since then, China's trading partners have increasingly been able to use the yuan when paying for imports or receiving payments for exports. The bilateral trade is expanding between the GCC and China and we can expect to increase the usage in yuan. The UAE and China are have a 35 billion yuan currency swap agreement. Recently Qatar also signed a 35 billion yuan currency swap agreement and will also become Middle East's first hub for clearing transactions in yuan. In recent times the GCC has begun to integrate more with the Asian region in the form of trade, investments and other cross border relationships. GCC's integration with the Asian financial system will encourage economic resilience.

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