DEVELOPING COUNTRIES AND PETRO - CAPITAL BANKING

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Developing, and especially least developed, countries, are increasingly facing serious economic and financial problems while trying to realize their developmental goals. Structural bottlenecks in their economies continue to exist and these have even become more serious. Low production and income levels, unequal distribution of existing wealth and resources, high unemployment, unfavourable terms of trade, continual deficits in the balance of payments, the lack of financial capacity in repayment of external debts and a declining ability to raise new loans, are only some of the existing items in the list of problems which face almost all the developing countries.

According to the definition of the United Nations 31 countries among its members are classified as "least developed countries" (L.D.C.). Special development policies and aid programmes are designed to help these very poor countries. 16 countries out of these L.D.C. are at the same time member of the Organization of Islamic Conference (O.I.C.). O.I.C. has altogether 41 members of which 9 are O.P.E.C. members and 16 are middle income range.

But using other socio - economic indicators with the definition of U.N. we can observe that the number of L.D.C., among Muslim countries, can increase and reach 21. Like in the case of other L.D.C. in these 21 Muslim countries the share of industrial sector in their gross domestic product is negligible, in fact mortality and illiteracy rates are very high. According to the latest available figures from the World Bank, United Nations and individual country reports for gross national product (G.N.P.) during 1980 per head per year it ranges from $ 120 to $ 480 for these 21 countries. The least developed Muslim countries and their per capita income are :

TABLE 1

G.N.P. Per Capita For Least Developed Muslim Countries 1980

Countries	US $	Countries	US $
1 — Chad	120	12 — Comoros	300
2 Bangladesh	130	13 — Uganda	300
3 — Somalia	140	14 — Niger	330
4 — Guinea Bissau	160	15 — Sudan	410
5 — Mali	190	16 — Yemen PDR	420
6 — Upper Volta	210	17 — Yemen AR	430
7 — Gambia	250	18 — Indonesia	430
8 — Maldives	260	19 — Mauritania	440
9 — Sierra Leone	280	20 — Senegal	450
10 — Guinea	290	21 — Djibouti	480
11 — Pakistan	300		

Islamic countries not among the least developed have either realized a certain degree of industrialization (such as Turkey - $ 1470; Syria - $ 1340 and Jordan - $ 1420) or are oil - exporting ones (such as Saudi Arabia - $ 11,260; Libya - $ 8,650; Kuwait - $ 15,850 and United Arab Emirates - $ 26,850).

To overcome their problems in economic development these countries have to mobilize enormous financial sources in the decade of the 1980's :

"The acceleration of production will require that gross investment reaches the level of about 28 per cent of gross domestic product by 1980. The developing countries, therefore, must fully mobilize their domestic financial resources. The this end, for developing countries, in general, gross domestic saving should be increased to reach about 24 per cent of gross domestic product by 1980. The developing countries that have a saving ratio of less than 15 per cent should make vigorous efforts to raise it to 20 per cent as early as possible. The countries that have or will soon have a saving ratio of 20 per cent should raise it significantly during the Decade.

The rising investment and imports needed for an acceleration of growth commensurate with the attainment of the goals and objectives of the International Development Strategy require a substantially greater flow of financial resources in real terms to developing countries." (International Development Strategy For the Third U.N. Development Decade).

Faced with this vital necessity for their development plans on the one hand, the developing countries on the other were placed between two fires. During the last decade the enormous rise in the price of oil was accompanied by a similar rise in the price of industrial products. Most of the developing countries could not and are still not able to pay their import bills of petroleum products. They had to search for new sources of external borrowings. In sharp contrast to this, the enormous liquidity surpluses of the oil rich developing countries were being channelled to the already developed industrial countries of the nothern hemisphere.

In fact, faced with continuous increases in oil prices since 1973, these industrialized countries have acted rapidly and systematically to recycle the surplus capital of the OPEC economies. The recycling mechanism has basically taken the following forms :

a. Significant increases in the prices of industrial products.

b. Substantial increases in the exports of major oil importing countries to the OPEC Countries.

c. The flow of liquid funds held by OPEC Countries to the financial institutions of the developed countries.

The success of these policies is confirmed by the huge flow of OPEC's surplus funds to the bany vaults of the developed economies. Although the oil exporting countries have been involved in large infrastructure investments for some time, these investments have not yet rendered a self - reliant socio - economic structure, neither at the national nor regional level. Thus, economic and financial conditions for a perpetuation of recycling continue to exist.

A recent development has both institutionalized and added a new impetus to the recycling mechanism; the initiation of petro - capital banks established by financial institutions of advanced Eurupean countries. Indeed, during the last ten years, the number of Arab banks established pointly with western financial institutions have increased rapidly. These banks have set up consortiums with the banks of developed countries and have expanded their operations in both oil exporting and importing countries. Thus, Occidental-Arab consortium banks that have now assumed a multinational character have begun to play an ever increasing role in the recycling of petro - dollars. Moreover, the internationalization of other petro - capital Arab banks is also gaining momentum.

Banques Franco - Arabe d'Investissements Internationaux(FRAB Bank International) established in 1969 in Paris was one of the first Occidents - Arab consortium banks. The primary share holders of this bank are the Kuwaiti and other Arabian financial establishments as well as French, Belgian, Swiss, Japanese, Dutch and Greek banks.

Moreover, the shareholders of FRAB bank established in 1974 in Luxembourg an investment holding and an offshore bank in Bahrain in 1978. Total assets of the FRAB amounted to $ 1.300 million by the end of 1980. Some of the better known banks of the Arab - Occidental Consurtium are presented according to the date of establishment, on the following page :

TABLE 2

Some Consortium Banks

Name of the Bank	Location	Date of Establishment
FBAB, Bank International	Paris	1969
UBAF, Union des Banque Arabes et Francaises	Paris	1970
European Arab Holding	Luxembourg	1972
BCCI, Bank of Credit and Commerce International	Luxembourg	1972
BAIL banque Arabe et International d'Investissement	Paris	1973
SIB, Saudi International Bank	London	1975
Banco Arabe Espanol	Madrid	1975
Arab Hellenic Bank	Athens	1979

Naturally, besides these there are many other western banks whose shares have been purchased by Arab banks or individuals in possession of petro - dollars.

The Saudi International Bank (SIB) mentioned above has been established by the Saudi Arabian Monetary Agency which holds 50 % of its equities. The Morgan Guarantee Trust, Banque National de Paris, Deutsche Bank, Union Bank of Switzerland and the Bank of Tokyo Ltd. are some of the other major share holders. The value of total assets of the SIB was close to three billion dollars by the end of 1980. The basic function of this bank is to invest the surplus public funds of Saudi Arabia in abroad. Besides consortium banks there are also many international investment corporations established jointly by these banks and the banks of developed conutries. As an example, the western partners of one of these corporations, Compagnie Arab et International d'Investisement is stated below. Non - Arab partners : Societe Financiere Europeene, Luxembourg; Osterreichische Landerbank, Austria; Banque Bruxelles Lambert S.A., Belgium; Banque de Paris S.A., France; Dresdner Bank A.G., Germany; Banca Nazionale del Lavoro, Italy; Algemene Bank Nederland N.U., the Netherlands; Banco Central, Spain; Union Bank of Switzerland, Switzerland; Barclays Bank S.A. Brazil; Development Bank of Singapore, Singapore; The Sumitomo Bank Ltd., Japan.

It is possible to give several examples of these petro - capital banks operating between oil rich Arab countries and industrialized economies in the developed regions of the world. But these examples will indicate that rich help rich to increase each others'e wealth even further. As a Turkish proverb goes, money attracts money. Indeed, this revent system of recycling will worsen the existing financial and economic inequilibrium prevailing in the world. International funds flow not to those developing of undervedeloped countries genuinely in need of finance but to those countries that are already developed. Petro - capital banks play a major role in perpetuating this inequilibrium. The Banks of industrialized countries established close relations with petro - capital banks and they jointly established new banks. These banks tried to attract the funds from oil - rich developing countries and one can say that they have been partly successful. Given this state of affairs, one can say that the channelling of available funds in developing countries into the banking system of developed countries is in open contradiction with development philosophy.

In order to create a more just world economic order this situation has to change. "Efforts should be made to encourage an increase in net flows of non - concessional capital which is required for the over - all financing needs of the developing countries, taking into account their national plans and legislations.

In order to create conditions more favourable to the development of the developing countries and the growth of the world economy in general, efforts to increase the responsiveness of the international monetary system to the needs and interests of the developing countries should be intensified through further reform of the system to be pursued and carried out expeditiously early in and throughout the Decade to the benefit of the entire international community" (International Development Stragey for the Third United Nations Development Strategy).

The expansion of Islamic Banking, new development in the domain of banking, in general, and, in the Middle - East banking, in particular, seems to constitute a reform in the classical banking system at large; in view of the tact that as a result of this new banking concept and with regard to its actual implementation, the available funds are invested mostly in the projects of developing countries. Islamic banking system is creating, in practice, more favourable conditions for financing development projects of poorer nations. In their very philosophy, on which they are based, these banking institutions are meant to invest their funds in the developing countries which, by definition, need capital resources. Some of the Islamic Banks are shown in the table below. They are presented according to their date of establishment.

TABLE 3

Some Islamic Banks

Country	Name of Bank	Date of Establishment	Share Holders		Authorized Capital
1. Egypt	Naser Social Bank	1971	Government	100 %	40M US $
2. U.A.E.	Dubai Islamic Bank	1975	Dubai	10 %	50M Dirhams
			Kuwait	10 %	
			Private Share Holders	80 %	
3. Sudan	Faisal Sudanese		Sodanese	40 %	10M S. Pounds
	Islamic Bank	1977	Private Saudis	40 %	
			Other Arabs Private	20 %	
4. Kuwait	Kuwait Finance House	1977	Private	51 %	10M K. Dinars
			Public	49 %	
5. Egypt	Faisal Islamic Bank	1978	Egyptian	51 %	40M US $
			Others	49 %	
6. Jordan	Jordan Islamic Bank for		Private Share Holders	98.7 %	4M J. Dinars
	Finance and Investment	1979	Housing Bank	1.3 %	
7. Bahrain	Bahrain Islamic Bank	1979	Islamic Dev. Bank	13 %	20M Bahrain Dinars
			Kuwait	17.4 %	
			Kuwait Finance House	8.7 %	
			Dubai Islamic Bank	4.4 %	
			Private	37.7 %	
			Bahrain	10 %	
8. Sudan	El-Tadamon Islamic Bank	1981			20M Sudanese Pounds

This new banking system is expanding and every year new Islamic Banks are founded. Recently, in 1982, Faisal Islamic Bank was established in Turkish Federated State of Kıbrıs.

Islamic Development Bank (IDB)

Certainly, the developing countries are in need of more financial institutions which will transfer available funds from rich countries to their economy. The Islamic Development Bank, in Jeddah, is a living example of such an institution, and plays an important role in assisting the socio - economic development of a large number of developing countries. The I.D.B. was established by the decision of a Conference of Finance Ministers of Muslim countries held in Jeddah. The inaugural meeting of the Board of Governors took place in July 1975 and the Bank formally opened in October of the same year. At the time of the Bank's inauguration, the number of member countries of the Bank was 22, and in 1983, this number reached to 42 States.

The primary objective of the Bank is to participate in the financing of development projects of those of its member countries which are facing problems in this regard. The Bank extends technical assistance to poorer countries and finance foreign trade operations in view of socio - economic development. Total operations approved by the Bank since its establishment until the end of 1402 Hegira Year (1981 - 82) amount to Islamic Dinar (ID) 2,318.45 million (or US $ 2,831.81 million). (The value of the Islamic Dinar, which is a unit of account in the Bank, is equivalent to one Special Drawing Right of the International Monetary Fund.) The following Table shows the type of operations and the total financing of the Bank :

TABLE 4

Total Approved Financing of the IDB Since Estalishment (*)

Type of Operation	Number of Projects	Amount (I.D. Million)	%
Project Financing	122	712.75	30.7
Technical Assistance	34	18.22	0.8
Foreign Trade Financing	145	1,587.48	68.5
TOTAL	301	2,318.45	100.0

(*) Excluding cancelled of withdrawn operations.
Source: I.D.B. Seventh Annual Report 1402H. (1981 - 1982), Page 52.

The President of IDB, Dr. Ahmad Mohamed Ali, gave the latest available total figures in his address during the inaugural session of the Seventh Annual Meeting of the Board of Governors held 1-2 March 1983 in Jeddah :

> "If the operations approved during the past few months of 1403H (1982 - 1983) are added, the aggregate number of projects, technical assistance and foreign trade financing operations from the commencement of the Bank's financing activities until this date became 327 operations in 39 member countries for a total sum of ID 2,539 million, i.e. (U.S. $ 3.070 million)".

If we examine 42 member countries of Islamic Development Bank we will observe that the majority of them are in the process of economic and social development. As it is indicated in Table 1 half of the member countries are among the least developed ones in the world. The Bank is involved in contributing to the financing of the development projects of these developing economies, with the resources at its disposal. The authorized capital of IDB is 2 billion Islamic Dinars. The major shareholders are Saudi Arabia, Libya, Kuwait and United Arab Emirates. The distinct characteristic of the Islamic Development Bank is emanating from the fact that its funds are wholly devoted to assisting the development efforts of developing countries. Certainly, as is the case with innumerable other financing institutions, there is a need to increase the resources of IDB and size of its operations, in order to make more contribution for the development of its members.

As a conclusion it seems that Islamic banking represents the commencement of a socio - economic reform in the classical banking domain and also a breakthrough in correcting the deviated systems of international banking in view of their contribution to the development of poorer coutries. Through Islamic banking system the large liquidity surpluses of the oil - rich conutries can be channelized, to a considerable extent, to the developing economies. In doing so, international monetary system can be more responsive to the needs of these poorer countries.

SOURCES :

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