Jean-François Seznec and Samer Mosis
Co-authors
The Financial Markets of the Arab Gulf: Power, Politics and Money

Gulf Affairs: You've recently published a comprehensive book on financial markets across the GCC. What have been the main drivers of the GCC financial markets in the last few decades? What has changed most over the time period that the book covers?

Jean-François Seznec & Samer Mosis: The tempo of development in GCC financial markets over the last three decades, especially since 2000, has in many ways been exponential. It is important to remember that modern banking and finance in the region was largely nonexistent just 30 years ago. Since then, the early growth of some markets like in Bahrain stagnated, while other markets, such as those in Saudi Arabia, once resistant to change and modernization, rapidly expanded through the adoption of modern banking and financial practices. In fact, the region's leading financial institutions, the likes of NBK, ADIA and SAMA, have developed in a manner in line with international standards. Of course, there is still a lot of room for further development, especially in the areas of regulatory alignment, privatization and financial transparency. Nonetheless, coming from zero, GCC countries have now developed sophisticated platforms for real estate, industrial activity and consumer finance, and are home to quickly growing stock markets.

The underlying attempt of the book is to evaluate how these markets have grown over the decades, what factors influenced the development of societies in the Gulf, and how the societies of the Gulf have, in return, left their mark on the markets' form and function. Looking towards the future, we detail how the state-led economic strategy which allowed for growth since the 1970s is now standing in the way of the next evolutionary step in the region's financial market development.

Gulf Affairs: What role do you see capital markets playing in economic development and diversification? Have GCC countries done a good enough job differentiating their capital markets from each other or are they destined to cannibalize each other?

Seznec & Mosis: The banks and the stock markets have a great role to play in lending to the mid-size players, but they are yet to do enough to fully catalyze growth in this area. Indeed, this is where the main growth will take place for the financial players in the Gulf— essentially filling the space state-linked financial institutions have not been able to reach.

As discussed in our book, each of the GCC countries is trying to establish a credible market. Unfortunately, their markets are just too small to even think of competing at the regional level. Unless, as you mention, they can differentiate themselves from a large number of institutions. In fact, most likely, only the market with the largest base, Saudi Arabia, will truly thrive, while the others will merely exist.

Gulf Affairs: You have spent a lot of time modelling potential capitalization strategies for Saudi Aramco. What do you think should be the next steps for the organization and the Saudi government? Do you still expect an IPO or do you think that the government will focus on debt issuance?

Seznec & Mosis: Yes, glad you noticed! We thought it was important to put some numbers on paper regarding the IPO. We do still expect an eventual IPO, and the book discusses at length why it is a likely outcome. Saudi Aramco's recent international debt issuance brought with it the release of extensive financial disclosures. In hindsight, our analysis of the potential value of Saudi Aramco at $2 trillion is very much supported by these disclosures. The purpose of an IPO would be to raise funds, and thus the merger with SABIC will delay any IPO for some time. Still the more significant motivation behind the IPO is the attempt to make the economy more efficient, transparent and reactive. In this regard, delays in the IPO could rightly be seen as a byproduct of the difficulty that comes with this form of change.

If the IPO were never to happen, as many have speculated, it will overwhelmingly be because the country has been unable to progress through the aforementioned challenges. Listing requires transparency, and transparency brings with it additional scrutiny; scrutiny that has the tendency to disrupt sitting balances of power. The notion of transforming the economy from a lumbering state-controlled group of companies to a modern and efficient machine implies that the labor market will be liberalized, with hiring and firing easily arranged and regulations simplified or abandoned. These changes come with costs, and the current leadership is rethinking whether it is a good idea to incur these costs.

Gulf Affairs: What challenges do you see for future capital market development?

Seznec & Mosis: By far, it would be regulatory arbitrage. As we detailed in the book's case studies, the Gulf region has seen repeated instances of unscrupulous business practices, abusing the overlapping or grey areas in regulatory jurisdictions across various financial markets. The events that transpired between Bahrain and Kuwait around Souk al Manakh, and then again a decade later between Bahrain and Saudi Arabia with the Gosaibi and al Sanea banking outfits all represent a form of arbitrage wherein weak intrastate regulatory controls allowed the exploitation of financial markets. To say nothing of the countless investors affected, from a policy perspective the repeated instances of events like these highlight the inability, or unwillingness, of regulatory authorities in the region to establish stringent cross-border controls despite obvious signs and a history of malfeasance.

These issues are still a clear and present danger to the reputation, and thus growth, of regional markets. For the region's markets to achieve their global aspirations, they must incorporate modern transparency and accountability norms. If for nothing else, these norms act as the cost to play in global markets.

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