



# KSA & UAE: Opportunities for Economic & Financial Integration

## Rising Giants - Opportunities in KSA

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# Agenda

- GCC: A Growing Powerhouse & Economic Bloc
- Economic Integration & Role of Financial Sector
- Dubai International Financial Centre: Synergies & Opportunities
- Economic Relations between UAE & KSA: Untapped Opportunities



# **GCC: A Growing Powerhouse & Economic Bloc**

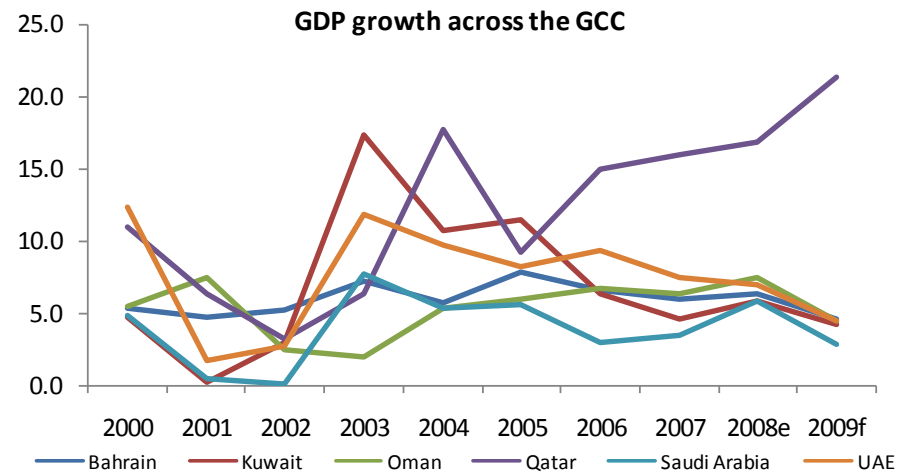
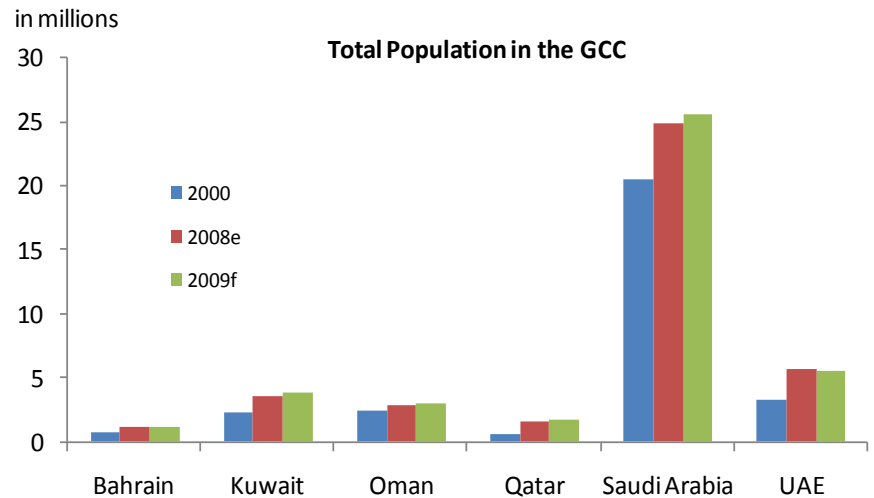
## GCC: Resilient in face of global turmoil

- GCC facing the challenges of the global economic and financial crisis
- Policy mix is sound: monetary easing, increased liquidity and fiscal stimulus
- Expected lower growth and lower inflation
- Infrastructure and demographics will remain key
- Institutional & Structural reforms required to sustain growth
- Benefit from greater economic & financial integration of the region, including prospective Gulf Monetary Union
- Global economic/financial geography shifting East
- GCC to play key role in future capital flows

# GCC a growing common market

How big is a GCC common market?

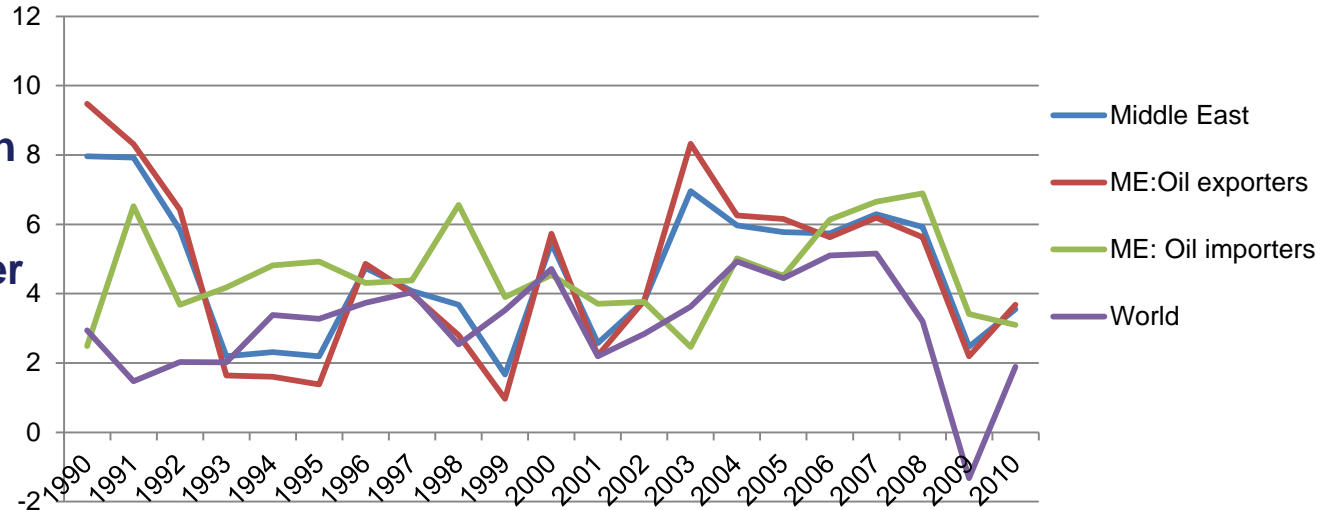
- Total GCC population is estimated at 37 million with GDP of \$880 billion
- Per capita GDP of \$22,500
- Oil sector contributes around 50% of the region's cumulative output and 75% of total exports and 85% of their governments' budget revenues.



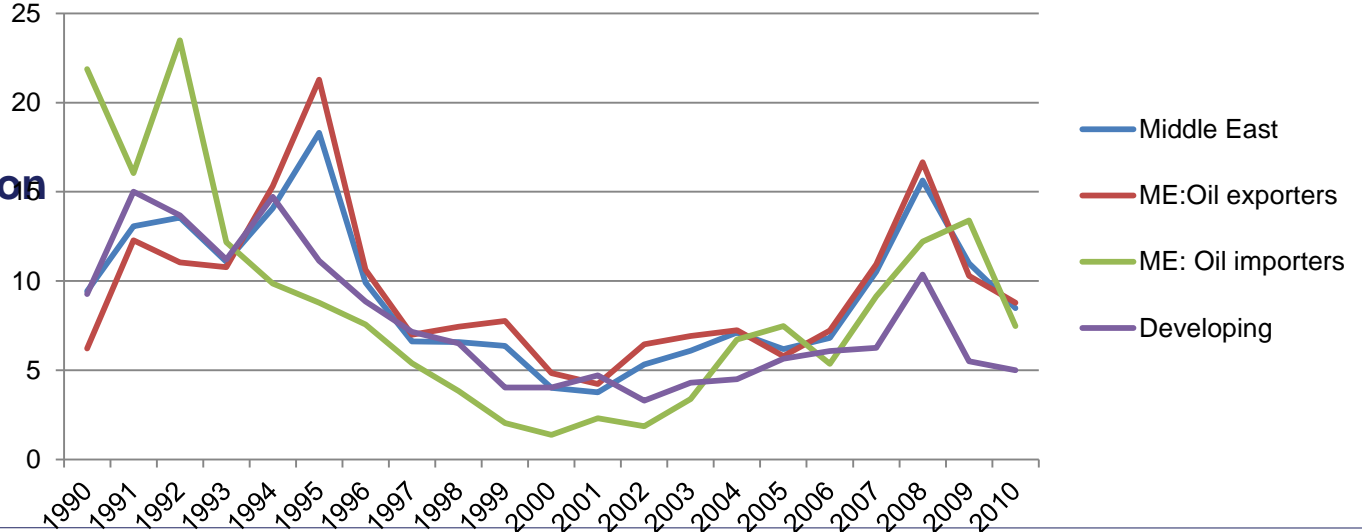
GCC share in World	%
Population	0.60%
Oil reserves	40.10%
Output	1.77%
Trade	1.80%
Stock Market Capitalisation	1.70%

# IMF WEO Real Growth & Inflation April 2009

**Real GDP Growth  
ME/GCC lower  
growth but better  
than global**



**Inflation: strong  
decline in inflation**



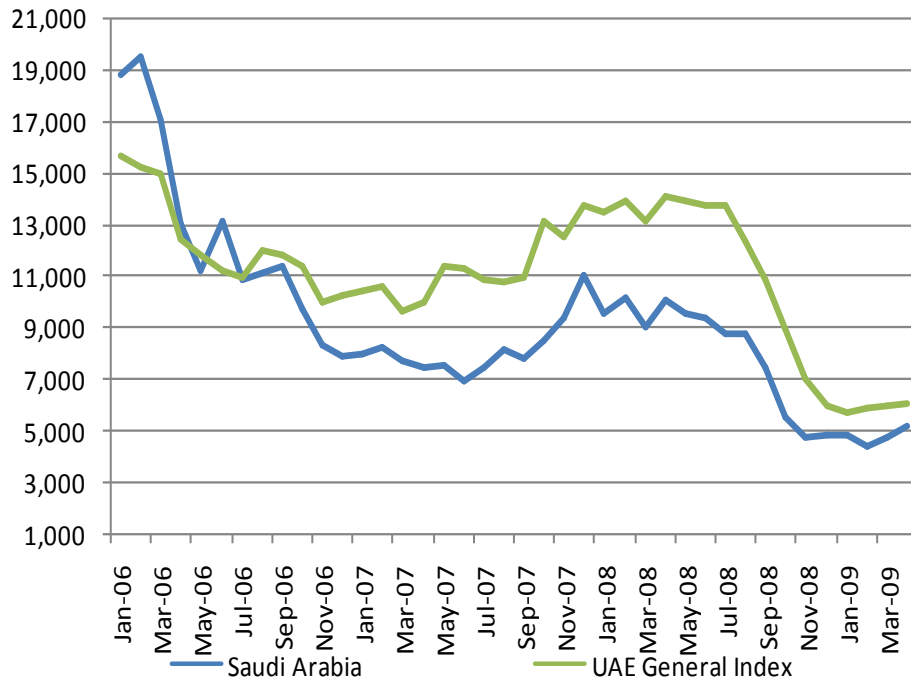
## Key Macroeconomic Indicators: UAE & KSA, 1990-2009

	Saudi Arabia				United Arab Emirates			
	1990	2000	2008e	2009f	1990	2000	2008e	2009f
Real GDP growth (%)	8.3	4.9	4.2	-1.0	17.5	12.3	7.4	-1.6
Nominal GDP (USD bns)	104.5	188.4	468.9	346.9	33.7	70.2	253.0	219.0
Inflation (%)	2.0	-1.1	9.9	2.8		1.3	20.0	4.5
Fiscal Balance (% of GDP)	30.1	36.5	62.6	33.2	31.1	28.8	31.1	18.9
Trade Balance (% of GDP)	19.4	25.1	39.8	7.5	30.0	26.3	20.9	7.0
Current Account Balance (% of GDP)	-3.6	7.6	28.9	-1.8	22.1	17.3	15.8	-5.6
International Reserves (USD bn)	11.9	19.8	30.6	22.8	4.8	13.6	34.8	29.8

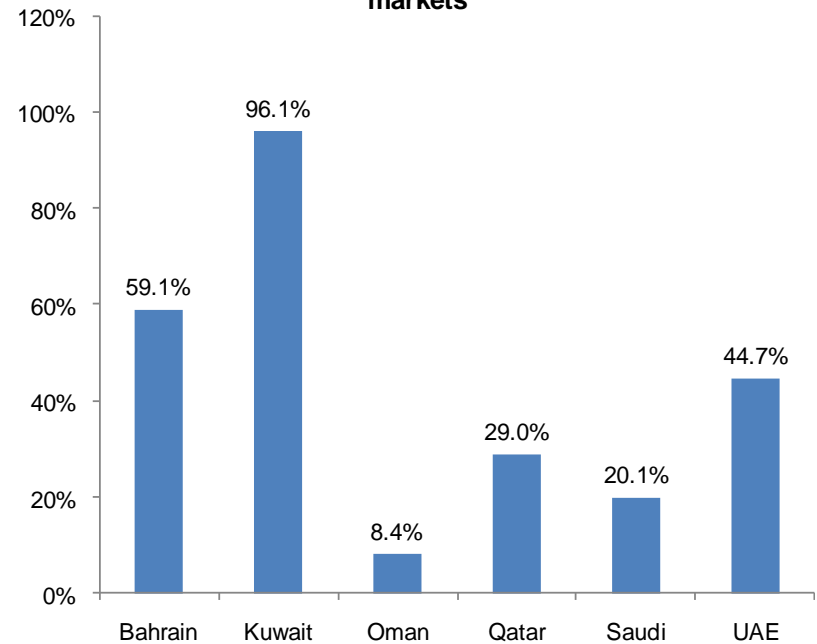
# Equity Market Performance

- Contagion effects from the crisis=> regional equity markets; but to a lesser extent than in G7
- Strong economic and financial fundamentals should restore investor confidence in the medium-term.

Saudi Arabia & UAE: Equity Market Performance



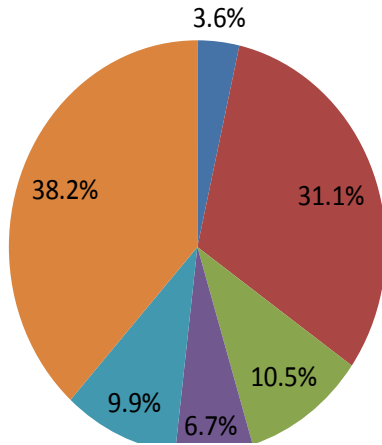
Market Capitalisation (as a % of GDP) of GCC stock markets





# Major Trading Partners of the GCC

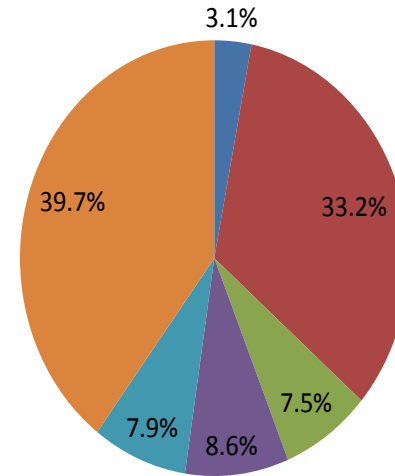
**GCC's Major Export Partners – Asia's increasing share in exports**



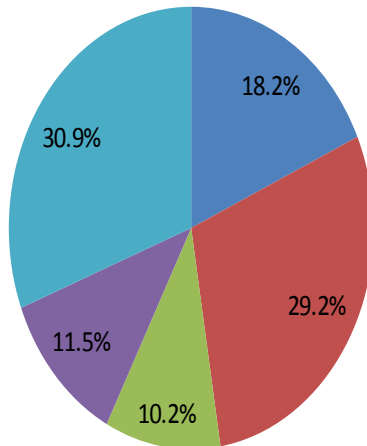
2000 data



2007 data



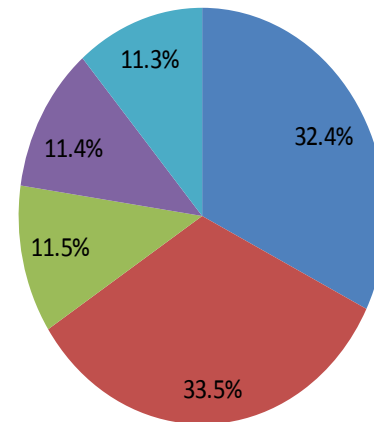
**GCC's Major Import Partners – the EU and Asia's rising share**



2000 data



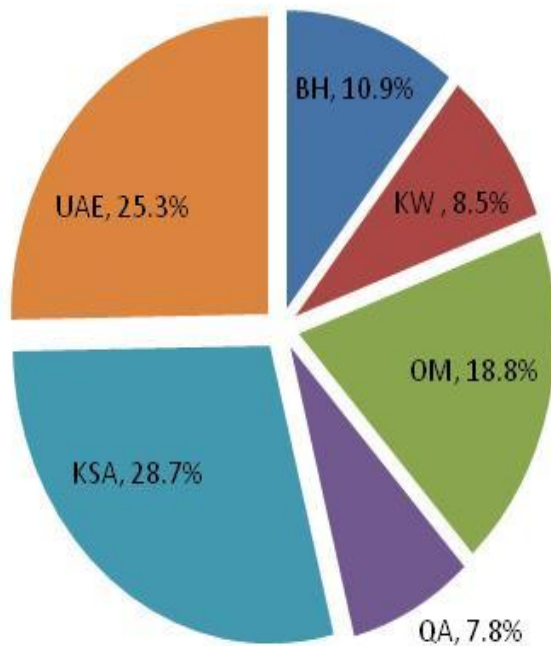
2007 data



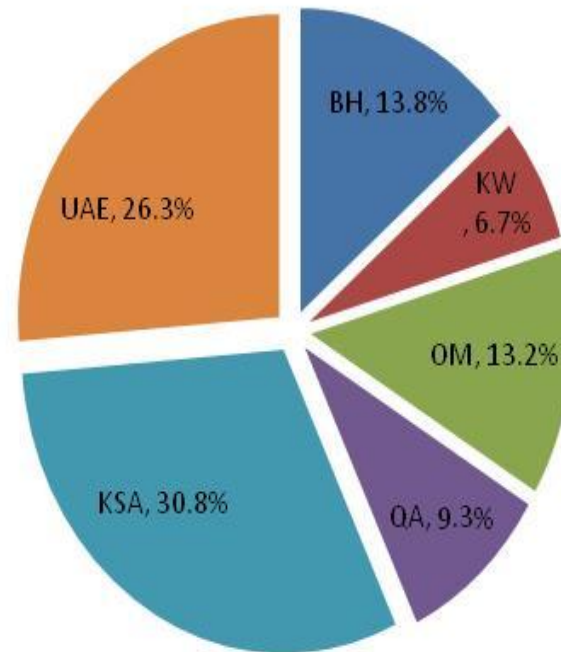
## Intra – GCC Total Trade

- Although modest, intra regional trade has been growing over the years.
- KSA and UAE among the largest export markets.

2000



2007



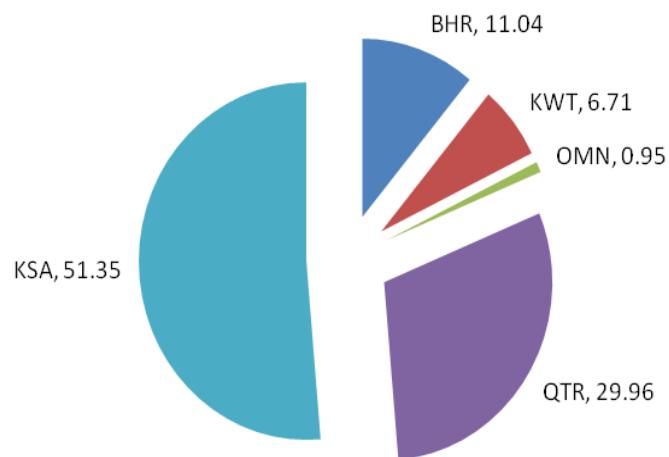
**Total Trade in the GCC economies - compared across 2000 & 2007**

	BH	KW	OM	QA	KSA	UAE
2000	1,594,559,100	1,250,374,700	2,746,889,150	1,145,344,620	<b>4,203,016,900</b>	3,703,395,000
2007	6,624,464,900	3,197,890,900	6,326,679,300	4,473,028,300	<b>14,762,441,000</b>	12,603,324,500

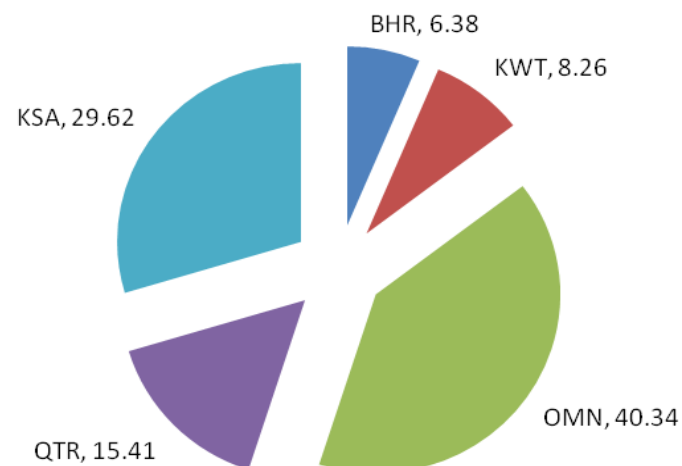
# UAE Imports & Exports from Other GCC Economies

KSA & UAE are the largest bilateral trading partner

**UAE imports from other GCC Economies (as % of total exports of GCC), 3Q 2008**



**UAE exports to other GCC Economies (as % of total exports of GCC), 3Q 2008**



**Exports & Imports from other GCC Economies (USD), 3Q 2008**

	BHR	KWT	OMN	QTR	KSA	GCC
UAE Imports from	206,318,000	125,391,000	17,731,400	559,878,000	959,683,000	1,869,001,400
UAE Exports to	144,115,000	186,382,000	910,580,000	347,787,000	668,577,000	2,257,441,000

## Areas & Benefits of Integration

- Regional Integrated Infrastructure is basis for regional economic integration
- Regional integration should be based on efficient and integrated Infrastructure
  - Transport (Land, Air, Sea)
  - Telecommunication networks (ICT)
  - Energy Infrastructure: Electricity Power Grids, Gas Pipelines, Water
- Benefits of a Integrated infrastructure
  - Lower transaction costs
  - Increased specialisation
  - Economies of scale & scope
  - Higher intra-regional investment activity.
  - Growth in output & trade
  - Strengthened reputation and negotiation power



Hedjaz Railway (1908), showing the projected route of the extension to Mecca and Jeddah.

# Role of Financial Sector Development for the Region

- Finance Infrastructure & Regional Economic Integration
  - Common Market crucial step to capture gains from integration
  - GCC Monetary Union paving way for change through lower barriers to trade in services and financial market liberalization and integration
  - GCC Common Currency will emerge as a global currency alongside US\$, Euro
- Financial Markets in GCC can become an “engine of growth”:
  - Support massive investment required in networks
  - Invest, Manage & Control region’s financial wealth of \$2+ trillion
  - Enable & support economic and financial reforms
  - Enable separation of oil revenue management from fiscal policy & investment



# Dubai International Financial Centre: Diverse Opportunities

# Foundations for a New International Financial Centre

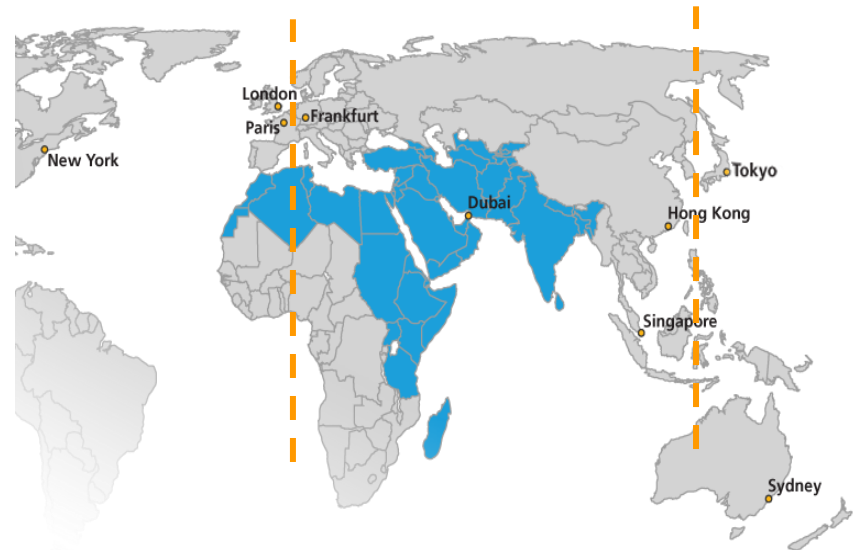
Internationally-accepted common legal framework

Regulated financial centre with full transparency

Mechanism to centralise regional wealth for sustained economic growth & development

Deployment channel for Regional Wealth

International Financial integration



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

5pm Dubai = 9am New York

1pm Dubai = 9am London

9am Dubai = 1pm Hong Kong

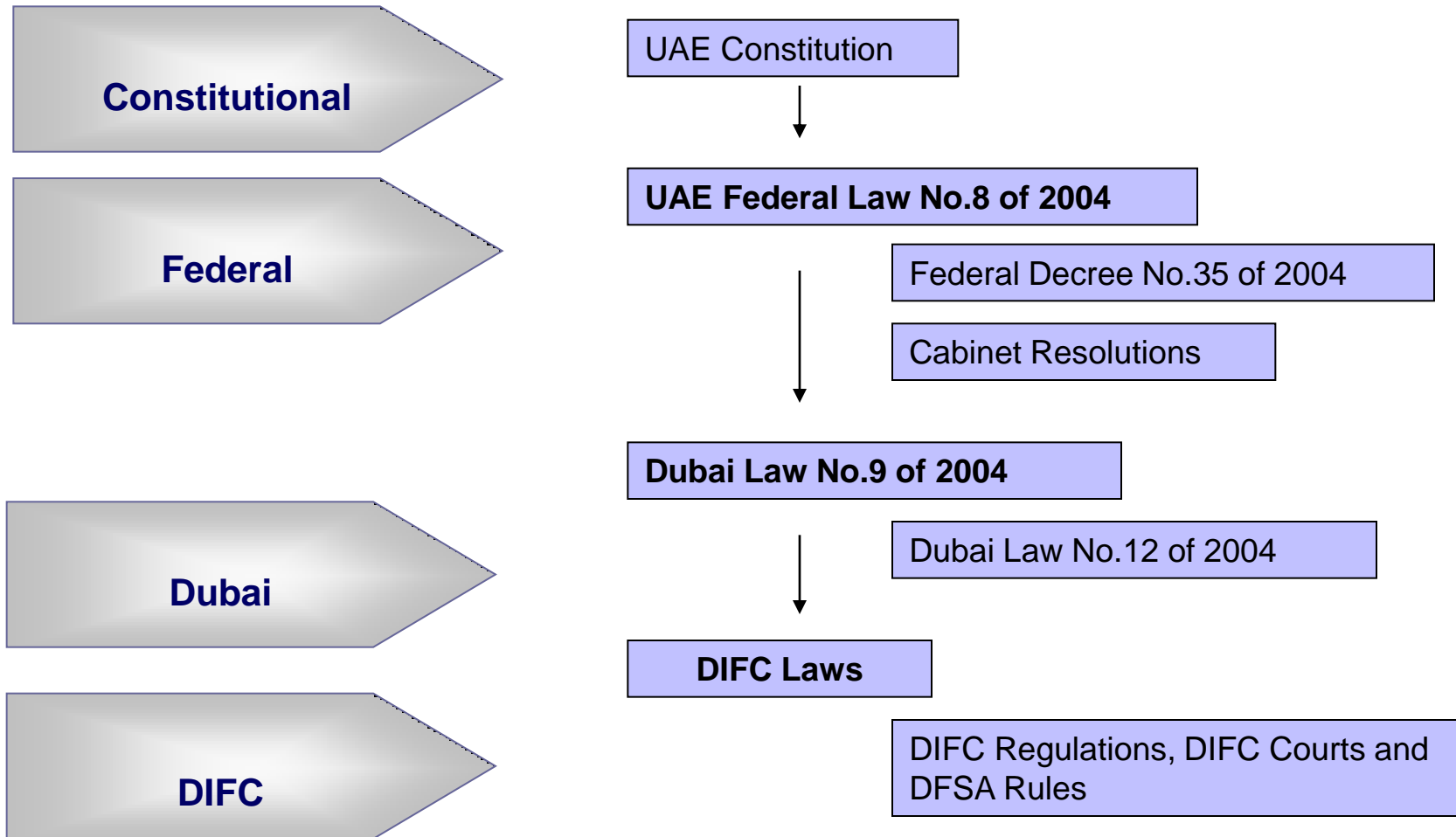


## DIFC Vision & Mission

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

The **mission** of the DIFC is to be a catalyst for regional economic growth, development and diversification by positioning the DIFC as a globally recognized financial centre.

# DIFC- Hierarchy of Laws



# DIFC Legal & Regulatory Infrastructure

DIFC Law No.	Law/Regulation	Administrative Authority		
		DIFCA	DFSA	DJA
No. 1 of 2004	Regulatory Law		✓	
No. 2 of 2004	Companies Law	✓		
No. 4 of 2004	Law Relating to the Application of DIFC Laws	✓		
No. 5 of 2004	Limited Liability Partnership Law	✓		
No. 6 of 2004	Contract Law	✓		
No. 7 of 2004	Insolvency Law	✓		
No. 10 of 2004	Courts Law			✓
No. 11 of 2004	General Partnership Law	✓		
No. 12 of 2004	Markets Law		✓	
No. 13 of 2004	Law Regulating Islamic Financial Business		✓	
No. 4 of 2005	Employment Law	✓		
No. 5 of 2005	Law of Obligations	✓		
No. 6 of 2005	Implied Terms in Contracts and Unfair Terms Law	✓		
No. 7 of 2005	Law of Damages and Remedies	✓		
No. 8 of 2005	Law of Security	✓		
No. 9 of 2005	Personal Property Law	✓		
No. 10 of 2005	Law on the Application of Civil and Commercial Laws	✓		
No. 11 of 2005	Trust Law		✓	
No. 1 of 2006	Collective Investment Law		✓	
No. 3 of 2006	Companies Law	✓		
No. 4 of 2006	Limited Partnership Law	✓		
No. 5 of 2006	Investment Trust Law		✓	
No. 1 of 2007	Date Protection Law	✓		
No. 4 of 2007	Real Property Law	✓		
No. 5 of 2007	Strata Title Law	✓		
No. 1 of 2008	Arbitration Law	✓		

# DIFC Regulations

1. Non Financial Anti Money Laundering/Anti Terrorist Financing (AML/CFT) Regulations
2. Real Property Regulations
3. Strata Title Regulations
4. Data Protection Regulations
5. Limited Partnership Regulations
6. Security Regulations
7. Dematerialized Investments Regulations
8. DIFC Insolvency Regulations
9. Preferential Creditor Regulations
10. Companies Regulations
11. Single Family Office Regulations
12. General Partnership Regulations
13. Limited Liability Partnership Regulations
14. DIFCA Operating Regulations
15. Special Purpose Company Regulation
16. Special Purpose Company Fee Regulation

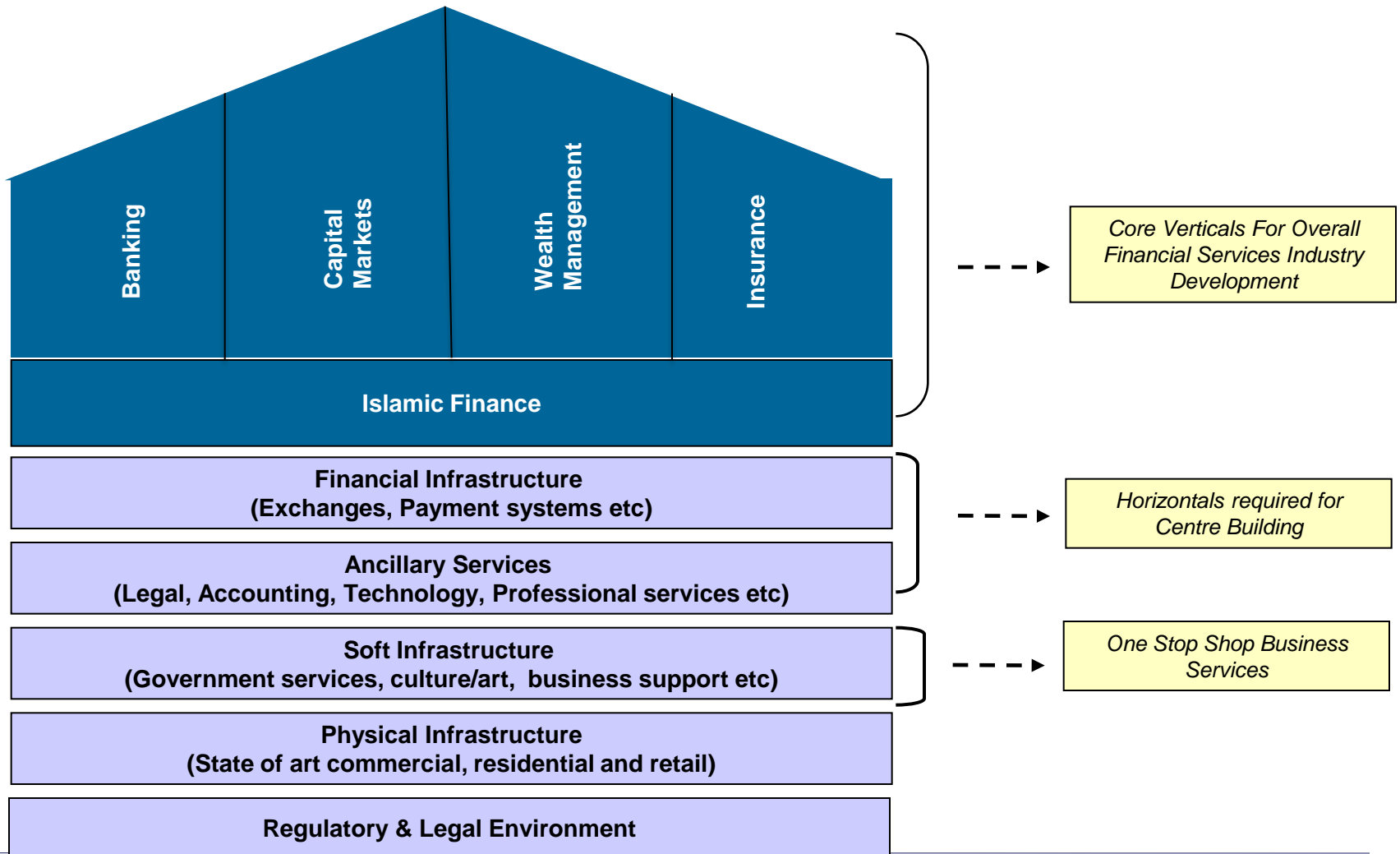
# DIFC Structure

- Over 26 laws & 16 regulations have been enacted establishing the basis for regulatory framework and allowing financial institutions to carry out activity in the DIFC.
- Tailor-made based on the best laws available in leading jurisdictions (e.g. Regulatory Law based on Common Law, Insurance Regulations based on Bermuda Law, Trust Law similar to Singapore and US regulations)

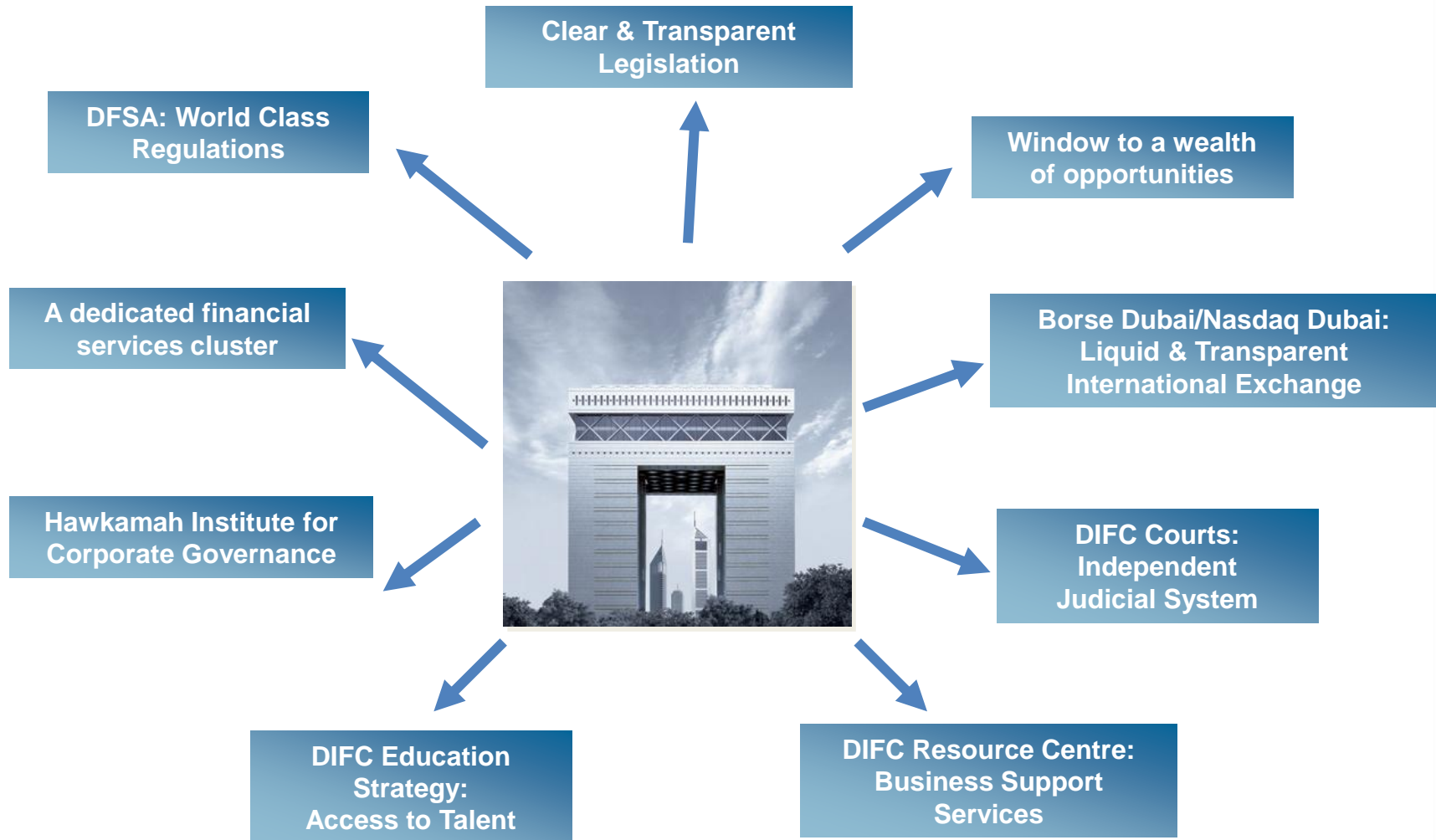


- Develop overall strategy and provide direction to the Centre
- Develop laws and regulations governing non-financial services activities
- Promote DIFC and attract licensees to operate in the Centre
- One stop shop service for visas, work permits etc
- Sole financial regulator within DIFC, AML co-regulation with UAE Central Bank
- Administrative and civil rule making and enforcement
- Bilateral MOUs with host of jurisdictions
- IOSCO, the BOCA Declaration (including multilateral MOUs), IFSB, IAIS (Technical Committee) etc
- An independent court system responsible for administering and enforcing the civil and commercial matters at the Centre
- Based on Common Law-offering institutions and companies the legal clarity and predictability

# DIFC - Ecosystem



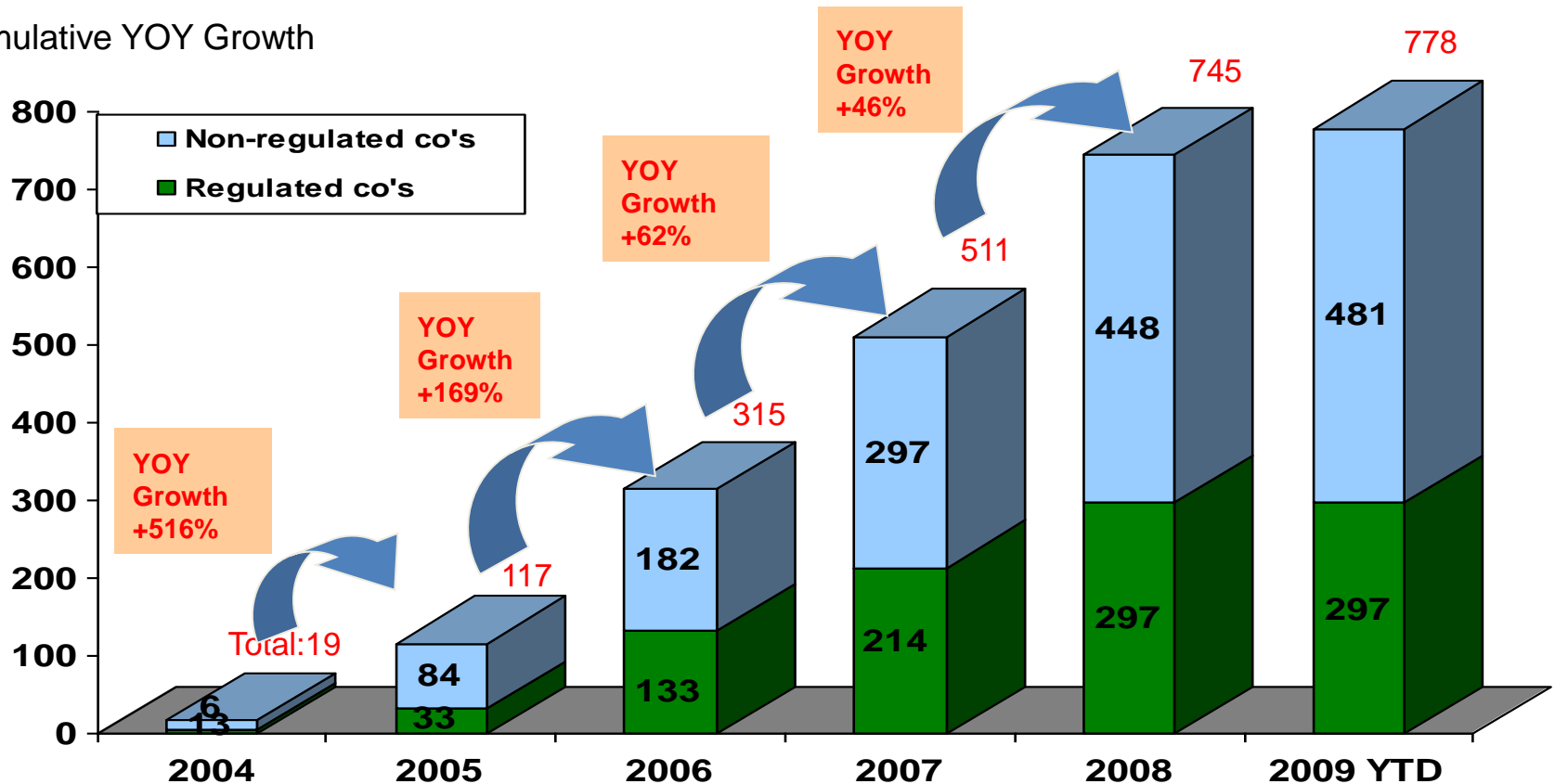
# DIFC - Value Proposition



# DIFC : The Momentum

## Yearly Growth in Number of DIFC Registered Companies

Cumulative YOY Growth



Of the total 778 companies operating out of DIFC currently, there are 297 regulated (38.2%) and 481 non-regulated (61.8%) companies.





# **Economic Relations between UAE & KSA: Under-tapped Opportunities?**

## Opportunities for Cooperation

- Change in Global Economic Geography requires accompanying change in Global Financial Geography
- Opportune time for the GCC to establish its position in the World Financial Map
- Need for establishing and strengthening of links and channels for communication, transactions, trade, investment and mutually beneficial cooperation.
- The DIFC and KSA have an opportunity to strengthen ties at an institutional level and develop a general framework for cooperation to:
  - Consult & cooperate in their areas of authority & competence
  - Act to ensure banking and financial stability
  - Promote Financial market integration
  - Facilitate trade & investment flows

# Framework for Cooperation

Cooperation and collaborative projects would focus on:

## 1. Financial System Development

- Lower access barriers to financial services
- Increased linkages and convergence across financial markets
- Harmonization of laws & regulations
- Passport-ability of products & operators (similar to EU MiFid)
- Development of the Islamic Finance sector

## 2. Capital Market Development and Integration

- Develop new markets and instruments
- Integrated Payment System

## 3. Joint Ventures, Investments & Trade

## 4. Other (Research & Statistics, Information Technology)

## Synergies between KSA and UAE/DIFC

- Two countries can gain from each others strengths and best practices
- The opportunity for a natural partnership between Saudi Arabia and the UAE can be compared to that of France and Germany – the largest partners in the European Union.

### Saudi Arabia



### UAE/DIFC



## Conclusion

- **Global financial crisis heralds an unparalleled opportunity for the region**
- **Regional Integration should be high priority on policy agenda**
- **GCC should undertake massive investments in trans-national, regional integrated infrastructure & Infostructure with private sector participation**
- **KSA and UAE are the driving force behind common market**
- **Regional integration should be based on efficient infrastructure: transport, networks for oil, gas, water, ICT**
- **Regional Economic integration requires Financial market integration**



*Thank You*

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