

## **GCC to invest \$4.2tr locally**

DUBAI — GCC countries are set to collectively deploy \$4.2 trillion within their own borders over the next 14 years as their focus increasingly shifts from overseas to domestic investments, a report said.

Signalling a strategic shift in GCC's global investment pattern, the new trend suggests that a growing share of the enormous oil wealth will be invested in local financial markets to spur regional development. The latest research from the McKinsey Global Institute (MGI) said the six GCC countries, emerging as global financial powerhouses, will nevertheless continue to invest trillions of dollars beyond their borders as they pass through a period of unprecedented economic boom spurred by skyrocketing oil prices.

'But the funds that flow into global markets will be invested differently in the future than in the past.'

'If the GCC states continue to increase their domestic investments by the rate prevailing since 1993 — 6.1 per cent annually — by 2020, their cumulative domestic investment will reach \$3.2 trillion, or \$230 billion a year. However, if the domestic-investment rate for the GCC rise to 28 per cent of the GDP in line with what other fast-growing economies have sustained over a 15-year period, the region's oil exporting countries would collectively deploy \$4.2 trillion within their borders over the next 14 years — a 7.4 per cent annual increase,' said the MGI research.

Since 1993, GCC investment rates have averaged 20 per cent of the GDP, on par with European and US levels but almost one-quarter lower than the 24 per cent average investment rate of Brazil, China, India, and Russia combined. Private investors in the region currently hold an estimated 25 per cent of their portfolios in local financial products, up from 15 per cent in 2002.

But oil revenues, which are not invested locally, will spill over into global capital markets, the research said. 'If oil lingers at above \$100 a barrel and domestic investment stays at historic levels, the GCC would send \$5.1 trillion in new funds into world markets over the next 14 years, boosting these countries' total foreign wealth to \$10.5 trillion by 2020.'

According to Dubai-based investment analysts, the increasing trend towards local investments and a new GCC foreign investment strategy are bound to affect interest rates, liquidity and financial markets around the world.

MGI research estimates that exports of crude oil will earn these states \$5 trillion to \$9 trillion from 2007 to 2020 and that they will invest 30 to 60 per cent of their oil windfall abroad.

'Oil prices will determine the volume of wealth the GCC states will have available to invest. At current prices, floating above \$100 a barrel, they would earn more than \$9 trillion in 12 years.'

