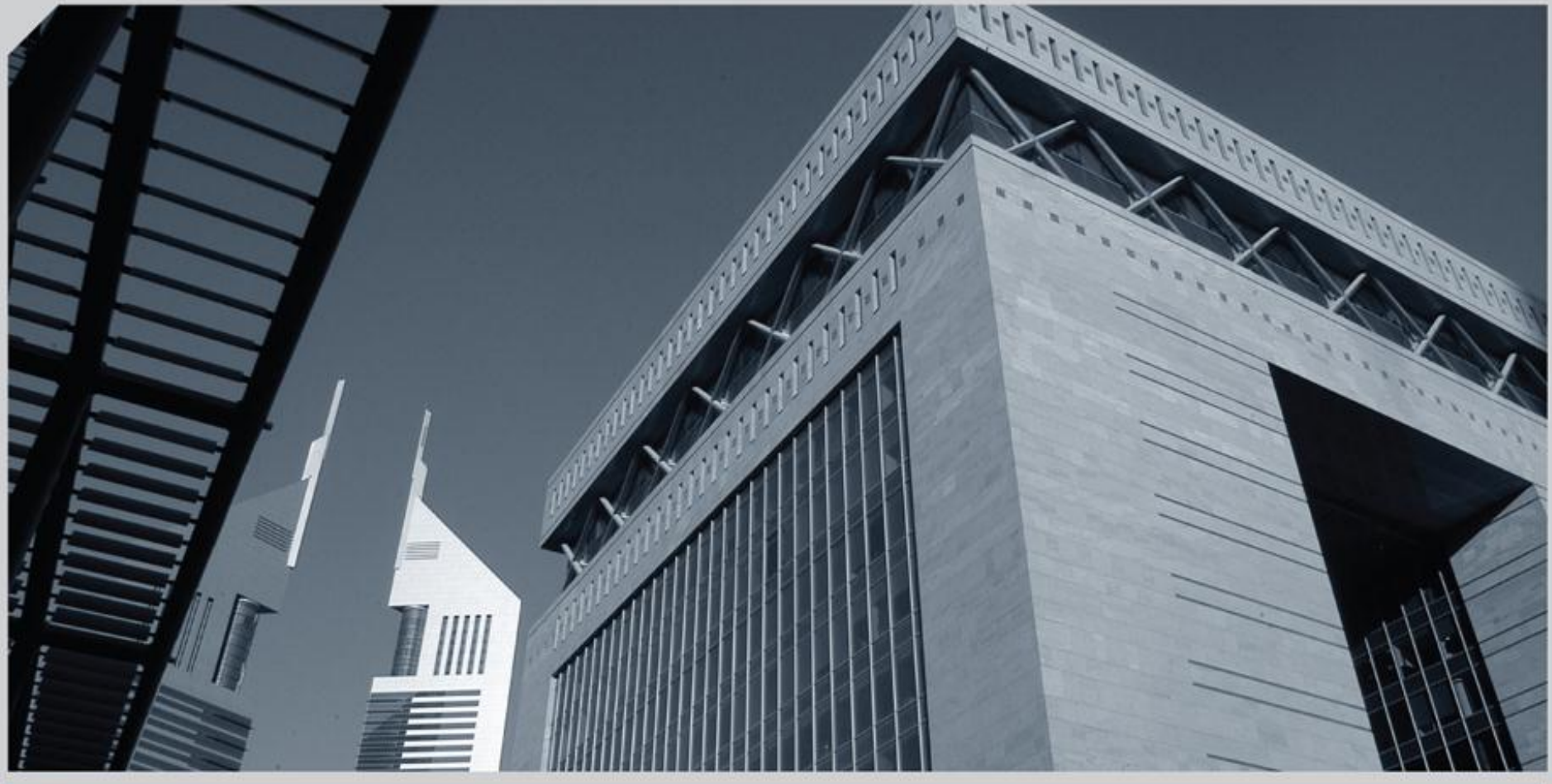


From Crisis to Recovery: A Regional Perspective

Presentation to 3M International Executive Management Team

Dr. Nasser Saidi,
Chief Economist & Head of External Relations, DIFC Authority
27th January, 2011

Dubai International Financial Centre
DIFC

Agenda

Decoupling: Strength of Emerging Market Economies

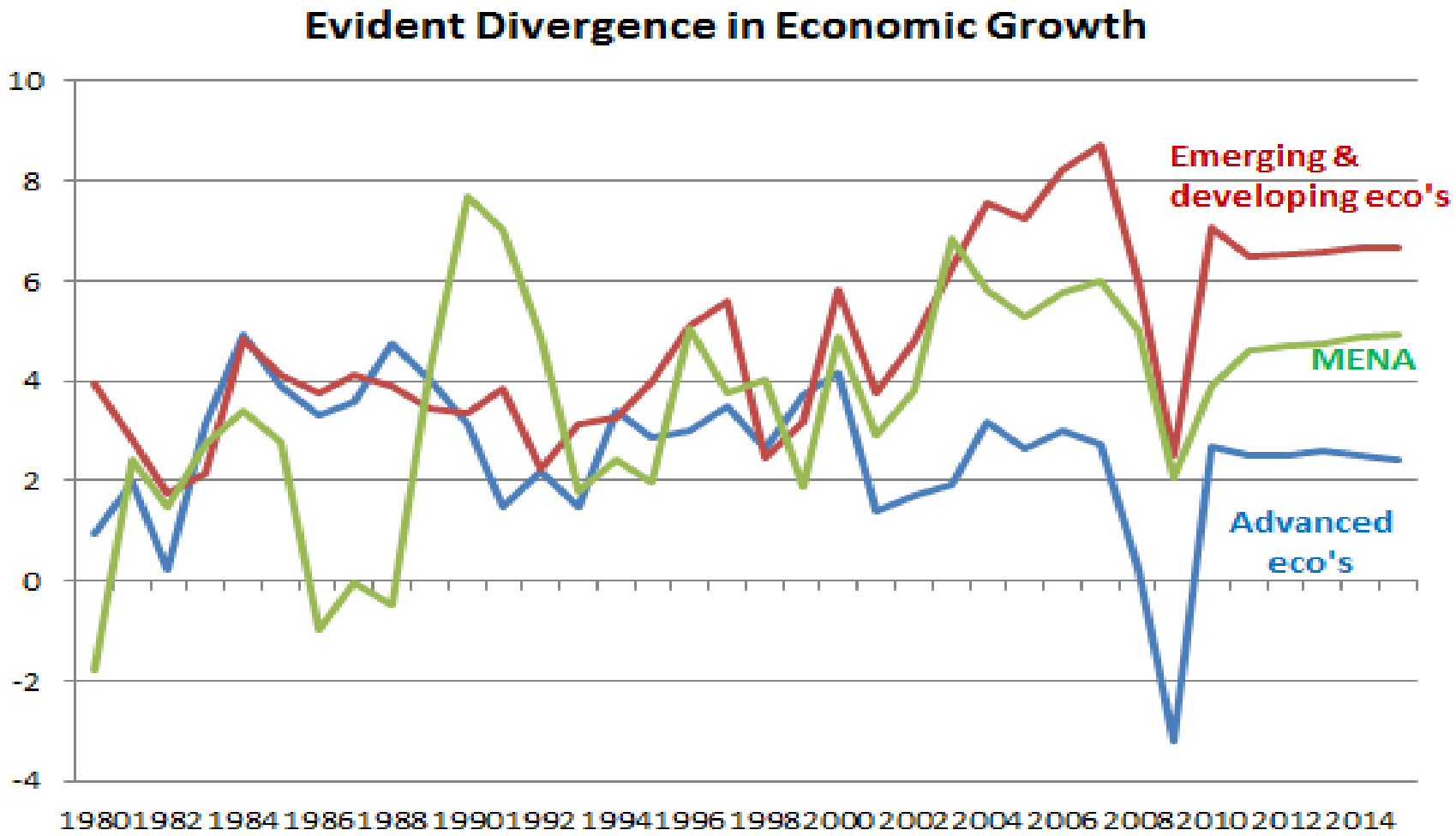
MENA: Macroeconomic Outlook & Policy Actions

Doing Business in the MENA region

Fundamental Drivers and Risks in the Region

DIFC: Marketplace for New Sources of Capital

Delinking of Emerging Markets from Advanced



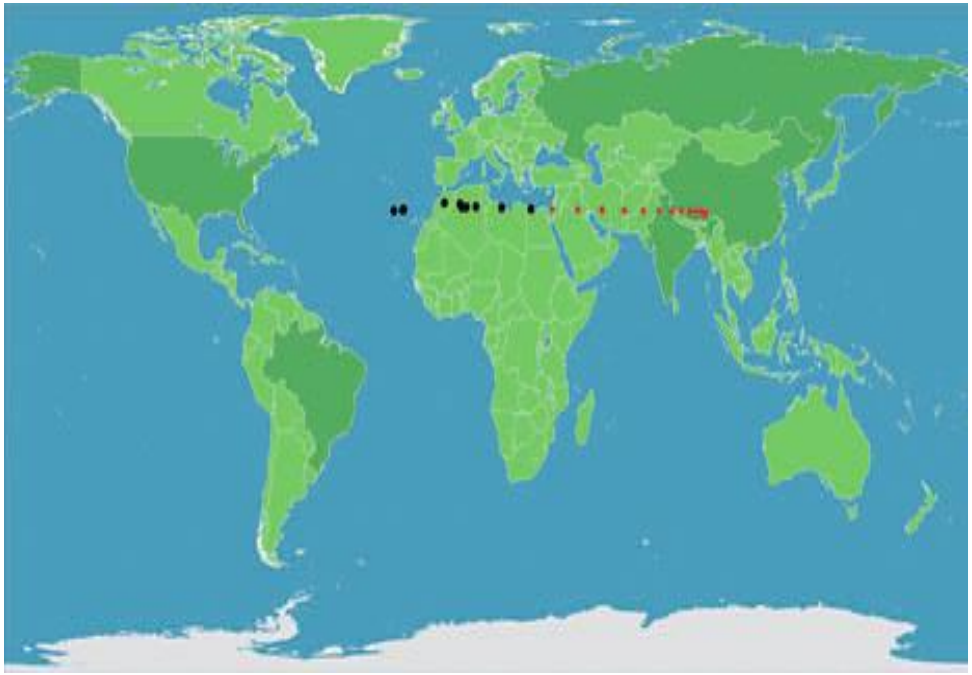
Source: IMF WEO (Jan 2011 update), DIFC Economics

Emerging Markets: Changing Economic Geography

Emerging markets have contributed 2/3 of global growth since 2002.

- World's economic centre of gravity in 1976 was a point West of London. By 2008 it was East of Izmir: centre of gravity has drilled 1800 km - one third of the planet's radius - deeper into the Earth's crust, away from the US & towards the East.

- Evidence shows **geographical shift accelerated in 1991, 2001, 2008 - each time the US was in recession!**
- In less-turbulent times, between 2002 and 2007:
  - ✓ China's average contribution to world economic growth approached 66% that of the US;
  - ✓ China and India's together, almost 85%;
  - ✓ East and Southeast Asia's, more than 130%.

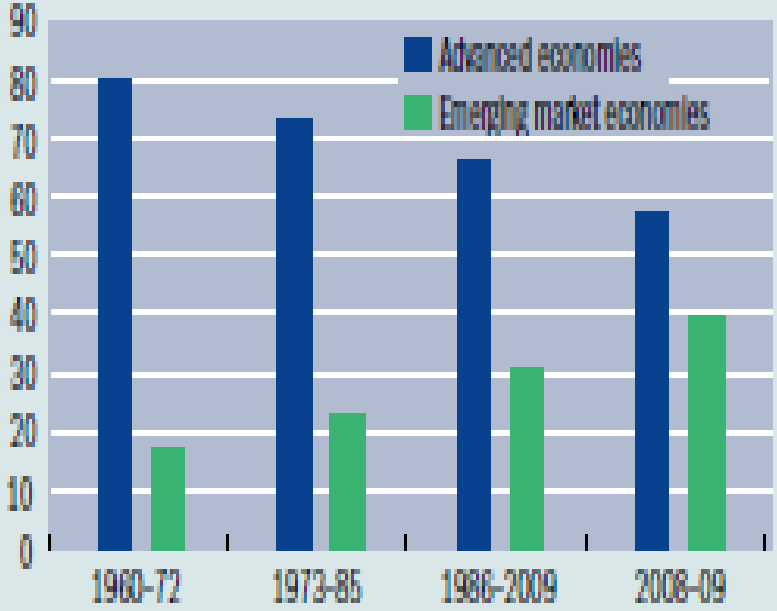


Source: Quah, D (2009): "The Shifting Distribution of Economic Activity", London School of Economics, Jan 2011.

Growing in importance

Emerging market economies' share of world GDP has been growing steadily over the past five decades.

(percent of global GDP)



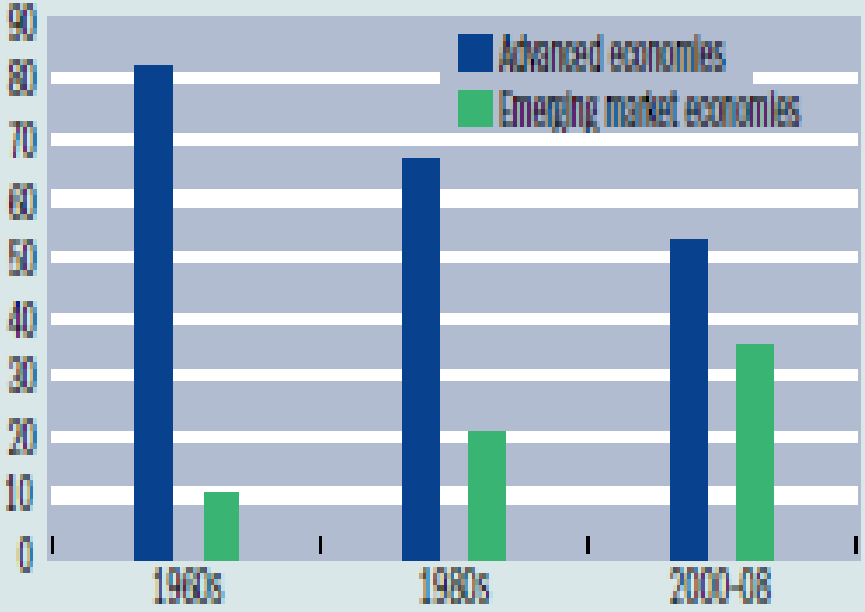
Source: Authors' calculations.

Note: The values correspond to period averages as a share of world GDP computed using purchasing-power-parity exchange rates. The sum does not equal 100 percent because not all economies are counted—only advanced and emerging.

Trading among themselves

Emerging economies are trading increasingly with one another rather than with advanced economies.

(destination of emerging economy trade, percent of total)



Source: Authors' calculations.

Note: Trade flows are calculated by aggregating the bilateral export and import data of emerging economies. The sum does not equal 100 percent because not all economies are counted—only emerging and advanced.

Source: Emerging Markets Come of Age, Kose & Prasad, Finance & Development, Dec 2010

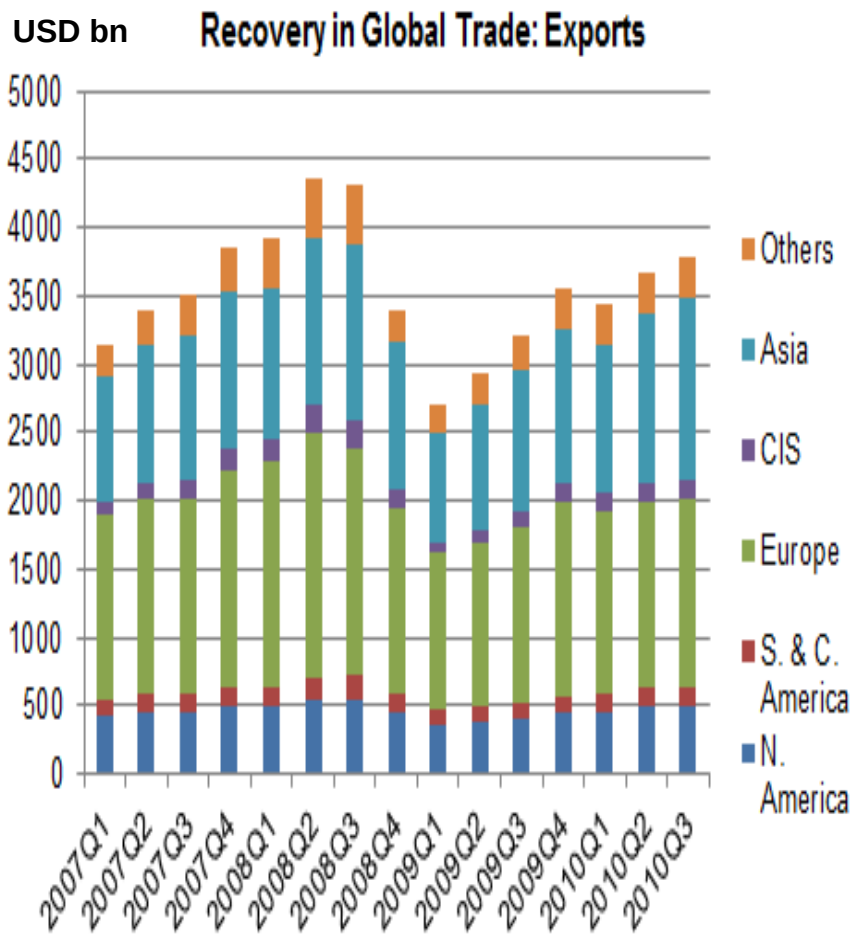
New Equity Market Geography: Dominated by EMEs

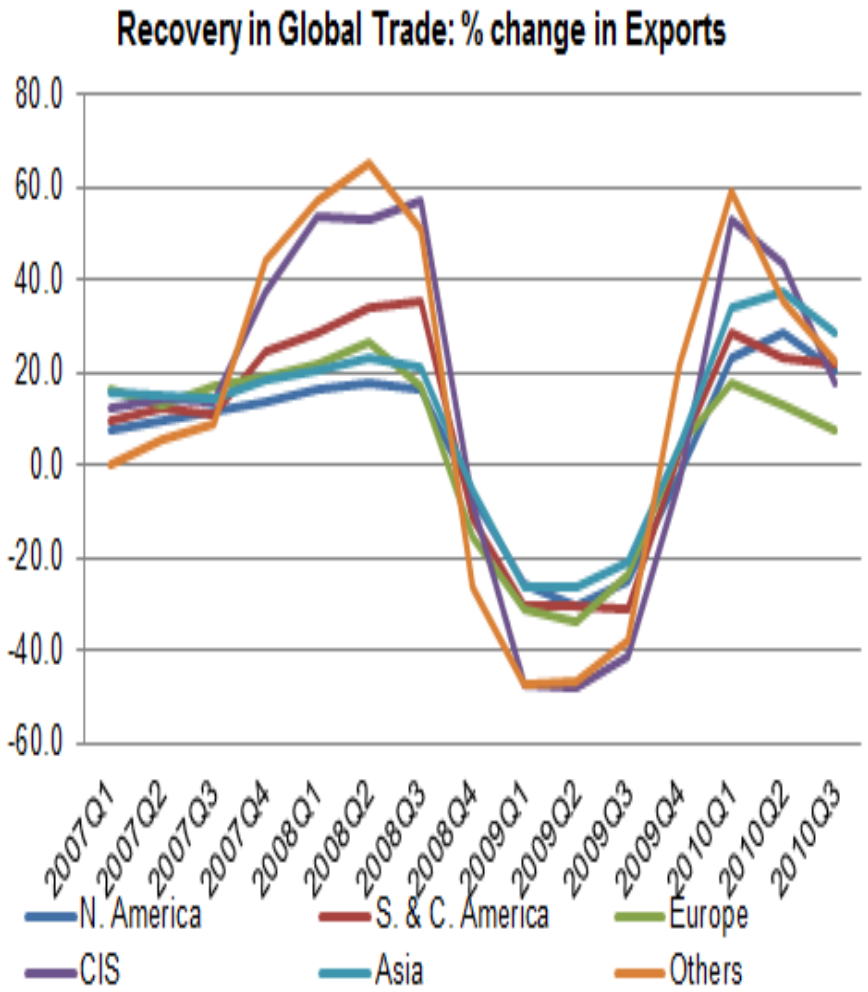
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010(E)
World Market Cap	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
United States	46%	47%	50%	47%	45%	43%	39%	36%	31%	33%	31%	31%
Rest of Developed	46%	45%	41%	42%	44%	44%	44%	44%	41%	41%	41%	39%
Emerging Markets	8%	8%	9%	11%	12%	13%	16%	20%	28%	26%	28%	30%
BRIC	2%	3%	3%	3%	4%	4%	6%	9%	17%	15%	17%	17%
Rest of Emerging	6%	5%	6%	7%	7%	9%	11%	10%	11%	11%	11%	12%
of which GCC	0.3%	0.3%	0.4%	0.9%	0.9%	1.3%	2.5%	1.3%	1.7%	2%	1%	1%

Source: S&P 2010

Note: 2010 Estimated as of 09/30/2010

Trade flows: Asia's rising share & faster recovery

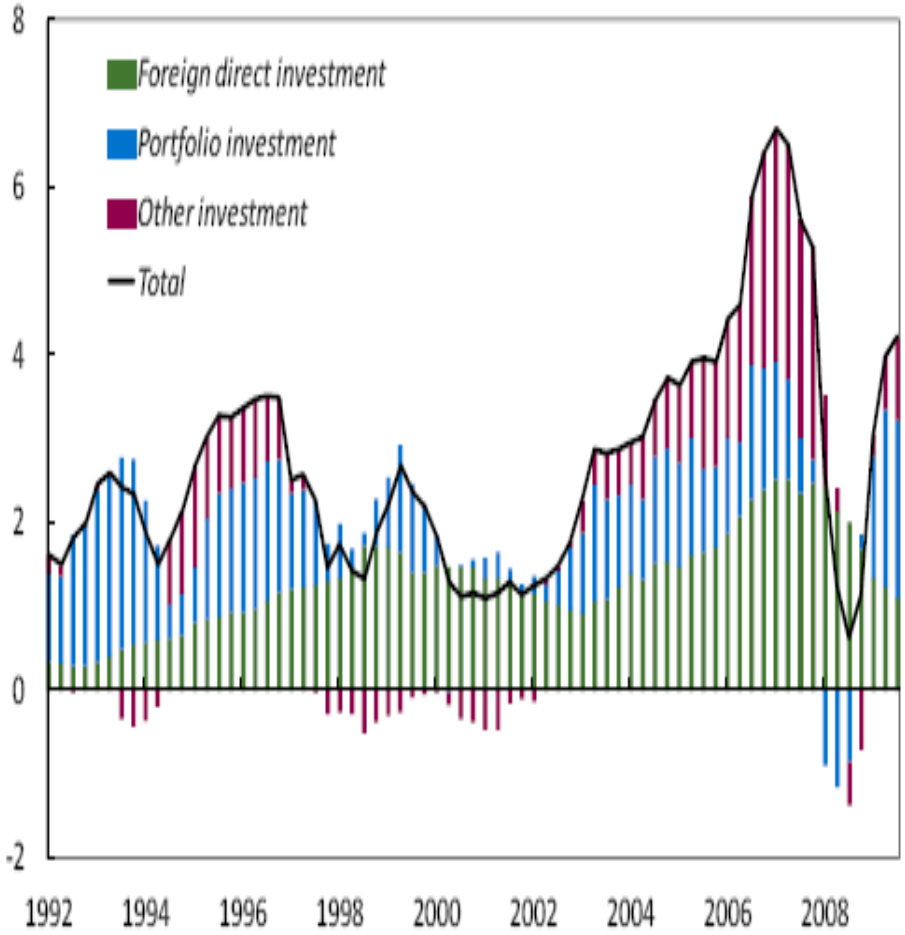




Source: WTO Statistics, DIFC Economics

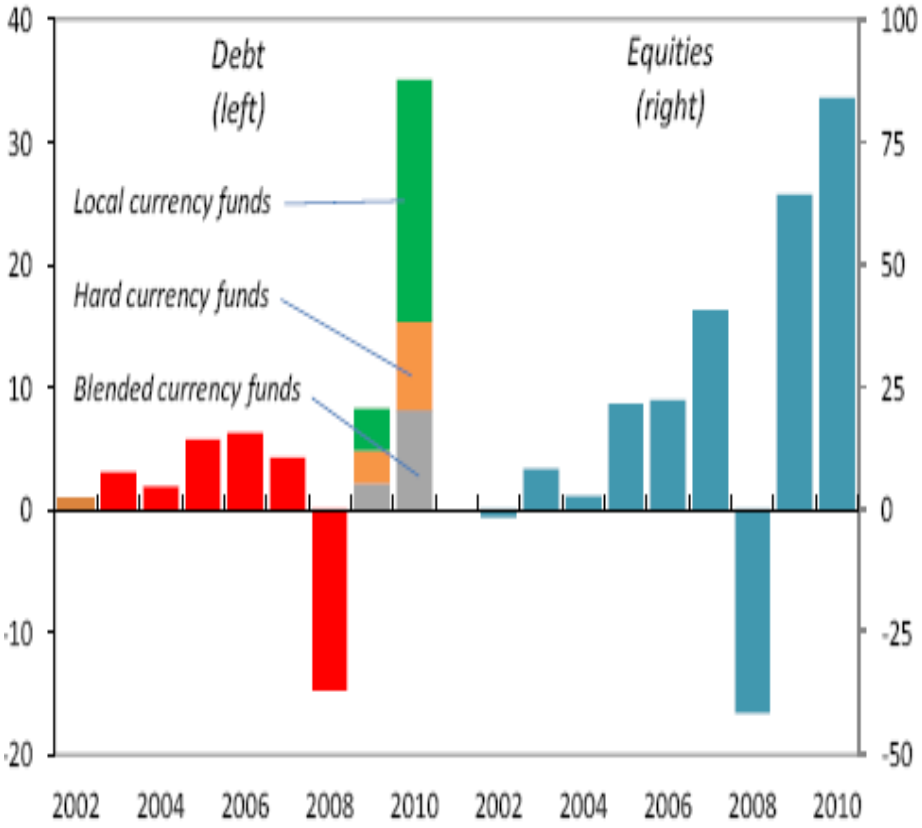
Capital Flows to EMEs: Strong Recovery Post-Lehman

(Net liabilities, percent of aggregate GDP, 4-quarter moving average)



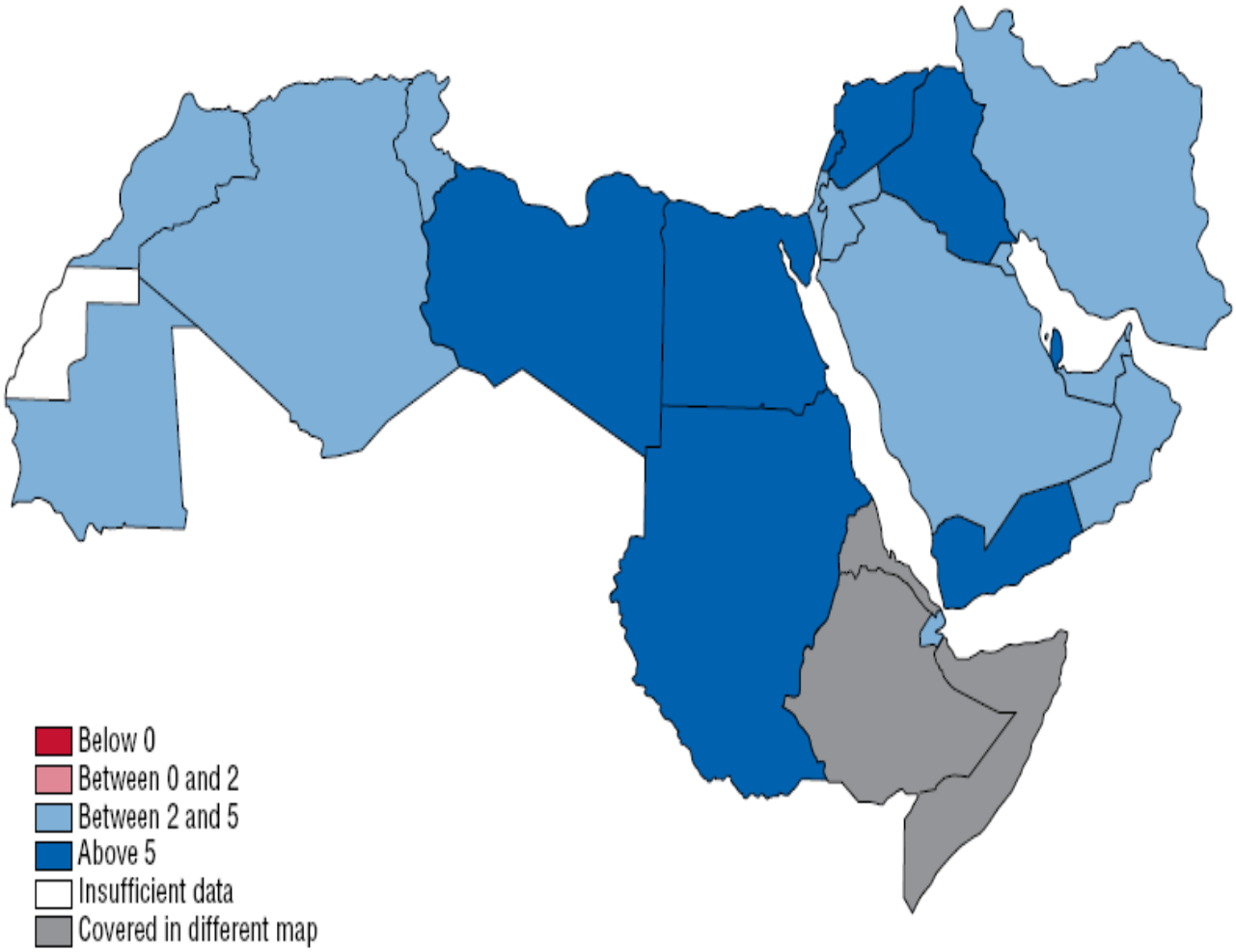
Annual Retail Flows to Emerging Market Debt & Equity Mutual Funds

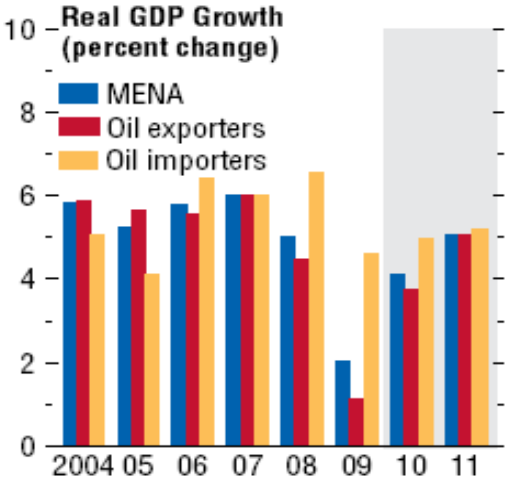
(In billions of U.S. dollars)

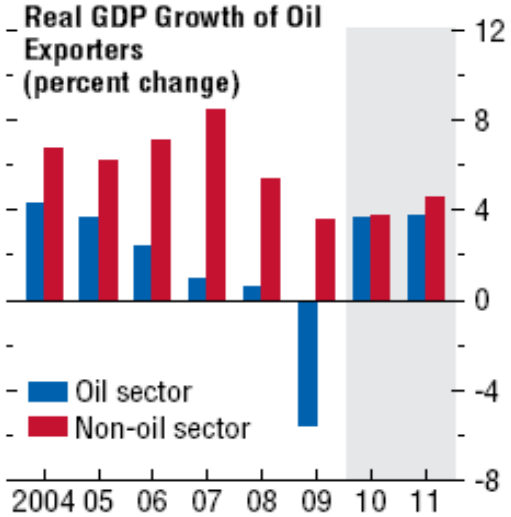


Source: IMF GFSR update, Jan 2011

MENA Average Projected Real Growth 2010-11







Source: IMF WEO, Oct 2010

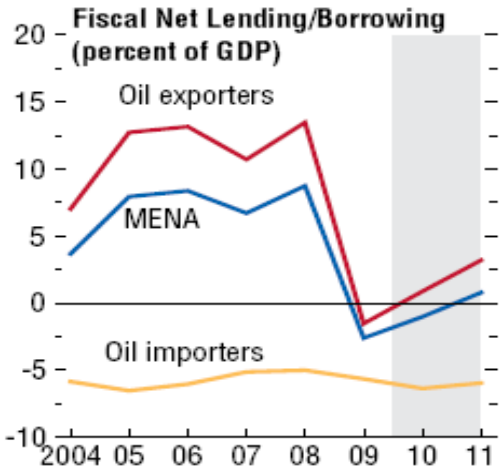
MENA Economic Growth Outlook

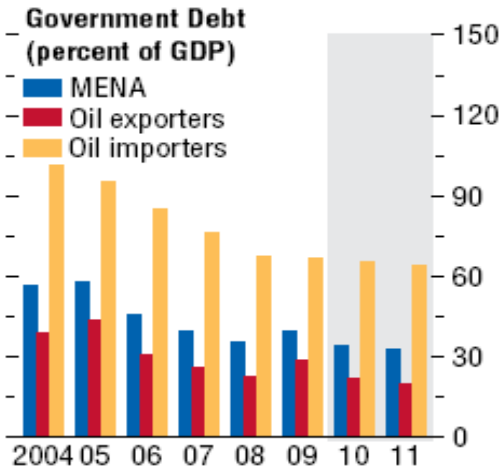
Real GDP growth (Annual change, %)

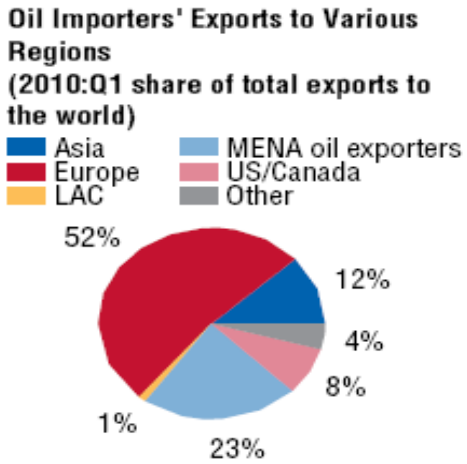
	2000–05 avg.	2006	2007	2008	2009	2010f	2011f
Bahrain	6.0	6.7	8.4	6.3	3.1	4.0	4.5
Kuwait	7.1	5.3	4.5	5.5	-4.8	2.3	4.4
Oman	3.3	5.5	6.8	12.8	3.6	4.7	4.7
Qatar	8.7	18.6	26.8	25.4	8.6	16.0	18.6
Saudi Arabia	4.0	3.2	2.0	4.2	0.6	3.4	4.5
UAE	7.7	8.7	6.1	5.1	-2.5	2.4	3.2
GCC	**5.3**	**5.6**	**5.4**	**7.0**	**0.4**	**4.5**	**5.9**
Egypt	4.0	6.3	6.0	4.9	4.6	5.0	4.4
Jordan	6.0	7.9	8.5	7.6	2.3	3.4	4.2
Lebanon	3.4	0.6	7.5	9.3	9.0	8.0	5.0
MENAP	**5.1**	**5.8**	**6.0**	**4.6**	**2.3**	**4.2**	**4.8**

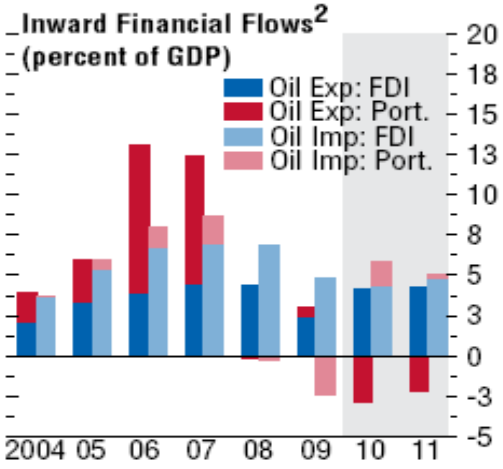
Source: IMF WEO (Oct 2010), REO (Oct 2010) , DIFC Economics

Middle East Outlook: Macro View









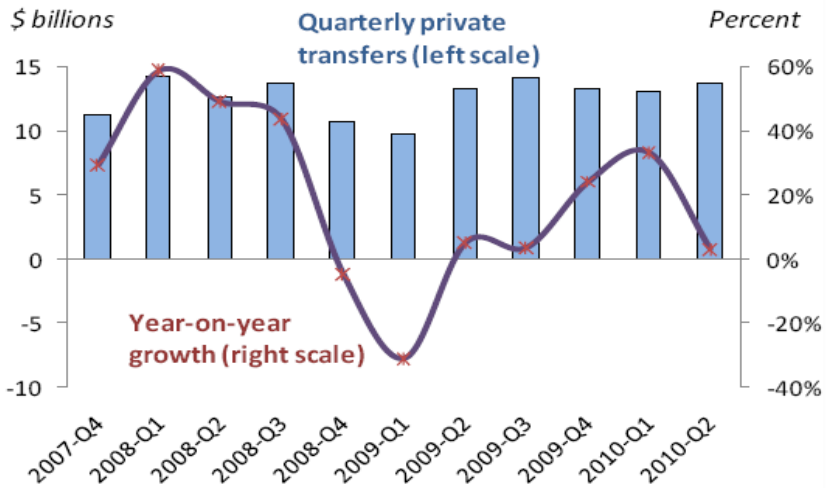
- Recovery in region is supported largely by the rebound in oil prices from trough in 2009.
- Government spending programs, especially in oil-exporting economies, have played a significant role in supporting non-oil sector in these economies.
- Fiscal stimulus has had positive spillovers to labour exporting economies, which have close trade and financial links (remittances) with oil exporters.

Source: IMF WEO, October 2010

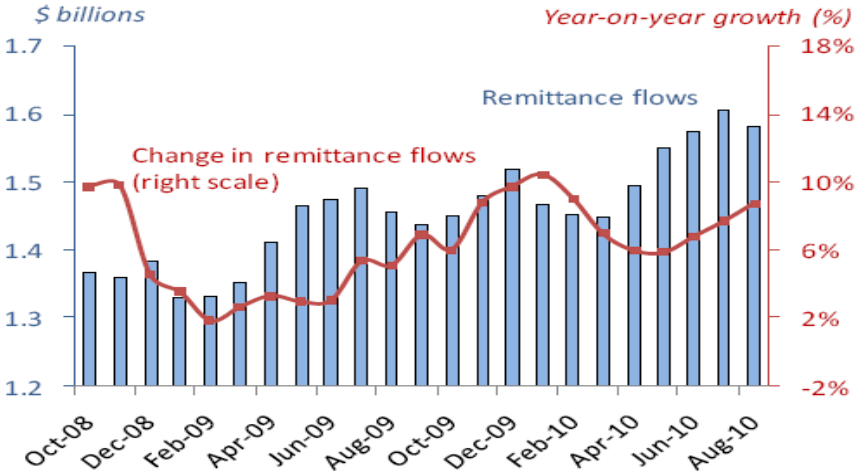
Remittances

- Officially recorded remittance flows to developing countries are estimated to increase by 6% to $325bn in 2010, marking a healthy recovery from the 5.5% decline registered in 2009.
- Remittance flows to developing countries are expected to increase by 6.2% in 2011 & 8.1% in 2012, to reach $ 374bn by 2012.
- Remittance flows to South Asia held up and grew robustly in 2010 because of the sectoral and geographical diversification of migrants and in part because migrant-destinations in the Gulf were relatively less affected by the global economic crisis.
- Remittance flows to the MENA region are estimated to have grown by 5.3% to $ 35bn in 2010. Remittance flows were affected by the continuing crisis in Europe - but anecdotal evidence suggests that destinations of migrants (especially high skilled migrants) from the region appears to be shifting towards the GCC that have remained resilient during the global crisis.

Remittances to India recover to pre-crisis levels

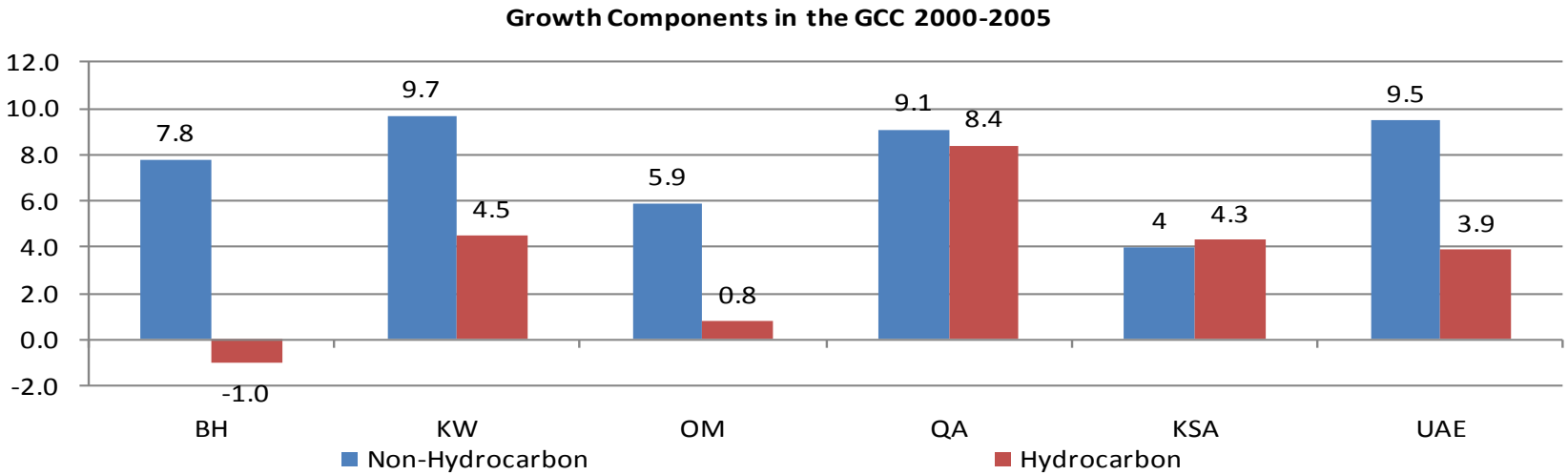


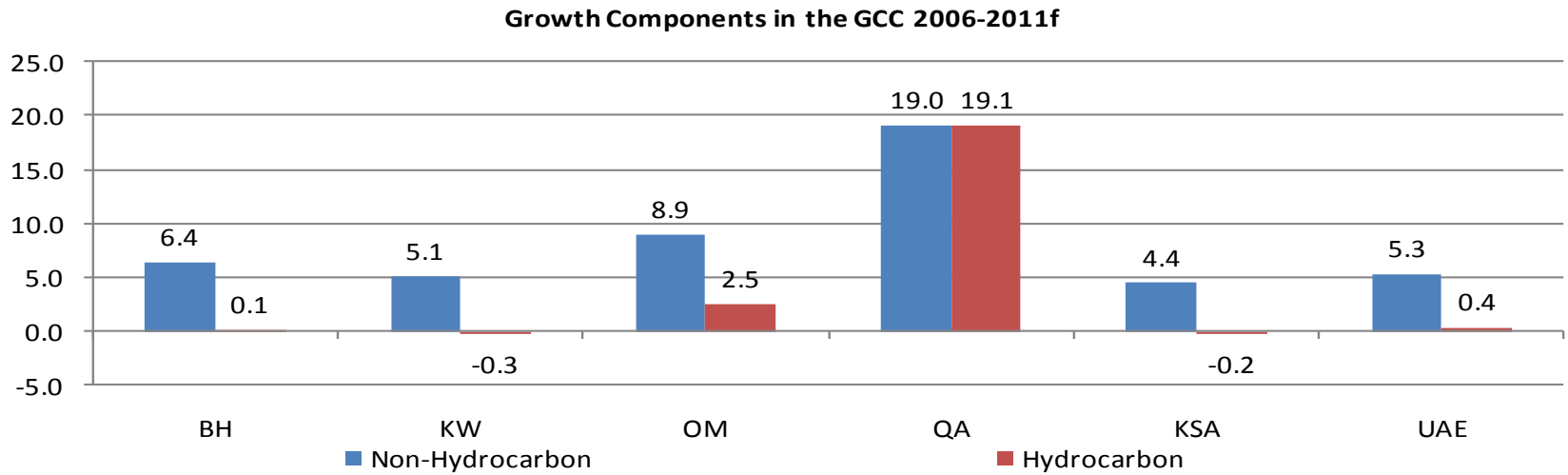
Steady growth of remittances in the Philippines



Source: World Bank's Migration & Development Brief 13, Nov 2010

GCC Increasingly Diversified: less vulnerable





Source: IMF REO Oct 2010, DIFC Economics

MENA Policy Actions: More Active but Constrained

- Timely, precautionary policy measures taken during 2009-10 on the monetary and fiscal front + financial market interventions helped withstand the crisis better.
- GCC banks were not exposed to toxic assets like in the advanced countries, but contagion came via trade finance, equity markets and real estate sector.

	Deposit Guarantees	Liquidity Support / Prudential	Capital Injections	Equity Purchases / Stock mkt intervention	Monetary Easing	Fiscal Stimulus
GCC						
Bahrain		✓			✓	
Kuwait	✓	✓	✓	✓	✓	
Oman		✓		✓	✓	
Qatar		✓	✓	✓		
Saudi Arabia	✓	✓			✓	✓
United Arab Emirates	✓	✓	✓		✓	✓
Other						
Algeria					✓	✓
Iran		✓				
Libya	✓			✓	✓	✓
Yemen					✓	
Egypt	Reiterated				✓	✓
Jordan	✓	✓			✓	
Lebanon		✓				
Morocco	Already exists	✓			✓	✓
Syria		✓				✓
Tunisia		✓		✓	✓	✓

Source: IMF REO

World merchandise exports by product grp & region, 2009

- Merchandise trade in the Middle East witnessed a decline - with exports falling 33% to US$ 691 bn and imports dropping 18% to US$ 493 billion in 2009.
- Estimates for 2010 indicate that a recovery has kicked in.

(Billion dollars and percentage)

	Agricultural products	Fuels and mining products		Manufactures						
		Total	Fuels	Total	Iron and	Chemicals	Office and telecom	Automotive products	Textiles	Clothing
World	1169	2263	1808	8355	326	1447	1323	847	211	316
Share in total exports	**9.6**	**18.6**	**14.8**	**68.6**	**2.7**	**11.9**	**10.9**	**7.0**	**1.7**	**2.6**
Annual percentage change										
2000-2009	9	11	12	7	10	11	4	4	3	5
2008	18	33	41	10	23	14	4	4	5	5
2009	-13	-36	-37	-20	-45	-14	-16	-32	-17	-14
Middle East	18	469	461	188	5	43	20	18	8	5
Share in total exports	**2.6**	**68.0**	**66.8**	**27.3**	**0.7**	**6.3**	**2.9**	**2.7**	**1.1**	**0.8**
Annual percentage change										
2000-2009	13	10	10	13	18	14	9	21	4	9
2008	12	37	37	29	26	43	52	29	24	14
2009	-4	-38	-37	-20	-26	-21	-13	-29	-31	-21
Asia	226	386	266	2850	98	275	786	191	111	168
Share in total exports	**6.3**	**10.8**	**7.4**	**79.7**	**2.7**	**7.7**	**22.0**	**5.3**	**3.1**	**4.7**
Annual percentage change										
2000-2009	9	14	14	8	12	12	6	6	5	7
2008	22	35	50	11	29	13	3	9	9	5
2009	-14	-29	-31	-17	-46	-14	-14	-34	-10	-11

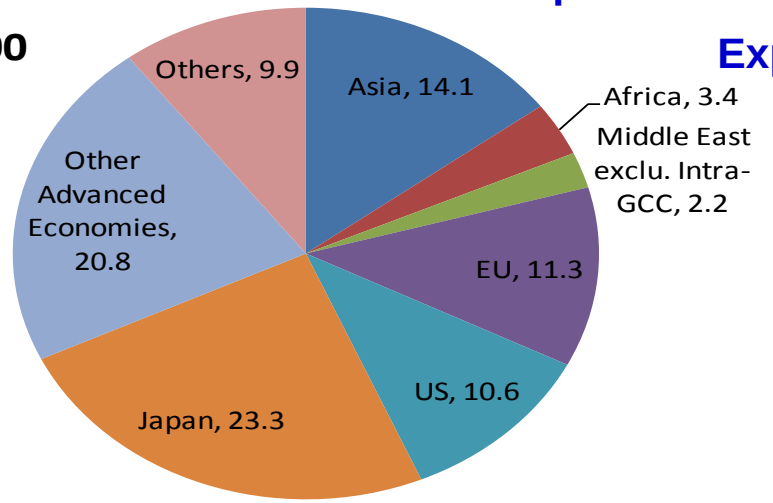
Source: International Trade Statistics, 2010, WTO

Asia has become GCC's Major Trading Partner

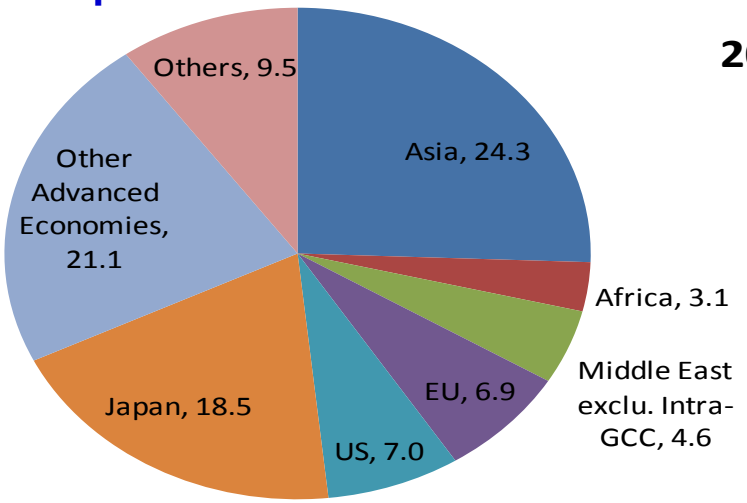
Shift towards European and Asian trade partners

Exports

2000

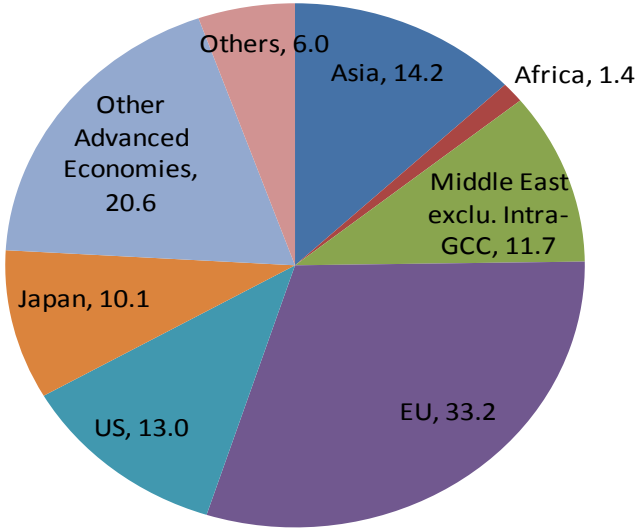


2009

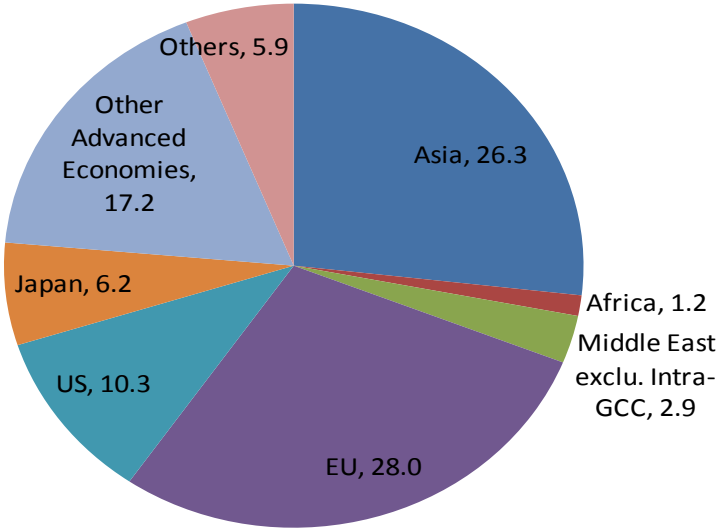


Imports

2000



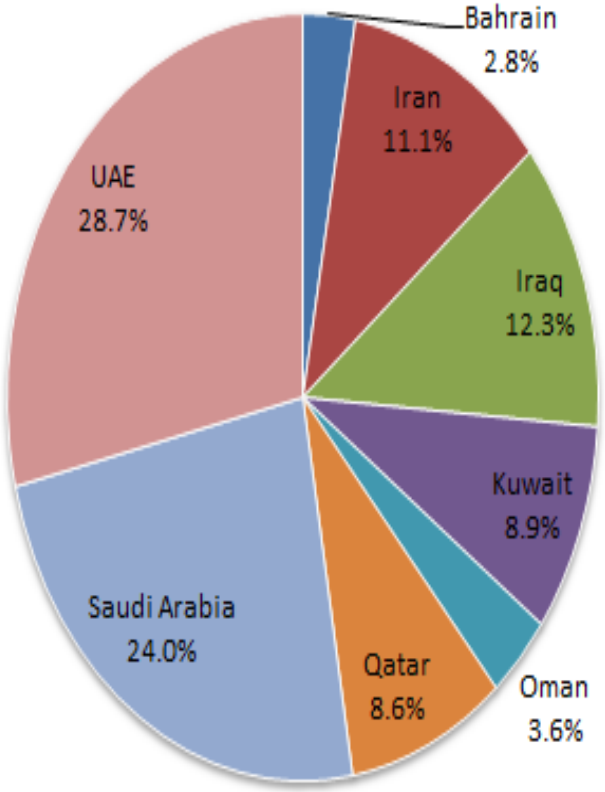
2009



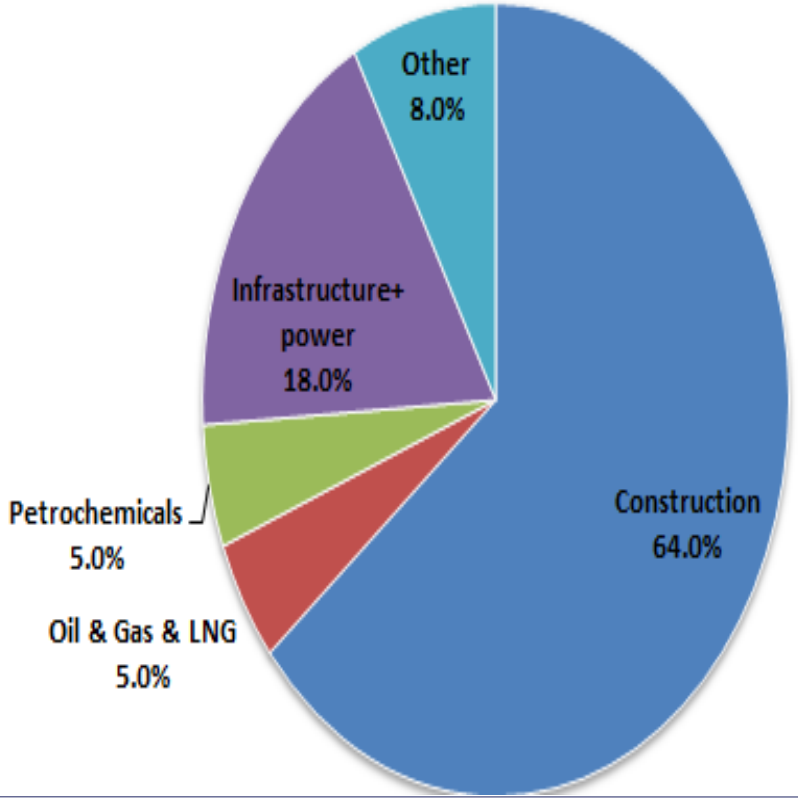
Source: IMF DOTS, DIFC Economics

Gulf Infrastructure Projects by Sector & Country

- The total value of projects planned, under way or completed in the Gulf region was US$2.84 trillion (MEED Project Tracker, Dec 2010)
- UAE, Saudi major investors but Iraq growing. Focus on core infrastructure: power, water, transport systems, oil & gas



Projects by Country

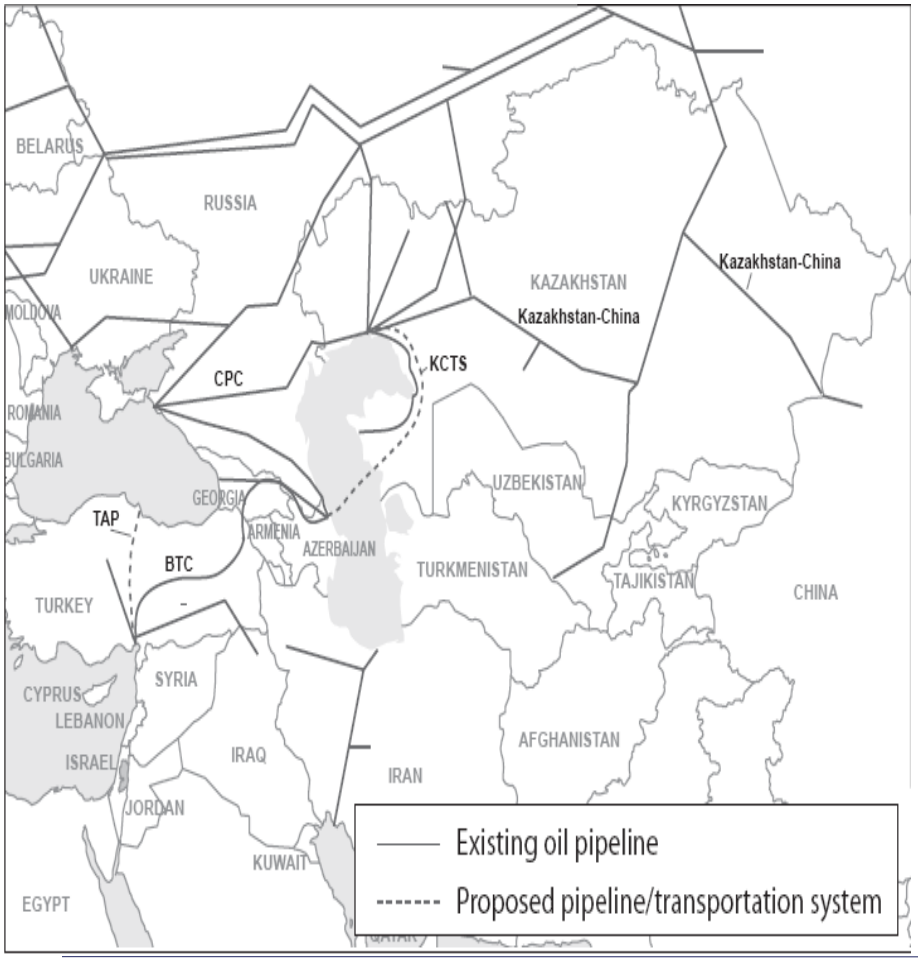


Projects by sector

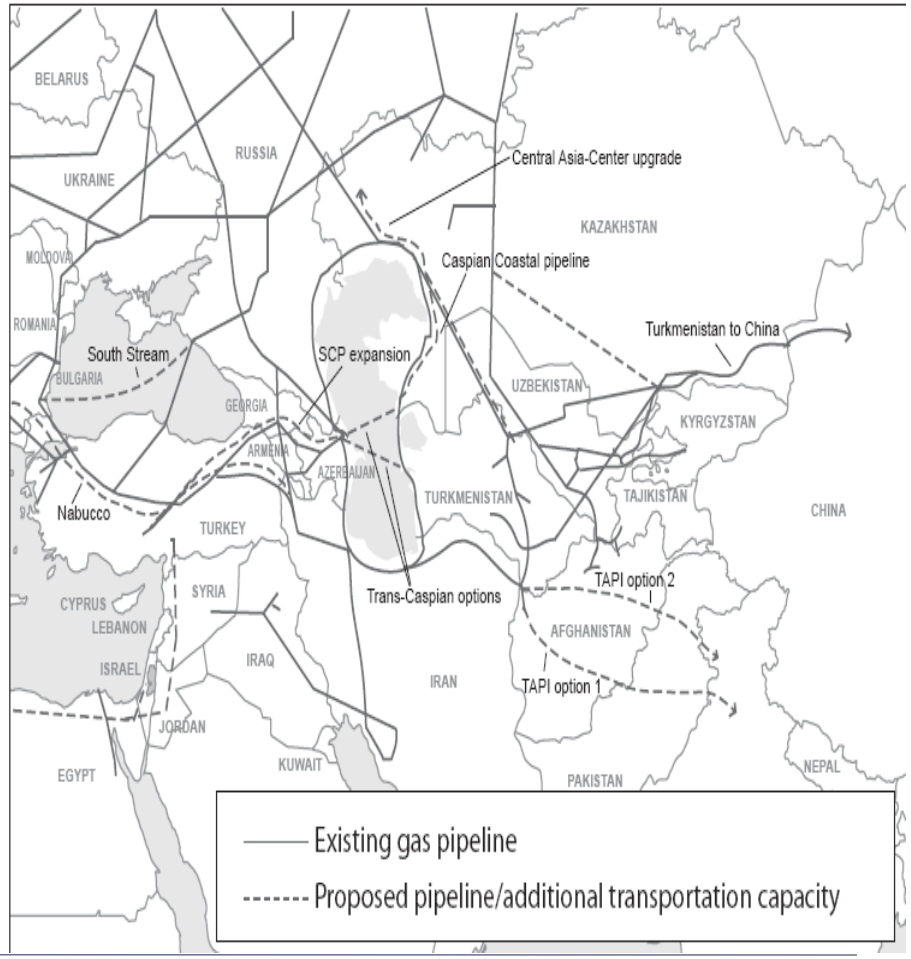
Source: MEED Project Tracker

Creation of a New Silk Route?

Oil pipelines: Central Asia



Natural Gas pipelines: Central Asia



Source: Chow & Hendrix (2010): Central Asia's pipelines, National Bureau of Asian Research.

Private Equity Deals by Country: Volume & Value

Target country	2008	2009	2010
Israel	144	106	72
Brazil	31	21	42
Poland	23	21	41
Russia	97	37	32
Czech Republic	13	8	16
Cayman Islands	16	10	14
Mexico	7	11	9
Bermuda	12	9	8
Ukraine	14	4	8
South Africa	41	33	8
Estonia	8	10	8
United Arab Emirates	19	13	7
Latvia	3	2	6
Egypt	10	5	5
Romania	11	8	5
Hungary	6	0	5
British Virgin Islands	3	7	5
Chile	6	4	4
Saudi Arabia	6	1	4
Argentina	3	6	3

Target country by volume and value for Rest of the World private equity deals

Target country	2008 (mil USD)	2009 (mil USD)	2010 (mil USD)
Brazil	2,631	940	3,369
Bermuda	1,525	1,256	1,858
Russia	12,551	1,562	1,493
Poland	300	418	1,319
Czech Republic	106	1,827	1,041
Cayman Islands	1,229	199	1,007
Chile	2,453	0	951
Ukraine	68	44	945
Israel	1,611	700	663
Argentina	19	7	500
Egypt	612	284	332
Mauritius	0	60	306
Cyprus	0	0	300
Colombia	98	30	230
United Arab Emirates	313	648	127
Hungary	137	0	127
Nigeria	39	0	118
Bulgaria	51	868	105
Iraq	0	0	100
Bahamas	900	0	80

Rest of the World includes Africa, Eastern Europe, Middle East, South & Central America region

Source: Zephyr

Private Equity Deals by Sector: Volume & Value

Target sector by volume and value for Rest of the World private equity deals

Target sector	2008	2009	2010
Other services	171	157	133
Machinery, equipment, furniture, recycling	70	41	41
Banks	53	23	25
Chemicals, rubber, plastics, non-metallic products	50	18	22
Food, beverages, tobacco	26	11	18
Wholesale & retail trade	35	23	17
Gas, water, electricity	14	19	16
Education, health	17	18	13
Construction	21	13	13
Primary sector	14	18	13
Transport	14	7	8
Publishing, printing	11	6	8
Metals & metal products	17	7	7
Insurance companies	10	6	5
Hotels & restaurants	14	6	4
Textiles, wearing apparel, leather	10	3	3
Wood, cork, paper	4	3	1
Post and telecommunications	1	0	0
Public administration and defence	0	0	0

Target sector	2008 (mil USD)	2009 (mil USD)	2010 (mil USD)
Other services	2,224	2,649	3,531
Primary sector	6,551	1,106	2,023
Banks	2,984	1,535	1,978
Gas, water, electricity	2,769	1,921	1,500
Metals & metal products	2,138	204	1,360
Transport	1,796	0	1,341
Machinery, equipment, furniture, recycling	970	1,149	727
Chemicals, rubber, plastics, non-metallic products	1,021	402	545
Wholesale & retail trade	1,559	446	529
Food, beverages, tobacco	2,277	3,111	471
Insurance companies	827	597	323
Construction	3,406	361	247
Education, health	487	89	202
Textiles, wearing apparel, leather	57	96	198
Publishing, printing	44	90	188
Hotels & restaurants	696	132	116
Wood, cork, paper	56	63	20
Post and telecommunications	2	0	0
Public administration and defence	0	0	0

Rest of the World includes Africa, Eastern Europe, Middle East, South & Central America region

Source: Zephyr

Emerging Markets vs. GCC/ MENA Equities

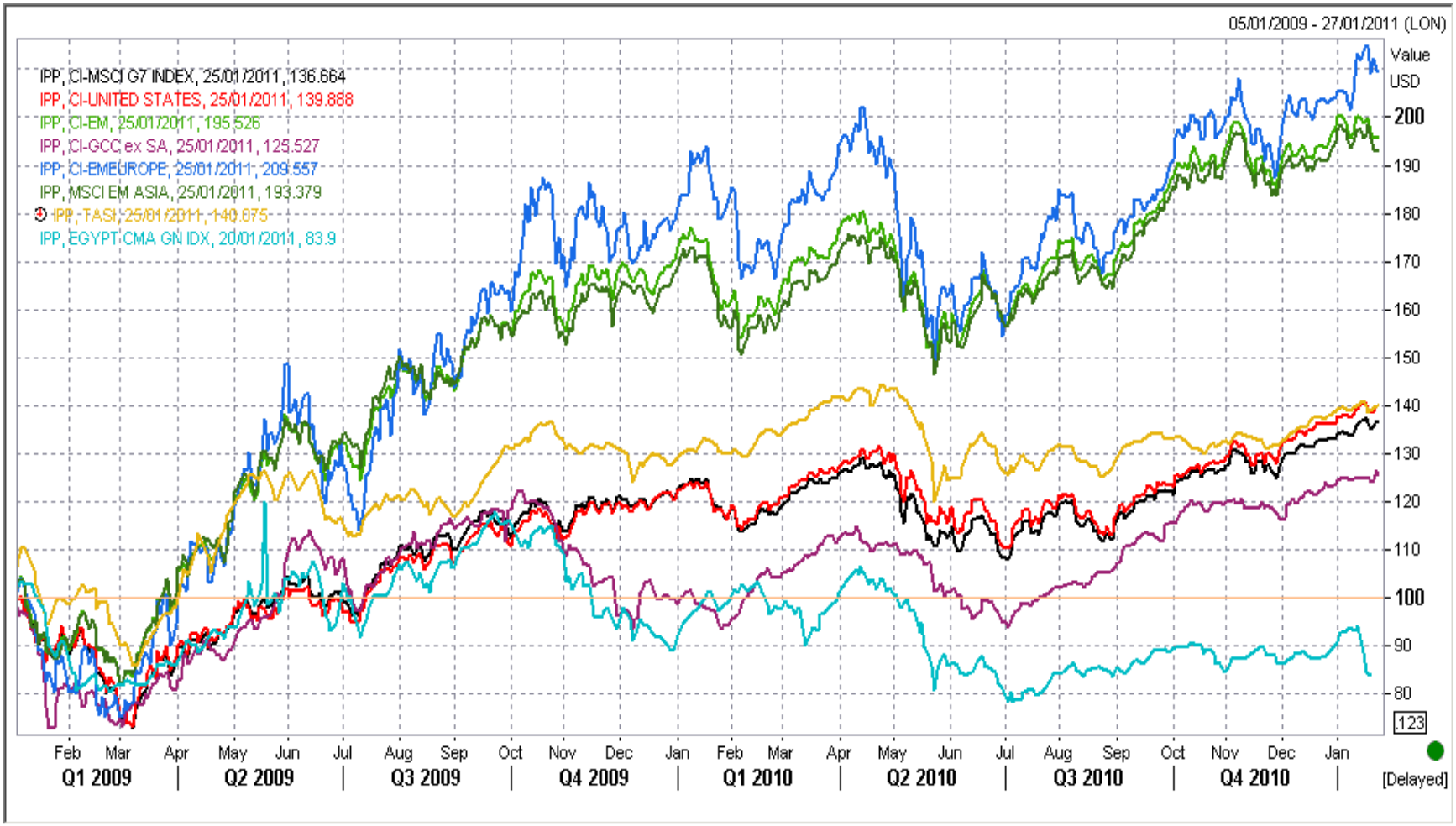
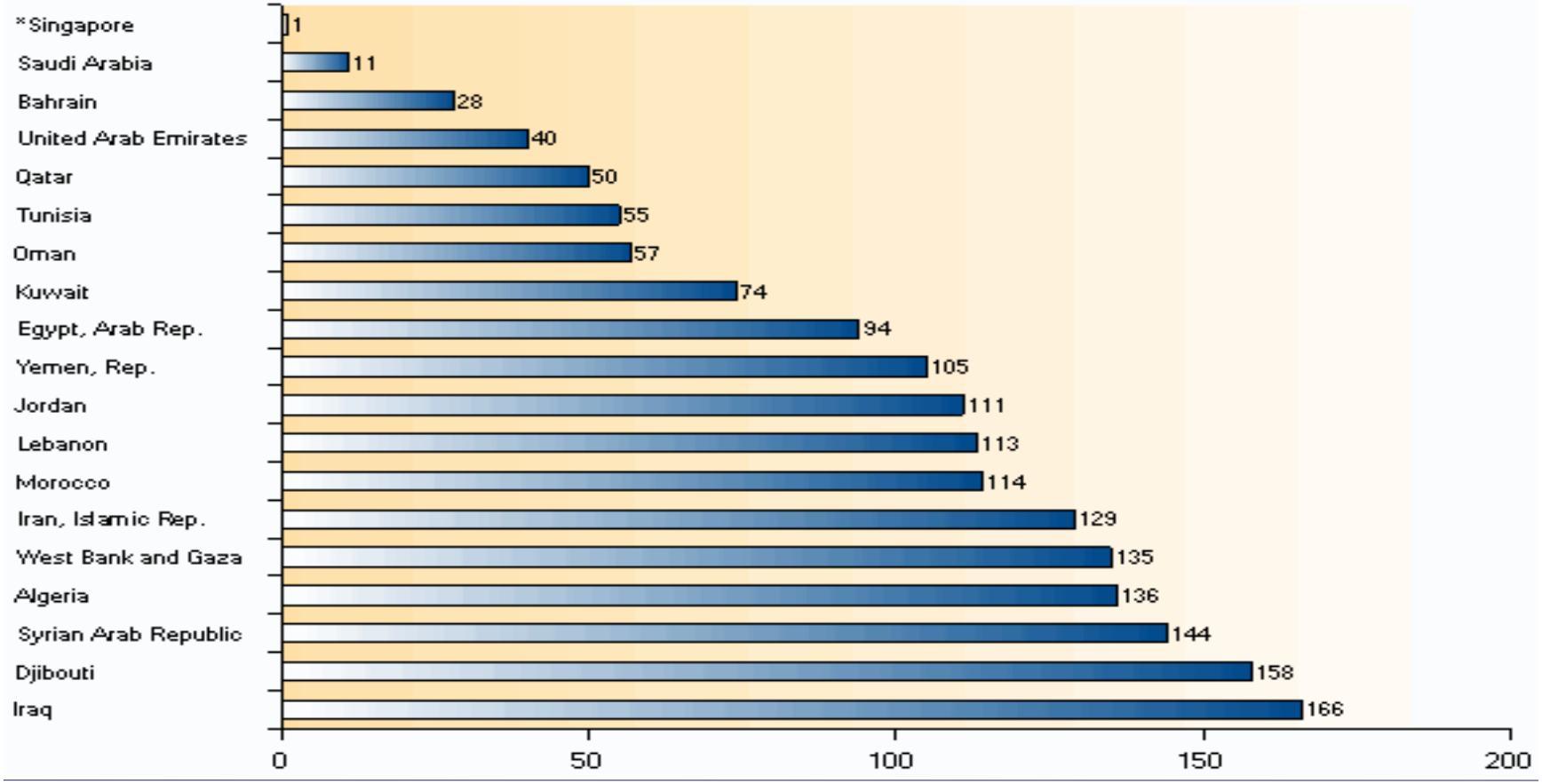


Chart Index: MSCI G7 Index, US, Emerging Markets, GCC ex KSA, Emerging Europe, Emerging Asia, Saudi Arabia, Egypt

Source: Reuters 3000Xtra, DIFC Economics

Ease of Doing Business in the MENA region, 2010

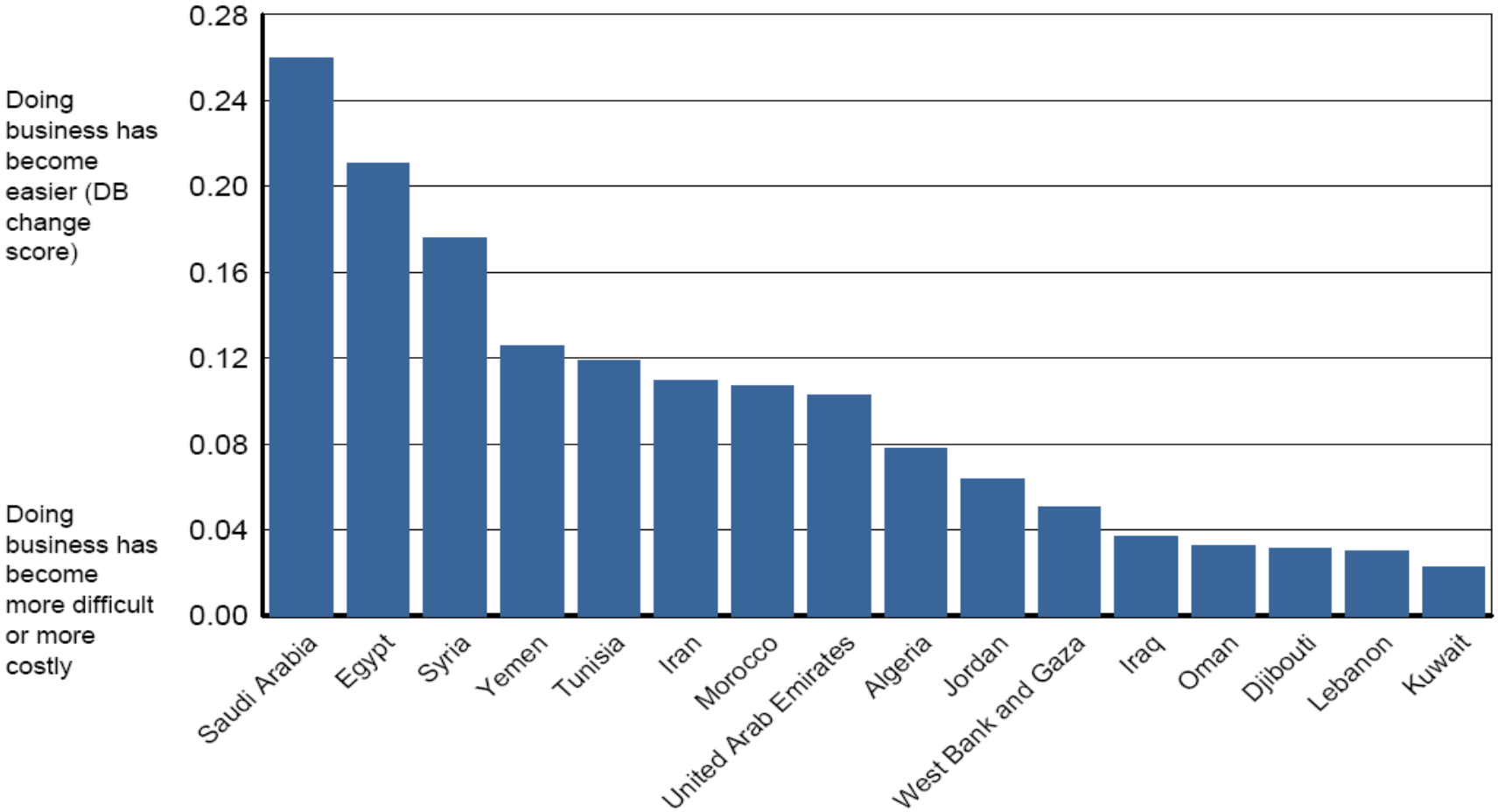
In MENA, 11 of 18 economies implemented business regulation reforms, 22 in all. Six modernized customs procedures and port infrastructure to facilitate trade and align with international standards. These include Bahrain, Egypt and UAE.



Source: Doing Business 2011, World Bank

Doing Business 2006-10: How have countries changed?

The 5-year measure of cumulative change shows the extent to which an economy's regulatory environment for business has changed compared with 5 years ago.



Source: Doing Business 2011, World Bank

Fundamental Drivers & Risks to the MENA Region

Key Drivers

- Demographics

 - *Young fast-growing population*

- Infrastructure

- *Regional integration projects (rail, road, power etc.)*

- *PPPs*

- Logistics

- *UAE (24), Lebanon (33), Saudi Arabia (40) Tunisia (61) & Syria (80) have performed well in LPI 2010*

- Recovery in trade & tourism

- Clean-tech/ Renewable energy

- Prospects in Iraq, North Africa

Key Risks

- Politics

- *The Global Political Risk 2010 ranked some MENA countries: Egypt (64), Saudi Arabia (61), Algeria (60) & Iran (49) – with higher numbers indicating more stability.*

- Oil Prices

- Rise in Inflation from weak dollar & QE2

- Lack of local capital market development

- Possibility of a double-dip recession/ anemic advanced economy growth

- War

- Environment

"Dubai Model" of Economic Growth & Development

Diversification

- Low dependence on oil
- High contribution of Service sector to GDP (annual growth rate: 21% since 2000)
- Pro-business Government
- Dynamic Business environment

Openness & Reform

- Business Climate: One of the top 10 reformers in WB's Ease in Doing Business 2010
- Property law reform
- Favourable Tax Structure
- 100% foreign ownership in Free Zones

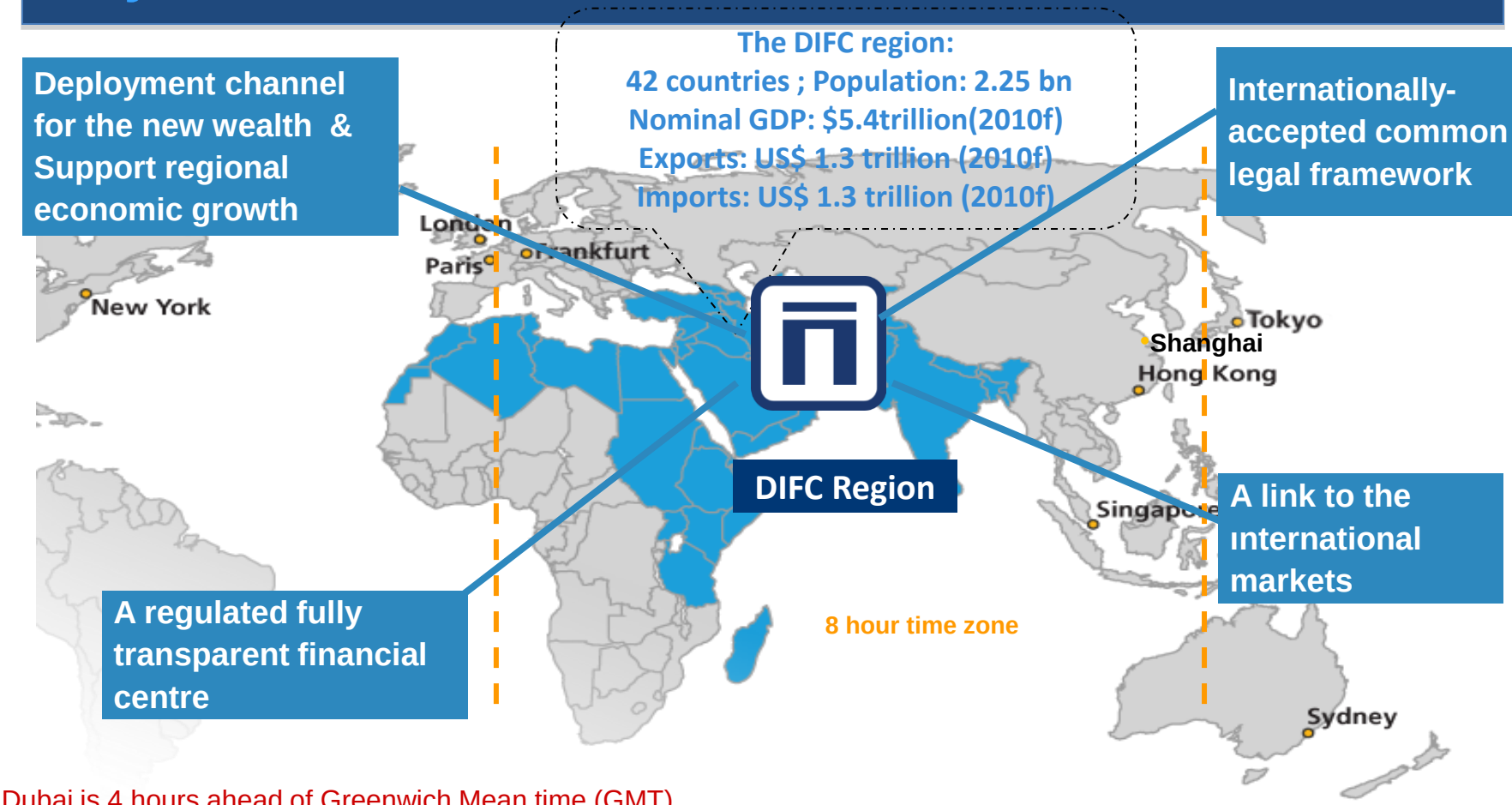
Infrastructure & Demographics

- Young fast-growing population
- Liberal labour migration policy
- Major emphasis on Infrastructure (more than 30% of budget expenditure)
- World-class infrastructure & logistics

Economic Clustering

- Free Zones resulted in: Competition, FDI & Economies of Scale
- 18 operational Free Zones (including the DIFC)
- Advantageous Time Zone

Why Create A New International Financial Centre?



Dubai is 4 hours ahead of Greenwich Mean time (GMT)

5pm Dubai = 9am New York	1pm Dubai = 9am London	9am Dubai = 1pm Hong Kong

DIFC- Legal Foundations

Constitutional

UAE Constitution

Federal

UAE Federal Law No.8 of 2004

Federal Decree No.35 of 2004

Cabinet Resolutions

Dubai

Dubai Law No.9 of 2004

Dubai Law No.12 of 2004

DIFC

DIFC Laws

DIFC Regulations, DIFC Courts and DFSA Rules

DIFC Structure

HH Sheikh Maktoum Bin Mohammed Bin Rashid Al Maktoum
Deputy Ruler of Dubai and DIFC President

Office of the President of the DIFC headed by DIFC Governor
(HE Ahmed Humaid Al Tayer)

Independent Body
Dubai International Financial Centre Judicial Authority
(DIFC Courts)

Independent Body
Dubai International Financial Centre Authority
(DIFC Authority)

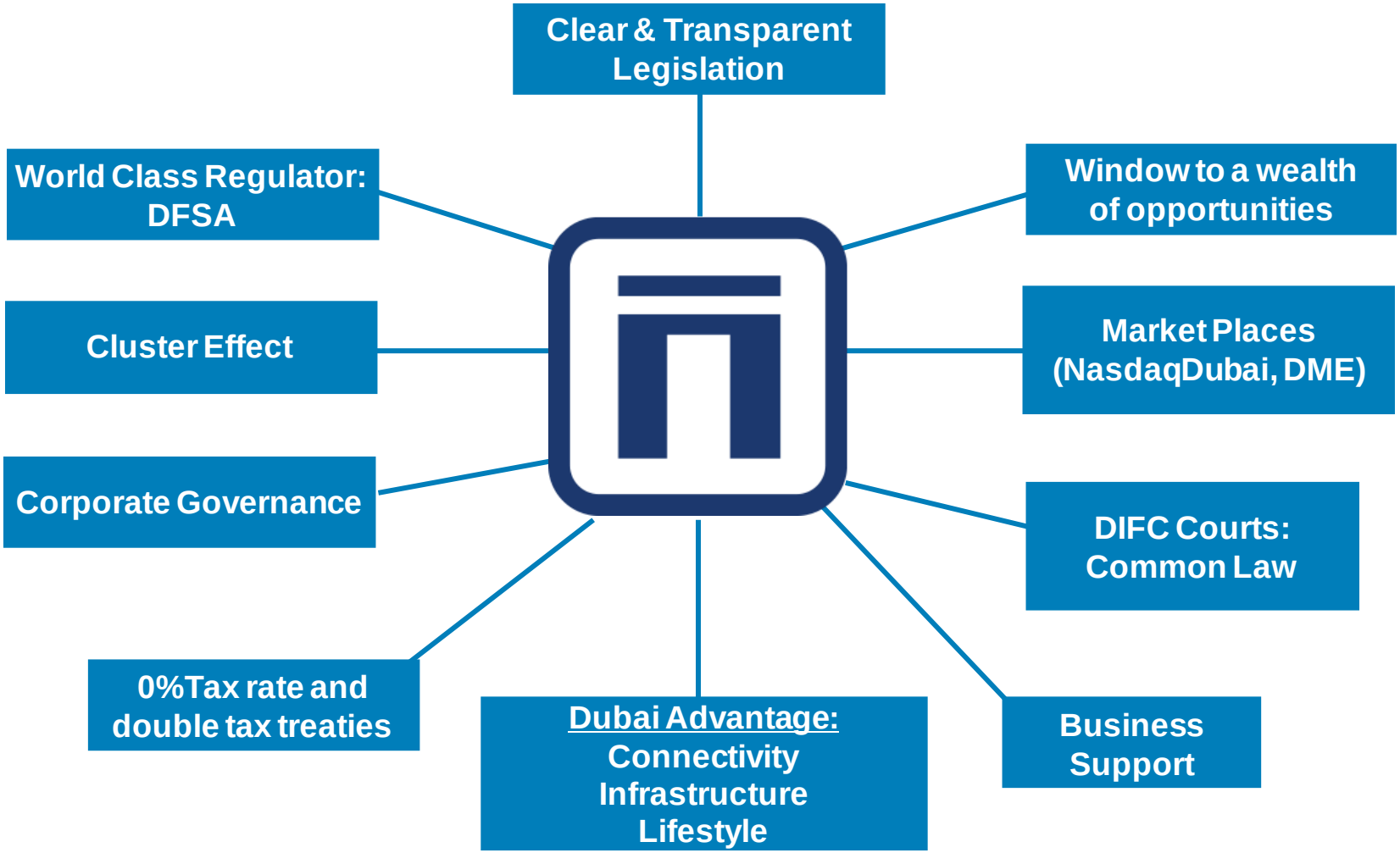
Independent Body
Dubai Financial Services Authority
(DFSA)

Registrar of Companies
(ROC)

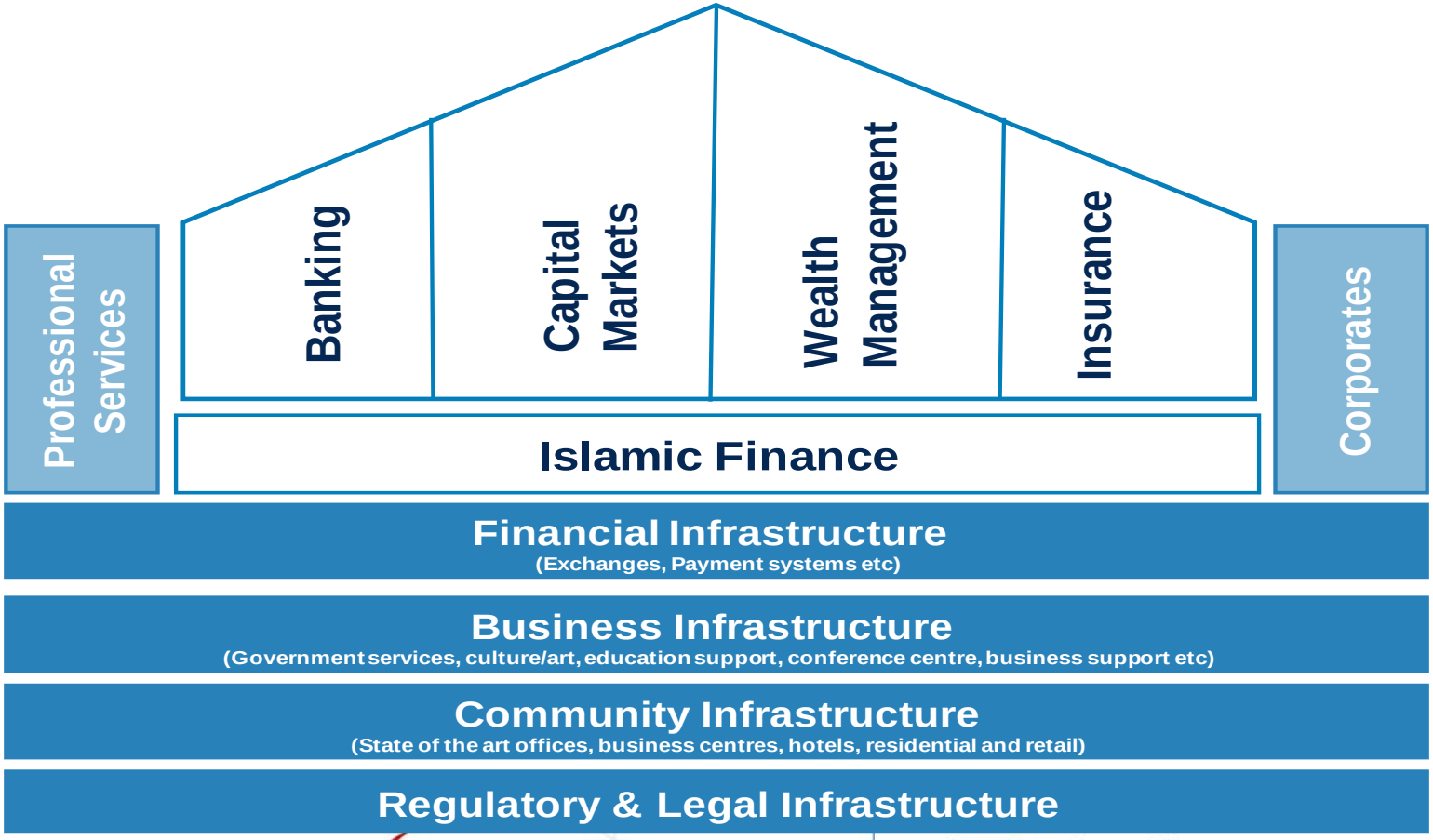
Registrar of Real Property
(RORP)

Registrar of Securities
(ROS)

DIFC Value Proposition



DIFC Ecosystem



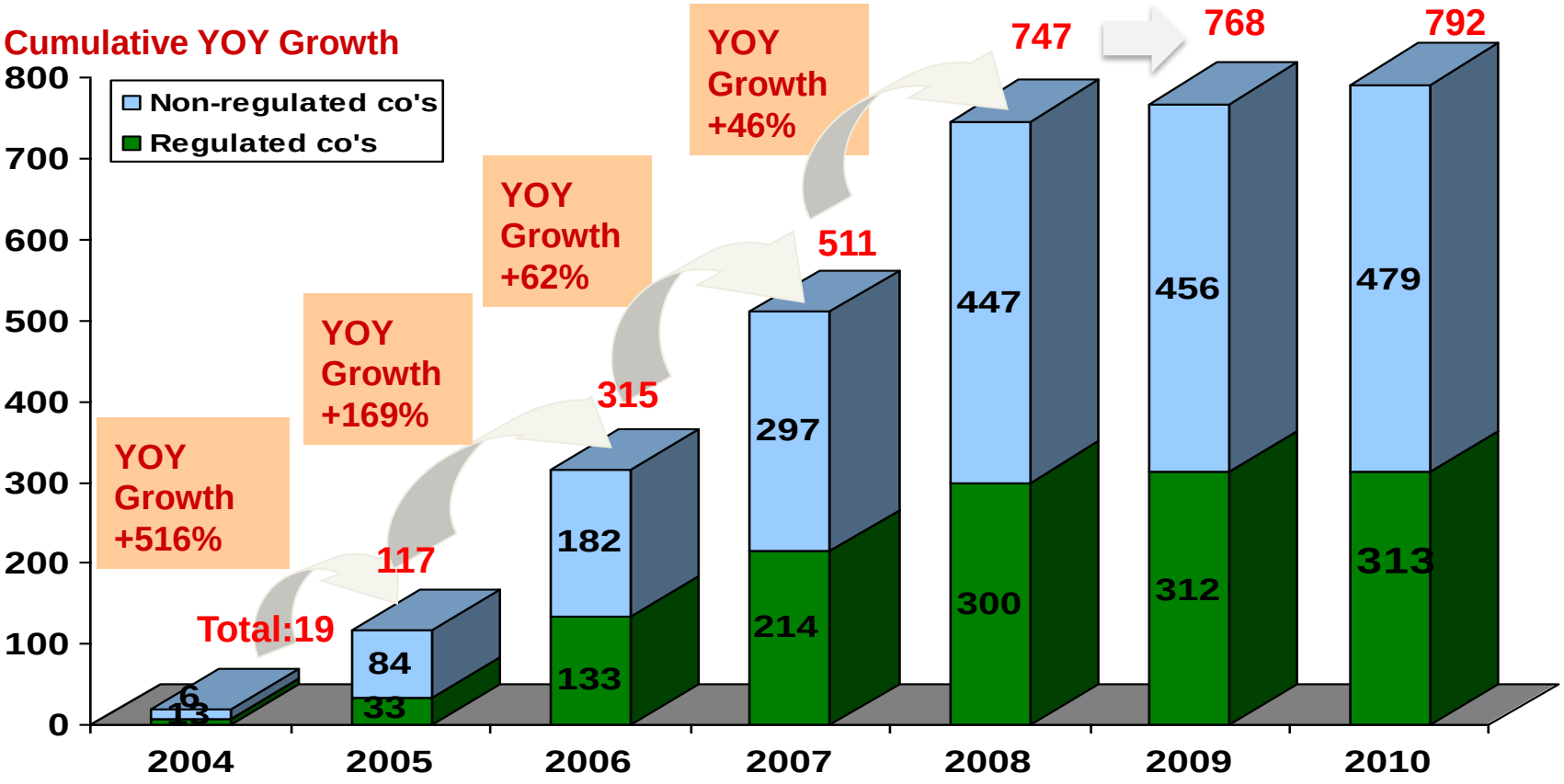
DFSA Dubai Financial Services Authority

DIFC Dubai International Financial Centre

محاكم DIFC COURTS

Development of DIFC as a Financial Hub

Yearly Growth in Number of DIFC Registered Companies



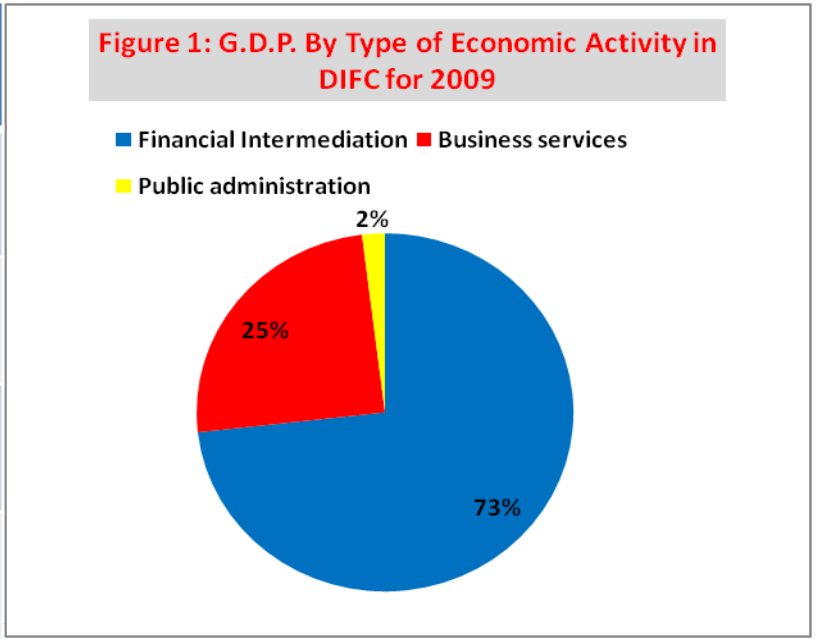
Of the total 792 active companies operating out of DIFC at end-December '10, there are 313 regulated (39.5%) and 479 non-regulated (60.5%) companies.

Data as of December 31st, 2010 ; Source: ROC Data, DFSA Register

GDP By Type of Economic Activity in DIFC

- The third survey of Economic Activity at the DIFC places the **total value added of the DIFC sub-economy at USD 2.8 billion** or approximately 1.1% of UAE GDP as estimated by the IMF, 1.83% of UAE's non-oil GDP and approximately 3.8% of Dubai's estimated 2009 GDP.
- The sector breakdown shows that the **financial sector accounts for 73% of the total value added within the DIFC**, while the **business services accounts for 25%.** Public administration (DIFCA, DFSA, DIFC Courts) reported only a minor contribution.

ISIC Code	Economic Activities	No.	No. (%)	Value	Value (%)
K	Financial Intermediation	218	53.7	2,029.6	73.2
H,M,N, P,J	Business services	184	45.3	687.5	24.8
O	Public administration	4	1.0	54.5	2.0
Total		**406**	**100**	**2,771.65**	**100**



Source: DIFC Economics

Thank You!

nasser.saidi@difc.ae