Economic epicentre shifts eastwards

CAPITAL-HUNGRY NATIONS TAKE THE ROAD TO MIDDLE EAST AND ASIA FOR NEW WEALTH

By Bijan Khezri
Special to Gulf News

With slowing economies looming on the horizon in the United States and Europe, two apparently unrelated events in the financial world are worth connecting to define a policy agenda for future economic growth.

First, the prominent role sovereign wealth funds (SWFs) from Singapore and the UAE have played in the latest multi-billion dollar recapitalisations of subprime crisis-inflicted financial institutions in the US and Europe; and second, the London Stock Exchange raising $30 billion on behalf of foreign issuers in 2007, double the amount raised by non-US companies on the New York Stock Exchange and Nasdaq combined.

Ever since Congress aborted Dubai's control of America's ports operations in 2006, concerns have intensified over the political influence of SWFs' firing power, now estimated to rival the $3 trillion global hedge fund industry, even when excluding foreign currency reserves. But demands for more regulation on both sides of the Atlantic should not lead the debate. Instead, the infrastructure-centric success stories of Singapore and Dubai, the UAE's biggest city, should urge Western politicians to reconsider prevalent fiscal models, avoid over-reliance on short-term monetary policies, and take a fresh perspective on how to best implement policies. Three areas are worth highlighting.

First, the massive infrastructure developments of both Dubai and Singapore are not based on oil windfalls but a public-private partnership model where private capital is the driving force, encouraged by an attractive regulatory framework. The rise of Dubai's ports operations, the very foundation of its growth model, would be non-existent without private finance. Western democracies risk failing on the massive infrastructure investments required to provide satisfactory services in transport, healthcare and education unless the private sector plays a more prominent role. The political agenda should focus on implementing regulatory frameworks that attract private capital.

The American Society of Civil Engineers which audits the US national infrastructure estimated that $1,600 billion of investment is required over a five-year period to bring America's transport infrastructure to an acceptable level. When the US Senate Banking Committee finally starts debating the National Infrastructure Bank Act, introduced by the Democrats last August to create a framework for public-private partnership, Dubai and Singapore should not only be analysed as insightful case studies, but SWF investments should be encouraged. So far, the US presidential debate has consciously avoided addressing the details of financing America's future competitiveness in infrastructure.

> The centrepiece of Dubai's and Singapore's success formula is their corporate approach to running the country. Their approach to governance should inspire reforms of the Western democratic systems.

Second, a globally attractive tax system has been critical to Dubai's as well as Singapore's success. Low or preferential taxation of foreigners is essential to attract expertise and wealth from abroad. As the economic epicentre is shifting eastwards and the individual's global mobility rising, the tax systems of the US and Europe can no longer rely upon the outdated notion that their economies exercise a form of magnetism on global capital flows or, for that matter, their own citizens. The nature of wealth is increasingly entrepreneurial rather than inheritance-related and the individual is becoming more and more the power broker amongst leading economies.

The London Stock Exchange's ability to overtake Wall Street has been critically underpinned by the UK's preferential tax treatment of foreigners. New wealth from China, Russia, India and the Middle East have preferred, so far, London, Singapore and, increasingly, consider Dubai, rather than New York, as a residence and listing venue for their corporate assets. The US' extraterritorial tax system, empowering its authorities to tax US residents and their assets worldwide, effectively shelters America from full economic competition and will compromise the US' ability to attract foreign wealth. As the British Government is projecting changes to foreigners' preferential taxation in the forthcoming budget in April, the UK risks sending the wrong signal when capital inflows may be most needed to avert a severe economic slowdown.

The third centrepiece of Dubai's and Singapore's success formula is their corporate approach to running the country. Their approach to governance should inspire reforms of the Western democratic systems. The pace of the world is increasingly short-term, but governments' abilities to define and execute long-term infrastructure projects is no less urgent.

Impasse

The governance of western democracies, as it now stands, is destined for an impasse as the system of checks-and-balances has turned into a feeding ground for politics' inherent short-term power aspirations. Citizens' satisfaction with the quality and, increasingly, access to basic public services such as healthcare, education and transport is low in most Western democracies. A citizen's political interest and engagement has vanished as the vote, democracy's very foundation, is less meaningful in a system that is best caricatured by a self-aggrandising bureaucracy of red tapes. Election manifestos are in most cases a complex maneuvering to capture the electoral centre-ground.

For obvious reasons, neither autocracy nor one-party democracy is the answer. But democracies should become more corporate and results-oriented in their governance approach. Election manifestos ought to become business plans, and once approved by the legislative, the chief executive has to be fully empowered to carry out the plan, while government spending should be capped as a percentage of gross national product for the governing period. Economic competitiveness and job creation is likely to rise as taxation would fall.

The presently dominant belief that an expansive monetary policy can ward off a consumer-driven recession is short-sighted. At best, interest rate cuts will merely postpone the radical reforms democracies' prevalent fiscal, tax and governance models must undergo to sustainably revive economic growth.

The speed at which places such as Dubai and Singapore, economically non-existent until well into the 1960s, are increasingly re defining the global balance of economic power should be viewed by Western democracies not as a threat but an inspiring warning sign.

The writer is an international corporate financier and co-founder Saphire Finance LLP, a London-based principal merchant bank.