

**New Global Economic Geography & the
Process of ‘Creative Destruction’:
Opportunities for the GCC, UAE and Dubai**

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New Global Economic Geography & the Process of 'Creative Destruction



- **MENA & GCC: Structural Change, Economic integration and Drivers of Economic Growth**
 - **Dubai: Economic Diversification and Openness**
 - **DIFC: Financial markets & the Process of creative destruction**
-

MENA outperforming the global economy



- **Emerging markets have contributed 2/3 of global growth since 2002.**
 - **EM Major beneficiaries of 'Great Moderation' - the large decline in the volatility of inflation and real GDP - starting in the early 1980s .**
 - **MENA countries have achieved above trend average real GDP growth (6.4% over 2004-2007).**
 - **GCC have achieved average real GDP growth of 6.2% over 2004-2007 vs. 3.2 % 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 (6.4%), GCC at (7.8%), oil exporters (6.8%) and Central Asia (7.2%).**
 - **Growth is investment led with strong private sector participation and record FDI levels.**
 - **Investment & infrastructure leading to an increase in productivity growth, economic diversification and absorptive capacity.**
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World & GCC Economic Outlook

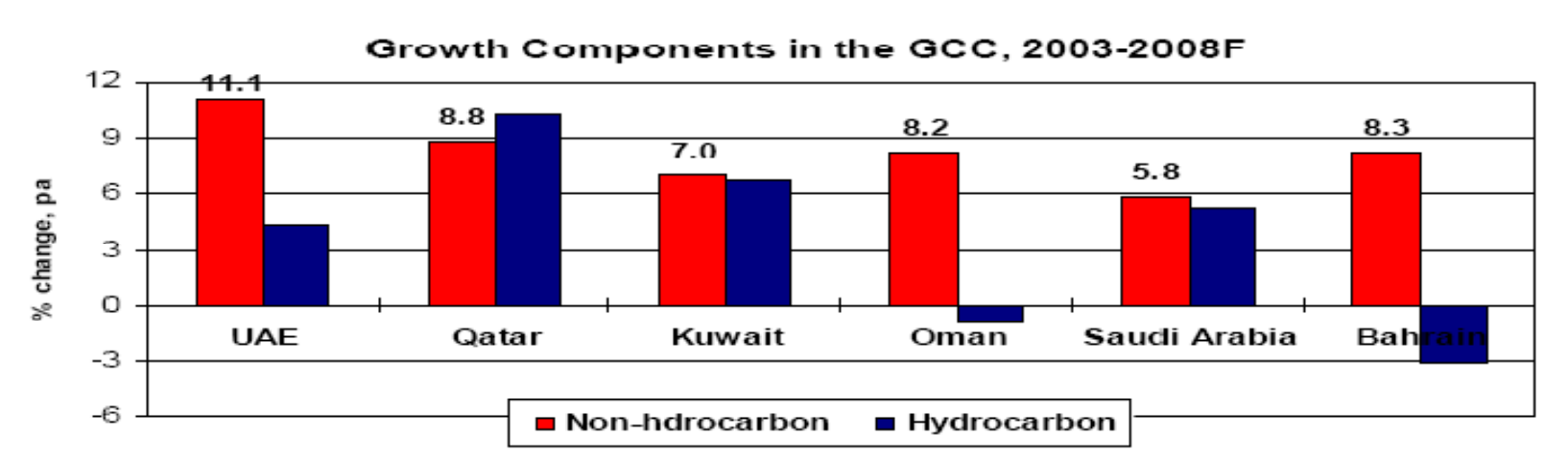
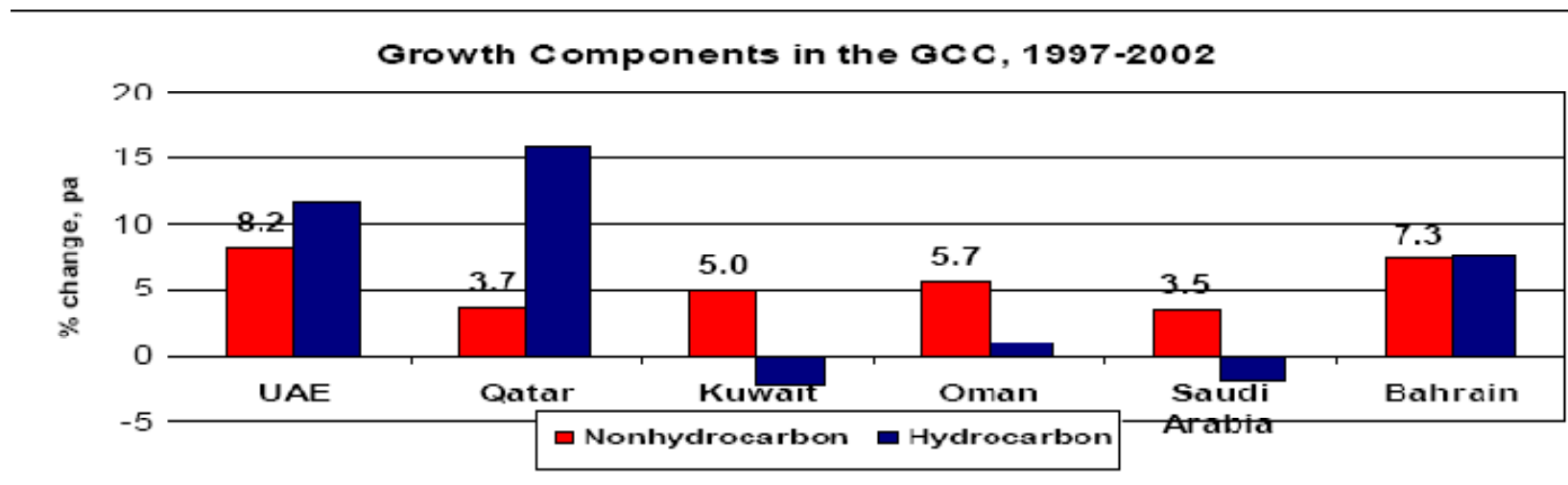


	2006	2007	2008f	2009f
World output	5.1	5.0	3.7	2.2
Advanced economies	3.0	2.6	1.4	-0.3
<i>United States</i>	2.8	2.0	1.4	-0.7
<i>Euro area</i>	2.8	2.6	1.2	-0.5
<i>Japan</i>	2.4	2.1	0.5	-0.2
<i>United Kingdom</i>	2.8	3.0	0.8	-1.3
Other advanced economies	4.5	4.7	2.9	1.5
Newly industrialized Asian economies	5.6	5.6	3.9	2.1
Emerging and developing economies	7.9	8.0	6.6	5.1
Developing Asia	9.9	10.0	8.3	7.1
<i>China</i>	11.6	11.9	9.7	8.5
<i>India</i>	9.8	9.3	7.8	6.3
ASEAN-5	5.7	6.3	5.4	4.2
Middle East	5.7	5.9	6.1	5.3
Western Hemisphere	5.5	5.6	4.5	2.5

Source: IMF WEO, REO-MENA October 2008

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GCC Increasingly Diversified

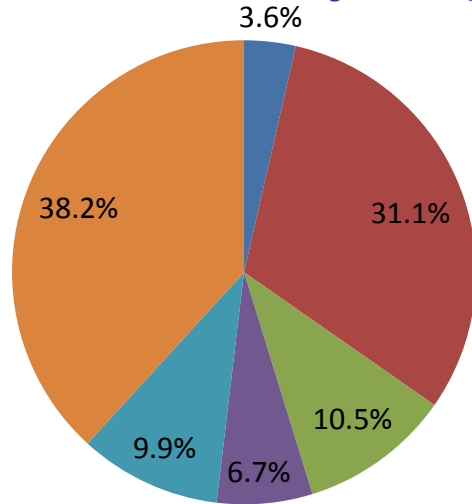


Source: EIU, IMF & DIFC Economics

Major Trading Partners of the GCC

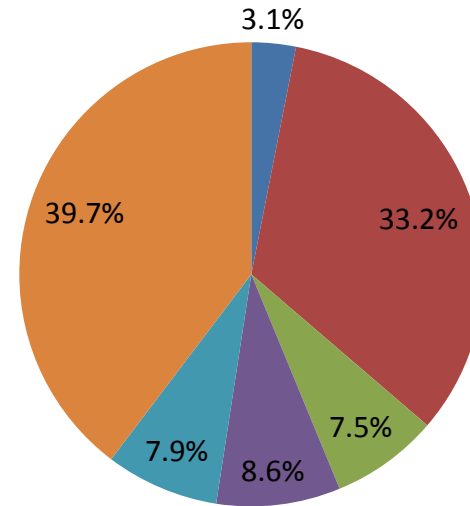


GCC's Major Export Partners – Asia's increasing share in exports



2000 data

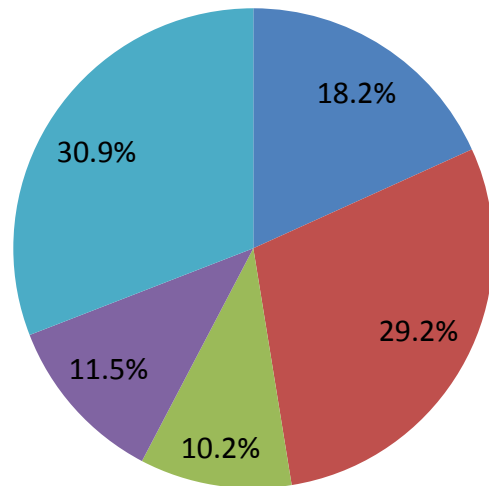
- Africa
- Asia
- EU
- Middle East
- US
- Other



2007 data

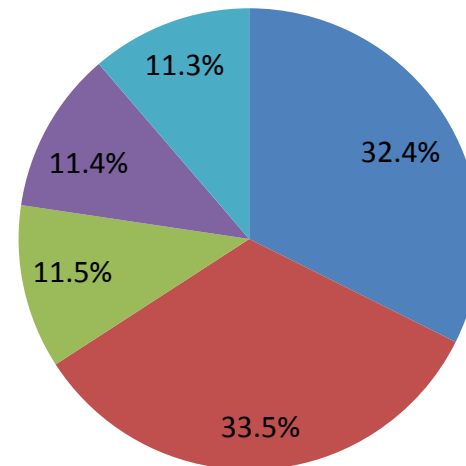
- Africa
- Asia
- EU
- Middle East
- US
- Other

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



2000 data

- Asia
- EU
- Middle East
- US
- Other

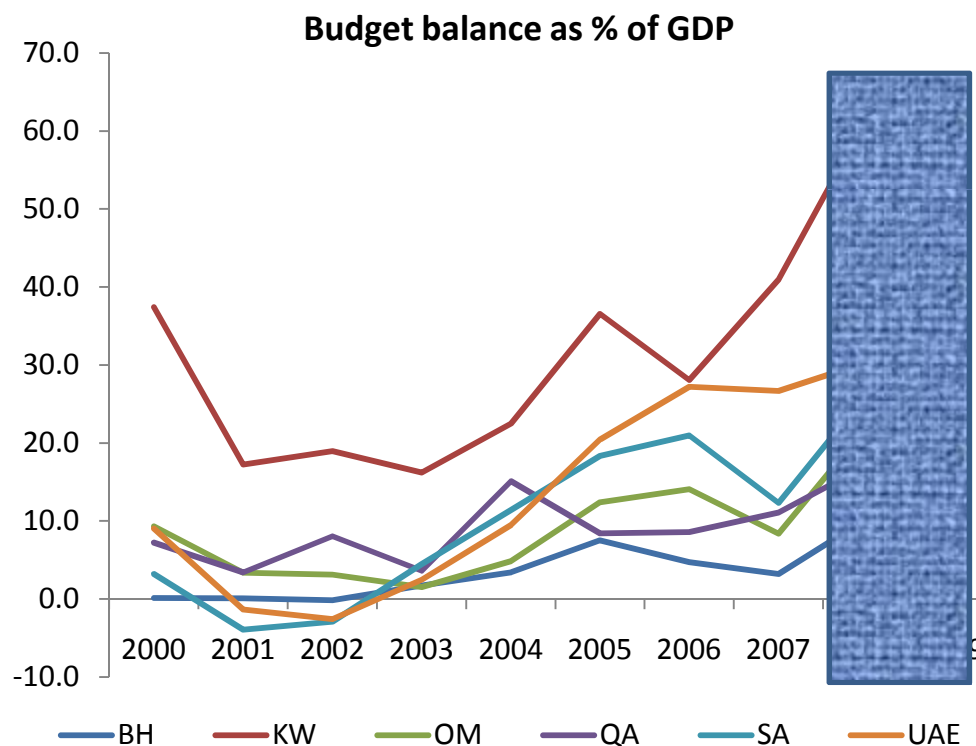


2007 data

- Asia
- EU
- Middle East
- US
- Other

Large Fiscal Surpluses

- Oil producers policy reaction has been fiscally conservative: 60% of higher oil revenues have been saved.
- Substantial fiscal surpluses (19% of GDP in 2007) even as spending has picked up.
- Fiscal position of GCC remains in surplus for an oil price of \$47.
- Investment policies less dependent on oil revenues.



Oil exporters break-even prices for 2008 fiscal accounts

(In U.S. dollars/barrel)

Algeria	56	Kuwait	33
Azerbaijan	40	Bahrain	75
Iran ¹	90	Oman	77
Iraq	111	Qatar	24
Kazakhstan	59	Saudi Arabia	49
Libya	47	United Arab Emirates	23
Average MCD	57	Average GCC	47

Source: IMF staff estimates and projections.

¹ Fiscal year 2008/2009.

Source: IIF & DIFC Economics

Increase in Wealth & Liquidity

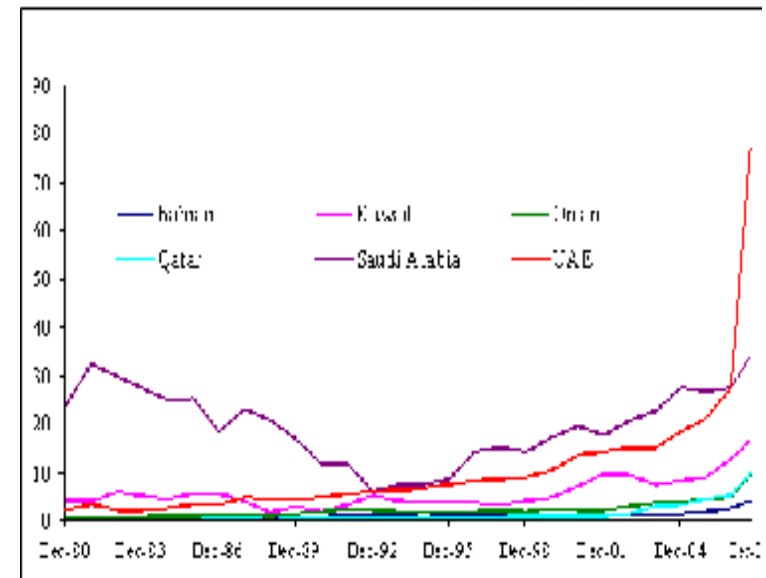


- **Massive Wealth Creation**
 - The sharp rise oil prices resulted in enormous increases in export earnings and current account surpluses for oil producing countries.
 - Value of oil reserves of GCC increased by approx \$24 trillion between 2001 and 2008. Value of gas reserves has increased by more than \$7 trillion.
 - Oil revenues for the GCC countries increased by \$4.5 billion for every \$1 increase in oil price. Likewise a \$1 increase in natural gas prices leads to a \$5.2 billion increase in revenues.
- **Current account surpluses and international reserves**
 - Current account surpluses at 25-30% of GDP and increasingly recycled back into regional economies.
 - Current account surplus for the GCC countries are expected to grow to USD 302.2 billions for 2008 from USD 224.1 billions in 2007 (34.8%).
- **Increased liquidity resulted in an investment driven boom:**
 - Real estate boom and asset price appreciation
 - Stock market boom

Ratio of Current account balance to GDP

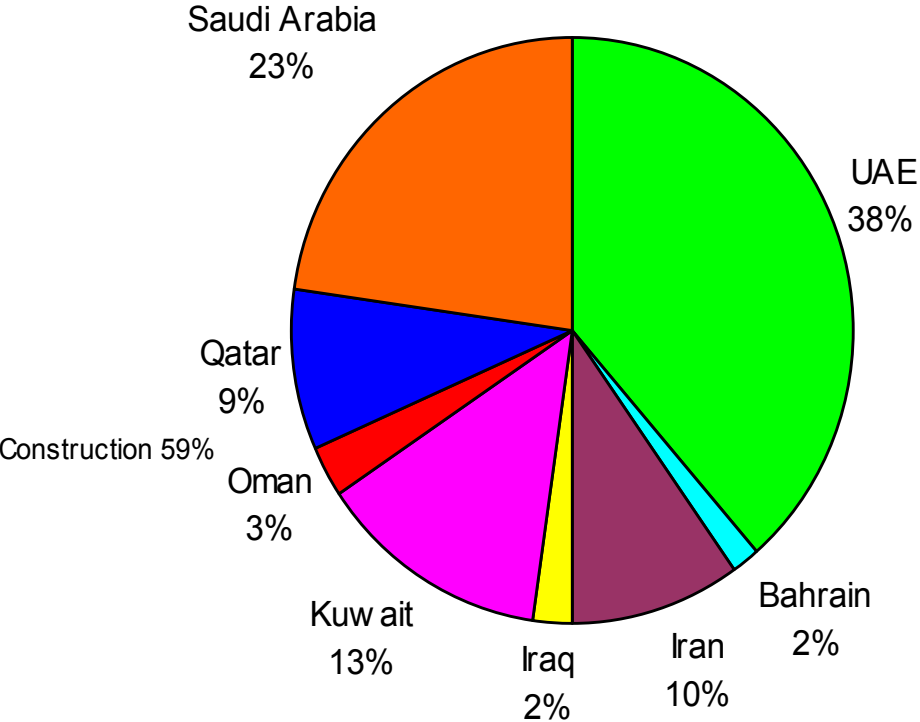
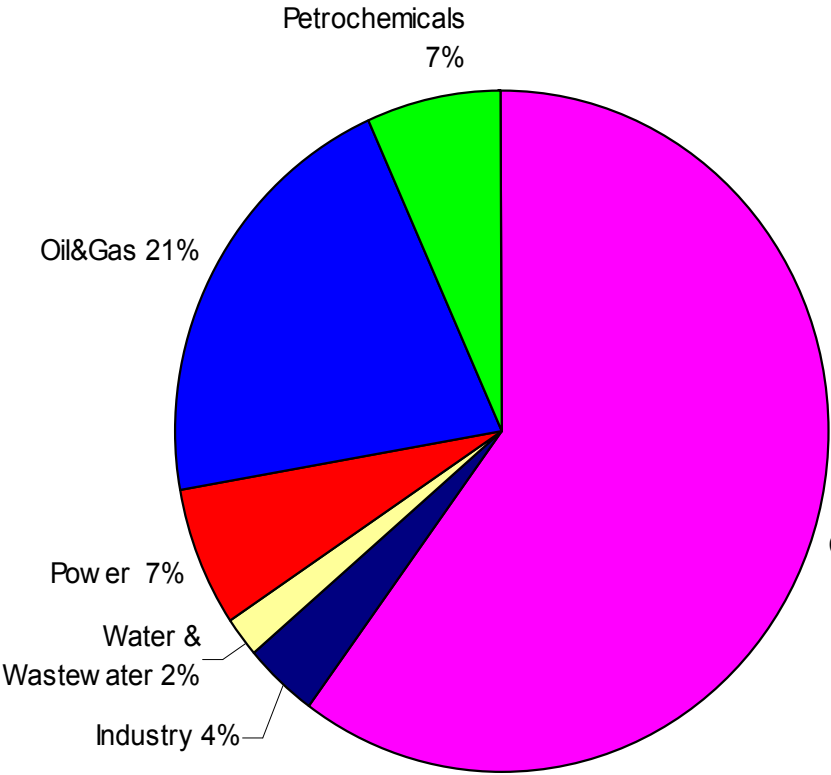
	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
2000	10.4	38.9	15.7	25.8	8.0	15.7
2001	2.9	23.9	10.4	23.7	5.5	8.4
2002	-0.6	11.1	8.3	19.4	6.7	6.0
2003	2.1	19.7	5.8	24.3	13.4	10.1
2004	4.2	30.6	3.2	23.9	21.0	11.7
2005	11.0	40.9	13.5	17.8	28.8	21.0
2006	13.8	49.9	12.1	16.7	28.0	24.5
2007	16.5	42.4	12.3	14.7	22.7	17.4

Increase in International Reserves in the GCC (in USD bn)



Gulf Projects by Sector & Country

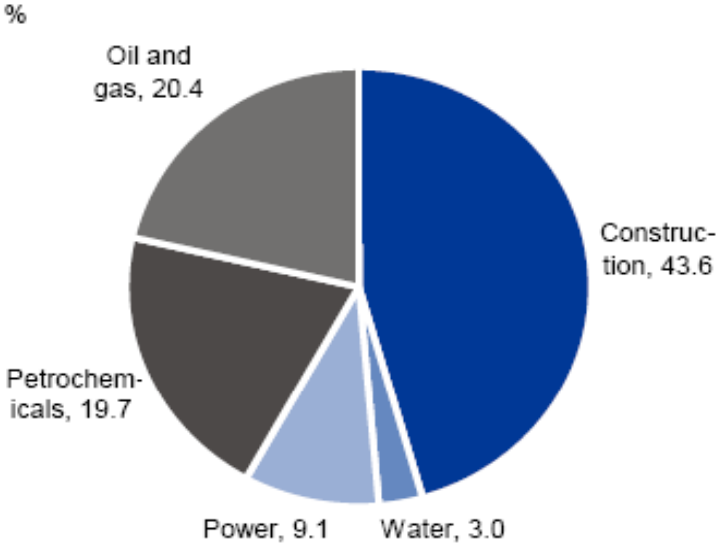
The total value of projects planned or under development in the Gulf exceeds US\$2.4 trillion (MEED Project Tracker, 2008)



Source: MEED Project Tracker, 2008

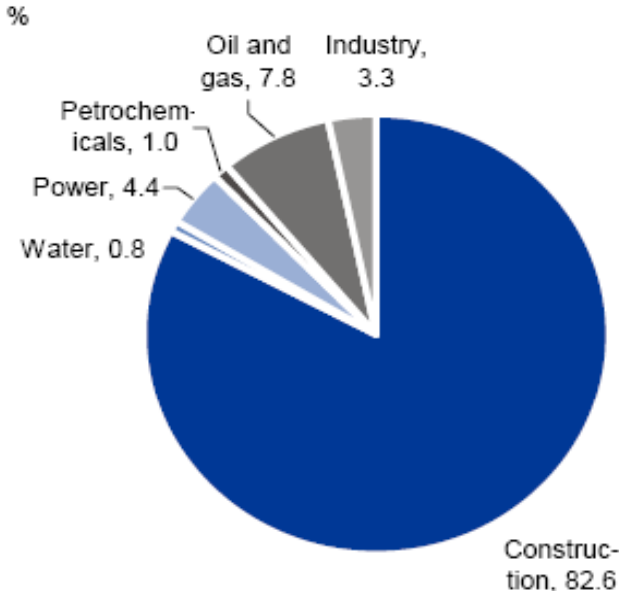
GCC Investment Projects (contd.)

Projects in Saudi Arabia



Source: MEED Projects

Projects in UAE



Source: MEED Projects

Foreign Direct Investments to the Middle East

(in US dollars billion)



Sector	2005	2006	2007	2008	Total	Average Annual Growth
Financial Services	67	108	81	57	313	18.1%
Business Services	40	56	66	36	198	28.9%
Software & IT services	39	48	39	31	157	2.2%
Real Estate	26	63	27	37	153	42.6%
Hotels & Tourism	31	50	30	30	141	10.6%
Communications	14	33	26	20	93	57.3%
Industrial Machinery, Equipment & Tools	18	16	23	11	68	16.3%
Coal, Oil and Natural Gas	21	13	18	11	63	0.2%
Transportation	13	15	8	8	44	-15.6%
Building & Construction Materials	4	17	6	10	37	130.1%
Other Sectors	74	94	78	49	295	5.0%
Overall Total	347	513	402	300	1,562	13.1%

Source: FDI Intelligence from the Financial Times Ltd.

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FDI stylized facts



- The leading sector in the Middle East region for FDI was Financial Services which accounted for almost 20% of all investment between 2005 to end of Q2 2008.
- The leading investors into the Middle East were the USA, UK and India providing 24%, 10% and 9% of the investment projects respectively.
- The average number of jobs per project was 250 – much higher than the average across Western European region for example where the number is around 50. This is reflective of the types of projects and particularly some of the large scale infrastructural projects.
- The leading destination regions for investment into the Middle East in the same time period were UAE, Saudi Arabia and Qatar which attracted 51%, 11% and 7% respectively of all investment projects.

UAE - Solid Economic Performance



- ❖ Non-Oil sector's contribution to the GDP has been on the rise, enabling diversification of the economy.
- ❖ Inflation has accelerated in the past two years, as the surge in domestic demand led to price pressures, particularly in real estate and some services.
- ❖ Recent rise in global prices of food and building material added to inflationary pressure.
- ❖ Both the Dubai Financial Market and Abu-Dhabi Securities market witnessed contagion effects, but economic & financial fundamentals are strong.

Macro Indicators	2005	2006	2007	2008f	2009f
Population (mil)	4.6	4.9	5.3	5.6	6.0
Real GDP growth (%)	8.2	9.4	7.6	7.9	4.9
Nominal GDP (US\$bn)	132.2	170.1	198.7	229.6	222.8
of which Financial Sector (%)	5.8	6.0	6.1	6.3	7.3
CPI Inflation (% change)	3.2	7.0	12.5	13.5	13.3
Total debt/ GDP	31.6	31.3	33.5	32.1	34.5
Budget balance (%GDP)	8.1	11.6	14.2	15.2	4.0
Public debt (%GDP)	22.9	23.8	24.1	22.4	24.9
Government consumption (%GDP)	11.1	9.3	10.4	11.0	13.4
Private consumption (%GDP)	48.1	43.5	43.8	44.0	51.2
Domestic demand (%GDP)	79.7	73.2	75.6	76.8	90.8
Domestic credit growth (%)	46.2	41.1	42.7	31.3	21.1
M2 (%pa)	30.5	23.2	41.7	45.2	23.7
Money market interest rate (%)	3.5	5.1	4.8	4.3	4.9
Trade balance (%GDP)	24.7	26.8	24.4	20.6	8.4
Current Account (%GDP)	18.0	22.6	20.5	22.6	18.8
International Reserves (US\$ mn)	21.0	27.6	77.2	67.2	63.2

Source: EIU, IMF & DIFC Economics

What's behind Dubai's Success?

The Dubai Model: Diversification & Economic Clustering

- Dubai economy is well diversified and continues to grow at a rapid rate.
- During 2000-2006, Dubai's GDP grew by a compounded annual growth rate (CAGR) of 13% in real terms while real per capita income grew by 4% during the same period.



Dubai Outlook



- Dubai is a strategically located international trading hub with some of the world's best air and sea ports serving over 205 destinations.
- Dubai economy is well diversified and continues to grow at an increasing rate.
- During 2000-2006, Dubai's GDP grew in real terms by 13% annually while the population expanded by 9% annually, with real per capita income rising by 4%.
- Oil has played a progressively diminishing role in Dubai's economy and by 2010 it is expected to account for less than 1 percent of Dubai's GDP.
- The service sector has been the key driver of economic growth with an annual growth rate of 21% since 2000.

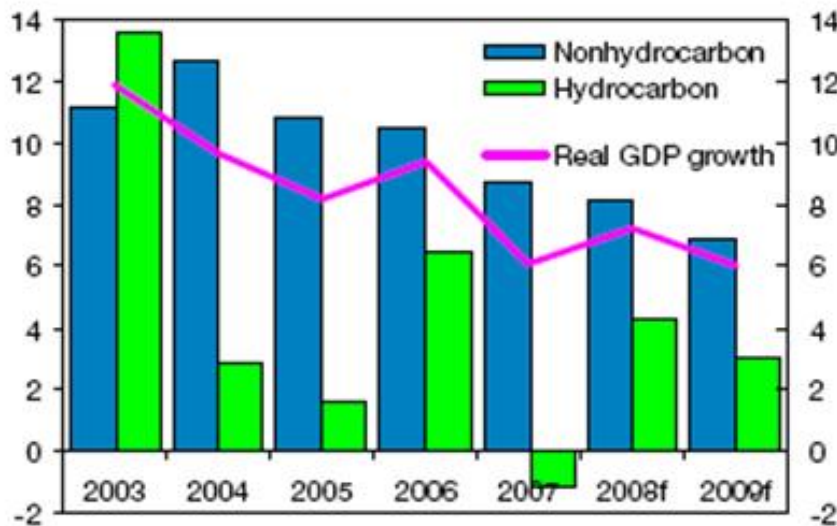
Macro Indicators					
	2004	2005	2006	2007	1H08
Population (mil)	1.07	1.32	1.42	1.53	1.59
GDP (mil) US\$	32269	38202	45989	n.a	n.a
GDP (non-Oil Sector)	30444	36166	43669	n.a	n.a
GDP (Construction)	3808	4486	5859	n.a	n.a
GDP (Transport & Communication)	4128	4960	5834	n.a	n.a
GDP (Financial Sector)	3148	3728	4677	n.a	n.a
GDP (Wholesale & Retail Trade)	7319	8525	9861	n.a	n.a
GDP (Manufacturing)	4570	6030	7213	n.a	n.a
Imports (Direct Trade)	40612	51882	59910	81126	3080
Export (Direct Trade)	2628	3059	4975	7376	2673
Re-Export (Direct Trade)	15542	21478	21338	27421	8975
Imports (Free Zone)	18743	27002	30254	42401	15166
Exports & Re-Exports (Free Zone)	14329	21452	22512	26554	9883

Source: Dubai Statistics Centre

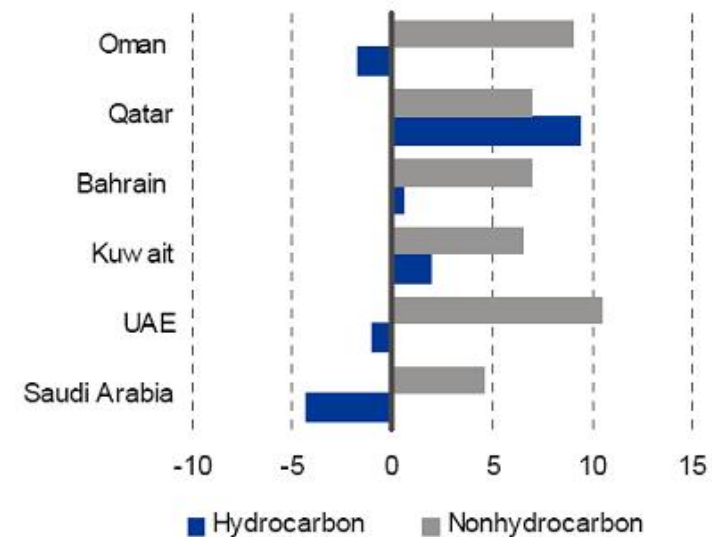
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- Oil has played a progressively diminishing role in Dubai's economy and by 2010 it is expected to account for less than 1 percent of Dubai's GDP
- Service sector has been the key driver of economic growth with an annual growth rate of 21% since 2000
- Leading to improved credit ratings

Real GDP Growth to Remain Strong
(% Change)



Real GDP growth by component, 2007
Non-hydrocarbon sector shows stronger growth
% change yoy



Source: IIF

Government's Role

**Infrastructure
Provider**

Enabler

Increased investment in public infrastructure:

- Mobilization of the private sector
- Increased marginal productivity return and efficiency of the private sector
- Increased 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 labour productivity growth
- Underpin growth of financial markets

Dubai: a Cluster Based Economy: 18 Free Zone Areas

- The strategy for economic diversification hinges on the Free Zones, i.e. designated areas where firms operate in a specific sector cluster under a special legal and regulatory regime- separate from legal system of the country.
- Free Zones are a source of & imply (a) Competition, (b) FDI,(c) Economies of Scale



Dubai is a preferred location for regional and global HQs of many trans-national and multi-national corporations.

- Strategic central location
- Dynamic business environment
- High quality of life
- Pro-business government
- Language skills
- 100% foreign ownership
- Open labour market
- 0% tax rate on personal & corporate income
- Wide network of double taxation treaties
- Extensive foreign trade network
- No exchange controls
- Free capital movement
- Advantageous time zone
- World-class Infrastructure
- Proximity to existing operation/production sites



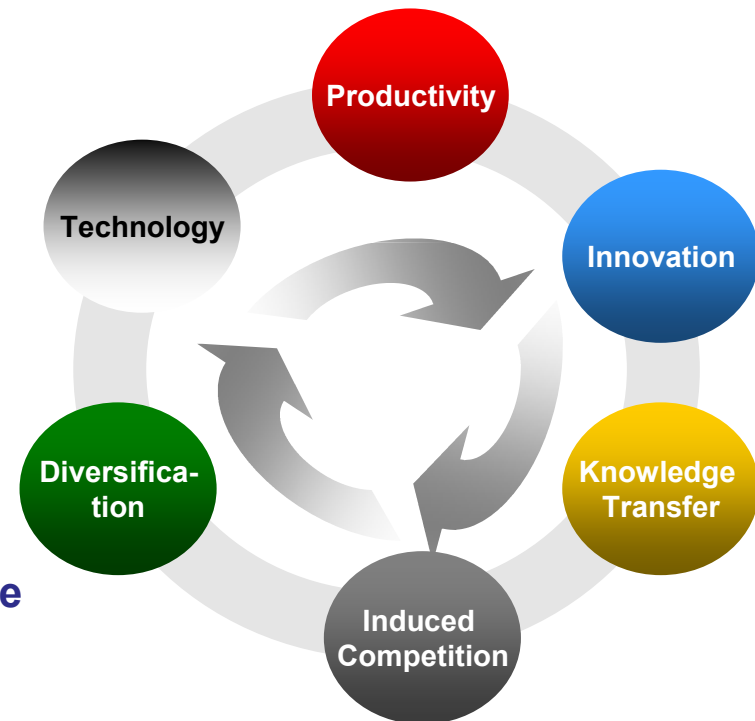
UAE/Dubai has adopted an Integrated Holistic Approach to Development of Free Zones

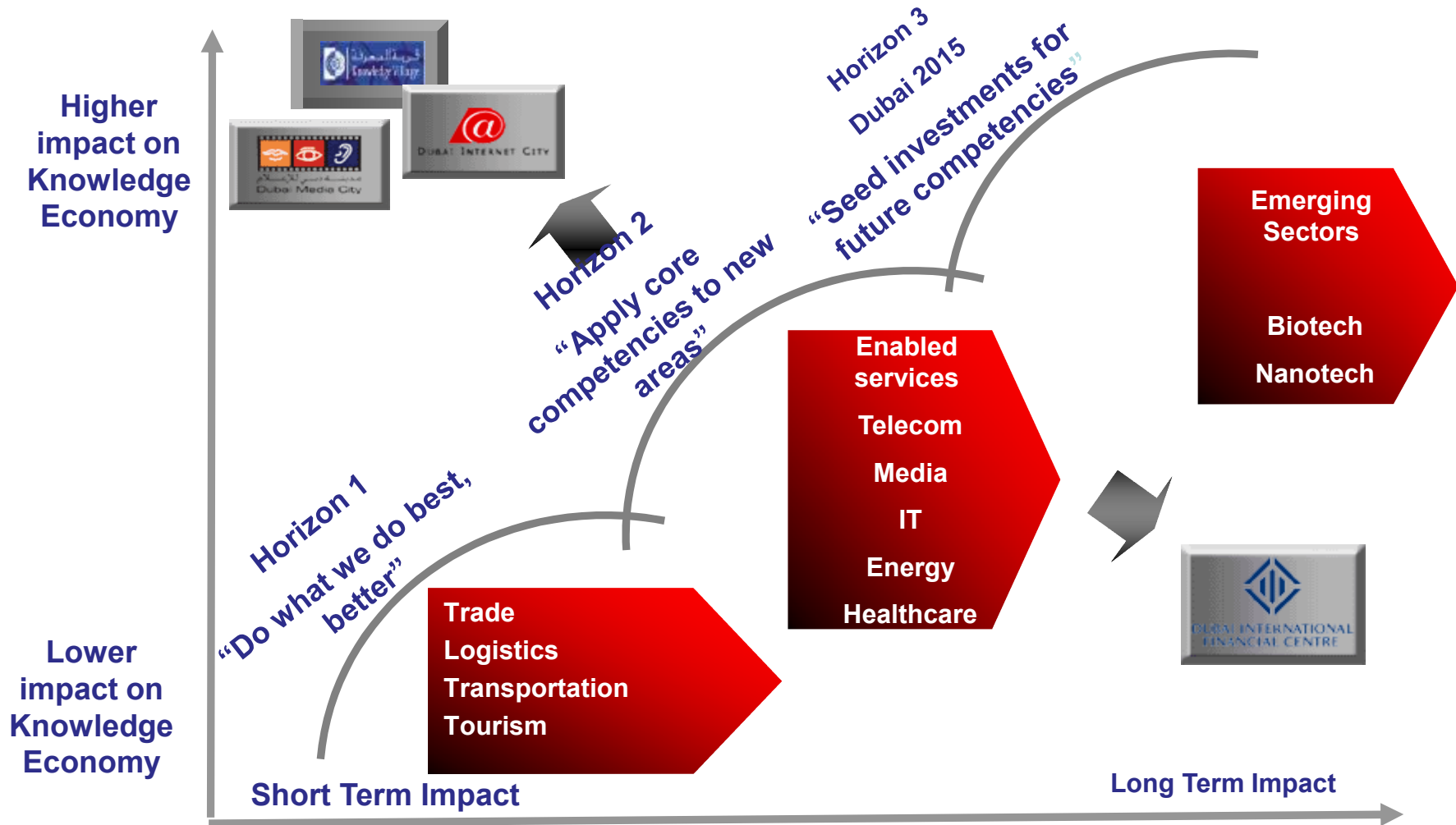
Development of Clusters resulted in:

- Liberalization
- Induced Competition (no barriers to entry)
- Transfer of Knowledge, Technology & Management Skills
- Induced Innovation
- Increased Productivity
- Diversification of the Economy

The Result:

Sustainable Growth and Competitive Advantage





The Dubai Strategic Plan 2015 builds on current strengths and focuses on 5 key objectives to create a 21st century economy

1. Economic Development
2. Social Development
3. Infrastructure, Land and Environment
4. Security, Justice and Safety
5. Public Sector Excellence



Economic Development Plan (EDP) aims to:

- ❖ Sustain real GDP growth of 11% per annum for the next ten years
- ❖ Increase real per capita GDP from \$31,000 to \$44,000 by 2015
- ❖ Increase productivity by 4% per annum
- ❖ Create new sectors of growth with sustainable competitive advantage diversifying away from the energy sector
- ❖ Move existing sectors of strength to new frontiers, domestically and internationally
 - Banking & Financial sector to contribute up to 15.1% of GDP

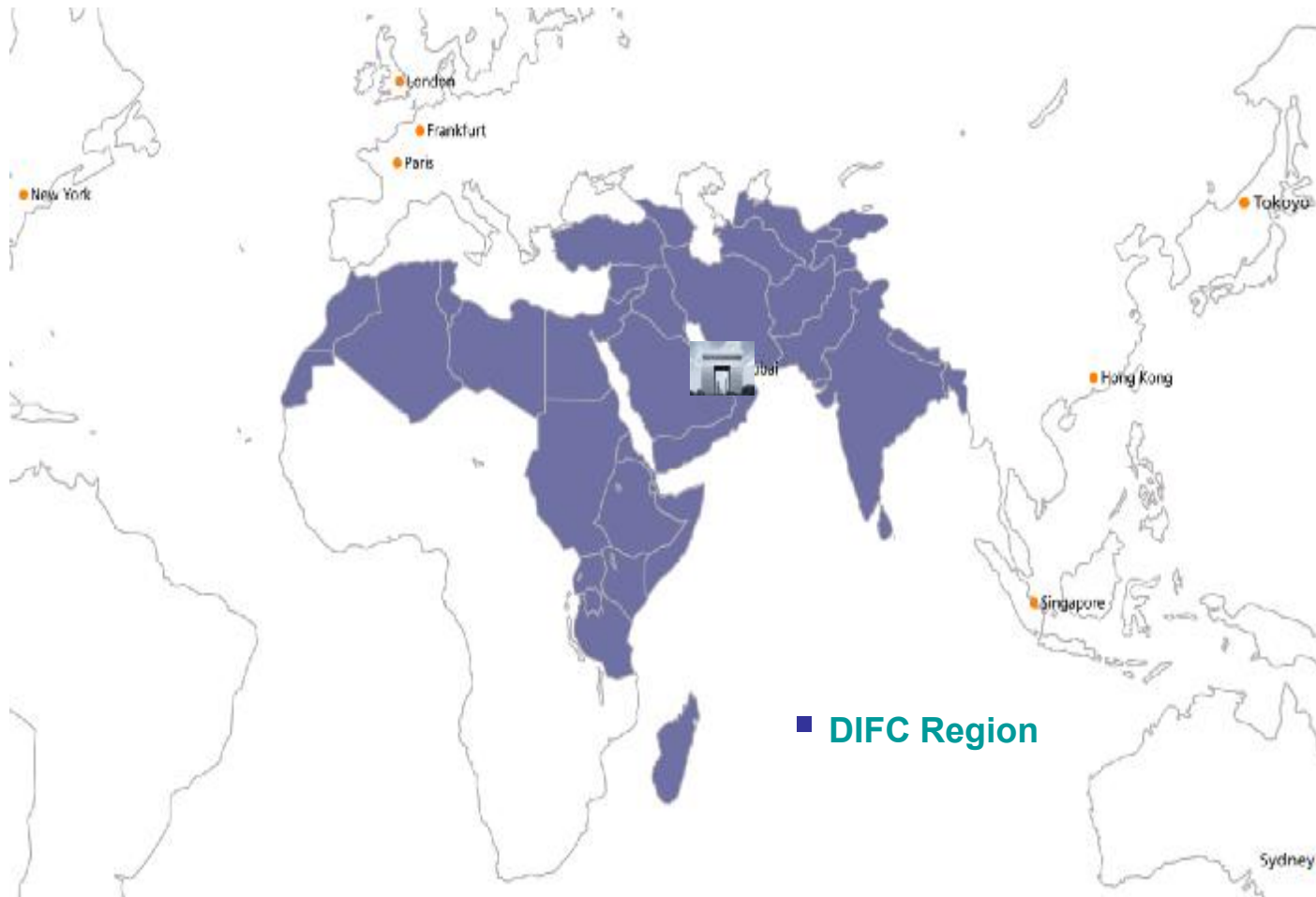
Dubai's 2015 strategy expected to lead to GDP nearly tripling to USD \$108 billion and the creation of 882,000 new jobs.

Dubai debt & Growth



- The figure on Dubai 100% Debt/GDP ratio reported by rating agencies is misleading: it would be equivalent for Germany to sum all the debt of the government, of the Landes Banken, of Deutsche Telekom, Deutsche Bank etc.
 - Majority of Dubai debt is used to finance infrastructure and development investments with a positive net present value, i.e. which will be self repaying
 - Fiscal capacity of Dubai is largely untapped.
 - None of Dubai entities has had any trouble in refinancing its debt so far
-

DIFC: The Region's International Financial Centre



- Internationally-accepted common law framework
- A regulated financial centre with full transparency
- Independent Judicial Authority and Court System
- Platform to centralise regional wealth for economic growth & development
- Deployment channel for new wealth
- Link to the international markets

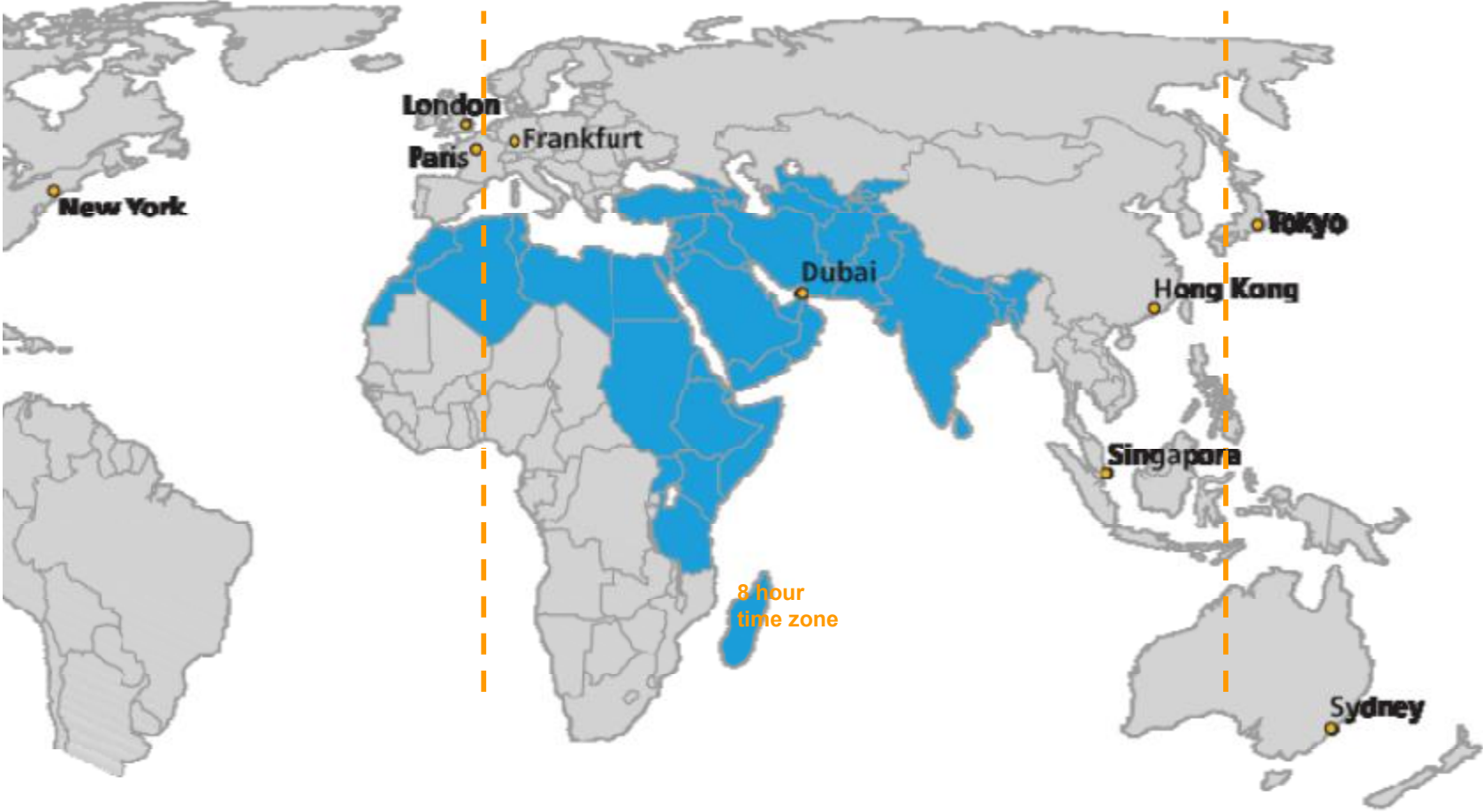
The vision of the Dubai International Financial Centre (DIFC) is to shape tomorrow's financial map as a global gateway for capital and investment.

Role of Financial Sector Development for the Region: DIFC Imperatives



- Infrastructure development => greater economic & financial integration, increased absorptive capacity, economic/financial diversification
- GCC bloc emerging as economic and financial hub for MENASA region
- GCC Common Currency will emerge as a global currency alongside US\$, Euro
- Financing Infrastructure & Regional Economic Integration
- Invest, Manage and Control region's financial wealth of \$2.6 trillion and growing as a result of high energy prices
- Enable & support economic and financial reforms:
 - Enable separation of oil revenue management from fiscal policy & investment
 - Support privatization and private sector participation in infrastructure
- DIFC building payment system infrastructure: RTGS for \$ and Euro
- Change in Global Economic Geography requires accompanying change in Global Financial Geography

DIFC – Time Zone Advantage



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

5pm Dubai = 9am New York	1pm Dubai = 9am London	9am Dubai = 1pm Hong Kong
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- Borse Dubai is the holding company for Dubai Financial Market (DFM) and Dubai International Financial Exchange (DIFX).
- The purpose to create Borse Dubai in 2007 was to consolidate the two stock exchanges in Dubai (DFM & DIFX) as well as current investments in other exchanges to expand Dubai's position as a capital market hub in the region.
- NASDAQ has strategic shareholding in DIFX and partnering with Borse Dubai to link and integrate the region's financial markets
- DIFX is a fully integrated electronic exchange and is now largest Bond/Sukuk Market in the ME
- The number of companies under Borse Dubai: DIFX (21) & DFM (56),
Total = (77)

Dubai Mercantile Exchange



- Launched on 1st June 2007, The Dubai Mercantile Exchange Limited (DME), is a fully electronic exchange located within the Dubai International Financial Centre (DIFC).
- DME is a joint venture between Tatweer, a member of Dubai Holding, the New York Mercantile Exchange, Inc. (NYMEX) and the Oman Investment Fund (OIF), is an international energy futures and commodities exchange.
- DME has developed and lists the Oman Crude Oil Futures Contract, addressing the growing market need for price discovery of Middle East Sour Crude Oil while simultaneously bridging the time-zone gap between Europe and Asia and North America
- DME is authorised and regulated by the DFSA and all trades executed on the Exchange are cleared through, and guaranteed by, NYMEX's AA+ rated clearinghouse.
- DME has 72 members and the number is growing.

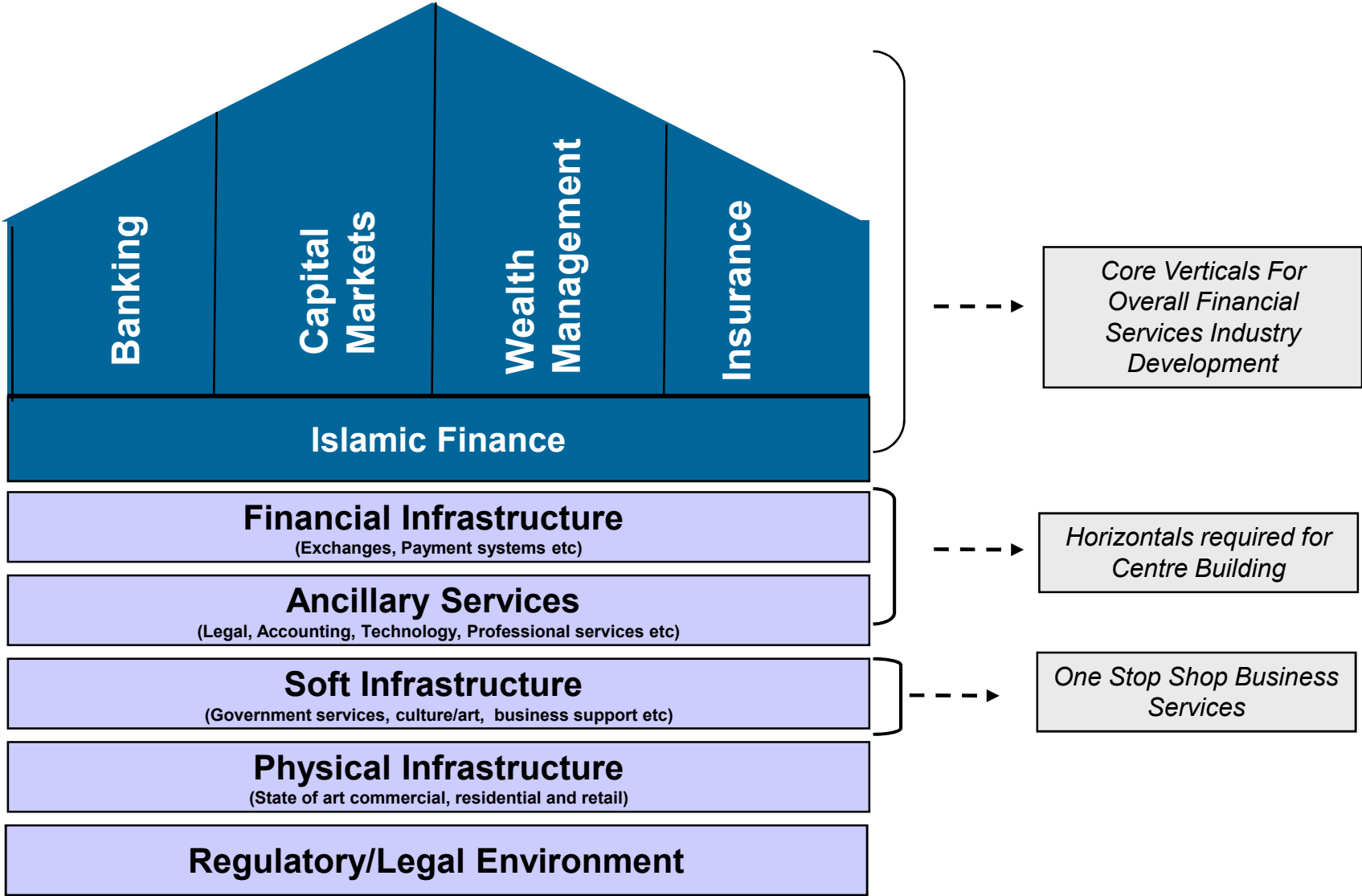
City of London's 2008 Global Financial Centres Index

- **Dubai** is ranked as the 5th leading centre in the world outside America and Europe, maintaining its status as the leading financial centre in the region between Zurich at one end and Singapore/Hong Kong at the other.
- **Dubai** ranked # 1 again in the list of top 5 financial centres that might become significantly more important over the next two to three years.

- **Dubai** ranked # 1 again on the list of financial centres where organizations may open new operations in the next 2 to 3 years.

- **Dubai** (24) continues to lead BRIC (Brazil, Russia, India, China) and key 'emerging' centres Shanghai (31), Beijing (46) and Mumbai (48)
- **Dubai** is the clear leader in perceptions of potential growth as a financial centre

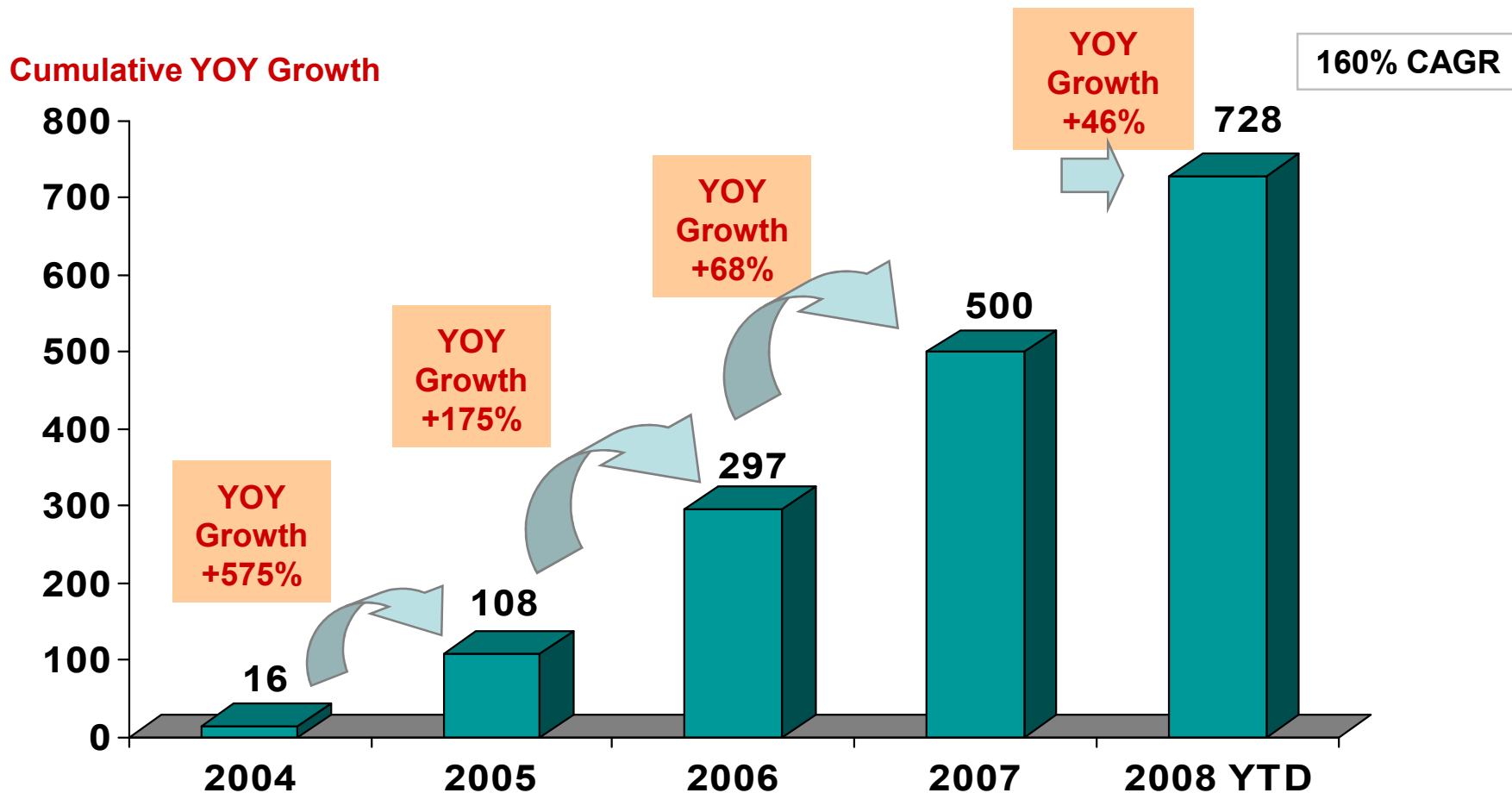
Competitiveness Factors	Rank
Availability of skilled personnel	1
Regulatory environment	2
Access to international financial markets	3
Availability of business infrastructure	4
Access to customers	5
A fair and just business environment	6
Government responsiveness	7
Corporate tax regime	8
Operational costs	9
Access to suppliers of professional services	10
Quality of life	11
Culture & language	12
Quality / availability of commercial property	13
Personal tax regime	14



Development of DIFC as a Financial Hub

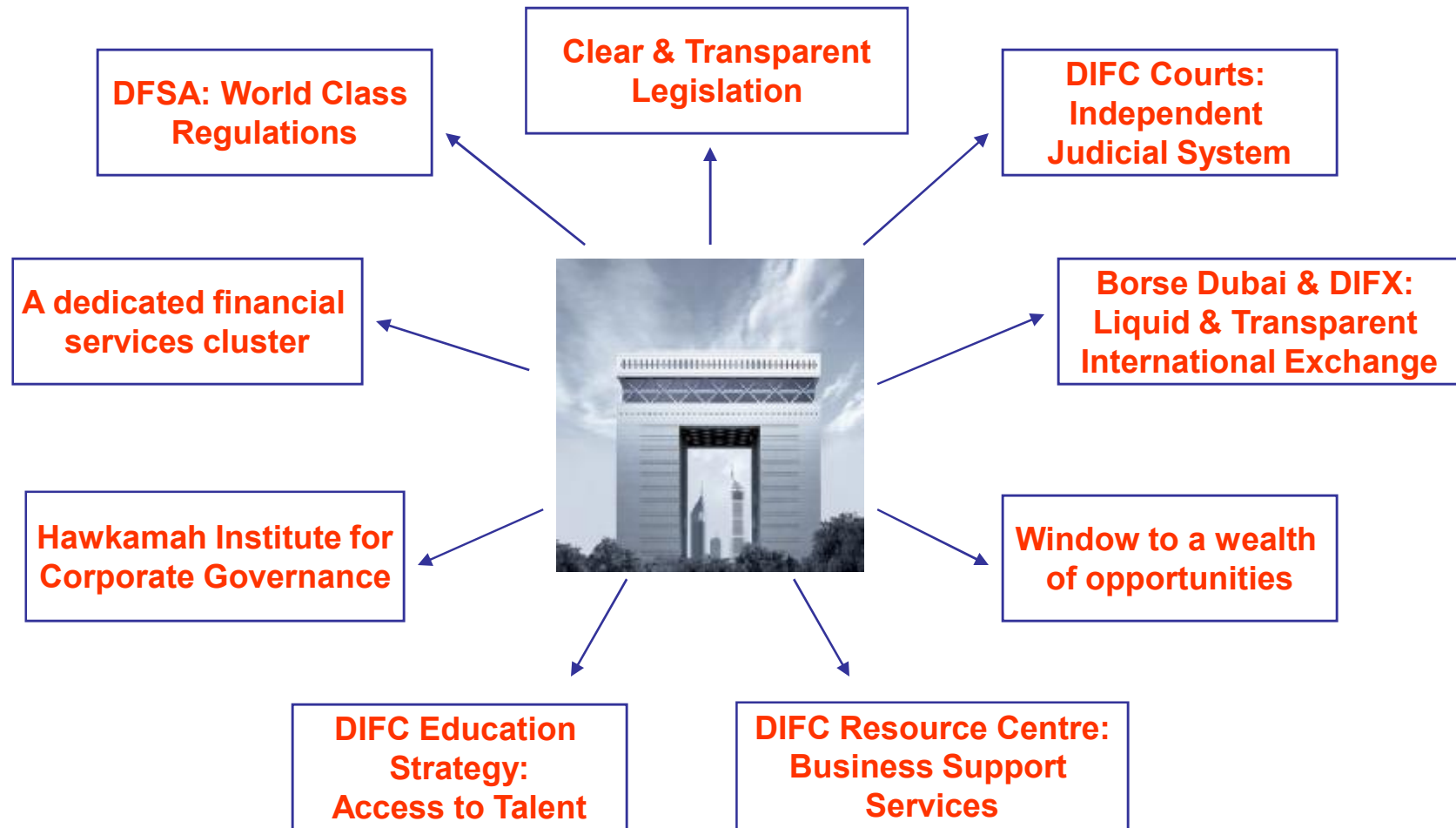


Yearly Growth in Number of DIFC Registered Companies



Of the total 728 companies operating out of DIFC currently, there are 282 regulated (39%) and 446 non-regulated (61%) companies.

DIFC - Value Proposition



Dubai Images - Past, Present and Future

Dubai 1950s



Sheikh Zayed Road, Circa 1990



Sheikh Zayed Road, Circa 2002



DIFC in the Future

