

**The global financial crisis and how to
address it**

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Introduction

The main concern of this paper is not to talk about the causes and repercussions of the current financial crunch since it became a consumed topic, tackled in so many websites, programs, books...etc, but to discuss how to manage and secure the Arab Financial system against any similar dilemmas or the consequences of the global crisis. So this paper will deliberate the following issues:

- **Firstly:** the Arab economic ideology
- **Secondly:** Moral economy
- **Thirdly:** the negative aspects of linking the Arab Economy with the Western one.
- **Fourthly:** the features of Moderate financial banking system
- **Fifthly:** characteristics of the financial market development

Firstly: The Arab economic ideology

For many reasons, some Arab States applied the capitalist system that based on economic liberalism and represented in market freedom, country's neutral and limited performance role in managing the economic activity, and releasing the market forces that have the ability to organize and systemize its own self.

Other Arab countries adopted the socialist system based on central planning, collective ownership and shrinking the individual's role in the economic activity.

Separating morals and values away from the economic activities is the only doctrine that has been agreed upon by the ideologies of capitalism and socialism. As a result, the socialist system has gone with the wind and flopped conceptually and practically, bringing the Arab States which applied it down and failed to achieve development and social justice.

After changing its beliefs so many times to face the failures that experienced, capitalism admitted its relative failure and incorrect assumptions. Furthermore the Arab states that have taken it as approach lost the ground and failed to achieve the desired objectives of economic development and welfare, affected by the economic crunches.

Out of the logic of things, both two systems have some advantages that history cannot ignore as well as some disadvantages that cannot be hidden by mere embracing one of them. If we acknowledge this thinking, liberating from Strict sectarian ideological complex and benefiting from the positive sides of every system exceeding its negative approaches

through instinctive moderate approach away from religions, races, and partisanship become must needs.

I don't like to stereotype the views and statements of western senior economists, businessmen and politicians who are calling for the necessity of reviewing the existed capitalism system comprehensively and conforming it to more moral and regulatory controls in addition to the initiatives that contribute to settling the principles of social justice.

It is the ripe time for the Arab States to put a moderate economic approach for themselves based on basic foundations as following:

- The right of individuals to own and manage factors of production, and preparing the appropriate atmosphere for them to be able to create.
- Giving priority to the community interest in case of any contradiction with the individual's benefits.
- Avoiding the activities that might harm the others or society.
- The Optimal use of available resources
- Securing the poor and the weak
- Achieving social justice
- Developing the controls and fundamentals that accomplish the benefit and following its application.

Through this balanced approach, we will be able to manage our economy without any crisis or troubles. It will give a chance for the creators to create and restrain the whims of the Manipulators and the selfish. It will be an important and necessary typical embodiment for the Arab economic Ideology in the field of managing banks, financial markets, commodity markets, reform initiatives, and poverty alleviations.

Secondly: Moral Economy

The economy must be established on the bases of morals, values, lofty principles to achieve the needed balance among the actors of the economic activities whether they are institutions or individuals and to prevent injustice and aggression on the others' rights. By this way we will be able to avoid lots of negative impacts resulted in the individual's endeavor to achieve his own interest without taking the community into consideration. By adopting the moral values in the economic practices, the balance will occur between producer and consumer, lesser and lessee, and between the worker and business owner... Etc.

Managing the economic activities away from human moral values was one of the most drastic reasons of aggravation the financial crisis. We will prove this through many evidences including:

1. The spark of the crisis triggered from USA due to its pursuit of profit and rapid expansion by any way in light of fierce competition among major financial institutions. As a result, lending volume increased compared with deposit volumes, so signs of faltering and declining in the liquidity ratio began to emerge.
2. The natural outcome of the desire to get more quick profits, the fundamental principles of banking finance including the ability to pay, balancing between risk and profitability in addition to maintaining the continuity and stability were ignored.
3. Many analysts attributed the crisis to short selling, the derivatives and similar transactions (zero) that necessitate the loss of one party, if the other wants to gain profit. Such dealings contradicted with the moral values that people should apply in their business life. They convert the economic activity into area of gambling under the pretext of the financial assets circulation leaving no chance for mutual giving or joint efforts.
4. Working according to moral values and principles leads to sharing burdens and revenues of the economic activity. In case of violations for this trend, the principles of equity and balanced relations will be confused. Domination of selfishness and greed, trying to gain quick profits by unfair relations, absence of vision and direction, total disregard of the disastrous impact that lead humanity to the edge of the abyss were among the reasons of emerging crisis.
5. The financial crisis reflected the behaviors of the individuals and economic institutions including: assessing values of the loan guarantees, the role of bribes and mutual interests in taking decisions of granting funds and bids, the processes of monopoly, fraud, and corruption in the agencies of ratings and feasibility studies. Some International Monetary Fund's studies have shown about 300 billion dollars, the value of economic losses due to bribery in the Arab States.
6. Both global and Arab economies are in a bad need sovereignty of values and moral controls for achieving justice, stability, and instilling confidence in all economic activities. These values must be implemented by putting them in an integrated and clear approach, working according to the movement of every single detail of society especially the curricula of all stages of the school and faculties, civil society organizations, and professional associations (commercial).

The Islamic Chamber of Commerce and Industry (ICCI) has developed a plan for settling the morals and ethics in the economic practices.

Thirdly: the negative aspects of linking the Arab Economy with the Western one.

Firstly, I would like to say that any economy cannot be isolated from others in light of globalization of economic activity, but this does not mean to expose the Arab economy to the external undesired impacts.

Conforming the Arab economy to the western especially in the fields of banking, financial markets, insurance and the absolute similarity between the institutional structures of banking systems, and financial systems have affected the Arab economy negatively and imposed lots of losses without giving any room for choice. Among these signs are:

1. The danger that the Arab funds became involved in whether in the banks, the financial markets or even in the western governments in the form of treasury bills, government bonds, especially the sovereign funds and investment portfolios and bank deposits.
2. The financial markets of the Arab States have been affected badly since their indicators have declined and lost their clients, some investment funds have been liquefied, and many securities firms have gone bankrupt.
3. Emerging signs of stagnation followed by increasing the rate of unemployment and reducing the rate of consumption and savings.
4. Freezing granting personal finance and facilities
5. Despite the relative success of the companies that are in the Arab region, the real sector was affected by what happened in the financial sector due to the collapse of their shares on the Stock Exchange and because of declining global demand and lack of liquidity.

All these were headlines for the drastic negative impacts of the financial crisis on the Arab economy, putting into account that the crunch is still in its beginning, and its bad effects globally and regionally have not been calculated yet.

What I would like to stress on is that in case of submission of any economy to another commander managing its systems and application, it will appear naked and exposed to the repercussions of any crisis for the leader economy. The current crisis has shown that the more the economy

is linked to the Western economy, the more affected by the crisis and vice versa.

"We are paying the price for big mistakes committed by some countries and the United States came on the foremost", Russian president said

"Because of the global financial crisis, the developing countries are going to face hard times" Zoellick, President of the World Bank said

In short, the Arab economies should have some kind of privacy and independence from the Western economies so as not merge thoroughly into them as what is happening now in order not to move the infection of the Asian and South American States to our Arab region and to avoid the fierce financial troubles.

Thus, after mentioning the basic groundwork, namely:

Firstly: the necessity of creating moderate economic ideology in the Arab World.

Secondly: surrounding the region economic activity with a fence of ethics and morals.

Thirdly: securing the Arab financial system against any harmful impacts.

Now we will turn to the second part which highlights the features of the moderate system in this field:

- Banking business
- Financial markets

Fourthly: the characteristics of the moderate financial banking system

It is well known that one of the fundamental causes of the crisis is the current banking system with its mechanisms including interest prices based funding, creating economy burdened with loans and trading, securitization, scheduling and insurance the debts. The Arab world experiences a new stage requiring from the banking operating in it more responsibility in the fields of economic development, supporting the real economy, and creating added values.

I would like to refer to the features of the moderate banking system briefly, hoping to be applied by all the Arab States' banks so as to contribute to the development and avoiding the imported crisis.

1. Depending on The foundations of investment and commodity in allocating the resources relying on economic viability and efficiency not on the financial solvency, and considering the profit rate as an indicator for managing the banking investment not as interest rate.
2. Establishing banking system on the basis of participation in profit and loss, actual trading of funds and assets, finding effective partnership among the owners of funds and experiences in addition to sharing the revenues according to fair foundations.
3. Cutting the size of banking finance dependence on debts especially in the following fields:
 - debt rescheduling at higher interest rates
 - trading in debt
 - debt insurance market
 - Debt Securitization
 - Using debt guarantees to derive new debts
4. **Control all means and transactions** that lead to increase in the individual's consumption over their financial capacity, especially in the following spheres:
 - credit card without a balance
 - auto loans and consumer goods
 - Cash loans, "liquidity" without knowing how to use them or verify them
5. Control the real estate financing according to the capacity of the borrower, the project feasibility, the estimates of prices and the expected returns.
6. Prevention of relying on credit rating agencies in assessing the international banks that are working with them.

7. Stimulating savings that are directed to short and long term investments in the productive projects.
8. Developing flexible control and supervision system on the investments of the Western Banks, and not to consider the Western institutions as safe shelters and competent.
9. Financing the real sector according to investment map for the Arab States in light of appropriate policy to guarantee free movement of production factors amongst the Arab States easily.

Fifthly: the main crucial features of the financial markets in the Arab States

The financial markets play an effective role in addressing the problem of scarcity of capital, so we are in a bad need for such markets for achieving economic development.

This need is a reflection for the prevailed economic and social conditions. So it is not useful to imitate the model of Western nations because it emerged as a result of development of the capitalist economy and harmonized with their mechanisms and capital environmental conditions, and it cannot be instilled successfully in a different environment.

In Sum, any study on the financial markets of any society should take the moral, social and economic dimensions of this community into account; otherwise the study will be insulated from reality and the true power of that society.

The most important desired features of the Arab financial markets are represented in:

1. Focusing on the economic development plans that depend in its financing on partnerships, local markets, the surplus that can be collected and used properly, establishing and developing the institutions that collect it instead of concentrating on borrowing from international organizations and the movement of foreign capitals for its high burden and unfair conditions that don not conform with the national economic interests and the priorities of the developmental plan.
2. Focusing on designing the bodies, programs and bylaws of the financial market in an aim to give the priority to the real production activity without any speculations, risks or faked activities.
3. Accomplishing all transactions of the financial markets in a high degree of efficiency, honesty and justice for securities pricing, clarifying the true financial positions of companies sincerely,

disseminating and possessing the information for all dealers, keeping the operations of deception, fraud and the dissemination of rumors and monopoly aside preventing the fake auctions in which prices are reduced and increased without any economic justification.

4. Seeking to set a crucial role for the investment banks in finding investment opportunities to be invested, expanding the base of both the primary market and exporting securities, and preventing the expansion of commercial banks' role in the secondary market so as to lead to financing speculators and increase inflationary pressures on the prices of securities.
5. Paying due attention to the primary market by facilitating the procedures of establishing the projects and companies that have positive effects on the national economy, granting them tax and tariff exemptions, and ensuring the distribution of their shares on the largest possible number of individual savers from staff, farmers, workers and students.
6. Selling securities with full cash cover and not to trade on margin.
7. Intervention is a must in cases of raising the shares without solid base compared with the real realized profits and the nominal value.
8. Preventing speculation in the stock market after:
 - Putting scientific and quantitative identification for the concept of speculation.
 - Developing standards for every performance in the market is considered a manifestation of the speculation.
9. Preventing Short-selling "short sales"
10. Preventing all the kinds of financial derivatives.