



DIFC | Dubai International Financial Centre

# **GCC's Economic Renaissance & Asia** **“The Future of Asia”**

**Nikkei Conference**

23 May 2008

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Chief Economist, DIFC Authority

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- **GCC Economic & Financial Renaissance**
  - **Infrastructure & Investment**
  - **GCC-Asia Strategic Alliance:**
    - **Trade**
    - **Investment & FDI**
    - **Financial Markets**
    - **International Presence & Cooperation**

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- **MENA average real GDP growth 6.2% over 2004-2007 vs. 3.7% in 1998-2002**
  - **The GCC has achieved above average growth rates: average real GDP growth of 6.5% over 2003-2007 vs. 2.5 % in 1998-2002, with increased diversification of economic activity, while in nominal terms growth has averaged over 25% p.a.**
  - **Continued high growth is forecast in 2008: MENA at (6.1%), GCC at (6.6 %), oil exporters ( 6.4% ) and Central Asia (7.2% ).**
  - **Strong fundamentals and macroeconomic conditions characterized by large twin current account & fiscal surpluses and declining levels of public debt.**
  - **Oil export receipts reached \$381bn in 2007, up 8% from 2006**
  - **Growth resurgence has been investment led with increased infrastructure investment leading to ↑ in absorptive capacity and higher productivity**
  - **Sustained by strong global growth led by Emerging Markets**
  - **Economic reforms, diversification and state divestment & privatisation: non-oil growing faster than oil sector**

- **Positive demographics & migration sustaining low labour costs & output growth**
- **Spillover of growth to labour exporting countries through rising flow of remittances, FDI and portfolio investment**
- **Shift in the pattern of public spending and investment: more inward and intra-regional approach to investment**
- **Private sector is leading and driving regional economic integration of markets, FDI, Tourism, labor flows**
- **Emergence of multinationals: DP, Etisalat, Emaar, Mittal, Orascom, MTC...**
- **Diversification and growth of non oil revenues**
- **Increased regional integration:**
  - **GCC Common Market starting in January 2008**
  - **GCC Common Currency in 2010**

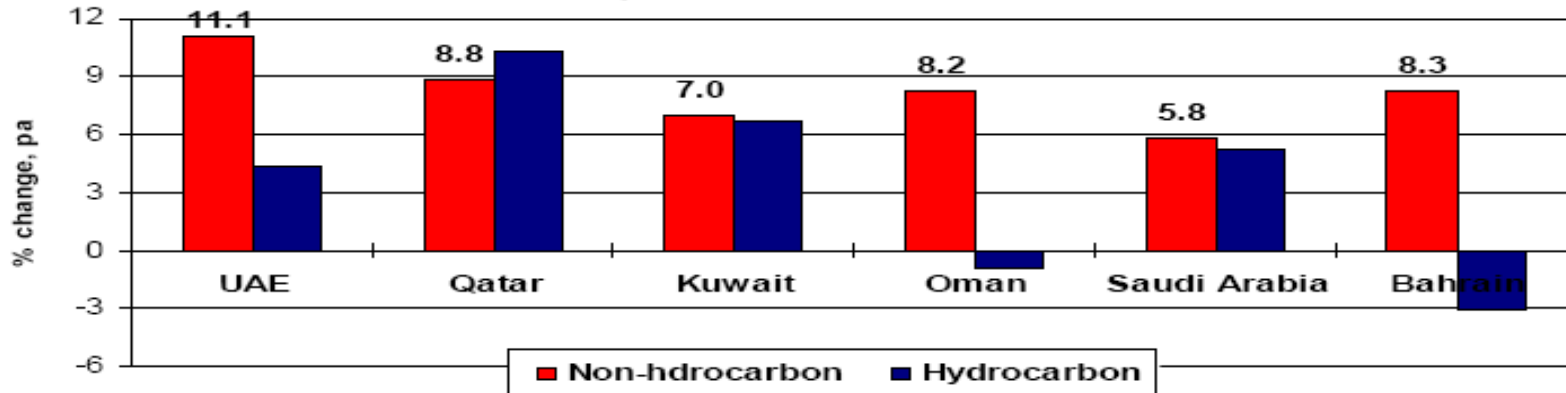
# DIFC Region Real GDP Growth Outlook 1998-2008



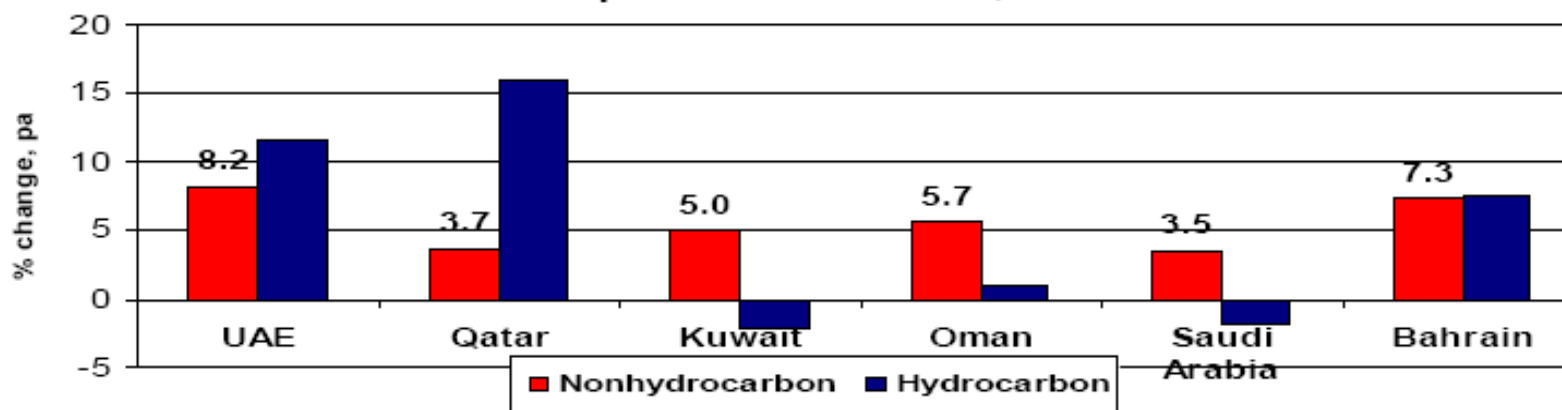
	1998-2002	2003	2004	2005	2006	2007 (est.)	2008 (proj.)
MENA	3.8	6.5	6.3	5.8	6	5.4	6
Oil Exporters	3.8	7.6	6.8	6.3	6.2	5.5	6.4
Arabian Peninsula	3	6.6	7.7	6.3	6.4	5.3	6.6
Algeria	3.6	4.7	5.2	5.3	3.6	4.6	5.3
Azerbaijan	7.7	11.2	10.2	26.2	34.5	25	17
Bahrain	4.8	7.1	5.5	7.8	6.5	7	6.8
Iran	4.2	7.1	5.1	4.7	5.8	5.4	5.2
Iraq			46.5	-0.7	6.2	5.9	6.2
Kazakhstan	6.8	9.3	9.6	9.7	10.6	8.5	7
Kuwait	8.2	16.5	10.4	9.9	11.3	6.9	8.3
Libya	2.2	7.1	5.3	5.5	5.8	5.4	5.2
Oman	3.6	2.3	5.4	5.8	6.6	5.3	5.1
Saudi Arabia	1.5	7.7	5.3	6.1	4.2	3.5	6
UAE	4	11.9	9.7	8.2	9.4	7.5	8.2
Turkmenistan	15.6	13	9	6	6	6	9
Syria	2.9	1.1	6.7	4.5	4.4	6	4.1
Qatar	7	3.5	20.8	6.1	9.9	8.4	11.7
Egypt	5.1	3.1	4.1	4.4	6.8	7.8	7

Source: EIU, IMF & DIFC Economics

**Growth Components in the GCC, 2003-2008F**



**Growth Components in the GCC, 1997-2002**



Source: EIU, IMF & DIFC Economics

# Gulf Infrastructure Projects (Millions USD)

(Source: MEED)

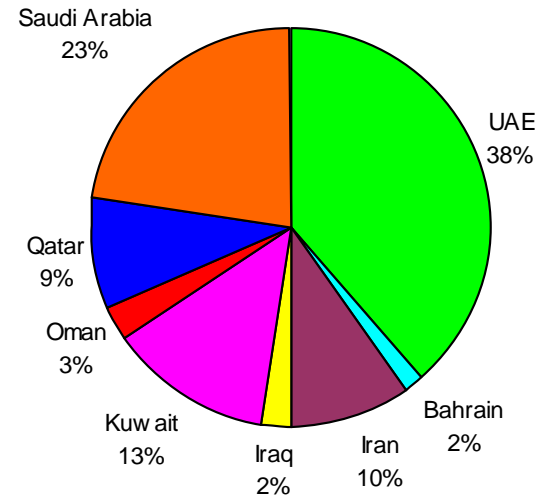
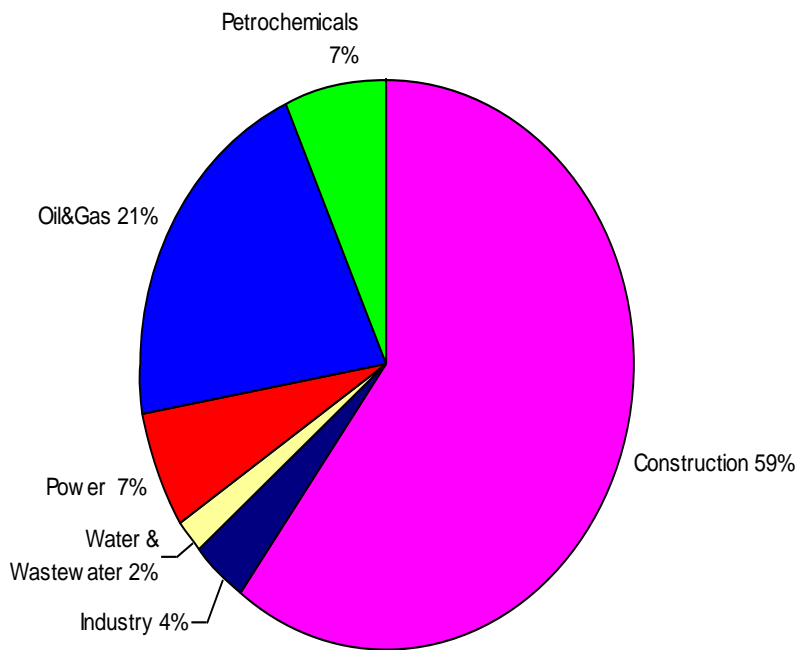


	28-Jan-08	28-Jan-07	% change, pa
Bahrain	27,821	33,155	-16.1
Kuwait	274,597	213,225	28.8
Oman	51,023	41,106	24.1
Qatar	156,192	132,325	18
Saudi Arabia	400,882	312,451	28.3
UAE	717,223	486,422	47.4
<b>GCC total</b>	<b>1,627,738</b>	<b>1,218,684</b>	<b>33.6</b>
Iran	151,685	103,213	47
Iraq	33,465	28,460	17.6
<b>Regional total</b>	<b>1,812,888</b>	<b>1,350,357</b>	<b>34.3</b>

# Gulf Projects by Sector & Country



• As of March 2008 the pipeline of projects (including those under construction) is estimated at USD 1.8 trillion mark, which amounts to 125 % GCC countries' GDP. Saudi Arabia and UAE account for an estimated USD 1.2 trillion worth of projects alone. The largest project, the Silk City, in Kuwait will cost USD 77 billion.

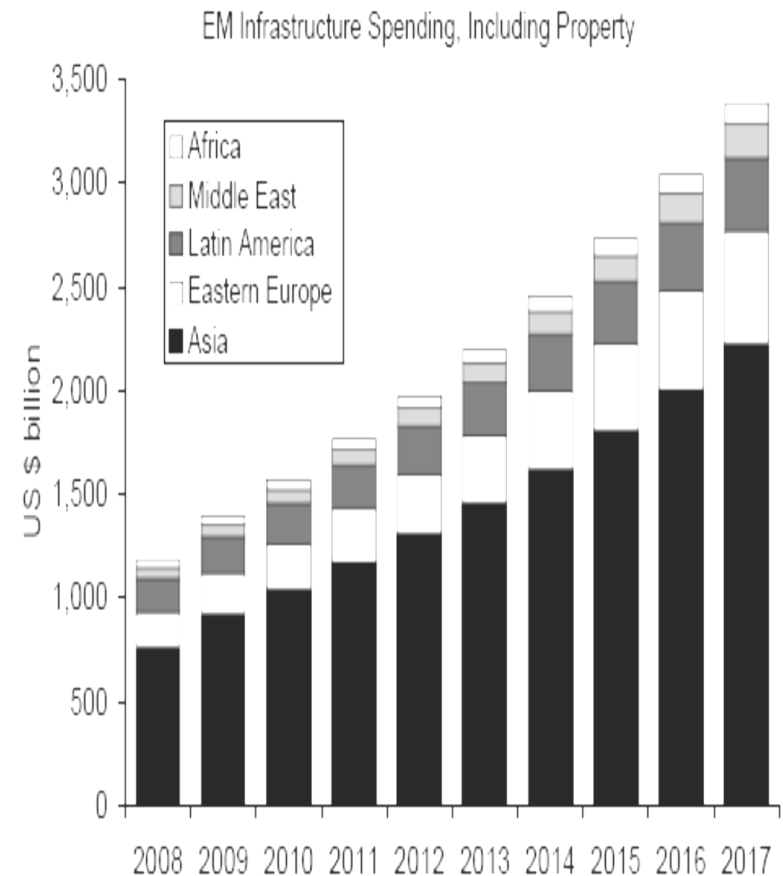


Source: MEED Project Tracker, 2008



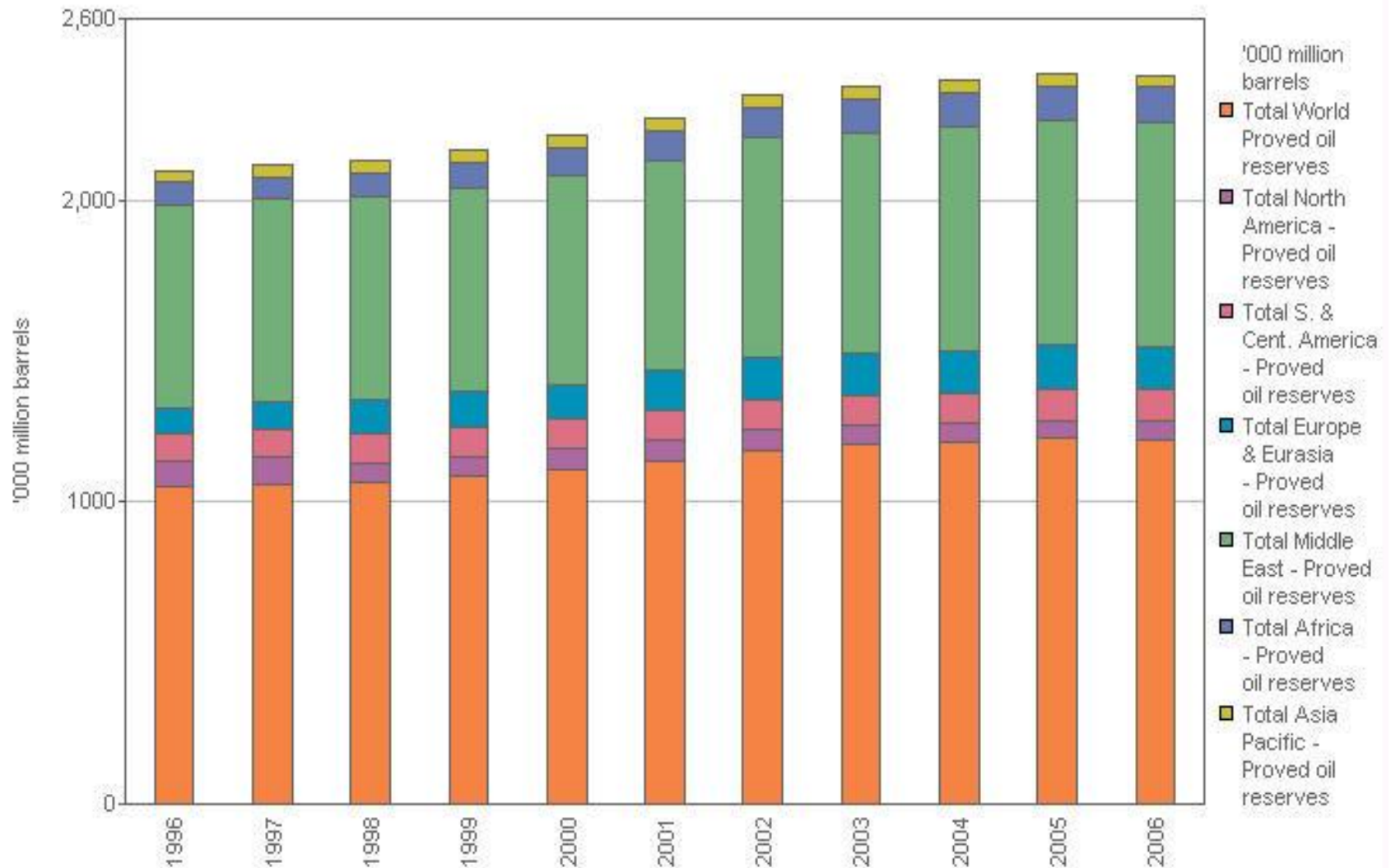
- Forecast EM infrastructure investment: Asia 67% of total, with China and India 43% and 13% of total; Russia 10%; Brazil 5%, Middle East 4%
- **Infrastructure drivers:**
- Demographics
- Urbanisation
- Policy reforms, Increased openness and move to market-based economies
- **Infrastructure investment will:**
- Increase productive capacity and export capacity through improved logistics
- Enable economic diversification
- Underlie economic development and higher growth
- Lead to higher total factor productivity (TFP) and labor productivity growth
- Underpin growth of financial markets

## US\$21.7 trillion in EM Infrastructure Spending: 2008-17e



Source: World Bank, Global Insight, Morgan Stanley Research estimates

# Proven Oil Reserves in the World 1996-2006

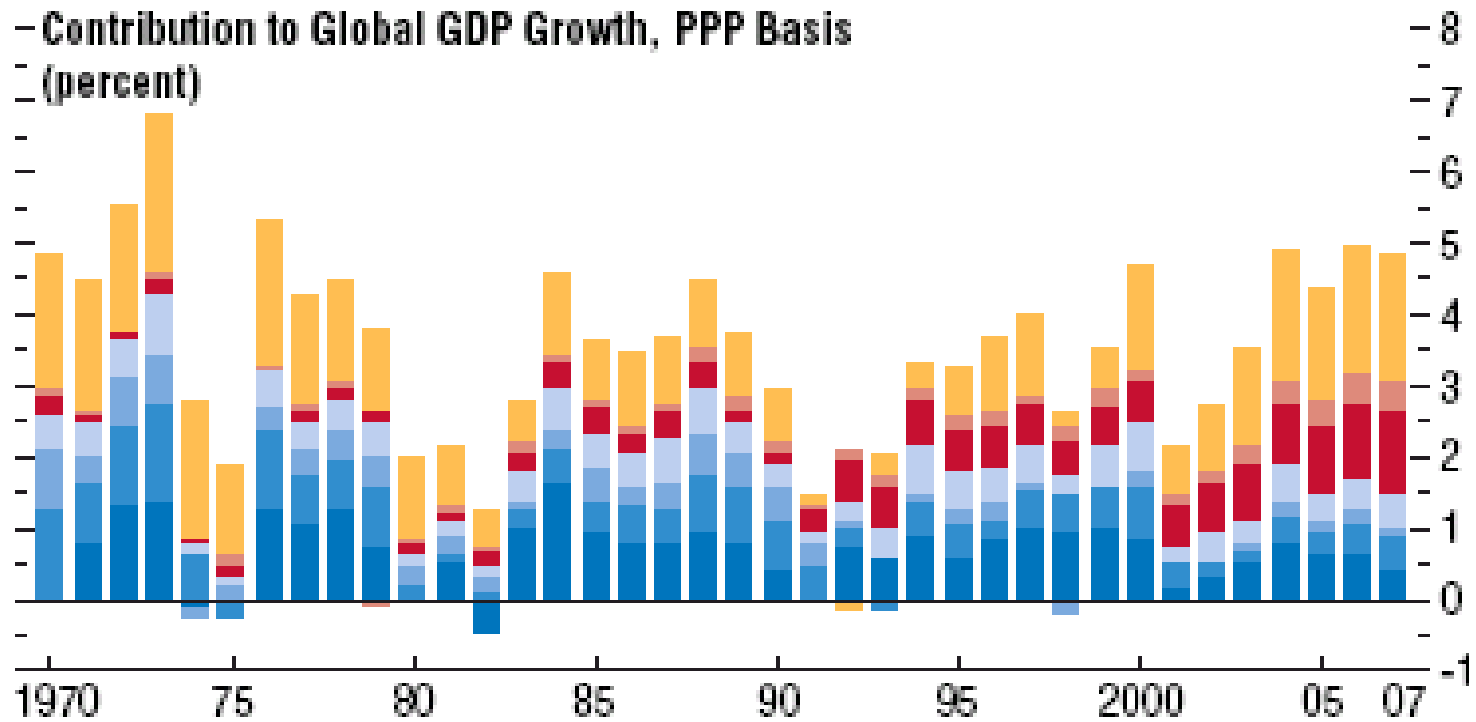


Source: BP Statistical Review of World Energy 2007

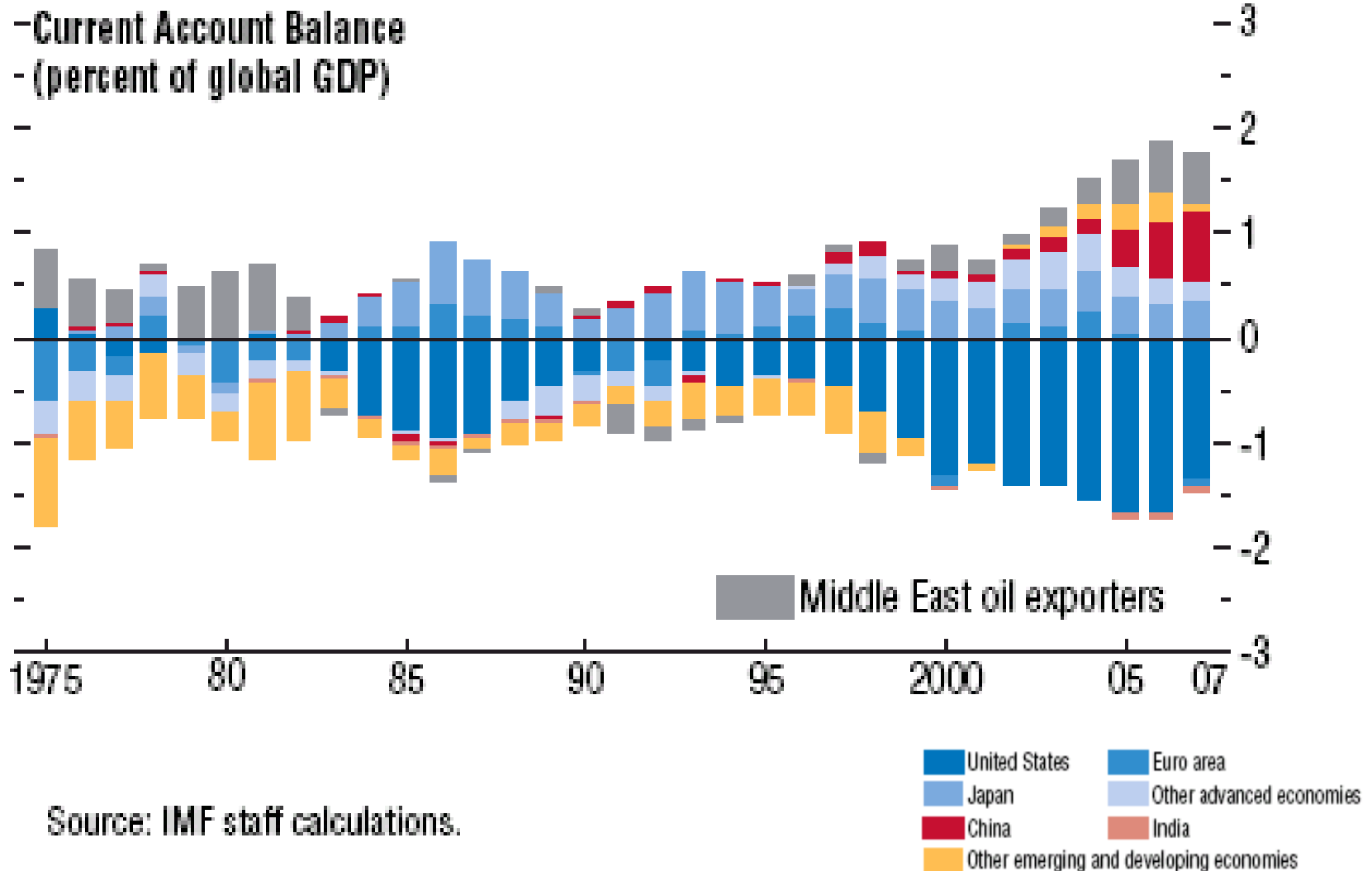
## Massive Wealth Creation

- Value of oil wealth of Middle East oil exporters increased by more than \$30 trillion between 1995 and 2007
- Given global energy demand growth projections, using conservative estimates for oil prices at \$85/bbl, the projected cumulative oil and natural gas revenues for the GCC in the 2005-2030 period totals \$10.6 trillion.
- US\$ Peg and accommodating monetary policies led to high money and credit growth rates, and financing real estate and financial market booms with spectacular gains and excess returns in equity and debt market instruments
- Rise in inflation: Inflation rate is forecast to increase from 5.3% in 2007 to 8.3% in 2008 for MENA and from 11.8% to 13.7% for GCC.
  - Imported inflation as a result of US\$ depreciation
  - Increase in world commodity and food prices
  - Increase in prices of non traded goods & services
- Increased liquidity resulted in an investment driven boom:
  - Real estate boom and asset price appreciation
  - Stock market boom
  - Credit market boom

- External position positive with MENA current AC surplus forecast at 16.5% for 2008; for GCC countries the forecast is running at 22.7% of GDP for 2008.
- MENA international reserves have tripled between 2003 and 2007: \$242.9bn (2003) to \$776.6bn (2007) and forecast at \$967.5 billion for 2008.
- GCC international reserves have quadrupled from \$90.5 (2003) to \$365 (2007) and forecast at \$ \$455 billion by 2008.
- Surpluses are being recycled back into regional economies leading to greater regional & international economic integration.
- Cumulative current account surplus for the GCC countries is expected to grow to \$954.6 billion by 2008.

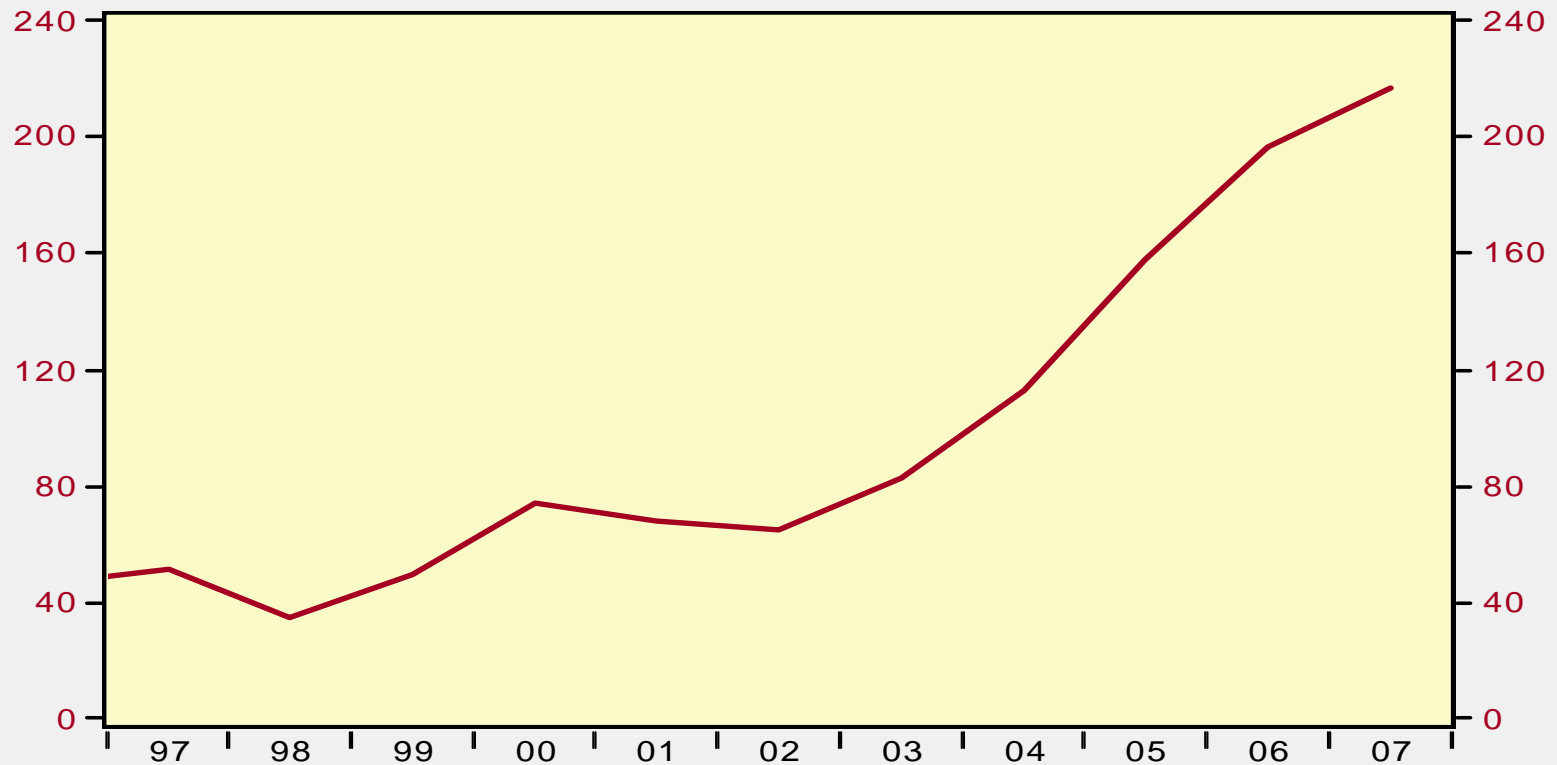


# World Current Account Trends



## Middle East: Exports to Asia

BiL.US\$

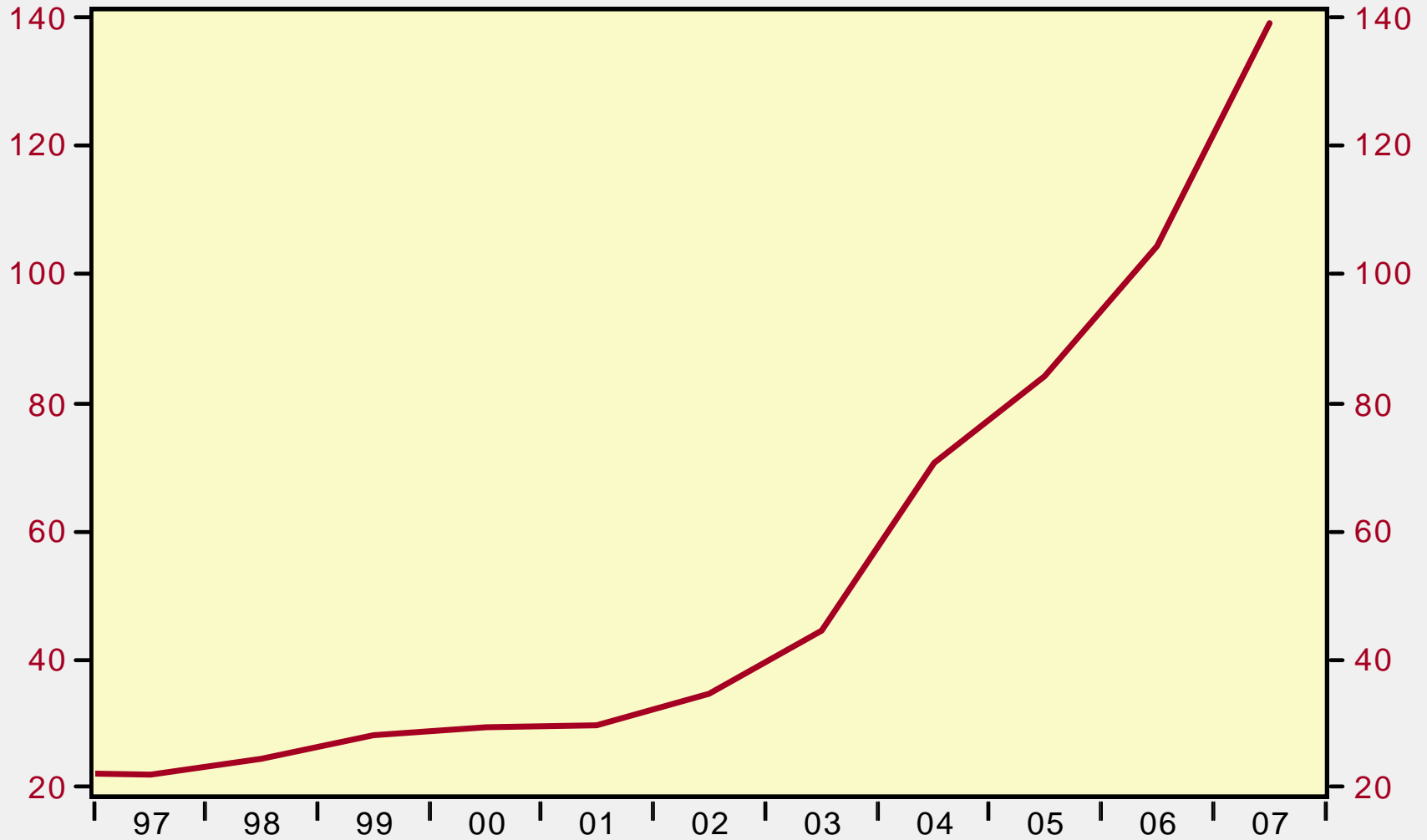


Source: International Monetary Fund /Haver Analytics

Source: EIU, IMF & DIFC Economics

# Middle East: Imports {cif} from Asia

Bil.US\$

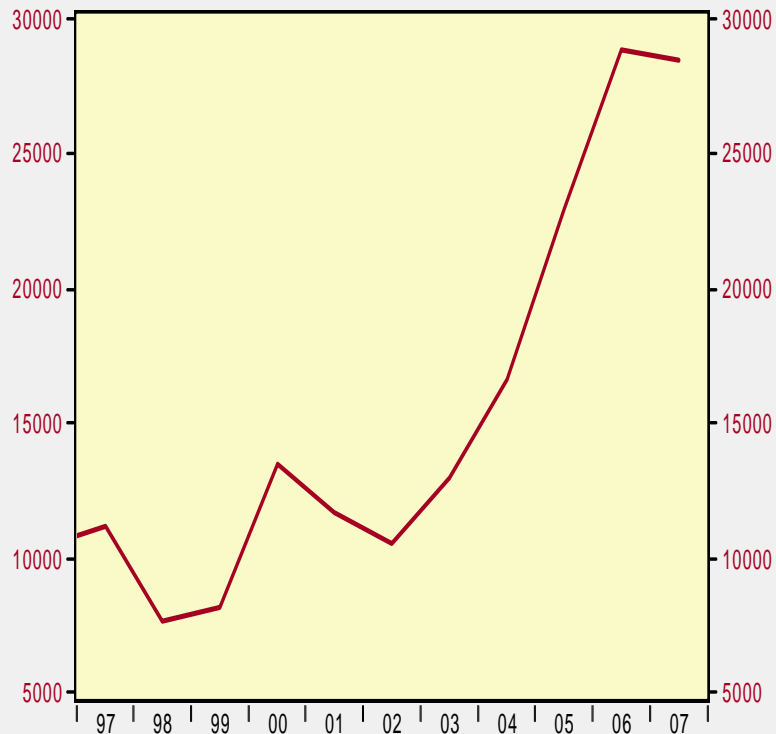


Source: International Monetary Fund /Haver Analytics



### United Arab Emirates: Exports to Japan

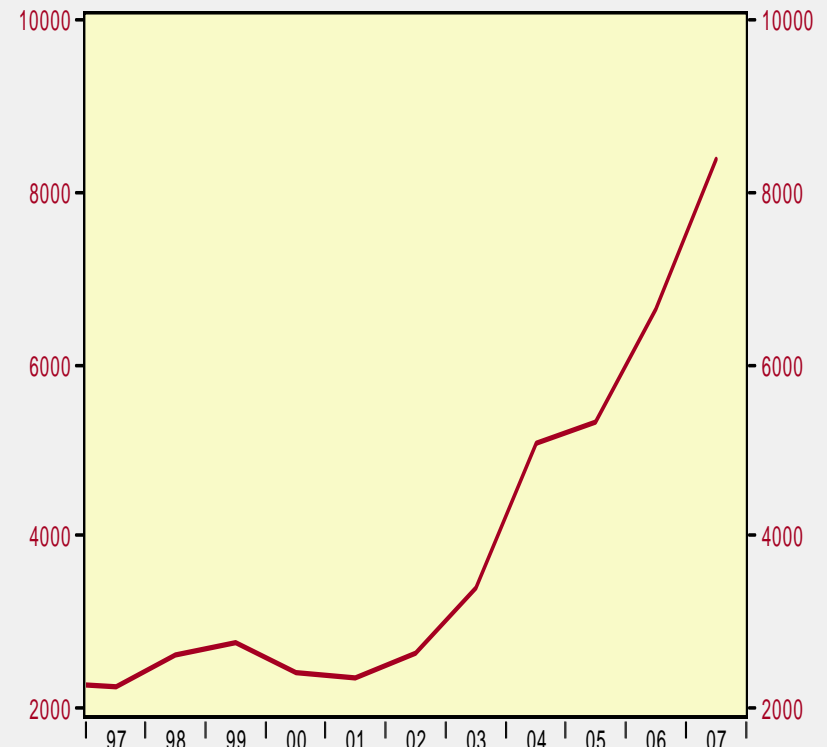
Mil. US\$



Source: International Monetary Fund /Haver Analytics

### United Arab Emirates: Imports {cif} from Japan

Mil. US\$

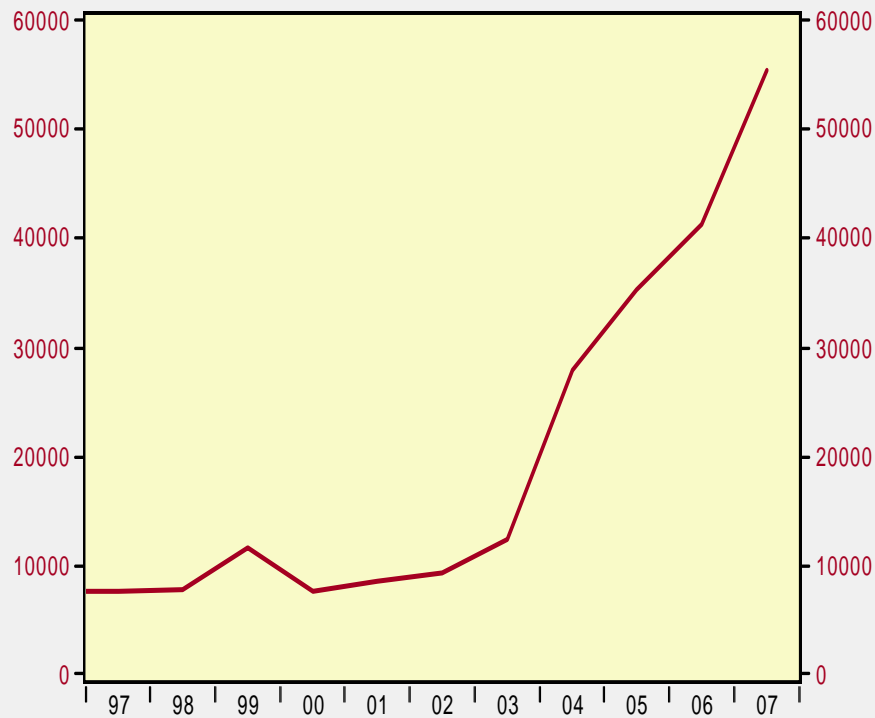


Source: International Monetary Fund /Haver Analytics

Source: EIU, IMF & DIFC Economics

United Arab Emirates: Imports {cif} from Asia

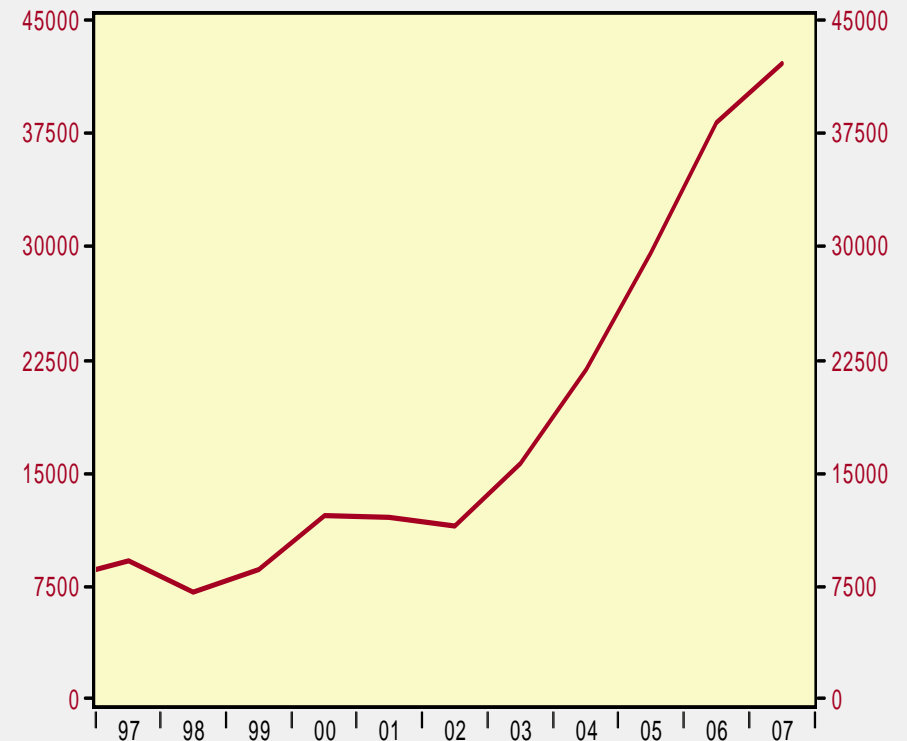
Mil. US\$



Source: International Monetary Fund /Haver Analytics

United Arab Emirates: Exports to Asia

Mil. US\$

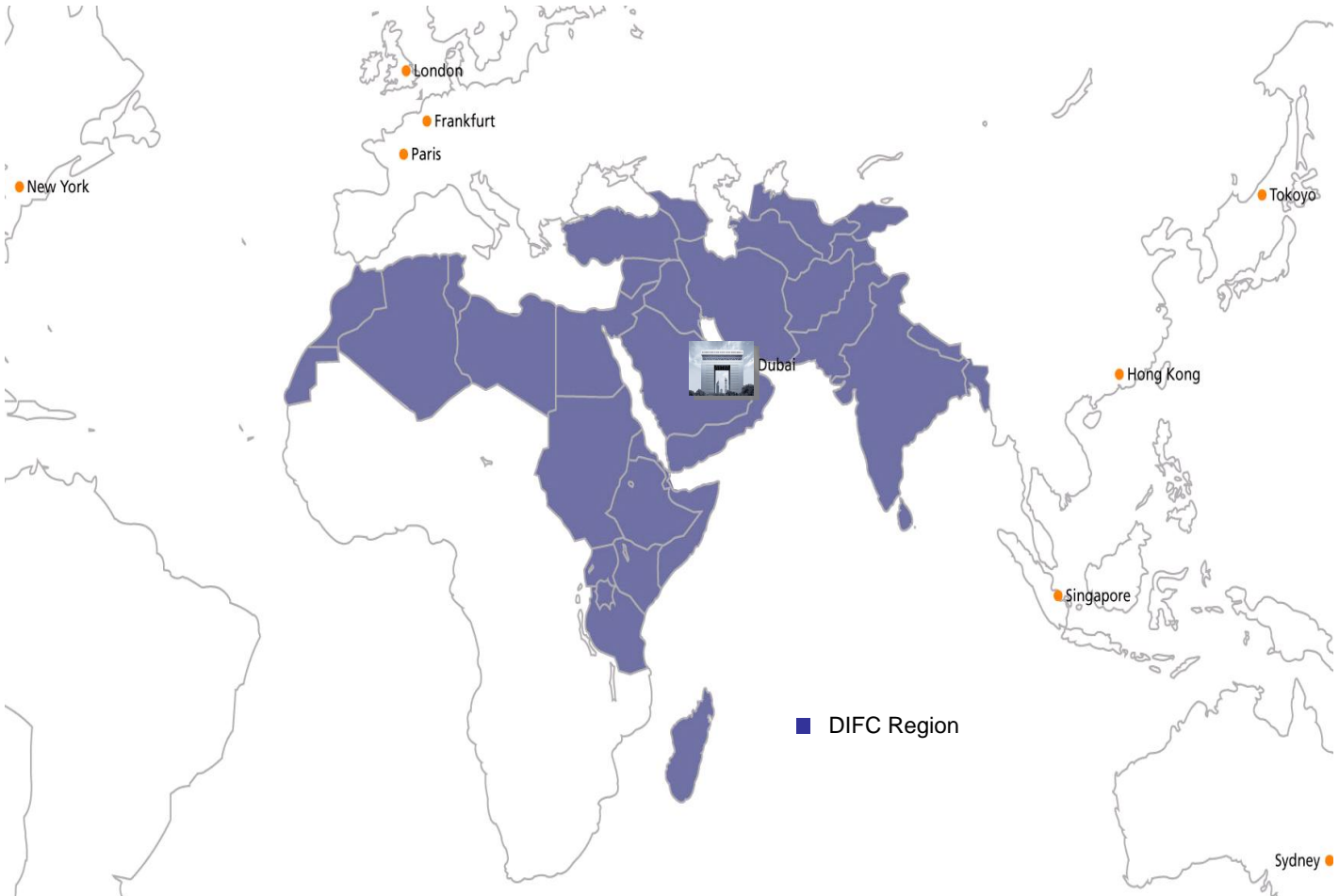


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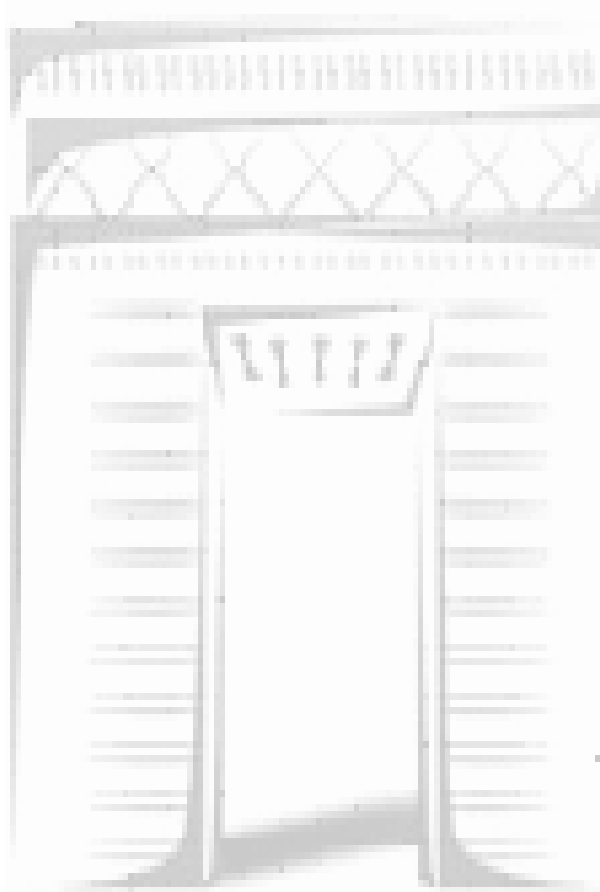
- **GCC have become ‘asset-based economies’ with income from assets becoming more important than oil & gas revenue**
- **Invest, Manage and Control region’s financial wealth of \$2+ trillion and growing as a result of high energy prices**
- **Financing Infrastructure & Regional Economic Integration**
- **Enable & support economic and financial reforms:**
  - **Enable separation of oil revenue management from fiscal policy & investment**
  - **Privatisation and private sector participation in infrastructure**
- **Change in Global Economic Geography requires accompanying change in Global Financial Geography**

- **Total value of FWFs estimated by IMF at between \$1.9 trillion and \$2.9 trillion, growing to about \$12 trillion by 2012**
- **GCC countries need to diversify against commodity price volatility and revenue risks; earn higher returns than on central bank portfolios**
- **FWFs allow countries to separate the management of their revenues from natural resources from their fiscal and monetary policies: act as “automatic sterilization mechanisms”**
- **But facing increased investment & financial protectionism**
- **Need cooperative solution to deal with global imbalances**
- **FWFs have exerted a stabilizing influence on markets by**
  - **Injecting capital in distressed banks => reduced contagion risk**
  - **Continuing to buy US government securities**
- **Asian investment opportunities are a natural diversification for GCC investment funds**



- Internationally-accepted common legal framework
- A regulated financial centre with full transparency
- Platform to centralise regional wealth for economic growth & development
- Deployment channel for new wealth
- Link to the international markets

*The **vision** of the Dubai International Financial Centre (DIFC) is to shape tomorrow's financial map as a global gateway for capital and investment.*



**Onshore Capital Market / International Standards**

**Designated as a Financial Free Zone**

**Foreign Currency Denominated / Zero Tax Rate\***

**Civil and Commercial Laws of UAE disappled**

**Tailor made laws for the DIFC**

**No local partner requirements**

**Wholesale centre for Qualified Investors**

# DIFC- Core Divisions

**DIFC  
Authority**

*DIFC  
Authority*

Responsible for  
the strategic  
development of  
the Centre.

**DIFX**

*Dubai  
International  
Financial  
Exchange*

Integrated  
world class  
trading platform

**DFSA**

*Dubai Financial  
Services  
Authority*

Rule-Making  
and Policy  
Development  
Licensing and  
registration of  
DIFC  
Participants  
Supervision of  
DIFC  
Participants  
Enforcement of  
legislation

**DJA**

*DIFC Judicial  
Authority*

An independent  
court with  
exclusive civil  
and commercial  
jurisdiction.

**ROC**

*Registrar of  
Companies*

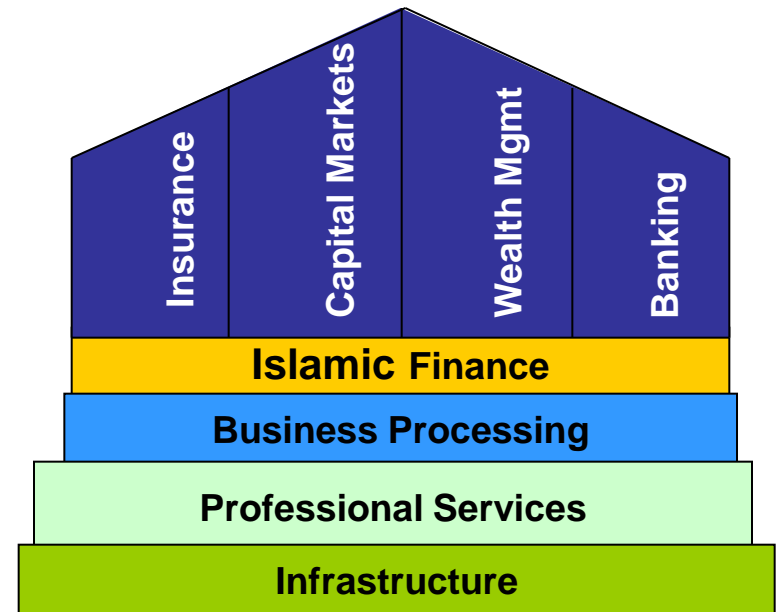
Responsible for  
incorporating  
and registering  
all the  
companies that  
operate within  
the DIFC, and  
for  
administering  
the Companies  
Law and  
Regulations.

**DIFCI**

*DIFC  
Investments*

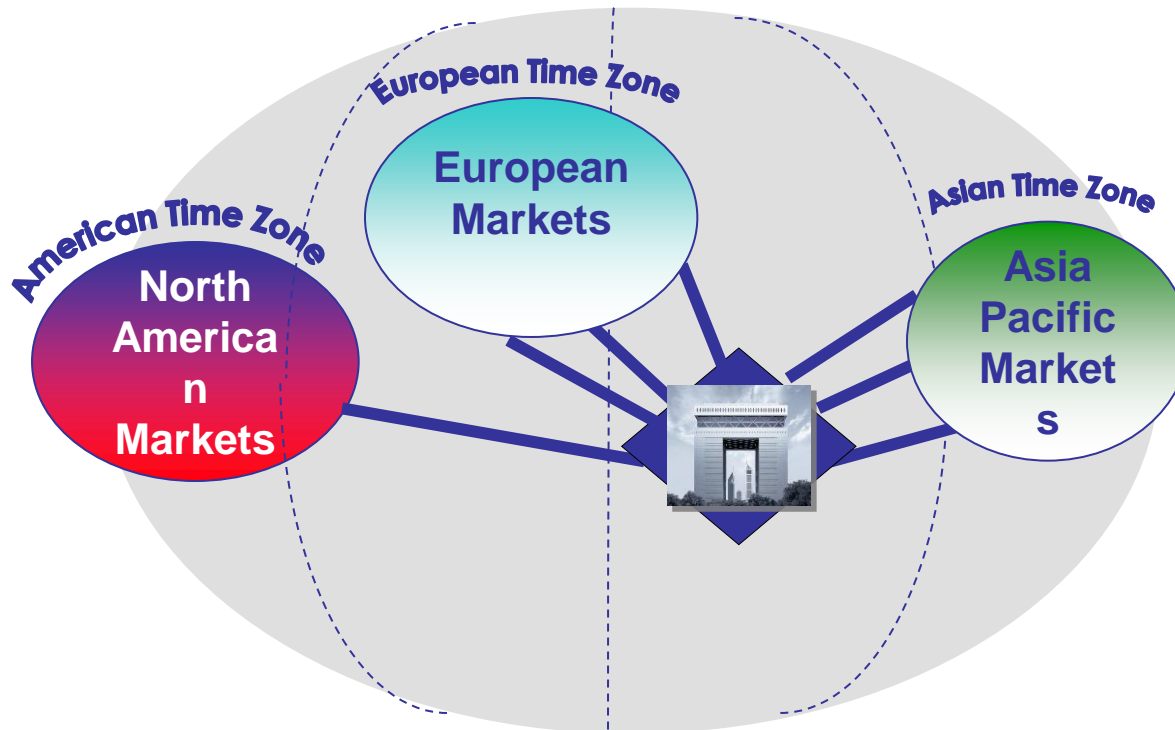
Responsible for  
all non public  
admin activities  
such as the  
operation and  
management of  
any current and  
future  
subsidiaries.

- **Banking & Brokerage Services**
  - (Investment Banking, Corporate Banking & Private Banking)
- **Capital Markets**
  - (Equity, Debt Instruments, Derivatives and Commodity Trading)
- **Wealth Management**
  - (Family Office, Trust Services)
- **Islamic Finance**
- **Fund Registration & Domiciliation**
- **Insurance & Reinsurance**
  - (Takaful/Retakaful, Captives)
- **Business Processing Operations**
- **Professional Services**





## Dubai's Time Zone Advantage in a 24-Hour Global Market

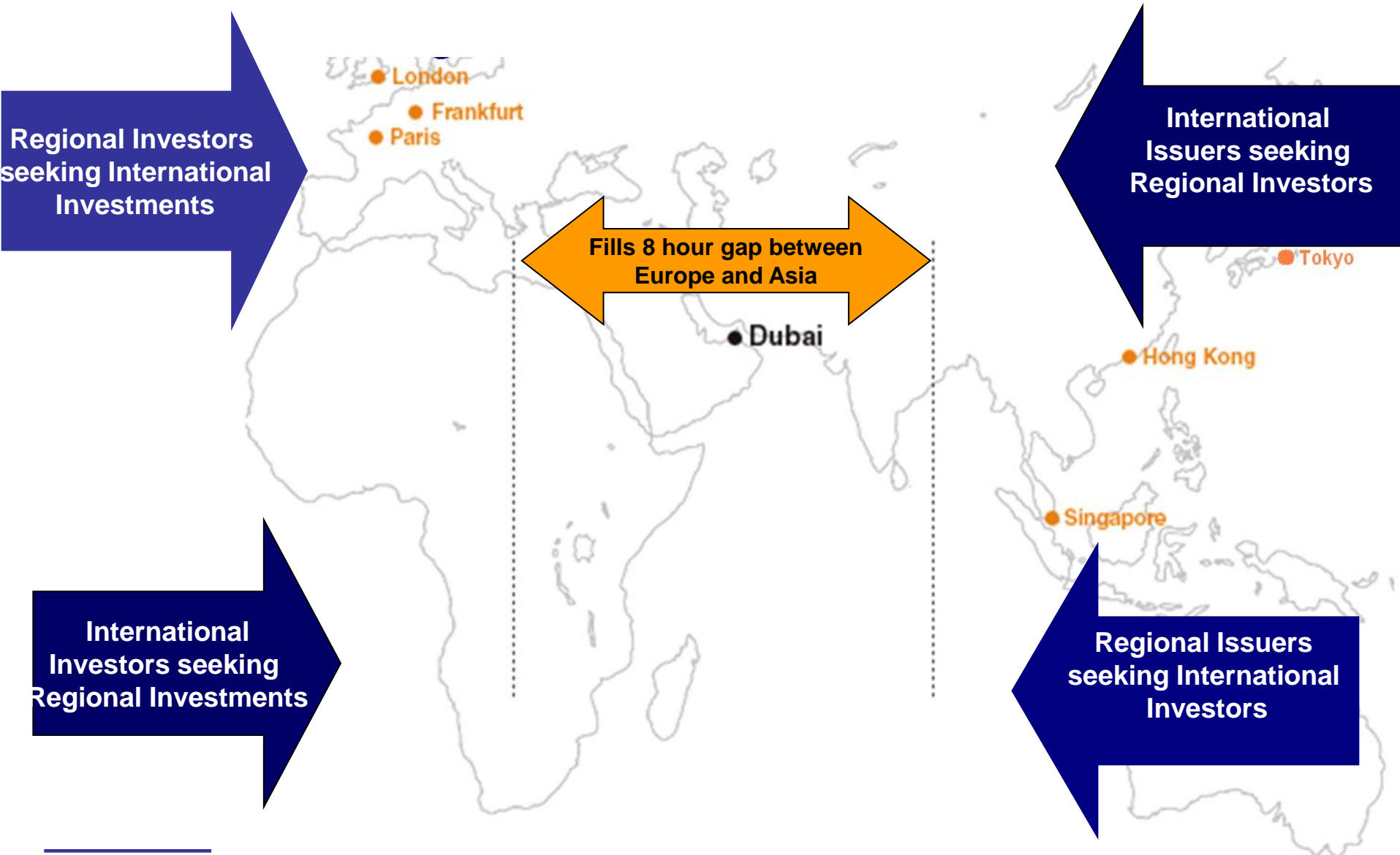


**Dubai is 4 hours ahead of Greenwich Mean time (GMT)**

**9am Dubai=1pm Hong Kong**

**1pm Dubai= 9am London**

**5pm Dubai=9am New York**



- **GCC Common Currency can emerge as a global currency alongside US\$, Euro, Yen and Remimbi**
- **Invest, Manage and Control region's financial wealth of \$2+ trillion and growing as a result of high energy prices:**
  - **Financial sector to be an engine of growth**
  - **Strategic issue: security and safety of assets**
- **Develop new markets and instruments**
  - **Shari'a compliant financial sector & market**
  - **Bond market**
  - **Securitisation and structured finance**
  - **Housing Finance & Mortgage markets**

- 
- Centre of global Economic Geography has shifted East
  - **Change in global economic geography requires a similar change in global financial geography**
  - GCC centrally located between Europe and Asia
  - GCC becoming increasingly integrated: Common Market (2008), Common Currency (2010)
  - GCC is becoming powerhouse of CAMENA region
  - **GCC and Asian countries need to forge a strategic alliance based on:**
    - Trade
    - Investment
    - Financial Markets Integration
    - ‘Voice’ and International Presence

Four areas for cooperation and policy action

1. Financial Markets Integration:

1. **Market and payment system infrastructure**
2. **Regulatory cooperation and ‘financial passports’ through mutual recognition**
3. **Listing and Cross-listing of securities and mutual funds**
4. **Stock Exchange linkages and ownership through de-mutualisation**

2. Foreign Direct Investment

1. **Bilateral FDI to diversify risk**
2. **Linking and integration of infrastructure systems (power, energy, trade networks) & logistics**
3. **Private Participation in Infrastructure**

3. Trade

1. **Diversify away from dependence on energy: supply chain integration**
2. **Support through Foreign Trade & Investment agreements (FTAs)**

4. Voice & International Presence

1. **Representation in international bodies**
2. **Development of concerted action based on common interests**









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# **GCC's Economic Renaissance and Asia**

**A Time for Vision**

**A Time for Action**

**A Time for Architects and Designers**

**A Time for Builders & Investors**

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