



Global Risk

Wednesday, April 29, 2009

11:00 AM - 12:15 PM



Today's speakers

Asim Hussain, *Adviser to the Prime Minister of Pakistan on Petroleum and Natural Resources*

Joel Kurtzman (Moderator), *Senior Fellow, Milken Institute; Executive Director, SAVE*

Jami Miscik, *Vice Chairman and President, Kissinger Associates*

Karen Monaghan, *National Intelligence Officer for Economics and Global Issues, National Intelligence Council*

Jean-Louis Scandella, *Emerging Markets Fund Manager, Comgest Group*

Worldwide recession in 2009

Projected key figures

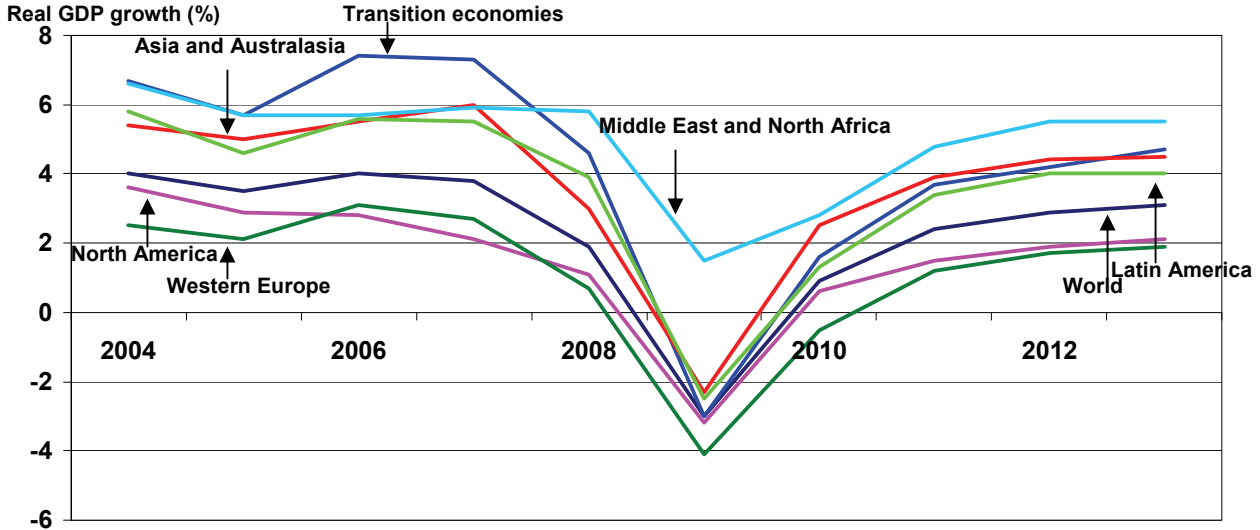


MILKEN INSTITUTE

Real GDP growth (PPP exchange rate)	2009	2010
World	- 1.8%	1.9%
OECD	- 4.0%	0.2%
Non-OECD	1.3%	4.2%

Source: The Economist (Global outlook, May 2009)

World growth is taking a sharp, synchronized dip in 2009



Source: The Economist (Global outlook, May 2009)



WE ARE AL-QAIDA! WE WILL CRUSH THE SATANIC
INFIDELS AND THEIR MATERIALISTIC OBSESSIONS!
WHAT'S THE HOLDUP ON OUR NEXT OPERATION?

WE CAN'T
GET CREDIT!







“Looks ominous . . . these satellite photos show terrorism recruits being trained to write credit default swaps.”



7-7-08

Political risk estimates for BRIC countries

2008

Worst

Overall Rank	Country	Government Stability	Socioeconomic Conditions	Investment Profile	Internal Conflict	External Conflict
1	Somalia	5.5	0	2	3.5	4
30	India	6	5	9	7	10
69	Brazil	9	7	8	10	11
78	Russia	11.5	7	9.5	8	8
83	China	11	8	7	10	10
93	United States	7.5	8	12	10.5	9.5
140	Luxembourg	10	9.5	12	12	11.5

Best

Lower number = more risk; all estimates max. 12 points

Source: PRS Group International Country Risk.

Political risk estimates for BRIC countries

2008



MILKEN INSTITUTE

Country	Corruption	Military in Politics	Religious Tensions	Law and Order	Ethnic Tensions	Democratic Accountability
India	2.5	4	2.5	4	2.5	6
Brazil	2	4.5	5.5	4	3	2.5
Russia	2	4	6	2	3	5
China	2.5	3	5	4.5	4.5	1.5

Lower number = more risk; all estimates max. 6 points

Source: PRS Group International Country Risk.



Two types of global risks

- **Large-Scale, Low-Frequency Risk**

Large-scale risks (earthquakes, revolutions, etc.) are dramatic and rare, but capture attention.

- **Small-Scale, High-Frequency Risk**

Small-scale risks are everyday occurrences and *are the real bane of business. For business, this is where the real costs lie.*



The impact of small-scale risks is big

While all eyes focus on the large but rare risks, businesses must watch out for the real risks that cost money and time.

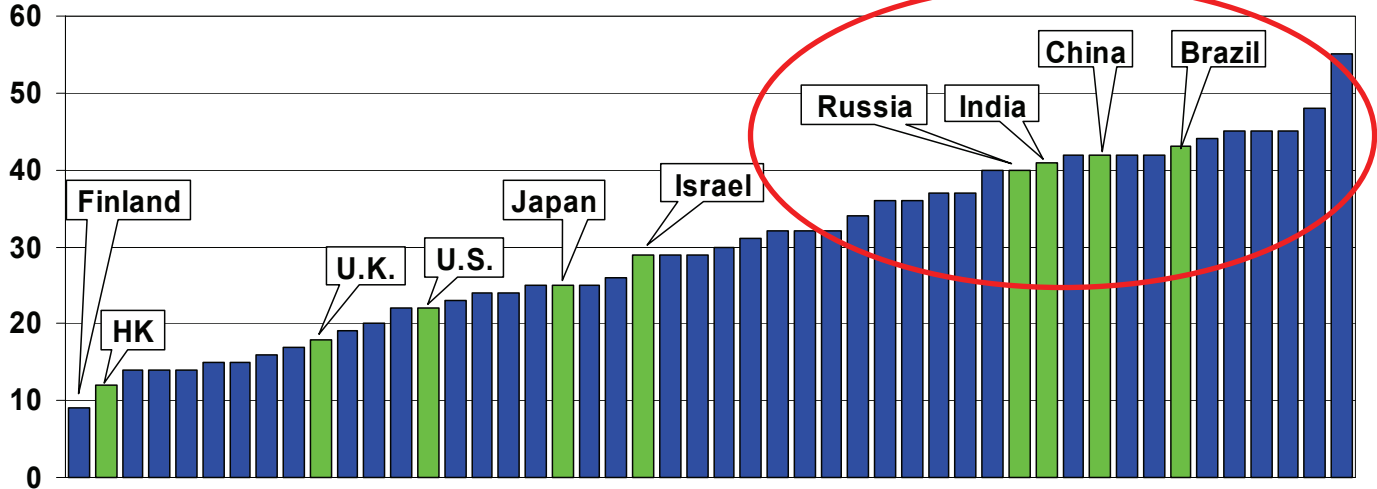
- **C**orruption
- **L**egal systems with limited protections
- **E**conomic policies that hinder sustained growth
- **A**ccounting and governance standards that make it difficult to see inside companies
- **R**egulatory systems that fail to protect investors

These five (**CLEAR**) factors are sand in the gear of commerce. They are the “everyday risks” of being a global business.

BRIC economies are highly opaque

Opacity Index, 2008-2009

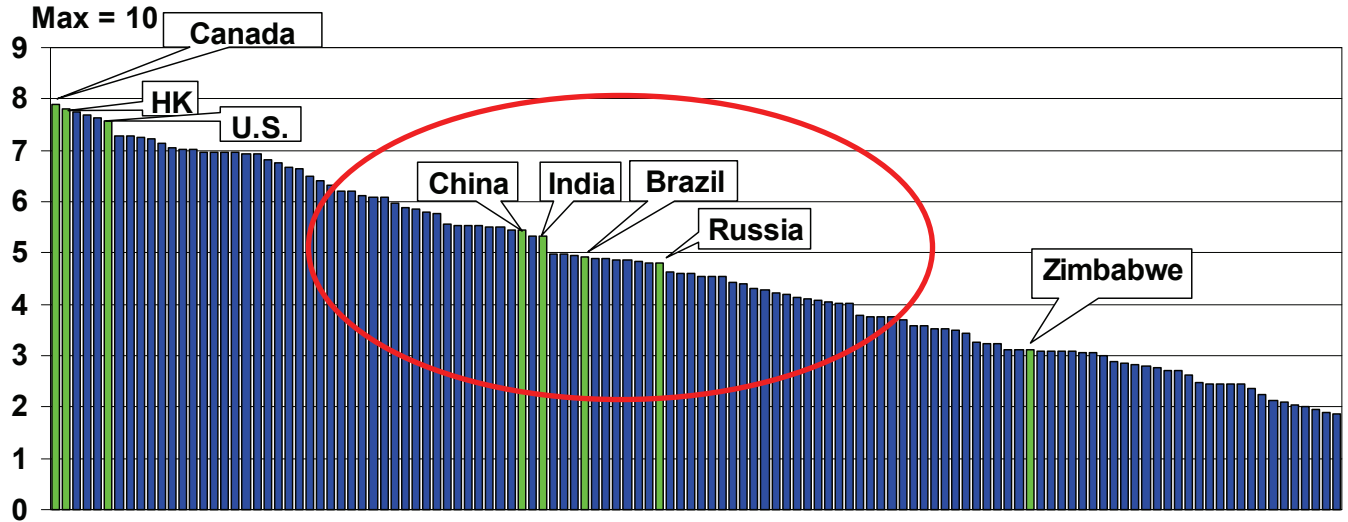
Higher scores denote more opacity



Source: Milken Institute.

Capital Access Index, 2008

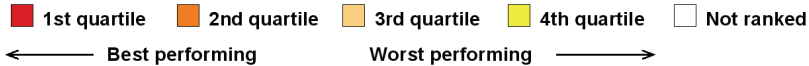
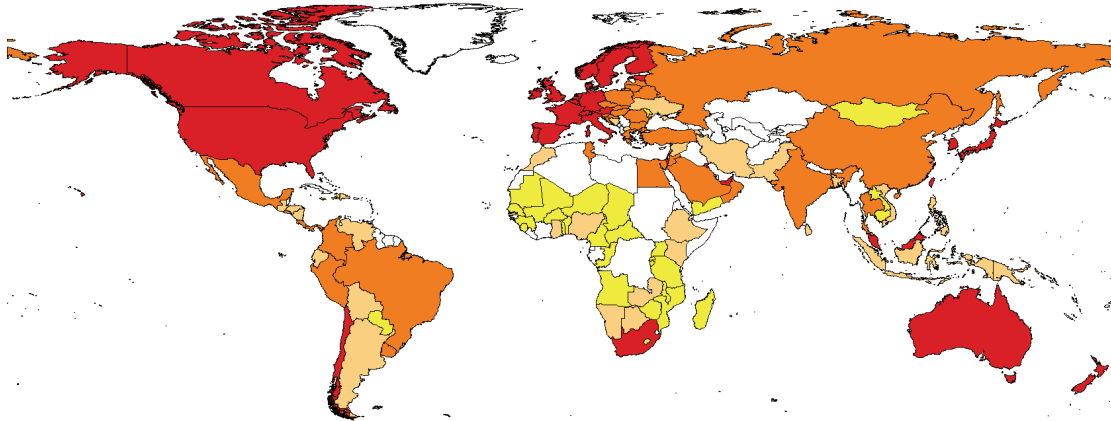
Gauging entrepreneurial access to capital



Source: Milken Institute.

Capital is scarce in developing countries, especially in Africa

Capital Access Index, 2008



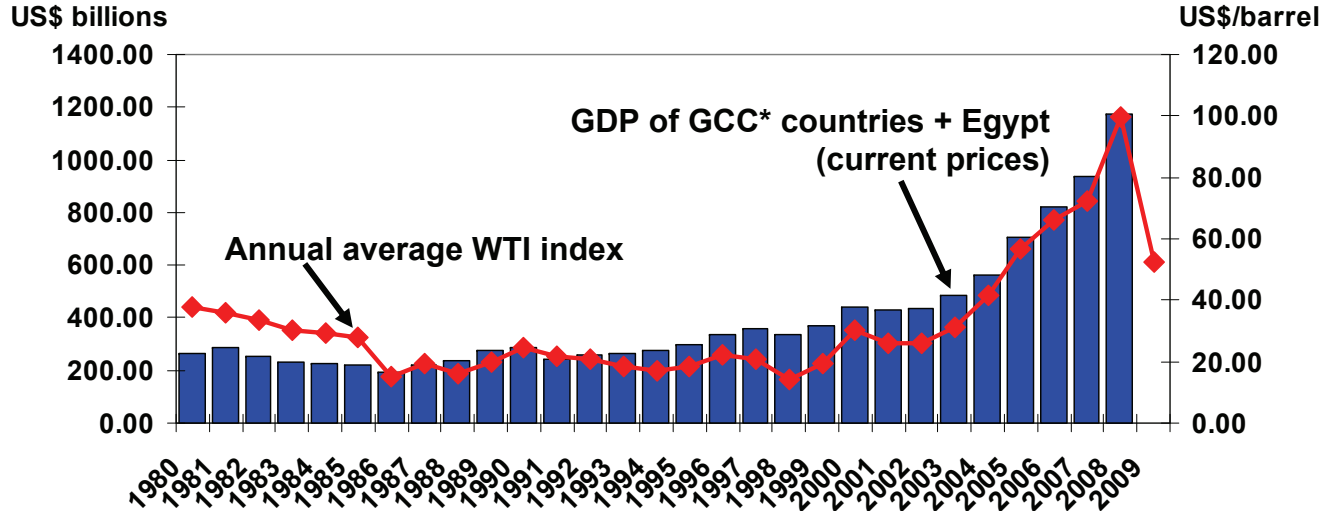
Source: Milken Institute.

Will the drastic drop in oil price affect the Middle East and global security ?



Source: Datastream.

Stunning co-movement of oil prices and GDP in Middle Eastern economies

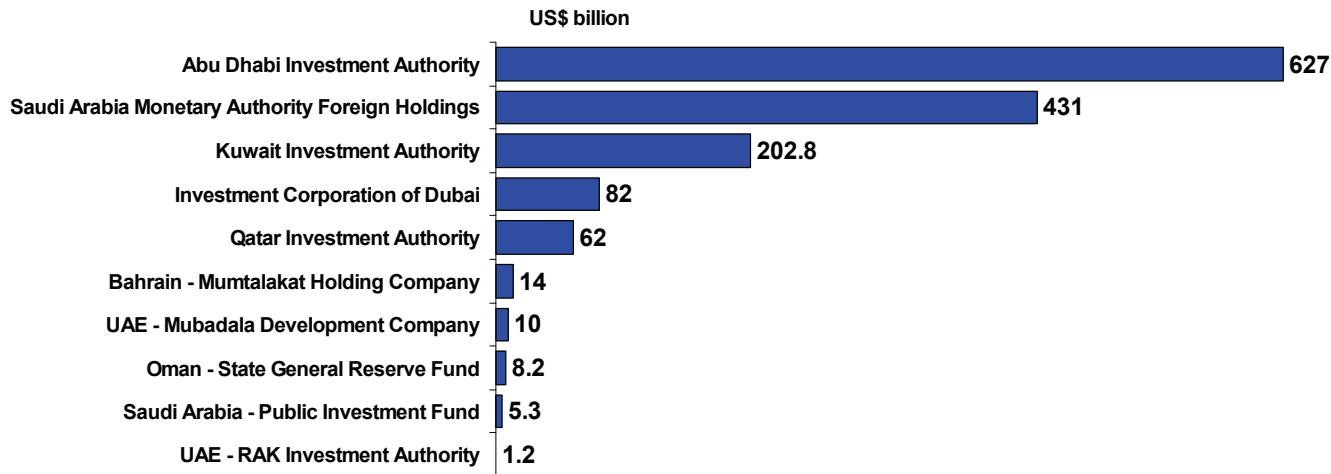


Sources: Platts, EIA/DOE, IMF.

*Gulf Cooperation Council: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates.

Sovereign wealth funds in the Middle East are powerful financial market players

Assets of major GCC sovereign wealth funds (2009 estimate)



Source: Sovereign Wealth Fund Institute.

*Gulf Cooperation Council: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates.

Global over-the-counter derivative markets

June 2008



MILKEN INSTITUTE

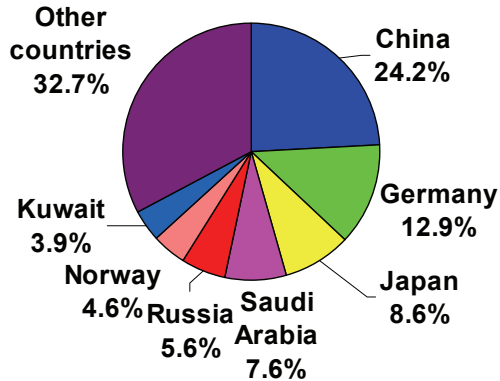
US\$ billions	Notional amounts	Gross market values
Foreign exchange contracts	62,983	2,262
Interest rate contracts	458,304	9,263
Equity-linked contracts	10,177	1,146
Commodity contracts	13,229	2,209
Credit default swaps	57,325	1,283
Total OTC derivatives	683,725	20,353

Source: Bank of International Settlement.

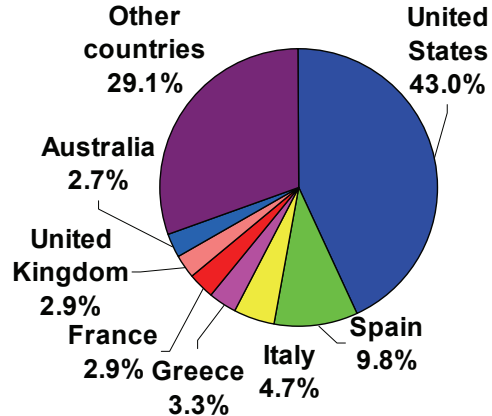


US imports capital, China exports capital

Major exporters of capital, 2008



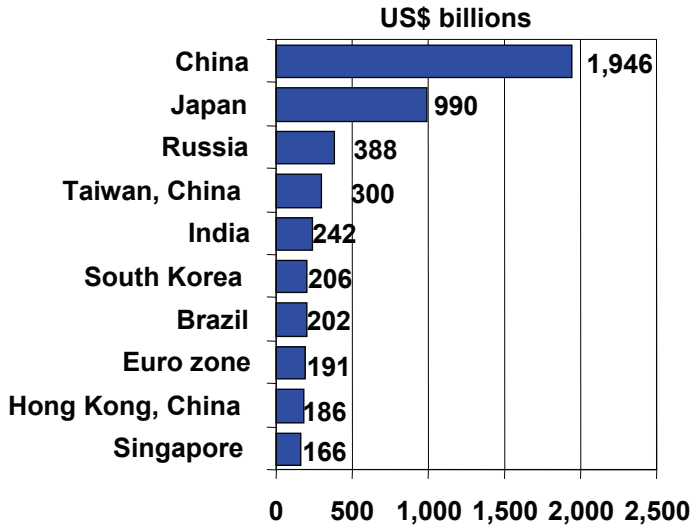
Major importers of capital, 2008



Sources: International Monetary Fund, Milken Institute.

China holds 30% of foreign exchange reserves

April 7, 2009

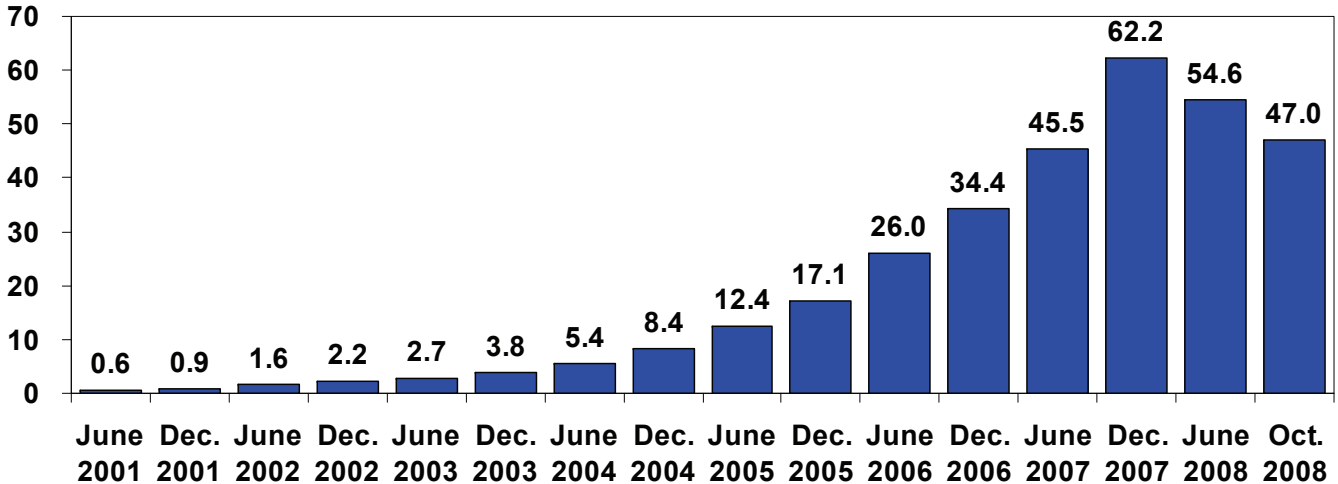


Sources: Bloomberg, Milken Institute.

	% of world
China	29.2
Japan	14.7
Russia	5.8
Taiwan, China	4.5
India	3.6
South Korea	3.1
Euro zone	2.9
Brazil	2.8
Hong Kong, China	2.7
Singapore	2.5
Top ten countries	71.8
World total	US\$ 6.7 trillion

Rising risk: The credit default swap market roughly doubled each year from June 2001 through Oct. 2008

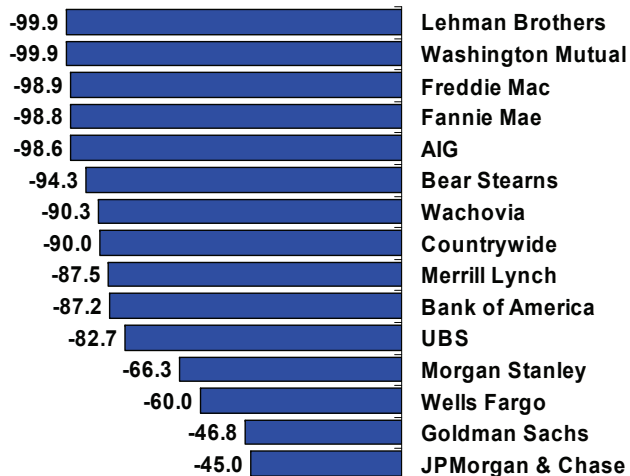
Notional amount of credit default swaps outstanding, US\$ trillions



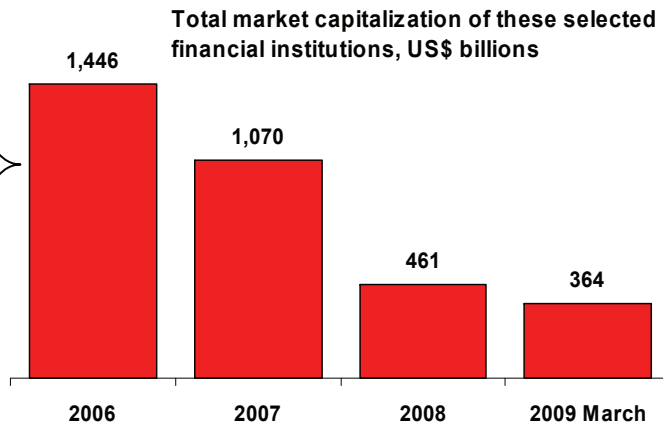
Source: International Swaps and Derivatives Association, Milken Institute.

Financial stocks take big hits

Percentage change in stock price, Dec. 2006-March 2009



Total loss in market value: \$1,081 billion from December 2006 to March 2009

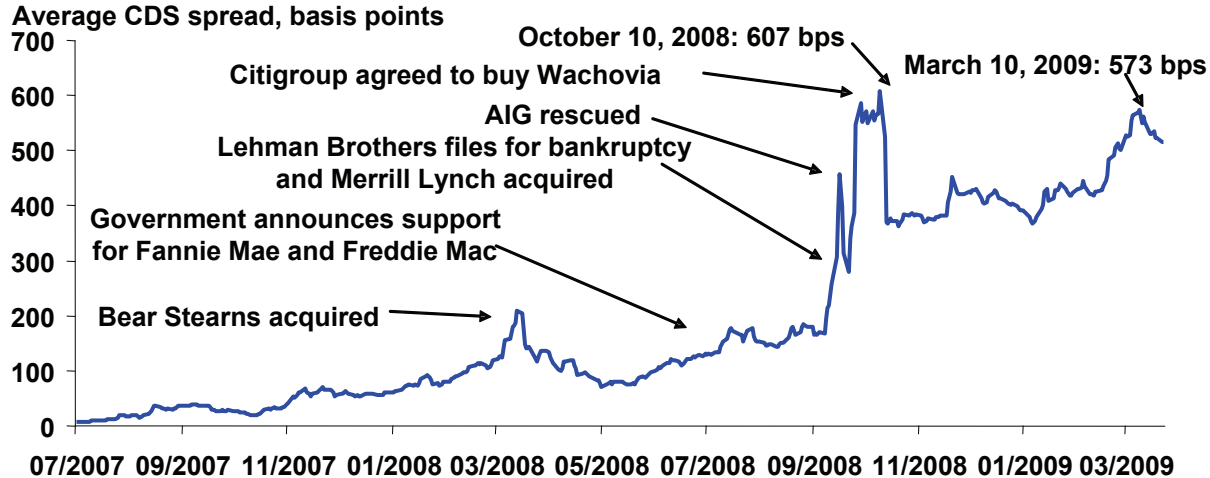


Note: Bear Stearns stock price is to May 2008. Countrywide stock price is to June 2008. Merrill Lynch and Wachovia stock prices are to December 2008.

Sources: Bloomberg, Milken Institute.



Counterparty risk increases dramatically



Note: Counterparty Risk index averages the market spreads of the credit default swaps (CDS) of fifteen major credit derivatives dealers, including ABN Amro, Bank of America, BNP Paribas, Barclays Bank, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs Group, HSBC, Lehman Brothers, JPMorgan Chase, Merrill Lynch, Morgan Stanley, UBS, and Wachovia.

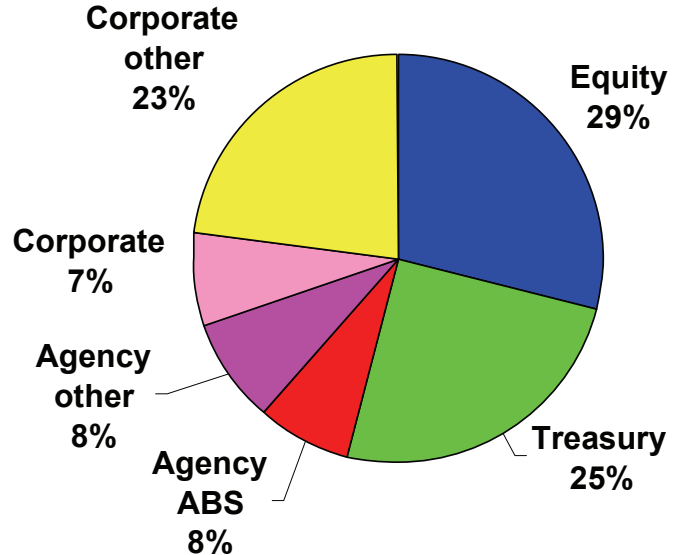
Sources: Datastream, Milken Institute.

Top foreign holders of U.S. securities

June, 2008

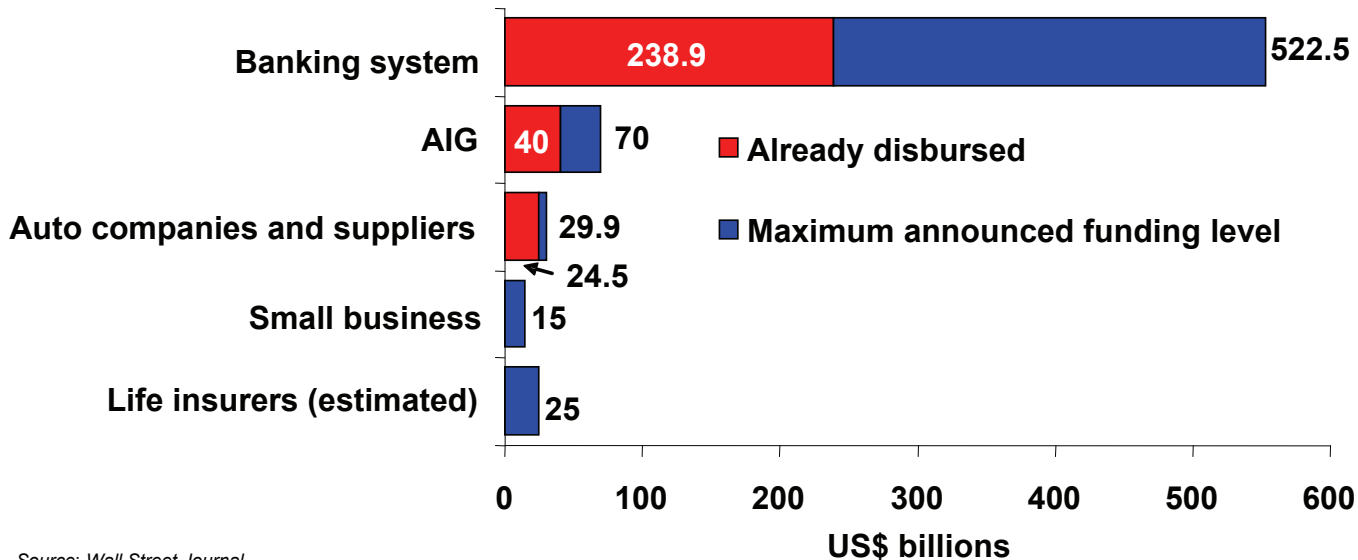
	Countries	% of world
1	Japan	12.1
2	China	11.7
3	United Kingdom	8.4
4	Cayman Islands	8.1
5	Luxembourg	6.4
6	Belgium	4.4
7	Canada	4.3
8	Ireland	3.9
9	Switzerland	3.0
10	Netherlands	3.0
	Top ten countries	65.2
	All countries	\$10.3 trillion

Sources: U.S. Treasury, Milken Institute.



TARP allocated so far

Status of Troubled Asset Relief Program funds as of March 27, 2009



Source: Wall Street Journal.